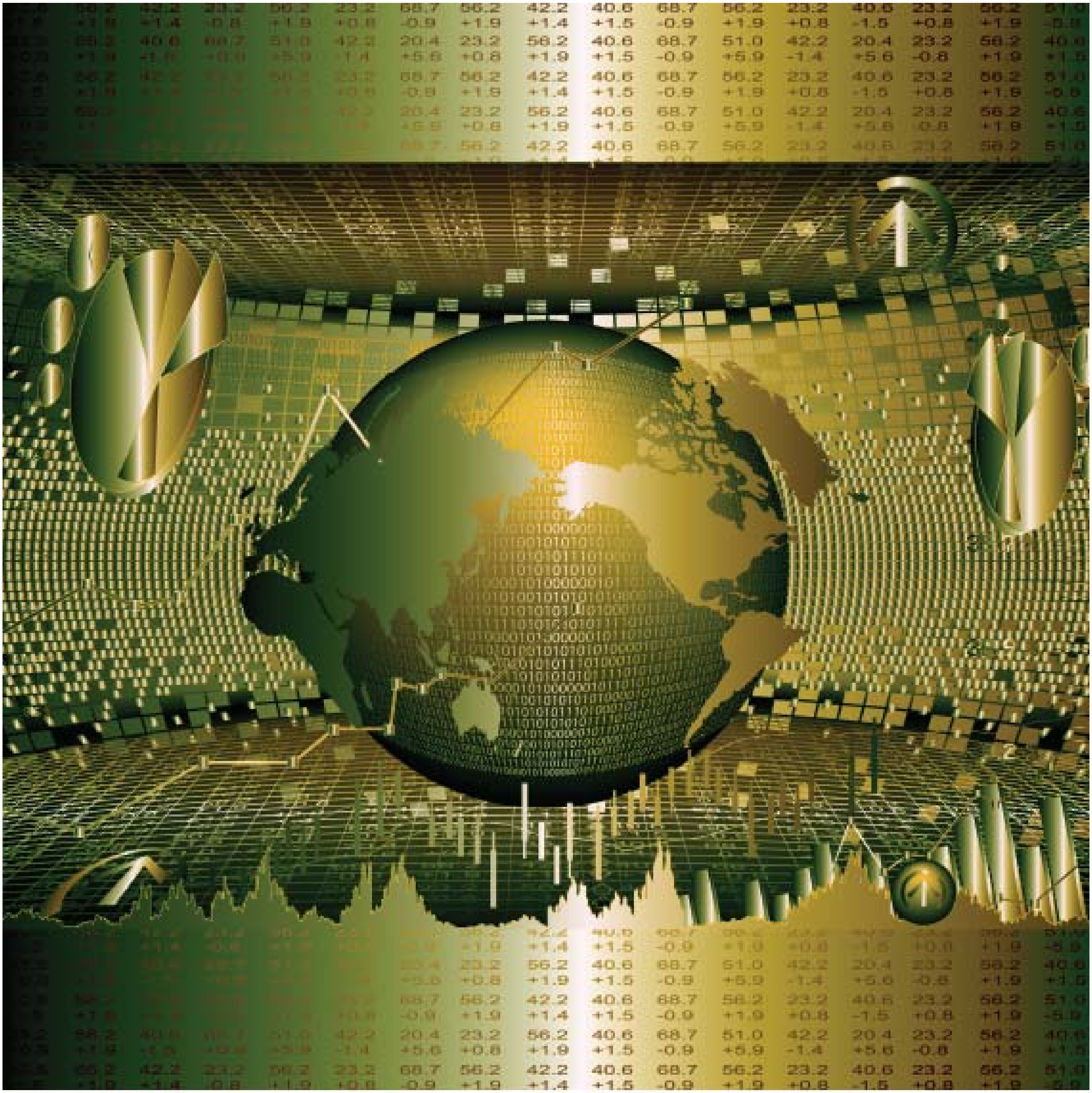


2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Employees Retirement System of Texas

A Component Unit of the State of Texas

Fiscal Year Ended August 31, 2012

ERS

Employees Retirement System of Texas

ERS enhances the lives of our participants through the delivery of quality benefits at a reasonable cost.

Published November 2012

2012
Comprehensive Annual Financial Report

Ann S. Bishop, Executive Director

Prepared by: Finance Division
Michael C. Wheeler, CPA, Chief Financial Officer
Debbie Alspaugh Leatham, CPA, Special Projects Manager

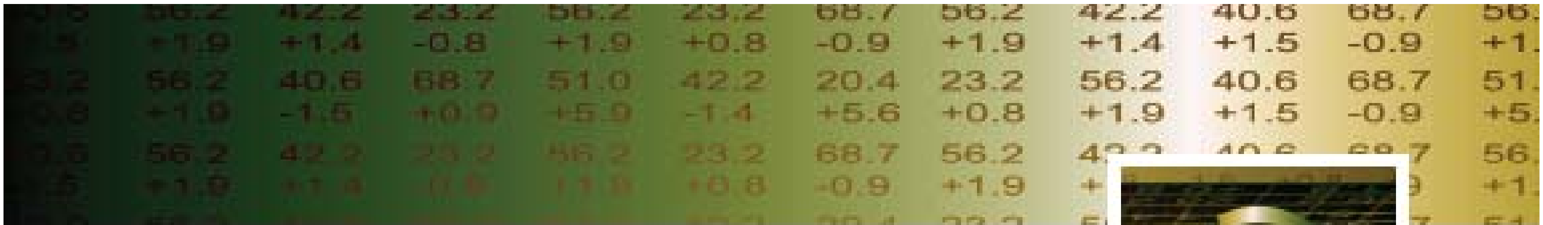
A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2012

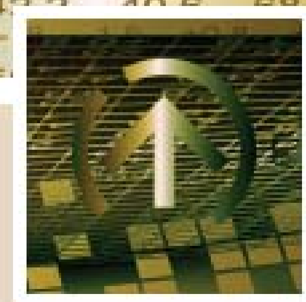
Table of Contents

Introductory Section

Financial Section

Table of Contents (Concluded)





INTRODUCTORY SECTION

Highlights of Retirement Programs
As of August 31, 2012

Retirement Census Data

	ERS (A)	LECOS (A)	JRS I	JRS II
	$	$	$	$
Active Members	132,669	37,404	17	541
Terminated Employees Entitled to Benefits	90,190	7,129	4	143
Total Retirement Accounts	**222,859**	**44,533**	**21**	**684**
Retirees and Beneficiaries	87,799	8,477	433	215
Service Retirements	5,860	895	2	8
Disability Retirements	68	0	0	0
Total Retirements During the Fiscal Year	**5,928**	**895**	**2**	**8**
Funded Ratios (Note C)	81.0%	79.7%		95.3%

Results of Investments - Pension Trust Funds

	ERS	LECOS	JRS I (B)	JRS II
	$	$	$	$
Interest, Dividends & Securities Lending Income	572,014,642	19,719,486		7,643,680
Net Appreciation (Depreciation) in Fair Value of Investments	1,096,852,965	33,944,850		34,223,874

Time Weighted Rate of Return

	1-Year	3-Year	5-Year
Investment Pool Trust Fund	8.22%	9.12%	2.98%

Other Transactions Summary

	ERS	LECOS	JRS I (B)	JRS II
	$	$	$	$
Member Contributions	411,065,743	7,287,462		4,170,485
State Retirement Contributions	347,121,275	(3,160)		4,150,342
Retirement Benefits	1,701,526,355	46,874,379	26,464,422	12,802,934
Member Contributions Withdrawn	88,068,787	1,219,481		178,996
Administrative Expenses	17,819,313	843,595		230,303
Investment Expenses	55,631,362	1,804,784		706,043

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

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

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

Note C: *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, 2009.*

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

November 16, 2012

Dear Governor Perry and Members of the Texas Legislature:

It is with great pleasure that we provide this report showing another productive year for the Employees Retirement System of Texas. ERS exceeded its expected return on investment, earning 8.22% in fiscal year 2012. The retirement trust fund was valued at $22.8 billion on August 31. We are proud of our performance in this challenging time – and we continue to seek ways to strengthen our investment strategy and improve efficiencies.

To that end, in September 2012 ERS submitted two separate reports required by the Texas Legislature: the Report to the 82nd Legislature on the State of Texas Retirement Program and the Sustainability of the State of Texas Group Insurance Program Report to the 82nd Texas Legislature. These heavily researched documents provide the Legislature with a number of options to consider for lowering costs and increasing revenue for these programs. The research included input from many interest groups and experts, whose participation we actively encouraged to ensure that the information provided was as comprehensive as reasonably possible.

In FY12, the ERS main retirement fund had a funded ratio of 81% – ensuring that the system is able to meet its financial commitment to retirees now and in the near future. While this is a healthy situation overall, the fund is not operating on an actuarially sound basis. The funded ratio will continue to decline unless funding is increased, plan changes are implemented, or both.

New reporting standards approved by the Governmental Accounting Standards Board (GASB) will change the way unfunded liabilities in retirement plans are reported, beginning in fiscal year 2014 for pension plans and 2015 for employers. Although these new standards will not alter the underlying fundamentals of the program, we expect that the unfunded liabilities will be higher and the funded ratios will be lower for GASB reporting purposes. The calculations for funding purposes are not impacted, and will remain similar to current calculations.

The interim report to the Legislature on the main retirement fund offered a number of options for improving the funded ratio and long-term fiscal health of the plan, including possible methods for increasing revenue, modifying the plan design, and implementing alternative plan structures. It should be noted, however, that even if the Legislature makes changes to the plan design or adopts an alternative plan structure (or both), it will be necessary to pay down the unfunded liability. For example, we estimate that increasing contributions by the State, employees, or some combination of both by 3.5% would pay down the unfunded liability within 55 years. But without increased revenue, the liability will continue to grow.

ERS has been implementing, and continues to implement, measures that will allow us to further diversify investments in the interest of maintaining a healthy fund – even while the retirement report was being prepared and as the Legislature considers additional changes to the program. ERS initiated an asset allocation study that will guide future investment strategy and expected returns. We also continued to build and diversify our portfolios in the real estate, private equity, and hedge fund asset classes.

ERS' efforts in efficiency and fiscal responsibility in FY12 extended to the Group Benefits Program (GBP), for which we undertook a number of measures to reduce costs and increase revenue while maintaining competitive benefits for employees, retirees, and their dependents. The introduction of Medicare Advantage plans for Medicare retirees, contracting with a new third-party administrator for the HealthSelect plan (in which the majority of ERS participants are enrolled), an audit to confirm the eligibility of covered dependents, a new tobacco user premium, and funds from the federal Early Retiree Reinsurance Program are just a few ways we lowered costs and realized additional revenues.

ERS will continue to seek ways to minimize overall GBP costs through proactive management of the program; among other possibilities, the insurance report put forth dozens of options – many of which would require legislative approval. Some initiatives have already been started, including a renegotiation of our pharmacy contract that will lower costs each year of the next biennium and participation in Medicare's employer group waiver plan plus wraparound that will allow the System to take advantage of additional revenue streams. In administering the GBP, we are always mindful of the need to provide competitive benefits for state employees while also achieving the best value for taxpayers.

One of the key findings in the interim studies is that the benefits the state provides and ERS administers are vitally important in attracting and retaining the qualified employees that help make Texas a premier place to live, work, and visit.

ERS is proud to serve you and the employees and retirees of this great state. We look forward to working with you in the coming legislative session and are happy to discuss our programs and funding needs at your convenience. Thank you for your leadership.

Sincerely,

Ann S Bishop

ANN S. BISHOP
Executive Director

Yolanda M Griego

YOLANDA GRIEGO
Chair, ERS Board of Trustees

ERS
Employees Retirement System of Texas

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

November 16, 2012

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

Ladies and Gentlemen:

I am pleased to submit the Annual Financial Report of the Employees Retirement System of Texas (the System) for the year ended August 31, 2012, in compliance with TEX. GOV'T CODE ANN Sec. 2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts. This report is in compliance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB), including the financial reporting model based on GASB Statement 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Its purpose is to provide information as a basis for making management decisions, to determine compliance with legal provisions, and to determine responsible stewardship over the assets contributed by the members and the state.

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

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

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

SYSTEM'S STRUCTURE AND SERVICES

For financial reporting purposes, the System is considered a Retirement System of the State of Texas. The System's financial activities will be included in the annual financial report for the State of Texas for the fiscal year ended August 31, 2012.

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

The Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Plan was established in 1979 to provide service retirement, death and disability benefits. This plan covers law enforcement officers commissioned by the Department of Public Safety, Alcoholic Beverage Commission, Parks and Wildlife Department, Texas State Board of Pharmacy, and Texas Juvenile Justice Department. It also covers certified custodial officers employed by the Texas Department of Criminal Justice, including the Board of Pardons and Paroles.

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

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

FINANCIAL Condition

Investment Performance

The investment portfolio closed the fiscal year with a fair value of $22.9 billion, and had a return of 8.22% for the year. The investment portfolio's total return exceeded the actuarially assumed rate of return of 8.0%. The time weighted rate of return for three and five years were 9.12% and 2.98% respectively.

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

Funding

A pension system instills confidence and trust when it has assets sufficient to meet the retirement benefit schedules of its members. For the Employees Retirement Fund (ERF), the August 31, 2012 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 81.0%. The average actuarial funding level for public pension plans nationwide is estimated at 75% for 2011 according to a paper published in May of 2012 by the Center for Retirement Research at Boston College. Although the ERF is in relatively good financial condition, System management would like to improve the funded ratio. The System worked with the 81st Legislature to improve the funding status of the various benefit systems under management. Legislation effective September 1, 2009, increased contributions and modified the benefit design for new members resulting in improvements to the actuarial soundness of the Employees Retirement Plan and the LECOS retirement plan. Due to budget constraints, the 82nd Legislature reduced contributions to the System's pension plans and directed the System to conduct a study and report on the actuarial and fiscal impacts from potential changes to state pension plans, including but not limited to: retirement eligibility; final average salary; benefit multiplier; and the creation of a hybrid plan that includes defined benefit and defined contribution features such as a two-part plan or a cash balance plan. The report was prepared and submitted to the Legislative Budget Board and the Governor on September 4, 2012. The System's management is committed to working with the Legislature to further improve the funding status of the retirement plans. Additional information on funding status and progress toward achieving funding goals is presented in the Financial Section, Required Supplementary Information, and the Actuarial Section.

MAJOR INITIATIVES

The System continues to develop new strategies and asset classes to improve diversification and investment returns. The System continues to build out Private Equity, Private Real Estate, and Hedge Fund portfolios. With the assistance of the System's investment consultants, an extensive asset liability study is being performed to optimize investment asset allocation. The System will also be working with the Legislature to consider and/or implement various options detailed in the pension plan study mentioned in the previous paragraph.

For the Group Benefits Program (GBP), the System through active management—including not paying for duplicated charges, preventing expenses, negotiating discounts, cost sharing, and using rebates—reduced payments by $7.3 billion in FY2011. About 97 cents of every GBP dollar is spent on health care, not administration. The System will continue to analyze and implement various changes as required by Federal Health Care reform. The System will implement an Employer Group Waiver Program (EGWP) that will increase GBP revenues from subsidies relating to the Medicare Part D program by approximately $27 million per year. The System conducted a study of the current group insurance program that included, but was not limited to, the current plan design and funding of the group insurance program, and other changes that would improve the long-term sustainability of the group insurance program. The report was submitted to the Legislative Board and the Governor on September 4, 2012. The System will work with the Legislature to analyze and design innovative approaches to provide a quality health care plan at a reasonable cost.

The System continues to enhance performance and accountability. The System has implemented an Enterprise Content Management (ECM) system, providing standardized document search and retrieval, and automated document production workflow. The System is also implementing a Rules Management Engine for Pension and Benefits Administration providing the ability to efficiently update business rules as requirements change due to legislative or business requirements, resulting in faster deployments with shorter developmental cycles.

Communication initiatives include allowing communications recipients to choose print or online delivery, and deploying additional website tools for members. The System plans to conduct communications campaigns for the new EGWP and long-term care programs. The System continues to work on improvements in website design, video communication, and legislative communication.

AWARDS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the System for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. The System has received a Certificate of Achievement for each of the last 23 years. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGMENTS

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

Mike C. Wheeler

MICHAEL C. WHEELER, CPA
Chief Financial Officer

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Christopher P Morrill

President

Jeffrey R. Emer

Executive Director

Organizational Chart and Data
As of August 31, 2012

Consultants and Advisors
As of August 31, 2012

Consulting Actuaries

Philip S. Dial, F.S.A, Rudd and Wisdom, Inc.
David L. Driscoll, F.S.A., EA, FCA, MAAA, Buck Consultants, an ACS Company

Investment Advisory Committee

Bob Alley, CFA, Chair
Lenore Sullivan, Vice Chair
James Hille, CFA, CAIA, Texas Christian University Endowment
J. Luther King, Jr., CFA, Luther King Capital Management
Ken D. Mindell, Senior Vice-President, Rosewood Management Corp.
Laura T. Starks, Ph.D., The University of Texas at Austin
Vernon D. Torgerson, Jr. CFA, Chair, Frost National Bank of San Antonio

Investment Consultants

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

Investment Advisory Managers

Domestic Equity
Barrow, Hanley, Mewhinney & Strauss, LLC
Herndon Capital Management, LLC
Omega Advisors, Inc.

Fixed Income
Fountain Capital Management, LLC

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

Manager of Emerging Managers
Leading Edge Investment Advisors, LLC
Legato Capital Management, LLC

Real Estate
Urdang Capital Management

Hedge Fund Managers
Arrowgrass Capital Partners (US) LP
Claren Road Asset Management
MKP Capital Management, LLC
Southpaw Asset Management LP

Global Custodian

BNY Mellon Asset Servicing

Medical Board

Grover L. Bynum, M.D.
Marvin R. Cressman, M.D.
John A. Genung, M.D.

Summary of Plan Providing

Effective since September 1, 2009

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

The retirement programs complement the Social Security and Medicare programs by providing a retirement annuity with service, disability and survivorship benefits. The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS I) and Judicial Retirement System of Texas Plan Two (JRS II) are single employer defined benefit pension plans. Following is the summary of plan provisions for employees hired before September 1, 2009. Effective September 1, 2009, the 81st Legislature created new plan provisions for employees hired on or after September 1, 2009. The new provisions require that members of the employee class hired on or after September 1, 2009 must be at least 65 years old and have at least 10 years of service or have at least ten years of service (changed from 5 to 10 years of service by the 82nd Legislature effective 09/1/2011) and the sum of age and service equal or exceeding 80 to be eligible to retire and receive a service retirement annuity. Also, the service retirement annuity uses an average compensation based on the 48 highest months of compensation for members hired on or after September 1, 2009. It also reduces the standard service retirement annuity by five percent for each year the member retires before age 60, with a maximum possible reduction of 25 percent, for this group.

The standard of service credit as a law enforcement or custodial officer will be calculated using an average compensation based on the 48 highest months of compensation for members hired on or after September 1, 2009. Also, the standard service retirement annuity for law enforcement or custodial officers will be reduced by five percent each year the member retires before age 55, with a maximum possible reduction of 25%. For a complete description of the provision of the law that describes the Retirement Plans, see *V.T.C.A, Texas Government Code, Title 8*.

ERS	LECOS	JRS I and JRS II
Membership:		
Employee Class Only: • Employees and appointed officers of every department, commission, board, agency, or institution of the State except those who are included in the coverage of Teacher Retirement System of Texas, JRS I, and JRS II. *Elected Class Only:* • Persons who hold State offices that are normally filled by statewide election and that are not included in the coverage of JRS I and JRS II. • Members of the Legislature. • District and criminal district attorneys.	• Law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the office of inspector general at the Texas Juvenile Justice Department recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education. • Custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent planned contact with inmates of that institution.	*JRS I Only:* • Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service before September 1, 1985. *JRS II Only:* • Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service after August 31, 1985.

Summary of Plan Provisions

Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II
Service Retirement Eligibility:		
Employee Class Only: Hire date prior to 09-01-2009: • Age 60 with at least five years of service credit, or • The sum of age and years of service credit equals or exceeds the number 80 with at least five years of service credit, or • Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. Hire date on or after 09-01-2009: • Age 65 with 10 years of service. • Rule-of-80, with at least 10 years of service at age 60 *Elected Class Only:* • Age 60 with eight years of service credit, or • Age 50 with 12 years of service credit.	Hire date prior to 09-01-2009: • 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 09-01-2009: • 20 years of CPO/CO service at or over age 55.	• Age 65 with at least 10 years of service credit and currently holding a judicial office, or • Age 65 with at least 12 years of service credit, regardless of whether the member currently holds a judicial office, or • 20 years of service at any age, regardless of whether the member currently holds a judicial office, or • The sum of age and years of service credit equals or exceeds the number 70 and served at least 12 years on an appellate court, regardless of whether the member currently holds a judicial office.
Early Service Retirement Eligibility with Reduced Benefits:		
Hire date on or after 09-01-2009: • Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 60, up to 25%.)	Hire date on or prior 09-01-2009: • 20 years of service credit as a certified peace officer/custodial officer, under the age of 50. Hire date on or after 09-01-2009: • 20 years of CPO/CO service at or over age 55. (5% annuity reduction for each year retired under age 55, up to 25%.)	• Age 60 with 10 years of service credit and currently holding judicial office, or • Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.
Standard Service Retirement Benefits:		
Employee Class Only: • Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit. • Average monthly compensation is the average of the highest 36 months of compensation. The average monthly compensation for those hired on or after 9-1-2009 is the average of the highest 48 months of compensation. • Minimum standard annuity is $150 per month. • Maximum standard annuity is 100% of the average monthly compensation.	• Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit. • Average monthly compensation is the average of the highest 36 months of compensation. The average monthly compensation for those hired on or after 9-1-2009 is the average of the highest 48 months of compensation. • Minimum standard annuity is $150 per month. • Maximum standard annuity is 100% of the average monthly compensation.	• Monthly annuity is equal to 50% of the salary for the last position from which the retiring member was elected or appointed. • An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge. • The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.

Summary of Plan Provisions
Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II
Standard Service Retirement Benefits (Continued):		
Elected Class Only: • Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit. • Retirement benefits are automatically adjusted should State judicial salaries change. • Maximum standard annuity is 100% of the State salary being paid to a district judge.		*JRS II Only:* • The monthly annuity of a member who elects to make contributions after reaching the Rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.
Optional Service Retirement:		
Employee Class and Elected Class: • Lifetime with 100% to surviving beneficiary; • Lifetime with 75% to surviving beneficiary; • Lifetime with 50% to surviving beneficiary; • Lifetime with five years certain; • Lifetime with 10 years certain; and • One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is in addition to the calculation of the six beneficiary options listed above). • If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard annuity.	• Same as ERS.	• Same as ERS except for the one-time partial lump sum.
Vesting Requirement:		
Hire date on or prior 09-01-2009: • Five or more years of service credit for Employee Class and eight or more years for Elected Class. Hired on or after 09-01-2009: • 10 or more years of service credit for the employee class.	• 20 or more years of service credit as a certified peace officer/ custodial officer.	• 12 or more years of service credit.

Summary of Plan Provisions
Effective since September 1, 2009

ERS	LECOS	JRS I and JRS II

Vested Benefits after Termination of Employment:

ERS

- Member is entitled to a deferred retirement benefit based on service and compensation prior to termination.
- Member must leave accumulated contributions in the System to which the member contributed.
- Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.

LECOS

- Member is entitled to a deferred retirement benefit based on certified peace officer/custodial officer service and the highest average monthly compensation prior to termination
- Member must leave accumulated deposits in the System to which the member contributed.
- Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.

JRS I and JRS II

- Member is entitled to a deferred retirement benefit based on service and compensation as a judge prior to termination.
- Member must leave accumulated contributions in the System and to which the member contributed.
- Upon or after leaving State judicial employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.

Disability Retirement Eligibility:

ERS

Employee Class Only:
- For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability.
- For non-occupational disability, at least 10 years of Employee Class service credit, which may include up to five years of purchased military service credit, and be a contributing member at the time of permanent disability.

Elected Class Only:
- For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability.
- For non-occupational disability, eight years of Elected Class service (exclusive of military service) or six years of Elected Class service plus two years of military service if purchased before January 1, 1978, and be a contributing member at the time of permanent disability.

LECOS

- For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability.
- For non-occupational disability, at least 10 years of service credit, which may include up to five years of purchased military service credit, and also one must be a contributing member at the time of permanent disability.

JRS I and JRS II

- No age requirement.
- Seven years of judicial service and currently holding a judicial office.

Summary of Plan Provisions

Effective since September 1, 2009

	ERS	LECOS	JRS I and JRS II
Disability Retirement Benefits:	*Employee Class Only:* • For occupational disability, the benefits are the same as those under the standard service retirement, except the standard annuity is equal to not less than 35% of the average of the highest 36 months of compensation regardless of the years of service credit or age. • For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. • The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option. *Elected Class Only:* • The disability retirement is calculated in the same manner as the standard retirement annuity, and is not reduced because of age. • For occupational disability, the annuity is the amount of the member's service or eight years whichever is greater. • Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.	• For occupational disability, the standard annuity is a minimum of 50% of the average of the highest 36 months of compensation regardless of the years of service credit or age. • The standard annuity is increased to 100% of the average of the highest 36 months of compensation if a member receives Social Security disability benefits as a result of occupational disability. • For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. • The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.	• Same as standard service retirement benefits without reduction for age. • A member must have a minimum of seven years of service credit to be eligible for disability retirement. • Disability retirement is calculated in the same manner as standard service retirement, and is not reduced because of age. • Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.
Death Benefits:	*Employee Class and Elected Class:* • A contributing member with a minimum of 10 years of service credit, or less than 10 years of service credit but eligible to retire and survived by a spouse or minor children; the benefit options are: - Lifetime annuity, or - 10-year certain annuity.	• Member with 20 or more years of certified peace officer/custodial officer service, the death benefits are the same as those under the service retirement. • Members with less than 20 years have the same benefits as those listed in the Employees Class under the ERS plan.	• A member with a minimum of 10 years of service credit, or less than 10 years of service credit but eligible to retire and survived by a spouse or minor children; the benefit options are: - Lifetime annuity, or - 10-year certain annuity. • Member dies before retirement, the amount of the member's accumulated contributions is payable as a lump sum, unless the survivor is eligible to receive a death benefit annuity.

ERS	LECOS	JRS I and JRS II

Death Benefits (Continued):

ERS

- Member with less than 10 years of service credit, or eligible to retire but not survived by a spouse or minor children, have the following benefit options:
  - Refund of member's contribution with interest.
  - If member is contributing at the date of death, an additional 5% of the member's accumulated contributions for each full year of service with a maximum of 100% of the member's accumulated contributions.
- In case of occupational death, an additional benefit is paid to the surviving spouse or minor children. This additional benefit is equal to one year's salary based on rate at the time of death. This additional benefit is not paid if there is not a surviving spouse or any minor children.
- If a member dies after retirement and selected the standard annuity, the member's beneficiaries may be entitled to a refund of the account balance if the excess of accumulated contributions at retirement are more than the monthly benefit paid before death. In addition, the beneficiaries are entitled to a lump sum death benefit of $5,000.

Elected Class Only:

- Member with at least eight, but less than 10 years of service and under age of 60, the surviving spouse receives a lifetime annuity equal to 50% of the monthly standard annuity the member would have been entitled to at the time of death or at age 60, whichever is later.

JRS I and JRS II

- If a member dies after retirement and selected the standard annuity, the member's beneficiaries may be entitled to a refund of the account balance if the excess of accumulated contributions at retirement are more than the monthly benefit paid before death. In addition, the beneficiaries are entitled to a lump sum death benefit of $5,000.

FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Other Supplementary Information

State Auditor's Office
John Keel, CPA
State Auditor

Independent Auditor's Report

Employees Retirement System Board of Trustees

Ms. Cheryl MacBride, Chair

Mr. Brian D. Ragland, Vice-Chair

Ms. Cydney Donnell

Ms. Yolanda Griego

Mr. I. Craig Hester

Mr. Frederick E. Rowe, Jr.

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of the Employees Retirement System (System), a component unit of the State of Texas, as of and for the year ended August 31, 2012, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, and the aggregate remaining fund information of the System, as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we will issue a separate report on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's financial statements. The combining financial schedules and supporting schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial schedules and supporting schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The Introductory, Investment, Actuarial, and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

John Keel, CPA
State Auditor

November 16, 2012

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, 2012. 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 assets 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 Assets and the Statement of Changes in Net Assets for the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Program). Highlights are presented under the heading Financial Analysis on Government-wide Statements below.
- Exhibit VII is a required Statement of Cash Flows for the Group Benefits Program, which is an Internal Service Fund. This statement reports the transactions for the year on a cash basis. It is similar to Exhibit VI, the Statement of Changes in Net Assets, 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 are the Combined Statement of Fiduciary Net Assets and the Combined Statement of Changes in Fiduciary Net Assets. They report Pension and Other Employee Benefit Trust Fund activities and Agency Fund balances in total. Please see the Financial Highlights - Fiduciary Funds below for a financial analysis of the defined benefit plans, deferred compensation plans, the cafeteria plan and the agency funds.
- Exhibits X and XI, the Combining Statement of Fiduciary Net Assets and the Combining Statement of Changes in Fiduciary Net Assets, report activities of the defined benefit plans, including the retiree insurance plan. These exhibits also report the cafeteria plan and other deferred compensation plans.

