

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Texas

## TEACHER RETIREMENT SYSTEM OF TEXAS



*Providing Financial Security  
for Current and Future Retirees*

FISCAL YEAR ENDED AUGUST 31, 2008



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## TRS Mission Statement

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

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



# **TEACHER RETIREMENT SYSTEM OF TEXAS**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**A Component Unit of the State of Texas**

**FISCAL YEAR ENDED  
August 31, 2008**



**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.frs.state.tx.us](http://www.frs.state.tx.us)**

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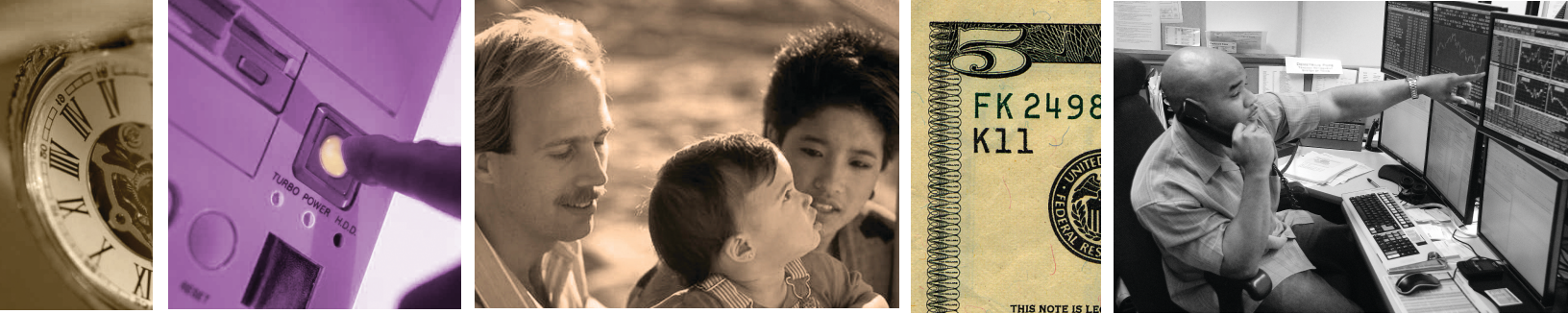
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# INTRODUCTORY Section

## BOARD OF TRUSTEES



**James H. Lee**  
(Chair), 2013  
Private Investor  
Houston



**Linus D. Wright**  
(Vice Chair), 2011  
Retired, Dallas



**Charlotte Clifton**  
2013, Teacher  
Snyder ISD, Snyder



**Robert P. Gauntt**  
2013, Partner  
Avalon Advisors  
L.P., Houston



**John Graham, Jr.**  
2009, Financial  
Advisor, Ameriprise  
Financial  
Fredericksburg



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



**R. David Kelly**  
2011, Partner  
Carleton Residential  
Properties, Dallas



**Philip Mullins**  
2011, Power Plant  
Operator, University  
of Texas, Austin



**Dory A. Wiley**  
2009, Managing  
Director, Commerce  
Street Capital, L.L.C.  
Dallas

The board of trustees is responsible for the administration of the system under provisions of the state constitution and laws. The board is composed of nine trustees who are appointed to staggered terms of six years. Three trustees (Kelly, Gauntt, and Wiley) are direct appointments of the governor. Two trustees (Lee and Graham) are appointed by the governor from a list prepared by the State Board of Education. Two trustees (Henry and Clifton) 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 (Mullins) is appointed by the governor from the three higher education active member candidates nominated by employees of institutions of higher education. One trustee (Wright) is appointed by the governor from the three retired member candidates who are nominated by retired TRS members. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.

## CERTIFICATE OF ACHIEVEMENT



# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
**Teacher Retirement  
System of Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2007

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.



*Chloe S. Cox*  
President

*Jeffrey R. Emer*  
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 13, 2008

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:

On behalf of the board of trustees, I am pleased to present this *Comprehensive Annual Financial Report* (CAFR) of the Teacher Retirement System of Texas (TRS) for the fiscal year ended August 31, 2008, the system's 71<sup>st</sup> year of operation. During the past year, the system continued to experience growth as membership grew to over 1.2 million participants. The four-year bull market run of record growth of the pension trust fund was interrupted by volatile markets that took a portion of the previous gains. At August 31, 2008, net assets were \$105 billion compared to \$112 billion at the close of the 2007 fiscal year. Since August 31, 2008, the stock market has continued to decline causing the market value of assets to also decline. Although the decline in the market has a negative impact on the financial condition of the fund, TRS is well positioned in the long-run to withstand this down market. Member benefits remain secure.

Benefit payments continued to grow as TRS paid out \$6.5 billion to annuitants during fiscal year 2008, including over \$350 million for a special "13<sup>th</sup> check" in January 2008.

### 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.

### 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 previous fiscal year. 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 18 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.

### 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.



## LETTER OF TRANSMITTAL

### Investments

For the fiscal year, the total portfolio returned a negative 4.5 percent, with investment losses totaling \$4.6 billion in fiscal year 2008. Long-term performance continues to be above inflation. For the past 10 years, the time weighted compound annual return has been 6.9 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. Last year the TRS Board adopted a new long-term asset allocation that over time will increase TRS holdings in private markets and reduce holdings in public markets. This shift in assets is intended to increase investment diversification and returns without increasing risks to the fund.

### Pension Plan Benefits

For fiscal year 2008, TRS paid pension benefit payments to 275,228 retirees and their beneficiaries totaling \$6.5 billion. These benefits were funded from a combination of investment income, member contributions, and state and employer contributions. Investment income continues to be the major source of revenue for the fund as it accounted for 64.6 percent of all total revenue over the last 10 years.

### Actuarial Soundness of the Pension Trust Fund

Net investment gains of \$48 billion over the last six years have allowed the system to rebound from adverse market performance in 2001 and 2002. The combination of strong investment performance and an increase in the state contribution rate from 6 percent to 6.58 percent has improved the system's actuarial soundness. At August 31, 2008, the system had a funding ratio of 90.5 percent with an Unfunded Actuarial Accrued Liability of \$11.5 billion. However, because of the significant shortfall in investment income in fiscal year 2008, the system is now deferring net investment losses of \$5.3 billion. These net losses do not include unrecognized losses since August 31, 2008.

### 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-ActiveCare covers members currently employed by public educational employers that participate in the plan. TRS establishes premiums to pay for the cost of the program.

### Retiree Health Benefits Program

TRS also administers TRS-Care, a health benefits program for retirees that was established in 1985. TRS-Care is the source of health benefits coverage, which almost all retired public school employees rely upon.

Funding is provided by premium payments from retiree participants and contributions from the state, school districts, and active employees. During 2008, TRS-Care also received additional revenue from the new Medicare Part D prescription drug program.

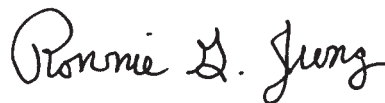
An actuarial valuation for TRS-Care was conducted as of August 31, 2008. The valuation results indicate that TRS-Care has an Unfunded Actuarial Accrued Liability of \$21.6 billion. More detailed information about the valuation results is included in the Notes to the Financial Statements and the Required Supplementary Information.

The current funding status of TRS-Care based on projections is that TRS-Care is solvent from a cash flow perspective through August 31, 2013. As in the past, changes to the benefit structure and/or funding structure will need to be considered to extend the life of the program. 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.

### Acknowledgments

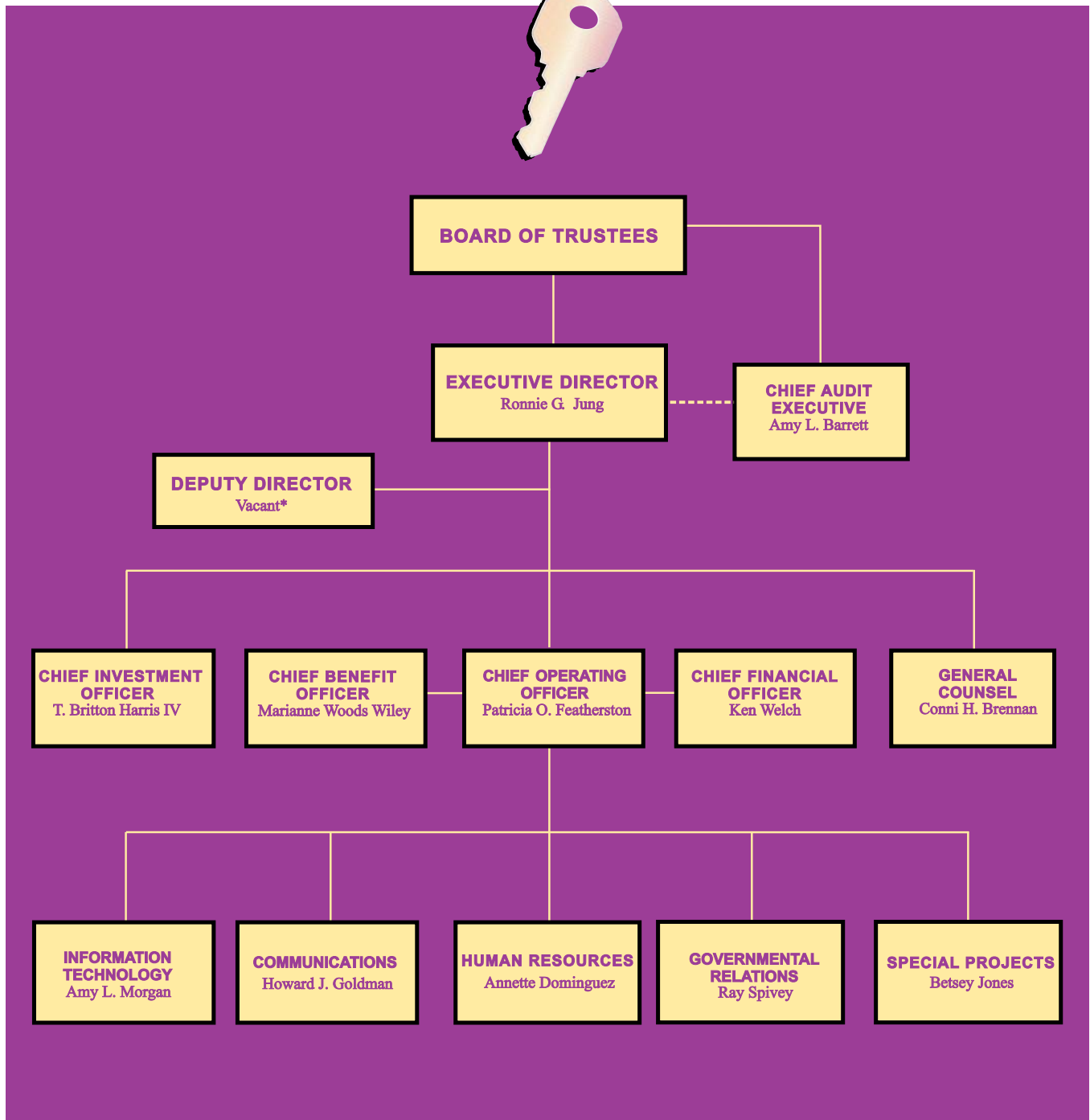
We wish to express our appreciation for the support of the Governor's, Lieutenant Governor's, and Speaker's Offices, as well as members of the legislature, in maintaining a strong retirement system, which provides valuable benefits for public education employees and retirees. TRS trustees and staff are 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 operational results for the year and to acknowledge the substantial support of state leadership, trustees, members, interested associations, and TRS staff.

Respectfully submitted,



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

## ORGANIZATION CHART



\* Brian Guthrie joined TRS as Deputy Director on October 1, 2008.



## STAFF AND ADVISORS

### EXECUTIVE ADMINISTRATIVE STAFF

Ronnie G. Jung, *Executive Director*  
 Vacant\*, *Deputy Director*  
 Patricia O. Featherston, *Chief Operating Officer*  
 T. Britton Harris IV, *Chief Investment Officer*  
 Conni H. Brennan, *General Counsel*  
 Amy L. Barrett, *Chief Audit Executive*  
 Marianne Woods Wiley, *Chief Benefit Officer*  
 Ken Welch, *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

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 Reinarz, Austin  
 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  
 Kim Kriegel, Red Oak  
 Dr. Ignacio Salinas, Jr., San Diego  
 Nelda Van Dyke, Brenham  
 Beth Wallace, San Antonio  
 Leona Ellyce Warns, San Antonio  
 Gary R. Willis, Midland

### 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

\* Brian Guthrie joined TRS as Deputy Director on October 1, 2008.

## MEMBERSHIP

### Pension Trust Fund

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2008, participating entities included the following:

Independent School Districts	1,032
Charter Schools	195
Community and Junior Colleges	51
Senior Colleges and Universities	43
Regional Education Service Centers	20
Education Districts	9
Medical and Dental Schools	8
State Agencies	2
<b>Total</b>	<b><u>1,360</u></b>

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas.

At August 31, 2008, and August 31, 2007, membership consisted of the following:

	<b>Year Ended August 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Current Members:</b>		
Active Contributing	823,154	799,934
Active Noncontributing	100,372	94,948
Deferred Retirement Option	721	895
Inactive Nonvested	16,796	16,758
Inactive Vested	25,000	23,196
<b>Total Current Members</b>	<b><u>966,043</u></b>	<b><u>935,731</u></b>
<b>Retirement Recipients:</b>		
Service	256,541	246,975
Disability	8,556	8,473
Survivor	10,131	9,859
<b>Total Retirement Recipients</b>	<b><u>275,228</u></b>	<b><u>265,307</u></b>
<b>TOTAL MEMBERSHIP</b>	<b><u>1,241,271</u></b>	<b><u>1,201,038</u></b>

Membership changes are summarized below:

	<b>2008</b>	<b>2007</b>
<b>Active Membership:</b>		
New Members	99,873	94,642
Members Withdrawing	(40,182)	(41,854)
Service Retirements	(13,528)	(12,803)
Disability Retirements	(708)	(643)
In-Service Deaths	(1,049)	(1,015)
Other Changes	(14,094)	(14,301)
<b>Net Increase</b>	<b><u>30,312</u></b>	<b><u>24,026</u></b>
<b>Retired Membership:</b>		
Retirements	14,236	13,446
Deaths After Retirement	(5,878)	(5,695)
Option Continuations	1,725	1,620
Other Changes	(162)	(1,208)
<b>Net Increase</b>	<b><u>9,921</u></b>	<b><u>8,163</u></b>

<b>Active Member Profile</b>	<b>2008</b>	<b>2007</b>
Average Annual Salary	\$ 41,472	\$ 40,003
Average Age	43.8	43.8
Average Years of Service	9.4	9.4

<b>Annuitant and Beneficiary Profile</b>	<b>2008</b>	<b>2007</b>
Average Monthly Annuities		
Life Annuities	\$ 1,823	\$ 1,807
Disability Annuities	\$ 1,163	\$ 1,170
Annuities Certain	\$ 966	\$ 947
Average Age of Current Retirees	69.8	69.6
Average Age at Retirement		
All Retirees	59.8	59.6
Current Year Retirees	60.0	60.1
Average Years of Service		
All Retirees	24.6	24.7
Current Year Retirees	23.9	23.6
Average Salary at Retirement		
All Retirees	\$ 36,089	\$ 35,124
Current Year Retirees	\$ 47,286	\$ 45,802
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:

	<b>2008</b>	<b>2007</b>
Retirees	155,092	153,865
Surviving Spouses	4,260	4,043
Surviving Children	50	43
Dependent Spouses	29,911	29,356
<b>TOTAL *</b>	<b><u>189,313</u></b>	<b><u>187,307</u></b>

\* Excludes 5,897 and 6,029 dependent children for 2008 and 2007, respectively.

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

Participation for the Active Plan is summarized below:

	<b>2008</b>	<b>2007</b>
Employees	206,908	197,433
Dependents	138,940	130,364
<b>TOTAL</b>	<b><u>345,848</u></b>	<b><u>327,797</u></b>

As of September 1, 2008, there were 1,081 participating entities.

## COMMUNICATIONS

In the past year, TRS continued a number of initiatives to provide information and assistance to its members, retirees, and the general public. The agency also hired a communication services firm to assist staff in enhancing two-way TRS communications with these groups. Listed below are achievements during the past year, including those pertaining to the agency's Web site, toll-free telephone service, print publications, benefit presentations, and employer training programs.

### Print Publications

Throughout the year, *TRS News* and *Update* newsletters were published to inform members and employers of TRS-related developments. *Update* newsletters were distributed electronically, and an increased number of TRS members and retirees took advantage of the option to receive their *TRS News* via e-mail.

TRS updated the *TRS Benefits Handbook* and mailed out copies to all members and retirees. It also translated the handbook into Spanish, a copy of which is featured on the agency Web site. Benefit information was also updated through brochures, newsletters, other print materials, and the TRS Web site.

### The Internet

TRS continued to make enhancements to its role-based Web site, which enables members, retirees and beneficiaries, employers, and the general public to find information directly pertaining to them. The site's graphic design has been designed to be inviting to visitors, accessible to persons with disabilities, compatible with various Web browsers, and efficient to maintain.

In August 2008, TRS updated its "Steps to Retirement" streaming video and placed it on the agency Web site. The video describes how to request an estimate of retirement benefits and the basic steps a member will take when retiring from TRS. In addition, the video explains which forms must be completed for retirement, and it provides sources of information to help answer prospective retirees' questions pertaining to their retirement.

In fiscal year 2008, TRS made form TRS 18 (Request for Estimate of Retirement Benefits) available for the first time as a Web-based form. As a result, members can now submit an online request to receive an estimate of their retirement benefits. This has simplified and expedited the process for members, and it has also eliminated the need for them to mail their requests to TRS.

TRS also introduced a Web-based 403(b) Product Registration System that allows 403(b) companies to submit products for registration as required by recent statutory amendments. When TRS accepts these products for registration, they are automatically added

to a list of 403(b) Registered Products on the TRS Web site. The list includes information regarding all fees charged in connection with registered qualified investment products and the sale and administration of those products.

During fiscal year 2008, the TRS Web site received 1,553,414 visits, representing a two percent decrease from the previous fiscal year. However, 791,532 people visited the site during fiscal year 2008 — a two percent increase over the previous year. Since more people visited the site and required fewer page "hits" (also known as "visits") than in the previous year, it appears that visitors are finding it easier than ever to locate information of interest.

### Group Presentations and Individual Retirement Counseling Sessions

TRS made a number of group presentations to professional associations, to employee and retiree groups, and at regional education service centers. Presentations focused on retirement options, health benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 14,027 people attended 164 group presentations, and 36,000 people attended nine conventions at which TRS was represented. In addition, 10,080 people visited individually with a TRS counselor in Austin. In fiscal year 2008, the second year of one-on-one retirement counseling sessions in limited field locations throughout Texas, TRS expanded to 350 available appointments in nine cities. A total of 340 members were served in these meetings. In fiscal year 2009, TRS will expand this program to 10 cities with 375 available appointments.

### Telecommunications

In fiscal year 2008, the agency's Benefit Counseling department handled a total of 417,279 calls. In addition, 249,141 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 health care-related information. TRS-ActiveCare staff and contractors responded to 1,027,251 calls, and TRS-Care staff and contractors responded to 567,834 calls.

### Coordination with Reporting Entities

The TRS Reporting and Query System (TRAQS) has been fully implemented with approximately 1,275 TRS reporting entities submitting monthly reports through TRAQS by year-end. TRS-ActiveCare training seminars were conducted in 20 locations around the state for approximately 1,414 administrators of 886 districts/entities. These seminars provided information for enrollment and ongoing administrative issues for TRS-ActiveCare.

## COMMUNICATIONS

### Member Research Projects

In the spring of 2008, TRS conducted a member/retiree satisfaction survey. The survey gauged member and retiree satisfaction with a wide variety of TRS services. Retirees reported a 98.3 percent approval rating (satisfied or very satisfied). In addition, 97.9 percent of active members gave TRS a very high rating (satisfied or very satisfied). The University of North Texas Survey Research Center (SRC) conducted the survey for TRS.

In February, TRS updated and formalized a survey tool for visitors who meet with a TRS counselor. For those members who come to TRS' Austin office, upon arrival they are given a post card size survey for ongoing and immediate feedback about their experience at TRS. They may fill it out and place in a drop box in the lobby or mail it back after the visit. For members who meet with a counselor in field office visits, they are given the card by the counselor at the conclusion of the visit and may mail it to TRS after the visit.

In April, TRS initiated a telephone survey for immediate and ongoing member feedback regarding their experience with agency counselors. Callers are randomly offered the option of taking the survey. If they accept, they may ask to be transferred to the survey at the end of their call. TRS contracted with an outside contractor to help develop the survey, analyze the data, and provide monthly reports from the member feedback.



# FINANCIAL Section





## INDEPENDENT AUDITOR'S REPORT

### Teacher Retirement System Board of Trustees

Mr. James H. (Jim) Lee, Chair  
 Mr. Linus D. Wright, Vice Chair  
 Ms. Charlotte Clifton  
 Mr. Robert Gauntt  
 Mr. John Graham, Jr.  
 Mr. Mark Henry, Ed.D.  
 Mr. R. David Kelly  
 Mr. Philip Mullins  
 Mr. Dory A. Wiley

We have audited the accompanying financial statements of the major enterprise fund and the aggregate remaining fund information, consisting of the fiduciary funds and the governmental funds, of the Teacher Retirement System of Texas (System), a component unit of the State of Texas, as of and for the year ended August 31, 2008, which collectively comprise the System's basic financial statements, listed as Exhibits I through VII in the Table of Contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's fiscal year 2007 financial statements and, in our report dated November 6, 2007, we expressed unqualified opinions on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise fund and the aggregate remaining fund information of the System as of August 31, 2008, the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

SAO No. 09-301

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 Austin, Texas 78701

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 (512) 936-9400

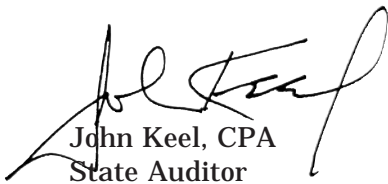
Internet:  
[www.sao.state.tx.us](http://www.sao.state.tx.us)

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 opinions on the financial statements that collectively comprise the System's basic financial statements. The information presented as Required Supplementary Information is not a required part of the basic financial statements but is supplementary information required by GASB. The information in Exhibit A and Schedules 1 through 4, 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 System's management. 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. Such additional information is the responsibility of the System's management and 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 our tests of its compliance with certain provisions of laws, regulations, and contracts and on other matters in a separate report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



John Keel, CPA  
State Auditor

November 13, 2008

## 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, 2008. 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 \$104.9 billion at August 31, 2008, a decrease of \$7.2 billion, or 6.4%, in fiscal year 2008.
- As of August 31, 2008, 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 90.5%, which is greater than the 89.2% level at August 31, 2007.
- The TRS rate of return on investments for the year ended August 31, 2008 was a negative 4.5% on a market value basis and was due primarily to the market volatility experienced this past year. The rate of return for fiscal year 2007 was 14.4%.
- Net assets of the Health Benefits Trust Fund – Retired Plan (TRS-Care) were \$728.8 million at August 31, 2008, an increase of \$106.0 million in fiscal year 2008.
- As of August 31, 2008, the date of the most recent actuarial valuation, the TRS health benefits trust fund's unfunded actuarial accrued liability was \$21.6 billion, which is greater than the \$19.1 billion reported at August 31, 2007.
- Net assets of the TRS-ActiveCare Enterprise Fund were \$476.5 million at August 31, 2008, an increase of \$41.2 million in fiscal year 2008.

### Overview of the Financial Statements

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

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

Collectively, this information presents the net assets and fund balances available for pension and other postemployment benefits, health care benefits, and other purposes as of August 31, 2008, and summarizes the changes in net assets or fund balances for pension and other postemployment benefits, health care benefits, and other purposes. The information available in each of these sections is summarized as follows:

• **Fund Financial Statements.** Financial statements are presented for all fiduciary, proprietary and governmental funds as of August 31, 2008. Fiduciary funds presented include the Pension Trust Fund, Health Benefits Trust Funds - Retired Plan, 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 Children's Health Insurance Program (CHIP) contract with the Health and Human Services Commission, and the 403(b) Certification Program, both of which are considered non-major special revenue funds.

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, 2008, and for the year then ended. Individual fund financial statements are presented for the fiduciary, proprietary and governmental funds as of August 31, 2008, and for the year then ended. Comparative information as of August 31, 2007, and for the year then ended has also been presented with the exception of agency funds. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries, to pay health care benefits for covered participants, to fund the CHIP for eligible children of school district personnel, 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.
- Note V provides information on fringe benefits paid by the state and federal government for employees and participants of the health benefits programs.
- Note VI describes deferred compensation plans available to TRS employees.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

– 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 postemployment 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 related to the funding progress and the contributions from employers and other contributing entities of both the pension plan and the postemployment benefit plan administered by TRS. Also included in this component is Management's Discussion and Analysis.

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

### Financial Analysis of TRS Funds

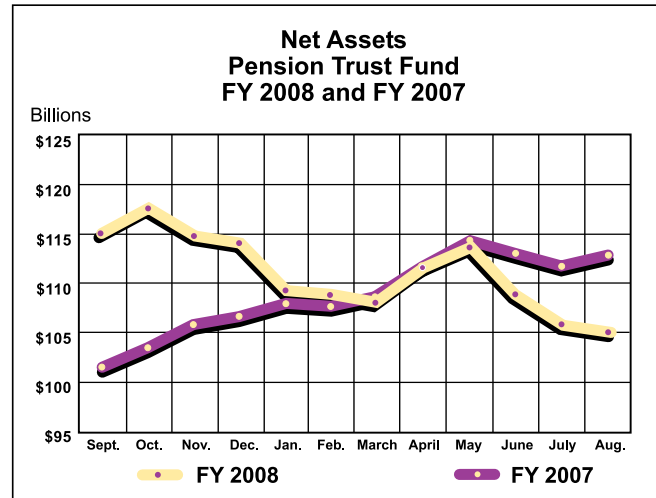
#### Pension Trust Fund

Net assets held in trust for benefits at August 31, 2008, were \$104.9 billion, a decrease of \$7.2 billion, from \$112.1 billion at August 31, 2007.

The overall financial condition of the system declined in fiscal year 2008 due to the significant volatility of the market resulting in a net investment loss of \$4.6 billion. This net loss is comprised of net depreciation in fair value of investments of (\$8.0) billion, \$3.2 billion in interest and dividends, and net income of \$213.3 million from securities lending, reduced by investing activity expenses of \$28.0 million. Net investment income for fiscal year 2007 was \$14.3 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 rate of return results for the total fund for the periods ending August 31, 2008:

- One-Year -4.5%
- Three-Years 6.2%
- Five-Years 9.0%
- Ten-Years 6.9%

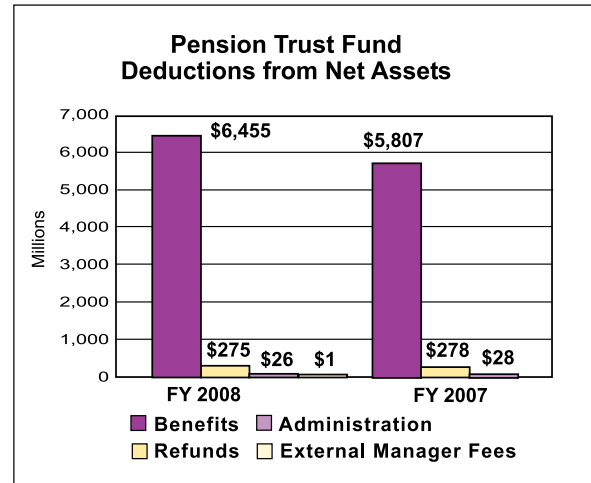
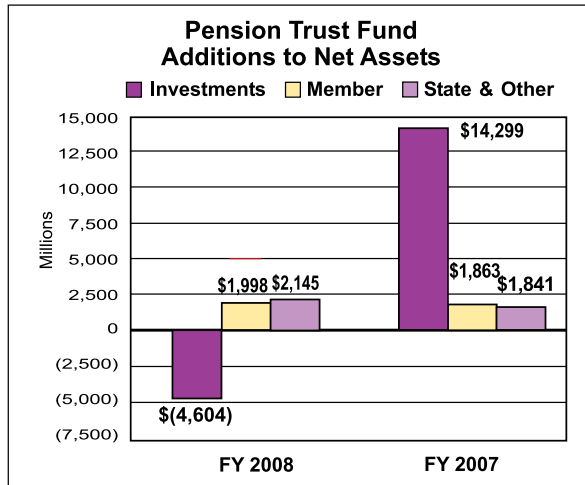


Member, state and reporting entity contributions for fiscal year 2008 were \$2.0 billion, \$1.7 billion and \$0.4 billion, respectively. Total contributions increased \$438.3 million, or 12.1%, during fiscal year 2008. The member contribution rate remained at 6.4% of payroll for fiscal year 2008. As a result of Senate Bill 1846, 80<sup>th</sup> Legislature, the fiscal year 2008 state contribution rate increased to 6.58% of payroll from the fiscal year 2007 rate of 6.0%. House Bill 2358, 80<sup>th</sup> Legislature, required the direct deposit of federal or private source funds, received by reporting entities to pay state contributions, into the state contributions account of TRS rather than the general fund effective September 1, 2007. These fiscal year 2008 state contributions totaled \$251.4 million. An increase in active membership and overall payroll growth also contributed to the increase in total contributions.

Deductions from TRS net assets held in trust for benefits are predominantly retirement, death, and survivor benefits. During fiscal year 2008, benefit payments totaled \$6.5 billion, an increase of approximately \$647.5 million, or 11.2%, from fiscal year 2007 benefit payments of \$5.8 billion which includes the effects of a supplemental payment to annuitants in January 2008.

