

# Teacher Retirement System of Texas

2014

Comprehensive  
Annual  
Financial  
Report



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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, 2014**

Brian K. Guthrie, Executive Director

Prepared by  
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## Table of Contents

### INTRODUCTORY SECTION

Board of Trustees .....	3
Professional Awards .....	4
Letter of Transmittal .....	6
Organization Chart .....	10
Staff and Advisors .....	11
Membership .....	12
Communications .....	13

### FINANCIAL SECTION

Independent Auditor's Report .....	19
Management's Discussion and Analysis .....	23
Basic Financial Statements	
Exhibit I - Statement of Fiduciary Net Position .....	36
Exhibit II - Statement of Changes in Fiduciary Net Position .....	40
Exhibit III - Statement of Net Position - Proprietary Funds .....	44
Exhibit IV - Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds .....	46
Exhibit V - Statement of Cash Flows - Proprietary Funds .....	48
Notes to the Financial Statements .....	50
Required Supplementary Information .....	86
Exhibit A - Statement of Changes in Assets and Liabilities - Agency Funds .....	92
Supporting Schedules	
Schedule 1 - Comparative Schedule of Changes in Account Balance - Pension Trust Fund	
Interest Account .....	94
Member Savings Account .....	95
State Contribution Account .....	96
Retired Reserve Account .....	97
Deferred Retirement Option Account .....	98
Expense Account .....	99
Schedule 2 - Schedule of Administrative Expenses .....	100
Schedule 3 - Comparative Schedule of Investing Activity Expenses - Pension Trust Fund .....	102
Schedule 4 - Schedule of Professional and Consulting Fees .....	103

### INVESTMENT SECTION

Investment Overview .....	106
Total Time-Weighted Returns .....	108
Asset Allocation - August 31, 2014 .....	111
Investment Summary .....	112
Largest Holdings .....	114
Schedule of Fees and Commissions .....	116

### ACTUARIAL SECTION

Pension Trust Fund	
Actuarial Peer Review Audit Letter .....	140
Actuary's Certification Letter .....	143
Actuarial Present Value of Future Benefits .....	148
Actuarial Methods and Assumptions .....	149
TRS-Care	
Actuary's Certification Letter .....	157
Actuarial Present Value of Future Benefits .....	159
Actuarial Methods and Assumptions .....	159

### STATISTICAL SECTION

Statistical Section Overview .....	165
Financial Trends Information	
Ten-Year Summary Changes in Fiduciary Net Position and Revenues, Expenses, and Changes in Fund Net Position .....	166
Benefit and Refund Deductions from Net Position by Type and Benefit Deductions from Net Position by Type .....	174
Operating Information	
Average Benefit Payments .....	176
Retired Members by Type of Benefit and Health Benefit Payments by Range .....	178
Principal Participating Employers .....	180
List of Participating Employers .....	182

### BENEFITS SECTION

Changes in the Law .....	196
Summary of Benefits .....	198
Average Monthly Benefits .....	204
Growth of the System .....	205

*“Our values represent a mutual understanding about responsibilities, expectations and communication in the way we treat each other and those we serve.”*

# TRS Core Values Hall of Fame

Below are TRS employees selected for exemplifying TRS Core Values in their respective areas. The following TRS employees exemplify the highest level of TRS Core Values in action:

**Back row, left to right:** Mark Browning (Excellence), Will Burgess (Ethics), Bruce Hunt (Customer Satisfaction), John Dobrich (Ethics). **Front row, left to right:** Nancy Dennis (Respect), Martha Rivera (Collaboration and Teamwork), Karen Morris, (Accountability)

**Back row, left to right:** Tim Wei (Customer Satisfaction), Jay LeBlanc (Respect), Mike Pia (Accountability), Brian Zunker (Customer Satisfaction). **Front row, left to right:** Maribel Nesuda (Excellence), Averi Mullins (Collaboration and Teamwork), Dinah Arce (Ethics)



INTRODUCTORY Section



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## Board of Trustees



### R. David Kelly, Chair

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



### Nanette Sissney Vice Chair

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



### Todd Barth

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



### Karen Charleston

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



### Joe Colonna

Private Investor  
Dallas  
Direct appointment of the governor  
Term expires 2019



### David Corpus

Senior Vice President  
CommunityBank of Texas, Humble  
Position nominated by the  
State Board of Education  
Term expires 2019



### Christopher Moss

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



### Anita Palmer

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



### Dolores Ramirez

Teacher  
San Benito CISD, San Benito  
Active public education position  
Term expires 2019

*For information on the board election process, please refer to Note 1 in the Financial Section.*



***Professional Awards***



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Teachers Retirement System  
of Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2013**

Executive Director/CEO





## ***Professional Awards***



Public Pension Coordinating Council

### ***Recognition Award for Administration 2013***

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)

Alan H. Winkle  
Program Administrator



## ***Letter of Transmittal***

November 17, 2014

The Honorable Rick Perry

The Honorable David Dewhurst

The Honorable Joe Straus

The Board of Trustees and Members  
of the Teacher Retirement System

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

On behalf of the board of trustees, I am pleased to present the *Comprehensive Annual Financial Report (CAFR)* of the Teacher Retirement System of Texas (TRS or System) for the fiscal year ended August 31, 2014, the System's 77th year of operation. During the past fiscal year, the System experienced modest growth as membership grew to approximately 1,414,607 participants. The pension trust fund continued to rebound from the stock market decline of 2008-2009 ending the 2014 fiscal year with a net position of \$132.8 billion compared to \$117.4 billion at the close of the 2013 fiscal year. Those market returns, in conjunction with contribution increases and benefit changes approved by the 83rd Texas Legislature, will allow TRS to provide secure benefits for current and future retirees.

### **MANAGEMENT RESPONSIBILITY**

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

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TRS the Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report* for the previous fiscal year. To be awarded the certificate, a report must meet or exceed program standards and must satisfy both generally accepted accounting principles and applicable legal requirements. TRS has received a Certificate of Achievement for the last 24 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



## *Letter of Transmittal*

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, 2014, the total portfolio had a return of 16.9 percent. The TRS Pension Trust Fund finished the year with an investment net value of \$132.2 billion, an increase of \$15.1 billion from fiscal year 2013. For the past 10 years, the time-weighted compound annual return has been 7.7 percent. However, the fund's time-weighted compound annual return for one, three and five years all significantly exceeded the fund's assumed rate of return.

Throughout fiscal year 2014, the Investment Division conducted a strategic asset allocation study and recommended minor changes, all of which were approved at the September 2014 Board of Trustees meeting. Investment risks are diversified over a very broad range of market sectors and securities. TRS' investment strategy is designed to address four different potential market scenarios and has an advantage in each of them by allocating 57 percent to global equities, 22 percent to real return, 16 percent to stable value, and 5 percent for the first time to risk parity. This allocation is designed to minimize downside risk while capturing upside performance in any of the four scenarios. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from future markets.



**Brian K. Guthrie**

### **PENSION PLAN BENEFITS**

For fiscal year 2014, TRS paid pension benefit payments to more than 360,000 retirees and their beneficiaries totaling \$8.5 billion. These benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

### **ACTUARIAL SOUNDNESS OF THE PENSION TRUST FUND**

As of August 31, 2014, the System had a funded ratio of 80.2 percent with an Unfunded Actuarial Accrued Liability of \$31.6 billion. Due to strong investment returns in FY 2014, the system has recognized all of its deferred losses from 2009 and as of August 31, 2014, is deferring gains of \$4.4 billion.

Current contributions are sufficient to amortize the unfunded liability over a period of 29.8 years, which meets the requirements for actuarial soundness. The period of time necessary to amortize the unfunded liability is expected to increase over the next few years before beginning to once again decline. However, it is anticipated to remain a finite number until the pension fund is fully funded.

Actual experience has necessitated adoption of a new mortality assumption that the average life expectancy for members over 65 years of age will increase by roughly nine months over the next four years. The increased liability associated with this assumption change was more than offset by strong investment returns. The System will conduct a full experience study in summer 2015 and examine more closely the long-term mortality assumption at that time.

During the past year, several important legislative changes enacted by the 83<sup>rd</sup> Texas Legislature went into effect. As a result of contribution rates and retirement eligibility changes established through Senate Bill 1458, TRS became "actuarially sound" and gave those who retired on or before August 31, 2004 a three percent cost-of-living increase capped at \$100 per month. The annuity increase, which TRS began paying in October 2013, benefited nearly two-thirds of all TRS retirees and was the first such increase in more than a decade.



## ***Letter of Transmittal***

Legislation increased from 60 to 62 the minimum retirement age for an unreduced annuity for those members who vest in the retirement system on or after September 1, 2014. The legislation also increased contribution rates. It established a stair step increase in the member contribution rate from 6.4 percent in FY 2014 to 7.7 percent in FY 2017, and it increased the state contribution rate from 6.4 percent to 6.8 percent for the current fiscal year. Finally, it established a 1.5 percent contribution rate beginning in FY 2015 for school districts that do not participate in Social Security. These legislative benefit adjustments and contribution increases brought the plan into actuarial soundness.

The interest rate paid to member and DROP accounts was reduced from 5 percent to 2 percent, effective September 1, 2014. The reduced rate will be applied prospectively and will not affect the amount of interest accrued prior to the date of the change.

With pension fund sustainability addressed during the last legislative session, it is anticipated that the focus in the next legislative session will turn to the two health benefits programs administered by the System: TRS-Care and TRS-ActiveCare.

### **RETIREE HEALTH BENEFITS PROGRAM**

TRS 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. TRS-Care also receives additional revenue from the Medicare Part D prescription drug program.

An actuarial valuation for TRS-Care was conducted as of August 31, 2014. The valuation results indicate that TRS-Care has an Unfunded Actuarial Accrued Liability of \$33.2 billion. More detailed information about the valuation results is included in the Notes to the Financial Statements and the Required Supplementary Information.

Based on the current funding formula of 1 percent of public school payroll from the State, .55 percent from the district and .65 percent from the member, TRS-Care is expected to encounter an \$875 million funding shortfall for the FY 16-17 Biennium. TRS is updating the study submitted to the 83<sup>th</sup> Legislature of various options for changes in plan design and other changes that would improve the sustainability of TRS-Care. The study is also being expanded to include TRS-ActiveCare. Options under consideration range from prefunding to a defined contribution arrangement. The options are not mutually exclusive and can potentially be combined to increase the positive financial effect.

### **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 at higher premiums. TRS-ActiveCare covers members currently employed by public education employers that participate in the plan. TRS establishes premiums to pay for the cost of the program. The TRS Board of Trustees approved an additional increase in premiums for fiscal year 2014 and froze TRS-ActiveCare 3 for new enrollment.

### **ORGANIZATIONAL CHANGE**

Shortly after the end of fiscal year 2014, Chris Cutler was named TRS' new chief information officer. Over the past year, we have also made a handful of other organizational changes to focus on our key challenges moving forward: health care fund solvency, pension trust fund sustainability, long-term investment returns, and replacing legacy technology systems. These changes are reflected in the updated organizational chart on the following page.

During the past year, special emphasis has been given to promoting the agency's core values: Customer Satisfaction; Collaboration and Teamwork; Accountability; Respect; Ethics; Excellence; and Employee Fulfillment. These values are



## ***Letter of Transmittal***

being incorporated throughout TRS' work environment, including in performance evaluations, employee recognition programs and communications. They also continuously focus our efforts on how to best serve our members.

### **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.

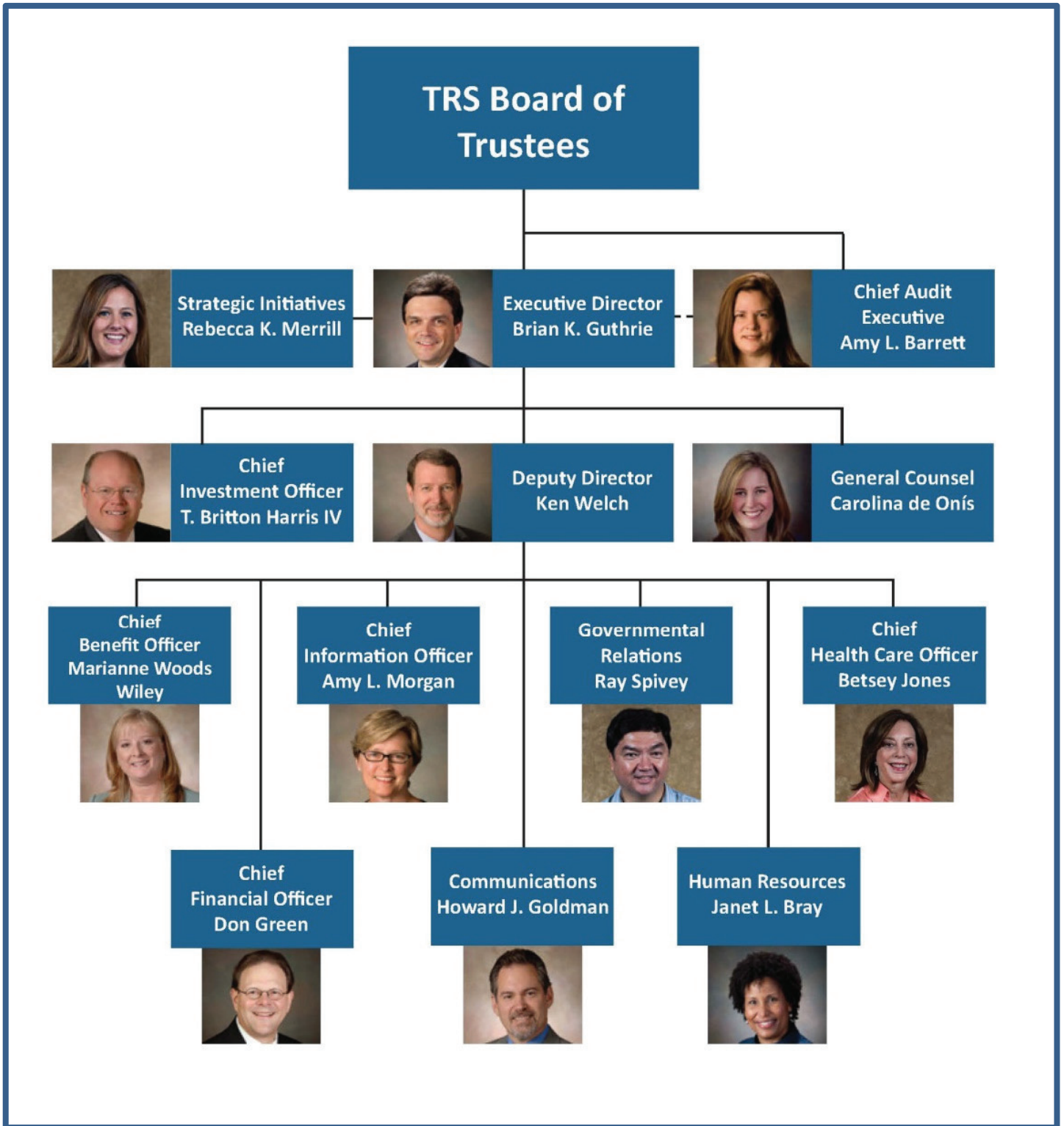
We are grateful for the dedicated service of all of our trustees. Trustee willingness to accept the substantial responsibilities of directing system administration is a great service to the state and to the members served by TRS.

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,

A handwritten signature in black ink, appearing to read 'Brian K. Guthrie', is written over a light blue horizontal line.

Brian K. Guthrie  
Executive Director



Chris Cutler was named Chief Information Officer in November 2014 to replace Amy Morgan who retired on August 31, 2014



## ***Staff and Advisors***

### **EXECUTIVE ADMINISTRATIVE STAFF**

Brian K. Guthrie, *Executive Director*

Ken Welch, *Deputy Director*

T. Britton Harris IV, *Chief Investment Officer*

Carolina de Onís, *General Counsel*

Amy L. Barrett, *Chief Audit Executive*

Marianne Woods Wiley, *Chief Benefit Officer*

Don Green, *Chief Financial Officer*

Amy L. Morgan, *Chief Information Officer\**

Howard J. Goldman, *Director, Communications*

Ray Spivey, *Director, Governmental Relations*

Janet L. Bray, *Director, Human Resources*

Betsey Jones, *Chief Health Care Officer*

Rebecca K. Merrill, *Director, Strategic Initiatives*

### **GENERAL INVESTMENT CONSULTANT**

Hewitt Ennis Knupp, Chicago, IL

### **CONSULTING ACTUARY**

Gabriel, Roeder, Smith & Company, Dallas

### **INVESTMENT CONSULTANTS**

Hamilton Lane Advisors, L.L.C., Bala Cynwyd, PA  
(Domestic Private Equity)

Albourne America, L.L.C., San Francisco, CA  
(Absolute Return)

The Townsend Group, Inc., Cleveland, OH  
(Real Estate)

### **INVESTMENT ADVISORS**

Keith C. Brown, Ph.D., Austin

### **AUDIT SERVICES**

Texas State Auditor's Office, Austin

### **FIDUCIARY COUNSEL**

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

### **MEDICAL BOARD**

Dr. Alice Cox, Fredericksburg

Dr. James Reinartz, Austin

Dr. Larry D. Wilson, Austin

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

Dr. Ignacio Salinas, Jr., *Chair*, San Diego

Grace Mueller, *Vice Chair*, McQueeney

Bill Barnes, Haslet

Donnie Breedlove, Ed.D., Dallas

Sunday McAdams, Seymour

Marcia McNeil, Austin

Glenna Purcell, Eagle Pass

### **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

\*Chris Cutler was named Chief Information Officer in November 2014 to replace Amy Morgan who retired on August 31, 2014



## Membership

### PENSION TRUST FUND

Membership of the Teacher Retirement System of Texas includes employees and retirees of state-supported educational institutions in Texas. At August 31, 2014, participating employers included the following:

Public School Districts	1,026
Charter Schools	197
Community and Junior Colleges	50
Senior Colleges and Universities	48
Regional Service Centers	20
Medical Schools	9
Other Education Districts	5
State Agencies	2
<b>TOTAL</b>	<b><u>1,357</u></b>

#### Member Categories

	<u>2014</u>	<u>2013</u>
Current Members:		
Active Contributing	873,214	846,178
Active Non-contributing	118,635	118,036
Deferred Retirement Option	122	158
Inactive Non-vested	19,489	19,455
Inactive Vested	<u>39,965</u>	<u>37,585</u>
Total Current Members	<u>1,051,425</u>	<u>1,021,412</u>
Retirement Recipients:		
Service	341,302	327,072
Disability	9,413	9,249
Survivor	<u>12,467</u>	<u>11,907</u>
Total Retirement Recipients	<u>363,182</u>	<u>348,228</u>
<b>TOTAL MEMBERSHIP</b>	<b><u>1,414,607</u></b>	<b><u>1,369,640</u></b>

#### Population Changes

	<u>2014</u>	<u>2013</u>
Active Membership:		
New Members	92,819	87,193
Members Withdrawing	(40,829)	(41,615)
Service Retirements	(20,214)	(21,180)
Disability Retirements	(811)	(865)
In-Service Deaths	(1,289)	(1,243)
Other Changes	<u>337</u>	<u>(4,533)</u>
NET INCREASE	<u>30,013</u>	<u>17,757</u>
Retired Membership:		
Retirements	21,025	22,045
Deaths After Retirement	(7,535)	(7,437)
Option Continuations	2,372	2,182
Other Changes	<u>(908)</u>	<u>(309)</u>
NET INCREASE	<u>14,954</u>	<u>16,481</u>

#### Active Member Profile

	<u>2014</u>	<u>2013</u>
Average Annual Salary	\$ 45,717	\$ 44,634
Average Age	44.5	44.4
Average Years of Service	9.9	10.0

#### Annuitant and Beneficiary Profile

	<u>2014</u>	<u>2013</u>
Average Monthly Annuities		
Life Annuities	\$ 1,995	\$ 1,981
Disability Annuities	\$ 1,217	\$ 1,207
Annuities Certain	\$ 1,081	\$ 1,054
Average Age of Current Retirees	70.6	70.4
Average Age at Retirement		
All Retirees	60.0	59.9
Current Year Retirees	61.5	61.3
Average Years of Service		
All Retirees	24.4	24.5
Current Year Retirees	23.1	23.6
Average Salary at Retirement		
All Retirees	\$ 42,161	\$ 41,385
Current Year Retirees	\$ 50,073	\$ 50,610
Ratio of Current Members to Retirees	2.9 to 1	2.9 to 1

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

#### Member Categories

	<u>2014</u>	<u>2013</u>
Retirees	189,028	183,793
Surviving Spouses	5,910	5,625
Surviving Children	97	88
Dependent Spouses and Children	<u>49,749</u>	<u>47,336</u>
<b>TOTAL</b>	<b><u>244,784</u></b>	<b><u>236,842</u></b>

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

#### Member Categories

	<u>2014</u>	<u>2013</u>
Employees	279,014	273,774
Dependents	<u>180,218</u>	<u>181,931</u>
<b>TOTAL</b>	<b><u>459,232</u></b>	<b><u>455,705</u></b>

As of August 31, 2014 there were 1,122 participating employers.





## Communications

During fiscal year 2014, TRS communicated with its members, retirees, participating employers, and the general public over the telephone as well as through group presentations, one-on-one meetings, print publications, webcasts, videos, social media, the agency's website, and email. TRS staff also spoke at conferences across the state to update members and retirees on their pension and health care benefits as well as TRS investment performance.

Major communications from the past year are summarized below:

### PRINT PUBLICATIONS

During fiscal year 2014, TRS published three *TRS News* issues to provide members and retirees with important information relating to their benefits. Employers received TRS-related information through five *Update* newsletters. Annual statements were distributed in October 2013 to all active members of the system.

TRS also published a number of publications for members and retirees, including an updated *TRS Benefits Handbook* and various brochures related to TRS pension and health care benefits.

### THE INTERNET

Over the past year, the TRS website received a total of 3,033,862 visits, representing a 9.4 percent increase from 2,772,758 visits in the previous fiscal year. In addition, 1,580,841 unique visitors used the site during fiscal year 2014 — a 17.5 percent increase from 1,345,758 visitors in fiscal year 2013.

Much of this growth was due to the expanded use of *MyTRS*, the online access section of the TRS website. *MyTRS* was actively promoted through email, articles placed in member newsletters, information featured on the agency website, and through social media outreach. In November 2013, the agency launched *MyTRS Rewards*, an online member and retiree discount program. At year end, nearly 422,000 members and retirees had registered to participate in *MyTRS*. Promotional efforts will continue in 2015.

Prior to *MyTRS*, separate Web applications had allowed members to view account information, register for benefit presentations, and request information from TRS. Through *MyTRS*, active members with a valid user 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



## ***Communications***

During 2013-14, TRS began work on a project to redesign the agency's website through the TRS Enterprise Application Modernization (TEAM) Program. Issuance of a request-for-offers is planned for the fall of 2014. Significant online improvements are planned due to the TEAM program, a multi-year initiative underway to update business processes and core technologies used by TRS. While TEAM will ultimately bring enhanced customer service, members will experience some temporary, minimal reductions in *MyTRS* functionality. Effective September 2014, it was temporarily no longer possible to access the following information online:

- members' beneficiary information
- service purchase forms (once they have been created for a bill) replacement
- retirement packets (still available by contacting TRS directly)

*MyTRS* also features an email subscription service that offers members and retirees the ability to receive TRS announcements and various TRS publications electronically when they subscribe for such service. Those who register receive information more quickly than by mail.

### **SOCIAL MEDIA**

In 2013-14, TRS completed its first full year as an active participant in social media. TRS engaged a growing number of members, retirees, and others through a number of social media channels. At year end, TRS had more than 4,000 Facebook fans, about 1,200 followers on LinkedIn and nearly 600 followers on Twitter. In addition, TRS videos were viewed on YouTube more than 17,000 times.

### **WEBCASTING OF BOARD MEETINGS**

As part of its commitment toward open and transparent communication, TRS continued to webcast board meetings during the past year. In addition, TRS held and webcast a town hall meeting on health care issues in February 2014 in Corpus Christi. More than 250 people attended the meeting in person and viewed it through the webcast. All board 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.

### **ASSOCIATION MEETINGS**

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

### **GROUP PRESENTATIONS AND INDIVIDUAL RETIREMENT COUNSELING SESSIONS**

Over the past year, TRS made a number of group presentations to professional associations, 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 11,609 people attended 186 group presentations, and 26,800 people attended five conventions where TRS was represented. In addition, 9,100 people visited individually with a TRS counselor – 8,690 in Austin and 410 in field office visit locations. Fiscal year 2014 was the eighth year that one-on-one retirement counseling sessions were offered in limited field locations throughout Texas (450 available appointments in 10 cities).



## ***Communications***

### **TELECOMMUNICATIONS**

In fiscal year 2014, the agency's Benefit Counseling department handled a total of 500,668 calls. In addition, 186,615 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 921,114 calls, and TRS-Care staff and contractors responded to 631,947 calls.

### **COORDINATION WITH REPORTING ENTITIES**

The TRS Reporting and Query System (TRAQS), the agency's internet-based reporting system for employers, had 1,351 reporting entities submit monthly reports to TRS by year-end. During the year, there were eight professional association and software user group presentations attended by 3,305 people. Twenty-two TRAQS training workshops reached 966 people. Three live TRAQS orientation webinars were held with a total of 17 participants taking part. Three participating employers traveled to TRS for the onsite training of five employees. Thirty-seven TRS-ActiveCare training seminars were conducted around the state for more than 1,500 benefit administrators of TRS-ActiveCare participating employers. Additionally, 10 webinars were conducted with 630 registered participants. These seminars/webinars provided information regarding enrollment, changes, and ongoing administrative issues for TRS-ActiveCare.

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# TRS Core Values

**Customer Satisfaction:** We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations exceeded.

**Collaboration/Teamwork:** We work together to achieve common goals through a diverse, yet unified team.

**Accountability:** We hold ourselves accountable and take responsibility for our actions, behavior and outcomes.

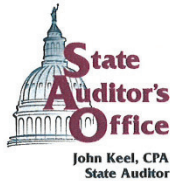
**Respect:** We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.

**Ethics:** We will be truthful and act with honesty and integrity in everything we do.

**Excellence:** We commit to demonstrating excellence in our work and look for ways to continuously improve.

**Employee Fulfillment:** We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.

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### Independent Auditor's Report

#### Teacher Retirement System Board of Trustees

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

#### Report on the Financial Statements

We have audited the accompanying financial statements of the major enterprise funds and the aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund of the Teacher Retirement System (System), a component unit of the State of Texas, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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SAO Report No. 15-302



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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise funds and the aggregate remaining funds information of the System, a component unit of the State of Texas, as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### ***Investments with Values that are not Readily Determined***

As discussed in Note 3, the financial statements include investments valued at approximately \$44,345,750,419 as of August 31, 2014, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

#### ***Agency Financial Statements***

As discussed in Note 1, the financial statements of the System, a component unit of the State of Texas, are intended to present the financial position of the major enterprise funds and the aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund of the State that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



*Implementation of Governmental Accounting Standards Board Statement 67*

As discussed in Note 1, the System adopted the provisions of Governmental Accounting Standards Board Statement 67 *Financial Reporting for Pension Plans*, in fiscal year 2014. The System also restated some line items in the summarized financial information for the year ended August 31, 2013, presented for comparative purposes. Our opinion is not modified with respect to this matter.

***Other Matters****Required Supplementary Information*

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

*Other Information*

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

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



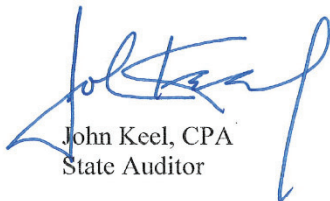
The Introductory, Investment, Actuarial, Benefits, and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements,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

***Report on Summarized Comparative Information***

We have previously audited the System's fiscal year 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Reporting Required by Government Auditing Standards***

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



John Keel, CPA  
State Auditor

November 17, 2014



## ***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, 2014. 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*. The financial information presented herein was prepared in conformity with GASB Statement 67, Financial Reporting for Pension Plans for the fiscal year ended August 31, 2014.

### **FINANCIAL HIGHLIGHTS**

- The net position of the TRS Pension Trust Fund was \$132.8 billion as of August 31, 2014, an increase of 13.1%, in fiscal year 2014.
- As of August 31, 2014, the date of the most recent actuarial valuation, the TRS Pension Trust Fund's ratio of actuarial assets, as a percentage of actuarial liabilities, was 80.2%, which is lower than the 80.8% level at August 31, 2013. The unfunded actuarial accrued liability was \$31.6 billion, which is more than the \$28.9 billion reported at August 31, 2013.
- The annual rate of return on investments for the pension fund for the year ended August 31, 2014 was 16.9%. The rate of return for fiscal year 2013 was 9.0%.
- The net position of TRS-Care was \$457.9 million as of August 31, 2014, a decrease of 16.9% from fiscal year end 2013.
- As of August 31, 2014, the date of the most recent actuarial valuation, TRS-Care trust fund's unfunded actuarial accrued liability was \$33.3 billion, which is more than the \$29.3 billion reported at August 31, 2013.
- TRS-ActiveCare had a net position of \$22.8 million as of August 31, 2014, an increase of \$140.8 million or 119.4% in fiscal year 2014.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

Collectively, this information presents the net position available for pension and other post-employment benefits, health care benefits, and other purposes as of August 31, 2014, and summarizes any changes in net position for the year then ended. The information available in each of these sections is summarized as follows:

#### **Fund Financial Statements**

Individual fund financial statements are presented for all fiduciary and proprietary funds as of August 31, 2014 and for the year then ended. Comparative data in total as of August 31, 2013, 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.



## ***Management's Discussion and Analysis***

### **Notes to the Financial Statements**

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

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

### **Required Supplementary Information**

Required Supplementary Information (RSI) for the pension plan consists of schedules related to the net pension liability, contributions from employers and the non-employer contributing entity, and the annual money weighted rate of return on pension plan investments. RSI for the other employee benefit plan administered by TRS includes schedules related to the funding progress and the contributions from the participating employers. 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.

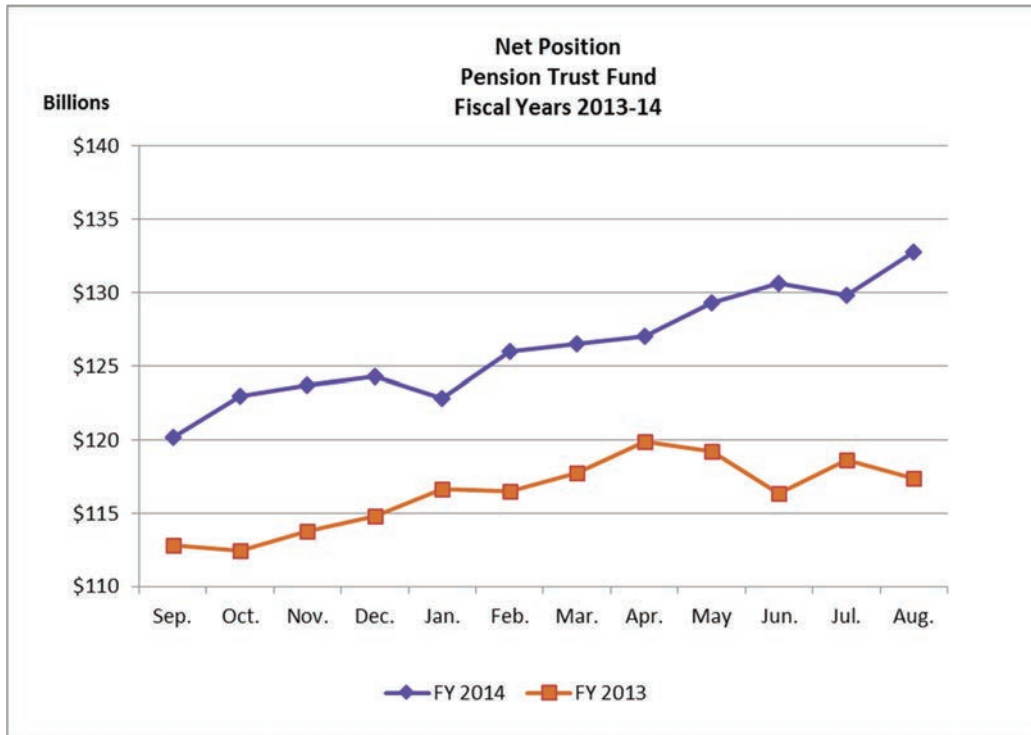
## *Management's Discussion and Analysis*

### FINANCIAL ANALYSIS OF TRS FUNDS

#### *Pension and Other Employee Benefit Trust Funds*

##### **Pension Trust Fund**

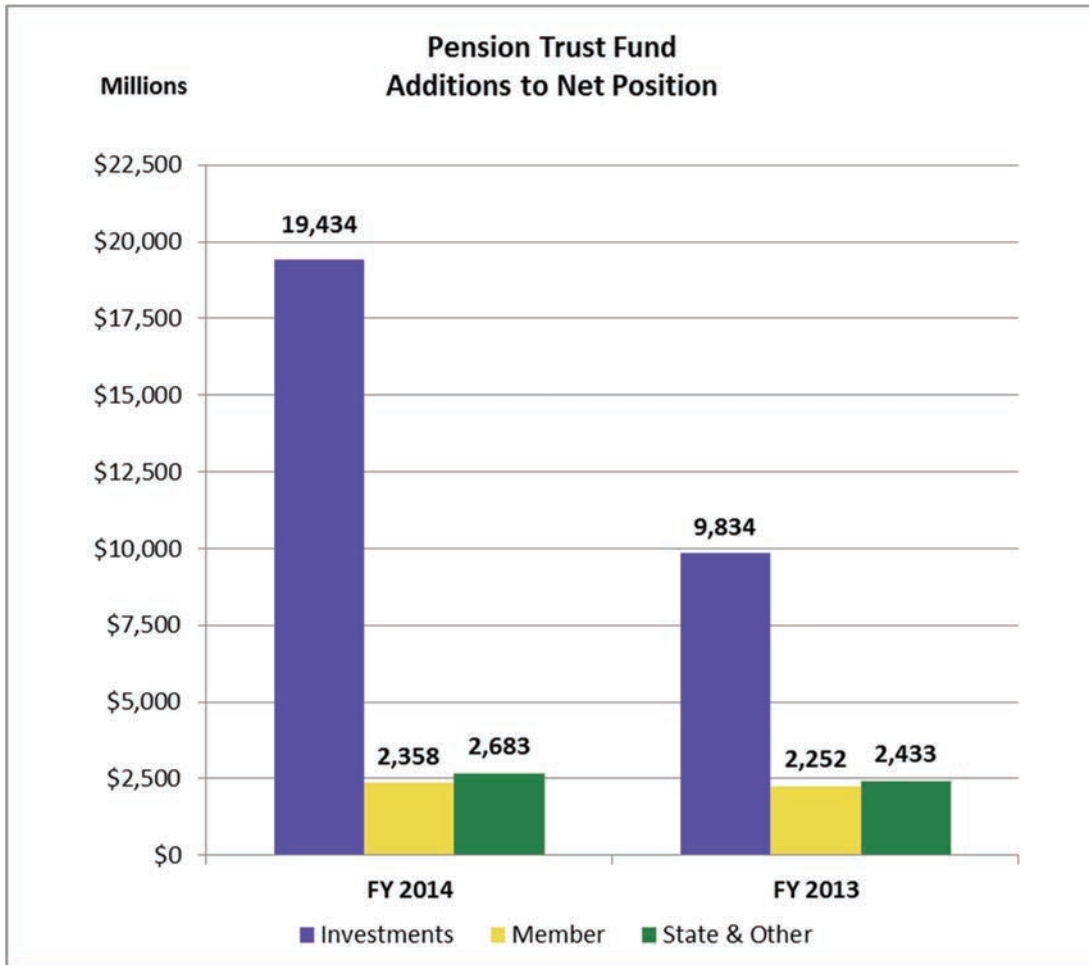
Net position held in trust for benefits at August 31, 2014 was \$132.8 billion, an increase of \$15.4 billion over the \$117.4 billion at August 31, 2013.





### Management’s Discussion and Analysis

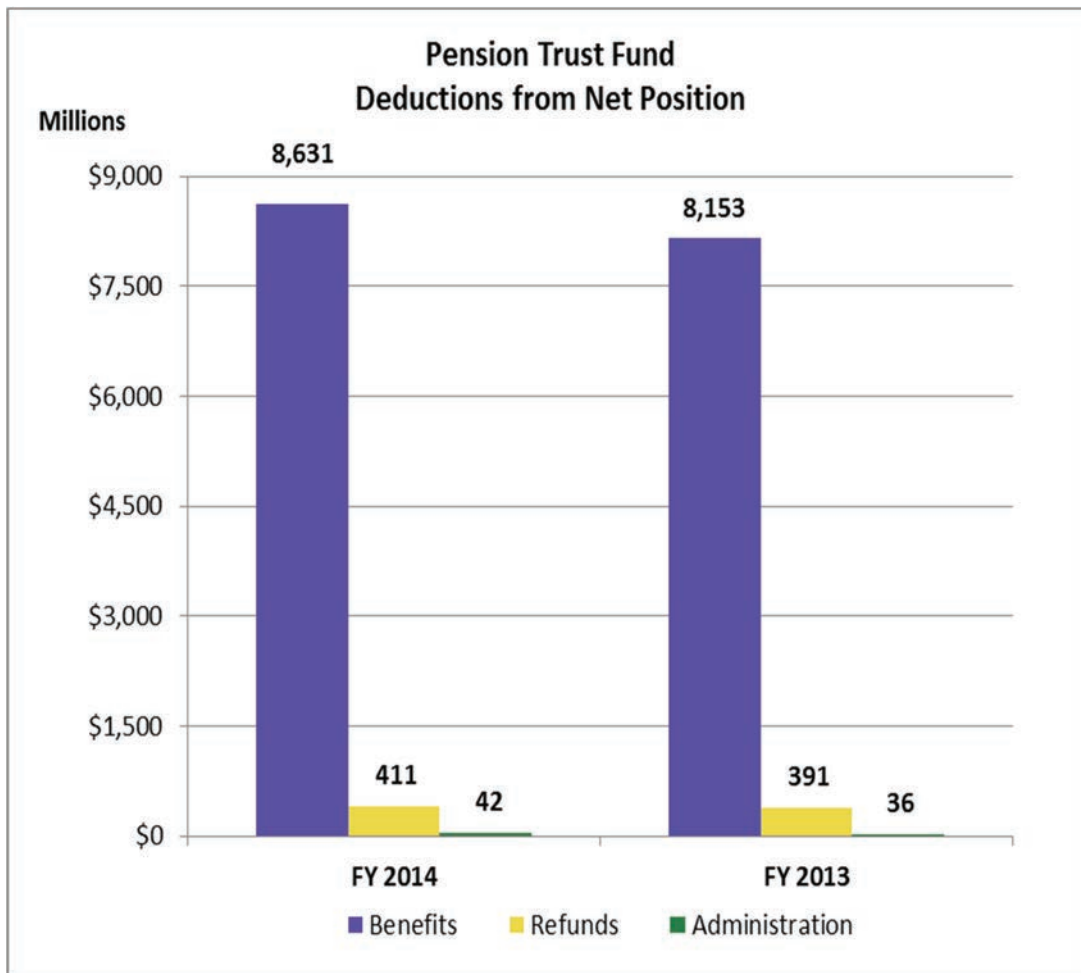
Fiscal year 2014 investment income was \$19.4 billion, an increase of \$9.6 billion from the \$9.8 billion in fiscal year 2013. Current year income from member contributions was \$2.4 billion while state contributions and other income totaled \$2.6 billion. Total contributions and other increased \$355.3 million, or 7.6%, during fiscal year 2014. An increase in active membership along with an increase in payroll growth resulted in an increase in total contributions. The state contribution rate was 6.8 % for fiscal year 2014 which is an increase of .4% from the 2013 rate of 6.4%. The member contribution rate remained at 6.4% for fiscal year 2014.





## Management's Discussion and Analysis

Deductions from TRS net position held in trust for benefits are predominantly retirement, death, and survivor benefits. During fiscal year 2014, retirement benefits and other payments totaled \$8.6 billion, an increase of approximately \$477.8 million, or 5.9%, from fiscal year 2013 payments of \$8.2 billion. Refund of Contributions for fiscal year 2014 was \$410.6 million, an increase of \$19.3 million from fiscal year 2013. Administrative expenses were \$41.9 million, an increase of \$5.6 million over fiscal year 2013. Administrative expenses, excluding investing activities expense, on a cost per member basis were \$29.62 for fiscal year 2014 as compared to \$26.48 in fiscal year 2013. Investment cost per member is \$141.86 for fiscal year 2014. Investment expense in basis points of net position was 15.94 for fiscal year 2014 and was calculated using average net asset value. Investment expense in basis points for fiscal year 2013 was 16.29.



TRS continues to modernize computer systems through the TRS Enterprise Application Modernization (TEAM) program. The TEAM program is a multi-year \$100+ million initiative to update business processes and core technologies used to deliver benefits and services to members and annuitants. In addition to the pension administration system replacement, the TEAM program includes other projects such as data management, website redesign and financial system replacement.