Financial Analysis on Government-wide Statements

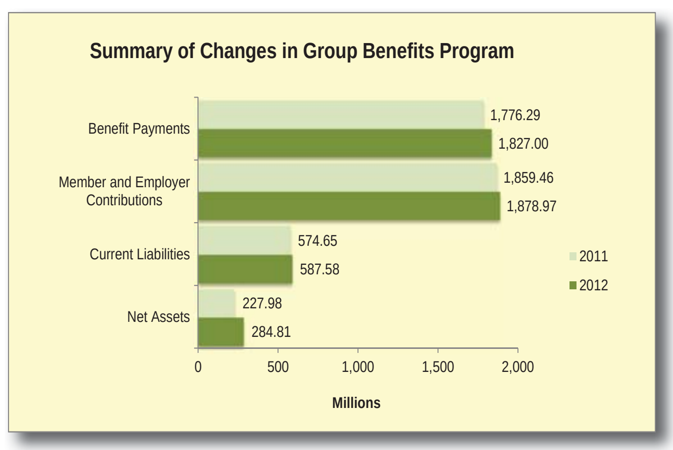
The government-wide activities of the System are comprised of five programs:

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

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

	August 31,		
	2012	2011	2011-2012 Incr (Decr)
	$	$	%
Net Assets	284.81	227.98	24.93
Current Liabilities	587.58	574.65	2.25
Member and Employer Contributions	1,878.97	1,859.46	1.05
Benefit Payments	1,827.00	1,776.29	2.85

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

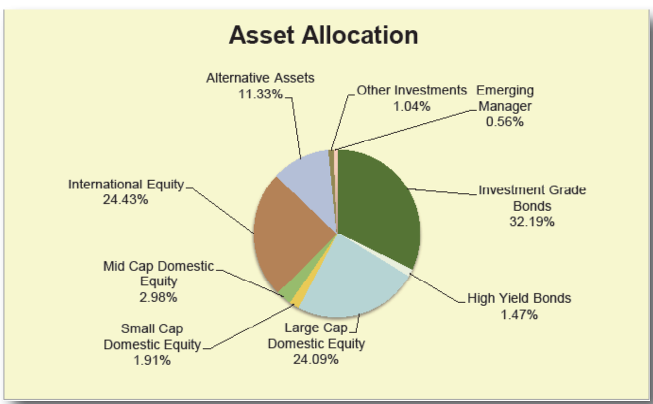


Financial Highlights – Fiduciary Funds

- Net assets of the Fiduciary Funds administered by the System totaled $22.88 billion as of August 31, 2012, compared with $22.20 billion as of August 31, 2011. The investment portfolio returned 8.22% for the year. The $0.68 billion increase resulted primarily from favorable market conditions affecting investment assets. The time weighted rate of return for three and five years were 9.12% and 2.98% respectively.
- The System's management has confidence in the financial markets and maintains a long term approach to investing the System's assets. The System's investments are highly diversified and are designed to withstand market fluctuations.

The fiscal year-end asset allocation stood at:

- 32.19% investment grade bonds
- 1.47% high yield bonds
- 24.09% large cap domestic equity
- 1.91% small cap domestic equity
- 2.98% mid cap domestic equity
- 24.43% international equity
- 11.33% alternative assets
- 0.56% emerging manager composite
- 1.04% other investments



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:

	August 31, 2012	August 31, 2011	2011-2012 Incr (Decr)
	$	$	%
Contributions:			
Retirement & Other	871.24	979.71	(11.07)
Insurance	698.97	648.41	7.80
Total (Exh. XI)	**1,570.21**	**1,628.12**	**(3.56)**
Benefit Payments:			
Retirement & Other	1,892.51	1,759.98	7.53
Insurance	696.09	646.20	7.72
Total (Exh. XI)	**2,588.60**	**2,406.18**	**7.58**

- The decrease in retirement contributions is primarily due to a legislative rate decrease. The benefit payments for retirement increased due to an increase in retirees. The most recent actuarial valuations of the funded defined benefit plans were completed as of August 31, 2012. The funded ratios are as follows:

Plans	Funded Ratios August 31, 2012	Funded Ratios August 31, 2011
	%	%
Employees Retirement System	81.0	82.6
Law Enforcement and Custodial Officer Supplemental Retirement Fund	79.7	83.7
Judicial Retirement System of Texas Plan Two	95.3	94.6

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

Fiduciary Net Assets

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

	August 31, 2012	August 31, 2011	2011-2012 Incr (Decr)
	$	$	%
Changes in Fiduciary Net Assets (Exh. IX)	669.69	1,726.87	(61.22)
Total Net Assets	**22,876.47**	**22,206.79**	**3.02**

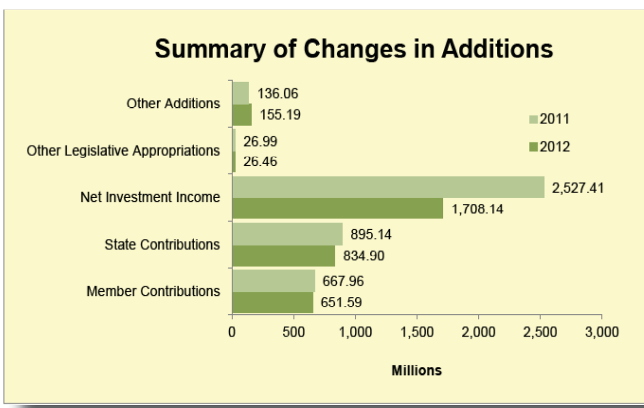
The decrease in changes in Fiduciary Net Assets is due primarily to conditions in the financial markets. While the portfolio return was good at 8.22%, it was not as strong as the previous year return of 12.58%.

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 Assets have been extracted from Exhibit IX, Combined Statement of Changes in Fiduciary Net Assets. The additions in millions were as follows:

	August 31,		2011-2012
	2012	2011	Incr (Decr)
	$	$	%
Member Contributions	651.59	667.96	(2.45)
State Contributions	834.90	895.14	(6.73)
Net Investment Income	1,708.14	2,527.41	(32.42)
Other Legislative Appropriations	26.46	26.99	(1.96)
Other Additions	155.19	136.06	14.06
Total Additions (Exh.IX)	**3,376.28**	**4,253.56**	**(20.62)**

Decreases in the additions in the above tables are due primarily to less favorable conditions in the financial markets compared to the previous year, and legislative decreases to state contribution rates for the pension systems. Also, the number of active members in the pension systems decreased in fiscal year 2012.



For the Employees Retirement Fund, member and State retirement contribution rates for fiscal year 2012 were 6.5% and 6.0% respectively. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), the State contributed 0% and the member contributed 0.5% of the covered payroll. For the Judicial Retirement Plan II Fund, member and State retirement contribution rates were both 6.0%.

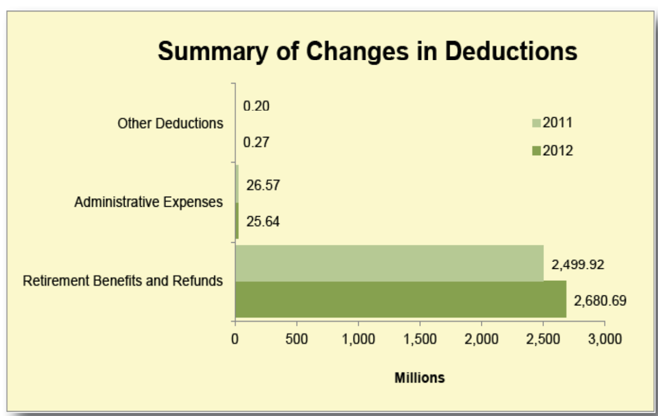
Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation or depreciation in fair value of investments, and is net of investment expenses.

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 Assets have been extracted from Exhibit IX, Combined Statement of Changes in Fiduciary Net Assets.

Changes in deductions are summarized in millions as follows:

	August 31,		2011-2012
	2012	2011	Incr (Decr)
	$	$	%
Benefits	2,680.69	2,499.92	7.23
Administrative Expenses	25.64	26.57	(3.50)
Other Deductions	0.27	0.20	35.00
Total Deductions (Exh. IX)	**2,706.60**	**2,526.69**	**7.12**

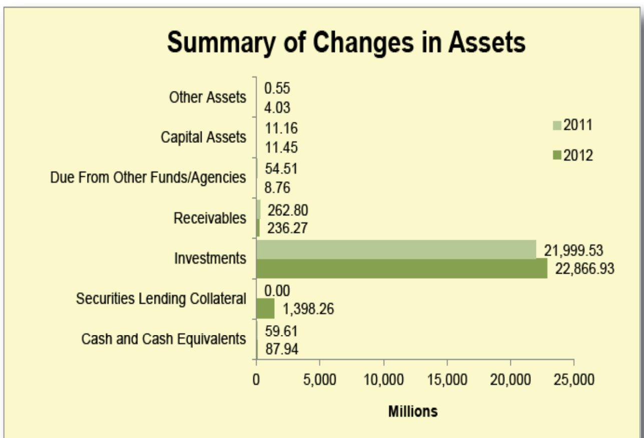


Assets

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:

	August 31, 2012	August 31, 2011	2011-2012 Incr (Decr)
	$	$	%
Cash and Cash Equivalents	87.94	59.61	47.53
Securities Lending Collateral	1,398.26	-	100.00
Investments	22,866.93	21,999.53	3.94
Receivables	236.27	262.80	(10.10)
Due from Other Funds/Agencies	8.76	54.51	(83.93)
Capital Assets	11.45	11.16	2.60
Other Assets	4.03	0.55	632.73
Total Assets (Exh. VIII)	**24,613.64**	**22,388.16**	**9.94**

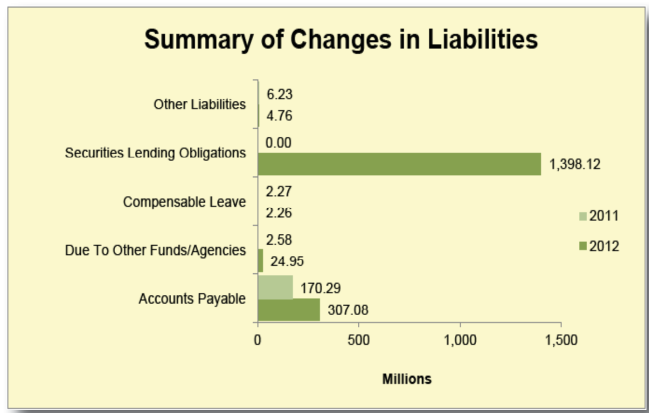


Securities Lending Collateral increased by 100%. The increase was a result of the System's change of custodian bank, as of September 1, 2011, and a decision to reduce securities lending to zero prior to the transition. Since then, Securities Lending has resumed for fiscal year 2012.

Liabilities

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

	August 31, 2012	August 31, 2011	2011-2012 Incr (Decr)
	$	$	%
Accounts Payable	307.08	170.29	80.33
Due to Other Funds/ Agencies	24.95	2.58	867.05
Compensable Leave	2.26	2.27	(0.44)
Securities Lending Obligations	1,398.12	-	100.00
Other Liabilities	4.76	6.23	(23.60)
Total Liabilities (Exh.VIII)	**1,737.17**	**181.37**	**857.80**



Securities Lending Obligations increased by 100%. The increase was a result of the System's change of custodian bank, as of September 1, 2011, and a decision to reduce securities lending to zero prior to the transition. Since then, Security Lending has resumed, for fiscal year 2012.

Funding Status and Progress

Net 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, 2012, (compared to the August 31, 2011 actuarial valuation) is summarized in millions as follows:

Plans	Actuarial Net Asset/(Liability) August 31, 2012	2011
Employees Retirement System	$(5,704.6)	$(5,052.7)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(211.8)	(162.3)
Judicial Retirement System of Texas Plan Two	(14.8)	(16.2)

For the Employees Retirement System Fund, the August 31, 2012 actuarial valuation shows an unfunded accrued liability of $5,704.6 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 81.0% as of August 31, 2012. The valuation shows that the total normal cost is 12.31% of payroll and total contributions are 13.0% of payroll. The total contribution rate exceeds the normal cost by 0.69% of payroll, but it is not sufficient to ever amortize the unfunded accrued liability. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized. The total contribution to fund the normal cost plus amortize the net liability balance over 31 years is 18.25% of payroll. The actuarial net liability will need to be met over the coming years through improved investment performance, increased contributions, or plan design changes.

The August 31, 2012 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2012 is 2.02% of payroll. At August 31, 2012, the unfunded accrued liability is $211.8 million, and the funded ratio is 79.7%. Total contributions are 1.00% of payroll. The total contribution rate falls short of the normal cost by 1.02% of payroll for the current fiscal year. As a result, the amortization period is currently infinite and the funding objective is not currently being realized. For fiscal year 2012, the total contribution rate to fund the normal cost plus amortize the net liability balance over 31 years as a level percentage of payroll is 2.86% of payroll.

For the Judicial Retirement System of Texas Plan II, the August 31, 2012 actuarial valuation shows that the total normal cost is 20.25% of payroll and unfunded accrued liability is $14.8 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 95.3% as of August 31, 2012. Total contributions are 12.48% of payroll. The total contribution rate falls short of the normal cost by 7.77% of payroll for the current fiscal year and for future fiscal years, and it is not sufficient to ever amortize the unfunded accrued liability. The rate needed to fund normal cost plus amortize the unfunded accrued liability over 31 years is 21.52%. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized.

The Judicial Retirement Plan I is funded on a pay-as-you-go basis. The August 31, 2012 actuarial valuation shows an unfunded accrued liability of $232.9 million and a funded ratio of 0.0%.

The State Retiree Health Plan is currently funded on a pay-as-you-go basis. For the State Retiree Health Plan, the August 31, 2012 actuarial valuation shows an unfunded accrued liability of $20.9 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 8.7% of payroll. The Annual Required Contribution (ARC) as of August 31, 2012 is 17.5% of payroll. Total contributions are 31.4% of the annual required contribution.

Contributions include health care premiums, State and member contributions, retiree drug subsidy payments, and early retirees reinsurance payments. Retiree premiums were $135.0 million. Employer contributions were $483.6 million. The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled ERS to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by ERS on behalf of certain plan participants. The plan received payments in 2012 totaling $39.6 million. The plan received payments in 2012 from the Federal Early Retirees Reinsurance Program totaling $40.7 million. The above amounts plus net investment income of $328.3 thousand resulted in additions of $699.3 million. These were offset entirely by $696.1 million in benefit payments and $3.2 million in administrative expense. The net plan assets are zero.

Contacting the System's Financial Management

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

Exhibit I
Statement of Net Assets
August 31, 2012

	Governmental Activities
ASSETS	**August 31, 2012**
Current Assets:	**$**
Cash and Cash Equivalents:	
Cash in State Treasury	55,470,576
Total Cash and Cash Equivalents	55,470,576
Securities Lending Collateral	18,824,867
Short-Term Investments	394,080,280
Legislative Appropriations	7,265
Receivables	119,195,012
Due From Fiduciary Funds	21,274,891
Due From Other Agencies	56,698
Total Current Assets	608,909,589
Non-Current Assets:	
Investment Grade Fixed Income Component	263,520,173
Total Non-Current Assets	263,520,173
Total Assets	**872,429,762**
LIABILITIES	
Current Liabilities:	
Payables	566,551,197
Due To Fiduciary Funds	1,644,832
Deferred Revenue	595,770
Obligations Under Securities Lending	18,806,218
Total Current Liabilities	587,598,017
Total Liabilities	**587,598,017**
NET ASSETS	
Restricted For:	
Employee Benefits - Group Benefits Program	284,814,010
Unrestricted	17,735
Total Net Assets (Exh. II & III)	**284,831,745**

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

Exhibit II
Statement of Activities
Year Ended August 31, 2012

		Program Revenues		Net (Expense) Revenue & Changes in Net Assets Governmental Activities
	Expenses	Charges for Services	Operating Grants & Contributions	August 31, 2012
Functions/Programs	$	$	$	$
Governmental Activities:				
Social Security Administration	104,989	74,182		(30,807)
Death Benefits-Peace Officers, Firemen, etc.	2,140,582	2,140,582		-
Compensation to Victims of Crime	1,000,000	1,000,000		-
Death Benefits-Retiree $5,000 Lump Sum	8,627,890	8,627,940		50
Group Benefits Program	1,836,410,317	1,879,164,078	14,075,858	56,829,619
Total Governmental Activities	**1,848,283,778**	**1,891,006,782**	**14,075,858**	**56,798,862**
			General Revenue:	
			Transfers	40,000
			Total General Revenue	**40,000**
			Change in Net Assets (Exh. IV)	**56,838,862**
			Net Assets - Beginning	**227,992,883**
			Net Assets - Ending (Exh. I)	**284,831,745**

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

Exhibit III
Balance Sheet – Governmental Funds
August 31, 2012

ASSETS	Non-major Special Revenue Funds Totals (Note 1.E) August 31, 2012 $
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	26,290
Total Cash and Cash Equivalents	26,290
Legislative Appropriations	7,265
Accounts Receivable	1,299
Total Current Assets	34,854
Total Assets	**34,854**
LIABILITIES & FUND BALANCES	
Current Liabilities:	
Payables:	
Voucher/Accounts Payable	7,215
Due To Other Funds (Note 1.G)	9,176
Deferred Revenues	728
Total Current Liabilities	17,119
Total Liabilities	**17,119**
Fund Balances:	
Committed	17,735
Total Fund Balances (Exh. IV)	**17,735**
Total Liabilities & Fund Balances	**34,854**
Total Fund Balances - Governmental Funds (above):	17,735
Amounts reported for 'Governmental Activities' in the Statement of Net Assets (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 assets of the Internal Service Fund (Exhibit V) are included with 'Governmental Activities' in the Statement of Net Assets.	284,814,010
Net Assets of Governmental Activities (Exhibit I)	**284,831,745**

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, 2012

REVENUES	Non-major Special Revenue Funds Totals (Note 1.E) August 31, 2012 $
Legislative Appropriations Out of the State's General Revenue Fund:	
Appropriation Revenue:	
For Death Benefits Peace Officers, Etc.	2,140,582
For Victims of Crime	1,000,000
For Death Benefits-Retirees	8,627,940
Total Appropriation Revenue	11,768,522
Administration Fees for Social Security Administration	74,182
Total Revenues	**11,842,704**
EXPENDITURES	
Current:	
Death Benefits	11,768,472
Administrative Expenditures:	
Salaries & Wages	70,829
Payroll Related Costs	17,329
Professional Fees & Services	859
Travel	972
Materials & Supplies	4,734
Communications & Utilities	1,584
Repairs & Maintenance	3,140
Rentals & Leases	3,644
Printing & Reproduction	136
Other Expenditures	1,762
Total Administrative Expenditures	104,989
Total Expenditures	**11,873,461**
Excess of Expenditures over Revenues Before Other Financing Sources	**(30,757)**
OTHER FINANCING SOURCES	
Transfers In-Retirement Membership Fees (Note 4.E)	40,000
Excess of Revenues Over Expenditures and Other Financing Sources	**9,243**
Fund Balances - Beginning	**8,492**
Fund Balances - Ending (Exh. III)	**17,735**
Net Change in Fund Balances - Governmental Funds:	9,243
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 of the Internal Service Fund (Exhibit VI) is included in 'Governmental Activities' in the Statement of Activities.	56,829,619
Change in Net Assets of Governmental Activities (Exhibit II)	**56,838,862**

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

Exhibit V
Statement of Net Assets – Proprietary Fund
August 31, 2012

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) (U/F 2369) Totals August 31, 2012
ASSETS	$
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	55,444,286
Total Cash and Cash Equivalents	55,444,286
Securities Lending Collateral	18,824,867
Short-Term Investments	394,080,280
Receivables:	
Interest Receivable	1,972,014
Accounts Receivable	116,859,430
Unsettled Sales-Investment Receivables	362,269
Total Receivables	119,193,713
Due From Other Funds (Note 1.G)	21,274,891
Due From Other Agencies (Note 1.G)	56,698
Total Current Assets	**608,874,735**
Non-Current Assets:	
Investments:	
Investment Grade Fixed Income Component (Note 1.G)	263,520,173
Total Non-Current Assets	**263,520,173**
Total Assets	**872,394,908**
LIABILITIES	
Current Liabilities:	
Payables:	
Incurred, Self-Funded	49,338,853
Incurred, Insured	8,330,780
Incurred But Not Reported, Self-Funded	448,810,000
Incurred But Not Reported, Insured	56,248,000
Total Claims Payable	562,727,633
Unsettled Purchases-Investment Payables	3,816,349
Total Payables	566,543,982
Due To Other Funds (Note 1.G)	1,635,656
Deferred Revenue	595,042
Obligations Under Securities Lending	18,806,218
Total Current Liabilities	**587,580,898**
Total Liabilities	**587,580,898**
NET ASSETS	
Restricted For:	
Employee Benefits - Group Benefits Program	284,814,010
Total Net Assets (Exh. VI)	**284,814,010**

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 Assets – Proprietary Fund
Year Ended August 31, 2012

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) (U/F 2369) Totals August 31, 2012
OPERATING REVENUES	$
Contributions to Insurance Program:	
From the State of Texas:	
For Employees	1,434,186,219
Total Contributions from the State of Texas	1,434,186,219
From Members:	
For Employees	435,198,770
For COBRA	9,586,904
Total Contributions from Members	444,785,674
Total Contributions to Insurance Program	1,878,971,893
Federal Revenue - Operating:	
Federal Revenue - COBRA Stimulus (Note 6)	27,480
Other Operating Revenues:	
COBRA 2% Administration Fee	192,186
Warrants Voided by Statute of Limitations	4,252
Penalty Assessed to Insurance Carrier	355,000
Miscellaneous Operating Revenue	283,512
Total Other Operating Revenues	834,950
Total Operating Revenues	**1,879,834,323**
OPERATING EXPENSES	
Employee Benefit Payments:	
For Employees	1,792,645,190
For COBRA	34,350,656
Total Employee Benefit Payments	1,826,995,846
Administrative Expenses:	
Salaries & Wages	4,447,667
Payroll Related Costs	1,147,838
Professional Fees & Services	1,909,883
Travel	51,081
Materials & Supplies	403,891
Communications & Utilities	250,348
Repairs & Maintenance	320,997
Rentals & Leases	330,536
Printing & Reproduction	11,883
Other Operating Expenses	526,751
Total Administrative Expenses	9,400,875
Total Operating Expenses	**1,836,396,721**
Operating Income	**43,437,602**
NON-OPERATING REVENUES (EXPENSES)	
Net Increase in Fair Value of Investments	5,395,141
Interest Revenue	7,770,384
Securities Lending Activities:	
Loan Premium on Securities Lending	36,004
Less: Broker Rebates	(11,682)
Agent Fees	(1,915)
Net Securities Lending Activity	22,407
Settlement Revenue	204,085
Total Non-Operating Revenues	**13,392,017**
Transfer In	46,104
Transfer Out	(46,104)
Change in Net Assets	**56,829,619**
NET ASSETS	
Net Assets - Beginning	**227,984,391**
Net Assets - Ending (Exh. V)	**284,814,010**

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, 2012

	Internal Service Fund Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) August 31, 2012
Cash Flows from Operating Activities:	$
Cash Received from Members	440,857,140
Cash Received from The State of Texas	1,384,315,777
Cash Payments to Insurance Carriers and Third Party Administrators	(1,790,369,156)
Cash Received from Federal Government - COBRA Stimulus	46,104
Cash Payments to Employees for Services	(6,282,960)
Cash Payments for Goods and Services	(3,718,371)
Other Cash Received	566,579
Net Cash Provided by Operating Activities	**25,415,113**
Cash Flows from Investing Activities:	
Net Sales of Short-Term Investment Fund	7,200,000
Interest on Deposit in State Treasury	548,091
Net Cash Used by Investing Activities	**7,748,091**
Net Increase in Cash and Cash Equivalents	**33,163,204**
Cash and Cash Equivalents:	
Beginning of Year	**22,281,082**
End of Year	**55,444,286**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	**43,437,602**
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depository Interest Transferred to Retiree Insurance Plan	(319,369)
Settlement Revenue	204,085
Change in Assets and Liabilities:	
Decrease in Accounts Receivable	12,517,117
Increase in Due From Other Agencies	(18,682)
Increase in Due From Other Funds	(20,711,756)
Increase in Accounts Payable	36,627,264
Decrease in Due To Other Funds	(46,389,485)
Increase in Deferred Revenue	68,337
Total Adjustments	**(18,022,489)**
Net Cash Provided by Operating Activities	**25,415,113**
Non-Cash Investing Activities:	
Net Appreciation (Depreciation) in Fair Value of Non-Cash Equivalent Investments	**5,395,141**

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

Exhibit VIII
Combined Statement of Fiduciary Net Assets
August 31, 2012

	Pension and Other Employee Benefit Trust Funds				
	Defined Benefit Plans	Deferred Compensation Plans and Cafeteria Plan	Total Pension and Other Employee Benefit Trust Funds	Agency Funds	Total August 31, 2012
ASSETS	$	$	$	$	$
Cash and Cash Equivalents	71,428,456	13,055,195	84,483,651	3,454,182	87,937,833
Securities Lending Collateral	1,398,263,095		1,398,263,095		1,398,263,095
Short-Term Investments	736,436,647		736,436,647		736,436,647
Legislative Appropriations	291,711		291,711		291,711
Investments	22,130,497,893		22,130,497,893		22,130,497,893
Receivables	229,199,772	7,059,593	236,259,365	9,070	236,268,435
Due From Other Funds (Note 1.G)	2,577,356	56,381	2,633,737		2,633,737
Due From Other Agencies (Note 1.G)	6,121,112	7,238	6,128,350		6,128,350
Prepaid Expenses	3,482,192	250,000	3,732,192		3,732,192
Capital Assets, Net of Accumulated Depreciation/Amortization	11,453,685		11,453,685		11,453,685
Total Assets	**24,589,751,919**	**20,428,407**	**24,610,180,326**	**3,463,252**	**24,613,643,578**
LIABILITIES					
Payables	294,114,926	12,957,497	307,072,423	9,070	307,081,493
Due To Other Funds (Note 1.G)	22,054,228	209,568	22,263,796		22,263,796
Due To Other Agencies (Note 1.G)	2,683,341		2,683,341		2,683,341
Deferred Revenue	1,291,620	18,835	1,310,455		1,310,455
Employees Compensable Leave	2,261,123		2,261,123		2,261,123
Obligations Under Securities Lending	1,398,116,740		1,398,116,740		1,398,116,740
Funds Held for Others				3,454,182	3,454,182
Total Liabilities	**1,720,521,978**	**13,185,900**	**1,733,707,878**	**3,463,252**	**1,737,171,130**
NET ASSETS					
Net Assets Held in Trust for Pension and Other Employee Benefits (Exh. IX)	**22,869,229,941**	**7,242,507**	**22,876,472,448** (Exh. X)	**-**	**22,876,472,448**

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

Exhibit IX
Combined Statement of Changes in Fiduciary Net Assets
Year Ended August 31, 2012

	Defined Benefit Plans	Deferred Compensation Plans and Cafeteria Plan	Pension and Other Employee Benefit Trust Funds Totals August 31,2012
ADDITIONS	**$**	**$**	**$**
Contributions:			
Member Contributions	557,516,467	94,071,958	651,588,425
Employer Contributions	834,904,611		834,904,611
Legislative Appropriations	26,464,422		26,464,422
Service Contributions Transferred from Teacher Retirement System	70,985,963		70,985,963
Federal Revenues-Medicare Part D	39,612,208		39,612,208
Early Retirees Reinsurance Program	40,724,003		40,724,003
Other Contributions - Forfeitures		1,914,321	1,914,321
Total Contributions	1,570,207,674	95,986,279	1,666,193,953
Investment Income:			
From Investing Activities	1,702,154,943	57,153	1,702,212,096
From Securities Lending Activities	5,932,690		5,932,690
Total Investment Income	1,708,087,633	57,153	1,708,144,786
Other Additions:			
Other Revenue	269,962	1,168,976	1,438,938
Transfers In	506,603		506,603
Total Other Additions	776,565	1,168,976	1,945,541
Total Additions	**3,279,071,872**	**97,212,408**	**3,376,284,280**
DEDUCTIONS			
Benefits:			
Benefits	2,484,189,466	92,092,693	2,576,282,159
Refunds of Contributions	89,467,264		89,467,264
Service Contributions Transferred to Teacher Retirement System	14,940,228		14,940,228
Total Benefits	2,588,596,958	92,092,693	2,680,689,651
Administrative Expenses	22,101,911	3,533,230	25,635,141
Other Deductions:			
Transfers Out	274,306		274,306
Total Other Deductions	274,306	-	274,306
Total Deductions	**2,610,973,175**	**95,625,923**	**2,706,599,098**
Net Increase	**668,098,697**	**1,586,485**	**669,685,182**
NET ASSETS			
Net Assets Held in Trust For Pension and Other Employee Benefits:			
Beginning of Year	**22,201,131,244**	**5,656,022**	**22,206,787,266**
End of Year (Exh. VIII)	**22,869,229,941**	**7,242,507**	**22,876,472,448**
			(Exh. XI)

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

Exhibit X
Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds
August 31, 2012

ASSETS	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrange-ment (5039)
	$	$	$	$	$
Cash and Short-Term Investments:					
Cash and Cash Equivalents:					
Cash on Hand	557,340				
Cash in Bank	23,000				
Cash in State Treasury	36,452,583	1,888,863		1,026,167	
Net Margin Deposit	3,568,135	122,430		48,341	
Total Cash and Cash Equivalents	40,601,058	2,011,293	-	1,074,508	-
Securities Lending Collateral	1,334,398,597	45,847,717		18,016,781	
Short-Term Investments	598,342,629	20,474,766		8,039,444	
Total Cash and Short-Term Investments	1,973,342,284	68,333,776	-	27,130,733	-
Legislative Appropriations			291,711		
Investments: (Note 1.G)					
Domestic Equities Component	6,380,862,263	218,940,873		86,448,489	
International Equities Component	5,186,597,776	177,963,134		70,268,488	
Investment Grade Fixed Income Component	6,800,539,422	233,340,884		92,134,312	
High Yield Fixed Income Component	302,437,494	10,377,270		4,097,450	
Public Real Estate Component	423,600,586	14,534,632		5,738,978	
Alternative Investments Component	2,025,667,008	69,504,917		27,443,917	
Total Investments	21,119,704,549	724,661,710	-	286,131,634	-
Receivables:					
Interest and Dividends Receivable	81,889,206	2,810,103		1,109,675	
Contributions/Accounts Receivable	57,479,987	601,241		686,271	
Unsettled Sales-Investment Receivables	70,196,323	2,408,584		951,026	
Total Receivables	209,565,516	5,819,928	-	2,746,972	-
Due From Other Funds (Note 1.G)	1,246,891				
Due From Other Agencies (Note 1.G)	6,121,112				
Prepaid Expenses:					
Claims Expense					
Investment Management Fees	3,323,146	114,024		45,022	
Total Prepaid Expenses	3,323,146	114,024	-	45,022	-
Capital Assets:					
Non-Depreciable:					
Construction in Progress - Intangible Assets	1,643,084				
Land and Land Improvements	874,889				
Depreciable, Net of Accumulated Depreciation/Amortization of $13,834,655					
Building	8,442,486				
Furniture and Equipment	286,117				
Vehicles	11,850				
Computer Software	195,259				
Total Capital Assets	11,453,685	-	-	-	-
Total Assets	**23,324,757,183**	**798,929,438**	**291,711**	**316,054,361**	**-**
LIABILITIES					
Payables:					
Voucher/Accounts Payable	18,537,592	445,557	291,711	182,187	
Unsettled Purchases-Investment Payables	140,222,663	4,811,337		1,899,749	
Total Payables	158,760,255	5,256,894	291,711	2,081,936	-
Due To Other Funds (Note 1.G)	591,876	156,513		44,638	
Due To Other Agencies (Note 1.G)	2,683,341				
Deferred Revenue	557,725				
Employees Compensable Leave	2,261,123				
Obligations Under Securities Lending	1,334,258,895	45,842,931		18,014,914	
Total Liabilities	**1,499,113,215**	**51,256,338**	**291,711**	**20,141,488**	**-**
NET ASSETS					
Net Assets Held in Trust for Pension and Other Employee Benefits (Exh. XI)	**21,825,643,968**	**747,673,100**	**-**	**295,912,873**	**-**

USAS Funds (U/F) are:
Fund 0955: 0955, 1955, 8955; Fund 0977: 0977, 1977, 8977; Fund 0001: 2001; Fund 0993: 0993, 1993, 8993; Fund 5039: 5039;
Fund 0973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 0943: 0943, 8943.

