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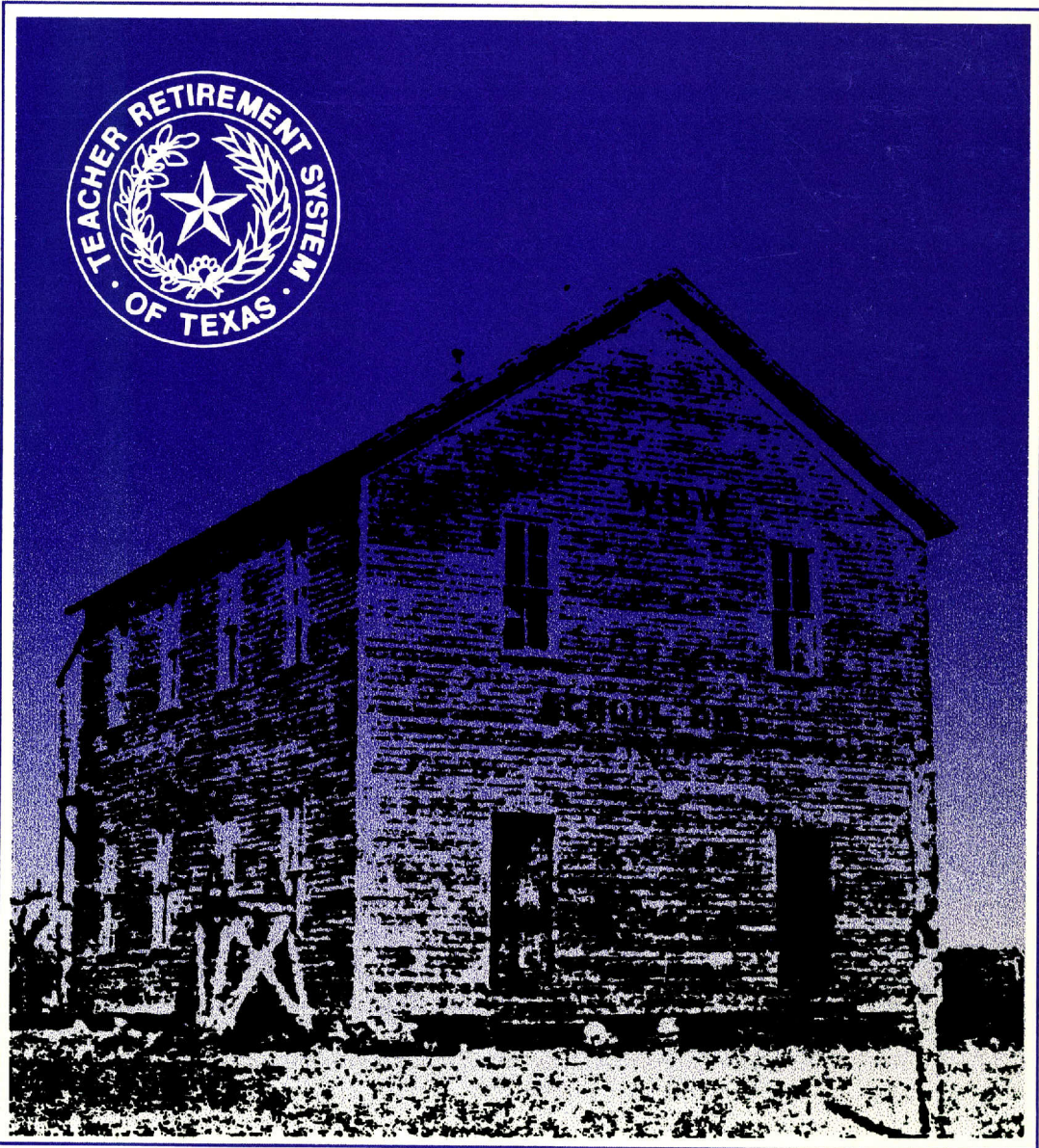
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Comprehensive Annual Financial Report

TEACHER RETIREMENT SYSTEM OF TEXAS
Fiscal Year Ended August 31, 1998



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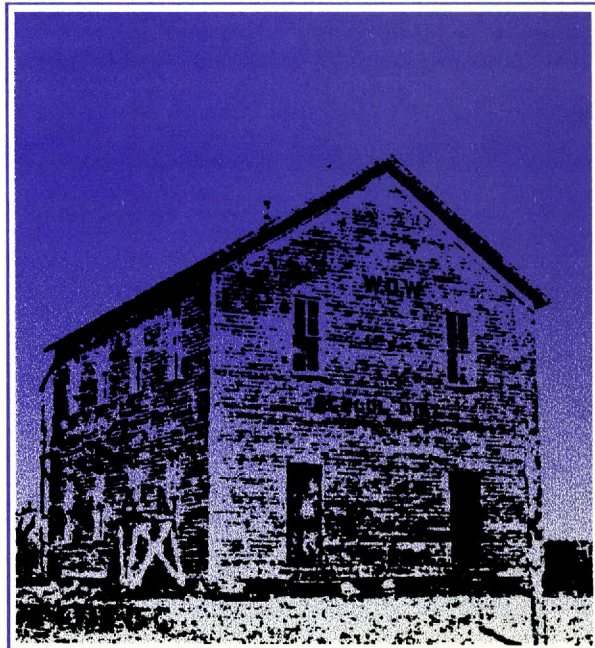
TRS Mission Statement

**The mission of the
Teacher Retirement System of Texas
is:**

- 1. to deliver retirement and related benefits authorized by law for members and their beneficiaries; and**
- 2. to prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.**

Comprehensive Annual Financial Report

TEACHER RETIREMENT SYSTEM OF TEXAS
Fiscal Year Ended August 31, 1998



Charles L. Dunlap, *Executive Director*

Prepared by
Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698
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Introductory Section

*Morris Ranch Schoolhouse
Gillespie County, Texas*



Courtesy of Texas Historical Commission

BOARD OF TRUSTEES



Front row from left: Brenda L. Jackson, James H. (Jim) Simms (*Chairman*), Kathryn Stream (*Vice Chair*), Charles L. Dunlap (*Executive Director*). Back row from left: H. Barham Fulmer, Cecilia Moreno, James P. Cummings, Sr., Lee Williamson, Kneeland Youngblood, Wendell Whittenburg.

James H. (Jim) Simms, 2001
Chairman
President, Mitchell Electric Company,
Amarillo

Kathryn Stream, Ph.D., 1999
Vice Chairman
Vice Provost for Health Affairs,
Texas Woman's University, Health
Science Institute, Houston

James P. Cummings, Sr., 2001
President, Norwest Bank Texas, N.A.,
San Angelo

H. Barham Fulmer, II, 2003
President, First Service Bank,
Lindale

Brenda L. Jackson, 2003
Senior Vice President, TU Electric,
Dallas

Cecilia Moreno, 2003
Director of Secondary Education,
Laredo ISD, Laredo

Wendell Whittenburg, 2001
Teacher, Sweetwater

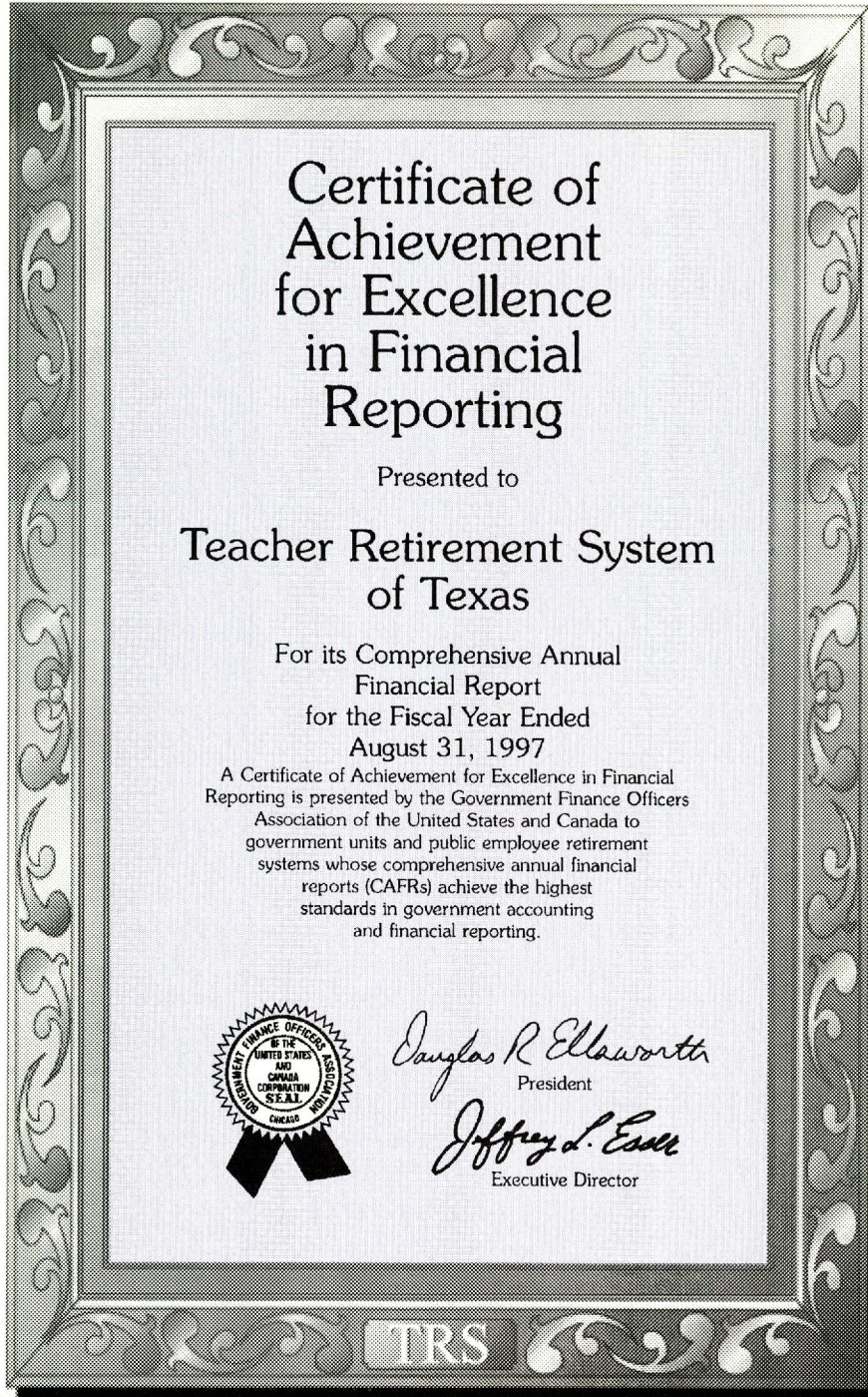
Lee Williamson, Ed.D., 1999
Retired Superintendent,
Wichita Falls ISD, Wichita Falls

Kneeland Youngblood, M.D., 1999
Physician, Dallas

The Board of Trustees is responsible for the administration of the system under provisions of the state constitution and laws. The board is composed of nine trustees who are appointed to staggered terms of six years. Three trustees (Youngblood, Jackson, and Cummings) are direct appointments of the governor. Two trustees (Fulmer and Simms) are appointed by the governor from a list prepared by the State Board of Education. Two trustees (Moreno and Whittenburg) are appointed by the governor from the three public school district active member candidates who have been nominated for each position by employees of public school districts. One trustee (Stream) is appointed by the governor from the three higher education active member candi-

dates nominated by employees of institutions of higher education. One trustee (Williamson) is appointed by the governor from the three retired member candidates who are nominated by retired TRS members. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.

CERTIFICATE OF ACHIEVEMENT



 **ETTER OF TRANSMITTAL**

**Teacher Retirement System
of Texas**

1000 Red River Street
Austin, Texas 78701-2698
(512) 397-6400 1-800-223-8778



November 24, 1998

The Honorable George W. Bush
The Honorable Bob Bullock
The Honorable James E. "Pete" Laney
The Board of Trustees and Members
of the Teacher Retirement System

Dear Governor Bush, Lieutenant Governor Bullock,
Speaker Laney, TRS Board of Trustees and Members
of the Teacher Retirement System:

On behalf of the board of trustees, I am pleased to present this *Comprehensive Annual Financial Report* (CAFR) of the Teacher Retirement System of Texas (TRS) for the fiscal year ended August 31, 1998, the system's 61st year of operation. During the past year the system experienced continued growth in both membership and trust fund assets, and concluded the year in the best actuarial condition in its history. Benefit payments rose 13 percent to \$2.5 billion, and trust fund net assets increased by \$4.3 billion to \$66.5 billion. The system also reached a historic actuarial milestone by becoming fully funded. For the first time in the history of the fund, the market value of current assets plus projected future contributions are sufficient to fund all established benefits for both current benefit recipients and active members who will receive benefits in the future.

Structure of the Report

The *Comprehensive Annual Financial Report* for the 1998 fiscal year is designed to provide TRS stakeholders with a thorough review of the system's operations for the past year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, rests with management of the system. This report includes the following sections:

- The **Introductory Section** describes the system's management and highlights the year's activities, membership data and communications informa-

tion.

- The **Financial Section** contains the report of the Texas State Auditor, financial statements of the system and required supplementary information.
- The **Investment Section** includes a summary of investments and performance information.
- The **Actuarial Section** contains Watson Wyatt Worldwide's certification and selected actuarial information from the annual actuarial valuation for the fiscal year ended August 31, 1998.
- The **Benefits Section** includes a summary of retirement, health insurance and death benefits available to retirees and beneficiaries.
- The **Statistical Section** presents six-year financial information about the pension trust fund and the Texas Public Employees Group Insurance Program.

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* (CAFR) for the fiscal year ended August 31, 1997. 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 eight years. We believe our current report continues to meet the program requirements, and we are submitting it to the GFOA for consideration again this year.

Reporting Entity

The Teacher Retirement System of Texas was estab-

LETTER OF TRANSMITTAL

lished by amendment to the Texas Constitution in 1936 and enactment of statutes in 1937 to provide a retirement program for public education employees in professional and business administration, supervision, and instruction. Benefits were later expanded to include disability, death and survivor benefits. In 1949, membership was expanded to include other employees of public education.

The Texas Public School Employees Group Insurance Program was established in 1985 to provide health insurance for retirees. Health insurance offerings were further expanded in 1996 with the initiation of an elective plan for participating school districts and their employees.

As of August 31, 1998, there were 1,194 reporting employers, 718,934 current members and 163,721 annuitants for a total membership of 882,655.

Investment Performance

Since 1990, pension fund net assets have grown 171 percent, from \$24.5 billion to \$66.5 billion. For the year ended September 30, 1998, the fund's total return was 8.0 percent, well below the return for 1997. For the last 10 years the time weighted rate of return was 13.3 percent. This favorable long-term performance illustrates the importance of asset allocation decisions and the considerable value of maintaining allocations that are established based on long-term performance expectations. TRS, along with many other public plan sponsors, has benefited from allocations that favor a balanced use of equities and fixed income investments. Not only do our analyses indicate that such allocations promote faster accumulation of trust fund values, but they also demonstrate relatively risk-neutral results over the long run. Volatility in the short run can be quite high, but long-term results offer compelling evidence of the importance of maintaining poise and perspective about investment allocations.

The growth in market value of trust fund assets in the long run demonstrates the importance of investment performance as a source for funding current and future benefits. Investment returns over the last six years on average—including changes in market value—were three times the combined total of state and member contributions to the system. This performance is the primary driver of trust fund growth and has provided a financial foundation for legislative consideration of benefit enhancements for TRS members while the funding status of the system has continued to improve.

Benefit Enhancements

Annuity increases for the retirees and beneficiaries, authorized by the 75th Legislature, were reflected in retirees' monthly payments in 1998. During the 1998 fiscal year, approximately \$2.5 billion in benefits were distributed to annuitants—a 13 percent increase over the amount paid in the prior year. Benefit payments in total as well as payments to individual benefit recipients have grown markedly since 1993, principally reflecting the impact of the "CPI Catch-up Program" begun in that legislative session and continued in 1995 and 1997. This program has largely erased purchasing power lost to inflation over past years by all TRS retirees and their survivors.

The Deferred Retirement Option Program (DROP), a significant new benefit included in the 1997 legislative package, was implemented during 1998. DROP allows eligible active members an option to structure their retirement values into a combined annuity and cash accumulation account. Approximately 1,900 members participated in the DROP program during 1998.

Actuarial Soundness

The trust fund achieved fully funded status during this year. This is particularly noteworthy in view of the substantial benefit improvements that have been established during the past few years. TRS uses an actuarial, five-year smoothing average of investment returns to determine funding conditions—for 1998 this resulted in a significant positive contribution to actuarial returns from the very robust markets of 1995, 1996, and 1997. A detailed discussion of funding is provided in the Actuarial Section of this report.

Major Initiatives

TRS focused on three major projects in 1998—all targeting the system's core responsibilities of managing the trust fund and delivering authorized benefits to members. The *Benefit Services Transformation Project (BeST)*, a multi-year program to reengineer critical processing capacities, including the establishment of a relational database program, Internet capabilities, and a data warehouse, saw the successful completion of its second year of implementation. The *BeST Project* will continue through the first half of 2001 and will deliver processing systems appropriate for the system's future needs.

LETTER OF TRANSMITTAL

Significant progress was made on the *Year 2000 Project* to avoid or mitigate the risks that there will be disruptions in service to members when the new century arrives. This project was started in 1996, and most of the work will be completed by December 31, 1998. Internal computer code has been remediated to be Year 2000 compliant and is currently being tested. Embedded systems are being modified as appropriate. The system is working with various vendors to ensure that interfaces are also compliant.

As with any entity, there are no absolute assurances that unforeseen or uncontrollable events which would cause an interruption in service to members will not occur. To address this contingency the system has developed business continuation plans for the mission-critical functions of annuity payments and investment activities. The *Year 2000 Project* plan and the business continuation plans together minimize the risk of disruption in service to members.

The *Backfile Conversion Project*, targeting conversion of an estimated 30 million microfiche records to digital images, was initiated in August 1998 and is scheduled to be completed in January 2000. With the completion of the project, all records will be accessible by authorized personnel through an imaging system that facilitates quicker processing of retirements, refunds and death claims.

Health Care Programs

In addition to management of the investment fund and delivery of retirement benefits, the system manages two health care programs—one for active members and a more established program for retirees. Funding for the retiree program is provided by contributions from active members, the state, retiree participants, and investment earnings from a separate trust dedicated to the program. The current funding structure has served the program well and has lasted longer than initial expectations when it was established in 1985. Nevertheless, current projections indicate that funding will be exhausted in approximately two years. Continuation of this important program will require resolution of long-term funding needs.

Acknowledgments

TRS is served faithfully by nine trustees and a staff of 379 who are focused on core responsibilities. Every action taken by the system is directed to promoting excellence and efficiency in service to TRS stakehold-

ers. These efforts as evidenced by the results contained in this report bring credit upon those who serve the TRS membership.

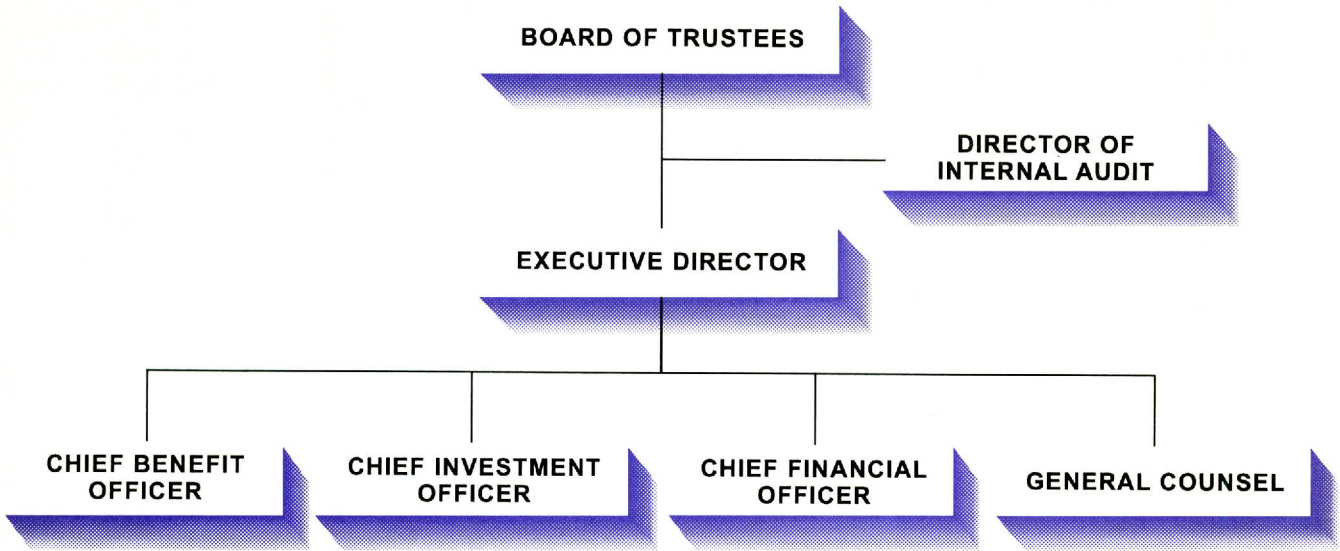
We wish also to acknowledge the continued support of the Governor's, Lieutenant Governor's and Speaker's Offices, as well as members of the legislature, for their support of a strong retirement system which provides valuable benefits for public education employees and retirees.

Respectfully submitted,



Charles L. Dunlap
Executive Director

 **ORGANIZATION CHART**



EXECUTIVE DIRECTOR
Charles L. Dunlap

CHIEF BENEFIT OFFICER
Vacant

CHIEF INVESTMENT OFFICER
Martin J. "Marty" Walker

CHIEF FINANCIAL OFFICER
Ronnie G. Jung

GENERAL COUNSEL
William H. Baker

DIRECTOR OF INTERNAL AUDIT
David J. MacCabe

STAFF & ADVISORS

ADMINISTRATIVE STAFF

Charles L. Dunlap, *Executive Director*

Vacant, *Chief Benefit Officer*

Martin J. "Marty" Walker, *Chief Investment Officer*

Ronnie G. Jung, *Chief Financial Officer*

William H. Baker, *General Counsel*

John R. "Randy" Mercer, *Deputy General Counsel*

Wayne E. Fickel, *Controller*

David J. MacCabe, *Director, Internal Audit*

Amy L. Morgan, *Director, Management Information Systems*

Frank J. DiLorenzo, *Director, Group Insurance*

Howard J. Goldman, *Director, Communications*

Patricia O. Featherston, *Director, Governmental Relations*

Shari Cooper, *Director, Human Resources*

INVESTMENT COUNSEL

Wellington Management Company, LLP, Boston

CONSULTING ACTUARY

Watson Wyatt Worldwide, Dallas

INVESTMENT ADVISORS

John W. Peavy, III, Dallas

I. Craig Hester, Austin

AUDIT SERVICES

Texas State Auditor's Office, Austin

Maxwell Locke & Ritter, Austin

REAL ESTATE CONSULTANT

Harry J. Seidman, Austin

FIDUCIARY COUNSEL

Groom Law Group, Chartered, Washington

MEDICAL BOARD

Dr. Homer R. Goehrs, Austin

Dr. Donald E. Pohl, Austin

Dr. Larry D. Wilson, Austin

TEXAS PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

Frank Medina III, *Chairman*, San Antonio

Russell E. Sayers, *Vice Chairman*, Austin

Gilbert G. Galvan, Harlingen

Charlotte L. Gewin, Beaumont

Sarah A. Jarrell, Alief

Dinah J. Orum, Nacogdoches

B. Sue Passmore, Dallas

Nelda J. Van Dyke, Brenham

E. Lamont Veatch, Lubbock

HEALTH CARE CONSULTANT

Watson Wyatt Worldwide, Dallas

MASTER CUSTODIAN

The Northern Trust Company, Chicago

PERFORMANCE MEASUREMENT

Holbein Associates, Inc., Dallas

Deloitte & Touche LLP, Chicago

The Northern Trust Company, Chicago

M MEMBERSHIP

Pension Trust Fund

Membership includes 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 covered by the Optional Retirement Program or exempted by statute.

At August 31, 1998, participating employing districts included the following:

Public Schools and Service Centers	1,094
Community and Junior Colleges	51
Universities	39
Medical Schools	8
Other Entities	2
Totals	<u>1,194</u>

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas. At August 31, 1998, and August 31, 1997, membership consisted of the following:

	<u>Year Ended August 31,</u>	
	1998	1997
Current Members:		
Active	703,558	678,749
Deferred Retirement Option	1,889	-0-
Inactive		
Nonvested	5,492	8,631
Vested	<u>7,995</u>	<u>7,163</u>
Total Current Members	<u>718,934</u>	<u>694,543</u>
Retirement Recipients:		
Service Retirees	147,438	141,849
Disabled Retirees	7,556	7,601
Survivor Benefit Recipients	<u>8,727</u>	<u>8,971</u>
Total Retirement Recipients	<u>163,721</u>	<u>158,421</u>
TOTAL MEMBERSHIP	<u><u>882,655</u></u>	<u><u>852,964</u></u>

During the last six years total membership has grown by 156,700 members or 22%. Since 1993, the number of active members increased by 22% and the number of retirees increased by 20%. As a result, the ratio of active members to retirees has increased to 4.4:1. Membership information for the last six years is summarized below:

<u>Year</u>	<u>Total Members</u>	<u>% Increase</u>	<u>Ratio of Active Members to Retirees</u>
1993	725,948	4.7%	4.2:1
1994	757,703	4.4%	4.2:1
1995	787,077	3.9%	4.2:1
1996	818,579	4.0%	4.3:1
1997	852,964	4.2%	4.3:1
1998	882,655	3.5%	4.4:1

Changes in membership during the last two years are summarized below:

	<u>1998</u>	<u>1997</u>
Active Membership:		
New Members	77,243	79,277
Members Withdrawing	(41,878)	(39,467)
Service Retirements	(9,374)	(9,170)
Disability Retirements	(456)	(659)
In-Service Deaths	(770)	(912)
Other Changes	(374)	(565)
Net Increase	<u>24,391</u>	<u>28,504</u>
Retired Membership:		
Service Retirements	9,374	9,170
Disability Retirements	456	659
Deaths After Retirement	(4,470)	(4,753)
Other Changes	(60)	805
Net Increase	<u>5,300</u>	<u>5,881</u>

The average age for active members is 42 years old with an average of nine years of service and an average salary of \$25,977. The average salary for active members at August 31, 1997, was \$25,112. Additional information about retiree membership is included in the BENEFITS section of this report.