## Management's Discussion and Analysis

### Statement of Net Position - Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percentage Change
<b>Assets:</b>				
Cash and Receivables	\$ 2,751,967	\$ 2,990,207	\$ (238,240)	-8.0%
Investments	131,595,107	116,704,735	14,890,372	12.8
Invested Securities Lending Collateral	22,876,579	21,921,126	955,453	4.4
Capital Assets	38,054	32,315	5,739	17.8
<b>Total Assets</b>	<b>\$ 157,261,707</b>	<b>\$ 141,648,383</b>	<b>\$ 15,613,324</b>	<b>11.0%</b>
<b>Liabilities:</b>				
Benefits Payable	\$ 747,291	\$ 715,445	\$ 31,846	4.5%
Investments Purchased Pay./Securities Sold Short	799,099	1,418,336	(619,237)	-43.7
Accounts Payable and Other	66,198	212,119	(145,921)	-68.8
Collateral Obligations	22,869,876	21,914,339	955,537	4.4
<b>Total Liabilities</b>	<b>\$ 24,482,464</b>	<b>\$ 24,260,239</b>	<b>\$ 222,225</b>	<b>0.9%</b>
<b>Total Net Position Restricted for Pensions</b>	<b>\$ 132,779,243</b>	<b>\$ 117,388,144</b>	<b>\$ 15,391,099</b>	<b>13.1%</b>

### Changes in Net Position - Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percentage Change
<b>Additions:</b>				
Member Contributions	\$ 2,357,686	\$ 2,252,095	\$ 105,591	4.7%
State Contributions as Non-Employer Contributing Entity	1,530,624	1,442,774	87,850	6.1
Employer Contributions	984,552	820,135	164,417	20.0
Other	167,392	169,916	(2,524)	-1.5
Investment Income	19,434,430	9,834,136	9,600,294	97.6
<b>Total Additions</b>	<b>\$ 24,474,684</b>	<b>\$ 14,519,056</b>	<b>\$ 9,955,628</b>	<b>68.6%</b>
<b>Deductions:</b>				
Retirement Benefits and Other	\$ 8,631,080	\$ 8,153,243	\$ 477,837	5.9%
Refunds of Contributions	410,601	391,292	19,309	4.9
Administrative Expenses	41,904	36,264	5,640	15.6
<b>Total Deductions</b>	<b>\$ 9,083,585</b>	<b>\$ 8,580,799</b>	<b>\$ 502,786</b>	<b>5.9%</b>
<b>Net Increase in Net Position</b>	<b>\$ 15,391,099</b>	<b>\$ 5,938,257</b>	<b>\$ 9,452,842</b>	<b>159.2%</b>

On a GAAP basis, the overall financial condition of the fund improved during 2014 due to net investment income during the year of \$19.4 billion – an increase of 97.6% from fiscal year 2013. This net gain is comprised of net increase in fair value of investments of \$16.4 billion, \$3.1 billion in interest and dividends, and net income of \$72.5 million from securities lending reduced by investing activity expenses of \$200.7 million. The net investment gain for fiscal year 2013 was \$9.8 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 period ending August 31, 2014:

- One-Year 16.9%
- Three-Years 11.1%
- Five-Years 11.9%
- Ten-Years 7.7%

The following table presents the actual investment allocations as of fiscal year end 2014 and 2013 as compared to the target allocations for 2014 and 2013.

	Fiscal Year 2014		Fiscal Year 2013	
	Target	Actual	Target	Actual
U.S. Large Cap	18.0 %	20.5 %	18.0 %	17.2 %
U.S. Small Cap	2.0	2.2	2.0	2.3
Non-U.S. Developed	15.0	14.9	15.0	14.2
Emerging Markets	10.0	11.8	10.0	11.0
Directional Hedge Funds	5.0	4.9	5.0	5.0
Public Equity	50.0 %	54.3 %	50.0 %	49.7 %
Private Equity	11.0	11.8	12.0	12.3
<b>TOTAL GLOBAL EQUITY</b>	<b>61.0 %</b>	<b>66.1 %</b>	<b>62.0 %</b>	<b>62.0 %</b>
U.S. Treasuries	13.0 %	8.8 %	13.0 %	13.9 %
Absolute Return	0.0	1.6	0.0	0.4
Stable Value Hedge Funds	4.0	3.8	4.0	3.6
Cash	1.0	1.3	1.0	1.0
<b>TOTAL STABLE VALUE</b>	<b>18.0 %</b>	<b>15.5 %</b>	<b>18.0 %</b>	<b>18.9 %</b>
Global Inflation Linked Bonds	5.0 %	4.8 %	5.0 %	5.1 %
Real Assets	13.0	11.6	15.0	13.6
Energy and Natural Resources	3.0	1.9	N/A	
Commodities	0.0	0.1	0.0	0.4
<b>TOTAL REAL RETURN</b>	<b>21.0 %</b>	<b>18.4 %</b>	<b>20.0 %</b>	<b>19.1 %</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 16.91 percent for the fiscal year of 2014 on investments. At the end of fiscal year 2014 the Pension Trust Fund's investment value was \$132.2 billion, an increase of approximately \$15.1 billion over fiscal year 2013.



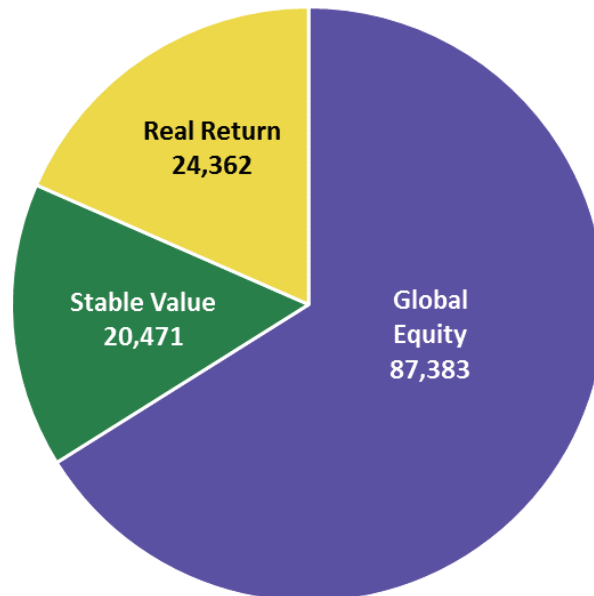
## Management's Discussion and Analysis

TRS' investment strategy is designed to address three different potential market scenarios and have an advantage in each of them by allocating 61 percent to global equities, 21 percent to real return, and 18 percent to stable value. This allocation provides for good performance in any of the three scenarios. Additionally, TRS' Investment Management Division continued to build out and enhance the dedicated risk management function and expanded its principal investment and emerging manager programs. Looking ahead, our investment outlook has changed little in the past 12 months. Though interest rates have risen in recent months, they continue to remain low by historical standards. Due to these low rates, as well as the resilience of global growth, return expectations remain muted for the next few years. For additional details on investments and their performance refer to the Investment Section.

### Pension Trust Fund Investments

Value as of August 31, 2014

\$132,215,864,272



(Chart rounded to millions)

*Note: Differences between the Total Investment Value above and Total Investments on page 36 are due to differences in reporting methodologies. The Total Investment Value includes Investment Related cash, Net Investment Receivables/Payables and Securities Sold Short. In accordance with GASB, these are not reported on page 36 with Total Investments. Additionally, Total Investments on page 36 includes a short-term asset pool adjustment from Amortized Cost to Fair Value that is not included here. A complete reconciliation of the two values is located on page 112.*



## Management's Discussion and Analysis

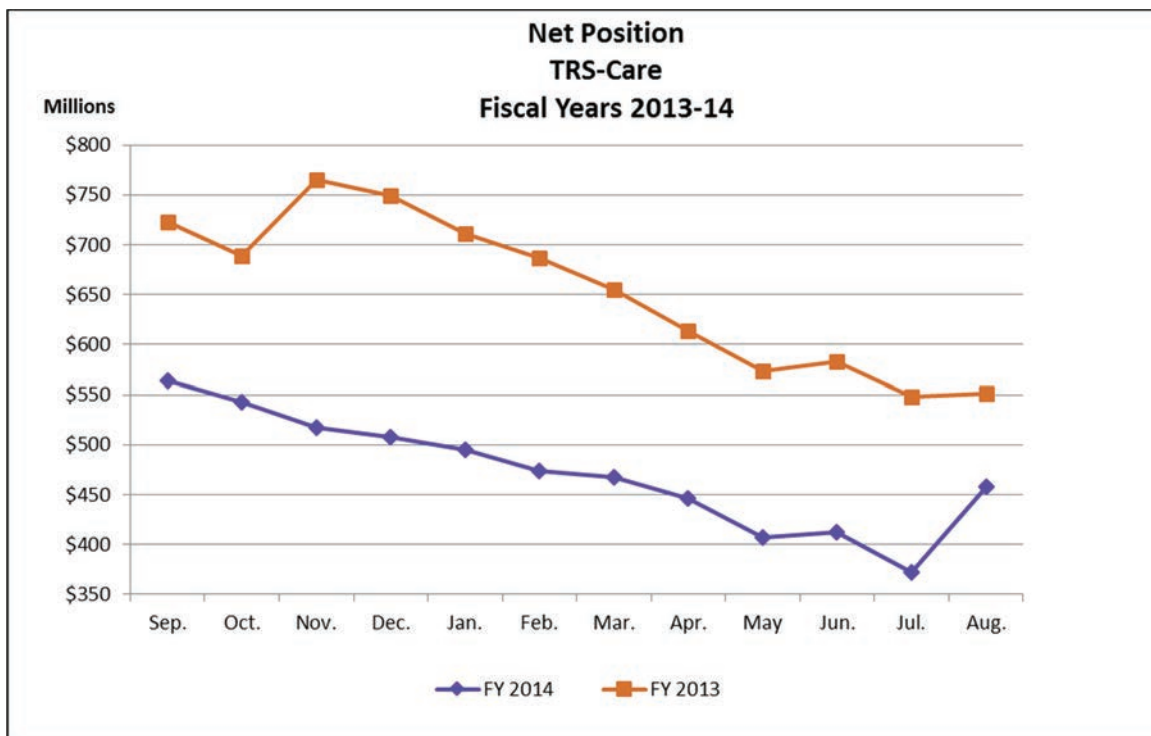
### TRS-Care

The net position of TRS-Care at August 31, 2014 was \$457.9 million, a decrease of \$93.1 million from the \$551.0 million at August 31, 2013.

Additions to net position include health care premiums received from retirees, contributions received from active members, participating employers and the State, Federal revenue and investment earnings. Total contributions of \$685.8 million increased by \$102.4 million from the \$583.4 million in fiscal year 2013. The change is primarily attributed to the State contribution rate increasing from 0.5% to 1.0% in 2014 and \$36.1 million in contingency funding from the General Appropriations Act Rider 4.

Retiree premiums of \$363.6 million in fiscal year 2014 increased \$7.9 million from fiscal year 2013 due to normal growth in the retiree population. Federal revenue received in fiscal year 2014 includes Retiree Drug Subsidy (RDS) payments totaling \$10.6 million and Employer Group Waiver Plan (EGWP) subsidy payments totaling \$68.0 million. Investment income was \$2.1 million, a decrease of \$979 thousand from the \$3.0 million in fiscal year 2013. Cash in the State Treasury declined \$181.1 million in fiscal year 2014.

Deductions from net position totaled \$1.4 billion during fiscal year 2014. This is an increase of \$135.4 million or 10.5% over the \$1.3 billion in fiscal year 2013. The change is principally due to a substantial increase in Medicare Advantage (insured plan) premiums. Administrative expenses increased by 7.3% from fiscal year 2013 primarily due to payroll and related costs. Deductions for Affordable Care Act mandated Patient-Centered Outcomes Research Institute (PCORI) and Transitional Reinsurance Program fees began in 2014, totaling \$3.5 million. The PCORI fees support research on clinical effectiveness of medical treatments. The Transitional Reinsurance Program provides support to insurers of high risk individuals from 2014 to 2016.





## *Management's Discussion and Analysis*

### Statement of Net Position - TRS-Care (Dollars in Thousands)

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percentage Change
<b>Assets</b>				
Cash and Receivables	\$ 594,921	\$ 685,383	\$ (90,462)	-13.2%
TOTAL ASSETS	\$ 594,921	\$ 685,383	\$ (90,462)	-13.2%
<b>Liabilities</b>				
Accounts Payables and Other	\$ 770	\$ 7,033	\$ (6,263)	-89.1%
Health Care Claims Payables	136,211	127,302	8,909	7.0%
TOTAL LIABILITIES	\$ 136,981	\$ 134,335	\$ 2,646	2.0%
<b>Total Net Position</b>	<b>\$ 457,940</b>	<b>\$ 551,048</b>	<b>\$ (93,108)</b>	<b>-16.9%</b>

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

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percentage Change
<b>Additions</b>				
Member Contributions	\$ 189,004	\$ 180,825	\$ 8,179	4.5%
State Contributions	303,556	229,799	73,757	32.1%
Participating Employers and Other Contributions	193,264	172,730	20,534	11.9%
Health Care Premium	363,631	355,686	7,945	2.2%
Rebates and Discount Income	200,860	82,075	118,785	144.7%
Federal Revenue	78,589	74,511	4,078	5.5%
Investment Income	2,062	3,041	(979)	-32.2%
TOTAL ADDITIONS	\$ 1,330,966	\$ 1,098,667	\$ 232,299	21.1%
<b>Deductions</b>				
Health Care / Insurance Premium and Payments	\$ 1,375,040	\$ 1,241,656	\$ 133,384	10.7%
Health Care Claims Processing	41,912	43,578	(1,666)	-3.8%
Health Care Fees	3,476	-	3,476	N/A
Administrative Expenses	3,646	3,398	248	7.3%
TOTAL DEDUCTIONS	\$ 1,424,074	\$ 1,288,632	\$ 135,442	10.5%
<b>Change in Net Position</b>	<b>\$ (93,108)</b>	<b>\$ (189,965)</b>	<b>\$ 96,857</b>	<b>-51.0%</b>



## Management's Discussion and Analysis

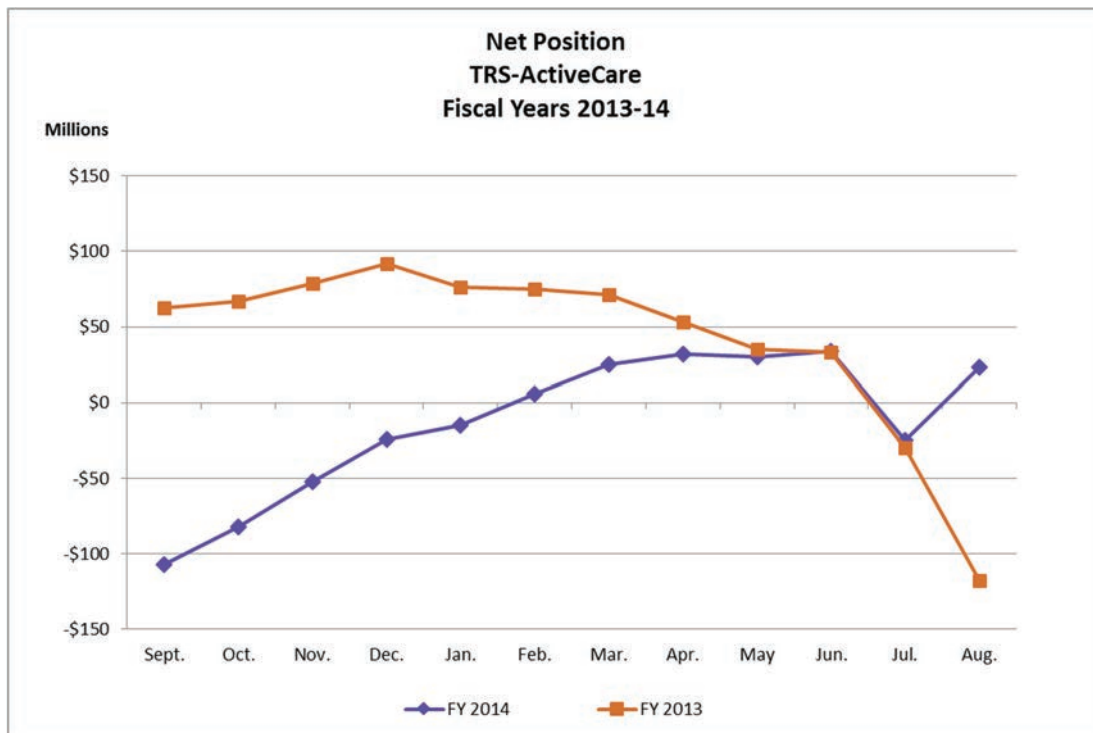
### Enterprise Funds

#### TRS-ActiveCare

The TRS-ActiveCare program operates under the authority of the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and the Texas Administrative Code, Title 34, Part 3, Chapter 41, and began operations in fiscal year 2003. The net position of the plan increased from a deficit net position of (\$118) million to a net position of \$22.8 million on an accrual basis as of August 31, 2014, with a cash balance of \$230 million. The increase in net position was a result of the 2014 rate increase authorized by the Board of Trustees and a decrease in health care claims.

Revenues for fiscal year 2014 included \$1.9 billion from health care premiums, an increase of \$120.4 million, or 6.7% over fiscal year 2013. Investment income for the year was \$940 thousand. This was an increase of \$193 thousand, or 26% from fiscal year 2013. Other revenues for 2014 totaled \$219 thousand, an increase of \$6 thousand from fiscal year 2013.

Health care claims for fiscal year 2014 were \$1.5 billion, a \$263.2 million, or 14.7% decrease over the \$1.8 billion in fiscal year 2013. Other expenses included claims processing costs of \$90.7 million, \$154.9 million for HMO premium payments, and \$2.6 million for administrative expenses. Beginning in 2014, health care fees mandated by the Affordable Care Act were enacted to fund both a Transitional Reinsurance Program which will support insurers who cover high risk individuals, and the Patient-Centered Outcomes Research Institute to study the clinical effectiveness of medical treatments. The cost of these two fees totaled \$19.2 million.





## *Management's Discussion and Analysis*

### Statement of Net Position - TRS-ActiveCare (Dollars in Thousands)

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percentage Change
<b>Assets</b>				
Cash and Receivables	\$ 230,641	\$ 139,297	\$ 91,344	65.6%
TOTAL ASSETS	\$ 230,641	\$ 139,297	\$ 91,344	65.6%
<b>Liabilities</b>				
Accounts Payable and Other	\$ 386	\$ 438	\$ (52)	-11.9%
Premiums Payable to HMOs	12,733	8,511	4,222	49.6%
Health Care Claims Payable	194,683	248,319	(53,636)	-21.6%
TOTAL LIABILITIES	\$ 207,802	\$ 257,268	\$ (49,466)	-19.2%
<b>Total Net Position</b>	\$ 22,839	\$ (117,971)	\$ 140,810	119.4%

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

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percentage Change
<b>Revenues (Operating and Non-Operating)</b>				
Health Care Premiums	\$ 1,928,895	\$ 1,808,522	\$ 120,373	6.7%
Investment Income	940	747	193	25.8%
Other Revenue	219	213	6	2.8%
TOTAL REVENUE	\$ 1,930,054	\$ 1,809,482	\$ 120,572	6.7%
<b>Operating Expenses</b>				
Health Care Claims	\$ 1,521,835	\$ 1,785,070	\$ (263,235)	-14.7%
Health Care Claims Processing	90,680	84,903	5,777	6.8%
Health Care Fees	19,245		19,245	
Premium Payments to HMO's	154,914	100,906	54,008	53.5%
Administrative Expenses	2,570	2,351	219	9.3%
TOTAL EXPENSES	\$ 1,789,244	\$ 1,973,230	\$ (183,986)	-9.3%
<b>Change in Net Position</b>	\$ 140,810	\$ (163,748)	\$ 304,558	186.0%



## ***Management's Discussion and Analysis***

### **REQUEST FOR INFORMATION**

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

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



## Statement of Fiduciary Net Position

AUGUST 31, 2014

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2013)

Exhibit I

	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	\$ 936,977,083	\$ 395,766,631
Cash in Bank (Note 3A)	297,354,404	
Cash on Hand (Note 3B)	2,526,510	
TOTAL CASH	\$ 1,236,857,997	\$ 395,766,631
<b>Receivables</b>		
Sale of Investments	\$ 949,152,042	\$
Interest and Dividends	217,521,931	132,153
Member and Retiree	1,604,424	43,817,865
Service Credit Purchases	42,096,484	
Participating Employers	193,809,457	10,342,172
Other	265,806	124,896,224
Due from State's General Fund	109,118,444	19,966,426
Due from Employees Retirement System of Texas	1,540,855	
TOTAL RECEIVABLES	\$ 1,515,109,443	\$ 199,154,840
<b>Investments (Note 1F and 3E)</b>		
Short-Term	\$ 3,932,153,291	\$
Short-Term Foreign Currency Contracts	(37,174)	
Equities	52,316,260,451	
Fixed Income	23,475,157,395	
Alternative Investments	44,345,750,419	
Derivative Investments	93,701,725	
Pooled Investments	7,432,120,860	
TOTAL INVESTMENTS	\$ 131,595,106,967	\$ 0
Invested Securities Lending Collateral	\$ 22,876,578,455	\$ 0
<b>Capital Assets (Note 2)</b>		
Intangible Assets	\$ 10,159,743	\$
Less Accumulated Amortization	(8,968,661)	
Depreciable Assets	53,814,541	
Less Accumulated Depreciation	(27,444,410)	
Non-Depreciable Assets	10,493,166	
TOTAL CAPITAL ASSETS	\$ 38,054,379	\$ 0
<b>TOTAL ASSETS</b>	<b>\$ 157,261,707,241</b>	<b>\$ 594,921,471</b>





<b>Total</b>		<b>Fiduciary Fund Types</b>	
<b>Pension and Other Employee Benefit Trust Funds</b>		<b>Agency Funds</b>	
<b>2014</b>	<b>2013</b>	<b>Child Support Employee Deductions</b>	
\$ 1,332,743,714	\$ 1,605,847,243	\$	5,387
297,354,404	278,317,347		
2,526,510	9,991,368		
<b>\$ 1,632,624,628</b>	<b>\$ 1,894,155,958</b>	<b>\$</b>	<b>5,387</b>
\$ 949,152,042	\$ 1,291,126,272	\$	
217,654,084	221,683,671		
45,422,289	149,154,102		
42,096,484			
204,151,629	58,635,507		
125,162,030	59,348,388		
129,084,870			
1,540,855	1,486,700		
<b>\$ 1,714,264,283</b>	<b>\$ 1,781,434,640</b>	<b>\$</b>	<b>0</b>
\$ 3,932,153,291	\$ 3,665,681,477	\$	
(37,174)	73,238		
52,316,260,451	46,507,775,056		
23,475,157,395	20,771,288,034		
44,345,750,419	39,004,925,971		
93,701,725	97,071,802		
7,432,120,860	6,657,919,480		
<b>\$ 131,595,106,967</b>	<b>\$ 116,704,735,058</b>	<b>\$</b>	<b>0</b>
<b>\$ 22,876,578,455</b>	<b>\$ 21,921,125,536</b>	<b>\$</b>	<b>0</b>
\$ 10,159,743	\$ 9,860,493	\$	
(8,968,661)	(8,540,227)		
53,814,541	53,299,077		
(27,444,410)	(25,294,722)		
10,493,166	2,990,263		
<b>\$ 38,054,379</b>	<b>\$ 32,314,884</b>	<b>\$</b>	<b>0</b>
<b>\$ 157,856,628,712</b>	<b>\$ 142,333,766,076</b>	<b>\$</b>	<b>5,387</b>

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## Statement of Fiduciary Net Position

AUGUST 31, 2014

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2013)

Exhibit I (concluded)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
<b>LIABILITIES (Note 1F)</b>		
Accounts Payable	\$ 9,509,031	\$ 232,580
Payroll Payable	4,384,167	226,051
External Manager Fees Payable	38,222,531	
Benefits Payable	747,290,981	
Health Care Claims Payable		136,210,995
Investments Purchased Payable	646,945,719	
Securities Sold Short	152,153,586	
Collateral Obligations	22,869,875,747	
Due to State's General Fund		
Due to Employees Retirement System of Texas	6,845,375	
Purchased Service Installment Receipts		
Employee Compensable Absences Payable (Note 4)	6,994,880	311,358
Unrealized Lease Incentives	242,139	
Funds Held for Others		
<b>TOTAL LIABILITIES</b>	<b>\$ 24,482,464,156</b>	<b>\$ 136,980,984</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 38,054,379	\$
Restricted for Pensions/Other Employee Benefits	132,741,188,706	457,940,487
<b>NET POSITION RESTRICTED FOR PENSIONS AND OTHER EMPLOYEE BENEFITS</b>	<b>\$ 132,779,243,085</b>	<b>\$ 457,940,487</b>

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



<u>Total</u>		<u>Fiduciary Fund Types</u>	
<u>Pension and Other Employee Benefit Trust Funds</u>		<u>Agency Funds</u>	
<u>2014</u>	<u>2013</u>	<u>Child Support Employee Deductions</u>	
\$ 9,741,611	\$ 11,578,179	\$	
4,610,218	4,227,487		
38,222,531	24,477,015		
747,290,981	715,444,886		
136,210,995	127,302,352		
646,945,719	1,330,206,001		
152,153,586	88,130,291		
22,869,875,747	21,914,338,510		
	126,876,671		
6,845,375	6,640,923		
	38,717,685		
7,306,238	5,961,327		
242,139	672,609		
			5,387
<u>\$ 24,619,445,140</u>	<u>\$ 24,394,573,936</u>	<u>\$</u>	<u>5,387</u>
\$ 38,054,379	\$ 32,314,884	\$	
<u>133,199,129,193</u>	<u>117,906,877,256</u>		
\$ 133,237,183,572	\$ 117,939,192,140	\$	0



## Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

Exhibit II

	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
<b>ADDITIONS</b>		
<b>Contributions</b>		
Member	\$ 2,357,686,000	\$ 189,003,903
State's General Fund - Non-Employer Contributing Entity	1,530,623,829	303,556,058
Employer		
State's General Fund	120,206,921	
Participating Employer Contributions	851,936,793	183,215,039
Paid by State's General Fund on Behalf of TRS Employees (Note 6)		139,422
Employment after Retirement Surcharge	12,408,677	9,909,733
Purchase of Service Credit-Refundable	67,386,116	
Purchase of Service Credit - Non-Refundable	76,147,975	
State Contributions for 415 Excess Benefit Arrangement	2,202,592	
Employees Retirement System of Texas:		
For Service Contributions	17,440,313	
For 415 Excess Benefit Arrangement	71,240	
Health Care Premiums		363,631,292
Federal Revenue (Note 6)		78,589,415
Rebate and Discount Income		200,859,859
<b>TOTAL CONTRIBUTIONS AND PREMIUMS</b>	<b>\$ 5,036,110,456</b>	<b>\$ 1,328,904,721</b>
<b>Investment Income</b>		
From Investing Activities:		
Net Increase in Fair Value of Investments	\$ 16,443,655,756	\$
Interest	1,864,096,050	2,061,745
Dividends	1,254,816,385	
Total Investing Activities Income (Loss)	\$ 19,562,568,191	\$ 2,061,745
Less: Investing Activity Expenses (Schedule 3)	(200,672,176)	
Net Income (Loss) from Investing Activities	\$ 19,361,896,015	\$ 2,061,745
From Securities Lending Activities:		
Securities Lending Income	\$ 122,114,760	\$
Securities Lending Expenses:		
Borrower Rebates	(17,464,911)	
Management Fees	(32,115,830)	
Net Income from Securities Lending Activities	\$ 72,534,019	\$ 0
<b>TOTAL NET INVESTMENT INCOME</b>	<b>\$ 19,434,430,034</b>	<b>\$ 2,061,745</b>
<b>Other Additions</b>		
Miscellaneous Revenue	\$ 4,143,449	\$ 0
<b>TOTAL ADDITIONS</b>	<b>\$ 24,474,683,939</b>	<b>\$ 1,330,966,466</b>



<b>Total</b>	
<b>Pension and Other Employee Benefit Trust Funds</b>	
<b>2014</b>	<b>2013</b>
\$ 2,546,689,903	\$ 2,432,919,457
1,834,179,887	1,567,013,516
120,206,921	105,559,580
1,035,151,832	974,134,396
139,422	117,770
22,318,410	18,613,079
67,386,116	65,965,332
76,147,975	82,435,548
2,202,592	2,440,196
17,440,313	16,365,042
71,240	80,634
363,631,292	355,685,504
78,589,415	74,511,473
200,859,859	82,074,803
<u>\$ 6,365,015,177</u>	<u>\$ 5,777,916,330</u>
\$ 16,443,655,756	\$ 8,055,066,425
1,866,157,795	679,479,749
1,254,816,385	1,204,184,693
<u>\$ 19,564,629,936</u>	<u>\$ 9,938,730,867</u>
(200,672,176)	(188,925,272)
<u>\$ 19,363,957,760</u>	<u>\$ 9,749,805,595</u>
\$ 122,114,760	\$ 144,728,009
(17,464,911)	(31,678,566)
(32,115,830)	(25,678,032)
<u>\$ 72,534,019</u>	<u>\$ 87,371,411</u>
<u>\$ 19,436,491,779</u>	<u>\$ 9,837,177,006</u>
\$ 4,143,449	\$ 2,629,383
<u>\$ 25,805,650,405</u>	<u>\$ 15,617,722,719</u>

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## Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

Exhibit II (concluded)

	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
<b>DEDUCTIONS</b>		
Benefits	\$ 8,548,642,525	\$
Refunds of Contributions - Active	405,144,490	
Refunds of Contributions - Death	5,455,829	
415 Excess Benefit Arrangement	1,971,677	
Benefits Paid to Employees Retirement System of Texas:		
For Service Contributions	80,163,847	
For 415 Excess Benefit Arrangement	302,155	
Health Care Claims and Insurance Premium Payments		1,375,039,945
Health Care Claims Processing		41,911,930
Patient-Centered Outcomes Research Institute Fee		475,839
Transitional Reinsurance Fee		3,000,000
Administrative Expenses, Excluding Investing Activity Expenses:		
Salaries and Wages	19,302,836	2,028,646
Payroll Related Costs	7,485,057	713,949
Professional Fees and Services	5,235,653	677,287
Travel	182,459	10,939
Materials and Supplies	2,542,287	130,411
Communications and Utilities	267,532	2,479
Repairs and Maintenance	3,853,227	27,242
Rentals and Leases	199,021	
Printing and Reproduction	117,023	32,746
Depreciation	1,868,689	
Amortization	428,434	
Loss on Capital Asset	23,994	
Other Expenses	397,978	22,847
<b>TOTAL DEDUCTIONS</b>	<b>\$ 9,083,584,713</b>	<b>\$ 1,424,074,260</b>
<b>Net Increase (Decrease) in Net Position</b>	<b>\$ 15,391,099,226</b>	<b>\$ (93,107,794)</b>
<b>NET POSITION: RESTRICTED FOR PENSIONS/OTHER</b>		
<b>EMPLOYEE BENEFITS - BEGINNING OF YEAR</b>	<b>\$ 117,388,143,859</b>	<b>\$ 551,048,281</b>
<b>NET POSITION: RESTRICTED FOR PENSIONS/OTHER</b>		
<b>EMPLOYEE BENEFITS - END OF YEAR</b>	<b>\$ 132,779,243,085</b>	<b>\$ 457,940,487</b>

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



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

2014	2013
\$ 8,548,642,525	\$ 8,075,208,484
405,144,490	386,587,184
5,455,829	4,705,228
1,971,677	2,192,360
80,163,847	75,513,146
302,155	328,470
1,375,039,945	1,241,656,374
41,911,930	43,577,852
475,839	
3,000,000	
21,331,482	19,796,779
8,199,006	6,888,578
5,912,940	3,921,814
193,398	171,430
2,672,698	2,631,406
270,011	614,647
3,880,469	2,582,347
199,021	187,755
149,769	303,967
1,868,689	1,379,944
428,434	344,233
23,994	103,998
420,825	735,273
<u>\$ 10,507,658,973</u>	<u>\$ 9,869,431,269</u>
\$ 15,297,991,432	\$ 5,748,291,450
<u>\$ 117,939,192,140</u>	<u>\$ 112,190,900,690</u>
<u>\$ 133,237,183,572</u>	<u>\$ 117,939,192,140</u>



## Statement of Net Position

### PROPRIETARY FUNDS

August 31, 2014 (With Comparative Data for August 31, 2013)

Exhibit III

	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	\$ 229,989,675	\$ 342,032
<b>TOTAL CASH</b>	<b>\$ 229,989,675</b>	<b>\$ 342,032</b>
<b>Receivables</b>		
Interest	\$ 75,079	\$ 103
Health Care Premiums	576,694	
<b>TOTAL RECEIVABLES</b>	<b>\$ 651,773</b>	<b>\$ 103</b>
<b>TOTAL ASSETS</b>	<b>\$ 230,641,448</b>	<b>\$ 342,135</b>
<b>LIABILITIES (Note 1F)</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 128,338	\$
Payroll Payable	109,572	4,047
Premiums Payable to HMOs	12,733,152	
Health Care Claims Payable	194,683,104	
Employee Compensable Absences Payable (Note 4)	99,649	6,108
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 207,753,815</b>	<b>\$ 10,155</b>
<b>Non-Current Liabilities</b>		
Employee Compensable Absences Payable (Note 4)	\$ 48,521	\$ 3,824
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 48,521</b>	<b>\$ 3,824</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 207,802,336</b>	<b>\$ 13,979</b>
<b>NET POSITION</b>		
Restricted for Health Care Programs	\$ 22,839,112	\$
Unrestricted		
Restricted for Administrative Expenses		328,156
<b>TOTAL NET POSITION</b>	<b>\$ 22,839,112</b>	<b>\$ 328,156</b>

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





**Total Enterprise Funds**

2014		2013	
\$	230,331,707	\$	47,555,974
\$	230,331,707	\$	47,555,974
\$	75,182	\$	26,127
	576,694		92,071,469
\$	651,876	\$	92,097,596
\$	230,983,583	\$	139,653,570
\$	128,338	\$	155,765
	113,619		126,518
	12,733,152		8,510,902
	194,683,104		248,319,078
	105,757		103,762
\$	207,763,970	\$	257,216,025
\$	52,345	\$	52,331
\$	52,345	\$	52,331
\$	207,816,315	\$	257,268,356
\$	22,839,112	\$	(117,971,123)
	328,156		356,337
\$	23,167,268	\$	(117,614,786)



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

### PROPRIETARY FUNDS

For Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

Exhibit IV

	Enterprise Funds		
	Major Fund	Non-major Fund	
	TRS-ActiveCare	403(b) Administrative Program	
<b>OPERATING REVENUES</b>			
Health Care Premiums	\$	1,928,895,465	\$
Supplemental State Contributions			
Administrative Fees		139,608	
Certification Fees			15,000
Product Registration Fees			15,000
<b>TOTAL OPERATING REVENUES</b>	<b>\$</b>	<b>1,929,035,073</b>	<b>\$</b>
			<b>30,000</b>
<b>OPERATING EXPENSES</b>			
Health Care Claims	\$	1,521,834,989	\$
Health Care Claims Processing		90,680,328	
Premium Payments to HMOs		154,913,859	
Patient-Centered Outcomes Research Institute Fees		1,245,626	
Transitional Reinsurance Fee		18,000,000	
Administrative Expenses			
Salaries and Wages		1,166,954	44,761
Payroll Related Cost		318,575	17,875
Professional Fees and Services		1,020,179	
Travel		8,230	
Materials and Supplies		2,913	
Communication and Utilities		771	
Repairs and Maintenance			
Rental and Leases		46,684	
Printing and Reproduction			
Other Operating Expenses		5,544	
<b>TOTAL OPERATING EXPENSES</b>	<b>\$</b>	<b>1,789,244,652</b>	<b>\$</b>
			<b>62,636</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$</b>	<b>139,790,421</b>	<b>\$</b>
			<b>(32,636)</b>
<b>NON-OPERATING REVENUE</b>			
Investment Income	\$	940,022	\$
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees (Note 6)		79,792	3,131
<b>TOTAL NON-OPERATING REVENUES</b>	<b>\$</b>	<b>1,019,814</b>	<b>\$</b>
			<b>4,455</b>
<b>Change in Net Position</b>	<b>\$</b>	<b>140,810,235</b>	<b>\$</b>
			<b>(28,181)</b>
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<b>\$</b>	<b>(117,971,123)</b>	<b>\$</b>
			<b>356,337</b>
<b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$</b>	<b>22,839,112</b>	<b>\$</b>
			<b>328,156</b>

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



**Total Enterprise Funds**

<b>2014</b>		<b>2013</b>	
\$	1,928,895,465	\$	1,808,521,683
	139,608		137,630
	15,000		60,000
	15,000		81,000
\$	1,929,065,073	\$	1,808,800,313
\$	1,521,834,989	\$	1,785,069,768
	90,680,328		84,903,101
	154,913,859		100,905,702
	1,245,626		
	18,000,000		
	1,211,715		1,234,510
	336,450		348,848
	1,020,179		734,228
	8,230		1,772
	2,913		3,733
	771		1,189
	46,684		62,245
			1,187
	5,544		4,284
\$	1,789,307,288	\$	1,973,270,567
\$	139,757,785	\$	(164,470,254)
\$	941,346	\$	748,269
	82,923		78,554
\$	1,024,269	\$	826,823
\$	140,782,054	\$	(163,643,431)
\$	(117,614,786)	\$	46,028,645
\$	23,167,268	\$	(117,614,786)



## Statement of Cash Flows

### PROPRIETARY FUNDS

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

Exhibit V

	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	\$ 2,020,390,239	\$
Receipts from Long-Term Care Administrative Fees	139,608	
Receipts from Certification/Product Registration Fees		30,000
Payments for Administrative Expenses	(2,542,353)	(45,526)
Payments for Health Care Claims	(1,575,470,963)	
Payments for Health Care Claims Processing	(90,680,328)	
Payments for HMO Premiums	(150,691,609)	
Payments for Patient-Centered Outcomes Research Institute Fee	(1,245,626)	
Payments for Transitional Reinsurance Fee	(18,000,000)	
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 181,898,968</b>	<b>\$ (15,526)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	\$ 890,975	\$ 1,316
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 890,975</b>	<b>\$ 1,316</b>
Net Increase (Decrease) in Cash	\$ 182,789,943	\$ (14,210)
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 47,199,732	\$ 356,242
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 229,989,675	\$ 342,032
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 139,790,421	\$ (32,636)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Changes in Assets & Liabilities:		
(Increase) Decrease in Health Care Premiums Receivable	\$ 91,494,774	\$
Increase in Premiums Payable to HMOs	4,222,250	
Increase (Decrease) in Health Care Claims Payable	(53,635,974)	
Increase (Decrease) in Accounts Payable	(27,426)	
Increase (Decrease) in Payroll Payable	(16,946)	4,047
Increase (Decrease) in Employee Compensable Absences Payable	(7,923)	9,932
NonCash Transactions:		
Proceeds from Fringe Benefits Paid by the State's General Fund on Behalf of TRS Employees	79,792	3,131
<b>Total Adjustments</b>	<b>\$ 42,108,547</b>	<b>\$ 17,110</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 181,898,968</b>	<b>\$ (15,526)</b>

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



**Total Enterprise Funds**

<b>2014</b>		<b>2013</b>	
\$	2,020,390,239	\$	1,803,891,764
	139,608		137,630
	30,000		141,000
	(2,587,879)		(2,208,077)
	(1,575,470,963)		(1,744,608,089)
	(90,680,328)		(84,903,101)
	(150,691,609)		(99,844,003)
	(1,245,626)		
	(18,000,000)		
<hr/>		<hr/>	
\$	181,883,442	\$	(127,392,876)
<hr/>		<hr/>	
\$	892,291	\$	802,342
<hr/>		<hr/>	
\$	892,291	\$	802,342
<hr/>		<hr/>	
\$	182,775,733	\$	(126,590,534)
<hr/>		<hr/>	
\$	47,555,974	\$	174,146,508
<hr/>		<hr/>	
\$	230,331,707	\$	47,555,974
<hr/>		<hr/>	
\$	139,757,785	\$	(164,470,254)
<hr/>		<hr/>	
\$	91,494,774	\$	(4,629,919)
	4,222,250		1,061,699
	(53,635,974)		40,461,679
	(27,426)		85,181
	(12,899)		4,848
	2,009		15,336
<hr/>		<hr/>	
	82,923		78,554
<hr/>		<hr/>	
\$	42,125,657	\$	37,077,378
<hr/>		<hr/>	
\$	181,883,442	\$	(127,392,876)
<hr/>		<hr/>	



## ***Notes to the Financial Statements***

NOTE 1	-	Summary of Significant Accounting Policies .....	51
NOTE 2	-	Capital Assets .....	57
NOTE 3	-	Deposits and Investments.....	58
NOTE 4	-	Employee Compensable Leave .....	73
NOTE 5	-	Operating Leases.....	74
NOTE 6	-	Fringe Benefits Paid by the State of Texas and the Federal Government ...	74
NOTE 7	-	Deferred Compensation.....	74
NOTE 8	-	Contingent Liabilities.....	74
NOTE 9	-	Continuance Subject to Review .....	75
NOTE 10	-	Post-employment Health Care Benefits.....	75
NOTE 11	-	Risk Management .....	79
NOTE 12	-	Pension Disclosure .....	79



## ***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 a separate legal entity and considered a discrete component unit of the State of Texas. The system is governed by a nine member board of trustees which has significant independence in the operations and management of the system under the provisions of the state constitution and laws. The trustees serve staggered six-year terms that expire on August 31 of odd numbered years and are all appointed by the Governor. The trustees are appointed in several different ways, three are direct appointments by the Governor, two appointments come from a list prepared by the State Board of Education, two more appointments come from three public school district active member candidates who have been nominated by employees of public school districts, one appointment is from three higher education active member candidates nominated by employees of institutions of higher education, and the final appointment is from three retired member candidates that are nominated by TRS retirees. 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.

