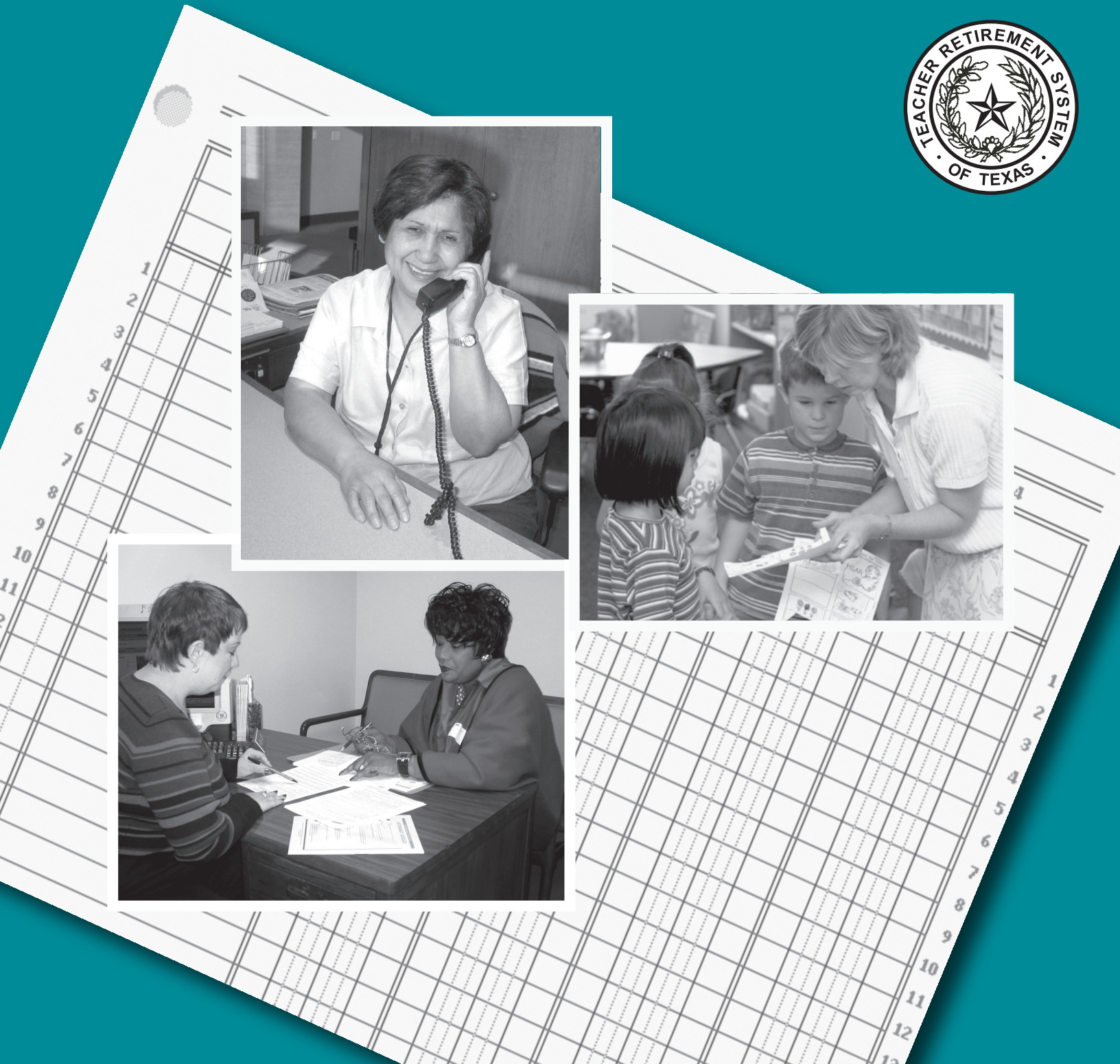


# TEACHER RETIREMENT SYSTEM OF TEXAS

## Comprehensive Annual Financial Report

A RETIREMENT SYSTEM OF THE STATE OF TEXAS  
Fiscal Year Ended August 31, 2004





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## **TRS Mission Statement**

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**The mission of the Teacher Retirement System of Texas is:**

- 1. to deliver retirement and related benefits authorized by law for members and their beneficiaries; and**
- 2. to prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.**



# TEACHER RETIREMENT SYSTEM OF TEXAS

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

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A Retirement System of the State of Texas

FISCAL YEAR ENDED  
August 31, 2004



Ronnie G. Jung, Executive Director

Prepared by  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701-2698  
(512) 542-6400  
1-800-223-8778  
[www.trs.state.tx.us](http://www.trs.state.tx.us)

# TABLE OF CONTENTS

**INTRODUCTORY SECTION**

Board of Trustees .....	3
Certificate of Achievement for Excellence in Financial Reporting .....	4
Letter of Transmittal .....	5
Organization Chart .....	8
Staff and Advisors .....	9
Membership .....	10
Communications .....	11

**FINANCIAL SECTION**

Independent Auditor's Report .....	14
Management's Discussion and Analysis .....	16
Basic Financial Statements	
Exhibit I - Statement of Fiduciary Net Assets .....	22
Exhibit II - Statement of Changes in Fiduciary Net Assets .....	26
Exhibit III - Statement of Net Assets - Proprietary Fund .....	30
Exhibit IV - Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund .....	31
Exhibit V - Statement of Cash Flows - Proprietary Fund .....	32
Exhibit VI - Balance Sheet - Governmental Fund .....	33
Exhibit VII - Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund ..	33
Notes to the Financial Statements .....	34
Required Supplementary Information .....	44
Combining Fund Financial Statement	
Exhibit A - Combining Statement of Changes in Assets and Liabilities - Agency Funds .....	45
Supporting Schedules	
Schedule 1 - Comparative Schedule of Changes in Account Balance - Pension Trust Fund	
Interest Account .....	46
Member Savings Account .....	47
State Contribution Account .....	48
Retired Reserve Account .....	49
Deferred Retirement Option Account .....	50
Expense Account .....	51
Schedule 2 - Schedule of Administrative Expenses/Expenditures and Capital Expenses - Budget and Actual on Budgetary Basis .....	52
Schedule 3 - Comparative Schedule of Investment Portfolio - Pension Trust Fund .....	56
Schedule 4 - Comparative Schedule of Investing Activity Expenses - Pension Trust Fund .....	58
Schedule 5 - Schedule of Payments to Consultants - Budgetary Basis - All Fund Types .....	59

**INVESTMENT SECTION**

Investment Overview .....	62
Total Time Weighted Returns .....	64
Asset Allocation - Periods Ended June 30 .....	65
Asset Allocation - August 31, 2004 .....	66
Total Investment Market Values .....	67
Largest Holdings .....	68

**ACTUARIAL SECTION**

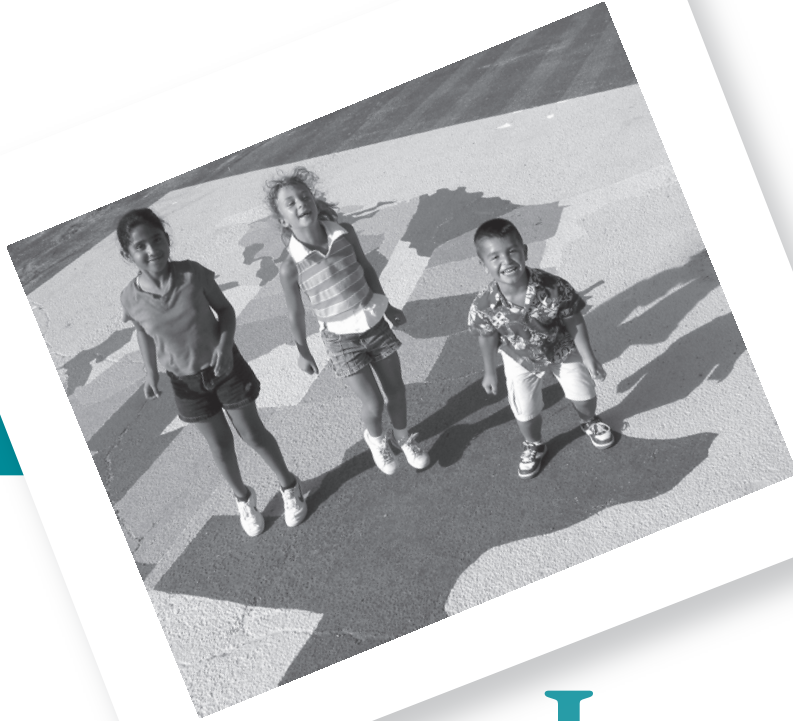
Actuary's Certification Letter .....	73
Actuarial Present Value of Future Benefits and Summary of Cost Items .....	75
Actuarial Information and Analysis of Financial Experience .....	76

**BENEFITS SECTION**

2004 Changes in TRS Law .....	81
Summary of Benefits .....	82
Current Average Monthly Benefit by Year of Retirement .....	85
Growth of the System .....	86
Payment Information	
Average Benefit Payments for Service Retirees and Benefit Payments by Type .....	87
Annuity Payments by Benefit Type, Annuity Payments by Plan Selected and Retirees and Beneficiaries Added to and Removed from Payroll .....	88

**STATISTICAL SECTION**

Six-Year Summary Changes in Fiduciary Net Assets - Pension Trust Fund .....	90
Six-Year Summary Changes in Fiduciary Net Assets - Health Care Trust Fund .....	92
Six-Year Summary Revenues, Expenses, and Changes in Net Assets - Proprietary Fund/Health Care Trust Fund .....	94
Participating Employers .....	96



# I ntroductory Section

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Teacher Retirement System of Texas

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## BOARD OF TRUSTEES



Front row from left to right: Jarvis V. Hollingsworth, James W. (Jim) Fonteno Jr., Terence (Terry) Ellis (*Chair*), Linus D. Wright, Mary Alice Baker (*Vice Chair*). Back row from left to right: Dory A. Wiley, Greg Poole, Ronnie G. Jung (*Executive Director*), John Mark Henry, John Graham, Jr.

**Terence (Terry) Ellis**, 2005, *Chair*  
Private Investor and Rancher  
New Ulm

**Mary Alice Baker**, Ph.D., 2005, *Vice Chair*  
Professor of Communication, Lamar University,  
Beaumont

**James W. (Jim) Fonteno, Jr.**, 2007  
Private Investment Banker  
Houston

**John Graham, Jr.**, 2009  
Financial Advisor, American Express  
Financial Advisors  
Fredericksburg

**John Mark Henry**, Ed.D., 2009  
Superintendent, Galena Park ISD,  
Galena Park

**Jarvis V. Hollingsworth**, 2007  
Partner, Bracewell & Patterson, L.L.P.  
Missouri City

**Greg Poole**, Ed.D., 2007  
Principal, Conroe ISD  
Conroe

**Linus D. Wright**, 2005  
Retired  
Dallas

**Dory A. Wiley**, 2009  
Managing Director, SAMCO Capital Markets,  
Dallas

The Board of Trustees is responsible for the administration of the system under provisions of the state constitution and laws. The board is composed of nine trustees who are appointed to staggered terms of six years. Three trustees (Ellis, Hollingsworth, and Wiley) are direct appointments of the governor. Two trustees (Fonteno and Graham) are appointed by the governor from a list prepared by the State Board of Education. Two trustees (Henry and Poole) are appointed by the governor from the three public school district active member candidates who have been nominated for each position by employees of public school districts. One trustee (Baker) is appointed by the governor from the three higher education active member candidates nominated by employees of institutions of higher education. One trustee (Wright) is appointed by the governor from the three retired member candidates who are nominated by retired TRS members. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.

## CERTIFICATE OF ACHIEVEMENT

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Teacher Retirement System of Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enos".

Executive Director



## LETTER OF TRANSMITTAL

### Teacher Retirement System of Texas



1000 Red River Street  
Austin, Texas 78701-2698  
(512) 542-6400 1-800-223-8778

November 9, 2004

The Honorable Rick Perry  
The Honorable David Dewhurst  
The Honorable Tom Craddick  
The Board of Trustees and Members  
of the Teacher Retirement System

Dear Governor Perry, Lieutenant Governor Dewhurst,  
Speaker Craddick, TRS Board of Trustees and Mem-  
bers of the Teacher Retirement System:

On behalf of the board of trustees, I am pleased to present this *Comprehensive Annual Financial Report* (CAFR) of the Teacher Retirement System of Texas (TRS) for the fiscal year ended August 31, 2004, the system's 67th year of operation. During the past year, the system experienced a slight decrease in the number of active members due to the legislatively mandated 90-day waiting period for new members. TRS experienced a 10.6 percent net increase in retirees and annuitants. At year-end, system participation included 1,358 reporting employers and 1,085,423 members and annuitants.

Benefit payments continued to grow with the increase in new retirees. For the year, \$5.7 billion in benefit payments and member refunds were distributed. We were pleased with the positive investment climate, which resulted in a market return of 11.9 percent for the year. As of August 31, 2004, net assets of the plan were \$84.2 billion as compared to \$77.6 billion at the close of fiscal year 2003.

#### Structure of the Report

The *Comprehensive Annual Financial Report* for fiscal year 2004 is designed to provide TRS stakeholders with a complete picture of the system's operations for the past year. This report consists of management's representations concerning TRS finances. Management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is

designed both to protect the assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of TRS financial statements in conformity with generally accepted accounting principles. The internal control framework has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. This report includes the following sections:

- The **Introductory Section** describes the system's management, highlights the year's activities, and provides membership and communications information.
- The **Financial Section** contains the report of the Texas State Auditor, financial statements of the system and required supplemental information. This section also contains Management's Discussion and Analysis (MD&A), required by generally accepted accounting principles, which includes a narrative introduction, overview, and analysis to accompany the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.
- The **Investment Section** includes a summary of investments and performance information.
- The **Actuarial Section** contains the independent actuary's certification and selected information from the annual actuarial valuation for the fiscal year ended August 31, 2004.
- The **Benefits Section** includes changes in TRS law, summary of retirement and death benefits available to retirees and beneficiaries, and health care benefits available to members and their families.
- The **Statistical Section** presents six-year financial and non-financial trend information about the pension trust fund, the *Texas Public School Retired Employees Group Insurance Program* and the *Texas Active School Employees Uniform Group Benefits Program*.

## LETTER OF TRANSMITTAL

### Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TRS the Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report* for the fiscal year ended August 31, 2003. To be awarded the certificate, a report must meet or exceed program standards and must satisfy both generally accepted accounting principles and applicable legal requirements. TRS has received a Certificate of Achievement for the last 14 years. We believe that the current report continues to meet program requirements, and it is being submitted to the GFOA for consideration again this year.

### TRS – The Reporting Entity

The Teacher Retirement System of Texas was established by amendment to the Texas Constitution in 1936 and enactment of statutes in 1937 to provide a retirement program for public education employees in professional and business administration, supervision, and instruction. Benefits were later expanded to include disability, death and survivor benefits. In 1949, membership was expanded to include other employees of public education.

The *Texas Public School Retired Employees Group Insurance Program* was enacted in 1985 to provide health care benefits for retirees. At year-end, over 182,000 retirees and dependents participated in the program.

In 2001, the 77th Texas Legislature enacted the *Texas Active School Employees Uniform Group Benefits Act*, establishing a statewide health coverage program for public school employees. Coverage began in September 2002. Participation in the program has grown rapidly with 1,030 employers and almost 247,000 employees and dependents participating as of September 1, 2004. All public school entities are now allowed to select TRS-ActiveCare for their employees' health coverage needs.

### Investment Performance

For the fiscal year, the total portfolio returned 11.9 percent, with investment income totaling \$9.1 billion in fiscal year 2004. Long-term performance continues to be above inflation and the board of trustees' investment return expectation. For the past 10 years, the time-weighted compound annual return has been 9.5 percent.

Investment risks are diversified over a very broad range of market sectors and securities. This strategy reduces portfolio risk to adverse developments in sectors and

issuers experiencing unusual difficulties and offers opportunity to benefit from future markets.

### Pension Benefits

TRS members and retirees are now realizing significant benefit enhancements provided for in legislation passed since the early 1990s. These include *ad hoc* annuity increases for retirees and increases in the retirement benefit formula multiplier. Actuarial liabilities grew by approximately \$15 billion attributable to enhancements passed since 1990. For fiscal year 2004, benefit payments and refunds to withdrawing members totaled \$5.7 billion, reflecting the financial impact of benefit enhancements and the continued growth in membership and annuitants.

### Retiree Health Care Program

In addition to delivering pension benefits, TRS administers TRS-Care, a health care program for retirees that was established in 1985. TRS-Care is the source of retirement health care coverage upon which almost all public school retirees rely.

Funding is provided by premium payments from retiree participants and contributions from the state, school districts, and active employees. Double-digit program cost increases, driven by membership growth, utilization and medical trends, have resulted in the need for TRS to obtain additional funding. For the upcoming fiscal year, the state, school districts and other employers, and active school employees will contribute hundreds of millions of dollars into the program to help offset the rapidly rising cost of retiree health care. While the retiree portion of cost sharing through premium payments is rising, access to health care would be virtually impossible to provide without such assistance from the state and others.

TRS trustees remain focused on the need to balance revenues and expenses in a fiscally responsible manner, and to offer a program that best suits all participants' needs given available resources.

### Active Member Health Care Program

Through their participation, public school employers and their employees have endorsed the value of health coverage options offered through TRS-ActiveCare. This program, initiated in 2002, is self-funded and offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums.

As a self-funded plan, TRS-ActiveCare offers hospital, physician and pharmacy services to school employees. These services have been procured competitively through

## LETTER OF TRANSMITTAL

TRS with no profit to the system. Thus, participants are assured that virtually all of their payments will go directly for their care at prices that are substantially discounted as compared to those that are generally charged by providers. Employers benefit by significantly reducing their administrative effort to arrange and administer coverage locally.

### Actuarial Soundness

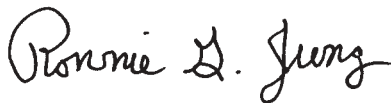
Adverse market performance in 2001 and 2002 coupled with increased benefit enhancements resulted in the actuarial value of member benefit liabilities exceeding the value of actuarial assets. At year-end, the ratio of actuarial assets to actuarial liabilities was 91.8 percent. At August 31, 2004, the system's unfunded actuarial accrued liability was \$7.95 billion.

The current contribution rates from the state and from members are not sufficient to amortize the unfunded actuarial accrued liability within the statutory 31-year funding period. Although the system has sufficient funds to pay benefits for current retirees as well as for new retirees well into the future, absent significant investment gains, long-term changes will have to be made to the funding structure and/or benefit designs. In spite of the adverse market conditions in 2001 and 2002, TRS investments have provided favorable returns of 9.5% over the last ten years, which is above the long-term actuarial assumed 8% rate of return.

### Acknowledgments

We wish to express our appreciation for the support of the Governor's, Lieutenant Governor's and Speaker's Offices, as well as members of the legislature, in maintaining a strong retirement system, which provides valuable benefits for public education employees and retirees. TRS trustees and staff are keenly focused on prudent pension trust fund portfolio management and efficient, service-oriented delivery of valuable retirement and related benefits for public education employees and retirees. We are pleased to report on operational results for the year and to acknowledge the substantial support of state leadership, trustees, members, interested associations, and TRS staff.

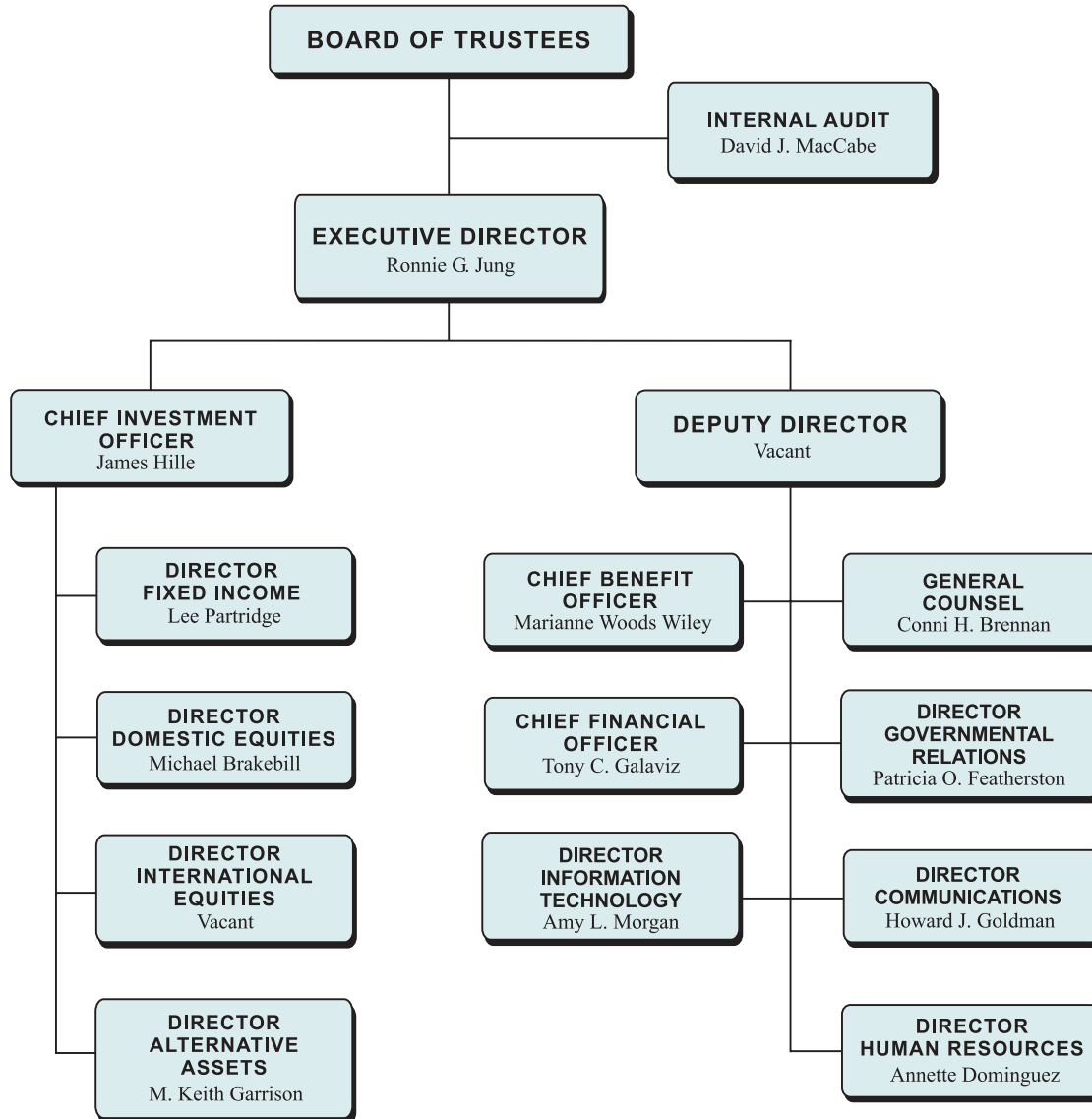
Respectfully submitted,



Ronnie G. Jung, C.P.A.  
Executive Director



# ORGANIZATION CHART



## STAFF AND ADVISORS

### ADMINISTRATIVE STAFF

Ronnie G. Jung, *Executive Director*  
Vacant, *Deputy Director*  
James Hille, *Chief Investment Officer*  
Marianne Woods Wiley, *Chief Benefit Officer*  
Tony C. Galaviz, *Chief Financial Officer*  
Conni H. Brennan, *General Counsel*  
David J. MacCabe, *Director, Internal Audit*  
Amy L. Morgan, *Director, Information Technology*  
Howard J. Goldman, *Director, Communications*  
Patricia O. Featherston, *Director, Governmental Relations*  
Annette Dominguez, *Director, Human Resources*

### GENERAL INVESTMENT CONSULTANT

Ennis, Knupp & Associates, Inc., Chicago, IL

### CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

### INVESTMENT CONSULTANTS

Pathway Capital Management L.L.C., Irvine, CA  
Tremont Partners, Inc., Rye, NY

### INVESTMENT ADVISORS

I. Craig Hester, Austin  
Keith C. Brown, Ph.D., Austin

### AUDIT SERVICES

Texas State Auditor's Office, Austin

### FIDUCIARY COUNSEL

Ian Lanoff, Groom Law Group, Chartered, Washington, D.C.

### MEDICAL BOARD

Dr. Alice Cox, Fredericksburg  
Dr. James Reinartz, Fort Worth  
Dr. Larry D. Wilson, Austin

### TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

B. Sue Passmore, *Chair*, Dallas  
Russell E. Sayers, *Vice Chair*, Austin  
William (Bill) W. Barnes, Haslet  
Elizabeth A. Bulos, El Paso  
Dorothy Heine, Weatherford  
Shirley M. Howard, Midland  
Nelda Van Dyke, Brenham  
Leona Ellyce Warnes, San Antonio

### HEALTHCARE CONSULTANT

Gabriel, Roeder, Smith & Company, Dallas

### MASTER CUSTODIAN AND SECURITIES LENDING AGENT

State Street Bank and Trust Company,  
Boston, MA

### PERFORMANCE MEASUREMENT

State Street Bank and Trust Company,  
Boston, MA

## MEMBERSHIP

### Pension Trust Fund

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2004, participating entities included the following:

Public Schools, Service Centers and Charter Schools	1,253
Community and Junior Colleges	51
Senior Colleges and Universities	43
Medical and Dental Schools	8
Other Entities	3
Total	1,358

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas. At August 31, 2004, and August 31, 2003, membership consisted of the following:

	<b>Year Ended August 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Current Members:</b>		
Active Contributing	718,266	742,961
Active Noncontributing	95,697	91,728
Deferred Retirement Option	1,575	2,581
Inactive Nonvested	12,597	10,897
Inactive Vested	16,661	15,124
Total Current Members	844,796	863,291
<b>Retirement Recipients:</b>		
Service	221,654	199,134
Disability	9,746	9,356
Survivor	9,227	8,987
Total Retirement Recipients	240,627	217,477
<b>TOTAL MEMBERSHIP</b>	<b>1,085,423</b>	<b>1,080,768</b>

Membership changes are summarized below:

	<b>2004</b>	<b>2003</b>
<b>Active Membership:</b>		
New Members	58,861	79,868
Members Withdrawing	(38,775)	(38,776)
Service Retirements	(27,289)	(18,854)
Disability Retirements	(856)	(781)
In-Service Deaths	(1,116)	(1,236)
Other Changes	(9,320)	(3,575)
Net Increase/(Decrease)	(18,495)	16,646
<b>Retired Membership:</b>		
Retirements	28,145	19,635
Deaths After Retirement	(5,763)	(5,815)
Option Continuations	1,507	1,421
Other Changes	(739)	795
Net Increase	23,150	16,036

### Active Member Profile

	<b>2004</b>	<b>2003</b>
Average Annual Salary	\$ 34,939	\$ 34,127
Average Age	42.8	42.8
Average Years of Service	8.8	8.8

### Annuitant and Beneficiary Profile

	<b>2004</b>	<b>2003</b>
<b>Average Monthly Annuities</b>		
Life Annuities	\$ 1,789	\$ 1,771
Disability Annuities	\$ 1,191	\$ 1,196
Annuities Certain	\$ 851	\$ 883
Average Age of Current Retirees	69.1	70.1
<b>Average Age at Retirement</b>		
All Retirees	59.8	60.6
Current Year Retirees	59.4	59.8
<b>Average Years of Service</b>		
All Retirees	24.8	24.9
Current Year Retirees	24.8	25.1
<b>Average Salary at Retirement</b>		
All Retirees	\$ 32,574	\$ 30,965
Current Year Retirees	\$ 41,940	\$ 41,774
<b>Ratio of Current Members to Retirees</b>		
	3.5:1	4.0:1

### Texas Public School Retired Employees Group Insurance Program (TRS-Care)

Participation for the Retired Plan is summarized below:

	<b>2004</b>	<b>2003</b>
Retirees	147,982	134,118
Surviving Spouses	3,316	3,148
Surviving Children	42	40
Dependent Spouses	26,114	22,553
TOTAL *	177,454	159,859

\* Excludes 4,661 and 3,538 dependent children for 2004 and 2003, respectively.

### Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare)

Participation for the Active Plan is summarized below:

	<b>2004</b>	<b>2003</b>
Employees	150,669	129,973
Dependents	96,245	82,383
TOTAL	246,914	212,356

As of September 1, 2004, there were 1,030 participating entities.



## COMMUNICATIONS

During fiscal year 2004, TRS continued its ongoing focus on improving communication with its members, retirees, and the general public through a number of channels. Among these channels are the agency's toll-free telephone number, various print publications, the Internet, group presentations, training initiatives, print correspondence, and audiovisual programs.

### Print Publications

Throughout the year, *TRS News* and *Update* newsletters were published to inform members and employers of important TRS-related developments. *Update* newsletters were sent through the U.S. Mail and also via e-mail to many employers. In fiscal year 2005, following completion of the TRS Reporting and Query System (TRAQS) project, TRS will send all *Update* newsletters to employers via e-mail. In early 2005, TRS also plans to begin sending *TRS News* issues to members via e-mail upon request. Use of e-mail to distribute these publications will enable members, retirees, and employers to receive TRS information in a more timely and convenient manner. Use of e-mail also offers TRS the opportunity to significantly reduce printing and postage expenses.

FY 2004 was a year of unprecedented change for the TRS-Care program. TRS-Care enrollment saw a net gain of more than 20,000 retirees and dependents during the year. Printed materials were sent to all participating retirees concerning the restructuring of the three TRS-Care plans, new eligibility criteria, an age-65 upgrade opportunity, a redesigned premium structure based on Medicare status and years of service, an increased TRS-Care 3 physician co-payment and deductible, further changes in the network, and a switch to a new pharmacy benefit manager with a new formulary. In addition, two publications, *Highlights of the Plan* and *Your Group Plan Booklet*, were substantially revised.

In fiscal year 2004, TRS also worked closely with Blue Cross and Blue Shield of Texas, Aetna, Medco, and four regional Health Maintenance Organizations to publish printed materials related to TRS-ActiveCare, TRS-Care, the TRS-HRAccount program, and the TRS long-term care insurance program.

### The Internet

During fiscal year 2004, TRS continued to enhance the design of its Web site for easier navigation; produced its first streaming video to help members prepare for retirement as well as five others to help reporting officials; expanded the number of frequently asked questions on a variety of topics; added a TRS-HRAccount

page; developed a Service Credit Purchase Calculator; included new links to the Social Security Administration Web site to help familiarize members with 2004 changes in Social Security law; and created a new section of the site that more clearly publicizes TRS rules changes. During the year, TRS Web site visits increased by over 62 percent from 886,922 in fiscal year 2003 to 1,439,967 in fiscal year 2004.

In FY 2004, TRS established a Web Site Advisory Committee and also adopted a five-year vision to guide the agency in making Web site improvements. As its first action, the committee developed a streamlined process for members who need to request replacement passwords. A number of other Web site enhancements are planned for the coming year.

### Group Presentations

TRS made a number of group presentations to professional associations, employee and retiree groups, and at regional educational service centers. Presentations focused on such topics as retirement options, health benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. More than 19,896 people attended 202 group presentations, and 34,500 people attended nine conventions where TRS was represented. In addition, 10,575 people visited with a TRS counselor in Austin.

### Coordination with Employers

The TRS Reporting and Query System (TRAQS) neared completion during fiscal year 2004. More than 1,228 TRS reporting entities submitted monthly reports through TRAQS by year-end. Staff conducted 26 training workshops for 474 people from these entities. Training was also held for 18 staff members from nine new charter schools. These sessions were held at TRS offices in Austin and through telephone conference calls. TRS-ActiveCare and TRS-HRAccount training seminars were conducted in 20 locations around the state for approximately 744 administrators of almost 980 districts/entities. These seminars provided information for enrollment and ongoing administrative issues for TRS-ActiveCare and provided introductory information for the TRS-HRAccount program.

### Telecommunications

In fiscal year 2004, a total of 483,483 calls were handled by the agency's Benefit Counseling department. TRS, consulting with The Comb Group, completed an assessment of the department's telephone processes and technology in November 2002. As a result of the

## COMMUNICATIONS

assessment, in November 2003 TRS implemented a new automated telephone system with speech recognition capabilities and enhanced desktop applications to streamline phone call processes. During fiscal year 2004, 276,877 calls were completed within the system. Like the previous phone system, the new automated system provides callers with immediate access to general TRS benefit information, day or night. Members with a Personal Identification Number can also access information that is specific to their account. The new system provides more of these account-specific options. In addition, TRS-ActiveCare staff and contractors responded to over 683,846 calls, and TRS-Care staff and contractors responded to approximately 898,000 calls.