Other deductions for fiscal year 2008 include \$275.5 million in refunds, a decrease of \$2.4 million from fiscal year 2007, administrative expenses of \$26.1 million, a decrease of \$1.4 million from fiscal year 2007, and external manager fees of \$1.4 million which were incurred for the first time in July 2008. Administrative expenses, excluding investment costs, on a cost per member basis were \$21.05 for fiscal year 2008 as compared to \$22.90 per member in fiscal year 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS



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

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash and Receivables	\$ 1,553,327	\$ 1,548,606	\$ 4,721	0.3%
Investments	104,074,710	111,120,822	(7,046,112)	-6.3%
Invested Securities Lending Collateral	19,347,275	23,114,635	(3,767,360)	-16.3%
Capital Assets	27,956	29,182	(1,226)	-4.2%
<b>TOTAL ASSETS</b>	<b>\$ 125,003,268</b>	<b>\$ 135,813,245</b>	<b>\$ (10,809,977)</b>	<b>-8.0%</b>
<b>Liabilities:</b>				
Benefits Payable	\$ 520,210	\$ 482,493	\$ 37,717	7.8%
Investments Purchased Payable	182,710	43,359	139,351	321.4%
Accounts Payable and Other	42,575	43,958	(1,383)	-3.1%
Securities Lending Collateral	19,347,275	23,114,635	(3,767,360)	-16.3%
<b>TOTAL LIABILITIES</b>	<b>\$ 20,092,770</b>	<b>\$ 23,684,445</b>	<b>\$ (3,591,675)</b>	<b>-15.2%</b>
<b>Total Net Assets</b>	<b>\$ 104,910,498</b>	<b>\$ 112,128,800</b>	<b>\$ (7,218,302)</b>	<b>-6.4%</b>

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

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Percentage Change
<b>Additions:</b>				
Member Contributions	\$ 1,998,138	\$ 1,862,596	\$ 135,542	7.3%
State Contributions and Other	2,144,823	1,841,165	303,658	16.5%
Investment Income (Loss)	(4,603,597)	14,298,547	(18,902,144)	-132.2%
<b>TOTAL ADDITIONS</b>	<b>\$ (460,636)</b>	<b>\$ 18,002,308</b>	<b>\$ (18,462,944)</b>	<b>-102.6%</b>
<b>Deductions:</b>				
Retirement Benefits	\$ 6,454,687	\$ 5,807,037	\$ 647,650	11.2%
Refunds of Contributions	275,482	277,932	(2,450)	-0.9%
Administrative Expenses	26,123	27,502	(1,379)	-5.0%
External Manager Fees	1,374		1,374	
<b>TOTAL DEDUCTIONS</b>	<b>\$ 6,757,666</b>	<b>\$ 6,112,471</b>	<b>\$ 645,195</b>	<b>10.6%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (7,218,302)</b>	<b>\$ 11,889,837</b>	<b>\$ (19,108,139)</b>	<b>-160.7%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the actual investment allocations as of fiscal year end 2008 and 2007 as compared to

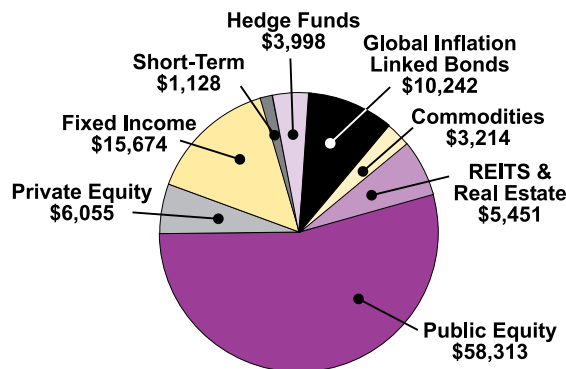
the target allocations for 2008 and 2007.

	Fiscal Year 2008		Fiscal Year 2007	
	Target	Actual	Target	Actual
Public Equity	55.0%	56.0%	58.5%	63.3%
Private Equity	5.0%	5.8%	4.0%	3.4%
<b>TOTAL GLOBAL EQUITY</b>	<b>60.0%</b>	<b>61.8%</b>	<b>62.5%</b>	<b>66.7%</b>
Fixed Income	15.0%	15.1%	29.5%	28.2%
Short-Term	1.0%	1.1%	0.5%	1.5%
Hedge Funds	4.0%	3.8%	1.5%	2.5%
<b>TOTAL STABLE VALUE</b>	<b>20.0%</b>	<b>20.0%</b>	<b>31.5%</b>	<b>32.2%</b>
Global Inflation				
Linked Bonds	10.0%	9.9%	0.0%	0.0%
Commodities	3.0%	3.1%	0.0%	0.0%
REITS	2.0%	1.7%	0.0%	0.0%
Real Estate	4.0%	3.1%	3.0%	1.1%
Other Real Assets	1.0%	0.4%	0.0%	0.0%
Opportunistic	0.0%	0.0%	3.0%	0.0%
<b>TOTAL REAL RETURN</b>	<b>20.0%</b>	<b>18.2%</b>	<b>6.0%</b>	<b>1.1%</b>
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

These asset allocation investment categories are based on the portfolio that the underlying securities are invested in. The portfolios are determined by and subject to the system's investment policy guidelines.

The TRS Board of Trustees adopted a long-term asset allocation plan in fiscal year 2007 to create more investment diversification over the next few years. Despite the implementation of this multi-year plan, significant market volatility during the fiscal year produced unfavorable investment results as of August 31, 2008. The incremental implementation of this diversification plan did reduce TRS' public market allocation in fiscal year 2008 and will position the fund to better withstand fluctuating market conditions and remain solid over the long-term horizon.

**Pension Trust Fund Investments**  
Market Value as of August 31, 2008  
(in millions)



### Health Benefits Trust Fund – Retired Plan

Net assets of the Retired Plan (TRS-Care) increased \$106.0 million, from \$622.8 million at the end of fiscal year 2007 to \$728.8 million at the end of fiscal year 2008.

Additions to net assets include health care premiums; active member, state and reporting entity contributions; investment earnings; and retiree drug subsidy payments. Retiree premiums for fiscal year 2008 increased \$4.5 million over fiscal year 2007. The total contributions of \$562.0 million increased by 6.2% from the fiscal year 2007 total of \$529.0 million due to overall payroll growth and a slight increase in plan participation. Effective September 1, 2007, House Bill 2358 of the 80<sup>th</sup> Legislature required the direct deposit of federal or private source funds, received by reporting entities to pay state contributions, into the retired school employees group insurance fund of TRS rather than the general fund. These fiscal year 2008 contributions totaled \$20.7 million.

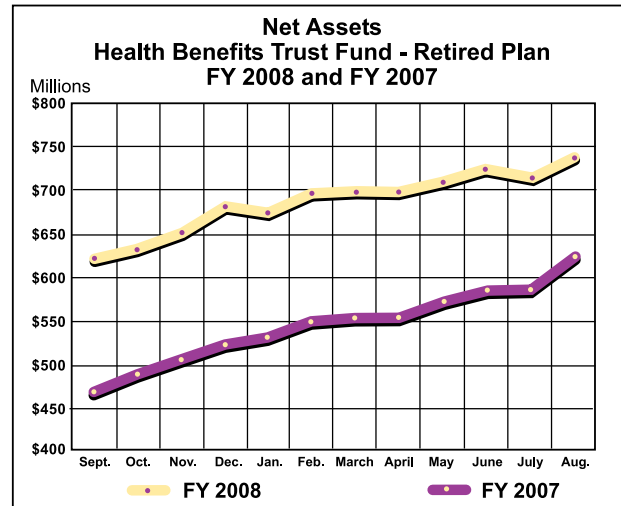
Investment earnings of \$29.3 million decreased \$3.4 million from fiscal year 2007 due to unfavorable market conditions during fiscal year 2008.

Medicare Part D retiree drug subsidy payments received from the federal government totaled \$59.5 million in fiscal year 2008, an increase of 13.7% from the fiscal year 2007 total of \$52.3 million.

Deductions from net assets include claims payments, claims processing costs, and administrative expenses. Claims payments and claims processing costs during

## MANAGEMENT'S DISCUSSION AND ANALYSIS

fiscal year 2008 totaled \$870.3 million and increased 12.2% over total claims of \$775.7 million in fiscal year 2007. The increase is due to rising costs of health care and pharmacy benefits and to growth in plan participation. A fiscal year end increase in the estimated amount for claims incurred but not reported resulted in a decrease of \$3.3 million in net assets. Administrative expenses for fiscal year 2008 increased 18.8% from fiscal year 2007 due primarily to an increase in support staff.



### Net Assets – Health Benefits Trust Fund Retired Plan (Dollars in Thousands)

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash and Receivables	\$ 337,815	\$ 243,205	\$ 94,610	38.9%
Investments	514,884	494,901	19,983	4.0%
<b>TOTAL ASSETS</b>	<b>\$ 852,699</b>	<b>\$ 738,106</b>	<b>\$ 114,593</b>	<b>15.5%</b>
<b>Liabilities:</b>				
Accounts Payable and Other	\$ 535	\$ 408	\$ 127	31.1%
Health Care Claims Payable	123,325	114,901	8,424	7.3%
<b>TOTAL LIABILITIES</b>	<b>\$ 123,860</b>	<b>\$ 115,309</b>	<b>\$ 8,551</b>	<b>7.4%</b>
<b>Total Net Assets</b>	<b>\$ 728,839</b>	<b>\$ 622,797</b>	<b>\$ 106,042</b>	<b>17.0%</b>

### Changes in Net Assets – Health Benefits Trust Fund Retired Plan (Dollars in Thousands)

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Percentage Change
<b>Additions:</b>				
Member Contributions	\$ 165,569	\$ 154,824	\$ 10,745	6.9%
State Contributions and Other	455,973	426,584	29,389	6.9%
Health Care Premiums	328,506	323,958	4,548	1.4%
Investment Income (Loss)	29,252	32,672	(3,420)	-10.5%
<b>TOTAL ADDITIONS</b>	<b>\$ 979,300</b>	<b>\$ 938,038</b>	<b>\$ 41,262</b>	<b>4.4%</b>
<b>Deductions:</b>				
Health Care Claims	\$ 833,510	\$ 742,293	\$ 91,217	12.3%
Health Care Claims Processing	36,748	33,408	3,340	10.0%
Administrative Expenses	3,000	2,526	474	18.8%
<b>TOTAL DEDUCTIONS</b>	<b>\$ 873,258</b>	<b>\$ 778,227</b>	<b>\$ 95,031</b>	<b>12.2%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 106,042</b>	<b>\$ 159,811</b>	<b>\$ (53,769)</b>	<b>-33.6%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

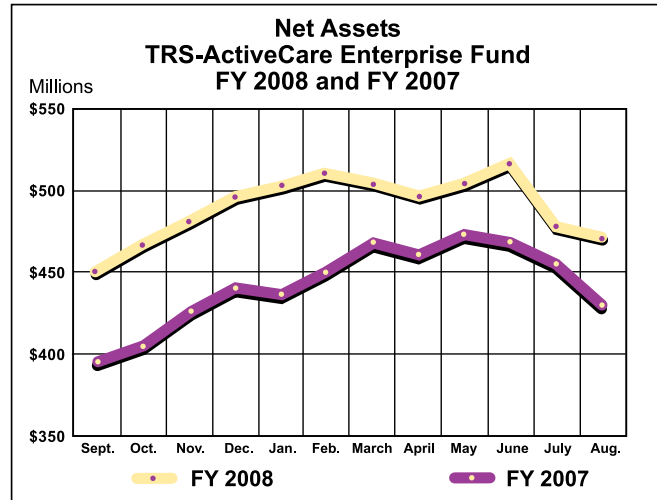
### Enterprise Fund - TRS-ActiveCare

The TRS-ActiveCare program was created by H.B. 3343, 77<sup>th</sup> Legislature, and began operations in fiscal year 2003. Net assets of the plan were \$476.5 million at the end of fiscal year 2008, an increase of \$41.2 million, or 9.5%, over fiscal year 2007.

Revenues for fiscal year 2008 included \$1.1 billion from health care premiums, an increase of \$156.8 million, or 16.7%, over fiscal year 2007. This increase is due to a participation increase of approximately 10% and premium increases of approximately 7%. Other revenues include investment income of \$21.2 million and administrative fees of approximately \$187,000.

Health care claims for fiscal year 2008 were \$952.2 million, a \$151.0 million, or 18.8%, increase over \$801.1 million in fiscal year 2007. The increase is due to the rising costs of health care and pharmacy benefits and to growth in plan participation. Other expenses included claims processing costs of \$54.6 million, \$68.2 million for HMO premium reimbursements, and \$1.8 million for administrative expenses. A downward adjustment to

claims incurred but not reported increased plan net assets by \$8.5 million for fiscal year 2008. The 2007 fiscal year end adjustment resulted in a \$5.7 million decrease to net assets.



### Net Assets – TRS-Active Care (Dollars in Thousands)

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash and Receivables	\$ 166,809	\$ 126,669	\$ 40,140	31.7%
Investments	428,523	411,892	16,631	4.0%
<b>TOTAL ASSETS</b>	<b>\$ 595,332</b>	<b>\$ 538,561</b>	<b>\$ 56,771</b>	<b>10.5%</b>
<b>Liabilities:</b>				
Accounts Payable and Other	\$ 290	\$ 431	\$ (141)	-32.7%
Premiums Payable to HMOs	5,552	4,790	762	15.9%
Health Care Claims Payable	113,019	98,045	14,974	15.3%
<b>TOTAL LIABILITIES</b>	<b>\$ 118,861</b>	<b>\$ 103,266</b>	<b>\$ 15,595</b>	<b>15.1%</b>
<b>Total Net Assets</b>	<b>\$ 476,471</b>	<b>\$ 435,295</b>	<b>\$ 41,176</b>	<b>9.5%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Statement of Revenues, Expenses, and Changes in Net Assets - TRS-Active Care (Dollars in Thousands)

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Percentage Change
<b>Revenues:</b>				
Health Care Premiums	\$ 1,096,537	\$ 939,694	\$ 156,843	16.7%
Administrative Fees	187	185	2	1.1%
Investment Income (Loss)	21,165	26,016	(4,851)	-18.6%
Other Nonoperating Revenue	62	47	15	31.9%
<b>TOTAL REVENUES</b>	<b>\$ 1,117,951</b>	<b>\$ 965,942</b>	<b>\$ 152,009</b>	<b>15.7%</b>
<b>Expenses:</b>				
Health Care Claims	\$ 952,156	\$ 801,149	\$ 151,007	18.8%
Health Care Claims Processing	54,584	48,178	6,406	13.3%
Premium Payments to HMOs	68,205	58,742	9,463	16.1%
Administrative Expenses	1,830	1,776	54	3.0%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,076,775</b>	<b>\$ 909,845</b>	<b>\$ 166,930</b>	<b>18.3%</b>
<b>Change in Net Assets</b>	<b>\$ 41,176</b>	<b>\$ 56,097</b>	<b>\$ (14,921)</b>	<b>-26.6%</b>

#### **Special Revenue Fund - Children's Health Insurance Program**

TRS contracts with the Health and Human Services Commission (HHSC) to fund the Children's Health Insurance Program at the commission for those children of school district personnel who are enrolled in the program. This arrangement was mandated by the 80<sup>th</sup> Legislature, Regular Session and effective beginning in fiscal year 2008. An amount of \$13.1 million was appropriated to TRS and then transferred to HHSC in September of 2007.

#### **Special Revenue Fund - 403(b) Certification Program**

The 403(b) Certification Program was created by S.B. 273, 77<sup>th</sup> Legislature, and began operations in fiscal year 2002. The program was expanded by H.B. 2427, 80<sup>th</sup> Legislature, to include the registration of products beginning in fiscal year 2008. Fiscal year 2008 ended with a fund balance of \$419,702 as compared to \$382,365

in fiscal year 2007. The fund's revenues include \$30,000 in certification fees and \$180,000 in product registration fees. Interest income of \$19,337 for fiscal year 2008, an increase of \$7,267 from fiscal year 2007, was attributable to the investment of a larger average fund balance. Deductions from the fund were administrative expenditures of \$192,000 for fiscal year 2008. The \$168,000 increase from the fiscal year 2007 total of \$24,000 was due to expenses related to the implementation of recommendations by the Texas Sunset Advisory Commission.

#### **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.



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## Statement of Fiduciary Net Assets

AUGUST 31, 2008

(With Comparative Totals for Pension and Other Employee Benefit Trust Funds for August 31, 2007)



	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>ASSETS</b>		
<b>Cash:</b>		
Cash in State Treasury	\$ 746,823,214	\$ 256,965,468
Cash in Bank (Note III.A.)	199,793,684	
Cash on Hand (Note III.B.)	3,357,882	342
<b>TOTAL CASH</b>	<b>\$ 949,974,780</b>	<b>\$ 256,965,810</b>
<b>Receivables:</b>		
Sale of Investments	\$ 63,134,327	\$
Interest and Dividends	319,128,326	1,837,370
Member and Retiree	73,185,429	37,018,624
Reporting Entities	40,368,192	7,558,944
Other	383,765	10,116,595
Due from State's General Fund	106,418,565	24,317,727
Due from Employees Retirement System of Texas	733,184	
<b>TOTAL RECEIVABLES</b>	<b>\$ 603,351,788</b>	<b>\$ 80,849,260</b>
<b>Investments (Notes I.F. and III.E.):</b>		
Short-Term	\$ 16,859,539,955	\$ 514,883,913
Equities	50,917,099,622	
Fixed Income	20,619,077,668	
Alternative Investments	15,118,758,132	
Derivative Investments	(415,383,006)	
Pooled Investments	975,618,115	
<b>TOTAL INVESTMENTS</b>	<b>\$ 104,074,710,486</b>	<b>\$ 514,883,913</b>
Invested Securities Lending Collateral	\$ 19,347,275,331	\$
<b>Capital Assets (Note II.):</b>		
Land	\$ 1,658,310	\$
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	26,297,396	
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 27,955,706</b>	<b>\$ -0-</b>
<b>TOTAL ASSETS</b>	<b>\$ 125,003,268,091</b>	<b>\$ 852,698,983</b>



FIDUCIARY FUND TYPES		
TOTAL - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
2008	2007	Agency Funds
\$ 1,003,788,682	\$ 872,793,213	\$ 675
199,793,684	185,569,622	
3,358,224	3,128,352	
\$ 1,206,940,590	\$ 1,061,491,187	\$ 675
\$ 63,134,327	\$ 57,001,840	\$
320,965,696	451,566,512	
110,204,053	95,886,271	
47,927,136	24,237,520	
10,500,360	10,265,576	
130,736,292	90,675,576	
733,184	686,833	
\$ 684,201,048	\$ 730,320,128	\$ -0-
\$ 17,374,423,868	\$ 2,177,629,327	\$
50,917,099,622	70,255,220,452	
20,619,077,668	31,358,468,837	
15,118,758,132	7,824,404,404	
(415,383,006)		
975,618,115		
\$104,589,594,399	\$111,615,723,020	\$ -0-
\$19,347,275,331	\$23,114,634,985	\$
\$ 1,658,310	\$ 1,658,310	\$
26,297,396	27,523,958	
\$ 27,955,706	\$ 29,182,268	\$ -0-
\$125,855,967,074	\$136,551,351,588	\$ 675

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## Statement of Fiduciary Net Assets

AUGUST 31, 2008

(With Comparative Totals for Pension and Other Employee Benefit Trust Funds for August 31, 2007)

(concluded)



	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>LIABILITIES (Note I.F.)</b>		
Accounts Payable	\$ 4,368,249	\$ 393,072
Accounts Payable-State's General Fund		
Accounts Payable-External Manager Fees	1,374,018	
Benefits Payable	520,209,568	
Health Care Claims Payable		123,324,862
Reinstatement Installment Receipts	28,152,145	
Investments Purchased Payable	182,710,162	
Securities Lending Collateral	19,347,275,331	
Due to Employees Retirement System of Texas	4,531,950	
Compensable Absences Payable	4,149,123	141,724
Funds Held for Others		
<b>TOTAL LIABILITIES</b>	<b>\$ 20,092,770,546</b>	<b>\$ 123,859,658</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS</b>	<b>\$ 104,910,497,545</b>	<b>\$ 728,839,325</b>

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

FIDUCIARY FUND TYPES		
TOTAL - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
2008	2007	Agency Funds
\$ 4,761,321	\$ 5,242,033	\$
	3,227	
1,374,018		
520,209,568	482,492,677	
123,324,862	114,900,819	
28,152,145	31,527,265	
182,710,162	43,358,581	
19,347,275,331	23,114,634,985	
4,531,950	4,207,017	
4,290,847	3,388,207	
		675
\$ 20,216,630,204	\$ 23,799,754,811	\$ 675
\$105,639,336,870	\$ 112,751,596,777	\$ -0-

## Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>ADDITIONS:</b>		
<b>Contributions:</b>		
Member	\$ 1,998,138,487	\$ 165,569,413
State - General Fund	1,451,028,429	234,039,561
State - Federal Funds/Private Grants	251,413,125	20,682,613
Reporting Entities	353,524,480	141,672,630
Health Care Premiums		328,505,433
<b>TOTAL CONTRIBUTIONS AND PREMIUMS</b>	<b>\$ 4,054,104,521</b>	<b>\$ 890,469,650</b>
<b>Investment Income:</b>		
From Investing Activities:		
Net Appreciation (Depreciation) in Fair Value of Investments	\$ (7,992,472,030)	\$
Interest	1,805,993,518	29,252,347
Dividends	1,397,529,103	
<b>TOTAL INVESTING ACTIVITIES INCOME (LOSS)</b>	<b>\$ (4,788,949,409)</b>	<b>\$ 29,252,347</b>
Less: Internal Investing Activity Expenses	(27,956,132)	
<b>NET INCOME (LOSS) FROM INVESTING ACTIVITIES</b>	<b>\$ (4,816,905,541)</b>	<b>\$ 29,252,347</b>
From Securities Lending Activities:		
Securities Lending Income	\$ 929,696,098	\$
Securities Lending Expenses:		
Borrower Rebates	(682,745,643)	
Management Fees	(33,642,743)	
<b>Net Income from Securities Lending Activities</b>	<b>\$ 213,307,712</b>	<b>\$ -0-</b>
<b>TOTAL NET INVESTMENT INCOME (LOSS)</b>	<b>\$ (4,603,597,829)</b>	<b>\$ 29,252,347</b>
<b>Other Additions:</b>		
Reinstatement of Contribution Refunds	\$ 44,045,625	\$
Reinstatement Fees	43,161,749	
Legislative Appropriations (Lapsed) for Supplemental Compensation		
Legislative Appropriations for Excess Benefits (Note I.E.)	1,646,494	
Miscellaneous Revenues	3,596	
On Behalf Fringe Benefits Paid by the Federal Government (Note V.)		59,486,239
On Behalf Fringe Benefits Paid by the State (Note V.)		91,945
<b>TOTAL OTHER ADDITIONS</b>	<b>\$ 88,857,464</b>	<b>\$ 59,578,184</b>
<b>TOTAL ADDITIONS</b>	<b>\$ (460,635,844)</b>	<b>\$ 979,300,181</b>

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**TOTAL - PENSION AND OTHER  
EMPLOYEE BENEFIT TRUST FUNDS**


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<b>2008</b>	<b>2007</b>
\$ 2,163,707,900	\$ 2,017,419,833
1,685,067,990	1,709,322,078
272,095,738	
495,197,110	418,086,225
328,505,433	323,957,945
<hr/>	<hr/>
\$ 4,944,574,171	\$ 4,468,786,081
<hr/>	<hr/>
\$ (7,992,472,030)	\$11,232,429,170
1,835,245,865	1,662,237,860
1,397,529,103	1,413,189,832
<hr/>	<hr/>
\$ (4,759,697,062)	\$ 14,307,856,862
(27,956,132)	(20,942,402)
<hr/>	<hr/>
\$ (4,787,653,194)	\$ 14,286,914,460
<hr/>	<hr/>
\$ 929,696,098	\$ 871,885,933
(682,745,643)	(820,326,962)
(33,642,743)	(7,255,314)
<hr/>	<hr/>
\$ 213,307,712	\$ 44,303,657
<hr/>	<hr/>
\$ (4,574,345,482)	\$ 14,331,218,117
<hr/>	<hr/>
\$ 44,045,625	\$ 45,003,113
43,161,749	41,494,298
	(455)
1,646,494	1,453,605
3,596	5,405
59,486,239	52,329,617
91,945	55,932
<hr/>	<hr/>
\$ 148,435,648	\$ 140,341,515
<hr/>	<hr/>
\$ 518,664,337	\$ 18,940,345,713
<hr/>	<hr/>

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## Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)  
(concluded)



	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>DEDUCTIONS:</b>		
Benefits	\$ 6,453,040,955	\$
Refunds of Contributions	275,482,331	
Health Care Claims		833,509,538
Health Care Claims Processing		36,747,710
Administrative Expenses, Net of		
Internal Investing Activity Expenses	26,122,662	3,000,536
External Manager Fees	1,374,018	
Supplemental Health Care		
Compensation		
Excess Benefits	1,646,494	
<b>TOTAL DEDUCTIONS</b>	<b>\$ 6,757,666,460</b>	<b>\$ 873,257,784</b>
<b>Net Increase (Decrease)</b>	<b>\$ (7,218,302,304)</b>	<b>\$ 106,042,397</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS - BEGINNING OF YEAR</b>	<b>\$112,128,799,849</b>	<b>\$ 622,796,928</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS - END OF YEAR</b>	<b>\$104,910,497,545</b>	<b>\$ 728,839,325</b>

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

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**TOTAL - PENSION AND OTHER  
EMPLOYEE BENEFIT TRUST FUNDS**


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<b>2008</b>	<b>2007</b>
\$ 6,453,040,955	\$ 5,805,583,173
275,482,331	277,932,219
833,509,538	742,293,147
36,747,710	33,407,937
29,123,198	30,028,465
1,374,018	
	(455)
1,646,494	1,453,605
<u>\$ 7,630,924,244</u>	<u>\$ 6,890,698,091</u>
\$ (7,112,259,907)	\$ 12,049,647,622
.	.
<u>\$112,751,596,777</u>	<u>\$100,701,949,155</u>
<u><u>\$105,639,336,870</u></u>	<u><u>\$112,751,596,777</u></u>

## Statement of Net Assets

PROPRIETARY FUND

AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



	TRS-ActiveCare Enterprise Fund	
	2008	2007
<b>ASSETS</b>		
<b>Current Assets:</b>		
<b>Cash:</b>		
Cash in State Treasury	\$ 115,581,881	\$ 85,476,716
<b>TOTAL CASH</b>	\$ 115,581,881	\$ 85,476,716
<b>Accounts Receivable:</b>		
Investment Interest	\$ 1,265,405	\$ 2,280,305
Health Care Premiums	49,961,692	38,911,959
<b>TOTAL ACCOUNTS RECEIVABLE</b>	\$ 51,227,097	\$ 41,192,264
<b>Short-Term Investments</b>	\$ 428,523,342	\$ 411,892,046
<b>TOTAL ASSETS</b>	\$ 595,332,320	\$ 538,561,026
<b>LIABILITIES (Note I.F.)</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 172,024	\$ 340,078
Premiums Payable to HMOs	5,552,472	4,790,124
Health Care Claims Payable	113,019,499	98,044,935
Compensable Absences Payable	117,701	90,826
<b>TOTAL LIABILITIES</b>	\$ 118,861,696	\$ 103,265,963
<b>NET ASSETS</b>		
Unrestricted	\$ 476,470,624	\$ 435,295,063
<b>TOTAL NET ASSETS</b>	\$ 476,470,624	\$ 435,295,063

*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, 2008 (With Comparative Totals for August 31, 2007)



	TRS-ActiveCare Enterprise Fund	
	2008	2007
<b>OPERATING REVENUES:</b>		
Health Care Premiums	\$ 1,096,537,022	\$ 939,694,028
Administrative Fees	186,844	184,937
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 1,096,723,866</b>	<b>\$ 939,878,965</b>
<b>OPERATING EXPENSES:</b>		
Health Care Claims	\$ 952,156,339	\$ 801,148,962
Health Care Claims Processing	54,583,499	48,177,777
Premium Payments to HMOs	68,204,743	58,742,363
Administrative Expenses	1,830,258	1,775,831
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,076,774,839</b>	<b>\$ 909,844,933</b>
<b>OPERATING INCOME</b>	<b>\$ 19,949,027</b>	<b>\$ 30,034,032</b>
<b>NONOPERATING REVENUES:</b>		
Investment Income	\$ 21,164,640	\$ 26,016,380
On Behalf Fringe Benefits Paid by the State (Note V.)	61,894	46,446
<b>TOTAL NONOPERATING REVENUES</b>	<b>\$ 21,226,534</b>	<b>\$ 26,062,826</b>
<b>Change in Net Assets</b>	<b>\$ 41,175,561</b>	<b>\$ 56,096,858</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>\$ 435,295,063</b>	<b>\$ 379,198,205</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 476,470,624</b>	<b>\$ 435,295,063</b>

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, 2008 (With Comparative Totals for August 31, 2007)



	TRS-ActiveCare Enterprise Fund	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Health Care Premiums	\$ 1,085,380,356	\$ 933,730,270
Receipts from Long-Term Care Administrative Fees	186,844	184,937
Payments for Administrative Expenses	(1,802,609)	(1,671,075)
Payments for Health Care Claims	(937,231,469)	(792,092,412)
Payments for Health Care Claims Processing	(54,533,806)	(48,168,348)
Payments for HMO Premiums	(67,442,395)	(57,990,492)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 24,556,921</b>	<b>\$ 33,992,880</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest Received	\$ 22,179,540	\$ 25,670,043
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 22,179,540</b>	<b>\$ 25,670,043</b>
Net Increase in Cash	\$ 46,736,461	\$ 59,662,923
<b>CASH AND CASH EQUIVALENTS - SEPTEMBER 1</b>	<b>\$ 497,368,762</b>	<b>\$ 437,705,839</b>
<b>CASH AND CASH EQUIVALENTS - AUGUST 31</b>	<b>\$ 544,105,223</b>	<b>\$ 497,368,762</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 19,949,027	\$ 30,034,032
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
(Increase) in Health Care Premiums Receivable	\$ (11,049,733)	\$ (5,820,879)
Increase in Premiums Payable to HMOs	762,348	751,871
Increase in Health Care Claims Payable	14,974,564	9,065,980
(Decrease) in Accounts Payable	(168,054)	(95,172)
Increase in Compensable Absences Payable	26,875	10,602
On Behalf Fringe Benefits Paid by the State (Note V.)	61,894	46,446
<b>Total Adjustments</b>	<b>\$ 4,607,894</b>	<b>\$ 3,958,848</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 24,556,921</b>	<b>\$ 33,992,880</b>

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

## Balance Sheet

### GOVERNMENTAL FUNDS

AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



			Total Special Revenue Funds			
	School Employee Children's Health Insurance Program *	403 (b) Certification Program	2008	2007		
<b>ASSETS</b>						
Current Assets:						
Cash in State Treasury	\$	\$ 434,586	\$ 434,586	\$ 383,016		
Cash on Hand (Note III.B.)				3,000		
Accounts Receivable		1,116	1,116	4,349		
TOTAL ASSETS	\$ -0-	\$ 435,702	\$ 435,702	\$ 390,365		
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities						
Current Liabilities:						
Accounts Payable	\$	\$ 16,000	\$ 16,000	\$ 8,000		
Fund Balance Reserved for:						
Administrative Expenditures	\$	\$ 419,702	\$ 419,702	\$ 382,365		
TOTAL LIABILITIES AND FUND BALANCE	\$ -0-	\$ 435,702	\$ 435,702	\$ 390,365		

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

\* The interagency contract with the Health and Human Services Commission (HHSC) for the Children's Health Insurance Program became effective September 1, 2007. Legislative appropriations were received by TRS in fiscal year 2008 and transferred to HHSC in September 2007.

