



2019 Annual Financial Report

Employees Retirement System of Texas | A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2019
(Unaudited)

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

2019 Annual Financial Report

Porter Wilson, Executive Director

Prepared by: Finance Division



A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2019

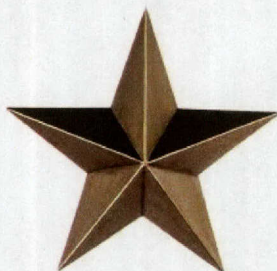


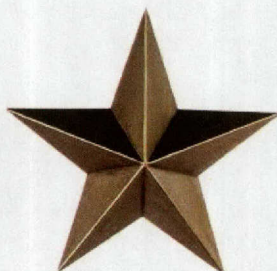
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INTRODUCTORY SECTION

Highlights of Retirement Programs

Letter of Transmittal

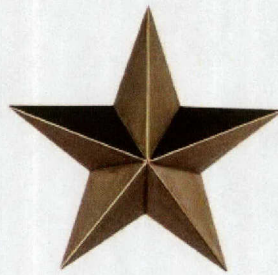
Certificate of Achievement

Public Pension Standards Award

Organizational Chart and Data

Consultants and Advisors

Summary of Plan Provisions



Highlights of Retirement Programs

As of August 31, 2019

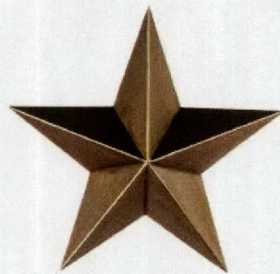
	ERS (Note A)	LECOS (Note A)	JRS II
Retirement Census Data			
Active Members	141,865	36,296	573
Terminated Employees Entitled to Benefits	125,935	22,207	187
Total Retirement Accounts	267,800	58,503	760
Retirees and Beneficiaries			
	115,155	13,981	472
Service Retirements	5,970	1,019	83
Disability Retirements	64	1	0
Total Retirements During the Fiscal Year	6,034	1,020	83
Funded Ratios (Note B)	70.5%	65.3%	87.5%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Note C)	47.70%	36.16%	70.37%
Results of Investments - Pension Trust Funds			
Interest, Dividends & Securities Lending Income	\$ 677,858,407	\$ 23,533,924	\$ 11,214,908
Net Appreciation in Fair Value of Investments	117,824,156	4,031,397	2,205,534
Other Transactions Summary			
Member Contributions	\$ 694,788,598	\$ 9,098,121	\$ 6,462,797
State Retirement Contributions	712,647,639	25,864,146	13,100,263
Retirement Benefits	2,473,907,002	78,484,750	29,006,848
Member Contributions Withdrawn	142,303,194	3,768,394	213,797
Administrative Expenses	27,751,616	2,167,482	362,663
Investment Expenses	38,815,128	1,384,565	621,320
Money-Weighted Rates of Return	2.80%	2.79%	2.86%
Time Weighted Rates of Return			
Investment Pool Trust Fund	1-Year 3.04%	3-Year 8.19%	5-Year 6.03%

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

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

Note B: Funded Ratios are based on actuary calculations for funding purposes. The actuarial accrued liability used in the Funded 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 C: This calculation reflects market value, changes in single discount rate application, and other adjustments as required by GASB Statement No. 67.



Letter of Transmittal

ERS

EMPLOYEES RETIREMENT
SYSTEM OF TEXAS

200 E. 18TH STREET AUSTIN, TEXAS 78701 | P.O. BOX 13207, AUSTIN, TEXAS 78701-3207 | (512) 867-7711 | (877) 275-4377 TOLL-FREE | WWW.ERS.TEXAS.GOV

November 20, 2019

PORTER WILSON
EXECUTIVE DIRECTOR

ILES A DANIELS
CHAIR

I. CRAIG HESTER
VICE-CHAIR

BOARD OF TRUSTEES
BRIAN BARTH
JAMES KEE PH.D.
CATHERINE MELVIN

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, Texas Comptroller
John McGeady, Assistant Director, Legislative Budget Board
Lisa Collier, First Assistant State Auditor

Ladies and Gentlemen:

I am pleased to submit the Annual Financial Report (AFR) of the Employees Retirement System of Texas (System) for the year ended August 31, 2019, in compliance with Texas Government Code Annotated, Section 2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts. The System's Financial Staff prepared this report in accordance with generally accepted accounting principles applied on a consistent basis as promulgated by the Governmental Accounting Standards Board (GASB).

The AFR is unaudited. The System will produce and submit the audited Comprehensive Annual Financial Report (CAFR) on or before December 20, 2019. Differences may exist between the financial statements, including the notes and supplementary schedules presented in the AFR and CAFR due to adjustments identified in the audit process.

If you have questions, please contact me at (512) 867-7667 or Machelle.Pharr@ers.texas.gov.

Sincerely,



Machelle Pharr, 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, 2018

Christopher P. Morrill

Executive Director/CEO



Public Pension Coordinating Council

***Recognition Award for Administration
2019***

Presented to

Employees Retirement System of Texas

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

Organizational Chart and Data

As of August 31, 2019



Consultants and Advisors

As of August 31, 2019

Consulting Actuaries

Mitchell L. Bilbe, FSA
Philip S. Dial, FSA
Christopher S. Johnson, FSA
Rudd and Wisdom, Inc.

Ryan Falls, FSA, FCA, EA, MAAA
Joseph Newton, FSA, FCA, EA, MAAA
Dana Woolfrey, FSA, FCA, EA, MAAA
Gabriel, Roeder, Smith & Company

Investment Advisory Committee

Robert G. Alley, CFA, Chair
Gene L. Needles Jr., Vice-Chair
*Chairman, President and CEO,
American Beacon Advisors*
Caroline Cooley
*Chief Investment Officer – Diversified Funds,
Crestline Investors, Inc*
Laurie L. Dotter
James R. Hille, CFA, CAIA
*Chief Investment Officer,
Texas Christian University Endowment*
Ken D. Mindell
*Senior Vice President and Treasurer,
Rosewood Management Corporation*
Margaret “Didi” Weinblatt, Ph.D., CFA

Investment Consultants

Albourne Partners
CBRE Caledon Capital Management Inc.
Meketa Investment Group
Mercer Alternatives Limited
NEPC, LLC

External Investment Advisors

Domestic Equity

Barrow, Hanley, Mewhinney & Strauss, LLC
Brandywine Global Investment Management, LLC

International Equity

Acadian Asset Management
Axiom International Investors, LLC
BlackRock, Inc.
EAM Investors, LLC
Fisher Investments Institutional Group
Franklin Templeton Institutional, LLC
Global Alpha Capital Management Limited
Kayne Anderson Rudnick Investment Management, LLC
Lazard Asset Management
Quantitative Management Associates, LLC

Manager of Emerging Managers
Legato Capital Management, LLC

Global Custodian

BNY Mellon Asset Servicing

Group Benefits Advisory Committee

Large State Agency Representatives

Charlene Maresh
Department of Criminal Justice
Harsh Zadoo
Department of Transportation

Mid-sized State Agency Representatives

Megan LaVoie
Office of Court Administration
Gene Snelson II
Animal Health Commission

Small State Agency Representative

Dawn Heitman
State Soil and Water Conservation Board

Four-year Institution of Higher Education Representative

Janet Bezner
Texas State University

Two-year Institution of Higher Education Representative

Missy Kittner
McLennan Community College

Retiree Representatives

James Dobbins, Garland
Gary White, Austin

Health-related Institution Representative

Cynthia Jumper
Texas Tech University Health Sciences Center

Insurance or Benefit Design Consultant Representative

Tom Lussier
The Lussier Group

Medical Board

Ace Alsup, M.D.
William J. Deaton, M.D.
William M. Loving, M.D.
William P. Taylor, M.D.

Summary of Plan Provisions

Effective since September 1, 2009 (Except as noted below)

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), 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 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 recognized as commissioned law enforcement officers by the Texas Commission on Law Enforcement Officer Standards and Education and employed at an agency defined by statute.
- Custodial officers certified in accordance with the statutory requirements as having a normal job assignment that requires frequent or infrequent planned contact with inmates of that institution and employed at an agency defined by statute.

- 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 without Reduced Benefits:

Employee Class Only:

Hire date prior to 9-1-2009:

- Age 60 with at least five years of service credit, or
- Rule-of-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 9-1-2013:

- Age 65 with 10 years of service credit, or
- Rule-of-80, with at least 10 years of service credit at age 60, or
- Age 60 with at least 10 years of service credit as a certified peace officer or custodial officer.

Hire date on or after 9-1-2013:

- Age 65 with 10 years of service credit, or
- Rule-of-80, with at least 10 years of service credit at age 62, or
- Age 62 with at least 10 years of service credit as a certified peace officer or custodial officer.

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 and years of service credit equals or exceeds the number 80.

Hire date on or after 9-1-2009 and prior to 9-1-2013:

- 20 years of service credit as a certified peace officer/custodial officer at or over age 55.

Hire date on or after 9-1-2013:

- 20 years of service credit as a certified peace officer/custodial officer at or over age 57.

- 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 if not currently holding 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.

ERS

LECOS

JRS II

Early Service Retirement Eligibility with Reduced Benefits:

Hire date on or after 9-1-2009 and prior to 9-1-2013:

- Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 60, up to 25%)
- Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. (5% annuity reduction for each year retired under age 60, up to 25%)

Hire date on or after 9-1-2013:

- Rule-of-80, with at least 10 years of service credit. (5% annuity reduction for each year retired under age 62, no cap), or
- Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. (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 (Actuarial reduction for those who retire prior to age 50).

Hire date on or after 9-1-2009 and prior to 9-1-2013:

- 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 9-1-2013:

- 20 years of service credit as a certified peace officer/custodial officer (5% annuity reduction for each year retired under age 57, no cap and an 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, if not currently holding a judicial office.
- Reduction percentages for early retirement from 50%:
Age 60: 40%
Age 61: 41.7%
Age 62: 43.6%
Age 63: 45.6%
Age 64: 47.7%

Standard Service Retirement without Reduced 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.
- The average monthly compensation for those hired prior to 9-1-2009 is the average of the highest 36 months of compensation.
- The average monthly compensation for those hired on or after 9-1-2009 and prior to 9-1-2013 is the average of the highest 48 months of compensation.
- The average monthly compensation for those hired on or after 9-1-2013 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:

Prior to 9-1-2019

- 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.

- Standard monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit.
- The average monthly compensation for those hired prior to 9-1-2009 is the average of the highest 36 months of compensation.
- The average monthly compensation for those hired on or after 9-1-2009 and prior to 9-1-2013 is the average of the highest 48 months of compensation.
- The average monthly compensation for those hired on or after 9-1-2013 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.

Prior to 9-1-2019

- Standard 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%.
- 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%.

Effective 9-1-2019

- Standard monthly annuity is between 40%-47.7% (depending on age) of the state salary paid to a judge to the last court they held judicial office based on Texas Gov't Code Section 839.102.
- An additional 10% is paid when a member retires 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

ERS

LECOS

JRS II

Standard Service Retirement without Reduced Benefits (Continued):*Elected Class Only (continued):*

Effective 9-1-2019

- Standard monthly annuity is 2.3% of the current State base 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 base salary being paid to a district judge.

District Attorneys Only:

Effective 9-1-2019

- Standard monthly annuity is 2.3% of the salary being paid to a district judge based on the same number of years of contributing service.
- Maximum standard annuity is 100% of the State base salary being paid to a district judge based on the same number of years of contributing service

plus 2.3% for each year with the total, including the additional 10%, not to exceed 90%.

- 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%.

Optional Annuity Plans:*Employee Class and Elected Class:*

Members can choose one of the following beneficiary options at retirement and still receive a lifetime . A annuity that is actuarially reduced for life and is actuarially reduced based on age of member and beneficiary at time of retirement.

- Option 1: 100% to surviving beneficiary;
- Option 2: 75% to surviving beneficiary;
- Option 3: Lifetime with Five years certain (if retiree dies before receiving 60 payments, the surviving beneficiary gets the remaining 60 payments);
- Option 4: Lifetime with 10 years certain (if retiree dies before receiving 120 payments, the surviving beneficiary gets the remaining 120 payments);
- Option 5: Lifetime with 50% to surviving beneficiary; and
- One-time partial lump sum of up to three years of standard annuity at retirement if the annuity is not age reduced (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 amount.

- Same as ERS.

- Same as ERS except for the one-time partial lump sum.

ERS	LECOS	JRS II
Vesting Requirement:		
<p><i>Employee Class Only:</i> Hire date prior to 09-01-2009: • Five or more years of service credit. Hire date on or after 09-01-2009 and prior to 9-1-2013: • 10 or more years of service credit. Hire date on or after 09-01-2013: • 10 or more years of service credit.</p> <p><i>Elected Class Only:</i> • Eight or more years of service credit.</p>	<ul style="list-style-type: none"> • 20 or more years of service credit as a certified peace officer/custodial officer. 	<ul style="list-style-type: none"> • 10 or more years of service credit if currently hold a judicial office • 12 or more years of service credit if not currently holding a judicial office.
Vested Benefits after Termination of Employment:		
<ul style="list-style-type: none"> • 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, terminates the member's rights to benefits, and forfeits their retirement group should they return to state employment. 	<ul style="list-style-type: none"> • Same as ERS. 	<ul style="list-style-type: none"> • Same as ERS.
Disability Retirement Eligibility:		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> • For occupational disability, the member must have at least one month of service credit 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 disability. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> • 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, eight years of Elected Class service credit (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. 	<ul style="list-style-type: none"> • Same as ERS Employee Class Only. 	<ul style="list-style-type: none"> • At least seven years of service credit.
Disability Retirement Benefits:		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> • For occupational disability, the benefits are the same as those under the standard service retirement, except the standard 	<ul style="list-style-type: none"> • For occupational disability, the standard annuity is a minimum of 50% of the average monthly compensation regardless of the years of service credit or age. 	<ul style="list-style-type: none"> • Same as standard service retirement benefits.

ERS	LECOS	JRS II
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Disability Retirement Benefits (Continued):

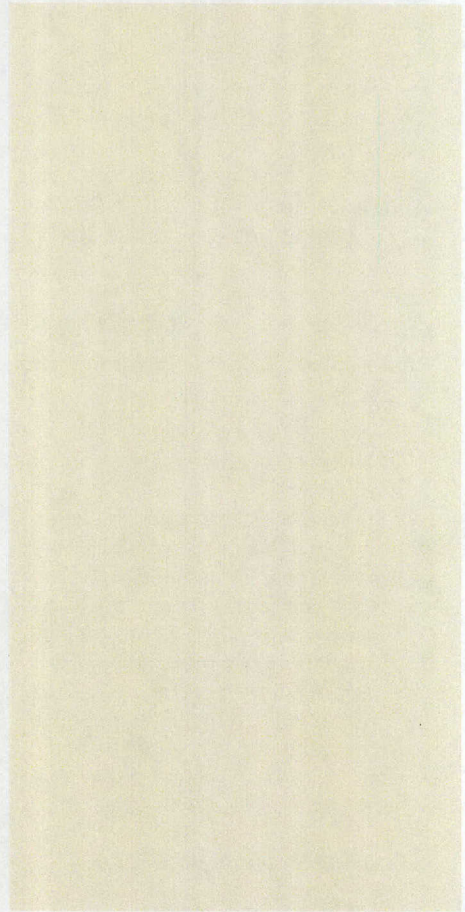
annuity is equal to not less than 35% of the average monthly compensation regardless of the years of service credit or age.

- For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service credit.
- 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:

- For non-occupational disability, the retirement is calculated in the same manner as the standard retirement annuity and is not reduced because of age.
- For occupational disability, the amount of a monthly annuity is 18.4% of the State base salary of a district judge or 2.3% of the State base salary of a district judge times the 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.

- The standard annuity is increased to 100% of the average 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 totally 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.



Death Benefits:

Non-Retiree Employee Class and Elected Class:

- If an active state employee dies and the death is determined to be an occupational death, the surviving spouse or minor children may be eligible for a one-time death benefit equal to one year of the member's salary. If there is not a surviving spouse or minor children, this occupational death benefit is not payable to anyone else.

