

Statement of Fiduciary Net Assets

AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	FIDUCIARY FUND TYPES		
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
ASSETS			
Cash:			
Cash in State Treasury	\$ 799,173,077	\$ 323,934,041	\$
Cash in Bank	11,734,631		
Cash on Hand (Note II.B.)	7,103,198		
TOTAL CASH	\$ 818,010,906	\$ 323,934,041	\$
Legislative Appropriations	\$	\$	\$ 7,836,182
Receivables:			
Sale of Investments	\$ 1,121,927,507	\$	\$
Interest and Dividends	267,375,621	425,120	
Member and Retiree	68,366,077	31,154,052	
Reporting Entities	14,441,468	4,264,873	
Other	1,058,589	1,000,000	
Due from State's General Revenue Fund	5,691,155	226,179	
Due from Employees Retirement System of Texas	524,267		
TOTAL RECEIVABLES	\$ 1,479,384,684	\$ 37,070,224	\$ -0-
Investments (Note I.E.):			
Short-Term	\$ 3,027,270,138	\$	\$
Equities	55,835,694,440		
Fixed Income	23,069,878,184		
Alternative Investments	2,478,290,579		
TOTAL INVESTMENTS	\$ 84,411,133,341	\$ -0-	\$ -0-
Invested Securities Lending Collateral	\$ 10,829,078,240	\$	\$
Capital Assets (Note I.E.):			
Land	\$ 1,658,310	\$	\$
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	29,721,218		
TOTAL CAPITAL ASSETS	\$ 31,379,528	\$ -0-	\$ -0-
TOTAL ASSETS	\$ 97,568,986,699	\$ 361,004,265	\$ 7,836,182

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2004	2003	
\$ 775	\$ 1,123,107,893	\$ 1,023,943,196	
	11,734,631	13,975,004	
	7,103,198	6,933,168	
\$ 775	\$ 1,141,945,722	\$ 1,044,851,368	
\$	\$ 7,836,182	\$ 10,000,000	
\$	\$ 1,121,927,507	\$ 1,021,223,979	
	267,800,741	305,842,250	
	99,520,129	64,529,211	
10,420,066	29,126,407	21,709,578	
	2,058,589	1,369,531	
	5,917,334	47,055,175	
	524,267	376,116	
\$ 10,420,066	\$ 1,526,874,974	\$ 1,462,105,840	
\$	\$ 3,027,270,138	\$ 649,652,295	
	55,835,694,440	52,697,198,670	
	23,069,878,184	21,282,297,734	
	2,478,290,579	1,990,765,080	
\$ -0-	\$ 84,411,133,341	\$ 76,619,913,779	
\$	\$ 10,829,078,240	\$ 8,808,329,237	
\$	\$ 1,658,310	\$ 1,658,310	
	29,721,218	30,533,007	
\$ -0-	\$ 31,379,528	\$ 32,191,317	
\$ 10,420,841	\$ 97,948,247,987	\$ 87,977,391,541	

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Statement of Fiduciary Net Assets

AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)
(concluded)

EXHIBIT



	FIDUCIARY FUND TYPES		
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
LIABILITIES (Note I.E.)			
Accounts Payable	\$ 3,845,067	\$ 12,670,779	\$ 7,820,949
Accounts Payable-General Revenue Fund			
Benefits Payable	511,716,180		
Health Care Claims Payable		110,000,000	
Reinstatement Installment Receipts	32,130,935		
Investments Purchased Payable	1,983,555,284		
Securities Lending Collateral	10,829,078,240		
Compensable Absences Payable	2,314,981	48,327	15,233
Funds Held for Others			
Due to Employees Retirement System of Texas	3,364,305		
TOTAL LIABILITIES	\$ 13,366,004,992	\$ 122,719,106	\$ 7,836,182
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES			
	\$ 84,202,981,707	\$ 238,285,159	\$ -0-

(A schedule of funding progress is presented on page 44.)