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

State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texa$aver 401(k) Trust Fund (0946)	Texa$aver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Deferred Compensation Plans and Cafeteria Plan	Totals August 31, 2012
$	$	$	$	$	$	$
5,720	563,060					563,060
	23,000		1,322,287	414,571	1,736,858	1,759,858
27,735,877	67,103,490	2,797,297	1,021,362	7,499,678	11,318,337	78,421,827
	3,738,906					3,738,906
27,741,597	71,428,456	2,797,297	2,343,649	7,914,249	13,055,195	84,483,651
	1,398,263,095					1,398,263,095
109,579,808	736,436,647					736,436,647
137,321,405	2,206,128,198	2,797,297	2,343,649	7,914,249	13,055,195	2,219,183,393
	291,711					291,711
	6,686,251,625					6,686,251,625
	5,434,829,398					5,434,829,398
	7,126,014,618					7,126,014,618
	316,912,214					316,912,214
	443,874,196					443,874,196
	2,122,615,842					2,122,615,842
-	22,130,497,893	-	-	-	-	22,130,497,893
1,164	85,810,148	1,115	407	2,990	4,512	85,814,660
11,066,192	69,833,691	47,545	38,742	6,968,794	7,055,081	76,888,772
	73,555,933					73,555,933
11,067,356	229,199,772	48,660	39,149	6,971,784	7,059,593	236,259,365
1,330,465	2,577,356	55,381		1,000	56,381	2,633,737
	6,121,112			7,238	7,238	6,128,350
				250,000	250,000	250,000
	3,482,192					3,482,192
-	3,482,192	-	-	250,000	250,000	3,732,192
	1,643,084					1,643,084
	874,889					874,889
	8,442,486					8,442,486
	286,117					286,117
	11,850					11,850
	195,259					195,259
-	11,453,685	-	-	-	-	11,453,685
149,719,226	**24,589,751,919**	**2,901,338**	**2,382,798**	**15,144,271**	**20,428,407**	**24,610,180,326**
127,724,130	147,181,177		1,275,604	11,681,893	12,957,497	160,138,674
	146,933,749					146,933,749
127,724,130	294,114,926	-	1,275,604	11,681,893	12,957,497	307,072,423
21,261,201	22,054,228	66,055	98,917	44,596	209,568	22,263,796
	2,683,341					2,683,341
733,895	1,291,620		18,835		18,835	1,310,455
	2,261,123					2,261,123
	1,398,116,740					1,398,116,740
149,719,226	**1,720,521,978**	**66,055**	**1,393,356**	**11,726,489**	**13,185,900**	**1,733,707,878**
-	**22,869,229,941**	**2,835,283**	**989,442**	**3,417,782**	**7,242,507**	**22,876,472,448**
						(Exh. VIII)

Exhibit XI
Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds
Year Ended August 31, 2012

ADDITIONS	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrange-ment (5039)
	$	$	$	$	$
Contributions:					
Member Contributions	411,065,743	7,287,462		4,170,485	
Employer Contributions	347,121,275	(3,160)		4,150,342	
Legislative Appropriations for Judges Retirement Annuities			26,464,422		
Service Contributions Transferred from Teacher Retirement System (Note 1.G)	70,985,963				
Federal Revenues-Medicare Part D					
Early Retirees Reinsurance Program					
Other Contributions - Forfeitures					
Total Contributions	**829,172,981**	**7,284,302**	**26,464,422**	**8,320,827**	**-**
Investment Income:					
From Investing Activities:					
Net Appreciation (Depreciation) in Fair Value of Investments	1,096,852,965	33,944,850		34,223,874	
Interest and Dividends	566,352,873	19,524,250		7,567,995	
Class Action Settlements	1,433,405	49,411		19,165	
Total Investing Activity Income	1,664,639,243	53,518,511	-	41,811,034	-
Less: Investment Expense	(55,631,362)	(1,804,784)		(706,043)	
Net Income, Investing Activities	1,609,007,881	51,713,727	-	41,104,991	-
From Securities Lending Activities:					
Loan Premium on Securities Lending	2,695,984	93,029		35,960	
Less: Broker Rebates	3,489,775	120,267		46,745	
Agent Fees	(523,990)	(18,060)		(7,020)	
Total Securities Lending Expenses	2,965,785	102,207	-	39,725	-
Net Income, Securities Lending Activities	5,661,769	195,236	-	75,685	-
Net Investment Income	**1,614,669,650**	**51,908,963**	**-**	**41,180,676**	**-**
Other Additions:					
Other Revenue:					
Warrants Voided by Statute of Limitations	117,045	651			
Rental Income	37,450				
Miscellaneous Revenue	114,527				
Administration Fees					
Total Other Revenue	269,022	651	-	-	-
Interfund Transfers In (Note 1.G):					
Excess Benefit Arrangement					164,004
Interagency Transfers In (Note 4.F):					
Excess Benefit Arrangement					342,599
Total Transfers In	-	-	-	-	506,603
Total Other Additions	**269,022**	**651**	**-**	**-**	**506,603**
Total Additions	**2,444,111,653**	**59,193,916**	**26,464,422**	**49,501,503**	**506,603**

USAS Funds (U/F) are:
Fund 0955: 0955, 1955, 8955; Fund 0977: 0977, 1977, 8977; Fund 0001: 2001; Fund 0993: 0993, 1993, 8993; Fund 5039: 5039;
Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 0943: 0943, 8943.

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

State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texa$aver 401(k) Trust Fund (0946)	Texa$aver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Deferred Compensation Plans and Cafeteria Plan	Totals August 31, 2012
$	$	$	$	$	$	$
134,992,777	557,516,467			94,071,958	94,071,958	651,588,425
483,636,154	834,904,611					834,904,611
	26,464,422					26,464,422
	70,985,963					70,985,963
39,612,208	39,612,208					39,612,208
40,724,003	40,724,003					40,724,003
				1,914,321	1,914,321	1,914,321
698,965,142	**1,570,207,674**	**-**	**-**	**95,986,279**	**95,986,279**	**1,666,193,953**
	1,165,021,689					1,165,021,689
328,913	593,774,031	26,839	11,772	19,350	57,961	593,831,992
	1,501,981					1,501,981
328,913	1,760,297,701	26,839	11,772	19,350	57,961	1,760,355,662
(569)	(58,142,758)	(298)	(233)	(277)	(808)	(58,143,566)
328,344	1,702,154,943	26,541	11,539	19,073	57,153	1,702,212,096
	2,824,973					2,824,973
	3,656,787					3,656,787
	(549,070)					(549,070)
-	3,107,717	-	-	-	-	3,107,717
-	5,932,690	-	-	-	-	5,932,690
328,344	**1,708,087,633**	**26,541**	**11,539**	**19,073**	**57,153**	**1,708,144,786**
289	117,985			140	140	118,125
	37,450					37,450
	114,527			75,698	75,698	190,225
		606,713	486,425		1,093,138	1,093,138
289	269,962	606,713	486,425	75,838	1,168,976	1,438,938
	164,004					164,004
	342,599					342,599
-	506,603	-	-	-	-	506,603
289	**776,565**	**606,713**	**486,425**	**75,838**	**1,168,976**	**1,945,541**
699,293,775	**3,279,071,872**	**633,254**	**497,964**	**96,081,190**	**97,212,408**	**3,376,284,280**

- to next page

Exhibit XI (Continued)
Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds
Year Ended August 31, 2012

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrange-ment (5039)
DEDUCTIONS	$	$	$	$	$
Benefits:					
Benefits	1,701,526,355	46,874,379	26,464,422	12,802,934	436,301
Refunds of Contributions	88,068,787	1,219,481		178,996	
Transfers Out of Contributions:					
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	14,940,228				
Total Benefits	**1,804,535,370**	**48,093,860**	**26,464,422**	**12,981,930**	**436,301**
Administrative Expenses:					
Salaries & Wages	8,177,918	516,649		136,817	
Payroll Related Costs	2,464,361	145,444		39,465	
Professional Fees & Services	2,504,822	18,742		6,627	
Travel	67,957	2,667		761	
Materials & Supplies	968,882	50,213		15,343	
Communications & Utilities	428,933	26,186		6,862	
Repairs & Maintenance	672,097	33,818		9,822	
Rentals & Leases	704,121	33,950		10,181	
Printing & Reproduction	25,876	1,322		378	
Depreciation	1,010,419				
Interest Expense					
Other Operating Expenses	793,927	14,604		4,047	
Total Administrative Expenses	**17,819,313**	**843,595**	**-**	**230,303**	**-**
Other Deductions:					
Interfund Transfers Out (Note 4.E):					
Membership Fees	40,000				
Excess Benefit Arrangement	164,004				
Interagency Transfers Out (Note 4.F):					
Excess Benefit Arrangement					70,302
Total Transfers Out	204,004	-	-	-	70,302
Total Other Deductions	**204,004**	**-**	**-**	**-**	**70,302**
Total Deductions	**1,822,558,687**	**48,937,455**	**26,464,422**	**13,212,233**	**506,603**
Net Increase/(Decrease)	**621,552,966**	**10,256,461**	**-**	**36,289,270**	**-**
NET ASSETS					
Net Assets Held in Trust For Pension and Other Employee Benefits:					
Beginning of Year	**21,204,091,002**	**737,416,639**	**-**	**259,623,603**	**-**
End of Year (Exh. X)	**21,825,643,968**	**747,673,100**	**-**	**295,912,873**	**-**

	State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texa$aver 401(k) Trust Fund (0946)	Texa$aver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Deferred Compensation Plans and Cafeteria Plan	Total August 31, 2012
	$	$	$	$	$	$	$
	696,085,075	2,484,189,466			92,092,693	92,092,693	2,576,282,159
		89,467,264					89,467,264
		14,940,228					14,940,228
	696,085,075	**2,588,596,958**	**-**	**-**	**92,092,693**	**92,092,693**	**2,680,689,651**
	1,650,689	10,482,073	376,093	288,863	294,533	959,489	11,441,562
	402,777	3,052,047	93,143	70,789	74,912	238,844	3,290,891
	452,965	2,983,156	21,002	19,816	7,994	48,812	3,031,968
	18,958	90,343	4,263	3,474	1,825	9,562	99,905
	149,775	1,184,213	28,601	18,442	22,436	69,479	1,253,692
	93,197	555,178	10,956	7,193	10,965	29,114	584,292
	118,819	834,556	20,268	12,521	16,400	49,189	883,745
	121,988	870,240	21,255	14,679	16,854	52,788	923,028
	4,396	31,972	713	976	728	2,417	34,389
		1,010,419					1,010,419
					12,029	12,029	12,029
	195,136	1,007,714	19,762	15,043	2,026,702	2,061,507	3,069,221
	3,208,700	**22,101,911**	**596,056**	**451,796**	**2,485,378**	**3,533,230**	**25,635,141**
		40,000					40,000
		164,004					164,004
		70,302					70,302
	-	274,306	-	-	-	-	274,306
	-	**274,306**	**-**	**-**	**-**	**-**	**274,306**
	699,293,775	**2,610,973,175**	**596,056**	**451,796**	**94,578,071**	**95,625,923**	**2,706,599,098**
	-	**668,098,697**	**37,198**	**46,168**	**1,503,119**	**1,586,485**	**669,685,182**
	-	**22,201,131,244**	**2,798,085**	**943,274**	**1,914,663**	**5,656,022**	**22,206,787,266**
	-	**22,869,229,941**	**2,835,283**	**989,442**	**3,417,782**	**7,242,507**	**22,876,472,448**
							(Exh. IX)

Index

Note | Page

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).

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 V.T.C.A., Texas Government Code, Title 8, Subtitle B.

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

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.

B. New Accounting Pronouncements

On September 1, 2011 the System implemented GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. GASB adopted Statement No. 64 to amend Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*.

The objective of Statement No. 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

The requirements of this new Statement are effective for financial statements for periods beginning after June 15, 2011. While this financial reporting period did not have any applicable derivatives, the System is implementing GASB 64 for future reporting periods.

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 assets 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.

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 Assets and Statement of Activities use the economic resources measurement focus and the accrual basis of accounting.

The government-wide Statement of Activities presents the System's governmental activities by function and distinguishes between program revenues and general revenues. Program revenues are further broken down into charges for services, and operating grants and contributions.

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

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

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

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

Pension and Other Employee Benefit Trust Funds, and Internal Service Funds are maintained on the full accrual basis of accounting and the economic resources measurement focus. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Capital assets are depreciated. Agency Funds are used to report resources held by the System in a purely custodial capacity. Assets and offsetting liabilities are accounted for using the full accrual basis. Agency Funds have no revenues, expenditures, expenses, or fund balance and typically involve only the receipt and remittance of resources to individuals, the state or other governments.

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

E. Basis of Presentation

(In accordance with GASB Statement 34)

Fund Structure

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

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

Governmental Fund Category

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

For the FY 2012 CAFR, the System continues to report the governmental funds as nonmajor funds. The reporting is based on a statement on page 58 of GASB Statement No. 34, published in June of 1999, "The provisions of this statement need not be applied to immaterial items." The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental funds displayed in Exhibits III and IV are much less than 5% of the funds managed by ERS, and the activities in these funds are not the core of ERS business, which is pension and group benefits. Therefore, the System is reporting the governmental funds on Exhibits III and IV as nonmajor funds for the FY 2012 CAFR.

Special Revenue Funds

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

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

Proprietary Fund Category

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

Internal Service Fund

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

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

Fiduciary Fund Category

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

Pension and Other Employee Benefit Trust Funds

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

- Employees Retirement System Fund (ERS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the accumulation of resources for pension benefit payments to qualified State employees or beneficiaries.
- Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of benefits as provided by the Commissioned Law Enforcement and Custodial Officer Supplemental Retirement Benefit Act.
- Judicial Retirement System Plan One Fund (JRS I) (General Revenue Fund) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle D and is used to account for appropriations received from the State's General Revenue Fund for annuity and refund payments to eligible judicial employees who commenced service prior to September 1, 1985.

- Judicial Retirement System Plan Two Fund (JRS II) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle E and is used to account for the accumulation of resources for pension benefit payments to eligible judicial employees who commenced service after August 31, 1985.
- Excess Benefit Arrangement (EBA) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of annuities otherwise payable from the Employees Retirement Fund that exceed the limitations on benefits imposed by Internal Revenue Code (IRC) Section 415(b).
- State Retiree Health Plan (SRHP) -- The System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551. The State Retiree Health Plan (SHRP) is a cost-sharing multiple-employer defined benefit postemployment health care plan that covers retired employees of the State, and other entities as specified by the state legislature.
- Texa$aver 401(k) Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for the costs of administering the IRC Section 401(k) deferred compensation plan.
- Texa$aver 457 Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 457 and the costs of administering the program.
- State Employees Cafeteria Plan Trust Fund (TexFlex) – This fund is established by Chapter 1551, Texas Insurance Code and is used to account for before-tax salary reduction contributions from State employees and higher education institutions, reimbursements for health care and dependent care, and the costs of administering the program.

Agency Funds

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

- Unappropriated Receipts (General Revenue Fund) – This fund accounts for member contributions received from the Judicial Retirement System Plan One Fund.
- Texa$aver 401(k) Trust Fund – This fund accounts for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 401(k).
- Texa$aver 401(k) Hold Transmittal Fund – This fund accounts for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 401(k).
- 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.
- Departmental Suspense Fund - This fund provides a temporary depository for monies held awaiting final disposition.
- Child Support – 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.

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.

G. Assets, Liabilities, Fund Balances and Net Assets

(In accordance with GASB Statement 34)

Cash and Short-Term Investments

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

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

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

Valuation

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

Investments

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

Valuation

Investments of the Pension Trust Funds and Internal Service Fund are reported at fair value in accordance with GASB Statement 25 and 31, respectively. Fair value is defined as the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller.

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

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

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

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

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

Permissible Investments

Eligible securities are as follows:

- Domestic equities, screened to eliminate against any known bankruptcy proceedings, lawsuits, or breach of corporate ethics that might jeopardize the company's economic future or existence;
- Equities of companies domiciled in countries outside of the United States; and
- U.S. dollar denominated fixed income and short-term securities including both publicly-traded and those issued pursuant to the Securities and Exchange Commission's Rule 144A.

Investment Unit Trust Accounting

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

Investment Components

For the fiscal year beginning September 1, 2011, the System decided to change the presentation grouping for investments from asset classes to investment components. These components are aligned with the System's investment strategies and unit trust accounting as described above. See Note 4.A for descriptions of the investment components.

Capital Assets

Pension Trust Funds are accounted for on a cost of service measurement focus. This means that all capital assets associated with the funds' activities are included in their statements of net assets. 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 assets.

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 A.

Figure A
Capitalization Thresholds and Useful Lives

Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Land	0	N/A
Building and Improvements	$100,000	40
Computer Software	$100,000	5 - 6
Furniture and Equipment	$5,000	3 - 10
Motor Vehicles	$5,000	7

Accounts Payable

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

Employees Compensable Leave

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

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

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

Fund Balances - Governmental Funds

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

Net Assets – Held in Trust for Pension Benefits

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

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

See Note 2.D for the balances of each funded plans' legally required reserves.

Restricted Net Assets - 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 Assets' in both the government-wide and the proprietary fund Statement of Net Assets.

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 Assets 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.

See Note 4. D Interfund Receivables and Payables.

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 Assets 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 4.E 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 Assets. See Note 4.F 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 assets.

2 - Defined Benefit Plans

(In accordance with GASB Statement 25)

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

Member contribution rates of the ERS, LECOS, JRS I and JRS II and State contribution rates of the ERS and LECOS 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. State contribution rates of the JRS II are actuarially determined each even-numbered year for the next biennium.

Administrative expenses of the ERS, LECOS and JRS II are financed through investment earnings, and the administrative expenses of the JRS I are financed by State appropriations. The acturial assumptions are summaries in Figure B.

Figure B
Actuarial Assumptions - Defined Benefit Plans

	Defined Benefit Plans
Valuation Date	August 31, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	30 Years
Annual Investment Return Assumption (discount rate):	8%
Projected Annual Salary Increase	
ERS	0 - 13.5%
LECOS	5.5 - 13.5%
JRSII	3.5%
Inflation Assumption Rate	3.50%

Asset Valuation Method is 20% of market plus 80% of expected actuarial value.

The excess of the total contributions over the normal cost is used to amortize the plan's unfunded actuarial accrued liability, if any exists.

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

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 Assets, for the System's policies regarding investment valuation.

A. Plan Descriptions and Contributions

Employees Retirement Plan

Plan Description

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

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

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

System Employees

System employees are members of the Employees Retirement Plan.

Contributions

Employees were required to contribute a percentage of their monthly gross compensation, including base salary, longevity pay, hazardous duty pay, and benefit replacement pay and excluding overtime pay and emoluments other than housing and utilities. The contribution rate was 6.5% for fiscal year 2012.

Legislators are required to contribute 8% and other elected class members are required to contribute 6% of their compensation to the System.

For fiscal year 2012 the State contributed 6% of the payroll of members for both the employee class and legislators. The state contributed 6% for other elected class members. See Note 2. B Funded Status and Funding Progress.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

Plan Description

The plan covers custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates of that institution. The plan also covers law enforcement officers who have been commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the State Board of Pharmacy who are recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education.

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

Contributions

Members contribute 0.5% to this fund.

For fiscal year 2012, the State contributed 0% of the covered payroll for LECOS members. See Note 2. B Funded Status and Funding Progress.

Judicial Retirement System of Texas Plan One

Plan Description

The plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who first became members before September 1, 1985. Members of the Judicial Retirement System of Texas Plan Two are excluded from this plan.

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

Contributions

Members are required to contribute 6% of their compensation to the State's General Revenue Fund.

The State is required to make appropriations from the General Revenue Fund sufficient to pay benefits on a pay-as-you-go basis. See Note 2.B Funded Status and Funding Progress.

Judicial Retirement System of Texas Plan Two

Plan Description

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

Contributions

Members are required to contribute 6% of their compensation to the System. Members who accrue 20 years of service credit in the retirement system cease making contributions, but are considered contributing members for all other purposes; however, the State contribution continues.

For the fiscal year ended August 31, 2012 the State contributed 6% of the payroll of members. See Note 2. B Funded Status and Funding Progress.

State Retiree Health Plan
Plan Description

(in accordance with GASB Statement 43)

In addition to the pension benefits described in Notes 2 and 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. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit postemployment health care plan that covers retired employees of the State, and other entities as specified by the state legislature. Benefit and contribution provisions of the State Retiree Health Plan are authorized by State law and may be amended by the Texas Legislature. Participating entities are listed in Figure C.

Figure C
Participating Reporting Entities
for the State Retiree Health Plan

State Agencies	126
Universities	26
Junior and Community Colleges	51
Other Entities	5
Total Participating Entities	**208**

The principal participating employer is the state of Texas. State agencies and universities comprise 73% of the employees covered by the State Retiree Health Plan.

Eligible participants include 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. As of August 31, 2012, there were 95,375 eligible retirees, 26,183 covered spouses, and 9,366 covered dependents. There are 225,075 active members and 11,966 terminated employees who have accumulated benefits but are not yet receiving them.

Contributions

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

Figure D
Employer Contribution Rates –
Retiree Health and Basic Life Premium –
Fiscal Year 2012

	September 1, 2011
	$
Retiree Only	438.30
Retiree & Spouse	689.04
Retiree & Children	606.20
Retiree & Family	856.94

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

Figure E
Contributions by Source and Claims Expenses - Retirees

	August 31,	
	2012	**2011**
	$	$
Employer Contributions	483,636,154	444,894,921
Retiree Contributions	134,992,777	135,133,140
Total Contributions	**618,628,931**	**580,028,061**
Claims Expenses	**696,085,075**	**646,197,287**

The employer's share of the administrative expense and cost of retiree healthcare coverage above the cost charged using a blended rate is known as the implicit rate subsidy. It is measured as the difference between the claims costs for the retirees in the group and the amounts contributed for the retirees. For fiscal year 2012 there was a reverse implicit rate subsidy (retiree contributions subsidized actives) in the amount of $62,305,457, primarily due to Federal subsidies for the Early Retirement Reinsurance Program, and Medicare Part D.

B. Funded Status and funding Progress

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

Figure F
Actuarial Assumptions - State Retiree Health Plan

	State Retiree Health Plan
Valuation Date	August 31, 2012
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Annual Investment Return Assumption (discount rate):	5.50%
Projected Annual Salary Increase	3.50% to 13.5%
Weighted-average at Valuation Date	6.61%
Annual Healthcare Trend Rate	8.0% in FY 2014 to 5.5% in FY 2020
Inflation Assumption Rate	3.50%

The initial healthcare trend rate is 8.0% and the ultimate rate is 5.50%. The amortization period is open. Figure G shows the System's Funded Status for the defined benefit plans as of August 31, 2012. Calculations are based on the benefit provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of cost between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations reflect a long term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. Retirement Systems Membership

The membership of the retirement plans as of August 31, 2012 is summarized in Figure H. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

Figure H
Retirement Systems Membership

	ERS	LECOS	JRS I	JRS II
Retirees and Beneficiaries Currently Receiving Benefits	87,799	8,477	433	215
Terminated Employees Entitled	90,190	7,129	4	143
Current Employees	132,669	37,404	17	541
Total	**310,658**	**53,010**	**454**	**899**

Note: Estimated based on actuarial valuation as of August 31, 2012

Figure G
Schedule of Funded Status ($ In Millions)

	(1) Actuarial Valuation Date	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability	(4) Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	(5) Funded Ratio (2)/(3)	(6) Annual Covered Payroll	(7) Ratio of UAAL to Covered Payroll (4)/(6)
		$	$	$	%	$	%
ERS	Aug. 31, 2012	24,272.51	29,377.07	5,104.56	82.60	5,676.51	89.90
LECOS	Aug. 31, 2012	832.45	1,015.67	183.22	82.00	1,498.98	12.20
JRS I	Aug. 31, 2012	-	232.92	232.92	-	2.20	10,587.40
JRS II	Aug. 31, 2012	300.43	315.20	14.77	95.30	68.78	21.50
State Retiree Health Plan	Aug. 31, 2012	-	20,823.41	20,823.41	-	10,268.70	202.80

D. Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2012 and 2011 are presented in Figure I. The State Retiree Health Plan is a pay-as-you-go plan and has no reserves.

See Note 1.G, Net Assets Held In Trust for Pension Benefits, for a description of each reserve account.

Figure I
Reserves

	ERS	LECOS	JRS II	Totals - August 31, 2012	2011
	$	$	$	$	$
Net Plan Assets Reserved For:					
Employee Savings	5,075,213,967	19,540,552	63,677,503	5,158,432,022	5,015,350,479
State Accumulation	1,506,473,793	280,681,280	109,664,483	1,896,819,556	2,338,927,369
Annuity Reserves	15,243,956,208	447,451,268	122,570,887	15,813,978,363	14,846,853,396
Total Net Plan Assets Reserved	**21,825,643,968**	**747,673,100**	**295,912,873**	**22,869,229,941**	**22,201,131,244**
	(Exhibit X)	(Exhibit X)	(Exhibit X)		
Funded Ratios of each plan, from the actuarial valuation:					
As of August 31, 2012	82.6%	82.0%	95.3%		
As of August 31, 2011	84.5%	86.4%	94.6%		

E. Historical Trend Information

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

3 - Risk Management

(In accordance with GASB Statement 10)

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

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 amintenance organizaton (HMO) contracts and dental health maintenance organization (DHMO) contracts.

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

C. liabiliites

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

Figure J
Summary of Risk Financing

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

economic factors. Changes in the balances of the self-funded claims liabilities for the current and prior fiscal years are presented in Figure K

Figure K
Changes in Self-Funded Claims Liabilities

	Totals – August 31, 2012	Totals – August 31, 2011
	$	$
Beginning of Fiscal Year Liability	462,270,640	470,061,677
Current-Year Claims and Changes in Estimates	1,692,405,756	1,780,864,733
Claims Payments	(1,656,527,543)	(1,788,655,770)
Balance at Fiscal Year-End	498,148,853	462,270,640

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

For both self-funded and insured coverages of the Internal Service Fund, the balance of claims that have been incurred but not reported as of August 31, 2012 is $505,058,000.

4 - Detail Disclosures on Funds

A. Assets

Deposits, Investments, Securities Lending, Repurchase Agreements, Derivatives and Forward Contracts
(In accordance with GASB Statements 3, 25, 28, 31 and 40)
See Note 1.G, Investments-Valuations.

Deposits

As of August 31, 2012, the total carrying amount of Cash in Bank was $13,603,583 as presented in Figure L.

Figure L
Deposits

Deposits	Carrying Value	Bank Balance
	$	$
Cash in Bank:		
Fiduciary Funds (Exh. X)	1,759,858	1,758,462
Agency Funds	3,449,973	3,449,973
Total Cash in Bank	5,209,831	5,208,435
Deposits in Investment Components:		
Fiduciary Funds	5,395,334	5,395,334
Margin Deposit:		
Fiduciary Funds	2,998,418	2,998,418
Total	**13,603,583**	**13,602,187**

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System does not have a deposit policy for custodial credit risk.

