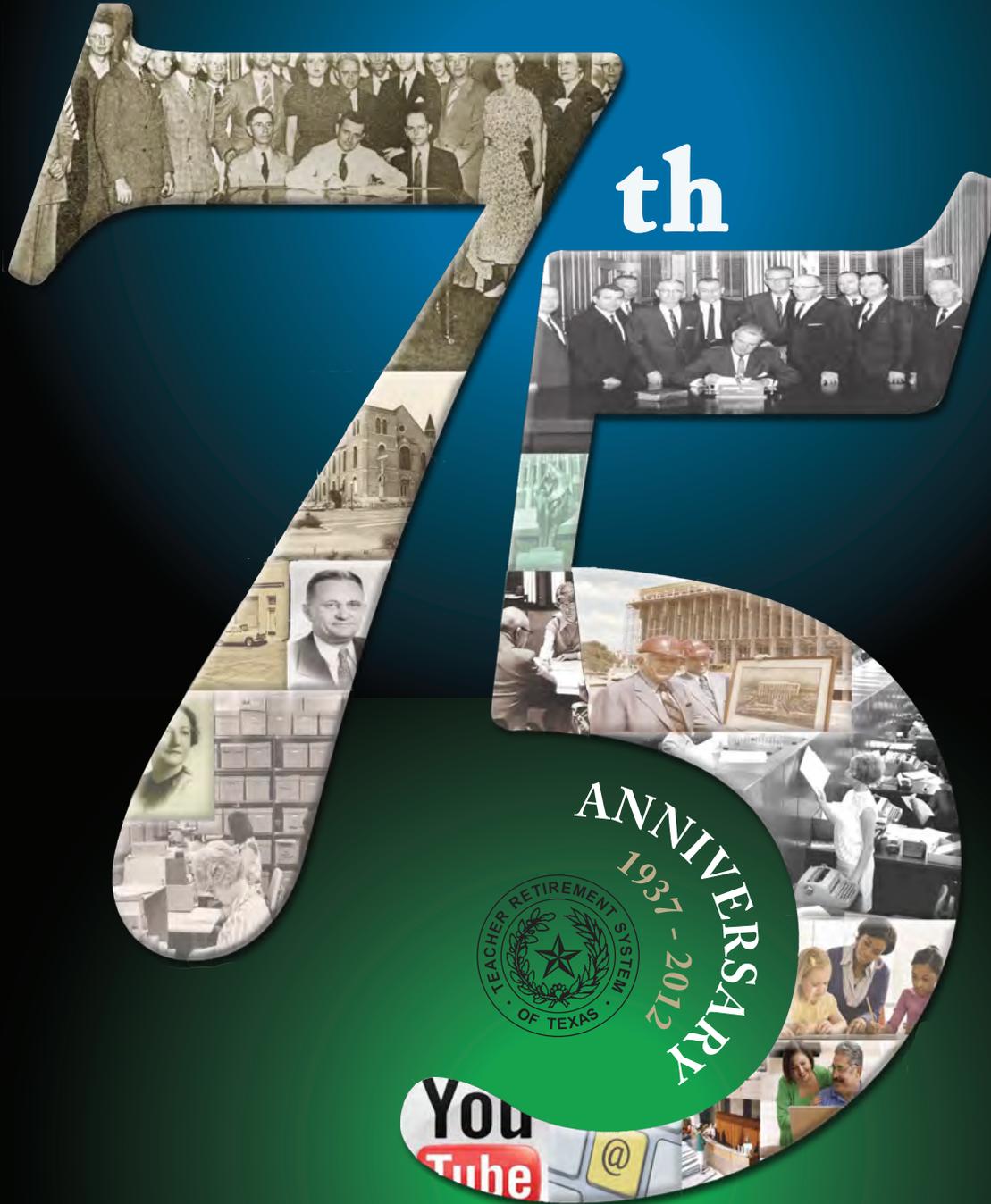


2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Teacher Retirement System of Texas



A Component Unit of the State of Texas

Fiscal Year Ended August 31, 2012



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## TRS Mission Statement

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

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

**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**A Component Unit of the State of Texas**

**FISCAL YEAR ENDED**  
**August 31, 2012**



**Brian K. Guthrie, Executive Director**

**Prepared by**  
**Teacher Retirement System of Texas**  
**1000 Red River Street**  
**Austin, Texas 78701-2698**  
**(512) 542-6400**  
**1-800-223-8778**

**[www.trs.state.tx.us](http://www.trs.state.tx.us)**



## Table of Contents

### INTRODUCTORY SECTION

Board of Trustees .....	3
Professional Awards .....	4
Letter of Transmittal .....	6
Organization Chart .....	8
Staff and Advisors .....	9
Membership .....	10
Communications .....	11

### FINANCIAL SECTION

Independent Auditor’s Report .....	14
Management’s Discussion and Analysis .....	16
Basic Financial Statements	
Exhibit I - Statement of Fiduciary Net Assets .....	24
Exhibit II - Statement of Changes in Fiduciary Net Assets .....	28
Exhibit III - Statement of Net Assets - Proprietary Funds .....	32
Exhibit IV - Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds .....	34
Exhibit V - Statement of Cash Flows - Proprietary Funds .....	36
Notes to the Financial Statements .....	39
Required Supplementary Information .....	64
Exhibit A - Statement of Changes in Assets and Liabilities - Agency Funds .....	66
Supporting Schedules	
Schedule 1 - Comparative Schedule of Changes in Account Balance - Pension Trust Fund	
Interest Account .....	68
Member Savings Account .....	69
State Contribution Account .....	70
Retired Reserve Account .....	71
Deferred Retirement Option Account .....	72
Expense Account .....	73
Schedule 2 - Schedule of Administrative Expenses .....	74
Schedule 3 - Comparative Schedule of Investing Activity Expenses - Pension Trust Fund .....	76
Schedule 4 - Schedule of Professional and Consulting Fees .....	77

### INVESTMENT SECTION

Investment Overview .....	81
Total Time-Weighted Returns .....	82
Asset Allocation - August 31, 2012 .....	84
Investment Summary .....	85
Largest Holdings .....	87
Schedule of Fees and Commissions .....	89

### ACTUARIAL SECTION

Pension Trust Fund	
Actuary’s Certification Letter .....	108
Actuarial Present Value of Future Benefits .....	110
Actuarial Methods and Assumptions .....	111
Other Actuarial Information .....	115
TRS-Care	
Actuary’s Certification Letter .....	118
Actuarial Present Value of Future Benefits .....	119
Actuarial Methods and Assumptions .....	120

### STATISTICAL SECTION

Statistical Section Overview .....	125
Financial Trends Information	
Ten-Year Summary Changes in Fiduciary Net Assets and Revenues, Expenses, and Changes in Fund Net Assets .....	126
Benefits and Refund Deductions from Net Assets by Type and Health Care Claims Deductions/ Expenses from Net Assets by Type .....	134
Operating Information	
Average Benefit Payments .....	136
Average Health Care Claims .....	137
Retired Members by Type of Benefit and Health Care Claims by Benefit Range .....	138
Principal Participating Reporting Entities .....	140
Listing of Participating Reporting Entities .....	142

### BENEFITS SECTION

Changes in the Law .....	148
Summary of Benefits .....	150
Average Monthly Benefit .....	153
Growth of the System .....	154



# Introductory Section

“Being that it’s TRS’ 75th anniversary, it just represents that they have staying power ... You know the economy’s always up and down and different things, but to have something that’s consistent is really good.”

Matthew Posey, Teacher

*Top photographs: TRS Board members, 1937, from left to right are R.L. Daniel, Quata Woods, Claude D. Teer, Charles N. Shaver, H.L. Mills, and Dan D. Rogers.*

*Bottom photograph: Enabling legislation for the Teacher Retirement System of Texas passed by the 45th Legislature and signed into law by Governor James V. Allred (center) on June 9, 1937.*





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## Board of Trustees

### R. David Kelly (Chair)



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

### Eric C. McDonald



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

### Charlotte Clifton (Vice Chair)



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

### Christopher Moss



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

### Todd Barth



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

### Anita Palmer



Former Texas Public  
School Teacher,  
Administrator &  
University Adjunct  
Professor  
Wichita Falls  
Retiree Position  
Term expires 2017

### Karen Charleston



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

### Nanette Sissney



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

### Joe Colonna



Private Investor  
Dallas  
Direct appointment  
of the governor  
Term expires 2013

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



## Professional Awards

### 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, 2011

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



*Linda C. Davison*  
President

*Jeffrey R. Enos*  
Executive Director

## Professional Awards



Public Pension Coordinating Council

**Recognition Award for Administration  
2011**

Presented to

**Teacher Retirement System of Texas**

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

*Presented by the Public Pension Coordinating Council, a confederation of*

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

A handwritten signature in black ink that reads 'Alan H. Winkle'.

Alan H. Winkle  
Program Administrator

## Letter of Transmittal

### Teacher Retirement System of Texas

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



November 15, 2012

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

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

On behalf of the board of trustees, I am pleased to present this *Comprehensive Annual Financial Report* (CAFR) of the Teacher Retirement System of Texas (TRS or System) for the fiscal year ended August 31, 2012, the System's 75th year of operation. During the past fiscal year, the System experienced modest growth as membership grew to more than 1,335,000 participants. The pension trust fund continued to rebound from the stock market decline of 2008-2009 ending the 2012 fiscal year with net assets of \$111.4 billion compared to \$107.4 billion at the close of the 2011 fiscal year. Although continued funding progress is needed to return the fund to a fully funded status, TRS is well positioned to ensure that benefits are secure for our current and future retirees. Benefit payments continued to grow as TRS paid out \$7.7 billion to annuitants during fiscal year 2012.

#### MANAGEMENT RESPONSIBILITY

This report consists of management's representations concerning TRS finances. Management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of TRS financial statements in conformity with generally accepted accounting principles. The internal control framework has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

#### CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TRS the Certificate of Achievement for Excellence in Financial Reporting for its

*Comprehensive Annual Financial Report* for the previous fiscal year. To be awarded the certificate, a report must meet or exceed program standards and must satisfy both generally accepted accounting principles and applicable legal requirements. TRS has received a Certificate of Achievement for the last 22 years. We believe that the current report continues to meet program requirements, and it is being submitted to the GFOA for consideration again this year.

#### FINANCIAL INFORMATION

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

#### INVESTMENTS

For the 12-month period ending August 31, 2012, the total portfolio had a return of 7.6 percent. The TRS Pension Trust Fund finished the year with an investment net value of \$111.1 billion, an increase of \$4 billion from fiscal year 2011. For the past 10 years, the time-weighted compound annual return has been 7.4 percent.

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

#### PENSION PLAN BENEFITS

For fiscal year 2012, TRS paid pension benefit payments to more than 331,000 retirees and their beneficiaries totaling \$7.7 billion. These benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

## Letter of Transmittal

### ACTUARIAL SOUNDNESS OF THE PENSION TRUST FUND

As of August 31, 2012, the System had a funded ratio of 81.9% with an Unfunded Actuarial Accrued Liability of \$26.1 billion. However, because of poor investment performance in fiscal years 2008 and 2009, the System continues to defer net investment losses of \$6.9 billion.

Because of the two significant market downturns in the last 11 years, current contributions are not sufficient to amortize the unfunded liabilities and therefore the funding period is “never”. Absent ongoing investment gains in excess of eight percent, adjustments will need to be made to contributions and/or benefits to bring the fund back into a position to amortize unfunded liabilities over 30 years.

The General Appropriations Act for the 2012-13 biennium charged TRS to “report on the actuarial and fiscal impacts from potential changes to the state, university and school district pension plans as of August 31, 2011.” That study was completed and submitted to the Legislative Budget Board and the Governor in late August. The study findings, along with the latest actuarial valuation updates, will be available for use during the upcoming legislative session.

### ACTIVE MEMBER HEALTH BENEFITS PROGRAM

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

### RETIREE HEALTH BENEFITS PROGRAM

TRS also administers TRS-Care, a health benefits program for retirees that was established in 1985. TRS-Care is the source of health benefits coverage, which almost all retired public school employees rely upon. Funding is provided by premium payments from retiree participants and contributions from the state, school districts, and active employees. During 2012, TRS-Care also received additional revenue from the Medicare Part D prescription drug program.

An actuarial valuation for TRS-Care was conducted as of August 31, 2012. The valuation results indicate that TRS-Care has an Unfunded Actuarial Accrued Liability of \$26.8 billion. More detailed information about the valuation results is included in the Notes to the Financial Statements and the Required Supplementary Information.

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

At the conclusion of the 82nd Texas Legislature, a rider was added to the General Appropriations Act, requiring TRS to conduct a study of TRS-Care and report to the legislature on potential changes to improve the program’s sustainability. During fiscal year 2012, staff evaluated possible changes, sought public input through mailings, presentations, and a series of webcast meetings. TRS completed the study and submitted a final report to the legislature in August 2012.



Brian K. Guthrie

### ORGANIZATIONAL CHANGE

On September 1, 2011, I began serving as executive director of the retirement system, and Ken Welch assumed his new responsibilities as the agency’s deputy director. Over the past year we have made a handful of significant organizational changes to focus on our key challenges moving forward: health care fund solvency, pension trust fund sustainability, long-term investment returns, and replacing legacy technology systems. These changes are reflected in the updated organizational chart on the following page.

### ACKNOWLEDGMENTS

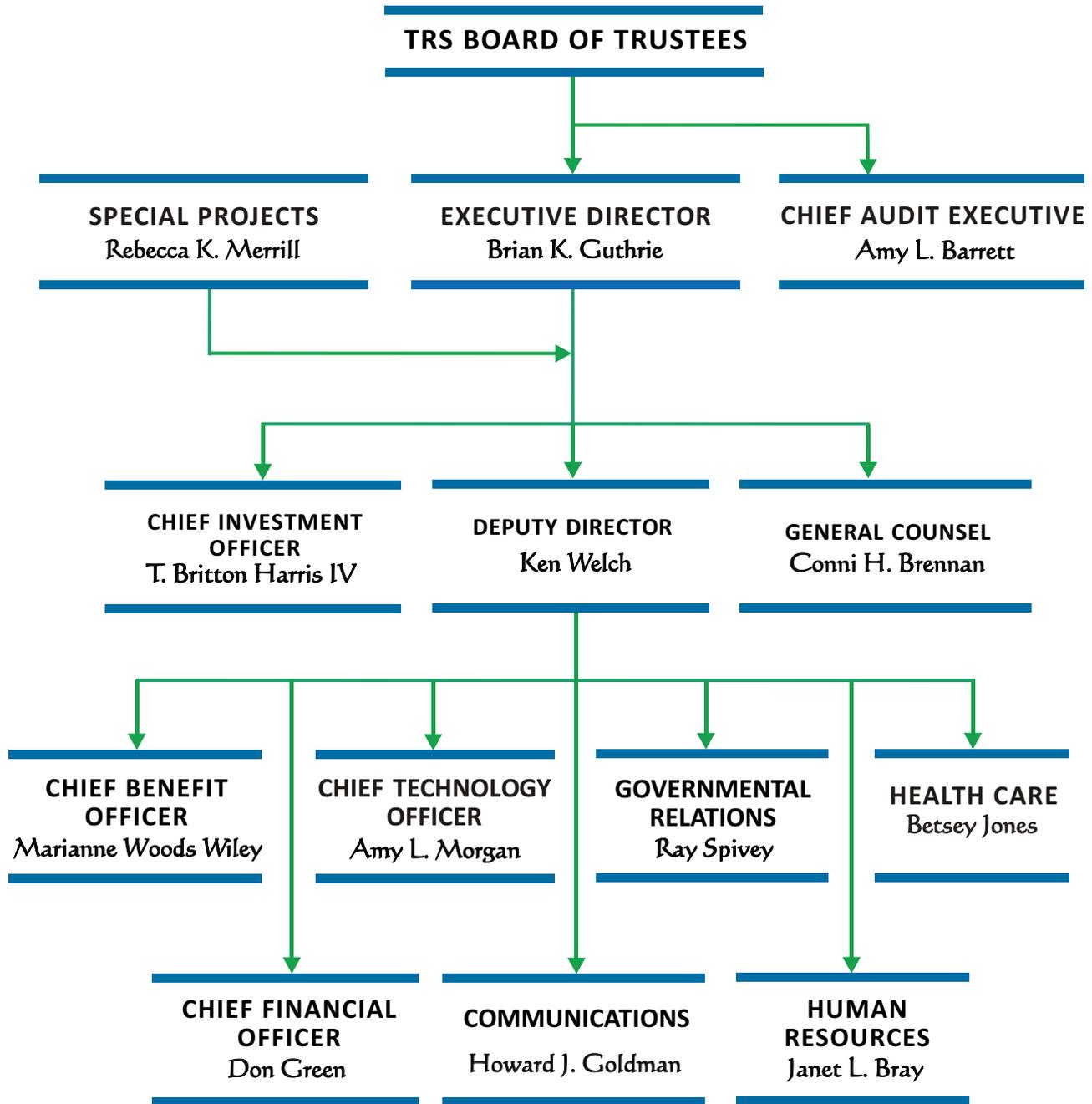
We wish to express our appreciation for the support of the Governor’s, Lieutenant Governor’s, and Speaker’s Offices, as well as members of the legislature, in maintaining a strong retirement system, which provides valuable benefits for public education employees and retirees.

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

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

Respectfully submitted,

Brian K. Guthrie  
Executive Director



Effective September 1, 2012

## Staff and Advisors

### EXECUTIVE ADMINISTRATIVE STAFF

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

### GENERAL INVESTMENT CONSULTANT

Hewitt Ennis Knupp, Chicago, IL

### CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

### INVESTMENT CONSULTANTS

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

### INVESTMENT ADVISORS

Keith C. Brown, Ph.D., Austin

### AUDIT SERVICES

Texas State Auditor's Office, Austin

### FIDUCIARY COUNSEL

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

### MEDICAL BOARD

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

### TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

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

### HEALTH CARE CONSULTANT

Gabriel, Roeder, Smith & Company, Dallas

### MASTER CUSTODIAN AND SECURITIES LENDING AGENT

State Street Bank and Trust Company,  
 Boston, MA

### PERFORMANCE MEASUREMENT

State Street Bank and Trust Company,  
 Boston, MA

Effective September 1, 2012

## Membership

### PENSION TRUST FUND

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2012, participating entities included the following:

Independent School Districts	1,028
Charter Schools	196
Community and Junior Colleges	51
Senior Colleges and Universities	46
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	2
<b>Total</b>	<b>1,357</b>

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

At August 31, 2012, and August 31, 2011, membership consisted of the following:

	Year Ended August 31,	
	2012	2011
<b>Current Members:</b>		
Active Contributing	830,093	847,523
Active Non-contributing	119,604	109,545
Deferred Retirement Option	219	324
Inactive Non-vested	19,142	14,881
Inactive Vested	34,597	31,613
<b>Total Current Members</b>	<b>1,003,655</b>	<b>1,003,886</b>
<b>Retirement Recipients:</b>		
Service	311,170	292,838
Disability	9,053	8,785
Survivor	11,524	11,057
<b>Total Retirement Recipients</b>	<b>331,747</b>	<b>312,680</b>
<b>TOTAL MEMBERSHIP</b>	<b>1,335,402</b>	<b>1,316,566</b>

Membership changes are summarized below:

	2012	2011
<b>Active Membership:</b>		
New Members	70,204	66,337
Members Withdrawing	(42,783)	(40,402)
Service Retirements	(22,263)	(20,401)
Disability Retirements	(834)	(753)
In-Service Deaths	(1,160)	(1,266)
Other Changes	(3,395)	(3,818)
<b>Net (Decrease)</b>	<b>(231)</b>	<b>(303)</b>
<b>Retired Membership:</b>		
Retirements	23,097	21,154
Deaths After Retirement	(6,886)	(6,753)
Option Continuations	2,167	1,983
Other Changes	689	(195)
<b>Net Increase</b>	<b>19,067</b>	<b>16,189</b>

### Active Member Profile

	2012	2011
Average Annual Salary	\$ 44,543	\$ 44,392
Average Age	44.4	44.3
Average Years of Service	10.1	9.9

### Annuitant and Beneficiary Profile

	2012	2011
Average Monthly Annuities		
Life Annuities	\$ 1,929	\$ 1,897
Disability Annuities	\$ 1,183	\$ 1,174
Annuities Certain	\$ 1,028	\$ 984
Average Age of Current Retirees	70.3	70.2
Average Age at Retirement		
All Retirees	59.9	59.8
Current Year Retirees	61.1	61.0
Average Years of Service		
All Retirees	24.5	24.6
Current Year Retirees	23.8	24.6
Average Salary at Retirement		
All Retirees	\$ 40,423	\$ 39,234
Current Year Retirees	\$ 51,118	\$ 51,130
Ratio of Current Members to Retirees	3.0 to 1	3.2 to 1

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

Participation for the Retired Plan is summarized below:

	2012	2011
Retirees	176,460	167,726
Surviving Spouses	5,327	5,063
Surviving Children	79	70
Dependent Spouses	36,147	33,701
<b>TOTAL *</b>	<b>218,013</b>	<b>206,560</b>

\* Excludes 7,873 and 6,182 dependent children for 2012 and 2011, respectively.

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

Participation for the Active Plan is summarized below:

	2012	2011
Employees	275,960	270,490
Dependents	195,007	188,110
<b>TOTAL</b>	<b>470,967</b>	<b>458,600</b>

As of September 1, 2012, there were 1,119 participating entities.

## Communications

During fiscal year 2012, TRS continued to reach out to its members, retirees, and the general public through a variety of communication channels. TRS staff spoke at conferences across Texas to provide updates on new legislation, investment performance, pension- and health care-related issues, and to explain new ways that members and retirees can obtain the latest information from TRS.

Listed below are achievements of the past year, including those pertaining to the agency's website, toll-free telephone service, print publications, benefit presentations and employer training programs.

### PRINT PUBLICATIONS

During fiscal year 2012, TRS published three *TRS News* issues to provide members, retirees and employers with important information relating to their benefits. In addition, newsletters were sent to TRS-Care participants regarding plan changes. Employers received TRS-related information through *Update* newsletters.

The *TRS Benefits Handbook* was restructured to simplify use by members and retirees. The handbook was organized to reflect the sequence of events that members may experience while participating in the retirement plan. It begins with a description of member eligibility requirements, continues with an explanation of how to apply for and receive retirement benefits, and concludes with general information on a variety of topics of interest for members and annuitants. The handbook also features information about the group health benefits programs administered by TRS.

For the first time, this year's handbook presents retirement eligibility information in four distinct, color-coded tiers. Because retirement eligibility has grown more complex as the laws have changed over the years, TRS has adopted a tier structure to help members locate the information that applies to them. Additional benefit information is available to members and retirees through brochures, newsletters, other print materials and the TRS website.

### THE INTERNET

During the past year, TRS expanded *MyTRS*, the online access section of the TRS website, and increased registrations by adding approximately 100,000 members and retirees. This was accomplished primarily through promotional e-mail messages sent to TRS-covered employers with a request that they forward the message to their employees. At year end, there were more than 285,000 *MyTRS* registrations. Follow-up efforts will continue with remaining employers in 2013 and also reach out to retirees.

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

- Obtain personalized retirement estimates using data on

file with TRS

- View and print a copy of their most recent annual statement
- View their account balance, including current year contributions received to date by TRS
- Request a bill for reinstatement of withdrawn service
- Obtain information on their withdrawn, unreported, military and out-of-state special service credit purchases that are already in progress
- Register for group benefit presentations and field office visits held around the state

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

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

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

By the end of the fiscal year, nearly 170,000 members and retirees had registered for *MyTRS*. Participation is expected to increase significantly as new *MyTRS* features continue to be introduced.

During the year, TRS also expanded its social media presence by developing its first TRS Social Media Policy and Guidelines and implemented social media monitoring. In addition, the system developed an accessibility work plan and selected website accessibility standards.

During fiscal year 2012, the TRS website received a total of 2,414,082 visits, representing a 21.44 percent increase from 1,987,815 visits in the previous fiscal year. In addition, 1,158,922 unique visitors used the site during fiscal year 2012 — a 5.12 percent increase from 1,102,462 visitors in fiscal year 2011.

### VIDEO PRODUCTION

Fiscal year 2012 saw TRS produce three "TRS Today" videos. These issue-oriented videos featured interviews with TRS executives on topics such as two legislative studies on pension fund and retiree health care plan sustainability, the Aetna Medicare Advantage Plans, other TRS-Care improvements, and an update on member communications. TRS also produced a *MyTRS* instructional video, an updated "A Great Value for All Texans" video, and a special 75th anniversary commemorative video.

## Communications

### WEBCASTING OF BOARD MEETINGS

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

### MEMBER SATISFACTION SURVEY

In the spring of 2012, The University of North Texas (UNT) Survey Research Center conducted a 2012 Member Satisfaction Survey for TRS. This year's survey report revealed positive results, with very favorable ratings among TRS members and retirees. Overall, 98.9 percent of retirees (compared with 98.7 percent in 2010) and 97.4 percent of active members (compared to 97.4 percent in 2010) reported that they were satisfied or very satisfied with TRS member services.

### ASSOCIATION AND REPORT CARD TOUR MEETINGS

Early in the fiscal year, TRS continued its outreach to members and retirees through a series of Texas Retired Teacher Association meetings. TRS officials spoke to retirees at more than 20 conventions around the state and provided updates on TRS developments. In addition, in November 2011, TRS trustees and staff hosted town-hall style Report Card Tour meetings in Belton, Bryan/College Station and Austin. The Austin meeting was webcast live and recorded for on-demand viewing. TRS also webcast three additional town hall meetings in Lubbock, Richland Hills, and Austin, which focused on two legislative studies. These meetings provide an opportunity for trustees and TRS executives to meet with members and retirees face-to-face not only to provide an update on the fund's status and other pertinent information, but also to answer any questions they may have. Legislators or their representatives from the area typically attend the meetings as do members of the news media.

### GROUP PRESENTATIONS AND INDIVIDUAL RETIREMENT COUNSELING SESSIONS

Over the past year, TRS made a number of group presentations to professional associations, to employee and retiree groups and at regional education service centers. Presentations focused on retirement options, health care benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 14,009 people attended 185 group presentations, and 36,500 people attended eight conventions where TRS was represented. In addition, 10,149 people visited individually with a TRS counselor – 9,718 in Austin and 431 in field office visit locations. Fiscal year 2012 was the sixth year that one-on-one retirement counseling sessions were offered in limited field locations throughout Texas (450 available appointments in 10 cities).

### TELECOMMUNICATIONS

In fiscal year 2012, the agency's Benefit Counseling department handled a total of 494,281 calls. In addition, 192,517 calls were completed during the past year within the agency's automated telephone system.

TRS and its contractors also provided telephone assistance to a large number of members seeking health care-related information. TRS-ActiveCare staff and contractors responded to 1,112,672 calls, and TRS-Care staff and contractors responded to 502,142 calls.

### COORDINATION WITH REPORTING ENTITIES

The TRS Reporting and Query System (TRAQS), the agency's Internet-based reporting system for employers, had 1,357 reporting entities submit monthly reports to TRS by year-end. TRAQS training was conducted through 20 fall workshops with a total of 1,149 reporting entity staff participating. During the year, there were 13 professional association and software user group presentations attended by 325 people. Three webinars were also recorded and posted to the TRS website on specific training topics. The webinars are available online 24 hours a day. TRS-ActiveCare training seminars were conducted in 20 locations around the state for approximately 1,524 administrators of 961 districts/entities. These seminars provided information regarding enrollment and ongoing administrative issues for TRS-ActiveCare.

### 75TH ANNIVERSARY CELEBRATION

During FY 2012, TRS was making plans to celebrate the retirement system's 75th anniversary. Activities included an employee barbeque, participation in a Texas Retired Teachers Association-sponsored dinner, production of a commemorative anniversary film, creation of a website history museum, creating a lobby display featuring photographs of the Charles Umlauf sculpture titled "Spirit of Learning" while it was under construction and before it was dedicated near the entrance to the TRS building at 1000 Red River Street. Staff also developed a series of graphic design changes, including a new logo, letterhead, business cards, electronic templates, and a graphic style guide. As the fiscal year ended, TRS also finalized preparations for a special program to honor past leaders of the system, planned for the September 2012 board meeting.



# Financial Section

**“In the beginning everything came in on paper. You can imagine. There were no computers, not even adding machines. People had to write everything down on a paper ledger, or on a small card in a filing cabinet.”**

**Dolores Luna, Retired TRS Employee**




  
2012


## Independent Auditor's Report

### Teacher Retirement System Board of Trustees

Mr. R. David Kelly, Chairman  
 Ms. Charlotte Clifton, Vice Chair  
 Mr. Todd Barth  
 Ms. T. Karen Charleston  
 Mr. Joe Colonna  
 Mr. Eric C. McDonald  
 Mr. Christopher Moss  
 Ms. Anita Smith Palmer  
 Ms. Nanette Sissney

We have audited the accompanying financial statements of the major enterprise fund and the aggregate remaining fund information, consisting of the fiduciary funds and the nonmajor enterprise fund of the Teacher Retirement System (Retirement System), a component unit of the State of Texas, as of and for the year ended August 31, 2012, which collectively comprise the Retirement System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Retirement System's fiscal year 2011 financial statements and, in our report dated November 10, 2011, we expressed an unqualified opinion on the major enterprise fund and the aggregate remaining fund information.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is

SAO Report No. 13-301

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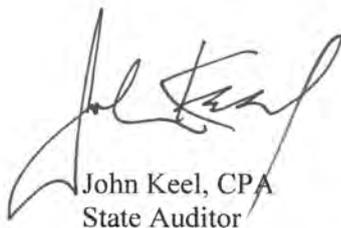
Internet:  
[www.sao.state.tx.us](http://www.sao.state.tx.us)

to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 16 through 23 and Schedules of Funding Progress and Schedules of Contributions for the Pension Trust Fund and TRS-Care on pages 64 and 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Retirement System's financial statements. The information in Exhibit A and Schedules 1 through 4, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Exhibit A and Schedules 1 through 4, as listed in the table of contents is fairly stated in all material respects in relation to the financial statements as a whole.

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



John Keel, CPA  
State Auditor

November 15, 2012

## Management's Discussion and Analysis

The following is Management's Discussion and Analysis (MD&A) of the Teacher Retirement System's (TRS or system) financial performance for the fiscal year ended August 31, 2012. The information presented here should be considered in conjunction with other areas of the Financial Section as well as information presented in the Executive Director's Letter of Transmittal in the Introductory Section of the *TRS Comprehensive Annual Financial Report*.

### FINANCIAL HIGHLIGHTS

- The net assets of the TRS Pension Trust Fund were \$111.4 billion at August 31, 2012, an increase of 3.8%, in fiscal year 2012.
- As of August 31, 2012, the date of the most recent actuarial valuation, the TRS Pension Trust Fund's ratio of actuarial assets, as a percentage of actuarial liabilities, was 81.9%, which is lower than the 82.7% level at August 31, 2011. The unfunded actuarial accrued liability was \$26.1 billion, which is more than the \$24.1 billion reported at August 31, 2011.
- The TRS annual rate of return on investments for the year ended August 31, 2012 was 7.6%. The rate of return for fiscal year 2011 was 15.5%.
- Net assets of TRS-Care were \$741.0 million at August 31, 2012, a decrease of 16.8% from fiscal year end 2011.
- As of August 31, 2012, the date of the most recent actuarial valuation, the TRS-Care trust fund's unfunded actuarial accrued liability was \$26.8 billion, which is less than the \$28.9 billion reported at August 31, 2011.
- Net assets of TRS-ActiveCare were \$45.8 million at August 31, 2012, a decrease of \$142.3 million or 75.7% in fiscal year 2012.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Collectively, this information presents the net assets available for pension and other post-employment benefits, health care benefits, and other purposes as of August 31, 2012, and summarizes any changes in net assets for the same. The information available in each of these sections is summarized as follows:

#### Fund Financial Statements

Individual fund financial statements are presented for all fiduciary and proprietary funds as of August 31, 2012 and for the year then ended. Comparative data in total as of August 31, 2011, and for the year then ended has also been presented

with the exception of agency funds. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries, to pay health care benefits for covered participants, and to administer the 403(b) Administrative Program. Fiduciary funds presented include the Pension Trust Fund, TRS-Care and Agency Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of TRS. Proprietary funds account for business-type activities and include the TRS-ActiveCare and the non-major 403(b) Administrative Program enterprise funds.

### Notes to the Financial Statements

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

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

## Management's Discussion and Analysis

### Required Supplementary Information

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

### Other Supplementary Schedules

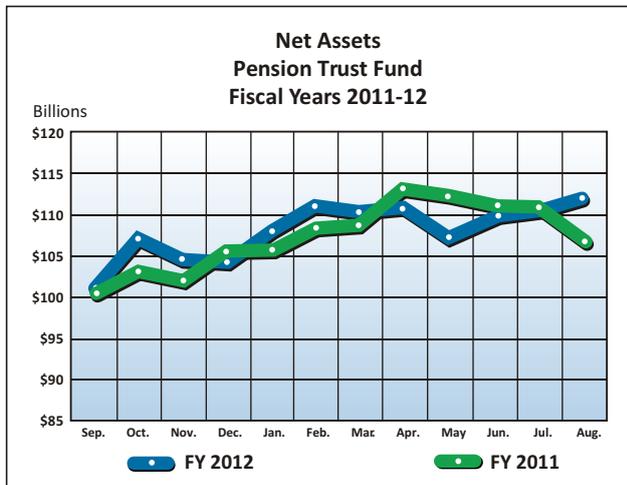
Other schedules include information on agency funds, changes in statutory reserve account balances, schedule of administrative expenses, investing activity expenses, and payments to consultants.

### FINANCIAL ANALYSIS OF TRS FUNDS

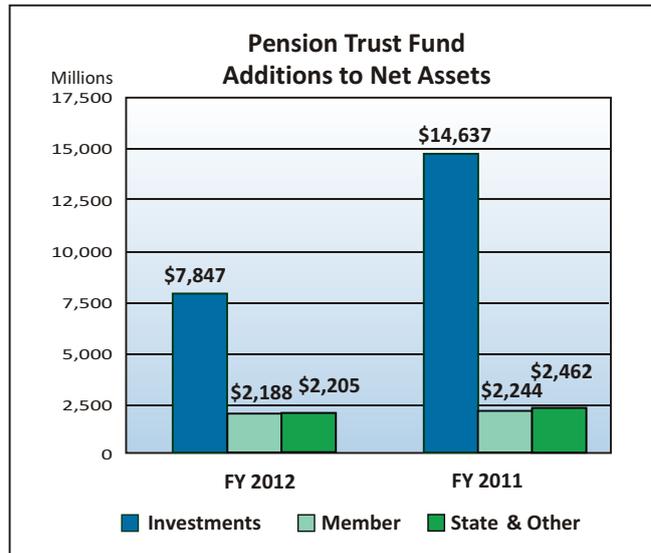
#### Pension and Other Employee Benefit Trust Funds

#### Pension Trust Fund

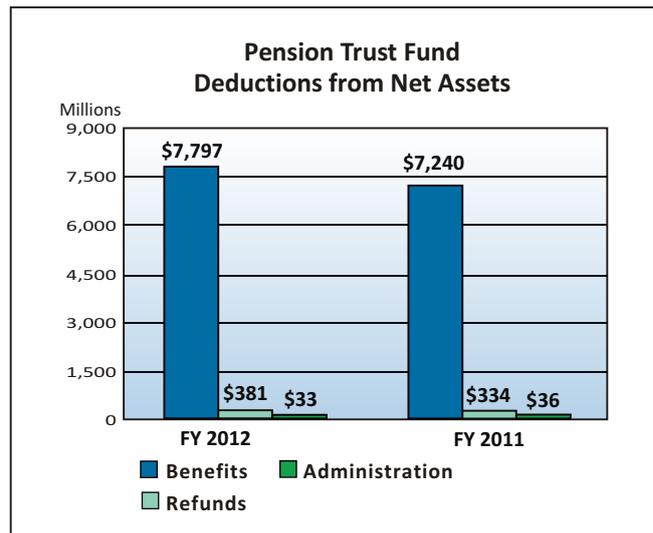
Net assets held in trust for benefits at August 31, 2012, were \$111.4 billion, an increase of \$4.0 billion over the \$107.4 billion at August 31, 2011.