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

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2004	2003	
\$	\$ 24,336,795	\$ 25,577,207	
10,420,066	10,420,066	9,951,828	
	511,716,180	444,586,401	
	110,000,000	97,814,000	
	32,130,935	27,000,240	
	1,983,555,284	1,008,854,827	
	10,829,078,240	8,808,329,237	
	2,378,541	2,361,248	
775	775	3,982	
	3,364,305	2,877,596	
\$ 10,420,841	\$ 13,506,981,121	\$ 10,427,356,566	
\$ -0-	\$ 84,441,266,866	\$ 77,550,034,975	

Statement of Changes in Fiduciary Net Assets

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS			
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
ADDITIONS:			
Contributions:			
Member	\$ 1,530,276,750	\$ 99,297,097	\$
State	1,241,789,167	454,791,657	
Reporting Entities	192,395,672	79,457,387	
Health Care Premiums		248,552,679	
TOTAL CONTRIBUTIONS	\$ 2,964,461,589	\$ 882,098,820	\$
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	\$ 7,024,439,015	\$	\$
Interest	1,103,782,108	4,803,809	
Dividends	1,005,620,107		
TOTAL INVESTING ACTIVITIES INCOME	\$ 9,133,841,230	\$ 4,803,809	\$
Less Investing Activity Expenses	(16,252,645)		
NET INCOME FROM INVESTING ACTIVITIES	\$ 9,117,588,585	\$ 4,803,809	\$
From Securities Lending Activities:			
Securities Lending Income	\$ 139,932,948	\$	\$
Securities Lending Expenses:			
Borrower Rebates	(106,672,932)		
Management Fees	(4,989,370)		
Net Income from Securities Lending Activities	\$ 28,270,646	\$	\$
TOTAL NET INVESTMENT INCOME	\$ 9,145,859,231	\$ 4,803,809	\$
Other Additions:			
Reinstatement of Contribution Refunds	\$ 124,360,457	\$	\$
Reinstatement Fees	66,867,238		
Transfers from Employees Retirement System of Texas	5,600,176		
Transfer from TRS-ActiveCare Enterprise Fund (Note VII.)		42,000,000	
Legislative Appropriations			281,149,405
Legislative Appropriations for Excess Benefits (Note I.D.)	516,529		
Miscellaneous Revenues	1,909		
On Behalf Fringe Benefits Paid by the State (Note III.)		37,173	8,453
TOTAL OTHER ADDITIONS	\$ 197,346,309	\$ 42,037,173	\$ 281,157,858
TOTAL ADDITIONS	\$ 12,307,667,129	\$ 928,939,802	\$ 281,157,858

TOTALS

2004

2003

\$ 1,629,573,847	\$ 1,565,971,934
1,696,580,824	1,504,072,062
271,853,059	182,536,228
248,552,679	162,917,666
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\$ 3,846,560,409	\$ 3,415,497,890

\$ 7,024,439,015	\$ 5,673,389,054
1,108,585,917	1,227,897,485
1,005,620,107	900,563,260
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\$ 9,138,645,039	\$ 7,801,849,799
(16,252,645)	(14,604,331)
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\$ 9,122,392,394	\$ 7,787,245,468
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\$ 139,932,948	\$ 108,579,174
(106,672,932)	(82,193,784)
(4,989,370)	(3,957,811)
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\$ 28,270,646	\$ 22,427,579
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\$ 9,150,663,040	\$ 7,809,673,047
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\$ 124,360,457	\$ 100,499,600
66,867,238	54,911,252
5,600,176	4,037,793
42,000,000	
281,149,405	
516,529	461,925
1,909	1,501
45,626	36,344
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\$ 520,541,340	\$ 159,948,415
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\$ 13,517,764,789	\$ 11,385,119,352
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Statement of Changes in Fiduciary Net Assets

YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

(concluded)

EXHIBIT



	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Care Trust Fund Retired Plan	Health Care Trust Fund Supplemental Compensation
DEDUCTIONS:			
Benefits	\$ 5,453,864,905	\$	\$
Refunds of Contributions	220,396,709		
Health Care Claims		581,354,957	
Health Care Claims Processing		23,914,851	
Administrative Expenses (Net of Investing Activity Expenses)	24,841,300	2,417,349	457,003
Employees Retirement System Reimbursements	38,068,440		
Transfer to TRS-ActiveCare Enterprise Fund (Note VII.)			
Supplemental Health Care Compensation			280,700,855
Excess Benefits	516,529		
TOTAL DEDUCTIONS	\$ 5,737,687,883	\$ 607,687,157	\$ 281,157,858
Net Increase	\$ 6,569,979,246	\$ 321,252,645	\$ -0-
Net Assets Held in Trust for Pension Benefits and Other Purposes - Beginning of Year	\$ 77,633,002,461	\$ (82,967,486)	\$
Net Assets Held in Trust for Pension Benefits and Other Purposes - End of Year	\$ 84,202,981,707	\$ 238,285,159	\$ -0-

