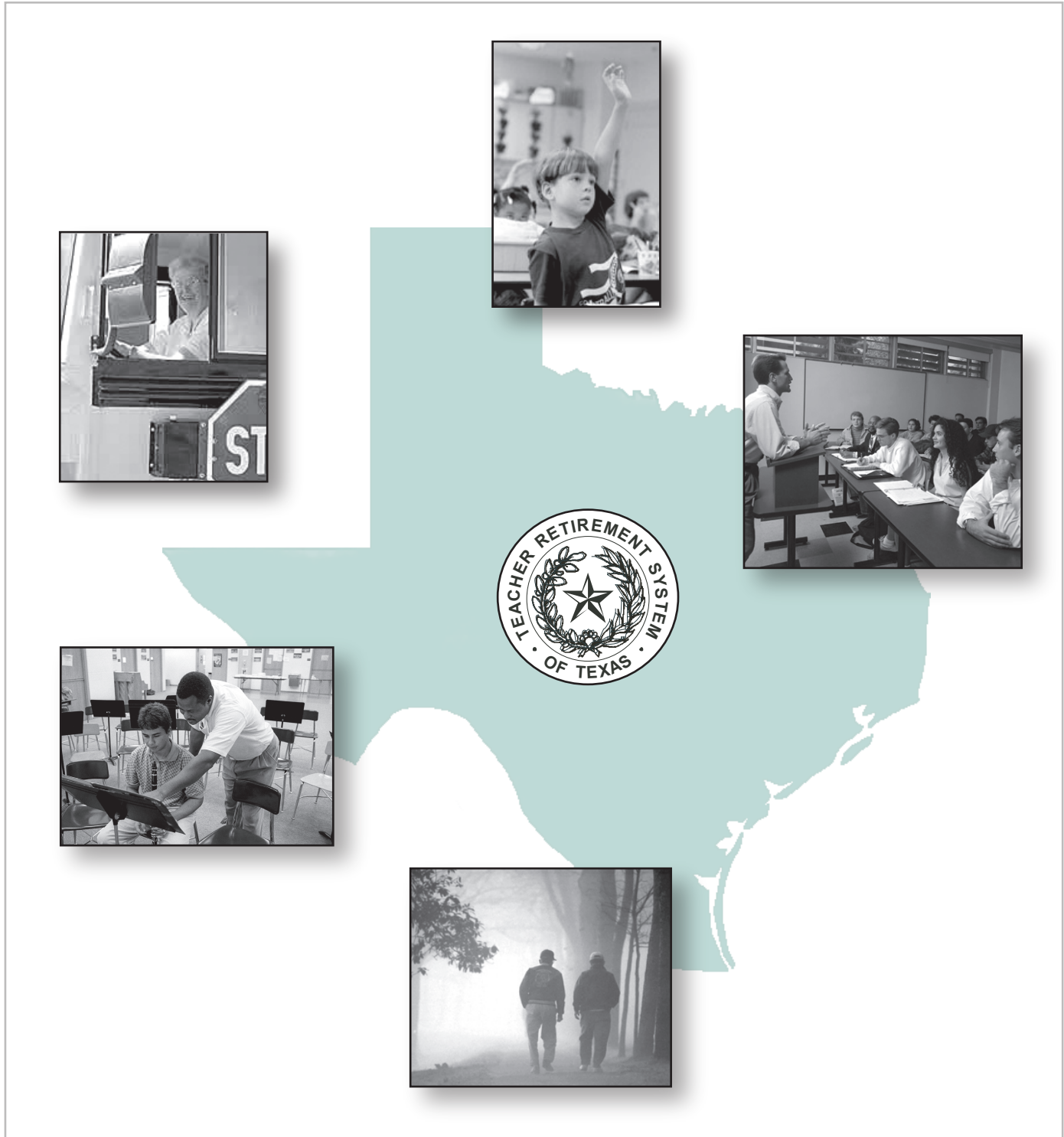


TEACHER RETIREMENT SYSTEM OF TEXAS

Comprehensive Annual Financial Report

A Retirement System of the State of Texas

Fiscal Year Ended August 31, 2005





TRS Mission Statement

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

A Retirement System of the State of Texas

FISCAL YEAR ENDED
August 31, 2005



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



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Introductory Section



"Dedicated to Serving Our Members"





BOARD OF TRUSTEES

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. In November 2005, Governor Perry appointed one new trustee to the TRS Board – Philip Mullins of Austin (replacing Mary Alice Baker). He also reappointed Linus Wright to a second term on the board. Both trustees were appointed to six-year terms ending August 31, 2011.



Jarvis V. Hollingsworth, 2007
Chair
Partner, Bracewell & Giuliani,
L.L.P., Missouri City



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



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



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



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



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



Linus D. Wright, 2005
Retired
Dallas



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, 2004

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.



Nancy L. Zjelke

President

Jeffrey R. Emmer

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 8, 2005

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 Members of the Teacher Retirement System:

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, 2005, the system's 68th year of operation.

The financial condition of the Pension Trust Fund continued to improve as investment income of almost \$12 billion helped the fund grow to \$93.7 billion. This growth occurred while the System paid out \$5.4 billion in benefit payments. At year-end, system participation included 1,363 reporting employers and 1,115,234 members and annuitants.

Management Responsibility

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.

Structure of the Report

The Comprehensive Annual Financial Report for fiscal year 2005 provides TRS stakeholders with a complete picture of the system's operations for the past year. This report includes the following six sections: (1) The Introductory Section describes the system's management, highlights the year's activities, and provides membership and communications information; (2) The Financial Section contains the report of the Texas State Auditor, financial statements of the system, required supplementary information, and Management's Discussion and Analysis (MD&A); (3) The Investment Section includes a summary of investments and performance information; (4) The Actuarial Section contains the independent actuary's certification and selected information from the annual actuarial valuation for the fiscal year ended August 31, 2005; (5) The Benefits Section includes changes in TRS law, a summary of retirement and death benefits available to retirees and beneficiaries, and health care benefits available to members and their families; and (6) The Statistical Section includes benefit payment information and presents six-year financial and non-financial trend information about the pension trust fund, the retiree health benefits program, and the active public school employee health benefits program.

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, 2004. 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 15 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.



LETTER OF TRANSMITTAL

Financial Information

The basic financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis as promulgated by the Governmental Accounting Standards Board. The Management's Discussion and Analysis (MD&A), 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 MD&A can be found immediately following the report of the independent auditors.

Investment Performance

For the fiscal year, the total portfolio returned 14.4%, with investment income totaling \$12.0 billion in fiscal year 2005. Long-term performance continues to be above inflation and the 8% actuarial assumption for investment income. For the past 10 years, the time-weighted compound annual return has been 9.28 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. For fiscal year 2005, benefit payments and refunds to withdrawing members totaled \$5.6 billion, reflecting the financial impact of benefit enhancements and the continued growth in membership and annuitants.

Legislative changes made in 2005 will impact future retirees unless they were grandfathered by meeting the Rule of 70 as of August 31, 2005, or having 25 years of service as of August 31, 2005, or were age 50 or older as of August 31, 2005. Benefits for current members who were not grandfathered will be calculated using the highest five-year average salary instead of the highest three-year average salary. Members joining the System after August 31, 2007, will have benefits computed using the highest five-year average salary and will have benefits reduced by 5% per year for every year they retire prior to the age of 60.

Retiree Health Benefits Program

In addition to delivering pension benefits, TRS administers TRS-Care, a health benefits 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. Effective September 1, 2005 active member contributions have been increased from 0.5% to 0.65% of payroll. School district contributions have also been raised effective September 1, 2005 from 0.4% to 0.55% of payroll. TRS-Care anticipates additional revenue from the new Medicare Part D prescription drug program. The increased funding from contribution increases and Medicare is projected to be sufficient to keep TRS-Care solvent through August 31, 2007.

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 Benefits Program

TRS-ActiveCare, initiated in 2002, is a self-funded health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS establishes premiums to pay for the cost of the program. Some minor plan changes were made to the program effective September 1, 2005, and premiums for the most comprehensive plan were raised by 6.5%.

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. As a result, by the end of FY 2005, the ratio of actuarial assets to actuarial liabilities dropped to 87.1 percent. In addition, at August 31, 2005, the system's unfunded actuarial accrued liability rose to \$13.2 billion.

The current contribution rates from the state and from members are not sufficient at this time to amortize the unfunded actuarial accrued liability within the statutory 31-year funding period. The system has sufficient funds to pay benefits for current retirees as well as for new retirees well into the



LETTER OF TRANSMITTAL

future. Benefit changes previously described and investment gains in 2005 have helped improve the actuarial soundness of the system. In the absence of future investment losses or liability losses, the recognition of the \$4.4 billion deferred asset gains over the next four valuations should return the system to an actuarial position that would produce a more reasonable funding period for amortizing the unfunded actuarial accrued liability.

In spite of the adverse market conditions in 2001 and 2002, TRS investments have provided favorable returns in excess of 9% over the last 10 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.

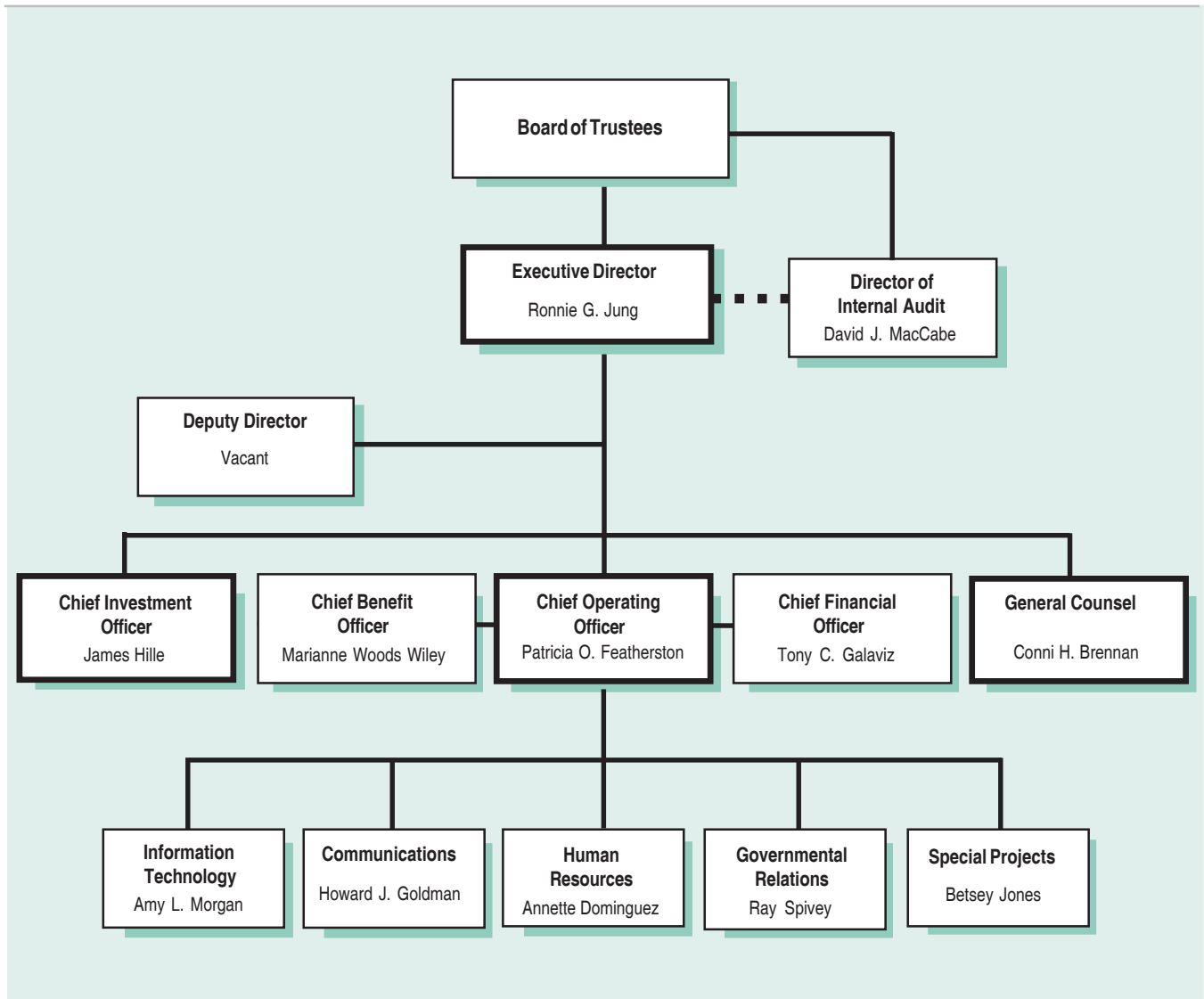
Respectfully submitted,

A handwritten signature in black ink that reads "Ronnie G. Jung".

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



ORGANIZATION CHART





STAFF AND ADVISORS

EXECUTIVE ADMINISTRATIVE STAFF

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

GENERAL INVESTMENT CONSULTANT

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

CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

INVESTMENT CONSULTANTS

Hamilton Lane Advisors, L.L.C., Bala Cynwyd, PA
(Domestic Private Equity)
Altius Associates Limited, UK (International Private
Equity)
Albourne America, L.L.C., San Francisco, CA (Absolute
Return)
The Townsend Group, Inc., Cleveland, OH (Real Estate)

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

HEALTH CARE 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, 2005, participating entities included the following:

Public Schools, Service Centers and Charter Schools	1,258
Community and Junior Colleges	51
Senior Colleges and Universities	43
Medical and Dental Schools	8
Other Entities	<u>3</u>
Total	<u>1,363</u>

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas. At August 31, 2005, and August 31, 2004, membership consisted of the following:

	Year Ended August 31,	
	2005	2004
Current Members:		
Active Contributing	739,479	718,266
Active Noncontributing	90,995	95,697
Deferred Retirement Option	1,197	1,575
Inactive Nonvested	16,343	12,597
Inactive Vested	18,711	16,661
Total Current Members	<u>866,725</u>	<u>844,796</u>
Retirement Recipients:		
Service	230,740	221,654
Disability	8,327	9,746
Survivor	9,442	9,227
Total Retirement Recipients	<u>248,509</u>	<u>240,627</u>
TOTAL MEMBERSHIP	<u>1,115,234</u>	<u>1,085,423</u>

Membership changes are summarized below:

	2005	2004
Active Membership:		
New Members	87,303	58,861
Members Withdrawing	(40,298)	(38,775)
Service Retirements	(13,750)	(27,289)
Disability Retirements	(751)	(856)
In-Service Deaths	(1,079)	(1,116)
Other Changes	<u>(9,496)</u>	<u>(9,320)</u>
Net Increase/(Decrease)	<u>21,929</u>	<u>(18,495)</u>
Retired Membership:		
Retirements	14,501	28,145
Deaths After Retirement	(5,681)	(5,763)
Option Continuations	1,502	1,507
Other Changes	<u>(2,440)</u>	<u>(739)</u>
Net Increase	<u>7,882</u>	<u>23,150</u>

Active Member Profile	2005	2004
Average Annual Salary	\$ 36,278	\$ 34,939
Average Age	43.6	42.8
Average Years of Service	9.4	8.8

Annuitant and Beneficiary Profile	2005	2004
Average Monthly Annuities		
Life Annuities	\$ 1,788	\$ 1,789
Disability Annuities	\$ 1,174	\$ 1,191
Annuities Certain	\$ 921	\$ 851
Average Age of Current Retirees	69.3	69.1
Average Age at Retirement		
All Retirees	59.7	59.8
Current Year Retirees	59.6	59.4
Average Years of Service		
All Retirees	24.8	24.8
Current Year Retirees	23.5	24.8
Average Salary at Retirement		
All Retirees	\$ 33,405	\$ 32,574
Current Year Retirees	\$ 43,003	\$ 41,940
Ratio of Current Members to Retirees	3.5:1	3.5:1

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

Participation for the Retired Plan is summarized below:

	2005	2004
Retirees	149,443	147,982
Surviving Spouses	3,589	3,316
Surviving Children	48	42
Dependent Spouses	<u>29,620</u>	<u>26,114</u>
TOTAL *	<u>182,700</u>	<u>177,454</u>

* Excludes 4,663 and 4,661 dependent children for 2005 and 2004, respectively.

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

Participation for the Active Plan is summarized below:

	2005	2004
Employees	165,866	150,669
Dependents	<u>107,715</u>	<u>96,245</u>
TOTAL	<u>273,581</u>	<u>246,914</u>

As of September 1, 2005, there were 1,043 participating entities.



COMMUNICATIONS

During fiscal year 2005, TRS continued a series of initiatives to improve communication with members, retirees, and the general public. These efforts focused on the agency's toll-free telephone number, print publications, Web site, group presentations, employer training, 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. TRS began sending *Update* newsletters to reporting officials via e-mail rather than through the U.S. Mail, and the agency also began sending *TRS News* issues to members via e-mail upon request. Use of e-mail to distribute these publications enables members, retirees, and employers to receive TRS information in a more timely and convenient manner than through postal mail. It also offers TRS the opportunity to significantly reduce printing and postage expenses.

Early in the fiscal year, TRS redesigned the *TRS Benefits Handbook* into a more compact publication so that it is a lighter-weight publication. Significant long-term savings for printing and postage are projected from this change. Despite its lighter weight, the publication actually features more benefit information than in previous years.

TRS also published a comprehensive annual financial report that, for the first time, emphasized the diversity of TRS membership. This was accomplished through the use of member photographs, which reflect a rich cultural diversity in terms of race, ethnicity, gender, age, and professional background.

The Internet

During fiscal year 2005, the agency enhanced its Web site for easier navigation. Web pages were redesigned, and a new platform was introduced to improve compatibility with various Web browsers and enable more efficient Web site maintenance.

TRS also produced six streaming videos to assist members and reporting officials; expanded the number of frequently asked questions on its Web site relating to a variety of topics; introduced an option for members to request replacement passwords online; and created a centralized place on the TRS Web site where members can determine their eligibility for various TRS benefits. During the year, TRS Web site visits totaled 1,522,629 representing a more than six percent increase.

Group Presentations

TRS made a number of group presentations to professional associations, to 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 13,243 people attended 157 group presentations, and 35,550 people attended 10 conventions at which TRS was represented. In addition, 8,631 people visited with a TRS counselor in Austin.

Coordination with Reporting Entities

The TRS Reporting and Query System (TRAQS) neared completion during fiscal year 2005. More than 1,252 TRS reporting entities submitted monthly reports through TRAQS by year-end. Staff conducted 21 training workshops around the state for 1,097 reporting entities. A total of 859 people attended those workshops. Ten additional training sessions were held for 55 reporting entities with 120 staff members in attendance. These sessions were held at TRS offices in Austin as well as through telephone conference calls. TRS-ActiveCare training seminars were conducted in 20 locations around the state for approximately 1,506 administrators of 942 districts/entities. These seminars provided information for enrollment and ongoing administrative issues for TRS-ActiveCare.

Telecommunications

In fiscal year 2005, the agency's Benefit Counseling department handled a total of 445,513 calls. In addition, 210,361 calls were completed during the past year within the agency's automated telephone system.

During the past year, TRS and its contractors also provided telephone assistance to a large number of members seeking healthcare-related information. TRS-ActiveCare staff and contractors responded to over 879,755 calls, and TRS-Care staff and contractors responded to 879,812 calls.

Market Research

During the summer of 2005, TRS conducted a series of surveys to gauge member satisfaction with selected agency services, including the Automated Telephone Center, the agency's member newsletter, and responses to written requests for information. The University of North Texas Survey Research Center conducted the surveys for TRS. All three surveys showed quite favorable ratings among customer groups overall. TRS will use these survey results to help introduce targeted service improvements in the coming year, including simplified information provided via the TRS automated telephone system, more specific responses to written requests for information, and more relevant *TRS News* information for active members as well as retirees.

Financial Section



"Dedicated to Serving Our Members"





INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Teacher Retirement System of Texas

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, 2005. 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, 2004; 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 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 basic financial statements of the System are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, 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, 2005, and the changes in the State's financial position, or, where applicable, its cash flows 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 financial position of the System as of August 31, 2005, and the changes in financial position 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 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.

SAO No. 06-303

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

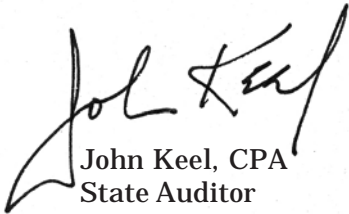
Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

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 the System's internal control over financial reporting and on compliance and other matters 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.



John Keel, CPA
State Auditor

November 8, 2005



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, 2005. 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 \$93.7 billion at August 31, 2005, an increase of \$9.5 billion, or 11.3%, in fiscal year 2005. The increase was due to favorable investment returns.
- As of August 31, 2005, the date of the most recent actuarial valuation, the TRS pension trust fund's ratio of actuarial assets as a percentage of actuarial liabilities was 87.1%, which is lower than the 91.8% level at August 31, 2004.
- The TRS rate of return on investments for the year ended August 31, 2005 was 14.4% on a market value basis and was due primarily to strong returns in the equity markets. The rate of return for fiscal year 2004 was 11.9%.
- Net assets of the Health Benefits Trust Fund – Retired Plan (TRS-Care) were \$327.2 million at August 31, 2005, an increase of \$88.9 million in fiscal year 2005.
- Net assets of the TRS-ActiveCare Enterprise Fund were \$312.0 million at August 31, 2005, an increase of \$71.6 million in fiscal year 2005.

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 supplementary 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, 2005, 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, 2005. 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, 2005, and for the year then ended. Individual fund financial statements are presented for the proprietary fund as of August 31, 2005, and for the year then ended. Comparative information as of August 31, 2004, 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 account information. Also included is a general description of TRS as well as a description of each of the funds administered by TRS.

– Note II provides information on capital assets.

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

– Note IV provides information on employee compensable leave.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

– Note XII provides information on subsequent events.

