

Teacher Retirement System of Texas

2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT



A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2013





TRS Mission Statement

The mission of the Teacher Retirement System of Texas is:

**Improving the retirement security of Texas educators
by prudently investing and managing trust assets
and delivering benefits that make a positive difference
in members' lives.**

TEACHER RETIREMENT SYSTEM OF TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Texas

FISCAL YEAR ENDED
August 31, 2013



Brian K. Guthrie, Executive Director

Prepared by
Teacher Retirement System of Texas
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1-800-223-8778

www.trs.state.tx.us

Table of Contents

INTRODUCTORY SECTION

Board of Trustees	3
Professional Awards	4
Letter of Transmittal	6
Organization Chart	9
Staff and Advisors	10
Membership	11
Communications	12

FINANCIAL SECTION

Independent Auditor's Report	16
Management's Discussion and Analysis	20
Basic Financial Statements	
Exhibit I - Statement of Fiduciary Net Position	28
Exhibit II - Statement of Changes in Fiduciary Net Position	32
Exhibit III - Statement of Net Position - Proprietary Funds	36
Exhibit IV - Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	38
Exhibit V - Statement of Cash Flows - Proprietary Funds	40
Notes to the Financial Statements	42
Required Supplementary Information	68
Exhibit A - Statement of Changes in Assets and Liabilities - Agency Funds	70
Supporting Schedules	
Schedule 1 - Comparative Schedule of Changes in Account Balance - Pension Trust Fund	
Interest Account	72
Member Savings Account	73
State Contribution Account	74
Retired Reserve Account	75
Deferred Retirement Option Account	76
Expense Account	77
Schedule 2 - Schedule of Administrative Expenses	78
Schedule 3 - Comparative Schedule of Investing Activity Expenses - Pension Trust Fund	80
Schedule 4 - Schedule of Professional and Consulting Fees	81

INVESTMENT SECTION

Investment Overview	85
Total Time-Weighted Returns	86
Asset Allocation - August 31, 2013	88
Investment Summary	89
Largest Holdings	91
Schedule of Fees and Commissions	93

ACTUARIAL SECTION

Pension Trust Fund	
Actuary's Certification Letter	114
Actuarial Present Value of Future Benefits	117
Actuarial Methods and Assumptions	118
Other Actuarial Information	122
TRS-Care	
Actuary's Certification Letter	124
Actuarial Present Value of Future Benefits	125
Actuarial Methods and Assumptions	126

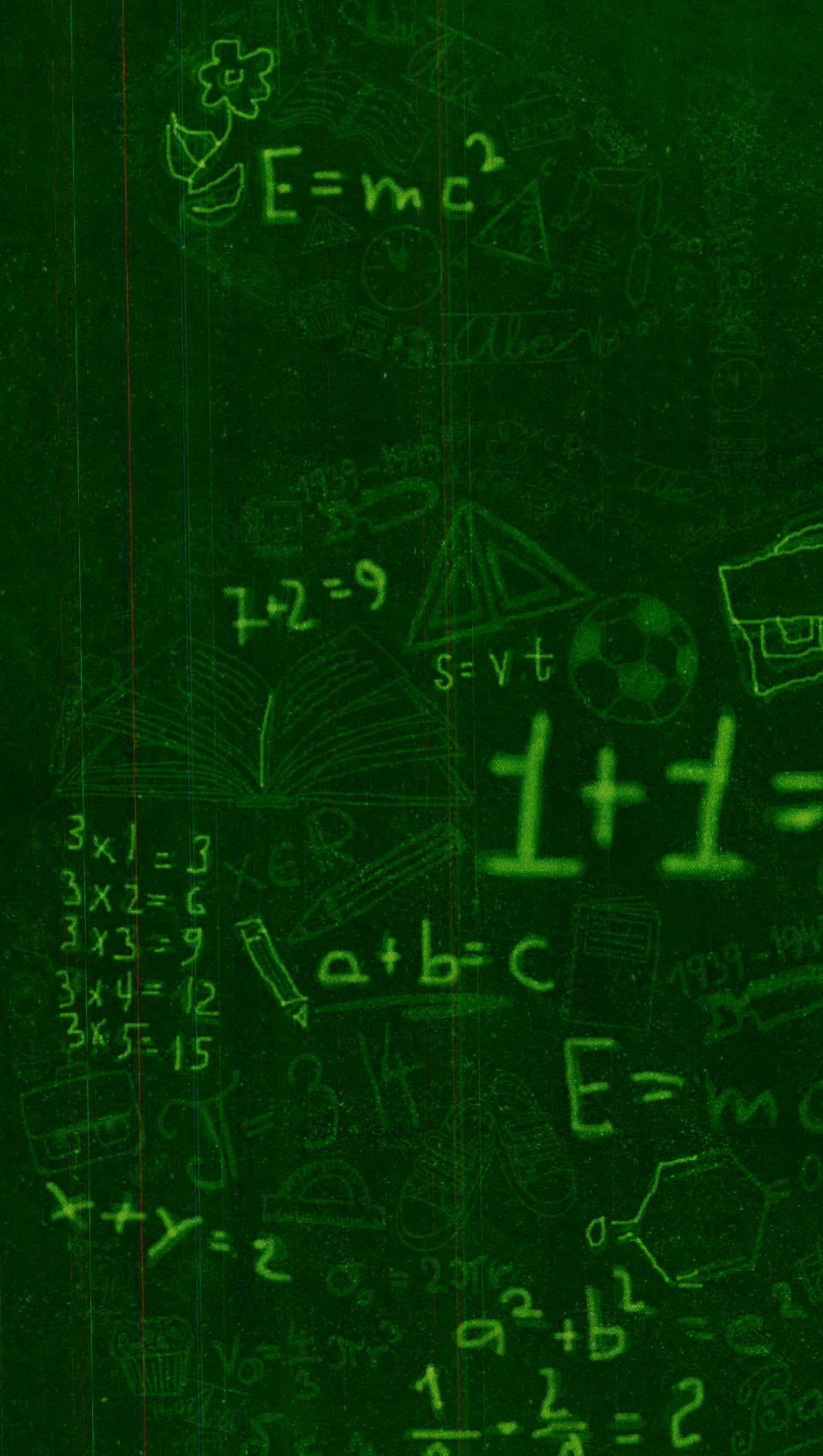
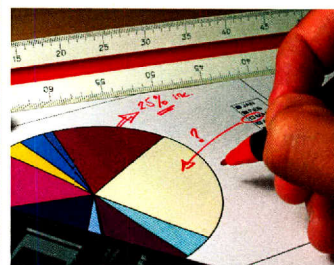
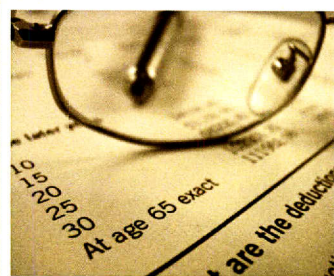
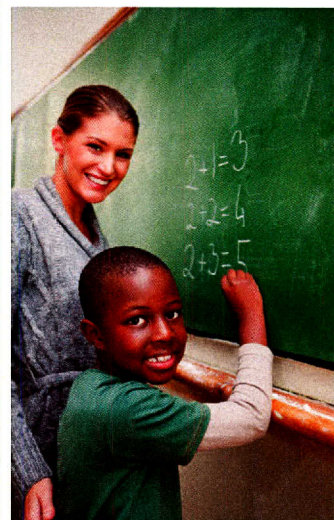
STATISTICAL SECTION

Statistical Section Overview	131
Financial Trends Information	
Ten-Year Summary Changes in Fiduciary Net Position and Revenues, Expenses, and Changes in Fund Net Position	132
Benefit and Refund Deductions from Net Position by Type and Benefit Deductions from Net Position by Type	140
Operating Information	
Average Benefit Payments	142
Retired Members by Type of Benefit and Health Benefit Payments by Range	144
Principal Participating Reporting Entities	146
Listing of Participating Reporting Entities	148

BENEFITS SECTION

Changes in the Law	154
Summary of Benefits	157
Average Monthly Benefit	161
Growth of the System	162

INTRODUCTORY SECTION



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Board of Trustees



R. David Kelly (Chair)

Managing Partner
Straight Line Realty Partners, Plano
Direct appointment of the governor
Term expires 2017



Karen Charleston

Space Management Assistant
Prairie View A & M University
Houston
Higher education position
Term expires 2017



Christopher Moss

Vice President, The Advanced
Financial Group, Lufkin
Position nominated by the State
Board of Education
Term expires 2015



Charlotte Clifton (Vice Chair)

Teacher
Snyder ISD, Snyder
Active public education position
Term expires 2013



Joe Colonna

Private Investor
Dallas
Direct appointment of the governor
Term expires 2013



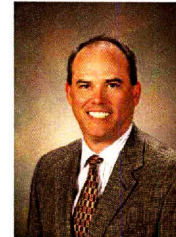
Anita Palmer

Former Texas Public School Teacher,
Administrator and University
Adjunct Professor, Jacksboro
Retiree Position
Term expires 2017



Todd Barth

President
Bowers Properties Inc., Houston
Direct appointment of the governor
Term expires 2015



Eric C. McDonald

Owner and CIO, McDonald Capital
Management, Lubbock
Position nominated by the State
Board of Education
Term expires 2013



Nanette Sissney

School Counselor
Whitesboro ISD, Whitesboro
Active public education position
Term expires 2015

The TRS Board of Trustees is responsible for administration of the system under provisions of the state constitution and laws. The board is comprised of nine trustees, all of whom are appointed by the governor to staggered six-year terms. Three trustees are direct appointments of the governor. Two trustees are appointed from a list prepared by the State Board of Education. Two trustees are appointed from the three public school district active member candidates who have been nominated for each position by employees of public school districts. One trustee is appointed from the three higher education active member candidates nominated by employees of institutions of higher education. One trustee is appointed from the three retired member candidates who are nominated by TRS retirees. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.

In October 2013, Governor Perry appointed two new trustees to six-year terms ending August 31, 2019 - David Corpus of Humble (replacing Eric C. McDonald) and Dolores Ramirez of San Benito (replacing Charlotte Clifton). In addition, Joe Colonna of Dallas was reappointed by Governor Perry.

Professional Awards



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teacher Retirement System of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2012

Executive Director/CEO

Professional Awards



Public Pension Coordinating Council

Recognition Award for Administration 2012

Presented to

Teacher Retirement System of Texas

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

Presented by the Public Pension Coordinating Council, a confederation of

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

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

Alan H. Winkle
Program Administrator

Letter of Transmittal

Teacher Retirement System of Texas

1000 Red River Street
Austin, Texas 78701-2698
(512) 542-6400 1-800-223-8778



November 15, 2013

The Honorable Rick Perry
The Honorable David Dewhurst
The Honorable Joe Straus
The Board of Trustees and Members
of the Teacher Retirement System

Dear Governor Perry, Lieutenant Governor Dewhurst, Speaker Straus, TRS Board of Trustees, and Members of the Teacher Retirement System:

On behalf of the board of trustees, I am pleased to present the *Comprehensive Annual Financial Report* (CAFR) of the Teacher Retirement System of Texas (TRS or System) for the fiscal year ended August 31, 2013, the System's 76th year of operation. During the past fiscal year, the System experienced modest growth as membership grew to approximately 1,370,000 participants. The pension trust fund continued to rebound from the stock market decline of 2008-2009 ending the 2013 fiscal year with a net position of \$117.4 billion compared to \$111.4 billion at the close of the 2012 fiscal year. Those market returns, in conjunction with contribution increases and benefit changes approved by the 83rd Texas Legislature, will allow TRS to provide secure benefits for current and future retirees. Benefit payments continued to grow as TRS paid out \$8.1 billion to annuitants during fiscal year 2013.

MANAGEMENT RESPONSIBILITY

This report consists of management's representations concerning TRS finances. Management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of TRS financial statements in conformity with generally accepted accounting principles. The cost of controls should not exceed the benefits to be derived as the objective of the internal control framework is to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United

States and Canada (GFOA) awarded TRS the Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report* for the previous fiscal year. To be awarded the certificate, a report must meet or exceed program standards and must satisfy both generally accepted accounting principles and applicable legal requirements. TRS has received a Certificate of Achievement for the last 23 years. We believe that the current report continues to meet program requirements, and it is being submitted to the GFOA for consideration again this year.

FINANCIAL INFORMATION

The basic financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis as promulgated by the Governmental Accounting Standards Board. The Management's Discussion and Analysis (MD&A) includes a narrative introduction, overview, and analysis to accompany the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

INVESTMENTS

For the 12-month period ending August 31, 2013, the total portfolio had a return of 9.0 percent. The TRS Pension Trust Fund finished the year with an investment net value of \$117.1 billion, an increase of \$6.0 billion from fiscal year 2012. For the past 10 years, the time-weighted compound annual return has been 7.2 percent.

Investment risks are diversified over a very broad range of market sectors and securities. TRS' investment strategy is designed to address three different potential market scenarios and have an advantage in each of them by allocating 62 percent to global equities, 20 percent to real return, and 18 percent to stable value. This allocation provides for good performance in any of the three scenarios. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from future markets.

Letter of Transmittal

PENSION PLAN BENEFITS

For fiscal year 2013, TRS paid pension benefit payments to more than 348,000 retirees and their beneficiaries totaling \$8.1 billion. These benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

ACTUARIAL SOUNDNESS OF THE PENSION TRUST FUND

As of August 31, 2013, the System had a funded ratio of 80.8% with an Unfunded Actuarial Accrued Liability of \$28.9 billion. However, because of significant shortfalls in investment returns in FY 2009, the System continues to defer net investment losses of \$4.3 billion.

Despite the significant market downturns in 2008 and 2009, current contributions are sufficient to amortize the unfunded liability and therefore the funding period is 28 years, which meets the requirements for actuarial soundness. The period of time necessary to amortize the unfunded liability is expected to increase over the next few years before beginning to once again decline. However, it is anticipated to remain a finite number until the pension fund is fully funded.

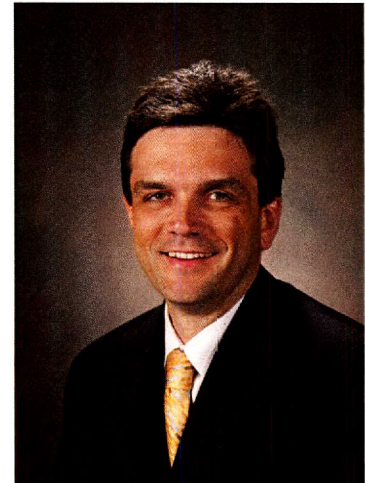
The General Appropriations Act for the 2012-13 biennium charged TRS to “report on the actuarial and fiscal impacts from potential changes to the state, university and school district pension plans as of August 31, 2011.” That study was completed and submitted to the Legislative Budget Board and the Governor in August 2012. The study findings, along with the mid-year actuarial valuation of February 28, 2013, were carefully considered by the 83rd Texas Legislature and served as a valuable resource for state officials during the session. After carefully considering the long-term sustainability of the plan, legislators made adjustments to benefits and increased contribution rates. The legislation increased from 60 to 62 the minimum retirement age for an unreduced annuity for those members who vest in the retirement system on or after September 1, 2014. The legislation also increased contribution rates. It established a stair step increase in the member contribution rate from 6.4% in FY 2014 to 7.7% in FY 2017, and it increased the state contribution rate from 6.4% to 6.8% for the current fiscal year. Finally, it established a 1.5% contribution rate beginning in FY 2015 for school districts that do not participate in Social Security. The legislative benefit adjustments and contribution increases brought the plan into actuarial soundness. This enabled the legislature to give those who retired on or before August 31, 2004 a three percent cost-of-living increase capped at \$100 per month. The annuity increase, which TRS began paying in October 2013, will benefit nearly two-thirds of all TRS retirees and is the first such annuity increase in more than a decade.

ACTIVE MEMBER HEALTH BENEFITS PROGRAM

TRS-ActiveCare, initiated in 2002, is a self-funded health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS-ActiveCare covers members currently employed by public educational

employers that participate in the plan. TRS establishes premiums to pay for the cost of the program. In 2013 the increase in premiums was offset by higher than anticipated claim payments resulting in a deficit fund balance. The TRS Board of Trustees has approved an additional increase in premiums for fiscal year 2014.

RETIREE HEALTH BENEFITS PROGRAM



Brian K. Guthrie

TRS also administers TRS-Care, a health benefits program for retirees that was established in 1985. TRS-Care is the source of health benefits coverage, which almost all retired public school employees rely upon. Funding is provided by premium payments from retiree participants and contributions from the state, school districts, and active employees. During 2013, TRS-Care also received additional revenue from the Medicare Part D prescription drug program.

An actuarial valuation for TRS-Care was conducted as of August 31, 2013. The valuation results indicate that TRS-Care has an Unfunded Actuarial Accrued Liability of \$29.3 billion. More detailed information about the valuation results is included in the Notes to the Financial Statements and the Required Supplementary Information.

Based on projections, TRS-Care will likely be solvent from a cash flow perspective until the end of FY 2015. As in the past, changes to the benefit structure and/or funding structure will need to be considered to extend the life of the program. TRS trustees remain focused on the need to balance revenues and expenses in a fiscally responsible manner, and to offer a program that best suits all participants' needs given available resources.

At the conclusion of the 82nd Texas Legislature, a rider was added to the General Appropriations Act, requiring TRS to conduct a study of TRS-Care and report to the legislature on potential changes to improve the program's sustainability. During fiscal year 2012, staff evaluated possible changes, sought public input, and submitted a report to the legislature in August 2012. As a result of legislation passed during the session, individuals who take a service retirement on or after September 1, 2014, must meet a minimum age of 62 to be eligible for TRS-Care 2 and 3. (Current retirees were not affected.) All service retirees affected by this limitation will be able to choose TRS-Care 2 or 3 when they turn 62 years of age. Eligibility requirements for participating in TRS-Care 1 were not changed by the bill. It is anticipated that legislators will continue to consider potential changes to improve the long-term sustainability of the plan during the next legislative session.

ORGANIZATIONAL CHANGE

During fiscal year 2013, Carolina de Onís joined TRS as the retirement system's new general counsel. Over the past year we have also made a handful of other organizational changes to focus on our key challenges moving forward: health care fund solvency, pension trust fund sustainability, long-term investment returns, and replacing legacy technology systems. These changes are reflected in the updated organizational chart on the following page.

ACKNOWLEDGMENTS

We wish to express our appreciation for the support of the Governor's, Lieutenant Governor's, and Speaker's Offices, as well as members of the legislature, in maintaining a strong retirement system, which provides valuable benefits for public education employees and retirees.

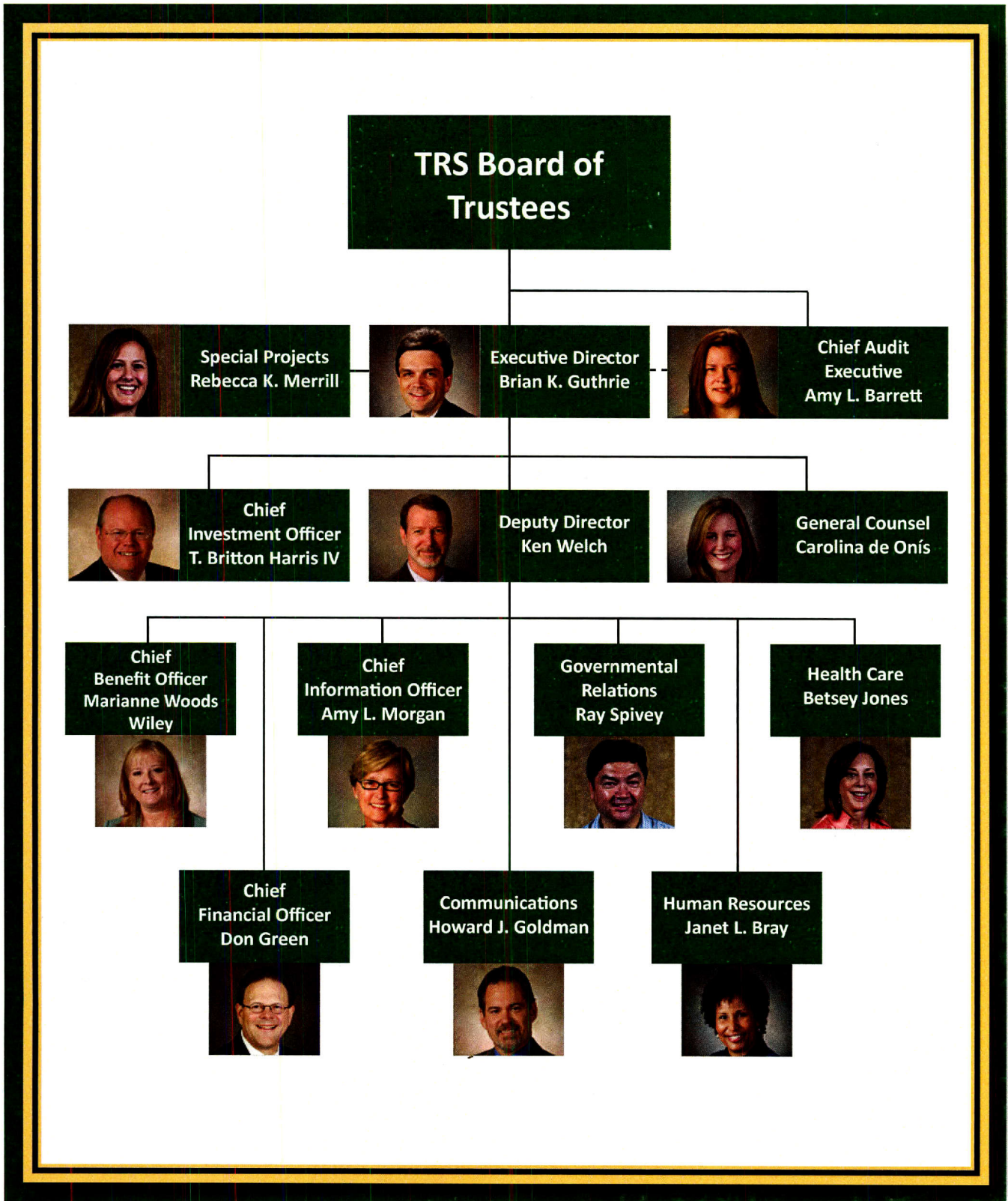
We are grateful for the dedicated service of all of our trustees. Trustee willingness to accept the substantial responsibilities of directing system administration is a great service to the state and to the members served by TRS.

TRS trustees and staff are keenly focused on prudent pension trust fund portfolio management and efficient, service-oriented delivery of valuable retirement and related benefits for public education employees and retirees. We are pleased to report on operational results for the year and to acknowledge the substantial support of state leadership, trustees, members, interested associations, and TRS staff.

Respectfully submitted,



Brian K. Guthrie
Executive Director



Effective September 1, 2013

Staff and Advisors

EXECUTIVE ADMINISTRATIVE STAFF

Brian K. Guthrie, *Executive Director*
Ken Welch, *Deputy Director*
T. Britton Harris IV, *Chief Investment Officer*
Carolina de Onís, *General Counsel*
Amy L. Barrett, *Chief Audit Executive*
Marianne Woods Wiley, *Chief Benefit Officer*
Don Green, *Chief Financial Officer*
Amy L. Morgan, *Chief Information Officer*
Howard J. Goldman, *Director, Communications*
Ray Spivey, *Director, Governmental Relations*
Janet L. Bray, *Director, Human Resources*
Betsey Jones, *Director, Health Care*
Rebecca K. Merrill, *Manager, Special Projects*

GENERAL INVESTMENT CONSULTANT

Hewitt Ennis Knupp, Chicago, IL

CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

INVESTMENT CONSULTANTS

Hamilton Lane Advisors, L.L.C., Bala Cynwyd, PA
(Domestic Private Equity)
Albourne America, L.L.C., San Francisco, CA
(Absolute Return)
The Townsend Group, Inc., Cleveland, OH
(Real Estate)

INVESTMENT ADVISORS

Keith C. Brown, Ph.D., Austin

AUDIT SERVICES

Texas State Auditor's Office, Austin

FIDUCIARY COUNSEL

Reinhart Boerner Van Deuren, S.C.,
Milwaukee, WI

MEDICAL BOARD

Dr. Alice Cox, Fredericksburg
Dr. James Reinartz, Austin
Dr. Larry D. Wilson, Austin

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

B. Sue Passmore, *Chair*, Dallas
Dr. Ignacio Salinas, Jr., *Vice Chair*, San Diego
Donnie L. Breedlove, Ed.D., Dallas
Sarah Hobbs, Van
Kim Kriegel, Red Oak
Sunday L. McAdams, Seymour
Glenna Purcell, Eagle Pass
Nelda Van Dyke, Brenham *
Wendell Whittenburg, Sweetwater *

* Resigned in May 2013

HEALTH CARE CONSULTANT

Gabriel, Roeder, Smith & Company, Dallas

MASTER CUSTODIAN AND SECURITIES LENDING AGENT

State Street Bank and Trust Company,
Boston, MA

PERFORMANCE MEASUREMENT

State Street Bank and Trust Company,
Boston, MA

Effective September 1, 2013

Membership

PENSION TRUST FUND

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2013, participating entities included the following:

Independent School Districts	1,028
Charter Schools	203
Community and Junior Colleges	51
Senior Colleges and Universities	47
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	2
Total	<u>1,365</u>

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas.

At August 31, 2013, and August 31, 2012, membership consisted of the following:

	Year Ended August 31,	
	2013	2012
Current Members:		
Active Contributing	846,178	830,093
Active Non-contributing	118,036	119,604
Deferred Retirement Option	158	219
Inactive Non-vested	19,455	19,142
Inactive Vested	37,585	34,597
Total Current Members	<u>1,021,412</u>	<u>1,003,655</u>
Retirement Recipients:		
Service	327,072	311,170
Disability	9,249	9,053
Survivor	11,907	11,524
Total Retirement Recipients	<u>348,228</u>	<u>331,747</u>
TOTAL MEMBERSHIP	<u>1,369,640</u>	<u>1,335,402</u>

Membership changes are summarized below:

	2013	2012
Active Membership:		
New Members	87,193	70,204
Members Withdrawing	(41,615)	(42,783)
Service Retirements	(21,180)	(22,263)
Disability Retirements	(865)	(834)
In-Service Deaths	(1,243)	(1,160)
Other Changes	(4,533)	(3,395)
Net Increase (Decrease)	<u>17,757</u>	<u>(231)</u>
Retired Membership:		
Retirements	22,045	23,097
Deaths After Retirement	(7,437)	(6,886)
Option Continuations	2,182	2,167
Other Changes	(309)	689
Net Increase	<u>16,481</u>	<u>19,067</u>

Active Member Profile

	2013	2012
Average Annual Salary	\$ 44,634	\$ 44,543
Average Age	44.4	44.4
Average Years of Service	10.0	10.1

Annuitant and Beneficiary Profile

	2013	2012
Average Monthly Annuities		
Life Annuities	\$ 1,981	\$ 1,929
Disability Annuities	\$ 1,207	\$ 1,183
Annuities Certain	\$ 1,054	\$ 1,028
Average Age of Current Retirees	70.4	70.3
Average Age at Retirement		
All Retirees	59.9	59.9
Current Year Retirees	61.3	61.1
Average Years of Service		
All Retirees	24.5	24.5
Current Year Retirees	23.6	23.8
Average Salary at Retirement		
All Retirees	\$ 41,385	\$ 40,423
Current Year Retirees	\$ 50,610	\$ 51,118
Ratio of Current Members to Retirees	2.9 to 1	3.0 to 1

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE)

Participation for the Retired Plan is summarized below:

	2013	2012
Retirees	183,793	176,460
Surviving Spouses	5,625	5,327
Surviving Children	88	79
Dependent Spouses and Children	47,336	44,020
TOTAL	<u>236,842</u>	<u>225,886</u>

TEXAS ACTIVE SCHOOL EMPLOYEES UNIFORM GROUP BENEFITS PROGRAM (TRS-ACTIVECARE)

Participation for the Active Plan is summarized below:

	2013	2012
Employees	273,774	275,960
Dependents	181,931	195,007
TOTAL	<u>455,705</u>	<u>470,967</u>

As of September 1, 2013, there were 1,128 participating entities.

Communications

During fiscal year 2013, TRS communicated with its members, retirees, participating employers, and the general public over the telephone as well as through group presentations, one-on-one meetings, print publications, webcasts, videos, social media, the agency's website, and email. TRS staff also spoke at conferences across the state to update members and retirees on their pension and health care benefits as well as TRS investment performance.

Major communications from the past year are summarized below:

PRINT PUBLICATIONS

During fiscal year 2013, TRS published three *TRS News* issues to provide members and retirees with important information relating to their benefits. Employers received TRS-related information through seven *Update* newsletters. Annual statements were distributed in October 2012 to all active members of the system.

TRS also distributed a number of publications to members and retirees, including the *TRS Benefits Handbook* and a variety of brochures related to TRS pension and health care benefits.

THE INTERNET

Over the past year, the TRS website received a total of 2,772,758 visits, representing a 14.9 percent increase from 2,414,082 visits in the previous fiscal year. In addition, 1,345,758 unique visitors used the site during fiscal year 2013 — a 16.1 percent increase from 1,158,922 visitors in fiscal year 2012.

Much of this growth was due to the expanded use of *MyTRS*, the online access section of the TRS website. *MyTRS* was actively promoted through email messages sent to TRS-covered employers, articles placed in member newsletters, information featured on the agency website, and through social media outreach. At year end, more than 350,000 members and retirees had registered to participate in *MyTRS*. Promotional efforts will continue in 2014, including the planned launch of a member discount website for members and retirees who have registered to participate in *MyTRS*.

Prior to *MyTRS*, separate web applications had allowed members to view account information, register for benefit presentations, and request information from TRS. Now, active members with a valid user *MyTRS* ID and password can:

- Obtain personalized retirement estimates using data on file with TRS
- View and print a copy of their most recent annual statement
- View their account balance, including current year contributions received to date by TRS
- Request a bill for reinstatement of withdrawn service
- Obtain information on their withdrawn, unreported,

military and out-of-state special service credit purchases that are already in progress

- Register for group benefit presentations and field office visits held around the state

TRS annuitants with a valid user ID and password can do the following:

- View and print a copy of their most recent 1099-R tax form
- View and calculate their withholding tax amount using data on file with TRS
- View a summary of their current annuity payments
- View a summary of health benefit premiums paid in the prior two years by deduction from their TRS annuities

MyTRS also features an email subscription service that offers members and retirees the ability to receive TRS announcements and various TRS publications electronically when they subscribe for such service. Those who register not only receive information more quickly than by mail, but they also help reduce TRS printing and postage expenses.

During 2013, TRS began work on a project to redesign the agency's website through the TRS Enterprise Application Modernization (TEAM) Program. Issuance of a request-for-offers is planned in early 2014.

SOCIAL MEDIA

In 2013, TRS completed its first full year as an active participant in social media. TRS engaged a growing number of members, retirees, and others through a number of social media channels. At year end, TRS had nearly 4,000 Facebook fans, more than 1,000 followers on LinkedIn, and nearly 500 followers on Twitter. In addition, TRS videos were viewed on YouTube nearly 21,500 times.

VIDEO PRODUCTION

During the past year, TRS produced six "TRS Today" videos, which feature interviews with TRS executives on pension and health care benefits, new legislation, and TRS investments. TRS also produced videos relating to the agency's 75th anniversary, the purchase of special service credit, steps to retirement, how to apply for a refund, and a video companion piece to the brochure titled *TRS: A Great Value for all Texans*.

WEBCASTING OF BOARD MEETINGS

As part of its commitment toward open and transparent communication, TRS continued to webcast board meetings during the past year. Meetings are streamed live so members and others can watch the proceedings as they take place from anywhere in Texas or around the world. Each meeting is also recorded for playback on demand. All TRS board meetings are archived on the TRS website where individual agenda items can be easily accessed.

Communications

ASSOCIATION MEETINGS

Early in the fiscal year, TRS continued its outreach to members and retirees through a series of Texas Retired Teacher Association meetings. TRS officials spoke to retirees at more than 20 conventions around the state and provided updates on TRS developments. These meetings provide an opportunity for TRS representatives to meet with members and retirees face-to-face and answer any questions they may have. Legislators or their representatives from the area also frequently attend the meetings.

GROUP PRESENTATIONS AND INDIVIDUAL RETIREMENT COUNSELING SESSIONS

Over the past year, TRS made a number of group presentations to professional associations, to employee and retiree groups and at regional education service centers. Presentations focused on retirement options, health care benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 12,825 people attended 181 group presentations, and 28,900 people attended six conventions where TRS was represented. In addition, 10,020 people visited individually with a TRS counselor – 9,597 in Austin and 423 in field office visit locations. Fiscal year 2013 was the seventh year that one-on-one retirement counseling sessions were offered in limited field locations throughout Texas (450 available appointments in 10 cities).

TELECOMMUNICATIONS

In fiscal year 2013, the agency's Benefit Counseling department handled a total of 504,728 calls. In addition, 251,299 calls were completed during the past year within the agency's automated telephone system.

TRS and its contractors also provided telephone assistance to a large number of members seeking health care-related information. TRS-ActiveCare staff and contractors responded to 1,031,183 calls, and TRS-Care staff and contractors responded to 567,304 calls.

COORDINATION WITH REPORTING ENTITIES

The TRS Reporting and Query System (TRAQS), the agency's Internet-based reporting system for employers, had 1,363 reporting entities submit monthly reports to TRS by year-end. During the year, there were 13 professional association and software user group presentations attended by 551 people. Six live TRAQS orientation webinars were held with a total of 100 participants taking part. One reporting entity traveled to TRS for the onsite training of three employees. TRS-ActiveCare training seminars were conducted in 20 locations around the state for 1,624 administrators of 985 districts/entities. These seminars provided information regarding enrollment and ongoing administrative issues for TRS-ActiveCare.

75TH ANNIVERSARY CELEBRATION

During the fall of 2012, TRS celebrated the retirement system's 75th anniversary. Activities included an employee barbeque, participation in a Texas Retired Teachers Association-sponsored dinner, production of a commemorative anniversary film, creation of a website history museum, and the addition of a lobby display featuring photographs of the Charles Umlauf sculpture titled "Spirit of Learning." The display presents the sculpture while it was under construction and before it was dedicated near the entrance to the TRS building at 1000 Red River Street. In conjunction with the anniversary, staff developed a series of graphic design changes, including new agency logos, letterhead, business cards, electronic templates, and a graphic style guide. TRS staff also presented a special program to honor past leaders of the system at the September 2012 board meeting.

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FINANCIAL SECTION

$$E = mc^2$$

$$7 + 2 = 9$$

$$s = v \cdot t$$

$$1 + 1 =$$

$$3 \times 1 = 3$$

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$$3 \times 3 = 9$$

$$3 \times 4 = 12$$

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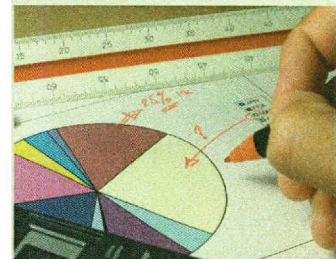
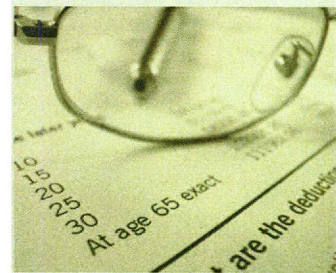
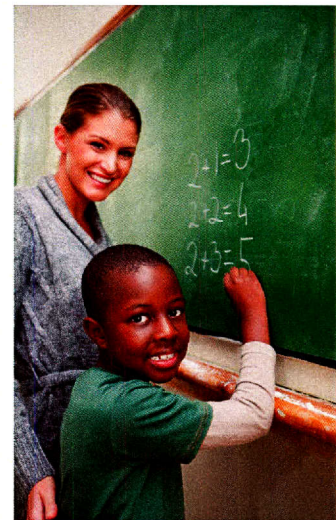
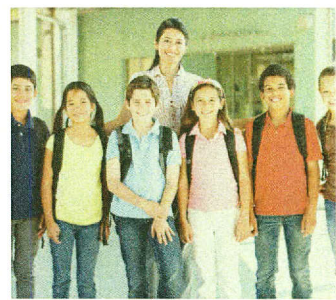
$$a + b = c$$

$$E = mc$$

$$x + y = z$$

$$a^2 + b^2 = c^2$$

$$\frac{1}{a} - \frac{2}{a} = \frac{2}{a}$$





Independent Auditor's Report

Teacher Retirement System Board of Trustees

Mr. R. David Kelly, Chairman
 Ms. Nanette Sissney, Vice Chair
 Mr. Todd Barth
 Ms. T. Karen Charleston
 Mr. Joe Colonna
 Mr. David Corpus
 Mr. Christopher Moss
 Ms. Anita Smith Palmer
 Ms. Dolores Ramirez

Report on the Financial Statements

We have audited the accompanying financial statements of the major enterprise fund and the aggregate remaining fund information, consisting of the fiduciary funds and the nonmajor enterprise fund of the Teacher Retirement System (Retirement System), a component unit of the State of Texas, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Retirement System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

SAO Report No. 14-305

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evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise fund and the aggregate remaining fund information of the Retirement System, as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Investments with Values that are not Readily Determined

As discussed in Note 3, the financial statements include certain investments valued at approximately \$39,004,925,971 as of August 31, 2013, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 20 through 27 and Schedules of Funding Progress and Schedules of Contributions and notes for the Pension Trust Fund and TRS-Care on pages 68 and 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Retirement System's financial statements. The information in Exhibit A and Schedules 1 through 4, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The information in Exhibit A and Schedules 1 through 4, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Exhibit A and Schedules 1 through 4, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

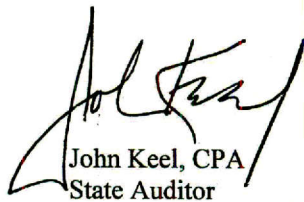
The Introductory, Investment, Actuarial, Benefits, and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

We have previously audited the Retirement System's fiscal year 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retirement System's internal control over financial reporting and compliance.



John Keel, CPA
State Auditor

November 15, 2013

Management's Discussion and Analysis

The following is Management's Discussion and Analysis (MD&A) of the Teacher Retirement System's (TRS or system) financial performance for the fiscal year ended August 31, 2013. The information presented here should be considered in conjunction with other areas of the Financial Section as well as information presented in the Executive Director's Letter of Transmittal in the Introductory Section of the *TRS Comprehensive Annual Financial Report*.

FINANCIAL HIGHLIGHTS

- The net position of the TRS Pension Trust Fund was \$117.4 billion as of August 31, 2013, an increase of 5.3%, in fiscal year 2013.
- As of August 31, 2013, the date of the most recent actuarial valuation, the TRS Pension Trust Fund's ratio of actuarial assets, as a percentage of actuarial liabilities, was 80.8%, which is lower than the 81.9% level at August 31, 2012. The unfunded actuarial accrued liability was \$28.9 billion, which is more than the \$26.1 billion reported at August 31, 2012.
- The annual rate of return on investments for the pension fund for the year ended August 31, 2013 was 9.0%. The rate of return for fiscal year 2012 was 7.6%.
- The net position of TRS-Care was \$551.0 million as of August 31, 2013, a decrease of 25.6% from fiscal year end 2012.
- As of August 31, 2013, the date of the most recent actuarial valuation, TRS-Care trust fund's unfunded actuarial accrued liability was \$29.3 billion, which is more than the \$26.8 billion reported at August 31, 2012.
- TRS-ActiveCare had a deficit net position of (\$118.0) million as of August 31, 2013, a decrease of \$163.7 million or (357.7%) in fiscal year 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the TRS financial presentation, which consists of the following components:

- Fund financial statements
- Notes to the financial statements
- Required supplementary information
- Other supplementary schedules

Collectively, this information presents the net position available for pension and other post-employment benefits, health care benefits, and other purposes as of August 31, 2013, and summarizes any changes in net position for the year then ended. The information available in each of these sections is summarized as follows:

Fund Financial Statements

Individual fund financial statements are presented for all fiduciary and proprietary funds as of August 31, 2013 and for the year then ended. Comparative data in total as of August 31, 2012, and for the year then ended has also been presented with the exception of agency funds. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries, to pay health care benefits for covered

participants, and to administer the 403(b) Administrative Program. Fiduciary funds presented include the Pension Trust Fund, TRS-Care and Agency Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of TRS. Proprietary funds account for business-type activities and include the TRS-ActiveCare and the non-major 403(b) Administrative Program enterprise funds.

Notes to the Financial Statements

The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is described below:

- Note 1 provides a summary of significant accounting policies, including the basis of accounting, budgets and appropriations, explanations of major asset and liability classes, and legal reserve account information. Also included is a general description of TRS as well as a description of each of the funds administered by TRS.
- Note 2 provides information on capital assets.
- Note 3 describes deposits and investments, including investing authority, investment risk categorizations, and additional information about cash, derivatives, securities lending, alternative investments and contingent commitments.
- Note 4 provides information on employee compensable leave.
- Note 5 provides information on the operating lease.
- Note 6 provides information on fringe benefits paid by the state and federal government on behalf of employees and participants of the health care plans.
- Note 7 describes deferred compensation plans available to TRS employees.
- Note 8 provides information on contingent liabilities such as TRS employees' accumulated sick leave, lump sum death benefits, incentive compensation, retiree benefits and any pending litigation.
- Note 9 addresses TRS' continuance subject to review under the Texas Sunset Act.
- Note 10 describes other post-employment health care benefits provided to TRS' employees and retired public school employees, contributions to the plan and its funded status.
- Note 11 addresses risk management issues related to the health benefits program for active school district employees.
- Note 12 provides pension disclosure information including detailed data on the plan description, contributions required and made, legal reserve balances and funded status.
- Note 13 provides information on subsequent events that occurred after the reporting period and before the issuance of the financial statements.
- Note 14 provides information on the deficit fund balance in TRS-ActiveCare.

Management's Discussion and Analysis

Required Supplementary Information

Required supplementary information consists of schedules related to the funding progress and the contributions from employers and other contributing entities of both the pension plan and the other employee benefit plan administered by TRS. Also included in this component is Management's Discussion and Analysis.

Other Supplementary Schedules

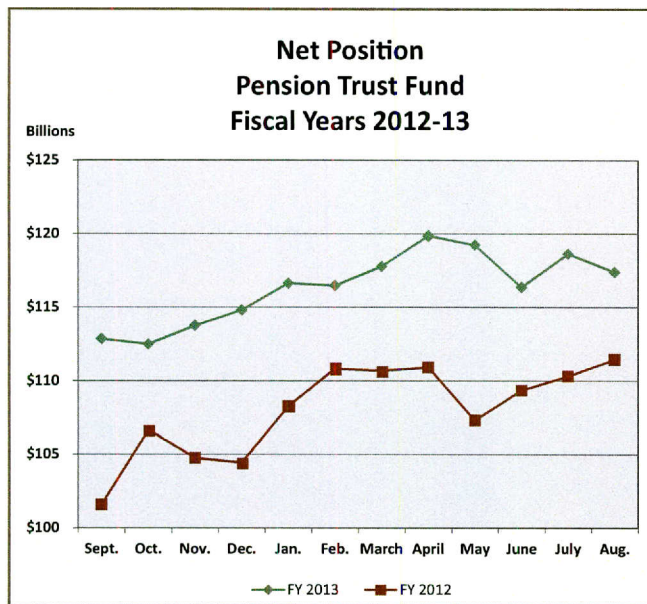
Other schedules include information on agency funds, changes in statutory reserve account balances, schedule of administrative expenses, investing activity expenses, and payments to consultants.

FINANCIAL ANALYSIS OF TRS FUNDS

Pension and Other Employee Benefit Trust Funds

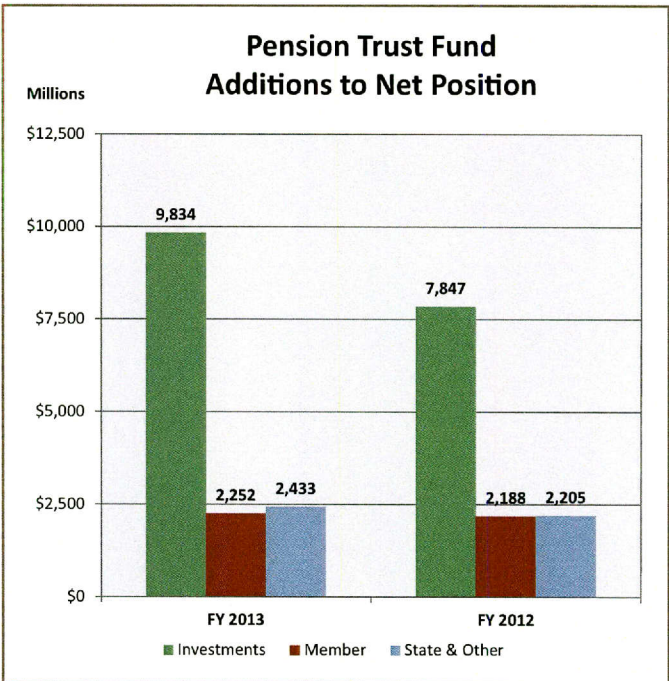
Pension Trust Fund

Net position held in trust for benefits at August 31, 2013 was \$117.4 billion, an increase of \$6.0 billion over the \$111.4 billion at August 31, 2012.



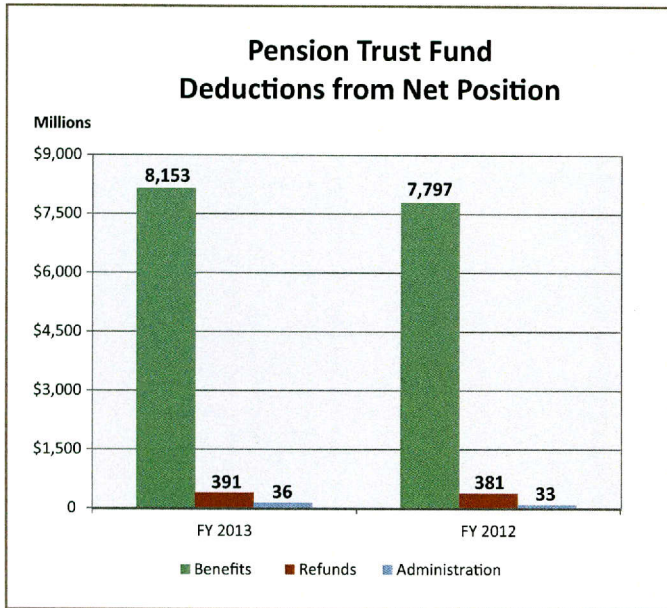
Fiscal year 2013 investment income was \$9.8 billion, an increase of \$2.0 billion from the \$7.8 billion in fiscal year 2012. Current year income from member contributions was \$2.3

billion while state contributions and other income totaled \$2.4 billion. Total contributions and other increased \$291.7 million, or 6.6%, during fiscal year 2013. An increase in active membership along with an increase in payroll growth resulted in an increase in total contributions. The state contribution rate was 6.4% for fiscal year 2013 which is an increase of .4% from the 2012 rate of 6.0%. The member contribution rate remained at 6.4% for fiscal year 2013.