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

TOTALS

2004	2003
\$ 5,453,864,905	\$ 4,728,815,398
220,396,709	186,082,670
581,354,957	571,744,362
23,914,851	19,388,818
27,715,652	25,729,678
38,068,440	28,609,871
	42,000,000
280,700,855	
516,529	461,925
<u>\$ 6,626,532,898</u>	<u>\$ 5,602,832,722</u>
<u>\$ 6,891,231,891</u>	<u>\$ 5,782,286,630</u>
<u>\$ 77,550,034,975</u>	<u>\$ 71,767,748,345</u>
<u><u>\$ 84,441,266,866</u></u>	<u><u>\$ 77,550,034,975</u></u>

Statement of Net Assets

PROPRIETARY FUND

AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	TRS-Active Care Enterprise Fund	
	2004	2003
ASSETS		
Current Assets:		
Cash:		
Cash in State Treasury	\$ 274,814,166	\$ 207,930,193
Cash on Hand		171,305
Cash in Bank		48,044
TOTAL CASH	\$ 274,814,166	\$ 208,149,542
Accounts Receivable:		
Investment Interest	\$ 345,182	\$
Health Care Premiums	36,760,143	19,853,424
TOTAL ACCOUNTS RECEIVABLE	\$ 37,105,325	\$ 19,853,424
TOTAL ASSETS	\$ 311,919,491	\$ 228,002,966
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 309,857	\$ 684,901
Premiums Payable to HMOs	3,247,534	
Health Care Claims Payable	67,948,003	90,848,902
Compensable Absences Payable	42,793	47,384
TOTAL LIABILITIES	\$ 71,548,187	\$ 91,581,187
NET ASSETS		
Restricted for Legislative Appropriations Transfer (Note VII.)	\$	\$ 42,000,000
Unrestricted	240,371,304	94,421,779
TOTAL NET ASSETS	\$ 240,371,304	\$ 136,421,779

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

Statement of Revenues, Expenses and Changes in Net Assets

PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	TRS-ActiveCare Enterprise Fund	
	2004	2003
OPERATING REVENUES:		
Health Care Premiums	\$ 758,062,552	\$ 584,572,852
Administrative Fees	192,763	136,288
TOTAL OPERATING REVENUES	\$ 758,255,315	\$ 584,709,140
OPERATING EXPENSES:		
Health Care Claims	\$ 520,998,423	\$ 473,450,544
Health Care Claims Processing	53,564,510	42,411,388
Premium Payments to HMOs	40,210,539	
Administrative Expenses	918,619	1,771,441
TOTAL OPERATING EXPENSES	\$ 615,692,091	\$ 517,633,373
OPERATING INCOME	\$ 142,563,224	\$ 67,075,767
NONOPERATING REVENUES:		
Investment Income	\$ 3,641,100	\$ 2,459,154
On Behalf Fringe Benefits Paid by the State (Note III.)	24,050	31,266
TOTAL NONOPERATING REVENUES	\$ 3,665,150	\$ 2,490,420
Income Before Transfers	\$ 146,228,374	\$ 69,566,187
TRANSFERS:		
Legislative Appropriations Transfer (to)/from Retired Plan (Note VII.)	\$ (42,000,000)	\$ 42,000,000
Change in Net Assets	\$ 104,228,374	\$ 111,566,187
TOTAL NET ASSETS - BEGINNING	\$ 136,421,779	\$ 24,855,592
Restatement (Note I.C.)	(278,849)	
Beginning of Year, as Restated	\$ 136,142,930	\$ 24,855,592
TOTAL NET ASSETS - ENDING	\$ 240,371,304	\$ 136,421,779

