2014
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Employees Retirement System of Texas ★ A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2014

ERS
Employees Retirement System of Texas

The mission of the Employees Retirement System of Texas is to support the state workforce by offering competitive benefits at a reasonable cost.

Published November 2014

2014
Comprehensive Annual Financial Report

Ann S. Bishop, Executive Director

Prepared by: Finance Division

ERS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2014

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Highlights of Retirement Programs

As of August 31, 2014

	ERS (Note A)	LECOS (Note A)	JRS I (Note B)	JRS II
Retirement Census Data				
Active Members	134,162	37,084	12	554
Terminated Employees Entitled to Benefits	96,507	11,311	3	139
Total Retirement Accounts	**230,669**	**48,395**	**15**	**693**
Retirees and Beneficiaries	95,840	10,024	406	267
Service Retirements	6180	1,071	1	14
Disability Retirements	51	0	0	0
Total Retirements During the Fiscal Year	**6,231**	**1,071**	**1**	**14**
Funded Ratios (Note C)	77.2%	73.2%		90.2%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Note D)	63.4%	56.4%		94.6%
Results of Investments - Pension Trust Funds				
Interest, Dividends & Securities Lending Net Income	$ 630,389,878	$ 21,699,327		$ 8,986,563
Net Appreciation (Depreciation) in Fair Value of Investments	2,655,804,254	91,227,107		37,652,891
Other Transactions Summary				
Member Contributions	$ 430,594,896	$ 8,179,640		$ 5,195,122
State Retirement Contributions	482,329,018	27,757,980		12,210,663
Retirement Benefits	1,919,306,296	55,227,807	27,715,232	16,166,196
Member Contributions Withdrawn	106,809,179	1,919,350		253,521
Administrative Expenses	20,194,988	1,323,502		266,846
Investment Expenses	34,313,254	1,202,395		460,283
Money-Weighted Rates of Return	14.58%	14.55%		14.55%

Time Weighted Rates of Return	**1-Year**	**3-Year**	**5-Year**
Investment Pool Trust Fund	14.70%	10.96%	10.41%

ERS - Employees Retirement Fund
LECOS - Law Enforcement and Custodial Officer Supplemental Retirement Fund
JRS I - Judicial Retirement System Plan One
JRS II - Judicial Retirement System Plan Two

Note A: The members of the LECOS are also members of the ERS.

Note B: Member contributions for the Judicial Retirement System Plan One are deposited as unappropriated receipts in the State's General Revenue Fund, which is reported in an Agency Fund. Annuity payments and refunds for the Judicial Retirement System Plan One, which are funded on a pay-as-you-go basis, are appropriated by the Legislature each biennium. This fund has no invested assets.

Note C: Funded Ratios are based on actuary calculations for funding purposes. The actuarial accrued liability used in the Funde Ratio calculation for ERS and LECOS is based on a total liability, which is based on the benefit provisions in effect for each active member and a normal cost rate based on the benefits in effect for members hired after August 31, 2013

Note D: This calculation reflects market value, changes in single discount rate application, and other adjustments as required by GASB No. 67.

ERS
Employees Retirement System of Texas
200 E. 18th Sreet Austin, Texas 78701 | P. O. Box 13207, Austin, Texas 78701-3207 | (512) 867-7711 | (877) 275-4377 Toll-Free | www.ers.state.tx.us

November 17, 2014

Ann S. Bishop
Executive Director

Brian D. Ragland
Chair

Frederick E. Rowe, Jr..
Vice-Chair

Board of Trustees
Doug Danzeiser
Cydney C. Donnell
Yolanda Griego
I. Craig Hester

Dear Governor Perry and Members of the Texas Legislature:

On behalf of the Employees Retirement System of Texas (ERS), I appreciate this opportunity to share with you our financial successes of the past year. Thanks to careful, deliberate, and informed management, ERS was able to exceed investment return benchmarks for a fourth consecutive year as well as continue to position agency programs for future stability and growth. The actions of the 83rd Texas Legislature provided a supportive environment for ERS operations to improve through the 2014-15 biennium. Lawmakers made significant strides toward the ultimate goal of actuarial soundness for state retirement funds through two prime decisions: increasing direct contributions to the fund by the State, employer agencies, and contributing members; and adjusting retirement benefits for new state employees. Actuarial analysis indicates that even with these changes, unfunded liabilities continue to grow and further action is needed. ERS looks forward to working with the Governor's Office and the Legislature in the coming months and during the 84th Legislative Session to formulate the final steps necessary to achieve actuarial soundness for the state retirement plans.

The additional contributions helped to solidify the trust's base and allowed fund balances to be reinforced by the continued strength of investment performance. During fiscal year 2014, ERS investments earned average returns of 14.70 percent, raising the total trust fund pool to a fair value of $26.2 billion on August 31, 2014. Actively managing investment risks while seeking aggressive returns, ERS has worked to broaden our portfolios by allocating assets across new and more profitable investment classes. During fiscal year 2014, we continued to build and mature assets invested in private markets – such as real estate, private equity, and hedge funds – while diversifying investment programs related to both public and private market infrastructure opportunities. ERS remains committed to investing in local opportunities and markets throughout Texas. The fund is currently 30 percent invested in Texas-based companies and firms that maintain 200 or more employees within the state. We also continue to develop our emerging managers program, investing more than $188.4 million with these dedicated managers.

The strength of ERS investment operations is just part of our effort to help state employees and retirees attain retirement readiness and financial security throughout their lives. During fiscal year 2014, the Texas$aver 401(k)/457 Plan continued to grow, adding new fund options and amassing $2.4 billion in total assets. The award winning informational campaign begun in fiscal year 2013 to encourage members to increase personal contributions has continued to raise awareness of the need to supplement primary state retirement programs with personal savings and investments. By building a multi-pronged approach to retirement security, ERS is helping reduce the potential for future cost increases in social service programs across the state.

In addition to investment and retirement programs, a significant portion of ERS resources are devoted to providing responsive and effective health and insurance benefits to more than 530,000 plan participants. We take considerable pride in our

ability to offer high-quality insurance benefits at reasonable costs through the Group Benefits Program (GBP). ERS has been particularly effective at reigning in administrative costs for HealthSelect of Texas, the primary health plan for state employees and retirees. With 97 cents of every dollar spent directly on health care and only 3 percent allocated to administration, ERS administrative costs are well below both the current national average of 14 percent and the 15 percent maximum allowed by the federal Affordable Care Act.

Fiscal year 2014 saw the agency continue to make strides in advancing our efforts to reduce overall costs while maintaining quality health care services. In the second year of United HealthCare's® contract to administer HealthSelect of Texas, ERS remains on track to realize the full level of administrative savings originally negotiated in the contract, estimated at $6.0 million per year. The transition to a new provider was completed successfully and United HealthCare® is providing reliable and competitive services for plan members across the state.

ERS works to continuously improve both the provision and cost-structure of healthcare services offered, often enacting innovative, industry-leading models of care. In April 2014, ERS received national recognition from the State and Local Government Benefits Association for our Patient Centered Medical Home project, a model that improves patient care while realizing savings of $31.5 million over an initial 3-year period. Rewarding high-performing practices is a key part of the ERS management philosophy; we believe that innovative, incentive-based partnerships are a win for everyone involved, and will help the State of Texas continue offering competitive health insurance benefits to its workforce.

ERS has also committed to aggressively negotiating vendor contract terms as well as vigorously monitoring the system for fraud and abuse. The agency's Pharmacy Benefit Manager contract was recently renegotiated at a savings of $41.0 million. In fiscal year 2011 ERS began a system-wide audit of dependent eligibility, initially generating $12 million in savings through the removal of 5.3% of dependents who were ineligible for coverage. During fiscal year 2014 the audit was renewed to review all dependents added since 2011 and all new dependents moving forward will be audited for eligibility at the time their coverage is added – ensuring that potential fraud is identified and addressed before it results in a cost to the plan.

These are just a few of the ways we are daily working to reduce healthcare costs within the plans without sacrificing member service. To ensure service levels remain high, we are well into a major research project to survey current members and review innovations in the marketplace to determine the possibility of expanding, or redefining, the range of health and life insurance options we offer. Rest assured, we will always seek to identify both greater efficiencies for the program and new, more refined, options for our members while reducing the burden on Texas taxpayers. Above all, we remain keenly aware of the importance of the retirement, health, and other benefits ERS administers to the women and men who serve our state in so many important ways every day. We feel a deep responsibility to both our members, and to the taxpayers who make these benefits possible.

Thank you for your ongoing support of our efforts. We are honored to work with you in the service of the great State of Texas and look forward to continued progress and success in the coming years.

Sincerely,

ANN S. BISHOP
Executive Director

P. S. As discussed above, the reference to exceeding investment return benchmarks for a fourth consecutive year refers to the three and five-year averages not individual years.

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November 17, 2014

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Yolanda Griego
I. Craig Hester

To: The Board of Trustees and Members of the Employees Retirement System of Texas
Ladies and Gentlemen:

I am pleased to submit the Annual Financial Report of the Employees Retirement System of Texas (the System) for the year ended August 31, 2014, in compliance with TEX. GOV'T CODE ANN Sec. 2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts. This report is in compliance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB), including the financial reporting model based on GASB Statement 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Its purpose is to provide information as a basis for making management decisions, to determine compliance with legal provisions, and to determine responsible stewardship over the assets contributed by the members and the state.

The System's Finance Staff prepared this report. It has been audited by the State Auditors Office of Texas. For information regarding the scope of the audit, please see the Independent Auditors' Report in the Financial Section.

The responsibility for the accuracy, completeness, and fair presentation of the information, including all disclosures, rests with the management of the System. We believe that the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets and the reliability of financial records.

Please refer to the Management's Discussion and Analysis in the Financial Section for an overview of the financial activities of the current and prior fiscal years.

SYSTEM'S STRUCTURE AND SERVICES

For financial reporting purposes, the System is considered a Retirement System of the State of Texas. The System's financial activities will be included in the annual financial report for the State of Texas for the fiscal year ended August 31, 2014.

The Employees Retirement Plan was established in 1947 by the Texas Constitution to provide benefits for officers and employees of the state. The System administers retirement and disability annuities and death and survivor benefits for employees of the State of Texas and their beneficiaries and proportional retirement benefits for members of the Proportionate Retirement Program.

The Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Plan was established in 1979 to provide service retirement, death and disability benefits. This plan covers law enforcement officers commissioned by the Department of Public Safety, Alcoholic Beverage Commission, Parks and Wildlife Department, Texas State Board

of Pharmacy, and Texas Juvenile Justice Department. It also covers certified custodial officers employed by the Texas Department of Criminal Justice, including the Board of Pardons and Paroles.

The Judicial Retirement Plan I and Plan II were established to provide benefits for judges. Plan I was established in 1949 as a pay-as-you-go pension plan rather than a funded pension plan. Plan II was established as a new plan of actuarially funded retirement benefits for judges becoming members of the Judicial Retirement System after August 31, 1985. Although the Texas Judicial Retirement Systems are separate legal entities, the Employees Retirement System of Texas and the Texas Judicial Retirement Systems are a single accounting entity because they are governed by the same Board of Trustees (the Board) and directed by the same management.

Accountability for all fiscal and budgetary matters is the responsibility of the Board. Operating administrative expenses, including capital items, are budgeted annually. The Board must approve any subsequent increases in the budget. Budgetary control is maintained in the financial system with automated edits, and through processes and procedures for approvals, encumbrances, and reporting.

FINANCIAL CONDITION

Investment Performance

The investment portfolio closed the fiscal year with a fair value of $26.2 billion, and had a return of 14.70% for the year. The investment portfolio's total return exceeded the actuarially assumed rate of return of 8.0%. The time weighted rate of return for three and five years were 10.96% and 10.41% respectively.

The fiscal year reflected a continuation of improving market conditions, The System's management remains confident in the financial markets and maintains a long term approach to investing the System's assets. The System's management has taken steps to further diversify investments to better withstand market fluctuations such as those that have occurred during the recent economic downturn. Please refer to the Investment Section for additional information on investment policies, strategies, and safeguards.

Funding

A pension system instills confidence and trust when it has assets sufficient to meet the retirement benefit schedules of its members. For the Employees Retirement Fund (ERF), the August 31, 2014 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 77.2% for funding purposes. The average actuarial funding level for state and local public pension plans nationwide is estimated at 72% for 2013 according to a paper published in June of 2014 by the by Center for Retirement Research at Boston College. Although the ERF is in relatively good financial condition, System management would like to see the retirement plans on actuarially sound footing. The System worked with the 83rd Legislature to improve the funding status of the various benefit systems under management. Legislation effective September 1, 2013, increased state and member contributions, and modified the benefit design for new members resulting in improvements to the actuarial soundness of the Employees Retirement Plan and the LECOS retirement plan. Even with these changes unfunded liabilities continue to grow, and there is more work to be done to make these plans sound. The System's management is committed to working with the Legislature to return the retirement plans to an actuarially sound status. Additional information on funding status and progress toward achieving funding goals is presented in the Financial Section, Required Supplementary Information, and the Actuarial Section.

New statements on financial reporting for pension plans issued by the Governmental Accounting Standards Board (GASB) are being implemented in fiscal year 2014 for pension plans and fiscal year 2015 for employers. Although these new standards will not alter the underlying fundamentals, we expect that the unfunded liabilities will be much higher and the funded ratios will be lower for GASB reporting purposes. The calculations for funding purposes are not impacted and will be similar to current calculations. Municipal bond rating companies evaluate

employer liabilities and the plans that are in progress to reduce unfunded liabilities. Failure to address unfunded pension liabilities could impact municipal bond ratings for a government.

MAJOR INITIATIVES

The System continues to develop new strategies and asset classes to improve diversification and investment returns. The System continues to build out Private Equity, Private Real Estate, and Hedge Fund portfolios. With the assistance of the System's investment consultants, an extensive asset liability study was performed and a new asset allocation was approved to optimize investment return while minimizing risk. Implementing the new asset allocation is a major initiative for fiscal year 2015. The System will also be working with the Legislature on various options to help make the pension plans actuarially sound.

The System will implement more accountable practice model agreements and improve communications with regard to the coordination of Medicare benefits. The System will continue to work with the Legislature to analyze and design innovative approaches to provide a quality health care plan at a reasonable cost. The System will begin a multi-year project to modernize the insurance benefits administration system to improve efficiency and member services using current innovative technology.

The System continues to enhance performance and accountability by expanding the use of existing technological solutions such as SharePoint. These tools will be used to enhance collaboration and to make processes more efficient and systematic while improving audit trails and documentation. Enhancing agency-wide risk management activities will also be a point of emphasis for the upcoming year.

AWARDS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the System for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2013. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. The System has received a Certificate of Achievement for each of the last 25 years. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis was accomplished with the efficient and dedicated service of the Finance staff and other employees of the System. I would like to express my appreciation for management's support in preparing this report and to all the employees of the System who contributed to its preparation.

MICHAEL C. WHEELER, CPA
Chief Financial Officer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees Retirement System of Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

August 31, 2013

Executive Director/CEO

Organizational Chart and Data

As of August 31, 2014

Consultants and Advisors

As of August 31, 2014

Consulting Actuaries

Philip S. Dial, F.S.A
Rudd and Wisdom, Inc.
Ryan Falls, F.S.A., FCA, EA, MAAA
Gabriel, Roeder, Smith & Company
Joseph Newton, F.S.A., FCA, EA, MAAA
Gabriel, Roeder, Smith & Company

Investment Advisory Committee

Lenore Sullivan, Chair
James Hille, CFA, CAIA, Vice Chair
Texas Christian University Endowment
Bob Alley, CFA
Caroline Cooley
CIO-Diversified Funds, Crestline Investors., Inc.
Monty Jones
Managing Partner, FCM Investments
Ken D. Mindell
Senior Vice-President, Rosewood Management Corp.
Laura T. Starks, Ph.D.
The University of Texas at Austin
Vernon D. Torgerson, Jr., CFA
Chair, Frost National Bank of San Antonio

Investment Consultants

Albourne Partners
Altius Associates
Hewitt Ennis Knupp & Associates
RV Kuhns & Associates

External Investment Advisors

Domestic Equity

Barrow, Hanley, Mewhinney & Strauss, LLC

International Equity

Baring Asset Mangement
Fisher Investment Institutional Group
Franklin Templeton Institutional
JP Morgan Asset Management
Lazard Asset Management

Managers of Emerging Managers

Leading Edge Investment Advisors, LLC
Legato Capital Management, LLC

Real Estate

Center Square Investment Management

Fixed Income

Fountain Capital Management, LLC

Global Custodian

BNY Mellon Asset Servicing

Medical Board

Marvin R. Cressman, M.D.
John A. Genung, M.D.
William E. McCarron, M.D.
William M. Loving, M.D.

Summary of Plan Provisions

Effective since September 1, 2009

The Employees Retirement System of Texas was created by the Texas Legislature in 1947 and is administered in accordance with the Texas Constitution. The System provides a retirement and disability pension system for State employees, law enforcement and custodial officers, elected state officials and two classes of judges. The System administers the trust funds, with a fiduciary obligation to the members and retirees of the System who are its beneficiaries.

The retirement programs complement the Social Security and Medicare programs by providing a retirement annuity with service, disability and survivorship benefits. The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS I) and Judicial Retirement System of Texas Plan Two (JRS II) are single employer defined benefit pension plans.

For a complete description of the provision of the law that describes the Retirement Plans, see Vernon's Texas Statutes and Codes Annotated (V.T.S.C.A.), Texas Government Code, Title 8. The following is a summary of the various plan provisions.

ERS	LECOS	JRS I and JRS II
Membership:		
Employee Class Only: • Employees and appointed officers of every department, commission, board, agency, or institution of the State except those who are included in the coverage of Teacher Retirement System of Texas, JRS I, and JRS II. *Elected Class Only:* • Persons who hold State offices that are normally filled by statewide election and that are not included in the coverage of JRS I and JRS II. • Members of the Legislature. • District and criminal district attorneys.	• Law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the office of inspector general at the Texas Juvenile Justice Department recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education. • Custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent planned contact with inmates of that institution.	*JRS I Only:* • Judges, justices and commissioners of the Supreme Court, the court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service before September 1, 1985. *JRS II Only:* • Judges, justices and commissioners of the Supreme Court, the court of Criminal Appeals, the court of Appeals, District Courts, and certain commissions to a court who commenced service after August 31, 1985.
Service Retirement Eligibility:		
Employee Class Only: Hire date prior to 9-1-2009: • Age 60 with at least five years of service credit, or • The sum of age and years of service credit equals or exceeds the number 80 with at least five years of service credit, or • Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. Hire date on or after 9-1-2009 and prior to 9-1-2014: • Age 65 with 10 years of service • Rule-of-80, with at least 10 years of service at age 60. (no reduction) Hire date on or after 9-1-2014: • Age 65 with 10 years of service. • Rule-of-80, with at least 10 years of service at age 62. (no reduction) *Elected Class Only:* • Age 60 with eight years of service credit • Age 50 with 12 years of service credit.	Hire date prior to 9-1-2009: • 20 years of service credit as a certified peace officer/custodial officer and the member's age is the earlier of either the age of 50 or the age at which the sum of age ad years of service credit equals or exceeds the number 80. Hire date on or after 9-1-2009 and prior to 9-1-2014: • 20 years of service credit as a certified pease officer/custodial officer at or over age 55. (no reduction) Hire date on or after 9-1-2014: • 20 years of service credit as a certified peace officer/custodial officer at or over age 57. (no reduction)	• Age 65 with at least 10 years of service credit and currently holding a judicial office, or • Age 65 with at least 12 years of service credit, regardless of whether the member currently holds a judicial office, or • 20 years of service at any age, regardless of whether the member currently holds a judicial office, or • The sum of age and years of service credit equals or exceeds the number 70 and served at least 12 years on an appellate court, regardless of whether the member currently holds a judicial office.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II
Early service retirement eligibility with reduced benefits:		
Hire date on or after 9-1-2009 and prior to 9-1-2014: • Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 60, up to 25%) Hire date on or after 9-1-2014: • Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 62, no cap)	Hire date prior to 09-01-2009: • 20 years of service credit as a certified peace officer/custodial officer, under the age of 50. Hire date on or after 9-1-2009 and prior to 9-1-2014: • 20 years of service credit as a certified peace officer/custodial officer (5% annuity reduction for each year retired under age 55, up to 25%) Hire date on or after 9-1-2014: • 20 years of service credit as a certified peace officer/custodial officer (5% annuity reduction for each year retired under age 57,no cap). Additional actuarial reduction for those that retire prior to age 50.	• Age 60 with 10 years of service credit and currently holding judicial office, or • Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.
Standard Service Retirement Benefits:		
Employee Class Only: • Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit. • Average monthly compensation is the average of the highest 36 months of compensation. The average monthly compensation for those hired on or after 9-1-2009 is the average of the highest 48 months of compensation. The average monthly compensation for those hired on or after 9-1-2014 is the average of the highest 60 months of compensation. • Minimum standard annuity is $150 per month. • Maximum standard annuity is 100% of the average monthly compensation. *Elected Class Only:* • Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit. • Retirement benefits are automatically adjusted should State judicial salaries change. • Maximum standard annuity is 100% of the State salary being paid to a district judge.	• Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit. • Average monthly compensation is the average of the highest 36 months of compensation. . The average monthly compensation for those hired on or after 9-1-2009 is the average of the highest 48 months of compensation. The average monthly compensation for those hired on or after 9-1-2014 is the average of the highest 60 months of compensation. • Minimum standard annuity is $150 per month. • Maximum standard annuity is 100% of the average monthly compensation.	• Monthly annuity is equal to 50% of the salary for the last position from which the retiring member was elected or appointed. • An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge. • The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%. *JRS II Only:* • The monthly annuity of a member who elects to make contributions after reaching the Rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II
Optional Service Retirement:		
Employee Class and Elected Class: • Lifetime with 100% to surviving beneficiary; • Lifetime with 75% to surviving beneficiary; • Lifetime with 50% to surviving beneficiary; • Lifetime with five years certain; • Lifetime with 10 years certain; and • One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is in addition to the calculation of the six beneficiary options listed above). • If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard annuity.	• Same as ERS.	• Same as ERS except for the one-time partial lump sum.
Vesting requirement:		
Hire date prior to 09-01-2009: • Five or more years of service credit for Employee Class. Hire date on or after 09-01-2009 and prior to 9-1-2014: • 10 or more years of service credit for Employee Class. Hire date on or after 09-01-2014: • 10 or more years of service credit for Employee Class. Elected Class Only: • Eight or more years of service credit.	• 20 or more years of service credit as a certified peace officer/ custodial officer.	• 12 or more years of service credit.
Vested Benefits after Termination of Employment:		
• Member is entitled to a deferred retirement benefit based on service and compensation prior to termination. • Member must leave accumulated contributions in the System to which the member contributed. • Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.	• Member is entitled to a deferred retirement benefit based on certified peace officer/custodial officer service and the highest average monthly compensation prior to termination. • Member must leave accumulated contributions in the System to which the member contributed. • Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.	• Member is entitled to a deferred retirement benefit based on service and compensation as a judge prior to termination. • Member must leave accumulated contributions in the System and to which the member contributed. • Upon or after leaving State judicial employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II
Disability Retirement Eligibility:		
Employee Class Only: • For occupational disability, the member must have at least one month of service and they must make a retirement contribution in the month they become permanently disabled. • For non-occupational disability, at least 10 years of Employee Class service credit, which may include up to five years of purchased military service credit, and be a contributing member at the time of permanent disability. *Elected Class Only:* • For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability. • For non-occupational disability, eight years of Elected Class service (exclusive of military service) or six years of Elected Class service plus two years of military service if purchased before January 1, 1978, and be a contributing member at the time of permanent disability.	• For occupational disability, the member must have at least one month of service and they must make a retirement contribution in the month they become permanently disabled. • For non-occupational disability, at least 10 years of service credit, which may include up to five years of purchased military service credit, and also one must be a contributing member at the time of permanent disability.	• No age requirement. • Seven years of judicial service and currently holding a judicial office.
Disability Retirement Benefits:		
Employee Class Only: • For occupational disability, the benefits are the same as those under the standard service retirement, except the standard annuity is equal to not less than 35% of the monthly compensation regardless of the years of service credit or age. • For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. • The optional annuity plans available are the same as those under a service retirement except there is no partial lump-sum option. *Elected Class Only:* • The disability retirement is calculated in the same manner as the standard retirement annuity, and is not reduced because of age. • For occupational disability the For occupational disability, the amount of a monthly annuity is 18.4% of the state salary of a district judge or 2.3% of the state salary of a district judge times your years of elected service, whichever is greater. • Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.	• For occupational disability, the standard annuity is a minimum of 50% of the monthly compensation regardless of the years of service credit or age. • The standard annuity is increased to 100% of the monthly compensation if the retired member can prove that their occupational disability makes them incapable of substantial gainful activity solely because of the occupational disability and they are considered total disabled under federal social security law due to the same condition that qualified them for occupational benefits. • For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. • The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.	• Same as standard service retirement benefits without reduction for age.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II
Death Benefits:		
Employee Class and Elected Class: • A contributing member with a minimum of 10 years of service credit, or less than 10 years of service credit but eligible to retire may select a death benefit plan or the designated beneficiary can elect either a lifetime monthly payment, 10 years guaranteed monthly payment or a one-time refund of the members retirement account balance at the time of the members death. • A contributing member that had less than 10 years of service or the designated beneficiary of the active account will receive a one-time refund of the member's retirement account balance at the time of the member's death. If the member is contributing at the time of death, the beneficiary(ies) may be eligible for an Additional Death Benefit (ADB). This is an additional 5% of the member's retirement account balance for each full year of state service. The maximum is 100% of the member's retirement account balance. This option is not available if the beneficiary elects a lifetime or 10-year guaranteed monthly payment. • If an active state employee dies and the death is determined to be an occupational death, the surviving spouse or minor children is eligible for a one-time death benefit equal to one year's salary. If there is not a surviving spouse or minor children, this occupational death benefit is not payable to anyone else. • If a member selected a standard annuity and dies after retiring from the state , the designated beneficiary will receive a one-time refund of the member's retirement account balance if there is any money left in the account. • If a member selected an optional service retirement, and dies the beneficiary will receive a monthly payment for the beneficiaries based on the option chosen. • If retired, the designated beneficiary is eligible for a one-time Retiree Lump Sum Death Benefit in the amount of $5,000.	• Members with 20 or more years of certified peace officer/custodial officer service, the death benefits are the same as the Employee Class. • Members with less than 20 years of certified peace officer/custodial officer service, the death benefits are the same as the Employee Class. • Members with at least 20 years of certified peace officer/custodial officer service, under age of 50 at the time of death, the designated beneficiary is eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. Due to the age of the member and the beneficiary at the time of death, the beneficiary option amounts will be subjected to an age reduction factor.	A member with at least 10 years of service credit: • may select one or more persons to receive a death benefit plan. The designated beneficiary may receive either a lifetime monthly payment or a 10-year guaranteed monthly payment. A member with less than 10 years of service credit: • The beneficiary is not eligible for a death benefit plan. The beneficiary is eligible for a one-time refund payment of your retirement account balance. • If members is retired, the designated beneficiary(ies) is eligible for a one-time Retiree Lump Sum Death Benefit. In the amount of $5000. This payment is paid by the State of Texas and is not a part of retirement or life insurance.

Summary of Plan Provisions (Concluded)

Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II
Death Benefits (Continued):		
Elected Class Only: • For members with less than 8 years of service credit at the time of death, the designated beneficiary will receive a one-time refund of the member's retirement account balance. If contributing: The beneficiary is also eligible for a refund of the member's retirement account balance plus an additional 5% of the member's retirement account balance for each full year of state service. • For a contributing member with at least 8 years of service credit and is age 60 or above, at the time of death, the surviving spouse is eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. If there is no surviving spouse, the surviving minor children are eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. If the surviving spouse/minor child selects the one-time refund, they are eligible for the additional 5% of the member's retirement account balance for each full year of state service. This option is not available if they select a monthly payment. If there is no surviving spouse/minor child, the beneficiary is eligible for a refund of the member's retirement account balance plus an additional 5% of the member's retirement account balance for each full year of state service only. • A contributing or non-contributing member with at least 8 years of state service but less than 10 years of state service, the surviving spouse is eligible to receive a monthly payment that is one-half of the monthly standard annuity the member would have received at age 60. This annuity cannot be paid if there is no surviving spouse. The beneficiary would then eligible for a refund of the member's retirement account balance plus an additional 5% of the member's retirement account balance for each full year of state service if the member was contributing to state service at the time of death. • If a member is retired, the designated beneficiary(ies) is eligible for a one-time Retiree Lump Sum Death Benefit. This payment is paid by the State of Texas and is not a part of retirement or life insurance.		

FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Other Supplementary Information

State Auditor's Office
John Keel, CPA
State Auditor

Independent Auditor's Report

Employees Retirement System Board of Trustees
Mr. Brian D. Ragland, Chair
Mr. Frederick E. Rowe, Jr., Vice-Chair
Mr. Doug Danzeiser
Ms. Cydney Donnell
Ms. Yolanda Griego
Mr. I. Craig Hester

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of the Employees Retirement System (System), a component unit of the State of Texas, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

SAO Report No. 15-303

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the System, a component unit of the State of Texas, as of August 31, 2014, and 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.

Emphasis of Matters

Investments with Values that are not Readily Determined

As discussed in Note 2, the financial statements include investments valued at approximately $5,309,620,144 as of August 31, 2014, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

Agency Financial Statements

As discussed in Note 1, the financial statements of the System, a component unit of the State of Texas, are intended to present the financial position of the governmental activities and the aggregate remaining fund information of the State of Texas that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of Governmental Accounting Standards Board Statement 67

As discussed in Note 3, the System adopted the provisions of Governmental Accounting Standards Board Statement 67 *Financial Reporting for Pension Plans*, in fiscal year 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans, Schedule of Funding Progress – Defined Benefit Plans, Schedule of Employer Contributions – Defined Benefit Plans, Schedule of Contributions from

the Employers and Other Contributing Entities, Schedule of Investment Returns – Defined Benefit Plans, and Notes to the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's financial statements. The information in the combining financial schedules and supporting schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The information in the combining financial schedule and supporting schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial schedules and supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory, Investment, Actuarial, and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

John Keel, CPA
State Auditor

November 17, 2014

We are pleased to provide this overview of the financial activities of the Employees Retirement System of Texas (the System) for the year ended August 31, 2014. Please read it in conjunction with the Basic Financial Statements, which begin after this discussion.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The Financial Section includes the following exhibits in the Basic Financial Statements Section.

- Exhibits I and II are the government-wide statements of governmental net position and activities. These exhibits exclude the Fiduciary Fund activities and balances.
- Exhibits III and IV are Special Revenue Funds statements for four of the programs presented in the government-wide statements.
- Exhibits V and VI are the Statement of Net Position and the Statement of Changes in Net Position for the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Program). Highlights are presented under the heading Financial Analysis on Government-wide Statements below.
- Exhibit VII is a required Statement of Cash Flows for the Group Benefits Program, which is an Internal Service Fund. This statement reports the transactions for the year on a cash basis. It is similar to Exhibit VI, the Statement of Changes in Net Position, except that the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.
- Exhibits VIII and IX, the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position, report activities of the defined benefit plans, including the retiree insurance plan. These exhibits also report the cafeteria plan and other deferred compensation plans.

Financial Analysis on Government-wide Statements

The government-wide activities of the System are comprised of five programs:

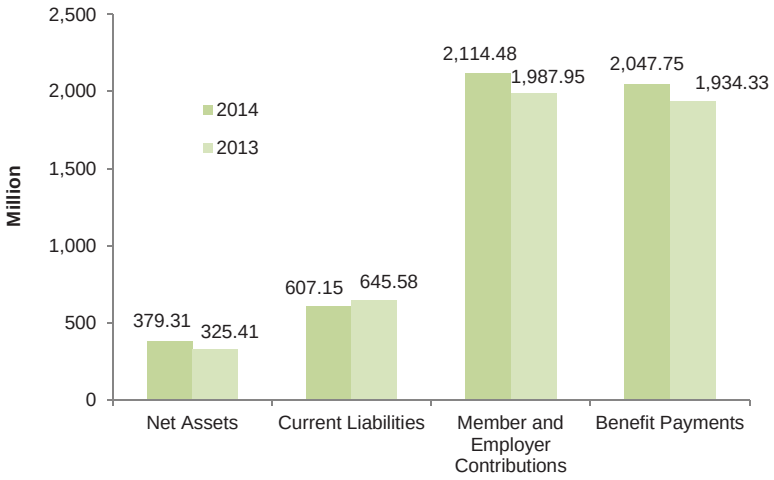
- Social Security Administration,
- Death Benefits for Public Safety Officers,
- Compensation to Victims of Crime,
- Death Benefits for Retirees, and
- Group Benefits Program.

The Group Benefits Program in Exhibits I and II had significant changes from the prior year. Exhibits V and VI provide additional information on the Group Benefits Program. The changes in the program are summarized in millions as follows:

	2014	2013	Changes
	$	$	%
Net Position	379.31	325.41	16.56
Current Liabilities	607.15	645.58	(5.95)
Member and Employer Contributions	2,114.48	1,987.95	6.36
Benefit Payments	2,047.75	1,934.33	5.86

The increase in Net Position resulted from rate increases and health care cost trend actuals that were less than expected.

Summary of Changes in Group Benefits Program



Financial Highlights – Fiduciary Funds

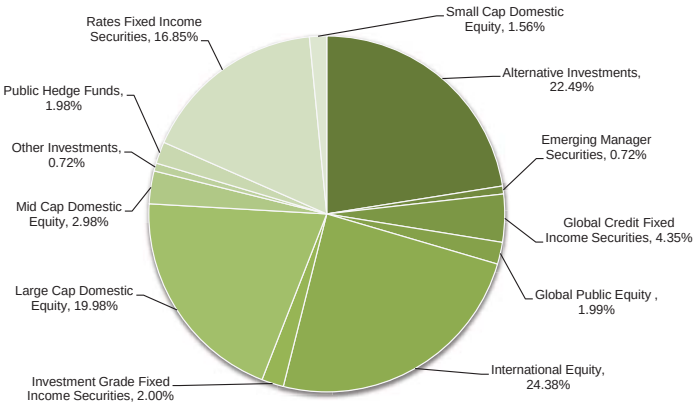
- Net position of the Fiduciary Funds administered by the System totaled $26.29 billion as of August 31, 2014, compared with $23.98 billion as of August 31, 2013. The investment portfolio returned 14.70% for the year. The $2.31 billion increase resulted primarily from favorable market conditions affecting investment assets. The time weighted rate of return for three and five years were 10.96% and 10.41% respectively.
- The one year money-weighted rates of return for the Fiduciary Funds are summarized as follows:

Fund Name	Rate (%)
Employees Retirement System Fund	14.58
Law Enforcement and Custodial Officer Supplemental Retirement Fund	14.55
Judicial Retirement System Plan Two Fund	14.55
Overall	**14.58**

- The System's management has confidence in the financial markets and maintains a long term approach to investing the System's assets. The System's investments are highly diversified and are designed to withstand market fluctuations. The fiscal year-end asset allocation stood at:

Asset Class	%
Alternative Investments	22.49
Emerging Manager Securities	0.72
Global Credit Fixed Income Securities	4.35
Global Public Equity	1.99
International Equity	24.38
Investment Grade Fixed Income Securities	2.00
Large Cap Domestic Equity	19.98
Mid Cap Domestic Equity	2.98
Other Investments	0.72
Public Hedge Funds	1.98
Rates Fixed Income Securities	16.85
Small Cap Domestic Equity	1.56

Asset Allocation



For additional details, please see the *Report on Investment Activity* in the Investment Section.

- Changes in contributions and benefit payments in the Defined Benefit Plans are summarized in millions as follows:

	2014	2013	Changes
	$	$	%
Contributions:			
Retirement & Other	1,074.15	922.54	16.43
Insurance	824.15	727.79	13.24
Total (Exh. IX)	**1,898.30**	**1,650.33**	**15.03**
Benefit Payments:			
Retirement & Other	2,145.26	2,003.05	7.10
Insurance	813.82	724.38	12.35
Total (Exh. IX)	**2,959.08**	**2,727.43**	**8.49**

- The increase in retirement contributions is primarily due to a legislative rate increase. The benefit payments for retirement increased due to an increase in retirees. The most recent actuarial valuations of the funded defined benefit plans were completed as of August 31, 2014. The funded ratios are as follows:

	Funded Ratios	
Plans	**2014**	**2013**
	%	%
Employees Retirement System	77.2	77.4
Law Enforcement and Custodial Officer Supplemental Retirement Fund	73.2	70.4
Judicial Retirement System of Texas Plan Two	90.2	88.6

See Exhibits VIII and IX for more information regarding each of the defined benefit plans and the deferred compensation and cafeteria plans.

Fiduciary Net Position

The amount of changes in fiduciary net position (in millions) were as follows:

	2014	2013	Changes
	$	$	%
Changes in Fiduciary Net Position (Exh. IX)	2,319.82	1,098.91	111.10
Total Net Position	26,295.20	23,975.38	9.68

The increase in changes in Fiduciary Net Position is due primarily to conditions in the financial markets. The portfolio return was 14.70%, which was better than the previous year return of 10.07%.

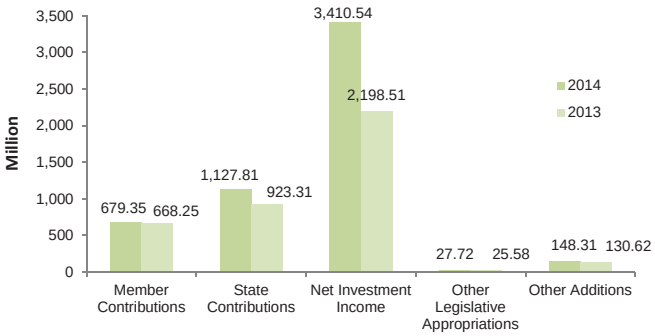
Additions

Retirement benefits are financed through the collection of member and State retirement contributions, investment income, legislative appropriations, and contributions transferred from the Teacher Retirement System. Additions in Fiduciary Net Position have been extracted from Exhibit IX, Statement of Changes in Fiduciary Net Position. The additions in millions were as follows:

	2014	2013	Changes
	$	$	%
Member Contributions	679.35	668.25	1.66
State Contributions	1,127.81	923.31	22.15
Net Investment Income	3,410.54	2,198.51	55.13
Legislative Appropriations	27.72	25.58	8.37
Other Additions	148.31	130.62	13.54
Total Additions (Exh. IX)	**5,393.73**	**3,946.27**	**36.68**

Increases in the above tables are due primarily to more favorable conditions in the financial markets compared to the previous year, and legislative increases to state contribution rates for the pension systems. Also, the number of active members in the pension systems increased in fiscal year 2014.