As of August 31, 2012, the System was not exposed to custodial credit risk with respect to deposits.

Investments

The System categorizes investment assets into principal components that align with investment strategies. The System's investment strategies are domestic equity, international equity, investment grade fixed income security, high yield fixed income security, 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 equity component are equity securities that are issued in the United States. This component also invests in a limited partnership to facilitate trading in equity securities and derivatives. Some Exchange Traded Funds (ETFs) are also included in this component to provide liquidity. The international equity component invests in equity securities that are issued outside of the United States.

The investment grade fixed income securities component invests in domestic and international fixed income securities that have a relatively low risk of default. This component also invests in ETFS to provide liquidity. The majority of the investments in the high yield fixed income security component are fixed income securities that have a relatively high risk and long maturity. A small number of equity securities in this component originate from corporate actions of the underlying fixed income securities. This component also invests in ETFs to provide liquidity to this component. The public real estate component invests in Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs).

Alternative Investments include private equity, private real estate, special situation, and hedge fund. The private equity investments are in private equity limited partnerships. The private real estate investments are in limited partnerships that specialize in real estate. Special situation 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 partnerships. The fair values of investments as of August 31, 2012 are presented in in Figure M by component.

Figure M
Investments

Fiduciary Funds:	
Investments:	
Domestic Equity Component:	
Equities	6,337,649,513
Exchange Traded Funds (ETFs)	8,054,718
Alternative Investments	340,547,100
Deposits	294
Total (Exh. X)	6,686,251,625
International Equity Component:	
Equities	5,388,461,254
Exchange Traded Funds (ETFs)	41,672,950
Deposits	4,695,194
Total (Exh. X)	5,434,829,398
Investment Grade Fixed Income Securities Component:	
U.S. Treasury Securities	3,292,886,505
U.S. Government Agency Obligations	1,337,784,042
Corporate Obligations	1,568,751,815
Corporate Asset and Mortgage Backed Securities	162,578,968
International Obligations	644,282,695
Exchange Traded Funds (ETFs)	59,445,184
Municipal Bonds	60,285,409
Total (Exh. X)	7,126,014,618
High Yield Fixed Income Securities Component:	
Corporate Obligations	189,799,256
Equities	16,653
Exchange Traded Funds (ETFs)	105,531,805
International Obligations	21,564,500
Total (Exh. X)	316,912,214
Public Real Estate Component:	
Equities	443,174,350
Deposits	699,846
Total (Exh. X)	443,874,196
Alternative Investments Component:	
Private Equity	1,083,742,573
Private Real Estate	668,873,269
Special Situation	70,000,000
Hedge Fund	300,000,000
Total (Exh. X)	2,122,615,842
Total Investments (Exh. VIII)	**22,130,497,893**
Short-Term Investments:	
Investment in Pool Cash	3,637,203
U.S. Treasury Securities	547,593,010
Money Market and Bond Funds	185,206,434
Total Short-Term Investments (Exh. VIII)	**736,436,647**
Proprietary Fund:	
Investments:	
U.S. Treasury Securities	121,771,012
U.S. Government Agency Obligations	49,471,283
Corporate Obligations	58,012,476
Corporate Asset and Mortgage Backed Securities	6,012,174
International Obligations	23,825,587
Exchange Traded Funds (ETFs)	2,198,285
Municipal Funds	2,229,356
Total Investments (Exh. V)	**263,520,173**
Short-Term Investments:	
U.S. Treasury Securities	258,280,591
Money Market and Bond Funds	135,799,689
Total Short-Term Investments (Exh. V)	**394,080,280**

Custodial Credit Risk

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

Foreign Currency Risk

Foreign currency risk for investments and deposits is the risk that changes in exchange rates will adversely affect the investments and deposits. The System does not have a policy for managing foreign currency risk. The System's investment and deposit exposure to foreign currency risk as of August 31, 2012 is summarized in Figure N.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policies of the System require that non-cash interest paying securities in the high yield bond portfolios may not exceed 15% of the market value of the portfolio and that investments in money market funds may represent no more than 5% of each individual fund. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index.

Figure N
Investments Exposted to Foreign Currency Risk

Foreign Currency	Domestic Equity Component (USD)	International Equity Component (USD)	Public Real Estate Component (USD)	Alternative Investmens Component (USD)
Investments:	$	$	$	$
Fiduciary Funds:				
Australian Dollar		215,821,477	37,452,960	
Brazilian Real		95,889,199	538,988	
British Pound		993,968,197	23,439,969	53,133,752
Canadian Dollar	1,358,139	372,636,687	22,807,700	
Chilean Peso		8,498,822		
Colombian Peso		9,498,776		
Czech Koruna		4,211,782		
Danish Krone		18,421,974		
Egyptian Pound		3,640,109		
Euro	1,168,529	1,187,609,680	25,522,893	275,468,073
Hong Kong Dollar		297,149,470	42,208,085	
Hungarian Forint		4,926,206		
Indian Rupee		64,919,405	391,879	
Indonesian Rupiah		63,584,684	465,654	
Israeli Shekel		9,961,407	271,802	
Japanese Yen		598,038,272	40,401,341	
Korean Won		173,834,409		
Malaysian Ringgit		21,091,701	217,482	
Mexican Peso		36,060,688		
Moroccan Dirham		859,392		
New Zealand Dollar		733,418	347,755	
Norwegian Krone		42,796,983	859,729	
Philippine Peso		10,116,584		
Polish Zloty		8,613,340		
Singapore Dollar		68,124,728	20,748,322	
South African Rand		91,477,102		
Swedish Krona		83,285,424	5,090,509	
Swiss Franc		315,282,383	5,423,361	
Taiwan Dollar		104,306,977		
Thai Baht		30,103,267	108,505	
Turkish Lira		16,694,145		
Investments Exposed to Foreign Currency Risk	**2,526,668**	**4,952,156,688**	**226,296,934**	**328,601,825**
US Dollar	6,683,724,663	477,976,516	216,877,416	1,794,014,017
Total Investments	**6,686,251,331**	**5,430,133,204**	**443,174,350**	**2,122,615,842**
Deposits:				
Fiduciary Funds:				
Australian Dollar		2,005,882	614,801	
Brazilian Real		38,197		
British Pound		654,840		
Canadian Dollar		38,381	5,409	
Euro		105,091		
Hong Kong Dollar		892,511		
Swiss Franc		1		
Taiwan Dollar		692,062		
Deposits Exposed to Foreign Currency Risk	**-**	**4,426,965**	**620,210**	**-**
US Dollar	294	269,229	79,636	
Total Deposits	**294**	**4,696,194**	**699,846**	**-**
Total (Exh. X)	**6,686,251,625**	**5,434,829,398**	**443,874,196**	**2,122,615,842**

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, 2012 is summarized in Figure O. The securities were rated and categorized according to Standard & Poor's rating standards.

Figure O
Investment Credit Risk

Investment Type	S & P Rating	Fiduciary Funds	Proprietary Fund
US Treasury Securities	AA+	$ 3,840,479,515	$ 380,051,603
US Government Agency Obligations	AA+	1,316,936,717	48,700,348
	NR	20,847,325	770,935
Corporate Obligations	A	244,508,268	9,041,921
	A-	325,834,299	12,049,360
	A+	169,721,767	6,276,315
	AA	34,647,765	1,281,275
	AA-	94,432,030	3,492,098
	AA+	32,862,296	1,215,248
	AAA	39,497,180	1,460,607
	B	47,745,690	
	B-	13,238,756	
	B+	32,829,003	
	BB	22,166,813	
	BB-	47,555,356	124,109
	BB+	18,374,452	
	BBB	276,754,047	10,234,371
	BBB-	52,378,217	1,741,326
	BBB+	276,208,846	10,214,209
	CCC+	3,181,250	
	NR	26,615,036	881,637
Corporate Asset and Mortgate Backed Securities	A+	5,885,369	217,641
	AA+	6,502,564	240,465
	AAA	65,975,682	2,439,782
	NR	84,215,353	3,114,286
International Obligations	A	64,947,743	2,401,769
	A-	45,948,549	1,699,178
	A+	88,061,002	3,256,498
	AA	50,667,140	1,873,672
	AA-	97,318,634	3,598,845
	AA+	4,822,205	178,325
	AAA	195,199,034	7,218,465
	B	2,335,500	
	B-	2,265,250	
	B+	1,734,000	
	BB-	6,218,500	
	BB+	32,878,634	882,616
	BBB	17,697,245	654,444
	BBB+	55,753,759	2,061,775
	NR	57,479,376	2,125,589
Money Market and Bond Funds	NR	185,206,434	135,799,689
Municipal Bonds	A	2,278,501	84,259
	A-	10,425,948	385,552
	A+	24,267,574	897,416
	AAA	23,313,386	862,129
Total		**8,068,212,010**	**657,527,757**

The System earns failed interest on monies held at the custodial agent bank overnight when a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the System's money is invested overnight in a Common Trust Fund at the custodial agent bank. The System had no failed securities either during the fiscal year or at August 31, 2012.

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, 2012, the System was not exposed to any concentration risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk management. However, interest rate risk is managed through duration, by operating within defined risk parameters versus a benchmark index.

As of August 31, 2012, the System's exposure to interest rate risk is summarized in Figure P.

Securities Lending

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

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

Figure P
Investment Interest Rate Risk

	Fiduciary Funds		Proprietary Fund	
Investment Type	**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
	$		$	
U.S. Treasury Securities	3,840,479,515	4.64	380,051,603	2.51
U.S. Government Agency Obligations	1,337,784,042	2.79	49,471,283	2.79
Corporate Obligations	1,758,551,071	6.42	58,012,476	6.56
Corporate Asset and Mortgage Backed Securities	162,578,968	3.04	6,012,174	3.04
International Obligation	723,326,571	3.43	25,951,176	3.38
Money Market and Bond Fund	185,206,434	0.08	135,799,689	0.08
Municipal Funds	60,285,409	13.08	2,229,356	13.08
Overall	**8,068,212,010**	**4.54**	**657,527,757**	**2.46**

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 2012. The System received net securities lending income totaling $5,955,097 for the fiscal year ended August 31, 2012. The collateral information as of August 31, 2012 is summarized in Figure Q.

Figure Q
Securities Lending Collateral Summary

Investment Type	Underlying Securities Value	Securities Collateral Value	Cash Collateral Value
	$	$	$
Fiduciary Funds:			
U.S. Treasury Securities	349,609,436	-	356,217,355
Corporate Obligations	85,281,161	-	87,420,565
Domestic Equity	845,894,729	-	867,659,195
International Equity	67,165,605	-	73,905,580
International Corporate Obligations	12,741,350	-	13,060,400
Total	1,360,692,281	-	1,398,263,095
			Exh. X
Proprietary Fund:			
U.S. Treasury Securities	12,943,126	-	13,187,763
Corporate Obligations	3,157,251	-	3,236,455
Domestic Equity	1,874,903		1,917,131
International Corporate Obligations	471,706	-	483,518
Total	**18,446,986**	**-**	**18,824,867**
			Exh. V

Repurchase Agreements

During the fiscal year 2012, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2012, the System had $1,417,087,962 balance in these assets.

Derivative Investing

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

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

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

The System receives or pays a daily “variation margin,” which is an amount of cash equal to the daily fluctuation in value of the contract. The accumulated value of the variation margin is the fair value of the futures contract. As of August 31, 2012, the outstanding futures contracts are summarized in Figure R.

Figure R
Summary of Outstanding Futures Contracts

	No. of Contracts	Notional Amount
		$
Future Contracts - Long	300	48,193,547
Future Contracts - Short	691	48,300,900
		Fair Value
Margin Deposit - Cash		2,998,418
Future Contracts		740,488
Net Margin Deposit - Cash		3,738,906

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, 2012.

Alternative Investments

The System makes contingent commitments to investments in entities that manage private equity and private real estate portfolios. The categories of these investments as of August 31, 2012 are summarized in Figure S.

B. Liabilities

Operating Leases

(In accordance with GASB Statement 38)
Included in rental expenses/expenditures are assets leased on a long-term basis that have been classified operating leases. Current year expenses for these leased assets totaled $1,091,769. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2012 is presented in Figure T.

Figure T
Non-Cancelable Operating Leases

Fiscal Year	Future Minimum Lease Rental Payments
	$
2013	389,405
2014	230,083
2015	146,394
2016	22,933
2017	0
Total Future Minimum Lease Rental Payments	**788,815**

Figure S
Alternative Investments (Note A)

Asset Class	No. of Funds	Commitment	Remaining Commitment	Adjusted Funded Amount	Fair Value
		$	$	$	$
Private Equity					
US Dollar	34	2,321,987,393	1,530,398,934	791,588,459	788,319,046
Euro Dollar	7	424,778,265	178,036,635	246,741,630	242,289,775
British Pound	1	71,475,750	17,678,785	53,796,965	53,133,752
	42	2,818,241,408	1,726,114,354	1,092,127,054	1,083,742,573
Private Real Estate					
US Dollar	13	1,046,300,000	475,601,667	570,698,333	635,694,971
Euro Dollar	2	151,260,000	120,974,085	30,285,915	33,178,298
	15	1,197,560,000	596,575,752	600,984,248	668,873,269
Special Situations					
US Dollar	1	70,000,000		70,000,000	70,000,000
Hedge Funds (Note B)					
US Dollar	5	600,000,000		600,000,000	640,547,100
Total	**63**	**4,685,801,408**	**2,322,690,106**	**2,363,111,302**	**2,463,162,942**

Note A: Commitment, Remaining Commitment, Adjusted Funded Amount, and Fair Value are reported in US Dollar.
Note B: Fair value Includes $340,547,100 investments in the Domestic Equity Component

C. Fund Equity

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

A summary of pension plan and other employee benefit fiduciary net assets at August 31, 2012 and 2011 is presented in Figure U.

Figure U
Net Assets - Fiduciary Funds

Fund Type	Totals - August 31 2012	2011
	$	$
Defined Benefit Plans (Note A)	22,869,229,941	22,201,131,244
Deferred Compensation Plans and Cafeteria Plan:		
Administration - Deferred Compensation Plans	3,824,725	3,741,359
Administration – State Employees Cafeteria Plan	3,417,782	1,914,663
Total Deferred Compensation Plans and Cafeteria Plan	**7,242,507**	**5,656,022**
Total Fiduciary Net Assets Held In Trust for Pension Benefits and Other Purposes	**22,876,472,448**	**22,206,787,266**
	(Exh. XI)	

Note A: See Note 2. D Reserves, for details of the statutorily required reserve balances of the Defined Benefit Plans.

D. Interfund Receivables and Payables

(In accordance with GASB Statement 38)
At year-end, accruals related to interfund transfers and interfund reimbursements between the System's funds, are reported as Due From External Parties or Due To External Parties in the government-wide Statement of Net Assets and as Due From Other Funds or Due To Other Funds in the fund financial statements. (See Note 1.G)

Figure V presents individual interfund receivable and interfund payable balances at August 31, 2012.

Figure V
Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
	$	$
Governmental Activities:		
Governmental Funds	-	9,176
Agency Fund	-	-
Proprietary Fund:	-	-
Employees Life, Accident & Health Insurance and Benefits Fund	21,274,891	1,635,656
Total Governmental Activities	**21,274,891**	**1,644,832**
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	2,633,737	22,263,796
Total - Interfund Receivables and Payables	**23,908,628**	**23,908,628**

E. 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 W presents interfund transfers for the year ended August 31, 2012.

Figure W
Interfund Transfers

	Transfers In	Transfers Out
	$	$
Governmental Activities:		
Non-Major Governmental Funds:		
Social Security Administration (Agency 327, Fund 955)	40,000	
Total - Governmental Activities	**40,000**	**-**
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	164,004	204,004
Total - Interfund Transfers	**204,004**	**204,004**

F. 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.*

5 - Contingent Liability

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.

B. Sick Leave

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is taken only in the event of illness. In the event of an employee's death, a payment is made to the employee's estate for one-half of the accumulated leave or 336 hours, whichever is less. Such payments are recognized as expenses/expenditures when paid.

Service credit is given upon retirement at the rate of one month of service for each 160 hours of an employee's accumulated sick leave balance. Effective August 28, 1995, accumulated sick leave may also be used to meet service requirements to qualify for retirement at a rate of one month of service for each 160 hours of accrued unused sick leave for employees hired before September 1, 2009. Employees hired after September 1, 2009 will not be able to use accumulated sick leave to meet retirement eligibility.

The additional contingent liability for future compensation of sick leave, based on accumulated sick leave balances as of August 31 was not considered material.

6 - 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 2,460 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.

During fiscal year 2012, the System participated in the COBRA premium assistance program under the American Recovery and Reinvestment Act of 2009. Certain individuals who are eligible for COBRA continuation health coverage receive a subsidy for 65 percent of the premium. The individuals are required to pay only 35 percent of the premium. The System recovers the subsidy provided to assistance-eligible individuals by reducing monthly employment tax deposits and reporting the subsidy as a credit on its quarterly employment tax return. The COBRA premium assistance program ended on November 30, 2011 and all COBRA subsidy was collected before the fiscal year end.

Required Supplementary Information
Schedule of Funding Progress - Defined Benefit Plans

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets (000's)	(b) Actuarial Accrued Liability (AAL) (000's)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a) (000's)	(d) Funded Ratio (a) / (b)	(e) Covered Payroll (000's)	(f) UAAL As A Percentage Of Covered Payroll ((b-a) / e)
Employees Retirement System (ERS)						
2007	$ 22,938,947	$ 23,987,165	$ 1,048,218	95.6%	$ 5,253,723	20.0%
2008	23,511,918	25,403,280	1,891,362	92.6	5,379,527	35.2
2009	23,509,622	26,191,650 (Note A)	2,682,028	89.8	5,814,417	46.1
2010	23,628,567	27,668,876 (Note A)	4,040,309	85.4	5,930,141	68.1
2011	23,997,445	28,398,213 (Note A)	4,400,768	84.5	5,795,185	75.9
2012	24,272,514	29,377,069 (Note A)	5,104,555	82.6	5,676,509	89.9
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)						
2007	$ 747,765	$ 762,666	$ 14,901	98.0%	$ 1,360,819	1.1%
2008	774,509	842,135	67,626	92.0	1,242,122	5.4
2009	780,808	870,179 (Note A)	89,371	89.7	1,464,483	6.1
2010	802,897	930,747 (Note A)	127,850	86.3	1,507,950	8.5
2011	830,522	960,953 (Note A)	130,431	86.4	1,475,432	8.8
2012	832,451	1,015,668 (Note A)	183,217	82.0	1,498,979	12.2
Judicial Retirement System Plan One (JRS I)						
2007	$ 0	$ 312,852	$ 312,852	0.0	$ 2,777	11,267.0%
2008	0	289,671	289,671	0.0	3,478	8,328.7
2009	0	268,275	268,275	0.0	2,965	9,048.1
2010	0	264,077	264,077	0.0	2,827	9,341.2
2011	0	245,777	245,777	0.0	2,200	11,171.7
2012	0	232,922	232,922	0.0	2,200	10,587.4
Judicial Retirement System Plan Two (JRS II)						
2007	$ 211,933	$ 220,884	$ 8,951	95.9%	$ 64,654	13.8%
2008	232,891	239,098	6,207	97.4	66,110	9.4
2009	248,279	255,569	7,290	97.1	67,968	10.7
2010	264,515	281,760	17,245	93.9	68,755	25.1
2011	283,936	300,163	16,227	94.6	69,655	23.3
2012	300,433	315,199	14,766	95.3	68,778	21.5
State Retiree Health Plan						
2007	$ 0	$ 17,674,558	$ 17,674,558	0.0%	$ 8,835,907	200.0%
2008	0	20,131,242	20,131,242	0.0	9,373,366	214.8
2009	0	21,992,356	21,992,356	0.0	10,045,849	218.9
2010	0	22,329,556	22,329,556	0.0	10,437,333	214.0
2011	0	21,502,434	21,502,434	0.0	10,376,487	207.2
2012	0	20,823,410	20,823,410	0.0	10,268,696	202.8

Note A: The actuarial accrued liability and the corresponding normal cost rate for ERS and LECOS are based on the provisions in effect for each active member.

Required Supplementary Information
Schedule of Employer Contributions - Defined Benefit Plans

Fiscal Year	Annual Required Contribution (ARC)	Percentage Contributed	Annual Required Contribution (ARC)	Percentage Contributed
	Employees Retirement System (ERS)		**Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)**	
2008	$ 378,236,402	90.3%	$ 19,516,223	103.5%
2009	529,887,917	68.4	33,189,075	62.2
2010	630,326,400	63.4	33,759,388	82.3
2011	707,136,803	58.5	36,445,951	66.5
2012	704,853,684	49.2	35,056,772	0
2013	734,545,201	N/A	38,283,880 (Note A)	N/A
	Judicial Retirement System Plan (JRS I)		**Judicial Retirement System Plan Two (JRS II)**	
2008	$ 27,258,289	105.1	$ 11,021,954	101.1
2009	25,325,192	111.3	11,080,453	102.5
2010	23,451,818	116.4	11,270,298	102.1
2011	23,064,889	117.0	11,400,109	104.7
2012	21,424,293	123.5	10,715,509	38.7
2013	20,335,827	N/A	10,701,273 (Note A)	N/A

Note A: Calculations based on estimated fiscal year 2013 covered payroll. At the end of fiscal year 2013 the ARC will be recalculated based on actual 2013 covered payroll.

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

Fiscal Year	Contributions from Employers	Contributions from Federal Government	Annual Required Contribution (ARC)	Percentage Contributed
			State Retiree Health Plan (Note B)	
2008	$ 417,106,470	32,963,502	1,813,660,134	24.8%
2009	447,765,282	35,783,527	1,997,932,603	24.2
2010	478,348,504	40,988,263	2,014,533,554	25.8
2011	444,894,921	68,382,666	1,882,731,828	27.3
2012	483,636,154	80,336,211	1,800,991,324	31.3

Note B: Percentage contributions on The Schedule of Employer Contributions includes both employer (state) and federal contributions.

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

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience;
- The Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience; and
- For Select classes of State Agency members, certain demographic assumptions (Retirement Rates, Termination Rates, Disability Rates, Salary Increases, Mortality Rates and Rates of Withdrawal of Contributions) were updated since the prior valuation to be consistent with the assumptions used in the actuarial valuation of the ERS retirement plan as of August 31, 2012; these demographic assumptions were based on an experience study and were previously approved by the ERS Trustees for use in the retirement plan valuation; in addition, the period of coverage assumption for dependent children and the tobacco usage assumption have been updated to reflect recent plan experience and expected trends.

The plan provisions have been changed since the prior valuation in order to reflect the implementation of the Employer Group Waiver Plan with Commercial Wrap (the EGWP plus Wrap) for Medicare-primary participants. This change becomes effective January 1, 2013 and is incorporated into this valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits. The EGWP plus Wrap will reduce the employer's cost, resulting in a decrease to the employer's Annual OPEB Cost and Actuarial Accrued Liability below the levels they would have otherwise been in the absence of these changes to the plan provisions.

Consistent with the prior year valuation, the effects of the Affordable Care Act's addition of the High-Cost Plan Excise Tax under Internal Revenue Code Section 49801 have been included in this valuation. The present value of the estimated Excise Taxes in future years will increase the employer's Annual OPEB Cost and Actuarial Accrued Liability above the levels they would have otherwise been in the absence of this change to the law.

Other Supplementary Information - Schedule A-1
Combining Statement of Net Assets - Agency Funds
August 31, 2012

ASSETS	Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)	Employee Savings Bond Fund (0901) (U/F 0901)	Texa$aver 401(k) Fund (0946) (U/F 1946)	Texa$aver 401(k) Hold Transmittal (0942) (U/F 0942/8942)	Child Support (8070) (U/F 8070)	Totals August 31, 2012
	$	$	$	$	$	$
Current Assets:						
Cash and Cash Equivalents:						
Cash in Bank	-	-	3,449,973	-	-	3,449,973
Cash in State Treasury	-	-	-	-	4,209	4,209
Total Cash and Cash Equivalents	-	-	3,449,973	-	4,209	3,454,182
Receivables:						
Interest and Dividends Receivable	-	-	-	-	-	-
Accounts Receivable	9,070	-	-	-	-	9,070
Total Current Assets	**9,070**	**-**	**3,449,973**	**-**	**4,209**	**3,463,252**
Total Assets	**9,070**	**-**	**3,449,973**	**-**	**4,209**	**3,463,252**
LIABILITIES						
Current Liabilities:						
Accounts Payable	9,070	-	-	-	-	9,070
Due To Other Funds	-	-	-	-	-	-
Funds Held For Others	-	-	3,449,973	-	4,209	3,454,182
Total Current Liabilities	**9,070**	**-**	**3,449,973**	**-**	**4,209**	**3,463,252**
Total Liabilities	**9,070**	**-**	**3,449,973**	**-**	**4,209**	**3,463,252**

Other Supplementary Information - Schedule A-2
Combining Statement of Changes in Assets and Liabilities - Agency Funds
August 31, 2012

	Beginning Balances $	Additions $	Deductions $	Ending Balances $
Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)				
ASSETS				
Cash in State Treasury	-	125,043	125,043	-
Accounts Receivable	9,078	125,035	125,043	9,070
Total Assets	**9,078**	**250,078**	**250,086**	**9,070**
LIABILITIES				
Accounts Payable	9,078	136,285	136,293	9,070
Total Liabilities	**9,078**	**136,285**	**136,293**	**9,070**
Employee Savings Bond Fund (0901) (U/F 0901)				
ASSETS				
Cash in State Treasury	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**
LIABILITIES				
Accounts Payable	-	-	-	-
Vouchers Payable	-	-	-	-
Total Liabilities	**-**	**-**	**-**	**-**
Texa$aver 401(k) Trust Fund (0946) (U/F 1946)				
ASSETS				
Cash in Bank	4,329,573	352,606,976	353,486,576	3,449,973
Total Assets	**4,329,573**	**352,606,976**	**353,486,576**	**3,449,973**
LIABILITIES				
Funds Held For Others	4,329,573	352,606,976	353,486,576	3,449,973
Total Liabilities	**4,329,573**	**352,606,976**	**353,486,576**	**3,449,973**
Texa$aver 401(k) Hold Transmittal (0942) (U/F 0942 & 8942)				
ASSETS				
Cash in State Treasury	-	-	-	-
Interest and Dividends Receivable	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**
LIABILITIES				
Due To Other Funds	-	-	-	-
Funds Held For Others	-	-	-	-
Total Liabilities	**-**	**-**	**-**	**-**
Child Support Deducts Suspense (8070) (U/F 8070)				
ASSETS				
Cash in State Treasury	4,314	8,418	8,523	4,209
Total Assets	**4,314**	**8,418**	**8,523**	**4,209**
LIABILITIES				
Funds Held For Others	4,314	8,418	8,523	4,209
Total Liabilities	**4,314**	**8,418**	**8,523**	**4,209**
Totals - All Agency Funds				
ASSETS				
Cash in Bank	4,329,573	352,606,976	353,486,576	3,449,973
Cash in State Treasury	4,314	133,461	133,566	4,209
Interest and Dividends Receivable	-	-	-	-
Accounts Receivable	9,078	125,035	125,043	9,070
Total Assets	**4,342,965**	**352,865,472**	**353,745,185**	**3,463,252**
LIABILITIES				
Accounts Payable	9,078	136,285	136,293	9,070
Due To Other Funds	-	-	-	-
Vouchers Payable	-	-	-	-
Funds Held For Others	4,333,887	352,615,394	353,495,099	3,454,182
Total Liabilities	**4,342,965**	**352,751,679**	**353,631,392**	**3,463,252**

Other Supplementary Information - Schedule 1
Revenues, Expenses and Changes in Statutory Account Balances
(Non-GAAP Presentation) - Employees Retirement Fund
Year Ended August 31, 2012

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2012
OPERATING REVENUES	$	$	$	$	$	$
Contributions to Retirement System:						
Member Contributions	402,170,494					402,170,494
Employer Contributions		346,656,128				346,656,128
Service Contributions from Teacher Retirement System		70,985,963				70,985,963
Membership Fees					465,147	465,147
Penalty Interest		8,895,249				8,895,249
Investment Income:						
Net Appreciation in Fair Value of Investments				1,096,852,965		1,096,852,965
Interest and Dividends				572,014,641		572,014,641
Class Action Settlements				1,433,405		1,433,405
Rental Income					37,450	37,450
Warrants Voided By Statute of Limitations		117,045				117,045
Miscellaneous					114,527	114,527
Total Operating Revenues	**402,170,494**	**426,654,385**	**-**	**1,670,301,011**	**617,124**	**2,499,743,014**
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			1,697,881,090			1,697,881,090
Death Benefits:						
Active Members		2,037,100				2,037,100
Retirees		127,699	1,488,994			1,616,693
Member Contributions Withdrawn	88,068,787					88,068,787
Service Contributions to Teacher Retirement System		14,940,228				14,940,228
Re-Issue Warrants Voided		(8,528)				(8,528)
Administrative Expenses					72,440,255	72,440,255
Depreciation Expense					1,010,419	1,010,419
Total Operating Expenses	**88,068,787**	**17,096,499**	**1,699,370,084**	**-**	**73,450,674**	**1,877,986,044**
Income (Loss) Before Non-Operating Expenses and Operating Transfers	**314,101,707**	**409,557,886**	**(1,699,370,084)**	**1,670,301,011**	**(72,833,550)**	**621,756,970**
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	235,935,687	211,094,236	1,150,233,534	(1,597,263,457)		-
Establishment of Benefit Reserves	(415,000,307)	(1,052,916,235)	1,467,916,542			-
Distribution of Interest for Administrative Expenses				(73,037,554)	73,037,554	-
Benefits Waived		1,581	(1,581)			-
Member Accounts-Escheated	(3,507,286)	3,507,286				-
Membership Fees Transferred Out					(40,000)	(40,000)
Excess Benefit Arrangement Transfers					(164,004)	(164,004)
Net Operating Transfers	**(182,571,906)**	**(838,313,132)**	**2,618,148,495**	**(1,670,301,011)**	**72,833,550**	**(204,004)**
Net Income (Loss)	**131,529,801**	**(428,755,246)**	**918,778,411**	**-**	**-**	**621,552,966**
Account Balances - Beginning	**4,943,684,166**	**1,935,229,039**	**14,325,177,797**	**-**	**-**	**21,204,091,002**
Account Balances - Ending	**5,075,213,967**	**1,506,473,793**	**15,243,956,208**	**-**	**-**	**21,825,643,968**