• **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

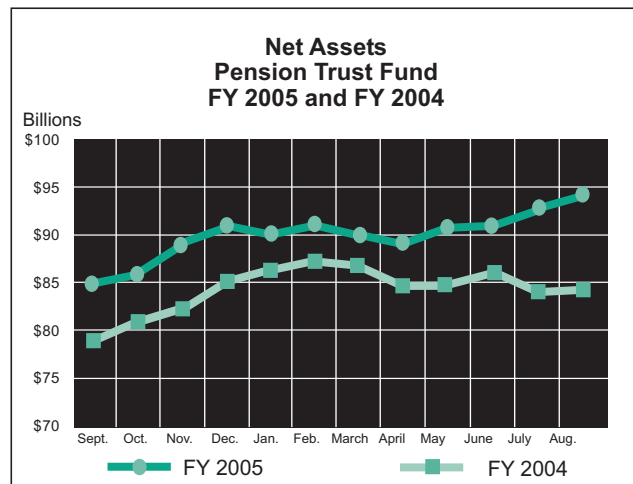
Net assets held in trust for benefits at August 31, 2005 were \$93.7 billion, an increase of \$9.5 billion, from \$84.2 billion at August 31, 2004.

The overall financial condition of the system improved during fiscal year 2005 due to net investment income during the year of \$12.0 billion – a 14.4% overall return. Net investment income for fiscal year 2005 is comprised of net appreciation in fair value of investments of \$9.6 billion, \$2.3 billion in interest and dividends, and net income of \$33.0 million from securities lending, reduced by investing activity

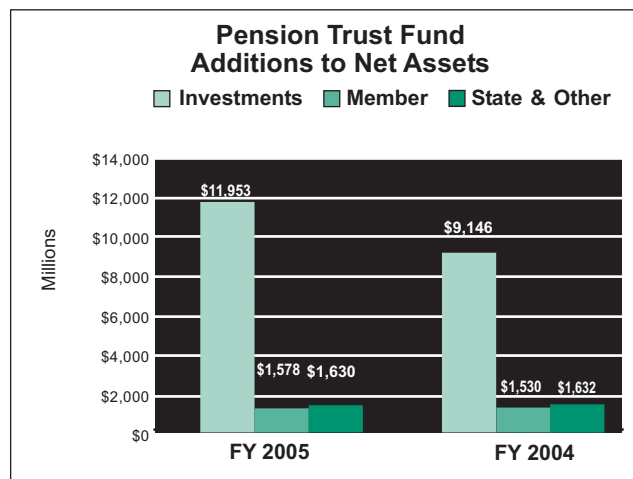
expenses of \$17.4 million. Net investment income for fiscal year 2004 was \$9.1 billion.

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, 2005:

- One-Year 14.41%
- Three-Years 12.53%
- Five-Years 3.26%
- Ten-Years 9.28%



Member, state and reporting entity contributions for fiscal year 2005 were \$1.6 billion, \$1.3 billion and \$0.2 billion, respectively. In total, member, state and employer contributions grew \$92.7 million, or 3.1%, during fiscal year 2005. The increase is due to a 2.6% increase in active membership and overall payroll growth. The contribution rates for fiscal year 2005 remained the same as fiscal year 2004 with the



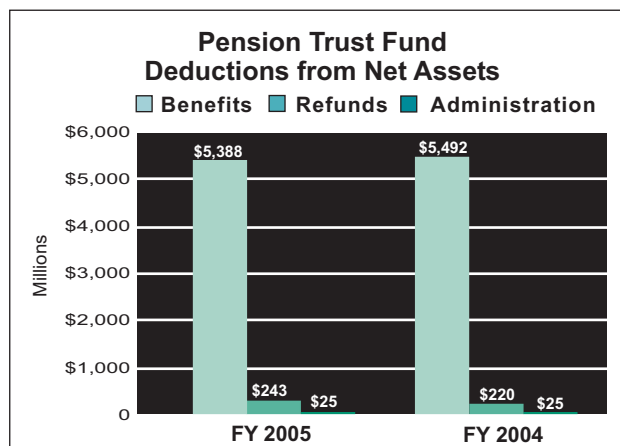


MANAGEMENT'S DISCUSSION AND ANALYSIS

members contributing 6.4% and the state contributing 6.0% of payroll.

Deductions from TRS net assets held in trust for benefits are predominantly retirement, death, and survivor benefits. During fiscal year 2005 benefit payments totaled \$5.39 billion, a decrease of \$99.7 million, or 1.8%, from fiscal year 2004 benefit payments of \$5.49 billion. Due to a record number of retirements in fiscal year 2004, with many of the retirees electing the partial lump sum option, benefit payments increased 15.4% last year. Even though the partial lump sum option payments for fiscal year 2005 decreased to \$288.1 million from \$696.2 million in fiscal year 2004, benefit payments have remained higher overall due to the sharp increase in retiree membership last year. Deferred retirement option payments also decreased in fiscal year 2005 to \$55.2 million from \$139.0 million in fiscal year 2004.

Other deductions for fiscal year 2005 include \$243.4 million in refunds, an increase of \$23.0 million over fiscal year 2004, and administrative expenses of \$25.1 million, a \$0.3 million increase over fiscal year 2004. Administrative expenses, excluding investment costs, on a cost per member basis were \$22.52 for fiscal year 2005 as compared to \$22.89 per member in fiscal year 2004.



Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Percentage Change
Assets:				
Cash and Receivables	\$ 3,051,671	\$ 2,297,396	\$ 754,275	32.8%
Investments	93,328,694	84,411,133	8,917,561	10.6%
Securities Lending Collateral	10,413,778	10,829,078	(415,300)	-3.8%
Capital Assets	31,162	31,380	(218)	-0.7%
TOTAL ASSETS	\$ 106,825,305	\$ 97,568,987	\$ 9,256,318	9.5%
Liabilities:				
Benefits Payable	\$ 443,063	\$ 515,080	\$ (72,017)	-14.0%
Investments Purchased Payable	2,172,136	1,983,555	188,581	9.5%
Accounts Payable and Other	88,512	38,292	50,220	131.2%
Securities Lending Collateral	10,413,778	10,829,078	(415,300)	-3.8%
TOTAL LIABILITIES	\$ 13,117,489	\$ 13,366,005	\$ (248,516)	-1.9%
Total Net Assets	\$ 93,707,816	\$ 84,202,982	\$ 9,504,834	11.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

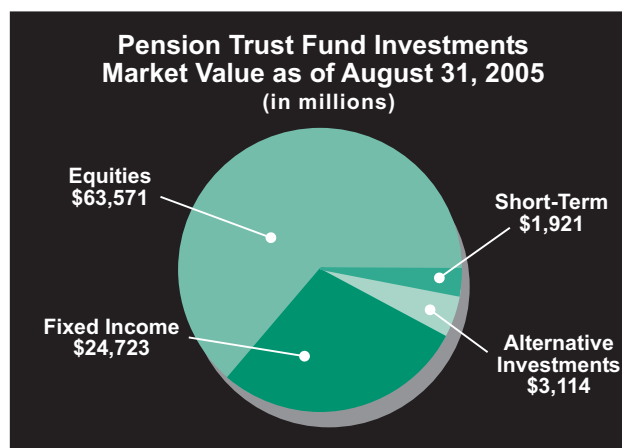
	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Percentage Change
Additions:				
Member Contributions	\$ 1,578,339	\$ 1,530,277	\$ 48,062	3.1%
State and Other	1,629,772	1,631,531	(1,759)	-0.1%
Investment Income	11,952,826	9,145,859	2,806,967	30.7%
TOTAL ADDITIONS	\$ 15,160,937	\$ 12,307,667	\$ 2,853,270	23.2%
Deductions:				
Retirement Benefits	\$ 5,387,606	\$ 5,492,450	\$ (104,844)	-1.9%
Refunds of Contributions	243,382	220,397	22,985	10.4%
Administrative Expenses	25,115	24,841	274	1.1%
TOTAL DEDUCTIONS	\$ 5,656,103	\$ 5,737,688	\$ (81,585)	-1.4%
Increase in Net Assets	\$ 9,504,834	\$ 6,569,979	\$ 2,934,855	44.7%

The following table presents the actual investment allocations as of fiscal year end 2005 and 2004 as compared to the normal allocations for 2005 and 2004.

	Fiscal Year 2005 Target	Fiscal Year 2005 Actual	Fiscal Year 2004 Target	Fiscal Year 2004 Actual
Equities	61.5%	68.1%	61.5%	66.1%
Fixed Income	29.5%	26.5%	29.5%	27.3%
Alternative Investments	8.5%	3.3%	8.5%	3.0%
Short-Term	0.5%	2.1%	0.5%	3.6%

The TRS Board of Trustees sets investment allocation targets with latitude for moderate deviation by TRS investment staff. The Board of Trustees last concluded an Asset/Liability Modeling Study in fiscal year 2003 and has not made changes to the target allocations since that time.

The change in actual weightings from fiscal year 2004 to fiscal year 2005 is a result of a generally positive view on equity markets, especially international equity, and a less favorable outlook for fixed income.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Health Benefits Trust Fund - Retired Plan

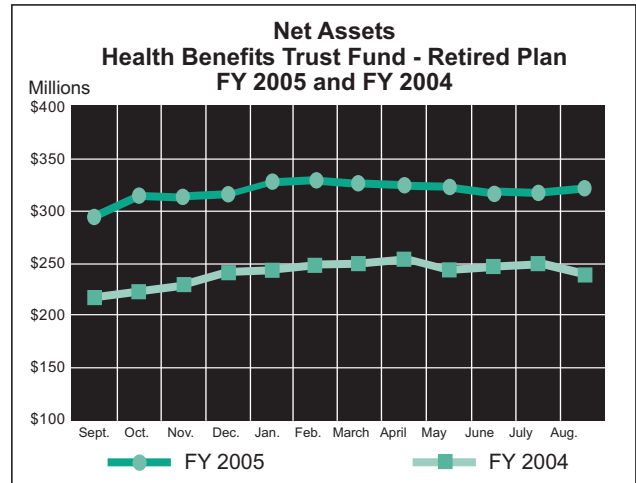
Net assets of the Retired Plan (TRS-Care) increased \$88.9 million, from \$238.3 million at the end of fiscal year 2004 to \$327.2 million at the end of fiscal year 2005.

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 2005 increased \$74.2 million, or 29.9%, over fiscal year 2004 due to the large increase in plan participation at the end of fiscal year 2004. S.B. 1369, passed by the 78th Legislature, doubled the state and active member contributions to 1.0% and .5% of active payroll, respectively, beginning in fiscal year 2004. 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 0.4% for fiscal years 2004 and 2005. State and member contributions increased in fiscal year 2005 by \$5.7 million, and the fund received \$80.9 million in contributions from reporting entities. Supplemental state appropriations of \$64.2 million decreased \$192.0 million from the fiscal year 2004 supplement of \$256.2 million. Also included in additions for fiscal year 2004 is a reimbursement of \$42 million from the TRS-ActiveCare Enterprise Fund. Investment earnings of \$11.3 million increased \$6.5 million from fiscal year 2004 due to the increase in plan net assets available to invest during fiscal year 2005.

Deductions from net assets include claims payments, claims processing costs, and administrative expenses. Claims payments during fiscal year 2005 totaled \$660.6 million and increased \$79.2 million, or 13.6%, over claims payments of \$581.4 million in fiscal year 2004. This increase is due to rising costs of health care and pharmacy benefits and to growth in plan participation. Claims processing costs of \$31.3 million increased \$7.3 million, or 30.7%, during fiscal year 2005 due to increased claims volume. Administrative expenses for fiscal year 2005 were \$2.1 million, decreasing 14.3% from fiscal year 2004.

Health Benefits Trust Fund - Supplemental Compensation

As part of the Texas Active School Employees Uniform Benefits Act enacted by H.B. 3343, 77th Legislature, the Supplemental Compensation program was established to disburse payments to public school entities in the form of supplemental compensation

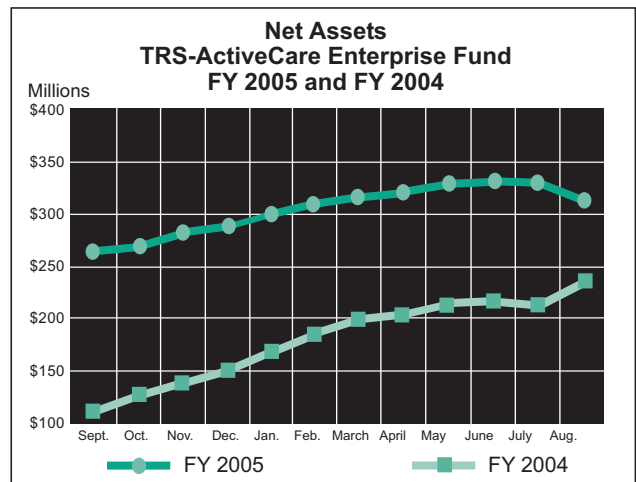


for eligible employees. Legislative appropriations were provided in the amount of \$270.7 million for fiscal year 2005 as compared to \$281.2 million in fiscal year 2004. The administration of this program was transferred to the Texas Education Agency at the end of fiscal year 2005

TRS-ActiveCare Enterprise Fund

The TRS-ActiveCare program was created by H.B. 3343, 77th Legislature, and began operations in fiscal year 2003. Net assets of the plan were \$312.0 million at the end of fiscal year 2005, an increase of \$71.6 million, or 29.8%, over fiscal year 2004.

Revenues for fiscal year 2005 included \$823.7 million from health care premiums, an increase of \$65.7 million, or 8.7%, from fiscal year 2004. The increase is due to a 10.8% increase in plan participants as well as premium increases. Other revenues include





MANAGEMENT'S DISCUSSION AND ANALYSIS

investment income of \$8.9 million and administrative fees of approximately \$183,000.

Health care claims for fiscal year 2005 were \$663.4 million, a \$142.4 million, or 27.3%, increase over \$521.0 million in fiscal year 2004. The increase is due to the rising costs of health care and pharmacy benefits and to the 10.8% growth in participation. Other expenses included claims processing costs of \$53.7 million, \$42.6 million for HMO premium reimbursements, and \$1.6 million for administrative expenses.

403(b) Special Revenue Fund

The 403(b) Certification Program was created by S.B. 273, 77th Legislature, and began operations in fiscal year 2002. The program ended fiscal year 2005 with

a fund balance of \$207,763 as compared to \$216,234 in fiscal year 2004. The fund's revenues include \$10,000 in certification fees and \$5,529 in interest income. Deductions from the fund were administrative expenditures of \$24,000.

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.

Statement of Fiduciary Net Assets

AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)



	FIDUCIARY FUND TYPES		
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	Health Benefits Trust Fund Supplemental Compensation
ASSETS			
Cash:			
Cash in State Treasury	\$ 736,443,670	\$ 423,854,544	\$
Cash in Bank	21,729,845		
Cash on Hand (Note III.B.)	14,005,691	16,790	
TOTAL CASH	\$ 772,179,206	\$ 423,871,334	\$ -0-
Legislative Appropriations	\$	\$	\$ 3,674,845
Receivables:			
Sale of Investments	\$ 1,879,939,816	\$	\$
Interest and Dividends	326,168,231	1,265,913	
Member and Retiree	57,867,714	29,052,122	
Reporting Entities	14,601,846	3,689,635	
Other	370,465	1,000,000	
Due from State's General Revenue Fund			
Due from Employees Retirement System of Texas	543,478		
TOTAL RECEIVABLES	\$ 2,279,491,550	\$ 35,007,670	\$ -0-
Investments (Note I.F.):			
Short-Term	\$ 1,920,797,091	\$	\$
Equities	63,571,059,647		
Fixed Income	24,723,145,049		
Alternative Investments	3,113,691,922		
TOTAL INVESTMENTS	\$ 93,328,693,709	\$ -0-	\$ -0-
Invested Securities Lending Collateral	\$ 10,413,778,492	\$	\$
Capital Assets (Note II.):			
Land	\$ 1,658,310	\$	\$
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	29,503,253		
TOTAL CAPITAL ASSETS	\$ 31,161,563	\$ -0-	\$ -0-
TOTAL ASSETS	\$ 106,825,304,520	\$ 458,879,004	\$ 3,674,845

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2005	2004	
\$ 575	\$ 1,160,298,789	\$ 1,123,107,893	
	21,729,845	11,734,631	
	14,022,481	7,103,198	
\$ 575	\$ 1,196,051,115	\$ 1,141,945,722	
\$	\$ 3,674,845	\$ 7,836,182	
\$	\$ 1,879,939,816	\$ 1,121,927,507	
	327,434,144	267,800,741	
	86,919,836	99,520,129	
11,526,020	29,817,501	29,126,407	
	1,370,465	2,058,589	
		5,917,334	
	543,478	524,267	
\$ 11,526,020	\$ 2,326,025,240	\$ 1,526,874,974	
\$	\$ 1,920,797,091	\$ 3,027,270,138	
	63,571,059,647	55,835,694,440	
	24,723,145,049	23,069,878,184	
	3,113,691,922	2,478,290,579	
\$ -0-	\$ 93,328,693,709	\$ 84,411,133,341	
\$	\$ 10,413,778,492	\$ 10,829,078,240	
\$	\$ 1,658,310	\$ 1,658,310	
	29,503,253	29,721,218	
\$ -0-	\$ 31,161,563	\$ 31,379,528	
\$ 11,526,595	\$ 107,299,384,964	\$ 97,948,247,987	

(to next page)

Statement of Fiduciary Net Assets

AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)
(concluded)

Exhibit



	FIDUCIARY FUND TYPES		
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	Health Benefits Trust Fund Supplemental Compensation
LIABILITIES (Note I.F.)			
Accounts Payable	\$ 4,622,324	\$ 15,704,233	\$ 3,674,845
Accounts Payable-General Revenue Fund	38,913,267	1,034,737	
Benefits Payable	443,062,864		
Health Care Claims Payable		114,939,302	
Reinstatement Installment Receipts	38,537,192		
Investments Purchased Payable	2,172,135,908		
Securities Lending Collateral Due to Employees Retirement System of Texas	10,413,778,492		
	4,064,655		
Compensable Absences Payable	2,373,725	43,863	
Funds Held for Others			
TOTAL LIABILITIES	\$ 13,117,488,427	\$ 131,722,135	\$ 3,674,845
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES			
	\$ 93,707,816,093	\$ 327,156,869	\$ -0-

(A schedule of funding progress is presented on page 50.)

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

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2005	2004	
\$	\$ 24,001,402	\$ 24,336,795	
11,526,020	51,474,024	10,420,066	
	443,062,864	511,716,180	
	114,939,302	110,000,000	
	38,537,192	32,130,935	
	2,172,135,908	1,983,555,284	
	10,413,778,492	10,829,078,240	
	4,064,655	3,364,305	
	2,417,588	2,378,541	
575	575	775	
\$ 11,526,595	\$ 13,264,412,002	\$ 13,506,981,121	
\$ -0-	\$ 94,034,972,962	\$ 84,441,266,866	

Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Exhibit



	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	Health Benefits Trust Fund Supplemental Compensation
ADDITIONS:			
Contributions:			
Member	\$ 1,578,339,475	\$ 101,198,783	\$
State	1,257,671,695	266,569,733	
Reporting Entities	221,158,942	80,914,228	
Health Care Premiums		322,780,191	
TOTAL CONTRIBUTIONS	\$ 3,057,170,112	\$ 771,462,935	\$ -0-
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	\$ 9,607,205,397	\$	\$
Interest	1,056,392,052	11,258,874	
Dividends	1,273,580,628		
TOTAL INVESTING ACTIVITIES INCOME	\$ 11,937,178,077	\$ 11,258,874	\$ -0-
Less Investing Activity Expenses	(17,394,917)		
NET INCOME FROM INVESTING ACTIVITIES	\$ 11,919,783,160	\$ 11,258,874	\$ -0-
From Securities Lending Activities:			
Securities Lending Income	\$ 317,892,484	\$	\$
Securities Lending Expenses:			
Borrower Rebates	(279,035,440)		
Management Fees	(5,815,617)		
Net Income from Securities Lending Activities	\$ 33,041,427	\$ -0-	\$ -0-
TOTAL NET INVESTMENT INCOME	\$ 11,952,824,587	\$ 11,258,874	\$ -0-
Other Additions:			
Reinstatement of Contribution Refunds	\$ 96,692,115	\$	\$
Reinstatement Fees	53,302,228		
Transfer from TRS-ActiveCare Enterprise Fund (Note IX.)			
Legislative Appropriations for Supplemental Compensation			268,632,358
Legislative Appropriations for Excess Benefits (Note I.E.)	926,187		
Miscellaneous Revenues	21,315		
On Behalf Fringe Benefits Paid by the State (Note V.)		41,994	
TOTAL OTHER ADDITIONS	\$ 150,941,845	\$ 41,994	\$ 268,632,358
TOTAL ADDITIONS	\$ 15,160,936,544	\$ 782,763,803	\$ 268,632,358

TOTALS	
2005	2004
\$ 1,679,538,258	\$ 1,629,573,847
1,524,241,428	1,696,580,824
302,073,170	271,853,059
322,780,191	248,552,679
<u>\$ 3,828,633,047</u>	<u>\$ 3,846,560,409</u>
\$ 9,607,205,397	\$ 7,024,439,015
1,067,650,926	1,108,585,917
1,273,580,628	1,005,620,107
\$ 11,948,436,951	\$ 9,138,645,039
(17,394,917)	(16,252,645)
<u>\$ 11,931,042,034</u>	<u>\$ 9,122,392,394</u>
\$ 317,892,484	\$ 139,932,948
(279,035,440)	(106,672,932)
(5,815,617)	(4,989,370)
\$ 33,041,427	\$ 28,270,646
\$ 11,964,083,461	\$ 9,150,663,040
\$ 96,692,115	\$ 124,360,457
53,302,228	66,867,238
	42,000,000
268,632,358	281,149,405
926,187	516,529
21,315	1,909
41,994	45,626
<u>\$ 419,616,197</u>	<u>\$ 514,941,164</u>
<u>\$ 16,212,332,705</u>	<u>\$ 13,512,164,613</u>