Summary of Changes in Additions



For the Employees Retirement Fund, member and State retirement contribution rates for fiscal year 2014 were 6.6% and 8.00% respectively. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), both the State and member contributed 0.5% of the covered payroll. For the Judicial Retirement Plan II Fund, member and State retirement contribution rates were 6.6 % and 15.663% respectively.

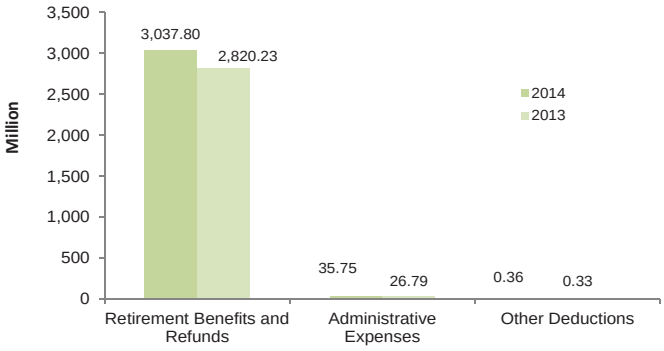
Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation or depreciation in fair value of investments, and is net of investment expenses.

Deductions

Benefit payments are the primary expense of a retirement system. Total deductions are comprised of benefit payments, refunds of contributions to members or beneficiaries for reasons of separation from service or death, other death benefit payments, contributions transferred to the Teacher Retirement System, and the cost of administering the System. Deductions in Net Position have been extracted from Exhibit IX, Combined Statement of Changes in Fiduciary Net Position. Changes in deductions are summarized in millions as follows:

	2014	2013	Changes
	$	$	%
Benefits	3,037.80	2,820.23	7.71
Administrative	35.75	26.79	33.45
Other Deductions	0.36	0.33	9.09
Total Deductions (Exh. IX)	**3,073.91**	**2,847.35**	**7.96**

Summary of Changes in Deductions



Assets

Investments, both short-term and long-term, are the primary asset of the System's pension and other employee benefit trust funds as shown in the following table. Asset information has been extracted from Exhibit VIII. Changes in assets are summarized in millions as follows:

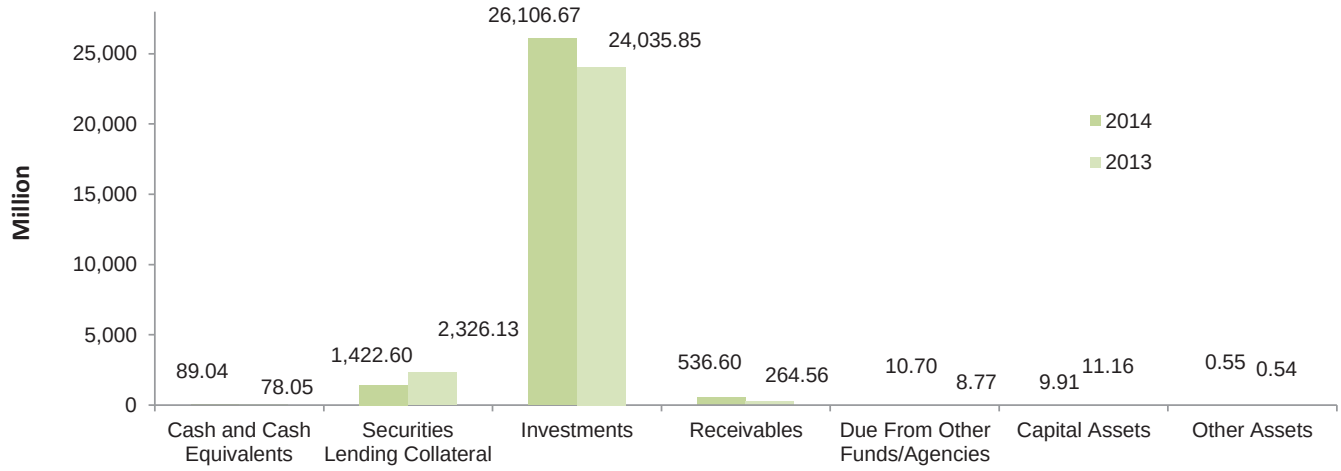
	2014	2013	Changes
	$	$	%
Cash and Cash Equivalents	89.04	78.05	14.08
Securities Lending Collateral	1,422.60	2,326.13	(38.84)
Investments	26,106.67	24,035.85	8.62
Receivables	536.60	264.56	102.83
Due from Other Funds/ Agencies	10.70	8.77	22.01
Capital Assets	9.91	11.16	(11.20)
Other Assets	0.55	0.54	1.85
Total Assets (Exh VIII)	**28,176.07**	**26,725.06**	**5.43**

Liabilities

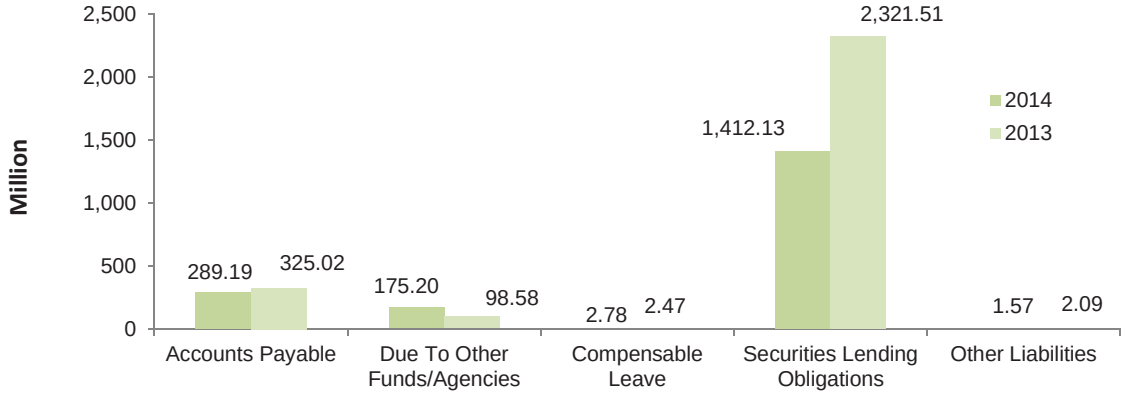
The condensed liabilities have been extracted from Exhibit VIII, Statement of Fiduciary Net Position. Changes in liabilities are summarized in millions as follows:

	2014	2013	Changes
	$	$	%
Accounts Payable	289.19	325.02	(11.02)
Due to Other Funds/Agencies	175.20	98.58	77.72
Compensable Leave	2.78	2.47	12.55
Securities Lending Obligations	1,412.13	2,321.51	(39.17)
Other Liabilities	1.57	2.09	(24.88)
Total Liabilities (Exh.VIII)	**1,880.87**	**2,749.67**	**(31.60)**

Summary of Changes in Assets



Summary of Changes in Liabilities



Funding Status and Progress

Assets derived from investment asset appreciation and pension contributions in excess of pension benefit payments are accumulated by the System in order to meet future pension benefit obligations. Soundness in the funding of the System is sought through maintaining suitable reserves in the retirement annuity reserve account and the employee savings and state accumulation reserve accounts.

For funding purposes, the latest annual actuarial valuation of the System, as of August 31, 2014, (compared to the August 31, 2013 actuarial valuation) is summarized in millions as follows:

	Actuarial Net Asset/ (Liability)	
Plans	**2014**	**2013**
	$	$
Employees Retirement System	(7,492.8)	(7,218.4)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(323.2)	(354.1)
Judicial Retirement System of Texas Plan Two	(37.9)	(41.0)

For the Employees Retirement System Fund, the August 31, 2014 actuarial valuation shows an unfunded accrued liability of $7.5 billion. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 77.2% as of August 31, 2014. The valuation shows that the total normal cost is 11.58% of payroll and total contributions are 14.90% of payroll. The total contribution rate exceeds the normal cost by 3.32% of payroll, but it is not sufficient to ever amortize the unfunded accrued liability. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized. The total contribution to fund the normal cost plus amortize the net liability balance over 31 years is 18.76% of payroll. The actuarial net liability will need to be met over the coming years through improved investment performance, increased contributions, or plan design changes.

The August 31, 2014 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2014 is 1.77% of payroll. At August 31, 2014, the unfunded accrued liability is $323.2 million, and the funded ratio is 73.2%. Total contributions are 2.2% of payroll. The total contribution rate exceeds the normal cost by 0.43% of payroll for the current fiscal year, but it is not sufficient to ever amortize the unfunded accrued liability. As a result, the amortization period is currently infinite and the funding objective is not currently being realized. For fiscal year 2014, the total contribution rate to fund the normal cost plus amortize the net liability balance over 31 years as a level percentage of payroll is 2.96% of payroll.

For the Judicial Retirement System of Texas Plan II, the August 31, 2014 actuarial valuation shows that the total normal cost is 21.03% of payroll and unfunded accrued liability is $37.9 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 90.2% as of August 31, 2014. Total contributions are 22.53% of payroll. The total contribution rate exceeds the normal cost by 1.5% but it is not sufficient to ever amortize the unfunded accrued liability. The rate needed to fund normal cost plus amortize the unfunded accrued liability over 31 years is 23.86%. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized.

The Judicial Retirement Plan I is funded on a pay-as-you-go basis. The August 31, 2014 actuarial valuation shows an unfunded accrued liability of $332.2 million and a funded ratio of 0.0%.

The State Retiree Health Plan is currently funded on a pay-as-you-go basis. For the State Retiree Health Plan, the August 31, 2014 actuarial valuation shows an unfunded accrued liability of $24.7 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 9.0% of payroll. The Annual Sound Contribution (ASC) as of August 31, 2014 is 18.8% of payroll. Total contributions are 32.5% of the actuarially sound contribution.

Contributions include health care premiums, State and member contributions, retiree drug subsidy payments, and early retirees reinsurance payments. Retiree premiums were $155.3 million. Employer contributions were $605.5 million. The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled ERS to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by ERS on behalf of certain plan participants. The plan received payments in 2014 totaling $63.4 million. The above amounts plus net investment income of $255.9 thousand resulted in additions of $824.4 million. These were offset entirely by $813.8 million in benefit payments and $10.6 million in administrative expense. The net plan assets are zero.

Contacting the System's Financial Management

This financial report is designed to provide a general overview of the System's finances. If you have questions about this report or need additional financial information, please contact Michael C. Wheeler, Chief Financial Officer at Mike.Wheeler@ers.state.tx.us.

Exhibit I
Statement of Net Position
August 31, 2014

	Governmental Activities
Assets	
Current Assets:	$
Cash and Cash Equivalents:	
Cash in State Treasury	21,056,955
Total Cash and Cash Equivalents	21,056,955
Securities Lending Collateral	31,805,838
Short-Term Investments	262,108,294
Legislative Appropriations	6,624
Receivables	143,668,376
Due From Fiduciary Funds	173,033,701
Due From Other Agencies	98,738
Total Current Assets	631,778,526
Non-Current Assets:	
Global Credit Fixed Income Component	23,366,137
Rates Fixed Income Component	331,357,684
Total Non-Current Assets	354,723,821
Total Assets	**986,502,347**
Liabilities	
Current Liabilities:	
Payables	571,342,289
Due To Fiduciary Funds	3,201,796
Unearned Revenue	599,440
Obligations Under Securities Lending	32,043,128
Total Current Liabilities	607,186,653
Total Liabilities	**607,186,653**
Net Position	
Restricted For:	
Employee Benefits - Group Benefits Program	379,310,533
Unrestricted	5,161
Total Net Position (Exh. II & III)	**379,315,694**

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit II
Statement of Activities
Year Ended August 31, 2014

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Functions/Programs	$	$	$	$
Governmental Activities:				
Social Security Administration	156,587	70,452		(86,135)
Death Benefits-Peace Officers, Firemen, etc	5,737,933	5,737,933		-
Compensation to Victims of Crime	1,625,000	1,625,000		-
Death Benefits-Retiree $5,000 Lump Sum	8,845,762	8,846,594		832
Group Benefits Program	2,072,254,401	2,114,623,548	11,529,360	**53,898,507**
Total Governmental Activities	**2,088,619,683**	**2,130,903,527**	**11,529,360**	**53,813,204**
			General Revenues:	
			Transfers	90,000
			Total General Revenues	**90,000**
			Change in Net Position (Exh. IV)	**53,903,204**
			Net Position - Beginning	**325,412,490**
			Net Position - Ending (Exh. I)	**379,315,694**

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit III

Balance Sheet – Governmental Funds

August 31, 2014

	Non-major Special Revenue Funds Totals (Note 1.E)
Assets	**$**
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	25,764
Total Cash and Cash Equivalents	25,764
Legislative Appropriations	6,624
Accounts Receivable	2,681
Due From Other Funds (Note 5.A)	5,000
Total Current Assets	40,069
Total Assets	**40,069**
Liabilities & Fund Balances	
Current Liabilities:	
Payables:	
Voucher/Accounts Payable	5,792
Due To Other Funds (Note 5.A)	28,807
Unearned Revenues	309
Total Current Liabilities	34,908
Total Liabilities	**34,908**
Fund Balances:	
Committed	5,161
Total Fund Balances (Exh. IV)	**5,161**
Total Liabilities & Fund Balances	**40,069**
Total Fund Balances - Governmental Funds (above):	5,161
Amounts reported for 'Governmental Activities' in the Statement of Net Position (Exhibit I) are different because: An Internal Service Fund is used by the System to account for the assets and liabilities associated with the Group Benefits Program for State employees and employees of certain institutions of higher education. The Net Position of the Internal Service Fund (Exhibit V) are included with 'Governmental Activities' in the Statement of Net Position.	379,310,533
Net Position of Governmental Activities (Exh. I)	**379,315,694**

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit IV

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended August 31, 2014

	Non-major Special Revenue Funds Totals (Note 1.E)
Revenues	**$**
Legislative Appropriations Out of the State's General Revenue Fund:	
Appropriation Revenue:	
For Death Benefits Peace Officers, etc.	5,737,933
For Victims of Crime	1,625,000
For Death Benefits-Retirees	8,846,594
Total Appropriation Revenue	16,209,527
Administration Fees for Social Security Administration	70,452
Total Revenues	**16,279,979**
Expenditures	
Current:	
Death Benefits	16,208,695
Administrative Expenditures:	
Salaries & Wages	104,001
Payroll Related Costs	28,912
Professional Fees & Services	4,518
Travel	1,620
Materials & Supplies	4,820
Communications & Utilities	3,511
Repairs & Maintenance	3,024
Rentals & Leases	2,317
Printing & Reproduction	195
Other Expenditures	3,669
Total Administrative Expenditures	156,587
Total Expenditures	**16,365,282**
Deficiency of Revenues Under Expenditures	**(85,303)**
Other Finance Sources	
Transfers In-Retirement Membership Fees (Note 5.B)	90,000
Excess of Revenues Over Expenditures and Other Finance Sources	**4,697**
Fund Balances - Beginning	**464**
Fund Balances - Ending (Exh. III)	**5,161**
Net Change in Fund Balances - Governmental Funds:	4,697
Amounts reported for 'Governmental Activities' in the Statement of Activities (Exhibit II) are different because:	
An Internal Service Fund is used by the System to account for the revenues and expenses associated with the Group Benefits Program for State employees and employees of certain institutions of higher education.	
The net revenue (expense) of the Internal Service Fund (Exhibit VI) is included in 'Governmental Activities' in the Statement of Activities.	53,898,507
Change in Net Position of Governmental Activities (Exh. II)	**53,903,204**

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit V

Statement of Net Position – Proprietary Fund

August 31, 2014

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)
Assets	**$**
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	21,031,191
Total Cash and Cash Equivalents	21,031,191
Securities Lending Collateral	31,805,838
Short-Term Investments	262,108,294
Receivables:	
Interest Receivable	1,939,602
Accounts Receivable	141,705,078
Unsettled Sales-Investment Receivables	21,015
Total Receivables	143,665,695
Due From Other Funds (Note 5.A)	173,028,701
Due From Other Agencies (Note 5.A)	98,738
Total Current Assets	631,738,457
Non-Current Assets:	
Investments: (Note 2.A)	
Global Credit Fixed Income Component	23,366,137
Rates Fixed Income Component	331,357,684
Total Non-Current Assets	354,723,821
Total Assets	**986,462,278**
Liabilities	
Current Liabilities:	
Payables:	
Claims Payable:	
Incurred, Self-Funded	28,709,134
Incurred But Not Reported, Self-Funded	513,480,245
Total Claims Payable	542,189,379
Premiums Payable	8,647,180
Administrative and Other Fees Payable	20,372,923
Unsettled Purchases-Investment Payables	139,933
Other Payable	(12,918)
Total Payables	571,336,497
Due To Other Funds (Note 5.A) :	
Depository Interest Payable to Retiree Insurance Plan	246,602
Other Interfunds Payable	2,926,387
Total Due To Other Funds	3,172,989
Unearned Revenue	599,131
Obligations Under Securities Lending	32,043,128
Total Current Liabilities	607,151,745
Total Liabilities	**607,151,745**
Net Position	
Restricted For:	
Employee Benefits - Group Benefits Program	379,310,533
Total Net Position (Exh. VI)	**379,310,533**

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit VI

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund

Year Ended August 31, 2014

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)
Operating Revenues	**$**
Contributions to Insurance Program:	
From the State of Texas for Employees	1,631,916,213
From Members:	
For Employees	475,484,984
For COBRA	7,081,186
Total Contributions from Members	482,566,170
Total Contributions to Insurance Program	2,114,482,383
Other Operating Revenues:	
COBRA 2% Administration Fee	141,165
Warrants Voided by Statute of Limitations	5,797
Penalty Assessed to Insurance Carrier	112,600
Miscellaneous Operating Revenue	344,112
Total Other Operating Revenues	603,674
Total Operating Revenues	**2,115,086,057**
Operating Expenses	
Employee Benefit Payments:	
For Employees	2,017,585,935
For COBRA	30,163,167
Total Employee Benefit Payments	2,047,749,102
Administrative Expenses:	
Salaries & Wages	5,387,691
Payroll Related Costs	1,577,039
Professional Fees & Services	1,609,221
Travel	72,324
Materials & Supplies	479,384
Communications & Utilities	333,393
Repairs & Maintenance	281,744
Rentals & Leases	201,571
Printing & Reproduction	24,919
Other Operating Expenses	14,567,839
Total Administrative Expenses	24,535,125
Total Operating Expenses	**2,072,284,227**
Operating Income	**42,801,830**
Non-Operating Revenues (Expenses)	
Net Increase in Fair Value of Investments	1,283,550
Interest Revenue	9,559,069
Class Action Settlements	12,273
Securities Lending Activities:	
Loan Premium on Securities Lending	28,028
Less: Broker Rebates	42,141
Agent Fees	(7,005)
Net Securities Lending Activity	63,164
Settlement Revenue	183,931
Commission on Futures Contracts	(22)
Other Non-Operating Expenses	(5,288)
Total Non-Operating Revenues	**11,096,677**
Change in Net Position	**53,898,507**
Net Position - Beginning	**325,412,026**
Net Position - Ending (Exh. V)	**379,310,533**

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit VII

Statement of Cash Flows – Proprietary Fund

Year Ended August 31, 2014

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)
Cash Flows from Operating Activities:	**$**
Cash Received from Members	480,549,048
Cash Received from The State of Texas	1,558,068,044
Cash Payments to Insurance Carriers and Third Party Administrators	(2,076,341,555)
Cash Payments to Employees for Services	(6,692,098)
Cash Payments for Goods and Services	(2,702,750)
Other Cash Received	302,328
Net Cash Used by Operating Activities	**(46,816,983)**
Cash Flows from Investing Activities:	
Net Sales of Short-Term Investment Fund	21,638,365
Interest on Deposit in State Treasury	135,557
Net Cash Provided by Investing Activities	**21,773,922**
Net Decrease in Cash and Cash Equivalents	**(25,043,061)**
Cash and Cash Equivalents:	
Beginning of Year	**46,074,252**
End of Year	**21,031,191**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	**42,801,830**
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Settlement Revenue	183,931
Change in Assets and Liabilities:	
Decrease in Accounts Receivable	186,942
Increase in Due From Other Agencies	(72,000)
Increase in Due From Other Funds	(76,881,295)
Decrease in Accounts Payable	(14,961,213)
Increase in Due To Other Funds	1,978,657
Decrease in Unearned Revenue	(53,835)
Total Adjustments	**(89,618,813)**
Net Cash Used by Operating Activities	**(46,816,983)**
Non-Cash Investing Activities:	
Net Appreciation in Fair Value of Non-Cash Equivalent Investments	1,283,550

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit VIII

Statement of Fiduciary Net Position

August 31, 2014

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Assets	$	$	$	$	$
Cash and Short-Term Investments:					
Cash and Cash Equivalents:					
Cash on Hand	953,671				
Cash in Bank	23,000				
Cash in State Treasury	45,081,424	2,142,250		942,687	
Total Cash and Cash Equivalents	46,058,095	2,142,250	-	942,687	-
Securities Lending Collateral	1,355,716,234	47,142,572		19,744,390	
Short-Term Investments	357,839,839	12,423,301		5,157,169	
Total Cash and Short-Term Investments	1,759,614,168	61,708,123	-	25,844,246	-
Legislative Appropriations			305,014		
Investments: (Note 2.A)					
Domestic Equities Component	6,908,862,824	240,288,919		100,641,638	
International Securities Component	5,952,887,941	207,040,296		86,715,920	
Global Credit Fixed Income Component	1,031,897,313	35,889,190		15,031,683	
Rates Fixed Income Component	4,667,503,443	162,334,871		67,991,680	
Public Real Estate Component	638,777,877	22,216,572		9,305,099	
Alternative Investments Component	5,059,928,649	175,983,344		73,708,151	
Total Investments	24,259,858,047	843,753,192	-	353,394,171	-
Receivables:					
Federal Receivable					
Interest and Dividends Receivable	63,995,250	2,225,961		932,322	
Contributions/Accounts Receivable	71,669,646	1,248,337		1,437,007	
Unsettled Sales-Investment Receivables	331,390,246	11,525,717		4,827,295	
Total Receivables	467,055,142	15,000,015	-	7,196,624	-
Due From Other Funds (Note 5.A)	3,584,265				
Due From Other Agencies (Note 5.A)	6,845,375				
Prepaid Claims Expense					
Capital Assets:					
Non-Depreciable:					
Land and Land Improvements	874,889				
Depreciable, Net of Accumulated					
Depreciation/Amortization of $16,406,833					
Building	6,965,778				
Furniture and Equipment	357,441				
Vehicles	5,668				
Computer Software	1,708,987				
Total Capital Assets	9,912,763	-	-	-	-
Total Assets	**26,506,869,760**	**920,461,330**	**305,014**	**386,435,041**	**-**
Liabilities					
Payables:					
Voucher/Accounts Payable	19,965,883	481,966	305,014	216,113	
Unsettled Purchases-Investment Payables	85,782,702	2,983,506		1,249,600	
Total Payables	105,748,585	3,465,472	305,014	1,465,713	
Due To Other Funds (Note 5.A)	5,000	314,161		76,027	
Due To Other Agencies (Note 5.A)	1,540,855				
Unearned Revenue	953,671				
Employees Compensable Leave	2,780,715				
Obligations Under Securities Lending	1,345,724,465	46,804,046		19,603,224	
Funds Held for Others					
Total Liabilities	**1,456,753,291**	**50,583,679**	**305,014**	**21,144,964**	**-**
Net Position Restricted for Pension and Other Employee Benefits	**25,050,116,469**	**869,877,651**	**-**	**365,290,077**	**-**

USAS Funds (U/F) are:

Fund 0955: 0955, 8955; Fund 0977: 0977, 8977; Fund 0001: 2001; Fund 0993: 0993, 8993; Fund 5039: 5039;
Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 0943: 0943, 8943.
Fund 0001:1001; Fund 8070: 8070; Fund 0900: 9015; Fund 0900: 9016, Fund 0980: 0980, Fund 0980: 9014

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texa$aver 401(k) Trust Fund (0946)	Texa$aver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds	Agency Funds
$	$	$	$	$	$	$
4,572	958,243			83	958,326	
	23,000	5,485,814	2,588,158	414,461	8,511,433	
15,410,211	63,576,572	2,498,639	1,324,013	12,168,469	79,567,693	2,395
15,414,783	64,557,815	7,984,453	3,912,171	12,583,013	89,037,452	2,395
	1,422,603,196				1,422,603,196	
274,247,456	649,667,765				649,667,765	
289,662,239	2,136,828,776	7,984,453	3,912,171	12,583,013	2,161,308,413	2,395
	305,014				305,014	
	7,249,793,381				7,249,793,381	
	6,246,644,157				6,246,644,157	
	1,082,818,186				1,082,818,186	
	4,897,829,994				4,897,829,994	
	670,299,548				670,299,548	
	5,309,620,144				5,309,620,144	
-	25,457,005,410	-	-	-	25,457,005,410	-
29,280,913	29,280,913				29,280,913	
2,476	67,156,009	715	379	3,469	67,160,572	
11,911,761	86,266,751	35,971	35,024	6,076,220	92,413,966	5,550
	347,743,258				347,743,258	
41,195,150	530,446,931	36,686	35,403	6,079,689	536,598,709	5,550
246,602	3,830,867			208	3,831,075	
	6,845,375			17,252	6,862,627	
				250,000	250,000	
	874,889				874,889	
	6,965,778				6,965,778	
	357,441				357,441	
	5,668				5,668	
	1,708,987				1,708,987	
-	9,912,763	-	-	-	9,912,763	-
331,103,991	**28,145,175,136**	**8,021,139**	**3,947,574**	**18,930,162**	**28,176,074,011**	**7,945**
157,456,062	178,425,038	5,485,814	2,541,475	12,717,205	199,169,532	5,550
	90,015,808				90,015,808	
157,456,062	268,440,846	5,485,814	2,541,475	12,717,205	289,185,340	5,550
173,028,993	173,424,181	81,536	44,053	113,210	173,662,980	
	1,540,855				1,540,855	
618,936	1,572,607			83	1,572,690	
	2,780,715				2,780,715	
	1,412,131,735				1,412,131,735	
						2,395
331,103,991	**1,859,890,939**	**5,567,350**	**2,585,528**	**12,830,498**	**1,880,874,315**	**7,945**
-	**26,285,284,197**	**2,453,789**	**1,362,046**	**6,099,664**	**26,295,199,696**	**-**

Exhibit IX

Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

Year Ended August 31, 2014

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)
Additions	**$**	**$**	**$**	**$**
Contributions:				
Member Contributions	430,594,896	8,179,640		5,195,122
Employer Contributions	482,329,018	27,757,980		12,210,663
Legislative Appropriations for Judges Retirement Annuities			27,715,232	
Service Contributions Transferred from Teacher Retirement System (Note 1.G)	80,163,847			
Federal Revenues				
Other Contributions - Forfeitures				
Total Contributions	**993,087,761**	**35,937,620**	**27,715,232**	**17,405,785**
Investment Income:				
From Investing Activities:				
Net Appreciation (Depreciation) in Fair Value of Investments	2,655,804,254	91,227,107		37,652,891
Interest and Dividends	621,860,019	21,405,827		8,865,068
Class Action Settlements	481,326	16,513		6,802
Total Investing Activity Income	3,278,145,599	112,649,447	-	46,524,761
Less: Investment Expense	(34,313,254)	(1,202,395)	-	(460,283)
Net Income, Investing Activities	3,243,832,345	111,447,052	-	46,064,478
From Securities Lending Activities:				
Loan Premium on Securities Lending	1,092,035	37,552		15,545
Less: Broker Rebates	8,395,216	288,898		119,591
Agent Fees	(957,392)	(32,950)		(13,641)
Total Securities Lending Expenses	7,437,824	255,948	-	105,950
Net Income, Securities Lending Activities	8,529,859	293,500	-	121,495
Net Investment Income	**3,252,362,204**	**111,740,552**	**-**	**46,185,973**
Other Additions:				
Other Revenue:				
Warrants Voided by Statute of Limitations	101,284	452		
Rental Income	37,450			
Miscellaneous Revenue	21,544			140
Administration Fees				
Total Other Revenue	**160,278**	**452**	**-**	**140**
Interfund Transfers In (Note 1.G):				
Excess Benefit Arrangement				
Interagency Transfers In (Note 5.C):				
Excess Benefit Arrangement				
Total Transfers In	-	-	-	-
Total Other Additions	**160,278**	**452**	**-**	**140**
Total Additions	**4,245,610,243**	**147,678,624**	**27,715,232**	**63,591,898**

USAS Funds (U/F) are:

Fund 0955: 0955, 8955; Fund 0977: 0977, 8977; Fund 0001: 2001; Fund 0993: 0993, 8993; Fund 5039: 5039; Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 0943: 0943, 8943.

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Excess Benefit Arrangement (5039)	State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texa$aver 401(K) Trust Fund (0946)	Texa$aver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
$	$	$	$	$	$	$
	155,275,815	599,245,473			80,108,575	679,354,048
	605,512,388	1,127,810,049				1,127,810,049
		27,715,232				27,715,232
		80,163,847				80,163,847
	63,361,490	63,361,490				63,361,490
					3,105,239	3,105,239
-	**824,149,693**	**1,898,296,091**	**-**	**-**	**83,213,814**	**1,981,509,905**
		2,784,684,252				2,784,684,252
	273,496	652,404,410	23,724	14,284	24,815	652,467,233
		504,641				504,641
-	273,496	3,437,593,303	23,724	14,284	24,815	3,437,656,126
-	(17,598)	(35,993,530)	(30,754)	(16,326)	(15,552)	(36,056,162)
-	255,898	3,401,599,773	(7,030)	(2,042)	9,263	3,401,599,964
		1,145,132				1,145,132
		8,803,705				8,803,705
		(1,003,983)				(1,003,983)
-	-	7,799,722	-	-	-	7,799,722
-	-	8,944,854	-	-	-	8,944,854
-	**255,898**	**3,410,544,627**	**(7,030)**	**(2,042)**	**9,263**	**3,410,544,818**
		101,736				101,736
		37,450				37,450
		21,684		181	112,632	134,497
			398,006	507,251		905,257
-	**-**	**160,870**	**398,006**	**507,432**	**112,632**	**1,178,940**
190,797		190,797				190,797
302,155		302,155				302,155
492,952	-	492,952	-	-	-	492,952
492,952	**-**	**653,822**	**398,006**	**507,432**	**112,632**	**1,671,892**
492,952	**824,405,591**	**5,309,494,540**	**390,976**	**505,390**	**83,335,709**	**5,393,726,615**

- to next page

Exhibit IX (Concluded)

Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

Year Ended August 31, 2014

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)
Deductions	**$**	**$**	**$**	**$**
Benefits:				
Benefits	1,919,306,296	55,227,807	27,715,232	16,166,196
Refunds of Contributions	106,809,179	1,919,350		253,521
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	17,440,313			
Total Benefits	**2,043,555,788**	**57,147,157**	**27,715,232**	**16,419,717**
Administrative Expenses:				
Salaries & Wages	9,274,054	782,566		153,362
Payroll Related Costs	2,725,207	244,740		47,052
Professional Fees & Services	3,186,237	68,192		14,555
Travel	76,391	3,734		792
Materials & Supplies	950,288	65,349		15,224
Communications & Utilities	477,283	41,538		8,187
Repairs & Maintenance	538,980	41,126		9,127
Rentals & Leases	429,214	30,101		6,179
Printing & Reproduction	34,417	2,454		541
Depreciation	959,064			
Amortization	514,472			
Interest Expense				
Other Operating Expenses	1,029,381	43,702		11,827
Total Administrative Expenses	**20,194,988**	**1,323,502**	**-**	**266,846**
Other Deductions:				
Loss on Sale of Capital Assets	4,212			
Interfund Transfers Out (Note 5.B):				
Membership Fees	90,000			
Excess Benefit Arrangement	190,797			
Interagency Transfers Out (Note 5.C):				
Excess Benefit Arrangement				
Total Transfers Out	280,797	-	-	-
Total Other Deductions	**285,009**	**-**	**-**	**-**
Total Deductions	**2,064,035,785**	**58,470,659**	**27,715,232**	**16,686,563**
Net Increase/(Decrease)	**2,181,574,458**	**89,207,965**	**-**	**46,905,335**
Net Position Restricted for Pension and Other Employee Benefits:				
Beginning of Year	**22,868,542,011**	**780,669,686**	**-**	**318,384,742**
End of Year (Exh. VIII)	**25,050,116,469**	**869,877,651**	**-**	**365,290,077**

Excess Benefit Arrangement (5039)	State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texa$aver 401(K) Trust Fund (0946)	Texa$aver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
$	$	$	$	$	$	$
421,712	813,823,181	2,832,660,424			78,719,977	2,911,380,401
		108,982,050				108,982,050
		17,440,313				17,440,313
421,712	**813,823,181**	**2,959,082,787**	**-**	**-**	**78,719,977**	**3,037,802,764**
	2,162,246	12,372,228	368,756	214,778	291,596	13,247,358
	632,897	3,649,896	105,899	61,487	85,735	3,903,017
	631,049	3,900,033	35,497	13,360	40,321	3,989,211
	29,102	110,019	6,495	3,558	3,012	123,084
	192,150	1,223,011	19,880	10,733	22,590	1,276,214
	134,146	661,154	8,441	4,685	9,700	683,980
	113,454	702,687	10,980	6,134	10,567	730,368
	81,080	546,574	7,684	4,528	9,373	568,159
	10,009	47,421	1,969	1,006	1,925	52,321
		959,064				959,064
		514,472				514,472
					237	237
	6,596,277	7,681,187	24,611	13,996	1,984,986	9,704,780
-	**10,582,410**	**32,367,746**	**590,212**	**334,265**	**2,460,042**	**35,752,265**
		4,212				4,212
		90,000				90,000
		190,797				190,797
71,240		71,240				71,240
71,240	-	352,037	-	-	-	352,037
71,240	**-**	**356,249**	**-**	**-**	**-**	**356,249**
492,952	**824,405,591**	**2,991,806,782**	**590,212**	**334,265**	**81,180,019**	**3,073,911,278**
-	**-**	**2,317,687,758**	**(199,236)**	**171,125**	**2,155,690**	**2,319,815,337**
-	**-**	**23,967,596,439**	**2,653,025**	**1,190,921**	**3,943,974**	**23,975,384,359**
-	**-**	**26,285,284,197**	**2,453,789**	**1,362,046**	**6,099,664**	**26,295,199,696**

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1. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB).

1.A The Reporting Entity
(In accordance with GASB Statement 14)

The Texas Constitution under Article XVI, Section 67 authorized the Texas Legislature to establish by law an Employees Retirement System of Texas (the System) to provide benefits for officers and employees of the State. The System was established in 1947 and operates primarily under Vernon's Texas Codes Annotated (V.T.C.A.), Texas Government Code, Title 8, Subtitle B.

The System has the powers, privileges and immunities of a corporation. The System is governed by a Board of Trustees, which is made up of six members responsible for the general administration and operations of the System. The six-member board is composed of three elected members and three members who are appointed respectively by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. The Board appoints a person other than a member of the Board to serve at the Board's will as Executive Director to manage a staff of over 300 people to provide benefits to State and higher education employees, retirees, and beneficiaries. The Texas Legislature has the authority to set the contribution rates for both employee and employer retirement contributions.

Although the Employees Retirement System is a separate legal entity and by statute must prepare a separate annual financial report, it is also a retirement system of the State of Texas financial reporting entity and is included in the State's annual financial report as a blended component unit.

1.B New Accounting Pronouncements

On September 1, 2013 the System implemented GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. This Statement specifies the items that were previously reported as assets and liabilities should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. While this financial reporting period did not have any applicable items, the System will apply GASB 65 as applicable in future reporting periods.

The System also implemented GASB Statement No. 67 Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25. This Statement replaces the requirements of Statements No 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of Statement No. 67 and to defined contribution plans that provide postemployment benefits other than pensions.

Statement 67 and Statement 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

For defined benefit pension plans, Statement No. 67 establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

Statement 67 requires defined benefit pension plans to present two financial statements, a statement of fiduciary net position and a statement of changes in fiduciary net position. It also requires that notes to the financial statements include descriptive information about the plan and the plan's investments. This Statement requires plans to present, in required supplementary information, each of the 10 most recent fiscal years sources of changes in the net pension liability. The Statement requires the net pension liability to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected

to be sufficient to pay benefits and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met. The actuarial present value of projected benefit payments is required to be attributed to periods of plan member service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay.

GASB Statement No. 67 is effective for fiscal years beginning after June 15, 2013.

Additional new Statements, No. 69 Government Combinations and Disposals of Government Operations, beginning after December 15, 2013 and applied on a prospective basis, and No. 70 Accounting and Financial Reporting for Non-exchange Financial Guarantees, for reporting periods beginning after June 15, 2013, are not applicable to the System.

1.C Basic Financial Statements
(In accordance with GASB Statement 34)

The Basic Financial Statements consist of:

- Government-wide Financial Statements;
- Fund Financial Statements and Combining Financial Statements of the Defined Benefit Plans; and
- Notes to the Basic Financial Statements.

Government-wide financial statements report all assets, liabilities and net position of the System's Governmental Funds and Internal Service Fund. Governmental activities are generally financed through intergovernmental revenues and other non-exchange revenues.

Fiduciary activities are excluded from the government-wide financial statements.

Fund financial statements are presented immediately after the government-wide financial statements. These statements present information for Governmental Funds, the Internal Service Fund, and the Fiduciary Funds. Fund financial statements have been prepared using the measurement focus appropriate for each type of fund.

1.D Measurement Focus – Basis of Accounting
(In accordance with GASB Statement 34)

Measurement focus refers to the definition of the resource flows measured. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The government-wide Statement of Net Position and Statement of Activities use the economic resources measurement focus and the accrual basis of accounting. The government-wide Statement of Activities presents the System's governmental activities by function and distinguishes between program revenues and general revenues. Program revenues are further broken down into charges for services, and operating grants and contributions.