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 the 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 and TRS-ActiveCare, 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 the Texas Insurance Code, Chapter 1575 and the 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.



## ***Notes to the Financial Statements***

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

The system's accounts 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 (employee benefits trust fund) and the Agency Fund.
- Proprietary Funds – include TRS-ActiveCare and the 403(b) Administrative Program which are both Enterprise funds and are not considered major funds.

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

The proprietary, enterprise funds account for business-type activities or those for which a fee is charged to external users for goods or services. The reporting focus is on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds distinguish operating activities from non-operating. Operating activities generally result from providing services and producing or delivering goods. Operating revenues for the system's 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.

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**

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). TRS implemented two GASB statements in fiscal year 2014.

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





## ***Notes to the Financial Statements***

GASB Statement No. 67, *Financial Reporting for Pension 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*, relates to governmental employers that provide pensions through trusts and is effective for fiscal years beginning after June 15, 2014. TRS is working with the plan auditors to provide the information necessary for employers to comply with this statement for the next fiscal year.

### **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, 2013, from which the summarized information was derived. Certain items from the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements. These reclassifications had no effect on previously reported net position.

For the fiscal year 2014, the Statement of Changes in Fiduciary Net Position includes a reclassification from Net Increase in Fair Value of Investments to Interest. For the 2013 Comparative Data included in the Statement of Changes in Fiduciary Net Position, this reclassification was not reflected.

### **E. BUDGETS AND APPROPRIATIONS**

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

The Pension Trust Fund receives state contributions for retirement benefits from general revenue appropriations. In fiscal years 2014 and 2013, contributions were made by the State of Texas to the retirement system at the rate of 6.8% and 6.4%, 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.

The 83<sup>rd</sup> Texas Legislature enacted Senate Bill 1458 requiring school districts and charter schools that do not contribute to Social Security for TRS-eligible employees to contribute to TRS 1.5% of the statutory minimum salary for employees whose positions are subject to statutory minimum. For employees who are not subject to the statutory minimum, the employer will contribute 1.5% of the employee's total salary. This bill also states that if the state contribution rate is reduced below 6.8%, the employer contribution rates are reduced by an equal percentage. The bill is effective beginning Fiscal Year 2015.

TRS-Care received contributions from the state's General Fund equal to 1.00% of salaries paid to public education employees in fiscal year 2014. Administrative expenses for this program are paid from the trust fund. The passage of Senate Bill 1458, Rider 4 of the General Appropriations Act for the 83rd Legislature re-appropriated funds for fiscal year 2013; if in excess of the state's obligation. In fiscal year 2013 there was an excess in General Revenue of \$126,876,671. Of this amount, \$90,818,523 was re-appropriated to the Pension Fund to increase the state contribution rate for fiscal year 2014 to 6.8% and \$36,058,148 was re-appropriated to TRS-Care.

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.



## ***Notes to the Financial Statements***

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

### **F. ASSETS, LIABILITIES AND LEGAL RESERVES**

#### **Receivables**

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

#### **Investments**

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

Short-term investments are those maturing within one year of purchase date. Included in short-term investments are foreign currency contracts. These foreign exchange contracts are reported at the spot rate and the net difference between the value of the foreign currency and the U.S. dollar is reported in the net increase (decrease) 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.



## ***Notes to the Financial Statements***

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

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

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

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

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

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

### **Capital Assets**

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



## ***Notes to the Financial Statements***

### **Securities Lending**

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

### **Liabilities**

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

Benefits payable for the Pension Trust Fund represents the liability for retirement, disability, and death benefits due at fiscal year-end and payable within the next 30 days. The health care claims payable for TRS-Care and TRS-ActiveCare includes an estimate for health care claims incurred but not reported to the system at August 31, 2014.

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.

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 position for enterprise funds, if appropriate.

Unrealized lease incentives represent 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**

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

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



## Notes to the Financial Statements

### Legal Reserve Accounts

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

### NOTE 2: CAPITAL ASSETS

Capital assets are presented at historical cost or, if not purchased, at fair value at the date of acquisition. When appropriate, straight-line depreciation and amortization have been charged over the shorter of estimated useful lives of the assets or lease period. 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	Depreciable Life
Land	\$ 0	--
Construction in Progress	--	--
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
Vehicles, Boats, and Aircraft	5,000	7 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 09/01/2013	Reclassifications & Completed CIP	Additions	Deletions	Balance 08/31/2014 (Exhibit I)
<b>Non-Depreciable Assets:</b>					
Land and Land Improvements	\$ 1,658,310	\$	\$	\$	\$ 1,658,310
Construction in Progress	1,207,817		7,502,903		8,710,720
Other Tangible Capital Assets	124,136				124,136
<b>Total Non-Depreciable Assets</b>	<b>\$ 2,990,263</b>	<b>\$ 0</b>	<b>\$ 7,502,903</b>	<b>\$ 0</b>	<b>\$ 10,493,166</b>
<b>Depreciable Assets:</b>					
Buildings and Building Improvements	\$ 38,946,057	\$	\$ 229,647	\$	\$ 39,175,704
Furniture and Equipment	10,836,846	(17,679)	1,276,448	(972,952)	11,122,663
Vehicles, Boats & Aircraft	76,363				76,363
Leasehold Improvements	3,096,189				3,096,189
Facilities and Other Improvements	343,622				343,622
<b>Total Depreciable Assets at Historical Cost</b>	<b>\$ 53,299,077</b>	<b>\$ (17,679)</b>	<b>\$ 1,506,095</b>	<b>\$ (972,952)</b>	<b>\$ 53,814,541</b>
<b>Less Accumulated Depreciation for:</b>					
Buildings and Building Improvements	\$ (16,805,534)	\$	\$ (1,340,339)	\$	\$ (18,145,873)
Furniture and Equipment	(6,050,436)	17,086	(1,219,603)	949,552	(6,303,401)
Vehicles, Boats & Aircraft	(34,924)		(5,991)		(40,915)
Leasehold Improvements	(2,322,140)		(516,031)		(2,838,171)
Facilities and Other Improvements	(81,688)		(34,362)		(116,050)
<b>Total Accumulated Depreciation</b>	<b>\$ (25,294,722)</b>	<b>\$ 17,086</b>	<b>\$ (3,116,326)</b>	<b>\$ 949,552</b>	<b>\$ (27,444,410)</b>
<b>Depreciable Assets, Net</b>	<b>\$ 28,004,355</b>	<b>\$ (593)</b>	<b>\$ (1,610,231)</b>	<b>\$ (23,400)</b>	<b>\$ 26,370,131</b>
<b>Intangible Assets:</b>					
Computer Software	\$ 9,860,493	\$	\$ 299,250	\$	\$ 10,159,743
<b>Total Amortizable Assets at Historical Cost</b>	<b>\$ 9,860,493</b>	<b>\$ 0</b>	<b>\$ 299,250</b>	<b>\$ 0</b>	<b>\$ 10,159,743</b>
<b>Less Accumulated Amortization for:</b>					
Computer Software	\$ (8,540,227)	\$	\$ (428,434)	\$	\$ (8,968,661)
<b>Total Accumulated Amortization</b>	<b>\$ (8,540,227)</b>	<b>\$ 0</b>	<b>\$ (428,434)</b>	<b>\$ 0</b>	<b>\$ (8,968,661)</b>
<b>Intangible Assets, Net</b>	<b>\$ 1,320,266</b>	<b>\$ 0</b>	<b>\$ (129,184)</b>	<b>\$ 0</b>	<b>\$ 1,191,082</b>
<b>Fiduciary Capital Assets, Net of Accumulated Depreciation/Amortization</b>	<b>\$ 32,314,884</b>	<b>\$ (593)</b>	<b>\$ 5,763,488</b>	<b>\$ (23,400)</b>	<b>\$ 38,054,379</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, 2014, the carrying amount totaled \$297,354,404 and the bank balance totaled \$297,350,032. 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, 2014, the system had \$2,526,510 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 ALLOCATION, 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 establish and may amend 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. The Investment Division assists the Board in engaging in an asset-liability study for the pension plan at least once every five years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. The previous study was completed in 2009 and the current study was in process as of August 31, 2014. A key objective of the asset-liability study shall be the development through statistical modeling techniques of a diversified portfolio that specifies ranges of prudent portfolio exposures and a "long-term normal" position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's actuarial return objectives for the pension plan within specific risk tolerances.



## **Notes to the Financial Statements**

The following was the adopted asset allocation policy as of August 31, 2014.

<u>Asset Class</u>	<u>Target Allocation</u>
<b>Global Equity</b>	
U.S. Large Cap	18%
U.S. Small Cap	2
Non-U.S. Developed	15
Emerging Markets	10
Directional Hedge Funds	5
Private Equity	11
<b>Stable Value</b>	
U.S. Treasuries	13%
Absolute Return	0
Stable Value Hedge Funds	4
Cash	1
<b>Real Return</b>	
Global Inflation Linked Bonds	5%
Real Assets	13
Energy and Natural Resources	3
Commodities	0
<b>Total</b>	<b>100%</b>

The Long-Term Expected Real Rate of Return was determined as of August 31, 2014 using the adopted asset allocation policy amended effective October 1, 2014 as described in the following paragraph.

The preceding target allocation was amended effective October 1, 2014, to the adopted asset allocation policy on the following page. This investment policy change was to a) increase Real Assets by 3% and Private Equity by 2% funded over multiple years from a 1% reduction in the five asset classes of U.S. Large and Small Cap, Non-U.S. Developed, Emerging Markets, U.S. Treasuries, and Global Inflation Linked Bonds and b) add a 5% allocation to the Risk Parity allocation over a two year period funded from a 1% reduction in each of U.S. Large and Small Cap, Non-U.S. Developed, Directional Hedge Funds, U.S. Treasuries, and Global Inflation Linked Bonds.





## **Notes to the Financial Statements**

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns <sup>1</sup>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

<sup>1</sup> The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

For the year ended August 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 16.9 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### **E. INVESTMENTS**

The fair values of investments at August 31, 2014, are shown in the table on the following page.



## Notes to the Financial Statements

Pension Trust Fund	
Investment Type	Fair Value
Short-Term Investments:	
Short-Term Investment Fund	\$ 3,259,770,177
Other Short-Term	672,383,114
Short-Term Foreign Currency Contracts	(37,174)
Equities:	
Domestic Equities:	
Equity Securities	22,265,164,403
Equity Commingled Funds	2,853,782,403
International Equities:	
Equity Securities	30,051,096,048
Equity Commingled Funds	4,169,262,524
Equity Mutual Funds	179,362,452
Debt Securities:	
Domestic Debt Securities:	
Asset and Mortgage Backed	163,359,255
Corporate	51,328,443
U.S. Treasury	16,356,728,412
U.S. Treasury STRIPS	238,732,645
U.S. Treasury TIPS	6,286,324,129
U.S. Government Agency	192,946,250
Debt Commingled Funds	170,692,816
International Debt Securities:	
Government	74,597,383
Corporate	111,140,878
Debt Commingled Funds	24,844,957
Alternative Investments:	
Domestic Alternative Investments:	
Private Equity	11,778,336,521
Real Assets	12,780,139,687
Hedge Funds	10,947,169,004
Absolute Return	171,991,322
Energy and Natural Resources	2,507,734,142
International Alternative Investments:	
Private Equity	3,662,875,908
Real Assets	2,019,058,632
Hedge Funds	478,445,203
Investment Derivatives:	
Domestic Investment Derivatives:	
Forward Contracts	23,683,569
Options	892,146
Swap Contracts	12,226,718
Warrants	30,968,657
International Investment Derivatives:	
Options	515,757
Swap Contracts	1,399,146
Warrants	24,015,732
Other Investments:	
Other Commingled Funds - Domestic	34,175,708
<b>Total Investments (Exhibit I)</b>	<b>\$ 131,595,106,967</b>
Invested Securities Lending Collateral:	
Securities Lending Pooled Investments	\$ 22,876,578,455
<b>Total Securities Lending Collateral (Exhibit I)</b>	<b>\$ 22,876,578,455</b>



## Notes to the Financial Statements

Categories of permissible investments include equities, debt securities, cash equivalents, alternative investments including private equity, real assets, absolute return, hedge funds, other absolute return investments, derivative instruments authorized by law, mutual funds, closed-end funds, exchange-traded funds, and commingled funds. Investment categories are based on the risk profiles exhibited by those investments.

The objectives of the Private Equity and Real Asset investments is to provide diversification to the Total Fund, and provide for enhanced returns and diversification within the portfolio by allocating assets among the various strategies. Private equity funds build portfolios of private investments in the equity or equity-rights securities of privately-owned operating companies. Real assets focus on private or public real estate equity, private or public real estate debt, infrastructure, timber, agricultural real estate, oil and gas, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, REITS, MLPs, non-fixed assets and other opportunistic investments in real assets. Funding of committed capital in either the Private Equity or the Real Asset Portfolio will occur over an extended time period and may take several years before the total allocation to each asset class is fully invested. Because an individual investment may begin to return capital to the investor prior to the full funding of the investor's commitment, the outstanding invested capital of a Private Equity or Real Asset investment might at times be substantially less than the total commitment. Hedge funds are private commingled investment vehicles with the general characteristics as set forth in Texas Government Code, Section 825.3012. Hedge funds include private investment fund of funds or a commingled vehicle that itself invests in hedge funds. TRS investment policy establishes criteria to analyze and determine whether a private investment fund should be classified as a hedge fund. The permissible hedge fund allocation is a maximum of 10% of the market value of the total fund on the date of each hedge fund investment. 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.

### F. DERIVATIVES

The fair value balances and notional amounts of investment derivative instruments outstanding at August 31, 2014, classified by type, and the changes in fair value of such investment derivative instruments for the fiscal year ended August 31, 2014 were as follows.

Changes in Fair Value			Fair Value at August 31, 2014		
	Classification	Amount Gain/(Loss)	Classification	Amount	Notional
<b>Fiduciary Funds</b>					
<b>Investment Derivatives:</b>					
Forward Contracts	Investment Revenue	\$ (21,580,148)	Investment	\$ 23,683,569	\$ 8,376,243,787
Futures Contracts	Investment Revenue	\$ (29,258,970)	Investment	\$ 0	\$ 14,688,446,283
Swap Contracts	Investment Revenue	\$ 2,427,839	Investment	\$ 13,625,864	\$ 5,142,436,673
Warrants	Investment Revenue	\$ 5,375,161	Investment	\$ 54,984,389	\$ 45,456,142
Options	Investment Revenue	\$ 1,927,452	Investment	\$ 1,407,903	\$ 3,133,663

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.



## ***Notes to the Financial Statements***

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

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

Any counterparty to an over-the-counter derivative transaction must have a credit rating of at least A- (Standard & Poor's 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. 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.

### **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



## ***Notes to the Financial Statements***

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, 2014, the balance of uncollateralized cash in U.S. and non-U.S. banks for investments pending settlement was \$297,704,621.

#### **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 \$669,283,114 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, and are not exposed to custodial credit risk. At August 31, 2014, the system held \$3,100,000 associated with investment derivative activity.

At August 31, 2014, the deposits with broker on exchange-traded investment derivative instruments and investment derivative instruments subject to mandatory clearing through a designated clearing organization in the amount of \$197,087,001 were uninsured and uncollateralized.



## ***Notes to the Financial Statements***

### **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 & Poor's 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 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 tri-party 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, 2014, using the Standard & Poor's (S&P) rating scale, are as follows and on following page.

**Investment Derivative Instruments** – the aggregate fair value of investment derivative instruments in asset positions at August 31, 2014, was \$33,131,195. This represents the maximum loss that would be recognized at August 31, 2014, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$989,132 of liabilities included in netting arrangements with those counterparties resulting in a net exposure of investment derivative instruments to credit risk of \$32,142,063.

The aggregate fair value of investment derivative instruments in asset positions of \$33,131,195 at August 31, 2014, was executed with 8 counterparties, all with an S&P rating of A.



## Notes to the Financial Statements

### Debt Securities:

Investment Type	S&P Rating	Fair Value
Short-Term Investment Fund	NR	\$ 3,259,770,177
Other Short-Term	NR	672,383,114
<b>Total Credit Risk of Short-Term</b>		<b>\$ 3,932,153,291</b>
Short-Term Foreign Currency Contracts		\$ (37,174)
<b>Total Short-Term (Exhibit I)</b>		<b>\$ 3,932,116,117</b>
U.S. Government Agency Obligations	AA	\$ 77,636,575
U.S. Government Agency Obligations	NR	114,428,555
<b>Total U.S. Government Agency Obligations</b>		<b>\$ 192,065,130</b>
Asset and Mortgage Backed Obligations	AAA	\$ 39,118,391
Asset and Mortgage Backed Obligations	AA	10,585,856
Asset and Mortgage Backed Obligations	A	9,087,084
Asset and Mortgage Backed Obligations	BBB	9,434,616
Asset and Mortgage Backed Obligations	BB	26,139,551
Asset and Mortgage Backed Obligations	B	15,901,076
Asset and Mortgage Backed Obligations	CCC	24,461,834
Asset and Mortgage Backed Obligations	CC	1,748,135
Asset and Mortgage Backed Obligations	D	7,519,751
Asset and Mortgage Backed Obligations	NR	19,362,961
<b>Total Asset and Mortgage Backed Obligations</b>		<b>\$ 163,359,255</b>
Corporate Obligations	AAA	\$ 1,397,551
Corporate Obligations	AA	794,364
Corporate Obligations	A	5,107,740
Corporate Obligations	BBB	3,600,276
Corporate Obligations	BB	1,650,438
Corporate Obligations	B	962,008
Corporate Obligations	CCC	5,812,998
Corporate Obligations	NR	32,003,068
<b>Total Corporate Obligations</b>		<b>\$ 51,328,443</b>
International Government Obligations	AA	\$ 7,151,269
International Government Obligations	A	1,568,494
International Government Obligations	BBB	9,592,561
International Government Obligations	B	2,300,259
International Government Obligations	NR	53,984,800
<b>Total International Government Obligations</b>		<b>\$ 74,597,383</b>
International Corporate Obligations	NR	\$ 111,140,878
<b>Total International Corporate Obligations</b>		<b>\$ 111,140,878</b>
<b>Total Credit Risk of Debt Securities (excluding Short-Term)</b>		<b>\$ 592,491,089</b>
U.S. Government Obligations and U.S. Government Agency Obligations		\$ 22,882,666,306
<b>Total Fixed Income (Exhibit I)</b>		<b>\$ 23,475,157,395</b>



## Notes to the Financial Statements

### 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 below shows the long-term fixed income investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2014.

Investment Type	Fair Value	Effective Weighted Duration Rate*
U.S. Government Obligations	\$ 16,356,728,412	17.223
U.S. Government STRIPS and TIPS	6,525,056,774	7.116
U.S. Government Agency Obligations	192,946,250	10.169
Asset and Mortgage Backed Obligations	163,359,255	1.805
Corporate Obligations	51,328,443	3.267
International Government Obligations	74,597,383	9.021
International Corporate Obligations	111,140,878	0.004
<b>Total Fixed Income (Exhibit I)</b>	<b>\$ 23,475,157,395</b>	<b>14.111</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, 2014.

Maturities in Years			
Less than 1 Year	1-5	6-10	Total
\$ 9,323,573	\$ 7,140,692	\$ (2,838,401)	\$ 13,625,864

### 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, 2014, these securities totaled \$163,359,255.

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, 2014, these funds totaled \$195,537,773.





## **Notes to the Financial Statements**

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, 2014, the notional amount and fair value of these contracts were as follows.

Terms	Notional	Fair Value
U.S. LIBOR-Varied Terms	\$ 1,720,368,956	\$ 826,611
GBP LIBOR-Varied Terms	6,916,833	(196,412)
JPY LIBOR-Varied Terms	857,083	104,066
1 month STIBOR	3,430,791	(35,989)
U.S. Fed Funds Effective Rate	1,171,537	(25,911)
<b>Total</b>	<b>\$ 1,732,745,200</b>	<b>\$ 672,365</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, 2014, is presented in the tables on the following pages.



## **Notes to the Financial Statements**

### **Deposits:**

Currency	Cash in Non-U.S. Banks
Australian Dollar	\$ 5,918,892
Bangladeshi Taka	122,816
Botswana Pula	69,338
Brazilian Real	6,753,437
Canadian Dollar	2,691,997
Chilean Peso	444,313
Colombian Peso	472,764
Croatian Kuna	54,273
Czech Koruna	138,979
Danish Krone	86,231
Egyptian Pound	383,571
Euro	119,546,531
Ghanaian Cedi	121,500
Hong Kong Dollar	26,256,157
Hungarian Forint	58,503
Indian Rupee	3,996,145
Indonesian Rupiah	1,962,124
Israeli Shekel	9,765
Japanese Yen	88,111,671
Jordanian Dinar	70,360
Kenyan Shilling	110,642
Kuwaiti Dinar	82,129
Lithuania Litas	50
Malaysian Ringgit	1,559,313
Mauritius Rupee	200,076
Mexican Peso	788,209
Moroccan Dirham	331,637
New Turkish Lira	397,157
New Zealand Dollar	82,721
Nigerian Naira	83,509
Norwegian Krone	244,764
Omani Rial	61,508
Pakistan Rupee	17,534
Peruvian Nuevo Sol	54,213
Philippine Peso	1,362,894
Polish Zloty	464,762
Pound Sterling	20,462,993
Qatar Riyal	439,296
Romanian Leu	47,032
Singapore Dollar	332,519
South African Rand	272,163
South Korean Won	4,075,641
Swedish Krona	628,977
Swiss Franc	169,746
Taiwan Dollar	5,729,602
Thai Baht	2,614,813
Tunisian Dinar	5,451
United Arab Emirates Dirham	52
Vietnamese Dong	65,851
Total Deposits Subject to Foreign Currency Risk	\$ 297,954,621



## Notes to the Financial Statements

### Investments:

Currency	Debt	Equity	Alternative Investments	Commingled Funds	Derivatives	Total Fair Value
Australian Dollar	\$	\$ 357,060,362	\$	\$	\$	\$ 357,060,362
Bangladeshi Taka		3,763,435				3,763,435
Botswana Pula		5,668,079				5,668,079
Brazilian Real		1,047,378,375				1,047,378,375
Canadian Dollar		972,255,901				972,255,901
Chilean Peso		77,238,707				77,238,707
Colombian Peso		70,411,685				70,411,685
Croatian Kuna		7,888,549				7,888,549
Czech Koruna		51,682,002				51,682,002
Danish Krone		212,583,905				212,583,905
Egyptian Pound		21,058,145				21,058,145
Euro	39,282,752	5,132,901,601	2,861,433,831	803,906,431	338,892	8,837,863,507
Ghanaian Cedi		2,687,044				2,687,044
Hong Kong Dollar		2,676,375,920			59,083	2,676,435,003
Hungarian Forint		36,309,414				36,309,414
Indian Rupee		871,946,666				871,946,666
Indonesian Rupiah		384,679,847				384,679,847
Israeli Shekel		14,444,714				14,444,714
Japanese Yen	1,113,131	3,763,566,651			791,417	3,765,471,199
Jordanian Dinar		8,927,209				8,927,209
Kenyan Shilling		9,344,400				9,344,400
Kuwaiti Dinar		19,800,377				19,800,377
Malaysian Ringgit		317,836,440			486,683	318,323,123
Mauritius Rupee		8,764,519				8,764,519
Mexican Peso	1,568,494	547,072,992				548,641,486
Moroccan Dirham		9,153,619				9,153,619
New Turkish Lira		252,266,159				252,266,159
New Zealand Dollar	7,151,269	1,766,348				8,917,617
Nigerian Naira		10,284,876				10,284,876
Norwegian Krone		225,076,201				225,076,201
Omani Rial		10,248,417				10,248,417
Pakistan Rupee		38,308,294				38,308,294
Peruvian Nuevo Sol		7,440,144				7,440,144
Philippine Peso		122,842,137				122,842,137
Polish Zloty		147,366,942				147,366,942
Pound Sterling	23,173,111	2,786,542,017	411,608,612		(69,533)	3,221,254,207
Qatar Riyal		39,696,516				39,696,516
Romanian Leu		10,070,419				10,070,419
Russian Ruble		8,467,936				8,467,936
Singapore Dollar		120,914,849				120,914,849
South African Rand	2,308,626	827,951,483				830,260,109
South Korean Won		1,729,754,835			201,933	1,729,956,768
Sri Lankan Rupee		3,489,782				3,489,782
Swedish Krona		363,456,479			(35,989)	363,420,490
Swiss Franc		1,356,746,812				1,356,746,812
Taiwan Dollar		1,056,169,328			907,566	1,057,076,894
Thai Baht		391,788,183				391,788,183
Tunisian Dinar		2,415,001				2,415,001
United Arab Emirates Dirham		23,289,093				23,289,093
Vietnamese Dong		9,700,450				9,700,450
Total Investments Subject to Foreign Currency Risk	\$ 74,597,383	\$ 26,176,853,259	\$ 3,273,042,443	\$ 803,906,431	\$ 2,680,052	\$ 30,331,079,568



## ***Notes to the Financial Statements***

### **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 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	\$ 336,136,031
Domestic Equities	30,970,751
International Equities	11,678,403
Total	\$ 378,785,185

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, 2014, the weighted average term of these loans was nineteen days. As of August 31, 2014, the weighted average maturity of the invested cash collateral was 43 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 significant violations of contractual provisions, no borrower or custodian default losses and no recoveries of prior period losses.



## Notes to the Financial Statements

Authorized borrowers have specific limits that vary from \$50 million to \$5.5 billion. 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, 2014.

	Cash		Non-Cash		Total
Securities on Loan	\$	22,343,917,415	\$	378,785,185	\$ 22,722,702,600
Collateral Received	\$	22,866,775,747	\$	386,911,224	\$ 23,253,686,971
Reinvested Collateral	\$	22,876,578,455			\$ 22,876,578,455

For fiscal year 2014, the system earned income of \$72,534,019 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, 2014, the aggregate fair value of all investment derivative instruments with these collateral posting provisions is \$38,717,336. If the collateral posting thresholds of all these investment derivative instruments did not exist at August 31, 2014, the system would be required to post the aggregate amount of \$621,104 in collateral to its counterparties. Where none of the contractual thresholds were surpassed, the system has posted no collateral at August 31, 2014.

The system's investments in certain limited partnerships commit the system to possible future capital contributions. At August 31, 2014, the remaining commitment was \$17,903,850,207.

#### NOTE 4: EMPLOYEE COMPENSABLE LEAVE

Salary costs related to employees' rights to be compensated for leave balances are accrued as expenses in the period in which the services were rendered. Accumulated compensable leave liabilities are reported in the Statement of Fiduciary Net Position for the Pension and Other Employee Benefit Trust Funds and in the Statement of Net Position for the Enterprise Funds. The employees' compensable leave activity for fiscal year 2014 is shown in the table below.

	Beginning Balance 09/01/13	Additions	Reductions	Ending Balance 08/31/14	Amounts Due Within One Year	Amounts Due Thereafter
Fiduciary Funds:						
Pension Trust Fund	\$5,751,917	\$7,188,008	(\$5,945,045)	\$6,994,880	\$4,461,244	\$2,533,636
TRS-Care	209,410	344,478	(242,530)	311,358	186,503	124,855
Proprietary Funds:						
TRS-ActiveCare	156,093	143,631	(151,554)	148,170	99,649	48,521
403(b) Administrative Program	0	20,427	(10,495)	9,932	6,108	3,824
<b>Total</b>	<b>\$6,117,420</b>	<b>\$7,696,544</b>	<b>(\$6,349,624)</b>	<b>\$7,464,340</b>	<b>\$4,753,504</b>	<b>\$2,710,836</b>



## ***Notes to the Financial Statements***

### **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, 2014 for the pension trust fund were \$1,770,591 and include amortization of unrealized lease incentives of \$430,470.

The future minimum lease payment for the next year is as follows:

Fiscal Year Ending	Amount
August 31, 2015	\$ 1,082,661
Total	\$ 1,082,661

### **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, 2014, the state provided retirement contributions of \$139,422 on behalf of employees paid from TRS-Care. In the Enterprise Funds, the state provided on-behalf retirement contributions of \$79,792 for TRS-ActiveCare and \$3,131 for the 403(b) Administrative Program.

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

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D provided retiree drug subsidy reimbursements to TRS-Care on behalf of certain plan participants totaling \$10,610,965 for the fiscal year ended August 31, 2014. Under TRS-Care's Employer Group Waiver Plan (EGWP) reimbursements totaled \$41,072,381 for Medicare Part D direct subsidies, \$24,106,069 for catastrophic reinsurance subsidies and \$2,800,000 for low income subsidies.

### **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.



## ***Notes to the Financial Statements***

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

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

A Performance Incentive Compensation Plan was adopted effective October 1, 2007 and modified October 1, 2008 to enable the system to remain competitive in its efforts to attract, retain and motivate high caliber investment division staff. The purpose of the Plan is to provide the opportunity for investment division employees to earn performance incentive pay based on the fund's investment performance and the employee's job performance. The performance incentive pay is paid over the subsequent 2 years. For the incentive pay plan year ending September 30, 2014 the liability is estimated not to exceed \$13 million. Payments can only be earned following years in which the fund experiences a positive return, and employees must be employed by TRS on the designated dates in the Plan to earn and receive payment. The board of trustees may cancel or modify the Plan at any time.

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

### **NOTE 9: CONTINUANCE SUBJECT TO REVIEW**

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

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

#### **A. PLAN DESCRIPTION**

##### **TRS Employees**

Employees of the system who retire with 10 or more years of eligible service credit and meet the Rule of 80 or are at least 65 years of age continue to receive health care and basic life insurance benefits through the Group Benefits Program of the State Retiree Health Plan (SRHP) in accordance with Texas Insurance Code, Chapter 1551. The SRHP is maintained and administered through the Employees Retirement System (ERS) of Texas and is considered a cost-sharing, multiple-employer, defined benefit post-employment health care plan. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the SRHP. That report may be obtained by visiting the ERS website at [www.ers.state.tx.us](http://www.ers.state.tx.us), by writing to the Finance Division of the Employees Retirement System of Texas at 200 East 18<sup>th</sup> 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, 2014, 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**

<b>Employer Contribution Rates</b>			
<b>Retiree Health and Basic Life Premium</b>			
<u>Type of Coverage</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>
Member Only	\$537.66	\$503.14	\$438.30
Member/Spouse	\$845.54	\$791.16	\$689.04
Member/Children	\$743.80	\$696.00	\$606.20
Member/Family	\$1,051.68	\$984.02	\$856.49

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, 2014, there were 244 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, 2014, 2013, and 2012 the system recognized expenditures of \$1,649,877, \$1,426,887, and \$1,268,955, respectively, for these benefits. The system has annually made 100 percent of its contractually required contributions to the SRHP.

### **Public School Employees**

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

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

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

Eligibility generally includes TRS public school retirees with more than 10 years of service and their dependents. Retirees can receive a free basic level of coverage, and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. During fiscal year 2014, 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.





## **Notes to the Financial Statements**

At August 31, 2014, the number of reporting entities was:

Independent School Districts	1,025*
Charter Schools (open enrollment only)	197
Regional Education Service Centers	20
Education Districts	5
Total	1,247

*\*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, 2014, OPEB membership consisted of the following:

Retirees and beneficiaries receiving benefits	251,523
Active plan members	699,479
Total	951,002

### **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 2014. Per Texas Insurance Code, Chapter 1575.204, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Actuarial implications of the overall funding are determined by the system's actuary.

	Contribution Rate	Amount
Active Employee	0.65%	\$ 189,003,903
State	1.00	303,556,058
Participating Employers	0.55	169,847,447
Federal/Private Funding*	1.00	23,277,325
Total		685,684,733

*\*Included in Participating Employers on Exhibit II*

The contributions shown above and premium contributions of \$363,631,292 contribute toward the total plan expenditures of \$1,424,074,260. 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, 2014, 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



## Notes to the Financial Statements

are identical to those which were adopted by the Board in 2012 after the preparation of an actuarial experience study and used in the respective valuation for the pension plan.

Additional valuation information follows:

Valuation Date .....	August 31, 2014
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 .....	5.55%
Payroll Growth Rate .....	3.50%
Healthcare Trend Rates * .....	7.50% to 4.35%**

\* Includes Inflation at 3.00%

\*\*Initial rates are 7.50% for medical and 7.50% for 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.

### 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)
2014	\$ 458	\$ 33,719	\$ 33,261	1.4%	\$ 32,247	103%



## ***Notes to the Financial Statements***

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

### **NOTE 11: RISK MANAGEMENT**

The 77th Texas Legislature enacted the Texas Active School Employees Uniform Group Benefits Act (H.B. 3343), establishing a new statewide health coverage program for public school employees and their dependents. TRS began administering this program, known as TRS-ActiveCare, September 1, 2002. The plan is available to all public school districts, charter schools with open enrollment, 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**

The Teacher Retirement System of Texas is a public employee retirement system (PERS) that is a multiple-employer, cost-sharing, defined benefit pension plan. The plan is administered through a trust and has the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on the plan are irrevocable,
- Pension plan assets are dedicated to providing pensions to plan members in accordance with benefit terms, and
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. Plan assets are also legally protected from creditors of the plan members.

Benefits are established or amended primarily under the authority of the provisions of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Code, Title 8, Subtitle C. The pension's board of trustees does not have the authority to establish or amend benefits. 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. The plan does not provide automatic cost of living adjustments (COLA's). For more detail about benefits see the ***Summary of Benefits*** section in this report.

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is also the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).



## **Notes to the Financial Statements**

As of August 31, 2014, the numbers of participating employers were as follows:

Independent School Districts	1,026
Charter Schools (open enrollment only)	197
Community and Junior Colleges	50
Senior Colleges and Universities	48
Regional Service Centers	20
Medical Schools	9
Educational Districts	5
State Agencies	<u>2</u>
<b>Total</b>	<b><u>1,357</u></b>

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.

As of August 31, 2014, TRS gross membership consisted of the following:

Retired plan members or beneficiaries currently receiving benefits	363,182
Inactive plan members entitled to but not yet receiving benefits	194,083
Active plan members	<u>857,342</u>
<b>Total</b>	<b><u>1,414,607</u></b>

### **B. CONTRIBUTIONS**

Contribution requirements are established or amended pursuant to the following state laws: (1) Article 16, section 67 of the Texas Constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Government Code section 821.006 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.

As the non-employer contributing entity, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.



## Notes to the Financial Statements

- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. Contribution rates and amounts for fiscal year 2014 are as follows:

	Contribution Rate	Amount
Member	6.4%	\$ 2,357,686,000
Non-Employer Contributing Entity (State)	6.8	1,530,623,829
Employers	6.8	984,552,391
Total		\$ 4,872,862,220

The following table shows past and future contribution rates.

Year	Contribution Rates	
	Member	Employer
2012	6.4%	6.0%
2013	6.4	6.4
2014	6.4	6.8
2015	6.7	6.8
2016	7.2	*
2017	7.7	*

*\*To be established by the 84<sup>th</sup> Legislature, General Appropriations Act*



## **Notes to the Financial Statements**

### **C. LEGAL RESERVE ACCOUNT BALANCES**

Section 825.309 of the Government Code requires that money in the Retired Reserve Account be used to pay all retirement annuities and all death or survivor benefits, including post-retirement benefit increases and other adjustments to annuities.

The balances in the statutory accounts as of August 31, 2014 were:

Member Savings Account	\$ 33,169,936,021
State Contribution Account	21,619,184,062
Retired Reserve Account	77,877,858,303
Deferred Retirement Option Account	38,305,681
Expense Account	<u>73,959,018</u>
<b>Total (Exhibit 1)</b>	<b><u>\$ 132,779,243,085</u></b>

### **D. Deferred Retirement Option Program**

The Deferred Retirement Option Plan (DROP) was closed to new members on December 31, 2005. It was a plan available for active members who were eligible for normal age service retirement and had at least 25 years of credited service. They could choose to participate in 12-month increments for up to five years. For detailed information on the plan, see the Summary of Benefits section. The remaining balance in the reserve is shown in item C. above.

### **E. PENSION LIABILITY**

**Components of the Liability** – Components of the Net Pension Liability of the pension plan as of August 31, 2014 are as follows:

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$159,496,075,886
Less: Plan Fiduciary Net Position	<u>(132,779,243,085)</u>
Net Pension Liability	<u>\$ 26,716,832,801</u>
 Net Position as a Percentage of Total Pension Liability	 83.25 %

**Actuarial Assumptions** – The total pension liability is determined by an annual actuarial valuation. The active mortality rates were based on the 1994 Group Annuity Mortality Table set back 6 years for both males and females. The Post-retirement mortality rates were based on client specific tables multiplied by 80%. The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the four-year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained significant margin for possible future mortality improvements. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore,



## **Notes to the Financial Statements**

the post-retirement mortality rates for current and future retirees has decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards Practice No. 35.

The following assumptions were applied to this measurement period:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Smoothed Market
Actuarial Assumptions:	
Discount Rate	8.00 %
Long-term expected Investment Rate of Return	8.00 %
Inflation	3.00 %
Salary Increases	4.25% to 7.25% including inflation
Ad hoc post-employment benefit changes	None *

\* The COLA for the period beginning September 1, 2013 that was paid starting October 1, 2013 was included in the 2013 Actuarial Valuation and thus is not considered an ad hoc post-employment benefit change assumption for fiscal year 2014.

**Discount Rate** – The discount rate used to measure the total pension liability was 8.0 %. There was no change in the discount rate since the previous fiscal year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized in Note 3.



### ***Notes to the Financial Statements***

***Sensitivity of the Net Pension Liability*** – The following presents the net pension liability of the plan using the discount rate of 8 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

<b>Sensitivity of the Net Pension Liability to the Single Discount Rate Assumptions</b>		
<b>1% Decrease 7%</b>	<b>Current Single Rate Discount Rate Assumption 8%</b>	<b>1% Increase 9%</b>
\$47,737,071,723	\$26,716,832,801	\$10,997,609,140



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## Required Supplementary Information

PENSION TRUST FUND

Fiscal Years 2005-2014

### SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

LAST TEN FISCAL YEARS

(DOLLAR AMOUNTS SHOWN IN MILLIONS)

	2014	2013	2012
<b>Total Pension Liability*</b>			
Service Cost	\$ 3,966	\$	\$
Interest on Net Pension Liability	11,813		
Differences between Expected and Actual Experience	483		
Changes of Assumptions	2,029		
Benefit Payments	(8,549)		
Refunds of Member Accounts	(411)		
<b>Net Change in Total Pension Liability</b>	<b>\$ 9,331</b>	<b>\$</b>	<b>\$</b>
Total Pension Liability--Beginning	150,165		
<b>Total Pension Liability--Ending (a)</b>	<b>\$ 159,496</b>	<b>\$ 150,165</b>	<b>\$ 0</b>
<b>Plan Fiduciary Net Position</b>			
Contributions--Employer	\$ 985	\$ 926	\$ 761
Contributions--Member	2,358	2,252	2,188
Non-Employer Contributing Entity	1,531	1,337	1,299
Net Investment Income	19,434	9,834	7,847
Benefit Payments	(8,549)	(8,075)	(7,724)
Refunds of Member Accounts	(411)	(391)	(381)
Administrative Expense	(42)	(36)	(33)
Other	85	91	72
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 15,391</b>	<b>\$ 5,938</b>	<b>\$ 4,029</b>
<b>Plan Fiduciary Net Position--Beginning</b>	<b>\$ 117,388</b>	<b>\$ 111,450</b>	<b>\$ 107,421</b>
<b>Plan Fiduciary Net Position--Ending (b)</b>	<b>\$ 132,779</b>	<b>\$ 117,388</b>	<b>\$ 111,450</b>
<b>Net Pension Liability--Ending (a)-(b)</b>	<b>\$ 26,717</b>	<b>\$ 32,777</b>	<b>\$</b>
Plan Fiduciary Net Position as a Percentage of the total			
Pension Liability*	83.25%	78.17%	
Covered-Employee Payroll*	\$ 36,654	\$ 35,189	
Net Pension Liability as a percentage of Covered-			
Employee Payroll*	72.89%	93.14%	

\*Total pension liability is calculated using a new methodology, and will be presented on a prospective basis in accordance with GASB 67, paragraph 50.



### Required Supplementary Information

PENSION TRUST FUND  
Fiscal Years 2005-2014

2011	2010	2009	2008	2007	2006	2005
\$	\$	\$	\$	\$	\$	\$
\$	\$	\$	\$	\$	\$	\$
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
\$ 856	\$ 836	\$ 791	\$ 704	\$ 470	\$ 433	\$ 366
2,244	2,205	2,107	1,998	1,862	1,700	1,578
1,484	1,461	1,378	1,352	1,284	1,167	1,113
14,637	9,411	(13,972)	(4,605)	14,299	8,951	11,953
(7,173)	(6,617)	(6,294)	(6,407)	(5,763)	(5,540)	(5,350)
(334)	(265)	(267)	(278)	(280)	(268)	(245)
(36)	(30)	(28)	(26)	(28)	(26)	(25)
55	34	28	43	46	114	115
\$ 11,733	\$ 7,035	\$ (16,257)	\$ (7,219)	\$ 11,890	\$ 6,531	\$ 9,505
\$ 95,688	\$ 88,653	\$ 104,910	\$ 112,129	\$ 100,239	\$ 93,708	\$ 84,203
\$ 107,421	\$ 95,688	\$ 88,653	\$ 104,910	\$ 112,129	\$ 100,239	\$ 93,708
\$	\$	\$	\$	\$	\$	\$



### Required Supplementary Information

PENSION TRUST FUND  
For Fiscal Years Ending August 31

#### SCHEDULE OF THE EMPLOYERS' NET PENSION LIABILITY (HISTORICAL) (DOLLAR AMOUNTS IN MILLIONS)

Fiscal Year Ended August 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Contributions as a % of Covered Payroll
2013	\$ 150,165	\$ 117,388	\$ 32,777	78.17%	\$ 35,189	93.14%
2014	159,496	132,779	26,717	83.25%	36,654	72.89

\*Total pension liability is calculated using a new methodology, and will be presented on a prospective basis in accordance with GASB 67, paragraph 50.

#### SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTING ENTITY CONTRIBUTIONS

Fiscal Year Ending August 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 3,177,927,012	\$ 2,515,176,220	\$ 662,750,792	\$ 36,654,290,800	6.86%

\*This schedule will be presented on a prospective basis in accordance with GASB 67, paragraph 50.

#### SCHEDULE OF INVESTMENT RETURNS

##### Annual Money-Weighted Rate of Return, Net of Investment Expense

2014	2013	2012	2011	2010	2009
16.90%	9.00%	7.46%	15.57%	10.80%	(13.57%)

\*This schedule will be presented on a prospective basis in accordance with GASB 67, paragraph 50.



## ***Notes to Required Supplementary Information***

### PENSION TRUST FUND

#### **NOTE 1**

**Actuarial Assumptions** – The information presented in the required supplementary schedules was used in the actuarial valuation for determining the actuarially determined contribution rate and the Net Pension Liability in accordance with GASB 67. Actuarial methods and assumptions used for funding purposes can be found in the Actuarial Section. The GASB 67 assumptions are as follows:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Smoothed Market
Actuarial Assumptions:	
Discount Rate	8.00 %
Long-term expected Investment Rate of Return	8.00 %
Inflation	3.00 %
Salary Increases	4.25% to 7.25% including inflation
Ad hoc post-employment benefit changes	None *

*\*The COLA for the period beginning September 1, 2013 was paid starting October 1, 2013 and was included in the 2013 Actuarial Valuation and thus is not considered an ad hoc post-employment benefit change assumption for fiscal year 2014.*



## Required Supplementary Information

TRS-CARE  
Fiscal Years 2009-2014

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)
2009	\$800	\$24,357	\$23,557	3.3%	\$29,490	80%
2010	815	25,808	24,993	3.2	30,758	81
2011	891	29,785	28,894	3.0	30,515	95
2012	741	27,542	26,801	2.7	29,777	90
2013	551	29,835	29,284	1.8	30,511	96
2014	458	33,719	33,261	1.4	32,247	103

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES Annual Required Contributions (ARC) (DOLLAR AMOUNTS SHOWN IN THOUSANDS)						
[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 Employers	[5] On-Behalf From Federal Government		
2009	\$1,655,647	\$267,471	\$149,563	\$61,531	\$478,565	28.9%
2010	1,806,751	279,251	155,918	70,796	505,965	28.0
2011	1,821,817	282,891	158,724	136,888	578,503	31.8
2012	1,980,371	272,029	154,608	68,634	495,271	25.0
2013	1,898,160	241,577	160,953	74,511	477,041	25.1
2014	2,058,689	303,695	193,125	78,589	575,409	28.0

***Notes to Required Supplementary Information***

TRS-CARE

Fiscal Years 2009-2014

**NOTE 1**

The employer ARC was determined by netting the active employee contributions (0.65%) out of the total ARC (7.73%). The ARC for FY2014 was determined by applying the Employer ARC determined in the 2013 valuation as a percentage of payroll (7.08%) to the actual payroll paid in FY 2014 (\$29.1 billion).



## ***Statement of Changes in Assets and Liabilities***

AGENCY FUNDS

For the Fiscal Year Ended August 31, 2014

Exhibit A

	Balances September 1, 2013		Additions		Deductions		Balances August 31, 2014
<b>Child Support Employee Deductions</b>							
<b>Assets:</b>							
Cash in State Treasury	\$ 6,189	\$	77,249	\$	78,051	\$	5,387
	\$ 6,189	\$	77,249	\$	78,051	\$	5,387
<b>Liabilities:</b>							
Funds Held for Others	\$ 6,189	\$	77,249	\$	78,051	\$	5,387
	\$ 6,189	\$	77,249	\$	78,051	\$	5,387



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## Comparative Schedule of Changes in Account Balance

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

**Schedule 1**

INTEREST ACCOUNT	2014	2013
<b>Additions</b>		
Interest, Dividends and Other Income:		
Short-Term	\$ 18,897,780	\$ 13,704,835
Equities	1,254,816,385	1,204,184,693
Fixed Income	1,851,686,895	671,317,663
Derivatives	(6,488,625)	(8,583,750)
Securities Lending Program	72,534,019	87,371,411
Net Increase in Fair Value of Investments	16,443,655,756	8,055,066,425
<b>TOTAL ADDITIONS</b>	<b>\$ 19,635,102,210</b>	<b>\$ 10,023,061,277</b>
<b>Deductions</b>		
Transfers Out:		
Allocation of Interest to (from):		
Member Savings Account	\$ 1,568,996,846	\$ 1,500,897,616
State Contribution Account	(4,463,894,756)	(5,213,287,695)
Retired Reserve Account	5,824,476,921	5,447,691,606
Deferred Retirement Option Account	2,295,263	2,968,215
Expense Account	105,686,702	86,764,394
Transfer to State Contribution Account for		
Net Appreciation in Fair Value of Investments	16,443,655,756	8,055,066,425
External Legal Fees	930,643	
External Manager Fees	152,954,835	142,960,716
<b>TOTAL DEDUCTIONS</b>	<b>\$ 19,635,102,210</b>	<b>\$ 10,023,061,277</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, 2014 (With Comparative Data for August 31, 2013)

MEMBER SAVINGS ACCOUNT	2014	2013
<b>Additions</b>		
Contributions:		
Contributions Paid by Member	\$ 2,357,686,000	\$ 2,252,094,934
Employment After Retirement Surcharge Paid by		
Employers - Employee	6,247,139	5,192,857
Purchase of Service Credit-Refundable	67,386,116	65,965,332
Transfer In:		
Allocation from Interest Account	1,568,996,846	1,500,897,616
TOTAL ADDITIONS	\$ 4,000,316,101	\$ 3,824,150,739
<b>Deductions</b>		
Refund of Contributions-Active	\$ 405,144,490	\$ 386,587,184
Transfers Out:		
Transfer to Retired Reserve Account:		
For Dormant Accounts	21,531,326	21,169,122
To Fund Benefits	1,926,583,284	1,987,549,041
TOTAL DEDUCTIONS	\$ 2,353,259,100	\$ 2,395,305,347
<b>Net Change in Account Balance</b>	<b>\$ 1,647,057,001</b>	<b>\$ 1,428,845,392</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 31,522,879,020</b>	<b>\$ 30,094,033,628</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 33,169,936,021</b>	<b>\$ 31,522,879,020</b>



## Comparative Schedule of Changes in Account Balance

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

Schedule 1

STATE CONTRIBUTION ACCOUNT	2014	2013
<b>Additions</b>		
Contributions:		
State's General Fund - Non-Employer Contributing Entity	\$ 1,530,623,829	\$ 1,337,214,693
State's General Fund - Employer	120,206,921	105,559,580
Employers	851,936,793	809,598,753
Employment after Retirement Surcharge Paid by		
Employers - Employer	6,161,538	5,342,802
Purchase of Service Credit-Non-Refundable	76,147,975	82,435,548
Transfers In:		
Transfers from Interest Account:		
For Investment Income	(4,463,894,756)	(5,213,287,695)
For Net Increase in Fair Value of Investments	16,443,655,756	8,055,066,425
Transfers from Retired Reserve Account:		
For Retirement Benefits Forfeited While		
Member Returned to Teaching	654,798	324,220
For Retirement Benefits Waived by Member	38,940	38,435
<b>TOTAL ADDITIONS</b>	<b>\$ 14,565,531,794</b>	<b>\$ 5,182,292,761</b>
<b>Deductions</b>		
Transfers Out:		
Transfers to Retired Reserve Account:		
To Fund Benefits	\$ 4,186,949,487	\$ 4,535,678,902
Based on Actuarial Valuation as of August 31	1,320,132,885	1,203,416,183
<b>TOTAL DEDUCTIONS</b>	<b>\$ 5,507,082,372</b>	<b>\$ 5,739,095,085</b>
<b>Net Change in Account Balance</b>	<b>\$ 9,058,449,422</b>	<b>\$ (556,802,324)</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 12,560,734,640</b>	<b>\$ 13,117,536,964</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 21,619,184,062</b>	<b>\$ 12,560,734,640</b>



## Comparative Schedule of Changes in Account Balance

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

RETIRED RESERVE ACCOUNT	2014	2013
<b>Additions</b>		
Contributions Transferred in from Employees Retirement System of Texas	\$ 17,440,313	\$ 16,365,042
Transfers In:		
Allocation from Interest Account	5,824,476,921	5,447,691,606
Transfer from Member Savings Account:		
For Dormant Accounts	21,531,326	21,169,122
To Fund Benefits	1,926,583,284	1,987,549,041
Transfer from State Contribution Account:		
To Fund Benefits	4,186,949,487	4,535,678,902
Based on Actuarial Valuation as of August 31 to Fund Benefits	1,320,132,885	1,203,416,183
	7,625	
<b>TOTAL ADDITIONS</b>	<b>\$ 13,297,121,841</b>	<b>\$ 13,211,869,896</b>
<b>Deductions</b>		
Benefits Paid:		
Service Retirement Annuities	\$ 7,795,690,586	\$ 7,251,369,740
Partial Lump Sums	322,033,388	410,323,790
Disability Retirement Annuities	164,299,506	156,308,471
Death and Survivor Benefits:		
Annual Salary	44,846,010	41,219,707
Survivor Annuities	97,822,817	94,563,001
Life Annuities	89,547,742	87,044,328
60 Monthly Payments	13,415,885	12,659,471
Remainder of Contributions	6,012,086	4,496,453
Refund of Contributions-Death	5,455,829	4,705,228
Benefits Transferred to Employees Retirement System of Te	80,163,847	75,513,146
Retirement Benefits Forfeited While Member:		
Returned to Teaching	654,798	324,220
For Retirement Benefits Waived by Member	38,940	38,435
<b>TOTAL DEDUCTIONS</b>	<b>\$ 8,619,981,434</b>	<b>\$ 8,138,565,990</b>
<b>Net Change in Account Balance</b>	<b>\$ 4,677,140,407</b>	<b>\$ 5,073,303,906</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 73,200,717,896</b>	<b>\$ 68,127,413,990</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 77,877,858,303</b>	<b>\$ 73,200,717,896</b>



## **Comparative Schedule of Changes in Account Balance**

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

**Schedule 1**

DEFERRED RETIREMENT OPTION ACCOUNT	2014	2013
<b>Additions</b>		
Allocation from Interest Account	\$ 2,295,263	\$ 2,968,215
TOTAL ADDITIONS	\$ 2,295,263	\$ 2,968,215
<b>Deductions</b>		
Benefits Paid	\$ 14,974,505	\$ 17,223,523
Transfer Out:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 7,625	
TOTAL DEDUCTIONS	\$ 14,982,130	\$ 17,223,523
<b>Net Change in Account Balance</b>	<b>\$ (12,686,867)</b>	<b>\$ (14,255,308)</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 50,992,548</b>	<b>\$ 65,247,856</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 38,305,681</b>	<b>\$ 50,992,548</b>



## Comparative Schedule of Changes in Account Balance

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

EXPENSE ACCOUNT	2014	2013
<b>Additions:</b>		
Miscellaneous Revenues	\$ 4,143,449	\$ 2,629,383
Transfer In:		
Allocation from Interest Account	105,686,702	86,764,394
<b>TOTAL ADDITIONS</b>	<b>\$ 109,830,151</b>	<b>\$ 89,393,777</b>
<b>Deductions:</b>		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 59,369,410	\$ 57,251,675
Professional Fees and Services	10,264,842	9,892,536
Consumable Supplies and Fuels	436,110	361,196
Communication and Utilities	928,820	784,249
Travel	1,062,078	829,509
Rentals	1,815,219	1,670,449
Dues, Fees and Staff Development	355,243	307,607
Subscriptions and Reference Information	202,598	207,720
Printing and Reproduction Services	294,754	265,838
Postage, Mailing and Delivery Services	2,305,219	1,955,659
Software Purchases and Maintenance	3,569,494	2,670,569
Maintenance - Computer Hardware	349,504	423,971
Maintenance - Buildings and Equipment	2,351,909	570,491
Miscellaneous Expenses	484,295	634,225
Insurance Premiums	662,029	660,685
Furniture and Equipment - Expensed	670,610	666,427
Depreciation	3,116,326	2,627,581
Amortization	428,434	344,233
Loss on Capital Assets	23,994	103,998
<b>TOTAL DEDUCTIONS</b>	<b>\$ 88,690,888</b>	<b>* \$ 82,228,618</b>
<b>Net Change in Account Balance</b>	<b>\$ 21,139,263</b>	<b>\$ 7,165,159</b>
<b>Account Balance - Beginning September 1</b>	<b>\$ 52,819,755</b>	<b>\$ 45,654,596</b>
<b>Account Balance - Ending August 31</b>	<b>\$ 73,959,018</b>	<b>\$ 52,819,755</b>

\* This amount includes total internal administrative investing activity expenses of \$46,786,698 (Schedule 3) and Administrative expenses net of investing activity expenses are \$41,904,190 (Exhibit II).



## Schedule of Administrative Expenses

For the Fiscal Year Ended August 31, 2014

Schedule 2

	Pension Trust Fund	TRS-Care
<b>Personnel Services:</b>		
Salaries and Wages	\$ 19,302,836	\$ 2,028,646
<i>Payroll Related Costs:</i>		
Longevity Pay	365,842	50,560
Employer Retirement Contributions	1,275,477	139,642
Employer FICA Contributions	1,406,764	152,465
Employer Health Insurance Contributions	3,119,221	261,341
Benefit Replacement Pay	72,759	7,992
Other Employee Benefits	2,032	
Employee Compensable Absences	1,242,962	101,949
<b>TOTAL PERSONNEL SERVICES</b>	<b>\$ 26,787,893</b>	<b>\$ 2,742,595</b>
<b>Professional Fees and Services</b>	<b>\$ 5,235,653</b>	<b>\$ 677,287</b>
<b>Other Operating Expenses:</b>		
Travel	\$ 182,459	\$ 10,939
Materials and Supplies		
Consumable Supplies and Fuels	217,266	4,134
Subscriptions and Reference Information	77,011	
Postage, Mailing and Delivery Services	2,103,519	125,407
Furniture and Equipment - Expensed	144,491	870
Communication and Utilities		
Utilities	101,435	2,479
Communication	166,097	
Repairs and Maintenance		
Software Purchases and Maintenance	2,452,714	
Computer Hardware Maintenance	247,592	
Maintenance - Buildings and Equipment	1,152,921	27,242
Rentals and Leases	199,021	
Printing and Reproduction Services	117,023	32,746
Depreciation	1,868,689	
Amortization	428,434	
Gain/Loss Capital Assets	23,994	
Other Expenses		
Dues, Fees and Staff Development	197,664	2,677
Insurance Premiums	31,089	
Other Miscellaneous Expenses	169,225	20,170
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 9,880,644</b>	<b>\$ 226,664</b>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 41,904,190</b>	<b>\$ 3,646,546</b>





TRS-ActiveCare	403(b) Administrative Program	Total
\$ 1,166,954	\$ 44,761	\$ 22,543,197
23,420		439,822
79,792	3,131	1,498,042
85,642	3,523	1,648,394
135,325		3,515,887
2,320	1,289	84,360
		2,032
(7,924)	9,932	1,346,919
<u>\$ 1,485,529</u>	<u>\$ 62,636</u>	<u>\$ 31,078,653</u>
<u>\$ 1,020,179</u>	<u>\$</u>	<u>\$ 6,933,119</u>
\$ 8,230	\$	201,628
216		221,616
874		77,885
1,823		2,230,749
		145,361
771		104,685
		166,097
		2,452,714
		247,592
		1,180,163
46,684		245,705
		149,769
		1,868,689
		428,434
		23,994
4,919		205,260
		31,089
625		190,020
<u>\$ 64,142</u>	<u>\$ 0</u>	<u>\$ 10,171,450</u>
<u>\$ 2,569,850</u>	<u>\$ 62,636</u>	<u>\$ 48,183,222</u>



## Comparative Schedule of Investing Activity Expenses

### PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014 (With Comparative Data for August 31, 2013)

Schedule 3

		2014		2013
<b>Direct Expenses:</b>				
Salaries and Other Personnel Costs	\$	25,389,603	\$	25,661,476
Professional Fees and Services		4,094,014		6,470,804
Consumable Supplies		20,568		17,350
Travel		780,085		584,856
Building Lease		1,347,329		1,457,004
Copier Rentals		92,937		76,584
Dues, Fees and Staff Development		32,165		43,301
Subscriptions and Reference Materials		49,660		55,617
Reproduction and Printing Services		9,361		9,477
Software Upgrades		128,291		102,306
Telecommunication and Data Services		400,761		288,961
Furniture and Equipment - Expensed		58,677		70,627
Depreciation - Leasehold Improvements		516,031		516,031
<b>Total Direct Expenses</b>	\$	<b>32,919,482</b>	\$	<b>35,354,394</b>
<b>Indirect Expenses:</b>				
Depreciation	\$	326,386	\$	233,423
Executive Management Support		2,829,854		1,189,728
Legal Support		3,086,944		1,515,752
Audit Support		596,652		735,448
Human Resources Support		661,321		599,971
Fiscal Management Support		1,220,623		1,708,430
Information Technology Support		3,514,812		3,231,733
Staff Services Support		1,176,764		1,018,398
Other Support Services		453,860		377,279
<b>Total Indirect Expenses</b>	\$	<b>13,867,216</b>	\$	<b>10,610,162</b>
<b>Total Internal Administrative Investing Activity Expenses*</b>	\$	<b>46,786,698</b>	\$	<b>45,964,556</b>
External Legal Fees**	\$	930,643	\$	
External Manager Fees**		152,954,835		142,960,716
<b>Total Investing Activity Expenses (Exh. II)***</b>	\$	<b>200,672,176</b>	\$	<b>188,925,272</b>

\* Total is not netted against or included in performance calculations.

\*\* Performance calculations are net of External Legal and External Manager Fees.

\*\*\* The investing activity expenses do not include the following expenditures: During fiscal year 2014, the system paid commissions to various brokers totaling \$36,585,036. A portion of the total commissions was paid through various Commission Sharing Arrangements (CSA) generating \$22,678,776 in CSA proceeds. These proceeds were used to acquire research services from various investment related firms totaling \$21,013,863. Unspent CSA proceeds (totaling \$3,880,413) are held by State Street Bank and Trust Company as the system's CSA.

Through its contractual agreements with various firms, the system benefited from \$5,822,329 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, \$1,055,203,740 was paid to various Alternative and Pooled Investment General Partners for a total of \$1,122,243,876 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, 2014

Individual or Firm	Nature of Service	Amount
State Street Bank And Trust Company	Investment Consulting Services	\$ 3,229,206
Provaliant Holdings LLC	Consulting Services	2,512,400
CGI Technologies And Solutions Inc	Consulting Services	2,200,000
Gabriel, Roeder, Smith, & Company	Actuarial Services	1,439,300
Seyfarth Shaw LLP	Legal Services	1,237,527
Jackson Walker LLP	Legal Services	1,148,387
Allied Consultants Inc	Consulting Services	1,128,795
Hewitt Ennis Knupp, Inc	Investment Consulting Services	1,081,327
Ernst & Young LLP	Investment Consulting Services	450,000
Bridgepoint Consulting LLC	Consulting Services	440,000
Katten Muchin Rosenman LLP	Legal Services	287,323
Hewlett Packard	Consulting Services	170,607
Reinhart Boerner Van Deuren, SC	Legal Services	169,418
Teksystems	Temporary Employment Services	167,529
Gardere Wynne Sewell LLP	Legal Services	160,777
Sagebrush Solutions Inc	Financial and Accounting Services	158,852
Ice Miller	Legal Services	155,513
Purrington Moody Weil LLP	Legal Services	145,496
Protiviti Inc	Financial and Accounting Services	139,861
Sourcepulse LLC	Temporary Employment Services	132,240
Loblolly Consulting LLC	Temporary Employment Services	129,328
CBRE Inc	Consulting Services	125,000
Austin Ribbon & Computer Supplies, Inc.	Other Professional Services	121,119
Rosen Consulting Group	Investment Consulting Services	95,000
Myers And Stauffer LC	Consulting Services	93,898
Keith C. Brown	Investment Consulting Services	80,468
TIBH Industries, Inc.	Temporary Employment Services	72,484
Lenox Park LLC	Investment Consulting Services	70,400
CEM Benchmarking Inc.	Consulting Services	60,000
Objectec LLC	Temporary Employment Services	50,091
Focus Consulting Group Inc	Consulting Services	49,800
Customer Relationship Metrics LC	Other Professional Services	43,485
Pc Mall Gov, Inc	Other Professional Services	42,750
University of North Texas	Consulting Services	36,900
Cox, Alice D. Md	Medical Services	36,630
Reinarz, James Allen Md	Medical Services	36,630
Wilson, Larry Md	Medical Services	36,630
Forrester Research, Inc.	Consulting Services	34,700
VR Election Services Dba Voice Retrieval	Board Election Services	17,400
Lyris Technologies	Other Professional Services	15,000
Franklin Covey Co.	Other Professional Services	13,402
Workers Assistance Program Inc	Other Professional Services	13,214
Aggregate Payees less than \$10,000	Other Professional Services	52,482
		17,881,369
Prior Year Expenditure Adjustments		(1,391,026)
<b>TOTAL PROFESSIONAL AND CONSULTING FEES</b>		<b>\$ 16,490,343</b>

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# TRS Core Values

**Customer Satisfaction:** We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations exceeded.

**Collaboration/Teamwork:** We work together to achieve common goals through a diverse, yet unified team.

**Accountability:** We hold ourselves accountable and take responsibility for our actions, behavior and outcomes.

**Respect:** We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.

**Ethics:** We will be truthful and act with honesty and integrity in everything we do.

**Excellence:** We commit to demonstrating excellence in our work and look for ways to continuously improve.

**Employee Fulfillment:** We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.



## ***Investment Overview***

### **PORTFOLIO STRUCTURE**

TRS follows a diversified investment approach that focuses on the three most common economic scenarios. Scenario One is characterized by favorable Gross Domestic Product (GDP) growth and moderate inflation as measured by the Consumer Price Index (CPI), which has been the prevailing economic condition 68 percent of the time since 1948. Scenario Two is one of low GDP growth and high inflation, which has occurred 18 percent of the time. Finally, Scenario Three is characterized by stagnant GDP growth and low inflation, which has occurred 14 percent of the time. TRS is positioned to take advantage of any of these various market scenarios. Effective Oct. 1, 2014, TRS is allocated 57 percent to Global Equity markets, which perform well under Scenario One, 22 percent to Real Return, which should perform well in Scenario Two, 16 percent to a Stable Value portfolio, which should perform well and minimize downside risk in Scenario Three, and 5 percent to the Risk Parity strategy, which has a balanced exposure to all three economic scenarios.

### **INVESTMENT PORTFOLIO PERFORMANCE**

For the year ending August 31, 2014, the TRS Pension Fund (Trust) delivered investment returns of 16.9 percent, which led the fund's benchmark by 0.7 percent. The strongest returns came from the fund's Global Equity portfolio, which returned 20.1 percent for the year. On a three-year annualized basis, the fund has returned 11.1 percent, which is 0.5 percent above its benchmark. As a result, the total investment value of the fund as of Aug. 31 was \$132.2 billion, a gain of \$15.1 billion from this time last year, net of contributions and benefit payouts. Annual rates of return for the five- and 10-year periods ending August 31, 2014 were 11.9 percent and 7.7 percent, 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, 2014 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**

The year 2014 marked the sixth anniversary of the TRS Public Strategic Partnership Network (SPN). At its outset, four managers (JP Morgan, Neuberger Berman, Morgan Stanley, and BlackRock) were funded with \$1 billion each to invest globally across the same public asset classes as the Trust. As of August 31, 2014, the total Public SPN is valued at \$6.5 billion. In addition, each year, the SPN collaborates to produce several research projects used to benefit the Trust and to provide valuable insights into asset allocation. TRS also replicated the SPN concept in the private markets in 2011, establishing long-term partnerships with Apollo and KKR to manage assets in private equity, real assets and credit markets. As of August 31, 2014, the total Private SPN has a net asset value of \$1.8 billion. These partnerships remain in their early stages, but are already proving beneficial to the Trust.

The Investment Management Division (IMD) completed a Strategic Asset Allocation (SAA) study in 2014, which it does every five years. The goal of the study was to determine the optimal asset allocation weights that will maximize the Trust's performance over the long-term. The study's recommendations were approved by the board of trustees in September of 2014, and the IMD will begin the implementation process in the first quarter of the next fiscal year (fourth quarter of this calendar year). Although the Trust's SAA remains largely the same, the study recommended increasing the Trust's allocation to the Risk Parity strategy from 0 percent to 5 percent, while also increasing its allocation to Private Market investments from 24 percent to 29 percent. These decisions will collectively increase the Trust's probability of meeting or exceeding its 8 percent return objective.

During 2014, the IMD participated in an agency-wide strategic planning effort, as part of TRS' biennial Strategic Plan. The IMD worked to identify and prioritize its critical processes, with the goal to maximize efficiency and productivity across



## ***Investment Overview***

the division. Although the changes are in their early stages, the effort appears to have had a positive impact thus far. In August, the board of trustees voted to renew TRS' master custody contract with State Street Bank. The vote followed an exhaustive search, which included requests for proposal sent to the four largest custody providers in the US, as well as an assessment of each provider's capabilities across several areas, including service levels, experience, and cost.

The past year saw continued growth in the successful Principal Investments Program, which seeks to take advantage of TRS' competitive advantages as a large, long-term investor by initiating high-transparency, low-fee, alpha-producing investment arrangements with select investment partners. Since the beginning of the program in 2009, the fund has committed nearly \$9 billion in more than 60 principal investments across Private Equity, Real Assets, Energy and Natural Resources, and Internal Public Markets. In the first quarter of the next fiscal year (fourth quarter of this calendar year), the IMD will execute a planned initiative to further increase general partner awareness of IMD's desire to make TRS one of the world's primary destinations for large, attractive principal investment opportunities. The hope is to significantly increase the level of principal investment deal flow that comes through TRS, making these investments a greater portion of IMD's private market investments.

The IMD has a dedicated risk management function. The Risk group monitors the risk of the fund versus its risk objectives, performs an independent risk certification for every new manager commitment, and monitors the performance of each manager and portfolio monthly with a risk signals review. During the last 12 months, the Risk group continued to refine its suite of tools and reports, including developing a risk factor attribution process for the total Trust. In addition, the Risk group and SAA group jointly developed a process to integrate risk signals (bubbles, valuation, and environmental) into the Tactical Asset Allocation process.

Looking ahead, return expectations remain muted for the next few years. Concerns about the resilience of global growth remain, while heightened valuation concerns have been emanating from both public and private markets. Much of the market's focus going forward is on the expected increase in short term interest rates by the Federal Reserve, with the median expected timing of initial rate hikes being in the first half of 2015.

*Prepared by:*

*Investment staff of the system*



## Total Time-Weighted Returns

PENSION TRUST FUND  
For Periods Ended June 30

Total Portfolio <sup>1</sup>	2009	2010	2011	2012	2013	2014	3 Years	5 Years	10 Years
TRS	-21.9%	15.6%	22.2%	2.7%	10.2%	16.3%	9.6%	13.2%	7.3%
Custom Benchmark <sup>2</sup>	-19.5%	12.8%	21.2%	4.1%	8.7%	15.5%	9.3%	12.3%	7.0%
TRS U.S. Large Cap	-26.5%	15.7%	30.2%	3.6%	20.5%	25.1%	16.0%	18.7%	N/A
U.S. Large Cap Composite Benchmark <sup>3</sup>	-26.7%	13.7%	31.0%	5.1%	20.7%	25.0%	16.6%	18.7%	N/A
TRS U.S. Small Cap	-22.2%	22.5%	38.7%	3.9%	23.9%	20.0%	15.6%	21.3%	N/A
U.S. Small Cap Composite Benchmark <sup>4</sup>	-25.0%	23.5%	40.0%	-2.1%	25.9%	26.4%	16.0%	21.9%	N/A
TRS Non-U.S. Developed	-32.2%	8.1%	30.1%	-13.1%	18.7%	22.8%	8.2%	12.1%	N/A
Non-U.S. Developed Composite Benchmark <sup>5</sup>	-31.6%	7.0%	30.3%	-14.1%	17.1%	23.8%	7.6%	11.7%	N/A
TRS Emerging Markets	-28.5%	24.3%	27.2%	-15.9%	5.6%	14.5%	0.6%	9.9%	N/A
Emerging Markets Composite Benchmark <sup>6</sup>	-28.1%	23.2%	27.8%	-16.0%	2.9%	14.3%	-0.4%	9.2%	N/A
TRS Directional Hedge Funds	N/A	N/A	N/A	N/A	10.0%	12.6%	N/A	N/A	N/A
Directional Hedge Fund Composite Benchmark <sup>7</sup>	N/A	N/A	N/A	N/A	7.2%	7.7%	N/A	N/A	N/A
<b>TRS Public Equity</b>	<b>-26.8%</b>	<b>14.4%</b>	<b>30.3%</b>	<b>-8.1%</b>	<b>15.7%</b>	<b>20.9%</b>	<b>8.8%</b>	<b>13.9%</b>	<b>6.7%</b>
<b>Public Equity Composite Benchmark<sup>8</sup></b>	<b>-27.3%</b>	<b>14.3%</b>	<b>31.2%</b>	<b>-7.7%</b>	<b>14.8%</b>	<b>20.8%</b>	<b>8.6%</b>	<b>13.9%</b>	<b>6.6%</b>
TRS Private Equity	-28.8%	24.6%	24.6%	7.1%	16.7%	21.7%	15.0%	18.8%	17.8%
Private Equity Composite Benchmark <sup>9</sup>	-22.8%	34.9%	21.9%	7.3%	8.9%	17.6%	11.2%	17.7%	10.0%
<b>Total TRS Global Equity</b>	<b>-27.7%</b>	<b>16.1%</b>	<b>29.5%</b>	<b>-5.5%</b>	<b>15.8%</b>	<b>21.0%</b>	<b>9.8%</b>	<b>14.8%</b>	<b>7.4%</b>
<b>Global Equity Composite Benchmark<sup>10</sup></b>	<b>-27.0%</b>	<b>17.0%</b>	<b>30.3%</b>	<b>-5.2%</b>	<b>13.7%</b>	<b>20.2%</b>	<b>9.0%</b>	<b>14.6%</b>	<b>7.0%</b>
TRS U.S. Treasuries	9.6%	12.7%	-0.4%	33.1%	-7.9%	6.6%	9.3%	7.9%	N/A
U.S. Treasuries Composite Benchmark <sup>11</sup>	7.4%	12.0%	-1.1%	32.3%	-8.4%	6.3%	8.8%	7.4%	N/A
TRS Absolute Return	N/A	34.3%	14.0%	2.4%	28.8%	12.3%	14.0%	17.8%	N/A
Absolute Return Composite Benchmark <sup>12</sup>	N/A	2.4%	2.3%	2.5%	2.3%	2.2%	2.3%	2.3%	N/A
TRS Stable Value Hedge Funds	-10.5%	7.7%	5.9%	-2.6%	5.5%	5.1%	2.6%	4.3%	3.9%
Stable Value Hedge Fund Composite Benchmark <sup>13</sup>	3.9%	2.4%	2.3%	1.7%	6.9%	6.6%	5.0%	3.9%	4.9%
<b>Total TRS Stable Value</b>	<b>-3.6%</b>	<b>19.1%</b>	<b>5.0%</b>	<b>18.9%</b>	<b>-2.7%</b>	<b>6.2%</b>	<b>7.1%</b>	<b>9.0%</b>	<b>6.0%</b>
<b>Stable Value Composite Benchmark<sup>14</sup></b>	<b>6.0%</b>	<b>9.3%</b>	<b>-0.3%</b>	<b>23.9%</b>	<b>-4.6%</b>	<b>6.0%</b>	<b>7.8%</b>	<b>6.5%</b>	<b>6.0%</b>
TRS Global Inflation Linked Bonds	-3.2%	10.3%	8.3%	11.7%	-4.5%	4.5%	3.7%	5.9%	N/A
Global Inflation Linked Bonds Composite Benchmark <sup>15</sup>	-6.4%	10.6%	7.7%	11.7%	-4.8%	4.4%	3.6%	5.8%	N/A
TRS Real Assets	-33.0%	-8.9%	19.4%	11.5%	10.6%	13.4%	12.0%	13.1%	N/A
Real Assets Composite Benchmark <sup>16</sup>	-24.6%	-15.7%	19.0%	13.6%	9.7%	12.7%	12.0%	7.1%	N/A
TRS Energy and Natural Resources	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Energy and Natural Resources Composite Benchmark <sup>17</sup>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TRS Commodities	-55.3%	-0.2%	28.4%	-18.2%	-29.9%	32.2%	-8.8%	-0.6%	N/A
Commodities Composite Benchmark <sup>18</sup>	-59.7%	-5.4%	26.1%	-10.7%	2.0%	10.4%	0.2%	3.7%	N/A
<b>Total TRS Real Return</b>	<b>-25.7%</b>	<b>7.7%</b>	<b>17.4%</b>	<b>10.2%</b>	<b>4.6%</b>	<b>10.6%</b>	<b>8.4%</b>	<b>10.0%</b>	<b>5.9%</b>
<b>Real Return Composite Benchmark<sup>19</sup></b>	<b>-22.3%</b>	<b>2.6%</b>	<b>16.8%</b>	<b>11.6%</b>	<b>5.7%</b>	<b>9.8%</b>	<b>9.0%</b>	<b>9.2%</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% SPSEI 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





## Total Time-Weighted Returns

PENSION TRUST FUND  
For Periods Ended June 30

REIT/ 10% SSPEI 1 QTR lagged/ 2% Goldman Sachs Commodity Index/ 8% NCREIF Open Ended fund lagged through 9/11, 2% MSCI Small Cap / 18% MSCI USA/ 15% MSCI EAFE+Canada/ 10% MSCI EM/ 13% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 5% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 5% BC US TIPS/ 2% MSCI US REIT/ 12% SSPEI 1 QTR lagged/ 13% NCREIF Open Ended fund lagged through 9/12, 2% MSCI Small Cap/ 18% MSCI USA/ 15% MSCI EAFE+Canada/ 10% MSCI EM/ 13% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 5% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 5% BC US TIPS/ 12% SSPEI 1 QTR lagged/ 15% NCREIF Open Ended fund lagged through 9/13, 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/ 11% SSPEI Adj 1 QTR lagged/ 13% NCREIF Open Ended fund lagged/ 3% (75% Cambridge Associates Natural Resources (reweighted))/25% quarterly Consumer Price Index lagged 1 quarter).

<sup>3</sup> 50% Russell 1000 Growth/ 50% Russell 1000 Value through 9/09, MSCI USA Large Cap through 9/10, currently MSCI USA.

<sup>4</sup> Russell 2000 through 9/09, currently MSCI Small Cap.

<sup>5</sup> 100% MSCI EAFE + Canada Index.

<sup>6</sup> 100% MSCI EM Index.

<sup>7</sup> 100% HFRI Fund of Funds Composite.

<sup>8</sup> 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/ 12.22% S&P 400/ 6.5% S&P 600/ 21.12% 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, 27.28% 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>9</sup> 3 years at 0, then Russell 2000 + 500 bps through 9/07, Russell 3000 + 5% through 9/09, SSPEI 1 QTR lagged through 9/13, currently SSPEI Adj 1 QTR lagged.

<sup>10</sup> 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/ 11.44% 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/ 8.34% 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/ 13.33% SSPEI 1 QTR lagged/ 8.33% MSCI USA Small Cap/ 13.34% MSCI USA Large Cap through 9/10, 16.7% MSCI EM/ 25% MSCI EAFE+Canada/ 8.3% MSCI USA Small Cap/ 33.3% MSCI USA Gross/ 16.7% SSPEI 1 QTR lagged through 9/11, 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 through 9/13, currently 16.4% MSCI EM/ 24.6% MSCI EAFE+Canada/ 3.3% MSCI USA Small Cap/ 29.5% MSCI USA Gross/ 8.2% HFRI Fund of Funds Composite/ 18% SSPEI Adj 1 QTR lagged.

<sup>11</sup> 100% BC Long Treasuries Index.

<sup>12</sup> 100% 3 month LIBOR+2%.

<sup>13</sup> 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>14</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 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>15</sup> BC Global Inflation Linked Bonds through 9/08, 50% BC Global Inflation Linked Bonds/ 50% BC US TIPS through 9/09, currently BC US TIPS.

<sup>16</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.



## **Total Time-Weighted Returns**

PENSION TRUST FUND

For Periods Ended June 30

<sup>17</sup> 75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter.

<sup>18</sup> 100% Goldman Sachs Commodity Index.

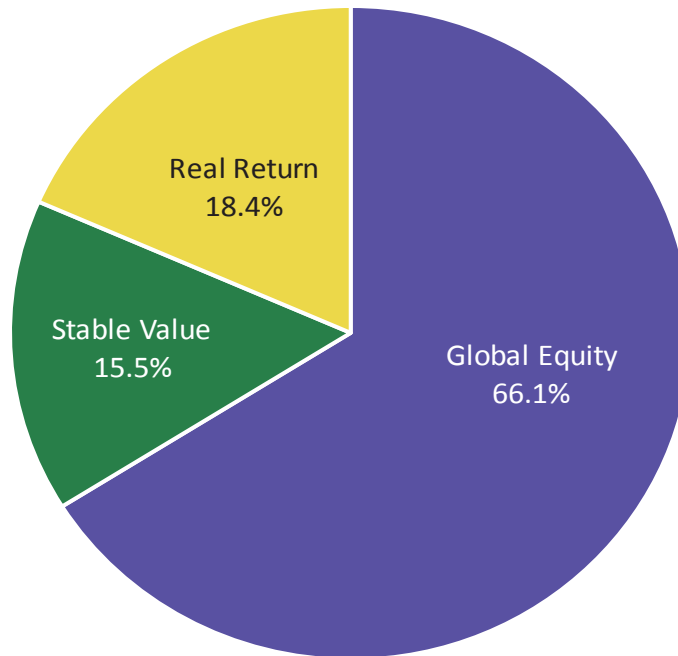
<sup>19</sup> Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps through 9/07, 50% LB Global Inflation Linked Bond Index/ 20% Real Estate Composite Index/ 5% US Core CPI + 5%/ 15% Goldman Sachs Commodity Index/ 10% NAREIT Index through 9/08, 25% BC Global Inflation Linked Bond 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, 25% BC US TIPS/ 65% NCREIF Open Ended Net 1 QTR lagged/ 10% MSCI US REIT through 9/12, 25% BC US TIPS/ 75% NCREIF Open Ended Net 1 QTR lagged through 9/13, currently 23.8% BC US TIPS/ 61.9% NCREIF Open Ended Net 1 QTR lagged/ 14.3% (75% Cambridge Associates Natural Resources (reweighted))/25% quarterly Consumer Price Index lagged 1 quarter).