Texas Public Employees Group Insurance Program

Group insurance participation for the Active and Retired Plans is summarized below:

	<u>1998</u>	<u>1997</u>
Retired Plan:		
Retirees	105,022	101,853
Surviving Spouses	2,127	1,993
Surviving Children	38	35
Dependent Spouses	<u>14,267</u>	<u>13,725</u>
TOTAL RETIRED PLAN	<u>121,454</u>	<u>117,606</u>
Active Plan:*		
District Employees	73	199
Dependent Spouses	9	48
Dependent Children	<u>32</u>	<u>80</u>
TOTAL ACTIVE PLAN	<u>114</u>	<u>327</u>
TOTAL INSURANCE ENROLLMENT	<u>121,568</u>	<u>117,933</u>

*Enrollment at August 31 for coverage to begin September 1.

The Retired Plan was established in 1985. Participation in the Retired Plan has increased during the last six years by 19,401 individuals from 102,053 to the current participation of 121,454. The Active Plan was established in the 1996 fiscal year.


COMMUNICATIONS

As TRS membership approaches a million members, communication is taking on an increasingly important role for the system. TRS members are diverse in terms of geographic distribution, demographics, professional background and what interests them at any given point in time. TRS has traditionally communicated with members through printed materials, group presentations, counseling appointments at TRS offices, and over the telephone. These complementary approaches enable the system to ensure that members receive needed information in a clear, convenient, and cost-effective manner. In 1998, TRS increased its reliance on new means of communicating with members. Specifically, the Internet and telecommunications have assumed an increased importance in the agency's communications mix. Key communications developments are outlined below:

Print Publications

In 1998, TRS improved its print publications to make them more useful and meaningful for members. TRS increased the use of graphics and photographs to create more visually appealing and easy-to-read publications. Brochures were updated and redesigned not only to provide accurate and timely information, but also to fit into an integrated approach for communicating key features of the TRS plan. Brochures now display a common graphic design that encourages easy recognition, and agency newsletters feature increased space dedicated to personal interest stories which communicate details about the plan and place a "human face" on the system.

By year end, plans were also in place to initiate publication of separate active member and retiree editions of *TRS News*. While these two editions will be substantially alike, TRS will gain new flexibility in addressing each group's particular interests.

The Internet

During the year, a total of 87,121 visits to the TRS Web site were recorded. An ever-increasing number of members depended on the TRS home page to receive instant, online access to a wide range of materials including directions on how to reach TRS administrative offices, an overview and brief history of the agency, information on TRS investments, the latest annual report and the current summary plan description. Other features include information for reporting officials, the *TRS Laws & Rules*, a calendar of events and employment information.

During the year, TRS added new brochures, newsletters and other print publications to its site. TRS forms were added for members' convenience, and reporting officials saw a significant increase in the number of items added to their section of the Web site. TRS also used the Internet on a limited basis to publicize various procurements and to create easier ways for members to estimate benefits for themselves such as retirement annuities and DROP benefits.

Group Presentations

With a rapidly growing membership, it has become incumbent on TRS to find ways to more efficiently and effectively utilize its resources to conduct presentations. One-on-one counseling around the state has become cost-prohibitive, so TRS has shifted its focus to group presentations—primarily to professional associations, employee groups and through regional educational service centers. In addition, TRS began using video-teleconferenced meetings to reach out to its membership.

While the retirement process remains a key focus of TRS group presentations, increased emphasis is now placed on the entire range of TRS benefits.

In the past year, more than 29,636 people attended 282 group presentations, and a total of 42,020 people attended TRS presentations at 14 conventions. In addition, 8,866 people visited with a counselor in the Austin office.

Coordination with Employers

Working closely with employers remains a top TRS priority. In the past year, more than 650 school business officials attended 12 workshops to review TRS reports, reporting procedures, recent benefit changes, TRS forms, and the *TRS Laws and Rules*. Officials also received updates on the Benefit Services Transformation (BeST) project.

Telecommunications

The telephone continues to be an important channel of communication between members and the retirement system. In 1998, a total of 308,452 calls were handled by the agency's telephone information center. Due to the heavy demand for telephone assistance—and limited system capacity during normal working hours—a new service, called InfoLine, was introduced for members. Hours of operation were also expanded to better serve members' needs.

A total of 90,513 InfoLine calls were received in 1998. This toll-free, automated system now provides callers with immediate access to general information about TRS benefits, day or night. Member account information is also available after a member obtains a personal identification number (PIN) from TRS. This new service has increased members' convenience and freed up telephone lines for members requiring additional assistance.

Planning for the Future

At year end, TRS was conducting focus groups to solicit member feedback on how to improve its summary plan description. Also, at year end, TRS was developing new questionnaires to gauge member satisfaction with the telephone information center, the benefit counseling area, and regional presentations. These questionnaires will help TRS ensure that members receive quality service. These projects represent the first of several new customer service initiatives planned for the coming year.

FINANCIAL HIGHLIGHTS

The Teacher Retirement System of Texas administers a pension trust fund, a retired insurance plan and an active insurance plan for employees and retirees of the Texas public education system. Financial highlights for these programs are summarized below.

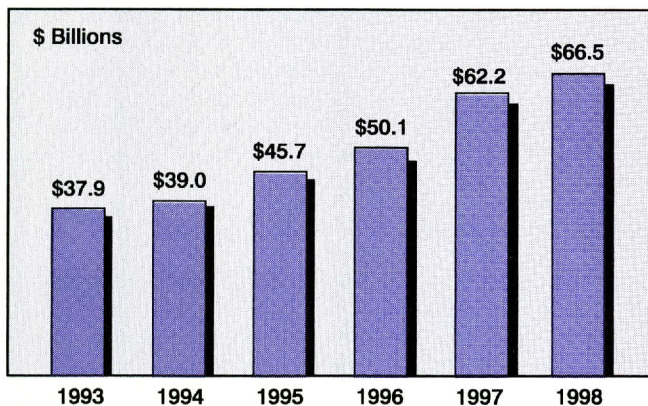
Pension Trust Fund

During the 1998 fiscal year the net assets of the pension fund increased by approximately \$4.3 billion or 6.9% from \$62.2 billion to \$66.5 billion. Net assets increased as a result of the following transactions:

	\$ Billions	%
Investment Appreciation in Fair Value	2.3	32.9
Investment Income	2.5	35.7
Member Contributions	1.1	15.7
State Contributions	1.0	14.3
Employer Contributions	0.1	1.4
TOTAL ADDITIONS	7.0	100.0
Annuity Payments	(2.5)	92.6
Refunds	(0.2)	7.4
TOTAL DEDUCTIONS	(2.7)	100.0
NET INCREASE	\$ 4.3	

Investment income and appreciation is becoming a significant contributor to the growth of the fund. For the 1998 fiscal year investment-related income and appreciation accounted for 68.6% of total increases to the fund while state, member, and employer contributions accounted for the remaining 31.4%. On average for the last six years investment-related income has accounted for 74.3% of total income.

As noted below, the market value of net assets of the pension fund increased by \$28.6 billion from \$37.9 billion in 1993 to the current \$66.5 billion.



During this same 6-year period, total annuity payments to retirees and beneficiaries increased from \$1.4 billion to \$2.5 billion.

Retired Insurance Plan

During the 1998 fiscal year the fund balance of the retired insurance plan **decreased** by approximately 16% or \$32.4 million from \$203.8 million to \$171.4 million. This trend of decreasing balances is expected to continue until funding and/or benefit changes are made to the retired insurance plan. Transactions for the 1998 fiscal year are summarized below:

	\$ Millions	%
Retiree Premiums	91.4	42.5
State Contributions	72.2	33.6
Active Member Contributions	36.1	16.8
Investment Earnings	15.3	7.1
TOTAL REVENUES	215.0	100.0
Claims Payments	232.8	94.1
External Administration	12.7	5.1
Internal Administration	1.9	0.8
TOTAL EXPENDITURES	247.4	100.0
NET DECREASE	\$ (32.4)	

State and active member contributions accounted for 50.4% of the fund's revenues while interest accounted for another 7.1% of revenues. The remaining 42.5% came from premiums paid by the 121,454 retirees and dependents.

Active Insurance Plan

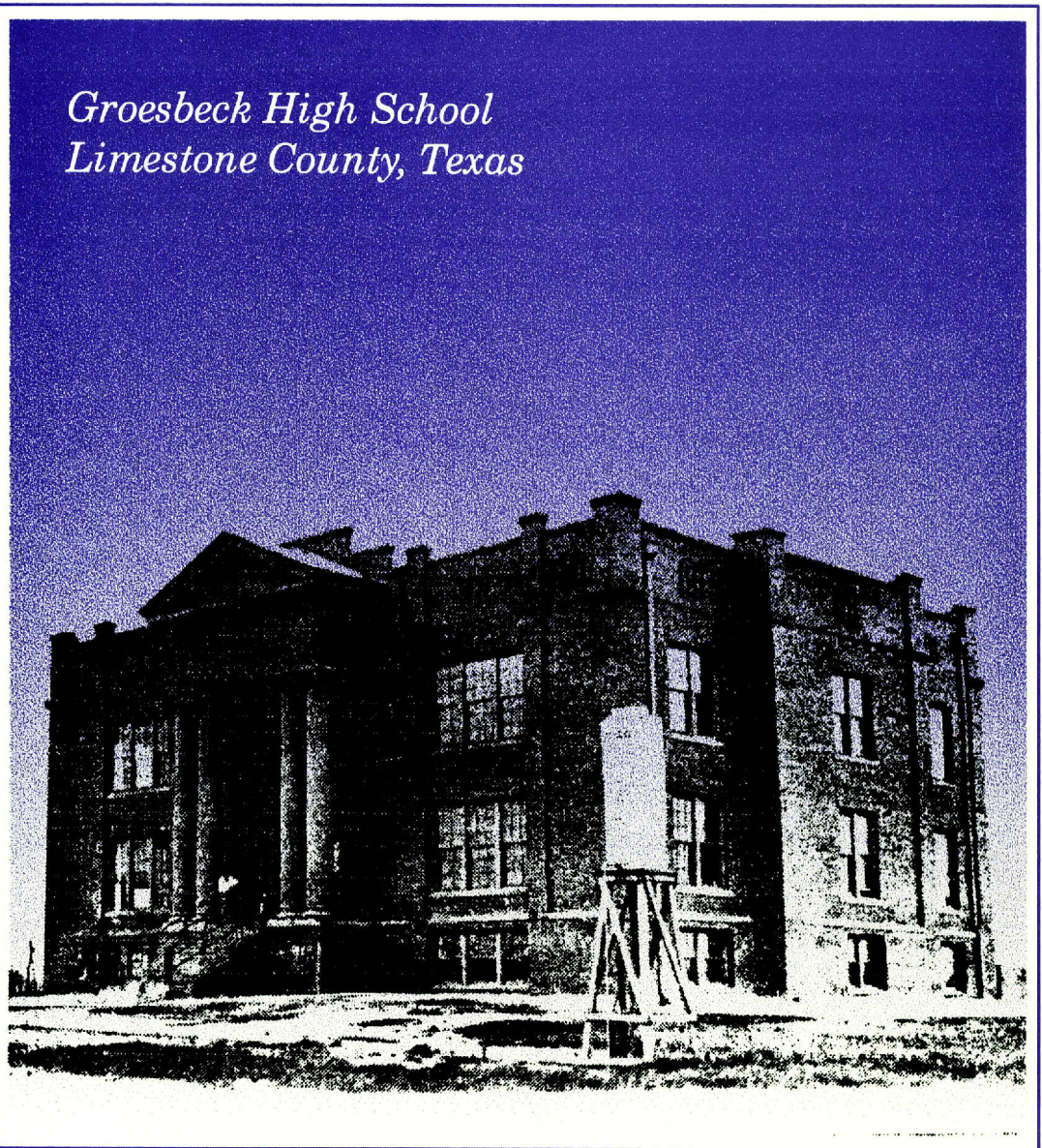
The active insurance plan fund balance increased by \$0.2 million during the 1998 fiscal year from \$22.1 million to \$22.3 million. Transactions for the year are summarized below:

	\$ Millions	%
Active Premiums	.56	31.5
Investment Earnings	1.22	68.5
TOTAL REVENUES	1.78	100.0
Claims Payments	1.11	71.6
External Administration	.04	2.5
Internal Administration	.40	25.9
TOTAL EXPENDITURES	1.55	100.0
NET INCREASE	\$.23	

Total claims paid for active members and dependents were approximately \$1.1 million.

Financial Section

*Groesbeck High School
Limestone County, Texas*





OFFICE OF THE STATE AUDITOR

TWO COMMODORE PLAZA
206 EAST NINTH STREET, SUITE 1900
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA
State Auditor

INDEPENDENT AUDITORS' REPORT

November 18, 1998

**Members of the Board of Trustees,
Teacher Retirement System of Texas
The Honorable George W. Bush, Governor
and
Members of the Legislature
State of Texas**

Ladies and Gentlemen:

We have audited the accompanying general purpose financial statements, listed as Exhibits I through III in the Table of Contents, of the Teacher Retirement System of Texas (system), as of and for the year ended August 31, 1998. These financial statements are the responsibility of the system's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of 21 wholly owned subsidiary corporations, whose statements reflect assets and net revenues constituting \$168.6 million, or .23 percent, and \$70.9 million, or 1.0 percent, respectively, of the system's related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial status of the pension plan and the financial position of the other fund types of the Teacher Retirement System of Texas as of August 31, 1998, and the changes in the financial status of the pension plan and results of operations for the expendable trust fund for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The information included in the Required Supplementary Information, Exhibits A and B, and in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. These financial statements and schedules are also the responsibility of the management of the system. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The Introductory, Investment, Actuarial, Benefits, and Statistical sections were not audited by us and, accordingly, we do not express an opinion thereon.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the system's internal control structure and a report on its compliance with laws and regulations material to the general purpose financial statements in a separate report to management.

A handwritten signature in cursive script, reading "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

Combined Statement of Plan Net Assets - Defined Benefit Pension Plan and Balance Sheet - All Other Fund Types and Account Groups

AUGUST 31, 1998 (With Comparative Memorandum Totals for August 31, 1997)

EXHIBIT



ASSETS	FIDUCIARY FUNDTYPES	
	Defined Benefit Pension Plan	Other Trust and Agency
Cash:		
Cash in State Treasury	\$ 400,267,193	\$ 6,408,482
Cash in Bank	444,531	
Cash on Hand	1,158,474	188,739
TOTAL CASH	\$ 401,870,198	\$ 6,597,221
Receivables and Prepaids:		
Accounts Receivable:		
Sale of Investments	\$ 853,005,702	\$
Interest and Dividends	386,899,285	4,197,585
Member and Retiree Contributions	35,313,566	9,615,175
Due from State's General Revenue Fund	34,025,977	4,007,196
Reporting Employers	6,895,843	5,212,481
Other	2,215,052	81,727
Prepaids	126,826	
TOTAL RECEIVABLES AND PREPAIDS	\$ 1,318,482,251	\$ 23,114,164
Investments (Note I.F.):		
Short-Term	\$ 1,282,400,000	\$ 107,224,546
Fixed Income	24,461,749,627	108,511,910
Equities	38,947,726,382	
Real Estate Mortgages	870,727,000	
Real Estate Held for Sale (Note XI.)	165,592,220	
TOTAL INVESTMENTS	\$ 65,728,195,229	\$ 215,736,456
Invested Securities Lending Collateral	\$ 6,833,244,406	\$ -0-
Other Assets and Debits:		
Land	\$ 1,658,310	\$
Building, Equipment and Capital Projects, at Cost, Net of Accumulated Depreciation	29,492,783	
Deferred Assets	7,770	
Resources to be Provided in Future Years		
TOTAL OTHER ASSETS AND DEBITS	\$ 31,158,863	\$ -0-
TOTAL ASSETS	\$ 74,312,950,947	\$ 245,447,841

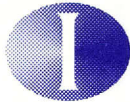
ACCOUNT GROUPS		TOTALS - MEMORANDUM ONLY	
General Fixed Assets	General Long-Term Debt	1998	1997
\$	\$	\$ 406,675,675	\$ 404,702,022
		444,531	962,906
		1,347,213	161,089
\$ -0-	\$ -0-	\$ 408,467,419	\$ 405,826,017
\$	\$	\$ 853,005,702	\$ 238,813,125
		391,096,870	364,679,134
		44,928,741	47,661,663
		38,033,173	3,116,716
		12,108,324	12,435,476
		2,296,779	1,992,586
		126,826	513,968
\$ -0-	\$ -0-	\$ 1,341,596,415	\$ 669,212,668
\$	\$	\$ 1,389,624,546	\$ 813,636,075
		24,570,261,537	20,738,570,873
		38,947,726,382	39,022,819,496
		870,727,000	930,189,000
		165,592,220	324,579,860
\$ -0-	\$ -0-	\$ 65,943,931,685	\$ 61,829,795,304
\$ -0-	\$ -0-	\$ 6,833,244,406	\$ 1,088,407,699
\$	\$	\$ 1,658,310	\$ 1,658,310
72,579		29,565,362	25,800,823
		7,770	9,590
	37,039	37,039	29,569
\$ 72,579	\$ 37,039	\$ 31,268,481	\$ 27,498,292
\$ 72,579	\$ 37,039	\$ 74,558,508,406	\$ 64,020,739,980

(to next page)

Combined Statement of Plan Net Assets - Defined Benefit Pension Plan and Balance Sheet - All Other Fund Types and Account Groups

AUGUST 31, 1998 (With Comparative Memorandum Totals for August 31, 1997)
(concluded)

EXHIBIT



LIABILITIES, DEFERRED CREDITS, EQUITY, OTHER CREDITS AND NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	FIDUCIARY FUNDTYPES	
	Defined Benefit Pension Plan	Other Trust and Agency
Liabilities:		
Accounts Payable	\$ 16,593,238	\$ 323,383
Benefits Payable	216,738,035	46,143,691
Accounts Payable - General Revenue Fund		5,212,481
Funds Held for Others		2,723
Investments Purchased Payable	769,740,813	
Securities Lending Collateral	6,833,244,406	
Compensable Absences Payable - not Funded by Current Resources		
TOTAL LIABILITIES	\$ 7,836,316,492	\$ 51,682,278
Deferred Credits:		
Deferred Revenues	\$	\$
Reinstatement Installment Receipts	19,811,512	
TOTAL DEFERRED CREDITS	\$ 19,811,512	\$ -0-
Equity and Other Credits:		
Investment in General Fixed Assets		\$
Fund Balance Reserved for:		
Future Retention, Claims and Administrative Expenditures		193,765,563
TOTAL EQUITY AND OTHER CREDITS		\$ 193,765,563
TOTAL LIABILITIES, DEFERRED CREDITS, EQUITY AND OTHER CREDITS		\$ 245,447,841
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 66,456,822,943	

(A schedule of funding progress is presented on page 32.)

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

ACCOUNT GROUPS		TOTALS - MEMORANDUM ONLY	
General Fixed Assets	General Long-Term Debt	1998	1997
\$	\$	\$ 16,916,621	\$ 11,517,505
		262,881,726	245,447,574
		5,212,481	8,073,908
		2,723	(418)
		769,740,813	258,469,045
		6,833,244,406	1,088,407,699
	37,039	37,039	29,569
\$ -0-	\$ 37,039	\$ 7,888,035,809	\$ 1,611,944,882
\$	\$	\$ 19,811,512	\$ 311,525
			21,501,353
\$ -0-	\$ -0-	\$ 19,811,512	\$ 21,812,878
\$ 72,579	\$	\$ 72,579	\$ 74,794
		193,765,563	225,979,910
\$ 72,579	\$ -0-	\$ 193,838,142	\$ 226,054,704
\$ 72,579	\$ 37,039	\$ 245,557,459	\$ 302,910,719
		<u>\$ 66,456,822,943</u>	<u>\$ 62,160,927,516</u>

Comparative Statement of Revenues, Expenditures and Changes in Fund Balance

EXPENDABLE TRUST FUND

YEAR ENDED AUGUST 31

EXHIBIT



	1998	1997
Revenues:		
Retired Insurance Plan:		
Retiree Premiums	\$ 91,390,173	\$ 87,657,784
State Contributions	72,210,190	67,616,395
Member Contributions	36,105,095	33,808,197
Investment Income:		
Interest	14,394,504	16,125,973
Securities Lending Program	4,691	
Net Appreciation in Fair Value of Investments	861,322	76,467
Active Insurance Plan:		
Membership Fees		5,206,800
Active Premiums	548,119	534,595
Administrative Fees	10,952	
Investment Income:		
Interest	1,126,333	1,605,147
Net Appreciation in Fair Value of Investments	91,362	(30,801)
TOTAL REVENUES	\$ 216,742,741	\$ 212,600,557
Expenditures:		
Retired Insurance Plan:		
Claims	\$ 232,794,071	\$ 211,354,471
External Administration	12,748,881	12,880,395
Internal Administration	1,867,797	1,217,059
Active Insurance Plan:		
Claims	1,107,287	579,743
External Administration	38,445	60,322
Internal Administration	400,607	426,907
TOTAL EXPENDITURES	\$ 248,957,088	\$ 226,518,897
Deficiency of Revenues Over Expenditures	\$ (32,214,347)	\$ (13,918,340)
Fund Balance - Beginning September 1	225,979,910	239,898,250
Fund Balance - Ending August 31:		
Retired Insurance Plan	\$ 171,425,780	\$ 203,870,554
Active Insurance Plan	22,339,783	22,109,356
TOTAL FUND BALANCE - ENDING AUGUST 31	\$ 193,765,563	\$ 225,979,910

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

Comparative Statement of Changes in Plan Net Assets

PENSION TRUST FUND

YEAR ENDED AUGUST 31



	1998	1997
ADDITIONS:		
Contributions:		
Member	\$ 1,090,934,874	\$ 1,020,444,733
State	931,234,586	869,726,704
Reporting Employers	91,478,817	86,940,233
TOTAL CONTRIBUTIONS	\$ 2,113,648,277	\$ 1,977,111,670
Investment Income:		
From Investing Activities:		
Net Appreciation in Fair Value of Investments	\$ 2,333,003,731	\$ 10,171,242,898
Interest	1,771,407,185	1,556,819,904
Dividends	670,438,434	651,624,291
Net Income on Operations of Real Estate Held for Sale (Note XI.)	18,748,237	35,973,930
TOTAL INVESTING ACTIVITIES INCOME	\$ 4,793,597,587	\$ 12,415,661,023
Less Investing Activity Expenses	(5,110,546)	(5,879,495)
NET INCOME FROM INVESTING ACTIVITIES	\$ 4,788,487,041	\$ 12,409,781,528
From Securities Lending Activities:		
Securities Lending Income	\$ 368,998,641	\$ 177,936,580
Securities Lending Expenses:		
Borrower Rebates	(347,411,006)	(160,671,684)
Management Fees	(3,146,379)	(5,820,634)
Net Income from Securities Lending Activities	\$ 18,441,256	\$ 11,444,262
TOTAL NET INVESTMENT INCOME	\$ 4,806,928,297	\$ 12,421,225,790
Other Additions:		
Reinstatement of Withdrawals	\$ 28,508,589	\$ 26,351,459
Reinstatement Fees	28,286,473	23,439,569
Legislative Appropriations for Administrative Expenses	25,755,306	24,174,262
On Behalf Fringe Benefits Paid by the State (Note V.)	1,240,192	1,184,378
Miscellaneous Revenues	45,753	584
Transfers from Employees Retirement System of Texas	914,620	645,653
Legislative Appropriations for Excess Benefits (Note I.E.)	38,595	
TOTAL OTHER ADDITIONS	\$ 84,789,528	\$ 75,795,905
TOTAL ADDITIONS	\$ 7,005,366,102	\$ 14,474,133,365
DEDUCTIONS:		
Benefits	\$ 2,494,175,450	\$ 2,209,571,246
Withdrawal of Member Accounts	183,430,398	166,125,695
Administrative Expenses (Net of Investment Expenses above)	21,738,974	18,589,436
Transfers to Employees Retirement System of Texas	10,087,258	8,248,161
Excess Benefits	38,595	
TOTAL DEDUCTIONS	\$ 2,709,470,675	\$ 2,402,534,538
Net Increase	\$ 4,295,895,427	\$ 12,071,598,827
Net Assets Held in Trust for Pension Benefits Beginning of Year	62,160,927,516	50,089,328,689
Net Assets Held in Trust for Pension Benefits End of Year	\$ 66,456,822,943	\$ 62,160,927,516

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

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Teacher Retirement System of Texas (TRS) is governed by a nine member board of trustees which has significant independence in the operations and management of the system. The legislature confirms trustees appointed by the governor, establishes laws with regard to structure, benefits and contributions, and appropriates pension trust fund administrative expenses. For financial reporting purposes, the state of Texas is considered the primary reporting government. TRS' financial statements are included and reported as a fiduciary fund type of the state.

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

TRS administers retirement and disability annuities and death and survivor 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 system administers the Texas Public School Employees Group Insurance Program. This program provides two insurance plans, the Retired Plan and the Active Plan. The Retired Plan is considered a postemployment benefit which provides insurance coverage for certain persons (and their dependents) who retire under TRS. The Active Plan became effective September 1, 1996, and added an optional source of health insurance for school districts. The statutory authority for the insurance program is Tex. Ins. Code Ann. art.3.50-4.

Included in this report as a blended component unit are wholly owned subsidiary corporations established for the purpose of holding title to real estate acquired through foreclosure or deed in lieu of foreclosure. The system owns all the shares of the title-holding corporations and appoints all members to each board of directors. (Refer to note XI. for additional disclosure.)

B. FUND STRUCTURE

The accounts of TRS are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a complete set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. The funds and account groups used to reflect the system's transactions are as follows:

Fiduciary Fund Types

Pension Trust Funds - Pension trust funds are used to account for the activities of public employee retirement systems which are administered for the benefit of the members.

Expendable Trust Funds - Expendable trust funds are used to account for trust funds whose principal and interest may be expended in the course of their designated operations. This fund is used to account for the Texas Public Employees Group Insurance Program.

Agency Funds - Agency funds are used to account for assets held as an agent for individuals, other governmental entities, and/or other funds and do not involve measurement of results of operations. The system collects monies received by public state supported educational institutions from federal or private sources and noneducational and general funds to pay for their applicable share of state retirement contributions. The system deposits all such collections in the state's General Revenue Fund.

Account Groups

General Fixed Assets Account Group - Fixed assets used by the system are accounted for in the General Fixed Assets Account Group, with the exception of those acquired by and accounted for in the pension trust fund.

General Long-Term Debt Account Group - This account group is used to account for long-term debt to be financed in future periods from the expendable trust fund.

C. MEMORANDUM TOTALS

Total columns on the general purpose financial statements are captioned as "Memorandum Only" because they do not represent consolidated financial information. These totals are not necessary for a fair presentation of the financial statements but are presented to facilitate financial analysis.

D. BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

The accompanying financial statements of TRS have been prepared to conform with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). The system's wholly owned subsidiaries (note XI.) are presented on a consolidated basis with the pension trust fund.