Program revenues of the governmental activities are: appropriations from the State's General Revenue Fund for law enforcement and peace officer death benefits, lump sum retiree death benefits, benefits for victims of crime, insurance premiums received by the Internal Service Fund from employees and the State of Texas, and all investment income deposited or credited to the Internal Service Fund.

Program expenses of the governmental activities are: death benefit expenses of the appropriated Special Revenue Funds, claims expenses, premium payments of the Internal Service Fund, and all administrative expenses.

All other revenues and expenses of the governmental activities are considered to be general revenues/ expenses.

Special Revenue Funds are accounted for under the modified accrual basis of accounting and current financial resources measurement focus. Under this combination, the financial statements focus on current assets and current liabilities and the changes in net current assets. All revenues reported are recognized based on the criteria of measurability and availability. Special Revenue Funds to be available if the revenues are due at year end and collected within 75 days thereafter. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related liability is incurred. Benefit payments to participants are recorded upon distribution.

Pension and Other Employee Benefit Trust Funds, and Internal Service Funds are maintained on the full accrual basis of accounting and the economic resources measurement focus. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. 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 when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with

the terms of the plan. Capital assets are depreciated. Agency Funds are used to report resources held by the System in a purely custodial capacity. Assets and offsetting liabilities are accounted for using the full accrual basis. Agency Funds have no revenues, expenditures, expenses, or fund balance and typically involve only the receipt and remittance of resources to individuals, the state or other governments.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

1.E Basis of Presentation
(In accordance with GASB Statement 34)

Fund Structure
The fund financial statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. These accounts are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with applicable statutory guidelines or restrictions.

The System's funds fall under three fund categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Following is a brief description of each fund category and fund type used by the System.

Governmental Fund Category
Governmental Fund reporting focuses primarily on the sources, uses, and balances of current financial resources and whether current-year revenues were sufficient to pay for current-year services.

For the fiscal year 2014 CAFR, the System continues to report the governmental funds as nonmajor funds. The reporting is based on a statement on page 58 of GASB Statement No. 34, published in June of 1999, "The provisions of this statement need not be applied to immaterial items." The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental funds displayed in Exhibits III and IV are much less than 5% of the funds managed by ERS, and the activities in these funds are not the core of ERS business, which is pension and group benefits. Therefore, the System is reporting the governmental funds on Exhibits III and IV as nonmajor funds for the fiscal year 2014 CAFR.

Special Revenue Funds
Special Revenue Funds are used to account for the proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes. The System displays General Revenue Funds/ Accounts of the State of Texas as Special Revenue Funds, except for the Judicial Retirement System Plan One Fund, which is a pay-as-you-go pension plan reported as a Pension and Other Employee Benefit Trust Fund.

- Social Security Administration Fund – This fund accounts for the expenditures of administration of the Social Security Program.
- Death Benefits Program for Commissioned Peace Officers, Firemen, etc. Fund (General Revenue Fund) – This fund accounts for payments of death benefits and administrative fees, which are funded by an appropriation from the State's General Revenue Fund. Established by V.T.C.A., Texas Government Code, Title 6, Chapter 615.
- Compensation to Victims of Crime – This fund accounts for payments of death benefits to the beneficiaries of victims of crime. It is funded by an appropriation from the Victims of Crime Fund 0469, which was established by Texas Criminal Procedure Code, Article 56.54.
- Lump Sum Retiree Death Benefit Fund (General Revenue Fund) – This fund accounts for the payments of the $5,000 lump sum benefit, which is an additional benefit provided by the System to the beneficiaries of retirees who die while still receiving a retirement annuity.

Proprietary Fund Category
Proprietary Fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

Internal Service Fund
Internal Service Funds are used to report any activity that provides goods or services, on a cost-reimbursement basis, to other funds, departments, agencies of the reporting entity, or other governments.

Employees Life, Accident and Health Insurance and Benefits Fund – This fund accounts for the services provided to State of Texas agencies and higher education institutions that participate in the Texas Employees Group Benefits Program. Established by Chapter 1551, Texas Insurance Code.

Fiduciary Fund Category

The fiduciary funds are not part of the government-wide financial statements.

Pension and Other Employee Benefit Trust Funds

Pension and Other Employee Benefit Trust Funds (Pension Trust Funds) report the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, deferred compensation plans, and other employee benefit plans.

- Employees Retirement System Fund (ERS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the accumulation of resources for pension benefit payments to qualified State employees or beneficiaries.
- Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of benefits as provided by the Commissioned Law Enforcement and Custodial Officer Supplemental Retirement Benefit Act.
- Judicial Retirement System Plan One Fund (JRS I) (General Revenue Fund) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle D and is used to account for appropriations received from the State's General Revenue Fund for annuity and refund payments to eligible judicial employees who commenced service prior to September 1, 1985.
- Judicial Retirement System Plan Two Fund (JRS II) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle E and is used to account for the accumulation of resources for pension benefit payments to eligible judicial employees who commenced service after August 31, 1985.
- Excess Benefit Arrangement (EBA) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of annuities otherwise payable from the Employees Retirement Fund that exceed the limitations on benefits imposed by Internal Revenue Code (IRC) Section 415(b).
- State Retiree Health Plan (SRHP) -- The System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551. The State Retiree Health Plan (SHRP) is a cost-sharing multiple-employer defined benefit postemployment health care plan that covers retired employees of the State, and other entities as specified by the state legislature.
- Texa$aver 401(k) Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for the costs of administering the IRC Section 401(k) deferred compensation plan.
- Texa$aver 457 Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 457 and the costs of administering the program.
- State Employees Cafeteria Plan Trust Fund (TexFlex) – This fund is established by Chapter 1551, Texas Insurance Code and is used to account for before-tax salary reduction contributions from State employees and higher education institutions, reimbursements for health care and dependent care, and the costs of administering the program.

Agency Funds

Agency Funds are used to account for assets held by a governmental unit in a purely custodial capacity for individuals, other governmental entities, or private organizations. Agency Funds report only the balances of assets and liabilities and do not measure results of operations.

- Unappropriated Receipts (General Revenue Fund) – This fund accounts for member contributions received from the Judicial Retirement System Plan One Fund.
- Child Support Employee Deductions - Offset Account – This fund accounts for monies withheld in compliance with state and federal law for child support orders. The orders received by employers require that child support payments be deducted from the paychecks of employees. Texas enacted a statute mandating electronic submittal of child support payments deducted from non-custodial parent payrolls, effective September 1, 2009. This process allows all child support payments from an agency to be paid to the State Disbursement Unit (SDU). Once received by the SDU, the payment is sent to the custodial parent in compliance with the order.
- USPS - Overpayment to Employees – This fund is used to provide a temporary depository for money held in suspense pending final disposition. Items held in the fund are cleared to the various Special Funds or the General Revenue Fund, or refunded to the payer.
- Warrant Hold Offset Account – This fund accounts for the warrants that are held by the Comptroller's Office because the payees of these warrants are delinquent on State debts.

- Direct Deposit Correction Account – This fund accounts for monies which had been transmitted for direct deposit but were returned because problems prevented credit from being given to individual depositors. The System transfers the funds back to the original issuing fund.
- USPS - Direct Deposit Return Money – This fund accounts for direct deposits that are processed through the Uniform Statewide Payroll System and returned by financial institutions because of death, termination, retirement, incorrect account number, or incorrect routing numbers. The System transfers the funds back to the original issuing funds.

1.F Budgets

Appropriated Budgets

The Texas Legislature appropriates monies out of the State's General Revenue Fund for benefit payments of the Judicial Retirement System Plan One Fund and all Special Revenue Funds other than the Social Security Administration Fund on an 'estimated to be' basis. This type of appropriation means that the System has the authority to increase the appropriations as needed during the time period that the appropriation is allowed to remain open. For benefit payments, expenditures in excess of appropriations received are not a violation of budgetary authority.

The System is required to lapse all unencumbered appropriations by November 1 of each year.

Non-appropriated Budget

The Texas Legislature does not appropriate monies to the System for administrative expenses. A non-appropriated budget for administrative expenses, including capital outlay, is prepared annually and approved by the System's Board of Trustees at the line-item level. The System's management must approve any transfers between line items, and the Board must approve any amendments to the approved budget. Administrative expenses are budgeted in and paid primarily from the Employees Retirement Fund. Expenses are allocated monthly to the other funds based on percentages determined by time sheets and resource requirements used to administer each fund within each division. Expenses are limited by a statutory provision that no expense can be made for more than the State of Texas pays for similar services. Non-appropriated budgets are not lapsed at year-end.

1.G Assets, Liabilities, Fund Balances and Net Position

(In accordance with GASB Statement 34)

Cash and Short-Term Investments

Cash and Cash Equivalents (in accordance with GASB Statement 9), as reported in the Statement of Cash Flows for the Internal Service Fund, are composed of cash on hand, cash in local banks, cash in the State Treasury, and cash equivalents. Cash in local banks is held by Fiduciary Funds. Cash balances of most state funds are pooled and invested by the Treasury Operations Division at the Comptroller's office. Interest earned is deposited in the specified funds designated by law.

The Statement of Cash Flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Both Cash Equivalents and Short-Term Investments are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for Securities Lending are not included as cash equivalents on the Statement of Cash Flows.

The petty cash and travel advance accounts, and the Texa$aver and State Employees Cafeteria Plan accounts (Cash in Bank) are maintained at a local commercial bank.

Valuation

Cash Equivalents and Short-Term Investments are reported at fair value.

Investments

Investments of the Employees Retirement System Fund, the Law Enforcement and Custodial Officer Supplemental Retirement Fund, the Judicial Retirement System Plan Two Fund and the long-term portion of the Employees Life, Accident and Health Insurance and Benefits Fund are consolidated in the Investment Pool fund. See also *Investment Unit Trust Accounting.*

Valuation

Investments of the Pension Trust Funds and Internal Service Fund are reported at fair value in accordance with GASB Statement 67 and 31, respectively. Fair value is defined as the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller.

The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Public real estate are listed (Real Estate Investment Trusts or "REITs" and Real Estate Operating Companies or "REOCs") traded in the public exchange.

For alternative investments, the System has established a Valuation Committee that periodically reviews and approves the fair value of these investments. Certain foreign investments in the inception year are valued at cost, which approximates fair value. Fair value at fiscal year-end is based on the fair value of net assets reported in the partnership's most recent financial statements available to the System's Valuation Committee, adjusted for any cash flows and material changes in fair value, according to the Valuation Committee guidelines, between the reporting date of partnership's most recent financial statements and the System's fiscal year end date. The System's alternative investments include private equity, private real estate, infrastructure, private fixed income, and hedge funds.

The general nature of the System's investments in private equity funds is that distributions are received through the liquidation of the underlying assets of the funds. Private equity partnerships have an expected life of approximately 7 to 10 years and are not liquid in nature. The fair value of the net assets in private equity is estimated using recent observable information for similar investments, such as discounted cash flows, earning multiples and company comparables.

The System's private real estate investments are limited partnerships. The partnerships participate in both closed-ended and open-ended commingled funds. The System does not directly own buildings. Closed-ended funds typically have a pre-determined life of 7-10 years (plus possible extensions) and are illiquid in nature. Open-ended funds do not have a pre-determined liquidation date and the System has the ability to sell its interests periodically. The fair value of private real estate is based on the net asset values of limited partner interests in the commingled funds. Each commingled fund is audited annually and the underlying investments may be periodically appraised by an independent third party. Valuation assumptions can be subjective and are based on market and property specific inputs.

The system's hedge fund investments represent ownership interest in limited partnerships or limited liability companies. These types of investments consist of private comingled investment vehicles that issue securities to accredited investors or qualified purchasers. The fair values of hedge funds are based on the net assets of the limited partnership. These funds' valuations are appraised by an independent administrator and reconciled annually to the audited financial statements.

Private fixed income funds are ownership in limited partnerships which consists of private investment funds that are either comingled or separate. These funds are classified as predominately "credit" instruments that may be liquid or illiquid. The system will utilize a process similar to that of private equity funds in assessing the fair value of the fund. The valuations are reviewed at the end of each reporting period as financial statements or cash flow information becomes available.

The system's private infrastructure investments are in large-scale public systems, services and facilities that are necessary for economic activity. These types of relatively illiquid investments are often made in essential services with high barriers to entry and predictable cash flows. The fair value of the net assets is estimated using a variety of approaches, which may involve using recent information from comparable companies, replacement cost analysis, and discounted cash flows. Each investment is typically audited annually and appraised periodically by an independent third party.

For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors and the Master Trust Custodian, has determined fair values for the individual investments.

Permissible Investments

Eligible securities are as follows:

- Domestic equities, screened to eliminate against any known bankruptcy proceedings, lawsuits, or breach of corporate ethics that might jeopardize the company's economic future or existence.
- Equities of companies domiciled in countries outside of the United States.
- Global fixed income securities, subject to a minimum credit rating of "CCC-, Caa3," or their equivalent as rated by two (NRSROs), and include in the Barclays Capital Universal Index or successor index. Fixed income and short-term securities that downgrade to below the acceptable rating described above will be exchanged or sold within one year, but special

exceptions may be permitted and reported to the Board of Trustees.

- Interests in private securities exempted from registration under federal and state securities laws, including certain limited liability securities and vehicles, such as limited partner interests in limited partnerships, trusts and limited liability corporations as deemed appropriate by The System.
- Private equity and private real estate investments must be institutional in quality and meet the parameters specified in the System's investment policy.
- Global publicly traded real estate equities subject to the quality standards set forth in the investment policy.
- Foreign currencies transactions and foreign currency derivatives are permitted as necessary to facilitate the settlement of foreign security transactions, consistent with industry best practices. These transactions are also permitted to settle private market transactions, meet capital calls exchange distributions back into U.S. dollars.
- Forward, futures and options, subject to the restrictions set forth in the investment policy.

Investment Asset Allocation

The System's policy in regard to the allocation of investment assets is established and may be amended by the Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plans (See Figure 15 in Note 3.B for the most recent target asset allocation).

Investment Unit Trust Accounting

In order to provide flexibility of asset allocation and effectively invest in a diversified manner, the Board of Trustees directed that investment unit trust accounting be implemented. The pension funds began the unit trust accounting on September 1, 2006 and the long term portion of the Employees Life, Accident and Health Insurance and Benefits Fund on January 1, 2009. Unit trust accounting involved assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The custodian bank prepares consolidated bank statements and fund statements that show the unit trust accounting activity. Investment earnings and appreciation increase the per unit value of all participating funds. Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the participating funds on a daily basis using the pro rata fair value share.

Investment Components

For the fiscal year beginning September 1, 2011, the System changed the presentation grouping for investments from asset classes to investment components. These components are aligned with the System's investment strategies and unit trust accounting as described above. See Note 2.A for descriptions of the investment components.

Capital Assets

Pension Trust Funds are accounted for on a cost of service measurement focus. This means that all capital assets associated with the funds' activities are included in their statements of Net Position. Purchases of capital assets by these funds are reported at cost or, if donated, at fair market value on the acquisition date. Depreciation of all exhaustible capital assets is charged as an expense against the funds' operations. Accumulated depreciation is reported on the statements of net position.

Depreciation has been provided over the estimated useful lives, using the straight-line method. The capitalization thresholds and estimated useful lives are shown in Figure 1.

Figure 1

Capitalization Thresholds and Useful Lives

Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Land	$	
Building and Improvements	100,000	40
Computer Software	100,000	5 - 6
Furniture and Equipment	5,000	3 - 10
Motor Vehicles	5,000	7
Internally Generated Computer Software	1,000,000	5 - 6

Accounts Payable

Accounts Payable under the Internal Service Fund include claims incurred but not reported by the participants prior to fiscal year end and payable in future years as estimated by the System's actuary.

Employees Compensable Leave

Under the provisions of Article 6252-8b, (V.A.C.S.), a State employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from

State employment, provided the employee has had continuous employment with the State for six months.

In Fiduciary Fund types, salary costs related to employees' rights to be compensated for vacation time are accrued as expenses of the period in which the services were rendered. Accumulated compensable leave liabilities are reported in the Statement of Fiduciary Net Position for the Employees Retirement Fund.

No liability is recorded for non-vesting accumulating rights to receive sick leave benefits.

Fund Balances - Governmental Funds

Fund balance is the difference between fund assets and liabilities on the governmental fund statements. Committed fund balance reports an amount that has spending limitations that are internally imposed by formal action of the government's highest level of decision-making authority (e.g., legislature). These committed fund balance amounts usually cannot be redeployed for other purposes unless the same decision makers reverse or modify the imposed restrictions by the same type of formal action that was originally used to create the restriction.

Net Position – Held in Trust for Pension Benefits

The net position of the retirement trust funds consist of up to five reserve accounts, depending on the particular fund.

- The Employee Savings Account represents the accumulation of active and inactive member deposits plus interest.
- The State Accumulation Account represents reserves available to fund the future active member retirement, death, and survivor benefits.
- The Retirement Annuity Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases for current retirees.
- The Interest Account represents the interest, dividends, securities lending income, and net appreciation or depreciation received and accrued on the invested assets of the fund. All investment income is transferred to the Employee Savings, State Accumulation, and Retirement Annuity Reserve accounts based on applicable Texas statutes.
- The Administration Account represents reserves to pay all administration and maintenance expenses of the retirement trust funds.

See Note 3.D for the balances of each funded plans' legally required reserves.

Restricted Net Position - Proprietary Fund

(In accordance with GASB Statement 34)

Chapter 1551 of the Texas Insurance Code requires that the System estimate funds needed for an average 60-day period, considering projected claims and administrative expenses for a contingency reserve fund for self-funded coverage. The System is further required to include this amount in its legislative appropriations request. Subject to adequate appropriation from the legislature, the estimated amount must be placed in the contingency reserve fund along with interest on, earnings of, and proceeds from the sale of investments of assets in the contingency reserve fund. This reserve amount is reported as 'Restricted Net Position' in both the government-wide and the proprietary fund Statement of Net Position.

Interfund Activity and Balances

(In accordance with GASB Statement 34)

Activities between the System and agencies of the State of Texas, and activities between the System's funds have been analyzed and classified in accordance with the following criteria.

Interfund Services Provided and Used

This activity represents transactions that would be treated as revenues, expenditures or expenses if they involved organizations external to State government. They are accounted for as revenues by the recipient fund and as expenditures or expenses by the disbursing fund. Contributions for retirement and insurance from other funds within the State of Texas reporting entity are reported as Interfund Services Provided and Used. The accrual of Interfund Services Provided and Used is classified as Accounts Receivable and Accounts Payable on the government-wide and the fund financial statements.

Interfund Reimbursements

This activity represents expenditures or expenses applicable to a particular fund but paid from another fund. The transactions are reported as expenditures or expenses in the reimbursing fund and a reduction of corresponding amounts in the reimbursed fund. Administrative expenses paid by the Employees Retirement System Fund and subsequently reimbursed by the System's other funds are reported as Interfund Reimbursements in the financial statements. The accrual of Interfund Reimbursements is reported on the government-wide Statement of Net Position as Due From External Parties or Due To External Parties and on the fund financial statements as Due From Other Funds or Due To Other Funds.

Interfund Transfers

This activity represents routine transfers of resources. Interfund transfers are reported in the Other Financing Sources (Uses) section for Governmental Funds and as Other Additions or Other Deductions in the Pension Trust Fund financial statements. The accrual of Interfund Transfers is reported on the government-wide Statement of Net Position as Due From External Parties or Due To External Parties and on the fund financial statements as Due From Other Funds or Due To Other Funds.

Retirement Membership Fees received by the Employees Retirement System Fund and transferred to other funds of the System are reported as Interfund Transfers. See Note 5.B Interfund Transfers.

Interagency Activity and Balances

(In accordance with GASB Statement 34)

This activity represents routine transfers of funds between the System and other agencies and institutions within the State of Texas financial reporting entity.

At year end, the accrual of transfers from or to the funds of the System are reported as Due To Other Agencies or Due From Other Agencies on the Statements of Net Position. See Note 5.C Interagency Transfers.

Reclassifications

Certain items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net position.

2. Detail Disclosures on Funds

(In accordance with GASB Statements 3, 28, 31, 40 and 67)

2.A Deposits, Investments, and Repurchase Agreements

Deposits

As of August 31, 2014, the total carrying amount of Deposits was $20,172,932 as presented in Figure 2.

Figure 2
Deposits

Deposits	Carrying Value	Bank Balance
	$	$
Fiduciary Funds:		
Cash in Bank (Exh.VIII)	8,511,433	8,507,890
Deposits in Investment Components	11,692,580	11,692,580
Totals	**20,204,013**	**20,200,470**
Proprietary Fund:		
Deposits in Investment Components	(31,081)	(31,081)
Totals	**(31,081)**	**(31,081)**

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System 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 deposit policy for custodial credit risk. As of August 31, 2014, the System was not exposed to custodial credit risk with respect to deposits.

Investments

Policy of Asset Allocation

The System categorizes investment assets into principal components that align with investment strategies. The System's investment strategies are domestic equities, international securities, global credit fixed income, rates fixed income, public real estate, and alternative investments. A principal component may include one or more investment asset classes, depending on the investment strategy.

The majority of the investments in the domestic equities component are equity securities that are issued in the United States. Real Estate Investment Trust (REITs) and Exchange Traded Funds (ETFs) are also included in this component to provide liquidity. The International securities component invests in equity securities that are mainly issued in overseas and it also includes other investments classes similar to those of the domestic equities component.

The rates fixed income component invests in domestic and international fixed income securities that have a relatively low risk of default. The global credit fixed income component invests in securities that have high risk and long maturity. This component also invests in ETFs to provide liquidity. The public real estate component invests mainly in Real Estate Investment Trusts (REITs) and also includes domestic and international equities to provide liquidity to the component.

Alternative Investments component include private equity, private real estate, private infrastructure, private fixed income and hedge funds. The private equity investments are in private equity limited partnerships. The private real estate investments are in limited partnerships that specialize in real estate. Private Infrastructure investments are limited partnerships based on event-driven strategies (e.g., tender offers, mergers, and acquisitions etc.). Hedge fund investments are hedge fund limited partnerships. Private fixed income funds are limited partnerships that invest in foreign and domestic fixed income securities. The fair values of investments as of August 31, 2014 are presented in Figure 3 by Component.

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the year ended August 31, 2014, the annual money-weighted rate of return on the defined benefit plans was 14.58%. See Schedule of Investment Returns – Defined Benefit Plans in the Required Supplementary Information section for details.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy limits holding of securities by counterparties to those involved with securities lending and those used as collateral for futures contracts.

Foreign Currency Risk

Foreign currency risk for investments and deposits is the risk that changes in exchange rates will adversely affect the investments and deposits. The System does not have a policy for managing foreign currency risk. The System's investment and deposit exposure to foreign currency risk as of August 31, 2014 is summarized in Figure 4.

Figure 3
Fair Value of Investments

	Investments							
	Domestic Equities Component	International Securities Component	Global Credit Fixed Income Component	Rates Fixed Income Component	Public Real Estate Component	Alternative Investments Component	Investments Totals	Short-Term Investments
Fiduciary Funds:	$	$	$	$	$	$	$	$
U.S. Treasury Securities				3,466,843,992			3,466,843,992	324,276,886
Corporate Obligations			585,693,420	170,893,387			756,586,807	
Corporate Asset and Mortgage Backed Securities				229,488,790			229,488,790	
U.S. Government Agency Obligations				844,729,245			844,729,245	
Domestic Equities	6,470,251,856	55,218,191			6,984,443		6,532,454,490	
International Equities	559,269,106	6,036,489,840			24,051,734		6,619,810,680	
International Obligations			148,288,127	185,874,580			334,162,707	
Alternative Investments						5,305,506,224	5,305,506,224	
Real Estate Investment Trust (REITs)	214,408,563	133,204,818			637,544,443		985,157,824	
Exchange Traded Funds (ETFs)	5,536,850	14,767,840	350,336,627		1,113,000		371,754,317	
Money Market and Bond Funds							-	322,170,034
Investment in Pool Cash							-	2,120,850
Derivatives	1,109	(23,561)	(59,650)		(146)	(3)	(82,251)	
Deposits	325,897	6,987,029	(1,440,338)		606,074	4,113,923	10,592,585	1,099,995
Totals (Exh. VIII)	**7,249,793,381**	**6,246,644,157**	**1,082,818,186**	**4,897,829,994**	**670,299,548**	**5,309,620,144**	**25,457,005,410**	**649,667,765**
Proprietary Fund:								
U.S. Treasury Securities				165,791,238			165,791,238	50,648,436
U.S. Government Agency Obligations				44,127,648			44,127,648	
Corporate Obligations			12,638,681	40,175,359			52,814,040	
Corporate Asset and Mortgage Backed Securities				53,950,564			53,950,564	
International Obligations			3,199,909	27,312,875			30,512,784	
Exchange Traded Funds (ETFs)			7,559,915				7,559,915	
Money Market and Bond Funds							-	211,459,858
Derivatives			(1,287)				(1,287)	
Deposits			(31,081)				(31,081)	
Totals (Exh. V)	**-**	**-**	**23,366,137**	**331,357,684**	**-**	**-**	**354,723,821**	**262,108,294**

Figure 4
Foreign Currency Risk

	Domestic Equities Component (USD)	International Securities Component (USD)	Global Credit Fixed Income Component (USD)	Public Real Estate Component (USD)	Alternative Investments Component (USD)
Fiduciary Funds:					
Investments:					
Australian Dollar	15,309,952	207,087,908		47,552,917	
Brazilian Real	11,389,923	123,229,357		723,336	
Canadian Dollar	24,211,471	478,075,397		22,768,723	
Chilean Peso	1,703,780	3,719,002			
Czech Koruna		10,465,464			
Danish Krone		54,406,270			
Emirati Dirham		10,318,764		920,897	
Euro	47,120,904	1,419,896,007	2,546,179	47,939,267	510,290,874
Hong Kong Dollar	11,337,567	466,613,031		48,007,714	
Hungarian Forint		800,446			
Indian Rupee	1,382,661	91,308,120			
Japanese Yen	7,972,238	666,542,707		79,576,355	
Malaysian Ringgit	455,254	23,637,790			
Mexican Peso	372,788	52,857,927			
New Israeli Sheqel		2,185,854		2,047,977	
New Taiwan Dollar		132,955,444		468,403	
Norwegian Krone		34,506,876		1,762,838	
Philippine Peso	1,477,853	30,999,720		1,002,293	
Polish Zloty		13,685,674			
Pound Sterling	44,463,416	999,055,064		46,279,691	99,008,161
Qatari Rial		7,606,083			
Rupiah	802,501	35,685,847		2,131,216	
Singapore Dollar		45,730,031		20,536,160	
South African Rand		97,462,712			
South Korean Won	7,506,663	221,686,561			
Swedish Krona		93,127,309		6,167,382	
Swiss Franc	23,172,632	402,196,694		3,244,192	
Thai Baht		19,133,329			
Turkish Lira	-	34,651,460		1,134,410	
Investments Exposed to Foreign Currency	**198,679,603**	**5,779,626,848**	**2,546,179**	**332,263,771**	**609,299,035**
US Dollar	7,050,787,881	460,030,280	1,081,712,345	337,429,703	4,696,207,186
Total Investments	**7,249,467,484**	**6,239,657,128**	**1,084,258,524**	**669,693,474**	**5,305,506,221**
Deposits:					
Australian Dollar		85,041		554,185	
Brazilian Real		1,081,931			
Canadian Dollar		2,516,978		738	
Euro		57,758			62,813
Hong Kong Dollar	299,642	(1,610)			
Indian Rupee		2,300,424			
New Taiwan Dollar		293,329			
Philippine Peso		140,693			
Pound Sterling		(218,653)			
Qatari Rial		638,165			
Singapore Dollar				962	
South Korean Won		21,588			
Deposits Exposed to Foreign Currency Risk	**299,642**	**6,915,644**	**-**	**555,885**	**62,813**
US Dollar	26,255	71,385	(1,440,338)	50,189	4,051,110
Total Deposits	**325,897**	**6,987,029**	**(1,440,338)**	**606,074**	**4,113,923**
Total (Exh. VIII)	**7,249,793,381**	**6,246,644,157**	**1,082,818,186**	**670,299,548**	**5,309,620,144**
Proprietary Fund:					
Investments:					
Euro			54,944		
Investments Exposed to Foreign Currency	**-**	**-**	**54,944**	**-**	**-**
US Dollar			23,342,274		
Total Investments	**-**	**-**	**23,397,218**	**-**	**-**
Deposits:					
US Dollar			(31,081)		
Total Deposits	**-**	**-**	**(31,081)**	**-**	**-**
Total (Exh. V)	**-**	**-**	**23,366,137**	**-**	**-**

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policies of the System require that non-cash interest paying securities in the high yield bond portfolios may not exceed 15% of the market value of the portfolio and that investments in money market funds may represent no more than 5% of each individual fund. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index. Excluding those securities *issued* by or *explicitly guaranteed* by the U.S. Government, which are not considered to have credit risk, the System's credit quality distribution for securities with credit risk exposure as of August 31, 2014 is summarized in Figure 5. The securities were rated and categorized according to Standard & Poor's rating standards.

The System earns failed interest on monies held at the custodial agent bank overnight when a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the System's money is invested overnight in a Common Trust Fund at the custodial agent bank. The System had no failed securities either during the fiscal year or at August 31, 2014.

Concentration Risk

Concentration risk is the risk of loss attributable to the magnitude of investment in a single issuer. The System's investment policies stipulate that investments in the securities of any one corporation may not exceed 3% of the market value of the total fund. As of August 31, 2014, the System was not exposed to any concentration risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk management. However, interest rate risk is managed through duration, by operating within defined risk parameters versus a benchmark index. As of August 31, 2014, the System's exposure to interest rate risk is summarized in Figure 6.

Securities Lending

Securities lending transactions are governed by the Texas Government Code Section 815.303. The System participates in a securities lending program, administered by the securities lending agent bank, whereby certain securities are transferred to an approved independent broker/dealer (borrower) with a simultaneous agreement to return the collateral for the same securities in the future. The contract with the System's securities lending agent bank requires the bank to indemnify the System fully if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the contract limits the total amount of securities that can be lent to 25% of holdings.

The System is permitted to loan securities under 1) open loans which are generally overnight loans, and 2) term loans with specified expected termination dates. Securities lent include fixed income securities and domestic and international equities. The System's securities lending agent bank lends the securities for collateral in the form of cash or U.S. Government or Agency securities of 102% for domestic securities and 105% for international securities. Cash collateral is

Figure 6
Investment Interest Rate Risk

	Fiduciary Funds		Proprietary Fund	
Investment Type	**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
	$		$	
U.S. Treasury Securities	3,791,120,878	3.53	216,439,674	3.01
U.S. Government Agency Obligations	844,729,245	4.32	44,127,648	4.31
Corporate Obligations	756,586,807	4.43	52,814,040	2.28
Corporate Asset and Mortgage Backed Securities	229,488,790	3.17	53,950,564	3.17
International Obligations	334,162,707	3.07	30,512,784	2.14
Money Market and Bond Funds	322,170,034	0.08	211,459,858	0.08
Totals	**6,278,258,461**	**3.53**	**609,304,568**	**2.00**

Figure 5
Investment Credit Risk

Investment Type	S & P Rating	Fiduciary Funds	Proprietary Fund
U.S. Treasury Securities	AA+	3,791,120,878	216,439,674
U.S. Government Agency Obligations	AA+	844,729,245	44,127,648
Corporate Obligations	A	40,707,170	9,569,857
	A-	41,603,943	8,720,465
	A+	25,719,209	6,046,334
	AA-	14,480,949	2,943,481
	AA+	12,264,343	2,883,227
	B	121,003,067	2,611,126
	B-	24,090,993	519,860
	B+	107,728,188	2,324,667
	BB	99,412,898	2,145,231
	BB-	103,390,623	2,231,067
	BB+	84,912,733	1,832,332
	BBB	33,050,170	6,221,917
	BBB-	14,732,677	317,916
	BBB+	15,784,097	3,710,686
	CCC	1,575,992	34,008
	CCC+	10,380,989	224,011
	Not Rated	5,748,766	477,855
Corporate Asset and Mortgage Backed Securities	A	4,362,159	1,025,501
	A+	6,758,051	1,588,752
	AA	4,594,911	1,080,219
	AA-	4,049,048	951,892
	AA+	10,898,531	2,562,138
	AAA	64,531,748	15,170,781
	Not Rated	134,294,342	31,571,281
International Obligations	A	3,840,367	902,833
	A-	22,031,168	5,179,311
	A+	20,506,867	4,820,963
	AA	14,975,101	3,520,499
	AA-	5,669,586	1,332,864
	AAA	87,491,697	4,184,024
	B	8,126,635	175,365
	B-	11,985,857	258,643
	B+	26,128,505	563,827
	BB	44,250,004	954,871
	BB-	17,580,138	379,362
	BB+	17,938,608	387,097
	BBB	8,287,751	1,948,369
	BBB-	6,623,937	142,938
	BBB+	23,072,044	5,424,011
	CCC+	242,272	5,228
	Not Rated	15,412,170	332,579
Money Market and Bond Funds	Not Rated	322,170,034	211,459,858
Totals		**6,278,258,461**	**609,304,568**

invested in repurchase agreements. The policy is to ensure that the difference in maturities between the cash collateral investments and the loan tenor is no more than five days.

The System cannot pledge or sell collateral securities received unless the borrower defaults and, therefore, the System does not establish an asset and a corresponding liability in the balance sheet for the collateral value of securities received. No significant violations of legal or contractual provisions and no borrower or lending agent default losses were reported in fiscal year 2014. The System received net securities lending income totaling $9,008,018 for the fiscal year ended August 31, 2014. Security Collateral value is zero. The collateral information as of August 31, 2014 is summarized in Figure 7.

Figure 7
Securities Lending Collateral Summary

Investment Type	Underlying Securities Fair Value	Cash Collateral Fair Value
	$	$
Fiduciary Funds:		
U.S. Treasury Securities	471,001,421	483,202,826
Corporate Obligations	48,770,331	50,185,054
Domestic Equity	691,450,100	712,628,745
International Equity	152,642,381	159,386,061
International Corporate Obligations	16,720,216	17,200,510
Totals	**1,380,584,449**	**1,422,603,196**
		Exh. VIII
Proprietary Fund:		
U.S. Treasury Securities	22,524,206	22,767,748
Corporate Obligations	1,227,296	1,244,179
Domestic Equity	6,799,327	6,897,986
International Corporate Obligations	883,367	895,925
Totals	**31,434,196**	**31,805,838**
		Exh. V

Repurchase Agreements

During the fiscal year 2014, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2014, the System had $1,454,409,034 balance in these assets.

Alternative Investments

The System makes contingent commitments to investments in entities that manage private equity, private real estate, private infrastructure, private fixed income, and hedge fund portfolios. The categories of these investments as of August 31, 2014 are summarized in Figure 8.

2.B Fund Equity

Fiduciary Net Position Held in Trust for Pension Benefits and Other Purposes

A summary of pension plan and other employee benefit fiduciary net position at August 31, 2014 and 2013 is presented in Figure 9.

2.C Derivative Investment

Derivatives are generally defined as contracts or securities whose value depends on, or derives from, the value of an underlying asset, reference rate, or index.

Futures Contracts

The System purchases and sells futures contracts as a means of adjusting the portfolio mix and as a lower transaction cost substitute for transactions which would otherwise occur in the underlying portfolios.

A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. Upon entering into a futures contract, the System pledges to the broker cash or U.S. government securities equal to the minimum “initial margin” requirement of the futures exchange.

The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The System’s investment managers seek to control this risk through counterparty credit requirements and the use of Commodity Futures Trading Commission approved futures and exchange traded options. The System anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The System receives or pays a daily “variation margin,” which is an amount of cash equal to the daily fluctuation in value of the contract. The accumulated value of the variation margin is the fair value of the futures contract. As of August 31, 2014, the outstanding futures contracts are summarized in Figure 10.

Forward Contracts

The System enters into forward contracts to minimize

Figure 8
Alternative Investments (Note A)

Asset Class	No. of Funds	Commitment	Remaining Commitment	Adjusted Funded Amount	Fair Value
		$	$	$	$
Private Equity (Note B)					
US Dollar	58	3,706,364,208	1,977,438,233	1,728,925,975	1,845,794,660
Euro Dollar	11	691,689,401	288,660,655	403,028,746	387,023,952
British Pound	2	174,378,750	76,755,918	97,622,832	84,480,139
Totals	**71**	**4,572,432,359**	**2,342,854,806**	**2,229,577,553**	**2,317,298,751**
Private Real Estate (Note B)					
US Dollar	26	1,820,800,000	753,068,378	1,067,731,622	1,204,952,090
Euro Dollar	4	297,687,200	167,834,035	129,853,165	120,846,751
British Pound	1	74,733,750	60,590,860	14,142,890	14,293,970
Totals	**31**	**2,193,220,950**	**981,493,273**	**1,211,727,677**	**1,340,092,811**
Private Infrastructure					
US Dollar	5	275,000,000	110,263,507	164,736,493	206,322,776
Private Fixed Income					
US Dollar	1	75,000,000	26,250,000	48,750,000	48,765,569
Hedge Funds					
US Dollar	19	1,305,000,000	-	1,305,000,000	1,393,026,314
Totals	**127**	**8,420,653,309**	**3,460,861,586**	**4,959,791,723**	**5,305,506,221**

Note A: Commitment, Remaining Commitment, Adjusted Funded Amount, and Fair Value are reported in US Dollar.
Note B: Fair Value excludes $4,113,923 in outstanding cash deposits reported in the Alternative Investments Component of Exh. VIII.

Figure 9
Net Assets - Fiduciary Fund

Fund Type	2014	2013
	$	$
Defined Benefit Plans (Note A)	26,285,284,197	23,967,596,439
Deferred Compensation Plans and Cafeteria Plan:		
Administration - Deferred Compensation Plans	3,815,835	3,843,946
Administration – State Employees Cafeteria Plan	6,099,664	3,943,974
Total Deferred Compensation Plans and Cafeteria Plan	**9,915,499**	**7,787,920**
Net Position Restricted for Pension and Other Benefits	**26,295,199,696**	**23,975,384,359**
	Exh. VIII	

Note A: See Note 3.D Reserves for details of the statutorily required reserve balances of the Defined Benefit Plans.

Figure 10
Summary of Outstanding Futures Contracts

Future Contract	Expiration	No. of Contracts	Long/ Short	Change in Fair Value		Fair Value		Notional Amount
				Classification	Amount	Classification	Amount	
U.S. 10 Year Treasury Notes	December 2014	150	Short	Investment Revenue	$60,938	Investment	$(60,938)	$(18,867,188)

the short-term impact of foreign exchange rate fluctuations on the asset and liability positions of international equities. The System had no outstanding forward contracts on August 31, 2014.