Fiscal year 2012 investment income was \$7.8 billion, a decrease of \$6.8 billion from the \$14.6 billion in fiscal year 2011. Additions to net assets in the form of member contributions and state and other additions for fiscal year 2012 were both \$2.2 billion. Total contributions and other decreased \$312 million, or 6.6%, during fiscal year 2012. A decrease in active membership along with a decline in payroll growth resulted in a decrease in total contributions. The state contribution rate was 6.0% for fiscal year 2012 which is a decrease of .644% from the 2011 rate of 6.644%. The member contribution rate remained at 6.4% for fiscal year 2012.



Deductions from TRS net assets held in trust for benefits are predominately retirement, death, and survivor benefits. During fiscal year 2012, retirement benefits and other payments totaled \$7.8 billion, an increase of approximately \$557 million, or 7.7%, from fiscal year 2011 payments of \$7.2 billion. Other deductions for fiscal year 2012 include \$381.2 million in refunds, an increase of \$47.0 million from fiscal year 2011, and administrative expenses of \$33.1 million, a decrease of \$2.8 million over fiscal year 2011. Administrative expenses, excluding investing activities expense, on a cost per member basis were \$24.57 for fiscal year 2012 as compared to \$27.23 in fiscal year 2011.



## Management's Discussion and Analysis

### Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Percentage Change
<b>Assets</b>				
Cash and Receivables	\$ 2,874,198	\$ 2,381,172	\$ 493,026	20.7%
Investments	109,993,231	106,048,102	3,945,129	3.7
Invested Securities Lending Collateral	21,557,057	22,760,168	(1,203,111)	-5.3
Capital Assets	29,086	29,045	41	0.1
<b>TOTAL ASSETS</b>	<b>\$ 134,453,572</b>	<b>\$ 131,218,487</b>	<b>\$ 3,235,085</b>	<b>2.5%</b>
<b>Liabilities</b>				
Benefits Payable	\$ 691,237	\$ 649,897	\$ 41,340	6.4%
Investments Purchased Payable/ Securities Sold Short	628,990	235,904	393,086	166.6
Accounts Payable and Other	147,921	132,675	15,246	11.5
Collateral Obligations	21,535,537	22,779,224	(1,243,687)	-5.5
<b>TOTAL LIABILITIES</b>	<b>\$ 23,003,685</b>	<b>\$ 23,797,700</b>	<b>\$ (794,015)</b>	<b>-3.3%</b>
<b>Net Assets</b>	<b>\$ 111,449,887</b>	<b>\$ 107,420,787</b>	<b>\$ 4,029,100</b>	<b>3.8%</b>

### Changes in Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Percentage Change
<b>Additions</b>				
Member Contributions	\$ 2,188,021	\$ 2,243,955	\$ (55,934)	-2.5%
State Contributions	1,390,610	1,595,772	(205,162)	-12.9
Other	814,568	865,866	(51,298)	-5.9
Investment Income	7,847,298	14,636,935	(6,789,637)	-46.4
<b>TOTAL ADDITIONS</b>	<b>\$ 12,240,497</b>	<b>\$ 19,342,528</b>	<b>\$ (7,102,031)</b>	<b>-36.7%</b>
<b>Deductions</b>				
Retirement Benefits and Other	\$ 7,797,092	\$ 7,240,027	\$ 557,065	7.7%
Refunds of Contributions	381,231	334,269	46,962	14.0
Administrative Expenses	33,074	35,850	(2,776)	-7.7
<b>TOTAL DEDUCTIONS</b>	<b>\$ 8,211,397</b>	<b>\$ 7,610,146</b>	<b>\$ 601,251</b>	<b>7.9%</b>
<b>Change in Net Assets</b>	<b>\$ 4,029,100</b>	<b>\$ 11,732,382</b>	<b>\$ (7,703,282)</b>	<b>-65.7%</b>

On a GAAP basis, the overall financial condition of the fund improved during 2012 due to net investment income during the year of \$7.8 billion – a decrease of 46.4% from fiscal year 2011. This net gain is comprised of net appreciation in fair value of investments of \$6.0 billion, \$1.9 billion in

interest and dividends, and net income of 104.6 million from securities lending reduced by investing activity expenses of \$153.3 million. The net investment gain for fiscal year 2011 was \$14.6 billion.

## Management’s Discussion and Analysis

### INVESTMENTS

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust Company, the system’s custodian bank, using industry best practices. When comparing returns, it is important to remember that as a pension fund, the TRS investment performance has a very long horizon.

Below are rate of return results for the total fund for the periods ending August 31, 2012:

- One-Year 7.6%
- Three-Years 11.2%
- Five-Years 2.7%
- Ten-Years 7.4%

The following table presents the actual investment allocations as of fiscal year end 2012 and 2011 as compared to the target allocations for 2012 and 2011.

### INVESTMENT ALLOCATIONS

	Fiscal Year 2012		Fiscal Year 2011	
	Target	Actual	Target	Actual
Public Equity	50.0%	51.1%	50.0%	50.7%
Private Equity	12.0	11.8	10.0	10.4
<b>TOTAL GLOBAL EQUITY</b>	<b>62.0%</b>	<b>62.9%</b>	<b>60.0%</b>	<b>61.1%</b>
Fixed Income	13.0%	13.0%	15.0%	14.1%
Short-Term	1.0	.9	1.0	1.3
Hedge Funds	4.0	3.5	4.0	4.0
<b>TOTAL STABLE VALUE</b>	<b>18.0%</b>	<b>17.4%</b>	<b>20.0%</b>	<b>19.4%</b>
Global Inflation Linked Bonds	5.0%	5.0%	8.0%	5.3%
Real Assets	13.0	11.7	8.0	9.7
Commodities	0.0	1.0	2.0	3.1
REITS (Real Estate Investment Trust)	2.0	2.0	2.0	1.4
<b>TOTAL REAL RETURN</b>	<b>20.0%</b>	<b>19.7%</b>	<b>20.0%</b>	<b>19.5%</b>
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

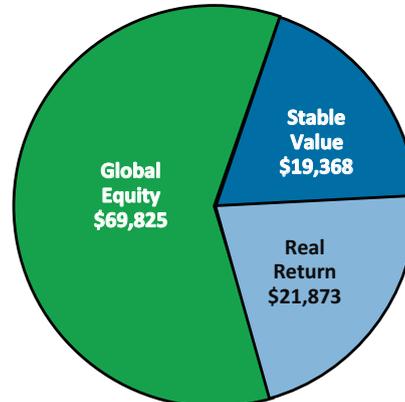
These asset allocation investment categories and targets are determined by and subject to the system’s investment policy guidelines which are reviewed and adjusted by the board as necessary to aid the fund in achieving the long-term portfolio return of 8 percent.

TRS had an annual rate of return of 7.6 percent for the fiscal year of 2012 on investments. At the end of fiscal year 2012 the Pension Trust Fund’s investment market value was \$111.1 billion, an increase of approximately \$4.0 billion over fiscal year 2011. TRS’ investment strategy is designed to address three different potential market scenarios and have an advantage in each of them by allocating 62 percent to global equities, 20 percent to real return, and 18 percent to stable value. This allocation provides for good performance in any of the three scenarios. TRS enhanced its asset management capabilities by adding two private market strategic partners and a directional hedge fund allocation during the fiscal year. Additionally, TRS’ Investment Management Division continued to build out and enhance the dedicated risk management function and expanded its principal investment and emerging manager programs. Due to lower interest rates today and European sovereign debt concerns, the outlook continued to be for muted returns over the next few years. For additional

details on investments and their performance refer to the Investment Section.

For a reconciliation of the CFA basis to the GAAP basis investment value refer to the Market Values table also in the Investment Section.

**Pension Trust Fund Investments**  
Market Value as of August 31, 2012  
\$111,065,504,700



(graph rounded to millions)

## Management's Discussion and Analysis

### TRS-Care

Net assets of TRS-Care decreased \$149.9 million, from \$890.9 million at the end of fiscal year 2011 to \$741.0 million at the end of fiscal year 2012.

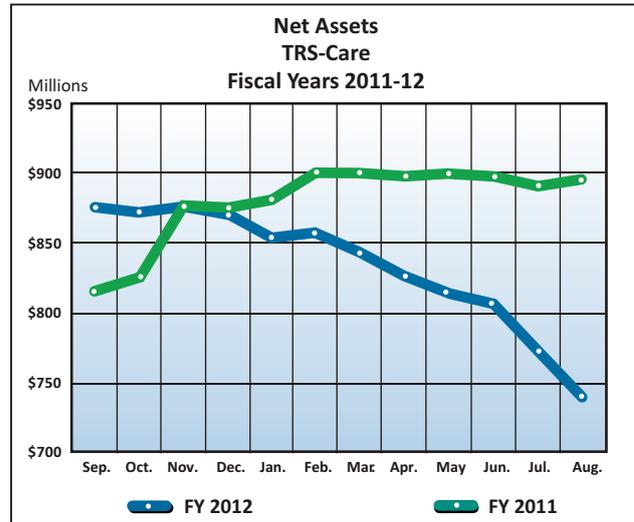
Additions to net assets include health care premiums; active member, state and reporting entity contributions; investment earnings and federal revenue. Retiree premiums of \$363.3 million for fiscal year 2012 increased \$18.2 million over fiscal year 2011. The total contributions of \$603.4 million decreased by 3.5% from the fiscal year 2011 total of \$625.4 million due to an overall decline in payroll.

Federal revenue received in fiscal year 2012 from the federal government includes Medicare Part D Retiree Drug Subsidy payments totaling \$71.5 million and a (\$2.9) million return of funds related to the Early Retiree Reinsurance Program (ERRP). TRS did not receive any ERRP payments in fiscal year 2012, which resulted in a decrease in federal revenue of \$68.3 million. (See Note 6).

Investment income of \$5.2 million in fiscal year 2012 decreased by \$3.0 million in comparison to fiscal year 2011. The decrease was primarily due to lower interest rates in fiscal year 2012, as well as a considerable drop in the earnings base as evidenced by the decrease of \$120.1 million in cash in State Treasury from fiscal year 2011 to fiscal year 2012.

Deductions from net assets include claims payments, claims processing costs, and administrative expenses. Claims

payments and processing costs during fiscal year 2012 totaled \$1.187 billion and increased \$150.1 million or 14.5% over fiscal year 2011 claims of \$1.037 billion. The increase is due to the rising costs of health care and to growth in plan participation. A fiscal year end decrease in the estimated amount for claims incurred but not reported resulted in an increase of \$2.9 million in net assets. Administrative expenses increased by 18.1% from fiscal year 2011 primarily due to the increase in professional fees and services.



### Net Assets – TRS-Care (Dollars in Thousands)

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Percentage Change
<b>Assets</b>				
Cash and Receivables	\$ 869,044	\$ 991,128	\$ (122,084)	-12.3%
<b>TOTAL ASSETS</b>	<b>\$ 869,044</b>	<b>\$ 991,128</b>	<b>\$ (122,084)</b>	<b>-12.3%</b>
<b>Liabilities</b>				
Accounts Payable and Other	\$ 20,710	\$ 1,323	\$ 19,387	1465.4%
Health Care Claims Payable	107,320	98,935	8,385	8.5
<b>TOTAL LIABILITIES</b>	<b>\$ 128,030</b>	<b>\$ 100,258</b>	<b>\$ 27,772</b>	<b>27.7%</b>
<b>Total Net Assets</b>	<b>\$ 741,014</b>	<b>\$ 890,870</b>	<b>\$ (149,856)</b>	<b>-16.8%</b>

## Management's Discussion and Analysis

### Changes in Net Assets – TRS-Care (Dollars in Thousands)

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Percentage Change
<b>Additions</b>				
Member Contributions	\$ 176,751	\$ 183,809	\$ (7,058)	-3.8%
State Contributions	247,532	256,997	(9,465)	-3.7
Reporting Entities and Other Contributions	179,105	184,617	(5,512)	-3.0
Health Care Premiums	363,348	345,164	18,184	5.3
Federal Revenue	68,634	136,888	(68,254)	-49.9
Investment Income	5,190	8,169	(2,979)	-36.5
<b>TOTAL ADDITIONS</b>	<b>\$ 1,040,560</b>	<b>\$ 1,115,644</b>	<b>\$ (75,084)</b>	<b>-6.7%</b>
<b>Deductions</b>				
Health Care Claims	\$ 1,142,132	\$ 992,478	\$ 149,654	15.1%
Health Care Claims Processing	44,571	44,116	455	1.0
Administrative Expenses	3,714	3,144	570	18.1
<b>TOTAL DEDUCTIONS</b>	<b>\$ 1,190,417</b>	<b>\$ 1,039,738</b>	<b>\$ 150,679</b>	<b>14.5%</b>
<b>Change in Net Assets</b>	<b>\$ (149,857)</b>	<b>\$ 75,906</b>	<b>\$ (225,763)</b>	<b>-297.4%</b>

### Enterprise Funds

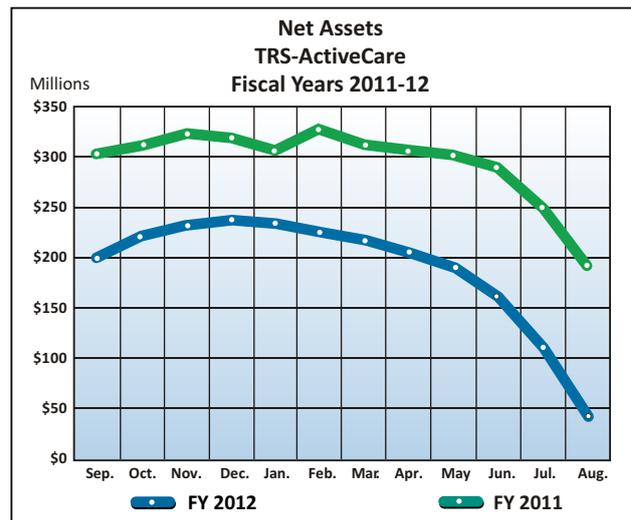
#### TRS-ActiveCare

The TRS-ActiveCare program operates under the authority of the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and the Texas Administrative Code, Title 34, Part 3, Chapter 41, and began operations in fiscal year 2003. Net assets of the plan were \$45.8 million at the end of fiscal year 2012, a decrease of \$142.3 million, or 75.7%, from fiscal year 2011.

Revenues for fiscal year 2012 included \$1.7 billion from health care premiums, an increase of \$200.4 million, or 12.9% over fiscal year 2011. This increase is due to an increase in plan participation. Investment income for the year was \$1.7 million, which decreased \$1.7 million, or 49.9% from fiscal year 2011 which is attributable to lower interest rates and reduced cash balances in fiscal year 2012. Federal revenue reimbursements are related to the American Recovery and Reinvestment Act (ARRA). Federal and other revenues for 2012 totaled \$238 thousand, a decrease of \$633 thousand from fiscal year 2011.

Health care claims for fiscal year 2012 were \$1.7 billion, a \$208.8 million, or 13.8%, increase over the \$1.5 billion in fiscal year 2011. This increase is due to the rising costs of health care and pharmacy benefits and a growth in plan participation. Other

expenses included claims processing costs of \$83.3 million, \$89.7 million for HMO premium reimbursements, and \$2.2 million for administrative expenses. An upward adjustment to claims incurred but not reported decreased plan net assets by \$11.1 million for fiscal year 2012.



## Management's Discussion and Analysis

### Net Assets – TRS-ActiveCare (Dollars in Thousands)

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Percentage Change
<b>Assets</b>				
Cash and Receivables	\$ 261,401	\$ 365,374	\$ (103,973)	-28.5%
<b>TOTAL ASSETS</b>	<b>\$ 261,401</b>	<b>\$ 365,374</b>	<b>\$ (103,973)</b>	<b>-28.5%</b>
<b>Liabilities</b>				
Accounts Payable and Other	\$ 318	\$ 326	\$ (8)	-2.5%
Premiums Payable to HMOs	7,449	6,238	1,211	19.4
Health Care Claims Payable	207,857	170,741	37,116	21.7
<b>TOTAL LIABILITIES</b>	<b>\$ 215,624</b>	<b>\$ 177,305</b>	<b>\$ 38,319</b>	<b>21.6%</b>
<b>Total Net Assets</b>	<b>\$ 45,777</b>	<b>\$ 188,069</b>	<b>\$ (142,292)</b>	<b>-75.7%</b>

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

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Percentage Change
<b>Revenues (Operating and Non-Operating)</b>				
Health Care Premiums	\$ 1,749,905	\$ 1,549,531	\$ 200,374	12.9%
Investment Income	1,698	3,387	(1,689)	-49.9
Federal Revenue and Other	238	871	(633)	-72.7
<b>TOTAL REVENUE</b>	<b>\$ 1,751,841</b>	<b>\$ 1,553,789</b>	<b>\$ 198,052</b>	<b>12.7%</b>
<b>Expenses</b>				
Health Care Claims	\$ 1,718,904	\$ 1,510,091	\$ 208,813	13.8%
Health Care Claims Processing	83,346	76,961	6,385	8.3
Premium Payments to HMO's	89,706	76,271	13,435	17.6
Administrative Expenses	2,177	2,207	(30)	-1.4
<b>TOTAL EXPENSES</b>	<b>\$ 1,894,133</b>	<b>\$ 1,665,530</b>	<b>\$ 228,603</b>	<b>13.7%</b>
<b>Change in Net Assets</b>	<b>\$ (142,292)</b>	<b>\$ (111,741)</b>	<b>\$ (30,551)</b>	<b>27.3%</b>

## *Management's Discussion and Analysis*

### **403(b) Administrative Program (Non-Major Fund)**

The 403(b) Administrative Program began on September 1, 2001, and operates under the authority of Vernon's Civil Statutes, Title 109, Article 6228a-5 and Sections 4-8A. Net assets were \$251.3 thousand for fiscal year 2012, compared to \$122.0 thousand in fiscal year 2011. The fund's total revenues of \$180.5 thousand increased \$155.8 thousand from the fiscal year 2011 total of \$24.7 thousand, which is attributable to certification fee renewals and an increase in product fees. Deductions from the fund were administrative expenses of \$51.2 thousand for fiscal year 2012, which includes personnel costs. This represents a decrease of \$97.2 thousand from the fiscal year 2011 total of \$148.4 thousand.

### **REQUEST FOR INFORMATION**

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

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



2012

EXHIBIT I

## Statement of Fiduciary Net Assets

AUGUST 31, 2012

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2011)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
<b>ASSETS</b>		
<b>Cash</b>		
Cash in State Treasury	\$ 1,008,065,263	\$ 807,898,799
Cash in Bank (Note 3A)	172,098,125	
Cash on Hand (Note 3B)	7,990,499	
<b>TOTAL CASH</b>	<b>\$ 1,188,153,887</b>	<b>\$ 807,898,799</b>
<b>Receivables</b>		
Sale of Investments	\$ 1,310,240,211	\$
Interest and Dividends	245,552,931	316,328
Member and Retiree Reporting Entities	85,416,930	41,279,259
Other	41,705,443	8,578,779
Due from State's General Fund	445,456	10,970,252
Due from Employees Retirement System of Texas	2,683,341	
<b>TOTAL RECEIVABLES</b>	<b>\$ 1,686,044,312</b>	<b>\$ 61,144,618</b>
<b>Investments (Notes 1F and 3E)</b>		
Short-Term	\$ 2,575,346,764	\$
Short-Term Foreign Currency Contracts	(3,942)	
Equities	47,894,287,347	
Fixed Income	20,079,592,351	
Alternative Investments	33,867,730,280	
Derivative Investments	82,370,921	
Pooled Investments	5,493,906,639	
<b>TOTAL INVESTMENTS</b>	<b>\$ 109,993,230,360</b>	<b>\$ 0</b>
Invested Securities Lending Collateral	\$ 21,557,057,091	\$ 0
<b>Capital Assets (Note 2)</b>		
Intangible Assets	\$ 9,390,439	\$
Less Accumulated Amortization	(8,195,994)	
Depreciable Assets	46,322,831	
Less Accumulated Depreciation	(22,937,544)	
Non-Depreciable Assets	4,506,567	
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 29,086,299</b>	<b>\$ 0</b>
<b>TOTAL ASSETS</b>	<b>\$ 134,453,571,949</b>	<b>\$ 869,043,417</b>

		Fiduciary Fund Types	
Total - Pension and Other Employee Benefit Trust Funds		Agency Funds	
2012	2011	Child Support Employee Deductions	
\$ 1,815,964,062	\$ 1,819,815,450	\$	4,917
172,098,125	184,856,481		
7,990,499	2,563,416		
\$ 1,996,052,686	\$ 2,007,235,347	\$	4,917
\$ 1,310,240,211	\$ 931,132,294	\$	
245,869,259	245,420,610		
126,696,189	120,058,542		
50,284,222	53,255,193		
11,415,708	11,183,535		
	2,795,631		
2,683,341	1,219,459		
\$ 1,747,188,930	\$ 1,365,065,264	\$	0
\$ 2,575,346,764	\$ 12,213,781,658	\$	
(3,942)	(44,158)		
47,894,287,347	41,913,520,425		
20,079,592,351	20,442,247,585		
33,867,730,280	26,905,492,896		
82,370,921	(93,266,114)		
5,493,906,639	4,666,369,268		
\$ 109,993,230,360	\$ 106,048,101,560	\$	0
\$ 21,557,057,091	\$ 22,760,168,002	\$	0
\$ 9,390,439	\$ 8,839,708	\$	
(8,195,994)	(7,908,543)		
46,322,831	46,476,931		
(22,937,544)	(20,692,331)		
4,506,567	2,329,417		
\$ 29,086,299	\$ 29,045,182	\$	0
\$ 135,322,615,366	\$ 132,209,615,355	\$	4,917

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EXHIBIT I (concluded)

## Statement of Fiduciary Net Assets

AUGUST 31, 2012

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2011)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
<b>LIABILITIES (Note 1F)</b>		
Accounts Payable	\$ 8,195,709	\$ 560,379
Payroll Payable	3,024,078	110,258
External Manager Fees Payable	23,026,410	
Benefits Payable	691,237,110	
Health Care Claims Payable		107,320,234
Investments Purchased Payable	521,429,620	
Securities Sold Short	107,560,251	
Collateral Obligations	21,535,537,256	
Due to State's General Fund	71,239,028	19,819,500
Due to Employees Retirement System of Texas	6,121,112	
Purchased Service Installment Receipts	29,989,299	
Employee Compensable Absences Payable (Note 4)	5,221,964	219,390
Deferred Rent	1,103,078	
Funds Held for Others		
<b>TOTAL LIABILITIES</b>	<b>\$ 23,003,684,915</b>	<b>\$ 128,029,761</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER EMPLOYEE BENEFITS</b>	<b>\$ 111,449,887,034</b>	<b>\$ 741,013,656</b>

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

		Fiduciary Fund Types	
Total - Pension and Other Employee Benefit Trust Funds		Agency Funds	
2012	2011	Child Support Employee Deductions	
\$ 8,756,088	\$ 8,760,815	\$	\$
3,134,336	3,808,276		
23,026,410	44,297,345		
691,237,110	649,896,558		
107,320,234	98,934,646		
521,429,620	235,903,809		
107,560,251			
21,535,537,256	22,779,223,912		
91,058,528	45,577,164		
6,121,112	5,656,783		
29,989,299	19,563,023		
5,441,354	4,802,278		
1,103,078	1,533,547		
			4,917
<u>\$ 23,131,714,676</u>	<u>\$ 23,897,958,156</u>	<u>\$</u>	<u>\$ 4,917</u>
<u>\$ 112,190,900,690</u>	<u>\$ 108,311,657,199</u>	<u>\$</u>	<u>0</u>

## Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
<b>ADDITIONS</b>		
<b>Contributions</b>		
Contributions Paid by Member Employer (Notes 10 and 12):	\$ 2,188,020,423	\$ 176,751,407
Contributions from State's General Fund	1,390,610,141	247,531,484
Contributions from Federal/Private Funding Sources	291,782,357	24,393,758
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees (Note 6)		103,676
Reporting Entities	369,988,429	149,493,142
Purchase of Service Credit - Refundable	54,966,100	
Purchase of Service Credit - Non-Refundable	71,005,664	
Contributions from Employees Retirement System of Texas:		
For Service Contributions	14,940,228	
For 415 Excess Benefit Arrangement	70,302	
Contributions from the State for 415 Excess Benefit Arrangement	2,413,067	
Employment after Retirement Surcharge paid by Reporting Entities:		
Employee	3,721,012	
Employer	3,813,329	5,114,784
Health Care Premiums		363,348,030
Federal Revenue (Note 6)		68,633,946
<b>TOTAL CONTRIBUTIONS AND PREMIUMS</b>	<b>\$ 4,391,331,052</b>	<b>\$ 1,035,370,227</b>
<b>Investment Income</b>		
From Investing Activities:		
Net Appreciation in Fair Value of Investments	\$ 5,972,016,449	\$ 5,189,934
Interest	710,769,351	
Dividends	1,213,189,788	
<b>Total Investing Activities Income</b>	<b>\$ 7,895,975,588</b>	<b>\$ 5,189,934</b>
Less: Investing Activity Expenses (Schedule 3)	(153,283,460)	
<b>Net Income From Investing Activities</b>	<b>\$ 7,742,692,128</b>	<b>\$ 5,189,934</b>
From Securities Lending Activities:		
Securities Lending Income	\$ 168,074,021	\$ 0
Securities Lending Expenses:		
Borrower Rebates	(28,028,988)	
Management Fees	(35,438,871)	
<b>Net Income from Securities Lending Activities</b>	<b>\$ 104,606,162</b>	<b>\$ 0</b>
<b>TOTAL NET INVESTMENT INCOME</b>	<b>\$ 7,847,298,290</b>	<b>\$ 5,189,934</b>
<b>Other Additions</b>		
Miscellaneous Revenues	\$ 1,867,389	\$ 0
<b>TOTAL OTHER ADDITIONS</b>	<b>\$ 1,867,389</b>	<b>\$ 0</b>
<b>TOTAL ADDITIONS</b>	<b>\$ 12,240,496,731</b>	<b>\$ 1,040,560,161</b>

<b>Total - Pension and Other Employee Benefit Trust Funds</b>	
<b>2012</b>	<b>2011</b>
\$ 2,364,771,830	\$ 2,427,763,305
1,638,141,625	1,852,769,220
316,176,115	350,549,705
103,676	108,440
519,481,571	567,361,458
54,966,100	45,158,612
71,005,664	60,018,492
14,940,228	12,628,712
70,302	45,053
2,413,067	1,705,535
3,721,012	3,983,605
8,928,113	7,347,463
363,348,030	345,164,271
68,633,946	136,887,805
<u>\$ 5,426,701,279</u>	<u>\$ 5,811,491,676</u>
\$ 5,972,016,449	\$ 12,616,681,465
715,959,285	1,011,480,492
1,213,189,788	1,120,858,771
<u>\$ 7,901,165,522</u>	<u>\$ 14,749,020,728</u>
(153,283,460)	(183,369,775)
<u>\$ 7,747,882,062</u>	<u>\$ 14,565,650,953</u>
\$ 168,074,021	\$ 135,755,199
(28,028,988)	(36,111,713)
(35,438,871)	(20,190,571)
<u>\$ 104,606,162</u>	<u>\$ 79,452,915</u>
<u>\$ 7,852,488,224</u>	<u>\$ 14,645,103,868</u>
\$ 1,867,389	\$ 1,576,613
<u>\$ 1,867,389</u>	<u>\$ 1,576,613</u>
<u>\$ 13,281,056,892</u>	<u>\$ 20,458,172,157</u>

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EXHIBIT II (concluded)

## Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
<b>DEDUCTIONS</b>		
Benefits	\$ 7,723,622,166	\$
415 Excess Benefit Arrangement	2,140,770	
Benefits Paid to Employees Retirement System of Texas:		
For Service Contributions	70,985,963	
For 415 Excess Benefit Arrangement	342,599	
Refunds of Contributions - Active	375,937,346	
Refunds of Contributions - Death	5,294,006	
Health Care Claims		1,142,131,410
Health Care Claims Processing		44,470,323
Premium Payments to HMOs		101,060
Administrative Expenses, Excluding		
Investing Activity Expenses:		
Salaries and Wages	17,296,934	1,690,742
Payroll Related Costs	5,881,606	528,503
Professional Fees and Services	575,894	1,286,128
Travel	177,955	6,022
Materials and Supplies	2,785,843	51,884
Communications and Utilities	767,522	1,618
Repairs and Maintenance	2,851,626	2,018
Rentals and Leases	124,257	91,174
Printing and Reproduction	452,017	49,574
Depreciation	1,331,139	
Amortization	287,451	
Loss on Impairment of Capital Asset		
Other Expenses	541,496	6,355
<b>TOTAL DEDUCTIONS</b>	<b>\$ 8,211,396,590</b>	<b>\$ 1,190,416,811</b>
<b>Change in Net Assets</b>	<b>\$ 4,029,100,141</b>	<b>\$ (149,856,650)</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER EMPLOYEE BENEFITS - BEGINNING OF YEAR</b>	<b>\$ 107,420,786,893</b>	<b>\$ 890,870,306</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER EMPLOYEE BENEFITS - END OF YEAR</b>	<b>\$ 111,449,887,034</b>	<b>\$ 741,013,656</b>

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

<b>Total - Pension and Other Employee Benefit Trust Funds</b>	
<b>2012</b>	<b>2011</b>
\$ 7,723,622,166	\$ 7,173,504,788
2,140,770	1,547,229
70,985,963	64,772,079
342,599	203,359
375,937,346	330,284,482
5,294,006	3,984,340
1,142,131,410	992,478,380
44,470,323	44,007,586
101,060	108,286
18,987,676	18,886,845
6,410,109	5,107,804
1,862,022	1,287,352
183,977	153,270
2,837,727	4,943,847
769,140	476,052
2,853,644	794,811
215,431	369,134
501,591	306,045
1,331,139	1,128,178
287,451	154,726
	4,477,619
547,851	908,058
<u>\$ 9,401,813,401</u>	<u>\$ 8,649,884,270</u>
\$ 3,879,243,491	\$ 11,808,287,887
<u>\$ 108,311,657,199</u>	<u>\$ 96,503,369,312</u>
<u><u>\$ 112,190,900,690</u></u>	<u><u>\$ 108,311,657,199</u></u>

2012

EXHIBIT III

## Statement of Net Assets

PROPRIETARY FUNDS  
August 31, 2012 (With Comparative Data for August 31, 2011)

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Cash</b>		
Cash in State Treasury	\$ 173,879,294	\$ 267,214
<b>TOTAL CASH</b>	<b>\$ 173,879,294</b>	<b>\$ 267,214</b>
<b>Receivables</b>		
Interest	\$ 80,122	\$ 78
Health Care Premiums	87,441,549	
ARRA Cobra Premiums		
<b>TOTAL RECEIVABLES</b>	<b>\$ 87,521,671</b>	<b>\$ 78</b>
<b>TOTAL ASSETS</b>	<b>\$ 261,400,965</b>	<b>\$ 267,292</b>
<b>LIABILITIES (Note 1F)</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 70,583	\$ 4,084
Payroll Payable	117,586	
Premiums Payable to HMOs	7,449,203	
Health Care Claims Payable	207,857,399	
Employee Compensable Absences Payable (Note 4)	79,873	4,730
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 215,574,644</b>	<b>\$ 8,814</b>
<b>Non-Current Liabilities</b>		
Employee Compensable Absences Payable (Note 4)	\$ 48,984	\$ 7,170
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 48,984</b>	<b>\$ 7,170</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 215,623,628</b>	<b>\$ 15,984</b>
<b>NET ASSETS</b>		
Restricted for Health Care Programs	\$ 45,777,337	\$ 251,308
Restricted for Administrative Expenses		
<b>TOTAL NET ASSETS</b>	<b>\$ 45,777,337</b>	<b>\$ 251,308</b>

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

**Total Enterprise Funds**

<b>2012</b>	<b>2011</b>
\$ 174,146,508	\$ 259,257,126
<u>\$ 174,146,508</u>	<u>\$ 259,257,126</u>
\$ 80,200	\$ 224,683
87,441,549	105,994,766
	44,519
<u>\$ 87,521,749</u>	<u>\$ 106,263,968</u>
<u>\$ 261,668,257</u>	<u>\$ 365,521,094</u>
\$ 70,583	\$ 84,790
121,670	125,101
7,449,203	6,238,055
207,857,399	170,741,328
84,603	89,005
<u>\$ 215,583,458</u>	<u>\$ 177,278,279</u>
\$ 56,154	\$ 51,356
<u>\$ 56,154</u>	<u>\$ 51,356</u>
<u>\$ 215,639,612</u>	<u>\$ 177,329,635</u>
\$ 45,777,337	\$ 188,069,427
251,308	122,032
<u>\$ 46,028,645</u>	<u>\$ 188,191,459</u>

## Statement of Revenues, Expenses and Changes in Fund Net Assets

PROPRIETARY FUNDS

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
<b>OPERATING REVENUES</b>		
Health Care Premiums	\$ 1,749,905,117	\$
Administrative Fees	136,324	
Certification Fees		114,000
Product Registration Fees		63,000
TOTAL OPERATING REVENUES	\$ 1,750,041,441	\$ 177,000
<b>OPERATING EXPENSES</b>		
Health Care Claims	\$ 1,718,903,645	\$
Health Care Claims Processing	83,346,223	
Premium Payments to HMOs	89,706,406	
Administrative Expenses		
Salaries and Wages	1,217,027	45,156
Payroll Related Costs	326,521	6,047
Professional Fees and Services	546,681	
Travel	5,959	
Materials and Supplies	8,287	
Communication and Utilities	2,079	
Repairs and Maintenance	2,018	
Rental and Leases	61,204	
Printing and Reproduction	323	
Other Operating Expenses	6,511	
TOTAL OPERATING EXPENSES	\$ 1,894,132,884	\$ 51,203
OPERATING INCOME (LOSS)	\$ (144,091,443)	\$ 125,797
<b>NON-OPERATING REVENUES</b>		
Investment Income	\$ 1,697,553	\$ 707
Federal Revenue - ARRA Cobra Reimbursements	29,706	
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees (Note 6)	72,094	2,772
TOTAL NON-OPERATING REVENUES	\$ 1,799,353	\$ 3,479
<b>Change in Net Assets</b>	\$ (142,292,090)	\$ 129,276
<b>TOTAL NET ASSETS - BEGINNING</b>	\$ 188,069,427	\$ 122,032
<b>TOTAL NET ASSETS - ENDING</b>	\$ 45,777,337	\$ 251,308

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

**Total Enterprise Funds**

2012	2011
\$ 1,749,905,117	\$ 1,549,530,891
136,324	135,917
114,000	12,000
63,000	3,000
<u>\$ 1,750,218,441</u>	<u>\$ 1,549,681,808</u>
\$ 1,718,903,645	\$ 1,510,090,981
83,346,223	76,960,951
89,706,406	76,270,706
1,262,183	1,259,498
332,568	291,062
546,681	726,115
5,959	2,221
8,287	4,390
2,079	883
2,018	
61,204	65,140
323	885
6,511	5,301
<u>\$ 1,894,184,087</u>	<u>\$ 1,665,678,133</u>
<u>\$ (143,965,646)</u>	<u>\$ (115,996,325)</u>
\$ 1,698,260	\$ 3,388,863
29,706	667,746
74,866	75,271
<u>\$ 1,802,832</u>	<u>\$ 4,131,880</u>
\$ (142,162,814)	\$ (111,864,445)
\$ 188,191,459	\$ 300,055,904
<u>\$ 46,028,645</u>	<u>\$ 188,191,459</u>

2012

EXHIBIT V

## Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Health Care Premiums	\$ 1,768,458,335	\$
Receipts from Long-Term Care Administrative Fees	136,324	
Receipts from Certification/Product Registration Fees		177,000
Payments for Administrative Expenses	(2,184,909)	(60,145)
Payments for Health Care Claims	(1,681,787,574)	
Payments for Health Care Claims Processing	(83,346,223)	
Payments for HMO Premiums	(88,495,258)	
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (87,219,305)</b>	<b>\$ 116,855</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Federal Revenue	\$ 74,223	\$
Proceeds from Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	72,094	2,772
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ 146,317</b>	<b>\$ 2,772</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	\$ 1,842,015	\$ 728
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 1,842,015</b>	<b>\$ 728</b>
Net Increase (Decrease) in Cash	\$ (85,230,973)	\$ 120,355
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 259,110,267	\$ 146,859
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 173,879,294	\$ 267,214
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (144,091,443)	\$ 125,797
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Health Care Premiums Receivable	\$ 18,553,218	\$
Increase in Premiums Payable to HMOs	1,211,148	
Increase in Health Care Claims Payable	37,116,071	
Increase (Decrease) in Accounts Payable	(14,207)	
Increase (Decrease) in Payroll Payable	4,223	(20,842)
Increase in Employee Compensable Absences Payable	1,685	11,900
<b>Total Adjustments</b>	<b>\$ 56,872,138</b>	<b>\$ (8,942)</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (87,219,305)</b>	<b>\$ 116,855</b>

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

**Total Enterprise Funds**

2012	2011
\$ 1,768,458,335	\$ 1,506,886,171
136,324	135,917
177,000	15,000
(2,245,054)	(2,317,609)
(1,681,787,574)	(1,485,449,862)
(83,346,223)	(76,960,951)
(88,495,258)	(75,341,322)
<u>\$ (87,102,450)</u>	<u>\$ (133,032,656)</u>
\$ 74,223	\$ 1,069,307
74,866	75,271
<u>\$ 149,089</u>	<u>\$ 1,144,578</u>
\$ 1,842,743	\$ 3,583,416
<u>\$ 1,842,743</u>	<u>\$ 3,583,416</u>
\$ (85,110,618)	\$ (128,304,662)
\$ 259,257,126	\$ 387,561,788
<u>\$ 174,146,508</u>	<u>\$ 259,257,126</u>
\$ (143,965,646)	\$ (115,996,325)
\$ 18,553,218	\$ (42,644,720)
1,211,148	929,384
37,116,071	24,641,119
(14,207)	21,154
(16,619)	9,330
13,585	7,402
<u>\$ 56,863,196</u>	<u>\$ (17,036,331)</u>
<u>\$ (87,102,450)</u>	<u>\$ (133,032,656)</u>



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## *Notes to the Financial Statements*

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NOTE 1	-	Summary of Significant Accounting Policies .....	40
NOTE 2	-	Capital Assets .....	44
NOTE 3	-	Deposits and Investments.....	45
NOTE 4	-	Employee Compensable Leave .....	57
NOTE 5	-	Operating Leases.....	57
NOTE 6	-	Fringe Benefits Paid by the State of Texas and the Federal Government ...	57
NOTE 7	-	Deferred Compensation.....	58
NOTE 8	-	Contingent Liabilities.....	58
NOTE 9	-	Continuance Subject to Review .....	58
NOTE 10	-	Post-employment Health Care Benefits.....	58
NOTE 11	-	Risk Management .....	61
NOTE 12	-	Pension Disclosure .....	61

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## Notes to the Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. REPORTING ENTITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes to the Financial Statements

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

### C. NEW ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued June 2011 and is effective for fiscal years beginning after December 15, 2011. This statement incorporates applicable provisions of Financial Accounting Standards Board and American Institute of Certified Public Accountants (FASB and AICPA, respectively) accounting and financial reporting guidance which does not contradict or conflict with GASB pronouncements into GASB's authoritative literature. Provisions of this statement are required to be applied retroactively. The requirements of this statement were implemented by TRS during fiscal year 2012.