### Market Research

During the spring of 2004, TRS conducted a member satisfaction survey to gauge member satisfaction with agency services and to determine ways to increase levels of satisfaction. Through this project, the University of North Texas Survey Research Center interviewed 1,100 TRS active members and retirees by telephone. The survey revealed that 93.3 percent of active members and 97 percent of retirees were satisfied or very satisfied overall with TRS services. Generally, respondents reported satisfaction ratings of 90 percent or higher when asked to rate a variety of specific TRS services. TRS will use these survey results to help the agency implement targeted service improvements in the coming year.

***Note:** In September 2004, it was determined that appropriated health care funds will be distributed in fiscal year 2005 as supplemental compensation rather than through TRS-HRAccount.*



# Financial Section

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Teacher Retirement System of Texas

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## INDEPENDENT AUDITOR'S REPORT

November 9, 2004

Members of the Board of Trustees  
of the Teacher Retirement System  
The Honorable Rick Perry, Governor of Texas  
and  
Members of the Texas Legislature

Ladies and Gentlemen:

We have audited the accompanying basic financial statements, listed as Exhibits I through VII in the Table of Contents, of the Teacher Retirement System of Texas (System) as of and for the year ended August 31, 2004. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. We previously audited and reported on the basic financial statements of the System as of and for the year ended August 31, 2003; the comparative totals from these statements are included for additional analysis only.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I.A, the financial statements of the System are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the System. They do not purport to and do not present fairly the financial position of the State as of August 31, 2004, and the changes in the State's financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary and nonmajor governmental funds and the proprietary fund of the System as of August 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted

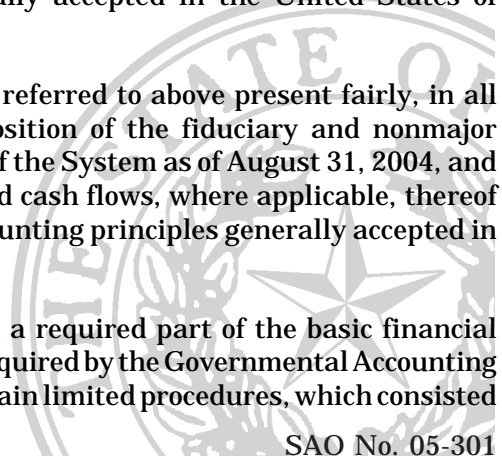
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SAO No. 05-301

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The information included in Required Supplementary Information is required by GASB. The information in Exhibit A and Schedules 1 through 5, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This required and additional supplementary information is the responsibility of the management of the System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory, Investment, Actuarial, Benefits, and Statistical Sections are presented for purposes of additional analysis and are not required parts of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we will also report on our consideration of the System's internal controls and its compliance with certain provisions of laws and regulations material to the basic financial statements in a separate report. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Lawrence F. Alwin, CPA  
State Auditor



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis (MD&A) of the Teacher Retirement System's (TRS or system) financial performance for the fiscal year ended August 31, 2004. The information presented here should be considered in conjunction with other areas of the Financial Section as well as information presented in the Executive Director's Letter of Transmittal in the Introductory Section of the TRS Comprehensive Annual Financial Report.

### Financial Highlights

- The net assets of the TRS pension trust fund were \$84.2 billion at August 31, 2004, an increase of \$6.6 billion, or 8.5%, in fiscal year 2004. The increase was due to favorable investment returns.
- As of August 31, 2004, the date of the most recent actuarial valuation, the TRS pension trust fund's ratio of actuarial assets as a percentage of actuarial liabilities is 91.8%, which is lower than the 94.5% level at August 31, 2003.
- The TRS rate of return on investments for the year ended August 31, 2004 was 11.9% on a market value basis and was due primarily to strong returns in the equity markets. The rate of return for fiscal year 2003 was 11.3%.
- Net assets of the Health Care Trust Fund – Retired Plan (TRS-Care) were \$238.3 million at August 31, 2004, an increase of \$321.3 million in fiscal year 2004. The increase is a result of higher contributions rates from the state and members, premium increases, supplemental funding from the state, and newly required contributions from reporting entities.
- Net assets of the TRS-ActiveCare Enterprise Fund were \$240.4 million at August 31, 2004, an increase of \$104.2 million from fiscal year 2003 as restated. The increase is a result of growth in plan participation as well as increases in premiums.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the TRS financial presentation, which consists of the following components:

- Fund financial statements
- Notes to the financial statements
- Required supplementary information
- Other supplemental schedules

Collectively, this information presents the net assets and fund balances available for pension benefits, health care benefits, and other purposes as of August 31, 2004, and summarizes the changes in net assets or fund balances for pension benefits, health care benefits, and other purposes. The information available in each of these sections is summarized below.

• **Fund Financial Statements.** Financial statements are presented for all fiduciary, proprietary and governmental funds as of August 31, 2004. Fiduciary funds presented include the pension trust fund, health care trust funds, and agency funds. Fiduciary funds are used to account for resources held for the benefit of parties outside TRS. Proprietary funds account for business-type activities and include the TRS-ActiveCare enterprise fund. Governmental funds are used to account for resources restricted for specific purposes and include the 403(b) Certification Program special revenue fund.

A statement of net assets and a statement of changes in net assets (where appropriate) are presented for all fiduciary funds as of August 31, 2004, and for the year then ended. Individual fund financial statements are presented for the proprietary and governmental funds as of August 31, 2004, and for the year then ended. Comparative information as of August 31, 2003, and for the year then ended has also been presented. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries, to pay health care benefits for covered participants, to disburse supplemental compensation to public school entities, and to administer the 403(b) Certification Program.

• **Notes to the Financial Statements.** The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is described below:

– Note I provides a summary of significant accounting policies, including the basis of accounting, budgets and appropriations, explanations of major asset and liability classes, and legal reserve information. Also included is a general description of TRS as well as a description of each of the funds administered by TRS.

– Note II describes deposits and investments, including investing authority, investment risk categorizations, and additional information about cash, derivatives, securities lending, alternative investments and contingent commitments.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

– Note III provides information on fringe benefits paid by the state for employees of the health care programs.

– Note IV describes deferred compensation plans available to TRS employees.

– Note V provides information on contingent liabilities such as TRS employees' accumulated sick leave and lump sum death benefits.

– Note VI addresses TRS' continuance subject to review under the Texas Sunset Act.

– Note VII describes post-employment health care benefits provided to TRS employees and retired public school employees.

– Note VIII addresses risk management issues related to the health care program for active school district employees.

– Note IX provides pension disclosure information, including detailed data on the plan description as well as contributions required and made.

**• Required Supplementary Information.** Required supplementary information consists of schedules and related notes concerning the funding status of the pension plan administered by TRS. Also included in this component is Management's Discussion and Analysis.

**• Other Supplementary Schedules.** Other schedules include information on agency funds, changes in reserve account balances, budgets for administrative expenses, activity in investment portfolios, investing activity expenses, and payments to consultants.

## Financial Analysis of TRS Funds

### Pension Trust Fund

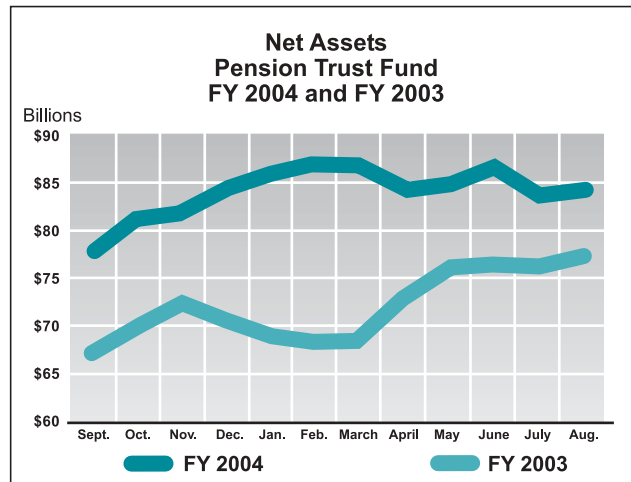
Net assets held in trust for benefits at August 31, 2004 were \$84.2 billion, an increase of \$6.6 billion, from \$77.6 billion at August 31, 2003.

The overall financial condition of the system improved during fiscal year 2004 due to net investment income during the year of \$9.1 billion – an 11.9% overall return. Net investment income for fiscal year 2004 is comprised of net appreciation in fair value of investments of \$7.0 billion, \$2.1 billion in interest and dividends, and net income of \$28.3 million from securities lending, reduced by investing activity expenses of \$16.3 million. Net investment income for fiscal year 2003 was \$7.8 billion.

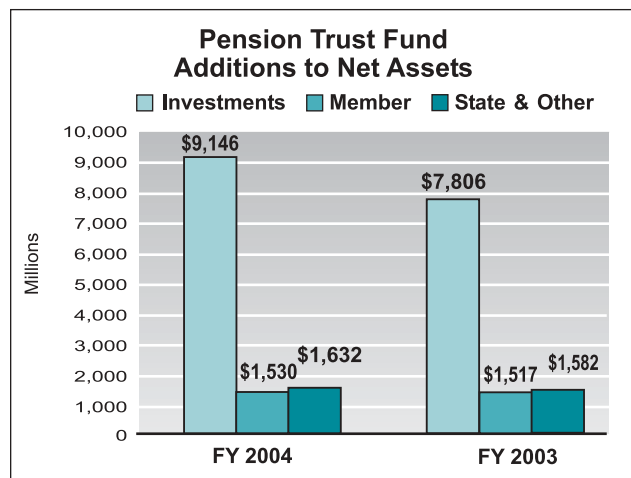
When comparing returns it is important to remember that as a pension fund, the TRS investment performance

has a very long horizon. Below are longer-term results for the total fund for the periods ending August 31, 2004:

- One-Year                    11.9%
- Three-Years                4.7%
- Five-Years                 3.2%
- Ten-Years                  9.5%



Member, state and reporting entity contributions for fiscal year 2004 were \$1.5 billion, \$1.2 billion and \$.2 billion, respectively. In total, member, state and reporting entity contributions grew only \$26.1 million, or .9%, during fiscal year 2004. The relatively small increase is due to a 2.1% decrease in active membership and legislation (H.B. 3459, 78<sup>th</sup> Legislature) that requires a 90-day waiting period before new employees become members of the system and begin making retirement contributions. The contribution rates for fiscal year 2004 remained the same as fiscal year 2003 with the members contributing 6.4% and the state contributing 6.0% of payroll.

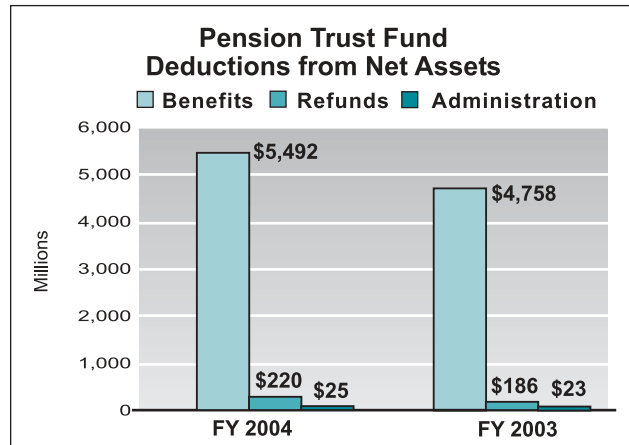


## MANAGEMENT'S DISCUSSION AND ANALYSIS

Deductions from TRS net assets held in trust for benefits are predominantly retirement, death, and survivor benefits. During fiscal year 2004 benefit payments, including reimbursements to the Employees Retirement System of Texas, totaled \$5.5 billion, an increase of \$735 million, or 15.4%, over fiscal year 2003 benefit payments of \$4.8 billion. Changes in federal Social Security Government Pension Offset laws that became effective July 1, 2004, contributed to a record number of retirements in fiscal year 2004 – 28,145 as compared to 19,635 in fiscal year 2003 – resulting in a 10.6% overall growth in the retiree membership. With the growth in membership and many of the current year retirees electing the partial lump sum option, benefit payments for the year were higher overall and spiked during the last quarter of the year. Deferred retirement option payments also increased in fiscal year 2004 to \$139 million from \$89.3 million in fiscal year 2003.

fiscal year 2003, and administrative expenses of \$24.8 million, a \$1.4 million increase from fiscal year 2003. Administrative expenses, excluding investment costs, on a cost per member basis were \$22.89 for fiscal year 2004 as compared to \$21.68 per member in fiscal year 2003.

Other deductions for fiscal year 2004 include \$220.4 million in refunds, an increase of \$34.3 million from



### Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2004	Fiscal Year 2003	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash and Receivables	\$ 2,297,396	\$ 2,470,049	\$ (172,653)	-7.0%
Investments	84,411,133	76,619,771	7,791,362	10.2%
Securities Lending Collateral	10,829,078	8,808,329	2,020,749	22.9%
Capital Assets	31,380	32,191	(811)	-2.5%
<b>TOTAL ASSETS</b>	<b>\$ 97,568,987</b>	<b>\$ 87,930,340</b>	<b>\$ 9,638,647</b>	<b>11.0%</b>
<b>Liabilities:</b>				
Benefits Payable	\$ 515,080	\$ 447,464	\$ 67,616	15.1%
Investments Purchased Payable	1,983,555	1,008,855	974,700	96.6%
Accounts Payable and Other	38,292	32,690	5,602	17.1%
Securities Lending Collateral	10,829,078	8,808,329	2,020,749	22.9%
<b>TOTAL LIABILITIES</b>	<b>\$ 13,366,005</b>	<b>\$ 10,297,338</b>	<b>\$ 3,068,667</b>	<b>29.8%</b>
<b>Total Net Assets</b>	<b>\$ 84,202,982</b>	<b>\$ 77,633,002</b>	<b>\$ 6,569,980</b>	<b>8.5%</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Changes in Net Assets – Pension Trust Fund (Dollars in Thousands)

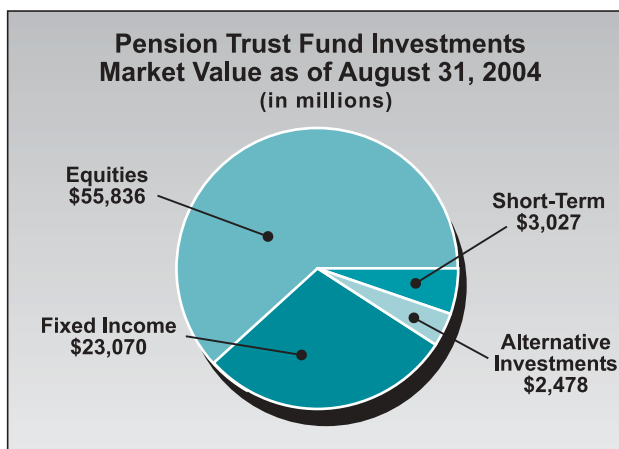
	Fiscal Year 2004	Fiscal Year 2003	Dollar Change	Percentage Change
<b>Additions:</b>				
Member Contributions	\$ 1,530,277	\$ 1,516,801	\$ 13,476	0.9%
State and Other	1,631,531	1,581,519	50,012	3.2%
Investment Income	9,145,859	7,806,278	1,339,581	17.2%
<b>TOTAL ADDITIONS</b>	<b>\$ 12,307,667</b>	<b>\$ 10,904,598</b>	<b>\$ 1,403,069</b>	<b>12.9%</b>
<b>Deductions:</b>				
Retirement Benefits	\$ 5,492,450	\$ 4,757,887	\$ 734,563	15.4%
Refunds of Contributions	220,397	186,083	34,314	18.4%
Administrative Expenses	24,841	23,428	1,413	6.0%
<b>TOTAL DEDUCTIONS</b>	<b>\$ 5,737,688</b>	<b>\$ 4,967,398</b>	<b>\$ 770,290</b>	<b>15.5%</b>
<b>Increase in Net Assets</b>	<b>\$ 6,569,979</b>	<b>\$ 5,937,200</b>	<b>\$ 632,779</b>	<b>10.7%</b>

The following table presents the actual investment allocations as of fiscal year end 2004 and 2003 as compared to the normal allocations for 2004 and 2003.

	Fiscal Year 2004 Target	Fiscal Year 2004 Actual	Fiscal Year 2003 Target	Fiscal Year 2003 Actual
<b>Equities</b>	61.5%	66.1%	65.5%	68.8%
<b>Fixed Income</b>	29.5%	27.3%	29.5%	27.8%
<b>Alternative Investments</b>	8.5%	3.0%	4.5%	2.6%
<b>Short-Term</b>	0.5%	3.6%	0.5%	0.8%

The TRS Board of Trustees concluded an Asset/Liability Study in fiscal year 2003, and as a result of that study made changes to the target allocations for two of the asset classes. The Equities allocation was decreased from 65.5% to 61.5%, and the Alternative Investments allocation was increased by an equal amount, from 4.5% to 8.5%. The new allocation targets a broadly diversified investment program, with a higher risk-adjusted performance potential than the previous allocation.

The change in actual weightings from fiscal year 2003 to fiscal year 2004 is a result of the new target allocations and the portfolio rebalancing to accomplish the change in weightings. The TRS Board of Trustees sets these investment allocation targets with latitude for moderate deviations by TRS investment staff.



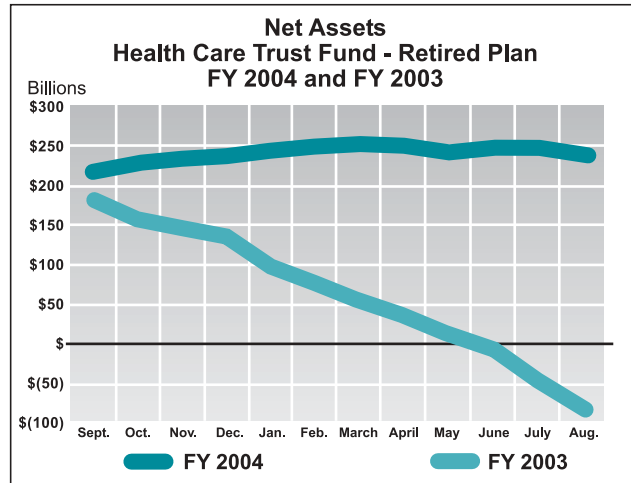
# MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Health Care Trust Fund–Retired Plan**

Net assets of the Retired Plan (TRS-Care) increased \$321.3 million, from a deficit of \$83.0 million at the end of fiscal year 2003 to \$238.3 million at the end of fiscal year 2004.

Additions to net assets include health care premiums, state and active member contributions, supplemental state appropriations, reporting entity contributions, and investment earnings. Retiree premiums for fiscal year 2004 increased \$85.6 million, or 52.6%, over fiscal year 2003 due to an increase in premiums and to growth in the number of plan participants, with the majority taking the highest level of coverage. S.B. 1369, passed by the 78<sup>th</sup> Legislature, doubled the state and active member contributions to 1.0% and .5% of active payroll, respectively. H.B. 3459, 78th Legislature provided an additional source of revenue by requiring reporting entities to contribute a percentage of active payroll, which was set at .4% for fiscal years 2004 and 2005. As a result of this legislation, state and member contributions increased in fiscal year 2004 by \$150.4 million, and the fund received \$79.5 million in contributions from reporting entities. Supplemental state appropriations of \$256.2 million increased \$89.5 million over the fiscal year 2003 supplement of \$166.7 million. Also included in additions is a reimbursement of \$42 million from the TRS-ActiveCare Enterprise Fund. Investment earnings of \$4.8 million increased \$1.4 million from fiscal year 2003 due to the increase in plan net assets available to invest during fiscal year 2004.

Deductions from net assets include claims payments, claims processing costs, and administrative expenses. Claims payments during fiscal year 2004 totaled \$581.3 million and increased \$9.6 million, or 1.7%, over claims payments of \$571.7 million in fiscal year 2003. Even with growth in participants and rising costs of health care and pharmacy benefits, claims payments increased only slightly due to plan design changes that resulted in increased savings to the fund. Claims processing costs of \$23.9 million increased \$4.5 million, or 23.3%, during fiscal year 2004 due to increased claims volume and increases in processing rates. Administrative expenses for fiscal year 2004 were \$2.4 million, increasing 5% from fiscal year 2003.



### **Health Care Trust Fund - Supplemental Compensation**

As part of the Texas Active School Employees Uniform Benefits Act enacted by H.B. 3343, 77<sup>th</sup> Legislature, the Supplemental Compensation program was established to disburse payments to public school entities in the form of supplemental compensation for eligible employees and for state assistance in meeting minimum effort requirements. Legislative appropriations were provided in the amount of \$281.2 million for fiscal year 2004 as compared to \$606.2 million in fiscal year 2003. Of these appropriated funds, approximately \$457,000 was expended on internal administrative costs for the Health Reimbursement Arrangement (HRA) program, which was subsequently discontinued.

### **TRS-ActiveCare Enterprise Fund**

The TRS-ActiveCare program was created by H.B. 3343, 77<sup>th</sup> Legislature, and began operations in fiscal year 2003. Net assets of the plan were \$240.4 million at the end of fiscal year 2004, an increase of \$104.2 million, or 76.5%, from fiscal year 2003 as restated.

Revenues for fiscal year 2004 included \$758.1 million from health care premiums, an increase of \$173.5 million, or 29.7%, from fiscal year 2003. The increase is due to a 16.3% increase in plan participants as well as premium increases. Other revenues include administrative fees of approximately \$193,000 and investment income of \$3.6 million.



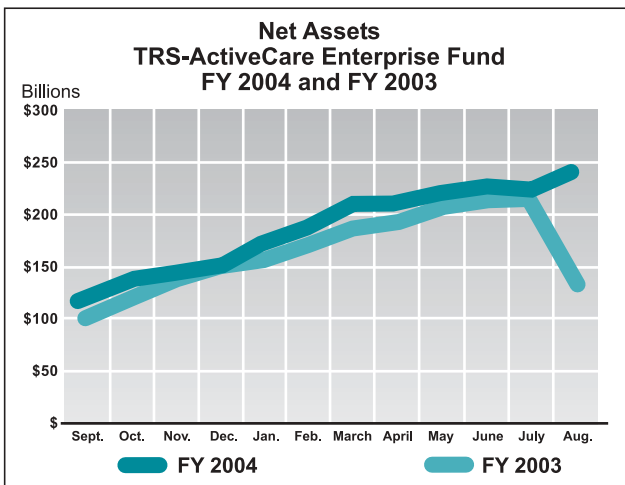
# MANAGEMENT'S DISCUSSION AND ANALYSIS

Health care claims for fiscal year 2004 were \$521 million, a \$47.5 million, or 10%, increase over \$473.5 million in fiscal year 2003. The increase in claims is due to the rising costs of health care and pharmacy benefits and to the 16.3% growth in participation; however, the majority of the new participants entered the plan at mid-year, offsetting the full financial impact of the increased membership. Other expenses and transfers included claims processing costs of \$53.6 million, \$40.2 million for HMO premium reimbursements, a reimbursement of \$42 million to the Health Care Trust Fund – Retired Plan (TRS-Care), and \$.9 million for administration.

The large drop in net assets at the end of fiscal year 2003 was due to the accrual of \$80 million for estimated claims incurred but not reported. The accrual was adjusted to \$60 million at the end of fiscal year 2004.

## Requests for Information

This financial report is designed to provide a general overview of the Teacher Retirement System for all those with an interest in the system's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Communications Department of the Teacher Retirement System, 1000 Red River Street, Austin, Texas 78701.



## 403(b) Special Revenue Fund

The 403(b) Certification Program was created by S.B. 273, 77<sup>th</sup> Legislature, and began operations in fiscal year 2002. The program ended fiscal year 2004 with a fund balance of \$216,234 as compared to \$221,739 in fiscal year 2003. The fund's revenues include \$15,000 in certification fees and \$3,495 in interest income. Deductions from the fund were administrative expenditures of \$24,000.



## Statement of Fiduciary Net Assets

AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	FIDUCIARY FUND TYPES		
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
<b>ASSETS</b>			
<b>Cash:</b>			
Cash in State Treasury	\$ 799,173,077	\$ 323,934,041	\$
Cash in Bank	11,734,631		
Cash on Hand (Note II.B.)	7,103,198		
<b>TOTAL CASH</b>	<b>\$ 818,010,906</b>	<b>\$ 323,934,041</b>	<b>\$</b>
<b>Legislative Appropriations</b>	<b>\$</b>	<b>\$</b>	<b>\$ 7,836,182</b>
<b>Receivables:</b>			
Sale of Investments	\$ 1,121,927,507	\$	\$
Interest and Dividends	267,375,621	425,120	
Member and Retiree	68,366,077	31,154,052	
Reporting Entities	14,441,468	4,264,873	
Other	1,058,589	1,000,000	
Due from State's General Revenue Fund	5,691,155	226,179	
Due from Employees Retirement System of Texas	524,267		
<b>TOTAL RECEIVABLES</b>	<b>\$ 1,479,384,684</b>	<b>\$ 37,070,224</b>	<b>\$ -0-</b>
<b>Investments (Note I.E.):</b>			
Short-Term	\$ 3,027,270,138	\$	\$
Equities	55,835,694,440		
Fixed Income	23,069,878,184		
Alternative Investments	2,478,290,579		
<b>TOTAL INVESTMENTS</b>	<b>\$ 84,411,133,341</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
Invested Securities Lending Collateral	\$ 10,829,078,240	\$	\$
<b>Capital Assets (Note I.E.):</b>			
Land	\$ 1,658,310	\$	\$
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	29,721,218		
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 31,379,528</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>TOTAL ASSETS</b>	<b>\$ 97,568,986,699</b>	<b>\$ 361,004,265</b>	<b>\$ 7,836,182</b>

FIDUCIARY FUND		TOTALS	
TYPES			
Agency Funds	2004	2003	
\$ 775	\$ 1,123,107,893	\$ 1,023,943,196	
	11,734,631	13,975,004	
	7,103,198	6,933,168	
\$ 775	\$ 1,141,945,722	\$ 1,044,851,368	
\$	\$ 7,836,182	\$ 10,000,000	
\$	\$ 1,121,927,507	\$ 1,021,223,979	
	267,800,741	305,842,250	
	99,520,129	64,529,211	
10,420,066	29,126,407	21,709,578	
	2,058,589	1,369,531	
	5,917,334	47,055,175	
	524,267	376,116	
\$ 10,420,066	\$ 1,526,874,974	\$ 1,462,105,840	
\$	\$ 3,027,270,138	\$ 649,652,295	
	55,835,694,440	52,697,198,670	
	23,069,878,184	21,282,297,734	
	2,478,290,579	1,990,765,080	
\$ -0-	\$ 84,411,133,341	\$ 76,619,913,779	
\$	\$ 10,829,078,240	\$ 8,808,329,237	
\$	\$ 1,658,310	\$ 1,658,310	
	29,721,218	30,533,007	
\$ -0-	\$ 31,379,528	\$ 32,191,317	
\$ 10,420,841	\$ 97,948,247,987	\$ 87,977,391,541	

(to next page)

## Statement of Fiduciary Net Assets

AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)  
(concluded)

EXHIBIT



	FIDUCIARY FUND TYPES		
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
<b>LIABILITIES (Note I.E.)</b>			
Accounts Payable	\$ 3,845,067	\$ 12,670,779	\$ 7,820,949
Accounts Payable-General Revenue Fund			
Benefits Payable	511,716,180		
Health Care Claims Payable		110,000,000	
Reinstatement Installment Receipts	32,130,935		
Investments Purchased Payable	1,983,555,284		
Securities Lending Collateral	10,829,078,240		
Compensable Absences Payable	2,314,981	48,327	15,233
Funds Held for Others			
Due to Employees Retirement System of Texas	3,364,305		
<b>TOTAL LIABILITIES</b>	<b>\$ 13,366,004,992</b>	<b>\$ 122,719,106</b>	<b>\$ 7,836,182</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES</b>			
	<b>\$ 84,202,981,707</b>	<b>\$ 238,285,159</b>	<b>\$ -0-</b>

(A schedule of funding progress is presented on page 44.)

*The accompanying Notes to the Financial Statements  
are an integral part of this financial statement.*

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2004	2003	
\$	\$ 24,336,795	\$ 25,577,207	
10,420,066	10,420,066	9,951,828	
	511,716,180	444,586,401	
	110,000,000	97,814,000	
	32,130,935	27,000,240	
	1,983,555,284	1,008,854,827	
	10,829,078,240	8,808,329,237	
	2,378,541	2,361,248	
775	775	3,982	
	3,364,305	2,877,596	
\$ 10,420,841	\$ 13,506,981,121	\$ 10,427,356,566	
\$ -0-	\$ 84,441,266,866	\$ 77,550,034,975	

## Statement of Changes in Fiduciary Net Assets

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS			
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
<b>ADDITIONS:</b>			
<b>Contributions:</b>			
Member	\$ 1,530,276,750	\$ 99,297,097	\$
State	1,241,789,167	454,791,657	
Reporting Entities	192,395,672	79,457,387	
Health Care Premiums		248,552,679	
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ 2,964,461,589</b>	<b>\$ 882,098,820</b>	<b>\$</b>
<b>Investment Income:</b>			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	\$ 7,024,439,015	\$	\$
Interest	1,103,782,108	4,803,809	
Dividends	1,005,620,107		
<b>TOTAL INVESTING ACTIVITIES INCOME</b>	<b>\$ 9,133,841,230</b>	<b>\$ 4,803,809</b>	<b>\$</b>
Less Investing Activity Expenses	(16,252,645)		
<b>NET INCOME FROM INVESTING ACTIVITIES</b>	<b>\$ 9,117,588,585</b>	<b>\$ 4,803,809</b>	<b>\$</b>
From Securities Lending Activities:			
Securities Lending Income	\$ 139,932,948	\$	\$
Securities Lending Expenses:			
Borrower Rebates	(106,672,932)		
Management Fees	(4,989,370)		
<b>Net Income from Securities Lending Activities</b>	<b>\$ 28,270,646</b>	<b>\$</b>	<b>\$</b>
<b>TOTAL NET INVESTMENT INCOME</b>	<b>\$ 9,145,859,231</b>	<b>\$ 4,803,809</b>	<b>\$</b>
<b>Other Additions:</b>			
Reinstatement of Contribution Refunds	\$ 124,360,457	\$	\$
Reinstatement Fees	66,867,238		
Transfers from Employees Retirement System of Texas	5,600,176		
Transfer from TRS-ActiveCare Enterprise Fund (Note VII.)		42,000,000	
Legislative Appropriations			281,149,405
Legislative Appropriations for Excess Benefits (Note I.D.)	516,529		
Miscellaneous Revenues	1,909		
On Behalf Fringe Benefits Paid by the State (Note III.)		37,173	8,453
<b>TOTAL OTHER ADDITIONS</b>	<b>\$ 197,346,309</b>	<b>\$ 42,037,173</b>	<b>\$ 281,157,858</b>
<b>TOTAL ADDITIONS</b>	<b>\$ 12,307,667,129</b>	<b>\$ 928,939,802</b>	<b>\$ 281,157,858</b>

TOTALS	
2004	2003
\$ 1,629,573,847	\$ 1,565,971,934
1,696,580,824	1,504,072,062
271,853,059	182,536,228
248,552,679	162,917,666
<u>\$ 3,846,560,409</u>	<u>\$ 3,415,497,890</u>
\$ 7,024,439,015	\$ 5,673,389,054
1,108,585,917	1,227,897,485
1,005,620,107	900,563,260
<u>\$ 9,138,645,039</u>	<u>\$ 7,801,849,799</u>
(16,252,645)	(14,604,331)
<u>\$ 9,122,392,394</u>	<u>\$ 7,787,245,468</u>
\$ 139,932,948	\$ 108,579,174
(106,672,932)	(82,193,784)
(4,989,370)	(3,957,811)
<u>\$ 28,270,646</u>	<u>\$ 22,427,579</u>
\$ 9,150,663,040	\$ 7,809,673,047
\$ 124,360,457	\$ 100,499,600
66,867,238	54,911,252
5,600,176	4,037,793
42,000,000	
281,149,405	
516,529	461,925
1,909	1,501
45,626	36,344
<u>\$ 520,541,340</u>	<u>\$ 159,948,415</u>
<u>\$ 13,517,764,789</u>	<u>\$ 11,385,119,352</u>

(to next page)



## Statement of Changes in Fiduciary Net Assets

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)  
(concluded)