2.D Liabilities

Operating Leases

(In accordance with GASB Statement 38)

Included in rental expenses/expenditures are assets leased on a long-term basis that have been classified operating leases. Current year expenses for these leased assets totaled $611,427. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2014 is presented in Figure 11.

Figure 11
Non-Cancelable Operating Leases

Fiscal Year	Future Minimum Lease Rental Payments
	$
2015	558,349
2016	296,792
2017	67,000
2018	-
2019	-
Total	**922,141**

3. Defined Benefit Plans

(In accordance with GASB Statements 25 and 67)

The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS I), and Judicial Retirement System of Texas Plan Two (JRS II) are single employer defined benefit pension plans. ERS, LECOS, and JRS II are administered through trust. Each plan provides service retirement, death and disability benefits. Benefit and contribution provisions of each plan are authorized by State law and may be amended by the Texas Legislature.

Member contribution rates of the ERS, LECOS, JRS I and JRS II and State contribution rates of the ERS, LECOS, and JRS II are set by State law. The law prohibits any amendment to the plan that would cause the period required to amortize any unfunded actuarial accrued liability to equal or exceed 31 years. Administrative expenses of the ERS, LECOS and JRS II are financed through investment earnings, and the administrative expenses of the JRS I are financed by State appropriations.

3.A Plan Descriptions and Contributions

Employees Retirement Plan

Plan Description

There are two classes of membership within this retirement plan: (1) the elected class and (2) the employee class.

Membership in the elected class is limited to persons who hold State offices that are normally filled by statewide election (including legislators) and excludes officials covered by the Judicial Retirement System of Texas Plans One and Two.

Membership in the employee class includes all employees and appointed officers of the State and excludes independent contractors and their employees and employees covered by the Teacher Retirement System of Texas.

System Employees

System employees are members of the Employees Retirement Plan.

Contributions

Employees were required to contribute a percentage of their monthly gross compensation, including base salary, longevity pay, hazardous duty pay, and benefit replacement pay and excluding overtime pay and emoluments other than housing and utilities. The contribution rate was 6.6% for fiscal year 2014.

Legislators are required to contribute 8% and other elected class members are required to contribute 6.6% of their compensation to the System.

For fiscal year 2014 the State contributed 8% of the payroll of members for both the employee class, legislators, and for other elected class members. See Note 3.B Funded Status and Funding Progress.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

Plan Description

The plan covers custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates of

that institution. The plan also covers law enforcement officers who have been commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the State Board of Pharmacy who are recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education.

The monthly benefit amount payable from this fund is equal to the excess of the total benefit over the regular benefit payable to the member from the Employees Retirement System Fund.

Contributions

For fiscal year 2014, both employee members and the State contributed 0.5% of the covered payroll for LECOS members. An additional amount equivalent to 1.2% of payroll was contributed by the State from dedicated court fees. See Note 3.B Funded Status and Funding Progress.

Judicial Retirement System of Texas Plan One

Plan Description

The plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who first became members before September 1, 1985. Members of the Judicial Retirement System of Texas Plan Two are excluded from this plan. See Figure 1 in the Note to Required Supplementary Information for detail actuarial assumptions.

As a result of new judicial officers participating in the Judicial Retirement Plan Two, the Plan One membership continues to decrease while the annuity payroll increases as members retire.

Contributions

Members are required to contribute 6.6% of their compensation to the State's General Revenue Fund.

The State is required to make appropriations from the General Revenue Fund sufficient to pay benefits on a pay-as-you-go basis. See Note 3.B Funded Status and Funding Progress.

Judicial Retirement System of Texas Plan Two

Plan Description

The plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts and certain commissions to a court who first become members after August 31, 1985. Members of the Judicial Retirement System of Texas Plan One are excluded from this plan.

Contributions

Members are required to contribute 6.6% of their compensation to the System. Members who accrue 20 years of service credit in the retirement system cease making contributions, but are considered contributing members for all other purposes; however, the State contribution continues.

For the fiscal year ended August 31, 2014 the State contributed 15.663% of the payroll of members. See Note 3.B Funded Status and Funding Progress.

3.B Funded Status and Funding Progress

Summary of Actuarial Assumptions

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The assumptions are presented in Figure 12.

Figure 12
Actuarial Assumptions - Defined Benefit Plans
(For ERS, LECOS, and JRS II only)

Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	31 Years
Asset Valuation Method	20% of market plus 80% of expected actuarial value.
Investment Rate of Return	8%
Projected Annual Salary Increase	
ERS	0 - 11.5%
LECOS	5.0 - 11.5%
JRSII	3.5%
Inflation Assumption Rate	3.5%
Last Experience Study	5-year period from September 1, 2006 to August 31, 2011
Mortality Rate	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.

An actuarial valuation for the JRS I is performed solely to satisfy the requirements of GASB Statement No. 25 Required Supplementary Information calculations, which is presented immediately after the Notes to the Basic Financial Statements. The funding status for JRSI is presented in Figure 13.

See Note 1.D, Summary of Significant Accounting Policies, Basis of Accounting, for the System's policies regarding recognition of contributions, benefits paid and refunds paid. See Note 1.G, Summary of Significant Accounting Policies, Assets, Liabilities, Fund Balances and Net Position, for the System's policies regarding investment valuation.

Net Pension Liability

(In accordance with GASB Statement 67)

Based on the actuarial assumptions listed in Figure 12, the components of the net pension liability as of August 31, 2014 are determined and summarized in Figure 14.

The projected cash flows from the employer are based on contributions for the most recent five year period, modified on consideration of subsequent events. Changes in statute in the last legislative session and new language in the budget policy memorandum for the upcoming legislative session are indicators that the legislature is committed to an increase in funding levels for the pension funds. Considering the above events issues, projected employer contributions are based on fiscal year 2015 funding levels. See Note 3.A for descriptions of member and State contributions.

The long-term expected rate of return on the System's pension plan investments was determined using a building-block method in which best estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of rates of return for each major asset class included in the System's target allocation as of August 31, 2014 are summarized in the Figure 15.

The System Board of Trustees adopted a conservative long-term rate of return assumption of 8.0% after considering 1) the long-term expected return from the building block method; 2) an analysis of long term-term expected return performed by the System investment consultant; and 3) analyses and recommendations of the System pension actuary.

A single discount rate 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 and a municipal bond rate, if applicable. Based on the stated assumptions and the projection of cash flows, if the pension plan's fiduciary net position and future contributions were not sufficient to finance the benefit; the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the fiscal year before the fiduciary net position is depleted, and the municipal bond rate was applied to all benefit payments after that fiscal year. The single discount rate, the municipal bond rates, and the year when the fiduciary net positions that projected to be depleted are summarized in Figure 16.

Figure 13
Schedule of Funded Status - Judicial Retirement Plan I Fund ($ in Millions)
(In accordance with GASB Statement No. 25)

(1) Actuarial Valuation Date	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	(5) Funded Ratio (2)/(3)	(6) Annual Covered Payroll	(7) Ratio of UAAL To Covered Payroll (4)/(6)
	$	$	$	%	$	%
August 31, 2014	0	332.24	332.24	0.00	1.76	18,834.4

Figure 14
Net Pension Liability ($ in Millions)
(In accordance with GASB Statement No. 67)

	ERS	LECOS	JRS II
Actuarial Valuation Date: August 31, 2014	$	$	$
Total Pension Liability	39,510.92	1,542.98	386.29
Plan Fiduciary Net Position	25,050.12	869.88	365.29
Net Pension Liability	14,460.80	673.10	21.00
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.40%	56.38%	94.56%

Figure 15
Target Allocations

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-term Expected Portfolio Real Rate of Return
	%	%	%
Global Equity	55.00	7.31	4.02
Global Credit	10.00	1.94	0.19
Intermediate Treasuries	15.00	1.23	0.18
Real Estate	10.00	4.33	0.43
Infrastructure	4.00	6.21	0.25
Hedge Funds	5.00	7.03	0.35
Cash	1.00	0.00	0.00
Totals	100.00		5.42
Inflation			3.50
Expected Arithmetic Nominal Rate of Return			8.92

Figure 16
Assumptions for Single Discount Rate

	ERS	LECOS	JRS II
Expected investment rate of return	8.00%	8.00%	8.00%
Municipal bond rate (Note A)	4.17%	4.17%	N/A
Year fiduciary net position depleted	2041	2039	N/A
Single Discount Rate	6.07%	5.66%	8.00%

Note A: 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

Figure 17
Sensitivity of Net Pension Liability (in Millions)

	1% Decrease	Single Discount Rate	1% Increase
ERS:	5.07%	6.07%	7.07%
Net Pension Liability	$19,463.93	$14,460.80	$10,296.51
LECOS:	4.66%	5.66%	6.66%
Net Pension Liability	$897.11	$673.10	$489.97
JRS II:	7.00%	8.00%	9.00%
Net Pension Liability	$58.32	$21.00	($11.27)

The sensitivity of the net pension liability to one percentage point increase or decrease to the single discount rate is summarized in Figure 17.

3.C Retirement Systems Membership

The membership of the retirement plans as of August 31, 2014 is summarized in Figure 18. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

Figure 18
Retirement Systems Membership

	ERS				
	Employee Class	Elected Class	LECOS	JRS I	JRS II
Retirees and Beneficiaries Currently Receiving Benefits	95,128	712	10,024	406	267
Terminated Employees Entitled	96,395	112	11,311	3	139
Current Employees	133,844	318	37,084	12	554
Total	**325,367**	**1,142**	**58,419**	**421**	**960**

Note: Estimated based on actuarial valuation as of August 31, 2014

3.D Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2014 and 2013 are presented in Figure 19 The State Retiree Health Plan is a pay-as-you-go

Figure 19
Reserves

	ERS	LECOS	JRS II	Totals 2014	Totals 2013
Net Plan Assets Reserved For:	$	$	$	$	$
Employee Savings	5,213,640,471	29,508,062	69,364,268	5,312,512,801	5,289,874,625
State Accumulation	2,722,605,460	307,117,249	142,542,902	3,180,122,121	1,899,737,240
Annuity Reserves	17,113,870,538	533,252,340	153,382,907	17,792,649,275	16,777,984,574
Total Net Plan Assets Reserved	**25,050,116,469**	**869,877,651**	**365,290,077**	**26,285,284,197**	**23,967,596,439**
	(Exh. VIII)	**(Exh. VIII)**	**(Exh. VIII)**		

plan and has no reserves. See Note 1.G, Net Position Held In Trust for Pension Benefits, for a description of each reserve account.

3.E Historical Trend Information

Historical trend information is designed to provide information about the ERS, LECOS, JRS I and JRS II's progress made in accumulating sufficient assets to pay benefits when due. This information is presented in the Required Supplementary Information immediately after the Notes to the Basic Financial Statements.

4. Other Postemployment Benefit Plan

4.A Plan Descriptions and Contributions

State Retiree Health Plan

Plan Description

(in accordance with GASB Statement 43)

In addition to the pension benefits described in Note 2, the System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit postemployment health care plan that covers retired employees of the State, and other entities as specified by the State legislature. Benefit and contribution provisions of the State Retiree Health Plan are authorized by State law and may be amended by the Texas Legislature. Participating entities are listed in Figure 20. The principal participating employer is the state of Texas. State agencies and universities employ 186,435, which is 82.4% of the employees covered by the State Retiree Health Plan.

Contributions

Figure 21 summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution.

Figure 22 summarizes premium contributions by source and claims expenses on a pay-as-you-go basis for the current and prior fiscal years. The System's actuaries have estimated certain health, life, accidental death and dismemberment, and indemnity administrative fees.

The employer's share of the administrative expense and cost of retiree healthcare coverage above the cost charged using a blended rate is known as the implicit rate subsidy. It is measured as the difference between the claims costs for the retirees in the group and the amounts contributed for the retirees. For fiscal year 2014 there was a reverse implicit rate subsidy (retiree contributions subsidized actives) in the amount of $76,411,528 primarily due to Federal subsidies for Medicare Part D, as well as additional Tobacco Premium contributions and an increase in member and state contributions due to the rate increase.

Figure 20
Participating Reporting Entities for the State Retiree Health Plan

	September 1, 2013
State Agencies	118
Universities	26
Junior and Community Colleges	50
Other Entities	7
Total Participating Entities	**201**

Figure 21
Employer Contribution Rates – Retiree Health and Basic Life Premium – Fiscal Year 2014

	September 1, 2013
	$
Retiree Only	503.14
Retiree & Spouse	791.16
Retiree & Children	696.00
Retiree & Family	984.02

Figure 22
Contributions by Source and Claims Expenses - Retirees

	2014	2013
	$	$
Employer Contributions	605,512,388	535,905,107
Retiree Contributions	155,275,815	141,008,189
Total Contributions	**760,788,203**	**676,913,296**
Claims Expenses	**813,823,181**	**724,381,544**

4.B Funded Status and Funding Progress

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The assumptions are presented in Figure 23.

Figure 23
Actuarial Assumptions - State Retiree Health Plan

	State Retiree Health Plan
Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Annual Investment Return Assumption (discount rate):	5.50%
Projected Annual Salary Increase	3.50% to 11.50%
Weighted-average at Valuation Date	6.57%
Annual Healthcare Trend Rate	8.50% in FY 2016 to 5.50% in FY 2022
Inflation Assumption Rate	3.50%

The initial healthcare trend rate is 8.5% and the ultimate rate is 5.50%. The amortization period is open. Figure 24 shows the System's Funded Status for the State Retiree Health Plan as of August 31, 2014. Calculations are based on the benefit provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of cost between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

4.C State Retiree Health Plan Membership

The membership of the State Retiree Health Plan includes retirees who retired with at least 10 years of service to eligible entities. These retirees must meet certain age requirements. Surviving spouses and dependents of these retirees are also covered.
The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.
The membership of the State Retiree Health Plan membership as of August 31, 2014 is summarized in Figure 25.

Figure 25
State Retiree Health Plan Membership

Retirees	104,770
Covered spouses	27,722
Covered dependents	9,211
Total	**141,703**

Note: Estimated based on actuarial valuation as of August 31, 2014

As of August 31, 2014, there were 228,805 active members and 11,269 terminated employees who have accumulated benefits but are not yet receiving them.

4.D Reserves

The State Retiree Health Plan is a pay-as-you-go plan and has no reserves.

4.E Historical Trend Information

The historical trend information is designed to provide funding progress in the State Retiree Health Plan. This information is presented in the Required Supplementary Information immediately after the Notes to the Basic Financial Statements.

Figure 24
Schedule of Funded Status ($ in Millions)
(In accordance with GASB Statement No. 43)

(1) Actuarial Valuation Date	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	(5) Funded Raito (2)/(3)	(6) Annual Covered Payroll	(7) Ratio of UAAL To Covered Payroll (4)/(6)
	$	$	$	%	$	%
August 31, 2014	0	24,701.90	24,701.90	0.00	10,963.77	225.30

5. Interfund Activity and Transactions

5.A Interfund Receivables and Payables

(In accordance with GASB Statement 38)

At year-end, accruals related to interfund transfers and interfund reimbursements between the System's funds, are reported as Due From External Parties or Due To External Parties in the government-wide Statement of Net Position and as Due From Other Funds or Due To Other Funds in the fund financial statements (See Note 1.G). Figure 26 presents individual interfund receivable and interfund payable balances at August 31, 2014.

Figure 26
Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
	$	$
Governmental Activities:		
Governmental Funds	5,000	28,807
Employees Life, Accident & Health Insurance and Benefits Fund	173,028,701	3,172,989
Total Governmental Activities	**173,033,701**	**3,201,796**
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	3,831,075	173,662,980
Total - Interfund Receivables and Payables	**176,864,776**	**176,864,776**

5.B Interfund Transfers

(In accordance with GASB Statement 38)

Interfund Transfers include transfers of membership fees from the Employees Retirement Fund to other funds of the System and transfers between the Employees Retirement Fund and the Excess Benefit Arrangement Fund for retirement benefit payments (See Note 1.G).

Interfund Transfers between governmental activities and fiduciary funds are reclassified to revenues and expenses in the government-wide Statement of Activities. Figure 27 presents interfund transfers for the year ended August 31, 2014.

Figure 27
Inferfund Transfers

	Transfers In	Transfers Out
	$	$
Governmental Activities:		
Non-Major Governmental Funds:		
Social Security Administration (Agency 327, Fund 0955)	90,000	
Total Governmental Activities	**90,000**	**-**
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	190,797	280,797
Total - Interfund Transfers	**280,797**	**280,797**

5.C Interagency Transfers

Interagency Transfers include transfers between the System's funds and other funds of the State of Texas reporting entity that are for payment of benefits from the Compensation to Victims of Crime fund that are funded by the Office of the Attorney General. (See Note 1.G). Also included in this category is the amount transferred to the Teacher Retirement System for service established in the Employees Retirement Fund and payable from the Excess Benefit Arrangement Fund.

Interagency Transfers between Governmental Activities and other funds of the State are reclassified to revenues and expenses in the government-wide Statement of Activities.

6. Contingent Liability

6.A Litigation

The System is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the System's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the System.

6.B Sick Leave

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. In the event of an employee's death, a payment is made to the employee's estate for one-half of the accumulated leave or 336 hours, whichever is less. Such payments are recognized as expenses/expenditures when paid.

Service credit is given upon retirement at the rate of one month of service for each 160 hours of an employee's accumulated sick leave balance. Effective August 28, 1995, accumulated sick leave may also be used to meet service requirements to qualify for retirement at a rate of one month of service for each 160 hours of accrued unused sick leave for employees hired before September 1, 2009.

Employees hired after September 1, 2009 will not be able to use accumulated sick leave to meet retirement eligibility. The additional contingent liability for future compensation of sick leave, based on accumulated sick leave balances as of August 31 was not considered material.

7. Risk Management

(in accordance with GASB Statement 10)

7.A Risk Exposure

The System is exposed to the following types of claims for risk of loss:

- Health insurance
- Life insurance
- Accidental death and dismemberment (AD & D) insurance
- Disability insurance
- Dental insurance
- Property and casualty
- Unemployment
- Workers' compensation

7.B Risk Financing

Claims for health, life, accidental death and dismemberment (AD & D), disability, and dental insurance coverages are recorded in the Employees Life, Accident and Health Insurance and Benefits Fund under the Texas Employees Group Benefits Program (GBP). These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts and dental health maintenance organization (DHMO) contracts.

The System purchases commercial insurance to cover the risk of loss related to general liability; theft of, damage to, and destruction of assets; and natural disasters. Claims for unemployment and workers compensation are funded by the System on a pay-as-you-go basis, and they are paid out of the Employees Retirement System Fund. These claim expenses are allocated periodically to other funds based on percentages determined by a study of each fund's usage. The risk financing for different coverages is summarized in Figure 28.

7.C Liabilities

For self-funded coverages of the Internal Service Fund, the System's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Based on the estimates provided by the System's insurance actuary (Rudd and Wisdom, Inc.), liabilities are reevaluated to consider current settlements, frequency of claims, past experience and economic factors. Changes in the balances of the self-funded claims liabilities for the current and prior fiscal years are presented in Figure 29.

Figure 29
Changes in Self-Funded Claims Liabilities

	2014	2013
	$	$
Beginning of Balance	523,229,859	498,148,853
Current-Year Claims and Changes in Estimates	1,902,693,901	1,640,257,859
Claims Payments	(1,883,734,381)	(1,615,176,853)
Balance	**542,189,379**	**523,229,859**

Figure 28
Summary of Risk Financing

Type of Coverage	Plan Name	Self-Funded	Risk Retained with
Health	• HealthSelect	Yes	System
	• HMOs	No	Insurance Carrier
	• Prescription Drug	Yes	System
Life	N/A	No	Insurance Carrier
Accidental Death and Dismemberment	N/A	No	Insurance Carrier
Disability	N/A	Yes	System
Dental	• DHMOs	No	Insurance Carrier
	• Dental Indemnity Plan	Yes	System
Property and Casualty	N/A	No	Insurance Carrier
Unemployment	N/A	Yes	System
Workers' Compensation	N/A	Yes	System

For coverages that are insured (not self-funded), no significant reductions in insurance coverage occurred in the past year, and settled claims have not exceeded commercial insurance coverage in any of the past four fiscal years.

For both self-funded and insured coverages of the Internal Service Fund, the balance of claims that have been incurred but not reported as of August 31, 2014 is $513,480,245.

8. Termination Benefits

(in accordance with GASB Statement 47)

Termination benefits in the form of healthcare continuation under Consolidated Omnibus Budget Reconciliation Act (COBRA) are provided for both voluntary and involuntary terminations under the Group Benefits Program.

The System maintains the COBRA membership in the Group Benefits Program as part of a group without designating the entity where the members worked prior to being eligible for COBRA benefits. The Group Benefits Program has 1,144 COBRA participants.

The COBRA members are eligible to remain in the Group Benefits Program for 18 months, 29 months if disabled, and their dependents are eligible to remain in the program for 36 months. The premium rates are set annually, and are based on the experience of the group.

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans

(in 000's)

	2014 (Note A)		
	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II
Total Pension Liability			
Service Cost	1,139,451	54,528	17,805
Interest	2,324,180	88,025	28,004
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(252,967)	(76,585)	(640)
Changes of Assumptions	1,199,067	68,228	(25,924)
Benefit Payments and Refunds	(1,963,481)	(57,147)	(16,420)
Net Change in Total Pension Liability	**2,446,250**	**77,049**	**2,825**
Total Pension Liability - Beginning	**37,064,667**	**1,465,929**	**383,461**
Total Pension Liability - Ending	**39,510,917**	**1,542,978**	**386,286**
Plan Fiduciary Net Position			
Contributions - Employer	482,239	27,758	12,211
Contributions - Member	430,595	8,180	5,195
Pension Plan Net Investment Income	3,252,417	111,741	46,186
Benefit Payments and Refunds	(1,963,481)	(57,147)	(16,420)
Pension Plan Administrative Expense	(20,195)	(1,324)	(267)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	**2,181,575**	**89,208**	**46,905**
Plan Fiduciary Net Position - Beginning	**22,868,542**	**780,670**	**318,385**
Plan Fiduciary Net Position - Ending	**25,050,117**	**869,878**	**365,290**
Net Pension Liability - Ending	**14,460,800**	**673,100**	**20,996**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	**63.40%**	**56.38%**	**94.56%**
Covered Employee Payroll (Note B)	**5,955,461**	**1,496,013**	**77,441**
Net Pension Liability as a Percentage of Covered Employee Payroll	**242.82%**	**44.99%**	**27.11%**

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Note B: The covered employee payroll is the actual annual payroll for the fiscal year as reported by the System. The change in the Total Pension Liability due to the change in the Single Discount Rate is included as an assumption change.

Required Supplementary Information

Schedule of Funding Progress – Defined Benefit Plans

(in 000's)

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a)	(b) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL As A Percentage Of Covered Payroll (c)/(e)
	(000's)	(000's)	(000's)	%	(000's)	%
Judicial Retirement System Plan One (JRS I)						
2009	0	268,275	268,275	0.0	2,965	9,048.1
2010	0	264,077	264,077	0.0	2,827	9,341.2
2011	0	245,777	245,777	0.0	2,200	11,171.7
2012	0	232,922	232,922	0.0	2,200	10,587.4
2013	0	252,943	252,943	0.0	1,904	13,284.8
2014	0	332,238	332,238	0.0	1,764	18,834.4
State Retiree Health Plan						
2009	0	21,992,356	21,992,356	0.0	10,045,849	218.9
2010	0	22,329,556	22,329,556	0.0	10,437,333	214.0
2011	0	21,502,434	21,502,434	0.0	10,376,487	207.2
2012	0	20,823,410	20,823,410	0.0	10,268,696	202.8
2013	0	23,030,469	23,030,469	0.0	10,478,117	219.8
2014	0	24,701,904	24,701,904	0.0	10,963,773	225.3

Required Supplementary Information
Schedule of Employer Contributions – Defined Benefit Plans

	2014 (Note A)		
	Employee Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II
	$	$	$
Actuarially Determined Contribution	727,892,157	40,205,389	13,448,473
Actual Contribution	482,239,018	27,757,980	12,210,663
Contribution Deficiency (Excess)	245,563,139	12,447,409	1,237,810
Covered Payroll	5,955,460,705	1,496,012,750	77,441,466
Actual Contribution as a % of Covered Payroll	8.10%	1.86%	15.77%

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Judicial Retirement System Plan I		
Fiscal Year	Annual Required Contribution (ARC)	Percentage Contributed
	$	%
2010	23,451,818	116.4
2011	23,064,889	117.0
2012	21,424,293	123.5
2013	20,335,827	125.8
2014	22,000,726	126.0
2015	20,050,937	N/A

Required Supplementary Information
Schedule of Contributions from the Employers and Other Contributing Entities

Fiscal Year	Contributions from Employers	Contributions from Federal Government	Annual Required Contribution (ARC)	Percentage Contributed
State Retiree Health Plan (Note A)				
	$	$	$	%
2009	447,765,282	35,783,527	1,997,932,603	24.2
2010	478,348,504	40,988,263	2,014,533,554	25.8
2011	444,894,921	68,382,666	1,882,731,828	27.3
2012	483,636,154	80,336,211	1,800,991,324	31.3
2013	535,905,107	50,874,160	1,935,921,646	30.3
2014	605,512,388	63,361,490	2,056,089,003	32.5

Note A: Percentage contributions on the Schedule of Employer Contributions includes both employer (State) and federal contributions.

Required Supplementary Information
Schedule of Investment Returns – Defined Benefit Plans

	2014 (Note A)
	%
Employees Retirement Fund	14.58
Law Enforcement and Custodial Officer Supplemental Fund	14.55
Judicial Retirement System Plan II	14.55
Overall	14.58

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information
Notes to The Required Supplementary Information

Defined Benefit Plans

The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board of Trustees. Additional information on the actuarial assumptions as of the latest actuarial valuation is summarized in Figure 1.

The total pension liability reported in the Schedule of Changes in Net Pension Liability and Related Ratios was provided by the System's actuary. The net pension liability is measured as the total pension liability less the amount of fiduciary net position of the pension plans.

The actuarially determined contributions for the Employees Retirement Fund, the Law Enforcement and Custodial supplemental Fund, and Judicial Retirement Plan II are calculated as of August 31, 2014, based on the actuarial assumptions described in Figure 1. These contributions are reported in the Schedule of Employer's Contribution – Defined Benefit Plans.

Beginning August 31, 2014, the Actuarial Accrued Liability and the Annual Required Contribution for the Judicial Retirement Plan I are determined based on a discount rate derived from a current municipal bond rate. Before August 31, 2014, an 8.00% discount rate was used.

Figure 1
Summary of Actuarial Assumptions - Defined Benefit Plans

	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan I	Judicial Retirement System Plan II
Valuation Date	August 31, 2014	August 31, 2014	August 31, 2014	August 31, 2014
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open
Remaining Amortization Period	31	31	30	31
Asset Valuation Method	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	N/A	20% of market plus 80% of expected actuarial value
Actuarial Assumptions:				
Investment Rate of Return	8.00%	8.00%	4.17%	8.00%
Projected Salary Increases	0.0% – 11.5%	5.0% – 11.5%	3.5%	3.5%
Inflation Rate	3.5%	3.5%	3.5%	3.5%
Cost-of-living Adjustments	None – Employee 3.5% – Elected	None	3.5%	None

Other Postemployment Benefit Plan

The following assumptions have been changed since the previous Other Postemployment Benefits (OPEB) valuation:

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience;
- The percentage of future retirees electing coverage for their spouses, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program a the earliest date at which coverage can commence, and the percentage of future retirees assumed to use tobacco have been updated to reflect recent plan experience and expected trends;
- Assumed rates of retirements for Higher Education members who are not grandfathered under current TRS Care eligibility provisions as of August 31, 2014 were updated to remain consistent with the assumptions used by the TRS retirement plan actuary; and
- The Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience.

The following benefit revisions have been adopted since the prior valuation: (a) implementation of an overall annual out-of-pocket maximum in accordance with the requirements of the ACA, (b) mental health benefit changes; (c) benefit enhancements for hearing aids and breast pumps and (d) copay reductions for generic prescription drugs. These changes became effective September 1, 2014 (except for the out-of-pocket maximum which becomes effective January 1, 2015) and are incorporated into this valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits. The new benefit provisions are expected to have no impact on the employer's cost.

Other Supplementary Information - Schedule A-1

Combining Statement of Net Position - Agency Funds

August 31, 2014

	Unappropriated Receipts General Revenue Funds (0001) (U/F 1001)	Child Support Employee Deductions Offset Account (8070) (U/F 8070)	USPS Overpayments to Employees (0900) (U/F 9015)	Warrant Hold Offset (0900) (U/F 9016)	Direct Deposit Correction Account (0980) (U/F 0980)	USPS Direct Deposit Return Money (0980) (U/F 9014)	Totals
Assets	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Current Assets:							
Cash and Cash Equivalents:							
Cash in State Treasury		2,395					2,395
Total Cash and Cash Equivalents	-	2,395	-	-	-	-	2,395
Receivables:							
Accounts Receivable	5,550						5,550
Total Current Assets	**5,550**	**2,395**	**-**	**-**	**-**	**-**	**7,945**
Total Assets	**5,550**	**2,395**	**-**	**-**	**-**	**-**	**7,945**
Liabilities							
Current Liabilities:							
Accounts Payable	5,550						5,550
Funds Held For Others		2,395					2,395
Total Current Liabilities	**5,550**	**2,395**	**-**	**-**	**-**	**-**	**7,945**
Total Liabilities	**5,550**	**2,395**	**-**	**-**	**-**	**-**	**7,945**

Other Supplementary Information – Schedule A-2

Combining Statement of Changes in Assets and Liabilities - Agency Funds

August 31, 2014

	Beginning Balances	Additions	Deductions	Ending Balances
	$	$	$	$
Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)				
Assets				
Cash in State Treasury	-	87,924	87,924	-
Accounts Receivable	6,568	79,976	80,994	5,550
Total Assets	**6,568**	**167,900**	**168,918**	**5,550**
Liabilities				
Accounts Payable	6,568	86,906	87,924	5,550
Total Liabilities	**6,568**	**86,906**	**87,924**	**5,550**
Child Support Employee Deductions - Offset Account (0807) (U/F 8070)				
Assets				
Cash in State Treasury	3,883	42,473	43,961	2,395
Total Assets	**3,883**	**42,473**	**43,961**	**2,395**
Liabilities				
Vouchers Payable	-	40,078	40,078	-
Funds Held For Others	3,883	42,473	43,961	2,395
Total Liabilities	**3,883**	**82,551**	**84,039**	**2,395**
USPS - Overpayments to Employees (0900) (U/F 9015)				
Assets				
Cash in State Treasury	-	878	878	-
Total Assets	**-**	**878**	**878**	**-**
Liabilities				
Funds Held For Others	-	878	878	-
Total Liabilities	**-**	**878**	**878**	**-**
Warrant Hold Offset (0900) (U/F 9016)				
Assets				
Cash in State Treasury	-	1,027	1,027	-
Total Assets	**-**	**1,027**	**1,027**	**-**
Liabilities				
Funds Held For Others	-	1,027	1,027	-
Total Liabilities	**-**	**1,027**	**1,027**	**-**
Correction Account for Direct Deposit (0980) (U/F 0980)				
Assets				
Cash in State Treasury	-	526,805	526,805	-
Total Assets	**-**	**526,805**	**526,805**	**-**
Liabilities				
Funds Held For Others	-	526,805	526,805	-
Total Liabilities	**-**	**526,805**	**526,805**	**-**
USPS - Direct Deposit Return Money (0980) (U/F 9014)				
Assets				
Cash in State Treasury	-	642	642	-
Total Assets	**-**	**642**	**642**	**-**
Liabilities				
Funds Held For Others	-	642	642	-
Total Liabilities	**-**	**642**	**642**	**-**
All Agency Funds				
Assets				
Cash in State Treasury	3,883	659,749	661,237	2,395
Accounts Receivable	6,568	79,976	80,994	5,550
Total Assets	**10,451**	**739,725**	**742,231**	**7,945**
Liabilities				
Vouchers Payable	-	40,078	40,078	-
Accounts Payable	6,568	86,906	87,924	5,550
Funds Held For Others	3,883	571,825	573,313	2,395
Total Liabilities	**10,451**	**698,809**	**701,316**	**7,945**

Other Supplementary Information – Schedule 1

Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Employees Retirement Fund

Year Ended August 31, 2014

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	$	$	$	$	$	$
Contributions to Retirement System:						
Member Contributions	422,007,892					422,007,892
Employer Contributions		481,862,043				481,862,043
Service Contributions from Teacher Retirement System		80,163,847				80,163,847
Membership Fees					466,975	466,975
Penalty Interest		8,587,005				8,587,005
Investment Income:						
Net Appreciation in Fair Value of Investments				2,655,804,254		2,655,804,254
Interest and Dividends				630,389,878		630,389,878
Class Action Settlements				481,326		481,326
Rental Income					37,450	37,450
Warrants Voided By Statute of Limitations		101,284				101,284
Miscellaneous					21,544	21,544
Total Operating Revenues	**422,007,892**	**570,714,179**	**-**	**3,286,675,458**	**525,969**	**4,279,923,498**
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			1,916,253,578			1,916,253,578
Death Benefits:						
Active Members		1,484,982				1,484,982
Retirees			1,567,737			1,567,737
Member Contributions Withdrawn	106,809,179					106,809,179
Service Contributions to Teacher Retirement System		17,440,313				17,440,313
Administrative Expenses					53,034,706	53,034,706
Depreciation Expense					1,473,536	1,473,536
Total Operating Expenses	**106,809,179**	**18,925,295**	**1,917,821,315**	**-**	**54,508,242**	**2,098,064,031**
Income (Loss) Before Non-Operating Expenses and Operating Transfers	**315,198,713**	**551,788,884**	**(1,917,821,315)**	**3,286,675,458**	**(53,982,273)**	**2,181,859,467**
Non-Operating Revenues (Expenses)						
Loss on Disposal of Fixed Assets					(4,212)	(4,212)
Income (Loss) Before Operating Transfers	**315,198,713**	**551,788,884**	**(1,917,821,315)**	**3,286,675,458**	**(53,986,485)**	**2,181,855,255**
Operating Transfers In (Out)						
Distribution of Interest	149,917,884	1,798,001,451	1,284,488,841	(3,232,408,176)		-
Establishment of Benefit Reserves	(450,207,754)	(1,148,753,500)	1,598,961,254			-
Distribution of Interest for Administrative Expenses				(54,267,282)	54,267,282	-
Benefits Waived		3,331	(3,331)			-
Member Accounts-Escheated	(2,274,859)	2,274,859				-
Membership Fees Transferred Out					(90,000)	(90,000)
Excess Benefit Arrangement Transfers					(190,797)	(190,797)
Net Operating Transfers	**(302,564,729)**	**651,526,141**	**2,883,446,764**	**(3,286,675,458)**	**53,986,485**	**(280,797)**
Net Income (Loss)	**12,633,984**	**1,203,315,025**	**965,625,449**	**-**	**-**	**2,181,574,458**
Account Balances - Beginning	**5,201,006,487**	**1,519,290,435**	**16,148,245,089**			**22,868,542,011**
Account Balances - Ending	**5,213,640,471**	**2,722,605,460**	**17,113,870,538**	**-**	**-**	**25,050,116,469**

Other Supplementary Information – Schedule 2

Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Law Enforcement and Custodial Officer Supplemental Retirement Fund

Year Ended August 31, 2014

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	**$**	**$**	**$**	**$**	**$**	**$**
Contributions to Retirement System:						
Member Contributions	8,179,640					8,179,640
State Retirement Contributions		27,757,980				27,757,980
Investment Income:						
Net Appreciation in Fair Value of Investments				91,227,107		91,227,107
Interest and Dividends				21,699,327		21,699,327
Class Action Settlements				16,513		16,513
Warrants Voided By Statute of Limitations		452				452
Total Operating Revenues	**8,179,640**	**27,758,432**	**-**	**112,942,947**	**-**	**148,881,019**
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			55,221,339			55,221,339
Refunds of Retirement Contributions	1,919,350					1,919,350
Death Benefits:						
Active Members		6,467				6,467
Retirees						-
Administrative Expenses					2,525,898	2,525,898
Total Operating Expenses	**1,919,350**	**6,467**	**55,221,339**	**-**	**2,525,898**	**59,673,054**
Income (Loss) Before Operating Transfers	**6,260,290**	**27,751,965**	**(55,221,339)**	**112,942,947**	**(2,525,898)**	**89,207,965**
Operating Transfers In (Out)						
Distribution of Interest	18,674	70,622,694	39,775,681	(110,417,049)		-
Establishment of Benefit Reserves	(1,203,814)	(64,807,077)	66,010,891			-
Administrative Expenses				(2,525,898)	2,525,898	-
Net Operating Transfers	**(1,185,140)**	**5,815,617**	**105,786,572**	**(112,942,947)**	**2,525,898**	**-**
Net Income (Loss)	**5,075,150**	**33,567,582**	**50,565,233**	**-**	**-**	**89,207,965**
Account Balances - Beginning	**24,432,912**	**273,549,667**	**482,687,107**	**-**	**-**	**780,669,686**
Account Balances - Ending	**29,508,062**	**307,117,249**	**533,252,340**	**-**	**-**	**869,877,651**

Other Supplementary Information – Schedule 3

Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Judicial Retirement System Plan Two Fund

Year Ended August 31, 2014

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	**$**	**$**	**$**	**$**	**$**	**$**
Contributions to Retirement System:						
Member Contributions	5,165,056					5,165,056
Employer Contributions		12,210,663				12,210,663
Penalty Interest		30,065				30,065
Investment Income:						
Net Appreciation in Fair Value of Investments				37,652,891		37,652,891
Interest and Dividends				8,986,564		8,986,564
Class Action Settlements				6,802		6,802
Miscellaneous					140	140
Total Operating Revenues	**5,165,056**	**12,240,728**	**-**	**46,646,257**	**140**	**64,052,181**
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			16,166,196			16,166,196
Member Contributions Withdrawn	253,521					253,521
Administrative Expenses					727,129	727,129
Total Operating Expenses	**253,521**	**-**	**16,166,196**	**-**	**727,129**	**17,146,846**
Income (Loss) Before Operating Transfers	**4,911,535**	**12,240,728**	**(16,166,196)**	**46,646,257**	**(726,989)**	**46,905,335**
Operating Transfers In (Out)						
Distribution of Interest	1,755,368	32,424,790	11,739,110	(45,919,268)		-
Establishment of Benefit Reserves	(1,737,861)	(9,019,754)	10,757,615			-
Distribution of Interest for Administrative Expenses				(726,989)	726,989	-
Net Operating Transfers	**17,507**	**23,405,036**	**22,496,725**	**(46,646,257)**	**726,989**	**-**
Net Income (Loss)	**4,929,042**	**35,645,764**	**6,330,529**	**-**	**-**	**46,905,335**
Account Balances - Beginning	**64,435,226**	**106,897,138**	**147,052,378**	**-**	**-**	**318,384,742**
Account Balances - Ending	**69,364,268**	**142,542,902**	**153,382,907**	**-**	**-**	**365,290,077**

Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts

Year Ended August 31, 2014

	Administrative Expenses	
	Non-Investment	**Investment**
Personnel Services	**$**	**$**
Salaries and Wages	18,439,447	9,864,194
Payroll Related Costs:		
Retirement Contributions	1,373,882	557,203
Retirement Membership Fees	819	183
Employees Insurance Contributions	1,876,158	450,122
Retirees Insurance Contributions	884,738	200,897
Social Security Contributions	1,307,272	527,213
Unemployment Compensation	20,535	4,662
Total Payroll Related Costs	5,463,404	1,740,280
Total Personnel Services	**23,902,851**	**11,604,474**
Professional Fees and Services (Note A)		
Actuarial Services	906,249	
Audit Services	275,130	
Investment Consulting Fees		2,285,395
Investment Advisors		15,369,753
Medical Board Member Fees	43,950	
Architectural Services	19,768	2,478
Legal Services	921,916	
Computer Programming Services	3,126,025	171,644
Other Professional Services	264,381	50,624
Total Professional Fees and Services	**5,557,419**	**17,879,895**
Other Services and Charges		
Travel	184,627	467,445
Materials and Supplies:		
Postage	684,808	
General Office and Other Supplies	203,206	239
Subscriptions	17,156	8,730
Furniture and Equipment	429,530	123,187
Computer Software	422,980	256,500
Total Materials and Supplies	1,757,680	388,656
Communications and Utilities:		
Electricity, Gas and Water	244,929	
Telephone and Telegraph	466,360	4,799
Electronic Communication Services	167,261	5,015,204
Total Communications and Utilities	878,550	5,020,003
Repairs and Maintenance:		
Land and Building	160,798	
Furniture and Equipment	23,733	
Computer Software and Equipment	830,605	82,750
Total Repairs and Maintenance	1,015,136	82,750
Rentals and Leases:		
Computer Software and Equipment	516,695	
Office Equipment	242,647	
Space	12,706	
Total Rentals and Leases	772,048	-
Printing and Reproduction Services	77,435	
Depreciation	1,473,536	
Interest Expense	237	

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Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts (Concluded)

Year Ended August 31, 2014

	Administrative Expenses	
	Non-Investment	**Investment**
Other Services and Charges (continued)	**$**	**$**
Other Operating Expenses/Expenditures:		
Membership Fees	42,021	64,920
Employee Training	174,873	63,579
Insurance - Building and Vehicle	31,967	
Fees and Other Charges	20,386,032	4,799
Investment Banking		939,492
Tenure Awards	2,527	
Witness Fees	200	
Temporary Employment Agencies	345,864	84,169
Cleaning Services	151,264	
Advertising Services	4,272	225
Freight/Delivery Services	5,186	
Purchased Contracted Services	1,158,091	9,312
Prompt Payment Interest	237	
SORM Assessment	7	2
Third Party Administrator Fee - Cafeteria Plan	1,337,317	
Debit Card Fees - Cafeteria Plan	631,043	
Total Other Operating Expenses/Expenditures	24,270,901	1,166,497
Total Other Services and Charges	**30,430,150**	**7,125,351**
Total Expenses/Expenditures	**59,890,420**	**36,609,720**
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	20,194,988	34,313,254
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	1,323,502	1,202,395
Judicial Retirement System Plan One Fund (0001)	-	-
Judicial Retirement System Plan Two Trust Fund (0993)	266,846	460,283
Texa$aver 401(k) Trust Fund (0946)	590,212	30,754
Texa$aver 457 Trust Fund (0945)	334,265	16,326
State Employees Cafeteria Plan Trust Fund (0943)	2,460,042	15,552
State Retiree Health Plan (3973)	10,582,410	17,599
Total Fiduciary Funds	**35,752,265**	**36,056,163**
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	23,981,568	553,557
Total Proprietary Fund	**23,981,568**	**553,557**
Social Security Administration Trust Account (0929)	156,587	
Death Benefits for Certain Law Enforcement Officers, Fire Fighters and Others (0001)		
Total Governmental Funds	**156,587**	**-**
Total Method of Finance	**59,890,420**	**36,609,720**

Note A: $70,039,985 management fees for Alternative Investments were reported as part of the fair value of Investments. Details of the management fees are listed in the Investment Section.

