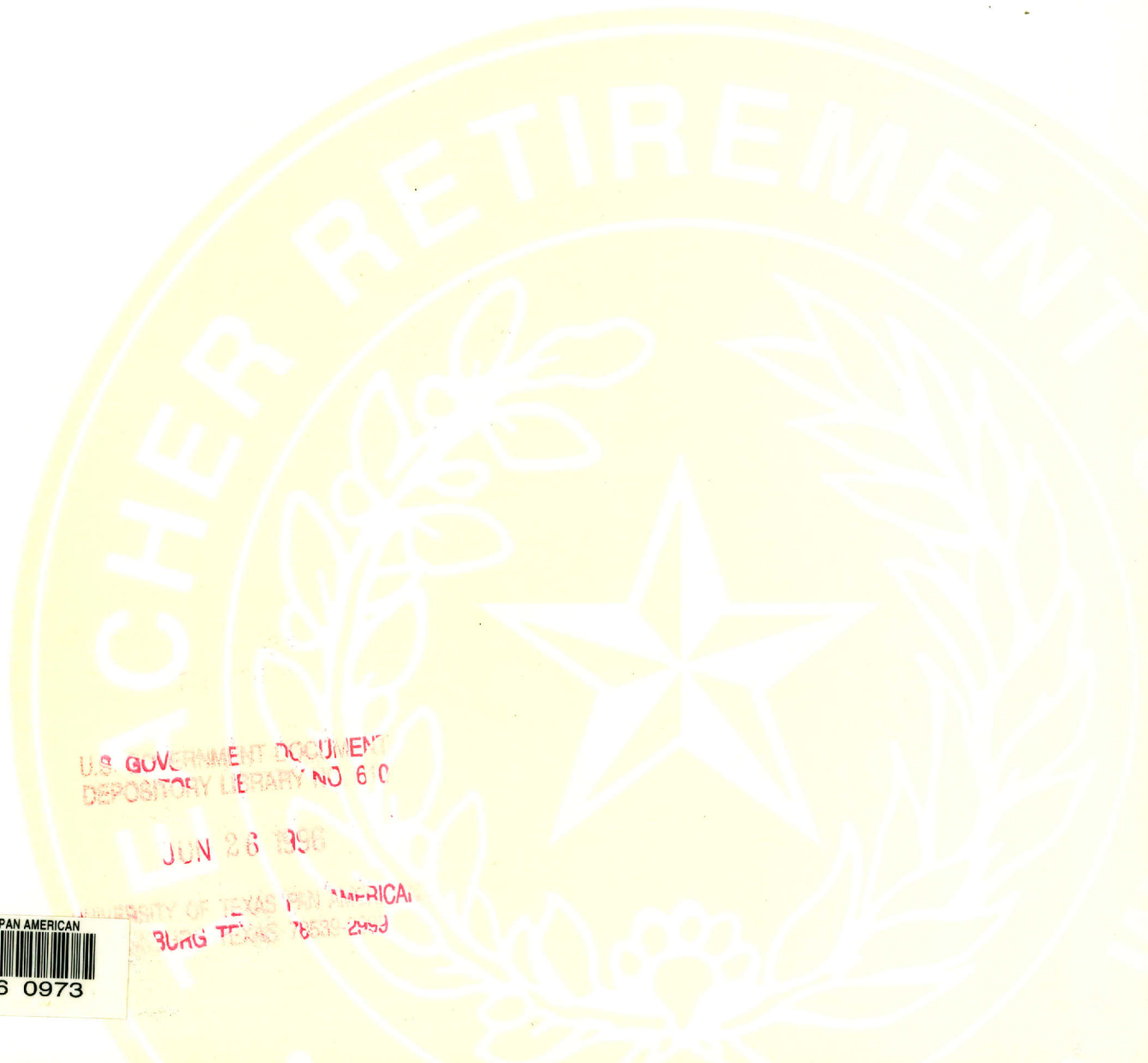


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COMPREHENSIVE ANNUAL FINANCIAL REPORT

A COMPONENT UNIT OF THE STATE OF TEXAS

TEACHER RETIREMENT SYSTEM OF TEXAS
Fiscal Year Ended August 31, 1995



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TRS Mission Statement

The mission of the
Teacher Retirement System of Texas
is to deliver retirement and related
benefits authorized by law for
members and their beneficiaries
through prudent investment and
management of assets held in trust for
them in an actuarially sound system
administered in accordance with
applicable fiduciary principles.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A COMPONENT UNIT OF THE STATE OF TEXAS

TEACHER RETIREMENT SYSTEM OF TEXAS
Fiscal Year Ended August 31, 1995

Charles L. Dunlap, *Executive Director*

Prepared by
Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698
(512) 397-6400
1-800-223-8778



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INTRODUCTORY

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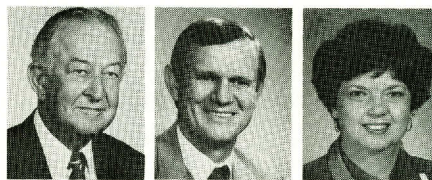
BOARD OF TRUSTEES



Front row from left: Charles L. Dunlap, *Executive Director*, Ronald G. Steinhart, *Chairman*, Lee Williamson, *Vice Chairman*. Second row: Lisa Trevino Cummins, Kneeland Youngblood. Back row: James H. (Jim) Simms, Wendell Whittenburg, Charlsetta Finley, Kathryn Stream, Frank W. (Bo) Camp.

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, Camp, and Cummins) are direct appointments of the governor. Two trustees (Steinhart and Simms) are appointed by the governor from a list prepared by the State Board of Education. Two trustees (Finley 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 candidates 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.



Williams Crowson McGarvey

Concluding board service on August 31, 1995, were Dana Williams, Corpus Christi; George Crowson, Lovelady; and Sue McGarvey, Hallsville. Williams joined the board in 1988 and served as chairman since 1993. Crowson was appointed in 1983 and was vice chairman beginning in 1994. McGarvey represented active public school employees from 1990-95.

Ronald G. Steinhart, 1997
Chairman
Chairman and CEO, Bank One,
Texas, N.A., Dallas

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

Frank W. (Bo) Camp, 1997
Businessman, Kilgore

Lisa Trevino Cummins, 2001
Vice President of Community
Investment, NationsBank,
San Antonio

Charlsetta Finley, 1997
Teacher, El Paso

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

Kathryn Stream, Ph.D., 1999
Executive Director, Texas Woman's
University, Health Science Institute,
Houston

Wendell Whittenburg, 2001
Teacher, Sweetwater

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

Terms expire August 31

CERTIFICATE OF ACHIEVEMENT

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Teacher Retirement System
of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 1994

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



President

Executive Director

LETTER OF TRANSMITTAL**Teacher Retirement System
of Texas**

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

February 20, 1996

The Honorable George W. Bush
Members of the Teacher Retirement System

Dear Governor Bush and Members:

On behalf of the Board of Trustees, I am pleased to present this Comprehensive Annual Financial Report of the Teacher Retirement System of Texas (TRS) for the fiscal year ended August 31, 1995, the system's 58th year of operation. This report is intended to provide a complete and accurate review of the year's operations and is the responsibility of the TRS management. Included in this report is the audit opinion of the State Auditor's Office and the actuarial opinion and summary information of the actuarial valuation. The year was marked by strong fund performance, membership growth, an historically high annuity increase authorized by the legislature, actuarial soundness, and an internal focus on long-range initiatives intended to improve efficiency and member service.

The 74th Texas Legislature approved the largest payment increase for annuitants ever enacted in Texas. This annuity improvement provided increases for more than 119,000 retired members at an actuarial cost of \$1.6 billion. This is the twentieth time that Texas legislatures have provided pay increases for retirees since inception of the fund, reflecting the value that Texans and their elected officials attach to those who devote their careers to the educational process.

Fund absorption of the legislative pay raise resulted in an increase in the fund's unfunded actuarial accrued liability which is reflected in the years required to amortize such liability. Nevertheless, the fund remains on solid actuarial footing after accounting for the increase. Actuarial performance was aided significantly by investment gains made during the year.

The system and fund benefited from strong financial markets that provided excellent returns and growth. This, coupled with the investment portfolio's positioning to capitalize on available returns, is particularly

noteworthy in view of the continued strong actuarial standing of the fund after giving effect to the annuity increase. During the past five years, the investment portfolio's market value has increased 14 percent compounded annually, resulting in a 92.5 percent growth in assets at market value to \$46.0 billion for the period ending September 30, 1995. For the 12 months ending September 30, 1995, returns were more than 22 percent, well in excess of long-term actuarial expectations.

Total revenues, exclusive of net realized gains on securities, were up 7.6 percent to \$4.1 billion. Unrealized gains — the market value of the investment portfolio in excess of cost or book value — at year end were more than \$8.6 billion.

Structure of the Report

This report is divided into five sections:

- The **Introductory Section** describes the system's management, highlights the year's activities, and summarizes benefits.
- The **Financial Section** contains the opinion of the State Auditor and financial statements of the fund.
- The **Actuarial Section** contains Watson Wyatt Worldwide's opinion and actuarial valuation for the fiscal year ended August 31, 1995.
- The **Investment Section** includes a summary of investments and performance information.
- The **Statistical Section** presents the 10-year growth of the system and other significant statistical data.

Reporting Entity

The Teacher Retirement System of Texas was established by amendment to the Texas Constitution in

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1936 and enactment of statutes in 1937 to provide a retirement program for persons employed in public education 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 all employees of public education, and, in 1985, the administration of a health insurance program for public school retirees was added.

At August 31, 1995, there were 1,181 reporting districts, active membership in TRS totaled 631,153, and a total of 138,034 annuitants were receiving monthly benefits.

In addition to the Pension Trust Fund, the Texas Public School Retired Employees Group Insurance Program is administered by TRS and is included in this report. This program is known as TRS-Care and is accounted for as an Expendable Trust Fund. For reporting purposes, TRS is considered a component unit of the state of Texas.

Economic Conditions and Outlook

Economic developments during the past year favorably impacted public markets much more than many anticipated going into the year. Concerns regarding potential for rising interest rates, high stock market valuations and low dividend yields, control of budgetary deficits, and the like regularly appeared in business headlines. What was experienced, however, was a combination of economic circumstances that were among the most favorable in post-World War II periods. Falling interest rates and strengthened corporate earnings generated robust stock and bond markets. Inflation remained in check and there was greater confidence that a period of economic slowdown could be negotiated without experiencing a recession. These circumstances not only benefited the economy and investors during the past year, but there is also ample reason to conclude that they will continue in reasonable measure into the next year and beyond.

At the consumer level, a buying spree was experienced that may have been stimulated in part by purchase deferrals from past years. Consumers not only spent from current resources, but expanded buying power by increasing their debt load to an extent that debt levels may portend an extended future period of reduced spending patterns.

Concurrently, the segment of the population moving up in adult age where focus is increasingly directed on savings, financial security, and retirement, amassed

historically high levels of investment and liquidity. Such savings were primarily invested through intermediaries like mutual funds. The influence of mutual funds on money and capital markets is unprecedented. Their desire to stay fully invested positively impacted share values during the year. Attention will continue to be focused on the rate of change in mutual fund inflows and the movement within fund categories during 1996 and 1997 as a barometer of money and capital market future performance.

Falling bond rates also created substantial investment gain opportunities. During the last of 1994, the Federal Reserve tightened monetary policy moderately in an effort to guide the U.S. economy to a "soft landing." As the economy softened during 1995, rates moderated. Currently, both short and long rates are at significantly lower levels than have been experienced for some time, and expectations of higher rates have generally been curbed. This environment favors investors' continuing consideration of publicly traded stocks as an alternative to fixed income securities.

International markets did not fare as well in the past year as did the U.S. market. Slowed economies, productivity issues, foreign exchange risks, credit problems in Japan, and the Mexican peso devaluation all contributed to a "watch" orientation from investors' viewpoints. Some of these issues may be easing during the next two years providing further investment opportunity for those wishing to extend their investment allocation to this asset class.

Past inflationary patterns, interest rate volatility, and a lack of a clear commitment to eliminate budgetary deficits at the national level are fundamental areas of concern that have been established in many Americans' minds. These concerns are not easily overcome. There is broad expectation now that interest rates and inflation can be held within acceptable ranges for the foreseeable future. Corporate balance sheets, productivity, and profits are quite strong providing good opportunity not only on a domestic basis but for international trade as well. These factors offer a promising economic mosaic for Americans and elected leaders to move forward prudently in efforts to balance the national budget and make significant progress in reducing the national debt.

Major Initiatives

The Teacher Retirement System continued to implement existing projects and undertook others during the year. These efforts are focused on developing a better understanding of members and their needs,

LETTER OF TRANSMITTAL

improvements in benefit processing, and strengthened governance of the system.

- TRS 2000, a program initiated in 1993, focuses on major restructuring in the way that administrative processing occurs. Technology-based processing of incoming documents was implemented to truncate paper handling redundancies, speed availability of data to multiple users within TRS, and ultimately permit more efficient use of facilities. Electronic document imaging, introduced in November 1994, has resulted in an 87 percent reduction in the use of microfiche storage. Associated personnel resources were also reduced. Electronic imaging eliminated the need to hand-deliver 5,000 pieces of mail throughout TRS offices daily. Instead, this mail is now routed electronically, significantly reducing time and personnel resources necessary for mail handling and distribution. This increased efficiency is contributing to service improvements in several areas of the system.

- A major effort to improve efficiency in receiving and processing member information from 1,181 school districts that report data to TRS, the Texas Education Agency, and others, is currently underway. We expect this to result in meaningful service improvement opportunities for TRS and more efficient transmission of data at the district level.

- With more than 760,000 active and retired members, the system has a heavy burden of telephone processing that is currently handled by information specialist staff. During a routine day, more than 1,200 calls are received and processed. When loads are high, our response time is not satisfactory causing unnecessary delay in receiving and answering questions or meeting needs. Many of the inquiries require personal handling. Many, however, are data inquiries only that could be handled by an interactive voice response (IVR) system. We view this as an opportunity to install such a system in a manner that preserves access to personal handling where needed, but offers quicker, less expensive access to some types of information that can be profiled on an IVR system. It is anticipated that this system will be installed during 1996.

- Following a review of investment portfolio management and accounting systems, TRS staff selected new software which will provide comprehensive trading, portfolio management, and securities and real estate accounting capabilities. The system's open architecture facilitates the development and support of electronic interfaces, and provides data efficiency and effectiveness in support of the investment function. The system will be installed in 1996.

Member, Benefit, and Service Highlights

Active member growth continued during fiscal year 1995 increasing 4.3 percent from 605,028 to 631,153. The distribution between active and retired members continues to gradually move in a direction of an increasing proportion of retirees. This has been a matter of some study, particularly on an actuarial basis with respect to present and future capacity of the pension fund to absorb current and expected annuity costs. Although the trend towards an increasing population of retirees is expected to continue, the fund's current positioning is expected to satisfactorily support present and future annuitant requirements. This projection is based on assumptions incorporated into the analysis which include a continuation of present funding rates from members, districts, and the state.

During the year, more than 9,000 members elected retirement bringing annuitants to approximately 138,000. Associated annuity distributions rose 7.9 percent to \$1.7 billion. This growing population of retirees has also increased usage of TRS-Care health insurance offerings. A provision of legislation from the past session requires that, during fiscal 1996, the Teacher Retirement System develop a similar program for active members employed by school districts which elect to participate in the program.

The system communicates with members in a number of ways. One of the most popular, and also most personal, is through regional retirement counseling by trained TRS counselors. These counseling sessions take place at Texas Education Agency service centers and other locations annually, and in some cases more than once a year. These sessions cover areas of particular interest to members contemplating retirement, and are also supported by pre-downloaded personal computer data specific to potential attendees at such meetings. In addition, large group presentations are available for those wanting general information on TRS retirement and benefit issues.

Some years ago, TRS determined that a decentralized approach to staffing and counseling residing in districts did not provide efficiency, control, and data accuracy desirable to this effort. TRS began to handle these sessions by field trips from our offices in Austin. Member feedback continues to be very positive on these efforts and counselors can accelerate processing of member inputs on their return to Austin. During fiscal 1995, 32 counseling trips were conducted throughout the state with more than 4,200 members participating in individual conferences. Approximately 5,000 additional members were counseled in our Aus-

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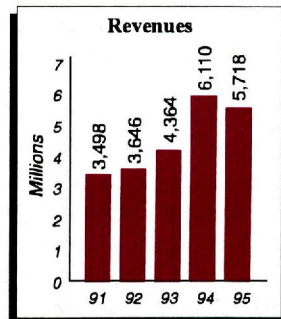
tin offices, and more than 12,000 attended 150 group presentations throughout the state.

TRS staff continues to focus on ways to improve member service within an efficient cost structure. A reconfiguration of benefit processing, begun in 1993, is beginning to reflect the impact of this effort. Incoming member service requests are now handled by processing teams that deal with the full range of services offered through TRS. Backlog levels previously experienced have been sharply reduced and we are evaluating standards of performance to serve as guidelines for work flow. Implementation of this change has impacted a significant number of TRS employees — their resolve to deliver timely service and accept and implement change is commendable. During the year, approximately 50,000 retirements, refunds, and beneficiary claims were processed.

Financial Highlights

TRS management's responsibility to implement trustee policies and comply with laws, rules, and regulations governing administration of the fund includes establishing and maintaining an effective internal control system. The goal of these processes is to provide reasonable assurance that assets are safeguarded and properly accounted for on a timely basis in conformity with generally accepted accounting standards. As part of a commitment to risk management, the system utilizes the services of an internal audit staff, independent of the system's operations, which reports to the Board of Trustees through its Audit Committee. The system's administrative operating expenses are controlled by an annual budget as approved by the Board of Trustees. The trust fund is constitutionally created and dedicated to the exclusive benefit of TRS members and annuitants. Funds may not be diverted for other purposes.

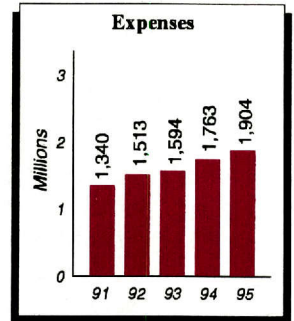
Revenues during fiscal 1995 exceeded expenses by \$3.8 billion, again illustrating the financial strength of the fund. This capacity is further highlighted recognizing that the \$8.6 billion in unrealized gains remained in the investment portfolio at fiscal year end.



System revenues consist of member contributions, school district payments, state contributions, interest and dividend income, and investment gains. The strength in financial markets previously noted has

provided many opportunities to take investment gains with substantial unrealized gains remaining in the portfolio.

Expenses are substantially all associated with meeting benefit distribution requirements. Fiscal 1995 distributions were up 8.0 percent to \$1.9 billion from 1994 primarily as a result of an increased population of retirees. Administrative expenses were contained at a level equivalent to those of the previous fiscal year.



Effective September 1, 1995, the pension fund contribution rate by members and the state totals 12.4 percent. Members contribute 6.4 percent of their salaries and the state contributes 6.0 percent. The TRS actuary has determined that this level of contribution funds the system on an actuarially sound basis. Furthermore, actuarial analysis indicates not only a current acceptable actuarial standing but an anticipation that the fund will be actuarially sufficient in the future given current contribution rates, a compounded investment return of eight percent, and other assumptions used in the analysis.

A 1985 statute prohibits benefit improvements or contribution reductions if implementation of such actions would cause the time required to amortize the associated unfunded actuarial accrued liability (UAAL) to increase to 31 years or more.

At fiscal year end, the fund remained in sound actuarial condition. The actuarially calculated present value of benefit obligations was \$65.3 billion. Of this amount, \$63.3 billion is funded by the actuarial value of present investments and future contributions, leaving an UAAL of \$2.0 billion. Amortization of the UAAL would require 14 years under current actuarial assumptions including covered payroll growth of 4.25 percent. During the past 10 years, these relative measures of fund sufficiency have improved steadily. For fiscal 1995, both UAAL and the years to amortize UAAL increased, primarily as a result of recognition of the annuity increase approved by the 74th Legislature. This was partially offset by better than actuarially expected investment performance.

Health insurance for retired members is provided through the Texas Public School Employees Group Insurance Program, an expendable trust known as

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TRS-Care. Revenues for fiscal 1995 were \$196 million. These are derived from member contributions during their active working years, state contributions, insurance premiums paid by retirees utilizing the program's services, and investment income on periodic fund balances. Expenditures during the year totaling \$185 million were for \$172.8 million in insurance claims, insurance retention to the carrier of \$11.4 million, and administrative costs of \$0.8 million. As a result, the fund increased during the year by \$11 million.

TRS-Care was created in 1985 and was first offered as a new service for retirees. At that time, it was anticipated that funding would be fully expended by 1995, requiring a new commitment to reestablish a financial basis for continuation of participation and benefits. Financial performance of the fund has resulted in a lengthening of its expected life when the fund was created in 1985. At this time, current actuarial analysis indicates that funds will be exhausted during fiscal 1999. Continuation of benefits beyond this period will require increases in funding.

Investments

Oversight for investment activities is provided by the Board of Trustees' Investment Committee and the board itself. The committee is comprised of all trustees. Appropriate policies to govern investment management are developed and approved by the board for internal management use. In turn, management develops administrative guidelines to assist staff in implementation of and compliance with policies. Investment accounting is strictly separated from portfolio managers and all matters pertaining to investment execution are the subject of thorough and continuing internal and external audits.

To provide additional objectivity and access to independent opinion, the board secures the services of nationally recognized investment counsel, investment advisors, and an outside source of calculation and verification of investment performance and returns. These measures and procedures are coordinated in a manner to ensure appropriate oversight, control, and accounting for investment activities without jeopardizing the reasonable needs of portfolio managers to achieve performance objectives.

In general, the board maintains a fully diversified investment portfolio consisting of short-term instruments, domestic and international fixed income, domestic and international equity, real estate, and alternative assets. The objective of maintaining a diversified portfolio is to protect the fund from risks that a

particular asset class may experience in a given period. This diversification strategy is maintained as a long-term goal to manage investment risk.

Investment performance indices are generally calculated on calendar quarters; therefore, for performance comparisons, the time-weighted returns are calculated for the September quarter ending closest to the fiscal year end. The market value of the investment portfolio as of September 30, 1995, was \$46 billion. For the previous five and ten-year periods, the time-weighted total annual return was 13.8 and 13.3 percent, respectively, including unrealized appreciation in market value. Investment income and realized investment gains provided 65.4 percent of TRS revenues in fiscal 1995. More detailed statistics are presented in the Investment Section of this report.

Entering the 1990s, investment professionals, including staff, anticipated that the investment climate would be more challenging than the 1980s. Though correct, investment opportunities and performance have been more rewarding than was expected. For the 5¾ years ending September 30, 1995, the equity market, as measured by the Standard & Poors 500 Index, provided an annualized return of 12.4 percent. Though far below returns of the 1980s, the 1990s have thus far been very rewarding. During the same period, the fund's core equity portfolio also experienced a return of 12.4 percent.

The remaining four years of this decade could change the picture considerably. Equity valuations remain relatively high and this always causes some concern. The economic and investment environment, however, has taken on a more positive tone, primarily due to continuing modest inflation, moderate and sustained economic growth, and renewed focus on reducing the federal deficit. The return on the total fund was 22.4 percent for the 12 months ending September 30, 1995. Both equities and fixed income securities contributed significantly to the return. Real estate returns continue to improve.

We are pleased with the fund's performance and with our ability to manage to this level of performance with in-house staff. While open to the array of management possibilities, it is noteworthy that internal management with use of a prudent mix of asset classes and control mechanisms has achieved outstanding results without incurring the substantial costs associated with engagement of outside managers. We continue to devote substantial effort to improve management effectiveness. During the past year:

LETTER OF TRANSMITTAL

- Portfolio management was strengthened by the addition of an international equity portfolio manager, international equity analyst, and an equity trader.

- Quantitative software was acquired to further strengthen the ability to manage the equity portfolio in a structured manner. The availability of this resource has facilitated expansion of the authorized universe of prospective investments in the equity portfolios so that increased diversification is achieved and managed in a disciplined style.