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

Statement of Cash Flows

PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	TRS-ActiveCare Enterprise Fund	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Health Care Premiums	\$ 741,359,850	\$ 564,845,229
Receipts from Long-term Care Administrative Fees	192,763	136,288
Payments for Administrative Expenses	(1,293,903)	(1,175,143)
Payments for Health Care Claims	(544,333,788)	(382,601,642)
Payments for Health Care Processing	(53,314,362)	(42,411,388)
Payments for HMO Premiums	(36,963,005)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 105,647,555	\$ 138,793,344
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Legislative Appropriations Transfer (to)/from Retired Plan (Note VII.)	\$ (42,000,000)	\$ 42,000,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	\$ (42,000,000)	\$ 42,000,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	\$ 3,295,897	\$ 2,456,626
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 3,295,897	\$ 2,456,626
Net Increase in Cash	\$ 66,943,452	\$ 183,249,970
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 208,149,542	\$ 24,899,572
Restatement to Beginning Cash and Cash Equivalents (Note I.C.)	\$ (278,828)	\$
Cash and Cash Equivalents - September 1 Restated	\$ 207,870,714	\$ 24,899,572
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 274,814,166	\$ 208,149,542
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 142,563,224	\$ 67,075,767
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
(Increase) in Health Care Premiums Receivable	\$ (16,906,719)	\$ (19,853,424)
Increase in Premiums Payable to HMOs	3,247,534	
Increase (Decrease) in Health Care Claims Payable	(22,900,898)	90,848,902
Increase (Decrease) in Accounts Payable	(375,045)	684,403
Increase (Decrease) in Compensable Absences Payable	(4,591)	6,430
On Behalf Fringe Benefits Paid by the State (Note III.)	24,050	31,266
Total Adjustments	\$ (36,915,669)	\$ 71,717,577
Net Cash Provided by Operating Activities	\$ 105,647,555	\$ 138,793,344

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

Balance Sheet

GOVERNMENTAL FUND
AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	403(b) Certification Program Special Revenue Fund	
	2004	2003
ASSETS		
Current Assets:		
Cash in State Treasury	\$ 217,967	\$ 223,739
Accounts Receivable	267	
TOTAL ASSETS	\$ 218,234	\$ 223,739
LIABILITIES AND FUND BALANCE:		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 2,000	\$ 2,000
Fund Balance Reserved for:		
Administrative Expenditures	\$ 216,234	\$ 221,739
TOTAL LIABILITIES AND FUND BALANCE	\$ 218,234	\$ 223,739

Statement of Revenues, Expenditures and Changes in Fund Balance

GOVERNMENTAL FUND
YEAR ENDED AUGUST 31, 2004 (With Comparative Totals for August 31, 2003)

EXHIBIT



	403(b) Certification Program Special Revenue Fund	
	2004	2003
REVENUES:		
Certification Fees	\$ 15,000	\$ 55,000
Investment Income	3,495	4,617
On Behalf Fringe Benefits Paid by the State (Note III.)		1,197
TOTAL REVENUES	\$ 18,495	\$ 60,814
EXPENDITURES:		
Administrative Expenditures	\$ 24,000	\$ 46,674
Compensable Absences	-0-	(1,600)
TOTAL EXPENDITURES	\$ 24,000	\$ 45,074
Excess of Revenues over Expenditures	\$ (5,505)	\$ 15,740
FUND BALANCE - BEGINNING	\$ 221,739	\$ 205,999
FUND BALANCE - ENDING	\$ 216,234	\$ 221,739

*The accompanying Notes to the Financial Statements
are an integral part of these financial statements.*

Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

YEAR ENDED AUGUST 31, 2004



	Balances September 1, 2003	Additions	Deductions	Balances August 31, 2004
UNAPPROPRIATED RECEIPTS				
Collections on Behalf of the State's General Revenue Fund				
Assets:				
Cash in State Treasury	\$	\$168,084,003	\$168,084,003	\$
Accounts Receivable - Reporting Entities	9,951,828	10,420,066	9,951,828	10,420,066
TOTAL ASSETS	\$ 9,951,828	\$178,504,069	\$178,035,831	\$10,420,066
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 9,951,828	\$ 10,420,066	\$ 9,951,828	\$10,420,066
 OTHER AGENCY FUNDS				
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 1,025	\$ 10,875	\$ 11,125	\$ 775
Liabilities:				
Funds Held for Others	\$ 1,025	\$ 10,800	\$ 11,050	\$ 775
 Direct Deposit Correction Account Fund				
Assets:				
Cash in State Treasury	\$ 2,957	\$ 1,752,281	\$ 1,755,238	\$
Liabilities:				
Funds Held for Others	\$ 2,957	\$ 1,752,281	\$ 1,755,238	\$
 TOTALS - ALL AGENCY FUNDS				
				(Exhibit I)
Assets:				
Cash in State Treasury	\$ 3,982	\$ 169,847,159	\$ 169,850,366	\$ 775
Accounts Receivable - Reporting Entities	9,951,828	10,420,066	9,951,828	10,420,066
TOTAL ASSETS	\$ 9,955,810	\$ 180,267,225	\$ 179,802,194	\$ 10,420,841
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 9,951,828	\$ 10,420,066	\$ 9,951,828	\$ 10,420,066
Funds Held for Others	3,982	1,763,081	1,766,288	775
TOTAL LIABILITIES	\$ 9,955,810	\$ 12,183,147	\$ 11,718,116	\$ 10,420,841

Exhibit B***Teacher Retirement System Of Texas*****Rate of Return on Assets****Year Ended August 31, 2004**

	<u>Pension Trust Fund</u>	<u>Health Care Plans and 403(b) Program</u>
Cash and Short-Term Investments	1.28%	2.08%
Long-Term Investments: *		
Equities	13.73%	
Fixed Income	7.96%	
Alternative Investments	10.84%	

* Rates for Long-Term Investments include appreciation in market values.



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

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November 8, 2004

BOARD OF TRUSTEES

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

Subject: Actuary's Certification of the Actuarial Valuation as of August 31, 2004

We certify that the information included herein and contained in the 2004 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2004.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented comply with the requirements of the Texas statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Mr. Carter and Mr. Newton are members of the American Academy of Actuaries, and are also Enrolled Actuaries. All are experienced in performing valuations for large public retirement systems.

Actuarial Valuations

The primary purpose of the valuation report is to determine the adequacy of the current State contribution rate through measuring the resulting funding period, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the System in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25), and it provides various summaries of the data.

Valuations are prepared annually, as of August 31 of each year, the last day of the System's plan and fiscal year.

Financing Objective of the Plan

Contribution rates are established by Law that, over time, are intended to remain level as a percent of payroll. The employee and State contribution rates have been set by Law and are intended to provide for the normal cost plus the level percentage of payroll required to amortize the unfunded actuarial accrued liability over a period not in excess of 31 years.

Progress Toward Realization of Financing Objective

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Based on this actuarial valuation as of August 31, 2004, the System's underfunded status has increased because of the continued recognition of the investment results during the poor investment markets of fiscal years 2001 & 2002, and the UAAL is now \$7.953 billion.

This valuation shows a normal cost equal to 11.72% of pay. Since the State contribution rate of 6.00% of pay plus the member contribution rate of 6.40% of pay total 12.40% of pay, there is 0.68% of pay available to amortize the UAAL. However, the contributions provided by this portion of the contribution rate are not sufficient to amortize the unfunded actuarial accrued liabilities of the System. Therefore the funding period corresponding to the 6.00% State contribution rate is "never" or infinite, which is greater than the statutory limit of 31 years.

The actuarial valuation report as of August 31, 2004 reveals that while the System has an unfunded liability, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 91.8%. However, the System is still deferring \$4.6 billion in prior asset losses that will be recognized over the next two valuations. Even though the System earned an 11.9% return on a market value of assets basis for the plan year ending August 31, 2004, the System experienced a \$4.7 billion loss on the actuarial value of assets due to the recognition of prior investment losses.

In the absence of significant actuarial gains over the near term, the contribution rate to the System will need to increase to produce a funding period that does not exceed 31 years. The System would need to earn an average rate of return of 11.5% on a market value basis over the next three years to offset the deferred asset losses that are scheduled to be recognized over the next two valuations. Even if these losses were somehow offset, the current unfunded liability of \$8.0 billion would still require an increase in the contribution rate in order to be amortized. Using GASB Statement No. 25 as a guide, the State

contribution rate would need to increase from 6.00% of pay to 7.31% of pay. This rate would fund the normal cost and amortize the UAAL as of August 31, 2004 over the 30-year period called for by GASB Statement No. 25.