A contributing member with less than 10 years of service credit:

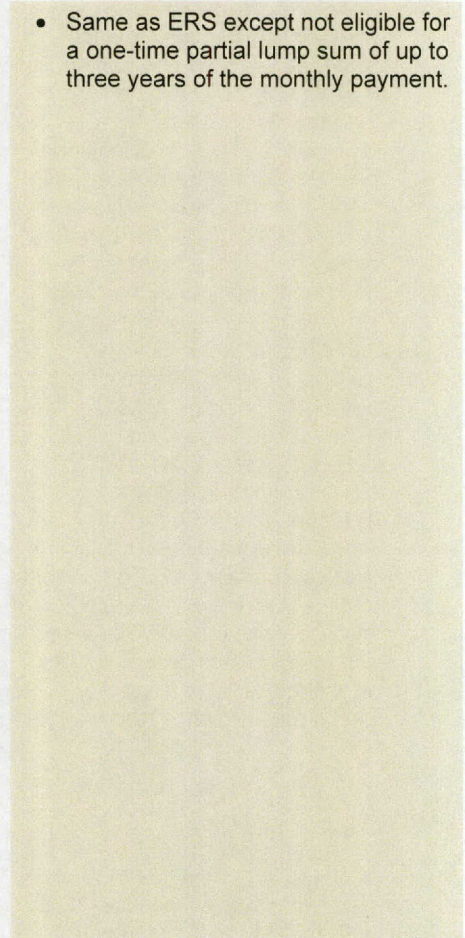
- For a contributing member that had less than 10 years of service credit, the designated beneficiary of the active account will receive a one-time refund of the member's retirement account balance at the time of the member's death.

A contributing member with at least 10 years of service credit:

- For a contributing member that had less than 10 years of service credit, 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.

- Same as ERS except beneficiary(ies) of deceased members with at least 20 years of certified peace officer/custodial officer service, under age of 50 at the time of death, are not eligible for a one-time partial lump sum of up to three years of the monthly payment.

- Same as ERS except not eligible for a one-time partial lump sum of up to three years of the monthly payment.



Death Benefits (Continued):*Non-Retiree Employee Class and Elected Class (continued):*

A contributing member with at least 10 years of service credit:

- May select a death benefit plan: a lifetime monthly payment, a 10-year guaranteed monthly payment or a one-time refund of the retirement account balance at the time of the death. If the member was age 60 with five or more years of service credit and less than 10 years, and the beneficiary is either the spouse or a minor child, they may be eligible for a death benefit plan.
- If a one-time refund of the member's retirement account balance is selected, 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.
- If a lifetime monthly payment or a 10-year guaranteed monthly payment is selected, the beneficiary(ies) are eligible for a one-time partial lump sum of up to three years of monthly payment.

Retiree Employee Class:

- If a member selected an optional service retirement and dies, the beneficiary will receive a monthly payment based on the option chosen.
- If a retired 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 the member was retired, the designated beneficiary is eligible for a one-time Retiree Lump Sum Death Benefit in the amount of \$5,000. If retired under the Proportionate Retirement Program with less than five years of service credit, this payment will be reduced proportionately.

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 may be eligible for an Additional Death Benefit (ADB).

Death Benefits (Continued):*Elected Class Only (Continued):*

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.

- 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 if designated as the beneficiary may be 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, and the surviving minor child(ren) is designated as the beneficiary(ies) they may be 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 ADB. This option is not available if they select a monthly payment. If there is no surviving spouse/minor child, the beneficiary may be eligible for a refund of the member's retirement account balance plus the ADB. 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 be eligible for a refund of the member's retirement account balance plus the ADB if contributing.
- If a member selected an optional service retirement and dies, the beneficiary will receive a monthly payment based on the option chosen.
- If a retired 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 is retired, the designated beneficiary(ies) is eligible for a one-time Retiree Lump Sum Death Benefit in the amount of \$5,000. If retired under the Proportionate Retirement Program with less than five years of service credit, this payment will be reduced proportionately.

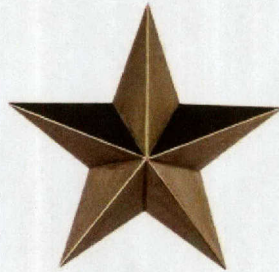
FINANCIAL SECTION

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Other Supplementary Information



Management's Discussion and Analysis

Year Ended August 31, 2019

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, 2019. 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 Revenues, Expenses, and 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 Proprietary Fund under which the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Program) is reported. This statement reports the transactions for the year on a cash basis. It is similar to Exhibit VI, the Statement of Revenues, Expenses, and 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 State Retirees Health 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
- Employees Life, Accident and Health Insurance and Benefits

The Employees Life, Accident and Health Insurance and Benefits in Exhibits I and II had significant changes from the prior year. Exhibits V and VI provide additional information on the Employees Life, Accident and Health Insurance and Benefits. The changes in the program are summarized in millions as follows:

	2019	2018	Changes
	\$	\$	%
Net Position	2,033.43	1,060.69	91.71
Current Liabilities	708.10	800.53	(11.55)
Member and Employer Contributions	3,092.00	3,141.76	(1.58)
Benefit Payments	2,212.81	2,163.86	2.26

The change in Net Position is primarily due to increase in interest revenues from the fixed income investments and savings generated from third party administrator and pharmacy benefit manager contracts.

Financial Highlights – Fiduciary Funds

- Net position of the Fiduciary Funds administered by the System totaled \$28.83 billion as of August 31, 2019, compared with \$29.58 billion as of August 31, 2018. The investment portfolio returned 3.04% for the year. The majority of the decrease resulted primarily from the downturn in market conditions. The time weighted rate of return for three and five years were 8.19% and 6.03%, respectively.
- The one year money-weighted rates of return for the Fiduciary Funds are summarized as follows:

Fund Name	Rate (%)
Employees Retirement System Fund	2.80
Law Enforcement and Custodial Officer Supplemental Retirement Fund	2.79
Judicial Retirement System Plan Two Fund	2.86
Overall	2.80

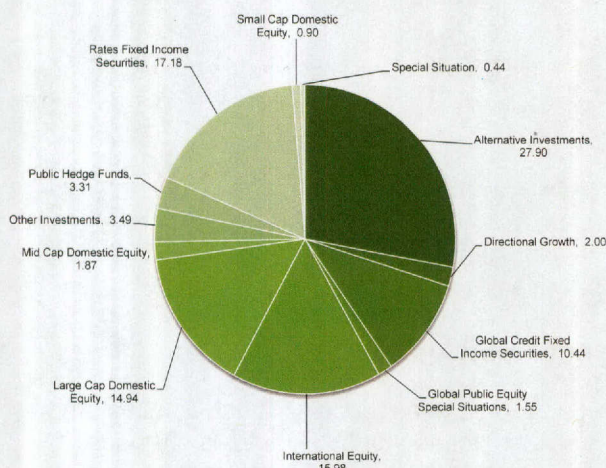
- The System's management has confidence in the financial markets and maintains a long term approach to investing the System's assets. The System's investments are highly diversified and are designed to withstand market fluctuations.

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2019

Asset Allocation

Asset Class	%
Alternative Investments	27.90
Directional Growth	2.00
Global Credit Fixed Income Securities	10.44
Global Public Equity Special Situations	1.55
International Equity	15.98
Large Cap Domestic Equity	14.94
Mid Cap Domestic Equity	1.87
Other Investments	3.49
Public Hedge Funds	3.31
Rates Fixed Income Securities	17.18
Small Cap Domestic Equity	0.90
Special Situation	0.44



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:

	2019	2018	Changes
	\$	\$	%
Contributions:			
Retirement & Other	1,564.75	1,532.10	2.13
Insurance	510.86	398.11	28.32
Total (Exh. IX)	2,075.61	1,930.21	7.53
Benefit Payments:			
Retirement & Other	2,754.79	2,604.35	5.78
Insurance	828.75	735.80	12.63
Total (Exh. IX)	3,583.54	3,340.15	7.29

- The increase in insurance contributions is primarily due to the fact that majority of the funding for the Group Benefits Program were deposited to the Employees Life, Accident and Health Insurance and Benefits Fund. The most recent actuarial valuations of the funded defined benefit plans were completed

as of August 31, 2019. The funded ratios are as follows:

Plans	2019	2018
	%	%
Employees Retirement System	70.5	70.2
Law Enforcement and Custodial Officer Supplemental Retirement Fund	65.3	65.6
Judicial Retirement System of Texas Plan Two	87.5	91.7

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:

	2019	2018	Changes
	\$	\$	%
Changes in Fiduciary Net Position (Exh. IX)	(741.46)	1,129.51	(165.64)
Total Net Position	28,834.11	29,575.56	(2.51)

The decrease in changes in Fiduciary Net Position is due to the facts that the gross time weighted rate return decreased from 9.58% in fiscal year 2018 to 3.04% in fiscal year 2019.

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:

	2019	2018	Changes
	\$	\$	%
Member Contributions	782.95	774.46	1.10
Employer Contributions	1,152.90	1,042.92	10.55
Non-Employer Contributing Entity Contributions	20.18	16.59	21.64
Net Investment Income	801.77	2,565.60	(68.75)
Other Additions	195.76	178.63	9.59
Total Additions (Exh. IX)	2,953.56	4,578.20	(35.49)

For the Employees Retirement Fund, member and State retirement contribution rates for fiscal year 2019 were 9.5% and 10.0% respectively. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), both the State and

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2019

member contributed 0.5% of the covered payroll. For the Judicial Retirement Plan II Fund, member and State retirement contribution rates were 7.5% 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, Statement of Changes in Fiduciary Net Position. Changes in deductions are summarized in millions as follows:

	2019	2018	Changes
	\$	\$	%
Retirement Benefits and Refunds	3,654.95	3,413.99	7.06
Administrative Expenses	38.76	34.05	13.83
Other Deductions	1.31	0.65	101.54
Total Deductions (Exh. IX)	3,695.02	3,448.69	7.14

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:

	2019	2018	Changes
	\$	\$	%
Cash and Cash Equivalents	110.53	80.97	36.51
Securities Lending Collateral	154.22	221.95	(30.52)
Investments	28,203.99	28,827.64	(2.16)
Receivables	1,891.34	716.85	163.84
Due From Other Funds/ Agencies	44.16	163.22	(72.95)
Capital Assets	14.84	5.92	150.68
Total Assets (Exh. VIII)	30,419.08	30,016.55	1.34

Liabilities

The condensed liabilities have been extracted from Exhibit VIII, Statement of Fiduciary Net Position.

Changes in liabilities are summarized in millions as follows:

	2019	2018	Changes
	\$	\$	%
Accounts Payable	1,431.95	213.14	571.84
Due To Other Funds/ Agencies	7.08	2.93	141.64
Compensable Leave	3.45	3.47	(0.58)
Securities Lending Obligations	141.65	220.28	(35.70)
Other Liabilities	0.84	1.17	(28.21)
Total Liabilities (Exh. VIII)	1,584.97	440.99	259.41

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, 2019, (compared to the August 31, 2018 actuarial valuation) is summarized in millions as follows:

Plans	Unfunded Accrued Actuarial Liability	
	2019	2018
	\$	\$
Employees Retirement System	(11,741.24)	(11,629.32)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(514.51)	(499.60)
Judicial Retirement System of Texas Plan Two	(66.78)	(40.69)

For the Employees Retirement System Fund, the August 31, 2019 actuarial valuation for funding purposes shows an unfunded accrued liability of \$11.7 billion. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 70.5% as of August 31, 2019. The valuation shows that the total normal cost is 13.76% of payroll and total contributions are 19.5% of payroll. The total contribution rate exceeds the normal cost by 5.74% of payroll, but is not sufficient to amortize the unfunded accrued liability over a finite period of time. 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, 2019 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental

Management's Discussion and Analysis (Concluded)

Year Ended August 31, 2019

Retirement Fund shows that the total normal cost rate for fiscal year 2019 is 2.08% of payroll. At August 31, 2019, the unfunded accrued liability is \$514.51 million, and the funded ratio is 65.3%. Total contributions are 1.0% of payroll. The total contribution rate and approximately \$17.1 million from court fees are below the normal cost for the current fiscal year by 0.04%. It is not sufficient to amortize the unfunded accrued liability over a finite period of time.

For the Judicial Retirement System of Texas Plan II, the August 31, 2019 actuarial valuation shows that the total normal cost is 23.14% of payroll and unfunded accrued liability is \$66.78 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 87.5% as of August 31, 2019. Total contributions are 25.053% of payroll. The total contribution rate exceeds the normal cost by 1.1913% of payroll for the current fiscal year, and it is not sufficient to amortize the unfunded accrued liability over a finite period of time.

The State Retiree Health Plan is currently funded on a pay-as-you-go basis. For the State Retiree Health Plan, the August 31, 2019 actuarial valuation shows an unfunded accrued liability of \$34.6 billion. The funded ratio is 0.5%. The valuation shows that the total normal cost is 12.5% of payroll. The Actuarially Determined Contribution (ADC) as of August 31, 2019 is 21.8% of payroll. Total contributions are 15.7% of the Actuarially Determined Contribution.

Contributions include health care premiums, State contributions, and retiree drug subsidy payments. Contributions from employers and non-employer contributing entities were \$401.3 million and \$20.2 million, respectively. 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 2019 totaling \$89.4 million. The above amounts, along with other additions of \$0.1 million plus net investment income of \$3.3 million resulted in additions of \$514.3 million. These were offset entirely by \$828.8 million in benefit payments, which is net of the \$209.8 million payment from members, and \$6.0 million in administrative expense. The net plan position is \$59.9 million.

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 Mabelle Pharr, Chief Financial Officer at Mabelle.Pharr@ers.texas.gov or Eddie Chan, Assistant Director of Finance at Eddie.Chan@ers.texas.gov.

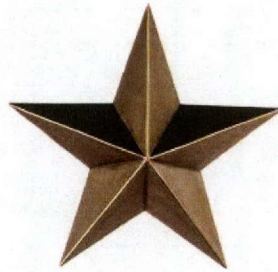


Exhibit I
Statement of Net Position
August 31, 2019

	Governmental Activities
Assets	\$
Current Assets:	
Cash and Cash Equivalents:	
Cash on Hand	33,846
Cash in State Treasury	138,738,636
Total Cash and Cash Equivalents	138,772,482
Securities Lending Collateral	13,760,417
Short-Term Investments	1,115,168,120
Legislative Appropriations	2,833
Receivables	253,310,938
Due from Fiduciary Funds	1,486,388
Due from Other Agencies	2,174,276
Total Current Assets	1,524,675,454
Non-Current Assets:	
Public Equities	7,323,933
Fixed Income	1,148,854,738
Alternative Investments	60,703,173
Total Non-Current Assets	1,216,881,844
Total Assets	2,741,557,298
Liabilities	
Current Liabilities:	
Payables	661,227,844
Due to Fiduciary Funds	32,050,818
Unearned Revenue	33,890
Obligations Under Securities Lending	14,811,396
Total Current Liabilities	708,123,948
Total Liabilities	708,123,948
Net Position	
Restricted for:	
Employees Life, Accident and Health Insurance and Benefits	2,033,429,139
Unrestricted	4,211
Total Net Position (Exh. II & III)	2,033,433,350

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

Exhibit II
Statement of Activities
Year Ended August 31, 2019

	Program Revenues			Net (Expense)
	Expenses	Changes for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Functions/Programs	\$	\$	\$	\$
Governmental Activities:				
Social Security Administration	94,555	73,625		(20,930)
Death Benefits-Peace Officers, Firemen, etc.	7,831,046	7,831,046		
Compensation to Victims of Crime	2,000,000	2,000,000		
Death Benefits-Retiree \$5,000 Lump Sum	9,810,826	9,810,826		
Employees Life, Accident And Health Insurance and Benefits	2,225,963,239	3,092,137,993	106,567,301	972,742,055
Total Governmental Activities	2,245,699,666	3,111,853,490	106,567,301	
			Change in Net Position (Exh. IV)	972,721,125
			Net Position - Beginning	1,060,712,225
			Net Position - Ending (Exh. I)	2,033,433,350

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

Exhibit III
Balance Sheet – Governmental Funds
 August 31, 2019

	Non-major Special Revenue Funds Totals (Note 1.E)
Assets	\$
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	20,497
Total Cash and Cash Equivalents	20,497
Legislative Appropriations	2,833
Due From Other Funds (Note 5.A)	3,244
Total Current Assets	26,574
Total Assets	26,574
Liabilities & Fund Balances	
Current Liabilities:	
Payables:	
Voucher/Accounts Payable	2,833
Due To Other Funds (Note 5.A)	19,486
Unearned Revenues	44
Total Current Liabilities	22,363
Total Liabilities	22,363
Fund Balances:	
Committed	4,211
Total Fund Balances (Exh. IV)	4,211
Total Liabilities & Fund Balances	26,574
Total Fund Balances - Governmental Funds (above):	4,211
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.	2,033,429,139
Net Position of Governmental Activities (Exh. I)	2,033,433,350