Other Supplementary Information – Schedule 5

Professional and Consulting Fees

Year Ended August 31, 2014

Nature of Service	Totals
	$
Medical Board	43,950
Investment Consulting	2,285,395
Investment Advisors	15,369,753
Actuarial Services - Insurance	540,484
Actuarial Services - Retirement	365,765
Computer Programming Services	3,297,669
Audit Fees - Insurance Carrier	186,157
Audit Fees - Other	88,974
Educational Services	60,286
Architectural Services	22,246
Legal Services	921,916
Information Technology Advisor Services	83,425
Enterprise Risk Assessment Services	67,923
Contact Center Assessment	24,000
Investment Tax Agent Services	23,953
Electronic Materials Development Services	10,343
Telecommunication Evaluation Services	9,826
Compensation Consulting Services	9,100
Health Insurance Survey Services	7,181
Employee Assistance Program	5,842
Ergonomic Workstation Evaluation Consulting	1,275
Survey of Employee Engagement	1,789
Writing and support Services for Communication Campaigns	3,044
Other Professional and Consulting Fees	7,018
Total Professional and Consulting Fees	**23,437,314**

Method of Finance:	
State Employees Retirement System (S.E.R.S.) Trust Accounts (0955)	20,183,278
Law Enforcement and Custodial Officer Suppl. Retirement Trust Fund (0977)	650,899
Judicial Retirement Plan Two Trust Fund (0993)	251,401
State Retiree Health Plan (3973)	648,647
Texa$aver 401(k) Trust Fund (0946)	35,582
Texa$aver 457 Trust Fund (0945)	13,403
State Employees Cafeteria Plan Trust Fund (0943)	40,365
Total Fiduciary Funds	**21,823,575**
Employees Life, Accident, Health Insurance and Benefits Trust Accounts (0973)	1,609,221
Total Proprietary Fund	**1,609,221**
Social Security Administration Fund (0929)	4,518
Total Governmental Fund	**4,518**
Total Method of Finance	**23,437,314**

INVESTMENT SECTION

Report on Investment Activity

Outline of Investment Policies

Time-weighted Rates of Return and Asset Allocations

Broker Commissions

Management Fees for Alternative Investments

Investment Advisory and Service Fees

List of Largest Assets Held

Investment Summary at Fair Value

Report on Investment Activity
Fiscal Year 2014

Overview

The System's investment portfolio closed the fiscal year with a fair value of $26.2 billion, and received a gross return of 14.70% for the year compared to the global policy benchmark return of 15.00%. Over the longer term, the fund returned 10.41% for the 5 years ended August 31, 2014, outperforming the policy benchmark of 10.25%. For the 10 years ended August 31, 2014, the fund returned 7.40%, outperforming the policy benchmark of 6.93%. The fiscal year-end asset allocation stood at 23.20% fixed-income, 53.59% global public equity, 7.72% global real estate, 8.88% private equity, 1.57% infrastructure, 4.32% absolute return funds, and 0.72% in cash.

Accelerating the transition to the new asset allocation (based on the fiscal years 2012 to 2013 Asset/Liability Study) remained a priority this year, along with pursuing strategy development to reduce the unfunded pension liability. In further collaboration with other divisions, the System continues to explore changes to Texa$aver fund offerings and assist in RFP searches.

The new asset allocation goals have prompted an increase in staff and added a fixed income portfolio manager, an infrastructure portfolio manager, a private equity portfolio manager, an operations financial analyst, a strategic research analyst, and an executive assistant. The System remains committed to developing a career path program and to attracting and retaining excellent investment professionals. The System also conducted a study of the Incentive Compensation Plan through a third party consultant. In addition to full-time staff goals, the System expanded the internship program and plans to further develop the program going forward.

Management continues to recognize the importance of optimizing the mix of internally managed and externally advised portfolios and enhancing the risk management processes, including evaluation of risk management technology needs across all asset classes. Staff initiated the implementation of the derivatives program, and hosted a derivatives and math bond training session at the System, which was attended by the System's Investments staff as well as investments professionals from several local pension funds in Texas.

Numerous Investments team members from the System were the recipients of industry awards this year. Institutional Investor magazine nominated Tom Tull as Chief Investment Officer of the Year, and also nominated Leighton Shantz and the Fixed Income team for the prestigious 2014 Investor Intelligence Award. The Real Estate team won the award for Best Indirect Strategy at the 2014 Real Estate Global Awards, and aiCIO magazine recognized Robert Lee III as part of the new generation of innovative hedge fund portfolio managers. These awards, together with attendance and presentations at over 30 conferences throughout the year, demonstrate that the System's Investment team is a leader and innovator in the industry.

Domestic Equity

The leading U.S. equity benchmarks had positive double digit returns for fiscal year 2014. The Dow Jones Industrial Average reached a new closing high at 17,138.20 on July 16th. The S&P 500 Index reached a new closing high at 2,003.37 on August 29th. The technology laden NASDAQ reached its highest closing level since the tech-stock rally in 2000 at 4,580.27 on August 29th. The S&P 400 Mid Cap Index and the S&P 600 Small Cap Index reached new closing highs on July 1st and July 3rd, respectively. Stocks have risen due to a combination of positive corporate earnings, a strengthening economy, and easy-money policies from the Federal Reserve. Equities have also gained because they offer an alternative to bonds, where interest rates remain close to record lows.

On December 18th the Federal Reserve announced that it would reduce its monthly purchases of Treasury bonds and mortgage-backed securities in $10 billion increments on a monthly basis. The bond-buying program, also known as quantitative easing, is expected to end in October 2014 if the economy progresses as the policy makers expect. The decision to end the program signals the end of one of the central bank's most aggressive efforts to stimulate the economy. Short-term interest rates have been near zero since December 2008. The economy continues to improve; however, a significant gap remains between current conditions and a full economic recovery.

The Commerce Department reported that gross domestic product (GDP), the broadest measure of goods and services produced across the economy, grew at an annualized rate of 2.6% during the fourth quarter (October thru December). GDP declined at an annualized rate of 2.1% during the first quarter (January thru March). The decline was mostly due to an abnormally cold winter which reduced economic activity and raised costs for businesses. GDP rose at an annualized rate of 4.2% during the second quarter (April thru June). For all of Calendar Year 2013 the economy expanded at a rate of 1.9%.

All economic sectors had positive returns for fiscal year 2014. On a relative basis the top performers were Information Technology, Health Care, and Materials. Telecom Services and Consumer Staples were the weakest relative performers during fiscal year 2014.

International Equity

Geo-Political events captured the headlines as sanctions and elections dominated news over the course of the year. Emerging Markets finished the year outperforming both Europe and the Pacific Region. The biggest headline of the year was the Russia/Ukraine conflict when Russia laid claim to Crimea shortly after the Ukrainian Parliament used constitutional powers to unseat the President. The result has been a trade war as Russia and the West implemented political and economic sanctions. Among the strongest performing countries in Emerging Markets was India, where markets rallied in anticipation of the election of Narendra Modi on the premise of economic reform. European markets also went through an election cycle as Angela Merkel was re-elected as German Chancellor and Italian Prime Minster Enrico Letta won a vote of confidence from the Senate. European markets continued to move higher as ECB President Draghi vowed to keep additional stimulus packages on the table in an effort to battle low inflation threatening Euro Zone economies. In Asia, Japanese Prime Minister Abe unveiled an 18.6 trillion yen ($182b) stimulus package to provide continued support for the economy and offset the April consumption tax hike.

The Morgan Stanley Capital International ACWI ex U.S. index (+17.8%) and EAFE index (+16.4%) finished higher in U.S. dollar terms during the course of the year. Emerging Markets (+20.0%) was the top performing market, led by gains from new index member United Arab Emirates (+72.1%), Egypt (+70.9%), and India (+52.4%). Brazil (+32.7%) also had strong performance in anticipation of the upcoming elections and potential change in leadership. Underperforming markets included Hungary (-17.1%), Chile (-7.1%), and Russia (-6.0%). Europe (+17.9%) also posted solid returns driven by gains in Spain (+36.6%), Italy (+26.0%), and Ireland (+20.1%). Larger economies lagged the overall market as Sweden (+10.4%), France (+14.1%), and Germany (+15.6%) underperformed. The Pacific Region finished up a respectable 13.5%, led by gains in New Zealand (+21.2%) with Hong Kong (+20.4%) and Australia (+20.3%) close behind. Despite aggressive stimulus packages, Japan (+9.8%) underperformed but still finished in positive territory.

Currency markets continued to react to government intervention with the greatest impact felt by the Yen (-5.7%, 98.17 to 104.09 USD/JPY), followed by the Swedish Kroner (-5.3%, 6.62 to 6.99 USD/SEK). The Euro (-0.7%, 1.32 to 1.31 EUR/USD) weakened in the latter half of the year after reaching a high of 1.40 EUR/USD in May. The strongest currency was the Pound (+7.1%, 1.55 to 1.66 GBP/USD), followed by the Aussie Dollar (+4.9%, .89 to .93 AUD/USD). The trade weighted U.S. Dollar (+0.8%) finished slightly higher.

Real Estate

Following the fiscal year 2013 return of 6.6%, the global real estate equity markets, as measured by the FTSE EPRA/NAREIT Developed Index, delivered a stellar performance with an increase of 20.3% for the fiscal year ending August 31, 2014. The index increased in ten months and decreased in only two months: -3.4% in November 2013 and -0.3% in January 2014. The decreases were a result of market speculation that the Federal Reserve may begin to taper sooner on the back of overall strong economic data (i.e. “good news is bad news”). Despite the intensifying geopolitical tensions in the Middle East region and the Russian conflicts, the index rallied during the fiscal year amid an accommodative interest rate environment and broader economic recovery globally. All regions had strong returns with the UK (+35.5%) as the strongest performer, followed by Continental Europe (+24.9%), and North America (+23.8%). Asia (+11.6%) and Middle East (+11.6%) lagged on a relative basis but still managed to achieve double-digit returns.

The European region achieved strong performance for the fiscal year with the peripheral countries exhibiting the largest advances. The rally was fueled by easing concerns on the economic recovery and investor sentiment on Continental Europe which improved dramatically on Draghi’s “whatever it takes” comments. The peripheral countries’ government bond yields declined significantly over the period. While the operating environment remained challenging, overall earnings results showed signs of stabilization. The UK region’s total fiscal year return increased by 35.5% and was the fourth consecutive positive fiscal year since the global financial crisis. The region’s performance was supported by expectations of an improving economic recovery and continued low interest rates. Over the course of the year, real estate demand started to spread from London to the broader economy. Secondary properties in good locations started to see stronger inquiries resulting in higher prices. Although lagging its regional peers, Asia was able

to deliver a decent 11.6% return. General concerns regarding the Chinese economy and the overall slowing in the Asian markets proved a hindrance on returns. Despite its challenging fundamentals, the Australian REITs gained 26.1% for the fiscal year, reflecting investors' preference in yield from a low growth environment. While investors anticipated the peaking of the real estate cycle and potential price correction for Hong Kong (+16.7%) and Singapore (+15.7%), the physical market performed better than expected and helped support equity prices. Japan only gained 3.1% after stellar returns of +43.2% in fiscal year 2013. The rich valuations and the fragile economic recovery remained the key concerns. China (-20.3%) was the only market with negative returns for the fiscal year driven by deteriorating macroeconomic fundamentals, oversupply in the housing market, and tight credit conditions.

Following a lackluster performance (+0.7%) in fiscal year 2013, the US return dramatically improved in fiscal year 2014 with an increase of 24.3% and all sectors achieving double-digit returns. The hotel (+37.3%), residential (+29.9%), retail (+24.8%), diversified (+24.6%), office (+23.6%), and self-storage (+20.6%) were the best advancers. Due to their shorter lease durations, sectors like hotel, self-storage, and residential were quicker to respond to positive economic trends which was reflected in improved NOI and earnings growth. Residential also benefited from better than expected fundamentals after significantly underperforming the industry last year. Over the past year, earnings improved because of accretive acquisitions and development, capitalizing on improving fundamentals, and a healthy spread between their cost of capital and current yields. However, it became increasingly clear over the year that competition, potential increased supply, and a higher cost of capital could pressure yields in most sectors going forward. Slower to recover sectors includes industrial (+18.7%) and healthcare (+15.0%), but they were still able to deliver solid returns during the period. Canada gained 18.0%.

Private Real Estate

The System committed $509 million (adjusted for currency at time of closing) to ten funds for the fiscal year. These commitments were above the target of $345 million and just below the upper range of $518 million set forth in the tactical plan for fiscal year 2014. About 70% of the 2014 private real estate investments, or $348 million, were committed to domestic US funds with a diversified value-add strategy or a focus on niche sectors that the System found to have excellent investment fundamentals in certain markets. These sectors include student housing and healthcare. The System continues to believe that strong "hands on" property management can drive performance by increasing the net operating income at the property level to create value for the real estate investments. Furthermore, niche managers considered "best in class" for their respective strategies will outperform the broader market over the long run. Outside of the US, two commitments totaling $91 million were made to international funds targeting distressed high yield assets in Europe (mostly shopping centers) and stabilized core assets in Asia (mostly office buildings). One $70 million commitment is a global distressed opportunity fund, which is expected to be weighted heavily toward Europe.

As of August 31, 2014, the System had $2.2 billion commitments in 31 funds. The remaining outstanding commitment is $981 million. The System expects accelerated dispositions due to the strong recovery in prices with several managers commenting that their "5 year business plan is being realized in year 2 or 3." The System continues to play an active role in monitoring and steering each investment and sits on the Advisory Board on all but five fund investments. Additionally, the System uses the economies of scale as a strategy to negotiate material fee discounts for the commitments. The net asset value of the System's private real estate portfolio stands at $1.3 billion. Since inception, a total of $1.3 billion in capital has been called and approximately $303 million has been received as income or a return of principal. In fiscal year 2014, over $370 million in equity capital was called and about $95 million was returned as income or a return of principal.

Private Equity

For fiscal year 2014, Private Equity closed on 19 deals, including seven co-investments, with commitments totaling $1.20 billion versus a goal of $1.25 billion and a range of $938-1,563 million.

As of August 31, 2014, the Private Equity portfolio Net Asset Value was $2.32 billion, compared to $1.58 billion at fiscal year-ending August 31, 2013. Since inception Private Equity has closed on 56 funds and 15 co-investments with commitments totaling $4.57 billion (adjusted for currency exchange rates). In addition, the System has obtained LP Advisory Committee seats on 37 funds and two fund LP Advisory Observer seats.

Fixed Income

Economy

Economic data improved during the year but not without some challenges. Gross Domestic Product (GDP) grew at a healthy clip of 4.5% in Q3 and 3.5% in Q4 before dropping to -2.1% in the first quarter of 2014. Although weather was a significant factor behind the decline, the strength of the recovery was questionable until the economy posted 4.2% growth in the second quarter. Contributions to growth came from different areas during the year. Manufacturing was a source of strength as the widely-followed ISM manufacturing index rose to a three-year high in August. In contrast, existing home sales moved lower over the course of the fiscal year.

During the year, the Federal Reserve noted the improvement in several areas of the economy. Minutes from a recent FOMC meeting noted "Household spending appears to be rising moderately and business fixed investment is advancing while the recovery in housing remain slow." On inflation, the Federal Reserve says "inflation has moved somewhat closer to the Committee's longer-run objective." Against this backdrop and the duration of extraordinary monetary policy, the market is expecting the Federal Reserve to slowly reduce its highly accommodative stance of monetary policy. The current federal funds rate of 0.25% has been in effect for almost five years and has never been that low Index Performance.

Index Performance

The Barclays Capital Intermediate Credit Index returned 5.85% for the fiscal year, up from last year's total return of –0.14%. Risk assets performed best as high yield returned 10.57% and emerging markets gained 11.95%. The returns for all asset classes were positive, in part due to spreads that generally moved lower during the year. Gains were magnified for assets with the highest coupons as the contribution from changes in price was secondary to the coupon return. Similarly, assets with the longest duration gained more as the yield curve flattened.

Interest Rates

Interest rates were less volatile during the fiscal year as monetary policy and improving domestic economic data provided some stability. The Federal Reserve reduced their bond buying program from $85 billion per month to $25 billion. At the same time the unemployment rate fell from 7.2% to 6.1%. The yield curve flattened as the rate on the 2-year security rose 9 basis points (bps) while the yield on the 10-year security fell 44 bps.

After initially moving higher, yields on longer-term Treasury securities gradually fell despite the Federal Reserve acknowledging an improving labor market and rising consumer spending. Yields on shorter-term Treasury securities rose as market participants expect the Federal Reserve to raise their benchmark target rate in mid-2015. Treasury yields are also being influenced by lower yields in European bonds, as the spread moves to new highs as growth slows in that economy.

Private Infrastructure

No new Private Infrastructure investments were made in fiscal year 2014. The total commitment target for the fiscal year was $300 million with a commitment range of +/- 25% ($225-375 million).

Since inception, Private Infrastructure has closed on two funds and three co-investments with commitments totaling $275 million (adjusted for currency exchange rates). As of August 31, 2014, the Private Infrastructure portfolio Net Asset Value was $206.3 million, compared to $174.5 million at fiscal year-ending August 31, 2013.

Public Infrastructure

Through August 31, 2014, the Macquarie Global Infrastructure Index appreciated 14.72% since the launch of the System's listed infrastructure portfolio on November 1, 2013.

Infrastructure benefited from falling bond yields as investors sought yield. The German bond yield has led yields lower with a decrease of roughly 50% to 0.91%. Fund flows into equity income funds, including infrastructure funds, has been strong as investors seek current income and remain risk adverse. Infrastructure provides income, growth and visibility of earnings.

Developed Markets

North American infrastructure appreciated 16.6% over the period, led by pipelines and gas infrastructure companies. Gas and pipeline assets continue to outperform as investors increase allocations to master limited partnerships "MLP" strategies. An overweight to the gas pipeline and renewable sectors in North America has been a major contributor to portfolio performance.

Western European infrastructure returned 14.8% since the portfolio was launched in November. Southern European Infrastructure has been the strongest performer as sovereign yields have fallen. German and France infrastructure lagged as exposure to Russia hurt German utilities and actions by France's new energy minister increased regulatory uncertainty.

Emerging Markets

Emerging Market infrastructure has been strong with the exception of Eastern Europe, which has been affected by Russian geopolitics. Lower commodity prices have not only improved earnings but also reduced pressure on inflation, thus giving governments greater latitude to implement tariff increases. Within Emerging Markets, India has been the best performing regional market, up 25.1% over the period as India began reforming the power sector. The weak financial health of distributors and the lack of coal availability have caused financial stress within many power generators.

Internal Portfolio Update

The internal portfolio was officially launched November 1, 2013 and was valued at $195.5 million as of the end of August 2014. Going forward, the portfolio will be managed within the Global Equities team. The Macquarie Global Infrastructure Index has returned 14.72% since the launch of the portfolio on November 1, 2013 through June 30, 2014. The internal portfolio has returned 14.50%, underperforming by 21 bps largely due to an underweight to Developed Asia and poor stock selection in Latin America. Emerging Asia Pacific, Central Asia, Western Europe, Emerging Europe, and North America were contributors to relative performance.

Hedge Funds

Hedge funds ended 2013 with positive momentum across strategies. All major strategies ended the period from September to December 2013 in positive territory with Equity Long/Short leading by a narrow margin over Event-Driven. Overall equity market gains through the period supported both strategies. Equity Long/Short managers posted tailwind gains, as anticipated. Event-Driven managers increased focus on hard and soft equity catalysts, primarily domestic, to support beta-like returns across sub-strategies. In this four-month time period, Equity Long/Short strategies, as measured by the HFRX Equity Long/Short Index, posted gains of 5.60% while the HFRX Event-Driven Index posted gains of 4.87%. The S&P 500 Total Return Index returned 13.98% over the same period while the HFRI FOF Index returned 3.67%.

The hedge fund strategy had a more difficult environment in the period from January to August 2014. Bouts of volatility, such as those in January, February, and August, have subsided into low-volatility and lackluster, which subsequently helped improve the equity markets. The S&P 500 Total Return Index returned 9.89% over the 8-month period while the HFRX Equity Long/Short Index returned 1.34%, the HFRX Event-Driven Index returned 4.77%, and the HFRI FOF Index returned 2.62%. The Absolute Return Portfolio has exceeded the HFRI FOF Index during this time period with calendar year 2014 returns through August 31, 2014 of 3.48%.

During fiscal year 2014, the Absolute Return Portfolio exceeded the target return of T-bills + 400bps, returning 7.04% while the target return reached 4.13%. By holding an underweight in Equity Long/Short strategies, the Absolute Return Portfolio underperformed the HFRI FOF Index in early months. This underweight, however, led to outperformance in later months as Equity Long/Short strategies lagged. The consistent overweight to Event-Driven strategies has supported the positive performance of the portfolio and met the mandate of low correlation and low volatility.

Key Portfolio Statistics

	2014	2013
	$	$
Contributions to Pool	732,700,000	629,800,000
Withdrawals from Pool	(1,861,900,000)	(1,752,500,000)
Interest & Dividends	652,130,913	598,462,387
Securities Lending Net Income	8,944,853	7,094,585
Net Appreciation in Fair Value	2,784,684,251	1,659,792,038

Prepared by:
Chief Investment Officer and Finance staff of the System.

Basis of Presentation: Master Custodian and System's Financial Records. The time weighted method is used to calculate the rates of return.

Outline of Investment Policies

Fiscal Year 2014

Background

The Board of Trustees' investment policies are governed by the Texas Trust Code and the Texas State Constitution. As fiduciaries of the System's funds, the Board of Trustees practices the following duties of care:

- Manage the assets for the exclusive benefit of the Plan Beneficiaries;
- Establish prudent investment policies defining investment objectives and strategies;
- Seek to maximize investment returns while maintaining the safety of principal;
- Diversify the assets to reduce risk of loss;
- Monitor investment performance;
- Efficiently manage the costs associated with implementation of its investment
- program; and
- Establish committees as necessary and prudent to fulfill its duties to the Funds.

Investments shall be made in securities that are considered prudent investments, exercising the judgment and care, under the circumstances prevailing at the time of the investment, 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 from the disposition and the probable safety of their capital. However, the Board of Trustees shall not participate in individual investment selections unless it is specifically provided for herein because that responsibility has been delegated to the Executive Director and the System's investment staff, with oversight by the Board of Trustees.

Every investment will be subject to strict due diligence. Notwithstanding the performance of such due diligence, the determination of whether prudence has been exercised with respect to an investment decision shall be made by taking into consideration the investment of all the assets of the trust or all the assets of the collective investment vehicle, as applicable, over which the Board of Trustees has management and control, rather than considering the prudence of a single investment of the trust or collective vehicle, as applicable.

A staff of trained professional personnel in accordance with Trustee policies and Constitutional and Statutory regulations invests State contributions, member contributions, and investment income. To assist the staff with investment recommendations and decisions, the Trustees have employed nationally recognized investment managers and have appointed an Investment Advisory Committee composed of prominent members of the financial and business community of Texas. Also, the System retains an independent consultant to evaluate and analyze the investment results of the System.

The System's Executive Director is authorized to approve from time to time variances from the policies set forth herein in furtherance of such compliance or in the best interest of the System and consistent with both the System's fiduciary responsibilities and the purpose and scope of this policy.

Diversification

- Investments in the securities of any one corporation may not exceed 3% of the market value of the total fund.
- Investments in the stock of any one corporation may not exceed 5% of the voting stock of that corporation.
- Investments in Deferred Interest, Contingent Interest and Pay-In-Kind bonds may not exceed 15% of each advisor's high yield bond portfolio.

Permissible Investments

The Board of Trustees will consider investment instruments appropriate for the Funds and deemed to be prudent based on:

- Their consistency with investment policy and portfolio objectives;
- Their application to the portfolio's diversification;
- Staff and/or advisor competency in evaluating and trading the securities;
- Consideration of their liquidity within the portfolio; and
- The cost of including them in the program.

Eligible Securities

- Publicly traded securities, both domestic and foreign, subject to quality standards set forth in permissible investment guidelines
- Except as described in the Fixed Income Policies and Procedures for the credit portfolio, global fixed income securities, subject to a minimum credit

rating of "CCC-, Caa3," or their equivalent as rated by two (NRSROs), and include in the Barclays Capital Universal Index or successor index. Fixed income and short-term securities that downgrade to below the acceptable rating described above will be exchanged or sold within one year, but special exceptions may be permitted and reported to the Board of Trustees.

- Cash and Cash equivalents as set forth in the Eligible Securities List for Cash and Cash Equivalents.
- Interests in private securities exempted from registration under federal and state securities laws, including certain limited liability securities and vehicles, such as limited partner interests in limited partnerships, trusts and limited liability corporations as deemed appropriate by The System's Investments and Legal staff.
- Private equity and private real estate investments must be institutional in quality and meet the parameters specified in the System's investment policy.
- Global publicly traded real estate equities subject to the quality standards set for in the investment policy.
- Foreign currencies transactions and foreign currency derivatives are permitted as necessary to facilitate the settlement of foreign security transactions, consistent with industry best practices. These transactions are also permitted to settle private market transactions, meet capital calls or exchange distributions back into U.S. dollars.
- Forward, futures and options, subject to the restrictions set forth in the investment policy.

Proxies and Bond Indenture Changes

All proxies and bond exchanges shall be voted to consider only those factors that relate to the economic value of the system's investment, and such votes should cast in accordance with the System's best interest and investment objectives for the funds.

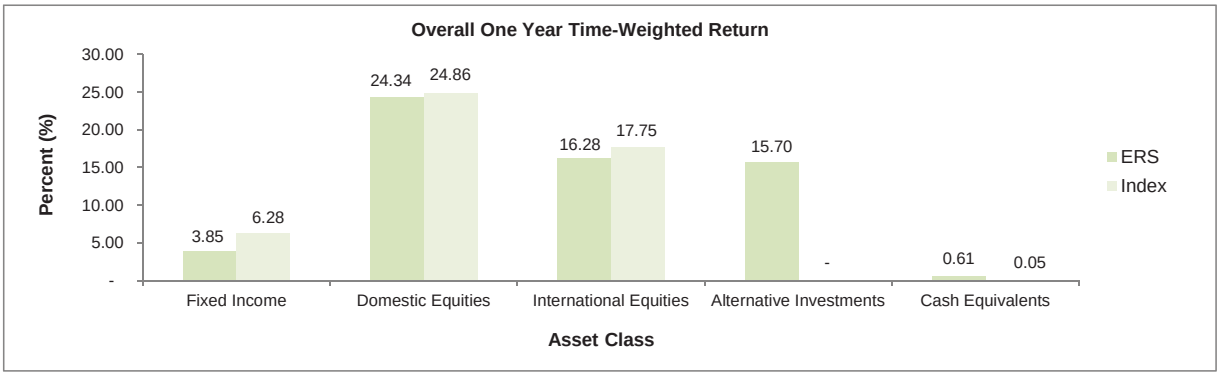
Basis of Presentation: Texas Statute and the system's Investment Policy

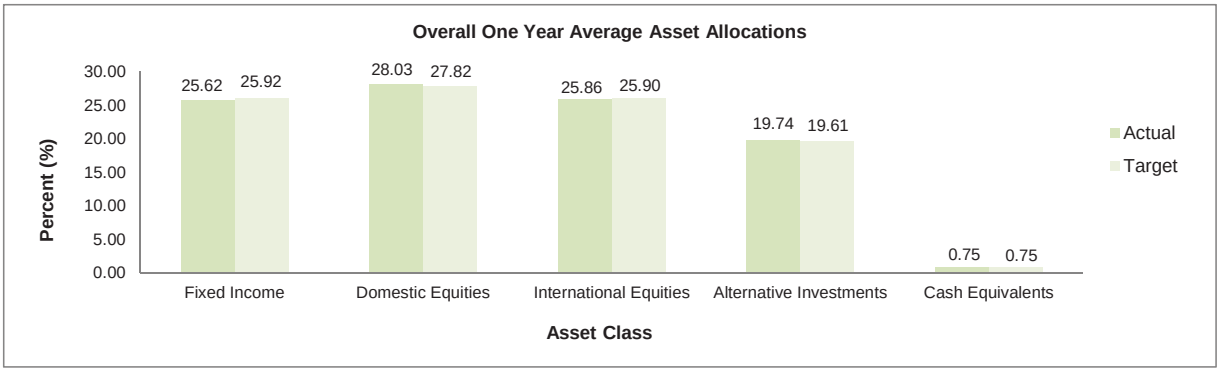
Time-Weighted Rates of Return and Asset Allocations

Investment Pool

August 31, 2014

	Time-Weighted Rates of Return (Note A)						
			1 Year			3 Year	5 Year
	2010	2011	2012	2013	2014	(2012-2014)	(2010-2014)
	%	%	%	%	%	%	%
Fixed Income							
ERS	9.12	4.72	6.01	(1.45)	3.85	2.75	4.39
Index	9.87	4.82	6.44	(1.69)	6.28	3.61	5.07
Domestic Equities							
ERS	5.92	19.67	17.56	19.27	24.34	20.35	17.18
Index	5.56	19.09	17.52	19.38	24.86	20.55	17.10
International Equities							
ERS	2.37	11.98	0.09	13.97	16.28	9.88	8.74
Index	2.85	10.34	(1.92)	12.98	17.75	9.27	8.17
Alternative Investments							
ERS	13.70	20.48	7.67	13.43	15.70	12.22	14.12
Index	NA	NA	NA	NA	NA	NA	NA
Cash Equivalents							
ERS	0.11	0.04	0.96	(4.15)	0.61	(0.89)	(0.50)
Index	0.14	0.15	0.06	0.11	0.05	0.07	0.10
ERS Overall							
ERS	6.65	12.58	8.22	10.07	14.70	10.96	10.41
Index	6.80	12.02	8.11	9.52	15.00	10.84	10.25
Change in CPI	1.10	3.80	1.42	1.96	2.00	1.79	2.07





Note A: *The Time-Weighted Rate of Return measures the gross of fees performance of the total investment portfolio, considering income and market impact, including realized and unrealized gains, and eliminates the effect of timing of cash flows due to contributions and withdrawals which are not controllable by the investment managers. The 5-year return is used to smooth market swings and to maintain consistency with the long-term nature of the fund. The Time-Weighted Rate of Return is calculated as follows:*

$$\frac{\text{Ending Market Value}}{\text{Beginning Market Value + Net Cash Flows}}$$

The indices used for comparison are net of fees. The names of the index are listed as follows:

Fixed Income Securities Portfolio:	*Barclays Capital Universal and Floating Fixed Income*
Domestic Equities Portfolio:	*S&P 1500/ S&P 1500 Blend*
International Equities Portfolio:	*MSCI EAFE/MSCI ACWI ex US Blended Index (i.e., Europe, Australia and Far East Index excluding securities unavailable to foreign investors)*

Basis of Presentation: Master Custodian Records.

Broker Commissions

Year Ended August 31, 2014

Domestic Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		$	$
Baird, Robert W & Co., Inc.	4,099,789	81,927	0.020
Barclays Capital	6,166,281	124,944	0.020
Bloomberg Tradebook, LLC	2,307,606	46,152	0.020
BMO Capital Markets Corp.	6,857,568	137,151	0.020
BNY Mellon Clearing	3,479,965	104,399	0.030
Cantor Fitzgerald	2,701,748	54,035	0.020
Capital Institutional Services, Inc.	1,343,423	40,303	0.030
Citigroup Global Markets, Inc.	4,298,375	85,298	0.020
Cowen & Co., LLC	5,508,677	110,174	0.020
Credit Agricole Cheuvreux N.A., Inc.	25,000	950	0.038
Credit Suisse	28,158,659	562,356	0.020
Deutsche Bank	13,257,136	302,704	0.023
Goldman Sachs	2,964,037	58,881	0.020
Green Street Advisors, Inc.	1,891,057	94,553	0.050
HSBC	650,000	12,017	0.018
Instinet LLC	125,350	3,093	0.025
International Strategy Investment Group, Inc.	5,054,133	101,083	0.020
Investment Technology Group, Inc.	304,900	5,057	0.017
Jefferies & Co, Inc.	15,178,901	303,578	0.020
JP Morgan Securities, LLC	14,123,418	283,968	0.020
Keybanc Capital Markets, Inc.	6,015,162	120,303	0.020
Liquidnet, Inc.	4,111,263	60,910	0.015
Macquarie Securities (USA), Inc.	2,264,803	45,296	0.020
Merrill Lynch & Co., Inc.	8,275,740	165,015	0.020
Mitsubishi Securities	25,000	500	0.020
Morgan Stanley Dean Witter & Co.	11,737,189	161,118	0.014
Piper Jaffray	1,868,650	37,373	0.020
Pulse Trading LLC	2,056,725	25,015	0.012
Raymond James & Associates, Inc.	1,778,442	53,353	0.030
RBC Capital Markets	3,946,321	78,926	0.020
Sanford C Bernstein & Co., Inc.	5,244,300	111,975	0.021
State Street Brokerage Services	581,983	6,020	0.010
Sterne Agee & Leach, Inc.	308,000	6,160	0.020
Stifel, Nicolaus & Co., Inc.	7,102,601	142,052	0.020
UBS	7,704,670	154,093	0.020
	181,516,872	**3,680,732**	**0.020**

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Broker Commissions (Concluded)

Year Ended August 31, 2014

International Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		$	$
Barclays Capital	38,001,203	334,243	0.009
BMO Nesbitt Burns	2,407,190	44,411	0.018
BNP Paribus	11,344,841	292,342	0.026
BNY Mellon Clearing	11,949,837	95,039	0.008
Calyon Securities	1,714,000	31,566	0.018
Celfin Capital SA	3,190,007	3,058	0.001
Citigroup Global Markets, Inc.	106,041,276	440,007	0.004
Clearstream Banking AG	716,271	28,299	0.040
CLSA Singapore PTE Ltd.	148,643,245	653,535	0.004
Credit Suisse	42,927,704	334,367	0.008
Daiwa Securities	124,956,025	370,169	0.003
Danske Bank Group	80,000	1,284	0.016
Deutsche Bank	48,316,581	363,333	0.008
Euroclear Bank SA	699,284	5,929	0.008
Fidelity Clearing Canada	7,600	140	0.018
HSBC	249,659,404	711,183	0.003
Instinet LLC	117,695,520	489,244	0.004
Investec Securities Limited	5,784,493	123,719	0.021
Investment Technology Group, Inc.	2,861,913	5,979	0.002
ITG Canada Corp	73,000	667	0.009
Jefferies & Co, Inc.	34,848,607	113,984	0.003
JP Morgan Securities, LLC	169,289,369	823,357	0.005
KEB Salomon Smith Barney Securities	223,568	12,487	0.056
Macquarie Securities (USA), Inc.	49,055,173	443,083	0.009
Merrill Lynch & Co., Inc.	463,296,737	547,518	0.001
Mitsubishi Securities	16,317,208	261,175	0.016
Morgan Stanley Dean Witter & Co.	95,390,966	284,415	0.003
Nomura Securities Co. Ltd.	4,039,440	35,057	0.009
Nordea Bank	57,584	1,944	0.034
Oesterreichische Kontrollbank AG	20,000	633	0.032
RBC Capital Markets	143,270	2,634	0.018
Redburn Partners, LLP	14,533,813	70,838	0.005
Sanford C Bernstein & Co., Inc.	7,036,982	197,809	0.028
SIS Segaintersettle AG	4,701,579	93,221	0.020
Societe Generale	322,312	23,706	0.074
The Depository Trust Company	257,600	4,679	0.018
UBS	82,097,917	250,185	0.003
	1,858,701,519	**7,495,239**	**0.004**

Basis of Presentation: Master Custodian Records.