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Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)
(concluded)

Exhibit



PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS			
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	Health Benefits Trust Fund Supplemental Compensation
DEDUCTIONS:			
Benefits	\$ 5,386,679,241	\$	\$
Refunds of Contributions	243,382,014		
Health Care Claims		660,559,083	
Health Care Claims Processing		31,262,147	
Administrative Expenses (Net of Investing Activity Expenses)	25,114,716	2,070,863	(15,233)
Supplemental Health Care Compensation			268,647,591
Excess Benefits	926,187		
TOTAL DEDUCTIONS	\$ 5,656,102,158	\$ 693,892,093	\$ 268,632,358
Net Increase	\$ 9,504,834,386	\$ 88,871,710	\$ -0-
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES - BEGINNING OF YEAR			
	\$ 84,202,981,707	\$ 238,285,159	\$ -0-
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES - END OF YEAR			
	\$ 93,707,816,093	\$ 327,156,869	\$ -0-

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

TOTALS	
2005	2004
\$ 5,386,679,241	\$ 5,486,333,169
243,382,014	220,396,709
660,559,083	581,354,957
31,262,147	23,914,851
27,170,346	27,715,652
268,647,591	280,700,855
926,187	516,529
<u>\$ 6,618,626,609</u>	<u>\$ 6,620,932,722</u>
<u>\$ 9,593,706,096</u>	<u>\$ 6,891,231,891</u>
\$ 84,441,266,866	\$ 77,550,034,975
<u><u>\$ 94,034,972,962</u></u>	<u><u>\$ 84,441,266,866</u></u>

Statement of Net Assets

PROPRIETARY FUND

AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Exhibit



	TRS-Active Care Enterprise Fund	
	2005	2004
ASSETS		
Current Assets:		
Cash:		
Cash in State Treasury	\$ 358,436,099	\$ 274,814,166
Cash on Hand (Note III.B.)	65,445	
TOTAL CASH	\$ 358,501,544	\$ 274,814,166
Accounts Receivable:		
Investment Interest	\$ 1,047,813	\$ 345,182
Health Care Premiums	33,807,076	36,760,143
TOTAL ACCOUNTS RECEIVABLE	\$ 34,854,889	\$ 37,105,325
TOTAL ASSETS	\$ 393,356,433	\$ 311,919,491
LIABILITIES (Note I.F.)		
Current Liabilities:		
Accounts Payable	\$ 350,466	\$ 309,857
Premiums Payable to HMOs	3,467,754	3,247,534
Health Care Claims Payable	77,473,516	67,948,003
Compensable Absences Payable	72,862	42,793
TOTAL LIABILITIES	\$ 81,364,598	\$ 71,548,187
NET ASSETS		
Unrestricted	\$ 311,991,835	\$ 240,371,304
TOTAL NET ASSETS	\$ 311,991,835	\$ 240,371,304

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

Statement of Revenues, Expenses and Changes in Fund Net Assets

PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)



	TRS-ActiveCare Enterprise Fund	
	2005	2004
OPERATING REVENUES:		
Health Care Premiums	\$ 823,726,341	\$ 758,062,552
Administrative Fees	183,317	192,763
TOTAL OPERATING REVENUES	\$ 823,909,658	\$ 758,255,315
OPERATING EXPENSES:		
Health Care Claims	\$ 663,361,138	\$ 520,998,423
Health Care Claims Processing	53,697,572	53,564,510
Premium Payments to HMOs	42,574,641	40,210,539
Administrative Expenses	1,607,113	918,619
TOTAL OPERATING EXPENSES	\$ 761,240,464	\$ 615,692,091
OPERATING INCOME	\$ 62,669,194	\$ 142,563,224
NONOPERATING REVENUES:		
Investment Income	\$ 8,915,711	\$ 3,641,100
On Behalf Fringe Benefits Paid by the State (Note V.)	35,626	24,050
TOTAL NONOPERATING REVENUES	\$ 8,951,337	\$ 3,665,150
Income Before Transfers	\$ 71,620,531	\$ 146,228,374
TRANSFERS:		
Legislative Appropriations Transfer to Retired Plan (Note IX.)	\$	\$ (42,000,000)
Change in Net Assets	\$ 71,620,531	\$ 104,228,374
TOTAL NET ASSETS - BEGINNING	\$ 240,371,304	\$ 136,421,779
Restatement (Note I.D.)		(278,849)
Beginning of Year, as Restated	\$ 240,371,304	\$ 136,142,930
TOTAL NET ASSETS - ENDING	\$ 311,991,835	\$ 240,371,304

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

Statement of Cash Flows

PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)



	TRS-ActiveCare Enterprise Fund	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Health Care Premiums	\$ 826,726,400	\$ 741,359,850
Receipts from Long-term Care Administrative Fees	183,317	192,763
Payments for Administrative Expenses	(1,469,054)	(1,293,903)
Payments for Health Care Claims	(653,869,283)	(544,333,788)
Payments for Health Care Processing	(53,742,660)	(53,314,362)
Payments for HMO Premiums	(42,354,422)	(36,963,005)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 75,474,298	\$ 105,647,555
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Legislative Appropriations Transfer to Retired Plan (Note IX.)	\$	\$ (42,000,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	\$	\$ (42,000,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	\$ 8,213,080	\$ 3,295,897
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 8,213,080	\$ 3,295,897
Net Increase in Cash	\$ 83,687,378	\$ 66,943,452
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 274,814,166	\$ 208,149,542
Restatement to Beginning Cash and Cash Equivalents (Note I.D.)	\$	\$ (278,828)
Cash and Cash Equivalents - September 1 Restated	\$ 274,814,166	\$ 207,870,714
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 358,501,544	\$ 274,814,166
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 62,669,194	\$ 142,563,224
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Decrease (Increase) in Health Care Premiums Receivable	\$ 2,953,067	\$ (16,906,719)
Increase in Premiums Payable to HMOs	220,220	3,247,534
Increase (Decrease) in Health Care Claims Payable	9,525,513	(22,900,898)
Increase (Decrease) in Accounts Payable	40,609	(375,045)
Increase (Decrease) in Compensable Absences Payable	30,069	(4,591)
On Behalf Fringe Benefits Paid by the State (Note V.)	35,626	24,050
Total Adjustments	\$ 12,805,104	\$ (36,915,669)
Net Cash Provided by Operating Activities	\$ 75,474,298	\$ 105,647,555

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

Balance Sheet

GOVERNMENTAL FUND

AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)



	403(b) Certification Program Special Revenue Fund	
	2005	2004
ASSETS		
Current Assets:		
Cash in State Treasury	\$ 209,167	\$ 217,967
Accounts Receivable	596	267
TOTAL ASSETS	\$ 209,763	\$ 218,234
LIABILITIES AND FUND BALANCE:		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 2,000	\$ 2,000
Fund Balance Reserved for:		
Administrative Expenditures	\$ 207,763	\$ 216,234
TOTAL LIABILITIES AND FUND BALANCE	\$ 209,763	\$ 218,234

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

Statement of Revenues, Expenditures and Changes in Fund Balance

GOVERNMENTAL FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)



	403(b) Certification Program Special Revenue Fund	
	2005	2004
REVENUES:		
Certification Fees	\$ 10,000	\$ 15,000
Investment Income	5,529	3,495
TOTAL REVENUES	\$ 15,529	\$ 18,495
EXPENDITURES:		
Administrative Expenditures	\$ 24,000	\$ 24,000
TOTAL EXPENDITURES	\$ 24,000	\$ 24,000
Deficiency of Revenues under Expenditures	\$ (8,471)	\$ (5,505)
FUND BALANCE - BEGINNING	\$ 216,234	\$ 221,739
FUND BALANCE - ENDING	\$ 207,763	\$ 216,234

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



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, 77th 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.

The system also administers a 403(b) Certification Program mandated by S.B. 273, 77th 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 Benefits Trust Fund-Retired Plan, the Health Benefits 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 if appropriate.

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.



NOTES TO THE FINANCIAL STATEMENTS

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 guidance.

C. NEW ACCOUNTING PRONOUNCEMENT

The accompanying financial statements of TRS have been prepared to conform to Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). In March 2003 the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures (GASB 40)*. TRS adopted the new pronouncement beginning with the year ended August 31, 2005. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. GASB 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates as well as the investment policies related to these risks. The adoption of GASB 40 required TRS to make changes to the presentation of its notes to the financial statements. The adoption of GASB 40 had no impact on the net assets or fund balances of any fund.

D. RESTATEMENTS 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.

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.

E. 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 2005 and 2004 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 Benefits Trust Fund - Retired Plan (TRS-Care) receives appropriations from the state's general revenue fund equal to 1.0% 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 are disbursed from the Health Benefits Trust Fund - Supplemental Compensation. Administrative expenses related to the Health Reimbursement Arrangement program were also paid from these appropriations in fiscal year 2004; 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.

F. 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 \$4.882 billion (5.2% of total investments) as of August 31, 2005, 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



NOTES TO THE FINANCIAL STATEMENTS

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.

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 Benefits 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, 2005.

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. The difference between the balance at August 31, 2004 and 2005 has been included in the funds' expenses/expenditures for the year ended August 31, 2005.

Legal Reserve Accounts

The pension trust fund has five legally required reserves. The Member Savings Account reserve represents the accumulation of active member deposits plus interest. The State Contribution Account consists of reserves available to fund future active member retirement, death, and survivor benefits. The Retired Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases. The

Deferred Retirement Option Account consists of the accumulation of participating member deposits plus interest less benefits paid out. 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.

G. 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. 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:

Asset Class	Capitalization Threshold	Useful Life
Buildings	\$ 100,000	50 years
Building Improvements and Benefits Project	\$ 100,000	15 years
Furniture, Equipment and Other Assets	\$ 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/ Adjustments	Deletions	Ending Balance Cost	Less Accumulated Depreciation	Ending Book Value (Exhibit I)
Non-Depreciable Assets:						
Land and Improvements	\$ 1,658,310	\$	\$	\$ 1,658,310	\$	\$ 1,658,310
Other Assets	124,136			124,136		124,136
Total Non-Depreciable Assets	\$ 1,782,446	\$	\$	\$ 1,782,446	\$	\$ 1,782,446
Depreciable Assets:						
Buildings and Improvements	\$ 27,377,806	\$ 1,556,382	\$	\$ 28,934,188	\$(10,022,092)	\$ 18,912,096
Furniture and Equipment	19,150,668	696,799	(1,330,073)	18,517,394	(8,118,328)	10,399,066
Vehicles, Boats and Aircraft	45,721			45,721	(45,721)	
Other Assets	197,509	13,647	(15,278)	195,878	(127,923)	67,955
Total Depreciable Assets	\$ 46,771,704	\$ 2,266,828	\$ (1,345,351)	\$ 47,693,181	\$(18,314,064)	\$ 29,379,117
Total Capital Assets	\$ 48,554,150	\$ 2,266,828	\$ (1,345,351)	\$ 49,475,627	\$(18,314,064)	\$ 31,161,563

III. 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, 2005, the system had \$14,087,926 in cash on hand. Of this total, \$13,990,583 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.



NOTES TO THE FINANCIAL STATEMENTS

E. DEPOSITS AND INVESTMENTS RISK FACTORS

Deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment to GASB Statement No. 3*, addresses common deposit and investment risks including custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The required disclosures related to these risks are presented below:

Custodial Credit Risk - Deposits

The custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be recovered. The system does not have a formal deposit policy for custodial credit risk. The State Treasury has specific guidelines for cash and deposits that are maintained in the State Treasury.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. As of August 31, 2005 the balance of uncollateralized cash in the non-US bank for investments pending settlement was \$21.7 million.

Investments

The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

All investments 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 fair values of investments at August 31, 2005 are as follows:

Pension Trust Fund

<u>Investment Type</u>	<u>Fair Value</u>
Short-Term Investments:	
Commercial Paper	\$ 431,205,457
U.S. Government Obligations	13,558,985
Corporate Obligations	39,751,343
Mutual Fund Short-Term	1,436,281,306
Domestic Equities	46,019,420,844
International Equities	12,071,459,376
U.S. Government Obligations	581,569,156
U.S. Government Agency Obligations	7,344,747,150
Asset and Mortgage Backed Obligations	2,896,146,463
Corporate Obligations	3,226,099,091
International Obligations	1,929,551,123
Investments Held by Broker-Dealers Under Securities Loans:	
Domestic Equities	3,402,683,583
International Equities	1,828,173,809
U.S. Government Obligations	4,303,109,374
U.S. Government Agency Obligations	358,967,540
Corporate Obligations	352,431,501
Securities Purchased Pending Settlement:	
U.S. Government Obligations	540,693,476
U.S. Government Agency Obligations	1,076,789,327
Asset and Mortgage Backed Obligations	299,459,411
Domestic Equities	175,288,146
International Equities	74,033,889
Alternative Investments:	
Domestic	2,809,134,096
International	304,557,826
High Yield Limited Partnerships	1,768,479,122
Private Placements	45,102,315
Total Investments (Exhibit I)	\$ 93,328,693,709



NOTES TO THE FINANCIAL STATEMENTS

<u>Investment Type</u>	<u>Fair Value</u>
Invested Securities Lending Collateral:	
Asset Backed Securities	\$ 2,133,604,333
Bank Notes	2,119,110,979
Commercial Paper	454,039,031
Time Deposits	1,464,930,477
Certificates of Deposits	1,805,667,656
Repurchase Agreements	514,887,000
U.S. Government Agency Obligations	139,986,686
Corporate Obligations	1,781,552,330
Total Securities Lending Collateral (Exhibit I)	
	\$ 10,413,778,492

Credit Risk of Debt Securities

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The system's investment policy states that fixed income investments at the time of purchase must have an investment grade rating by at least one nationally recognized statistical rating organization (NRSRO) except for the debt obligations of sovereign entities, supranationals and subnationals, which must be generically rated at least speculative grade by a NRSRO. Unrated fixed income investments may be purchased as long as these investments have investment grade characteristics which would reasonably be rated in the A (investment grade) category or higher if rated, and the lack of rating is not due to the issuer's inability to obtain

a rating. No rating is required for fixed income investments issued, insured, guaranteed by, supported by, or based on the credit of the United States or any U.S. agency, department, or government sponsored enterprise (GSE). For any investment in a mutual fund, closed-end fund, financial trust, or commingled fund, the weighted average quality of the securities in the fund must be investment grade although individual securities held by a fund may be rated below investment grade. At any time when a security no longer meets the minimum quality standards, the Investment staff must document and report to the Chief Investment Officer a decision to hold or sell such securities.

The system's rated debt investments as of August 31, 2005, using the Standard and Poor's (S&P) rating scale are presented below:

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Fair Value</u>
Short-Term	AAA	\$ 13,558,985
Short-Term	A	431,205,457
Short-Term	BB	39,751,343
Total Short-Term		\$ 484,515,785
U.S. Government Agency Obligations	AAA	\$ 8,363,105,104
Asset and Mortgage Backed Obligations	AAA	\$ 2,880,607,590
Asset and Mortgage Backed Obligations	AA	40,758,776
Asset and Mortgage Backed Obligations	A	19,678,511
Asset and Mortgage Backed Obligations	BB	14,565
Asset and Mortgage Backed Obligations	NR	254,560,997
Total Asset and Mortgage Backed Obligations		\$ 3,195,620,439
Corporate Obligations	AAA	\$ 185,160,670
Corporate Obligations	AA	308,231,668
Corporate Obligations	A	1,591,633,000
Corporate Obligations	BBB	1,160,653,925
Corporate Obligations	BB	341,862,189
Corporate Obligations	B	1,158,750
Corporate Obligations	NR	5,841,890
Total Corporate Obligations		\$ 3,594,542,092



NOTES TO THE FINANCIAL STATEMENTS

Investment Type	S&P Rating	Fair Value
International Obligations	AAA	\$ 400,641,861
International Obligations	AA	130,737,502
International Obligations	A	547,498,422
International Obligations	BBB	460,012,175
International Obligations	BB	394,442,813
International Obligations	NR	25,294,600
Total International Obligations		\$ 1,958,627,373
Total Credit Risk Debt Securities (excluding Short-Term)		\$ 17,111,895,008
U.S. Government Obligations and U.S. Government Agency Obligations *		5,842,770,919
High Yield Limited Partnerships **		1,768,479,122
Total Fixed Income		\$ 24,723,145,049

* Includes U.S. Government Obligations of \$5,425,372,006 and U.S. Government Agency Obligations explicitly guaranteed by the U.S. Government of \$417,398,913, all of which are rated AAA.

** Ratings of High Yield Limited Partnerships, which are pooled investments and not debt securities, are unavailable.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The system's investment policy establishes limits for the various investments held by the fund.

As of August 31, 2005, \$5,142,652,245 of the plan's net assets were invested in securities issued by the Federal National Mortgage Association, which is a concentration exceeding 5 percent of the plan's net assets in a single issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of

cash flows, weighted for those cash flows as a percentage of the investment's full price.

The system's investment objectives for the Fixed Income Investment Grade Portfolio are to provide a long-term rate of return in excess of that of the Lehman U.S. Aggregate Bond Index, provide diversification to the total fund, achieve diversification within the fixed income market, and provide a deflation hedge for the total fund. In order to achieve these objectives, the Investment Grade Portfolio will generally be structured to have an effective duration range of +/- 25% of the benchmark index for domestic debt securities and between 0-10% of the benchmark index for international debt securities.

The following table shows the investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2005.

Investment Type	Fair Value	Effective Weighted* Duration Rate
U.S. Government Obligations	\$ 5,425,372,006	6.52
U.S. Government Agency Obligations	8,780,504,017	2.89
Asset and Mortgage Backed Obligations	3,195,620,439	2.48
Corporate Obligations	3,594,542,092	5.57
International Obligations	1,958,627,373	6.26
Total Interest Rate Risk Debt Securities	\$ 22,954,665,927	4.41
High Yield Limited Partnerships**	1,768,479,122	
Total Fixed Income	\$ 24,723,145,049	

* The effective duration calculation assumes call dates that are likely to be used instead of actual maturity dates. Mortgage related instrument durations are calculated using generic mortgage pool models from Yield Book.

** The effective duration calculation excludes the High Yield Limited Partnerships, which are pooled investments and not debt securities.



NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The system's benchmark for the Active and Passive International Equity Portfolios is the Morgan Stanley Capital International All Country World Index ex-US (MSCI ACWI ex-US). The Active International Portfolio is actively managed through country and stock selection. The portfolio is generally unhedged in currency. The portfolio will generally consist of investments in securities of companies located in countries in the benchmark. The country weighting will range from 70% to 130% for a

country that has a benchmark weighting of 5% or more. Countries with a benchmark weighting less than 5% may be weighted from 0% to 6% of the portfolio. The Passive International Equity Portfolio is randomly sampled to create a portfolio that has characteristics very similar to those of the benchmark.

The system's investment policy also states that "not more than 10% of the market value of the Fixed Income Portfolio or 4% of the Total Fund, whichever is greater, may be invested in non-U.S. dollar fixed income securities.

The system's exposure to foreign currency risk at August 31, 2005 is presented on the following tables:

Investments:

Currency	Debt	Equity	Alternative Investments	Total Fair Value
Argentine Peso	\$	\$ 2,290,915	\$	\$ 2,290,915
Australian Dollar		574,575,910		574,575,910
Brazilian Real		136,010,178		136,010,178
British Pound		2,681,104,121		2,681,104,121
Canadian Dollar		872,343,406		872,343,406
Chilean Peso		20,719,854		20,719,854
Czech Koruna		16,410,409		16,410,409
Danish Krone		86,901,185		86,901,185
Euro	7,081,272	3,437,878,870	240,549,033	3,685,509,175
Hong Kong Dollar		338,675,903		338,675,903
Hungarian Forint		25,435,710		25,435,710
Indian Rupee		67,383,963		67,383,963
Indonesian Rupiah		22,875,940		22,875,940
Israeli New Shekel		20,616,932		20,616,932
Japanese Yen		2,550,800,087		2,550,800,087
Malaysian Ringgit		75,303,323		75,303,323
Mexican Peso		45,722,824		45,722,824
New Zealand Dollar	91,722,202	18,041,163		109,763,365
Norwegian Kroner		120,123,256		120,123,256
Philippine Peso		1,216,144		1,216,144
Polish Zloty		27,272,266		27,272,266
Singapore Dollar		115,647,905		115,647,905
South African Rand		165,831,317		165,831,317
South Korean Won		296,479,181		296,479,181
Swedish Krona		200,270,685		200,270,685
Swiss Franc		545,568,275		545,568,275
Taiwan Dollar		278,513,180		278,513,180
Thai Baht		45,528,690		45,528,690
Turkish Lira		26,513,670		26,513,670
Total securities				
subject to foreign currency risk	\$ 98,803,474	\$ 12,816,055,262	\$ 240,549,033	\$13,155,407,769
International securities				
denominated in United States dollars	\$1,859,823,899	\$ 1,157,611,812	\$ 64,008,793	\$3,081,444,504
Total international investment securities	\$ 1,958,627,373	\$ 13,973,667,074	\$ 304,557,826	\$16,236,852,273



NOTES TO THE FINANCIAL STATEMENTS

Deposits and Currency Contracts:

Currency	Cash in Non-U.S. Bank	Forward Contracts Outstanding
Australian Dollar	\$ 1,608,739	\$ 1,015,608
Brazilian Real	16,459	4,014,561
British Pound	457,383	
Canadian Dollar	366,533	1,997,569
Danish Krone	87,434	2,862,818
Euro	643,835	20,037,913
Hong Kong Dollar	5,329	
Japanese Yen		11,131,355
Malaysian Ringgit	3,314	3,265
Mexican Peso	35,486	
New Zealand Dollar	145	
Norwegian Kroner		2,016,648
Singapore Dollar	506,660	
South African Rand	126,980	163,944
South Korean Won	63,602	
Swedish Krona		11,324,381
Swiss Franc		3,633,227
Taiwan Dollar	16,469,317	
Thai Baht	1,313,629	
Turkish Lira		322,231
Total deposits and forward contracts subject to foreign currency risk	\$ 21,704,845	\$ 58,523,520

Derivative Investing

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 \$25,246,283. The fair value of the options' liabilities as of August 31, 2005 was \$52,000 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, 2005, the system had forward contracts outstanding of \$58,523,520. 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*.