The financial statements have been prepared using the measurement focus and basis of accounting appropriate for each fund type. Measurement focus refers to the definition of the resource flows measured. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Pension trust funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. Revenues, including contributions, are recognized when earned and expenses are recognized when the underlying transaction or event occurs, regardless of the timing of related cash flows. Benefit expenses are recognized when the benefit is earned

NOTES TO THE FINANCIAL STATEMENTS

and refunds of members' deposits are recognized when processed. Capital assets are depreciated.

Expendable trust funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this combination, the financial statements focus on current assets and current liabilities and the changes in net current assets. All revenues reported are recognized based on the criteria of measurability and availability. Assets are defined as available if they are in the form of cash or can be converted into cash in time to be usable for payment of current liabilities. Expenditures are generally recognized when the related fund liability is incurred; however, the cost of employees' compensated absences is not recognized until payment is made.

Agency funds are used to report assets collected and transferred to the state. Assets and offsetting liabilities are accounted for using the modified accrual basis. Agency funds have no revenues, expenditures, expenses, or fund balance.

E. BUDGETS AND APPROPRIATIONS

The system's pension trust fund receives appropriations for state contributions for retirement benefits. In fiscal years 1998 and 1997, state contributions were made to the retirement system at the rate of 6.0% of the aggregate compensation paid to retirement system members each year.

Effective September 1, 1997, legislation authorized TRS to administer a governmental excess benefit arrangement under section 415 (m) of the Internal Revenue Code of 1986 (26 U.S.C. section 415 (m)). 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. For reporting purposes only, the contributions and benefits are reflected on Exhibit III, Comparative Statement of Changes in Plan Net Assets.

Pension trust fund administrative costs and capital outlay are controlled by an annual budget approved by the board of trustees. State appropriations for fiscal years 1997 and 1998 cover administrative expenses of the pension trust fund. In fiscal year 1998, the board of trustees, under the provisions of Sec. 825.313(c), Tex. Gov. Code, authorized funds to be paid from the pension trust fund for expenses related to the development of the Benefit Services Transformation Project, a multi-year project to redesign critical processing capacities, including the establishment of a relational database program, Internet capabilities, and a data warehouse.

Expendable trust fund administrative costs are controlled by means of an annual budget approved by the board of trustees. The Texas Public School Employees Group Insurance Program - Retired Plan receives appropriations from the state's General Revenue Fund

equal to .50% of the salary of each public school active employee.

The Texas Public School Employees Group Insurance Program - Active Plan, which became effective September 1, 1996, receives revenue from public school active employee contributions, participating public school districts, and earnings on investment reserves. Operating expenditures for the Active Plan are to be recovered from administrative fees charged to participating public school districts.

F. ASSETS, LIABILITIES, AND FUND BALANCE/LEGAL RESERVES

Investments

Investments for the pension trust fund and the expendable trust fund are reported at fair value. GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, was implemented effective September 1, 1997, with restatement of fiscal year 1997 totals. This implementation and restatement revalued the asset category "Fixed Income" for the Expendable Trust Fund on Exhibit I, Combined Statement of Plan Net Assets - Defined Benefit Pension Plan and Balance Sheet - All Other Fund Types and Account Groups, and added a revenue category "Net Appreciation in Fair Value of Investments" on Exhibit II, Comparative Statement of Revenues, Expenditures and Changes in Fund Balance. The fair value of investments is based on published market prices and quotations at current exchange rates. Mortgages are reported at mortgage value, which is the net present value of the expected income streams from the mortgage with income being discounted using current market rates, not to exceed the current value of underlying collateral. The fair value of real estate held for resale has been estimated based on independent appraisal values or current sales price, whichever is less, net of the estimated cost of disposition. Short-term investments are those which mature within one year. For investments where no readily ascertainable market value exists, management, in consultation with investment advisors, has determined fair values for the individual investments.

TRS utilizes real estate advisors who are compensated for their services in the form of an asset management fee. This fee is based on a percentage of the outstanding loan balance on a project or is a negotiated flat fee, and is deducted from the monthly interest payment collected by the advisor from the borrower. The net interest payment, recognized as revenue, is then forwarded to TRS. The fees earned by real estate advisors on the real estate mortgage portfolio for fiscal years 1998 and 1997 were \$2,092,111 and \$2,360,815 respectively.

Fixed Assets

Fixed assets purchased by the pension trust fund are capitalized at historical cost or, if not purchased, at fair value on date of acquisition. Depreciation has been provided over the estimated useful lives of the assets using the

NOTES TO THE FINANCIAL STATEMENTS

straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Building	50
Building Improvements	15
Furniture and Equipment - Office	5

Purchases of fixed assets by the expendable trust fund are reported as expenditures. The fixed assets are valued at historical cost or, if not purchased, at fair value on date of acquisition in the General Fixed Asset Account Group. There is no provision for depreciation or obsolescence of these fixed assets since replacements are financed from current resources.

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 for which payment is pending. Benefits payable for the expendable trust fund includes an estimate for insurance claims incurred but not reported to the system at balance sheet date.

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.

Employee compensable leave balances for the pension trust fund are accounted for on a cost of service measurement focus. This means that all liabilities associated with a fund's activity are included on its statement of plan net assets instead of in a General Long-Term Debt Account Group. Salary costs related to employees' rights to be compensated for future absences are accrued as expenses of the period in which services are rendered.

Employee compensable leave balances for this fund at August 31, 1998, and the system's monetary liability, computed by multiplying the ending balance of compensable leave times the year-end average individual employee hourly salary rate, were as follows:

	<u>Hours</u>	<u>Dollars</u>
Annual Leave	54,315	\$ 1,238,442
Compensatory Time:		
FLSA	6,753	120,918
State	8,566	240,389
Total	<u>69,634</u>	<u>\$ 1,599,749</u>

The difference between the balance at August 31, 1997 and 1998, has been included in the fund's expenses for the year ended August 31, 1998.

Employee compensable leave balances not funded by current resources represents the liability that the expendable trust fund will be required to liquidate in the future for accumulated compensable leave due employees

as of August 31, 1998. See note IV. for a summary of changes in expendable trust fund employee compensable leave balances.

Deferred Credits

The system administers an installment payment system whereby special service purchases establishing additional creditable service are paid on a monthly basis for up to five years until the deposits are sufficient to cover the total cost. Amounts paid, less administrative expenses, are refundable on demand. Revenues from these member contributions will be reported at the time the deposits are sufficient to cover the total cost.

Deferred revenues represents receipts collected that are not earned during the current fiscal year.

Fund Balance and Legal Reserves

The pension trust fund has four legally required reserves. The balances in these reserves are sufficient to meet the statutory requirements. The Member Savings Account reserve represents the accumulation of active member deposits plus interest and has a balance at August 31, 1998, of \$12,531,087,668. The State Contribution Account consists of reserves available to fund future active member retirement, death, and survivor benefits and has a balance at August 31, 1998, of \$30,725,418,108. The Retired Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases and has a balance at August 31, 1998, of \$23,181,884,907. Net capital 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. This reserve has a balance at August 31, 1998, of \$18,432,259.

The Fund Balance for the expendable trust fund consists of only one reserve, identified as Future Retention, Claims, and Administrative Expenditures. This reserve is available to pay future claims and administrative expenditures of the expendable trust fund.

G. INTERFUND TRANSACTIONS AND BALANCES

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

Quasi-external Transactions

These transactions are reported using the appropriate classification accounts for revenues or expenditures/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 quasi-external transactions are classified as Due From Other Funds and Due To Other Funds on the balance sheet or statement of plan net assets - defined benefit pension plan.

The pension trust fund provides various services to the

NOTES TO THE FINANCIAL STATEMENTS

expendable trust fund and accounts for these services as quasi-external transactions.

H. INTERAGENCY TRANSACTIONS AND BALANCES

Interagency transactions have been classified using the above criteria for quasi-external transactions.

II. GENERAL FIXED ASSETS

A summary of changes in General Fixed Assets for fiscal year 1998 follows:

Furniture and Equipment

Balance September 1, 1997	\$ 74,794
Additions	-0-
Deletions	(2,215)
Balance August 31, 1998	<u>\$ 72,579</u>

(Exhibit I)

III. DEPOSITS AND INVESTMENTS

A. CASH IN STATE TREASURY

All cash, except for the travel advance account and the securities clearing accounts as identified in note III.D., is deposited in the State Treasury. 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.

B. CASH ON HAND

At August 31, 1998, the system's pension and expendable trust funds received \$1,346,713 that was not deposited until the next business day. Additional cash of \$500 was held by the wholly owned subsidiaries.

C. DEPOSITS IN BANK

The wholly owned subsidiary corporations (note XI.) each participate in a cash management program. Each corporation transfers excess cash balances to an open-ended mutual fund daily. In certain cases, other subsidiary operating accounts are maintained in order to satisfy various legal or statutory requirements. At August 31, 1998, \$434,264 was not insured by the Federal Depository Insurance Corporation (FDIC) or collateralized.

D. SECURITIES CLEARING ACCOUNT

The system is authorized to contract with one or more commercial banks to serve as custodians of cash or securities, pending completion of investment settlements, and may authorize a bank acting as custodian to invest the cash in short-term securities approved by the board of trustees. The custodian accounts are maintained in the custodian's trust department or are structured to provide the maximum FDIC coverage.

E. INVESTMENT LEGAL PROVISIONS AND OTHER CONSTRAINTS

Article XVI, Section 67 of the Constitution of the State of Texas authorizes the board of trustees to invest the funds of the system in such securities as the board may consider prudent investments. 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" (the prudent person rule). The legislature may further restrict the investment discretion of the board. Trustees establish 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, fixed income, real estate mortgages, cash equivalents, and alternative investments including the Texas Growth Fund.

F. LEVEL OF RISK

Deposits and investments have been categorized to provide an indication of the level of risk at year end. The categories of risk for deposits are as follows:

1. Fully insured by federal depository insurance or collateralized with securities held by the system or its agent in the system's name. Collateral for Cash in State Treasury is held in the state's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the system's name.
3. Uncollateralized.

The total cash available at August 31, 1998, is as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Carrying Amount	Bank Balance	1	Category 2	3
Subsidiary Depository Lockbox Accounts	\$ 58,758	\$ 124,817	\$ 124,817	\$	\$
Subsidiary Other Operating Accounts	370,773	902,586	468,322		434,264
Travel Advance Accounts	15,000	13,374	13,374		
Total Cash in Bank	\$ 444,531	\$ 1,040,777	\$ 606,513	\$ -0-	\$ 434,264
Cash on Hand	1,347,213				
Cash in State Treasury	406,675,675				
Total Available Cash (Exhibit I)	\$ 408,467,419				

As of August 31, 1998, all investments of the system, except for mutual funds, real estate, loaned securities for which TRS has received cash as collateral, and securities purchased pending settlement are classified in Category 1, which bears the least risk. Category 1 includes investments that are insured or registered, or for which the securities are held by the system or its agent in the system's name. All investments are registered in the name of Teacher Retirement System, in its nominee name (TRS TEX), 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. The invested cash collateral held for securities lending is included in Category 3. Category 3 includes investments that are uninsured and unregistered and the securities are held by the counterparty. The fair values of investments at August 31, 1998, are as follows:

Pension Trust Fund

Type of Security	Category 1	Category 3	Fair Value
Categorized Investments:			
U.S. Treasury Obligations	\$ 3,003,856,571	\$	\$ 3,003,856,571
U.S. Government Agency Mortgage	6,960,974,767		6,960,974,767
U.S. Government Agency Other	2,819,937,832		2,819,937,832
Mortgage Obligations	61,528,396		61,528,396
Corporate Obligations Short-Term	6,000,480		6,000,480
Corporate Obligations Long-Term	6,933,586,723		6,933,586,723
International Government Obligations	1,543,719,075		1,543,719,075
International Obligations Other	1,067,104,628		1,067,104,628
Equities	29,133,219,536		29,133,219,536
International Equities	5,115,029,332		5,115,029,332
Commercial Notes	778,721,721		778,721,721
Totals	\$ 57,423,679,061	\$ -0-	\$ 57,423,679,061

Uncategorized Investments:

Investments held by broker-dealers under securities lending agreements:			
U.S. Treasury Obligations			1,852,791,684
Corporate Obligations			200,772,380
International Obligations			17,477,574
Equities			3,841,216,924
International Equities			491,312,767
Securities Purchased Pending Settlement:			
Equities			253,977,149
International Equities			68,027,150
Commercial Notes			447,736,514
Mutal Funds Short-Term			49,941,285
Mutal Funds Long-Term			44,943,521
Real Estate Mortgages			870,727,000
Real Estate Held for Sale			165,592,220
Total Investments (Exhibit I)			\$ 65,728,195,229

NOTES TO THE FINANCIAL STATEMENTS

<u>Type of Security</u>	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
Categorized Securities Lending Collateral:			
Corporate Obligations	\$	\$ 501,956,662	\$ 501,956,662
Commercial Notes		4,519,912,238	4,519,912,238
Repurchase Agreements		1,761,237,000	1,761,237,000
Totals	\$ -0-	\$ 6,783,105,900	\$ 6,783,105,900

Uncategorized Securities Lending Collateral:

Mutal Funds			\$ 50,138,506
Total Securities Lending Collateral (Exhibit I)			\$ 6,833,244,406

Expendable Trust Fund

<u>Type of Security</u>	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
Categorized Investments:			
U.S. Government Agency Short-Term	\$ 18,543,908	\$	\$ 18,543,908
Corporate Obligations Short-Term	88,252,970		88,252,970
Corporate Obligations Long-Term	108,511,910		108,511,910
Totals	\$ 215,308,788	\$ -0-	\$ 215,308,788

Uncategorized Investments:

Mutal Funds			\$ 427,668
Total Investments (Exhibit I)			\$ 215,736,456

Derivative Investing

In accordance with investment policy and fiduciary principles, the system invests in mortgage-backed securities, including certain agency collateralized mortgage obligations (CMO). CMO selections are chosen from a conservative segment which offers low volatility. CMO securities are included in aggregate with other U. S. Government Agency Mortgages in the disclosure of custodial risk.

International Currency Contracts

At the time the system is notified that an international trade has been consummated, the system trader will buy or sell a forward contract in the currency native to the security transaction for settlement date. This hedges against the risk of currency changes between trade and settlement dates. 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. At August 31, 1998, the system had forward contracts outstanding of \$70,520,046. Transactions involving foreign currency are accounted for in accordance with American Institute of Certified Public Accountants' Statement of Position 93-4, *Foreign Currency Accounting and Financial Statement Presentation for Investment Companies*.

Securities Lending

The system is authorized by state statute to contractually loan securities to investment brokers in accordance with policy established by the board of trustees. The system reports securities lending transactions in accordance with GASB Statement 28, Accounting and Financial Reporting

for Securities Lending Transactions.

The contract with the system's custodian provides for lending a specific security from the system's holdings in return for cash or government securities as collateral. The collateral is based upon the loaned security's fair value plus accrued income and received at 102% for domestic securities and American Depository Receipts (ADR's) and 105% for international. Collateral is marked to market daily, and in the case it falls below 100% for domestic or 105% for international, is reinstated to the original requirements by the borrower. The system earns income from fees paid by the brokers and interest earned on collateral investments. 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. The system cannot pledge or sell collateral unless the borrower defaults. The maturities of the cash collateral investments are closely matched to the loan terms in order to minimize risk and more closely match cash flows. There were no violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year. At fiscal year end, there was no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts the borrowers owed the system. Some of the contractual restrictions for securities lending include:

- Loans are to authorized borrowers who meet minimum requirements and execute a master securities lending agreement. Authorized borrowers have specific limits which vary from \$200 million to \$1.6 billion.

NOTES TO THE FINANCIAL STATEMENTS

2. All loans are one year or less.
3. Total market value of all loans cannot exceed 25% of the portfolio.

At August 31, 1998, the fair value of the securities on loan at Northern Trust was \$6,609,941,338 with the fair value of the collateral pledged by brokers of \$7,109,382,238. The system earned income of \$18,445,947 for fiscal year 1998. During the fiscal year, the average monthly fair value of loans outstanding ranged from \$7,935,015,674 to \$5,194,500,775 with a yearly average outstanding balance of \$6,800,035,577. The lowest volume outstanding occurred at September 1, 1997, when the system moved its holdings to one custodian.

G. CONTINGENT COMMITMENTS

At August 31, 1998, the pension trust fund had a potential obligation to fund one commercial real estate mortgage in the amount of \$62,200,000. The original commitment, made in 1989, was funded by another lender. This contingent obligation will expire in April 2001.

IV. GENERAL LONG-TERM DEBT

Employee Compensable Leave

The following is a summary of changes in employees' compensable leave balances which reflect employees' accrued rights to future compensated absences. The expendable trust fund monetary liabilities for compensable future absences as of August 31, 1998, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Annual Leave	\$ 25,911	\$ 14,303	\$ (15,060)	\$ 25,154
Compensatory:				
FLSA Time	1,360	13,249	(7,126)	7,483
State Time	2,298	9,513	(7,409)	4,402
TOTAL	<u>\$29,569</u>	<u>\$ 37,065</u>	<u>\$ (29,595)</u>	<u>\$ 37,039</u>

(Exhibit I)

V. FRINGE BENEFITS PAID BY THE STATE OF TEXAS

The employees of the system receive health care and life insurance benefits through the Employees Life, Accident and Health Insurance and Benefits Fund administered through the Employees Retirement System of Texas (see note IX.). The state contributed \$1,240,192 on behalf of the system's employees in fiscal year 1998. Although not paid by the system, GASB Statement No. 24 requires recognition of this benefit as an expense of the system and an offsetting revenue is recorded.

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 XII.). The state provided retirement contributions totaling \$801,560 related to the system's employees for the fiscal year ended August 31, 1998.

VI. 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.

VII. 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 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.

In addition, under Tex. Ins. Code Ann. art. 3.51-7, the system was contingently liable to pay a lump sum death benefit not to exceed \$5,000, when added to the death benefit authorized under Tex. Gov. Code, Title 8, Chapter 824, to the beneficiaries of deceased, retired employees.

VIII. CONTINUANCE SUBJECT TO REVIEW

As provided by Tex. Gov. Code, Title 8, Sec. 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 2007 are reviewed."

IX. POST-EMPLOYMENT HEALTH CARE BENEFITS

TRS Employees

Employees of the system who retire with 10 or more years of service continue to receive health care and life insurance benefits through the Employees Life, Accident and Health Insurance and Benefits Fund, in accordance with Article 3.50-2, Texas Insurance Code. This fund is maintained and administered through the Employees Retirement System of Texas.

For the year ended August 31, 1998, the system contributed up to a maximum monthly amount on a pay-as-you-go basis toward a retiree's health and life insurance premiums as follows: Retiree Only, \$191; Retiree & Spouse, \$299; Retiree & Children, \$263; and Retiree & Family, \$372. The system covers 100% of a Retiree Only premium and 50% of 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 other coverage. The board has adopted

NOTES TO THE FINANCIAL STATEMENTS

contributions based on rates set by the Legislature on a biennial basis. At August 31, 1998, there were 98 retirees and their beneficiaries receiving post-employment health care and life insurance benefits. For the year ended August 31, 1998, the system recognized and paid actual expenditures of \$241,786 for these benefits.

Public School Employees

TRS, as trustee, administers the Texas Public School Employees Group Insurance Program - Retired Plan (TRS-Care) and the related fund in accordance with Article 3.50-4, Texas Insurance Code.

Eligibility, generally, includes TRS public school retirees with 10 or more 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 1998, deductibles were \$1,800 for those having Part A of Medicare or \$4,500 for those without Part A. At fiscal year end there were 121,454 participants in the plan, of which 14,267 were dependent spouses.

Funding for free basic coverage is provided by the program based upon public school district payroll. The state of Texas and active public school employee contribution rates are set by statute at .50% and .25% of public school payroll, respectively. Funding for optional coverage is provided by those participants selecting the optional coverage. Expenditures for the Retired Insurance Plan (Exhibit II) are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

Funding for the Retired Plan was originally projected to last 10 years through fiscal year 1995, but funding appears to be sufficient to allow the fund to continue operating through fiscal year 2000.

X. RISK MANAGEMENT

The Texas Public School Employees Group Insurance Program - Active Plan became effective September 1, 1996. The plan provides an optional health insurance program for school district employees. A school district may elect to participate in this program, and participation by an employee of a participating school district is optional. The risk associated with this program is retained by the plan and the participating district's risk is limited to the current year's premiums. Premium rates are determined on standard insurance underwriting practices by Aetna Insurance Company and are intended to cover the cost of current year claims. If necessary, premium rates are adjusted in the succeeding fiscal year. Participating districts may cancel their participation only at the end of a fiscal year. At August 31, 1998, there were three participating school districts. Effective September 1, 1998, two participating districts terminated their coverage and one new district enrolled in the plan. Due to the lack of historical data and the instability of participation, the plan at this time cannot reasonably

estimate the liability for unpaid claims. Due to the relatively small size of the Active Plan, it is included in the expendable trust fund with the Retired Plan for reporting purposes. The plan does not have excess insurance at the balance sheet date.

	Beginning of Fiscal Year Liability	Current Year Claims	Claims Payments	Balance at Fiscal Year-End
1997	\$ -0-	\$ 579,743	\$ 561,295	\$ 18,448
1998	\$ 18,448	\$ 1,107,287	\$ 1,102,776	\$ 22,959

XI. OTHER

A. Corporations

TRS establishes corporations for the purpose of holding title to property acquired through foreclosure or deed in lieu of foreclosure. The corporations must remit profits from the management and sale of the property to the system. Corporate directors are subject to appointment and removal by the board of trustees. For financial reporting purposes, the properties are classified as long-term investments and the net results of operations are included in the interest account. At August 31, 1998, the system had nine corporations with four corporations holding title to commercial real estate with \$182.7 million in assets. During the year, the system sold real estate properties held by five of its subsidiary corporations. Separate financial statements for the corporations are available by contacting the TRS Communications Department. A summary of operations is as follows:

	1998	1997
REVENUES:		
Rental Income	\$ 27,869,375	\$ 46,625,380
Expense Reimbursement	6,129,897	7,817,021
Interest Income	2,150,766	1,623,246
Total Revenues	\$ 36,150,038	\$ 56,065,647
EXPENSES:		
Depreciation	\$ 65,820	\$ 80,580
Operating Expenses	3,494,572	5,035,588
Plant Operations	7,374,549	9,894,959
Taxes and Insurance	6,466,860	5,080,590
Total Expenses	\$ 17,401,801	\$ 20,091,717
NET INCOME FROM OPERATIONS (Exhibit III)	\$ 18,748,237	\$ 35,973,930
NET APPRECIATION IN FAIR VALUE	\$ 80,553,678	\$ 52,288,125
TOTAL NET INCOME AND APPRECIATION IN FAIR VALUE	\$ 99,301,915	\$ 88,262,055

NOTES TO THE FINANCIAL STATEMENTS

B. Year 2000

Many computer systems—both hardware and software—are vulnerable to functional nonperformance as a result of their inability to properly recognize and process date-sensitive information after December 31, 1999. This problem is commonly referred to as the “Y2K”, “Year 2000”, or “Millennium Computer” issue. It has arisen because of a common programming approach widely used in the last fifty years of using a two-digit code for years rather than the full four digits. As a result, many computer applications may not recognize dates after the 1999 changeover without programming changes to the underlying computer code. Without correction this could, for example, inhibit timely and accurate processing of member transactions including benefit payments, calculation of benefit entitlements, and calculation of investment performance returns. The issue not only involves internal systems but also services provided by external parties and those with whom TRS interfaces in benefit and investment-related activities.

In September 1996, TRS created a Year 2000 Project Committee to address year 2000 issues. The committee’s goal is to make every reasonable effort to avoid or mitigate the risks associated with the year 2000 problem by becoming year 2000-compliant in all areas so that services provided by TRS continue to function properly after the turn of the millennium. The committee developed an action plan to make all computer systems and other electronic equipment, critical to conducting operations, year 2000-compliant. The committee established an internal deadline of December 31, 1998, for year 2000 compliance, with regression and simulation testing continuing through the 1999 calendar year.

As of August 31, 1998, substantial progress has been made towards implementing the action plan for the Year 2000 Project. The awareness phase (budget, timeline, and project plan) and the assessment phase (identification of all systems including mission-critical systems) have been completed for the computer systems and other electronic equipment at TRS. Internal computer code has been remediated (conversion of existing codes to year 2000-compliant codes) and validation/testing (verification of changes made during the conversion process) is currently underway and scheduled to be completed by November 30, 1998. Regression and simulation testing is scheduled to begin in December 1998 and continue through calendar year 1999. This will allow TRS to test how the remediated code will react to various scenarios which use dates after December 31, 1999. Computer hardware replacement and upgrades and the related testing for year 2000 compliance were underway at August 31, 1998, and scheduled to be substantially completed by December 31, 1998.

As of August 31, 1998, TRS was working with outside vendors to ensure that proprietary software would be upgraded with year 2000-compliant versions. Vendors for mission-critical systems are working to have compliant software available by December 31, 1998. Other electronic equipment including the telephone system, building security

systems and building-related mechanical systems has been or is currently in the process of being upgraded to provide reasonable assurances that they will function properly when the year 2000 arrives. These upgrades and the related testing are scheduled for completion by December 31, 1998.

There are no absolute assurances that unforeseen or uncontrollable events which would cause an interruption in service to members will not occur. To address this contingency TRS has developed a business continuation plan for the mission-critical functions of annuity payments and investment activities. The Year 2000 Project action plan and the business continuation plan together minimize the risks of disruption in service to members.

The board of trustees approved fiscal year 1999 funding from the pension trust fund for continuation of the Year 2000 Project in the amount of \$1,231,450 on July 24, 1998. No significant contractual commitments for year 2000 services were outstanding at August 31, 1998.

XII. PENSION DISCLOSURE

A. Plan Description

TRS is the administrator of a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employing district (unless the employing district is a senior college, medical school, or state agency, in which case the employer is considered the state of Texas) but are the liability of the state of Texas. 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.

For members of the system entitled to the minimum salary for certain school personnel under Section 16.056, Education Code, the employing district shall pay the state’s contribution on the portion of the member’s salary that exceeds the statutory minimum.

At August 31, 1998, the number of participating employing districts was the following:

Public Schools and Service Centers	1,094
Community and Junior Colleges	51
Universities	39
Medical Schools	8
Other Entities	<u>2</u>
Total	<u><u>1,194</u></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.

At August 31, 1998, TRS membership consisted of the following:

NOTES TO THE FINANCIAL STATEMENTS

Retirees and beneficiaries currently receiving benefits	163,721
Terminated employees entitled to benefits but not yet receiving them	<u>7,995</u>
Total	<u><u>171,716</u></u>
Current Active Members:	
Fully-Vested	406,751
Non-Vested	<u>298,696</u>
Total	<u><u>705,447</u></u>

A brief statement about benefits follows. Authority under which these benefits are established is located in note I.A.

The normal service retirement is at age 65 with 5 years of service, age 60 with 20 years of service, or age 50 with 30 years of service. Reduced service retirement is at age 55 with 5 years of service and any age below 50 with 30 years of service.