- New portfolio accounting software was selected and will be installed during 1996. It is expected to provide numerous benefits including more efficient processing of an increasing number of fixed income and equity transactions, improved ease of handling international transactions, and improved real estate accounting through the commercial mortgage module.

New software has been acquired to increase internal loan servicing capability. Installation of the software will be completed early 1996.

- Additional real estate software has been acquired to assist in tracking performance of owned properties and to aid in the valuation process.

Real Estate

The TRS real estate portfolio has continued to improve. For the 12 months ending June 30, 1995, the portfolio returned 12.6 percent. In the 12 years since its inception, the portfolio has returned 8.4 percent per year on a time-weighted total return basis.

Substantial progress in property dispositions has been made with the sale of seven owned properties to date. These transactions generated net proceeds of more than \$224 million through December 31, 1995, including performing notes taken as partial consideration of \$44.2 million. Several other properties are currently being marketed.

To reduce costs and further improve performance, our staff has assumed management responsibility for some owned properties. Staff capabilities have grown through the addition of personnel and through experience gained by active participation in the management process. While we expect to assume ownership of additional properties, we anticipate continued success in our disposition efforts aided by improving real estate markets.

Risk management has also been strengthened through the addition of a loan administration manager. This staffing addition has been taken to support a more stringent monitoring process.

In general, the real estate investment environment continues to improve. To the extent that continued improvement is reflected in strengthened occupancy and net operating incomes, the TRS portfolio will be favorably affected. We feel confident that these improvements will be reflected in continued progress in the TRS portfolio.

Awards

The Teacher Retirement System of Texas continues to be favorably recognized by the Government Finance Officers Association of the United States and Canada (GFOA) through the award of a Certificate of Achievement for Excellence in Financial Reporting for the Component Unit Financial Report (CUFR) for the fiscal year ended August 31, 1994. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such CUFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. TRS has received a Certificate of Achievement for the last five consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and it will be submitted for GFOA consideration.

Acknowledgments

The results achieved during the past year reflect the combined contributions of many. Members and annuitants regularly offer feedback that serves as both a report card on service and a source of suggestions for ways that their accounts can be more effectively serviced. It is a pleasure to serve them and we benefit by their many contributions.

Our trustees serve as a constant source of counsel and experience that we draw on heavily. Their willingness to serve in this capacity and to unselfishly respond to

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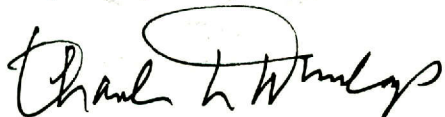
the significant time requirements associated with board service are greatly appreciated. They serve TRS members and the State of Texas with distinction.

At year end, a number of changes occurred among trustees and in the selection of a new executive director of the system. On behalf of trustees and staff, I would like to acknowledge the many years of service of trustees Dr. Dana Williams, 1988-95, who also served as chairman from 1993-95; Mr. George Crowson, 1983-95, and vice chairman from 1994-95; Mr. A. W. (Dub) Riter, Jr., 1990-94, and vice chairman from 1991-94; and Mrs. Sue McGarvey, 1990-95. Their years of service to TRS are deeply appreciated.

Mr. Ronald G. Steinhart was reappointed as trustee and appointed as the new chairman of the board. Joining the board are Mr. Jim Simms, Amarillo; Mrs. Lisa Trevino Cummins, San Antonio; and Mr. Wendell Whittenburg, Sweetwater. They, along with our other trustees, comprise a board of geographic and experience diversity that serves member interests in a manner that brings credit to TRS.

Following the retirement of Dr. Wayne Blevins in March 1995, trustees selected me as the new executive director in October 1995. I join the system with a strong dedication to serve members in a manner of high standards and care, to serve trustees and staff as they are entitled, and to serve the state in a manner that brings credit to the role of the system among agencies. Staff experience, commitment, and dedication are our top resources, and, with their support and guided by the leadership of the board of trustees, we will continue TRS's strong record of service and achievement.

Respectfully submitted,



Charles L. Dunlap
Executive Director

1995 CHANGES IN TRS LAW

Significant changes in TRS law by the 74th Texas Legislature are as follows:

Retirement Eligibility

Eligibility for unreduced retirement with 30 years of service was lowered from age 55 to age 50.

Minimum Annuity

For a classroom teacher or full-time librarian retiring after August 31, 1995, the minimum annuity will be computed by multiplying the minimum annual salary established by the Education Code times two percent for each year of credited service.

Retirement Plans

A new service/disability option was established whereby the retiree may select a reduced annuity with the designated beneficiary to receive 75 percent of the reduced annuity upon the retiree's death.

The "pop-up" feature was extended to retirees who retired before the pop-up provision became law.

A retiree receiving a standard service annuity and who marries after retirement was allowed during a one-year period from the date of marriage or until August 31, 1996, whichever is later, to replace the annuity by selecting an Option 1, 2 or 5 and designate the person's spouse as beneficiary. The effective date of such a beneficiary change is deferred until two years after the change is made.

Disability and Death Benefits

The monthly disability payment was increased from \$50 to \$150 for a member having fewer than 10 years of service credit. Applied prospectively to persons already receiving a \$50 disability payment and applied to disability retirements having 10 or more years of service.

The lump sum benefit death payment for active members was increased from the lesser of two times the annual salary or \$60,000 to the lesser of two times the annual salary or \$80,000.

TRS will make an annuity payment for the month in which the annuitant dies. A continuation of an optional annuity or the payment of a death benefit begins with payment for the month following the month in which the annuitant's death occurred.

The effective date of death of a member who dies before retirement was, for the purpose of paying a death or survivor benefit annuity, designated as the

last day of the month preceding the month in which the member died. The first payment of the annuity becomes due at the end of the month in which the member's death occurred.

Employment After Retirement

The limit for employment in a Texas public school after service retirement was changed from 120 substitute service days to an unlimited number of days at no more than the daily substitute pay rate established by the employer.

Retirement Date

A member's service or disability date was designated as any month within a three-month period with the month the application is filed being the third month.

Service Credit

Special service will be evaluated for credit on a September 1-August 31 school year.

Special service may be purchased with a direct rollover of an eligible rollover distribution from another qualified plan.

The number of years of actual service in Texas public school required to qualify for TRS-Care coverage was reduced from 10 to five for a member who purchases out-of-state credit to equal a total of 10 years.

Employers were required to certify to TRS the beginning date of an oral or written work agreement that begins after June 30 and continues after August 31 of the same calendar year. Employees so certified will have a school year for TRS purposes that begins with that date.

TRS will not correct a member's service credits if such credits have been reflected on the member's annual statement for five or more years except where fraud or three or more years of credit are involved.

TRS/ERS Joint Service Law

A member is prohibited from applying for an occupational disability under ERS to include service transferred from TRS unless the member was contributing at the time the disabling condition occurred.

A beneficiary of a deceased member with TRS and Employees Retirement System (ERS) service is eligible to combine the service under one system only if the person was the designated beneficiary under both retirement systems. A beneficiary is eligible to receive a benefit based on transferred service from either TRS

1995 CHANGES IN TRS LAW

or ERS without precluding the person from receiving benefits as a beneficiary of an account not related to the transferred service.

The TRS service of a person whose membership was transferred to ERS remains with TRS, unless withdrawn, if the person terminates ERS-covered employment before death or retirement.

Persons receiving an annuity because of a retirement or death that occurred after June 30, 1993, but before August 31, 1993, may reinstate, purchase, or transfer service credit between TRS and ERS.

Annual Compensation

For the purpose of establishing annual compensation, excluded from salary and wages are payments received for teaching a driver education and traffic safety course.

TRS-Care

TRS-Care was expanded to include public school employees of districts which elect to participate beginning with the 1996-97 school year.

TRS Governance and Administration

The purpose of TRS was defined: To invest and protect TRS funds and to deliver benefits provided by statute, not to advocate or influence legislative action or inaction or to advocate for higher benefits.

The TRS Board of Trustees was restructured with the governor appointing five members, two of which are chosen from nominees submitted by the State Board of Education (SBOE). Appointments must be persons with demonstrated financial expertise, preferably in investment of pension funds. The terms of two direct SBOE appointments expired August 31, 1995. The governor is to appoint the presiding officer of the board who serves in that capacity at the pleasure of the governor.

TRS's operating expenses were placed under the state appropriation process.

The annual \$10 membership fee was repealed.

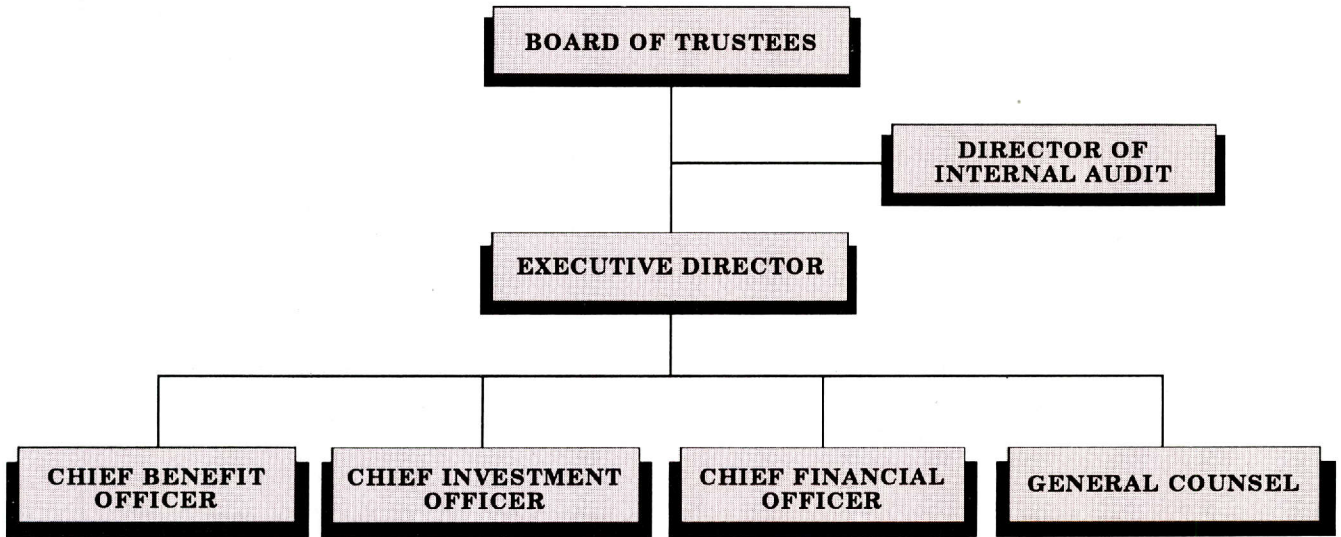
TRS is to acquire and maintain records identifying members and types of positions they have held as members, the length of service in each type of position and whether service in each type of position is or was as a full-time employee.

TRS was authorized to use electronic storage for all records.

Contribution rates

The Appropriations Act set the state contribution rate at 6 percent for the 1996 and 1997 fiscal years. The member contribution rate of 6.4 percent was retained.

ORGANIZATION CHART



EXECUTIVE DIRECTOR

Charles L. Dunlap

CHIEF BENEFIT OFFICER

Norma E. Koontz

CHIEF INVESTMENT OFFICER

John E. Young

CHIEF FINANCIAL OFFICER

Wayne Fickel, *Acting*

GENERAL COUNSEL

William H. Baker

DIRECTOR OF INTERNAL AUDIT

Linda W. Henry

STAFF & ADVISORS

ADMINISTRATIVE STAFF

Charles L. Dunlap, *Executive Director*
John R. Mercer, *Deputy General Counsel and Interim
Executive Director, March-October, 1995*
Mary Godzik, *Executive Assistant*
Norma E. Koontz, *Chief Benefit Officer*
Wayne Fickel, *Controller and Acting Chief
Financial Officer*
John E. Young, *Chief Investment Officer*
William H. Baker, *General Counsel*
John Bird, *Director, Staff Services*
Stanford Blake, *Director, Group Insurance*
Linda W. Henry, *Director, Internal Audit*
Amy Morgan, *Director, Management Information
Systems*

INVESTMENT COUNSEL

Wellington Management Company, Boston

CONSULTING ACTUARY

Watson Wyatt Worldwide, Dallas

INVESTMENT ADVISORS

John W. Peavy, III, Dallas
Craig Hester, Austin

REAL ESTATE CONSULTANTS

Charles A. Klepfer, Plano
Richard LaSance, Rockwall
Harry Seidman, Austin

FIDUCIARY COUNSEL

Cox & Smith, San Antonio

MEDICAL BOARD

Dr. Homer R. Goehrs, Austin
Dr. Donald E. Pohl, Austin
Dr. Larry Wilson, Austin

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

Frank Medina, *Chairman, San Antonio*
Russell E. Sayers, *Vice Chairman, Austin*
Charlotte Gewin, Beaumont
Janella W. Gutierrez, Corpus Christi
Sarah Jarrell, Alief
Dinah Orum, Nacogdoches
Beverly Tabor, Mesquite
Nelda Van Dyke, Brenham
Lamont Veatch, Lubbock

SUMMARY OF BENEFITS

The Teacher Retirement System of Texas makes provision for service and disability retirement and death and survivor benefits to all employees of public education in Texas. Benefits are financed by member and state contributions and investment earnings. A general information booklet, *Teacher Retirement in Texas*, is provided to each TRS member. A copy of the complete retirement plan is available at Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698 during normal business hours. The major benefit provisions effective September 1, 1995, are as follows:

Service Retirement

Normal retirement age is 65 with five years of service, 60 with 20 years of service, or 50 with 30 years of service. The standard life annuity benefit formula is two percent of average annual salary for the best three years of salary multiplied by the years of service. At normal retirement age, the minimum monthly standard annuity is the greater of \$150, \$6.50 per month per year of service, or the formula standard annuity. For a classroom teacher or full-time librarian retiring after August 31, 1995, the minimum annuity will be computed by multiplying the minimum annual salary established by the Education Code times two percent for each year of credited service. Total payments shall in no case be less than accumulated contributions at retirement. At death, any excess would be paid to the beneficiary.

Optional plans actuarially reduced from the standard annuity are: joint lifetime with 100 percent to surviving beneficiary, or if the beneficiary dies before the retiree, the retiree's future monthly annuity payment will increase to the amount of the standard annuity; joint lifetime with 50 percent to surviving beneficiary, or if the beneficiary dies before the retiree, the retiree's future monthly annuity payment will increase to the amount of the standard annuity; lifetime with five years certain; lifetime with ten years certain; and joint lifetime with 75 percent to surviving beneficiary, or if the beneficiary dies before the retiree, the retiree's future monthly annuity payment will increase to the amount of the standard annuity.

A member may receive a reduced annuity at age 55 with at least five years of service or at any age below 50 with 30 or more years of service. The normal retirement benefit for early age retirement is reduced according to a set of factors, based on age at date of retirement and years of service, adopted by the board of trustees.

Disability Retirement

With less than ten years of service, monthly payments would be \$150 for the shorter of the duration of the disability or number of months of service as of the date of disability retirement. With at least ten years of service, a disabled retiree may choose a standard annuity unreduced for early age or select one of five optional plans similar to those of a service retiree. A \$6.50 per month per year of service or a \$150 per month minimum annuity is guaranteed.

Death and Survivor Benefits

Should death occur before retirement, a benefit is provided even if the member is absent from service because of illness, on disability retirement, or within five years of being eligible to retire when leaving employment. The beneficiary will receive one of the following payment plans:

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, if eligible.
3. Lifetime payments equal to a reduced standard annuity, calculated like a joint annuity with 100 percent to surviving beneficiary option plan, if eligible.
4. A return of the member's deposits with interest.
5. Survivor benefits of \$2,500 lump sum payment plus \$250 per month to beneficiary spouse with minor children continuing until youngest child reaches age 18. At age 65, the spouse would begin receiving \$150 per month for life.

If the member is absent from service without good cause, the benefit is the return of accumulated contributions.

A disability retiree's beneficiary can choose one of the above plans or a \$10,000 lump sum payment.

Upon the death of a service retiree, the eligible beneficiary may choose to receive either a \$10,000 lump sum payment, or a \$2,500 lump sum payment plus, if a spouse or dependent parent, \$150 per month beginning immediately or upon reaching 65 years of age, whichever is later.

Vesting of Benefits

Members with at least five years of creditable service have a vested right to service retirement benefits upon reaching retirement age, even though they leave covered employment, if they do not withdraw deposits.

Health Insurance

In addition to the benefits above, the Texas Public School Employees Group Insurance Program, TRS-Care, makes available a basic level of health insurance coverage to TRS public school retirees without cost. Eligible are TRS retirees who are not eligible for coverage by Texas State College and University Employees Uniform Insurance Benefits Program, Texas Employees Uniform Group Insurance Benefits Program or any other State of Texas employee group health insurance program. A higher level of coverage and coverage for spouses of retirees and for surviving spouses and dependents of retirees and of deceased eligible active members are also available for purchase. The program is financed by state and active public school member contributions and payments by the insured. The program is administered by the TRS Board of Trustees.

YEARS' HIGHLIGHTS**PENSION TRUST FUND**

	Year Ended August 31,	
	1995	1994
Membership		
Member Accounts	631,153	605,028
New Members	71,953	70,633
Members Withdrawing	35,963	34,488
Service Retirements	8,477	8,691
Disability Retirements	569	667
In-Service Deaths	819	844
Deaths After Retirement	4,112	3,888
Annuitants	138,034	132,705
Monetary		
Member Deposits	\$ 927,029,514	\$ 881,808,453
State and Employer Contributions	1,030,173,813	984,399,984
Increase in Long-Term Investment Holdings	3,678,806,520	4,031,179,200
Revenues from Investments	3,736,781,960	4,222,490,810
Benefits Paid	1,727,152,497	1,600,976,218
Accounts Refunded	146,099,978	133,227,183
Administrative Expenses	26,139,546	26,125,050

EXPENDABLE TRUST FUND
Public School Retired Employees Group Insurance

	Year Ended August 31,	
	1995	1994
Enrollment		
Retirees	95,591	92,869
Surviving Spouses	1,638	1,560
Surviving Dependent Children	26	25
Dependents	12,042	11,915
Monetary		
Member Contributions	\$ 29,924,925	\$ 28,456,041
State Contributions	59,849,850	56,912,083
Retiree Contributions	89,006,331	80,128,944
Revenues from Investments	16,841,673	16,467,438
Claims Expenditures	172,836,644	153,996,753
Retention Expenditures	11,393,649	10,742,076
Administrative Expenditures	826,198	926,752

FINANCIAL
SECTION





OFFICE OF THE STATE AUDITOR

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

LAWRENCE F. ALWIN, CPA
State Auditor

February 16, 1996

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

Ladies and Gentlemen:

We have audited the general purpose financial statements, listed as Exhibits I-III in the Table of Contents, of the Teacher Retirement System of Texas, a component unit of the State of Texas, as of and for the year ended August 31, 1995. 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 20 wholly owned subsidiary corporations, which statements reflect assets and revenues constituting \$604.0 million, or 1.60 percent, and \$103.4 million, or 1.75 percent, respectively, of the system's related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports 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 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 reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Teacher Retirement System of Texas as of August 31, 1995, and the results of its operations 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 through D, and in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of these financial statements. Such 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 reports of the other auditors, is fairly stated in all material respects in relation to those financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Teacher Retirement 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.

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

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

Lawrence F. Alwin, CPA
State Auditor

ACCOUNT GROUPS		TOTALS - MEMORANDUM ONLY	
General Fixed Assets	General Long-Term Debt	1995	1994
\$	\$	\$ 6,762,624	\$ 52,213,837
		110,143	1,043,396
		404,112,155	795,600,254
		1,010,102,547	497,001,017
		47,610,958	117,597,179
		43,097,890	42,586,823
		3,848,734	2,059,247
		3,320,159	7,046,586
		8,333,228	31,182,618
		8,214,320	8,383,181
		64,292,877	61,950,517
		292,656,221	272,314,274
		1,032,106	1,234,121
\$ -0-	\$ -0-	\$ 1,893,493,962	\$ 1,890,213,050
\$	\$	\$ 3,095,182,895	\$ 3,446,093,974
		5,331,557,571	4,618,070,202
		766,270,472	314,083,944
		49,204,865	50,957,704
		5,565,042,399	4,983,542,587
		1,824,702,035	1,578,860,842
		981,717,583	1,115,282,191
		17,567,634,501	15,387,090,024
		518,848,891	507,218,584
\$ -0-	\$ -0-	\$ 35,700,161,212	\$ 32,001,200,052
\$	\$	\$ 1,658,310	\$ 1,658,310
		26,757,672	26,679,095
156,309		10,116,475	12,175,383
\$ 156,309	\$ -0-	\$ 38,532,457	\$ 40,512,788
		(10,529,391)	(9,472,897)
\$ 156,309	\$ -0-	\$ 28,003,066	\$ 31,039,891
\$	\$ 23,710	\$ 23,710	\$ 27,756
		3,366,535	4,906,230
		76,176,860	
\$ -0-	\$ 23,710	\$ 79,567,105	\$ 4,933,986
\$ 156,309	\$ 23,710	\$ 37,701,225,345	\$ 33,927,386,979

(to next page)

Combined Balance Sheet

ALL FUND TYPES AND ACCOUNT GROUPS - AUGUST 31, 1995

(With Comparative Memorandum Totals for August 31, 1994)

(concluded)

EXHIBIT



LIABILITIES, DEFERRED CREDITS, EQUITY AND OTHER CREDITS	FIDUCIARY FUND TYPE	
	Trust and Agency	
Current Liabilities:		
Accounts Payable	\$	17,859,611
Benefits Payable		200,550,407
Due to State's General Revenue Fund		8,214,320
Investments Purchased Payable		105,564,501
TOTAL CURRENT LIABILITIES	\$	332,188,839
Long-Term Liabilities:		
Compensable Absences Payable - not Funded by Current Resources	\$	-0-
Deferred Credits:		
Reinstatement Installment Receipts	\$	14,287,260
Net Gains Deferred on Investment Exchanges		
TOTAL DEFERRED CREDITS	\$	14,287,260
Equity and Other Credits:		
Investment in General Fixed Assets	\$	
Fund Balance Reserved for:		
Member Savings Account		9,887,860,575
State Contribution Account		8,337,435,556
Retired Reserve Account		18,572,140,556
Benefit Increase Reserve Account		291,643,718
Expense Account		19,433,183
Future Retention, Claims, and Administrative Expenditures		246,055,639
TOTAL EQUITY AND OTHER CREDITS	\$	37,354,569,227
TOTAL LIABILITIES, DEFERRED CREDITS, EQUITY AND OTHER CREDITS	\$	37,701,045,326

*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	1995	1994
\$	\$	\$ 17,859,611	\$ 21,342,566
		200,550,407	192,243,951
		8,214,320	8,427,281
		105,564,501	165,087,642
\$ -0-	\$ -0-	\$ 332,188,839	\$ 387,101,440
\$ -0-	\$ 23,710	\$ 23,710	\$ 27,756
\$	\$	\$ 14,287,260	\$ 9,733,438
			5,465,878
\$ -0-	\$ -0-	\$ 14,287,260	\$ 15,199,316
\$ 156,309	\$	\$ 156,309	\$ 158,128
		9,887,860,575	9,054,858,987
		8,337,435,556	9,289,128,390
		18,572,140,556	14,625,689,472
		291,643,718	286,116,804
		19,433,183	39,002,902
		246,055,639	230,103,784
\$ 156,309	\$ -0-	\$ 37,354,725,536	\$ 33,525,058,467
\$ 156,309	\$ 23,710	\$ 37,701,225,345	\$ 33,927,386,979

Combined Statement of Revenues, Expenditures and Changes in Fund Balance

EXPENDABLE TRUST FUNDS - YEAR ENDED AUGUST 31, 1995

(With Comparative Totals for August 31, 1994)

EXHIBIT



	1995	1994
Revenues:		
Member Contributions	\$ 34,874,745	\$ 33,189,421
State Contributions from State of Texas	59,849,850	56,912,083
Retiree Contributions	89,006,331	80,128,944
Interest	17,304,981	16,648,970
Net Gain on Disposition of Securities		307
TOTAL REVENUES	\$ 201,035,907	\$ 186,879,725
Expenditures:		
Insurance Claims Incurred	\$ 172,836,644	\$ 153,996,753
Insurance Retention Paid	11,393,649	10,742,076
Administrative Expenditures	853,759	968,251
TOTAL EXPENDITURES	\$ 185,084,052	\$ 165,707,080
Excess of Revenues Over Expenditures	\$ 15,951,855	\$ 21,172,645
Fund Balance - Beginning September 1	230,103,784	208,931,139
Fund Balance - Ending August 31	\$ 246,055,639	\$ 230,103,784

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

Comparative Statement of Revenues, Expenses and Changes in Fund Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31



	1995	1994
Revenues:		
Member Contributions	\$ 901,930,561	\$ 862,455,224
State Contributions from State of Texas	963,322,791	943,184,853
State Contributions from School Districts	66,851,022	41,215,131
Interest	1,499,041,540	1,377,546,104
Dividends	561,133,858	523,638,790
Net Gain on Securities	1,603,365,610	2,287,262,943
Reinstatement of Withdrawals	25,098,953	19,353,229
Reinstatement Fees	17,361,590	15,346,429
Membership Fees	6,113,925	5,975,259
Miscellaneous Expense Reimbursements	242,797	149,185
Transfers from Employees Retirement System of Texas	269,026	70,646
Net Gain on Operations of Real Estate Held for Sale (Note IX.)	73,240,952	34,042,973
TOTAL REVENUES	\$ 5,717,972,625	\$ 6,110,240,766
Expenses:		
Benefits	\$ 1,727,152,497	\$ 1,600,976,218
Withdrawal of Member Accounts	146,099,978	133,227,183
Administrative Expenses	26,139,546	26,125,050
Transfers to Employees Retirement System of Texas	4,863,571	3,140,941
TOTAL EXPENSES	\$ 1,904,255,592	\$ 1,763,469,392
Net Income	\$ 3,813,717,033	\$ 4,346,771,374
Fund Balance - Beginning September 1	33,294,796,555	28,948,025,181
Fund Balance - Ending August 31	\$ 37,108,513,588	\$ 33,294,796,555

*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 is governed by a nine member board of trustees whose selection is made by a diverse combination of appointment and election. The board of trustees has significant independence in the operations and management of the system. The scope of public service is clearly defined by the system's membership which is limited to employees of the Texas public school systems. However, the ability of the state legislature to exercise oversight responsibility through funding and laws governing the system is significant. Therefore, for reporting purposes, the system is considered a component unit of the state of Texas.