NOTES TO THE FINANCIAL STATEMENTS

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.

Cash collateral can be invested in government securities, time deposits, bank certificates of deposit, bankers' acceptances, repurchase agreements, bank and corporate notes, commercial paper and asset backed securities. The system's policies for securities lending provides investment guidelines for different asset classes to limit its exposure to different types of risks.

All investments in cash collateral pool are held by the counterparty, the securities lending agent, but not in the system's name, and are not insured.

The following table provides information about the interest rate risks and maturities associated with invested collateral by investment type.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
Asset Backed Securities	\$ 2,133,604,333	\$ 1,524,148,182	\$ 609,456,151
Bank Notes	2,119,110,979	383,025,081	1,736,085,898
Certificates of Deposit	1,805,667,656	1,325,699,079	479,968,577
Commercial Paper	454,039,031	454,039,031	
Corporate Obligations	1,781,552,330	781,609,674	999,942,656
Repurchase Agreements	514,887,000	514,887,000	
Time Deposits	1,464,930,477	1,464,930,477	
U.S. Government Agency Obligations	139,986,686	139,986,686	
Total	\$ 10,413,778,492	\$ 6,588,325,210	\$ 3,825,453,282

Also presented below are rated investments in the cash collateral pool as of August 31, 2005 using the Standard and Poor's (S&P) rating scale.

Investment Type	S&P Rating	Fair Value
Asset Backed Securities	AAA	\$ 1,585,951,125
	A-1	547,653,208
Bank Notes	AA	1,186,618,828
	A	932,492,151
Certificates of Deposit	AA	720,517,411
	A	51,989,602
	A-1	1,005,227,675
	A-2	27,932,968
Commercial Paper	A-1	454,039,031



NOTES TO THE FINANCIAL STATEMENTS

Investment Type	S&P Rating	Fair Value
Corporate Obligations	AAA	256,263,200
	AA	1,058,230,165
	A	117,058,965
	A-1	350,000,000
Repurchase Agreements	A-1	514,887,000
Time Deposits	A-1	1,464,930,477
U.S. Government Agency Obligations	AAA	139,986,686
Total Rated Investments		<u>\$ 10,413,778,492</u>

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 one day. As of August 31, 2005, the weighted average maturity of the invested cash collateral was 34 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, 2005, the fair value of the securities on loan was \$10,257,185,641. The fair value of associated collateral was \$10,433,898,997. Of this amount, \$10,420,940,892 represents the amount of cash collateral received, and the remaining \$12,958,105 represents the fair value of the non-cash collateral. During the fiscal year, the average monthly fair value of loans outstanding ranged from \$12,814,256,655 to \$10,776,725,318 with a yearly average outstanding balance of \$11,737,737,348. For fiscal year 2005, the system earned income of \$33,041,427 from securities lending.

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, 2005.

 **NOTES TO THE FINANCIAL STATEMENTS**

Category of Investment	Commitment	Remaining Commitment	Adjusted Funded Amount **	Fair Value at August 31, 2005
Private Equity Domestic (31 entities)	\$ 2,916,083,333	\$ 1,382,108,476	\$ 1,533,974,857	\$ 1,447,831,197
Private Equity International (7 entities) *	577,283,699	263,013,501	314,270,198	304,557,826
Absolute Return (24 entities) ***	1,135,386,386	-0-	1,135,386,386	1,223,256,828
Real Estate Domestic (1 entity) ****	512,071,270	-0-	512,071,270	138,046,071

Total Alternative Investments \$ 5,140,824,688 \$ 1,645,121,977 \$ 3,495,702,711 \$ 3,113,691,922

Total High Yield (6 entities) \$ 1,587,132,807 \$ -0- \$ 1,587,132,807 \$ 1,768,479,122

* Private Equity International in Euros € 416,250,000 € 205,839,278 € 210,410,722 € 195,592,102
(6 of the 7 entities are denominated in Euros)

** The net funded amount for alternative investments equals \$2,206,872,067, which is the adjusted funded amount of \$3,495,702,711 less distributions of \$1,307,648,088 plus expenses paid of \$18,817,444.

*** 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.

IV. EMPLOYEE COMPENSABLE LEAVE

Employee compensable leave balances at August 31, 2005, 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	60,072	\$ 2,013,427	1,145	\$ 27,371	6,405	\$ 332,927	67,622	\$ 2,373,725
Health Benefits Trust								
Fund - Retired Plan	1,669	38,638	6	129	137	5,096	1,812	43,863
Enterprise Fund - Active								
Plan	2,038	60,837	14	292	296	11,733	2,348	72,862
Total	63,779	\$ 2,112,902	1,165	\$ 27,792	6,838	\$ 349,756	71,782	\$ 2,490,450

V. 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 XI).

For the fiscal year ended August 31, 2005, the state provided retirement contributions totaling \$77,620 on behalf of employees paid from the Health Care Trust Fund-Retired Plan 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.

VI. 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.



NOTES TO THE FINANCIAL STATEMENTS

VII. 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 to 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 Texas Insurance Code, Article 3.51-7, the system is contingently liable to pay a lump sum death benefit not to exceed \$5,000 when added to the death benefit authorized under Texas Government 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.

VIII. CONTINUANCE SUBJECT TO REVIEW

As provided by Texas Government Code, Title 8, Section 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."

IX. POST-EMPLOYMENT HEALTH CARE BENEFITS

TRS Employees

Employees of the system who retire with 10 or more years of service and meet the Rule of 80 or are at least 65 continue to receive health care and life insurance benefits through the Employees Life, Accident and Health Insurance and Benefits Fund, in accordance with Texas Insurance Code, Article 3.50-2. This fund is maintained and administered through the Employees Retirement System of Texas.

For the year ended August 31, 2005, 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:

Level of Coverage	Premium
Retiree Only	\$ 315.56
Employee/Spouse	\$ 495.73
Employee/Children	\$ 436.19
Employee/Family	\$ 616.36

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 additional coverage. The board has adopted contributions based on rates set by the Legislature on a biennial basis. At August 31, 2005, there were 161 retirees and their beneficiaries receiving post-employment health care and life insurance benefits. For the year ended August 31, 2005, the system recognized expenditures of \$689,438 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 2005, deductibles were \$1,800 for those enrolled in Part A of Medicare, \$3,000 for those eligible but not enrolled in Part A of Medicare, and \$4,000 for those not eligible for Part A of Medicare. At fiscal year end there were 182,700 participants in the plan, of which 33,257 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 0.5% 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, set at 0.4% for fiscal year 2005. Funding for optional coverage is provided by those participants selecting the optional coverage. Expenses for the Health Benefits Trust Fund - Retired Plan are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported. The state and reporting entities contributed \$347,483,961 toward the total plan expenditures of \$693,892,093.

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



NOTES TO THE FINANCIAL STATEMENTS

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, \$256.2 million in fiscal year 2004, and \$64.2 million in fiscal year 2005 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.

X. 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.

XI. 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 2005 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, 2005, the number of reporting entities was as follows:

Public Schools, Service Centers	
Charter Schools and other	
Education Districts	1,258
Community and Junior Colleges	51
Senior Colleges and Universities	43
Medical and Dental Schools	8
Other Entities	3
Total	1,363

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, 2005, TRS gross membership before actuarial adjustments consisted of the following:

Retirees and beneficiaries currently receiving benefits	248,509
Terminated employees entitled to benefits but not yet receiving them	45,073
Total	293,582
Current Active Members:	
Fully-Vested	478,358
Non-Vested	353,313
Total	831,671

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 2005, 2004, and 2003. The member contribution rate was 6.4% for fiscal years 2005, 2004, and 2003. 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) 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



NOTES TO THE FINANCIAL STATEMENTS

this note. Total contributions paid to the pension plan in 2005 amounted to \$3,057,170,112, of which \$1,578,339,475 was from members, \$1,257,671,695 was from the state of Texas, and \$221,158,942 was from reporting employers.

C. LEGAL RESERVE ACCOUNT BALANCES

The balances in the five legally required reserve accounts are sufficient to meet statutory requirements. As of August 31, 2005, the Member Savings Account has a balance of \$19,087,182,736, the State Contribution Account has a balance of \$26,702,597,505, the Retired Reserve Account has a balance of \$47,698,204,716, the Deferred Retirement Option Account has a balance of \$186,640,560, and the Expense Account has a balance of \$33,190,576.

D. 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.

XII. SUBSEQUENT EVENTS

Pursuant to Senate Bill 1691, 79th Legislature, Regular Session, administration of the Supplemental Compensation Program was transferred to the Texas Education Agency (TEA) beginning September 1, 2005. Funds for this program have been appropriated to TEA beginning with fiscal year 2006; however, TRS will continue to record and report transactions related to appropriations from prior fiscal years.

Required Supplementary Information

PENSION TRUST FUND - FISCAL YEARS 2000-2005

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)
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
2005	89,299	102,495	13,196	87.1	25,957	50.8

SCHEDULE OF CONTRIBUTIONS FROM STATE AND REPORTING ENTITIES

State and Reporting Entities Annual Required Contributions

Fiscal Year Ended	Rate	Dollars			Percentage Contributed
		From State	From Reporting Entities	Total	
2000*	4.92%	\$ 894,387,342	\$ 97,629,692	\$ 992,017,034	122%
2001*	4.12	784,717,252	93,556,871	878,274,123	146
2002*	5.70	1,141,194,707	149,892,453	1,291,087,160	105
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
2005	7.31	1,532,263,348	269,445,311	1,801,708,659	82

* Restated to reflect a 30-year amortization period.

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:

Valuation Date	August 31, 2005	Actuarial Assumptions:	
Actuarial Cost Method	Entry Age Normal	Investment Rate of Return *	8.00%
Amortization Method	Level Percent, Open	Projected Salary Increases *	4.25% to 26.40%
Remaining Amortization Period	30 Years*	Weighted Average Projected Salary Increases *	6.61%
Asset Valuation Method	5-Year Smoothed Market	Cost-of-Living Adjustments	None

* The annual required contribution (ARC) by the state would need to increase from 6% to 7.19% beginning in fiscal year 2006 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

AUGUST 31, 2005



	Balances September 1, 2004	Additions	Deductions	Balances August 31, 2005
UNAPPROPRIATED RECEIPTS				
Collections on Behalf of the State's General Revenue Fund				
Assets:				
Cash in State Treasury	\$	\$186,829,115	\$186,829,115	\$
Accounts Receivable - Reporting Entities	10,420,066	11,526,020	10,420,066	11,526,020
TOTAL ASSETS	\$10,420,066	\$198,355,135	\$197,249,181	\$11,526,020
Liabilities:				
Accounts Payable - General Revenue Fund	\$10,420,066	\$ 11,526,020	\$ 10,420,066	\$11,526,020
 OTHER AGENCY FUNDS				
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 775	\$ 8,775	\$ 8,975	\$ 575
Liabilities:				
Funds Held for Others	\$ 775	\$ 8,700	\$ 8,900	\$ 575
 TOTALS - ALL AGENCY FUNDS				
				(Exhibit I)
Assets:				
Cash in State Treasury	\$ 775	\$186,837,890	\$186,838,090	\$ 575
Accounts Receivable - Reporting Entities	10,420,066	11,526,020	10,420,066	11,526,020
TOTAL ASSETS	\$10,420,841	\$198,363,910	\$197,258,156	\$11,526,595
Liabilities:				
Accounts Payable - General Revenue Fund	\$10,420,066	\$ 11,526,020	\$ 10,420,066	\$11,526,020
Funds Held for Others	775	8,700	8,900	575
TOTAL LIABILITIES	\$10,420,841	\$ 11,534,720	\$ 10,428,966	\$11,526,595

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Schedule



INTEREST ACCOUNT	2005	2004
Additions:		
Interest, Dividends and Other Income:		
Short-Term	\$ 37,062,105	\$ 19,176,074
Equities	1,273,580,628	1,005,620,107
Fixed Income	1,017,027,139	1,081,853,205
Securities Lending Program	33,041,427	28,270,646
Miscellaneous	2,302,808	2,752,829
Net Appreciation in Fair Value of Investments	9,607,205,397	7,024,439,015
TOTAL ADDITIONS	\$ 11,970,219,504	\$ 9,162,111,876
Deductions:		
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 893,671,078	\$ 867,257,832
State Contribution Account	(2,226,337,215)	(2,267,653,151)
Retired Reserve Account	3,644,928,309	3,471,441,811
Deferred Retirement Option Account Expense Account	9,751,935	14,626,369
Expense Account	41,000,000	52,000,000
Transfer to State Contribution Account for Net Appreciation in Fair Value of Investments	9,607,205,397	7,024,439,015
TOTAL DEDUCTIONS	\$ 11,970,219,504	\$ 9,162,111,876
Net Increase in Account Balance	\$ -0-	\$ -0-
Account Balance - Beginning September 1	-0-	-0-
Account Balance - Ending August 31	\$ -0-	\$ -0-

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Schedule



MEMBER SAVINGS ACCOUNT	2005	2004
Additions:		
Member Contributions:		
Eligible for State Contributions	\$ 1,578,339,475	\$ 1,530,276,750
Not Eligible for State Contributions	96,692,115	124,360,457
Operating Transfers In:		
Allocation from Interest Account	893,671,078	867,257,832
TOTAL ADDITIONS	\$ 2,568,702,668	\$ 2,521,895,039
Deductions:		
Withdrawal of Member Accounts	\$ 243,382,014	\$ 220,396,709
Operating Transfers Out:		
Transfer to Retired Reserve Account for Dormant Accounts	10,520,651	8,088,526
Transfer to Retired Reserve Account to Fund Benefits	980,470,325	1,942,677,372
TOTAL DEDUCTIONS	\$ 1,234,372,990	\$ 2,171,162,607
Net Increase in Account Balance	\$ 1,334,329,678	\$ 350,732,432
Account Balance - Beginning September 1 Restatement	\$ 17,752,484,277 368,781	\$ 17,401,751,845
Account Balance - Beginning September 1, as Restated	\$ 17,752,853,058	\$ 17,401,751,845
Account Balance - Ending August 31	\$ 19,087,182,736	\$ 17,752,484,277

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Schedule



STATE CONTRIBUTION ACCOUNT	2005	2004
Additions:		
Contributions:		
State Contributions - General Revenue	\$ 1,257,671,695	\$ 1,241,789,167
State Contributions - School Districts	151,129,219	134,608,326
State Contributions - Higher Education	70,029,723	57,787,346
Reinstatement Fees	53,302,228	66,867,238
Operating Transfers In:		
Transfer from Retired Reserve Account Based on Actuarial Valuation as of August 31	287,700,444	1,632,420,196
Allocation from Interest Account	(2,226,337,215)	(2,267,653,151)
Transfer from Interest Account for Net Appreciation in Fair Value of Investments	9,607,205,397	7,024,439,015
Retirement Benefits Forfeited While Member Returned to Teaching	71,041,375	36,271,776
Retirement Benefits Waived by Member	144,750	169,238
TOTAL ADDITIONS	\$ 9,271,887,616	\$ 7,926,699,151
Deductions:		
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 2,765,721,776	\$ 5,817,941,368
TOTAL DEDUCTIONS	\$ 2,765,721,776	\$ 5,817,941,368
Net Increase in Account Balance	\$ 6,506,165,840	\$ 2,108,757,783
Account Balance - Beginning September 1	20,196,431,665	18,087,673,882
Account Balance - Ending August 31	\$ 26,702,597,505	\$ 20,196,431,665

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Schedule



RETIRED RESERVE ACCOUNT	2005	2004
Additions:		
Operating Transfers In:		
Allocation from Interest Account	\$ 3,644,928,309	\$ 3,471,441,811
Transfer from Member Savings Account for Dormant Accounts	10,520,651	8,088,526
Transfer from Member Savings Account to Fund Benefits	980,470,325	1,942,677,372
Transfer from State Contribution Account to Fund Benefits	2,765,721,776	5,817,941,368
TOTAL ADDITIONS	\$ 7,401,641,061	\$ 11,240,149,077
Deductions:		
Benefits Paid:		
Service Retirement Annuities	\$ 4,709,693,259	\$ 4,321,718,025
Partial Lump Sums	288,088,743	696,201,755
Disability Retirement Annuities	129,331,288	125,992,690
Death and Survivor Benefits:		
Accumulated Savings	1,766,957	1,460,631
Annual Salary	40,838,680	41,669,051
Survivor Annuities	74,325,670	74,320,247
Life Annuities	76,113,908	75,839,736
60 Monthly Payments	7,583,719	7,089,131
Remainder of Contributions	3,784,681	2,994,247
Operating Transfers Out:		
Transfer to State Contribution Account Based on Actuarial Valuation as of August 31	287,700,444	1,632,420,196
Transfer to Deferred Retirement Option Account to Fund Benefits	9,148,038	45,615,636
Retirement Benefits Forfeited While Member Returned to Teaching	71,041,375	36,271,776
Retirement Benefits Waived by Member	144,750	169,238
TOTAL DEDUCTIONS	\$ 5,699,561,512	\$ 7,061,762,359
Net Increase in Account Balance	\$ 1,702,079,549	\$ 4,178,386,718
Account Balance - Beginning September 1 Restatement	\$ 45,996,493,948 (368,781)	\$ 41,818,107,230
Account Balance - Beginning September 1, as Restated	\$ 45,996,125,167	\$ 41,818,107,230
Account Balance - Ending August 31	\$ 47,698,204,716	\$ 45,996,493,948

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Schedule



DEFERRED RETIREMENT OPTION ACCOUNT	2005	2004
Additions:		
Operating Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 9,148,038	\$ 45,615,636
Allocation from Interest Account	9,751,935	14,626,369
TOTAL ADDITIONS	\$ 18,899,973	\$ 60,242,005
Deductions:		
Benefits Paid	\$ 55,152,336	\$ 139,047,656
Net Decrease in Account Balance	\$ (36,252,363)	\$ (78,805,651)
Account Balance - Beginning September 1	222,892,923	301,698,574
Account Balance - Ending August 31	\$ 186,640,560	\$ 222,892,923

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

Schedule



EXPENSE ACCOUNT	2005	2004
Additions:		
Miscellaneous Revenues	\$ 21,315	\$ 1,909
Operating Transfers In:		
Allocation from Interest Account	41,000,000	52,000,000
TOTAL ADDITIONS	\$ 41,021,315	\$ 52,001,909
Deductions:		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 27,806,516	\$ 26,751,566
Professional Fees and Services	4,640,260	4,062,121
Consumable Supplies and Fuels	338,158	324,822
Utilities	671,544	597,301
Travel	414,535	329,562
Rentals	166,674	154,090
Dues, Fees and Staff Development	229,507	192,615
Subscriptions and Reference Information	128,677	118,132
Printing and Reproduction Services	118,198	374,432
Postage, Mailing and Delivery Services	1,406,561	1,762,069
Software Purchases and Maintenance	1,295,679	1,341,533
Computer Hardware Maintenance	213,176	184,519
Miscellaneous Expenses	408,989	612,509
Insurance Premiums	821,158	907,027
Furniture and Equipment - Expensed	732,329	646,677
Maintenance - Buildings and Equipment	611,350	553,911
Compensable Absences	292,189	219,042
Depreciation	2,214,133	1,962,017
TOTAL DEDUCTIONS	\$ 42,509,633*	\$ 41,093,945
Net Increase (Decrease) in Account Balance	\$ (1,488,318)	\$ 10,907,964
Account Balance - Beginning September 1	\$ 34,678,894	\$ 23,770,930
Account Balance - Ending August 31	\$ 33,190,576	\$ 34,678,894

* This amount includes investing activity expenses of \$17,394,917 (Schedule 4). Administrative expenses net of investing activity expenses are \$25,114,716 (Exhibit II).

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

AUGUST 31, 2005

Schedule



	FIDUCIARY FUNDS		
	PENSION TRUST FUND		
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses:			
Salaries and Wages	\$ 22,370,000	\$ 21,837,264	\$ 532,736
Other Personnel Costs:			
Longevity Pay	\$ 385,900	\$ 359,240	\$ 26,660
Employer Retirement Contributions	1,325,000	1,303,233	21,767
Employer FICA Contributions	1,579,000	1,564,088	14,912
Employer Health Insurance Contributions	2,694,000	2,613,601	80,399
Benefit Replacement Pay	230,000	196,747	33,253
Other Employee Benefits	52,000	46,190	5,810
Compensable Absences	300,000	292,189	7,811
TOTAL OTHER PERSONNEL COSTS	\$ 6,565,900	\$ 6,375,288	\$ 190,612
Professional Fees and Services	\$ 6,608,730	\$ 4,644,503	\$ 1,964,227
Other Operating Expenses:			
Consumable Supplies and Fuels	\$ 432,762	\$ 354,088	\$ 78,674
Utilities	722,721	646,873	75,848
Travel	594,505	414,535	179,970
Rentals	273,826	166,674	107,152
Dues, Fees and Staff Development	381,652	246,716	134,936
Subscriptions and Reference Information	202,057	130,183	71,874
Printing and Reproduction Services	218,665	118,198	100,467
Postage, Mailing and Delivery Services	2,020,325	1,406,521	613,804
Software Purchases and Maintenance	1,964,203	1,427,680	536,523
Computer Hardware Maintenance	508,550	189,851	318,699
Miscellaneous Expenses	819,899	412,924	406,975
Insurance Premiums	946,500	821,158	125,342
Furniture and Equipment - Expensed	582,817	302,095	280,722
Maintenance - Buildings and Equipment	742,994	688,953	54,041
Depreciation and Loss on Disposal of Assets	2,500,000	2,214,133	285,867
TOTAL OTHER OPERATING EXPENSES	\$ 12,911,476	\$ 9,540,582	\$ 3,370,894
TOTAL ADMINISTRATIVE EXPENSES	\$ 48,456,106	\$ 42,397,637	\$ 6,058,469
Pension Trust Fund:			
Total From Expense Account - Schedule 1		\$ 42,509,633 *	
Add Differences Between GAAP and Budgetary Basis Payables:			
Salaries and Wages		105,738	
Other Personnel Costs		8,109	
Professional Fees and Services		4,243	
Other Operating Expenses		56,001	
Less Reclass from Capital Assets		(286,087)	
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE		\$ 42,397,637	
Capital Expenses:			
Furniture and Equipment - Capitalized	\$ 204,573	\$ 66,870	\$ 137,703
Capital Projects	4,576,540	3,877,388	699,152
TOTAL CAPITAL EXPENSES	\$ 4,781,113	\$ 3,944,258	\$ 836,855

* This amount includes investing activity expenses of \$17,394,917 (Schedule 4). Administrative expenses net of investing activity expenses are \$25,114,716 (Exhibit II).