A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met.

The state of Texas contribution rate is set at 6.00% for fiscal years 1997, 1998, and 1999. The member contribution rate is set at 6.4% for fiscal years 1997, 1998, and 1999. These rates are set by state statutes. In certain instances, the reporting district (public school, college, university, medical school or other entity) is required to make all or a portion of the state's contribution.

B. Contributions Required and Contributions Made

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 that fiscal year. (2) A state statute prohibits benefit improvements or contribution reductions 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 are indicated in section A. of this note. Total contributions required and paid to the pension plan in 1998 amounted to \$2,113,648,277 of which \$1,090,934,874 was from members, \$931,234,586 was from the state of Texas, and \$91,478,817 was from reporting employers. These contributions consisted of \$1,944,556,415 normal cost (11.35% of current covered payroll) and \$169,091,862 amortization of the unfunded actuarial accrued liability (1.05% of current covered payroll). At August 31, 1998, the annual actuarial valuation disclosed that the system is overfunded by \$2,463,411,650.

C. Six-Year Historical Trend Information

This Required Supplementary Information, located immediately following the Notes, provides indicators and trends which may be useful in assessing progress made in accumulating sufficient assets to pay benefits when due.

Required Supplementary Information

PENSION TRUST FUND - FISCAL YEARS 1993 - 1998

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.

(MONEY AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Valuation of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded/ (Overfunded) AAL (3)-(2)	(5) Funding Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) Unfunded/ (Overfunded) AAL as a % of Covered Payroll (4)/(6)
1993	\$ 35,179	\$ 38,619	\$ 3,440	91.1%	\$ 13,391	25.7%
1994	38,843	39,668	825	97.9	14,167	5.8
1995	43,442	45,398	1,956	95.7	14,888	13.1
1996	47,487	49,300	1,813	96.3	15,983	11.3
1997	53,760	53,906	146	99.7	17,044	0.9
1998	60,357	57,893	(2,463)	104.3	18,325	(13.4)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Employer and State Contributions Annual Required Contributions

Year Ended	Rate	Dollars			Percentage Contributed
		From State	From Employers	Total	
1993	7.31%	\$ 899,663,369	\$ 37,752,217	\$ 937,415,586	100%
1994	7.31	943,184,853	41,215,131	984,399,984	100
1995	7.31	963,322,791	66,851,022	1,030,173,813	100
1996	6.00	808,481,213	90,647,585	899,128,798	100
1997	6.00	869,726,704	86,940,233	956,666,937	100
1998	6.00	931,234,586	91,478,817	1,022,713,403	100

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	August 31, 1998	Actuarial Assumptions:	
Actuarial Cost Method	Entry Age Normal	Investment Rate of Return *	8.00%
Amortization Method	Level Percent, Open	Projected Salary Increases *	4.25% to 24.25%
Remaining Amortization Period	0 years	Cost-of-Living Adjustments	None
Asset Valuation Method	5-Year Smoothed Market	*Includes Inflation at 4.00%	

Combining Balance Sheet

FIDUCIARY FUND TYPES - OTHER THAN DEFINED BENEFIT PENSION PLAN
AUGUST 31, 1998 (With Comparative Combined Totals for August 31, 1997)

EXHIBIT



ASSETS	EXPENDABLE	AGENCY	COMBINED TOTALS	
	TRUST FUND	FUNDS	1998	1997
	Texas Public School Employees Group Insurance Program	(Exhibit B)	(Exhibit I)	
Cash:				
Cash in State Treasury	\$ 6,405,759	\$ 2,723	\$ 6,408,482	\$ 26,154,808
Cash on Hand	188,739		188,739	25,108
TOTAL CASH	\$ 6,594,498	\$ 2,723	\$ 6,597,221	\$ 26,179,916
Accounts Receivable:				
Investment Interest	\$ 4,197,585	\$	\$ 4,197,585	\$ 4,984,274
Member and Retiree Contributions	9,615,175		9,615,175	9,123,198
Due from State's General Revenue Fund	4,007,196		4,007,196	3,116,716
Reporting Employers		5,212,481	5,212,481	5,358,931
Other	81,727		81,727	
TOTAL ACCOUNTS RECEIVABLE	\$ 17,901,683	\$ 5,212,481	\$ 23,114,164	\$ 22,583,119
Investments:				
Short-Term	\$ 107,224,546	\$	\$ 107,224,546	\$ 109,060,091
Fixed Income	108,511,910		108,511,910	144,983,230
TOTAL INVESTMENTS	\$ 215,736,456	\$ -0-	\$ 215,736,456	\$ 254,043,321
TOTAL ASSETS	\$ 240,232,637	\$ 5,215,204	\$ 245,447,841	\$ 302,806,356
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts Payable	\$ 323,383	\$	\$ 323,383	\$ 264,334
Benefits Payable	46,143,691		46,143,691	56,017,550
Accounts Payable - General Revenue Fund		5,212,481	5,212,481	5,358,931
Funds Held for Others		2,723	2,723	(418)
Investments Purchased Payable				15,186,049
TOTAL LIABILITIES	\$ 46,467,074	\$ 5,215,204	\$ 51,682,278	\$ 76,826,446
Fund Equity:				
Fund Balance Reserved for: Future Retention, Claims and Administrative Expenditures	\$ 193,765,563	\$ -0-	\$ 193,765,563	\$ 225,979,910
TOTAL LIABILITIES AND FUND EQUITY	\$ 240,232,637	\$ 5,215,204	\$ 245,447,841	\$ 302,806,356

Statement of Changes in Assets and Liabilities

AGENCY FUNDS

YEAR ENDED AUGUST 31, 1998



	Balances September 1, 1997	Additions	Deductions	Balances August 31, 1998
UNAPPROPRIATED RECEIPTS				
Collections on Behalf of the State's General Revenue Fund				
Assets:				
Cash in State Treasury	\$	\$ 86,528,173	\$ 86,528,173	\$
Accounts Receivable - Reporting Employers	5,358,931	5,212,481	5,358,931	5,212,481
TOTAL ASSETS	\$ 5,358,931	\$ 91,740,654	\$ 91,887,104	\$ 5,212,481
Liabilities:				
Accounts Payable -General Revenue Fund	\$ 5,358,931	\$ 5,212,481	\$ 5,358,931	\$ 5,212,481
OTHER AGENCY FUNDS				
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 95	\$ 25,210	\$ 24,975	\$ 330
Liabilities:				
Accounts Payable	\$ 2,000	\$ 22,750	\$ 24,750	\$
Funds Held for Others	(1,905)	25,115	22,880	330
TOTAL LIABILITIES	\$ 95	\$ 47,865	\$ 47,630	\$ 330
Direct Deposit Correction Account Fund				
Assets:				
Cash in State Treasury	\$ 1,487	\$ 1,408,700	\$ 1,407,794	\$ 2,393
Liabilities:				
Funds Held for Others	\$ 1,487	\$ 1,407,213	\$ 1,406,307	\$ 2,393
TOTALS - ALL AGENCY FUNDS				
				(Exhibit A)
Assets:				
Cash in State Treasury	\$ 1,582	\$ 87,962,083	\$ 87,960,942	\$ 2,723
Accounts Receivable - Reporting Employers	5,358,931	5,212,481	5,358,931	5,212,481
TOTAL ASSETS	\$ 5,360,513	\$ 93,174,564	\$ 93,319,873	\$ 5,215,204
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 5,358,931	\$ 5,212,481	\$ 5,358,931	\$ 5,212,481
Accounts Payable	2,000	22,750	24,750	
Funds Held for Others	(418)	1,432,328	1,429,187	2,723
TOTAL LIABILITIES	\$ 5,360,513	\$ 6,667,559	\$ 6,812,868	\$ 5,215,204

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

1

INTEREST ACCOUNT		
	1998	1997
Revenues:		
Interest on:		
Fixed Income	\$ 1,648,424,195	\$ 1,410,692,119
Real Estate Mortgages	83,206,978	93,293,928
Short-Term Investments	36,660,701	50,005,655
Securities Lending Program	18,441,256	11,444,262
Miscellaneous	3,115,311	2,828,202
Dividends	670,438,434	651,624,291
Net Appreciation in Fair Value of Investments	2,333,003,731	10,171,242,898
Net Income on Operations of Real Estate Held for Sale	18,748,237	35,973,930
TOTAL REVENUES	\$ 4,812,038,843	\$ 12,427,105,285
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 570,417,033	\$ 532,592,052
State Contribution Account	144,996,917	163,790,315
Retired Reserve Account	1,763,621,162	1,559,480,020
Transfer to State Contribution Account for Balance in the Reserve for Gain or Loss on Securities	2,333,003,731	10,171,242,898
TOTAL OPERATING TRANSFERS OUT	\$ 4,812,038,843	\$ 12,427,105,285
Net Increase in Account Balance	\$ -0-	\$ -0-
Account Balance - Beginning September 1	-0-	-0-
Account Balance - Ending August 31	\$ -0-	\$ -0-

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

1

MEMBER SAVINGS ACCOUNT		1998	1997
Revenues:			
Member Deposits			
Eligible for State Contributions	\$	1,090,934,874	\$ 1,020,444,733
Not Eligible for State Contributions		28,508,589	26,351,459
TOTAL REVENUES	\$	1,119,443,463	\$ 1,046,796,192
Expenses:			
Withdrawal of Member Accounts	\$	183,430,398	\$ 166,125,695
Operating Transfers In:			
Prior Year Membership Fees from Refunds Cancelled	\$	150	\$ 110
Allocation from Interest Account		570,417,033	532,592,052
TOTAL OPERATING TRANSFERS IN	\$	570,417,183	\$ 532,592,162
Operating Transfers Out:			
Transfer to Retired Reserve Account to Fund Benefits	\$	676,846,920	\$ 479,121,950
Transfer to Retired Reserve Account for Dormant Accounts		5,556,755	1,839,095
TOTAL OPERATING TRANSFERS OUT	\$	682,403,675	\$ 480,961,045
Net Increase in Account Balance	\$	824,026,573	\$ 932,301,614
Account Balance - Beginning September 1		11,707,061,095	10,774,759,481
Account Balance - Ending August 31	\$	12,531,087,668	\$ 11,707,061,095

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

1

STATE CONTRIBUTION ACCOUNT		
	1998	1997
Revenues:		
State Contributions - General Revenue	\$ 931,234,586	\$ 869,726,704
State Contributions - School Districts	57,716,319	58,101,785
State Contributions - Higher Education	33,762,498	28,838,448
Reinstatement Fees	28,286,473	23,439,569
TOTAL REVENUES	\$ 1,050,999,876	\$ 980,106,506
Operating Transfers In:		
Allocation from Interest Account	\$ 144,996,917	\$ 163,790,315
Transfer from Interest Account for Balance of the Reserve for Gain or Loss on Securities	2,333,003,731	10,171,242,898
Transfer from Retired Reserve Account Based on Actuarial Valuation as of August 31	590,144,360	160,286,571
Retirement Benefits Forfeited While Member Returned to Teaching	5,095,497	4,002,153
Retirement Benefits Waived by Member	554,965	634,220
TOTAL OPERATING TRANSFERS IN	\$ 3,073,795,470	\$ 10,499,956,157
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 1,899,905,778	\$ 1,343,170,748
Transfer to Retired Reserve Account for Retirement Increases per H.B. 2644, 75th Leg., Reg. Sess. 1997		1,316,000,000
TOTAL OPERATING TRANSFERS OUT	\$ 1,899,905,778	\$ 2,659,170,748
Net Increase in Account Balance	\$ 2,224,889,568	\$ 8,820,891,915
Account Balance - Beginning September 1	28,500,528,540	19,679,636,625
Account Balance - Ending August 31	\$ 30,725,418,108	\$ 28,500,528,540

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE
1

RETIRED RESERVE ACCOUNT		
	1998	1997
Revenues:		
Transfers from Employees Retirement System of Texas	\$ 914,620	\$ 645,653
Expenses:		
Benefits Paid:		
Service Retirement Annuities	\$ 2,256,664,999	\$ 1,979,837,227
Deferred Retirement Option	1,630,705	
Disability Retirement Annuities	88,244,398	80,414,696
Death and Survivor Benefits		
Accumulated Savings	512,683	314,686
Annual Salary	34,459,094	40,209,581
Survivor Annuities	53,692,115	56,273,629
Life Annuities	53,044,483	46,029,067
60 Monthly Payments	3,809,152	3,673,988
Remainder of Contributions	2,117,822	2,818,372
Transfers to Employees Retirement System of Texas	10,087,258	8,248,161
TOTAL EXPENSES	\$ 2,504,262,709	\$ 2,217,819,407
Operating Transfers In:		
Transfer from Member Savings Account to Fund Benefits	\$ 676,846,920	\$ 479,121,950
Transfer from State Contribution Account to Fund Benefits	1,899,905,778	1,343,170,748
Allocation from Interest Account	1,763,621,162	1,559,480,020
Transfer from Member Savings Account for Dormant Accounts	5,556,755	1,839,095
Transfer from State Contribution Account for Retirement Increases per H.B. 2644, 75th Leg., Reg. Sess. 1997		1,316,000,000
TOTAL OPERATING TRANSFERS IN	\$ 4,345,930,615	\$ 4,699,611,813
Operating Transfers Out:		
Transfer to State Contribution Account Based on Actuarial Valuation as of August 31	\$ 590,144,360	\$ 160,286,571
Retirement Benefits Forfeited While Member Returned to Teaching	5,095,497	4,002,153
Retirement Benefits Waived by Member	554,965	634,220
TOTAL OPERATING TRANSFERS OUT	\$ 595,794,822	\$ 164,922,944
Net Increase in Account Balance	\$ 1,246,787,704	\$ 2,317,515,115
Account Balance - Beginning September 1	21,935,097,203	19,617,582,088
Account Balance - Ending August 31*	\$ 23,181,884,907	\$ 21,935,097,203

* The Retired Reserve Account balance as of August 31, 1998, includes \$31,605,917 for Deferred Retirement Option Plan (DROP) balances held for individual members participating in the DROP program.

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE
1

EXPENSE ACCOUNT	1998	1997
Revenues:		
Legislative Appropriations	\$ 25,755,306	\$ 24,174,262
On Behalf Fringe Benefits Paid by the State	1,240,192	1,184,378
Miscellaneous Revenues	45,753	584
TOTAL REVENUES	\$ 27,041,251	\$ 25,359,224
Expenses:		
Operating Expenses:		
Salaries and Benefits	\$ 16,646,487	\$ 15,576,498
Temporary Employment Services	236,754	142,760
Professional Services	2,763,377	1,427,495
Office Supplies	70,844	59,225
Printing/Video Supplies and Services	413,785	173,305
EDP Supplies and Services	229,409	122,049
Microfilm Supplies and Services	7,739	9,697
Postage and Mailing Services	1,106,055	931,783
Telephone	386,306	336,627
Dues, Fees and Staff Development	233,484	179,885
Office Equipment Maintenance and Repairs	237,525	292,840
Travel	282,910	387,110
Rentals	54,015	56,752
Subscriptions and Reference Materials	190,756	179,624
Miscellaneous	50,868	47,702
Investments Custody and Clearing	82	343,449
Non-Inventory Equipment Purchases	60,839	74,126
Software Purchases, Rental and Maintenance	825,087	1,312,011
Fiduciary Liability and Employee Surety Bond	661,357	310,535
Other Operating Expenses - Plant	669,447	631,361
Subtotal Operating Expenses	\$ 25,127,126	\$ 22,594,834
Other Expenses:		
Compensable Absences	\$ 12,305	\$ 231,809
Depreciation	1,672,957	1,568,060
Loss on Disposal of Fixed Assets	37,132	74,228
Subtotal Other Expenses	\$ 1,722,394	\$ 1,874,097
TOTAL EXPENSES	\$ 26,849,520	\$ 24,468,931
Operating Transfers Out:		
Prior Year Membership Fees from Refunds Cancelled	\$ 150	\$ 110
Net Increase in Account Balance	\$ 191,581	\$ 890,183
Account Balance - Beginning September 1	18,240,678	17,350,495
Account Balance - Ending August 31	\$ 18,432,259	\$ 18,240,678

Schedule of Administrative Expenses/Expenditures and Capital Outlay - Budget and Actual on Budgetary Basis

FIDUCIARY FUND TYPES - AUGUST 31, 1998

PENSION TRUST FUND

SCHEDULE



	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses/Expenditures:			
Salaries	\$ 14,411,076	\$ 14,359,652	\$ 51,424
Other Personnel Services:			
Employment Agency Workers	\$ 264,502	\$ 236,754	\$ 27,748
Group Health and Life Insurance	1,267,841	1,240,192	27,649
Lump Sum Death Benefit Contingency	3,000	2,500	500
FICA Taxes	1,039,170	1,038,417	753
Workers' Compensation	26,700	466	26,234
Unemployment Compensation	9,300	5,260	4,040
Compensable Absences	154,500	154,347	153
Administrative Services Provided by Pension Fund			
TOTAL OTHER PERSONNEL SERVICES	\$ 2,765,013	\$ 2,677,936	\$ 87,077
Professional Services	\$ 7,592,096	\$ 2,674,977	\$ 4,917,119
Other Operating Expenses - General:			
Office Supplies	\$ 85,078	\$ 66,615	\$ 18,463
Printing/Video Supplies and Services	371,817	219,195	152,622
EDP Supplies and Services	312,139	243,165	68,974
Microfilm Supplies and Services	20,000	8,254	11,746
Postage	1,282,710	1,016,921	265,789
Telephone	524,040	417,344	106,696
Mailing Services	128,011	116,474	11,537
Dues, Fees and Staff Development	298,963	228,029	70,934
Office Equipment Maintenance and Repairs	397,087	283,677	113,410
Travel	336,172	283,201	52,971
Rentals	81,338	54,015	27,323
Subscriptions and Reference Materials	235,745	190,936	44,809
Miscellaneous	80,389	49,419	30,970
Investments Custody and Clearing	5,000	82	4,918
Software Purchases, Rental and Maintenance	1,301,855	708,556	593,299
Fiduciary Liability and Employee Surety			
Bond	662,518	661,357	1,161
Depreciation	1,800,000	1,672,957	127,043
Equipment Purchases			
TOTAL OTHER OPERATING EXPENSES - GENERAL	\$ 7,922,862	\$ 6,220,197	\$ 1,702,665

TEXAS PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE PROGRAM						
RETIRED PLAN			ACTIVE PLAN			
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)	
\$ 529,340	\$ 485,136	\$ 44,204	\$ 118,625	\$ 34,512	\$ 84,113	
\$ 56,450	\$ 32,392	\$ 24,058	\$ 17,424	\$ 1,927	\$ 15,497	
39,118	36,448	2,670	8,799	2,588	6,211	
142,100	142,100		70,000	70,000		
\$ 237,668	\$ 210,940	\$ 26,728	\$ 96,223	\$ 74,515	\$ 21,708	
\$ 537,000	\$ 516,379	\$ 20,621	\$ 488,500	\$ 253,318	\$ 235,182	
\$ 1,500	\$ 1,430	\$ 70	\$ 2,000	\$ 131	\$ 1,869	
319,500	217,973	101,527	21,100	3,168	17,932	
26,000	14,255	11,745	15,000	4,859	10,141	
344,550	340,631	3,919	35,000	19,771	15,229	
2,500	1,755	745	550	110	440	
84,650	67,629	17,021	3,100	441	2,659	
5,535	1,344	4,191	1,640	190	1,450	
3,000	613	2,387	1,000		1,000	
23,000	12,636	10,364	13,600	1,792	11,808	
40,885	40,885		7,000	7,000		
1,000	423	577	500	35	465	
1,000		1,000	1,500	132	1,368	
4,000		4,000	1,000		1,000	
2,700	677	2,023				
4,500	135	4,365	8,190	1,544	6,646	
\$ 864,320	\$ 700,386	\$ 163,934	\$ 111,180	\$ 39,173	\$ 72,007	

(to next page)

Schedule of Administrative Expenses/Expenditures and Capital Outlay - Budget and Actual on Budgetary Basis

FIDUCIARY FUND TYPES - AUGUST 31, 1998

(concluded)

SCHEDULE

2

				PENSION TRUST FUND					
				Budget	Actual	Variance - Favorable (Unfavorable)			
Other Operating Expenses - Plant:									
Building Maintenance	\$	90,277	\$	77,760	\$	12,517			
Elevator Maintenance		65,342		41,360		23,982			
Mechanical Equipment Maintenance		49,924		49,201		723			
Grounds and Parking Maintenance		3,750		1,004		2,746			
Custodial Services		130,420		118,916		11,504			
Custodial Supplies		21,267		18,305		2,962			
Insurance		49,400		40,114		9,286			
Utilities - Natural Gas		25,000		12,843		12,157			
Utilities - Electricity		330,000		278,348		51,652			
Utilities - Water/Wastewater		49,950		31,766		18,184			
Building Services - Other		18,320		9,953		8,367			
TOTAL OTHER OPERATING EXPENSES - PLANT				\$	833,650	\$	679,570	\$	154,080
TOTAL OTHER OPERATING EXPENSES				\$	8,756,512	\$	6,899,767	\$	1,856,745
Nonbudgeted Expense (Loss on Disposal of Fixed Assets)									
	\$	-0-	\$	37,132	\$	(37,132)			
TOTAL ADMINISTRATIVE EXPENSES/EXPENDITURES				\$	33,524,697	\$	26,649,464	\$	6,875,233
Expenses									
Pension Trust Fund:									
Total From Expense Account - Schedule 1			\$	26,849,520					
Add/(Less) Differences Between GAAP Basis and Budgetary Basis Payables:									
Professional Services				(88,400)					
Other Personnel Services				142,042					
Other Operating Expenses - General				(202,982)					
Other Operating Expenses - Plant				10,123					
Less: Equipment Purchases Expensed in Current Year				(60,839)					
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE				\$	26,649,464				
Capital Outlay:									
Equipment Purchases	\$	429,184	\$	398,537	\$	30,647			
Building Improvements		121,500		101,743		19,757			
Capital Projects		5,806,800		5,186,253		620,547			
TOTAL CAPITAL OUTLAY				\$	6,357,484	\$	5,686,533	\$	670,951

TEXAS PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE PROGRAM					
RETIRED PLAN			ACTIVE PLAN		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$	\$	\$	\$
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
\$ 864,320	\$ 700,386	\$ 163,934	\$ 111,180	\$ 39,173	\$ 72,007
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
\$ 2,168,328	\$ 1,912,841	\$ 255,487	\$ 814,528	\$ 401,518	\$ 413,010
Expenditures					
			Retired Plan	Active Plan	
Texas Public School Employees Group Insurance Program:					
Total Administrative Expenditures - Exhibit II			\$ 1,867,797	\$ 400,607	
Add Differences Between GAAP Basis and Budgetary Basis Payables:					
Other Operating Expenses - General			45,044	911	
			-----	-----	
TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE - BUDGETARY BASIS SCHEDULE			\$ 1,912,841	\$ 401,518	

Comparative Schedule of Investment Portfolio

PENSION TRUST FUND

SCHEDULE

3

	TOTAL	SHORT-TERM
<i>YEAR ENDED AUGUST 31, 1998</i>		
Purchases	\$ 44,861,346,499	\$ 13,179,288,407
Sales	(30,392,210,051)	(947,679,609)
Calls and Maturities	(12,649,696,933)	(11,675,000,000)
Net Appreciation in Fair Value	2,333,003,731	21,215,218
Net Increase (Decrease)	\$ 4,152,443,246	\$ 577,824,016
Fair Value - September 1, 1997	61,575,751,983	704,575,984
Fair Value - August 31, 1998 (Exh. I)	\$ 65,728,195,229	\$ 1,282,400,000

YEAR ENDED AUGUST 31, 1997

Purchases	\$ 33,084,985,783	\$ 9,665,091,755
Sales	(21,262,055,974)	
Calls and Maturities	(10,031,205,195)	(9,437,813,414)
Net Appreciation in Fair Value	10,171,242,898	
Net Increase (Decrease)	\$ 11,962,967,512	\$ 227,278,341
Fair Value - September 1, 1996	49,612,784,471	477,297,643
Fair Value - August 31, 1997 (Exh. I)	\$ 61,575,751,983	\$ 704,575,984

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

4

	1998	1997
Salaries and Benefits	\$ 3,756,315	\$ 3,674,483
Temporary Employment Services	62,712	45,353
Professional Services	999,686	1,534,573
Office Supplies	9,253	9,834
Mailing Services	934	1,611
Dues, Fees and Staff Development	22,352	14,656
Office Equipment Maintenance and Repairs	881	1,018
Travel	122,046	157,775
Subscriptions and Reference Materials	129,979	95,269
Investments Custody and Clearing	101	343,449
Equipment Purchases	6,287	1,474
Total Investing Activity Expenses * (Exh. III)	\$ 5,110,546	\$ 5,879,495

* During fiscal year 1998, the system paid commissions of \$40,691,568 on 1,079,271,813 shares traded. Soft dollars from commissions were used to acquire online data services, professional services and other research services totaling \$2,263,085. These soft dollar expenditures are not included in the above investing activity expenses.