For financial reporting purposes, the system includes all funds and account groups that comprise its legal entity. The reporting entity criteria is prescribed by the Governmental Accounting Standards Board (GASB). The criteria for inclusion includes legal standing and financial accountability. This report contains all activities and organizations for which the system exercises fiscal control and responsibility.

The system administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system 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 also administers proportional retirement benefits under Chapter 803, Tex. Gov. Code, Title 8.

The system administers the Texas Public School Retired Employees Group Insurance Program which provides insurance coverage for certain persons (and their dependents) who retire under the system. The statutory authority for the insurance program is Tex. Ins. Code Ann. art. 3.50-4.

The system administers the Texas Public School Active Employees Insurance Reserve which provided for a comprehensive study of coverage and participation in the Texas Public School Retired Employees Group Insurance Program and potential coverage in a statewide health insurance program for active public school employees. The statutory authority was granted by the Texas Legislature, 73rd Reg. Sess., H.B. 2711. As a result of the study and legislation passed by the Texas Legislature, 74th Reg. Sess., S.B. 9, an optional health insurance program for school districts will be available September 1, 1996.

Included in this report are 21 wholly owned subsidiary corporations. The board of trustees authorized the TRS staff to establish corporations for the purpose of holding title to real estate. The board further authorized the staff to organize and transfer assets to nonprofit and for profit corporations created for the purpose of holding title to property acquired through foreclosure or deed in lieu of foreclosure in order to protect the system's investments. The system owns all the shares of the title-holding corporations and maintains control of the corporations by appointing the seven members of the board of directors. Serving on the board of each corporation are four members of the Teacher Retirement System of Texas board and three system employees. Corporate directors are subject to appointment and removal by the board of trustees. All income collected by the corporations, less expenses, must be remitted to the system. For financial reporting purposes, the system and the wholly owned subsidiary corporations are considered one entity. (Refer to Note IX. for additional disclosure.)

B. Fund Structure

The accounts of the Teacher Retirement System of Texas 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.

Agency Funds - Agency funds are used to account for assets held as an agent for individuals, other government entities, and/or other funds. These funds are custodial in nature and do not involve measurement of results of operations.

Under Tex. Gov. Code, Title 8, Subchapter E, Sec. 825.406, the system is authorized to collect monies received by employers, as defined in section 821.001(7), from federal or private sources to pay for their applicable shares of state retirement contributions. The system is required to deposit all such collections in the state's General Revenue Fund, thus reimbursing the General Revenue Fund from which all state contributions were originally paid.

The system is also authorized under Tex. Gov. Code, Title 8, Subchapter E, Sec. 825.407, to collect monies from the governing board of each general academic teaching institution and each medical and dental unit, from noneducational and general funds of the institution or unit, for state contributions that are made based on any portion of a member's salary that is paid from the noneducational and general funds. The system is required to deposit all such collections in the state's General Revenue Fund, thus reimbursing the General Revenue Fund from which all state contributions were originally paid.

NOTES TO THE FINANCIAL STATEMENTS

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. Basis of Presentation and Basis of Accounting

The accompanying financial statements of the Teacher Retirement System of Texas have been prepared to conform with generally accepted accounting principles (GAAP) as established by GASB.

The system's wholly owned subsidiaries are presented on a consolidation 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 financial statements. Revenues are recognized when earned and expenses are recognized when the underlying transaction or event occurs, regardless of the timing of related cash flows. 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. Revenues are recognized 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.

D. Memorandum Totals

The total columns on the financial statements that are captioned "Memorandum Only" indicate that they are for informational purposes only. Data in these columns do not present the financial position, results of operations, or changes in financial position in conformity with GAAP, nor is such data comparable to a consolidation.

E. Budgets, Budgetary Accounting, and Appropriations

The system's pension trust fund receives appropriations for state contributions for retirement benefits and periodic retirement benefit increases. In fiscal years 1995 and 1994, state contributions were made to the retirement system at the rate of 7.31% of the aggregate compensation paid to retirement system members each year. One-twelfth of the estimated annual contributions was received each month, with an adjustment to actual following the end of the year.

Pension trust fund administrative costs and capital outlay are accounted for through the fund's Expense Account. The expenses of this account are controlled by means of an annual budget approved by the board of trustees. Revenue sources for the account include retirement membership fees and, if necessary, transfers from the fund's Interest Account. Transfers from the fund's Interest Account were not required in fiscal year 1995 since legislative appropriations for administrative expenditures have been provided for the 1996-97 biennium.

The Texas Public School Retired Employees Group Insurance Program receives appropriations from the state's General Revenue Fund. In fiscal years 1995 and 1994 the state contributed an amount equal to .50% of the salary of each active employee as defined in the Tex. Ins. Code, Ann. art. 3.50-4, Sec. 2(1). One-twelfth of the estimated annual contributions was received each month, with an adjustment to actual in the financial statements following the end of the year.

The Texas Public School Active Employees Insurance Reserve receives revenue from member contributions and earnings on investment reserves.

Expendable trust fund administrative costs are controlled by means of an annual budget approved by the board of trustees. Administrative expenditures for the Texas Public School Retired Employees Group Insurance Program in any fiscal year may not exceed one percent of the contributions to the program by the state, active members, and covered participants. Operating expenditures for the Texas Public School Active Employees Insurance Reserve may not exceed a total of \$100,000 for the fiscal years 1994-95 biennium unless additional approval is received from the state's Legislative Budget Board.

Schedule 2 (Schedule of Administrative Expenses/Expenditures and Capital Outlay - Budget and Actual on Budgetary Basis) presents comparisons of the budget adopted by the board of trustees with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with GAAP, a reconciliation of these differences is required. The major reconciling items are due

NOTES TO THE FINANCIAL STATEMENTS

to expenses/expenditures budgeted and reported on the budget statement that do not qualify for expenditure recognition on the GAAP statements.

F. Assets, Liabilities, and Fund Balance

Consumable Inventories

Pension trust fund supplies and postage are accounted for under the consumption method. Under this method inventories are recorded as expenses when they are used rather than when purchased.

Investments

Fixed income securities are valued at cost with discounts or premiums amortized using the effective interest rate method. Equity securities are valued at cost. Real Estate mortgages are valued at cost net of an allowance for loan losses. Real Estate Held for Sale is carried at the lower of: a) fair value less estimated costs to sell; or, b) cost, which is defined as the fair value of the asset at the time of foreclosure. (See Note IX.)

Certain fixed income security exchanges, consisting of closely related sale and purchase transactions, are accounted for using the deferral and amortization method. The system adopts the criteria set forth in Pe5.118 of the *Codification of Governmental Accounting and Financial Reporting Standards* in the use of this method, as follows:

1. Both the sale and the purchase must be planned simultaneously; that is, each half is undertaken in contemplation of the other and each half executed conditioned upon execution of the other.
2. Both the sale and the purchase must be made on the same day, although settlement of the two transactions may occur on different dates.
3. The sale and purchase must result in an increase in the net yield to maturity and/or an improvement in the quality of the bond held.
4. The purchase must involve an investment grade bond that is better rated, equally rated, or rated no worse than one investment grade lower than the bond sold.

Under the deferral and amortization method, a deferred gain or loss is recorded at the time of the sale and amortized over the remaining life of the security sold or the security purchased, whichever is shorter. These deferred gains and losses are amortized using the fixed percentage on declining base method. The system had a net deferred gain of \$5,465,878 at the beginning of fiscal year 1995, recorded \$142,027,835 of net deferred losses and amortized \$60,385,097 during the year, leaving deferred net losses of \$76,176,860. Any sale of a security not meeting all of the above conditions is accounted for as a completed transaction.

As provided in Tex. Gov. Code, Title 8, Subchapter D, Sec. 825.311(2) and 825.313(a), net capital gains or losses realized from the sale, call, maturity, or conversion of securities are accumulated in the pension trust fund's Interest Account and transferred annually to the fund's State Contribution Account together with any other balance remaining in the Interest Account. In addition, the system has recognized other unrealized gains and losses, as required by GAAP, in the Interest Account. Accordingly, at August 31, 1995 and 1994, the amounts of net gains transferred were \$1,603,365,610 and \$2,287,262,943, respectively.

TRS utilizes real estate advisors who are compensated for their services in the form of an asset management fee, based on a percentage of the outstanding loan balance on a project, which 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 1995 and 1994 were \$3,265,301 and \$3,746,859, respectively.

The board of trustees authorized up to 15% of the market value of the portfolio to be invested in direct mortgages and in properties held by the system or its subsidiary corporations acquired as a result of the system's investments in mortgages. The real estate investment objectives give primary consideration to safety of capital and maximization of income. They also provide diversification and an inflation hedge for the TRS portfolio.

As of August 31, 1995, TRS's real estate mortgage portfolio consisted of 29 projects with a balance of \$982 million. This portfolio is well diversified covering 12 states with investments in retail centers, office buildings, industrial warehouses, hotels, and apartment complexes. TRS's investment in each project is evidenced by a promissory note with the real estate serving as collateral.

TRS has established a loan loss reserve to give accounting recognition to probable future losses. The system estimates aggregate future losses at the end of each fiscal year based on an analysis of credit risks within the portfolio and comparison of loan balances with the appraised values of underlying collateral. The following table shows the number of real estate mortgage loans, the loan balances, and the total amount reserved for loan losses as of August 31, 1995, by risk rating category:

NOTES TO THE FINANCIAL STATEMENTS

Risk Rating	Loan Payment Status	Project Cash Flows	Estimated Market Value of Collateral	Number of Loans	Loan Balances
1	Borrower Current	Sufficient To Cover Debt Service or Backed By Credit Worthy Guarantor; And	Higher Than Loan Balance	13	\$ 463,416,519
2	Borrower Current	Insufficient To Cover Debt Service; Supplemented From Alternative Sources; Or	Lower Than Loan Balance	4	188,825,406
3	Borrower Current	Insufficient To Cover Debt Service; Supplemented From Alternative Sources; And	Lower Than Loan Balance	8	333,761,446
4	Borrower Not Current	Insufficient To Cover Debt Service; Or	Lower Than Loan Balance	4	154,091,668
			Totals	29	\$1,140,095,039
			Loan Loss Reserve		(158,377,456)
			Reported Value		\$ 981,717,583

As of August 31, 1995, loan repayment terms on ten projects with a principal balance of \$532,562,314, have been restructured. These restructurings have occurred due to the changing economic and market conditions which have diminished the borrower's ability to meet the original contract terms. In order to protect the interest of the system, TRS has amended various contract terms such as the interest rate, monthly payment amount, prepayment factors, and participation share of future cash flows. One of the restructured loans required an additional funding commitment of \$12 million of which \$9.7 million has been funded as of August 31, 1995.

A part of the restructuring usually involves the temporary reduction of the "contract" interest rate to a "payment" interest rate. The difference between the restructured "payment" rate and "contract" rate is sometimes deferred and accrued until the borrower's ability to pay has improved. The borrower is required to pay net cash flow on the project to TRS until the deferred interest is paid and some properties have been authorized by TRS to expend additional monies that would enhance the value of the property. As of August 31, 1995 and 1994, TRS had a deferred interest balance on these restructured projects totalling \$28,109,555 and \$28,437,225, respectively. This deferred interest is not recorded on the financial records of the system, but a detailed listing is maintained for each project. Currently, there is neither sufficient historical data nor a reasonable method to estimate the amount of the balance, if any, that is collectible. Deferred interest paid by the borrower is recognized as revenue only upon actual receipt. TRS recorded \$34,096,445 as interest income in the financial statements for fiscal year 1995 from these ten projects. TRS would have recorded as interest income \$52,131,832 from these projects in fiscal year 1995 had there been no deferral of interest or reduction in interest rates.

Fixed Assets

A pension trust fund is accounted for on a flow of economic resources measurement focus. This means all assets (whether current or long-term) associated with the fund's activity are included on its balance sheet. Fixed assets purchased by the pension fund are capitalized at historical cost or, if not purchased, at market value on date of acquisition. Depreciation has been provided over the estimated useful lives of the assets using the 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 an expendable trust fund are reported as expenditures. The fixed assets are capitalized at historical cost or, if not purchased, at market value on the date of acquisition in the General Fixed Assets 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 the value of assets or services received at the balance sheet date for which payment is pending.

Benefits payable for the pension trust fund represents the liability for retirement, disability, and death benefits due at balance sheet date 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 the balance sheet date.

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 balance sheet instead of in a General Long-Term Debt Account Group. Salary costs related to employees' rights to be compensated for future absences are accrued

NOTES TO THE FINANCIAL STATEMENTS

as expenses of the period in which services are rendered.

Employee compensable leave balances for this fund at August 31, 1995, 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	58,466	\$1,246,078
FLSA Compensatory Time	2,681	40,654
State Compensatory Time	8,993	263,616
Total	<u>70,140</u>	<u>\$1,550,348</u>

(Note: FLSA hours accumulated are one and one-half times hours worked.)

The difference between the balance at August 31, 1994, adjusted for any lump sum payments for accrued leave balances to terminated employees, and the balance at August 31, 1995, has been included in the fund's expenses for the year ended August 31, 1995.

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, 1995. See Note II.B. for a summary of changes in expendable trust fund employee compensable leave balance.

Deferred Credits

The system is authorized by statute to administer an installment payment system whereby special service purchases establishing additional creditable service is 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 but most payments will continue and eventually be credited to the member's account. Revenues from these member contributions will be reported at the time the deposits are sufficient to cover the total cost.

Fund Balance

The Fund Balance for the pension trust fund consists of five reserves. The Member Savings Account represents the accumulation of active member deposits plus interest. The State Contribution Account consists of reserves available to fund future active member retirement, death, and survivor benefits. The Retired Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases except for those provided under the Benefit Increase Reserve Account. The Benefit Increase Reserve Account was established by the legislature in 1977 to account for all money appropriated by the state legislature to pay post-retirement benefit increases or other adjustments of initial benefit payments authorized by law after January 30, 1975. The Expense Account represents reserves to pay all administration and maintenance expenses of the pension fund.

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 insurance carrier retention, claims, or administrative expenditures of the expendable trust fund.

G. Interfund Transactions and Balances

Transactions between the system's funds have been analyzed and 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.

The pension trust fund provides various services to the expendable trust fund and accounts for these services as quasi-external transactions.

H. Interagency Transactions and Balances

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

I. Prior Period Adjustment

A correction to the Expendable Trust Fund, Public School Retired Employees Group Insurance Program, was necessary to reflect an increase in retiree contributions for accruals not recorded during fiscal year 1994. Comparative data for fiscal year 1994 contained in this report was adjusted to record the additional \$6,659,078 of revenues. Fund Balance and Accounts Receivable for fiscal year 1994 were increased by the same amount on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

II. DETAIL NOTES ON ACCOUNT GROUPS

A. General Fixed Assets

A summary of changes in General Fixed Assets for fiscal year 1995 follows:

Furniture and Equipment	
Balance September 1, 1994	\$158,128
Additions	320
Deletions	(2,139)
Balance August 31, 1995	<u>\$156,309</u>

(Exhibit I)

B. General Long-Term Debt

The following is a summary of changes in employee's 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, 1995, computed by multiplying the ending balance of compensable leave times the year-end average individual employee hourly salary rate, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Annual Leave	\$23,633	\$ 5,669	\$ (7,096)	\$22,206
FLSA Compensatory Time	-0-	35		35
State Compensatory Time	4,123	18,928	(21,582)	1,469
TOTAL	<u>\$27,756</u>	<u>\$24,632</u>	<u>\$(28,678)</u>	<u>\$23,710</u>

(Exhibit I)

III. DEPOSITS AND INVESTMENTS

A. State Treasury

The statutes governing the system's pension and expendable trust funds require all cash, except for the travel advance account and the securities clearing accounts as identified in Note III.D., to be deposited in the State Treasury. State statutes authorize the State Treasury to pool and invest 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 at 2 p.m. each banking day. The system may keep on deposit with the State Treasury available cash not exceeding 10% of the total assets of the retirement system.

B. Cash on Hand

At August 31, 1995, the system's pension and expendable trust funds received \$109,643 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 (see Note IX.) each participate in a cash management program established to maximize the return on cash balances and minimize any risk of uninsured bank deposits. Each corporation utilizes depository lockbox and control disbursement accounts. All receipts are transferred through depository lockboxes to an open-ended mutual fund daily when the cash balance exceeds criteria established by the system. Funds are redeemed from the mutual fund when checks are presented for payment. In certain cases, other subsidiary operating accounts are maintained in order to satisfy various legal or statutory requirements. At August 31, 1995, \$264,385 was not insured by 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 the system's cash or securities pending completion of an investment settlement and may authorize a bank acting as custodian to invest the cash in such short-term securities as the board of trustees determines. The custodian accounts are maintained in the custodian's trust department or structured to provide the maximum FDIC insurance coverage.

NOTES TO THE FINANCIAL STATEMENTS

E. Investment Legal Provisions and Other Constraints

1. 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 by law may further restrict the investment discretion of the board.

2. The board has set high quality investment standards with prime consideration given to safety of capital and maximization of income, sustainable over time. In order to ensure a continuing flow of income to be used to pay benefits promised to participants years into the future, emphasis is placed on quality, potential long-term returns, and diversification.

3. Categories of permissible investments are as follows:

a. Bonds, notes, and other evidence of indebtedness

1.) Issued, assumed or guaranteed in whole or in part by the United States or any agency of the United States or any U.S. Government sponsored enterprise.

2.) Issued, assumed, or guaranteed by a corporation chartered by the United States or any state thereof.

3.) Issued by foreign governments and corporations in U.S. dollar denominations ("Yankee Bonds").

4.) Issued by foreign governments and corporations in local currencies when the country of origin is reviewed by the Investment Counsel and approved by the board of trustees.

5.) Issued by an international institution such as the Asian Development Banks, Inter-American Banks or International Bank for Reconstruction and Development.

6.) Mortgage-backed securities, including structured mortgage securities.

b. Common and preferred stocks of United States corporations and American Depository Receipts or common stocks of foreign corporations that are listed on a major United States stock exchange or are traded in the U.S. by the United States National Association of Securities Dealers and stocks of non-U.S. companies.

c. Shares of open-ended or closed mutual funds and units of beneficial interest in collective investment trusts that are invested in non-U.S. securities.

d. Direct mortgages on properties located within the United States

1.) Fixed rate mortgages.

2.) Participating mortgages.

e. Commercial paper and U.S. Treasury or agency securities, securities of U.S. Government sponsored enterprises and repurchase agreements will be used for investing all funds awaiting long-term commitments.

4. No more than 3% of the book value of the total assets of the fund may be invested in the preferred and/or common stock of one corporation.

5. No more than 5% of the voting stock of any corporation may be purchased.

6. With the exception of the U.S. Government, its agencies and U.S. Government sponsored enterprises, no more than 3% of the book value of the total assets of the fund will be invested in the debt obligations of any one corporation, including its subsidiaries.

7. No more than \$150 million of the book value of the total assets of the fund will be invested in any one commercial mortgage.

8. No more than 15% of the market value of the portfolio will be invested in direct mortgages and in properties held by the system or its subsidiary corporations acquired as a result of the system's investments in mortgages.

9. No more than 10% of the book value of all assets of the fund will be invested in non-U.S. equities or shares of trusts invested therein.

F. Level of Risk

The system's deposits and investments have been categorized to give an indication of the level of risk assumed by the system 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.

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, 1995, is as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Carrying Amount	Bank Balance	1	Category 2	3
Cash in State Treasury	\$404,112,155	\$404,112,155	\$404,112,155	\$	\$
Subsidiary Depository Lockbox Accounts	431,958	1,107,044	981,364		125,680
Subsidiary Other Operating Accounts	686,679	902,164	638,459	125,000	138,705
Investment Security Clearing Accounts	5,628,987	5,628,987	5,628,987		
Travel Advance Account	15,000	13,249	13,249		
	<u>\$410,874,779</u>	<u>\$411,763,599</u>	<u>\$411,374,214</u>	<u>\$125,000</u>	<u>\$ 264,385</u>
Cash on Hand	110,143				
Total Available Cash	<u>\$410,984,922</u>				

As of August 31, 1995, all investments of the system, except for mutual funds, real estate and securities on loan which are not categorized, 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 following schedule has further broken out equity investments into the following classes for informational purposes: Core, Mid Cap, and International. Core and Mid Cap classes of equity investments are stocks which are generally distinguishable by the level of the company's market capitalization. Generally, Core stocks are investments in companies having market capitalization greater than \$1.5 billion and Mid Cap stocks are generally characterized as having high growth potential with somewhat lower capitalization levels. Core and Mid Cap stocks are distinguishable from International stocks by the location of the company's primary place of operations.