FIDUCIARY FUNDS					
HEALTH BENEFITS TRUST FUNDS					
RETIRED PLAN			SUPPLEMENTAL COMPENSATION		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$ 728,000	\$ 697,495	\$ 30,505	\$	\$	\$
\$ 12,200	\$ 9,960	\$ 2,240	\$	\$	\$
44,947	41,994	2,953			
56,700	52,149	4,551			
83,750	67,788	15,962			
12,500	5,559	6,941			
18,375		18,375			
9,250	(1,283)	10,533		(15,233)	15,233
\$ 237,722	\$ 176,167	\$ 61,555	\$	\$ (15,233)	\$ 15,233
\$ 1,403,896	\$ 1,102,250	\$ 301,646	\$	\$	\$
\$ 2,500	\$ 1,960	\$ 540	\$	\$	\$
1,850	1,250	600			
16,250	6,893	9,357			
48,000	48,000				
6,470	3,335	3,135			
1,325	267	1,058			
97,950	(30,715)	128,665			
163,850	48,368	115,482			
14,750	10,279	4,471			
24,560	9,579	14,981			
1,125	60	1,065			
100		100			
\$ 378,730	\$ 99,276	\$ 279,454	\$	\$	\$
\$ 2,748,348	\$ 2,075,188	\$ 673,160	\$	\$ (15,233)	\$ 15,233

Health Benefits Trust Fund - Retired Plan:

Total Administrative Expenses - Exhibit II	\$ 2,070,863
Add Differences Between GAAP and Budgetary Basis Payables:	
Salaries and Wages	2,955
Other Personnel Costs	226
Other Operating Expenses	1,144
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 2,075,188

Health Benefits Trust Fund - Supplemental Compensation:

Total Administrative Expenses - Exhibit II	\$ (15,233)
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ (15,233)

(to next page)

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

AUGUST 31, 2005

(concluded)

Schedule



	PROPRIETARY FUND		
	TRS-ACTIVECARE ENTERPRISE FUND		
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses/Expenditures:			
Salaries and Wages	\$ 812,310	\$ 600,624	\$ 211,686
Other Personnel Costs:			
Longevity Pay	\$ 10,020	\$ 8,520	\$ 1,500
Employer Retirement Contributions	42,493	35,626	6,867
Employer FICA Contributions	55,528	44,218	11,310
Employer Health Insurance Contributions	80,150	60,341	19,809
Benefit Replacement Pay	6,500	3,093	3,407
Other Employee Benefits	4,875	3,750	1,125
Compensable Absences	41,406	41,406	
TOTAL OTHER PERSONNEL COSTS	\$ 240,972	\$ 196,954	\$ 44,018
Professional Fees and Services	\$ 1,278,982	\$ 789,561	\$ 489,421
Other Operating Expenses/Expenditures:			
Consumable Supplies and Fuels	\$ 8,500	\$ 4,675	\$ 3,825
Utilities	2,750	1,537	1,213
Travel	18,650	3,933	14,717
Rentals	73,721	73,721	
Dues, Fees and Staff Development	6,700	6,583	117
Subscriptions and Reference Information	2,596	997	1,599
Printing and Reproduction Services	22,870	3,835	19,035
Postage, Mailing and Delivery Services	31,670	2,826	28,844
Software Purchases and Maintenance			
Computer Hardware Maintenance			
Miscellaneous Expenses	19,500	2,887	16,613
Insurance Premiums			
Furniture and Equipment - Expensed	64,500	24,291	40,209
Maintenance - Buildings and Equipment	1,775		1,775
Depreciation and Loss on Disposal of Assets			
TOTAL OTHER OPERATING EXPENSES/EXPENDITURES	\$ 253,232	\$ 125,285	\$ 127,947
TOTAL ADMINISTRATIVE EXPENSES/EXPENDITURES	\$ 2,585,496	\$ 1,712,424	\$ 873,072
TRS-ActiveCare Enterprise Fund:			
Total Administrative Expenses - Exhibit IV	\$ 1,607,113		
Add Differences Between GAAP and Budgetary Basis Payables:			
Salaries and Wages	2,636		
Other Personnel Costs	202		
Professional Fees and Services	102,392		
Other Operating Expenses	81		
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 1,712,424		

GOVERNMENTAL FUND		
403(b) CERTIFICATION PROGRAM SPECIAL REVENUE FUND		
Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$ 24,000	\$ 24,000	\$ -0-
\$	\$	\$
\$	\$	\$
\$ 24,000	\$ 24,000	\$ -0-
403(b) Certification Program Special Revenue Fund:		
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



	TOTAL	SHORT-TERM
<i>FISCAL YEAR ENDED AUGUST 31, 2005</i>		
Purchases	\$ 179,824,238,538	\$ 46,974,688,290
Sales	(152,619,550,291)	(20,300,327,630)
Calls and Maturities	(27,894,333,276)	(27,850,992,593)
Net Appreciation in Fair Value	9,607,205,397	70,158,886
Net Increase (Decrease)	\$ 8,917,560,368	\$ (1,106,473,047)
Fair Value - September 1, 2004	84,411,133,341	3,027,270,138
Fair Value - August 31, 2005 (Exh. I)	\$ 93,328,693,709	\$ 1,920,797,091
<i>FISCAL 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
Net Increase	\$ 7,791,362,625	\$ 2,377,760,906
Fair Value - September 1, 2003	76,619,770,716	649,509,232
Fair Value - August 31, 2004 (Exh. I)	\$ 84,411,133,341	\$ 3,027,270,138

EQUITIES	FIXED INCOME	ALTERNATIVE INVESTMENTS
\$ 23,860,883,899 (24,896,091,191)	\$107,268,305,497 (105,626,988,500)	\$ 1,720,360,852 (1,796,142,970)
8,770,572,499	(43,340,683) 55,290,551	711,183,461
\$ 7,735,365,207	\$ 1,653,266,865	\$ 635,401,343
55,835,694,440	23,069,878,184	2,478,290,579
\$ 63,571,059,647	\$ 24,723,145,049	\$ 3,113,691,922
\$ 15,093,458,044 (18,068,437,078)	\$ 93,630,863,197 (91,798,502,746)	\$ 979,867,464 (734,302,128)
6,113,474,804	(713,483,623) 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

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND
FOR THE FISCAL YEAR ENDED AUGUST 31, 2005

Schedule



	2005	2004
Direct Expenses:		
Salaries and Other Personnel Costs	\$ 8,174,968	\$ 7,813,975
Professional Fees and Services	4,083,792	3,344,633
Consumable Supplies	5,588	4,438
Travel	252,039	185,547
Dues, Fees and Staff Development	39,952	38,990
Subscriptions and Reference Materials	34,625	26,288
Furniture and Equipment - Expensed	11,649	19,358
Maintenance - Building and Equipment	59	595
Total Direct Expenses	\$ 12,602,672	\$ 11,433,824
Indirect Expenses:		
Depreciation, Utilities and Building Maintenance	\$ 621,039	\$ 655,973
Executive Management Support	370,754	361,811
Legal, Audit and Human Resources Support	1,062,869	1,135,368
Fiscal Management Support	784,555	1,062,763
Information Technology Support	951,316	866,364
Security and Staff Services Support	567,989	553,188
Other Support Services	433,723	183,354
Total Indirect Expenses	\$ 4,792,245	\$ 4,818,821
Total Investing Activity Expenses* (Exh. II)	\$ 17,394,917	\$ 16,252,645

**During fiscal year 2005, the system paid commissions of \$38,811,760, of which \$6,100,709 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 \$4,198,466. These soft dollar expenditures are not included in the above investing activity expenses. Also excluded from investing activities expenses are management fees of \$350,000 paid directly by the system during fiscal year 2005 to managers of three of the system's 63 alternative investment entities. These directly paid fees are recorded in the net appreciation account. The management fees of the remaining 60 entities are paid directly by the entities.*

Schedule of Payments to Consultants - Budgetary Basis

FOR THE FISCAL YEAR ENDED AUGUST 31, 2005

Schedule



	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	TRS-ActiveCare Enterprise Fund	403(b) Certification Program Special Revenue Fund	Total
Nature of Service:					
Investment Consultants	\$ 3,459,530	\$	\$	\$	\$ 3,459,530
Health Care Consultants		616,960	448,149		1,065,109
Programming Consultants	495,156				495,156
Legal Counsel	419,907	52,838	(37,459)		435,286
Consulting Actuary	262,734				262,734
Fiduciary Counsel	244,194				244,194
Audit Services	125,040	55,980	60,980		242,000
Medical Board	100,910				100,910
Miscellaneous	90,652				90,652
Cost Effectiveness Analysis	48,500	12,500	12,500		73,500
Information Security Assessment	41,400				41,400
Temporary Employment Services	17,542	23,350			40,892
Tax Services	23,847				23,847
TRS-Care Credentialing		1,250			1,250
Data Processing Services	(44,763)	39,372	5,391		
Administrative Services	(624,000)	300,000	300,000	24,000	
Search Consultants	(16,146)				(16,146)
TOTAL	\$ 4,644,503	\$ 1,102,250	\$ 789,561	\$ 24,000	\$ 6,560,314

Investment Section



"Dedicated to Serving Our Members"





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 to control risk through diversification by 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 the most recent ALM along with asset allocation change 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. The domestic equity weight was reduced by five percent, shifting these assets to a three percent weight in real estate partnerships, and one percent additional weights each to private equity and high yield debt. The shift to real estate and private equity will be a multi-year effort.

In fiscal year 2005, the real estate strategy, policy, and benchmark were approved. The first new investment in a real estate partnership investment will likely occur in fiscal year 2006.

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.

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

For fiscal year 2005, the U.S. economy experienced a modest slowdown in growth from the previous year. U.S. gross domestic product grew at a rate of 3.6 percent for the period ending June 2005, down from 4.6 percent annual growth in the prior year. The geopolitical concerns which dominated capital markets during most of 2004 receded by year-end. The jobs market seemed to gain traction and the resolution of the U.S. presidential election helped to lift global stock markets in the final quarter of calendar year 2004. Importantly, corporate profits also continued to surprise analysts on the upside. In 2005, the Federal Reserve (Fed) persisted in moving toward what it considers a neutral monetary stance by raising key interest rates 25 basis points (0.25 percent) at each of its five meetings through August. Crude oil, gasoline, and natural gas prices surged to record levels by fiscal year-end creating serious concerns about the sustainability of corporate earnings and the economic expansion. Bond markets were volatile, and stocks were range-bound in the second half of fiscal year 2005 as market participants grappled with rising economic and political uncertainty.

During the period from June 30, 2004 to June 30, 2005, U.S. stocks experienced satisfactory returns, but



INVESTMENT OVERVIEW

primarily in the first half of the period. Returns of smaller companies as measured by market capitalization had relatively higher rates of return. As measured by the S&P 500 Index, large-capitalization stocks produced a total return of 6.32 percent. Small- and mid-capitalization stocks produced total returns of 13.45 percent and 14.02 percent as measured by their respective indexes.

Foreign stocks performed very well on relative and absolute basis, rising 16.95 percent for the year ending June 2005, as measured by the Morgan Stanley All Country World ex-U.S. index. Asian markets and those with significant oil export capability had robust economic growth and outsized capital market returns. European stock markets, though experiencing continuing bouts of deflation and stagnant growth, rallied throughout the period on consolidation activity and value buying. The U.S. dollar stabilized and increased in value during the course of the year, moderating dollar-based returns of foreign-denominated assets. Though international corporate earnings tended to positively surprise analysts' estimates, markets became increasingly volatile as U.S. interest rates and oil prices moved higher at the end of the fiscal year.

Total fixed income returns were resilient despite, or perhaps because of, the Federal Reserve's actions to raise short-term rates. The Lehman Brothers Aggregate Bond Index (LBAG) posted a total return of 7.05 percent for the 12-month period ending June 30, 2005. The yield curve flattened as market participants viewed the Fed actions as appropriate and sufficient to fend off potential inflation. High-yield returns continued to outpace investment grade returns for the one-year period. At 10.38 percent, the Citigroup High Yield Index outperformed the LBAG by 358 basis points. TRS remained overweight in high yield during much of the period, which enhanced performance.

Alternative investments contributed satisfying absolute and relative returns during the period. The TRS alternative investments portfolio returned 14.91 percent versus the benchmark return of 12.1 percent. The private equity component performed especially well, returning 38.36 percent versus a benchmark return of 15.26 percent. Funding activity and capital calls remained brisk in buyout-oriented partnerships while venture capital showed few signs of resurgence.

There are many positive signs that the global economy is on reasonably sound footing. Corporate profitability is at record levels, employment gains in the U.S. have recently been robust, and wealth gains from residential real estate have fed into consumer confidence. On the cautionary side, the Federal Reserve has made it clear

that it will continue to raise short-term interest rates. Fed tightening is ordinarily not conducive to healthy returns from risky assets. Also, there are early signs that high energy prices have begun to crimp consumer spending. The impact of Hurricane Katrina at the end of the fiscal year is a further unknown bound to generate considerable market volatility in the months ahead. Economists' consensus assumption is that the U.S. economy is at mid-cycle. However, the health of the world economy and future capital market returns depend heavily on monetary conditions as controlled by the Fed and developments in the energy market. Further deterioration in one or both areas could undermine the cycle and capital market returns.

Investment Portfolio Performance

The total value of the fund on August 31, 2005 was \$93.3 billion. The fund's annual rates of return for the one-, three-, five- and 10-year periods ending August 31, 2005 were 14.41 percent, 12.53 percent, 3.26 percent, and 9.28 percent respectively. Returns have been consistently ahead of the strategic policy benchmark, outperforming nine of the last 10 years. The system has added 28 basis points (0.28 percent) of value annually over its composite benchmark portfolio for the last 10 years, 27 basis points annually over the last three years, and 21 basis points in the last year ending June 2005. One basis point of value added translates to roughly \$9 million at fiscal year-end valuation levels.

The fund has recovered all the lost ground from the 2000-03 bear market and entered record asset value territory during the fiscal year. In the latest three-year period, returns have exceeded the 8 percent required actuarial rate of return assumption by a margin of 186 basis points per year. However, because of actuarial smoothing the unfunded liability increased by \$5.2 billion to a level of \$13.2 billion.

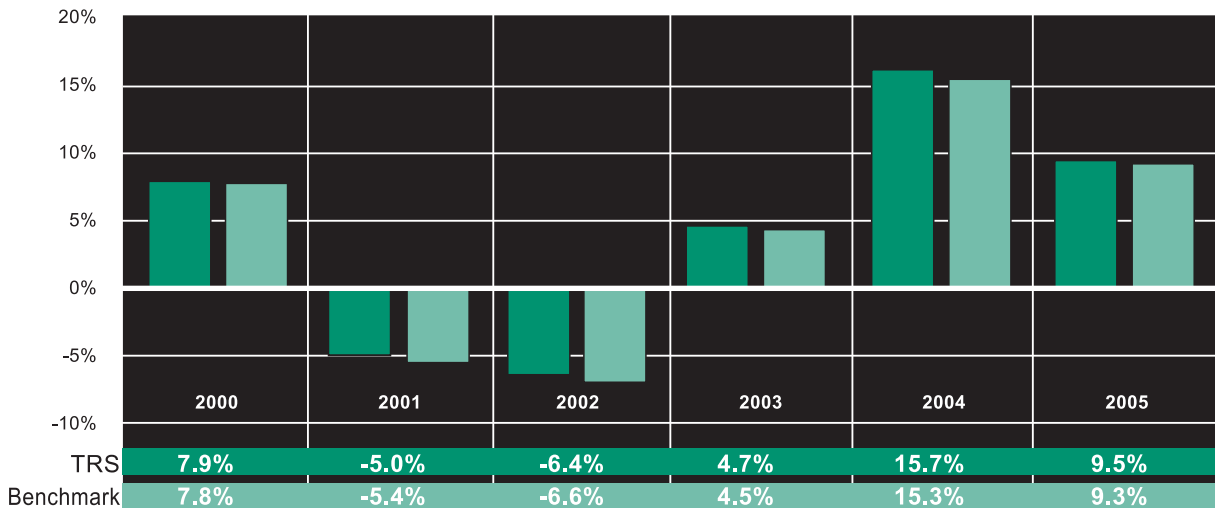
Additional information about performance is included on the "Total Time-Weighted Returns" and "Asset Allocation" charts on pages 70 and 71. This information is for the 12-month period ending June 30, 2005, and includes comparisons with established benchmarks for the same time period.

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

	2000	2001	2002	2003	2004	2005	3 Years	5 Years	10 Years
Total Portfolio¹									
TRS	7.9%	-5.0%	-6.4%	4.7%	15.7%	9.5%	9.9%	3.4%	9.2%
Custom Benchmark ²	7.8%	-5.4%	-6.6%	4.5%	15.3%	9.3%	9.6%	3.1%	9.0%
Equities									
TRS	9.9%	-13.1%	-13.3%	-0.5%	23.3%	10.2%	10.6%	0.4%	10.3%
Equity Composite Benchmark ³	10.0%	-13.2%	-13.8%	-0.9%	23.4%	9.9%	10.4%	0.2%	10.2%
Fixed Income									
TRS	4.0%	11.9%	8.7%	15.2%	0.3%	7.3%	7.4%	8.5%	7.6%
Fixed Income Composite Benchmark ⁴	4.2%	11.4%	8.3%	15.5%	-0.3%	7.1%	7.2%	8.3%	7.2%
Alternative Investments									
TRS	n/a	9.1%	-2.6%	3.3%	12.2%	14.9%	10.0%	n/a	n/a
Alternative Investments Composite Benchmark ⁵	n/a	10.2%	0.0%	1.7%	8.4%	12.1%	7.3%	n/a	n/a



¹ Time weighted rates of return adjusted for cash flows.

² 38% S&P 500/ 5% Wilshire Mid Cap/ 6% International Composite (85% EAFE ex-Japan/ 15% Japan)/ 51% LB Aggregate through 12/95, 43% S&P 500/ 7% Wilshire Mid Cap/ 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, 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 through 01/05, currently 50% Total Domestic Equity Composite/ 13.4% MS ACWI Ex-US/ 28.35% LB Aggregate/ 2.06% Citigroup High Yield Index/ 4.12% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.55% Absolute Return Composite (6 Month T-Bill + 300 bps through 3/03, currently 70% 3-month LIBOR/ 30% S&P 500)/ 0.52% 91-day T-Bill.

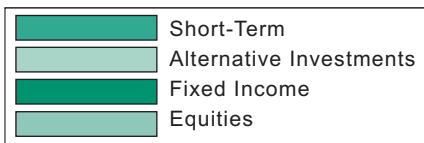
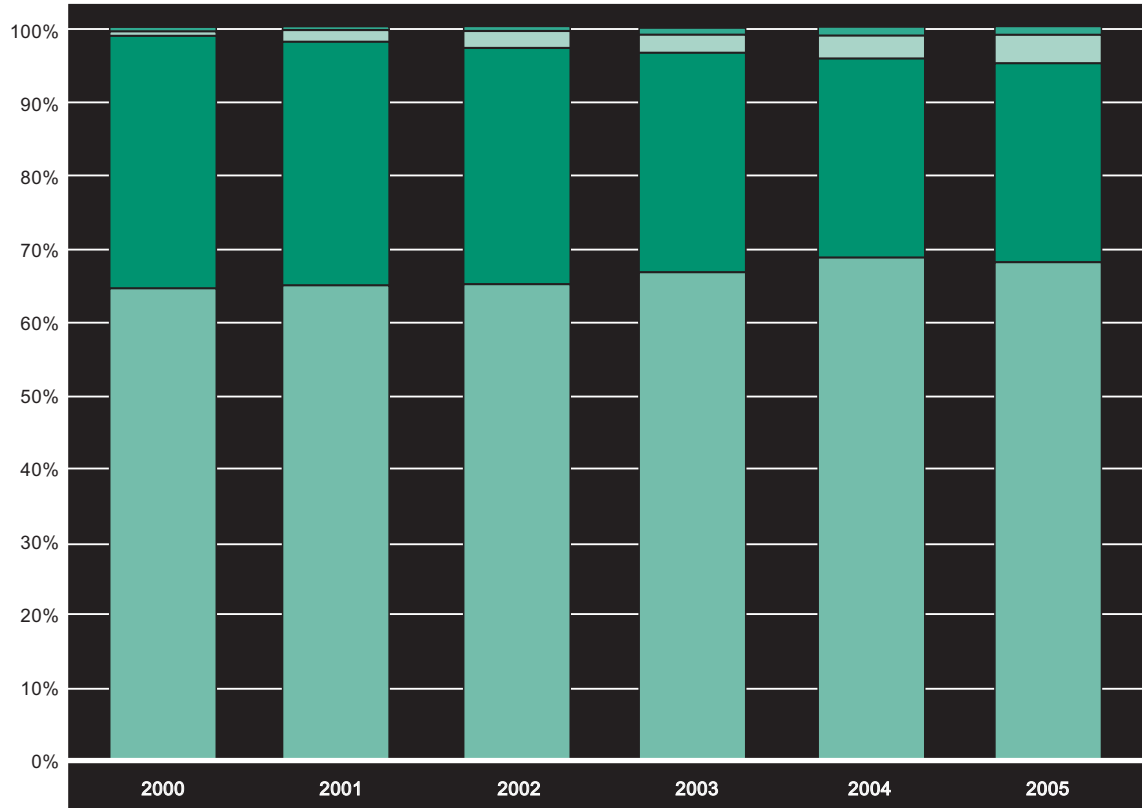
³ 78% S&P 500/ 10% Wilshire Mid Cap/ 12% International Composite (85% EAFE ex-Japan/ 15% Japan) through 12/95, 72% S&P 500/ 12% Wilshire Mid Cap/ 16% International Composite through 9/97, 72% S&P 500/ 8% S&P 400/ 4% S&P 600/ 16% International Composite (85% EAFE ex-Japan/ 15% Japan) through 12/99, 35% S&P 500/ 5% S&P 400/ 1.67% S&P 600/ 41.66% S&P 1500/ 16.67% EAFE through 6/00, 64.1% S&P 500, 11.5% S&P 400, 4.6% S&P 600, and 19.8% MS ACWI Free Ex-US through 01/05, currently 78.86% Total Domestic Equity Composite (76.29% S&P 500/ 15.46% S&P 400/ 8.25% S&P 600)/ 21.14% MSCI ACWI Ex-US.