Deductions from TRS net position held in trust for benefits are predominantly retirement, death, and survivor benefits. During fiscal year 2013, retirement benefits and other payments totaled \$8.2 billion, an increase of approximately \$356.2 million, or 4.6%, from fiscal year 2012 payments of \$7.8 billion. Refund of Contributions for fiscal year 2013 was \$391.3 million, an increase of \$10.1 million from fiscal year 2012. Administrative expenses were \$36.3 million, an increase of \$3.2 million over fiscal year 2012. Administrative expenses, excluding investing activities expense, on a cost per member basis were \$26.48 for fiscal year 2013 as compared to \$24.57 in fiscal year 2012. Investment cost per member is \$137.94 for fiscal year 2013. Investment expense in basis points of net position was 16.29 for fiscal year 2013 and was calculated using average net asset value. Investment expense in basis points for fiscal year 2012 was 13.75 and was calculated using the net position as of the fiscal year end.

Management's Discussion and Analysis



TRS has begun an effort to modernize the System's legacy computer systems referred to as the TRS Enterprise Application Modernization (TEAM) program of which there are 10 projects. In fiscal year 2013, TRS entered into a contract for the design phase of the financial system replacement (FSR) project and continued the procurement process for the line of business (LOB) project.

Net Position – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 2,990,207	\$ 2,874,198	\$ 116,009	4.0%
Investments	116,704,735	109,993,231	6,711,504	6.1
Invested Securities Lending Collateral	21,921,126	21,557,057	364,069	1.7
Capital Assets	32,315	29,086	3,229	11.1
TOTAL ASSETS	\$ 141,648,383	\$ 134,453,572	\$ 7,194,811	5.4%
Liabilities				
Benefits Payable	\$ 715,445	\$ 691,237	\$ 24,208	3.5%
Investments Purchased Payable/ Securities Sold Short	1,418,336	628,990	789,346	125.5
Accounts Payable and Other	212,119	147,921	64,198	43.4
Collateral Obligations	21,914,339	21,535,537	378,802	1.8
TOTAL LIABILITIES	\$ 24,260,239	\$ 23,003,685	\$ 1,256,554	5.5%
Total Net Position	\$ 117,388,144	\$ 111,449,887	\$ 5,938,257	5.3%

Management's Discussion and Analysis

Changes in Net Position – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percentage Change
Additions				
Member Contributions	\$ 2,252,095	\$ 2,188,021	\$ 64,074	2.9%
State Contributions	1,442,774	1,390,610	52,164	3.8
Other	990,051	814,568	175,483	21.5
Investment Income	9,834,136	7,847,298	1,986,838	25.3
TOTAL ADDITIONS	\$ 14,519,056	\$ 12,240,497	\$ 2,278,559	18.6%
Deductions				
Retirement Benefits and Other	\$ 8,153,243	\$ 7,797,092	\$ 356,151	4.6%
Refunds of Contributions	391,292	381,231	10,061	2.6
Administrative Expenses	36,264	33,074	3,190	9.6
TOTAL DEDUCTIONS	\$ 8,580,799	\$ 8,211,397	\$ 369,402	4.5%
Change in Net Position	\$ 5,938,257	\$ 4,029,100	\$ 1,909,157	47.4%

On a GAAP basis, the overall financial condition of the fund improved during 2013 due to net investment income during the year of \$9.8 billion – an increase of 25.3% from fiscal year 2012. This net gain is comprised of net appreciation in fair value of investments of \$8.1 billion, \$1.9 billion in interest and dividends, and net income of \$87.4 million from securities lending reduced by investing activity expenses of \$188.9 million. The net investment gain for fiscal year 2012 was \$7.8 billion.

INVESTMENTS

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust Company, the system's custodian bank, us-

ing industry best practices. When comparing returns, it is important to remember that as a pension fund, the TRS investment performance has a very long horizon.

Below are rate of return results for the total fund for the periods ending August 31, 2013:

- One-Year 9.0%
- Three-Years 10.6%
- Five-Years 5.4%
- Ten-Years 7.2%

The following table presents the actual investment allocations as of fiscal year end 2013 and 2012 as compared to the target allocations for 2013 and 2012.

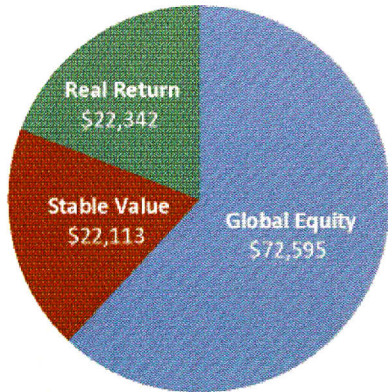
	Fiscal Year 2013		Fiscal Year 2012	
	Target	Actual	Target	Actual
Public Equity	50.0%	49.7%	50.0%	51.1%
Private Equity	12.0	12.3	12.0	11.8
TOTAL GLOBAL EQUITY	62.0%	62.0%	62.0%	62.9%
Fixed Income	13.0%	14.3%	13.0%	13.0%
Short-Term	1.0	1.0	1.0	.9
Stable Value Hedge Funds	4.0	3.6	4.0	3.5
TOTAL STABLE VALUE	18.0%	18.9%	18.0%	17.4%
Inflation Linked Bonds	5.0%	5.1%	5.0%	5.0%
Real Assets	15.0	13.6	13.0	11.7
Commodities	0.0	0.4	0.0	1.0
REITS (Real Estate Investment Trust)			2.0	2.0
TOTAL REAL RETURN	20.0%	19.1%	20.0%	19.7%
TOTAL	100.0%	100.0%	100.0%	100.0%

Management's Discussion and Analysis

These asset allocation investment categories and targets are determined by and subject to the system's investment policy guidelines which are reviewed and adjusted by the board as necessary to aid the fund in achieving the long-term portfolio return of 8 percent.

TRS had an annual rate of return of 9.01 percent for the fiscal year of 2013 on investments. At the end of fiscal year 2013 the Pension Trust Fund's investment value was \$117.1 billion, an increase of approximately \$6.0 billion over fiscal year 2012. TRS' investment strategy is designed to address three different potential market scenarios and have an advantage in each of them by allocating 62 percent to global equities, 20 percent to real return, and 18 percent to stable value. This allocation provides for good performance in any of the three scenarios. Additionally, TRS' Investment Management Division continued to build out and enhance the dedicated risk management function and expanded its principal investment and emerging manager programs. Due to lower interest rates today and European sovereign debt concerns, the outlook continued to be for muted returns over the next few years. For additional details on investments and their performance refer to the Investment Section.

Pension Trust Fund Investments
Value as of August 31, 2013
\$117,050,334,432



(chart rounded to millions)

Note: Differences between the Total Investment Value above and Total Investments on page 28 are due to differences in reporting methodologies. The Total Investment Value includes Investment Related cash, Net Investment Receivables/Payables and Securities Sold Short. In accordance with GASB, these are not reported on page 28 with Total Investments. Additionally, Total Investments on page 28 includes a short-term asset pool adjustment from Amortized Cost to Fair Value that is not included here. A complete reconciliation of the two values is located on page 89.

TRS-Care

The net position of TRS-Care at August 31, 2013 was \$551.0 million, a decrease of \$190.0 million from the \$741.0 million at August 31, 2012.

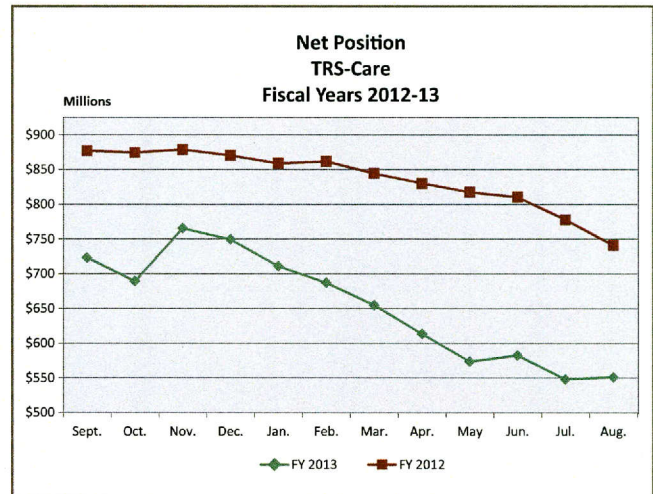
Additions to net position include health care premiums received from retirees, contributions received from active members, reporting entities, State, Federal revenue and investment earnings. Total contributions of \$583.4 million decreased by \$20.0 million from the \$603.4 million in fiscal year 2012 primarily due to the State contribution rate decreasing from 1.0% to 0.5% in 2013. This reduction was partially offset by contingency funding from the General Appropriations Act Rider 18 of \$102.4 million.

Retiree premiums of \$355.7 million in fiscal year 2013 decreased \$7.7 million from fiscal year 2012. Beginning January 1, 2013, TRS-Care offered new Medicare Advantage (insured plan) and Part D plan options which lowered the health care premiums received but are expected to generate significant cost savings for the fund.

Federal revenue received in fiscal year 2013 includes Retiree Drug Subsidy (RDS) payments totaling \$25.0 million and Medicare Part D subsidy payments totaling \$49.5 million.

Investment income was \$3.0 million, a decrease of \$2.2 million from the \$5.2 million in fiscal year 2012 due to a significant reduction in the earning base. Cash in the State Treasury declined \$231.1 million in fiscal year 2013.

Deductions from net position totaled \$1.29 billion during fiscal year 2013. This is an increase of \$98.2 million or 8.3% over the \$1.19 billion in fiscal year 2012. This increase is due to the rising costs of health care. A fiscal year-end estimated amount for claims incurred but not reported decreased due to Medicare Advantage (insured plan) enrollment. This in turn resulted in an increase of \$7.1 million in net position. Administrative expenses decreased by 8.5% from fiscal year 2012 due to a decrease in professional fees and services.



Management's Discussion and Analysis

Net Position – TRS-Care (Dollars in Thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 685,384	\$ 869,044	\$ (183,660)	-21.1%
TOTAL ASSETS	\$ 685,384	\$ 869,044	\$ (183,660)	-21.1%
Liabilities				
Accounts Payable and Other	\$ 7,033	\$ 20,710	\$ (13,677)	-66.0%
Health Care Claims Payable	127,302	107,320	19,982	18.6
TOTAL LIABILITIES	\$ 134,335	\$ 128,030	\$ 6,305	4.9%
Total Net Position	\$ 551,049	\$ 741,014	\$ (189,965)	-25.6%

Changes in Net Position – TRS-Care (Dollars in Thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percentage Change
Additions				
Member Contributions	\$ 180,825	\$ 176,751	\$ 4,074	2.3%
State Contributions	229,799	247,532	(17,733)	-7.2
Reporting Entities and Other Contributions	172,730	179,105	(6,375)	-3.6
Health Care Premiums	355,686	363,348	(7,662)	-2.1
Rebates and Discount Income	82,075		82,075	
Federal Revenue	74,511	68,634	5,877	8.6
Investment Income	3,041	5,190	(2,149)	-41.4
TOTAL ADDITIONS	\$ 1,098,667	\$ 1,040,560	\$ 58,107	5.6%
Deductions				
Health Care/Insurance Premium and Payments	\$ 1,241,656	\$ 1,142,132	\$ 99,524	8.7%
Health Care Claims Processing	43,578	44,571	(993)	-2.2
Administrative Expenses	3,398	3,714	(316)	-8.5
TOTAL DEDUCTIONS	\$ 1,288,632	\$ 1,190,417	\$ 98,215	8.3%
Change in Net Position	\$ (189,965)	\$ (149,857)	\$ (40,108)	26.8%

Management's Discussion and Analysis

Enterprise Funds

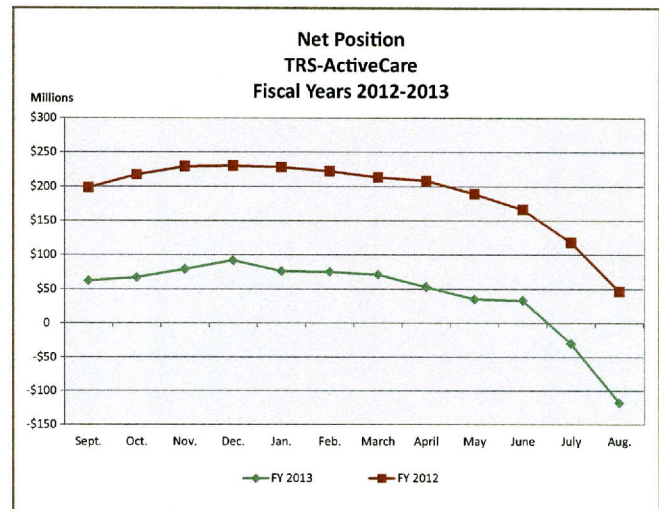
TRS-ActiveCare

The TRS-ActiveCare program operates under the authority of the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and the Texas Administrative Code, Title 34, Part 3, Chapter 41, and began operations in fiscal year 2003. The net position of the plan declined to a deficit net position of (\$118.0) million on an accrual basis as of August 31, 2013, with a cash balance of \$47.2 million. The TRS Board of Trustees authorized premium rate increases for fiscal year 2013; however, these increases were insufficient to absorb higher-than-expected claim costs. As a result, the board has authorized additional rate increases for plan year 2014.

Revenues for fiscal year 2013 included \$1.8 billion from health care premiums, an increase of \$58.6 million, or 3.3% over fiscal year 2012. This increase was due to an increase in premiums. Investment income for the year was \$747 thousand. This was a decrease of \$951 thousand, or (56%) from fiscal year 2012, which was attributable to low interest rates and reduced cash balances in fiscal year 2013. Other revenues for 2013 totaled \$213 thousand, a decrease of \$25 thousand from fiscal year 2012.

Health care claims for fiscal year 2013 were \$1.78 billion, a \$66.2 million, or 3.8% increase over the \$1.72 billion in

fiscal year 2012. This increase was due to the rising costs of medical and pharmacy benefit claims. Other expenses included claims processing costs of \$84.9 million, \$100.9 million for HMO premium payments, and \$2.4 million for administrative expenses. An increase in claims incurred but not reported decreased the plan net position by \$13.3 million for fiscal year 2013.



Net Position – TRS-ActiveCare (Dollars in Thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 139,297	\$ 261,401	\$ (122,104)	-46.7%
TOTAL ASSETS	\$ 139,297	\$ 261,401	\$ (122,104)	-46.7%
Liabilities				
Accounts Payable and Other	\$ 438	\$ 318	\$ 120	37.7%
Premiums Payable to HMOs	8,511	7,449	1,062	14.3
Health Care Claims Payable	248,319	207,857	40,462	19.5
TOTAL LIABILITIES	\$ 257,268	\$ 215,624	\$ 41,644	19.3%
Total Net Position	\$ (117,971)	\$ 45,777	\$ (163,748)	-357.7%

Management's Discussion and Analysis

Statement of Revenues, Expenses, and Changes in Fund Net Position - TRS-ActiveCare (Dollars in Thousands)

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percentage Change
Revenues (Operating and Non-Operating)				
Health Care Premiums	\$ 1,808,522	\$ 1,749,905	\$ 58,617	3.3%
Investment Income	747	1,698	(951)	-56.0
Other Revenue	213	238	(25)	-10.5
TOTAL REVENUE	\$ 1,809,482	\$ 1,751,841	\$ 57,641	3.3%
Operating Expenses				
Health Care Claims	\$ 1,785,070	\$ 1,718,904	\$ 66,166	3.8%
Health Care Claims Processing	84,903	83,346	1,557	1.9
Premium Payments to HMO's	100,906	89,706	11,200	12.5
Administrative Expenses	2,351	2,177	174	8.0
TOTAL EXPENSES	\$ 1,973,230	\$ 1,894,133	\$ 79,097	4.2%
Change in Net Position	\$ (163,748)	\$ (142,292)	\$ (21,456)	15.1%

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Teacher Retirement System for those with an interest in the system's finances.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Communications Department of the Teacher Retirement System, 1000 Red River Street, Austin, Texas 78701.

Statement of Fiduciary Net Position

AUGUST 31, 2013

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2012)

EXHIBIT I

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
ASSETS		
Cash		
Cash in State Treasury	\$ 1,029,015,118	\$ 576,832,125
Cash in Bank (Note 3A)	278,317,347	
Cash on Hand (Note 3B)	9,991,368	
TOTAL CASH	\$ 1,317,323,833	\$ 576,832,125
Receivables		
Sale of Investments	\$ 1,291,126,272	\$
Interest and Dividends	221,516,141	167,530
Member and Retiree	108,487,128	40,666,974
Reporting Entities	49,804,896	8,830,611
Other	462,137	58,886,251
Due from Employees Retirement System of Texas	1,486,700	
TOTAL RECEIVABLES	\$ 1,672,883,274	\$ 108,551,366
Investments (Notes 1F and 3E)		
Short-Term	\$ 3,665,681,477	\$
Short-Term Foreign Currency Contracts	73,238	
Equities	46,507,775,056	
Fixed Income	20,771,288,034	
Alternative Investments	39,004,925,971	
Derivative Investments	97,071,802	
Pooled Investments	6,657,919,480	
TOTAL INVESTMENTS	\$ 116,704,735,058	\$ 0
Invested Securities Lending Collateral	\$ 21,921,125,536	\$ 0
Capital Assets (Note 2)		
Intangible Assets	\$ 9,860,493	\$
Less Accumulated Amortization	(8,540,227)	
Depreciable Assets	53,299,077	
Less Accumulated Depreciation	(25,294,722)	
Non-Depreciable Assets	2,990,263	
TOTAL CAPITAL ASSETS	\$ 32,314,884	\$ 0
TOTAL ASSETS	\$ 141,648,382,585	\$ 685,383,491

Total - Pension and Other Employee Benefit Trust Funds		Fiduciary Fund Types	
		Agency Funds	
2013	2012	Child Support Employee Deductions	
\$ 1,605,847,243	\$ 1,815,964,062	\$	6,189
278,317,347	172,098,125		
9,991,368	7,990,499		
\$ 1,894,155,958	\$ 1,996,052,686	\$	6,189
\$ 1,291,126,272	\$ 1,310,240,211	\$	
221,683,671	245,869,259		
149,154,102	126,696,189		
58,635,507	50,284,222		
59,348,388	11,415,708		
1,486,700	2,683,341		
\$ 1,781,434,640	\$ 1,747,188,930	\$	0
\$ 3,665,681,477	\$ 2,575,346,764	\$	
73,238	(3,942)		
46,507,775,056	47,894,287,347		
20,771,288,034	20,079,592,351		
39,004,925,971	33,867,730,280		
97,071,802	82,370,921		
6,657,919,480	5,493,906,639		
\$ 116,704,735,058	\$ 109,993,230,360	\$	0
\$ 21,921,125,536	\$ 21,557,057,091	\$	0
\$ 9,860,493	\$ 9,390,439	\$	
(8,540,227)	(8,195,994)		
53,299,077	46,322,831		
(25,294,722)	(22,937,544)		
2,990,263	4,506,567		
\$ 32,314,884	\$ 29,086,299	\$	0
\$ 142,333,766,076	\$ 135,322,615,366	\$	6,189

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Statement of Fiduciary Net Position

AUGUST 31, 2013

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2012)

EXHIBIT I (concluded)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
LIABILITIES (Note 1F)		
Accounts Payable	\$ 11,207,513	\$ 370,666
Payroll Payable	4,015,079	212,408
External Manager Fees Payable	24,477,015	
Benefits Payable	715,444,886	
Health Care Claims Payable		127,302,352
Investments Purchased Payable	1,330,206,001	
Securities Sold Short	88,130,291	
Collateral Obligations	21,914,338,510	
Due to State's General Fund	120,636,297	6,240,374
Due to Employees Retirement System of Texas	6,640,923	
Purchased Service Installment Receipts	38,717,685	
Employee Compensable Absences Payable (Note 4)	5,751,917	209,410
Deferred Rent	672,609	
Funds Held for Others		
TOTAL LIABILITIES	\$ 24,260,238,726	\$ 134,335,210
NET POSITION		
Net Investment in Capital Assets	\$ 32,314,884	\$ 551,048,281
Restricted for Pension/Other Employee Benefits	117,355,828,975	551,048,281
TOTAL NET POSITION	\$ 117,388,143,859	\$ 551,048,281

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

		Fiduciary Fund Types	
Total - Pension and Other Employee Benefit Trust Funds		Agency Funds	
2013	2012	Child Support Employee Deductions	
\$ 11,578,179	\$ 8,756,088	\$	
4,227,487	3,134,336		
24,477,015	23,026,410		
715,444,886	691,237,110		
127,302,352	107,320,234		
1,330,206,001	521,429,620		
88,130,291	107,560,251		
21,914,338,510	21,535,537,256		
126,876,671	91,058,528		
6,640,923	6,121,112		
38,717,685	29,989,299		
5,961,327	5,441,354		
672,609	1,103,078		
			6,189
<u>\$ 24,394,573,936</u>	<u>\$ 23,131,714,676</u>	<u>\$</u>	<u>6,189</u>
\$ 32,314,884	\$ 29,086,299	\$	
117,906,877,256	112,161,814,391		
<u>\$ 117,939,192,140</u>	<u>\$ 112,190,900,690</u>	<u>\$</u>	<u>0</u>

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

EXHIBIT II

	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
ADDITIONS		
Contributions		
Contributions Paid by Member	\$ 2,252,094,934	\$ 180,824,523
Employer (Notes 10 and 12):		
Contributions from State's General Fund	1,442,774,273	229,798,823
Contributions from Federal/Private Funding Sources	315,182,041	11,660,667
Contributions Paid by State's General Fund on Behalf of TRS Employees (Note 6)		117,770
Reporting Entities	494,416,712	152,874,976
Purchase of Service Credit - Refundable	65,965,332	
Purchase of Service Credit - Non-Refundable	82,435,548	
Contributions from Employees Retirement System of Texas:		
For Service Contributions	16,365,042	
For 415 Excess Benefit Arrangement	80,634	
Contributions from the State for 415 Excess Benefit Arrangement	2,440,196	
Employment after Retirement Surcharge paid by Reporting Entities:		
Employee	5,192,857	
Employer	5,342,802	8,077,420
Health Care Premiums		355,685,504
Federal Revenue (Note 6)		74,511,473
Rebate and Discount Income		82,074,803
TOTAL CONTRIBUTIONS AND PREMIUMS	\$ 4,682,290,371	\$ 1,095,625,959
Investment Income		
From Investing Activities:		
Net Appreciation in Fair Value of Investments	\$ 8,055,066,425	\$
Interest	676,438,748	3,041,001
Dividends	1,204,184,693	
Total Investing Activities Income	\$ 9,935,689,866	\$ 3,041,001
Less: Investing Activity Expenses (Schedule 3)	(188,925,272)	
Net Income From Investing Activities	\$ 9,746,764,594	\$ 3,041,001
From Securities Lending Activities:		
Securities Lending Income	\$ 144,728,009	\$
Securities Lending Expenses:		
Borrower Rebates	(31,678,566)	
Management Fees	(25,678,032)	
Net Income from Securities Lending Activities	\$ 87,371,411	\$ 0
TOTAL NET INVESTMENT INCOME	\$ 9,834,136,005	\$ 3,041,001
Other Additions		
Miscellaneous Revenues	\$ 2,629,383	\$
TOTAL OTHER ADDITIONS	\$ 2,629,383	\$ 0
TOTAL ADDITIONS	\$ 14,519,055,759	\$ 1,098,666,960

**Total - Pension and Other
Employee Benefit Trust Funds**

2013	2012
\$ 2,432,919,457	\$ 2,364,771,830
1,672,573,096	1,638,141,625
326,842,708	316,176,115
117,770	103,676
647,291,688	519,481,571
65,965,332	54,966,100
82,435,548	71,005,664
16,365,042	14,940,228
80,634	70,302
2,440,196	2,413,067
5,192,857	3,721,012
13,420,222	8,928,113
355,685,504	363,348,030
74,511,473	68,633,946
82,074,803	59,025,629
<u>\$ 5,777,916,330</u>	<u>\$ 5,485,726,908</u>
\$ 8,055,066,425	\$ 5,972,016,449
679,479,749	715,959,285
1,204,184,693	1,213,189,788
<u>\$ 9,938,730,867</u>	<u>\$ 7,901,165,522</u>
(188,925,272)	(153,283,460)
<u>\$ 9,749,805,595</u>	<u>\$ 7,747,882,062</u>
\$ 144,728,009	\$ 168,074,021
(31,678,566)	(28,028,988)
(25,678,032)	(35,438,871)
<u>\$ 87,371,411</u>	<u>\$ 104,606,162</u>
<u>\$ 9,837,177,006</u>	<u>\$ 7,852,488,224</u>
\$ 2,629,383	\$ 1,867,389
<u>\$ 2,629,383</u>	<u>\$ 1,867,389</u>
<u>\$ 15,617,722,719</u>	<u>\$ 13,340,082,521</u>

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Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

EXHIBIT II (concluded)

	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
DEDUCTIONS		
Benefits	\$ 8,075,208,484	\$
415 Excess Benefit Arrangement	2,192,360	
Benefits Paid to Employees Retirement System of Texas:		
For Service Contributions	75,513,146	
For 415 Excess Benefit Arrangement	328,470	
Refunds of Contributions - Active	386,587,184	
Refunds of Contributions - Death	4,705,228	
Health Care Claims and Insurance Premium Payments		1,241,656,374
Health Care Claims Processing		43,577,852
Administrative Expenses, Excluding Investing Activity Expenses:		
Salaries and Wages	17,899,459	1,897,320
Payroll Related Costs	6,351,169	537,409
Professional Fees and Services	3,192,024	729,790
Travel	165,024	6,406
Materials and Supplies	2,554,873	76,533
Communications and Utilities	582,882	31,765
Repairs and Maintenance	2,582,347	
Rentals and Leases	105,244	82,511
Printing and Reproduction	270,418	33,549
Depreciation	1,379,944	
Amortization	344,233	
Loss on Capital Asset	103,998	
Other Expenses	732,447	2,826
TOTAL DEDUCTIONS	\$ 8,580,798,934	\$ 1,288,632,335
Change in Net Position	\$ 5,938,256,825	\$ (189,965,375)
NET POSITION: RESTRICTED FOR PENSIONS/OTHER EMPLOYEE BENEFITS - BEGINNING OF YEAR	\$ 111,449,887,034	\$ 741,013,656
NET POSITION: RESTRICTED FOR PENSIONS/OTHER EMPLOYEE BENEFITS - END OF YEAR	\$ 117,388,143,859	\$ 551,048,281

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

**Total - Pension and Other
Employee Benefit Trust Funds**

2013	2012
\$ 8,075,208,484	\$ 7,723,622,166
2,192,360	2,140,770
75,513,146	70,985,963
328,470	342,599
386,587,184	375,937,346
4,705,228	5,294,006
1,241,656,374	1,201,258,099
43,577,852	44,470,323
19,796,779	18,987,676
6,888,578	6,410,109
3,921,814	1,862,022
171,430	183,977
2,631,406	2,837,727
614,647	769,140
2,582,347	2,853,644
187,755	215,431
303,967	501,591
1,379,944	1,331,139
344,233	287,451
103,998	
735,273	547,851
<u>\$ 9,869,431,269</u>	<u>\$ 9,460,839,030</u>
\$ 5,748,291,450	\$ 3,879,243,491
<u>\$ 112,190,900,690</u>	<u>\$ 108,311,657,199</u>
<u><u>\$ 117,939,192,140</u></u>	<u><u>\$ 112,190,900,690</u></u>

Statement of Net Position

PROPRIETARY FUNDS

August 31, 2013 (With Comparative Data for August 31, 2012)

EXHIBIT III

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
ASSETS		
Current Assets		
Cash		
Cash in State Treasury	\$ 47,199,732	\$ 356,242
TOTAL CASH	\$ 47,199,732	\$ 356,242
Receivables		
Interest	\$ 26,032	\$ 95
Health Care Premiums	92,071,469	
TOTAL RECEIVABLES	\$ 92,097,501	\$ 95
TOTAL ASSETS	\$ 139,297,233	\$ 356,337
LIABILITIES (Note 1F)		
Current Liabilities		
Accounts Payable	\$ 155,765	\$
Payroll Payable	126,518	
Premiums Payable to HMOs	8,510,902	
Health Care Claims Payable	248,319,078	
Employee Compensable Absences Payable (Note 4)	103,762	
TOTAL CURRENT LIABILITIES	\$ 257,216,025	\$
Non-Current Liabilities		
Employee Compensable Absences Payable (Note 4)	\$ 52,331	\$
TOTAL NON-CURRENT LIABILITIES	\$ 52,331	\$
TOTAL LIABILITIES	\$ 257,268,356	\$
NET POSITION		
Restricted for Health Care Programs	\$	\$
Unrestricted	(117,971,123)	
Restricted for Administrative Expenses		356,337
TOTAL NET POSITION	\$ (117,971,123)	\$ 356,337

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

Total Enterprise Funds

2013	2011
\$ 47,555,974	\$ 174,146,508
<u>\$ 47,555,974</u>	<u>\$ 174,146,508</u>
\$ 26,127	\$ 80,200
92,071,469	87,441,549
<u>\$ 92,097,596</u>	<u>\$ 87,521,749</u>
<u>\$ 139,653,570</u>	<u>\$ 261,668,257</u>
\$ 155,765	\$ 70,583
126,518	121,670
8,510,902	7,449,203
248,319,078	207,857,399
103,762	84,603
<u>257,216,025</u>	<u>\$ 215,583,458</u>
<u>\$ 52,331</u>	<u>\$ 56,154</u>
<u>\$ 52,331</u>	<u>\$ 56,154</u>
<u>\$ 257,268,356</u>	<u>\$ 215,639,612</u>
\$ (117,971,123)	\$ 45,777,337
356,337	251,308
<u>\$ (117,614,786)</u>	<u>\$ 46,028,645</u>

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

PROPRIETARY FUNDS

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

EXHIBIT IV

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
OPERATING REVENUES		
Health Care Premiums	\$ 1,808,521,683	\$
Administrative Fees	137,630	
Certification Fees		60,000
Product Registration Fees		81,000
TOTAL OPERATING REVENUES	\$ 1,808,659,313	\$ 141,000
OPERATING EXPENSES		
Health Care Claims	\$ 1,785,069,768	\$
Health Care Claims Processing	84,903,101	
Premium Payments to HMOs	100,905,702	
Administrative Expenses		
Salaries and Wages	1,189,664	44,846
Payroll Related Costs	353,500	(4,652)
Professional Fees and Services	734,228	
Travel	1,772	
Materials and Supplies	3,733	
Communication and Utilities	1,189	
Repairs and Maintenance		
Rental and Leases	62,245	
Printing and Reproduction	1,187	
Other Operating Expenses	4,284	
TOTAL OPERATING EXPENSES	\$ 1,973,230,373	\$ 40,194
OPERATING INCOME (LOSS)	\$ (164,571,060)	\$ 100,806
NON-OPERATING REVENUES		
Investment Income	\$ 746,936	\$ 1,333
Federal Revenue - ARRA COBRA Reimbursements		
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees (Note 6)	75,664	2,890
TOTAL NON-OPERATING REVENUES	\$ 822,600	\$ 4,223
Change in Net Position	\$ (163,748,460)	\$ 105,029
TOTAL NET POSITION - BEGINNING OF YEAR	\$ 45,777,337	\$ 251,308
TOTAL NET POSITION - END OF YEAR	\$ (117,971,123)	\$ 356,337

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

Total Enterprise Funds

2013	2012
\$ 1,808,521,683	\$ 1,749,905,117
137,630	136,324
60,000	114,000
81,000	63,000
<u>\$ 1,808,800,313</u>	<u>\$ 1,750,218,441</u>
\$ 1,785,069,768	\$ 1,718,903,645
84,903,101	83,346,223
100,905,702	89,706,406
1,234,510	1,262,183
348,848	332,568
734,228	546,681
1,772	5,959
3,733	8,287
1,189	2,079
	2,018
62,245	61,204
1,187	323
4,284	6,511
<u>\$ 1,973,270,567</u>	<u>\$ 1,894,184,087</u>
<u>\$ (164,470,254)</u>	<u>\$ (143,965,646)</u>
\$ 748,269	\$ 1,698,260
	29,706
78,554	74,866
<u>\$ 826,823</u>	<u>\$ 1,802,832</u>
\$ (163,643,431)	\$ (142,162,814)
\$ 46,028,645	\$ 188,191,459
<u>\$ (117,614,786)</u>	<u>\$ 46,028,645</u>

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

EXHIBIT V

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Health Care Premiums	\$ 1,803,891,764	\$
Receipts from Long-Term Care Administrative Fees	137,630	
Receipts from Certification/Product Registration Fees		141,000
Payments for Administrative Expenses	(2,230,453)	(56,178)
Payments for Health Care Claims	(1,744,608,089)	
Payments for Health Care Claims Processing	(84,903,101)	
Payments for HMO Premiums	(99,844,003)	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (127,556,252)	\$ 84,822
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Federal Revenue	\$	\$
Proceeds from Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	75,664	2,890
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	\$ 75,664	\$ 2,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	\$ 801,026	\$ 1,316
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 801,026	\$ 1,316
Net Increase (Decrease) in Cash	\$ (126,679,562)	\$ 89,028
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 173,879,294	\$ 267,214
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 47,199,732	\$ 356,242
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (164,571,060)	\$ 100,806
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Changes in Assets and Liabilities:		
Decrease (Increase) in Health Care Premiums Receivable	\$ (4,629,919)	\$
Increase in Premiums Payable to HMOs	1,061,699	
Increase in Health Care Claims Payable	40,461,679	
Increase (Decrease) in Accounts Payable	85,181	
Increase (Decrease) in Payroll Payable	8,932	(4,084)
Increase (Decrease) in Employee Compensable Absences Payable	27,236	(11,900)
Total Adjustments	\$ 37,014,808	\$ (15,984)
Net Cash Provided (Used) by Operating Activities	\$ (127,556,252)	\$ 84,822

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

Total Enterprise Funds

2013	2012
\$ 1,803,891,764	\$ 1,768,458,335
137,630	136,324
141,000	177,000
(2,286,631)	(2,245,054)
(1,744,608,089)	(1,681,787,574)
(84,903,101)	(83,346,223)
(99,844,003)	(88,495,258)
<u>\$ (127,471,430)</u>	<u>\$ (87,102,450)</u>
\$	\$ 74,223
78,554	74,866
<u>\$ 78,554</u>	<u>\$ 149,089</u>
<u>\$ 802,342</u>	<u>\$ 1,842,743</u>
\$ 802,342	\$ 1,842,743
\$ (126,590,534)	\$ (85,110,618)
\$ 174,146,508	\$ 259,257,126
<u>\$ 47,555,974</u>	<u>\$ 174,146,508</u>
<u>\$ (164,470,254)</u>	<u>\$ (143,965,646)</u>
\$ (4,629,919)	\$ 18,553,218
1,061,699	1,211,148
40,461,679	37,116,071
85,181	(14,207)
4,848	(16,619)
15,336	13,585
<u>\$ 36,998,824</u>	<u>\$ 56,863,196</u>
<u>\$ (127,471,430)</u>	<u>\$ (87,102,450)</u>

Notes to the Financial Statements

NOTE 1	- Summary of Significant Accounting Policies	43
NOTE 2	- Capital Assets	47
NOTE 3	- Deposits and Investments.....	48
NOTE 4	- Employee Compensable Leave	60
NOTE 5	- Operating Leases.....	60
NOTE 6	- Fringe Benefits Paid by the State of Texas and the Federal Government ...	60
NOTE 7	- Deferred Compensation.....	61
NOTE 8	- Contingent Liabilities.....	61
NOTE 9	- Continuance Subject to Review	61
NOTE 10	- Post-employment Health Care Benefits.....	61
NOTE 11	- Risk Management	64
NOTE 12	- Pension Disclosure	64
NOTE 13	- Subsequent Events.....	67
NOTE 14	- Deficit Fund Balance	67

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Teacher Retirement System of Texas (TRS or system) is governed by a nine member board of trustees which has significant independence in the operations and management of the system. The state legislature confirms trustees appointed by the governor, establishes laws with regard to structure, benefits and contributions, and authorizes Pension Trust Fund administrative expenses. State contributions and appropriations received by TRS are determined by the legislature. TRS is a separate legal entity and considered a discrete component unit of the State of Texas.

This report includes all activities and programs for which TRS exercises fiscal control and responsibility and includes all funds that comprise the system's legal entity.

TRS administers retirement and related benefits to employees and beneficiaries of employees of the public, state-supported, educational institutions of Texas. It operates primarily under the provisions of Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a defined benefit retirement plan that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

The system administers the Texas Public School Retired Employees Group Insurance Program and the Texas Active School Employees Uniform Group Benefits Program. These programs provide two separate health care plans, TRS-Care (Retired Plan) and TRS-ActiveCare (Active Plan), respectively.

TRS-Care is considered an employee benefit trust fund and provides health care coverage for certain persons (and their dependents) who retire under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575 and Texas Administrative Code, Title 34, Part 3, Chapter 41. The inception of the plan was fiscal year 1986.

TRS-ActiveCare provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance, which are provided to active members and retirees, are also accounted for in the fund. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002.

The system also administers a 403(b) Administrative Program in which companies must be certified by TRS to offer qualified investment products to public education employees through payroll deductions in accordance with Internal Revenue Code section 403(b). Authority for the program can be found in Vernon's Civil Statutes, Title 109, Article 6228a-5, Sections 4-8A and in the Texas Administrative Code, Title 34, Part 3, Chapter 53. The program began operations on September 1, 2001.

An Agency Fund is used to account for garnishments of salaries and wages for child support payments from TRS employees.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of TRS are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, additions/revenues and deductions/expenses. The following fund types are used to reflect the system's transactions:

- Fiduciary Funds – include the Pension Trust Fund, TRS-Care (Retired Plan or the employee benefits trust fund) and the Agency Fund.
- Proprietary Funds – include TRS-ActiveCare and the 403(b) Administrative Program which are not considered major funds. Both are Enterprise Funds.

Fiduciary funds are used to report assets held in a trustee or agency capacity on behalf of others. The reporting focus is on net position and changes in net position. The pension and other employee benefit trust funds are used to report resources held in trust for the members and beneficiaries of the defined benefit pension plan and the other employee benefit plan. Agency funds are used to report resources held in a purely custodial capacity by the reporting government.

The proprietary, enterprise funds account for business-type activities or those for which a fee is charged external users for goods or services. The reporting focus is on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds distinguish operating activities from non-operating. Operating activities generally result from providing services and producing or delivering goods. Operating revenues for TRS' two proprietary funds are derived from self-insurance premiums and providing plan and product certification services to qualified 403(b) plans. Operating expenses include the costs of claims, costs of certification/product services and related administrative expenses. Non-operating revenues and expenses are those items that do not meet any of the above definitions.

Separate financial statements are provided for each fund. The fiduciary (excluding agency funds) and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. All economic resources, including financial and capital assets, and related liabilities, both current and long-term, and the changes therein are reported in each funds' financial statements. Capital assets are depreciated or amortized on a straight-line basis, if appropriate.

Notes to the Financial Statements

Agency funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting. Agency funds are used to report assets collected and transferred to the state or other entities.

C. NEW ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was issued June 2011 and is effective for fiscal years beginning after December 15, 2011. This statement amends the net asset reporting requirements in GASB Statement No. 34, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement were implemented by TRS during fiscal year 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued March 2012 and is effective for fiscal years beginning after December 15, 2012. This statement reclassifies certain items previously reported as assets and liabilities to deferred outflows/inflows of resources or to outflows/inflows of resources and provides financial reporting guidance related to the impact of these outflows/inflows to financial statement elements. The requirements of this statement will be implemented in fiscal year 2014.

GASB Statement No. 67, *Financial Reporting for Pensions Plans*, was issued June 2012 and is effective for fiscal years beginning after June 15, 2013. This statement amends GASB Statement No. 25 and GASB Statement No. 50, as they relate to pension plans administered through trusts that meet certain criteria. This statement establishes standards for financial reporting and amends note disclosure and supplemental information requirements for defined benefit pension plans administered through qualified trusts. The requirements of this statement will be implemented in fiscal year 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued June 2012 and is effective for fiscal years beginning after June 15, 2014. This statement amends GASB Statement No. 27 and GASB Statement No. 50 as they relate to governmental employers that provide pensions through trusts. This statement establishes procedures for measuring and recognizing the obligations associated with pensions as well as identifies methods for attributing the associated costs to the appropriate period as they are earned over an employee's career. Also included in this statement are amendments to note and required supplementary information requirements as well as details to address special funding situations.

D. COMPARATIVE DATA IN TOTAL

The basic financial statements include certain prior-year summarized comparative data in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the system's financial statements for the fiscal year ended August 31, 2012, from which the summarized information was derived. Certain items from the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements. These reclassifications had no effect on previously reported net position.

E. BUDGETS AND APPROPRIATIONS

The administrative costs and capital asset outlay for each of the system's funds and programs are controlled by annual budgets approved by the board of trustees.

The Pension Trust Fund receives state contributions for retirement benefits from general revenue appropriations. In fiscal years 2013 and 2012, contributions were made by the State of Texas to the retirement system at the rate of 6.4% and 6.0%, respectively, of the aggregate compensation paid to active retirement system members for each year. Although appropriated by the legislature, administrative expenses and capital outlay for the Pension Trust Fund are paid from the fund's Expense Account, and not from the state's General Fund.

TRS-Care received contributions from the state's General Fund equal to 0.50% of salaries paid to public education employees in fiscal year 2013. Administrative expenses for this program are paid from the trust fund.

For the 2012-2013 biennium, the 82nd Legislature, Regular Session changed the state's contributions for community and junior colleges. Rider 13, for TRS, Article III in the General Appropriations Act limits General Revenue contributions related to community and junior college districts. In fiscal years 2013 and 2012 contributions made for community and junior colleges were no more than 6.4% and 6.0%, respectively, of each district's unrestricted General Revenue appropriation. Rider 18 of the General Appropriations Act for the 82nd Legislature for TRS granted contingency funding for TRS-Care for fiscal year 2013. The rider appropriated any excess of the state's actual statutory obligation to be re-appropriated and transferred to the TRS-Care fund. In 2012, there was a net excess in funds of \$82,544,204 from the pension trust fund and \$19,819,500 from the Retiree Health Benefit Plan which was re-appropriated to the TRS-Care fund in fiscal year 2013.

The two Enterprise Funds, TRS-ActiveCare and the 403(b) Administrative Program are supported by fees and receive no appropriations from the state for administrative expenses.

Effective September 1, 1997, legislation authorized TRS to administer a governmental excess benefit arrangement under

Notes to the Financial Statements

section 415(m) of the Internal Revenue Code of 1986 (26 U.S.C.). This legislation created a separate, nonqualified, unfunded excess benefit arrangement outside the trust fund of the retirement system. Contributions to this arrangement are made from the state's general revenue appropriations. These contributions are not held in trust and may not be commingled with other funds of the retirement system. They yield no net position; therefore, for reporting purposes only the contributions and benefits are reflected on Exhibit II, Statement of Changes in Fiduciary Net Position.

F. ASSETS, LIABILITIES AND LEGAL RESERVES

Receivables

Receivables represent the receipt of funds owed by individuals or entities in exchange for goods delivered or services performed that have not yet been paid for. Sale of investment receivables occur where the trade date is before the fiscal year end and the settlement date is in the next fiscal year. Interest and dividend receivables represent distributions of income made to investors on bank accounts and other investments that are earned at year end but not paid until next fiscal year. Member and Retiree receivables represent contributions that are due from members but not received until after fiscal year-end. Reporting entity receivables are contributions due from public and higher education reporting entities for the current fiscal year which are not received until after year end. Other receivables represent adjustments for things such as refund or annuity adjustments that are due but not received until after year end.

Investments

Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and the lowest priority to the use of unobservable inputs. Management's estimated market values for investments without readily ascertainable market values could differ significantly if a ready market for these assets existed. Because of the inherent uncertainties in estimating fair value, it is at least reasonably possible that the estimates will change in the near-term. Global foreign exchange holdings are translated using the London 4 O'clock Closing Spot Rate from a third party vendor.

Short-term investments are those maturing within one year of purchase date. Included in short-term investments are foreign currency contracts. These foreign exchange contracts are reported at the spot rate and the net difference between the value of the foreign currency and the U.S. dollar is reported in the net appreciation (depreciation) in fair value of investments. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. Transactions involving foreign currency are accounted for in accordance with FASB Accounting Standards Codification (ASC) 946-830; the subtopic "Foreign Currency Matters" of the topic "Financial Services – Investment Companies".

The fair value of equity investments is measured based on the primary exchange last sale price or the official close price from the pricing vendor for all exchange listed equities. For delisted securities, the last available close price is utilized. The fair value of local access products, including equity-linked certificates and participation notes which replicate the performance of an underlying security, index, or market for which investing in the local market or in the American Depository Receipt (ADR) or Global Depository Receipt (GDR), or the total return swap market would be difficult or costly, or both, is estimated using a proprietary pricing service.

The fair value of fixed income investments is measured based on exchange quotes or vendor sourced evaluated bid prices. Where constituent data is available, the system will also use a benchmark source. Mortgage backed securities are priced on a pool specific basis or, if not available, using the income method which considers the prepayment speed.

The system has Alternative Investments in the form of Limited Partnerships (LP). These LPs include interests in private equity, real asset, hedge fund, and other absolute return partnership arrangements. These investments are generally illiquid, and the system's ability to gain insight into the underlying portfolios of some of the LPs may be limited. The fair value of these LP's is measured based on the Net Asset Value (NAV) of the entity as provided from the General Partner (GP). The system determines whether the NAV is in accordance with the Investment Companies Guide and is in phase with TRS' fiscal year end. If these conditions are not met, the system adjusts the NAV accordingly or performs further analysis to estimate fair value of its LP interest. A NAV that is out of phase may be adjusted for subsequent contributions, distributions, management fees and reserves, material changes in fair value of the underlying investments which make up the NAV, or an updated valuation obtained from the GP.

A commingled fund is a pool of assets from multiple investors which are under the direction of an external fund manager. These instruments are typically entered into by executing an Investment Management Agreement or are registered, publicly traded pools that are accessible by many investors. The fair value of commingled funds is generally estimated by the fund administrator retained by the fund manager.

Investment derivative instruments are reported at fair value. When the fund holds investment derivatives with offsetting market risks, it nets the offsetting positions. Derivative instruments associated with investments that are already reported at fair value are classified as investment derivative instruments. Changes in fair value of investment derivative instruments are

Notes to the Financial Statements

reported as net appreciation in fair value of investments, a component of investment income.