EXHIBIT



	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
<b>DEDUCTIONS:</b>			
Benefits	\$ 5,453,864,905	\$	\$
Refunds of Contributions	220,396,709		
Health Care Claims		581,354,957	
Health Care Claims Processing		23,914,851	
Administrative Expenses (Net of Investing Activity Expenses)	24,841,300	2,417,349	457,003
Employees Retirement System Reimbursements	38,068,440		
Transfer to TRS-ActiveCare Enterprise Fund (Note VII.)			
Supplemental Health Care Compensation			280,700,855
Excess Benefits	516,529		
<b>TOTAL DEDUCTIONS</b>	<b>\$ 5,737,687,883</b>	<b>\$ 607,687,157</b>	<b>\$ 281,157,858</b>
<b>Net Increase</b>	<b>\$ 6,569,979,246</b>	<b>\$ 321,252,645</b>	<b>\$ -0-</b>
<b>Net Assets Held in Trust for Pension Benefits and Other Purposes - Beginning of Year</b>	<b>\$ 77,633,002,461</b>	<b>\$ (82,967,486)</b>	<b>\$</b>
<b>Net Assets Held in Trust for Pension Benefits and Other Purposes - End of Year</b>	<b>\$ 84,202,981,707</b>	<b>\$ 238,285,159</b>	<b>\$ -0-</b>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TOTALS	
2004	2003
\$ 5,453,864,905	\$ 4,728,815,398
220,396,709	186,082,670
581,354,957	571,744,362
23,914,851	19,388,818
27,715,652	25,729,678
38,068,440	28,609,871
	42,000,000
280,700,855	
516,529	461,925
<u>\$ 6,626,532,898</u>	<u>\$ 5,602,832,722</u>
<u>\$ 6,891,231,891</u>	<u>\$ 5,782,286,630</u>
<u>\$ 77,550,034,975</u>	<u>\$ 71,767,748,345</u>
<u><u>\$ 84,441,266,866</u></u>	<u><u>\$ 77,550,034,975</u></u>

## Statement of Net Assets

PROPRIETARY FUND

AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	<b>TRS-Active Care Enterprise Fund</b>	
	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
<b>Cash:</b>		
Cash in State Treasury	\$ 274,814,166	\$ 207,930,193
Cash on Hand		171,305
Cash in Bank		48,044
<b>TOTAL CASH</b>	<b>\$ 274,814,166</b>	<b>\$ 208,149,542</b>
<b>Accounts Receivable:</b>		
Investment Interest	\$ 345,182	\$
Health Care Premiums	36,760,143	19,853,424
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>\$ 37,105,325</b>	<b>\$ 19,853,424</b>
<b>TOTAL ASSETS</b>	<b>\$ 311,919,491</b>	<b>\$ 228,002,966</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 309,857	\$ 684,901
Premiums Payable to HMOs	3,247,534	
Health Care Claims Payable	67,948,003	90,848,902
Compensable Absences Payable	42,793	47,384
<b>TOTAL LIABILITIES</b>	<b>\$ 71,548,187</b>	<b>\$ 91,581,187</b>
<b>NET ASSETS</b>		
Restricted for Legislative Appropriations Transfer (Note VII.)	\$	\$ 42,000,000
Unrestricted	240,371,304	94,421,779
<b>TOTAL NET ASSETS</b>	<b>\$ 240,371,304</b>	<b>\$ 136,421,779</b>

*The accompanying Notes to the Financial Statements are an integral part of this financial statement.*

## Statement of Revenues, Expenses and Changes in Net Assets

PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	TRS-ActiveCare Enterprise Fund	
	2004	2003
<b>OPERATING REVENUES:</b>		
Health Care Premiums	\$ 758,062,552	\$ 584,572,852
Administrative Fees	192,763	136,288
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 758,255,315</b>	<b>\$ 584,709,140</b>
<b>OPERATING EXPENSES:</b>		
Health Care Claims	\$ 520,998,423	\$ 473,450,544
Health Care Claims Processing	53,564,510	42,411,388
Premium Payments to HMOs	40,210,539	
Administrative Expenses	918,619	1,771,441
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 615,692,091</b>	<b>\$ 517,633,373</b>
<b>OPERATING INCOME</b>	<b>\$ 142,563,224</b>	<b>\$ 67,075,767</b>
<b>NONOPERATING REVENUES:</b>		
Investment Income	\$ 3,641,100	\$ 2,459,154
On Behalf Fringe Benefits Paid by the State (Note III.)	24,050	31,266
<b>TOTAL NONOPERATING REVENUES</b>	<b>\$ 3,665,150</b>	<b>\$ 2,490,420</b>
<b>Income Before Transfers</b>	<b>\$ 146,228,374</b>	<b>\$ 69,566,187</b>
<b>TRANSFERS:</b>		
Legislative Appropriations Transfer (to)/from Retired Plan (Note VII.)	\$ (42,000,000)	\$ 42,000,000
<b>Change in Net Assets</b>	<b>\$ 104,228,374</b>	<b>\$ 111,566,187</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>\$ 136,421,779</b>	<b>\$ 24,855,592</b>
<b>Restatement (Note I.C.)</b>	<b>(278,849)</b>	
<b>Beginning of Year, as Restated</b>	<b>\$ 136,142,930</b>	<b>\$ 24,855,592</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 240,371,304</b>	<b>\$ 136,421,779</b>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

## Statement of Cash Flows

PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	TRS-ActiveCare Enterprise Fund	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Health Care Premiums	\$ 741,359,850	\$ 564,845,229
Receipts from Long-term Care Administrative Fees	192,763	136,288
Payments for Administrative Expenses	(1,293,903)	(1,175,143)
Payments for Health Care Claims	(544,333,788)	(382,601,642)
Payments for Health Care Processing	(53,314,362)	(42,411,388)
Payments for HMO Premiums	(36,963,005)	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 105,647,555</b>	<b>\$ 138,793,344</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Legislative Appropriations Transfer (to)/from Retired Plan (Note VII.)	\$ (42,000,000)	\$ 42,000,000
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ (42,000,000)</b>	<b>\$ 42,000,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest Received	\$ 3,295,897	\$ 2,456,626
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 3,295,897</b>	<b>\$ 2,456,626</b>
<b>Net Increase in Cash</b>	<b>\$ 66,943,452</b>	<b>\$ 183,249,970</b>
<b>CASH AND CASH EQUIVALENTS - SEPTEMBER 1</b>	<b>\$ 208,149,542</b>	<b>\$ 24,899,572</b>
Restatement to Beginning Cash and Cash Equivalents (Note I.C.)	\$ (278,828)	\$
<b>Cash and Cash Equivalents - September 1 Restated</b>	<b>\$ 207,870,714</b>	<b>\$ 24,899,572</b>
<b>CASH AND CASH EQUIVALENTS - AUGUST 31</b>	<b>\$ 274,814,166</b>	<b>\$ 208,149,542</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 142,563,224	\$ 67,075,767
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
(Increase) in Health Care Premiums Receivable	\$ (16,906,719)	\$ (19,853,424)
Increase in Premiums Payable to HMOs	3,247,534	
Increase (Decrease) in Health Care Claims Payable	(22,900,898)	90,848,902
Increase (Decrease) in Accounts Payable	(375,045)	684,403
Increase (Decrease) in Compensable Absences Payable	(4,591)	6,430
On Behalf Fringe Benefits Paid by the State (Note III.)	24,050	31,266
<b>Total Adjustments</b>	<b>\$ (36,915,669)</b>	<b>\$ 71,717,577</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 105,647,555</b>	<b>\$ 138,793,344</b>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

## Balance Sheet

GOVERNMENTAL FUND  
AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	403(b) Certification Program Special Revenue Fund	
	2004	2003
<b>ASSETS</b>		
Current Assets:		
Cash in State Treasury	\$ 217,967	\$ 223,739
Accounts Receivable	267	
<b>TOTAL ASSETS</b>	<b>\$ 218,234</b>	<b>\$ 223,739</b>
<b>LIABILITIES AND FUND BALANCE:</b>		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 2,000	\$ 2,000
Fund Balance Reserved for:		
Administrative Expenditures	\$ 216,234	\$ 221,739
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 218,234</b>	<b>\$ 223,739</b>

## Statement of Revenues, Expenditures and Changes in Fund Balance

GOVERNMENTAL FUND  
YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	403(b) Certification Program Special Revenue Fund	
	2004	2003
<b>REVENUES:</b>		
Certification Fees	\$ 15,000	\$ 55,000
Investment Income	3,495	4,617
On Behalf Fringe Benefits Paid by the State (Note III.)		1,197
<b>TOTAL REVENUES</b>	<b>\$ 18,495</b>	<b>\$ 60,814</b>
<b>EXPENDITURES:</b>		
Administrative Expenditures	\$ 24,000	\$ 46,674
Compensable Absences	-0-	(1,600)
<b>TOTAL EXPENDITURES</b>	<b>\$ 24,000</b>	<b>\$ 45,074</b>
Excess of Revenues over Expenditures	\$ (5,505)	\$ 15,740
<b>FUND BALANCE - BEGINNING</b>	<b>\$ 221,739</b>	<b>\$ 205,999</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 216,234</b>	<b>\$ 221,739</b>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. REPORTING ENTITY

The Teacher Retirement System of Texas (TRS) is governed by a nine member board of trustees which has significant independence in the operations and management of the system. The legislature confirms trustees appointed by the governor, establishes laws with regard to structure, benefits and contributions, and authorizes pension trust fund administrative expenses. For financial reporting purposes, the state of Texas is considered the primary reporting government. TRS' financial statements are included in the state's Comprehensive Annual Financial Report.

This report includes all activities and organizations for which TRS exercises fiscal control and responsibility and includes all funds that comprise the system's legal entity.

TRS administers retirement and related benefits to employees and beneficiaries of employees of the public state supported educational institutions of Texas. It operates primarily under the provisions of Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C.

The system administers the Texas Public School Retired Employees Group Insurance Program and the Texas Active School Employees Uniform Group Benefits Program. These programs provide two separate health care plans, the Retired Plan (TRS-Care) and the Active Plan (TRS-ActiveCare), respectively.

The TRS-Care Retired Plan is considered a post-employment benefit and provides health care coverage for certain persons (and their dependents) who retire under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575.

The TRS-ActiveCare Plan provides health care coverage to employees (and their dependents) of participating public education entities. This plan was mandated by H.B. 3343, 77<sup>th</sup> Legislature, Regular Session and began operations on September 1, 2002. This legislation also requires TRS to disburse state funds to certain public education entities for supplemental compensation and assistance in meeting minimum effort requirements.

The system also administers a 403(b) Certification Program mandated by S.B. 273, 77<sup>th</sup> Legislature, Regular Session. Companies must be certified by TRS in order to offer to public education employees a qualified investment product under IRS Code 403(b) through payroll deduction. This program began operations September 1, 2002.

#### B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of TRS are organized on the basis of funds, each of which is considered a separate accounting

entity. The operations of each fund are accounted for with a complete set of self-balancing accounts that comprise its assets, liabilities, additions, deductions, revenues and expenses/expenditures. The following fund types are used to reflect the system's transactions:

- Fiduciary Funds – includes the Pension Trust Fund, the Health Care Trust Fund-Retired Plan, the Health Care Trust Fund - Supplemental Compensation, and Agency Funds
- Proprietary Fund – includes the TRS-ActiveCare Enterprise Fund
- Governmental Fund – includes the 403(b) Certification Program Special Revenue Fund

The fiduciary funds report assets held in a trustee or agency capacity on behalf of others. The proprietary fund accounts for business-type activities, and the governmental fund accounts for revenues restricted for a specific purpose. Separate financial statements are provided for each fund.

The fiduciary funds (excluding agency funds) and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. All economic resources, including financial and capital assets, and related liabilities, both current and long-term, and the changes therein are reported in the funds' financial statements. Capital assets are depreciated.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Agency funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting. Agency funds are used to report assets collected and transferred to the state or other entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to the same limitation. TRS has elected not to follow subsequent private-sector

# NOTES TO THE FINANCIAL STATEMENTS

guidance.

**C. RESTATEMENTS, RECLASSIFICATIONS, AND COMPARATIVE TOTALS**

The restatements of beginning balances on Exhibits IV and V reflect the correction of an error in the fiscal year 2003 statements related to the lapse of fiscal year 2002 general revenue appropriations.

Regarding Exhibit V, the definition of cash and cash equivalents has been revised to include short-term investments for fiscal year 2004. Some of the items on the prior year's presentation have been reclassified to conform to the current year's presentation for comparative purposes.

Total columns on the basic financial statements do not represent consolidated financial information. These totals are not necessary for a fair presentation of the financial statements but are presented to facilitate financial analysis.

**D. BUDGETS AND APPROPRIATIONS**

The administrative costs and capital outlay for each of the system's funds and programs are controlled by annual budgets approved by the board of trustees.

The Pension Trust Fund receives state contributions for retirement benefits from general revenue appropriations. In fiscal years 2004 and 2003 contributions were made to the retirement system at the rate of 6.0% of the aggregate compensation paid to active retirement system members for each year. Although appropriated by the legislature, administrative expenses and capital outlay for the Pension Trust Fund are paid from the pension fund's expense reserve account, and not from the state's general revenue fund.

The Health Care Trust Fund - Retired Plan (TRS-Care) receives appropriations from the state's general revenue fund equal to 1.0% (.5% in fiscal year 2003) of the salaries of public education employees as well as supplemental appropriations to maintain the program's solvency. Administrative expenses for this program are paid from the trust fund.

The TRS-ActiveCare Enterprise Fund's administrative expenses are paid from the enterprise fund, and the program receives no appropriations from the state for these expenses.

Legislative appropriations to public school districts, charter schools and educational service centers for supplemental compensation and minimum effort transition are disbursed from the Health Care Trust Fund - Supplemental Compensation. Administrative expenses related to the Health Reimbursement Arrangement program were also paid from these appropriations; however, this program was subsequently discontinued.

Effective September 1, 1997, legislation authorized TRS to administer a governmental excess benefit

arrangement under section 415 (m) of the Internal Revenue Code of 1986 (26 U.S.C. section 415 (m)). This legislation created a separate, nonqualified, unfunded excess benefit arrangement outside the trust fund of the retirement system. Contributions to this arrangement are made from the state's general revenue appropriations. These contributions are not held in trust and may not be commingled with other funds of the retirement system. For reporting purposes only, the contributions and benefits are reflected on Exhibit II, Statement of Changes in Fiduciary Net Assets.

**E. ASSETS, LIABILITIES, NET ASSETS, AND LEGAL RESERVES**

**Investments**

Investments are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. For investments, mostly organized as limited partnerships valued at \$3.978 billion dollars (4.7% of total investments) as of August 31, 2004, where no readily ascertainable market value exists (including private equity, absolute return investments, high yield bonds, and real estate), management has determined fair values for the individual investments based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees, and reserves. Management's estimated market values for investments without readily ascertainable market values could differ significantly if a ready market for these assets existed.

Short-term investments are those maturing within one year of purchase date. Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

**Capital Assets**

Capital assets are presented at historical cost or, if not purchased, at fair value at date of acquisition. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. All capital assets belong to the pension trust fund. Capitalization thresholds and useful lives for the capital asset classes are as follows:

<u>Asset Class</u>	<u>Capitalization Threshold</u>	<u>Useful Life</u>
Buildings	\$ 100,000	50 years
Building Improvements and Benefits Project	\$ 100,000	15 years
Furniture and Equipment	\$ 5,000	5 years

Capital asset balances and current year transactions are presented in the following table:

## NOTES TO THE FINANCIAL STATEMENTS

Asset Class	Beginning Balance Cost	Additions	Deletions	Ending Balance Cost	Less Accumulated Depreciation	Ending Book Value (Exhibit I)
<b>Non-Depreciable Assets:</b>						
Land and Improvements	\$ 1,658,310		\$	\$ 1,658,310		\$ 1,658,310
Other Assets	314,432	7,213		321,645		321,645
<b>Total Non-Depreciable Assets</b>	<b>\$ 1,972,742</b>	<b>\$ 7,213</b>	<b>\$</b>	<b>\$ 1,979,955</b>	<b>\$</b>	<b>\$ 1,979,955</b>
<b>Depreciable Assets:</b>						
Buildings and Improvements	\$ 26,628,235	\$ 749,571	\$	\$ 27,377,806	\$ (9,371,042)	\$ 18,006,764
Furniture and Equipment	18,755,148	477,955	(82,435)	19,150,668	(7,757,859)	11,392,809
Vehicles, Boats and Aircraft	45,721			45,721	(45,721)	
<b>Total Depreciable Assets</b>	<b>\$ 45,429,104</b>	<b>\$ 1,227,526</b>	<b>\$ (82,435)</b>	<b>\$ 46,574,195</b>	<b>\$ (17,174,622)</b>	<b>\$ 29,399,573</b>
<b>Total Capital Assets</b>	<b>\$ 47,401,846</b>	<b>\$ 1,234,739</b>	<b>\$ (82,435)</b>	<b>\$ 48,554,150</b>	<b>\$ (17,174,622)</b>	<b>\$ 31,379,528</b>

### Liabilities

Accounts payable represents the liability for assets or services received at fiscal year end for which payment is pending.

Benefits payable for the Pension Trust Fund represents the liability for retirement, disability, and death benefits due at fiscal year end and payable within the next 30 days. Health care claims payable for the Health Care Trust Fund - Retired Plan and the TRS-ActiveCare Enterprise Fund includes an estimate for health care claims incurred but not reported to the system at August 31, 2004.

Investments purchased payable represents the liability for securities purchased prior to fiscal year end for which cash payment will be made after fiscal year end.

Reinstatement installment receipts are payments for service purchases establishing additional creditable

service. Payments are made on a monthly basis for up to five years until sufficient to cover the total cost of the service purchased. Amounts paid, less administrative expenses, are refundable on demand. Revenues will be reported at the time the payments are sufficient to cover the total cost.

Employee compensable leave balances are accounted for on a cost of service measurement focus. This means that all liabilities associated with a fund's activity are included on its statement of net assets or balance sheet. Salary costs related to employees' rights to be compensated for future absences are accrued as expenses of the period in which services are rendered.

Employee compensable leave balances at August 31, 2004, and the system's monetary liability, computed by multiplying the ending balance of compensable leave times the year-end individual employee's hourly salary rate, were as follows:

### Compensatory Time

	Annual Leave		FLSA		State		Totals	
	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars
Pension Trust Fund	59,517	\$ 1,910,194	11	\$ 359	10,059	\$ 404,428	69,587	\$ 2,314,981
Health Care Trust Fund - Retired Plan	1,729	37,476			427	10,851	2,156	48,327
Health Care Trust Fund - Supplemental Compensation	587	13,649			71	1,584	658	15,233
Enterprise Fund - Active Plan	1,048	36,448			201	6,345	1,249	42,793
<b>Total</b>	<b>62,881</b>	<b>\$ 1,997,767</b>	<b>11</b>	<b>\$ 359</b>	<b>10,758</b>	<b>\$ 423,208</b>	<b>73,650</b>	<b>\$ 2,421,334</b>

## NOTES TO THE FINANCIAL STATEMENTS

The difference between the balance at August 31, 2003 and 2004 has been included in the funds' expenses/expenditures for the year ended August 31, 2004.

### Legal Reserve Account Balances

The pension trust fund has five legally required reserves. The balances in these reserves are sufficient to meet the statutory requirements. The Member Savings Account reserve represents the accumulation of active member deposits plus interest and has a balance at August 31, 2004, of \$17,752,484,277. The State Contribution Account consists of reserves available to fund future active member retirement, death, and survivor benefits and has a balance at August 31, 2004, of \$20,196,431,665. The Retired Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases and has a balance at August 31, 2004, of \$45,996,493,948. The Deferred Retirement Option Account consists of the accumulation of participating member deposits plus interest less benefits paid out and has a balance at August 31, 2004, of \$222,892,923. Net capital gains or losses are accumulated in the Interest Account and transferred to the State Contribution account together with any other balance remaining in the Interest Account. The Expense Account represents reserves to pay administrative expenses of the pension trust fund that exceed the state's appropriations and that are required to perform the fiduciary duties of the board. This reserve has a balance at August 31, 2004, of \$34,678,894.

### F. INTERFUND/INTERAGENCY TRANSACTIONS AND BALANCES

Transactions between the system's funds have been classified in accordance with the following criteria that are consistent with Generally Accepted Accounting Principles (GAAP).

The pension trust fund provides various administrative services to other TRS programs and accounts for these services as reciprocal interfund activity. These transactions are reported using the appropriate classification accounts for additions/revenues or deductions/expenses/expenditures as if transacted with parties external to the state, i.e., they are not presented as transfers. The interfund receivables and payables related to reciprocal interfund activity are classified as accounts receivable and accounts payable on the financial statements.

Interagency transactions have been classified using the above criteria for reciprocal interfund activity.

## II. DEPOSITS AND INVESTMENTS

### A. CASH IN BANK AND DEPOSITS

Cash and deposits of the system are maintained in bank accounts or in the State Treasury. The State

Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United States, and obligations of various federal credit organizations. The State Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance.

### B. CASH ON HAND

At August 31, 2004, the system had \$7,103,198 in cash on hand. Of this total, \$7,100,707 was related to checks for purchases of special service that were being held pending approval of rollover transfer forms. The remainder was deposited within the first few business days after fiscal year end.

### C. CUSTODY OF INVESTMENTS

The system has contracted with State Street Bank and Trust Company and Banc of American Securities, LLC to serve as custodians for the system's investments.

### D. INVESTMENT LEGAL PROVISIONS AND OTHER CONSTRAINTS

Article XVI, Section 67 of the Constitution of the State of Texas authorizes the board of trustees to invest the funds of the system in such securities as the board may consider prudent investments. The board "shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital".

The board of trustees should also comply with the prudent investor rule, Texas Property Code, Section 117.003. Texas Government Code, Section 825.301(a) and Texas Property Code, Section 117.004 apply in determining whether a trustee has exercised prudence with respect to an investment decision. Determination shall be made taking into consideration the investment of all the assets of the trust, or the assets of the collective investment vehicle, over which the trustee had management and control.

Trustees follow the guidelines provided by the TRS Investment Policy Statement in establishing specific asset allocations, benchmarks, eligible investments and quantitative criteria with the assistance of their investment counsel and investment advisors. Trustees utilize asset allocations and portfolio standards they believe are prudent and appropriate for the long-term objectives of the fund. Categories of permissible investments include equities, fixed income, cash equivalents, and alternative investments including the Texas Growth Funds.

### E. LEVEL OF RISK

Deposits and investments have been categorized to provide an indication of the level of risk at year end. The categories of risk for deposits are as follows:

1. Fully insured by federal depository insurance or



## NOTES TO THE FINANCIAL STATEMENTS

collateralized with securities held by the system or its agent in the system's name. Collateral for Cash in State Treasury is held in the state's name.

2. Collateralized with securities held by the pledging financial institution's trust department or agent in the system's name.

3. Uncollateralized.

As of August 31, 2004, the balance of uncollateralized cash in the non-U.S. bank for investments pending settlement was \$11.7 million. The highest balance during the reporting period was \$204 million. The total cash available at August 31, 2004, is as follows:

	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Category 1</b>	<b>Category 3</b>
Cash in non-U.S. Bank	\$ 11,714,631	\$ 11,714,631	\$	\$ 11,714,631
Travel Advance Account	20,000	20,544	20,544	
<b>Total Cash in Bank</b>	<b>\$ 11,734,631</b>	<b>\$ 11,735,175</b>	<b>\$ 20,544</b>	<b>\$ 11,714,631</b>
Cash on Hand	7,103,198			
Cash in State Treasury	1,398,140,026			
<b>Total Available Cash</b>	<b>\$1,416,977,855</b>			
Exhibit I	\$1,141,945,722			
Exhibit III	274,814,166			
Exhibit VI	217,967			
<b>Total</b>	<b>\$1,416,977,855</b>			

TRS investments in securities are categorized below and on the following page to give an indication of the credit risk level assumed by the system at August 31, 2004, as defined by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*. Category 1, the lowest risk, includes investments that are insured or registered, or for which the securities are held by the system or its agent in the

system's name. All investments in Category 1 are registered in the name of Teacher Retirement System or in the name of the system's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the system. The invested cash collateral held for securities lending is included in Category 3. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty. The fair values of investments at August 31, 2004, are as follows:

## NOTES TO THE FINANCIAL STATEMENTS

### Pension Trust Fund

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 3</u>	<u>Category Rating Not Required</u>	<u>Total</u>
<b>Categorized:</b>				
Short-term Investments:				
Commercial Paper	\$ 189,804,583	\$	\$	\$ 189,804,583
U.S. Government Obligations	1,143,477,358			1,143,477,358
U.S. Government Agency Obligations	457,431,185			457,431,185
Corporate Obligations	449,365,334			449,365,334
Domestic Equities	40,948,042,440			40,948,042,440
International Equities	10,149,333,189			10,149,333,189
U.S. Government Obligations	139,189,156			139,189,156
U.S. Government Agency Obligations	1,240,575,043			1,240,575,043
Mortgage Backed Obligations				
U.S. Government Mortgage Backed Obligations	7,190,712,647			7,190,712,647
Collateralized Mortgage Obligations	175,357,752			175,357,752
Corporate Obligations	3,390,627,857			3,390,627,857
International Government Obligations	610,781,006			610,781,006
International Obligations Other	896,484,036			896,484,036
<b>Not Categorized:</b>				
Investments Held by Broker-Dealers				
Under Securities Loans:				
Domestic Equities	\$	\$	\$ 3,013,851,646	\$ 3,013,851,646
International Equities			1,588,578,728	1,588,578,728
U.S. Government Obligations			3,837,991,795	3,837,991,795
U.S. Government Agency Obligations			1,749,517,593	1,749,517,593
Corporate Obligations			460,156,049	460,156,049
Securities Purchased Pending Settlement:				
U.S. Government Obligations			412,895,779	412,895,779
U.S. Government Mortgage Backed Obligations			1,426,736,908	1,426,736,908
Domestic Equities			123,912,131	123,912,131
International Equities			11,976,306	11,976,306
Alternative Investments:				
Domestic			2,350,066,914	2,350,066,914
International			128,223,665	128,223,665
High Yield Limited Partnership			1,499,729,577	1,499,729,577
Mutual Fund Short-Term			787,191,678	787,191,678
Private Placements			39,122,986	39,122,986
<b>Total Investments (Exhibit I)</b>	<b>\$ 66,981,181,586</b>	<b>\$</b>	<b>\$17,429,951,755</b>	<b>\$ 84,411,133,341</b>
<b>Categorized Securities Lending</b>				
<b>Collateral:</b>				
Commercial Paper	\$	\$ 1,328,485,014	\$	\$ 1,328,485,014
Time Deposits		326,999,614		326,999,614
Certificate of Deposits		1,804,037,264		1,804,037,264
Repurchase Agreements		993,345,000		993,345,000
U.S. Government Agency Obligations		486,289,758		486,289,758
Corporate Obligations		5,889,921,590		5,889,921,590
<b>Total Securities Lending Collateral (Exhibit I)</b>	<b>\$ -0-</b>	<b>\$10,829,078,240</b>	<b>\$ -0-</b>	<b>\$ 10,829,078,240</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Derivative Investing

#### Equity-Linked Notes

Equity-linked notes are debt instruments whose return on investment is tied to the equity market. In accordance with investment policy and fiduciary principles, the system invests in exchange-listed or private placement equity-linked notes intended to track authorized international equity securities. The issuers of the notes remit to the system dividends received on the underlying shares. The redemption amount at maturity of the note is the weighted average actual executed price of the underlying shares. The equity-linked notes are reported at fair value and are included in aggregate with other International Equities in the disclosure of custodial risk.

#### Call Options

TRS employs a covered call strategy and writes call options on the S&P 500 Index. The index options are settled in the form of cash. Premium income from writing call options is presented in the liabilities section of the statement of net assets and subsequently adjusted to the current market value. If a call option expires, TRS realizes a gain to the extent of the premium received. If a call option is exercised, the difference between the proceeds of the sale plus the amount of the premium and the fair value of the security are realized as a gain or loss. If a call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss.

Premiums received from writing call options during the fiscal year were \$14,611,553. The fair value of the options' liabilities as of August 31, 2004 was \$944,100 and is included in investments purchased payable.

#### International Currency Contracts

At the time the system is notified that an international trade has been consummated, the system trader will buy or sell a forward contract in the currency native to the security transaction for settlement date. This hedges against the risk of currency changes between trade and settlement dates. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. These forward currency contracts are reported at fair value. At August 31, 2004, the system had forward contracts outstanding of \$9,467,368. Transactions involving foreign currency are accounted for in accordance with American Institute of Certified Public Accountants' Statement of Position 93-4, *Foreign Currency Accounting and Financial Statement Presentation for Investment Companies*.

#### Securities Lending

The system is authorized by state statute to contractually lend securities to borrowers in accordance with policy established by the board of trustees. A contract with State Street Bank and Trust Company

provides for lending the system's domestic and international equity and fixed income securities in return for collateral consisting of cash and U.S. government or U.S. government sponsored entity securities. The required collateral is based upon the lent security's fair value plus accrued income. At a loan's inception, the value of the collateral must exceed the value of the lent security by 102% for domestic and 105% for international securities. Collateral is marked to market daily, and in the case it falls below 100% for domestic or 105% for international, is reinstated to the original requirements by the borrower. The system earns income from fees paid by the borrowers and interest earned from investing the cash collateral. The contract requires the custodian to indemnify the system if the borrower fails to return the securities or income distributions made while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults. All loans can be terminated on demand by either the system or the borrower; however, the overall average term of the system's loans was approximately 1 day. As of August 31, 2004, the weighted average maturity of the invested cash collateral was 37 days, and there was no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts owed to the system. During the year there were no significant violations of contractual provisions, no borrower or custodian default losses and no recoveries of prior period losses. There are no dividends or coupon payments owing on the securities lent. Authorized borrowers have specific limits that vary from \$50 million to \$4.2 billion. The total market value of all loans cannot exceed 25% of the portfolio.

As of August 31, 2004, the fair value of the securities on loan was \$11,596,575,294. The fair value of associated collateral was \$11,860,975,326. Of this amount, \$10,898,156,282 represents the amount of cash collateral received and the remaining \$962,819,044 represents the fair value of the non-cash collateral. During the fiscal year, the average monthly fair value of loans outstanding ranged from \$14,459,339,461 to \$10,953,461,064 with a yearly average outstanding balance of \$12,509,959,313. For fiscal year 2004, the system earned income of \$28,270,646 from securities lending. The net of loans pending settlement of \$50,041,415 for securities purchased and sold were not included in the fair value of the securities on loan or the fair value of associated collateral at August 31, 2004.

#### F. OTHER INVESTMENTS AND CONTINGENT COMMITMENTS

The system makes contingent commitments to and investments in entities that manage alternative investment portfolios and high yield fixed income. The categories of other investments are as follows for August 31, 2004.



## NOTES TO THE FINANCIAL STATEMENTS

Category of Investment	Commitment	Remaining Commitment	Adjusted Funded Amount **	Fair Value at August 31, 2004
Private Equity Domestic (27 entities)	\$ 2,466,083,333	\$ 1,340,029,500	\$1,126,053,833	\$ 898,376,767
Private Equity International (5 entities) *	362,119,728	209,352,966	152,766,762	128,223,665
Absolute Return (25 entities) ***	1,025,386,386	-0-	1,025,386,386	1,106,336,289
Real Estate Domestic (1 entity) ***	512,071,270	-0-	512,071,270	345,353,858
<b>Total Alternative Investments</b>	<b>\$ 4,365,660,717</b>	<b>\$ 1,549,382,466</b>	<b>\$2,816,278,251</b>	<b>\$ 2,478,290,579</b>
<b>Total High Yield (6 entities)</b>	<b>\$ 1,370,522,929</b>	<b>\$ -0-</b>	<b>\$1,370,522,929</b>	<b>\$ 1,499,729,577</b>
*Private Equity International in Euros (4 of the 5 entities are denominated in Euros)	€ 246,250,000	• 152,355,351	• 93,894,649	• 64,043,270

\*\* The net funded amount for alternative investments equals \$2,151,151,674, which is the adjusted funded amount of \$2,816,278,251 less distributions of \$675,137,525 plus expenses paid of \$10,010,948.

\*\*\* Absolute Return Category of Investment consists of a diversified basket of investments typically organized as a private investment limited partnership or offshore corporation that invests in a variety of equity and fixed income securities and employs various strategies and methods for creating positions for profit while managing risk.

Real Estate Category of Investment includes the Red River Limited Partnership that manages commercial mortgages receivable throughout the United States, and one direct investment in an office building.

### III. FRINGE BENEFITS PAID BY THE STATE OF TEXAS

The state has a joint contributory retirement plan for substantially all its employees. The employees of TRS participate in the same plan they administer (note IX.).

For the fiscal year ended August 31, 2004, the state provided retirement contributions totaling \$69,676 on behalf of employees paid from the Health Care Trust Fund-Retired Plan, the Health Care Trust Fund - Supplemental Compensation, and the TRS-Active Care Enterprise Fund. Although not paid by these funds, GASB Statement No. 24 requires recognition of this benefit as an expense of the program, and an offsetting revenue is recorded.