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, 2019

	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.	7,831,046
For Victims of Crime	2,000,000
For Death Benefits-Retirees	9,810,826
<u>Total Appropriation Revenue</u>	<u>19,641,872</u>
Administration Fees for Social Security Administration	73,625
Total Revenues	19,715,497
Expenditures	
Current:	
Death Benefits	19,641,872
Administrative Expenditures:	
Salaries & Wages	61,739
Payroll Related Costs	19,652
Professional Fees & Services	2,825
Travel	699
Materials & Supplies	2,877
Communications & Utilities	1,431
Repairs & Maintenance	1,444
Rentals & Leases	782
Printing & Reproduction	118
Other Expenditures	2,988
<u>Total Administrative Expenditures</u>	<u>94,555</u>
Total Expenditures	19,736,427
Deficiency of Revenues Under Expenditures	(20,930)
Fund Balances - Beginning	25,141
Fund Balances - Ending (Exh. III)	4,211
Net Change in Fund Balances - Governmental Funds:	(20,930)
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.	972,742,055
Change in Net Position of Governmental Activities (Exh. II)	972,721,125

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, 2019

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)
Assets	\$
Current Assets:	
Cash and Cash Equivalents:	
Cash on Hand	33,846
Cash in State Treasury	138,718,139
Total Cash and Cash Equivalents	138,751,985
Securities Lending Collateral	13,760,417
Short-Term Investments	1,115,168,120
Receivables:	
Interest Receivable	11,036,950
Accounts Receivable	237,003,837
Unsettled Sales-Investment Receivables	5,270,151
Total Receivables	253,310,938
Due From Other Funds (Note 5.A)	1,483,144
Due From Other Agencies (Note 1.G)	2,174,276
Total Current Assets	1,524,648,880
Non-Current Assets:	
Investments: (Note 2.A)	
Public Equities	7,323,933
Fixed Income	1,148,854,738
Alternative Investments	60,703,173
Total Non-Current Assets	1,216,881,844
Total Assets	2,741,530,724
Liabilities	
Current Liabilities:	
Payables:	
Claims Payable:	
Incurred, Self-Funded	52,674,779
Incurred But Not Reported, Self-Funded	582,486,393
Total Claims Payable	635,161,172
Premiums Payable	12,018,770
Administrative and Other Fees Payable	5,974,191
Accounts Payable	27,694
Unsettled Purchases-Investment Payables	8,039,246
Other Payable	3,938
Total Payables	661,225,011
Due To Other Funds (Note 5.A) :	
Payable to State Retiree Health Plan	28,557,248
Other Interfunds Payable	3,474,084
Total Due To Other Funds	32,031,332
Unearned Revenue	33,846
Obligations Under Securities Lending	14,811,396
Total Current Liabilities	708,101,585
Total Liabilities	708,101,585
Net Position	
Restricted For:	
Employee Life, Accident and Health Insurance and Benefits	2,033,429,139
Total Net Position (Exh. VI)	2,033,429,139

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, 2019

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)
Operating Revenues	\$
Contributions to Insurance Program:	
From Employers	2,529,623,805
From Members:	
For Employees	555,346,990
For COBRA	7,026,433
Total Contributions from Members	562,373,423
Total Contributions to Insurance Program	3,091,997,228
Other Operating Revenues:	
COBRA 2% Administration Fee	140,765
Penalty Assessed to Insurance Carrier	14,815,461
Total Other Operating Revenues	14,956,226
Total Operating Revenues	3,106,953,454
Operating Expenses	
Employee Benefit Payments:	
For Employees ¹	2,186,649,478
For COBRA	25,281,856
For Health Savings Accounts	873,854
Total Employee Benefit Payments	2,212,805,188
Administrative Expenses:	
Salaries & Wages	6,401,935
Payroll Related Costs	2,146,273
Professional Fees & Services	1,378,796
Travel	59,832
Materials & Supplies	510,459
Communications & Utilities	395,002
Repairs & Maintenance	420,591
Rentals & Leases	163,351
Printing & Reproduction	25,273
Other Operating Expenses	1,564,776
Total Administrative Expenses	13,066,288
Total Operating Expenses	2,225,871,476
Operating Income	881,081,978
Non-Operating Revenues (Expenses)	
Net Increase in Fair Value of Investments	33,360,177
Interest Revenue	58,173,989
Securities Lending Activities:	
Loan Premium on Securities Lending	217,674
Broker Rebates	(77,745)
Agent Fees	(13,993)
Net Securities Lending Activity	125,936
Commission on Futures Contracts	(25)
Total Non-Operating Revenues	91,660,077
Change in Net Position	972,742,055
Net Position - Beginning	1,060,687,084
Net Position - Ending (Exh. V)	2,033,429,139

¹ The benefit payments are reported net of \$177,015,315 pharmacy rebates.

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

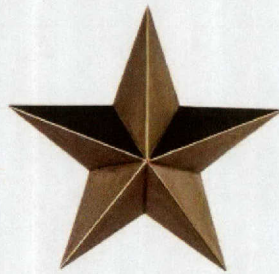


Exhibit VII

Statement of Cash Flows – Proprietary Fund

Year Ended August 31, 2019

	<u>Internal Service Fund</u> <u>Employees Life, Accident and</u> <u>Health Insurance and Benefits</u> <u>Fund (0973)/(U/F 0973)</u>
Cash Flows from Operating Activities:	\$
Cash Received from Members	469,548,277
Cash Received from Employers and Non-employer Contributing Entities	2,578,815,775
Cash Received from Pharmacy Rebates	139,340,145
Cash Payments to Insurance Carriers and Third Party Administrators	(2,365,914,257)
Cash Payments for Goods and Services	(14,612,914)
Other Cash Received	1,414,928
Net Cash Provided by Operating Activities	808,591,954
Cash Flows from Investing Activities:	
Net Purchases of Short-Term Investment Fund	(675,801,979)
Interest on Deposit in State Treasury	3,512,278
Net Cash Used by Investing Activities	(672,289,701)
Net Increase in Cash and Cash Equivalents	136,302,253
Cash and Cash Equivalents:	
Beginning of Year	2,449,732
End of Year	138,751,985
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	881,081,978
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Change in Assets and Liabilities:	
Decrease in Accounts Receivable	39,365,688
Increase in Due From Other Agencies	(2,174,276)
Increase in Due From Other Funds	(1,017,559)
Increase in Accounts Payable	13,961,024
Decrease in Due To Other Funds	(122,658,331)
Increase in Unearned Revenue	33,430
Total Adjustments	(72,490,024)
Net Cash Used by Operating Activities	808,591,954
Non-Cash Investing Activities:	
Net Appreciation in Fair Value of Non-Cash Equivalent Investments	33,360,177

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

Exhibit VIII

Statement of Fiduciary Net Position

August 31, 2019

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Assets	\$	\$	\$	\$
Cash and Short-Term Investments:				
Cash and Cash Equivalents:				
Cash on Hand	905,327	8,057		
Cash in Bank	23,000			
Cash in State Treasury	82,520,589	6,661,408	1,835,239	
Total Cash and Cash Equivalents	83,448,916	6,669,465	1,835,239	-
Securities Lending Collateral	146,719,484	5,054,587	2,448,259	
Short-Term Investments	540,191,993	18,612,921	8,957,516	
Total Cash and Short-Term Investments	770,360,393	30,336,973	13,241,014	-
Legislative Appropriations				
Investments: (Note 1.G)				
Public Equities	10,281,445,198	354,664,038	171,640,185	
Fixed Income	6,905,103,547	238,195,299	115,274,967	
Alternative Investments	8,900,484,307	307,027,042	148,586,191	
Other Investments	175,440,139	6,051,903	2,928,827	
Total Investments	26,262,473,191	905,938,282	438,430,170	-
Receivables:				
Federal Receivable				
Interest and Dividends Receivable	98,388,227	3,398,949	1,642,117	
Contributions/Accounts Receivable	114,030,447	1,412,478	1,558,284	
Unsettled Sales-Investment Receivables	1,430,514,470	49,346,374	23,881,250	
Total Receivables	1,642,933,144	54,157,801	27,081,651	-
Due From Other Funds (Note 5.A)	6,609,578	51,448	13,939	
Due From Other Agencies (Note 1.G)	8,746,281			
Prepaid Claims Expense	10,025			
Capital Assets:				
Non-Depreciable:				
Land and Land Improvements	874,889			
Construction in Progress	9,525,420			
Depreciable, Net of Accumulated Depreciation/Amortization of \$20,570,680				
Building	3,936,003			
Furniture and Equipment	482,064			
Vehicles	21,356			
Total Capital Assets	14,839,732	-	-	-
Total Assets	28,705,972,344	990,484,504	478,766,774	-
Liabilities				
Payables:				
Voucher/Accounts Payable	23,667,907	554,610	339,787	
Unsettled Purchases-Investment Payables	1,187,120,610	40,950,370	19,817,992	
Total Payables	1,210,788,517	41,504,980	20,157,779	-
Due To Other Funds (Note 5.A)	2,785,773	617,094	151,013	
Due To Other Agencies (Note 1.G)	2,236,438			
Unearned Revenue	733,427	91,462	16,170	
Employees Compensable Leave	3,452,624			
Obligations Under Securities Lending	134,751,408	4,648,323	2,249,563	
Funds Held for Others				
Total Liabilities	1,354,748,187	46,861,859	22,574,525	-
Net Position Restricted for Pension and Other Employee Benefits	27,351,224,157	943,622,645	456,192,249	-

USAS Funds (U/F) are:

Fund 0955: 0955, 8955; Fund 0977: 0977, 8977; Fund 0993: 0993, 8993; Fund 5039: 5039;
Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 3944: 0973, 3944; Fund 0943: 0943, 8943;
Fund 0001: 1001; Fund 0001: 2001; Fund 8070: 8070; Fund 0980: 0980; Fund 0973: 4973.

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

State Retiree Health Plan (3973)	Total Defined Benefit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds	Total Agency Funds
\$	\$	\$	\$	\$	\$	\$	\$
	913,384					913,384	
	23,000	64,061	18,198			105,259	
9,923,903	100,941,139	1,851,785	3,099,635	476,820	3,140,486	109,509,865	76,098
9,923,903	101,877,523	1,915,846	3,117,833	476,820	3,140,486	110,528,508	76,098
	154,222,330					154,222,330	-
12,064,448	579,826,878			20,761	17,294,846	597,142,485	
21,988,351	835,926,731	1,915,846	3,117,833	497,581	20,435,332	861,893,323	76,098
	-					-	205,825
	10,807,749,421					10,807,749,421	
	7,258,573,813					7,258,573,813	
	9,356,097,540					9,356,097,540	
	184,420,869					184,420,869	
-	27,606,841,643	-	-	-	-	-27,606,841,643	-
145,014,445	145,014,445					145,014,445	
141,870	103,571,163	3,665	6,132	985	37,607	103,619,552	
16,206,790	133,207,999	49,666	199,224	6,779	5,496,766	138,960,434	2,446
	1,503,742,094					1,503,742,094	
161,363,105	1,885,535,701	53,331	205,356	7,764	5,534,373	1,891,336,525	2,446
28,705,936	35,380,901	9,232	10,103	191	8,244	35,408,671	
	8,746,281					8,746,281	
	10,025					10,025	
	874,889					874,889	
	9,525,420					9,525,420	
	3,936,003					3,936,003	
	482,064					482,064	
	21,356					21,356	
-	14,839,732	-	-	-	-	14,839,732	-
212,057,392	30,387,281,014	1,978,409	3,333,292	505,536	25,977,949	30,419,076,200	284,369
150,950,522	175,512,826	64,062	18,198	432	8,460,139	184,055,657	205,825
	1,247,888,972					1,247,888,972	
150,950,522	1,423,401,798	64,062	18,198	432	8,460,139	1,431,944,629	205,825
1,170,406	4,724,286	46,369	36,631	449	36,473	4,844,208	33
	2,236,438					2,236,438	
	841,059		2,735			843,794	
	3,452,624					3,452,624	
	141,649,294					141,649,294	
152,120,928	1,576,305,499	110,431	57,564	881	8,496,612	1,584,970,987	284,369
59,936,464	28,810,975,515	1,867,978	3,275,728	504,655	17,481,337	28,834,105,213	-

Exhibit IX

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

Year Ended August 31, 2019

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Additions	\$	\$	\$	\$
Contributions:				
Members	694,788,598	9,098,121	6,462,797	
Employers	712,647,639	25,864,146	13,100,263	
Non-Employer Contributing Entity Contributions				
Service Contributions Transferred from Teacher Retirement System (Note 1.G)	102,787,422			
Federal Revenues				
Others - Forfeitures				
Total Contributions	1,510,223,659	34,962,267	19,563,060	-
Investment Income:				
From Investing Activities:				
Net Appreciation in Fair Value of Investments	117,824,156	4,031,397	2,205,534	
Interest and Dividends	674,823,015	23,428,603	11,164,668	
Class Action Settlements	2,000,715	69,417	33,065	
Total Investing Activity Income	794,647,886	27,529,417	13,403,267	-
Less: Investment Expense	(38,815,128)	(1,384,565)	(621,320)	
Net Income, Investing Activities	755,832,758	26,144,852	12,781,947	-
From Securities Lending Activities:				
Loan Premium on Securities Lending	5,164,235	179,206	85,435	
Broker Rebates	(1,802,373)	(62,555)	(29,793)	
Agent Fees	(326,470)	(11,330)	(5,402)	
Net Income, Securities Lending Activities	3,035,392	105,321	50,240	-
Net Investment Income	758,868,150	26,250,173	12,832,187	-
Other Additions:				
Other Revenue:				
Warrants Voided by Statute of Limitations	164,259	3,096	524	
Reimbursements - Third Party				
Sale of Surplus Equipment	9,035			
Settlement Revenue				
Rental Income	41,418			
Miscellaneous Revenue	3,925			
Administration Fees				
Total Other Revenue	218,637	3,096	524	-
Transfer In:				
Interfund Transfers In (Note 1.G):				695,849
Interagency Transfers In (Note 5.C):				257,502
Total Transfers In	-	-	-	953,351
Total Other Additions	218,637	3,096	524	953,351
Total Additions	2,269,310,446	61,215,536	32,395,771	953,351

USAS Funds (U/F) are:

Fund 0955: 0955, 8955; Fund 0977: 0977, 8977; Fund 0993: 0993, 8993; Fund 5039: 5039;

Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 3944: 0973,3944; Fund 0943: 0943, 8943.

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

State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texasaver 401(k) Trust Fund (0946)	Texasaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
	710,349,516			140,410	72,456,065	782,945,991
401,284,833	1,152,896,881					1,152,896,881
20,182,872	20,182,872					20,182,872
	102,787,422					102,787,422
89,389,367	89,389,367					89,389,367
					950,282	950,282
510,857,072	2,075,606,058	-	-	140,410	73,406,347	2,149,152,815
	124,061,087					124,061,087
3,329,727	712,746,013	89,959	99,201	11,788	342,393	713,289,354
	2,103,197					2,103,197
3,329,727	838,910,297	89,959	99,201	11,788	342,393	839,453,638
(6,228)	(40,827,241)	(18,636)	(23,576)	(30)	(6,769)	(40,876,252)
3,323,499	798,083,056	71,323	75,625	11,758	335,624	798,577,386
	5,428,876					5,428,876
	(1,894,721)					(1,894,721)
	(343,202)					(343,202)
-	3,190,953	-	-	-	-	3,190,953
3,323,499	801,274,009	71,323	75,625	11,758	335,624	801,768,339
18,143	186,022					186,022
67,327	67,327	311,840	104,160			483,327
	9,035					9,035
		51,590	12,897			64,487
	41,418					41,418
	3,925					3,925
		122,408	778,677			901,085
85,470	307,727	485,838	895,734	-	-	1,689,299
	695,849					695,849
	257,502					257,502
-	953,351	-	-	-	-	953,351
85,470	1,261,078	485,838	895,734	-	-	2,642,650
514,266,041	2,878,141,145	557,161	971,359	152,168	73,741,971	2,953,563,804

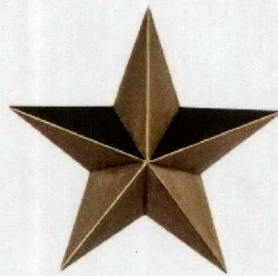
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Exhibit IX (Concluded)
Statement of Changes in Fiduciary Net Position –
Pension and Other Employee Benefit Trust Funds
Year Ended August 31, 2019

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Deductions	\$	\$	\$	\$
Benefits:				
Benefits	2,473,907,002	78,484,750	29,006,848	796,809
Health Care Claims ¹				
Less: Payments from Members				
Refunds of Contributions	142,303,194	3,768,394	213,797	
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	26,307,593			
Total Benefits	2,642,517,789	82,253,144	29,220,645	796,809
Administrative Expenses:				
Salaries & Wages	11,091,025	1,138,547	164,458	
Payroll Related Costs	3,960,461	420,488	56,656	
Professional Fees & Services	5,995,024	246,114	78,661	
Travel	81,682	6,964	983	
Materials & Supplies	1,566,626	101,119	17,023	
Communications & Utilities	572,997	62,014	8,658	
Repairs & Maintenance	728,895	54,416	9,919	
Rentals & Leases	345,177	27,653	5,087	
Printing & Reproduction	63,121	5,458	748	
Depreciation	820,233			
Other Operating Expenses	2,526,375	104,709	20,470	
Total Administrative Expenses	27,751,616	2,167,482	362,663	-
Other Deductions:				
Loss on Sale of Capital Assets	455,819			
Interfund Transfers Out (Note 1.G):				
Other Transfers	695,849			
Interagency Transfers Out (Note 5.C):				156,542
Total Transfers Out	695,849	-	-	156,542
Total Other Deductions	1,151,668	-	-	156,542
Total Deductions	2,671,421,073	84,420,626	29,583,308	953,351
Net Increase/(Decrease)	(402,110,627)	(23,205,090)	2,812,463	-
Net Position Restricted for Pension and Other Employee Benefits:				
Beginning of Year	27,753,334,784	966,827,735	453,379,786	
End of Year (Exh. VIII)	27,351,224,157	943,622,645	456,192,249	-

¹ The benefit payments in the State Retiree Health Plan are reported net of \$170,548,616 pharmacy rebates.