Management Fees for Alternative Investments

Year Ended August 31, 2014

Fund Name	Fees (Note A)
	$
Aberdeen European Opportunities Property Fund of Funds, LLC	1,401,454
Actis Energy 3 Co-Investment	279,961
Actis Energy 3 R, L.P.	3,748,020
Advent Latin America Fund V-H ,L.P.	680,663
Advent International GPE VII-C, L.P.	1,776,167
Arrowgrass Partnership, L.P.	1,499,907
Aspect Parnership, L.P. Class A USD	508,170
The Baring Asia Private Equity Fund V, L.P.	1,243,902
Blue Wolf Capital Fund III, L.P.	1,459,668
Brazos Equity Fund III, L.P.	503,235
Brookfield Strategic Real Estate Partners B, L.P.	468,731
Campus-Clarion Student Housing Partners, L.P.	95,369
Carlyle Global Financial Services Partners II, L.P.	2,133,007
Carlyle Partners V, L.P.	247,254
Charterhouse Capital Partners IX, L.P.	360,256
Claren Road Credit Fund Ltd. - Class A Sub-Class Two - Series 1b	1,304,118
Conatus Capital Partners, L.P.	820,836
Cornerstone Core Mortgage Fund I, L.P.	101,435
Cotton Creek Capital Partners II, L.P.	106,814
Court Square Capital Partners III, L.P.	686,668
CVC Capital Partners VI (B), L.P.	1,383,598
CVC European Equity Partners V (B),L.P.	375,946
Energy & Minerals Group Fund III, L.P.	1,069,200
CO06192014	79,676
ERS Private Equity Emerging Manager Fund I, L.P.	443,373
ERS Private Equity International Fund I, L.P.	324,707
Frontier Fund III, L.P.	1,073,155
Glazer Enhanced Offshore Fund Ltd.	538,475
Glazer Offshore Fund Ltd.	122,847
Gores Capital Partners III, L.P.	914,337
Hellman & Friedman Capital Partners VII, L.P.	1,497,736
HgCapital 6 A, L.P.	304,207
HgCapital 7 A, L.P.	1,781,103
HitecVision VI, L.P.	1,434,661
Hitecvision VII, L.P.	772,627
Iguazu Partners, L.P.	841,913
Invesco Core Real Estate - U.S.A., L.P.	278,892
CO071114	74,472
KSL Credit Opportunities Fund, L.P.	1,624,049
Latitude Management Real Estate Capital III, Inc.	(310,654)

- to next page

Management Fees for Alternative Investments (Concluded)

Year Ended August 31, 2014

Fund Name	Fees (Note A)
	$
Lexington Capital Partners VII, L.P.	796,479
Littlejohn Fund IV, L.P.	1,203,864
LLSD, L.P.	631,051
Longitude Venture Partners II, L.P.	1,059,091
M & G Real Estate Debt Fund II, L.P.	6,736
Madison International Real Estate Liquidity Fund V, L.P.	(29,511)
Magnetar Structured Credit Fund, L.P.	545,201
Marshall Wace World Equities Fund Tops Worls Equities	1,065,126
MKP Capital Partners, L.P.	872,616
Navis Asia Fund VI, L.P.	1,199,569
New Mountain Investments III, L.P.	103,443
Northwest Fund Ltd Series T Shares	193,418
Northwood Real Estate Partners, L.P.	1,079,554
ERS Omega Partnership, L.P.	3,964,140
Orion European Real Estate Fund IV, C.V.	333,681
Pennybacker III, L.P.	242,802
Pentwater Event Fund, LLC - Class F	818,384
Pharo Macro Fund Ltd. - Class A	407,181
Private Real Estate Emerging Manager I, L.P.	320,536
Prologis European Properties Fund II	175,412
Quantum Energy Partners V, L.P.	431,250
Quantum Energy Partners VI, L.P.	231,229
CO06052014	84,292
Riverside Capital Appreciation Fund V, L.P.	678,264
Riverside Capital Appreciation Fund VI, L.P.	3,531,121
Riverside Europe Fund IV, L.P.	1,447,936
RLH Investors III, L.P.	988,161
Rockpoint Real Estate Fund IV, L.P.	1,656,250
Southern Cross Latin America Private Equity Fund IV, L.P.	594,879
Southern Cross Latin America IV Secondary	297,440
Southpaw Credit Opportunity Partners, L.P.	928,405
Southwest Opportunity Partners, L.P.	728,348
Summer Street Capital III, L.P.	1,517,335
CO12152011	10,243
TA Associates XI, L.P.	42,000
Taconic Opportunity Fund, L.P.	322,028
TIAA-CREF Asset Management Core Property Fund, L.P.	1,044,202
Torchlight Debt Opportunity Fund IV, LLC	1,419,003
Triton Debt Opportunities Fund I, L.P.	805,597
Triton Fund III, L.P.	806,391
Triton Fund IV, L.P.	1,885,157
Waterton Residential Property Venture XI, L.P.	757,759
Wheelock Street Capital Fund II, L.P.	423,205
Wind Point Partners VII, L.P.	370,762
Grand Total	**70,039,985**

Note A: The management fees for Alternative Investments were reported as part of the fair value of Investments. Fees with negative balances are due to refunds of management fees paid in prior year.

Basis of Presentation: Master Custodian Records.

Investment Advisory and Service Fees

Year Ended August 31, 2014

Advisory Service	Asset Value	Fees	Basis Points
	$	$	
Fixed Income Advisors	268,295,634	514,962	19.19
Domestic Equity Advisors	818,921,045	2,540,742	31.03
International Equity Advisors	3,029,339,286	12,319,338	40.67
Total	**4,116,555,965**	**15,375,042**	**90.89**

Other Investment Services	Fees
	$
Custodian Fees	925,000
Security Lending Agent Fees	1,010,987
Investment Consultant Fees	2,267,797
Investment Banking Fees:	13,063
Total	**4,216,847**

Directed Commissions

Consistent with the System's Investment Policy as adopted by the Board of Trustees, and in order to maximize the System's resources including commission dollars generated through trade activity, directed commissions are sometimes used to fund a portion of budgeted investment program expenses. Trade activity in excess of the level required to support research products used by the System's investment staff is directed toward the payment of budgeted items. Directed Commissions totaled $276,566 during fiscal year 2014.

List of Largest Assets Held

Year Ended August 31, 2014

Ten Largest Stock Holdings

No. of Shares	Description	Fair Value
		$
2,150,097	Apple, Inc.	220,384,943
1,211,429	Exxon Mobil Corporation	120,488,728
175,236	Google, Inc.	101,090,344
2,152,316	Microsoft Corporation	97,779,716
1,746,881	Wells Fargo & Company	89,859,559
304,477	Roche Holdings AG Genusscheine	88,997,645
1,454,017	JP Morgan Chase & Company	86,441,311
2,043,646	Royal Dutch Shell, Plc	83,624,014
816,210	Sanofi	80,157,566
1,819,690	Coca-Cola Company	75,917,467

Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
$		$
3,552,319	IShares IBoxx USD High Yield Bond ETF	334,770,543
146,280,000	U.S. Treasury Note 3.375% due on 11/15/2019, Rating AA+	158,633,785
125,000,000	U.S. Treasury Note 0.875% due on 04/15/2017, Rating AA+	125,273,500
120,000,000	U.S. Treasury Note 2.375% due on 05/31/2018, Rating AA+	124,706,280
120,000,000	U.S. Treasury Note 2.500% due on 05/15/2024, Rating AA+	121,715,640
120,000,000	U.S. Treasury Note 2.000% due on 09/30/2020, Rating AA+	120,712,560
105,000,000	U.S. Treasury Note 2.250% due on 07/31/2021, Rating AA+	106,468,320
92,556,000	U.S. Treasury Note 3.125% due on 05/15/2019, Rating AA+	99,006,043
97,000,000	U.S. Treasury Note 0.625% due on 11/15/2016, Rating AA+	97,030,264
93,700,000	U.S. Treasury Note 1.875% due on 10/31/2017, Rating AA+	96,064,426

Note A: The investment portfolio listing is available for review at the System's office or the listing will be mailed upon request.

Basis of Presentation: System's Subsidiary Records.

Investment Summary at Fair Value

August 31, 2014

	Pooled Pension Trust Funds (Note A)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
Type of Investment	$	$	$	$	
Long-Term Fixed Income Securities:					
Global Credit Fixed Income Security Component	1,031,897,313	35,889,190	15,031,683	1,082,818,186	4.190%
Rates Fixed Income Security Component	4,667,503,443	162,334,871	67,991,680	4,897,829,994	18.960%
Total Long-Term Fixed Income Securities	5,699,400,756	198,224,061	83,023,363	5,980,648,180	23.150%
Public Equities:					
Large Cap Domestic Equity Component	5,115,806,377	177,926,761	74,522,124	5,368,255,262	20.780%
Small Cap Domestic Equity Component	1,119,622,803	38,940,266	16,309,582	1,174,872,651	4.550%
Global Public Equity Component	487,092,001	16,940,966	7,095,486	511,128,453	1.980%
International Equity Component	5,952,887,941	207,040,296	86,715,920	6,246,644,157	24.177%
Global Infrastructure Component	186,341,644	6,480,926	2,714,445	195,537,015	0.760%
Total Public Equity	12,861,750,766	447,329,215	187,357,557	13,496,437,538	52.247%
Real Estate Investments:					
Public Real Estate Component	638,777,877	22,216,572	9,305,099	670,299,548	2.590%
Alternative Investments:					
Private Equity Component	2,210,619,031	76,884,904	32,202,162	2,319,706,097	8.980%
Private Real Estate Component	1,278,699,602	44,472,926	18,626,860	1,341,799,388	5.190%
Private Infrastructure Component	196,620,191	6,838,412	2,864,173	206,322,776	0.800%
Hedge Fund Pool	1,077,423,688	37,472,588	15,694,868	1,130,591,144	4.380%
Private Fixed Income	46,472,307	1,616,298	676,964	48,765,569	0.190%
Directional Growth Pool	250,093,830	8,698,215	3,643,125	262,435,170	1.020%
Total Alternative Investments	5,059,928,649	175,983,343	73,708,152	5,309,620,144	20.560%
Short-term Investments:					
Investment in Pool Cash	3,143,519	87,031	(9,705)	3,220,845	0.010%
Other Short-term Investment	354,696,320	12,336,270	5,166,874	372,199,464	1.443%
Total Short-term Investments	357,839,839	12,423,301	5,157,169	375,420,309	1.453%
Total Before Securities Lending Collateral (Notes B & C)	**24,617,697,887**	**856,176,492**	**358,551,340**	**25,832,425,719**	**100.000%**
Securities Lending Collateral	1,355,716,234	47,142,572	19,744,390	1,422,603,196	
Total Pension Investment Pool Trust Fund (0888)	**25,973,414,121**	**903,319,064**	**378,295,730**	**27,255,028,915**	
Cash Equivalents:					
Cash in State Treasury-Pension Funds	45,081,424	2,142,250	942,687		
Total Investments	**26,018,495,545**	**905,461,314**	**379,238,417**		

Note A: The Pension Investment Pool Trust Fund (Fund 0888) includes the Employees Retirement Fund (Fund 0955), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (Fund 0977), and the Judicial Retirement System Plan Two Fund (Fund 0993).

Note B: Fair value of investments adjusted to comply with the CFA Institute Standards:

	Fund 0955	*Fund 0977*	*Fund 0993*	*Total*
Total Fair Value of Investments Before	*$*	*$*	*$*	*$*
Securities Lending Collateral, as above	*24,617,697,887*	*856,176,492*	*358,551,340*	*25,832,425,719*
Unsettled Sales-Investment Receivables	*331,390,246*	*11,525,717*	*4,827,295*	*347,743,258*
Unsettled Purchases-Investment Payables	*(85,782,702)*	*(2,983,506)*	*(1,249,600)*	*(90,015,808)*
Accrued Interest and Dividends/Tax Reclaims Receivable/Prepaid Fees	*63,986,811*	*2,225,449*	*932,098*	*67,144,358*
Securities Lending Fees Payables/Miscellaneous Payables	*(2,369,331)*	*(82,405)*	*(34,514)*	*(2,486,250)*
Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards	*24,924,922,911*	*866,861,747*	*363,026,619*	*26,154,811,277*

Note C: The investment portfolio listing is available for review at the System's office or the listing will be mailed upon request.

Basis of Presentation: System's Financial Records in accordance with the CFA Institute Standards.

ACTUARIAL SECTION

Pension Plans:

Actuary's Certification Letter

Actuarial Balance Sheets

Summary of Actuarial Methods and Assumptions

Active Member Valuation Data

Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls

Schedule of Funding Progress – Pension Plans

Solvency Test

Analysis of Financial Experience

State Retiree Health Plan:

Actuary's Certification Letter

Actuarial Valuation Results

Summary of Actuarial Methods and Assumptions

Active Member Valuation Data

Retirees and Nominees Added to and Removed

Schedule of Funding Progress – State Retiree Health Plan

Actuary's Certification Letter – Pension Plans

GRS

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November 5, 2014

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

Re: Actuarial Certification for Funded Programs as of August 31, 2014

Members of the Board:

At the request of the Employees Retirement System of Texas (ERS), Gabriel Roeder Smith & Company (GRS) has performed the actuarial valuations of the Employees Retirement Fund (ERF), including separate actuarial valuations of the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) and the Judicial Retirement System of Texas Plan Two (JRS2). The information in the Actuarial Section is based on our annual actuarial valuation reports for the three programs, with the most recent valuations conducted as of August 31, 2014, and is intended to be used in conjunction with the full reports.

This letter and the schedules listed below represent GRS' certification of the funded status as required for the financial report for the fiscal year ended August 31, 2014 for ERF, LECOSRF and JRS2. GRS prepared the *Actuarial Balance Sheets* and the supporting schedules in the Actuarial Section. GRS prepared the *Schedule of Changes in the Employers' Net Pension Liability and Related Ratios* and the *Schedule of Employer Contributions* of the Required Supplementary Information and the *Notes to the Required Supplementary Information* presented in the Financial Section of this report. GRS also prepared the *Retired Members by Type of Benefit* schedule in the Statistical Section. Full actuarial valuation reports have also been provided to ERS.

Data

In order to prepare the valuations as of August 31, 2014, we relied on information furnished by ERS staff concerning system benefits, financial transactions, benefit provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to- year consistency, but did not otherwise audit the data and we are not responsible for its accuracy.

Actuarial Assumptions and Methods

The assumptions and methods applied in these actuarial valuations were adopted by the Board of Trustees on February 26, 2013 based on the experience investigation completed by Buck Consultants that covered the five-year period from September 1, 2006 through August 31, 2011. We believe the assumptions are internally consistent and reasonable, based on the actual experience of ERF, LECOSRF and JRS2, and meet the parameters set by Actuarial Standards of Practice issued by the Actuarial Standards Board. The actuarial assumptions and methods used to develop the *Schedules of Changes in the Employers' Net Pension Liability and Related Ratio* and the *Schedule of Employer Contributions*, noted above, meet the parameters set forth in the disclosures presented in the Financial Section by Government Accounting Standards Board Statement No. 67. In particular, the actuarial accrued liability and corresponding normal cost rate are based on the benefit provisions in effect for each active member.

For financial reporting purposes, a blended discount rate, calculated under the methods prescribed by GASB Statement No. 67, was used to determine the actuarial present value of projected benefit payments. For ERF and LECOSRF, the blended discount rate differs from the discount rate used for funding purposes.

For purposes of the funding valuation, the actuarial accrued liability and corresponding normal cost rate are based on the benefits payable to a new member and the entry age characteristics of the current active membership. This method was selected for funding purposes in order to provide a more stable normal cost, and resulting actuarially determined contribution, each year. Other than the difference in the actuarial cost method and discount rate, all other actuarial methods and assumptions are the same for both funding and financial reporting purposes.

The results of the actuarial valuations are dependent upon 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. A review of the impact of a different set of assumptions on the funded status of ERF, LECOSRF and JRS2 are outside the scope of these actuarial valuations.

The current actuarial assumptions are outlined in the section titled “Summary of Actuarial Methods and Assumptions.”

Benefits

There were no changes to the plan provisions of ERF, LECOSRF or JRS2 during the past year. The current benefit provisions are outlined in the section titled “Summary of Plan Provisions.”

Funding Policy and Objectives – Employees Retirement Fund

The funding objective of ERF is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Contribution rates should be established which, over time, will remain level as a percent of payroll.

The member contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2014, members contribute 6.90% of payroll and the State is expected to contribute 8.00% of payroll (7.50% from statewide appropriations and 0.50% from agency appropriations) for each year in the future based on appropriations for the current biennium and guidance from the Legislative Budget Board on future biennia. The member contribution rates are scheduled to increase over time until they reach an ultimate rate of 7.50% of payroll in the fiscal year 2017. These ultimate rates are subject to future legislative appropriations.

The unfunded actuarial accrued liability (UAAL) of ERF increased from $7.2 billion as of August 31, 2013 to $7.5 billion as of August 31, 2014. Additionally, the funded ratio of ERF— actuarial value of assets divided by the actuarial accrued liability—decreased slightly from 77.4% to 77.2% as of August 31, 2014.

The valuation shows that the total normal cost for funding purposes is 11.58% of payroll. The total contribution rate is 14.90% of payroll for the current fiscal year, and potentially increasing to 15.50% of payroll for future fiscal years. The total contribution rate for the current fiscal year exceeds the normal cost by 3.32% of payroll, but it is not sufficient to amortize the UAAL over a finite period of time. **As a result, the UAAL is expected to grow indefinitely and the funding objective is not currently being realized.**

Section 811.006 of the Texas Government Code limits the modifications to ERF that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are

considered actuarially sound. Section 811.006 determines actuarially sound as a retirement system that is receiving a total contribution rate sufficient to cover the normal cost, administrative expenses, and amortize the UAAL over a period of 31 years, or less. Based on the actuarial valuation as of August 31, 2014, the actuarially sound contribution rate for ERF is 18.76% of payroll.

Funding Policy and Objectives – Law Enforcement and Custodial Officer Supplemental Retirement Fund

The funding objective of LECOSRF is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Contribution rates should be established which, over time, will remain level as a percent of payroll.

The member contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2014, members contribute 0.50% of payroll and the State contributes 0.50% of payroll. LECOSRF also receives a portion of the court costs collected under Section 133.102 of the Local Government Code. Based on historical information, the contribution from this source is expected to be approximately $19.3 million for fiscal year 2015 (approximately 1.20% of payroll).

The UAAL of LECOSRF decreased from $354 million as of August 31, 2013 to $323 million as of August 31, 2014. Additionally, the funded ratio of LECOSRF increased from 70.4% to 73.2% as of August 31, 2014.

The valuation shows that the total normal cost for funding purposes is 1.77% of payroll. The approximate total contribution rate is 2.20% of payroll for the current fiscal year. The total contribution rate for the current fiscal year exceeds the normal cost by 0.43% of payroll, but it is not sufficient to amortize the UAAL over a finite period of time. **As a result, and despite the decrease in the UAAL this year, the UAAL is expected to grow indefinitely and the funding objective is not currently being realized.**

Section 811.006 of the Texas Government Code limits the modifications to LECOSRF that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are considered actuarially sound. Section 811.006 determines actuarially sound as a retirement system that is receiving a total contribution rate sufficient to cover the normal cost, administrative expenses, and amortize the UAAL over a period of 31 years, or less. Based on the actuarial valuation as of August 31, 2014, the actuarially sound contribution rate for LECOSRF is 2.96% of payroll.

Funding Policy and Objectives – Judicial Retirement System Plan Two

The funding objective of JRS2 is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Contribution rates should be established which, over time, will remain level as a percent of payroll.

The member contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2014, members accruing benefits contribute 6.90% of payroll and the State contributes 15.663% of payroll. Since some active JRS2 members have elected to cease contributing to the plan as well as cease accruing additional benefits, the effective member contribution rate for the fiscal year beginning September 1, 2014 is 6.87% of payroll. The member contribution rate is scheduled to increase over time until it reaches an ultimate rate of 7.50% of payroll in the fiscal year 2017. This ultimate rate is subject to future legislative appropriations.

The UAAL of JRS2 decreased from $41 million as of August 31, 2013 to $38 million as of August 31, 2014. Additionally, the funded ratio of JRS2 increased from 88.6% to 90.2% as of August 31, 2014.

The valuation shows that the total normal cost for funding purposes is 21.03% of payroll. The total contribution rate is 22.533% of payroll for the current fiscal year, and potentially increasing to 23.163% of payroll for future fiscal years. The total contribution rate for the current fiscal year exceeds the normal cost by 1.503% of payroll, but it is not sufficient to amortize the UAAL over a finite period of time. **As a result, and despite the decrease in the UAAL this year, the UAAL is expected to grow indefinitely and the funding objective is not currently being realized.**

Section 840.106 of the Texas Government Code limits the modifications to JRS2 that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are considered actuarially sound. Section 840.106 determines actuarially sound as a retirement system that is receiving a total contribution rate sufficient to cover the normal cost, administrative expenses, and amortize the UAAL over a period of 31 years, or less. Based on the actuarial valuation as of August 31, 2014, the actuarially sound contribution rate for JRS2 is 23.86% of payroll.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Governmental Accounting Standards Board, the Internal Revenue Code and ERISA.

The signing actuaries are independent of the plan sponsor. They are all Enrolled Actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, each of the undersigned are experienced in performing valuations for large public retirement systems.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

R. Ryan Falls, FSA, EA, MAAA Senior Consultant

Joseph P. Newton, FSA, EA, MAAA Senior Consultant

Dana Woolfrey, FSA, EA, MAAA Consultant

Gabriel Roeder Smith & Company

Actuarial Balance Sheet –

Employees Retirement Fund

August 31, 2014 (With Comparative Totals at August 31, 2013)

ACTUARIAL BALANCE SHEET	August 31, 2014	August 31, 2013
Assets:		
Actuarial Value Assets	$ 25,431,922,496	$ 24,667,639,104
Present Value of Future Normal Cost (Note A)		
Member	2,942,577,444	2,801,439,166
Employer	1,572,304,267	1,554,579,265
Total	4,514,881,711	4,356,018,431
Total	**$ 29,946,804,207**	**$ 29,023,657,535**
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	$ 17,606,890,078	$ 17,420,045,143
- disability	260,334,939	249,714,199
- death before retirement	282,767,327	276,614,667
- termination	867,608,342	833,576,780
total	19,017,600,686	18,779,950,789
Inactive Members	1,308,147,697	1,313,848,927
Annuitants	17,113,870,539	16,148,245,090
Total	**$ 37,439,618,922**	**$ 36,242,044,806**
Unfunded Accrued Liability (UAL) (Note B)	**$ 7,492,814,715**	**$ 7,218,387,271**

SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	14.90%	14.60%
Normal Cost (Note A)		
- dollars	$ 714,653,122	$ 689,511,052
- percent of payroll	11.58%	11.57%
Contribution Available to Amortize UAL	3.32%	3.03%
Accrued Liability (Note B)	$ 32,924,737,211	$ 31,886,026,375
Amortization Period in Years	Infinite	Infinite
Funded Ratio	77.2%	77.4%
Valuation Payroll (Note C)	$ 6,171,443,191	$ 5,959,473,223
Active Members	134,162	133,669

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2013

Note B: The actuarial accrued liability along with the resulting amortization period and funded ratio are based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2013

Note C: Valuation payroll is the expected payroll for the fiscal year following the valuation date.

GRS

Actuarial Balance Sheet –

Law Enforcement and Custodial Officers Supplemental Retirement Fund

August 31, 2014 (With Comparative Totals at August 31, 2013)

ACTUARIAL BALANCE SHEET	August 31, 2014	August 31, 2013
Assets:		
Actuarial Value Assets	$ 883,594,932	$ 843,016,798
Present Value of Future Normal Cost (Note A)		
Member	52,296,196	54,930,584
Employer	122,604,075	132,066,349
Total	174,900,271	186,996,933
Total	**$ 1,058,495,203**	**$ 1,030,013,731**
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	$ 816,849,776	$ 870,283,540
- occupational disability	8,438,289	8,856,619
- death benefit plan	7,050,377	7,503,579
- termination	9,945,675	9,373,400
total	842,284,117	896,017,138
Inactive Members	6,133,734	5,456,524
Annuitants	533,252,341	482,687,108
Total	$ 1,381,670,192	$ 1,384,160,770
Unfunded Accrued Liability (UAL) (Note B)	**$ 323,174,989**	**$ 354,147,039**

SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	2.20%	2.20%
Normal Cost (Note A)		
- dollars	$ 28,487,983	$ 29,298,584
- percent of payroll	1.77%	1.80%
Contribution Available to Amortize UAL	0.43%	0.40%
Accrued Liability (Note B)	$ 1,206,769,921	$ 1,197,163,837
Amortization Period in Years	Infinite	Infinite
Funded Ratio	73.2%	70.4%
Valuation Payroll (Note C)	$ 1,609,490,560	$ 1,627,699,122
Active Members	37,084	37,415

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2013

Note B: The actuarial accrued liability along with the resulting amortization period and funded ratio are based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2013

Note C: Valuation payroll is the expected payroll for the fiscal year following the valuation date.

GRS

Actuarial Balance Sheet –

Judicial Retirement System of Texas Plan Two Fund

August 31, 2014 (With Comparative Totals at August 31, 2013)

ACTUARIAL BALANCE SHEET	August 31, 2014	August 31, 2013
Assets:		
Actuarial Value Assets	$ 348,430,575	$ 318,025,658
Present Value of Future Normal Cost		
Member	29,666,352	29,020,161
Employer	53,311,211	53,292,685
Total	82,977,563	82,312,846
Total	**$ 431,408,138**	**$ 400,338,504**
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	$ 277,166,582	$ 256,747,782
- disability	3,685,688	3,680,953
- death before retirement	11,244,465	10,390,638
- termination	12,121,224	12,054,413
total	304,217,959	282,873,786
Inactive Members	11,663,067	11,445,317
Annuitants	153,382,909	147,052,378
Total	**$ 469,263,935**	**$ 441,371,481**
Unfunded Accrued Liability (UAL)	**$ 37,855,797**	**$ 41,032,977**

SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	22.533%	22.233%
Normal Cost		
- dollars	$ 16,639,462	$ 16,318,094
- percent of payroll	21.03%	20.96%
Contribution Available to Amortize UAL	1.503%	1.273%
Accrued Liability	$ 386,286,372	$ 359,058,635
Amortization Period in Years	Infinite	Infinite
Funded Ratio	90.2%	88.6%
Valuation Payroll (Note A)	$ 79,122,500	$ 77,853,500
Active Members	554	545

Note A: Valuation payroll is the expected payroll for the fiscal year following the valuation date.

GRS

Summary of Actuarial Methods and Assumptions – Pension Plans

In February 2013, the Board of Trustees of the System adopted the actuarial methods and assumptions for the Employees Retirement System (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), and the Judicial Retirement Plan II Fund (JRS II) with assistance from the System's actuary and based on the actuarial experience study that covered the fiscal years from 2007 to 2011.

The System relies on the services of qualified actuaries to perform periodic valuations of the assets and liabilities of the pension funds. Gabriel, Roeder, Smith and Company was chosen to be the pension actuary for the System in June 2013. The actuarial methods used for the three funds are summarized in Figure 1.

Actuarial Cost Method

The Entry Age Actuarial Cost Method was used for actuarial valuation. Actuarial gains and losses resulting from differences between actual and assumed experience are recognized as they occur each year. These gains or losses increase or decrease the unfunded actuarial accrued liability.

The calculation of the years required to amortize the unfunded actuarial accrued liability assumes that the unfunded actuarial accrued liability is amortized as a level percent of payroll, which is the total contribution rate minus the normal cost contribution rate. The normal cost rate is based on the benefits payable to a new member and the entry age characteristics of the current population. The total contribution rate is set by statute; the variable from year to year is the amortization period.

Actuarial Valuation of Assets

The method used to value plan assets for actuarial purposes is based on the market-related value of plan assets, with smoothing of unexpected returns. The market-related value is equal to the fair value of investments plus the carrying value (net of depreciation) of other assets and liabilities as of the valuation date. The actuarial value of assets is determined as the expected value of plan assets as of the valuation date plus 20% of the difference between the market-related value and the expected value. The expected value equals the actuarial value of plan assets as of the prior valuation date, plus contributions, less benefit payments and administrative expenses, all accumulated at the assumed rate of interest to the current valuation date.

For actuarial assumptions, the members of the System are segregated into four classes – Employee Class, Elected Class, Supplemental Benefits for Commissioned Peace Officers and Custodial Officers (CPO/CO's), and Judicial Class. The Employee Class is further classified into Non-CPO/CO's and CPO/CO's with regular benefits. The *economic* assumptions for these classes are in Figure 1.

Pension Liability for GASB Statement 67 Reporting

The calculation of the liability associated with the benefits to satisfy the reporting requirements of GASB No. 67 is not applicable for purposes of funding the plan. A calculation of the plan's liability for other purposes may produce significantly different results. The Schedule of Employer Contribution in the Required Supplementary Information section provides a comparison of the actuarial determined contribution to actual contribution.

Figure 1
Economic Assumptions for Employee Classes

	Employee Class & Supplemental Benefits for CPO/CO's	Elected Class	Judicial Class
Investment Rate of Return: (Same for all classes)	8% per year, compounded annually.		
Administrative Expenses: (As a percentage of payroll per year, compounded annually)	ERS Fund: 0.25% LECOS Fund: 0.10%	0.25%	0.50%
Salary Increase:	• Include 3.5% annual increase for inflation plus increases for merit, promotion and longevity. • See Table 1 below for rates of salary increase for sample ages.	• 3.5% annually with no increase for merit, promotion, and longevity. • No salary increase for legislators.	• 3.5% annually with no increase for merit, promotion, and longevity.
Payroll Growth: (Same for all classes)	3.5% per year, compounded annually.		
Cost-of-Living Increase:	N/A	3.5% per year, compounded annually	N/A

Table 1
Economic Assumption –
Rates of Merit, Promotion and Longevity Salary Increases
For Male and Female Members in the Employee Class (Note A)

	Years of Service – Non-CPO/CO							Years of Service – CPO/CO						
Age	**0**	**1**	**2-4**	**5-9**	**10-14**	**15-19**	**20+**	**0**	**1**	**2**	**3**	**4**	**5-9**	**10+**
20	6.80%	5.25%	4.75%	4.30%				8.0%	5.0%	4.5%	4.0%	3.5%	2.0%	1.5%
30	5.90	5.25	4.75	3.00	2.50%	2.00%		8.0	5.0	4.5	4.0	3.5	2.0	1.5
40	4.90	4.75	4.00	3.00	2.50	1.90	1.80%	8.0	5.0	4.5	4.0	3.5	2.0	1.5
50	3.90	3.70	3.20	2.70	2.20	1.70	1.60	8.0	5.0	4.5	4.0	3.5	2.0	1.5
60	2.90	2.70	2.30	2.00	1.60	1.40	1.30	8.0	5.0	4.5	4.0	3.5	2.0	1.5

Note A: No salary increases are assumed where no rates are shown.

The demographic assumptions are summarized in Tables 2 to 10.

Table 2
Demographic Assumption –
Annual Rates of Termination from Active Employment before Age and Service Retirement

For members hired before September 1, 2009

	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)					Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)			
Age	0	5	10	15	20+	0	5	10	15+
20	50%	0%	0%	0%	0%	23%	0%	0%	0%
30	28	12	6	0	0	16	10	8	0
40	25	9	6	3	3	14	7	5	2
50	22	7	4	2	1	12	6	3	2
60	20	0	0	0	0	13	0	0	0

For members hired on or after September 1, 2009

	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)					Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)			
Age	0	5	10	15	20+	0	5	10	15+
20	52%	0%	0%	0%	0%	24%	0%	0%	0%
30	32	14	6	0	0	17	12	8	0
40	30	9	6	2	2	15	8	5	2
50	26	7	4	2	1	13	6	3	2
60	24	6	4	1	0	15	0	0	0

Elected and Judicial Class: 4 per 100 members not eligible for service retirement

Note B: It is assumed that no CPO/CO's will terminate after completing 20 years of service and defer receipt of their retirement benefit. CPO/CO's are eligible to retire with 20 years of service, regardless of age.

Table 3
Demographic Assumption –
Annual Rates of Withdrawal of Employee Contributions by Vested Terminated Members (Note)

	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)				Years of Service – Male and Female Members in the Employee Class (CPO/CO)			
Age	5-9	10-14	15-19	20+	5-9	10-14	15-19	20+
20-24	100%	100%	0%	0%	100%	0%	0%	0%
25-29	75	65	60	0	75	60	60	0
30-34	65	60	50	0	75	60	50	0
35-39	65	50	50	35	70	60	50	0
40-44	65	50	45	35	70	60	50	0
45-49	60	45	35	25	60	40	20	0
50-54	55	40	30	20	55	40	20	0
55+	50	30	25	15	50	30	20	0

Note: Elected Class members are assumed to not withdraw employee contributions.

Table 4
Demographic Assumption –
Mortality Rates for Active Members (Notes C & D)

Age	Females	Males
20	0.0289%	0.0507%
30	0.0397	0.0801
40	0.0825	0.1072
50	0.1734	0.2579
60	0.5832	0.7976
65	1.0764	1.4535

Note C: It is assumed that 2.0% of male Employee Class deaths and 0.3% of female Employee Class deaths are occupational. It is also assumed that there are no occupational deaths of members in the Elected and Judicial Classes.

Note D: The base rates indicated above are based on the 1994 Group Annuity Mortality Table with female ages set forward two years. Additionally, generational mortality improvements are projected from the year 2000 based on Scale AA.

Table 5
Demographic Assumption –
Mortality Rates for Service Retirees and Beneficiaries (Note E)

Age	Females	Males
20	0.0289%	0.0507%
30	0.0397	0.0801
40	0.0825	0.1072
50	0.1734	0.2579
60	0.5832	0.7976
65	1.0764	1.4535

Table 6
Demographic Assumption –
Mortality Rates for Disability Retirees (Note F)

Age	Females	Males
20	0.75%	2.26%
30	0.75	2.26
40	0.75	2.38
50	1.06	3.67
60	2.08	5.22
65	2.66	6.58

Note E: The base rates indicated above are based on the 1994 Group Annuity Mortality Table with female ages set forward two years. Additionally, generational mortality improvements are projected from the year 2000 based on Scale AA.

Note F: The rates indicated above are based on the RP-2000 Disabled Retiree Mortality with male ages set forward six years and female ages set back one year.

Table 7
Demographic Assumption –
Disability Retirement Rates (Note G)

Age	Employee Class (Non-CPO/CO) Females	Employee Class (Non-CPO/CO) Males	Employee Class (CPO/CO) Females & Males
30	0.018	0.037	0.0123
40	0.120	0.100	0.0781
50	0.276	0.198	0.2365
60	0.744	0.499	0.4200

Note G: It is assumed that 99% of Employee Class (Non-CPO/CO) disability retirements are non-occupational and 1% of Employee Class (Non- CPO/CO) disability retirements are occupational. Similarly, it is assumed that 95% of Employee Class (CPO/CO) disability retirements are non-occupational, 4% of Employee Class (CPO/CO) disability retirements are non-total occupational, and 1% of Employee Class (CPO/CO) disability retirements are total occupational. It is also assumed that there are no occupational disability retirements in the Elected and Judicial Classes. Additionally, the rates do not apply before the member is eligible for the benefit.

Table 8
Demographic Assumption –
Option Selection Percentage and Beneficiary Characteristics under Disability Retirement

	Option Selection Percentage (Note H) Standard	Option 1	Option 4	Beneficiary Characteristics
Male	50%	40%	10%	Member is three years older than female beneficiary.
Female	75	20	5	Member is same age as male beneficiary.

Note H: Descriptions of Options 1 and 4 are presented in the Summary of Plan Provisions in the Introductory Section.

