



April 14, 2015

Board of Trustees  
Employees Retirement System of Texas  
200 East 18th Street  
Austin, TX 78701

**Subject: GASB Reporting and Disclosure Information for ERS Fiscal Year Ending  
August 31, 2014**

Members of the Board,

This report provides information required by the Employees Retirement System of Texas (ERS) in connection with the Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." Additionally, this report provides information required by the governmental employers participating in ERS in connection with the GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." It is our understanding this information will be used by governmental employers in financial reporting for the fiscal year ending August 31, 2015. The information provided herein was prepared for the purpose of assisting ERS and the governmental employers in the compliance with the financial reporting and disclosure requirements of GASB Nos. 67 and 68.

The calculation of the liability associated with the benefits described in this report was performed for the purpose of satisfying the requirements of GASB Nos. 67 and 68 and is not applicable for purposes of funding the plan. A calculation of the plan's liability for other purposes may produce significantly different results. This report may be provided to parties other than ERS only in its entirety and only with the permission of ERS.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of August 31, 2014. It is our opinion that the recommended assumptions are internally consistent, reasonable, and comply with the requirements under GASB Nos. 67 and 68.

We have not determined whether the Collective Pension Amounts under GASB No. 68 should be allocated to any of the governmental employers participating in ERS. It is our understanding that these allocations will be determined by another state agency, if necessary.

This report is based upon information, furnished to us by ERS, which include benefit provisions, membership information, and financial data. We did not audit this data and information, but we did apply a number of tests and concluded that it was reasonable and consistent. GRS is not responsible for the accuracy or completeness of the information provided to us by ERS.

Certain tables included in the Required Supplementary Information should include a 10-year history of information. As provided for in GASB Nos. 67 and 68, this historical information is

only presented for the years in which the information was measured in conformity with the requirements of GASB Nos. 67 and 68. The historical information in this report will begin with the information presented for the fiscal year ending August 31, 2014.

Paragraph 57 of GASB No. 68 indicates that contributions to the pension plan subsequent to the measurement date of the Net Pension Liability and prior to the end of the employer's reporting period can be reported by the employer as a deferred outflow of resources related to pensions. The information contained in this report does not incorporate any contributions made to ERS subsequent to August 31, 2014.

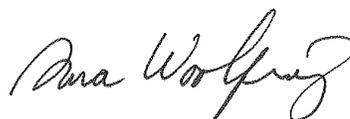
This report complements the actuarial valuation report as of August 31, 2014, provided for plan funding purposes, which was also provided to ERS and should be considered together as a complete report for the plan year ending August 31, 2014. Please see the actuarial valuation report as of August 31, 2014 for additional discussion of the nature of actuarial calculations and more information related to participant data, economic and demographic assumptions, and benefit provisions.

To the best of our knowledge, the information contained within this report is accurate and fairly represents the actuarial position of the Employees Retirement System of Texas. All calculations have been made in conformity with generally accepted actuarial principles and practices as well as with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Mr. Falls and Ms. Woolfrey are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,



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Senior Consultant



Dana Woolfrey, FSA, EA, MAAA  
Consultant

## Summary of Population Statistics

The total pension liability described in this report is based on the ERS plan membership as of August 31, 2014:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	95,840
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	96,507
Active Plan Members	<u>134,162</u>
Total Plan Members	326,509

## Measurement of the Net Pension Liability

The net pension liability is measured as the total pension liability, less the amount of the plan's fiduciary net position. In actuarial terms, this is analogous to the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations based on the Board's adopted assumptions and methods).

A single discount rate of 6.34% was used to measure the total pension liability as of August 31, 2013. This single discount rate was based on an expected rate of return on pension plan investments of 8.00% and a municipal bond rate of 4.96%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2037. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2037 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

A single discount rate of 6.07% was used to measure the total pension liability as of August 31, 2014. This single discount rate was based on an expected rate of return on pension plan investments of 8.00% and a municipal bond rate of 4.17%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2041. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2041 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

The source of the municipal bond rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. In describing their index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory and appropriated levels and remain a level percentage of payroll.

## Actuarially Determined Contribution

This report presents the Actuarially Determined Contribution (ADC) for the fiscal year ending August 31, 2014. Consistent with the provisions of Section 811.006 of the Texas Government Code, this contribution is the amount necessary to fund the normal cost and to amortize the UAAL as a level percentage of payroll over 31 years.