### IV. DEFERRED COMPENSATION

Employees of the system may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the Tex. Gov. Code Ann., Sec. 609.001. Two plans are available for employees. Both plans are administered by the Employees Retirement System. The system has no additional or unfunded liability for this program.

### V. CONTINGENT LIABILITIES

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is taken only in the event of illness or paid to the estate of an employee in the event of death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The system's policy is to recognize the cost of any sick leave when paid.

The system is contingently liable for benefits payable to retiring members who remain in a pending status longer than 30 days after fiscal year end.

In addition, under Tex. Ins. Code Ann. art. 3.51-7, the system was contingently liable to pay a lump sum death benefit not to exceed \$5,000, when added to the death benefit authorized under Tex. Gov. Code, Title 8, Chapter 824, to the beneficiaries of deceased, retired employees.

TRS is a defendant in various litigation involving issues arising from its normal activities. The outcome of this litigation cannot be determined at this time. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the basic financial statements as a result of the ultimate outcome of these matters.

### VI. CONTINUANCE SUBJECT TO REVIEW

As provided by Tex. Gov. Code, Title 8, Sec. 825.006, "The board of trustees of the Teacher Retirement System of Texas is subject to review under Chapter 325 (Texas Sunset Act), but is not abolished under that Chapter. The board shall be reviewed during the period in which state agencies abolished in 2007 are reviewed."

### VII. POST-EMPLOYMENT HEALTH CARE BENEFITS

#### TRS Employees

Employees of the system who retire with 10 or more years of service continue to receive health care and life insurance benefits through the Employees Life, Accident and Health Insurance and Benefits Fund, in accordance with Article 3.50-2, Texas Insurance Code. This fund is

# NOTES TO THE FINANCIAL STATEMENTS

maintained and administered through the Employees Retirement System of Texas.

For the year ended August 31, 2004, the system contributed up to a maximum monthly amount on a pay-as-you-go basis toward a retiree's health and life insurance premiums as follows:

<u>Level of Coverage</u>	<u>Premium</u>
Retiree Only	\$ 300.27
Employee/Spouse	\$ 471.65
Employee/Children	\$ 415.02
Employee/Family	\$ 586.39

The system covers 100% of a Retiree Only premium and 50% of additional premiums for family coverage. The basic plan includes up to \$2,500 for life insurance for the retiree. The retiree contributes any premium over and above the system's contribution for other coverage. The board has adopted contributions based on rates set by the Legislature on a biennial basis. At August 31, 2004, there were 148 retirees and their beneficiaries receiving post-employment health care and life insurance benefits. For the year ended August 31, 2004, the system recognized expenditures of \$612,267 for these benefits.

### Public School Employees

TRS, as trustee, administers the Texas Public School Retired Employees Group Insurance Program (TRS-Care) and the related fund in accordance with Texas Insurance Code, Chapter 1575.

Eligibility generally includes TRS public school retirees with 10 or more years of service and their dependents. Retirees can receive a free basic level of coverage, and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. During fiscal year 2004, deductibles were \$1,800 for those having Part A of Medicare or \$4,500 for those without Part A. At fiscal year end there were 177,454 participants in the plan, of which 29,472 were dependents.

Funding for free basic coverage is provided by the program based upon public school district payroll. The state of Texas and active public school employee contribution rates were increased to 1.0% and .50% of public school payroll, respectively, by S.B. 1369, 78th Legislature. H.B. 3459, 78th Legislature, provided an additional source of revenue by requiring school districts to contribute a percentage of payroll, which was set at .40% for fiscal year 2004. Funding for optional coverage is provided by those participants selecting the optional coverage. Expenses for the Health Care Trust Fund - Retired Plan are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

At the inception of the Retired Plan in fiscal year 1986, funding was projected to last 10 years through

fiscal year 1995. The original funding was sufficient to maintain the solvency of the fund through fiscal year 2000; however, supplemental state appropriations of \$76.2 million in fiscal year 2001, \$285.5 million in fiscal year 2002, \$166.7 million in fiscal year 2003, and \$256.2 million in fiscal year 2004 have been necessary for the program to continue operations. Of the \$166.7 million supplemental appropriations for fiscal year 2003, \$42 million was transferred to the TRS-ActiveCare Plan to cover start-up claims costs. These funds were returned to the Retired Plan in fiscal year 2004. In fiscal year 2005, the fund will receive supplemental appropriations of \$64.2 million.

## VIII. RISK MANAGEMENT

The 77th Texas Legislature enacted the Texas Active School Employees Uniform Group Benefits Act (H.B. 3343), establishing a new statewide health coverage program for public school employees and their dependents. TRS began administering this program, known as TRS-ActiveCare, September 1, 2002. The plan is available to all public school districts, charter schools, education service centers and certain other employers. The risk associated with this program is retained by the plan's participants, and no risk is transferred to the plan's administrators, to employers, or to the state.

## IX. PENSION DISCLOSURE

### A. Plan Description

TRS is the administrator of a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employing district (unless the employing district is a senior college, medical school, or state agency, in which case the employer is considered the state of Texas) but are the liability of the state of Texas. By statute, the state of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the pension trust fund during that fiscal year. However, for fiscal year 2004 the pension trust fund paid the employer's share for its own employees.

For members of the system entitled to the minimum salary for certain school personnel under Section 21.402, Education Code, the employing district shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum.

At August 31, 2004, the number of participating employing districts was the following:

## NOTES TO THE FINANCIAL STATEMENTS

Public Schools, Service Centers and Charter Schools	1,253
Community and Junior Colleges	51
Senior Colleges and Universities	43
Medical and Dental Schools	8
Other Entities	3
Total	1,358

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002, are covered by the system.

At August 31, 2004, TRS gross membership before actuarial adjustments consisted of the following:

Retirees and beneficiaries currently receiving benefits	240,627
Terminated employees entitled to benefits but not yet receiving them	43,151
Total	283,778
 Current Active Members:	
Fully-Vested	467,679
Non-Vested	347,859
Total	815,538

A brief statement about benefits follows. Authority under which these benefits are established is located in note I.A.

The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals or exceeds 80 years. Reduced service retirement is at age 55 with 5 years of credited service and any age below 50 with 30 years of credited service.

A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met.

The state of Texas contribution rate was 6.0% for fiscal years 2004, 2003, and 2002. The member contribution rate was 6.4% for fiscal years 2004, 2003, and 2002. These rates are set by state statutes. In certain instances, the reporting entity (public school, college, university, medical school or other entity) is required to make all or a portion of the state's contribution.

### **B. Contributions Required and Contributions Made**

Contribution requirements are not actuarially determined but are established pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during that fiscal year. (2) A

state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Actuarial implications of the funding provided in this manner are determined by the system's actuary. Current contribution rates are indicated in section A. of this note. Total contributions paid to the pension plan in 2004 amounted to \$2,964,461,589, of which \$1,530,276,750 was from members, \$1,241,789,167 was from the state of Texas, and \$192,395,672 was from reporting employers.

### **C. Six-Year Historical Trend Information**

This Required Supplementary Information, located immediately following the Notes, provides indicators and trends which may be useful in assessing progress made in accumulating sufficient assets to pay benefits when due.

## Required Supplementary Information

PENSION TRUST FUND - FISCAL YEARS 1999 - 2004

### SCHEDULE OF FUNDING PROGRESS

Taking into account only the dollar amounts of aggregate actuarial accrued liabilities and unfunded actuarial accrued liabilities (UAAL) can be misleading. The dollar amounts of these two items can be increasing at a time when their actual substance may be decreasing. Dividing valuation asset dollars by aggregate actuarial accrued liability dollars and dividing UAAL dollars by active member payroll dollars provide clarifying indices. The larger the ratio of valuation assets to aggregate actuarial accrued liabilities, the stronger the system. Observation of these relative indices over a period of years will give an indication of whether the system is becoming stronger or weaker.

(MONEY AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Valuation of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funding Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) Unfunded AAL as a % of Covered Payroll (4)/(6)
1999	\$ 69,435	\$ 67,245	\$ (2,190)	103.3%	\$ 19,529	(11.2)%
2000	79,328	73,882	(5,446)	107.4	21,920	(24.8)
2001	86,352	84,217	(2,135)	102.5	23,365	(9.1)
2002	86,035	89,322	3,287	96.3	24,818	13.2
2003	89,033	94,263	5,230	94.5	25,756	20.3
2004	88,784	96,737	7,953	91.8	25,485	31.2

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

#### Employer and State Contributions Annual Required Contributions

Year Ended	Rate	Dollars			Percentage Contributed
		From State	From Employers	Total	
1999	6.00%	\$ 977,345,552	\$ 108,892,209	\$ 1,086,237,761	100%
2000	6.00	1,090,716,271	119,060,600	1,209,776,871	100
2001	6.00	1,142,792,114	136,247,871	1,279,039,985	100
2002	6.00	1,201,257,586	157,781,530	1,359,039,116	100
2003	7.15	1,476,558,656	217,522,338	1,694,080,994	84
2004	7.39	1,529,470,324	236,967,336	1,766,437,660	81

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

<b>Valuation Date</b>	August 31, 2004	<b>Actuarial Assumptions:</b>	
<b>Actuarial Cost Method</b>	Entry Age Normal	<b>Investment Rate of Return *</b>	8.00%
<b>Amortization Method</b>	Level Percent, Open	<b>Projected Salary Increases *</b>	4.25% to 26.40%
<b>Remaining Amortization Period</b>	Infinite *	<b>Weighted Average Projected Salary Increases *</b>	6.46%
<b>Asset Valuation Method</b>	5-Year Smoothed Market	<b>Cost-of-Living Adjustments</b>	None

\*The current employer contribution of 6.00% is not sufficient to amortize the unfunded liability of the system. Consequently, the amortization period is infinite. The annual required contribution (ARC) by the state would need to increase to 7.31% beginning in fiscal year 2005 in order to amortize the UAAL over the 30-year maximum acceptable amortization period permitted by Governmental Accounting Standards Board Statement No. 25.

\*Includes Inflation at 3.00%

## Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

YEAR ENDED AUGUST 31, 2004



	Balances September 1, 2003	Additions	Deductions	Balances August 31, 2004
<b>UNAPPROPRIATED RECEIPTS</b>				
<b>Collections on Behalf of the State's General Revenue Fund</b>				
<b>Assets:</b>				
Cash in State Treasury	\$	\$168,084,003	\$168,084,003	\$
Accounts Receivable - Reporting Entities	9,951,828	10,420,066	9,951,828	10,420,066
<b>TOTAL ASSETS</b>	<b>\$ 9,951,828</b>	<b>\$178,504,069</b>	<b>\$178,035,831</b>	<b>\$10,420,066</b>
<b>Liabilities:</b>				
Accounts Payable - General Revenue Fund	\$ 9,951,828	\$ 10,420,066	\$ 9,951,828	\$10,420,066
 <b>OTHER AGENCY FUNDS</b>				
<b>Employees' Savings Bond Account</b>				
<b>Assets:</b>				
Cash in State Treasury	\$ 1,025	\$ 10,875	\$ 11,125	\$ 775
<b>Liabilities:</b>				
Funds Held for Others	\$ 1,025	\$ 10,800	\$ 11,050	\$ 775
 <b>Direct Deposit Correction Account Fund</b>				
<b>Assets:</b>				
Cash in State Treasury	\$ 2,957	\$ 1,752,281	\$ 1,755,238	\$
<b>Liabilities:</b>				
Funds Held for Others	\$ 2,957	\$ 1,752,281	\$ 1,755,238	\$
 <b>TOTALS - ALL AGENCY FUNDS</b>				
				<b>(Exhibit I)</b>
<b>Assets:</b>				
Cash in State Treasury	\$ 3,982	\$ 169,847,159	\$ 169,850,366	\$ 775
Accounts Receivable - Reporting Entities	9,951,828	10,420,066	9,951,828	10,420,066
<b>TOTAL ASSETS</b>	<b>\$ 9,955,810</b>	<b>\$ 180,267,225</b>	<b>\$ 179,802,194</b>	<b>\$ 10,420,841</b>
<b>Liabilities:</b>				
Accounts Payable - General Revenue Fund	\$ 9,951,828	\$ 10,420,066	\$ 9,951,828	\$ 10,420,066
Funds Held for Others	3,982	1,763,081	1,766,288	775
<b>TOTAL LIABILITIES</b>	<b>\$ 9,955,810</b>	<b>\$ 12,183,147</b>	<b>\$ 11,718,116</b>	<b>\$ 10,420,841</b>



## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

SCHEDULE



<b>INTEREST ACCOUNT</b>	<b>2004</b>	<b>2003</b>
<b>Additions:</b>		
Interest, Dividends and Other Income:		
Short-Term	\$ 19,176,074	\$ 21,302,872
Equities	1,005,620,107	900,899,411
Fixed Income	1,081,853,205	1,199,926,265
Alternative Investments		(336,151)
Securities Lending Program	28,270,646	22,427,579
Miscellaneous	2,752,829	3,273,392
Net Appreciation in Fair Value of Investments	7,024,439,015	5,673,389,054
<b>TOTAL ADDITIONS</b>	<b>\$ 9,162,111,876</b>	<b>\$ 7,820,882,422</b>
<b>Deductions:</b>		
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 867,257,832	\$ 831,093,682
State Contribution Account	(2,267,653,151)	(1,887,442,000)
Retired Reserve Account	3,471,441,811	3,145,059,218
Deferred Retirement Option Account	14,626,369	15,782,468
Expense Account	52,000,000	43,000,000
Transfer to State Contribution Account for Net Appreciation in Fair Value of Investments	7,024,439,015	5,673,389,054
<b>TOTAL DEDUCTIONS</b>	<b>\$ 9,162,111,876</b>	<b>\$ 7,820,882,422</b>
<b>Net Increase in Account Balance</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>Account Balance - Beginning September 1</b>	<b>-0-</b>	<b>-0-</b>
<b>Account Balance - Ending August 31</b>	<b>\$ -0-</b>	<b>\$ -0-</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

SCHEDULE



<b>MEMBER SAVINGS ACCOUNT</b>	<b>2004</b>	<b>2003</b>
<b>Additions:</b>		
Member Contributions:		
Eligible for State Contributions	\$ 1,530,276,750	\$ 1,516,801,535
Not Eligible for State Contributions	124,360,457	100,499,600
Operating Transfers In:		
Allocation from Interest Account	867,257,832	831,093,682
<b>TOTAL ADDITIONS</b>	<b>\$ 2,521,895,039</b>	<b>\$ 2,448,394,817</b>
<b>Deductions:</b>		
Withdrawal of Member Accounts	\$ 220,396,709	\$ 186,082,670
Operating Transfers Out:		
Transfer to Retired Reserve Account for Dormant Accounts	8,088,526	6,629,694
Transfer to Retired Reserve Account to Fund Benefits	1,942,677,372	1,277,659,071
<b>TOTAL DEDUCTIONS</b>	<b>\$ 2,171,162,607</b>	<b>\$ 1,470,371,435</b>
<b>Net Increase in Account Balance</b>	<b>\$ 350,732,432</b>	<b>\$ 978,023,382</b>
<b>Account Balance - Beginning September 1</b>	<b>17,401,751,845</b>	<b>16,423,728,463</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 17,752,484,277</b>	<b>\$ 17,401,751,845</b>



## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

SCHEDULE



<b>STATE CONTRIBUTION ACCOUNT</b>	<b>2004</b>	<b>2003</b>
<b>Additions:</b>		
Contributions:		
State Contributions - General Revenue	\$ 1,241,789,167	\$ 1,239,070,201
State Contributions - School Districts	134,608,326	125,741,122
State Contributions - Higher Education	57,787,346	56,795,106
Reinstatement Fees	66,867,238	54,911,252
Operating Transfers In:		
Transfer from Retired Reserve Account Based on Actuarial Valuation as of August 31	1,632,420,196	509,127,654
Allocation from Interest Account	(2,267,653,151)	(1,887,442,000)
Transfer from Interest Account for Net Appreciation in Fair Value of Investments	7,024,439,015	5,673,389,054
Retirement Benefits Forfeited While Member Returned to Teaching	36,271,776	15,601,181
Retirement Benefits Waived by Member	169,238	235,396
<b>TOTAL ADDITIONS</b>	<b>\$ 7,926,699,151</b>	<b>\$ 5,787,428,966</b>
<b>Deductions:</b>		
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 5,817,941,368	\$ 3,936,678,853
<b>TOTAL DEDUCTIONS</b>	<b>\$ 5,817,941,368</b>	<b>\$ 3,936,678,853</b>
<b>Net Increase in Account Balance</b>	<b>\$ 2,108,757,783</b>	<b>\$ 1,850,750,113</b>
<b>Account Balance - Beginning September 1</b>	<b>18,087,673,882</b>	<b>16,236,923,769</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 20,196,431,665</b>	<b>\$ 18,087,673,882</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

SCHEDULE



<b>RETIRED RESERVE ACCOUNT</b>	<b>2004</b>	<b>2003</b>
<b>Additions:</b>		
Transfers from Employees Retirement System of Texas	\$ 5,600,176	\$ 4,037,793
Operating Transfers In:		
Allocation from Interest Account	3,471,441,811	3,145,059,218
Transfer from Member Savings Account for Dormant Accounts	8,088,526	6,629,694
Transfer from Member Savings Account to Fund Benefits	1,942,677,372	1,277,659,071
Transfer from State Contribution Account to Fund Benefits	5,817,941,368	3,936,678,853
<b>TOTAL ADDITIONS</b>	<b>\$ 11,245,749,253</b>	<b>\$ 8,370,064,629</b>
<b>Deductions:</b>		
Benefits Paid:		
Service Retirement Annuities	\$ 4,289,249,761	\$ 3,892,777,093
Partial Lump Sums	696,201,755	427,944,774
Disability Retirement Annuities	125,992,690	122,409,366
Death and Survivor Benefits		
Accumulated Savings	1,460,631	1,297,262
Annual Salary	41,669,051	41,284,946
Survivor Annuities	74,320,247	70,611,609
Life Annuities	75,839,736	74,581,837
60 Monthly Payments	7,089,131	6,385,087
Remainder of Contributions	2,994,247	2,217,897
Transfers to Employees Retirement System of Texas	38,068,440	28,609,871
Operating Transfers Out:		
Transfer to State Contribution Account Based on Actuarial Valuation as of August 31	1,632,420,196	509,127,654
Transfer to Deferred Retirement Option Account to Fund Benefits	45,615,636	72,612,765
Retirement Benefits Forfeited While Member Returned to Teaching	36,271,776	15,601,181
Retirement Benefits Waived by Member	169,238	235,396
<b>TOTAL DEDUCTIONS</b>	<b>\$ 7,067,362,535</b>	<b>\$ 5,265,696,738</b>
<b>Net Increase in Account Balance</b>	<b>\$ 4,178,386,718</b>	<b>\$ 3,104,367,891</b>
<b>Account Balance - Beginning September 1</b>	<b>41,818,107,230</b>	<b>38,713,739,339</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 45,996,493,948</b>	<b>\$ 41,818,107,230</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

SCHEDULE



### DEFERRED RETIREMENT OPTION ACCOUNT

	2004	2003
<b>Additions:</b>		
Operating Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 45,615,636	\$ 72,612,765
Allocation from Interest Account	14,626,369	15,782,468
TOTAL ADDITIONS	\$ 60,242,005	\$ 88,395,233
<b>Deductions:</b>		
Benefits Paid	\$ 139,047,656	\$ 89,305,527
<b>Net Decrease in Account Balance</b>	<b>\$ (78,805,651)</b>	<b>\$ (910,294)</b>
<b>Account Balance - Beginning September 1</b>	<b>301,698,574</b>	<b>302,608,868</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 222,892,923</b>	<b>\$ 301,698,574</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)



<b>EXPENSE ACCOUNT</b>	<b>2004</b>	<b>2003</b>
<b>Additions:</b>		
Miscellaneous Revenues	\$ 1,909	\$ 1,501
Operating Transfers In:		
Allocation from Interest Account	52,000,000	43,000,000
<b>TOTAL ADDITIONS</b>	<b>\$ 52,001,909</b>	<b>\$ 43,001,501</b>
<b>Deductions:</b>		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 26,751,566	\$ 26,900,347
Professional Fees and Services	4,062,121	2,701,168
Consumable Supplies and Fuels	324,822	374,004
Utilities	597,301	451,391
Travel	329,562	226,911
Rentals	154,090	98,825
Dues, Fees and Staff Development	192,615	165,712
Subscriptions and Reference Information	118,132	132,499
Printing and Reproduction Services	374,432	192,276
Postage, Mailing and Delivery Services	1,762,069	1,476,886
Software Purchases and Maintenance	1,341,533	1,218,513
Computer Hardware Maintenance	184,519	339,349
Miscellaneous Expenses	612,509	523,906
Insurance Premiums	907,027	96,465
Furniture and Equipment - Expensed	646,677	481,741
Maintenance - Buildings and Equipment	553,911	414,301
Compensable Absences	219,042	274,851
Depreciation	1,962,017	1,963,348
<b>TOTAL DEDUCTIONS</b>	<b>\$ 41,093,945 *</b>	<b>\$ 38,032,493</b>
<b>Net Increase in Account Balance</b>	<b>\$ 10,907,964</b>	<b>\$ 4,969,008</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 23,770,930</b>	<b>\$ 18,801,922</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 34,678,894</b>	<b>\$ 23,770,930</b>

\* This amount includes investing activity expenses of \$16,252,645 (Schedule 4). Administrative expenses net of investing activity expenses are \$24,841,300 (Exhibit II).

## Schedule of Administrative Expenses/Expenditures and Capital Expenses - Budget and Actual on Budgetary Basis

AUGUST 31, 2004



PENSION TRUST FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Expenses:</b>			
Salaries and Wages	\$ 23,737,500	\$ 21,115,782	\$ 2,621,718
Other Personnel Costs:			
Longevity Pay	\$ 355,300	\$ 355,260	\$ 40
Employer Retirement Contributions	1,459,650	1,262,536	197,114
Employer FICA Contributions	1,751,580	1,523,704	227,876
Employer Health Insurance Contributions	2,580,000	2,423,373	156,627
Benefit Replacement Pay	240,000	215,734	24,266
Other Employee Benefits	41,700	(3,131)	44,831
Compensable Absences	350,000	219,042	130,958
<b>TOTAL OTHER PERSONNEL COSTS</b>	<b>\$ 6,778,230</b>	<b>\$ 5,996,518</b>	<b>\$ 781,712</b>
Professional Fees and Services	\$ 5,980,153	\$ 4,303,414	\$ 1,676,739
Other Operating Expenses:			
Consumable Supplies and Fuels	\$ 374,032	\$ 323,527	\$ 50,505
Utilities	727,185	622,147	105,038
Travel	606,842	329,562	277,280
Rentals	224,960	154,090	70,870
Dues, Fees and Staff Development	370,864	189,794	181,070
Subscriptions and Reference Information	162,060	117,257	44,803
Printing and Reproduction Services	461,605	367,478	94,127
Postage, Mailing and Delivery Services	2,168,792	1,763,079	405,713
Software Purchases and Maintenance	2,105,547	1,262,392	843,155
Computer Hardware Maintenance	533,250	213,872	319,378
Miscellaneous Expenses	869,388	615,004	254,384
Insurance Premiums	1,000,000	903,477	96,523
Furniture and Equipment - Expensed	367,522	266,897	100,625
Maintenance - Buildings and Equipment	622,142	531,958	90,184
Depreciation and Loss on Disposal of Assets	2,025,000	1,962,017	62,983
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 12,619,189</b>	<b>\$ 9,622,551</b>	<b>\$ 2,996,638</b>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 49,115,072</b>	<b>\$ 41,038,265</b>	<b>\$ 8,076,807</b>
<b>Pension Trust Fund:</b>			
Total From Expense Account - Schedule 1		\$ 41,093,945 *	
Add (Less) Differences Between GAAP and Budgetary Basis Payables:			
Salaries and Wages		131,596	
Other Personnel Costs		10,096	
Professional Fees and Services		241,293	
Other Operating Expenses		(21,748)	
Less Reclass from Capital Assets		(416,917)	
<b>TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE</b>		<b>\$ 41,038,265</b>	
<b>Capital Expenses:</b>			
Furniture and Equipment - Capitalized	\$ 263,158	\$ 167,490	\$ 95,668
Capital Projects	3,388,000	504,469	2,883,531
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ 3,651,158</b>	<b>\$ 671,959</b>	<b>\$ 2,979,199</b>

\* This amount includes investing activity expenses of \$16,252,645 (Schedule 4). Administrative expenses net of investing activity expenses are \$24,841,300 (Exhibit II).

HEALTH CARE TRUST FUNDS

RETIRED PLAN			SUPPLEMENTAL COMPENSATION		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$ 627,000	\$ 626,314	\$ 686	\$ 165,628	\$ 165,626	\$ 2
\$ 9,000	\$ 8,420	\$ 580	\$ 2,700	\$ 2,540	\$ 160
40,000	37,173	2,827	8,820	8,453	367
48,500	46,758	1,742	13,524	12,460	1,064
57,811	57,539	272	12,943	12,654	289
8,200	7,540	660	1,832	1,203	629
2,800		2,800			
29,189	29,189		15,233	15,233	
\$ 195,500	\$ 186,619	\$ 8,881	\$ 55,052	\$ 52,543	\$ 2,509
\$ 1,309,263	\$ 977,978	\$ 331,285	\$ 270,000	\$ 238,827	\$ 31,173
\$ 1,500	\$ 488	\$ 1,012	\$	\$	\$
1,800	1,753	47			
14,500	3,655	10,845			
47,158	47,158				
4,900	1,090	3,810			
1,000	349	651			
87,736	26,491	61,245	5,000		5,000
242,001	233,920	8,081	19,340	7	19,333
18,200	16,170	2,030			
8,517	929	7,588			
1,000		1,000			
100		100			
\$ 428,412	\$ 332,003	\$ 96,409	\$ 24,340	\$ 7	\$ 24,333
\$ 2,560,175	\$ 2,122,914	\$ 437,261	\$ 515,020	\$ 457,003	\$ 58,017

**Retired Plan:**

Total Administrative Expenses - Exhibit II	\$ 2,417,349
Add (Less) Differences Between GAAP and Budgetary Basis Payables:	
Salaries and Wages	14,285
Other Personnel Costs	1,093
Professional Fees and Services	(15,000)
Other Operating Expenses	(294,813)
<b>TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE</b>	<b>\$ 2,122,914</b>

**Supplemental Compensation Fund:**

Total Administrative Expenses - Exhibit II	\$ 457,003
<b>TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE</b>	<b>\$ 457,003</b>

(to next page)

## Schedule of Administrative Expenses/Expenditures and Capital Expenses - Budget and Actual on Budgetary Basis

AUGUST 31, 2004

(concluded)

SCHEDULE



PROPRIETARY FUND			
TRS-ACTIVE CARE ENTERPRISE FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Expenses/Expenditures:</b>			
Salaries and Wages	\$ 659,500	\$ 412,540	\$ 246,960
Other Personnel Costs:			
Longevity Pay	\$ 6,100	\$ 6,080	\$ 20
Employer Retirement Contributions	40,200	24,050	16,150
Employer FICA Contributions	54,000	30,887	23,113
Employer Health Insurance Contributions	65,000	34,835	30,165
Benefit Replacement Pay	5,000	2,667	2,333
Other Employee Benefits	3,000		3,000
Compensable Absences	10,000	(639)	10,639
<b>TOTAL OTHER PERSONNEL COSTS</b>	<b>\$ 183,300</b>	<b>\$ 97,880</b>	<b>\$ 85,420</b>
Professional Fees and Services	\$ 2,046,030	\$ 309,031	\$ 1,736,999
Other Operating Expenses/Expenditures:			
Consumable Supplies and Fuels	\$ 4,400	\$ 1,595	\$ 2,805
Utilities	1,600	1,291	309
Travel	30,575	5,318	25,257
Rentals	73,573	73,573	
Dues, Fees and Staff Development	6,500	3,642	2,858
Subscriptions and Reference Information	2,210	230	1,980
Printing and Reproduction Services	84,100	3,525	80,575
Postage, Mailing and Delivery Services	187,100	9,694	177,406
Software Purchases and Maintenance			
Computer Hardware Maintenance			
Miscellaneous Expenses	15,200	2,227	12,973
Insurance Premiums			
Furniture and Equipment - Expensed	15,000	1,168	13,832
Maintenance - Buildings and Equipment	1,300	226	1,074
Depreciation and Loss on Disposal of Assets			
<b>TOTAL OTHER OPERATING EXPENSES/EXPENDITURES</b>	<b>\$ 421,558</b>	<b>\$ 102,489</b>	<b>\$ 319,069</b>
<b>TOTAL ADMINISTRATIVE EXPENSES/EXPENDITURES</b>	<b>\$ 3,310,388</b>	<b>\$ 921,940</b>	<b>\$ 2,388,448</b>
<b>TRS-ActiveCare Enterprise Fund:</b>			
Total Administrative Expenses - Exhibit IV	\$ 918,619		
Add Differences Between GAAP and Budgetary Basis Payables:			
Salaries and Wages	3,085		
Other Personnel Costs	236		
<b>TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE</b>	<b>\$ 921,940</b>		



GOVERNMENTAL FUND		
403(b) CERTIFICATION PROGRAM		
SPECIAL REVENUE FUND		
Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$ 24,000	\$ 24,000	\$ -0-
\$	\$	\$
\$	\$	\$
\$ 24,000	\$ 24,000	\$ -0-
<b>403(b) Certification Program</b>		
<b>Special Revenue Fund:</b>		
Total Administrative Expenditures - Exhibit VII	\$	24,000
TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$	<u>24,000</u>

## Comparative Schedule of Investment Portfolio

### PENSION TRUST FUND

SCHEDULE

3

	TOTAL	SHORT-TERM
<i>YEAR ENDED AUGUST 31, 2004</i>		
Purchases	\$ 112,252,417,291	\$ 2,548,228,586
Sales	(110,602,010,058)	(768,106)
Calls and Maturities	(883,483,623)	(170,000,000)
Net Appreciation in Fair Value	7,024,439,015	300,426
<b>Net Increase</b>	<b>\$ 7,791,362,625</b>	<b>\$ 2,377,760,906</b>
<b>Fair Value - September 1, 2003</b>	<b>76,619,770,716</b>	<b>649,509,232</b>
<b>Fair Value - August 31, 2004 (Exh. I)</b>	<b>\$ 84,411,133,341</b>	<b>\$ 3,027,270,138</b>
<i>YEAR ENDED AUGUST 31, 2003</i>		
Purchases	\$ 60,498,118,926	\$ 649,509,232
Sales	(59,645,589,114)	(155,166,395)
Calls and Maturities	(747,329,938)	
Net Appreciation (Depreciation) in Fair Value	5,673,389,054	
<b>Net Increase (Decrease)</b>	<b>\$ 5,778,588,928</b>	<b>\$ 494,342,837</b>
<b>Fair Value - September 1, 2002</b>	<b>70,841,181,788</b>	<b>155,166,395</b>
<b>Fair Value - August 31, 2003 (Exh. I)</b>	<b>\$ 76,619,770,716</b>	<b>\$ 649,509,232</b>

EQUITIES	FIXED INCOME	ALTERNATIVE INVESTMENTS
\$ 15,093,458,044 (18,068,437,078)	\$ 93,630,863,197 (91,798,502,746) (713,483,623)	\$ 979,867,464 (734,302,128)
6,113,474,804	668,703,622	241,960,163
\$ 3,138,495,770	\$ 1,787,580,450	\$ 487,525,499
52,697,198,670	21,282,297,734	1,990,765,080
\$ 55,835,694,440	\$ 23,069,878,184	\$ 2,478,290,579
\$ 11,261,650,596 (11,352,213,683)	\$ 47,706,401,083 (47,499,533,788) (747,329,938)	\$ 880,558,015 (638,675,248)
5,629,076,953	(114,152,474)	158,464,575
\$ 5,538,513,866	\$ (654,615,117)	\$ 400,347,342
47,158,684,804	21,936,912,851	1,590,417,738
\$ 52,697,198,670	\$ 21,282,297,734	\$ 1,990,765,080

## Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

4

	2004	2003
<b>Direct Expenses:</b>		
Salaries and Other Personnel Costs	\$ 7,813,975	\$ 7,799,485
Professional Fees and Services	3,344,633	1,830,807
Consumable Supplies	4,438	6,652
Travel	185,547	113,386
Dues, Fees and Staff Development	38,990	29,155
Postage, Mailing and Delivery Services		412
Subscriptions and Reference Materials	26,288	45,298
Furniture and Equipment - Expensed	19,358	
Maintenance - Building and Equipment	595	605
<b>Total Direct Expenses</b>	<b>\$ 11,433,824</b>	<b>\$ 9,825,800</b>
<b>Indirect Expenses:</b>		
Depreciation, Utilities and Building Maintenance	\$ 655,973	\$ 647,154
Executive Management Support	361,811	426,755
Legal, Audit and Human Resources Support	1,135,368	1,063,019
Fiscal Management Support	1,062,763	800,957
Information Technology Support	866,364	1,154,878
Security and Staff Services Support	553,188	484,200
Other Support Services	183,354	201,568
<b>Total Indirect Expenses</b>	<b>\$ 4,818,821</b>	<b>\$ 4,778,531</b>
<b>Total Investing Activity Expenses* (Exh. II)</b>	<b>\$ 16,252,645</b>	<b>\$ 14,604,331</b>

\*During fiscal year 2004, the system paid commissions of \$39,525,881, of which \$5,077,997 was paid to soft dollars brokers. Soft dollars from commissions were used to acquire on-line data services, professional services and other research services totaling \$4,253,636. These soft dollar expenditures are not included in the above investing activity expenses. Also excluded from investing activities expenses are management fees of \$1,141,394 paid directly by the system during fiscal year 2004 to managers of two of the system's 58 alternative investment entities. These directly paid fees are recorded in the net appreciation account. The management fees of the remaining 56 entities are paid directly by the entities.