⁴ 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, 99.6% LB Aggregate/ 0.4% SB High Yield Market Index through 01/05, currently 93.22% LB Aggregate/ 6.78% Citigroup High Yield Index.

⁵ 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

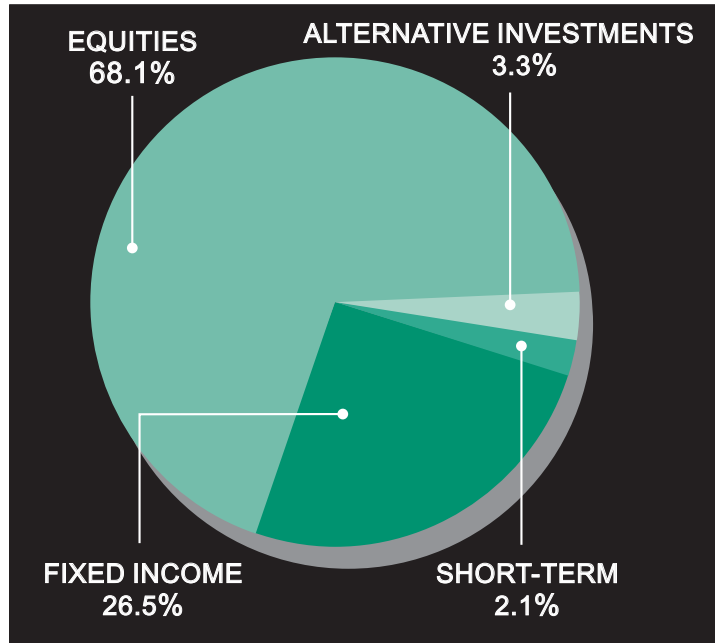
PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30



	2000	2001	2002	2003	2004	2005	Averages		
							3 Years	5 Years	10 Years
Short-Term	0.8%	0.6%	0.8%	1.0%	1.2%	1.8%	1.3%	1.1%	1.2%
Alternative Investments	0.7%	1.7%	2.2%	2.3%	2.8%	3.4%	2.8%	2.5%	2.1%
Fixed Income	34.0%	32.7%	31.2%	29.8%	27.4%	27.6%	28.3%	29.7%	31.6%
Equities	64.5%	65.0%	65.8%	66.9%	68.6%	67.2%	67.6%	66.7%	65.1%

Asset Allocation

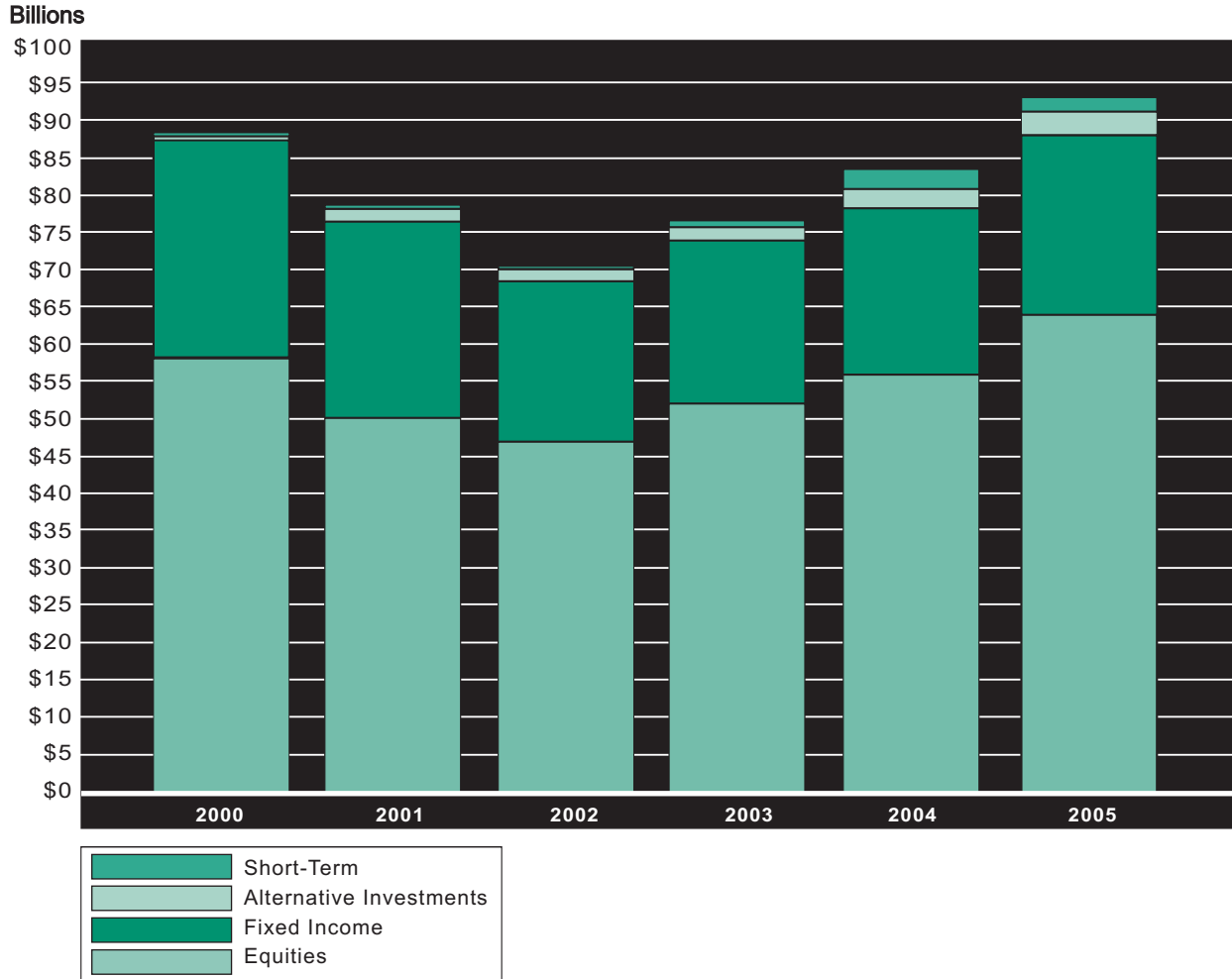
PENSION TRUST FUND - AUGUST 31, 2005



	POLICY RANGES			Actual
	Low	High	Normal	
Equities	55.0%	68.0%	61.5%	68.1%
Fixed Income	20.0%	42.0%	29.5%	26.5%
Alternative Investments	4.0%	12.0%	8.5%	3.3%
Short-Term	0.0%	3.0%	0.5%	2.1%
Total				<u>100.0%</u>

Total Investment Market Values

PENSION TRUST FUND - AUGUST 31



MARKET VALUES - AUGUST 31 (in billions)

	2000	2001	2002	2003	2004	2005
Equities	\$ 57.894	\$ 50.167	\$ 47.159	\$ 52.697	\$ 55.836	\$ 63.571
Fixed Income	29.441	26.811	21.937	21.282	23.070	24.723
Alternative Investments	0.515	1.402	1.590	1.991	2.478	3.114
Short-Term	0.204	0.351	0.155	0.650	3.027	1.921
Total	<u>\$ 88.054</u>	<u>\$ 78.731</u>	<u>\$ 70.841</u>	<u>\$ 76.620</u>	<u>\$ 84.411</u>	<u>\$ 93.329</u>

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2005

Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Exxon Mobil Corp.	\$ 1,776,070,940	29,650,600
General Electric Co.	1,729,468,089	51,456,950
Microsoft Corp.	1,339,903,840	48,901,600
Citigroup Inc.	1,078,739,488	24,645,636
Johnson & Johnson	903,839,976	14,258,400
Pfizer Inc.	900,007,920	35,336,000
Bank of America Corp.	811,002,245	18,847,368
Intel Corp.	778,302,632	30,260,600
American International Group Inc.	760,518,187	12,846,591
Wal-Mart Stores Inc.	723,671,664	16,095,900
	<u>\$ 10,801,524,981</u>	<u>282,299,645</u>

Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
BP Amoco Plc.	\$ 295,766,220	26,020,080
Vodafone Group Plc.	212,304,897	77,787,255
HSBC HLDGS Plc.	204,776,965	12,749,900
Glaxosmithkline Plc.	171,084,215	7,104,058
Toyota Motor Corp.	141,314,611	3,490,000
Novartis AG - Reg. Shs.	120,332,498	2,490,665
Royal Bank Scot Grp Ord	113,730,029	3,900,940
Royal Dutch Shell Plc. B Shs.	111,415,528	3,293,321
Total SA	110,524,329	421,718
Royal Dutch Shell Plc. A Shs.	108,711,656	3,343,200
	<u>\$ 1,589,960,948</u>	<u>140,601,137</u>

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2005

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	\$ 787,278,320	\$ 559,536,000
U.S. Treasury 3.5% due 5/31/2007	779,788,137	784,148,000
U.S. Treasury 8% due 11/15/2021	638,052,741	445,988,000
U.S. Treasury 4% due 3/15/2010	452,638,704	450,127,000
U.S. Treasury 6.125% due 11/15/2027	447,342,037	356,079,000
U.S. Treasury 4% due 8/31/2007	399,507,373	398,233,000
U.S. Treasury 11.25% due 2/15/2015	392,972,326	251,844,000
FHLMC 4.79% due 8/4/2010	380,631,104	380,000,000
Fed. Republic of Brazil 11.5% due 3/12/2008	366,505,313	323,625,000
U.S. Treasury 4.125% due 5/15/2015	352,310,014	350,000,000
	\$ 4,997,026,069	\$ 4,299,580,000

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

Fixed Income Portfolio as of August 31, 2005¹

<u>Quality Distribution</u>		<u>Maturity Analysis²</u>	
Treasury	23.6%	0 - 4 Years	40.2%
Agency	44.0%	4 - 6 Years	28.2%
AAA	9.5%	6 - 10 Years	14.9%
AA	1.9%	10 - 20 Years	10.2%
A	9.4%	20 - 30 Years	6.3%
BBB	7.0%	30+ Years	0.2%
Other	4.6%		100.0%
	100.0%		

¹ Excludes High Yield Fixed Income Partnerships

² Weighted Average Life

Actuarial Section



"Dedicated to Serving Our Members"





GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

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November 4, 2005

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, 2005

We certify that the information included herein and contained in the 2005 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2005.

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, 2005, the System's under-funded status has increased because of the continued recognition of the investment results during the poor investment market of fiscal years 2001 & 2002, and the UAAL is now \$13.2 billion.

This valuation shows a normal cost equal to 10.40% 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 2.00% of pay available to amortize the UAAL. However, the contributions provided by this portion of the contribution rate are not sufficient to amortize the current 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, 2005 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 87.1%. In addition, the System is now deferring a net asset gain from prior asset experience. Therefore, in the absence of actuarial losses in the future, the funded status of the System should improve as these deferred asset gains are recognized.

Even though the System earned a 14.4% return on a market value of assets basis for the plan year ending August 31, 2005, the System experienced a \$4.1 billion loss on the actuarial value of assets due to the recognition of prior investment losses. However, the System has now moved into a position where the actuarial value of assets is less than the market value, as a result of deferred net asset gains. As long as there are no offsetting asset losses over the next few years, the System is expected to recognize \$4.4 billion in asset gains. The recognition of these asset gains and the change in the benefit provisions enacted by the legislature during the last session could put the System back into an actuarial position that would produce a more reasonable funding period.

In the absence of significant actuarial losses over the near term, the contribution rate needed to amortize the UAAL will begin to decrease. If the System can earn 8% over the next four years, the required contribution rate is forecasted to flatten out between 6.00% and 6.20%. This current contribution rate may still be lower than the amount needed to fund the normal cost and amortize the UAAL over the 30-year period called for by GASB Statement No. 25, but it would at least produce a determinable funding period and put the System in a position where one or two years of above average investment returns (9%-10%) could lower the GASB ARC to below the statutory 6.0% contribution rate.

Even though the future outlook has improved significantly since the prior valuation, caution is still 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.

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 79th Texas Legislature.

Legislation was adopted by the legislature since the prior valuation. This legislation changed the benefit provisions as follows:

1. Non-grandfathered members will be subject to the following new law changes effective September 1, 2005:
 - (i) final average salary at retirement will be determined by the highest five years (instead of three years) of salary,
 - (ii) subsidized early retirement for members at least age 55 and with at least 20 years of service will be eliminated, and
 - (iii) the partial lump sum option eligibility will require a combined age plus years of creditable service that equals at least 90 (“Rule of 90”).
2. If a member meets any one of the following criteria on or before August 31, 2005, they are grandfathered (exempt) from the above changes:
 - (i) at least 50 years old, or
 - (ii) age and service credit equal at least 70 (“Rule of 70”), or
 - (iii) have at least 25 years of service credit.
3. Effective January 1, 2006, new members must pay the full actuarial cost for service purchases for out of state service.
4. New members who enter TRS after August 31, 2007 are also affected by the following changes:
 - (i) minimum age 60 for unreduced retirement, and
 - (ii) reduced retirement at Rule of 80, benefit reduced 5% a year from age 60.

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.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

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. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

Data

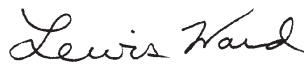
In preparing the August 31, 2005 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data. In conjunction with the actuarial audit performed since the prior valuation, certain miscellaneous changes were made in the handling of member records with missing data. However, none of these changes had any material impact on the actuarial results.

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, FSA, EA, MAAA
Consultant

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Present Value of Future Benefits

ACTUARIAL VALUATION - AUGUST 31, 2005 (With Comparative Totals for August 31, 2004)

	2005	2004
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 45,632,663,024	\$ 43,990,300,273
Disability Retirement Benefits	857,293,775	852,998,580
Death Benefits	731,194,195	765,767,599
Present Survivor Benefits	189,276,295	187,208,198
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 47,410,427,289	\$ 45,796,274,650
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 68,912,907,919	\$ 67,393,286,035
Disability Retirement Benefits	859,956,653	842,184,439
Termination Benefits	3,882,069,205	3,851,143,498
Death and Survivor Benefits	1,219,455,859	1,230,447,990
TOTAL ACTIVE MEMBER LIABILITIES	\$ 74,874,389,636	\$ 73,317,061,962
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Inactive Vested Participants		
Retirement Benefits	\$ 1,063,354,511	\$ 1,070,395,666
Death Benefits	85,789,475	81,136,565
TOTAL INACTIVE VESTED BENEFITS	\$ 1,149,143,986	\$ 1,151,532,231
Refunds of Contributions to Inactive Non-vested Members	\$ 221,901,390	\$ 176,633,650
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 900,406,283	\$ 825,824,580
TOTAL INACTIVE LIABILITIES	\$ 2,271,451,659	\$ 2,153,990,461
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 124,556,268,584	\$ 121,267,327,073

Summary of Cost Items

	2005	2004
Actuarial Present Value of Future Benefits	\$ 124,556,268,584	\$ 121,267,327,073
Present Value of Future Normal Costs	(22,061,732,490)	(24,530,801,603)
Actuarial Accrued Liability	102,494,536,094	96,736,525,470
Actuarial Value of Assets	(89,298,813,225)	(88,783,870,893)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 13,195,722,869	\$ 7,952,654,577

Actuarial Information

AS OF AUGUST 31, 2005

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 Annuity - Investment Return Rate: 8.00% 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: 8.00% 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						FEMALE 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	MALE MEMBERS						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				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	0.010	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							
MALE MEMBERS				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%	23.85%
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: 8.00% 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 10.40% of payroll (6.40% by members plus 4.00% by the State), which is 2.00% of payroll less than the total contributions required by Law. It is intended that the excess amount of 2.00% 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, 2005, these excess contributions of 2.00% 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 or an increase in the State and/or member contribution rates.

Assumed State Contribution Rate - The Appropriations Act, established an actual contribution rate of 6.00% for fiscal years 2003, 2004, and 2005. 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
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
2005	715,495*	25,956,807*	36,278	3.8

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

Actuarial Information

AS OF AUGUST 31, 2005

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			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 Valuation Assets	2 Active Member Contri- butions	3 Retirees And Benefi- ciaries	Active Members (State Financed Portion)
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	45,796	33,242	88,784	100	100	76.1
2005	19,071	47,410	36,013	89,299	100	100	63.4

*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)					
	2005	2004	2003	2002	2001	2000
Investment (Gains)/Losses	\$ 4.068	\$ 4.719	\$ 1.965	\$ 5.527	\$ (1.894)	\$ (5.417)
Legislative Benefit Increases					4.553	
Experience Studies		(2.025)				1.123
Contribution Experience	1.605	.088	.544	.017	(.292)	(0.115)
Assumption Changes				(.848)		
Liability Experience	(.430)	(.059)	(.566)	.726	.944	1.153
Net Increase/(Decrease)	\$ 5.243	\$ 2.723	\$ 1.943	\$ 5.422	\$ 3.311	\$ (3.256)
Beginning UAAL	7.953	5.230	3.287	(2.135)	(5.446)	(2.190)
Ending UAAL	\$ 13.196	\$ 7.953	\$ 5.230	\$ 3.287	\$ (2.135)	\$ (5.446)

Benefits Section



"Dedicated to Serving Our Members"





2005 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 79th Legislature met in Regular Session and two called special sessions during fiscal year 2005. Laws passed by the 79th Legislature are summarized below and went into effect on September 1, 2005, unless otherwise noted.

Retirement Benefit Calculation (Three-year average, early retirement, and PLSO)

Several law changes will go into effect September 1, 2005. Provisions for members who have been grandfathered (exempted) from the benefit calculation changes are noted below:

Benefit Calculation Grandfather Provisions

If members meet any one of the following criteria on or before August 31, 2005, they are grandfathered (exempt) from the following changes and their retirement benefit calculation will not be affected by these changes:

- at least 50 years old, or
- age and years of service credit equal at least 70 ("Rule of 70"), or
- have at least 25 years of service credit

Members who do not meet one of the above grandfather provisions by August 31, 2005 will be subject to the following new law changes effective September 1, 2005:

- **Final Average Salary** at retirement will be determined by the highest five years (instead of three years) of salary.
- **Subsidized early retirement** will be eliminated by repeal of Section 824.202(c), Texas Government Code. This means that members age 55 or older with 20 to 24 years of credited service who take early retirement will receive a greater reduction to their annuities than in the past.
- **Partial Lump Sum Option (PLSO)** eligibility will require a combined age plus years of creditable service that equals at least 90 ("Rule of 90").

Service Credit

Service Credit Purchase Option

The opportunity to purchase one, two, or three years of additional service credit by eligible members will be repealed as of January 1, 2006. Members may either purchase the service credit or enter into an installment agreement for purchase as long as the complete payment or the installment agreement is actually received by TRS on or before December 31, 2005. However, entering into an installment agreement by August 31, 2005, will not enable the member to count the service towards the benefit calculation grandfather provisions.

Out-of-state Service Credit

Out-of-state service credit purchases will require increased contributions (actuarial equivalent) after January 1, 2006 unless a member qualifies for the current cost method as follows:

- Individuals who are TRS members as of December 31, 2005, and also have service in another state before January 1, 2006, may purchase TRS out-of-state service credit using the current cost method at any time prior to retirement.

Service Retirement Eligibility

Retirement at Age 60 for Future Members

Retirement eligibility was not changed for current TRS members who maintain their membership status until retirement. However, for those who establish TRS membership on or after September 1, 2007, a future member will be required to meet one of the following eligibility requirements to qualify for an unreduced annuity at retirement:

- Age 65 with five years of service credit, *or*
- Age 60 with at least five years service credit and meets the Rule of 80 (combined age and years of service credit equal at least 80)

Current members who terminate TRS membership by withdrawing TRS contributions upon termination of employment will be subject to these new eligibility requirements if they resume TRS membership on or after September 1, 2007.



2005 CHANGES IN TRS LAW

Members who are subject to these new eligibility requirements and who retire before age 60 but meet the Rule of 80 with at least five years of service credit will have a 5% annuity reduction for each year under age 60. Members who are subject to these new eligibility requirements and who have at least 30 years of service credit but who do not meet the Rule of 80 at retirement will have a 5% reduction for each year under age 60.

Employment After Retirement Employer Surcharge

Employers will be required to pay a monthly surcharge to the pension fund for each retiree working in a TRS-covered position and reported to TRS. The pension surcharge is an amount equal to the sum of the combined state and member contributions (currently 12.4% of salary). Also, the employer must pay a health benefit surcharge for each retiree enrolled in TRS-Care and working in a TRS-covered position. The amount of the health benefit surcharge is the amount of the difference between the retiree's premium (including dependent coverage) to TRS-Care and the actual cost of the coverage as determined by TRS. Surcharges will be owed by each employer on all retirees working in TRS-covered positions unless the retirees are expressly exempted as described below.