State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texasaver 401(k) Trust Fund (0946)	Texasaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
	2,582,195,409			115,532	71,300,679	2,653,611,620
1,038,587,696	1,038,587,696					1,038,587,696
(209,836,664)	(209,836,664)					(209,836,664)
	146,285,385					146,285,385
	26,307,593					26,307,593
828,751,032	3,583,539,419	-	-	115,532	71,300,679	3,654,955,630
3,029,887	15,423,917	302,514	331,839	2,078	147,334	16,207,682
1,015,919	5,453,524	102,255	113,313	697	52,409	5,722,198
646,500	6,966,299	11,943	12,217	242	7,318	6,998,019
28,348	117,977	2,263	2,068	13	807	123,128
241,424	1,926,192	17,034	19,187	226	10,621	1,973,260
186,887	830,556	7,841	9,511	132	7,423	855,463
199,076	992,306	11,004	11,788	220	7,275	1,022,593
77,251	455,168	5,572	5,469	79	3,434	469,722
12,676	82,003	623	711	6	398	83,741
	820,233					820,233
570,239	3,221,793	28,863	16,673	97	1,215,192	4,482,618
6,008,207	36,289,968	489,912	522,776	3,790	1,452,211	38,758,657
	455,819					455,819
	695,849					695,849
	156,542					156,542
-	852,391	-	-	-	-	852,391
-	1,308,210	-	-	-	-	1,308,210
834,759,239	3,621,137,597	489,912	522,776	119,322	72,752,890	3,695,022,497
(320,493,198)	(742,996,452)	67,249	448,583	32,846	989,081	(741,458,693)
380,429,662	29,553,971,967	1,800,729	2,827,145	471,809	16,492,256	29,575,563,906
59,936,464	28,810,975,515	1,867,978	3,275,728	504,655	17,481,337	28,834,105,213

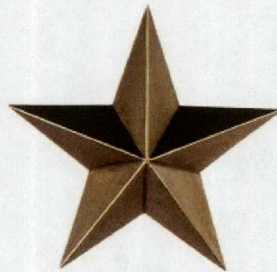


Notes to the Basic Financial Statements

August 31, 2019

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Notes to the Basic Financial Statements

August 31, 2019

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 approximately 400 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

GASB Statement No. 83 *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations, effective for reporting periods beginning after June 15, 2018. Because the System does not have any asset retirement obligations, this statement is not applicable.

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.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

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 are considered to be available if the revenues are due at year end and collected within 60 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.

Proprietary fund distinguishes operating activities from nonoperating ones. Operating activities generally include providing services and producing or delivering goods. The majority of the operating revenues in the System's proprietary fund are insurance premiums. Operating expenses include the costs of claims and related administrative expenses. Non-operating revenues and expenses are those items that do not meet any of the above definitions.

The System does not have a policy for eliminating internal activities in the Government-wide Statement of Activities because the funds reported in the Government-wide Statement of Activities are distinct programs and do not have activities among each other.

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 fiscal year 2019, 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 the System, and the activities in these funds are not the core of the System's business, which is pension and group benefits. Therefore, the System is reporting the governmental funds on Exhibits III and IV as nonmajor funds for fiscal year 2019.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds from specific revenue sources that are legally

Notes to the Basic Financial Statements (Continued)

August 31, 2019

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 pension plan not administered through a trust and, therefore, reported as an Agency 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 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, Texas Insurance Code. The State Retiree Health Plan (SHRP) is a cost-sharing multiple-employer postemployment health care plan that covers retired employees of the State, and other entities as specified by the state legislature.
- TexaSaver 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.
- TexaSaver 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.
- Commuter Spending Account Fund – This fund is a qualified transportation benefits plan authorized under Section 132 of the Internal Revenue Code. The Commuter Benefits program offers State employees pre-tax deduction for qualified parking expenses or mass transit expenses.
- 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 employees of higher education institutions, reimbursements for health care and dependent care, and the costs of administering the program.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

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.

- 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.
- Unappropriated Receipts (General Revenue Fund) – This fund accounts for member contributions received from the Judicial Retirement System Plan One Fund.
- USPS - Direct Deposit Return Money – This fund accounts for direct deposits that are processed through the Uniform Statewide Accounting 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.
- 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.
- 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.
- Health Savings Account – This fund accounts for the employee and employer contributions to the Health Savings Account that the System has received and pending to be deposited to the bank who administers the employees' Health Savings Account.
- 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.

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

Notes to the Basic Financial Statements (Continued)

August 31, 2019

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 fund 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 TexaSaver 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 Custodian Officer Supplemental Retirement Fund, the Judicial Retirement System Plan Two Fund, and the long-term portion of the Employees Life, Accidental and Health Insurance and Benefits Fund are consolidated in the Investments 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 72. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Public Equities and Fixed Income

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 securities (Real Estate Investment Trusts or "REITs" and Real Estate Operating Companies or "REOCs") traded in the public exchange.

Other Investments

Other investments are derivative investments. Derivative investments are either executed on an exchange or in a bilateral deal in an over-the-counter (OTC) market. Options are priced at the mean and settle price and Forwards priced at the last sale price in their respective active markets. In addition, other investments include one commingled equity limited partnership priced at the net asset value per share by the general partner.

Alternative Investments

For alternative investments, the System has established a Valuation Committee that periodically reviews and approves the fair value of these investments. Certain foreign alternative investments in the inception year are reported 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 capital account statements from the general partner or administrator of the fund, 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 capital account statements and the System's fiscal year end date. The System's alternative investments include private equity, private real estate, private infrastructure, private fixed income and hedge funds.

The general nature of the System's 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 seven to fifteen years and are not liquid in nature. The fair value of the net assets 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 seven to twelve 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 set 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.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

The System's hedge fund investments represent ownership interest in limited partnerships or limited liability companies. These types of investments consist of private commingled investment vehicles that issues securities to accredited investors or qualified purchasers. The fair values of hedge funds are based on the net assets of the limited partnerships. These funds' valuations are appraised by an independent administrator and reconciled annually to the audited financial statements. In general, the System's hedge funds are categorized into the following strategies:

- **Equity Long/Short hedge funds** — This strategy includes long and short investments made primarily in developed market common stocks. Management of each hedge fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long to a net short position.
- **Event-Driven hedge funds** — These types of investments include hedge funds that aim to profit from a catalyst. In many instances, these catalysts can be associated with economic, political, corporate, and government-driven events. A majority of these investments are targeted at corporate actions.
- **Macro hedge funds** — These types of investments include hedge funds that invest in a range of strategies which are based on movements in macroeconomic variables. Management of each hedge fund can use a variety of instruments including fixed income, currency, commodity, or equity securities.
- **Multi-Strategy hedge funds** — These investments include hedge funds that pursue multiple strategies aimed at diversifying risks and reducing volatility. The System defines multi-strategy funds as having 50% of the funds' exposure to event-driven strategies and the other 50% to relative value strategies.
- **Opportunistic hedge funds** — These include investments in hedge funds that provide niche and often uncorrelated exposures. Management of such funds can use a variety of instruments including credit, equity, and derivative securities; some of which may be less-liquid in nature.
- **Relative Value hedge funds** — This strategy seeks to capitalize on the mispricing of related securities or financial instruments.

Private fixed income funds are ownership in limited partnerships which consists of private investment funds that are either commingled or separate. These funds are classified as predominately "credit" instruments that may be liquid or illiquid. The System utilizes a process similar to that of private equity funds in assessing the fair value of the fund. The expected life of the funds is approximately three to ten years, with the option of two one-year extensions. 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 and have expected life from ten to twelve years, with the option of one to three-year extension. 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.

If the System has investments where no readily ascertainable market value exists, the System's management, in consultation with their investment advisors and the Master Trust Custodian, will determine the fair values for those investments.

Short-Term Investments

The System's short-term investment is Short-Term Investment Fund, which is a 2a-7 like fund and is priced at the Net Asset Value per Share by the custodian bank.

Invested Securities Lending Collateral

The cash collateral from the borrowers in the securities lending program that the System reinvested are valued according to the types of those reinvestments.

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 Nationally Recognized Securities Rating Organizations, as included 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.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

- 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 or 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 13 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 funds' 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 of 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.

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	0	N/A
Building and Improvements	100,000	10 - 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 Section 661.062 of Texas Government Code Chapter 661, 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.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

Net Position – Restricted for Pension Benefits

The net position of the retirement trust funds consists 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 Expense 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.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

2. Detail Disclosures on Funds

(In accordance with GASB Statements 3, 28, 40, 67, and 72)

2.A Deposits, Investments, and Repurchase Agreements

Deposits

The total carrying amounts of Deposit as of August 31, 2019 are presented in Figure 2. The deposits with the custodian bank are temporary deposits related to unsettled trade or income transactions.

Figure 2
Deposits of Cash in Bank

Deposits	Carrying Value	Bank Balance
	\$	\$
Fiduciary Funds:		
Cash in Bank (Exh. VIII)	105,259	105,259
Deposits with Custodian Bank	13,214,341	13,214,341
Totals	<u>13,319,600</u>	<u>13,319,600</u>

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. The balance of deposits with custodian bank as of August 31, 2019 represents amounts held in foreign currency and cash balance not yet invested. These deposits were uninsured and uncollateralized and subject to custodial credit risk.

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, rates, 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), Exchange Traded Funds (ETFs), and international securities are also included in this component to

provide liquidity. The International securities component invests in equity securities that are mainly issued overseas. It also includes other investments classes similar to those of the domestic equities component.

The rates component invests in domestic and international fixed income securities that have a relatively low risk of default. The global credit component invests in securities that have high risk and long maturity. It also invests in ETFs and hedge funds to provide liquidity and absolute returns. The public real estate component invests mainly in REITs. It also includes hedge funds, domestic and international equities to provide liquidity, diversification and high returns to the component.

Alternative Investments 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 in hedge fund limited partnership. Private fixed income funds are limited partnerships that invest in foreign and domestic fixed income securities.

Fair Value Measurement

The System uses the following valuation techniques to measure fair value of investments:

- Market Approach:** Prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or group of assets and liabilities are used to measure fair value.
- Cost Approach:** The amount that would be required currently to replace the present service capacity of an asset is used to measure fair value.
- Income Approach:** Future amounts (for example, cash flows, or revenues and expenses) are converted to a single current amount to determine fair value.

The System categorizes their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority (Level 1) to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

- Level 1: Unadjusted quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

U.S. treasury securities, equity securities, Real Estate Investment Trusts, and Exchange Traded Funds classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and debt derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Index linked debt securities are valued by multiplying the external market price feed by the applicable day's Index Ratio.

Level 2 debt securities also have non-proprietary information from multiple independent sources that were readily available to market participants who are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Level 3 debt securities use proprietary information or single source pricing. Value of equity securities classified in Level 3 is based on last trade data that is 30 days or more before the fiscal year end. Real assets, if any, classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers.

The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. When inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The fair values of alternative investments are measured at net asset value (NAV) per share (or its equivalent). The valuation method using NAV per share (or its

equivalent) is consistent with the Financial Accounting Standards Board's measurement principles for an investment company. The System's investments are summarized in Figure 3.

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. The System has contracted with The BNY Mellon Asset Servicing to serve as the custodian for the System's investments. Investments are registered in the name of the System or in the name of the System's custodian and are held in the name of the System by the custodian.

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, 2019 is summarized in Figure 4 on page 52.

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. 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, 2019 is summarized in Figure 5 on page 53. The securities were rated and categorized according to Standard & Poor's rating standards.

The System earns interest on monies held at the custodial agent bank overnight when a domestic 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 does not earn any interest on any failed foreign security purchase transactions.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

Figure 3
Fair Value of Investments

	Level 1	Level 2	Level 3	NAV	Total
Fiduciary Funds:					
Investments:					
Public Equities:					
Domestic Equities	4,976,718,924		807		4,976,719,731
International Equities	4,430,919,813		1,070,118		4,431,989,931
Exchange Traded Funds (ETFs)	208,360,490				208,360,490
Real Estate Investment Trust (REITs)	1,190,679,269				1,190,679,269
Total Public Equities	10,806,678,496	-	1,070,925	-	10,807,749,421
Fixed Income:					
U.S. Treasury Securities	4,267,929,001				4,267,929,001
U.S. Government Agency Obligations		544,290,708			544,290,708
Corporate Obligations		1,520,312,825	525,437		1,520,838,262
Corporate Asset and Mortgage Backed Securities		74,183,473			74,183,473
International Obligations		510,158,309			510,158,309
Exchange Traded Funds (ETFs)	297,291,086				297,291,086
Real Estate Investment Trust (REITs)		43,882,974			43,882,974
Total Fixed Income	4,565,220,087	2,692,828,289	525,437	-	7,258,573,813
Other Investments:					
Commingled Funds				184,420,869	184,420,869
Total Other Investments	-	-	-	184,420,869	184,420,869
Investments Measured at the Net Asset Value (NAV):					
Equity Long/Short				649,963,709	649,963,709
Event Driven				242,815,288	242,815,288
Macro				220,921,699	220,921,699
Multi-Strategies				263,383,109	263,383,109
Opportunistic				179,261,320	179,261,320
Option Strategies				159,550,440	159,550,440
Private Equity				4,095,571,471	4,095,571,471
Private Real Estate				2,150,080,362	2,150,080,362
Private Infrastructure				826,701,277	826,701,277
Private Fixed Income				360,307,904	360,307,904
Relative Value				207,540,961	207,540,961
Total Investments Measured at the NAV:	-	-	-	9,356,097,540	9,356,097,540
Total Investments	15,371,898,583	2,692,828,289	1,596,362	9,540,518,409	27,606,841,643
					(Exh. VIII)
Securities Lending Collateral:					
Government Repurchase Agreements	154,222,330				154,222,330
Total Securities Lending Collateral	154,222,330	-	-	-	154,222,330
					(Exh. VIII)
Short-Term Investments:					
U.S. Treasury Securities	147,629,256				147,629,256
Money Market and Bond Funds				432,788,348	432,788,348
Investment in Pool Cash	3,510,540				3,510,540
Deposits	13,214,341				13,214,341
Total Short-Term Investments	164,354,137	-	-	432,788,348	597,142,485
					(Exh. VIII)
Proprietary Fund:					
Investments:					
Public Equities:					
Domestic Equities	7,323,158		99		7,323,257
International Equities			676		676
Total Public Equities	7,323,158	-	775	-	7,323,933
Fixed Income:					
U.S. Treasury Securities	749,302,411				749,302,411
U.S. Government Agency Obligations		95,558,839			95,558,839
Corporate Obligations		186,807,272	64,563		186,871,835
Corporate Asset and Mortgage Backed Securities		12,514,841			12,514,841
International Obligations		62,685,311			62,685,311
Exchange Traded Funds (ETFs)	36,529,414				36,529,414
Real Estate Investment Trust (REITs)		5,392,087			5,392,087
Total Fixed Income	785,831,825	362,958,350	64,563	-	1,148,854,738
Investments Measured at the Net Asset Value (NAV):					
Opportunistic				16,430,616	16,430,616
Private Fixed Income				44,272,557	44,272,557
Total Investments Measured at the NAV	-	-	-	60,703,173	60,703,173
Total Investments	793,154,983	362,958,350	65,338	60,703,173	1,216,881,844
					(Exh. V)

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Notes to the Basic Financial Statements (Continued)

August 31, 2019

Figure 3
Fair Value of Investments (Concluded)

	Level 1	Level 2	Level 3	NAV	Total
Securities Lending Collateral:					
Government Repurchase Agreements	13,760,417				13,760,417
Total Securities Lending Collateral	13,760,417	-	-	-	13,760,417
					(Exh. V)
Short-Term Investments:					
U.S. Treasury Securities	818,675				818,675
Money Market and Bond Funds			1,114,349,445		1,114,349,445
Total Short-Term Investments	818,675	-	-	1,114,349,445	1,115,168,120
					(Exh. V)

Figure 4
Foreign Currency Risk

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, 2019, 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. As of August 31, 2019, the System invested \$86,698,314 in asset backed and mortgage backed obligations, which are subject to early principal payment in a period of declining interest rates and could reduce or eliminate the stream of income that would have been received. As a result, the fair value of these investments is highly sensitive to interest rate changes. 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, 2019, the System's exposure to interest rate risk is summarized in Figure 6.