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, 2012

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2012
OPERATING REVENUES	$	$	$	$	$	$
Contributions to Retirement System:						
Member Contributions	7,287,462					7,287,462
State Retirement Contributions		(3,160)				(3,160)
Investment Income:						
Net Appreciation in Fair Value of Investments				33,944,850		33,944,850
Interest and Dividends				19,719,486		19,719,486
Class Action Settlements				49,411		49,411
Warrants Voided By Statute of Limitations		651				651
Total Operating Revenues	**7,287,462**	**(2,509)**	**-**	**53,713,747**	**-**	**60,998,700**
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			46,868,237			46,868,237
Refunds of Retirement Contributions	1,219,481					1,219,481
Death Benefits:						
Active Members		5,691				5,691
Retirees			451			451
Administrative Expenses					2,648,379	2,648,379
Total Operating Expenses	**1,219,481**	**5,691**	**46,868,688**	**-**	**2,648,379**	**50,742,239**
Income (Loss) Before Operating Transfers	**6,067,981**	**(8,200)**	**(46,868,688)**	**53,713,747**	**(2,648,379)**	**10,256,461**
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	30,848	19,146,056	31,888,464	(51,065,368)		-
Establishment of Benefit Reserves	(455,877)	(61,098,149)	61,554,026			-
Distribution of Interest for Administrative Expenses				(2,648,379)	2,648,379	-
Net Operating Transfers	**(425,029)**	**(41,952,093)**	**93,442,490**	**(53,713,747)**	**2,648,379**	**-**
Net Income (Loss)	**5,642,952**	**(41,960,293)**	**46,573,802**	**-**	**-**	**10,256,461**
Account Balances - Beginning	**13,897,600**	**322,641,573**	**400,877,466**	**-**	**-**	**737,416,639**
Account Balances - Ending	**19,540,552**	**280,681,280**	**447,451,268**	**-**	**-**	**747,673,100**

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, 2012

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2012
OPERATING REVENUES	$	$	$	$	$	$
Contributions to Retirement System:						
Member Contributions	4,148,672					4,148,672
Employer Contributions		4,150,342				4,150,342
Penalty Interest		21,813				21,813
Investment Income:						
Net Appreciation in Fair Value of Investments				34,223,874		34,223,874
Interest and Dividends				7,643,681		7,643,681
Class Action Settlements				19,165		19,165
Total Operating Revenues	**4,148,672**	**4,172,155**	**-**	**41,886,720**	**-**	**50,207,547**
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			12,782,188			12,782,188
Death Benefits:						
Active Members		20,746				20,746
Member Contributions Withdrawn	178,996					178,996
Administrative Expenses					936,347	936,347
Total Operating Expenses	**178,996**	**20,746**	**12,782,188**	**-**	**936,347**	**13,918,277**
Income (Loss) Before Operating Transfers	**3,969,676**	**4,151,409**	**(12,782,188)**	**41,886,720**	**(936,347)**	**36,289,270**
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	2,825,577	28,799,314	9,325,482	(40,950,373)		
Interest Paid on Withdrawals						
Establishment of Benefit Reserves	(886,463)	(4,342,997)	5,229,460			
Distribution of Interest for Administrative Expenses				(936,347)	936,347	
Net Operating Transfers	**1,939,114**	**24,456,317**	**14,554,942**	**(41,886,720)**	**936,347**	
Net Income (Loss)	**5,908,790**	**28,607,726**	**1,772,754**	**-**	**-**	**36,289,270**
Account Balances - Beginning	**57,768,713**	**81,056,757**	**120,798,133**	**-**	**-**	**259,623,603**
Account Balances - Ending	**63,677,503**	**109,664,483**	**122,570,887**	**-**	**-**	**295,912,873**

Other Supplementary Information - Schedule 4
Administrative and Investment Expenses/Expenditures
Statutory Administrative Funds and Accounts
Year Ended August 31, 2012

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
PERSONNEL SERVICES	$	$
Salaries and Wages	15,808,403	7,566,910
Payroll Related Costs:		
Retirement Contributions	887,972	364,642
Retirement Membership Fees	810	177
Employees Insurance Contributions	1,516,486	373,804
Retirees Insurance Contributions	867,628	106
Social Security Contributions	1,142,008	429,856
Unemployment Compensation	18,420	3,840
Total Payroll Related Costs	4,433,324	1,172,425
Total Personnel Services	**20,241,727**	**8,739,335**
PROFESSIONAL FEES AND SERVICES		
Actuarial Services	1,118,295	
Audit Services	1,049,338	750
Investment Consulting Fees		1,858,755
Investment Advisor Fees		13,335,197
Investment Management Fees		27,173,045
Medical Board Member Fees	48,450	
Architectural Services	1,960	
Legal Services	792,081	
Computer Programming Services	1,596,759	145,405
Other Professional Services	307,537	168,022
Total Professional Fees and Services	**4,914,420**	**42,681,174**
OTHER SERVICES AND CHARGES		
Travel	143,617	417,642
Materials and Supplies:		
Postage	709,505	
General Office and Other Supplies	214,039	313
Subscriptions	16,348	15,501
Furniture and Equipment	289,233	42,679
Computer Software	429,624	85,500
Total Materials and Supplies	1,658,749	143,993
Communications and Utilities:		
Electricity, Gas and Water	241,437	
Telephone and Telegraph	334,274	34,500
Electronic Communication Services	170,677	4,571,740
Total Communications and Utilities	746,388	4,606,240
Repairs and Maintenance:		
Land and Building	213,680	
Furniture and Equipment	25,889	
Computer Software and Equipment	966,061	125,000
Total Repairs and Maintenance	1,205,630	125,000
Rentals and Leases:		
Computer Software and Equipment	925,222	325
Office Equipment	298,532	
Space	33,447	
Total Rentals and Leases	1,257,201	325
Printing and Reproduction Services	46,407	
Depreciation	1,010,419	
Interest Expense	12,029	

- to next page

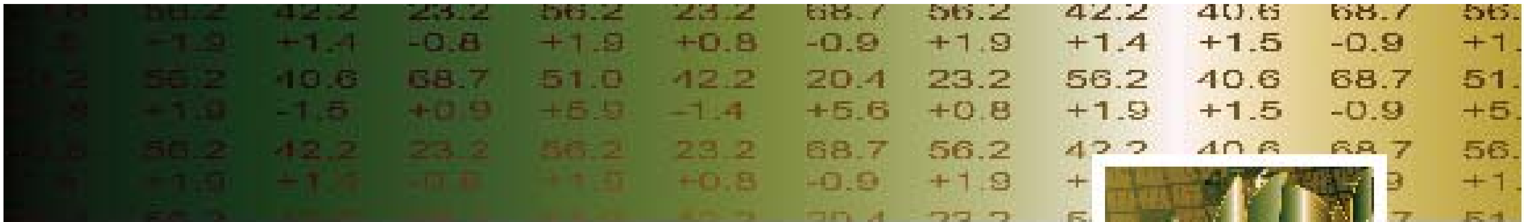
Other Supplementary Information - Schedule 4
Administrative and Investment Expenses/Expenditures
Statutory Administrative Funds and Accounts (Concluded)
Year Ended August 31, 2012

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
OTHER SERVICES AND CHARGES (continued)	$	$
Other Operating Expenses/Expenditures:		
Membership Fees	25,585	55,391
Employee Training	127,148	49,720
Insurance - Building and Vehicle	37,548	
Fees and Other Charges	17,398	1,611
Investment Banking	2,214	1,610,003
Tenure Awards	1,806	
Witness Fees	260	
Temporary Employment Agencies	234,068	19,653
Cleaning Services	139,155	
Advertising Services	4,863	822
Freight/Delivery Services	5,722	
Purchased Contracted Services	986,084	3,150
Prompt Payment Interest	13	
SORM Assessment	1,819	379
Third Party Administrator Fee - Cafeteria Plan	1,370,993	
Debit Card Fees - Cafeteria Plan	638,870	
Total Other Operating Expenses/Expenditures	3,593,546	1,740,729
Total Other Services and Charges	**9,673,986**	**7,033,929**
Total Expenses/Expenditures	**34,830,133**	**58,454,438**
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	17,819,313	55,631,362
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	843,595	1,804,784
Judicial Retirement System Plan Two Trust Fund (0993)	230,303	706,043
Texa$aver 401(k) Trust Fund (0946)	596,056	298
Texa$aver 457 Trust Fund (0945)	451,796	233
State Employees Cafeteria Plan Trust Fund (0943)	2,485,378	277
State Retiree Health Plan (3973)	3,208,700	569
Total Fiduciary Funds	**25,635,141**	**58,143,566**
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	9,090,003	310,872
Total Proprietary Fund	**9,090,003**	**310,872**
Social Security Administration Trust Account (0929)	104,989	
Total Governmental Funds	**104,989**	**-**
Total Method of Finance	**34,830,133**	**58,454,438**

Other Supplementary Information - Schedule 5
Professional and Consulting Fees
Year Ended August 31, 2012

NATURE OF SERVICE		Totals
Medical Board	$	48,450
Investment Consulting		1,858,755
Investment Advisors		13,335,197
Investment Management Fees		27,173,045
Actuarial Services - Retirement		334,845
Actuarial Services - Insurance		783,450
Computer Programming Services		1,742,164
Audit Fees - Financial		138,500
Audit Fees - Insurance Carrier		860,506
Audit Fees - Deferred Compensation Plan		39,932
Audit Fees - Other		11,150
Educational Services		68,568
Architectural Services		1,960
Legal Services		792,081
Information Technology Advisor Services		94,492
Website & Electronic Materials Development Services		5,242
Call Center Overflow and Organizational Consulting Services		56,088
Benefit Studies Research		59,550
Employee Assistance Program and Employee Survey Fee		7,064
Investment Assessment of Securities Lending		28,060
Investment Employment Search, Local Tax Agent Services, and Benchmarking Services		75,167
Investment Local Tax Agent Services		45,276
Investment Benchmarking Services		24,000
Environmental Testing		3,325
Other Professional and Consulting Services		8,727
Total Professional and Consulting Fees		**47,595,594**

Method of Finance:	
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	43,330,076
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	1,326,917
Judicial Retirement System Plan Two Trust Fund (0993)	526,005
State Retiree Health Plan (3973)	452,965
Texa$aver 401(k) Trust Fund (0946)	21,030
Texa$aver 457 Trust Fund (0945)	19,839
State Employees Cafeteria Plan Trust Fund (0943)	8,020
Total Fiduciary Funds	**45,684,852**
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	1,909,883
Total Proprietary Fund	**1,909,883**
Social Security Administration Fund (0929)	859
Total Governmental Funds	**859**
Total Method of Finance	**47,595,594**



INVESTMENT SECTION

OVERVIEW

The Employees Retirement System of Texas (System) investment portfolio closed the fiscal year with a fair value of $22.8 billion, and returned 8.22% for the year compared to the global policy benchmark return of 8.11%. Over the longer term, the fund returned 2.98% for the 5 years ending August 31, 2012 besting the policy benchmark of 2.47%, and the fund returned 7.03% for the 10 years ending August 31, 2012 outperforming the policy benchmark of 6.68%. The fiscal year-end asset allocation stood at 33.66% bonds, 29.54% domestic equity, 24.43% international equity, 4.92% global real estate, 4.78% in private equity, 1.32% in hedge funds, 0.31% in special situations, and 1.04% in cash.

Major accomplishments for the investment program this fiscal year were the conversion to ERS' new plan custodian, BNY Mellon, and securities lending agent, Deutsche Bank. Other accomplishments included initiating the funding of the Hedge Fund Portfolio and implementing the enhanced functionality of the private markets software. In addition to completing the new Incentive Compensation Plan, The System filled three vacancies: Director of Fixed Income, Public Equities Analyst, and Hedge Fund Portfolio Manager.

Staff continued to expand asset classes, as determined by the fiscal year 2008 Asset Liability Study, by closing on seven private equity funds and four co-investments for a total of $607 million in commitments. Private Real Estate team closed on seven deals totaling $507 million in commitments. Hedge Funds team funded four managers totaling $300 million. In addition, the first Special Situations investment, International EAFE advisors Baring Asset Management and Lazard Asset Management, and domestic large cap advisor Omega Advisors were funded in fiscal year 2012. The Board of Trustees approved to add three International ACWI ex US and three Emerging Markets advisors to the select pool. Staff continued to optimize the mix of internally managed and externally advised portfolios.

The System co-sponsored a REEM (Real Estate Emerging Manager) conference in Austin, and continued to carry out the Emerging Managers program. Staff also implemented legislative initiatives, including adding Investment Advisory Committee related sections to Chapter 815 in the Texas Government Code. As in years past, staff continued to implement the Sudan and Iran policies and procedures.

Staff made several improvements to business processes: Enhanced the foreign exchange trading processes; completed a review of natural resources-related investments; and continued to improve the technology platform for the External Advisor program, including improvements to the web based data capture and screening, and extension of the application to other asset classes beyond public equities. The System's actuaries completed a new experience study and the Board of Trustees, along with the Investment Advisory Committee and staff, began an Asset Liability Study to be completed in fiscal year 2013.

DOMESTIC EQUITY

The leading U.S. equity benchmarks had positive double digit returns for fiscal year 2012. However, the fiscal year was characterized by high volatility and began on a down note. The Federal Reserve stated after its September 21, 2011 meeting that it believed the U.S. economy "has significant downside risk" and listed a number of problems for the economy: high unemployment, a depressed housing market, and weak growth in consumer spending. Also of high concern was the debt crisis in Europe and the risk that it would create a financial contagion that would spread to the United States

The equity benchmarks began to recover during October and performance was generally positive through April. Eurozone nations negotiated a series of agreements to help support their sovereign debt and stabilize the European banking system. The U.S. Federal Reserve helped improve liquidity at Eurozone banks by reducing the rate it charges the European Central Bank for short-term dollar loans. In January, the Federal Open Market Committee extended its pledge to keep interest rates low until at least late 2014, compared with a previous date of mid-2013.

The equity market peaked in April and trended down through May as investors remained concerned that that the European sovereign debt crisis would escalate and preempt the U.S. economic recovery. U.S. stocks traded up from June through August after European leaders agreed on action to lower borrowing costs for debt-laden countries by allowing their banks to borrow directly from the European rescue funds. A key element of the agreement requires that a single supervisor should oversee banks in the 17 nation European Union – a first step towards a full banking union. The agreement helped restore investor optimism that Europe's debt crisis would be contained.

All economic sectors had positive returns for the fiscal year. Information Technology, Telecommunication Services and Consumer Discretionary stocks were significant outperformers. Consumer Discretionary and Telecommunication Services were also top performers during fiscal year 2012. The Financial sector had a positive double digit return after a negative return during the previous fiscal year. Materials, Energy and Utilities were the relative laggards with positive single digit returns

INTERNATIONAL EQUITY

International Markets took investors on another roller-coaster ride during fiscal year 2012 as monetary policy and stimulus packages from the Fed, ECB and China continued to keep interest rates low and provide stimulus for stagnating economies. During the year, Europe managed a small gain despite controversy surrounding sovereign bailouts and weakening economic conditions. Asian countries were impacted by a weakening Chinese economy where the government started taking steps to loosen monetary policy and increase infrastructure approvals. Japan remains in fiscal and political deadlock driven by a high debt burden and weak leadership.

The Morgan Stanley Capital International ACWI ex U.S. index (-1.9%) and EAFE index (-.04%) finished slightly lower in U.S. dollar terms during the course of the year. Europe (+1.4%) managed a slight rebound due to a strong rally late in the year, led by gains in the United Kingdom (+7.6%), Sweden (+5.5%) and Germany (+4.7%). Underperforming markets included Greece (-48.8%), Finland (-18.1%) and France (-5.2%). The Pacific Region (-2.5%) underperformed primarily due to heavily weighted Japan (-5.5%) while Singapore (+5.2%) offered a bright spot. Emerging Markets (-5.8%) were led lower by declines in Brazil (-16.5%), Russia (-12.7%) and China (-8.3%). Turkey (+21.1%) and Mexico (+5.8%) stood out as relative outperformers.

European currencies were the most volatile of major global currencies as the Swiss Franc (-15.6%, 1.24 to 1.05 CHF/USD), Euro (-12.5%, 1.44 to 1.26 EUR/USD), and Pound (-2.4%, 1.63 to 1.59 GBP/USD) all fell relative to the U.S. Dollar (+9.6%). Weakness was also seen across the Pacific with both the Aussie Dollar (-3.6%, 1.07 to 1.03 AUD/USD) and Yen (-2.2%, 76.66 to 78.39 USD/JPY).

REAL ESTATE

Global real estate equity markets, as measured by the FTSE EPRA/NAREIT Developed Index, increased 12.6% for the fiscal year ending August 31, 2012. Returns were negatively affected by over 200 basis points due to a strong dollar impacting the international returns, especially Euro denominated securities. The fiscal year started off volatile with a deepening European financial crisis, potential Eurozone breakup, and concerns of global economic growth playing havoc with the markets. Subsequent monetary easing, potential for fiscal stimulus, and positively received central bank policies improved investor confidence throughout the fiscal year. By region in USD terms, North America (+20.0%) was the best performer, significantly outperforming its regional peers. Asia (+9.2%) and UK (+8.1%) were relatively resilient while Continental Europe (-7.5%, currency detracted 12.5 percentage points) and Middle East (-23.4%) were the laggards.

A common theme across the globe was the flight to safe havens. Countries with stronger economic fundamentals and relatively stable property markets had resilient local returns. The defensive and stable yields offered by markets such as Canada (+20.1%), USA (+20.0%), Australia (+17.3%), and Singapore (+15.7%) helped sustain the rally. Germany (+7.1%, +22.3% local) benefited from its status as a strong economy in the Eurozone and its perceived stable residential property market. Likewise, the UK market, particularly in London, benefited from the flight to quality as demand from institutional investors and wealthy individuals for prime assets continues to be strong. The yield spread between prime and secondary assets continues to widen. Property companies with prime assets in prime locations outperformed companies with lower quality properties. China (-4.5%) and Hong Kong (+5.1%) were affected by policy overhangs to reign in the respective property housing markets. The peripheral European countries significantly underperformed.

In the North American markets, the US gained 20.0% and Canada increased 20.1% for the period. All of the sectors in the US markets had positive returns. Retail (+32.9%), Industrial (+31.4%), Lodging/Resorts (29.8%), Storage (+27.4%) and Healthcare (+24.9%) all posted impressive returns. Retail benefited from the strong fundamentals in the mall space as well as a bounce in strip center stocks, which have significantly underperformed during this recovery. Residential, being the best performing sector in last fiscal year (+36.5% FY2011), was the laggard and increased only 5.4% as investors were concerned about decelerating growth. The Canadian market was supported by strong macro fundamentals and a stable currency.

PRIVATE REAL ESTATE

The System was active in fiscal 2012, committing $507 million (adjusted for currency at time of closing) to seven funds for the fiscal year. This was above our target of $450 million but below the upper range of $600 million set forth in the FY2012 tactical plan. One commitment totaling $125 million to a core industrial open ended fund, three commitments totaling $115 million to value added funds, and three commitments totaling $270 million to opportunistic strategies rounded out the deals. It should be noted that one of the opportunistic investments was to the Aberdeen European Opportunities Property Fund, which is a customized fund of funds focused on European small to mid-size managers. This is the “hub” part of the System’s international hub and spoke strategy.

As of August 31, 2012, commitments total $1.2 billion to 15 deals. The System sits on the Advisory Board on all but three funds. The net asset value stands at $670 million. Since inception, $640 million in capital has been called and approximately $57 million has been returned as income or a return of principal. For fiscal year 2012, over $300 million was called and about $48 million was returned as income or a return of principal.

The private real estate program is making considerable progress with the program about fifty percent funded. Investing into the core opened funds toward the bottom of the market mitigated the J-Curve effect to some extent. Pricing for core properties rebounded significantly and now appears fairly if not fully priced. Other areas of the market should provide plenty of opportunities for the managers to buy attractively priced real estate over the next several years. Staff continues to be excited about the opportunities the market is presenting but also aware of the challenges and will continuously monitor the environment.

PRIVATE EQUITY

For fiscal year 2012, The System closed on eleven deals, including four co-investments, with commitments totaling $606.5 million versus a goal of $625 million and range of $469-781 million. As of August 31, 2012, the Private Equity portfolio Net Asset Value was $1.1 billion, compared to $690 million at fiscal year ended August 31, 2011. Since inception Private Equity has closed on 39 funds and four co-investments with commitments totaling $3.0 billion (adjusted for currency exchange rates). In addition, The System has obtained LP Advisory Committee seats on 23 funds and LP Advisory Observer seats in two funds.

FIXED INCOME

Economy

Economic data was mixed during the year, contributing to economic growth that was below trend. The average quarterly GDP reading was 2.2% but this was largely driven by a 4.1% reading in the second fiscal quarter due to a build-up in inventories. The ISM manufacturing index started the year at 52.5 and ended at 49.6, hitting a high of 54.8 in April. The employment picture was a little better. The unemployment rate fell from 9.0% to 8.1%. However, some of the improvement was due to workers leaving the work force, versus finding a job. The slow improvement in the recovery has led the Federal Reserve to maintain their fiscal policy until the labor market improves.

Consumer confidence generally improved over the year. Both surveys by the University of Michigan and the Conference Board ended the fiscal year higher. This improvement came despite the volatility in retail gas prices that moved in a range between $3.20 and $3.94. In another sector, housing was considered a bright spot as most metrics trended higher during the year. Home prices were up 4.57% according to Loan Performance and 10.57% according to the National Association of Realtors.

Index Performance

The Barclays Universal Index returned 6.44% for the fiscal year, up from the prior year’s return of 4.81%. Although volatile, high yield was the best performing sector with a 13.89% total return. It returned as much as 5.99% in October while losing 2.16% in November. Emerging markets had a similar year and produced a total return of 13.77%. Most of the gains came in the second half of the fiscal year. For example, CMBS returned 3.64% during the first six months while finishing the year at 10.32%.

Interest Rates

Due to growth concerns and fiscal policy, interest rates were volatile during the year. The yield curve flattened as the rate on the 30-year security fell 82 basis points (bps) while the yield on the two-year security rose by 4 bps. During the year, most points along the the yield curve fell to new lows, led by the ten-year falling to 1.39% in July. Yields rose in the front end of the curve despite the Federal Reserve's pledge to keep rates low "at least through mid-2015." The lower rates in the longer part of the curve improved housing affordability as the average fixed mortgage rate fell 66 bps to end the year at 3.55%.

KEY PORTFOLIO STATISTICS

	2012	2011
	$	$
Contributions to Pool	568,700,000	691,000,000
Withdrawals from Pool	(1,645,300,000)	(1,518,845,000)
Interest & Dividends	593,445,118	573,482,282
Securities Lending Net Income	5,932,690	3,794,998
Net Appreciation (Depreciation) in Fair Value	1,165,021,689	2,009,396,844

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

Basis of Presentation: Master Custodian and System's Financial Records.

Outline of Investment Policies
Fiscal Year 2012

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

- Manage the assets for the exclusive benefit of the members of the retirement plans;
- Establish prudent investment policies defining investment objectives and strategies;
- Seek to maximize return while maintaining the safety of principal;
- Diversify the assets to reduce risk of loss;
- Monitor and document investment performance; and
- Efficiently manage the costs associated with implementation of its investment program.

Investments shall be made exercising the judgment and care, under the circumstances prevailing at the time of investment, that persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in speculation, but when making a permanent disposition of their funds, considering the probable income from the disposition and the probable safety of their capital.

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

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

Permissible Investments
The Board of Trustees will consider investment instruments appropriate for the System and deemed to be prudent based on:
- Their consistency with investment policy and portfolio objectives;
- Their application to the portfolio's diversification;
- Staff and/or advisor competency in evaluating and trading the securities;
- Consideration of their liquidity within the portfolio;
- The cost of including them in the program; and
- Futures and options to facilitate risk management and to provide efficiency in investment implementation through lower transaction costs and lower turnover or to provide higher correlation to the benchmark index returns.

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 Statistical Rating Organizations;
- Interests in private securities exempted from registration under federal and state securities laws, including interests in certain limited liability securities and vehicles, such as limited partner interests in limited partnerships, trusts and limited liability corporations deemed appropriate by investment staff with review by legal staff;
- Global publicly-traded real estate equities screened by the System's staff against any known bankruptcy proceedings, lawsuits, or breach of corporate ethics that might jeopardize the company's economic future or existence;
- Futures which are Commodities and Futures Trading Commission (CFTC)-approved and exchange-traded options; and
- Options which are Options Clearing Corporation (OCC)-approved.

Proxies and Bond Indenture Changes
All proxies and proposals for bond indenture changes involving companies whose securities are owned by the Fund shall be voted in such a way as to give the most benefit to the participants of the Fund and be consistent with the stated goals and objectives of the Fund.

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

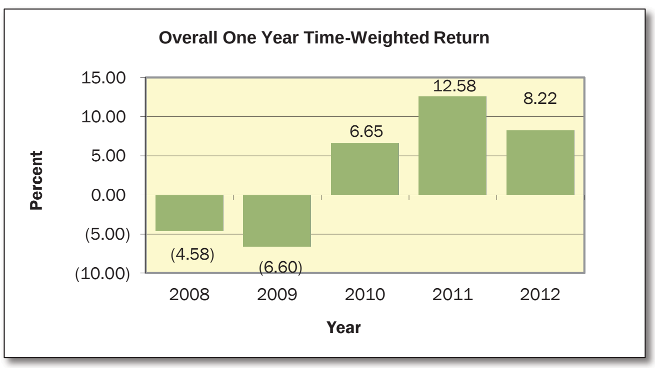
Time-Weighted Rates of Return and Asset Allocations
Investment Pool
August 31, 2012

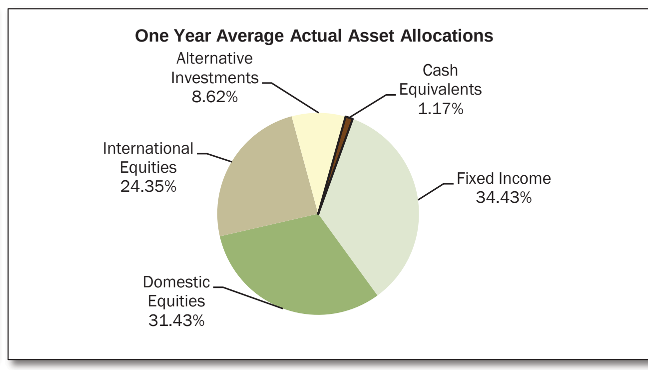
Time-Weighted Rates of Return (Note A)

	Fixed Income Securities		Domestic Equities		International Equities		Cash Equivalents		ERS		Change
	ERS	Index	ERS	Index	ERS	Index	ERS	Index	Overall	Benchmark	in CPI
1 Year	%	%	%	%	%	%	%	%	%	%	%
2008	5.25	5.86	(11.59)	(11.14)	(12.99)	(14.41)	4.01	2.99	(4.58)	(5.51)	5.40
2009 (Note B)	6.40	7.38	(18.35)	(18.35)	(14.04)	(14.41)	(53.82)	0.66	(6.60)	(7.55)	(1.50)
2010	9.12	9.87	5.92	5.56	2.37	2.85	0.11	0.14	6.65	6.80	1.10
2011	4.72	4.82	19.67	19.09	11.98	10.34	0.04	0.15	12.58	12.02	3.80
2012	6.01	6.44	17.56	17.52	0.09	(1.92)	0.96	0.06	8.22	8.11	1.42
3 Year											
(2010-2012)	6.60	7.02	14.22	13.89	4.69	3.64	0.37	0.12	9.12	8.96	2.13
5 Year											
(2008-2012)	6.20	6.27	1.48	1.40	(2.83)	(4.00)	(13.45)	0.79	2.98	2.47	1.96

Average Asset Allocations

	1-Year		3-Year		5-Year	
	Target	Actual	Target	Actual	Target	Actual
	%	%	%	%	%	%
Fixed Income	34.55	34.43	34.90	33.76	35.94	37.56
Domestic Equities	26.36	31.43	30.05	32.22	34.41	37.81
International Equities	26.58	24.35	26.06	24.41	23.50	23.63
Alternative Investments	11.51	8.62	7.99	8.53	5.35	0.00
Cash Equivalents	1.00	1.17	1.00	1.08	0.80	1.00
Total	100.00	100.00	100.00	100.00	100.00	100.00





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

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

The indices used for comparison are as follows:

Fixed Income Securities Portfolio:	*Barclays Capital Universal*
Domestic Equities Portfolio:	*S&P 1500*
International Equities Portfolio:	*MSCI EAFE/MSCI ACWI ex US Blended Index (i.e., Europe, Australia and Far East Index excluding securities unavailable to foreign investors)*
Cash Equivalents Portfolio:	*91-Day U.S. Treasury Bill*

Note B: *The 2009 Cash Equivalents return reflects an unrealized loss ($25,228,500) pertaining to a securities lending collateral adjustment.*

Basis of Presentation: Master Custodian Records.