FIXED INCOME	EQUITIES & ALTERNATIVE ASSETS	REAL ESTATE MORTGAGES	REAL ESTATE HELD FOR SALE
\$ 8,266,322,419 (4,830,506,185) (821,977,655) 1,254,323,405	\$ 23,413,454,235 (24,372,201,501) 883,654,152	\$ (152,719,278) 93,257,278	\$ 2,281,438 (241,822,756) 80,553,678
\$ 3,868,161,984 20,593,587,643	\$ (75,093,114) 39,022,819,496	\$ (59,462,000) 930,189,000	\$ (158,987,640) 324,579,860
\$ 24,461,749,627	\$ 38,947,726,382	\$ 870,727,000	\$ 165,592,220
\$ 4,214,161,555 (1,950,288,287) (428,658,975) 751,976,099	\$ 19,194,971,849 (19,160,532,598) 9,355,397,868	\$ (164,732,806) 11,580,806	\$ 10,760,624 (151,235,089) 52,288,125
\$ 2,587,190,392 18,006,397,251	\$ 9,389,837,119 29,632,982,377	\$ (153,152,000) 1,083,341,000	\$ (88,186,340) 412,766,200
\$ 20,593,587,643	\$ 39,022,819,496	\$ 930,189,000	\$ 324,579,860

Schedule of Payments to Consultants - Budgetary Basis

FIDUCIARY FUND TYPES - YEAR ENDED AUGUST 31, 1998

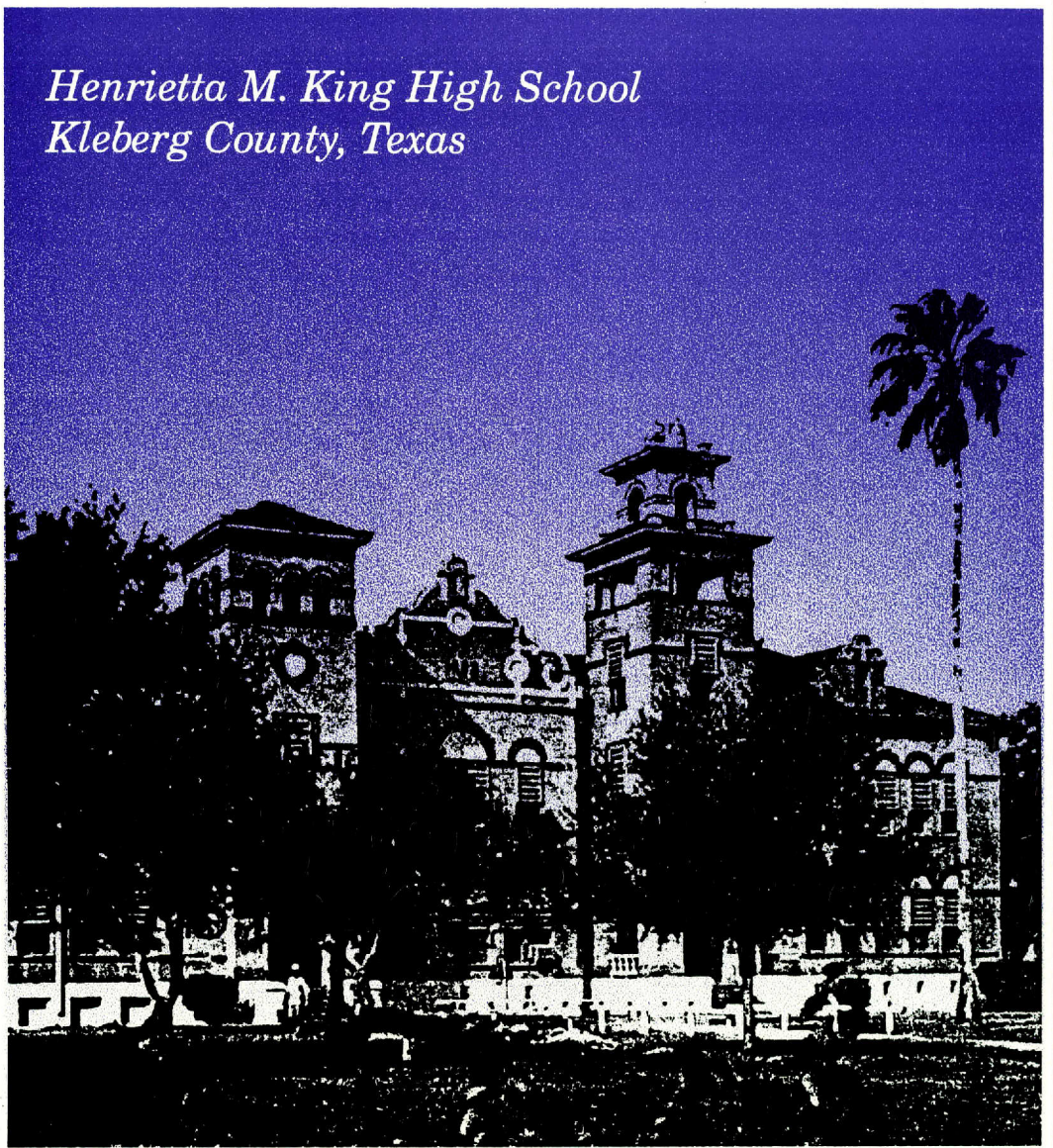


	Texas Public School Employees Group Insurance Program			Total
	Pension Trust Fund	Retired Plan	Active Plan	
Nature of Service:				
Computer/Technical	\$ 1,586,818	\$	\$	\$ 1,586,818
Health Care Consultant		434,954	203,318	638,272
Legal Counsel	200,331	65,300	50,000	315,631
Investment Counsel	400,000			400,000
Consulting Actuary	257,787			257,787
Investment Advisors	128,904			128,904
Medical Board	99,819			99,819
Audit Services	87,500			87,500
Fiduciary Counsel	51,547			51,547
Real Estate Consultant	28,815			28,815
Federal Legislation Consultant	24,000			24,000
Miscellaneous	21,556			21,556
TRS-Care Credentialing		16,125		16,125
TOTAL	\$ 2,887,077	\$ 516,379	\$ 253,318	\$ 3,656,774

* Total professional services expenses for the Pension Trust Fund exclude reimbursement in the amount of \$212,100 from the Texas Public School Employees Group Insurance Program for administrative services provided by the Pension Trust Fund.

Investment Section

*Henrietta M. King High School
Kleberg County, Texas*



Courtesy of Texas Historical Commission

INVESTMENT OVERVIEW

Authority and Mission

The board of trustees oversees the investment of the system funds under State Constitutional mandate, according to the "Prudent Person Standard." The Investment Division follows a clear philosophy and well-defined style and process to achieve desired investment returns while controlling risk and managing costs.

Policy and Portfolio Structure

The board is actively involved in governing the investment process through policy development and monitoring performance measurement; oversight is provided through a committee of the whole (the Investment Committee) which makes recommendations to the board. TRS Investment Policy has specific guidelines for performance expectation, eligible holdings and expected portfolio characteristics. Further, the board relies on the advice of external professional advisors; Wellington Management Company serves as investment counsel to assist the board in establishing investment objectives and to review performance and compliance with investment policy. In addition to investment counsel, the board uses investment advisors and an independent source for the calculation and verification of investment returns and comparison of performance.

The guiding principle for investment strategy is to diversify and control risk, balancing selected investments to achieve long-term results. The key to determining investment direction is asset allocation, a crucial decision made by trustees after consideration of expected returns for asset classes in the context of risk tolerance for the fund. The investment portfolios created from this decision are internally managed by professional staff. Executive and investment staff assist the board in achieving investment objectives, monitoring compliance with investment policy and following any instructions regarding asset allocation, security selection, or other objectives as directed by the board.

Investment style, the approach employed in putting the philosophy in action, has been established at TRS after careful analysis and is closely monitored. TRS uses both passive and active investing styles. This approach enables the system to effectively manage the size of the trust in a manner that both tracks the performance of key benchmarks and provides opportunity to add value through active portfolios.

TRS' "Active Core Style" seeks to closely replicate the characteristics of the benchmark while seeking positive excess return through security analysis. The style thus has risk control similar to passive or index management, but allows for generation of excess return associated with active management. The TRS style is a disciplined, balanced approach with a strong quantitative foundation that focuses on long-term returns and objectives rather than on short-term market movements.

The process to implement this style includes frequent construction of statistical risk and return models and study of economic conditions, interest rate changes and industry factors. The portfolios seek to add value through security selection which emphasizes attractive countries or industries.

Economic Conditions and Outlook

This year proved to be a most challenging period for financial and investment markets as multiple problems in the global economy converged heightening market uncertainty and increasing equity volatility. Fixed income markets continued to perform favorably as investors sought safety from the volatility of equity markets.

What began as a regional downturn in Asia could be the catalyst for a worldwide liquidity squeeze and recession. It will take time for stability to calm markets, and no economy or currency will be immune to stress. Through interest rate cuts the Federal Reserve has provided assurance of market liquidity.

Through the year, the U.S. economy has performed admirably. The economic problems experienced by many trading partners, and the strong U.S. dollar have resulted in slowed domestic production. However, consumers have continued to spend as employment and wage gains have remained high.

Global events continue to cloud expectations at home. Nevertheless, most economists and investment strategists expect a continuation of low inflation and thus low interest rates, relatively full employment, and continued modest GDP growth. These conditions offer a favorable but perhaps subdued near-term climate for long-term investors such as TRS.

Investment Portfolio Performance

The use of a defined style and process has generated consistent and favorable returns for the trust fund.

INVESTMENT OVERVIEW

The total market value of the fund on September 30, 1998, was \$69.5 billion. Fund returns for the one-, three- and five-year periods were 8.0 percent, 15.0 percent and 13.1 percent respectively.

Investment performance was calculated using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards. However, cash has not been included in the performance measurement beyond the total fund level.

Significant Developments

During 1997 and 1998, the board has authorized the consolidation of equity assets among active and passive funds, establishing active portfolios of appropriate size, allowing for the efficient management of passive funds and recognizing the value added in active management of the international funds. Real estate assets have been further consolidated through property sales and continued payment of mortgage loans. Fixed income analysis has been enhanced by a new analytical system. The custody and lending of securities has been consolidated at The Northern Trust Company, and the conversion to a new investment accounting system is complete. It has been a notable year of progress and achievement.

Total Time Weighted Returns and Asset Allocation *

PENSION TRUST FUND - FOR PERIODS ENDED SEPTEMBER 30

	1993	1994	1995	1996	1997	1998	3 Years	5 Years	10 Years
Total Portfolio									
TRS	13.5%	-0.5%	22.4%	12.6%	25.4%	8.0%	15.0%	13.1%	13.3%
Custom Index	11.6%	1.0%	20.1%	12.6%	25.2%	7.9%	15.0%	13.0%	12.5%
Inflation	2.5%	2.7%	2.6%	2.8%	2.2%	1.5%	2.2%	2.4%	3.1%
Equities									
TRS	16.1%	2.4%	27.5%	18.5%	34.4%	4.0%	18.3%	16.7%	15.8%
Equity Composite Index	15.0%	4.5%	26.6%	18.4%	35.2%	3.5%	18.3%	17.2%	15.9%
Fixed Income									
TRS	12.6%	-5.3%	18.4%	4.3%	11.7%	14.7%	10.1%	8.4%	10.9%
Fixed Income Composite Index ***	10.0%	-3.2%	14.1%	2.7%	11.7%	14.2%	9.4%	7.6%	9.5%
Real Estate**									
TRS	0.3%	9.0%	12.6%	9.0%	15.0%	26.3%	16.6%	14.2%	8.8%
NCREIF Property Index	-3.7%	4.1%	7.7%	8.3%	10.7%	17.2%	12.0%	9.4%	5.2%
Asset Allocation (Average)									
Equities	49.8%	51.9%	53.3%	60.1%	63.5%	59.2%	60.1%	57.6%	51.5%
Fixed Income	42.9%	41.1%	40.1%	35.5%	32.5%	37.7%	35.5%	37.4%	41.3%
Real Estate	5.5%	4.7%	3.7%	2.9%	2.0%	1.5%	2.9%	3.0%	5.3%
Cash Equivalents	1.8%	2.3%	2.9%	1.5%	2.0%	1.6%	1.5%	2.0%	1.9%

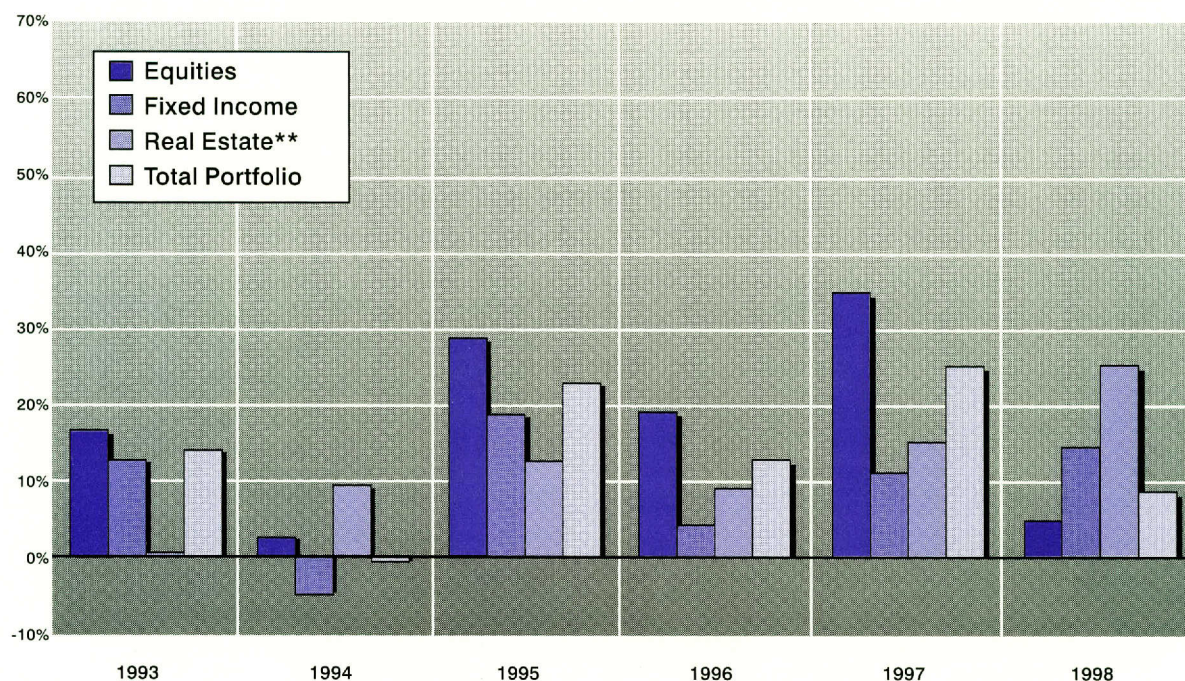
* These rates include appreciation in market values. Returns for periods in excess of one year are annualized.

** Real Estate returns calculated on periods ended 6-30.

*** Lehman Brothers Aggregate Index used through 11-95. Salomon Brothers Large Pension Fund Baseline Bond Index used thereafter.

Time Weighted Returns

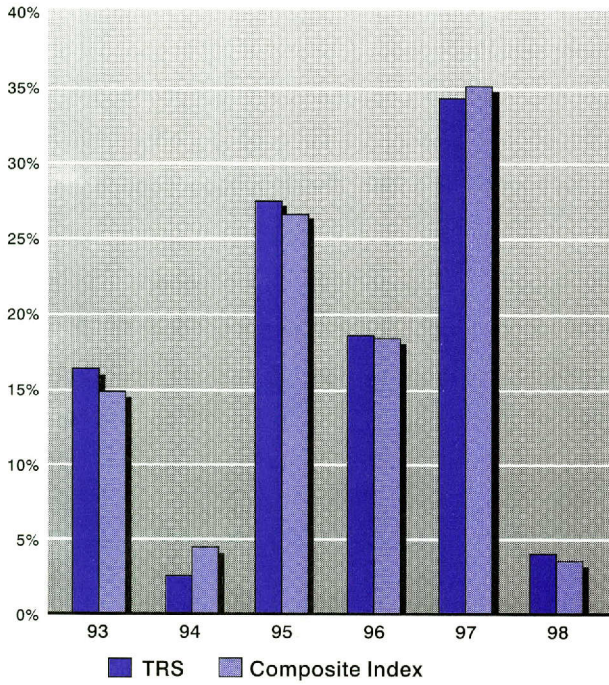
For the periods ended September 30 (**Real Estate periods ended June 30)



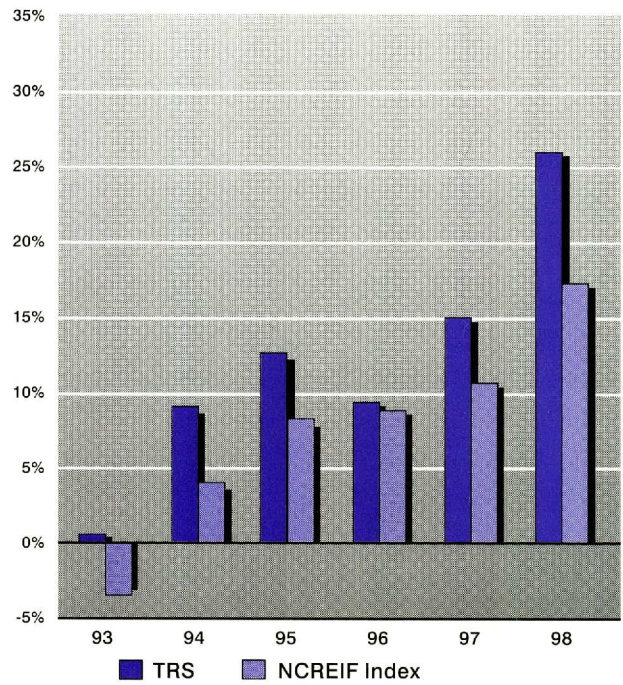
Comparison of Time Weighted Returns with Portfolio Indices

PENSION TRUST FUND - FOR PERIODS ENDED SEPTEMBER 30

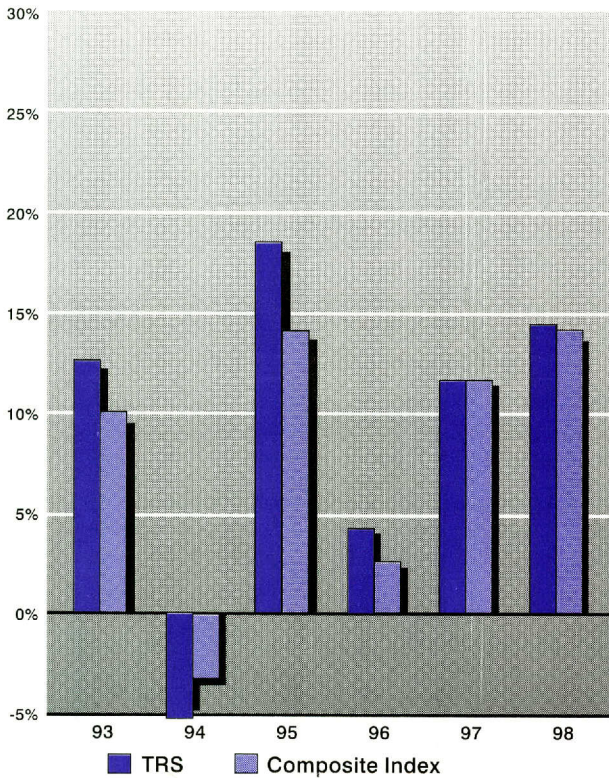
Equities



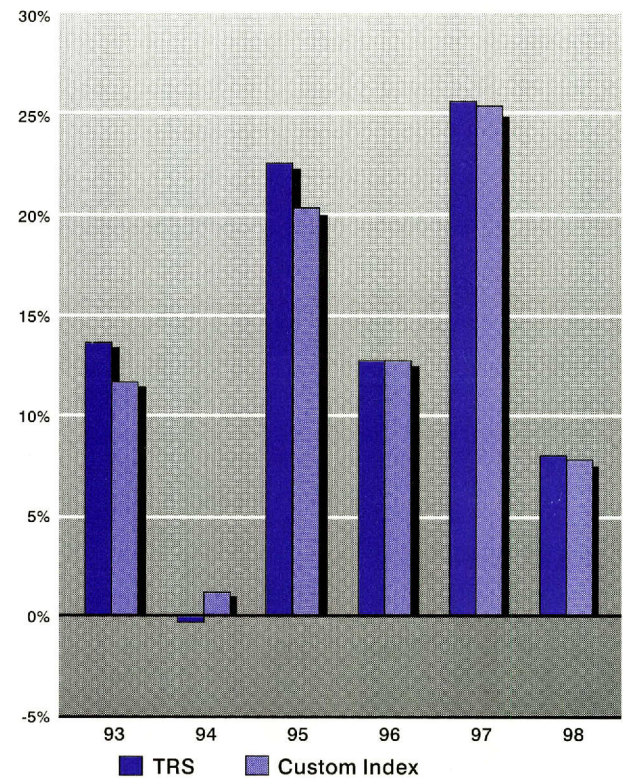
Real Estate



Fixed Income

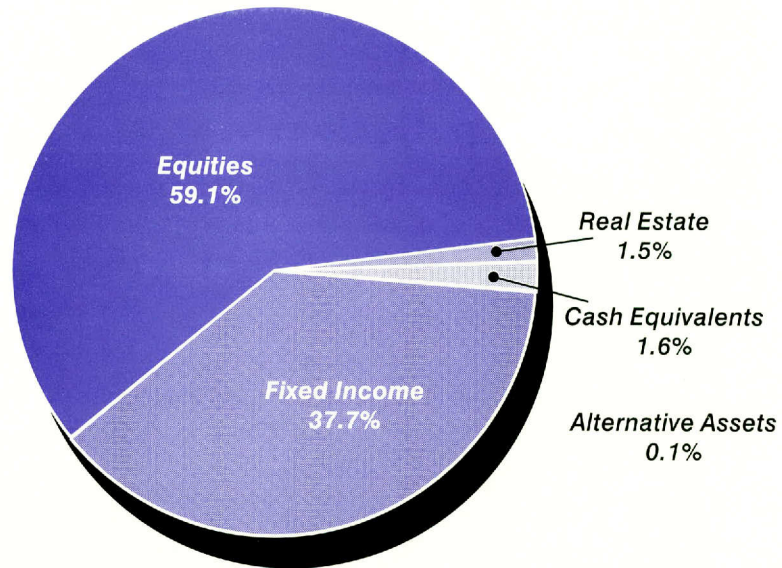


Total Fund

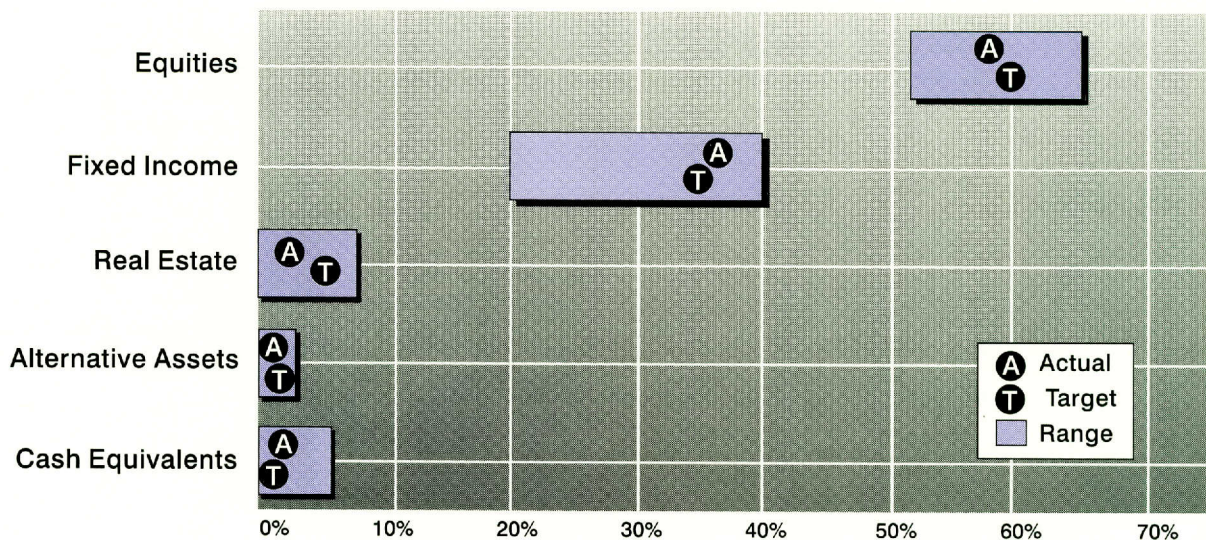


Asset Allocation

PENSION TRUST FUND - SEPTEMBER 30, 1998

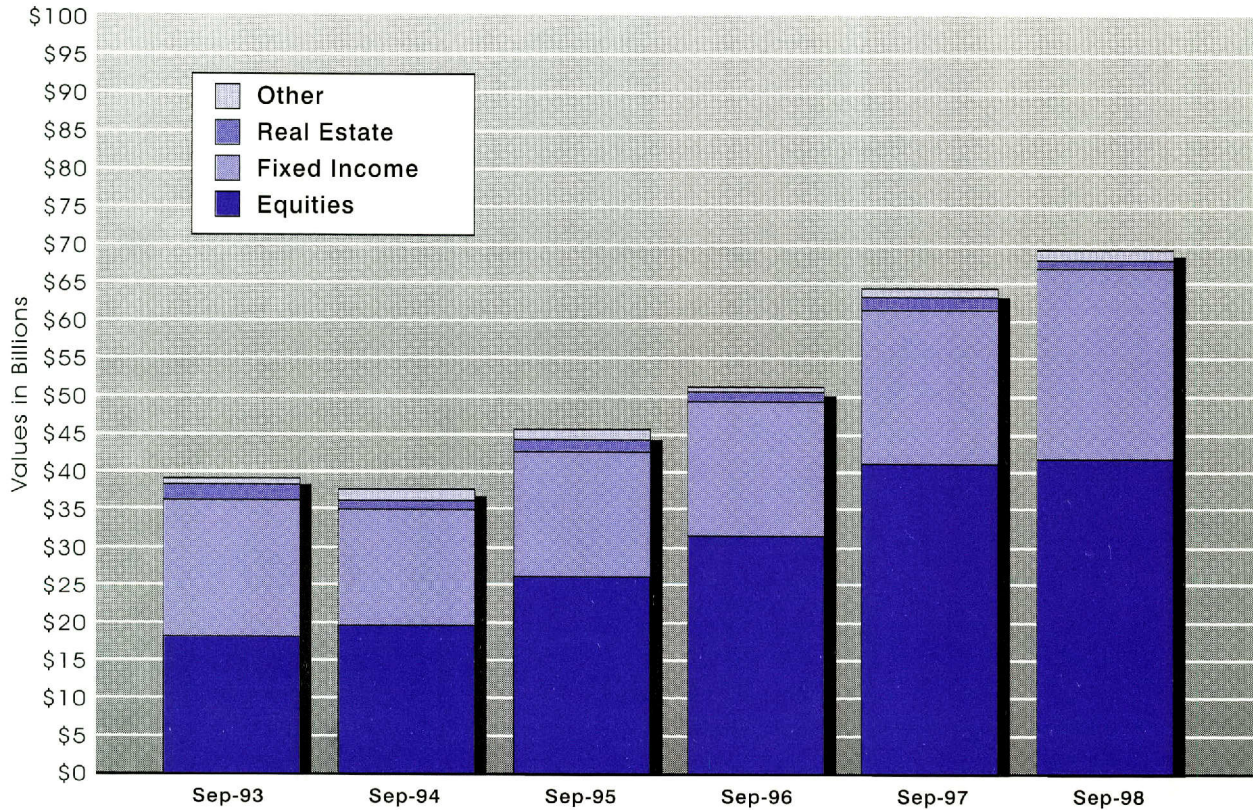


	POLICY RANGES			Actual	Market Value As of 9/30/98 (in billions)
	Low	High	Target		
Equities	52%	65%	60%	59.1%	\$ 41.062
Fixed Income	20%	40%	34%	37.7%	26.178
Real Estate	0%	7%	4%	1.5%	1.036
Alternative Assets	0%	3%	1%	0.1%	.044
Cash Equivalents	0%	5%	1%	1.6%	1.144
Total				<u>100.0%</u>	<u>\$ 69.464</u>



Total Fund Market Values

PENSION TRUST FUND - SEPTEMBER 30



MARKET VALUES - SEPTEMBER 30 (in billions)