The book value and market value of investments at August 31, 1995, are as follows:

<u>Types of Securities</u>	<u>Book Value</u>	<u>Market Value</u>
SHORT-TERM INVESTMENTS		
Commercial Notes (Category 1)	\$ 832,059,958	\$ 835,746,055
Corporate Bonds (Category 1)	85,500,000	85,413,430
Mutual Funds (Non-Category)	92,542,589	92,743,121
Total Short-Term Investments (Exhibit I)	<u>\$ 1,010,102,547</u>	<u>\$ 1,013,902,606</u>
LONG-TERM INVESTMENTS (Category 1)		
Fixed Income:		
U.S. Treasury Bonds	\$ 2,078,339,272	\$ 2,500,307,150
U.S. Government Agency Securities		
Mortgages	5,331,557,571	5,691,566,436
Other	765,326,282	801,275,517
Mortgages Other	49,204,865	63,714,480
Corporate	5,533,660,108	5,879,298,206
International	1,428,270,658	1,559,958,310
Equities:		
Common Stock - Core	12,829,648,330	18,586,677,763
Common Stock - Mid Cap	2,446,276,203	3,064,688,762
Common Stock - International	1,842,345,628	2,410,728,225
Total Long-Term Investments (Category 1)	<u>\$ 32,304,628,917</u>	<u>\$40,558,214,849</u>

(continued)

NOTES TO THE FINANCIAL STATEMENTS

LONG-TERM INVESTMENTS (Non-Category)

Mutual Funds:

Alternative Assets	\$ 25,717,431	\$ 25,717,431
International Stock	96,934,739	117,775,665
Fixed Income - International	262,456,469	255,290,492
Real Estate Mortgages (Book Value Net of Loan Loss Reserve of \$158,377,456):	981,717,583	1,034,040,000
Real Estate Held for Sale	518,848,891	535,066,000
Investments held by broker dealers under securities lending program:		
Fixed Income	1,183,145,012	1,383,888,938
Equities	326,712,170	444,058,126
Total Long-Term Investments (Non-Category)	<u>\$ 3,395,532,295</u>	<u>\$ 3,795,836,652</u>
Total Long-Term Investments (Exhibit I)	<u>\$35,700,161,212</u>	<u>\$ 44,354,051,501</u>

Note: Included in the valuation are amounts related to the expendable trust fund which are as follows:

	<u>Book Value</u>	<u>Market Value</u>
Short-Term Investments	\$ 88,450,000	\$ 88,366,529
Long-Term Investments		
Fixed Income - Corporate	161,763,046	162,884,901
Fixed Income - U.S. Government Agency Other	12,773,220	13,082,810

In accordance with investment policy and fiduciary principles, the system invests in mortgage-backed securities, including certain agency collateralized mortgage obligations (CMO). The CMO selections are chosen from a conservative segment which offers low volatility and interest only or principal only styled CMO have been avoided partly because of this volatility risk. Specific CMO segment selections include: sequential-pay, planned amortization class, target amortization class and very accurately determined maturity. These CMO securities are reported at cost on the balance sheet and are included in aggregate with other U.S. Government Agency Mortgages in the disclosure of custodial risk.

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. 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*.

The system is authorized by state statute to contractually loan securities to investment brokers. The contract provides for lending a specific security from the system's holdings in return for cash or government securities as collateral. At August 31, 1995, the market value of the securities on loan at Northern Trust was \$248,046,120 with market value of the collateral pledged by brokers \$253,432,158. The market value of the securities on loan at Bank of New York was \$1,579,900,971 with the market value of the collateral pledged by brokers \$1,580,947,088. The system earned income of \$4,749,074 for 1995. Some of the contractual restrictions for securities lending include:

1. The loans are to authorized borrowers who meet minimum requirements and execute a Master Securities Lending Agreement.
2. Collateral is marked to market initially at 102% for domestic securities and American Depository Receipts (ADR's) and 105% for international securities based upon the loaned securities' market value plus accrued interest.
3. All collateral remains in the exclusive possession of the system's custodial agent trust department which is responsible for marking the collateral to market each day and in the case that the market value falls below the market value of the domestic securities loaned, obtain additional collateral to bring market value to a minimum of 100%. This ensures that the loaned securities are collateralized at all times.
4. The amount of securities loaned has the following limits:
 - a. All loans are one year or less.
 - b. Total market value of all loans cannot exceed \$7 billion for domestic and \$3 billion for international securities.
 - c. Authorized borrowers have specific limits which vary from \$100 million to \$800 million.

G. Mortgage Investment Commitments

At August 31, 1995, the pension trust fund was committed to future investment in two commercial real estate mortgages with anticipated closing in fiscal year 1996 and totalling \$106,450,000.

NOTES TO THE FINANCIAL STATEMENTS

IV. EMPLOYEES' RETIREMENT PLAN

The state has a joint contributory retirement plan for substantially all its employees. The employees of the Teacher Retirement System of Texas participate in the same plan they administer.

The latest actuarially computed pension liability valuation of the system exceeded the total assets of the system as of August 31, 1995. The actuary calculated the amortization period for the unfunded pension liability at 14.0 years. Contribution rates of members and the state during fiscal year 1995 were 6.4% and 7.31%, respectively.

Total payments by the State, related to the system's employees for the year ended August 31, 1995, were \$923,904.

V. DEFERRED COMPENSATION

At August 31, 1995, 16 employees of the system were participating in the state's Deferred Compensation Program, complying with Internal Revenue Code Sec. 457. During the 1995 fiscal year \$66,978 was withheld from employees' salaries to be invested in approved plans as designated by the employee. This program allows employees to defer a portion of their monthly salary for income tax and investment purposes. The state has no additional or unfunded liability for this program.

VI. 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 retirement system was contingently liable to pay a lump sum death benefit amounting to \$5,000, when added to the death benefit authorized under Tex. Gov. Code, Title 8, Chapter 824, to the beneficiaries of deceased, retired employees.

VII. 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 the Texas Sunset Act (Chapter 325), but is not abolished under that Act. The board shall be reviewed under that Act during the period in which state agencies abolished September 1, 1995 are reviewed."

VIII. POST EMPLOYMENT HEALTH CARE BENEFITS

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, 1995, 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, \$195.82; Retiree & Spouse, \$307.39; Retiree & Children, \$270.52; and Retiree & Family, \$382.09. The system covers 100% of a Retiree Only premium and 50% of additional premiums for family coverages. 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 coverages. The board has adopted contributions based on rates set by the legislature on a biennial basis. At August 31, 1995, there were 70 retirees and their beneficiaries receiving post-employment health care and life insurance benefits. For the year ended August 31, 1995, the system recognized and paid actual expenditures of \$178,850 for these benefits.

TRS, as trustee, administers the Texas Public School Retired Employees Group Insurance Program (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 coverages are also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. During fiscal year 1995, deductibles were \$2,100 for those having Part A of Medicare or \$5,200 for those without Part A.

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 coverages is provided by those participants selecting the optional coverages.

All reserves are retained and invested by the trustee. Investment income remains a part of the fund. For the year ended August 31, 1995, revenues and expenditures were \$195.6 and \$185.1 million, respectively. As of August 31, 1995, the fund balance had grown to \$235.8 million, and there were 97,255 participants in the plan. Claims expenditures for retirees enrolled

NOTES TO THE FINANCIAL STATEMENTS

in the insured health plan are recognized as the claims are incurred.

TRS-Care is operated as an expendable trust fund. A funding commitment initially projected to last through August 1996 was authorized by the legislature in 1985. Latest projections estimate that funding will be sufficient through August 1998. Additional funding will be necessary to continue the program beyond that time. Should the fund become depleted at any time, TRS-Care's liability would cease, the insurance contract would be canceled, and the carrier would assume liability for any runoff claims under the terms of the contract.

IX. OTHER

The Teacher Retirement System of Texas establishes corporations for the purpose of holding title to property acquired through foreclosure or deed in lieu of foreclosure in order to protect the system's investments. 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 a long-term investment and the net results of operations are included in the interest account. A summary of revenues and expenses is as follows:

	<u>1995</u>	<u>1994</u>
Revenues:		
Rental Income	\$ 89,415,781	\$ 86,835,131
Interest Income	1,792,068	1,165,640
Expense Reimbursement	12,164,981	11,214,403
Total Revenues	<u>\$ 103,372,830</u>	<u>\$ 99,215,174</u>
Expenses:		
Depreciation	\$ 96,629	\$ 85,910
Operating Expenses	15,622,621	12,131,152
Plant Operations	23,931,205	27,710,179
Taxes and Insurance	9,906,224	10,596,610
Bad Debt Expense	156,097	380,390
Total Expenses	<u>\$ 49,712,776</u>	<u>\$ 50,904,241</u>
Income before Provision for Valuation		
Allowance and Gain on Dispositions	\$ 53,660,054	\$ 48,310,933
Provision for Valuation Allowance	(13,556,521)	(14,267,960)
Gain (Net) on Disposition	33,137,419	
Net Gain on Operations of Real Estate Held for Sale	<u>\$ 73,240,952</u>	<u>\$ 34,042,973</u>

At August 31, 1995, the system had 21 corporations. During the year ended August 31, 1995, the system acquired two real estate properties through foreclosure with a total loan value of \$171,313,018 and a total appraised value of \$107,250,000. The system accounts for these acquisitions by recognizing any gains or losses, net of those previously recorded, in the current year financial statements.

During the fiscal year ending August 31, 1995, the system disposed of real estate properties held by five of its subsidiary corporations recognizing the net gain on disposition stated above. The system accounts for these dispositions by recognizing any gains or losses, net of valuation allowances recorded in prior years as described below, in the current year financial statements.

The corporations account for real estate held for sale according to the American Institute of Certified Public Accountants' Statement of Position 92-3, *Accounting for Foreclosed Assets* ("SOP 92-3"). The statement requires that real estate obtained through foreclosure and held for future sale be carried at the lower of: a) fair value less estimated costs to sell; or, b) cost, which is defined as the fair value of the asset at the time of foreclosure. Changes in fair value of real estate held for sale are reflected in a valuation allowance on the balance sheet and increases or decreases in the allowance are charged or credited to income. During fiscal year 1995, the system increased the valuation allowance by \$13,556,521 for the remaining unsold real estate properties to a total of \$114,856,649, which reduced the cost value from \$633,705,540 to the reported value of \$518,848,891.

X. PENSION DISCLOSURE

A. Plan Description

The Teacher Retirement System of Texas is the administrator of a multiple-employer public employee retirement

NOTES TO THE FINANCIAL STATEMENTS

system (PERS). It is a cost-sharing PERS with one exception: all risks and costs are not shared by the employer (unless the employer 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 retirement system during that fiscal year.

For members of the retirement 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.

For reporting purposes the Teacher Retirement System of Texas is considered a component unit of the state of Texas. At August 31, 1995, the number of participating employing districts was the following:

Public Schools	1,077
Colleges, Universities, and Medical Schools	98
Educational State Agencies	6
Total	<u>1,181</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, 1995, the Teacher Retirement System of Texas membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	147,512
Terminated employees entitled to benefits but not yet receiving them	<u>5,275</u>
Total	<u>152,787</u>
Current Employees	
Fully-Vested	406,352
Non-Vested	219,526
Total	<u>625,878</u>

A brief statement about benefit provisions and authority under which these provisions 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, and age 55 with 30 years of service. Reduced service retirement is at age 55 with 5 years of service and any age below 55 with 30 years of service. Effective September 1, 1995, the normal service retirement age with 30 years or more of service was lowered from 55 to 50. Additional benefit information is located in the Introductory Section of this Comprehensive Annual Financial Report.

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 was 7.31% for the biennium 1994-95 and is set at 6.0% for the biennium 1996-97. The member contribution rate was 6.4% for the biennium 1994-95 and will remain the same for the biennium 1996-97. These rates are set by state statutes. In certain instances, the reporting district (public school, college, university, medical school or educational state agency) is required to make all or a portion of the state's contribution.

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

Refer to Note I.C.

Method Used to Value Investments

Refer to Note I.F.

C. Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Teacher Retirement System of Texas funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS. The pension benefit obligation measure differs from the entry age normal method used by the system's actuary to evaluate the sufficiency of the contributions to the system (discussed in D. below).

NOTES TO THE FINANCIAL STATEMENTS

The pension benefit obligation was determined as part of an actuarial valuation at August 31, 1995. Significant actuarial assumptions used include the following:

1. A rate of return on the investment of present and future assets compounded annually of 8.00% for retired, active, and inactive participants, including legislative benefit increases.
2. A projected salary increase which averages 4.75% per year, of which 4.25% is attributable to the inflation component and .50% is the merit or seniority component.

The total unfunded pension benefit obligation of the Teacher Retirement System of Texas as of August 31, 1995, was as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 19,131,149,742
Current employees:	
Accumulated employee contributions, including allocated investment income	\$ 9,749,129,290
Employer-financed vested	\$ 11,599,731,308
Employer-financed non-vested	<u>\$ 1,379,609,661</u>
Total pension benefit obligation	\$ 41,859,620,001
Net assets available for benefits (book value) (market value is \$45,677,984,598)	<u>\$ 37,093,983,762</u>
Unfunded pension benefit obligation	<u>\$ 4,765,636,239</u>
Increase in the pension benefit obligation due to legislative changes	\$ 2,255,129,000
Increase in the pension benefit obligation due to actuarial methodology changes	\$ 483,401,520

D. Contributions Required and Contributions Made

Contribution requirements are not actuarially determined but are legally established each biennium 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's 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 1995 amounted to \$1,932,104,374 of which \$901,930,561 was from members, \$963,322,791 was from the State of Texas, and \$66,851,022 was from the local school districts. These contributions consisted of \$1,584,015,548 normal cost (11.24 percent of current covered payroll) and \$348,088,826 amortization of the unfunded actuarial accrued liability (2.47 percent of current covered payroll). At August 31, 1995, the annual actuarial valuation conducted by Watson Wyatt Worldwide of Dallas, Texas disclosed that the unfunded actuarial accrued liability of \$1,955,710,312 will be funded over a period of 14.0 years in the future assuming that payroll grows at an aggregate compound rate of 4.25% per year.

Significant actuarial assumptions used to evaluate the implications of the contribution requirements are the same as those used to compute the pension benefit obligation.

The Actuarial Balance Sheet and Actuarial Letter, which were prepared by Watson Wyatt Worldwide, are presented in the actuarial section of this report. These are considered to be necessary for adequate financial disclosure.

E. Ten-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

TEN-YEAR HISTORICAL TREND INFORMATION

Analysis of Funding Progress (in millions of dollars)

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1)÷(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (4)÷(5)
1987	\$15,528.2	\$20,127.7	77.1%	\$4,599.5	\$ 8,646.4	53.2%
1988	\$17,465.1	\$21,784.4	80.2%	\$4,319.3	\$ 9,165.6	47.1%
1989	\$19,657.5	\$24,610.2	79.9%	\$4,952.7	\$ 9,763.6	50.7%
1990	\$21,837.4	\$27,090.7	80.6%	\$5,253.3	\$ 10,446.1	50.3%
1991	\$23,995.8	\$29,765.3	80.6%	\$5,769.5	\$ 11,180.9	51.6%
1992	\$26,136.2	\$32,025.0	81.6%	\$5,888.8	\$ 11,959.1	49.2%
1993	\$28,948.0	\$35,688.3	81.1%	\$6,740.3	\$ 13,390.7	50.3%
1994	\$33,294.8	\$36,065.4	92.3%	\$2,770.6	\$ 14,167.2	19.6%
1995	\$37,094.0	\$41,859.6	88.6%	\$4,765.6	\$ 14,888.5	32.0%

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of TRS's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system.

Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of TRS's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system. The analysis shows only the years indicated, because the pension benefit obligation was not computed for years prior to 1987.

10-Year Summary of Revenues and Expenses (in millions of dollars)

Revenues by Source	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Members	\$ 951	\$ 903	\$ 856	\$ 792	\$ 744	\$ 699	\$ 652	\$ 609	\$ 575	\$ 551
State	1,030	984	938	871	856	803	705	663	716	664
Investments	3,737	4,223	2,571	1,983	1,898	1,916	1,959	1,663	1,700	1,634
Other										3
Total Revenues	\$ 5,718	\$ 6,110	\$ 4,365	\$ 3,646	\$ 3,498	\$ 3,418	\$ 3,316	\$ 2,935	\$ 2,991	\$ 2,852
Expenses by Type										
Administrative	\$ 26	\$ 26	\$ 26	\$ 22	\$ 21	\$ 17	\$ 14	\$ 13	\$ 11	\$ 11
Refunds to Members	146	133	122	130	134	128	119	113	111	109
Benefits	1,727	1,601	1,447	1,361	1,186	1,085	936	874	755	668
Other	5	3					1			
Total Expenses	\$ 1,904	\$ 1,763	\$ 1,595	\$ 1,513	\$ 1,341	\$ 1,230	\$ 1,070	\$ 1,000	\$ 877	\$ 788

Contributions, expressed as a percentage of annual covered payroll, were made in accordance with state statutes during this ten-year period and are as follows:

Fiscal Year	State	\$ Change in Year of Change	Member	\$ Change in Year of Change
1994 and 1995	7.31%		6.4%	
1992 and 1993	7.31%	(40,523,226)	6.4%	
1990 and 1991	7.65%	47,250,847	6.4%	
1988 and 1989	7.2%	(73,691,440)	6.4%	
1986 and 1987	8.0%	74,747,621	6.4%	33,428,339

There have been no retirement formula changes during the past ten years. A total of five post-retirement benefit adjustments have occurred since fiscal year 1986. These benefit adjustments were funded internally by the system. The 1987 adjustment became effective in August 1987 and increased the benefits paid by \$3,975,342 for fiscal year 1987. The 1989 adjustment became effective August 1989 and increased the benefits for fiscal year 1989 by \$5,279,647. The 1992 increase became effective November 1991 and included retroactive payments beginning with the payment due at the end of August 1991. This benefit adjustment increased the benefits for fiscal year 1992 by approximately \$94,318,403. The 1994 increase became effective January 1994 and increased the benefits for fiscal year 1994 by approximately \$54,631,210. The final increase became effective September 1995 and will increase the benefits for fiscal year 1996 by approximately \$266,333,000.

Combining Balance Sheet

FIDUCIARY FUND TYPES - AUGUST 31, 1995 (With Comparative Combined Totals for August 31, 1994)

PENSION TRUST
FUND

EXHIBIT

A**ASSETS**

Retirement

Current Assets:

Cash in Bank	\$	6,762,624
Cash on Hand		109,720
Cash in State Treasury		388,767,820
Short-Term Investments		921,652,547
Accounts Receivable		
Sale of Investments		47,610,958
Member Contributions		33,607,679
State Contributions - School Districts		3,848,734
Other		3,294,514
Due from General Revenue Fund - State Contributions		4,522,974
Due from Reporting Entities		
Dividends Receivable		64,292,877
Interest Receivable		287,193,886
Prepaid Assets		1,032,106

TOTAL CURRENT ASSETS	\$	1,762,696,439
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Long-Term Investments:

Fixed Income (Amortized Cost)		
U.S. Treasury	\$	3,095,182,895
U.S. Government Agency - Mortgages		5,331,557,571
U.S. Government Agency - Other		753,497,252
Mortgages Other		49,204,865
Corporate		5,403,279,353
International		1,824,702,035
Real Estate Mortgages (Amortized Cost Less Allowance for Loan Losses of \$158,377,456 and \$253,302,884, respectively)		981,717,583
Equities (Cost)		17,567,634,501
Real Estate Held for Sale		518,848,891

TOTAL LONG-TERM INVESTMENTS	\$	35,525,624,946
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Fixed Assets:

Land	\$	1,658,310
Building		26,757,672
Furniture and Equipment		9,960,166
Subtotal	\$	38,376,148
Less Accumulated Depreciation		(10,529,391)

NET FIXED ASSETS	\$	27,846,757
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Other Assets:

Deferred Assets	\$	3,366,535
Net Losses Deferred on Investment Exchanges		76,176,860

TOTAL OTHER ASSETS	\$	79,543,395
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TOTAL ASSETS	\$	37,395,711,537
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EXPENDABLE TRUST FUNDS	AGENCY FUND	COMBINED TOTALS	
(Exh. B)	Collections on Behalf of the State's General Revenue Fund	1995 (Exhibit I)	1994
\$ 423	\$	\$ 6,762,624	\$ 52,213,837
15,344,335		110,143	1,043,396
88,450,000		404,112,155	795,600,254
		1,010,102,547	497,001,017
		47,610,958	117,597,179
9,490,211		43,097,890	42,586,823
		3,848,734	2,059,247
25,645		3,320,159	7,046,586
3,810,254		8,333,228	31,182,618
	8,214,320	8,214,320	8,383,181
		64,292,877	61,950,517
5,462,335		292,656,221	272,314,274
		1,032,106	1,234,121
\$ 122,583,203	\$ 8,214,320	\$ 1,893,493,962	\$ 1,890,213,050
\$	\$	\$ 3,095,182,895	\$ 3,446,093,974
		5,331,557,571	4,618,070,202
12,773,220		766,270,472	314,083,944
		49,204,865	50,957,704
161,763,046		5,565,042,399	4,983,542,587
		1,824,702,035	1,578,860,842
		981,717,583	1,115,282,191
		17,567,634,501	15,387,090,024
		518,848,891	507,218,584
\$ 174,536,266	\$ -0-	\$ 35,700,161,212	\$ 32,001,200,052
\$	\$	\$ 1,658,310	\$ 1,658,310
		26,757,672	26,679,095
		9,960,166	12,017,255
\$ -0-	\$ -0-	\$ 38,376,148	\$ 40,354,660
		(10,529,391)	(9,472,897)
\$ -0-	\$ -0-	\$ 27,846,757	\$ 30,881,763
\$	\$	\$ 3,366,535	\$ 4,906,230
		76,176,860	
\$ -0-	\$ -0-	\$ 79,543,395	\$ 4,906,230
\$ 297,119,469	\$ 8,214,320	\$ 37,701,045,326	\$ 33,927,201,095

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Combining Balance SheetFIDUCIARY FUND TYPES - AUGUST 31, 1995 (With Comparative Combined Totals for August 31, 1994)
(concluded)PENSION TRUST
FUND

EXHIBIT

A**LIABILITIES, DEFERRED CREDITS,
AND FUND EQUITY**

Retirement

Current Liabilities:

Accounts Payable	\$	17,534,195
Benefits Payable		152,761,993
Due to State's General Revenue Fund		
Investments Purchased Payable		102,614,501

TOTAL CURRENT LIABILITIES	\$	272,910,689
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Deferred Credits:

Reinstatement Installment Receipts	\$	14,287,260
Net Gains Deferred on Investment Exchanges		

TOTAL DEFERRED CREDITS	\$	14,287,260
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Fund Equity:

Fund Balance Reserved for:		
Member Savings Account	\$	9,887,860,575
State Contribution Account		8,337,435,556
Retired Reserve Account		18,572,140,556
Benefit Increase Reserve Account		291,643,718
Expense Account		19,433,183
Future Retention, Claims, and Administrative Expenditures		

TOTAL FUND EQUITY	\$	37,108,513,588
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**TOTAL LIABILITIES, DEFERRED
CREDITS, AND FUND EQUITY**

\$	37,395,711,537
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EXPENDABLE TRUST FUNDS	AGENCY FUND	COMBINED TOTALS	
		1995 (Exhibit I)	1994
(Exh. B)	Collections on Behalf of the State's General Revenue Fund		
\$ 325,416	\$	\$ 17,859,611	\$ 21,342,566
47,788,414		200,550,407	192,243,951
	8,214,320	8,214,320	8,427,281
2,950,000		105,564,501	165,087,642
\$ 51,063,830	\$ 8,214,320	\$ 332,188,839	\$ 387,101,440
\$	\$	\$ 14,287,260	\$ 9,733,438
			5,465,878
\$ -0-	\$ -0-	\$ 14,287,260	\$ 15,199,316
\$	\$	\$ 9,887,860,575	\$ 9,054,858,987
		8,337,435,556	9,289,128,390
		18,572,140,556	14,625,689,472
		291,643,718	286,116,804
		19,433,183	39,002,902
246,055,639		246,055,639	230,103,784
\$ 246,055,639	\$ -0-	\$ 37,354,569,227	\$ 33,524,900,339
\$ 297,119,469	\$ 8,214,320	\$ 37,701,045,326	\$ 33,927,201,095

Combining Balance Sheet

EXPENDABLE TRUST FUNDS - AUGUST 31, 1995 (With Comparative Combined Totals for August 31, 1994)