Domestic Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		$	$
Baird, Robert W & Co., Inc.	5,731,274	91,699	0.016
Barclays Capital	10,184,173	203,567	0.020
Bloomberg Tradebook, LLC	3,735,368	37,354	0.010
BMO Capital Markets Corp.	4,421,696	90,838	0.021
BNY Mellon Clearing	100,400	1,708	0.017
Capital Institutional Services, Inc.	450,631	13,519	0.030
Cititgroup Global Markets, Inc.	5,328,390	103,103	0.019
CLSA Singapore PTE Ltd.	143,200	2,554	0.018
Cowen & Co., LLC	1,678,951	33,408	0.020
Credit Agricole Cheuvreux N.A., Inc.	2,142,723	43,571	0.020
Credit Suisse	37,493,444	750,152	0.020
Deutsche Bank	8,208,813	158,149	0.019
Goldman Sachs	1,898,028	37,961	0.020
Green Street Advisors, Inc.	1,050,101	52,505	0.050
HSBC	492,171	18,599	0.038
International Strategy Investment Group, Inc.	4,589,712	91,794	0.020
Investment Technology Group, Inc.	539,594	5,396	0.010
Jefferies & Co, Inc.	9,718,680	194,749	0.020
JP Morgan Securities, LLC	12,211,292	239,244	0.020
Keybanc Capital Markets, Inc.	3,874,058	77,481	0.020
Lazard Capital Markets, LLC	1,345,546	26,911	0.020
Leerink Swann & Co., Inc.	1,208,346	24,167	0.020
Liquidnet, Inc.	1,130,294	15,048	0.013
Macquarie Securities (USA), Inc.	1,648,878	31,962	0.019
Merrill Lynch & Co., Inc.	11,245,211	220,400	0.020
Morgan Stanley Dean Witter & Co.	5,706,374	112,177	0.020
Nomura Securities Co. Ltd.	1,086,328	9,818	0.009
Raymond James & Associates, Inc.	560,198	16,806	0.030
RBC Capital Markets	4,156,113	83,122	0.020
Sandler O'Neill & Partners, LP	480,000	9,600	0.020
Sanford C Bernstein & Co., Inc.	3,852,950	81,351	0.021
Sidoti & Co., LLC	4,446,198	133,386	0.030
Sterne Agee & Leach, Inc.	1,634,918	32,698	0.020
Stifel, Nicolaus & Co., Inc.	4,006,224	79,679	0.020
UBS	4,561,102	93,419	0.020
Weeden & Co.	38,000	760	0.020
	161,099,379	**3,218,655**	**0.020**

International Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		$	$
Banque Nationale de Canada	684,000	13,754	0.020
Barclays Capital	57,152,981	228,684	0.004
BMO Nesbitt Burns	776,900	18,256	0.023
BNP Paribus	4,371,498	86,304	0.020
BNY Mellon Clearing	11,104,419	165,258	0.015
Bradesco SA	5,676,746	118,008	0.021
Calyon Securities	112,300	2,199	0.020
Celfin Capital SA	711,090	9,527	0.013
Cititgroup Global Markets, Inc.	80,240,387	298,977	0.004
Clearstream Banking AG	463,655	23,136	0.050
CLSA Singapore PTE Ltd.	95,549,265	452,015	0.005
Credit Agricole Cheuvreux N.A., Inc.	19,623,960	135,601	0.007
Credit Suisse	45,533,353	246,555	0.005
Daiwa Securities	37,850,874	143,728	0.004
Deutsche Bank	17,519,309	182,068	0.010
Euroclear Bank SA	958,568	21,469	0.022
GBM Corredores de Bolsa	109,820	644	0.006
HSBC	34,832,614	282,708	0.008
Investment Technology Group, Inc.	20,217	190	0.009
Jefferies & Co, Inc.	6,649,511	71,702	0.011
JP Morgan Securities, LLC	46,921,485	254,364	0.005
KEB Salomon Smith Barney Securities	341,413	34,370	0.101
Macquarie Securities (USA), Inc.	30,452,158	239,113	0.008
Merrill Lynch & Co., Inc.	36,922,503	297,314	0.008
Mitsubishi Securities	16,497,845	118,170	0.007
Mizuho Securities USA, Inc.	3,356,900	98,270	0.029
Morgan Stanley Dean Witter & Co.	34,659,562	184,040	0.005
Nomura Securities Co. Ltd.	122,137,083	367,386	0.003
RBC Capital Markets	5,096,510	94,210	0.018
Redburn Partners, LLP	1,500,000	2,080	0.001
Sanford C Bernstein & Co.	3,982,614	58,204	0.015
SIS Segaintersettle AG	1,084,300	13,572	0.013
Societe Generale	436,937	31,740	0.073
UBS	22,130,596	133,249	0.006
	745,461,373	**4,426,865**	**0.006**

Basis of Presentation: Master Custodian Records.

Investment Advisory and Service Fees
Year Ended August 31, 2012

Advisory Service	Asset Value	Fees	Basis Points
Fixed Income Advisors	$ 230,998,752	$ 398,042	17.23
Domestic Equity Advisors	1,206,572,726	4,042,016	33.50
International Equity Advisors	2,588,378,543	8,895,139	34.37
Total	**4,025,950,021**	**13,335,197**	**33.12**

Other Investment Services	Fees
Custodian Fees	$ 925,000
Security Lending Agent Fees	550,985
Investment Consultant Fees	1,858,755
Investment Management Fees:	
Private Equity	22,877,450
Private Real Estate	4,295,595
Total	**30,507,785**

Directed Commissions

Consistent with the System's Investment Policy as adopted by the Board of Trustees, and in order to maximize the System's resources including commission dollars generated through trade activity, directed commissions are sometimes used to fund a portion of budgeted investment program expenses. Trade activity in excess of the level required to support research products used by the System's investment staff is directed toward the payment of budgeted items. Directed commissions totaled $372,512 during fiscal year 2011.

List of Largest Assets Held
Year Ended August 31, 2011

Ten Largest Stock Holdings

# of Shares	Description	Fair Value
		$
420,472	Apple, Inc.	279,714,793
1,794,396	Exxon Mobil Corporation	156,650,771
515,865	International Business Machine	100,516,295
3,012,856	Microsoft Corporation	92,856,222
826,374	Chevron Corporation	92,686,108
1,345,976	Johnson & Johnson Company	90,759,162
1,211,445	Procter & Gamble Company	81,396,990
889,285	Philip Morris International, Inc.	79,413,151
26,206,281	Vodafone Group	75,548,915
2,014,333	Coca-Cola Company	75,336,054

Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
$		$
179,700,000	U.S. Treasury Note 2.625% due on 04/30/2016, Rating AA+	194,328,658
171,760,000	U.S. Treasury Note 1.375% due on 11/30/2015, Rating AA+	177,516,708
150,000,000	U.S. Treasury Note 2.250% due on 11/30/2017, Rating AA+	162,328,200
155,300,000	U.S. Treasury Note 0.250% due on 05/15/2015, Rating AA+	155,202,938
136,930,000	U.S. Treasury Note 1.500% due on 07/31/2016, Rating AA+	142,631,902
124,700,000	U.S. Treasury Note 2.000% due on 01/31/2016, Rating AA+	131,665,617
125,000,000	U.S. Treasury Note 0.500% due on 11/15/2013, Rating AA+	125,449,250
104,556,000	U.S. Treasury Note 3.125% due on 05/15/2019, Rating AA+	119,520,578
100,280,000	U.S. Treasury Note 3.375% due on 11/15/2019, Rating AA+	116,677,384

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

Basis of Presentation: System's Subsidiary Records.

Investment Summary at Fair Value
August 31, 2012

	Pooled Pension Trust Funds (Note A)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
Type of Investment	$	$	$	$	
Long-Term Fixed Income Securities:					
Investment Grade Fixed Income Security Component	6,800,539,422	233,340,884	92,134,312	7,126,014,618	31.308%
High Yield Fixed Income Security Component	302,437,494	10,377,270	4,097,450	316,912,214	1.392%
Total Long-Term Fixed Securities	**7,102,976,916**	**243,718,154**	**96,231,762**	**7,442,926,832**	**32.700%**
Public Equities:					
Large Cap Domestic Equity Component	5,334,658,306	183,043,404	72,274,425	5,589,976,135	24.559%
Small Cap Domestic Equity Component	1,046,203,957	35,897,469	14,174,064	1,096,275,490	4.817%
International Equity Component	5,186,597,776	177,963,134	70,268,488	5,434,829,398	23.878%
Total Public Equity	**11,567,460,039**	**396,904,007**	**156,716,977**	**12,121,081,023**	**53.254%**
Real Estate Investments:					
Public Real Estate Component	423,600,586	14,534,632	5,738,978	443,874,196	1.950%
Alternative Investments					
Private Equity Component	1,034,243,470	35,487,080	14,012,023	1,083,742,573	4.761%
Private Real Estate Component	638,323,000	21,902,212	8,648,057	668,873,269	2.939%
Special Situation Component	66,802,805	2,292,145	905,050	70,000,000	0.308%
Hedge Fund Pool	286,297,733	9,823,480	3,878,787	300,000,000	1.318%
Total Alternative Investments	**2,025,667,008**	**69,504,917**	**27,443,917**	**2,122,615,842**	**9.326%**
Short-term Investments					
Investment in Pool Cash	3,588,067	67,481	(18,344)	3,637,204	0.016%
Other Short-term Investment	594,754,562	20,407,285	8,057,788	623,219,635	2.738%
Total Short-term Investments	**598,342,629**	**20,474,766**	**8,039,444**	**626,856,839**	**2.754%**
Cash Equivalents:					
Margin Deposit	2,861,468	98,183	38,767	2,998,418	0.013%
Future Contracts	706,667	24,247	9,574	740,488	0.003%
Total Cash Equivalents	**3,568,135**	**122,430**	**48,341**	**3,738,906**	**0.016%**
Total Before Securities Lending Collateral (Notes B & C)	**21,721,615,313**	**745,258,906**	**294,219,419**	**22,761,093,638**	**100.000%**
Securities Lending Collateral	1,334,398,597	45,847,717	18,016,781	1,398,263,095	
Total Pension Investment Pool Trust Fund (0888)	**23,056,013,910**	**791,106,623**	**312,236,200**	**24,159,356,733**	
Cash Equivalents:					
Cash in State Treasury-Pension Funds	36,452,583	1,888,863	1,026,167		
Total Investments	**23,092,466,493**	**792,995,486**	**313,262,367**		

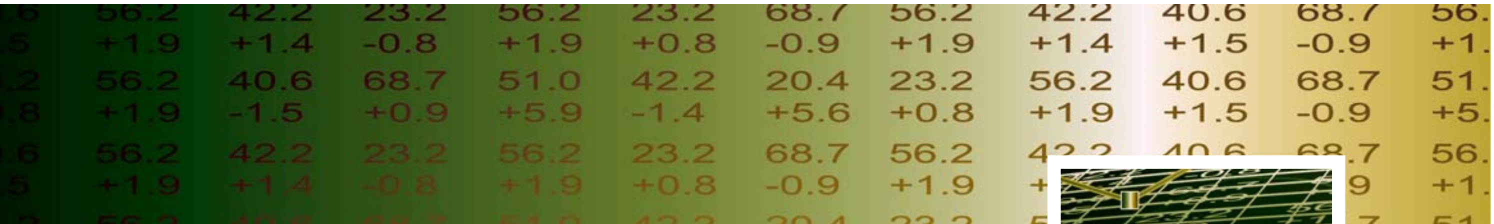
Note A: *The Pension Investment Pool Trust Fund (Fund 0888) includes the Employees Retirement Fund (Fund 0955), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (Fund 0977), and the Judicial Retirement System Plan Two Fund (Fund 0993).*

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

	Fair Value			
	Fund 0955	***Fund 0977***	***Fund 0993***	***Total***
Total Fair Value of Investments Before	*$*	*$*	*$*	*$*
Securities Lending Collateral, as above	*21,721,615,313*	*745,258,906*	*294,219,419*	*22,761,093,638*
Unsettled Sales-Investment Receivables	*70,196,323*	*2,408,584*	*951,026*	*73,555,933*
Unsettled Purchases-Investment Payables	*(140,222,663)*	*(4,811,337)*	*(1,899,749)*	*(146,933,749)*
Accrued Interest and Dividends/Tax Reclaims Receivable/Prepaid	*85,202,304*	*2,923,471*	*1,154,328*	*89,280,103*
Securities Lending Fees Payables/Miscellaneous Payables	*(2,382,311)*	*(81,742)*	*(32,276)*	*(2,496,329)*
Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards	*21,734,408,966*	*745,697,882*	*294,392,748*	*22,774,499,596*

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

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



ACTUARIAL SECTION

buckconsultants A Xerox Company

November 2, 2012

Board of Trustees
Employees Retirement System of Texas
18th & Brazos
P.O. Box 13207
Austin, TX 78711-3207

ACTUARIAL CERTIFICATION FOR FUNDED PROGRAMS

Buck Consultants (Buck) performed actuarial valuations of the Employees Retirement Fund (ERF) of the Employees Retirement System of Texas (ERS), including a separate valuation of the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) of the ERS, and the Judicial Retirement System of Texas Plan Two (JRSII).

This letter and the schedules listed below represent Buck's certification of the funding status as required for the financial report for the fiscal year ended August 31, 2012 for the Employees Retirement System and the Judicial Retirement System of Texas Plan Two. Buck prepared the Actuarial Balance Sheets and the supporting schedules in the Actuarial Section. Buck prepared the Schedules of Funding Progress and the Schedules of Employer Contributions of the Required Supplementary Information and the Notes to the Required Supplementary Information presented in the Financial Section of this report. Buck also prepared the Retired Members by Type of Benefit schedule in the Statistical Section.

Buck relied upon the member data and assets provided by the staff of the ERS. The active member valuation data and retiree and beneficiary data exhibits following this certification provide a summary of the data. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness.

The actuarial assumptions used for these valuations are outlined in the "Summary of Actuarial Methods and Assumptions." The assumptions used to develop plan liabilities are based on an experience study that reviewed data from 2002 to 2007. The ERS Board of Trustees adopted these assumptions on May 13, 2008. The assumptions used to develop the normal cost rate were established based on an analysis of the changes implemented by House Bill 2559 of the 81st Texas Legislature. In our opinion, these assumptions generate reasonable valuation results, and the assumptions individually and in the aggregate relate reasonably to the past and anticipated experience of the ERF, the LECOSRF and the JRSII. The actuarial assumptions and methods used to develop the Schedules of Funding Progress and the Schedules of Employer Contributions, noted above, meet the parameters set for the disclosures presented in the Financial Section by Government Accounting Standards Board

14911 Quorum Drive, Suite 200 • Dallas, TX 75254-7534
972.628.6800 • 972.628.6801 (fax)

(GASB) Statement No. 25, except that current contribution rates may not amortize the unfunded accrued liabilities.

EMPLOYEES RETIREMENT FUND

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

The contribution levels of the ERF are set by legislation. Most members contribute 6.50% of payroll and the State contributes 6.50% of payroll for the current fiscal year and for future fiscal years. The actuarial valuation for funding purposes was completed using the entry age actuarial cost method, under which the normal cost is based on the benefits in effect for members hired after August 31, 2009 and is expected to remain level as a percent of payroll. To the extent that an unfunded accrued liability exists, it is amortized as a level percent of projected payroll.

The actuarial valuation is completed annually, with the most recent valuation conducted as of August 31, 2012. There have not been any changes in the actuarial assumptions, actuarial cost method, actuarial procedures or plan provisions from the prior valuation, with one exception. For the current biennium, the State legislature budgeted for no across-the-board pay increases and the State contribution to the ERF increased from 6.00% to 6.50% of payroll for the current fiscal year. Accordingly, we have modified our assumed future salary increases to reflect no annual increase for inflation for the current year. As required by the Texas Government Code and Senate Bill 1664, the member contribution remained at 6.50% of payroll. The current actuarial assumptions are outlined in the "Summary of Actuarial Methods and Assumptions."

The August 31, 2012 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of $5,704.6 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 81.0% for funding purposes as of August 31, 2012. The valuation shows that the total normal cost for funding purposes is 12.31% of payroll. Total contributions are 13.00% of payroll for the current fiscal year and for future fiscal years. The total contribution rate exceeds the normal cost by 0.69% of payroll for the current fiscal year and for future fiscal years, but it is not sufficient to ever amortize the unfunded accrued liability. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized. The total contribution to fund the normal cost plus amortize the unfunded accrued liability over 31 years as a level percentage of covered payroll is 18.25% of payroll. In addition, as of August 31, 2012, the market value of assets was $2,446.9 million less than the actuarial value. Unless the market value earns more than 8% over the next few years (on average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will likely decrease.

buckconsultants

LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND

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

The contribution levels of the LECOSRF are set by legislation. Members contribute 0.50% of payroll and the State contributes 0.50% of payroll for the current fiscal year and for future fiscal years. The actuarial valuation for funding purposes was completed using the entry age actuarial cost method, under which the normal cost is based on the benefits in effect for members hired after August 31, 2009 and is expected to remain level as a percent of payroll. To the extent that an unfunded accrued liability exists, it is amortized as a level percent of projected payroll.

The actuarial valuation is completed annually, with the most recent valuation conducted as of August 31, 2012. There have not been any changes in the actuarial assumptions, actuarial cost method, actuarial procedures or plan provisions from the prior valuation, with the following exception. For the current biennium, the State legislature budgeted for no across-the-board pay increases and the State contribution to the LECOSRF increased from 0.00% to 0.50% of payroll for the current fiscal year. Accordingly, we have modified our assumed future salary increases to reflect no annual increase for inflation for the current year. As required by the Texas Government Code and Senate Bill 1664, the member contribution remained at 0.50% of payroll. The current actuarial assumptions are outlined in the "Summary of Actuarial Methods and Assumptions."

The August 31, 2012 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of $211.8 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 79.7% for funding purposes as of August 31, 2012. The valuation shows that the total normal cost for funding purposes is 2.02% of payroll. Total contributions are 1.00% of payroll for the current fiscal year and for future fiscal years. The total contribution rate falls short of the normal cost by 1.02% of payroll for the current fiscal year and for future fiscal years, and it is not sufficient to ever amortize the unfunded accrued liability. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized. The total contribution to fund the normal cost plus amortize the unfunded actuarial liability over 31 years as a level percentage of covered payroll is 2.86% of payroll. In addition, as of August 31, 2012, the market value of assets was $84.8 million less than the actuarial value. Unless the market value earns more than 8% over the next few years, (on average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will likely decrease.

buckconsultants

JUDICIAL RETIREMENT SYSTEM OF TEXAS PLAN TWO

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

The contribution levels of the JRSII are set by legislation. Members who are accruing benefits contribute 6.00% of payroll and the State contributes 6.50% of payroll for the current fiscal year and for future fiscal years. The actuarial valuation was completed using the entry age actuarial cost method, which generates a normal cost based on the benefit provisions applicable to each member that is expected to remain level as a percent of payroll. To the extent that an unfunded accrued liability exists, it is amortized as a level percent of projected payroll.

The actuarial valuation is completed annually, with the most recent valuation conducted as of August 31, 2012. There have not been any changes in the actuarial assumptions, actuarial cost method, actuarial procedures or plan provisions from the prior valuation, with one exception. For the current biennium, the State legislature budgeted for no increases in judicial pay and the State contribution to the JRSII increased from 6.00% to 6.50% of payroll for the current fiscal year. Accordingly, we have modified our assumed future salary increases to reflect no annual increase for inflation for the current year. The current actuarial assumptions are outlined in the "Summary of Actuarial Methods and Assumptions".

The August 31, 2012 actuarial valuation shows that there is an unfunded accrued liability of $14.8 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 95.3% as of August 31, 2012. The valuation shows that the total normal cost is 20.25% of payroll. Total contributions are 12.48% of payroll for the current fiscal year and for future fiscal years. The total contribution rate falls short of the normal cost by 7.77% of payroll for the current fiscal year and for future fiscal years, and it is not sufficient to ever amortize the unfunded accrued liability. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized. The total contribution to fund the normal cost plus amortize the unfunded accrued liability over 31 years as a level percentage of covered payroll is 21.52% of payroll. In addition, as of August 31, 2012, the market value of assets was $4.5 million less than the actuarial value. Unless the market value earns more than 8% over the next few years (on average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will likely decrease.

Because the amortization periods for the unfunded liabilities of all three plans exceed 31 years, Texas Government Code Sections 811.006 and 840.106 preclude any benefit improvements that would decrease the funded position of the plans until the valuations indicate that the statutory contribution rates would fund the normal cost and amortize any unfunded actuarial liabilities over fewer than 31 years. This precludes the Board of Trustees from authorizing any supplemental payments under Texas

buckconsultants

Government Code Section 814.603, and it precludes any increases in annuity benefits unless contributions are increased to the extent necessary to fund the normal cost and amortize any unfunded accrued liability over fewer than 31 years.

The undersigned qualified actuary completed the valuations in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuary is a member of the American Academy of Actuaries and is experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice, and I am available to answer questions about it.

Respectfully Submitted,

David L. Driscoll

David L. Driscoll, FSA, EA, FCA, MAAA
Principal, Consulting Actuary

DD:km
\ERS\COR\21029MR1.DOCX

buckconsultants

ACTUARIAL BALANCE SHEET	August 31, 2012	August 31, 2011
Assets:		
Actuarial Value Assets	$ 24,272,514,483	$ 23,997,444,804
Present Value of Future Normal Cost (Note A)		
Member	2,254,665,608	2,315,543,150
Employer	1,928,606,273	1,980,679,987
Total	4,183,271,881	4,296,223,137
Total	$ 28,455,786,364	$ 28,293,667,941
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	$ 16,307,981,214	$ 16,425,243,509
- disability	363,202,214	368,401,566
- death before retirement	220,434,644	221,286,410
- termination	794,591,851	816,815,124
- total	17,686,209,923	17,831,746,609
Inactive Members	1,230,262,541	1,189,426,332
Annuitants	15,243,956,208	14,325,177,797
Total	$ 34,160,428,672	$ 33,346,350,738
Unfunded Accrued Liability (UAL) (Note B)	$ 5,704,642,308	$ 5,052,682,797
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	13.00%	12.50%
Normal Cost (Note A)		
- dollars	$ 698,778,304	$ 713,387,288
- percent of payroll	12.31%	12.31%
Contribution Available to Amortize UAL	0.69%	0.19%
Accrued Liability (Note B)	$ 29,977,156,791	$ 29,050,127,601
Amortization Period in Years	Infinite	Infinite
Funded Ratio	81.0%	82.6%
Valuation Payroll	$ 5,676,509,376	$ 5,795,185,115
Active Members	132,669	137,293

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2009

Note B: The actuarial accrued liability along with the resulting amortization period and funded ratio are based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2009

buckconsultants
an ACS company

Actuarial Balance Sheet –
Law Enforcement and Custodial Officers Supplemental Retirement Fund
August 31, 2012 (With Comparative Totals at August 31, 2011)

ACTUARIAL BALANCE SHEET	August 31, 2012	August 31, 2011
Assets:		
Actuarial Value Assets	$ 832,451,079	$ 830,522,385
Present Value of Future Normal Cost (Note A)		
Member	47,645,732	46,829,052
Employer	135,313,880	137,677,414
Total	182,959,612	184,506,466
Total	$ 1,015,410,691	$ 1,015,028,851
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	$ 745,417,880	$ 743,648,187
- occupational disability	13,749,308	13,490,824
- death benefit plan	7,420,761	7,400,102
- termination	8,783,972	7,978,885
- total	775,371,921	772,517,998
Inactive Members	4,391,878	3,907,847
Annuitants	447,451,269	400,877,467
Total	$ 1,227,215,068	$ 1,177,303,312
Unfunded Accrued Liability (UAL) (Note B)	$ 211,804,377	$ 162,274,461
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	1.00%	0.50%
Normal Cost (Note A)		
- dollars	$ 30,279,377	$ 30,541,437
- percent of payroll	2.02%	2.07%
Contribution Available to Amortize UAL	(1.02%)	(1.57%)
Accrued Liability (Note B)	$ 1,044,255,456	$ 992,796,846
Amortization Period in Years	Infinite	Infinite
Funded Ratio	79.7%	83.7%
Valuation Payroll	$ 1,498,979,076	$ 1,475,431,696
Active Members	37,404	36,806

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2009

Note B: The actuarial accrued liability along with the resulting amortization period and funded ratio are based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2009

buckconsultants an ACS company

Actuarial Balance Sheet –
Judicial Retirement System of Texas Plan Two Fund
August 31, 2012 (With Comparative Totals at August 31, 2011)

ACTUARIAL BALANCE SHEET	August 31, 2012	August 31, 2011
Assets:		
Actuarial Value Assets	$ 300,433,111	$ 283,935,401
Present Value of Future Normal Cost		
Member	20,878,887	22,173,307
Employer	48,077,304	51,663,433
Total	68,956,191	73,836,740
Total	$ 369,389,302	$ 357,772,141
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	$ 224,317,798	$ 215,639,793
- disability	5,426,095	5,606,403
- death before retirement	10,145,529	10,026,227
- termination	10,981,882	11,367,669
- total	250,871,304	242,640,092
Inactive Members	10,713,152	10,561,339
Annuitants	122,570,887	120,798,133
Total	$ 384,155,343	$ 373,999,564
Unfunded Accrued Liability (UAL)	$ 14,766,041	$ 16,227,423
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	12.48%	11.97%
Normal Cost		
- dollars	$ 13,927,445	$ 14,195,690
- percent of payroll	20.25%	20.38%
Contribution Available to Amortize UAL	(7.77%)	(8.41%)
Accrued Liability	$ 315,199,152	$ 300,162,824
Amortization Period in Years	Infinite	Infinite
Funded Ratio	95.3%	94.6%
Valuation Payroll	$ 68,777,500	$ 69,655,000
Active Members	541	546

buckconsultants
an ACS company

In May 2008, the Board of Trustees of the System adopted the actuarial methods and assumptions for the Employees Retirement System (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), and the Judicial Retirement Plan II Fund (JRS II) with assistance from the System's actuary and based on the actuarial experience study that covered the fiscal years from 2002 to 2007.

The System relies on the services of qualified actuaries to perform periodic valuations of the assets and liabilities of the pension funds. Buck Consultants has been the pension actuary for the System since May 2006. The actuarial methods used for the three funds are summarized as follows:

Actuarial Cost Method

The Entry Age Actuarial Cost Method was used for actuarial valuation. Actuarial gains and losses resulting from differences between actual and assumed experience are recognized as they occur each year. These gains or losses increase or decrease the unfunded actuarial accrued liability. The calculation of the years required to amortize the unfunded actuarial accrued liability assumes that the unfunded actuarial accrued liability is amortized as a level percent of payroll, which is the total contribution rate minus the normal cost contribution rate. The normal cost rate is based on the benefits payable to a new member and the entry age characteristics of the current population. The total contribution rate is set by statute; the variable from year to year is the amortization period.

Actuarial Valuation of Assets

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

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

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

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

	Years of Service – Non-CPO/CO							Years of Service – CPO/CO				
Age	**0**	**1**	**2-4**	**5-9**	**10-14**	**15-19**	**20+**	**0**	**1**	**2-4**	**5-9**	**10+**
20	6.80%	5.25%	4.75%	4.30%				10.0%	6.0%	4.0%	3.2%	2.0%
30	5.90	5.25	4.75	3.00	2.50%	2.00%		10.0	6.0	4.0	3.2	2.0
40	4.90	4.75	4.00	3.00	2.50	1.90	1.80%	10.0	6.0	4.0	3.2	2.0
50	3.90	3.70	3.20	2.70	2.20	1.70	1.60	10.0	6.0	4.0	3.2	2.0
60	2.90	2.70	2.30	2.00	1.60	1.40	1.30	10.0	6.0	4.0	3.2	2.0

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

The demographic assumptions are summarized in Tables 2 to 10.