## Asset Allocation

PENSION TRUST FUND

August 31, 2014



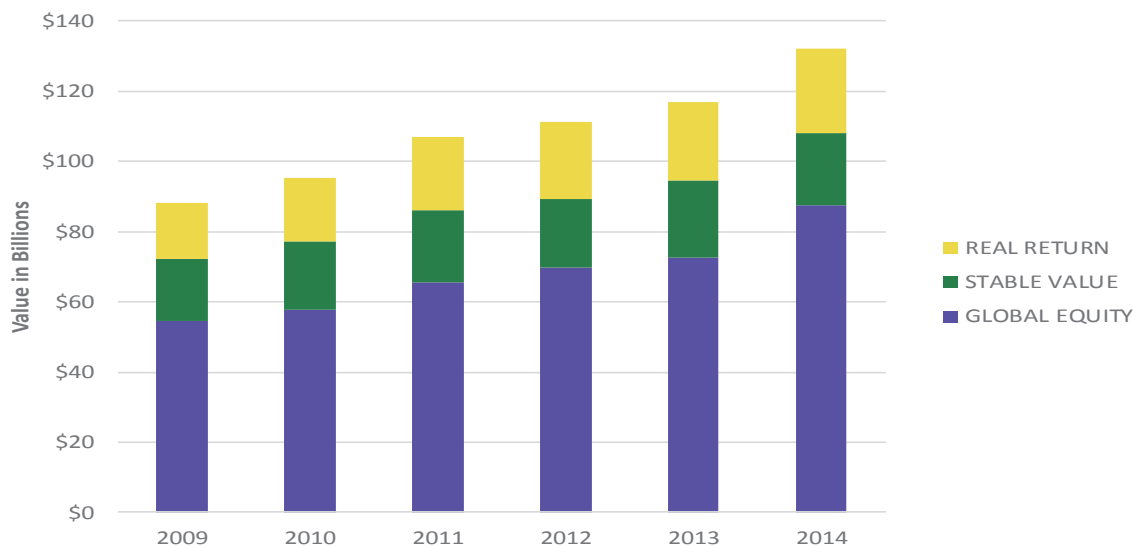
	POLICY RANGES			Actual
	Low	High	Neutral	
U.S. Large Cap	13%	23%	18%	20.5%
U.S. Small Cap	0%	7%	2%	2.2%
Non-U.S. Developed	10%	20%	15%	14.9%
Emerging Markets	5%	15%	10%	11.8%
Directional Hedge Funds	0%	10%	5%	4.9%
<i>Public Equity</i>	45%	55%	50%	54.3%
Private Equity	6%	16%	11%	11.8%
<b>TOTAL GLOBAL EQUITY</b>	<b>54.0%</b>	<b>68.0%</b>	<b>61.0%</b>	<b>66.1%</b>
U.S. Treasuries	0.0%	20%	13.0%	8.8%
Absolute Return	0.0%	20%	0.0%	1.6%
Stable Value Hedge Funds	0.0%	10.0%	4.0%	3.8%
Cash	0.0%	5.0%	1.0%	1.3%
<b>TOTAL STABLE VALUE</b>	<b>13.0%</b>	<b>23.0%</b>	<b>18.0%</b>	<b>15.5%</b>
TRS Global Inflation Linked Bonds	0.0%	10.0%	5.0%	4.8%
TRS Real Assets	8.0%	18.0%	13.0%	11.6%
TRS Energy and Natural Resources	0.0%	8.0%	3.0%	1.9%
TRS Commodities	0.0%	5.0%	0.0%	0.1%
<b>TOTAL REAL RETURN</b>	<b>16.0%</b>	<b>26.0%</b>	<b>21.0%</b>	<b>18.4%</b>
<b>TOTAL</b>				<b>100.0%</b>



## Investment Summary

PENSION TRUST FUND

August 31, 2014



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

	2009	2010	2011	2012	2013	2014
U.S. Large Cap	\$ 16.910	\$ 13.317	\$ 19.675	\$ 21.911	\$ 20.126	\$ 27.153
U.S. Small Cap	3.973	4.120	6.853	1.174	2.716	2.828
Non-U.S. Developed	7.670	5.810	12.488	17.301	16.641	19.718
Emerging Markets	5.182	8.180	15.296	10.754	12.829	15.594
Directional Hedge Funds	N/A	N/A	N/A	5.584	5.918	6.496
World Equity	14.983	17.936	N/A	N/A	N/A	N/A
Public Equity	48.718	49.363	54.312	56.724	58.230	71.789
Private Equity	5.867	8.501	11.099	13.101	14.365	15.594
<b>TOTAL GLOBAL EQUITY</b>	<b>\$ 54.585</b>	<b>\$ 57.864</b>	<b>\$ 65.411</b>	<b>\$ 69.825</b>	<b>\$ 72.595</b>	<b>\$ 87.383</b>
U.S. Treasuries	\$ 6.410	\$ 10.047	\$ 11.907	\$ 13.476	\$ 16.312	\$ 11.650
Absolute Return	6.923	4.786	3.214	0.999	0.465	2.068
Stable Value Hedge Funds	3.582	3.947	4.324	3.936	4.207	5.055
Cash	0.800	0.700	1.376	0.957	1.129	1.698
<b>TOTAL STABLE VALUE</b>	<b>\$ 17.715</b>	<b>\$ 19.480</b>	<b>\$ 20.821</b>	<b>\$ 19.368</b>	<b>\$ 22.113</b>	<b>\$ 20.471</b>
Global Inflation Linked Bonds	\$ 8.509	\$ 8.167	\$ 5.635	\$ 5.499	\$ 5.924	\$ 6.318
Real Assets	5.678	7.664	11.880	15.219	15.920	15.335
Energy and Natural Resources	N/A	N/A	N/A	N/A	N/A	2.540
Commodities	1.697	2.068	3.323	1.155	0.498	0.169
<b>TOTAL REAL RETURN</b>	<b>\$ 15.884</b>	<b>\$ 17.899</b>	<b>\$ 20.838</b>	<b>\$ 21.873</b>	<b>\$ 22.342</b>	<b>\$ 24.362</b>
<b>TOTAL</b>	<b>\$ 88.184</b>	<b>\$ 95.243</b>	<b>\$ 107.070</b>	<b>\$ 111.066</b>	<b>\$ 117.050</b>	<b>\$ 132.216</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:

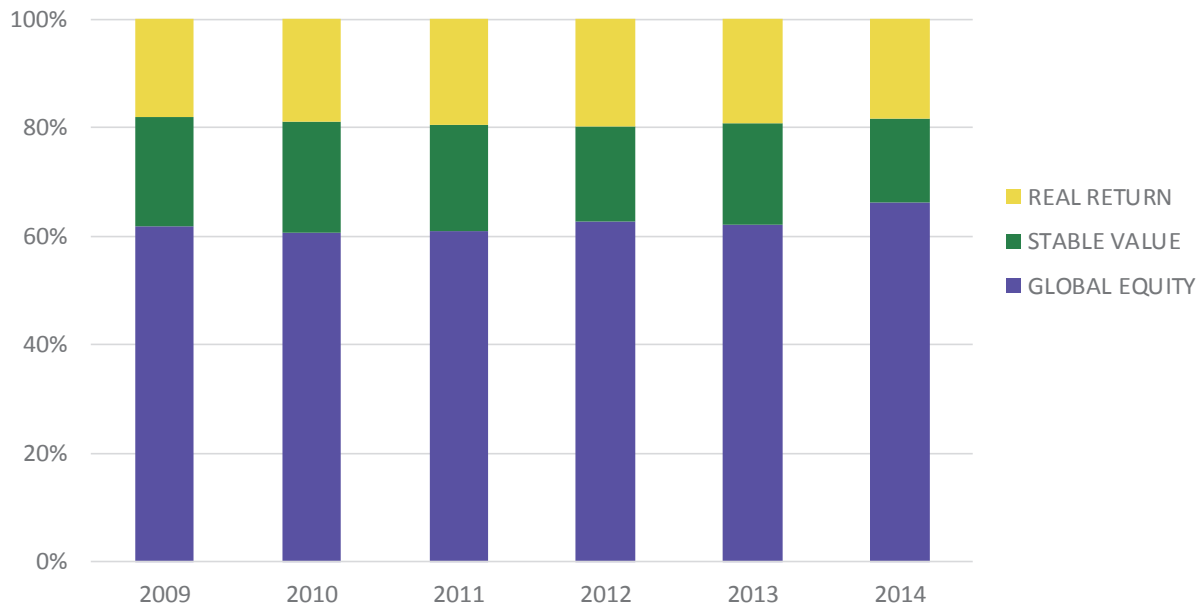
Total Market Value at 8/31/14	\$ 132.216
Less Investment Related Cash	(0.297)
Less Investment Related Receivables	(1.167)
Plus Investment Related Payables	0.685
Plus Securities Sold Short	0.152
Plus Short-Term Asset Pool Adjustment From Amortized Cost to Fair Value	0.006
<b>Total Investments Exhibit I</b>	<b>\$ 131.595</b>



## Investment Summary

PENSION TRUST FUND

August 31, 2014



### PERCENTAGE OF MARKET VALUES

	2009	2010	2011	2012	2013	2014
U.S. Large Cap	19.2%	14.0%	18.3%	19.7%	17.2%	20.5%
U.S. Small Cap	4.4%	4.3%	6.4%	1.1%	2.3%	2.2%
Non-U.S. Developed	8.7%	6.1%	11.7%	15.6%	14.2%	14.9%
Emerging Markets	5.9%	8.6%	14.3%	9.7%	11.0%	11.8%
Directional Hedge Funds	N/A	N/A	N/A	5.0%	5.0%	4.9%
World Equity	17.0%	18.8%	N/A	N/A	N/A	N/A
<i>Public Equity</i>	55.2%	51.8%	50.7%	51.1%	49.7%	54.3%
Private Equity	6.7%	8.9%	10.4%	11.8%	12.3%	11.8%
<b>TOTAL GLOBAL EQUITY</b>	<b>61.9%</b>	<b>60.7%</b>	<b>61.1%</b>	<b>62.9%</b>	<b>62.0%</b>	<b>66.1%</b>
U.S. Treasuries	7.2%	10.6%	11.1%	12.1%	13.9%	8.8%
Absolute Return	7.9%	5.0%	3.0%	0.9%	0.4%	1.6%
Stable Value Hedge Funds	4.1%	4.1%	4.0%	3.5%	3.6%	3.8%
Cash	0.9%	0.7%	1.3%	0.9%	1.0%	1.3%
<b>TOTAL STABLE VALUE</b>	<b>20.1%</b>	<b>20.4%</b>	<b>19.4%</b>	<b>17.4%</b>	<b>18.9%</b>	<b>15.5%</b>
Global Inflation Linked Bonds	9.7%	8.6%	5.3%	5.0%	5.1%	4.8%
Real Assets	6.4%	8.1%	11.1%	13.7%	13.6%	11.6%
Energy and Natural Resources	N/A	N/A	N/A	N/A	N/A	1.9%
Commodities	1.9%	2.2%	3.1%	1.0%	0.4%	0.1%
<b>TOTAL REAL RETURN</b>	<b>18.0%</b>	<b>18.9%</b>	<b>19.5%</b>	<b>19.7%</b>	<b>19.1%</b>	<b>18.4%</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>



## ***Largest Holdings***

PENSION TRUST FUND

August 31, 2014

### **Top Ten Domestic Equity Market Holdings**

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Apple Incorporated	\$ 647,165,115	6,313,806
Microsoft Corporation	351,040,563	7,727,065
Johnson & Johnson	283,192,858	2,730,096
Google Incorporated	263,562,742	452,577
Wells Fargo & Company	261,284,645	5,079,406
Exxon Mobil Corporation	251,344,968	2,527,096
Philip Morris International	245,485,973	2,868,497
Gilead Sciences Incorporated	239,573,345	2,226,932
Verizon Communications Incorporated	225,706,521	4,530,440
Procter & Gamble Company	224,407,472	2,700,126
	\$ 2,992,764,202	37,156,041

### **Top Ten International Equity Market Holdings**

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Source MSCI Europe UCITS ETF	\$ 515,399,604	2,238,852
Samsung Electronics Company LTD	339,436,104	278,907
Roche Holding AG	259,895,384	889,149
Novartis AG	258,035,725	2,869,727
Nestle SA	238,494,370	3,065,615
China Construction Bank	228,684,994	308,233,566
Tencent Holdings LTD	224,523,932	13,755,685
Total SA	203,733,244	3,081,718
Toyota Motor Corporation	202,474,653	3,548,259
Vodafone Group PLC	176,487,401	51,400,131
	\$ 2,647,165,411	389,361,609



## Largest Holdings

PENSION TRUST FUND

August 31, 2014

### Top Ten Fixed Income Market Holdings

	<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury	3.625% due 15 Feb 2044	\$ 1,309,092,900	\$ 1,183,040,000
U.S. Treasury	3.750% due 15 Nov 2043	1,299,285,123	1,148,590,000
U.S. Treasury	3.625% due 15 Aug 2043	1,290,600,962	1,166,550,000
U.S. Treasury	3.375% due 15 May 2044	1,183,804,485	1,119,585,000
U.S. Treasury	3.125% due 15 Aug 2044	1,029,317,246	1,021,300,000
U.S. Treasury	3.125% due 15 Feb 2043	741,932,573	735,220,000
U.S. Treasury	2.875% due 15 May 2043	708,199,187	738,015,000
U.S. Treasury	2.750% due 15 Nov 2042	649,061,542	692,650,000
U.S. Treasury	.375% due 15 April 2015	573,553,389	572,500,000
U.S. Treasury	2.750% due 15 Aug 2042	548,694,192	584,700,000
		<u>\$ 9,333,541,599</u>	<u>\$ 8,962,150,000</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, 2014

<b>Fund Name*</b>	<b>Fees</b>
Admiral Capital Real Estate Fund	\$ 191,974
Advent International GPE VI-A, L.P.	11,265,840
Advent International GPE VII-C, L.P.	2,246,221
AEW Core Property Trust (U.S.), Inc.	1,544,177
AEW Senior Housing Investors, L.P.	3,946,599
AEW Senior Houstings Investors II, L.P.	220,298
Algert Golbal, LLC	2,179,901
Almanac Realty Securities V (Co-Investment), L.P.	2,133,382
Almanac Realty Securities V, L.P.	10,654,697
Almanac Realty Securities VI (Sidecar I), L.P.	509,147
Almanac Realty Securities VI, L.P.	2,541,020
Alpha Private Equity Fund V	316,109
Alphagen Japan Absolute Return Fund LTD	2,087,731
Alterna Core Capital Assets Fund II, L.P.	1,920,059
Alterna Core Capital Assets Fund, L.P.	3,983,028
Alterna/Lavaca Co-Investment Fund, L.P.	11,469
Amici Offshore LTD	2,707,508
AP Selene Co-Invest, L.P.	23,957
Apax Europe V, L.P.	788,256
Apax Europe VII-A, L.P.	1,574,670
Apax VIII-B, L.P.	2,351,343
Apollo Credit Opportunity Fund II, L.P.	5,568,948
Apollo Investment Fund VI, L.P.	15,531,283
Apollo Investment Fund VII, L.P.	46,271,430
Apollo SPN Investments I, L.P.	13,431,996
AQR Delta Offshore Fund, L.P.	2,335,128
AQR Global Risk Premium 10 Offshore Fund LTD	1,047,203
AQR Offshore Multi-Strategy Fund VI LTD	640,815
ARA Asian Dragon II Limited	2,500,000
ARA Asian Dragon Limited	974,722
Artermis Real Estate Partners Fund II, L.P.	367,808
Austin Ventures VIII, L.P.	4,661,810
Avenue Special Situations Fund V, L.P.	2,039,298
	<i>(continued)</i>





## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>	<b>Fees</b>
Bain Capital Fund VIII, L.P.	\$ 1,807,486
Bain Capital VII Coinvest Fund, L.P.	487,007
Bain Capital VIII Coinvest Fund, L.P.	1,591,656
Bay Resource Partners Offshore	3,240,231
Black Diamond Relative Value LTD	2,542,945
Blackrock Diamond Property Fund, Inc.	921,861
Blackstone Capital Partners IV, L.P.	10,446,384
Blackstone Capital Partners V, L.P.	740,339
Blackstone Capital Partners VI, L.P.	5,088,686
Blackstone GSO Capital Solutions Fund II, L.P.	156,623
Blackstone Real Estate Partners Europe III, L.P.	14,285,277
Blackstone Real Estate Partners Europe IV, L.P.	1,685,732
Blackstone Real Estate Partners V, L.P.	8,013,757
Blackstone Real Estate Partners VI Secondary, L.P.	4,713,586
Blackstone Real Estate Partners VI, L.P.	31,012,831
Blackstone Real Estate Partners VII, L.P.	16,274,570
Blue Mountain Guadalupe Peak Fund	2,728,870
Blue Mountain Long/Short Credit Fd.	1,288,482
Blue Sage Capital II, L.P.	148,767
Blue Sea Capital Fund I, LLC	89,835
BlueTrend Fund LTD	3,965,972
Bridgewater All Weather	1,099,566
Bridgewater Pure Alpha	3,392,441
Bridgewater Pure Alpha - Major Mkts	1,275,327
Brockton Capital Fund II, L.P.	3,612,801
Brookfield Americas Infrastructure Fund, L.P.	7,752,723
Brookfield Infrastructure Fund II, LLC	2,817,656
Brookfield Strategic Real Estate Partners B, L.P.	6,717,500
Camden Multifamily Co-Investment Fund, L.P.	1,420,999
Camden Multifamily Value Add Fund, L.P.	1,651,676
Candover 2001 Fund	2,259,151
Canyon-Johnson Urban Fund III, L.P.	4,368,938
Capri Urban Investors, LLC	1,023,785
	<i>(continued)</i>



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>		<b>Fees</b>
Cargill Global Agriculture Absolute Return LTD	\$	2,832,926
Carlyle Europe Partners III, L.P.		1,790,124
Carlyle Europe Real Estate Partners III, L.P.		1,590,395
Carlyle Partners III, L.P.		5,567
Carlyle Partners IV, L.P.		14,873,443
Carlyle Partners V, L.P.		20,250,071
Carlyle Partners VI, L.P.		4,069,146
Carlyle Realty Partners V, L.P.		726,430
CB Richard Ellis Strategic Partners U.S. Opportunity V, L.P.		769,290
CB Richard Ellis Strategic Partners U.S. Value V, L.P. **		(822,114)
CBRE Strategic Partners U.S. Value VI, L.P.		3,063,009
CBRE Wood Partners Development Fund III, L.P.		48,030
CCMP Capital Investors III		3,004,869
Cerberus Institutional (Series Four), L.P.		7,044,670
Charterhouse Capital Partners IX, L.P.		4,596,546
Charterhouse Capital VIII, L.P.		667,407
CIM Fund III, L.P.		2,742,273
CIM Urban REIT, L.P.		925,614
Clayton, Dubilier & Rice Fund IX, L.P.		2,305,736
Clayton, Dubilier & Rice Fund VIII, L.P.		9,372,161
Colony Distressed Credit Fund, L.P.		7,507,900
Colony Investors VIII, L.P.		2,666,500
Comac Global Macro Fund LTD		1,422,280
CPI Capital Partners Europe, L.P.		382,863
Crestview Partners II, L.P.		5,831,528
Crestview Partners III, L.P.		852,100
CVC Capital Partners Asia Pacific III, L.P.		5,254,091
CVC European Equity Partners III, L.P.		3,415,071
CVC European Equity Partners IV, L.P.		2,000,653
CVC European Equity Partners Tandem Fund, L.P.		616,555
CVC European Equity Partners V, L.P.		12,105,149
D. E. Shaw BMCAE Special Fund, L.P.		3,155,625
D. E. Shaw VACAE Fund, L.P.		467,045
		<i>(continued)</i>



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>	<b>Fees</b>
Deephaven Market Neutral Fund	\$ 5,950
Divco West Fund III, L.P.	1,189,536
Double Black Diamond LTD	2,635,608
EI Fund V	2,200,958
EIG Energy Fund XV, L.P.	2,141,290
EIG Energy Fund XVI, L.P.	1,970,793
EnCap Energy Capital Fund IX, L.P.	1,500,000
EnCap Energy Capital Fund VII, L.P.	4,363,897
EnCap Energy Infrastructure Fund, L.P.	2,191,676
EnCap Flatrock Midstream Fund II, L.P.	2,182,386
Energy Capital Partners Fund III-A, L.P.	997,390
ESCF Germany S.A R.L.	400,328
FIR Tree Capital Opportunity Fund	4,820,127
First Reserve Energy Infrastructure Fund, L.P.	1,323,365
First Reserve Fund X, L.P.	2,100,551
First Reserve Fund XI, L.P.	1,995,980
First Reserve Fund XII, L.P.	4,201,113
Five Mile Capital Partners II, L.P.	1,908,308
Fore Multi Strategy Offshore Fund LTD	2,786,082
Forum Asian Realty Income II, L.P.	225,357
Forum Asian Realty Income III, L.P.	5,887,545
Forum European Realty Income III, L.P.	1,268,180
Frontier Fund III, L.P.	223,014
Fudo Capital II, L.P.	8,202,200
Full Harvest Agricultural Opportunities Fund II, L.P.	270,000
GenNx360 Capital Partners II, L.P.	299,230
GoldenTree Offshore Fund LTD	71,480
Goldman Sachs Vintage Fund, L.P.	83,036
Gores Capital Partners III, L.P.	3,048,608
Graham Global Investment	405,561
Great Hill Equity Partners V, L.P.	61,875
Green Equity Investors VI, L.P.	2,311,381
Grosvenor 2005-1 Series	861,818

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>		<b>Fees</b>
Grosvenor 2007-1 Series	\$	1,171,840
Grosvenor 2008-1 Re-Investment Series		244,975
Grosvenor 2008-2 MMBO Investments Series		1,340,784
Grosvenor 2010-1 PE Investment Series		543,286
Grosvenor 2010-2 RE Partnership Investment Series		1,200,786
GSO Special Situations Fund, L.P.		4,506,473
Halcyon European Structured Fund LTD		3,993
Halycon Partners Offshore LTD		2,700,762
HB Estrela I, L.P.		236,304
Heitman America Real Estate Trust, L.P.		1,517,054
Hellman & Friedman Capital Partners V, L.P.		4,138,215
Hellman & Friedman Capital Partners VI, L.P.		7,332,854
HgCapital 5, L.P.		288,790
HgCapital 6, L.P.		2,684,530
Highbridge Mezzanine Partners II, L.P.		1,793,643
Highbridge Mezzanine Partners, L.P.		1,504,046
Highland Capital Partners VI - B, L.P.		4,777,588
Horizon Portfolio		7,311,794
Hunt Commercial Realty Partners II, L.P.		561,964
Hunt Commercial Realty Partners III, L.P.		1,081,516
IC Berkeley Partners III, L.P.		598,781
ICV Partners III, L.P.		601,194
Insight Venture Partners VIII		2,420,091
Invesco San Jacinto Core Fund, L.P.		931,631
Investcorp Waterloo Macro Fund LTD		7,361,554
Iron Point Real Estate Partners II, L.P.		1,499,999
Iron Point Real Estate Partners, L.P.		1,052,041
J.H. Whitney VI, L.P.		148,927
J.P. Morgan Strategic Property Fund		5,393,012
Kelso Investment Associates VII, L.P.		1,770,200
Kelso Investment Associates VIII, L.P.		4,485,076
King Street Capital LTD		4,157,851
KKR 2006 Fund, L.P.		6,591,005
		<i>(continued)</i>



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>	<b>Fees</b>
KKR Natural Resources I, L.P.	\$ 7,696,124
KKR SPN Investments, L.P.	15,421,990
Kohlberg TE Investors VI, L.P.	7,390,329
Kohlberg TE Investors VII-B, L.P.	2,325,473
L&B Diversified Strategy Partners, L.P.	324,353
Lansdowne Pecan Street Europe, L.P.	3,203,379
LaSalle Capital Group II-A, L.P.	235,331
LaSalle Property Fund, L.P.	1,873,844
Lee Equity Partners, L.P.	293,511
Lindsay Goldberg III, L.P.	4,759,168
Lion Capital Fund I, L.P.	12,016
Lion Capital Fund II, L.P.	1,423,841
Lion Capital Fund III, L.P.	4,931,281
Lionstone Cash Flow Real Estate Partners One, L.P.	2,741,018
LiveOak Ventures I, L.P.	375,000
Lone Star Real Estate Fund II (U.S.), L.P.	12,446,743
Lone Star Real Estate Fund III (U.S.), L.P.	636,479
Luxor Capital Partners Offshore LTD	13,389,257
MacFarlane Urban Real Estate Fund II, L.P.	911,816
Madison Dearborn Capital Partners IV, L.P.	3,691,322
Marathon Active International	2,570,853
Marathon Credit Dislocation Fund	2,570,853
Mill Road Capital II, L.P.	300,000
MKP Credit Offshore LTD	9,860,514
Morgan Creek Partners Asia, L.P.	975,041
Morgan Stanley Infrastructure Partners, L.P.	10,689,419
Nautic Partners V, L.P.**	(60,913)
New Enterprise Associates 13, L.P.	1,081,933
New Enterprise Associates 14, L.P.	1,813,733
New Heritage Capital Fund-B, L.P.	616,482
NMS Fund II, L.P.	94,348
Nordic Capital Fund V, L.P.	2,253,802
Normandy Real Estate Debt Fund, L.P.	270,703
	<i>(continued)</i>



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>	<b>Fees</b>
Northwest Fund LTD	\$ 1,978,899
Oak Investment Partners XI, L.P.	926,635
Oak Investment Partners XII, L.P.	2,337,556
Oaktree European Principal Fund III, L.P.	3,006,869
Oaktree Opportunities Fund IX, L.P.	1,414,262
Oaktree Opportunities Fund VIII, L.P.	830,441
Oaktree Opportunities Fund VIIIb, L.P.	1,452,544
Oaktree Real Estate Opportunities Fund VI, L.P.	2,055,913
OCM Opportunities Fund VI, L.P.	108,645
OCM Opportunities Fund VII, L.P.	232,705
OCM Opportunities Fund VIIb, L.P.	2,708,524
One Rock Capital Partners, L.P.	181,086
Onex Partners I, L.P.	3,429,217
Onex Partners II, L.P.	12,174,459
Onex Partners III, L.P.	2,630,193
Palladium Equity Partners IV, LLC	2,332,479
Parkway Properties Office Fund II, L.P.	2,437,520
Patria-Brazilian Private Equity Fund IV, L.P.	267,645
PC Wrangler Fund	13,962,029
PCCP Mezzanine Recovery Partners II, L.P.	600,814
PDT Partners Offshore Fund LTD	18,084,897
Peak6 Achievement Fund, LLC	5,805,115
Pennybacker III, L.P.	266,090
Permira Europe III, L.P.	109,474
Permira IV, L.P.	1,340,583
Permira V, L.P.	4,811,766
Perry Partners Intl., Inc.	14,452,124
Pershing Square International LTD	913,090
PFM Diversified Offshore Fund, A.I. LTD	4,552,715
PLA Residential Fund I, L.P.	752,172
PLA Residential Fund III, L.P.	2,264,892
PLA Residential Fund IV, L.P.	754,101
Platinum Equity Capital Partners II, L.P.	3,361,287

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>	<b>Fees</b>
Polaris Venture Partners IV, L.P.	\$ 204,695
PREI Mezzanine Fund I, L.P.	3,132,209
Prime Property Fund, LLC	2,815,950
Principal Green Property Fund I, L.P.	2,903,455
Principal Green Property Sidecar I, L.P.	419,590
Principal Real Estate Strategic Debt Fund I, L.P.	1,587,013
Principal Real Estate Strategic Equity Fund I, L.P.	1,783,183
PRISA II	1,789,424
PRISA SA	1,873,322
Prologis Mexico Industrial Fund I, L.P.	414,996
Prologis U.S. Logistics REIT, Inc.	2,345,855
Providence Equity Partners V, L.P.	239,113
Providence Equity Partners VI, L.P.	1,088,718
Quad-C Partners VI, L.P.	114,972
Quad-C Partners VII Co-Investment, L.P.	210,211
Quad-C Partners VII, L.P.	5,622,016
Ranger Co-Investment Fund II, L.P.	8,709,340
Ranger Co-Investment Fund, L.P.	5,724,029
Red River Direct Investment Fund II, L.P.	2,920,000
Red River Direct Investment Fund, L.P.	1,888,370
Red River Venture Capital Fund, L.P.	3,871,440
Reservoir Strategic Partners Fund, L.P.	2,363,079
Retail Co-Invest Holdings 3, L.P.	1,559,176
Ridgewood Energy Oil & Gas Fund, L.P.	2,000,000
Rock Creek Austin, L.P.	839,648
Rock Creek Limestone Emerging Markets, L.P.	3,898,819
RREEF America REIT III, Inc.	668,126
Savanna Real Estate Fund IIA, L.P.	112,585
Security Capital Income Opportunity	3,113,323
SHI Development Co-Investment I, L.P.	145,787
Silver Lake Partners IV, L.P.	2,124,130
Silverback Arbitrage Fund LTD	2,521,672
Soroban Capital Partners Fund	3,826,175

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>		<b>Fees</b>
Southwest Multifamily Partners, L.P.	\$	187,500
SP5 Wood Partners Co-Investment Venture 2, L.P.		615,492
SP5 Wood Partners Development, L.P.		221,027
Spire Capital Partners III, L.P.		226,515
Squadron Emerging Asia Fund, L.P.		942,016
Square Mile Partners III, L.P.		4,664,107
Square Mile Partners IV, L.P.		5,114,705
Square Mile Partners IV-A-Co-Invest, L.P.		4,803,175
Square Mile S2		479,314
Starwood Distressed Opportunity Fund IX Global, L.P.		9,201,237
Starwood Real Estate Securities LLC		11,339,397
SteelRiver Infrastructure Fund North America, L.P.		3,500,738
Stockbridge Real Estate Fund II, L.P.		511,137
Stockbridge Real Estate Fund III, L.P.		1,821,995
Stonepeak Infrastructure Partners, L.P.		5,298,068
Stratford Land Fund III, L.P.		2,250,000
Stratford Land Fund IV, L.P.		3,750,000
TA X, L.P.		1,252,703
TA XI, L.P.		7,005,075
Thayer Hotel Investors V, L.P.		1,167,019
Theleme Fund LTD		2,307,561
Thomas H. Lee Equity Partners V, L.P.		906,045
TLF Logistics II, L.P.		1,264,008
TLF Logistics, L.P.		9,769,666
TPG Growth II, L.P.		3,481,676
TPG Opportunities Partners III, L.P.		1,289,725
TPG Partners IV, L.P.		6,440,146
TPG Partners V, L.P.		577,392
TPG Partners VI, L.P.		1,502,844
TPG STAR, L.P.		809,246
Tricon IX, L.P. **		(1,323,493)
TriGate Property Partners II, L.P		187,500
Tristan EPISO III, L.P.		1,367,401
		<i>(continued)</i>





## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Fund Name*</b>	<b>Fees</b>
Triton Fund II, L.P.	\$ 719,497
Triton Fund III, L.P.	1,428,170
Triton Fund IV, L.P.	3,024,938
Trive Capital Fund I, L.P.	273,557
Tudor BVI Global Fund LTD	5,164,389
U.S. Government Building Fund, L.P.	2,185,040
U.S. Republic Core Fund, L.P.	1,479,831
Vistria Fund, L.P.	34,800
Walton Street Real Estate Fund Sidecar V, L.P.	23,252
Walton Street Real Estate Fund V, L.P.	544,766
Walton Street Real Estate Fund VI, L.P.	1,891,687
Warburg Pincus Private Equity X, L.P.	4,680,740
Wayzata Opportunities Fund II, L.P.	19,907,491
Wayzata Opportunities Fund III, L.P.	2,250,000
Westbrook Real Estate Fund IX, L.P.	2,369,862
Westbrook Real Estate Fund VIII, L.P.	1,743,223
Winton Futures Fund	3,526,158
Wolverine Flagship Fund LTD	10,257,018
Zachry Hastings Infrastructure Partners, L.P.	27,764,739
Zaxis Offshore LTD	1,706,023
<b>Total</b>	<b>\$ 1,055,203,740</b>

\* 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, 2014

<b>External Manager***</b>	<b>Fees</b>
Affinity Investment Advisors	\$ 176,244
Barclays Capital Fund Solutions	568,630
Baring International Investment LTD	2,349,241
Blackrock Financial management, Inc.	3,459,304
Brandes Investment Partners, LLC	941,697
Brookmont Capital Management	185,882
Cantillon Capital Management, LLC	14,306,655
Chilton Capital Management	177,284
DePrince Race & Zollo, Inc.	3,494,557
Dimensional Fund Advisors, L.P.	8,304,574
Eaton Vance Management	7,760,316
GMO, LLC	1,864,939
Goldman Sachs Asset Management, L.P.	5,019,684
Independent Franchise Partners, LLP	7,102,346
Indus Capital Partners, LLC	1,912,596
Jennison Associates, LLC	2,484,095
JP Morgan	9,031,152
Knight Vinke Asset Management, LLC	10,686,866
Lazard Asset Management, LLC	6,145,917
Mar Vista Investment Partners	190,172
Matterhorn	131,404
Morgan Stanley Asset Management	8,714,950
Morgan Stanley Investment Management, Inc.	3,069,997
Neuberger Berman Greater China	1,619,275
Neuberger Berman	3,211,954
Neuberger Berman RMBS Mandate****	(19,618)
New Standard Investments, LLC	142,738
Nicholas Investment Partners	112,267
Oaktree Capital Management	511,334
Omega Advisors, Inc.	10,392,594
Penn Capital Management Co., Inc.	943,340
	<i>(continued)</i>



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>External Manager***</b>	<b>Fees</b>	
Phocas Financial Corp	\$	105,472
Platinum Asset Management LTD		6,657,043
Sasco Capital, Inc.		2,998,436
Security Capital Research & Management, Inc.		2,927,763
Starboard Value & Opportunity		4,158,192
Starwood Real Estate Securities		4,382,980
Stephens Investment Management Group		1,103,744
Vaughan Nelson Investment Management, L.P.		1,701,943
Vulcan Value Partners		77,336
Wellington Asia		651,694
Wellington Management Corp.		11,406,856
Westwood Management Corp.		1,790,992
<b>TOTAL</b>	<b>\$</b>	<b>152,954,835</b>

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

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

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Abel/Noser Corp.	143,723	\$ 4,622
ABG Securities	141,565	10,137
ABN AMRO Securities, Inc.	39,388	1,331
Academy Securities, Inc.	156,009	2,983
Agora Corde Titul E Val Mob	447,802	7,527
Allen & Company, LLC	20,244	709
Ambit Capital Pvt. LTD	625,577	10,384
Apex Clearing Corporation	127,641	2,553
Aqua Securities, L.P.	6,650	133
Atlantic Equities, LLP	219,621	5,457
ATR Kim Eng Securities, Inc.	6,821,700	7,555
Avondale Partners, LLC	89,634	3,463
Axis Capital Limited	49,569	6,149
B. Riley & Co., LLC	50,231	1,767
Banco Itau S.A.	3,253,419	39,350
Banco Pactual S.A.	791,167	13,811
Banco Portugues de Investimento S.A.	22,125	315
Banco Santander S.A.	10,138,589	54,797
Bank am Bellevue	2,970	711
Bank J. Vontobel Und, Co. AG	167,585	35,206
Bank of America	576,697,476	7,191,981
Barclays Capital, Inc.	543,602,725	2,189,235
Batlivala & Karani Securities India Pvt. LTD	26,207	2,796
BB&T Securities, LLC	437,404	17,496
Bloomberg Tradebook, LLC	21,226,988	805,086
BMO Capital Markets	5,128,074	175,430
BNP Paribus Securities Corp	43,464,184	322,544
BOCI Securities LTD	9,155,500	15,206
Bradesco S.A. CTVM	139,902	1,857
Brean Capital, LLC	1,307,346	29,488
BTG Capital Corporation	40,800	1,632
BTIG, LLC	12,474,928	374,857

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Buckingham Research Group, Inc.	130,701	\$ 4,310
CA Cheuvreux	120,640	4,222
Cabrera Capital Markets	3,670,778	177,987
Calyon Securities	51,461,655	411,177
Canaccord Genity, Inc.	756,266	30,703
Canadian Imperial Bank of Commerce	745,228	28,604
Cantor Fitzgerald & Co.	10,560,675	282,186
Capital Markets Brokers LTD	111,512	706
Carnegie Investment Bank	9,997,813	52,475
Casablanca Finance City	3,200	563
Cathay United Bank	7,583,000	15,827
CCB International Securities LTD	10,909,700	15,502
Celfin Capital S.A. Corredores de Bolsa	27,796,392	40,721
Central Securities Clearing System LTD	96,300	702
Chapman Company	1,790,045	14,799
China Fortune Securities Co. LTD	431,582	735
China International Cap Corp. HK Secs LTD	34,681,410	96,434
CIBC World Markets Corp	169,839	5,601
CIMB Securities International Pte. LTD	15,180,544	54,765
Citation Group	158,350	3,730
Citigroup Global Markets, Inc.	732,465,462	3,575,817
CL King & Associates, Inc.	209,185	3,873
CLSA Securities	87,750,833	574,087
Commerzbank AG	69,677	5,843
Companhia Brasileira de Liquidacao e Custodia	1,463,829	39,906
Compass Point Research & Trading, LLC	78,572	2,761
ConvergEx Group, LLC	11,720,450	299,802
Core Pacific - Yamaichi International (HK) LTD	1,600,000	1,909
Coremark Securities, Inc.	47,500	1,951
Corp Banca	2,153,194	855
Cowen & Company, LLC	32,044,904	1,263,075

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Craig - Hallum	592,587	\$ 22,818
Credit Agricole	1,095,576	57,746
Credit Lyonnais Securities	79,359,002	284,244
Credit Research & Trading, LLC	822,906	28,060
Credit Suisse First Boston	530,354,027	4,052,473
CSI US Institutional Desk	1,164,584	36,863
Cuttone & Co., Inc.	148,595	5,201
Daewoo Securities Co. LTD	513,950	37,071
Daiwa Securities America, Inc.	14,908,617	122,314
Daiwa Securities Group, Inc.	16,805,606	60,098
Danske Bank A/S	343,790	10,867
Davenport & Co., of Virginia, Inc.	66,946	2,537
Davidson D.A. & Company, Inc.	418,449	15,052
Davy Stockbrokers	6,433,492	13,589
DBS Vickers Securities (Singapore) Pte. LTD	2,860,000	1,736
Dematted Monness, LLC	114,700	4,588
Deutsche Bank Securities, Inc.	252,790,465	2,254,544
Dhanki Securities Pvt. LTD	95,233	1,532
DnB NOR	51,115	4,490
Dolat Capital Market Pvt. LTD	68,599	351
Dongwon Securities	25,320	1,364
Dougherty Co., Inc.	61,990	2,208
Dowling & Partners	10,549	422
Dundee Securities, Inc.	145,950	4,895
Edelweiss Securities Pvt. LTD	488,697	2,974
Emkay Global Financial Services LTD	27,015	1,384
Equita SIM S.p.A.	1,423,365	17,193
Erste Group Bank AG	142,143	4,017
Essence International Securities (HK) LTD	7,805,000	8,310
Euroclear Bank S.A. N.V.	242,168	19,716
Euroxx Securities S.A.	1,216	30

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Evercore Group, LLC	213,860	\$ 7,485
Exane S.A.	1,442,306	101,807
Execution Noble LTD	42,500	638
FBN Securities, Inc.	6,064	240
Fidelity Capital Markets	300,306	9,901
Fidelity Clearing Canada	107,700	3,318
Fidentiis Equities S.V.S.A	159,057	3,918
Fig Partners, LLC	58,883	1,178
Financial Brokerage Group (FBG)	9,800	1,500
First Analysis Securities Corp.	56,280	2,607
First Clearing, LLC	137,350	2,522
Friedman, Billings & Ramsey	466,314	12,370
G Trade Services LTD	15,339,971	500,327
GBM Grupo Bursatil Mexicano, S.A. de C.V.	156,841	1,451
Global Hunter Securities, LLC	43,265	712
GMP Securities, L.P.	22,900	948
Goldman Sachs & Co.	371,231,082	3,258,155
Goodbody Stockbrokers	402,429	5,243
Gordon, Haskett & Company	62,230	2,178
Guggenheim Capital Markets, LLC	106,480	3,775
Hanwha Securites Seoul	8,557	2,793
Height Securities, LLC	93,700	3,280
Hibernia Southcoast Capital, Inc.	177,201	7,088
HSBC Holdings, PLC	103,861,694	839,456
Hyundai Securities Co. LTD	56,339	6,922
ICAP PLC	11,956,831	462,515
ICICI Securities LTD	2,207,347	13,669
Imperial Capital, LLC	713,869	28,853

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
India Infoline LTD	3,082,384	\$ 17,916
ING Bank N.V.	158,391	7,319
Instinet, LLC	302,398,824	1,772,843
Interacciones Casa de Bolsa, S.A. de C.V.	35,900	254
Intermonte Sec SIM SPA	243,473	5,363
Investec Bank PLC	1,025,380	6,037
Is Yatirim Menkul Degerler AS	481,580	4,952
ISI Group, Inc.	5,179,622	141,989
Itau BBA USA Securities, Inc.	211,800	1,609
Itau Europa Securities, Inc.	205,493	7,681
ITG Group, Inc.	192,106,891	1,127,883
J.P. Morgan Securities, Inc.	431,851,165	4,393,189
Janney Montgomery Scott, LLC	412,562	15,792
Jefferies & Company, Inc.	315,720,197	2,132,430
JM Financial Institutional Securites LTD	511,456	7,191
JNK Securities, Inc.	113,853	4,529
Joh. Berenberg, Gossler & Co., KG	721,344	19,594
John Govett & Co. LTD	8,223,264	366,375
Johnson Rice & Company, LLC	62,205	2,488
Jones & Associates, Inc.	653,973	78,477
Jones Trading Institutional Services, LLC	14,765,745	498,343
KAS-Associates N.V.	360,947	18,005
KC Securities N.V.	464	27
KCG Americas, LLC	18,464,021	309,370
Keefe Bruyette & Woods, Inc.	148,595	6,418
Kempen & Co N.V.	25,753	2,013
Kepler Equities	284,904	25,495
Kestrel Capital	10,203,500	17,252
Keybanc Capital Marktes, Inc.	333,517	13,085
KGI Securities Co. LTD	243,600	518
KIM ENG Holdings LTD	3,751,280	6,784

*(continued)*





## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Kingsway financial Services Group LTD	98,300	\$ 268
Korea Investment & Securities Co. LTD	255,802	23,906
Kotak Securities LTD	872,112	13,613
Kwan Yick Securities (International) LTD	30,376	130
Lanka Securities (PVT) LTD	3,246,411	17,065
LarrainVial S.A.	1,482,527	8,247
Lazard Capital Markets, LLC	53,151	2,395
Leerink Swann & Company	212,493	8,157
Liberum Capital LTD	88,089	407
Link S.A. CCTVM	92,600	825
Liquidnet Holdings, Inc.	29,453,597	862,600
Longbow Securities, LLC	373,381	13,462
Loop Capital Markets, LLC	10,314,426	374,036
M. Ramsey King, Inc.	300	3
Macquarie Bank LTD	202,368,607	1,390,531
MainFirstBank AG	6,891	1,436
Maxim Group	39,042	1,562
Mirabaud Securities, LLP	98,848	13,814
Mischler Financial Group, Inc.	500,900	3,064
Mitsubishi UFJ Securities Co. LTD	2,659,884	43,329
Mizuho Securities	7,014,143	100,830
MKM Partners, LLC	1,064,907	40,067
MND Partners, Inc.	133,417	2,668
Monness, Crespi, Hardt & Co., Inc.	171,659	6,351
Morgan Stanley & Co., Inc.	743,258,852	3,795,618
Motilal Oswal Securities LTD	2,513,563	16,134
Mr. Beal and Co.	1,965,500	68,793
National Financial Services, LLC	1,695,148	61,063
Natixis Securities, Inc.	506,211	25,149
NavPoint, LLC	278,311	9,741
Needham & Company	837,598	32,421