In 2012 GASB issued two statements that directly affect pension plans and the way pension liabilities are calculated as well as the reporting of those values in financial statements. These statements have future implementation dates; however, they pose significant changes for TRS and are mentioned below with a summary of their purpose and impact.

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

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

### D. COMPARATIVE DATA IN TOTAL

The basic financial statements include certain prior-year summarized comparative data in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the system's financial statements for the fiscal year ended August 31, 2011, from which the summarized information was derived. Certain items from the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements. These reclassifications had no effect on previously reported net assets.

### E. BUDGETS AND APPROPRIATIONS

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

The Pension Trust Fund receives state contributions for retirement benefits from general revenue appropriations. In fiscal years 2012 and 2011, contributions were made to the retirement system at the rate of 6.0% and 6.644%, respectively, of the aggregate compensation paid to active retirement system members for each year. Although appropriated by the legislature, administrative expenses and capital outlay for the Pension Trust Fund are paid from the fund's Expense Account, and not from the state's General Fund.

TRS-Care received contributions from the state's General Fund equal to 1.0% of the salaries of public education employees in fiscal year 2012. Administrative expenses for this program are paid from the trust fund.

For the 2012-2013 biennium, the 82nd Legislature, Regular Session changed the state's contributions for community and junior colleges. Rider 13, for TRS, Article III in the General Appropriations Act limits General Revenue contributions related to community and junior college districts to no more than 6.0% of each district's unrestricted General Revenue appropriation.

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

Effective September 1, 1997, legislation authorized TRS to administer a governmental excess benefit arrangement under section 415(m) of the Internal Revenue Code of 1986 (26 U.S.C. section 415(m)). This legislation created a separate, nonqualified, unfunded excess benefit arrangement outside the trust fund of the retirement system. Contributions to this arrangement are made from the state's general revenue appropriations. These contributions are not held in trust and may not be commingled with other funds of the retirement system. They yield no net assets; therefore, for reporting purposes only the contributions and benefits are reflected on Exhibit II, Statement of Changes in Fiduciary Net Assets.

## Notes to the Financial Statements

### F. ASSETS, LIABILITIES AND LEGAL RESERVES

#### Investments

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

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

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

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

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

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

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

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

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

## Notes to the Financial Statements

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

### Securities Lending

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

### Liabilities

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

Benefits payable for the Pension Trust Fund represents the liability for retirement, disability, and death benefits due at fiscal year end and payable within the next 30 days. The health care claims payable for TRS-Care and TRS-ActiveCare includes an estimate for health care claims incurred but not reported to the system at August 31, 2012.

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

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

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

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

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

Deferred rent represents a reduction to rental expenses for the rent abatement and incentives received from the non-cancelable operating lease that are being amortized over the lease term.

### Interfund/Interagency Transactions and Balances

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

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

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

### Legal Reserve Accounts

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



## Notes to the Financial Statements

### NOTE 2: CAPITAL ASSETS

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

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

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

## Notes to the Financial Statements

Asset Class	Balance 09/01/2011	Reclassifications and Completed CIP	Additions	Deletions	Balance 08/31/2012 (Exhibit I)
<b>Non-Depreciable Assets:</b>					
Land and Land Improvements	\$ 1,658,310	\$	\$	\$	\$ 1,658,310
Construction in Progress	546,971	(270,225)	2,447,375		2,724,121
Other Tangible Capital Assets	124,136				124,136
<b>Total Non-Depreciable Assets</b>	<b>\$ 2,329,417</b>	<b>\$ (270,225)</b>	<b>\$ 2,447,375</b>	<b>\$ 0</b>	<b>\$ 4,506,567</b>
<b>Depreciable Assets:</b>					
Buildings and Building Improvements	\$ 34,883,756	\$	\$	\$	\$ 34,883,756
Furniture and Equipment	7,830,589		156,642	(337,719)	7,649,512
Vehicles, Boats and Aircraft	45,721				45,721
Leasehold Improvements	3,096,189				3,096,189
Other Capital Assets	277,054		26,977		304,031
Facilities and Other Improvements	343,622				343,622
<b>Total Depreciable Assets at Historical Cost</b>	<b>\$ 46,476,931</b>	<b>\$ 0</b>	<b>\$ 183,619</b>	<b>\$ (337,719)</b>	<b>\$ 46,322,831</b>
<b>Less Accumulated Depreciation for:</b>					
Buildings and Building Improvements	\$ (14,604,443)	\$	\$ (1,090,172)	\$	\$ (15,694,615)
Furniture and Equipment	(4,558,271)		(931,516)	337,719	(5,152,068)
Vehicles, Boats and Aircraft	(45,721)				(45,721)
Leasehold Improvements	(1,290,078)		(516,031)		(1,806,109)
Other Capital Assets	(180,854)		(10,851)		(191,705)
Facilities and Other Improvements	(12,964)		(34,362)		(47,326)
<b>Total Accumulated Depreciation</b>	<b>\$ (20,692,331)</b>	<b>\$ 0</b>	<b>\$ (2,582,932)</b>	<b>\$ 337,719</b>	<b>\$ (22,937,544)</b>
<b>Depreciable Assets, Net</b>	<b>\$ 25,784,600</b>	<b>\$ 0</b>	<b>\$ (2,399,313)</b>	<b>\$ 0</b>	<b>\$ 23,385,287</b>
<b>Intangible Assets:</b>					
Computer Software	\$ 8,839,708	\$ 270,225	\$ 280,506	\$	\$ 9,390,439
<b>Total Amortizable Assets at Historical Cost</b>	<b>\$ 8,839,708</b>	<b>\$ 270,225</b>	<b>\$ 280,506</b>	<b>\$ 0</b>	<b>\$ 9,390,439</b>
<b>Less Accumulated Amortization for:</b>					
Computer Software	\$ (7,908,543)	\$	\$ (287,451)	\$	\$ (8,195,994)
<b>Total Accumulated Amortization</b>	<b>\$ (7,908,543)</b>	<b>\$ 0</b>	<b>\$ (287,451)</b>	<b>\$ 0</b>	<b>\$ (8,195,994)</b>
<b>Intangible Assets, Net</b>	<b>\$ 931,165</b>	<b>\$ 270,225</b>	<b>\$ (6,945)</b>	<b>\$ 0</b>	<b>\$ 1,194,445</b>
<b>Fiduciary Capital Assets, Net of Accumulated Depreciation/Amortization</b>					
	<b>\$ 29,045,182</b>	<b>\$ 0</b>	<b>\$ 41,117</b>	<b>\$ 0</b>	<b>\$ 29,086,299</b>

### NOTE 3: DEPOSITS AND INVESTMENTS

#### A. CASH IN BANK AND DEPOSITS

Cash and deposits of the system are maintained in bank accounts or in the State Treasury. Foreign bank deposits are reported at current exchange rates. At August 31, 2012, the carrying amount totaled \$172,098,125 and the bank balance totaled \$172,082,504. The State Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United States, and obligations of various federal credit organizations. The State Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance.

## Notes to the Financial Statements

### B. CASH ON HAND AND CASH EQUIVALENTS

At August 31, 2012, the system had \$7,990,499 in cash on hand. This total is related to checks for purchases of special service that were being held pending approval of rollover transfer forms.

Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Highly liquid investments invested as part of a short-term investment fund are not considered cash equivalents.

### C. CUSTODY OF INVESTMENTS

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

### D. INVESTMENT LEGAL PROVISIONS AND OTHER CONSTRAINTS

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

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

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

## Notes to the Financial Statements

### E. INVESTMENTS

The fair values of investments at August 31, 2012, are shown in the following table.

Pension Trust Fund	
Investment Type	Fair Value
Short-Term Investments:	
Short-Term Investment Fund	\$ 2,336,955,954
Other Short-Term	238,390,810
Short-Term Foreign Currency Contracts	(3,942)
Equities:	
Domestic Equities:	
Equity Securities	22,026,998,839
Equity Commingled Funds	2,021,101,636
International Equities:	
Equity Securities	25,867,288,508
Equity Commingled Funds	3,072,092,941
Equity Mutual Funds	136,213,190
Debt Securities:	
Domestic Debt Securities:	
Asset and Mortgage Backed	525,102,869
Corporate	53,492,786
U.S. Treasury	13,536,791,071
U.S. Treasury STRIPS	90,584,324
U.S. Treasury TIPS	5,761,400,609
U.S. Government Agency	20,215,073
Debt Commingled Funds	192,826,616
International Debt Securities:	
Government	80,936,417
Corporate	11,069,202
Debt Commingled Funds	9,571,730
Alternative Investments:	
Domestic Alternative Investments:	
Private Equity	9,854,568,098
Real Assets	10,750,786,825
Absolute Return - Hedge Funds	7,070,903,618
Other Absolute Return	608,346,172
International Alternative Investments:	
Private Equity	3,229,760,689
Real Assets	1,874,035,143
Absolute Return - Hedge Funds	479,329,735
Investment Derivatives:	
Domestic Investment Derivatives:	
Forward Contracts	23,326,493
Swap Contracts	20,630,547
Warrants	32,821,237
International Investment Derivatives:	
Options	4,830,178
Swap Contracts	762,466
Other Investments:	
Other Commingled Funds - Domestic	62,100,526
<b>Total Investments (Exhibit I)</b>	<b>\$ 109,993,230,360</b>
Invested Securities Lending Collateral:	
Securities Lending Pooled Investments	\$ 21,557,057,091
<b>Total Securities Lending Collateral (Exhibit I)</b>	<b>\$ 21,557,057,091</b>

## Notes to the Financial Statements

### F. DERIVATIVES

The fair value balances and notional amounts of investment derivative instruments outstanding at August 31, 2012, classified by type, and the changes in fair value of such investment derivative instruments for the fiscal year ended August 31, 2012 were as follows.

	Changes in Fair Value		Fair Value at August 31, 2012		Notional
	Classification	Amount Gain/(Loss)	Classification	Amount	
<b>Fiduciary Funds</b>					
<b>Investment Derivatives:</b>					
Forward Contracts	Investment Revenue	\$ (42,750,462)	Investment	\$ 23,326,493	\$6,124,786,292
Futures Contracts	Investment Revenue	\$ (636,164,847)	Investment	\$ -0-	\$8,941,787,637
Swap Contracts	Investment Revenue	\$ (198,516,773)	Investment	\$ 21,393,013	\$ 1,233,587,715
Warrants	Investment Revenue	\$ 6,427,101	Investment	\$ 32,821,237	\$ 10,444,572
Options	Investment Revenue	\$ 4,909,894	Investment	\$ 4,830,178	\$ 38,133,609

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

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

The system's investment policy states that derivatives may only be used to efficiently manage and reduce the risk of the overall investment portfolio in accordance with applicable law, and must comply with the fiduciary standard of prudence set forth in the Texas Constitution, Article XVI, Section 67(a)(3). Consistent with these objectives, derivative applications may be used to implement investment strategies in a lower cost and efficient manner; efficiently manage the fund's portfolio by altering the portfolio's market exposure in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives; construct portfolios with risk and return characteristics that could not be created with cash market securities consistently with the objectives in the investment policy and in compliance with applicable law; hedge and control risks so that the fund's risk-return profile is more closely aligned with the fund's targeted risk-return profile through purchases or short sales, or both, of appropriate derivatives; and facilitate transition trading when holdings must be rebalanced or reallocated among permissible investments as a result of changes to applicable benchmark indexes or investment policy changes. Derivatives may not be used for any activity a primary purpose of which is speculation or to profit while materially increasing risk to the system. The tenor of interest rate over-the-counter swaps may not exceed thirty years or shorter based on market liquidity. The tenor of all other over-the-counter derivative instruments may not exceed five years. Starting October, 2012, these tenor requirements for over-the-counter derivative instruments were removed from the system's investment policy. Derivative applications may not be used to invest in asset classes that are not consistent with the system's legally permissible and policy asset categories, implementation strategies, and risk-return characteristics. Derivatives underlain by physical commodities may only be made through investments in funds that issue securities or other structures that also provide limited liability or limited risk of loss to investors. Investments in cash settled derivatives which reference commodities are permitted.

Any counterparty to an over-the-counter derivative transaction must have a credit rating of at least A- (Standard & Poors or Fitch) or A3 (Moody's) and is subject to established ISDA Master Agreements. All ISDA Master Agreements provide that netting applies. The system and external managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all over-the-counter derivative positions, less collateral posted, for any individual counterparty may not exceed \$500 million. Starting October, 2012, if the over-the-counter derivative transaction is a type of contract that must be centrally cleared as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, it is subject to clearing agreements.

#### Forward Contracts

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

#### Futures Contracts

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

## Notes to the Financial Statements

### Swap Contracts

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

### Option Contracts

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

## G. DEPOSITS AND INVESTMENTS RISK FACTORS

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

### Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of bank failure, the government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The system does not have a formal deposit policy for custodial credit risk. The State Treasury has specific guidelines for cash and deposits that are maintained in the State Treasury.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. As of August 31, 2012, the balance of uncollateralized cash in U.S. and non-U.S. banks for investments pending settlement was \$172,286,465.

### Custodial Credit Risk – Investments

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

Short-Term investments totaling \$238,390,810 are held by the custodian's agent in an investment pool not evidenced by a security, and are not exposed to custodial credit risk. All other investments (including exchange traded investment derivative instruments) are registered in the name of Teacher Retirement System or in the name of the system's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the system.

Any cash collateral received associated with investment derivative activity is invested in an agent managed pool that is not evidenced by securities that exist in physical or book entry form. At August 31, 2012, the system held no cash collateral associated with investment derivative activity.

At August 31, 2012, the deposits with broker to open futures contracts in the amount of \$501,716,251 were uninsured and uncollateralized.

### Credit Risk of Investment Derivative Instruments and Debt Securities

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

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

## Notes to the Financial Statements

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

The system’s rated counterparties on investment derivative instruments in an asset position, and rated debt investments as of August 31, 2012, using the Standard & Poor’s (S&P) rating scale, are as follows:

**Investment Derivative Instruments** - the aggregate fair value of investment derivative instruments in asset positions at August 31, 2012, was \$77,363,390. This represents the maximum loss that would be recognized at August 31, 2012, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$3,543,738 of liabilities included in netting arrangements with those counterparties resulting in a net exposure of investment derivative instruments to credit risk of \$73,819,652.

The aggregate fair value of investment derivative instruments in asset positions of \$77,363,390 at August 31, 2012, was executed with six counterparties, all with an S&P rating of A.

### Debt Securities:

Investment Type	S&P Rating	Fair Value
Short-Term Investment Fund	NR	\$ 2,336,955,954
Other Short-Term	NR	238,390,810
Total Credit Risk of Short-Term		\$ 2,575,346,764
Short-Term Foreign Currency Contracts		\$ (3,942)
<b>Total Short-Term (Exhibit I)</b>		<b>\$ 2,575,342,822</b>
U.S. Government Agency Obligations	AA	\$ 11,627,785
U.S. Government Agency Obligations	A	642,545
U.S. Government Agency Obligations	NR	4,815,277
Total U.S. Government Agency Obligations		\$ 17,085,607
Asset and Mortgage Backed Obligations	AAA	\$ 19,601,693
Asset and Mortgage Backed Obligations	AA	52,849,670
Asset and Mortgage Backed Obligations	A	19,910,518
Asset and Mortgage Backed Obligations	BBB	16,333,682
Asset and Mortgage Backed Obligations	BB	22,994,692
Asset and Mortgage Backed Obligations	B	70,837,954
Asset and Mortgage Backed Obligations	CCC	146,283,296
Asset and Mortgage Backed Obligations	CC	51,629,335
Asset and Mortgage Backed Obligations	D	3,221,582
Asset and Mortgage Backed Obligations	NR	121,440,447
Total Asset and Mortgage Backed Obligations		\$ 525,102,869

(to next page)

## Notes to the Financial Statements

(concluded)

Investment Type	S&P Rating	Fair Value
Corporate Obligations	A	\$ 9,339,232
Corporate Obligations	BBB	26,087,493
Corporate Obligations	BB	1,537,163
Corporate Obligations	B	709,050
Corporate Obligations	CCC	7,141,673
Corporate Obligations	CC	3,092,250
Corporate Obligations	NR	5,585,925
<b>Total Corporate Obligations</b>		<b>\$ 53,492,786</b>
International Government Obligations	AAA	\$ 4,167,152
International Government Obligations	BBB	74,340,153
International Government Obligations	CCC	113,808
International Government Obligations	NR	2,315,304
<b>Total International Government Obligations</b>		<b>\$ 80,936,417</b>
International Corporate Obligations	AAA	\$ 2,114,200
International Corporate Obligations	A	1,182,116
International Corporate Obligations	BBB	4,202,860
International Corporate Obligations	BB	1,513,750
International Corporate Obligations	NR	2,056,276
<b>Total International Corporate Obligations</b>		<b>\$ 11,069,202</b>
<b>Total Credit Risk of Debt Securities (excluding Short-Term)</b>		<b>\$ 687,686,881</b>
U.S. Government Obligations and U.S. Government Agency Obligations		\$ 19,391,905,470
<b>Total Fixed Income (Exhibit I)</b>		<b>\$ 20,079,592,351</b>

### Interest Rate Risk of Debt Securities and Investment Derivative Instruments

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

The table on the next page shows the long-term fixed income investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2012.

## Notes to the Financial Statements

Investment Type	Fair Value	Effective Weighted Duration Rate*
U.S. Government Obligations	\$ 13,536,791,071	16.16
U.S. Government STRIPS and TIPS	5,851,984,933	6.06
U.S. Government Agency Obligations	20,215,073	4.18
Asset and Mortgage Backed Obligations	525,102,869	2.67
Corporate Obligations	53,492,786	9.29
International Government Obligations	80,936,417	2.14
International Corporate Obligations	11,069,202	9.78
<b>Total Fixed Income (Exhibit I)</b>	<b>\$ 20,079,592,351</b>	<b>12.77</b>

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

The table below shows the maturities of the system's Swap contracts at August 31, 2012.

Maturities in Years				
Less than 1 Year	1-5	6-10	11-20	Total
\$ 21,534,068	\$ (1,075,411)	\$ (8,840)	\$ 155,048	\$ 20,604,865

### Investments Highly Sensitive to Interest Rate Changes

The system's investments in long-term Asset and Mortgage Backed Obligations are subject to prepayments by the obligees of the underlying assets in periods of decreasing interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2012, these securities totaled \$525,102,869.

The system invests in Commingled Funds which hold a preponderance of investments with fair values that are highly sensitive to market conditions. The fair value of the Commingled Fund fluctuates as market conditions fluctuate. Interest rate changes are a part of changes in market conditions. As of August 31, 2012, these funds totaled \$202,398,346.

The system's investments in Swap contracts have various reference rates based on various interbank offered rates and Treasury Bill rates. As these reference rates fluctuate, the payments due to/from the system fluctuate. At August 31, 2012, the notional amount and fair value of these contracts appear on the following page.

## Notes to the Financial Statements

Terms	Notional	Fair Value
U.S. LIBOR-Varied Terms	\$ 866,098,971	\$ 18,113,819
GBP LIBOR-Varied Terms	6,591,113	185,773
1 month STIBOR	8,161,249	468,400
1 month HIBOR	1,305,153	28,504
1 month JPY LIBOR	3,915,308	(54,508)
1 month CAD LIBOR	3,124,168	24,352
3 month U.S. Treasury Bill	207,108,515	2,704,661
3 month Canada Banker's Acceptance	25,425,846	18,375
6 month EURIBOR	33,368,514	155,048
U.S. Fed Funds Effective Rate	24,590,857	(1,039,559)
<b>Total</b>	<b>\$ 1,179,689,694</b>	<b>\$ 20,604,865</b>

### Foreign Currency Risk – Deposits and Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or an investment. The system does not have a formal deposit policy for foreign currency risk. The risk of holding investments in foreign currency is managed by engaging in currency overlay strategies. The maximum notional exposure of the fund to any single non-U.S. dollar developed market currency and any emerging market currency will be limited to 2% and 1% of the market value of the fund respectively. The system's exposure to foreign currency risk at August 31, 2012, is presented in the tables on the following pages.

## Notes to the Financial Statements

**Deposits:**

Currency	Cash in Non-U.S. Banks
Australian Dollar	\$ 1,803,361
Botswana Pula	78,546
Brazilian Real	2,258,322
Canadian Dollar	1,849,112
Chilean Peso	915,775
Colombian Peso	2,205,903
Croatian Kuna	18,855
Czech Koruna	192,227
Danish Krone	1,952,082
Egyptian Pound	3,193,213
Euro	58,385,251
Ghanaian Cedi	93,254
Hong Kong Dollar	53,135,317
Hungarian Forint	127,728
Indian Rupee	473,587
Indonesian Rupiah	992,240
Israeli Shekel	268,758
Japanese Yen	10,445,308
Jordanian Dinar	62,444
Kenyan Shilling	22,610
Lithuania Litas	17,113
Malaysian Ringgit	453,692
Mauritius Rupee	78,965
Mexican Peso	190,177
Moroccan Dirham	66,613
New Turkish Lira	950,643
New Zealand Dollar	97,421
Nigerian Naira	72,171
Norwegian Krone	1,813,547
Pakistan Rupee	17,302
Peruvian Nuevo Sol	41,125
Philippine Peso	176,787
Polish Zloty	488,297
Pound Sterling	11,307,190
Qatar Riyal	10,389
Romanian Leu	183,545
Russian Ruble	35,691
Singapore Dollar	8,148,015
South African Rand	975,946
South Korean Won	747,072
Swedish Krona	717,271
Swiss Franc	1,833,631
Taiwan Dollar	4,845,941
Thai Baht	403,167
United Arab Emirates Dirham	140,861
	\$ 172,286,465
Total Deposits Subject to Foreign Currency Risk	\$ 172,286,465

## Notes to the Financial Statements

### Investments:

Currency	Debt	Equity	Alternative Investments	Derivatives	Total Fair Value
Australian Dollar	\$ 1,036,552	\$ 834,522,027	\$	\$	\$ 835,558,579
Botswana Pula		4,596,256			4,596,256
Brazilian Real		995,108,639			995,108,639
Canadian Dollar	1,210,281	1,235,675,442		42,727	1,236,928,450
Chilean Peso		128,376,055			128,376,055
Colombian Peso		46,814,408			46,814,408
Croatian Kuna		5,867,567			5,867,567
Czech Koruna		34,583,583			34,583,583
Danish Krone		151,787,435			151,787,435
Egyptian Pound		38,421,007			38,421,007
Euro	75,732,713	3,462,940,876	2,630,116,151	4,985,225	6,173,774,965
Ghanaian Cedi		2,231,443			2,231,443
Hong Kong Dollar		2,066,731,722		28,504	2,066,760,226
Hungarian Forint		58,719,842			58,719,842
Indian Rupee	676	496,886,549			496,887,225
Indonesian Rupiah		390,323,965			390,323,965
Israeli Shekel		47,606,957			47,606,957
Japanese Yen		2,605,170,664		(54,508)	2,605,116,156
Jordanian Dinar		7,022,057			7,022,057
Kenyan Shilling		8,076,464			8,076,464
Malaysian Ringgit		268,165,930			268,165,930
Mauritius Rupee		5,856,428			5,856,428
Mexican Peso		443,033,118			443,033,118
Moroccan Dirham		13,674,855			13,674,855
New Turkish Lira		297,544,226			297,544,226
New Zealand Dollar		15,643,387			15,643,387
Nigerian Naira		9,018,834			9,018,834
Norwegian Krone		200,611,491			200,611,491
Pakistan Rupee		19,642,251			19,642,251
Peruvian Nuevo Sol		5,935,204			5,935,204
Philippine Peso		97,757,937			97,757,937
Polish Zloty		122,697,323			122,697,323
Pound Sterling		3,063,836,670	211,655,328	185,773	3,275,677,771
Qatar Riyal		19,379,054			19,379,054
Romanian Leu		4,886,136			4,886,136
Russian Ruble		12,402,215			12,402,215
Singapore Dollar		183,169,000			183,169,000
South African Rand		730,076,153			730,076,153
South Korean Won		1,483,646,420		(63,477)	1,483,582,943
Swedish Krona	2,956,871	398,649,880		468,400	402,075,151
Swiss Franc		1,136,366,400			1,136,366,400
Taiwan Dollar		866,382,304			866,382,304
Thai Baht		328,385,310			328,385,310
United Arab Emirates Dirham		13,854,924			13,854,924
Total Investments Subject to Foreign Currency Risk	\$ 80,937,093	\$ 22,362,078,408	\$ 2,841,771,479	\$ 5,592,644	\$ 25,290,379,624

### H. SECURITIES LENDING

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

## Notes to the Financial Statements

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

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

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

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

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

Investment Type	Fair Value
U.S. Government Obligations	\$ 1,076,870,095
Domestic Equities	10,872,705
International Equities	19,422,917
<b>Total</b>	<b>\$ 1,107,165,717</b>

The system earns income from fees paid by the borrowers and interest earned from investing the cash collateral. The contract requires the custodian to indemnify the system if the borrower fails to return the securities or income distributions made while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Substantially all securities loans can be terminated on demand either by the system or the borrower, although, as of August 31, 2012, the weighted average term of these loans was 4 days. As of August 31, 2012, the weighted average maturity of the invested cash collateral was 29 days, and there was no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts owed to the system. During the year there were no borrower or custodian default losses and no recoveries of prior period losses. Authorized borrowers have specific limits that vary from \$50 million to \$5.5 billion. During the year, there were no significant violations of contractual provisions. The total market value of all loans cannot exceed 30% of the portfolio.

The following table represents the fair market values of the securities lending transactions based on type of collateral received as of August 31, 2012.

	Cash	Non-Cash	Total
Securities on Loan	\$ 21,179,848,213	\$ 1,107,165,717	\$ 22,287,013,930
Collateral Received	\$ 21,535,537,256	\$ 1,130,386,771	\$ 22,665,924,027
Reinvested Collateral	\$ 21,557,057,091		\$ 21,557,057,091

For fiscal year 2012, the system earned income of \$104,606,162 from securities lending.

### I. OTHER INVESTMENTS AND CONTINGENT COMMITMENTS

The system's investment derivative instruments include provisions that require the system to post collateral in the event that the fair value surpasses a specified contractual threshold. At August 31, 2012, the aggregate fair value of all investment derivative instruments with these collateral posting provisions is \$82,370,921. If the collateral posting thresholds of all these investment derivative instruments did not exist at August 31, 2012, the system would be required to post the aggregate amount of \$3,543,738 in collateral to its counterparties. Where none of the contractual thresholds were surpassed, the system has posted no collateral at August 31, 2012.

The system's investments in certain limited partnerships commit the system to possible future capital contributions. At August 31, 2012, the remaining commitment was \$14,981,220,425.

## Notes to the Financial Statements

### NOTE 4: EMPLOYEE COMPENSABLE LEAVE

Salary costs related to employees' rights to be compensated for leave balances are accrued as expenses of the period in which the services were rendered. Accumulated compensable leave liabilities are reported in the Statement of Fiduciary Net Assets for the Pension and Other Employee Benefit Trust Funds and in the Statement of Net Assets for the Enterprise Funds. The employees' compensable leave activity for fiscal year 2012 is shown in the table below.

	Beginning Balance 09/01/11	Additions	Reductions	Ending Balance 08/31/12	Amounts Due Within One Year	Amounts Due Thereafter
Fiduciary Funds:						
Pension Trust Fund	\$ 4,618,755	\$ 5,387,490	\$ (4,784,281)	\$ 5,221,964	\$ 3,223,423	\$ 1,998,541
TRC-Care	183,523	222,718	(186,851)	219,390	134,362	85,028
Proprietary Funds:						
TRC-ActiveCare	127,172	148,672	(146,987)	128,857	79,873	48,984
403(b) Adminis- trative Program	13,189	10,598	(11,887)	11,900	4,730	7,170
<b>Total</b>	<u>\$ 4,942,639</u>	<u>\$ 5,769,478</u>	<u>\$ (5,130,006)</u>	<u>\$ 5,582,111</u>	<u>\$ 3,442,388</u>	<u>\$ 2,139,723</u>

### NOTE 5: OPERATING LEASES

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

Rental expenses related to the lease for the fiscal year ended August 31, 2012 for the Pension Trust Fund were \$1,743,524 and include amortization of deferred rent of \$430,470.

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

Fiscal Year Ending	Amount
August 31, 2013	\$ 1,809,318
August 31, 2014	1,857,136
August 31, 2015	1,082,661
<b>Total</b>	<u>\$ 4,749,115</u>

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

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

For the fiscal year ended August 31, 2012, the state provided retirement contributions of \$103,676 on behalf of employees paid from TRC-Care. In the Enterprise Funds, the state provided on behalf retirement contributions of \$72,094 for TRC-ActiveCare and \$2,772 for the 403(b) Administrative Program.

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

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D provided retiree drug subsidy reimbursements to TRC-Care on behalf of certain plan participants totaling \$71,575,942 for the fiscal year ended August 31, 2012.

## Notes to the Financial Statements

The Patient Protection and Affordable Care Act, signed into law on March 23, 2010, along with the Health Care and Education Affordability Reconciliation Act of 2010, signed into law on March 30, 2010 (together, the PPACA), embody sweeping federal health care legislation. Under the PPACA, TRS-Care returned \$2,941,996 for the fiscal year ended August 31, 2012 to the U.S. Department of Health and Human Services for participation in the Early Retiree Reinsurance Program, a program that went into effect June 1, 2010. The program reimburses participating plans for a portion of health benefit costs for retirees age 55 and older who are not eligible for Medicare, and their spouses, surviving spouses, and dependents.

### NOTE 7: DEFERRED COMPENSATION

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

### NOTE 8: CONTINGENT LIABILITIES

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is taken only in the event of illness or paid to the estate of an employee in the event of death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The system's policy is to recognize the cost of any sick leave when paid.