EXHIBIT

	Public School Retired Employees Group Insurance	Public School Active Employees Insurance Reserve	COMBINED TOTALS	
			1995 (Exhibit A)	1994
ASSETS				
Current Assets:				
Cash on Hand	\$ 423	\$	\$ 423	\$ 1,107
Cash in State Treasury	5,126,672	10,217,663	15,344,335	13,489,241
Short-Term Investments	88,450,000		88,450,000	92,350,000
Accounts Receivable				
Member Contributions	9,487,101	3,110	9,490,211	8,285,878
Other	25,645		25,645	1,008,679
Due from General Revenue Fund -				
State Contributions	3,810,254		3,810,254	3,903,312
Interest Receivable	5,417,008	45,327	5,462,335	5,895,229
TOTAL CURRENT ASSETS	\$ 112,317,103	\$ 10,266,100	\$ 122,583,203	\$ 124,933,446
Long-Term Investments:				
Fixed Income (Amortized Cost)				
U.S. Government Agency - Other	\$ 12,773,220	\$	\$ 12,773,220	\$ 2,994,420
Corporate	161,763,046		161,763,046	151,387,206
TOTAL LONG-TERM INVESTMENTS	\$ 174,536,266	\$ -0-	\$ 174,536,266	\$ 154,381,626
TOTAL ASSETS	\$ 286,853,369	\$ 10,266,100	\$ 297,119,469	\$ 279,315,072
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Accounts Payable	\$ 318,603	\$ 6,813	\$ 325,416	\$ 429,113
Benefits Payable	47,788,414		47,788,414	48,782,175
Investments Purchased Payable	2,950,000		2,950,000	
TOTAL CURRENT LIABILITIES	\$ 51,057,017	\$ 6,813	\$ 51,063,830	\$ 49,211,288
Fund Equity:				
Fund Balance Reserved for:				
Future Retention, Claims, and				
Administrative Expenditures	\$ 235,796,352	\$ 10,259,287	\$ 246,055,639	\$ 230,103,784
TOTAL LIABILITIES AND FUND EQUITY	\$ 286,853,369	\$ 10,266,100	\$ 297,119,469	\$ 279,315,072

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

EXPENDABLE TRUST FUNDS - YEAR ENDED AUGUST 31, 1995
(With Comparative Combined Totals for August 31, 1994)

EXHIBIT



	Public School Retired Employees Group Insurance	Public School Active Employees Insurance Reserve	COMBINED TOTALS	
			1995 (Exhibit II)	1994
Revenues:				
Member Contributions	\$ 29,924,925	\$ 4,949,820	\$ 34,874,745	\$ 33,189,421
State Contributions from State of Texas	59,849,850		59,849,850	56,912,083
Retiree Contributions	89,006,331		89,006,331	80,128,944
Interest	16,841,673	463,308	17,304,981	16,648,970
Net Gain on Disposition of Securities				307
TOTAL REVENUES	\$ 195,622,779	\$ 5,413,128	\$ 201,035,907	\$ 186,879,725
Expenditures:				
Insurance Claims Incurred	\$ 172,836,644	\$	\$ 172,836,644	\$ 153,996,753
Insurance Retention Paid	11,393,649		11,393,649	10,742,076
Administrative Expenditures	826,198	27,561	853,759	968,251
TOTAL EXPENDITURES	\$ 185,056,491	\$ 27,561	\$ 185,084,052	\$ 165,707,080
Excess of Revenues Over Expenditures	\$ 10,566,288	\$ 5,385,567	\$ 15,951,855	\$ 21,172,645
Fund Balance - Beginning September 1	225,230,064	4,873,720	230,103,784	208,931,139
Fund Balance - Ending August 31	\$ 235,796,352	\$ 10,259,287	\$ 246,055,639	\$ 230,103,784

Statement of Changes in Assets and Liabilities

AGENCY FUNDS - YEAR ENDED AUGUST 31, 1995

UNAPPROPRIATED RECEIPTS

	Collections on Behalf of the State's General Revenue Fund	Balances September 1, 1994	Additions	Deductions	Balances August 31, 1995
Assets					
Cash		\$	\$113,021,195	\$113,021,195	\$
Due from Reporting Districts		8,383,181	8,214,320	8,383,181	8,214,320
TOTAL ASSETS		\$ 8,383,181	\$121,235,515	\$121,404,376	\$ 8,214,320
Liabilities					
Due to State's General Revenue Fund		\$ 8,383,181	\$ 8,214,320	\$ 8,383,181	\$ 8,214,320

EXHIBIT

D

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

1

	MEMBER SAVINGS ACCOUNT	
	1995	1994
Revenues:		
Member Deposits		
Eligible for State Contributions	\$ 901,930,561	\$ 862,455,224
Not Eligible for State Contributions	25,098,953	19,353,229
TOTAL REVENUES	\$ 927,029,514	\$ 881,808,453
Expenses:		
Withdrawal of Member Accounts	\$ 146,099,978	\$ 133,227,183
Operating Transfers In:		
Allocation from Interest Account	\$ 449,060,469	\$ 410,501,617
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 394,781,540	\$ 382,596,152
Transfer to Retired Reserve Account for Dormant Accounts	1,993,772	831,166
Transfer to Expense Account for Membership Fees Deducted from Refunds	213,105	205,374
TOTAL OPERATING TRANSFERS OUT	\$ 396,988,417	\$ 383,632,692
Net Increase in Account Balance	\$ 833,001,588	\$ 775,450,195
Account Balance - Beginning September 1	9,054,858,987	8,279,408,792
Account Balance - Ending August 31	\$ 9,887,860,575	\$ 9,054,858,987

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

1

	STATE CONTRIBUTION ACCOUNT	
	1995	1994
Revenues:		
State Contributions - General Revenue	\$ 963,322,791	\$ 943,184,853
State Contributions - School Districts	66,851,022	41,215,131
Reinstatement Fees	17,361,590	15,346,429
TOTAL REVENUES	\$ 1,047,535,403	\$ 999,746,413
Operating Transfers In:		
Allocation from Interest Account	\$ 484,174,003	\$ 376,683,351
Transfer from Interest Account for Balance of the Reserve for Gain or Loss on Securities	1,603,365,610	2,287,262,943
Retirement Benefits Forfeited While Member Returned to Teaching	2,560,477	1,997,619
Retirement Benefits Waived by Member	508,905	536,368
Transfer from Retired Reserve Account Based on Actuarial Valuation as of August 31, 1994		33,433,236
TOTAL OPERATING TRANSFERS IN	\$ 2,090,608,995	\$ 2,699,913,517
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 1,144,734,171	\$ 1,189,386,749
Transfer to Retired Reserve Account Based on Actuarial Valuation as of August 31, 1995	922,174,061	
Transfer to Retired Reserve Account for Retirement Increases per S.B. 9, 74th Leg., Reg. Sess. (1995)	2,022,929,000	
TOTAL OPERATING TRANSFERS OUT	\$ 4,089,837,232	\$ 1,189,386,749
Net Increase/(Decrease) in Account Balance	\$ (951,692,834)	\$ 2,510,273,181
Account Balance - Beginning September 1	9,289,128,390	6,778,855,209
Account Balance - Ending August 31	\$ 8,337,435,556	\$ 9,289,128,390

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

1

	RETIRED RESERVE ACCOUNT	
	1995	1994
Revenues:		
Transfers from Employees Retirement System of Texas	\$ 269,026	\$ 70,646
Expenses:		
Benefits Paid:		
Service Retirement Annuities	\$ 1,515,959,180	\$ 1,392,447,009
Disability Retirement Annuities	65,374,008	61,572,960
Death and Survivor Benefits		
Accumulated Savings	410,285	232,685
Annual Salary	28,803,326	30,081,226
Survivor Annuities	48,920,837	49,410,180
Life Annuities	34,225,477	32,065,818
60 Monthly Payments	3,447,037	3,125,245
Remainder of Contributions	2,175,462	1,687,638
Transfers to Employees Retirement System of Texas	4,863,571	3,140,941
TOTAL EXPENSES	\$ 1,704,179,183	\$ 1,573,763,702
Operating Transfers In:		
Transfer from Member Savings Account to Fund Benefits	\$ 394,781,540	\$ 382,596,152
Transfer from State Contribution Account to Fund Benefits	1,144,734,171	1,189,386,749
Allocation from Interest Account	1,166,678,646	1,088,783,708
Transfer from Member Savings Account for Dormant Accounts	1,993,772	831,166
Transfer from State Contribution Account Based on Actuarial Valuation as of August 31, 1995	922,174,061	
Transfer from State Contribution Account for Retirement Increases per S.B. 9, 74th Leg., Reg. Sess. (1995)	2,022,929,000	
TOTAL OPERATING TRANSFERS IN	\$ 5,653,291,190	\$ 2,661,597,775
Operating Transfers Out:		
Retirement Benefits Forfeited While Member Returned to Teaching	\$ 2,560,265	\$ 1,997,407
Retirement Benefits Waived by Member	369,684	379,949
Transfer to State Contribution Account Based on Actuarial Valuation as of August 31, 1994		33,433,236
TOTAL OPERATING TRANSFERS OUT	\$ 2,929,949	\$ 35,810,592
Net Increase in Account Balance	\$ 3,946,451,084	\$ 1,052,094,127
Account Balance - Beginning September 1	14,625,689,472	13,573,595,345
Account Balance - Ending August 31	\$ 18,572,140,556	\$ 14,625,689,472

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

	BENEFIT INCREASE RESERVE ACCOUNT	
	1995	1994
Expenses:		
Benefits Paid from Increases	\$ 27,836,885	\$ 30,353,457
Operating Transfers In:		
Allocation from Interest Account	\$ 33,503,232	\$ 32,803,793
Operating Transfers Out:		
Retirement Benefits Forfeited While Member		
Returned to Teaching	\$ 212	\$ 212
Retirement Benefits Waived by Member	139,221	156,419
TOTAL OPERATING TRANSFERS OUT	\$ 139,433	\$ 156,631
Net Increase in Account Balance	\$ 5,526,914	\$ 2,293,705
Account Balance - Beginning September 1	286,116,804	283,823,099
Account Balance - Ending August 31	\$ 291,643,718	\$ 286,116,804

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

1

	INTEREST ACCOUNT	
	1995	1994
Revenues:		
Interest on:		
U.S. Treasury Obligations	\$ 303,025,396	\$ 323,814,102
U.S. Government Agency Obligations	459,146,637	394,920,542
Real Estate Mortgages	103,468,215	118,412,570
Mortgage Other	7,042,075	8,543,477
Corporate Bonds	409,606,920	374,465,727
International Bonds	137,529,678	106,213,480
Short-Term Commercial Notes	54,374,798	2,265,486
Cash Balance in State Treasury	18,036,695	44,601,703
Securities Lending Program	4,749,074	2,541,981
Miscellaneous	2,062,052	1,767,036
Dividends	561,133,858	523,638,790
Net Gain on Securities	1,603,365,610	2,287,262,943
Net Gain on Operations of Real Estate Held for Sale	73,240,952	34,042,973
TOTAL REVENUES	\$ 3,736,781,960	\$ 4,222,490,810
Operating Transfers Out:		
Allocation of Interest to		
Member Savings Account	\$ 449,060,469	\$ 410,501,617
State Contribution Account	484,174,003	376,683,351
Retired Reserve Account	1,166,678,646	1,088,783,708
Benefit Increase Reserve Account	33,503,232	32,803,793
Expense Account		26,455,398
Transfer to State Contribution Account for Balance in the Reserve for Gain or Loss on Securities	1,603,365,610	2,287,262,943
TOTAL OPERATING TRANSFERS OUT	\$ 3,736,781,960	\$ 4,222,490,810
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

	EXPENSE ACCOUNT	
	1995	1994
Revenues:		
Membership Fees	\$ 6,113,925	\$ 5,975,259
Miscellaneous Expense Reimbursements	242,797	149,185
TOTAL REVENUES	\$ 6,356,722	\$ 6,124,444
Expenses:		
Operating Expenses:		
Salaries	\$ 16,164,979	\$ 16,001,049
Other Personnel Services	168,337	260,487
Professional Services	3,015,550	2,664,636
Other Operating Expenses - General	6,021,145	6,459,495
Other Operating Expenses - Plant	688,574	732,915
Loss on Disposal of Fixed Assets	80,961	6,468
TOTAL EXPENSES	\$ 26,139,546	\$ 26,125,050
Operating Transfers In:		
Allocation from Interest Account	\$	\$ 26,455,398
Membership Fees Deducted from Refunds	213,105	205,374
TOTAL OPERATING TRANSFERS IN	\$ 213,105	\$ 26,660,772
Net Increase/(Decrease) in Account Balance	\$ (19,569,719)	\$ 6,660,166
Account Balance - Beginning September 1	39,002,902	32,342,736
Account Balance - Ending August 31	\$ 19,433,183	\$ 39,002,902

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

FIDUCIARY FUNDS - YEAR ENDED AUGUST 31, 1995

PENSION TRUST FUND

SCHEDULE

2

	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses/Expenditures:			
Salaries	\$ 13,493,097	\$ 13,321,871	\$ 171,226
Other Personnel Services:			
Employment Agency Workers	\$ 283,658	\$ 197,559	\$ 86,099
Group Health and Life Insurance	1,391,431	1,232,664	158,767
Lump Sum Death Benefit Contingency	2,500		2,500
FICA Taxes	1,431,067	1,361,420	69,647
Workers' Compensation	50,000	50,000	
Unemployment Compensation	5,000	1,465	3,535
Compensable Absences	170,000	168,337	1,663
TOTAL OTHER PERSONNEL SERVICES			
	\$ 3,333,656	\$ 3,011,445	\$ 322,211
Professional Services	\$ 4,185,750	\$ 3,349,313	\$ 836,437
Other Operating Expenses - General:			
Office Supplies	\$ 64,302	\$ 49,163	\$ 15,139
Printing/Video Supplies and Services	414,424	397,017	17,407
EDP Supplies and Services	121,717	108,940	12,777
Microfilm Supplies and Services	35,000	14,015	20,985
Postage	1,023,226	853,991	169,235
Telephone	411,085	321,315	89,770
Mailing Services	98,369	68,156	30,213
Dues, Fees and Staff Development	268,829	180,867	87,962
Office Equipment Maintenance and Repairs	459,971	374,229	85,742
Travel	538,024	388,600	149,424
Rentals	87,295	73,631	13,664
Subscriptions and Reference Materials	199,453	152,540	46,913
Miscellaneous	64,700	43,422	21,278
Investments Custody and Clearing	182,676	123,673	59,003
Software Purchases, Rental and Maintenance	1,677,522	1,421,750	255,772
Fiduciary Liability and Employee Surety			
Bond	341,500	338,788	2,712
Depreciation	1,656,000	1,655,398	602
Equipment Purchases			
TOTAL OTHER OPERATING EXPENSES - GENERAL			
	\$ 7,644,093	\$ 6,565,495	\$ 1,078,598

EXPENDABLE TRUST FUNDS						
PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE			PUBLIC SCHOOL ACTIVE EMPLOYEES INSURANCE RESERVE			
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)	
\$ 382,832	\$ 264,504	\$ 118,328	\$ 3,000	\$ 294	\$ 2,706	
\$ 51,571	\$ 20,363	\$ 31,208	\$	\$	\$	
43,835	29,092	14,743				
\$ 95,406	\$ 49,455	\$ 45,951	\$ -0-	\$ -0-	\$ -0-	
\$ 484,000	\$ 254,369	\$ 229,631	\$ 25,000	\$ 25,000	\$ -0-	
\$ 1,500	\$ 271	\$ 1,229	\$ 500	\$	\$ 500	
28,500	27,101	1,399	50		50	
46,696	27,714	18,982	2,850	1,183	1,667	
130,500	124,352	6,148	1,100	1,084	16	
2,500	1,345	1,155				
13,000	6,135	6,865				
5,535	3,118	2,417				
4,000	2,160	1,840				
30,250	16,220	14,030				
43,100	42,220	880				
1,000	800	200				
1,000	31	969				
3,000	144	2,856				
6,300	1,134	5,166				
4,204	3,553	651				
\$ 321,085	\$ 256,298	\$ 64,787	\$ 4,500	\$ 2,267	\$ 2,233	

(to next page)

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

FIDUCIARY FUNDS - YEAR ENDED AUGUST 31, 1995

(concluded)

SCHEDULE

2

PENSION TRUST FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
Other Operating Expenses - Plant:			
Building Maintenance	\$ 75,095	\$ 61,311	\$ 13,784
Elevator Maintenance	47,999	44,843	3,156
Mechanical Equipment Maintenance	33,243	32,949	294
Grounds and Parking Maintenance	17,200	16,027	1,173
Custodial Services	123,700	114,077	9,623
Custodial Supplies	25,892	22,591	3,301
Insurance	51,920	46,643	5,277
Utilities - Natural Gas	15,000	7,343	7,657
Utilities - Electricity	325,000	313,896	11,104
Utilities - Water/Wastewater	35,000	25,323	9,677
Building Services - Other	10,840	6,021	4,819
TOTAL OTHER OPERATING EXPENSES - PLANT	\$ 760,889	\$ 691,024	\$ 69,865
TOTAL OTHER OPERATING EXPENSES	\$ 8,404,982	\$ 7,256,519	\$ 1,148,463
Nonbudgeted Expenses (Loss on Disposal of Fixed Assets)	\$ -0-	\$ 80,961	\$ (80,961)
TOTAL ADMINISTRATIVE EXPENSES/EXPENDITURES	\$ 29,417,485	\$ 27,020,109	\$ 2,397,376
Expenses			
Pension Trust Fund:			
Total From Expense Account - Schedule 1		\$ 26,139,546	
Add Differences Between GAAP Basis and Budgetary Basis Payables:			
Professional Services		333,763	
Other Operating Expenses - General		616,340	
Other Operating Expenses - Plant		2,450	
Less: Equipment Purchases Expensed in Current Year		(71,990)	
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE BUDGETARY BASIS SCHEDULE		\$ 27,020,109	
Capital Outlay:			
Equipment Purchases	\$ 1,041,989	\$ 973,696	\$ 68,293
Building Improvements	16,279	6,256	10,023
TOTAL CAPITAL OUTLAY	\$ 1,058,268	\$ 979,952	\$ 78,316

EXPENDABLE TRUST FUNDS					
PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE			PUBLIC SCHOOL ACTIVE EMPLOYEES INSURANCE RESERVE		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$	\$	\$	\$
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
\$ 321,085	\$ 256,298	\$ 64,787	\$ 4,500	\$ 2,267	\$ 2,233
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
\$ 1,283,323	\$ 824,626	\$ 458,697	\$ 32,500	\$ 27,561	\$ 4,939

Expenditures

**Public School Retired Employees
Group Insurance:**

Total Administrative Expenditures - Exhibit C	\$ 826,198
Less Differences Between GAAP Basis and Budgetary Basis Payables:	
Other Operating Expenses - General	(1,572)

TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE BUGETARY BASIS SCHEDULE	\$ 824,626
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Comparative Schedule of Investment Portfolio**PENSION TRUST FUND**

SCHEDULE

3

	TOTAL	U.S. TREASURY BONDS	U.S. GOVT AGENCY OBLIGATIONS
<i>YEAR ENDED AUGUST 31, 1995</i>			
Additions:			
Purchases	\$ 8,594,723,598	\$ 209,956,569	\$ 1,292,160,176
Exchanges - In	3,119,007,944		1,747,184,360
Discount/Premium Amortized	46,915,782	11,537,232	29,812,232
Non-Monetary/Foreclosures	156,360,985		14,543,050
TOTAL ADDITIONS	\$11,917,008,309	\$ 221,493,801	\$ 3,083,699,818
Deductions:			
Bond Calls and Maturities	\$ 386,925,800		\$ 213,043,128
Sales	4,398,758,647	308,679,183	26,938,867
Exchanges - Out	3,347,879,430	263,725,697	1,673,244,729
Non-Monetary	104,637,912		14,577,997
TOTAL DEDUCTIONS	\$ 8,238,201,789	\$ 572,404,880	\$ 1,927,804,721
Net Increase (Decrease)	\$ 3,678,806,520	\$ (350,911,079)	\$ 1,155,895,097
Book Value - September 1, 1994	31,846,818,426	3,446,093,974	4,929,159,726
Book Value - August 31, 1995	\$35,525,624,946	\$ 3,095,182,895	\$ 6,085,054,823
Market Value - August 31, 1995	\$44,178,083,790	\$ 3,715,352,669	\$ 6,480,795,393

YEAR ENDED AUGUST 31, 1994

Additions:			
Purchases	\$10,926,746,360	\$ 39,223,000	\$ 1,002,589,776
Exchanges - In	2,125,602,232	35,600,781	1,355,640,831
Discount/Premium Amortized	18,234,037		12,809,631
Non-Monetary/Foreclosures	50,718,809		14,543,050
TOTAL ADDITIONS	\$13,121,301,438	\$ 74,823,781	\$ 2,385,583,288
Deductions:			
Bond Calls and Maturities	\$ 1,558,085,243		\$ 775,862,227
Sales	5,264,134,623	25,508,486	25,841,723
Exchanges - Out	2,183,316,430	275,833,996	1,253,180,083
Premium/Discount Amortized	2,245,673	1,373,523	
Non-Monetary	82,340,269		14,577,997
TOTAL DEDUCTIONS	\$ 9,090,122,238	\$ 302,716,005	\$ 2,069,462,030
Net Increase (Decrease)	\$ 4,031,179,200	\$ (227,892,224)	\$ 316,121,258
Book Value - September 1, 1993	27,815,639,226	3,673,986,198	4,613,038,468
Book Value - August 31, 1994	\$31,846,818,426	\$ 3,446,093,974	\$ 4,929,159,726
Market Value - August 31, 1994	\$37,484,542,477	\$ 3,906,350,232	\$ 4,945,452,285

MORTGAGES OTHER	CORPORATE BONDS	INTER- NATIONAL BONDS	REAL ESTATE MORTGAGES	EQUITIES & ALTERNATIVE ASSETS	REAL ESTATE HELD FOR SALE
\$	\$ 800,788,966	\$ 281,153,808	\$	\$ 5,982,270,497	\$ 28,393,582
1,300	980,902,579	390,921,005			
	4,434,543	1,130,475		34,567,935	107,250,000
\$ 1,300	\$1,786,126,088	\$ 673,205,288	\$	\$ 6,016,838,432	\$ 135,643,582
\$ 1,754,139	\$ 115,067,319	\$	\$ 57,061,214	\$	\$
	77,475,781	38,914,107		3,836,293,955	110,456,754
	1,022,459,016	388,449,988			
			76,503,394		13,556,521
\$ 1,754,139	\$1,215,002,116	\$ 427,364,095	\$ 133,564,608	\$ 3,836,293,955	\$ 124,013,275
\$ (1,752,839)	\$ 571,123,972	\$ 245,841,193	\$ (133,564,608)	\$ 2,180,544,477	\$ 11,630,307
50,957,704	4,832,155,381	1,578,860,842	1,115,282,191	15,387,090,024	507,218,584
\$ 49,204,865	\$5,403,279,353	\$1,824,702,035	\$ 981,717,583	\$17,567,634,501	\$ 518,848,891
\$ 63,714,480	\$5,750,352,153	\$1,949,117,123	\$1,034,040,000	\$24,649,645,972	\$ 535,066,000
\$	\$ 868,573,945	\$ 254,376,602	\$ 3,314,806	\$ 8,732,616,342	\$ 26,051,889
7,294	438,851,408	295,509,212			
	5,417,112			19,277,556	16,898,203
\$ 7,294	\$1,312,842,465	\$ 549,885,814	\$ 3,314,806	\$ 8,751,893,898	\$ 42,950,092
\$ 15,197,373	\$ 650,039,499	\$ 14,049,103	\$ 102,937,041	\$	\$
	13,485,726	206,515,461		5,199,298,688	
	447,786,890	637,165	234,985		
			53,650,088		14,112,184
\$ 15,197,373	\$1,111,312,115	\$ 221,201,729	\$ 156,822,114	\$ 5,199,298,688	\$ 14,112,184
\$ (15,190,079)	\$ 201,530,350	\$ 328,684,085	\$ (153,507,308)	\$ 3,552,595,210	\$ 28,837,908
66,147,783	4,630,625,031	1,250,176,757	1,268,789,499	11,834,494,814	478,380,676
\$ 50,957,704	\$4,832,155,381	\$1,578,860,842	\$ 1,115,282,191	\$15,387,090,024	\$ 507,218,584
\$ 64,385,876	\$4,758,379,738	\$1,588,367,595	\$ 1,176,072,000	\$20,538,316,167	\$ 507,218,584

Schedule of Cash Receipts and Disbursements**PENSION TRUST FUND**

Cash and Cash Equivalents - Balance at September 1, 1994		\$ 1,240,018,156
Add Receipts:		
Member Contributions	\$ 965,049,785	
Employer Contributions	1,051,180,564	
Interest and Dividends	2,041,118,928	
Investment Sales	9,289,253,571	
Investment Calls and Maturities	412,370,957	
Miscellaneous Expense Reimbursements	305,040	
Transfers from Employees Retirement System of Texas	<u>269,026</u>	
TOTAL CASH RECEIPTS		13,759,547,871
Less Disbursements:		
Benefit Payments	\$ 1,730,303,829	
Member Withdrawals	146,088,535	
Investment Purchases	11,779,154,027	
Administrative Expenses	26,070,971	
Capital Outlay	<u>655,954</u>	
TOTAL CASH DISBURSEMENTS		<u>(13,682,273,316)</u>
Cash and Cash Equivalents - Balance at August 31, 1995		<u><u>\$ 1,317,292,711</u></u>

SCHEDULE

4

ACTUARIAL
SECTION



December 15, 1995

BOARD OF TRUSTEES

Teacher Retirement System of Texas

Summary of Actuarial Report Requested by State Auditor

The State Auditor's Office has requested that we summarize the results of the actuarial valuation of the Teacher Retirement System of Texas as of August 31, 1995. The actuarial valuation report reveals that the Teacher Retirement System of Texas is an actuarially sound system. Based on the current actuarial assumptions, the present actuarial value of assets (\$43.4 billion) plus the contributions required by the law in the future will be sufficient to meet the payments to the present active and retired members and their beneficiaries under current benefit provisions which include the 1995 legislative changes.