	Investments		Investments Total (USD)	Short-term Investments
	Public Equities (USD)	Alternative Investments (USD)		Deposits (USD)
Fiduciary Funds:	\$	\$	\$	\$
Australian Dollar	180,103,803	31,992,294	212,096,097	1,524,287
Brazilian Real	94,703,685		94,703,685	18,221
Canadian Dollar	324,855,973		324,855,973	10,631
Chilean Peso	4,072,355		4,072,355	
Chinese Yuan Renminbi	18,356,411		18,356,411	
Colombian Peso	89,246		89,246	1,790
Czech Koruna	3,702,440		3,702,440	
Danish Krone	48,014,964		48,014,964	
Egyptian Pound	2,272,059		2,272,059	761,608
Euro	1,068,655,690	385,333,199	1,453,988,889	4,075,497
Hong Kong Dollar	394,410,957		394,410,957	1,133,378
Hungarian Forint	6,169,110		6,169,110	3,173
Indian Rupee	88,132,094		88,132,094	1,982,378
Indonesian Rupiah	30,968,785		30,968,785	2,012
Israeli Shekel	12,703,099		12,703,099	144,020
Japanese Yen	646,679,590		646,679,590	93,455
Malaysian Ringgit	9,857,510		9,857,510	4,095
Mexican Peso	39,750,543		39,750,543	1,700,654
New Taiwan Dollar	107,096,489		107,096,489	157,384
New Zealand Dollar	1,851,264		1,851,264	22,429
Norwegian Krone	26,432,413		26,432,413	(33)
Pakistan Rupee	859,422		859,422	
Philippine Peso	11,479,194		11,479,194	3,281
Polish Zloty	14,089,981		14,089,981	193,726
Pound Sterling	494,401,904	90,893,924	585,295,829	80,417
Qatari Riyal	10,190,758		10,190,758	
Russian Ruble	613,955		613,955	
Singapore Dollar	70,282,502		70,282,502	165,104
South African Rand	51,337,224		51,337,224	15
South Korean Won	120,105,314	22,128,799	142,234,113	443,866
Swedish Krona	84,096,754		84,096,754	222,907
Swiss Franc	236,033,989		236,033,989	5,658
Thai Baht	31,867,161		31,867,161	40,033
Turkish Lira	16,182,889		16,182,889	
UAE Diram	4,886,252		4,886,252	
Total for Investments	4,255,305,779	530,348,216	4,785,653,996	12,789,986

Figure 6 – Investment Interest Rate Risk

Investment Type	Fiduciary Funds		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
	\$		\$	
U.S. Treasury Securities	4,415,558,257	3.71	750,121,086	3.83
U.S. Government Agency Obligations	544,290,708	4.03	95,558,839	4.03
Corporate Obligations	1,520,838,262	4.15	186,871,835	4.15
Corporate Asset and Mortgage Backed Securities	74,183,473	2.03	12,514,841	2.03
International Obligations	510,158,309	3.47	62,685,311	3.47
Real Estate Investment Trusts (REITs)	43,882,974	5.03	5,392,087	5.03
Money Market and Bond Funds	432,788,348	0.08	1,114,349,445	0.08
Totals	7,541,700,331	3.59	2,227,493,445	1.97

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**Figure 5
Investment Credit Risk**

S & P Rating	U. S Treasury Securities	U.S. Government Agency Obligations	Corporate Obligations	Corporate Asset and Mortgage Backed Securities	International Obligations	Real Estate Investment Trust (REITs)	Exchange Traded Funds (ETFs)	Money Market and Bond Fund	Total
Fiduciary Funds Investments:	\$	\$	\$	\$	\$	\$	\$	\$	\$
A			4,566,852						4,566,852
A+		4,654,461		2,563,541			7,762,223		14,980,225
AA				4,418,091					4,418,091
AA+	4,267,929,001	527,097,357		4,249,553					4,799,275,911
AAA				53,287,744					53,287,744
B			181,254,221		66,959,083				248,213,304
B-			177,566,482		11,511,298				189,077,780
B+			203,779,971	7,932,352	120,131,776				331,844,099
BB			425,295,987		62,160,949	6,422,207			493,879,143
BB-			226,649,554		84,826,767				311,476,321
BB+			163,663,099		60,381,660				224,044,759
BBB				1,732,192					1,732,192
BBB-			40,743,143		29,797,432	37,460,767			108,001,342
CCC			11,011,182		16,467,488				27,478,670
CCC+			41,403,373		34,206,311				75,609,684
D			2,223,520		23,715,545				25,939,065
Not Rated		12,538,890	42,680,878				289,528,863		344,748,631
Investments Totals	4,267,929,001	544,290,708	1,520,838,262	74,183,473	510,158,309	43,882,974	297,291,086	-	7,258,573,813
Short-Term Investments:									
AA+	147,629,256								147,629,256
Not Rated								432,788,348	432,788,348
Short-Term Investments Total:	147,629,256	-	-	-	-	-	-	432,788,348	580,417,604
Proprietary Funds Investments:	\$	\$	\$	\$	\$	\$	\$	\$	\$
A			561,148						561,148
A+		817,164		450,070			953,777		2,221,011
AA				775,666					775,666
AA+	749,302,411	92,540,274		746,076					842,588,761
AAA				9,355,506					9,355,506
B			22,271,473		8,227,546				30,499,019
B-			21,818,345		1,414,442				23,232,787
B+			25,039,308		14,761,100				39,800,408
BB			52,257,918		7,637,979	789,124			60,685,021
BB-			27,849,390		10,423,024				38,272,414
BB+			20,109,978	974,681	7,419,350				28,504,009
BBB				212,842					212,842
BBB-			5,006,283		3,661,337	4,602,963			13,270,583
CCC			1,352,991		2,023,430				3,376,421
CCC+			5,087,408		4,203,074				9,290,482
D			273,213		2,914,029				3,187,242
Not Rated		2,201,401	5,244,380				35,575,637		43,021,418
Investments Totals	749,302,411	95,558,839	186,871,835	12,514,841	62,685,311	5,392,087	36,529,414	-	1,148,854,738
Short-Term Investments:									
AA+	818,675								818,675
Not Rated								1,114,349,445	1,114,349,445
Short-Term Investments Total:	818,675	-	-	-	-	-	-	1,114,349,445	1,115,168,120

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 for certain

Notes to the Basic Financial Statements (Continued)

August 31, 2019

losses. 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 initial collateralization 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 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 2019. The System received net securities lending income totaling \$3,316,889 for the fiscal year ended August 31, 2019. The collateral information as of August 31, 2019 is summarized in Figure 7.

Repurchase Agreements

During the fiscal year 2019, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2019, the System had \$167,982,747 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, 2019 are summarized in Figure 8

Figure 7
Securities Lending Collateral Summary

Investment Type	Underlying Securities Fair Value	Cash Collateral Fair Value
	\$	\$
Fiduciary Funds:		
Domestic Equities	7,767,306	8,704,449
International Equities	12,241,918	14,252,166
Corporate Obligations	63,733,255	70,427,324
Exchange Traded Funds - Equities (ETFs)	9,361,512	10,425,438
Exchange Traded Funds - Fixed Income (ETFs)	384,853	428,136
International Obligations	21,197,927	23,421,212
Real Estate Investment Trust (REITs) - Equity	678,222	785,106
U.S. Treasury Securities	23,193,356	25,778,499
Totals	138,558,349	154,222,330
		Exh.VIII
Proprietary Fund:		
Domestic Equities	13,591	13,724
International Obligations	2,604,679	2,455,687
Corporate Obligations	7,831,175	7,384,222
Exchange Traded Funds - Fixed Income (ETFs)	47,289	44,890
U.S. Treasury Securities	4,071,960	3,861,894
Totals	14,568,694	13,760,417
		Exh. V

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, 2019 and 2018 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

Figure 9
Net Position - Fiduciary Fund

Fund Type	2019	2018
	\$	\$
Defined Benefit Plans (Note A)	28,810,975,515	29,553,971,967
Deferred Compensation Plans and Cafeteria Plan:		
Administration - Deferred Compensation Plans	5,143,706	4,627,874
Administration - State Employees Cafeteria Plan	17,481,337	16,492,256
Total Deferred Compensation Plans and Cafeteria Plan	22,625,043	21,120,130
Commuter Spending Account Fund	504,655	471,809
Net Position Restricted for Pension and Other Benefits	28,834,105,213	29,575,563,906
		Exh. VIII

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

Notes to the Basic Financial Statements (Continued)

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Figure 8
Alternative Investments (Note A)

Currency	No. of Funds	Commitment	Remaining Commitment	Adjusted Funded Amount	Fair Value	Redemption Frequency	Redemption Notice	Redemption Restrictions
Private Equity:								
US Dollar	121	6,954,569,489	2,792,448,006	4,284,121,483	3,755,444,843	N/A	N/A	N/A
Euro Dollar	18	669,576,321	392,290,894	332,347,927	257,250,448	N/A	N/A	N/A
British Pound	3	85,249,500	44,251,394	50,740,906	60,747,381	N/A	N/A	N/A
Korean Won	1	23,528,519	-	23,528,519	22,128,799			
Sub-total	143	7,732,923,829	3,228,990,294	4,690,738,835	4,095,571,471			
Private Real Estate:								
US Dollar	59	3,837,111,143	1,411,685,068	2,425,426,075	2,008,448,516	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
Euro Dollar	3	210,338,750	54,996,441	155,342,309	125,864,223	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
British Pound	1	51,542,480	10,875,998	40,666,482	15,767,623	N/A	N/A	N/A
Sub-total	63	4,098,992,373	1,477,557,507	2,621,434,866	2,150,080,362			
Private Infrastructure:								
US Dollar	27	1,588,600,000	736,849,625	851,750,375	778,111,535	N/A	N/A	N/A
Australian Dollar	2	57,268,750	30,144,701	27,124,049	31,992,294	N/A	N/A	N/A
British Pound	1	8,524,950	-	8,524,950	14,378,920	N/A	N/A	N/A
Euro Dollar	1	110,125,000	107,702,250	2,422,750	2,218,528			
Sub-total	31	1,654,393,700	766,994,326	887,399,374	826,701,277			
Private Fixed Income:								
US Dollar	7	675,000,000	314,027,213	360,972,787	404,580,461	N/A	N/A, 90 Days	N/A
Hedge Funds:								
Equity Long/Short								
US Dollar	3	460,000,000	-	460,000,000	594,045,085	Monthly	30 Days	N/A
US Dollar	1	100,000,000	-	100,000,000	55,918,624	Quarterly	90 Days	25% Investor Gate, 12 Month Lockup
Event Driven								
US Dollar	1	109,554,176	-	109,554,176	138,535,837	Monthly	30 Days	N/A
US Dollar	1	80,000,000	-	80,000,000	104,279,451	Quarterly	60 Days	12 Month Lockup
Macro								
US Dollar	1	100,000,000	-	100,000,000	104,474,339	Quarterly	30 Days	N/A
US Dollar	1	105,000,000	-	105,000,000	116,447,360	Quarterly	60 Days	25% Fund Gate, 24 Month Lockup
Multi-Strategies								
US Dollar	1	120,000,000	-	120,000,000	121,427,871	Quarterly	180 Days	12.5% Fund Gate, 12 Month Lockup
US Dollar	1	16,345,085	-	16,345,085	16,335,547	N/A	N/A	N/A
US Dollar	1	150,000,000	24,380,309	125,619,691	125,619,691	Varies	Varies	Varies
Opportunistic								
US Dollar	1	100,000,000	48,207,268	51,792,732	45,542,352	Annually	N/A	36 Month Lockup
US Dollar	1	150,000,000	-	150,000,000	144,906,928	Quarterly	60 Days	33% Investor Gate
US Dollar	1	5,000,000	-	5,000,000	5,242,656	Quarterly	60 Days	33% Investor Gate
Options Strategy								
US Dollar	1	150,000,000	-	150,000,000	159,550,440	Monthly	3-30 Days	N/A
Relative Value								
US Dollar	1	100,000,000	-	100,000,000	72,177,448	Quarterly	45 Days	N/A
US Dollar	1	100,000,000	-	100,000,000	61,192,145	Semiannually	90 Days	12.5% Investor Gate
US Dollar	1	70,000,000	-	70,000,000	74,171,368	Quarterly	60 Days	50% Investor Gate
Sub-total	18	1,915,899,261	72,587,577	1,843,311,684	1,939,867,142			
Total	262	16,077,209,163	5,860,156,917	10,403,857,546	9,416,800,713			

Note A: Commitment, Remaining Commitment, Adjusted Funded Amount, and Fair Value are reported in US Dollar.

Notes to the Basic Financial Statements (Continued)

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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. The System had no outstanding futures contracts on August 31, 2019.

Options

An option is a contract that gives buyers the right, but not the obligations, to buy (call) or sell (put) an asset at a specified future date at a price agreed upon when the option is originated. The option's price is usually a small percentage of the underlying asset's value.

As a writer of financial options, the System receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the System pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The System had no outstanding options contracts on August 31, 2019.

Forward Contracts

The System enters into forward contracts to minimize 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, 2019.

2.D Leases

(In accordance with GASB Statement 38)

Included in rental expenses/expenditures are assets leased on a long-term basis that have been classified as operating leases. Current year expenses for these leased assets totaled \$633,855. In addition, included in rental income are assets leased on a long-term basis

that have been classified as operating leases. Current year revenue for these leased assets totaled \$41,418. A schedule of future minimum lease payments and rental income on non-cancelable operating leases as of August 31, 2019 is presented in Figure 10.

Figure 10
Non-Cancelable Operating Leases

Fiscal Year	Future Minimum Lease Rental Payments	Future Minimum Lease Rental Revenues
2020	474,690	41,418
2021	339,978	41,418
2022	335,930	45,980
2023	272,977	45,980
2024	232,655	45,980
Total	1,656,230	220,776

3. Defined Benefit Plans

(In accordance with GASB Statements 67 and 73)

The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), 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, 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. A description of the benefits, including the key elements of pension formulas is provided in the Summary of Plan Provisions under the Introductory Section of this report.

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 Plan Two.

Notes to the Basic Financial Statements (Continued)

August 31, 2019

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 are 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 9.5% for fiscal year 2019. Legislators and other elected class members are required to contribute 9.5% of their compensation to the System.

For fiscal year 2019, the State contributed 10% 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 who are certified in accordance with the statutory requirements as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates managed by the hiring institutions. The plan also covers law enforcement officers who have been commissioned and recognized as commissioned law enforcement officers by the Texas Commission of Law Enforcement.

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 2019, both employee members and the State contributed 0.5% of the covered payroll for LECOS members. An additional \$17,104,306 was contributed by the State from dedicated court fees. 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 became 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 7.5% of their compensation to the System during fiscal year 2019. Effective September 1, 2019, the member contribution rate is 9.5%. Members who accrue 20 years of service credit in the retirement system may cease making contributions, but are considered contributing members for all other purposes; however, the State contribution continues. For the fiscal year ended August 31, 2019 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 11.

Figure 11
Actuarial Assumptions - Defined Benefit Plans

	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II
(In accordance with GASB Statement No. 67)			
Valuation Date	August 31, 2019		
Actuarial Cost Method	Entry Age Normal		
Amortization Method	Level Percent of Payroll, Open		
Remaining Amortization Period	31 Years		
Asset Valuation Method	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.		
Investment Rate of Return	7.5%		
Projected Salary Increases	0.0% – 9.5%	4.5% – 9.5%	3.0%
Inflation Rate	2.50%		
Last Experience Study	5-year period from September 1, 2011 to August 31, 2016		
Mortality Rate	2017 State Retirees of Texas (SRT) mortality table. Generational mortality improvements in accordance with ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries ("Scale U-MP") and projected from the year 2017. Rates for male LECO members are set forward one year.		