	1993	1994	1995	1996	1997	1998
Other	\$.694	\$ 1.028	\$ 1.155	\$.784	\$ 1.294	\$ 1.188
Real Estate	1.979	1.634	1.436	1.496	1.249	1.036
Fixed Income	16.433	14.965	18.044	18.336	20.898	26.178
Equities	<u>18.820</u>	<u>19.963</u>	<u>25.419</u>	<u>31.062</u>	<u>40.780</u>	<u>41.062</u>
	<u>\$ 37.926</u>	<u>\$ 37.590</u>	<u>\$ 46.054</u>	<u>\$ 51.678</u>	<u>\$ 64.221</u>	<u>\$ 69.464</u>

Largest Holdings

PENSION TRUST FUND - SEPTEMBER 30, 1998

Top Ten Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Microsoft Corp.	\$ 1,053,853,225	9,575,000
General Electric Co.	956,044,921	12,016,200
Exxon Corp.	658,578,125	9,325,000
Merck & Co. Inc.	589,511,650	4,550,000
Intel Corp.	557,375,000	6,500,000
Pfizer Inc.	539,853,750	5,105,000
Coca Cola Co.	489,316,925	8,491,400
Royal Dutch Petroleum Co.	473,868,750	9,950,000
Wal-mart Stores Inc.	471,140,625	8,625,000
International Business Machines Corp.	449,750,000	3,500,000
	<u>\$ 6,239,292,971</u>	<u>77,637,600</u>
Total Market Value of Equity Holdings	\$41,062,181,736	
Percent of Equity Portfolio	15.19%	

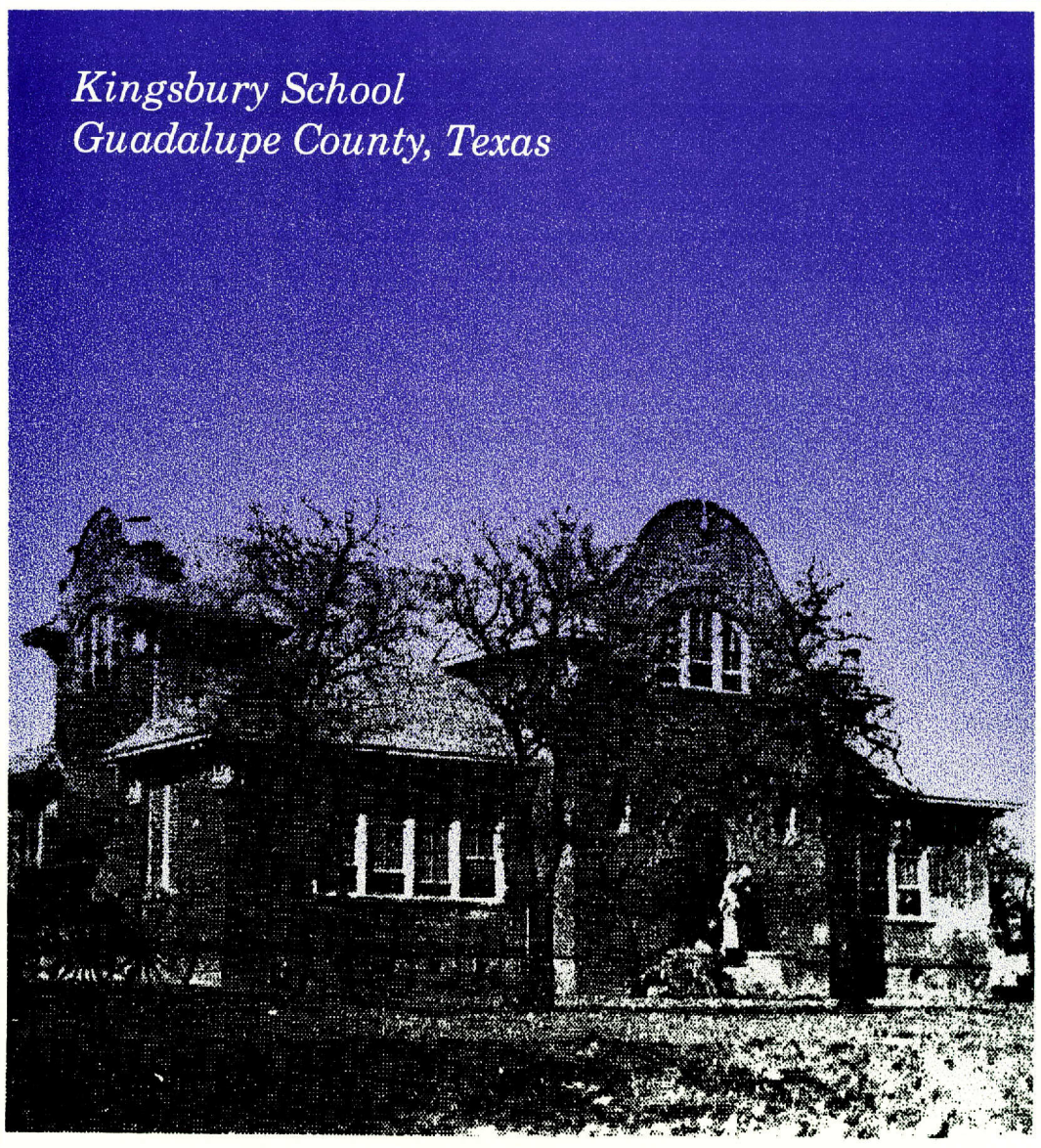
Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury 6.25% due 8/15/23	\$ 1,514,213,190	\$ 1,323,000,000
U.S. Treasury 7.25% due 5/15/16	906,112,500	730,000,000
U.S. Treasury 5.75% due 11/30/02	652,258,600	620,000,000
U.S. Treasury 10.375% due 11/15/09	530,211,969	406,050,000
U.S. Treasury 10.00% due 5/15/10	450,007,650	345,000,000
U.S. Treasury 9.125% due 5/15/09	431,293,315	352,750,000
U.S. Treasury 6.00% due 2/15/26	361,076,563	322,750,000
U.S. Treasury 8.75% due 11/15/08	355,971,188	299,450,000
Federal National Mtge Assn 6.00% due 11/1/23	288,038,550	287,500,923
U.S. Treasury 5.375% due 6/30/00	253,985,000	250,000,000
	<u>\$ 5,743,168,525</u>	<u>\$ 4,936,500,923</u>
Total Market Value of Fixed Income Holdings	\$26,178,055,805	
Percent of Fixed Income Portfolio	21.94%	

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

Actuarial Section

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Guadalupe County, Texas*





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November 18, 1998

BOARD OF TRUSTEES

Teacher Retirement System of Texas

Subject: Actuary's Certification of the Actuarial Valuation as of August 31, 1998

We certify that the information included herein and contained in the 1998 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 1998.

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. They are Enrolled Actuaries and Members of the American Academy of Actuaries, and are experienced in performing valuations for large public retirement systems.

Actuarial Valuations

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

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

Financing Objective of the Plan

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

Progress Toward Realization of Financing Objective

The actuarial accrued liability, the unfunded actuarial accrued liability, 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, 1998, the funding period corresponding to the 6.00% state contribution rate is 0.0 years, which is less than the statutory limit of 31 years.

The actuarial valuation report as of August 31, 1998, reveals that the Teacher Retirement System is an actuarially sound system based on current actuarial assumptions. The present actuarial assets (approximately \$60.4 billion) together with the future contributions required by law will be sufficient to provide the payment of benefits to all present active and retired members and beneficiaries, and to amortize the unfunded actuarial accrued liability of \$(2,463) million over a period of 0.0 years. Since the unfunded liability is negative, the system has reached full funding and actuarial assets exceed the actuarial liability.



The state and other participating employers contributed the legislated rate for the 1997/1998 fiscal year and are contributing the legislated rate for the 1998/1999 fiscal year. The resulting funding period has remained below 31 years. Therefore all financing objectives are being realized.

Plan Provisions

The plan provisions used in the actuarial valuation are described in Table 20 of the valuation report.

Disclosure of Pension Information

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

Actuarial Methods and Assumptions

The actuarial methods and assumptions have been selected by the board of trustees of the Teacher Retirement System of Texas based upon our analysis and recommendations. These assumptions and methods are detailed in Table 21 of the valuation report. The board of trustees has sole authority to determine the actuarial assumptions used for the plan. With the exception of the inflation assumption, the actuarial methods and assumptions are based on a study of actuarial experience for the plan years 1990 through 1995 and were adopted in October 1996. The inflation assumption was adopted by the board in September 1997.

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

Data

In preparing the August 31, 1998 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 year's data.

The schedules shown in the actuarial section of the annual 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,

Richard B. Mallett, FSA, EA, MAAA
Actuary

W. Michael Carter, FSA, EA, MAAA
Actuary

Actuarial Present Value of Future Benefits

ACTUARIAL VALUATION - AUGUST 31, 1998

	August 31,	
	1998	1997
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 21,207,465,749	\$ 20,666,794,890
Disability Retirement Benefits	635,545,000	603,871,000
Death Benefits	554,242,000	528,169,000
Present Survivor Benefits	160,059,000	136,686,000
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 22,557,311,749	\$ 21,935,520,890
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 52,347,738,462	\$ 48,300,236,299
Disability Retirement Benefits		
Disability Prior to Vesting	\$ 14,580,679	\$ 13,835,207
Disability After Vesting	813,902,702	761,575,484
TOTAL DISABILITY BENEFITS	\$ 828,483,381	\$ 775,410,691
Refunds of Contributions on Withdrawal	\$ 1,990,226,932	\$ 1,861,639,711
Death and Survivor Benefits		
Two Times Pay	\$ 376,464,697	\$ 367,683,938
Refund of Contributions	4,427,975	4,541,723
Five Year Annuity	69,884,483	70,911,002
Life Annuity	379,808,624	402,720,853
Survivor Benefit	42,596,586	40,933,413
TOTAL DEATH BENEFITS	\$ 873,182,365	\$ 886,790,929
TOTAL ACTIVE MEMBER LIABILITIES	\$ 56,039,631,140	\$ 51,824,077,630
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Terminated Vested Participants		
Retirement Benefits	\$ 526,682,000	\$ 409,824,000
Death Benefits	10,774,000	9,304,000
TOTAL TERMINATED VESTED BENEFITS	\$ 537,456,000	\$ 419,128,000
Refunds of Contributions to Terminated Non-vested Members	\$ 6,762,255	\$ 10,439,922
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 461,771,000	\$ 488,090,000
TOTAL INACTIVE LIABILITIES	\$ 1,005,989,255	\$ 917,657,922
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 79,602,932,144	\$ 74,677,256,442

Summary of Cost Items

Actuarial Present Value of Future Benefits	\$ 79,602,932,144	\$ 74,677,256,442
Present Value of Future Normal Costs	(21,709,671,460)	(20,771,217,015)
Actuarial Accrued Liability	57,893,260,684	53,906,039,427
Actuarial Value of Assets	(60,356,672,334)	(53,760,188,636)
UNFUNDED/(OVERFUNDED) ACTUARIAL ACCRUED LIABILITY	\$ (2,463,411,650)	\$ 145,850,791

Actuarial Information

AS OF AUGUST 31, 1998

The actuarial valuation of TRS is prepared by Watson Wyatt Worldwide on an annual basis. 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 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.

Disability Annuity - Investment Return: 8% per annum, compounded annually. Mortality: Rates developed in the actuarial investigation as of August 31, 1990.

Active and Inactive Members - Investment Return: 8% per annum, compounded annually. Mortality, Withdrawal, Disability Retirement and Service Retirement Rates: Rates and scales developed in the actuarial investigation as of August 31, 1995 with values at specimen ages shown in the tables below:

PROBABILITY OF DECREMENT DUE TO						
Age	MALE MEMBERS			Age	FEMALE MEMBERS	
	Death	Disability	Retirement		Death	Disability Retirement
20	.000944	.000046		20	.000585	.000008
30	.000978	.000065		30	.000597	.000196
40	.001529	.000408		40	.000560	.000217
50	.003403	.002883		50	.001520	.002098
60	.006841	.006034		60	.003025	.005579
70	.015547	.000000		70	.005790	.000000

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL											
Age	Years of Service										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.1666	0.1601	0.1227	0.1093	0.0943	0.0796	0.0658	0.0532	0.0509	0.0428	0.0336
30	0.1573	0.1525	0.1123	0.0954	0.0758	0.0615	0.0495	0.0394	0.0444	0.0357	0.0217
40	0.1448	0.1410	0.0888	0.0751	0.0647	0.0590	0.0527	0.0458	0.0405	0.0334	0.0130
50	0.1284	0.1145	0.0666	0.0582	0.0498	0.0460	0.0416	0.0375	0.0343	0.0288	0.0073
60	0.1325	0.1276	0.0910	0.0862	0.0778	0.0729	0.0655	0.0531	0.0396	0.0248	0.0067
70	0.1639	0.1607	0.1644	0.1568	0.1597	0.1587	0.1438	0.1251	0.1104	0.0659	0.0105

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL											
Age	Years of Service										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.1435	0.1241	0.1029	0.0787	0.0650	0.0616	0.0556	0.0443	0.0360	0.0355	0.0278
30	0.1427	0.1221	0.0974	0.0740	0.0621	0.0591	0.0531	0.0413	0.0327	0.0302	0.0183
40	0.1177	0.1030	0.0675	0.0598	0.0552	0.0489	0.0404	0.0355	0.0294	0.0270	0.0135
50	0.1129	0.0941	0.0637	0.0559	0.0484	0.0438	0.0385	0.0324	0.0285	0.0251	0.0090
60	0.1282	0.1204	0.0875	0.0830	0.0824	0.0779	0.0641	0.0556	0.0419	0.0316	0.0057
70	0.1631	0.1597	0.1482	0.1496	0.1505	0.1463	0.1389	0.1174	0.0823	0.0495	0.0050

PROBABILITY OF DECREMENT DUE TO RETIREMENT							
Age	Years of Service						
	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0298
55	0.0035	0.0190	0.0235	0.1117	0.1357	0.1464	0.3323
60	0.0091	0.0352	0.0441	0.1184	0.2065	0.2180	0.2480
65	0.0886	0.3164	0.4692	0.3906	0.5175	0.4501	0.3607
70	0.0646	0.2865	0.3429	0.3449	0.3920	0.3057	0.2672
74	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Age	Years of Service						
	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0268
55	0.0720	0.0435	0.0391	0.1014	0.1602	0.1676	0.3564
60	0.0283	0.0521	0.0443	0.1159	0.1915	0.2399	0.2794
65	0.1608	0.2754	0.3446	0.3596	0.3577	0.3932	0.4129
70	0.1147	0.2165	0.2312	0.2533	0.3292	0.2911	0.3928
74	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Years of Service	RATES OF SALARY INCREASE			
	Annual Step Rate/ Promotional Rates of Increase		Total Annual Rate of Increase Including 4¼% General Increase Rate	
	Males	Females	Males	Females
1	20.00%	17.40%	24.25%	21.65%
2	2.90	2.90	7.15	7.15
3	2.30	2.80	6.15	7.05
4	1.50	2.40	5.75	6.65
5	1.40	2.00	5.65	6.25
6	1.30	1.80	5.55	6.05
7	1.25	1.60	5.50	5.85
8	1.20	1.50	5.45	5.75
9	1.15	1.40	5.40	5.65
10	1.10	1.20	5.35	5.45
11-19	0.90	0.90	5.15	5.15
20 or more	0.00	0.00	4.25	4.25

Service Retirement Annuitants, Nominees and Survivors - Investment Return: 8% per annum, compounded annually. Mortality: 1994 Group Annuity Male Mortality Table with a two-year setback and the 1994 Group Annuity Female Mortality with a one-year setback; 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, 1995.

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 with the resulting value not being less than 80% or more than 120% of the market value of assets.

Funding of Unfunded Actuarial Accrued Liability - Funded by the excess of future state contributions required by law over 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 1985 through 1990, and taking into account all changes in benefit provisions, the normal cost for benefits provided by the system is 11.35% of payroll (6.40% by members plus 4.95% by the state), which is 1.05% of payroll less than the total contributions required by law. It is assumed that the excess amount of 1.05% of payroll will be utilized to fund the unfunded actuarial accrued liability over a period of years in the future, assuming that total payroll increases by 4.00% per year.

Assumed State Contribution Rate - The Appropriations Act, established an actual contribution rate of 6.00% for 1996-97 and 1998-99. The contribution rate valuation results are determined assuming that the current 6.00% state contribution rate is the ultimate rate.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Year	Number	Annual Payroll In Thousands	Average Annual Pay	Annual Percentage Increase In Average Pay
1993	575,088	\$13,390,745	\$23,285	1.6%
1994	600,484	14,167,220	23,593	1.3
1995	625,878	14,888,493	23,788	.8
1996	652,197	15,982,902	24,506	3.0
1997	678,749	17,044,480	25,112	2.5
1998	705,447	18,324,935	25,977	3.4

Actuarial Information

AS OF AUGUST 31, 1998

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 an 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; (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.

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.

(MONEY AMOUNTS SHOWN IN MILLIONS)

Valuation As Of August 31	Aggregate Actuarial Accrued Liabilities For			Valuation Assets	Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets		
	1	2	3		1	2	3
	Active* Member Contri- butions	Retirees* And Benefi- ciaries	Active Members (State Financed Portion)		Active Member Contri- butions	Retirees And Benefi- ciaries	Active Members (State Financed Portion)
1993	\$8,279	\$13,746	\$16,594	\$35,179	100%	100%	79.3%
1994	9,055	14,788	15,825	38,843	100	100	94.8
1995	9,888	18,573	16,937	43,442	100	100	88.5
1996	10,765	19,628	18,907	47,487	100	100	90.4
1997	11,707	21,936	20,263	53,760	100	100	99.3
1998	12,517	22,557	22,820	60,357	100	100	110.8

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

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 found immediately following the Notes to the Financial Statements.

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)					
	1998	1997	1996	1995	1994	1993
Investment (Gains)/Losses	\$ (2.832)	\$ (2.836)	\$ (1.304)	\$ (1.436)	\$ (0.643)	\$ (1.270)
Legislative Benefit Increases		1.762		2.255		0.627
Contribution Experience	(0.059)	0.117	0.082	(0.188)	(0.117)	0.117
Assumption Changes		(0.196)	0.613		(1.690)	
Liability Experience	(0.246)	(0.514)	0.466	(0.104)	(0.165)	0.488
Other Changes	0.528			0.604		0.037
Net Increase/(Decrease)	\$ (2.609)	\$ (1.667)	\$ (0.143)	\$ 1.131	\$ (2.615)	\$ (0.001)
Beginning UAAL	0.146	1.813	1.956	0.825	3.440	3.441
Ending UAAL	\$ (2.463)	\$ 0.146	\$ 1.813	\$ 1.956	\$ 0.825	\$ 3.440

Benefits Section

*Canyon School
Lubbock County, Texas*





SUMMARY OF BENEFITS

The Teacher Retirement System of Texas provides service and disability retirement, a deferred retirement option plan (DROP), and death and survivor benefits to eligible employees of public education in Texas. Benefits are financed by member and state contributions and through investment earnings to the pension trust fund.

A defined benefit retirement plan, TRS is qualified under Section 401(a) of the Internal Revenue Code. A current general information booklet, *TRS Benefits Handbook*, is provided to each TRS member and annuitant.

The system provides comprehensive health care coverage for retired members. Public school districts may purchase health care coverage for their active employees through the Texas Public School Employees Group Insurance Program. The health care coverage is financed through a separate trust fund by state and active public school member contributions, payments by the insured participants and contributions by school districts enrolled in the active plan.

The major retirement benefit provisions, effective September 1, 1997, are:

Service Retirement

Normal Retirement Eligibility: Age 65 with five years of credited service,
or when the sum of member's age and years of credited service equals or exceeds 80 years.

Standard Annuity: A monthly benefit payable throughout the retiree's lifetime.

Benefit Formula: 2 percent times the average of three highest annual salaries times years of credited service equals standard annuity.

Minimum Benefit: \$150 per month.

For a classroom teacher or full-time librarian retiring after August 31, 1995, the minimum standard annuity is computed by multiplying the minimum annual salary in effect on the retirement date as established by the Education Code times two percent for each year of credited service.

Early Retirement Eligibility: Age 55 with at least five years of credited service,
or any age below 50 with 30 or more years of credited service.

Early Retirement Benefit: The standard annuity calculated under the benefit formula (or the minimum benefit, if applicable) reduced actuarially for early payment.

Disability Retirement

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

Benefit: For disabled members with at least 10 years of credited service, standard annuity unreduced for early payment, or \$150 per month minimum benefit.
For disabled members with fewer than 10 years of credited service, a flat amount of \$150 per month.

Duration: For retirees with 10 or more years of credited service, payments continue for as long as they are disabled. For those with fewer than 10 years of credited service, payments continue for no longer than the total months of TRS-covered employment.

Annuity Payment Options

Service or disability retirees may select an optional form of payment which converts the standard annuity by application of age-related actuarial reduction factors. Actuarial factors for disability retirees are different from those for service retirees because the actuarial tables use different assumptions about life expectancy for the two groups. The available options are:

- 100 percent joint and survivor — a reduced benefit payable for life to the retiree, with the same amount continuing to a surviving designated beneficiary.
- 75 percent joint and survivor — a reduced benefit payable for life to the retiree, with 75 percent of that amount continuing to a surviving designated beneficiary.
- 50 percent joint and survivor — a reduced benefit payable for life to the retiree, with 50 percent of that amount continuing to a surviving designated beneficiary.

SUMMARY OF BENEFITS

- Five years certain — a reduced benefit payable for life to the retiree, with the same amount continuing to a designated beneficiary for the remainder of the guaranteed period of 60 months if the retiree dies before 60 payments have been made.
- Ten years certain — a reduced benefit payable for life to the retiree, with the same amount continuing to a designated beneficiary for the remainder of the guaranteed period of 120 months if the retiree dies before 120 payments have been made.

The Pop-Up Provision

In the event that 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.

Deferred Retirement Option Plan (DROP)

Effective September 1, 1997, DROP was created as a new pre-retirement benefit provision for active members who are eligible to retire with unreduced benefits and who have at least 25 years of credited service.

The program allows members to elect to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated 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.

The law allows an irrevocable election to participate in 12-month increments, for up to five years. During DROP participation, the member does not accrue additional compensation or service credits to be considered in calculating the standard annuity. Also, during DROP participation, the member's statutory contributions to TRS continue, but those contributions are not credited to the member's contribution account and are not subject to refund.

Participation in DROP ends at the earliest of expiration of the election period, retirement, or death.

DROP participants must name a beneficiary to receive the DROP account in the event of the member's death.

The accumulated DROP account may be distributed at the member's election as a single lump sum or in monthly or yearly installments covering five years or 10 years. Eligible distributions may be rolled over to another qualified plan.

Vesting of Benefits

A member who has completed at least five years of credited service has earned a nonforfeitable right to service retirement benefits, with payment deferred to normal retirement age, provided the member's contributions are not withdrawn from the system.

Health Coverage

In addition to the benefits described above, the Texas Public School Employees Group Insurance Program - Retired Plan, known as TRS-Care, makes available a **basic** level of health coverage without cost to TRS public school retirees. Retirees and their eligible dependents may pay premiums and participate in an optional plan of more comprehensive benefits and coverage.

Eligibility:

Retirement from a position in Texas public schools after 10 or more years of credited service and not eligible for other statewide health insurance.

Deductible:

TRS-Care 1 (Without Medicare Part A) \$4,500
 TRS-Care 2 (With Medicare Part A) \$1,800
 TRS-Care 3 (Optional coverage) \$240

Coinsurance Percentage:

After the applicable deductible is satisfied, the plan pays:
 80 percent for hospital and covered medical expenses
 90 percent for pre-admission testing and outpatient surgery
 100 percent for second surgical opinion

Prescription Drugs:

TRS-Care 1 or 2: after applicable deductible, 80 percent coinsurance
 TRS-Care 3: No deductible
 Local Pharmacy - \$8 general copay, \$16 brand name
 Mail Order - \$2 generic copay, \$10 brand name copay

Annual Maximum:

\$5,000 plus applicable deductibles and copays

Lifetime Maximum:

Unlimited

Death and Survivor Benefits

Active Members — The primary beneficiary of an active member will receive one of the following benefits in the event of that member’s death before retirement (even though the member may be absent from service because of illness, is on disability retirement effective before September 1, 1992, or is within five years of being eligible to retire when leaving employment):

1. A lump sum payment equal to twice the member’s annual compensation, but not to exceed \$80,000.
2. Sixty monthly payments equal to the member’s standard annuity without reduction for age.
3. For a sole beneficiary, lifetime payments equal to a 100 percent joint and survivor annuity.
4. A return of the member’s contributions with accumulated interest.
5. Survivor benefits of \$2,500 lump sum payment plus \$300 per month to beneficiary spouse with minor children, continuing until the youngest child reaches age 18. At age 65, the spouse would begin receiving \$200 per month for life.

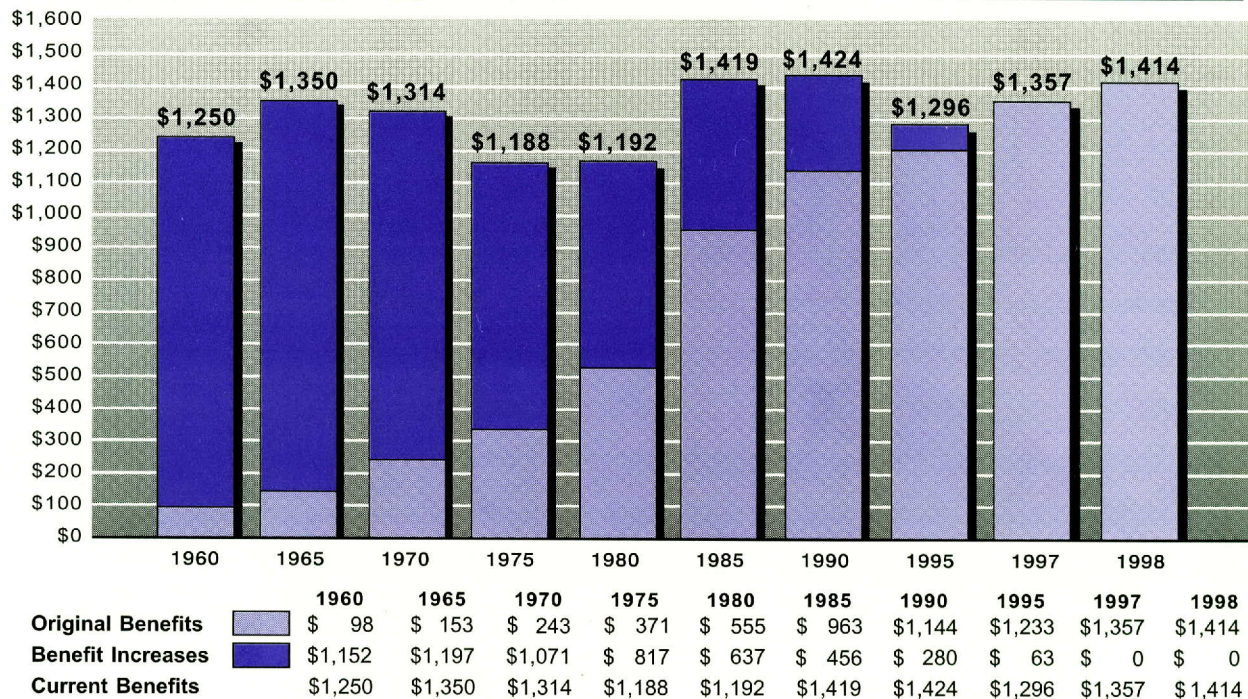
In addition, the DROP beneficiary of a DROP participant will receive the accumulated DROP account balance, payable as a lump sum or in periodic installments.