The fair value of option and future contracts traded in active markets is estimated based on the current exchange close price. For option contracts, if a current day close price is not available, a fully vetted valuation model to estimate fair value is discerned through coordination with the portfolio manager and/or the independent clearing broker. For future contracts, if a current day close price is not available, the last price or settlement price may also be used, depending on availability; or if quoted prices are not available, a fully vetted valuation model to estimate fair value is discerned through coordination with the portfolio manager and/or the independent clearing broker. Futures contracts are marked to market daily. The net offsetting positions are reported as accruals, with a daily variation margin (the gain or loss) recorded between the daily value of the contracts and the value on the previous day.

The fair value of fairly generic credit default swap and interest rate swap arrangements are estimated using appropriate pricing models. At each day's close, if the variables required to successfully complete the pricing model are not available, the system utilizes a "proxy price" to estimate the fair value at the closing day. Once the variables are available, the system corrects the proxy price. These arrangements are priced "clean" meaning the fair values do not include accrued interest. The fair value of total return and other more complex swap arrangements are estimated using a pricing model or a proprietary pricing agent.

The fair value of forward contracts is estimated by adding the forward points to the corresponding spot rate. These rates are then applied to the outstanding currency exchange to derive a change in valuation.

Capital Assets

Capital assets associated with the funds' activities are included in the statement of net position. Purchases of capital assets by the fund are reported at cost on the acquisition date. Depreciation of all exhaustible capital assets is charged as an expense against the funds' operations. Depreciation is calculated using the straight-line method over the asset's useful life. Note 2 includes a table identifying the capitalization threshold and estimated useful life by asset type.

Securities Lending

The system reports loaned securities, the invested cash collateral, and the related liabilities resulting from securities lending transactions on Exhibit I, Statement of Fiduciary Net Position. The system also reports the earned income from securities lending on Exhibit II, Statement of Changes in Fiduciary Net Position. Both the loaned securities and the invested cash collateral are reported at quoted market prices.

Liabilities

Accounts payable represents the liability for assets or services received at fiscal year end for which payment is pending.

Benefits payable for the Pension Trust Fund represents the liability for retirement, disability, and death benefits due at fiscal year end and payable within the next 30 days. The health care claims payable for TRS-Care and TRS-ActiveCare includes an estimate for health care claims incurred but not reported to the system at August 31, 2013.

Investments purchased payable represents the liability for securities purchased prior to fiscal year end for which cash payment will be made after fiscal year end. Foreign investments purchased payable is reported at current exchange rates.

Securities sold short represent obligations to deliver securities. The system may sell equity securities short in anticipation of a decline in fair value. In a short sale, the system borrows the securities from another party and delivers the securities to the buyer. The system is required to "cover" its short sale in the future through the purchase of the security in the market at the prevailing market price and deliver it to the counterparty from which it borrowed. The system is exposed to market risk to the extent that the security price increases during the time from when the security is borrowed to the time when the system purchases it in the market to cover the short sale.

Collateral Obligations represent both collateral associated with securities lending, and that associated with payables to brokers for collateral held related to derivative instrument-activity.

Purchased service installment receipts are payments for service purchases establishing additional creditable service. Payments are made on a monthly basis for up to five years until sufficient to cover the total cost of the service purchased. Amounts paid, less administrative expenses, are refundable on demand. Revenues will be reported at the time the payments are sufficient to cover the total cost. Until that time these funds are treated as deferred revenue.

Compensable absences payable represents the liability that becomes due upon the occurrence of relevant events such as resignation, retirement and use of leave balances by covered employees. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid. Liabilities are reported separately as either current or noncurrent in the statement of net position for enterprise funds, if appropriate.

Unrealized lease incentives represent a reduction to rental expenses for the rent abatement and incentives received from the noncancelable operating lease that are being amortized over the lease term.

Notes to the Financial Statements

Interfund/Interagency Transactions and Balances

Transactions between the system's funds have been classified in accordance with the following criteria that are consistent with generally accepted accounting principles (GAAP).

The Pension Trust Fund provides various administrative services to other TRS programs and accounts for these services as reciprocal interfund activity. These transactions are reported using the appropriate classification accounts for additions/revenues or deductions/expenses as if transacted with parties external to the state, i.e., they are not presented as transfers. The interfund receivables and payables related to reciprocal interfund activity are classified as receivables and accounts payable on the financial statements.

Interagency transactions have been classified using the above criteria for reciprocal interfund activity.

Legal Reserve Accounts

The Pension Trust Fund has five statutorily required reserves. The Member Savings Account reserve represents the accumulation of active member deposits plus interest. The State Contribution Account consists of reserves available to fund future active member retirement, death, and survivor benefits. The Retired Reserve Account represents reserves to pay retirement, death, survivor benefits and post-retirement benefit increases. The Deferred Retirement Option Account consists of the accumulation of participating member deposits plus interest less benefits paid out. Net investment gains or losses are accumulated in the Interest Account and transferred to the State Contribution Account together with any other balance remaining in the Interest Account. The Expense Account represents reserves to pay administrative expenses of the Pension Trust Fund that exceed the state's appropriations and that are required to perform the fiduciary duties of the board. The statutory accounts are a requirement of the Texas Government Code, Chapter 825, Sections 307-313.

NOTE 2: CAPITAL ASSETS

Capital assets are presented at historical cost or, if not purchased, at fair value at the date of acquisition. When appropriate, depreciation and amortization have been charged over the estimated useful lives of the assets or lease period, whichever is shorter, using the straight-line method. All capital assets belong to the Pension Trust Fund. Capitalization thresholds for all capital asset classes and useful lives for exhaustible assets are as follows:

Asset Class	Capitalization Threshold in Dollars	Depreciable Life
Land	\$ 0	--
Construction in Progress	\$ 0	--
Buildings	\$ 100,000	50 years
Building Improvements	\$ 100,000	15 years
Facilities and Other Improvements	\$ 100,000	10 years
Leasehold Improvements	\$ 100,000	6 years
Furniture and Equipment	\$ 5,000	5 years
Internally Generated Computer Software	\$ 1,000,000	5 years
Other Computer Software	\$ 100,000	5 years
Other Capital Assets	Various	Various

Capital asset balances and current year transactions are presented in the table on the following page.

Notes to the Financial Statements

Asset Class	Balance 09/01/2012	Reclassifications and Completed CIP	Additions	Deletions	Balance 08/31/2013 (Exhibit I)
Non-Depreciable Assets:					
Land and Land Improvements	\$ 1,658,310	\$	\$	\$	\$ 1,658,310
Construction in Progress	2,724,121	(1,677,571)	857,817	(696,550)	1,207,817
Other Tangible Capital Assets	124,136				124,136
Total Non-Depreciable Assets	\$ 4,506,567	\$ (1,677,571)	\$ 857,817	\$ (696,550)	\$ 2,990,263
Depreciable Assets:					
Buildings and Building Improvements	\$ 34,883,756	\$ 893,940	\$ 3,168,361	\$	\$ 38,946,057
Furniture and Equipment	7,649,512	783,631	2,462,778	(59,075)	10,836,846
Vehicles, Boats and Aircraft	45,721		41,938	(11,296)	76,363
Leasehold Improvements	3,096,189				3,096,189
Other Capital Assets	304,031			(304,031)	0
Facilities and Other Improvements	343,622				343,622
Total Depreciable Assets at Historical Cost	\$ 46,322,831	\$ 1,677,571	\$ 5,673,077	\$ (374,402)	\$ 53,299,077
Less Accumulated Depreciation for:					
Buildings and Building Improvements	\$ (15,694,615)	\$	\$ (1,110,919)	\$	\$ (16,805,534)
Furniture and Equipment	(5,152,068)		(955,059)	56,691	(6,050,436)
Vehicles, Boats and Aircraft	(45,721)		(499)	11,296	(34,924)
Leasehold Improvements	(1,806,109)		(526,742)	10,711	(2,322,140)
Other Capital Assets	(191,705)			191,705	0
Facilities and Other Improvements	(47,326)		(34,362)		(81,688)
Total Accumulated Depreciation	\$ (22,937,544)	\$ 0	\$ (2,627,581)	\$ 270,403	\$ (25,294,722)
Depreciable Assets, Net	\$ 23,385,287	\$ 1,677,571	\$ 3,045,496	\$ (103,999)	\$ 28,004,355
Intangible Assets:					
Computer Software	\$ 9,390,439	\$	\$ 470,054	\$	\$ 9,860,493
Total Amortizable Assets at Historical Cost	\$ 9,390,439	\$ 0	\$ 470,054	\$ 0	\$ 9,860,493
Less Accumulated Amortization for:					
Computer Software	\$ (8,195,994)	\$	\$ (344,233)	\$	\$ (8,540,227)
Total Accumulated Amortization	\$ (8,195,994)	\$ 0	\$ (344,233)	\$ 0	\$ (8,540,227)
Intangible Assets, Net	\$ 1,194,445	\$ 0	\$ 125,821	\$ 0	\$ 1,320,266
Fiduciary Capital Assets, Net of Accumulated Depreciation/Amortization	\$ 29,086,299	\$ 0	\$ 4,029,134	\$ (800,549)	\$ 32,314,884

NOTE 3: DEPOSITS AND INVESTMENTS

A. CASH IN BANK AND DEPOSITS

Cash and deposits of the system are maintained in bank accounts or in the State Treasury. Foreign bank deposits are reported at current exchange rates. At August 31, 2013, the carrying amount totaled \$278,317,347 and the bank balance totaled \$278,315,758. The State Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United States, and obligations of various federal credit organizations. The State Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance.

Notes to the Financial Statements

B. CASH ON HAND AND CASH EQUIVALENTS

At August 31, 2013, the system had \$9,991,368 in cash on hand. This total is related to checks for purchases of special service that were being held pending approval of rollover transfer forms.

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. Highly liquid investments invested as part of a short-term investment fund are not considered cash equivalents.

C. CUSTODY OF INVESTMENTS

The system has contracted with State Street Bank and Trust Company and Goldman Sachs to serve as custodians for the system's investments.

D. INVESTMENT LEGAL PROVISIONS AND OTHER CONSTRAINTS

Under the Texas Property Code, Section 117.003, a trustee of the board owes a duty to the beneficiaries of the trust to comply with the prudent investor rule. In making investments, the board shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. Texas Government Code, Section 825.301(a), Texas Property Code, Section 117.004, and the Texas Constitution, Article XVI, Section 67(a)(3) apply in determining whether a trustee has exercised prudence with respect to an investment decision. Determination shall be made taking into consideration the investment of all the assets of the trust, or the assets of the collective investment vehicle, over which the trustee had management and control.

Trustees set the guidelines provided by the TRS Investment Policy Statement in establishing specific asset allocations, benchmarks, eligible investments and quantitative criteria with the assistance of their investment counsel and investment advisors. Trustees utilize asset allocations and portfolio standards they believe are prudent and appropriate for the long-term objectives of the fund. Categories of permissible investments include equities, debt securities, cash equivalents, alternative investments including private equity, real assets, absolute return, hedge funds, other absolute return investments, derivative instruments authorized by law, mutual funds, closed-end funds, exchange-traded funds, and commingled funds. Investment categories are based on the risk profiles exhibited by those investments.

The objectives of the Private Equity and Real Asset investments is to provide diversification to the Total Fund, and provide for enhanced returns and diversification within the portfolio by allocating assets among the various strategies. Private equity funds build portfolios of private investments in the equity or equity-rights securities of privately-owned operating companies. Real assets focus on private or public real estate equity, private or public real estate debt, infrastructure, timber, agricultural real estate, oil and gas, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, REITS, MLPs, non-fixed assets and other opportunistic investments in real assets. Funding of committed capital in either the Private Equity or the Real Asset Portfolio will occur over an extended time period and may take several years before the total allocation to each asset class is fully invested. Because an individual investment may begin to return capital to the investor prior to the full funding of the investor's commitment, the outstanding invested capital of a Private Equity or Real Asset investment might at times be substantially less than the total commitment. Hedge funds are private commingled investment vehicles with the general characteristics as set forth in Texas Government Code, Section 825.3012. Hedge funds include private investment fund of funds or a commingled vehicle that itself invests in hedge funds. TRS investment policy establishes criteria to analyze and determine whether a private investment fund should be classified as a hedge fund. The permissible hedge fund allocation is a maximum of 10% of the market value of the total fund on the date of each hedge fund investment. Other Absolute Return investments include credit sensitive investments as well as other limited partnerships that are not hedge funds, private equity, or real assets. A commingled fund is a fund which is (i) exempt under the provisions of Section 501(a) of the Internal Revenue Code of 1986, (ii) is not required to be registered as an investment company under Section 3(c)(1), 3(c)(7) or other provisions of the Investment Company Act of 1940, or (iii) is an investment company registered under the Investment Company Act of 1940, as amended, provided that investment and reinvestment of assets complies with the investment guidelines in all respects.

Notes to the Financial Statements

E. INVESTMENTS

The fair values of investments at August 31, 2013, are shown in the following table.

Pension Trust Fund	
Investment Type	Fair Value
Short-Term Investments:	
Short-Term Investment Fund	\$ 2,965,116,150
Other Short-Term	700,565,327
Short-Term Foreign Currency Contracts	73,238
Equities:	
Domestic Equities:	
Equity Securities	20,007,122,892
Equity Commingled Funds	2,240,437,062
International Equities:	
Equity Securities	26,500,652,164
Equity Commingled Funds	4,059,188,827
Equity Mutual Funds	146,806,935
Debt Securities:	
Domestic Debt Securities:	
Asset and Mortgage Backed	140,020,839
Corporate	66,404,593
U.S. Treasury	14,036,215,880
U.S. Treasury STRIPS	88,557,869
U.S. Treasury TIPS	5,893,303,108
U.S. Government Agency	197,224,467
Debt Commingled Funds	177,382,564
International Debt Securities:	
Government	214,624,177
Corporate	134,937,101
Alternative Investments:	
Domestic Alternative Investments:	
Private Equity	10,902,035,981
Real Assets	13,102,643,982
Absolute Return - Hedge Funds	8,979,888,328
Other Absolute Return	134,072,768
International Alternative Investments:	
Private Equity	3,284,099,432
Real Assets	2,165,771,124
Absolute Return - Hedge Funds	436,414,356
Investment Derivatives:	
Domestic Investment Derivatives:	
Forward Contracts	12,728,486
Options	2,297,927
Swap Contracts	25,935,235
Warrants	45,101,887
International Investment Derivatives:	
Options	630,116
Swap Contracts	3,366,257
Warrants	7,011,894
Other Investments:	
Other Commingled Funds - Domestic	34,104,092
Total Investments (Exhibit I)	\$ 116,704,735,058
Invested Securities Lending Collateral:	
Securities Lending Pooled Investments	\$ 21,921,125,536
Total Securities Lending Collateral (Exhibit I)	\$ 21,921,125,536

Notes to the Financial Statements

F. DERIVATIVES

The fair value balances and notional amounts of investment derivative instruments outstanding at August 31, 2013, classified by type, and the changes in fair value of such investment derivative instruments for the fiscal year ended August 31, 2013 were as follows.

	Changes in Fair Value		Fair Value at August 31, 2013		Notional
	Classification	Amount Gain/(Loss)	Classification	Amount	
Fiduciary Funds					
Investment Derivatives:					
Forward Contracts	Investment Revenue	\$ (36,783,112)	Investment	\$ 12,728,486	\$9,136,134,686
Futures Contracts	Investment Revenue	\$ 62,509,635	Investment	\$ -0-	\$9,372,573,362
Swap Contracts	Investment Revenue	\$ (2,276,042)	Investment	\$ 29,301,492	\$ 3,841,655,452
Warrants	Investment Revenue	\$ 24,122,571	Investment	\$ 52,113,781	\$ 19,318,254
Options	Investment Revenue	\$ (2,943,208)	Investment	\$ 2,928,043	\$ 2,739,865

The methods and significant assumptions used to estimate fair value of the system's investment derivative instruments are presented in Note 1. Summary of Significant Accounting Policies, Section F. Assets, Liabilities and Legal Reserves.

Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies). Derivatives include futures contracts, options, options on futures contracts, forward contracts, swap contracts, and any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling or holding investments.

The system's investment policy states that derivatives may only be used to efficiently manage and reduce the risk of the overall investment portfolio in accordance with applicable law, and must comply with the fiduciary standard of prudence set forth in the Texas Constitution, Article XVI, Section 67(a)(3). Consistent with these objectives, derivative applications may be used to implement investment strategies in a lower cost and efficient manner; efficiently manage the fund's portfolio by altering the portfolio's market exposure in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives; construct portfolios with risk and return characteristics that could not be created with cash market securities consistently with the objectives in the investment policy and in compliance with applicable law; hedge and control risks so that the fund's risk-return profile is more closely aligned with the fund's targeted risk-return profile through purchases or short sales, or both, of appropriate derivatives; and facilitate transition trading when holdings must be rebalanced or reallocated among permissible investments as a result of changes to applicable benchmark indexes or investment policy changes. Derivatives may not be used for any activity a primary purpose of which is speculation or to profit while materially increasing risk to the system. Derivative applications may not be used to invest in asset classes that are not consistent with the system's legally permissible and policy asset categories, implementation strategies, and risk-return characteristics. Derivatives underlain by physical commodities may only be made through investments in funds that issue securities or other structures that also provide limited liability or limited risk of loss to investors. Investments in cash-settled derivatives which reference commodities are permitted.

Any counterparty to an over-the-counter derivative transaction must have a credit rating of at least A- (Standard & Poors or Fitch) or A3 (Moody's) and is subject to established ISDA Master Agreements. All ISDA Master Agreements provide that netting applies. The system and external managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all over-the-counter derivative positions, less collateral posted, for any individual counterparty may not exceed \$500 million. Starting September 2013, if the over-the-counter derivative transaction is a type of contract that must be centrally cleared as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, it is subject to clearing agreements.

Forward Contracts

A forward contract is a non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

Futures Contracts

A futures contract is a commitment to buy or sell a specified quantity of a commodity or financial instrument at a specified price with payment and delivery occurring at a specified future date. Futures contracts are used primarily as a tool to increase or decrease market exposure to various asset classes.

Notes to the Financial Statements

Swap Contracts

The system's swap contracts are a bilateral financial contract in that the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract. Swap transactions are used to efficiently manage or reduce the risk of the overall investment portfolio, or both. An interest rate swap is structured such that one stream of future interest payments is exchanged for another based on the notional amount. A total return swap is structured such that the total return (cash flows plus capital appreciation/depreciation) is exchanged, rather than just the cash flows. Investment managers or sponsors of Real Asset Funds investments in commodities are limited to swaps and instruments that constitute a security that is underlain by a financial instrument as opposed to a physical commodity.

Option Contracts

An option contract provides the right, but not the obligation, to buy or sell a specific amount of a specific security within a predetermined time period.

G. DEPOSITS AND INVESTMENTS RISK FACTORS

Deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment to GASB Statement No. 3* updated the custodial credit risk disclosure requirements of Statement 3 and established more comprehensive disclosure requirements addressing other common risks of deposits and investments such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The required disclosures related to these risks are presented on the following pages.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of bank failure, the government 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 formal deposit policy for custodial credit risk. The State Treasury has specific guidelines for cash and deposits that are maintained in the State Treasury.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. As of August 31, 2013, the balance of uncollateralized cash in U.S. and non-U.S. banks for investments pending settlement was \$282,575,827.

Custodial Credit Risk – Investments

The custodial credit risk for investments (including exchange traded investment derivative instruments) is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The system does not have a formal investment policy for custodial credit risk.

Short-Term investments totaling \$700,565,327 are held by the custodian's agent in an investment pool not evidenced by a security, and are not exposed to custodial credit risk. All other investments (including exchange traded investment derivative instruments) are registered in the name of Teacher Retirement System or in the name of the system's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the system.

Any cash collateral received associated with investment derivative activity is invested in an agent managed pool that is not evidenced by securities that exist in physical or book entry form. At August 31, 2013, the system held no cash collateral associated with investment derivative activity.

At August 31, 2013, the deposits with broker to open futures contracts in the amount of \$159,322,069 were uninsured and uncollateralized.

Credit Risk of Investment Derivative Instruments and Debt Securities

The credit risk for the system's investments in debt securities, Short-Term Investment Funds, and over-the-counter investment derivative instruments in asset positions is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The system's primary sources of credit risk are derivative counterparty credit risk, the risk from repurchase agreements, and securities lending. The system does not have a formal credit risk policy relating to its investments in Short-Term Investment Funds. For over-the-counter (OTC) derivatives, any counterparty in a transaction with TRS must have a credit rating of at least A- (Standard & Poors or Fitch) or A3 (Moody's) or better at the inception of the contract. All OTC derivative transactions, including those managed through Agency Agreements, must be subject to established ISDA Master Agreements and have full documentation of all legal obligations of TRS under the transactions. All ISDA Master Agreements provide that netting applies. To minimize the system's exposure to loss related to credit risk, the system may use collateral arrangements to mitigate counterparty credit risk. The system has negotiated thresholds for each counterparty above which collateral must be posted. The net market value of all over-the-counter derivative positions, less collateral posted, for any individual counterparty may not exceed \$500 million. The net market value of all over-the-counter derivative positions, without consideration collateral,

Notes to the Financial Statements

may not exceed five percent of the total market value of the fund. The system's investment policy clarifies that termination of the transaction is allowed. Repurchase transactions and triparty repurchase transactions may not exceed five percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnification agreement by an organization that bears a long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

The system's rated counterparties on investment derivative instruments in an asset position, and rated debt investments as of August 31, 2013, using the Standard & Poor's (S&P) rating scale, are as follows.

Investment Derivative Instruments -the aggregate fair value of investment derivative instruments in asset positions at August 31, 2013, was \$45,470,363. This represents the maximum loss that would be recognized at August 31, 2013, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$512,342 of liabilities included in netting arrangements with those counterparties resulting in a net exposure of investment derivative instruments to credit risk of \$44,958,021.

The aggregate fair value of investment derivative instruments in asset positions of \$45,470,363 at August 31, 2013, was executed with 10 counterparties, all with an S&P rating of A.

Debt Securities:

Investment Type	S&P Rating	Fair Value
Short-Term Investment Fund	NR	\$ 2,965,116,150
Other Short-Term	NR	700,565,327
Total Credit Risk of Short-Term		\$ 3,665,681,477
Short-Term Foreign Currency Contracts		\$ 73,238
Total Short-Term (Exhibit I)		\$ 3,665,754,715
U.S. Government Agency Obligations	AA	\$ 88,685,790
U.S. Government Agency Obligations	NR	106,247,041
Total U.S. Government Agency Obligations		\$ 194,932,831
Asset and Mortgage Backed Obligations	AAA	\$ 34,916,866
Asset and Mortgage Backed Obligations	AA	9,535,573
Asset and Mortgage Backed Obligations	A	11,046,945
Asset and Mortgage Backed Obligations	BBB	9,351,287
Asset and Mortgage Backed Obligations	BB	17,185,708
Asset and Mortgage Backed Obligations	B	6,822,646
Asset and Mortgage Backed Obligations	CCC	24,876,367
Asset and Mortgage Backed Obligations	CC	1,361,523
Asset and Mortgage Backed Obligations	D	6,197,696
Asset and Mortgage Backed Obligations	NR	18,726,228
Total Asset and Mortgage Backed Obligations		\$ 140,020,839

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Notes to the Financial Statements

(concluded)

Investment Type	S&P Rating	Fair Value
Corporate Obligations	AA	\$ 570,405
Corporate Obligations	B	5,507,231
Corporate Obligations	CCC	9,453,643
Corporate Obligations	CC	7,979,750
Corporate Obligations	NR	42,893,564
Total Corporate Obligations		\$ 66,404,593
International Government Obligations	AAA	\$ 2,640,832
International Government Obligations	AA	667,171
International Government Obligations	BB	85,922,873
International Government Obligations	B	28,909,329
International Government Obligations	NR	96,483,972
Total International Government Obligations		\$ 214,624,177
International Corporate Obligations	AAA	\$ 5,422,017
International Corporate Obligations	AA	15,290,190
International Corporate Obligations	NR	114,224,894
Total International Corporate Obligations		\$ 134,937,101
Total Credit Risk of Debt Securities (excluding Short-Term)		\$ 750,919,541
U.S. Government Obligations and U.S. Government Agency Obligations		\$ 20,020,368,493
Total Fixed Income (Exhibit I)		\$ 20,771,288,034

Interest Rate Risk of Debt Securities and Investment Derivative Instruments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The system does not have a formal interest rate risk policy.

The table on the next page shows the long-term fixed income investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2013.

Notes to the Financial Statements

Investment Type	Fair Value	Effective Weighted Duration Rate*
U.S. Government Obligations	\$ 14,036,215,880	16.58
U.S. Government STRIPS and TIPS	5,981,860,977	7.92
U.S. Government Agency Obligations	197,224,467	10.22
Asset and Mortgage Backed Obligations	140,020,839	2.44
Corporate Obligations	66,404,593	3.65
International Government Obligations	214,624,177	6.87
International Corporate Obligations	134,937,101	1.65
Total Fixed Income (Exhibit I)	\$ 20,771,288,034	13.69

*The effective weighted duration rate is an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. It is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve +/-100 bps. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities (including pass-throughs, CMOs and ARMs).

The table below shows the maturities of the system's Swap contracts at August 31, 2013.

Less than 1 Year	Maturities in Years			Total
	1-5	6-10	11-30	
\$ 23,449,813	\$ 4,049,485	\$ 859,422	\$ 942,772	\$ 29,301,492

Investments Highly Sensitive to Interest Rate Changes

The system's investments in long-term Asset and Mortgage Backed Obligations are subject to prepayments by the obligees of the underlying assets in periods of decreasing interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2013, these securities totaled \$140,020,839.

The system invests in Commingled Funds which hold a preponderance of investments with fair values that are highly sensitive to market conditions. The fair value of the Commingled Fund fluctuates as market conditions fluctuate. Interest rate changes are a part of changes in market conditions. As of August 31, 2013, these funds totaled \$177,382,564.

The system's investments in Swap contracts have various reference rates based on various interbank offered rates and Treasury Bill rates. As these reference rates fluctuate, the payments due to/from the system fluctuate. At August 31, 2013, the notional amount and fair value of these contracts appear on the following page.

Notes to the Financial Statements

Terms	Notional	Fair Value
U.S. LIBOR-Varied Terms	\$ 755,627,575	\$ 19,325,456
GBP LIBOR-Varied Terms	9,238,774	16,907
Euro LIBOR-Varied Terms	95,615,701	3,709,866
1 month STIBOR	15,906,019	(307,728)
3 month U.S. Treasury Bill	157,173,471	1,733,768
3 month New Zealand Bank Bill Rate	23,488,187	(101,029)
U.S. Fed Funds Effective Rate	24,972,414	(4,134)
Total	\$ 1,082,022,141	\$ 24,373,106

Foreign Currency Risk – Deposits and Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or an investment. The system does not have a formal deposit policy for foreign currency risk. The risk of holding investments in foreign currency is managed by engaging in currency overlay strategies. The maximum notional exposure of the fund to any single non-U.S. dollar developed market currency and any emerging market currency will be limited to 2% and 1% of the market value of the fund respectively. The system's exposure to foreign currency risk at August 31, 2013, is presented in the tables on the following pages.

Notes to the Financial Statements

Deposits:

Currency	Cash in Non-U.S. Banks
Australian Dollar	\$ 1,314,517
Bangladeshi Taka	45,619
Botswana Pula	86,991
Brazilian Real	3,555,856
Canadian Dollar	2,046,807
Chilean Peso	44,981
Chinese Yuan	5,160
Colombian Peso	124,733
Croatian Kuna	105,151
Czech Koruna	1,282,613
Danish Krone	39,873
Egyptian Pound	485,591
Euro	141,050,547
Ghanaian Cedi	236,072
Hong Kong Dollar	9,744,552
Hungarian Forint	27,131
Indian Rupee	1,178,190
Indonesian Rupiah	746,173
Israeli Shekel	7,198
Japanese Yen	49,173,430
Jordanian Dinar	74,314
Kenyan Shilling	15,233
Lithuania Litas	45,012
Malaysian Ringgit	6,995,532
Mauritius Rupee	93,060
Mexican Peso	1,011,978
Moroccan Dirham	13,185
New Turkish Lira	961,729
New Zealand Dollar	56,963
Nigerian Naira	84,078
Norwegian Krone	1,820,995
Pakistan Rupee	70,738
Peruvian Nuevo Sol	77,550
Philippine Peso	146,689
Polish Zloty	614,697
Pound Sterling	31,906,747
Qatar Riyal	211
Romanian Leu	13
Singapore Dollar	7,406,206
South African Rand	450,353
South Korean Won	9,656,609
Swedish Krona	377,888
Swiss Franc	2,509,075
Taiwan Dollar	6,993,189
Thai Baht	118,375
United Arab Emirates Dirham	24,223
Total Deposits Subject to Foreign Currency Risk	<u>\$ 282,825,827</u>

Notes to the Financial Statements

Investments:

Currency	Debt	Equity	Alternative Investments	Commingled Funds	Derivatives	Total Fair Value
Australian Dollar	\$ 789,526	\$ 542,830,236	\$	\$	\$	\$ 543,619,762
Bangladeshi Taka		3,113,344				3,113,344
Botswana Pula		5,004,847				5,004,847
Brazilian Real		809,703,006				809,703,006
Canadian Dollar	2,640,832	953,826,881				956,467,713
Chilean Peso		112,840,138				112,840,138
Colombian Peso		62,104,686				62,104,686
Croatian Kuna		7,766,642				7,766,642
Czech Koruna		50,204,712				50,204,712
Danish Krone		134,615,110				134,615,110
Egyptian Pound		15,666,295				15,666,295
Euro	210,526,648	3,840,417,404	2,843,597,334	1,218,974,157	4,388,223	8,117,903,766
Ghanaian Cedi		5,363,425				5,363,425
Hong Kong Dollar		2,342,966,855				2,342,966,855
Hungarian Forint		55,264,152				55,264,152
Indian Rupee	563	530,962,680				530,963,243
Indonesian Rupiah		325,887,341				325,887,341
Israeli Shekel		34,555,977				34,555,977
Japanese Yen		3,363,522,907				3,363,522,907
Jordanian Dinar		6,658,165				6,658,165
Kenyan Shilling		8,858,393				8,858,393
Kuwaiti Dinar		16,007,074				16,007,074
Malaysian Ringgit	2,219	306,556,469			9,139	306,567,827
Mauritius Rupee		7,649,266				7,649,266
Mexican Peso		475,061,896				475,061,896
Moroccan Dirham		8,773,398				8,773,398
New Turkish Lira		219,380,559				219,380,559
New Zealand Dollar	667,171	4,041,038			(101,029)	4,607,180
Nigerian Naira		9,511,256				9,511,256
Norwegian Krone		128,038,411				128,038,411
Omani Rial		8,990,934				8,990,934
Pakistan Rupee		21,662,192				21,662,192
Peruvian Nuevo Sol		6,588,600				6,588,600
Philippine Peso		102,824,394				102,824,394
Polish Zloty		156,350,463				156,350,463
Pound Sterling		2,615,781,517	289,715,683		16,907	2,905,514,107
Qatar Riyal		20,451,297				20,451,297
Romanian Leu		7,912,405				7,912,405
Russian Ruble		11,400,515				11,400,515
Singapore Dollar		137,737,437				137,737,437
South African Rand		703,267,129				703,267,129
South Korean Won		1,497,776,310				1,497,776,310
Swedish Krona		403,995,530			(307,728)	403,687,802
Swiss Franc		1,455,865,476				1,455,865,476
Taiwan Dollar		925,995,718				925,995,718
Thai Baht		343,204,110			39,067	343,243,177
United Arab Emirates Dirham		27,199,681				27,199,681
Total Investments Subject to Foreign Currency Risk	\$ 214,626,959	\$ 22,834,156,271	\$ 3,133,313,017	\$ 1,218,974,157	\$ 4,044,579	\$ 27,405,114,983

H. SECURITIES LENDING

The system is authorized by Texas Government Code, Section 825.303 to contractually lend securities to borrowers in accordance with policy established by the board of trustees and as required by statute. The system has a contract with State Street Bank and Trust Company to administer its securities lending program for domestic and international equity and fixed income securities. Authorized collateral for the program consists of cash or government securities eligible for book entry in either the Federal Reserve System or Participants Trust Company. The required collateral is based upon the lent security's fair value plus accrued income. At a loan's inception, the value of the collateral must be at least 102% of the value of domestic

Notes to the Financial Statements

lent securities and at least 105% for international lent securities. Collateral is marked to market daily, and in the case it falls below 100% for domestic or 105% for international, it is reinstated to the original requirements by the borrower.

Cash collateral can be invested in a cash collateral pool, U.S. government or U.S. government sponsored entity securities, time deposits, bank certificates of deposit, bankers' acceptances, master notes, repurchase agreements, bank and corporate notes, commercial paper, asset backed securities, and derivative instruments. The system's policies for securities lending provide investment guidelines for different asset classes to limit its exposure to different types of risks.

The par value, dollar-weighted average maturity of the collective cash collateral investment may not exceed 120 days. The expected final maturity of any individual fixed-rate instrument has a limit of 36 months and any floating-rate instrument has a limit of seven years.

Each instrument having a maturity of 13 months or less at the time of purchase must qualify as "first tier securities" within Rule 2a-7 under the Investment Company Act of 1940 and any instrument over 13 months must be rated within the highest major, long-term rating category of an NRSRO, or, if unrated, be determined to be of comparable quality by the trustees.

The system does not have a formal custodial credit risk policy relating to its securities lending program. All cash collateral received is invested in an unrated cash collateral pool held by the counterparty, the system's securities lending agent and is not exposed to custodial credit risk. The following table shows the underlying securities for non-cash collateral loans which are also held by the counterparty, the securities lending agent, but not in the system's name and are not insured.

Investment Type	Fair Value
U.S. Government Obligations	\$ 393,602,802
Domestic Corporate Obligations	1,136,558
Domestic Equities	25,113,632
International Equities	8,253,919
Total	\$ 428,106,911

The system earns income from fees paid by the borrowers and interest earned from investing the cash collateral. The contract requires the custodian to indemnify the system if the borrower fails to return the securities or income distributions made while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Substantially all securities loans can be terminated on demand either by the system or the borrower, although, as of August 31, 2013, the weighted average term of these loans was nine days. As of August 31, 2013, the weighted average maturity of the invested cash collateral was 39 days, and there was no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts owed to the system. During the year there were no borrower or custodian default losses and no recoveries of prior period losses. Authorized borrowers have specific limits that vary from \$50 million to \$5.5 billion. During the year, there were no significant violations of contractual provisions. The total market value of all loans cannot exceed 30% of the portfolio.

The following table represents the fair market values of the securities lending transactions based on type of collateral received as of August 31, 2013.

	Cash	Non-Cash	Total
Securities on Loan	\$ 21,407,016,431	\$ 428,106,911	\$ 21,835,123,342
Collateral Received	\$ 21,914,338,510	\$ 437,219,039	\$ 22,351,557,549
Reinvested Collateral	\$ 21,921,125,536		\$ 21,921,125,536

For fiscal year 2013, the system earned income of \$87,371,411 from securities lending.

I. OTHER INVESTMENTS AND CONTINGENT COMMITMENTS

The system's investment derivative instruments include provisions that require the system to post collateral in the event that the fair value surpasses a specified contractual threshold. At August 31, 2013, the aggregate fair value of all investment derivative instruments with these collateral posting provisions is \$44,958,021. If the collateral posting thresholds of all these investment derivative instruments did not exist at August 31, 2013, the system would be required to post the aggregate amount of \$6,464,931 in collateral to its counterparties. Where none of the contractual thresholds were surpassed, the system has posted no collateral at August 31, 2013.

The system's investments in certain limited partnerships commit the system to possible future capital contributions. At August 31, 2013, the remaining commitment was \$16,492,450,030.

Notes to the Financial Statements

NOTE 4: EMPLOYEE COMPENSABLE LEAVE

Salary costs related to employees' rights to be compensated for leave balances are accrued as expenses in the period in which the services were rendered. Accumulated compensable leave liabilities are reported in the Statement of Fiduciary Net Position for the Pension and Other Employee Benefit Trust Funds and in the Statement of Net Position for the Enterprise Funds. The employees' compensable leave activity for fiscal year 2013 is shown in the table below.

	Beginning Balance 09/01/12	Additions	Reductions	Ending Balance 08/31/13	Amounts Due Within One Year	Amounts Due Thereafter
Fiduciary Funds:						
Pension Trust Fund	\$ 5,221,964	\$ 5,606,258	\$ (5,076,305)	\$ 5,751,917	\$ 3,544,161	\$ 2,207,756
TRs-Care	219,390	269,451	(279,431)	209,410	137,289	72,121
Proprietary Funds:						
TRs-ActiveCare	128,857	175,936	(148,700)	156,093	103,762	52,331
403(b) Adminis- trative Program	11,900	0	(11,900)	0	0	0
Total	<u>\$ 5,582,111</u>	<u>\$ 6,051,645</u>	<u>\$ (5,516,336)</u>	<u>\$ 6,117,420</u>	<u>\$ 3,785,212</u>	<u>\$ 2,332,208</u>

NOTE 5: OPERATING LEASES

In fiscal year 2009, TRS entered into a non-cancelable operating lease agreement for building space which expires March 31, 2015. As part of the building lease, TRS received one month of rent abatement, a construction allowance, and an additional allowance. The rent abatement, construction allowance, and additional allowance are being amortized on a straight-line basis over the life of the lease as a reduction of rental expenses.

Rental expenses related to the lease for the fiscal year ended August 31, 2013 for the Pension Trust Fund were \$1,822,995 and include amortization of deferred rent of \$430,470.

The future minimum lease payments for the next two years are as follows:

Fiscal Year Ending	Amount
August 31, 2014	1,857,136
August 31, 2015	1,082,661
Total	<u>\$ 2,939,797</u>

NOTE 6: FRINGE BENEFITS PAID BY THE STATE OF TEXAS AND THE FEDERAL GOVERNMENT

The state has a joint contributory retirement plan for substantially all its employees. The employees of TRS participate in the same plan they administer (Note 12).

For the fiscal year ended August 31, 2013, the state provided retirement contributions of \$117,770 on behalf of employees paid from TRS-Care. In the Enterprise Funds, the state provided on-behalf retirement contributions of \$75,664 for TRS-ActiveCare and \$2,890 for the 403(b) Administrative Program.

Although these fringe benefits were not paid by these funds, GASB Statement No. 24 requires recognition of these benefits as expenses of the programs, with offsetting revenues recorded.

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D provided retiree drug subsidy reimbursements to TRS-Care on behalf of certain plan participants totaling \$ 24,975,494 for the fiscal year ended August 31, 2013. Under TRS-Care's Employer Group Waiver Plan (EGWP), reimbursements totaled \$33,642,048 for Medicare Part D direct subsidies and \$15,893,931 for catastrophic reinsurance subsidies.

Notes to the Financial Statements

NOTE 7: DEFERRED COMPENSATION

Employees of the system may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the Tex. Gov. Code Ann., Sec. 609.001. Two plans are available for employees. Both plans are administered by the Employees Retirement System. The system has no additional or unfunded liability for this program.

NOTE 8: CONTINGENT LIABILITIES

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 or paid to the estate of an employee in the event of death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The system's policy is to recognize the cost of any sick leave when paid.

The system is contingently liable for benefits payable to retiring members who remain in a pending status longer than 30 days after fiscal year end.

In addition, under Texas Insurance Code, Article 3.51-7, the system is contingently liable to pay a lump-sum death benefit not to exceed \$5,000 when added to the death benefit authorized under Texas Government Code, Title 8, Chapter 824, to the beneficiaries of deceased, retired employees.

A Performance Incentive Compensation Plan was adopted effective July 1, 2006 to enable the system to remain competitive in its efforts to attract, retain and motivate high caliber investment division staff. The July 1, 2006 Plan was terminated by the board of trustees September 13, 2007 and a new Plan was adopted effective October 1, 2007 and modified effective October 1, 2008. The purpose of the Plan is to provide the opportunity for investment division employees to earn performance incentive pay based on the fund's investment performance and the employee's job performance. The performance incentive pay is paid over the subsequent 2 years. For the incentive pay plan year ending September 30, 2013 the liability is estimated not to exceed \$10.3 million. Payments can only be earned following years in which the fund experiences a positive return, and employees must be employed by TRS on the designated dates in the Plan to earn and receive payment. The board of trustees may cancel or modify the Plan at any time.

TRS is a defendant in litigation involving issues arising from its normal activities. The outcome of this litigation cannot be determined at this time. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the basic financial statements as a result of the ultimate outcome of these matters.

NOTE 9: CONTINUANCE SUBJECT TO REVIEW

As provided by Texas Government Code, Title 8, Section 825.006, "The board of trustees of the Teacher Retirement System of Texas is subject to review under Chapter 325 (Texas Sunset Act), but is not abolished under that chapter. The board shall be reviewed during the period in which state agencies abolished in 2019, and every 12th year after that year, are reviewed."

NOTE 10: POST-EMPLOYMENT HEALTH CARE BENEFITS

A. PLAN DESCRIPTION

TRS Employees

Employees of the system who retire with 10 or more years of eligible service credit and meet the Rule of 80 or are at least 65 years of age continue to receive health care and basic life insurance benefits through the Group Benefits Program of the State Retiree Health Plan (SRHP) in accordance with Texas Insurance Code, Chapter 1551. The SRHP is maintained and administered through the Employees Retirement System (ERS) of Texas and is considered a cost-sharing, multiple-employer, defined benefit post-employment health care plan. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the SRHP. That report may be obtained by visiting the ERS website at www.ers.state.tx.us, by writing to the Finance Division of the Employees Retirement System of Texas at 200 East 18th Street, Austin, Texas 78701, or by calling 1-877-275-4377.

Benefits and contribution provisions of the SRHP are not actuarially determined, but are authorized by state law and may be amended by the Texas Legislature. For the year ended August 31, 2013, the system contributed up to a maximum monthly amount on a pay-as-you-go basis toward a retiree's health and basic life insurance premiums as follows:

Notes to the Financial Statements

Employer Contribution Rates Retiree Health and Basic Life Premium			
Type of Coverage	FY 2013	FY 2012	FY 2011
Member Only	\$ 503.14	\$ 438.30	\$ 411.04
Member/Spouse	\$ 791.16	\$ 689.04	\$ 647.38
Member/Children	\$ 696.00	\$ 606.20	\$ 569.30
Member/Family	\$ 984.02	\$ 856.94	\$ 805.64

The system covers 100% of a Member Only premium and 50% of their additional premiums for family coverage. The basic plan includes up to \$2,500 for life insurance for the retiree. The retiree contributes any premium over and above the system's contribution for additional coverage. The board has adopted contributions based on rates set by the Texas Legislature on a biennial basis. At August 31, 2013, there were 222 retirees and their beneficiaries receiving post-employment health care and basic life insurance benefits. Contractually required contributions to the SRHP are currently based on the annual pay-as-you-go expenses of the SRHP. For the year ended August 31, 2013, 2012, and 2011 the system recognized expenditures of \$1,426,887, \$1,268,955, and \$1,113,697, respectively, for these benefits. The system has annually made 100 percent of its contractually required contributions to the SRHP.

Public School Employees

TRS, as trustee, administers the Texas Public School Retired Employees Group Insurance Program (TRS-Care) and the related fund in accordance with Texas Insurance Code, Chapter 1575. Sections 1575.202 to 204 establish state, active employee, and public school contributions. Section 1575.052 grants the board the authority to establish basic and optional group insurance coverage for participants. Charter Schools in the TRS system are considered "open enrollment" and receive the same treatment as public school employees.

TRS-Care is a cost-sharing, multiple-employer, defined benefit, other post-employment benefit (OPEB) plan that is currently funded on a pay-as-you-go basis and is subject to change based on available funding. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year.

At the inception of the plan in fiscal year 1986, funding was projected to last 10 years through fiscal year 1995. The original funding was sufficient to maintain the solvency of the fund through fiscal year 2000. Since that time, appropriations and contributions have been established to be sufficient to provide benefits for the biennium.

Eligibility generally includes TRS public school retirees with more than 10 years of service and their dependents. Retirees can receive a free basic level of coverage, and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. During fiscal year 2013, deductibles were \$1,800 for those eligible for Part A of Medicare, \$3,000 for those not eligible for Part A, but eligible for Part B, and \$4,000 for those not eligible for either Part A or Part B.

At August 31, 2013, the number of reporting entities was:

Independent School Districts	1,027*
Charter Schools (open enrollment only)	203
Regional Education Service Centers	20
Education Districts	5
Total	<u>1,255</u>

*Excludes Windham School District which is not covered by OPEB.

In addition, other contributing entities included the State of Texas and the Federal Government.

At August 31, 2013, OPEB membership consisted of the following:

Retirees and beneficiaries receiving benefits	243,263
Active plan members	<u>677,533</u>
Total	<u>920,796</u>

Notes to the Financial Statements

B. CONTRIBUTIONS

Funding for free basic coverage is provided by the program based upon public school district payroll. The State of Texas, active public school employee and reporting entities contribution rates and amounts collected are reflected in the table below for fiscal year 2013. Per Texas Insurance Code, Chapter 1575.204, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Actuarial implications of the overall funding are determined by the system's actuary.

	Contribution Rate	Amount
Active Employee	0.65%	\$ 180,824,523
State	0.50	229,916,593
Reporting Entities	0.55	152,874,976
Federal or Private Funding Sources	0.50	<u>11,660,667</u>
Total		<u><u>\$ 575,276,759</u></u>

The contributions shown above and premium contributions of \$355,685,504 contribute toward the total plan expenditures of \$1,288,632,335. Expenses for TRS-Care are recognized as retirees report claims and include a provision for estimated claims incurred but not yet received.

The actuarial valuation as of August 31, 2013, is similar to the actuarial valuations performed for the pension plan; however, certain economic and behavioral assumptions are unique to medical benefits. The demographic assumptions are identical to those which were adopted by the Board in 2012 after the preparation of an actuarial experience study and used in the respective valuation for the pension plan.

Additional valuation information follows:

Valuation Date	August 31, 2013
Actuarial Cost Method.....	Projected Unit Credit
Amortization Method	Level Percent, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Investment Rate of Return *	5.25 %
Projected Salary Increases *	4.25% to 7.25 %
Weighted-Average at Valuation Date.....	5.62 %
Payroll Growth Rate	3.50 %
Health Care Trend Rates *	7.50% to 4.35 %**

* Includes Inflation at 3.00%

** Initial rates are 9.0% for medical and 8.5% for prescriptions. The ultimate rate is 4.35% for both medical and prescriptions.

The results of the actuarial valuation reflect a long-term perspective, are dependent on the actuarial assumptions used, and are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actual results can differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial assumptions used are designed to reduce short-term volatility in the liabilities and assets.

The plan provisions used in the actuarial valuation are based on the expectations of cost sharing between the employer and plan members. The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of the benefits for financial reporting does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Notes to the Financial Statements

C. FUNDED STATUS AND FUNDING PROGRESS – OPEB PLAN

See TRS-Care funded status below (dollar amounts in millions):

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2013	\$551	\$29,835	\$29,284	1.8%	\$30,511	96%

The Schedule of Funding Progress located immediately following the Notes to the Financial Statements in the Required Supplementary Information (RSI) presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits paid.