As noted, the ADC is currently calculated based on a 31-year open amortization period. This means that the ADC contribution will always be calculated with the same 31-year period and the UAAL would never completely disappear. Even though the contributions to ERS are not based on this ADC, the Board may want to consider adopting a funding policy that includes an ultimate goal of eliminating the UAAL by a certain date. This type of funding policy will allow the Board to better assess the level of contributions received from the employers and the State.

### **Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption**

Below is a table providing the sensitivity of the net pension liability to changes in the discount rate as of August 31, 2014. In particular, the table presents the plan's net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the single discount rate:

<b>1% Decrease</b>	<b>Current Single</b>	<b>1% Increase</b>
<b>5.07%</b>	<b>Rate Assumption</b>	<b>7.07%</b>
<b>6.07%</b>		
\$ 19,463,930,450	\$ 14,460,800,105	\$ 10,296,506,019

**RECONCILIATION OF PLAN NET ASSETS**  
for Fiscal Year Ending August 31, 2014

Employees Retirement System of Texas

	<u>Year Ending August 31, 2014</u>
1. Market value of assets at beginning of year	\$ 22,868,542,011
2. Revenue for the year	
a. Contributions for the year	
i. State (including membership fees)	\$ 482,239,018
ii. Member (including penalty interest)	430,594,897
iii. Total	<u>\$ 912,833,915</u>
b. Net investment income	\$ 3,252,416,986
c. Total revenue	\$ 4,165,250,901
3. Disbursements for the year	
a. Benefit payments and refunds	\$ 2,026,204,989
b. Net transfers from TRS	(62,723,534)
c. Administrative expenses	20,194,988
d. Total expenditures	<u>\$ 1,983,676,443</u>
4. Increase in net assets (Item 2c - Item 3d)	\$ 2,181,574,458
5. Market value of assets at end of year (Item 1 + Item 4)	\$ 25,050,116,469

*This reconciliation only includes the items needed to reconcile the changes in Net Pension Liability during the fiscal year. The Reconciliation of Fiduciary Net Position required by GASB No. 67 may require additional detail regarding the changes throughout the year.*

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Changes in the Employers' Net Pension Liability and Related Ratios**

Employees Retirement System of Texas

Fiscal year ending August 31,	<b>2014</b>
<b>Total pension liability</b>	
Service Cost	\$ 1,139,451,280
Interest on the Total Pension Liability	2,324,179,507
Benefit Changes	0
Difference between expected and actual experience of the Total Pension Liability	(252,966,720)
Assumption Changes	1,199,067,392
Benefit Payments and Refunds	(1,963,481,455)
<b>Net Change in Total Pension Liability</b>	2,446,250,004
<b>Total Pension Liability - Beginning</b>	37,064,666,570
<b>Total Pension Liability - Ending</b>	\$ 39,510,916,574
<b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 482,239,018
Contributions - Member	430,594,897
Pension Plan Net Investment Income	3,252,416,986
Benefit Payments and Refunds	(1,963,481,455)
Pension Plan Administrative Expense	(20,194,988)
Other	0
<b>Net Change in Plan Fiduciary Net Position</b>	2,181,574,458
<b>Plan Fiduciary Net Position - Beginning</b>	22,868,542,011
<b>Plan Fiduciary Net Position - Ending</b>	\$ 25,050,116,469
<b>Net Pension Liability - Ending</b>	14,460,800,105
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	63.40 %
<b>Covered Employee Payroll</b>	\$ 5,955,460,705
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	242.82 %

**Notes to Schedule:**

The covered employee payroll is the actual annual payroll for the fiscal year as reported by ERS.

The change in the Total Pension Liability due to the change in the Single Discount Rate is included as an assumption change.

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION****Schedule of Employer Contributions****Employees Retirement System of Texas**

<u>FY Ending August 31,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 727,892,157	\$ 482,239,018	\$ 245,653,139	\$5,955,460,705	8.10%

**NOTES TO SCHEDULE OF CONTRIBUTIONS****Employees Retirement System of Texas**

**Valuation Date:** Actuarially determined contribution rates are calculated as of August 31. Members and employers contribute based on statutorily fixed rates.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	0% to 11.5%
Investment Rate of Return	8.00%
Retirement Age	Experience-based table of rates that are specific to the class of employee. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from September 1, 2006 through August 31, 2011.
Mortality	1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

**Other Information:**

Notes Actuarially determined contributions are adjusted for actual payroll and administrative expenses.  
Members and employers contribute based on statutorily fixed rates.  
There were no benefit changes during the year.