Surcharge Exemption: Employer surcharge payments as described above are not required for a retired employee who was reported by the employer to TRS as a retiree working for that same employer for the report month of January, 2005. The surcharge is also not due in the event of district consolidations before September 1, 2005, if the retired employee was reported by either district as working for that district for the report month of January, 2005.

New Employment After Retirement Exceptions

Bus drivers

Effective with retirements after September 1, 2005, retired employees who work as bus drivers will not have their annuities withheld provided bus driving is their primary employment with the TRS-covered employer. For bus driving to be considered an employee's primary employment, the total amount

of any other employment with a TRS-covered employer must be less than half time.

Faculty of a Professional Nursing Program

Effective September 1, 2005, a retiree serving as a faculty member in an undergraduate or graduate professional nursing program as defined in Section 54.221 of the Education Code may work on as much as a full-time basis without having any annuity payments withheld provided the retiree has been separated from service with all public schools for at least 12 consecutive months.

Although the fall semester may begin earlier for a particular TRS-covered employer, September 1 will be considered as the beginning of the school year for retirees, consistent with the school year for other full-time exceptions.

Pension Plan Membership

The 90-day membership-waiting period will expire as scheduled on September 1, 2005. Employers will then pay an amount to TRS equal to the state contribution (currently 6%) during the first 90 days of a new member's employment. A person hired before September 1, 2005, and who still is in the 90-day waiting period as of August 31, 2005, will become eligible for TRS membership starting September 1, 2005.

DROP

The Deferred Retirement Option Plan (DROP) is being discontinued for *new* participation effective December 31, 2005. Any eligible member who wants to initiate participation in DROP must do so by December 31, 2005. Current participants in DROP are unaffected. In addition, there will be a window for current participants to revoke DROP participation from September 1 through December 30, 2005. In order to revoke DROP participation one of the following requirements must be met:

- Must be participating in DROP on September 1, 2005, *or*
- Must have participated in DROP on or before September 1, 2005 but not yet retired on or before September 1, 2005.



2005 CHANGES IN TRS LAW

Active Member and Employer Contributions to TRS-Care (Retiree Health Care)

Effective September 1, 2005, the active member contribution to TRS-Care will increase from 0.50% to 0.65% of salary. In addition, the local employer contribution to TRS-Care will increase from 0.40% to 0.55% of payroll.

Limits on Annual Compensation Used in Benefit Calculations

New legislation now requires TRS to adopt rules that include a percentage limit on the amount of increases in annual compensation that may be subject to credit and deposit during a member's final years of employment. TRS is also required to adopt rules that exclude compensation subject to deposit and credit earned in the member's final years of employment before retirement that represents amounts converted from non-creditable compensation to creditable compensation.

TRS-Care Eligibility Changes Effective September 1, 2005

Service Retirees Who Retire after September 1, 2005: To be eligible for TRS-Care, the member must have at least 10 years of service credit in the system. This service credit may include up to five years of military service credit, but it may not include any other special or equivalent service credit purchased. **Additionally, the member must meet one of the following requirements:**

- the sum of the retiree's age and years of service credit in the system equals or exceeds 80 at the time of retirement, regardless of whether the retiree had a reduction in the retirement annuity for early age (years of service credit can include all purchased service); *or*
- the retiree has 30 or more years of service credit in the retirement system at the time of retirement (years of service credit can include all purchased service).

Disclosure of Investment Information

Senate Bill 121, enacted by the 79th Legislature, Regular Session, amended the Public Information Act to address disclosure of information relating to state fund investments in private investment funds. The bill provides a 16-item list of information that is

public under Section 552.0225 of the Act, including such information as the amount of money the governmental body has committed to a fund, the internal rate of return or other standard used by a governmental body in connection with each fund it invested in, the remaining value of any fund in which the governmental body invested, the total amount of fees, including expenses, charges, and other compensation assessed against the governmental body by, or paid by the governmental body to, any fund or principal of any fund in which the governmental body invested, and the names of the principals responsible for managing any fund in which the governmental body invested. However, the bill expressly provides in Section 552.143 that certain other information about private investment funds is confidential and exempt from disclosure under the Act, including all information prepared or provided by a private investment fund and held by a governmental body other than information listed in Section 552.0225(b), and information not publicly released that is pre-investment and post-investment diligence information prepared or maintained by a governmental body or a private investment fund. Senate Bill 121 became effective immediately upon signature by the governor on June 18, 2005.

Supplemental Compensation and HRAs

The supplemental compensation administered by TRS was transferred to the Texas Education Agency (TEA), effective September 1, 2005. Also, the Health Reimbursement Arrangement (HRA) provisions enacted in 2003 by the 78th Legislature were repealed.

FEDERAL CHANGES

Social Security

Under a provision of the Social Security Protection Act of 2004, Public Law 108-203, effective January 1, 2005, employers are required 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 certain Social Security benefits they may be eligible to receive. This notice is intended to inform members of the effect of the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP).

GPO may affect the Social Security spousal benefits that some TRS members may be eligible to receive, reducing those benefits if the members' own work was not covered by Social Security. The WEP may



2005 CHANGES IN TRS LAW

reduce the Social Security benefits that some TRS members are eligible to receive as a result of work in a Social Security-covered position when members worked in a position not covered by Social Security at other times of the members' career. The notice must be signed by the employees and then sent by the employers to the retirement system (TRS). TRS began receiving the notices from employers after the effective date of this requirement.

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. Guidelines were issued in January 2005 by the Center of Medicare and Medicaid Services (CMS) to clarify how the new federal law may interact with the prescription drug benefits currently offered by other health plans. The guidelines included plan options that will be available under Part D. In June 2005, the TRS Board of Trustees authorized staff to take the steps necessary for TRS-Care to receive the Medicare Part D subsidy of up to 28 percent of the allowable retiree covered prescription claim costs attributable to gross covered costs between \$250 and \$5,000.

Additionally, in 2004 the Equal Employment Opportunity Commission (EEOC) issued regulations that would expressly permit retiree health care plans to take into account the existence of Medicare when providing health benefits without violating the Age Discrimination in Employment Act (ADEA). The regulations were challenged in court, and in 2005, the EEOC was enjoined from implementing the regulations. The case continues on appeal. Since TRS-Care plan features do take into account Medicare eligibility, TRS continues to monitor these developments.

Tax Regulations

The Internal Revenue Service issued numerous regulations during the past year affecting TRS programs including:

- **415(b) benefit limitations** – The proposed regulations were issued May 25, 2005, to consolidate and update existing provisions that limit the annual benefit payable by a qualified retirement plan. TRS is monitoring the proposals for impact on pension plan benefits.
- **403(b) plans** – The proposed regulations were issued November 16, 2004, to update and

consolidate guidance on 403(b) plans. These plans are offered by many education institutions or employers as supplemental retirement savings plans. The 403(b) community is monitoring the regulations for impact on their operations, and TRS will monitor them for possible impact on the certification program.

- **Phased retirement regulations** – IRS issued proposed regulations on phased retirement in November 2004, which would permit plan members to continue to work a reduced schedule while beginning to receive a reduced retirement benefit. Adoption of phased retirement plan provisions would be voluntary for a plan. TRS continues to monitor developments in this area for possible opportunities or impact on its return to work plan features.

Bankruptcy

Congress passed a bankruptcy reform act that was signed into law on April 20, 2005. Under Public Law 109-31, pension assets generally are protected from creditors of a plan participant. Also, the law clarifies that employee contributions to a pension plan are not "disposable income" that can be turned over to creditors instead of being paid to the pension plan.

Economic Links to Terrorism

Congress created the Office of Global Security Risk (OGSR) with the Securities and Exchange Commission to ensure that public companies' filings with the commission adequately disclose relevant material information to investors regarding global security risk-related issues. To date, neither the OGSR nor the commission has issued any guidelines or specific information for investors regarding companies doing business with or in terrorism-linked countries.

Recent state and federal legislative proposals designed to prevent public pension funds from investing in companies doing business in countries with alleged ties to terrorism have raised concern among many public funds that without easily attainable information about companies, it would be very expensive and difficult or impossible for public funds to comply with some legislative proposals. In addition, with regard to state legislation, it should be noted that the federal power to make foreign policy, including the imposition of economic sanctions, appears to be exclusive under the federal constitution. Public pension funds continue to monitor activity in this arena.



SUMMARY OF BENEFITS

BENEFITS SUMMARY

The Teacher Retirement System of Texas (TRS) administers a defined benefit plan that is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The pension trust fund 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, employer contributions in some circumstances, 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 is financed by plan participant premium payments and investment income. In addition to TRS-ActiveCare, 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, reporting entities, premium payments from plan participants, and investment income.

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

This summary of benefits is based on statutory provisions of the plan effective for FY 2005. Changes in state law, effective September 1, 2005, are described elsewhere in this report.

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 (five years minimum) equals or exceeds 80.

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 age, 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 and 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 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



SUMMARY OF BENEFITS

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 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 rollovers 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.
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.



SUMMARY OF BENEFITS

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 payment.

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 2005. 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 program under the Texas Public School Retired Employees Group Benefits Act, 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 one of two plans of more comprehensive benefits and coverage. For information on TRS-Care eligibility, please refer to the TRS Web site.

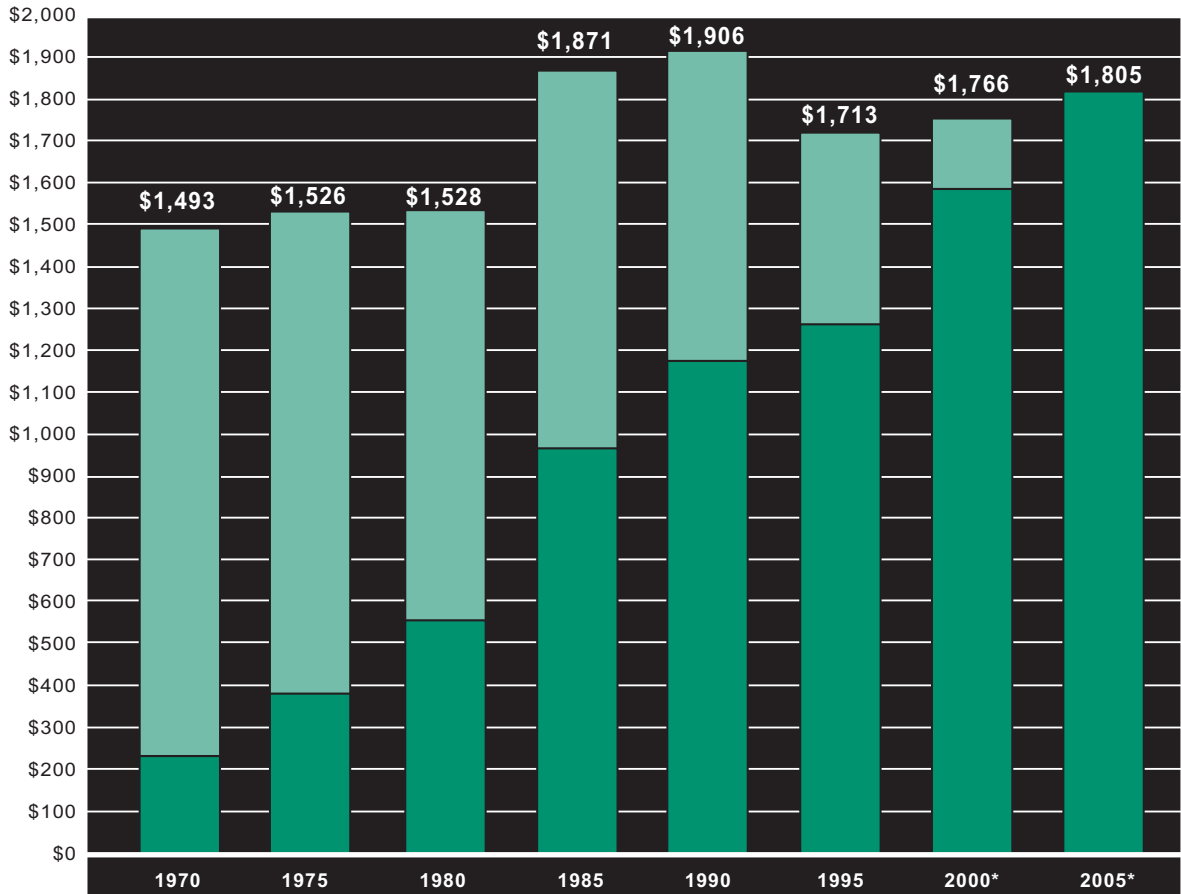
Long-Term Care Insurance Program

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.

AVERAGE MONTHLY BENEFIT

Current Average Monthly Benefit by Year of Retirement

Service Retiree Accounts as of August 31, 2005



	1970	1975	1980	1985	1990	1995	2000*	2005*
Benefit Increases	\$1,272	\$1,155	\$ 982	\$ 904	\$ 731	\$ 454	\$ 174	–
Original Benefits	\$ 221	\$ 371	\$ 546	\$ 967	\$1,175	\$1,259	\$1,592	\$1,805
Current Benefits	\$1,493	\$1,526	\$1,528	\$1,871	\$1,906	\$1,713	\$1,766	\$1,805

Number of Retirees**	124	661	1,881	4,282	6,407	7,756	12,469	10,874
----------------------	-----	-----	-------	-------	-------	-------	--------	--------

* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,724 and \$1,972 for fiscal years 2000 and 2005, respectively.

** For each of the retirement years shown, number of service retirees currently receiving benefits.

GROWTH OF THE SYSTEM

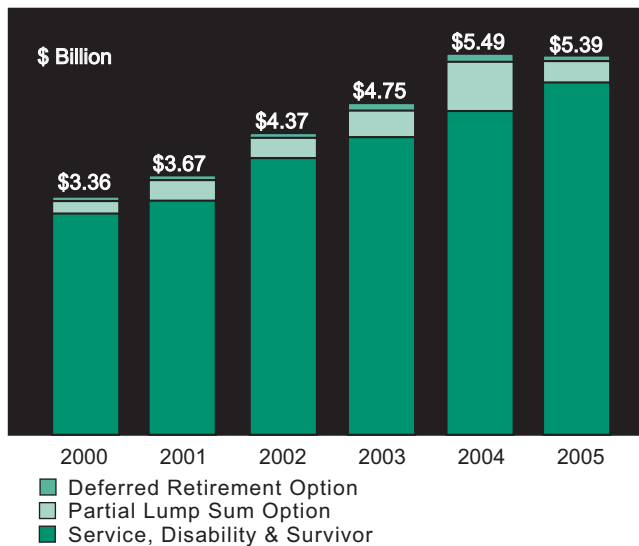
Benefit payments during fiscal year 2005 totaled approximately \$5.39 billion, a decrease of \$99 million from the previous year. As of August 2005, the monthly annuity payroll has grown to \$414 million, and TRS was paying benefits to 248,509 recipients.

Service recipients include retirees and beneficiaries receiving continuing monthly annuity payments. Disability recipients are disabled members who are receiving continuing monthly disability payments. Survivor recipients are beneficiaries who have elected to receive death benefits in the form of monthly

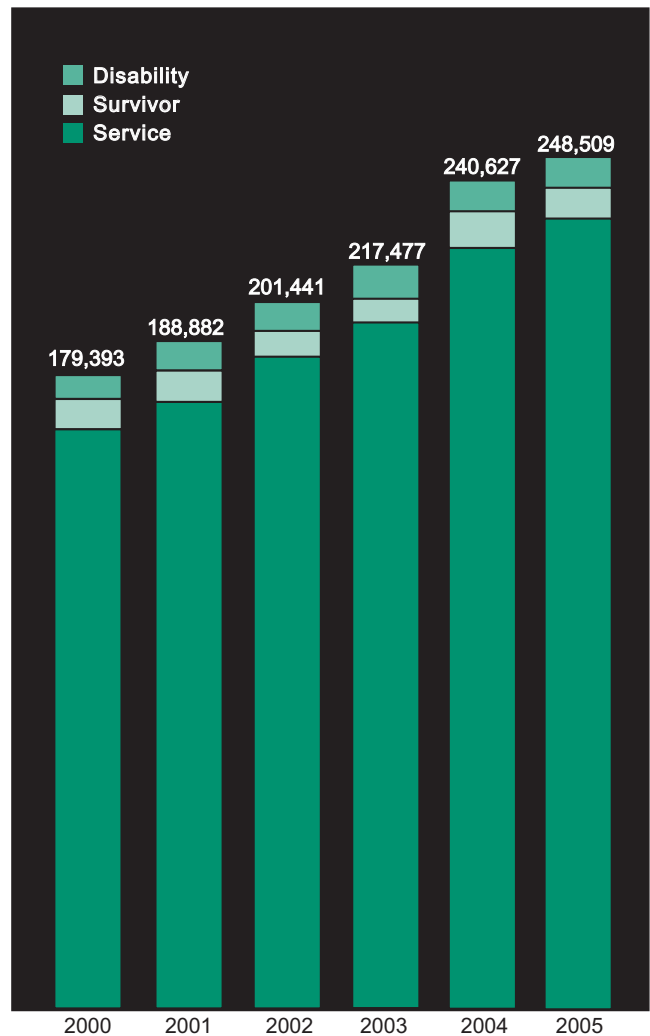
benefits. The number of retiree accounts increased by 7,882 during fiscal year 2005.

Of the current TRS member accounts, 740,676 (active contributing and deferred retirement option participants) were employed during fiscal year 2005 and made contributions to the system. The remaining 126,049 members are no longer employed by TRS-covered employers but have maintained their membership in TRS by leaving their contributions with the system. The number of current member accounts increased by 21,929 during fiscal year 2005.

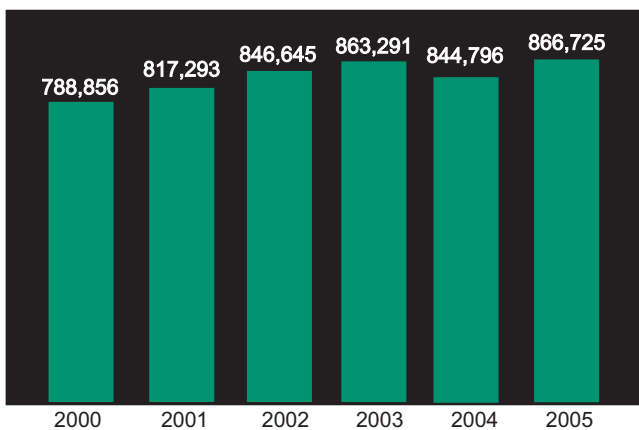
Benefit Payments



Retirement Recipients



Current Members



Payment Information has been moved to the Statistical Section (see pages 96 and 97).

Statistical Section



"Dedicated to Serving Our Members"





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+
9-1-99 to 8-31-00						
Average Monthly Benefit *	\$244.60	\$458.30	\$ 924.91	\$ 1,407.34	\$2,190.77	\$ 2,993.36
Average Final Average Salary	\$19,370	\$22,816	\$ 28,352	\$ 33,386	\$ 42,937	\$ 49,610
Number of Retirees	1,024	1,091	1,299	2,275	3,356	3,053
9-1-00 to 8-31-01						
Average Monthly Benefit *	\$237.30	\$426.34	\$ 908.59	\$ 1,386.33	\$2,135.88	\$ 2,901.18
Average Final Average Salary	\$20,219	\$23,329	\$ 29,691	\$ 34,956	\$ 44,871	\$ 51,365
Number of Retirees	999	1,089	1,344	2,295	3,630	3,202
9-1-01 to 8-31-02						
Average Monthly Benefit *	\$235.00	\$462.35	\$ 953.21	\$ 1,450.20	\$2,211.98	\$ 3,020.69
Average Final Average Salary	\$20,492	\$24,605	\$ 31,394	\$ 36,631	\$ 46,558	\$ 53,830
Number of Retirees	1,136	1,185	1,577	2,980	4,855	4,598
9-1-02 to 8-31-03						
Average Monthly Benefit *	\$266.23	\$498.94	\$ 970.43	\$ 1,476.37	\$2,219.44	\$ 3,033.91
Average Final Average Salary	\$23,400	\$26,788	\$ 31,876	\$ 37,503	\$ 46,432	\$ 53,667
Number of Retirees	1,459	1,580	2,100	3,715	5,904	4,977
9-1-03 to 8-31-04						
Average Monthly Benefit*	\$270.51	\$479.63	\$ 982.10	\$ 1,496.47	\$2,178.48	\$ 3,030.17
Average Final Average Salary	\$23,573	\$26,743	\$ 32,384	\$ 38,614	\$ 46,752	\$ 54,518
Number of Retirees	1,755	2,233	3,022	5,603	7,902	6,184
9-1-04 to 8-31-05						
Average Monthly Benefit*	\$271.25	\$532.07	\$ 1,059.08	\$ 1,592.47	\$2,332.59	\$ 3,245.25
Average Final Average Salary	\$24,643	\$28,135	\$ 35,311	\$ 40,921	\$ 49,345	\$ 57,729
Number of Retirees	1,218	1,048	1,257	1,825	2,906	2,261

* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$184.5, \$280.9, \$ 386.4, \$427.9, \$696.2, and \$288.1 million in fiscal years 2000, 2001, 2002, 2003, 2004, and 2005 respectively.