## Schedule of Payments to Consultants - Budgetary Basis

YEAR ENDED AUGUST 31, 2004

SCHEDULE



	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation	TRS- ActiveCare Enterprise Fund	403(b) Certification Program Special Revenue Fund	Total
<b>Nature of Service:</b>						
Investment Advisors	\$2,918,000	\$	\$	\$	\$	\$ 2,918,000
Programming						
Consultants	770,660					770,660
Legal Counsel	437,142	(175,890)	31,597	(376,889)		(84,040)
Search Consultants	170,000					170,000
Consulting Actuary	121,999		207,230	238,353		567,582
Fiduciary Counsel	106,896					106,896
Temporary Employment						
Services	106,330					106,330
Medical Board	102,545					102,545
Audit Services	79,210	(10,105)		4,895		74,000
Telecommunication						
Assessment	51,784					51,784
Miscellaneous	50,081					50,081
Investment Counseling						
Service	34,500					34,500
Tax Services	15,001					15,001
Contracted Services	10,308	72,942				83,250
Data Processing Services	(47,042)	46,311		731		
Administrative Services	(624,000)	300,000		300,000	24,000	
Health Care Consultant		695,770		141,941		837,711
Legislative Research		44,950				44,950
TRS-Care Credentialing		4,000				4,000
<b>TOTAL</b>	<b>\$4,303,414</b>	<b>\$ 977,978</b>	<b>\$ 238,827</b>	<b>\$ 309,031</b>	<b>\$ 24,000</b>	<b>\$ 5,853,250</b>





# Investment Section

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Teacher Retirement System of Texas

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## INVESTMENT OVERVIEW

### Authority and Mission

The TRS Board of Trustees holds system assets in trust and oversees the investment of the system's funds in accordance with applicable constitutional and statutory provisions. The Investment Division follows a clear philosophy and a well-defined style and process to achieve desired long-term investment returns while controlling risk and managing costs.

### Policy and Portfolio Structure

The board governs the investment process by adopting investment policies and objectives, which define the fund's strategic investment initiatives, and by monitoring performance to measure the results of both tactical and strategic investment strategies. The TRS Investment Policy Statement, adopted by the board and amended as needed, has specific guidelines for performance expectations, eligible holdings and portfolio characteristics. Further, the board relies on the advice of external advisors to assist in establishing investment objectives and in reviewing performance and compliance with investment policy.

The guiding principle for investment strategy is risk control through diversification, prudently setting and modestly deviating from normal positions to enhance returns. The key to determining investment strategy is asset allocation, a crucial decision made by the board after consideration of expected returns for asset classes within the context of risk tolerance for the fund. TRS investment staff manages the investment portfolios based on this allocation. An asset/liability modeling study (ALM), performed by staff with assistance from external advisors and the actuarial consultant at least every five years, is presented to the board with recommendations for adoption. The results of a new ALM with recommendations were presented to the board at the end of fiscal year 2003. In fiscal year 2004, the board completed the asset allocation decision-making process, revised investment policy, and began implementation of a number of material changes. To enhance diversification and to optimize risk adjusted asset returns, the board approved several asset allocation changes in fiscal year 2004. The domestic equity weight will be reduced by five percent, shifting these assets to a three-percent weight in real estate partnerships, and one percent additional weight each to private equity and high yield debt. The shift is expected to take several years to complete.

Risk is diversified at both the asset class and security level. The major asset classes, equity and fixed income, are each segmented with sub-asset classes that are further diversified with very broad security selection. The alternative asset classes of private equity, absolute return strategies and real estate partnerships have been approved by the board to provide an additional degree of risk reduction and return enhancement. TRS uses both passive and active investing styles. This approach enables the system to effectively manage the size of the trust in a manner that both tracks the performance of key benchmarks and provides opportunities to add value through active management. The system has added 0.33% (33 basis points) of value annually over its composite benchmark portfolio for the last 10 years, 23 basis points annually over the last three years, and 41 basis points in the last year ending June 2004.

TRS' equity and investment grade bond portfolios closely match the economic characteristics of their respective benchmarks, while seeking returns that modestly exceed the indexes through security selection and sector rotation. The style thus has risk control similar to passive or index management, but allows for generation of excess return associated with active management. It is a disciplined, balanced approach with a strong quantitative foundation that focuses on long-term returns and objectives rather than on short-term market movements. The process to implement this style includes frequent updating of statistical risk and return models constructed by TRS investment staff incorporating economic conditions, interest rate changes and industry factors.

### Economic Conditions and Outlook

The U.S. economy and capital markets experienced robust growth in calendar year 2003. U.S. gross domestic product grew at a rate of 4.4 percent, building momentum throughout the course of the year. Corporate profits rebounded sharply, helping equity markets to advance markedly. Monetary and fiscal policies were maintained in an accommodative stance through March of 2004 until deflationary pressures eased and the job market began to recover. In the summer of 2004 the Federal Reserve (the Fed) changed its bias to a more neutral stance in response to rising inflationary pressures, raising interest rates twice—in June by .25 percent (25 basis points) and again in August 2004 by 25 basis points to 1.5 percent. Bond markets were

## INVESTMENT OVERVIEW

volatile and stocks were range bound in the second half of fiscal year 2004 as market participants grappled with rising economic and political uncertainty. Crude oil prices surged to record levels by fiscal year end creating serious concerns about the sustainability of corporate earnings and the economic expansion.

During the period from June 30, 2003 to June 30, 2004, U.S. stocks experienced very strong returns, but primarily in the first half of the period. As measured by the S&P 500 Index, large-capitalization stocks produced a total return of 19.1 percent. Small and mid-capitalization stocks produced even higher total returns of 35.2 percent and 28.0 percent as measured by their respective indexes. Overall, stock investors favored higher risk-and-reward profiles and smaller-capitalization stocks as participants felt more at ease about the investing climate. However, the risk climate notably worsened at the end of this period pressuring stocks in the final quarter of the fiscal year.

Foreign stocks performed very well on an absolute basis, rising 32.5 percent for the year ending June 2004. Various emerging markets, particularly China and India, experienced a burst of economic growth and outsized capital market returns. Even Japan, which had been stuck in economic malaise for many years, began to show signs of life in its economy and stock market. For the first half of the period, higher gains in the overseas markets relative to U.S. returns could largely be attributed to foreign currency strength versus the U.S. dollar. Global markets struggled to move higher in the second half of the period in the face of significantly higher oil prices, rising interest rates and global terrorism concerns.

Absolute fixed income returns were modest. The Lehman Brothers Aggregate Bond Index (LBAG) posted a total return of 0.32 percent for the 12-month period ending June 30, 2004. The yield curve began to flatten in anticipation of a shift in monetary policy as growing evidence of an economic recovery started to emerge in late 2003. While both short- and long-term rates rose during this period, short-term rates were driven higher in anticipation of the rise in rates administered by the Federal Reserve Board. The impact on longer term rates was moderated by the positive inflation implications of this anticipated shift in monetary policy. High yield returns continued to outpace investment grade returns for the one-year period. At 7.98 percent, the Citigroup High Yield Index outperformed the LBAG

by 7.66 percent. TRS remained overweight in high yield throughout the period, which enhanced performance.

Alternative investments contributed satisfying absolute and relative returns during the period. The TRS alternative investments portfolio returned over 12 percent versus the benchmark return of 8.4 percent. The private equity market revived following several depressed years of few exit opportunities and reduced fund raising activity. Although the pace of annual commitments to the asset class has been lower than anticipated or desired, TRS has been able to invest in a number of high-quality, established general partnerships. Increased acquisition activity, combined with a recovery in the IPO market, has provided the partnerships with exit opportunities at attractive multiples to original cost. The TRS private equity program returned 26.1 percent during the one-year period ending June 2004.

The confidence and optimism that prevailed in the capital markets in the first half of the fiscal year waned considerably in the second half. Although consensus economic forecasts for 2005 GDP remained at higher-than-average levels, estimates began falling as jobs data continued to disappoint and oil prices pushed through record levels at fiscal year end. Investor concerns, or the resolution thereof, about Fed policy, political uncertainty and global terrorism will materially impact capital market direction in FY 2005.

### Investment Portfolio Performance

The total value of the fund on August 31, 2004 was \$84.4 billion. The fund's annual rates of return for the one-, three-, five- and 10-year periods ending August 31, 2004 were 11.91%, 4.71%, 3.18% and 9.53% respectively.

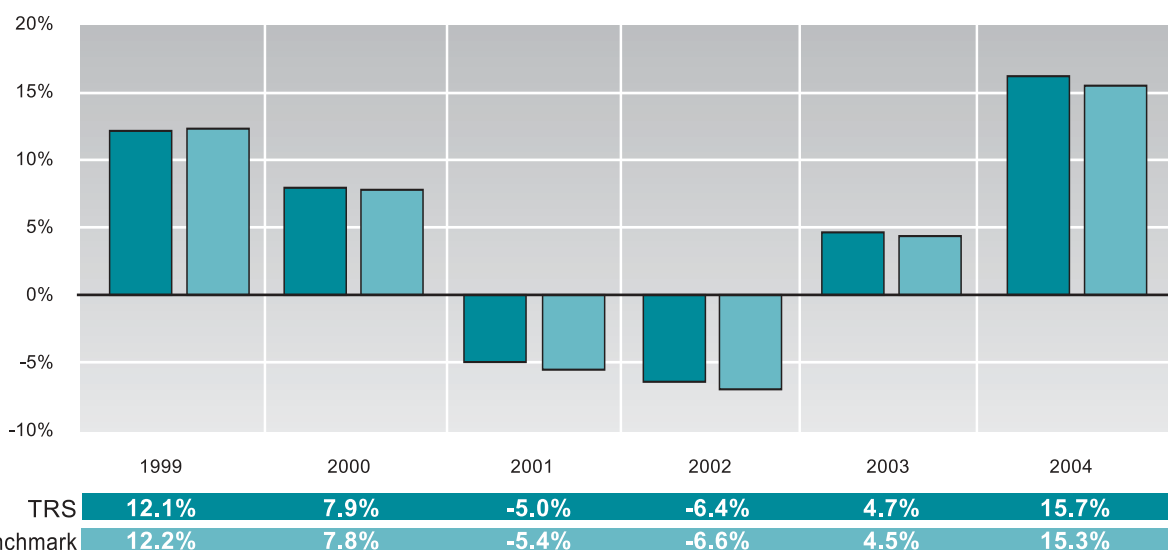
Additional information about performance is included on the "Total Time Weighted Returns" and "Asset Allocation" charts on pages 64 and 65. This information is for the time period through the second quarter of the calendar year ended June 30, 2004, and includes comparisons with established benchmarks for the same time period.

Investment performance is calculated using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research Performance Presentation Standards.

## Total Time Weighted Returns

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

	1999	2000	2001	2002	2003	2004	3 Years	5 Years	10 Years
<b>Total Portfolio<sup>1</sup></b>									
TRS	12.1%	7.9%	-5.0%	-6.4%	4.7%	15.7%	4.3%	3.0%	10.2%
Custom Benchmark <sup>2</sup>	12.2%	7.8%	-5.4%	-6.6%	4.5%	15.3%	4.0%	2.8%	9.9%
<b>Equities</b>									
TRS	18.2%	9.9%	-13.1%	-13.3%	-0.5%	23.3%	2.1%	0.3%	11.6%
Equity Composite Benchmark <sup>3</sup>	19.4%	10.0%	-13.2%	-13.8%	-0.9%	23.4%	1.8%	0.2%	11.7%
<b>Fixed Income</b>									
TRS	1.2%	4.0%	11.9%	8.7%	15.2%	0.3%	7.9%	7.9%	8.4%
Fixed Income Composite Benchmark <sup>4</sup>	1.3%	4.2%	11.4%	8.3%	15.5%	-0.3%	7.6%	7.7%	7.7%
<b>Alternative Investments</b>									
TRS	n/a	n/a	9.1%	-2.6%	3.3%	12.2%	4.1%	n/a	n/a
Alternative Investments Composite Benchmark <sup>5</sup>	n/a	n/a	10.2%	0.0%	1.7%	8.4%	5.0%	n/a	n/a



<sup>1</sup> Time weighted rates of return adjusted for cash flows.

<sup>2</sup> 50% S&P 500/ 50% LB Aggregate through 3/95, 38% S&P 500/ 5% Wilshire MidCap/ 6% International Composite (85% EAFE ex-Japan/ 15% Japan)/ 51% LB Aggregate through 12/95, 43% S&P 500/ 7% Wilshire MidCap/ 10% International Composite/ 38% SBLPF/ 2% 91-day T-Bill through 9/97, 43% S&P 500/ 5% S&P 400/ 2% S&P 600/ 10% International Composite/ 38% SBLPF/ 2% 91-day T-Bill through 12/99, 22% S&P 500/ 3% S&P 400/ 1% S&P 600/ 26% S&P 1500/ 11% EAFE/ 36% SBLPF/ 1% 91-day T-Bill through 6/00, 42% S&P 500/ 7.5% S&P 400/ 3% S&P 600/ 13% MS ACWI Free Ex-US/ 28.5% SB Large Pension Fund/ 1% SB High Yield Market Index/ 3% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.5% Absolute Return Composite (6-Month T-Bill + 300 bps) through 3/03, currently 70% 3-month LIBOR/ 30% S&P 500)/ 0.5% 91-day T-Bill through 6/04, currently 42% S&P 500/ 7.5% S&P 400/ 3% S&P 600/ 13% MS ACWI Free Ex-US/ 28.5% LB Aggregate/ 1% SB High Yield Market Index/ 3% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.5% Absolute Return Composite (6-Month T-Bill + 300 bps through 3/03, currently 70% 3-month LIBOR/ 30% S&P 500)/ 0.5% 91-day T-Bill.

<sup>3</sup> S&P 500 through 3/95, 78% S&P 500/ 10% Wilshire Mid Cap/ 12% International Composite (85% EAFE ex-Japan/ 15% Japan) through 12/95, 72% S&P 500/ 12% Wilshire Mid Cap/ 16% International Composite through 9/97, 72% S&P 500/ 8% S&P 400/ 4% S&P 600/ 16% International Composite (85% EAFE ex-Japan/ 15% Japan) through 12/99, 35% S&P 500/ 5% S&P 400/ 1.67% S&P 600/ 41.67% S&P 1500/ 16.67% EAFE through 6/00, currently 64.1% S&P 500, 11.5% S&P 400, 4.6% S&P 600, and 19.8% MS ACWI Free Ex-US.

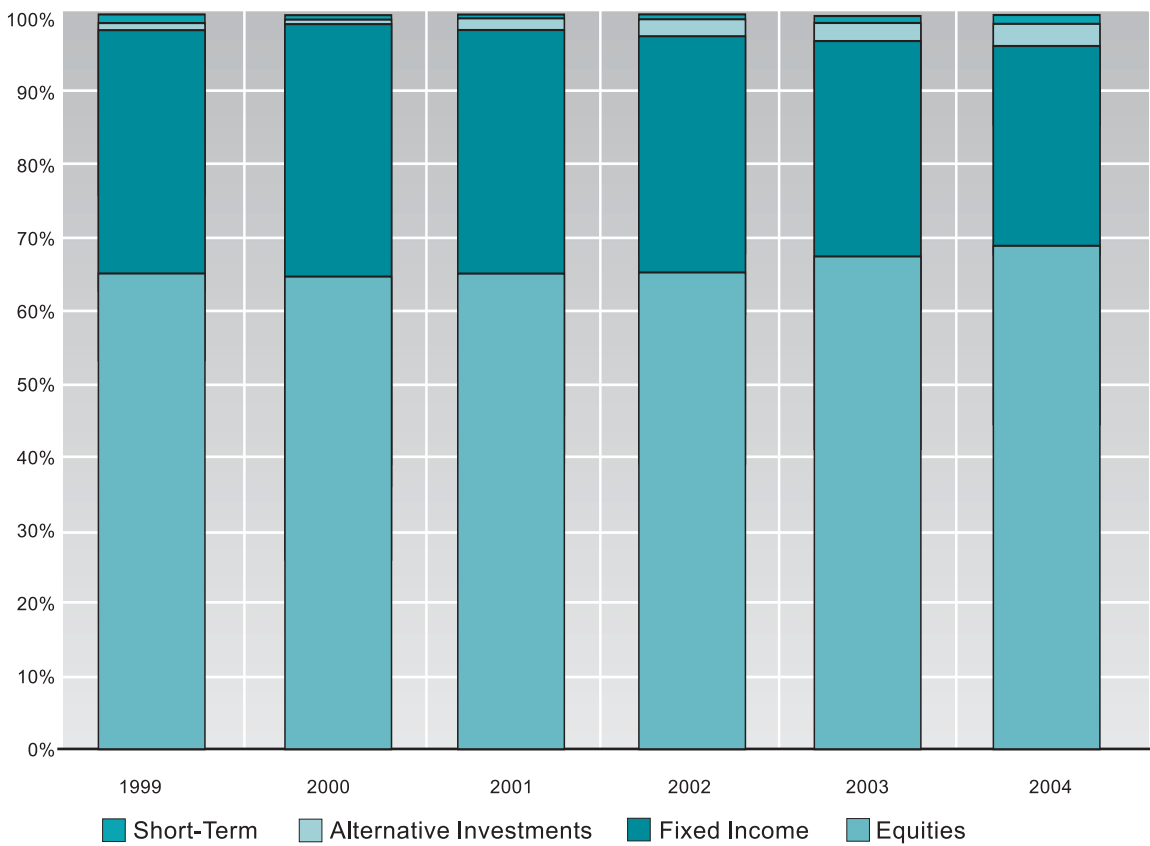
<sup>4</sup> LB Aggregate through 12/95, SB Large Pension Fund through 12/02, 99.6% SB Large Pension Fund/ 0.4% SB High Yield Market Index through 6/04, currently 99.6% LB Aggregate/ 0.4% SB High Yield Market Index.

<sup>5</sup> The Alternative Asset Composite Index began 07/00. Based upon actual ending period weightings of each Alternative Asset investment type through 12/02, currently 67% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps), 33% Absolute Return Composite (6-Month T-Bill + 300 bps through 3/03, currently 70% 3-month LIBOR/ 30% S&P 500).

## Asset Allocation

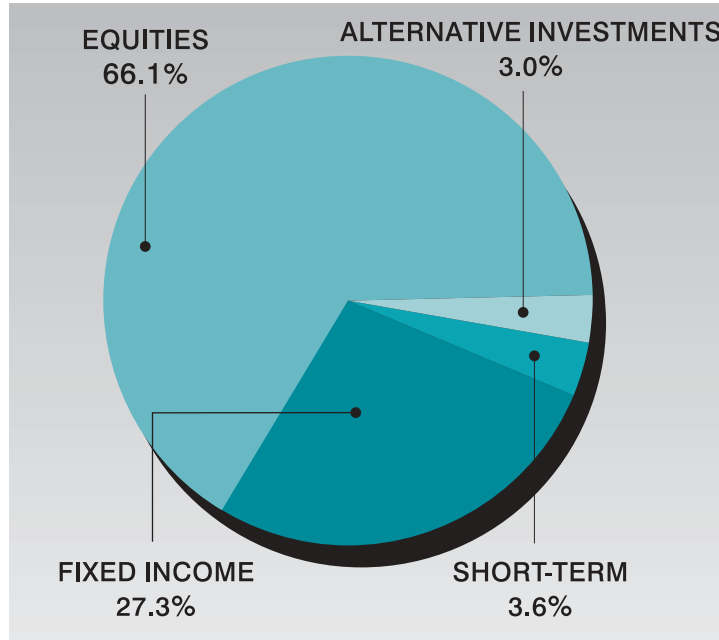
PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

	1999	2000	2001	2002	2003	2004	Averages		
							3 Years	5 Years	10 Years
Short-Term	1.3%	0.8%	0.6%	0.8%	1.0%	1.2%	1.0%	0.9%	1.2%
Alternative Investments	1.0%	0.7%	1.7%	2.2%	2.3%	2.8%	2.4%	2.0%	2.3%
Fixed Income	32.6%	34.0%	32.7%	31.2%	29.8%	27.4%	29.5%	30.9%	33.0%
Equities	65.1%	64.5%	65.0%	65.8%	66.9%	68.6%	67.1%	66.2%	63.5%



## Asset Allocation

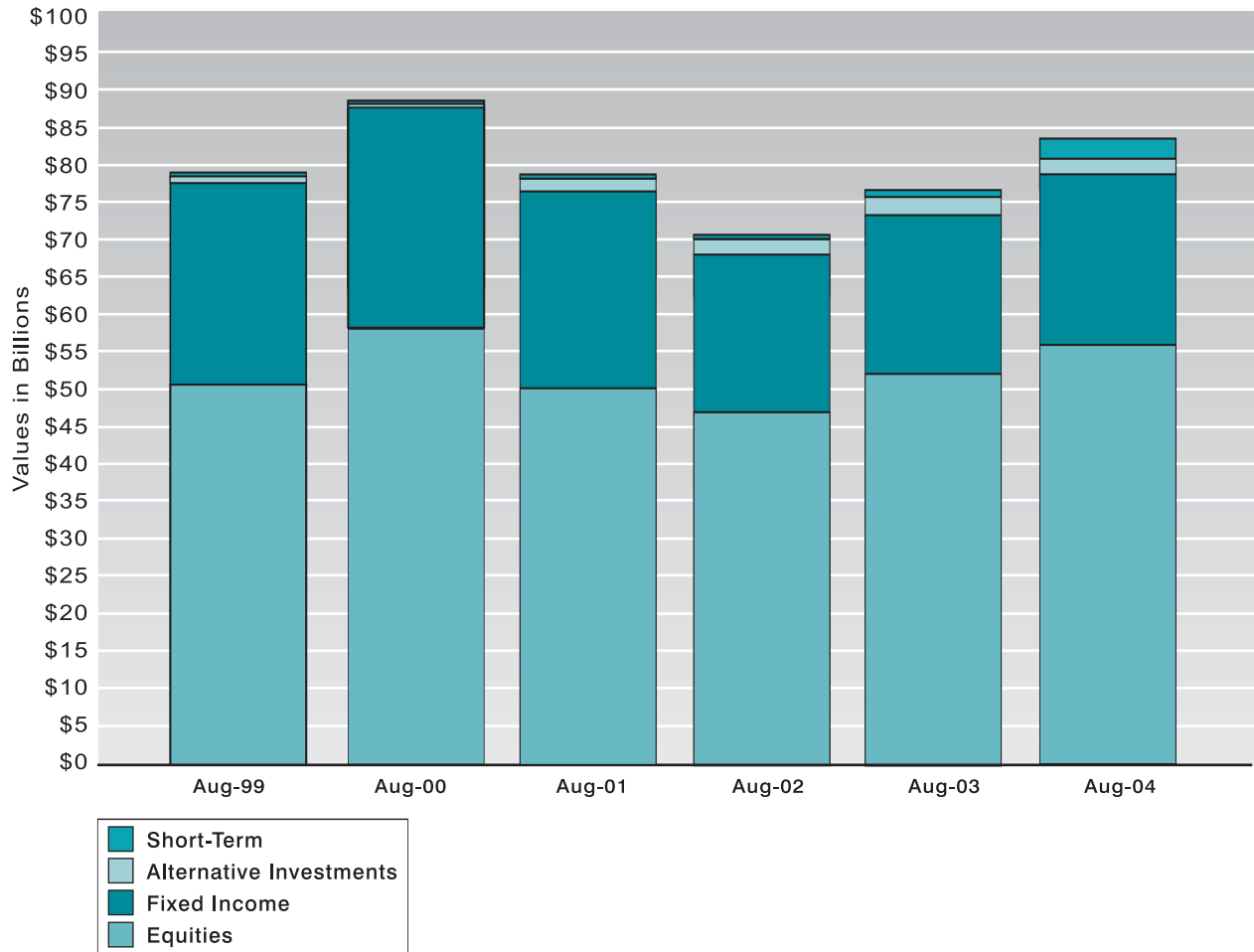
PENSION TRUST FUND - AUGUST 31, 2004



	POLICY RANGES			Actual
	Low	High	Normal	
<b>Equities</b>	55.0%	68.0%	61.5%	66.1%
<b>Fixed Income</b>	20.0%	40.0%	29.5%	27.3%
<b>Alternative Investments</b>	4.0%	12.0%	8.5%	3.0%
<b>Short-Term</b>	0.0%	3.0%	0.5%	3.6%

## Total Investment Market Values

PENSION TRUST FUND - AUGUST 31



### MARKET VALUES - AUGUST 31 (in billions)

	1999	2000	2001	2002	2003	2004
<b>Equities</b>	\$ 51.178	\$ 57.894	\$ 50.167	\$ 47.159	\$ 52.697	\$ 55.836
<b>Fixed Income</b>	26.798	29.441	26.811	21.937	21.282	23.070
<b>Alternative Investments</b>	0.768	0.515	1.402	1.590	1.991	2.478
<b>Short-Term</b>	0.348	0.204	0.351	0.155	0.650	3.027
<b>Total</b>	<u>\$ 79.092</u>	<u>\$ 88.054</u>	<u>\$ 78.731</u>	<u>\$ 70.841</u>	<u>\$ 76.620</u>	<u>\$ 84.411</u>

## Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2004

### Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
General Electric Co.	\$ 553,164,021	16,869,900
Exxon Mobil Corp.	482,344,300	10,463,000
Microsoft Corp.	473,600,400	17,348,000
Pfizer Inc.	394,914,960	12,088,000
Citigroup Inc.	386,101,620	8,289,000
Wal-Mart Stores Inc.	358,208,670	6,801,000
American International Group Inc.	296,785,840	4,166,000
Bank of America Corp.	294,438,270	6,545,982
Johnson & Johnson	277,921,350	4,783,500
Procter & Gamble Co.	230,988,190	4,127,000
	<b>\$ 3,748,467,621</b>	<b>91,481,382</b>

### Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
BP Amoco Plc.	\$ 235,286,441	26,543,080
Vodafone Group Plc.	209,168,858	92,097,255
HSBC HLDGS Plc.	208,653,553	13,439,900
Glaxosmithkline Plc.	148,426,110	7,295,058
Toyota Motor Corp.	144,072,160	3,660,000
Novartis AG	128,669,402	2,786,665
Royal Bank Scot Grp Ord	125,593,980	4,512,940
Total SA	107,970,147	554,918
UBS AG Registered	105,230,271	1,571,699
Royal Dutch Petroleum	89,264,447	1,771,600
	<b>\$ 1,502,335,369</b>	<b>154,233,115</b>



## Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2004

### Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury 8.125% due 8/15/2019	\$ 1,026,324,229	\$ 751,165,000
U.S. Treasury 2.5% due 5/31/2006	634,402,037	632,265,000
U.S. Treasury 3.25% due 8/15/2008	596,004,318	591,685,000
FNMA 3.31% due 1/26/2007	591,527,869	590,310,000
FHLMC 5.5% due 9/1/2034	446,840,636	440,000,000
FNMA 3.0% due 8/15/2007	423,054,512	423,165,000
U.S. Treasury 5.5% due 8/15/2028	415,134,478	389,005,000
U.S. Treasury 2.375% due 8/31/2006	412,831,727	413,154,000
U.S. Treasury 3.875% due 5/15/2009	357,380,938	348,165,000
U.S. Treasury 4.25% due 11/15/2013	314,202,066	310,415,000
	<u>\$ 5,217,702,810</u>	<u>\$ 4,889,329,000</u>

Note: A complete listing of portfolio holdings is available by contacting the TRS Communications Department.

### Fixed Income Portfolio as of August 31, 2004<sup>1</sup>

<u>Quality Distribution</u>		<u>Maturity Analysis<sup>2</sup></u>	
Treasury	24.4%	0 - 4 Years	44.8%
Agency	44.0%	4 - 6 Years	23.8%
AAA	9.5%	6 - 10 Years	19.5%
AA	1.6%	10 - 20 Years	6.4%
A	9.9%	20 - 30 Years	5.3%
BBB	10.2%	30+ Years	0.2%
Other	0.4%		<u>100.0%</u>
	<u>100.0%</u>		

<sup>1</sup> Excludes High Yield Fixed Income Partnerships

<sup>2</sup> Weighted Average Life





# Actuarial Section

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Teacher Retirement System of Texas

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**GABRIEL, ROEDER, SMITH & COMPANY**

Consultants & Actuaries

5605 N. MacArthur Blvd. • Suite 870 • Irving, Texas 75038-2631 • 469-524-0000 • fax 469-524-0003

November 8, 2004

**BOARD OF TRUSTEES**

Teacher Retirement System of Texas  
1000 Red River Street  
Austin, TX 78701-2698

**Subject: Actuary's Certification of the Actuarial Valuation as of August 31, 2004**

We certify that the information included herein and contained in the 2004 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2004.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented comply with the requirements of the Texas statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Mr. Carter and Mr. Newton are members of the American Academy of Actuaries, and are also Enrolled Actuaries. All are experienced in performing valuations for large public retirement systems.

***Actuarial Valuations***

The primary purpose of the valuation report is to determine the adequacy of the current State contribution rate through measuring the resulting funding period, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the System in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25), and it provides various summaries of the data.

Valuations are prepared annually, as of August 31 of each year, the last day of the System's plan and fiscal year.

***Financing Objective of the Plan***

Contribution rates are established by Law that, over time, are intended to remain level as a percent of payroll. The employee and State contribution rates have been set by Law and are intended to provide for the normal cost plus the level percentage of payroll required to amortize the unfunded actuarial accrued liability over a period not in excess of 31 years.

***Progress Toward Realization of Financing Objective***

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Based on this actuarial valuation as of August 31, 2004, the System's underfunded status has increased because of the continued recognition of the investment results during the poor investment markets of fiscal years 2001 & 2002, and the UAAL is now \$7.953 billion.

This valuation shows a normal cost equal to 11.72% of pay. Since the State contribution rate of 6.00% of pay plus the member contribution rate of 6.40% of pay total 12.40% of pay, there is 0.68% of pay available to amortize the UAAL. However, the contributions provided by this portion of the contribution rate are not sufficient to amortize the unfunded actuarial accrued liabilities of the System. Therefore the funding period corresponding to the 6.00% State contribution rate is "never" or infinite, which is greater than the statutory limit of 31 years.

The actuarial valuation report as of August 31, 2004 reveals that while the System has an unfunded liability, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 91.8%. However, the System is still deferring \$4.6 billion in prior asset losses that will be recognized over the next two valuations. Even though the System earned an 11.9% return on a market value of assets basis for the plan year ending August 31, 2004, the System experienced a \$4.7 billion loss on the actuarial value of assets due to the recognition of prior investment losses.

In the absence of significant actuarial gains over the near term, the contribution rate to the System will need to increase to produce a funding period that does not exceed 31 years. The System would need to earn an average rate of return of 11.5% on a market value basis over the next three years to offset the deferred asset losses that are scheduled to be recognized over the next two valuations. Even if these losses were somehow offset, the current unfunded liability of \$8.0 billion would still require an increase in the contribution rate in order to be amortized. Using GASB Statement No. 25 as a guide, the State

contribution rate would need to increase from 6.00% of pay to 7.31% of pay. This rate would fund the normal cost and amortize the UAAL as of August 31, 2004 over the 30-year period called for by GASB Statement No. 25.

It seems unlikely that the System will be able to generate the necessary gains in the short-term (either asset or liability gains) to offset these deferred asset losses and reduce the UAAL to a level that can be amortized by the current contribution rate. In fact, if the System earns 8% on a market value basis for the 2004/05 plan year, the System can expect to recognize a \$4.8 billion loss on the actuarial value of assets at the next valuation. Therefore, we believe the Board should begin laying the groundwork with the Legislature for an increase in the contribution rate.