**GOVERNMENTAL EMPLOYER FINANCIAL STATEMENTS**

Pension Expense for Fiscal Year Ending August 31, 2014

To be used for Governmental Employer Reporting for Fiscal Year Ending August 31, 2015

Employees Retirement System of Texas**A. Expense**

1. Service Cost	\$ 1,139,451,280
2. Interest on the Total Pension Liability	2,324,179,507
3. Current-Period Benefit Changes	0
4. Member Contributions	(430,594,897)
5. Projected Earnings on Plan Investments	(1,786,649,660)
6. Pension Plan Administrative Expense	20,194,988
7. Other Changes in Plan Fiduciary Net Position	0
8. Recognition of deferred outflows resulting from differences between expected and actual experience	(77,835,914)
9. Recognition of deferred outflows resulting from assumption changes	368,943,813
10. Recognition of deferred outflows resulting from differences between projected and actual earnings on plan investments	(293,153,466)
<b>11. Total Pension Expense</b>	<b>\$ 1,264,535,651</b>

**Recognition of Deferred Outflows and Inflows of Resources**

According to paragraph 33 of GASB No. 68, *differences between expected and actual experience* and *changes in assumptions* are recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.

At the beginning of the 2014 fiscal year, the expected remaining service lives of all employees was 1,044,460 years for ERS. Additionally, the ERS plan membership (active employees and inactive employees) was 321,051. As a result, the average of the expected remaining service lives for purposes of recognizing the applicable deferred outflows and inflows of resources established in the 2014 fiscal year is 3.25 years.

Additionally, *differences between projected and actual earnings on pension plan investments* should be recognized in pension expense using a systematic and rational method over a closed five-year period.

For this purpose, the deferred outflows and inflows of resources are recognized in the pension expense as a level dollar amount over the closed period identified above.

**GOVERNMENTAL EMPLOYER FINANCIAL STATEMENTS**Statement of Outflows and Inflows Arising from Current and Prior Reporting Periods  
For Fiscal Year Ending August 31, 2014

To be used for Governmental Employer Reporting for Fiscal Year Ending August 31, 2015

**A. New Deferred Outflows and Inflows of Resources by Source Established in Fiscal Year**

	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
1. Differences between expected and actual experience	\$ 0	\$ 252,966,720	\$ (252,966,720)
2. Assumption Changes	1,199,067,392	0	1,199,067,392
3. Net Difference between projected and actual earnings on pension plan investments	0	1,465,767,326	(1,465,767,326)
<b>4. Total</b>	<b>\$ 1,199,067,392</b>	<b>\$ 1,718,734,046</b>	<b>\$ (519,666,654)</b>

**B. Outflows and Inflows of Resources by Source to be recognized in Current Pension Expense**

	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
1. Differences between expected and actual experience	\$ 0	\$ 77,835,914	\$ (77,835,914)
2. Assumption Changes	368,943,813	0	368,943,813
3. Net Difference between projected and actual earnings on pension plan investments	0	293,153,466	(293,153,466)
<b>4. Total</b>	<b>\$ 368,943,813</b>	<b>\$ 370,989,380</b>	<b>\$ (2,045,567)</b>

**C. Deferred Outflows and Deferred Inflows of Resources by Source to be recognized in Future Pension Expenses**

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Outflows of Resources
1. Differences between expected and actual experience	\$ 0	\$ 175,130,806	\$ (175,130,806)
2. Assumption Changes	830,123,579	0	830,123,579
3. Net Difference between projected and actual earnings on pension plan investments	0	1,172,613,860	(1,172,613,860)
<b>4. Total</b>	<b>\$ 830,123,579</b>	<b>\$ 1,347,744,666</b>	<b>\$ (517,621,087)</b>

**D. Deferred Outflows and Deferred Inflows of Resources by Year to be recognized in Future Pension Expenses**

Fiscal Year Ending	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
2015	\$ 368,943,813	\$ 370,989,380	\$ (2,045,567)
2016	368,943,813	370,989,380	(2,045,567)
2017	92,235,953	312,612,444	(220,376,491)
2018	0	293,153,462	(293,153,462)
2019	0	0	0
Thereafter	0	0	0
<b>Total</b>	<b>\$ 830,123,579</b>	<b>\$ 1,347,744,666</b>	<b>\$ (517,621,087)</b>