A Performance Incentive Compensation Plan was adopted effective July 1, 2006, to enable the system to remain competitive in its efforts to attract, retain and motivate high caliber investment division staff. The July 1, 2006 Plan was terminated by the board of trustees September 13, 2007, and a new Plan was adopted effective October 1, 2007 and modified effective October 1, 2008. The purpose of the Plan is to provide the opportunity for investment division employees to earn performance incentive pay based on the fund's investment performance and the employee's job performance. As of August 31, 2012, the liability is estimated not to exceed \$5.7 million for the first half of the incentive plan year ending September 30, 2012. Payments can only be earned following years in which the fund experiences a positive return, and employees must be employed by TRS on the designated dates in the Plan to earn and receive payment. The board of trustees may cancel or modify the Plan at any time.

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

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

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

### NOTE 9: CONTINUANCE SUBJECT TO REVIEW

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

### NOTE 10: POST-EMPLOYMENT HEALTH CARE BENEFITS

#### A. PLAN DESCRIPTION

##### *TRS Employees*

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

Benefits and contribution provisions of the SRHP are not actuarially determined, but are authorized by state law and may be amended by the Texas Legislature. For the year ended August 31, 2012, the system contributed up to a maximum monthly amount on a pay-as-you-go basis toward a retiree's health and basic life insurance premiums as follows:

## Notes to the Financial Statements

Employer Contribution Rates Retiree Health and Basic Life Premium			
Type of Coverage	FY 2012	FY 2011	FY 2010
Member Only	\$ 438.30	\$ 411.04	\$ 385.38
Member/Spouse	\$ 689.04	\$ 647.38	\$ 605.70
Member/Children	\$ 606.20	\$ 569.30	\$ 532.90
Member/Family	\$ 856.94	\$ 805.64	\$ 753.22

The system covers 100% of a Member Only premium and 50% of their additional premiums for family coverage. The basic plan includes up to \$2,500 for life insurance for the retiree. The retiree contributes any premium over and above the system's contribution for additional coverage. The board has adopted contributions based on rates set by the Texas Legislature on a biennial basis. At August 31, 2012, there were 177 retirees and their beneficiaries receiving post-employment health care and basic life insurance benefits. Contractually required contributions to the SRHP are currently based on the annual pay-as-you-go expenses of the SRHP. For the year ended August 31, 2012, 2011, and 2010 the system recognized expenditures of \$1,268,955, \$1,113,697 and \$996,954, respectively, for these benefits. The system has annually made 100 percent of its contractually required contributions to the SRHP.

### Public School Employees

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

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

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

Eligibility generally includes TRS public school retirees with more than 10 years of service and their dependents. Retirees can receive a free basic level of coverage, and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. During fiscal year 2012, deductibles were \$1,800 for those eligible for Part A of Medicare, \$3,000 for those not eligible for Part A, but eligible for Part B, and \$4,000 for those not eligible for either Part A or Part B.

At August 31, 2012, the number of reporting entities was:

Independent School Districts	1,027*
Charter Schools	196
Regional Education Service Centers	20
Education Districts	5
Total	<u>1,248</u>

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

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

At August 31, 2012, OPEB membership consisted of the following:

Retirees and beneficiaries receiving benefits	226,809*
Active plan members	664,910
Total	<u>891,719</u>

\*Excludes 7,873 dependent children



## Notes to the Financial Statements

### B. CONTRIBUTIONS

Funding for free basic coverage is provided by the program based upon public school district payroll. The State of Texas, active public school employee and reporting entities contribution rates and amounts collected are reflected in the table below for fiscal year 2012. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Actuarial implications of the overall funding are determined by the system's actuary.

	Contribution Rate	Amount
Active Employee	.65%	\$ 176,751,407
State	1.00	247,635,160
Reporting Entities	.55	149,493,142
Federal or Private Funding Sources	1.00	24,393,758
Total		\$ 598,273,467

The contributions shown above and premium contributions of \$363,348,030 contribute toward the total plan expenditures of \$1,190,416,811. Expenses for TRS-Care are recognized as retirees report claims and include a provision for estimated claims incurred but not yet received.

The actuarial valuation as of August 31, 2012, is similar to the actuarial valuations performed for the pension plan; however, certain economic and behavioral assumptions are unique to medical benefits. The demographic assumptions are identical to those used in the August 31, 2012 valuation for the pension plan.

Additional valuation information follows:

Valuation Date ..... August 31, 2012  
 Actuarial Cost Method..... Projected Unit Credit  
 Amortization Method ..... Level Percent, Open  
 Remaining Amortization Period ..... 30 Years  
 Asset Valuation Method ..... Market  
 Actuarial Assumptions:  
     Investment Rate of Return \* ..... 5.25 %  
     Projected Salary Increases \* ..... 4.25% to 7.25 %  
     Weighted-Average at Valuation Date..... 5.62 %  
     Payroll Growth Rate ..... 3.50 %  
     Health Care Trend Rates \* ..... 10.00% to 4.25 %\*\*

\* Includes Inflation at 3.00%

\*\* Initial rates are 10% for medical and 9.5% for prescriptions. The ultimate rate is 4.25% for both medical and prescriptions.

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

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

## Notes to the Financial Statements

### C. FUNDED STATUS AND FUNDING PROGRESS – OPEB PLAN

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

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2012	\$741	\$27,542	\$26,801	2.7%	\$29,777	90%

The Schedule of Funding Progress located immediately following the Notes to the Financial Statements in the Required Supplementary Information (RSI) presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits paid. The required schedule reflects information beginning for the fiscal year ended August 31, 2007 as it was the date of the first actuarial valuation for TRS-Care.

#### NOTE 11: RISK MANAGEMENT

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

#### NOTE 12: PENSION DISCLOSURE

##### A. PLAN DESCRIPTION

TRS is the administrator of a cost sharing multiple-employer defined benefit pension plan. It is a cost-sharing plan with one exception: risks and costs are generally not shared by the employing district but are the liability of the State of Texas. That is, unless the employing district is a senior college, medical school, or state agency, in which case the employer is considered the State of Texas. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the pension trust fund during that fiscal year. However, for fiscal year 2012 the Pension Trust Fund paid the employer's share for its own employees.

For members of the system entitled to the minimum salary for certain school personnel under Section 21.402 Education Code, the employing district shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum.

At August 31, 2012, the number of reporting entities was as follows:

Independent School Districts	1,028
Charter Schools	196
Community and Junior Colleges	51
Senior Colleges and Universities	46
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	2
Total	<u>1,357</u>

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



## Notes to the Financial Statements

At August 31, 2012, TRS gross membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	331,747
Terminated employees entitled to benefits but not yet receiving them	<u>72,418</u>
Total	<u>404,165</u>
Current Active Members:	
Fully-Vested	600,859
Non-Vested	<u>349,057</u>
Total	<u>949,916</u>

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

### B. CONTRIBUTIONS

Contribution requirements are not actuarially determined but are established pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of no less than 6.0% of the member's annual compensation and a state contribution rate of no less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in this manner are determined by the system's actuary.

Current contribution rates and contributions for fiscal year 2012 are shown in the table below. For fiscal year 2012 the State of Texas contribution rate was 6.0% and for fiscal years 2010-2011 the state's rate was 6.644%. The member contribution rate was 6.4% for fiscal years 2010-2012. These rates are set by the General Appropriations Act. In certain instances, the reporting entity (public school, college, university, medical school or other entity) is required to make all or a portion of the state's and/or member's contribution.

	Contribution Rate	Amount
Member	6.4%	\$2,188,020,423
State	6.0	1,390,610,141
Reporting Entities	6.0	369,988,429
Federal or Private Funding Sources	6.0	<u>291,782,357</u>
Total		<u>\$4,240,401,350</u>

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

## Notes to the Financial Statements

### C. LEGAL RESERVE ACCOUNT BALANCES

The balances in the five legally required reserve accounts are sufficient to meet statutory requirements. As of August 31, 2012 the reserve accounts had the following balances:

Member Savings Account	\$ 30,094,033,628
State Contribution Account	13,117,536,964
Retired Reserve Account	68,127,413,990
Deferred Retirement Option Account	65,247,856
Expense Account	45,654,596
<b>Total (Exhibit I)</b>	<u><u>\$111,449,887,034</u></u>

### D. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLAN

The funded status of the Pension Trust Fund as of August 31, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2012	\$118,326	\$144,427	\$26,101	81.9%	\$35,445	73.6%

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

Additional actuarial valuation information follows:

Valuation Date .....	August 31, 2012
Actuarial Cost Method.....	Entry Age Normal
Amortization Method .....	Level Percent, Open
Remaining Amortization Period * .....	30 Years
Asset Valuation Method .....	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return ** .....	8.00%
Projected Salary Increases ** .....	4.25% to 7.25%
Weighted-Average Projected Salary Increases ** .....	5.62%
Cost-of-Living Adjustments .....	None

\* The state's contribution rate would need to increase from 6.40% to 8.62% beginning in fiscal year 2013 in order to amortize the unfunded actuarial accrued liability (UAAL) over the 30-year maximum acceptable amortization period permitted by Governmental Accounting Standards Board Statement No. 25.

\*\* Includes Inflation at 3.00%



## Required Supplementary Information

PENSION TRUST FUND  
Fiscal Years 2007-2012

### SCHEDULE OF FUNDING PROGRESS

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

(DOLLAR AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2007	\$103,419	\$115,964	\$ 12,545	89.2%	\$ 31,114	40.3%
2008	110,233	121,756	11,523	90.5	33,238	34.7
2009	106,384	128,030	21,646	83.1	35,097	61.7
2010	111,293	134,191	22,898	82.9	36,629	62.5
2011	115,253	139,315	24,062	82.7	36,797	65.4
2012	118,326	144,427	26,101	81.9	35,445	73.6

### SCHEDULE OF CONTRIBUTIONS FROM STATE AND REPORTING ENTITIES

State and Reporting Entities Annual Required Contributions (ARC)

Fiscal Year Ended	ARC Rate	From State's General Fund	From Federal/ Private Funding Sources	From Reporting Entities	Total	Percentage of ARC Contributed
2007	7.02%	\$ 1,721,223,689	\$	\$ 324,945,946	\$ 2,046,169,635	85%
2008	6.47	1,426,771,115	247,210,170	346,051,153	2,020,032,438	102
2009	6.10	1,373,745,903	255,108,385	380,362,287*	2,009,216,575*	108
2010	7.72	1,829,819,802	356,466,503	475,562,176	2,661,848,481	86
2011	7.77	1,866,217,141	379,804,617	481,695,346	2,727,717,104	86
2012	8.13	1,884,276,741	395,365,094	501,334,321	2,780,976,156	74

\*Calculation revision from fiscal year 2009 CAFR.

## Required Supplementary Information

TRS-CARE  
Fiscal Years 2007-2012

### SCHEDULE OF FUNDING PROGRESS

(DOLLAR AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2007	\$ 623	\$ 19,748	\$ 19,125	3.2%	\$ 26,076	73%
2008	729	22,313	21,584	3.3	27,979	77
2009	800	24,357	23,557	3.3	29,490	80
2010	815	25,808	24,993	3.2	30,758	81
2011	891	29,785	28,894	3.0	30,515	95
2012	741	27,542	26,801	2.7	29,777	90

### SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

#### Annual Required Contributions

(1) Fiscal Year Ended	(2) Annual Required Contributions (ARC)	Actual Contributions			(6) Total (3)+(4)+(5)	(7) Percentage Contributed (6)/(2)
		(3) From State	(4) From Reporting Entities	(5) On-Behalf From Federal Government		
2007	\$ 1,436,756	\$ 238,191	\$ 136,009	\$ 52,330	\$ 426,530	29.7%
2008	1,535,975	254,722	141,673	59,486	455,881	29.7
2009	1,655,647	267,471	149,563	61,531	478,565	28.9
2010	1,806,751	279,251	155,918	70,796	505,965	28.0
2011	1,821,817	282,891	158,724	136,888	578,503	31.8
2012	1,980,371	272,029	154,608	68,634	495,271	25.0

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The August 31, 2007 actuarial valuation was the first actuarial valuation of TRS-Care. This and future valuations will set the ARC on a prospective basis, meaning each valuation will set the ARC for the following fiscal year. The employer ARC was determined by netting the active employee contributions (0.65%) out of the total ARC rate (7.93%). The ARC for fiscal year 2012 was determined by applying the employer ARC determined in the 2011 valuation as a percentage of payroll (7.28%) to the actual payroll paid in fiscal year 2012 (\$27.2 billion).



EXHIBIT A

## Statement of Changes in Assets and Liabilities

AGENCY FUNDS  
For the Fiscal Year Ended August 31, 2012

	Balances September 1, 2011	Additions	Deductions	Balances August 31, 2012
<b>Child Support Employee Deductions</b>				
<b>Assets:</b>				
Cash in State Treasury	\$ 3,977	\$ 59,741	\$ 58,801	\$ 4,917
<b>TOTAL ASSETS</b>	<b>\$ 3,977</b>	<b>\$ 59,741</b>	<b>\$ 58,801</b>	<b>\$ 4,917</b>
<b>Liabilities:</b>				
Funds Held for Others	\$ 3,977	\$ 55,764	\$ 54,824	\$ 4,917
<b>TOTAL LIABILITIES</b>	<b>\$ 3,977</b>	<b>\$ 55,764</b>	<b>\$ 54,824</b>	<b>\$ 4,917</b>



2012

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SCHEDULE 1

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

<b>INTEREST ACCOUNT</b>	<b>2012</b>	<b>2011</b>
<b>Additions</b>		
Interest, Dividends and Other Income:		
Short-Term	\$ 18,563,847	\$ 49,926,058
Equities	1,213,189,788	1,120,858,771
Fixed Income	701,434,163	973,604,208
Derivatives	(9,228,659)	(20,218,414)
Securities Lending Program	104,606,162	79,452,915
Net Appreciation in Fair Value of Investments	5,972,016,449	12,616,681,465
<b>TOTAL ADDITIONS</b>	<b>\$ 8,000,581,750</b>	<b>\$ 14,820,305,003</b>
<b>Deductions</b>		
Transfers Out:		
Allocation of Interest to/(from):		
Member Savings Account	\$ 1,436,001,343	\$ 1,385,602,532
State Contribution Account	(4,699,001,513)	(4,100,053,356)
Retired Reserve Account	5,092,254,303	4,692,033,648
Deferred Retirement Option Account	3,677,824	4,829,832
Expense Account	84,602,761	83,256,827
Transfer to State Contribution Account for Net Appreciation in Fair Value of Investments	5,972,016,449	12,616,681,465
External Manager Fees	111,030,583	137,954,055
<b>TOTAL DEDUCTIONS</b>	<b>\$ 8,000,581,750</b>	<b>\$ 14,820,305,003</b>
<b>Net Change in Account Balance</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 0</b>	<b>\$ 0</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

MEMBER SAVINGS ACCOUNT	2012	2011
<b>Additions</b>		
Contributions:		
Contributions Paid by Member	\$ 2,188,020,423	\$ 2,243,954,725
Employment After Retirement Surcharge Paid by Reporting Entities - Employee	3,721,012	3,983,605
Purchase of Service Credit - Refundable	54,966,100	45,158,612
Transfer In:		
Allocation from Interest Account	1,436,001,343	1,385,602,532
<b>TOTAL ADDITIONS</b>	<b>\$ 3,682,708,878</b>	<b>\$ 3,678,699,474</b>
<b>Deductions</b>		
Refund of Contributions - Active	\$ 375,937,346	\$ 330,284,482
Transfers Out:		
Transfer to Retired Reserve Account:		
For Dormant Accounts	17,572,570	18,046,747
To Fund Benefits	2,346,139,677	1,915,168,372
<b>TOTAL DEDUCTIONS</b>	<b>\$ 2,739,649,593</b>	<b>\$ 2,263,499,601</b>
<b>Net Change in Account Balance</b>	<b>\$ 943,059,285</b>	<b>\$ 1,415,199,873</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 29,150,974,343</b>	<b>\$ 27,735,774,470</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 30,094,033,628</b>	<b>\$ 29,150,974,343</b>



## Comparative Schedule of Changes in Account Balance

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

STATE CONTRIBUTION ACCOUNT	2012	2011
<b>Additions</b>		
Contributions:		
State Contributions - General Fund	\$ 1,390,610,141	\$ 1,595,771,774
Contributions - Federal/Private		
Funding Sources	291,782,357	324,764,720
Reporting Entities	369,988,429	411,889,817
Employment After Retirement Surcharge		
Paid by Reporting Entities - Employer	3,813,329	4,095,094
Purchase of Service Credit - Non-Refundable	71,005,664	60,018,492
Transfers In:		
Transfers from Interest Account:		
For Investment Income	(4,699,001,513)	(4,100,053,356)
For Net Appreciation in Fair Value of Investments	5,972,016,449	12,616,681,465
Transfers from Retired Reserve Account:		
For Retirement Benefits Forfeited While Member Returned to Teaching	125,763	36,576,537
For Retirement Benefits Waived by Member	42,151	46,176
TOTAL ADDITIONS	\$ 3,400,382,770	\$ 10,949,790,719
<b>Deductions</b>		
Transfers Out:		
Transfers to Retired Reserve Account:		
To Fund Benefits	\$ 5,610,731,986	\$ 4,745,429,605
Based on Actuarial Valuation as of August 31	344,242,543	497,268,028
TOTAL DEDUCTIONS	\$ 5,954,974,529	\$ 5,242,697,633
<b>Net Change in Account Balance</b>	<b>\$ (2,554,591,759)</b>	<b>\$ 5,707,093,086</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 15,672,128,723</b>	<b>\$ 9,965,035,637</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 13,117,536,964</b>	<b>\$ 15,672,128,723</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

RETIRED RESERVE ACCOUNT	2012	2011
<b>Additions</b>		
Contributions Transferred in from Employees Retirement System of Texas	\$ 14,940,228	\$ 12,628,712
Transfers In:		
Allocation from Interest Account	5,092,254,303	4,692,033,648
Transfer from Member Savings Account:		
For Dormant Accounts	17,572,570	18,046,747
To Fund Benefits	2,346,139,677	1,915,168,372
Transfer from State Contribution Account:		
To Fund Benefits	5,610,731,986	4,745,429,605
Based on Actuarial Valuation as of August 31	344,242,543	497,268,028
<b>TOTAL ADDITIONS</b>	<b>\$ 13,425,881,307</b>	<b>\$ 11,880,575,112</b>
<b>Deductions</b>		
Benefits Paid:		
Service Retirement Annuities	\$ 6,808,592,209	\$ 6,241,946,655
Partial Lump Sums	501,152,157	524,925,790
Disability Retirement Annuities	150,238,202	144,865,109
Death and Survivor Benefits:		
Annual Salary	46,859,444	47,295,194
Survivor Annuities	92,126,049	86,898,720
Life Annuities	85,816,402	84,893,007
60 Monthly Payments	11,816,313	11,564,275
Remainder of Contributions	4,659,453	3,293,923
Refund of Contributions - Death	5,294,006	3,984,340
Benefits Transferred to Employees Retirement System of Texas	70,985,963	64,772,079
Transfers Out:		
Transfer to Deferred Retirement Option Account to Fund Benefits	28	956,666
Transfers to State Contribution Account:		
Retirement Benefits Forfeited While Member Returned to Teaching	125,763	36,576,537
For Retirement Benefits Waived by Member	42,151	46,176
<b>TOTAL DEDUCTIONS</b>	<b>\$ 7,777,708,140</b>	<b>\$ 7,252,018,471</b>
<b>Net Change in Account Balance</b>	<b>\$ 5,648,173,167</b>	<b>\$ 4,628,556,641</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 62,479,240,823</b>	<b>\$ 57,850,684,182</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 68,127,413,990</b>	<b>\$ 62,479,240,823</b>



## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

<b>DEFERRED RETIREMENT OPTION ACCOUNT</b>	<b>2012</b>	<b>2011</b>
<b>Additions</b>		
Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 28	\$ 956,666
Allocation from Interest Account	3,677,824	4,829,832
<b>TOTAL ADDITIONS</b>	<b>\$ 3,677,852</b>	<b>\$ 5,786,498</b>
<b>Deductions</b>		
Benefits Paid	\$ 22,361,937	\$ 27,822,115
<b>Net Change in Account Balance</b>	<b>\$ (18,684,085)</b>	<b>\$ (22,035,617)</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 83,931,941</b>	<b>\$ 105,967,558</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 65,247,856</b>	<b>\$ 83,931,941</b>

## Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

EXPENSE ACCOUNT	2012	2011
<b>Additions</b>		
Miscellaneous Revenues	\$ 1,867,389	\$ 1,576,613
Transfers In:		
Allocation from Interest Account	84,602,761	83,256,827
<b>TOTAL ADDITIONS</b>	<b>\$ 86,470,150</b>	<b>\$ 84,833,440</b>
<b>Deductions</b>		
Administrative Expenses:		
Salaries and Payroll Related Costs	\$ 53,018,423	\$ 57,695,600
Professional Fees and Services	6,160,168	4,619,847
Consumable Supplies and Fuels	361,577	399,778
Utilities	773,382	706,891
Travel	802,780	709,149
Rentals	1,619,727	1,384,529
Dues, Fees and Staff Development	279,488	299,043
Subscriptions and Reference Information	235,123	195,529
Printing and Reproduction Services	642,574	311,082
Postage, Mailing and Delivery Services	2,666,845	2,059,866
Software Purchases and Maintenance	2,847,777	2,348,229
Maintenance - Computer Hardware	389,705	349,574
Maintenance - Buildings and Equipment	776,492	727,166
Miscellaneous Expenses	706,686	803,571
Insurance Premiums	660,872	668,723
Furniture and Equipment - Expensed	514,616	1,099,878
Depreciation	2,582,931	2,254,739
Amortization	287,451	154,726
Loss on Impairment of Capital Assets		4,477,619
<b>TOTAL DEDUCTIONS</b>	<b>\$ 75,326,617 *</b>	<b>\$ 81,265,539</b>
<b>Net Change in Account Balance</b>	<b>\$ 11,143,533</b>	<b>\$ 3,567,901</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 34,511,063</b>	<b>\$ 30,943,162</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 45,654,596</b>	<b>\$ 34,511,063</b>

\* This amount includes total internal administrative investing activity expenses of \$42,252,877 (Schedule 3). Total administrative expenses net of investing activity expenses are \$33,073,740 (Exhibit II).



SCHEDULE 2

## Schedule of Administrative Expenses

For the Fiscal Year Ended August 31, 2012

	<b>Pension Trust Fund</b>	<b>TRS-Care</b>
<b>Personnel Services:</b>		
Salaries and Wages	\$ 17,296,934	\$ 1,690,742
<i>Payroll Related Costs:</i>		
Longevity Pay	402,950	49,640
Employer Retirement Contributions	976,878	103,676
Employer FICA Contributions	1,242,486	127,394
Employer Health Insurance Contributions	2,543,360	199,551
Benefit Replacement Pay	88,362	12,375
Other Employee Benefits	24,360	
Employee Compensable Absences	603,210	35,867
<b>TOTAL PERSONNEL SERVICES</b>	<b>\$ 23,178,540</b>	<b>\$ 2,219,245</b>
<b>Professional Fees and Services</b>	<b>\$ 575,894</b>	<b>\$ 1,286,128</b>
<b>Other Operating Expenses:</b>		
Travel	\$ 177,955	\$ 6,022
Materials and Supplies		
Consumable Supplies and Fuels	165,902	3,274
Subscriptions and Reference Information	109,906	
Postage, Mailing and Delivery Services	2,130,105	46,500
Furniture and Equipment - Expensed	379,930	2,110
Communication and Utilities		
Utilities	505,689	1,618
Communication	261,833	
Repairs and Maintenance		
Software Purchases and Maintenance	2,012,151	
Computer Hardware Maintenance	286,152	
Maintenance - Buildings and Equipment	553,323	2,018
Rentals and Leases	124,257	91,174
Printing and Reproduction Services	452,017	49,574
Depreciation	1,331,139	
Amortization	287,451	
Other Expenses		
Dues, Fees and Staff Development	146,702	1,102
Insurance Premiums	328,453	
Other Miscellaneous Expenses	66,341	5,253
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 9,319,306</b>	<b>\$ 208,645</b>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 33,073,740</b>	<b>\$ 3,714,018</b>

TRS-ActiveCare	403(b) Administrative Program	Total
\$ 1,217,027	\$ 45,156	\$ 20,249,859
29,660		482,250
72,093	2,771	1,155,418
90,025	3,534	1,463,439
130,995		2,873,906
2,063	1,031	103,831
		24,360
1,685	(1,289)	639,473
<u>\$ 1,543,548</u>	<u>\$ 51,203</u>	<u>\$ 26,992,536</u>
\$ 546,681	\$	\$ 2,408,703
\$ 5,959	\$	\$ 189,936
728		169,904
824		110,730
3,218		2,179,823
3,517		385,557
1,604		508,911
475		262,308
		2,012,151
		286,152
2,018		557,359
61,204		276,635
323		501,914
		1,331,139
		287,451
6,400		154,204
		328,453
111		71,705
<u>\$ 86,381</u>	<u>\$ 0</u>	<u>\$ 9,614,332</u>
<u>\$ 2,176,610</u>	<u>\$ 51,203</u>	<u>\$ 39,015,571</u>



## Comparative Schedule of Investing Activity Expenses

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2012 (With Comparative Data for August 31, 2011)

	2012	2011
<b>Direct Expenses:</b>		
Salaries and Other Personnel Costs	\$ 22,711,300	\$ 29,476,277
Professional Fees and Services	5,532,047	3,767,718
Consumable Supplies	85,156	35,633
Travel	545,399	506,220
Building Lease	1,327,136	1,019,436
Copier Rentals	64,854	75,000
Dues, Fees and Staff Development	42,706	27,648
Subscriptions and Reference Materials	37,911	36,796
Reproduction and Printing Services	14,894	12,721
Software Upgrades	284,802	150,796
Telecommunication and Data Services	289,465	322,907
Furniture and Equipment - Expensed	25,132	40,086
Depreciation - Leasehold Improvements	516,031	516,031
<b>Total Direct Expenses</b>	<b>\$ 31,476,833</b>	<b>\$ 35,987,269</b>
<b>Indirect Expenses:</b>		
Depreciation	\$ 233,094	\$ 200,523
Executive Management Support	1,354,287	1,030,719
Legal Support	1,511,664	1,515,794
Audit Support	755,954	761,710
Human Resources Support	583,346	609,223
Fiscal Management Support	1,535,148	1,531,627
Information Technology Support	3,026,744	2,339,344
Staff Services Support	1,387,373	1,057,415
Other Support Services	388,434	382,096
<b>Total Indirect Expenses</b>	<b>\$ 10,776,044</b>	<b>\$ 9,428,451</b>
<b>Total Internal Administrative Investing Activity Expenses*</b>	<b>\$ 42,252,877</b>	<b>\$ 45,415,720</b>
External Manager Fees **	\$ 111,030,583	\$ 137,954,055
<b>Total Investing Activity Expenses (Exh. II) ***</b>	<b>\$ 153,283,460</b>	<b>\$ 183,369,775</b>

\* Not netted against or included in performance calculations.

\*\* Performance calculations net of External Manager Fees

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

During fiscal year 2012, the system paid commissions to various brokers totaling \$65,173,599. A portion of the total commissions was paid to soft dollar brokers generating \$4,678,148 of soft dollar credits. Soft dollar credits were spent during fiscal year 2012 in accordance with Section 28(e) of the Securities Exchange Act of 1934 totaling \$6,696,860. Unspent soft dollar credits (totaling \$886,931) are held by the receiving broker and will be utilized in the new fiscal year. Another portion of the total commissions was paid through various Commission Sharing Arrangements (CSA) generating \$13,449,731 in CSA proceeds. These proceeds were used to acquire research services from various investment related firms totaling \$15,383,887. Unspent CSA proceeds (totaling \$2,148,129) are held by either State Street Bank and Trust Company as the system's CSA agent or by the CSA broker as a reserve for future expenses.

Through its contractual agreements with various firms, the system benefited from \$5,869,630 in vendor paid expenses and contractual allowances. Vendor paid expenses are legal arrangements that are used to acquire investment related items other than those paid for with Soft Dollar credits and CSA proceeds.

In addition to the commission expenses mentioned above, \$360,920,113 was paid to various Alternative and Pooled Investment General Partners for a total of \$426,093,712 in fees and commissions which are not included in Investing Activities Expense on Exhibit II. These amounts are reported in the Schedule of Fees and Commissions and are netted against investment performance on Exhibit II in the Net Appreciation in Fair Value of Investments amount. Custodial management fees were netted against income from securities lending activities.

## Schedule of Professional and Consulting Fees

For the Fiscal Year Ended August 31, 2012

Individual or Firm	Nature of Service	Amount
Fulbright & Jaworski, LLP	Legal Services	\$1,999,926
Gabriel, Roeder, Smith, & Company	Actuarial Services	1,382,902
Jackson Walker, LLP	Legal Services	1,199,249
Hewitt Ennis Knupp, Inc.	Consulting Services	883,330
Seyfarth Shaw, LLP	Legal Services	772,426
Albourne America, LLC	Consulting Services	400,000
Bernstein, Litowitz, Berger, & Grossman, LLP	Legal Services	258,093
Reinhart Boerner Van Deuren, SC	Legal Services	207,087
Clifton Gunderson, LLP	Audit Services	140,000
Sagebrush Solutions, Inc.	Other Professional Services	128,250
Ice Miller	Legal Services	120,948
State Auditor's Office	Audit Services	120,000
Protiviti, Inc.	Financial and Accounting Services	98,748
Deloitte & Touche, LLP	Financial and Accounting Services	62,182
TIBH Industries, Inc.	Temporary Employment Services	56,117
Keith C. Brown	Investment Consulting Services	48,373
Customer Relationship Metrics, LC	Other Professional Services	45,892
CEM Benchmarking, Inc.	Other Professional Services	42,500
University of North Texas	Consulting Services	36,900
Alice D. Cox, MD	Medical Services	33,300
James Allen Reinartz, MD	Medical Services	33,300
Larry Wilson, MD	Medical Services	33,300
Bickerstaff Heath Delgado Acosta, LLP	Legal Services	24,032
Intersource Executive Search, Inc.	Temporary Employment Services	21,200
Workers Assistance Program, Inc.	Other Professional Services	16,402
Lyris Technologies	Other Professional Services	13,600
The Whitlock Group	Other Professional Services	12,136
Microsoft Corp	Other Professional Services	11,600
Aggregate Payees less than \$10,000	Other Professional Services	42,061
		<u>\$8,243,854</u>
Prior Year Expenditure Adjustments		(250,877)
<b>TOTAL PROFESSIONAL AND CONSULTING FEES</b>		<u><u>\$7,992,977</u></u>
METHOD OF FINANCE:		
Fiduciary Funds:		
Pension Trust Fund		\$6,160,168
TRS-Care		1,286,128
Total Fiduciary Funds		<u>7,446,296</u>
Proprietary Fund:		
TRS-ActiveCare		546,681
Total Proprietary Fund		<u>546,681</u>
TOTAL METHOD OF FINANCE		<u><u>\$7,992,977</u></u>



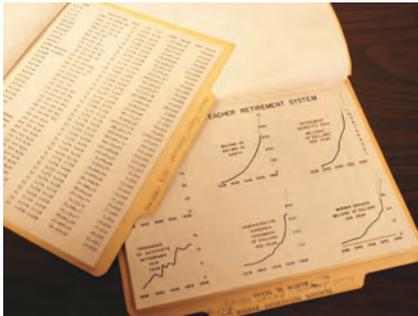
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# Investment Section

**“You don’t have to go out, and you don’t have to make the decisions of investing the money, getting somebody to invest it for you, or keeping track of that investment because it’s all done for you. All you have to do is concentrate on those kids.”**

**William Bacon, Retired Teacher**





2012

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## Investment Overview

### PORTFOLIO STRUCTURE

In 2008, TRS began a transition to a more diversified investment strategy, a transition that is now complete. This diversification approach focuses on the three most common economic scenarios. Scenario One is characterized by favorable Gross Domestic Product (GDP) growth and moderate inflation as measured by the Consumer Price Index (CPI), which has been the prevailing economic condition 66% of the time since 1948. Scenario Two is one of low GDP growth and high inflation, which has occurred 21% of the time. Finally, Scenario Three is characterized by stagnant GDP growth and low inflation, which has occurred 13% of the time. TRS is positioned to take advantage of any of these various market scenarios by allocating 62% to global equity markets, which perform well under Scenario One, 20% to real return, which should perform well in Scenario Two, and 18% to a stable value portfolio, which should perform well and minimize downside risk in Scenario Three.

### INVESTMENT PORTFOLIO PERFORMANCE

For the year ending August 31, 2012 the TRS Trust delivered investment returns of 7.6%, which trailed the fund's benchmark by 1.1% due primarily to underperformance in the first month of the fiscal year. However, on a three-year basis the trust has returned 11.2%, 1.0% above its benchmark. As a result, the total investment value of the trust as of August 31 was \$111.1 billion, less than \$1 billion below its market value five years ago before the onset of the global financial crisis. Annual rates of return for the three-, five- and 10-year periods ending August 31, 2012 were 11.2%, 2.7% and 7.4% respectively.

Additional performance information is included on the Total Time-Weighted Returns and Asset Allocation Charts on the following pages. The Total Time-Weighted Returns shown are for the 12-month period ended June 30, 2012 and include comparisons with established benchmarks for the same period.

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

### STRATEGIC INITIATIVES

In July 2012, the Investment Management Division (IMD) celebrated the fourth anniversary of its Strategic Partnership Network (SPN). The IMD gains valuable insight from the positioning of each Strategic Partner and incorporates that information into its own Tactical Asset Allocation models. In addition, each year the SPN collaborates to produce ten research projects used to benefit the Trust, with a special focus on asset allocation. At the outset, four managers (JP Morgan, Neuberger Berman, Morgan Stanley, and BlackRock) were funded with \$1 billion each to invest globally across the same public asset classes as the trust. In July 2011, Barclays was added to the SPN as a fifth partner with an initial allocation of \$500 million. As of August 31, 2012, the total SPN is valued at \$5.6 billion.

For the three-year period ended August 31, the SPN returned 11.4% annually, which added 0.4% over its three-year benchmark. For the one-year period, the SPN produced returns of 10.0% for the trust, adding 0.6% over its benchmark.

The Investment Management Division has a dedicated risk management function. The Risk Group monitors the risk of the trust versus its risk objectives, performs an independent risk certification for every new manager commitment, and monitors the performance of each manager and portfolio monthly with a risk signals review. During the last 12 months the Risk Group continued to refine its suite of tools and reports, including enhancements to trust liquidity monitoring and improved external portfolio performance metrics. In addition, the Risk Group continued the development of a process for adjusting the risk of the trust during periods when the perception of risk rises. Using the results of this process and other existing risk signals, the IMD may decide to lower its exposure to the perceived risk either through entering into protective derivatives or an outright sale of assets.

In 2012, the Private Markets Group continued to build TRS' first Principal Investments Program. Since the beginning of the program in 2009, the trust has committed \$4.9 billion in 11 private equity principal investments and 23 real asset principal investments. While this program is still growing, the combination of lower fees and increased transparency into the decision-making of private partners will be accretive to the trust.

The expansion of Emerging Managers Portfolio continued in 2012 with a new direct investment program that will help bring the total amount invested to a target allocation of \$1.65 billion. This effort has been recognized by a number of industry organizations, including Public Plan of the Year at the Emerging Managers Summit and a Service Award given by the Dr. Emmett J. Conrad Leadership Program.