Any increase in the State contribution rate, however, should be put in historical perspective. Except for non-actuarial issues (related to Texas budget reasons), the TRS State contribution rate has either decreased or not increased since 1979. At 7.31%, the State contribution rate would be the same rate that was contributed by the State prior to the last reduction in the State contribution rate in 1995.

Caution is warranted over the next few years. There should be no benefit increases passed by the Legislature over the next several Legislative Sessions without adequate funding, and the funded status should be carefully monitored. As noted above, in the absence of significant actuarial gains over the near term, an increase in the State contribution rate will be necessary to maintain the actuarial soundness of the System.

**Plan Provisions**

The plan provisions used in the actuarial valuation are described in Table 20 of the valuation report. This valuation reflects the changes to plan provisions as enacted by the 78<sup>th</sup> Texas Legislature.

**Disclosure of Pension Information**

Effective for the fiscal year ending August 31, 1996, the Board of Trustees has adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25.

**Actuarial Methods and Assumptions**

The actuarial methods and assumptions have been selected by the Board of Trustees of the Teacher Retirement System of Texas based upon our analysis and recommendations. These assumptions and methods are detailed in Table 21 of the valuation report. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are based on a study of actual experience for the four year period ending August 31, 2003 and were adopted on May 21, 2004.

In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are internally consistent and reasonably related to the experience of the System and to reasonable expectations.

**Data**

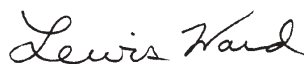
In preparing the August 31, 2004 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

The schedules shown in the actuarial section and the trend data schedules in the financial section of the TRS financial report include selected actuarial information prepared by TRS staff. Six year historical information included in these schedules was based upon our work. For further information please see the full actuarial valuation report.

Respectfully submitted,  
Gabriel, Roeder, Smith & Company



W. Michael Carter, FSA, EA, MAAA  
Senior Consultant



Lewis Ward  
Consultant



Joe Newton, ASA  
Consultant

**GABRIEL, ROEDER, SMITH & COMPANY**

## Actuarial Present Value of Future Benefits

ACTUARIAL VALUATION - AUGUST 31, 2004

	August 31,	
	2004	2003
<b>Present Value of Benefits Presently Being Paid:</b>		
Service Retirement Benefits	\$ 43,990,300,273	\$ 39,855,845,308
Disability Retirement Benefits	852,998,580	829,882,596
Death Benefits	765,767,599	629,445,482
Present Survivor Benefits	187,208,198	159,810,826
<b>TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID</b>	<b>\$ 45,796,274,650</b>	<b>\$ 41,474,984,212</b>
<b>Present Value of Benefits Payable in the Future to Present Active Members:</b>		
Service Retirement Benefits	\$ 67,393,286,035	\$ 72,627,163,340
Disability Retirement Benefits	842,184,439	1,334,277,382
Termination Benefits	3,851,143,498	4,703,320,045
Death and Survivor Benefits	1,230,447,990	1,636,283,604
<b>TOTAL ACTIVE MEMBER LIABILITIES</b>	<b>\$ 73,317,061,962</b>	<b>\$ 80,301,044,371</b>
<b>Present Value of Benefits Payable in the Future to Present Inactive Members:</b>		
Inactive Vested Participants		
Retirement Benefits	\$ 1,070,395,666	\$ 979,820,873
Death Benefits	81,136,565	59,399,100
<b>TOTAL INACTIVE VESTED BENEFITS</b>	<b>\$ 1,151,532,231</b>	<b>\$ 1,039,219,973</b>
Refunds of Contributions to Inactive Non-vested Members	\$ 176,633,650	\$ 166,059,923
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 825,824,580	\$ 695,568,135
<b>TOTAL INACTIVE LIABILITIES</b>	<b>\$ 2,153,990,461</b>	<b>\$ 1,900,848,031</b>
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 121,267,327,073</b>	<b>\$ 123,676,876,614</b>

## Summary of Cost Items

	2004	2003
Actuarial Present Value of Future Benefits	\$ 121,267,327,073	\$ 123,676,876,614
Present Value of Future Normal Costs	(24,530,801,603)	(29,413,849,072)
Actuarial Accrued Liability	96,736,525,470	94,263,027,542
Actuarial Value of Assets	(88,783,870,893)	(89,033,023,666)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 7,952,654,577</b>	<b>\$ 5,230,003,876</b>



## Actuarial Information

AS OF AUGUST 31, 2004

The actuarial valuation of TRS is prepared by Gabriel, Roeder, Smith & Company. The actuary relies on membership data and asset information provided by TRS staff. While not verifying the data at their source, the actuary performs such tests for consistency and reasonableness as deemed necessary to be satisfied with the appropriateness of using the data supplied.

A summary of the actuarial assumptions and methods used by the actuary are as follows:

The entry age normal actuarial cost method of valuation was used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience ("actuarial gains and losses") become part of the actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest) which are level percents of payroll contributions.

**Disability Annuitants** - Investment Return Rate: 8% per annum, compounded annually. Mortality: The PBGC Male Disabled Mortality Table for plan terminations after December 1, 1980, with a six-year setback and the PBGC Female Disabled Mortality Table for plan terminations after December 1, 1980, with a four-year setback.

**Active and Inactive Members** - Investment Return Rate: 8% per annum, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% real rate of return. Mortality, Withdrawal, Disability Retirement, and Service Retirement Rates: Rates and scales developed in the actuarial investigation as of August 31, 2003, with values at specimen ages shown in the tables below:

PROBABILITY OF DECREMENT DUE TO					
Age	Death	Disability Retirement	Age	Death	Disability Retirement
	MALE MEMBERS			FEMALE MEMBERS	
20	.000430	.000003	20	.000242	.000006
30	.000727	.000043	30	.000294	.000065
40	.000891	.000381	40	.000512	.000234
50	.001899	.001287	50	.001033	.001256
60	.005581	.002455	60	.002563	.002436
70	.018034	.000000	70	.009694	.000000

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL											
Years of Service											
Age	MALE MEMBERS										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.2465	0.2458	0.1794	0.1329	0.1058	0.0897	0.0908	0.0934	0.0821	0.0719	0.0795
30	0.2060	0.1955	0.1514	0.1178	0.0900	0.0772	0.0700	0.0655	0.0593	0.0519	0.0565
40	0.1923	0.1831	0.1399	0.1063	0.0832	0.0756	0.0639	0.0549	0.0474	0.0395	0.0242
50	0.1640	0.1562	0.1162	0.0827	0.0620	0.0557	0.0508	0.0475	0.0451	0.0360	0.0151
60	0.1715	0.1633	0.1294	0.0925	0.0659	0.0526	0.0431	0.0380	0.0328	0.0244	0.0108
70	0.1954	0.1861	0.1563	0.1145	0.0795	0.0534	0.0381	0.0315	0.0257	0.0168	0.0079

Years of Service											
Age	FEMALE MEMBERS										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.1957	0.1864	0.1486	0.1275	0.1109	0.1043	0.0967	0.0900	0.0818	0.0725	0.0644
30	0.1912	0.1821	0.1459	0.1199	0.1002	0.0956	0.0870	0.0806	0.0729	0.0642	0.0535
40	0.1682	0.1602	0.1194	0.0933	0.0774	0.0704	0.0643	0.0542	0.0493	0.0439	0.0255
50	0.1498	0.1427	0.1054	0.0841	0.0664	0.0591	0.0520	0.0484	0.0432	0.0371	0.0182
60	0.1767	0.1683	0.1315	0.1036	0.0784	0.0602	0.0534	0.0468	0.0409	0.0313	0.0092
70	0.2094	0.1994	0.1948	0.1521	0.1002	0.0596	0.0448	0.0354	0.0356	0.0303	0.0086

PROBABILITY OF DECREMENT DUE TO RETIREMENT								
Years of Service								
MALE MEMBERS								
Age	5-9	10-14	15-18	19	20-24	25-29	30+	
50	0.000	0.000	0.000	0.000	0.000	0.000	0.300	
55	0.010	0.010	0.010	0.010	0.070	0.220	0.220	
60	0.020	0.020	0.020	0.020	0.300	0.300	0.300	
65	0.300	0.300	0.300	0.300	0.300	0.300	0.300	
70	0.200	0.200	0.200	0.200	0.200	0.200	0.200	
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000	

Years of Service								
FEMALE MEMBERS								
Age	5-9	10-14	15-18	19	20-24	25-29	30+	
50	0.000	0.000	0.000	0.000	0.000	0.000	0.300	
55	0.020	0.020	0.020	0.020	0.080	0.230	0.230	
60	0.030	0.030	0.030	0.030	0.300	0.300	0.300	
65	0.320	0.320	0.320	0.320	0.320	0.320	0.320	
70	0.250	0.250	0.250	0.250	0.250	0.250	0.250	
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000	

**RATES OF SALARY INCREASE**

Years of Service	Annual Step Rate/ Promotional Rates of Increase		Total Annual Rate of Increase	
	Males	Females	Males	Females
	1	22.15%	19.60%	26.40%
2	3.25	2.75	7.50	7.00
3	2.55	2.00	6.80	6.25
4	2.35	1.75	6.60	6.00
5	2.15	1.60	6.40	5.85
6	1.85	1.60	6.10	5.85
7	1.65	1.40	5.90	5.65
8	1.50	1.35	5.75	5.60
9	1.25	1.25	5.50	5.50
10	1.05	1.15	5.30	5.40
11-19	0.65	0.50	4.90	4.75
20 or more	0.00	0.00	4.25	4.25

**Service Retirement Annuitants, Nominees and Survivors** - Investment Return Rate: 8% per annum, compounded annually (benefit increase reserve account eliminated by the 1995 legislative session). Mortality: RP-2000 Male Mortality Table with a one-year setback and the RP-2000 Female Mortality Table with a two-year setback; used for service retirement annuitants, beneficiaries and survivors. These tables are selected to best reflect the experience developed in the actuarial investigation as of August 31, 2003.

**Actuarial Value of Assets** - The actuarial value of assets is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income with the resulting value not being less than 80% or more than 120% of the market value of assets.

**Funding of Unfunded Actuarial Accrued Liability** - Funded by the excess of future State contributions required by Law over the amount of such contributions required to fund the normal cost of benefits. Based on a study of all new entrants hired in the period from 1999 through 2003 and taking into account all changes in benefit provisions, the normal cost for benefits provided by the System is 11.72% of payroll (6.40% by members plus 5.32% by the State), which is 0.68% of payroll less than the total contributions required by Law. It is intended that the excess amount of 0.68% of payroll will be used to amortize any unfunded actuarial accrued liabilities of the System, assuming that total payroll increases by 3.00% per year.

As of the valuation as of August 31, 2004, these excess contributions of 0.68% of pay are not sufficient to amortize the UAAL over any period of time. Therefore, the funding period for the System is considered never. Future funding of the UAAL will be dependent on either the generation of actuarial experience gains sufficient in size to return the System to an overfunded status or on an increase in the State contribution rate.

**Assumed State Contribution Rate** - The Appropriations Act, established an actual contribution rate of 6.00% for fiscal years 2002, 2003, and 2004. The contribution rate valuation results are determined assuming that the current 6.00% state contribution rate is the ultimate rate.

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Year	Number	Annual Payroll In Thousands	Average Annual Pay	Annual Percentage Increase In Average Pay
1999	736,058	\$19,529,343	\$26,533	2.1%
2000	766,906	21,920,132	28,583	7.7
2001	797,339	23,364,661	29,303	2.5
2002	745,923*	24,818,417*	33,272	13.5
2003	754,715*	25,756,163*	34,127	2.6
2004	729,411*	25,484,585*	34,939	2.4

\* The number of active members and the annual payroll exclude active non-contributing members.

## Actuarial Information

AS OF AUGUST 31, 2004

### SOLVENCYTEST

A short-term solvency test is one means of checking a retirement system's progress under its funding program. The schedule below provides an historical illustration of a short-term solvency test for TRS wherein present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present annuitants; (3) the liabilities for active members under the entry age normal actuarial cost method including a projection of future salary increases and anticipated future service.

Under the level percent of payroll financing followed by TRS, liabilities for active member contributions on deposit and the liabilities for future benefits to present retirees and beneficiaries will be fully covered by present assets except in rare circumstances. In addition, liabilities for active member benefits earned or to be earned in the future will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of active member benefits will increase over time.

(MONEY AMOUNTS SHOWN IN MILLIONS)

Valuation As Of August 31	Aggregate Actuarial Accrued Liabilities For			Valuation Assets	Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets		
	1 Active* Member Contri- butions	2 Retirees* And Benefi- ciaries	3 Active Members (State Financed Portion)		1 Active Member Contri- butions	2 Retirees And Benefi- ciaries	3 Active Members (State Financed Portion)
1999	\$13,359	\$27,366	\$26,520	\$69,435	100%	100%	108.3%
2000	14,231	29,604	30,047	79,328	100	100	118.1
2001	15,339	34,917	33,960	86,352	100	100	106.3
2002	16,387	37,938	34,998	86,035	100	100	90.6
2003	17,322	41,475	35,466	89,033	100	100	85.3
2004	17,698	47,429	31,610	88,784	100	100	74.8

\*Adjusted for pending transfers to retired reserve at August 31 for pending retirements.

A Schedule of Funding Progress including a 6-Year Summary of Actuarial Accrued Liabilities and Unfunded Actuarial Accrued Liabilities can be found in the Required Supplementary Information found immediately following the Notes to the Financial Statements.

## Analysis of Financial Experience

### Changes in Unfunded Actuarial Accrued Liabilities (UAAL) Resulting from Differences Between Assumed Experience and Actual Experience

	Increase/(Decrease) for Year (in Billions)					
	2004	2003	2002	2001	2000	1999
Investment (Gains)/Losses	\$ 4.719	\$ 1.965	\$ 5.527	\$ (1.894)	\$ (5.417)	\$ (4.812)
Legislative Benefit Increases				4.553		5.611
Experience Studies	(2.025)				1.123	
Contribution Experience	.217	.544	.017	(.292)	(0.115)	.292
Assumption Changes			(.848)			
Liability Experience	(.188)	(.566)	.726	.944	1.153	(.818)
Net Increase/(Decrease)	\$ 2.723	\$ 1.943	\$ 5.422	\$ 3.311	\$ (3.256)	\$ .273
Beginning UAAL	5.230	3.287	(2.135)	(5.446)	(2.190)	(2.463)
Ending UAAL	\$ 7.953	\$ 5.230	\$ 3.287	\$ (2.135)	\$ (5.446)	\$ (2.190)



# **B**enefits Section

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**Teacher Retirement System of Texas**

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## 2004 CHANGES IN TRS LAW

### STATE CHANGES

The Texas legislature meets in regular session every other year, beginning on the second Tuesday of January in odd-numbered years. However, the governor may call special sessions between regular sessions as deemed necessary. The 78<sup>th</sup> Legislature met in four called special sessions, including two during fiscal year 2004.

During the Third Called Session, the legislature passed House Bill 7, which changes the eligibility requirements for TRS-Care, the retiree health benefits program. During the 2003 Regular Session, eligibility standards were tightened effective September 1, 2004. Changes made in the special session provided grandfather provisions with regard to the new TRS-Care eligibility standard for certain TRS retirees. One of the grandfather provisions related to individuals who purchased special service credit. Although such purchases would still apply to eligibility for pension benefits, the changes passed during the regular session would not have allowed the use of special service credit other than military credit toward TRS-Care eligibility. However, the subsequent grandfather provision in H.B. 7 allows other types of service credit (out-of-state service, service credit purchase option, etc.) to be used toward TRS-Care eligibility, if it was **credited prior to August 31, 2003 and the individual retires before August 31, 2009.**

The other grandfather provision in H.B. 7 allows certain TRS retirees to be eligible for TRS-Care if employed in public schools during or before the 2003-2004 school year and who, at the time of retirement, meet the TRS-Care eligibility standard in effect on August 31, 2004. These individuals, however, must pay the total cost of the health benefits coverage. A retiree eligible to participate in this manner pays the total cost until the date the retiree “ages into” qualification for TRS-Care by regular eligibility standards.

### FEDERAL CHANGES

#### Social Security

Congress recently changed a provision in federal law that has previously enabled some Texas public education employees to avoid any offset (reduction or elimination) of Social Security benefits they would have received as a spouse, widow, or widower. This offset is referred to as the Government Pension Offset, or GPO. The “Social Security Protection Act of 2004,” H.R. 743, alters what is known as the “last day” exception to the GPO beginning on July 1, 2004. It is now Public Law 108-203.

The GPO reduces the Social Security benefits for some public education employees that they would otherwise receive as a spouse, widow, or widower by an amount approximately two thirds of their TRS pension benefit,

if the TRS pension is received as a result of service in a job where Social Security taxes were not paid. Prior to the change in law, the GPO did not apply if an individual's *last day* of state or local government employment was in a position covered by both Social Security and the state or local government's pension system.

Generally, under the new law the *last day* provision changed July 1, 2004, and instead the *last 60 months* of employment before TRS retirement must be covered by Social Security in order to avoid this reduction in spousal benefits. The new law also contains a five-year transitional provision that applies to employees with some previous Social Security-covered service, but who work in a position not covered by Social Security at any time during their final 60 months of governmental employment just prior to retirement.

Another provision of Public Law 108-203, effective January 1, 2005, requires employers to inform new employees when their earnings are not covered by Social Security and that participation in a public retirement system (such as TRS) as an alternative to Social Security may affect the amount of their Social Security benefit because of a GPO or WEP (Windfall Elimination Provision) reduction. The notice must be signed by the employee and then sent by the employer to the retirement system (TRS).

#### Medicare

Congress passed H.R. 1, the “Medicare Prescription Drug, Improvement and Modernization Act of 2003,” signed as Public Law 108-173, which included prescription drug coverage for seniors. The benefit becomes available in 2006, and the provisions are numerous and complex. Guidelines have recently been proposed to clarify how the new federal law may interact with the prescription drug benefits currently offered by other health plans. Those guidelines are being reviewed and analyzed to determine the impact on TRS-Care and TRS-ActiveCare participants.



## SUMMARY OF BENEFITS

### OVERVIEW

The Teacher Retirement System of Texas administers a defined benefit plan that is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The pension trust provides service and disability retirement, as well as death and survivor benefits, to eligible employees of public education in Texas and their beneficiaries. A general information booklet, *TRS Benefits Handbook*, is provided to each TRS member and annuitant. Retirement benefits are financed by member and state contributions and through investment earnings of the pension trust fund.

TRS administers TRS-ActiveCare, the statewide health benefits program for eligible public education employees of participating entities. The program went into effect on September 1, 2002, and provided health coverage to over 225,000 employees and dependents in fiscal year 2004. The coverage is financed by contributions from the state, participating entities, and enrolled employees. Eligible employees may choose health coverage for themselves and their eligible dependents from three TRS-ActiveCare plans providing access to a statewide provider network. Employees in areas of the state served by participating health maintenance organizations (HMOs) have the additional choice of HMO coverage. All school districts are eligible to participate in TRS-ActiveCare, and coverage choices for employees may be expanded further to meet the changing needs of Texas public school employees and their families.

The system administers a separate trust that provides comprehensive health benefits coverage for retired members through TRS-Care. This program is financed by contributions from the state, active public school employees, school districts, premium payments from plan participants, and investment earnings of the TRS-Care trust fund.

TRS also administers an optional long-term care insurance program for eligible retirees and public school employees. Certain family members are also eligible. The plan is available on an enrollee-pay-all basis.

### RETIREMENT PLAN BENEFITS

The major retirement plan benefits are:

#### Service Retirement

Normal Retirement Eligibility — Age 65 with five years of credited service, or

when the sum of member's age and years of credited service equals or exceeds 80 years.

Standard Annuity — A monthly benefit payable at retirement throughout the retiree's lifetime and calculated according to the statutory benefit formula.

Benefit Formula — 2.3 percent times the average of the three highest annual creditable salaries times years of credited service equals an annual standard annuity.

Minimum Benefit — \$150 per month less any reduction for early age or optional annuity selection.

Early Retirement Eligibility — Age 55 with at least five years of credited service, or

any age below 50 with 30 or more years of credited service, provided the sum of the member's age and years of credited service is less than 80.

Early Retirement Benefit — The standard annuity calculated under the benefit formula (or the minimum benefit, if applicable) reduced actuarially for early retirement.

#### Disability Retirement

Eligibility — Physical or mental disability precludes the member's continued performance of current duties and the disability is probably permanent, as certified by the TRS Medical Board.

Benefit — For disabled members with at least 10 years of credited service, the standard annuity unreduced for early payment, or \$150 per month minimum benefit less any reduction for the selection of an optional annuity.

For disabled members with fewer than 10 years of credited service, \$150 per month.

Duration — For retirees with 10 or more years of credited service, payments continue for as long as the disability continues. For those with fewer than 10 years of credited service, payments continue for the life of the retiree, the duration of the disability or the number of months of creditable service, whichever is shorter.

#### Annuity Payment Options

Service or disability retirees may select an optional form of payment that reduces the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the



## SUMMARY OF BENEFITS

retiree's death. Actuarial factors for disability retirees are different from those for service retirees because of different assumptions about life expectancy for the two groups. The available options include 100, 75 and 50 percent joint and survivor annuities, and five- and 10-year guaranteed period annuities.

### The Pop-Up Provision

If a designated beneficiary under any of the joint and survivor options dies while the retiree is still living, the retiree's future monthly payment increases to the amount of the standard annuity.

### Partial Lump Sum Option (PLSO)

In 1999, the 76th Texas Legislature approved the establishment of a Partial Lump Sum Option for eligible TRS members. Through this option, at the time of retirement, qualifying active members may elect to receive an actuarially reduced service retirement annuity plus a cash lump sum distribution.

Members may participate in the Partial Lump Sum Option if they are eligible for service retirement benefits that are not reduced for early age retirement, are not participating in the Deferred Retirement Option Plan (DROP), and are not retiring with disability benefits. Members retiring under the proportionate retirement program are not eligible to elect the PLSO.

Partial lump sum distributions equal to 12, 24 or 36 months of a standard service retirement annuity may be selected. When a member selects this option, the monthly annuity is actuarially reduced.

Flexible distribution options are available, including rollover to another eligible retirement plan.

### Deferred Retirement Option Plan (DROP)

Effective September 1, 1997, DROP was created as a pre-retirement benefit provision for active members once they become eligible for normal age service retirement and have at least 25 years of credited service.

The program allows eligible active members to elect to freeze their standard annuity and to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-covered employer. Interest on DROP accounts is credited at the rate of five percent per annum. Members are not considered to be retired while participating in DROP.

The law allows an irrevocable election to participate in

12-month increments for up to five years. During DROP participation, the member does not accrue additional service credit, nor is any compensation earned during DROP participation to be considered in calculating the standard annuity. Also, during DROP participation, the member's statutory contributions to TRS continue; however, contributions are not credited to the member's contribution account and are not subject to refund.

Participation in DROP ends at the earliest of the expiration of the election period, retirement, or death. The accumulated DROP account may be distributed at the member's election as a single lump sum or in monthly or yearly installments covering five or 10 years; distributions commence at retirement or in the event the member dies before retiring, at the member's death. Eligible distributions may be rolled over to another eligible retirement plan.

### Minimum Service Credit Required for Service Retirement Benefits

Under current law, a member who has completed at least five years of credited service has earned a right to service retirement benefits, with payment deferred to eligible retirement age, provided that the member's accumulated contributions are not withdrawn from the system. An eligible member must apply for benefits and meet other requirements, such as termination of Texas public education employment, in order to begin receiving benefits.

### Death and Survivor Benefits

Active Members — The primary beneficiary of an active member may elect to receive one of the following benefits in the event of the member's death before retirement, if the member dies during a school year in which the member performed service. These benefits also are available due to death when the member is absent from service as described by law, such as when the absence is due to sickness, accident, or other involuntary cause or when the member is within five years of being eligible to retire when leaving employment:

1. A lump sum payment equal to twice the member's annual compensation or \$80,000, whichever is less.
2. Sixty monthly payments equal to the member's standard annuity without reduction for early age.
3. For a sole beneficiary, lifetime payments equal to a 100 percent joint and survivor annuity, provided the member had at least five years of service credit.

## SUMMARY OF BENEFITS

4. A return of the member's contributions with accumulated interest.
5. Survivor benefits of \$2,500 lump sum payment plus a monthly benefit. For example, \$350 per month to a beneficiary spouse with minor children, continuing until the youngest child reaches age 18. At age 65, the spouse would begin receiving \$250 per month for life.

In addition to these five options, a lump sum death benefit of \$160,000 is available if the active member is employed in a TRS-covered position and dies as the result of a physical assault during the performance of the employee's regular job duties.

Also, the DROP beneficiary of a DROP participant will receive the accumulated DROP account balance, payable as a lump sum or in periodic installments.

**Retirees** — In addition to any joint and survivor or guaranteed period annuity that may be payable under an optional form of payment a retiree elected, the primary beneficiary of a service or disability retiree is entitled to a \$10,000 lump sum payment. In certain circumstances, eligible survivors may select alternate payment options in lieu of the lump sum benefit. The alternate payment options include a lump sum payment of \$2,500 and an applicable monthly survivor benefit.

If total payments made before death to a retiree and, when applicable, to a designated beneficiary for an optional service retirement annuity are less than accumulated contributions at retirement, any remainder is paid to the beneficiary or as otherwise provided by law. Should a retiree die prior to receiving all partial lump sum payments that are due, TRS will pay any remaining partial lump sum payments in a single lump sum payment to the designated beneficiary.

### HEALTH BENEFITS

The major health benefits and long-term care provisions are:

#### Health Benefits for Active Public School Employees

TRS-ActiveCare, the statewide health benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS, went into effect on September 1, 2002. The program initially addressed the most critical areas of the state with regard to availability and affordability of health benefits for public school employees and therefore

focused on smaller districts. The program has now been expanded to include larger school districts and more than 1,000 entities participated in the program in fiscal year 2004. Employees of participating entities can choose from three preferred provider organization plans, and employees of certain areas also have the option of choosing coverage under a health maintenance organization.

#### Retiree Health Coverage

The Texas Public School Retired Employees Group Benefits Program, known as TRS-Care, makes available a basic level of health coverage without cost to eligible TRS public school retirees. Eligible retirees and their eligible dependents may pay premiums and participate in a plan of more comprehensive benefits and coverage. For service retirements effective on or before August 31, 2004, eligible retirees are those who have retired from a position in Texas public schools after 10 or more years of service credit and are not eligible for other statewide health insurance. Members who take a service retirement after August 31, 2004 must meet new eligibility requirements. For additional information on TRS-Care eligibility, please refer to the TRS Web site. Disability retirees are eligible for TRS-Care as long as they are receiving disability retirement benefits.

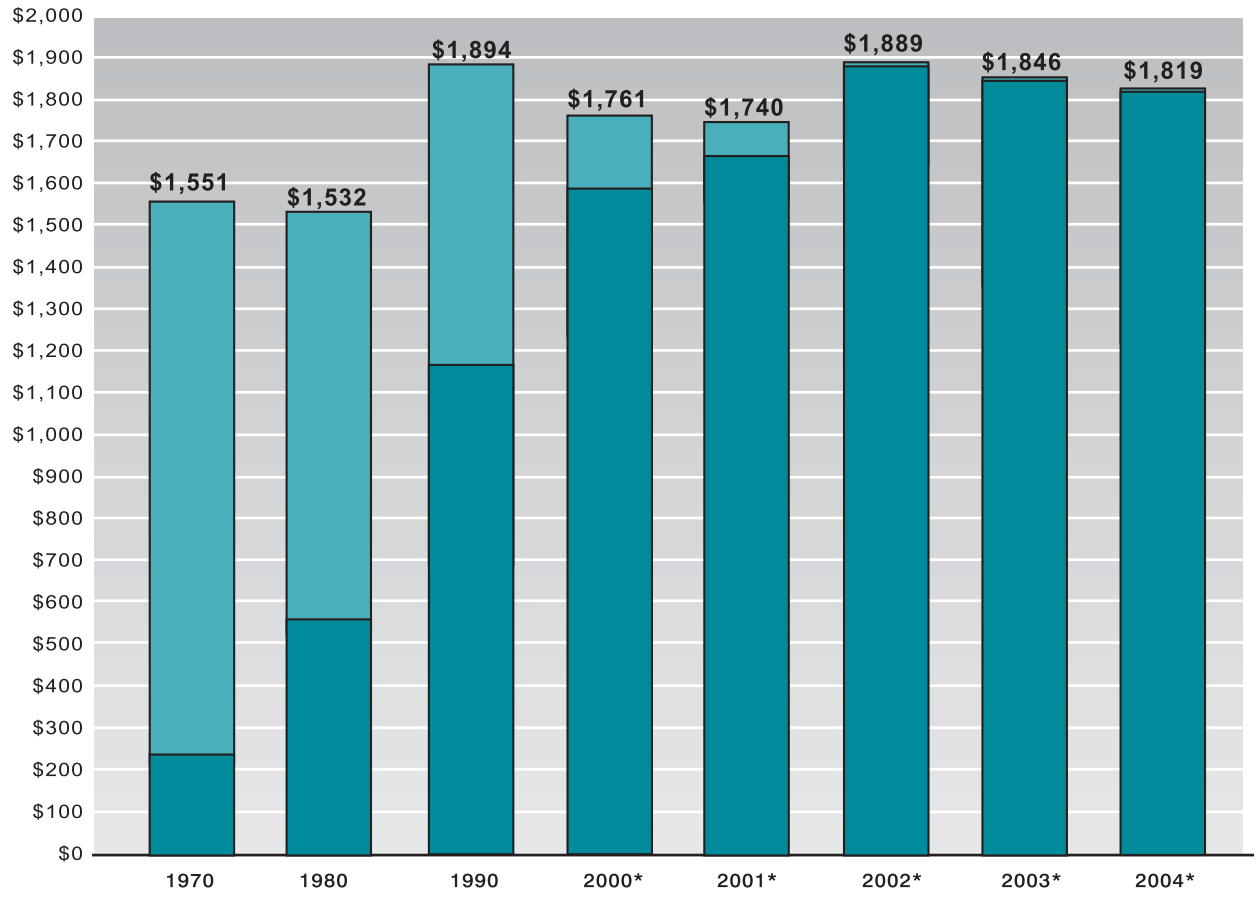
#### Long-Term Care Insurance Program

Eligible active and retired members, their dependents, and certain other family members may participate in the TRS long-term care insurance program. The plan pays benefits if the participant becomes unable to perform at least two activities of daily living without substantial assistance from another person. The plan also pays benefits as a result of a severe cognitive impairment that requires supervision or verbal direction from another person in order to protect the member or others from serious injury.

Members can select a Daily Benefit Amount (DBA) of \$100, \$125 or \$150. The plan will reimburse the member for the actual expenses incurred up to specified amounts depending on the type of care received.

The plan also provides for a cash benefit for certain types of care. Optional or automatic inflation protection is offered to help offset the effects of inflation. Other optional features are available for an additional premium.

**Current Average Monthly Benefit by Year of Retirement**  
 Service Retiree Accounts as of August 31, 2004



	1970	1980	1990	2000*	2001*	2002*	2003*	2004*
<b>Original Benefits</b>	\$ 229	\$ 548	\$1,167	\$1,587	\$1,663	\$1,887	\$1,845	\$1,818
<b>Benefit Increases</b>	\$1,322	\$ 984	\$ 727	\$ 174	\$ 77	\$ 2	\$ 1	\$ 1
<b>Current Benefits</b>	\$1,551	\$1,532	\$1,894	\$1,761	\$1,740	\$1,889	\$1,846	\$1,819

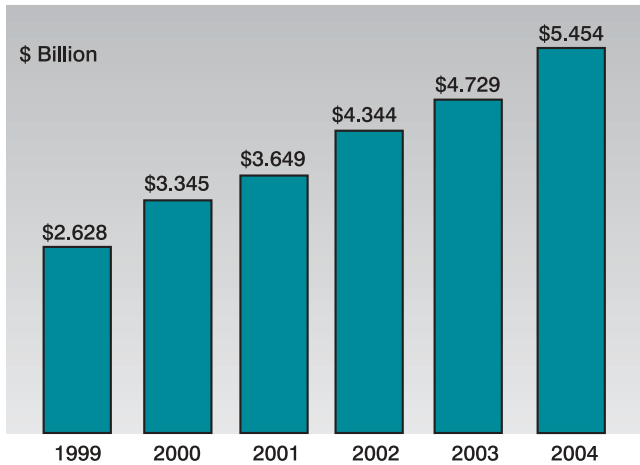
\* Note: Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,719, \$1,811, \$2,062, \$2,001, and \$2,004 for fiscal years 2000, 2001, 2002, 2003, and 2004, respectively.