Table 9
Demographic Assumption –
Service Retirement Rate (Note I)

Years of Service – Members in the Employee Class (Non-CPO/CO)

For members hired before September 1, 2009

	Male						Female					
Age	5	10	15	20	25	30	5	10	15	20	25	30
50						35.0%						45.0%
55					22.5%	25.0					40.0%	25.0
60	10.0%	15.0%	17.5%	37.5%	20.0	20.0	10.0%	15.0%	15.0%	35.0%	20.0	20.0
65	20.0	45.0	45.0	35.0	35.0	35.0	20.0	45.0	45.0	32.5	32.5	32.5
70	20.0	37.5	27.5	32.5	32.5	32.5	20.0	37.5	27.5	32.5	32.5	32.5
75	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 9
Demographic Assumption -
Service Retirement Rate (Note I) continued

For members hired on or after September 1, 2009

	Male						Female					
Age	5	10	15	20	25	30	5	10	15	20	25	30
50						15.0%						20.0%
55					25%	7.5					30.0%	10.0
60				25.0%	57.5	67.5				25.0%	45.0	45.0
65		85.0%	37.5%	30.0	45.0	40.0		85.0%	37.5%	17.5	35.0	30.0
70		80.0	60.0	90.0	35.0	35.0		80.0	60.0	90.0	32.5	32.5
75	100.0%	100.0	100.0	100.0	100.0	100.0	100.0%	100.0	100.0	100.0	100.0	100.0

Years of Service – Members in the Employee Class (CPO/CO)
Male and Female

	For members hired before September 1, 2009						For members hired on or after September 1, 2009					
Age	5	10	15	20	25	30	5	10	15	20	25	30
50	0%	0%	0%	45%	55%	55%	0%	0%	0%	5.0%	5%	5%
55	0	12	12	45	35	35	0	12	12	82.5	65	65
60	6	16	16	55	35	35	0	16	16	55.0	35	35
65	15	35	35	50	60	60	0	35	35	50.0	60	60
70	50	50	50	50	50	50	0	50	50	50.0	50	50
75	100	100	100	100	100	100	100	100	100	100.0	100	100

Elected Class (Note J)		Judicial Class (Note J)	
Age	**Rate**	**Age**	**Rate**
50-64	10%	50-69	20%
65-74	20	70-74	25
75+	100	75+	100

Note I No service retirements are assumed where no rates are shown.
Note J: The rates are the same for all years of service. Judicial members are assumed to retire when they have accrued a standard retirement annuity of 90% of salary.

Table 10
Demographic Assumption –
Option Selection Percentage and Beneficiary Characteristics under Death Benefit Plan

	Option Selection Percentage (Note K)		
	Option 1	**Option 4**	**Beneficiary Characteristics**
Male	75%	25%	Member is three years older than female beneficiary.
Female	50	50	Member is same age as male beneficiary.

Note K: Descriptions of Options 1 and 4 are presented in the Summary of Plan Provisions in the Introductory Section.

Active Member Valuation Data (Note A)

Valuation Year August 31,	Number (Note B)	Actual Annual Payroll	Average Pay (Note C)	% Change in Average Pay
		$	$	%
Employees Retirement Fund:				
2009	141,223	5,603,756,283	40,202	1.9
2010	142,490	5,878,680,811	41,022	2.0
2011	137,293	5,926,331,865	41,620	1.5
2012	132,669	5,720,722,855	42,188	1.4
2013	133,669	5,713,759,137	42,564	0.9
2014	134,162	5,955,460,705	44,374	4.3
Law Enforcement and Custodial Officer Supplemental Retirement Fund:				
2009	37,819	1,379,532,687	36,687	(0.9)
2010	39,052	1,494,510,816	37,979	3.5
2011	36,806	1,520,864,574	39,454	3.9
2012	37,404	1,457,492,314	39,444	0.0
2013	37,415	1,429,059,562	39,469	0.1
2014	37,084	1,496,012,750	41,584	5.4
Judicial Retirement Plan Two Fund:				
2009	533	66,463,534	127,519	(0.1)
2010	539	67,204,906	127,560	0.0
2011	546	67,927,624	127,573	0.0
2012	541	68,373,289	127,130	(0.3)
2013	545	68,781,009	127,550	0.3
2014	554	77,441,466	142,820	12.0

Note A: Ten years of data will be developed prospectively.
Note B: Number of active contributing members as of August 31, excluding those who retired August 31 because they ere included as retirees in the actuarial valuation.
Note C: The average rate of salary is based on the salary for the month of August

Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls (Note A)

Valuation Year	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls end of Year		% Increase	Average
August, 31	No	Annual Benefits	No	Annual Benefits	No	Annual Benefits	No	Annual Benefits	Annual Benefits	Annual Benefit
		$		$		$		$	%	$
Employees Retirement Fund										
2009	4,433	85,551,288	1,849	30,235,704	460	8,045,532	75,722	1,377,430,308	4.8	18,191
2010	4,870	100,938,168	1,828	30,584,136	547	9,281,208	79,311	1,457,065,548	5.8	18,372
2011	5,808	123,585,132	2,237	35,797,140	548	8,145,660	83,430	1,552,999,200	6.6	18,614
2012	5,928	124,604,412	2,128	35,049,012	569	7,965,072	87,799	1,650,519,672	6.3	18,799
2013	5,287	108,395,484	2,418	36,921,000	699	8,999,592	91,367	1,730,993,748	4.9	18,946
2014	6,231	132,027,948	2,331	38,751,696	573	11,250,312	95,840	1,835,520,312	6.0	19,152
Law Enforcement and Custodial Officer Supplemental Retirement Fund										
2009	561	3,954,780	169	1,361,916	51	44,760	6,647	37,814,736	7.5	5,689
2010	635	3,604,140	147	1,163,112	40	(120,456)	7,175	40,135,308	6.1	5,594
2011	695	3,915,084	186	1,536,500	44	22,352	7,728	42,536,244	6.0	5,504
2012	895	5,069,712	195	1,439,820	49	202,200	8,477	46,368,336	9.0	5,470
2013	744	3,771,816	183	1,336,200	51	230,952	9,089	49,034,904	5.8	5,395
2014	1,071	5,376,924	194	1,238,712	58	225,252	10,024	53,398,368	8.9	5,327
Judicial Retirement Plan Two Fund										
2009	36	2,220,108	1	70,656	0	16,308	152	8,876,549	32.3	58,398
2010	12	737,508	2	119,556	2	122,491	164	9,616,992	8.3	58,640
2011	43	2,792,244	1	29,580	2	152,880	208	12,532,536	30.3	60,253
2012	8	441,948	4	250,680	3	167,892	215	12,891,696	2.9	59,961
2013	43	2,571,696	5	278,964	1	68,580	254	15,253,008	18.3	60,051
2014	14	1,024,752	7	348,120	6	249,000	267	16,178,640	6.1	60,594

Note A: Ten years of data will be developed prospectively.

Schedule of Funding Progress – Pension Plans

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets	[Note A] (b) Actuarial Accrued Liability (AAL)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a)	(b) Funded Ratio (a)/(b)	[Note B] (e) Covered Payroll	(f) UAAL As A Percentage Of Covered Payroll (c)/(e)
	(000's)	(000's)	(000's)	%	(000's)	%
Employees Retirement System (ERS)						
2005	20,835,469	21,969,670	1,134,201	94.8	4,842,525	23.4
2006	21,780,437	22,884,917	1,104,480	95.2	5,051,330	21.9
2007	22,938,947	23,987,165	1,048,218	95.6	5,253,723	20.0
2008	23,511,918	25,403,280	1,891,362	92.6	5,379,527	35.2
2009	23,509,622	26,907,779	3,398,157	87.4	5,814,417	58.4
2010	23,628,567	28,411,815	4,783,248	83.2	5,930,141	80.7
2011	23,997,445	29,050,128	5,052,683	82.6	5,795,185	87.2
2012	24,272,514	29,977,157	5,704,643	81.0	5,676,509	100.5
2013	24,667,639	31,886,026	7,218,387	77.4	5,959,473	121.1
2014	25,431,922	32,924,737	7,492,815	77.2	6,171,443	121.4
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)						
2005	698,814	677,953	(20,861)	103.1	1,283,815	(1.6)
2006	720,307	708,437	(11,870)	101.7	1,279,463	(0.9)
2007	747,765	762,666	14,901	98.0	1,360,819	1.1
2008	774,509	842,135	67,626	92.0	1,242,122	5.4
2009	780,808	907,102	126,294	86.1	1,464,483	8.6
2010	802,897	966,604	163,707	83.1	1,507,950	10.9
2011	830,522	992,797	162,275	83.7	1,475,432	11.0
2012	832,451	1,044,255	211,804	79.7	1,498,979	14.1
2013	843,017	1,197,164	354,147	70.4	1,627,699	21.8
2014	883,595	1,206,770	323,175	73.2	1,609,491	20.1
Judicial Retirement System Plan Two (JRS II)						
2005	164,231	182,311	18,080	90.1	60,775	29.7
2006	186,400	198,840	12,440	93.7	62,306	20.0
2007	211,933	220,884	8,951	95.9	64,654	13.8
2008	232,891	239,098	6,207	97.4	66,110	9.4
2009	248,279	255,569	7,290	97.1	67,968	10.7
2010	264,515	281,760	17,245	93.9	68,755	25.1
2011	283,936	300,163	16,227	94.6	69,655	23.3
2012	300,433	315,199	14,766	95.3	68,778	21.5
2013	318,026	359,059	41,033	88.6	77,854	52.7
2014	348,431	386,286	37,855	90.2	79,123	47.8

Note A: For ERS and LECOS, the actuarial accrued liability along with funded ratio are based on a total liability, which is based on the benefit provisions in effect for each active member and a normal cost rate that is based on the benefits in effect for new members after plan changes in August 31, 2009 and August 31, 2013.

Note B: Covered payroll is the expected payroll for the fiscal year following the valuation date.

Solvency Test

Funding Objective

The System's funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due – the ultimate test of financial soundness.

Evaluation of Funding Objective

A short-term solvency test is one way of evaluating a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with:

1. Active member contributions on deposit;
2. The liabilities for future benefits to present retirees; and
3. The liabilities for service already rendered by active members.

In a system that has been following the level contribution rate of payroll financing principle, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present assets except in rare circumstances.

In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time. Following is a summary of the solvency test:

	Aggregate Accrued Liabilities For						
	(1)	(2)	(3)		Portion of Accrued Liabilities Covered by Assets		
Valuation Year August, 31	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)
	$	$	$	$	%	%	%
Employees Retirement Fund (Note A, Note B):							
2009	4,460,644,477	12,648,155,181	9,798,979,599	23,509,621,791	100	100	65.3
2010	4,719,703,277	13,407,823,189	10,284,288,042	23,628,566,500	100	100	53.5
2011	4,943,684,166	14,325,177,797	9,781,265,638	23,997,444,804	100	100	48.3
2012	5,075,213,967	15,243,956,208	9,657,986,616	24,272,514,483	100	100	40.9
2013	5,201,006,487	16,148,245,090	10,536,774,798	24,667,639,104	100	100	31.5
2014	5,213,640,470	17,113,870,539	10,597,226,202	25,431,922,496	100	100	29.3
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A, Note B):							
2009	-	334,638,616	572,463,018	780,807,727	-	100	77.9
2010	7,315,238	367,991,489	591,296,971	802,897,017	100	100	72.3
2011	13,897,600	400,877,467	578,021,779	830,522,385	100	100	71.9
2012	19,540,552	447,451,269	577,263,635	832,451,079	100	100	63.3
2013	24,432,912	482,687,108	690,043,817	843,016,798	100	100	48.7
2014	29,508,062	533,252,341	644,009,518	883,594,932	100	100	49.8
Judicial Retirement Plan Two Fund (Note B):							
2009	51,733,112	85,844,874	117,990,788	248,279,312	100	100	93.8
2010	57,347,421	92,253,133	132,159,921	264,515,185	100	100	87.0
2011	57,768,713	120,798,133	121,595,978	283,935,401	100	100	86.7
2012	63,677,503	122,570,887	128,950,762	300,433,111	100	100	88.5
2013	64,435,226	147,052,378	147,571,031	318,025,658	100	100	72.2
2014	69,364,268	153,382,909	163,539,195	348,430,575	100	100	76.9

Note A: The actuarial accrued liability for ERS and LECOS is based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2013

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Note B: Ten years of data will be developed prospectively.

Analysis of Financial Experience

Actual financial experience will not coincide exactly with assumed financial experience because the future cannot be predicted with 100 percent precision. The assumed experience should be changed to reflect observed reality when an actuarial investigation reveals that the difference between actual and assumed experience in the various risk areas to be material and persistent.

If the differences between actual and assumed experience is financially favorable or unfavorable, such differences are called actuarial gains and losses. In the actuarial valuation of the System, actuarial gains and losses are recognized immediately, with actuarial gains decreasing the unfunded actuarial accrued liability and actuarial losses increasing the unfunded actuarial accrued liability. A general description of actuarial gains and losses for age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment is summarized as follows:

Age and Service Retirement:
If members retire at younger (older) ages or with final average pay that is higher (lower) than assumed, there is a loss (gain).

Disability Retirement:
If disability claims are more (less) than assumed, there is a loss (gain).

Death-in-Service Benefit:
If survivor claims are more (less) than assumed, there is a loss (gain).

Withdrawal from Employment:
If withdrawals are less (more) than assumed, there is a loss (gain).

The gains and losses in actuarial accrued liabilities resulting from differences between assumed experience and actual experience are summarized as follows:

	Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)					
	ERS		LECOS		JRS II	
Type of Activity	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Contribution Income and Interest on Unfunded Actuarial Accrued Liability If contributions are received in excess of normal cost, there is a decrease. If less, an increase.	397.7	424.4	21.9	34.1	2.1	6.5
Components of (Gain)/Loss						
Investment Income: If there is greater investment income than assumed on the actuarial value of assets, there is a gain. If less income, a loss.	95.5	449.8	3.4	15.6	(4.2)	(0.1)
Active Member Demographics: Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	(21.2)	(38.4)	(3.1)	(7.0)	(4.8)	1.6
Pay Increases: If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	(265.9)	295.3	(64.9)	6.1	0.2	6.0
Death After Retirement: If retirees live longer than assumed, there is a loss. If not as long, a gain.	16.0	15.1	0.1	0.0	(0.1)	(0.6)
Other: Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	52.3	53.3	11.6	17.2	3.6	0.9
Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience	**274.4**	**1,199.5**	**(31.0)**	**66.0**	**(3.2)**	**14.3**
Non-Recurring Items Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	0	315.8	0.0	76.3	0.0	12.0
Composite Increase/(Decrease) During Year	**274.4**	**1,515.3**	**(31.0)**	**142.3**	**(3.2)**	**26.3**

Actuary's Certification Letter – State Retiree Health Plan

Section I - Certification of GASB No. 43 Actuarial Valuation

At the request of the Employees Retirement System of Texas (ERS), we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP) for the twelve-month period ending August 31, 2014. The purpose of this report is to present the results of our valuation and provide the information necessary to determine financial statement entries consistent with the Governmental Accounting Standards Board Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans (GASB No. 43).

Actuarial computations under GASB No. 43 are for purposes of fulfilling governmental plan financial accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB No. 43 and the GBP. The information presented in this report is solely for purposes of compliance with GASB No. 43. This report does not provide any advice with respect to the manner in which the benefits are funded (i.e., pay-as-you go funding as opposed to prefunding the benefits).

We have based our valuation on employee data as of August 31, 2014 provided by ERS and the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial methods and assumptions described in Section VII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VIII.

To the best of our knowledge, all current active and retired employees eligible to participate in the plan as of the valuation date and all other individuals who have a vested benefit under the plan have been included in the valuation. Furthermore, to the best of our knowledge and belief, all plan benefits have been considered in the development of costs.

ERS and TRS remain solely responsible for the accuracy and comprehensiveness of the respective data provided. However, to the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent that any imperfections exist in the data records, we have relied on best estimates provided by ERS and TRS. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. In our opinion, each of the assumptions used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption.

Rudd and Wisdom, Inc. prepared and presented in Section V of this report the Schedule of Funding Progress and the Schedule of Employer Contributions that are to be included in the Required Supplementary Information.

The undersigned individuals are members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Mitchell L. Bilbe, F.S.A.
Member of American Academy of Actuaries

Philip S. Dial, F.S.A.
Member of American Academy of Actuaries

Christopher S. Johnson, F.S.A.
Member of American Academy of Actuaries

Summary of Results for FY 2014

Actuarial Valuation Results as of August 31, 2014		
	($ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	228,805	
b. Deferred Vesteds	11,269	
c. Retirees and Nominees	104,770	
d. Total Number of Members	344,844	
2. Payroll of Active Members for FY 2014	$ 10,963,773	
3. Actuarial Present Value of Total Projected Benefits		
a. Actives	$ 24,206,625	
b. Deferred Vesteds	1,235,275	
c. Retirees and Nominees	9,489,361	
d. Total	$ 34,931,261	318.6%
4. Actuarial Accrued Liability		
a. Actives	$ 13,977,268	
b. Deferred Vesteds	1,235,275	
c. Retirees and Nominees	9,489,361	
d. Total	$ 24,701,904	225.3%
5. Actuarial Value of Assets	$ 0	0.0%
6. Unfunded Actuarial Accrued Liability [4.d. – 5.]	$ 24,701,904	225.3%
7. Annual Required Contribution for FYE August 31, 2014		
a. Normal Cost		
b. Amortization of UAAL	$ 984,096	9.0%
c. Total ARC for FYE August 31, 2014	1,071,993	9.8%
	$ 2,056,089	18.8%

Summary of Actuarial Methods and Assumptions – State Retiree Health Plan

Consistency with Assumptions Used for Retirement Plan Valuations

Most of the employees and retirees covered by the Group Benefits Program are also covered by either the ERS or Teacher Retirement System (TRS) retirement plans that are subject to periodic actuarial valuations. Where appropriate, assumptions were utilized that were previously adopted by the ERS and TRS Boards for use in performing the retirement plan valuations. However, certain aspects of the OPEB valuation process require the use of assumptions that are unique to OBEB, specifically, the investment return assumption and the health benefit cost trend as discussed below.

Changes in Actuarial Assumptions

Since the last valuation was prepared for this plan, assumed expenses, assumed per capita health benefit costs and assumed health benefit cost and retiree contribution trends have been updated to reflect recent experience and its effect on short-term expectations. In addition, the percentage of future retirees electing coverage for their spouses, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence and the percentage of future retirees assumed to used tobacco have been updated to reflect recent plan experience and expected trends. Lastly, assumed rates of retirements for Higher Education members who are not grandfathered under current TRS Care eligibility provisions as of August 31, 2014 were updated to remain consistent with the assumptions used by the TRS retirement plan actuary.

All other demographic and economic assumptions reflect assumptions adopted by the ERS and TRS Boards at the time the valuation was prepared. If the ERS and/or TRS Boards adopt any changes to the assumptions after this valuation, those assumption changes would not be reflected until the first valuation subsequent to the adoption date.

Investment Return Assumptions (Discount Rate)

In accordance with GASB Statement 43, the investment return assumptions (discount rate) is the estimated long-term investment yield on investments expected to be used to finance the payment of benefits with consideration given to the nature and mix of current and expected investments. For this purpose, the investments expected to be used to finance the benefits are:

(i) the plan assets, if the employer's funding policy is to contribute an amount at least equal to the ARC

(ii) assets of the employers, for plans that have no plan assets, or

(iii) a combination of (i) and (ii), for plans being partially funded.

Presently, the amount that the System contributes to the plan each year is equal to the expected cost of providing the benefits incurred during that year. This amount is determined on a pay-as-you-go basis and does not accumulate funds in advance of retirement as ARC-level contributions would. Therefore, the pay-as-you-go amount is significantly less than the ARC. As a result of this funding policy and because the plan has no material level of assets held under a different investment policy that would materially effect the determination of the discount rate, under GASB statement 43, the investment return assumption must be based upon the expected yield of the "assets of the employer", as indicated in Item (ii) above. For the State of Texas, the "assets of the employer" are the assets held in the State Treasury Pool and managed by the Comptroller of Public Accounts.

Based upon the investment policy of the Treasury Pool, the historical returns of the Treasury Pool, and the long-term inflation assumption used in this report, an investment return assumption (discount rate) of 5.50% was utilized.

If a policy was implemented to consistently fund the ARC or a significant portion thereof, the discount rate discussed above could be higher than the current 5.50% assumption if the underlying investments of the plan assets were expected to yield a return in excess of 5.5%. This higher discount rate would produce a smaller ARC.

Health Benefit Cost Trend

For purposes of this valuation, the health benefit cost trend represents the expected annual rate of increase in health benefit costs, excluding the effects of changes in demographics and changes in plan provisions.

The health benefit cost trend has exceeded the rate of price increases in the general economy, as measured by changes in the Consumer Price Index (CPI), for many decades. Although this pattern is expected to continue for the foreseeable future, many economists anticipate that the degree to which the health benefit cost trend exceeds general inflation will eventually abate. These economists believe that the health benefit cost trend will reach an ultimate level that still exceeds general inflation, but not by as wide a margin as in past decades.
The health benefit cost trend assumption used in

this report begins with the short term expectations of expected health benefit cost increases in the next year and gradually declines to a rate that exceeds the assumed rate of general price inflation by 2.0%.

Changes in Plan Provisions

Under Q/A #49 of GASB's Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the benefit changes that became effective September 1, 2014 (except as noted below), since these changes were communicated to plan members in advance of the preparation of this report. The benefit changes include: (a) implementation of an overall annual out-of-pocket maximum in accordance with the requirements of the Affordable Care Act (ACA) (effective January 1, 2015), (b) mental health benefit changes, (c) benefit enhancements for hearing aids and breast pumps and (d) copay reductions for generic prescription drugs. The net impact of the benefit changes is no change in the employer's cost of providing OPEB.

High-Cost Plan Excise Tax

Consistent with the prior valuation, the effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 49801 (sometimes referred to as the "Cadillac Tax") have been included in this valuation. The Excise Tax becomes effective in 2018, but the plan is not expected to be subject to the tax until 2061 based on current plan provisions, assumptions, and participant demographics. The Unfunded Actuarial Accrued Liability is increased by the $115 million present value of the estimated Excise Taxes in future years, and the associated increase to the ARC is $5 million.

Medicare Part D

The Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the basic coverage provided under Medicare Part D (the Retiree Drug Subsidy).

For purposes of GASB No. 43, the valuation of future OPEB may not reflect the anticipated receipt of future federal government subsidy payments under the Medicare part D Prescription Drug Program as required under GASB Technical Bulletin No. 2006-1. The Bulletin requires that Retiree Drug Subsidy payments to an employer be reported by the employer as revenue, rather than being netted against the employer's OPEB cost for prescription drug coverage.

ERS implemented an Employer Group Waiver Plan plus Commercial Wrap (EGWP plus Wrap) on January 1, 2013 in order to provide the plan with the benefit of increased subsidies and discounts available under such an arrangement. The Retiree Drug Subsidy is being phased out as a result of the implementation of the EGWP plus Wrap. The Retiree Drug Subsidies are excluded from this valuation in accordance with GASB Technical Bulletin No. 2006-1.

The projected cost of the EGWP plus Wrap reflects the subsidies to SilverScript Insurance Company, the administrator of the plan, which are expected to be provided by the Federal government under Medicare Part D and the discounts expected to be provided by drug manufacturers as required under the Affordable Care Act.

Economic Assumptions

Expenses

The expenses to administer the Group Benefits Program health benefits are (i) $229.80 ($213.36 for medical plus $16.44 for prescription drugs) per year per covered member for external HealthSelect administrative expenses for fiscal year 2015 and (ii) approximately $53.50 per year per covered member for internal administrative expenses for fiscal year 2015 (including the ACA Patient-Centered Outcomes Research Institute (PCORI) fee). The external and internal administrative expenses per covered member are the same regardless of whether the member covers dependents. In addition, the ACA Transitional Reinsurance Program Fee on each non-Medicare participant ($63 per year in 2014 (for 4 months), $44 per year in 2015, $27.48 per year in 2016 and $0 thereafter) is included in this valuation.

Stop-loss Reinsurance

Stop-loss reinsurance is not purchased for the Group Benefits Program.

Discount Rate

The Discount Rate is equal to the assumed return on assets of the System of 5.50%.

Health Benefit Cost Trend

The Annual Rate of Increase in Per Capita Health Benefit Cost assumptions are shown below.

Summary of Actuarial Methods and Assumptions – State Retiree Health Plan (Concluded)

Fiscal Year	Annual Rate of Increase
	%
2016	8.50
2017	8.00
2018	7.50
2019	7.00
2020	6.50
2021	6.00
2022 and beyond	5.50

Trend Rate for Retiree Contributions

The portions of retiree contributions attributable to non-life insurance benefits for both HealthSelect and HealthSelect Medicare Advantage Plans are assumed to increase from their amounts in fiscal year 2015 at the rates show below.

Fiscal Year	Annual Rate of Increase
	%
2016	6.90
2017	6.90
2018	7.50
2019	7.00
2020	6.50
2021	6.00
2022 and beyond	5.50

Expense Trend Rate

Internal and external administrative expenses are assumed to increase 3.50% per annum.

Trend Rate for the Opt-Out Credit

The monthly benefit of $60 in fiscal year 2015 is not assumed to increase in the future.

Health Coverage by Governmental Plans

There has been no consideration of anticipated changes in laws concerning health costs covered by governmental programs. However, presently enacted changes in the law that take effect in future periods that will affect future benefit coverages are considered. The proportion of health benefits which are currently covered by governmental programs has been assumed to remain constant in the future.

Active Member Valuation Data

Valuation Year August 31,	Number (Note A)	Actual Annual Payroll	Average Pay	% Change in Average Pay
State Retiree Health Plan				
2009	230,285	10,045,849,000	43,624	3.6%
2010	234,057	10,437,333,000	44,593	2.2%
2011	227,786	10,376,487,000	45,554	2.2%
2012	225,075	10,268,696,000	45,623	0.2%
2013	226,181	10,478,117,000	46,326	1.5%
2014	228,805	10,963,773,000	47,918	3.4%

Note A: Includes return-to-work retirees and employees who have not yet satisfied the 90-day waiting period.

Retirees and Nominees Added and Removed

	Added to Rolls		Removed from Rolls		Rolls End of Year			
	No. (Note C)	Annual Benefits	No. (Note C)	Annual Benefits	No. (Note B)	Annual Benefits	Increase Annual Benefits	Average Annual Benefit
		$		$		$	%	$
State Retiree Health Plan								
2009	N/A		N/A		83,494	596,857,518	6.9	7,149
2010	5,579	99,196,641	2,962	52,665,433	86,111	643,388,726	7.8	7,472
2011	6,882	4,711,974	2,780	1,903,413	90,213	646,197,287	0.4	7,163
2012	7,869	76,049,400	2,707	26,161,612	95,375	696,085,075	7.7	7,298
2013	7,790	47,110,385	3,111	18,813,916	100,054	724,381,544	4.1	7,240
2014	7,950	150,776,296	3,234	61,334,659	104,770	813,823,181	12.3	7,768

Note B: Includes retirees who receive the Opt-Out Credit in lieu of health benefits.
Note C: This information is not available prior to August 31, 2010.

Schedule of Funding Progress – State Retiree Health Plan

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a)	(b) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL As A Percentage Of Covered Payroll (c)/(e)
	(000's)	(000's)	(000's)	%	(000's)	%
2007	0	17,675,000	17,675,000	0.0	8,836,000	200.0
2008	0	20,131,000	20,131,000	0.0	9,373,000	214.8
2009	0	21,992,356	21,992,356	0.0	10,045,849	218.9
2010	0	22,329,556	22,329,556	0.0	10,437,333	214.0
2011	0	21,502,434	21,502,434	0.0	10,376,487	207.2
2012	0	20,823,410	20,823,410	0.0	10,268,696	202.8
2013	0	23,030,469	23,030,469	0.0	10,478,117	219.8
2014	0	24,701,904	24,701,904	0.0	10,963,773	225.3

Note A: Ten years of data will be developed prospectively.

STATISTICAL SECTION

Governmental Activities:
Net Position

Changes in Net Position

Governmental Funds:
Fund Balances

Changes in Fund Balances

Changes In Net Position:
Proprietary Fund

Defined Benefit Plans

Deferred Compensation Plan
and Cafeteria Plan

Benefit and Refund Payments-Defined
Benefit Plans

Average Benefit Payments-
Employee Class

Retired Members by Type of Benefit

Contribution Rates

Other Statistical Information:
Defined Benefit Plans

Other Programs

List of Participating Entities for
State Retiree Health Plan

Net Position – Governmental Activities

Last Ten Fiscal Years (in 000's)
(Accrual Basis of Accounting)

This schedule provides ten year trend information for restricted and unrestricted assets. The information source of this schedule is obtained from Exhibit I.

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental Activities:	$	$	$	$	$	$	$	$	$	$
Restricted	133,253	241,478	369,913	384,892	282,484	136,599	227,985	284,814	325,412	379,311
Unrestricted	27	49	45	56	59	45	8	18	-	5
Total Governmental Activities	**133,280**	**241,527**	**369,958**	**384,948**	**282,543**	**136,644**	**227,993**	**284,832**	**325,412**	**379,316**

Changes in Net Position – Governmental Activities

Last Ten Fiscal Years (in 000's)
(Accrual Basis of Accounting)

This schedule provides trend information for the last ten fiscal years for expenses, program revenues, general revenues, and net revenues. The information source of this schedule are obtained from Exhibits II and VI.

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses	$	$	$	$	$	$	$	$	$	$
Governmental Activities:										
Social Security Administration	52	58	70	54	61	101	102	105	92	156
Death Benefits:										
Peace Officers, Firemen, etc.	2,660	4,361	2,397	3,423	1,866	4,164	2,784	2,141	5,444	5,738
Compensation to Victims of Crime	1,250	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625
Retiree $5,000 Lump Sum	7,026	6,908	7,493	6,902	7,367	7,910	7,885	8,628	9,108	8,846
Group Benefits Program:										
Claims Expenses	1,646,815	1,760,073	1,293,957	1,460,527	1,632,962	1,828,422	1,776,296	1,826,996	1,934,325	2,047,749
Administration	10,312	10,307	8,694	8,323	9,062	8,118	9,437	9,401	9,356	24,535
Total Expenses	**1,668,115**	**1,782,457**	**1,314,111**	**1,481,479**	**1,653,318**	**1,849,965**	**1,798,254**	**1,848,271**	**1,960,325**	**2,088,649**
Program Revenues										
Governmental Activites:										
Charges for Services:										
Administration Fees	73	78	72	65	64	85	66	74	75	70
Appropriations:										
Administration	28	28	28	28	28					
Death Benefits:										
Peace Officers, Firemen, etc.	2,632	4,333	2,369	3,395	1,838	4,164	2,784	2,141	5,444	5,738
Compensation to Victims of Crime	1,250	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625
Retiree $5,000 Lump Sum	7,030	6,910	7,487	6,902	7,367	7,911	7,885	8,628	9,108	8,846
Insurance Contributions:										
State	1,256,123	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,732	1,434,186	1,527,002	1,631,916
Member	420,192	450,678	365,653	364,278	381,820	416,690	444,731	444,786	460,944	482,566
Other	145	147	150	163	161	157	209	192	179	141
Federal Revenue-Medicare Part D		19,360								
Operating Grants and Contributions:										
Membership Fee Revenue										
Investment Income	14,809	23,023	40,375	42,513	48,100	36,671	12,758	13,188	(5,885)	10,913
Other	2,951	709	272	1,521	1,385	3,357	4,688	875	2,039	647
Total Program Revenues	**1,705,233**	**1,890,704**	**1,442,542**	**1,496,469**	**1,550,913**	**1,704,066**	**1,889,603**	**1,905,070**	**2,000,906**	**2,142,462**
General Revenues										
Transfers								40		90
Total General Revenues								**40**	**-**	**90**
Net Revenue Governmental Activities	**37,118**	**108,247**	**128,431**	**14,990**	**(102,405)**	**(145,899)**	**91,349**	**56,839**	**40,581**	**53,903**

Fund Balances – Governmental Funds

Last Ten Fiscal Years (in 000's)
(Modified Accrual Basis of Accounting)

This schedule provides information on the modified accrual basis of accounting for the last ten fiscal years for committed Social Security Administration Funds and Total Governmental Funds The information source of this schedule is obtained from Exhibit III. Please see Note 1.D for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental Funds:	$	$	$	$	$	$	$	$	$	$
Committed:										
Social Security Administration Fund	27	49	45	56	59	45	8	18	-	5
Total Governmental Funds	**27**	**49**	**45**	**56**	**59**	**45**	**8**	**18**	**-**	**5**

Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years (in 000's)
(Modified Accrual Basis of Accounting)

This schedule provides provide trend information on the modified accrual basis of accounting for Revenues, Expenditures, and net change in Fund Balances. This information is obtained from Exhibit IV. Please see Note 1.D for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	$	$	$	$	$	$	$	$	$	$
Appropriations for (Note A):										
Administration	28	28	28	28	28	-	-	-	-	-
Death Benefits:										
Public Employee Survivors	2,632	4,333	2,369	3,395	1,838	4,164	2,784	2,141	5,444	5,738
Victims of Crime		750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625
Retiree $5,000 Lump Sum	7,030	6,910	7,487	6,902	7,367	7,911	7,885	8,628	9,108	8,847
Administration Fees	73	78	72	65	64	85	66	74	75	70
Total Revenues	**9,763**	**12,099**	**11,456**	**12,640**	**11,297**	**13,410**	**12,485**	**11,843**	**16,627**	**16,280**
Expenditures										
Death Benefits:										
Public Employee Survivors	2,632	4,333	2,397	3,423	1,866	4,164	2,784	2,141	5,444	5,738
Victims of Crime	1,250	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625
Retiree $5,000 Lump Sum	7,026	6,908	7,493	6,902	7,367	7,910	7,885	8,628	9,108	8,846
Administrative Expenditures	80	86	70	54	61	101	102	105	92	156
Total Expenditures	**10,988**	**12,077**	**11,460**	**12,629**	**11,294**	**13,425**	**12,521**	**11,874**	**16,644**	**16,365**
Excess of Revenues Over (Under) Expenditures	**(1,225)**	**22**	**(4)**	**11**	**3**	**(15)**	**(36)**	**(31)**	**(17)**	**(85)**
Other Financing Sources (Uses)										
Membership Fees										90
Victims of Crime Fund	1,250									
Tranfers In - Retirement Membership Fees								40		
Net Change in Fund Balances	**25**	**22**	**(4)**	**11**	**3**	**(15)**	**(36)**	**9**	**(17)**	**5**

Note A: Includes lapsed appropriations.

Changes in Net Position – Proprietary Fund

Last Ten Fiscal Years (in 000's)

This schedule provides trend information on Operating Revenues, Operating Expenses and the resulting Operating Income or Loss. It also provides non-operating revenue and expense information and the resulting change in net position. This source information of this schedule is obtained from Exhibit VI.

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	$	$	$	$	$	$	$	$	$	$
Operating Revenues										
Insurance Contributions:										
State	1,256,123	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,731	1,434,186	1,527,002	1,631,916
Member	420,192	450,678	365,653	364,278	381,820	416,690	444,731	444,786	460,944	482,566
Federal Revenues-Medicare Part D		19,360								
Federal Revenues-COBRA Stimulus						2,268	1,312	27	-	
Other	453	528	422	1,543	1,254	1,087	3,089	835	2,199	604
Total Operating Revenues	1,676,768	1,855,254	1,390,711	1,441,175	1,491,224	1,653,826	1,863,863	1,879,834	1,990,145	2,115,086
Operating Expenses										
Benefit Payments:										
Employee	1,189,048	1,265,966	1,275,725	1,437,632	1,609,991	1,797,659	1,743,897	1,792,645	1,900,026	2,017,586
Retiree	439,171	478,229								
COBRA	18,596	15,878	18,232	22,895	22,971	30,763	32,398	34,351	34,299	30,163
Administrative and Other Expenses	10,312	10,307	8,694	8,323	9,062	8,118	9,437	9,401	9,356	24,535
Total Operating Expenses	1,657,127	1,770,380	1,302,651	1,468,850	1,642,024	1,836,540	1,785,732	1,836,397	1,943,681	2,072,284
Operating Income (Loss)	**19,641**	**84,874**	**88,060**	**(27,675)**	**(150,800)**	**(182,714)**	**78,131**	**43,437**	**46,464**	**42,802**
Non-Operating Revenues (Expenses)										
Net Appreciation (Depreciation) in Fair Value of Investments	(1,750)	(4,834)	(730)	4,943	20,359	20,789	4,273	5,395	(17,215)	1,284
Investment Income	16,559	27,857	41,080	37,569	27,741	15,882	8,485	7,794	11,331	9,629
Other	2,644	327	25	141	292	158	496	204	18	184
Change in Net Position	**37,094**	**108,224**	**128,435**	**14,978**	**(102,408)**	**(145,885)**	**91,385**	**56,830**	**40,598**	**53,899**

Changes in Net Position – Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

This schedule provides summarized trend information on additions and deductions for each of the defined benefit plans. This source information of this schedule is obtained from Exhibit IX.