A year ago the TRS Board of Trustees adjusted the investment policy to help achieve the trust's targeted 8% long-term return. The primary changes, starting October 1, 2011, were to incorporate the increased allocation to hedge funds approved by the Texas Legislature and to increase the amount allocated to private equity. These adjustments resulted in a 2% increase in Global Equity from its prior 60% policy and a corresponding decrease in Stable Value from its prior 20% policy benchmark to an 18% allocation. This adjustment is now largely complete and will provide greater flexibility for the IMD to respond to changes in market conditions.

Looking ahead, our investment outlook has not changed in the past 12 months. Due to the prevailing low interest rate environment, sovereign debt concerns in Europe, and the fiscal imbalance in the US, expectations are for muted returns over the next few years.

*Prepared by:*

*Investment staff of the system*

2012

## Total Time-Weighted Returns

PENSION TRUST FUND  
For Periods Ended June 30

Total Portfolio <sup>1</sup>	2007	2008	2009	2010	2011	2012	3 Years	5 Years	10 Years
TRS	17.5%	-2.1%	-21.9%	15.6%	22.2%	2.7%	13.2%	2.1%	6.7%
Custom Benchmark <sup>2</sup>	16.9%	-2.0%	-19.5%	12.8%	21.2%	4.1%	12.5%	2.4%	6.6%
TRS Public Equity <sup>3</sup>	21.9%	-10.3%	-26.8%	14.4%	30.3%	-8.1%	11.1%	-2.2%	5.3%
Public Equity Composite Benchmark <sup>4</sup>	22.1%	-10.9%	-27.3%	14.3%	31.2%	-7.7%	11.4%	-2.2%	5.2%
TRS Private Equity	32.4%	14.8%	-28.8%	24.6%	24.6%	7.1%	18.5%	6.3%	15.5%
Private Equity Composite Benchmark <sup>5</sup>	21.4%	-12.4%	-22.8%	34.9%	21.9%	7.3%	20.8%	3.6%	8.3%
<b>Total TRS Global Equity</b>	<b>22.3%</b>	<b>-8.8%</b>	<b>-27.7%</b>	<b>16.1%</b>	<b>29.5%</b>	<b>-5.5%</b>	<b>12.4%</b>	<b>-1.3%</b>	<b>6.0%</b>
<b>Global Equity Composite Benchmark <sup>6</sup></b>	<b>22.1%</b>	<b>-10.9%</b>	<b>-27.0%</b>	<b>17.0%</b>	<b>30.3%</b>	<b>-5.2%</b>	<b>13.0%</b>	<b>-1.2%</b>	<b>5.8%</b>
TRS Fixed Income	6.7%	4.4%	-0.7%	21.9%	4.6%	25.2%	16.9%	10.6%	8.2%
Fixed Income Composite Benchmark <sup>7</sup>	6.6%	9.2%	6.6%	11.7%	-1.1%	32.3%	13.5%	11.2%	8.3%
TRS Stable Value Hedge Funds	15.2%	-1.2%	-10.5%	7.7%	5.9%	-2.6%	3.6%	-0.5%	4.4%
Stable Value Hedge Fund Composite Benchmark <sup>8</sup>	9.8%	5.9%	3.9%	2.4%	2.3%	1.7%	2.1%	3.2%	4.8%
<b>Total TRS Stable Value</b>	<b>7.2%</b>	<b>4.5%</b>	<b>-3.6%</b>	<b>19.1%</b>	<b>5.0%</b>	<b>18.9%</b>	<b>14.1%</b>	<b>8.5%</b>	<b>7.1%</b>
<b>Stable Value Composite Benchmark <sup>9</sup></b>	<b>6.7%</b>	<b>8.4%</b>	<b>6.0%</b>	<b>9.3%</b>	<b>-0.3%</b>	<b>23.9%</b>	<b>10.5%</b>	<b>9.2%</b>	<b>7.3%</b>
TRS Real Assets	13.7%	7.0%	-33.0%	-8.9%	19.4%	11.5%	6.6%	-2.8%	n/a
Real Assets Composite Benchmark <sup>10</sup>	18.8%	9.7%	-24.6%	-15.7%	19.0%	13.6%	4.4%	-1.2%	n/a
<b>Total TRS Real Return</b>	<b>13.7%</b>	<b>24.5%</b>	<b>-25.7%</b>	<b>7.7%</b>	<b>17.4%</b>	<b>10.2%</b>	<b>11.7%</b>	<b>4.9%</b>	<b>6.0%</b>
<b>Real Return Composite Benchmark <sup>11</sup></b>	<b>18.8%</b>	<b>18.6%</b>	<b>-22.3%</b>	<b>2.6%</b>	<b>16.8%</b>	<b>11.6%</b>	<b>10.2%</b>	<b>4.3%</b>	<b>n/a</b>

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

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

<sup>3</sup> Includes Directional Hedge Funds as of September, 2011.

(continued)

2012

## Total Time-Weighted Returns

PENSION TRUST FUND  
For Periods Ended June 30

<sup>4</sup> 35% S&P 500/5% S&P 400/2% S&P 600/41% S&P 1500/17% EAFE through 06/00, 64% S&P 500/ 11% S&P 400/ 5% S&P 600, 20% MSCI ACWI free-ex-US through 6/04, 61% S&P 500/ 12% S&P 400/ 6% S&P 600, 21% MSCI ACWI free ex-US through 6/05, 60.16% S&P 500/ 22.22% S&P 400/ 6.5% S&P 600, 21.14% MSCI ACWI free ex-US through 3/06, 59.82% S&P 500/ 11.97% S&P 400/ 5.99% S&P 600, 22.22% MSCI ACWI free ex-US through 9/07, 27.27% Russell 1000 Growth/27.27% Russell 1000 Value/9.09% Russell 2000/27.27% MSCI EAFE + Canada/9.09% MSCI EM through 9/08, 18.9% Russell 1000 Growth/18.9% Russell 1000 Value/9.4% Russell 2000/ 15.1% MSCI EAFE + Canada/ 9.4% MSCI EM/ 28.3% MSCI World through 9/09, 11.5% MSCI EM/ 63.5% MSCI All-Country World Net/ 9.6% MSCI USA Small Cap/ 15.4% MSCI USA Large Cap through 9/10, 20% MSCI EM/ 30% MSCI EAFE+Canada/ 40% MSCI USA Gross/ 10% MSCI USA Small Cap through 9/11, currently 20% MSCI EM/ 30% MSCI EAFE+Canada/ 36% MSCI USA Gross/ 4% MSCI USA Small Cap / 10% HFRI Fund of Funds Composite.

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

<sup>6</sup> 35% S&P 500/5% S&P 400/2% S&P 600/41% S&P 1500/17% EAFE through 06/00, 61.31% S&P 500/ 10.95% S&P 400/ 4.38% S&P 600, 18.98% MSCI ACWI free-ex-US/4.38% Private Equity Composite (3 years 0, then Russell 2000+5%) through 6/04, 57% S&P 500/ 11% S&P 400/ 6% S&P 600, 20% MSCI ACWI free ex-US/6% Russell 2000+5% through 6/05, 56.49% S&P 500/ 11.45% S&P 400/ 6.11% S&P 600, 19.85% MSCI ACWI free ex-US/6.11% Russell 2000+5% through 3/06, 56.00% S&P 500/ 11.21% S&P 400/ 5.6% S&P 600, 20.8% MSCI ACWI free ex-US/6.39% Russell 2000+5% through 9/07, 25% Russell 1000 Growth/25% Russell 1000 Value/8.33% Russell 2000/25% MSCI EAFE + Canada/8.33% MSCI EM, 8.33% Russell 3000 + 5% through 9/08, 16.67% Russell 1000 Growth/ 16.67% Russell 1000 Value/ 8.33% Russell 2000/ 13.33% MSCI EAFE + Canada/ 8.33% MSCI EM/ 25% MSCI World/ 11.67% Russell 3000 + 5% through 9/09, 10% MSCI EM Net/ 55% AC World Net/13.3% SSPEI 1 QTR lagged/ 8.3% MSCI USA Small Cap/ 13.3% MSCI USA Large Cap through 9/10, 16.7% MSCI EM/ 25% MSCI EAFE+Canada/ 8.3% MSCI USA Small Cap/ 33% MSCI USA Gross/ 16.7% SSPEI 1 QTR lagged through 9/11, currently 16.1% MSCI EM/ 24.2 % MSCI EAFE+Canada/ 3.2% MSCI USA Small Cap/ 29% MSCI USA Gross/ 8.1% HFRI Fund of Funds Composite/ 19.4% SSPEI 1 QTR lagged.

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

<sup>8</sup> 6 Month T-Bill + 300 bps through 3/03, 70% 3-month LIBOR/ 30% S&P 500 through 9/07, 3 Month LIBOR + 2% through 9/11, currently 100% HFRI FOF: Conservative Index.

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

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

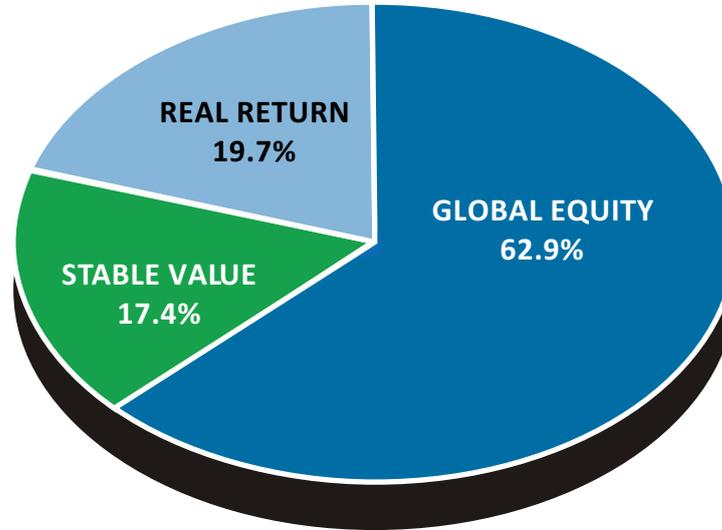
<sup>11</sup> Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps through 9/07, 50% LB Global Inflation Linked Bond Index/ 20% Real Estate Composite Index/ 5% US Core CPI + 5%/ 15% Goldman Sachs Commodity Index/ 10% NAREIT Index through 9/08, 25% BC Global Inflation Linked Bond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

2012

## Asset Allocation

PENSION TRUST FUND  
August 31, 2012

### Asset Allocation Actual at Fiscal Year End



	POLICY RANGES			
	Low	High	Neutral	Actual
Public Equity <sup>1</sup>	45.0%	55.0%	50.0%	51.1%
Private Equity	7.0%	17.0%	12.0%	11.8%
<b>TOTAL GLOBAL EQUITY</b>	<b>55.0%</b>	<b>69.0%</b>	<b>62.0%</b>	<b>62.9%</b>
Fixed Income <sup>2</sup>	0.0%	20.0%	13.0%	13.0%
Short-Term	0.0%	5.0%	1.0%	0.9%
Hedge Funds	0.0%	10.0%	4.0%	3.5%
<b>TOTAL STABLE VALUE</b>	<b>13.0%</b>	<b>23.0%</b>	<b>18.0%</b>	<b>17.4%</b>
Inflation Linked Bonds	0.0%	10.0%	5.0%	5.0%
Real Assets	3.0%	18.0%	13.0%	11.7%
Commodities	0.0%	5.0%	0.0%	1.0%
REITS <sup>3</sup>	0.0%	7.0%	2.0%	2.0%
<b>TOTAL REAL RETURN</b>	<b>15.0%</b>	<b>25.0%</b>	<b>20.0%</b>	<b>19.7%</b>
<b>TOTAL</b>				<b>100.0%</b>

<sup>1</sup> Global Equity allocation includes Directional Hedge Funds with an 8/31/12 Market Value of \$5.584 billion.

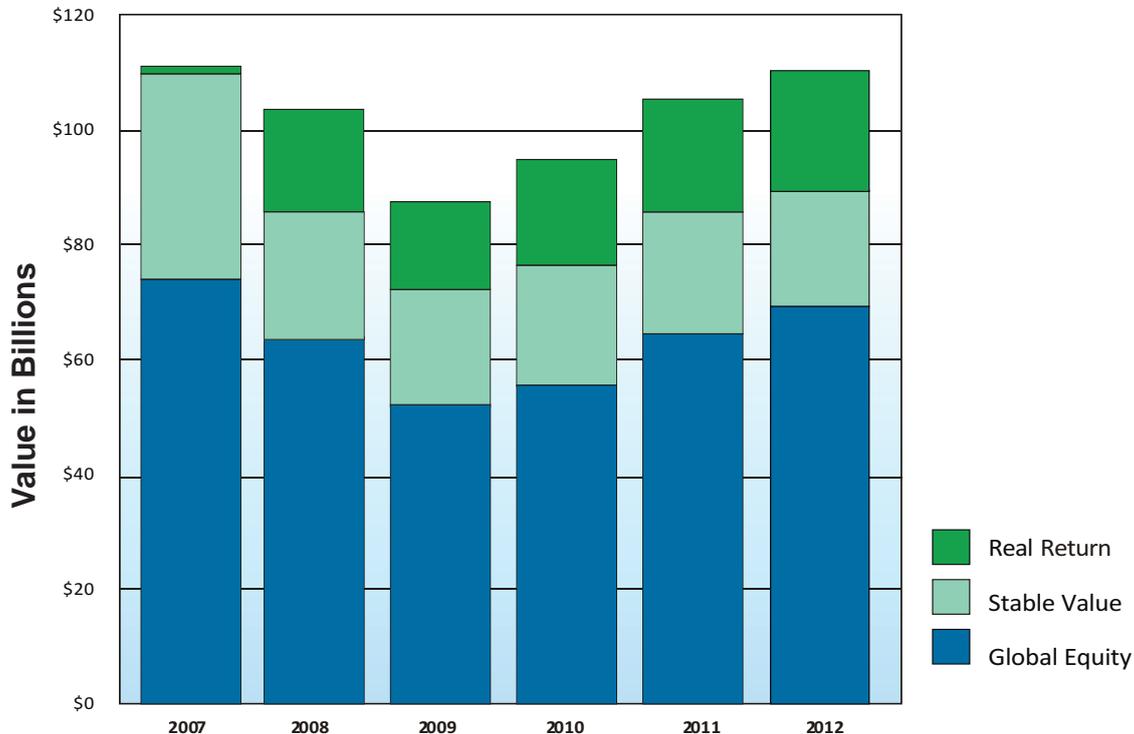
<sup>2</sup> Does not include Inflation Linked Bonds in Real Return Portfolio.

<sup>3</sup> Dedicated portfolio in addition to Global Equity holdings.

## Investment Summary

PENSION TRUST FUND

August 31



MARKET VALUES (in billions)<sup>1</sup>

	2007	2008	2009	2010	2011	2012
Public Equity <sup>2</sup>	\$ 70.551	\$ 58.125	\$ 48.718	\$ 49.363	\$ 54.312	\$ 56.724
Private Equity	3.796	6.064	5.867	8.501	11.099	13.101
<b>TOTAL GLOBAL EQUITY</b>	<b>\$ 74.347</b>	<b>\$ 64.189</b>	<b>\$ 54.585</b>	<b>\$ 57.864</b>	<b>\$ 65.411</b>	<b>\$ 69.825</b>
Fixed Income <sup>3</sup>	\$ 32.076	\$ 16.161	\$ 13.333	\$ 14.833	\$ 15.121	\$ 14.475
Short-Term	1.313	1.167	0.800	0.700	1.376	0.957
Stable Value Hedge Funds	2.817	3.997	3.582	3.947	4.324	3.936
<b>TOTAL STABLE VALUE</b>	<b>\$ 36.206</b>	<b>\$ 21.325</b>	<b>\$ 17.715</b>	<b>\$ 19.480</b>	<b>\$ 20.821</b>	<b>\$ 19.368</b>
Inflation Linked Bonds	\$ n/a	\$ 10.288	\$ 8.509	\$ 8.167	\$ 5.635	\$ 5.499
Real Assets	1.214	3.657	3.742	5.704	10.343	13.031
Commodities	n/a	3.211	1.697	2.068	3.323	1.155
REITS <sup>4</sup>	n/a	1.804	1.936	1.960	1.537	2.188
<b>TOTAL REAL RETURN</b>	<b>\$ 1.214</b>	<b>\$ 18.960</b>	<b>\$ 15.884</b>	<b>\$ 17.899</b>	<b>\$ 20.838</b>	<b>\$ 21.873</b>
<b>TOTAL</b>	<b>\$ 111.767</b>	<b>\$ 104.474</b>	<b>\$ 88.184</b>	<b>\$ 95.243</b>	<b>\$ 107.070</b>	<b>\$ 111.066</b>

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

Total Market Value at 8/31/12	\$ 111.066
Less Investment Related Cash	(0.172)
Less Investment Related Receivables	(1.556)
Plus Investment Related Payables	0.544
Plus Securities Sold Short	0.108
Plus Short-Term Asset Pool Adjustment From Amortized Cost to Fair Value	0.003
<b>Total Investments Exhibit I</b>	<b>\$ 109.993</b>

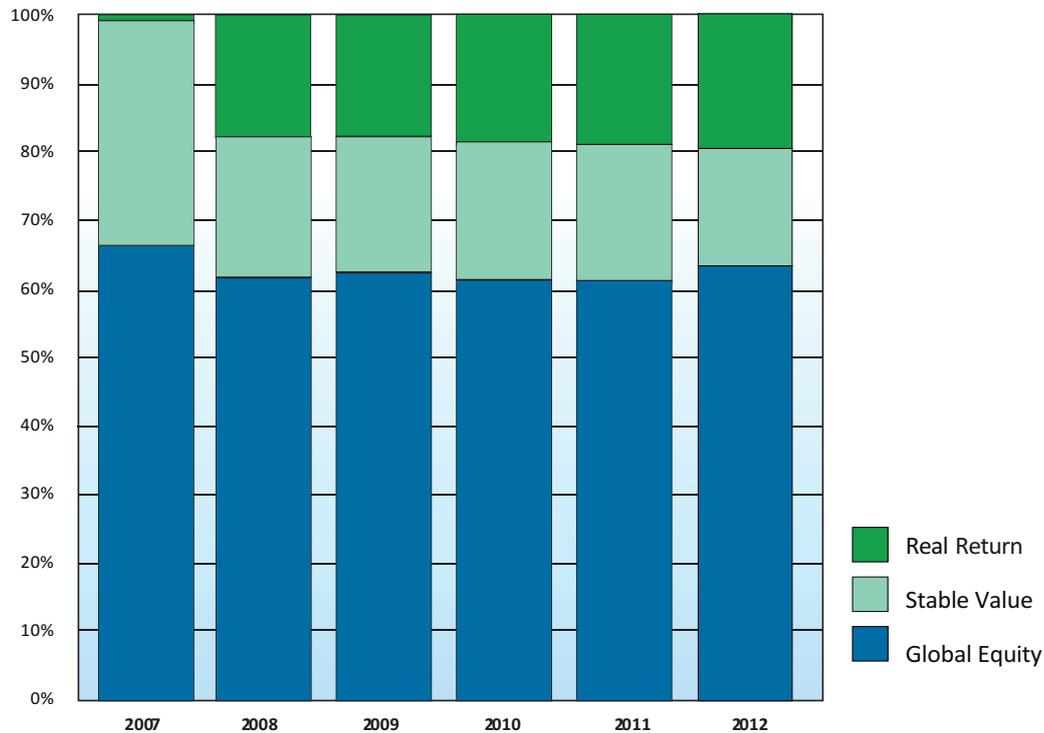
<sup>2</sup> Global Equity allocation includes Directional Hedge Funds with an 8/31/12 Market Value of \$5.584 billion.

<sup>3</sup> Does not include Inflation Linked Bonds in Real Return Portfolio.

<sup>4</sup> Dedicated portfolio in addition to Global Equity holdings.

## Investment Summary

PENSION TRUST FUND  
August 31



PERCENTAGE OF MARKET VALUES

	2007	2008	2009	2010	2011	2012
Public Equity <sup>1</sup>	63.1%	55.6%	55.2%	51.8%	50.7%	51.1%
Private Equity	3.4%	5.8%	6.7%	8.9%	10.4%	11.8%
<b>TOTAL GLOBAL EQUITY</b>	<b>66.5%</b>	<b>61.4%</b>	<b>61.9%</b>	<b>60.7%</b>	<b>61.1%</b>	<b>62.9%</b>
Fixed Income <sup>2</sup>	28.7%	15.5%	15.1%	15.6%	14.1%	13.0%
Short-Term	1.2%	1.1%	0.9%	0.7%	1.3%	0.9%
Hedge Funds	2.5%	3.8%	4.1%	4.1%	4.0%	3.5%
<b>TOTAL STABLE VALUE</b>	<b>32.4%</b>	<b>20.4%</b>	<b>20.1%</b>	<b>20.4%</b>	<b>19.4%</b>	<b>17.4%</b>
Inflation Linked Bonds	n/a	9.9%	9.7%	8.6%	5.3%	5.0%
Real Assets	1.1%	3.5%	4.2%	6.0%	9.7%	11.7%
Commodities	n/a	3.1%	1.9%	2.2%	3.1%	1.0%
REITS <sup>3</sup>	n/a	1.7%	2.2%	2.1%	1.4%	2.0%
<b>TOTAL REAL RETURN</b>	<b>1.1%</b>	<b>18.2%</b>	<b>18.0%</b>	<b>18.9%</b>	<b>19.5%</b>	<b>19.7%</b>
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup> Global Equity allocation includes Directional Hedge Funds with an 8/31/12 Market Value of \$5.584 billion.

<sup>2</sup> Does not include Inflation Linked Bonds in Real Return Portfolio.

<sup>3</sup> Dedicated portfolio in addition to Global Equity holdings.

2012

## Largest Holdings

PENSION TRUST FUND

August 31, 2012

### Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Apple Incorporated	\$ 749,470,028	1,126,616
Exxon Mobil Corporation	389,053,148	4,456,508
Microsoft Corporation	379,636,106	12,317,849
Johnson & Johnson	316,855,997	4,699,036
Google Incorporate	315,889,518	461,092
Chevron Corporation	281,709,917	2,511,679
Simon Property Group	272,965,270	1,720,008
Pfizer Incorporated	246,647,119	10,337,264
SPDR Gold Shares	235,387,693	1,433,368
Philip Morris International	231,810,477	2,595,862
	<u>\$ 3,419,425,273</u>	<u>41,659,282</u>

### Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Samsung Electronics Company LTD.	\$ 376,609,846	346,562
Vanguard Emerging Markets ETF	359,059,603	8,942,954
Nestle SA	254,972,609	4,092,450
Vodafone Group	201,783,812	69,994,413
Royal Dutch Shell A Shares	191,691,225	5,475,759
Novartis AG	190,239,850	3,221,733
China Construction Bank	180,826,403	275,006,821
Sanofi	155,348,471	1,894,597
China Mobile LTD	154,653,330	14,487,076
BP PLC	150,871,467	21,521,754
	<u>\$ 2,216,056,616</u>	<u>404,984,119</u>

## Largest Holdings

PENSION TRUST FUND  
August 31, 2012

### Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. TREASURY 4.375% due 15 Nov 2039	\$ 830,522,213	\$ 612,475,000
U.S. TREASURY 3.125% due 16 Feb 2042	799,822,597	730,545,000
U.S. TREASURY 4.375% due 17 May 2041	755,075,591	555,170,000
U.S. TREASURY 4.375% due 18 May 2040	738,818,068	544,245,000
U.S. TREASURY 4.250% due 19 Nov 2040	711,531,445	533,750,000
U.S. TREASURY 0.375% due 20 Aug 2041	636,794,748	518,305,000
U.S. TREASURY 3.125% due 21 Nov 2041	631,076,788	575,800,000
U.S. TREASURY 4.250% due 22 May 2039	625,094,990	470,074,000
U.S. TREASURY 4.625% due 23 Feb 2040	564,243,873	400,730,000
U.S. TREASURY 3.500% due 24 Feb 2039	482,604,620	409,320,000
	<u>\$ 6,775,584,933</u>	<u>\$ 5,350,414,000</u>

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

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Fund Name*	Fees
ACI Multi-Strategy Market Neutral Fund Ltd.	\$ 4,240,459
Admiral Capital Real Estate Fund	378,277
Advent International GPE VI-A, L.P.	2,966,354
AG Real Value Fund, LLC	1,373,039
Akard Street Partners	1,126,308
Aleutian Fund LTD	2,408,879
Almanac Realty Securities V	957,991
Alterna Core Capital Assets Fund, L.P.	2,044,515
Amici Fund International LTD	2,469,907
Apax Europe V-A, L.P.	30,679
Apax Europe VII-A, L.P.	1,962,852
Apollo Credit Opportunity Fund II, L.P.	3,029,917
Apollo Investment Fund VII, L.P.	5,728,863
Apollo Natural Resources Partners	1,435,900
AQR Delta Offshore Fund, LP	2,755,741
AQR Global Risk Premium 10 Offshore Fund, Ltd.	516,603
AQR Jones Creek Small Cap Value	519,253
AQR Offshore Multi-Strategy Fund VI Ltd.	4,088,027
Austin Ventures VIII, L.P.	352,740
Avenue Special Situations Fund V, L.P.	2,278,062
Bain Capital Fund VIII, L.P.	533,361
Bain Capital VII Coinvestment Fund, L.P.	71,341
Bain Capital VIII Coinvestment Fund, L.P.	566,289
Bay Resource Partners Offshore	374,260
Black Diamond Relative Value LTD	1,014,142
Blackrock Global Ascent LTD	885,239
Blackrock RMBS	978,782
Blackstone Capital Partners V, L.P.	2,042,352
Blackstone Capital Partners VI, L.P.	2,752,629
Blackstone GGP Principal Transaction Ptr	70,024
Blackstone Real Estate Partners Europe III, L.P.	3,235,758
Blackstone Real Estate Partners V, L.P.	1,962,206
Blackstone Real Estate Partners VI, L.P.	3,282,393
Blackstone Real Estate Partners VII, L.P.	1,899,217
Blue Mountain Long/Short Credit Fd.	2,723,475
Bluebonnet lam Limited	446,962
BlueTrend Fund LTD	3,117,239

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Fund Name*	Fees
Brevan Howard Fund	\$ 3,002,033
Bridgepoint Europe IV, L.P.	2,985,953
Bridgewater All Weather	609,252
Bridgewater Pure Alpha	3,762,905
Bridgewater Pure Alpha - Major Mkts	1,938,485
Brockton Capital Fund II, L.P.	1,728,874
Brookfield Americas Infrastructure Fund, L.P.	867,833
Candover 2001 Fund, L.P.	49,559
Canyon-Johnson Urban Fund III, L.P.	2,281,250
Capri Urban Investors, LLC	724,880
Carlyle Europe Partners III, L.P.	1,447,134
Carlyle Europe Real Estate Partners III, L.P.	1,387,562
Carlyle Partners III, L.P.	39,196
Carlyle Partners IV, L.P.	572,622
Carlyle Partners V, L.P.	3,844,590
Carlyle Realty Partners V, L.P.	1,180,258
CB Richard Ellis Strategic Partners U.S. Opportunity V, L.P.	439,764
Cerberus Institutional (Series Four), L.P.	1,113,342
Charterhouse Capital Partners IX, L.P.	8,394,895
Charterhouse Capital Partners VIII, L.P.	1,341,731
CIM Fund III, L.P.	1,897,610
Colony Distressed Credit Fund, L.P.	1,638,158
Colony Investors VIII, L.P.	787,500
Comac Global Macro Fund, Ltd.	4,607,434
Crestview Partners II, L.P. **	(425,018)
CSFB 2005-1 & 2007-1 Series	2,565,011
CSFB 2008-1 Re-Investment	201,255
CSFB 2008-2 MMBO	1,491,030
CSFB 2010-1 PE Partnership Investment	550,000
CVC Capital Partners Asia Pacific III, L.P.	4,167,710
CVC European Equity Partners IV, L.P.	220,835
CVC European Equity Partners Tandem Fund, L.P.	2,537,069
CVC European Equity Partners V, L.P.	3,528,251
D. E. Shaw BMCAE Special Fund, L.P.	7,853,854
Deephaven Market Neutral Fund	28,175
Divco West Fund III	1,100,000
Double Black Diamond LTD	2,001,222

(continued)

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Fund Name*	Fees
El Fund V	\$ 2,168,665
EnCap Energy Capital Fund VII, L.P.	693,663
EnCap Energy Infrastructure Fund, L.P.	1,018,070
ESL Limited	4,021,496
FIR Tree Capital Opportunity Fund	236,701
First Reserve Energy Infrastructure Fund, L.P.	1,382,732
First Reserve Fund X, L.P.	299,842
First Reserve Fund XI, L.P.	1,197,073
First Reserve Fund XII, L.P.	3,893,588
Focus Select Fund LTD	220,130
Fore Multi Strategy Offshore Fund LTD	4,731,524
Frontier Fund III	500,000
Fudo Capital II, L.P.	2,624,511
GoldenTree Offshore Fund LTD	110,037
Goldman Sachs Vintage Fund, L.P.	19,519
Gores Capital Partners III, L.P.	2,227,814
Graham Global Investment	2,078,137
Green Equity Investors V, L.P.	107,261
GSO Special Situations Fund, L.P.	5,061,878
Halcyon European Structured Opportunities Offshore Fund LTD	20,275
Halcyon Partners Offshore LTD	1,934,558
Heitman America Real Estate Trust, L.P.	858,129
Hellman & Friedman Capital Partners V, L.P.	144,426
Hellman & Friedman Capital Partners VI, L.P.	467,357
Henderson Asia Pacific Absolute Return Fund LTD	2,550,980
Henderson Japan Absolute Return Fund LTD	1,538,264
HgCapital 5, L.P.	331,087
HgCapital 6, L.P.	3,360,710
Highbridge Principal Strategies-Mezzanine	290,015
Highland Capital Partners VI - B, L.P.	618,581
Horizon Portfolio	3,012,572
Investcorp Silverback Arbitrage Fund LTD	2,386,811
Investcorp Waterloo Macro Fund LTD	3,068,041
Iron Point Real Estate Partners, L.P.	554,365
Ivory Offshore Flagship Fund LTD	345,162
J.H. Whitney VI, L.P.	215,144
Kelso Investment Associates VII, L.P.	464,601

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Fund Name*	Fees
Kelso Investment Associates VIII, L.P.	\$ 4,484,865
King Street Capital LTD	4,130,679
KKR 2006 Fund, L.P.	1,665,571
KKR FI Partners I, L.P.	68,590
KKR Mezzanine Partners I, L.P.	6,962,769
KKR Natural Resources I, L.P.	10,639,416
Kohlberg TE Investors VI, L.P.	668,238
L&B Diversified Strategy Partners, L.P. **	(56,376)
Lansdowne Pecan Street Europe, L.P.	2,573,395
Lee Equity Partners, L.P.	3,572,002
Lindsay Goldberg III, L.P.	3,668,085
Lion Capital Fund I, L.P.	167,311
Lion Capital Fund II, L.P.	2,276,997
Lion Capital Fund III, L.P.	4,918,767
Lone Star Real Estate Fund II (U.S.), L.P. **	(816,034)
Longacre International LTD	405,714
MacFarlane Urban Real Estate Fund II, L.P.	520,145
Madison Dearborn Capital Partners IV, L.P.	339,256
MKP Credit Offshore LTD	2,764,022
Morgan Creek Partners Asia, L.P.	961,367
Morgan Stanley Infrastructure Partners, L.P.	2,904,015
Morgan Stanley RE Mezzanine Partners A, L.P.	19,720
Neuberger Berman RMBS	1,054,715
New Enterprise Associates XIII, L.P.	1,402,708
New Enterprise Associates XIV, L.P.	254,227
Nordic Capital Fund V, L.P.	101,486
Northwest Fund LTD	1,884,015
NuWave Combined Futures Portfolio 2x	4,217,546
Oak Investment Partners X, L.P.	560,010
Oak Investment Partners XI, L.P.	1,436,794
Oak Investment Partners XII, L.P.	2,477,335
Oaktree European Principal Fund	2,230,163
Oaktree Opportunities Fund VIII, L.P.	1,314,103
Oaktree Opportunities Fund VIIIb, L.P.	1,251,070
OCM Opportunities Fund VI, L.P.	207,620
OCM Opportunities Fund VII, L.P.	569,701
OCM Opportunities Fund VIIIb, L.P.	1,125,036

(continued)

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Fund Name*	Fees
O'Connor Global Fundamental Market Neutral Long/Short LTD	\$ 5,199,749
Onex Partners II, L.P.	507,405
Onex Partners III, L.P.	4,295,226
Onex Partners, L.P.	203,443
P2 Capital Partners	4,496,412
Parkway Properties Office Fund II, L.P.	2,582,250
Patria-Brazilian Private Equity IV, L.P.	988,338
Permira Europe III, L.P.	387,464
Permira IV, L.P.	2,159,112
Perry Partners Intl. Inc. - Class D	356,734
Perry Partners Intl. Inc. - Class F	2,183,077
PFM Diversified Offshore Fund, A.I. Ltd.	2,713,895
PLA Residential Fund III, L.P.	2,075,130
Polaris Venture Partners IV, L.P.	650,394
Principal Green Property Fund I, L.P.	1,448,502
Principal Green Property Sidecar I, L.P.	366,651
Providence Equity Partners V, L.P.	559,221
Providence Equity Partners VI, L.P.	1,699,235
Quad-C Partners VI, L.P. **	(14,663)
Quad-C Partners VII Co-Investment, L.P.	286,691
Quad-C Partners VII, L.P.	672,836
Ranger Co-Investment Fund II, L.P.	65,126
Red River Direct Investment Fund, L.P.	1,947,153
Red River Venture Capital Fund, L.P.	411,049
Reservoir Strategic Partners Fund, LP	268,901
Rock Creek Limestone Emerging Markets, L.P.	4,690,369
Shepherd Investments International LTD	180,555
Soroban Capital Partners Fund	312,500
Southwest Multifamily Partners	11,848
SP5 Wood Partners Co-Investment Venture 2, L.P.	411,371
SP5 Wood Partners Development, L.P.	632,964
Squadron Emerging Asia Fund, L.P.	972,127
Square Mile Partners III, L.P.	546,875
Square Mile S2	550,566
SteelRiver Infrastructure Fund North America, L.P.	1,589,733
Stockbridge Real Estate Fund II, L.P.	170,574
Stockbridge Real Estate Fund III, L.P.	5,020,855

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Fund Name*	Fees
Stratford Land Fund III, L.P. **	\$ (281,250)
Stratford Land Fund IV, L.P. **	(312,500)
TA X, L.P.	674,641
TA XI, L.P.	2,738,684
The Resolute Fund, L.P.	86,092
Thomas H. Lee Equity Partners V, L.P.	34,754
TPG Growth II	3,117,861
TPG Partners V, L.P.	869,913
TPG Partners VI, L.P.	3,062,110
TPG STAR	1,143,261
TPG STAR, L.P.	2,592,657
Triton Fund II, L.P.	284,127
Triton Fund III, L.P.	5,799,133
Tudor BVI Global Fund, Ltd.	4,932,094
Walker Smith International Fund LTD	501,480
Warburg Pincus Private Equity X, L.P.	3,722,761
Wayzata Opportunities Fund II, L.P.	3,428,540
Westbrook Real Estate Fund VIII, L.P.	2,253,098
Willis Stein & Partners III, L.P.	178,596
Winton Futures Fund	989,700
Wolverine Flagship Fund Limited	5,325,845
Zaxis Offshore LTD	1,417,837
TOTAL	\$ 360,920,113