Notes to the Basic Financial Statements (Continued)

August 31, 2019

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. See note to the Required Supplementary Information for a summary of the recent changes in the actuarial assumptions.

Net Pension Liability**(In accordance with GASB Statement 67)**

Based on the actuarial assumptions listed in Figure 11, the components of the net pension liability as of August 31, 2019 are determined and summarized in Figure 12. The projected cash flows from the employer are based on contributions for the most recent five year period, modified on consideration of subsequent events. The legislature passed House Bill No. 9 in the 84th legislative session during fiscal year 2015 to increase State contributions and maintain changes made by the 83rd legislature session in Senate Bill No. 1459, which established proportional decreases to the employee contribution if the State contribution was decreased. Projected employer contributions are based on fiscal year 2019 funding levels. See Note 3.A for descriptions of member and State contributions. As of August 31, 2019, the System did not have any investments that represents five percent or more of the pension plan's fiduciary net position. See Note 2.A for the System's policy on concentration risk.

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, 2019 are summarized in Figure 13.

In August 2017, the System Board of Trustees adopted a long-term rate of return assumption of 7.5% after

Figure 13
Target Allocations

Asset Class	Target	Real Return	Long-term
	Allocation	Arithmetic	Expected
	%	Basis	Portfolio
		%	Real Rate
			of Return
			%
Global Equity	50.00	7.82	3.91
Global Credit	11.00	5.20	0.57
Opportunistic Credit	3.00	6.50	0.20
Intermediate Treasuries	11.00	2.60	0.29
Real Estate	12.00	7.50	0.90
Infrastructure	7.00	7.00	0.49
Hedge Funds	5.00	6.20	0.31
Cash	1.00	2.40	0.02
Totals	100.00		6.69
Inflation			2.50
Expected Arithmetic Nominal Rate of Return			9.19

considering 1) the long-term expected return from the building block method; 2) an analysis of long-term expected return performed by the System investment consultant; and 3) analyses and recommendations of the System pension actuary. The System Board of Trustees reviewed the long-term rate of return assumption in May 2019 and determined, based on the modeling performed by the investment consultants, that the long-term assumption continues to be reasonable. A formal review of the assumption will occur as part of the next asset allocation and experience study.

A single discount rate was used to measure the total pension liability as of August 31, 2019. 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

Figure 12
Net Pension Liability
(In accordance with GASB Statement No. 67)

	ERS	LECOS	JRS II
	\$	\$	\$
Total Pension Liability	57,336,383,016	2,609,355,304	648,298,037
Plan Fiduciary Net Position	27,351,224,157	943,622,645	456,192,249
Net Pension Liability	29,985,158,859	1,665,732,659	192,105,788
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.70%	36.16%	70.37%

Notes to the Basic Financial Statements (Continued)

August 31, 2019

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 14.

Figure 14
Assumptions for Single Discount Rate

	ERS	LECOS	JRS II
Expected investment rate of return	7.50%	7.50%	7.50%
Municipal bond rate (Note A)	2.63%	2.63%	2.63%
Year fiduciary net position depleted	2047	2037	2045
Single Discount Rate	4.42%	3.29%	5.45%

Note A: The source of the municipal bond rate is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

The sensitivity of the net pension liability to one percentage point increase or decrease to the single discount rate is summarized in Figure 15.

Figure 15
Sensitivity of Net Pension Liability

Net Pension Liability	Single Discount Rate		
	1% Decrease	Rate	1% Increase
ERS:	\$38,393,839,690	\$29,985,158,859	\$23,133,904,587
	2.29%	3.29%	4.29%
LECOS:	\$2,131,715,522	\$1,665,732,659	\$1,298,658,527
	4.45%	5.45%	6.45%
JRS II:	\$262,668,068	\$192,105,788	\$132,115,210

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, 2019, the annual money-weighted rate of return on the defined benefit plans was 2.80%. See Schedule of Investment Returns – Defined Benefit Plans in the Required Supplementary Information section for details.

3.C Retirement Systems Membership

The membership of the retirement plans as of August 31, 2019 is summarized in Figure 16. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

3.D Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2019 and 2018 are presented in Figure 17. See Note 1.G, Net Position - Restricted 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, 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.

Figure 16
Retirement Systems Membership

	ERS		LECOS	JRS II
	Employee Class	Elected Class		
Retirees and Beneficiaries Currently Receiving Benefits	114,415	740	13,981	472
Terminated Employees Entitled to By Not Yet Receiving Benefits	125,804	131	22,207	187
Active Employees	141,538	327	36,296	573
Totals	381,757	1,198	72,484	1,232

Note: Estimated based on actuarial valuation as of August 31, 2019.

Figure 17
Reserves

	ERS			Totals - August 31,	
	2019	LECOS	JRS II	2019	2018
Net Plan Assets Reserved For:	\$	\$	\$	\$	\$
Employee Savings	6,044,422,496	54,737,312	70,242,530	6,169,402,338	6,027,274,862
State Accumulation	(2,379,205,893)	59,769,499	77,881,171	(2,241,555,223)	(390,875,302)
Annuity Reserves	23,686,007,554	829,115,834	308,068,548	24,823,191,936	23,537,142,745
Total Net Plan Assets Reserved	27,351,224,157	943,622,645	456,192,249	28,751,039,051	29,173,542,305
	(Exh. VIII)	(Exh. VIII)	(Exh. VIII)		

Notes to the Basic Financial Statements (Continued)

August 31, 2019

4. Other Postemployment Benefits Plan (OPEB)

(In accordance with GASB Statement 74)

4.A Plan Descriptions and Contributions

State Retiree Health Plan

Plan Description

In addition to the pension benefits described in Note 3, the System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. This Program is governed by the same Board of Trustees who are also responsible for the System's defined benefit pension plans. See Note 1.A for structure of the Board of Trustees.

The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer postemployment health care plan with a special funding situation. This plan 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 18.

Figure 18
Participating Reporting Entities
for the State Retiree Health Plan

	September 1, 2018
State Agencies	116
Universities	27
Junior and Community Colleges	50
Other Entities	8
Total Participating Entities	201

The principal participating employer is the state of Texas. State agencies and universities employ 188,156 which is 80.4% of the employees covered by the State Retiree Health Plan.

Contributions

Figure 19 summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium, which is based on a blended rate. 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. As the non-employer contributing entity, the State of Texas pays part of the premiums for the junior and community college.

Figure 20 summarizes premium contributions by source and claims expenses on a pay-as-you-go basis for the

Figure 19
Employer Contribution Rates –
Retiree Health and Basic Life Premium –
Fiscal Year 2019

	September 1, 2018
	\$
Retiree Only	624.82
Retiree & Spouse	1,340.82
Retiree & Children	1,104.22
Retiree & Family	1,820.22

Figure 20
Contributions by Source and Claims Expenses - Retirees

	2019	2018
	\$	\$
Contributions:		
Employers	401,284,833	307,028,461
Non-Employer Contributing Entities	20,182,872	16,585,270
Federal Revenues:		
Medicare Part D	1,479,713	1,417,806
Direct Subsidy	15,347,037	16,475,710
Low Income Premium Subsidy	156,121	3,655,006
Low Income Cost Sharing	2,515,870	3,146,387
Catastrophe Reinsurance	69,890,626	49,797,877
Total Federal Revenues	89,389,367	74,492,786
Total Contributions	510,857,072	398,106,517
Claims Expenses	1,038,587,696	938,921,013
Less: Payments from Members	(209,836,664)	(203,123,120)
Benefit Payments	828,751,032	735,797,893

current and prior fiscal years. The System's actuaries have estimated certain health, life, accidental death and dismemberment, and indemnity administrative fees.

4.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 21.

Net OPEB Liability

Figure 22 shows the System's net OPEB liability for the State Retiree Health Plan as of August 31, 2019. Calculations are based on the benefit provided under the terms of the substantive plan in effect at the time of each

Notes to the Basic Financial Statements (Continued)

August 31, 2019

Figure 21
Actuarial Assumptions - State Retiree Health Plan

Valuation Date	August 31, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Not applicable because the plan operates on a pay-as-you-go basis
Last Experience Study	<i>State Agency Members:</i> 5-year period from September 1, 2011 to August 31, 2016 <i>Higher Education Members:</i> 7-year period from September 1, 2010 to August 31, 2017
Actuarial Assumptions:	
Discount Rate	2.97%
Projected Annual Salary Increase	2.50 to 9.50%, including inflation
Annual Healthcare Trend Rate	<u>HealthSelect</u> 7.30% for FY21, 7.40% for FY22, 7.00% for FY23, decreasing 50 basis points per year to an ultimate rate of 4.50% for FY28 and later years <u>HealthSelect Medicare</u> Advantage2 10.80% for FY21, 7.40% for FY22, 7.00% for FY23, decreasing 50 basis points per year to an ultimate rate of 4.50% for FY28 and later years
Inflation Assumption Rate	2.50%
Ad hoc Postemployment Benefit Changes	None
Mortality Rate	<u>State Agency Members</u> <ul style="list-style-type: none"> • <i>Service Retirees, Survivors and other Inactive Members (Regular, Elected, CPO/CO and JRS I and II Employee Classes):</i> 2017 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2017. • <i>Disability Retirees (Regular, Elected, CPO/CO and JRS I and II Employee Classes):</i> RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014 • <i>Active Members:</i> RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014 <u>Higher Education Members</u> <ul style="list-style-type: none"> • <i>Service Retirees, Survivors and other Inactive Members:</i> Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018. • <i>Disability Retirees:</i> Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members. • <i>Active Members:</i> Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014

Figure 22
Net OPEB Liability

	Amount
	\$
Total OPEB Liability	34,622,611,079
Plan Fiduciary Net Position	59,936,464
Net OPEB Liability	34,562,674,615
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.17%

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 Changes in Net OPEB Liability and Related Ratios immediately following the notes to the financial statements presents the information about the actuarial value of plan assets and the actuarial accrued liability for benefits in fiscal year 2019. Multiyear trend information is presented.

Investment Policy

The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The System's Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all fund in this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments is 2.4%.

Notes to the Basic Financial Statements (Continued)

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Discount Rate

Because the State Retiree Health Plan does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bond rates. The assumption of the discount rate is summarized in Figure 23.

Figure 23
Assumptions for Single Discount Rate
- State Retiree Health Plan

Expected investment rate of return	Not applicable because the plan operates on a pay-as-you-go basis
Municipal bond rate (Note A)	2.97%
Year fiduciary net position depleted	2019
Single Discount Rate	2.97%

Note A: The source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The sensitivity of the net OPEB liability to one percentage point increase or decrease to the discount rate is summarized in Figure 24.

Figure 24
Sensitivity of Net OPEB Liability to Changes in Discount Rate (in Thousands) - State Retiree Health Plan

	1% Decrease	Single Discount Rate	1% Increase
Rate	1.97%	2.97%	3.97%
Net OPEB Liability	\$41,244,021	\$34,562,675	\$29,421,621

The initial healthcare trend rate is 7.3% for HealthSelect and 4.5% for HealthSelect Medicare Advantage and the ultimate rate is 4.5% for both. The sensitivity of the net OPEB liability to the changes in the discount rate and healthcare trend rate is summarized in Figure 25.

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, 2019, the annual money-weighted rate of return on the State Retiree Health Plan was 2.32%.

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 as of August 31, 2019 is summarized in Figure 26.

Figure 26
State Retiree Health Plan Membership

Active Members	233,887
Inactive Members Currently Receiving Benefit Payments	127,044
Inactive Members Entitled to But Not Yet Receiving Benefit Payments	12,114
Total	373,045

Note: Estimated based on actuarial valuation as of August 31, 2019

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.

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 Other Funds or Due To Other Funds in the fund financial statements (See Note 1.G).

Figure 25
Sensitivity of Net OPEB Liability to Changes in Discount and Healthcare Trend Rates (in Thousands)
- State Retiree Health Plan

	1% Decrease (HealthSelect: 6.30% decreasing to 3.50%; HealthSelect Medicare Advantage: 9.8% to 3.5%)	Current Healthcare Cost Trend Rates (HealthSelect: 7.30% decreasing to 4.50%; HealthSelect Medicare Advantage: 10.8% to 4.5%)	1% Increase (HealthSelect: 8.30% decreasing to 5.50%; HealthSelect Medicare Advantage: 11.8% to 5.5%)
Net OPEB Liability	\$29,021,972	\$34,562,675	\$41,803,104

Notes to the Basic Financial Statements (Continued)

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The majority of the due to other funds balance in the Employees Life, Accident and Health Insurance and Benefits fund are payments from retirees, which are due to the State Retiree Health Plan. Figure 27 presents individual interfund receivable and interfund payable balances at August 31, 2019.

Figure 27
Interfund Receivables and Payables

	Due From Other Funds	Due to Other Funds
Governmental Activities:	\$	\$
Governmental Funds	3,244	19,486
Employees Life, Accident & Health Insurance and Benefits Fund	1,483,144	32,031,332
Total Governmental Activities	1,486,388	32,050,818
Fiduciary Funds:		
Pension & Other Employee Benefit Trust Funds	35,408,671	4,844,208
Agency Funds		33
Total - Interfund Receivables & Payables	36,895,059	36,895,059

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 28 presents interfund transfers for the year ended August 31, 2019.

Figure 28
Interfund Transfers

	Transfers In	Transfers Out
	\$	\$
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	695,849	695,849
Total - Interfund Transfers	695,849	695,849

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. Additional fractions of 160 hours are counted as full months of service credit. 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.

6.C Incentive Compensation Plan

An Incentive Compensation Plan was adopted in December 2006 and amended subsequently to enable the System to remain competitive in its efforts to attract, retain, and motivate talented employees who are specialized in investments and other functions that support investment decisions. The purpose of the Plan is to provide the opportunity for Plan participants to earn performance incentive pay based on the System's investment performance and the participant's job performance.

Payments can only be earned following years in which the System earns a positive return, and plan participants must be employed by the System on the designated dates in the Plan in order to earn and receive payment. The Board of Trustees may cancel or modify the Plan at any time. The performance incentive pay is paid over a three-year period. The remaining

Notes to the Basic Financial Statements (Continued)

August 31, 2019

liability for the incentive pay plan as of August 31, 2019 will not exceed \$7.3 million.

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, dental health maintenance organization (DHMO) contracts, and dental discount plan.

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 29.

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 30.

Figure 30
Changes in Self-Funded Claims Liabilities

	2019	2018
	\$	\$
Beginning Balance	621,213,380	615,895,000
Current-Year Claims and Changes in Estimates	2,017,932,081	1,960,607,412
Claim Payments	<u>(2,003,984,289)</u>	<u>(1,955,289,032)</u>
Ending Balance	<u>635,161,172</u>	<u>621,213,380</u>

For coverages that are insured (not self-funded), no significant reductions in insurance coverage occurred in the past year. 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, 2019 is \$582,486,393.