The actuarial assumptions and methods used in this valuation are those adopted by the board based on the 1990 and 1993 Experience Studies:

1. Mortality for the retired members is based on the 1983 Group Annuity Mortality Table for males with a two-year setback in age and the 1983 Group Annuity Mortality Table for females with a one-year setback in age. An extensive study of actual mortality experience of retired members under the system indicates that these mortality tables are appropriate.

2. Mortality for active members is based on a table constructed from the actual experience of the Teacher Retirement System of Texas.

3. Disability, retirement, and withdrawal rates are based on actual experience of the Teacher Retirement System of Texas. Retirement and withdrawal rates take a select and ultimate form.

4. An investment return assumption of 8%, compounded annually, is used with regard to computations for retired persons and for active members.

5. The salary scale for projecting future salaries is based on the actual 1990-1993 experience of the Teacher Retirement System of Texas and consists of a step-rate/promotional salary scale table plus a general salary increase assumption of 4¼%.

6. The actuarial value of assets is determined by recognizing total market value return in excess of (less than) the current assumption rate, 20% per year over five years.

7. Funding of the unfunded actuarial accrued liability is based on the excess of assumed future state contributions over the amount of such contributions required to fund the normal cost of benefits provided by the system. Basing the normal cost for the system on a study of all new entrants hired in the period from 1985 through 1990, the normal cost is 11.24% of payroll (6.40% by members plus 4.84% by the state), which is 1.16% of payroll less than the total contributions being paid by the members and by the state. It is assumed that the excess amount of 1.16% of payroll contributed by the state will be utilized to fund the unfunded actuarial accrued liability of \$1,956 million (as shown on the actuarial balance sheet) over a period of 14.0 years in the future, assuming that payroll grows at an aggregate compound rate of 4.25% per year. All funding calculations assume that the state contribution rate will remain at 6.00%.

Based on the above assumptions and the actuarial results shown in the report, it is our opinion that the Teacher Retirement System of Texas is actuarially sound and if the payroll in the future increases at the rate of 4.25%, compounded annually, the unfunded actuarial accrued liability of \$1,956 million will be amortized over a period of 14.0 years in the future.

Respectfully submitted,



W. Michael Carter, FSA
Actuary

Actuarial Balance SheetSHOWING PRESENT AND PRIOR YEAR ASSETS AND LIABILITIES AFTER ACTUARIAL
ADJUSTMENTS TO RETIRED RESERVE ACCOUNT (Actuarial Valuation as of August 31, 1995)

ACTUARIAL ASSETS	August 31,	
	1995	1994
Present Assets at Actuarial Value:		
Retired Reserve Account (Actuarially Determined)	\$ 18,573,343,902	\$ 14,912,343,066
Member Savings Account	9,887,860,575	9,054,695,581
State Contribution Account	8,613,346,102	9,290,493,006
Expense Accounts and Miscellaneous	306,631,132	381,971,189
TOTAL PRESENT ASSETS	\$ 37,381,181,711	\$ 33,639,502,842
Adjustment to Book Value Due to Actuarial Asset Valuation Method	6,061,057,699	5,203,240,394
TOTAL ACTUARIAL VALUE OF PRESENT ASSETS	\$ 43,442,239,410	\$ 38,842,743,236
Prospective Assets:		
Present Value of Future Contributions by Present Members	\$ 11,309,029,598	\$ 10,743,241,857
Present Value of Future Normal Costs Contributed by the State	8,552,453,634	7,939,927,185
Unfunded Actuarial Accrued Liability	1,955,710,312	825,224,477
TOTAL PROSPECTIVE ASSETS	\$ 21,817,193,544	\$ 19,508,393,519
TOTAL ACTUARIAL ASSETS	\$ 65,259,432,954	\$ 58,351,136,755

ACTUARIAL LIABILITIES	August 31,	
	1995	1994
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 17,471,915,902	\$ 13,898,290,206
Disability Retirement Benefits	552,981,000	466,410,288
Death Benefits	442,769,000	318,187,872
Present Survivor Benefits	105,678,000	105,090,540
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 18,573,343,902	\$ 14,787,978,906
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 41,137,026,103	\$ 38,200,077,432
Disability Retirement Benefits		
Disability Prior to Vesting	\$ 12,568,568	\$ 4,148,341
Disability After Vesting	1,469,828,205	1,373,436,767
TOTAL DISABILITY BENEFITS	\$ 1,482,396,773	\$ 1,377,585,108
Refunds of Contributions on Withdrawal	\$ 2,078,889,270	\$ 1,984,499,721
Death and Survivor Benefits		
Two Times Pay	\$ 309,772,948	\$ 252,026,029
Refund of Contributions	4,865,014	4,518,600
Five Year Annuity	127,615,168	130,684,803
Life Annuity	454,396,864	434,147,565
Survivor Benefit	50,954,659	25,234,102
TOTAL DEATH BENEFITS	\$ 947,604,653	\$ 846,611,099
TOTAL ACTIVE MEMBER LIABILITIES	\$ 45,645,916,799	\$ 42,408,773,360
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Terminated Vested Participants		
Retirement Benefits	\$ 231,090,781	\$ 253,855,841
Death Benefits	1,936,147	1,785,973
TOTAL TERMINATED VESTED BENEFITS	\$ 233,026,928	\$ 255,641,814
Refunds of Contributions to Terminated Non-vested Members	\$ 9,340,436	\$ 7,971,605
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 463,327,000	\$ 476,180,118
TOTAL INACTIVE LIABILITIES	\$ 705,694,364	\$ 739,793,537
Other Liabilities and Reserves:		
Reserve for Expenses, Benefits, and Accounts Payable	\$ 334,477,889	\$ 414,590,952
TOTAL OTHER LIABILITIES	\$ 334,477,889	\$ 414,590,952
TOTAL ACTUARIAL LIABILITIES	\$ 65,259,432,954	\$ 58,351,136,755

Actuarial Information

AS OF AUGUST 31, 1995

The actuarial valuation of TRS is prepared by the 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 are identified in the actuary's letter.

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 Annuitants - Investment Yield Rate: 8% per annum, compounded annually. Mortality: Rates developed in the actuarial investigation as of August 31, 1990.

Active and Inactive Members - Investment Yield Rate: 8% per annum, compounded annually. Mortality, Withdrawal, Disability Retirement and Service Retirement Rates: Rates and scales developed in the actuarial investigations as of August 31, 1990 and August 31 1993, 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	0.1000	
55	0.0023	0.0089	0.0143	0.1000	0.1000	0.1000	0.1000	
60	0.0064	0.0247	0.0514	0.1829	0.1829	0.1453	0.2224	
65	0.0643	0.2474	0.2613	0.3711	0.3711	0.3464	0.3464	
70	0.0645	0.2480	0.2777	0.2976	0.2976	0.2976	0.4712	
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	0.1000
55	0.0125	0.0271	0.0170	0.0900	0.0800	0.0820	0.1000
60	0.0238	0.0516	0.0595	0.1696	0.1507	0.1626	0.2331
65	0.1282	0.2778	0.2087	0.2996	0.2663	0.3097	0.3727
70	0.1493	0.3234	0.2090	0.3135	0.2787	0.2856	0.4727
74	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

*Rates double upon attainment of age 55 or older and 30 or more years of service provided member is not already eligible for unreduced retirement.

Years of Service	RATES OF SALARY INCREASE			
	Annual Step Rate/ Promotional Rates of Increase		Total Annual Rate of Increase Including 4% General Increase Rate	
	Males	Females	Males	Females
1	20.00%	17.40%	24.75%	22.15%
2	2.90	2.90	7.65	7.65
3	2.30	2.80	7.05	7.55
4	1.50	2.40	6.25	7.15
5	1.40	2.00	6.15	6.75
6	1.30	1.80	6.05	6.55
7	1.25	1.60	6.00	6.35
8	1.20	1.50	5.95	6.25
9	1.15	1.40	5.90	6.15
10	1.10	1.20	5.85	5.95
11-19	0.90	0.90	5.65	5.65
20 or more	0.00	0.00	4.75	4.75

Service Retirement Annuitants, Nominees and Survivors - Investment Yield Rate: 8% per annum, compounded annually, including special legislative increases. Mortality: 1983 Group Annuity Male Mortality Table with a two-year setback and the 1983 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, 1990.

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 recent changes in benefit provisions, the normal cost for benefits provided by the system is 11.24% of payroll (6.40% by members plus 4.84% by the state), which is 1.16% of payroll less than the total contributions required by law. It is assumed that the excess amount of 1.16% 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 4.25% per year.

Assumed State Contribution Rate - TRS statutes technically provide that the state contribution rate should have reverted to 8% beginning in 1993-94. The Appropriations Act, however, established an actual contribution rate of 6.00% for 1995-96 and 1996-97. Given legislative history since 1983 concerning 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	Valuation Year	Number	Annual Payroll In Thousands	Average Annual Pay	Annual Percentage Increase In Average Pay
1986	432,749	\$8,237,134	\$19,034	4.4%	1991	502,625	\$11,180,879	\$22,245	2.9%
1987	443,593	8,646,419	19,492	2.4	1992	521,661	11,959,148	22,929	3.1
1988	445,460	9,165,588	20,124	3.2	1993	575,088	13,390,745	23,285	1.6
1989	470,042	9,763,603	20,772	3.2	1994	600,484	14,167,220	23,593	1.3
1990	483,262	10,446,100	21,615	4.1	1995	625,878	14,888,493	23,788	.8

Actuarial Information

AS OF AUGUST 31, 1995

SUMMARY OF ACCRUED AND UNFUNDED LIABILITIES

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)

Valuation As Of August 31	Aggregate Actuarial Accrued Liabilities *	Valuation Assets	Assets As A % Of Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL As A % Of Active Member Payroll
1995	\$45,398	\$43,442	95.7%	\$1,956	\$14,888	13.1%
1994	39,668	38,843	97.9	825	14,167	5.8
1993	38,619	35,179	91.1	3,440	13,391	25.7
1992	34,643	31,201	90.1	3,441	11,959	28.8
1991	32,289	28,860	89.4	3,429	11,181	30.7
1990	29,455	26,111	88.6	3,343	10,446	32.0
1989	26,790	23,301	87.0	3,488	9,764	35.7
1988	23,985	20,095	83.8	3,890	9,166	42.4
1987	22,151	18,055	81.5	4,096	8,646	47.4
1986	20,304	14,939	73.6	5,365	8,237	65.1

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 Active** Member Contri- butions	2 Retirees And Benefi- ciaries	3 Active Members (State Financed Portion)		1 Active Member Contri- butions	2 Retirees And Benefi- ciaries	3 Active Members (State Financed Portion)
1995	\$9,888	\$18,573	\$16,937	\$43,442	100%	100%	88.5%
1994	9,055	14,788	15,825	38,843	100	100	94.8
1993	8,279	13,746	16,594	35,179	100	100	79.3
1992	7,505	11,891	15,247	31,201	100	100	77.4
1991	6,819	11,143	14,327	28,860	100	100	76.1
1990	6,193	9,707	13,555	26,111	100	100	75.3
1989	5,634	8,589	12,567	23,301	100	100	72.2
1988	5,057	7,499	11,429	20,095	100	100	66.0
1987	4,517	6,960	10,674	18,055	100	100	61.6
1986	4,046	5,956	10,303	14,939	100	100	47.9

* The liability for active members included in this total is calculated under the entry age normal actuarial cost method and includes a projection of future salary increases and anticipated future service.

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

INVESTMENT
SECTION



INVESTMENT OVERVIEW

Authority

The Constitution of the State of Texas provides that the board of trustees shall 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 prudent person standard has enabled the board of trustees to enhance control over fund risk and return parameters.

Policy

The board has set high quality investment standards with prime consideration given to safety of capital and maximum income, sustainable over time. In order to ensure a continuing flow of income to be used to pay benefits promised to participants years into the future, emphasis is placed on quality, potential long-term return, and optimal diversification.

Operations

Trustees are assisted in the implementation of investment objectives by an investment and executive staff and outside professional counsel.

The investment staff is responsible for management of the funds of the system within the provisions of the investment policy as established by the board. They are also responsible for execution of all securities transactions and report quarterly to the board.

The Investment Committee of the Board, established September 1, 1994, is responsible for oversight of investment activities. It meets at least quarterly prior to the regular board meeting with representatives of the staff and investment counsel, as required, to receive reports from the staff and investment counsel; to review performance, asset mix, portfolio characteristics, cash flow, transactions, changes to the list of approved stocks, and make appropriate recommendations to the board; and to obtain such expert advice and assistance with respect to its actions as is necessary to exercise its responsibilities prudently. The board also retains investment advisors to provide independent comment and perspective on staff recommendations. TRS retains Wellington Management Company of Boston as general outside investment counsel.

All purchases, sales and exchanges of securities are made by the staff in accordance with the constitutional authority granted to the board of trustees, further restricted by the policy and quarterly instructions pertaining to specific securities and asset allocation, as well as yield and price objectives. Conventional institutional investment practices are followed in adhering to the "prudent person rule."

Four real estate advisors are utilized to assist in the selection and management of real estate investments. They are: LaSalle Advisors, Chicago; INVESCO Realty Advisors, Dallas; MacFarlane Partners, San Francisco; and L. J. Melody & Co., Houston.

Portfolio

All markets rebounded strongly during the past year. The combination of moderate growth, low inflation, stronger corporate balance sheets, and lower interest rates produced an environment favoring financial assets. The Federal Reserve Board's gradual tightening of monetary policy helped significantly in bringing about these results. Its attempt to produce a "soft landing," and economic slowdown without a recession, has thus far proven successful.

The TRS portfolios participated meaningfully in the stock market rally. An important element of the overall philosophy applied to the management of the portfolios is that market timing is not a useful exercise. Cash flow is reinvested in the assets that offer the greatest potential returns while observing the policy ranges established by the board in order to provide optimal diversification. Many investors became bearish in 1995 as the markets moved higher and, consequently, raised cash by selling stocks and reinvesting the proceeds in short-term fixed income securities. Some of the arguments for a setback in the equity market were low dividend yields, high price-to-book value ratios, and declining corporate earnings resulting from a slowing economy. Earnings, however, surprised on the upside. Bond yields declined dramatically, and there was an unprecedented flow of individual money into mutual funds. Cash held by many portfolio managers hurt performance in 1995. The long-awaited correction will occur, but it does seem that the favorable economic environment will help to cushion any decline in stock prices.

Bond yields declined for most of the year, continuing to produce historically high returns. Because the TRS portfolio is always structured with a relatively long duration, returns outpaced the market. The staff's continuing effort to protect the portfolio from calls and refunding played an important role in the performance. During the year, the yield curve flattened substantially because of the decrease in long-term yields caused by a favorable outlook for inflation and the rise in short-term yields caused by tighter monetary policy. This event benefited the TRS portfolio relative to other fund managers. Low inflation is a very positive factor for the bond market. With most economists expecting this condition to continue for some time, bond yields could remain low for an extended period.

The real estate market continues to recover and the TRS real estate portfolio has continued to improve. Considerable progress has been made in disposing of owned properties. Our loan administration program is also creating additional value though close attention to our borrowers' obligations and by bringing some of the loan-servicing function in-house. In some markets, real estate product availability appears to be slipping behind demand. We view this positively as an investor.

Overall, the environment for financial assets is favorable. If our national leadership produces an effective deficit reduction package, the stage could be set for an extended bullish environment for financial assets. We continue to believe that the remainder of the 90s will produce positive portfolio returns but that they will moderate from those experienced in the 80s.

Total Time Weighted Returns *

PENSION TRUST FUND - FOR PERIODS ENDING SEPTEMBER 30

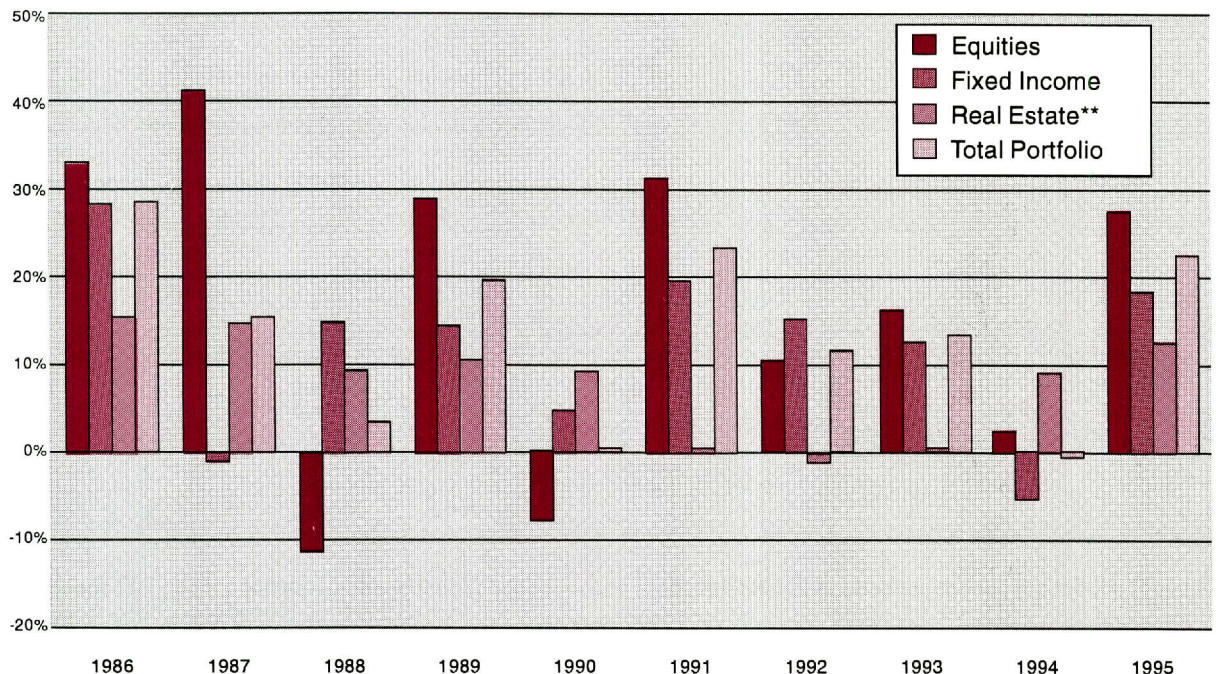
	1986	1987	1988	1989	1990
Total Portfolio					
TRS	28.5%	15.4%	3.4%	19.7%	0.1%
Inflation	1.8%	4.4%	4.2%	4.3%	6.5%
Equities					
TRS	33.0%	41.1%	-11.3%	28.8%	-8.1%
S&P 500	32.0%	43.2%	-12.3%	32.8%	-9.4%
Fixed Income					
TRS	28.2%	-1.1%	14.9%	14.3%	5.6%
Lehman Bros. Aggregate Index	20.3%	0.3%	13.3%	11.3%	7.6%
Real Estate**					
TRS	15.4%	14.8%	9.4%	10.6%	9.1%
NCREIF Property Index	9.0%	4.9%	7.0%	6.9%	5.4%
Asset Allocation (Average)					
Equities	38.9%	41.4%	37.2%	40.2%	42.7%
Fixed Income	55.2%	50.3%	51.3%	49.3%	46.5%
Real Estate	5.9%	8.3%	8.5%	8.8%	9.1%
Cash Equivalents	0.0%	0.0%	3.0%	1.7%	1.7%