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Nesbitt Burns	1,921,053	\$ 65,754
Noble International Investments, Inc.	35,259	1,058
Nomura Securities International, Inc	10,006,682	65,514
Nordea Bank AB	73,010	1,265
North Sea Securities, L.P.	433,833	1,897
North South Capital, LLC	13,744	550
Northland Securities, Inc.	129,339	4,372
Numis Securities LTD	3,447,930	50,066
Oddo Finance	97,089	14,356
Okasan Internaitional (Asia) LTD	1,167,500	13,641
Oppenheimer & Co., Inc.	4,429,729	156,491
Otkritie Securities LTD	9,994	876
Pacific Crest Securities	1,119,672	39,109
Panmure Gordon & Co.	2,586	8,212
Parel	925,224	39,655
Pavilion Global Markets LTD	50,600	1,661
Penserra Securities, LLC	17,515,542	819,087
Penson Financial Services, Inc.	171,903	1,197
Pershing Securities LTD	95,595,507	1,120,915
Petercam S.A.	11,900	958
Pickering Energy Parnters, Inc.	175,288	7,012
Piper Jaffray	2,389,793	77,106
Portales Partners, LLC	68,600	2,744
PR Platou Markets AS	49,200	2,834
Publikum Borzno Posredovanje D.D.	15,350	12,203
Pulse Trading, LLC	597,529	12,663
Quaker Securities	165,905	3,979
Rafferty Capital Marktes, LLC	26,054	912
Raymond James & Associates, Inc.	3,104,804	110,019
RBC Capital Markets, LLC	23,472,354	913,189
Redburn Partners, LLP	2,059,148	53,485

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Renaissance Capital Holdings LTD	730,654	\$ 3,319
Robert W. Baird & Co., Inc.	2,195,779	80,980
Rosenblatt Securities, LLC	137,778	4,930
ROTH Capital Partners, LLC	269,285	10,102
S B Lewis & Company	1,150	35
Saigon Securities, Inc.	6,331,600	30,729
Samsung Securities Co. LTD	480,370	68,242
Sandler O'Neil & Partners, L.P.	166,557	6,890
Sanford C. Bernstein Co. LTD	81,370,946	449,629
Schneider Bernet & Hickman, Inc.	3,935	118
Scotia Capital, Inc.	87,926,022	1,069,668
Shenyin & Wanguo Securities Co.	1,857,200	20,804
Sicoti & Company, LLC	644,839	27,000
Simmons & Company International	184,962	5,554
SJ Levinson & Sons, LLC	11,560,829	517,658
Skandinaviska Enskilda Bank	98,254	4,889
SMI Securities, Inc.	397,754	25,892
Societe Generale Group	225,233,734	512,026
Southwest Securities, Inc.	15,737	629
SS Kantilal Ishwarlal Securities	1,721,726	14,336
Standard Bank	689,936	18,771
Standard Chartered Bank	3,081,590	14,383
State Street Bank & Trust Co.	9,422,933	148,947
Stephens, Inc.	806,445	31,209
Sterne Agee & Leach, Inc.	1,818,607	69,334
Stifel Nicolaus & Co., Inc.	10,593,212	305,416
Stockbrokers Botswana LTD	272,049	1,307
Strategas Securities, LLC	37,220	1,303
Stuart Frankel & Co., Inc	145,013	5,801
Sumitomo Mitsui Financial Group, Inc.	24,832,630	381,281
Suntrust Capital Marktes, Inc.	2,799,790	41,488

*(continued)*



## ***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Svenska Handelsbanken	78,077	\$ 9,452
Tachibana Securities	453,660	10,600
TD Securities (USA), LLC	1,049,900	53,233
TD Waterhouse Cda	23,942,735	800,642
Telsey Advisory Group, LLC	147,346	4,911
Tera Menkul Degerler A.S.	893,490	1,524
The Benchmark Company, LLC	68,853	2,754
Topeka Capital Markets	779,431	8,085
Troika Dialog	104,763	10,956
Tudor, Pickering, Holt & Co.	930,995	43,757
Tunisie Valeurs	673,979	14,757
UBS AG	419,644,204	1,960,305
UniCredit Bank Austria AG	6,200	1,349
Uti Securities Exchange LTD	57,448	3,814
VTB Bank	1,014,113	29,710
Warburg Dillon Read, LLC	4,181,072	1,274
Wedbush Morgan Securities, Inc.	1,754,528	34,061
Weeden & Co. LTD	18,444,002	777,468
Wells Fargo Securities, LLC	4,561,265	152,147
William Blair & Company, LLC	1,124,404	47,326
William Capital Group, L.P.	3,599,620	20,801
William O'Neil and Co., Inc.	32,075	1,187
Wolfe Trahan Securities, Inc.	119,817	4,793
Wood & Company	1,125,774	37,558
Woori Investment Securities	528,889	48,838
Wunderlich Securities, Inc.	293,055	11,555
XP Investimentos CCTVM S.A.	29,400	689
Yamner & Co., Inc.	100,784	1,008
Yaunta Core Pacific Securities	2,014,628	6,772
Zacks & Company	34,100	1,290
<b>Total</b>	<b>7,168,367,180</b>	<b>\$ 60,238,699</b>

*(continued)*

***Schedule of Fees and Commissions***

PENSION TRUST FUND

For the Fiscal Year Ended August 31, 2014

<b>Futures Contracts Brokerage Firm</b>	<b>Shares Traded</b>	<b>Commissions Paid</b>
Goldman Sachs & Co.	1,370,735	\$ 4,775,655
JP Morgan Securities, Inc.	800,949	1,967,839
Morgan Stanley Co., Inc.	25,002	57,943
Total	2,196,686	\$ 6,801,437

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# TRS Core Values

## ACTUARIAL Section

**Customer Satisfaction:** We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations exceeded.

**Collaboration/Teamwork:** We work together to achieve common goals through a diverse, yet unified team.

**Accountability:** We hold ourselves accountable and take responsibility for our actions, behavior and outcomes.

**Respect:** We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.

**Ethics:** We will be truthful and act with honesty and integrity in everything we do.

**Excellence:** We commit to demonstrating excellence in our work and look for ways to continuously improve.

**Employee Fulfillment:** We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.



## ***Actuarial Information Pension Trust Fund***



101 North Wacker Drive, Suite 500 Chicago, IL 60606  
T 312.984.8500 F 312.984.8590 www.segalco.com

September 17, 2014

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

Re: **Actuarial Peer Review Audit of August 31, 2013 Actuarial Valuation**

Ladies and Gentlemen:

We are pleased to present the results of Segal's actuarial peer review audit of the August 31, 2013 valuation of the Teacher Retirement System of Texas. The purpose of this audit is to conduct a review of the actuarial methods, assumptions, and procedures employed by the Teacher Retirement System of Texas (TRS) and the System's actuary, Gabriel Roeder Smith & Company (GRS). This audit includes the following:

1. **Report review** – a review of the valuation report to evaluate how it complies with actuarial standards, and whether it reflects appropriate disclosure information under required reporting and actuarial standards of practice.
2. **Methods and assumptions review** – an analysis of the actuarial assumptions and a review of the actuarial methods utilized in determining the funded status and accrued liability for compliance with generally accepted actuarial principles.
3. **Valuation results and data review** – an evaluation of the participant data and valuation results, with a detailed review of the findings. This includes reproducing the August 31, 2013 valuation results.

This review was conducted under the supervision of Kim Nicholl, a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and an Enrolled Actuary under the Employee Retirement Income Security Act (ERISA), and Matthew Strom, a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and an Enrolled Actuary under ERISA. This review was conducted in accordance with the standards of practice prescribed by the Actuarial Standards Board.

The assistance of the TRS staff and GRS is gratefully acknowledged.

We appreciate the opportunity to serve as an independent actuarial advisor for the TRS and we are available to answer any questions you may have on this report.

Benefits, Compensation and HR Consulting. Member of The Segal Group. Offices throughout the United States and Canada





## ***Actuarial Information Pension Trust Fund***

Teacher Retirement System of Texas  
September 17, 2014  
Page 2

Sincerely,

A handwritten signature in black ink that reads 'Kim Nicholl'.

Kim Nicholl, FSA, MAAA, EA  
Senior Vice President and Actuary

A handwritten signature in black ink that reads 'Matthew A. Strom'.

Matthew A. Strom, FSA, MAAA, EA  
Vice President and Actuary



## ***Actuarial Information Pension Trust Fund***

### ***Teacher Retirement System of Texas***

---

#### ***II. Actuarial Certification***

This is to certify that Segal Consulting, a member of The Segal Group, Inc. (“Segal”) has replicated and reviewed the August 31, 2013, TRS actuarial valuation in accordance with generally accepted actuarial principles and practices. The opinions presented in this report have been made on a basis consistent with our understanding of the applicable Actuarial Standards of Practice.

The actuarial valuation is based on the plan of benefits verified by the TRS. Segal did not audit the data provided by the Plan Administrator. The accuracy and comprehensiveness of the data is the responsibility of those supplying the data. To the extent we can, however, Segal does review the data for reasonableness and consistency. Based on our review of the data, we have no reason to doubt the substantial accuracy of the information on which we have based this report and we have no reason to believe there are facts or circumstances that would affect the validity of these results.

The actuarial computations made are for purposes of replication and review of the report described above. Determinations for purposes other than as described here may be significantly different from the results reported here.

We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, this report is complete and accurate.

---

Kim Nicholl, FSA MAAA EA  
Senior Vice President and Actuary

---

Matthew A. Strom, FSA MAAA EA  
Vice President and Actuary



## ***Actuarial Information Pension Trust Fund***

**GRS**Gabriel Roeder Smith & Company  
Consultants & Actuaries5605 N. MacArthur Blvd.  
Suite 870  
Irving, TX 75038-2631469.524.0000 phone  
469.524.0003 fax  
www.gabrielroeder.com

November 12, 2014

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, 2014**

We certify that the information included herein and contained in the 2014 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2014.

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

***Actuarial Valuations***

The primary purpose of the valuation report is to determine the adequacy of the current State contribution rate through measuring the resulting funding period, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides various summaries of the data. The information required by the System in connection with Governmental Accounting Standards Board Statement No. 67 (GASB No. 67) will be provided under separate cover. However, for the fiscal year ending August 31, 2014, we continue to provide the GASB No. 27 information needed for the State to complete its financial statements.

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

***Financing Objective of the Plan***

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



## ***Actuarial Information Pension Trust Fund***

Board of Trustees  
November 12, 2014  
Page 2

### ***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, 2014, the System's under-funded status has increased to \$31.6 billion from \$28.9 billion as of August 31, 2013. The System's UAAL was expected to increase from the prior year based on the deferral of investment losses from prior valuations and the future increases in contributions not being effective for this fiscal year. For example, if the fiscal year 2017 contribution rates would have been effective during fiscal year 2014, the UAAL in this valuation would have been \$0.8 billion less. In addition, the UAAL increased due to a change in the actuarial assumption regarding the mortality of current and future healthy retirees and beneficiaries, and the System also experienced a loss due to demographic experience. These losses were partially offset by gains on the actuarial value of assets resulting from the favorable investment performance fiscal year 2014.

This valuation shows a normal cost equal to 10.43% of pay. The State set its contribution rate to 6.80% for fiscal year 2015. In addition, covered employers whose employees are not participating in Social Security will begin contributing 1.50% of the minimum salary schedule beginning in fiscal year 2015. Combined it is expected that these contributions will be approximately 7.76% of total payroll. The member contribution rate will also increase beginning in fiscal year 2015 to 6.7% of pay and will continue to increase to 7.20% of pay in fiscal year 2016 and 7.70% of pay in fiscal year 2017. Thereafter, once the contribution rates have all ramped up the System is expected to receive a total contribution rate of 15.46% of pay.

Hence, beginning in FY2017, there is expected to be 5.03% of pay available to amortize the UAAL. If payroll grows as expected, the contributions provided by this portion of the contribution rate are sufficient to amortize the current unfunded actuarial accrued liabilities of the System over a period of 29.8 years based on the smoothed asset value as the valuation date. Therefore, the financing objectives of the System are being met.

The actuarial valuation report as of August 31, 2014 reveals that the funded ratio (the ratio of actuarial assets to actuarial accrued liability) is 80.2%. Because of the favorable investment performance in FY2014, the System is now deferring net investment gains of \$4.4 billion and the funded status using the market value of assets is 83.0%. If there are no significant investment losses or other actuarial losses over the next several years, the funded status of the System would be expected to increase towards this number. This \$4.4 billion in net deferred gains compares to the last valuation when the System was deferring \$4.3 billion in net deferred losses and had a 77.9% funded ratio based on market value of assets.

The System's UAAL increased by \$1.5 billion more than expected during the year. The market value of assets earned a 16.8% return on a dollar-weighted basis for the plan year ending August 31, 2014, which resulted in a gain on the actuarial value of assets of \$1.1 billion. Therefore, the liabilities actually

Gabriel Roeder Smith & Company



## ***Actuarial Information Pension Trust Fund***

Board of Trustees  
November 12, 2014  
Page 3

increased \$2.6 billion more than expected. Most of this was from the change (\$2.3 billion) in the mortality assumption mentioned above. The remaining \$0.3 billion increase was due to the liability experience of the System when compared to the actuarial assumptions.

In the absence of significant actuarial losses in the near future, the number of years needed to amortize the UAAL will decrease annually if all assumptions are met. Please note, this annual decrease in the funding period will only occur if the currently scheduled contribution levels remain in place over the funding period. Any decrease in the contribution rates will result in higher funding periods.

In addition, due to the current funding policy which utilizes level percentage of payroll amortization, the amortization payments will not be sufficient to cover all of the interest charges on the UAAL until the funding period reaches approximately 20 years. Table 11a provides a 10 year projection of various valuation results, including the UAAL, and that projection shows the UAAL is expected to increase to \$35.7 billion in 2024. Extending the projection further would show the UAAL starts to decrease in 2025 and is fully amortized 20 years later.

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

### ***Plan Provisions***

The plan provisions used in the actuarial valuation are described in Table 21 of the valuation report. There have been no changes to the benefit and contribution provisions of the System since the prior valuation. However, there were significant changes during the 2013 legislative session. As a reminder, a summary of these changes are shown below:

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

There was also a significant change to the provisions of TRS Care during the 2013 legislative session. While this change did not impact the benefits paid out of the pension system, it did impact the assumptions we use for when members will retire. This is more fully discussed in the assumptions section.

Gabriel Roeder Smith & Company



## ***Actuarial Information Pension Trust Fund***

Board of Trustees  
November 12, 2014  
Page 4

### ***Disclosure of Pension Information***

Effective for the fiscal year ending August 31, 1996, the Board of Trustees adopted compliance with the reporting requirements specified by the Governmental Accounting Standards Board (GASB). Beginning with fiscal year 2014, the System will begin complying with the new disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 67. The disclosure information for GASB No. 67 will be provided in a separate report and is not contained herein.

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

### ***Actuarial Methods and Assumptions***

The actuarial methods and assumptions have been selected by the Board of Trustees of the Teacher Retirement System of Texas based upon our analysis and recommendations. These assumptions and methods are detailed in Table 22 of the valuation report. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained significant margin for possible future mortality improvement. As of the date of this valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, we have decreased the post-retirement mortality rates for current and future retirees to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

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.

### ***Data***

In preparing the August 31, 2014 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.

Gabriel Roeder Smith & Company



## ***Actuarial Information Pension Trust Fund***

Board of Trustees  
November 12, 2014  
Page 5

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

Respectfully submitted,  
Gabriel, Roeder, Smith & Company

Lewis Ward  
Consultant

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

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

Gabriel Roeder Smith & Company



## Actuarial Information Pension Trust Fund

### Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2014 (With Comparative Data for August 31, 2013)

	2014	2013
<b>Present Value of Benefits Presently Being Paid</b>		
Service Retirement Benefits	\$ 76,357,134,130	\$ 71,820,668,352
Disability Retirement Benefits	1,014,408,651	989,311,958
Death Benefits	839,061,459	810,515,534
Present Survivor Benefits	241,128,389	223,686,635
<b>TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID</b>	<b>\$ 78,451,732,629</b>	<b>\$ 73,844,182,479</b>
<b>Present Value of Benefits Payable in the Future to Present Active Members</b>		
Service Retirement Benefits	\$ 100,367,139,589	\$ 95,127,960,463
Disability Retirement Benefits	1,492,083,391	1,417,907,563
Termination Benefits	8,638,663,636	7,448,756,121
Death and Survivor Benefits	1,983,416,721	1,852,668,542
<b>TOTAL ACTIVE MEMBER LIABILITIES</b>	<b>\$ 112,481,303,337</b>	<b>\$ 105,847,292,689</b>
<b>Present Value of Benefits Payable in the Future to Present Inactive Members</b>		
Inactive Vested Participants:		
Retirement Benefits	\$ 3,122,143,391	\$ 2,828,390,234
Death Benefits	162,843,256	159,885,733
<b>Total Inactive Vested Benefits</b>	<b>\$ 3,284,986,647</b>	<b>\$ 2,988,275,967</b>
Refunds of Contributions to Inactive Non-vested Members	\$ 371,647,155	\$ 368,715,419
Future Survivor Benefits Payable On Behalf of Present Annuitants	1,302,923,361	1,283,662,384
<b>TOTAL INACTIVE LIABILITIES</b>	<b>\$ 4,959,557,163</b>	<b>\$ 4,640,653,770</b>
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 195,892,593,129</b>	<b>\$ 184,332,128,938</b>

### Summary of Cost Items

	2014	2013
Actuarial Present Value of Future Benefits	\$ 195,892,593,129	\$ 184,332,128,938
Present Value of Future Normal Costs	(35,856,992,303)	(33,666,034,804)
Actuarial Accrued Liability	\$ 160,035,600,826	\$ 150,666,094,134
Actuarial Value of Assets	(128,397,777,855)	(121,729,818,906)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 31,637,822,971</b>	<b>\$ 28,936,275,228</b>





## ***Actuarial Information Pension Trust Fund***

**Financing Objects and Funding Policy:** The funding policy of TRS is established by the the state legislature. Contribution rates may not be reduced or eliminated, or benefits may not be improved, if, as a result of the particular action, the time, as determined by an actuarial valuation, required to amortize the unfunded actuarial liabilities of the retirement system would be increased to a period that exceeds 30 years by one or more years. For detailed information, see Note 1.

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

The actuarial cost method used for financial reporting purposes was the Individual Entry Age Normal (EAN) method as prescribed by GASB 67 and the method used for funding purposes was the Ultimate Entry Age Normal method. The Ultimate EAN cost method is used because it creates the most level funding requirement across the generations of members and stakeholders. The difference between the two methods resides in the calculation of the normal cost for the members in the system. Under Individual EAN, the normal cost for each member is based on the benefit tier for that member while the Ultimate EAN method uses the normal cost for the tier that new members are currently being hired into; which reflects the longer term normal cost.

The actuarial methods and assumptions have been selected by the Board of Trustees of the Teacher Retirement System of Texas based upon GRS analysis and recommendations. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, GRS has decreased the post-retirement mortality rates for current and future retirees to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

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

### **Actuarial Assumptions:**

Investment Return Rate: 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.

Rates and scales developed in the actuarial investigation as of August 31, 2007, with values at specimen ages shown in the tables that follow:



## ***Actuarial Information Pension Trust Fund***

Mortality: Service Retirement Annuitants, Beneficiaries and Survivors

<b><u>Probability of Mortality and Life Expectancy</u></b>				
Age	Male Members		Female Members	
	Probability of Mortality	Life Expectancy (Years)	Probability of Mortality	Life Expectancy (Years)
55	0.003388	28.16	0.002580	31.92
65	0.010017	19.49	0.005625	22.92
75	0.029614	12.07	0.017861	14.65
85	0.087554	6.54	0.063094	8.33
95	0.213094	3.62	0.150113	5.05

Probability of Decrement due to Retirement (for members hired after August 31, 2007): For members hired after August 31, 2007 and who are not vested as of August 31, 2014, or, for members hired after August 31, 2004, the retirement rates for members once they reach unreduced retirement eligibility at age 62 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 62 is 140% of the rate shown below).

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



## ***Actuarial Information Pension Trust Fund***

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

<b>Probability of Decrement Due to Withdrawal</b>										
<b>Male Members</b>										
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

<b>Female Members</b>										
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

Probability of Decrement due to Death:

<b>Probability of Decrement due to Death</b>		
Age	Male Members	Female Members
20	0.000297	0.000189
30	0.000624	0.000291
40	0.000849	0.000449
50	0.001458	0.000923
60	0.003979	0.002084
70	0.012940	0.007621



## ***Actuarial Information Pension Trust Fund***

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. The weighted average salary increase rate is 5.55% based on the active member service distribution of August 31, 2014.

<b><u>Rates of Salary Increase</u></b>				
<u>Years of Service</u>	<u>Annual Step Rate/ Promotional Rates of Increase</u>		<u>Total Annual Rate of Increase</u>	
	<u>Male Members</u>	<u>Female Members</u>	<u>Male Members</u>	<u>Female Members</u>
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

**Actuarial Cost Method:** The funding period required to amortize the unfunded actuarial accrued liability is determined using the entry age actuarial cost method. This method assigns the plan's total unfunded liabilities (the actuarial present value of future benefits less the actuarial value of assets) to various periods.

**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 ultimate normal cost for benefits provided by the System is 10.43% of payroll (7.70% by members plus 2.73% by the State), which is 5.03% of payroll more than the ultimate total contribution rate required by law. It is intended that the excess amount of 5.03% 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 August 31, 2014 valuation, these excess contributions of 5.03% of pay are sufficient to amortize the UAAL under the required time period.



## ***Actuarial Information Pension Trust Fund***

### Schedule of Active Member Valuation Data:

<b>Schedule of Active Member Valuation Data</b>					
<u>Valuation Year</u>	<u>Active Members</u>	<u>Annual Payroll in</u>		<u>Average Annual</u>	
		<u>Thousands</u>	<u>Salary</u>	<u>Salary</u>	<u>Annual Percentage</u>
					<u>Increase in Average</u>
					<u>Salary</u>
2005	715,495	\$ 25,956,807	\$ 36,278		3.8%
2006	761,658	28,397,283	37,284		2.8
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
2013	831,302	36,504,576	44,634		0.2
2014	857,342	38,522,207	45,717		2.4

### Schedule of Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls:

<b>Schedule of Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls</b>									
<u>Added to Rolls</u>		<u>Removed from Rolls</u>			<u>Rolls - End of Year</u>				
<u>Valuation as of</u>	<u>Number</u>	<u>Annual</u>	<u>Number</u>	<u>Annual</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Percentage Increase</u>		
<u>August 31</u>		<u>Allowances</u>		<u>Allowances</u>			<u>in Annual Allowances</u>	<u>Average Annual</u>	
								<u>Allowances</u>	
2005	15,153	\$ 292,452,315	7,271	\$ 127,291,874	248,509	\$ 5,078,438,869	3.4%	\$ 20,436	
2006	15,810	324,292,542	7,175	120,623,840	257,144	5,282,107,571	4.0	20,541	
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	
2013	25,825	743,998,946	9,344	165,231,795	348,228	7,923,518,843	7.9	22,754	
2014	24,429	573,876,713	9,475	174,915,127	363,182	8,322,480,429	5.0	22,915	



## Actuarial Information Pension Trust Fund

### Analysis of Financial Trends:

<b>Analysis of Financial Experience</b>										
Changes in Unfunded Actuarial Accrued Liabilities (UAAL)*										
Resulting from Differences Between Assumed Experience and Actual Experience										
Increase/(Decrease) for Year (Billions)										
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Investment (Gains)/Losses	\$ (1.095)	\$ 2.045	\$ 2.208	\$ 1.958	\$ 1.161	\$ 10.321	\$ (1.232)	\$ (4.140)	\$ (.264)	\$ 4.068
Legislative Changes/Benefit Increases								.360		1.143
Contribution Experience	1.157	1.911	1.258	0.826	0.797	0.149	0.228	.496	.508	0.462
Assumption Changes	2.282	0.708		(0.271)			0.676			
Liability Experience	<u>0.358</u>	<u>(1.829)</u>	<u>(1.427)</u>	<u>(1.350)</u>	<u>(0.705)</u>	<u>(0.347)</u>	<u>(0.694)</u>	<u>2.135</u>	<u>.254</u>	<u>(0.430)</u>
Net Increase/(Decrease)	\$ 2.702	\$ 2.835	\$ 2.039	\$ 1.163	\$ 1.253	\$ 10.123	\$ (1.022)	\$ (1.149)	\$ .498	\$ 5.243
Beginning UAAL	<u>28.936</u>	<u>26.101</u>	<u>24.062</u>	<u>22.899</u>	<u>21.646</u>	<u>11.523</u>	<u>12.545</u>	<u>13.694</u>	<u>13.196</u>	<u>7.953</u>
Ending UAAL	<u>\$ 31.638</u>	<u>\$ 28.936</u>	<u>\$ 26.101</u>	<u>\$ 24.062</u>	<u>\$ 22.899</u>	<u>\$ 21.646</u>	<u>\$ 11.523</u>	<u>\$ 12.545</u>	<u>\$ 13.694</u>	<u>\$ 13.193</u>

\* Calculated on a 5-year smoothed market basis



## ***Actuarial Information Pension Trust Fund***

**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.

<b>Solvency Test</b>								
(AMOUNTS SHOWN IN MILLIONS)								
Valuation as of August 31	Aggregate Actuarial Accrued Liabilities For			Valuation Assets	Portion of Aggregate Actuarial Accrued Liabilities Covered by Valuation Assets			
	Active Member Contributions (1) *	Retirees and Beneficiaries (2) *	Active Members (State Financed Portion) (3)		Active Member Contributions (1) *	Retirees and Beneficiaries (2) *	Active Members (State Financed Portion) (3)	
2005	\$ 19,071	\$ 47,410	\$ 36,013	\$ 89,299	100%	100%	63.4%	
2006	20,590	49,144	38,177	94,128	100	100	64.1	
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	
2013	31,365	73,841	45,460	121,730	100	100	36.4	
2014	33,028	78,431	48,576	128,398	100	100	34.9	

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



## *Actuarial Information Pension Trust Fund*

**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.

<b>Schedule of Funding Progress</b>						
(DOLLAR AMOUNTS SHOWN IN MILLIONS)						
[1]	[2]	[3]	[4]	[5]	[6]	[7]
Valuation as of August 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3)-(2)	Funded Ratio Assets as a % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
2005	\$ 89,299	\$ 102,495	\$ 13,196	87.1%	\$ 25,957	50.8%
2006	94,218	107,911	13,694	87.3	28,397	48.2
2007	103,419	115,964	12,545	89.2	31,114	40.3
2008	110,233	121,757	11,523	90.5	33,238	34.7
2009	106,384	128,029	21,645	83.1	35,097	61.7
2010	111,293	134,191	22,899	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	36,310	71.9
2013	121,730	150,666	28,936	80.8	37,104	78.0
2014	128,398	160,036	31,638	80.2	39,195	80.7

The 10 year schedule of actuarially determined and actual contributions can be found in the Required Supplementary Information section.





## Actuarial Information TRS-Care



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November 11, 2014

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, 2014 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, 2014. This report was prepared at the request of TRS.

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

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

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

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

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



## ***Actuarial Information TRS-Care***

Board of Trustees  
Teacher Retirement System of Texas  
November 11, 2014  
Page 2

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

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods. Joe Newton and Mehdi Riazi 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, 2014 (With Comparative Data for August 31, 2013)

Based on a 5.25% discount rate

	<u>2014</u>	<u>2013</u>
<b>Present Value of Benefits Being Paid</b>		
Future Medical Claims	\$ 10,639,267,795	\$ 9,088,861,049
Future Rx Claims	11,335,260,965	10,441,627,210
Retiree Premiums Collected	(5,667,042,108)	(5,163,456,140)
NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES	\$ 16,307,486,652	\$ 14,367,032,119
<b>Present Value of Benefits Payable in the Future to Present Active Members</b>		
Future Medical Claims	\$ 22,589,627,235	\$ 19,886,583,108
Future Rx Claims	22,183,678,917	19,438,190,636
Retiree Premiums Collected	(10,422,453,865)	(9,696,952,532)
NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES	\$ 34,350,852,287	\$ 29,627,821,212
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	\$ 50,658,338,939	\$ 43,994,853,331

### Summary of Cost Items

	<u>2014</u>	<u>2013</u>
Actuarial Present Value of Future Benefits	\$ 50,658,338,939	\$ 43,994,853,331
Present Value of Future Normal Costs	(16,939,789,860)	(14,160,082,069)
Actuarial Accrued Liability	\$ 33,718,549,079	\$ 29,834,771,262
Actuarial Value of Assets	(457,940,487)	(551,048,281)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	\$ 33,260,608,592	\$ 29,283,722,981

**Actuarial Value of Assets:** The actuarial present value of benefits allocated to a valuation year is called the Normal Cost. The actuarial present value of benefits allocated to all periods prior to a valuation year is called the Actuarial Accrued Liability. Differences between assumed experience and actual experience ("actuarial gains and/or losses") become part of actuarial accrued liabilities.

**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.



## Actuarial Information TRS-Care

All of the demographic assumptions (rates of retirement, termination and disability) and most of the economic assumptions (general inflation, salary increases, and general payroll growth) used in the Other Post-Employment Benefits (OPEB) Valuation are identical to those which were adopted by the Board in 2012 after the preparation of an actuarial experience study and used in the respective TRS valuation.

The following assumptions, which are specific to OPEB, were updated from the prior year's report:

- 1) The initial trend rates were reset to 7.50% for medical and pharmacy. Based on the trend assumption in the prior report, the initial trend for the August 31, 2014 valuation would have been 7.25% for medical and 7.25% for pharmacy. The new trend rates decrease at a slower pace compared to the prior assumption and the ultimate trend rate is reached in 2028 instead of 2022. The trend rate assumption was reset to better reflect the plan's anticipated experience.
- 2) Based on the plan's recent experience, the manufacturer's pharmacy rebate assumption was increased from 7% to 12%.
- 3) The mortality assumption for healthy retirees was updated to match the new mortality assumption used in the August 31, 2014 pension valuation.

### Schedule of Retirants and Beneficiaries Added to and Removed from Rolls:

<u>Schedule of Retirants and Beneficiaries Added to and Removed from Rolls</u>								
(1)	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		(8)	(9)
	(2)	(3)	(4)	(5)	(6)	(7)		
<u>Valuation as of August 31</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances *</u>	<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowances</u>
2008		\$		\$	198,968	\$ 605,932,252	NA	\$ 3,045
2009	12,158	54,271,769	8,192	19,365,868	202,934	694,017,558	14.5%	3,420
2010	14,996	71,136,696	7,924	21,837,784	210,006	757,979,912	9.2	3,609
2011	20,467	109,331,023	8,019	24,802,618	222,454	898,001,599	18.5	4,037
2012	19,407	92,279,848	8,220	28,700,248	233,641	768,682,199	(14.4)	3,290
2013	19,798	98,603,255	10,176	25,946,471	243,263	824,715,257	7.3	3,390
2014	18,916	97,956,524	10,656	27,648,497	251,523	933,885,969	13.2	3,713

\* 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.



## Actuarial Information TRS-Care

### Analysis of Financial Trends:

Analysis of Financial Experience						
(AMOUNTS SHOWN IN MILLIONS)						
Valuation as of August 31	Asset Gain/(Loss)	Liability Gain/(Loss)	New Assumptions Gain/(Loss)	Benefit Changes Gain/(Loss)	Contributions Gain/(Loss)	Net Gains/(Loss)
2011	\$ (36)	\$ (44)	\$ (2,003)	\$ 0	\$ (1,243)	\$ (3,326)
2012	(38)	2,148	(1,302)	3,458	(1,485)	2,781
2013	(31)	24	(1,699)	1,266	(1,458)	(1,898)
2014	(24)	(619)	(1,235)	0	(1,522)	(3,400)

### Solvency Test:

Solvency Test							
(AMOUNTS SHOWN IN MILLIONS)							
(1)	Aggregate Actuarial Accrued Liabilities For				Portion of Aggregate Actuarial Accrued Liabilities Covered by Valuation Assets		
	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Valuation as of August 31	Active Member Contributions*	Beneficiaries and Vested Terminations	Members (Employer Financed Portion)	Valuation Assets	Active Member Contributions (5)/(2)	Beneficiaries and Vested Terminations [(5)- (2)]/(3)	Members (Employer Financed Portion) [(5)-(2)- (3)]/(4)
2007	NA	\$8,329	\$11,419	\$623	NA	7.5%	0.0%
2008	NA	9,318	12,994	729	NA	7.8	0.0
2009	NA	9,642	14,716	800	NA	8.3	0.0
2010	NA	10,918	14,889	815	NA	7.5	0.0
2011	NA	13,710	16,075	891	NA	6.5	0.0
2012	NA	12,676	14,866	741	NA	5.8	0.0
2013	NA	14,367	15,468	551	NA	3.8	0.0
2014	NA	16,307	17,411	458	NA	2.8	0.0

\*Active member contributions are non-refundable.

**Actuarial Cost Method:** The Projected Unit Credit actuarial cost method of valuation was used in determining liabilities and normal cost. A method under which the benefits of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. All benefits are projected according to healthcare trends and aging factors as disclosed above.

**Funding of Unfunded Actuarial Accrued Liability:** Unfunded actuarial accrued liabilities are amortized to produce payments (principal & interest) which are a level percent of payroll.

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# TRS Core Values

STATISTICAL Section

**Customer Satisfaction:** We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations exceeded.

**Collaboration/Teamwork:** We work together to achieve common goals through a diverse, yet unified team.

**Accountability:** We hold ourselves accountable and take responsibility for our actions, behavior and outcomes.

**Respect:** We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.

**Ethics:** We will be truthful and act with honesty and integrity in everything we do.

**Excellence:** We commit to demonstrating excellence in our work and look for ways to continuously improve.

**Employee Fulfillment:** We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.

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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 403(b) Administrative Program.

### **FINANCIAL TRENDS INFORMATION**

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

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

### **OPERATING INFORMATION**

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

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

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



**FINANCIAL TRENDS INFORMATION**  
***Changes in Fiduciary Net Position***  
 PENSION TRUST FUND  
 For the Fiscal Years Ended August 31

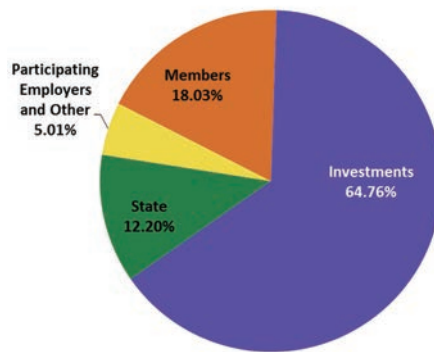
	2014	2013	2012	2011
<b>Additions</b>				
Member Contributions	\$ 2,357,686,000	\$ 2,252,094,934	\$ 2,188,020,423	\$ 2,243,954,725
State's General Fund-Non-Employer Contributing f	1,530,623,829	1,337,214,693	1,299,077,635	1,484,285,519
State's General Fund-Employer Contributions	120,206,921	105,559,580	91,532,506	111,486,255
Participating Employers	864,345,470	820,134,412	669,305,127	744,733,236
Purchase of Service Credit	143,534,091	148,400,880	125,971,764	105,177,104
Contributions for 415 Excess Benefit Arrangement	2,273,832	2,520,830	2,483,369	1,750,588
Service Contributions Transferred in from ERS	17,440,313	16,365,042	14,940,228	12,628,712
Investment Income Net of Expenses				
Interest, Dividends and Securities Lending	2,990,774,278	1,779,069,580	1,875,281,841	2,020,253,763
Net Increase (Decrease) in Fair Value of Investmer	16,443,655,756	8,055,066,425	5,972,016,449	12,616,681,465
Other	4,143,449	2,629,383	1,867,389	1,576,613
<b>TOTAL ADDITIONS</b>	<b>\$ 24,474,683,939</b>	<b>\$ 14,519,055,759</b>	<b>\$ 12,240,496,731</b>	<b>\$ 19,342,527,980</b>
<b>Deductions</b>				
Benefits	\$ 8,548,642,525	\$ 8,075,208,484	\$ 7,723,622,166	\$ 7,173,504,788
Excess Benefits	2,273,832	2,520,830	2,483,369	1,750,588
Refunds of Contributions	410,600,319	391,292,412	381,231,352	334,268,822
Service Contributions Transferred to ERS	80,163,847	75,513,146	70,985,963	64,772,079
Administrative Expenses, Excluding				
Investing Activity Expenses	41,904,190	36,264,062	33,073,740	35,849,819
<b>TOTAL DEDUCTIONS</b>	<b>\$ 9,083,584,713</b>	<b>\$ 8,580,798,934</b>	<b>\$ 8,211,396,590</b>	<b>\$ 7,610,146,096</b>
<b>Net Increase (Decrease)</b>	<b>\$ 15,391,099,226</b>	<b>\$ 5,938,256,825</b>	<b>\$ 4,029,100,141</b>	<b>\$ 11,732,381,884</b>
<b>Net Position - Beginning of Year</b>	<b>\$ 117,388,143,859</b>	<b>\$ 111,449,887,034</b>	<b>\$ 107,420,786,893</b>	<b>\$ 95,688,405,009</b>
<b>Net Position - End of Year</b>	<b>\$ 132,779,243,085</b>	<b>\$ 117,388,143,859</b>	<b>\$ 111,449,887,034</b>	<b>\$ 107,420,786,893</b>



**FINANCIAL TRENDS INFORMATION**

2010	2009	2008	2007	2006	2005
\$ 2,205,017,425	\$ 2,107,057,870	\$ 1,998,138,487	\$ 1,862,595,865	\$ 1,700,415,419	\$ 1,578,339,475
1,461,034,870	1,378,304,342	1,352,243,134	1,283,641,587	1,166,690,192	1,112,643,948
116,553,826	103,539,599	98,785,295	187,489,771	165,411,289	145,027,747
719,051,333	687,910,583	604,937,605	282,077,713	267,399,619	221,158,942
84,519,762	74,542,413	87,207,374	86,497,411	153,556,417	149,994,343
1,504,510	1,553,381	1,646,494	1,453,605	1,041,961	926,187
11,167,772	9,558,927	8,897,722	7,913,660	6,908,439	6,188,845
1,868,708,873	2,058,925,313	3,387,500,183	3,066,117,408	2,624,813,225	2,345,619,190
7,542,738,000	(16,030,794,035)	(7,992,472,030)	11,232,429,170	6,326,056,726	9,607,205,397
788,787	3,899	3,596	5,405	769	21,315
\$ 14,011,085,158	\$ (9,609,397,708)	\$ (453,112,140)	\$ 18,010,221,595	\$ 12,412,294,056	\$ 15,167,125,389
\$ 6,617,397,374	\$ 6,294,434,115	\$ 6,406,644,540	\$ 5,762,885,044	\$ 5,540,134,272	\$ 5,349,900,638
1,504,510	1,553,381	1,646,494	1,453,605	1,041,961	926,187
265,186,589	266,695,076	278,002,614	280,005,584	267,810,017	245,148,971
61,570,750	57,135,135	52,773,854	48,538,424	45,716,307	41,200,491
29,992,608	28,310,448	26,122,662	27,502,276	26,444,405	25,114,716
\$ 6,975,651,831	\$ 6,648,128,155	\$ 6,765,190,164	\$ 6,120,384,933	\$ 5,881,146,962	\$ 5,662,291,003
\$ 7,035,433,327	\$ (16,257,525,863)	\$ (7,218,302,304)	\$ 11,889,836,662	\$ 6,531,147,094	\$ 9,504,834,386
\$ 88,652,971,682	\$ 104,910,497,545	\$ 112,128,799,849	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707
\$ 95,688,405,009	\$ 88,652,971,682	\$ 104,910,497,545	\$ 112,128,799,849	\$ 100,238,963,187	\$ 93,707,816,093

**PENSION TRUST FUND ADDITIONS**  
Ten-Year Average (2005-2014)





**FINANCIAL TRENDS INFORMATION**  
**Changes in Fiduciary Net Position**

TRS-CARE

For the Fiscal Years Ended August 31

	2014	2013	2012	2011
<b>Additions</b>				
Health Care Premiums	\$ 363,631,292	\$ 355,685,504	\$ 363,348,030	\$ 345,164,271
State Contributions	303,556,058	241,459,490	271,925,242	282,782,431
Member Contributions	189,003,903	180,824,523	176,751,407	183,808,580
Participating Employers	193,124,772	160,952,396	154,607,926	158,724,010
Fringe Benefits Paid by State's General Fund				
on Behalf of TRS Employees	139,422	117,770	103,676	108,440
Federal Revenue	78,589,415	74,511,473	68,633,946	136,887,805
Rebate and Discount Income*	200,859,859	82,074,803		
Investment Income	2,061,745	3,041,001	5,189,934	8,168,640
<b>TOTAL ADDITIONS</b>	<b>\$ 1,330,966,466</b>	<b>\$ 1,098,666,960</b>	<b>\$ 1,040,560,161</b>	<b>\$ 1,115,644,177</b>
<b>Deductions</b>				
Health Care Claims and Insurance Premium Payn	\$ 1,375,039,945	\$ 1,241,656,374	\$ 1,142,131,410	\$ 992,478,380
Health Care Claims Processing and Other	45,387,769	43,577,852	44,571,383	44,115,872
Administrative Expenses	3,646,546	3,398,109	3,714,018	3,143,922
<b>TOTAL DEDUCTIONS</b>	<b>\$ 1,424,074,260</b>	<b>\$ 1,288,632,335</b>	<b>\$ 1,190,416,811</b>	<b>\$ 1,039,738,174</b>
<b>Net Increase (Decrease)</b>	<b>\$ (93,107,794)</b>	<b>\$ (189,965,375)</b>	<b>\$ (149,856,650)</b>	<b>\$ 75,906,003</b>
<b>Net Position - Beginning of Year</b>	<b>\$ 551,048,281</b>	<b>\$ 741,013,656</b>	<b>\$ 890,870,306</b>	<b>\$ 814,964,303</b>
<b>Net Position - End of Year</b>	<b>\$ 457,940,487</b>	<b>\$ 551,048,281</b>	<b>\$ 741,013,656</b>	<b>\$ 890,870,306</b>

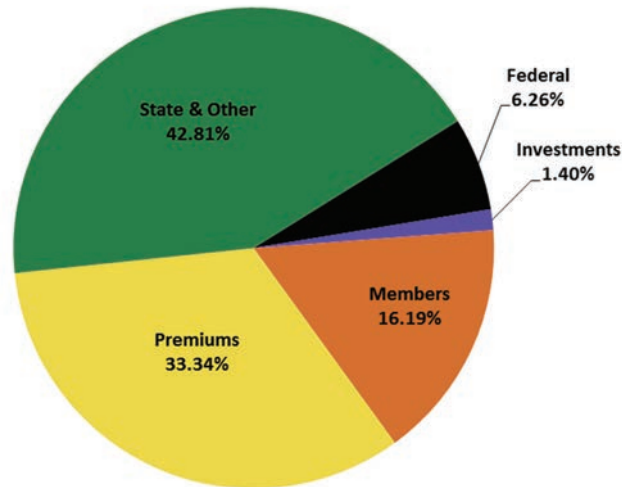
\*Prior to fiscal year 2013, rebates were offset within health care claims.