NOTE 11: RISK MANAGEMENT

The 77th Texas Legislature enacted the Texas Active School Employees Uniform Group Benefits Act (H.B. 3343), establishing a new statewide health coverage program for public school employees and their dependents. TRS began administering this program, known as TRS-ActiveCare, September 1, 2002. The plan is available to all public school districts, charter schools (open enrollment only), education service centers and certain other employers. The risk associated with this program is retained by the plan's participants, and no risk is transferred to the plan's administrators, to employers, or to the state.

NOTE 12: PENSION DISCLOSURE

A. PLAN DESCRIPTION

TRS is the administrator of a cost-sharing multiple-employer public employee retirement system (PERS). It is a cost-sharing plan with one exception: risks and costs are generally not shared by the employing district but are the liability of the State of Texas. The State of Texas is also the employing district for senior colleges, medical schools and certain state agencies. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the pension trust fund during that fiscal year. However, for fiscal year 2013 the Pension Trust Fund paid the employer's share for its own employees.

For members of the system entitled to the minimum salary for certain school personnel under Section 21.402 of the Education Code, the employing district shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum. The employing district also pays the state's contribution on a member's salary during the first 90 days of employment.

At August 31, 2013, the number of reporting entities was as follows:

Independent School Districts	1,028
Charter Schools (open enrollment only)	203
Community and Junior Colleges	51
Senior Colleges and Universities	47
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	2
Total	<u>1,365</u>

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002, are covered by the system.

Notes to the Financial Statements

At August 31, 2013, TRS gross membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	348,228
Terminated employees entitled to benefits but not yet receiving them	<u>83,878</u>
Total	<u><u>432,106</u></u>
Current Active Members:	
Fully-Vested	609,065
Non-Vested	<u>328,469</u>
Total	<u><u>937,534</u></u>

Benefits are established primarily under the authority of the provisions of Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals or exceeds 80 years. Reduced service retirement is at age 55 with 5 years of credited service and any age below 50 with 30 years of credited service. A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met.

B. CONTRIBUTIONS

Contribution requirements are not actuarially determined but are established pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in this manner are determined by the system's actuary.

Current contribution rates and contributions for fiscal year 2013 are shown in the table below. For fiscal year 2013 the State of Texas contribution rate was 6.4%, for fiscal year 2012 the rate was 6.0% and for fiscal year 2011 the rate was 6.644%. The member contribution rate was 6.4% for fiscal years 2011-2013. These rates are set by the General Appropriations Act. In certain instances, the reporting entity (public school, college, university, medical school or other entity) is required to make all or a portion of the state's and/or member's contribution.

	Contribution Rate	Amount
Member	6.4%	\$2,252,094,934
State	6.4	1,442,774,273
Reporting Entities	6.4	494,416,712
Federal or Private Funding Sources	6.4	<u>315,182,041</u>
Total		<u><u>\$4,504,467,960</u></u>

Effective September 1, 2007, H.B. 2358, 80th Legislature, amended Section 825.406(b) of the Government Code and Section 1575.252 of the Insurance Code, requiring that contributions received by an employer from federal or private funding sources be deposited in the state contribution account and in the retired school employees group insurance fund (relates to OPEB see Note 10) of TRS, respectively, instead of the general revenue fund of the state treasury.

Notes to the Financial Statements

C. LEGAL RESERVE ACCOUNT BALANCES

The balances in the five legally required reserve accounts are sufficient to meet statutory requirements. As of August 31, 2013 the reserve accounts had the following balances:

Member Savings Account	\$ 31,522,879,020
State Contribution Account	12,560,734,640
Retired Reserve Account	73,200,717,896
Deferred Retirement Option Account	50,992,548
Expense Account	52,819,755
Total (Exhibit I)	<u>\$117,388,143,859</u>

D. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLAN

The funded status of the Pension Trust Fund as of August 31, 2013, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2013	\$121,730	\$150,666	\$28,936	80.8%	\$36,505	79.3%

The Schedule of Funding Progress located immediately following the Notes to the Financial Statements in the Required Supplementary Information (RSI) presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time. These indicators and trends may be useful in assessing progress made in accumulating sufficient assets to pay benefits when due for the Pension Trust Fund.

Additional actuarial valuation information follows:

Valuation Date	August 31, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Remaining Amortization Period *	28 Years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return **	8.00%
Projected Salary Increases **	4.25% to 7.25%
Weighted-Average Projected Salary Increases **	5.62%
Cost-of-Living Adjustments	None

* The funding period shown reflects changes to the benefit provisions of TRS as well as future legislative increases in the member and employer contribution rates. The state's contribution rate would need to increase from 6.40% to 8.67% beginning in fiscal year 2014 in order to amortize the unfunded actuarial accrued liability (UAAL) over the 28-year remaining amortization period. Governmental Accounting Standards Board Statement No. 25 permits a 30-year maximum acceptable amortization period.

** Includes Inflation at 3.00%

Notes to the Financial Statements

NOTE 13: SUBSEQUENT EVENTS

In fiscal year 2013, the 83rd Texas Legislature enacted Senate Bill 1458 providing for a three percent cost-of-living adjustment, (COLA) not to exceed \$100 per month for certain TRS annuitants. The annuitant must be living on September 1, 2013 and retired before September 1, 2004 to be eligible to receive the COLA. Current beneficiaries receiving death or disability retirement benefits under an optional annuity payment plan are also entitled to this adjustment provided the death of the member was prior to September 1, 2004. Approximately 184,200 annuitants and beneficiaries received this adjustment on the September annuity payment which is paid in October 2013.

In addition, the 83rd Texas Legislature enacted Senate Bill 1484, relating to medical insurance coverage for enrollees diagnosed with autism spectrum disorder which was passed and went into effect September 1, 2013. This legislation eliminated the age nine cap (provided the diagnosis was prior to the child's 10th birthday) but limits annual benefits to \$36,000 a year for children aged 10 and above. It is estimated that this legislation will have a significant negative impact on the fund balance of the TRS-ActiveCare program.

NOTE 14: DEFICIT FUND BALANCE

The Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare) reported a deficit fund balance as of August 31, 2013. The deficit is a result of higher-than projected claim costs and lower-than projected premium income. The fund had a positive cash balance, however, the accrual of future claims that have been incurred but not reported caused the fund balance to be negative. The TRS Board of Trustees authorized premium rate increases for plan year 2014 to improve the financial position of TRS-ActiveCare. To ensure adequate funds are available to make timely payments of TRS-ActiveCare claims, the due date for premium revenue payments was moved from the month following coverage to the current month of coverage effective September 2013 (fiscal year 2014).

Required Supplementary Information

PENSION TRUST FUND
Fiscal Years 2008-2013

SCHEDULE OF FUNDING PROGRESS

Taking into account only the dollar amounts of aggregate actuarial accrued liabilities and unfunded actuarial accrued liabilities (UAAL) can be misleading. The dollar amounts of these two items can be increasing at a time when their actual substance may be decreasing. Dividing valuation asset dollars by aggregate actuarial accrued liability dollars and dividing UAAL dollars by active member payroll dollars provide clarifying indices. The larger the ratio of valuation assets to aggregate actuarial accrued liabilities, the stronger the system. Observation of these relative indices over a period of years will give an indication of whether the system is becoming stronger or weaker.

(DOLLAR AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2008	\$ 110,233	\$ 121,756	\$ 11,523	90.5%	\$ 33,238	34.7%
2009	106,384	128,030	21,646	83.1	35,097	61.7
2010	111,293	134,191	22,898	82.9	36,629	62.5
2011	115,253	139,315	24,062	82.7	36,797	65.4
2012	118,326	144,427	26,101	81.9	35,445	73.6
2013	121,730	150,666	28,936	80.8	36,505	79.3

SCHEDULE OF CONTRIBUTIONS FROM STATE AND REPORTING ENTITIES

State and Reporting Entities Annual Required Contributions (ARC)

Fiscal Year Ended	ARC Rate	From State's General Fund	From Federal/ Private Funding Sources	From Reporting Entities	Total	Percentage of ARC Contributed
2008	6.47%	\$ 1,426,771,115	\$ 247,210,170	\$ 346,051,153	\$ 2,020,032,438	102%
2009	6.10	1,373,745,903	255,108,385	380,362,287*	2,009,216,575*	108
2010	7.72	1,829,819,802	356,466,503	475,562,176	2,661,848,481	86
2011	7.77	1,866,217,141	379,804,617	481,695,346	2,727,717,104	86
2012	8.13	1,884,276,741	395,365,094	501,334,321	2,780,976,156	74
2013	8.62	1,943,236,599	424,510,811	665,917,509	3,033,664,919	74

*Calculation revision from fiscal year 2009 CAFR.

Required Supplementary Information

TRS-CARE
Fiscal Years 2008-2013

SCHEDULE OF FUNDING PROGRESS

(DOLLAR AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2008	\$ 729	\$ 22,313	\$ 21,584	3.3%	\$ 27,979	77%
2009	800	24,357	23,557	3.3	29,490	80
2010	815	25,808	24,993	3.2	30,758	81
2011	891	29,785	28,894	3.0	30,515	95
2012	741	27,542	26,801	2.7	29,777	90
2013	551	29,835	29,284	1.8	30,511	96

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

Annual Required Contributions

(1) Fiscal Year Ended	(2) Annual Required Contributions (ARC)	Actual Contributions			(6) Total (3)+(4)+(5)	(7) Percentage Contributed (6)/(2)
		(3) From State	(4) From Reporting Entities	(5) On-Behalf From Federal Government		
2008	\$ 1,535,975	\$ 254,722	\$ 141,673	\$ 59,486	\$ 455,881	29.7%
2009	1,655,647	267,471	149,563	61,531	478,565	28.9
2010	1,806,751	279,251	155,918	70,796	505,965	28.0
2011	1,821,817	282,891	158,724	136,888	578,503	31.8
2012	1,980,371	272,029	154,608	68,634	495,271	25.0
2013	1,898,160	241,577	160,953	74,511	477,041	25.1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The employer ARC was determined by netting the active employee contributions (0.65%) out of the total ARC (7.47%). The ARC for FY2013 was determined by applying the Employer ARC determined in the 2012 valuation as a percentage of payroll (6.82%) to the actual payroll paid in FY 2013 (\$27.8 billion).

Statement of Changes in Assets and Liabilities

AGENCY FUNDS

For the Fiscal Year Ended August 31, 2013

EXHIBIT A

	Balances September 1, 2012	Additions	Deductions	Balances August 31, 2013
Child Support Employee Deductions				
Assets:				
Cash in State Treasury	\$ 4,917	\$ 87,473	\$ 86,201	\$ 6,189
TOTAL ASSETS	\$ 4,917	\$ 87,473	\$ 86,201	\$ 6,189
Liabilities:				
Funds Held for Others	\$ 4,917	\$ 87,473	\$ 86,201	\$ 6,189
TOTAL LIABILITIES	\$ 4,917	\$ 87,473	\$ 86,201	\$ 6,189

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Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

INTEREST ACCOUNT	2013	2012
Additions		
Interest, Dividends and Other Income:		
Short-Term	\$ 13,704,835	\$ 18,563,847
Equities	1,204,184,693	1,213,189,788
Fixed Income	671,317,663	701,434,163
Derivatives	(8,583,750)	(9,228,659)
Securities Lending Program	87,371,411	104,606,162
Net Appreciation in Fair Value of Investments	8,055,066,425	5,972,016,449
TOTAL ADDITIONS	\$ 10,023,061,277	\$ 8,000,581,750
Deductions		
Transfers Out:		
Allocation of Interest to (from):		
Member Savings Account	\$ 1,500,897,616	\$ 1,436,001,343
State Contribution Account	(5,213,287,695)	(4,699,001,513)
Retired Reserve Account	5,447,691,606	5,092,254,303
Deferred Retirement Option Account	2,968,215	3,677,824
Expense Account	86,764,394	84,602,761
Transfer to State Contribution Account for Net Appreciation in Fair Value of Investments	8,055,066,425	5,972,016,449
External Manager Fees	142,960,716	111,030,583
TOTAL DEDUCTIONS	\$ 10,023,061,277	\$ 8,000,581,750
Net Change in Account Balance	\$ 0	\$ 0
Account Balance - Beginning September 1	\$ 0	\$ 0
Account Balance - Ending August 31	\$ 0	\$ 0

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

SCHEDULE 1

MEMBER SAVINGS ACCOUNT	2013	2012
Additions		
Contributions:		
Contributions Paid by Member	\$ 2,252,094,934	\$ 2,188,020,423
Employment After Retirement Surcharge Paid by Reporting Entities - Employee	5,192,857	3,721,012
Purchase of Service Credit - Refundable	65,965,332	54,966,100
Transfer In:		
Allocation from Interest Account	1,500,897,616	1,436,001,343
TOTAL ADDITIONS	\$ 3,824,150,739	\$ 3,682,708,878
Deductions		
Refund of Contributions - Active	\$ 386,587,184	\$ 375,937,346
Transfers Out:		
Transfer to Retired Reserve Account:		
For Dormant Accounts	21,169,122	17,572,570
To Fund Benefits	1,987,549,041	2,346,139,677
TOTAL DEDUCTIONS	\$ 2,395,305,347	\$ 2,739,649,593
Net Change in Account Balance	\$ 1,428,845,392	\$ 943,059,285
Account Balance - Beginning September 1	\$ 30,094,033,628	\$ 29,150,974,343
Account Balance - Ending August 31	\$ 31,522,879,020	\$ 30,094,033,628

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

STATE CONTRIBUTION ACCOUNT	2013	2012
Additions		
Contributions:		
State Contributions - General Fund	\$ 1,442,774,273	\$ 1,390,610,141
Contributions - Federal/Private		
Funding Sources	315,182,041	291,782,357
Reporting Entities	494,416,712	369,988,429
Employment After Retirement Surcharge		
Paid by Reporting Entities - Employer	5,342,802	3,813,329
Purchase of Service Credit - Non-Refundable	82,435,548	71,005,664
Transfers In:		
Transfers from Interest Account:		
For Investment Income	(5,213,287,695)	(4,699,001,513)
For Net Appreciation in Fair Value of Investments	8,055,066,425	5,972,016,449
Transfers from Retired Reserve Account:		
For Retirement Benefits Forfeited While Member Returned to Teaching	324,220	125,763
For Retirement Benefits Waived by Member	38,435	42,151
TOTAL ADDITIONS	\$ 5,182,292,761	\$ 3,400,382,770
Deductions		
Transfers Out:		
Transfers to Retired Reserve Account:		
To Fund Benefits	\$ 4,535,678,902	\$ 5,610,731,986
Based on Actuarial Valuation as of August 31	1,203,416,183	344,242,543
TOTAL DEDUCTIONS	\$ 5,739,095,085	\$ 5,954,974,529
Net Change in Account Balance	\$ (556,802,324)	\$ (2,554,591,759)
Account Balance - Beginning September 1	\$ 13,117,536,964	\$ 15,672,128,723
Account Balance - Ending August 31	\$ 12,560,734,640	\$ 13,117,536,964

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

SCHEDULE 1

RETIRED RESERVE ACCOUNT	2013	2012
Additions		
Contributions Transferred in from Employees Retirement System of Texas	\$ 16,365,042	\$ 14,940,228
Transfers In:		
Allocation from Interest Account	5,447,691,606	5,092,254,303
Transfer from Member Savings Account:		
For Dormant Accounts	21,169,122	17,572,570
To Fund Benefits	1,987,549,041	2,346,139,677
Transfer from State Contribution Account:		
To Fund Benefits	4,535,678,902	5,610,731,986
Based on Actuarial Valuation as of August 31	1,203,416,183	344,242,543
TOTAL ADDITIONS	\$ 13,211,869,896	\$ 13,425,881,307
Deductions		
Benefits Paid:		
Service Retirement Annuities	\$ 7,251,369,740	\$ 6,808,592,209
Partial Lump Sums	410,323,790	501,152,157
Disability Retirement Annuities	156,308,471	150,238,202
Death and Survivor Benefits:		
Annual Salary	41,219,707	46,859,444
Survivor Annuities	94,563,001	92,126,049
Life Annuities	87,044,328	85,816,402
60 Monthly Payments	12,659,471	11,816,313
Remainder of Contributions	4,496,453	4,659,453
Refund of Contributions - Death	4,705,228	5,294,006
Benefits Transferred to Employees Retirement System of Texas	75,513,146	70,985,963
Transfers Out:		
Transfer to Deferred Retirement Option Account to Fund Benefits		28
Transfers to State Contribution Account:		
Retirement Benefits Forfeited While Member		
Returned to Teaching	324,220	125,763
For Retirement Benefits Waived by Member	38,435	42,151
TOTAL DEDUCTIONS	\$ 8,138,565,990	\$ 7,777,708,140
Net Change in Account Balance	\$ 5,073,303,906	\$ 5,648,173,167
Account Balance - Beginning September 1	\$ 68,127,413,990	\$ 62,479,240,823
Account Balance - Ending August 31	\$ 73,200,717,896	\$ 68,127,413,990

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

DEFERRED RETIREMENT OPTION ACCOUNT	2013	2012
Additions		
Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$	\$
Allocation from Interest Account	2,968,215	3,677,824
TOTAL ADDITIONS	\$ 2,968,215	\$ 3,677,852
Deductions		
Benefits Paid	\$ 17,223,523	\$ 22,361,937
Net Change in Account Balance	\$ (14,255,308)	\$ (18,684,085)
Account Balance - Beginning September 1	\$ 65,247,856	\$ 83,931,941
Account Balance - Ending August 31	\$ 50,992,548	\$ 65,247,856

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

SCHEDULE 1

EXPENSE ACCOUNT	2013	2012
Additions		
Miscellaneous Revenues	\$ 2,629,383	\$ 1,867,389
Transfers In:		
Allocation from Interest Account	86,764,394	84,602,761
TOTAL ADDITIONS	\$ 89,393,777	\$ 86,470,150
Deductions		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 57,251,675	\$ 53,018,423
Professional Fees and Services	9,892,536	6,160,168
Consumable Supplies and Fuels	361,196	361,577
Utilities	784,249	773,382
Travel	829,509	802,780
Rentals	1,670,449	1,619,727
Dues, Fees and Staff Development	307,607	279,488
Subscriptions and Reference Information	207,720	235,123
Printing and Reproduction Services	265,838	642,574
Postage, Mailing and Delivery Services	1,955,659	2,666,845
Software Purchases and Maintenance	2,670,569	2,847,777
Maintenance - Computer Hardware	423,971	389,705
Maintenance - Buildings and Equipment	570,491	776,492
Miscellaneous Expenses	634,225	706,686
Insurance Premiums	660,685	660,872
Furniture and Equipment - Expensed	666,427	514,616
Depreciation	2,627,581	2,582,931
Amortization	344,233	287,451
Loss on Capital Assets	103,998	
TOTAL DEDUCTIONS	\$ 82,228,618 *	\$ 75,326,617
Net Change in Account Balance	\$ 7,165,159	\$ 11,143,533
Account Balance - Beginning September 1	\$ 45,654,596	\$ 34,511,063
Account Balance - Ending August 31	\$ 52,819,755	\$ 45,654,596

* This amount includes total internal administrative investing activity expenses of \$45,964,556 (Schedule 3). Administrative expenses net of investing activity expenses are \$36,264,062 (Exhibit II).

Schedule of Administrative Expenses

For the Fiscal Year Ended August 31, 2013

SCHEDULE 2

	Pension Trust Fund	TRS-Care
Personnel Services:		
Salaries and Wages	\$ 17,899,459	\$ 1,897,320
<i>Payroll Related Costs:</i>		
Longevity Pay	430,522	52,100
Employer Retirement Contributions	1,175,406	117,770
Employer FICA Contributions	1,331,670	142,821
Employer Health Insurance Contributions	2,770,823	222,361
Benefit Replacement Pay	82,548	12,338
Other Employee Benefits	30,246	
Employee Compensable Absences	529,954	(9,981)
TOTAL PERSONNEL SERVICES	\$ 24,250,628	\$ 2,434,729
Professional Fees and Services	\$ 3,192,024	\$ 729,790
Other Operating Expenses:		
Travel	\$ 165,024	\$ 6,406
<i>Materials and Supplies</i>		
Consumable Supplies and Fuels	199,118	3,408
Subscriptions and Reference Information	76,943	
Postage, Mailing and Delivery Services	1,783,700	72,702
Furniture and Equipment - Expensed	495,112	423
<i>Communication and Utilities</i>		
Utilities	456,237	5,460
Communication	126,645	26,305
<i>Repairs and Maintenance</i>		
Software Purchases and Maintenance	2,017,435	
Computer Hardware Maintenance	308,988	
Maintenance - Buildings and Equipment	255,924	
Rentals and Leases	105,244	82,511
Printing and Reproduction Services	270,418	33,549
Depreciation	1,379,944	
Amortization	344,233	
Gain/Loss Capital Assets	103,998	
<i>Other Expenses</i>		
Dues, Fees and Staff Development	174,496	1,908
Insurance Premiums	338,469	
Other Miscellaneous Expenses	219,482	918
TOTAL OTHER OPERATING EXPENSES	\$ 8,821,410	\$ 233,590
TOTAL ADMINISTRATIVE EXPENSES	\$ 36,264,062	\$ 3,398,109

TRS-ActiveCare	403(b) Administrative Program	Total
\$ 1,189,664	\$ 44,846	\$ 21,031,289
26,380		509,002
75,664	2,890	1,371,730
88,767	3,499	1,566,757
127,672		3,120,856
1,031	859	96,776
6,750		36,996
27,236	(11,900)	535,309
<u>\$ 1,543,164</u>	<u>\$ 40,194</u>	<u>\$ 28,268,715</u>
<u>\$ 734,228</u>	<u>\$ 0</u>	<u>\$ 4,656,042</u>
\$ 1,772	\$	\$ 173,202
153		202,679
848		77,791
1,879		1,858,281
853		496,388
567		462,264
622		153,572
		2,017,435
		308,988
		255,924
62,245		250,000
1,187		305,154
		1,379,944
		344,233
		103,998
4,284		180,688
		338,469
		220,400
<u>\$ 74,410</u>	<u>\$ 0</u>	<u>\$ 9,129,410</u>
<u>\$ 2,351,802</u>	<u>\$ 40,194</u>	<u>\$ 42,054,167</u>

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2013 (With Comparative Data for August 31, 2012)

	2013	2012
Direct Expenses:		
Salaries and Other Personnel Costs	\$ 25,661,476	\$ 22,711,300
Professional Fees and Services	6,470,804	5,532,047
Consumable Supplies	17,350	85,156
Travel	584,856	545,399
Building Lease	1,457,004	1,327,136
Copier Rentals	76,584	64,854
Dues, Fees and Staff Development	43,301	42,706
Subscriptions and Reference Materials	55,617	37,911
Reproduction and Printing Services	9,477	14,894
Software Upgrades	102,306	284,802
Telecommunication and Data Services	288,961	289,465
Furniture and Equipment - Expensed	70,627	25,132
Depreciation - Leasehold Improvements	516,031	516,031
Total Direct Expenses	\$ 35,354,394	\$ 31,476,833
Indirect Expenses:		
Depreciation	\$ 233,423	\$ 233,094
Executive Management Support	1,189,728	1,354,287
Legal Support	1,515,752	1,511,664
Audit Support	735,448	755,954
Human Resources Support	599,971	583,346
Fiscal Management Support	1,708,430	1,535,148
Information Technology Support	3,231,733	3,026,744
Staff Services Support	1,018,398	1,387,373
Other Support Services	377,279	388,434
Total Indirect Expenses	\$ 10,610,162	\$ 10,776,044
Total Internal Administrative Investing Activity Expenses*	\$ 45,964,556	\$ 42,252,877
External Manager Fees **	\$ 142,960,716	\$ 111,030,583
Total Investing Activity Expenses (Exh. II) ***	\$ 188,925,272	\$ 153,283,460

* Not netted against or included in performance calculations.

** Performance calculations net of External Manager Fees.

*** The investing activity expenses do not include the following expenditures:

During fiscal year 2013, the system paid commissions to various brokers totaling \$70,070,336. A portion of the total commissions was paid to soft dollar brokers generating \$2,770,392 of soft dollar credits. Soft dollar credits were spent during fiscal year 2013 in accordance with Section 28(e) of the Securities Exchange Act of 1934 totaling \$3,855,158. During fiscal year 2013, the system discontinued the use of the soft dollar program. Unspent soft dollar credits (totaling \$359,189) were transferred to the system's Commission Sharing Agreement (CSA) agent, State Street Bank and Trust Company, to be used for future expenses. Another portion of the total commissions was paid through various Commission Sharing Arrangements generating \$16,141,991 in CSA proceeds. These proceeds were used to acquire research services from various investment related firms totaling \$16,032,287. Unspent CSA proceeds (totaling \$2,215,498) are held by either State Street Bank and Trust Company as the system's CSA agent or by the CSA broker as a reserve for future expenses.

Through its contractual agreements with various firms, the system benefited from \$5,961,198 in vendor paid expenses and contractual allowances. Vendor paid expenses are legal arrangements that are used to acquire investment related items other than those paid for with Soft Dollar credits and CSA proceeds.

In addition to the commission expenses mentioned above, \$636,468,706 was paid to various Alternative and Pooled Investment General Partners for a total of \$706,539,042 in fees and commissions which are not included in Investing Activities Expense on Exhibit II. These amounts are reported in the Schedule of Fees and Commissions and are netted against investment performance on Exhibit II in the Net Appreciation in Fair Value of Investments amount. Custodial management fees were netted against income from securities lending activities.

Schedule of Professional and Consulting Fees

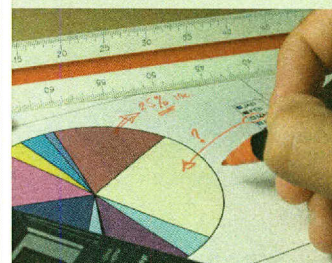
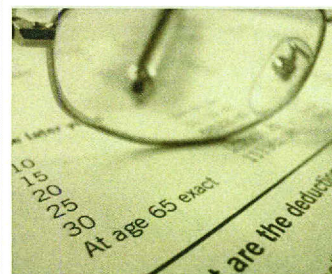
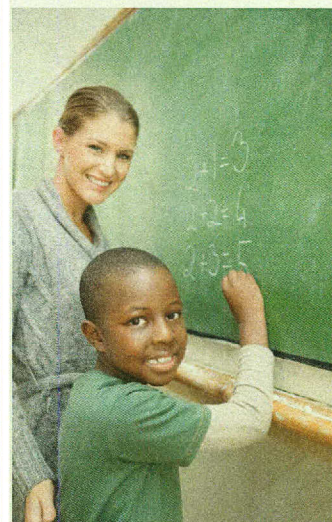
For the Fiscal Year Ended August 31, 2013


SCHEDULE 4

Individual or Firm	Nature of Service	Amount
Provaliant Holdings, LLC	Consulting Services	\$ 2,141,650
Jackson Walker, LLP	Legal Services	1,900,000
Hewitt Ennis Knupp, Inc.	Investment Consulting Services	1,325,000
Fulbright & Jaworski, LLP	Legal Services	1,249,226
Gabriel, Roeder, Smith, & Company	Actuarial Services	1,102,337
Seyfarth Shaw, LLP	Legal Services	500,000
Hamilton Lane Advisors, LLC	Investment Consulting Services	300,000
Purrington Moody Weil, LLP	Legal Services	300,000
TIBH Industries, Inc. - Temps	Temporary Employment Services	282,898
Reinhart Boerner Van Deuren, SC	Legal Services	208,000
Bridgepoint Consulting, LLC	Consulting Services	200,000
Gardere Wynne Sewell, LLP	Legal Services	194,452
Lenox Park, LLC	Audit Services	157,511
Katten Muchin Rosenman, LLP	Legal Services	150,000
Sagebrush Solutions, Inc.	Other Professional Services	137,750
State Auditor's Office	Audit Services	120,640
Myers and Stauffer, LC	Consulting Services	107,626
Protiviti, Inc.	Financial and Accounting Services	99,480
Clifton Larson Allen, LLP	Legal Services	94,025
Sourcepulse, LLC	Temporary Employment Services	85,149
Keith C. Brown	Investment Consulting Services	80,000
Customer Relationship Metrics, LC	Other Professional Services	55,372
VR Election Services DbA Voice Retrieval	Board Election Services	50,741
Ice Miller	Legal Services	47,456
Perryman Consultants, Inc.	Consulting Services	41,815
CEM Benchmarking, Inc.	Other Professional Services	40,000
Alice D. Cox, MD	Medical Services	36,630
James Allen Reinarz, MD	Medical Services	36,630
Larry Wilson, MD	Medical Services	36,630
Deloitte & Touche, LLP	Financial and Accounting Services	36,133
Daman Consulting	Consulting Services	34,500
Healthcare Administration	Other Professional Services	34,430
INX, LLC, A Presidio Company	Consulting Services	26,618
Bickerstaff Heath Delgado Acosta, LLP	Legal Services	23,205
Carahsoft Technology Corp.	Other Professional Services	20,000
Austin Ribbon and Computer Supplies, Inc.	Other Professional Services	17,164
Workers Assistance Program, Inc.	Other Professional Services	16,408
Lyris Technologies	Other Professional Services	15,500
Aggregate Payees less than \$10,000	Other Professional Services	51,578
TOTAL PROFESSIONAL AND CONSULTING FEES		<u>\$11,356,554</u>
METHOD OF FINANCE:		
Fiduciary Funds:		
Pension Trust Fund		\$ 9,892,536
TRS-Care		729,790
Total Fiduciary Funds		<u>10,622,326</u>
Proprietary Fund:		
TRS-ActiveCare		734,228
Total Proprietary Fund		<u>734,228</u>
TOTAL METHOD OF FINANCE		<u>\$11,356,554</u>

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INVESTMENT SECTION




$$E=mc^2$$

$$7+2=9$$

$$s=vt$$

$$1+1=$$

$$\begin{aligned} 3 \times 1 &= 3 \\ 3 \times 2 &= 6 \\ 3 \times 3 &= 9 \\ 3 \times 4 &= 12 \\ 3 \times 5 &= 15 \end{aligned}$$

$$a+b=c$$

$$E=mc^2$$

$$x+y=z$$

$$\begin{aligned} a^2+b^2 &= c^2 \\ \frac{1}{a} + \frac{2}{a} &= 2 \end{aligned}$$

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Investment Overview

PORTFOLIO STRUCTURE

TRS follows a diversified investment approach that focuses on the three most common economic scenarios. Scenario One is characterized by favorable Gross Domestic Product (GDP) growth and moderate inflation as measured by the Consumer Price Index (CPI), which has been the prevailing economic condition 66% of the time since 1948. Scenario Two is one of low GDP growth and high inflation, which has occurred 21% of the time. Finally, Scenario Three is characterized by stagnant GDP growth and low inflation, which has occurred 13% of the time. TRS is positioned to take advantage of any of these various market scenarios by allocating 62% to Global Equity markets, which perform well under Scenario One, 20% to Real Return, which should perform well in Scenario Two, and 18% to a Stable Value portfolio, which should perform well and minimize downside risk in Scenario Three.

INVESTMENT PORTFOLIO PERFORMANCE

For the year ending August 31, 2013, the TRS Pension Fund (Trust) delivered investment returns of 9.0%, which led the fund's benchmark by 1.7%. The strongest returns came from the fund's Global Equity portfolio, which returned 15.3% for the year. On a three-year annualized basis, the fund has returned 10.6%, which is 0.5% above its benchmark. As a result, the total investment value of the fund as of August 31 was \$117.1 billion, a gain of \$6 billion from this time last year, net of contributions and benefit payouts. Annual rates of return for the five- and 10-year periods ending August 31, 2013 were 5.4% and 7.2% respectively.

Additional performance information is included on the Total Time-Weighted Returns and Asset Allocation charts on the following pages. The Total Time-Weighted Returns shown are for the 12-month period ended June 30, 2013 and include comparisons with established benchmarks for the same period.

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust Company, the fund's custodian bank, independently and using industry best practices.

STRATEGIC INITIATIVES

In June 2013, the Investment Management Division (IMD) presented a plan to the TRS Board of Trustees for a new investment function within the IMD, which will focus on Energy and Natural Resource investments. The technical nature of the investments in these areas requires specialized knowledge and expertise, and by establishing a dedicated unit within the division, TRS will be better equipped to take advantage of a wide array of attractive investment opportunities. Energy and Natural Resources will provide a differentiated source of investment returns and increase the overall diversification of the fund, particularly in inflationary environments when these types of investments tend to outperform.

2013 also marked the fifth anniversary of the TRS Public Strategic Partnership Program (SPN). At its outset, four managers (JP Morgan, Neuberger Berman, Morgan Stanley, and BlackRock) were funded with \$1 billion each to invest globally across the same public asset classes as the trust. In July 2011, Barclays was added to the SPN as a fifth partner with an initial allocation of \$500 million. As of August 31, 2013, the total SPN is valued at \$6.1 billion. In addition, each year, the SPN collaborates to produce 10 research projects used to benefit the trust and provides valuable insights into asset allocation. TRS has also replicated the SPN concept in the private markets, establishing long term partnerships with Apollo and KKR to manage assets in the private equity, real assets, and credit markets. These partnerships remain in their early stages, but are already proving beneficial to the trust.

The IMD has a dedicated risk management function. The Risk Group monitors the risk of the fund versus its risk objectives, performs an independent risk certification for every new manager commitment, and monitors the performance of each manager and portfolio monthly with a risk signals review. During the last 12 months the Risk Group continued to refine its suite of tools and reports, including enhancements to its models for tracking and predicting risk in private markets assets. In addition, the Risk Group performed a detailed study on the fund's currency exposures and developed a comprehensive risk budgeting framework that allows IMD management to better monitor the impact of moves in fund positioning.

The past year saw continued growth in the successful Principal Investments Program, which seeks to take advantage of TRS' opportunities as a large, long-term investor by accessing high-transparency, low-fee investment arrangements with select investment partners. Since the beginning of the program in 2009, the fund has committed over \$5 billion in 14 private equity principal investments and 26 real assets principal investments, and will continue to seek out attractive opportunities over the coming year.

The industry-leading Emerging Managers Program continued its allocation of capital to several promising investment organizations in 2013, including elevated allocations to several particularly successful existing relationships. This dedicated team also held a successful Emerging Managers Conference in Austin and continues to receive industry recognition, including the Innovative Leadership Award from the Toigo Foundation.

Looking ahead, the investment outlook has changed little in the past 12 months. Though interest rates have risen in recent months, they remain low by historical standards. Due to these low rates, as well as concerns over the stance of global monetary policy and the resilience of global growth, return expectations remain muted for the next few years.

*Prepared by:
Investment staff of the system*

Total Time-Weighted Returns

PENSION TRUST FUND
For Periods Ended June 30

Total Portfolio ¹	2008	2009	2010	2011	2012	2013	3 Years	5 Years	10 Years
TRS	-2.1%	-21.9%	15.6%	22.2%	2.7%	10.2%	11.4%	4.6%	7.2%
Custom Benchmark ²	-2.0%	-19.5%	12.8%	21.2%	4.1%	8.7%	11.1%	4.5%	7.0%
TRS Public Equity ³	-10.3%	-26.8%	14.4%	30.3%	-8.1%	15.7%	11.5%	2.8%	6.9%
Public Equity Composite Benchmark ⁴	-10.9%	-27.3%	14.3%	31.2%	-7.7%	14.8%	11.6%	2.9%	6.8%
TRS Private Equity	14.8%	-28.8%	24.6%	24.6%	7.1%	16.7%	15.9%	6.7%	18.2%
Private Equity Composite Benchmark ⁵	-12.4%	-22.8%	34.9%	21.9%	7.3%	8.9%	12.5%	8.2%	9.2%
Total TRS Global Equity	-8.8%	-27.7%	16.1%	29.5%	-5.5%	15.8%	12.3%	3.5%	7.6%
Global Equity Composite Benchmark ⁶	-10.9%	-27.0%	17.0%	30.3%	-5.2%	13.7%	12.0%	3.7%	7.2%
TRS Fixed Income	4.4%	-0.7%	21.9%	4.6%	25.2%	-4.8%	7.6%	8.6%	6.1%
Fixed Income Composite Benchmark ⁷	9.2%	6.6%	11.7%	-1.1%	32.3%	-8.4%	6.2%	7.4%	5.8%
TRS Stable Value Hedge Funds	-1.2%	-10.5%	7.7%	5.9%	-2.6%	5.5%	2.9%	0.8%	4.1%
Stable Value Hedge Fund Composite Benchmark ⁸	5.9%	3.9%	2.4%	2.3%	1.3%	6.9%	3.5%	3.3%	4.8%
Total TRS Stable Value	4.5%	-3.6%	19.1%	5.0%	18.9%	-2.7%	6.7%	6.9%	5.4%
Stable Value Composite Benchmark ⁹	8.4%	6.0%	9.3%	-0.3%	23.9%	-4.6%	5.6%	6.4%	5.4%
TRS Real Assets	7.0%	-33.0%	-8.9%	19.4%	11.5%	10.6%	13.8%	-2.1%	n/a
Real Assets Composite Benchmark ¹⁰	9.7%	-24.6%	-15.7%	19.0%	13.6%	9.7%	14.0%	-1.2%	n/a
Total TRS Real Return	24.5%	-25.7%	7.7%	17.4%	10.2%	4.6%	10.6%	1.6%	5.5%
Real Return Composite Benchmark ¹¹	18.6%	-22.3%	2.6%	16.8%	11.6%	5.7%	11.3%	1.9%	n/a

¹ Time-weighted rates of 1 return adjusted for cash flows. Returns are calculated net of all fees.

² 42% S&P 500/ 7.5% S&P 400/ 3% S&P 600/ 13% MS ACWI Free Ex-US/ 28.5% SB Large Pension Fund/ 1% SB High Yield Market Index/ 3% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.5% Absolute Return Composite (6 Month T-Bill + 300 bps through 3/03, then 70% 3-month LIBOR/ 30% S&P 500)/ 0.5% 91-day T-Bill through 6/04, 42% S&P 500/ 7.5% S&P 400/ 3% S&P 600/ 13% MS ACWI Free Ex-US/ 28.5% LB Aggregate/ 1% SB High Yield Market Index/ 3% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.5% Absolute Return Composite (70% 3-month LIBOR/ 30% S&P 500)/ 0.5% 91-day T-Bill through 01/05, 50% Total Domestic Equity Composite/ 13.4% MS ACWI Ex-US/ 28.35% LB Aggregate/ 2.06% Citigroup High Yield Index/ 4.12% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.55% Absolute Return Composite (70% 3-month LIBOR/ 30% S&P 500)/ 0.52% 91-day T-Bill through 9/07, 15% Russell 1000 Growth/ 15% Russell 1000 Value/ 5% Russell 2000/ 15% MSCI EAFE + Canada/ 5% MSCI EM/ 5% Russell 3000 + 5%/ 10% Lehman Long Treasuries/ 4% 3 month LIBOR + 2%/ 5% Lehman Intermediate Gov-Credit/ 1% Citigroup 90 day US Treasury/ 10% Lehman Global Inflation Linked Bonds/ 4% Real Estate Composite/ 1% US Core CPI + 5%/ 3% Goldman Sachs Commodity Index/ 2% NAREIT through 9/08, 10% Russell 1000 Growth/ 10% Russell 1000 Value/ 5% Russell 2000/ 8% MSCI EAFE + Canada/ 5% MSCI EM/ 15% MSCI World/ 7% Russell 3000 + 5%/ 12% BC Long Treasuries/ 4% 3 month LIBOR + 2%/ 3% BC Intermediate Gov-Credit/ 1% Citigroup 90 day US Treasury/ 5% BC Global Inflation Linked Bonds/ 5% BC US TIPS/ 5% Real Estate Composite/ 1% US Core CPI + 5%/ 2% Goldman Sachs Commodity Index/ 2% NAREIT through 9/09, 5% MSCI USA Small Cap/ 8% MSCI USA Large Cap/ 33% MSCI World Net/ 6% MSCI EM Net, 4% 3 month LIBOR+2%/ 15% BC Long Treasuries/ 2% Goldman Sachs Commodity/ 8% BC US TIPS/ 8% SSPEI 1 QTR lagged/ 8% NCREIF ODCE Net lagged/ 2% MSCI US REIT/ 1% 90 day US Treasury through 9/10, 5% MSCI Small Cap / 20% MSCI USA/ 15% MSCI EAFE + Canada/ 10% MSCI EM/ 15% BC Long Treasuries/ 4% 3 month LIBOR + 2%/ 1% Citigroup 90 day US Treasury/ 8% BC US TIPS/ 2% MSCI US REIT/ 10% SSPEI 1 QTR lagged/ 2% Goldman Sachs Commodity Index/ 8% NCREIF Open Ended fund lagged through 9/11, 2% MSCI Small Cap / 18% MSCI USA/ 15% MSCI EAFE + Canada/ 10% MSCI EM/ 13% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 5% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 5% BC US TIPS/ 2% MSCI US REIT/ 12% SSPEI 1 QTR lagged/ 13% NCREIF Open Ended fund lagged through 9/12, currently 2% MSCI Small Cap/ 18% MSCI USA/ 15% MSCI EAFE + Canada/ 10% MSCI EM/ 13% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 5% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 5% BC US TIPS/ 12% SSPEI 1 QTR lagged/ 15% NCREIF Open Ended fund lagged.

³ Includes Directional Hedge Funds as of September, 2011.

⁴ 64% S&P 500/ 11% S&P 400/ 5% S&P 600/ 20% MSCI ACWI free-ex-US through 6/04, 61% S&P 500/ 12% S&P 400/ 6% S&P 600/ 21% MSCI ACWI free ex-US through 6/05, 60.16% S&P 500/ 22.22% S&P 400/ 6.5% S&P 600/ 21.14% MSCI ACWI free ex-US through 3/06, 59.82% S&P 500/ 11.97% S&P 400/ 5.99% S&P 600/ 22.22% MSCI ACWI free ex-US through 9/07, 27.27% Russell 1000 Growth/ 27.27% Russell 1000 Value/ 9.09% Russell 2000/ 27.27% MSCI EAFE + Canada/ 9.09% MSCI EM through 9/08, 18.9% Russell 1000 Growth/ 18.9% Russell 1000 Value/ 9.4% Russell 2000/ 15.1% MSCI EAFE + Canada/ 9.4% MSCI EM/ 28.3% MSCI World through 9/09, 11.5% MSCI EM/ 63.5% MSCI All-Country World Net/ 9.6% MSCI USA Small Cap/ 15.4% MSCI USA Large Cap through 9/10, 20% MSCI EM/ 30% MSCI EAFE + Canada/ 40% MSCI USA Gross/ 10% MSCI USA Small Cap through 9/11, currently 20% MSCI EM/ 30% MSCI EAFE + Canada/ 36% MSCI USA Gross/ 4% MSCI USA Small Cap/ 10% HFRI Fund of Funds Composite.

⁵ 3 years at 0, then Russell 2000 + 500 bps through 9/07, Russell 3000 + 5% through 9/09, currently SSPEI 1 QTR lagged.

Total Time-Weighted Returns

PENSION TRUST FUND For Periods Ended June 30

⁶ 61.1% S&P 500/ 10.95% S&P 400/ 4.38% S&P 600/ 18.98% MSCI ACWI free-ex-US/ 4.38% Private Equity Composite (3 years 0, then Russell 2000 + 5%) through 6/04, 57% S&P 500/ 11% S&P 400/ 6% S&P 600/ 20% MSCI ACWI free ex-US/ 6% Russell 2000 + 5% through 6/05, 56.49% S&P 500/ 11.45% S&P 400/ 6.11% S&P 600/ 19.85% MSCI ACWI free ex-US/ 6.11% Russell 2000 + 5% through 3/06, 56.00% S&P 500/ 11.21% S&P 400/ 5.6% S&P 600/ 20.8% MSCI ACWI free ex-US/ 6.39% Russell 2000 + 5% through 9/07, 25% Russell 1000 Growth/ 25% Russell 1000 Value/ 8.33% Russell 2000/ 25% MSCI EAFE + Canada/ 8.33% MSCI EM/ 8.33% Russell 3000 + 5% through 9/08, 16.67% Russell 1000 Growth/ 16.67% Russell 1000 Value/ 8.33% Russell 2000/ 13.33% MSCI EAFE + Canada/ 8.33% MSCI EM/ 25% MSCI World/ 11.67% Russell 3000 + 5% through 9/09, 10% MSCI EM Net/ 55% AC World Net/ 13.3% SSPEI 1 QTR lagged/ 8.3% MSCI USA Small Cap/ 13.3% MSCI USA Large Cap through 9/10, 16.7% MSCI EM/ 25% MSCI EAFE + Canada/ 8.3% MSCI USA Small Cap/ 33% MSCI USA Gross/ 16.7% SSPEI 1 QTR lagged through 9/11, currently 16.1% MSCI EM/ 24.2% MSCI EAFE + Canada/ 3.2% MSCI USA Small Cap/ 29% MSCI USA Gross/ 8.1% HFRI Fund of Funds Composite/ 19.4% SSPEI 1 QTR lagged.

⁷ 96.61% SB Large Pension Fund/ 3.39% SB High Yield Market Index through 12/03, 96.61% LB Aggregate/ 3.39% SB High Yield Market Index through 06/04, 93.22% LB Aggregate/ 6.78% Citigroup High Yield Index through 03/05, 93.22% LB Aggregate/ 6.78% Lehman US Corp High Yield Index through 03/06, LB Universal through 9/07, 66.67% Lehman Long Treasury/ 33.33% Lehman Intermediate Gov-Credit through 9/08, 80% BC Long Treasury/ 20% BC Intermediate Gov-Credit through 9/09, currently 100% BC Long Treasury.

⁸ 70% 3 month LIBOR/ 30% S&P 500 through 9/07, 3 Month LIBOR + 2% through 9/11, currently 100% HFRI FOF: Conservative Index.