## GROWTH OF THE SYSTEM

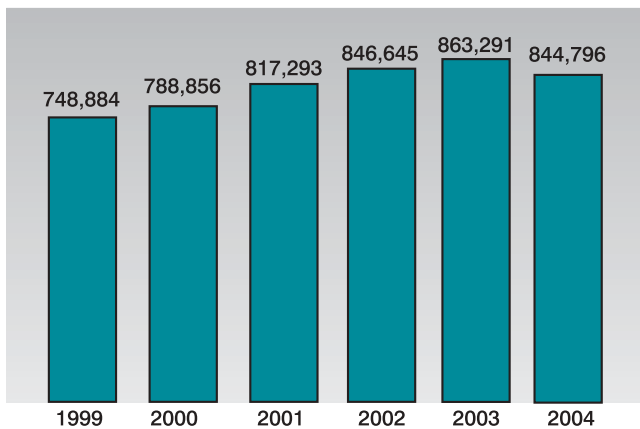
Benefit payments during fiscal year 2004 totaled approximately \$5.45 billion, an increase of \$725.1 million over the previous year. By August 2004, the monthly annuity payroll had grown to \$398.6 million, with over 222,000 annuitants receiving payments. Annuities, including multiple pay-

ments to one person and payments deferred to a later date, totaled 240,627. The number of current member accounts decreased by 18,495 and the number of retiree accounts increased by 23,150.

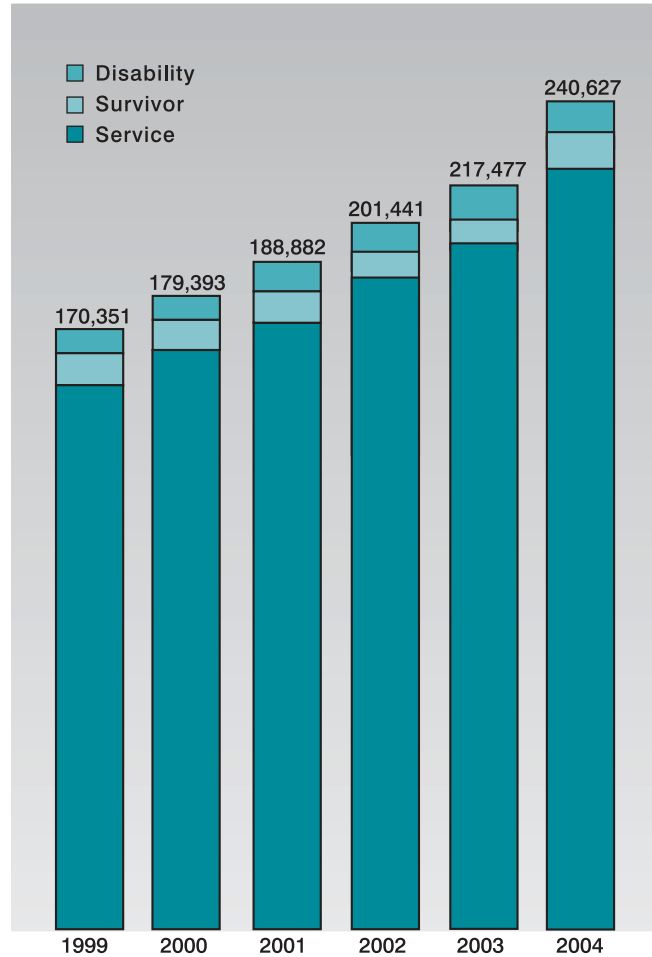
**Benefit Payments**



**Member Accounts**



**Annuities**



## PAYMENT INFORMATION

### Average Benefit Payments for Service Retirees

PENSION TRUST FUND

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
<b>9-1-98 to 8-31-99</b>						
Average Monthly Benefit	\$244.96	\$453.22	\$ 917.50	\$ 1,437.92	\$2,247.59	\$ 3,140.68
Average Final Average Salary	\$18,686	\$22,087	\$ 26,850	\$ 32,023	\$ 40,579	\$ 47,362
Number of Retirees	971	949	1,210	1,926	2,367	1,783
<b>9-1-99 to 8-31-00</b>						
Average Monthly Benefit *	\$246.22	\$457.21	\$ 921.30	\$ 1,405.20	\$2,187.95	\$ 2,989.92
Average Final Average Salary	\$19,415	\$22,740	\$28,280	\$ 33,356	\$ 42,902	\$ 49,566
Number of Retirees	1,044	1,108	1,320	2,294	3,382	3,079
<b>9-1-00 to 8-31-01</b>						
Average Monthly Benefit *	\$237.44	\$426.97	\$ 907.10	\$ 1,382.80	\$2,133.90	\$ 2,900.94
Average Final Average Salary	\$20,270	\$23,301	\$ 29,630	\$ 34,885	\$ 44,835	\$ 51,356
Number of Retirees	1,010	1,111	1,355	2,316	3,657	3,225
<b>9-1-01 to 8-31-02</b>						
Average Monthly Benefit *	\$235.23	\$463.03	\$ 951.74	\$ 1,448.82	\$2,208.33	\$ 3,018.25
Average Final Average Salary	\$20,542	\$24,636	\$ 31,368	\$ 36,624	\$ 46,502	\$ 53,835
Number of Retirees	1,157	1,197	1,596	3,001	4,883	4,621
<b>9-1-02 to 8-31-03</b>						
Average Monthly Benefit *	\$265.75	\$498.51	\$ 967.35	\$ 1,475.15	\$2,218.19	\$ 3,031.28
Average Final Average Salary	\$23,398	\$26,750	\$ 31,809	\$ 37,499	\$ 46,432	\$ 53,646
Number of Retirees	1,471	1,599	2,119	3,733	5,921	5,008
<b>9-1-03 to 8-31-04</b>						
Average Monthly Benefit*	\$269.36	\$480.60	\$ 982.94	\$ 1,496.11	\$2,175.06	\$ 3,016.10
Average Final Average Salary	\$23,178	\$26,777	\$ 32,312	\$ 38,578	\$ 46,651	\$ 54,323
Number of Retirees	1,617	2,116	2,907	5,438	7,666	5,968

\* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$184.5, \$280.9, \$386.4, \$427.9, and \$696.2 million in fiscal years 2000, 2001, 2002, 2003, and 2004, respectively.

### Benefit Payments by Type

PENSION TRUST FUND

	1999	2000	2001	2002	2003	2004
Service Retirements	\$ 2,362,283,798	\$ 2,864,478,345	\$ 3,047,338,739	\$ 3,591,219,348	\$ 3,892,777,093	\$ 4,289,249,761
Deferred Retirement Option	\$ 12,257,736	\$ 18,785,833	\$ 36,929,725	\$ 48,697,687	\$ 89,305,527	\$ 139,047,656
Partial Lump Sum Option*	\$	\$ 184,452,896	\$ 280,942,321	\$ 386,442,648	\$ 427,944,774	\$ 696,201,755
Disability Retirements	\$ 89,615,768	\$ 105,225,801	\$ 107,030,338	\$ 119,913,327	\$ 122,409,366	\$ 125,992,690
Death and Survivor Benefits:						
Accumulated Savings	\$ 829,773	\$ 780,487	\$ 908,801	\$ 1,504,798	\$ 1,297,262	\$ 1,460,631
Annual Salary	\$ 40,109,292	\$ 36,761,945	\$ 39,887,958	\$ 43,685,098	\$ 41,284,946	\$ 41,669,051
Survivor Annuities	\$ 63,451,102	\$ 63,895,597	\$ 63,441,321	\$ 71,664,740	\$ 70,611,609	\$ 74,320,247
Life Annuities	\$ 53,330,067	\$ 63,479,659	\$ 65,154,382	\$ 72,919,628	\$ 74,581,837	\$ 75,839,736
60 Monthly Payments	\$ 3,577,742	\$ 4,011,753	\$ 4,475,175	\$ 5,649,671	\$ 6,385,087	\$ 7,089,131
Remainder of Contributions	\$ 2,286,288	\$ 2,704,357	\$ 2,651,578	\$ 2,558,781	\$ 2,217,897	\$ 2,994,247
Refunds	\$ 206,354,473	\$ 214,999,991	\$ 214,434,792	\$ 186,421,065	\$ 186,082,670	\$ 220,396,709

\* Partial Lump Sum Option Plan benefit effective September 1, 1999

## Annuity Payments by Benefit Type

### PENSION TRUST FUND

Monthly Benefit	Annuity Payments	Benefit Type *						
		Retirements			Survivor Payments			
		1	2	3	4	5	6	7
\$ 1 - 200	9,081	3,106	4,886	409	556	55	52	17
\$ 201 - 400	27,099	5,799	10,133	538	1,168	1,170	566	7,725
\$ 401 - 600	18,970	7,860	7,956	1,324	1,334	226	270	0
\$ 601 - 800	16,366	8,539	4,831	1,317	1,135	273	271	0
\$ 801 - 1,000	15,742	9,938	3,324	961	1,030	287	202	0
\$ 1,001 - 1,200	12,951	8,454	2,473	693	932	217	182	0
\$ 1,201 - 1,400	11,212	7,034	2,427	551	849	227	124	0
\$ 1,401 - 1,600	11,805	7,341	2,877	511	736	235	105	0
\$ 1,601 - 1,800	12,162	7,995	2,743	462	653	214	95	0
\$ 1,801 - 2,000	12,640	8,943	2,549	369	522	196	61	0
\$ over 2,000	92,599	76,626	10,220	1,206	3,422	998	127	0
<b>Totals</b>	<b>240,627</b>	<b>151,635</b>	<b>54,419</b>	<b>8,341</b>	<b>12,337</b>	<b>4,098</b>	<b>2,055</b>	<b>7,742</b>

**\* Benefit Type**

1 - Normal Retirement of Age and Service  
 2 - Early Retirement  
 3 - Disability Retirement  
 4 - Survivor Payment, Joint Life or Guarantee

5 - Survivor Payment, Death in Service  
 6 - Survivor Payment, After Disability Retirement  
 7 - Survivor Payment, After Service Retirement

## Annuity Payments by Plan Selected

### PENSION TRUST FUND

Monthly Benefit	Annuity Payments	Plan Selected *					
		1	2	3	4	5	6
\$ 1 - 200	9,081	4,307	3,043	608	308	758	57
\$ 201 - 400	27,099	9,188	5,186	1,345	706	1,562	9,112
\$ 401 - 600	18,970	10,244	4,618	1,720	809	1,579	0
\$ 601 - 800	16,366	8,474	4,120	1,876	776	1,120	0
\$ 801 - 1,000	15,742	8,122	3,783	1,917	751	1,169	0
\$ 1,001 - 1,200	12,951	6,288	3,323	1,891	570	879	0
\$ 1,201 - 1,400	11,212	4,757	3,402	1,738	504	811	0
\$ 1,401 - 1,600	11,805	4,800	3,699	1,809	574	923	0
\$ 1,601 - 1,800	12,162	4,828	3,899	1,928	543	964	0
\$ 1,801 - 2,000	12,640	4,773	4,147	2,152	538	1,030	0
\$ over 2,000	92,599	32,435	33,458	16,766	3,473	6,467	0
<b>Totals</b>	<b>240,627</b>	<b>98,216</b>	<b>72,678</b>	<b>33,750</b>	<b>9,552</b>	<b>17,262</b>	<b>9,169</b>

**\* Plan Selected**

1 - Life Annuity  
 2 - Joint to Survivor  
 3 - Joint to Survivor 50% / Joint to Survivor 75%

4 - 5-Year Guarantee  
 5 - 10-Year Guarantee  
 6 - Survivor Benefit

## Retirees and Beneficiaries Added to and Removed from Payroll

### PENSION TRUST FUND - For Years 1999-2004\*

Year Ended	Number of Retirees and Beneficiaries			Annual Allowances	
	Added	Removed	End of Year	End of Year	% Increase
1999	11,458	4,828	170,351	\$ 2,572,614,096	5.34%
2000	14,207	5,165	179,393	\$ 3,120,148,258	21.28%
2001	14,707	5,218	188,882	\$ 3,364,802,134	7.84%
2002	18,140	5,581	201,441	\$ 4,000,979,540	18.91%
2003	21,851	5,815	217,477	\$ 4,353,316,455	8.81%
2004	28,913	5,763	240,627	\$ 4,783,031,974	9.87%

\* This schedule is based on the August payroll and includes only monthly annuity and survivor benefits including multiple payments to one person. Monthly post-retirement benefit increases of approximately \$34.3 million and \$28.7 million became effective in fiscal years 2000 and 2002, respectively.





# Statistical Section

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Teacher Retirement System of Texas

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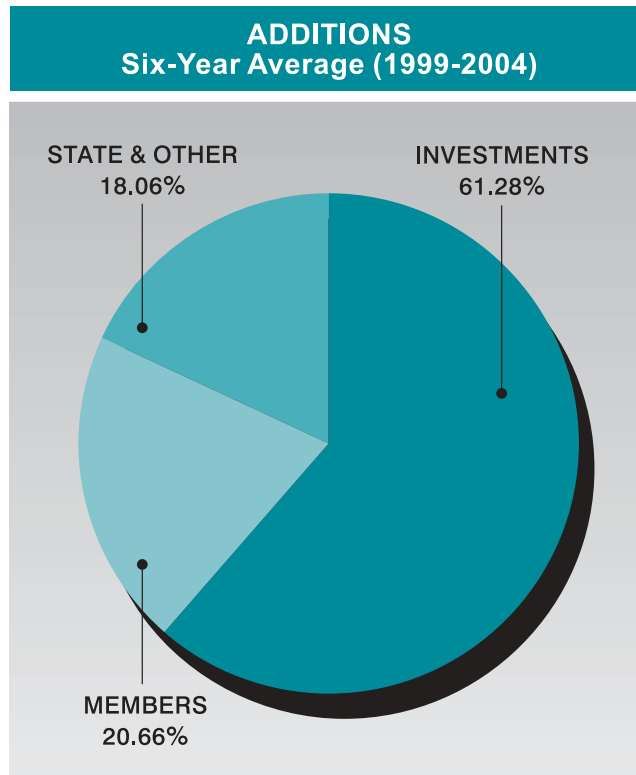


## Changes in Fiduciary Net Assets

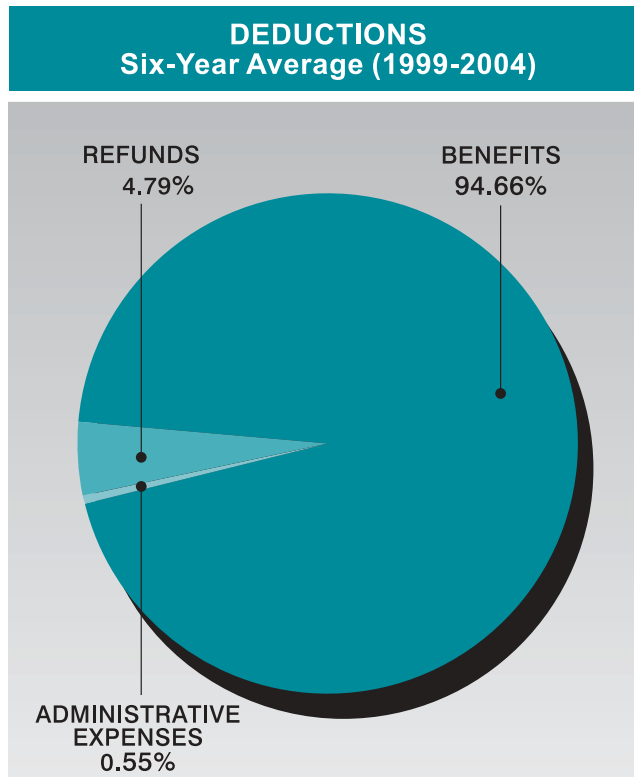
PENSION TRUST FUND  
FOR THE YEARS ENDED AUGUST 31



	2004	2003
<b>Additions:</b>		
Member Contributions	\$ 1,721,504,445	\$ 1,672,212,387
State Contributions	1,242,305,696	1,239,532,126
Reporting Entities Contributions	192,395,672	182,536,228
Investment Income:		
Interest and Dividends	2,137,672,861	2,147,493,368
Net Appreciation (Depreciation) in Fair Value	7,024,439,015	5,673,389,054
Less: Investing Activity Expenses	(16,252,645)	(14,604,331)
Transfers from Employees Retirement System	5,600,176	4,037,793
Other	1,909	1,501
<b>TOTAL ADDITIONS</b>	<b>\$ 12,307,667,129</b>	<b>\$ 10,904,598,126</b>
<b>Deductions:</b>		
Benefits	\$ 5,454,381,434	\$ 4,729,277,323
Refunds of Contributions	220,396,709	186,082,670
Administrative Expenses, Net of Investing Activity Expenses	24,841,300	23,428,162
Employees Retirement System Reimbursements	38,068,440	28,609,871
<b>TOTAL DEDUCTIONS</b>	<b>\$ 5,737,687,883</b>	<b>\$ 4,967,398,026</b>
<b>Net Increase (Decrease)</b>	<b>\$ 6,569,979,246</b>	<b>\$ 5,937,200,100</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 77,633,002,461</b>	<b>\$ 71,695,802,361</b>
<b>Restatements</b>		
<b>Beginning of Year, As Restated</b>	<b>\$ 77,633,002,461</b>	<b>\$ 71,695,802,361</b>
<b>Net Assets - End of Year</b>	<b>\$ 84,202,981,707</b>	<b>\$ 77,633,002,461</b>



2002	2001	2000	1999
\$ 1,560,700,102	\$ 1,433,037,813	\$ 1,357,940,313	\$ 1,221,288,036
1,201,948,321	1,143,109,908	1,092,217,514	1,004,017,265
157,781,530	136,247,871	119,060,600	108,892,209
2,416,466,898	2,713,579,401	2,835,498,681	2,553,133,610
(8,477,880,514)	(12,070,530,812)	8,278,136,788	11,441,848,248
(12,921,671)	(11,852,877)	(9,494,024)	(4,657,228)
3,091,464	2,068,339	1,686,990	1,108,401
491	6,733	15,101	201,509
\$ (3,150,813,379)	\$ (6,654,333,624)	\$ 13,675,061,963	\$ 16,325,832,050
\$ 4,344,946,459	\$ 3,649,116,654	\$ 3,344,798,735	\$ 2,627,793,618
186,421,065	214,434,792	214,999,991	206,354,473
24,597,361	20,795,129	21,654,384	24,691,140
24,183,510	20,663,196	17,004,436	13,261,970
\$ 4,580,148,395	\$ 3,905,009,771	\$ 3,598,457,546	\$ 2,872,101,201
\$ (7,730,961,774)	\$(10,559,343,395)	\$ 10,076,604,417	\$ 13,453,730,849
\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943
(1,050,679)			
\$ 79,426,764,135	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943
\$ 71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792



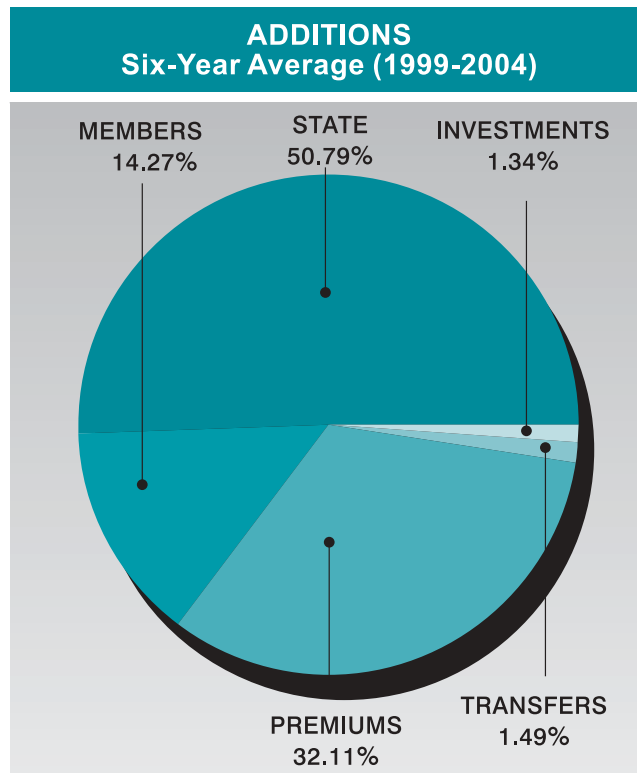
## Changes in Fiduciary Net Assets

HEALTH CARE TRUST FUND  
FOR THE YEARS ENDED AUGUST 31

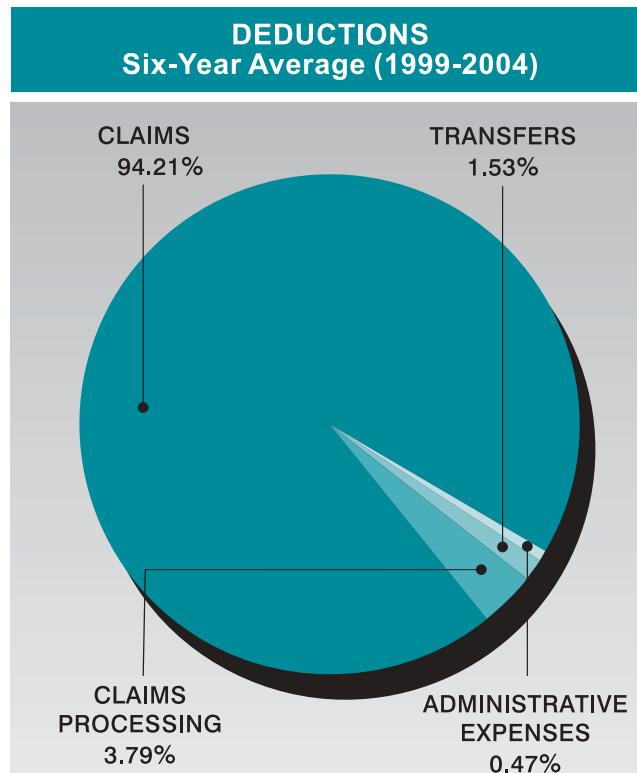
SUMMARY



	2004	2003
<b>RETIREED PLAN</b>		
<b>Additions:</b>		
Health Care Premiums	\$ 248,552,679	\$ 162,917,666
State Contributions	454,828,830	265,038,205
Member Contributions	99,297,097	49,170,399
Reporting Entities Contributions	79,457,387	
Legislative Appropriations Transfer from TRS-ActiveCare Enterprise Fund	42,000,000	
Investment Income:		
Interest	4,803,809	3,394,956
Net Appreciation (Depreciation) in Fair Value		
<b>TOTAL ADDITIONS</b>	<b>\$ 928,939,802</b>	<b>\$ 480,521,226</b>
<b>Deductions:</b>		
Health Care Claims	\$ 581,354,957	\$ 571,744,362
Health Care Claims Processing	23,914,851	19,388,818
Legislative Appropriations Transfer to TRS-ActiveCare Enterprise Fund		42,000,000
Administrative Expenses	2,417,349	2,301,516
<b>TOTAL DEDUCTIONS</b>	<b>\$ 607,687,157</b>	<b>\$ 635,434,696</b>
<b>Net Increase (Decrease)</b>	<b>\$ 321,252,645</b>	<b>\$ (154,913,470)</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ (82,967,486)</b>	<b>\$ 71,945,984</b>
<b>Restatements</b>		
<b>Beginning of Year, As Restated</b>	<b>\$ (82,967,486)</b>	<b>\$ 71,945,984</b>
<b>Net Assets - End of Year</b>	<b>\$ 238,285,159</b>	<b>\$ (82,967,486)</b>



2002		2001		2000		1999	
\$	143,797,748	\$	131,213,445	\$	120,227,960	\$	96,474,107
	380,307,062		166,400,568		85,505,637		76,488,424
	47,378,092		45,059,393		42,738,069		38,244,213
	7,140,560		5,789,973		6,775,986		10,893,741
			34,161		147,499		(1,131,000)
\$	578,623,462	\$	348,497,540	\$	255,395,151	\$	220,969,485
\$	451,709,670	\$	390,466,745	\$	313,933,218	\$	277,858,423
	16,828,256		16,017,167		14,682,301		13,232,423
	2,163,441		2,220,596		2,154,826		1,708,313
\$	470,701,367	\$	408,704,508	\$	330,770,345	\$	292,799,159
\$	107,922,095	\$	(60,206,968)	\$	(75,375,194)	\$	(71,829,674)
\$	(35,950,516)	\$	24,256,452	\$	99,631,646	\$	171,425,780
	(25,595)						35,540
\$	(35,976,111)	\$	24,256,452	\$	99,631,646	\$	171,461,320
\$	71,945,984	\$	(35,950,516)	\$	24,256,452	\$	99,631,646



## Revenues, Expenses, and Changes in Net Assets

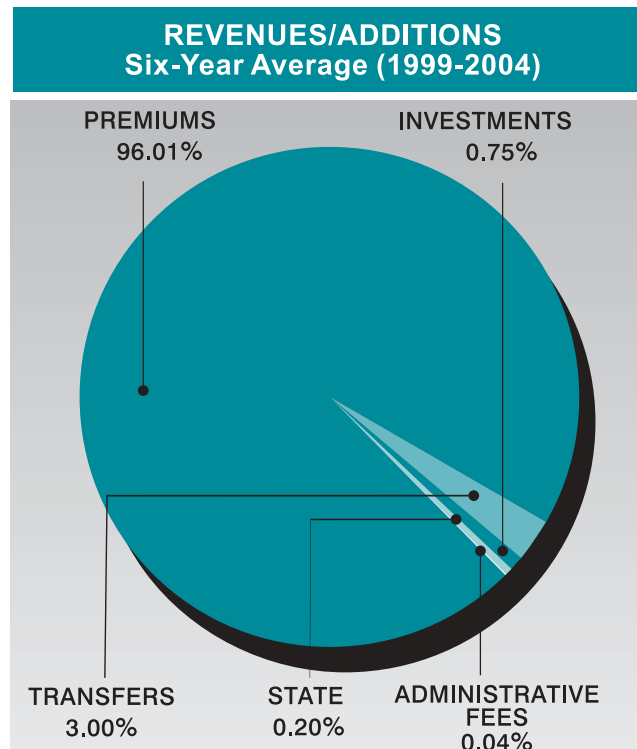
PROPRIETARY FUND/HEALTH CARE TRUST FUND \*  
FOR THE YEARS ENDED AUGUST 31

SUMMARY

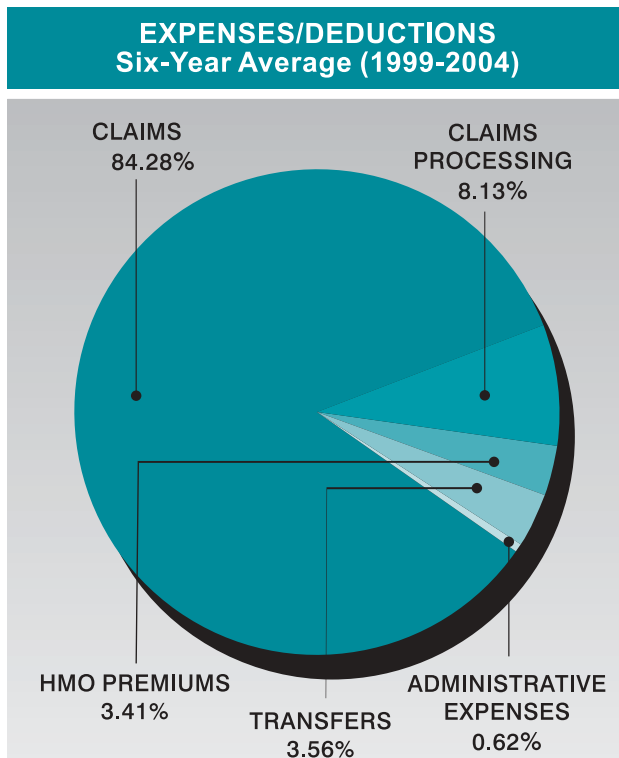


	2004	2003
<b>TRS-ACTIVECARE/ACTIVE PLAN</b>		
<b>Revenues/Additions:</b>		
Health Care Premiums	\$ 758,062,552	\$ 584,572,852
State Contributions	24,050	31,266
Administrative Fees	192,763	136,288
Investment Income:		
Interest	3,641,100	2,459,154
Net Appreciation (Depreciation) in Fair Value		
Legislative Appropriations Transfer from Retired Plan		42,000,000
<b>TOTAL REVENUES/ADDITIONS</b>	<b>\$ 761,920,465</b>	<b>\$ 629,199,560</b>
<b>Expenses/Deductions:</b>		
Health Care Claims	\$ 520,998,423	\$ 473,450,544
Health Care Claims Processing	53,564,510	42,411,388
Premium Payments to HMOs	40,210,539	
Legislative Appropriations Transfer to Retired Plan	42,000,000	
Administrative Expenses	918,619	1,771,441
<b>TOTAL EXPENSES/DEDUCTIONS</b>	<b>\$ 657,692,091</b>	<b>\$ 517,633,373</b>
<b>Change in Net Assets</b>	<b>\$ 104,228,374</b>	<b>\$ 111,566,187</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 136,421,779</b>	<b>\$ 24,855,592</b>
<b>Restatements</b>	<b>(278,849)</b>	
<b>Beginning of Year, As Restated</b>	<b>\$ 136,142,930</b>	<b>\$ 24,855,592</b>
<b>Net Assets - End of Year</b>	<b>\$ 240,371,304</b>	<b>\$ 136,421,779</b>

\* The TRS-ActiveCare Program, enacted by H.B. 3343, 77th Legislature, began operations in fiscal year 2003 and is accounted for as a proprietary fund. Prior to fiscal year 2003, TRS administered the Health Care Trust Fund-Active Plan, which was accounted for as a fiduciary fund. No school districts have participated in the Active Plan since fiscal year 2000. The net assets of the Active Plan were transferred to TRS-ActiveCare September 1, 2002. Prior years' data is shown for informational purposes only.