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

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

(continued)

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

External Manager***	Fees
Acadian Asset Management, LLC	\$ 18,332
Affinity Investment Advisors	80,107
Alliance Bernstein, L.P.	750,253
Artisan Partners Limited Partnership	3,688,001
Barclays Capital Fund Solutions - Americas	1,005,207
Baring International Investment LTD	4,274,326
BlackRock Financial Management, Inc.	2,356,869
BME Investment Partners, LLC	150,685
Brandes Investment Partners, L.P.	2,508,381
Brookmont Capital Management	118,829
Cantillon Capital Management LLC	7,090,974
Chilton Capital Management	79,999
DePrince Race & Zollo, Inc.	3,404,155
Dimensional Fund Advisors, L.P.	6,072,323
Eaton Vance Management	3,509,342
GMO, LLC	1,660,904
Goldman Sachs Asset Management, L.P.	4,810,217
Graham Global Investment Fund ****	(148,375)
Independent Franchise Partners, LLP	5,497,997
Jennison Associates, LLC	2,255,210
JP Morgan Asset Management, Inc.	7,514,913
Knight Vinke Asset Management, LLC	5,068,632
Lazard Asset Management, LLC	4,862,444
Mar Vista Investment Partners	122,684
Marathon Asset Management	1,731,558
Matterhorn	51,011
Morgan Stanley Investment Management, Inc.	6,477,231
Neuberger Berman, LLC	3,136,147
Neuberger Berman RMBS	1,049,402
Nicholas Investment Partners	58,502
Omega Advisors, Inc.	8,078,907
Penn Capital Management Co., Inc.	839,668
Phocas Financial Corp	45,686
Platinum Investment Management LTD	5,019,747
Sasco Capital, Inc.	2,663,269
Security Capital Research & Management, Inc.	3,770,430
Starboard Value & Opportunity	1,940,816
	<i>(continued)</i>



## *Schedule of Fees and Commissions*

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

<b>External Manager***</b>	<b>Fees</b>
Starwood Real Estate Securities	\$ 481,987
Stephens Investment Management Group	2,234,012
Vaughan Nelson Investment Management, L.P.	1,438,022
Wellington Management Company, LLP	2,623,562
Westwood Management Corp.	2,638,217
Total	\$ 111,030,583

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

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

*(continued)*

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Abacus Securities Corporation	20,100	\$ 232
Abel Noser Corporation	14,949	224
ABG Securities	933,281	34,883
ABN AMRO Securities, Inc.	4,703,887	12,752
Access Securities, Inc.	2,693,630	46,048
Agora Corde Titul E Val Mob	256,886	3,489
Alfa Capital Holdings (Cyprus) LTD	4,876	216
Allen & Company, LLC	110,325	3,862
Ambit Capital Pvt. LTD	38,297	1,198
Ancora Securities, Inc.	101,352	3,932
Apex Clearing Corporation	3,921,572	106,872
Aqua Securities L.P.	6,750	135
Atlantic Equities, LLP	200,636	4,304
Avondale Partners, LLC	160,149	4,674
Axiom Capital Management, Inc.	27,520	963
B. Riley & Co.	177,500	7,100
Banchile Corredores de Bolsa S.A.	92,828	1,073
Banco Itau S.A.	3,249,906	83,076
Banco Pactual S.A.	902,713	19,864
Banco Santander	979,734	22,707
Bank Audi sal - Audi Saradar Group	83,333	1,017
Bank J. Vontobel Und, Co. AG	155,536	751
Bank of America	34,700	1,388
Bank of New York	283,306	3,426
Barclays Capital, Inc.	336,240,762	6,430,529
Barnard Jacobs Mellett & Co. (Pty) LTD	4,779,199	1,270
Batlivala & Karani Securities India Pvt. LTD	76,348	1,843
BLC Securities, Inc.	33,180	1,161
Bley Investment Group, Inc.	5,893,546	165,197
Bloomberg Tradebook, LLC	11,247,108	215,447
Bluefin Research Partners	75,800	3,032
BMO Capital Markets	14,334,340	393,869
BMO Nesbitt Burns, Inc.	507,781	15,344
BNP Paribus Securities Corp.	16,082,661	151,570

(continued)


  
2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
BNY Convergenx	30,370,726	\$ 953,230
BNY Mellon	453,640	15,629
Bradesco S.A. CTVM	116,500	3,419
Brean Murray, Carret & Co., LLC	85,995	3,440
Brockhouse & Cooper, Inc.	75,976	35
Brown Brothers Harriman & Co.	115,160	4,006
BTG Capital Corporation	107,400	3,345
BTIG, LLC	12,336,162	197,960
B-Trade Services, LLC	207,900	4,158
Buckingham Research Group, Inc.	149,861	5,326
CA Cheuvreux	1,494,203	25,632
Cabrera Capital Markets	1,164,838	34,945
Cahlman Rose & Company, LLC	250,749	9,952
Calyon Securities	2,103,100	14,691
Canaccord Genuity, Inc.	423,978	14,747
Canadian Imperial Bank of Commerce	900,654	20,046
Cantor Fitzgerald & Co.	26,734,432	445,254
Capital Guardian LLC	500	20
Caris & Company, Inc.	31,900	1,020
Carnegie Investment Bank	853,542	46,375
Carr Sheppards Crosthwaite LTD	500	13
Celfin Capital S.A. Corredores de Bolsa	18,656,500	23,418
Central Securities Clearing System LTD	360,576	10
Charles River Brokerage	48,375	605
China International Cap Corp. HK Secs LTD.	9,756,760	34,937
CIBC World Markets, Inc.	57,170	2,287
CIMB Securities (HK) LTD.	4,498,600	9,053
Citadel Derivatives Group, LLC	9,630	19
Citation Group	1,938,350	38,447
Citigroup Global Markets, Inc.	424,011,858	4,081,355
CJSC Depository Clearing Company	1,339,406	4,228
CL King & Associates, Inc.	313,439	12,149
CLSA Securities	29,366,825	341,343
CM CIC Securities	11,928	235

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Collins Stewart, LLC	79,640	\$ 3,186
Commerzbank Capital Markets Corporation	45,960	1,609
Compass Point Research & Trading, LLC	125,788	2,960
Cormark Securities, Inc.	147,200	5,976
Corp Banca	41,646,366	30,145
Cowen & Company LLC	8,754,846	156,680
Craig - Hallum	538,066	20,729
Credit Agricole	13,628,964	99,246
Credit Lyonnais Securities	61,547,198	158,124
Credit Research & Trading, LLC	834,577	30,141
Credit Suisse First Boston	539,968,795	4,822,702
Crowell, Weedon & Co.	28,270	283
CSI US Institutional Desk	1,080,212	42,723
Cuttone & Co., Inc.	122,471	4,307
Daewoo Securities Co. LTD	79,877	14,508
Daiwa Securities America Inc.	438,000	8,760
Daiwa Securities Group Inc	23,110,432	40,019
Davenport & Co., of Virginia, Inc.	853,044	27,411
Davidson D.A. & Company, Inc.	122,439	4,898
Davy Stockbrokers	1,388,763	9,648
Dematted Monness, LLC	50,300	1,990
Deutsche Bank Securities, Inc.	234,703,243	2,411,466
Dhanki Securities Pvt. LTD	34,063	1,435
DnB NOR	1,431,640	3,158
Dolat Capital Markets LTD	19,423	864
Dongwon Securities	11,521	3,961
Dougherty Co., Inc.	17,835	552
Dowling & Partners	501,205	16,396
Drexel Hamilton	24,940	249
Edelweiss Securities Pvt. LTD	130,879	6,186
EFG Istanbul Menkul De Erler Anonim Sirketi	364,235	2,540
Ekspres Yatirim Menkul	142,841	1,030
Emkay Global Financial Services LTD	7,500	92
ENAM Securities Pvt. LTD	14,661	772

(continued)


  
2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Erste Group Bank AG	7,774	\$ 1,051
Eurobank Securities S.A.	6,256,800	12,937
Euroclear Bank S.A. N.V.	29,900	3,045
Evercore Group, LLC	46,016	1,749
Exane S.A.	700,597	37,661
Execution LTD	1,292,218	2,502
Fator Doria Atherino S.A. CV	65,400	616
Fidelity Capital Markets	78,279	2,478
Fidelity Clearing Canada	18,000	720
Fig Partners, LLC	88,144	1,763
Financial Brokerage Group (FBG)	1,295,150	14,827
First Analysis Securities Corp.	116,884	5,843
First Clearing, LLC	112,072	4,154
FirstEnergy Capital Corp.	189,840	7,578
Fiserv Securities, Inc.	32,750	983
Fortis Clearing Americas, LLC	1,118,511	27,963
Friedman, Billings & Ramsey	823,913	27,692
Fund Consultants Inc.	154,100	1,541
G Trade Services LTD	66,965,269	460,127
GBM Casa de Bolsa	1,584,643	31,533
Global Hunter Securities, LLC	3,154	126
Goldman Sachs & Co.	269,285,872	3,010,070
Goodbody Stockbrokers	42,637	595
Gordon, Haskett & Company	522,740	19,919
Green Street Advisors	706,410	9,187
Guggenheim Capital Markets, LLC	415,071	16,477
Guzman & Co.	4,974,827	99,497
Hannuri Investment & Securities Co. LTD	1,100	2,168
Heflin & Co., LLC	14,700	588
Height Securities, LLC	201,848	7,573
Hibernia Southcoast Capital, Inc.	36,879	1,418
Hoare Govett (India) Securities Pvt. LTD	32,400	863
Hong Kong Securities Clearing Company LTD	635,732	4,628
Howard Weil, Inc	539,415	21,028

*(continued)*

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
HSBC Securities, Inc.	415,984,591	\$ 1,019,348
Hudson Securities, Inc.	28,900	1,156
Hunter Securities Corp.	810,054	24,302
ICAP Securities LTD	3,695,854	110,277
Im Trust S.A. Corredores de Bolsa	625,540	6,144
India Infoline LTD	1,007,987	18,747
ING Bank N.V.	6,223,660	31,713
Instinet, LLC	125,156,983	992,882
Intermonte Sec SIM Spa	38,775	695
Investec Securities	698,891	6,416
Investment Technology Group, Inc.	135,863,563	798,033
Is Yatirim Menkul Degerler AS	187,917	2,306
ISI Group, Inc.	6,697,203	155,785
Island Trader Securities, Inc.	569,789	9,023
Itau USA Securities, Inc.	9,800	75
Jackson Partners & Associates, Inc.	722,310	20,482
Jackson Securities	100,000	4,000
Janney Montgomery Scott, LLC	1,449,214	56,610
Jefferies & Company, Inc.	82,880,928	1,276,634
JM Financial Institutional Securities Private	188,687	3,944
JMP Securities	237,933	11,352
JNK Securities, Inc.	23,207	928
Johnson Rice & Co.	73,745	2,950
Jones & Associates Inc	183,912	15,861
Jones Trading Institutional Services, LLC	6,987,952	210,928
JP Morgan Securities, Inc	892,902,809	6,250,414
KAS-Associatie N.V.	445,496	7,819
KBC Securities	560,000	2,651
Keefe Bruyette & Woods, Inc.	655,318	25,954
Kempen & Co N.V.	93,297	4,419
Kepler Equities	260,763	11,983
Keybanc Capital Markets, Inc.	1,597,579	64,301
KIM ENG Holdings LTD	3,629,800	4,043
Kingsway Financial Services Group LTD	6,057,011	3,948

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Knight Capital Group, Inc.	44,313,150	\$ 934,910
Kotak Securities LTD	1,265,368	11,978
LarrainVial S.A.	5,728,529	13,038
Lazard Capital Markets, LLC	2,515,702	92,594
Leerink Swann & Company	129,624	5,022
Liberum Capital Limited	320,052	1,780
Link S.A. CCTVM	1,919,938	36,478
Liquidnet, Inc.	33,739,369	425,805
Longbow Securities, LLC	143,253	5,730
Loop Capital Markets, LLC	4,267,862	85,780
M.R. Beal & Company	8,508,508	190,400
Macquarie Bank Limited	91,574,769	369,036
MainFirst Bank AG	71,362	9,248
Maxim Group	9,556	382
MBI Corredos de Bolsa	35,121,173	27,372
Merrill Lynch and Co., Inc.	268,314,562	2,507,833
MF Global	176,600	4,292
Miller Tabak & Company LLC	150,270	3,509
Mitsubishi UFJ Securities	770,200	7,665
Mizuho Securities USA, Inc.	338,705	9,298
MKM Partners, LLC	279,413	11,110
MND Partners	55,091	1,102
Mogavero Lee & Co., Inc.	465,440	16,529
Monness, Crespi, Hardt & Co., Inc.	17,579	691
Morgan Grenfell New York	20,831	417
Morgan Keegan & Co., Inc.	197,695	7,908
Morgan Stanley & Co., Inc.	1,161,908,410	6,695,741
Motilal Oswal Securities Limited	327,842	5,867
Murch & Co., Inc.	1,834	37
National Financial Services, LLC	10,534,502	339,752
NavPoint, LLC	152,140	6,086
NBCN Clearing Inc.	3,698	140
NCB Stockbroers LTD	85,201	1,255
Needham & Company	580,223	15,547

(continued)

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Nesbitt Burns	1,698,465	\$ 47,788
Newedge Group	1,904	339
Noble International Investments Inc.	3,757	150
Nomura Securities International, Inc.	484,944,987	1,137,942
North South Capital, LLC	40,339	1,394
Northland Securities, Inc.	6,432	257
Numis Securities Limited	3,714,331	28,551
O'Connor & Co., LLC	187,853	4,696
Oddo Finance	10,784	926
Oppenheimer & Co., Inc.	3,470,225	117,653
Oriel Securities LTD	117,089	596
Oscar Gruss & Son, Inc.	28,500	1,140
Pacific Crest Securities	428,337	16,990
Panmure Gordon & Co	11,634,542	44,978
Parel	78,096	5,854
Penserra Securities, LLC	4,531,224	105,096
Penson Financial Services, Inc.	484,873	10,394
Pereire Tod LTD	239,107	2,431
Pershing Securities Limited	30,451,934	651,298
Petercam S.A.	11,654	641
Peters & Co., LTD	333,230	13,516
Pickering Energy Partners, Inc.	692,584	25,744
Pipeline Trading Systems, LLC	299,527	2,995
Piper Jaffray	1,944,096	61,820
Portales Partners, LLC	65,000	2,600
Prime Executions, Inc.	1,634,660	18,030
Pulse Trading, LLC	293,889	3,011
Quaker Securities	3,660,492	6,348
Raymond James & Associates, Inc.	3,179,376	99,035
RBC Capital Markets	18,295,315	506,535
Redburn Partners LLP	1,602,904	19,630
Renaissance Capital	5,271,130	17,848
Reynders, Gray & Company, Inc.	27,370	1,095
Robert W. Baird & Co., Inc.	2,333,546	90,976

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Rochdale Securities, LLC	4,926,677	\$ 144,409
Rosenblatt Securities, LLC	2,225,934	52,718
ROTH Capital Partners, LLC	170,145	6,777
Royal Bank of Canada	17,070,864	470,655
Royal Bank of Scotland PLC	986,566	15,486
Salomon Smith Barney, Inc.	1,531,900	11,715
Samsung Securities Co. LTD	2,643,481	40,561
Sandler O'Neil & Partners, L.P.	197,934	7,865
Sanford C. Bernstein Co., LTD	33,720,840	463,947
Santander Investment Securities, Inc.	67,600	2,704
Scotia Capital	4,175,782	77,216
Scott & Stringfellow, Inc.	1,185,756	46,294
Seasongood & Mayer, LLC	209	4
Seslia Securities	2,662,698	53,254
SG Securities	170,701,906	474,437
Shenyin & Wanguo Securities Co.	76,695	8
Shenzhen Securities Central Clearing	428,000	1,115
Sidoti & Company, LLC	413,203	17,929
Simmons & Company International	260,690	8,908
Singer Capital Markets Limited	891,500	2,375
Six Sis Ag	100,110	4,727
SJ Levinson & Sons, LLC	7,992,047	169,298
Skandinaviska Enskilda Bank	1,400,311	8,794
Societe Generale	6,319,738	61,910
SS Kantilal Ishwarlal Securities	428,859	3,051
Standard Bank	957,952	17,382
Standard Chartered Bank	3,475,289	19,931
State Street Bank & Trust Co.	779,755	13,670
Stephens, Inc.	1,506,358	60,037
Sterne Agee & Leach, Inc.	2,130,749	83,422
Stifel Nicolaus & CO., Inc.	8,914,950	275,440
Stockbrokers Botswana LTD	358,168	3,545
Strategas Securities, LLC	251,214	9,726
Stuart Frankel & Co., Inc.	86,108	1,722

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Sungard Brokerage & Securities Services, LLC	362,050	\$ 7,404
Suntrust Capital Markets, Inc.	127,239	5,413
Svenska Handelsbanken	516,681	21,726
Tavira Securities LTD	160,000	3,169
TD Waterhouse Cda	164,703	5,971
The Benchmark Company, LLC	229,113	9,051
The Williams Capital Group	1,976,216	46,220
Thinkequity Partners, LLC	160,637	7,378
TONGYANG Securities, Inc.	16,178	2,359
Topeka Capital Markets	1,054	42
Troika Dialog	8,665,463	4,468
Tudor, Pickering, Holt & Co.	5,753,302	157,964
Tuohy Brothers Investment Research, Inc.	29,500	1,180
UBS AG	274,093,313	2,024,629
UniCredit Bank AG	19,737	2,326
UNX, Inc.	1,985	40
Upline International S.A.	1,542	524
USCA Securities, LLC	73,080	2,558
Uti Securities Exchange LTD	69,130	2,162
VTB Bank	59,024	2,558
Wachovia Bank, NA	1,887,906	18,097
Wedbush Morgan Securities, Inc.	785,270	18,354
Wedge Securities, LLC	195,750	6,064
Weeden & Co. LTD	42,250,606	829,380
Wells Fargo Securities, LLC	4,951,238	179,769
Western International Securities, Inc.	52,830	1,321
William Blair & Company, LLC	1,339,709	60,339
William O'Neil and Co., Inc.	205,344	7,598
Williams Capital Gorup, L.P.	2,505,610	48,469
Wood & Company	152,727	5,197
Woori Investment Securities	63,213	12,952
Wunderlich Securities, Inc.	110,717	4,429
Yamner & Co., Inc.	241,727	2,452

(continued)

2012

## Schedule of Fees and Commissions

PENSION TRUST FUND  
For the Fiscal Year Ended August 31, 2012

Brokerage Firm	Shares Traded	Commissions Paid
Yaunta Core Pacific Securities	5,360,000	\$ 3,163
Zacks & Company	1,000	40
Total	6,851,154,916	\$ 58,054,973

Futures Contracts Brokerage Firm	Shares Traded	Commissions Paid
Goldman Sachs & Co.	3,000,460	\$ 6,995,259
Morgan Stanley Co. Incorporated	50,826	123,367
Total	3,051,286	\$ 7,118,626



# Actuarial Section

**“I’ve seen Teacher Retirement grow from a small agency still taking care of the state of Texas into a larger agency even more dedicated to taking care of our teachers and our educators.” Ruby Cadenhead, TRS Employee**

*Top photographs: TRS building locations (from left to right) - Labor Temple Building, 200 East 10th St. (1937); 608 Lavaca St. (1939); Tribune Building at 10th and Colorado Streets (1946); First Federal Savings and Loan Building, 11th and San Jacinto Streets (1954); Sam Houston State Office Building at 14th and San Jacinto Streets (1959); Lowich Building, 314 West 11th Street (1964); TRS headquarters building at 1001 Trinity Street (1973)*

*Bottom photograph: TRS staff at the Tribune Building (1947)*





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November 7, 2012

**BOARD OF TRUSTEES**

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

**Subject: Actuary’s Certification of the Actuarial Valuation as of August 31, 2012**

We certify that the information included herein and contained in the 2012 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2012.

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

**Actuarial Valuations**

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

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

**Financing Objective of the Plan**

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

**Progress Toward Realization of Financing Objective**

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Based on this actuarial valuation as of August 31, 2012, the System’s under-funded status has increased to \$26.1 billion from \$24.1 billion as of August 31, 2011. This increase in the UAAL is due to a loss on the actuarial value of assets of the System and employer contributions into the System being \$700 million less than the actuarial appropriate rate (6.00% in FY2012 vs. a 8.13% contribution rate determined by the 2011 valuation).

This valuation shows a normal cost equal to 10.60% of pay. The State set its contribution rate to 6.40% of pay as of September 1, 2012, which combined with the member contribution rate of 6.40% of pay provides a total contribution rate of 12.80% of pay. Therefore, there is 2.20% of pay available to amortize the UAAL. If payroll grows as expected, the contributions provided by this portion of the contribution rate are insufficient to amortize the current unfunded actuarial accrued liabilities of the System over any period of time (i.e. the funding period is never). If the current assumptions are met (the trust earns an average 8.0% per annum) and the current 6.40% member contribution rate and the State fiscal year 2013 contribution rate of 6.40% continue, the fund is projected to remain solvent until the year 2065, after which the funding would become a pay-as-you-go status. Therefore, for the current benefit structure to be sustainable, the contribution levels will need to be increased if all of the current assumptions are met.

The actuarial valuation report as of August 31, 2012 reveals that while the System has an unfunded liability of \$26.1 billion, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 81.9%. However, because of the significant shortfall in investment income in FY2009, the System is still deferring net investment losses of \$6.9 billion, compared to the last valuation when the System was deferring \$7.8 billion in deferred losses, and the funded status using the market value of assets is only 77.2%. If there are no significant investment gains or other actuarial gains over the next several years, the funded status of the System would be expected to decline towards this number.

The market value of assets earned a 7.4% return on a dollar-weighted basis for the plan year ending August 31, 2012, net of expenses. The System experienced a loss on the actuarial value of assets of \$2.2 billion and a gain on the actuarial liabilities of \$1.4 billion for a total experience related loss of \$0.8 billion.

In the absence of significant actuarial gains in the near future, the contribution rate needed to amortize the UAAL over 30 years will increase over the next several years.

**Plan Provisions**

The plan provisions used in the actuarial valuation are described in Table 21 of the valuation report. There have been no changes to the benefit provisions of the System since the prior valuation.

**Disclosure of Pension Information**

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

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

**Actuarial Methods and Assumptions**

The actuarial methods and assumptions have been selected by the Board of Trustees of the Teacher Retirement System of Texas based upon our analysis and recommendations. These assumptions and methods are detailed in Table 22 of the valuation report. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are based on a study of actual experience for the four year period ending August 31, 2010 and were adopted on April 8, 2011. The assumptions and methods are the same as used in the prior valuation.

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

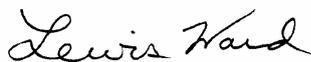
In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are internally consistent and reasonably related to the experience of the System and to reasonable expectations. The actuarial assumptions and methods used in this report comply with the parameters for disclosure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

**Data**

In preparing the August 31, 2012 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

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

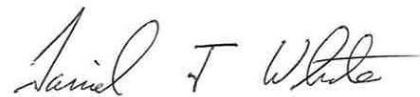
Respectfully submitted,  
Gabriel, Roeder, Smith & Company



Lewis Ward  
Consultant



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



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

Gabriel Roeder Smith & Company

## Actuarial Information Pension Trust Fund

### Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2012 (With Comparative Data for August 31, 2011)

	2012	2011
<b>Present Value of Benefits Presently Being Paid</b>		
Service Retirement Benefits	\$ 66,496,973,251	\$ 61,583,573,864
Disability Retirement Benefits	947,308,449	909,607,883
Death Benefits	788,389,117	769,355,667
Present Survivor Benefits	216,686,398	207,631,666
<b>TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID</b>	<b>\$ 68,449,357,215</b>	<b>\$ 63,470,169,080</b>
<b>Present Value of Benefits Payable in the Future to Present Active Members</b>		
Service Retirement Benefits	\$ 95,055,547,036	\$ 95,886,611,576
Disability Retirement Benefits	1,343,494,893	1,343,397,174
Termination Benefits	6,994,476,599	6,952,317,408
Death and Survivor Benefits	1,740,833,330	1,744,820,375
<b>TOTAL ACTIVE MEMBER LIABILITIES</b>	<b>\$ 105,134,351,858</b>	<b>\$ 105,927,146,533</b>
<b>Present Value of Benefits Payable in the Future to Present Inactive Members</b>		
Inactive Vested Participants:		
Retirement Benefits	\$ 2,593,214,556	\$ 2,221,502,905
Death Benefits	146,660,351	128,252,686
<b>TOTAL INACTIVE VESTED BENEFITS</b>	<b>\$ 2,739,874,907</b>	<b>\$ 2,349,755,591</b>
Refunds of Contributions to Inactive Non-vested Members	\$ 360,056,410	\$ 311,886,726
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 1,217,410,816	\$ 1,145,189,668
<b>TOTAL INACTIVE LIABILITIES</b>	<b>\$ 4,317,342,133</b>	<b>\$ 3,806,831,985</b>
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 177,901,051,206</b>	<b>\$ 173,204,147,598</b>

### Summary of Cost Items

	2012	2011
Actuarial Present Value of Future Benefits	\$ 177,901,051,206	\$ 173,204,147,598
Present Value of Future Normal Costs	(33,473,825,266)	(33,889,057,041)
Actuarial Accrued Liability	\$ 144,427,225,940	\$ 139,315,090,557
Actuarial Value of Assets	(118,326,041,892)	(115,252,828,399)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 26,101,184,048</b>	<b>\$ 24,062,262,158</b>

## Actuarial Information Pension Trust Fund

### Actuarial Methods and Assumptions

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

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

The entry age normal actuarial cost method of valuation was used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of the actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest) which are level percents of payroll contributions. These assumptions were adopted in April 2011.

### Actuarial Assumptions

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

Probability of Decrement due to Death and Disability Retirement					
Male Members			Female Members		
Age	Death	Disability Retirement	Age	Death	Disability Retirement
20	0.000297	0.000003	20	0.000189	0.000006
30	0.000624	0.000042	30	0.000291	0.000065
40	0.000849	0.000381	40	0.000449	0.000234
50	0.001458	0.001287	50	0.000923	0.001256
60	0.003979	0.002455	60	0.002084	0.002436
70	0.012940	0.001760	70	0.007621	0.001658

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



## Actuarial Information Pension Trust Fund

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

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

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

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

Probability of Decrement Due to Retirement							
Male Members							
Years of Service							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.010
55	0.010	0.010	0.010	0.010	0.010	0.010	0.010
60	0.020	0.020	0.020	0.020	0.240	0.240	0.240
65	0.250	0.250	0.250	0.250	0.250	0.250	0.250
70	0.200	0.200	0.200	0.200	0.200	0.200	0.200
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Female Members							
Years of Service							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.010
55	0.010	0.010	0.010	0.010	0.010	0.010	0.010
60	0.030	0.030	0.030	0.030	0.250	0.250	0.250
65	0.250	0.250	0.250	0.250	0.250	0.250	0.250
70	0.250	0.250	0.250	0.250	0.250	0.250	0.250
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000

For members hired after August 31, 2007, the retirement rates for members once they reach unreduced retirement eligibility at age 60 are increased 10% for each year the member is beyond the rule of 80 (i.e. if the member reached the Rule of 80 at age 58 then the probability of retirement at age 60 is 120% of the rate shown above).

## Actuarial Information Pension Trust Fund

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

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

This weighted average salary increase rate is 5.59% based on the active member service distribution as of August 31, 2012.

### Disability Annuitants

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

### Service Retirement Annuitants, Nominees and Survivors

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

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



## Actuarial Information Pension Trust Fund

### Actuarial Value of Assets

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income 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 the amount of such contributions required to fund the normal cost of benefits. Based on a study of all new entrants hired in the period from 2007 through 2010 and taking into account all changes in benefit provisions, the normal cost for benefits provided by the System is 10.60% of payroll (6.40% by members plus 4.20% by the State), which is 2.20% of payroll less than the total contributions required by Law. It is intended that the excess amount of 2.20% of payroll will be used to amortize any unfunded actuarial accrued liabilities of the System, assuming that total payroll increases by 3.50% per year.

As of the valuation as of August 31, 2012, these excess contributions of 2.20% of pay are insufficient to amortize the UAAL under the required time period.

### Assumed State Contribution Rate

Effective September 1, 2011, the General Appropriations Act decreased the State contribution rate to 6.00% for fiscal year 2012 and will increase it to 6.40% in fiscal year 2013. For purposes of determining the funding period, it was assumed that the State contribution rate (6.40%) would remain in place indefinitely.

### Schedule of Active Member Valuation Data

See table below:

Schedule of Active Member Valuation Data				
Valuation as of August 31	Number	Annual Payroll in Thousands	Average Annual Pay	Annual Percentage Increase in Average Pay
2007	777,789	\$31,114,096	\$40,003	7.3%
2008	801,455	33,237,904	41,472	3.7
2009	817,537	35,096,890	42,930	3.5
2010	834,060	36,628,844	43,916	2.3
2011	828,919	36,797,011	44,392	1.1
2012	815,155	35,444,569	44,543	0.3

## Actuarial Information Pension Trust Fund

### Other Actuarial Information

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

Schedule of Retirees, Beneficiaries and Disabled Participants Added to and Removed from								
(1) Valuation as of August 31	Added to Rolls		Removed from Rolls		Rolls - End of Year		(8) % Increase in Annual Allowances	(9) Average Annual Allowance
	(2) Number	(3) Annual Allowances	(4) Number	(5) Annual Allowances	(6) Number	(7) Annual Allowances		
2007	15,861	\$336,348,640	7,698	\$131,295,705	265,307	\$5,487,160,506	3.9%	\$20,682
2008	17,727	391,920,863	7,806	135,160,090	275,228	5,743,921,279	4.7	20,870
2009	17,326	392,452,923	7,940	136,537,511	284,614	5,999,836,691	4.5	21,081
2010	20,076	473,512,423	8,199	142,187,645	296,491	6,331,161,469	5.5	21,354
2011	24,688	620,038,676	8,499	147,985,004	312,680	6,803,215,141	7.5	21,758
2012	27,915	697,134,389	8,848	155,597,838	331,747	7,344,751,692	8.0	22,140

### Solvency Test

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

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

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

Solvency Test							
(AMOUNTS SHOWN IN MILLIONS)							
Aggregate Actuarial Accrued Liabilities For					Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets		
(1) Valuation as of August 31	(2) Active Member Contributions*	(3) Retirees and Beneficiaries*	(4) Active Members (State Financed Portion)	(5) Valuation Assets	(6) Active Member Contributions*	(7) Retirees and Beneficiaries*	(8) Active Members (State Financed Portion)
2007	\$ 22,236	\$ 51,293	\$ 42,435	\$ 103,419	100%	100%	70.4%
2008	23,928	53,243	44,585	110,233	100	100	74.2
2009	23,914	55,484	48,632	106,384	100	100	55.5
2010	27,559	58,476	48,156	111,293	100	100	52.5
2011	28,911	63,470	46,934	115,253	100	100	48.7
2012	30,006	68,449	45,972	118,326	100	100	43.2

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

## Actuarial Information Pension Trust Fund

Analysis of Financial Experience							
Changes in Unfunded Actuarial Accrued Liabilities (UAAL)*							
Resulting from Differences Between Assumed Experience and Actual Experience							
	Increase/(Decrease) for Year (in Billions)						
	2012	2011	2010	2009	2008	2007	
Investment (Gains)/Losses	\$ 2.208	\$ 1.958	\$ 1.161	\$ 10.321	\$ (1.232)	\$ (4.140)	
Legislative Changes/ Benefit Increases							.360
Contribution Experience	1.258	0.826	0.797	0.149	0.228	.496	
Assumption Changes		(0.271)			.676		
Liability Experience	(1.427)	(1.350)	(0.705)	(0.347)	(0.694)	2.135	
Net Increase/(Decrease)	\$ 2.039	\$ 1.163	\$ 1.253	\$ 10.123	\$ (1.022)	\$ (1.149)	
Beginning UAAL	24.062	22.899	21.646	11.523	12.545	13.694	
Ending UAAL	\$ 26.101	\$ 24.062	\$ 22.899	\$ 21.646	\$ 11.523	\$ 12.545	

\* Calculated on a 5-year smoothed market basis.



2012

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November 7, 2012

**BOARD OF TRUSTEES**

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

**Subject: GASB 43 Actuarial Valuation as of August 31, 2012 for TRS-Care**

Submitted in this report are the results of an Actuarial Valuation of the liabilities associated with the employer financed retiree health benefits provided through TRS-Care, a benefit program designed to provide post retirement medical benefits for certain members of the Teacher Retirement System of Texas (TRS). The date of the valuation was August 31, 2012. This report was prepared at the request of TRS.

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

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

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods.

One or more of the undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

William J. Hickman  
Senior Consultant

Joseph P. Newton, FSA, MAAA  
Senior Consultant

Mehdi Riazi, ASA, EA, MAAA  
Consultant

Gabriel Roeder Smith & Company

## Actuarial Information TRS-Care

### Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2012 (With Comparative Data for August 31, 2011)  
Based on a 5.25% discount rate

	2012	2011
<b>Present Value of Benefits Being Paid</b>		
Future Medical Claims	\$ 8,906,661,219	\$ 8,970,466,574
Future Rx Claims	8,657,667,616	9,560,281,792
Retiree Premiums Collected	(4,887,937,160)	(4,820,521,600)
<b>NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES</b>	<b>\$ 12,676,391,675</b>	<b>\$ 13,710,226,766</b>
<b>Present Value of Benefits Payable in the Future to Present Active Members</b>		
Future Medical Claims	\$ 22,363,767,477	\$ 22,513,074,606
Future Rx Claims	16,882,389,149	19,700,869,923
Retiree Premiums Collected	(10,561,910,242)	(10,795,062,742)
<b>NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES</b>	<b>\$ 28,684,246,384</b>	<b>\$ 31,418,881,787</b>
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 41,360,638,059</b>	<b>\$ 45,129,108,553</b>

### Summary of Cost Items

	2012	2011
Actuarial Present Value of Future Benefits	\$ 41,360,638,059	\$ 45,129,108,553
Present Value of Future Normal Costs	(13,818,351,467)	(15,343,939,596)
Actuarial Accrued Liability	\$ 27,542,286,592	\$ 29,785,168,957
Actuarial Value of Assets	(741,013,656)	(890,870,306)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 26,801,272,936</b>	<b>\$ 28,894,298,651</b>



## Actuarial Information TRS-Care

### Actuarial Methods and Assumptions

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

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

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

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

### Other Actuarial Information

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

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

\* Expected employer provided claims and expenses (net of retiree premiums).  
Annual Allowances in Column (7) include increases due to health care inflation for continuing retirees. Therefore, the annual allowance is not equal to the beginning of year allowance plus the “Added to Rolls” allowance minus the “Removed from Rolls” allowance.