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

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

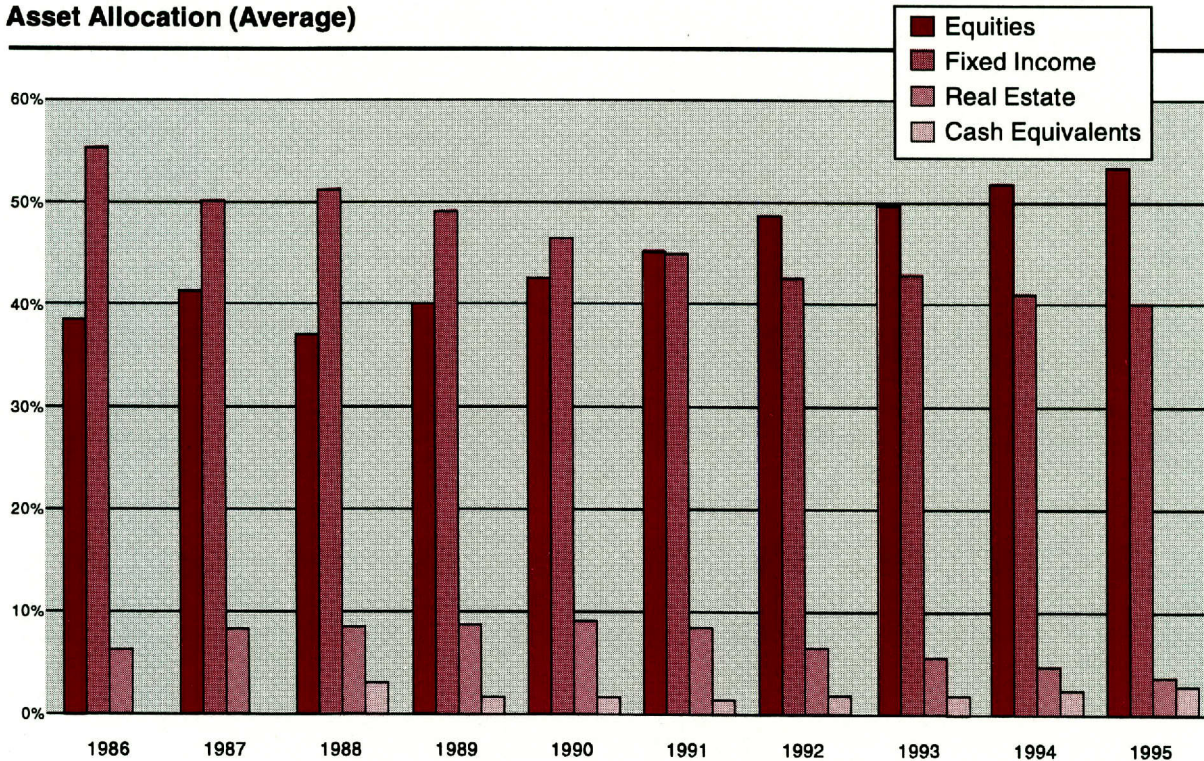
Time Weighted Returns

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

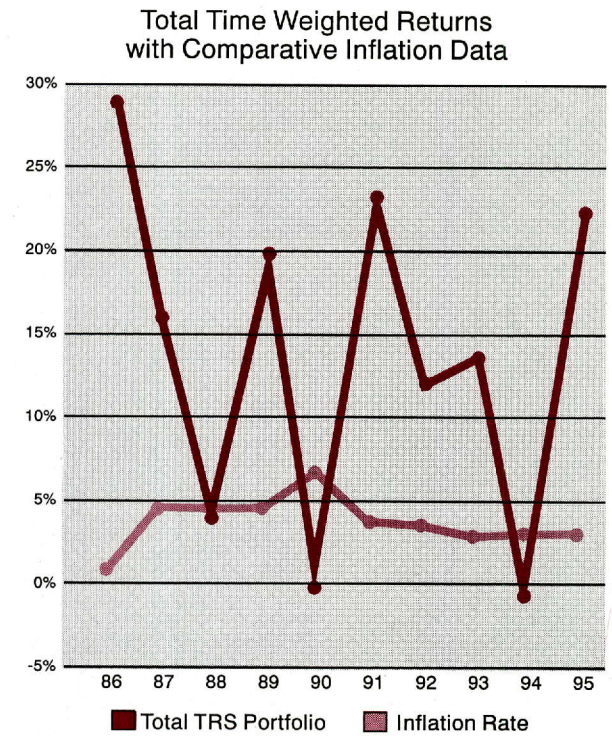
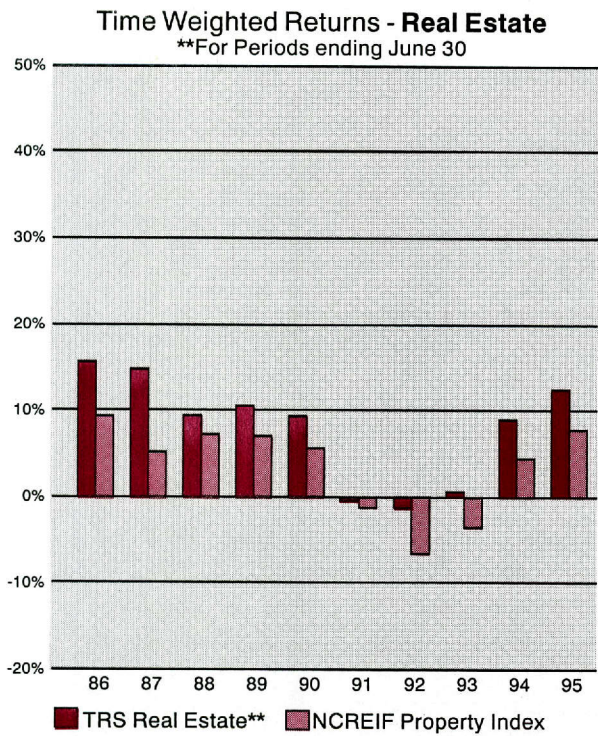
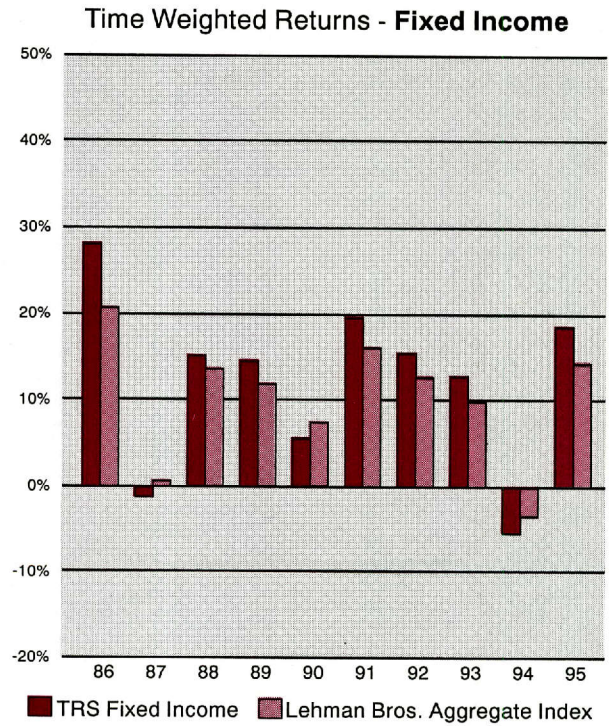
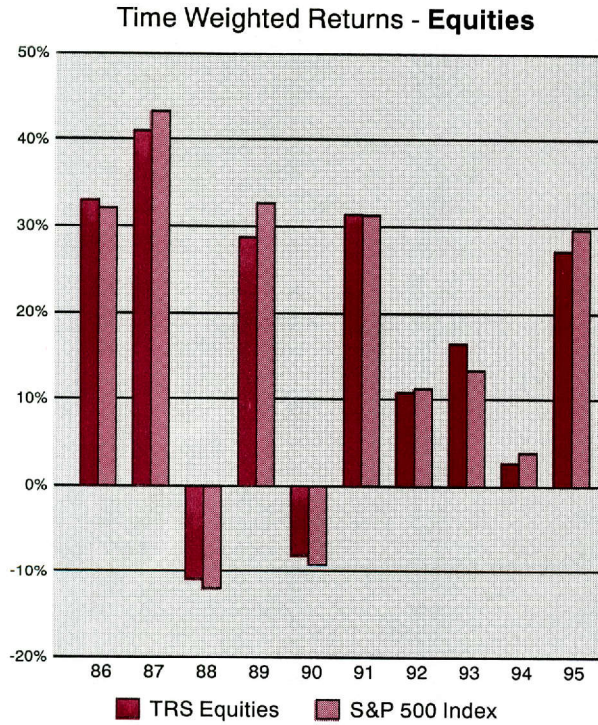


1991	1992	1993	1994	1995	3 Years	5 Years	10 Years
23.2%	11.9%	13.5%	-0.5%	22.4%	11.4%	13.8%	13.3%
3.3%	2.9%	2.5%	2.7%	2.6%	2.6%	2.8%	3.5%
31.4 %	10.8%	16.1%	2.4%	27.5%	14.9%	17.2%	15.8%
31.3%	11.0%	12.9%	3.7%	29.7%	14.9%	17.2%	16.0%
19.7%	15.6%	12.6%	-5.3%	18.4%	8.1%	11.8%	11.9%
16.0%	12.5%	10.0%	-3.2%	14.1%	6.7%	9.6%	10.0%
-0.1%	-1.2%	0.3%	9.0%	12.6%	7.2%	4.0%	7.8%
-1.2%	-6.8%	-3.7%	4.1%	7.7%	2.8%	0.1%	4.3%
45.2%	48.9%	49.8%	51.9%	53.3%	51.7%	49.8%	45.0%
45.0%	42.7%	42.9%	41.1%	40.1%	41.4%	42.4%	46.4%
8.4%	6.5%	5.5%	4.7%	3.7%	4.6%	5.8%	6.9%
1.4%	1.9%	1.8%	2.3%	2.9%	2.3%	2.0%	1.7%

Asset Allocation (Average)

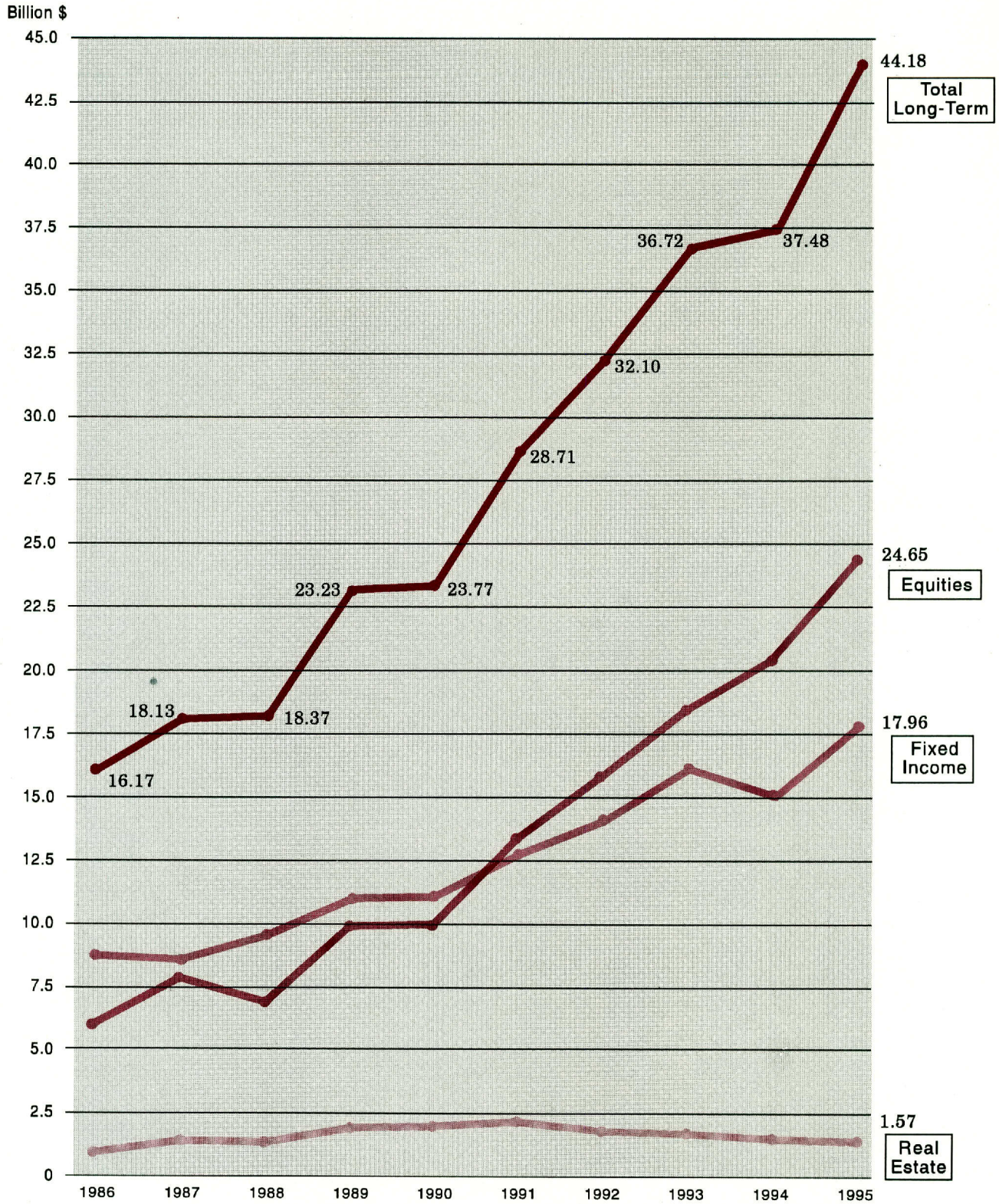


Comparison of Time Weighted Returns with Portfolio Indices



Market Value: Long-Term Investments

PENSION TRUST FUND - FOR PERIODS ENDING AUGUST 31



STATISTICAL
SECTION

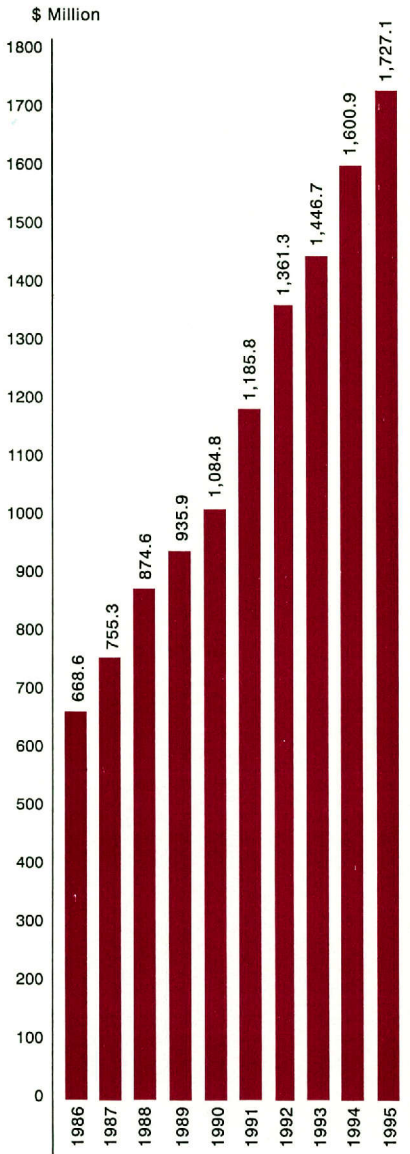


GROWTH OF THE SYSTEM

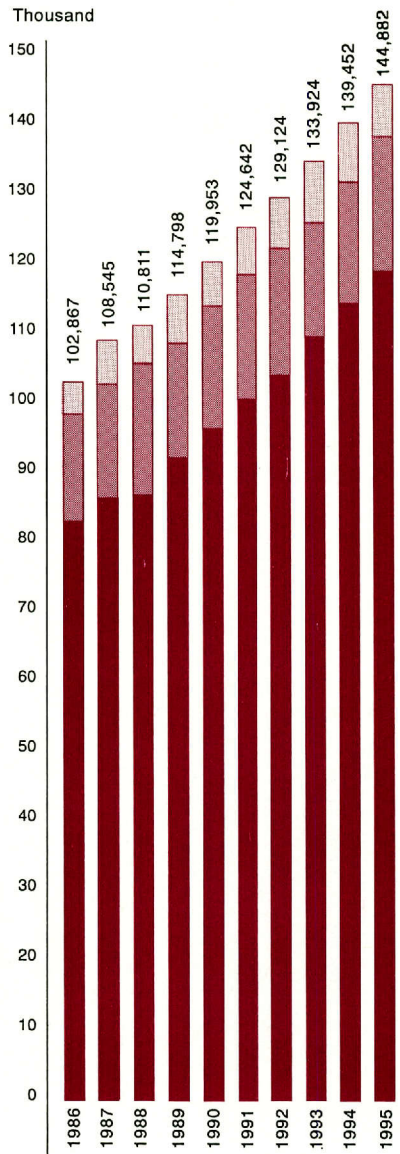
Benefit payments during 1994-95 totaled more than \$1.7 billion, an increase of \$126.2 million over the previous year. By August 1995, the monthly annuity payroll had grown to \$142.6 million, with over 138 thousand annuitants receiving payments. Annuities, including multiple payments to one person and payments deferred to

a later date, totaled 144,882. The number of member accounts increased by 26,125. Market value of the system's net assets increased \$6.73 billion during the year, and the total exceeded \$45.6 billion with an average book yield on investments of 5.89 percent.

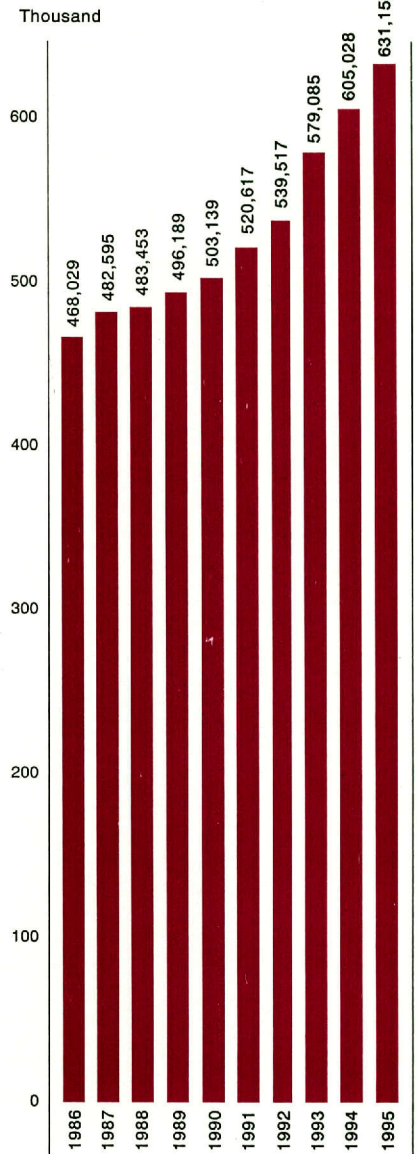
Benefit Payments



Annuities



Member Accounts



- Disability Retirees
- Beneficiaries
- Service Retirees

Revenues and Expenses

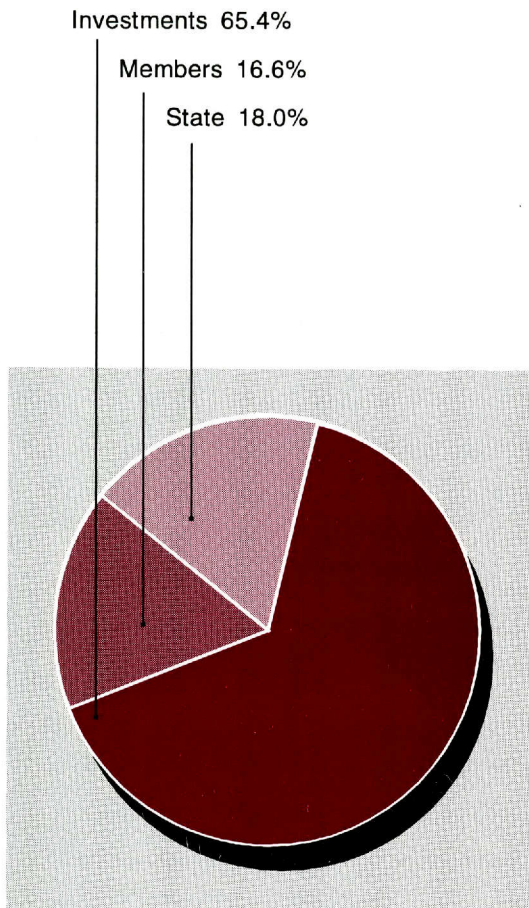
PENSION TRUST FUND

	1995	1994	1993	1992
Revenues:				
From Members	\$ 950,505,029	\$ 903,130,141	\$ 855,583,547	\$ 792,414,689
From State	963,322,791	943,184,853	899,663,369	833,484,443
From School Districts	66,851,022	41,215,131	37,752,217	37,764,914
From Investments	3,736,781,960	4,222,490,810	2,571,376,131	1,982,480,698
From Employees Retirement System	269,026	70,646		
From Other Sources	242,797	149,185	154,375	111,456
TOTAL REVENUES	\$ 5,717,972,625	\$ 6,110,240,766	\$ 4,364,529,639	\$ 3,646,256,200
Expenses:				
For Benefits	\$ 1,727,152,497	\$ 1,600,976,218	\$ 1,446,714,384	\$ 1,361,265,728
For Refunds to Members	146,099,978	133,227,183	122,114,590	130,032,827
For Administration	26,139,546	26,125,050	25,934,080	22,261,611
For Employees Retirement System	4,863,571	3,140,941		
TOTAL EXPENSES	\$ 1,904,255,592	\$ 1,763,469,392	\$ 1,594,763,054	\$ 1,513,560,166

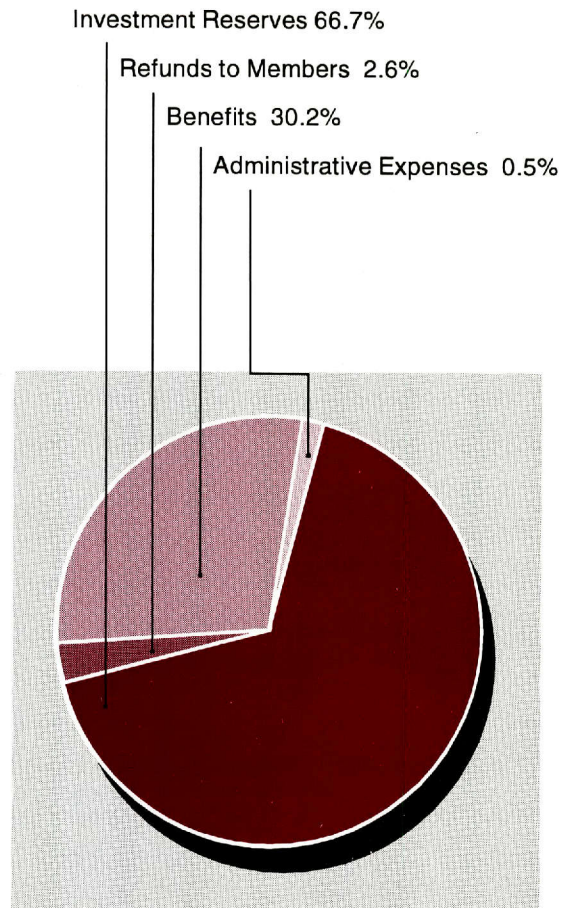


1995

Sources

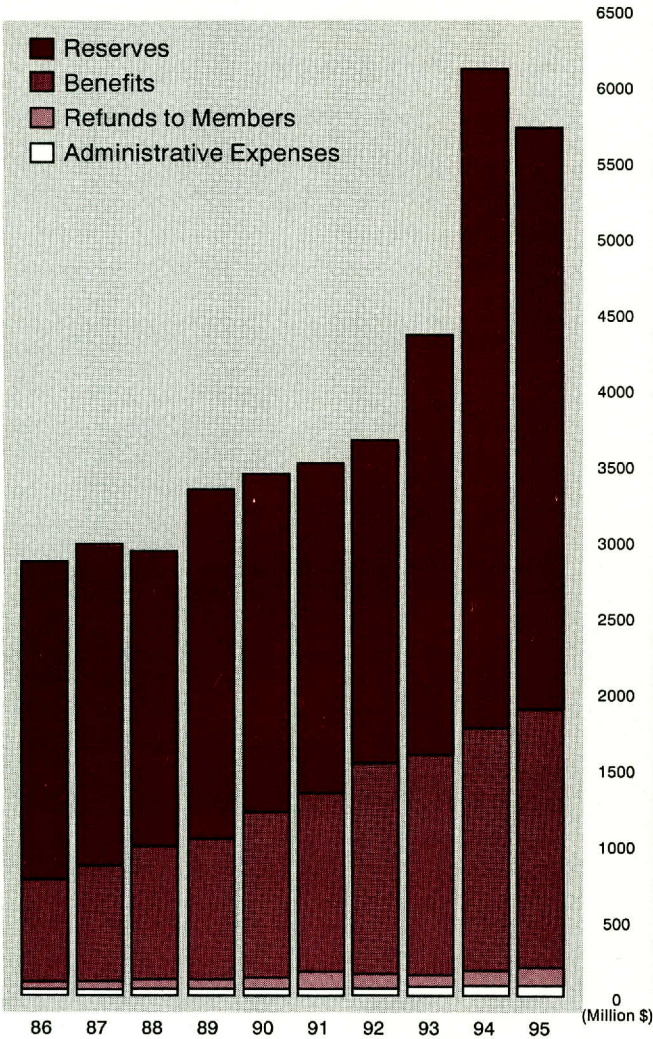


Distributions

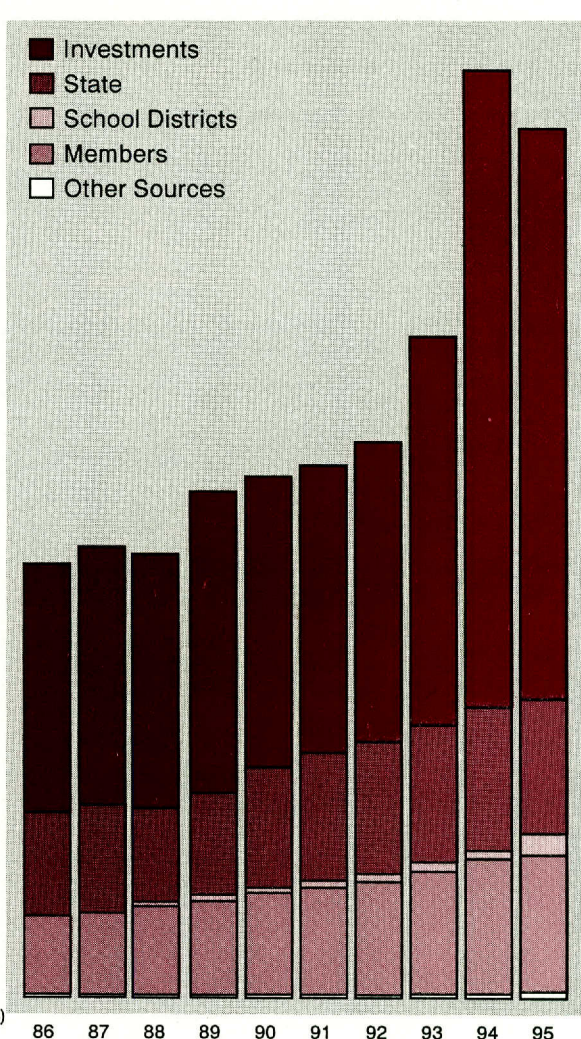


1991	1990	1989	1988	1987	1986
\$ 743,768,119	\$ 699,038,260	\$ 652,065,954	\$ 608,773,980	\$ 575,497,331	\$ 551,144,622
835,973,866	786,037,111	684,702,849	646,612,253	716,368,692	664,423,297
20,350,664	17,227,292	19,941,598	16,610,709		
1,898,037,037	1,915,651,083	1,959,411,514	1,663,221,486	1,700,151,718	1,633,893,596
					2,652,849
101,893	80,646	63,441	65,791	61,882	64,141
\$ 3,498,231,579	\$ 3,418,034,392	\$ 3,316,185,356	\$ 2,935,284,219	\$ 2,992,079,623	\$ 2,852,178,505
\$ 1,185,833,198	\$ 1,084,811,284	\$ 935,943,118	\$ 874,560,122	\$ 755,349,430	\$ 668,607,972
133,870,775	127,848,570	118,507,638	113,178,276	110,658,346	108,618,403
21,216,967	17,174,493	14,374,814	12,796,724	11,369,771	11,116,650
		899,352			
\$ 1,340,920,940	\$ 1,229,834,347	\$ 1,069,724,922	\$ 1,000,535,122	\$ 877,377,547	\$ 788,343,025