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	$	$	$	$	$	$	$	$	$	$
Employees Retirement Fund (ERS)										
Additions										
Member Contributions	305,870	329,803	328,039	337,040	353,299	410,134	425,811	411,066	422,588	430,595
Employer Contributions	276,035	316,198	329,981	342,092	363,023	400,252	414,084	347,121	375,737	482,329
Investment Income (Net of Expenses)	2,331,089	1,737,588	2,622,895	(1,294,063)	(1,616,258)	1,203,796	2,414,830	1,614,670	2,097,577	3,252,362
Other Additions	50,208	58,804	48,746	52,941	57,329	61,741	64,970	71,255	75,637	80,324
Total Additions	**2,963,202**	**2,442,393**	**3,329,661**	**(561,990)**	**(842,607)**	**2,075,923**	**3,319,695**	**2,444,112**	**2,971,539**	**4,245,610**
Deductions										
Retirement Benefits	1,206,562	1,251,090	1,299,964	1,360,380	1,433,011	1,505,585	1,593,537	1,712,821	1,819,779	1,933,694
Death Benefits	2,039	2,232	2,099	1,802	2,224	3,086	4,142	3,654	3,283	3,053
Refunds	89,760	75,614	79,564	74,504	70,958	65,334	79,535	88,060	86,668	106,809
Administrative and Other Expenses	13,878	14,044	16,475	16,730	17,690	19,083	19,000	18,024	18,911	20,480
Total Deductions	**1,312,239**	**1,342,980**	**1,398,102**	**1,453,416**	**1,523,883**	**1,593,088**	**1,696,214**	**1,822,559**	**1,928,641**	**2,064,036**
Change in Net Position	**1,650,963**	**1,099,413**	**1,931,559**	**(2,015,406)**	**(2,366,490)**	**482,835**	**1,623,481**	**621,553**	**1,042,898**	**2,181,574**
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)										
Additions										
Member Contributions						7,473	7,604	7,287	7,185	8,180
Employer Contributions				20,191	20,657	27,799	24,228	(3)	7,117	27,758
Investment Income (Net of Expenses)	78,444	57,656	85,799	(42,917)	(51,743)	40,054	81,881	51,909	71,885	111,741
Other Additions		-				6	2	1	-	-
Total Additions	**78,444**	**57,656**	**85,799**	**(22,726)**	**(31,086)**	**75,332**	**113,715**	**59,194**	**86,187**	**147,679**
Deductions										
Retirement Benefits	29,036	30,184	32,149	34,908	38,641	41,001	42,914	46,868	50,848	55,222
Death Benefits							106	6	6	6
Refunds						162	694	1,220	1,531	1,919
Administrative and Other Expenses	521	378	504	366	434	595	937	844	805	1,324
Total Deductions	**29,557**	**30,562**	**32,653**	**35,274**	**39,075**	**41,758**	**44,651**	**48,938**	**53,190**	**58,471**
Change in Net Position	**48,887**	**27,094**	**53,146**	**(58,000)**	**(70,161)**	**33,574**	**69,064**	**10,256**	**32,997**	**89,208**
Judicial Retirement System of Texas Plan One (JRS I)										
Additions										
Member Contributions	62	214								
Appropriations	22,297	27,784	29,029	28,684	28,171	27,298	26,988	26,464	25,578	27,715
Other Additions	120	-								
Total Additions	**22,479**	**27,998**	**29,029**	**28,684**	**28,171**	**27,298**	**26,988**	**26,464**	**25,578**	**27,715**
Deductions										
Retirement Benefits	22,283	27,664	29,029	28,657	28,194	27,302	26,988	26,464	25,578	27,715
Refunds	14	-								
Administrative and Other Expenses	120	120								
Total Deductions	**22,417**	**27,784**	**29,029**	**28,657**	**28,194**	**27,302**	**26,988**	**26,464**	**25,578**	**27,715**
Change in Net Position	**62**	**214**	**-**	**27**	**(23)**	**(4)**	**-**	**-**	**-**	**-**
Judicial Retirement System of Texas Plan Two (JRS II)										
Additions										
Member Contributions	2,985	3,678	4,125	3,964	4,223	4,121	4,291	4,170	4,268	5,195
Employer Contributions	8,365	10,052	10,909	11,138	11,356	11,511	11,933	4,150	4,549	12,211
Investment Income (Net of Expenses)	17,348	14,384	24,245	(10,765)	(16,421)	13,586	30,189	41,181	28,753	46,186
Other Additions	11	5	-	-	-	-	2	-	1	
Total Additions	**28,709**	**28,119**	**39,279**	**4,337**	**(842)**	**29,218**	**46,415**	**49,501**	**37,571**	**63,592**
Deductions										
Retirement Benefits	3,308	4,223	5,747	6,645	8,023	9,289	11,722	12,782	14,586	16,166
Death Benefits	10	24						21	-	-
Refunds	106	65	58	73	206	118	48	179	285	254
Administrative and Other Expenses	402	303	395	244	239	277	286	230	228	267
Total Deductions	**3,826**	**4,615**	**6,200**	**6,962**	**8,468**	**9,684**	**12,056**	**13,212**	**15,099**	**16,687**
Change in Net Position	**24,883**	**23,504**	**33,079**	**(2,625)**	**(9,310)**	**19,534**	**34,359**	**36,289**	**22,472**	**46,905**

- to next page

Changes in Net Position – Defined Benefit Plans (Concluded)

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	$	$	$	$	$	$	$	$	$	$
Excess Benefit Arrangement										
Additions										
Other Additions	223	297	200	350	328	294	342	506	569	493
Total Additions	**223**	**297**	**200**	**350**	**328**	**294**	**342**	**506**	**569**	**493**
Deductions										
Retirement Benefits	223	236	141	298	279	251	297	436	488	422
Administrative and Other Expenses		61	59	52	49	43	45	70	81	71
Total Deductions	**223**	**297**	**200**	**350**	**328**	**294**	**342**	**506**	**569**	**493**
Change in Net Position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
State Retiree Health Plan			**(Note A)**							
Additions										
Member Contributions			108,387	109,447	114,360	126,073	135,133	134,993	141,008	155,276
Employer Contributions			438,242	417,106	447,765	478,348	444,895	483,636	535,905	605,512
Federal Revenues-Medicare Part D			28,558	32,964	35,784	40,988	38,207	39,612	50,874	63,362
Early Retirees Reinsurance Program							30,176	40,724	-	
Investment Income (Net of Expenses)			1,541	1,362	1,056	609	436	329	236	255
Other Additions					775	1				
Total Additions	**-**	**-**	**576,728**	**560,879**	**599,740**	**646,019**	**648,847**	**699,294**	**728,023**	**824,405**
Deductions										
Healthcare Benefits			574,030	558,228	596,858	643,389	646,197	696,085	724,381	813,823
Administrative and Other Expenses			2,698	2,651	2,882	2,630	2,650	3,209	3,642	10,582
Total Deductions	**-**	**-**	**576,728**	**560,879**	**599,740**	**646,019**	**648,847**	**699,294**	**728,023**	**824,405**
Change in Net Position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note A: The System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit postemployment health care plan that covers retired employees of the State, and other entities as specified by the State legislature. As required by GASB Statement 43, retiree data is shown separately beginning with fiscal year 2007.

Changes in Net Position – Deferred Compensation Plans and Cafeteria Plan

Last Ten Fiscal Years (in 000's)

This schedule provides summarized trend information on additions and deductions for the Tex$aver 401(k) and 457 plans and the state employees' cafeteria plan (TexFlex). This source information of this schedule is obtained from Exhibit IX.

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	$	$	$	$	$	$	$	$	$	$
Texa$aver 401(k) Plan										
Additions										
Investment Income (Net of Expenses)	29	52	459	116	476	42	43	26	27	(7)
Other Additions	166	342	301	464	215	1,439	830	607	550	398
Total Additions	**195**	**394**	**760**	**580**	**691**	**1,481**	**873**	**633**	**577**	**391**
Deductions										
Administrative and Other Expenses	253	275	448	581	457	513	615	596	759	590
Total Deductions	**253**	**275**	**448**	**581**	**457**	**513**	**615**	**596**	**759**	**590**
Change in Net Position	**(58)**	**119**	**312**	**(1)**	**234**	**968**	**258**	**37**	**(182)**	**(199)**
Texa$aver 457 Plan										
	(Restated)	**(Restated)**								
Additions										
Deferrals (Note A)	43,817	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	39,268	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions					7					
Investment Income (Net of Expenses)	25,093	23,752	62	50	122	13	13	12	11	(2)
Other Additions	119	684	503	592	405	589	513	486	520	507
Total Additions	**108,297**	**24,436**	**565**	**642**	**534**	**602**	**526**	**498**	**531**	**505**
Deductions										
Distributions and Fees (Note A)	26,152	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	41,481	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative and Other Expenses	418	403	526	547	656	669	510	452	330	334
Total Deductions	**68,051**	**403**	**526**	**547**	**656**	**669**	**510**	**452**	**330**	**334**
Change in Net Position	**40,246**	**24,033**	**39**	**95**	**(122)**	**(67)**	**16**	**46**	**201**	**171**
State Employees Cafeteria Plan (TexFlex)										
Additions										
Contributions	53,425	61,080	68,425	76,780	83,244	90,290	96,033	95,986	95,578	83,214
Investment Income (Net of Expenses)	40	75	89	72	45	25	20	19	20	9
Other Additions	409	56	105	95	83	105	104	76	92	113
Total Additions	**53,874**	**61,211**	**68,619**	**76,947**	**83,372**	**90,420**	**96,157**	**96,081**	**95,690**	**83,336**
Deductions										
Reimbursement Account Claims	52,337	59,951	67,133	75,043	80,161	87,912	93,737	92,093	92,799	78,720
Administrative and Other Expenses	1,571	1,694	1,886	2,157	2,220	2,217	2,725	2,485	2,365	2,460
Total Deductions	**53,908**	**61,645**	**69,019**	**77,200**	**82,381**	**90,129**	**96,462**	**94,578**	**95,164**	**81,180**
Change in Net Position	**(34)**	**(434)**	**(400)**	**(253)**	**991**	**291**	**(305)**	**1,503**	**526**	**2,156**

Note A: The System is no longer reporting assets and activities of individual participants pursuant to GASB Statement 32.

Benefit and Refund Payments – Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

This schedule provides trend information on benefit and refund payments by types from the defined benefit plans. This information is obtained from the system's detailed records for refunds and benefit payments

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	$	$	$	$	$	$	$	$	$	$
Employees Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service:										
Retirees	1,095,209	1,153,347	1,195,432	1,254,754	1,324,897	1,394,889	1,476,597	1,585,066	1,649,308	1,799,608
Survivors	20,286	20,379	19,805	20,461	20,651	20,765	21,188	21,410	59,425	21,370
Disability	31,419	31,690	31,163	30,626	30,402	30,301	28,854	28,376	27,980	27,386
Partial Lump Sum Option	53,030	37,679	44,450	44,207	45,301	46,362	51,885	60,687	63,641	63,359
Proportional	6,618	7,994	9,114	10,332	11,760	13,270	15,013	17,282	19,425	21,971
Total Retirement Benefits	1,206,562	1,251,089	1,299,964	1,360,380	1,433,011	1,505,587	1,593,537	1,712,821	1,819,779	1,933,694
Death Benefits:										
Active Members:										
Occupational	41	297	91	35	100	76	189	117	86	32
Non-Occupational	842	1,019	1,373	1,266	1,275	1,526	2,308	1,920	1,999	1,453
Retiree	1,156	916	635	501	850	1,484	1,645	1,617	1,198	1,568
Total Death Benefits	2,039	2,232	2,099	1,802	2,225	3,086	4,142	3,654	3,283	3,053
Refunds:										
Resignation	87,513	73,176	75,864	71,717	67,405	61,235	74,640	84,004	82,026	102,175
Death	2,247	2,438	3,700	2,787	3,553	4,099	4,895	4,056	4,642	4,634
Total Refunds	89,760	75,614	79,564	74,504	70,958	65,334	79,535	88,060	86,668	106,809
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service	25,836	27,694	29,053	31,675	35,174	37,580	39,509	42,670	46,561	50,261
Disability	1,318	1,250	1,208	1,180	1,168	1,161	1,128	1,093	1,088	1,053
Partial Lump Sum Option	1,882	1,240	1,889	2,053	2,300	2,260	2,277	3,105	3,199	3,907
Total Retirement Benefits	29,036	30,184	32,150	34,908	38,642	41,001	42,914	46,868	50,848	55,221
Death Benefits:										
Active Members:										
Non-Occupational							106	6	6	6
Total Death Benefits	-	-	-	-	-	-	106	6	6	6
Refunds:										
Resignation						162	686	1,205	1,513	1,895
Death							9	15	18	24
Total Refunds	-	-	-	-	-	162	695	1,220	1,531	1,919
Judicial Retirement System of Texas Plan One:										
Type of Benefit										
Retirement Benefits:										
Service	22,283	27,664	29,029	28,657	28,194	27,302	26,988	26,464	25,578	27,715
Total Retirement Benefits	22,283	27,664	29,029	28,657	28,194	27,302	26,988	26,464	25,578	27,715
Refunds:										
Resignation	13									
Death	1									
Total Refunds	14	-	-	-	-	-	-	-	-	-
Judicial Retirement System of Texas Plan Two:										
Type of Benefit										
Retirement Benefits:										
Service	2,609	3,107	4,254	4,958	6,134	7,149	8,923	9,942	11,346	12,670
Disability	192	291	348	470	493	358	570	358	358	358
Proportional	507	825	1,145	1,216	1,396	1,782	2,229	2,482	2,882	3,138
Total Retirement Benefits	3,308	4,223	5,747	6,644	8,023	9,289	11,722	12,782	14,586	16,166
Death Benefits:										
Active Members:										
Non-Occupational	10	24						21	-	-
Total Death Benefits	10	24	-	-	-	-	-	21	-	-
Refunds:										
Resignation	67	4	58	73	206	118	47	117	210	228
Death	39	61						62	75	26
Total Refunds	106	65	58	73	206	118	47	179	285	254
Excess Benefit Arrangement:										
Type of Benefit										
Retirement Benefits:										
Service	223	236	141	298	279	251	297	436	488	422
Total Retirement Benefits	223	236	141	298	279	251	297	436	488	422
State Retiree Health Plan:										
Type of Benefit										
Insurance Benefits:										
Accrued Claims			67,920	50,858	50,800	55,675	53,835	50,148	36,356	22,706
Life Claims			22,140	18,514	20,839	24,430	24,663	29,722	37,349	41,763
Prescriptions Drugs			151,020	172,701	175,831	182,620	171,191	201,279	217,332	241,583
Administrative Fees			13,519	14,373	16,794	17,391	18,872	15,061	15,775	19,077
HMO Payments			26,422	30,985	35,036	31,606	32,349	73,491	98,107	110,232
Health			283,244	259,845	285,591	318,593	330,801	310,261	301,785	358,696
Dental			9,765	10,952	11,967	13,074	14,486	16,123	17,677	19,766
Total Insurance Benefits	-	-	574,030	558,228	596,858	643,389	646,197	696,085	724,381	813,823

Average Benefit Payments – Employee Class

Last Ten Fiscal Years

This schedule provides ten years of information for service retirements. It shows the average monthly benefit, the average final salary and the number of retired members. The source information of this schedule is obtained from the system's member records.

Retirement Effective Dates (Note A)		Years of Credited Service					
September 30, 2004 to August 31, 2014		**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**
- Period 9/30/04 to 8/31/05:							
Average Monthly Benefit	$	390.62	725.45	1,208.77	1,623.98	2,331.45	2,900.52
Average Final Average Salary	$	2,658.71	2,879.39	3,263.86	3,382.24	3,930.55	4,142.71
Number of Retired Members		143	507	370	711	830	429
- Period 9/30/05 to 8/31/06:							
Average Monthly Benefit	$	412.12	731.13	1,259.71	1,624.83	2,146.77	3,024.29
Average Final Average Salary	$	2,703.70	2,872.58	3,328.10	3,459.94	3,667.79	4,263.25
Number of Retired Members		136	402	286	377	379	242
- Period 9/30/06 to 8/31/07:							
Average Monthly Benefit	$	434.72	781.90	1,274.29	1,724.99	2,506.16	3,031.27
Average Final Average Salary	$	2,836.92	3,005.77	3,362.19	3,642.46	4,214.16	4,337.71
Number of Retired Members		185	440	378	640	586	411
- Period 9/30/07 to 8/31/08:							
Average Monthly Benefit	$	460.60	817.14	1,337.21	1,859.24	2,633.65	3,505.45
Average Final Average Salary	$	2,982.82	3,183.06	3,455.95	3,887.06	4,325.81	4,771.96
Number of Retired Members		194	478	436	643	632	437
- Period 9/30/08 to 8/31/09:							
Average Monthly Benefit	$	470.95	831.11	1,319.25	1,871.05	2,609.64	3,563.50
Average Final Average Salary	$	3,059.53	3,189.65	3,488.78	3,875.46	4,295.66	4,898.45
Number of Retired Members		189	468	501	647	556	411
- Period 9/30/09 to 8/31/10:							
Average Monthly Benefit	$	458.59	891.44	1,358.48	1,919.50	2,665.78	3,738.22
Average Final Average Salary	$	3,085.82	3,408.56	3,588.82	3,944.14	4,435.62	5,114.72
Number of Retired Members		206	495	555	711	651	543
- Period 9/30/10 to 8/31/11:							
Average Monthly Benefit	$	534.44	861.88	1,426.73	2,033.61	2,824.39	3,708.78
Average Final Average Salary	$	3,517.97	3,300.95	3,732.32	4,210.98	4,671.62	5,085.97
Number of Retired Members		248	633	618	823	791	651
- Period 9/30/11 to 8/31/12:							
Average Monthly Benefit	$	517.90	864.37	1,421.33	2,063.00	2,843.78	3,684.16
Average Final Average Salary	$	3,402.30	3,295.33	3,669.43	4,226.79	4,700.30	5,038.21
Number of Retired Members		239	590	710	841	765	573
- Period 9/30/12 to 8/31/13:							
Average Monthly Benefit	$	537.27	953.13	1,520.45	2,077.21	2,918.24	3,761.61
Average Final Average Salary	$	3,463.81	3,585.72	3,930.70	4,239.19	4,808.98	5,133.80
Number of Retired Members		301	638	754	900	827	571
- Period 9/30/13 to 8/31/14:							
Average Monthly Benefit	$	511.25	924.78	1,477.35	2,012.17	2,913.00	3,846.83
Average Final Average Salary	$	3,340.19	3,517.41	3,808.35	4,138.63	4,835.92	5,336.96
Number of Retired Members		351	656	737	912	745	568
Five Year Average - Period 9/30/09 to 8/31/14:							
Average Monthly Benefit	$	514.47	900.25	1,446.37	2,024.84	2,839.00	3,746.79
Average Final Average Salary	$	3,372.71	3,425.00	3,756.42	4,159.15	4,699.22	5,140.38
Average Number of Retired Members		269	602	675	837	756	581
Ten Year Average - Period 9/30/04 to 8/31/14:							
Average Monthly Benefit	$	484.79	847.35	1,386.94	1,909.13	2,671.01	3,537.37
Average Final Average Salary	$	3,177.90	3,253.73	3,621.93	3,950.24	4,436.94	4,885.91
Average Number of Retired Members		219	531	535	721	676	484

Note A: *This schedule includes service retirements of the employee class as of October 7, 2013. It does not include disability retirements or the elected state official class. This schedule does not include Partial Lump Sum (PLSO) payments.*

Retired Members by Type of Benefit

August 31, 2014

This schedule provides the average amount of monthly benefit, the number of retirees and the type of retirement for ERS, LECOS, and JRS2. The source information of this schedule is obtained from the System's pension actuary.

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
Employees Retirement Fund (Note A)									
$									
0-300	6,388	6,169	219	4,094	1,318	369	147	269	191
301-600	12,072	11,345	727	8,323	2,008	596	336	404	405
601-900	12,669	11,863	806	8,711	1,953	790	396	371	448
901-1,200	11,579	11,164	415	7,738	1,858	903	325	326	429
1,201-1,500	11,041	10,847	194	7,014	1,835	1,046	316	262	568
1,501-2,000	13,858	13,740	118	8,560	2,105	1,613	365	372	843
2,001-2,500	10,242	10,212	30	5,936	1,569	1,436	253	348	700
2,501-3,000	7,102	7,093	9	3,781	1,154	1,136	168	242	621
3,001-4,000	7,025	7,021	4	3,689	1,211	1,052	131	244	698
4,001-10,999	3,864	3,863	1	1,871	829	546	64	120	434
Total	**95,840**	**93,317**	**2,523**	**59,717**	**15,840**	**9,487**	**2,501**	**2,958**	**5,337**
Law Enforcement And Custodial Officer Supplemental Retirement Fund (Note A)									
$									
$ 0-200	406	405	1	251	103	28	5	5	14
201-400	4,982	4,938	44	2,710	1,197	583	80	91	321
401-600	2,818	2,794	24	1,362	535	500	49	65	307
601-800	1,076	1,074	2	426	267	184	15	22	162
801-1,000	505	504	1	204	152	86	10	5	48
1,001-1,200	143	142	1	54	46	18	0	0	25
1,201-1,400	46	38	8	17	10	9	1	0	9
1,401-1,600	24	15	9	16	4	2	1	1	0
1,601-1,800	11	4	7	9	2	0	0	0	0
1,801-9,999	13	5	8	11	1	1	0	0	0
Total	**10,024**	**9,919**	**105**	**5,060**	**2,317**	**1,411**	**161**	**189**	**886**
Judicial Retirement Plan Two Fund (Note A)									
$									
0-2,000	15	15	0	6	7	1	1	0	0
2,001-2,500	5	5	0	2	2	0	0	1	0
2,501-3,000	3	3	0	0	0	1	1	0	1
3,001-3,500	4	4	0	1	1	2	0	0	0
3,501-4,000	15	15	0	8	4	2	0	1	0
4,001-4,500	32	32	0	9	18	3	0	1	1
4,501-5,000	41	41	0	17	18	3	0	3	0
5,001-5,500	56	56	0	18	21	6	1	0	10
5,501-6,000	31	31	0	10	12	5	0	2	2
6,001-6,500	36	35	1	28	5	1	1	0	1
6,501-7,000	12	12	0	8	1	2	0	0	1
7,001-9,999	17	17	0	12	4	1	0	0	0
Total	**267**	**266**	**1**	**119**	**93**	**27**	**4**	**8**	**16**

Note A: These calculations are based on actuarial estimates.

Note B:
- *Life - standard annuity.*
- *Option 1 - a reduced annuity for the lifetime of the member, then pays the same amount throughout the life of the nominee.*
- *Option 2 - a reduced annuity for the lifetime of the member, then pays one-half of that amount throughout the life of the nominee.*
- *Option 3 - a reduced annuity to the member or the nominee for a guaranteed period of 5 years, and for the lifetime of the member.*
- *Option 4 - a reduced annuity to the member or the nominee for a guaranteed period of 10 years, and for the lifetime of the member.*
- *Option 5 - a reduced annuity for the lifetime of the member, then pays three-fourths of that amount throughout the life of the nominee.*

Contribution Rates

Last Ten Fiscal Years

This schedule provides the amounts contributed by the employer for the defined benefit plans including ERS, LECOS, JRS1, JRS2 and the State Retiree Health Plan. The rates are determined by the General Appropriations Act. Employer contribution rates are also listed for the Group Benefits Program. Those rates are set by the System's Board of Trustees and incorporated into the system's records

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Defined Benefit Plans	%	%	%	%	%	%	%	%	%	%
Employees Retirement Fund										
Employee Class:						Blended (Note A)				
Employee (Note A)	6.00	6.00	6.00	6.00	6.00	6.48	6.50	6.50	6.50	6.60
State (Note B)	6.00	6.45	6.45	6.45	6.45	6.78	6.95	6.00	6.50	8.00
Elected Class:										
Legislators	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
State	6.00	6.45	6.45	6.45	6.45	6.45	6.45	6.00	6.50	8.00
Other Elected Class (Note A)	6.00	6.00	6.00	6.00	6.00	6.48	6.50	6.50	6.50	6.60
State (Note B)	6.00	6.45	6.45	6.45	6.45	6.78	6.95	6.00	6.50	8.00
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note C)										
Employee						0.5	0.5	0.5	0.5	0.5
State				1.59	1.59	1.59	1.59	0.0	0.5	0.5
Judicial Retirement System Plan One Fund										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.6
Judicial Retirement System Plan Two Fund										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.6
State	16.83	16.83	16.83	16.83	16.83	16.83	16.83	6.0	6.50	15.663
State Retiree Health Plan (Note D)										
Group Benefits Program										
Employee Only:										
State Contribution Monthly Rate	$315.56	$343.48	$ 360.54	$ 360.54	$ 360.54	$ 385.38	$ 411.04	$ 438.30	$ 470.38	$ 503.14
HealthSelect Monthly Premium	315.56	343.48	360.54	360.54	360.54	385.38	411.04	438.30	470.38	503.14
Employee & Children:										
State Contribution Monthly Rate	436.19	474.86	498.49	498.49	498.49	532.90	569.30	606.20	650.62	696.00
HealthSelect Monthly Premium	556.82	606.24	636.44	636.44	636.44	680.42	727.56	774.10	830.86	888.86
Employee & Spouse:										
State Contribution Monthly Rate	495.73	539.70	566.57	566.57	566.57	605.70	647.38	689.04	739.58	791.16
HealthSelect Monthly Premium	675.89	735.92	772.60	772.60	772.60	826.02	883.72	939.78	1,008.78	1,079.18
Employee & Family:										
State Contribution Monthly Rate	616.36	671.08	704.52	704.52	704.52	753.22	805.64	856.94	919.82	984.02
HealthSelect Monthly Premium	917.15	998.68	1,048.50	1,048.50	1,048.50	1,121.06	1,200.24	1,275.58	1,369.26	1,464.90
Total State Contribution (in millions) (Note E)	1,256.1	1,384.7	1,024.6	1,075.4	1,108.2	1,233.8	1,414.7	1,434.2	1,527.0	1,631.9

Note A: For FY 2010, members contributed 6.45% from September, 2009 through December, 2009. Members contributed 6.5% from Jan. to Aug., 2010.

Note B: For FY 2010, the state contributed 6.45% from September, 2009 through December, 2009. The state contributed 6.95% from Jan. to Aug., 2010.

Note C: FY 2010 is the first year that members contributed 0.5% to the Law Enforcement and Custodial Officer Supplemental Retirement Fund. Beginning in FY 2014, an additional amount equivalent to 1.2% of payroll is contributed by the State from dedicated court fees.

Note D: The State Retiree Health Plan is a pay-as-you-go plan. The monthly rates as shown above are the same for active and retired members of the Group Benefits Program.

Note E: The increase in State Contributions resulted primarily from healthcare industry trend increases and membership growth.

Statistical Information – Defined Benefit Plans

(All items expressed as numbers unless otherwise indicated)

This schedule provides member census information for active, non-contributing, and various retirement and refunds for ERS, LECOS, JRS1, and JRS2 and the State Retiree Health Plan. The member records for retiree and actives are from the System's actuarial records and the refunds are obtained from the System's records.

	Fiscal Year									
	2005	2006 (Note C)	2007	2008	2009	2010	2011	2012	2013	2014
Employees Retirement Fund										
Active Contributing Members	132,417	132,411	132,497	134,626	141,223	142,490	137,293	132,669	133,669	134,162
Non-Contributing Members	57,089	61,567	67,803	74,094	72,585	78,737	84,900	90,190	96,015	96,507
Retirees and Beneficiaries	63,453	67,596	70,456	72,678	75,722	79,311	83,430	87,799	91,367	95,840
Service Retirements	4,609	2,929	4,110	4,445	4,338	4,803	5,734	5,860	5,174	6,180
Disability Retirements	179	80	98	115	95	67	74	68	113	51
Resignation Refunds	14,239	11,199	11,365	10,763	12,623	8,497	9,607	10,130	9,228	14,282
Death Refunds	294	317	551	175	344	300	413	458	423	431
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A & B)										
Active Contributing Members	37,251	37,103	36,413	33,642	37,819	39,052	36,806	37,404	37,415	37,084
Non-Contributing Members	8,428	33	27	35	39	2,978	5,785	7,129	10,187	11,311
Retirees and Beneficiaries	5,072	5,318	5,805	6,204	6,647	7,175	7,728	8,477	9,089	10,024
Service Retirements	537	306	553	637	559	635	695	895	741	1,071
Disability Retirements			4		2				3	
Resignation Refunds									3	1
Death Refunds									3	5
Judicial Retirement System of Texas Plan One										
Active Contributing Members	28	43	24	27	23	22	17	17	13	12
Non-Contributing Members	36	12	15	7	7	7	5	4	4	3
Retirees and Beneficiaries	491	486	488	471	461	447	445	433	421	406
Service Retirements	12	7	16	6	4	2	6	2	4	1
Disability Retirements										
Resignation Refunds	1		3							
Death Refunds	1									
Judicial Retirement System of Texas Plan Two										
Active Contributing Members	491	498	515	518	533	539	546	541	545	554
Non-Contributing Members	90	95	115	120	134	130	134	143	152	139
Retirees and Beneficiaries	81	89	116	117	152	164	208	215	254	267
Service Retirements	9	10	24	6	36	12	43	8	43	14
Disability Retirements										
Resignation Refunds	8	2	3	4	8	7	1	3	5	9
Death Refunds	1	1					1	2	1	1
State Retiree Health Plan (Note D)										
Retirees			75,958	80,543	83,494	86,111	90,213	95,375	100,054	104,770
Dependents			30,653	31,293	32,067	32,408	32,412	35,549	35,830	36,933

Note A: FY 2010 is the first year refunds are applicable to the LECOS because member contributions began September 1, 2009.
Note B: The members of the LECOS are also members of the ERS.
Note C: The source of the retirement systems membership is the Systems's actuary. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.
Note D: Due to GASB 43, retiree and active member data is shown separately beginning with FY 2007 data. The data in the table is for retired members and their dependents.

Statistical Information – Other Programs

(All items expressed as numbers unless otherwise indicated)

This schedule provides ten year historical trend information for members of the Texa$aver 457 and 401(k) deferred compensation plans as well as the cafeteria plan and the Group Benefits Program. It also provides death benefit program information. Participant counts, current market values, and death benefit payments are from the System's records. Group Benefit Program member counts are from the System's insurance actuary.

		Fiscal Year									
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
457 Deferred Compensation Plan (Note A)											
Texa$aver 457 Plan (Note A):											
Total Participants		12,425	14,960	16,646	15,980	16,727	18,479	21,153	23,219	24,689	26,902
Participants Currently Deferring		7,632	8,350	9,475	10,282	10,295	11,649	13,293	14,189	14,385	20,030
Current Market Value of Plan Assets (in millions)	$	219.8	265.3	325.7	266.8	274.0	334.5	380.6	442.6	494.7	591.1
Original 457 Plan (Notes A, B, & C):											
Total Participants		3,693	3,169	2,780	2,527	2,278	1,293	734	657	598	580
Participants Currently Deferring		127	121	101	82	74	63	57	53	38	32
Texa$aver 401(k) Deferred Compensation Plan											
Total Participants		54,349	54,710	55,212	61,692	80,735	96,250	109,613	121,516	135,237	151,034
Participants Currently Deferring		28,574	28,314	28,587	37,399	52,347	69,311	64,704	66,910	69,692	89,774
Current Market Value of Plan Assets (in millions)	$	886.0	990.4	1,154.0	1,143.0	1,085.0	1,249.5	1,315.5	1,527.2	1,593.8	1,853.9
Deferrals (in millions)	$	83.6	89.2	94.7	103.8	168.0	108.2	107.3	105.5	145.7	152.2
Cafeteria Plan											
Reimbursement Accounts:											
Health Care		29,728	33,047	35,342	40,685	43,001	46,556	48,807	47,591	46,942	46,173
Dependent Care		2,522	2,665	2,836	3,012	3,261	3,549	3,686	3,747	3,747	3,785
Total Redirected (in millions)	$	52.4	60.0	67.5	75.3	80.2	87.5	93.7	92.8	91.9	78.9
Premium Conversion:											
Participants		206,173	209,214	210,744	215,618	223,980	228,121	222,295	218,587	219,357	221,876
Premiums Redirected (in millions)	$	337.8	363.3	386.4	389.7	410.3	457.4	482.4	487.5	500.9	509.2
Tax Savings (in millions):											
Employees	$	76.5	82.3	87.5	88.3	92.9	103.6	109.2	110.4	113.5	115.3
State of Texas	$	25.8	27.8	29.6	29.8	31.4	35.0	36.9	37.3	38.3	39.0
Group Benefits Program (Note D)											
Membership:											
Active		198,627	200,775	216,958	222,660	230,285	234,057	239,138	237,041	226,181	228,805
Retired		68,109	69,748	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dependents		236,691	232,846	199,833	190,573	198,420	197,979	183,626	172,695	171,023	169,282
COBRA (Note E)		1,558	2,485	2,009	2,138	2,178	2,544	2,213	2,460	1,674	1,144
		504,985	505,854	418,800	415,371	430,883	434,580	424,977	412,196	398,878	399,231
Death Benefit Programs											
Lump Sum Payments		11	16	12	13	6	18	14	9	23	29
Monthly Payments to Guardians		127	133	114	111	100	103	107	99	111	112
Victims of Violent Crime		5	3	2	8	8	5	13	5	11	8

Note A: In fiscal year 2001, a new Texa$aver 457 Plan was established with different investment options. The original 457 Plan only offers life insurance products.
Note B: Data for the original 457 Plan is as of June 30, 2014.
Note C: In fiscal year 2005, the Original 457 Plan assets were restated by the amount of the allocated insurance contracts of $18,542,973.
Note D: In fiscal year 2007, the Group Benefits Program was separated into two funds (Active and Retiree) due to the implementation of GASB 43. Retired members and their dependents were moved to a fiduciary fund named the State Retiree Health Plan.
Note E: Starting in fiscal year 2006, the COBRA membership includes the beneficiaries of the COBRA group plan.

Listing of Participating Reporting Entities for State Retiree Health Plan

This schedule provides a list of state agencies, universities, junior and community colleges, and other entities participating in the plan. The source of the data is from the System's records.

State Agencies

Attorney General
Board of Examiners of Psychologists
Board of Law Examiners
Board of Plumbing Examiners
Bond Review Board
Cancer Prevention and Research Institute of Texas
Commission on Jail Standards
Commission on State Emergency Communications
Comptroller - State Energy Conservation Office
Comptroller of Public Accounts
Court of Appeals - First Court of Appeals District
Court of Appeals - Second Court of Appeals District
Court of Appeals - Third Court of Appeals District
Court of Appeals - Fourth Court of Appeals District
Court of Appeals - Fifth Court of Appeals District
Court of Appeals - Sixth Court of Appeals District
Court of Appeals - Seventh Court of Appeals District
Court of Appeals - Eighth Court of Appeals District
Court of Appeals - Ninth Court of Appeals District
Court of Appeals - Tenth Court of Appeals District
Court of Appeals - Eleventh Court of Appeals District
Court of Appeals - Twelfth Court of Appeals District
Court of Appeals - Thirteenth Court of Appeals District
Court of Appeals - Fourteenth Court of Appeals District
Court of Criminal Appeals
Credit Union Department
Department of Aging and Disability Services
Department of Agriculture
Department of Assistive and Rehabilitative Services
Department of Family and Protective Services
Department of Information Resources
Department of Public Safety
Department of Savings and Mortgage Lending
Department of State Health Services
District Courts - Comptroller's Judiciary Section
Employees Retirement System of Texas
Executive Council of Physical and Occupational Therapy Examiners
Firefighter's Pension Commissioner
General Land Office
Governor - Executive
Governor - Fiscal
Health and Human Services Commission
Health Professions Council
House of Representatives
Legislative Budget Board
Legislative Reference Library
Office of Capital Writs
Office of Consumer Credit Commissioner
Office of Court Administration
Office of Injured Employee Counsel
Office of Public Insurance Counsel
Office of Public Utility Counsel
Office of State-Federal Relations
Parks and Wildlife Department
Public Utility Commission of Texas
Railroad Commission of Texas
Secretary of State
Senate
Soil and Water Conservation Board
State Auditor
State Bar of Texas
State Board of Dental Examiners
State Board of Podiatric Medical Examiners
State Board of Veterinary Medical Examiners
State Commission on Judicial Conduct
State Law Library
State Office of Administrative Hearings
State Office of Risk Management
State Pension Review Board
State Preservation Board
State Prosecuting Attorney, Office of
State Securities Board
Sunset Advisory Commission
Supreme Court
Teacher Retirement System of Texas
Texas Alcoholic Beverage Commission
Texas Animal Health Commission
Texas Board of Architectural Examiners
Texas Board of Chiropractic Examiners
Texas Board of Nursing
Texas Board of Professional Engineers
Texas Board of Professional Geoscientists
Texas Board of Professional Land Surveying
Texas Commission on Environmental Quality
Texas Commission on Fire Protection
Texas Commission on Law Enforcement
Texas Commission on the Arts
Texas Department of Banking
Texas Department of Criminal Justice
Texas Department of Housing and Community Affairs
Texas Department of Insurance
Texas Department of Licensing and Regulation
Texas Department of Motor Vehicles
Texas Department of Transportation
Texas Education Agency
Texas Ethics Commission
Texas Facilities Commission
Texas Funeral Service Commission
Texas Higher Education Coordinating Board
Texas Historical Commission
Texas Juvenile Justice Department
Texas Legislative Council
Texas Lottery Commission
Texas Medical Board
Texas Military Department
Texas Optometry Board
Texas Public Finance Authority
Texas Racing Commission

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Listing of Participating Reporting Entities for State Retiree Health Plan (Concluded)

State Agencies (Continued)
Texas Real Estate Commission
Texas School for the Blind and Visually Impaired
Texas School for the Deaf
Texas State Board of Pharmacy
Texas State Board of Public Accountancy
Texas State Library and Archives Commission
Texas Treasury Safekeeping Trust Company
Texas Veterans Commission
Texas Water Development Board
Texas Workforce Commission

Universities
Angelo State University
Lamar Institute of Technology
Lamar State College - Orange
Lamar State College - Port Arthur
Lamar University
Midwestern State University
Sam Houston State University
Stephen F. Austin State University
Sul Ross State University
Texas Southern University
Texas State Technical College System
Texas State University
Texas State University System
Texas Tech University
Texas Tech University Health Sciences Center
Texas Tech University System
Texas Woman's University
University of Houston
University of Houston - Clear Lake
University of Houston - Downtown
University of Houston - Victoria
University of Houston System
University of North Texas
University of North Texas at Dallas
University of North Texas Health Science Center at Fort Worth
University of North Texas System

Junior and Community Colleges
Alamo Community College
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 County Community College District
Dallas County Community College
Del Mar College
El Paso Community College
Frank Phillips College
Galveston College
Grayson County College
Hill College
Houston Community College
Howard College including Southwest Collegiate Institute for the Deaf
Kilgore College
Laredo Junior College
Lee College
Lone Star College System
McLennan Community College
Midland College
Navarro College
North Central Texas College
Northeast Texas Community College
Odessa College
Panola College
Paris Junior College
Ranger Junior College
San Jacinto College
South Plains College
South Texas Community College
Southwest Texas Counties Junior College
Tarrant County College District
Temple College
Texarkana College
Texas Southmost College
Trinity Valley Community College
Tyler Junior College
Vernon Regional Junior College
Victoria College
Weatherford College
Western Texas College
Wharton County Junior College

Other Entities
Community Supervision and Corrections Departments
Texas Cooperative Inspection Program
Texas County and District Retirement System
Texas Municipal Retirement System
Texas Turnpike Authority
University of Texas Medical Branch at Galveston
Windham School District

The principal participating employer is the state of Texas. State agencies and universities employ 186,435, which is 82.4% of the employees covered by the State Retiree Health Plan.

ERS SUPPORTS THE STATE WORKFORCE BY OFFERING COMPETITIVE BENEFITS AT A REASONABLE COST.

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