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

### GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



	Total Special Revenue Funds			
	SchoolEmployee Children's Health Insurance Program *	403 (b) Certification Program	2008	2007
<b>REVENUES:</b>				
Certification Fees	\$	\$ 30,000	\$ 30,000	\$ 171,000
Product Registration Fees		180,000	180,000	
Investment Income		19,337	19,337	12,070
Legislative Appropriations	13,120,309		13,120,309	
<b>TOTAL REVENUES</b>	<b>\$ 13,120,309</b>	<b>\$ 229,337</b>	<b>\$ 13,349,646</b>	<b>\$ 183,070</b>
<b>EXPENDITURES:</b>				
Administrative Expenditures	\$	\$ 192,000	\$ 192,000	\$ 24,000
<b>TOTAL EXPENDITURES</b>	<b>\$ -0-</b>	<b>\$ 192,000</b>	<b>\$ 192,000</b>	<b>\$ 24,000</b>
Excess of Revenues Over Expenditures	\$ 13,120,309	\$ 37,337	\$ 13,157,646	\$ 159,070
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer Out to HHSC	\$ (13,120,309)	\$	\$ (13,120,309)	\$
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (13,120,309)</b>	<b>\$ -0-</b>	<b>\$ (13,120,309)</b>	<b>\$ -0-</b>
<b>FUND BALANCE - BEGINNING</b>	<b>\$ -0-</b>	<b>\$ 382,365</b>	<b>\$ 382,365</b>	<b>\$ 223,295</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ -0-</b>	<b>\$ 419,702</b>	<b>\$ 419,702</b>	<b>\$ 382,365</b>

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

\* The interagency contract with the Health and Human Services Commission (HHSC) for the Children's Health Insurance Program became effective September 1, 2007. Legislative appropriations were received by TRS in fiscal year 2008 and transferred to HHSC in September 2007.

## 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. State contributions and appropriations received by TRS are determined by the legislature. TRS is a separate legal entity and considered a discrete component unit of the State of Texas.

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 postemployment benefit and provides health care coverage for certain persons (and their dependents) who retire under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575.

The TRS-ActiveCare Plan provides health care coverage to employees (and their dependents) of participating public education entities. This plan was mandated by H.B. 3343, 77<sup>th</sup> Legislature, Regular Session and began operations on September 1, 2002.

Agency funds are used to account for collections from reporting entities on behalf of the state and also the purchase of savings bonds by participating TRS employees.

TRS has an interagency contract with the Health and Human Services Commission to fund the Children's Health Insurance Program at the commission for those children of school district personnel who are enrolled in the program. This contract was mandated by the 80th Legislature, Regular Session and effective beginning in fiscal year 2008.

The system also administers a 403(b) Certification Program mandated by S.B. 273, 77<sup>th</sup> Legislature, Regular Session. Companies must be certified by TRS in order to offer to public education employees a qualified investment product under IRS Code 403(b) through payroll deduction. This program began operations September 1, 2002 and was expanded by H.B. 2427, 80th Legislature, to include the registration of products.

#### 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 – include the Pension Trust Fund, the Health Benefits Trust Fund-Retired Plan, and Agency Funds
- Proprietary Fund – includes the TRS-ActiveCare Enterprise Fund
- Governmental Funds – include the Children's Health Insurance Program Special Revenue Fund, and the 403(b) Certification Program Special Revenue Fund, neither of which are considered a major fund.

Fiduciary funds are used to report assets held in a trustee or agency capacity on behalf of others. The reporting focus is on net assets and changes in net assets. The pension and other employee benefit trust funds are used to report resources held in trust for the members and beneficiaries of the defined benefit pension plan and the other postemployment benefit plan. Agency funds are used to report resources held in a purely custodial capacity by the reporting government.

The proprietary fund accounts for business-type activities. The reporting focus is on the determination of operating income, changes in net assets, financial position, and cash flows.

The governmental funds account for revenues legally restricted for a specified purpose. Sources, uses and balances of financial resources are the reporting focus.

Separate financial statements are provided for each fund. The fiduciary funds' (excluding agency funds) and proprietary fund's 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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund's 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 PRONOUNCEMENTS

The accompanying financial statements of TRS have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement changed how Other Postemployment Benefits (OPEB) costs are reported by employer governments, charging employer OPEB costs during the periods when employees render services. TRS adopted this statement during fiscal year 2008 which resulted in the disclosure of additional information in the Notes to the Financial Statements.

GASB 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*, was issued in May 2007, and effective for periods beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for OPEB. This results in conformity with the applicable note disclosure and Required Supplementary Information modifications adopted in the OPEB statement. The requirements of GASB Statement No. 50 have been implemented by TRS for fiscal year 2008.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* for financial statements for periods beginning after June 15, 2009 with earlier application encouraged. TRS did not early implement this statement in fiscal year 2008. The objective of this statement is to reduce the inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization resulting in a more faithful representation of the service capacity of intangible assets.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. TRS did not early implement this statement in fiscal year 2008. GASB Statement No. 53 establishes uniform financial reporting standards for derivative instruments. It is anticipated that the presentation of the TRS financial statements will not change as a result of this pronouncement; however, additional information will be disclosed in the Notes to the Financial Statements.

### D. COMPARATIVE TOTALS

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 2008 and 2007, contributions were made to the retirement system at the rate of 6.58% and 6.0%, respectively, 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 fund's Expense Account, and not from the state's General Fund.

The Health Benefits Trust Fund - Retired Plan (TRS-Care) receives appropriations from the state's General Fund equal to 1.0% of the salaries of public education employees. 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



## NOTES TO THE FINANCIAL STATEMENTS

program receives no appropriations from the state for these expenses.

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. The fair value of commingled funds is based on the fund's Net Asset Value at the valuation date. For alternative investments where no readily ascertainable market value exists (including private equity, absolute return investments, high yield bond limited partnerships, and real estate), management has determined fair values for the individual investments based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees, and reserves. Management's estimated market values for investments without readily ascertainable market values could differ significantly if a ready market for these assets existed.

Short-term investments are those maturing within one year of purchase date.

#### Securities Lending

The system reports loaned securities, the invested cash collateral, and the related liabilities resulting from securities lending transactions on Exhibit I, Statement of Fiduciary Net Assets. The system also reports the earned income from securities lending on Exhibit II, Statement of Changes in Fiduciary Net Assets. Both the loaned securities and the invested cash collateral are reported at quoted market prices.

#### 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, 2008.

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 balances at August 31, 2007 and 2008 has been included in the funds' expenses for the year ended August 31, 2008.

#### 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, 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

## NOTES TO THE FINANCIAL STATEMENTS

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:

Asset Class	Beginning Balance Cost	Additions/ Adjustments	Deletions	Ending Balance Cost	Less Accumulated Depreciation	Ending Book Value (Exhibit I)
<b>Non-Depreciable Assets:</b>						
Land and Improvements	\$ 1,658,310	\$	\$	\$ 1,658,310	\$	\$ 1,658,310
Other Assets	124,136			124,136		124,136
<b>Total Non-Depreciable Assets</b>	<b>\$ 1,782,446</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,782,446</b>	<b>\$</b>	<b>\$ 1,782,446</b>
<b>Depreciable Assets:</b>						
Buildings and Improvements	\$ 30,207,476	\$ 490,397	\$	\$ 30,697,873	\$ (12,197,075)	\$ 18,500,798
Furniture and Equipment	19,023,541	588,282	(1,561,555)	18,050,268	(10,444,067)	7,606,201
Vehicles, Boats and Aircraft	45,721			45,721	(45,721)	
Other Assets	212,284	8,367		220,651	(154,390)	66,261
<b>Total Depreciable Assets</b>	<b>\$ 49,489,022</b>	<b>\$ 1,087,046</b>	<b>\$ (1,561,555)</b>	<b>\$ 49,014,513</b>	<b>\$ (22,841,253)</b>	<b>\$ 26,173,260</b>
<b>Total Capital Assets</b>	<b>\$ 51,271,468</b>	<b>\$ 1,087,046</b>	<b>\$ (1,561,555)</b>	<b>\$ 50,796,959</b>	<b>\$ (22,841,253)</b>	<b>\$ 27,955,706</b>

### 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. At August 31, 2008, the carrying amount and bank balances totaled \$199,793,684. 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 AND CASH EQUIVALENTS

At August 31, 2008, the system had \$3,358,224 in cash on hand. Of this total, \$3,357,882 was related to checks



## NOTES TO THE FINANCIAL STATEMENTS

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.

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

### C. CUSTODY OF INVESTMENTS

The system has contracted with State Street Bank and Trust Company to serve as custodian for the system's investments.

### D. INVESTMENT LEGAL PROVISIONS AND OTHER CONSTRAINTS

Under the Texas Property Code, Section 117.003, a trustee of the board owes a duty to the beneficiaries of the trust to comply with the prudent investor rule. In making 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. Texas Government Code, Section 825.301(a), Texas Property Code, Section 117.004, and the Texas Constitution, Article XVI, Section 67(a)(3) 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, asset-backed securities, commercial mortgage-backed securities, collateralized mortgage obligations, cash equivalents, alternative investments including private equity, real assets, and the Texas Growth Funds, exchange-traded and over the counter derivative instruments authorized by law, mutual funds, closed-end funds, exchange-traded funds, hedge funds, and commingled funds. Investment categories are based on the risk profiles exhibited by those investments.

Hedge fund is a private commingled investment vehicle with the general characteristics as set forth in Texas Government Code, Section 825.3012. Hedge funds include private investment fund of funds or a commingled vehicle that itself invests in hedge funds. TRS investment policy establishes criteria to analyze and determine whether a private investment fund should be classified as a hedge fund. Investment staff is authorized to invest up to 5% of the total fund in hedge funds. Private equity funds build portfolios of private investments in the equity or equity-rights securities of privately-owned operating companies. Real assets include traditional property types, institutional quality traditional property types that offer the opportunity to enhance value through lease-up, rehabilitation, or repositioning, and other real assets providing value enhancement with relatively low expected volatility. Commingled funds are a fund which is (i) exempt under the provisions of Section 501(a) of the Internal Revenue Code of 1986, (ii) is not required to be registered as an investment company under Section 3(c)(1), 3(c)(7) or other provisions of the Investment Company Act of 1940, or (iii) is an investment company registered under the Investment Company Act of 1940, as amended, provided that investment and reinvestment of assets complies with the investment guidelines in all respects.

### E. INVESTMENTS

The fair values of investments at August 31, 2008, are as follows:

## NOTES TO THE FINANCIAL STATEMENTS

### Pension Trust Fund

Investment Type	Fair Value
Short-Term Investments:	
Short-Term Investment Fund	\$ 1,430,470,632
U.S. Government Obligations	9,963,333
Asset Backed Securities	5,749,436,735
Bank Notes	2,729,897,237
Certificates of Deposit	4,761,827,196
Commercial Paper	132,604,808
Corporate Obligations	942,592,110
Repurchase Agreements	880,994,699
Time Deposits	221,753,205
Domestic Investments:	
Equities	32,698,143,898
Obligations:	
U.S. Treasury	8,495,619,668
U.S. Treasury STRIPS	31,170,954
U.S. Treasury TIPS	2,268,309,690
U.S. Government Agency	51,362,832
Asset and Mortgage Backed	2,347,811,449
Corporate	2,283,879,272
Commingled Funds	527,328,762
Alternative Investments	13,401,043,263
Derivatives:	
Forward Contracts	(5,604,677)
SWAP Contracts	(409,778,184)
International Investments:	
Equities	18,218,955,724
Obligations:	
Government	4,263,646,779
Corporate	877,277,024
Commingled Funds	448,289,353
Alternative Investments	1,717,714,869
SWAP Contracts	(145)
<b>Total Investments (Exhibit I)</b>	<b>\$104,074,710,486</b>
<b>Invested Securities Lending Collateral:</b>	
Asset Backed Securities	\$ 7,214,162,502
Bank Notes	3,425,365,508
Commercial Paper	166,387,191
Time Deposits	278,246,895
Certificates of Deposit	5,974,949,684
Repurchase Agreements	1,105,436,796
Corporate Obligations	1,182,726,755
<b>Total Securities Lending Collateral (Exhibit I)</b>	<b>\$ 19,347,275,331</b>

#### F. DERIVATIVES

Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies). Derivatives include futures contracts; options; options on futures contracts; forward contracts; swap contracts; and any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling, or holding investments.

The system's investment policy states that derivatives may only be used to efficiently manage and reduce the risk of the overall investment portfolio as set forth in Texas Government Code, Section 825.301(a-1), and must

## NOTES TO THE FINANCIAL STATEMENTS

comply with the fiduciary standard of prudence set forth in the Texas Constitution, Article XVI, Section 67(a)(3). Derivatives may not be used for any activity a primary purpose of which is speculation or to profit while materially increasing risk to the system. The tenor of an over-the-counter derivative instrument may not exceed five years. Derivative application may not be used to invest in asset classes that are not consistent with the system's legally permissible and policy asset categories, implementation strategies, and risk-return characteristics. Derivatives underlain by physical commodities may only be made through investments in funds that issue securities or other structures that also provide limited liability or limited risk of loss to investors.

Any counterparty to an over-the-counter derivative transaction must have a credit rating of at least A- or A3 and is subject to established ISDA Master Agreements. The system and external managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all over-the-counter derivative positions, less collateral posted, for any individual counterparty may not exceed \$500 million. The combined notional values, net of foreign exchange forward and futures contracts, may not exceed twenty percent of the market value of total investments.

### 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 foreign currency exchange 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 with a notional amount of \$490,473,443 are reported at fair value as accruals. 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*.

### Forward Contracts

A forward contract is a non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future. These forward contracts with a notional amount of \$1,229,446,072 are reported at fair value as investments.

### Futures Contracts

Futures contracts are used primarily as a tool to increase or decrease market exposure to various asset classes. These futures contracts with an absolute value of the current notional amount of \$878,682,977 are reported at fair value as accruals. The system's Futures Contracts as of August 31, 2008 are presented below:

<u>Futures Contracts</u>	<u>Buy Contracts</u>	<u>Sell Contracts</u>
Non-U.S. Developed	\$ 123,289,072	\$ 101,448,761
Small Cap	32,407,620	
Global Inflation Linked	7,363,797	231,000
U.S. Treasury	101,774,688	25,085,500
Global Developed Debt	210,926,954	181,979,125
Large Cap Growth	55,926,010	12,569,480
Large Cap Value	13,111,490	12,569,480
<u>Total Absolute Value of the Current Notional</u>	<u>\$ 544,799,631</u>	<u>\$ 333,883,346</u>

### Swap Contracts

The system's total return swap contracts are a bilateral financial contract in that one counterparty pays out the total return of the index, including its dividends and capital appreciation or depreciation, and in return, receives a regular fixed or floating cash flow. These swap contracts with a notional amount of \$14,879,763,984 are reported at fair value as investments. The system's Swap Contracts as of August 31, 2008 are presented on the following page:

## NOTES TO THE FINANCIAL STATEMENTS

<u>Swap Contracts</u>	<u>Notional Amount</u>	<u>Fair Value</u>
Commodities	\$ 3,288,303,755	\$ (141,548,110)
Non-U.S. Developed	2,134,928,433	(269,006,241)
Emerging Market	1,340,785,418	(93,058,056)
Small Cap	3,424,204,904	208,447,865
Global Inflation Linked	3,894,927,596	(108,037,260)
REITS/Real Estate	796,011,318	(6,576,382)
Emerging Market Debt	602,560	(145)
<b>Total Swap Contracts</b>	<b>\$ 14,879,763,984</b>	<b>\$ (409,778,329)</b>

### G. 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* updated the custodial credit risk disclosure requirements of Statement 3 and established more comprehensive disclosure requirements addressing other common risks of deposits and investments such as 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 will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The system does not have a 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, 2008, the balance of uncollateralized cash in the non-U.S. bank for investments pending settlement was \$199,768,684.

#### Custodial Credit Risk – 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 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.

#### 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 establishes tracking error limits that are intended to reduce the tracking error of the asset class. In addition, the policy states that for over-the-counter derivatives, the minimum credit rating, based on a nationally recognized statistical rating organization (NRSRO), must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level subsequent to the inception of the contract, additional eligible collateral must be posted. Repurchase agreements may not exceed five percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnification agreement by an organization that bears a long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

The system's rated debt investments as of August 31, 2008, using the Standard & Poor's (S&P) rating scale, are presented on the next page:

## NOTES TO THE FINANCIAL STATEMENTS

Investment Type	S&P Rating	Fair Value
Short-Term	AAA	\$ 5,562,596,087
Short-Term	AA	2,962,626,891
Short-Term	A	559,568,584
Short-Term	A-1	6,334,314,428
<b>Total Credit Risk of Short-Term</b>		<b>\$ 15,419,105,990</b>
U.S. Government Obligations		\$ 9,963,333
Short-Term Investment Fund		1,430,470,632
<b>Total Short-Term (Exhibit I)</b>		<b>\$ 16,859,539,955</b>
U.S. Government Agency Obligations	AAA	\$ 5,793,973
U.S. Government Agency Obligations	NR	34,319,775
<b>Total U.S. Government Agency Obligations</b>		<b>\$ 40,113,748</b>
Asset and Mortgage Backed Obligations	AAA	\$ 1,966,758,875
Asset and Mortgage Backed Obligations	AA	45,127,962
Asset and Mortgage Backed Obligations	A	3,224,443
Asset and Mortgage Backed Obligations	BBB	10,362,666
Asset and Mortgage Backed Obligations	CCC	8,138,834
Asset and Mortgage Backed Obligations	NR	314,198,669
<b>Total Asset and Mortgage Backed Obligations</b>		<b>\$ 2,347,811,449</b>
Corporate Obligations	AAA	\$ 109,824,664
Corporate Obligations	AA	337,853,964
Corporate Obligations	A	762,957,750
Corporate Obligations	BBB	853,383,916
Corporate Obligations	BB	48,549,328
Corporate Obligations	B	152,086,900
Corporate Obligations	CCC	2,153,125
Corporate Obligations	D	90,000
Corporate Obligations	NR	16,979,625
<b>Total Corporate Obligations</b>		<b>\$ 2,283,879,272</b>
International Government Obligations	AAA	\$ 3,022,048,775
International Government Obligations	AA	331,561,828
International Government Obligations	A	694,712,952
International Government Obligations	BBB	74,700,427
International Government Obligations	BB	41,711,041
International Government Obligations	NR	98,911,756
<b>Total International Government Obligations</b>		<b>\$ 4,263,646,779</b>
International Corporate Obligations	AAA	\$ 993,125
International Corporate Obligations	AA	98,196,794
International Corporate Obligations	A	367,564,451
International Corporate Obligations	BBB	222,753,222
International Corporate Obligations	BB	15,064,512
International Corporate Obligations	B	3,837,600
International Corporate Obligations	NR	168,867,320
<b>Total International Corporate Obligations</b>		<b>\$ 877,277,024</b>
<b>Total Credit Risk of Debt Securities (excluding Short-Term)</b>		<b>\$ 9,812,728,272</b>
U.S. Government Obligations and U.S. Government Agency Obligations *		\$ 10,806,349,396
<b>Total Fixed Income (Exhibit I)</b>		<b>\$ 20,619,077,668</b>

\* Includes U.S. Government Obligations of \$10,795,100,312, all of which are rated AAA; and U.S. Government Agency Obligations explicitly guaranteed by the U.S. Government of \$11,249,084, of which \$11,013,349 are rated AAA and \$235,735 is not rated.

## NOTES TO THE FINANCIAL STATEMENTS

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates 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 does not have a formal Interest Rate Risk policy.

The following table shows the long-term fixed income investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2008.

Investment Type	Fair Value	Effective Weighted Duration Rate*
U.S. Government Obligations	\$ 10,795,100,312	9.8
U.S. Government Agency Obligations	51,362,832	6.3
Asset and Mortgage Backed Obligations	2,347,811,449	6.45
Corporate Obligations	2,283,879,272	4.71
International Government Obligations	4,263,646,779	9.00
International Corporate Obligations	877,277,024	4.91
Total Fixed Income (Exhibit I)	\$ 20,619,077,668	8.47

\* The effective weighted duration rate is an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. It is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve +/-100 bps. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities (including pass-throughs, CMOs and ARMs).

The following table shows the short-term fixed income investments by investment type, fair value, and segmented time distributions as of August 31, 2008.

Investment Type	0-30 days	31-90 days	91-180 days	181-365 days	Total
Asset Backed Securities	\$ 4,321,753,111	\$ 1,427,683,624	\$	\$	\$ 5,749,436,735
Bank Notes	1,006,035,917	1,723,861,320			2,729,897,237
Certificates of Deposit	1,736,605,759	2,404,638,836	620,582,601		4,761,827,196
Commercial Paper		132,604,808			132,604,808
Corporate Obligations	319,201,527	605,656,011	17,734,572		942,592,110
Repurchase Agreements	570,094,409	310,900,290			880,994,699
Time Deposits	221,753,205				221,753,205
U.S. Government Obligations		9,963,333			9,963,333
Total Short-Term	\$ 8,175,443,928	\$ 6,615,308,222	\$ 638,317,173	\$ -0-	\$ 15,429,069,323
Weightings	52.99%	42.87%	4.14%	0.00%	100.00%

### Foreign Currency Risk – Deposits and Investments

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

The risk of holding investments in foreign currency is managed through the asset allocation limits on various international investments. The chart below provides the minimum, maximum, and long-term normal allocation percentage of the foreign investments.

Asset Class	Minimum Range	Maximum Range	Target
Non-U.S. Developed Equity	10%	20%	15%
Emerging Markets Equity	5%	15%	10%
Global Developed Debt	0%	5%	0%
Local Emerging Market Debt	0%	5%	0%
Global Inflation Linked Bonds	0%	10%	5%



## NOTES TO THE FINANCIAL STATEMENTS

The system's exposure to foreign currency risk at August 31, 2008, is presented in the tables below and on the following page:

**Deposits:**

<b>Currency</b>	<b>Cash in Non-U.S. Bank</b>
Australian Dollar	\$ 12,153,124
Brazilian Real	447,604
Canadian Dollar	12,317,616
Chilean Peso	76,511
Czech Koruna	776,486
Danish Krone	1,589,289
Euro	75,932,009
Hong Kong Dollar	6,771,052
Hungarian Forint	757,885
Indian Rupee	93,757
Indonesian Rupiah	(9,205) *
Israeli Shekel	214,603
Japanese Yen	24,159,738
Malaysian Ringgit	286,789
Mexican Peso	656,036
New Turkish Lira	1,666,511
New Zealand Dollar	56,715
Norwegian Krone	2,187,005
Philippine Peso	304,967
Polish Zloty	847,181
Pound Sterling	36,326,090
Singapore Dollar	1,448,475
South African Rand	2,633,744
South Korean Won	355,415
Swedish Krona	2,818,126
Swiss Franc	4,534,357
Taiwan Dollar	9,338,931
Thai Baht	1,027,873
	<hr/>
Total Deposits Subject to Foreign Currency Risk	<u><u>\$199,768,684</u></u>

\* Balance is related to the timing of a trade settlement.

## NOTES TO THE FINANCIAL STATEMENTS

### Investments:

Currency	Debt	Equity	Alternative Investments	Derivatives	Total Fair Value
Australian Dollar	\$	\$ 774,025,885	\$	\$	\$ 774,025,885
Brazilian Real	3,245,883	418,955,827			422,201,710
Canadian Dollar	190,550,812	1,182,941,875			1,373,492,687
Chilean Peso		36,183,294			36,183,294
Colombian Peso	442,443				442,443
Czech Koruna		40,292,655			40,292,655
Danish Krone		111,186,703			111,186,703
Egyptian Pound		1,539,308			1,539,308
Euro	1,793,948,218	4,047,663,454	1,214,210,283		7,055,821,955
Hong Kong Dollar		678,294,795			678,294,795
Hungarian Forint	3,589,142	35,165,850			38,754,992
Indian Rupee		45,699,619			45,699,619
Indonesian Rupiah	1,787,978	58,086,275			59,874,253
Israeli Shekel		34,501,719			34,501,719
Japanese Yen	423,115,757	2,511,621,964			2,934,737,721
Malaysian Ringgit	1,323,996	90,122,413			91,446,409
Mexican Peso	2,558,681	82,154,610			84,713,291
New Turkish Lira	2,367,129	53,978,595			56,345,724
New Zealand Dollar		7,847,681			7,847,681
Nigerian Naira	993,126				993,126
Norwegian Krone		146,564,393			146,564,393
Peruvian Nuevo Sol	655,340				655,340
Philippine Peso		8,743,990			8,743,990
Polish Zloty	907,499	48,313,633			49,221,132
Pound Sterling	1,528,515,476	2,431,763,608	33,826,772		3,994,105,856
Singapore Dollar		146,954,644			146,954,644
South African Rand	2,338,336	228,840,839		(145)	231,179,030
South Korean Won		387,538,920			387,538,920
Swedish Krona	179,473,731	287,873,028			467,346,759
Swiss Franc		871,441,104			871,441,104
Taiwan Dollar		295,149,300			295,149,300
Thai Baht	1,455,315	78,892,281			80,347,596
Total Securities Subject to Foreign Currency Risk	<u>\$ 4,137,268,862</u>	<u>\$ 15,142,338,262</u>	<u>\$ 1,248,037,055</u>	<u>\$ (145)</u>	<u>\$ 20,527,644,034</u>

### H. SECURITIES LENDING

The system is authorized by Texas Government Code, Section 825.303 to contractually lend securities to borrowers in accordance with policy established by the board of trustees and as required by statute. The system has a contract with State Street Bank and Trust Company to administer its securities lending program for domestic and international equity and fixed income securities. Authorized collateral for the program consists of cash or government securities eligible for book entry in either the Federal Reserve System or Participants Trust Company. At fiscal year end, a portion of the system's collateral received was other than cash or government securities. The system is currently working with State Street Bank and Trust Company to replace and secure appropriate collateral. 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 be at least 102% of the value of domestic lent securities and at least 105% for international lent securities. Collateral is marked to market daily, and in the case it falls below 100% for domestic or 105% for international, it is reinstated to the original requirements by the borrower.

Cash collateral can be invested in a cash collateral pool, U.S. government or U.S. government sponsored entity securities, time deposits, bank certificates of deposit, bankers' acceptances, master notes, repurchase agreements, bank and corporate notes, commercial paper, asset backed securities, and derivative instruments. The system's policies for securities lending provide investment guidelines for different asset classes to limit its exposure to different types of risks.

The par value, dollar-weighted average maturity of the collective cash collateral investment may not exceed 120 days. The expected final maturity of any individual fixed-rate instrument has a limit of 36 months and any floating-rate instrument has a limit of seven years.



## NOTES TO THE FINANCIAL STATEMENTS

Each instrument having a maturity of 13 months or less at the time of purchase must qualify as “first tier securities” within Rule 2a-7 under the Investment Company Act of 1940 and any instrument over 13 months must be rated within the highest major, long-term rating category of an NRSRO, or, if unrated, be determined to be of comparable quality by the trustees.

All investments in a 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 shows the invested cash collateral by investment type, fair value, and the segmented time distribution based upon the expected maturity or the next reset date, whichever is earlier, as of August 31, 2008.

Investment Type	0-30 days	31-90 days	91-180 days	181-365 days	Total
Asset Backed Securities	\$ 5,422,762,380	\$ 1,791,400,122	\$	\$	\$ 7,214,162,502
Bank Notes	1,262,333,499	2,163,032,009			3,425,365,508
Certificates of Deposit	2,179,023,220	3,017,244,319	778,682,145		5,974,949,684
Commercial Paper		166,387,191			166,387,191
Corporate Obligations	400,521,267	759,952,859	22,252,629		1,182,726,755
Repurchase Agreements	715,331,588	390,105,208			1,105,436,796
Time Deposits	278,246,895				278,246,895
<b>Totals</b>	<b>\$10,258,218,849</b>	<b>\$ 8,288,121,708</b>	<b>\$ 800,934,774</b>	<b>\$ -0-</b>	<b>\$19,347,275,331</b>
Weightings	53.02%	42.84%	4.14%	0.00%	100.00%

Also presented below are rated investments in the cash collateral pool as of August 31, 2008 using the Standard & Poor’s (S&P) rating scale.

Investment Type	S&P Rating	Fair Value
Asset Backed Securities	AAA	\$ 5,953,310,625
	A-1	1,260,851,877
Bank Notes	AAA	277,830,638
	AA	2,933,071,298
	A	214,463,572
Certificates of Deposit	AA	704,735,428
	A	133,093,582
	A-1	5,137,120,674
Commercial Paper	A-1	166,387,191
Corporate Obligations	AAA	748,581,091
	AA	79,578,612
	A	354,567,052
Repurchase Agreements	A-1	1,105,436,796
Time Deposits	A-1	278,246,895
<b>Total Rated Investments</b>		<b>\$ 19,347,275,331</b>

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. Substantially all securities loans can be terminated on demand either by the system or the borrower, although, as of August 31, 2008, the weighted average term of these loans was 14 days. As of August 31, 2008, the weighted average maturity of the invested cash collateral was 43 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 \$5.5 billion. The total market value of all

## NOTES TO THE FINANCIAL STATEMENTS

loans cannot exceed 30% of the portfolio.

The following table represents the fair market values of the securities lending transactions based on type of collateral received as of August 31, 2008.

	Cash	Non-Cash	Total
Securities on Loan	\$ 19,085,046,733	\$ 2,702,814,184	\$ 21,787,860,917
Collateral Received	19,699,519,561	2,845,865,760	22,545,385,321
Reinvested Collateral	19,347,275,331		19,347,275,331

For fiscal year 2008, the system earned income of \$213,307,712 from securities lending.

### I. OTHER INVESTMENTS AND CONTINGENT COMMITMENTS

The system makes contingent commitments to and investments in entities that manage alternative investment portfolios. The categories of other investments are as follows for August 31, 2008:

Category of Investment	Commitment	Remaining Commitment	Adjusted Funded Amount <sup>2</sup>	Fair Value at August 31, 2008
Private Equity Domestic (67 entities)	\$ 11,947,976,233	\$ 6,492,950,089	\$5,455,026,144	\$ 4,803,655,739
Private Equity International (20 entities) <sup>1a</sup>	3,725,537,869	2,311,621,413	1,413,916,456	1,251,217,733
Real Estate Domestic (47 entities) <sup>3</sup>	7,673,705,403	4,304,904,053	3,368,801,350	2,880,569,686
Real Estate International (10 entities) <sup>1b</sup>	1,583,446,998	1,035,468,365	547,978,633	466,497,136
Hedge Funds (47 entities) <sup>4</sup>	3,688,085,543		3,688,085,543	3,997,283,804
High Yield (2 entities) <sup>5</sup>	1,691,698,263	94,900,244	1,596,798,019	1,719,534,034
Total Alternative Investments	\$ 30,310,450,309	\$14,239,844,164	\$16,070,606,145	\$ 15,118,758,132
Private Equity International in Euros (16 entities)	€ 2,146,850,000	€ 1,248,494,010	€ 898,355,990	€ 732,367,066
Private Equity International in Pound Sterling (1 entity)	£28,000,000	£10,189,704	£17,810,296	£18,545,902
Real Estate International in Euros (3 entities)	€ 325,000,000	€ 223,520,020	€ 101,479,980	€ 92,363,441

<sup>1a</sup> 17 of the 20 entities are denominated in foreign currencies.

<sup>1b</sup> 3 of the 10 entities are denominated in foreign currencies.

<sup>2</sup> The net funded amount for alternative investments equals \$12,332,368,369, which is the adjusted funded amount of \$16,070,606,145 less distributions of \$3,821,155,075 plus expenses paid of \$82,917,299.

<sup>3</sup> Real Estate Category of Investment includes the Red River Limited Partnership that manages commercial mortgages receivable throughout the United States.

<sup>4</sup> Hedge Fund 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.

<sup>5</sup> High Yield Category of Investment includes the Red River Limited Partnership.