2002	2001	2000	1999
\$ 2,698,422	\$ 5,382	\$ 152,001	\$ 204,257
108,198	70,340	7,175	3,874
590,967	1,392,821	1,425,548	1,108,460
	20,909	(20,840)	(60,630)
\$ 3,397,587	\$ 1,489,452	\$ 1,566,048	\$ 1,255,961
\$ (34,455)	\$ 41,066	\$ 142,569	\$ 326,271
	92	21,281	20,045
2,750,107	474,961	855,829	589,277
\$ 2,715,652	\$ 516,119	\$ 1,019,679	\$ 935,593
\$ 681,935	\$ 973,333	\$ 546,369	\$ 320,368
\$ 24,179,853	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783
(6,196)			
\$ 24,173,657	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783
\$ 24,855,592	\$ 24,179,853	\$ 23,206,520	\$ 22,660,151



## Participating Employers

### Community and Junior Colleges

Alamo Comm College Dist  
 Alvin Community College  
 Amarillo College  
 Angelina College  
 Austin Community College  
 Blinn College  
 Brazosport College  
 Central Texas College  
 Cisco Junior College  
 Clarendon College  
 Coastal Bend College  
 College of the Mainland  
 Collin Cty Comm College  
 Dallas Cty Comm Coll Dist  
 Del Mar College  
 El Paso Community College  
 Frank Phillips College  
 Galveston College  
 Grayson County College  
 Hill College  
 Houston Comm Coll System  
 Howard Cty Jr Coll Dist  
 Kilgore College  
 Laredo Community College  
 Lee College  
 McLennan Comm College  
 Midland College  
 N Harris Montgomery Cm Cl  
 Navarro College  
 North Central Tx College  
 Northeast Tx Comm College  
 Odessa College  
 Panola College  
 Paris Junior College  
 Ranger Junior College  
 San Jacinto College Dist  
 South Plains College  
 South Texas Comm College  
 Southwest Tx Jr College  
 Tarrant County Coll Dist  
 Temple College  
 Texarkana College  
 Texas Southmost College  
 Texas State Tech College  
 Trinity Valley Jr College  
 Tyler Junior College  
 Vernon College  
 Victoria College  
 Weatherford College  
 Western Texas College  
 Wharton County Jr College

### Universities

Angelo State University  
 Lamar Inst of Technology  
 Lamar St Coll at Orange  
 Lamar St Coll at Port Arthur  
 Lamar University  
 Midwestern State Univ  
 Prairie View A & M Univ  
 Sam Houston State Univ  
 Southwest Texas State U  
 Stephen F Austin State U  
 Sul Ross State University  
 Tarleton State University  
 Texas A & M at Galveston  
 Texas A & M Corpus Christi  
 Texas A & M U-Commerce  
 Texas A & M U-Kingsville  
 Texas A & M U-Texarkana  
 Texas A & M University  
 Texas Ag Exp Station  
 Texas Ag Ext Service  
 Texas Eng Exp Station  
 Texas Eng Ext Service  
 Texas Forest Service

Texas Southern University  
 Texas State Univ System  
 Texas Tech University  
 Texas Transportation Inst  
 Texas Womans University  
 Tx A & M International Univ  
 Tx A & M U Systems Office  
 U H at Houston  
 U of N Texas System Admin  
 U T at Arlington  
 U T at Austin  
 U T at Dallas  
 U T at El Paso  
 U T at San Antonio  
 U T at Tyler  
 U T Pan American  
 U T Permian Basin  
 Univ Tx at Brownsville  
 University of North Tx  
 West Texas A & M Univ

### Medical Schools

T A M U System H S C  
 U N T H S C at Fort Worth  
 U T H S C at Houston  
 U T H S C at San Antonio  
 U T Health Ctr at Tyler  
 U T M D Anderson Hospital  
 U T Med Br at Galveston  
 U T S W Medical Center

### School Districts

Abbott I S D  
 Abernathy I S D  
 Abilene I S D  
 Academy I S D  
 Adrian I S D  
 Agua Dulce I S D  
 Alamo Heights I S D  
 Alba Golden I S D  
 Albany I S D  
 Aldine I S D  
 Aledo I S D  
 Alice I S D  
 Alief I S D  
 Allen I S D  
 Alpine I S D  
 Alto I S D  
 Alvarado I S D  
 Alvin I S D  
 Alvord I S D  
 Amarillo I S D  
 Amherst I S D  
 Anahuac I S D  
 Anderson Shiro Cons I S D  
 Andrews I S D  
 Angleton I S D  
 Anna I S D  
 Anson I S D  
 Anthony I S D  
 Anton I S D  
 Apple Springs I S D  
 Aquilla I S D  
 Aransas County I S D  
 Aransas Pass I S D  
 Archer City I S D  
 Argyle I S D  
 Arlington I S D  
 Arp I S D  
 Aspermont I S D  
 Athens I S D  
 Atlanta I S D  
 Aubrey I S D  
 Austin I S D  
 Austwell Tivoli I S D  
 Avalon I S D  
 Avery I S D  
 Avinger I S D

Axtell I S D  
 Azle I S D  
 Baird I S D  
 Ballinger I S D  
 Balmorhea I S D  
 Bandera I S D  
 Bangs I S D  
 Banquete I S D  
 Barbers Hill I S D  
 Bartlett I S D  
 Bastrop I S D  
 Bay City I S D  
 Beaumont I S D  
 Beckville I S D  
 Beeville I S D  
 Bellevue I S D  
 Bells I S D  
 Bellville I S D  
 Belton I S D  
 Ben Bolt Palito I S D  
 Benavides I S D  
 Benjamin I S D  
 Big Sandy I S D, Big Sandy  
 Big Sandy I S D, Dallardsville  
 Big Spring I S D  
 Birdville I S D  
 Bishop Cons I S D  
 Blackwell I S D  
 Blanco I S D  
 Bland I S D  
 Blanket I S D  
 Bloomburg I S D  
 Blooming Grove I S D  
 Bloomington I S D  
 Blue Ridge I S D  
 Bluff Dale I S D  
 Blum I S D  
 Boerne I S D  
 Boles I S D  
 Boling I S D  
 Bonham I S D  
 Booker I S D  
 Borden County I S D  
 Borger I S D  
 Bosqueville I S D  
 Bovina I S D  
 Bowie I S D  
 Boyd I S D  
 Boys Ranch I S D  
 Brackett I S D  
 Brady I S D  
 Brazos I S D  
 Brazosport I S D  
 Breckenridge I S D  
 Bremond I S D  
 Brenham I S D  
 Bridge City I S D  
 Bridgeport I S D  
 Broadus I S D  
 Brock I S D  
 Bronte I S D  
 Brookeland I S D  
 Brooks County I S D  
 Brookesmith I S D  
 Brownfield I S D  
 Brownsboro I S D  
 Brownsville I S D  
 Brownwood I S D  
 Bruceville Eddy I S D  
 Bryan I S D  
 Bryson I S D  
 Buckholts I S D  
 Buena Vista I S D  
 Buffalo I S D  
 Bullard I S D  
 Buna I S D  
 Burkburnett I S D  
 Burkeville I S D  
 Burleson I S D  
 Burnet Cons I S D  
 Burton I S D  
 Bushland I S D  
 Byers I S D  
 Bynum Cons I S D  
 Caddo Mills I S D  
 Calallen I S D  
 Caldwell I S D  
 Calhoun County I S D  
 Callisburg I S D  
 Calvert I S D  
 Cameron I S D  
 Campbell I S D  
 Canadian I S D  
 Canton I S D  
 Canutillo I S D  
 Canyon I S D  
 Carlisle I S D  
 Carrizo Springs C I S D  
 Carroll I S D  
 Carrollton Farmers Branch I S D  
 Carthage I S D  
 Castleberry I S D  
 Cayuga I S D  
 Cedar Hill I S D  
 Celeste I S D  
 Celina I S D  
 Center I S D  
 Center Point I S D  
 Centerville I S D, Centerville  
 Centerville I S D, Groveton  
 Central I S D  
 Central Heights I S D  
 Channelview I S D  
 Channing I S D  
 Chapel Hill I S D, Mt. Pleasant  
 Chapel Hill I S D, Tyler  
 Charlotte I S D  
 Cherokee I S D  
 Chester I S D  
 Chico I S D  
 Childress I S D  
 Chillicothe I S D  
 Chilton I S D  
 China Spring I S D  
 Chireno I S D  
 Chisum I S D  
 Christoval I S D  
 Cisco I S D  
 City View I S D  
 Clarendon Cons I S D  
 Clarksville I S D  
 Claude I S D  
 Clear Creek I S D  
 Cleburne I S D  
 Cleveland I S D  
 Clifton I S D  
 Clint I S D  
 Clyde I S D  
 Coahoma I S D  
 Coldspring Oakhurst I S D  
 Coleman I S D  
 College Station I S D  
 Collinsville I S D  
 Colmesneil I S D  
 Colorado I S D  
 Columbia Brazoria I S D  
 Columbus I S D  
 Comal I S D  
 Comanche I S D  
 Comfort I S D  
 Commerce I S D  
 Community I S D  
 Como Pickton I S D  
 Comstock I S D  
 Connally Cons I S D  
 Conroe I S D  
 Coolidge I S D  
 Cooper I S D  
 Coppell I S D  
 Copperas Cove I S D  
 Corpus Christi I S D  
 Corrigan Camden C I S D



Corsicana I S D	Electra I S D	Grandfalls Royalty I S D	Iola I S D
Cotton Center I S D	Elgin I S D	Grandview I S D	Iowa Park Cons I S D
Cotulla I S D	Elkhart I S D	Grandview Hopkins I S D	Ira I S D
Coupland I S D	Elysian Fields I S D	Granger I S D	Iraan Sheffield I S D
Covington I S D	Ennis I S D	Grape Creek I S D	Iredell I S D
Crandall I S D	Era I S D	Grapeland I S D	Irion County I S D
Crane I S D	Etoile I S D	Grapevine Colleyville ISD	Irving I S D
Cranfills Gap I S D	Eula I S D	Greenville I S D	Italy I S D
Crawford I S D	Eustace I S D	Greenwood I S D	Itasca I S D
Crockett I S D	Evadale I S D	Gregory Portland C I S D	Jacksboro I S D
Crockett Cty School Dist	Evant I S D	Groesbeck I S D	Jacksonville I S D
Crosby I S D	Everman I S D	Groom I S D	Jarrell I S D
Crosbyton Cons I S D	Excelsior I S D	Groveton I S D	Jasper I S D
Cross Plains I S D	Ezzell I S D	Gruver I S D	Jayton-Girard I S D
Cross Roads I S D	Fabens I S D	Gunter I S D	Jefferson I S D
Crowell Cons I S D	Fairfield I S D	Gustine I S D	Jim Hogg County I S D
Crowley I S D	Falls City I S D	Guthrie C S D	Jim Ned Cons I S D
Crystal City I S D	Fannindel I S D	Hale Center I S D	Joaquin I S D
Cuero I S D	Farmersville I S D	Hallettsville I S D	Johnson City I S D
Culberson County I S D	Farwell I S D	Hallsburg I S D	Jonesboro I S D
Cumby I S D	Fayetteville I S D	Hallsville I S D	Joshua I S D
Cushing I S D	Ferris I S D	Hamilton I S D	Jourdanton I S D
Cypress Fairbanks I S D	Flatonia I S D	Hamlin I S D	Judson I S D
D Hanis I S D	Florence I S D	Hamshire Fannett I S D	Junction I S D
Daingerfield I S D	Floresville I S D	Happy I S D	Karnack I S D
Dalhart I S D	Flour Bluff I S D	Hardin I S D	Karnes City I S D
Dallas I S D	Floydada I S D	Hardin Jefferson I S D	Katy I S D
Damon I S D	Follett I S D	Harlandale I S D	Kaufman I S D
Danbury I S D	Forestburg I S D	Harleton I S D	Keene I S D
Darrouzett I S D	Forney I S D	Harlingen I S D	Keller I S D
Dawson I S D, Dawson	Forsan I S D	Harmony I S D	Kelton I S D
Dawson I S D, Welch	Fort Bend I S D	Harper I S D	Kemp I S D
Dayton I S D	Fort Davis I S D	Harrold I S D	Kendleton I S D
De Kalb I S D	Fort Elliott Cons I S D	Hart I S D	Kenedy I S D
De Leon I S D	Fort Hancock I S D	Hartley I S D	Kenedy County School Dist
De Soto I S D	Fort Sam Houston I S D	Harts Bluff I S D	Kennard I S D
Decatur I S D	Fort Stockton I S D	Haskell I S D	Kennedale I S D
Deer Park I S D	Fort Worth I S D	Hawkins I S D	Kerens I S D
Del Valle I S D	Franklin I S D	Hawley I S D	Kermit I S D
Dell City I S D	Frankston I S D	Hays Cons I S D	Kerrville I S D
Denison I S D	Fredericksburg I S D	Hearne I S D	Kilgore I S D
Denton I S D	Freer I S D	Hedley I S D	Killeen I S D
Denver City I S D	Frenship I S D	Hemphill I S D	Kingsville I S D
Detroit I S D	Friendswood I S D	Hempstead I S D	Kirbyville Cons I S D
Devers I S D	Friona I S D	Henderson I S D	Klein I S D
Devine I S D	Frisco I S D	Henrietta I S D	Klondike I S D
Dew I S D	Frost I S D	Hereford I S D	Knippa I S D
Deweyville I S D	Fruitvale I S D	Hermleigh I S D	Knox City O Brien C I S D
Diboll I S D	Gainesville I S D	Hico I S D	Kopperl I S D
Dickinson I S D	Galena Park I S D	Hidalgo I S D	Kountze I S D
Dilley I S D	Galveston I S D	Higgins I S D	Kress I S D
Dime Box I S D	Ganado I S D	High Island I S D	Krum I S D
Dimmitt I S D	Garland I S D	Highland I S D	La Feria I S D
Divide I S D	Garner I S D	Highland Park I S D, Amarillo	La Gloria I S D
Dodd City I S D	Garrison I S D	Highland Park I S D, Dallas	La Grange I S D
Donna I S D	Gary I S D	Hillsboro I S D	La Joya I S D
Doss Cons C S D	Gatesville I S D	Hitchcock I S D	La Marque I S D
Douglass I S D	Gause I S D	Holland I S D	La Porte I S D
Dripping Springs I S D	George West I S D	Holliday I S D	La Poyner I S D
Driscoll I S D	Georgetown I S D	Hondo I S D	La Pryor I S D
Dublin I S D	Gholson I S D	Honey Grove I S D	La Vega I S D
Dumas I S D	Giddings I S D	Hooks I S D	La Vernia I S D
Duncanville I S D	Gilmer I S D	Houston I S D	La Villa I S D
Eagle Mount Saginaw I S D	Gladewater Cty Line I S D	Howe I S D	Lackland I S D
Eagle Pass I S D	Glasscock County I S D	Hubbard I S D, Hubbard	Lago Vista I S D
Eanes I S D	Glen Rose I S D	Hubbard I S D, New Boston	Lake Dallas I S D
Early I S D	Godley I S D	Huckabay I S D	Lake Travis I S D
East Bernard I S D	Goldburg I S D	Hudson I S D	Lake Worth I S D
East Central I S D	Goldthwaite I S D	Huffman I S D	Lamar Cons I S D
East Chambers I S D	Goliad I S D	Hughes Springs I S D	Lamesa I S D
Eastland I S D	Gonzales I S D	Hull Daisetta I S D	Lampasas I S D
Ector I S D	Goodrich I S D	Humble I S D	Lancaster I S D
Ector Cty I S D	Goose Creek I S D	Hunt I S D	Laneville I S D
Edcouch Elsa I S D	Gordon I S D	Huntington I S D	Laredo I S D
Eden C I S D	Gorman I S D	Huntsville I S D	Lasara I S D
Edgewood I S D, Edgewood	Grady I S D	Hurst Euleess I S D	Latexo I S D
Edgewood I S D, San Antonio	Graford I S D	Hutto I S D	Lazbuddie I S D
Edimburg C I S D	Graham I S D	Idalou I S D	Leakey I S D
Edna I S D	Granbury I S D	Industrial I S D	Leander I S D
El Campo I S D	Grand Prairie I S D	Ingleside I S D	Leary I S D
El Paso I S D	Grand Saline I S D	Ingram I S D	Lefors I S D

## Participating Employers

(continued)

Leggett I S D	Memphis I S D	Olfen I S D	Ricardo I S D
Leon I S D	Menard I S D	Olney I S D	Rice I S D
Leonard I S D	Mercedes I S D	Olton I S D	Rice Cons I S D
Levelland I S D	Meridian I S D	Onalaska I S D	Richards I S D
Leveretts Chapel I S D	Merkel I S D	Orange Grove I S D	Richardson I S D
Lewisville I S D	Mesquite I S D	Orangefield I S D	Richland Springs I S D
Lexington I S D	Mexia I S D	Ore City I S D	Riesel I S D
Liberty I S D	Meyersville I S D	Overton I S D	Rio Grande City C I S D
Liberty Eylau I S D	Miami I S D	Paducah I S D	Rio Hondo I S D
Liberty Hill I S D	Midland I S D	Paint Creek I S D	Rio Vista I S D
Lindale I S D	Midlothian I S D	Paint Rock I S D	Rising Star I S D
Linden Kildare Cons I S D	Midway I S D, Henrietta	Palacios I S D	River Road I S D
Lindsay I S D	Midway I S D, Waco	Palestine I S D	Rivercrest ISD
Lingleville I S D	Milano I S D	Palmer I S D	Riviera I S D
Lipan I S D	Mildred I S D	Palo Pinto I S D	Robert Lee I S D
Little Elm I S D	Miles I S D	Pampa I S D	Robinson I S D
Littlefield I S D	Milford I S D	Panhandle I S D	Robstown I S D
Livingston I S D	Miller Grove I S D	Panther Creek Cons I S D	Roby C I S D
Llano I S D	Millsap I S D	Paradise I S D	Rochelle I S D
Lockhart I S D	Mineola I S D	Paris I S D	Rochester I S D
Lockney I S D	Mineral Wells I S D	Pasadena I S D	Rockdale I S D
Lohn I S D	Mirando City I S D	Patton Springs I S D	Rocksprings I S D
Lometa I S D	Mission Cons I S D	Pawnee I S D	Rockwall I S D
London I S D	Monahans Wickett I S D	Pearland I S D	Rogers I S D
Lone Oak I S D	Montague I S D	Pearsall I S D	Roma I S D
Longview I S D	Monte Alto I S D	Peaster I S D	Roosevelt I S D
Loop I S D	Montgomery I S D	Pecos Barstow Toyah I S D	Ropes I S D
Loraine I S D	Moody I S D	Penelope I S D	Roscoe I S D
Lorena I S D	Moran I S D	Perrin Whitt Cons I S D	Rosebud Lott Cons I S D
Lorenzo Cons I S D	Morgan I S D	Perryton I S D	Rotan I S D
Los Fresnos Cons I S D	Morgan Mill I S D	Petersburg I S D	Round Rock I S D
Louise I S D	Morton I S D	Petrolia I S D	Round Top Carmine I S D
Lovejoy I S D	Motley County I S D	Pettus I S D	Roxton I S D
Lovelady I S D	Moulton I S D	Pewitt Cons I S D	Royal I S D
Ltle Cyprs Mrcvle C I S D	Mount Calm I S D	Pflugerville I S D	Royse City I S D
Lubbock I S D	Mount Enterprise I S D	Pharr San Juan Alamo ISD	Rule I S D
Lubbock Cooper I S D	Mount Pleasant I S D	Pilot Point I S D	Runge I S D
Lueders Avoca I S D	Mount Vernon I S D	Pine Tree I S D	Rusk ISD
Lufkin I S D	Muenster I S D	Pittsburg I S D	S & S Cons I S D
Luling I S D	Muleshoe I S D	Plains I S D	Sabinal I S D
Lumberton I S D	Mullin I S D	Plainview I S D	Sabine I S D
Lyford Cons I S D	Mumford I S D	Plano I S D	Sabine Pass I S D
Lytle I S D	Munday I S D	Pleasant Grove I S D	Saint Jo I S D
Mabank I S D	Murchison I S D	Pleasanton I S D	Salado I S D
Madisonville Cons I S D	Nacogdoches I S D	Plemons Stinnett Phillips CISD	Saltillo I S D
Magnolia I S D	Natalia I S D	Point Isabel I S D	Sam Rayburn Cons I S D
Malakoff I S D	Navarro I S D	Ponder I S D	Samnorwood I S D
Malone I S D	Navasota I S D	Poolville I S D	San Angelo I S D
Malta I S D	Nazareth I S D	Port Aransas I S D	San Antonio I S D
Manor I S D	Neches I S D	Port Arthur I S D	San Augustine I S D
Mansfield I S D	Nederland I S D	Port Neches Groves I S D	San Benito Cons I S D
Marathon I S D	Needville I S D	Post I S D	San Diego I S D
Marble Falls I S D	New Boston I S D	Poteet I S D	San Elizario I S D
Marfa I S D	New Braunfels I S D	Poth Cons I S D	San Felipe Del Rio I S D
Marietta I S D	New Caney I S D	Pottshoro I S D	San Isidro I S D
Marion I S D	New Deal I S D	Prairie Lea I S D	San Marcos Cons I S D
Marlin I S D	New Diana I S D	Prairie Valley I S D	San Perlita I S D
Marshall I S D	New Home I S D	Prairiland I S D	San Saba I S D
Mart I S D	New Summerfield I S D	Premont I S D	San Vicente I S D
Martins Mill I S D	New Waverly I S D	Presidio I S D	Sands Cons I S D
Martinsville I S D	Newcastle I S D	Priddy I S D	Sanford I S D
Mason I S D	Newton I S D	Princeton I S D	Sanger I S D
Masonic Home I S D	Nixon Smiley C I S D	Pringle Morse Cons I S D	Santa Anna I S D
Matagorda I S D	Nocona I S D	Progreso I S D	Santa Fe I S D
Mathis I S D	Nordheim I S D	Prosper I S D	Santa Gertrudis I S D
Maud I S D	Normangee I S D	Quanah I S D	Santa Maria I S D
May I S D	North East I S D	Queen City I S D	Santa Rosa I S D
Maypearl I S D	North Forest I S D	Quinlan I S D	Santo I S D
Mc Allen I S D	North Hopkins I S D	Quitman I S D	Savoy I S D
Mc Camey I S D	North Lamar I S D	Rains I S D	Schertz Cibolo I S D
Mc Dade I S D	North Zulch I S D	Ralls I S D	Schleicher Cty I S D
Mc Gregor I S D	Northside I S D, San Antonio	Ramirez Common S D	Schulenburg I S D
Mc Kinney I S D	Northside I S D, Vernon	Randolph Field I S D	Scurry Rosser I S D
Mc Lean I S D	Northwest I S D	Ranger I S D	Seagraves I S D
Mc Leod I S D	Novice I S D	Rankin I S D	Sealy I S D
Mc Mullen County I S D	Nueces Canyon Cons I S D	Raymondville I S D	Seguin I S D
Meadow I S D	Nursery I S D	Reagan County I S D	Seminole Public Schools
Medina I S D	O Donnell I S D	Red Lick I S D	Seymour I S D
Medina Valley I S D	Oakwood I S D	Red Oak I S D	Shallowater I S D
Megargel I S D	Odem Edroy I S D	Redwater I S D	Shamrock I S D
Melissa I S D	Oglesby I S D	Refugio I S D	Sharyland I S D

Shelbyville I S D  
 Sheldon I S D  
 Shepherd I S D  
 Sherman I S D  
 Shiner I S D  
 Sidney I S D  
 Sierra Blanca I S D  
 Silsbee I S D  
 Silverton I S D  
 Simms I S D  
 Sinton I S D  
 Sivells Bend I S D  
 Skidmore Tynan I S D  
 Slaton I S D  
 Slidell I S D  
 Slocum I S D  
 Smithville I S D  
 Smyer I S D  
 Snook I S D  
 Snyder I S D  
 Socorro I S D  
 Somerset I S D  
 Somerville I S D  
 Sonora I S D  
 South San Antonio I S D  
 South Texas I S D  
 Southland I S D  
 Southside I S D  
 Southwest I S D  
 Spade I S D  
 Spearman I S D  
 Splendora I S D  
 Spring I S D  
 Spring Branch I S D  
 Spring Creek I S D  
 Spring Hill I S D  
 Springlake Earth I S D  
 Springtown I S D  
 Spur I S D  
 Spurger I S D  
 Stafford Muncpl Sch Dist  
 Stamford I S D  
 Stanton I S D  
 Star I S D  
 Stephenville I S D  
 Sterling City I S D  
 Stockdale I S D  
 Stratford I S D  
 Strawn I S D  
 Sudan I S D  
 Sulphur Bluff I S D  
 Sulphur Springs I S D  
 Sundown I S D  
 Sunnyvale I S D  
 Sunray I S D  
 Sweeny I S D  
 Sweet Home I S D  
 Sweetwater I S D  
 Taft I S D  
 Tahoka I S D  
 Tarkington I S D  
 Tatum I S D  
 Taylor I S D  
 Teague I S D  
 Temple I S D  
 Tenaha I S D  
 Terlingua C S D  
 Terrell I S D  
 Terrell County I S D  
 Texarkana I S D  
 Texas City I S D  
 Texhoma I S D  
 Texline I S D  
 Thorndale I S D  
 Thrall I S D  
 Three Rivers I S D  
 Three Way I S D  
 Throckmorton I S D  
 Tidehaven I S D  
 Timpson I S D  
 Tioga I S D

Tolar I S D  
 Tom Bean I S D  
 Tomball I S D  
 Tornillo I S D  
 Trent I S D  
 Trenton I S D  
 Trinidad I S D  
 Trinity I S D  
 Troup I S D  
 Troy I S D  
 Tulia I S D  
 Tuloso Midway I S D  
 Turkey Quitaque C I S D  
 Tyler I S D  
 Union Grove I S D  
 Union Hill I S D  
 United I S D  
 Utopia I S D  
 Uvalde Cons I S D  
 Valentine I S D  
 Valley Mills I S D  
 Valley View I S D, Pharr  
 Valley View I S D, Valley View  
 Van I S D  
 Van Alstyne I S D  
 Van Vleck I S D  
 Vega I S D  
 Venus I S D  
 Veribest I S D  
 Vernon Cons I S D  
 Victoria I S D  
 Vidor I S D  
 Vysehrad I S D  
 Waco I S D  
 Waelder I S D  
 Walcott I S D  
 Wall I S D  
 Waller I S D  
 Walnut Bend I S D  
 Walnut Springs I S D  
 Warren I S D  
 Waskom I S D  
 Water Valley I S D  
 Waxahachie I S D  
 Weatherford I S D  
 Webb C I S D  
 Weimar I S D  
 Wellington I S D  
 Wellman Union I S D  
 Wells I S D  
 Weslaco I S D  
 West I S D  
 West Hardin Cty C I S D  
 West Orange Cove C I S D  
 West Osco I S D  
 West Rusk Cty Cons I S D  
 West Sabine I S D  
 Westbrook I S D  
 Westhoff I S D  
 Westphalia I S D  
 Westwood I S D  
 Wharton I S D  
 Wheeler I S D  
 White Deer I S D  
 White Oak I S D  
 White Settlement I S D  
 Whiteface I S D  
 Whitehouse I S D  
 Whitesboro I S D  
 Whitewright I S D  
 Whitharral I S D  
 Whitney I S D  
 Wichita Falls I S D  
 Wildorado I S D  
 Willis I S D  
 Wills Point I S D  
 Wilmer Hutchins I S D  
 Wilson I S D  
 Wimberley I S D  
 Windham School District  
 Windthorst I S D

Winfield I S D  
 Wink Loving Cons I S D  
 Winnsboro I S D  
 Winona I S D  
 Winters I S D  
 Woden I S D  
 Wolfe City I S D  
 Woodsboro I S D  
 Woodson I S D  
 Woodville I S D  
 Wortham I S D  
 Wylie I S D, Abilene  
 Wylie I S D, Wylie  
 Yantis I S D  
 Yoakum I S D  
 Yorktown I S D  
 Ysleta I S D  
 Zapata I S D  
 Zavalla I S D  
 Zephyr I S D

Coastal Bend Youth C C S  
 Com Quest Academy  
 Cross Roads Charter  
 Cumberland Academy  
 Dallas Can Academy  
 Dallas Comm Charter Sch  
 Dr. Garza-Gonzalez Ch Sch  
 Eagle Advantage School  
 Eagle Charter Abilene  
 Eagle Charter Beaumont  
 Eagle Charter Brownsville  
 Eagle Charter Bryan  
 Eagle Charter Dallas  
 Eagle Charter Del Rio  
 Eagle Charter Fort Worth  
 Eagle Charter Laredo  
 Eagle Charter Lubbock  
 Eagle Charter McAllen  
 Eagle Charter Midland  
 Eagle Charter San Antonio  
 Eagle Charter Texarkana  
 Eagle Charter Tyler  
 Eagle Charter Waco  
 East Fort Worth Montessori  
 East Texas Charter School  
 Eden Park Academy  
 Education Center Int Acad  
 El Paso Academy East  
 El Paso School Excellence  
 Erath Excels! Academy  
 Evolution Academy Charter  
 Faith Family Acad Oak Cl  
 Faith Fam Acad Waxahachie  
 Focus Learning Academy  
 Fruit of Excellence Sch  
 Ft Worth Acad Fine Arts  
 Gabriel Tafolla Charter  
 Gateway Academy  
 Gateway Charter Academy  
 George Gervin Academy  
 George I Sanchez Charter, Houston  
 George I Sanchez Charter, San Antonio  
 Girls & Boys Prep Acad  
 Golden Rule Charter School  
 Guardian Angel Academy  
 Gulf Coast Trades Center  
 Gulf Shores Academy  
 Harmony Science Academy, Austin  
 Harmony Science Academy, Houston  
 Heights Academy  
 Higgs Carter King Academy  
 Honors Academy  
 Houston Alt Prep Charter  
 Houston Gateway Charter  
 Houston Hghts Learning Ac  
 I Am That I Am Academy  
 Idea Academy  
 Impact Charter School  
 Inspired Vision Academy  
 Jamie's House Charter Sch  
 Jean Massieu Academy  
 Jesse Jackson Academy  
 John H.Wood Charter Sch  
 Juan B. Galaviz Charter  
 Jubilee Academics Center  
 Katherine Anne Porter Sch  
 K I P P Academy  
 La Amistad Academy  
 La Escuela Delas Americas  
 Life Charter School  
 Mainland Prep Academy  
 McCullough Academy  
 Medical Center Charter  
 Metro Charter Academy  
 Mid Valley Academy  
 Midland Academy  
 N Houston H S Business  
 Nancy Ney Charter School  
 New Creation Light House  
 Nova Charter Southeast  
 Northwest Prep Academy

## Regional Service Centers

Region 01 Ed Serv Center  
 Region 02 Ed Serv Center  
 Region 03 Ed Serv Center  
 Region 04 Ed Serv Center  
 Region 05 Ed Serv Center  
 Region 06 Ed Serv Center  
 Region 07 Ed Serv Center  
 Region 08 Ed Serv Center  
 Region 09 Ed Serv Center  
 Region 10 Ed Serv Center  
 Region 11 Ed Serv Center  
 Region 12 Ed Serv Center  
 Region 13 Ed Serv Center  
 Region 14 Ed Serv Center  
 Region 15 Ed Serv Center  
 Region 16 Ed Serv Center  
 Region 17 Ed Serv Center  
 Region 18 Ed Serv Center  
 Region 19 Ed Serv Center  
 Region 20 Ed Serv Center

## Charter Schools

A+ Academy  
 Academy of Accelerated  
 Academy of Beaumont  
 Academy of Careers and Tech  
 Academy of Dallas  
 Academy of Houston  
 Accelerated Int Academy  
 Alief Montessori School  
 ALPHA Charter School  
 Alphonso Crutch's Charter  
 Am Acad of Excellence Hou  
 American Inst of Learning  
 Amigos Por Vida Charter  
 Arlington Classics Acad  
 A W Brown Flwshp Chtr Sch  
 Azleway Charter School  
 Bay Area Charter School  
 Beatrice Mayes Institute  
 Benji's Special Educ Acad  
 Bexar County Academy  
 Big Springs Charter Sch  
 Brazos River Charter Sch  
 Brazos School for Inquiry  
 Bright Ideas Charter Sch  
 Burnham Wood Charter Sch  
 Calvin Nelms Charter  
 Career Plus Learning Acad  
 Cedar Crest Charter Sch  
 Cedar Ridge Charter Sch  
 Cedars International Acad  
 Children First Ac Houston  
 Children First Ele Acad  
 Children of the Sun Charter

## Participating Employers

(continued)

NW Math Sci Lang Academy  
 N Y O S Charter School  
 Oak Cliff Academy  
 Odyssey Academy  
 One Stop Multiservice  
 Outreach Word Academy  
 Panola Charter School  
 Paradigm Accelerated Sch  
 Paso Del Norte Academy  
 Pegasus Charter School  
 Phoenix Charter School  
 Pineywoods Academy  
 Por Vida Inc  
 Radiance Acad of Learning  
 Ranch Academy  
 Rapoport Academy  
 Raul Yzaguirre School  
 Richard Milburn Acad C C  
 Richard Milburn - Amarillo  
 Richard Milburn - Beaumont  
 Richard Milburn - Forth Worth  
 Richard Milburn - Houston  
 Richard Milburn - Killeen  
 Richard Milburn - Lubbock  
 Richard Milburn - Midland  
 Richard Milburn - Odessa  
 Ripley House Charter School  
 Rise Academy  
 S T A R Charter School  
 San Antonio Prep Academy  
 San Antonio Sch Inquiry  
 San Antonio Tech Academy  
 San Marcos Prep Academy  
 School of Excellence  
 Seashore Learning Ctr  
 Sentry Technology Prep  
 Ser-Ninos  
 Shekinah Radiance Academy  
 South Plains Academy  
 Southwest High School  
 Southwest Preparatory Sch  
 St. Anthony School  
 St. Mary's Charter School  
 Technology Education Chtr  
 T E K O A Academy  
 Texas Empowerment Academy  
 Texas Language Charter  
 Texas Serenity Academy  
 The Education Center  
 The Ehrhart School  
 The Encino School  
 The North Hills School  
 Theresa B Lee Academy  
 T O V A S  
 Transformative Charter  
 Treetops International  
 Trinity Charter School  
 Two Dimensions Prep Acad  
 Tx Academy of Excellence  
 Tx Serenity Acad Bayshore  
 U of H Charter Sch Tech  
 Universal Academy  
 Valley High Charter Sch  
 Vanguard Academy  
 Varnett Charter School  
 Waco Charter School  
 West Houston Charter  
 Westlake Academy  
 Winfree Academy  
 Yes College Prep  
 Zoe Learning Academy

## Other Educational Districts

Anderson Cty Spc Ed Co Op  
 Austin Cty Ed Co Op  
 Bowie County Sch Dist  
 Co Op for Special Svcs  
 Dallas County School Dist  
 Harris Cty Dept Education  
 Houston Trinity Cty Co Op  
 Johnson Cty Spc Ed Co Op  
 Parker County Co Op  
 Small Schools Coop

## Other Entities

Teacher Retirement System  
 Texas Education Agency  
 Texas Food & Fibers Comm





Photos in this publication courtesy of: Austin Independent School District; Denton High School; Midland DeZavala Elementary School; Teacher Retirement System of Texas; Texas Woman's University, photographers Shannon Drawe and Chad Windham; Weslaco Independent School District.



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Austin, Texas 78701-2698

(512) 542-6400     1 (800) 223-8778

[www.trs.state.tx.us](http://www.trs.state.tx.us)

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