**FINANCIAL TRENDS INFORMATION**

2010	2009	2008	2007	2006	2005
\$ 332,481,933	\$ 329,723,191	\$ 328,505,433	\$ 323,957,945	\$ 326,844,982	\$ 322,780,191
279,250,547	267,471,299	254,722,174	238,190,720	215,666,940	266,569,733
181,512,856	173,856,344	165,569,413	154,823,968	140,183,511	101,198,783
155,918,241	149,562,613	141,672,630	136,008,512	118,607,527	80,914,228
101,511	95,929	91,945	55,932	53,283	41,994
70,795,686	61,530,735	59,486,239	52,329,617	34,611,607	
11,679,229	17,482,143	29,252,347	32,671,539	21,435,792	11,258,874
\$ 1,031,740,003	\$ 999,722,254	\$ 979,300,181	\$ 938,038,233	\$ 857,403,642	\$ 782,763,803
\$ 971,356,805	\$ 885,132,865	\$ 833,509,538	\$ 742,293,147	\$ 687,086,291	\$ 660,559,083
42,535,601	40,364,063	36,747,710	33,407,937	31,975,150	31,262,147
3,031,686	2,916,259	3,000,536	2,526,189	2,513,102	2,070,863
\$ 1,016,924,092	\$ 928,413,187	\$ 873,257,784	\$ 778,227,273	\$ 721,574,543	\$ 693,892,093
\$ 14,815,911	\$ 71,309,067	\$ 106,042,397	\$ 159,810,960	\$ 135,829,099	\$ 88,871,710
\$ 800,148,392	\$ 728,839,325	\$ 622,796,928	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159
\$ 814,964,303	\$ 800,148,392	\$ 728,839,325	\$ 622,796,928	\$ 462,985,968	\$ 327,156,869

**TRS-CARE ADDITIONS  
Ten-Year Average (2005-2014)**





**FINANCIAL TRENDS INFORMATION**  
***Revenues, Expenses, and Changes in Net Position***

TRS-ACTIVECARE

For the Fiscal Years Ended August 31

	2014	2013	2012	2011
<b>Revenues</b>				
Health Care Premiums	\$ 1,928,895,465	\$ 1,808,521,683	\$ 1,749,905,117	\$ 1,549,530,891
Administrative Fees	139,608	137,630	136,324	135,917
Investment Income	940,022	746,936	1,697,553	3,387,062
Federal Revenue ARRA-COBRA Reimbursements			29,706	667,746
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	79,792	75,664	72,094	67,373
<b>TOTAL REVENUES</b>	<b>\$ 1,930,054,887</b>	<b>\$ 1,809,481,913</b>	<b>\$ 1,751,840,794</b>	<b>\$ 1,553,788,989</b>
<b>Expenses</b>				
Health Care Claims	\$ 1,521,834,989	\$ 1,785,069,768	\$ 1,718,903,645	\$ 1,510,090,981
Health Care Claims Processing and Other	109,925,954	84,903,101	83,346,223	76,960,951
Premium Payments to HMOs	154,913,859	100,905,702	89,706,406	76,270,706
Administrative Expenses	2,569,850	2,351,802	2,176,610	2,207,051
<b>TOTAL EXPENSES</b>	<b>\$ 1,789,244,652</b>	<b>\$ 1,973,230,373</b>	<b>\$ 1,894,132,884</b>	<b>\$ 1,665,529,689</b>
<b>Net Increase (Decrease)</b>	<b>\$ 140,810,235</b>	<b>\$ (163,748,460)</b>	<b>\$ (142,292,090)</b>	<b>\$ (111,740,700)</b>
<b>Net Position - Beginning of Year</b>	<b>\$ (117,971,123)</b>	<b>\$ 45,777,337</b>	<b>\$ 188,069,427</b>	<b>\$ 299,810,127</b>
<b>Net Position - End of Year*</b>	<b>\$ 22,839,112</b>	<b>\$ (117,971,123)</b>	<b>\$ 45,777,337</b>	<b>\$ 188,069,427</b>

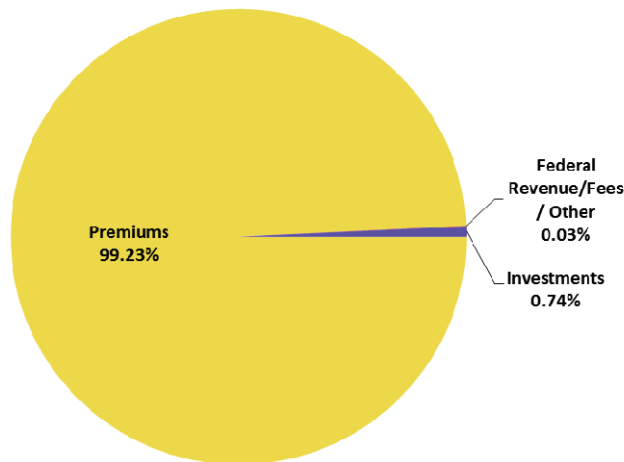
\* For FY 2014 and fiscal years prior to FY 2013, Net Position balances were all restricted. In FY 2013 the unrestricted balance is \$(117,971,123) and restricted is zero.



**FINANCIAL TRENDS INFORMATION**

2010	2009	2008	2007	2006	2005
\$ 1,329,171,411	\$ 1,172,011,048	\$ 1,096,537,022	\$ 939,694,028	\$ 861,464,205	\$ 823,726,341
125,321	187,813	186,844	184,937	183,470	183,317
6,421,269	11,597,992	21,164,640	26,016,380	18,650,516	8,915,711
1,225,158	170,219				
64,328	64,975	61,894	46,446	40,979	35,626
\$ 1,337,007,487	\$ 1,184,032,047	\$ 1,117,950,400	\$ 965,941,791	\$ 880,339,170	\$ 832,860,995
\$ 1,313,114,197	\$ 1,122,646,958	\$ 952,156,339	\$ 801,148,962	\$ 708,972,484	\$ 663,361,138
67,906,654	60,934,432	54,583,499	48,177,777	53,013,214	53,697,572
64,532,253	64,820,440	68,204,743	58,742,363	49,466,150	42,574,641
1,883,148	1,861,949	1,830,258	1,775,831	1,680,952	1,607,113
\$ 1,447,436,252	\$ 1,250,263,779	\$ 1,076,774,839	\$ 909,844,933	\$ 813,132,800	\$ 761,240,464
\$ (110,428,765)	\$ (66,231,732)	\$ 41,175,561	\$ 56,096,858	\$ 67,206,370	\$ 71,620,531
\$ 410,238,892	\$ 476,470,624	\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304
\$ 299,810,127	\$ 410,238,892	\$ 476,470,624	\$ 435,295,063	\$ 379,198,205	\$ 311,991,835

**TRS-ACTIVECARE REVENUES  
Ten-Year Average (2005-2014)**





## FINANCIAL TRENDS INFORMATION

***Revenues, Expenses, and Changes in Net Position***

403(b) ADMINISTRATIVE PROGRAM

For the Fiscal Years Ended August 31

	2014	2013	2012	2011
<b>Revenues</b>				
Certification Fees	\$ 15,000	\$ 60,000	\$ 114,000	\$ 12,000
Product Registration Fees	15,000	81,000	63,000	3,000
Investment Income	1,324	1,333	707	1,801
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees	3,131	2,890	2,772	7,898
<b>TOTAL REVENUES</b>	<b>\$ 34,455</b>	<b>\$ 145,223</b>	<b>\$ 180,479</b>	<b>\$ 24,699</b>
<b>Expenses</b>				
Administrative Expenses	\$ 62,636	\$ 40,194	\$ 51,203	\$ 148,444
<b>TOTAL EXPENSES</b>	<b>\$ 62,636</b>	<b>\$ 40,194</b>	<b>\$ 51,203</b>	<b>\$ 148,444</b>
<b>Net Increase (Decrease)</b>	<b>\$ (28,181)</b>	<b>\$ 105,029</b>	<b>\$ 129,276</b>	<b>\$ (123,745)</b>
<b>Net Position - Beginning of Year</b>	<b>\$ 356,337</b>	<b>\$ 251,308</b>	<b>\$ 122,032</b>	<b>\$ 245,777</b>
<b>Net Position - End of Year</b>	<b>\$ 328,156</b>	<b>\$ 356,337</b>	<b>\$ 251,308</b>	<b>\$ 122,032</b>

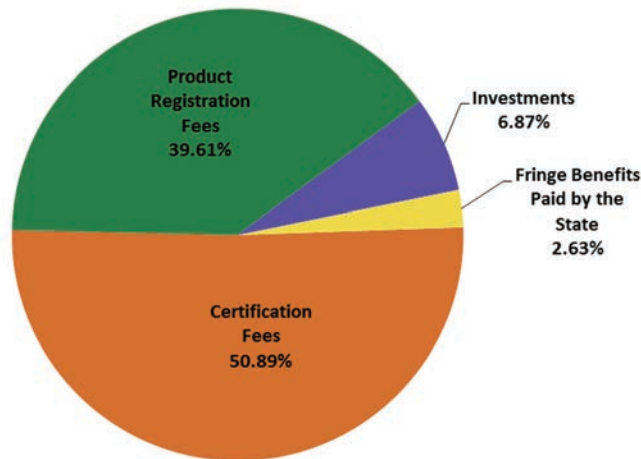




**FINANCIAL TRENDS INFORMATION**

2010	2009	2008	2007	2006	2005
\$ 30,000	\$ 6,000	\$ 30,000	\$ 171,000	\$ 30,000	\$ 10,000
21,000	9,000	180,000			
4,318	8,558	19,337	12,070	9,532	5,529
8,034					
\$ 63,352	\$ 23,558	\$ 229,337	\$ 183,070	\$ 39,532	\$ 15,529
\$ 172,835	\$ 88,000	\$ 192,000	\$ 24,000	\$ 24,000	\$ 24,000
\$ 172,835	\$ 88,000	\$ 192,000	\$ 24,000	\$ 24,000	\$ 24,000
\$ (109,483)	\$ (64,442)	\$ 37,337	\$ 159,070	\$ 15,532	\$ (8,471)
\$ 355,260	\$ 419,702	\$ 382,365	\$ 223,295	\$ 207,763	\$ 216,234
\$ 245,777	\$ 355,260	\$ 419,702	\$ 382,365	\$ 223,295	\$ 207,763

**403(b) ADMINISTRATIVE PROGRAM  
Ten-Year Average (2005-2014)**





## FINANCIAL TRENDS INFORMATION

**Benefit and Refund Deductions from Net Position by Type**PENSION TRUST FUND  
Last Ten Fiscal Years

Type of Benefit	2014	2013	2012	2011
Service Retirements**	\$ 7,795,690,586	\$ 7,251,369,740	\$ 6,808,592,209	\$ 6,241,946,655
Deferred Retirement Option	14,974,505	17,223,523	22,361,937	27,822,115
Partial Lump Sum Option	322,033,388	410,323,790	501,152,157	524,925,790
Disability Retirements	164,299,506	156,308,471	150,238,202	144,865,109
Death and Survivor Benefits:				
Annual Salary	44,846,010	41,219,707	46,859,444	47,295,194
Survivor Annuities	97,822,817	94,563,001	92,126,049	86,898,720
Life Annuities	89,547,742	87,044,328	85,816,402	84,893,007
60 Monthly Payments	13,415,885	12,659,471	11,816,313	11,564,275
Remainder of Contributions	6,012,086	4,496,453	4,659,453	3,293,923
<b>TOTAL BENEFITS</b>	<b>\$ 8,548,642,525</b>	<b>\$ 8,075,208,484</b>	<b>\$ 7,723,622,166</b>	<b>\$ 7,173,504,788</b>
Type of Refund				
Death	\$ 5,455,829	\$ 4,705,228	\$ 5,294,006	\$ 3,984,340
Separation	405,144,490	386,587,184	375,937,346	330,284,482
<b>TOTAL REFUNDS</b>	<b>\$ 410,600,319</b>	<b>\$ 391,292,412</b>	<b>\$ 381,231,352</b>	<b>\$ 334,268,822</b>

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

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

**Benefit Deductions from Net Position by Type**TRS-CARE  
Last Ten Fiscal Years

Type of Claim	2014	2013	2012	2011
Medical Claims and Insurance				
Premiums	\$ 691,283,731	\$ 687,469,016	\$ 687,987,585	\$ 608,461,321
Prescription drugs	683,756,214	554,187,358	454,143,825	384,017,059
<b>TOTAL</b>	<b>\$ 1,375,039,945</b>	<b>\$ 1,241,656,374</b>	<b>\$ 1,142,131,410</b>	<b>\$ 992,478,380</b>

**Benefit Deductions from Net Position by Type**TRS-ACTIVECARE  
Last Ten Fiscal Years

Type of Claim	2014	2013	2012	2011
Medical Claims and Insurance				
Premiums	\$ 1,397,249,236	\$ 1,613,167,792	\$ 1,450,574,875	\$ 1,242,673,156
Prescription drugs	279,499,612	272,807,678	268,328,770	267,417,825
<b>TOTAL</b>	<b>\$ 1,676,748,848</b>	<b>\$ 1,885,975,470</b>	<b>\$ 1,718,903,645</b>	<b>\$ 1,510,090,981</b>



### FINANCIAL TRENDS INFORMATION

2010	2009	2008	2007	2006	2005
\$ 5,841,963,927	\$ 5,565,925,090	\$ 5,649,308,335	* \$ 5,064,191,508	\$ 4,857,348,525	\$ 4,674,681,613
22,607,290	23,272,668	26,757,772	31,939,855	36,033,028	55,152,336
385,555,126	348,261,100	363,668,944	325,688,244	313,359,714	288,088,743
141,396,837	138,569,650	146,907,654	134,866,736	132,155,505	129,331,288
45,698,147	43,235,232	42,216,290	38,928,295	37,880,818	40,838,680
82,574,358	79,951,723	78,862,569	76,116,829	74,115,776	74,325,670
83,238,898	81,764,240	85,576,098	78,322,931	77,537,970	76,113,908
10,824,948	10,180,012	10,169,530	9,386,943	8,581,053	7,583,719
3,537,843	3,274,400	3,177,348	3,443,703	3,121,883	3,784,681
\$ 6,617,397,374	\$ 6,294,434,115	\$ 6,406,644,540	\$ 5,762,885,044	\$ 5,540,134,272	\$ 5,349,900,638

\$ 3,710,941	\$ 3,084,718	\$ 2,520,283	\$ 2,073,365	\$ 2,322,538	\$ 1,766,957
261,475,648	263,610,358	275,482,331	277,932,219	265,487,479	243,382,014
\$ 265,186,589	\$ 266,695,076	\$ 278,002,614	\$ 280,005,584	\$ 267,810,017	\$ 245,148,971

2010	2009	2008	2007	2006	2005
\$ 575,539,788	\$ 531,239,020	\$ 498,767,038	\$ 437,519,746	\$ 427,553,404	\$ 431,036,095
395,817,017	353,893,845	334,742,500	304,773,401	259,532,887	229,522,988
\$ 971,356,805	\$ 885,132,865	\$ 833,509,538	\$ 742,293,147	\$ 687,086,291	\$ 660,559,083

2010	2009	2008	2007	2006	2005
\$ 1,092,107,916	\$ 934,733,927	\$ 788,240,087	\$ 659,478,760	\$ 587,513,767	\$ 546,106,804
221,006,281	187,913,031	163,916,252	141,670,202	121,458,717	117,254,334
\$ 1,313,114,197	\$ 1,122,646,958	\$ 952,156,339	\$ 801,148,962	\$ 708,972,484	\$ 663,361,138



**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+
<b>9-1-04 to 8-31-05</b>						
Average Monthly Benefit *	\$ 273	\$ 535	\$ 1,060	\$ 1,604	\$ 2,335	\$ 3,273
Average Final Average Salary	\$ 24,774	\$ 28,302	\$ 35,335	\$ 41,197	\$ 49,437	\$ 58,158
Number of Retirees	1,410	1,224	1,427	2,073	3,171	2,490
<b>9-1-05 to 8-31-06</b>						
Average Monthly Benefit *	\$ 280	\$ 582	\$ 1,096	\$ 1,634	\$ 2,341	\$ 3,316
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
<b>9-1-06 to 8-31-07</b>						
Average Monthly Benefit *	\$ 310	\$ 601	\$ 1,121	\$ 1,699	\$ 2,427	\$ 3,459
Average Final Average Salary	\$ 27,448	\$ 31,601	\$ 37,444	\$ 44,116	\$ 51,682	\$ 61,113
Number of Retirees	1,575	1,183	1,554	2,625	3,289	2,834
<b>9-1-07 to 8-31-08</b>						
Average Monthly Benefit *	\$ 314	\$ 620	\$ 1,152	\$ 1,759	\$ 2,537	\$ 3,511
Average Final Average Salary	\$ 27,891	\$ 32,395	\$ 38,419	\$ 45,581	\$ 53,615	\$ 61,846
Number of Retirees	1,532	1,282	1,902	2,941	3,754	3,332
<b>9-1-08 to 8-31-09</b>						
Average Monthly Benefit *	\$ 351	\$ 658	\$ 1,218	\$ 1,772	\$ 2,612	\$ 3,633
Average Final Average Salary	\$ 29,746	\$ 33,091	\$ 40,363	\$ 45,652	\$ 54,745	\$ 63,068
Number of Retirees	1,462	1,377	1,918	2,877	3,361	3,229
<b>9-1-09 to 8-31-10</b>						
Average Monthly Benefit *	\$ 363	\$ 670	\$ 1,225	\$ 1,839	\$ 2,637	\$ 3,733
Average Final Average Salary	\$ 30,278	\$ 34,344	\$ 40,452	\$ 47,301	\$ 55,172	\$ 64,234
Number of Retirees	1,675	1,604	2,237	3,517	3,825	4,187
<b>9-1-10 to 8-31-11</b>						
Average Monthly Benefit *	\$ 389	\$ 711	\$ 1,265	\$ 1,868	\$ 2,666	\$ 3,769
Average Final Average Salary	\$ 32,133	\$ 35,586	\$ 42,127	\$ 48,185	\$ 55,189	\$ 64,945
Number of Retirees	2,092	2,046	2,875	4,544	4,984	6,394
<b>9-1-11 to 8-31-12</b>						
Average Monthly Benefit *	\$ 390	\$ 726	\$ 1,304	\$ 1,921	\$ 2,781	\$ 3,858
Average Final Average Salary	\$ 32,190	\$ 36,522	\$ 43,176	\$ 49,383	\$ 56,754	\$ 66,333
Number of Retirees	2,139	2,226	2,855	4,256	4,373	5,209
<b>9-1-12 to 8-31-13</b>						
Average Monthly Benefit *	\$ 389	\$ 741	\$ 1,287	\$ 1,935	\$ 2,796	\$ 3,860
Average Final Average Salary	\$ 31,597	\$ 37,095	\$ 43,043	\$ 49,217	\$ 56,458	\$ 65,472
Number of Retirees	2,235	2,384	3,069	4,388	4,677	4,953
<b>9-1-13 to 8-31-14</b>						
Average Monthly Benefit *	\$ 409	\$ 796	\$ 1,319	\$ 1,947	\$ 2,816	\$ 3,831
Average Final Average Salary	\$ 32,602	\$ 39,072	\$ 43,625	\$ 48,806	\$ 56,198	\$ 64,811
Number of Retirees	1,971	1,962	2,727	3,785	3,948	3,664

\* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$288.1, \$313.4, \$325.7, \$363.7, \$348.3, \$385.6, \$524.9, \$501.2, \$410.3 and \$322.0 million in fiscal years 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013 and 2014 respectively.



## OPERATING INFORMATION

### *Average Benefit Payments*

TRS-CARE  
Last Ten Fiscal Years

<b>2014</b>		
Average Benefit Per Participant	\$	5,651
Benefit Payments	\$	1,375,039,945
Average Participants		243,336
<b>2013</b>		
Average Benefit Per Participant	\$	5,300
Benefit Payments	\$	1,241,656,374
Average Participants		234,277
<b>2012</b>		
Average Benefit Per Participant	\$	5,115
Benefit Payments	\$	1,142,131,410
Average Participants		223,287
<b>2011</b>		
Average Benefit Per Participant	\$	4,718
Benefit Payments	\$	992,478,380
Average Participants		210,353
<b>2010</b>		
Average Benefit Per Participant	\$	4,790
Benefit Payments	\$	971,356,805
Average Participants		202,778
<b>2009</b>		
Average Benefit Per Participant	\$	4,464
Benefit Payments	\$	885,132,865
Average Participants		198,282
<b>2008</b>		
Average Benefit Per Participant	\$	4,302
Benefit Payments	\$	833,509,538
Average Participants		193,733
<b>2007</b>		
Average Benefit Per Participant	\$	3,891
Benefit Payments	\$	742,293,147
Average Participants		190,748
<b>2006</b>		
Average Benefit Per Participant	\$	3,659
Benefit Payments	\$	687,086,291
Average Participants		187,804
<b>2005</b>		
Average Benefit Per Participant	\$	3,563
Benefit Payments	\$	660,559,083
Average Participants		185,391

### *Average Benefit Payments*

TRS-ACTIVECARE  
Last Ten Fiscal Years

<b>2014</b>		
Average Benefit Per Participant	\$	3,603
Benefit Payments	\$	1,676,748,848
Average Participants		465,330
<b>2013</b>		
Average Benefit Per Participant	\$	3,966
Benefit Payments	\$	1,885,975,470
Average Participants		475,508
<b>2012</b>		
Average Benefit Per Participant	\$	3,868
Benefit Payments	\$	1,718,903,645
Average Participants		444,382
<b>2011</b>		
Average Benefit Per Participant	\$	3,662
Benefit Payments	\$	1,510,090,981
Average Participants		412,385
<b>2010</b>		
Average Benefit Per Participant	\$	3,509
Benefit Payments	\$	1,313,114,197
Average Participants		374,201
<b>2009</b>		
Average Benefit Per Participant	\$	3,324
Benefit Payments	\$	1,122,646,958
Average Participants		337,781
<b>2008</b>		
Average Benefit Per Participant	\$	3,060
Benefit Payments	\$	952,156,339
Average Participants		311,200
<b>2007</b>		
Average Benefit Per Participant	\$	2,835
Benefit Payments	\$	801,148,962
Average Participants		282,639
<b>2006</b>		
Average Benefit Per Participant	\$	2,745
Benefit Payments	\$	708,972,484
Average Participants		258,301
<b>2005</b>		
Average Benefit Per Participant	\$	2,714
Benefit Payments	\$	663,361,138
Average Participants		244,405



## OPERATING INFORMATION

**Retired Members by Type of Benefit**

PENSION TRUST FUND

As of August 31, 2014

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*						
		1	2	3	4	5	6	7
\$ 1-200	13,945	5,381	6,817	304	1,350	47	32	14
\$ 201-400	37,670	9,995	12,082	654	2,186	1,011	915	10,827
\$ 401-600	23,950	11,261	8,732	1,337	2,092	300	228	0
\$ 601-800	21,537	12,469	5,414	1,320	1,726	359	249	0
\$ 801-1,000	20,673	13,584	3,780	1,123	1,591	396	199	0
\$ 1,001-1,200	18,323	13,028	2,629	842	1,371	308	145	0
\$ 1,201-1,400	15,628	11,052	2,147	730	1,342	239	118	0
\$ 1,401-1,600	16,216	11,475	2,482	643	1,272	266	78	0
\$ 1,601-1,800	16,594	12,121	2,501	546	1,108	235	83	0
\$ 1,801-2,000	17,337	13,518	2,145	477	915	229	53	0
\$ over 2,000	161,309	143,240	8,455	1,449	6,671	1,396	98	0
<b>Totals</b>	<b>363,182</b>	<b>257,124</b>	<b>57,184</b>	<b>9,425</b>	<b>21,624</b>	<b>4,786</b>	<b>2,198</b>	<b>10,841</b>

**\*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 Benefit Payments by Range**

TRS-CARE

As of August 31, 2014

Benefit Range	Average Participants
\$ 0	21,821
\$ 1 - 5,000	166,321
\$ 5,001 - 10,000	30,629
\$ 10,001 - 20,000	13,658
\$ 20,001 - 30,000	3,522
\$ 30,001 - 40,000	2,200
\$ 40,001 - 50,000	1,185
\$ 50,001 - 100,000	2,504
\$ over 100,000	1,496
<b>Total</b>	<b>243,336</b>



### OPERATING INFORMATION

Option Selected**					
1	2	3	4	5	6
6,191	4,860	1,276	512	1,064	42
11,616	8,079	2,494	1,169	1,967	12,345
11,175	7,172	2,804	1,081	1,718	0
9,722	6,471	3,001	1,019	1,324	0
9,412	5,960	3,097	1,019	1,185	0
7,797	5,636	2,998	842	1,050	0
6,157	5,205	2,770	670	826	0
6,195	5,576	2,842	701	902	0
6,337	5,737	2,944	665	911	0
6,444	6,099	3,201	622	971	0
58,065	58,625	31,201	5,212	8,206	0
139,111	119,420	58,628	13,512	20,124	12,387

**\*\*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

### Health Benefit Payments by Range

TRS-ACTIVECARE  
As of August 31, 2014

Benefit Range	Average Participants
\$ 0	40,790
\$ 1 - 5,000	368,457
\$ 5,001 - 10,000	26,209
\$ 10,001 - 20,000	15,221
\$ 20,001 - 30,000	4,960
\$ 30,001 - 40,000	2,739
\$ 40,001 - 50,000	1,607
\$ 50,001 - 100,000	3,287
\$ over 100,000	2,060
<b>Total</b>	<b>465,330</b>



**OPERATING INFORMATION**  
***Principal Participating Employers***

PENSION TRUST FUND

Current Fiscal Year and Nine Years Ago

Participating Employers	2014			2005		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	23,303	1	2.82%	23,791	1	3.38%
Dallas ISD	19,104	2	2.31%	19,053	2	2.71%
UT MD Anderson Cancer Center	17,770	3	2.15%	12,605	3	1.79%
Cypress Fairbanks ISD	13,957	4	1.69%	10,047	6	1.43%
Northside ISD	13,198	5	1.60%	9,900	8	1.41%
Austin ISD	12,323	6	1.49%	10,712	4	1.52%
Fort Worth ISD	10,775	7	1.30%	10,054	5	1.43%
UT at Austin	9,820	8	1.19%	8,901	9	1.27%
UT Southwest Medical Center-Dallas	9,674	9	1.17%			
UT Medical Branch at Galveston	9,205	10	1.11%	9,926	7	1.41%
El Paso ISD				8,827	10	1.25%
All Other	687,600		83.17%	579,617		82.40%
<b>TOTAL</b>	<b>826,729</b>		<b>100.00%</b>	<b>703,433</b>		<b>100.00%</b>

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





**OPERATING INFORMATION**  
***Principal Participating Employers***

TRS-CARE

Current Fiscal Year and Nine Years Ago

Participating Employers	2014			2005		
	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment
Houston ISD	23,303	1	3.41%	23,791	1	4.03%
Dallas ISD	19,104	2	2.80%	19,053	2	3.23%
Cypress Fairbanks ISD	13,957	3	2.05%	10,047	5	1.70%
Northside ISD	13,198	4	1.93%	9,900	6	1.68%
Austin ISD	12,323	5	1.81%	10,712	3	1.81%
Fort Worth ISD	10,775	6	1.58%	10,054	4	1.70%
North East ISD	9,174	7	1.34%			
Aldine ISD	8,830	8	1.29%	7,795	9	1.32%
Katy ISD	8,589	9	1.26%			
El Paso ISD	8,552	10	1.25%	8,827	7	1.49%
San Antonio ISD				7,833	8	1.33%
Arlington ISD				7,570	10	1.28%
All Other	554,775		81.28%	474,860		80.43%
<b>TOTAL</b>	<b>682,580</b>		<b>100.00%</b>	<b>590,442</b>		<b>100.00%</b>

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



## *List of Participating Employers*

### PUBLIC SCHOOLS

Abbott ISD	Athens ISD	Blooming Grove ISD
Abernathy ISD	Atlanta ISD	Bloomington ISD
Abilene ISD	Aubrey ISD	Blue Ridge ISD
Academy ISD	Austin ISD	Bluff Dale ISD
Adrian ISD	Austwell Tivoli ISD	Blum ISD
Agua Dulce ISD	Avalon ISD	Boerne ISD
Alamo Heights ISD	Avery ISD	Boles ISD
Alba Golden ISD	Avinger ISD	Boling ISD
Albany ISD	Axtell ISD	Bonham ISD
Aldine ISD	Azle ISD	Booker ISD
Aledo ISD	Baird ISD	Borden County ISD
Alice ISD	Ballinger ISD	Borger ISD
Alief ISD	Balморhea ISD	Bosqueville ISD
Allen ISD	Bandera ISD	Bovina ISD
Alpine ISD	Bangs ISD	Bowie ISD
Alto ISD	Banquete ISD	Boyd ISD
Alvarado ISD	Barbers Hill ISD	Boys Ranch ISD
Alvin ISD	Bartlett ISD	Brackett ISD
Alvord ISD	Bastrop ISD	Brady ISD
Amarillo ISD	Bay City ISD	Brazos ISD
Amherst ISD	Beaumont ISD	Brazosport ISD
Anahuac ISD	Beckville ISD	Breckenridge ISD
Anderson-Shiro Cons ISD	Beeville ISD	Bremond ISD
Andrews ISD	Bellevue ISD	Brenham ISD
Angleton ISD	Bells ISD	Bridge City ISD
Anna ISD	Bellville ISD	Bridgeport ISD
Anson ISD	Belton ISD	Broadus ISD
Anthony ISD	Ben Bolt Palito ISD	Brock ISD
Anton ISD	Benavides ISD	Bronte ISD
Apple Springs ISD	Benjamin ISD	Brookeland ISD
Aquilla ISD	Big Sandy ISD - Big Sandy	Brookesmith ISD
Aransas County ISD	Big Sandy ISD - Dallardsville	Brooks County ISD
Aransas Pass ISD	Big Spring ISD	Brownfield ISD
Archer City ISD	Birdville ISD	Brownsboro ISD
Argyle ISD	Bishop Cons ISD	Brownsville ISD
Arlington ISD	Blackwell ISD	Brownwood ISD
Arp ISD	Blanco ISD	Bruceville-Eddy ISD
Aspermont ISD	Bland ISD	Bryan ISD
	Blanket ISD	Bryson ISD
	Bloomburg ISD	Buckholts ISD



## **List of Participating Employers**

*(Continued)*

Buena Vista ISD	Chapel Hill ISD - Mt. Pleasant	Connally Cons ISD
Buffalo ISD	Chapel Hill ISD - Tyler	Conroe ISD
Bullard ISD	Charlotte ISD	Coolidge ISD
Buna ISD	Cherokee ISD	Cooper ISD
Burkburnett ISD	Chester ISD	Coppell ISD
Burkeville ISD	Chico ISD	Copperas Cove ISD
Burleson ISD	Childress ISD	Corpus Christi ISD
Burnet Cons ISD	Chillicothe ISD	Corrigan-Camden ISD
Burton ISD	Chilton ISD	Corsicana ISD
Bushland ISD	China Spring ISD	Cotton Center ISD
Bynum Cons ISD	Chireno ISD	Cotulla ISD
Caddo Mills ISD	Chisum ISD	Coupland ISD
Calallen ISD	Christoval ISD	Covington ISD
Caldwell ISD	Cisco ISD	Crandall ISD
Calhoun County ISD	City View ISD	Crane ISD
Callisburg ISD	Clarendon Cons ISD	Cranfills Gap ISD
Calvert ISD	Clarksville ISD	Crawford ISD
Cameron ISD	Claude ISD	Crockett County Cons CSD
Campbell ISD	Clear Creek ISD	Crockett ISD
Canadian ISD	Cleburne ISD	Crosby ISD
Canton ISD	Cleveland ISD	Crosbyton Cons ISD
Canutillo ISD	Clifton ISD	Cross Plains ISD
Canyon ISD	Clint ISD	Cross Roads ISD
Carlisle ISD	Clyde ISD	Crowell Cons ISD
Carrizo Springs Cons ISD	Coahoma ISD	Crowley ISD
Carroll ISD	Coldspring Oakhurst ISD	Crystal City ISD
Carrollton-Farmers Branch ISD	Coleman ISD	Cuero ISD
Carthage ISD	College Station ISD	Culberson Cty - Allamoore ISD
Castleberry ISD	Collinsville ISD	Cumby ISD
Cayuga ISD	Colmesneil ISD	Cushing ISD
Cedar Hill ISD	Colorado ISD	Cypress-Fairbanks ISD
Celeste ISD	Columbia Brazoria ISD	D'Hanis ISD
Celina ISD	Columbus ISD	Daingerfield-Lone Star ISD
Center ISD	Comal ISD	Dalhart ISD
Center Point ISD	Comanche ISD	Dallas ISD
Centerville ISD - Centerville	Comfort ISD	Damon ISD
Centerville ISD - Groveton	Commerce ISD	Danbury ISD
Central Heights ISD	Community ISD	Darrouzett ISD
Central ISD	Como-Pickton Cons ISD	Dawson ISD - Dawson
Channelview ISD	Comstock ISD	Dawson ISD - Welch
Channing ISD		Dayton ISD



## ***List of Participating Employers***

*(Continued)*

DeKalb ISD	Eden Cons ISD	Fort Hancock ISD
DeLeon ISD	Edgewood ISD - Edgewood	Fort Sam Houston ISD
DeSota ISD	Edgewood ISD - San Antonio	Fort Stockton ISD
Decatur ISD	Edinburg Cons ISD	Fort Worth ISD
Deer Park ISD	Edna ISD	Franklin ISD
Del Valle ISD	El Campo ISD	Frankston ISD
Dell City ISD	El Paso ISD	Fredericksburg ISD
Denison ISD	Electra ISD	Freer ISD
Denton ISD	Elgin ISD	Frenship ISD
Denver City ISD	Elkhart ISD	Friendswood ISD
Detroit ISD	Elysian Fields ISD	Friona ISD
Devers ISD	Ennis ISD	Frisco ISD
Devine ISD	Era ISD	Frost ISD
Dew ISD	Etoile ISD	Fruitvale ISD
Deweyville ISD	Eula ISD	Gainesville ISD
Diboll ISD	Eustace ISD	Galena Park ISD
Dickinson ISD	Evadale ISD	Galveston ISD
Dilley ISD	Evant ISD	Ganado ISD
Dime Box ISD	Everman ISD	Garland ISD
Dimmitt ISD	Excelsior ISD	Garner ISD
Divide ISD	Ezell ISD	Garrison ISD
Dodd City ISD	Fabens ISD	Gary ISD
Donna ISD	Fairfield ISD	Gatesville ISD
Doss Cons ISD	Falls City ISD	Gause ISD
Douglass ISD	Fannindel ISD	George West ISD
Dripping Springs ISD	Farmersville ISD	Georgetown ISD
Driscoll ISD	Farwell ISD	Gholson ISD
Dublin ISD	Fayetteville ISD	Giddings ISD
Dumas ISD	Ferris ISD	Gilmer ISD
Duncanville ISD	Flatonia ISD	Gladewater County Line ISD
Eagle Mount Saginaw ISD	Florence ISD	Glasscock County ISD
Eagle Pass ISD	Floresville ISD	Glen Rose ISD
Eanes ISD	Flour Bluff ISD	Godley ISD
Early ISD	Floydada ISD	Goldburg ISD
East Bernard ISD	Follett ISD	Goldthwaite Cons ISD
East Central ISD	Forestburg ISD	Goliad ISD
East Chambers ISD	Forney ISD	Gonzales ISD
Eastland ISD	Forsan ISD	Goodrich ISD
Ector ISD	Fort Bend ISD	Goose Creek Cons ISD
Ector County ISD	Fort Davis ISD	Gordon ISD
Edcouch-Elsa ISD	Fort Elliott Cons ISD	Gorman ISD



## ***List of Participating Employers***

***(Continued)***

Grady ISD	Harts Bluff ISD	Hutto ISD
Graford ISD	Haskell Cons ISD	Idalou ISD
Graham ISD	Hawkins ISD	Industrial ISD
Granbury ISD	Hawley ISD	Ingleside ISD
Grand Prairie ISD	Hays Cons ISD	Ingram ISD
Grand Saline ISD	Hearne ISD	Iola ISD
Grandfalls Royalty ISD	Hedley ISD	Iowa Park Cons ISD
Grandview Hopkins ISD	Hemphill ISD	Ira ISD
Grandview ISD	Hempstead ISD	Iraan-Sheffield ISD
Granger ISD	Henderson ISD	Iredell ISD
Grape Creek ISD	Henrietta ISD	Irion County ISD
Grapeland ISD	Hereferd ISD	Irving ISD
Grapevine-Colleyville ISD	Hermleigh ISD	Italy ISD
Greenville ISD	Hico ISD	Itasca ISD
Greenwood ISD	Hidalgo ISD	Jacksboro ISD
Gregory-Portland ISD	Higgins ISD	Jacksonville ISD
Groesbeck ISD	High Island ISD	Jarrell ISD
Groom ISD	Highland ISD	Jasper ISD
Groveton ISD	Highland Park ISD - Amarillo	Jayton-Girard ISD
Gruver ISD	Highland Park ISD - Dallas	Jefferson ISD
Gunter ISD	Hillsboro ISD	Jim Hogg County ISD
Gustine ISD	Hitchcock ISD	Jim Ned Cons ISD
Guthrie CSD	Holland ISD	Joaquin ISD
Hale Center ISD	Holliday ISD	Johnson City ISD
Hallettsville ISD	Hondo ISD	Jonesboro ISD
Hallsburg ISD	Honey Grove ISD	Joshua ISD
Hallsville ISD	Hooks ISD	Jourdanton ISD
Hamilton ISD	Houston ISD	Judson ISD
Hamlin ISD	Howe ISD	Junction ISD
Hamshire-Fannett ISD	Hubbard ISD - Hubbard	Karnack ISD
Happy ISD	Hubbard ISD - DeKalb	Karnes City ISD
Hardin ISD	Huckabay ISD	Katy ISD
Hardin-Jefferson ISD	Hudson ISD	Kaufman ISD
Harlandale ISD	Huffman ISD	Keene ISD
Harleton ISD	Hughes Springs ISD	Keller ISD
Harlingen Cons ISD	Hull-Daisetta ISD	Kelton ISD
Harmony ISD	Humble ISD	Kemp ISD
Harper ISD	Hunt ISD	Kenedy County-Wide CSD
Harrold ISD	Huntington ISD	Kenedy ISD
Hart ISD	Huntsville ISD	Kennard ISD
Hartley ISD	Hurst-Euleless-Bedford ISD	Kennedale ISD