### IV. EMPLOYEE COMPENSABLE LEAVE

Employee compensable leave balances at August 31, 2008, 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:

## NOTES TO THE FINANCIAL STATEMENTS

	Compensatory Time							
	Annual Leave		FLSA		State		Totals	
	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars
Pension Trust Fund	67,613	\$ 2,782,410	1,062	\$ 36,234	22,620	\$1,330,479	91,295	\$ 4,149,123
Health Benefits Trust								
Fund - Retired Plan	4,319	126,331	68	2,180	442	13,213	4,829	141,724
Enterprise Fund - Active Plan	3,376	105,583	37	810	321	11,308	3,734	117,701
Total	75,308	\$ 3,014,324	1,167	\$ 39,224	23,383	\$1,355,000	99,858	\$ 4,408,548

### V. FRINGE BENEFITS PAID BY THE STATE OF TEXAS AND THE FEDERAL GOVERNMENT

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, 2008, the state provided retirement contributions totaling \$153,839 on behalf of employees paid from the Health Benefits Trust Fund-Retired Plan and the TRS-Active Care Enterprise Fund.

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D provided retiree drug subsidy reimbursements to the Health Benefits Trust Fund-Retired Plan on behalf of certain plan participants totaling \$59,486,239 for the fiscal year ended August 31, 2008.

Although these fringe benefits were not paid by these funds, GASB Statement No. 24 requires recognition of these benefits as expenses of the programs, with offsetting revenues 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.

### 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 2019, and every 12th year after that year, are reviewed."

## NOTES TO THE FINANCIAL STATEMENTS

### IX. POSTEMPLOYMENT HEALTH CARE BENEFITS

#### TRS Employees

Employees of the system who retire with 10 or more years of eligible service credit and meet the Rule of 80 or are at least 65 years of age continue to receive health care and basic life insurance benefits through the Group Benefits Program of the State Retiree Health Plan (SRHP) in accordance with Texas Insurance Code, Chapter 1551. SRHP is maintained and administered through the Employees Retirement System (ERS) of Texas and is considered a cost-sharing multiple-employer defined benefit postemployment health care plan. ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by visiting the ERS Web site at [www.ers.state.tx.us](http://www.ers.state.tx.us), by writing to the Finance Division of the Employees Retirement System of Texas at 1801 Brazos, Austin, Texas 78701, or by calling 1-877-275-4377.

Benefits and contribution provisions of the SRHP are not actuarially determined, but are authorized by State law and may be amended by the Texas Legislature. For the year ended August 31, 2008, the system contributed up to a maximum monthly amount on a pay-as-you-go basis toward a retiree's health and basic life insurance premiums as follows:

#### Employer Contribution Rates Retiree Health and Basic Life Premium

Type of Coverage	FY 2008	FY 2007	FY 2006
Retiree Only	\$ 360.54	\$ 360.54	\$ 343.48
Employee/Spouse	\$ 566.57	\$ 566.57	\$ 539.70
Employee/Children	\$ 498.49	\$ 498.49	\$ 474.86
Employee/Family	\$ 704.52	\$ 704.52	\$ 671.08

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 Texas Legislature on a biennial basis. At August 31, 2008, there were 174 retirees and their beneficiaries receiving postemployment health care and basic life insurance benefits. For the year ended August 31, 2008, 2007, and 2006 the system recognized expenditures of \$880,846, \$859,016, and \$785,509, respectively, 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. Sections 1575.202, 203 and 204 establish state, active employee, and public school contributions, respectively. Section 1575.052 grants the board the authority to establish basic and optional group insurance coverage for participants.

TRS-Care is a cost-sharing multiple-employer defined benefit OPEB plan that is currently funded on a pay-as-you-go basis and is subject to change based on available funding. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year.

At the inception of the plan in fiscal year 1986, funding was projected to last 10 years through fiscal year 1995. The original funding was sufficient to maintain the solvency of the fund through fiscal year 2000. Since that time, the appropriations and contributions have been established to be sufficient to provide benefits for the biennium.

Eligibility generally includes TRS public school retirees with more than 10 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 2008, deductibles were \$1,800 for those eligible for Part A of Medicare, \$3,000 for those not eligible for Part A, but eligible for Part B, and \$4,000 for those not eligible for either Part A or Part B.

At August 31, 2008, the number of reporting entities was:

Independent School Districts	1,031*
Charter Schools	195
Regional Education Service Centers	20
Education Districts	9
Total	<u>1,255</u>

*\*Excludes Windham School District which is not covered by OPEB*

In addition, other contributing entities included the State of Texas and the Federal Government (Medicare Part D).

## NOTES TO THE FINANCIAL STATEMENTS

At August 31, 2008, OPEB membership consisted of the following:

Retirees and beneficiaries receiving benefits	198,968*
Terminated plan members entitled to but not yet receiving benefits	210
Active plan members	665,805
Total	<u>864,983</u>

*\*Excludes 5,897 dependent children*

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 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll, set at 0.55%, for fiscal year 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Actuarial implications of the overall funding are determined by the system's actuary.

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 \$396,394,804 toward the total plan expenditures of \$873,257,784. Total plan expenditures net of active member contributions of \$165,569,413 and retiree premiums of \$328,505,433 were \$379,182,938.

The actuarial valuation as of August 31, 2008, is similar to the actuarial valuations performed for the pension plan; however, certain economic and behavioral assumptions are unique to medical benefits. The demographic assumptions are identical to those used in the August 31, 2008 valuation for the pension plan. Additional valuation information follows:

Actuarial Cost Method .....	Projected Unit Credit
Amortization Method .....	Level Percent, Open
Remaining Amortization Period .....	30 Years
Asset Valuation Method .....	Market
Actuarial Assumptions:	
Investment Rate of Return * .....	5.25%
Projected Salary Increases * .....	4.25% to 26.40%
Weighted Average at Valuation Date .....	5.63%
Health Care Trend Rates * .....	11.00% to 4.25% **

\* Includes Inflation at 3.00%

\*\* Initial rates are 8% for medical and 10% for prescriptions. The ultimate rate is 4.25% for both medical and prescriptions.

The results of the actuarial valuation reflect a long-term perspective, are dependent on the actuarial assumptions used, and are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actual results can 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 assumptions used are designed to reduce short-term volatility in the liabilities and assets.

The plan provisions used in the actuarial valuation are based on the expectations of cost sharing between the employer and plan members. The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of the benefits for financial reporting does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

## NOTES TO THE FINANCIAL STATEMENTS

See TRS-Care funded status below (dollar amounts 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)
2008	\$ 729	\$ 22,313	\$ 21,584	3.3%	\$ 27,979	77%

The Required Supplementary Information (RSI), located immediately following the Notes, provides additional actuarial valuation information. Since August 31, 2007 was the date of the first actuarial valuation for TRS-Care, only fiscal years 2007 and 2008 information are presented in the RSI tables.

### 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 2008 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, 2008, the number of reporting entities was as follows:

Independent School Districts	1,032
Charter Schools	195
Community and Junior Colleges	51
Senior Colleges and Universities	43
Regional Education Service Centers	20
Education Districts	9
Medical and Dental Schools	8
State Agencies	2
Total	<u>1,360</u>

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.



## NOTES TO THE FINANCIAL STATEMENTS

At August 31, 2008, TRS gross membership before actuarial adjustments consisted of the following:

Retirees and beneficiaries currently receiving benefits	275,228
Terminated employees entitled to benefits but not yet receiving them	<u>56,300</u>
Total	<u>331,528</u>
Current Active Members:	
Fully-Vested	528,243
Non-Vested	<u>396,004</u>
Total	<u>924,247</u>

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 6.58% for fiscal year 2008 and 6.0% for fiscal years 2007 and 2006. The member contribution rate was 6.4% for fiscal years 2008, 2007, and 2006. 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 and/or member's contribution.

### B. CONTRIBUTIONS

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 the 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 this note. Total contributions paid to the pension plan in 2008 amounted to \$4,054,104,521, of which \$1,998,138,487 was from members, \$1,451,028,429 was from the state of Texas, and \$353,524,480 was from reporting entities, and \$251,413,125 was from federal funds or private grants.

Effective September 1, 2007, H.B. 2358, 80<sup>th</sup> Legislature, amended Section 825.406(b) of the Government Code and Section 1575.252 of the Insurance Code, requiring that contributions received by an employer from federal or private sources be deposited in the state contribution account and in the retired school employees group insurance fund of TRS, respectively, instead of the general revenue fund of the state treasury.

### C. LEGAL RESERVE ACCOUNT BALANCES

The balances in the five legally required reserve accounts are sufficient to meet statutory requirements. As of August 31, 2008, the Member Savings Account had a balance of \$24,025,330,661, the State Contribution Account had a balance of \$27,655,777,751, the Retired Reserve Account had a balance of \$53,070,336,402, the Deferred Retirement Option Account had a balance of \$127,393,675, and the Expense Account had a balance of \$31,659,056.

### D. FUNDED STATUS AND FUNDING PROGRESS - PENSION PLANS

The funded status of the Pension Trust Fund as of August 31, 2008, the most recent actuarial valuation date, is as follows (dollar amounts 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)
2008	\$110,233	\$121,756	\$ 11,523	90.5%	\$ 33,238	34.7%



## NOTES TO THE FINANCIAL STATEMENTS

The schedule of funding progress, presented as Required Supplementary Information located immediately following the Notes, provides multi-year trend information about whether the actuarial values of the plan are increasing or decreasing over time. These indicators and trends may be useful in assessing progress made in accumulating sufficient assets to pay benefits when due for the Pension Trust Fund.

Additional information as of the latest actuarial valuation follows:

Valuation Date .....	August 31, 2008
Actuarial Cost Method .....	Entry Age Normal
Amortization Method .....	Level Percent, Open
Remaining Amortization Period* .....	20.7 years
Asset Valuation Method .....	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return ** .....	8.00%
Projected Salary Increases ** .....	4.25% to 26.40%
Weighted Average Projected Salary Increases** .....	5.63%
Cost-of-Living Adjustments .....	None

\* Based on the state contribution rate of 6.58% effective 9/1/2007. This assumes the 6.58% rate continues indefinitely.

\*\* Includes Inflation at 3.00%

### XII. SUBSEQUENT EVENTS

The financial markets experienced significant volatility subsequent to the August 31, 2008 fiscal year end due to the credit market crisis and concerns about global recession and other market factors. Despite government support designed to keep the global financial system from collapsing, steep declines and periodic boosts in value were experienced indicating a continued uncertainty of global market conditions.

As a basis of reference, based on unaudited reports through November 6, 2008 from State Street Bank, the value of the TRS investment portfolio ranged from a decline of approximately eight percent on September 30, 2008 to a decline of approximately 27 percent on October 27, 2008 as compared to the August 31, 2008 fiscal year end value. In light of these unprecedented market fluctuations, any judgment of the system's financial position should be based on current information rather than fiscal year end. Stakeholders are encouraged to obtain the latest financial statement information from the TRS Web site for current system conditions.

The TRS investment philosophy continues to focus on broadening the diversification of the portfolio. Over a long-term horizon, the investment fund is expected to have more protection from fluctuating market conditions as a result of the multi-year diversification plan adopted by the board in fiscal year 2007.

## Required Supplementary Information

PENSION TRUST FUND  
FISCAL YEARS 2003-2008

### 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.

(DOLLAR 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)
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
2006	94,218	107,911	13,694	87.3	28,397	48.2
2007	103,419	115,964	12,545	89.2	31,114	40.3
2008	110,233	121,756	11,523	90.5	33,238	34.7

### SCHEDULE OF CONTRIBUTIONS FROM STATE AND REPORTING ENTITIES

#### State and Reporting Entities Annual Required Contributions

Fiscal Year Ended	Rate	From State General Fund	From State Federal Funds/ Private Grants	From Reporting Entities	Total	Percentage Contributed
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
2006	7.19	1,596,301,608		316,538,818	1,912,840,426	83
2007	7.02	1,721,223,689		324,945,946	2,046,169,635	85
2008	6.47	1,426,771,115	247,210,170	346,051,153	2,020,032,438	102

## Required Supplementary Information

HEALTH BENEFITS TRUST FUND - RETIRED PLAN  
FISCAL YEARS 2007-2008

### SCHEDULE OF FUNDING PROGRESS

(DOLLAR 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)
2007	\$ 623	\$ 19,748	\$ 19,125	3.2%	\$ 26,076	73%
2008	729	22,313	21,584	3.3	27,979	77

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

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

#### Annual Required Contributions

(1) Fiscal Year Ended	(2) Annual Required Contributions (ARC)	Actual Contributions				(7) Percentage Contributed (6)/(2)
		(3) From State	(4) From Reporting Entities	(5) On-Behalf From Federal Government	(6) Total (3)+(4)+(5)	
2007	\$ 1,436,756	\$ 238,191	\$ 136,009	\$ 52,330	\$ 426,530	29.7%
2008	1,535,975	254,722	141,673	59,486	455,881	29.7

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The August 31, 2007 actuarial valuation was the first actuarial valuation of TRS-Care. This and future valuations will set the ARC on a prospective basis, meaning each valuation will set the ARC for the following fiscal years. The employer ARC was determined by netting the active employee contributions (0.65%) out of the total ARC (6.68%). The ARC for FY2008 was determined by applying the employer ARC determined in the 2007 valuation as a percentage of payroll (6.03%) to the actual payroll paid in FY 2008 (\$25.5million).

## Combining Statement of Changes in Assets and Liabilities

### AGENCY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008



	Balances September 1, 2007	Additions	Deductions	Balances August 31, 2008
<b>UNAPPROPRIATED RECEIPTS *</b>				
<b>Collections on Behalf of the State's General Fund</b>				
<b>Assets:</b>				
Cash in State Treasury	\$	\$ 15,003,571	\$ 15,003,571	\$
Accounts Receivable - Reporting Entities	14,826,176		14,826,176	
<b>TOTAL ASSETS</b>	<b>\$ 14,826,176</b>	<b>\$ 15,003,571</b>	<b>\$ 29,829,747</b>	<b>\$ -0-</b>
<b>Liabilities:</b>				
Accounts Payable - State's General Fund	\$ 14,826,176	\$	\$ 14,826,176	\$ -0-

### OTHER AGENCY FUNDS

<b>Employees' Savings Bond Account</b>				
<b>Assets:</b>				
Cash in State Treasury	\$ 725	\$ 7,825	\$ 7,875	\$ 675
<b>Liabilities:</b>				
Funds Held for Others	\$ 725	\$ 7,800	\$ 7,850	\$ 675

### TOTALS - ALL AGENCY FUNDS

					(Exhibit I)
<b>Assets:</b>					
Cash in State Treasury	\$ 725	\$ 15,011,396	\$ 15,011,446	\$ 675	
Accounts Receivable - Reporting Entities	14,826,176		14,826,176		
<b>TOTAL ASSETS</b>	<b>\$ 14,826,901</b>	<b>\$ 15,011,396</b>	<b>\$ 29,837,622</b>	<b>\$ 675</b>	
<b>Liabilities:</b>					
Accounts Payable - State's General Fund	\$ 14,826,176	\$	\$ 14,826,176	\$	
Funds Held for Others	725	7,800	7,850	675	
<b>TOTAL LIABILITIES</b>	<b>\$ 14,826,901</b>	<b>\$ 7,800</b>	<b>\$ 14,834,026</b>	<b>\$ 675</b>	

\*House Bill 2358 passed by the 80th Legislature requires these funds to be deposited directly into the Pension Trust Fund's state contribution account.

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



INTEREST ACCOUNT	2008	2007
<b>Additions:</b>		
Interest, Dividends and Other Income:		
Short-Term	\$ 442,637,053	\$ 109,005,242
Equities	1,397,529,103	1,413,189,832
Fixed Income	1,464,639,554	1,517,658,172
Derivatives	(103,312,656)	
Securities Lending Program	213,307,712	44,303,657
Miscellaneous	2,029,567	2,902,907
Net Appreciation (Depreciation) in Fair Value of Investments	(7,992,472,030)	11,232,429,170
<b>TOTAL ADDITIONS</b>	<b>\$ (4,575,641,697)</b>	<b>\$ 14,319,488,980</b>
<b>Deductions:</b>		
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 1,128,761,363	\$ 1,046,375,266
State Contribution Account	(1,817,195,722)	(1,900,818,712)
Retired Reserve Account	4,046,720,700	3,881,290,315
Deferred Retirement Option Account	6,643,992	7,212,941
Expense Account	51,900,000	53,000,000
Transfer to State Contribution Account for Net Appreciation (Depreciation) in Fair Value of Investments	(7,992,472,030)	11,232,429,170
<b>TOTAL DEDUCTIONS</b>	<b>\$ (4,575,641,697)</b>	<b>\$ 14,319,488,980</b>
<b>Net Increase in Account Balance</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>Account Balance - Ending August 31</b>	<b>\$ -0-</b>	<b>\$ -0-</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



MEMBER SAVINGS ACCOUNT	2008	2007
<b>Additions:</b>		
Contributions:		
Member Contributions - Members	\$ 1,996,338,057	\$ 1,861,000,276
Member Contributions - Reporting Entities	3,390,353	5,941,724
Reinstatement of Withdrawals	44,045,625	45,003,113
Operating Transfers In:		
Allocation from Interest Account	1,128,761,363	1,046,375,266
<b>TOTAL ADDITIONS</b>	<b>\$ 3,172,535,398</b>	<b>\$ 2,958,320,379</b>
<b>Deductions:</b>		
Withdrawal of Member Accounts	\$ 275,482,331	\$ 277,932,219
Operating Transfers Out:		
Transfer to Retired Reserve Account for Dormant Accounts	15,391,190	15,265,639
Transfer to Retired Reserve Account to Fund Benefits	1,119,032,705	1,015,567,965
<b>TOTAL DEDUCTIONS</b>	<b>\$ 1,409,906,226</b>	<b>\$ 1,308,765,823</b>
<b>Net Increase in Account Balance</b>	<b>\$ 1,762,629,172</b>	<b>\$ 1,649,554,556</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 22,262,701,489</b>	<b>\$ 20,613,146,933</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 24,025,330,661</b>	<b>\$ 22,262,701,489</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



STATE CONTRIBUTION ACCOUNT	2008	2007
<b>Additions:</b>		
Contributions:		
State Contributions - General Fund	\$ 1,451,028,429	\$ 1,471,131,358
State Contributions - Federal Funds/ Private Grants	251,413,125	
State Contributions - Reporting Entities	351,934,557	277,731,578
Reinstatement Fees	43,161,749	41,494,298
Operating Transfers In:		
Allocation from Interest Account	(1,817,195,722)	(1,900,818,712)
Transfer from Interest Account for Net Appreciation in Fair Value of Investments	(7,992,472,030)	11,232,429,170
Retirement Benefits Forfeited While Member Returned to Teaching	59,181,007	64,976,931
Retirement Benefits Waived by Member	77,162	92,366
<b>TOTAL ADDITIONS</b>	<b>\$ (7,652,871,723)</b>	<b>\$ 11,187,036,989</b>
<b>Deductions:</b>		
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 2,885,839,754	\$ 2,696,346,105
Transfer to Retired Reserve Account Based on Actuarial Valuation as of August 31	35,313,538	304,183,981
<b>TOTAL DEDUCTIONS</b>	<b>\$ 2,921,153,292</b>	<b>\$ 3,000,530,086</b>
<b>Net Increase (Decrease) in Account Balance</b>	<b>\$ (10,574,025,015)</b>	<b>\$ 8,186,506,903</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 38,229,802,766</b>	<b>\$ 30,043,295,863</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 27,655,777,751</b>	<b>\$ 38,229,802,766</b>



## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



RETIRED RESERVE ACCOUNT	2008	2007
<b>Additions:</b>		
Operating Transfers In:		
Allocation from Interest Account	\$ 4,046,720,700	\$ 3,881,290,315
Transfer from Member Savings Account for Dormant Accounts	15,391,190	15,265,639
Transfer from Member Savings Account to Fund Benefits	1,119,032,705	1,015,567,965
Transfer from State Contribution Account to Fund Benefits	2,885,839,754	2,696,346,105
Transfer from State Contribution Account Based on Actuarial Valuation as of August 31	35,313,538	304,183,981
<b>TOTAL ADDITIONS</b>	<b>\$ 8,102,297,887</b>	<b>\$ 7,912,654,005</b>
<b>Deductions:</b>		
Benefits Paid:		
Service Retirement Annuities	\$ 5,693,184,467	\$ 5,104,816,272
Partial Lump Sums	363,668,944	325,688,244
Disability Retirement Annuities	146,907,654	134,866,736
Death and Survivor Benefits:		
Accumulated Savings	2,520,283	2,073,365
Annual Salary	42,216,290	38,928,295
Survivor Annuities	78,862,569	76,116,829
Life Annuities	85,576,098	78,322,931
60 Monthly Payments	10,169,530	9,386,943
Remainder of Contributions	3,177,348	3,443,703
Operating Transfers Out:		
Transfer to Deferred Retirement Option Account to Fund Benefits	10,071,289	12,491,862
Retirement Benefits Forfeited While Member Returned to Teaching	59,181,007	64,976,931
Retirement Benefits Waived by Member	77,162	92,366
<b>TOTAL DEDUCTIONS</b>	<b>\$ 6,495,612,641</b>	<b>\$ 5,851,204,477</b>
<b>Net Increase in Account Balance</b>	<b>\$ 1,606,685,246</b>	<b>\$ 2,061,449,528</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 51,463,651,156</b>	<b>\$ 49,402,201,628</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 53,070,336,402</b>	<b>\$ 51,463,651,156</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



<b>DEFERRED RETIREMENT OPTION ACCOUNT</b>		<b>2008</b>	<b>2007</b>
<b>Additions:</b>			
Operating Transfers In:			
Transfer from Retired Reserve Account			
to Fund Benefits	\$	10,071,289	\$ 12,491,862
Allocation from Interest Account		6,643,992	7,212,941
<b>TOTAL ADDITIONS</b>	\$	16,715,281	\$ 19,704,803
<b>Deductions:</b>			
Benefits Paid	\$	26,757,772	\$ 31,939,855
<b>Net Decrease in Account Balance</b>	\$	(10,042,491)	\$ (12,235,052)
<b>Account Balance - Beginning September 1</b>	\$	137,436,166	\$ 149,671,218
<b>Account Balance - Ending August 31</b>	\$	127,393,675	\$ 137,436,166

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



EXPENSE ACCOUNT	2008	2007
<b>Additions:</b>		
Miscellaneous Revenues	\$ 3,596	\$ 5,405
Operating Transfers In:		
Allocation from Interest Account	51,900,000	53,000,000
<b>TOTAL ADDITIONS</b>	<b>\$ 51,903,596</b>	<b>\$ 53,005,405</b>
<b>Deductions:</b>		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 34,963,117	\$ 31,410,872
Professional Fees and Services	5,897,607	4,516,791
Consumable Supplies and Fuels	388,525	334,264
Utilities	718,316	825,604
Travel	560,896	459,622
Rentals	209,269	152,310
Dues, Fees and Staff Development	305,789	282,500
Subscriptions and Reference Information	176,610	142,144
Printing and Reproduction Services	465,825	149,149
Postage, Mailing and Delivery Services	2,110,350	1,510,246
Software Purchases and Maintenance	2,200,055	1,835,985
Computer Hardware Maintenance	179,034	462,617
Miscellaneous Expenses	500,017	314,532
Insurance Premiums	839,244	844,386
Furniture and Equipment - Expensed	925,465	1,397,970
Maintenance - Buildings and Equipment	622,095	899,808
Compensable Absences	984,399	970,614
Depreciation	2,032,181	1,935,264
External Manager Fees	1,374,018	
<b>TOTAL DEDUCTIONS</b>	<b>\$ 55,452,812*</b>	<b>\$ 48,444,678</b>
<b>Net Increase (Decrease) in Account Balance</b>	<b>\$ (3,549,216)</b>	<b>\$ 4,560,727</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 35,208,272</b>	<b>\$ 30,647,545</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 31,659,056</b>	<b>\$ 35,208,272</b>

\* This amount includes internal investing activity expenses of \$27,956,132 (Schedule 3). Administrative expenses net of internal investing activity expenses are \$26,122,662 (Exhibit II).

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

AUGUST 31, 2008



	FIDUCIARY FUND			
	PENSION TRUST FUND			Variance - Favorable (Unfavorable)
	Budget	Actual		
<b>Expenses:</b>				
Salaries and Wages	\$ 28,509,966	\$ 27,523,926	\$	986,040
Other Personnel Costs:				
Longevity Pay	\$ 570,000	\$ 548,140	\$	21,860
Employer Retirement Contributions	1,761,925	1,761,925		
Employer FICA Contributions	1,911,937	1,911,937		
Employer Health Insurance Contributions	3,037,937	3,035,996		1,941
Benefit Replacement Pay	157,533	157,532		1
Other Employee Benefits	36,000	26,115		9,885
Compensable Absences	984,399	984,399		
<b>TOTAL OTHER PERSONNEL COSTS</b>	<b>\$ 8,459,731</b>	<b>\$ 8,426,044</b>	<b>\$</b>	<b>33,687</b>
Professional Fees and Services	\$ 7,135,327	\$ 6,277,333	\$	857,994
Other Operating Expenses:				
Consumable Supplies and Fuels	\$ 480,237	\$ 394,443	\$	85,794
Utilities	973,031	815,878		157,153
Travel	765,918	571,915		194,003
Rentals	231,401	208,249		23,152
Dues, Fees and Staff Development	428,285	297,114		131,171
Subscriptions and Reference Information	195,396	145,169		50,227
Printing and Reproduction Services	477,800	465,825		11,975
Postage, Mailing and Delivery Services	2,183,464	2,110,349		73,115
Software Purchases and Maintenance	1,945,696	1,866,823		78,873
Computer Hardware Maintenance	500,550	184,391		316,159
Miscellaneous Expenses	815,885	498,618		317,267
Insurance Premiums	859,000	839,244		19,756
Furniture and Equipment - Expensed	509,168	285,969		223,199
Maintenance - Buildings and Equipment	903,495	606,613		296,882
Depreciation and Loss on Disposal of Assets	2,032,181	2,032,181		
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 13,301,507</b>	<b>\$ 11,322,781</b>	<b>\$</b>	<b>1,978,726</b>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 57,406,531</b>	<b>\$ 53,550,084</b>	<b>\$</b>	<b>3,856,447</b>
<b>Pension Trust Fund:</b>				
Total From Expense Account - Schedule 1		\$ 55,452,812*		
Less Differences Between GAAP and Budgetary Basis Payables:				
Other Personnel Costs		2,454		
Professional Fees and Services		379,726		
Travel		(10,271)		
Other Operating Expenses		(578,595)		
Less Reclass from Capital Assets		(322,024)		
Less External Manager Fees		(1,374,018)		
<b>TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE</b>		<b>\$ 53,550,084</b>		
<b>Capital Expenses:</b>				
Furniture and Equipment - Capitalized	\$ 74,438	\$ 57,490	\$	16,948
Capital Projects	4,755,062	1,808,242		2,946,820
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ 4,829,500</b>	<b>\$ 1,865,732</b>	<b>\$</b>	<b>2,963,768</b>

\*This amount includes internal investing activity expenses of \$27,956,132 (Schedule 3). Administrative expenses net of internal investing activity expenses are \$26,122,662 (Exhibit II).

FIDUCIARY FUND		
HEALTH BENEFITS TRUST FUND RETIRED PLAN		
Budget	Actual	Variance - Favorable (Unfavorable)
\$ 1,454,790	\$ 1,368,876	\$ 85,914
\$ 33,200	\$ 33,060	\$ 140
91,946	91,945	1
102,580	102,579	1
138,340	138,338	2
12,376	12,375	1
23,000	1,456	21,544
80,168	80,168	
\$ 481,610	\$ 459,921	\$ 21,689
\$ 1,459,200	\$ 884,937	\$ 574,263
\$ 3,971	\$ 1,542	\$ 2,429
3,850	1,364	2,486
18,450	4,098	14,352
144,762	144,762	
6,900	4,002	2,898
900	300	600
53,600	10,631	42,969
95,800	46,090	49,710
16,000	10,508	5,492
9,000	3,274	5,726
2,000		2,000
\$ 355,233	\$ 226,571	\$ 128,662
\$ 3,750,833	\$ 2,940,305	\$ 810,528

**Health Benefits Trust Fund - Retired Plan:**

Total Administrative Expenses - Exhibit II	\$ 3,000,536
Less Differences Between GAAP and Budgetary Basis Payables:	
Professional Fees and Services	(14,045)
Other Operating Expenses	(46,186)
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 2,940,305

(to next page)

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

AUGUST 31, 2008

(concluded)



	PROPRIETARY FUND		
	TRS-ACTIVECARE ENTERPRISE FUND		
	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Expenditures:</b>			
Salaries and Wages	\$ 1,089,000	\$ 1,006,479	\$ 82,521
Other Personnel Costs:			
Longevity Pay	\$ 23,000	\$ 21,700	\$ 1,300
Employer Retirement Contributions	67,100	61,894	5,206
Employer FICA Contributions	82,000	75,975	6,025
Employer Health Insurance Contributions	123,000	97,793	25,207
Benefit Replacement Pay	6,000	2,836	3,164
Other Employee Benefits	13,000	1,456	11,544
Compensable Absences	30,000	26,874	3,126
<b>TOTAL OTHER PERSONNEL COSTS</b>	<b>\$ 344,100</b>	<b>\$ 288,528</b>	<b>\$ 55,572</b>
Professional Fees and Services	\$ 807,501	\$ 446,412	\$ 361,089
Other Operating Expenditures:			
Consumable Supplies and Fuels	\$ 4,000	\$ 1,652	\$ 2,348
Utilities	2,300	860	1,440
Travel	10,200	4,937	5,263
Rentals	80,290	80,290	
Dues, Fees and Staff Development	5,500	2,645	2,855
Subscriptions and Reference Information	2,525	872	1,653
Printing and Reproduction Services	3,950	1,849	2,101
Postage, Mailing and Delivery Services	8,700	4,385	4,315
Software Purchases and Maintenance			
Computer Hardware Maintenance			
Miscellaneous Expenses	3,700	1,229	2,471
Insurance Premiums			
Furniture and Equipment - Expensed	4,000	126	3,874
Maintenance - Buildings and Equipment	1,750		1,750
Depreciation and Loss on Disposal of Assets			
<b>TOTAL OTHER OPERATING EXPENDITURES</b>	<b>\$ 126,915</b>	<b>\$ 98,845</b>	<b>\$ 28,070</b>
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>\$ 2,367,516</b>	<b>\$ 1,840,264</b>	<b>\$ 527,252</b>
<b>TRS-ActiveCare Enterprise Fund:</b>			
Total Administrative Expenses - Exhibit IV	\$ 1,830,258		
Add Differences Between GAAP and Budgetary Basis Payables:			
Professional Fees and Services	10,000		
Other Operating Expenses	6		
<b>TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE</b>	<b>\$ 1,840,264</b>		

GOVERNMENTAL FUND		
403(b) CERTIFICATION PROGRAM SPECIAL REVENUE FUND		
Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$ 192,000	\$ 192,000	\$ -0-
\$	\$	\$
\$	\$	\$
\$ 192,000	\$ 192,000	\$ -0-
<b>403(b) Certification Program Special Revenue Fund:</b>		
Total Administrative Expenditures - Exhibit VII	\$	192,000
TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$	<u>192,000</u>



## Comparative Schedule of Internal Investing Activity Expenses

### PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)



	2008	2007
<b>Direct Expenses:</b>		
Salaries and Other Personnel Costs	\$ 13,004,106	\$ 9,532,239
Professional Fees and Services	5,183,132	4,338,789
Consumable Supplies	5,546	4,492
Travel	400,600	295,329
Dues, Fees and Staff Development	50,193	50,369
Subscriptions and Reference Materials	28,123	59,449
Furniture and Equipment - Expensed	45,071	13,856
<b>Total Direct Expenses</b>	<b>\$ 18,716,771</b>	<b>\$ 14,294,523</b>
<b>Indirect Expenses:</b>		
Depreciation, Utilities and Building Maintenance	\$ 1,164,796	\$ 728,375
Executive Management Support	757,012	521,166
Legal, Audit and Human Resources Support	2,502,047	1,897,219
Fiscal Management Support	942,342	1,089,785
Information Technology Support	2,263,632	1,280,682
Security and Staff Services Support	892,230	694,396
Other Support Services	717,302	436,256
<b>Total Indirect Expenses</b>	<b>\$ 9,239,361</b>	<b>\$ 6,647,879</b>
<b>Total Investing Activity Expenses* (Exh. II)</b>	<b>\$ 27,956,132</b>	<b>\$ 20,942,402</b>

\*During fiscal year 2008, the system paid commissions of \$35,350,226, of which \$3,546,842 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 \$8,365,467. These soft dollar expenditures are not included in the above internal investing activity expenses. Also excluded from internal investing activity expenses are management fees of \$13,201,352 paid directly by the system during fiscal year 2008 to managers of four of the system's 193 alternative investment entities. These directly paid fees are recorded in the net appreciation account. The management fees of the remaining 189 entities are paid directly by the entities.