Figure 29
Summary of Risk Financing

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

Notes to the Basic Financial Statements (Concluded)

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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 1,137 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	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (Note A)						
Total Pension Liability						
Service Cost	1,139,451	1,231,203	1,146,791	1,457,263	1,445,557	1,346,986
Interest	2,324,180	2,373,849	2,522,626	2,510,128	2,559,723	2,694,083
Changes of Benefit Terms	-	(87,835)	-	-	-	-
Difference between Expected and Actual Experience	(252,967)	(284,751)	133,557	115,632	91,881	(578,195)
Changes of Assumptions	1,199,067	(3,429,167)	5,301,965	2,219,672	(1,982,914)	8,469,458
Benefit Payments and Refunds	(1,963,481)	(2,049,291)	(2,147,307)	(2,288,825)	(2,406,361)	(2,540,262)
Net Change in Total Pension Liability	2,446,250	(2,245,992)	6,957,632	4,013,870	(292,114)	9,392,070
Total Pension Liability - Beginning	37,064,667	39,510,917	37,264,925	44,222,557	48,236,427	47,944,313
Total Pension Liability - Ending	39,510,917	37,264,925	44,222,557	48,236,427	47,944,313	57,336,383
Plan Fiduciary Net Position						
Contributions - Employer	482,239	500,395	686,763	700,078	697,189	712,648
Contributions - Member	430,595	462,159	674,678	685,461	683,933	694,788
Pension Plan Net Investment Income	3,252,417	56,941	1,273,414	2,832,628	2,430,297	758,467
Benefit Payments and Refunds	(1,963,481)	(2,049,291)	(2,147,307)	(2,288,825)	(2,406,361)	(2,540,262)
Pension Plan Administrative Expense	(20,195)	(21,840)	(20,449)	(23,095)	(23,550)	(27,752)
Net Change in Plan Fiduciary Net Position	2,181,575	(1,051,636)	467,099	1,906,247	1,381,508	(402,111)
Plan Fiduciary Net Position - Beginning	22,868,542	25,050,117	23,998,481	24,465,580	26,371,827	27,753,335
Plan Fiduciary Net Position - Ending	25,050,117	23,998,481	24,465,580	26,371,827	27,753,335	27,351,224
Net Pension Liability - Ending	14,460,800	13,266,444	19,756,977	21,864,600	20,190,978	29,985,159
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.40%	64.40%	55.32%	54.67%	57.89%	47.70%
Covered Payroll (Note B)	5,955,461	6,150,195	6,742,143	6,859,707	6,811,926	6,947,625
Net Pension Liability as a Percentage of Covered Payroll	242.82%	215.71%	293.04%	318.74%	296.41%	431.59%

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Required Supplementary Information

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

(in 000's)

	2014	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$
Law Enforcement and Custodial Officer Supplemental Fund (Note A)						
Total Pension Liability						
Service Cost	54,528	57,459	71,429	99,390	79,309	71,926
Interest	88,025	87,224	88,410	82,236	91,171	96,085
Changes of Benefit Terms	-	-	-	-	-	-
Difference between Expected and Actual Experience	(76,585)	(9,640)	(21,657)	(17,532)	(21,651)	(54,147)
Changes of Assumptions	68,228	148,114	375,371	(144,398)	(87,015)	427,818
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)
Net Change in Total Pension Liability	77,049	221,813	449,011	(50,060)	(13,819)	459,432
Total Pension Liability - Beginning	1,465,929	1,542,978	1,764,791	2,213,802	2,163,742	2,149,923
Total Pension Liability - Ending	1,542,978	1,764,791	2,213,802	2,163,742	2,149,923	2,609,355
Plan Fiduciary Net Position						
Contributions - Employer	27,758	26,728	27,497	26,583	26,110	25,864
Contributions - Member	8,180	8,376	9,539	9,583	9,275	9,098
Pension Plan Net Investment Income	111,741	1,918	44,831	99,341	84,938	26,250
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)
Pension Plan Administrative Expense	(1,324)	(1,411)	(1,421)	(1,811)	(1,851)	(2,167)
Net Change in Plan Fiduciary Net Position	89,208	(25,733)	15,904	63,940	42,839	(23,205)
Plan Fiduciary Net Position - Beginning	780,670	869,878	844,145	860,049	923,989	966,828
Plan Fiduciary Net Position - Ending	869,878	844,145	860,049	923,989	966,828	943,623
Net Pension Liability - Ending	673,100	920,646	1,353,753	1,239,753	1,183,095	1,665,732
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	56.38%	47.83%	38.85%	42.70%	44.97%	36.16%
Covered Payroll (Note B)	1,496,013	1,506,028	1,725,880	1,746,349	1,689,590	1,682,633
Net Pension Liability as a Percentage of Covered Payroll	44.99%	61.13%	78.44%	70.99%	70.02%	99.00%

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Required Supplementary Information

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

(in 000's)

	2014	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$
Judicial Retirement System Plan II (Note A)						
Total Pension Liability						
Service Cost	17,805	16,244	19,429	20,420	16,056	16,415
Interest	28,004	30,785	30,980	31,671	34,440	36,103
Changes of Benefit Terms	-	-	-	-	-	(1,019)
Difference between Expected and Actual Experience	(640)	(10,066)	(5,833)	5,091	(1,463)	26,592
Changes of Assumptions	(25,924)	35,653	23,397	(56,699)	-	111,655
Benefit Payments and Refunds	(16,420)	(19,238)	(21,155)	(23,361)	(24,865)	(29,220)
Net Change in Total Pension Liability	2,825	53,378	46,818	(22,878)	24,168	160,526
Total Pension Liability - Beginning	383,461	386,286	439,664	486,482	463,604	487,772
Total Pension Liability - Ending	386,286	439,664	486,482	463,604	487,772	648,298
Plan Fiduciary Net Position						
Contributions - Employer	12,211	12,457	12,374	12,495	12,560	13,100
Contributions - Member	5,195	5,465	5,754	6,017	5,940	6,463
Pension Plan Net Investment Income	46,186	820	19,862	44,875	39,192	12,832
Benefit Payments and Refunds	(16,420)	(19,238)	(21,155)	(23,361)	(24,866)	(29,220)
Pension Plan Administrative Expense	(267)	(284)	(226)	(295)	(296)	(363)
Net Change in Plan Fiduciary Net Position	46,905	(780)	16,609	39,731	32,530	2,812
Plan Fiduciary Net Position - Beginning	318,385	365,290	364,510	381,119	420,850	453,380
Plan Fiduciary Net Position - Ending	365,290	364,510	381,119	420,850	453,380	456,192
Net Pension Liability - Ending	20,996	75,154	105,363	42,754	34,392	192,106
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.56%	82.91%	78.34%	90.78%	92.95%	70.37%
Covered Payroll (Note B)	77,441	77,501	78,261	78,190	78,772	79,711
Net Pension Liability as a Percentage of Covered Payroll	27.11%	96.97%	134.63%	54.68%	43.66%	241.00%

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

Note B: The covered payroll is the 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 Employer Contributions – Defined Benefit Plans

Fiscal Year (Note A)	Actuarially Determined Contribution \$	Actual Contribution \$	Contribution Deficiency/(Excess) \$	Cover Payroll \$	Actual Contribution as a % of Covered Payroll %
Employee Retirement Fund					
2014	727,892,157	482,239,018	245,653,139	5,955,460,705	8.10
2015	737,111,059	500,394,986	236,716,073	6,150,194,660	8.14
2016	679,806,017	686,763,354	(6,957,337)	6,742,143,036	10.19
2017	713,527,832	700,078,188	13,449,644	6,859,706,582	10.21
2018	933,914,990	697,189,414	236,725,576	6,811,925,525	10.23
2019	946,266,489	712,647,639	233,618,850	6,947,624,737	10.26
Law Enforcement and Custodial Officer Supplemental Fund					
2014	40,205,389	27,757,980	12,447,409	1,496,012,750	1.86
2015	38,131,404	26,728,318	11,403,086	1,506,027,764	1.77
2016	43,167,243	27,497,297	15,669,946	1,725,879,688	1.59
2017	45,332,090	26,583,162	18,748,928	1,746,349,412	1.52
2018	53,560,012	26,109,655	27,450,357	1,689,590,272	1.55
2019	54,853,838	25,864,146	28,989,692	1,682,633,066	1.54
Judicial Retirement System Plan II					
2014	13,448,473	12,210,663	1,237,810	77,441,466	15.77
2015	13,107,449	12,457,095	650,354	77,500,736	16.07
2016	12,895,678	12,374,200	521,478	78,260,550	15.81
2017	12,444,384	12,494,828	(50,444)	78,189,668	15.98
2018	12,934,435	12,559,722	374,713	78,772,445	15.94
2019	13,056,631	13,100,263	(43,632)	79,710,813	16.43

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

Required Supplementary Information

Schedule of Changes in Net OPEB Liability and Related Ratios

(in 000's)

	2017 (Note A)	2018	2019
State Retiree Health Plan (Note B)	\$	\$	\$
Total OPEB Liability			
Service Cost	2,303,979	1,495,979	1,206,106
Interest	1,225,588	1,261,856	1,221,955
Difference between Expected and Actual Experience	(501,666)	(935,689)	(89,009)
Changes of Assumptions	(8,728,822)	(5,924,045)	3,006,228
Benefit Payments and Refunds	(728,548)	(662,723)	(740,841)
Net Change in Total OPEB Liability	(6,429,469)	(4,764,622)	4,604,439
Total OPEB Liability - Beginning	41,212,263	34,782,794	30,018,172
Total OPEB Liability - Ending	34,782,794	30,018,172	34,622,611
Plan Fiduciary Net Position			
Contributions - Employer	892,205	307,029	401,285
Contributions - Non-employer Contributing Entity	45,035	16,585	20,183
Contributions - Member (Note C)	195,806		
Contributions - Federal Revenues for Medicare Part D Subsidies	1,659	1,418	1,480
Contributions - Adjustments	(2,071)		
Net Investment Income	4,517	10,907	3,323
Health Care Claims	(995,816)	(938,921)	(1,038,588)
Payment from Members (Note C)		203,123	209,837
Total Benefit Payments	(995,816)	(735,798)	(828,751)
Administrative Expense	(5,629)	(5,818)	(6,008)
Other - Federal Revenues	71,462	73,075	87,909
Other Additions	356	3,249	85
Net Change in Plan Fiduciary Net Position	207,524	(329,353)	(320,494)
Plan Fiduciary Net Position - Beginning	502,259	709,783	380,430
Plan Fiduciary Net Position - Ending	709,783	380,430	59,936
Net OPEB Liability - Ending	34,073,011	29,637,742	34,562,675
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	2.04%	1.27%	0.17%
Covered Employee Payroll	11,745,310	12,047,167	12,320,028

Note A: The beginning balance and components of OPEB liability for fiscal year 2017 are recalculated based on the correct discount rate defined under GASB Statement No. 74.

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

Note C: In fiscal year 2017, payments from members were reported as contributions from members. Beginning from fiscal year 2018, payments from members are reported as deductions from benefit payments.

Schedule of Contributions from Employers and Non-employer Contributing Entities

- Other Postemployment Benefits Plan

Fiscal Year (Note A)	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency/(Excess)	Cover Payroll	Actual Contribution as a % of Covered Payroll
	\$	\$	\$	\$	%
State Retiree Health Plan					
2017	2,714,958,093	936,827,489	1,778,130,604	11,745,310,057	7.98
2018	2,332,643,695	325,031,537	2,007,612,158	12,047,166,658	2.70
2019	2,687,207,910	422,947,418	2,264,260,492	12,320,028,164	3.43

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

Required Supplementary Information

Schedule of Investment Returns

– Annual Money-Weighted Rate of Return, Net of Investment Expense (Note A)

	2014	2015	2016	2017	2018	2019
	%	%	%	%	%	%
Defined Benefit Plans:						
Employees Retirement Fund	14.58	0.23	5.40	11.84	9.42	2.80
Law Enforcement and Custodial Officer Supplemental Fund	14.55	0.22	5.39	11.80	9.40	2.79
Judicial Retirement System Plan II	14.55	0.23	5.47	11.88	9.40	2.86
Overall	14.58	0.23	5.40	11.84	9.42	2.80
Other Post-Employment Benefit Plan:						
State Retiree Health Plan	N/A	N/A	N/A	1.03	1.84	2.32

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

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, 2019, based on the actuarial assumptions described in Figure 1. These contributions are reported in the Schedule of Employer's Contribution – Defined Benefit Plans.

Other Postemployment Benefit Plan

The assumptions and methods used for this actuarial valuation are the same as those used for defined benefit plans where appropriate. Additional information

Figure 1
Summary of Actuarial Assumptions - Defined Benefit Plans

	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II
(In accordance with GASB Statement No. 67)			
Valuation Date	August 31, 2019	August 31, 2019	August 31, 2019
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years	31 years	31 years
Asset Valuation Method	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.
Actuarial Assumptions:			
Investment Rate of Return	7.50%	7.50%	7.50%
Projected Salary Increases	0.0% – 9.5%	4.5% – 9.5%	3.00%
Inflation Rate	2.50%	2.50%	2.50%
Cost-of-living Adjustments	None – Employee 3.5% – Elected	None	None

Required Supplementary Information

Notes to The Required Supplementary Information (Concluded)

on the actuarial assumptions as of the latest actuarial valuation is summarized in Figure 2. The following assumptions have been changed since the previous Other Postemployment Benefits (OPEB) valuation:

- Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The percentage of future male retirees assumed to be married and electing coverage for their spouse.
- The percentages of future retirees and future

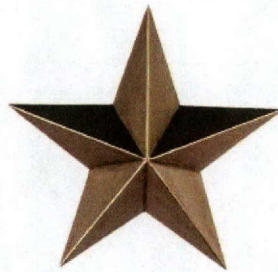
retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.

- The discount rate assumption was changed from 3.96% as of August 31, 2018 to 2.97% as of August 31, 2019 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The valuation reflects the benefit change that will become effective January 1, 2020. The change to HealthSelect retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect (CDHP) from \$6,650 to \$6,750 for individuals and from \$13,300 to \$13,500 for families in order to remain consistent with Internal Revenue Service maximums.

Figure 2
Summary of Actuarial Assumptions - Other Postemployment Benefit Plan

State Retiree Health Plan (In accordance with GASB Statement No. 74)	
Valuation Date	August 31, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Amortization Period	30 Years
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Discount Rate	2.97%
Projected Salary Increases	2.5% to 9.5%, including inflation
Inflation Rate	2.50%
Healthcare Cost and Trend Rate	<p style="text-align: center;"><u>HealthSelect</u></p> 7.30% for FY21, 7.40% for FY22, 7.00% for FY23, decreasing 50 basis points per year to an ultimate rate of 4.50% for FY28 and later years
	<p style="text-align: center;"><u>HealthSelect Medicare</u></p> Advantage2 10.80% for FY21, 7.40% for FY22, 7.00% for FY23, decreasing 50 basis points per year to an ultimate rate of 4.50% for FY28 and later years"



Other Supplementary Information - Schedule A-1

Combining Statement of Net Position - Agency Funds

August 31, 2019

	Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)	Judicial Retirement System Plan I Fund (Note A) (0001) (U/F 2001)	USPS - Overpayments to Employees (0900) (U/F 9015)	Direct Deposit Correction Account (0980) (U/F 0980)	USPS - Direct Deposit Return Money (0980) (U/F 9014)	Health Savings Account (0973) (U/F 4973)	Child Support Employee Deductions - Offset Account (8070) (U/F 8070)	Totals
	\$	\$	\$	\$	\$	\$	\$	\$
Assets								
Current Assets:								
Cash and Cash Equivalents:								
Cash in State Treasury						76,098		76,098
Total Cash and Cash Equivalents	-	-	-	-	-	76,098	-	76,098
Legislative Appropriation Receivables:		205,825						205,825
Accounts Receivable	2,446							2,446
Total Current Assets	2,446	205,825	-	-	-	76,098	-	284,369
Total Assets	2,446	205,825	-	-	-	76,098	-	284,369
Liabilities								
Current Liabilities:								
Accounts Payable		205,825						205,825
Due To Other Funds						33		33
Funds Held For Others	2,446					76,065		78,511
Total Current Liabilities	2,446	205,825	-	-	-	76,098	-	284,369
Total Liabilities	2,446	205,825	-	-	-	76,098	-	284,369

Other Supplementary Information – Schedule A-2
Combining Statement of Changes in Assets and Liabilities - Agency Funds
Year Ended August 31, 2019

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)				
Assets				
Cash in State Treasury		31,815	31,815	-
Accounts Receivable	3,555		1,109	2,446
Total Assets	3,555	31,815	32,924	2,446
Liabilities				
Funds Held for Others	3,555	31,815	32,924	2,446
Total Liabilities	3,555	31,815	32,924	2,446
Judicial Retirement System Plan I Fund (Note A) (0001) (U/F 2001)				
Assets				
Legislative Appropriations	219,900	24,876,724	24,890,799	205,825
Total Assets	219,900	24,876,724	24,890,799	205,825
Liabilities				
Accounts Payable	219,900	24,112,486	24,126,561	205,825
Funds Held For Others		70,440	70,440	-
Total Liabilities	219,900	24,182,926	24,197,001	205,825
USPS - Overpayments to Employees (0900) (U/F 9015)				
Assets				
Cash in State Treasury	170	4,930	5,100	-
Total Assets	170	4,930	5,100	-
Liabilities				
Funds Held For Others	170	2,473	2,643	-
Total Liabilities	170	2,473	2,643	-
Direct Deposit Correction Account (0980) (U/F 0980)				
Assets				
Cash in State Treasury		808,291	808,291	-
Total Assets	-	808,291	808,291	-
Liabilities				
Funds Held For Others		808,291	808,291	-
Total Liabilities	-	808,291	808,291	-
USPS - Direct Deposit Return Money (0980) (U/F 9014)				
Assets				
Cash in State Treasury		7,420	7,420	-
Total Assets	-	7,420	7,420	-
Liabilities				
Funds Held For Others		7,420	7,420	-
Total Liabilities	-	7,420	7,420	-
Health Savings Account (0973) (U/F 4973)				
Assets				
Cash in State Treasury	65,283	2,210,600	2,199,785	76,098
Total Assets	65,283	2,210,600	2,199,785	76,098
Liabilities				
Vouchers Payable		2,127,239	2,127,239	-
Due to Other Funds		33		33
Funds Held For Others	65,283	2,145,317	2,134,535	76,065
Total Liabilities	65,283	4,272,589	4,261,774	76,098
Child Support Employee Deductions - Offset Account (0807) (U/F 8070)				
Assets				
Cash in State Treasury	1,387	14,557	15,944	-
Total Assets	1,387	14,557	15,944	-
Liabilities				
Vouchers Payable		14,557	14,557	-
Funds Held For Others	1,387	14,557	15,944	-
Total Liabilities	1,387	29,114	30,501	-

Note A: Judicial Retirement System Plan I Fund (JRSI) 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. Unappropriated Receipts General Revenue Fund accounts for member contributions received from the JRSI Fund.