Retired Members — The primary beneficiary of a service retiree is entitled to a \$10,000 lump sum payment. Three optional retiree survivor benefits are available in limited circumstances.

- If the primary beneficiary of a retired member is the spouse or dependent parent, the beneficiary may opt for a \$2,500 lump sum payment plus \$200 per month immediately or at age 65, whichever is later.
- If the primary beneficiary is the spouse with one or more minor children, the beneficiary may choose a \$2,500 lump sum payment plus an allowance of \$300 per month until the youngest child reaches age 18, followed by a lifetime monthly benefit of \$200 beginning when the spouse reaches age 65.
- If the primary beneficiary is the retiree’s dependent child under age 18, the child’s guardian or surviving parent may elect to receive on their behalf a \$2,500 lump sum plus a monthly benefit of \$300 as long as two or more children are under age 18, or a monthly benefit of \$200 as long as only one child is under age 18.

In any event, if total payments to the retiree are less than accumulated contributions at retirement, any remainder would be paid to the beneficiary.

Current Average Monthly Benefit by Year of Retirement
Service Retiree Accounts as of August 31, 1998

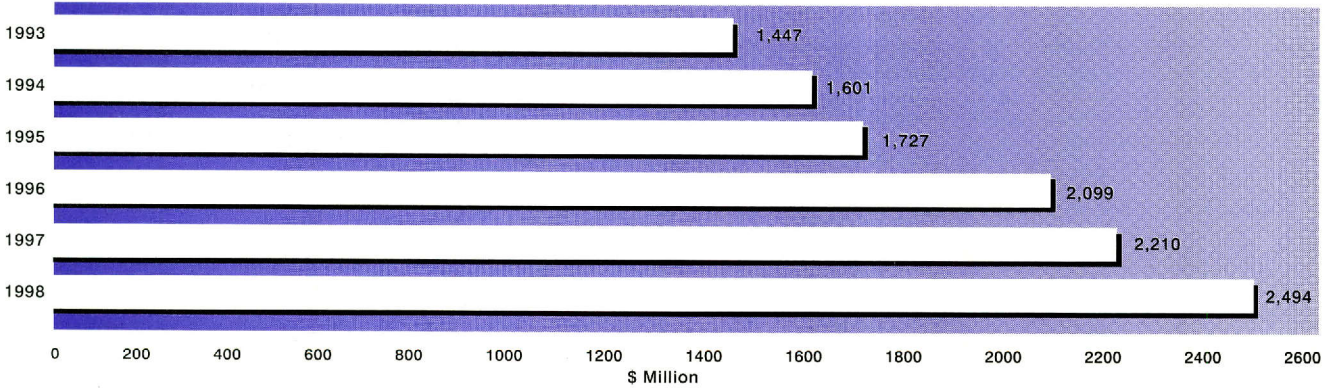


GROWTH OF THE SYSTEM

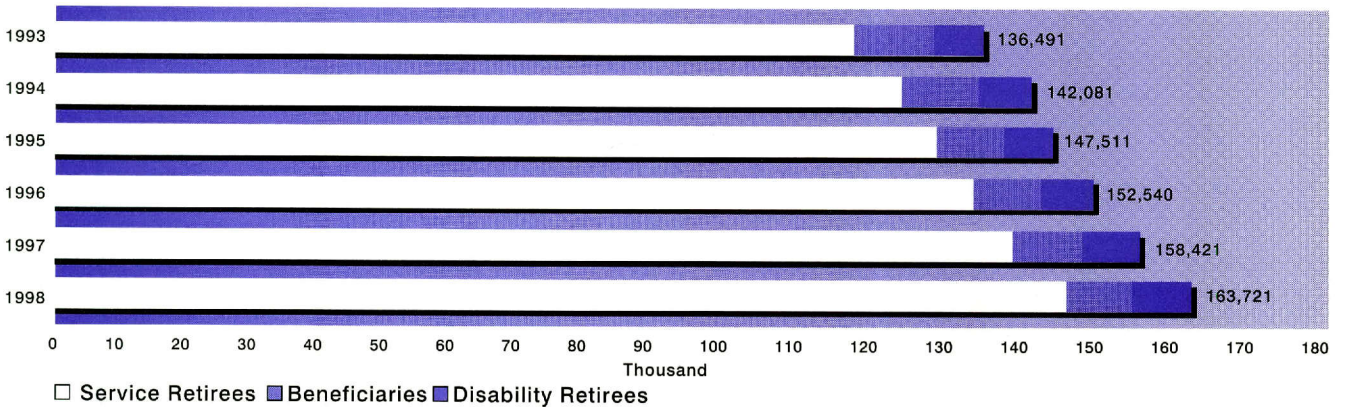
Benefit payments during fiscal year 1998 totaled almost \$2.5 billion, an increase of \$284.6 million over the previous year. By August 1998, the monthly annuity payroll had grown to \$203.5 million, with over 154,000 annuitants receiving payments.

Annuities, including multiple payments to one person and payments deferred to a later date, totaled 163,721. The number of current member accounts increased by 24,391 and the number of retiree accounts increased by 5,300.

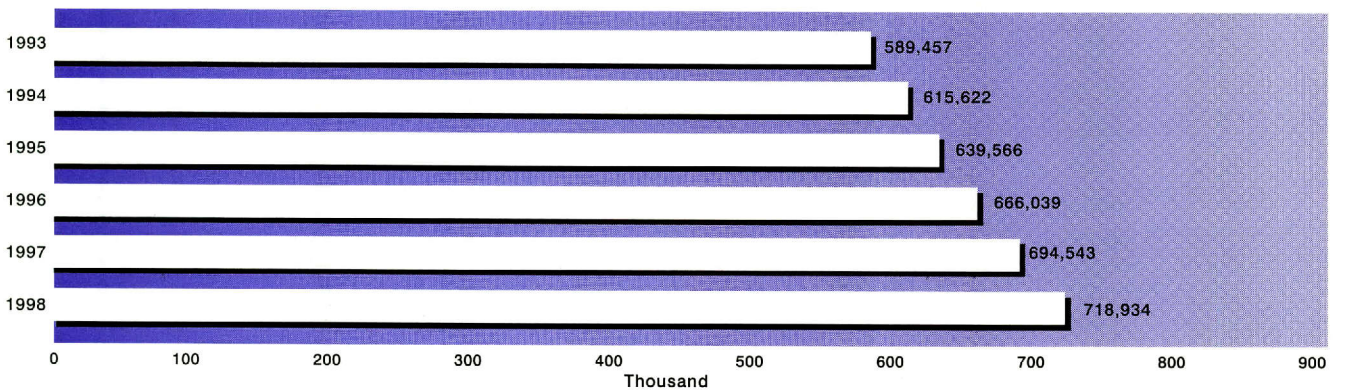
Benefit Payments



Annuities



Member Accounts



PAYMENT INFORMATION

Average Benefit Payments for Service Retirees

PENSION TRUST FUND

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
9-1-92 to 8-31-93						
Average Monthly Benefit	\$229.66	\$ 400.82	\$713.59	\$ 1,130.62	\$ 1,704.30	\$ 2,527.11
Average Final Average Salary	\$14,079	\$ 17,371	\$22,083	\$ 27,752	\$ 35,033	\$ 42,904
Number of Retirees	642	811	1,064	1,474	1,390	1,851
9-1-93 to 8-31-94						
Average Monthly Benefit	\$191.05	\$ 342.12	\$680.73	\$ 1,089.06	\$ 1,683.82	\$ 2,508.79
Average Final Average Salary	\$14,879	\$ 18,387	\$23,088	\$ 28,085	\$ 35,180	\$ 42,765
Number of Retirees	765	920	1,275	1,781	1,573	2,110
9-1-94 to 8-31-95						
Average Monthly Benefit	\$201.44	\$ 338.78	\$678.51	\$ 1,115.54	\$ 1,649.56	\$ 2,569.96
Average Final Average Salary	\$16,071	\$ 18,565	\$23,500	\$ 29,301	\$ 35,060	\$ 44,898
Number of Retirees	830	919	1,237	1,762	1,486	1,966
9-1-95 to 8-31-96						
Average Monthly Benefit	\$198.26	\$ 340.87	\$671.48	\$ 1,108.04	\$ 1,762.82	\$ 2,482.31
Average Final Average Salary	\$16,428	\$ 19,687	\$23,984	\$ 29,582	\$ 37,709	\$ 44,527
Number of Retirees	818	888	1,180	1,724	1,849	2,168
9-1-96 to 8-31-97						
Average Monthly Benefit	\$202.98	\$ 345.53	\$672.93	\$ 1,082.96	\$ 1,771.03	\$ 2,517.77
Average Final Average Salary	\$17,664	\$ 20,607	\$24,459	\$ 29,851	\$ 38,846	\$ 46,048
Number of Retirees	815	924	1,194	1,747	2,069	2,154
9-1-97 to 8-31-98						
Average Monthly Benefit	\$202.32	\$ 355.62	\$759.29	\$ 1,140.72	\$ 1,845.62	\$ 2,499.85
Average Final Average Salary	\$17,933	\$ 21,573	\$26,801	\$ 31,049	\$ 40,563	\$ 46,049
Number of Retirees	811	840	1,098	1,737	2,691	1,991

Benefit Payments by Type

PENSION TRUST FUND

Year	Service Retirements	Deferred Retirement Option*	Disability Retirements	Death and Survivor Benefits						
				Accumulated Savings	Annual Salary	Survivor Annuities	Life Annuities	60 Monthly Payments	Remainder of Contributions	Refunds
1993	1,279,794,717		56,971,390	359,769	31,819,810	44,474,827	29,029,489	2,798,130	1,466,252	122,114,590
1994	1,422,800,466		61,572,960	232,685	30,081,226	49,410,180	32,065,818	3,125,245	1,687,638	133,227,183
1995	1,543,796,065		65,374,008	410,285	28,803,326	48,920,837	34,225,477	3,447,037	2,175,462	146,099,978
1996	1,886,087,741		78,566,566	348,391	32,191,306	50,629,341	44,933,499	3,719,948	2,128,609	162,257,383
1997	1,979,837,227		80,414,696	314,686	40,209,581	56,273,629	46,029,067	3,673,988	2,818,372	166,125,695
1998	2,256,664,999	1,630,705	88,244,398	512,683	34,459,094	53,692,115	53,044,483	3,809,152	2,117,822	183,430,398

*Deferred Retirement Option benefit effective September 1, 1997

Annuity Payments by Benefit Type

PENSION TRUST FUND

Monthly Benefit	Annuity Payments	Benefit Type *						
		Retirements			Survivor Payments			
		1	2	3	4	5	6	7
\$ 1 - 200	15,135	2,365	3,455	365	403	1,082	273	7,192
\$ 201 - 400	17,441	5,151	9,667	940	1,109	309	247	18
\$ 401 - 600	16,766	7,330	6,104	1,726	1,084	258	264	0
\$ 601 - 800	15,793	9,265	3,858	1,105	1,018	311	236	0
\$ 801 - 1,000	11,577	6,785	2,697	764	867	274	190	0
\$ 1,001 - 1,200	10,977	6,144	3,093	624	717	286	113	0
\$ 1,201 - 1,400	10,916	6,301	3,164	537	554	236	124	0
\$ 1,401 - 1,600	10,768	6,333	3,191	446	463	258	77	0
\$ 1,601 - 1,800	10,684	6,754	2,990	370	361	168	41	0
\$ 1,801 - 2,000	10,127	6,910	2,395	283	341	176	22	0
\$ over 2000	33,289	26,356	4,728	425	1,295	430	55	0
Totals	163,473 **	89,694	45,342	7,585	8,212	3,788	1,642	7,210

* Benefit Type

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

Annuity Payments by Plan Selected

PENSION TRUST FUND

Monthly Benefit	Annuity Payments	Plan Selected *					
		1	2	3	4	5	6
\$ 1 - 200	15,135	3,504	1,831	363	245	708	8,484
\$ 201 - 400	17,441	9,793	3,792	1,193	717	1,793	153
\$ 401 - 600	16,766	9,920	3,259	1,324	823	1,440	0
\$ 601 - 800	15,793	8,854	3,096	1,502	841	1,500	0
\$ 801 - 1,000	11,577	5,955	2,470	1,483	604	1,065	0
\$ 1,001 - 1,200	10,977	4,942	2,789	1,427	650	1,169	0
\$ 1,201 - 1,400	10,916	4,847	2,777	1,427	656	1,209	0
\$ 1,401 - 1,600	10,768	4,453	2,889	1,491	695	1,240	0
\$ 1,601 - 1,800	10,684	4,314	2,936	1,524	694	1,216	0
\$ 1,801 - 2,000	10,127	3,998	2,904	1,564	566	1,095	0
\$ over 2,000	33,289	11,413	11,832	5,683	1,580	2,781	0
Totals	163,473**	71,993	40,575	18,981	8,071	15,216	8,637

* Plan Selected

1 - Life Annuity
 2 - Joint to Survivor
 3 - Joint to Survivor 50% / Joint to Survivor 75%

4 - 5-Year Guarantee
 5 - 10-Year Guarantee
 6 - Survivor Benefit

** Does not include 248 that are in a suspended, deferred, returned to teaching, or other miscellaneous status.

Retirees and Beneficiaries Added to and Removed from Payroll

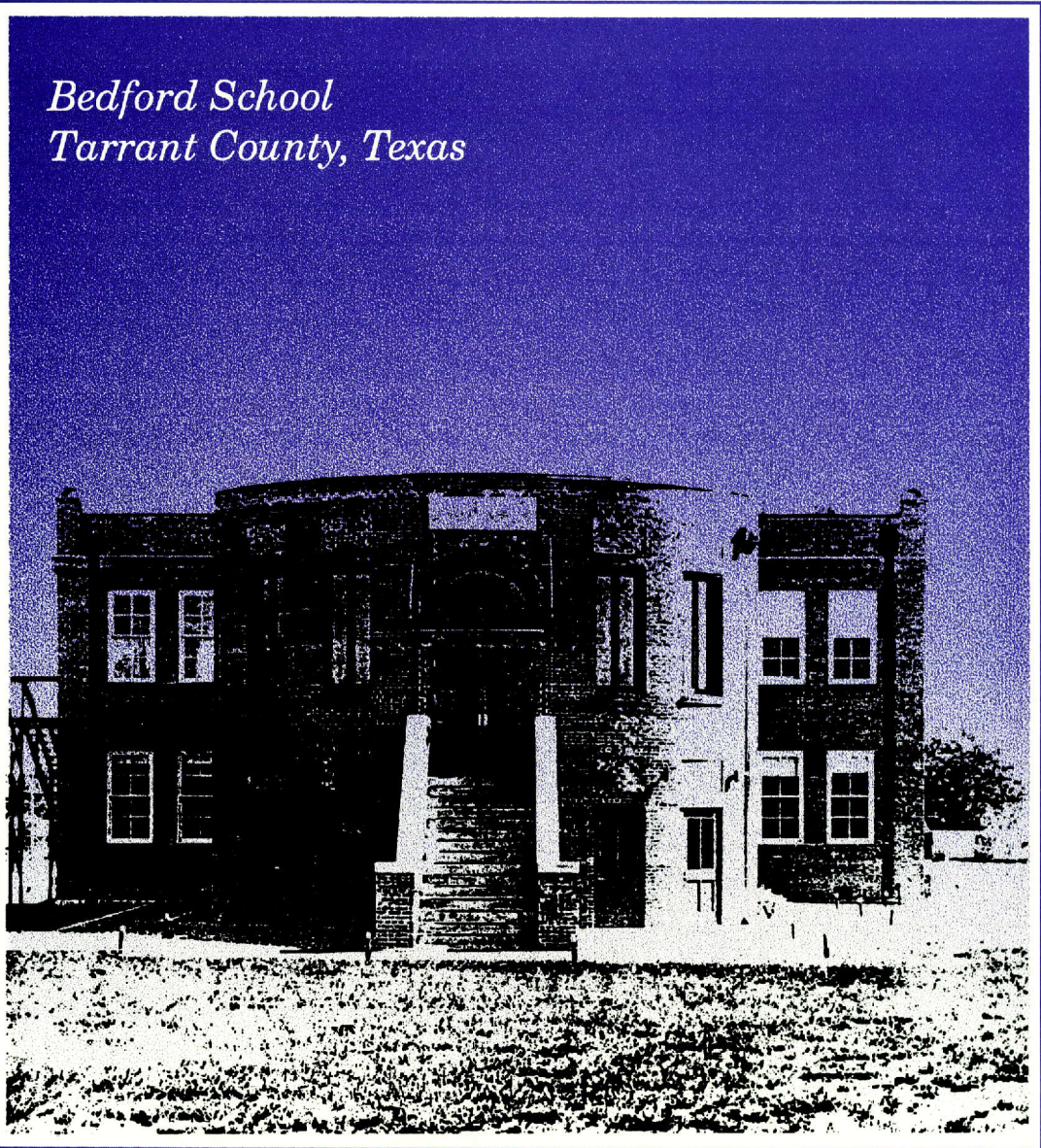
PENSION TRUST FUND - For Years 1993-1998*

Year Ended	Number of Retirees and Beneficiaries			Annual Allowances	
	Added	Removed	End of Year	End of Year	% Increase
1993	10,299	4,794	136,491	\$ 1,427,060,736	6.52%
1994	10,598	5,008	142,081	\$ 1,610,579,288	12.86%
1995	10,653	5,223	147,511	\$ 1,711,361,701	6.26%
1996	9,308	4,279	152,540	\$ 2,059,796,184	20.36%
1997	10,634	4,753	158,421	\$ 2,162,144,861	4.97%
1998	9,830	4,530	163,721	\$ 2,442,143,273	12.95%

* This schedule is based upon the August payroll and includes only monthly annuity and survivor benefits including multiple payments to one person. Monthly post-retirement benefit increases of approximately \$6.7 million, \$22.2 million and \$13.3 million became effective in fiscal years 1994, 1996 and 1998, respectively.

Statistical Section

*Bedford School
Tarrant County, Texas*



Courtesy of Texas Historical Commission

Changes in Plan Net Assets

PENSION TRUST FUND

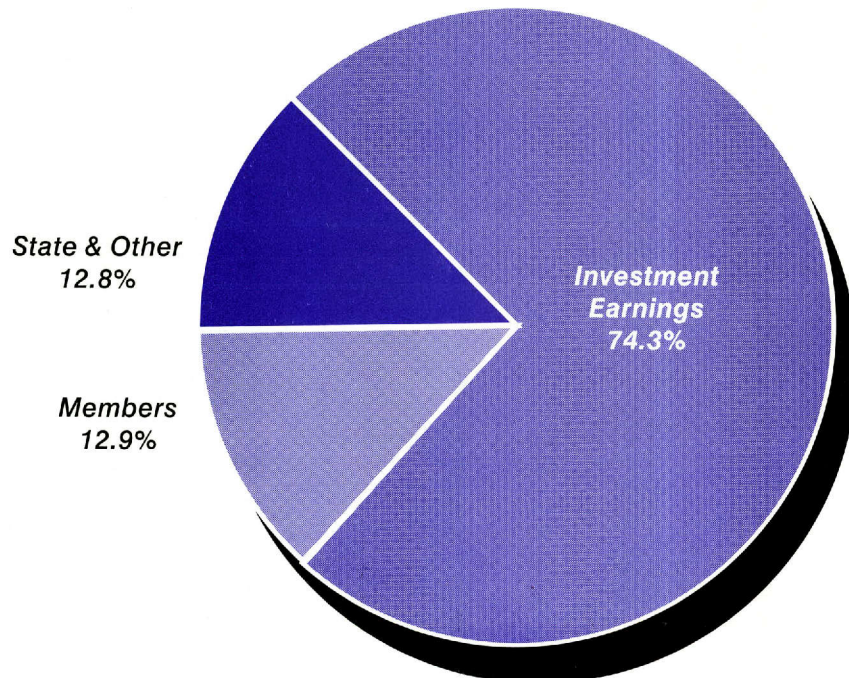
SUMMARY



	1998	1997
Additions:		
From Members	\$ 1,147,729,936	\$ 1,070,235,761
From State	958,268,679	895,085,344
From Reporting Employers	91,478,817	86,940,233
From Investments:		
Investment Income	2,479,035,112	2,255,862,387
Net Appreciation in Fair Value *	2,333,003,731	10,171,242,898
From Employees Retirement System	914,620	645,653
From Other Sources	45,753	584
TOTAL ADDITIONS	\$ 7,010,476,648	\$ 14,480,012,860
Deductions:		
For Benefits	\$ 2,494,214,045	\$ 2,209,571,246
For Refunds to Members	183,430,398	166,125,695
For Administration	26,849,520	24,468,931
For Employees Retirement System	10,087,258	8,248,161
TOTAL DEDUCTIONS	\$ 2,714,581,221	\$ 2,408,414,033
Net Increase	\$ 4,295,895,427	\$ 12,071,598,827
Net Assets Held in Trust for Pension		
Benefits - Beginning of Year	62,160,927,516	50,089,328,689
Net Assets Held in Trust for Pension		
Benefits - End of Year	\$ 66,456,822,943	\$ 62,160,927,516

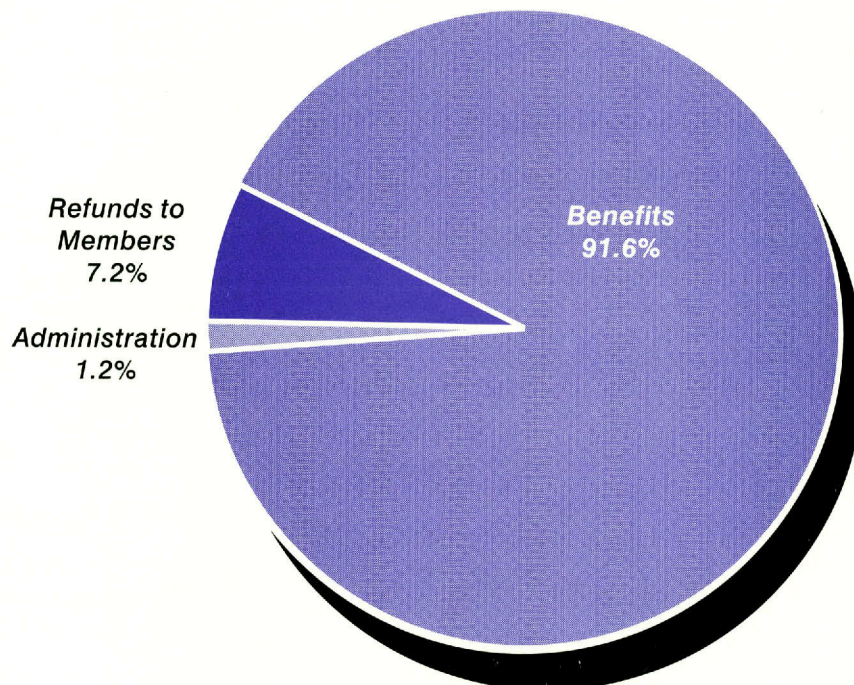
*Beginning with fiscal year 1996 the system implemented GASB 25 which requires assets to be valued at fair value (market). Net appreciation includes realized and unrealized appreciation in investments, and comparative prior years have been restated accordingly.

Additions - Six Year Average (1993-1998)



1996	1995	1994	1993
\$ 1,004,595,878	\$ 950,505,029	\$ 903,130,141	\$ 855,583,547
831,856,756	963,322,791	943,184,853	899,663,369
90,647,585	66,851,022	41,215,131	37,752,217
2,172,123,576	2,113,835,452	1,971,229,534	2,035,498,945
2,609,779,595	4,530,509,146	(997,329,109)	2,557,225,434
450,276	269,026	70,646	
20	242,797	149,185	154,375
\$ 6,709,453,686	\$ 8,625,535,263	\$ 2,861,650,381	\$ 6,385,877,887
\$ 2,098,605,401	\$ 1,727,152,497	\$ 1,600,976,218	\$ 1,446,714,384
162,257,383	146,099,978	133,227,183	122,114,590
25,457,746	26,139,546	26,125,050	25,934,080
7,268,039	4,863,571	3,140,941	
\$ 2,293,588,569	\$ 1,904,255,592	\$ 1,763,469,392	\$ 1,594,763,054
\$ 4,415,865,117	\$ 6,721,279,671	\$ 1,098,180,989	\$ 4,791,114,833
45,673,463,572	38,952,183,901	37,854,002,912	33,062,888,079
\$ 50,089,328,689	\$ 45,673,463,572	\$ 38,952,183,901	\$ 37,854,002,912

Deductions - Six Year Average (1993-1998)



Revenues and Expenditures

TEXAS PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE PROGRAM

SUMMARY



	1998	1997
RETIRED PLAN		
Revenues:		
Retiree Premiums	\$ 91,390,173	\$ 87,657,784
State Contributions	72,210,190	67,616,395
Member Contributions	36,105,095	33,808,197
Investment Income:		
Interest	14,399,195	16,125,973
Net Appreciation in Fair Value *	861,322	1,043,263
TOTAL REVENUES	\$ 214,965,975	\$ 206,251,612
Expenditures:		
Claims	\$ 232,794,071	\$ 211,354,471
External Administration	12,748,881	12,880,395
Internal Administration	1,867,797	1,217,059
TOTAL EXPENDITURES	\$ 247,410,749	\$ 225,451,925
Excess (Deficiency) of Revenues over Expenditures	\$ (32,444,774)	\$ (19,200,313)
Fund Balance - Beginning September 1	203,870,554	223,070,867
Fund Balance - Ending August 31	\$ 171,425,780	\$ 203,870,554

SUMMARY

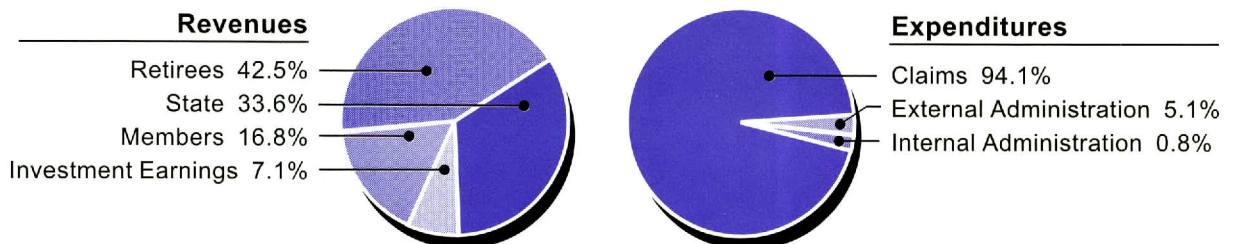


ACTIVE PLAN **		
Revenues:		
Membership Fees	\$ 548,119	\$ 5,206,800
Active Premiums	10,952	534,595
Administrative Fees		
Investment Income:		
Interest	1,126,333	1,605,147
Net Appreciation in Fair Value *	91,362	(30,801)
TOTAL REVENUES	\$ 1,776,766	\$ 7,315,741
Expenditures:		
Claims	\$ 1,107,287	\$ 579,743
External Administration	38,445	60,322
Internal Administration	400,607	426,907
TOTAL EXPENDITURES	\$ 1,546,339	\$ 1,066,972
Excess of Revenues over Expenditures	\$ 230,427	\$ 6,248,769
Fund Balance - Beginning September 1	22,109,356	15,860,587
Fund Balance - Ending August 31	\$ 22,339,783	\$ 22,109,356

* Beginning with fiscal year 1998 the system implemented GASB 31 which requires assets be valued at fair value (market). Net appreciation includes realized and unrealized appreciation in investments, and comparative prior years have been restated accordingly. Prior to fiscal year 1997, all investment income for the Active Plan was depository interest.