## Schedule of Payments to Consultants - Budgetary Basis

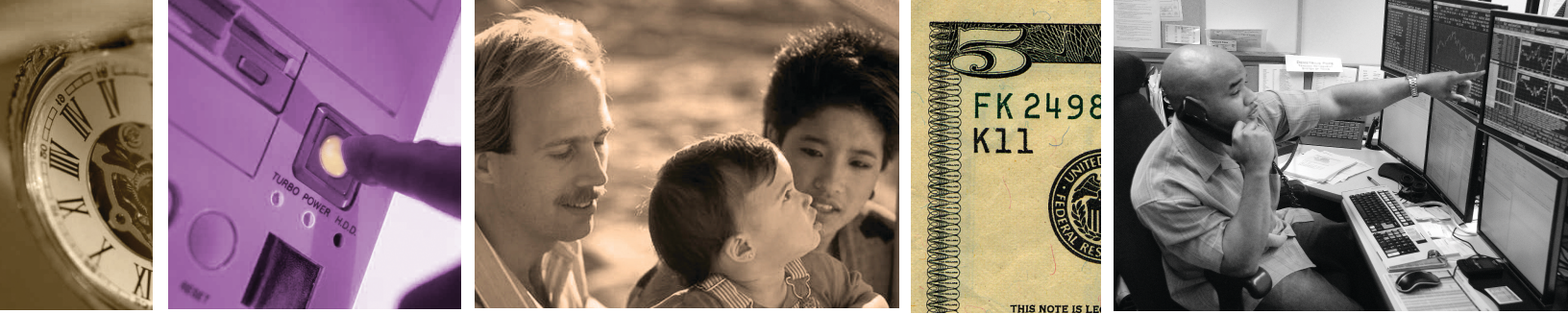
FOR THE FISCAL YEAR ENDED AUGUST 31, 2008



	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	TRS- ActiveCare Enterprise Fund	403(b) Certification Program Special Revenue Fund	Total
<b>Nature of Service:</b>					
Investment Consultants	\$3,421,197	\$	\$	\$	\$3,421,197
Legal Counsel	1,610,589	64,795	(62,121)		1,613,263
Health Care Consultants		426,242	348,028		774,270
Programming Consultants	444,484				444,484
Audit Services	314,804	112,363	8,505		435,672
Fiduciary Counsel	380,304				380,304
Communications Consultants	194,500				194,500
Consulting Actuary	129,224				129,224
Medical Board	100,050				100,050
Temporary Employment Services	93,572				93,572
Investment Counseling Services	76,930				76,930
Pension Administration Survey	35,000				35,000
Member Satisfaction Survey	30,000				30,000
Miscellaneous	27,519				27,519
Professional Tax Services	25,046				25,046
Telephone Counseling Center Survey	18,191				18,191
Employee Assistance Program	13,578				13,578
Architectural Services	8,574				8,574
Software Consultants/ Upgrade Services	1,550				1,550
Data Processing Services	(15,937)	15,937			
Administrative Services	(609,600)	265,600	152,000	192,000	
Search Consultants	(22,242)				(22,242)*
<b>TOTAL</b>	<b>\$6,277,333</b>	<b>\$ 884,937</b>	<b>\$ 446,412</b>	<b>\$ 192,000</b>	<b>\$7,800,682</b>

\* Includes \$44,184 expense reduction from fiscal year 2007

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# INVESTMENT Section

## INVESTMENT OVERVIEW

### Policy and Portfolio Structure

The year 2008 was one of significant change and progress for the TRS pension fund. Investment staff began implementing a new investment strategy designed to improve the Trust's long-term investment results, while also reducing downside market risk. This change has achieved some of the desired results. As of June 30, 2008, TRS's one-year total fund return was -2.1%. This ranked TRS in the top 15% of large pension funds. The median large pension fund return was -4.4%. This was 2.7%, or approximately \$2.4 billion, better than the prior policy benchmark return.

During the past fiscal year, a professional and transparent certification process was developed for effective selection and management of external investment relationships. Long-term strategic investment partners were selected to support the overall investment process and to deliver unique resources and long-term global market access and results. A professional risk management process was developed and implemented. TRS continues to be recognized as a leader in the investment arena and was awarded the Public Pension Fund of the Year by a division of Institutional Investor. TRS was also asked to join the President's Working Group on Financial Markets, a group selected to assist the U.S. in dealing with difficult market conditions and emerging trends.

As a result of the implementation of the new investment policy, the fund has improved its asset allocation through more effective diversification, developed a suite of global valuation models, and re-designed the hedge fund portfolio to produce a more absolute oriented return structure. Staff has prioritized becoming one of the world's 20 most effective investment partners in both private equity and real assets and has implemented a more competitive and more performance oriented compensation structure that improves the division's ability to retain and attract experienced and high quality investment personnel.

In July, TRS funded its first external managers. As of August 31, 2008 TRS has funded five external managers with an aggregate market value of \$4.3 billion, including four strategic partners that make up the TRS Strategic Partner Network. The number of external managers is expected to grow in the coming years as TRS implements its new external manager program.

### Investment Portfolio Performance

The total value of the fund on August 31, 2008, was \$104.1 billion. The fund's annual rates of return for the one-, three-, five- and 10-year periods ending August 31, 2008, were -4.5 percent, 6.2 percent, 9.0 percent, and 6.9 percent, respectively.

Additional information about performance is included on the "Total Time Weighted Returns" and "Asset Allocation" charts on pages 73 and 74. The information shown is for the 12-month period ended June 30, 2008, and includes comparisons with established benchmarks for the same time period.

Investment performance is calculated using a time weighted rate of return. Returns are calculated using industry best practices.

*Prepared by:  
Investment staff of the system*

# Total Time Weighted Returns

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

Total Portfolio <sup>1</sup>	2003	2004	2005	2006	2007	2008	3 Years	5 Years	10 Years
TRS	4.7%	15.7%	9.5%	10.4%	17.5%	-2.1%	8.3%	10.0%	6.1%
Custom Benchmark <sup>2</sup>	4.5%	15.3%	9.3%	9.7%	16.9%	-2.0%	7.9%	9.6%	5.9%
TRS Public Equity	-0.5%	23.3%	10.2%	14.0%	21.9%	-10.3%	7.6%	11.1%	5.1%
Public Equity Composite Benchmark <sup>3</sup>	-0.9%	23.4%	9.8%	13.5%	22.1%	-10.9%	7.3%	10.8%	5.3%
TRS Private Equity	-7.6%	26.1%	38.4%	45.3%	32.4%	14.8%	30.2%	31.0%	n/a
Private Equity Composite Benchmark <sup>4</sup>	0.0%	9.4%	15.3%	19.6%	21.4%	-12.4%	8.9%	10.2%	n/a
<b>Total TRS Global Equity</b>	-0.6%	23.3%	10.8%	14.8%	22.3%	-8.8%	8.6%	11.8%	5.4%
<b>Global Equity Composite Benchmark <sup>5</sup></b>	-0.8%	22.7%	10.1%	13.9%	22.1%	-10.9%	7.4%	10.9%	5.5%
TRS Fixed Income	15.2%	0.3%	7.3%	-0.3%	6.7%	4.4%	3.6%	3.6%	5.8%
Fixed Income Composite Benchmark <sup>6</sup>	15.5%	-0.3%	7.1%	-0.5%	6.6%	9.2%	5.0%	4.3%	5.8%
TRS Hedge Funds	9.1%	6.5%	6.2%	11.2%	15.2%	-1.2%	8.2%	7.4%	n/a
Hedge Fund Composite Benchmark <sup>7</sup>	8.4%	6.3%	3.7%	5.8%	9.8%	5.9%	7.2%	6.3%	n/a
<b>Total TRS Stable Value</b>	14.6%	0.5%	7.0%	0.5%	7.2%	4.5%	4.0%	3.9%	5.9%
<b>Stable Value Composite Benchmark <sup>8</sup></b>	14.9%	0.1%	6.8%	-0.1%	6.7%	8.4%	5.0%	4.3%	5.8%
TRS Real Estate	9.5%	7.0%	-5.0%	11.7%	13.7%	7.1%	10.8%	6.7%	n/a
Real Estate Composite Benchmark <sup>9</sup>	n/a	n/a	n/a	n/a	18.8%	9.3%	n/a	n/a	n/a
<b>Total TRS Real Return</b>	9.5%	7.0%	-5.0%	11.7%	13.7%	24.5%	16.5%	10.0%	n/a
<b>Real Return Composite Benchmark <sup>10</sup></b>	n/a	n/a	n/a	n/a	18.8%	18.6%	20.0%	n/a	n/a

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

<sup>2</sup> 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% MSACWI 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; then 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% MSACWI 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 (70% 3-month LIBOR/ 30% S&P 500)/ 0.5% 91-day T-Bill through 01/05; 50% Total Domestic Equity Composite/ 13.4% MSACWI 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 (70% 3-month LIBOR/ 30% S&P 500)/ 0.52% 91-day T-Bill through 9/07; currently 15% Russell 1000 Growth/ 15% Russell 1000 Value/ 5% Russell 2000/ 15% MSCIEAFE + Canada/ 5% MSCI EM/ 5% Russell 3000 + 5%/ 10% Lehman Long Treasuries/ 4% 3-month LIBOR + 2%/ 5% Lehman Intermediate Gov-Credit/ 1% Citigroup 90-day US Treasury/ 10% Lehman Global Inflation Linked Bonds/ 4% Real Estate Composite/ 1% US Core CPI + 5%/ 3% Goldman Sachs Commodity Index/ 2% NAREIT.

<sup>3</sup> 72% S&P 500/ 8% S&P 400/ 3% S&P 600/ 17% International Equity Composite (58% EAFE ex Japan/ 15% Japan) through 12/99; 35% S&P 500/ 5% S&P 400/ 2% S&P 600/ 41% S&P 1500/ 17% EAFE through 06/00; 64% S&P 500/ 11% S&P 400/ 5% S&P 600/ 20% MSCI ACWI Free Ex-US through 6/04; 61% S&P 500/ 12% S&P 400/ 6% S&P 600/ 21% MSCI ACWI Free Ex-US through 6/05; 60.16% S&P 500/ 12.2% S&P 400/ 6.5% S&P 600/ 21.14% MSCI ACWI Free Ex-US through 3/06; 59.82% S&P 500/ 11.97% S&P 400/ 5.99% S&P 600/ 22.22% MSCI ACWI Free Ex-US through 9/07; currently 27.27% Russell 1000 Growth/ 27.27% Russell 1000 Value/ 9.09% Russell 2000/ 27.27% MSCI EAFE + Canada/ 9.10% MSCI EM.

<sup>4</sup> 3 years at 0, then Russell 2000 + 500 bps through 9/07, currently Russell 3000 + 5%.

<sup>5</sup> 72% S&P 500/ 8% S&P 400/ 3% S&P 600/ 17% International Equity Composite (58% EAFE ex Japan/ 15% Japan) through 12/99; 35% S&P 500/ 5% S&P 400/ 2% S&P 600/ 41% S&P 1500/ 17% EAFE through 06/00; 61.31% S&P 500/ 10.95% S&P 400/ 4.38% S&P 600/ 18.98% MSCI ACWI free-ex-US/ 4.38% Private Equity Composite (3 years at 0, then Russell 2000 + 5%) through 6/04; 57% S&P 500/ 11% S&P 400/ 6% S&P 600/ 20% MSCI ACWI free ex-US/ 6% Russell 2000 + 5% through 6/05; 56.5% S&P 500/ 11.5% S&P 400/ 6.1% S&P 600/ 19.8% MSCI ACWI free ex-US/ 6.1% Russell 2000 + 5% through 3/06; 56.00% S&P 500/ 11.21% S&P 400/ 5.6% S&P 600/ 20.8% MSCI ACWI free ex-US/ 6.39% Russell 2000 + 5% through 9/07; currently 25% Russell 1000 Growth/ 25% Russell 1000 Value/ 8.33% Russell 2000/ 25% MSCI EAFE + Canada/ 8.33% MSCI EM/ 8.34% Russell 3000 + 5%.

<sup>6</sup> SB Large Pension Fund through 6/00; 96.61% SB Large Pension Fund/ 3.39% SB High Yield Market Index through 12/03; 96.61% LB Aggregate/ 3.39% SB High Yield Market Index through 06/04; 93.22% LB Aggregate/ 6.78% Citigroup High Yield Index through 03/05; 93.22% LB Aggregate/ 6.78% Lehman US Corp High Yield Index through 03/06; LB Universal through 9/07; currently 66.67% Lehman Long Treasury/ 33.33% Lehman Intermediate Gov-Credit.

<sup>7</sup> 6-month T-Bill + 300 bps through 3/03; 70% 3-month LIBOR/ 30% S&P 500 through 9/07; currently 3-month LIBOR + 2%.

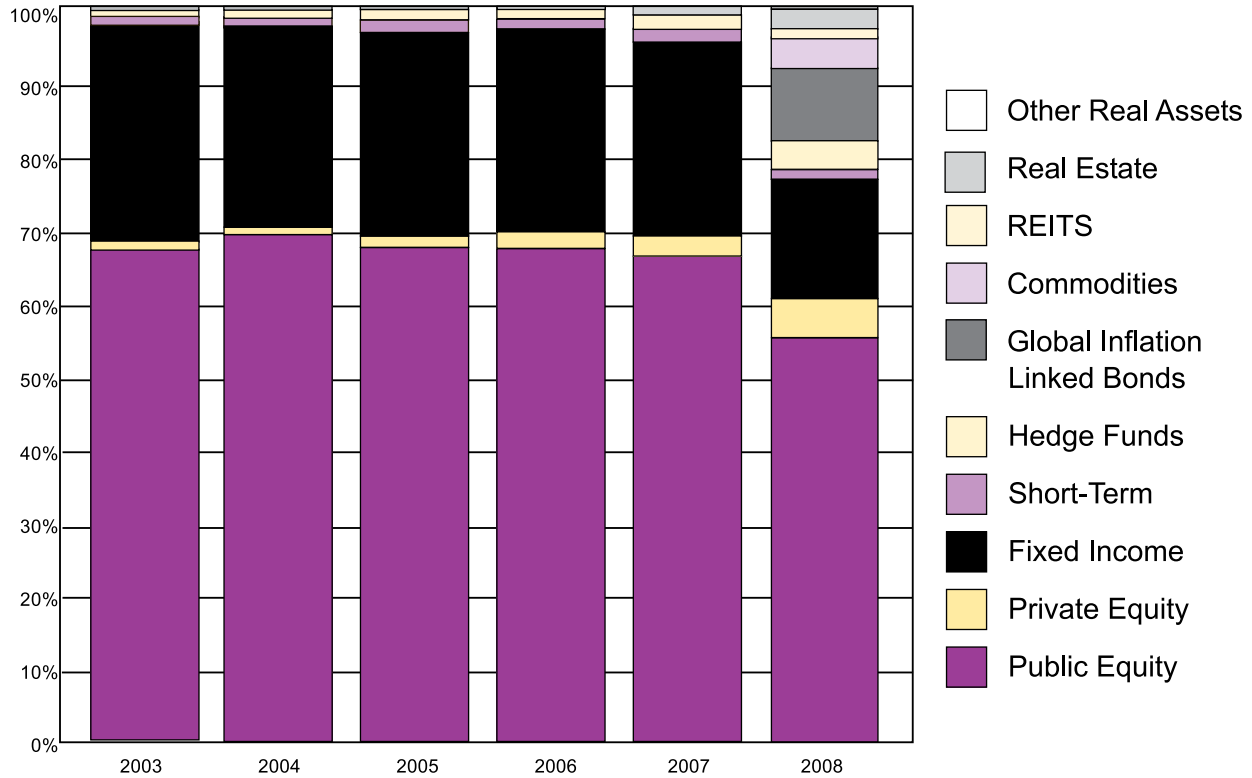
<sup>8</sup> 95% SB Large Pension Fund/ 5% 91-day T-Bill through 12/99; 97.3% SB Large Pension Fund/ 2.7% 91-day T-Bill through 6/00; 90.48% SB Large Pension Fund/ 3.17% SB High Yield Index/ 4.76% Hedge Fund Composite/ 1.59% 91-day T-Bill through 12/03; 90.48% LB Aggregate/ 3.17% SB High Yield Index/ 4.76% Hedge Fund Composite/ 1.59% 91-day T-Bill through 06/04; 87.3% LB Aggregate/ 6.35% Citigroup High Yield Index/ 4.76% Hedge Fund Composite/ 1.59% 91-day T-Bill through 03/05; 87.3% LB Aggregate/ 6.35% Lehman High Yield / 4.76% Hedge Fund Composite/ 1.59% 91-day T-Bill through 03/06; 93.63% LB Aggregate/ 4.77% Hedge Fund Composite/ 1.6% 91-day T-Bill through 9/07; currently 50% Lehman Long Treasury/ 25% Lehman Intermediate Gov-Credit/ 20% Hedge Fund Composite/ 5% 91-day T-Bill.

<sup>9</sup> Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps through 9/07; currently Core: NCREIF ODCE/ Opportunistic: NCREIF ODCE + 2%.

<sup>10</sup> Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps through 9/07; currently 50% LB Global Inflation Linked Bond Index/ 20% Real Estate Composite Index/ 5% US Core CPI + 5%/ 15% Goldman Sachs Commodity Index/ 10% NAREIT Index.

## Asset Allocation

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30



	2003	2004	2005	2006	2007	2008	Averages		
							3 Years	5 Years	10 Years
Public Equity	66.9%	68.6%	67.2%	67.1%	66.2%	55.0%	62.7%	64.9%	64.9%
Private Equity	0.8%	1.1%	1.7%	2.2%	2.7%	5.4%	3.5%	2.6%	1.5%
<b>TOTAL GLOBAL EQUITY</b>	<b>67.7%</b>	<b>69.7%</b>	<b>68.9%</b>	<b>69.3%</b>	<b>68.9%</b>	<b>60.4%</b>	<b>66.2%</b>	<b>67.5%</b>	<b>66.4%</b>
Fixed Income <sup>1</sup>	29.8%	27.4%	27.6%	27.7%	26.3%	16.2%	23.4%	25.0%	28.7%
Short-Term	1.0%	1.2%	1.8%	1.1%	1.9%	1.5%	1.5%	1.5%	1.3%
Hedge Funds	1.0%	1.3%	1.4%	1.7%	2.0%	3.7%	2.5%	2.0%	1.2%
<b>TOTAL STABLE VALUE</b>	<b>31.8%</b>	<b>29.9%</b>	<b>30.8%</b>	<b>30.5%</b>	<b>30.2%</b>	<b>21.4%</b>	<b>27.4%</b>	<b>28.5%</b>	<b>31.2%</b>
Global Inflation Linked Bonds	0.0%	0.0%	0.0%	0.0%	0.0%	9.9%	3.2%	2.0%	1.0%
Commodities	0.0%	0.0%	0.0%	0.0%	0.0%	4.1%	1.4%	0.8%	0.4%
REITS <sup>2</sup>	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.4%	0.2%	0.1%
Real Estate	0.5%	0.4%	0.3%	0.2%	0.9%	2.7%	1.3%	0.9%	0.9%
Other Real Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.1%	0.1%	0.0%
<b>TOTAL REAL RETURN</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.9%</b>	<b>18.2%</b>	<b>6.4%</b>	<b>4.0%</b>	<b>2.4%</b>

<sup>1</sup> Does not include Global Inflation Linked Bonds in Real Return Portfolio.

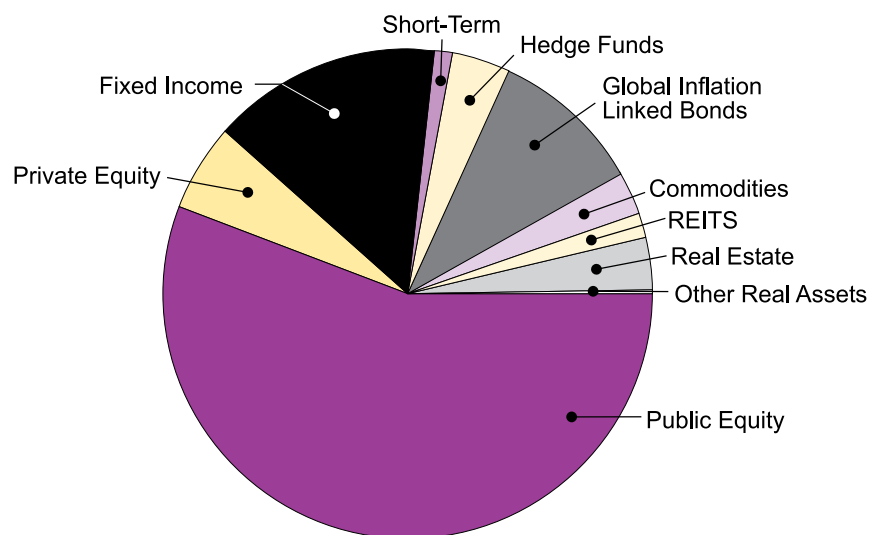
<sup>2</sup> Dedicated portfolio in addition to Global Equity holdings.



## Asset Allocation

PENSION TRUST FUND - AUGUST 31, 2008

**Asset Allocation**  
**Actual at Fiscal Year End**



### POLICY RANGES

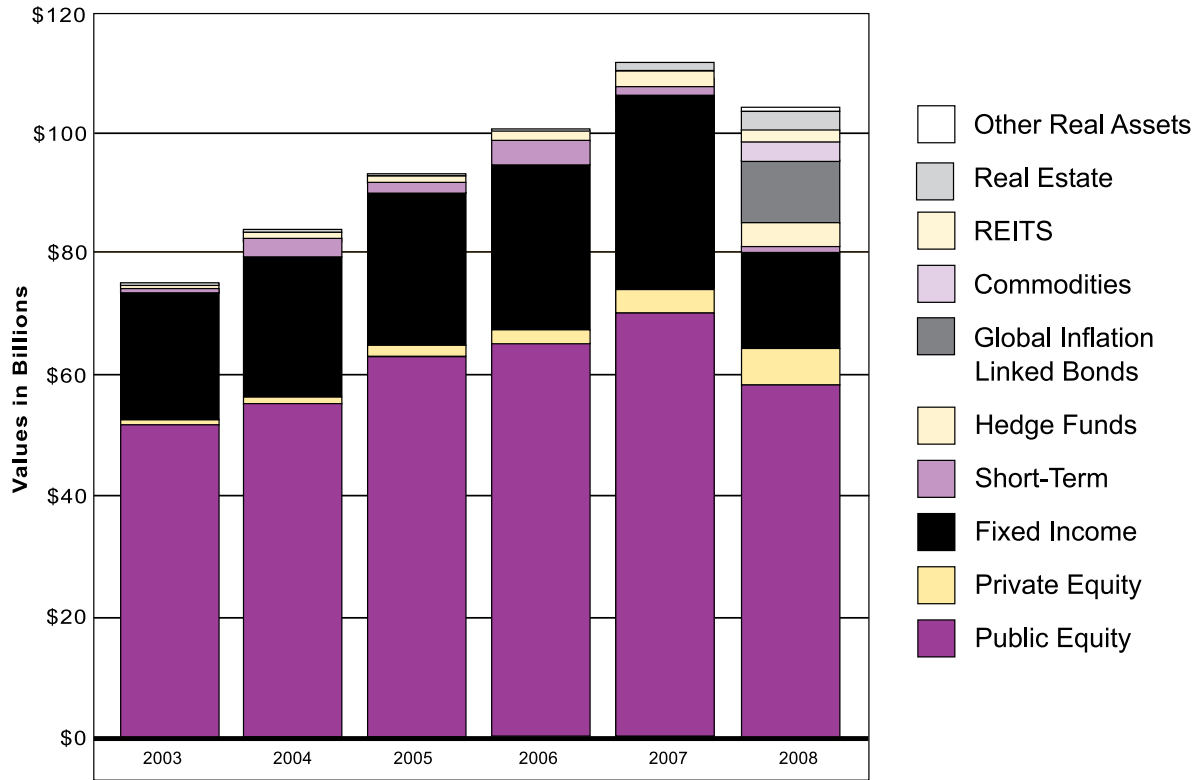
	Low	High	Neutral	Actual
Public Equity	50.0%	60.0%	55.0%	56.0%
Private Equity	0.0%	10.0%	5.0%	5.8%
<b>TOTAL GLOBAL EQUITY</b>	<b>55.0%</b>	<b>65.0%</b>	<b>60.0%</b>	<b>61.8%</b>
Fixed Income <sup>1</sup>	10.0%	20.0%	15.0%	15.1%
Short-Term	0.0%	6.0%	1.0%	1.1%
Hedge Funds	0.0%	9.0%	4.0%	3.8%
<b>TOTAL STABLE VALUE</b>	<b>15.0%</b>	<b>25.0%</b>	<b>20.0%</b>	<b>20.0%</b>
Global Inflation Linked Bonds	5.0%	15.0%	10.0%	9.9%
Commodities	0.0%	8.0%	3.0%	3.1%
REITS <sup>2</sup>	0.0%	7.0%	2.0%	1.7%
Real Estate	0.0%	9.0%	4.0%	3.1%
Other Real Assets	0.0%	6.0%	1.0%	0.4%
<b>TOTAL REAL RETURN</b>	<b>15.0%</b>	<b>25.0%</b>	<b>20.0%</b>	<b>18.2%</b>
<b>TOTAL</b>				<b>100.0%</b>

<sup>1</sup> Does not include Global Inflation Linked Bonds in Real Return Portfolio.

<sup>2</sup> Dedicated portfolio in addition to Global Equity holdings.

## Investment Summary

PENSION TRUST FUND - AUGUST 31



### MARKET VALUES (in billions)

	2003	2004	2005	2006	2007	2008
Public Equity	\$ 52.697	\$ 55.836	\$ 63.571	\$ 65.836	\$ 70.255	\$ 58.313
Private Equity	0.632	1.027	1.753	2.321	3.794	6.055
<b>TOTAL GLOBALEQUITY</b>	<b>\$ 53.329</b>	<b>\$ 56.863</b>	<b>\$ 65.324</b>	<b>\$ 68.157</b>	<b>\$ 74.049</b>	<b>\$ 64.368</b>
Fixed Income <sup>1</sup>	\$ 21.282	\$ 23.070	\$ 24.723	\$ 27.184	\$ 31.358	\$ 15.674
Short-Term	0.650	3.027	1.921	3.975	1.683	1.128
Hedge Funds	0.941	1.106	1.223	1.681	2.817	3.998
<b>TOTAL STABLE VALUE</b>	<b>\$ 22.873</b>	<b>\$ 27.203</b>	<b>\$ 27.867</b>	<b>\$ 32.840</b>	<b>\$ 35.858</b>	<b>\$ 20.800</b>
Global Inflation Linked Bonds	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ n/a	\$ 10.242
Commodities	n/a	n/a	n/a	n/a	n/a	3.214
REITS <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	1.803
Real Estate	0.418	0.345	0.138	0.261	1.214	3.219
Other Real Assets	n/a	n/a	n/a	n/a	n/a	0.429
<b>TOTAL REAL RETURN</b>	<b>\$ 0.418</b>	<b>\$ 0.345</b>	<b>\$ 0.138</b>	<b>\$ 0.261</b>	<b>\$ 1.214</b>	<b>\$ 18.907</b>
<b>TOTAL</b>	<b>\$ 76.620</b>	<b>\$ 84.411</b>	<b>\$ 93.329</b>	<b>\$ 101.258</b>	<b>\$ 111.121</b>	<b>\$ 104.075</b>

<sup>1</sup> Does not include Global Inflation Linked Bonds in Real Return Portfolio.

<sup>2</sup> Dedicated portfolio in addition to Global Equity holdings.

## Investment Summary

PENSION TRUST FUND - AUGUST 31

	PERCENTAGE OF MARKET VALUES					
	2003	2004	2005	2006	2007	2008
Public Equity	68.8%	66.2%	68.1%	65.0%	63.3%	56.0%
Private Equity	0.8%	1.2%	1.9%	2.3%	3.4%	5.8%
<b>TOTAL GLOBAL EQUITY</b>	69.6%	67.4%	70.0%	67.3%	66.7%	61.8%
Fixed Income <sup>1</sup>	27.9%	27.3%	26.5%	26.8%	28.2%	15.1%
Short-Term	0.8%	3.6%	2.1%	3.9%	1.5%	1.1%
Hedge Funds	1.2%	1.3%	1.3%	1.7%	2.5%	3.8%
<b>TOTAL STABLE VALUE</b>	29.9%	32.2%	29.9%	32.4%	32.2%	20.0%
Global Inflation Linked Bonds	n/a	n/a	n/a	n/a	n/a	9.9%
Commodities	n/a	n/a	n/a	n/a	n/a	3.1%
REITS <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	1.7%
Real Estate	0.5%	0.4%	0.1%	0.3%	1.1%	3.1%
Other Real Assets	n/a	n/a	n/a	n/a	n/a	0.4%
<b>TOTAL REAL RETURN</b>	0.5%	0.4%	0.1%	0.3%	1.1%	18.2%
<b>TOTAL</b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

<sup>1</sup> Does not include Global Inflation Linked Bonds in Real Return Portfolio.

<sup>2</sup> Dedicated portfolio in addition to Global Equity holdings.

## Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2008

### Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
ISHARES - Russell 2000 Index	\$ 1,724,400,375	23,381,700
Exxon Mobil Corp.	894,681,421	11,182,120
ISHARES - Dow Jones US Real Estate Index	729,445,000	11,500,000
Microsoft Corp.	600,028,259	21,987,111
General Electric Co.	568,274,393	20,223,288
Procter & Gamble Co.	513,188,979	7,355,439
International Business Machines	455,403,251	3,741,093
Johnson & Johnson	433,418,261	6,153,887
Apple Inc.	414,730,733	2,446,356
A T & T Inc.	405,120,368	12,663,969
	<u>\$ 6,738,691,040</u>	<u>120,634,963</u>

### Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
ISHARES - MSCI Emerging Market Index Fund	\$ 2,031,134,909	50,714,979
HSBC HLDGS Plc.	201,422,538	12,759,344
Nestle SA	185,205,713	4,185,611
BP Amoco Plc.	180,776,562	18,744,726
Total SA	166,547,659	2,306,545
Novartis AG	146,323,350	2,611,117
Vodafone Group Plc.	145,226,108	56,449,352
Nokia OYJ	132,586,331	5,272,651
BHP Billiton Ltd.	131,509,328	3,688,519
E. on Ag	128,097,281	2,183,382
	<u>\$ 3,448,829,779</u>	<u>158,916,226</u>

## Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2008

### Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury 8% due 11/15/2021	\$ 1,167,202,941	\$ 850,000,000
U.S. Treasury 5.375% due 02/15/2031	950,596,693	841,750,000
U.S. Treasury 6.125% due 11/15/2027	850,927,035	700,000,000
U.S. Treasury 4.5% due 02/15/2036	616,222,596	609,030,000
U.S. Treasury 6.875% due 08/15/2025	575,193,054	444,240,000
U.S. Treasury 7.875% due 02/15/2021	558,297,684	413,465,000
U.S. Treasury 6% due 02/15/2026	486,488,589	408,680,000
Israel Government Bond 5.5% due 04/26/2026	477,239,070	432,355,000
U.S. Treasury 8.125% due 08/15/2021	445,160,612	322,090,000
U.S. Treasury 8.875% due 02/15/2019	422,925,018	300,000,000
	<u>\$ 6,550,253,292</u>	<u>\$ 5,321,610,000</u>

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

## Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Fund Name	Fees
32 Capital Fund LTD	\$ 4,120,427
ACI Multi-Strategy Market Neutral Fund LTD	789,413
Advent Convertible Arbitrage Fund	294,304
Alpha Private Equity Fund V, L.P.	117,569
AMB Institutional REIT III, Inc.	1,142,672
Amici Fund International LTD	1,876,283
Apax Europe V	1,315,314
Apax Europe VII-A	8,444,245
Apollo Investment Fund VII, L.P.	9,437,449
AQR Global Stock Selection Fund	829,417
ARA Asia Dragon Limited	1,535,019
Austin Ventures VIII, L.P.	789,400
Avenue International LTD	1,020,521
Avenue Special Situations Fund V, L.P.	9,094,453
Babcock and Brown Infrastructure Fund NA, L.P.	4,794,520
Bain Capital Fund VIII, L.P.	783,003
Bain Capital VII Coinvest Fund, L.P.	346,988
Bain Capital VIII Coinvest Fund, L.P.	721,258
Bay Resource Partners Offshore Fund LTD	671,233
BlackRock Diamond Property Fund, Inc.	1,449,401
BlackRock Retail Opportunity Fund, LLC	4,187,442
Blackstone Capital Partners V, L.P.	4,652,285
Blackstone Real Estate V	1,754,851
Blackstone Real Estate VI	4,895,833
Bluebonnet Iam Limited	862,835
Brencourt Arbitrage International III LTD	865,287
Camden Multifamily Value Add Fund, L.P.	1,200,000
Candover 2001 Fund, L.P.	387,160
Cantillion Pacific LTD	395,327
Capmark Comm Realty Partners II, L.P.	(81,029)
Capmark Commercial Realty Partners III, L.P.	2,341,632
Capmark Structured RE Partners, L.P.	1,339,879
Capri Urban Investors, LLC	1,040,459
Carlyle Europe Partners III, L.P.	1,033,307
Carlyle Europe Real Estate Partners III, L.P.	2,882,754
Carlyle Partners III, L.P.	194,615
Carlyle Partners IV, L.P.	820,180
Carlyle Partners V, L.P.	7,512,952
Carlyle Realty Partners V, L.P.	1,500,000
CBRE Strategic Partners US Value Fund 5, L.P.	111,328

## Schedule of Fees and Commissions

### PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

(continued)

Fund Name	Fees
Cerberus Institutional (Series Four), L.P.	\$ 1,500,000
Charterhouse Capital VIII, L.P.	2,237,462
CIM Fund III, L.P.	6,312,602
CIM Urban REIT, LLC	806,316
Colony Investors VIII, L.P.	3,943,900
CPI Capital Partners Europe, L.P.	1,729,952
CSFB Emerging Opportunities Fund, L.P.	1,812,058
CVC Capital Partners Asia Pacific III, L.P.	4,792,281
CVC European Equity Partners IV, L.P.	423,448
CVC European Equity Partners Tandem Fund	1,996,606
CVC European Equity Partners V, L.P.	4,362,974
Deephaven Global Multi-Strategy Fund Limited	1,362,501
Double Black Diamond Ltd - Series A - Unrestricted	1,939,627
EnCap Energy Capital Fund VII, L.P.	1,726,680
ESL Limited	3,951,096
FC Co-Investment Partners, L.P.	666,667
First Reserve Fund IX, L.P.	3,700
First Reserve Fund X, L.P.	641,853
First Reserve Fund XI, L.P.	1,463,496
Five Arrows Securities V, L.P.	2,521,638
Five Mile Capital Partners II, L.P.	4,513,014
Footbridge Captital Fund, Inc.	197,965
Fore ERISA Fund Class E	2,514,863
Forum Asian Realty Income II, L.P.	1,286,832
Forum Europe Realty Income III, L.P.	2,387,596
GCM Little Arbor Partners (Cayman) LTD	1,809,360
GoldenTree High Yield Fund LTD	1,444,252
Goldman Sachs Vintage Fund, L.P.	17,756
Gores Capital Partners II	460,459
Gradient Europe	623,040
Gramercy Emerging Markets Fund	661,139
Green Equity Investors V, L.P.	2,292,839
GSO Special Situations Fund, L.P.	50,406
Halcyon European Structured Opportunities Offshore Fund LTD	1,634,578
Halycon Offshore Fund Limited	2,464,821
Heitman America Real Estate Trust, L.P.	461,371
Hellman & Friedman Capital Partners V	399,551
Hellman & Friedman Capital Partners VI	302,076
Henderson Japan Absolute Return Fund Limited	562,143



## Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

(continued)

Fund Name	Fees
Henderson Japan Select Absolute Return Fund Limited	\$ 665,284
HgCapital 5, L.P.	656,417
Highland Capital Partners VI - B, L.P.	1,211,165
Hunter Global Investors Offshore Fund	1,399,422
Iron Point Real Estate Partners-TE, L.P.	1,597,260
Ivory Offshore Flagship Fund LTD	771,449
Ivory Offshore Long-Term Fund LTD	387,910
J.H. Whitney V, L.P.	926,754
J.H. Whitney VI, L.P.	1,154,343
JL Partners, L.P.	1,435,485
Kelso Investment Associates VII, L.P.	434,775
Kelso Investment Associates VIII, L.P.	3,374,997
KKR 2006 Fund	1,270,264
Kohlberg TE Investors VI, L.P.	2,276,146
L&B Diversified Strategy Partners, L.P.	387,926
Lee Equity Partners, L.P.	2,474,896
Level Global Overseas Institutional LTD	1,578,295
Level Global, L.P.	538,561
Lindsay Goldberg III, L.P.	855,550
Lion Capital Fund I, L.P.	948,273
Lion Capital Fund II, L.P.	5,054,215
Longacre International LTD	881,171
MacFarlane Urban Real Estate Fund II, L.P.	1,103,210
Madison Dearborn Capital Partners IV, L.P.	34,342
McDonnell Loan Opportunity Fund (Offshore)	517,234
MKP Credit Offshore	808,196
Morgan Stanley Infrastructure Partners, L.P.	5,773,973
Morgan Stanley RE Mezzanine Partners A, L.P.	95,362
MPC Pilgrim Fund	413,915
Nautic Partners V, L.P.	446,822
Nordic Capital Fund V	439,000
Oak Investment Partners X, L.P.	1,548,561
Oak Investment Partners XI, L.P.	1,474,482
Oak Investment Partners XII, L.P.	1,856,250
Oaktree Loan Fund 2x, L.P.	1,222,983
OCM Opportunities Fund VI, L.P.	306,867
OCM Opportunities Fund VII, L.P.	837,668
OCM Opportunities Fund VIIb, L.P.	348,257
O'Connor Global Fundamental Market Neutral L/S LTD	826,707

## Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

(continued)

Fund Name	Fees
Onex Partners II, L.P.	\$ 2,034,532
Onex Partners, L.P.	176,956
Permira Europe III	744,762
Permira IV	2,567,511
Perry Partners International, Inc.	2,559,251
Pimco Distressed Mortgage Fund, L.P.	1,867,634
PLA Residential Fund III, L.P.	1,301,856
PLA Retail Fund I, L.P.	469,976
Platinum Equity Capital Partners II, L.P.	1,747,398
Polaris Venture Partners IV, L.P.	1,250,000
Prime Property Fund, LLC	2,584,322
PRISA	493,931
PRISA II	649,984
ProLogis Mexico Industrial Fund I, L.P.	253,245
Providence Equity Partners VI, L.P.	1,118,124
Quad-C Partners VII, L.P.	535,067
RAB-Northwest Fund Limited	636,252
Red River HYPI	3,308,352
Red River Limited Partnership	23,979
RMBS Opportunities Fund, L.P.	411,570
RREEF America REIT III, Inc.	918,362
Satellite Overseas Fund	2,377,231
Shepherd Investments International LTD	1,619,781
Sidus Investments LTD	622,956
Sirios Overseas Fund	477,760
Square Mile Partners III, L.P.	1,093,750
STG Capital Fund LTD	673,915
Stockbridge Real Estate Fund II, L.P.	1,276,970
Stratford Land Fund III, L.P.	1,500,000
TA X, L.P.	359,218
TPG (STAR), L.P.	2,416,197
TPG Partners V, L.P.	821,330
TPG Partners VI, L.P.	3,884,203
Tricon IX, L.P.	773,857
Triton Fund II, L.P.	911,280
Vicis Capital Fund (International)	1,951,587
Walker Smith International Fund	874,825
Walton Street Real Estate Fund Sidecar V, L.P.	155,358
Walton Street Real Estate Fund V, L.P.	911,621

## Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

(continued)

Fund Name		Fees
Warburg Pincus Private Equity X, L.P.	\$	2,505,636
Wayzata Opportunities Fund II, LLC		2,555,286
Willis Stein & Partners III, L.P.		1,210,609
Wolverine Convertible Arbitrage Fund Limited		1,813,133
Zaxis Institutional Offshore		579,477
Zaxis Offshore Limited		529,031
Zazove Offshore Hedged Convertible		547,427
Total	\$	262,178,793

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Abel Noser Corporation	566,027	\$ 15,221	\$ 0.027
Bank of America Securities, LLC	19,227,927	380,227	0.020
Bear Stearns Securities Corp.	27,678,557	553,944	0.020
Bley Investment Group	275,300	2,753	0.010
Bloomberg	1,579,381	31,588	0.020
BMO Capital Markets	1,746,695	45,262	0.026
BNY Brokerage, Inc.	1,742,336	73,197	0.042
B-Trade Services, LLC	3,597,211	56,518	0.016
Cantor Fitzgerald & Co.	1,636,847	41,625	0.025
Capital Institutional Services, Inc.	14,437,231	721,862	0.050
Chase Securities, Inc.	49,050,977	981,020	0.020
CIBC World Markets Corp.	932,113	32,812	0.035
Citigroup Global Markets, Inc.	124,382,995	2,484,895	0.020
Credit Agricole	38,000	3,590	0.094
Credit Suisse First Boston	148,135,521	3,918,713	0.026
Deutsche Bank Securities, Inc.	843,012	11,059	0.013
Friedman Billings & Ramsey	3,430	154	0.045
Goldman Sachs & Co.	66,255,227	1,410,368	0.021
Gordon Haskett	124,000	3,720	0.030
Guzman & Co.	1,829,527	36,398	0.020
Harris Nesbitt Corp.	7,005,567	181,901	0.026
HSBC Securities, Inc.	80,600	3,627	0.045
Instinet, LLC	129,051	2,581	0.020
Investment Technology Group, Inc.	34,472,878	678,133	0.020
Jackson Securities	308,200	6,164	0.020
Jefferies & Company, Inc.	2,274,976	51,374	0.023
JP Morgan Securities, Inc.	99,058,000	1,987,817	0.020

## Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

(continued)

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Knight Securities	274,500	\$ 8,214	\$ 0.030
Lehman Brothers, Inc.	163,013,207	3,989,466	0.024
Liquidnet, Inc.	16,443,453	324,269	0.020
Loop Capital Mkts, LLC	389,047	5,382	0.014
M.R. Beal & Company	211,000	2,110	0.010
Magna Securities Corp.	564,923	11,298	0.020
Merrill Lynch	19,319,412	545,483	0.028
Miller Tabak Roberts Secs, LLC	10,000	450	0.045
Morgan Stanley Co. Incorporated	173,695,984	3,402,121	0.020
National Financial Services Corp.	138,600	6,237	0.045
Oppenheimer & Co., Inc.	7,600	342	0.045
Pension Financial Services, Inc.	8,790	267	0.030
Pershing, LLC	288,669	12,617	0.044
Pipeline Trading Systems, LLC	300	6	0.020
Piper Jaffray	124,500	4,308	0.035
Raymond James and Associates, Inc.	35,693	1,606	0.045
RBC Capital Markets	371,239	11,519	0.031
Renaissance Capital LTD	307,566	6,169	0.020
Ridge Clearing & Outsourcing Solutions	523,007	25,649	0.049
Robert W. Baird & Company Incorporated	31,800	1,431	0.045
Sanford C. Bernstein Co., LLC	3,262,453	65,434	0.020
Stifel Nicolaus & Co., Inc.	23,900	1,076	0.045
The Williams Capital Group L.P.	1,228,634	22,109	0.018
Troika Dialog Limited	415,049	17,174	0.041
UBS AG	34,079,958	696,048	0.020
Utendahl Capital Partners L.P.	185,300	1,853	0.010
Wachovia Securities, LLC	213,092	10,386	0.049
Warburg Dillon Read Securs LTD	2,078,742	42,112	0.020
Weeden & Co.	13,044,401	363,930	0.028
William Blair & Company, LLC	56,500	2,543	0.045
<b>Total</b>	<b>1,037,758,905</b>	<b>\$ 23,298,132</b>	<b>\$ 0.022</b>

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
ABN AMRO Securities, Inc.	25,865	\$ 1,572	\$ 0.057
Banco Santander	348,286	17,324	0.197
Bear Stearns Securities Corp.	32,071	1,311	0.034

## Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

(continued)

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
BMO Capital Markets	5,090,303	\$ 110,997	\$ 0.024
BNP Paribas	6,009,280	19,625	0.008
Canaccord Capital Corp.	12,200	486	0.039
Cantor Fitzgerald & Co.	112,800	2,202	0.025
Carnegie Investor Services, Inc.	8,133	172	0.024
Cazenove & Co.	478,860	5,237	0.017
China International Capital Corporation	2,376,000	1,269	0.000
Citigroup Global Markets, Inc.	13,230,952	96,833	0.070
CLSA Securities	59,898	16,374	0.737
Credit Agricole	10,735,607	189,060	0.074
Credit Lyonnais Securities	33,553,700	26,244	0.025
Credit Suisse First Boston	172,029,317	1,475,181	0.044
D. Carnegie & Co.	25,000	1,150	0.046
Daiwa Securities, Inc.	320,735	6,291	0.022
Den Danske Bank	1,806	367	0.202
Deutsche Bank Securities, Inc.	31,121,051	87,934	0.054
Dresdner Kleinwort Wasserstein	183,000	1,569	0.012
Dundas Unlu Securities, Inc.	621,403	2,165	0.003
Ekspres Yatirim Mankul	1,217,372	5,446	0.006
Euroclearbank	1,102,296	41,953	0.049
Exane	1,609	197	0.122
Goldman Sachs & Co.	363,052	29,368	2.151
HC Trading	131,209	1,438	0.010
Helvea	200,000	3,197	0.015
HSBC Securities, Inc.	1,221,776	13,608	0.031
Ing Bank	1,043	153	0.147
Intermonte Securities	246,979	5,508	0.029
Investec Securities	988,986	15,645	0.049
Investment Technology Group, Inc.	19,648,742	214,657	0.046
J&E Davy	28,578	562	0.019
Jefferies & Company, Inc.	300	6	0.019
JP Morgan Securities, Inc.	96,942,341	1,383,268	0.250
KB Securities NV	15,025	2,455	0.163
KBC Bank	68,985	10,957	0.106
Kepler Equities	38,615	3,017	0.112
Kleinwortbenson Securities Limited	72,162	1,826	0.041
Lazard Capital Markets, LLC	305,515	4,085	0.066
Lehman Brothers, Inc.	127,947,187	1,881,340	0.120

## Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

(concluded)

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
Liquidnet, Inc.	24,520	\$ 533	\$ 0.024
Macquarie Securities Limited	9,679,736	17,085	0.144
Magna Securities Corp.	301,000	5,939	0.068
Merrill Lynch	168,966,572	1,321,727	0.137
Merrion Capital Group	990	40	0.040
Mizuho Securities USA, Inc.	879,425	5,627	0.132
Morgan Stanley	15,450	1,299	0.139
Morgan Stanley Co. Incorporated	195,039,156	2,933,852	0.150
NCB Stockbrokers LTD	11,870	478	0.041
Nesbitt Burns	3,954,204	112,164	0.027
Nomura Securities International, Inc.	3,002,928	11,848	0.080
Pershing, LLC	144,525	4,180	0.069
Petercam S.A.	26,245	1,601	0.130
RBC Capital Markets	9,180	367	0.039
Redburn Partners LLP	29,252	2,009	0.068
Salomon Smith Barney JPN	750,000	10,311	0.013
Samsung Securities Co. LTD	39,600	3,609	0.091
SG Americas Securities, LLC	26,232	483	0.024
Skandinaviska Enskilda Banken	85,714	4,365	0.058
Societe Generale	155,215	3,174	0.029
Sprott Securities Limited	20,615	818	0.039
State Street Bank & Trust Co.	46,924	56	0.001
Svenska Handelsbanken	6,100	225	0.037
The Toronto Dominion Bank	1,120	22	0.019
UBS AG	70,577,389	1,166,152	0.401
Warburg Dillon Read Securs LTD	46,818,071	761,580	0.059
Weeden & Co.	9,700	501	0.051
<b>Total</b>	<b>1,027,539,772</b>	<b>\$ 12,052,094</b>	<b>\$ 0.108</b>

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# ACTUARIAL Section



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October 27, 2008

## 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, 2008

We certify that the information included herein and contained in the 2008 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2008.

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, 2008, the System's under-funded status has decreased to \$11.5 billion from \$12.5 billion as of August 31, 2007. This decrease in the UAAL is due to gains on both the actuarial value of assets and the actuarial liabilities of the System. The gain on the actuarial value of assets was due to the continued recognition of deferred investment gains from fiscal years 2004-2007. Recognition of these deferred gains more than offset the partial recognition of the investment income shortfall from FY 2008.

This valuation shows a normal cost equal to 10.42% of pay. The State increased its contribution rate to 6.58% of pay as of September 1, 2007, which combined with the member contribution rate of 6.40% of pay provides a total contribution rate of 12.98% of pay. Therefore, there is 2.56% of pay available to amortize the UAAL. The contributions provided by this portion of the contribution rate are sufficient to amortize the current unfunded actuarial accrued liabilities of the System over a period of 20.7 years, which is less than the statutory limit of 31 years.

The actuarial valuation report as of August 31, 2008 reveals that while the System has an unfunded liability in excess of \$11 billion, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 90.5%. However, because of the significant shortfall in investment income in FY2008, the System is now deferring net investment losses of \$5.3 billion compared to the last valuation when the System was deferring \$8.7 billion in net investment gains. Therefore, in the absence of actuarial gains in the future, the funded status of the System should decline as these deferred investment losses are recognized.

The System earned a negative (4.2)% return on a dollar-weighted market value of assets basis for the plan year ending August 31, 2008. Despite this shortfall, the System experienced a gain on the actuarial value of assets of \$1.2 billion and a gain on the actuarial liabilities of \$0.7 billion for a total experience related gain of \$1.9 billion.

It should be noted that the above information is based on the measurement of the System as of August 31, 2008. As we are all aware, the investment markets have suffered tremendous losses since that date. If the actuarial valuation had been performed at the end of October instead of the end of August, the results would have been dramatically different. The actuarial gains discussed above would have been completely eliminated by the additional investment losses that have occurred since the valuation date.

This would have occurred despite the fact that we normally only recognize 20% of a given year's investment income excess/ (shortfall) in the valuation. However, with the sharp decline in the market value of assets, we would have been outside the 80% - 120% market value corridor, which would have required the use of a lower actuarial value of assets than the normal smoothing method.

In the absence of a significant recovery in the investment markets during the remainder of fiscal year 2009, the contribution rate needed to amortize the UAAL over 30 years will increase over the next few valuation cycles.

### **Plan Provisions**

The plan provisions used in the actuarial valuation are described in Table 21 of the valuation report. This valuation reflects the changes to plan provisions as enacted by the 80<sup>th</sup> Texas Legislature. There have been no changes to the benefit provisions of the System since the prior valuation.

### **Disclosure of Pension Information**

Effective for the fiscal year ending August 31, 1996, the Board of Trustees adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25. The required disclosure information is included in the body of the valuation report.

### **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 22 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, 2007 and were adopted on April 11, 2008. Please see our experience study report dated January 25, 2008. The following details the major recommendations from that report:

- Make no change in the investment return assumption
- Modifications to the salary increase assumptions
- Increase the payroll growth rate assumption from 3.0% to 3.5%
- New post-retirement mortality tables for healthy lives
- Decrease rates of termination during select period and introduce new ultimate schedule based on years from retirement

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**

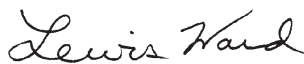
In preparing the August 31, 2008 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

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

Respectfully submitted,  
Gabriel, Roeder, Smith & Company



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



Lewis Ward  
Consultant



Joe Newton, FSA, EA, MAAA  
Consultant

Gabriel Roeder Smith & Company



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November 5, 2008

## BOARD OF TRUSTEES

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

### Subject: GASB 43 Actuarial Valuation as of August 31, 2008 for TRS-Care

Submitted in this report are the results of an Actuarial Valuation of the liabilities associated with the employer financed retiree health benefits provided through TRS-Care, a benefit program designed to provide post retirement medical benefits for certain members of the Teacher Retirement System of Texas (TRS). The date of the valuation was August 31, 2008. This report was prepared at the request of TRS.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements 43 and 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the financial reporting requirements of TRS-Care and participating employers may produce significantly different results.

The valuation was based upon information, furnished by TRS, concerning retiree health benefits, members' census, and financial data. Data was checked for internal consistency but was not otherwise audited. Certain demographic and economic assumptions are identical to the set of demographic and economic assumptions adopted by the Board based on the 2008 Experience Study of TRS. Assumptions applicable only to TRS-Care have not changed since the prior report, and they are disclosed in the assumptions section of this report.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods.

One or more of the undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

William J. Hickman  
Senior Consultant

Joseph P. Newton, FSA, MAAA  
Senior Consultant

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## Actuarial Present Value of Future Benefits

PENSION TRUST FUND

ACTUARIAL VALUATION - AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)

	2008	2007
<b>Present Value of Benefits Presently Being Paid:</b>		
Service Retirement Benefits	\$ 51,453,985,083	\$ 49,127,012,614
Disability Retirement Benefits	874,471,160	867,741,482
Death Benefits	754,788,755	744,775,521
Present Survivor Benefits	195,511,577	193,404,910
13th Check Payable January 2008		359,741,971
<b>TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID</b>	<b>\$ 53,278,756,575</b>	<b>\$ 51,292,676,498</b>
<b>Present Value of Benefits Payable in the Future to Present Active Members:</b>		
Service Retirement Benefits	\$ 87,025,085,373	\$ 81,124,860,135
Disability Retirement Benefits	1,142,684,668	998,734,203
Termination Benefits	5,331,386,735	4,683,072,513
Death and Survivor Benefits	1,359,266,421	1,433,711,132
<b>TOTAL ACTIVE MEMBER LIABILITIES</b>	<b>\$ 94,858,423,197</b>	<b>\$ 88,240,377,983</b>
<b>Present Value of Benefits Payable in the Future to Present Inactive Members:</b>		
Inactive Vested Participants		
Retirement Benefits	\$ 1,486,427,638	\$ 1,337,890,796
Death Benefits	106,067,772	103,845,430
<b>TOTAL INACTIVE VESTED BENEFITS</b>	<b>\$ 1,592,495,410</b>	<b>\$ 1,441,736,226</b>
Refunds of Contributions to Inactive Non-vested Members	\$ 257,432,662	\$ 241,750,800
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 1,011,941,816	\$ 973,143,379
<b>TOTAL INACTIVE LIABILITIES</b>	<b>\$ 2,861,869,888</b>	<b>\$ 2,656,630,405</b>
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 150,999,049,660</b>	<b>\$ 142,189,684,886</b>

## Summary of Cost Items

	2008	2007
Actuarial Present Value of Future Benefits	\$ 150,999,049,660	\$ 142,189,684,886
Present Value of Future Normal Costs	(29,242,507,363)	(26,225,963,014)
Actuarial Accrued Liability	\$ 121,756,542,297	\$ 115,963,721,872
Actuarial Value of Assets	(110,233,419,723)	(103,419,088,392)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 11,523,122,574</b>	<b>\$ 12,544,633,480</b>



## Actuarial Present Value of Future Benefits

HEALTH BENEFITS TRUST FUND - RETIRED PLAN

ACTUARIAL VALUATION - AUGUST 31, 2008 (With Comparative Totals for August 31, 2007)

	2008	2007
<b>Present Value of Benefits Being Paid:</b>		
Future Medical Claims	\$ 6,415,785,531	\$ 5,972,310,138
Future Rx Claims	7,682,912,536	7,232,071,347
Retiree Premiums Collected	(4,780,209,360)	(4,875,831,743)
NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES	\$ 9,318,488,707	\$ 8,328,549,742
<b>Present Value of Benefits Payable in the Future to Present Active Members:</b>		
Future Medical Claims	\$ 19,813,365,411	\$ 18,397,223,154
Future Rx Claims	20,014,551,561	18,381,170,348
Retiree Premiums Collected	(13,724,782,116)	(14,154,287,216)
NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES	\$ 26,103,134,856	\$ 22,624,106,286
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 35,421,623,563</b>	<b>\$ 30,952,656,028</b>

## Summary of Cost Items

Actuarial Present Value of Future Benefits	\$ 35,421,623,563	\$ 30,952,656,028
Present Value of Future Normal Costs	(13,108,725,516)	(11,204,990,717)
Actuarial Accrued Liability	\$ 22,312,898,047	\$ 19,747,665,311
Actuarial Value of Assets	(728,839,325)	(622,796,928)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 21,584,058,722</b>	<b>\$ 19,124,868,383</b>



## Actuarial Information

PENSION TRUST FUND  
AS OF AUGUST 31, 2008

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

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

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

**Disability Annuitants** - Investment Return Rate: 8.00% 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, 2007, 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	.000297	.000003	20	.000189	.000006
30	.000624	.000042	30	.000291	.000065
40	.000849	.000381	40	.000449	.000234
50	.001458	.001287	50	.000923	.001256
60	.003979	.002455	60	.002084	.002436
70	.012940	.000000	70	.007621	.000000

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL										
Age	Years of Service									
	MALE MEMBERS									
	0	1	2	3	4	5	6	7	8	9
20	0.2606	0.2266	0.1716	0.1335	0.1050	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.2173	0.1890	0.1560	0.1233	0.0952	0.0789	0.0652	0.0648	0.0628	0.0536
40	0.2172	0.1888	0.1430	0.1253	0.0873	0.0833	0.0690	0.0608	0.0542	0.0464
50	0.1937	0.1684	0.1245	0.0993	0.0754	0.0684	0.0644	0.0544	0.0512	0.0466
60	0.2021	0.1757	0.1324	0.1160	0.0751	0.0664	0.0518	0.0495	0.0426	0.0341
70	0.2371	0.2062	0.1724	0.1174	0.1017	0.0000	0.0000	0.0000	0.0000	0.0000

Age	Years of Service									
	FEMALE MEMBERS									
	0	1	2	3	4	5	6	7	8	9
20	0.1938	0.1685	0.1438	0.1263	0.1075	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.1948	0.1694	0.1435	0.1218	0.1007	0.0935	0.0825	0.0724	0.0564	0.0570
40	0.1807	0.1571	0.1235	0.1052	0.0826	0.0743	0.0641	0.0578	0.0560	0.0459
50	0.1755	0.1526	0.1199	0.0971	0.0792	0.0708	0.0638	0.0549	0.0472	0.0402
60	0.1959	0.1703	0.1356	0.1082	0.0846	0.0660	0.0671	0.0509	0.0463	0.0438
70	0.2483	0.2159	0.1929	0.1994	0.1254	0.0000	0.0000	0.0000	0.0000	0.0000

PROBABILITY OF DECREMENT DUE TO RETIREMENT							
Age	Years of Service						
	MALE MEMBERS						
	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	0.370
55	0.010	0.010	0.010	0.010	0.010	0.190	0.190
60	0.020	0.020	0.020	0.020	0.240	0.240	0.240
65	0.250	0.250	0.250	0.250	0.250	0.250	0.250
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
Age	Years of Service						
	FEMALE MEMBERS						
	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	0.010	0.200	0.200
60	0.030	0.030	0.030	0.030	0.250	0.250	0.250
65	0.250	0.250	0.250	0.250	0.250	0.250	0.250
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%	22.15%	26.40%	26.40%
2	3.00	3.00	7.25	7.25
3	2.75	2.75	7.00	7.00
4	2.50	2.50	6.75	6.75
5	2.25	2.25	6.50	6.50
6	2.00	2.00	6.25	6.25
7-9	1.75	1.75	6.00	6.00
10-11	1.50	1.50	5.75	5.75
12	1.25	1.25	5.50	5.50
13-16	1.00	1.00	5.25	5.25
17-18	0.75	0.75	5.00	5.00
19-21	0.50	0.50	4.75	4.75
22-24	0.25	0.25	4.50	4.50
25 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: Client specific tables; 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, 2007.

Age	Probability of Mortality		Life Expectancy (Years)	
55	0.003854	0.002935	27.03	30.76
65	0.011394	0.006398	18.48	21.85
75	0.033686	0.020317	11.25	13.72
85	0.099593	0.071770	5.94	7.58
95	0.242395	0.170753	3.19	4.49

**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 2003 through 2007 and taking into account all changes in benefit provisions, the normal cost for benefits provided by the System is 10.42% of payroll (6.40% by members plus 4.02% by the State), which is 2.56% of payroll less than the total contributions required by Law. It is intended that the excess amount of 2.56% of payroll will be used to amortize any unfunded actuarial accrued liabilities of the System, assuming that total payroll increases by 3.50% per year.

As of the valuation as of August 31, 2008, these excess contributions of 2.56% of pay are sufficient to amortize the UAAL over a period of 20.7 years.