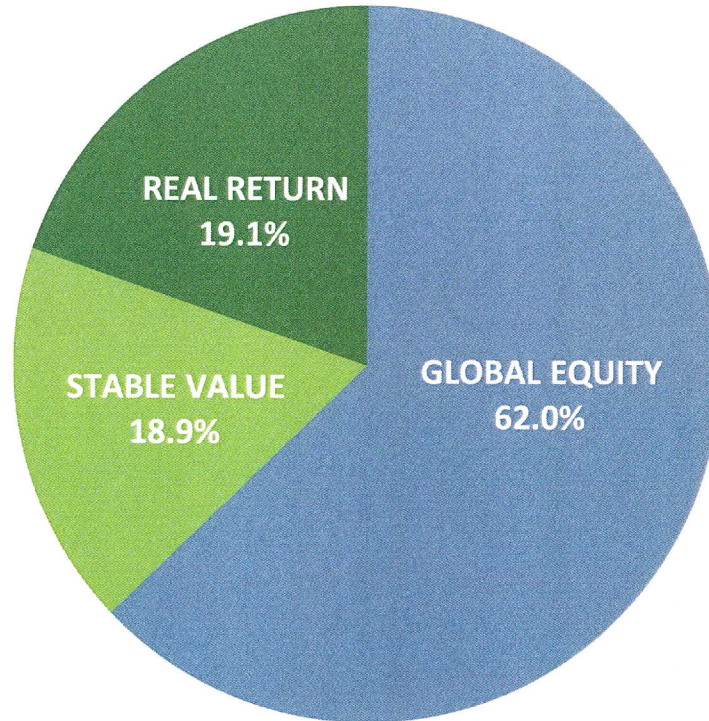
⁹ 90.48% SB Large Pension Fund/ 3.17% SB High Yield Index/ 4.76% Hedge Fund Composite/ 1.59% 91 day T-Bill through 12/03, 90.48% LB Aggregate/ 3.17% SB High Yield Index/ 4.76% Hedge Fund Composite/ 1.59% 91 day T-Bill through 06/04, 87.3% LB Aggregate/ 6.35% Citigroup High Yield Index/ 4.76% Hedge Fund Composite/ 1.59% 91 day T-Bill through 03/05, 87.3% LB Aggregate/ 6.35% Lehman High Yield/ 4.76% Hedge Fund Composite/ 1.59% 91 day T-Bill through 03/06, 93.63% LB Aggregate/ 4.77% Hedge Fund Composite/ 1.6% 91 day T-Bill through 9/07, 50% Lehman Long Treasury/ 25% Lehman Intermediate Gov-Credit/ 20% Hedge Fund Composite/ 5% 91 day T-Bill through 9/08, 60% BC Long Treasury/ 15% BC Intermediate Gov-Credit/ 20% Hedge Fund Composite/ 5% 91 day T-Bill through 9/09, 75% BC Long Treasury/ 20% Hedge Fund Composite/ 5% 91 day T-Bill through 9/11, currently 72.2% BC Long Treasury/ 22.2% HFRI FOF: Conservative Index/ 5.6% Citigroup 91 day T-Bill.

¹⁰ Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps through 9/07, 80% Real Estate Composite Index/ 20% US Core CPI + 5% through 9/08, 83% Real Estate Composite Index/ 17% US Core CPI + 5% through 9/09, currently NCREIF Open Ended Net 1 QTR lagged.

¹¹ Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps through 9/07, 50% LB Global Inflation Linked Bond Index/ 20% Real Estate Composite Index/ 5% US Core CPI + 5%/ 15% Goldman Sachs Commodity Index/ 10% NAREIT Index through 9/08, 25% BC Global Inflation Linked Bond Index/ 25% BC US TIPS Index/ 25% Real Estate Composite Index/ 5% US Core CPI + 5%/ 10% Goldman Sachs Commodity Index/ 10% NAREIT Index through 9/09, 40% BC Global Inflation Linked Bond Index/ 40% NCREIF Open Ended Net 1 QTR lagged/ 10% Goldman Sachs Commodity Index/ 10% MSCI US REIT through 9/11, 25% BC US TIPS/ 65% NCREIF Open Ended Net 1 QTR lagged/ 10% MSCI US REIT through 9/12, currently 25% BC US TIPS/ 75% NCREIF Open Ended Net 1 QTR lagged.

Asset Allocation

PENSION TRUST FUND
August 31



	POLICY RANGES			
	Low	High	Neutral	Actual
Public Equity ¹	45.0%	55.0%	50.0%	49.7%
Private Equity	7.0%	17.0%	12.0%	12.3%
TOTAL GLOBAL EQUITY	55.0%	69.0%	62.0%	62.0%
Fixed Income ²	0.0%	20.0%	13.0%	14.3%
Short-Term	0.0%	5.0%	1.0%	1.0%
Stable Value Hedge Funds	0.0%	10.0%	4.0%	3.6%
TOTAL STABLE VALUE	13.0%	23.0%	18.0%	18.9%
Inflation Linked Bonds	0.0%	10.0%	5.0%	5.1%
Real Assets ³	5.0%	20.0%	15.0%	13.6%
Commodities	0.0%	5.0%	0.0%	0.4%
TOTAL REAL RETURN	15.0%	25.0%	20.0%	19.1%
TOTAL				100.0%

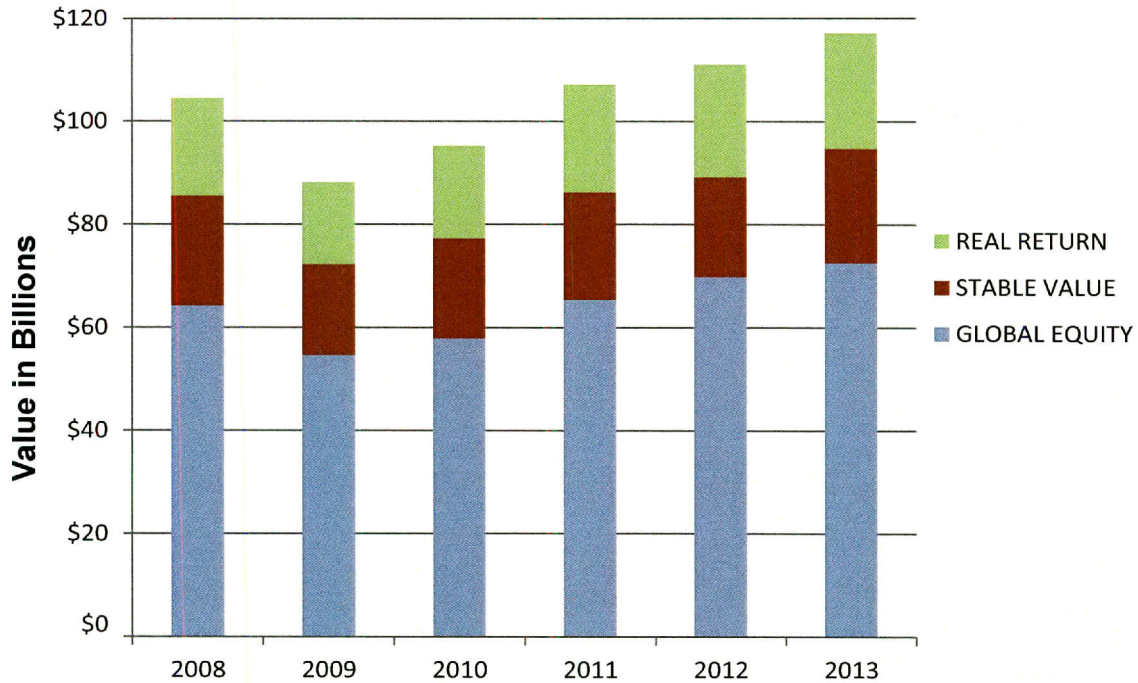
¹ Global Equity allocation includes Directional Hedge Funds with an 8/31/13 Market Value of \$5.918 billion.

² Does not include Inflation Linked Bonds in Real Return Portfolio.

³ Real Assets include REITS.

Investment Summary

PENSION TRUST FUND
August 31



MARKET VALUES (in billions)¹

	2008	2009	2010	2011	2012	2013
Public Equity ²	\$ 58.125	\$ 48.718	\$ 49.363	\$ 54.312	\$ 56.724	\$ 58.230
Private Equity	6.064	5.867	8.501	11.099	13.101	14.365
TOTAL GLOBAL EQUITY	\$ 64.189	\$ 54.585	\$ 57.864	\$ 64.411	\$ 69.825	\$ 72.595
Fixed Income ³	\$ 16.161	\$ 13.333	\$ 14.833	\$ 15.121	\$ 14.475	\$ 16.777
Short-Term	1.167	0.800	0.700	1.376	0.957	1.129
Stable Value Hedge Funds	3.997	3.582	3.947	4.324	3.936	4.207
TOTAL STABLE VALUE	\$ 21.325	\$ 17.715	\$ 19.480	\$ 20.821	\$ 19.368	\$ 22.113
Inflation Linked Bonds	\$ 10.288	\$ 8.509	\$ 8.167	\$ 5.635	\$ 5.499	\$ 5.924
Real Assets	3.657	3.742	5.704	10.343	13.031	15.920
Commodities	3.211	1.697	2.068	3.323	1.155	0.498
REITS ⁴	1.804	1.936	1.960	1.537	2.188	n/a
TOTAL REAL RETURN	\$ 18.960	\$ 15.884	\$ 17.899	\$ 20.838	\$ 21.873	\$ 22.342
TOTAL	\$ 104.474	\$ 88.184	\$ 95.243	\$ 107.070	\$ 111.066	\$ 117.050

¹ Investment values are based on industry standard investment performance methodology. Investment values in Exhibit I are in compliance with GASB reporting standards. A reconciliation is provided below:

Total Market Value at 8/31/12	\$ 117.050
Less Investment Related Cash	(0.278)
Less Investment Related Receivables	(1.512)
Plus Investment Related Payables	1.355
Plus Securities Sold Short	0.088
Plus Short-Term Asset Pool Adjustment From Amortized Cost to Fair Value	0.002
Total Investments Exhibit I	\$ 116.705

² Global Equity allocation includes Directional Hedge Funds with an 8/31/13 Market Value of \$5.918 billion.

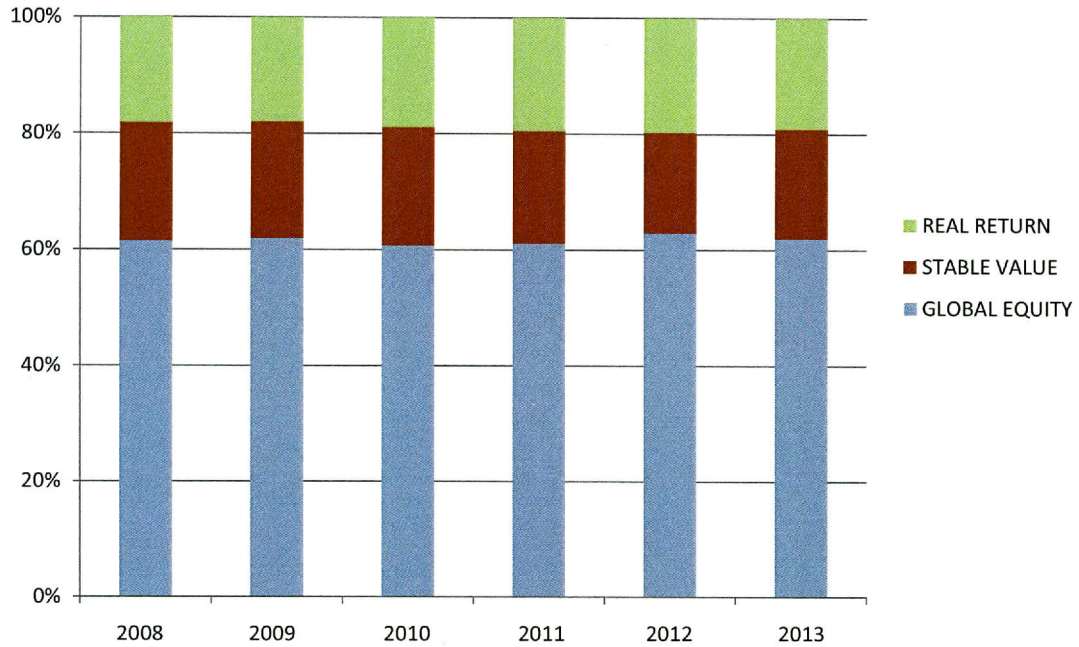
³ Does not include Inflation Linked Bonds in Real Return Portfolio.

⁴ Dedicated portfolio in addition to Global Equity holdings.

Investment Summary

PENSION TRUST FUND

August 31, 2013



PERCENTAGE OF MARKET VALUES

	2008	2009	2010	2011	2012	2013
Public Equity ¹	55.6%	55.2%	51.8%	50.7%	51.1%	49.7%
Private Equity	5.8%	6.7%	8.9%	10.4%	11.8%	12.3%
TOTAL GLOBAL EQUITY	61.4%	61.9%	60.7%	61.1%	62.9%	62.0%
Fixed Income ²	15.5%	15.1%	15.6%	14.1%	13.0%	14.3%
Short-Term	1.1%	0.9%	0.7%	1.3%	0.9%	1.0%
Stable Value Hedge Funds	3.8%	4.1%	4.1%	4.0%	3.5%	3.6%
TOTAL STABLE VALUE	20.4%	20.1%	20.4%	19.4%	17.4%	18.9%
Inflation Linked Bonds	9.9%	9.7%	8.6%	5.3%	5.0%	5.1%
Real Assets	3.5%	4.2%	6.0%	9.7%	11.7%	13.6%
Commodities	3.1%	1.9%	2.2%	3.1%	1.0%	0.4%
REITS ³	1.7%	2.2%	2.1%	1.4%	2.0%	n/a
TOTAL REAL RETURN	18.2%	18.0%	18.9%	19.5%	19.7%	19.1%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Global Equity allocation includes Directional Hedge Funds with an 8/31/13 Market Value of \$5.918 billion.

² Does not include Inflation Linked Bonds in Real Return Portfolio.

³ Dedicated portfolio in addition to Global Equity holdings.

Largest Holdings

PENSION TRUST FUND

August 31, 2013

Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Apple Incorporated	\$ 471,218,440	967,495
Google Incorporated	342,191,639	404,052
Microsoft Corporation	328,608,372	9,838,574
Exxon Mobil Corporation	303,378,596	3,480,709
Johnson & Johnson	288,425,001	3,337,866
Philip Morris International	240,806,922	2,885,989
Chevron Corporation	238,812,810	1,983,001
Procter & Gamble Company	229,742,085	2,949,571
Wells Fargo & Company	219,350,645	5,339,597
Qualcomm Incorporated	215,108,095	3,245,445
	<u>\$ 2,877,642,605</u>	<u>34,432,299</u>

Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Samsung Electronics Company LTD	\$ 383,682,068	311,335
Toyota Motor Corporation	226,161,890	3,735,669
Novartis AG	219,354,233	3,014,383
Royal Dutch Shell A Shares	215,526,470	6,674,348
Nestle SA	213,183,929	3,255,900
China Construction Bank	208,696,735	284,915,134
Roche Holding AG	190,088,506	763,630
Schlumberger Limited	172,635,469	2,132,882
CNOOC Limited	159,439,006	80,282,716
Sanofi	159,285,013	1,661,832
	<u>\$ 2,148,053,319</u>	<u>386,747,829</u>

Largest Holdings

PENSION TRUST FUND

August 31, 2013

Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury 2.750% due 15 Aug 2042	\$ 826,260,974	\$ 994,800,000
U.S. Treasury 3.750% due 15 Aug 2041	817,067,380	802,305,000
U.S. Treasury 3.125% due 15 Feb 2043	798,240,824	888,870,000
U.S. Treasury 3.125% due 15 Nov 2041	781,229,406	864,517,000
U.S. Treasury 3.625% due 15 Aug 2043	618,820,658	624,800,000
U.S. Treasury 3.125% due 15 Feb 2042	603,545,663	668,845,000
U.S. Treasury 4.375% due 15 Nov 2039	589,812,527	520,700,000
U.S. Treasury 4.375% due 15 May 2040	571,052,425	504,245,000
U.S. Treasury 3.500% due 15 Feb 2039	497,301,990	506,660,000
U.S. Treasury 5.375% due 15 Feb 2031	487,538,058	384,940,000
	<u>\$ 6,590,869,905</u>	<u>\$ 6,760,682,000</u>

Note: A complete listing of portfolio holdings is available by contacting the TRS Communications Department.

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
ACI Multi-Strategy Market Neutral Fund LTD	\$ 768,976
Admiral Capital Real Estate Fund	987,983
Advent International GPE VI-A, L.P.	2,542,827
Advent International GPE V11-C, L.P.	2,019,166
AEW Core Property Trust (U.S.), Inc.	1,388,971
AEW Senior Housing Investors, L.P.	5,336,166
AEW Senior Houstings Investors II, L.P.	35,533
AGRE Asia Real Estate Investment	3,874
AGRE U.S. Real Estate Fund, L.P.	1,382,138
AION Capital Partners	793,705
Aleutian Fund LTD	1,128,648
Almanac Realty Securities VI (Sidecar I), L.P.	88,727
Almanac Realty Securities V, L.P.	4,028,270
Almanac Realty Securities V (Co-Investment), L.P.	523,791
Almanac Realty Securities VI, L.P.	646,654
Alterna Core Capital Assets Fund, L.P.	2,152,986
Alterna Core Capital Assets Fund II, L.P.	1,060,274
Amici Fund International LTD	5,524,726
AP Selene Co-Invest, L.P.	13,909
Apax Europe VII-A, L.P.	5,220,671
Apax VIII-B, L.P.	1,647,909
Apollo Credit Opportunity Fund II, L.P.	1,850,349
Apollo European Principal Finance Fund II (Dollar A), L.P.	2,500,000
Apollo Investment Fund VI, L.P.	89,868
Apollo Investment Fund VII, L.P.	4,933,389
Apollo Natural Resources Partners	2,938,968
Apollo SPN Inv (Lightening Credit)**	374,966
AQR Delta Offshore Fund, LP	4,340,198
AQR Global Risk Premium 10 Offshore Fund LTD	962,368
AQR Jones Creek Small Cap Value	1,100,919
AQR Offshore Multi-Strategy Fund VI LTD	2,649,513
ARA Asian Dragon II Limited	2,496,557
ARA Asian Dragon Limited	1,503,189
Austin Ventures VIII, L.P.	115,211
Bain Capital Fund VIII, L.P.	1,165,325
Bain Capital VII Coinvestment Fund, L.P.	72,157
Bain Capital VIII Coinvestment Fund, L.P.	1,043,905
Bay Resource Partners Offshore	6,483,674

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
Black Diamond Relative Value LTD	\$ 3,161,340
Blackrock Diamond Property Fund, Inc.	789,085
Blackrock Retail Opportunity Fund, LLC	352,530
Blackrock RMBS	829,737
Blackstone Capital Partners V, L.P.	1,164,295
Blackstone Capital Partners VI, L.P.	2,902,937
Blackstone GGP Principal Transaction Partners L.P.	489,271
Blackstone/GSO Capital Solutions Fund, L.P.	4,612,502
Blackstone Real Estate Partners Europe III, L.P.	9,504,674
Blackstone Real Estate Partners V, L.P.	7,321,099
Blackstone Real Estate Partners VI, L.P.	17,634,252
Blackstone Real Estate Partners VI Secondary, L.P.	653,370
Blackstone Real Estate Partners VII, L.P.	12,108,376
Blue Mountain Long/Short Credit Fd.	5,589,907
Bluebonnet lam Limited	7,493
BlueTrend Fund LTD	3,522,154
Brevan Howard Fund	6,657,616
Bridgewater All Weather	992,328
Bridgewater Pure Alpha	3,017,725
Bridgewater Pure Alpha - Major Mkts	1,662,408
Brockton Capital Fund II, L.P.	3,415,942
Brookfield Americas Infrastructure Fund, L.P.	3,784,501
Brookfield Strategic Real Estate Partners B, L.P.	1,853,740
Camden Multifamily Co-Investment Fund, L.P.	1,409,692
Camden Multifamily Value Add Fund, L.P.	1,749,264
Canyon-Johnson Urban Fund III, L.P.	1,246,288
Capri Urban Investors, LLC	980,286
Cargill Global Agriculture Absolute Return Fund LTD	1,905,328
Carlyle Europe Partners III, L.P.	863,801
Carlyle Europe Real Estate Partners III, L.P.	2,226,496
Carlyle Partners III, L.P.	113,663
Carlyle Partners IV, L.P.	580,132
Carlyle Partners V, L.P.	5,742,498
Carlyle Realty Partners V, L.P.	1,068,570
CB Richard Ellis Strategic Partners U.S. Value V, L.P.	1,082,753
CB Richard Ellis Strategic Partners U.S. Opportunity V, L.P.	879,528
CBRE Strategic Partners U.S. Value VI, L.P.	1,417,448

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
CBRE Wood Partners Development Fund III, L.P.	\$ 175,276
Cerberus Institutional (Series Four), L.P.	626,378
Charterhouse Capital Partners IX, L.P.	16,489,093
Charterhouse Capital Partners VIII, L.P.	2,628,879
CIM Fund III, L.P.	2,405,936
CIM Urban REIT, L.P.	1,805,370
Colony Distressed Credit Fund, L.P.	5,432,400
Colony Investors VIII, L.P.	2,842,100
Comac Global Macro Fund LTD	2,367,678
CPI Capital Partners Europe, L.P.	370,098
Crestview Partners II, L.P.	2,011,077
CSFB 2005-1 Series	950,217
CSFB 2007-1 Series	1,288,465
CSFB 2008-1 Re-Investment	234,468
CSFB 2008-2 MMBO	1,391,740
CSFB 2010-1 PE Partnership Investment	550,000
CSFB 2010-2 RE Partnership Investment Series	1,100,000
CVC Capital Partners Asia Pacific III, L.P.	4,365,706
CVC European Equity Partners IV, L.P.	103,863
CVC European Equity Partners Tandem Fund, L.P.	1,659,304
CVC European Equity Partners V, L.P.	3,535,224
D. E. Shaw BMCAE Special Fund, L.P.	7,893,640
D.E. Shaw Value All Country Alpha Extension Fund, L.P.	25,137
Divco West Fund III, L.P.	1,114,581
Double Black Diamond LTD	6,732,241
EI Fund V	2,348,262
EnCap Energy Capital Fund VII, L.P.	658,410
EnCap Energy Capital Fund IX, L.P.	802,989
EnCap Energy Infrastructure Fund, L.P.	3,956,983
EnCap Flatrock Midstream Fund II, L.P.	2,250,000
EIG Energy Fund XV, L.P.	2,666,271
ESCF Germany S.A R.L.	104,354
FIR Tree Capital Opportunity Fund	4,138,187
First Reserve Energy Infrastructure Fund, L.P.	926,243
First Reserve Fund X, L.P.	168,001
First Reserve Fund XI, L.P.	1,996,669
First Reserve Fund XII, L.P.	4,344,378

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
Five Mile Capital Partners II, L.P.	\$ 2,070,339
Fore Multi Strategy Offshore Fund LTD	2,749,338
Forum Asian Realty Income II, L.P.	845,877
Forum Asian Realty Income III, L.P.	1,720,750
Forum European Realty Income III, L.P.	1,155,930
Frontier Fund III	197,352
Fudo Capital II, L.P.	2,615,717
Full Harvest Agricultural Opportunities Fund II, L.P.	156,247
GenNx 360 Capital Partners II, L.P.	299,794
GoldenTree Offshore Fund LTD	102,564
Goldman Sachs Vintage Fund, L.P.	37,592
Gores Capital Partners III, L.P.	1,224,953
Graham Global Investment	4,617,933
Green Equity Investors V, L.P.	117,120
Green Equity Investors VI, L.P.	729,459
GSO Special Situations Fund, L.P.	13,491,518
Halcyon European Structured Opportunities Offshore Fund LTD	5,496
Halcyon Partners Offshore LTD	6,618,738
HB Estrela I, L.P.	287,090
Heitman America Real Estate Trust, L.P.	1,298,703
Hellman & Friedman Capital Partners V, L.P.	322,399
Hellman & Friedman Capital Partners VI, L.P.	595,158
Henderson Asia Pacific Absolute Return Fund LTD	3,517,661
Henderson Japan Absolute Return Fund LTD	4,506,252
HgCapital 5, L.P.	2,177,947
HgCapital 6, L.P.	2,578,228
Highbridge Principal Strategies-Mezzanine Partners, L.P.	996,037
Highbridge Principal Strategies-Mezzanine Partners II, L.P.	221,236
Highland Capital Partners VI - B, L.P.	625,252
Horizon Portfolio	8,072,876
Hunt Commercial Realty Partners II, L.P.	561,963
Hunt Commercial Realty Partners III, L.P.	1,281,010
Invesco San Jacinto Core Fund, L.P.	726,877
Investcorp Waterloo Macro Fund LTD	4,303,867
Iron Point Real Estate Partners, L.P.	1,151,727
Iron Point Real Estate Partners II, L.P.	1,500,000
J.H. Whitney VI, L.P.	178,445

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
J.P. Morgan Strategic Property Fund	\$ 4,709,090
Kelso Investment Associates VII, L.P.	383,408
Kelso Investment Associates VIII, L.P.	4,875,444
King Street Capital LTD	3,307,222
KKR 2006 Fund, L.P.**	(98,367)
KKR Global Infrastructure Investors	653,244
KKR Mezzanine Partners I, L.P.	6,042,578
KKR Natural Resources I, L.P.	10,140,258
KKR North America Fund XI	655,306
KKR Special Situations	481,658
L&B Diversified Strategy Partners, L.P.	500,232
Lansdowne Pecan Street Europe, L.P.	4,613,252
LaSalle Capital Group II-A, L.P.	1,945,653
LaSalle Property Fund, L.P.	1,428,008
Lee Equity Partners, L.P.	1,514,079
Lindsay Goldberg III, L.P.	3,730,478
Lion Capital Fund I, L.P.	36,840
Lion Capital Fund II, L.P.	1,326,417
Lion Capital Fund III, L.P.	5,013,930
Lionstone Cash Flow Real Estate Partners One, L.P.	4,883,217
LiveOak Venture Partners I, L.P.	182,886
Lone Star Real Estate Fund II (U.S.), L.P.	10,275,354
Luxor Capital Partners Offshore, LTD	4,347,314
MacFarlane Urban Real Estate Fund II, L.P.	919,315
Madison Dearborn Capital Partners IV, L.P.	273,336
Mill Road Capital II, L.P.	265,000
MKP Credit Offshore LTD	10,514,549
Morgan Creek Partners Asia, L.P.	820,396
Morgan Stanley Infrastructure Partners, L.P.	9,455,845
Nautic Partners V, L.P.**	(645,675)
New Enterprise Associates XIII, L.P.	1,259,679
New Enterprise Associates XIV, L.P.	2,012,028
Nordic Capital Fund V, L.P.	34,793
Normandy Real Estate Debt Fund, L.P.	463,593
Northwest Fund LTD	1,572,837
NuWave Combined Futures Portfolio 2x	2,200,800
Oak Investment Partners X, L.P.	153,024

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
Oak Investment Partners XI, L.P.	\$ 1,178,937
Oak Investment Partners XII, L.P.	2,470,517
Oaktree European Principal Fund III, L.P.	2,056,198
Oaktree Opportunities Fund IX, L.P.	47,754
Oaktree Opportunities Fund VIII, L.P.	1,314,106
Oaktree Opportunities Fund VIIIb, L.P.	1,457,165
Oaktree Real Estate Opportunities Fund VI, L.P.	1,745,615
OCM Opportunities Fund VI, L.P.	166,025
OCM Opportunities Fund VII, L.P.	390,718
OCM Opportunities Fund VIIb, L.P.	725,768
O'Connor Global Fundamental Market Neutral Long/Short LTD	5,037,651
Onex Partners II, L.P.	146,799
Onex Partners III, L.P.	4,088,108
Onex Partners, L.P.	200,953
P2 Capital Partners	4,896,030
Palladium Equity Partners IV, L.L.C.	442,500
Parkway Properties Office Fund II, L.P.	3,112,071
Patria-Brazilian Private Equity IV, L.P.	400,566
PCCP Mezzanine Recovery Partners II, L.P.	727,561
PDT Partners Offshore Fund, LTD	1,952,415
Peak6 Achievement Fund, LLC	291,881
Permira Europe III, L.P.	97,101
Permira IV, L.P.	2,202,047
Perry Partners Intl. Inc.	5,176,540
Pershing Square International, LTD	5,375,091
PFM Diversified Offshore Fund, A.I. LTD	3,150,155
PLA Residential Fund III, L.P.	2,245,269
PLA Residential Fund IV, L.P.	1,217,213
PLA Residential Fund I, L.P.	751,800
Platinum Equity Capital Partners II	4,328
Polaris Venture Partners IV, L.P.	298,569
PREI Mezzanine Fund I, L.P.	1,360,848
Prime Property Fund, LLC	2,833,165
Principal Green Property Fund I, L.P.	1,505,377
Principal Green Property Sidecar I, L.P.	320,360
Principal Real Estate Strategic Debt Fund I, L.P.	2,198,294
	<i>(continued)</i>

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
Principal Real Estate Strategic Equity Fund I, L.P.	\$ 1,560,990
PRISA SA	1,801,793
PRISA II	1,711,517
Prologis Mexico Industrial Fund I, L.P.	508,789
Prologis U.S. Logistics REIT, Inc.	2,464,038
Providence Equity Partners V, L.P.	185,708
Providence Equity Partners VI, L.P.	1,574,489
Ranger Co-Investment Fund, L.P.	4,206,553
Ranger Co-Investment Fund II, L.P.	775,051
Red River Direct Investment Fund, L.P.	1,996,688
Red River Direct Investment Fund II, L.P.	2,064,000
Red River Venture Capital Fund, L.P.	491,298
Reservoir Strategic Partners Fund, LP	1,571,924
Rock Creek Austin Fund, LP	498,361
Rock Creek Limestone Emerging Markets, L.P.	5,852,585
RREEF America REIT III, Inc.	546,228
Savanna Real Estate Fund IIA, L.P.	10,626
Scout Fund II, L.P.	197,222
Security Capital Income Opportunity	3,895,161
SHI Development Co-Investment I, L.P.	68,512
Soroban Capital Partners Fund	5,271,221
Southwest Multifamily Partners, L.P.	199,348
SP5 Wood Partners Co-Investment Venture 2, L.P.	649,143
SP5 Wood Partners Development, L.P.	424,979
Spire Capital Partners III, L.P.	75,822
Squadron Emerging Asia Fund, L.P.	1,200,213
Square Mile Partners III, L.P.	2,869,534
Square Mile Partners IV, L.P.	37,664
Square Mile Partners IV-A-Co-Invest, L.P.	37,664
Square Mile S2	194,574
Starwood Distressed Opportunity Fund IX Global, L.P.	3,127,793
Starwood Real Estate Securities LLC	2,431,501
SteelRiver Infrastructure Fund North America, L.P.	3,723,962
Stockbridge Real Estate Fund II, L.P.	586,370
Stockbridge Real Estate Fund III, L.P.	1,791,903
Stratford Land Fund III, L.P.	2,250,000
Stratford Land Fund IV, L.P.	3,750,000

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Fund Name*	Fees
TA X, L.P.	\$ 1,001,317
TA XI, L.P.	4,394,573
Teays River Investments, LLC **	(1,084,939)
Thayer Hotel Investors V, L.P.	914,446
Theleme Fund Limited	253,148
Thomas H. Lee Equity Partners V, L.P.**	(454,702)
TLF Logistics, L.P.	3,488,771
TLF Logistics II, L.P.	1,048,047
TPG Growth II	3,559,296
TPG Partners IV, L.P.	122,900
TPG Partners V, L.P.	1,058,217
TPG Partners VI, L.P.	3,158,713
TPG STAR, L.P.	863,121
Tricon IX, L.P.	1,808,372
TriGate Property Partners II, L.P	183,391
Tristan EPISO III, L.P.	740,736
Triton Fund II, L.P.	359,351
Triton Fund III, L.P.	2,091,602
U.S. Government Building Fund, L.P.	2,169,049
U.S. Republic Core Fund, L.P.	44,584
Walton Street Real Estate Fund Sidecar V, L.P.	44,092
Walton Street Real Estate Fund V, L.P.	656,953
Walton Street Real Estate Fund VI, L.P.	1,828,173
Warburg Pincus Private Equity X, L.P.	3,706,624
Wayzata Opportunities Fund II, L.P.	2,316,545
Wayzata Opportunities Fund III, L.P.	459,628
Westbrook Real Estate Fund VIII, L.P.	2,046,547
Willis Stein & Partners III, L.P.	6,478
Winton Futures Fund	3,054,844
Wolverine Flagship Fund Limited	9,202,031
Zachry Hastings Infrastructure Partners, L.P.	12,938,151
Zaxis Offshore LTD	724,355
TOTAL	\$ 636,468,706

* Fees are earned by the funds based on each fund's governing documents. TRS calculates returns for these funds net of all fees.

** Negative balances are equal to the refund in the current year of expenses paid or accrued in a prior year.

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

External Manager***	Fees
Affinity Investment Advisors	\$ 139,111
Artisan Partners Limited Partnership	1,615,460
Barclays Capital Fund Solutions	1,136,418
Baring International Investment LTD	5,808,769
Blackrock Financial management, Inc.	2,717,056
Brandes Investmenr Partners, LLC	2,303,473
Brookmont Capital Management	155,771
Cantillon Capital Management LLC	12,768,671
Chilton Capital Management	137,196
DePrince Race & Zolllo, Inc.	3,315,890
Dimensional Fund Advisors, L.P.	7,883,260
Eaton Vance Management	7,334,111
GMO, LLC	1,910,988
Goldman Sachs Asset Management, L.P.	6,937,063
Independent Franchise Partners, LLP	6,131,715
Jennison Associates, LLC	2,011,820
JP Morgan Asset Management, Inc.	8,336,475
Knight Vinke Asset Management, LLC	4,145,507
Lazard Asset Management, LLC	5,149,855
Mar Vista Investment Partners	153,596
Marathon Asset Management	6,117,930
Matterhorn	149,870
Morgan Stanley Investment Management, Inc.	4,465,210
Morgan Stanley Asset Management	9,512,936
Neuberger Berman ASIA	816,159
Neuberger Berman, LLC	1,739,500
Nicholas Investment Partners	83,677
Omega Advisors, Inc.	8,759,750
Penn Capital Management Co., Inc	1,000,178
Phocas Financial Corp	78,764
Platinum Asset Management LTD	5,985,121
Sasco Capital, Inc.	2,660,932

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

External Manager***		Fees
Security Capital Research & Management, Inc.	\$	4,072,490
Starboard Value & Opportunity		4,421,355
Starwood Real Estate Securities		3,062,831
Stephens Investment Management Group		1,813,575
Vaughan Nelson Investment Management, L.P.		1,429,470
Wellington Management Company, L.P.		4,094,658
Wellington Management Corp.		2,604,105
TOTAL	\$	142,960,716

*** Fees are accrued or paid to external managers based on assets under management and the performance of the investment manager. TRS calculates returns for these managers net of all fees.

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
ABG Securities	632,574	\$ 23,252
ABN AMRO Securities, Inc.	461	9
Academy Securities Inc.	115,151	2,304
Access Securities, Inc.	29,790	745
Agora Corde Titul E Val Mob	1,361,258	21,457
Albert Fried & Compnay, LLC	53,510	1,338
Allen & Company, LLC	83,720	2,930
Ambit Capital Pvt. LTD	128,705	2,000
Ancora Securities, Inc.	29,200	1,168
Apex Clearing Corporation	783,915	18,787
Aqua Securities L.P.	1,747	35
Atlantic Equities, LLP	457,506	12,975
Avondale Partners, LLC	389,938	14,596
Axis Capital Limited	276,000	6,311
Banchile Corredores de Bolsa S.A.	13,357	308
Banco Bradesco S.A.	60,798	1,982
Banco Itau S.A.	3,563,506	66,550
Banco Pactual S.A.	472,540	14,288
Banco Santander	4,361,250	62,979
Bank J. Vontobel Und, Co. AG	15,000	1,904
Bank of America	795,069,813	5,371,759
Barclays Capital, Inc.	1,283,027,943	4,641,688
Batucha Securities & Investment LTD	36,300	122
Bley Investment Group, Inc.	3,446,873	100,463
Bloomberg Tradebook, LLC	18,013,361	443,367
BMO Capital Markets	9,587,902	288,392
BNP Paribus Securities Corp.	40,577,245	221,518
BNY Convergex	14,558,110	372,992
BNY Mellon	1,127,358	33,032
BOCI Securities LTD	1,593,866	8,135
Brean Murray, Carret & Co., LLC	221,317	7,364
Brockhouse & Cooper, Inc.	22,835	502
Brown Brothers Harriman & Co.	1,204	48
BTG Capital Corporation	39,400	1,326

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
BTIG, LLC	19,753,118	\$ 493,794
Buckingham Research Group, Inc.	137,006	4,453
Burke & Quick Partners, LLC	29,564	1,183
CA Cheuvreux	340,050	13,602
Cabrera Capital Markets	4,723,790	162,862
Calyon Securities	7,142,006	71,293
Canaccord Genuity, Inc.	15,433,181	35,123
Canadian Imperial Bank of Commerce	1,254,151	21,878
Cantor Fitzgerald & Co.	86,863,197	550,114
Capital Guardian LLC	110,400	4,416
Carnegie Investment Bank	1,137,065	54,847
Casablanca Finance City	64,160	4,879
CCB International Securities, LTD	35,219,500	61,486
Celfin Capital S.A. Corredores de Bolsa	192,454,788	85,927
Central Securities Clearing System LTD	2,387,922	578
Charles River Brokerage	18,650	233
China Fortune Securities Co., LTD	362,668	1,368
China International Cap Corp. HK Secs LTD	21,425,184	48,240
CIMB Securities (HK) LTD	13,423,310	86,266
Citation Group	1,199,384	29,605
Citigroup Global Markets, Inc.	409,361,264	3,373,876
City Bank LTD	6,205,795	16,612
CL King & Associates, Inc.	425,966	11,210
CLSA Securities	97,777,028	405,807
Collins Stewart, LLC	356,227	14,079
Commerzbank Capital Markets Corporation	122,117	8,213
Companhia Brasileira de Liquidacao e Custodia	388,916	13,311
Compass Point Research & Trading, LLC	83,962	3,319
Concordia S.A. CVMCC	500,800	9,157
Core Pacific - Yamaichi International (HK) LTD	9,236,000	9,651
Cormark Securities, Inc.	257,900	10,369
Corp Banca	98,939,419	110,666
Cowen & Company LLC	11,732,848	256,019

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
Craig - Hallum	400,023	\$ 15,204
Credit Agricole	2,036,501	72,245
Credit Lyonnais Securities	73,492,337	331,457
Credit Research & Trading, LLC	143,876	5,025
Credit Suisse First Boston	683,892,146	4,796,485
Crowell, Weedon & Co.	41,360	414
CSI US Institutional Desk	2,435,397	89,429
Cuttone & Co., Inc.	53,894	2,025
Daewoo Securities Co. LTD	49,610	6,419
Daiwa Securities America Inc.	7,622,251	26,395
Daiwa Securities Group Inc.	21,975,056	87,481
Danske Bank A/S	5,241	1,367
Databank Brokerage LTD	38,500	1,087
Davenport & Co., of Virginia, Inc.	200,781	7,230
Davidson D.A. & Company, Inc.	227,338	5,665
Davy Stockbrokers	764,413	9,718
Dematted Monness, LLC	197,200	7,888
Deutsche Bank Securities, Inc.	304,062,257	2,254,743
Dexia Securities France	70,000	3,361
DnB NOR	69,159	1,821
Dongwon Securities	439,577	58,169
Dougherty Co., Inc.	26,258	1,038
Dowling & Partners	174,995	6,695
Drexel Hamilton	23,630	236
East/West Securities Corp.	2,369,875	82,949
Edelweiss Securities Pvt. LTD	3,344,577	35,653
Essence International Securities (HK) LTD	3,898,000	3,673
Euroclear Bank S.A. N.V.	101,329	8,122
Evercore Group, LLC	103,955	4,147
Exane S.A.	3,391,736	75,896
F. Van Lanschot Bankiers N.V.	340	7
Fator Doria Atherino S.A. CV	626,862	3,803
FBN Securities	1,516	61

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
Fearnley Securities AS	2,200	\$ 85
Fidelity Capital Markets	14,683	543
Fidelity Clearing Canada	587,405	20,142
Findentiis Equities S.V.S.A.	883,000	3,121
Fig Partners, LLC	112,599	2,252
Financial Brokerage Group (FBG)	11,900	1,586
First Analysis Securities Corp.	230,216	11,502
First Clearing, LLC	255,890	9,134
FirstEnergy Capital Corp.	52,630	2,118
Friedman, Billings & Ramsey	1,337,219	43,109
G Trade Services LTD	24,559,600	386,358
Gabelli & Co., Inc.	15,900	636
GETCO Execution Services, LLC	28,500	71
Global Hunter Securities, LLC	79,257	1,678
Goldman Sachs & Co.	332,017,665	3,435,747
Goodbody Stockbrokers	413,826	7,984
Gordon, Haskett & Company	318,400	11,144
Green Street Advisors	377,111	8,453
Guggenheim Capital Markets, LLC	436,741	16,443
Guzman & Co.	2,201,447	44,029
Height Securities, LLC	7,121	235
Hibernia Southcoast Capital, Inc.	104,011	4,016
Howard Weil, Inc.	129,794	4,808
HSBC Securities, Inc.	1,403,444,935	1,330,659
Hunter Securities Corp.	8,055	242
Hyundai Securities Co., LTD	25,344	6,049
Icahn & Co., Inc.	20,130	403
ICAP Securities LTD	3,121,775	93,653
Imperial Capital LLC	106,101	3,514
India Infoline LTD	2,864,845	29,829
ING Bank N.V.	56,286	2,126
Instinet, LLC	306,515,053	1,667,879
Intermonte Sec SIM Spa	148,837	5,085
Invemed Associates	47,940	1,500

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
Investec Securities	1,264,762	\$ 28,855
Investment Technology Group, Inc.	102,994,340	605,822
Is Yatirim Menkul Degerler AS	1,200	72
ISI Group, Inc.	5,220,806	114,915
Island Trader Securities, Inc.	163,590	6,063
Jackson Partners & Associates, Inc.	29,350	1,027
Janney Montgomery Scott, LLC	1,882,603	74,544
Jefferies & Company, Inc.	106,020,197	1,412,744
JM Financial Institutional Securities Private	150,577	2,947
JMP Securities	486,961	20,053
JNK Securities, Inc.	284,648	9,960
John Govett & Co., LTD	2,571,208	102,848
Joh. Berenberg, Gossler & Co., KG	36,828	7,790
Jones & Associates Inc.	2,284,886	101,452
Jones Trading Institutional Services, LLC	10,895,223	321,654
JP Morgan Securities, Inc.	1,917,118,025	6,687,722
KAS-Associatie N.V.	268,154	5,395
KBC Securities	2,765,500	2,903
Keefe Bruyette & Woods, Inc.	1,174,761	26,678
Kepler Equities	52,376	4,616
Kestrel Capital	13,994,800	22,925
Keybanc Capital Markets, Inc.	1,033,907	39,359
KIM ENG Holdings LTD	1,707,000	8,285
Kingsway Financial Services Group LTD	2,988,149	5,169
Knight Capital Group, Inc.	15,017,821	186,546
Korea Securities Depository	46,146	3,711
Kotak Securities LTD	928,447	27,747
LarrainVial S.A.	929,097	4,226
Lazard Capital Markets, LLC	1,662,440	62,465
Leerink Swann & Company	224,598	8,299
Liberum Capital Limited	1,061,813	10,798
Link S.A. CCTVM	356,701	10,665
Liquidnet, Inc.	17,822,696	359,326
Longbow Securities, LLC	76,265	3,051

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
Loop Capital Markets, LLC	4,608,194	\$ 121,930
M.R. Beal & Company	7,806,850	230,171
Macquarie Bank Limited	142,475,916	789,930
MainFirst Bank AG	58,402	7,495
Maxim Group	11,923	477
Miller Tabak & Company LLC	50,300	2,012
Mirabaud Securities, LLP	160,540	6,249
Mirae Asset Hong Kong Limited	5,937,900	10,247
Mischler Financial Group, Inc.	293,300	13,096
Mitsubishi UFJ Securities	638,800	7,502
Mizuho Securities USA, Inc.	3,821,000	24,301
MKM Partners, LLC	2,734,400	91,351
MND Partners	8,855	177
Mogavero Lee & Co., Inc.	252,890	8,851
Monness, Crespi, Hardt & Co., Inc.	900	36
Morgan Grenfell New York	75,170	4,612
Morgan Stanley & Co., Inc.	1,127,177,117	6,178,179
Motilal Oswal Securities Limited	550,074	10,241
Nagarmal Saraf Securites Private LTD	26,700	228
National Depository Center	4,900	1,419
National Financial Services, LLC	7,984,637	257,494
Natixis Securities, Inc.	16,380	519
NavPoint, LLC	69,750	2,790
NBCN Clearing Inc.	1,666	62
Needham & Company	376,454	15,362
Nesbitt Burns	6,318,875	166,445
Noble International Investments Inc.	1,859	74
Nomura Securities International, Inc.	89,252,216	1,125,722
North South Capital, LLC	42,442	1,661
Northland Securities, Inc.	79,064	2,689
Numis Securities Limited	2,077,570	49,465
Oddo Finance	748,389	21,272
Oppenheimer & Co., Inc.	4,088,341	137,148
Otkritie Securities LTD	243,693	7,789

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
Pacific Crest Securities	658,630	\$ 24,426
Panmure Gordon & Co	8,202,689	22,797
Parel	2,132,206	34,396
Penserra Securities, LLC	12,131,811	356,453
Penson Financial Services, Inc.	574,733	11,502
Pershing Securities Limited	64,379,193	902,251
Petercam S.A.	63,610	3,934
Peters & Co., LTD	156,430	6,297
Phoenix Derivatives Group, LLC	11,156	446
Pickering Energy Partners, Inc.	508,402	18,998
Piper Jaffray	1,634,047	65,045
Portales Partners, LLC	246,213	9,849
PT Mandiri Sekuritas S.A.	117,000	1,370
Pulse Trading, LLC	544,587	5,656
Quaker Securities	1,639,767	23,665
Rabobank Netherland	11,298	285
Raymond James & Associates, Inc.	3,028,191	117,290
RBC Capital Markets	23,764,559	728,275
Redburn Partners LLP	41,057	3,331
Religarre Capital Markets LTD	22,800	204
Renaissance Capital LTD	2,283,802	42,091
Reorient Financial Markets LTD	13,312,900	48,395
Robert W. Baird & Co., Inc.	2,804,943	111,491
Rochdale Securities, LLC	289,120	11,358
Rosenblatt Securities, LLC	49,875	1,144
Rosy Blue Securities Private LTD	25,000	4,338
ROTH Capital Partners, LLC	785,878	17,419
Royal Bank of Canada	1,924,809	33,167
Salomon Smith Barney, Inc.	1,352,000	8,430
Samsung Securities Co. LTD	317,551	34,411
Sandler O'Neil & Partners, L.P.	31,518	1,227
Sanford C. Bernstein Co., LTD	42,961,913	329,908
Santander Investment Securities, Inc.	104,932	3,178
Scotia Capital	8,246,876	193,636

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
Scott & Stringfellow, Inc.	774,527	\$ 30,981
Seslia Securities	674,400	13,488
SG Securities	114,758,492	160,644
Shenyin & Wanguo Securities Co.	334,700	1,034
Shenzhen Securities Central Clearing	74,700	548
Sidoti & Company, LLC	530,583	23,037
Simmons & Company International	198,011	6,334
SJ Levinson & Sons, LLC	12,303,168	280,501
Skandinaviska Enskilda Bank	164,323	3,986
SMBC Securities, Inc.	3,978,200	30,244
Societe Generale	45,629,329	286,000
SS Kantilal Ishwarlal Securities	139,623	694
Standard Bank	646,156	24,485
Standard Chartered Bank	2,357,193	7,181
State Street Bank & Trust Co.	885,764	19,137
Stephens, Inc.	1,251,573	48,890
Sterne Agee & Leach, Inc.	2,760,785	104,589
Stifel Nicolaus & CO., Inc.	10,680,681	313,057
Stockbrokers Botswana LTD	42,107	493
Strategas Securities, LLC	263,019	10,438
Stuart Frankel & Co., Inc.	219,707	7,179
Suntrust Capital Markets, Inc.	418,701	10,772
Susquehanna Financial Group LLP	2,300	69
Svenska Handelsbanken	244,544	7,845
Tachibana Securities Co., LTD	715,192	8,606
Tavira Securities LTD	3,064,980	68,005
TD Waterhouse Cda	7,340,339	234,173
Tera Menkul Degerler A.S.	423,502	1,592
The Benchmark Company, LLC	74,181	2,967
Topeka Capital Markets	25,895	1,036
Toronto Dominion Bank	60,250	3,074
Transamerican Index Fund Sik	2,130,000	1,485
Troika Dialog	1,566,059	27,945

(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2013

Brokerage Firm	Shares Traded	Commissions Paid
UBS AG	451,694,132	\$ 2,612,491
USCA Securities, LLC	167,005	6,147
Uti Securities Exchange LTD	225,400	6,771
Vidacos No 4 Ac	164,000	123
VTB Bank	58,852	998
Wall Street Clearing/Stuart Brothers	17,500	350
Wedbush Morgan Securities, Inc.	2,944,159	49,495
Weeden & Co. LTD	22,937,788	550,683
Wells Fargo Securities, LLC	8,823,056	224,549
Western International Securities, Inc.	92,600	2,315
William Blair & Company, LLC	1,457,451	63,228
Williams Capital Group, L.P.	1,553,052	31,054
Wolfe Trahan Securities, Inc.	188,244	7,381
Wood & Company	39,672	4,031
Woori Investment Securities	47,302	6,184
Wunderlich Securities, Inc.	85,452	3,382
Yamner & Co., Inc.	243,712	2,483
Yaunta Core Pacific Securities	573,000	4,388
Zacks & Company	28,600	1,005
Total	10,933,781,994	\$ 60,964,961

Futures Contracts Brokerage Firm	Shares Traded	Commissions Paid
JP Morgan Securities, Inc	434,176	\$ 998,518
Goldman Sachs & Co.	2,275,096	7,904,987
Morgan Stanley Co. Incorporated	70,029	201,870
Total	2,779,301	\$ 9,105,375

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ACTUARIAL SECTION

$$E=mc^2$$

$$7+2=9$$

$$s=vt$$

$$1+1=$$

$$3 \times 1 = 3$$

$$3 \times 2 = 6$$

$$3 \times 3 = 9$$

$$3 \times 4 = 12$$

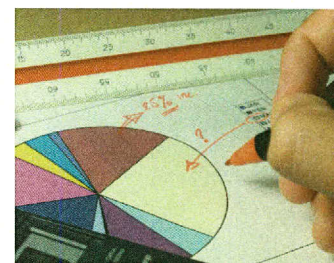
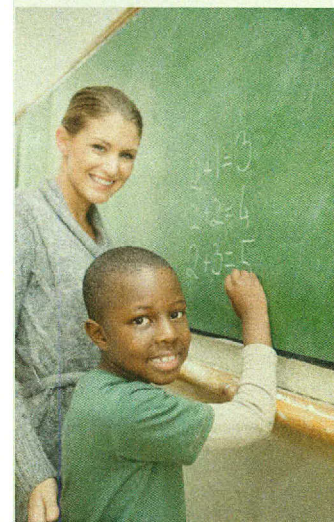
$$3 \times 5 = 15$$

$$a+b=c$$

$$x+y=z$$

$$E=mc^2$$

$$a^2+b^2=c^2$$
$$\frac{1}{a} - \frac{2}{a} = 2$$





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November 7, 2013

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

Subject: Actuary's Certification of the Actuarial Valuation as of August 31, 2013

We certify that the information included herein and contained in the 2013 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2013.