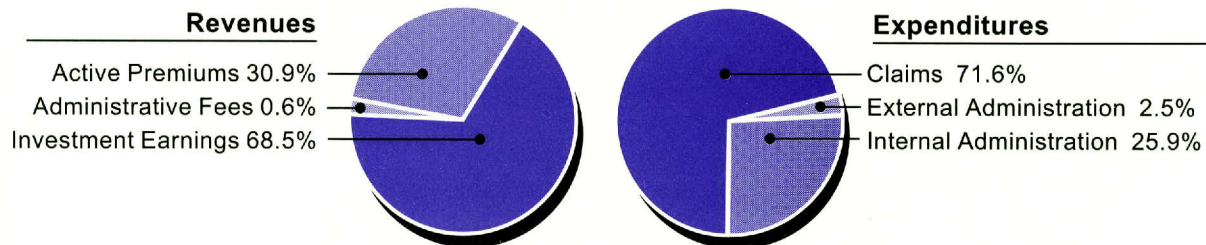
** Active Plan reserves were created by statute beginning September 1, 1994. Active Plan participation began in fiscal year 1997.

Retired Plan - 1998



1996	1995	1994	1993
\$ 82,622,236	\$ 89,006,331	\$ 80,128,944	\$ 65,154,653
63,634,087	59,849,850	56,912,083	54,029,406
31,817,043	29,924,925	28,456,041	27,014,703
16,818,747	16,841,673	16,467,438	17,181,190
(2,314,770)	3,433,810	(8,954,603)	(2,051,422)
\$ 192,577,343	\$ 199,056,589	\$ 173,009,903	\$ 161,328,530
\$ 193,057,225	\$ 172,836,644	\$ 153,996,753	\$ 142,328,376
12,491,199	11,393,649	10,742,076	9,107,944
1,102,379	826,198	926,752	959,415
\$ 206,650,803	\$ 185,056,491	\$ 165,665,581	\$ 152,395,735
\$ (14,073,460)	\$ 14,000,098	\$ 7,344,322	\$ 8,932,795
237,144,327	223,144,229	215,799,907	206,867,112
\$ 223,070,867	\$ 237,144,327	\$ 223,144,229	\$ 215,799,907
\$ 5,053,440	\$ 4,949,820	\$ 4,733,380	
894,955	463,308	181,837	
\$ 5,948,395	\$ 5,413,128	\$ 4,915,217	
\$ 347,094	\$ 27,561	\$ 41,498	
\$ 347,094	\$ 27,561	\$ 41,498	
\$ 5,601,301	\$ 5,385,567	\$ 4,873,719	
10,259,286	4,873,719		
\$ 15,860,587	\$ 10,259,286	\$ 4,873,719	

Active Plan - 1998



Participating Employers

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
 McLennan Comm College
 Midland College
 N Harris Montgomery CC
 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 Cty Jr Coll Dist
 Temple College
 Texarkana College
 Texas Southmost College
 Texas State Tech College
 Trinity Valley Jr College
 Tyler Junior College
 Vernon Regional Jr Coll
 Victoria College
 Weatherford College
 Western Texas College
 Wharton County Jr College

Universities

Angelo State University
 Lamar University
 Midwestern State Univ
 Prairie View A & M Univ
 Sam Houston State Univ
 Southwest Texas State U
 Stephen F Austin State U
 Sul Ross State University
 Tarleton State University
 Texas A & M at Galveston
 Texas A & M Corpus Christi
 Texas A & M U- Commerce
 Texas A & M U Kingsville
 Texas A & M U-Texarkana
 Texas A & M University
 Texas Ag Exp Station
 Texas Ag Ext Service
 Texas Eng Exp Station
 Texas Eng Ext Service
 Texas Forest Service
 Texas Southern University

Texas Tech University
 Texas Transportation Inst
 Texas Womans University
 The Texas State Univ Sys
 Tx A & M International Univ
 Tx A & M U Systems Office
 U H at Houston
 U T at Arlington
 U T at Austin
 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
 Univ Tx at Brownsville
 University of North Tx
 West Texas A & M Univ

Medical Schools

Baylor Coll of Dentistry
 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
 Allison 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
 Asherton 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, Livingston
 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
 Brooksmith 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
 Byers 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
 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
 Chilton I S D
 China Spring I S D
 Chireno I S D
 Chisum I S D
 Christoval I S D
 Cisco I S D
 City View I S D
 Clarendon Cons I S D
 Clarksville I S D
 Claude I S D
 Clear Creek I S D
 Cleburne I S D
 Cleveland I S D
 Clifton I S D
 Clint I S D
 Clyde I S D
 Coahoma I S D
 Coldspring Oakhurst
 Coleman I S D
 College Station I S D
 Collinsville I S D
 Colmesneil I S D
 Colorado I S D
 Columbia Brazoria I S D
 Columbus I S D
 Comal I S D
 Comanche I S D
 Comfort I S D
 Commerce I S D
 Community I S D
 Como Pickton I S D
 Comstock I S D
 Connally Cons I S D
 Conroe I S D
 Coolidge I S D
 Cooper I S D
 Coppell I S D
 Copperas Cove I S D
 Corpus Christi I S D

Corrigan Camden C I S D	El Paso I S D	Grand Prairie I S D	Ingleside I S D
Corsicana I S D	Electra I S D	Grand Saline I S D	Ingram I S D
Cotton Center I S D	Elgin I S D	Grandfalls Royalty I S D	Iola I S D
Cotulla I S D	Elkhart I S D	Grandview I S D	Iowa Park Cons I S D
Coupland I S D	Elysian Fields I S D	Grandview Hopkins I S D	Ira I S D
Covington I S D	Ennis I S D	Granger I S D	Iraan Sheffield I S D
Crandall I S D	Era I S D	Grape Creek Pulliam I S D	Iredell I S D
Crane I S D	Etoile I S D	Grapeland I S D	Irion County I S D
Cranfills Gap I S D	Eula I S D	Grapevine Colleyville	Irving I S D
Crawford I S D	Eustace I S D	Greenville I S D	Italy I S D
Crockett I S D	Evadale I S D	Greenwood I S D	Itasca I S D
Crockett Cty School Dist	Evant I S D	Gregory Portland C I S D	Jacksboro I S D
Crosby I S D	Everman I S D	Groesbeck I S D	Jacksonville I S D
Crosbyton Cons I S D	Excelsior I S D	Groom I S D	Jarrell I S D
Cross Plains I S D	Ezzell I S D	Groveton I S D	Jasper I S D
Cross Roads I S D	Fabens I S D	Gruver I S D	Jayton Girard I S D
Crowell Cons I S D	Fairfield I S D	Gunter I S D	Jefferson I S D
Crowley I S D	Falls City I S D	Gustine I S D	Jim Hogg County I S D
Crystal City I S D	Fannindel I S D	Guthrie C S D	Jim Ned Cons I S D
Cuero I S D	Farmersville I S D	Hale Center I S D	Joaquin I S D
Culberson County I S D	Farwell I S D	Hallettsville I S D	Johnson City I S D
Cumby I S D	Fayetteville I S D	Hallsburg I S D	Jonesboro I S D
Cushing I S D	Ferris I S D	Hallsville I S D	Joshua I S D
Cypress Fairbanks I S D	Flatonia I S D	Hamilton I S D	Jouranton I S D
D Hanis I S D	Florence I S D	Hamlin I S D	Judson I S D
Dangerfield I S D	Floresville I S D	Hamshire Fannett I S D	Junction I S D
Dalhart I S D	Flour Bluff I S D	Happy I S D	Karnack I S D
Dallas I S D	Floydada I S D	Hardin I S D	Karnes City I S D
Damon I S D	Follett I S D	Hardin Jefferson I S D	Katy I S D
Danbury I S D	Forestburg I S D	Harlandale I S D	Kaufman I S D
Darrouzett I S D	Forney I S D	Harleton I S D	Keene I S D
Dawson I S D, Dawson	Forsan I S D	Harlingen I S D	Keller I S D
Dawson I S D, Welch	Fort Bend I S D	Harmony I S D	Kelton I S D
Dayton I S D	Fort Davis I S D	Harper I S D	Kemp I S D
De Kalb I S D	Fort Elliott Cons I S D	Harrold I S D	Kendleton I S D
De Leon I S D	Fort Hancock I S D	Hart I S D	Kenedy I S D
De Soto I S D	Fort Sam Houston I S D	Hartley I S D	Kenedy County School Dist
Decatur I S D	Fort Stockton I S D	Harts Bluff I S D	Kennard I S D
Deer Park I S D	Fort Worth I S D	Haskell I S D	Kennedale I S D
Del Valle I S D	Franklin I S D	Hawkins I S D	Kerens I S D
Dell City I S D	Frankston I S D	Hawley I S D	Kermit I S D
Denison I S D	Fredericksburg I S D	Hays Cons I S D	Kerrville I S D
Denton I S D	Freer I S D	Hearne I S D	Kilgore I S D
Denver City I S D	Frenship I S D	Hedley I S D	Killeen I S D
Detroit I S D	Friendswood I S D	Hemphill I S D	Kingsville I S D
Devers I S D	Friona I S D	Hempstead I S D	Kirbyville Cons I S D
Devine I S D	Frisco I S D	Henderson I S D	Klein I S D
Dew I S D	Frost I S D	Henrietta I S D	Klondike I S D
Deweyville I S D	Fruitvale I S D	Hereford I S D	Knippa I S D
Diboll I S D	Gainesville I S D	Hermleigh I S D	Knox City O Brien C I S D
Dickinson I S D	Galena Park I S D	Hico I S D	Kopper I S D
Dilley I S D	Galveston I S D	Hidalgo I S D	Kountze I S D
Dime Box I S D	Ganado I S D	Higgins I S D	Kress I S D
Dimmitt I S D	Garland I S D	High Island I S D	Krum I S D
Divide I S D	Garner I S D	Highland I S D	La Feria I S D
Dodd City I S D	Garrison I S D	Highland Park I S D, Amarillo	La Gloria I S D
Donna I S D	Gary I S D	Highland Park I S D, Dallas	La Grange I S D
Doss Cons C S D	Gatesville I S D	Hillsboro I S D	La Joya I S D
Douglass I S D	Gause I S D	Hitchcock I S D	La Marque I S D
Dripping Springs I S D	George West I S D	Holland I S D	La Porte I S D
Driscoll I S D	Georgetown I S D	Holliday I S D	La Poyner I S D
Dublin I S D	Gholson I S D	Hondo I S D	La Pryor I S D
Dumas I S D	Giddings I S D	Honey Grove I S D	La Vega I S D
Duncanville I S D	Gilmer I S D	Hooks I S D	La Vernia I S D
Eagle Mount Saginaw I S D	Gladewater Cty Line I S D	Houston I S D	La Villa I S D
Eagle Pass I S D	Glasscock County I S D	Howe I S D	Lackland I S D
Eanes I S D	Glen Rose I S D	Hubbard I S D, Hubbard	Lago Vista I S D
Early I S D	Godley I S D	Hubbard I S D, New Boston	Lake Dallas I S D
East Bernard I S D	Goldburg I S D	Huckabay I S D	Lake Travis I S D
East Central I S D	Goldthwaite I S D	Hudson I S D	Lake Worth I S D
East Chambers Cty C I S D	Goliad I S D	Huffman I S D	Lakeview I S D
Eastland I S D	Gonzales I S D	Hughes Springs I S D	Lamar Cons I S D
Ector I S D	Goodrich I S D	Hull Daisetta I S D	Lamesa I S D
Ector Cty I S D	Goose Creek I S D	Humble I S D	Lampasas I S D
Edcouch Elsa I S D	Gordon I S D	Hunt I S D	Lancaster I S D
Eden C I S D	Goree I S D	Huntington I S D	Laneville I S D
Edgewood I S D, Edgewood	Gorman I S D	Huntsville I S D	Laredo I S D
Edgewood I S D, San Antonio	Grady I S D	Hurst Euless I S D	Lasara I S D
Edinburg C I S D	Graford I S D	Hutto I S D	Latexo I S D
Edna I S D	Graham I S D	Idalou I S D	Lazbuddie I S D
El Campo I S D	Granbury I S D	Industrial I S D	Leakey I S D

Participating Employers

(continued)

Leander I S D
 Leary I S D
 Lefors I S D
 Leggett I S D
 Leon I S D
 Leonard I S D
 Levelland I S D
 Leveretts Chapel I S D
 Lewisville I S D
 Lexington I S D
 Liberty I S D
 Liberty Eylau I S D
 Liberty Hill I S D
 Lindale I S D
 Linden Kildare Cons I S D
 Lindsay I S D
 Lingleville I S D
 Lipan I S D
 Little Cypress Cons I S D
 Little Elm I S D
 Littlefield I S D
 Livingston I S D
 Llano I S D
 Lockhart I S D
 Lockney I S D
 Lohn I S D
 Lometa I S D
 London I S D
 Lone Oak I S D
 Longview I S D
 Loop I S D
 Loraine I S D
 Lorena I S D
 Lorenzo Cons I S D
 Los Fresnos Cons I S D
 Louise I S D
 Lovejoy I S D
 Lovelady I S D
 Lubbock I S D
 Lubbock Cooper I S D
 Lueders Avoca I S D
 Lufkin I S D
 Luling I S D
 Lumberton I S D
 Lyford Cons I S D
 Lytle I S D
 Mabank I S D
 Madisonville Cons I S D
 Magnolia I S D
 Malakoff I S D
 Malone I S D
 Malta I S D
 Manor I S D
 Mansfield I S D
 Marathon I S D
 Marble Falls I S D
 Marfa I S D
 Marietta I S D
 Marion I S D
 Marlin I S D
 Marshall I S D
 Mart I S D
 Martins Mill I S D
 Martinsville I S D
 Mason I S D
 Masonic Home I S D
 Matagorda I S D
 Mathis I S D
 Maud I S D
 May I S D
 Maypearl I S D
 Mc Allen I S D
 Mc Casey I S D
 Mc Dade I S D
 Mc Gregor I S D
 Mc Kinney I S D
 Mc Lean I S D
 Mc Leod I S D
 Mc Mullen County I S D
 Meadow I S D
 Medina I S D
 Medina Valley I S D
 Megargel I S D
 Melissa I S D
 Memphis I S D
 Menard I S D
 Mercedes I S D
 Meridian I S D
 Merkel I S D
 Mesquite I S D
 Mexia I S D
 Meyersville I S D
 Miami I S D
 Midland I S D
 Midlothian I S D
 Midway I S D, Henrietta
 Midway I S D, Waco
 Milano I S D
 Mildred I S D
 Miles I S D
 Milford I S D
 Miller Grove I S D
 Millsap I S D
 Mineola I S D
 Mineral Wells I S D
 Miranda City I S D
 Mission Cons I S D
 Monahans Wickett I S D
 Montague I S D
 Monte Alto I S D
 Montgomery I S D
 Moody I S D
 Moran I S D
 Morgan I S D
 Morgan Mill I S D
 Morton I S D
 Motley County I S D
 Moulton I S D
 Mount Calm I S D
 Mount Enterprise I S D
 Mount Pleasant I S D
 Mount Vernon I S D
 Muenster I S D
 Muleshoe I S D
 Mullin I S D
 Mumford I S D
 Munday I S D
 Murchison I S D
 Nacogdoches I S D
 Natalia I S D
 Navarro I S D
 Navasota I S D
 Nazareth I S D
 Neches I S D
 Nederland I S D
 Needville I S D
 New Boston I S D
 New Braunfels I S D
 New Caney I S D
 New Deal I S D
 New Diana I S D
 New Home I S D
 New Summerfield I S D
 New Waverly I S D
 Newcastle I S D
 Newton I S D
 Nixon Smiley C I S D
 Nocona I S D
 Nordheim I S D
 Normangee I S D
 North East I S D
 North Forest I S D
 North Hopkins I S D
 North Lamar I S D
 North Zulch I S D
 Northside I S D, San Antonio
 Northside I S D, Vernon
 Northwest I S D
 Novice I S D
 Nueces Canyon Cons I S D
 Nursery I S D
 O Donnell I S D
 Oakwood I S D
 Odem Edroy I S D
 Oglesby I S D
 Olfen I S D
 Olney I S D
 Olton I S D
 Onalaska I S D
 Orange Grove I S D
 Orangefield I S D
 Ore City I S D
 Overton I S D
 Paducah I S D
 Paint Creek I S D
 Paint Rock I S D
 Palacios I S D
 Palestine I S D
 Palmer I S D
 Palo Pinto I S D
 Pampa I S D
 Panhandle I S D
 Panther Creek Cons I S D
 Paradise I S D
 Paris I S D
 Pasadena I S D
 Patton Springs I S D
 Pawnee I S D
 Pearland I S D
 Pearsall I S D
 Peaster I S D
 Pecos Barstow Toyah I S D
 Penelope I S D
 Perrin Whitt Cons I S D
 Perryton I S D
 Petersburg I S D
 Petrolia I S D
 Pettus I S D
 Pewitt Cons I S D
 Pflugerville I S D
 Pharr San Juan Alamo
 Pilot Point I S D
 Pine Tree I S D
 Pittsburg I S D
 Plains I S D
 Plainview I S D
 Plano I S D
 Pleasant Grove I S D
 Pleasanton I S D
 Plemons Stinnett Phillips C I S D
 Point Isabel I S D
 Ponder I S D
 Poolville I S D
 Port Aransas I S D
 Port Arthur I S D
 Port Neches Groves I S D
 Post I S D
 Poteet I S D
 Poth Cons I S D
 Pottsboro I S D
 Prairie Lea I S D
 Prairie Valley I S D
 Prairiland I S D
 Premont I S D
 Presidio I S D
 Priddy I S D
 Princeton I S D
 Pringle Morse Cons I S D
 Progreso I S D
 Prosper I S D
 Quanah I S D
 Queen City I S D
 Quinlan I S D
 Quitman I S D
 Rains I S D
 Ralls I S D
 Ramirez Common S D
 Randolph Field I S D
 Ranger I S D
 Rankin I S D
 Raymondville I S D
 Reagan County I S D
 Red Lick I S D
 Red Oak I S D
 Redwater I S D
 Refugio I S D
 Ricardo I S D
 Rice I S D
 Rice Cons I S D
 Richards I S D
 Richardson I S D
 Richland Springs I S D
 Riesel I S D
 Rio Grande City C I S D
 Rio Hondo I S D
 Rio Vista I S D
 Rising Star I S D
 River Road I S D
 Riviera I S D
 Robert Lee I S D
 Robinson I S D
 Robstown I S D
 Roby C I S D
 Rochelle I S D
 Rochester I S D
 Rockdale I S D
 Rocksprings I S D
 Rockwall I S D
 Rogers I S D
 Roma I S D
 Roosevelt I S D
 Ropes I S D
 Roscoe I S D
 Rosebud Lott Cons I S D
 Rotan I S D
 Round Rock I S D
 Round Top Carmine I S D
 Roxton I S D
 Royal I S D
 Roysse City I S D
 Rule I S D
 Runge I S D
 Rusk I S D
 S & S Cons I S D
 Sabinal I S D
 Sabine I S D
 Sabine Pass I S D
 Saint Jo I S D
 Salado I S D
 Saltillo I S D
 Sam Rayburn Cons I S D
 Samnorwood I S D
 San Angelo I S D
 San Antonio I S D
 San Augustine I S D
 San Benito Cons I S D
 San Diego I S D
 San Elizario I S D
 San Felipe Del Rio I S D
 San Isidro I S D
 San Marcos Cons I S D
 San Perlita I S D
 San Saba I S D
 San Vicente I S D
 Sands Cons I S D
 Sanford I S D
 Sanger I S D
 Santa Anna I S D
 Santa Fe I S D
 Santa Gertrudis I S D
 Santa Maria I S D
 Santa Rosa I S D
 Santo I S D
 Savoy I S D
 Schertz Cibolo I S D
 Schleicher Cty I S D
 Schulenburg I S D
 Scurry Rosser I S D
 Seagraves I S D
 Sealy I S D
 Seguin I S D
 Seminole Public Schools
 Seymour I S D
 Shallowater I S D

Shamrock I S D
 Sharyland I S D
 Shelbyville I S D
 Sheldon I S D
 Shepherd I S D
 Sherman I S D
 Shiner I S D
 Sidney I S D
 Sierra Blanca I S D
 Silsbee I S D
 Silverton I S D
 Simms I S D
 Sinton I S D
 Sivells Bend I S D
 Skidmore Tynan I S D
 Slaton I S D
 Slidell I S D
 Slocum I S D
 Smithville I S D
 Smyer I S D
 Snook I S D
 Snyder I S D
 Socorro I S D
 Somerset I S D
 Somerville I S D
 Sonora I S D
 South San Antonio I S D
 South Texas I S D
 Southland I S D
 Southside I S D
 Southwest I S D
 Spade I S D
 Spearman I S D
 Splendora I S D
 Spring I S D
 Spring Branch I S D
 Spring Creek I S D
 Spring Hill I S D
 Springlake Earth I S D
 Springtown I S D
 Spur I S D
 Spurger I S D
 Stafford Muncpl Sch Dist
 Stamford I S D
 Stanton I S D
 Star I S D
 Stephenville I S D
 Sterling City I S D
 Stockdale I S D
 Stratford I S D
 Strawn I S D
 Sudan I S D
 Sulphur Bluff I S D
 Sulphur Springs I S D
 Sundown I S D
 Sunnyvale I S D
 Sunray I S D
 Sweeny I S D
 Sweet Home I S D
 Sweetwater I S D
 Taft I S D
 Tahoka I S D
 Talco Bogata Cons I S D
 Tarkington I S D
 Tatum I S D
 Taylor I S D
 Teague I S D
 Temple I S D
 Tenaha I S D
 Terlingua C S D
 Terrell I S D
 Terrell County I S D
 Texarkana I S D
 Texas City I S D
 Texhoma I S D
 Texline I S D
 Thorndale I S D
 Thrall I S D
 Three Rivers I S D
 Three Way I S D, Maple
 Three Way I S D, Stephenville

Throckmorton I S D
 Tidehaven I S D
 Timpson I S D
 Tioga I S D
 Tolar I S D
 Tom Bean I S D
 Tomball I S D
 Tornillo I S D
 Trent I S D
 Trenton I S D
 Trinidad I S D
 Trinity I S D
 Troup I S D
 Troy I S D
 Tulia I S D
 Tuloşo Midway I S D
 Turkey Quitaque C I S D
 Tyler I S D
 Union Grove I S D
 Union Hill I S D
 United I S D
 Utopia I S D
 Uvalde Cons I S D
 Valentine I S D
 Valley Mills I S D
 Valley View I S D, Pharr
 Valley View I S D, Valley View
 Van I S D
 Van Alstyne I S D
 Van Vleck I S D
 Vega I S D
 Venus I S D
 Veribest I S D
 Vernon Cons I S D
 Victoria I S D
 Vidor I S D
 Vysehrad I S D
 Waco I S D
 Waelder I S D
 Walcott I S D
 Wall I S D
 Waller I S D
 Walnut Bend I S D
 Walnut Springs I S D
 Warren I S D
 Waskom I S D
 Water Valley I S D
 Waxahachie I S D
 Weatherford I S D
 Webb C I S D
 Weimar I S D
 Wellington I S D
 Wellman-Union I S D
 Wells I S D
 Weslaco I S D
 West I S D
 West Hardin Cty C I S D
 West Orange Cove C I S D
 West Oso I S D
 West Rusk Cty Cons I S D
 West Sabine I S D
 Westbrook I S D
 Westhoff I S D
 Westphalia I S D
 Westwood I S D
 Wharton I S D
 Wheeler I S D
 White Deer I S D
 White Oak I S D
 White Settlement I S D
 Whiteface I S D
 Whitehouse I S D
 Whitesboro I S D
 Whitewright I S D
 Whitharral I S D
 Whitney I S D
 Wichita Falls I S D
 Wildorado I S D
 Willis I S D
 Wills Point I S D
 Wilmer Hutchins I S D

Wilson I S D
 Wimberley I S D
 Windham I S D
 Windthorst I S D
 Winfield I S D
 Wink Loving Cons I S D
 Winnsboro I S D
 Winona I S D
 Winters I S D
 Woden I S D
 Wolfe City I S D
 Woodsboro I S D
 Woodson I S D
 Woodville I S D
 Wortham I S D
 Wylie I S D, Abilene
 Wylie I S D, Wylie
 Yantis I S D
 Yoakum I S D
 Yorktown I S D
 Ysleta I S D
 Zapata I S D
 Zavalla I S D
 Zephyr I S D

Bowie County Sch Dist
 Co Op for Special Svcs
 Dallas County School Dist
 Harris Cty Dept Education
 Houston Trinity Cty Co Op
 Johnson Cty Spc Ed Co-Op
 Palacios Fd Mnpwr Pgm
 Parker County Co Op
 Small School Coop

Other Entities

Teacher Retirement System
 Texas Food & Fibers Comm

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
 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

Academy of Trans Studies
 American Inst of Learning
 Bldg Alternatives Charter
 Blessed Sacrament Acad
 Cypress Lodge Charter
 Dallas Can! Academy
 George I Sanchez Charter
 Girls & Boys Prep Acad
 Medical Center Charter
 One Stop Multiservice
 Pegasus Charter School
 Raul Yzaguirre School
 Renaissance Charter
 Seashore Learning Ctr
 Ser-Ninos
 The North Hills School
 Tx Academy of Excellence
 U of H Charter Sch Tech
 Waco Charter School
 West Houston Charter

Other Educational Districts

Anderson Cty Spc Ed Co Op
 Austin Cty Ed Co Op

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