**Assumed State Contribution Rate** - Effective September 1, 2007, the Appropriations Act increased the State contribution rate to 6.58%. For purposes of determining the funding period, it was assumed that the current state contribution rate (6.58%) would remain in place indefinitely.

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Year	Number	Annual Payroll In Thousands	Average Annual Pay	Annual Percentage Increase In Average Pay
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
2006	761,658	28,397,283	37,284	2.8
2007	777,789	31,114,096	40,003	7.3
2008	801,455	33,237,904	41,472	3.7

## Actuarial Information

AS OF AUGUST 31, 2008

### SOLVENCY TEST

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

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

(MONEY AMOUNTS SHOWN IN MILLIONS)

Valuation As Of August 31	Aggregate Actuarial Accrued Liabilities For			Valuation Assets	Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets		
	1 Active* Member Contri- butions	2 Retirees* And Benefi- ciaries	3 Active Members (State Financed Portion)		1 Active Member Contri- butions	2 Retirees And Benefi- ciaries	3 Active Members (State Financed Portion)
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
2006	20,590	49,144	38,177	94,128	100	100	64.1
2007	22,236	51,293	42,435	103,419	100	100	70.4
2008	23,928	53,243	44,585	110,233	100	100	74.2

\*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)					
	2008	2007	2006	2005	2004	2003
Investment (Gains)/Losses	\$ (1.232)	\$ (4.140)	\$ (.264)	\$ 4.068	\$ 4.719	\$ 1.965
Legislative Changes/ Benefit Increases		.360		1.143		
Contribution Experience	.192	.496	.508	.462	.088	.544
Assumption Changes	(.676)				(2.025)	
Liability Experience	.694	2.135	.254	(.430)	(.059)	(.566)
Net Increase (Decrease)	\$ (1.022)	\$ (1.149)	\$ .498	\$ 5.243	\$ 2.723	\$ 1.943
Beginning UAAL	12.545	13.694	13.196	7.953	5.230	3.287
Ending UAAL	\$ 11.523	\$ 12.545	\$ 13.694	\$ 13.196	\$ 7.953	\$ 5.230

\* Calculated on a 5-year smoothed market basis.

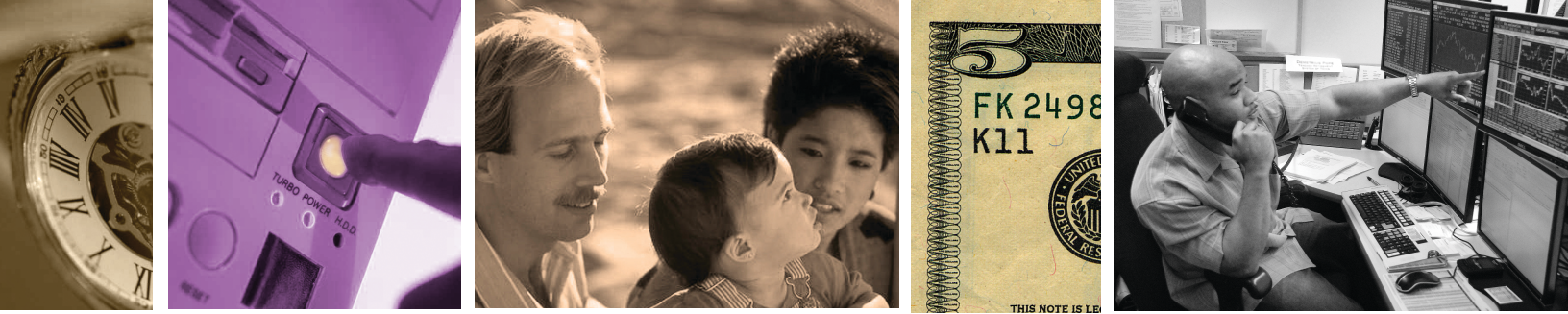
## Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls

PENSION TRUST FUND

ACTUARIAL VALUATION - AUGUST 31, 2008

Valuation as of August 31	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2003	23,061	\$ 477,035,602	7,025	\$ 125,196,802	217,477	\$ 4,381,354,800	8.7%	\$ 20,146
2004	30,288	640,407,566	7,138	108,483,938	240,627	4,913,278,428	12.1%	20,419
2005	15,153	292,452,315	7,271	127,291,874	248,509	5,078,438,869	3.4%	20,436
2006	15,810	324,292,542	7,175	120,623,840	257,144	5,282,107,571	4.0%	20,541
2007	15,861	336,348,640	7,698	131,295,705	265,307	5,487,160,506	3.9%	20,682
2008	17,727	391,920,863	7,806	135,160,090	275,228	5,743,921,279	4.7%	20,870

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# **BENEFITS Section**

## 2008 CHANGES IN TRS LAW

### STATE

The 80th Texas Legislature, Regular Session, met in 2007 and enacted several laws affecting TRS active members, retirees, and investments. Also, the legislative session brought to a conclusion the Sunset Commission review of TRS operations. Much of the legislation enacted in fiscal year 2007 took effect in fiscal year 2008. Listed below is an update of TRS-related legislation that took effect in FY 2008:

#### Funding

- The state contribution rate for the biennium increased from 6 percent to 6.58 percent of payroll, effective September 1, 2007.

#### Supplemental Payment to Annuitants

- Eligible annuitants who retired by December 31, 2006, received a one-time supplemental payment (13th check) in January 2008. The amount of the 13th check was equal to the monthly annuity paid in August 2007 up to a cap of \$2,400.

#### Impact to Active Members

- The active member contribution rate (currently 6.4 percent) was authorized to be increased up to 6.58 percent commencing approximately January 2008 if the actuarial valuation for fiscal year 2007 indicated additional funding was needed to pay the 13th check for retirees and bring TRS within a 31-year funding period. However, after the valuation was released in November 2007, the TRS Board of Trustees determined that the 13th check could be paid without an increase in the active member contribution rate.

#### Proportionate Retirement Program

- The opportunity for participation in the proportionate retirement system was expanded to include municipal police officers or firefighter systems for the City of Austin. The City of Austin is evaluating this opportunity.

#### Retirement Eligibility for New Members

- Unreduced service retirement eligibility requirements were amended by the 79th Legislature for members joining TRS on or after September 1, 2007. Additional information appears in the *Summary of Benefits* section that follows.

### FEDERAL

#### Medicare

TRS monitors developments in federal laws governing the Medicare program, since changes to that program affect the health benefit coverage of many TRS retirees participating in TRS-Care.

For example, one issue that TRS has monitored for years is the relationship between the federal Age Discrimination and Employment Act (ADEA) and Medicare. In 2000, the United States Third Circuit Court of Appeals ruled that treating Medicare-eligible retirees differently from younger retirees violated the ADEA. This prompted the Equal Employment Opportunity Commission (EEOC) to issue an exemption to the ADEA allowing employers to reduce or eliminate retiree health-care benefits for Medicare-eligible retirees, while providing higher levels of benefits for those retirees who are not Medicare-eligible. The American Association of Retired Persons (AARP) challenged the EEOC's authority to issue this rule. The federal district court and the Third Circuit Court of Appeals rejected AARP's challenge. In early 2008, the United States Supreme Court declined to hear AARP's appeal on this issue. Thus, absent Congressional action amending the ADEA, employers may coordinate retiree health care benefits with Medicare without violating the ADEA. Because the TRS-Care plan does take into account Medicare eligibility, the conclusion of this litigation allows the TRS-Care plan to continue to operate as it currently does.

#### Tax Laws, Regulations, and Guidance

Federal tax law changes often have significant influence on the TRS pension plan because under state law, the TRS pension plan is intended to operate as a "qualified" retirement plan. A qualified plan must meet specific federal tax law requirements in order to enable members' funds to obtain certain favorable tax treatments.

- **Heroes Earnings Assistance and Relief Tax Act of 2008** – Enacted early in the summer of 2008, this new federal law (commonly referred to as the "Heroes Act" or the "HEART Act") contains provisions affecting TRS members. For example, for deaths occurring on or after January 1, 2007, survivors of plan participants who die while performing qualified military service are entitled to



## 2008 CHANGES IN TRS LAW

any additional plan benefits that they would have received had the participants resumed employment and then died. Additionally under this law, individuals receiving differential wage payments from an employer are treated as employed by that employer, and the plan may provide benefits to the individual based on the differential wage payments.

- **Rollovers to Roth IRAs** – The Pension Protection Act of 2006 (PPA) was signed into law August 2006. Implementation occurred primarily in the 2006-2007 fiscal year. However, the authority for a direct rollover of a TRS distribution to a Roth IRA was effective for distributions after December 31, 2007, and thus has been implemented in the 2008 fiscal year.

- **Phased retirement regulations** – IRS issued proposed regulations on phased retirement in November 2004 that 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. However, following enactment of the PPA provision permitting an in service distribution to a member age 62 or older, the IRS has questioned whether it is necessary to finalize the proposed regulations. To implement the PPA provision, the IRS issued regulations regarding “normal retirement age.” These regulations received substantial public plan comment; the IRS subsequently postponed the effective date for governmental plans to the plan year beginning on or after January 1, 2011. TRS continues to monitor all guidance in this area for potential impact on the TRS plan, including its separation from service requirements and employment after retirement provisions.

### Sudan Investment Restrictions

The Sudan Accountability and Divestment Act of 2007 gives authority to state and local governments to divest assets from, or prohibit investments in, certain businesses conducting operations in Sudan, without pre-emption by any federal law or regulation if the conditions of the Act are met.

## SUMMARY OF BENEFITS

The Teacher Retirement System of Texas (TRS) administers a defined benefit retirement 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, state, and employer contributions, and through investment earnings of the pension trust fund.

TRS administers TRS-ActiveCare, the statewide health benefits program for eligible public education employees of participating entities. The program is financed by plan participant premium payments and investment income from the assets of the trust. 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 (employers), premium payments from plan participants, and investment income from the assets of the trust.

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 2008.

The major retirement plan benefits are:

#### Service Retirement

**Normal Retirement Eligibility** - Age 65 with at least 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. See additional information later in this summary pertaining to normal age retirement eligibility for new members.

**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 five highest annual creditable salaries times years of credited service equals an annual standard annuity. For

members who are grandfathered, the three highest annual salaries are used.

**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. See additional information later in this summary pertaining to additional early retirement eligibility provisions for new members.

**Early Retirement Benefit** - The standard annuity calculated under the benefit formula (or the minimum benefit, if applicable) reduced for early retirement. The amount of the reduction varies depending on age, years of service credit, and whether a member is grandfathered.

#### 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 credited service, whichever is shorter.

#### Annuity Payment Options

All service and eligible 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. Selection of a 100 or 75 percent joint and survivor annuity may be unavailable to certain retirees based on the minimum distribution provisions of federal tax law.

## SUMMARY OF BENEFITS

### The Pop-Up Provision

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

### Partial Lump Sum Option

Under the Partial Lump Sum Option (PLSO), 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 PLSO if they are eligible for service retirement, meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the Deferred Retirement Option Plan (DROP), and are not retiring with disability retirement benefits. Grandfathered members may elect PLSO at retirement if they are eligible for normal age service retirement, are not participating in DROP, and are not retiring with disability retirement 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 to reflect the lump sum distribution. Flexible distribution options are available, including rollovers to another eligible retirement plan.

### Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP), which is closed to new participants, is a pre-retirement benefit provision for active members who are eligible for normal age service retirement and have at least 25 years of credited service.

Members who elected to participate in DROP (before enrollment was closed effective December 31, 2005) chose to freeze their salary amounts and service credit used to calculate their retirement benefits and to have a portion of the standard annuity amount 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.

Members who elected DROP chose 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 subject to any reduction applicable for early age.
4. An amount equal to a return of the member's contributions with accumulated interest.

## SUMMARY OF BENEFITS

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

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

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

**Retirees** - In addition to any joint and survivor or guaranteed period annuity that may be payable under an optional form of payment a retiree elected, the primary beneficiary of a service or disability retiree is entitled to a \$10,000 lump sum payment. In certain circumstances, eligible survivors may select alternate payment options in lieu of the lump sum benefit. The alternate payment options include a lump sum payment of \$2,500 and an applicable monthly survivor benefit 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, an amount equal to the remainder is paid to the beneficiary or as otherwise provided by law. Should a retiree die prior to receiving all PLSO payments that are due, TRS will pay any remaining PLSO payments in a single lump sum payment to the designated beneficiary. If the retiree participated in DROP and died before receiving all DROP distributions, any unpaid DROP payments are paid to the beneficiary designated by the retiree.

### Grandfather Provisions

A member who met any one of the following criteria on or before August 31, 2005, is grandfathered in how certain benefits are determined under plan provisions repealed with respect to non-grandfathered members:

- The member was at least 50 years old, or
- The member's age and years of service credit equaled at least 70 ("Rule of 70"), or
- The member had at least 25 years of service credit

Members who are grandfathered will have their benefits determined in the following manner:

- **Final Average Salary** at retirement will be determined by the highest three years (instead of five years) of salary.

- **Preservation of certain early retirement reduction factors** means that members age 55 or older with 20 to 24 years of credited service who take early retirement will receive a lesser reduction to their annuities than those members who are not grandfathered.

- **Partial Lump Sum Option** eligibility will require either age 65 with at least five years of service credit, or a combined age plus years of credited service that equals at least 80 ("Rule of 80") instead of 90.

### Retirement Eligibility for New Members

Members who establish TRS membership on or after September 1, 2007, are subject to new service retirement eligibility provisions. Individuals who were members before September 1, 2007, but 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.

These new members will be required to meet one of the following eligibility requirements to qualify for an unreduced annuity at retirement (normal retirement eligibility):

- 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)

A new member who retires before age 60 but meets the Rule of 80 with at least five years of service credit will have a five percent annuity reduction for each year under age 60 (early retirement eligibility). A new member who retires with at least 30 years of service credit but who does not meet the Rule of 80 at retirement will have a five percent reduction for each year under age 60 (early retirement eligibility).

## 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

## SUMMARY OF BENEFITS

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 1,080 entities participated in the program in fiscal year 2008. 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, 2008



\* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,737, \$1,967, \$2,091 and \$2,192 for fiscal years 2000, 2005, 2007 and 2008, respectively.

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

## GROWTH OF THE SYSTEM

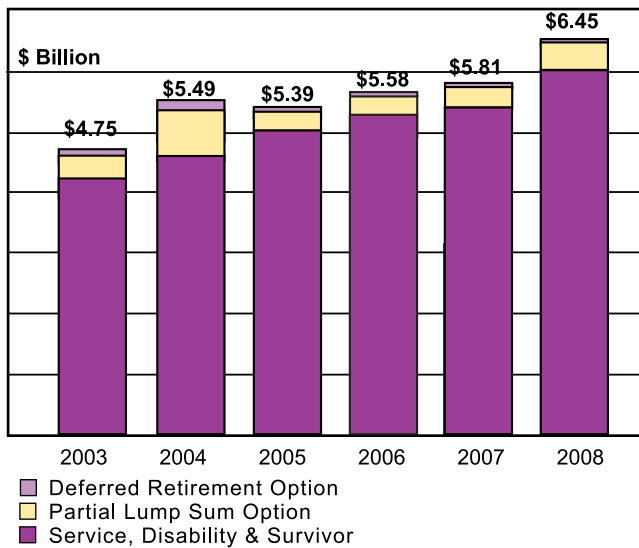
Benefit payments during fiscal year 2008 totaled approximately \$6.45 billion, an increase of \$647 million from the previous year. As of August 2008, the monthly annuity payroll had grown to approximately \$469 million, and TRS was paying benefits to 275,228 recipients.

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.

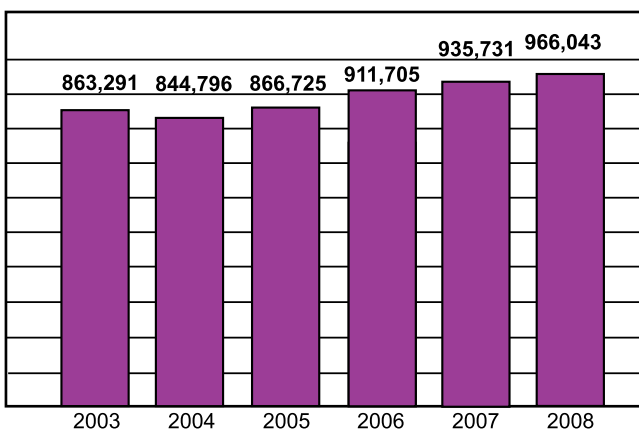
The number of retiree accounts increased by 9,921 during fiscal year 2008.

Of the current TRS member accounts, 823,875 (active contributing and deferred retirement option participants) were employed during fiscal year 2008 and made contributions to the system. The remaining 142,168 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 30,312 during fiscal year 2008.

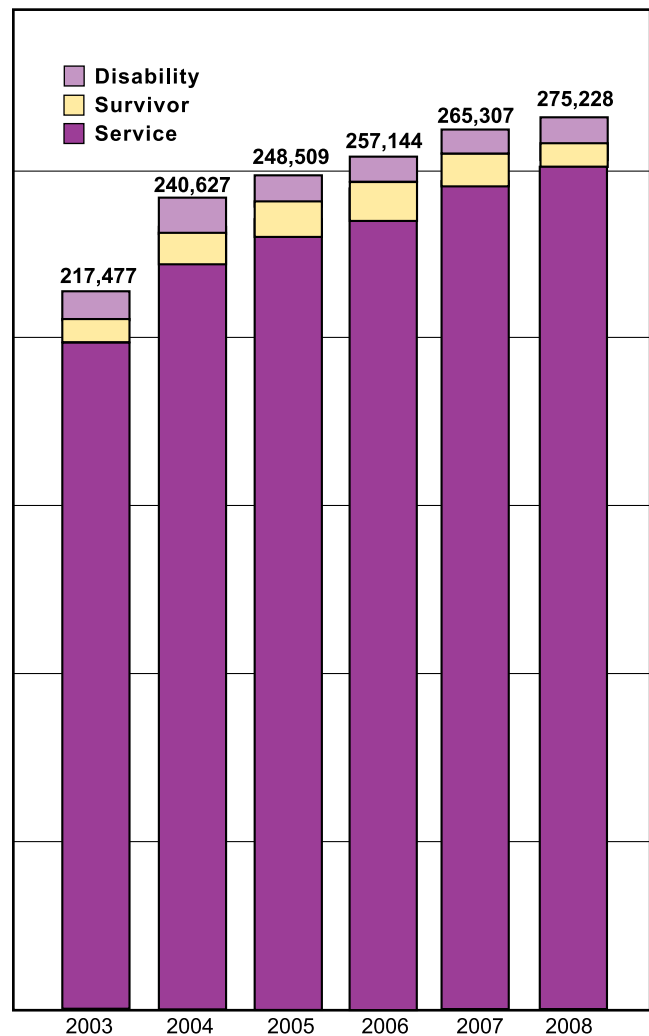
### Benefit Payments



### Member Accounts



### Annuities





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# STATISTICAL Section

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## STATISTICAL SECTION OVERVIEW

The Statistical Section presents additional information to provide financial statement users with added historical perspective, context and detail to assist in using the information in the financial statement, notes to financial statement, and required supplementary information to understand and assess the system's financial condition. Information is presented for Pension Trust Fund, Health Benefits Trust Fund-Retired Plan and TRS-ActiveCare Program.

### Financial Trends Information

The schedules on pages 114-121 show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- Changes in Fiduciary Net Assets
- Revenues, Expenses, and Changes in Net Assets
- Benefits and Refund Deductions from Net Assets by Type
- Health Care Claims Deductions/Expenses from Net Assets by Type

### Operating Information

The schedules presented on pages 122-127 contain benefit and reporting operating information to provide contextual data about the system's operations and resources to assist users in using financial statement information to understand the benefit services provided by the system. The operating information schedules presented are:

- Average Benefit Payments
- Average Health Care Claims
- Retired Members by Type of Benefit
- Health Care Claims by Benefit Range
- Principal Participating Reporting Entities

In addition, a listing of participating reporting entities has been included. The information in this section was derived from internal sources and the CAFR for the relevant year.

## FINANCIAL TRENDS INFORMATION

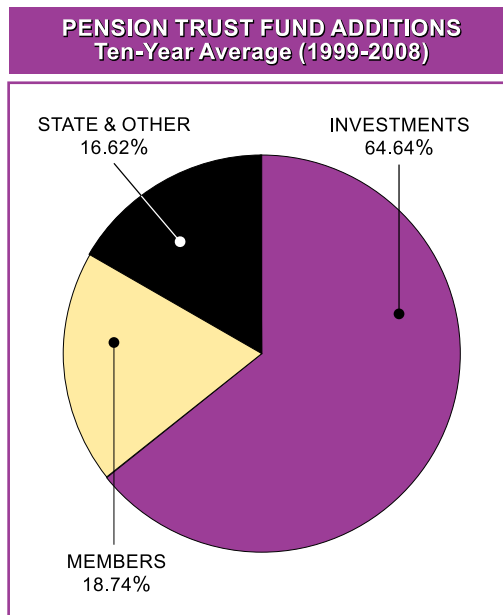
### Changes in Fiduciary Net Assets

#### PENSION TRUST FUND

FOR THE FISCAL YEARS ENDED AUGUST 31

	2008	2007	2006	2005
<b>Additions:</b>				
Member Contributions	\$ 2,085,345,861	\$ 1,949,093,276	\$ 1,853,971,836	\$ 1,728,333,818
State Contributions	1,704,088,048	1,472,584,963	1,333,143,442	1,258,597,882
Reporting Entities Contributions	353,524,480	282,077,713	267,399,619	221,158,942
Investment Income:				
Interest and Dividends	3,416,830,333	3,087,059,810	2,643,912,620	2,363,014,107
Net Appreciation (Depreciation) in Fair Value	(7,992,472,030)	11,232,429,170	6,326,056,726	9,607,205,397
Less: Internal Investing Activity				
Expenses	(27,956,132)	(20,942,402)	(19,099,395)	(17,394,917)
Other	3,596	5,405	769	21,315
<b>TOTAL ADDITIONS</b>	<b>\$ (460,635,844)</b>	<b>\$ 18,002,307,935</b>	<b>\$ 12,405,385,617</b>	<b>\$ 15,160,936,544</b>
<b>Deductions:</b>				
Benefits	\$ 6,454,687,449	\$ 5,807,036,778	\$ 5,582,306,639	\$ 5,387,605,428
Refunds of Contributions	275,482,331	277,932,219	265,487,479	243,382,014
External Manager Fees *	1,374,018			
Administrative Expenses, Net of Internal Investing Activity Expenses	26,122,662	27,502,276	26,444,405	25,114,716
<b>TOTAL DEDUCTIONS</b>	<b>\$ 6,757,666,460</b>	<b>\$ 6,112,471,273</b>	<b>\$ 5,874,238,523</b>	<b>\$ 5,656,102,158</b>
<b>Net Increase (Decrease)</b>	<b>\$ (7,218,302,304)</b>	<b>\$ 11,889,836,662</b>	<b>\$ 6,531,147,094</b>	<b>\$ 9,504,834,386</b>
<b>Net Assets - Beginning of Year</b>	<b>\$112,128,799,849</b>	<b>\$ 100,238,963,187</b>	<b>\$ 93,707,816,093</b>	<b>\$ 84,202,981,707</b>
<b>Restatements</b>				
<b>Beginning of Year, As Restated</b>	<b>\$112,128,799,849</b>	<b>\$ 100,238,963,187</b>	<b>\$ 93,707,816,093</b>	<b>\$ 84,202,981,707</b>
<b>Net Assets - End of Year</b>	<b>\$104,910,497,545</b>	<b>\$ 112,128,799,849</b>	<b>\$100,238,963,187</b>	<b>\$ 93,707,816,093</b>

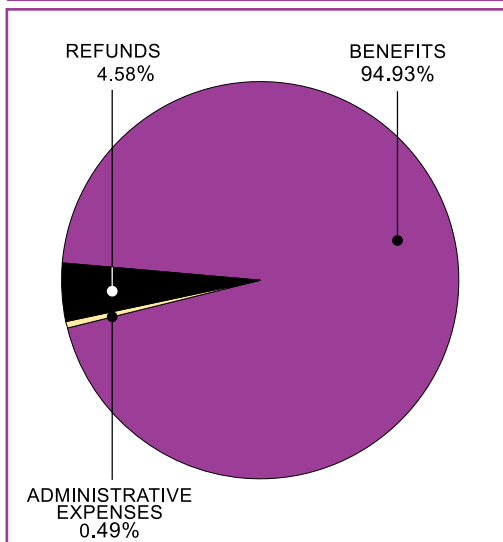
\* External manager fees of 0.003% cannot be viewed, but are included in the averaged calculations.



## FINANCIAL TRENDS INFORMATION

2004	2003	2002	2001	2000	1999
\$ 1,721,504,445	\$ 1,672,212,387	\$ 1,560,700,102	\$ 1,433,037,813	\$ 1,357,940,313	\$ 1,221,288,036
1,242,305,696	1,239,532,126	1,201,948,321	1,143,109,908	1,092,217,514	1,004,017,265
192,395,672	182,536,228	157,781,530	136,247,871	119,060,600	108,892,209
2,137,672,861	2,147,493,368	2,416,466,898	2,713,579,401	2,835,498,681	2,553,133,610
7,024,439,015	5,673,389,054	(8,477,880,514)	(12,070,530,812)	8,278,136,788	11,441,848,248
(16,252,645)	(14,604,331)	(12,921,671)	(11,852,877)	(9,494,024)	(4,657,228)
1,909	1,501	491	6,733	15,101	201,509
\$ 12,302,066,953	\$ 10,900,560,333	\$ (3,153,904,843)	\$ (6,656,401,963)	\$ 13,673,374,973	\$ 16,324,723,649
\$ 5,486,849,698	\$ 4,753,849,401	\$ 4,366,038,505	\$ 3,667,711,511	\$ 3,360,116,181	\$ 2,639,947,187
220,396,709	186,082,670	186,421,065	214,434,792	214,999,991	206,354,473
24,841,300	23,428,162	24,597,361	20,795,129	21,654,384	24,691,140
\$ 5,732,087,707	\$ 4,963,360,233	\$ 4,577,056,931	\$ 3,902,941,432	\$ 3,596,770,556	\$ 2,870,992,800
\$ 6,569,979,246	\$ 5,937,200,100	\$ (7,730,961,774)	\$ (10,559,343,395)	\$ 10,076,604,417	\$ 13,453,730,849
\$ 77,633,002,461	\$ 71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943
(1,050,679)					
\$ 77,633,002,461	\$ 71,695,802,361	\$ 79,426,764,135	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943
\$ 84,202,981,707	\$ 77,633,002,461	\$ 71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792

### PENSION TRUST FUND DEDUCTIONS Ten-Year Average (1999-2008) \*



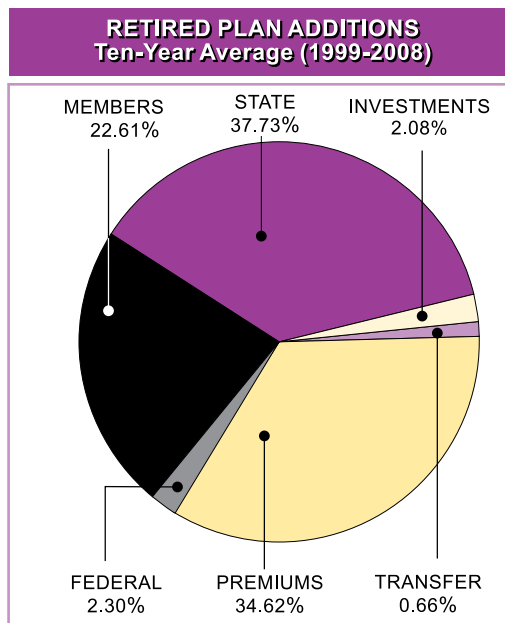
## FINANCIAL TRENDS INFORMATION

### Changes in Fiduciary Net Assets

HEALTH BENEFITS TRUST FUND - RETIRED PLAN

FOR THE FISCAL YEARS ENDED AUGUST 31

	2008	2007	2006	2005
<b>Additions:</b>				
Health Care Premiums	\$ 328,505,433	\$ 323,957,945	\$ 326,844,982	\$ 322,780,191
State Contributions	254,814,119	238,246,652	215,720,223	266,611,727
Member Contributions	165,569,413	154,823,968	140,183,511	101,198,783
Reporting Entities Contributions	141,672,630	136,008,512	118,607,527	80,914,228
On Behalf Fringe Benefits - Federal Government	59,486,239	52,329,617	34,611,607	
Legislative Appropriations Transfer from TRS-ActiveCare Enterprise Fund				
Investment Income:				
Interest	29,252,347	32,671,539	21,435,792	11,258,874
Net Appreciation (Depreciation) in Fair Value				
<b>TOTAL ADDITIONS</b>	<b>\$ 979,300,181</b>	<b>\$ 938,038,233</b>	<b>\$ 857,403,642</b>	<b>\$ 782,763,803</b>
<b>Deductions:</b>				
Health Care Claims	\$ 833,509,538	\$ 742,293,147	\$ 687,086,291	\$ 660,559,083
Health Care Claims Processing	36,747,710	33,407,937	31,975,150	31,262,147
Legislative Appropriations Transfer to TRS-ActiveCare Enterprise Fund				
Administrative Expenses	3,000,536	2,526,189	2,513,102	2,070,863
<b>TOTAL DEDUCTIONS</b>	<b>\$ 873,257,784</b>	<b>\$ 778,227,273</b>	<b>\$ 721,574,543</b>	<b>\$ 693,892,093</b>
<b>Net Increase (Decrease)</b>	<b>\$ 106,042,397</b>	<b>\$ 159,810,960</b>	<b>\$ 135,829,099</b>	<b>\$ 88,871,710</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 622,796,928</b>	<b>\$ 462,985,968</b>	<b>\$ 327,156,869</b>	<b>\$ 238,285,159</b>
<b>Restatements</b>				
<b>Beginning of Year, As Restated</b>	<b>\$ 622,796,928</b>	<b>\$ 462,985,968</b>	<b>\$ 327,156,869</b>	<b>\$ 238,285,159</b>
<b>Net Assets - End of Year</b>	<b>\$ 728,839,325</b>	<b>\$ 622,796,928</b>	<b>\$ 462,985,968</b>	<b>\$ 327,156,869</b>