It seems unlikely that the System will be able to generate the necessary gains in the short-term (either asset or liability gains) to offset these deferred asset losses and reduce the UAAL to a level that can be amortized by the current contribution rate. In fact, if the System earns 8% on a market value basis for the 2004/05 plan year, the System can expect to recognize a \$4.8 billion loss on the actuarial value of assets at the next valuation. Therefore, we believe the Board should begin laying the groundwork with the Legislature for an increase in the contribution rate.

Any increase in the State contribution rate, however, should be put in historical perspective. Except for non-actuarial issues (related to Texas budget reasons), the TRS State contribution rate has either decreased or not increased since 1979. At 7.31%, the State contribution rate would be the same rate that was contributed by the State prior to the last reduction in the State contribution rate in 1995.

Caution is warranted over the next few years. There should be no benefit increases passed by the Legislature over the next several Legislative Sessions without adequate funding, and the funded status should be carefully monitored. As noted above, in the absence of significant actuarial gains over the near term, an increase in the State contribution rate will be necessary to maintain the actuarial soundness of the System.

Plan Provisions

The plan provisions used in the actuarial valuation are described in Table 20 of the valuation report. This valuation reflects the changes to plan provisions as enacted by the 78th Texas Legislature.

Disclosure of Pension Information

Effective for the fiscal year ending August 31, 1996, the Board of Trustees has adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25.

Actuarial Methods and Assumptions

The actuarial methods and assumptions have been selected by the Board of Trustees of the Teacher Retirement System of Texas based upon our analysis and recommendations. These assumptions and methods are detailed in Table 21 of the valuation report. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are based on a study of actual experience for the four year period ending August 31, 2003 and were adopted on May 21, 2004.

In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are internally consistent and reasonably related to the experience of the System and to reasonable expectations.

Data

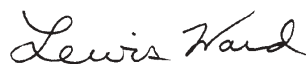
In preparing the August 31, 2004 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

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

Respectfully submitted,
Gabriel, Roeder, Smith & Company



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



Lewis Ward
Consultant



Joe Newton, ASA
Consultant

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Present Value of Future Benefits

ACTUARIAL VALUATION - AUGUST 31, 2004

	August 31,	
	2004	2003
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 43,990,300,273	\$ 39,855,845,308
Disability Retirement Benefits	852,998,580	829,882,596
Death Benefits	765,767,599	629,445,482
Present Survivor Benefits	187,208,198	159,810,826
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 45,796,274,650	\$ 41,474,984,212
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 67,393,286,035	\$ 72,627,163,340
Disability Retirement Benefits	842,184,439	1,334,277,382
Termination Benefits	3,851,143,498	4,703,320,045
Death and Survivor Benefits	1,230,447,990	1,636,283,604
TOTAL ACTIVE MEMBER LIABILITIES	\$ 73,317,061,962	\$ 80,301,044,371
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Inactive Vested Participants		
Retirement Benefits	\$ 1,070,395,666	\$ 979,820,873
Death Benefits	81,136,565	59,399,100
TOTAL INACTIVE VESTED BENEFITS	\$ 1,151,532,231	\$ 1,039,219,973
Refunds of Contributions to Inactive Non-vested Members	\$ 176,633,650	\$ 166,059,923
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 825,824,580	\$ 695,568,135
TOTAL INACTIVE LIABILITIES	\$ 2,153,990,461	\$ 1,900,848,031
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 121,267,327,073	\$ 123,676,876,614

Summary of Cost Items

	2004	2003
Actuarial Present Value of Future Benefits	\$ 121,267,327,073	\$ 123,676,876,614
Present Value of Future Normal Costs	(24,530,801,603)	(29,413,849,072)
Actuarial Accrued Liability	96,736,525,470	94,263,027,542
Actuarial Value of Assets	(88,783,870,893)	(89,033,023,666)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 7,952,654,577	\$ 5,230,003,876