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

Actuarial Valuations

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

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

Financing Objective of the Plan

The employee and State contribution rates are established by Law that, over time, are intended to remain level as a percent of payroll. The actuarially determined contribution rates determined in this actuarial valuation are intended to provide for the normal cost plus the level percentage of payroll required to amortize the unfunded actuarial accrued liability over a period not in excess of 30 years.

Progress Toward Realization of Financing Objective

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Based on this actuarial valuation as of August 31, 2013, the System's under-funded status has increased to \$28.9 billion from \$26.1 billion as of August 31, 2012. This increase in the UAAL is due to a loss on the valuation assets of the System due to the smoothing mechanism, employer contributions to the System being \$700 million less than the actuarial appropriate rate (6.40% in FY2012 vs. an 8.62% contribution rate determined by the 2012 valuation), and the net impact of legislative changes. These losses were partially offset by gains created by liabilities growing slower than anticipated, mostly due to individual salary increases being lower than expected by the current assumptions.

This valuation shows a normal cost equal to 10.31% of pay. The State set its contribution rate to 6.80% for fiscal year 2014. In addition, covered employers whose employees are not participating in Social Security will begin contributing 1.50% of the minimum salary schedule beginning in fiscal year 2015. Combined it is expected that these contributions will be approximately 7.76% of total payroll. The member contribution rate will also increase beginning in fiscal year 2015 to 6.7% of pay and will continue to increase to 7.20% of pay in fiscal year 2016 and 7.70% of pay in fiscal year 2017. Thereafter, once the contribution rates have all ramped up the System is expected to receive a total contribution rate of 15.46% of pay.

Hence, beginning in FY2017, there is expected to be 5.15% of pay available to amortize the UAAL. If payroll grows as expected, the contributions provided by this portion of the contribution rate are sufficient to amortize the current unfunded actuarial accrued liabilities of the System over a period of 28 years based on the smoothed asset value as the valuation date. Therefore, the financing objectives of the System are being met.

The actuarial valuation report as of August 31, 2013 reveals that while the System has an unfunded liability of \$28.9 billion, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 80.8%. However, because of the significant shortfall in investment income in FY2009, the System is still deferring net investment losses of \$4.3 billion and the funded status using the market value of assets is only 77.9%. If there are no significant investment gains or other actuarial gains over the next several years, the funded status of the System would be expected to decline towards this number. However, this \$4.3 billion compares to the last valuation when the System was deferring \$6.9 billion in deferred losses and has a funded ratio based on market of 77.2%.

The market value of assets earned an 9.0% return on a dollar-weighted basis for the plan year ending August 31, 2013, net of expenses. The System experienced a loss on the actuarial value of assets of \$2.0 billion and a gain on the actuarial liabilities of \$1.1 billion for a total experience related loss of \$0.9 billion.

In the absence of significant actuarial gains in the near future, the number of years needed to amortize the UAAL will increase to over 30 during the next several years, and then begin to decrease annually if all assumptions are met. This is due to the ramp up nature of the current funding policy and the recognition of deferred investment losses.

In addition, due to the current funding policy which utilizes level percentage of payroll amortization, the amortization payments will not be sufficient to cover all of the interest charges on the UAAL until the funding period reaches approximately 20 years. Table 11a provides a 10-year projection of various valuation results, including the UAAL, and that projection shows the UAAL is expected to increase to \$42.2 billion in 2023. Extending the projection further would show the UAAL growing slower for the next 10 years, eventually topping at approximately \$45 billion in 2032 before beginning to decrease and fully amortize 20 years later.

Please note these expectations are based on the current benefit provisions and assumptions. Any additional benefit enhancements (ad hoc COLAs) granted without additional funding would increase the ultimate UAAL and extend the period before the funding status begins to improve. Thus, we continue to advise against any future benefit enhancements without additional sources of funding.

Plan Provisions

The plan provisions used in the actuarial valuation are described in Table 21 of the valuation report. There have been significant changes to the benefit and contribution provisions of the System since the prior valuation. A summary of these changes are shown below:

- Normal retirement eligibility was changed to age 65 with 5 years of service or Rule of 80 with a minimum age of 62 for all members not vested as of August 31, 2014 (it was Rule of 80 with a minimum age of 60)
- The 5% early retirement penalty for members who have met the rule of 80 begins from age 62 for employees who are not vested as of August 31, 2014 (it was age 60)
- An ad hoc COLA, equal to the lesser of 3% or \$100 per month, was granted effective September 1, 2013 for members in payment status on August 31, 2004
- Increases in the member contribution rate as follows: 6.70% in fiscal year 2015, 7.20% in fiscal year 2016 and 7.70% in fiscal year 2017

There was also a significant change to the provisions of TRS-Care. While this change did not impact the benefits paid out of the pension system, it did impact the assumptions we use for when members will retire. This is more fully discussed in the assumptions section.

Disclosure of Pension Information

Effective for the fiscal year ending August 31, 1996, the Board of Trustees adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25. The required disclosure information is included in the body of the valuation report.

This report should not be relied on for any purpose other than the purpose described above. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

Actuarial Methods and Assumptions

The actuarial methods and assumptions have been selected by the Board of Trustees of the Teacher Retirement System of Texas based upon our analysis and recommendations. These assumptions and methods are detailed in Table 22 of the valuation report. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the retirement rates, the assumptions and methods are the same as used in the prior valuation. Because of the changes to the retirement eligibility of the pension plan for certain members and the changes to TRS-Care, we have modified the assumed retirement patterns for certain employee groups. For members who are not grandfathered under the current TRS-Care eligibilities, we have assumed that their rates of retirement, once they have met eligibility for normal retirement, will be 85% of the rates of members who satisfied the grandfathering requirements for TRS-Care prior to age 62 and then are increased at age 62.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are internally consistent and reasonably related to the experience of the System and to reasonable expectations. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

Data

In preparing the August 31, 2013 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

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

Respectfully submitted,
Gabriel, Roeder, Smith & Company



Lewis Ward
Consultant



Daniel J. White, FSA, EA, MAAA
Senior Consultant



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

Gabriel Roeder Smith & Company

Actuarial Information Pension Trust Fund

Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2013 (With Comparative Data for August 31, 2012)

	2013	2012
Present Value of Benefits Presently Being Paid		
Service Retirement Benefits	\$ 71,820,668,352	\$ 66,496,973,251
Disability Retirement Benefits	989,311,958	947,308,449
Death Benefits	810,515,534	788,389,117
Present Survivor Benefits	223,686,635	216,686,398
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 73,844,182,479	\$ 68,449,357,215
Present Value of Benefits Payable in the Future to Present Active Members		
Service Retirement Benefits	\$ 95,127,960,463	\$ 95,055,547,036
Disability Retirement Benefits	1,417,907,563	1,343,494,893
Termination Benefits	7,448,756,121	6,994,476,599
Death and Survivor Benefits	1,852,668,542	1,740,833,330
TOTAL ACTIVE MEMBER LIABILITIES	\$ 105,847,292,689	\$ 105,134,351,858
Present Value of Benefits Payable in the Future to Present Inactive Members		
Inactive Vested Participants:		
Retirement Benefits	\$ 2,828,390,234	\$ 2,593,214,556
Death Benefits	159,885,733	146,660,351
Total Inactive Vested Benefits	\$ 2,988,275,967	\$ 2,739,874,907
Refunds of Contributions to Inactive Non-vested Members	\$ 368,715,419	\$ 360,056,410
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 1,283,662,384	\$ 1,217,410,816
TOTAL INACTIVE LIABILITIES	\$ 4,640,653,770	\$ 4,317,342,133
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 184,332,128,938	\$ 177,901,051,206

Summary of Cost Items

	2013	2012
Actuarial Present Value of Future Benefits	\$ 184,332,128,938	\$ 177,901,051,206
Present Value of Future Normal Costs	(33,666,034,804)	(33,473,825,266)
Actuarial Accrued Liability	\$ 150,666,094,134	\$ 144,427,225,940
Actuarial Value of Assets	(121,729,818,906)	(118,326,041,892)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 28,936,275,228	\$ 26,101,184,048

Actuarial Information Pension Trust Fund

Actuarial Methods and Assumptions

The actuarial valuation of TRS was prepared by Gabriel, Roeder, Smith & Company. The actuary relied on membership data and asset information provided by TRS staff. While not verifying the data at their source, the actuary performed such tests for consistency and reasonableness as was deemed necessary to be satisfied with the appropriateness of using the data supplied.

A summary of the actuarial assumptions and methods used by the actuary are as follows:

The entry age normal actuarial cost method of valuation was used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience ("actuarial gains and losses") become part of the actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest) which are level percents of payroll contributions. These assumptions were adopted in April 2011. With the exception of the retirement rates, the assumptions and methods are the same as used in the prior valuation. There were changes to the retirement eligibility for certain members of the pension plan and the assumptions were modified for these employee groups. For members who were not grandfathered, it was assumed that upon attainment of normal retirement eligibility and prior to age 62, on average they will retire at a rate approximately equal to 85% at which grandfathered members will retire.

Actuarial Assumptions

1. Investment Rate of Return: 8.00% per annum, net of investment and administrative expenses, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% real rate of return.
2. Mortality, Disability Retirement, Withdrawal and Service Retirement Rates: Rates and scales developed in the actuarial investigation as of August 31, 2007, with values at specimen ages shown in the tables below.
 - a) Probability of Decrement due to Death and Disability Retirement

Probability of Decrement due to Death and Disability Retirement					
Male Members			Female Members		
Age	Death	Disability Retirement	Age	Death	Disability Retirement
20	0.000297	0.000003	20	0.000189	0.000006
30	0.000624	0.000042	30	0.000291	0.000065
40	0.000849	0.000381	40	0.000449	0.000234
50	0.001458	0.001287	50	0.000923	0.001256
60	0.003979	0.002455	60	0.002084	0.002436
70	0.012940	0.000574	70	0.007621	0.000551

Mortality Improvement: To account for future mortality improvement, the rates were chosen so that the assumed mortality rates are smaller than the rates observed in the most recent experience study. The ratio of actual number of deaths occurring during this period to the expected number based on the selected assumptions was 108% for healthy male annuitants, 112% for healthy female annuitants, 103% for disabled male annuitants, and 110% for disabled female annuitants.

Actuarial Information Pension Trust Fund

b) Probability of Decrement due to Withdrawal: The following tables are used for the first 10 years of employment.

Probability of Decrement Due to Withdrawal										
Male Members Years of Service										
Age	0	1	2	3	4	5	6	7	8	9
20	0.2606	0.2266	0.1716	0.1335	0.1050	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.2173	0.1890	0.1560	0.1233	0.0952	0.0789	0.0652	0.0648	0.0628	0.0536
40	0.2172	0.1888	0.1430	0.1253	0.0873	0.0833	0.0690	0.0608	0.0542	0.0464
50	0.1937	0.1684	0.1245	0.0993	0.0754	0.0684	0.0644	0.0544	0.0512	0.0466
60	0.2021	0.1757	0.1324	0.1160	0.0751	0.0664	0.0518	0.0495	0.0426	0.0341
70	0.2371	0.2062	0.1724	0.1174	0.1017	0.0000	0.0000	0.0000	0.0000	0.0000

Female Members Years of Service										
Age	0	1	2	3	4	5	6	7	8	9
20	0.1938	0.1685	0.1438	0.1263	0.1075	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.1948	0.1694	0.1435	0.1218	0.1007	0.0935	0.0825	0.0724	0.0564	0.0570
40	0.1807	0.1571	0.1235	0.1052	0.0826	0.0743	0.0641	0.0578	0.0560	0.0459
50	0.1755	0.1526	0.1199	0.0971	0.0792	0.0708	0.0638	0.0549	0.0472	0.0402
60	0.1959	0.1703	0.1356	0.1082	0.0846	0.0660	0.0671	0.0509	0.0463	0.0438
70	0.2483	0.2159	0.1929	0.1994	0.1254	0.0000	0.0000	0.0000	0.0000	0.0000

c) Probability of Decrement due to Retirement (Rates of Retirement - for members hired after August 21, 2007)

Probability of Decrement Due to Retirement							
Male Members Years of Service							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.010
55	0.010	0.010	0.010	0.010	0.010	0.010	0.010
60	0.020	0.020	0.020	0.020	0.220	0.220	0.220
65	0.220	0.220	0.220	0.220	0.220	0.220	0.220
70	0.200	0.200	0.200	0.200	0.200	0.200	0.200
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Female Members Years of Service							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.010
55	0.010	0.010	0.010	0.010	0.010	0.010	0.010
60	0.020	0.020	0.020	0.020	0.200	0.200	0.200
65	0.220	0.220	0.220	0.220	0.220	0.220	0.220
70	0.200	0.200	0.200	0.200	0.200	0.200	0.200
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000

For members hired after August 31, 2007, the retirement rates for members once they reach unreduced retirement eligibility at age 60 are increased 10% for each year the member is beyond the rule of 80 (i.e. if the member reached the Rule of 80 at age 58 then the probability of retirement at age 60 is 120% of the rate shown above). The rates of retirement for normal retirement benefits for members who are not vested as of August 31, 2014 are 85% of the rates described above.

Actuarial Information Pension Trust Fund

3. Rates of Salary Increase: The following table reflects an inflation rate of 3.00%, plus productivity component of 1.25%, plus step-rate/promotional component as shown:

Rates of Salary Increase				
Years of Service	Annual Step Rate/ Promotional Rates of Increase		Total Annual Rate of Increase	
	Male Members	Female Members	Male Members	Female Members
1	3.00%	3.00%	7.25%	7.25%
2	3.00	3.00	7.25	7.25
3	2.75	2.75	7.00	7.00
4	2.50	2.50	6.75	6.75
5	2.25	2.25	6.50	6.50
6	2.00	2.00	6.25	6.25
7-8	1.75	1.75	6.00	6.00
9-10	1.50	1.50	5.75	5.75
11	1.25	1.25	5.50	5.50
12	1.00	1.00	5.25	5.25
13-18	0.75	0.75	5.00	5.00
19-21	0.50	0.50	4.75	4.75
22-24	0.25	0.25	4.50	4.50
25 or more	0.00	0.00	4.25	4.25

This weighted average salary increase rate is 5.55% based on the active member service distribution as of August 31, 2013.

Disability Annuitants

1. Investment Rate of Return: 8.00% per annum, compounded annually.
2. Mortality: The PBGC Male Disabled Mortality Table for plan terminations after December 1, 1980, with a six-year setback and the PBGC Female Disabled Mortality Table for plan terminations after December 1, 1980, with a four-year setback.

Service Retirement Annuitants, Nominees and Survivors

1. Investment Rate of Return: 8.00% per annum, compounded annually (benefit increase reserve account eliminated by the 1995 legislative session).
2. Mortality: Client specific tables; used for service retirement annuitants, beneficiaries and survivors. These tables are selected to best reflect the experience developed in the actuarial investigation as of August 31, 2010.

Probability of Mortality and Life Expectancy				
Age	Male Members		Female Members	
	Probability of Mortality	Life Expectancy (Years)	Probability of Mortality	Life Expectancy (Years)
55	0.003684	27.42	0.002806	31.16
65	0.010893	18.83	0.006117	22.22
75	0.032206	11.53	0.019424	14.04
85	0.095215	6.14	0.068615	7.83
95	0.231740	3.33	0.163248	4.68

Actuarial Information Pension Trust Fund

Actuarial Value of Assets

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income. The actual calculation is based on the difference between actual market value and the expected actuarial value of assets each year, and recognizes the cumulative excess return (or shortfall) over at a minimum rate of 20% per year. Each year a base is set up to reflect this difference. If the current year's base is of opposite sign to the deferred bases then it is offset dollar for dollar against the deferred bases. Any remaining bases are then recognized over the remaining period for the base (5 less the number of years between the bases year and the valuation year).

Funding of Unfunded Actuarial Accrued Liability

Funded by the excess of future State contributions required by law over the amount of such contributions required to fund the normal cost of benefits. Based on a study of all new entrants hired in the period from 2007 through 2010 and taking into account all changes in benefit provisions, the normal cost for benefits provided by the System is 10.60% of payroll (6.40% by members plus 4.20% by the State), which is 5.15% of payroll less than the total contributions required by law. It is intended that the excess amount of 5.15% of payroll will be used to amortize any unfunded actuarial accrued liabilities of the System, assuming that total payroll increases by 3.50% per year.

As of the valuation as of August 31, 2013, these excess contributions of 5.15% of pay are insufficient to amortize the UAAL under the required time period.

Assumed State Contribution Rate

Effective September 1, 2011, the General Appropriations Act increased the State contribution rate to 6.40% for fiscal year 2013. Effective September 1, 2013, the General Appropriations Act increased the State contribution rate to 6.80%. For purposes of determining the funding period, it was assumed that the State contribution rate (6.80%) would remain in place indefinitely. Beginning in fiscal year 2015, covered employers whose employees are not participating in Social Security will begin contributing 1.50% of the statutory minimum pay for employees whose positions are subject to the statutory minimum salary schedule. Combined it is expected that these contributions will be approximately 7.760% of payroll.

Schedule of Active Member Valuation Data

See table below:

Schedule of Active Member Valuation Data				
Valuation as of August 31	Number	Annual Payroll in Thousands	Average Annual Pay	Annual Percentage Increase in Average Pay
2008	801,455	\$33,237,904	\$41,472	3.7%
2009	817,537	35,096,890	42,930	3.5
2010	834,060	36,628,844	43,916	2.3
2011	828,919	36,797,011	44,392	1.1
2012	815,155	35,444,569	44,543	0.3
2013	831,302	36,504,576	44,634	0.2

Actuarial Information Pension Trust Fund

Other Actuarial Information

The Schedule of Retirees, Beneficiaries and Disabled Participants Added to and Removed from Rolls, the Solvency Test and the Analysis of Financial Experience appear in the following tables:

Schedule of Retirees, Beneficiaries and Disabled Participants Added to and Removed from Rolls								
(1) Valuation as of August 31	Added to Rolls		Removed from Rolls		Rolls - End of Year		(8) % Increase in Annual Allowances	(9) Average Annual Allowances
	(2) Number	(3) Annual Allowances	(4) Number	(5) Annual Allowances	(6) Number	(7) Annual Allowances		
2008	17,727	\$391,920,863	7,806	\$135,160,090	275,228	\$ 5,743,921,279	4.7%	\$ 20,870
2009	17,326	392,452,923	7,940	136,537,511	284,614	5,999,836,691	4.5	21,081
2010	20,076	473,512,423	8,199	142,187,645	296,491	6,331,161,469	5.5	21,354
2011	24,688	620,038,676	8,499	147,985,004	312,680	6,803,215,141	7.5	21,758
2012	27,915	697,134,389	8,848	155,597,838	331,747	7,344,751,692	8.0	22,140
2013	25,825	743,998,946	9,344	165,231,795	348,228	7,923,518,843	7.9	22,754

Solvency Test

A short-term solvency test is one means of checking a retirement system's progress under its funding program. The schedule below provides a historical illustration of a short-term solvency test for TRS wherein present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present annuitants (Retirees and Beneficiaries); (3) the liabilities for active members under the Entry Age Normal actuarial cost method including a projection of future salary increases and anticipated future service (Active Members (State Financed Portion)).

Under the level percent of payroll financing followed by TRS, liabilities for active member contributions on deposit and the liabilities for future benefits to present retirees and beneficiaries will be fully covered by present assets except in rare circumstances. In addition, liabilities for active member benefits earned or to be earned in the future will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of active member benefits will increase over time.

A Schedule of Funding Progress including a 6-year Summary of Actuarial Accrued Liabilities and Unfunded Actuarial Accrued Liabilities can be found in the Required Supplementary Information immediately following the Notes to the Financial Statements.

Solvency Test							
(AMOUNTS SHOWN IN MILLIONS)							
Aggregate Actuarial Accrued Liabilities For				Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets			
(1) Valuation as of August 31	(2) Active Member Contributions*	(3) Retirees and Beneficiaries*	(4) Active Members (State Financed Portion)	(5) Valuation Assets	(6) Active Member Contributions*	(7) Retirees and Beneficiaries*	(8) Active Members (State Financed Portion)
2008	\$ 23,928	\$ 53,243	\$ 44,585	\$ 110,233	100%	100%	74.2%
2009	23,914	55,484	48,632	106,384	100	100	55.5
2010	27,559	58,476	48,156	111,293	100	100	52.5
2011	28,911	63,470	46,934	115,253	100	100	48.7
2012	30,006	68,449	45,972	118,326	100	100	43.2
2013	31,365	73,841	45,460	121,730	100	100	36.4

*Adjusted for pending transfers to retired reserve at August 31 for pending retirements.

Actuarial Information Pension Trust Fund

Analysis of Financial Experience

Changes in Unfunded Actuarial Accrued Liabilities (UAAL)* Resulting from Differences Between Assumed Experience and Actual Experience

Increase/(Decrease) for Year (in Billions)

	2013	2012	2011	2010	2009	2008
Investment (Gains)/Losses	\$ 2.045	\$ 2.208	\$ 1.958	\$ 1.161	\$ 10.321	\$ (1.232)
Contribution Experience	1.911	1.258	0.826	0.797	0.149	0.228
Assumption Changes	0.708		(0.271)			.676
Liability Experience	(1.829)	(1.427)	(1.350)	(0.705)	(0.347)	(0.694)
Net Increase/(Decrease)	\$ 2.835	\$ 2.039	\$ 1.163	\$ 1.253	\$ 10.123	\$ (1.022)
Beginning UAAL	26.101	24.062	22.899	21.646	11.523	12.545
Ending UAAL	\$ 28.936	\$ 26.101	\$ 24.062	\$ 22.899	\$ 21.646	\$ 11.523

* Calculated on a 5-year smoothed market basis.



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November 4, 2013

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

Subject: GASB 43 Actuarial Valuation as of August 31, 2013 for TRS-Care

Submitted in this report are the results of an Actuarial Valuation of the liabilities associated with the employer financed retiree health benefits provided through TRS-Care, a benefit program designed to provide post-retirement medical benefits for certain members of the Teacher Retirement System of Texas (TRS). The date of the valuation was August 31, 2013. This report was prepared at the request of TRS.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements 43 and 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the financial reporting requirements of TRS-Care and participating employers may produce significantly different results. Actuarial valuations of the post-retirement benefits are performed annually.

The valuation was based upon information, furnished by TRS, concerning retiree health benefits, members' census, and financial data. Data was checked for internal consistency but was not otherwise audited. Certain demographic and economic assumptions are identical to the set of demographic and economic assumptions adopted by the Board based on the 2010 Experience Study of TRS. Assumptions applicable only to TRS-Care have changed since the prior report, and they are disclosed in the assumptions section of this report.

The following CAFR schedules were prepared by GRS and can be found in Section G of this report:

1. Actuarial Present Value of Benefits
2. Schedule of Funding Progress
3. Schedule of Contributions from Employer(s) and Other Contributing Entities
4. Key Actuarial Assumptions and Methods
5. Solvency Test
6. Analysis of Financial Experience
7. Schedule of Retirants and Beneficiaries Added and Removed from Rolls

GRS is not responsible for any trend data schedules not found in this report.

The current objective is to fund the Trust in order to maintain benefits through individual biennial periods. There is no arrangement into which the participating employers would make contributions to advance-fund the obligation. However, a Trust does exist into which participating employers are making contributions that roughly equal the annual expected net claim payments.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods. Joe Newton and Mehdi Riazzi are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

William J. Hickman
Senior Consultant

Joseph P. Newton, FSA, MAAA
Senior Consultant

Mehdi Riazzi, ASA, EA, MAAA
Consultant

Actuarial Information TRS-Care

Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2013 (With Comparative Data for August 31, 2012)
Based on a 5.25% discount rate

	2013	2012
Present Value of Benefits Being Paid		
Future Medical Claims	\$ 9,088,861,049	\$ 8,906,661,219
Future Rx Claims	10,441,627,210	8,657,667,616
Retiree Premiums Collected	(5,163,456,140)	(4,887,937,160)
NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES	\$ 14,367,032,119	\$ 12,676,391,675
Present Value of Benefits Payable in the Future to Present Active Members		
Future Medical Claims	\$ 19,886,583,108	\$ 22,363,767,477
Future Rx Claims	19,438,190,636	16,882,389,149
Retiree Premiums Collected	(9,696,952,532)	(10,561,910,242)
NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES	\$ 29,627,821,212	\$ 28,684,246,384
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 43,994,853,331	\$ 41,360,638,059

Summary of Cost Items

	2013	2012
Actuarial Present Value of Future Benefits	\$ 43,994,853,331	\$ 41,360,638,059
Present Value of Future Normal Costs	(14,160,082,069)	(13,818,351,467)
Actuarial Accrued Liability	\$ 29,834,771,262	\$ 27,542,286,592
Actuarial Value of Assets	(551,048,281)	(741,013,656)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 29,283,722,981	\$ 26,801,272,936

Actuarial Information TRS-Care

Actuarial Methods and Assumptions

The actuarial valuation of TRS-Care is prepared by Gabriel, Roeder, Smith & Company. The actuary relies on membership data and asset information provided by TRS staff. While not verifying the data at their source, the actuary performs such tests for consistency and reasonableness as deemed necessary to be satisfied with the appropriateness of using the data supplied.

A summary of the actuarial assumptions and methods used by the actuary are as follows:

The projected unit credit method of valuation was used in determining liabilities and normal costs. Differences in the past between assumed experience and actual experience ("actuarial gains and losses") become part of the actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest) which are level percents of payroll contributions.

A schedule of Funding Progress including a 5-year Summary of Actuarial Accrued Liabilities (AAL) and Unfunded Actuarial Accrued Liabilities (UAAL) can be found in the Required Supplementary Information found immediately following the Notes to the Financial Statements.

Other Actuarial Information

The Schedule of Retirants and Beneficiaries Added to and Removed from Rolls, the Solvency Test and the Analysis of Financial Experience appear in the following tables:

Schedule of Retirants and Beneficiaries Added to and Removed from Rolls								
(1) Valuation as of August 31	Added to Rolls		Removed from Rolls		Rolls - End of Year		(8) % Increase in Annual Allowances	(9) Average Annual Allowances
	(2) Number	(3) Annual Allowances	(4) Number	(5) Annual Allowances	(6) Number	(7) Annual Allowances*		
2008		\$		\$	198,968	\$605,932,252	NA	\$3,045
2009	12,158	54,271,769	8,192	19,365,868	202,934	694,017,558	14.5%	3,420
2010	14,996	71,136,696	7,924	21,837,784	210,006	757,979,912	9.2	3,609
2011	20,467	109,331,023	8,019	24,802,618	222,454	898,001,599	18.5	4,037
2012	19,407	92,279,848	8,220	28,700,248	233,641	768,682,199	(14.4)	3,290
2013	19,798	98,603,255	10,176	25,946,471	243,263	824,715,257	7.3	3,390

* Expected employer provided claims and expenses (net of retiree premiums).

Annual Allowances in Column (7) include increases due to health care inflation for continuing retirees. Therefore, the annual allowance is not equal to the beginning of year allowance plus the "Added to Rolls" allowance minus the "Removed from Rolls" allowance.

Solvency Test

A short-term solvency test is one means of checking a post-employment benefit fund's progress under its funding program. The following schedule provides a historical illustration of a short-term solvency test for TRS-Care wherein present valuation assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to members who have retired or for terminated members with vested benefits; (3) the liabilities for service already rendered by active members.

In a system that has been following the discipline of level contribution rate financing; the liabilities for future benefits for terminated employees will be fully covered by present assets, except in rare circumstances. The liabilities for services rendered by members will be at least partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability will increase over time. A decrease generally occurs in those years when substantial benefit improvements are granted, when full recommended contributions have not been made, or when there are actuarial experience losses. The funded ratio of the system based on total actuarial accrued liabilities provides an indication of how well the system is funded.

Actuarial Information TRS-Care

Solvency Test							
(AMOUNTS SHOWN IN MILLIONS)							
Aggregate Actuarial Accrued Liabilities For				Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets			
(1) Valuation as of August 31	(2) Active Member Contributions*	(3) Beneficiaries and Vested Terminations	(4) Members (Employer Financed Portion)	(5) Valuation Assets	(6) Active Member Contributions (5)/(2)	(7) Beneficiaries and Vested Terminations [(5)-(2)]/3	(8) Members (Employer Financed Portion) [(5)-(2)-(3))/(4)
2008	NA	\$ 9,318	\$ 12,994	\$ 729	NA	7.8%	0.0%
2009	NA	9,642	14,716	800	NA	8.3	0.0
2010	NA	10,918	14,889	815	NA	7.5	0.0
2011	NA	13,710	16,075	891	NA	6.5	0.0
2012	NA	12,676	14,866	741	NA	5.8	0.0
2013	NA	14,367	15,468	551	NA	3.8	0.0

*Active member contributions are non-refundable.

Analysis of Financial Experience						
(AMOUNTS SHOWN IN MILLIONS)						
Valuation as of August 31	Asset Gain/(Loss)	Liability Gain/(Loss)	New Assumptions Gain/(Loss)	Benefit Changes Gain/(Loss)	Contributions Gain/(Loss)	Net Gains/(Losses)
2011	\$ (36)	\$ (44)	\$ (2,003)	\$ 0	\$ (1,243)	\$ (3,326)
2012	(38)	2,148	(1,302)	3,458	(1,485)	2,781
2013	(31)	24	(1,699)	1,266	(1,458)	(1,898)

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STATISTICAL SECTION

$$E=mc^2$$

$$7+2=9$$

$$s=vt$$

$$1+1=$$

$$3 \times 1 = 3$$

$$3 \times 2 = 6$$

$$3 \times 3 = 9$$

$$3 \times 4 = 12$$

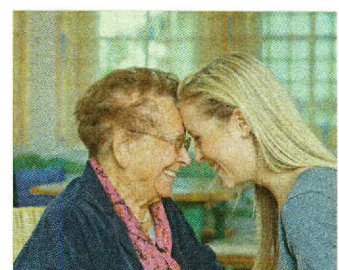
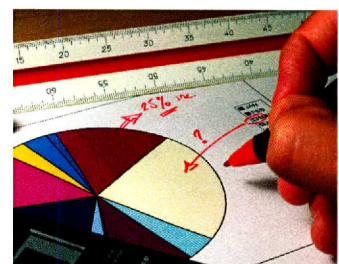
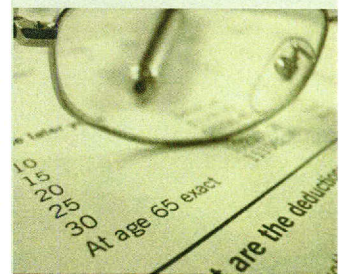
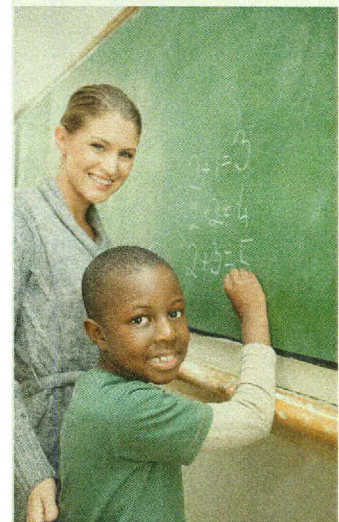
$$3 \times 5 = 15$$

$$a+b=c$$

$$x+y=z$$

$$a^2+b^2=c^2$$

$$\frac{1}{a} - \frac{2}{a} = 2$$



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Statistical Section Overview

The Statistical Section presents additional information to provide financial statement users with added historical perspective, context and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess the system's financial condition. Information is presented for Pension Trust Fund, TRS-Care, TRS-ActiveCare, and the Non-major 403(b) Administrative Program.

FINANCIAL TRENDS INFORMATION

The schedules on the following pages show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- Changes in Fiduciary Net Position
- Revenues, Expenses, and Changes in Fund Net Position
- Benefits and Refund Deductions from Net Position by Type
- Benefits Deductions from Net Position by Type

OPERATING INFORMATION

The schedules presented immediately following the Financial Trends Information contain benefit and reporting operating information to provide contextual data about the system's operations and resources to assist users in using financial statement information to understand the benefit services provided by the system. The operating information schedules presented are:

- Average Benefit Payments
- Retired Members by Type of Benefit
- Health Benefit Payments by Range
- Principal Participating Reporting Entities

In addition, a complete listing of participating reporting entities has been included. The information in this section was derived from internal sources and the CAFR for the relevant year.

FINANCIAL TRENDS INFORMATION
Changes in Fiduciary Net Position

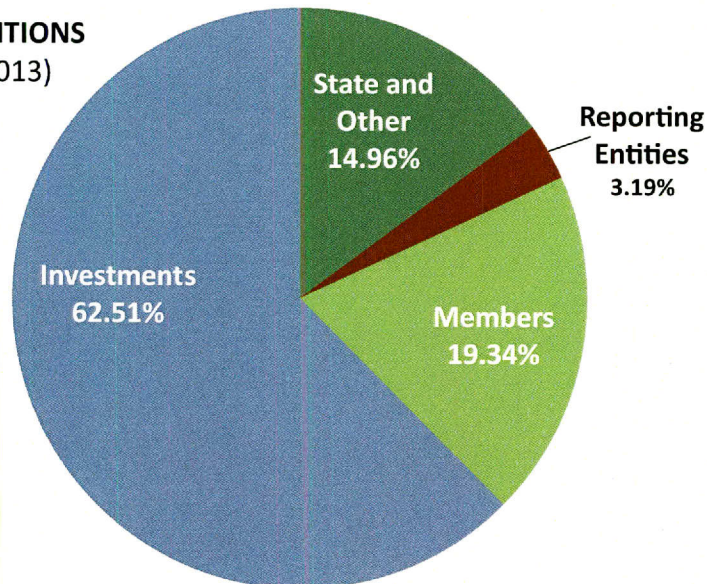
 PENSION TRUST FUND
 For the Fiscal Years Ended August 31

	2013	2012	2011	2010
Additions				
Member Contributions	\$ 2,400,495,814	\$ 2,313,992,187	\$ 2,349,131,829	\$ 2,289,537,187
State Contributions	1,760,477,144	1,684,875,867	1,922,287,082	1,885,876,036
Reporting Entities Contributions	504,952,371	377,522,770	419,968,516	412,268,503
Service Contributions Transferred in from ERS	16,365,042	14,940,228	12,628,712	11,167,772
Investment Income:				
Interest, Dividends and Securities Lending	1,967,994,852	2,028,565,301	2,203,623,538	1,978,962,334
Net Appreciation (Depreciation) in Fair Value	8,055,066,425	5,972,016,449	12,616,681,465	7,542,738,000
Less: Investing Activity Expenses	(188,925,272)	(153,283,460)	(183,369,775)	(111,918,654)
Other	2,629,383	1,867,389	1,576,613	2,453,980
TOTAL ADDITIONS	\$ 14,519,055,759	\$ 12,240,496,731	\$ 19,342,527,980	\$ 14,011,085,158
Deductions				
Benefits	\$ 8,075,208,484	\$ 7,723,622,166	\$ 7,173,504,788	\$ 6,617,397,374
Excess Benefits	2,520,830	2,483,369	1,750,588	1,504,510
Refunds of Contributions	391,292,412	381,231,352	334,268,822	265,186,589
Service Contributions Transferred to ERS	75,513,146	70,985,963	64,772,079	61,570,750
Administrative Expenses, Excluding Investing Activity Expenses	36,264,062	33,073,740	35,849,819	29,992,608
TOTAL DEDUCTIONS	\$ 8,580,798,934	\$ 8,211,396,590	\$ 7,610,146,096	\$ 6,975,651,831
Net Increase (Decrease)	\$ 5,938,256,825	\$ 4,029,100,141	\$ 11,732,381,884	\$ 7,035,433,327
Net Position - Beginning of Year	\$ 111,449,887,034	\$ 107,420,786,893	\$ 95,688,405,009	\$ 88,652,971,682
Net Position - End of Year	\$ 117,388,143,859	\$ 111,449,887,034	\$ 107,420,786,893	\$ 95,688,405,009

FINANCIAL TRENDS INFORMATION

2009	2008	2007	2006	2005	2004
\$ 2,181,600,283	\$ 2,085,345,861	\$ 1,949,093,276	\$ 1,853,971,836	\$ 1,728,333,818	\$ 1,721,504,445
1,758,579,809	1,704,088,048	1,472,584,963	1,333,143,442	1,258,597,882	1,242,305,696
412,728,096	353,524,480	282,077,713	267,399,619	221,158,942	192,395,672
9,558,927	8,897,722	7,913,660	6,908,439	6,188,845	5,600,176
2,126,151,392	3,414,753,511	3,084,172,953	2,640,734,877	2,360,711,299	2,134,920,032
(16,030,794,035)	(7,992,472,030)	11,232,429,170	6,326,056,726	9,607,205,397	7,024,439,015
(68,990,517)	(29,330,150)	(20,942,402)	(19,099,395)	(17,394,917)	(16,252,645)
1,768,337	2,080,418	2,892,262	3,178,512	2,324,123	2,754,738
\$ (9,609,397,708)	\$ (453,112,140)	\$ 18,010,221,595	\$ 12,412,294,056	\$ 15,167,125,389	\$ 12,307,667,129
\$ 6,294,434,115	\$ 6,406,644,540	\$ 5,762,885,044	\$ 5,540,134,272	\$ 5,349,900,638	\$ 5,452,404,274
1,553,381	1,646,494	1,453,605	1,041,961	926,187	516,529
266,695,076	278,002,614	280,005,584	267,810,017	245,148,971	221,857,340
57,135,135	52,773,854	48,538,424	45,716,307	41,200,491	38,068,440
28,310,448	26,122,662	27,502,276	26,444,405	25,114,716	24,841,300
\$ 6,648,128,155	\$ 6,765,190,164	\$ 6,120,384,933	\$ 5,881,146,962	\$ 5,662,291,003	\$ 5,737,687,883
\$ (16,257,525,863)	\$ (7,218,302,304)	\$ 11,889,836,662	\$ 6,531,147,094	\$ 9,504,834,386	\$ 6,569,979,246
\$ 104,910,497,545	\$ 112,128,799,849	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461
\$ 88,652,971,682	\$ 104,910,497,545	\$ 112,128,799,849	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707

PENSION TRUST FUND ADDITIONS Ten-Year Average (2004-2013)



FINANCIAL TRENDS INFORMATION
Changes in Fiduciary Net Position

 TRS-CARE
 For the Fiscal Years Ended August 31

	2013	2012	2011	2010
Additions				
Health Care Premiums	\$ 355,685,504	\$ 363,348,030	\$ 345,164,271	\$ 332,481,933
State Contributions	241,459,490	271,925,242	282,782,431	279,250,547
Member Contributions	180,824,523	176,751,407	183,808,580	181,512,856
Reporting Entities Contributions	160,952,396	154,607,926	158,724,010	155,918,241
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	117,770	103,676	108,440	101,511
Federal Revenue	74,511,473	68,633,946	136,887,805	70,795,686
Rebate and Discount Income*	82,074,803			
Investment Income	3,041,001	5,189,934	8,168,640	11,679,229
Legislative Appropriations Transfer from TRS-ActiveCare				
TOTAL ADDITIONS	\$ 1,098,666,960	\$ 1,040,560,161	\$ 1,115,644,177	\$ 1,031,740,003
Deductions				
Health Care Claims and Insurance Premium Payments	\$ 1,241,656,374	\$ 1,142,131,410	\$ 992,478,380	\$ 971,356,805
Health Care Claims Processing	43,577,852	44,571,383	44,115,872	42,535,601
Administrative Expenses, Excluding Investing Activity Expenses	3,398,109	3,714,018	3,143,922	3,031,686
TOTAL DEDUCTIONS	\$ 1,288,632,335	\$ 1,190,416,811	\$ 1,039,738,174	\$ 1,016,924,092
Net Increase (Decrease)	\$ (189,965,375)	\$ (149,856,650)	\$ 75,906,003	\$ 14,815,911
Net Position - Beginning of Year	\$ 741,013,656	\$ 890,870,306	\$ 814,964,303	\$ 800,148,392
Net Position - End of Year	\$ 551,048,281	\$ 741,013,656	\$ 890,870,306	\$ 814,964,303

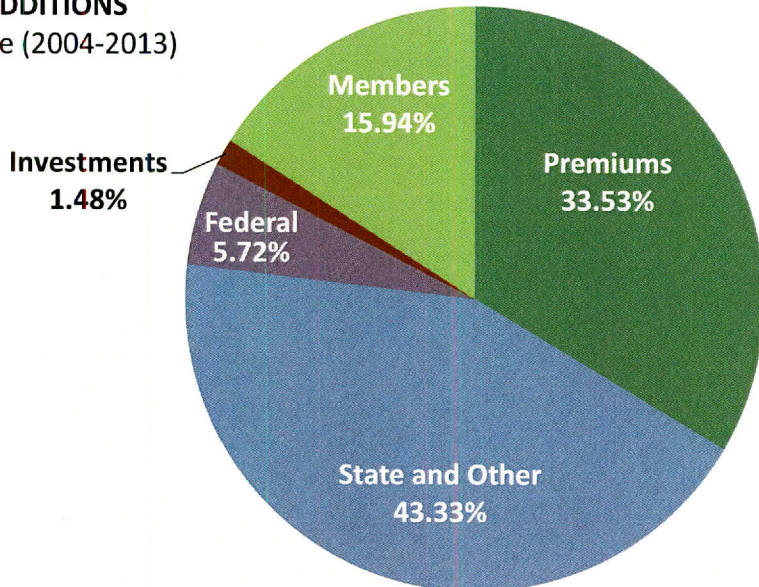
* Prior to fiscal year 2013, rebates were offset within health care claims.