Payments & Reserves



Income



Revenues and Expenditures

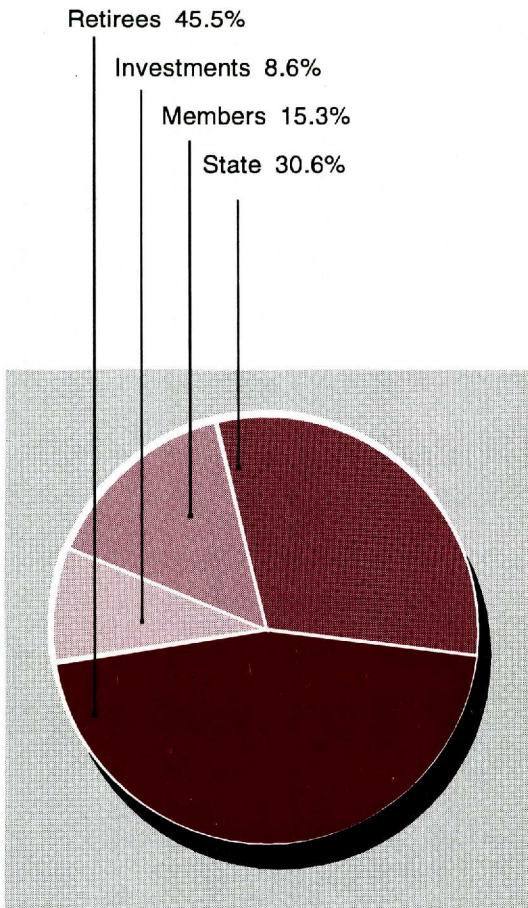
PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE

	1995	1994	1993	1992
Revenues:				
From Members	\$ 29,924,925	\$ 28,456,041	\$ 27,014,703	\$ 25,196,592
From State	59,849,850	56,912,083	54,029,406	50,392,512
From Retirees	89,006,331	80,128,944	65,154,653	56,395,797
From Investments	16,841,673	16,467,438	17,181,190	17,314,372
TOTAL REVENUES	\$ 195,622,779	\$ 181,964,506	\$ 163,379,952	\$ 149,299,273
Expenditures:				
For Claims	\$ 172,836,644	\$ 153,996,753	\$ 142,328,376	\$ 108,137,647
For Retention	11,393,649	10,742,076	9,107,944	7,957,901
For Administration	826,198	926,752	959,415	904,659
TOTAL EXPENDITURES	\$ 185,056,491	\$ 165,665,581	\$ 152,395,735	\$ 117,000,207

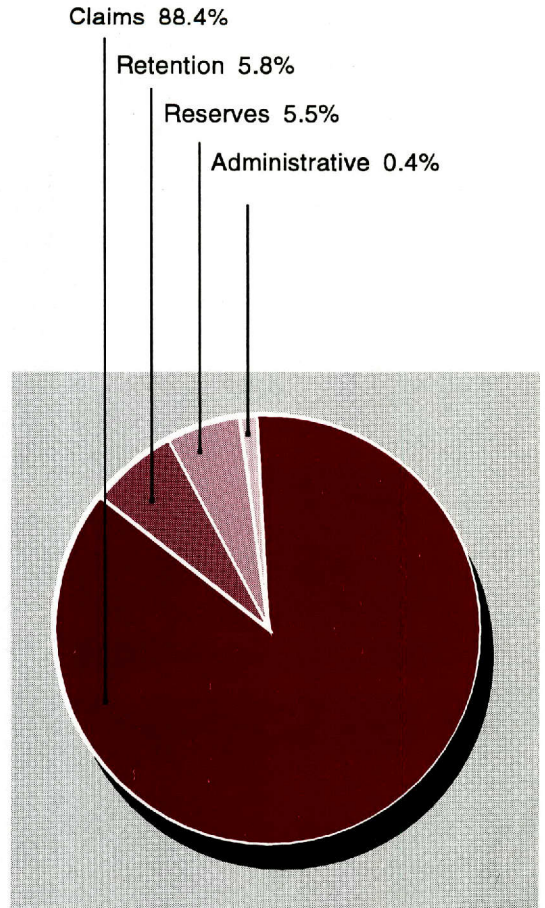
10
YEAR
SUMMARY

1995

Sources

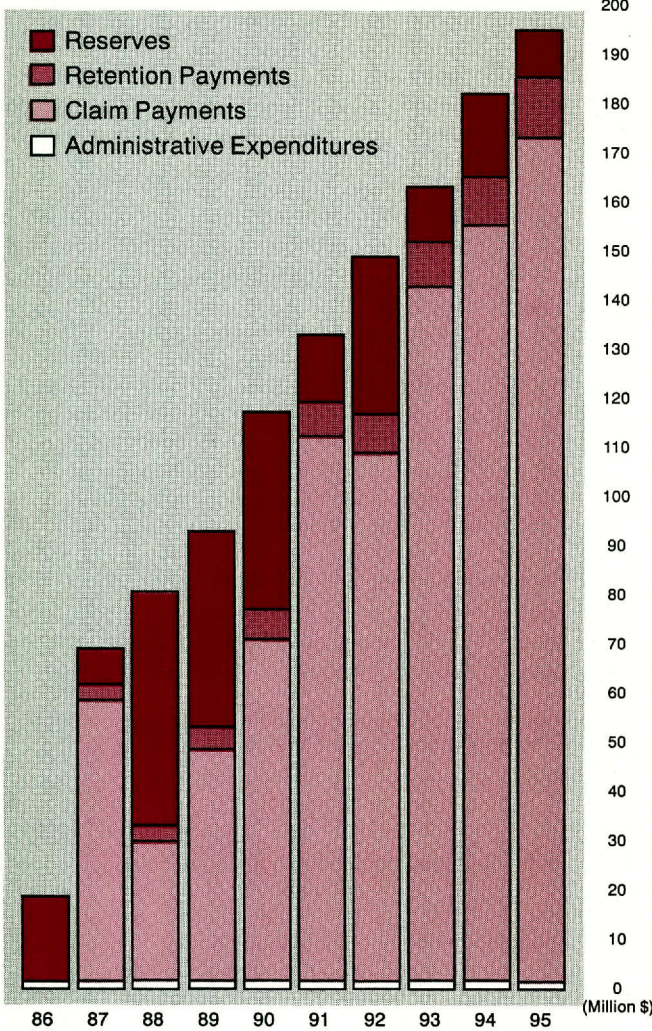


Distributions

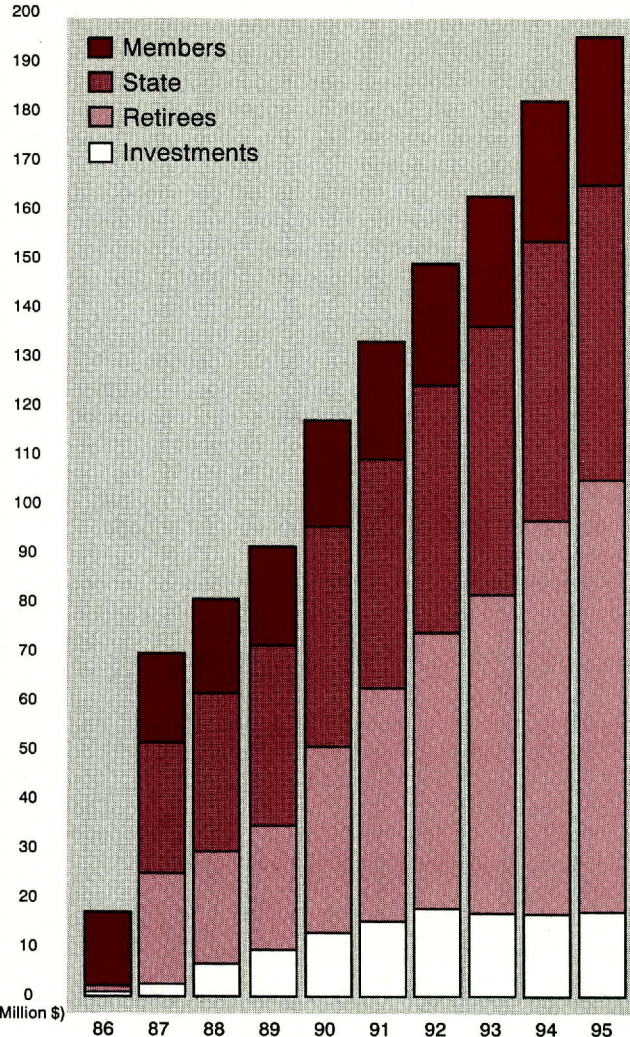


1991	1990	1989	1988	1987	1986
\$ 23,638,871	\$ 22,184,958	\$ 20,789,215	\$ 19,598,520	\$ 18,522,629	\$ 17,625,194
47,277,743	44,369,915	37,420,711	31,357,632	25,931,680	250,000
46,563,787	37,556,561	25,428,632	23,948,600	22,617,624	
15,801,047	13,098,835	8,802,914	5,703,832	2,568,998	572,153
\$ 133,281,448	\$ 117,210,269	\$ 92,441,472	\$ 80,608,584	\$ 69,640,931	\$ 18,447,347
\$ 111,380,270	\$ 70,007,884	\$ 48,385,034	\$ 28,599,321	\$ 58,033,670	\$
7,269,406	6,497,731	4,650,730	4,130,071	3,552,911	
988,623	689,120	561,343	484,684	389,025	362,372
\$ 119,638,299	\$ 77,194,735	\$ 53,597,107	\$ 33,214,076	\$ 61,975,606	\$ 362,372

Payments & Reserves



Income



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+
9-1-85 to 8-31-86						
Average Monthly Benefit	\$272.78	\$ 380.89	\$683.53	\$1,083.25	\$ 1,497.22	\$2,210.49
Average Final Average Salary	\$11,586	\$ 13,914	\$18,507	\$ 23,352	\$ 26,860	\$ 32,103
Number of Retirees	160	795	1,070	1,111	1,081	2,137
9-1-86 to 8-31-87						
Average Monthly Benefit	\$271.66	\$ 384.36	\$684.30	\$1,031.35	\$ 1,501.01	\$2,262.75
Average Final Average Salary	\$11,198	\$ 14,607	\$19,391	\$ 23,250	\$ 28,202	\$ 34,119
Number of Retirees	171	715	993	1,111	885	1,430
9-1-87 to 8-31-88						
Average Monthly Benefit	\$281.57	\$ 377.58	\$678.49	\$1,046.12	\$ 1,519.19	\$2,363.38
Average Final Average Salary	\$12,813	\$ 14,483	\$18,995	\$ 23,760	\$ 28,957	\$ 36,557
Number of Retirees	216	693	951	1,049	825	1,273
9-1-88 to 8-31-89						
Average Monthly Benefit	\$277.99	\$ 375.16	\$674.44	\$1,017.76	\$ 1,524.29	\$2,278.22
Average Final Average Salary	\$12,165	\$ 14,762	\$19,459	\$ 23,516	\$ 29,847	\$ 36,534
Number of Retirees	183	736	953	1,154	923	1,619
9-1-89 to 8-31-90						
Average Monthly Benefit	\$230.34	\$ 371.78	\$695.75	\$1,080.73	\$ 1,580.50	\$2,279.61
Average Final Average Salary	\$13,478	\$ 15,298	\$20,108	\$ 25,627	\$ 31,685	\$ 37,763
Number of Retirees	715	809	1,048	1,466	1,244	2,303
9-1-90 to 8-31-91						
Average Monthly Benefit	\$232.72	\$ 390.43	\$717.29	\$1,079.31	\$ 1,609.73	\$2,325.58
Average Final Average Salary	\$14,309	\$ 15,967	\$21,581	\$ 26,074	\$ 32,747	\$ 39,209
Number of Retirees	605	866	1,055	1,469	1,205	1,869
9-1-91 to 8-31-92						
Average Monthly Benefit	\$230.76	\$ 381.69	\$688.15	\$1,053.94	\$ 1,561.36	\$2,309.25
Average Final Average Salary	\$14,142	\$ 16,352	\$21,728	\$ 26,737	\$ 33,391	\$ 40,723
Number of Retirees	659	929	1,036	1,484	1,263	1,982
9-1-92 to 8-31-93						
Average Monthly Benefit	\$219.02	\$ 382.73	\$678.85	\$1,072.07	\$ 1,615.95	\$2,397.15
Average Final Average Salary	\$14,032	\$ 17,440	\$22,038	\$ 27,681	\$ 34,894	\$ 42,793
Number of Retirees	679	851	1,110	1,527	1,431	1,908
9-1-93 to 8-31-94						
Average Monthly Benefit	\$179.16	\$ 319.73	\$631.67	\$1,017.91	\$ 1,571.31	\$2,344.17
Average Final Average Salary	\$14,861	\$ 18,354	\$22,972	\$ 28,132	\$ 35,185	\$ 42,789
Number of Retirees	794	963	1,331	1,836	1,608	2,156
9-1-94 to 8-31-95						
Average Monthly Benefit	\$190.95	\$ 325.25	\$648.94	\$1,059.49	\$ 1,572.19	\$2,433.21
Average Final Average Salary	\$15,859	\$ 18,668	\$23,644	\$ 29,245	\$ 35,165	\$ 44,686
Number of Retirees	847	951	1,274	1,788	1,525	2,017

Benefit Expenses by Type

PENSION TRUST FUND

Year	Death and Survivor Benefits								Refunds
	Service Retirements	Disability Retirements	Accumulated Savings	Annual Salary	Survivor Annuities	Life Annuities	60 Monthly Payments	Remainder of Contributions	
1986	\$ 600,007,123	\$25,731,815	\$312,510	\$ 8,129,363	\$16,148,024	\$13,624,128	\$4,290,947	\$ 364,062	\$108,618,403
1987	677,819,111	30,526,005	370,120	8,361,208	17,353,191	15,295,019	5,119,457	505,319	110,658,346
1988	771,049,708	36,080,519	133,676	24,613,339	18,809,155	17,690,921	5,518,753	664,051	113,178,276
1989	826,567,598	40,207,404	94,821	25,812,663	18,677,975	19,041,922	5,108,332	432,403	118,507,638
1990	947,795,028	45,324,738	93,906	27,335,424	37,121,763	21,749,373	4,717,770	673,282	127,848,570
1991	1,035,431,996	47,955,558	152,870	32,505,404	41,524,843	23,441,257	3,744,430	1,076,840	133,870,775
1992	1,204,091,793	54,321,737	142,784	29,198,664	41,936,341	27,583,065	2,862,673	1,128,671	130,032,827
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

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	12,697	1,392	2,565	205	295	610	239	7,391
\$ 201 - 400	17,792	5,571	9,303	1,233	1,002	403	260	20
\$ 401 - 600	15,941	7,224	5,469	1,704	982	304	258	0
\$ 601 - 800	15,456	9,621	3,423	1,006	897	297	212	0
\$ 801 - 1,000	11,444	6,750	2,722	707	792	308	165	0
\$ 1,001 - 1,200	11,219	6,545	3,046	618	602	291	117	0
\$ 1,201 - 1,400	10,938	6,408	3,191	521	442	274	102	0
\$ 1,401 - 1,600	10,553	6,368	3,136	432	332	223	62	0
\$ 1,601 - 1,800	9,761	6,254	2,699	330	275	178	25	0
\$ 1,801 - 2,000	8,258	5,695	1,957	196	252	132	26	0
\$ over 2000	20,823	16,245	3,269	285	721	273	30	0
Totals	144,882	78,073	40,780	7,237	6,592	3,293	1,496	7,411

*** 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	12,697	2,369	1,207	243	166	535	8,177
\$ 201 - 400	17,792	10,626	3,372	1,025	745	1,815	209
\$ 401 - 600	15,941	9,211	3,058	1,236	800	1,636	0
\$ 601 - 800	15,456	8,971	2,633	1,394	925	1,533	0
\$ 801 - 1,000	11,444	5,705	2,389	1,392	702	1,256	0
\$ 1,001 - 1,200	11,219	5,034	2,586	1,402	762	1,435	0
\$ 1,201 - 1,400	10,938	4,786	2,600	1,336	794	1,422	0
\$ 1,401 - 1,600	10,553	4,405	2,613	1,397	760	1,378	0
\$ 1,601 - 1,800	9,761	4,034	2,491	1,342	697	1,197	0
\$ 1,801 - 2,000	8,258	3,323	2,285	1,221	548	881	0
\$ over 2,000	20,823	6,664	7,637	3,555	1,054	1,913	0
Totals	144,882	65,128	32,871	15,543	7,953	15,001	8,386

*** Plan Selected**

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

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

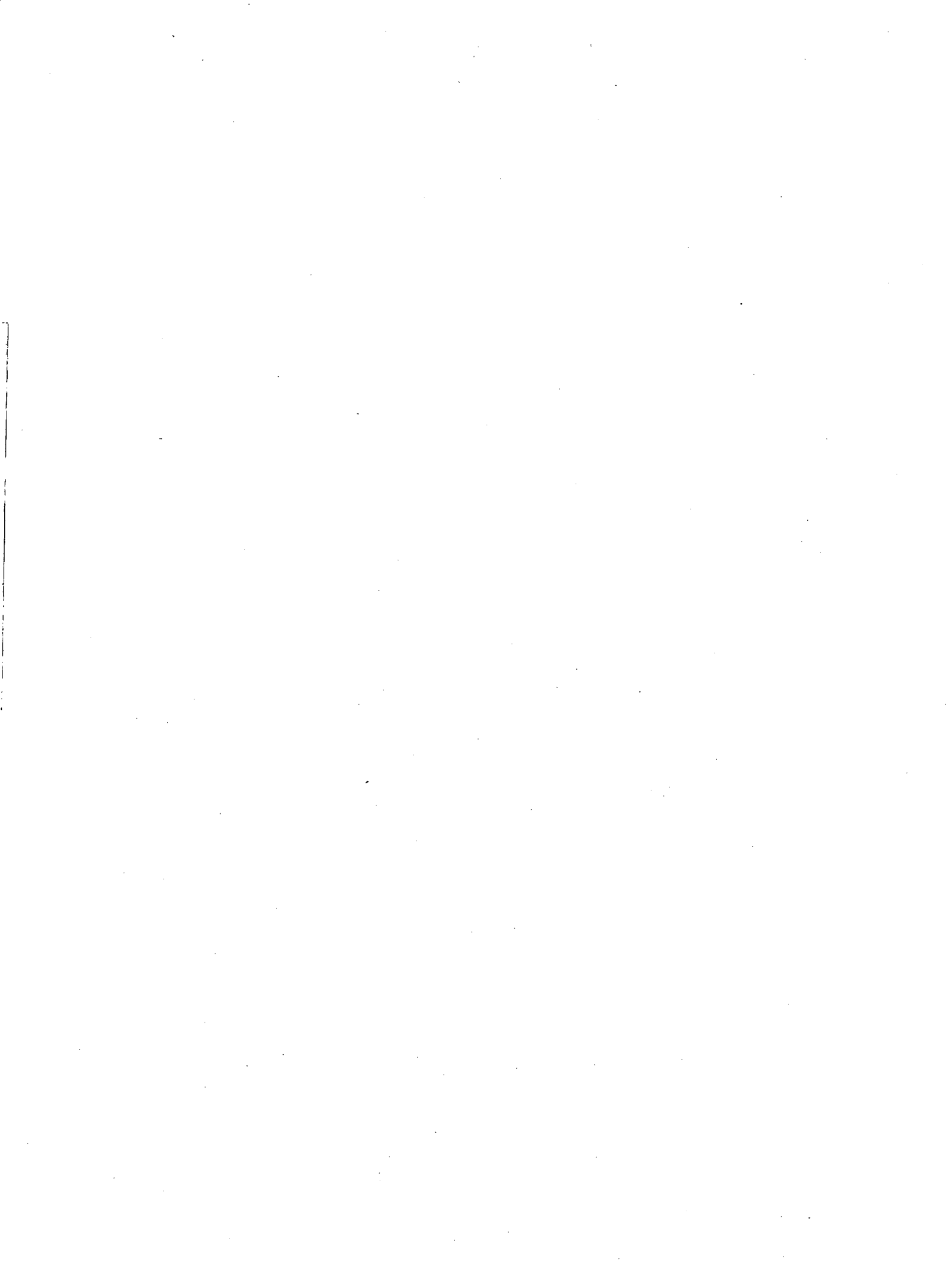
Summary of Reporting Entities	
August 31, 1995	
Public Schools	1,077
Junior Colleges	41
Senior Colleges	50
Medical Schools	7
Other State Agencies	6
Totals	1,181

Retirees and Beneficiaries Added to and Removed from Payroll

PENSION TRUST FUND - For Years 1989-1995*

Year Ended	Number of Retirees and Beneficiaries			Annual Allowances	
	Added	Removed	End of Year	End of Year	% Increase
1989	8,154	4,167	114,798	\$ 991,776,144	15.14%
1990	9,597	4,442	119,953	\$ 1,082,396,424	9.14%
1991	9,284	4,595	124,642	\$ 1,168,687,572	7.97%
1992	9,420	4,883	129,179	\$ 1,339,655,148	14.63%
1993	9,513	4,794	133,898	\$ 1,427,060,736	6.52%
1994	10,458	5,008	139,348	\$ 1,610,579,288	12.86%
1995	10,757	5,223	144,882	\$ 1,711,361,701	6.26%

* 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 \$5.3 million, \$7.2 million, \$6.7 million and \$22.2 million became effective in fiscal years 1989, 1992, 1994 and 1996, respectively. Information prior to 1989 is not available.



**Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698
(512) 397-6400
1-800-223-8778**