Benefit Payments by Type

PENSION TRUST FUND

	2000	2001	2002	2003	2004	2005
Service Retirements	\$ 2,879,795,791	\$3,065,933,596	\$ 3,612,311,394	\$ 3,917,349,171	\$ 4,321,718,025	\$ 4,709,693,259
Deferred Retirement Option	\$ 18,785,833	\$ 36,929,725	\$ 48,697,687	\$ 89,305,527	\$ 139,047,656	\$ 55,152,336
Partial Lump Sum Option	\$ 184,452,896	\$ 280,942,321	\$ 386,442,648	\$ 427,944,774	\$ 696,201,755	\$ 288,088,743
Disability Retirements	\$ 105,225,801	\$ 107,030,338	\$ 119,913,327	\$ 122,409,366	\$ 125,992,690	\$ 129,331,288
Death and Survivor Benefits:						
Accumulated Savings	\$ 780,487	\$ 908,801	\$ 1,504,798	\$ 1,297,262	\$ 1,460,631	\$ 1,766,957
Annual Salary	\$ 36,761,945	\$ 39,887,958	\$ 43,685,098	\$ 41,284,946	\$ 41,669,051	\$ 40,838,680
Survivor Annuities	\$ 63,895,597	\$ 63,441,321	\$ 71,664,740	\$ 70,611,609	\$ 74,320,247	\$ 74,325,670
Life Annuities	\$ 63,479,659	\$ 65,154,382	\$ 72,919,628	\$ 74,581,837	\$ 75,839,736	\$ 76,113,908
60 Monthly Payments	\$ 4,011,753	\$ 4,475,175	\$ 5,649,671	\$ 6,385,087	\$ 7,089,131	\$ 7,583,719
Remainder of Contributions	\$ 2,704,357	\$ 2,651,578	\$ 2,558,781	\$ 2,217,897	\$ 2,994,247	\$ 3,784,681
Refunds	\$ 214,999,991	\$ 214,434,792	\$ 186,421,065	\$ 186,082,670	\$ 220,396,709	\$ 243,382,014

PAYMENT INFORMATION

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	9,815	3,446	5,213	404	615	59	61	17
\$ 201 - 400	28,105	6,176	10,442	562	1,245	1,170	580	7,930
\$ 401 - 600	19,322	8,063	8,051	1,323	1,367	243	275	0
\$ 601 - 800	16,643	8,720	4,845	1,323	1,200	284	271	0
\$ 801 - 1,000	15,948	10,073	3,323	970	1,091	287	204	0
\$ 1,001 - 1,200	13,195	8,668	2,476	686	966	219	180	0
\$ 1,201 - 1,400	11,469	7,247	2,428	549	900	223	122	0
\$ 1,401 - 1,600	12,114	7,587	2,886	526	769	238	108	0
\$ 1,601 - 1,800	12,514	8,301	2,756	467	684	214	92	0
\$ 1,801 - 2,000	13,033	9,273	2,545	377	577	200	61	0
\$ over 2,000	96,351	80,293	10,042	1,213	3,647	1,034	122	0
Totals	248,509	157,847	55,007	8,400	13,061	4,171	2,076	7,947

* 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	9,815	4,641	3,331	671	327	785	60
\$ 201 - 400	28,105	9,523	5,543	1,424	715	1,574	9,326
\$ 401 - 600	19,322	10,269	4,860	1,805	837	1,551	0
\$ 601 - 800	16,643	8,520	4,306	1,944	770	1,103	0
\$ 801 - 1000	15,948	8,112	3,950	1,995	754	1,137	0
\$ 1,001 - 1,200	13,195	6,293	3,506	1,951	573	872	0
\$ 1,201 - 1,400	11,469	4,807	3,568	1,797	492	805	0
\$ 1,401 - 1,600	12,114	4,896	3,879	1,878	556	905	0
\$ 1,601 - 1,800	12,514	4,946	4,085	2,003	530	950	0
\$ 1,801 - 2,000	13,033	4,876	4,364	2,234	527	1,032	0
\$ over 2,000	96,351	33,550	35,169	17,525	3,541	6,566	0
Totals	248,509	100,433	76,561	35,227	9,622	17,280	9,386

* 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 2000-2005*

Year Ended	Number of Retirees and Beneficiaries			Annual Allowances	
	Added	Removed	End of Year	End of Year	% Increase
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%
2005	13,563	5,681	248,509	\$ 4,970,983,314	3.93%

* 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.

Changes in Fiduciary Net Assets

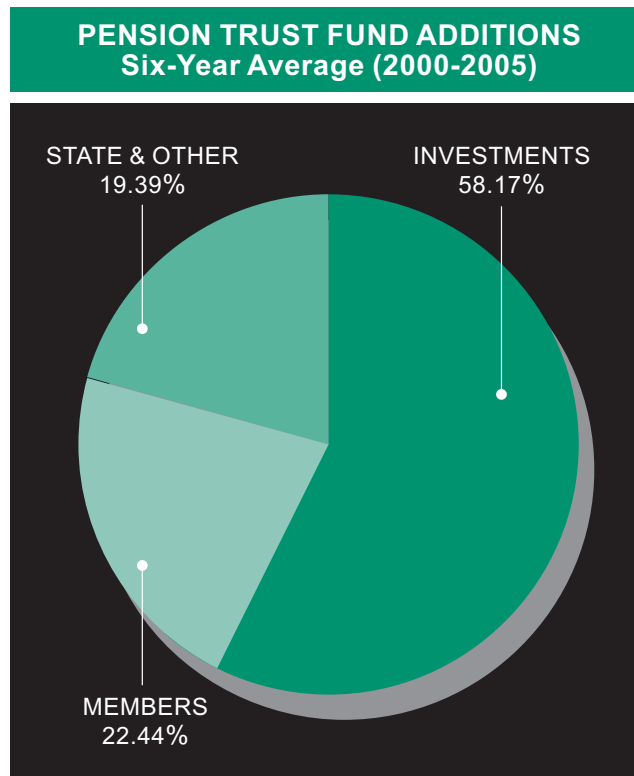
PENSION TRUST FUND
FOR THE FISCAL YEARS ENDED AUGUST 31

Summary

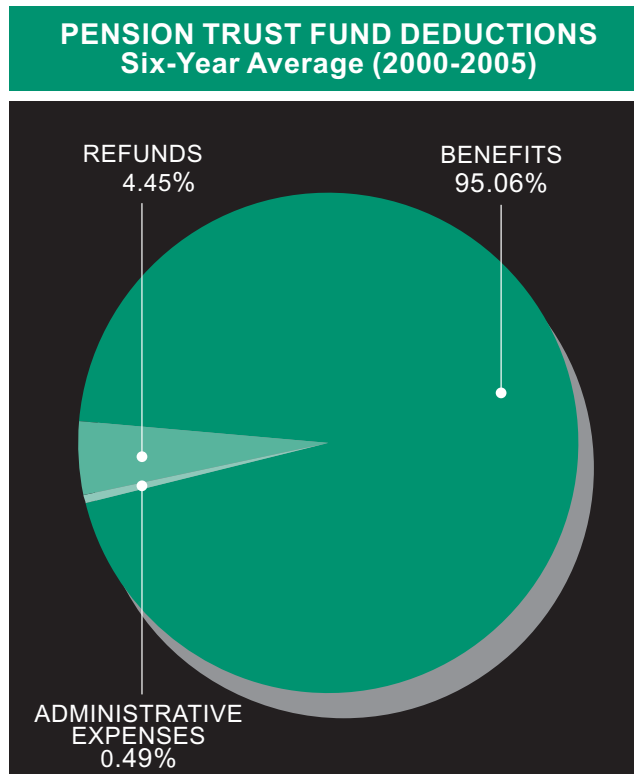


Year

	2005	2004
Additions:		
Member Contributions	\$ 1,728,333,818	\$ 1,721,504,445
State Contributions	1,258,597,882	1,242,305,696
Reporting Entities Contributions	221,158,942	192,395,672
Investment Income:		
Interest and Dividends	2,363,014,107	2,137,672,861
Net Appreciation (Depreciation) in Fair Value	9,607,205,397	7,024,439,015
Less: Investing Activity Expenses	(17,394,917)	(16,252,645)
Other	21,315	1,909
TOTAL ADDITIONS	\$ 15,160,936,544	\$ 12,302,066,953
Deductions:		
Benefits	\$ 5,387,605,428	\$ 5,486,849,698
Refunds of Contributions	243,382,014	220,396,709
Administrative Expenses, Net of Investing Activity Expenses	25,114,716	24,841,300
TOTAL DEDUCTIONS	\$ 5,656,102,158	\$ 5,732,087,707
Net Increase (Decrease)	\$ 9,504,834,386	\$ 6,569,979,246
Net Assets - Beginning of Year	\$ 84,202,981,707	\$ 77,633,002,461
Restatements		
Beginning of Year, As Restated	\$ 84,202,981,707	\$ 77,633,002,461
Net Assets - End of Year	\$ 93,707,816,093	\$ 84,202,981,707



	2003	2002	2001	2000
\$	1,672,212,387	\$ 1,560,700,102	\$ 1,433,037,813	\$ 1,357,940,313
	1,239,532,126	1,201,948,321	1,143,109,908	1,092,217,514
	182,536,228	157,781,530	136,247,871	119,060,600
	2,147,493,368	2,416,466,898	2,713,579,401	2,835,498,681
	5,673,389,054	(8,477,880,514)	(12,070,530,812)	8,278,136,788
	(14,604,331)	(12,921,671)	(11,852,877)	(9,494,024)
	1,501	491	6,733	15,101
\$	10,900,560,333	\$ (3,153,904,843)	\$ (6,656,401,963)	\$ 13,673,374,973
\$	4,753,849,401	\$ 4,366,038,505	\$ 3,667,711,511	\$ 3,360,116,181
	186,082,670	186,421,065	214,434,792	214,999,991
	23,428,162	24,597,361	20,795,129	21,654,384
\$	4,963,360,233	\$ 4,577,056,931	\$ 3,902,941,432	\$ 3,596,770,556
\$	5,937,200,100	\$ (7,730,961,774)	\$ (10,559,343,395)	\$ 10,076,604,417
\$	71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792
		(1,050,679)		
\$	71,695,802,361	\$ 79,426,764,135	\$ 89,987,158,209	\$ 79,910,553,792
\$	77,633,002,461	\$ 71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209



Changes in Fiduciary Net Assets

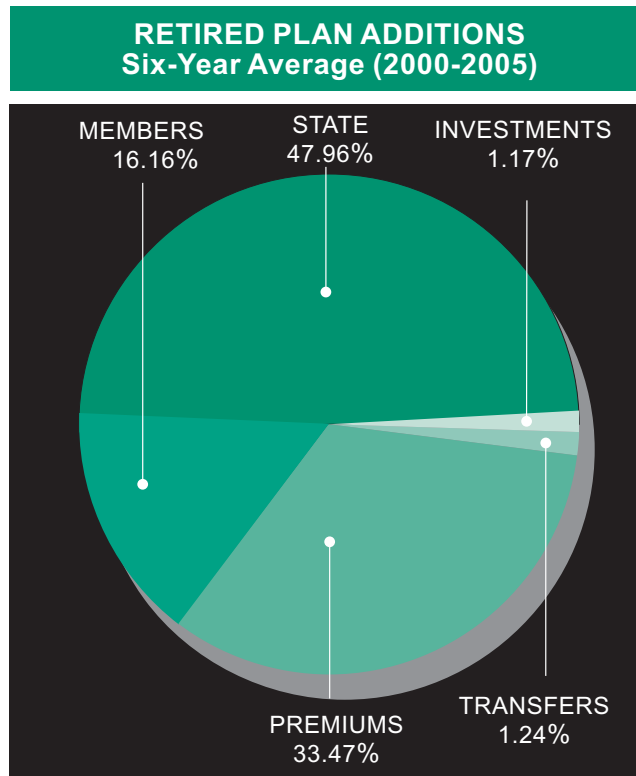
HEALTH BENEFITS TRUST FUND
FOR THE FISCAL YEARS ENDED AUGUST 31

Summary

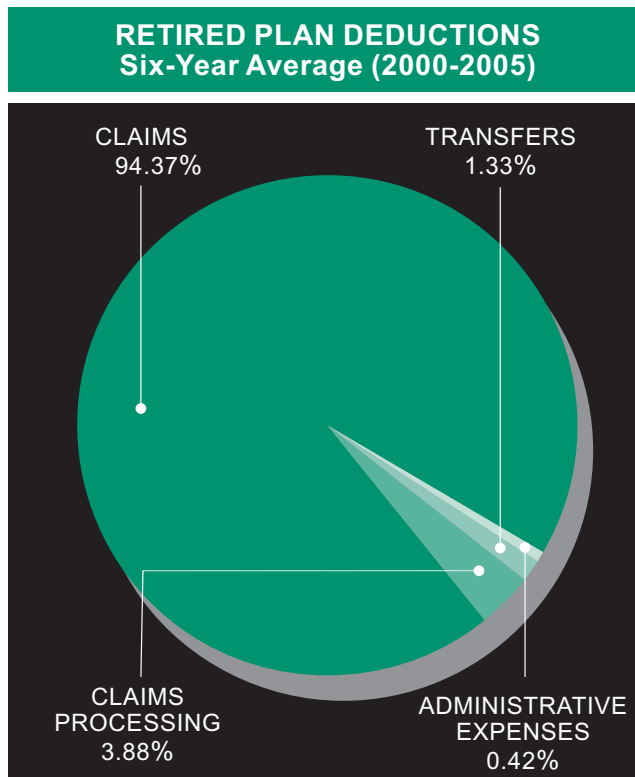


Year

	2005	2004
RETIRED PLAN		
Additions:		
Health Care Premiums	\$ 322,780,191	\$ 248,552,679
State Contributions	266,611,727	454,828,830
Member Contributions	101,198,783	99,297,097
Reporting Entities Contributions	80,914,228	79,457,387
Legislative Appropriations Transfer from TRS-ActiveCare Enterprise Fund		42,000,000
Investment Income:		
Interest	11,258,874	4,803,809
Net Appreciation (Depreciation) in Fair Value		
TOTAL ADDITIONS	\$ 782,763,803	\$ 928,939,802
Deductions:		
Health Care Claims	\$ 660,559,083	\$ 581,354,957
Health Care Claims Processing	31,262,147	23,914,851
Legislative Appropriations Transfer to TRS-ActiveCare Enterprise Fund		
Administrative Expenses	2,070,863	2,417,349
TOTAL DEDUCTIONS	\$ 693,892,093	\$ 607,687,157
Net Increase (Decrease)	\$ 88,871,710	\$ 321,252,645
Net Assets - Beginning of Year	\$ 238,285,159	\$ (82,967,486)
Restatements		
Beginning of Year, As Restated	\$ 238,285,159	\$ (82,967,486)
Net Assets - End of Year	\$ 327,156,869	\$ 238,285,159



2003		2002		2001		2000	
\$	162,917,666	\$	143,797,748	\$	131,213,445	\$	120,227,960
	265,038,205		380,307,062		166,400,568		85,505,637
	49,170,399		47,378,092		45,059,393		42,738,069
	3,394,956		7,140,560		5,789,973		6,775,986
					34,161		147,499
\$	480,521,226	\$	578,623,462	\$	348,497,540	\$	255,395,151
\$	571,744,362	\$	451,709,670	\$	390,466,745	\$	313,933,218
	19,388,818		16,828,256		16,017,167		14,682,301
	42,000,000						
	2,301,516		2,163,441		2,220,596		2,154,826
\$	635,434,696	\$	470,701,367	\$	408,704,508	\$	330,770,345
\$	(154,913,470)	\$	107,922,095	\$	(60,206,968)	\$	(75,375,194)
\$	71,945,984	\$	(35,950,516)	\$	24,256,452	\$	99,631,646
			(25,595)				
\$	71,945,984	\$	(35,976,111)	\$	24,256,452	\$	99,631,646
\$	(82,967,486)	\$	71,945,984	\$	(35,950,516)	\$	24,256,452



Revenues, Expenses, and Changes in Net Assets

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

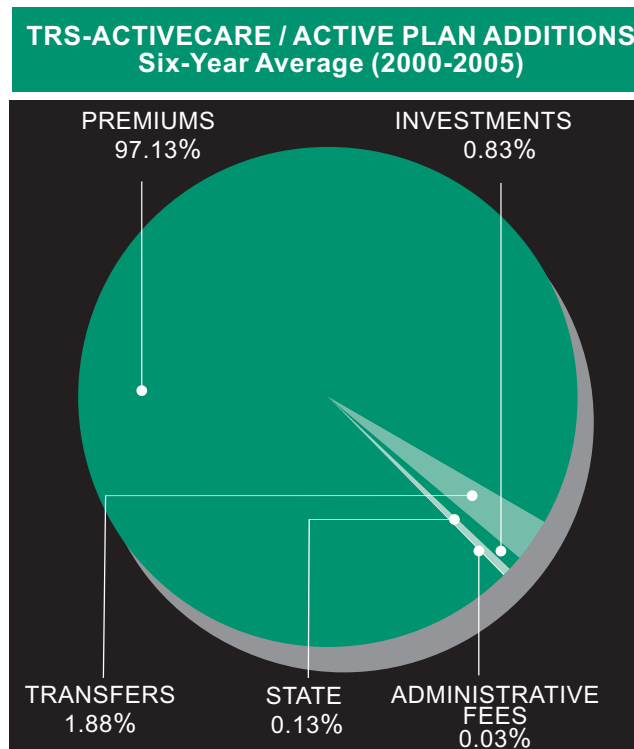
Summary



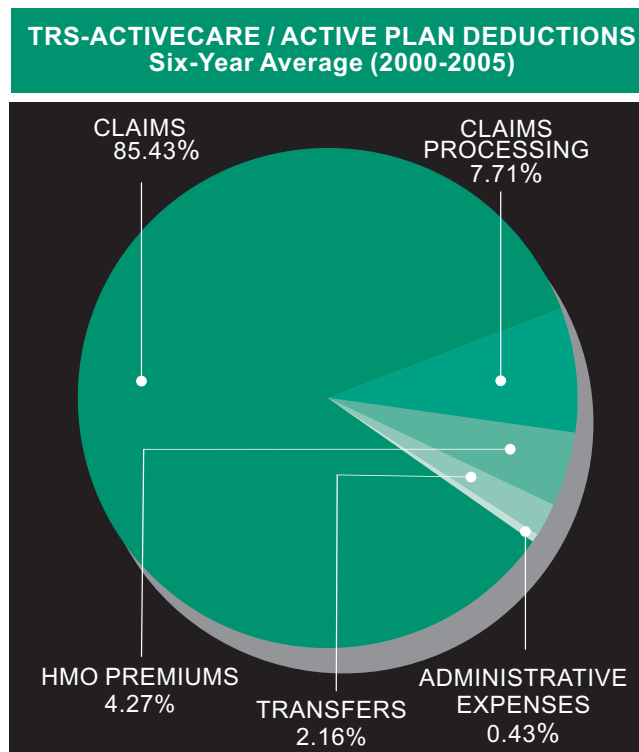
Year

	2005	2004
TRS-ACTIVECARE/ACTIVE PLAN		
Revenues/Additions:		
Health Care Premiums	\$ 823,726,341	\$ 758,062,552
State Contributions	35,626	24,050
Administrative Fees	183,317	192,763
Investment Income:		
Interest	8,915,711	3,641,100
Net Appreciation (Depreciation) in Fair Value		
Legislative Appropriations Transfer from Retired Plan		
TOTAL REVENUES/ADDITIONS	\$ 832,860,995	\$ 761,920,465
Expenses/Deductions:		
Health Care Claims	\$ 663,361,138	\$ 520,998,423
Health Care Claims Processing	53,697,572	53,564,510
Premium Payments to HMOs	42,574,641	40,210,539
Legislative Appropriations Transfer to Retired Plan		42,000,000
Administrative Expenses	1,607,113	918,619
TOTAL EXPENSES/DEDUCTIONS	\$ 761,240,464	\$ 657,692,091
Change in Net Assets	\$ 71,620,531	\$ 104,228,374
Net Assets - Beginning of Year	\$ 240,371,304	\$ 136,421,779
Restatements		(278,849)
Beginning of Year, As Restated	\$ 240,371,304	\$ 136,142,930
Net Assets - End of Year	\$ 311,991,835	\$ 240,371,304

* 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.



2003	2002	2001	2000
\$ 584,572,852	\$ 2,698,422	\$ 5,382	\$ 152,001
31,266	108,198	70,340	7,175
136,288			2,164
2,459,154	590,967	1,392,821	1,425,548
		20,909	(20,840)
42,000,000			
\$ 629,199,560	\$ 3,397,587	\$ 1,489,452	\$ 1,566,048
\$ 473,450,544	\$ (34,455)	\$ 41,066	\$ 142,569
42,411,388		92	21,281
1,771,441	2,750,107	474,961	855,829
\$ 517,633,373	\$ 2,715,652	\$ 516,119	\$ 1,019,679
\$ 111,566,187	\$ 681,935	\$ 973,333	\$ 546,369
\$ 24,855,592	\$ 24,179,853	\$ 23,206,520	\$ 22,660,151
	(6,196)		
\$ 24,855,592	\$ 24,173,657	\$ 23,206,520	\$ 22,660,151
\$ 136,421,779	\$ 24,855,592	\$ 24,179,853	\$ 23,206,520



Participating Entities

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

Participating Entities

(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 I S D
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 Oso 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

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
 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
 Austin Discovery School
 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

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
 Draw Academy
 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, Dallas
 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
 K I P P Aspire Academy
 K I P P Austin College
 K I P P Truth Academy
 La Amistad Academy
 La Escuela Delas Americas
 Life Charter School
 Mainland Prep Academy
 McCullough Academy
 Medical Center Charter
 Metro Charter Academy
 Meyer Park Elementary
 Mid Valley Academy

Participating Entities

(continued)

Midland Academy
 N Houston HS Business
 Nancy Ney Charter School
 New Creation Light House
 Nova Charter School
 Nova Charter Southeast
 Northwest Prep 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 - Corpus Christi
 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
 School of Science & Technology
 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
 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
 Dallas County School Dist
 Harris Cty Dept Education
 Houston Trinity Cty Co Op
 Johnson Cty Shared Services Arrangement
 Parker County Co Op
 Rio Brazos Ed Co Op

Other Entities

Teacher Retirement System
 Texas Education Agency
 Texas Food & Fibers Comm



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

(512) 542-6400
800-223-8778

<http://www.trs.state.tx.us/>