FINANCIAL TRENDS INFORMATION

2009	2008	2007	2006	2005	2004
\$ 329,723,191	\$ 328,505,433	\$ 323,957,945	\$ 326,844,982	\$ 322,780,191	\$ 248,552,679
267,471,299	254,722,174	238,190,720	215,666,940	266,569,733	454,791,657
173,856,344	165,569,413	154,823,968	140,183,511	101,198,783	99,297,097
149,562,613	141,672,630	136,008,512	118,607,527	80,914,228	79,457,387
95,929	91,945	55,932	53,283	41,994	37,173
61,530,735	59,486,239	52,329,617	34,611,607		
17,482,143	29,252,347	32,671,539	21,435,792	11,258,874	4,803,809
					42,000,000
\$ 999,722,254	\$ 979,300,181	\$ 938,038,233	\$ 857,403,642	\$ 782,763,803	\$ 928,939,802
\$ 885,132,865	\$ 833,509,538	\$ 742,293,147	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957
40,364,063	36,747,710	33,407,937	31,975,150	31,262,147	23,914,851
2,916,259	3,000,536	2,526,189	2,513,102	2,070,863	2,417,349
\$ 928,413,187	\$ 873,257,784	\$ 778,227,273	\$ 721,574,543	\$ 693,892,093	\$ 607,687,157
\$ 71,309,067	\$ 106,042,397	\$ 159,810,960	\$ 135,829,099	\$ 88,871,710	\$ 321,252,645
\$ 728,839,325	\$ 622,796,928	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)
\$ 800,148,392	\$ 728,839,325	\$ 622,796,928	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159

TRS-CARE ADDITIONS

Ten-Year Average (2004-2013)



FINANCIAL TRENDS INFORMATION

Revenues, Expenses, and Changes in Fund Net Position

TRS-ACTIVECARE
For the Fiscal Years Ended August 31

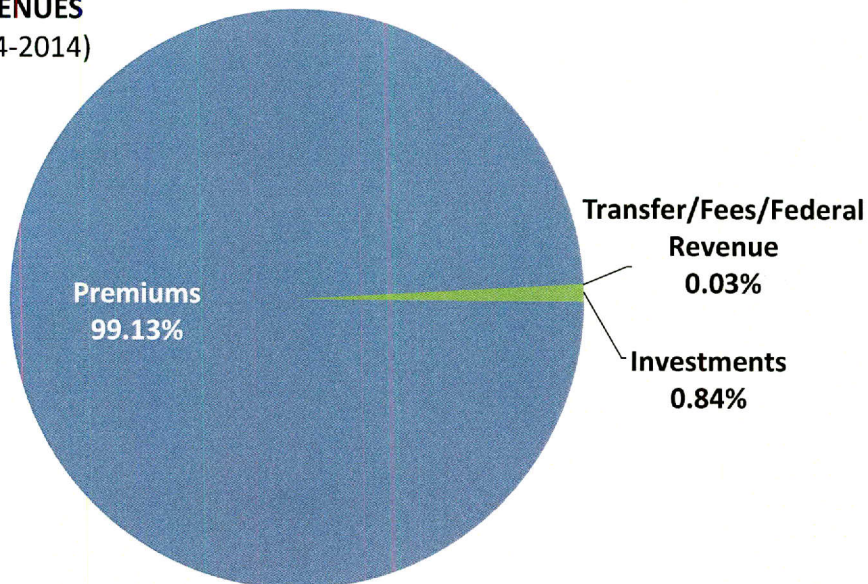
	2013	2012	2011	2010
Revenues				
Health Care Premiums	\$ 1,808,521,683	\$ 1,749,905,117	\$ 1,549,530,891	\$ 1,329,171,411
Administrative Fees	137,630	136,324	135,917	125,321
Investment Income	746,936	1,697,553	3,387,062	6,421,269
Federal Revenue ARRA - COBRA Reimbursements		29,706	667,746	1,225,158
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	75,664	72,094	67,373	64,328
TOTAL REVENUES	\$ 1,809,481,913	\$ 1,751,840,794	\$ 1,553,788,989	\$ 1,337,007,487
Expenses				
Health Care Claims	\$ 1,785,069,768	\$ 1,718,903,645	\$ 1,510,090,981	\$ 1,313,114,197
Health Care Claims Processing	84,903,101	83,346,223	76,960,951	67,906,654
Premium Payments to HMOs	100,905,702	89,706,406	76,270,706	64,532,253
Administrative Expenses	2,351,802	2,176,610	2,207,051	1,883,148
Legislative Appropriations Transfer to TRS-Care				
TOTAL EXPENSES	\$ 1,973,230,373	\$ 1,894,132,884	\$ 1,665,529,689	\$ 1,447,436,252
Change in Net Position	\$ (163,748,460)	\$ (142,292,090)	\$ (111,740,700)	\$ (110,428,765)
Net Position - Beginning of Year	\$ 45,777,337	\$ 188,069,427	\$ 299,810,127	\$ 410,238,892
Restatements				
Beginning of Year, as Restated	\$ 45,777,337	\$ 188,069,427	\$ 299,810,127	\$ 410,238,892
Net Position - End of Year *	\$ (117,971,123)	\$ 45,777,337	\$ 188,069,427	\$ 299,810,127

* For fiscal years prior to FY 2013, Net position balances were all restricted. In FY 2013 the unrestricted balance is \$(117,971,123) and restricted is zero.

FINANCIAL TRENDS INFORMATION

2009	2008	2007	2006	2005	2004
\$ 1,172,011,048	\$ 1,096,537,022	\$ 939,694,028	\$ 861,464,205	\$ 823,726,341	\$ 758,062,552
187,813	186,844	184,937	183,470	183,317	192,763
11,597,992	21,164,640	26,016,380	18,650,516	8,915,711	3,641,100
170,219					
64,975	61,894	46,446	40,979	35,626	24,050
\$ 1,184,032,047	\$ 1,117,950,400	\$ 965,941,791	\$ 880,339,170	\$ 832,860,995	\$ 761,920,465
\$ 1,122,646,958	\$ 952,156,339	\$ 801,148,962	\$ 708,972,484	\$ 663,361,138	\$ 520,998,423
60,934,432	54,583,499	48,177,777	53,013,214	53,697,572	53,564,510
64,820,440	68,204,743	58,742,363	49,466,150	42,574,641	40,210,539
1,861,949	1,830,258	1,775,831	1,680,952	1,607,113	918,619
					42,000,000
\$ 1,250,263,779	\$ 1,076,774,839	\$ 909,844,933	\$ 813,132,800	\$ 761,240,464	\$ 657,692,091
\$ (66,231,732)	\$ 41,175,561	\$ 56,096,858	\$ 67,206,370	\$ 71,620,531	\$ 104,228,374
\$ 476,470,624	\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779
					(278,849)
\$ 476,470,624	\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,142,930
\$ 410,238,892	\$ 476,470,624	\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304

TRS-ACTIVECARE REVENUES
Ten-Year Average (2004-2014)



FINANCIAL TRENDS INFORMATION

Revenues, Expenses, and Changes in Fund Net Position

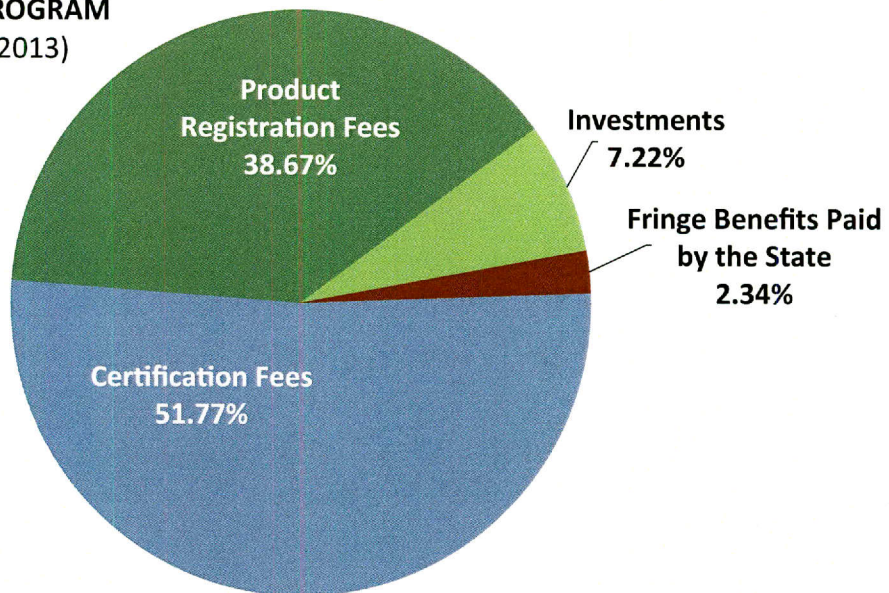
403(b) ADMINISTRATIVE PROGRAM
For the Fiscal Years Ended August 31

	2013	2012	2011	2010
Revenues				
Certification Fees	\$ 60,000	\$ 114,000	\$ 12,000	\$ 30,000
Product Registration Fees	81,000	63,000	3,000	21,000
Investment Income	1,333	707	1,801	4,318
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	2,890	2,772	7,898	8,034
TOTAL REVENUES	\$ 145,223	\$ 180,479	\$ 24,699	\$ 63,352
Expenses				
Administrative Expenses	\$ 40,194	\$ 51,203	\$ 148,444	\$ 172,835
TOTAL EXPENSES	\$ 40,194	\$ 51,203	\$ 148,444	\$ 172,835
Change in Net Position	\$ 105,029	\$ 129,276	\$ (123,745)	\$ (109,483)
Net Position - Beginning of Year	\$ 251,308	\$ 122,032	\$ 245,777	\$ 355,260
Net Position - End of Year	\$ 356,337	\$ 251,308	\$ 122,032	\$ 245,777

FINANCIAL TRENDS INFORMATION

2009	2008	2007	2006	2005	2004
\$ 6,000	\$ 30,000	\$ 171,000	\$ 30,000	\$ 10,000	\$ 15,000
9,000	180,000				
8,558	19,337	12,070	9,532	5,529	3,495
\$ 23,558	\$ 229,337	\$ 183,070	\$ 39,532	\$ 15,529	\$ 18,495
\$ 88,000	\$ 192,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000
\$ 88,000	\$ 192,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000
\$ (64,442)	\$ 37,337	\$ 159,070	\$ 15,532	\$ (8,471)	\$ (5,505)
\$ 419,702	\$ 382,365	\$ 223,295	\$ 207,763	\$ 216,234	\$ 221,739
\$ 355,260	\$ 419,702	\$ 382,365	\$ 223,295	\$ 207,763	\$ 216,234

403(B) ADMINISTRATIVE PROGRAM
Ten-year Average (2004-2013)



FINANCIAL TRENDS INFORMATION
Benefit and Refund Deductions from Net Position by Type

 PENSION TRUST FUND
 Last Ten Fiscal Years

	2013	2012	2011	2010
Type of Benefit				
Service Retirements**	\$ 7,251,369,740	\$ 6,808,592,209	\$ 6,241,946,655	\$ 5,841,963,927
Deferred Retirement Option	17,223,523	22,361,937	27,822,115	22,607,290
Partial Lump Sum Option	410,323,790	501,152,157	524,925,790	385,555,126
Disability Retirements	156,308,471	150,238,202	144,865,109	141,396,837
Death and Survivor Benefits:				
Annual Salary	41,219,707	46,859,444	47,295,194	45,698,147
Survivor Annuities	94,563,001	92,126,049	86,898,720	82,574,358
Life Annuities	87,044,328	85,816,402	84,893,007	83,238,898
60 Monthly Payments	12,659,471	11,816,313	11,564,275	10,824,948
Remainder of Contributions	4,496,453	4,659,453	3,293,923	3,537,843
TOTAL BENEFITS	\$ 8,075,208,484	\$ 7,723,622,166	\$ 7,173,504,788	\$ 6,617,397,374
Type of Refund				
Death	\$ 4,705,228	\$ 5,294,006	\$ 3,984,340	\$ 3,710,941
Separation	386,587,184	375,937,346	330,284,482	261,475,648
TOTAL REFUNDS	\$ 391,292,412	\$ 381,231,352	\$ 334,268,822	\$ 265,186,589

* A one-time supplemental payment capped at \$2,400 was distributed to eligible retirees in January 2008.

** For fiscal years 2010 and prior, Service Retirements changed due to the reclassification of Transfers of Service Contributions with Employees Retirement System of Texas.

Benefit Deductions from Net Position by Type

 TRS-CARE
 Last Ten Fiscal Years

	2013	2012	2011	2010
Type of Claim				
Medical Claims & Insurance Premiums	\$ 687,469,016	\$ 687,987,585	\$ 608,461,321	\$ 575,539,788
Prescription Drugs	554,187,358	454,143,825	384,017,059	395,817,017
TOTAL	\$ 1,241,656,374	\$ 1,142,131,410	\$ 992,478,380	\$ 971,356,805

Benefit Deductions from Net Position by Type

 TRS-ACTIVECARE
 Last Ten Fiscal Years

	2013	2012	2011	2010
Type of Claim				
Medical Claims & Insurance Premiums	\$ 1,613,167,792	\$ 1,450,574,875	\$ 1,242,673,156	\$ 1,092,107,916
Prescription Drugs	272,807,678	268,328,770	267,417,825	221,006,281
TOTAL	\$ 1,885,975,470	\$ 1,718,903,645	\$ 1,510,090,981	\$ 1,313,114,197

FINANCIAL TRENDS INFORMATION

2009	2008	2007	2006	2005	2004
\$5,565,925,090	\$5,649,308,335*	\$5,064,191,508	\$4,857,348,525	\$ 4,674,681,613	\$4,289,249,761
23,272,668	26,757,772	31,939,855	36,033,028	55,152,336	139,047,656
348,261,100	363,668,944	325,688,244	313,359,714	288,088,743	696,201,755
138,569,650	146,907,654	134,866,736	132,155,505	129,331,288	125,992,690
43,235,232	42,216,290	38,928,295	37,880,818	40,838,680	41,669,051
79,951,723	78,862,569	76,116,829	74,115,776	74,325,670	74,320,247
81,764,240	85,576,098	78,322,931	77,537,970	76,113,908	75,839,736
10,180,012	10,169,530	9,386,943	8,581,053	7,583,719	7,089,131
3,274,400	3,177,348	3,443,703	3,121,883	3,784,681	2,994,247
<u>\$6,294,434,115</u>	<u>\$6,406,644,540</u>	<u>\$5,762,885,044</u>	<u>\$ 5,540,134,272</u>	<u>\$ 5,349,900,638</u>	<u>\$5,452,404,274</u>
\$ 3,084,718	\$ 2,520,283	\$ 2,073,365	\$ 2,322,538	\$ 1,766,957	\$ 1,460,631
263,610,358	275,482,331	277,932,219	265,487,479	243,382,014	220,396,709
<u>\$ 266,695,076</u>	<u>\$ 278,002,614</u>	<u>\$ 280,005,584</u>	<u>\$ 267,810,017</u>	<u>\$ 245,148,971</u>	<u>\$ 221,857,340</u>

2009	2008	2007	2006	2005	2004
\$ 531,239,020	\$ 498,767,038	\$ 437,519,746	\$ 427,553,404	\$ 431,036,095	\$ 366,840,457
353,893,845	334,742,500	304,773,401	259,532,887	229,522,988	214,514,500
<u>\$ 885,132,865</u>	<u>\$ 833,509,538</u>	<u>\$ 742,293,147</u>	<u>\$ 687,086,291</u>	<u>\$ 660,559,083</u>	<u>\$ 581,354,957</u>

2009	2008	2007	2006	2005	2004
\$ 934,733,927	\$ 788,240,087	\$ 659,478,760	\$ 587,513,767	\$ 546,106,804	\$ 425,394,453
187,913,031	163,916,252	141,670,202	121,458,717	117,254,334	95,603,970
<u>\$1,122,646,958</u>	<u>\$ 952,156,339</u>	<u>\$ 801,148,962</u>	<u>\$ 708,972,484</u>	<u>\$ 663,361,138</u>	<u>\$ 520,998,423</u>

OPERATING INFORMATION

Average Benefit Payments

PENSION TRUST FUND
Last Ten Fiscal Years

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
9-1-03 to 8-31-04						
Average Monthly Benefit *	\$ 276	\$ 495	\$ 1,012	\$ 1,542	\$ 2,245	\$ 3,120
Average Final Average Salary	\$23,463	\$26,777	\$ 32,460	\$ 38,613	\$ 46,745	\$ 54,523
Number of Retirees	1,794	2,278	3,089	5,670	7,998	6,254
9-1-04 to 8-31-05						
Average Monthly Benefit *	\$ 273	\$ 535	\$ 1,059	\$ 1,603	\$ 2,334	\$ 3,271
Average Final Average Salary	\$24,774	\$28,329	\$ 35,335	\$ 41,197	\$ 49,440	\$ 58,158
Number of Retirees	1,410	1,226	1,427	2,073	3,172	2,490
9-1-05 to 8-31-06						
Average Monthly Benefit *	\$ 280	\$ 582	\$ 1,096	\$ 1,634	\$ 2,340	\$ 3,314
Average Final Average Salary	\$25,456	\$30,647	\$ 36,767	\$ 42,297	\$ 49,650	\$ 58,987
Number of Retirees	1,494	1,129	1,578	2,483	3,332	2,700
9-1-06 to 8-31-07						
Average Monthly Benefit *	\$ 310	\$ 601	\$ 1,120	\$ 1,698	\$ 2,426	\$ 3,458
Average Final Average Salary	\$27,448	\$31,601	\$ 37,444	\$ 44,120	\$ 51,683	\$ 61,113
Number of Retirees	1,575	1,183	1,554	2,626	3,290	2,834
9-1-07 to 8-31-08						
Average Monthly Benefit *	\$ 314	\$ 620	\$ 1,151	\$ 1,758	\$ 2,536	\$ 3,510
Average Final Average Salary	\$27,891	\$32,395	\$ 38,418	\$ 45,579	\$ 53,613	\$ 61,844
Number of Retirees	1,532	1,282	1,902	2,941	3,754	3,332
9-1-08 to 8-31-09						
Average Monthly Benefit *	\$ 351	\$ 657	\$ 1,218	\$ 1,771	\$ 2,611	\$ 3,632
Average Final Average Salary	\$29,749	\$33,089	\$ 40,363	\$ 45,650	\$ 54,744	\$ 63,067
Number of Retirees	1,463	1,377	1,918	2,877	3,361	3,229
9-1-09 to 8-31-10						
Average Monthly Benefit *	\$ 363	\$ 669	\$ 1,225	\$ 1,838	\$ 2,637	\$ 3,731
Average Final Average Salary	\$30,285	\$34,344	\$ 40,452	\$ 47,301	\$ 55,172	\$ 64,234
Number of Retirees	1,676	1,604	2,237	3,517	3,825	4,187
9-1-10 to 8-31-11						
Average Monthly Benefit *	\$ 389	\$ 710	\$ 1,264	\$ 1,868	\$ 2,665	\$ 3,768
Average Final Average Salary	\$32,148	\$35,594	\$ 42,114	\$ 48,185	\$ 55,185	\$ 64,945
Number of Retirees	2,093	2,047	2,875	4,544	4,986	6,394
9-1-11 to 8-31-12						
Average Monthly Benefit *	\$ 390	\$ 725	\$ 1,304	\$ 1,920	\$ 2,780	\$ 3,857
Average Final Average Salary	\$32,203	\$36,522	\$ 43,176	\$ 49,389	\$ 56,751	\$ 66,342
Number of Retirees	2,138	2,226	2,855	4,258	4,371	5,210
9-1-12 to 8-31-13						
Average Monthly Benefit *	\$ 387	\$ 738	\$ 1,289	\$ 1,930	\$ 2,797	\$ 3,855
Average Final Average Salary	\$31,445	\$36,970	\$ 43,002	\$ 49,023	\$ 56,384	\$ 65,422
Number of Retirees	1,935	2,076	2,768	3,991	4,327	4,555

* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$696.2, \$288.1, \$313.4, \$325.7, \$363.7, \$348.3, \$385.6, \$524.9, \$501.2 and \$410.3 million in fiscal years 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013 respectively.

OPERATING INFORMATION

Average Benefit Payments

TRS-CARE
Last Ten Fiscal Years

2013		
Average Benefit Per Participant	\$	5,300
Benefit Payments	\$	1,241,656,374
Average Participants		234,277
2012		
Average Benefit Per Participant	\$	5,115
Benefit Payments	\$	1,142,131,410
Average Participants		223,287
2011		
Average Benefit Per Participant	\$	4,718
Benefit Payments	\$	992,478,380
Average Participants		210,353
2010		
Average Benefit Per Participant	\$	4,790
Benefit Payments	\$	971,356,805
Average Participants		202,778
2009		
Average Benefit Per Participant	\$	4,464
Benefit Payments	\$	885,132,865
Average Participants		198,282
2008		
Average Benefit Per Participant	\$	4,302
Benefit Payments	\$	833,509,538
Average Participants		193,733
2007		
Average Benefit Per Participant	\$	3,891
Benefit Payments	\$	742,293,147
Average Participants		190,748
2006		
Average Benefit Per Participant	\$	3,659
Benefit Payments	\$	687,086,291
Average Participants		187,804
2005		
Average Benefit Per Participant	\$	3,563
Benefit Payments	\$	660,559,083
Average Participants		185,391
2004		
Average Benefit Per Participant	\$	3,435
Benefit Payments	\$	581,354,957
Average Participants		169,265

Average Benefit Payments

TRS-ACTIVECARE
Last Ten Fiscal Years

2013		
Average Benefit Per Participant	\$	3,966
Benefit Payments	\$	1,885,975,470
Average Participants		475,508
2012		
Average Benefit Per Participant	\$	3,868
Benefit Payments	\$	1,718,903,645
Average Participants		444,382
2011		
Average Benefit Per Participant	\$	3,662
Benefit Payments	\$	1,510,090,981
Average Participants		412,385
2010		
Average Benefit Per Participant	\$	3,509
Benefit Payments	\$	1,313,114,197
Average Participants		374,201
2009		
Average Benefit Per Participant	\$	3,324
Benefit Payments	\$	1,122,646,958
Average Participants		337,781
2008		
Average Benefit Per Participant	\$	3,060
Benefit Payments	\$	952,156,339
Average Participants		311,200
2007		
Average Benefit Per Participant	\$	2,835
Benefit Payments	\$	801,148,962
Average Participants		282,639
2006		
Average Benefit Per Participant	\$	2,745
Benefit Payments	\$	708,972,484
Average Participants		258,301
2005		
Average Benefit Per Participant	\$	2,714
Benefit Payments	\$	663,361,138
Average Participants		244,405
2004		
Average Benefit Per Participant	\$	2,357
Benefit Payments	\$	520,998,423
Average Participants		221,024

OPERATING INFORMATION

Retired Members by Type of Benefit

PENSION TRUST FUND
As of August 31, 2013

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement ^a						
		1	2	3	4	5	6	7
\$ 1 - 200	13,497	5,147	6,697	297	1,254	50	38	14
\$ 201 - 400	36,236	9,459	11,899	646	2,074	1,020	838	10,300
\$ 401 - 600	23,215	10,715	8,627	1,355	1,976	294	248	0
\$ 601 - 800	20,738	11,844	5,335	1,329	1,617	352	261	0
\$ 801 - 1,000	19,963	13,044	3,702	1,108	1,513	387	209	0
\$ 1,001 - 1,200	17,553	12,335	2,611	822	1,333	307	145	0
\$ 1,201 - 1,400	15,011	10,535	2,165	697	1,255	231	128	0
\$ 1,401 - 1,600	15,579	10,912	2,539	612	1,182	250	84	0
\$ 1,601 - 1,800	16,015	11,549	2,561	529	1,063	228	85	0
\$ 1,801 - 2,000	16,735	12,900	2,213	460	874	234	54	0
\$ over 2,000	153,686	135,725	8,810	1,407	6,299	1,344	101	0
Totals	348,228	244,165	57,159	9,262	20,440	4,697	2,191	10,314

^aType of Retirement:

- 1 - Normal Retirement of Age and Service
- 2 - Early Retirement
- 3 - Disability Retirement
- 4 - Survivor Payment, Joint Life or Guarantee
- 5 - Survivor Payment, Death in Service
- 6 - Survivor Payment, After Disability Retirement
- 7 - Survivor Payment, After Service Retirement

Health Benefit Payments by Range

TRS-CARE
As of August 31, 2013

Benefit Range	Average Participants
\$ 0	15,126
\$ 1 - 5,000	168,154
\$ 5,001 - 10,000	29,557
\$ 10,001 - 20,000	11,924
\$ 20,001 - 30,000	3,273
\$ 30,001 - 40,000	1,735
\$ 40,001 - 50,000	1,016
\$ 50,001 - 100,000	2,148
\$ over 100,000	1,344
Total	234,277

Health Benefit Payments by Range

TRS-ACTIVECARE
As of August 31, 2013

Benefit Range	Average Participants
\$ 0	36,648
\$ 1 - 5,000	375,906
\$ 5,001 - 10,000	29,688
\$ 10,001 - 20,000	16,557
\$ 20,001 - 30,000	6,056
\$ 30,001 - 40,000	3,107
\$ 40,001 - 50,000	1,913
\$ 50,001 - 100,000	3,591
\$ over 100,000	2,042
Total	475,508

OPERATING INFORMATION

Option Selected ^b					
1	2	3	4	5	6
6,039	4,725	1,197	485	1,007	44
11,372	7,757	2,317	1,080	1,925	11,785
10,976	6,872	2,649	1,037	1,681	0
9,494	6,165	2,816	986	1,277	0
9,912	5,702	2,931	966	1,172	0
7,514	5,367	2,851	797	1,024	0
5,931	4,983	2,655	637	805	0
5,964	5,365	2,692	680	878	0
6,135	5,535	2,808	641	896	0
6,219	5,864	3,085	604	963	0
55,061	56,194	29,490	4,949	7,992	0
133,897	114,529	55,491	12,862	19,620	11,829

^b Option Selected:

- Option 1 - Life Annuity
- Option 2 - Joint to Survivor
- Option 3 - Joint to Survivor 50% / Joint to Survivor 75%
- Option 4 - 5-Year Guarantee
- Option 5 - 10-Year Guarantee
- Option 6 - Survivor Benefit

OPERATING INFORMATION
Principal Participating Reporting Entities

PENSION TRUST FUND
 Current Fiscal Year and Nine Years Ago

Participating Reporting Entity	2013			2004		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	22,405	1	2.79%	24,283	1	3.52%
Dallas ISD	18,462	2	2.30	19,243	2	2.79
UT MD Anderson Cancer Center	17,522	3	2.19	11,559	3	1.67
Cypress Fairbanks ISD	13,402	4	1.67	9,787	6	1.42
Northside ISD	12,382	5	1.55	9,642	7	1.40
Austin ISD	12,188	6	1.52	10,533	4	1.53
Fort Worth ISD	10,523	7	1.31	10,134	5	1.47
UT at Austin	10,135	8	1.26	8,524	10	1.23
UT Southwest Medical Center - Dallas	9,150	9	1.14			
UT Medical Branch at Galveston	9,042	10	1.13	9,496	8	1.38
El Paso ISD				8,855	9	1.28
All other	666,785		83.14	568,075		82.31
Total	801,996		100.00%	690,131		100.00%

Source: May report month information submitted to the Teacher Retirement System by participating reporting entities.

OPERATING INFORMATION

Principal Participating Reporting Entities

TRS-CARE
Current Fiscal Year and Nine Years Ago

Participating Reporting Entity	2013			2004		
	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment
Houston ISD	22,405	1	3.38%	24,283	1	4.16%
Dallas ISD	18,462	2	2.79	19,243	2	3.30
Cypress Fairbanks ISD	13,402	3	2.02	9,787	5	1.68
Northside ISD	12,382	4	1.87	9,642	6	1.65
Austin ISD	12,188	5	1.84	10,533	3	1.80
Fort Worth ISD	10,523	6	1.59	10,134	4	1.74
North East ISD	8,786	7	1.33			
El Paso ISD	8,439	8	1.28	8,855	7	1.52
Aldine ISD	8,330	9	1.26	7,663	9	1.31
Katy ISD	8,089	10	1.22			
San Antonio ISD				7,809	8	1.34
Arlington ISD				7,613	10	1.30
All other	539,049		81.42	468,366		80.20
Total	662,055		100.00%	583,928		100.00%

Source: May report month information submitted to the Teacher Retirement System by participating reporting entities.

Listing of Participating Reporting Entities

COMMUNITY AND JUNIOR COLLEGES

Alamo Comm College Dist
 Alvin Community College
 Amarillo College
 Angelina College
 Austin Community College
 Blinn College
 Brazosport College
 Central Texas College
 Cisco Junior College
 Clarendon College
 Coastal Bend College
 College of the Mainland
 Collin Cty Comm College
 Dallas Cty Comm Coll Dist
 Del Mar College
 El Paso Community College
 Frank Phillips College
 Galveston College
 Grayson County College
 Hill College
 Houston Comm Coll System
 Howard Cty Jr Coll Dist
 Kilgore College
 Laredo Community College
 Lee College
 Lone Star College System
 McLennan Comm College
 Midland College
 Navarro College
 North Central Tx College
 Northeast Tx Comm College
 Odessa College
 Panola College
 Paris Junior College
 Ranger Junior College
 San Jacinto College Dist
 South Plains College
 South Texas Comm College
 Southwest Tx Jr College
 Tarrant County Coll Dist
 Temple College
 Texarkana College
 Texas Southmost College
 Texas State Tech College
 Trinity Valley Jr College
 Tyler Junior College
 Vernon College
 Victoria College
 Weatherford College
 Western Texas College
 Wharton County Jr College

UNIVERSITIES

Angelo State University
 Lamar Inst of Technology
 Lamar St Coll at Orange
 Lamar St Coll at Port Arthur
 Lamar University
 Midwestern State Univ
 Prairie View A & M Univ
 Sam Houston State Univ
 Stephen F Austin State Univ
 Sul Ross State University
 Tarleton State University
 Texas A & M AgriLife Research
 Texas A & M AgriLife Ext Service
 Texas A & M at Galveston

Texas A & M Eng Exp Station
 Texas A & M Eng Ext Service
 Texas A & M Forest Service
 Texas A & M International Univ
 Texas A & M Transportation Inst
 Texas A & M U System Office
 Texas A & M U System OSRS
 Texas A & M U-Central Texas
 (Killeen)
 Texas A & M U-Commerce
 Texas A & M U-Corpus Christi
 Texas A & M U-Kingsville
 Texas A & M U-San Antonio Texas
 A & M U-Texarkana
 Texas A & M University
 Texas Southern University
 Texas State Univ-San Marcos
 Texas State Univ System
 Texas Tech University
 Texas Woman's University
 U H at Houston
 U of N Texas System Admin
 U T at Arlington
 U T at Austin
 U T at Brownsville
 U T at Dallas
 U T at El Paso
 U T at San Antonio
 U T at Tyler
 U T Pan American
 U T Permian Basin
 University of North Tx
 University of North Tx at Dallas
 West Texas A & M Univ

MEDICAL SCHOOLS

T A M U System H S C
 Texas Veterinary Med
 Diagnostic Lab
 U N T H S C at Fort Worth
 U T H S C at Houston
 U T H S C at San Antonio
 U T Health Ctr at Tyler
 U T M D Anderson Hospital
 U T Med Br at Galveston
 U T S W Medical Center

SCHOOL DISTRICTS

Abbott I S D
 Abernathy I S D
 Abilene I S D
 Academy I S D
 Adrian I S D
 Agua Dulce I S D
 Alamo Heights I S D
 Alba Golden I S D
 Albany I S D
 Aldine I S D
 Aledo I S D
 Alice I S D
 Alief I S D
 Allen I S D
 Alpine I S D
 Alto I S D
 Alvarado I S D
 Alvin I S D
 Alvord I S D
 Amarillo I S D
 Amherst I S D
 Anahuac I S D
 Anderson Shiro Cons I S D
 Andrews I S D
 Angleton I S D
 Anna I S D
 Anson I S D
 Anthony I S D
 Anton I S D
 Apple Springs I S D
 Aquilla I S D
 Aransas County I S D
 Aransas Pass I S D
 Archer City I S D
 Argyle I S D
 Arlington I S D
 Arp I S D
 Aspermont I S D
 Athens I S D
 Atlanta I S D
 Aubrey I S D
 Austin I S D
 Austwell Tivoli I S D
 Avalon I S D
 Avery I S D
 Avinger I S D
 Axtell I S D
 Azle I S D
 Baird I S D
 Ballinger I S D
 Balmorhea I S D
 Bandera I S D
 Bangs I S D
 Banquete I S D
 Barbers Hill I S D
 Bartlett I S D
 Bastrop I S D
 Bay City I S D
 Beaumont I S D
 Beckville I S D
 Beeville I S D
 Bellevue I S D
 Bells I S D
 Bellville I S D
 Belton I S D
 Ben Bolt Palito I S D
 Benavides I S D
 Benjamin I S D
 Big Sandy I S D, Big Sandy
 Big Sandy I S D, Dallardsville
 Big Spring I S D
 Birdville I S D
 Bishop Cons I S D
 Blackwell I S D
 Blanco I S D
 Bland I S D
 Blanket I S D
 Bloomburg I S D
 Blooming Grove I S D
 Bloomington I S D
 Blue Ridge I S D
 Bluff Dale I S D
 Blum I S D
 Boerne I S D
 Boles I S D
 Boling I S D
 Bonham I S D
 Booker I S D
 Borden County I S D
 Borger I S D
 Bosqueville I S D
 Bovina I S D
 Bowie I S D
 Boyd I S D

Boys Ranch I S D
 Brackett I S D
 Brady I S D
 Brazos I S D
 Brazosport I S D
 Breckenridge I S D
 Bremond I S D
 Brenham I S D
 Bridge City I S D
 Bridgeport I S D
 Broaddus I S D
 Brock I S D
 Bronte I S D
 Brookeland I S D
 Brooks County I S D
 Brookesmith I S D
 Brownfield I S D
 Brownsboro I S D
 Brownsville I S D
 Brownwood I S D
 Bruceville Eddy I S D
 Bryan I S D
 Bryson I S D
 Buckholts I S D
 Buena Vista I S D
 Buffalo I S D
 Bullard I S D
 Buna I S D
 Burkburnett I S D
 Burkeville I S D
 Burleson I S D
 Burnet Cons I S D
 Burton I S D
 Bushland I S D
 Bynum Cons I S D
 Caddo Mills I S D
 Calallen I S D
 Caldwell I S D
 Calhoun County I S D
 Callisburg I S D
 Calvert I S D
 Cameron I S D
 Campbell I S D
 Canadian I S D
 Canton I S D
 Canutillo I S D
 Canyon I S D
 Carlisle I S D
 Carrizo Springs C I S D
 Carroll I S D
 Carrollton Farmers Branch I S D
 Carthage I S D
 Castleberry I S D
 Cayuga I S D
 Cedar Hill I S D
 Celeste I S D
 Celina I S D
 Center I S D
 Center Point I S D
 Centerville I S D, Centerville
 Centerville I S D, Groveton
 Central I S D
 Central Heights I S D
 Channelview I S D
 Channing I S D
 Chapel Hill I S D, Mt. Pleasant
 Chapel Hill I S D, Tyler
 Charlotte I S D
 Cherokee I S D
 Chester I S D
 Chico I S D
 Childress I S D
 Chillicothe I S D

Listing of Participating Reporting Entities

(Continued)

Chilton I S D	De Kalb I S D	Flour Bluff I S D	Hale Center I S D
China Spring I S D	De Leon I S D	Floydada I S D	Hallettsville I S D
Chireno I S D	De Soto I S D	Follett I S D	Hallsburg I S D
Chisum I S D	Decatur I S D	Forestburg I S D	Hallsville I S D
Christoval I S D	Deer Park I S D	Forney I S D	Hamilton I S D
Cisco I S D	Del Valle I S D	Forsan I S D	Hamlin I S D
City View I S D	Dell City I S D	Fort Bend I S D	Hamshire Fannett I S D
Clarendon Cons I S D	Denison I S D	Fort Davis I S D	Happy I S D
Clarksville I S D	Denton I S D	Fort Elliott Cons I S D	Hardin I S D
Claude I S D	Denver City I S D	Fort Hancock I S D	Hardin Jefferson I S D
Clear Creek I S D	Detroit I S D	Fort Sam Houston I S D	Harlandale I S D
Cleburne I S D	Devers I S D	Fort Stockton I S D	Harleton I S D
Cleveland I S D	Devine I S D	Fort Worth I S D	Harlingen I S D
Clifton I S D	Dew I S D	Franklin I S D	Harmony I S D
Clint I S D	Deweyville I S D	Frankston I S D	Harper I S D
Clyde I S D	Diboll I S D	Fredericksburg I S D	Harrold I S D
Coahoma I S D	Dickinson I S D	Freer I S D	Hart I S D
Coldspring Oakhurst I S D	Dilley I S D	Frenship I S D	Hartley I S D
Coleman I S D	Dime Box I S D	Friendswood I S D	Harts Bluff I S D
College Station I S D	Dimmitt I S D	Friena I S D	Haskell C I S D
Collinsville I S D	Divide I S D	Frisco I S D	Hawkins I S D
Colmesneil I S D	Dodd City I S D	Frost I S D	Hawley I S D
Colorado I S D	Donna I S D	Fruitvale I S D	Hays Cons I S D
Columbia Brazoria I S D	Doss Cons C S D	Gainesville I S D	Hearne I S D
Columbus I S D	Douglass I S D	Galena Park I S D	Hedley I S D
Comal I S D	Dripping Springs I S D	Galveston I S D	Hemphill I S D
Comanche I S D	Driscoll I S D	Ganado I S D	Hempstead I S D
Comfort I S D	Dublin I S D	Garland I S D	Henderson I S D
Commerce I S D	Dumas I S D	Garner I S D	Henrietta I S D
Community I S D	Duncanville I S D	Garrison I S D	Hereford I S D
Como Pickton I S D	Eagle Mount Saginaw I S D	Gary I S D	Hermleigh I S D
Comstock I S D	Eagle Pass I S D	Gatesville I S D	Hico I S D
Connally Cons I S D	Eanes I S D	Gause I S D	Hidalgo I S D
Conroe I S D	Early I S D	George West I S D	Higgins I S D
Coolidge I S D	East Bernard I S D	Georgetown I S D	High Island I S D
Cooper I S D	East Central I S D	Gholson I S D	Highland I S D
Coppell I S D	East Chambers I S D	Giddings I S D	Highland Park I S D, Amarillo
Copperas Cove I S D	Eastland I S D	Gilmer I S D	Highland Park I S D, Dallas
Corpus Christi I S D	Ector I S D	Gladewater Cty Line I S D	Hillsboro I S D
Corrigan Camden C I S D	Ector Cty I S D	Glasscock County I S D	Hitchcock I S D
Corsicana I S D	Edcouch Elsa I S D	Glen Rose I S D	Holland I S D
Cotton Center I S D	Eden C I S D	Godley I S D	Holliday I S D
Cotulla I S D	Edgewood I S D, Edgewood	Goldburg I S D	Hondo I S D
Coupland I S D	Edgewood I S D, San Antonio	Goldthwaite I S D	Honey Grove I S D
Covington I S D	Edinburg C I S D	Goliad I S D	Hooks I S D
Crandall I S D	Edna I S D	Gonzales I S D	Houston I S D
Crane I S D	El Campo I S D	Goodrich I S D	Howe I S D
Cranfills Gap I S D	El Paso I S D	Goose Creek I S D	Hubbard I S D, Hubbard
Crawford I S D	Electra I S D	Gordon I S D	Hubbard I S D, New Boston
Crockett I S D	Elgin I S D	Gorman I S D	Huckabay I S D
Crockett Cty School Dist	Elkhart I S D	Grady I S D	Hudson I S D
Crosby I S D	Elysian Fields I S D	Graford I S D	Huffman I S D
Crosbyton Cons I S D	Ennis I S D	Graham I S D	Hughes Springs I S D
Cross Plains I S D	Era I S D	Granbury I S D	Hull Daisetta I S D
Cross Roads I S D	Etoile I S D	Grand Prairie I S D	Humble I S D
Crowell Cons I S D	Eula I S D	Grand Saline I S D	Hunt I S D
Crowley I S D	Eustace I S D	Grandfalls Royalty I S D	Huntington I S D
Crystal City I S D	Evadale I S D	Grandview I S D	Huntsville I S D
Cuero I S D	Evant I S D	Grandview Hopkins I S D	Hurst Euless I S D
Culberson County-Allamore I S D	Everman I S D	Granger I S D	Hutto I S D
Cumby I S D	Excelsior I S D	Grape Creek I S D	Idalou I S D
Cushing I S D	Ezzell I S D	Grapeland I S D	Industrial I S D
Cypress Fairbanks I S D	Fabens I S D	Grapevine Colleyville I S D	Ingleside I S D
D Hanis I S D	Fairfield I S D	Greenville I S D	Ingram I S D
Daingerfield I S D	Falls City I S D	Greenwood I S D	Iola I S D
Dalhart I S D	Fannindel I S D	Gregory Portland C I S D	Iowa Park Cons I S D
Dallas I S D	Farmersville I S D	Groesbeck I S D	Ira I S D
Damon I S D	Farwell I S D	Groom I S D	Iraan Sheffield I S D
Danbury I S D	Fayetteville I S D	Groveton I S D	Iredell I S D
Darrouzett I S D	Ferris I S D	Gruver I S D	Irion County I S D
Dawson I S D, Dawson	Flatonia I S D	Gunter I S D	Irving I S D
Dawson I S D, Welch	Florence I S D	Gustine I S D	Italy I S D
Dayton I S D	Floresville I S D	Guthrie C S D	Itasca I S D

Listing of Participating Reporting Entities

(Continued)

Jacksboro I S D	Leonard I S D	Medina I S D	Northside I S D, San Antonio
Jacksonville I S D	Levelland I S D	Medina Valley I S D	Northside I S D, Vernon
Jarrell I S D	Leveretts Chapel I S D	Melissa I S D	Northwest I S D
Jasper I S D	Lewisville I S D	Memphis I S D	Novice I S D
Jayton-Girard I S D	Lexington I S D	Menard I S D	Nueces Canyon Cons I S D
Jefferson I S D	Liberty I S D	Mercedes I S D	Nursery I S D
Jim Hogg County I S D	Liberty Eylau I S D	Meridian I S D	O'Donnell I S D
Jim Ned Cons I S D	Liberty Hill I S D	Merkel I S D	Oakwood I S D
Joaquin I S D	Lindale I S D	Mesquite I S D	Odem Erdroy I S D
Johnson City I S D	Linden Kildare Cons I S D	Mexia I S D	Oglesby I S D
Jonesboro I S D	Lindsay I S D	Meyersville I S D	Olfen I S D
Joshua I S D	Lingleville I S D	Miami I S D	Olney I S D
Jourdanton I S D	Lipan I S D	Midland I S D	Olton I S D
Judson I S D	Little Elm I S D	Midlothian I S D	Onalaska I S D
Junction I S D	Littlefield I S D	Midway I S D, Henrietta	Orange Grove I S D
Karnack I S D	Livingston I S D	Midway I S D, Waco	Orangefield I S D
Karnes City I S D	Llano I S D	Milano I S D	Ore City I S D
Katy I S D	Lockhart I S D	Mildred I S D	Overton I S D
Kaufman I S D	Lockney I S D	Miles I S D	Paducah I S D
Keene I S D	Lohn I S D	Milford I S D	Paint Creek I S D
Keller I S D	Lometa I S D	Miller Grove I S D	Paint Rock I S D
Kelton I S D	London I S D	Millsap I S D	Palacios I S D
Kemp I S D	Lone Oak I S D	Mineola I S D	Palestine I S D
Kenedy I S D	Longview I S D	Mineral Wells I S D	Palmer I S D
Kenedy County School Dist	Loop I S D	Mission Cons I S D	Palo Pinto I S D
Kennard I S D	Loraine I S D	Monahans Wickett I S D	Pampa I S D
Kennedale I S D	Lorena I S D	Montague I S D	Panhandle I S D
Kerens I S D	Lorenzo Cons I S D	Monte Alto I S D	Panther Creek Cons I S D
Kermit I S D	Los Fresnos Cons I S D	Montgomery I S D	Paradise I S D
Kerrville I S D	Louise I S D	Moody I S D	Paris I S D
Kilgore I S D	Lovejoy I S D	Moran I S D	Pasadena I S D
Killeen I S D	Lovelady I S D	Morgan I S D	Patton Springs I S D
Kingsville I S D	Ltle Cyprs Mrcvle C I S D	Morgan Mill I S D	Pawnee I S D
Kirbyville Cons I S D	Lubbock I S D	Morton I S D	Pearland I S D
Klein I S D	Lubbock Cooper I S D	Motley County I S D	Pearsall I S D
Klondike I S D	Lueders Avoca I S D	Moulton I S D	Peaster I S D
Knippa I S D	Lufkin I S D	Mount Calm I S D	Pecos Barstow Toyah I S D
Knox City O Brien C I S D	Luling I S D	Mount Enterprise I S D	Penelope I S D
Kopperl I S D	Lumberton I S D	Mount Pleasant I S D	Perrin Whitt Cons I S D
Kountze I S D	Lyford Cons I S D	Mount Vernon I S D	Perryton I S D
Kress I S D	Lytle I S D	Muenster I S D	Petersburg I S D
Krum I S D	Mabank I S D	Muleshoe I S D	Petrolia I S D
La Feria I S D	Madisonville Cons I S D	Mullin I S D	Pettus I S D
La Gloria I S D	Magnolia I S D	Mumford I S D	Pewitt Cons I S D
La Grange I S D	Malakoff I S D	Munday I S D	Pflugerville I S D
La Joya I S D	Malone I S D	Murchison I S D	Pharr San Juan Alamo I S D
La Marque I S D	Malta I S D	Nacogdoches I S D	Pilot Point I S D
La Porte I S D	Manor I S D	Natalia I S D	Pine Tree I S D
La Poyner I S D	Mansfield I S D	Navarro I S D	Pittsburg I S D
La Pryor I S D	Marathon I S D	Navasota I S D	Plains I S D
La Vega I S D	Marble Falls I S D	Nazareth I S D	Plainview I S D
La Vernia I S D	Marfa I S D	Neches I S D	Plano I S D
La Villa I S D	Marion I S D	Nederland I S D	Pleasant Grove I S D
Lackland I S D	Marlin I S D	Needville I S D	Pleasanton I S D
Lago Vista I S D	Marshall I S D	New Boston I S D	Plemons Stinnett Phillips C I S D
Lake Dallas I S D	Mart I S D	New Braunfels I S D	Point Isabel I S D
Lake Travis I S D	Martins Mill I S D	New Caney I S D	Ponder I S D
Lake Worth I S D	Martinsville I S D	New Deal I S D	Poolville I S D
Lamar Cons I S D	Mason I S D	New Diana I S D	Port Aransas I S D
Lamesa I S D	Matagorda I S D	New Home I S D	Port Arthur I S D
Lampasas I S D	Mathis I S D	New Summerfield I S D	Port Neches Groves I S D
Lancaster I S D	Maud I S D	New Waverly I S D	Post I S D
Laneville I S D	May I S D	Newcastle I S D	Poteet I S D
Laredo I S D	Maypearl I S D	Newton I S D	Poth Cons I S D
Lasara I S D	McAllen I S D	Nixon Smiley C I S D	Pottsboro I S D
Latexo I S D	McCamey I S D	Nocona I S D	Prairie Lea I S D
Lazbuddie I S D	McDade I S D	Nordheim I S D	Prairie Valley I S D
Leakey I S D	McGregor I S D	Normangee I S D	Prairiland I S D
Leander I S D	McKinney I S D	North East I S D	Premont I S D
Leary I S D	McLean I S D	North Forest I S D	Presidio I S D
Lefors I S D	McLeod I S D	North Hopkins I S D	Priddy I S D
Leggett I S D	McMullen County I S D	North Lamar I S D	Princeton I S D
Leon I S D	Meadow I S D	North Zulch I S D	Pringle Morse Cons I S D

Listing of Participating Reporting Entities

(Continued)