## **List of Participating Employers**

*(Continued)*

Kerens ISD	Leander ISD	Lufkin ISD
Kermit ISD	Leary ISD	Luling ISD
Kerrville ISD	Lefors ISD	Lumberton ISD
Kilgore ISD	Leggett ISD	Lyford Cons ISD
Killeen ISD	Leon ISD	Lytle ISD
Kingsville ISD	Leonard ISD	Mabank ISD
Kirbyville Cons ISD	Levelland ISD	Madisonville Cons ISD
Klein ISD	Leverett's Chapel ISD	Magnolia ISD
Klondike ISD	Lewisville ISD	Malakoff ISD
Knippa ISD	Lexington ISD	Malone ISD
Knox City-O'Brien Cons ISD	Liberty-Eylau ISD	Malta ISD
Kopperl ISD	Liberty Hill ISD	Manor ISD
Kountze ISD	Liberty ISD	Mansfield ISD
Kress ISD	Lindale ISD	Marathon ISD
Krum ISD	Linden-Kildare Cons ISD	Marble Falls ISD
La Feria ISD	Lindsay ISD	Marfa ISD
La Gloria ISD	Lingleville ISD	Marion ISD
La Grange ISD	Lipan ISD	Marlin ISD
La Joya ISD	Little Cypress-Mauriceville Cons ISD	Marshall ISD
La Marque ISD	Little Elm ISD	Mart ISD
La Porte ISD	Littlefield ISD	Martin's Mill ISD
La Poynor ISD	Livingston ISD	Martinsville ISD
La Pryor ISD	Llano ISD	Mason ISD
La Vega ISD	Lockhart ISD	Matagorda ISD
La Vernia ISD	Lockney ISD	Mathis ISD
La Villa ISD	Lohn ISD	Maud ISD
Lackland ISD	Lometa ISD	May ISD
Lago Vista ISD	London ISD	Maypearl ISD
Lake Dallas ISD	Lone Oak ISD	McAllen ISD
Lake Travis ISD	Longview ISD	McCamey ISD
Lake Worth ISD	Loop ISD	McDade ISD
Lamar Cons ISD	Loraine ISD	McGregor ISD
Lamesa ISD	Lorena ISD	McKinney ISD
Lampasas ISD	Lorenzo Cons ISD	McLean ISD
Lancaster ISD	Los Fresnos Cons ISD	McLeod ISD
Laneville ISD	Louise ISD	McMullen County ISD
Laredo ISD	Lovejoy ISD	Meadow ISD
Lasara ISD	Lovelady ISD	Medina ISD
Latexo ISD	Lubbock-Cooper ISD	Medina Valley ISD
Lazbuddie ISD	Lubbock ISD	Melissa ISD
Leakey ISD	Lueders-Avoca ISD	Memphis ISD



## **List of Participating Employers**

*(Continued)*

Menard ISD	Murchison ISD	Orangefield ISD
Mercedes ISD	Nacogdoches ISD	Ore City ISD
Meridian ISD	Natalia ISD	Overton ISD
Merkel ISD	Navarro ISD	Paducah ISD
Mesquite ISD	Navasota ISD	Paint Creek ISD
Mexia ISD	Nazareth ISD	Paint Rock ISD
Meyersville ISD	Neches ISD	Palacios ISD
Miami ISD	Nederland ISD	Palestine ISD
Midland ISD	Needville ISD	Palmer ISD
Midlothian ISD	New Boston ISD	Palo Pinto ISD
Midway ISD - Henrietta	New Braunfels ISD	Pampa ISD
Midway ISD - Waco	New Caney ISD	Panhandle ISD
Milano ISD	New Deal ISD	Panther Creek Cons ISD
Mildred ISD	New Diana ISD	Paradise ISD
Miles ISD	New Home ISD	Paris ISD
Milford ISD	New Summerfield ISD	Pasadena ISD
Miller Grove ISD	New Waverly ISD	Patton Springs ISD
Millsap ISD	Newcastle ISD	Pawnee ISD
Mineola ISD	Newton ISD	Pearland ISD
Mineral Wells ISD	Nixon-Smiley Cons ISD	Pearsall ISD
Mission Cons ISD	Nocona ISD	Peaster ISD
Monahans-Wickett-Pyote ISD	Nordheim ISD	Pecos-Barstow-Toyah ISD
Montague ISD	Normangee ISD	Penelope ISD
Monte Alto ISD	North East ISD	Perrin-Whitt Cons ISD
Montgomery ISD	North Hopkins ISD	Perryton ISD
Moody ISD	North Lamar ISD	Petersburg ISD
Moran ISD	North Zulch ISD	Petrolia ISD
Morgan ISD	Northside ISD - San Antonio	Pettus ISD
Morgan Mill ISD	Northside ISD - Vernon	Pewitt Cons ISD
Morton ISD	Northwest ISD	Pflugerville ISD
Motley County ISD	Nueces Canyon Cons ISD	Pharr-San Juan-Alamo ISD
Moulton ISD	Nursery ISD	Pilot Point ISD
Mount Calm ISD	O'Donnell ISD	Pine Tree ISD
Mount Enterprise ISD	Oakwood ISD	Pittsburg ISD
Mount Pleasant ISD	Odem-Edroy ISD	Plains ISD
Mount Vernon ISD	Oglesby ISD	Plainview ISD
Muenster ISD	Olfen ISD	Plano ISD
Muleshoe ISD	Olney ISD	Pleasant Grove ISD
Mullin ISD	Olton ISD	Pleasanton ISD
Mumford ISD	Onalaska ISD	Plemons-Stinnett-Phillips Cons ISD
Munday Cons ISD	Orange Grove ISD	Point Isabel ISD



## ***List of Participating Employers***

*(Continued)*

Ponder ISD	Riesel ISD	San Augustine ISD
Poolville ISD	Rio Grand City Cons ISD	San Benito Cons ISD
Port Aransas ISD	Rio Hondo ISD	San Diego ISD
Port Arthur ISD	Rio Vista ISD	San Elizario ISD
Port Neches-Groves ISD	Rising Star ISD	San Felipe Del Rio Cons ISD
Post ISD	River Road ISD	San Isidro ISD
Poteet ISD	Rivercrest ISD	San Marcos Cons ISD
Poth Cons ISD	Riviera ISD	San Perlita ISD
Pottsboro ISD	Robert Lee ISD	San Saba ISD
Prairie Lea ISD	Robinson ISD	San Vicente ISD
Prairie Valley ISD	Robstown ISD	Sands Cons ISD
Prairiland ISD	Roby Cons ISD	Sanford-Fritch ISD
Premont ISD	Rochelle ISD	Sanger ISD
Presidio ISD	Rockdale ISD	Santa Anna ISD
Priddy ISD	Rocksprings ISD	Santa Fe ISD
Princeton ISD	Rockwall ISD	Santa Gertrudis ISD
Pringle-Morse Cons ISD	Rogers ISD	Santa Maria ISD
Progreso ISD	Roma ISD	Santa Rosa ISD
Prosper ISD	Roosevelt ISD	Santo ISD
Quanah ISD	Ropes ISD	Savoy ISD
Queen City ISD	Roscoe ISD	Schertz-Cibolo-Univ City ISD
Quinlan ISD	Rosebud-Lott ISD	Schleicher County ISD
Quitman ISD	Rotan ISD	Schulenberg ISD
Rains ISD	Round Rock ISD	Scurry-Rosser ISD
Ralls ISD	Round Top-Carmine ISD	Seagraves ISD
Ramirez CISD	Roxton ISD	Sealy ISD
Randolph Field ISD	Royal ISD	Seguin ISD
Ranger ISD	Royse City ISD	Seminole Public Schools
Rankin ISD	Rule ISD	Seymour ISD
Raymondville ISD	Runge ISD	Shallowater ISD
Reagan County ISD	Rusk ISD	Shamrock ISD
Red Lick ISD	S&S Cons ISD	Sharyland ISD
Red Oak ISD	Sabinal ISD	Shelbyville ISD
Redwater ISD	Sabine ISD	Sheldon ISD
Refugio ISD	Sabine Pass ISD	Shepherd ISD
Ricardo ISD	Saint Jo ISD	Sherman ISD
Rice Cons ISD	Salado ISD	Shiner ISD
Rice ISD	Saltillo ISD	Sidney ISD
Richards ISD	Sam Rayburn Cons ISD	Sierra Blanca ISD
Richardson ISD	San Angelo ISD	Silsbee ISD
Richland Springs ISD	San Antonio ISD	Silverton ISD





## ***List of Participating Employers***

*(Continued)*

Simms ISD	Sulphur Springs ISD	Tuloso-Midway ISD
Sinton ISD	Sundown ISD	Turkey-Quitaque ISD
Sivells Bend ISD	Sunnyvale ISD	Tyler ISD
Skidmore-Tynan ISD	Sunray ISD	Union Grove ISD
Slaton ISD	Sweeny ISD	Union Hill ISD
Slidell ISD	Sweet Home ISD	United ISD
Slocum ISD	Sweetwater ISD	Utopia ISD
Smithville ISD	Taft ISD	Uvalde Cons ISD
Smyer ISD	Tahoka ISD	Valentine ISD
Snook ISD	Tarkington ISD	Valley Mills ISD
Snyder ISD	Tatum ISD	Valley View ISD - Pharr
Socorro ISD	Taylor ISD	Valley View ISD - Valley View
Somerset ISD	Teague ISD	Van Alstyne ISD
Somerville ISD	Temple ISD	Van ISD
Sonora ISD	Tenaha ISD	Van Vleck ISD
South San Antonio ISD	Terlingua CSD	Vega ISD
South Texas ISD	Terrell County ISD	Venus ISD
Southland ISD	Terrell ISD	Veribest ISD
Southside ISD	Texarkana ISD	Vernon Cons ISD
Southwest ISD	Texas City ISD	Victoria ISD
Spearman ISD	Texhoma ISD	Vidor ISD
Splendora ISD	Texline ISD	Vysehrad ISD
Spring Branch ISD	Thorndale ISD	Waco ISD
Spring Creek ISD	Thrall ISD	Waelder ISD
Spring Hill ISD	Three Rivers ISD	Walcott ISD
Spring ISD	Three Way ISD	Wall ISD
Springlake-Earth ISD	Throckmorton ISD	Waller ISD
Springtown ISD	Tidehaven ISD	Walnut Bend ISD
Spur ISD	Timpson ISD	Walnut Springs ISD
Spurger ISD	Tioga ISD	Warren ISD
Stafford Municipal School Dist	Tolar ISD	Waskom ISD
Stamford ISD	Tom Bean ISD	Water Valley ISD
Stanton ISD	Tomball ISD	Waxahachie ISD
Star ISD	Tornillo ISD	Weatherford ISD
Stephenville ISD	Trent ISD	Webb Cons ISD
Sterling City ISD	Trenton ISD	Weimar ISD
Stockdale ISD	Trinidad ISD	Wellington ISD
Stratford ISD	Trinity ISD	Wellman-Union ISD
Strawn ISD	Troup ISD	Wells ISD
Sudan ISD	Troy ISD	Weslaco ISD
Sulphur Bluff ISD	Tulia ISD	West Hardin County Cons ISD



## **List of Participating Employers**

*(Continued)*

West ISD  
 West Orange-Cove Cons ISD  
 West Oso ISD  
 West Rusk County Cons ISD  
 West Sabine ISD  
 Westbrook ISD  
 Westhoff ISD  
 Westphalia ISD  
 Westwood ISD  
 Wharton ISD  
 Wheeler ISD  
 White Deer ISD  
 White Oak ISD  
 White Settlement ISD  
 Whiteface ISD  
 Whitehouse ISD  
 Whitesboro ISD  
 Whitewright ISD  
 Whitharral ISD  
 Whitney ISD  
 Wichita Falls ISD  
 Wildorado ISD  
 Willis ISD  
 Wills Point ISD  
 Wilson ISD  
 Wimberley ISD  
 Windham School District  
 Windthorst ISD  
 Winfield ISD  
 Wink-Loving Cons ISD  
 Winnsboro ISD  
 Winona ISD  
 Winters ISD  
 Woden ISD  
 Wolfe City ISD  
 Woodsboro ISD  
 Woodson ISD  
 Woodville ISD  
 Wortham ISD  
 Wylie ISD - Abilene  
 Wylie ISD - Wylie

Yantis ISD  
 Yoakum ISD  
 Yorktown ISD  
 Ysleta ISD  
 Zapata County ISD  
 Zavalla ISD  
 Zephyr ISD

### CHARTER SCHOOLS

A Plus Academy  
 Academy of Accelerated Learning  
 Academy of Careers & Technologies  
 Academy of Dallas  
 Accelerated Intermediate Academy  
 Alief Montessori School  
 ALPHA Charter School  
 Ambassadors Prep Academy  
 American Youthworks  
 Amigos Por Vida Charter  
 Arlington Classics Academy  
 Arrow Academy  
 Austin Achieve Public Schools  
 Austin Discovery School  
 A W Brown Fellowship Charter  
 Azleway Charter School  
 Basis San Antonio  
 Bay Area Charter School  
 Beatrice Mayes Institute  
 Bexar County Academy  
 Big Springs Charter School  
 Bob Hope School  
 Brazos River Charter School  
 Brazos School for Inquiry  
 Bright Ideas Charter School  
 Brooks Acad of Science & Eng  
 Burnham Wood Charter School  
 Calvin Nelms Charter  
 Cedars International Academy  
 Chaparral Star Academy  
 Chapel Hill Academy

City Center - Health Careers  
 Compass Academy  
 Comquest Academy  
 Core Academy  
 Corpus Christi Montessori School  
 Crosstimbers Academy  
 Cumberland Academy  
 Dallas Community Charter School  
 Dr M L Garza-Gonzalez Charter  
 Draw Academy  
 Eagle Advantage School  
 East Fort Worth Montessori School  
 East Texas Charter School  
 Eden Park Academy  
 Education Center Intermediate Acad  
 El Paso Academy East  
 El Paso Leadership Academy  
 Eleanor Kolitz Hebrew Acad  
 Erath Excels Academy  
 Evolution Academy Charter School  
 Excellence in Leadership Academy  
 Faith Family Academy - Oak Cliff  
 Faith Family Academy - Waxahachie  
 Fallbrook College Prep Academy  
 Focus Learning Academy  
 Fort Worth Academy of Fine Arts  
 Gateway Academy  
 Gateway Charter Academy  
 George Gervin Academy  
 George I Sanchez Charter  
 Girls and Boys Prep Academy  
 Global Learning Academy  
 Golden Rule Charter School  
 Great Hearts Academy  
 Gulf Coast Trades Center  
 Hampton Preparatory  
 Harmony School of Excel - Houston  
 Harmony School of Science - Houston  
 Harmony Science Acad - Austin  
 Harmony Science Acad - Brownsville  
 Harmony Science Acad - El Paso



## **List of Participating Employers**

*(Continued)*

Harmony Science Acad - Fort Worth	New Frontiers Charter School	South Texas Educ Technologies
Harmony Science Acad - Houston	Newman International Academy	Southwest High School
Harmony Science Acad - Lubbock	North Texas Elem School of Arts	Southwest Prep School
Harmony Science Acad - San Antonio	Northwest Prep Academy	St Anthony School
Harmony Science Acad - Waco	Nova Charter School	St Mary's Charter School
Henry Ford Academy - San Antonio	Nova Charter School - Southeast	Stepping Stones Charter Elementary
Higgs, Carter, King Academy	NYOS Charter School	Summit International Prep
Honors Academy	Odyssey Academy	Tekoa Academy of Accel. Studies
Houston Gateway Charter School	Orenda Charter School	Temple Education Center
Houston Heights High School	Panola Charter School	Texans Can Academies
Houston Heights Learning Acad	Paso Del Norte Academy	Texas College Preparatory
Idea Public Schools	Peak Preparatory School	Texas Education Center
Ignite Public Schools	Pegasus School of Arts/Science	Texas Empowerment Academy
Inspired Vision Academy	Phoenix Charter School	Texas Preparatory School
Intl Leadership of Texas	Pineywoods Academy	Texas Serenity Academy
Jamie's House Charter School	Por Vida Academy	The Children First Academy - Dallas
Jean Massieu Academy	Premier High Schools	The East Austin College Prep Acad
John H. Wood Charter School	Premier Learning Academy	The Ehrhart School
Jubilee Academic Center	Prime Prep Academy	The Excel Center
Katherine Anne Porter School	Promise Community School	The North Hills School
Kipp Aspire Academy	Radiance Academy of Learning	The Pro-Vision Academy
Kipp Austin College Prep	Ranch Academy	The Rhodes School
Kipp Inc Charter	Rapoport Academy	TLC Academy
Kipp Truth Academy	Raul Yzaguirre School for Success	Transformative Charter
Koinonia Comm Learning Acad	Reconciliation Academy	Treetops International
La Academia de Estrellas	Richard Milburn - Amarillo	Trinity Basin Preparatory
La Amistad Academy	Richard Milburn –Corpus	Trinity Charter School
La Fe Preparatory School	Richard Milburn – Fort Worth	Two Dimensions Prep Academy
Leadership Prep School	Richard Milburn - Houston	UME Prep Academy
Legacy Preparatory	Richard Milburn - Killeen	Universal Academy
Life School	Richard Milburn - Odessa	Vanguard Academy
Lighthouse Charter School	Rise Academy	Varnett Charter School
Mainland Prep Academy	San Antonio School of Inquiry	Victory Prep
Manara Academy	San Antonio Technology Academy	Village Tech Schools
Meadowland Charter School	School of Excellence in Education	Vista Del Futuro Charter School
Medical Center Charter	School of Science & Tech Discovery	Waco Charter School
Meridian World School	School of Science & Technology	Walipp Academy
Meyerpark Elementary Charter	Seashore Middle Academy	West Houston Charter
Midland Academy Charter School	SER-Ninos Charter School	Westlake Academy
Mid-Valley Academy	Shekinah Radiance Academy	Williams Preparatory
Montessori for All	South Plains Academy	Winfree Academy Charter Schools



## **List of Participating Employers**

*(Continued)*

Yes Prep Public Schools  
Zoe Learning Academy

### **COMMUNITY AND JUNIOR COLLEGES**

Alamo Community College District  
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 County Comm College  
Dallas County Comm Coll Dist  
Del Mar College  
El Paso Community College  
Frank Phillips College  
Galveston College  
Grayson County College  
Hill College  
Houston Comm College System  
Howard County Jr College Dist  
Kilgore College  
Laredo Community College  
Lee College  
Lone Star College System  
McLennan Community College  
Midland College  
Navarro College  
North Central Texas College  
Northeast Texas Comm College  
Odessa College  
Panola College  
Paris Junior College  
Ranger Junior College  
San Jacinto College District

South Plains College  
South Texas College  
Southwest Texas Junior College  
Tarrant County College District  
Temple College  
Texarkana College  
Texas Southmost College  
Trinity Valley Junior College  
Tyler Junior College  
Vernon College  
Victoria College  
Weatherford College  
Western Texas College  
Wharton County Junior College

### **UNIVERSITIES**

Angelo State University  
Lamar Institute of Technology  
Lamar State College - Orange  
Lamar State College - Port Arthur  
Lamar University  
Midwestern State University  
Prairie View A&M University  
Sam Houston State University  
Stephen F Austin State Univ  
Sul Ross State University  
Tarleton State University  
Texas A&M University  
Texas A&M - Agrilife Ext Service  
Texas A&M - AgriLife Research  
Texas A&M - Central Texas  
Texas A&M - Commerce  
Texas A&M - Corpus Christi  
Texas A&M - Eng Exp Station  
Texas A&M - Eng Ext Service  
Texas A&M - Forest Service  
Texas A&M - Galveston  
Texas A&M - International Univ  
Texas A&M - Kingsville  
Texas A&M - San Antonio

Texas A&M - Texarkana  
Texas A&M - Transport Inst  
Texas A&M - Univ Sys Office  
Texas Southern University  
Texas State Technical College  
Texas State Univ - San Marcos  
Texas State University System  
Texas Tech University  
Texas Woman's University  
University of Houston  
University of North Texas  
Univ of North Texas - Dallas  
Univ of North Texas - System  
Univ of TX - Arlington  
Univ of TX - Austin  
Univ of TX - Brownsville  
Univ of TX - Dallas  
Univ of TX - El Paso  
Univ of TX - Pan American  
Univ of TX - Permian Basin  
Univ of TX - San Antonio  
Univ of TX - System  
Univ of TX - Tyler  
West Texas A&M University

### **MEDICAL SCHOOLS**

TX A&M -Health Science Center  
TX A&M - Vet Med Diag Lab  
Univ of North Texas - HSC  
UT HSC - Houston  
UT HSC - San Antonio  
UT HSC - Tyler  
UT - MD Anderson Cancer Ctr  
UT - Medical Branch Galveston  
UT- SW Med Center Dallas

### **REGIONAL SERVICE CENTERS**

Region 01 Educ Service Center  
Region 02 Educ Service Center



## ***List of Participating Employers***

*(Continued)*

Region 03 Educ Service Center  
Region 04 Educ Service Center  
Region 05 Educ Service Center  
Region 06 Educ Service Center  
Region 07 Educ Service Center  
Region 08 Educ Service Center  
Region 09 Educ Service Center  
Region 10 Educ Service Center  
Region 11 Educ Service Center  
Region 12 Educ Service Center  
Region 13 Educ Service Center  
Region 14 Educ Service Center  
Region 15 Educ Service Center  
Region 16 Educ Service Center  
Region 17 Educ Service Center  
Region 18 Educ Service Center  
Region 19 Educ Service Center  
Region 20 Educ Service Center

### **OTHER EDUCATIONAL DISTRICTS**

Anderson County Spec Ed Co-Op  
Bowie County School District  
Dallas County School District  
Harris County Dept of Education  
Parker County Co-Op

### **OTHER ENTITIES**

Teacher Retirement System  
Texas Education Agency

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# TRS Core Values

**Customer Satisfaction:** We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations exceeded.

**Collaboration/Teamwork:** We work together to achieve common goals through a diverse, yet unified team.

**Accountability:** We hold ourselves accountable and take responsibility for our actions, behavior and outcomes.

**Respect:** We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.

**Ethics:** We will be truthful and act with honesty and integrity in everything we do.

**Excellence:** We commit to demonstrating excellence in our work and look for ways to continuously improve.

**Employee Fulfillment:** We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.

**BENEFITS Section**



## Changes in the Law

**STATE:** The Legislature did not meet in fiscal year 2014. No noteworthy state law developments affecting TRS 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) (Dodd – Frank)

During this fiscal year, TRS continued implementing its compliance with rules adopted by the Commodities Futures Trading Commission under Dodd – Frank. Among other things, these rules relate to swap execution facilities, elections relating to segregation of initial margin, and mandatory execution of package transactions through certain facilities.

### BENEFITS

#### Health Care

**Federal Patient Protection and Affordable Care Act of 2010 (PPACA)** - During fiscal year 2014, 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. During the year, TRS continued to expand women’s preventative health services, without cost sharing, for TRS-Care and TRS-ActiveCare.

**Defense of Marriage Act** – As explained in more detail in the next section, in June 2013, the U.S. Supreme Court ruled in *U.S. v. Windsor* that Section 3 of the Defense of Marriage Act (“DOMA,” Public Law 104-199) is unconstitutional. This ruling does not affect the definition of a “spouse” for purposes of enrollment in the health plans offered by TRS. Consequently, an individual who is married to an employee or retiree of the same sex will not be allowed to enroll as a dependent in either TRS-ActiveCare or in TRS-Care. TRS continues to analyze the possible impact of newly issued court rulings, laws, and regulations upon the ability of a same-sex spouse, as a dependent of an employee or retiree, to enroll in the various plans offered under TRS-ActiveCare and TRS-Care.

#### Tax Laws, Regulations, and Guidance

**Defense of Marriage Act** - In June 2013, the U.S. Supreme Court ruled in *U.S. v. Windsor* that Section 3 of the Defense of Marriage Act (“DOMA,” Public Law 104-199) is unconstitutional. Under Section 3 of DOMA, “marriage” is defined as a legal union between a man and a woman and “spouse” refers to persons of the opposite sex. The DOMA definitions affect numerous provisions of the Internal Revenue Code. Section 2 of DOMA, which authorizes states not to recognize the validity of same-sex marriages that were performed in other states, was not at issue in *U.S. v. Windsor*. In August 2013, the Internal Revenue Service (IRS) issued Revenue Ruling 2013-17 providing that for federal tax law purposes, the IRS will recognize marriages between same-sex individuals who are lawfully married in a domestic or foreign jurisdiction, even if the couple resides in a jurisdiction that does not recognize the validity of same-sex marriages. The IRS indicated that the holdings in Revenue Ruling 2013-17 would be applied prospectively as of Sept. 16, 2013. The IRS also indicated that it intends to issue further guidance on the retroactive application of the *U.S. v. Windsor* decision to employee benefit plans and arrangements. In April 2014, the IRS issued Notice 2014-19 clarifying that qualified retirement plans must be operated in a manner that is consistent with *U.S. v. Windsor* as of June 26, 2013, and with Revenue Ruling 2013-17 as of Sept. 16, 2013. TRS implemented applicable operational changes to comply with *U.S. v. Windsor* and Revenue Ruling 2013-17. TRS will continue to monitor developments and will determine whether any plan amendments are necessary in order to comply with IRS plan qualification requirements.





## ***Changes in the Law***

***Normal Retirement Age Regulations*** - In April 2012, the IRS issued Notice 2012-29 indicating that the IRS and the U.S. Treasury Department intend to issue guidance regarding the applicability to governmental plans of final regulations issued in May 2007 concerning pension distributions upon attainment of “normal retirement age” (NRA). The guidance is expected to extend the date by which governmental plans must comply with the final regulations. The IRS and the U.S. Treasury Department intend to clarify that a governmental plan that does not allow “in-service” distributions before age 62 is not required to define NRA in accordance with the final regulations. The IRS and the U.S. Treasury Department also intend to provide that the rule that deems age 50 or later to be NRA for qualified public safety employees will apply regardless of whether those employees are covered by a separate plan. TRS will continue to monitor developments with respect to the anticipated federal regulation changes. The revised final regulations are anticipated to be effective for TRS as of Sept. 1, 2015.

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

### **Other Developments**

***De Leon v. Perry*** - In February 2014, the U.S. District Court for the Western District of Texas ruled that the prohibition against same-sex marriage under Article I, Section 32 of the Texas Constitution violated the Equal Protection Clause and the Due Process Clause of the Fourteenth Amendment to the U.S. Constitution. The case is currently on appeal at the U.S. Court of Appeals for the Fifth Circuit. TRS will continue to monitor developments in the case as it proceeds through the appeals process and will determine at that time what, if any, changes may be needed.



## Summary of Benefits

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

TRS administers TRS-ActiveCare, the statewide health benefits program for eligible public education employees of participating entities and their eligible dependents. The program is financed by plan participant premium payments and investment income from the assets of the TRS-ActiveCare trust. In addition to TRS-ActiveCare, TRS administers TRS-Care, a separate statewide health benefits program for eligible retired public education employees and their eligible dependents. 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 TRS-Care trust.

TRS also administers an optional long-term care insurance program for eligible retirees, eligible public school employees, and eligible family members. 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 2014.

The major retirement plan benefits are:

#### SERVICE RETIREMENT

Normal Retirement Eligibility – For members whose membership began prior to Sept. 1, 2007, who have at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

- Age 65 with at least five years of credited service, or
- The sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service.

For members whose membership began on or after Sept. 1, 2007 but prior to Sept. 1, 2014, who have at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

- Age 65 with at least five years of credited service, or
- Age 60 and the sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service.

For members who did not have at least five years of service credit as of Aug. 31, 2014, who established TRS membership on or after Sept. 1, 2014, or who had at least five years of service credit as of Aug. 31, 2014 but terminated membership in TRS by withdrawal of accumulated contributions and later resumed TRS membership:

- Age 65 with at least five years of credited service, or
- Age 62 and the sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service.

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



## Summary of Benefits

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

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

**Early Retirement Eligibility** - For members whose membership began prior to Sept. 1, 2007, who have at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

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

For members whose membership began on or after Sept. 1, 2007 but prior to Sept. 1, 2014, who have at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

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

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

For members who did not have at least five years of service credit as of Aug. 31, 2014, who established TRS membership on or after Sept. 1, 2014, or who had at least five years of service credit as of Aug. 31, 2014 but terminated membership in TRS by withdrawal of accumulated contributions and later resumed TRS membership:

- At least 55 with five or more years of service credit, but the sum of the member's age and years of service credit total less than 80, or
- 30 or more years of service credit, but the sum of the member's age and years of service credit total less than 80, and the member is less than age 62, or
- The sum of the member's age and years of service credit total at least 80, but the member is less than age 62.\*\*

\*\* For members who met the requirements to be grandfathered before Sept. 1, 2005, there is no reduction to their benefit based on actuarial tables if they are at least age 55, have at least 20 years of service credit, the sum of their age and years of service credit total at least 80, and they are below age 62; however, these members are still considered early-age retirees.

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

### DISABILITY RETIREMENT

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



## ***Summary of Benefits***

**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 applied and retired after Aug. 31, 2007 are subject to an annual limit on earnings from any employment. The current limit is the greater of the highest annual salary before retirement or \$40,000. Excess earnings will cause benefits to be forfeited until such time as the excess earnings cease or are reduced to an allowable amount.

### **ANNUITY PAYMENT OPTIONS**

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

### **THE POP-UP PROVISION**

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

### **PARTIAL LUMP SUM OPTION**

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

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

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

### **DEFERRED RETIREMENT OPTION PLAN**

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

Members who elected to participate in DROP (before enrollment was closed effective Dec. 31, 2005) chose to freeze their salary amounts and service credit used to calculate their retirement benefits and to have a portion of the standard annuity



## ***Summary of Benefits***

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. The interest rate will change to two percent per annum prospectively for interest that accrues on or after Sept. 1, 2014. Members are not considered to be retired while participating in DROP.

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

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

### **MINIMUM SERVICE CREDIT REQUIRED FOR SERVICE RETIREMENT BENEFITS**

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

### **DEATH AND SURVIVOR BENEFITS**

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

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



## Summary of Benefits

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

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

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

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

### GRANDFATHERED PROVISIONS

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

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

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

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

## HEALTH BENEFITS

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

### HEALTH BENEFITS FOR ACTIVE PUBLIC SCHOOL EMPLOYEES

TRS-ActiveCare, the statewide health benefits program for eligible full-time and eligible part-time employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts, went into effect on Sept. 1, 2002. The program initially addressed the most critical areas of the state with regard to availability and affordability of health benefits for public school employees and therefore focused on smaller districts. The program was subsequently expanded to include larger school districts. In fiscal year 2014, 1,122 entities participated in the program. During this same fiscal year, employees of participating entities were enrolled in three preferred provider organization plans, and employees of certain areas also had the option of choosing coverage under a health maintenance organization.



## ***Summary of Benefits***

### **RETIREE HEALTH COVERAGE**

The program under the Texas Public School Retired Employees Group Benefits Act, known as TRS-Care, makes available a basic level of health coverage without cost to eligible TRS public school retirees. As has been the case for a number of years, eligible retirees and their eligible dependents may pay premiums and participate in one of two standard medical plans and one of two standard prescription plans of more comprehensive benefits and coverage. Participants with Medicare also have two Medicare Advantage medical plan and two Medicare Part D prescription plan options, subject to eligibility criteria. For information on TRS-Care eligibility, please refer to the TRS website.

### **LONG-TERM CARE INSURANCE PROGRAM**

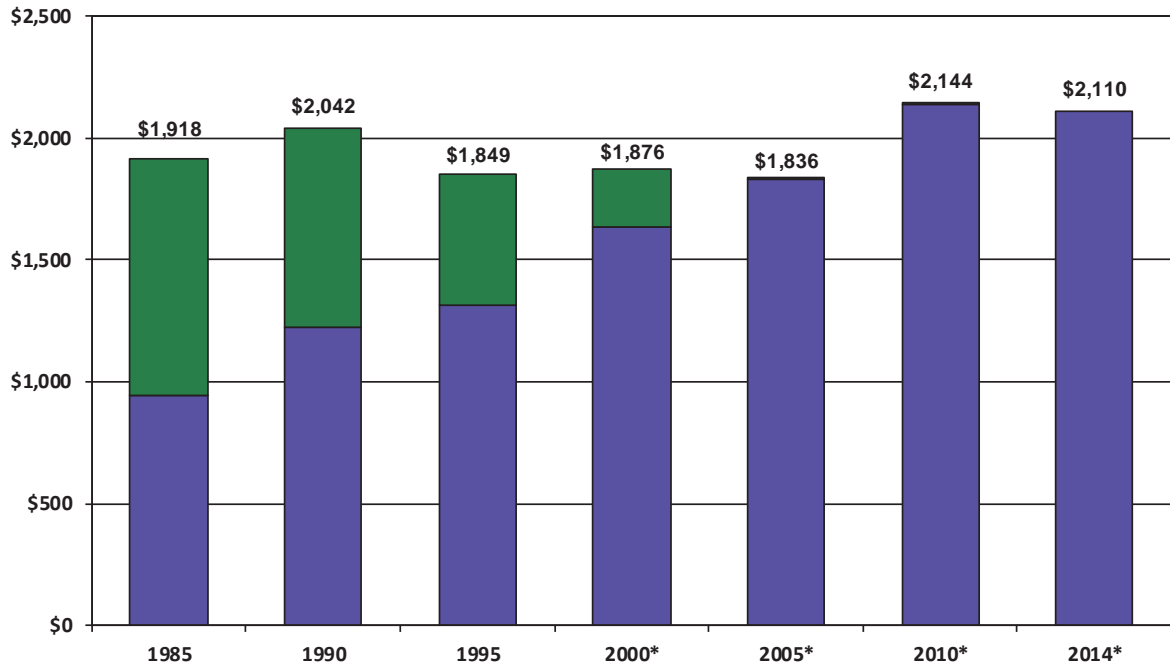
Eligible active and retired members, their dependents, and certain other family members may participate in the TRS long-term care insurance program. The plan pays benefits if the participant becomes unable to perform at least two activities of daily living without substantial assistance from another 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 Benefits

#### Current Average Monthly Benefit by Year of Retirement

Service Retiree Accounts as of August 31, 2014



Original Benefits	\$947	\$1,223	\$1,315	\$1,637	\$1,830	\$2,141	\$2,110
Benefit Increases	971	819	534	239	6	3	0
Current Benefits	<u>\$1,918</u>	<u>\$2,042</u>	<u>\$1,849</u>	<u>\$1,876</u>	<u>\$1,836</u>	<u>\$2,144</u>	<u>\$2,110</u>
Number of Retirees**	1,965	4,137	5,981	10,876	10,879	16,662	18,270

\* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,772, \$2,000, \$2,317 and \$2,232 for fiscal years 2000, 2005, 2010 and 2014 respectively.

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





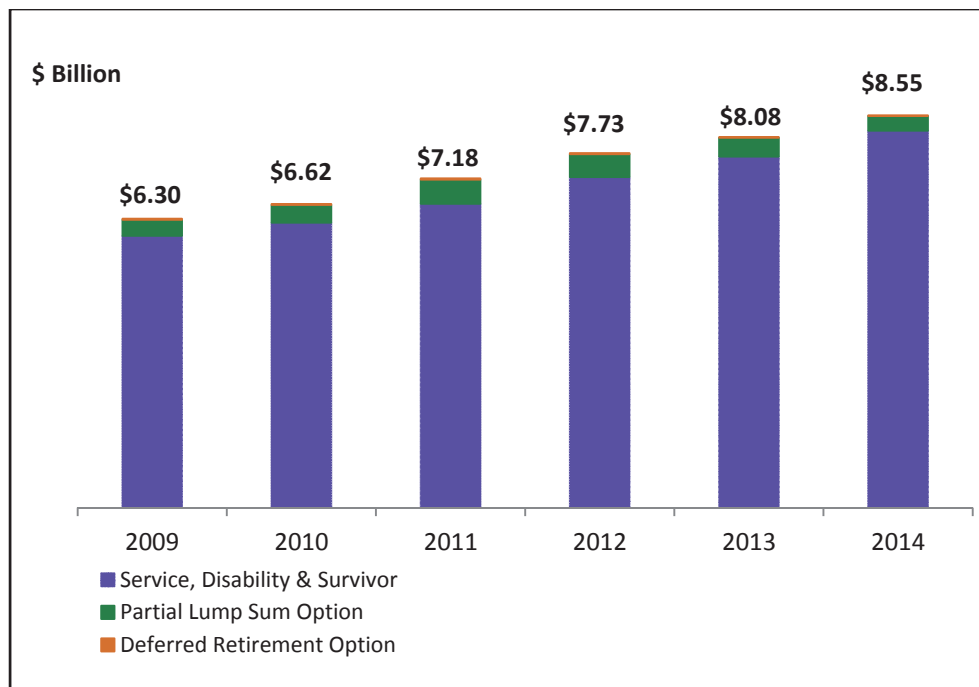
## Growth of the System

Benefit payments during fiscal year 2014 totaled approximately \$8.55 billion, an increase of \$473 million from the previous year. As of August 2014, the monthly annuity payroll had grown to \$685 million, and TRS was paying benefits to 363,182 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 14,954 during fiscal year 2014.

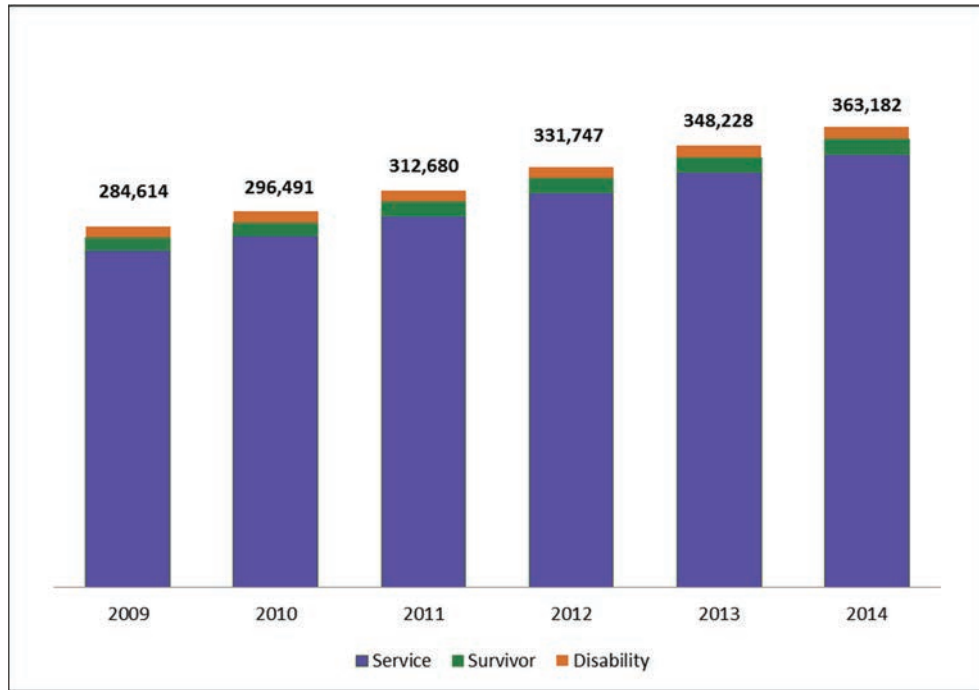
Of the current TRS member accounts, 873,336 (active contributing and deferred retirement option participants) were employed during fiscal year 2014 and made contributions to the system. The remaining 178,089 members are no longer employed by a TRS participating employer but have maintained their membership in TRS by leaving their contributions with the system. The number of current member accounts increased by 30,013 during fiscal year 2014.

### Benefit Payments

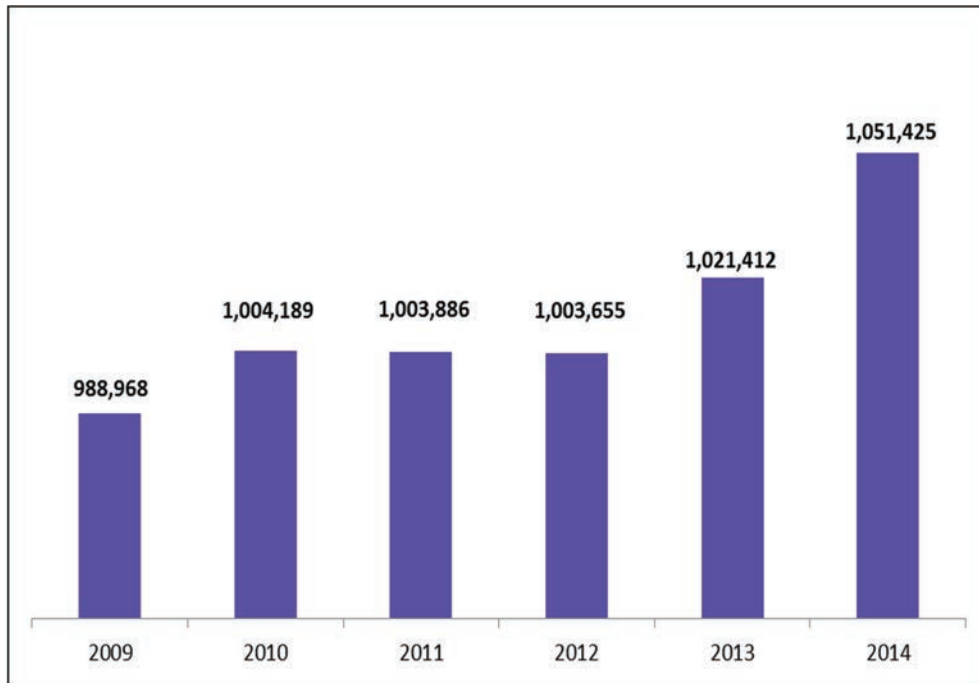


## Growth of the System

### Annuities



### Member Accounts





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)**