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

For members hired on or before August 31, 2011

	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)					Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)			
Age	0	5	10	15	20+	0	5	10	15+
20	50%	0%	0%	0%	0%	29%	0%	0%	0%
30	25	10	7	0	0	21	11	9	0
40	22	8	5	2	2	18	7	4	3
50	18	7	3	2	1	15	5	3	2
60	16	0	0	0	0	16	0	0	0

For members hired after August 31, 2011

	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)					Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)			
Age	0	5	10	15	20+	0	5	10	15+
20	52%	0%	0%	0%	0%	32%	0%	0%	0%
30	27	11	8	0	0	24	14	10	0
40	24	9	5	2	2	21	9	5	4
50	20	8	3	2	1	18	6	4	3
60	18	7	2	1	0	19	6	0	0

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

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

Table 3

Demographic Assumption –

Annual Rates of Withdrawal of Employee Contributions by Vested Terminated Members

	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)				Years of Service – Male and Female Members in the Employee Class (CPO/CO)			
Age	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+
20-24	100%	100%	0%	0%	100%	0%	0%	0%
25-34	75	65	60	0	90	75	75	0
35-44	75	60	50	35	90	75	70	0
45-54	70	50	40	30	80	50	50	0
55+	55	40	30	15	75	0	0	0

Table 4

Demographic Assumption –

Mortality Rates for Active Members (Notes C & D)

Age	Females	Males
20	0.0289%	0.0530%
30	0.0397	0.0821
40	0.0825	0.1156
50	0.1734	0.2872
60	0.5832	0.8986
65	1.0764	1.6239

Note C: *It is assumed that 2.6% of male Employee Class (Non-CPO/CO) deaths and 0.4% of female Employee Class (Non-CPO/CO) deaths are occupational. Similarly, it is assumed that 1.7% of male Employee Class (CPO/CO) deaths and 0.3% of female Employee Class (CPO/CO) deaths are occupational. It is also assumed that there are no occupational deaths of members in the Elected and Judicial Classes.*

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

Table 5

Demographic Assumption –

Mortality Rates for Service Retirees and Beneficiaries (Note E)

Age	Females	Males
20	0.0289%	0.0530%
30	0.0397	0.0821
40	0.0825	0.1156
50	0.1734	0.2872
60	0.5832	0.8986
65	1.0764	1.6239

Table 6

Demographic Assumption –

Mortality Rates for Disability Retirees (Note F)

Age	Females	Males
20	2.63%	4.83%
30	2.63	4.83
40	2.22	3.02
50	2.16	3.05
60	2.81	4.39
65	3.15	5.55

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

Note F: *The rates indicated above are based on the Pension Benefit Guarantee Corporation (PBGC) Disabled Mortality Tables 2-M and 2-F with male and female ages set back seven years.*

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

	Employee Class (Non-CPO/CO)		Employee Class (CPO/CO)
Age	**Females**	**Males**	**Females & Males**
20	0.100%	0.100%	0.0100%
30	0.030	0.061	0.0206
40	0.199	0.154	0.1302
50	0.460	0.330	0.3662
60	0.500	0.500	0.2700
65	0.600	0.600	0.2600

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

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

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

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

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

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

For members hired on or before August 31, 2011

	Male						Female					
Age	5	10	15	20	25	30	5	10	15	20	25	30
50						40						45
55					40	35					60	40
60	10	35	35	50	30	35	10	35	50	60	40	40
65	20	40	40	60	60	60	20	40	45	60	60	60
70	100	100	100	100	100	100	100	100	100	100	100	100

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

For members hired after August 31, 2011

	Male						Female					
Age	5	10	15	20	25	30	5	10	15	20	25	30
50						25						30
55						10						15
60				25	85	85				30	90	90
65		85	85	60	60	60		85	85	60	60	60
70		100	100	100	100	100		100	100	100	100	100
75	100	100	100	100	100	100	100	100	100	100	100	100

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

	For members hired on or before August 31, 2011						For members hired after August 31, 2011					
Age	5	10	15	20	25	30	5	10	15	20	25	30
50	0%	0%	0%	45%	45%	45%	0%	0%	0%	5%	5%	5%
55	0	20	20	35	35	35	0	20	20	65	65	65
60	4	12	15	35	35	35	0	12	15	50	50	50
65	15	50	50	65	65	65	0	50	50	65	65	65
70	100	100	100	100	100	100	0	100	100	100	100	100
75	100	100	100	100	100	100	100	100	100	100	100	100

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

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

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

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

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

Active Member Valuation Data

Valuation Year August 31,	Number (Note A)	Actual Annual Payroll	Average Pay (Note B)	% Change in Average Pay
		$	$	%
Employees Retirement Fund:				
2007	132,497	5,092,036,902	38,097	3.3
2008	134,626	5,278,395,514	39,468	3.6
2009	141,223	5,603,756,283	40,202	1.9
2010	142,490	5,878,680,811	41,022	2.0
2011	137,293	5,926,331,865	41,620	1.5
2012	132,669	5,720,722,855	42,188	1.4
Law Enforcement and Custodial Officer Supplemental Retirement Fund:				
2007	36,413	1,295,766,196	35,058	2.7
2008	33,642	1,271,120,340	37,021	5.6
2009	37,819	1,379,532,687	36,687	(0.9)
2010	39,052	1,494,510,816	37,979	3.5
2011	36,806	1,520,864,574	39,454	3.9
2012	37,404	1,457,492,314	39,444	0.0
Judicial Retirement Plan Two Fund:				
2007	515	64,817,855	125,542	0.3
2008	518	66,180,701	127,625	1.7
2009	533	66,463,534	127,519	(0.1)
2010	539	67,204,906	127,560	0.0
2011	546	67,927,624	127,573	0.0
2012	541	68,373,289	127,130	(0.3)

Note A: *Number of active contributing members as of August 31, excluding those who retired August 31 because they were included as retirees in the actuarial valuation.*

Note B: *The average rate of salary is based on the salary for the month of August.*

Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls

	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls End of Year			
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	% Increase Annual Benefits	Average Annual Benefit
		$		$		$		$	%	$
Employees Retirement Fund:										
2007	4,208	77,278,235	1,976	31,714,338	627	8,430,553	70,455	1,248,069,448	4.5	17,714
2008	4,560	87,588,408	2,033	31,548,984	544	9,960,320	72,678	1,314,069,192	5.3	18,081
2009	4,433	85,551,288	1,849	30,235,704	460	8,045,532	75,722	1,377,430,308	4.8	18,191
2010	4,870	100,938,168	1,828	30,584,136	547	9,281,208	79,311	1,457,065,548	5.8	18,372
2011	5,808	123,585,132	2,237	35,797,140	548	8,145,660	83,430	1,552,999,200	6.6	18,614
2012	5,928	124,604,412	2,128	35,049,012	569	7,965,072	87,799	1,650,519,672	6.3	18,799
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
2007	553	3,487,148	132	1,072,938	66	(85,644)	5,805	31,932,874	7.9	5,501
2008	637	4,446,372	141	1,071,480	40	(130,654)	6,204	35,177,112	10.2	5,670
2009	561	3,954,780	169	1,361,916	51	44,760	6,647	37,814,736	7.5	5,689
2010	635	3,604,140	147	1,163,112	40	(120,456)	7,175	40,135,308	6.1	5,594
2011	695	3,915,084	186	1,536,500	44	22,352	7,728	42,536,244	6.0	5,504
2012	895	5,069,712	195	1,439,820	49	202,200	8,477	46,368,336	9.0	5,470
Judicial Retirement Plan Two Fund:										
2007	24	1,602,661	1	57,000	4	159,056	116	6,417,890	36.2	55,327
2008	6	292,899	2	129,975	2	129,975	117	6,710,789	4.6	57,357
2009	36	2,220,108	1	70,656	0	16,308	152	8,876,549	32.3	58,398
2010	12	737,508	2	119,556	2	122,491	164	9,616,992	8.3	58,640
2011	43	2,792,244	1	29,580	2	152,880	208	12,532,536	30.3	60,253
2012	8	441,948	4	250,680	3	167,892	215	12,891,696	2.9	59,961

Funding Objective

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

Evaluation of Funding Objective

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

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

In a system that has been following the level contribution rate of payroll financing principle, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present assets except in rare circumstances. In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time. Following is a summary of the solvency test:

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)				
Valuation Year	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)
	$	$	$	$	%	%	%
Employees Retirement Fund: (Note A)							
2007	4,059,741,841	11,519,929,907	8,407,493,737	22,938,947,005	100	100	88
2008	4,256,243,420	12,195,833,252	8,951,203,270	23,511,918,382	100	100	79
2009	4,460,644,477	12,648,155,181	9,798,979,599	23,509,621,791	100	100	65
2010	4,719,703,277	13,407,823,189	10,284,288,042	23,628,566,500	100	100	54
2011	4,943,684,166	14,325,177,797	9,781,265,638	23,997,444,804	100	100	48
2012	5,075,213,967	15,243,956,208	9,657,986,616	24,272,514,483	100	100	41
Law Enforcement And Custodial Officer Supplemental Retirement Fund: (Note A)							
2007	-	278,059,124	484,606,545	747,765,351	-	100	97
2008	-	314,618,012	527,516,720	774,508,817	-	100	87
2009	-	334,638,616	572,463,018	780,807,727	-	100	78
2010	7,315,238	367,991,489	591,296,971	802,897,017	100	100	72
2011	13,897,600	400,877,467	578,021,779	830,522,385	100	100	72
2012	19,540,552	447,451,269	577,263,635	832,451,079	100	100	63
Judicial Retirement Plan Two Fund:							
2007	44,615,177	62,008,358	114,260,806	211,932,547	100	100	92
2008	50,408,044	63,791,874	124,898,190	232,890,749	100	100	95
2009	51,733,112	85,844,874	117,990,788	248,279,312	100	100	94
2010	57,347,421	92,253,133	132,159,921	264,515,185	100	100	87
2011	57,768,713	120,798,133	121,595,978	283,935,401	100	100	87
2012	63,677,503	122,570,887	128,950,762	300,433,111	100	100	89

Note A: The actuarial accrued liability for ERS and LECOS is based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2009.

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

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

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

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

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

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

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

	Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)					
	ERS		LECOS		JRS II	
Type of Activity	2012	2011	2012	2011	2012	2011
Contribution Income and Interest on Unfunded Actuarial Accrued Liability						
If contributions are received in excess of normal cost, there is a decrease. If less, an increase.	392.6	313.7	36.1	12.1	7.1	(1.0)
Components of (Gain)/Loss						
Investment Income If there is greater investment income than assumed, there is a gain. If less income, a loss.	611.7	698.3	21.2	23.3	1.1	6.1
Active Member Demographics Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	1.2	(62.8)	(0.9)	(7.0)	(2.8)	0.3
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	(4.2)	(56.5)	(5.9)	3.6	0.0	0.0
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	11.9	(2.1)	(1.2)	(0.6)	(0.7)	0.7
Other Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(43.9)	37.8	15.9	0.1	(0.5)	3.0
Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience	**969.3**	**928.4**	**65.2**	**31.5**	**4.2**	**9.1**
Non-Recurring Items Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	(317.4)	(659.0)	(15.7)	(32.9)	(5.6)	(10.1)
Composite Increase/(Decrease) During Year	**651.9**	**269.4**	**49.5**	**(1.4)**	**(1.4)**	**(1.0)**

Section I - Certification of GASB No. 43 Actuarial Valuation

At the request of the Employees Retirement System of Texas (ERS), we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP) for the twelve-month period ending August 31, 2012. The purpose of this report is to present the results of our valuation and provide the information necessary to determine financial statement entries consistent with the Governmental Accounting Standards Board Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans (GASB No. 43).

Actuarial computations under GASB No. 43 are for purposes of fulfilling governmental plan financial accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB No. 43 and the GBP.

We have based our valuation on employee data as of August 31, 2012 provided by ERS and the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial methods and assumptions described in Section VII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VIII.

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

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

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

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

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

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

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

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

D. Summary of Results for FY 2012

Actuarial Valuation Results as of August 31, 2012		
	($ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	225,075	
b. Deferred Vesteds	11,966	
c. Retirees and Nominees	95,375	
d. Total Number of Members	332,416	
2. Payroll of Active Members for FY 2012	$ 10,268,696	
3. Actuarial Present Value of Total Projected Benefits		
a. Actives	$ 21,475,883	
b. Deferred Vesteds	1,100,211	
c. Retirees and Nominees	7,367,243	
d. Total	$ 29,943,337	291.6%
4. Actuarial Accrued Liability		
a. Actives	$ 12,355,956	
b. Deferred Vesteds	1,100,211	
c. Retirees and Nominees	7,367,243	
d. Total	$ 20,823,410	202.8%
5. Actuarial Value of Assets	$ 0	0.0%
6. Unfunded Actuarial Accrued Liability [4.d. – 5.]	$ 20,823,410	202.8%
7. Annual Required Contribution for FYE August 31, 2012		
a. Normal Cost	$ 897,314	8.7%
b. Amortization of UAAL	903,677	8.8%
c. Total ARC for FYE August 31, 2012	$ 1,800,991	17.5%

Consistency with Assumptions Used for Retirement Plan Valuations

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

Changes in Actuarial Assumptions

Since the last valuation was prepared for this plan, assumed expenses, assumed per capita health benefit costs and assumed health benefit cost and retiree contribution trends have been updated to reflect recent experience and its effects on short-term expectations. In addition, the period of coverage assumption for dependent children and the tobacco usage assumption have been updated to reflect recent plan experience and expected trends.

Effective January 1, 2013, HealthSelect prescription drug coverage for all Medicare-primary participants will be provided through a self-funded Employer Group Waiver Plan with Commercial Wrap (EGWP plus Wrap). The EGWP plus Wrap will provide coverage that is equivalent to that currently provided through HealthSelect at significantly lower cost since it will allow the plan to take direct advantage of subsidies provided by the Federal government under Medicare Part D and discounts provided by drug manufacturers as required under the Affordable Care Act (ACA). The assumed HealthSelect and HealthSelect Medicare Advantage Per Capita Health Benefit Costs have been revised to reflect this change.

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

Investment Return Assumptions (Discount Rate)

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

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

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

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

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

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

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

Health Benefit Cost Trend

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

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

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

Changes in Plan Provisions

Under Q/A #49 of GASB's Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the plan change associated with the provision of prescription drug coverage for all Medicare-primary participants through the EGWP plus Wrap effective January 1, 2013, since this change was communicated to plan members in advance of the preparation of this report.

The net impact of the plan change reduces the employer's cost of providing OPEB and results in a reduction to the employer's Unfunded Actuarial Accrued Liability of $3.891 billion and a reduction to the ARC of $320 million.

High-Cost Plan Excise Tax

The effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 49801 (sometimes referred to as the "Cadillac Tax") have been included in this valuation. The Excise Tax becomes effective in 2018, but the plan is not expected to be subject to the tax until 2067 based on current plan provisions, assumptions and participant demographics. The Unfunded Actuarial Accrued Liability is increased by the $27 million present value of the estimated Excise Taxes in future years, and the associated increase to the ARC is $1 million.

Medicare Part D

The Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the basic coverage provided under Medicare Part D. The System has applied for and received this subsidy in connection with prescription drug benefits provided to Medicare-eligible retirees covered under the Group Benefits Program since January 1, 2006.

For purposes of GASB Statement 43, the valuation of future OBEP may not reflect the anticipated receipt of future federal government subsidy payments under the Medicare Part D Prescriptions Drug Program as required under GASB Technical Bulletin No. 2006-1. However, subsidies are recognized as revenue for the plan at the time they are received.

The System will no longer be eligible for the Retiree Drug Subsidy following the implementation of the EGWP plus Wrap on January 1, 2013. However, the projected cost of the EGWP plus Wrap reflects the subsidies to the administrator of the plan, which are expected to be provided by the Federal government under Medicare Part D and the discounts expected to be provided by drug manufacturers as required under the Affordable Care Act.

Economic Assumptions

Expenses

The expenses to administer the Group Benefit Program health benefits are (i) $229.80 per year per covered member for external Health Select administrative expenses for FY 2013 and (ii) approximately $43.55 per year per covered member for internal administrative expenses for FY 2013 (i.e., the external and administrative expenses per covered member are the same regardless of whether the member covers dependents).

Stop-loss Reinsurance

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

Discount Rate

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

Health Benefit Cost Trend

The Annual Rate of Increase in Per Capita Benefit Cost .

Fiscal Year	Annual Rate of Increase %
2014	8.00
2015	8.00
2016	7.50
2017	7.00
2018	6.50
2019	6.00
2020 and beyond	5.50

Retiree contribution rates are assumed to increase with the trend.

Expense Trend Rate

Internal and external administrative expenses are assumed to increase 3.5% per annum.

Trend Rate for the Opt-Out Credit

The monthly benefit of $60 in fiscal year 2013 is not assumed to increase in the future.

Health Coverage by Governmental Plans

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

Active Member Valuation Data

Valuation Year August 31,	Number (Note A)	Change From Prior Year Number	% Change
State Retiree Health Plan			
2007	216,958	N/A	N/A
2008	222,660	5,702	2.6
2009	230,285	7,625	3.4
2010	234,057	3,772	1.6
2011	227,786	(6,271)	(2.7)
2012	225,075	(2,711)	(1.2)

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

Retirees and Nominees added to and Removed

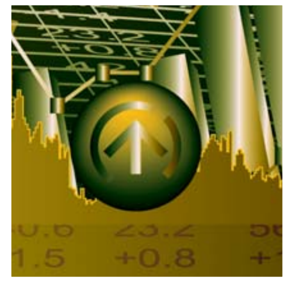
	Total (Note B)	Added to Rolls No.	Removed from Rolls No.	Change From Prior Year (Note C) No.	% Change %
State Retiree Health Plan					
2007	75,958	N/A	N/A	N/A	N/A
2008	80,543	N/A	N/A	4,585	6.0
2009	83,494	N/A	N/A	2,951	3.7
2010	86,111	5,579	(2,962)	2,617	3.1
2011	90,213	6,882	(2,780)	4,102	4.8
2012	95,375	7,869	(2,707)	5,162	5.7

Note B: Includes retirees who receive the Opt-Out Credit in lieu of health benefits.

Note C: This information is not available prior to August 31, 2010.

Deferred Vesteds Added to and Removed

	Total	Change From Prior Year No.	% Change %
State Retiree Health Plan			
2007	9,996	N/A	N/A
2008	10,960	964	9.6
2009	10,672	(288)	-2.6
2010	10,773	101	0.9
2011	11,352	579	5.4
2012	11,966	614	5.4



STATISTICAL SECTION

Governmental Activities:
Net Assets
Changes in Net Assets

Governmental Funds:
Fund Balances
Changes in Fund Balances

Changes in Net Assets:
Proprietary Fund
Defined Benefit Plans
Deferred Compensation Plan
and Cafeteria Plan

Benefit and Refund Payments-Defined
Benefit Plans

Average Benefit Payments-Employee Class

Retired Members by Type of Benefit

Contribution Rates

Other Statistical Information:
Defined Benefit Plans
Other Programs

List of Participating Entities
for State Retiree Health Plan

Net Assets – Governmental Activities
Last Ten Fiscal Years (in 000's)
(Accrual Basis of Accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities:	$	$	$	$	$	$	$	$	$	$
Restricted	25,939	96,160	133,253	241,478	369,913	384,892	282,484	136,599	227,985	284,814
Unrestricted	16	3	27	49	45	56	59	45	8	18
Total Governmental Activities	**25,955**	**96,163**	**133,280**	**241,527**	**369,958**	**384,948**	**282,543**	**136,644**	**227,993**	**284,832**

Changes in Net Assets – Governmental Activities
Last Ten Fiscal Years (in 000's)
(Accrual Basis of Accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses	$	$	$	$	$	$	$	$	$	$
Governmental Activities:										
Social Security Administration	39	31	52	58	70	54	61	101	102	105
Death Benefits:										
Peace Officers, Firemen, etc.	4,677	4,985	2,660	4,361	2,397	3,423	1,866	4,164	2,784	2,141
Compensation to Victims of Crime			1,250	750	1,500	2,250	2,000	1,250	1,750	1,000
Retiree $5,000 Lump Sum	6,453	6,681	7,026	6,908	7,493	6,902	7,367	7,910	7,885	8,628
Group Benefits Program:										
Claims Expenses	1,627,057	1,519,295	1,646,815	1,760,073	1,293,957	1,460,527	1,632,962	1,828,422	1,776,296	1,826,996
Administration	9,926	9,316	10,312	10,307	8,694	8,323	9,062	8,118	9,437	9,401
Total Governmental Activities Expenses	**1,648,152**	**1,540,308**	**1,668,115**	**1,782,457**	**1,314,111**	**1,481,479**	**1,653,318**	**1,849,965**	**1,798,254**	**1,848,271**
Program Revenues										
Governmental Activites:										
Charges for Services:										
Administration Fees			73	78	72	65	64	85	66	74
Appropriations:										
Administration	28	28	28	28	28	28	28			
Death Benefits:										
Peace Officers, Firemen, etc.	4,649	4,957	2,632	4,333	2,369	3,395	1,838	4,164	2,784	2,141
Compensation to Victims of Crime			1,250	750	1,500	2,250	2,000	1,250	1,750	1,000
Retiree $5,000 Lump Sum	6,087	6,681	7,030	6,910	7,487	6,902	7,367	7,911	7,885	8,628
Insurance Contributions:										
State	1,235,235	1,177,512	1,256,123	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,732	1,434,186
Member	393,976	404,107	420,192	450,678	365,653	364,278	381,820	416,690	444,731	444,786
Other	129	154	145	147	150	163	161	157	209	192
Federal Revenue-Medicare Part D				19,360						
Operating Grants and Contributions:										
Membership Fee Revenue		18								
Investment Income	12,879	12,999	14,809	23,023	40,375	42,513	48,100	36,671	12,758	13,188
Other	1,371	4,060	2,951	709	272	1,521	1,385	3,357	4,688	875
Total Governmental Activities Program Revenues	**1,654,354**	**1,610,516**	**1,705,233**	**1,890,704**	**1,442,542**	**1,496,469**	**1,550,913**	**1,704,066**	**1,889,603**	**1,905,070**
General Revenues										
Transfers										40
Total Governmental Activities General Revenues										**40**
Net Revenue Governmental Activities	**6,202**	**70,208**	**37,118**	**108,247**	**128,431**	**14,990**	**(102,405)**	**(145,899)**	**91,349**	**56,839**

Source: Comprehensive Annual Financial Reports.

Fund Balances – Governmental Funds
Last Ten Fiscal Years (in 000's)
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Funds:	$	$	$	$	$	$	$	$	$	$
Committed:										
Social Security Administration Fund	16	3	27	49	45	56	59	45	8	18
Total Governmental Funds	**16**	**3**	**27**	**49**	**45**	**56**	**59**	**45**	**8**	**18**

Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years (in 000's)
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues	$	$	$	$	$	$	$	$	$	$
Appropriations for (Note A):										
Administration	28	28	28	28	28	28	28	-	-	-
Death Benefits:										
Public Employee Survivors	4,649	4,957	2,632	4,333	2,369	3,395	1,838	4,164	2,784	2,141
Victims of Crime				750	1,500	2,250	2,000	1,250	1,750	1,000
Retiree $5,000 Lump Sum	6,087	6,681	7,030	6,910	7,487	6,902	7,367	7,911	7,885	8,628
Administration Fees			73	78	72	65	64	85	66	74
Total Revenues	**10,764**	**11,666**	**9,763**	**12,099**	**11,456**	**12,640**	**11,297**	**13,410**	**12,485**	**11,843**
Expenditures										
Death Benefits:										
Public Employee Survivors	4,649	4,957	2,632	4,333	2,397	3,423	1,866	4,164	2,784	2,141
Victims of Crime			1,250	750	1,500	2,250	2,000	1,250	1,750	1,000
Retiree $5,000 Lump Sum	6,453	6,681	7,026	6,908	7,493	6,902	7,367	7,910	7,885	8,628
Administrative Expenditures	67	59	80	86	70	54	61	101	102	105
Total Expenditures	**11,169**	**11,697**	**10,988**	**12,077**	**11,460**	**12,629**	**11,294**	**13,425**	**12,521**	**11,874**
Excess of Revenues Over (Under)										
Expenditures	**(405)**	**(31)**	**(1,225)**	**22**	**(4)**	**11**	**3**	**(15)**	**(36)**	**(31)**
Other Financing Sources (Uses)										
Membership Fees		18								
Victims of Crime Fund			1,250							
Tranfers In - Retirement Membership Fees										40
Net Change in Fund Balances	**(405)**	**(13)**	**25**	**22**	**(4)**	**11**	**3**	**(15)**	**(36)**	**9**

Note A: Includes lapsed appropriations.

Source: Comprehensive Annual Financial Reports

Changes in Net Assets – Proprietary Fund
Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating Revenues	$	$	$	$	$	$	$	$	$	$
Insurance Contributions:										
State	1,235,235	1,177,512	1,256,123	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,731	1,434,186
Member	393,976	404,107	420,192	450,678	365,653	364,278	381,820	416,690	444,731	444,786
Federal Revenues-Medicare Part D				19,360						
Federal Revenues-COBRA Stimulus								2,268	1,312	27
Other	1,280	3,840	453	528	422	1,543	1,254	1,087	3,089	835
Total Operating Revenues	1,630,491	1,585,459	1,676,768	1,855,254	1,390,711	1,441,175	1,491,224	1,653,826	1,863,863	1,879,834
Operating Expenses										
Benefit Payments:										
Employee	1,627,057	1,107,187	1,189,048	1,265,966	1,275,725	1,437,632	1,609,991	1,797,659	1,743,897	1,792,645
Retiree (Note A)		402,224	439,171	478,229						
COBRA (Note A)		9,883	18,596	15,878	18,232	22,895	22,971	30,763	32,398	34,351
Administrative and Other Expenses	9,926	9,316	10,312	10,307	8,694	8,323	9,062	8,118	9,437	9,401
Total Operating Expenses	1,636,983	1,528,610	1,657,127	1,770,380	1,302,651	1,468,850	1,642,024	1,836,540	1,785,732	1,836,397
Operating Income (Loss)	**(6,492)**	**56,849**	**19,641**	**84,874**	**88,060**	**(27,675)**	**(150,800)**	**(182,714)**	**78,131**	**43,437**
Non-Operating Revenues (Expenses)										
Net Appreciation (Depreciation) in Fair Value of Investments	949	2,043	(1,750)	(4,834)	(730)	4,943	20,359	20,789	4,273	5,395
Interest Income	11,930	10,956	16,559	27,857	41,080	37,569	27,741	15,882	8,485	7,794
Other	220	374	2,644	327	25	141	292	158	496	204
Change in Net Assets	**6,607**	**70,222**	**37,094**	**108,224**	**128,435**	**14,978**	**(102,408)**	**(145,885)**	**91,385**	**56,830**

Note A: Prior to fiscal year 2004 the System recorded benefit payments at a summarized level. Therefore, this level of detail is not available for all years presented.

Source: Comprehensive Annual Financial Reports

Changes in Net Assets – Defined Benefit Plans
Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	$	$	$	$	$	$	$	$	$	$
Employees Retirement Fund (ERS)										
Additions										
Member Contributions	324,000	300,156	305,870	292,023	328,039	337,040	353,299	410,134	425,811	411,066
Employer Contributions	301,555	278,845	276,035	316,198	329,981	342,092	363,023	400,252	414,084	347,121
Investment Income (Net of Expenses)	1,455,591	1,994,703	2,331,089	1,737,588	2,622,895	(1,294,063)	(1,616,258)	1,203,796	2,414,830	1,614,670
Other Additions	37,719	45,719	50,208	58,804	48,746	52,941	57,329	61,741	64,970	71,255
Total Additions	**2,118,865**	**2,619,423**	**2,963,202**	**2,404,613**	**3,329,661**	**(561,990)**	**(842,607)**	**2,075,923**	**3,319,695**	**2,444,112**
Deductions										
Retirement Benefits	1,010,238	1,190,313	1,206,562	1,251,090	1,299,964	1,360,380	1,433,011	1,505,585	1,593,537	1,712,821
Death Benefits	2,327	1,949	2,039	2,232	2,099	1,802	2,224	3,086	4,142	3,654
Refunds	73,438	83,779	89,760	75,614	79,564	74,504	70,958	65,334	79,535	88,060
Administrative and Other Expenses	13,078	12,996	13,878	14,044	16,475	16,730	17,690	19,083	19,000	18,024
Total Deductions	**1,099,081**	**1,289,037**	**1,312,239**	**1,342,980**	**1,398,102**	**1,453,416**	**1,523,883**	**1,593,088**	**1,696,214**	**1,822,559**
Change in Net Assets	**1,019,784**	**1,330,386**	**1,650,963**	**1,061,633**	**1,931,559**	**(2,015,406)**	**(2,366,490)**	**482,835**	**1,623,481**	**621,553**
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)										
Additions										
Member Contributions								7,473	7,604	7,287
Employer Contributions						20,191	20,657	27,799	24,228	(3)
Investment Income (Net of Expenses)	49,692	67,906	78,444	57,656	85,799	(42,917)	(51,743)	40,054	81,881	51,909
Other Additions	2	2		-				6	2	1
Total Additions	**49,694**	**67,908**	**78,444**	**57,656**	**85,799**	**(22,726)**	**(31,086)**	**75,332**	**113,715**	**59,194**
Deductions										
Retirement Benefits	22,834	27,559	29,036	30,184	32,149	34,908	38,641	41,001	42,914	46,868
Death Benefits									106	6
Refunds								162	694	1,220
Administrative and Other Expenses	700	630	521	378	504	366	434	595	937	844
Total Deductions	**23,534**	**28,189**	**29,557**	**30,562**	**32,653**	**35,274**	**39,075**	**41,758**	**44,651**	**48,938**
Change in Net Assets	**26,160**	**39,719**	**48,887**	**27,094**	**53,146**	**(58,000)**	**(70,161)**	**33,574**	**69,064**	**10,256**
Judicial Retirement System of Texas Plan One (JRS I)										
Additions										
Member Contributions	268	142	62	214						
Appropriations	22,675	22,622	22,297	27,784	29,029	28,684	28,171	27,298	26,988	26,464
Other Additions	120	120	120	-						
Total Additions	**23,063**	**22,884**	**22,479**	**27,998**	**29,029**	**28,684**	**28,171**	**27,298**	**26,988**	**26,464**
Deductions										
Retirement Benefits	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302	26,988	26,464
Refunds	3	1	14	-						
Administrative and Other Expenses	120	120	120	120						
Total Deductions	**22,796**	**22,741**	**22,417**	**27,784**	**29,029**	**28,657**	**28,194**	**27,302**	**26,988**	**26,464**
Change in Net Assets	**267**	**143**	**62**	**214**	**-**	**27**	**(23)**	**(4)**	**-**	**-**
Judicial Retirement System of Texas Plan Two (JRS II)										
Additions										
Member Contributions	3,020	2,922	2,985	3,551	4,125	3,964	4,223	4,121	4,291	4,170
Employer Contributions	8,294	8,205	8,365	10,052	10,909	11,138	11,356	11,511	11,933	4,150
Investment Income (Net of Expenses)	9,404	13,332	17,348	14,384	24,245	(10,765)	(16,421)	13,586	30,189	41,181
Other Additions	18	2	11	5	-	-	-	-	2	-
Total Additions	**20,736**	**24,461**	**28,709**	**27,992**	**39,279**	**4,337**	**(842)**	**29,218**	**46,415**	**49,501**
Deductions										
Retirement Benefits	2,119	2,770	3,308	4,223	5,747	6,645	8,023	9,289	11,722	12,782
Death Benefits			10	24						21
Refunds	152	303	106	65	58	73	206	118	48	179
Administrative and Other Expenses	245	273	402	303	395	244	239	277	286	230
Total Deductions	**2,516**	**3,346**	**3,826**	**4,615**	**6,200**	**6,962**	**8,468**	**9,684**	**12,056**	**13,212**
Change in Net Assets	**18,220**	**21,115**	**24,883**	**23,377**	**33,079**	**(2,625)**	**(9,310)**	**19,534**	**34,359**	**36,289**

- to next page

Changes in Net Assets – Defined Benefit Plans (Concluded)
Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	$	$	$	$	$	$	$	$	$	$
Excess Benefit Arrangement										
Additions										
Other Additions	67	67	223	297	200	350	328	294	342	506
Total Additions	**67**	**67**	**223**	**297**	**200**	**350**	**328**	**294**	**342**	**506**
Deductions										
Retirement Benefits	67	67	223	236	141	298	279	251	297	436
Administrative and Other Expenses				61	59	52	49	43	45	70
Total Deductions	**67**	**67**	**223**	**297**	**200**	**350**	**328**	**294**	**342**	**506**
Change in Net Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
State Retiree Health Plan					**(Note A)**					
Additions										
Member Contributions					108,387	109,447	114,360	126,073	135,133	134,993
Employer Contributions					438,242	417,106	447,765	478,348	444,895	483,636
Federal Revenues-Medicare Part D					28,558	32,964	35,784	40,988	38,207	39,612
Early Retirees Reinsurance Program									30,176	40,724
Investment Income (Net of Expenses)					1,541	1,362	1,056	609	436	329
Other Additions							775	1		
Total Additions	**-**	**-**	**-**	**-**	**576,728**	**560,879**	**599,740**	**646,019**	**648,847**	**699,294**
Deductions										
Retirement Benefits					574,030	558,228	596,858	643,389	646,197	696,085
Administrative and Other Expenses					2,698	2,651	2,882	2,630	2,650	3,209
Total Deductions	**-**	**-**	**-**	**-**	**576,728**	**560,879**	**599,740**	**646,019**	**648,847**	**699,294**
Change in Net Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note A: Due to GASB 43, retiree data is shown separately beginning with FY 2007.