Progreso I S D	San Saba I S D	Sulphur Bluff I S D	Water Valley I S D
Prosper I S D	San Vicente I S D	Sulphur Springs I S D	Waxahachie I S D
Quanah I S D	Sands Cons I S D	Sundown I S D	Weatherford I S D
Queen City I S D	Sanford I S D	Sunnyvale I S D	Webb C I S D
Quinlan I S D	Sanger I S D	Sunray I S D	Weimar I S D
Quitman I S D	Santa Anna I S D	Sweeny I S D	Wellington I S D
Rains I S D	Santa Fe I S D	Sweet Home I S D	Wellman Union I S D
Ralls I S D	Santa Gertrudis I S D	Sweetwater I S D	Wells I S D
Ramirez Common S D	Santa Maria I S D	Taft I S D	Weslaco I S D
Randolph Field I S D	Santa Rosa I S D	Tahoka I S D	West I S D
Ranger I S D	Santo I S D	Tarkington I S D	West Hardin Cty C I S D
Rankin I S D	Savoy I S D	Tatum I S D	West Orange Cove C I S D
Raymondville I S D	Schertz Cibolo I S D	Taylor I S D	West Oso I S D
Reagan County I S D	Schleicher Cty I S D	Teague I S D	West Rusk Cty Cons I S D
Red Lick I S D	Schulenburg I S D	Temple I S D	West Sabine I S D
Red Oak I S D	Scurry Rosser I S D	Tenaha I S D	Westbrook I S D
Redwater I S D	Seagraves I S D	Terlingua C S D	Westhoff I S D
Refugio I S D	Sealy I S D	Terrell I S D	Westphalia I S D
Ricardo I S D	Seguin I S D	Terrell County I S D	Westwood I S D
Rice I S D	Seminole Public Schools	Texarkana I S D	Wharton I S D
Rice Cons I S D	Seymour I S D	Texas City I S D	Wheeler I S D
Richards I S D	Shallowater I S D	Texhoma I S D	White Deer I S D
Richardson I S D	Shamrock I S D	Texline I S D	White Oak I S D
Richland Springs I S D	Sharyland I S D	Thorndale I S D	White Settlement I S D
Riesel I S D	Shelbyville I S D	Thrall I S D	Whiteface I S D
Rio Grande City C I S D	Sheldon I S D	Three Rivers I S D	Whitehouse I S D
Rio Hondo I S D	Shepherd I S D	Three Way I S D	Whitesboro I S D
Rio Vista I S D	Sherman I S D	Throckmorton I S D	Whitewright I S D
Rising Star I S D	Shiner I S D	Tidehaven I S D	Whitharral I S D
River Road I S D	Sidney I S D	Timpson I S D	Whitney I S D
Rivercrest ISD	Sierra Blanca I S D	Tioga I S D	Wichita Falls I S D
Riviera I S D	Silsbee I S D	Tolar I S D	Wildorado I S D
Robert Lee I S D	Silverton I S D	Tom Bean I S D	Willis I S D
Robinson I S D	Simms I S D	Tomball I S D	Willis Point I S D
Robstown I S D	Sinton I S D	Tornillo I S D	Wilson I S D
Roby C I S D	Sivells Bend I S D	Trent I S D	Wimberley I S D
Rochelle I S D	Skidmore Tynan I S D	Trenton I S D	Windham School District
Rockdale I S D	Slaton I S D	Trinidad I S D	Windthorst I S D
Rocksprings I S D	Slidell I S D	Trinity I S D	Winfield I S D
Rockwall I S D	Slocum I S D	Troup I S D	Wink Loving Cons I S D
Rogers I S D	Smithville I S D	Troy I S D	Winnsboro I S D
Roma I S D	Smyer I S D	Tulia I S D	Winona I S D
Roosevelt I S D	Snook I S D	Tuloso Midway I S D	Winters I S D
Ropes I S D	Snyder I S D	Turkey Quitaque C I S D	Woden I S D
Roscoe I S D	Socorro I S D	Tyler I S D	Wolfe City I S D
Rosebud Lott Cons I S D	Somerset I S D	Union Grove I S D	Woodsboro I S D
Rotan I S D	Somerville I S D	Union Hill I S D	Woodson I S D
Round Rock I S D	Sonora I S D	United I S D	Woodville I S D
Round Top Carmine I S D	South San Antonio I S D	Utopia I S D	Wortham I S D
Roxton I S D	South Texas I S D	Uvalde Cons I S D	Wylie I S D, Abilene
Royal I S D	Southland I S D	Valentine I S D	Wylie I S D, Wylie
Royse City I S D	Southside I S D	Valley Mills I S D	Yantis I S D
Rule I S D	Southwest I S D	Valley View I S D, Pharr	Yoakum I S D
Runge I S D	Spearman I S D	Valley View I S D, Valley View	Yorktown I S D
Rusk I S D	Splendor I S D	Van I S D	Ysleta I S D
S & S Cons I S D	Spring I S D	Van Alstyne I S D	Zapata I S D
Sabinal I S D	Spring Branch I S D	Van Vleck I S D	Zavalla I S D
Sabine I S D	Spring Creek I S D	Vega I S D	Zephyr I S D
Sabine Pass I S D	Spring Hill I S D	Venus I S D	
Saint Jo I S D	Springlake Earth I S D	Veribest I S D	
Salado I S D	Springtown I S D	Vernon Cons I S D	
Salttillo I S D	Spur I S D	Victoria I S D	
Sam Rayburn Cons I S D	Spurger I S D	Vidor I S D	
San Angelo I S D	Stafford Muncpl Sch Dist	Vysehrad I S D	
San Antonio I S D	Stamford I S D	Waco I S D	
San Augustine I S D	Stanton I S D	Waelder I S D	
San Benito Cons I S D	Star I S D	Walcott I S D	
San Diego I S D	Stephenville I S D	Wall I S D	
San Elizario I S D	Sterling City I S D	Waller I S D	
San Felipe Del Rio I S D	Stockdale I S D	Walnut Bend I S D	
San Isidro I S D	Stratford I S D	Walnut Springs I S D	
San Marcos Cons I S D	Strawn I S D	Warren I S D	
San Perlita I S D	Sudan I S D	Waskom I S D	

REGIONAL SERVICE CENTERS

Region 01 Ed Serv Center
 Region 02 Ed Serv Center
 Region 03 Ed Serv Center
 Region 04 Ed Serv Center
 Region 05 Ed Serv Center
 Region 06 Ed Serv Center
 Region 07 Ed Serv Center
 Region 08 Ed Serv Center
 Region 09 Ed Serv Center
 Region 10 Ed Serv Center

Listing of Participating Reporting Entities

(Continued)

Region 11 Ed Serv Center
Region 12 Ed Serv Center
Region 13 Ed Serv Center
Region 14 Ed Serv Center
Region 15 Ed Serv Center
Region 16 Ed Serv Center
Region 17 Ed Serv Center
Region 18 Ed Serv Center
Region 19 Ed Serv Center
Region 20 Ed Serv Center

CHARTER SCHOOLS

A+ Academy
Academy of Accelerated
Academy of Careers and Tech
Academy of Dallas
Accelerated Int Academy
Alief Montessori School
ALPHA Charter School
Alphonso Crutch's Charter
Ambassador's Prep Academy
American Inst of Learning
Amigos Por Vida Charter
Arlington Classics Acad
Arrow Academy
Austin Achieve Public Schools
Austin Discovery School
A W Brown Flwshp Chtr Sch
Azleway Charter School
Bay Area Charter School
Beatrice Mayes Institute
Bexar County Academy
Big Springs Charter Sch
Bob Hope School
Brazos River Charter Sch
Brazos School for Inquiry
Bright Ideas Charter Sch
Brooks Academy of Science
& Engineering
Burnham Wood Charter Sch
Calvin Nelms Charter
Cedars International Acad
Chapel Hill Academy
Children First Ac Houston
Children First Ele Acad
City Center-Health Careers
Com Quest Academy
Compass Academy
CORE Academy
Corpus Christi Montessori
Charter School
Crossttimbers Academy
Cumberland Academy
Dallas Can Academy
Dallas Comm Charter Sch
Dr. Garza-Gonzalez Ch Sch
Draw Academy
Eagle Advantage School
East Fort Worth Montessori
East Texas Charter School
Eden Park Academy
Education Center Int Acad
El Paso Academy East
Eleanor Koltitz Hebrew Language
Academy
Erath Excels! Academy
Evolution Academy Charter
Excellence in Leadership Academy
Faith Family Acad Oak Cliff
Faith Family Acad Waxahachie

Fallbrook College Preparatory
Academy
Focus Learning Academy
Ft Worth Acad Fine Arts
Gateway Academy
Gateway Charter Academy
George Gervin Academy
George I Sanchez Charter, Houston
George I Sanchez Charter, San
Antonio
Girls & Boys Prep Acad
Global Learning Village
Golden Rule Charter School
Gulf Coast Trades Center
Hampton Preparatory
Harmony School Academy,
Brownsville
Harmony School of Excellence,
Houston
Harmony School of Science,
Houston
Harmony Science Academy, Austin
Harmony Science Academy, El Paso
Harmony Science Academy,
Fort Worth
Harmony Science Academy, Houston
Harmony Science Academy, Lubbock
Harmony Science Academy,
San Antonio
Harmony Science Academy, Waco
Heights Academy
Henry Ford Academy
Higgs Carter King Academy
Honors Academy
Houston Alt Prep Charter
Houston Gateway Charter
Houston Hghts Learning Ac
Idea Public Schools
Inspired Vision Academy
International Leadership of Texas
Jamie's House Charter Sch
Jean Massieu Academy
John H. Wood Charter Sch
Juan B. Galaviz Charter
Jubilee Academic Center
Katherine Anne Porter Sch
KIPP Aspire Academy
KIPP Austin College
KIPP Inc. Charter
KIPP Southeast Houston
KIPP Truth Academy
Koinonia Community
Learning Academy
La Academia de Estrellas
La Amistad Academy
Le Fe Preparatory School
Leadership Prep School
Legacy Preparatory
Life Charter School
Lighthouse Charter School
Mainland Prep Academy
Manara Academy
Meadowland Charter School
Medical Center Charter
Meridian World School
Metro Charter Academy
Meyer Park Elementary
Mid Valley Academy
Midland Academy
New Frontiers Charter School
Newman International Academy

North Texas Elementary School
of Arts
Northwest Prep Academy
Nova Charter School
Nova Charter Southeast
NYOS Charter School
Odyssey Academy
One Stop Multiservice
Orenda Charter School
Outreach Word Academy
Panola Charter School
Paradigm Accelerated Sch
Paso Del Norte Academy
Peak Preparatory School
Pegasus Charter School
Phoenix Charter School
Pineywoods Academy
Por Vida Inc
Premier Learning Academy
Prime Prep Academy
Radiance Acad of Learning
Ranch Academy
Rapoport Academy
Raul Yzaguirre School
Reconciliation Scholar's Academy
Responsive Education Solutions
Richard Milburn - Amarillo
Richard Milburn - Corpus Christi
Richard Milburn - Fort Worth
Richard Milburn - Houston
Richard Milburn - Killeen
Richard Milburn - Odessa
Ripley House Charter School
Rise Academy
San Antonio Prep Academy
San Antonio Sch Inquiry
San Antonio Tech Academy
School of Excellence
School of Science & TECH-Discovery -
San Antonio
School of Science & Technology -
San Antonio
Seashore Learning Ctr
Seashore Middle Academy
Ser-Ninos
Shekinah Radiance Academy
South Plains Academy
Southwest High School
Southwest Preparatory Sch
St. Anthony School
St. Mary's Charter School
Star Charter School
Stepping Stones Charter Elementary
Summit International Preparatory
Technology Education Chtr
Tekoa Academy
Texas Empowerment Academy
Texas Preparatory School
Texas Serenity Academy
The East Austin College Prep Academy
The Education Center
The Ehrhart School
The Encino School
The North Hills School
The Pro-Vision Academy
The Rhodes School
TLC Academy - San Angelo
TOVAS
Transformative Charter
Treetops International
Trinity Basin Preparatory
Trinity Charter School

Two Dimensions Prep Acad
Ume Preparatory Academy
Universal Academy
Vanguard Academy
Varnett Charter School
Victory Prep Academy
Village Tech Schools
Vista del Futuro Charter School
Waco Charter School
Walipp Academy
West Houston Charter
Westlake Academy
Williams Preparatory
Winfree Academy Charter Schools
Yes Preparatory Public Schools
Zoe Learning Academy

OTHER EDUCATIONAL DISTRICTS

Anderson Cty Spc Ed Co Op
Bowie County Sch Dist
Dallas County School Dist
Harris Cty Dept Education
Parker County Co Op

OTHER ENTITIES

Teacher Retirement System
Texas Education Agency

BENEFITS SECTION

$$E = mc^2$$

$$7 + 2 = 9$$

$$s = vt$$

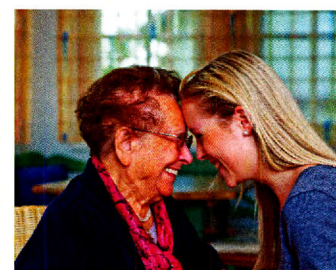
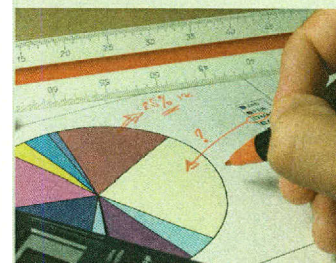
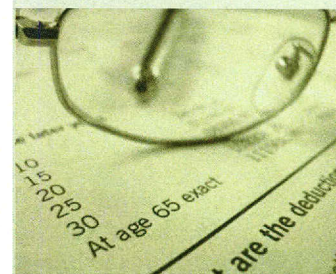
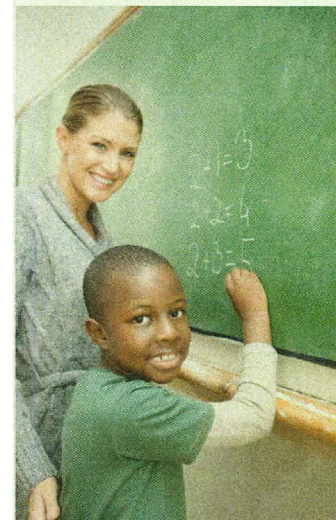
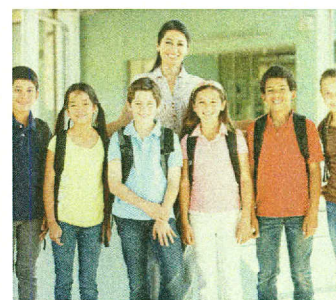
$$1 + 1 =$$

$$\begin{aligned} 3 \times 1 &= 3 \\ 3 \times 2 &= 6 \\ 3 \times 3 &= 9 \\ 3 \times 4 &= 12 \\ 3 \times 5 &= 15 \end{aligned}$$

$$a + b = c$$

$$x + y = z$$

$$\begin{aligned} a^2 + b^2 &= c^2 \\ \frac{1}{p} - \frac{2}{q} &= 2 \end{aligned}$$



Changes in the Law

STATE: In fiscal year 2013, the 83rd Texas Legislature, Regular Session, enacted several significant new laws affecting TRS.

FEDERAL: On the federal level, several reportable developments occurred.

State

FUNDING

Under Senate Bill 1, the General Appropriations Act (GAA), the state contribution rate to the retirement plan was increased to 6.8% of payroll for fiscal years 2014 and 2015.

The member contribution rate remains at 6.4% for fiscal year 2014 but under the provisions of Senate Bill 1458, the rate will increase to 6.7% of compensation in fiscal year 2015; 7.2% of compensation in fiscal year 2016; and 7.7% of compensation in fiscal year 2017. Beginning Sept. 1, 2017, if the state contribution rate is reduced below 6.8%, the contribution rate for active members will be reduced by an equivalent percentage.

Beginning in fiscal year 2015, Senate Bill 1458 also establishes a requirement for school district and charter school employers to contribute to TRS 1.5% of the statutory minimum salary of TRS-eligible employees for whom the employer does not contribute to Social Security. This contribution is in addition to the employer contributions at the state rate on amounts paid to the employee that exceed the statutory minimum. For employees for whom there is no statutory minimum, the school district or charter school employer must contribute to TRS 1.5% of the total compensation paid to the employee. Beginning Sept. 1, 2015, if the state contribution rate is reduced below 6.8%, the employer contribution rate of 1.5% is also reduced by an equivalent percentage.

Senate Bill 1812 requires public junior colleges and public junior college districts to make employer contributions at the state contribution rate on 50% of the creditable compensation of members whose duties are instructional or administrative and whose salaries may be fully paid from funds appropriated under the General Appropriations Act, whether the salaries are actually paid from appropriated funds, and 100% of the state contribution amount on all other TRS members employed by these entities. This contribution requirement is effective Sept. 1, 2013. The bill also provides that the number of instructional and administrative employees for which the state must make contributions on creditable compensation may not be increased at a greater rate than the percentage growth in student enrollment.

RETIREMENT ELIGIBILITY

Senate Bill 1458 also increased the normal retirement age to 62 with the Rule of 80 and at least five years of service credit for all members who do not have at least five years of service credit as of

Aug. 31, 2014 and for new members on or after Sept. 1, 2014. For purposes of this bill, the service credit must be currently credited with TRS as of Aug. 31, 2014; withdrawn service credit and unreported service credit that has not been reinstated or purchased in full by that date will not be used to determine whether a member has the required five years of service credit on Aug. 31, 2014. However, members of TRS on that day who have service credited in the Employees Retirement System of Texas or another public retirement system in Texas participating in the proportionate retirement program will be able to use that service credit toward the five years of service credit requirement. All members who meet the Aug. 31, 2014 five-year requirement, and who maintain their membership in TRS after that date are not subject to the new requirements and will experience no change in normal-age retirement eligibility.

COST OF LIVING ADJUSTMENT (COLA)

Senate Bill 1458 provided for a cost-of-living adjustment for certain TRS annuitants. Under the terms of the bill, annuitants who retired on or before Aug. 31, 2004 or whose benefits are based on the death of a retiree or member who died on or before Aug. 31, 2004 will receive a 3% COLA capped at no more than \$100 per month. The COLA will begin with the annuity payable for Sept. 2013, which is paid in October 2013. The annuitant must be living on Sept. 1, 2013 to be eligible to receive the COLA. The COLA is not provided for annuitants receiving an annuity amount fixed by statute.

DECREASE IN MEMBER AND DROP ACCOUNT INTEREST RATE

Senate Bill 1458 also reduced the rate of interest paid to member and DROP accounts from five percent to two percent, beginning Sept. 1, 2014. The reduced rate will be applied prospectively and will not affect the amount of interest accrued to the date of the change.

TRS ADMINISTRATION OF BENEFITS

House Bill 3357 made several administrative and technical changes to the TRS plan terms. One of the more significant changes is a greater opportunity for retirees to revoke their continuing optional annuity selection by removing the limitation on the relationship between the retiree and the beneficiary. Prior to the changes in the bill, the plan's terms allowed the retiree to revoke the prior selection only if the beneficiary was the spouse, former spouse or adult child. HB 3357 allows a retiree who selected a continuing optional annuity payment plan to revoke the selection of a joint and survivor annuity and to increase the monthly annuity to a standard annuity amount without regard to the relationship of the retiree

Changes in the Law

to the beneficiary. The bill did not change the requirement that a beneficiary who is a spouse or former spouse must consent to the revocation, or a court with authority over the marriage must order or authorize the retiree to revoke the prior plan selection. The increase to the standard annuity amount is prospective only.

TRS HEALTH BENEFIT PROGRAMS

House Bill 3357 repealed the statutory requirement that TRS-ActiveCare must provide an ERS health care plan equivalent.

Senate Bill 1458 made modifications to the eligibility requirements for the TRS-Care health plan. For individuals who take a service retirement on or after Sept. 1, 2014, the bill sets the minimum age of 62 to be eligible for TRS-Care 2 and 3. A service retiree is not subject to the new age requirements if the sum of the person's age and years of service credit is 70 or greater on or before Aug. 31, 2014; or if the person has at least 25 years of service credit on or before that date. All service retirees affected by the limitation will be able to choose TRS-Care 2 or 3 when they turn 62 years of age. Eligibility requirements for participants in TRS-Care 1 were not changed by the bill.

BOARD OF TRUSTEE ELIGIBILITY AND ELECTIONS

House Bill 3357 clarified that regional education service centers and charter school employees can serve as trustees and vote in the election of TRS trustees.

Federal

INVESTMENTS

Rulemaking under the Dodd – Frank Wall Street Reform and Consumer Protection Act (2010) (Dodd-Frank)

Business Conduct Rules - The Commodities Futures Trading Commission (CFTC) adopted rules under the Commodities Exchange Act imposing new suitability requirements on public pension plans using swaps (the "Business Conduct Rules"). Under the Business Conduct Rules, public pension plans are defined as "special entities." Special entities are required to designate "Qualified Independent Representatives" who are qualified and exercise independent judgment when trading swaps or evaluating swaps recommendations by counterparties. During fiscal year 2013, TRS implemented the Business Conduct Rules to meet the compliance date of May 1, 2013.

Swap Trading Documentation/Swap Portfolio Reconciliation and Compression Rules - During fiscal year 2013, the CFTC finalized various rules to fulfill regulatory requirements imposed under Title VII of Dodd-Frank. One set of rules was implemented to ensure that swap dealers and major swap participants follow best practices with respect to documentation of over-the-counter derivatives and to reduce risk and improve operational efficiency in the post-trade arena of bilaterally traded, over-the-counter deriva-

tives. These rules establish new requirements for (i) swap-trading relationship documentation between swap dealers or major swap participants and their counterparties, like TRS, (ii) timely and accurate confirmation of swaps (iii) portfolio reconciliation and (iv) portfolio compression. These rules affect TRS as counterparty in swap transactions. TRS implemented them to meet the compliance date of July 1, 2013.

Clearing and Execution Rules - The CFTC finalized its mandatory clearing rules for certain swap transactions and set a compliance date of Sept. 9, 2013 for pension plans. TRS entered into the appropriate arrangements with its counterparties and has been clearing the relevant swaps as of that date.

A related set of final rules pertain to the execution of swaps subject to mandatory clearing on either exchanges or swap execution facilities. The relevant facilities are currently in the process of making cleared swaps available to trade, and 30 days after this is complete, TRS will be required to use such facilities for the relevant swaps. This date is expected to occur in Dec. 2013, and TRS is entering into the appropriate arrangements with such facilities to meet this compliance date.

BENEFITS

Health Care

Federal Patient Protection and Affordable Care Act of 2010 (PPACA) - During fiscal year 2013, TRS continued to monitor the regulations issued with regard to the PPACA and implemented various provisions of the PPACA that impact the health benefit plans administered by TRS. Two significant areas of implementation were: (1) for plan selections during the 2013-2014 plan year, TRS-Care and TRS-ActiveCare prepared "summary of benefits and coverage" documents for use by enrollees and (2) expanded preventive services, including the recommended contraceptive services and devices to women with reproductive capacity, without cost sharing, for TRS-Care and TRS-ActiveCare.

Defense of Marriage Act - As explained in more detail in the next section, in June 2013, the U.S. Supreme Court ruled in *U.S. v. Windsor* that Section 3 of the Defense of Marriage Act ("DOMA," Public Law 104-199) is unconstitutional. This ruling does not affect the definition of a "spouse" for purposes of enrollment in TRS-ActiveCare or for purposes of enrollment in the standard plans offered in TRS-Care. Consequently, an individual who is married to an employee or retiree of the same sex will not be allowed to enroll as a dependent in TRS-ActiveCare or in one of the standard plans offered in TRS-Care. At this time, TRS continues to analyze the possible impact of the *Windsor* ruling upon the ability of a same-sex spouse, as a dependent of an employee or retiree, to enroll in the Medicare Advantage medical plans and the EGWP PDP drug plans offered in TRS-Care.

Changes in the Law

Tax Laws, Regulations, and Guidance

Defense of Marriage Act - In June 2013, the U.S. Supreme Court ruled in *U.S. v. Windsor* that Section 3 of the Defense of Marriage Act ("DOMA," Public Law 104-199) is unconstitutional. Under Section 3 of DOMA, "marriage" is defined as a legal union between a man and a woman and "spouse" refers to persons of the opposite sex. The DOMA definitions affect numerous provisions of the Internal Revenue Code. Section 2 of DOMA, which authorizes states not to recognize the validity of same-sex marriages that were performed in other states, was not at issue in *U.S. v. Windsor*. In Aug. 2013, the Internal Revenue Service (IRS) issued Revenue Ruling 2013-17 providing that for federal tax law purposes, the IRS will recognize marriages between same-sex individuals who are lawfully married in a domestic or foreign jurisdiction, even if the couple resides in a jurisdiction that does not recognize the validity of same-sex marriages. For federal tax law purposes, the terms "spouse," "husband and wife," "husband," and "wife" include an individual who is married to a person of the same sex, if the individuals are lawfully married in a domestic or foreign jurisdiction, but do not include individuals of the same or opposite sex who have entered into a registered civil union, domestic partnership, or other similar formal relationship in a domestic or foreign jurisdiction that is not considered a marriage in that jurisdiction. The IRS indicated that the holdings in Revenue Ruling 2013-17 would be applied prospectively as of Sept. 16, 2013. The IRS also indicated that it intends to issue further guidance on the retroactive application of the *U.S. v. Windsor* decision to employee benefit plans and arrangements. TRS will continue to monitor developments. TRS will determine whether it is appropriate to comply with Revenue Ruling 2013-17 and any additional guidance with respect to federal tax requirements affecting pension plans in order to comply with IRS plan qualification requirements.

American Taxpayer Relief Act of 2012 - In January 2013, President Obama signed the American Taxpayer Relief Act of 2012 ("ATRA," Public Law 112-240). ATRA made permanent the lower income tax rates for individuals in the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA," Public Law 107-106) and in the Jobs and Growth Tax Relief Reconciliation Tax Act of 2003 ("JGTRRA," Public Law 108-27), but imposes a tax rate of 39.6 percent on income above certain levels. In January 2013, the IRS issued revised income tax withholding tables for the 2013 tax year reflecting the new tax rates in ATRA. TRS uses the IRS income tax withholding tables in determining the amount of federal income taxes to be withheld when making monthly annuity benefit payments.

Normal Retirement Age Regulations - In April 2012, the IRS issued Notice 2012-29 indicating that the IRS and the U.S. Treasury Department intend to issue guidance regarding the applicability to governmental plans of final regulations issued in May 2007 concerning pension distributions upon attainment of "normal retirement age" (NRA). The guidance is expected to extend the date by which governmental plans must comply with the final regulations. The IRS and the U.S. Treasury Department intend to clarify that a governmental plan that does not allow "in-service" distributions before age 62 is not required to define NRA in accordance with the final regulations. The IRS and the U.S. Treasury Department also

intend to provide that the rule that deems age 50 or later to be NRA for qualified public safety employees will apply regardless of whether those employees are covered by a separate plan. TRS will continue to monitor developments with respect to the anticipated federal regulation changes. The revised final regulations are anticipated to be effective for TRS as of Sept. 1, 2015.

Advance Notice of Proposed Rulemaking Regarding the Determination of Governmental Plan Status - In November 2011, the IRS issued advance notice of proposed rulemaking indicating that the IRS and the U.S. Treasury Department intend to issue regulations to define the term "governmental plan" under Section 414(d) of the Internal Revenue Code. The preliminary guidance defines a "governmental plan" as "a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of the foregoing." The preliminary guidance appears to require Texas public educational institutions to qualify as an agency or instrumentality of a State as defined in the preliminary guidance in order for their employees to participate in TRS without jeopardizing TRS' governmental plan status. In addition, the preliminary guidance could be interpreted to require a governmental plan to cover only employees of the governmental entity that established and maintains the plan. The IRS received thousands of comments from the governmental plan community about how the draft proposed regulations contained in the preliminary guidance would negatively impact their members. To date, the IRS has not issued additional guidance to address plan concerns. TRS will continue to monitor developments. In the absence of changes to the preliminary guidance when the final regulations are issued, TRS could be required to obtain state law amendments to its plan in order to comply with the federal regulations and preserve TRS' governmental plan status.

Summary of Benefits

The Teacher Retirement System of Texas (TRS) administers a defined benefit retirement plan that is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The pension trust fund provides service and disability retirement, as well as death and survivor benefits, to eligible employees of public and higher education in Texas and their beneficiaries. A general information booklet, *TRS Benefits Handbook*, is made available to each TRS member and annuitant. Retirement benefits are financed by member, state, and employer contributions, and through investment earnings of the pension trust fund.

TRS administers TRS-ActiveCare, the statewide health benefits program for eligible public education employees of participating entities. The program is financed by plan participant premium payments and investment income from the assets of the trust. In addition to TRS-ActiveCare, the system administers a separate trust that provides comprehensive health benefits coverage for retired members through TRS-Care. This program is financed by contributions from the state, active public school employees, reporting entities (employers), premium payments from plan participants, and investment income from the assets of the trust.

TRS also administers an optional long-term care insurance program for eligible retirees and public school employees. Certain family members are also eligible. The plan is available on an enrollee-pay-all basis.

RETIREMENT PLAN BENEFITS

This summary of benefits is based on statutory provisions of the plan effective for FY 2013.

The major retirement plan benefits are:

SERVICE RETIREMENT

Normal Retirement Eligibility - Age 65 with at least five years of credited service, or when the sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service for members who established membership before Sept. 1, 2007 and maintained membership until retirement.

Age 65 with at least five years of credited service, or age 60 and the sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service for members who established TRS membership on or after Sept. 1, 2007.

Standard Annuity - A monthly benefit payable at retirement throughout the retiree's lifetime and calculated according to the statutory benefit formula.

Benefit Formula - 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service equals an annual standard annuity. For members who are grandfathered, the three highest annual salaries are used.

Minimum Benefit - \$150 per month less any reduction for early age or optional annuity selection.

Early Retirement Eligibility - For members whose membership began prior to Sept. 1, 2007, and who maintained membership until retirement:

- At least 55 with five or more years of service credit, but the sum of the member's age and years of service credit total less than 80, or
- 30 or more years of service credit, but the sum of the member's age and years of service credit total less than 80.

For members whose membership began on or after Sept. 1, 2007:

- At least 55 with five or more years of service credit, but the sum of the member's age and years of service credit total less than 80, or
- 30 or more years of service credit, but the sum of the member's age and years of service credit total less than 80, or
- The sum of the member's age and years of service credit total at least 80, but the member is less than age 60.*

* For members who met the requirements to be grandfathered before Sept. 1, 2005, there is no reduction to their benefit based on actuarial tables if they are at least age 55, the sum of their age and years of service credit total at least 80, and they are below age 60; however, these members are still considered early-age retirees.

Early Retirement Benefit - The standard annuity calculated under the benefit formula (or the minimum benefit, if applicable) reduced for early retirement. The amount of the reduction varies depending on age, years of service credit, and whether a member is grandfathered.

DISABILITY RETIREMENT

Eligibility - Physical or mental disability precludes the member's continued performance of current duties and the disability is probably permanent, as certified by the TRS Medical Board.

Benefit - For disabled members with at least 10 years of credited service, the greater of the standard annuity unreduced for early age or \$150 per month minimum benefit, less any reduction for the selection of an optional annuity. For disabled members with fewer than 10 years of credited service, \$150 per month.

Summary of Benefits

Duration - For retirees with 10 or more years of credited service, payments continue for as long as the disability continues. For those with fewer than 10 years of credited service, payments continue for the life of the retiree, the duration of the disability, or the number of months of credited service, whichever is shorter.

Earnings Limit - Disability retirees who applied and retired after Aug. 31, 2007 are subject to an annual limit on earnings from any employment. Excess earnings will cause benefits to be forfeited until such time as the excess earnings cease or are reduced to an allowable amount.

ANNUITY PAYMENT OPTIONS

All service and eligible disability retirees may select an optional form of payment that reduces the standard annuity by application of actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. Actuarial factors for disability retirees are different from those for service retirees because of different assumptions about life expectancy for the two groups. The available options include 100, 75, and 50 percent joint and survivor annuities, and five- and 10-year guaranteed period annuities. Selection of a 100 or 75 percent joint and survivor annuity and a five- or 10-year guaranteed period annuity may not be allowed in certain situations based on the minimum distribution provisions of federal tax law.

THE POP-UP PROVISION

If a designated beneficiary under any of the joint and survivor options dies while the retiree is still living, the retiree's future monthly payment increases to the amount of the standard annuity.

PARTIAL LUMP SUM OPTION

Under the Partial Lump Sum Option (PLSO), at the time of retirement, qualifying members may elect to receive an actuarially reduced service retirement annuity plus a cash lump sum distribution.

Members may participate in the PLSO if they are eligible for service retirement, meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the Deferred Retirement Option Plan (DROP), and are not retiring with disability retirement benefits. Grandfathered members may elect PLSO at retirement if they are eligible for normal age service retirement under the pre-Sept. 1, 2005 law (age 65 with at least five years of credited service, or the sum of the member's age and years of credited service equals or exceeds 80 with at least five years of credited service), are not participating in DROP, and are not retiring with disability retirement benefits. Members retiring under the proportionate retirement program are not eligible to elect the PLSO.

Partial lump sum distributions equal to 12, 24, or 36 months of a standard service retirement annuity may be selected.

When a member selects this option, the monthly annuity is actuarially reduced to reflect the lump sum distribution. Flexible distribution options are available, including rollovers to another eligible retirement plan.

DEFERRED RETIREMENT OPTION PLAN

The Deferred Retirement Option Plan (DROP), which is closed to new participants, was available for active members who were eligible for normal age service retirement and had at least 25 years of credited service.

Members who elected to participate in DROP (before enrollment was closed effective Dec. 31, 2005) chose to freeze their salary amounts and service credit used to calculate their retirement benefits and to have a portion of the standard annuity amount deposited into a DROP account while continuing to work for a TRS-covered employer. Interest on DROP accounts is credited at the rate of five percent per annum. Members are not considered to be retired while participating in DROP.

Members who elected DROP chose to participate in 12-month increments for up to five years. During DROP participation, the member does not accrue additional service credit, nor is any compensation earned during DROP participation considered in calculating the standard annuity. Also, during DROP participation, the member's statutory contributions to TRS continue; however, contributions are not credited to the member's contribution account and are not subject to refund.

Participation in DROP ends at the earliest of the expiration of the election period, retirement, or death. The accumulated DROP account may be distributed as a single lump sum or in monthly or yearly installments covering five or 10 years. Distributions commence at retirement or in the event the member dies before retiring, at the member's death. Eligible distributions may be rolled over to another eligible retirement plan.

MINIMUM SERVICE CREDIT REQUIRED FOR SERVICE RETIREMENT BENEFITS

Under current law, a member who has completed at least five years of credited service has earned a right to service retirement benefits after reaching eligible retirement age, provided that the member's accumulated contributions are not withdrawn from the system. Service credited in another retirement system that participates in the Proportionate Retirement Program may be combined with TRS service credit to determine eligibility for TRS service retirement benefits. Any unpurchased, qualifying USERRA military service, up to a maximum of five years, may also be counted in determining eligibility for TRS service retirement benefits. An eligible member must apply for benefits and meet other requirements, such as termination of Texas public education employment, in order to begin receiving benefits.

Summary of Benefits

DEATH AND SURVIVOR BENEFITS

Active Members - The beneficiary of an active member may elect to receive one of the following benefits in the event of the member's death before retirement, if the member dies during a school year in which the member performed service or if the member dies while performing qualified military service as defined by applicable federal law. These benefits also are available due to death when the member is absent from service as described by law, such as when the absence is due to sickness, accident, or other involuntary cause or when the member is within five years of being eligible to retire when leaving employment:

1. A lump sum payment equal to twice the member's annual rate of compensation or \$80,000, whichever is less.
2. Sixty monthly payments equal to the member's standard annuity without reduction for early age, provided the member had at least five years of service credit at the time of death.
3. Lifetime payments equal to a 100 percent joint and survivor annuity, provided the member had at least five years of service credit subject to any reduction applicable for early age.
4. This benefit is only available when there is a sole beneficiary.
4. An amount equal to a return of the member's contributions with accumulated interest.
5. Survivor benefits of \$2,500 lump sum payment plus a monthly benefit. For example, \$350 per month to a beneficiary spouse with minor children, continuing until the youngest child reaches age 18. At the later of the death of the member or when the spouse turns age 65, the spouse would begin receiving \$250 per month for life.

In addition to these five options, a lump sum death benefit of \$160,000 is available if the active member is employed in a TRS-covered position and dies as the result of a physical assault during the performance of the employee's regular job duties.

Also, the beneficiary of a DROP participant will receive the accumulated DROP account balance, payable as a lump sum or in periodic installments.

Retirees - In addition to any joint and survivor or guaranteed period annuity that may be payable under an optional form of payment a retiree elected, the beneficiary of a service or disability retiree is entitled to a \$10,000 lump sum payment. In certain circumstances, eligible survivors may select alternate payment options in lieu of the lump sum benefit. The alternate payment options include a lump sum payment of \$2,500 plus an applicable monthly survivor benefit.

If total payments made before death to a retiree and, when applicable, to a beneficiary for an optional service retirement

annuity are less than accumulated contributions at retirement, an amount equal to the remainder is paid to the beneficiary or as otherwise provided by law. Should a retiree die prior to receiving all PLSO payments that are due, TRS will pay any remaining PLSO payments in a single lump sum payment to the beneficiary. If the retiree participated in DROP and died before receiving all DROP distributions, any unpaid DROP payments are paid to the beneficiary designated by the retiree.

GRANDFATHERED PROVISIONS

A person who, as a member, met any one of the following criteria on or before Aug. 31, 2005, is grandfathered under plan provisions repealed with respect to non-grandfathered members:

- the member was at least 50 years old,
- the member's age and years of service credit equaled at least 70 ("Rule of 70"), or
- the member had at least 25 years of service credit.

Members who are grandfathered will have their benefits determined in the following manner:

- **Final Average Salary** at retirement will be determined by the highest three years (instead of five years) of salary.
- **Preservation of certain retirement reduction factors** means that members age 55 or older with 20 to 24 years of credited service who take early retirement will receive a lesser reduction to their annuities than those members who are not grandfathered.
- **Partial Lump Sum Option** eligibility will require either age 65 with at least five years of service credit, or a combined age plus years of credited service that equals at least 80 ("Rule of 80") instead of 90.

HEALTH BENEFITS

The major health benefits and long-term care provisions are:

HEALTH BENEFITS FOR ACTIVE PUBLIC SCHOOL EMPLOYEES

TRS-ActiveCare, the statewide health benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS, went into effect on Sept. 1, 2002. The program initially addressed the most critical areas of the state with regard to availability and affordability of health benefits for public school employees and therefore focused on smaller districts. The program has now been expanded to include larger school districts, and 1,124 entities participated in the program in fiscal year 2013. During this same fiscal year, employees of participating entities can choose from four preferred provider organization plans, and

Summary of Benefits

employees of certain areas also have the option of choosing coverage under a health maintenance organization.

RETIREE HEALTH COVERAGE

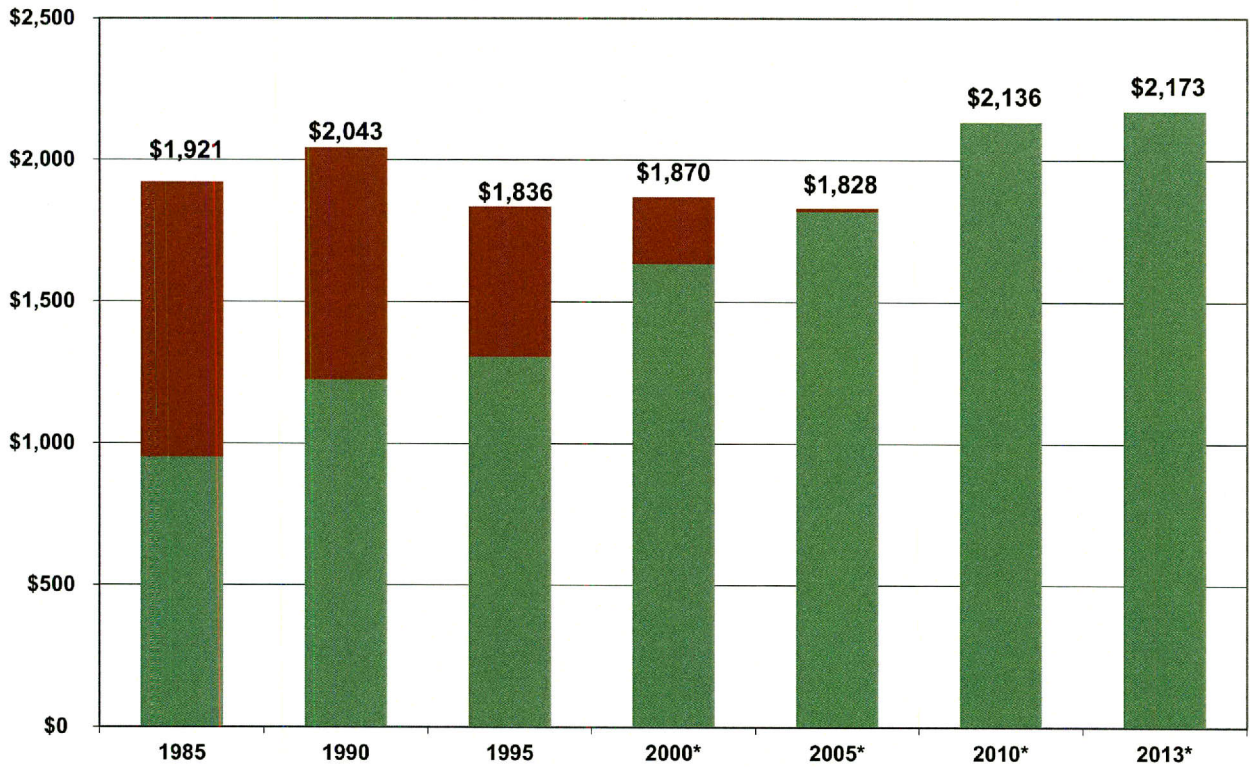
The program under the Texas Public School Retired Employees Group Benefits Act, known as TRS-Care, makes available a basic level of health coverage without cost to eligible TRS public school retirees. As has been the case for a number of years, eligible retirees and their eligible dependents may pay premiums and participate in one of two standard medical plans and one of two standard drug plans of more comprehensive benefits and coverage. Beginning on Jan. 1, 2013, two Medicare Advantage medical plans and two Medicare Part D drug plans were offered in TRS-Care. Thus, during the 2013 calendar year, at both the TRS-Care 2 level of coverage and the TRS-Care 3 level of coverage, four plans are now available, subject to eligibility criteria: a standard medical plan, a standard drug plan, a Medicare Advantage medical plan, and Medicare Part D drug plan. For information on TRS-Care eligibility, please refer to the TRS website.

LONG-TERM CARE INSURANCE PROGRAM

Eligible active and retired members, their dependents, and certain other family members may participate in the TRS long-term care insurance program. The plan pays benefits if the participant becomes unable to perform at least two activities of daily living without substantial assistance from another person. The plan also pays benefits as a result of a severe cognitive impairment that requires supervision or verbal direction from another person in order to protect the member or others from serious injury.

Average Monthly Benefit

Current Average Monthly Benefit by Year of Retirement
 Service Retiree Accounts as of August 31, 2013



Original Benefits	\$951	\$ 1,225	\$ 1,306	\$ 1,633	\$ 1,823	\$ 2,134	\$ 2,173
Benefit Increases	970	818	530	237	5	2	-
Current Benefits	<u>\$1,921</u>	<u>\$ 2,043</u>	<u>\$ 1,836</u>	<u>\$ 1,870</u>	<u>\$ 1,828</u>	<u>\$ 2,136</u>	<u>\$ 2,173</u>
Number of Retirees**	2,228	4,415	6,215	11,125	11,029	16,830	19,888

* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,768, \$1,992, \$2,309 and \$2,313 for fiscal years 2000, 2005, 2010 and 2013, respectively.

** For each of the retirement years shown, number of service retirees currently receiving benefits.

Growth of the System

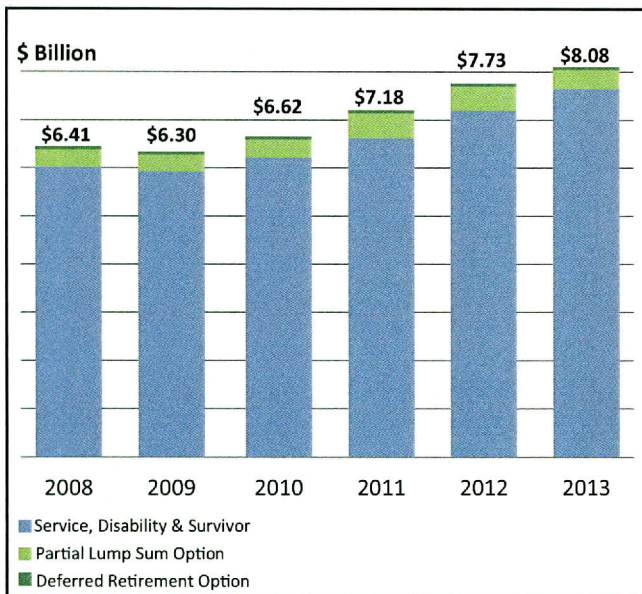
Benefit payments during fiscal year 2013 totaled approximately \$8.08 billion, an increase of \$352 million from the previous year. As of August 2013, the monthly annuity payroll had grown to approximately \$644 million, and TRS was paying benefits to 348,228 recipients.

Service recipients include retirees and beneficiaries receiving continuing monthly annuity payments. Disability recipients are disabled members who are receiving continuing monthly disability payments. Survivor recipients are beneficiaries who have elected to receive death benefits in the form of monthly

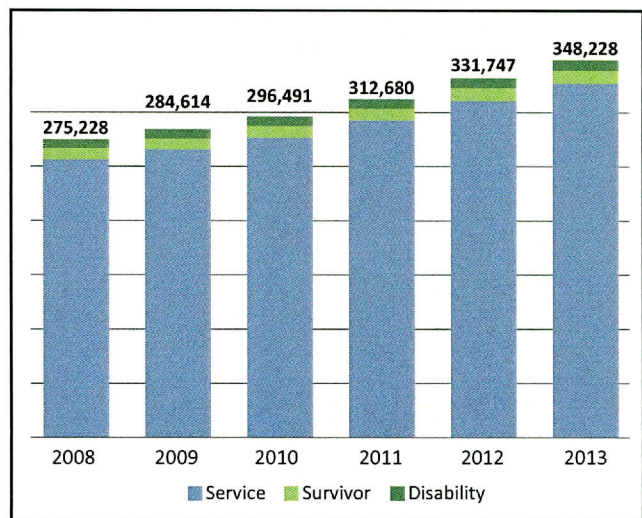
benefits. The number of retiree accounts increased by 16,481 during fiscal year 2013.

Of the current TRS member accounts, 846,336 (active contributing and deferred retirement option participants) were employed during fiscal year 2013 and made contributions to the system. The remaining 175,076 members are no longer employed by TRS covered employers but have maintained their membership in TRS by leaving their contributions with the system. The number of current member accounts increased by 17,757 during fiscal year 2013.

Benefit Payments



Annuities



Member Accounts