### Solvency Test

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

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

## Actuarial Information TRS-Care

Solvency Test							
(AMOUNTS SHOWN IN MILLIONS)							
Aggregate Actuarial Accrued Liabilities For					Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets		
(1) Valuation as of August 31	(2) Active Member Contributions*	(3) Beneficiaries and Vested Terminations	(4) Members (Employer Financed Portion)	(5) Valuation Assets	(6) Active Member Contributions (5)/(2)	(7) Beneficiaries and Vested Terminations [(5)-(2)]/3	(8) Members (Employer Financed Portion) [(5)-(2)-(3)]/(4)
2007	NA	\$ 8,329	\$ 11,419	\$ 623	NA	7.5%	0.0%
2008	NA	9,318	12,944	729	NA	7.8	0.0
2009	NA	9,642	14,716	800	NA	8.3	0.0
2010	NA	10,918	14,889	815	NA	7.5	0.0
2011	NA	13,710	16,075	891	NA	6.5	0.0
2012	NA	12,676	14,866	741	NA	5.8	0.0

\*Active member contributions are non-refundable.

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



2012

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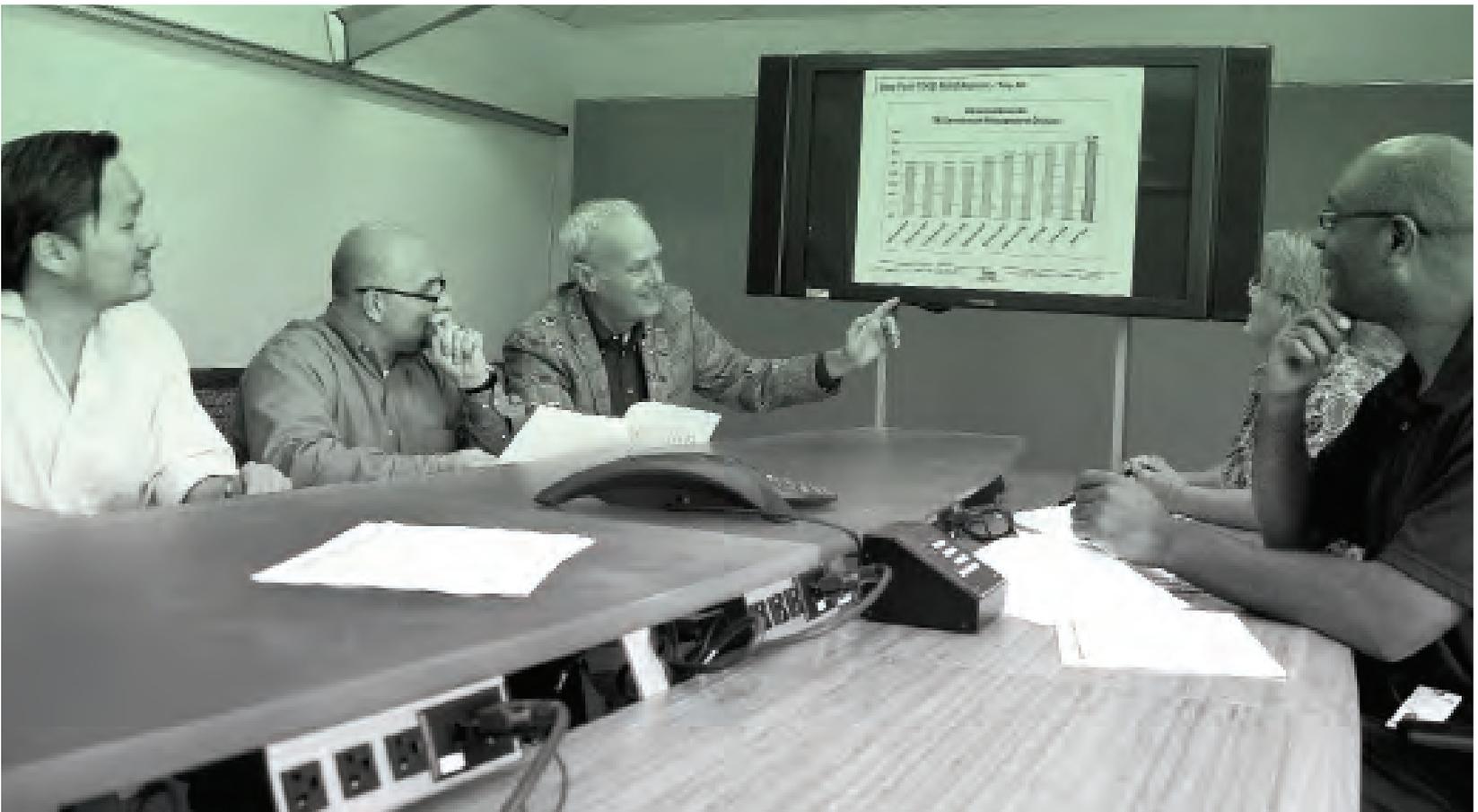
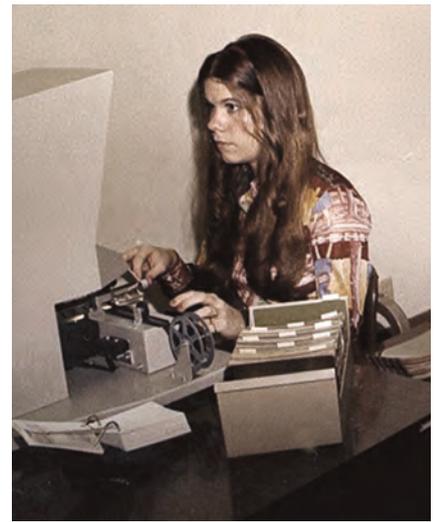
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# Statistical Section

“When I think about TRS I think about stability, and confidence. I don’t have any concerns that money has been mishandled or invested poorly. I’m pretty confident that it’s there, and that it’s gonna be there when I need it.”

Sherry Posey, TRS Member





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## Statistical Section Overview

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

### FINANCIAL TRENDS INFORMATION

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

- Changes in Fiduciary Net Assets
- Revenues, Expenses, and Changes in Fund Net Assets
- Benefits and Refund Deductions from Net Assets by Type
- Health Care Claims Deductions/Expenses from Net Assets by Type

### OPERATING INFORMATION

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

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

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



**FINANCIAL TRENDS INFORMATION**

***Changes in Fiduciary Net Assets***

PENSION TRUST FUND  
For the Fiscal Years Ended August 31

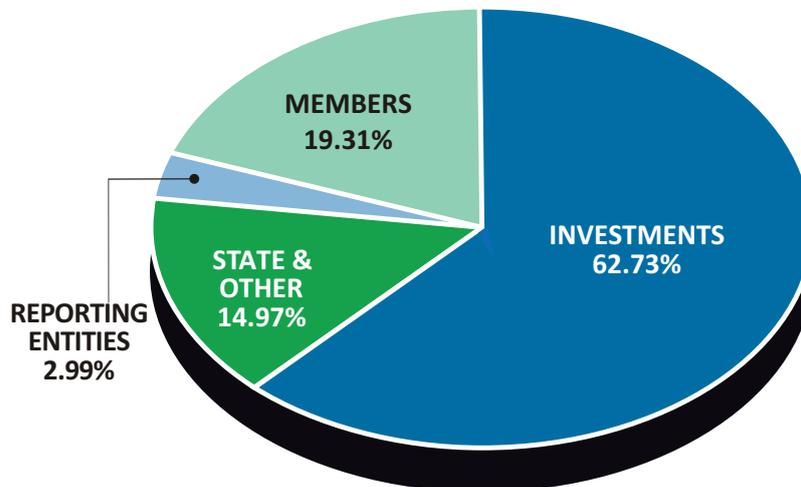
10 - YEAR SUMMARY

	2012	2011	2010	2009
<b>Additions</b>				
Member Contributions	\$ 2,313,992,187	\$ 2,349,131,829	\$ 2,289,537,187	\$ 2,181,600,283
State Contributions	1,684,875,867	1,922,287,082	1,885,876,036	1,758,579,809
Reporting Entities Contributions	377,522,770	419,968,516	412,268,503	412,728,096
Service Contributions Transferred in from ERS	14,940,228	12,628,712	11,167,772	9,558,927
Investment Income:				
Interest, Dividends and Securities Lending	2,028,565,301	2,203,623,538	1,978,962,334	2,126,151,392
Net Appreciation (Depreciation) in Fair Value	5,972,016,449	12,616,681,465	7,542,738,000	(16,030,794,035)
Less: Investing Activity Expenses	(153,283,460)	(183,369,775)	(111,918,654)	(68,990,517)
Other	1,867,389	1,576,613	2,453,980	1,768,337
<b>TOTAL ADDITIONS</b>	<b>\$ 12,240,496,731</b>	<b>\$ 19,342,527,980</b>	<b>\$ 14,011,085,158</b>	<b>\$ (9,609,397,708)</b>
<b>Deductions</b>				
Benefits	\$ 7,723,622,166	\$ 7,173,504,788	\$ 6,617,397,374	\$ 6,294,434,115
Excess Benefits	2,483,369	1,750,588	1,504,510	1,553,381
Refunds of Contributions	381,231,352	334,268,822	265,186,589	266,695,076
Service Contributions Transferred to ERS	70,985,963	64,772,079	61,570,750	57,135,135
Administrative Expenses, Excluding Investing Activity Expenses	33,073,740	35,849,819	29,992,608	28,310,448
<b>TOTAL DEDUCTIONS</b>	<b>\$ 8,211,396,590</b>	<b>\$ 7,610,146,096</b>	<b>\$ 6,975,651,831</b>	<b>\$ 6,648,128,155</b>
<b>Net Increase (Decrease)</b>	<b>\$ 4,029,100,141</b>	<b>\$ 11,732,381,884</b>	<b>\$ 7,035,433,327</b>	<b>\$ (16,257,525,863)</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 107,420,786,893</b>	<b>\$ 95,688,405,009</b>	<b>\$ 88,652,971,682</b>	<b>\$ 104,910,497,545</b>
<b>Net Assets - End of Year</b>	<b>\$ 111,449,887,034</b>	<b>\$ 107,420,786,893</b>	<b>\$ 95,688,405,009</b>	<b>\$ 88,652,971,682</b>

**FINANCIAL TRENDS INFORMATION**

2008	2007	2006	2005	2004	2003
\$ 2,085,345,861	\$ 1,949,093,276	\$ 1,853,971,836	\$ 1,728,333,818	\$ 1,721,504,445	\$ 1,672,212,387
1,704,088,048	1,472,584,963	1,333,143,442	1,258,597,882	1,242,305,696	1,239,532,126
353,524,480	282,077,713	267,399,619	221,158,942	192,395,672	182,536,228
8,897,722	7,913,660	6,908,439	6,188,845	5,600,176	4,037,793
3,414,753,511	3,084,172,953	2,640,734,877	2,360,711,299	2,134,920,032	2,144,222,155
(7,992,472,030)	11,232,429,170	6,326,056,726	9,607,205,397	7,024,439,015	5,673,389,054
(29,330,150)	(20,942,402)	(19,099,395)	(17,394,917)	(16,252,645)	(14,604,331)
2,080,418	2,892,262	3,178,512	2,324,123	2,754,738	3,272,714
\$ (453,112,140)	\$ 18,010,221,595	\$ 12,412,294,056	\$ 15,167,125,389	\$ 12,307,667,129	\$ 10,904,598,126
\$ 6,406,644,540	\$ 5,762,885,044	\$ 5,540,134,272	\$ 5,349,900,638	\$ 5,452,404,274	\$ 4,727,518,136
1,646,494	1,453,605	1,041,961	926,187	516,529	461,925
278,002,614	280,005,584	267,810,017	245,148,971	221,857,340	187,379,932
52,773,854	48,538,424	45,716,307	41,200,491	38,068,440	28,609,871
26,122,662	27,502,276	26,444,405	25,114,716	24,841,300	23,428,162
\$ 6,765,190,164	\$ 6,120,384,933	\$ 5,881,146,962	\$ 5,662,291,003	\$ 5,737,687,883	\$ 4,967,398,026
\$ (7,218,302,304)	\$ 11,889,836,662	\$ 6,531,147,094	\$ 9,504,834,386	\$ 6,569,979,246	\$ 5,937,200,100
\$ 112,128,799,849	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461	\$ 71,695,802,361
\$ 104,910,497,545	\$ 112,128,799,849	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461

**PENSION TRUST FUND ADDITIONS  
Ten-Year Average (2003-2012)**





**FINANCIAL TRENDS INFORMATION**

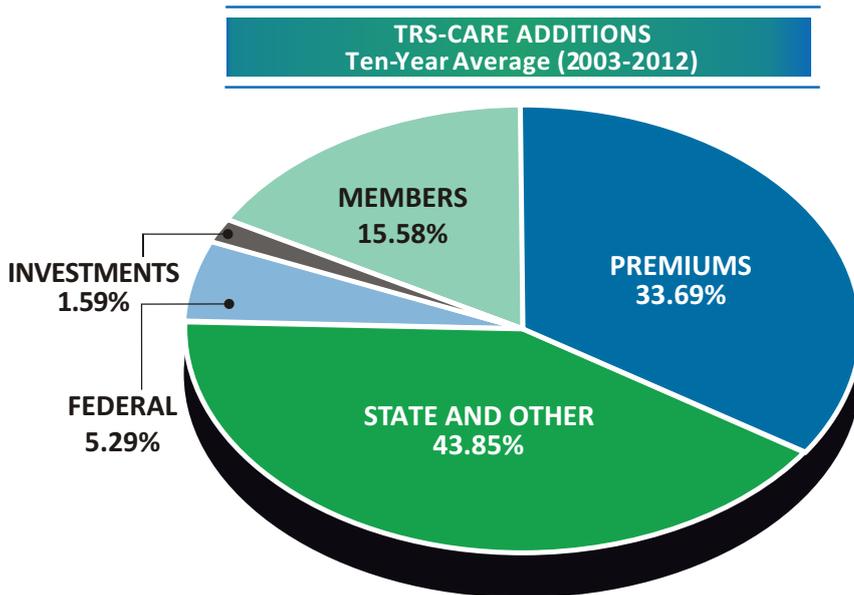
***Changes in Fiduciary Net Assets***

TRS-CARE  
For the Fiscal Years Ended August 31

	2012	2011	2010	2009
<b>Additions</b>				
Health Care Premiums	\$ 363,348,030	\$ 345,164,271	\$ 332,481,933	\$ 329,723,191
State Contributions	271,925,242	282,782,431	279,250,547	267,471,299
Member Contributions	176,751,407	183,808,580	181,512,856	173,856,344
Reporting Entities Contributions	154,607,926	158,724,010	155,918,241	149,562,613
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	103,676	108,440	101,511	95,929
Federal Revenue	68,633,946	136,887,805	70,795,686	61,530,735
Investment Income	5,189,934	8,168,640	11,679,229	17,482,143
Legislative Appropriations Transfer from TRS-ActiveCare				
<b>TOTAL ADDITIONS</b>	<b>\$ 1,040,560,161</b>	<b>\$ 1,115,644,177</b>	<b>\$ 1,031,740,003</b>	<b>\$ 999,722,254</b>
<b>Deductions</b>				
Health Care Claims	\$ 1,142,131,410	\$ 992,478,380	\$ 971,356,805	\$ 885,132,865
Health Care Claims Processing	44,571,383	44,115,872	42,535,601	40,364,063
Administrative Expenses, Excluding Investing Activity Expenses	3,714,018	3,143,922	3,031,686	2,916,259
Legislative Appropriations Transfer to TRS-ActiveCare				
<b>TOTAL DEDUCTIONS</b>	<b>\$ 1,190,416,811</b>	<b>\$ 1,039,738,174</b>	<b>\$ 1,016,924,092</b>	<b>\$ 928,413,187</b>
<b>Net Increase (Decrease)</b>	<b>\$ (149,856,650)</b>	<b>\$ 75,906,003</b>	<b>\$ 14,815,911</b>	<b>\$ 71,309,067</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 890,870,306</b>	<b>\$ 814,964,303</b>	<b>\$ 800,148,392</b>	<b>\$ 728,839,325</b>
<b>Net Assets - End of Year</b>	<b>\$ 741,013,656</b>	<b>\$ 890,870,306</b>	<b>\$ 814,964,303</b>	<b>\$ 800,148,392</b>

**FINANCIAL TRENDS INFORMATION**

2008	2007	2006	2005	2004	2003
\$ 328,505,433	\$ 323,957,945	\$ 326,844,982	\$ 322,780,191	\$ 248,552,679	\$ 162,917,666
254,722,174	238,190,720	215,666,940	266,569,733	454,791,657	265,001,861
165,569,413	154,823,968	140,183,511	101,198,783	99,297,097	49,170,399
141,672,630	136,008,512	118,607,527	80,914,228	79,457,387	
91,945	55,932	53,283	41,994	37,173	36,344
59,486,239	52,329,617	34,611,607			
29,252,347	32,671,539	21,435,792	11,258,874	4,803,809	3,394,956
				42,000,000	
\$ 979,300,181	\$ 938,038,233	\$ 857,403,642	\$ 782,763,803	\$ 928,939,802	\$ 480,521,226
\$ 833,509,538	\$ 742,293,147	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957	\$ 571,744,362
36,747,710	33,407,937	31,975,150	31,262,147	23,914,851	19,388,818
3,000,536	2,526,189	2,513,102	2,070,863	2,417,349	2,301,516
					42,000,000
\$ 873,257,784	\$ 778,227,273	\$ 721,574,543	\$ 693,892,093	\$ 607,687,157	\$ 635,434,696
\$ 106,042,397	\$ 159,810,960	\$ 135,829,099	\$ 88,871,710	\$ 321,252,645	\$ (154,913,470)
\$ 622,796,928	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)	\$ 71,945,984
\$ 728,839,325	\$ 622,796,928	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)





**FINANCIAL TRENDS INFORMATION**

**Revenues, Expenses, and Changes in Fund Net Assets**

TRS-ACTIVECARE  
For the Fiscal Years Ended August 31

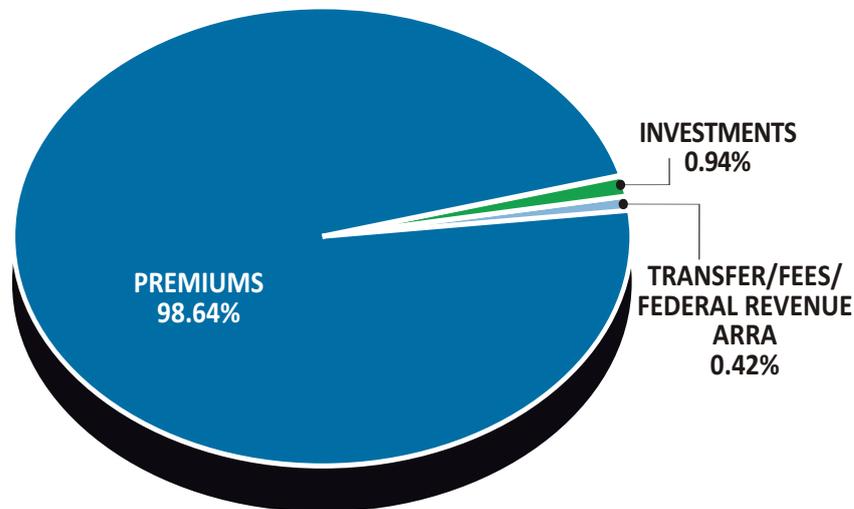
10 - YEAR SUMMARY

	2012	2011	2010	2009
<b>Revenues</b>				
Health Care Premiums	\$ 1,749,905,117	\$ 1,549,530,891	\$ 1,329,171,411	\$ 1,172,011,048
Administrative Fees	136,324	135,917	125,321	187,813
Investment Income	1,697,553	3,387,062	6,421,269	11,597,992
Federal Revenue ARRA - Cobra Reimbursements	29,706	667,746	1,225,158	170,219
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	72,094	67,373	64,328	64,975
Legislative Appropriations Transfer From TRS-Care				
<b>TOTAL REVENUES</b>	<b>\$ 1,751,840,794</b>	<b>\$ 1,553,788,989</b>	<b>\$ 1,337,007,487</b>	<b>\$ 1,184,032,047</b>
<b>Expenses</b>				
Health Care Claims	\$ 1,718,903,645	\$ 1,510,090,981	\$ 1,313,114,197	\$ 1,122,646,958
Health Care Claims Processing	83,346,223	76,960,951	67,906,654	60,934,432
Premium Payments to HMOs	89,706,406	76,270,706	64,532,253	64,820,440
Administrative Expenses	2,176,610	2,207,051	1,883,148	1,861,949
Legislative Appropriations Transfer to TRS-Care				
<b>TOTAL EXPENSES</b>	<b>\$ 1,894,132,884</b>	<b>\$ 1,665,529,689</b>	<b>\$ 1,447,436,252</b>	<b>\$ 1,250,263,779</b>
<b>Change in Net Assets</b>	<b>\$ (142,292,090)</b>	<b>\$ (111,740,700)</b>	<b>\$ (110,428,765)</b>	<b>\$ (66,231,732)</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 188,069,427</b>	<b>\$ 299,810,127</b>	<b>\$ 410,238,892</b>	<b>\$ 476,470,624</b>
<b>Restatements</b>				
<b>Beginning of Year, as Restated</b>	<b>\$ 188,069,427</b>	<b>\$ 299,810,127</b>	<b>\$ 410,238,892</b>	<b>\$ 476,470,624</b>
<b>Net Assets - End of Year</b>	<b>\$ 45,777,337</b>	<b>\$ 188,069,427</b>	<b>\$ 299,810,127</b>	<b>\$ 410,238,892</b>

**FINANCIAL TRENDS INFORMATION**

2008	2007	2006	2005	2004	2003
\$1,096,537,022	\$ 939,694,028	\$ 861,464,205	\$ 823,726,341	\$ 758,062,552	\$ 584,572,852
186,844	184,937	183,470	183,317	192,763	136,288
21,164,640	26,016,380	18,650,516	8,915,711	3,641,100	2,459,154
61,894	46,446	40,979	35,626	24,050	31,266
					42,000,000
\$1,117,950,400	\$ 965,941,791	\$ 880,339,170	\$ 832,860,995	\$ 761,920,465	\$ 629,199,560
\$ 952,156,339	\$ 801,148,962	\$ 708,972,484	\$ 663,361,138	\$ 520,998,423	\$ 473,450,544
54,583,499	48,177,777	53,013,214	53,697,572	53,564,510	42,411,388
68,204,743	58,742,363	49,466,150	42,574,641	40,210,539	
1,830,258	1,775,831	1,680,952	1,607,113	918,619	1,771,441
				42,000,000	
\$1,076,774,839	\$ 909,844,933	\$ 813,132,800	\$ 761,240,464	\$ 657,692,091	\$ 517,633,373
\$ 41,175,561	\$ 56,096,858	\$ 67,206,370	\$ 71,620,531	\$ 104,228,374	\$ 111,566,187
\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779	\$ 24,855,592
				(278,849)	
\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,142,930	\$ 24,855,592
\$ 476,470,624	\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779

**TRS-ACTIVECARE REVENUES  
Ten-Year Average (2003-2012)**





**FINANCIAL TRENDS INFORMATION**

**Revenues, Expenses, and Changes in Fund Net Assets**

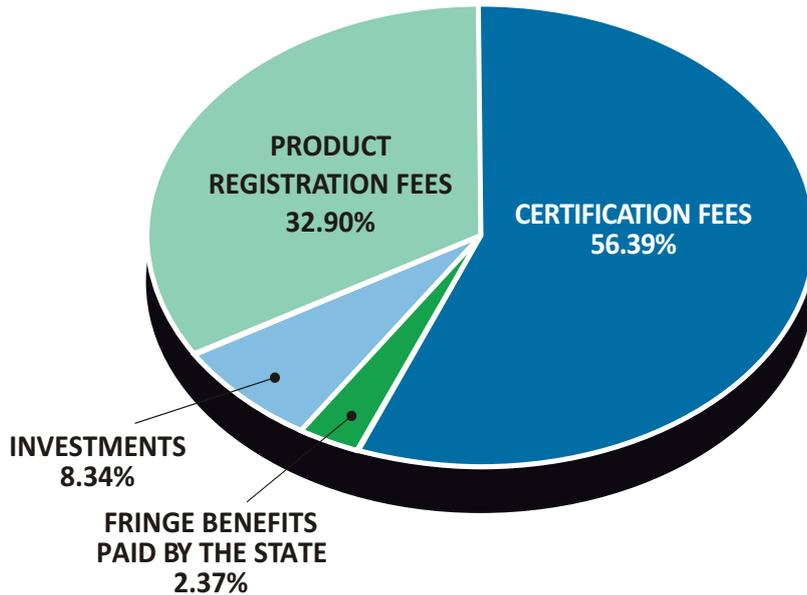
403(b) ADMINISTRATIVE PROGRAM  
For the Fiscal Years Ended August 31

	2012	2011	2010	2009
<b>Revenues</b>				
Certification Fees	\$ 114,000	\$ 12,000	\$ 30,000	\$ 6,000
Product Registration Fees	63,000	3,000	21,000	9,000
Investment Income	707	1,801	4,318	8,558
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	2,772	7,898	8,034	
<b>TOTAL REVENUES</b>	<b>\$ 180,479</b>	<b>\$ 24,699</b>	<b>\$ 63,352</b>	<b>\$ 23,558</b>
<b>Expenses</b>				
Administrative Expenses	\$ 51,203	\$ 148,444	\$ 172,835	\$ 88,000
<b>TOTAL EXPENSES</b>	<b>\$ 51,203</b>	<b>\$ 148,444</b>	<b>\$ 172,835</b>	<b>\$ 88,000</b>
<b>Change in Net Assets</b>	<b>\$ 129,276</b>	<b>\$ (123,745)</b>	<b>\$ (109,483)</b>	<b>\$ (64,442)</b>
<b>Net Assets - Beginning of Year</b>	<b>\$ 122,032</b>	<b>\$ 245,777</b>	<b>\$ 355,260</b>	<b>\$ 419,702</b>
<b>Net Assets - End of Year</b>	<b>\$ 251,308</b>	<b>\$ 122,032</b>	<b>\$ 245,777</b>	<b>\$ 355,260</b>

**FINANCIAL TRENDS INFORMATION**

2008	2007	2006	2005	2004	2003
\$ 30,000	\$ 171,000	\$ 30,000	\$ 10,000	\$ 15,000	\$ 55,000
180,000					
19,337	12,070	9,532	5,529	3,495	4,617
					1,197
\$ 229,337	\$ 183,070	\$ 39,532	\$ 15,529	\$ 18,495	\$ 60,814
\$ 192,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 45,074
\$ 192,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 45,074
\$ 37,337	\$ 159,070	\$ 15,532	\$ (8,471)	\$ (5,505)	\$ 15,740
\$ 382,365	\$ 223,295	\$ 207,763	\$ 216,234	\$ 221,739	\$ 205,999
\$ 419,702	\$ 382,365	\$ 223,295	\$ 207,763	\$ 216,234	\$ 221,739

**403(b) ADMINISTRATIVE PROGRAM  
Ten-Year Average (2003-2012)**



2012

**FINANCIAL TRENDS INFORMATION**

**Benefits and Refund Deductions from Net Assets by Type**

PENSION TRUST FUND  
Last Ten Fiscal Years

	2012	2011	2010	2009
<b>Type of Benefit</b>				
Service Retirements**	\$ 6,808,592,209	\$ 6,241,946,655	\$ 5,841,963,927	\$ 5,565,925,090
Deferred Retirement Option	22,361,937	27,822,115	22,607,290	23,272,668
Partial Lump Sum Option	501,152,157	524,925,790	385,555,126	348,261,100
Disability Retirements	150,238,202	144,865,109	141,396,837	138,569,650
Death and Survivor Benefits:				
Annual Salary	46,859,444	47,295,194	45,698,147	43,235,232
Survivor Annuities	92,126,049	86,898,720	82,574,358	79,951,723
Life Annuities	85,816,402	84,893,007	83,238,898	81,764,240
60 Monthly Payments	11,816,313	11,564,275	10,824,948	10,180,012
Remainder of Contributions	4,659,453	3,293,923	3,537,843	3,274,400
<b>TOTAL BENEFITS</b>	<b>\$ 7,723,622,166</b>	<b>\$ 7,173,504,788</b>	<b>\$ 6,617,397,374</b>	<b>\$ 6,294,434,115</b>
<b>Type of Refund</b>				
Death	\$ 5,294,006	\$ 3,984,340	\$ 3,710,941	\$ 3,084,718
Separation	375,937,346	330,284,482	261,475,648	263,610,358
<b>TOTAL REFUNDS</b>	<b>\$ 381,231,352</b>	<b>\$ 334,268,822</b>	<b>\$ 265,186,589</b>	<b>\$ 266,695,076</b>

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

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

**Health Care Claims Deductions from Net Assets by Type**

TRS-CARE  
Last Ten Fiscal Years

	2012	2011	2010	2009
<b>Type of Claim</b>				
Medical	\$ 687,987,585	\$ 608,461,321	\$ 575,539,788	\$ 531,239,020
Prescription Drugs	454,143,825	384,017,059	395,817,017	353,893,845
<b>TOTAL</b>	<b>\$ 1,142,131,410</b>	<b>\$ 992,478,380</b>	<b>\$ 971,356,805</b>	<b>\$ 885,132,865</b>

**Health Care Claims Expenses from Net Assets by Type**

TRS-ACTIVECARE  
Last Ten Fiscal Years

	2012	2011	2010	2009
<b>Type of Claim</b>				
Medical	\$ 1,450,574,875	\$ 1,242,673,156	\$ 1,092,107,916	\$ 934,733,927
Prescription Drugs	268,328,770	267,417,825	221,006,281	187,913,031
<b>TOTAL</b>	<b>\$ 1,718,903,645</b>	<b>\$ 1,510,090,981</b>	<b>\$ 1,313,114,197</b>	<b>\$ 1,122,646,958</b>

**FINANCIAL TRENDS INFORMATION**

2008	2007	2006	2005	2004	2003
\$5,649,308,335*	\$5,064,191,508	\$4,857,348,525	\$4,674,681,613	\$ 4,289,249,761	\$3,892,777,093
26,757,772	31,939,855	36,033,028	55,152,336	139,047,656	89,305,527
363,668,944	325,688,244	313,359,714	288,088,743	696,201,755	427,944,774
146,907,654	134,866,736	132,155,505	129,331,288	125,992,690	122,409,366
42,216,290	38,928,295	37,880,818	40,838,680	41,669,051	41,284,946
78,862,569	76,116,829	74,115,776	74,325,670	74,320,247	70,611,609
85,576,098	78,322,931	77,537,970	76,113,908	75,839,736	74,581,837
10,169,530	9,386,943	8,581,053	7,583,719	7,089,131	6,385,087
3,177,348	3,443,703	3,121,883	3,784,681	2,994,247	2,217,897
<b>\$6,406,644,540</b>	<b>\$5,762,885,044</b>	<b>\$5,540,134,272</b>	<b>\$5,349,900,638</b>	<b>\$ 5,452,404,274</b>	<b>\$4,727,518,136</b>
\$ 2,520,283	\$ 2,073,365	\$ 2,322,538	\$ 1,766,957	\$ 1,460,631	\$ 1,297,262
275,482,331	277,932,219	265,487,479	243,382,014	220,396,709	186,082,670
<b>\$ 278,002,614</b>	<b>\$ 280,005,584</b>	<b>\$ 267,810,017</b>	<b>\$ 245,148,971</b>	<b>\$ 221,857,340</b>	<b>\$ 187,379,932</b>

2008	2007	2006	2005	2004	2003
\$ 498,767,038	\$ 437,519,746	\$ 427,553,404	\$ 431,036,095	\$ 366,840,457	\$ 368,462,963
334,742,500	304,773,401	259,532,887	229,522,988	214,514,500	203,281,399
<b>\$ 833,509,538</b>	<b>\$ 742,293,147</b>	<b>\$ 687,086,291</b>	<b>\$ 660,559,083</b>	<b>\$ 581,354,957</b>	<b>\$ 571,744,362</b>

2008	2007	2006	2005	2004	2003
\$ 788,240,087	\$ 659,478,760	\$ 587,513,767	\$ 546,106,804	\$ 425,394,453	\$ 392,085,280
163,916,252	141,670,202	121,458,717	117,254,334	95,603,970	81,365,264
<b>\$ 952,156,339</b>	<b>\$ 801,148,962</b>	<b>\$ 708,972,484</b>	<b>\$ 663,361,138</b>	<b>\$ 520,998,423</b>	<b>\$ 473,450,544</b>

2012

OPERATING INFORMATION

**Average Benefit Payments**

PENSION TRUST FUND  
Last Ten Fiscal Years

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
9-1-02 to 8-31-03						
Average Monthly Benefit *	\$ 267	\$ 502	\$ 970	\$ 1,477	\$ 2,223	\$ 3,047
Average Final Average Salary	\$23,444	\$26,808	\$ 31,814	\$ 37,452	\$ 46,434	\$ 53,748
Number of Retirees	1,503	1,636	2,157	3,790	6,001	5,085
9-1-03 to 8-31-04						
Average Monthly Benefit *	\$ 270	\$ 482	\$ 984	\$ 1,499	\$ 2,183	\$ 3,040
Average Final Average Salary	\$23,472	\$26,777	\$ 32,460	\$ 38,613	\$ 46,745	\$ 54,523
Number of Retirees	1,795	2,278	3,089	5,670	7,998	6,254
9-1-04 to 8-31-05						
Average Monthly Benefit *	\$ 273	\$ 535	\$ 1,059	\$ 1,603	\$ 2,333	\$ 3,270
Average Final Average Salary	\$24,774	\$28,314	\$ 35,336	\$ 41,197	\$ 49,440	\$ 58,158
Number of Retirees	1,410	1,227	1,427	2,073	3,172	2,490
9-1-05 to 8-31-06						
Average Monthly Benefit *	\$ 280	\$ 581	\$ 1,096	\$ 1,633	\$ 2,340	\$ 3,313
Average Final Average Salary	\$25,456	\$30,647	\$ 36,767	\$ 42,297	\$ 49,650	\$ 58,987
Number of Retirees	1,494	1,129	1,578	2,483	3,332	2,700
9-1-06 to 8-31-07						
Average Monthly Benefit *	\$ 310	\$ 600	\$ 1,119	\$ 1,698	\$ 2,425	\$ 3,456
Average Final Average Salary	\$27,448	\$31,601	\$ 37,444	\$ 44,120	\$ 51,683	\$ 61,113
Number of Retirees	1,575	1,183	1,554	2,626	3,290	2,834
9-1-07 to 8-31-08						
Average Monthly Benefit *	\$ 314	\$ 620	\$ 1,151	\$ 1,757	\$ 2,535	\$ 3,509
Average Final Average Salary	\$27,891	\$32,392	\$ 38,417	\$ 45,578	\$ 53,611	\$ 61,845
Number of Retirees	1,532	1,282	1,902	2,941	3,754	3,332
9-1-08 to 8-31-09						
Average Monthly Benefit *	\$ 350	\$ 657	\$ 1,217	\$ 1,770	\$ 2,610	\$ 3,628
Average Final Average Salary	\$29,740	\$33,088	\$ 40,360	\$ 45,648	\$ 54,740	\$ 63,063
Number of Retirees	1,464	1,377	1,918	2,877	3,361	3,229
9-1-09 to 8-31-10						
Average Monthly Benefit *	\$ 363	\$ 670	\$ 1,225	\$ 1,837	\$ 2,636	\$ 3,729
Average Final Average Salary	\$30,285	\$34,358	\$ 40,460	\$ 47,301	\$ 55,172	\$ 64,233
Number of Retirees	1,676	1,605	2,238	3,517	3,825	4,187
9-1-10 to 8-31-11						
Average Monthly Benefit *	\$ 389	\$ 710	\$ 1,263	\$ 1,867	\$ 2,664	\$ 3,766
Average Final Average Salary	\$32,148	\$35,615	\$ 42,114	\$ 48,184	\$ 55,203	\$ 64,938
Number of Retirees	2,093	2,046	2,875	4,544	4,988	6,393
9-1-11 to 8-31-12						
Average Monthly Benefit *	\$ 389	\$ 717	\$ 1,292	\$ 1,919	\$ 2,780	\$ 3,851
Average Final Average Salary	\$32,026	\$36,039	\$ 42,813	\$ 49,231	\$ 56,705	\$ 66,224
Number of Retirees	1,861	1,955	2,522	3,852	3,971	4,759

\* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$427.9, \$696.2, \$288.1, \$313.4, \$325.7, \$363.7, \$348.3, \$385.6, \$524.9 and \$501.2 million in fiscal years 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012 respectively.