Source: Comprehensive Annual Financial Reports

Changes in Net Assets – Deferred Compensation Plans and Cafeteria Plan
Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	$	$	$	$	$	$	$	$	$	$
Texa$aver 401(k) Plan										
Additions										
Investment Income (Net of Expenses)	1	4	29	52	459	116	476	42	43	26
Other Additions	345	1,328	166	342	301	464	215	1,439	830	607
Total Additions	**346**	**1,332**	**195**	**394**	**760**	**580**	**691**	**1,481**	**873**	**633**
Deductions										
Administrative and Other Expenses	357	366	253	275	448	581	457	513	615	596
Total Deductions	**357**	**366**	**253**	**275**	**448**	**581**	**457**	**513**	**615**	**596**
Change in Net Assets	**(11)**	**966**	**(58)**	**119**	**312**	**(1)**	**234**	**968**	**258**	**37**
Texa$aver 457 Plan										
			(Restated)	**(Restated)**						
Additions										
Deferrals (Note A)	27,132	37,047	43,817	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	27,241	56,426	39,268	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions							7			
Investment Income (Net of Expenses)	18,341	33,976	25,093	23,752	62	50	122	13	13	12
Other Additions	234	186	119	684	503	592	405	589	513	486
Total Additions	**72,948**	**127,635**	**108,297**	**24,436**	**565**	**642**	**534**	**602**	**526**	**498**
Deductions										
Distributions and Fees (Note A)	27,604	41,851	26,152	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	42,224	67,071	41,481	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative and Other Expenses	849	995	418	403	526	547	656	669	510	452
Total Deductions	**70,677**	**109,917**	**68,051**	**403**	**526**	**547**	**656**	**669**	**510**	**452**
Change in Net Assets	**2,271**	**17,718**	**40,246**	**24,033**	**39**	**95**	**(122)**	**(67)**	**16**	**46**
State Employees Cafeteria Plan (TexFlex)										
Additions										
Contributions	33,964	43,840	53,425	61,080	68,425	76,780	83,244	90,290	96,033	95,986
Investment Income (Net of Expenses)	65	25	40	75	89	72	45	25	20	19
Other Additions	18	439	409	56	105	95	83	105	104	76
Total Additions	**34,047**	**44,304**	**53,874**	**61,211**	**68,619**	**76,947**	**83,372**	**90,420**	**96,157**	**96,081**
Deductions										
Reimbursement Account Claims	33,539	42,886	52,337	59,951	67,133	75,043	80,161	87,912	93,737	92,093
Administrative and Other Expenses	1,234	1,336	1,571	1,694	1,886	2,157	2,220	2,217	2,725	2,485
Total Deductions	**34,773**	**44,222**	**53,908**	**61,645**	**69,019**	**77,200**	**82,381**	**90,129**	**96,462**	**94,578**
Change in Net Assets	**(726)**	**82**	**(34)**	**(434)**	**(400)**	**(253)**	**991**	**291**	**(305)**	**1,503**

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

Source: Comprehensive Annual Financial Reports

Benefit and Refund Payments - Defined Benefit Plans
Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	$	$	$	$	$	$	$	$	$	$
Employees Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service:										
Retirees	978,090	1,058,681	1,095,209	1,153,347	1,195,432	1,254,754	1,324,897	1,394,889	1,476,597	1,585,066
Survivors	N/A	3,532	20,286	20,379	19,805	20,461	20,651	20,765	21,188	21,410
Disability	28,005	30,815	31,419	31,690	31,163	30,626	30,402	30,301	28,854	28,376
Partial Lump Sum Option		91,731	53,030	37,679	44,450	44,207	45,301	46,362	51,885	60,687
Proportional	4,143	5,554	6,618	7,994	9,114	10,332	11,760	13,270	15,013	17,282
Total Retirement Benefits	1,010,238	1,190,313	1,206,562	1,251,089	1,299,964	1,360,380	1,433,011	1,505,587	1,593,537	1,712,821
Death Benefits:										
Active Members:										
Occupational		128	41	297	91	35	100	76	189	117
Non-Occupational	1,249	884	842	1,019	1,373	1,266	1,275	1,526	2,308	1,920
Retiree	1,078	937	1,156	916	635	501	850	1,484	1,645	1,617
Total Death Benefits	2,327	1,949	2,039	2,232	2,099	1,802	2,225	3,086	4,142	3,654
Refunds:										
Resignation	70,542	82,075	87,513	73,176	75,864	71,717	67,405	61,235	74,640	84,004
Death	2,896	1,704	2,247	2,438	3,700	2,787	3,553	4,099	4,895	4,056
Total Refunds	73,438	83,779	89,760	75,614	79,564	74,504	70,958	65,334	79,535	88,060
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service	21,477	23,492	25,836	27,694	29,053	31,675	35,174	37,580	39,509	42,670
Disability	1,357	1,275	1,318	1,250	1,208	1,180	1,168	1,161	1,128	1,093
Partial Lump Sum Option		2,792	1,882	1,240	1,889	2,053	2,300	2,260	2,277	3,105
Total Retirement Benefits	22,834	27,559	29,036	30,184	32,150	34,908	38,642	41,001	42,914	46,868
Death Benefits:										
Active Members:										
Non-Occupational									106	6
Total Death Benefits	-	-	-	-	-	-	-	-	106	6
Refunds:										
Resignation								162	686	1,205
Death									9	15
Total Refunds	-	-	-	-	-	-	-	162	695	1,220
Judicial Retirement System of Texas Plan One:										
Type of Benefit										
Retirement Benefits:										
Service	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302	26,988	26,464
Total Retirement Benefits	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302	26,988	26,464
Refunds:										
Resignation		1	13							
Death	3		1							
Total Refunds	3	1	14	-	-	-	-	-	-	-
Judicial Retirement System of Texas Plan Two:										
Type of Benefit										
Retirement Benefits:										
Service	1,453	1,983	2,609	3,107	4,254	4,958	6,134	7,149	8,923	9,942
Disability	208	184	192	291	348	470	493	358	570	358
Proportional	458	603	507	825	1,145	1,216	1,396	1,782	2,229	2,482
Total Retirement Benefits	2,119	2,770	3,308	4,223	5,747	6,644	8,023	9,289	11,722	12,782
Death Benefits:										
Active Members:										
Non-Occupational			10	24						21
Total Death Benefits	-	-	10	24	-	-	-	-	-	21
Refunds:										
Resignation	152	235	67	4	58	73	206	118	47	117
Death		68	39	61						62
Total Refunds	152	303	106	65	58	73	206	118	47	179
Excess Benefit Arrangement:										
Type of Benefit										
Retirement Benefits:										
Service	67	67	223	236	141	298	279	251	297	436
Total Retirement Benefits	67	67	223	236	141	298	279	251	297	436
State Retiree Health Plan:										
Type of Benefit										
Insurance Benefits:										
Accrued Claims					67,920	50,858	50,800	55,675	53,835	50,148
Life Claims					22,140	18,514	20,839	24,430	24,663	29,722
Prescriptions Drugs					151,020	172,701	175,831	182,620	171,191	201,279
Administrative Fees					13,519	14,373	16,794	17,391	18,872	15,061
HMO Payments					26,422	30,985	35,036	31,606	32,349	73,491
Blue Cross Health					283,244	259,845	285,591	318,593	330,801	310,261
Dental					9,765	10,952	11,967	13,074	14,486	16,123
Total Insurance Benefits	-	-	-	-	574,030	558,228	596,858	643,389	646,197	696,085

Source: Comprehensive Annual Financial Reports

Average Benefit Payments - Employee Class
Last Ten Fiscal Years

Retirement Effective Dates (Note A) September 30, 2002 to August 31, 2012		Years of Credited Service 5-10	10-15	15-20	20-25	25-30	30+
- Period 9/30/02 to 8/31/03:							
Average Monthly Benefit	$	375.10	689.89	1,022.18	1,448.09	2,072.74	2,756.77
Average Final Average Salary	$	2,537.78	2,790.37	2,884.70	3,210.77	3,587.77	4,020.01
Number of Retired Members		314	1,325	815	1,064	1,659	1,702
- Period 9/30/03 to 8/31/04:							
Average Monthly Benefit	$	408.10	644.56	1,111.85	1,558.78	2,224.99	2,696.17
Average Final Average Salary	$	2,800.73	2,801.85	3,053.56	3,325.86	3,798.71	3,990.71
Number of Retired Members		176	467	306	721	885	446
- Period 9/30/04 to 8/31/05:							
Average Monthly Benefit	$	387.97	725.99	1,217.82	1,621.50	2,325.76	2,905.08
Average Final Average Salary	$	2,582.08	2,878.46	3,268.25	3,376.73	3,918.94	4,146.47
Number of Retired Members		148	523	373	713	846	434
- Period 9/30/05 to 8/31/06:							
Average Monthly Benefit	$	403.34	728.91	1,257.08	1,634.38	2,143.16	3,014.08
Average Final Average Salary	$	2,655.55	2,859.49	3,323.35	3,480.10	3,656.83	4,255.11
Number of Retired Members		147	417	292	386	381	244
- Period 9/30/06 to 8/31/07:							
Average Monthly Benefit	$	434.56	787.13	1,274.95	1,728.06	2,496.58	3,031.99
Average Final Average Salary	$	2,827.71	3,022.84	3,355.23	3,638.48	4,202.97	4,333.70
Number of Retired Members		195	457	381	646	593	414
- Period 9/30/07 to 8/31/08:							
Average Monthly Benefit	$	466.71	806.31	1,331.36	1,872.30	2,638.67	3,510.76
Average Final Average Salary	$	3,015.93	3,131.97	3,430.24	3,898.71	4,335.36	4,778.90
Number of Retired Members		199	495	442	636	635	442
- Period 9/30/08 to 8/31/09:							
Average Monthly Benefit	$	467.60	803.74	1,305.74	1,869.39	2,607.97	3,523.95
Average Final Average Salary	$	3,039.37	3,092.55	3,448.82	3,845.42	4,289.57	4,847.57
Number of Retired Members		193	478	507	640	556	411
- Period 9/30/09 to 8/31/10:							
Average Monthly Benefit	$	461.05	872.22	1,359.19	1,913.40	2,654.83	3,734.72
Average Final Average Salary	$	3,090.07	3,294.99	3,576.46	3,936.48	4,416.22	5,110.47
Number of Retired Members		213	504	565	729	660	548
- Period 9/30/10 to 8/31/11:							
Average Monthly Benefit	$	522.96	856.72	1,414.11	2,022.02	2,821.59	3,713.69
Average Final Average Salary	$	3,445.98	3,267.45	3,668.13	4,173.56	4,656.63	5,093.26
Number of Retired Members		256	653	624	829	793	654
- Period 9/30/11 to 8/31/12:							
Average Monthly Benefit	$	513.16	861.06	1,421.30	2,058.85	2,862.92	3,698.98
Average Final Average Salary	$	3,368.70	3,281.92	3,662.68	4,206.94	4,719.89	5,040.60
Number of Retired Members		243	601	720	842	762	572
Five Year Average - Period 9/30/07 to 8/31/12:							
Average Monthly Benefit	$	489.04	842.13	1,373.04	1,956.44	2,729.55	3,651.05
Average Final Average Salary	$	3,211.70	3,220.55	3,572.94	4,029.51	4,504.38	4,994.05
Average Number of Retired Members		221	546	572	735	681	525
Ten Year Average - Period 9/30/02 to 8/31/12:							
Average Monthly Benefit	$	446.72	769.99	1,274.53	1,770.72	2,441.34	3,193.68
Average Final Average Salary	$	2,955.58	3,020.32	3,376.06	3,709.14	4,099.99	4,495.19
Average Number of Retired Members		208	592	503	721	777	587

Note A: This schedule includes service retirements of the employee class as of October 25, 2012. It does not include disability retirements or the elected state official class. This schedule does not include Partial Lump Sum (PLSO) payments.

Source: The System's Member Records

Employees Retirement Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
$									
0-300	5,814	5,627	187	3,137	1,354	426	131	589	177
301-600	11,422	10,656	766	7,626	1,920	590	373	525	388
601-900	12,032	11,186	846	8,207	1,812	739	436	419	419
901-1,200	10,780	10,346	434	7,109	1,670	867	362	355	417
1,201-1,500	10,002	9,793	209	6,309	1,591	961	335	275	531
1,501-2,000	12,434	12,308	126	7,481	1,846	1,514	398	395	800
2,001-2,500	9,320	9,289	31	5,282	1,364	1,377	272	359	666
2,501-3,000	6,548	6,539	9	3,377	1,018	1,113	174	261	605
3,001-4,000	6,259	6,255	4	3,233	1,005	999	137	244	641
4,001-10,999	3,188	3,187	1	1,546	626	472	68	110	366
Total	**87,799**	**85,186**	**2,613**	**53,307**	**14,206**	**9,058**	**2,686**	**3,532**	**5,010**

Law Enforcement And Custodial Officer Supplemental Retirement Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
$									
$ 0-200	388	388	0	231	101	28	6	5	17
201-400	3,961	3,914	47	2,151	919	458	81	87	265
401-600	2,404	2,377	27	1,102	427	458	50	69	298
601-800	1,028	1,027	1	409	236	187	14	22	160
801-1,000	452	451	1	187	123	82	10	5	45
1,001-1,200	136	135	1	58	39	16	0	0	23
1,201-1,400	49	41	8	21	9	7	1	0	11
1,401-1,600	25	15	10	15	5	3	1	1	0
1,601-1,800	13	5	8	11	1	1	0	0	0
1,801-9,999	21	12	9	17	2	1	0	0	1
Total	**8,477**	**8,365**	**112**	**4,202**	**1,862**	**1,241**	**163**	**189**	**820**

Judicial Retirement Plan Two Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
$									
0-2,000	12	12	0	3	6	2	1	0	0
2,001-2,500	4	4	0	2	1	0	0	1	0
2,501-3,000	3	3	0	1	0	0	1	0	1
3,001-3,500	2	2	0	0	0	2	0	0	0
3,501-4,000	13	13	0	6	3	2	0	2	0
4,001-4,500	26	26	0	4	19	1	0	1	1
4,501-5,000	37	37	0	16	15	3	0	3	0
5,001-5,500	42	42	0	16	13	3	1	0	9
5,501-6,000	26	26	0	10	8	5	0	2	1
6,001-6,500	29	28	1	22	4	1	1	0	1
6,501-7,000	13	13	0	8	1	3	0	0	1
7,001-9,999	8	8	0	6	2	0	0	0	0
Total	**215**	**214**	**1**	**94**	**72**	**22**	**4**	**9**	**14**

Note A: These calculations are based on actuarial estimates.

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

Source: System's pension actuary.

Contribution Rates
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Defined Benefit Plans	%	%	%	%	%	%	%	%	%	%
Employees Retirement Fund										
Employee Class:								*(Blended)		
Employee*	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.50	6.50	6.50
State**	6.00	6.00	6.00	6.45	6.45	6.45	6.45	6.78	6.95	6.00
Elected Class:										
Legislators	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
State	6.00	6.00	6.00	6.45	6.45	6.45	6.45	6.45	6.45	6.00
Other Elected Class *	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.50	6.50	6.00
State **	6.00	6.00	6.00	6.45	6.45	6.45	6.45	6.78	6.95	6.00

*Note: For FY 2010, members contributed 6.45% from September, 2009 thru December, 2009. Members contributed 6.5% from Jan. to Aug., 2010
**Note: For FY 2010, the state contributed 6.45% from September, 2009 thru December, 2009. The state contributed 6.95% from Jan. to Aug., 2010

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A)										
Employee								0.50	0.50	0.50
State						1.59	1.59	1.59	1.59	0.00
Judicial Retirement System Plan One Fund										
Employee	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Judicial Retirement System Plan Two Fund										
Employee	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
State	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	6.00

State Retiree Health Plan

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Group Benefits Program (Note B)	$	$	$	$	$	$	$	$	$	$
Employee Only:										
State Contribution Monthly Rate	308.84	300.27	315.56	343.48	360.54	360.54	360.54	385.38	411.04	438.30
HealthSelect Monthly Premium	308.84	300.27	315.56	343.48	360.54	360.54	360.54	385.38	411.04	438.30
Employee & Children:										
State Contribution Monthly Rate	426.89	415.02	436.19	474.86	498.49	498.49	498.49	532.90	569.30	606.20
HealthSelect Monthly Premium	544.93	529.76	556.82	606.24	636.44	636.44	636.44	680.42	727.56	774.10
Employee & Spouse:										
State Contribution Monthly Rate	485.14	471.65	495.73	539.70	566.57	566.57	566.57	605.70	647.38	689.04
HealthSelect Monthly Premium	661.44	643.02	675.89	735.92	772.60	772.60	772.60	826.02	883.72	939.78
Employee & Family:										
State Contribution Monthly Rate	603.19	586.39	616.36	671.08	704.52	704.52	704.52	753.22	805.64	856.94
HealthSelect Monthly Premium	897.53	872.51	917.15	998.68	1048.50	1048.50	1048.50	1121.06	1200.24	1275.58
Total State Contribution (in millions) (Note C)	**1235.20**	**1177.50**	**1256.10**	**1384.70**	**1024.60**	**1075.40**	**1108.20**	**1233.80**	**1414.70**	**1434.20**

Note A: FY 2010 is the first year that members contributed 0.5% to the Law Enforcement and Custodial Officer Supplemental Retirement Fund
Note B: The State Retiree Health Plan is a pay-as-you-go plan. The monthly rates as shown above are the same for active and retired members of the Group Benefits Program.
Note C: The increase in State Contributions resulted primarily from healthcare industry trend increases and membership growth

Sources: System's records and Texas Government Code, Title 8.

	Fiscal Year									
	2003	2004	2005	2006 (Note C)	2007	2008	2009	2010	2011	2012
Employees Retirement Fund										
Active Contributing Members	142,315	133,349	132,417	132,411	132,497	134,626	141,223	142,490	137,293	132,669
Non-Contributing Members	51,868	54,658	57,089	61,567	67,803	74,094	72,585	78,737	84,900	90,190
Retirees and Beneficiaries	57,024	60,089	63,453	67,596	70,456	72,678	75,722	79,311	83,430	87,799
Service Retirements	7,581	3,906	4,609	2,929	4,110	4,445	4,338	4,803	5,734	5,860
Disability Retirements	174	181	179	80	98	115	95	67	74	68
Resignation Refunds	16,680	13,947	14,239	11,199	11,365	10,763	12,623	8,497	9,607	10,130
Death Refunds	316	237	294	317	551	175	344	300	413	458
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A & B)										
Active Contributing Members	40,332	38,391	37,251	37,103	36,413	33,642	37,819	39,052	36,806	37,404
Non-Contributing Members	7,264	7,856	8,428	33	27	35	39	2,978	5,785	7,129
Retirees and Beneficiaries	4,166	4,576	5,072	5,318	5,805	6,204	6,647	7,175	7,728	8,477
Service Retirements	686	431	537	306	553	637	559	635	695	895
Disability Retirements	1	3			4		2			
Resignation Refunds										
Death Refunds										
Judicial Retirement System of Texas Plan One										
Active Contributing Members	58	53	28	43	24	27	23	22	17	17
Non-Contributing Members	22	15	36	12	15	7	7	7	5	4
Retirees and Beneficiaries	505	494	491	486	488	471	461	447	445	433
Service Retirements	27	10	12	7	16	6	4	2	6	2
Disability Retirements										
Resignation Refunds		1	1		3					
Death Refunds	1		1							
Judicial Retirement System of Texas Plan Two										
Active Contributing Members	476	484	491	498	515	518	533	539	546	541
Non-Contributing Members	80	79	90	95	115	120	134	130	134	143
Retirees and Beneficiaries	78	72	81	89	116	117	152	164	208	215
Service Retirements	24	8	9	10	24	6	36	12	43	8
Disability Retirements										
Resignation Refunds	5	8	8	2	3	4	8	7	1	3
Death Refunds			1	1					1	2
State Retiree Health Plan (Note D)										
Retirees					75,958	80,543	83,494	86,111	90,213	95,375
Dependents					30,653	31,293	32,067	32,408	32,412	35,549

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

Source: The System's Member Records supplemented with actuarial estimates

Statistical Information – Other Programs
(All items expressed as numbers unless otherwise indicated)

		Fiscal Year									
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
457 Deferred Compensation Plan (Note A)											
Texa$aver 457 Plan (Note A):											
Total Participants		7,525	9,937	12,425	14,960	16,646	15,980	16,727	18,479	21,153	23,219
Participants Currently Deferring		4,862	5,908	7,632	8,350	9,475	10,282	10,295	11,649	13,293	14,189
Current Market Value of Plan Assets (in millions)	$	103.7	159.6	219.8	265.3	325.7	266.8	274.0	334.5	380.6	442.6
Original 457 Plan (Notes A, B, & C):											
Total Participants		6,015	5,104	3,693	3,169	2,780	2,527	2,278	1,293	734	657
Participants Currently Deferring		207	138	127	121	101	82	74	63	57	53
Texa$aver 401(k) Deferred Compensation Plan											
Total Participants		56,848	56,504	54,349	54,710	55,212	61,692	80,735	96,250	109,613	121,516
Participants Currently Deferring		32,714	30,075	28,574	28,314	28,587	37,399	52,347	69,311	64,704	66,910
Current Market Value of Plan Assets (in millions)	$	703.4	779.3	886.0	990.4	1,154.0	1,143.0	1,085.0	1,249.5	1,315.5	1,527.2
Deferrals (in millions)	$	89.1	86.9	83.6	89.2	94.7	103.8	168.0	108.2	107.3	105.5
Cafeteria Plan											
Reimbursement Accounts:											
Health Care		19,128	23,868	29,728	33,047	35,342	40,685	43,001	46,556	48,807	47,591
Dependent Care		2,297	2,416	2,522	2,665	2,836	3,012	3,261	3,549	3,686	3,747
Total Redirected (in millions)	$	33.6	43.1	52.4	60.0	67.5	75.3	80.2	87.5	93.7	92.8
Premium Conversion:											
Participants		209,929	199,215	206,173	209,214	210,744	215,618	223,980	228,121	222,295	218,587
Premiums Redirected (in millions)	$	312.1	321.4	337.8	363.3	386.4	389.7	410.3	457.4	482.4	487.5
Tax Savings (in millions):											
Employees	$	70.7	72.8	76.5	82.3	87.5	88.3	92.9	103.6	109.2	110.4
State of Texas	$	23.9	24.6	25.8	27.8	29.6	29.8	31.4	35.0	36.9	37.3
Group Benefits Program (Note D)											
Membership:											
Active		211,695	192,859	198,627	200,775	216,958	222,660	230,285	234,057	239,138	237,041
Retired		59,603	66,348	68,109	69,748	N/A	N/A	N/A	N/A	N/A	N/A
Dependents		248,749	235,834	236,691	232,846	199,833	190,573	198,420	197,979	183,626	172,695
COBRA (Note E)		1,744	1,736	1,558	2,485	2,009	2,138	2,178	2,544	2,213	2,460
		521,791	496,777	504,985	505,854	418,800	415,371	430,883	434,580	424,977	412,196
Death Benefit Programs											
Lump Sum Payments		20	19	11	16	12	13	6	18	14	9
Monthly Payments to Guardians		113	109	127	133	114	111	100	103	107	99
Victims of Violent Crime		n/a	n/a	5	3	2	8	8	5	13	5

Note A: *In fiscal year 2001, a new Texa$aver 457 Plan was established with different investment options. The original 457 Plan only offers life insurance products.*
Note B: *Data for the original 457 Plan is as of June 30, 2012.*
Note C: *In fiscal year 2005, the Original 457 Plan assets were restated by the amount of the allocated insurance contracts of $18,542,973.*
Note D: *In fiscal year 2007, the Group Benefits Program was separated into two funds (Active and Retiree) due to the implementation of GASB 43. Retired members and their dependents were moved to a fiduciary fund named the State Retiree Health Plan.*
Note E: *Starting in fiscal year 2006, the COBRA membership includes the beneficiaries of the COBRA group plan.*

Source: The System's member records supplemented with actuarial estimates.

Listing of Participating Reporting Entities for State Retiree Health Plan

State Agencies

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

- to next page

State Agencies (continued)

Texas Funeral Service Commission
Texas Higher Education Coordinating Board
Texas Historical Commission
Texas Indian Commission
Texas Juvenile Justice Department
Texas Juvenile Probation Commission
Texas Legislative Council
Texas Lottery Commission
Texas Medical Board
Texas Public Finance Authority
Texas Racing Commission
Texas State Library & Archives
Texas Treasury Safekeeping
Texas Veterans Commission
Texas Workforce Commission
Texas Youth Commission
University of Texas Medical Branch
Water Development Board

Universities

Angelo State University
Lamar State College - Orange
Lamar State College - Port Arthur
Lamar University – Beaumont
Lamar University Institute of Technology
Midwestern University
Sam Houston State University
Stephen F. Austin University
Sul Ross State University
Texas Southern University
Texas State University System
Texas State University San Marcos
Texas State Technical College System
Texas Tech Health Science
Texas Tech University
Texas Tech University Systems
Texas Women's University
University of Houston
University of Houston at Clearlake
University of Houston at Victoria
University of Houston Downtown
University of Houston System
University of North Texas
University of North Texas - Dallas
University of North Texas Health Science
University of North Texas Systems

Junior and Community Colleges

Alamo Community College
Alvin Community College
Amarillo College
Angelina College
Austin Community College District
Blinn College
Brazosport College
Central Texas College
Cisco Junior College
Clarendon College
Coastal Bend College
College of the Mainland
Collin County Community College
Dallas County Community College District
Del Mar College
El Paso Community College
Frank Phillips College
Galveston College
Grayson County Junior College
Hill College
Houston Community College
Howard County College
Kilgore College
Laredo Junior College
Lee College
Lone Star College
McLennan Community College
Midland College
Navarro College
North Central Texas College
North East Texas Community College
Odessa College
Panola College
Paris Junior College
Ranger Junior College
San Jacinto College
South Plains College
South Texas Community College
Southwest Collegiate Institute for The Deaf
Southwest Texas Junior College
Tarrant County Junior College
Temple Junior College
Texarkana College
Texas Southmost College
Trinity Valley Community College
Tyler Junior College
Vernon Regional Junior College
Victoria College
Weatherford College
Western Texas Junior College
Wharton County Junior College

Other Entities

Community Supervision and Corrections Departments
Texas County & District Retirement System
Texas Municipal Retirement System
Turnpike Authority
Windham School District

The principal participating employer is the state of Texas. State agencies and universities comprise 73% of the employees covered by the State Retiree Health Plan.

ERS enhances the lives of our participants
through the delivery of quality benefits at a reasonable cost.

ERS
Employees Retirement System of Texas

200 E. 18th Street
P.O. Box 13207
Austin, Texas 78711-3207
www.ers.state.tx.us