

Employees Retirement System of Texas (ERS) • Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF) • Judicial Retirement System of Texas Plan 2 (JRS 2)

ACTUARIAL VALUATION RESULTS AS OF AUGUST 31, 2014			
	ERS	LECOSRF	JRS2
<b>Actuarial Accrued Liability</b>	\$ 32.9 B	\$ 1.21 B	\$ 386.3 M
<b>Actuarial Value of Assets</b>	25.4 B	883.6 M	348.4 M
<b>Unfunded Accrued Liability</b>	7.5 B	323.2 M	37.9 M
<b>Funded Ratio</b>	<b>77.2%</b>	<b>73.2%</b>	<b>90.2%</b>
<b>Funding Period*</b>	<b>Never</b>	<b>Never</b>	<b>Never</b>

\*The funding period defines when a plan can expect to be fully funded based on current benefits, plan experience and contribution rates. A funding period of never indicates that at the current contribution rates, these plans will never be fully funded, meaning that they will not have enough money to pay all the current and promised benefits. Plans that are not fully funded have a funding gap, referred to as an unfunded liability. The Texas Pension Review Board and actuarial standards groups recommend that any unfunded liability be amortized, or paid off, over a period of no more than 15-25 years. The Texas Government Code 811.006 requires that any unfunded liability be paid off within a 31-year period.

The financial health of a defined benefit plan depends on an equal balance between assets and liabilities, so that:

### INVESTMENT RETURNS + CONTRIBUTIONS = BENEFITS + EXPENSES

Despite positive investment returns and reduced benefit costs going forward, the funded status of the plans are declining because of the growing gap between plan contributions and the contributions needed to pay off the existing liability.

State contributions to the ERS retirement plan continue to represent less than 0.50% of the State's budget.

### CONTRIBUTIONS

- Contributions more than cover the normal cost to provide benefits, but they are not enough to pay down the unfunded liability.
- Since fiscal year 1996, in 19 out of 20 years, contributions have not met the full funding rate needed.
- For FY 2015, ERS' State contribution of 7.5% and employer contribution of 0.5% to the ERS plan are the same as the prior year. Member contributions for fiscal year 2015 increased by 0.3% to 6.9% and are scheduled to increase by 0.3% each year through FY 2017.

BREAKDOWN OF CONTRIBUTION FUNDING GAP (% of payroll)			
	ERS	LECOSRF	JRS2
<b>Normal Cost</b>	11.58%	1.77%	21.03%
<b>FY 2015 Contribution</b>	14.90%	2.20%	22.53%
<b>Actuarially Sound Contribution</b>	18.76%	2.96%	23.86%
<b>Contribution Shortfall*</b>	(3.86%)	(0.76%)	(1.33%)

\*Through a combination of state, employer and member contributions, these plans need to receive the actuarially sound contribution rate.

### INVESTMENTS

- Investment returns are the largest funding component of retirement benefits and represent about two-thirds of the value of the ERS Trust.
- The FY 2014 return is 14.70% gross of fees and 14.58% net of fees.
- The 30-year return is 8.65%.

ERS INVESTMENT PERFORMANCE PERIOD ENDING AUGUST 31, 2014					
Period	30-Year	10-Year	5-Year	3-Year	1-Year
<b>Annualized Return (gross)</b>	8.65%	7.40%	10.41%	10.96%	14.70%

## BENEFITS

- Passage of Senate Bill 1459 in 2013 and increased contributions were steps in the right direction, but further change is needed in order to make the funds actuarially sound.

<b>SUMMARY RESULTS OF ACTUARIAL VALUATIONS AS OF AUGUST 31, 2014</b>			
	<b>ERS</b>	<b>LECOSRF*</b>	<b>JRS II</b>
	<ul style="list-style-type: none"> <li>• State Employees</li> <li>• Elected Officials</li> <li>• District Attorneys</li> </ul>	Certain law enforcement officers and custodial officers at DPS, TABC, TPWD, TJJD, TDCJ & TBPP	Judges, justices and certain commissioners of court
<b>ACTIVE AND INACTIVE MEMBERS</b>			
<b>Active contributing members</b>	134,162	37,084	554
<b>Average age</b>	44.3	42.3	57.3
<b>Average years of service</b>	9.4	8.9	10.2
<b>Average annual salary</b>	\$44,374	\$41,584	\$142,820
<b>Non-contributing vested</b>	16,739	69	18
<b>Non-contributing non-vested</b>	79,768	11,242	121
<b>ANNUITANTS</b>			
<b>Service Retirees</b>	85,430	9,333	241
<b>Disability Retirees</b>	2,523	105	1
<b>Beneficiaries</b>	<u>7,887</u>	<u>586</u>	<u>25</u>
<b>Total Retirees and Beneficiaries</b>	95,840	10,024	267
<b>Average age as of 8/31/14**</b>	68.1	61.6	68.3
<b>Average age at Retirement**</b>	58.4	53.8	62.4
<b>Average years of service at retirement</b>	22.3	23.9	14.6
<b>Average annual annuity</b>	\$19,152	\$5,327	\$60,594

\*Members of LECOSRF are also members of ERS. LECOSRF annuitant demographics are based only on benefits payable from LECOSRF.

\*\*Annuitant demographics are based on service retirements only, and do not include members who retired based on a disability.