2012

## OPERATING INFORMATION

**Average Health Care Claims**TRS-CARE  
Last Ten Fiscal Years

<b>2012</b>		
Average Claims Per Participant	\$	5,115
Health Care Claims	\$	1,142,131,410
Average Participants		223,287
<b>2011</b>		
Average Claims Per Participant	\$	4,718
Health Care Claims	\$	992,478,380
Average Participants		210,353
<b>2010</b>		
Average Claims Per Participant	\$	4,790
Health Care Claims	\$	971,356,805
Average Participants		202,778
<b>2009</b>		
Average Claims Per Participant	\$	4,464
Health Care Claims	\$	885,132,865
Average Participants		198,282
<b>2008</b>		
Average Claims Per Participant	\$	4,302
Health Care Claims	\$	833,509,538
Average Participants		193,733
<b>2007</b>		
Average Claims Per Participant	\$	3,891
Health Care Claims	\$	742,293,147
Average Participants		190,748
<b>2006</b>		
Average Claims Per Participant	\$	3,659
Health Care Claims	\$	687,086,291
Average Participants		187,804
<b>2005</b>		
Average Claims Per Participant	\$	3,563
Health Care Claims	\$	660,559,083
Average Participants		185,391
<b>2004</b>		
Average Claims Per Participant	\$	3,435
Health Care Claims	\$	581,354,957
Average Participants		169,265
<b>2003</b>		
Average Claims Per Participant	\$	3,698
Health Care Claims	\$	571,744,362
Average Participants		154,596

**Average Health Care Claims**TRS-ACTIVECARE  
Last Ten Fiscal Years

<b>2012</b>		
Average Claims Per Participant	\$	3,868
Health Care Claims	\$	1,718,903,645
Average Participants		444,382
<b>2011</b>		
Average Claims Per Participant	\$	3,662
Health Care Claims	\$	1,510,090,981
Average Participants		412,385
<b>2010</b>		
Average Claims Per Participant	\$	3,509
Health Care Claims	\$	1,313,114,197
Average Participants		374,201
<b>2009</b>		
Average Claims Per Participant	\$	3,324
Health Care Claims	\$	1,122,646,958
Average Participants		337,781
<b>2008</b>		
Average Claims Per Participant	\$	3,060
Health Care Claims	\$	952,156,339
Average Participants		311,200
<b>2007</b>		
Average Claims Per Participant	\$	2,835
Health Care Claims	\$	801,148,962
Average Participants		282,639
<b>2006</b>		
Average Claims Per Participant	\$	2,745
Health Care Claims	\$	708,972,484
Average Participants		258,301
<b>2005</b>		
Average Claims Per Participant	\$	2,714
Health Care Claims	\$	663,361,138
Average Participants		244,405
<b>2004</b>		
Average Claims Per Participant	\$	2,357
Health Care Claims	\$	520,998,423
Average Participants		221,024
<b>2003</b>		
Average Claims Per Participant	\$	2,616
Health Care Claims	\$	473,450,544
Average Participants		180,966



**OPERATING INFORMATION**

**Retired Members by Type of Benefit**

PENSION TRUST FUND  
As of August 31, 2012

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement <sup>a</sup>						
		1	2	3	4	5	6	7
\$ 1 - 200	13,503	5,118	6,759	315	1,205	54	37	15
\$ 201 - 400	35,293	8,928	11,939	656	1,971	1,041	818	9,940
\$ 401 - 600	22,653	10,326	8,469	1,362	1,938	298	260	0
\$ 601 - 800	20,180	11,395	5,199	1,350	1,613	352	271	0
\$ 801 - 1,000	19,243	12,581	3,554	1,067	1,464	370	207	0
\$ 1,001 - 1,200	16,877	11,819	2,556	795	1,260	293	154	0
\$ 1,201 - 1,400	14,587	10,053	2,287	662	1,230	233	122	0
\$ 1,401 - 1,600	15,365	10,575	2,706	601	1,141	249	93	0
\$ 1,601 - 1,800	15,689	11,294	2,588	528	959	232	88	0
\$ 1,801 - 2,000	16,652	12,767	2,334	428	828	242	53	0
\$ over 2,000	141,705	124,781	8,516	1,303	5,748	1,258	99	0
<b>Totals</b>	<b>331,747</b>	<b>229,637</b>	<b>56,907</b>	<b>9,067</b>	<b>19,357</b>	<b>4,622</b>	<b>2,202</b>	<b>9,955</b>

<sup>a</sup>Type of Retirement:

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

**Health Care Claims by Benefit Range**

TRS-CARE  
As of August 31, 2012

Benefit Range	Average Participants
\$ 0	26,162
\$ 1 - 5,000	142,725
\$ 5,001 - 10,000	32,097
\$ 10,001 - 20,000	13,085
\$ 20,001 - 30,000	3,367
\$ 30,001 - 40,000	1,620
\$ 40,001 - 50,000	1,076
\$ 50,001 - 100,000	1,945
\$ over 100,000	1,210
<b>Total</b>	<b>223,287</b>

**Health Care Claims by Benefit Range**

TRS-ACTIVECARE  
As of August 31, 2012

Benefit Range	Average Participants
\$ 0	50,924
\$ 1 - 5,000	331,759
\$ 5,001 - 10,000	30,107
\$ 10,001 - 20,000	16,045
\$ 20,001 - 30,000	5,641
\$ 30,001 - 40,000	2,872
\$ 40,001 - 50,000	1,807
\$ 50,001 - 100,000	3,336
\$ over 100,000	1,891
<b>Total</b>	<b>444,382</b>

**OPERATING INFORMATION**

Option Selected <sup>b</sup>					
1	2	3	4	5	6
6,129	4,679	1,151	468	1,025	51
11,264	7,568	2,224	987	1,838	11,412
10,837	6,614	2,521	1,003	1,678	0
9,339	5,936	2,692	959	1,254	0
8,883	5,415	2,856	924	1,165	0
7,225	5,200	2,728	747	977	0
5,723	4,922	2,528	599	815	0
5,918	5,273	2,623	656	895	0
6,016	5,453	2,681	615	924	0
6,062	5,885	3,066	618	1,021	0
50,538	51,993	27,030	4,606	7,538	0
127,934	108,938	52,100	12,182	19,130	11,463

<sup>b</sup>Option Selected:

Option 1 - Life Annuity

Option 2 - Joint to Survivor

Option 3 - Joint to Survivor 50% / Joint to Survivor 75%

Option 4 - 5-Year Guarantee

Option 5 - 10-Year Guarantee

Option 6 - Survivor Benefit

2012

**OPERATING INFORMATION**

**Principal Participating Reporting Entities**

PENSION TRUST FUND  
Current Fiscal Year and Nine Years Ago

Participating Reporting Entity	2012			2003		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	22,316	1	2.81%	25,158	1	3.61%
Dallas ISD	18,456	2	2.32	19,517	2	2.80
UT MD Anderson Cancer Center	16,886	3	2.13	11,117	3	1.59
Cypress Fairbanks ISD	12,863	4	1.62	9,571	8	1.37
Northside ISD	12,269	5	1.55	9,738	7	1.40
Austin ISD	11,909	6	1.50	10,670	4	1.53
Fort Worth ISD	10,962	7	1.38	10,439	5	1.50
UT at Austin	10,176	8	1.28	8,906	10	1.28
UT Medical Branch at Galveston	8,893	9	1.12	10,155	6	1.45
UT Southwest Medical Center - Dallas	8,852	10	1.11			
El Paso ISD				8,944	9	1.28
All other	660,241		83.18	573,390		82.19
<b>Total</b>	<b>793,823</b>		<b>100.00%</b>	<b>697,605</b>		<b>100.00%</b>

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

2012

**OPERATING INFORMATION**

***Principal Participating Reporting Entities***

TRS-CARE  
Current Fiscal Year and Nine Years Ago

Participating Reporting Entity	2012			2003		
	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment
Houston ISD	22,316	1	3.41%	25,158	1	4.28%
Dallas ISD	18,456	2	2.82	19,517	2	3.32
Cypress Fairbanks ISD	12,863	3	1.96	9,571	6	1.63
Northside ISD	12,269	4	1.87	9,738	5	1.66
Austin ISD	11,909	5	1.82	10,670	3	1.82
Fort Worth ISD	10,962	6	1.67	10,439	4	1.78
North East ISD	8,805	7	1.34			
El Paso ISD	8,479	8	1.30	8,944	7	1.52
Aldine ISD	8,093	9	1.24	7,904	9	1.35
Arlington ISD	7,730	10	1.18	7,550	10	1.28
San Antonio ISD				7,959	8	1.35
All other	532,960		81.39	470,114		80.01
<b>Total</b>	<b>654,842</b>		<b>100.00%</b>	<b>587,564</b>		<b>100.00%</b>

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

## Listing of Participating Reporting Entities

### COMMUNITY AND JUNIOR COLLEGES

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

### UNIVERSITIES

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

Texas A & M Eng Exp Station  
 Texas A & M Eng Ext Service  
 Texas A & M Forest Service  
 Texas A & M International Univ  
 Texas A & M Transportation Inst  
 Texas A & M U System Office  
 Texas A & M U-Central Texas  
 (Killeen)  
 Texas A & M U-Commerce  
 Texas A & M U-Corpus Christi  
 Texas A & M U-Kingsville  
 Texas A & M U-San Antonio  
 Texas A & M U-Texarkana  
 Texas A & M University  
 Texas Southern University  
 Texas State Univ-San Marcos  
 Texas State Univ System  
 Texas Tech University  
 Texas Womans University  
 U H at Houston  
 U of N Texas System Admin  
 U T at Arlington  
 U T at Austin  
 U T at Brownsville  
 U T at Dallas  
 U T at El Paso  
 U T at San Antonio  
 U T at Tyler  
 U T Pan American  
 U T Permian Basin  
 University of North Tx  
 University of North Tx at Dallas  
 West Texas A & M Univ

### MEDICAL SCHOOLS

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

### SCHOOL DISTRICTS

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

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

2012

## Listing of Participating Reporting Entities

(Continued)

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

## Listing of Participating Reporting Entities

(Continued)

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

2012

## Listing of Participating Reporting Entities

(Continued)

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

### REGIONAL SERVICE CENTERS

Region 01 Ed Serv Center  
 Region 02 Ed Serv Center  
 Region 03 Ed Serv Center  
 Region 04 Ed Serv Center  
 Region 05 Ed Serv Center  
 Region 06 Ed Serv Center  
 Region 07 Ed Serv Center  
 Region 08 Ed Serv Center  
 Region 09 Ed Serv Center  
 Region 10 Ed Serv Center  
 Region 11 Ed Serv Center



## Listing of Participating Reporting Entities

(Continued)

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

### CHARTER SCHOOLS

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

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

One Stop Multiservice  
 Orenda Charter School  
 Outreach Word Academy  
 Panola Charter School  
 Paradigm Accelerated Sch  
 Paso Del Norte Academy  
 Peak Preparatory School  
 Pegasus Charter School  
 Phoenix Charter School  
 Pineywoods Academy  
 Por Vida Inc  
 Premier Learning Academy  
 Radiance Acad of Learning  
 Ranch Academy  
 Rapoport Academy  
 Raul Yzaguirre School  
 Reconciliation Scholar's Academy  
 Responsive Education Solutions  
 Richard Milburn - Amarillo  
 Richard Milburn - Corpus Christi  
 Richard Milburn - Fort Worth  
 Richard Milburn - Houston  
 Richard Milburn - Killeen  
 Richard Milburn - Odessa  
 Ripley House Charter School  
 Rise Academy  
 S T A R Charter School  
 San Antonio Prep Academy  
 San Antonio Sch Inquiry  
 San Antonio Tech Academy  
 School of Excellence  
 School of Science & TECH-Discovery -  
 San Antonio  
 School of Science & Technology -  
 San Antonio  
 Seashore Learning Ctr  
 Seashore Middle Academy  
 Ser-Ninos  
 Shekinah Radiance Academy  
 South Plains Academy  
 Southwest High School  
 Southwest Preparatory Sch  
 St. Anthony School  
 St. Mary's Charter School  
 Stepping Stones Charter Elementary  
 Summit International Preparatory  
 Technology Education Chtr  
 T E K O A Academy  
 Texas Empowerment Academy  
 Texas Preparatory School  
 Texas Serenity Academy  
 The East Austin College Prep Academy  
 The Education Center  
 The Ehrhart School  
 The Encino School  
 The North Hills School  
 The Rhodes School  
 TLC Academy - San Angelo  
 T O V A S  
 Transformative Charter  
 Treetops International  
 Trinity Basin Preparatory  
 Trinity Charter School  
 Two Dimensions Prep Acad  
 Ume Preparatory Academy  
 Universal Academy  
 Vanguard Academy  
 Varnett Charter School  
 Victory Prep Academy  
 Vista del Futuro Charter School  
 Waco Charter School  
 Walipp Academy

West Houston Charter  
 Westlake Academy  
 Williams Preparatory  
 Winfree Academy Charter Schools  
 Yes Preparatory Public Schools  
 Zoe Learning Academy

### OTHER EDUCATIONAL DISTRICTS

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

### OTHER ENTITIES

Teacher Retirement System  
 Texas Education Agency



# Benefits Section

**“It certainly has stood the test of time. It’s had lots of struggles, but it’s always come out on top, and we’ve always been able to depend on it, and that’s the most important thing of all. It’s something that you know is safe, and secure, and will be there for you tomorrow, as it is today.”**

**Lohma Davis, Retired Teacher**



## Changes in the Law

**STATE:** The Legislature did not meet in fiscal 2012. No noteworthy state law developments occurred during the fiscal year.

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

### INVESTMENTS

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

**Business Conduct Rules** - The Commodities Futures Trading Commission (CFTC) adopted rules under the Commodities Exchange Act imposing new suitability requirements on public pension plans using swaps. Under the rules, public pension plans are defined as “special entities.” Special entities are required to designate “Qualified Independent Representatives” who are qualified and exercise independent judgment when trading swaps or evaluating swaps recommendations by counterparties. TRS is implementing the Business Conduct Rules.

**Other Dodd – Frank Rules** - The CFTC and the Securities Exchange Commission (SEC) issued numerous proposed and final rules under the Dodd – Frank legislation. TRS anticipates it will be affected primarily by the rules relating to derivatives. Proposed or announced rules relating to swaps definitions, reporting, clearing, customer collateral for cleared swaps, dealer registration, and foreign jurisdictions will affect how entities such as TRS interact with markets, futures clearing merchants, and counterparties. Some swaps will be subject to mandatory clearing. Rules affecting futures clearing merchants and clearing entities will flow through to users of options, futures, and swaps, including TRS and similar entities. On August 13, 2012, the CFTC and the SEC published a swaps definition in the Federal Register. TRS continues to monitor the rulemaking process.

### BENEFITS

#### Healthcare

**Federal Patient Protection and Affordable Care Act of 2010 (PPACA)** - The U.S. Supreme Court upheld the constitutionality of the PPACA. The court considered two aspects of the law – the individual mandate requiring Americans to buy health insurance or pay a penalty, which was upheld in its entirety, and the expansion of the Medicaid program, which was upheld but narrowed. The court ruled that the individual mandate is unconstitutional under the Constitution’s commerce clause, but is constitutional as part of Congress’ power to levy taxes. The court said that the government will be allowed to tax people for not having health insurance.

During fiscal year 2012, TRS continued to monitor the regulations issued with regard to the PPACA and implemented various provisions of the PPACA that impact the health

benefit plans administered by TRS. Four significant areas of implementation were: (1) TRS-Care and TRS-ActiveCare no longer are permitted to “opt out” of the special enrollment provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA); (2) TRS-ActiveCare is required to extend dependent coverage for adult children to age 26; (3) TRS-ActiveCare is required to provide first dollar coverage, without any cost sharing requirements, for preventive health services; and (4) TRS-ActiveCare is required to have an internal appeals process, followed by an external review process involving independent review organizations.

#### Tax Laws, Regulations, and Guidance

**Normal Retirement Age Regulations** - In April 2012, the Internal Revenue Service (IRS) issued Notice 2012-29 to indicate that the IRS and the U.S. Treasury Department intend to issue guidance regarding the applicability to governmental plans of regulations concerning pension distributions upon attainment of “normal retirement age” (NRA). The guidance is expected to extend the date by which governmental plans must comply with the final regulations. The IRS and the U.S. Treasury Department intend to clarify that a governmental plan that does not allow “in-service” distributions before age 62 is not required to define NRA in accordance with the final regulations. The IRS and the U.S. Treasury Department also intend to provide that the rule that deems age 50 or later to be NRA for qualified public safety employees will apply regardless of whether those employees are covered by a separate plan. TRS continues to monitor developments with respect to the anticipated federal regulation changes. Amendments to state laws or rules may be required for TRS to comply with the revised final regulations as of September 1, 2015, when the federal regulations are anticipated to be effective for TRS.

**Advance Notice of Proposed Rulemaking Regarding the Determination of Governmental Plan Status** - In November 2011, the IRS issued advance notice of proposed rulemaking to indicate that the IRS and the U.S. Treasury Department intend to issue regulations to define the term “governmental plan” under Section 414(d) of the Internal Revenue Code. The preliminary guidance defines a “governmental plan” as “a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of the foregoing.” The preliminary guidance appears to require Texas public educational institutions to qualify as an agency or instrumentality of a State as defined

## Changes in the Law

in the preliminary guidance in order for their employees to participate in TRS without jeopardizing TRS' governmental plan status. In addition, the preliminary guidance could be interpreted to require a governmental plan to cover only employees of the governmental entity that established and maintains the plan. Under the preliminary guidance, TRS is concerned that certain Texas public educational institutions could be ineligible to participate in TRS. The IRS received hundreds of comments from governmental plans about how the draft proposed regulations contained in the preliminary guidance would negatively impact their members. TRS provided formal comments to the IRS detailing concerns with the preliminary guidance that could create plan administration issues for TRS, which would place additional burdens on TRS resources, add complexity to the administration of TRS, and introduce significant uncertainty about the status of certain employers and their employees. To date, the IRS has not issued additional guidance to address plan concerns. TRS continues to monitor developments. In the absence of changes to the preliminary guidance when the final regulations are issued, TRS could be required to obtain state law amendments to its plan in order to comply with the federal regulations and preserve TRS' governmental plan status.

**Repeal of the Vendor Tax Withholding Regulations** - In November 2011, President Obama signed the Three Percent Withholding Repeal and Job Creation Act ("3% WRJCA", Public Law 112-56). Section 102 of the 3% WRJCA repealed the requirement imposed pursuant to Section 3402(t) of the Internal Revenue Code, which was added by the Tax Increase Prevention and Reconciliation Act of 2005 (Public Law 109-222), for governmental entities to withhold three percent of any payment made to any person providing any property or services.

## Summary of Benefits

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

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

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

### RETIREMENT PLAN BENEFITS

This summary of benefits is based on statutory provisions of the plan effective for FY 2012.

The major retirement plan benefits are:

#### SERVICE RETIREMENT

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

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

For grandfathered members who re-enter TRS on or after September 1, 2007, age 65 with at least five years of credited service, or age 55 with at least 20 years of credited service and the sum of member's age and years of credited service equals or exceeds 80.

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

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

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

Early Retirement Eligibility - Age 55 with at least five years of credited service, or any age below 50 with 30 or more years of credited service, provided the sum of the member's age and years of credited service is less than 80 for members who established membership before September 1, 2007 and maintained membership until retirement.

Age 55 with at least five years of credited service, the sum of the member's age and years of credited service equals or exceeds 80 but less than age 60, or 30 years of credited service but less than age 60 for members who established TRS membership on or after September 1, 2007.

For grandfathered members who re-enter TRS on or after September 1, 2007, age 55 with at least five years of credited service, the sum of the member's age and years of credited service equals or exceeds 80 but less than age 55, or 30 years of credited service but less than age 50.

Early Retirement Benefit - The standard annuity calculated under the benefit formula (or the minimum benefit, if applicable) reduced for early retirement. The amount of the reduction varies depending on age, years of service credit, and whether a member is grandfathered. The date a member joined TRS (before September 1, 2007, or on or after September 1, 2007), also can determine whether the standard annuity will be reduced for early age retirement.

#### DISABILITY RETIREMENT

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

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

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

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

## Summary of Benefits

### ANNUITY PAYMENT OPTIONS

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

### THE POP-UP PROVISION

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

### PARTIAL LUMP SUM OPTION

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

Members may participate in the PLSO if they are eligible for service retirement, meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the Deferred Retirement Option Plan (DROP), and are not retiring with disability retirement benefits. Grandfathered members may elect PLSO at retirement if they are eligible for normal age service retirement, are not participating in DROP, and are not retiring with disability retirement benefits. Members retiring under the proportionate retirement program are not eligible to elect the PLSO.

Partial lump sum distributions equal to 12, 24, or 36 months of a standard service retirement annuity may be selected. When a member selects this option, the monthly annuity is actuarially reduced to reflect the lump sum distribution. Flexible distribution options are available, including rollovers to another eligible retirement plan.

### DEFERRED RETIREMENT OPTION PLAN

The Deferred Retirement Option Plan (DROP), which is closed to new participants, is a preretirement benefit provision for active members who are eligible for normal age service retirement and have at least 25 years of credited service.

Members who elected to participate in DROP (before enrollment was closed effective December 31, 2005) chose to freeze their salary amounts and service credit used to calculate their retirement benefits and to have a portion of the standard annuity amount deposited into a DROP account while continuing to work for a TRS-covered employer. Interest

on DROP accounts is credited at the rate of five percent per annum. Members are not considered to be retired while participating in DROP.

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

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

### MINIMUM SERVICE CREDIT REQUIRED FOR SERVICE RETIREMENT BENEFITS

Under current law, a member who has completed at least five years of credited service has earned a right to service retirement benefits after reaching eligible retirement age, provided that the member's accumulated contributions are not withdrawn from the system. An eligible member must apply for benefits and meet other requirements, such as termination of Texas public education employment, in order to begin receiving benefits.

### DEATH AND SURVIVOR BENEFITS

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

1. A lump sum payment equal to twice the member's annual compensation or \$80,000, whichever is less.
2. Sixty monthly payments equal to the member's standard annuity without reduction for early age, provided the member had at least five years of service credit at the time of death.
3. For a sole beneficiary, lifetime payments equal to a 100 percent joint and survivor annuity, provided the member had at least five years of service credit subject to any reduction applicable for early age.

## Summary of Benefits

4. An amount equal to a return of the member's contributions with accumulated interest.

5. Survivor benefits of \$2,500 lump sum payment plus a monthly benefit. For example, \$350 per month to a beneficiary spouse with minor children, continuing until the youngest child reaches age 18. At age 65, the spouse would begin receiving \$250 per month for life.

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

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

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

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

### GRANDFATHERED PROVISIONS

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

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

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

- **Final Average Salary** at retirement will be determined by the highest three years (instead of five years) of salary.

- **Preservation of certain retirement reduction factors** means that members age 55 or older with 20 to 24 years of credited service who take early retirement will receive a lesser reduction to their annuities than those members who are not grandfathered.

- **Partial Lump Sum Option** eligibility will require either age 65 with at least five years of service credit, or a combined age plus years of credited service that equals at least 80 ("Rule of 80") instead of 90.

## HEALTH BENEFITS

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

### HEALTH BENEFITS FOR ACTIVE PUBLIC SCHOOL EMPLOYEES

TRS-ActiveCare, the statewide health benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS, went into effect on September 1, 2002. The program initially addressed the most critical areas of the state with regard to availability and affordability of health benefits for public school employees and therefore focused on smaller districts. The program has now been expanded to include larger school districts and 1,119 entities participated in the program in fiscal year 2012. Employees of participating entities can choose from four preferred provider organization plans, and employees of certain areas also have the option of choosing coverage under a health maintenance organization.

### RETIREE HEALTH COVERAGE

The program under the Texas Public School Retired Employees Group Benefits Act, known as TRS-Care, makes available a basic level of health coverage without cost to eligible TRS public school retirees. Eligible retirees and their eligible dependents may pay premiums and participate in one of two plans of more comprehensive benefits and coverage. For information on TRS-Care eligibility, please refer to the TRS website.

### LONG-TERM CARE INSURANCE PROGRAM

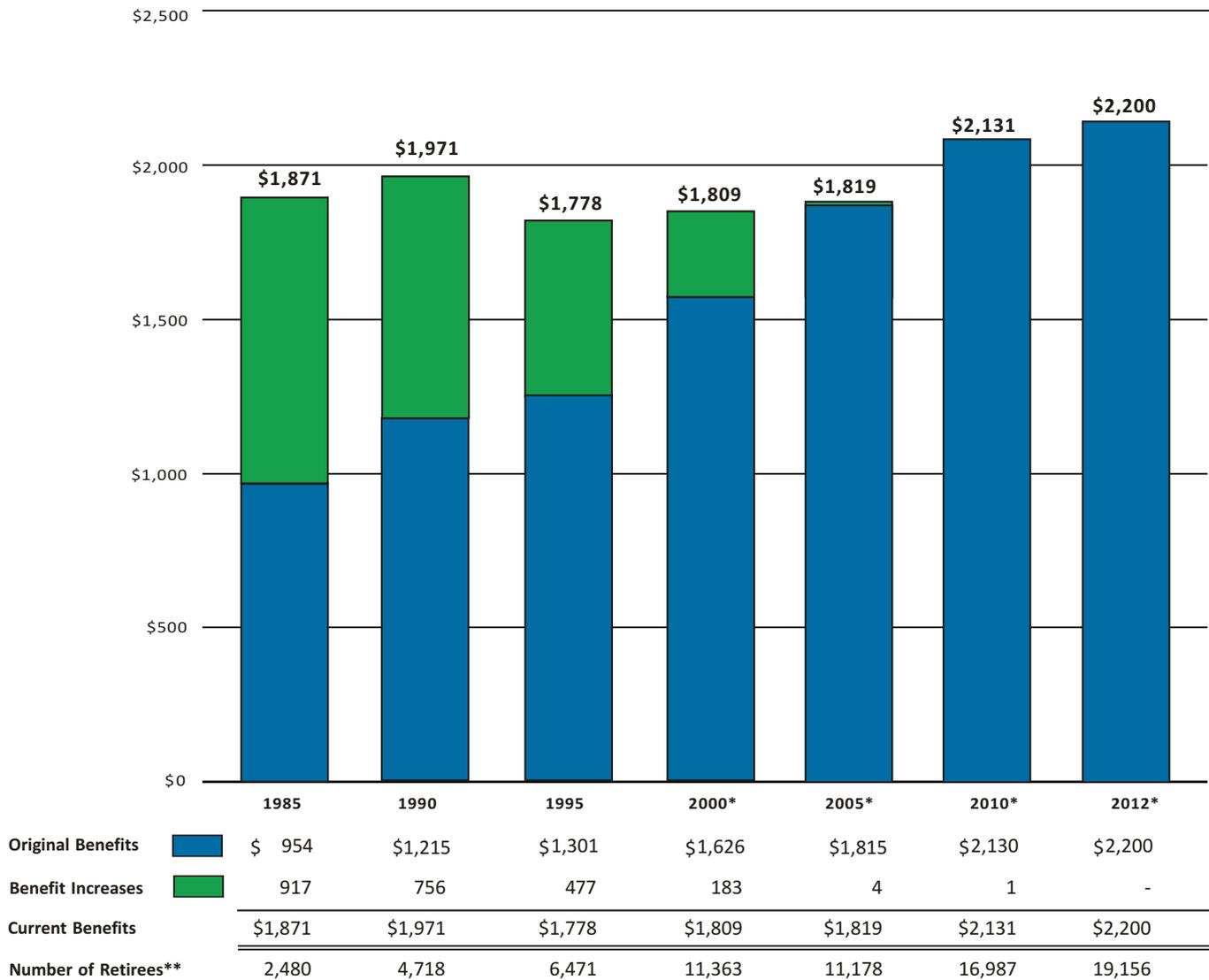
Eligible active and retired members, their dependents, and certain other family members may participate in the TRS long-term care insurance program. The plan pays benefits if the participant becomes unable to perform at least two activities of daily living without substantial assistance from another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



## Average Monthly Benefit

### Current Average Monthly Benefit by Year of Retirement

Service Retiree Accounts as of August 31, 2012



\* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,760, \$1,984, \$2,305 and \$2,360 for fiscal years 2000, 2005, 2010 and 2012, respectively.

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



## Growth of the System

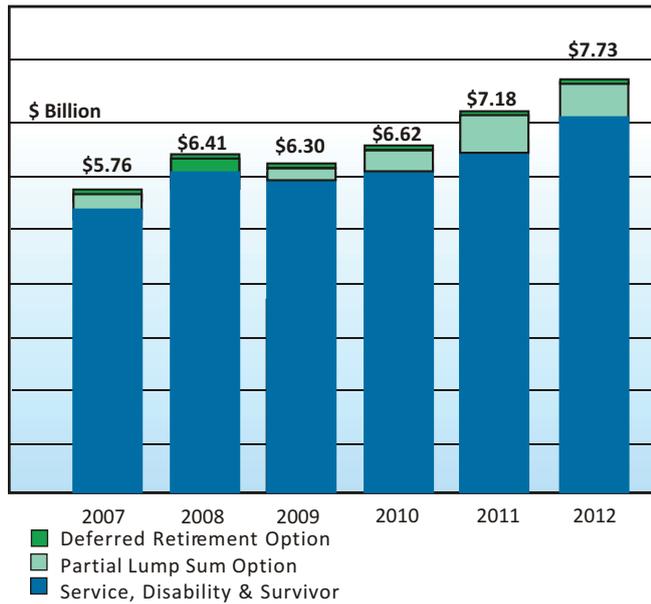
Benefit payments during fiscal year 2012 totaled approximately \$7.73 billion, an increase of \$551 million from the previous year. As of August 2012, the monthly annuity payroll had grown to \$605 million, and TRS was paying benefits to 331,747 recipients.

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

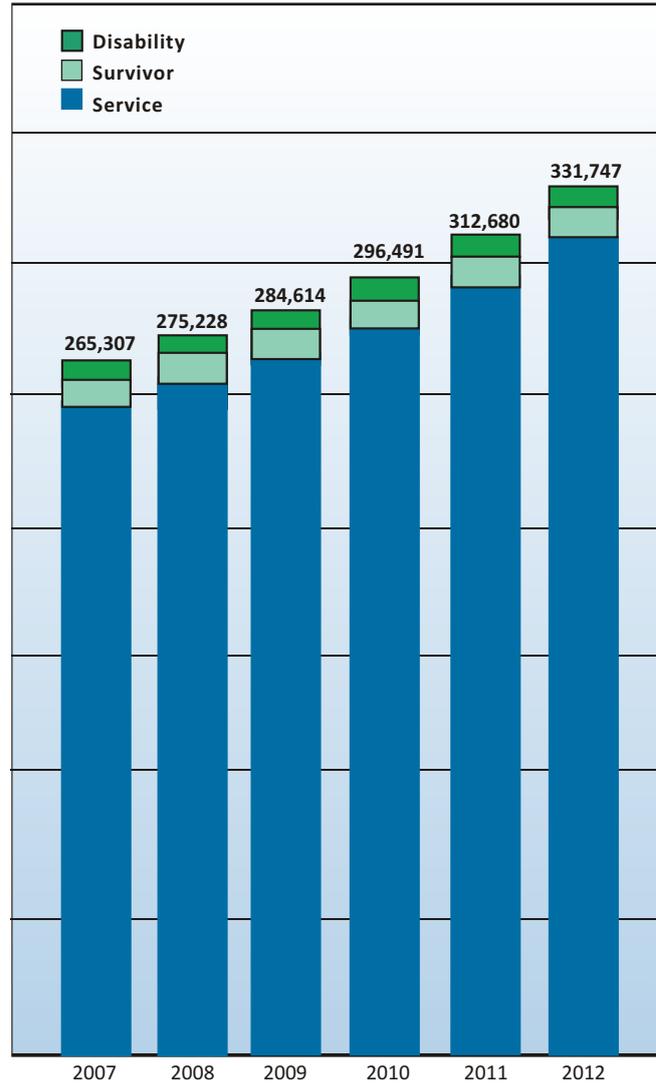
benefits. The number of retiree accounts increased by 19,067 during fiscal year 2012.

Of the current TRS member accounts, 830,312 (active contributing and deferred retirement option participants) were employed during fiscal year 2012 and made contributions to the system. The remaining 173,343 members are no longer employed by TRS-covered employers but have maintained their membership in TRS by leaving their contributions with the system. The number of current member accounts decreased by 231 during fiscal year 2012.

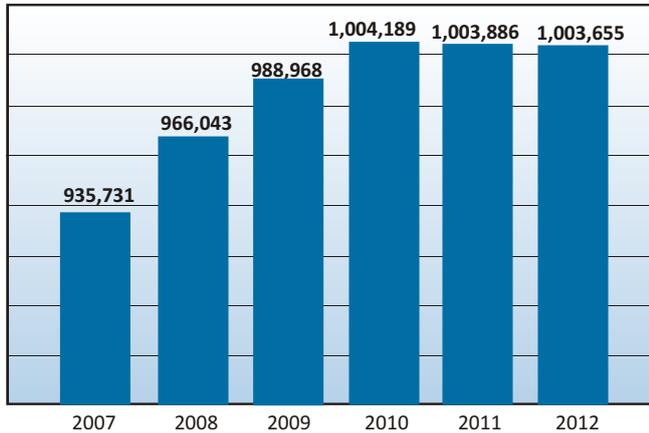
**Benefit Payments**



**Annuities**



**Member Accounts**





**1937 - 2012**

**Dedicated to teachers and public education employees who through their unique service have opened and stimulated inquiring minds and have nurtured and perpetuated our civilization through the lives of generations of students who have led and continue to lead the State of Texas toward ever higher and more worthy goals - through education, the basis for all progress.**

**-Charles Umlauf, Sculptor, 1989-**



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Austin, Texas 78701-2698**

**(512) 542-6400  
1-800-223-8778**

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