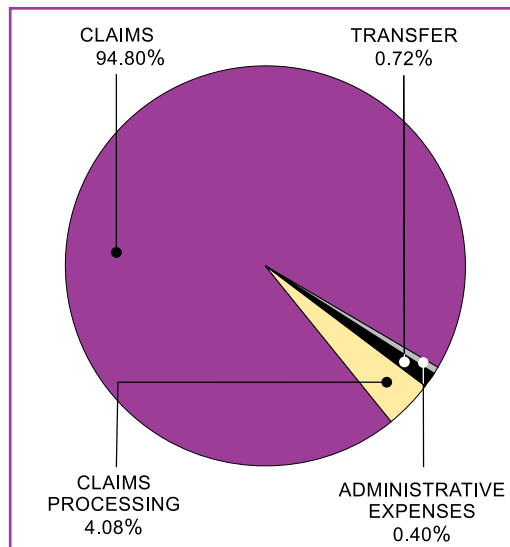




## FINANCIAL TRENDS INFORMATION

2004	2003	2002	2001	2000	1999
\$ 248,552,679	\$ 162,917,666	\$ 143,797,748	\$ 131,213,445	\$ 120,227,960	\$ 96,474,107
454,828,830	265,038,205	380,307,062	166,400,568	85,505,637	76,488,424
99,297,097	49,170,399	47,378,092	45,059,393	42,738,069	38,244,213
79,457,387					
42,000,000					
4,803,809	3,394,956	7,140,560	5,789,973	6,775,986	10,893,741
			34,161	147,499	(1,131,000)
\$ 928,939,802	\$ 480,521,226	\$ 578,623,462	\$ 348,497,540	\$ 255,395,151	\$ 220,969,485
\$ 581,354,957	\$ 571,744,362	\$ 451,709,670	\$ 390,466,745	\$ 313,933,218	\$ 277,858,423
23,914,851	19,388,818	16,828,256	16,017,167	14,682,301	13,232,423
	42,000,000				
2,417,349	2,301,516	2,163,441	2,220,596	2,154,826	1,708,313
\$ 607,687,157	\$ 635,434,696	\$ 470,701,367	\$ 408,704,508	\$ 330,770,345	\$ 292,799,159
\$ 321,252,645	\$ (154,913,470)	\$ 107,922,095	\$ (60,206,968)	\$ (75,375,194)	\$ (71,829,674)
\$ (82,967,486)	\$ 71,945,984	\$ (35,950,516)	\$ 24,256,452	\$ 99,631,646	\$ 171,425,780
		(25,595)			35,540
\$ (82,967,486)	\$ 71,945,984	\$ (35,976,111)	\$ 24,256,452	\$ 99,631,646	\$ 171,461,320
\$ 238,285,159	\$ (82,967,486)	\$ 71,945,984	\$ (35,950,516)	\$ 24,256,452	\$ 99,631,646

### RETIRED PLAN DEDUCTIONS Ten-Year Average (1999-2008)



## FINANCIAL TRENDS INFORMATION



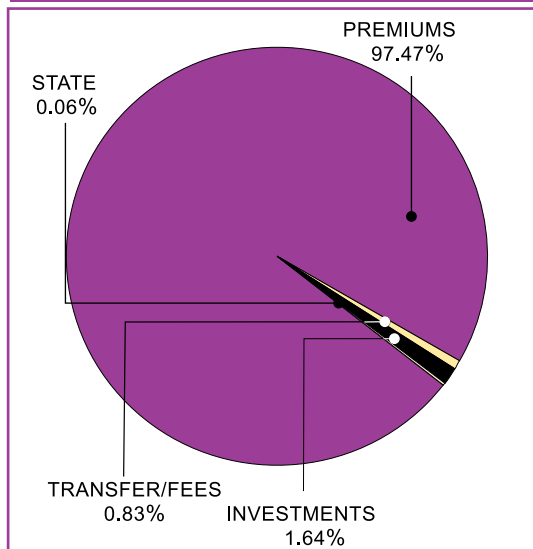
### Revenues, Expenses, and Changes in Net Assets

TRS-ACTIVECARE/HEALTH CARE TRUST FUND - ACTIVE PLAN \*  
FOR THE FISCAL YEARS ENDED AUGUST 31

	2008	2007	2006	2005
<b>Revenues/Additions:</b>				
Health Care Premiums	\$ 1,096,537,022	\$ 939,694,028	\$ 861,464,205	\$ 823,726,341
State Contributions	61,894	46,446	40,979	35,626
Administrative Fees	186,844	184,937	183,470	183,317
Investment Income:				
Interest	21,164,640	26,016,380	18,650,516	8,915,711
Net Appreciation (Depreciation) in Fair Value				
Legislative Appropriations Transfer From Retired Plan				
<b>TOTAL REVENUES/ADDITIONS</b>	<b>\$ 1,117,950,400</b>	<b>\$ 965,941,791</b>	<b>\$ 880,339,170</b>	<b>\$ 832,860,995</b>
<b>Expenses/Deductions:</b>				
Health Care Claims	\$ 952,156,339	\$ 801,148,962	\$ 708,972,484	\$ 663,361,138
Health Care Claims Processing	54,583,499	48,177,777	53,013,214	53,697,572
Premium Payments to HMOs	68,204,743	58,742,363	49,466,150	42,574,641
Legislative Appropriations Transfer to Retired Plan				
Administrative Expenses	1,830,258	1,775,831	1,680,952	1,607,113
<b>TOTAL EXPENSES/DEDUCTIONS</b>	<b>\$ 1,076,774,839</b>	<b>\$ 909,844,933</b>	<b>\$ 813,132,800</b>	<b>\$ 761,240,464</b>
<b>Change in Net Assets</b>	<b>\$ 41,175,561</b>	<b>\$ 56,096,858</b>	<b>\$ 67,206,370</b>	<b>\$ 71,620,531</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 435,295,063</b>	<b>\$ 379,198,205</b>	<b>\$ 311,991,835</b>	<b>\$ 240,371,304</b>
<b>Restatements</b>				
<b>Beginning of Year, As Restated</b>	<b>\$ 435,295,063</b>	<b>\$ 379,198,205</b>	<b>\$ 311,991,835</b>	<b>\$ 240,371,304</b>
<b>Net Assets - End of Year</b>	<b>\$ 476,470,624</b>	<b>\$ 435,295,063</b>	<b>\$ 379,198,205</b>	<b>\$ 311,991,835</b>

\* The TRS-ActiveCare Program, enacted by H.B. 3343, 77th Legislature, began operations in fiscal year 2003 and is accounted for as a proprietary fund. Prior to fiscal year 2003, TRS administered the Health Care Trust Fund-Active Plan which was accounted for as a fiduciary fund. The net assets of the Active Plan were transferred to TRS-ActiveCare on September 1, 2002.

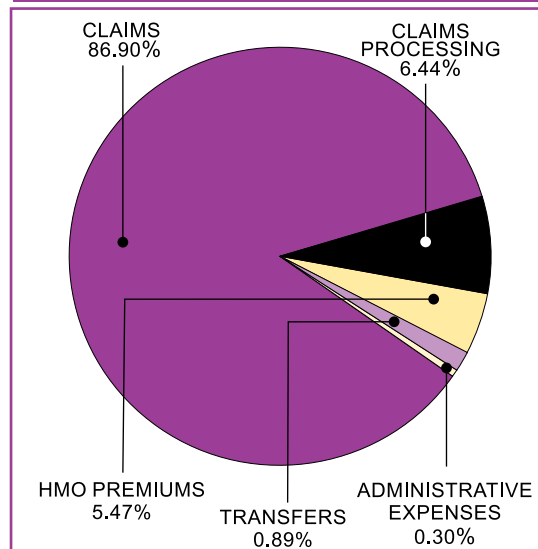
**TRS-ACTIVECARE /ACTIVE PLAN ADDITIONS**  
**Ten-Year Average (1999-2008)**



## FINANCIAL TRENDS INFORMATION

2004	2003	2002	2001	2000	1999
\$ 758,062,552	\$ 584,572,852	\$	\$	\$ 152,001	\$ 204,257
24,050	31,266	2,698,422	5,382	7,175	
192,763	136,288	108,198	70,340	2,164	3,874
3,641,100	2,459,154	590,967	1,392,821	1,425,548	1,108,460
			20,909	(20,840)	(60,630)
	42,000,000				
\$ 761,920,465	\$ 629,199,560	\$ 3,397,587	\$ 1,489,452	\$ 1,566,048	\$ 1,255,961
\$ 520,998,423	\$ 473,450,544	\$ (34,455)	\$ 41,066	\$ 142,569	\$ 326,271
53,564,510	42,411,388		92	21,281	20,045
40,210,539					
42,000,000					
918,619	1,771,441	2,750,107	474,961	855,829	589,277
\$ 657,692,091	\$ 517,633,373	\$ 2,715,652	\$ 516,119	\$ 1,019,679	\$ 935,593
\$ 104,228,374	\$ 111,566,187	\$ 681,935	\$ 973,333	\$ 546,369	\$ 320,368
\$ 136,421,779	\$ 24,855,592	\$ 24,179,853	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783
(278,849)		(6,196)			
\$ 136,142,930	\$ 24,855,592	\$ 24,173,657	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783
\$ 240,371,304	\$ 136,421,779	\$ 24,855,592	\$ 24,179,853	\$ 23,206,520	\$ 22,660,151

**TRS-ACTIVECARE /ACTIVE PLAN DEDUCTIONS**  
Ten-Year Average (1999-2008)



## FINANCIAL TRENDS INFORMATION

### Benefits and Refund Deductions from Net Assets by Type

PENSION TRUST FUND  
LAST TEN FISCAL YEARS

	2008	2007	2006	2005
<b>Type of Benefit</b>				
Service Retirements	\$ 5,693,184,467 *	\$ 5,104,816,272	\$ 4,896,156,393	\$ 4,709,693,259
Deferred Retirement Option	26,757,772	31,939,855	36,033,028	55,152,336
Partial Lump Sum Option **	363,668,944	325,688,244	313,359,714	288,088,743
Disability Retirements	146,907,654	134,866,736	132,155,505	129,331,288
Death and Survivor Benefits:				
Accumulated Savings ***	2,520,283	2,073,365	2,322,538	1,766,957
Annual Salary	42,216,290	38,928,295	37,880,818	40,838,680
Survivor Annuities	78,862,569	76,116,829	74,115,776	74,325,670
Life Annuities	85,576,098	78,322,931	77,537,970	76,113,908
60 Monthly Payments	10,169,530	9,386,943	8,581,053	7,583,719
Remainder of Contributions	3,177,348	3,443,703	3,121,883	3,784,681
<b>TOTAL BENEFITS</b>	<b>\$ 6,453,040,955</b>	<b>\$ 5,805,583,173</b>	<b>\$ 5,581,264,678</b>	<b>\$ 5,386,679,241</b>
<b>Type of Refund</b>				
Separation	\$ 275,482,331	\$ 277,932,219	\$ 265,487,479	\$ 243,382,014

\* A one-time supplemental payment that is capped at \$2,400 was distributed to eligible retirees in January 2008

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

\*\*\* Reflects refunds of contributions related to death

### Health Care Claims Deductions from Net Assets by Type

HEALTH BENEFITS TRUST FUND - RETIRED PLAN  
LAST TEN FISCAL YEARS

	2008	2007	2006	2005
<b>Type of Claim</b>				
Medical	\$ 498,767,038	\$ 437,519,746	\$ 427,553,404	\$ 431,036,095
Prescription Drugs	334,742,500	304,773,401	259,532,887	229,522,988
<b>TOTAL</b>	<b>\$ 833,509,538</b>	<b>\$ 742,293,147</b>	<b>\$ 687,086,291</b>	<b>\$ 660,559,083</b>

### Health Care Claims Expenses from Net Assets by Type

HEALTH BENEFITS TRUST FUND - ACTIVE PLAN  
LAST SIX FISCAL YEARS (SINCE PLAN INCEPTION)

	2008	2007	2006	2005
<b>Type of Claim</b>				
Medical	\$ 788,240,087	\$ 659,478,760	\$ 587,513,767	\$ 546,106,804
Prescription Drugs	163,916,252	141,670,202	121,458,717	117,254,334
<b>TOTAL</b>	<b>\$ 952,156,339</b>	<b>\$ 801,148,962</b>	<b>\$ 708,972,484</b>	<b>\$ 663,361,138</b>

## FINANCIAL TRENDS INFORMATION

2004	2003	2002	2001	2000	1999
\$ 4,321,718,025	\$ 3,917,349,171	\$ 3,612,311,394	\$ 3,065,933,596	\$ 2,879,795,791	\$ 2,374,437,367
139,047,656	89,305,527	48,697,687	36,929,725	18,785,833	12,257,736
696,201,755	427,944,774	386,442,648	280,942,321	184,452,896	
125,992,690	122,409,366	119,913,327	107,030,338	105,225,801	89,615,768
1,460,631	1,297,262	1,504,798	908,801	780,487	829,773
41,669,051	41,284,946	43,685,098	39,887,958	36,761,945	40,109,292
74,320,247	70,611,609	71,664,740	63,441,321	63,895,597	63,451,102
75,839,736	74,581,837	72,919,628	65,154,382	63,479,659	53,330,067
7,089,131	6,385,087	5,649,671	4,475,175	4,011,753	3,577,742
2,994,247	2,217,897	2,558,781	2,651,578	2,704,357	2,286,288
\$ 5,486,333,169	\$ 4,753,387,476	\$ 4,365,347,772	\$ 3,667,355,195	\$ 3,359,894,119	\$ 2,639,895,135
\$ 220,396,709	\$ 186,082,670	\$ 186,421,065	\$ 214,434,792	\$ 214,999,991	\$ 206,354,473

2004	2003	2002	2001	2000	1999
\$ 366,840,457	\$ 368,462,963	\$ 287,729,917	\$ 250,691,897	\$ 203,029,971	\$ 184,398,533
214,514,500	203,281,399	163,979,753	139,774,848	110,903,247	93,459,890
\$ 581,354,957	\$ 571,744,362	\$ 451,709,670	\$ 390,466,745	\$ 313,933,218	\$ 277,858,423

2004	2003
\$ 425,394,453	\$ 392,085,280
95,603,970	81,365,264
\$ 520,998,423	\$ 473,450,544

## OPERATING INFORMATION

### Average Benefit Payments

PENSION TRUST FUND  
LAST TEN FISCAL YEARS

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
<b>9-1-98 to 8-31-99</b>						
Average Monthly Benefit	\$245.45	\$453.25	\$ 906.90	\$ 1,430.86	\$2,241.89	\$ 3,132.06
Average Final Average Salary	\$18,543	\$21,990	\$ 26,739	\$ 31,991	\$ 40,552	\$ 47,302
Number of Retirees	1,045	1,047	1,295	2,031	2,464	1,874
<b>9-1-99 to 8-31-00</b>						
Average Monthly Benefit *	\$245.98	\$456.70	\$ 919.43	\$ 1,398.55	\$2,179.83	\$ 2,987.96
Average Final Average Salary	\$19,265	\$22,724	\$ 28,423	\$ 33,266	\$ 42,721	\$ 49,503
Number of Retirees	1,118	1,199	1,402	2,399	3,498	3,208
<b>9-1-00 to 8-31-01</b>						
Average Monthly Benefit *	\$236.38	\$430.14	\$ 901.91	\$ 1,377.25	\$2,131.21	\$ 2,901.44
Average Final Average Salary	\$20,077	\$23,395	\$ 29,575	\$ 34,843	\$ 44,767	\$ 51,307
Number of Retirees	1,065	1,169	1,430	2,413	3,768	3,323
<b>9-1-01 to 8-31-02</b>						
Average Monthly Benefit *	\$234.89	\$464.33	\$ 947.07	\$ 1,444.93	\$2,209.24	\$ 3,027.91
Average Final Average Salary	\$20,405	\$24,637	\$ 31,300	\$ 36,564	\$ 46,507	\$ 53,956
Number of Retirees	1,207	1,252	1,648	3,077	4,983	4,722
<b>9-1-02 to 8-31-03</b>						
Average Monthly Benefit *	\$266.73	\$500.52	\$ 967.59	\$ 1,474.15	\$2,219.78	\$ 3,040.36
Average Final Average Salary	\$23,426	\$26,812	\$ 31,814	\$ 37,452	\$ 46,435	\$ 53,748
Number of Retirees	1,507	1,638	2,157	3,790	6,000	5,085
<b>9-1-03 to 8-31-04</b>						
Average Monthly Benefit *	\$269.39	\$481.20	\$ 982.71	\$ 1,496.42	\$2,179.76	\$ 3,034.88
Average Final Average Salary	\$23,472	\$26,788	\$ 32,463	\$ 38,613	\$ 46,742	\$ 54,523
Number of Retirees	1,795	2,279	3,090	5,670	8,000	6,254
<b>9-1-04 to 8-31-05</b>						
Average Monthly Benefit *	\$272.12	\$533.12	\$ 1,055.84	\$ 1,600.76	\$2,330.76	\$ 3,264.22
Average Final Average Salary	\$24,774	\$28,314	\$ 35,336	\$ 41,202	\$ 49,452	\$ 58,164
Number of Retirees	1,410	1,227	1,427	2,074	3,176	2,494
<b>9-1-05 to 8-31-06</b>						
Average Monthly Benefit *	\$279.62	\$579.54	\$ 1,093.98	\$ 1,630.62	\$2,337.74	\$ 3,307.57
Average Final Average Salary	\$25,460	\$30,625	\$ 36,786	\$ 42,296	\$ 49,649	\$ 58,985
Number of Retirees	1,495	1,127	1,579	2,483	3,332	2,701
<b>9-1-06 to 8-31-07</b>						
Average Monthly Benefit *	\$308.96	\$598.85	\$ 1,116.72	\$ 1,695.15	\$2,422.61	\$ 3,449.24
Average Final Average Salary	\$27,432	\$31,602	\$ 37,444	\$ 44,118	\$ 51,682	\$ 61,096
Number of Retirees	1,577	1,184	1,554	2,626	3,291	2,835
<b>9-1-07 to 8-31-08</b>						
Average Monthly Benefit *	\$316.55	\$621.99	\$ 1,149.41	\$ 1,751.41	\$2,515.63	\$ 3,506.84
Average Final Average Salary	\$28,028	\$32,503	\$ 38,302	\$ 45,453	\$ 53,107	\$ 61,862
Number of Retirees	1,348	1,151	1,742	2,722	3,489	3,064

\* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$184.5, \$280.9, \$386.4, \$427.9, \$696.2, \$288.1, \$313.4, \$325.7, and \$363.7 million in fiscal years 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, and 2008 respectively.

## OPERATING INFORMATION

### Average Health Care Claims

HEALTH BENEFITS TRUST FUND - RETIRED PLAN  
LAST TEN FISCAL YEARS

<b>2008</b>		
Average Claims Per Participant	\$	4,302.36
Health Care Claims	\$	833,509,538
Average Participants		193,733
<b>2007</b>		
Average Claims Per Participant	\$	3,891.49
Health Care Claims	\$	742,293,147
Average Participants		190,748
<b>2006</b>		
Average Claims Per Participant	\$	3,658.53
Health Care Claims	\$	687,086,291
Average Participants		187,804
<b>2005</b>		
Average Claims Per Participant	\$	3,563.06
Health Care Claims	\$	660,559,083
Average Participants		185,391
<b>2004</b>		
Average Claims Per Participant	\$	3,434.58
Health Care Claims	\$	581,354,957
Average Participants		169,265
<b>2003</b>		
Average Claims Per Participant	\$	3,698.31
Health Care Claims	\$	571,744,362
Average Participants		154,596
<b>2002</b>		
Average Claims Per Participant	\$	3,156.18
Health Care Claims	\$	451,709,670
Average Participants		143,119
<b>2001</b>		
Average Claims Per Participant	\$	2,877.24
Health Care Claims	\$	390,466,745
Average Participants		135,709
<b>2000</b>		
Average Claims Per Participant	\$	2,433.03
Health Care Claims	\$	313,933,218
Average Participants		129,030
<b>1999</b>		
Average Claims Per Participant	\$	2,224.95
Health Care Claims	\$	277,858,423
Average Participants		124,883

### Average Health Care Claims

HEALTH BENEFITS TRUST FUND - ACTIVE PLAN  
LAST SIX FISCAL YEARS (SINCE PLAN INCEPTION)

<b>2008</b>		
Average Claims Per Participant	\$	3,059.63
Health Care Claims	\$	952,156,339
Average Participants		311,200
<b>2007</b>		
Average Claims Per Participant	\$	2,834.53
Health Care Claims	\$	801,148,962
Average Participants		282,639
<b>2006</b>		
Average Claims Per Participant	\$	2,744.75
Health Care Claims	\$	708,972,484
Average Participants		258,301
<b>2005</b>		
Average Claims Per Participant	\$	2,714.19
Health Care Claims	\$	663,361,138
Average Participants		244,405
<b>2004</b>		
Average Claims Per Participant	\$	2,357.20
Health Care Claims	\$	520,998,423
Average Participants		221,024
<b>2003</b>		
Average Claims Per Participant	\$	2,616.24
Health Care Claims	\$	473,450,544
Average Participants		180,966



## OPERATING INFORMATION

### Retired Members by Type of Benefit

PENSION TRUST FUND  
AS OF AUGUST 31, 2008

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement <sup>a</sup>						
		1	2	3	4	5	6	7
\$ 1 - 200	11,645	4,234	6,066	369	838	67	52	19
\$ 201 - 400	30,895	7,240	11,149	631	1,489	1,100	662	8,624
\$ 401 - 600	20,398	8,746	8,183	1,331	1,616	244	278	0
\$ 601 - 800	17,615	9,454	4,889	1,329	1,349	311	283	0
\$ 801 - 1,000	16,850	10,712	3,371	1,014	1,225	304	224	0
\$ 1,001 - 1,200	14,398	9,662	2,463	751	1,107	239	176	0
\$ 1,201 - 1,400	12,456	8,120	2,382	595	1,017	227	115	0
\$ 1,401 - 1,600	13,170	8,514	2,855	537	909	248	107	0
\$ 1,601 - 1,800	13,646	9,320	2,715	482	804	229	96	0
\$ 1,801 - 2,000	14,340	10,546	2,473	386	668	213	54	0
\$ over 2,000	109,815	93,452	9,461	1,207	4,458	1,123	114	0
<b>Totals</b>	<b>275,228</b>	<b>180,000</b>	<b>56,007</b>	<b>8,632</b>	<b>15,480</b>	<b>4,305</b>	<b>2,161</b>	<b>8,643</b>

<sup>a</sup>Type of Retirement:

- 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

### Health Care Claims by Benefit Range

HEALTH BENEFITS TRUST FUND - RETIRED PLAN  
AS OF AUGUST 31, 2008

Benefit Range	Average Participants
\$ 0	33,001
\$ 1 - 5,000	123,728
\$ 5,001 - 10,000	23,253
\$ 10,001 - 20,000	8,131
\$ 20,001 - 30,000	2,133
\$ 30,001 - 40,000	1,049
\$ 40,001 - 50,000	602
\$ 50,001 - 100,000	1,145
\$ over 100,000	691
<b>Total</b>	<b>193,733</b>

### Health Care Claims by Benefit Range

HEALTH BENEFITS TRUST FUND - ACTIVE PLAN  
AS OF AUGUST 31, 2008

Benefit Range	Average Participants
\$ 0	31,800
\$ 1 - 5,000	241,064
\$ 5,001 - 10,000	21,087
\$ 10,001 - 20,000	9,461
\$ 20,001 - 30,000	3,111
\$ 30,001 - 40,000	1,565
\$ 40,001 - 50,000	836
\$ 50,001 - 100,000	1,462
\$ over 100,000	814
<b>Total</b>	<b>311,200</b>

## OPERATING INFORMATION

Option Selected <sup>b</sup>					
1	2	3	4	5	6
5,399	4,078	858	381	857	72
10,331	6,424	1,694	766	1,665	10,015
10,347	5,558	2,063	859	1,571	0
8,644	4,913	2,174	791	1,093	0
8,221	4,510	2,273	756	1,090	0
6,577	4,133	2,181	618	889	0
5,058	4,083	2,049	485	781	0
5,200	4,453	2,106	564	847	0
5,294	4,658	2,242	536	916	0
5,307	4,977	2,526	525	1,005	0
38,043	41,007	20,303	3,739	6,723	0
108,421	88,794	40,469	10,020	17,437	10,087

<sup>b</sup>Option Selected:

Option 1 - Life Annuity

Option 2 - Joint to Survivor

Option 3 - Joint to Survivor 50% / Joint to Survivor 75%

Option 4 - 5-Year Guarantee

Option 5 - 10-Year Guarantee

Option 6 - Survivor Benefit

## OPERATING INFORMATION

### Principal Participating Reporting Entities

PENSION TRUST FUND

CURRENT FISCAL YEAR AND NINE YEARS AGO

Participating Reporting Entity	2008			1999		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	23,957	1	3.10%	25,047	1	4.01%
Dallas ISD	20,777	2	2.69%	18,470	2	2.96%
UT MD Anderson Cancer Center	15,496	3	2.01%	7,742	10	1.24%
Cypress Fairbanks ISD	12,693	4	1.64%			
Austin ISD	11,863	5	1.54%	9,852	3	1.58%
Northside ISD	11,829	6	1.53%	8,426	6	1.35%
Fort Worth ISD	10,523	7	1.36%	9,253	5	1.48%
UT Medical Branch at Galveston	10,132	8	1.31%	9,673	4	1.55%
UT at Austin	9,836	9	1.27%	8,343	7	1.33%
El Paso ISD	8,971	10	1.16%	8,152	8	1.30%
San Antonio ISD				7,977	9	1.28%
All other	636,359		82.39%	511,695		81.92%
<b>Total</b>	<b>772,436</b>		<b>100.00%</b>	<b>624,630</b>		<b>100.00%</b>

Source: May report month information submitted to the Teacher Retirement System by participating reporting entities.

## OPERATING INFORMATION

### Principal Participating Reporting Entities

HEALTH BENEFITS TRUST FUND - RETIRED PLAN  
CURRENT FISCAL YEAR AND NINE YEARS AGO

Participating Reporting Entity	2008			1999		
	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment
Houston ISD	23,957	1	3.72%	25,047	1	4.72%
Dallas ISD	20,777	2	3.22%	18,470	2	3.48%
Cypress Fairbanks ISD	12,693	3	1.97%	7,360	8	1.39%
Austin ISD	11,863	4	1.84%	9,852	3	1.86%
Northside ISD	11,829	5	1.83%	8,426	5	1.59%
Fort Worth ISD	10,523	6	1.63%	9,253	4	1.75%
El Paso ISD	8,971	7	1.39%	8,152	6	1.54%
North East ISD	8,694	8	1.35%	6,453	10	1.22%
Aldine ISD	8,429	9	1.31%	7,073	9	1.33%
Fort Bend ISD	8,414	10	1.30%			
San Antonio ISD				7,977	7	1.50%
All other	518,625		80.44%	422,117		79.62%
<b>Total</b>	<b>644,775</b>		<b>100.00%</b>	<b>530,180</b>		<b>100.00%</b>

Source: May report month information submitted to the Teacher Retirement System by participating reporting entities.

# Listing of Participating Reporting 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  
Lone Star College System  
McLennan Comm College  
Midland College  
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  
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 AgriLife Research  
Texas AgriLife Ext Service  
Texas Eng Exp Station  
Texas Eng Ext Service  
Texas Forest Service  
Texas Southern University

Texas State Univ-San Marcos  
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  
Avenger 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

# Listing of Participating Reporting Entities

(continued)

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

# Listing of Participating Reporting Entities

(continued)

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



# Listing of Participating Reporting Entities

(continued)

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  
 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  
 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  
 Ambassador's Prep Academy  
 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  
 Brooks Academy of Science  
 & Engineering  
 Burnham Wood Charter Sch  
 Calvin Nelms Charter  
 Cedar Crest Charter Sch  
 Cedars International Acad  
 Chapel Hill Academy  
 Children First Ac Houston  
 Children First Ele Acad  
 Com Quest Academy  
 Corpus Christi Montessori  
 Charter School  
 Crosstimbers Academy  
 Cumberland Academy  
 Dallas Can Academy

Dallas Comm Charter Sch  
 Dr. Garza-Gonzalez Ch Sch  
 Draw Academy  
 Eagle Advantage School  
 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  
 Hampton Preparatory  
 Harmony Elementary, Austin  
 Harmony Elementary, Houston  
 Harmony School of Excellence, Houston  
 Harmony Science Academy, Austin  
 Harmony Science Academy, Beaumont  
 Harmony Science Academy, College  
 Station  
 Harmony Science Academy, El Paso  
 Harmony Science Academy, Fort Worth  
 Harmony Science Academy, Houston  
 Harmony Science Academy, Lubbock  
 Harmony Science Academy, San Antonio  
 Harmony Science Academy, Waco  
 Heights Academy  
 Higgs Carter King Academy  
 Honors Academy  
 Houston Alt Prep Charter  
 Houston Gateway Charter  
 Houston Hgths Learning Ac  
 Idea Public Schools  
 Inspired Vision Academy  
 Jamie's House Charter Sch  
 Jean Massieu Academy  
 Jesse Jackson Academy  
 John H. Wood Charter Sch  
 Juan B. Galaviz Charter  
 Jubilee Academic 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 Southeast Houston  
 K I P P Truth Academy  
 La Academia de Estrellas  
 La Amistad Academy  
 La Escuela Delas Americas  
 Le Fe Preparatory School  
 Life Charter School  
 Lighthouse Charter School  
 Lynacre Academy  
 Mainland Prep Academy  
 Meadowland Charter School  
 Medical Center Charter  
 Metro Charter Academy  
 Meyer Park Elementary  
 Mid Valley Academy  
 Midland Academy  
 N Houston H S Business  
 New Frontiers Charter School  
 North Texas Elementary School  
 of Arts  
 Northwest Prep Academy

# Listing of Participating Reporting Entities

(concluded)

Nova Charter School  
 Nova Charter Southeast  
 N Y O S Charter School  
 Odyssey Academy  
 One Stop Multiservice  
 Outreach Word Academy  
 Panola Charter School  
 Paradigm Accelerated Sch  
 Paso Del Norte Academy  
 Peak Preparatory School  
 Pegasus Charter School  
 Phoenix Charter School  
 Pineywoods Academy  
 Por Vida Inc  
 Radiance Acad of Learning  
 Ranch Academy  
 Rapoport Academy  
 Rapoport Academy Prep School  
 Raul Yzaguirre School  
 Reconciliation Scholar's Academy  
 Responsive Education Solutions  
 Richard Milburn - Amarillo  
 Richard Milburn - Beaumont  
 Richard Milburn - Corpus Christi  
 Richard Milburn - Fort Worth  
 Richard Milburn - Houston  
 Richard Milburn - Killeen  
 Richard Milburn - Lubbock  
 Richard Milburn - Midland  
 Richard Milburn - Odessa  
 Ripley House Charter School  
 Rise Academy  
 SAILL - Austin  
 S T A R Charter School  
 San Antonio Prep Academy  
 San Antonio Sch Inquiry  
 San Antonio Tech Academy  
 School of Excellence  
 School of Science & Technology  
 Seashore Learning Ctr  
 Seashore Middle Academy  
 Ser-Ninos  
 Shekinah Radiance Academy  
 South Plains Academy  
 Southwest High School  
 Southwest Preparatory Sch  
 St. Anthony School  
 St. Mary's Charter School  
 Stepping Stones Charter Elementary  
 Summit International Preparatory  
 Technology Education Chtr  
 T E K O A Academy  
 Texas Empowerment Academy  
 Texas Language Charter  
 Texas Preparatory School  
 Texas Serenity Academy  
 The Education Center  
 The Ehrhart School  
 The Encino School  
 The Legends Academy  
 The North Hills School  
 The Rhodes School  
 Theresa B Lee Academy  
 T O V A S  
 Transformative Charter  
 Treetops International  
 Trinity Basin Preparatory  
 Trinity Charter School  
 Two Dimensions Prep Acad  
 Universal Academy  
 Vanguard Academy  
 Varnett Charter School  
 Waco Charter School  
 West Houston Charter  
 Westlake Academy  
 Williams Preparatory  
 Winfree Academy Charter Schools  
 Yes Preparatory Public Schools  
 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

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

**(512) 542-6400  
1-800-223-8778**

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