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Other Supplementary Information – Schedule A-2 (Concluded)

Combining Statement of Changes in Assets and Liabilities - Agency Funds

Year Ended August 31, 2019

	Beginning Balances	Additions	Deductions	Ending Balances
All Agency Funds				
Assets				
Cash in State Treasury	66,840	3,077,613	3,068,355	76,098
Legislative Appropriations	219,900	24,876,724	24,890,799	205,825
Accounts Receivable	3,555		1,109	2,446
Total Assets	290,295	27,954,337	27,960,263	284,369
Liabilities				
Vouchers Payable		14,557	14,557	-
Accounts Payable	219,900	24,112,486	24,126,561	205,825
Due to Other Funds		33		33
Funds Held For Others	70,395	3,080,313	3,072,197	78,511
Total Liabilities	290,295	27,207,389	27,213,315	284,369

Other Supplementary Information – Schedule 1
 Revenues, Expenses and Changes in Statutory Account Balances
 (Non-GAAP Presentation) - Employees Retirement Fund
 Year Ended August 31, 2019

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	686,970,463					686,970,463
Employer Contributions		712,172,364				712,172,364
Service Contributions from Teacher Retirement System			102,787,422			102,787,422
Membership Fees					475,275	475,275
Penalty Interest		7,818,135				7,818,135
Investment Income:						
Net Appreciation in Fair Value of Investments				117,824,156		117,824,156
Interest and Dividends				677,858,407		677,858,407
Class Action Settlements				2,000,715		2,000,715
Fees for Administering Programs						
Rental Income					41,418	41,418
Warrants Voided By Statute of Limitations		164,259				164,259
Sale of Surplus Equipment					9,035	9,035
Recycling Revenue					3,762	3,762
Miscellaneous					163	163
Total Operating Revenues	686,970,463	720,154,758	102,787,422	797,683,278	529,653	2,308,125,574
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			2,470,463,072			2,470,463,072
Death Benefits:						
Active Members		1,909,323				1,909,323
Retirees			1,534,607			1,534,607
Member Contributions Withdrawn	142,303,194					142,303,194
Service Contributions to Teacher Retirement System			26,307,593			26,307,593
Administrative Expenses					65,746,511	65,746,511
Depreciation Expense					820,233	820,233
Total Operating Expenses	142,303,194	1,909,323	2,498,305,272	-	66,566,744	2,709,084,533
Income (Loss) Before Non-Operating Expenses and Operating Transfers	544,667,269	718,245,435	(2,395,517,850)	797,683,278	(66,037,091)	(400,958,959)
Non-Operating Revenues (Expenses)						
Loss on Disposal of Fixed Assets					(455,819)	(455,819)
Income (Loss) Before Operating Transfers	544,667,269	718,245,435	(2,395,517,850)	797,683,278	(66,492,910)	(401,414,778)
Operating Transfers In (Out)						
Distribution of Interest	113,042,025	(1,056,688,120)	1,674,140,614	(730,494,519)		
Establishment of Benefit Reserves	(506,743,354)	(1,372,663,912)	1,879,407,266			
Distribution of Interest for Administrative Expenses				(67,188,759)	67,188,759	
Member Accounts-Escheated	(3,999,077)	3,999,077				
Excess Benefit Arrangement Transfers					(695,849)	(695,849)
Net Operating Transfers	(397,700,406)	(2,425,352,955)	3,553,547,880	(797,683,278)	66,492,910	(695,849)
Net Income (Loss)	146,966,863	(1,707,107,520)	1,158,030,030	-	-	(402,110,627)
Account Balances - Beginning	5,897,455,633	(672,098,373)	22,527,977,524	-	-	27,753,334,784
Account Balances - Ending	6,044,422,496	(2,379,205,893)	23,686,007,554	-	-	27,351,224,157

Note A: As required by Texas Government Code Chapter 815.322, the System moved funds from the State Accumulation Account to the Retirement Annuity Reserve Account based on the actuarial determined present value of future benefits to be paid to retirees. Fund balance is sufficient to pay the future annuities to the current population of retirees.

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, 2019

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	9,098,121					9,098,121
State Retirement Contributions		25,864,146				25,864,146
Investment Income:						
Net Appreciation in Fair Value of Investments				4,031,397		4,031,397
Interest and Dividends				23,533,924		23,533,924
Class Action Settlements				69,417		69,417
Warrants Voided By Statute of Limitations		3,096				3,096
Total Operating Revenues	9,098,121	25,867,242	-	27,634,738	-	62,600,101
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			78,469,591			78,469,591
Refunds of Retirement Contributions	3,768,394					3,768,394
Death Benefits:						
Active Members		15,159				15,159
Administrative Expenses					3,552,047	3,552,047
Total Operating Expenses	3,768,394	15,159	78,469,591	-	3,552,047	85,805,191
Income (Loss) Before Operating Transfers	5,329,727	25,852,083	(78,469,591)	27,634,738	(3,552,047)	(23,205,090)
Operating Transfers In (Out)						
Distribution of Interest	1,081,409	(36,032,651)	59,033,933	(24,082,691)		
Establishment of Benefit Reserves	(3,210,137)	(82,672,944)	85,883,081			
Distribution of Interest for Administrative Expenses				(3,552,047)	3,552,047	
Net Operating Transfers	(2,128,728)	(118,705,595)	144,917,014	(27,634,738)	3,552,047	-
Net Income (Loss)	3,200,999	(92,853,512)	66,447,423	-	-	(23,205,090)
Account Balances - Beginning	51,536,313	152,623,011	762,668,411	-	-	966,827,735
Account Balances - Ending	54,737,312	59,769,499	829,115,834	-	-	943,622,645

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, 2019

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	6,262,749					6,262,749
Employer Contributions		13,100,263				13,100,263
Penalty Interest		200,048				200,048
Investment Income:						
Net Appreciation in Fair Value of Investments				2,205,534		2,205,534
Interest and Dividends				11,214,908		11,214,908
Class Action Settlements				33,065		33,065
Warrants Voided by Statute of Limitations		524				524
Total Operating Revenues	6,262,749	13,300,835	-	13,453,507	-	33,017,091
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			28,980,156			28,980,156
Death Benefits:						
Active Members		26,692				26,692
Member Contributions Withdrawn	213,797					213,797
Administrative Expenses					983,983	983,983
Total Operating Expenses	213,797	26,692	28,980,156	-	983,983	30,204,628
Income (Loss) Before Operating Transfers	6,048,952	13,274,143	(28,980,156)	13,453,507	(983,983)	2,812,463
Operating Transfers In (Out)						
Distribution of Interest	1,260,361	(9,296,789)	20,505,952	(12,469,524)		
Establishment of Benefit Reserves	(15,349,697)	(54,696,245)	70,045,942			
Distribution of Interest for Administrative Expenses				(983,983)	983,983	
Net Operating Transfers	(14,089,336)	(63,993,034)	90,551,894	(13,453,507)	983,983	-
Net Income (Loss)	(8,040,384)	(50,718,891)	61,571,738	-	-	2,812,463
Account Balances - Beginning	78,282,914	128,600,062	246,496,810	-	-	453,379,786
Account Balances - Ending	70,242,530	77,881,171	308,068,548	-	-	456,192,249

Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts

Year Ended August 31, 2019

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Personnel Services	\$	\$
Salaries and Wages	22,268,399	15,436,541
Payroll Related Costs:		
Retirement Contributions	2,109,530	1,073,695
Retirement Membership Fees	917	241
Employees Insurance Contributions	2,542,439	754,319
Retirees Insurance Contributions	1,499,897	353,982
Social Security Contributions	1,648,978	783,763
Unemployment Compensation	14,779	3,487
Total Payroll Related Costs	7,816,540	2,969,487
Total Personnel Services	30,084,939	18,406,028
Professional Fees and Services		
Actuarial Services	1,098,397	
Audit Services	703,529	
Investment Consulting Fees		2,361,685
Investment Advisors		11,454,415
Group Benefits Advisors	2,990	
Medical Board Member Fees	45,900	
Architectural Services	52,072	
Legal Services	157,207	1,022,753
Computer Programming Services	4,149,658	451,814
Other Professional Services	2,109,285	76,841
Total Professional Fees and Services	8,319,038	15,367,508
Other Services and Charges		
Travel	172,343	489,096
Materials and Supplies:		
Postage	889,109	
General Office and Other Supplies	196,849	251
Subscriptions	26,760	22,187
Furniture and Equipment	762,606	90,814
Computer Software	610,004	
Total Materials and Supplies	2,485,328	113,252
Communications and Utilities:		
Electricity, Gas and Water	222,100	
Telephone and Telegraph	702,517	
Electronic Communication Services	194,435	5,794,788
Total Communications and Utilities	1,119,052	5,794,788
Repairs and Maintenance:		
Land and Building	174,455	
Furniture and Equipment	13,420	
Computer Software and Equipment	1,256,753	
Total Repairs and Maintenance	1,444,628	-
Rentals and Leases:		
Computer Software and Equipment	233,056	
Office Equipment	266,181	
Space	134,618	
Total Rentals and Leases	633,855	-
Printing and Reproduction Services	109,132	-
Depreciation	820,233	

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Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts (Concluded)

Year Ended August 31, 2019

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Other Services and Charges (continued)	\$	\$
Other Operating Expenses/Expenditures:		
Membership Fees	44,336	55,949
Employee Training	182,542	69,884
Insurance - Building and Vehicle	32,802	
Fees and Other Charges	856,197	61,956
Investment Banking		1,169,856
Tenure Awards	6,366	67
Temporary Employment Agencies	371,125	22,843
Cleaning Services	162,839	
Advertising Services	3,191	394
Freight/Delivery Services	5,559	
Purchased Contracted Services	3,180,549	8,949
Prompt Payment Interest	3,025	
SORM Assessment	5,241	1,226
Third Party Administrator Fee - Cafeteria Plan	1,191,636	
Total Other Operating Expenses/Expenditures	6,045,408	1,391,124
Total Other Services and Charges	12,829,979	7,788,260
Total Expenses/Expenditures	51,233,956	41,561,796
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	27,751,616	38,815,128
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	2,167,482	1,384,565
Judicial Retirement System Plan Two Trust Fund (0993)	362,663	621,320
TexaSaver 401(k) Trust Fund (0946)	489,912	18,636
TexaSaver 457 Trust Fund (0945)	522,776	23,576
Commuter Spending Account Fund (3944)	3,790	30
State Employees Cafeteria Plan Trust Fund (0943)	1,452,211	6,769
State Retiree Health Plan (3973)	6,008,207	6,228
Total Fiduciary Funds	38,758,657	40,876,252
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	12,380,744	685,544
Total Proprietary Fund	12,380,744	685,544
Social Security Administration Trust Account (0929)	94,555	
Total Governmental Funds	94,555	-
Total Method of Finance	51,233,956	41,561,796

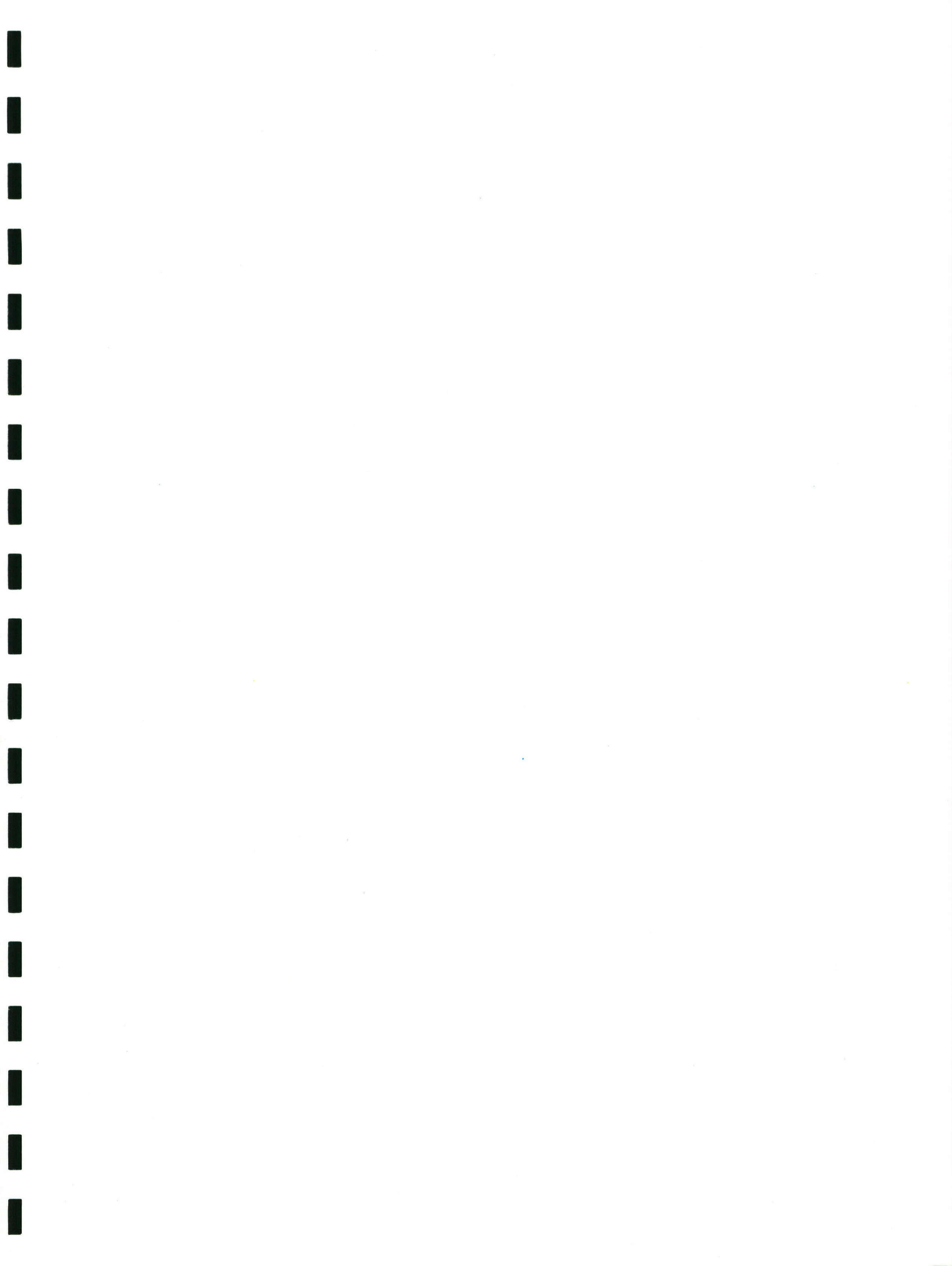
Note A: \$ 79,440,477 management fees for Alternative Investments were accrued during fiscal year 2019. The unpaid balances were reported as part of the fair value of Investments. Details of the management fees are listed in the Investment Section.

Other Supplementary Information – Schedule 5

Professional and Consulting Fees

Year Ended August 31, 2019

Nature of Service	Totals
	\$
Actuarial Services - Retirement	423,211
Actuarial Services - Insurance	675,186
Audit Fees - Financial	301,300
Audit Fees - Insurance Carrier	324,957
Audit Fees - Other	77,272
Investment Consulting Fees	2,361,685
Investment Advisors	11,454,415
Group Benefits Advisors	2,990
Medical Board	45,900
Architectural Services	52,072
Legal Services	1,179,960
Computer Programming Services	4,601,472
Educational Services	95,068
Other Professional Services	2,002,019
Other Consulting Services	89,039
Total Professional and Consulting Fees	23,686,546
Method of Finance:	
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	20,562,387
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	744,763
Judicial Retirement System Plan Two Trust Fund (0993)	313,229
TexaSaver 401(k) Trust Fund (0946)	11,980
TexaSaver 457 Trust Fund (0945)	12,265
Commuter Spending Account Fund (3944)	243
State Employees Cafeteria Plan Trust Fund (0943)	7,332
State Retiree Health Plan (3973)	652,728
Total Fiduciary Funds	22,304,927
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	1,378,795
Total Proprietary Fund	1,378,795
Social Security Administration Fund (0929)	2,824
Total Governmental Funds	2,824
Total Method of Finance	23,686,546



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