

Teacher Retirement System of Texas

2016 COMPREHENSIVE ANNUAL FINANCIAL REPORT



TRS Mission Statement

The mission of the Teacher Retirement System of Texas is:

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

TEACHER RETIREMENT SYSTEM OF TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Texas

FISCAL YEAR ENDED
August 31, 2016

Prepared by
Teacher Retirement System of Texas
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Brian K. Guthrie,
Executive Director

www.trs.texas.gov

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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

Former 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
Community Bank 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

John Elliott of Austin and Greg Gibson of Schertz were sworn in as members of the TRS Board of Trustees on May 13. They were appointed to the board by Gov. Greg Abbott and replaced Todd Barth and Nanette Sissney, respectively. The governor also reappointed Christopher Moss of Lufkin to a second term on the board. The appointees will serve terms set to expire Aug. 31, 2021.

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

**Teacher Retirement System
of Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2015

Executive Director/CEO

Professional Awards



Public Pension Coordinating Council

Recognition Award for Administration 2015

Presented to

Teacher Retirement System of Texas

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

Presented by the Public Pension Coordinating Council, a confederation of

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

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

Alan H. Winkle
Program Administrator

Letter of Transmittal



Brian K. Guthrie
Executive Director

www.trs.texas.gov

800.223.8778
512.542.6400

1000 Red River Street
Austin, Texas 78701-2698

November 17, 2016

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, Texas Comptroller
Ursula Parks, Director, Legislative Budget Board
Lisa Collier, First Assistant State Auditor
The Board of Trustees and Members of the Teacher Retirement System

Ladies and Gentlemen,

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, 2016, the System's 79th year of operation. During the past fiscal year, the System experienced modest growth as membership grew to approximately 1,503,940 participants. The pension trust fund saw positive returns in the past year. The fund ended the 2016 fiscal year with a net position of \$134.0 billion compared to \$128.5 billion at the close of the 2015 fiscal year. TRS investment earnings, combined with contribution increases and benefit changes approved by the 84th Texas Legislature, are continuing to enable 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 26 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 (GASB). The Management's Discussion and Analysis (MD&A) includes a narrative introduction, overview and analysis to accompany

Letter of Transmittal

the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

During the past year, TRS also continued its program of auditing reporting entity reports submitted by reporting entities to TRS in response to GASB accounting and American Institute of Certified Public Accounting (AICPA) auditing guidance. TRS Internal Audit staff has been testing employer census data and controls pertaining to the census data reporting process for active members. TRS is reviewing the following elements of the data: gender; dates of birth; dates of hire or years of service; eligible compensation; and termination or retirement dates. TRS auditors are also testing eligibility and compensation for accuracy, completeness, and compliance with *TRS Laws & Rules*.

INVESTMENTS

For the 12-month period ending August 31, 2016, the total portfolio delivered investment returns of 7.4 percent, which is 0.5 percent below the Fund's benchmark. By asset class, returns were 5.2 percent for Global Equity, 14.0 percent for Stable Value, and 7.1 percent for Real Return. On a three-year annualized basis, the Fund has returned 7.8 percent, which is 0.2 percent above its benchmark. As a result, the total investment value of the Fund as of August 31, 2016 was \$133.4 billion, or \$5.5 billion more than this time last year, after contributions and benefit payouts. Annual rates of return for the five-year and ten-year periods ending August 31, 2016, were 8.0 percent and 6.0 percent, respectively.

Investment risks are diversified over a very broad range of market sectors and securities. TRS' investment strategy is designed to address three different potential market scenarios and 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 to Risk Parity, which has a balanced exposure to all three economic scenarios. This allocation is designed to minimize downside risk while capturing upside performance in any of the three scenarios. This strategy reduces portfolio risk from adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from future markets.

PENSION PLAN BENEFITS

For fiscal year 2016, TRS paid pension benefit payments to more than 393,914 retirees and their beneficiaries totaling \$9.4 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 Aug. 31, 2016, the System had a funded ratio of 79.7 percent with an Unfunded Actuarial Accrued Liability of \$35.5 billion. The slight decrease in the funded ratio was expected as part of TRS' long-term path to actuarial soundness, which should see the ratio rise again above 80 percent. The increased unfunded actuarial liability was also expected as part of our long-term path following the changes adopted by the Texas Legislature two years ago when contributions began to increase and new member eligibility requirements were changed. The System is now deferring net investment losses of \$4.8 billion.

The period of time necessary to amortize the unfunded liability has increased from 33.3 years to 33.6 years. Given that current contributions cannot amortize the unfunded liability in less than 31 years, the System does not meet the definition for actuarial soundness. The increase in the period of time necessary to amortize the unfunded liability was anticipated and is partially due to the phasing in of contribution rate increases adopted by the 83rd Texas Legislature. In 2013, the Legislature adopted Senate Bill 1458 that provided a stair-step increase in the member contribution rate from 6.4 percent in FY 2014 to 7.7 percent in FY 2017. The member contribution rate for FY 2016 was 7.2 percent.

Letter of Transmittal

While the increased contribution rates are an actuarial gain to the System, the phased-in approach has partially contributed to the funding period and unfunded liability growth. The state contribution rate for FY 2016 was 6.8 percent, and in FY 2015 school districts that do not participate in Social Security began paying a 1.5 percent contribution rate to the System.

Also impacting the growth of the unfunded liability was our 7.4 percent market return during FY 2016, which was slightly lower than our 8 percent assumed rate of return.

It is estimated that the unfunded liability and the funding period will both continue to increase over the next few years before beginning to once again decline. However, the funding period is anticipated to remain a finite number until the unfunded liability is amortized and the pension fund is fully funded.

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 Aug. 31, 2016. The valuation results indicate that TRS-Care has an Unfunded Actuarial Accrued Liability of \$49.6 billion. The plan was 1.3 percent funded as of the end of the fiscal year 2016. More detailed information about the valuation results is included in the Notes to the Financial Statements and the Required Supplementary Information.

To further address solvency, the TRS Board of Trustees made plan design changes for the first time in more than a decade; however, because of a legislative directive, retiree contributions did not change. 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 is insufficient to sustain the TRS-Care Program. The state legislature infused \$768 million into the program as a measure intended to ensure solvency of the TRS-Care fund through the FY 16-17 Biennium. The 84th Legislature also created a joint interim committee to study TRS-Care and also TRS-ActiveCare. Current projections to the TRS-Care balance show a shortfall ranging from \$1.3 to \$1.6 billion for the 2018-19 biennium. TRS will continue working with the legislature and the committee to address the ongoing solvency and affordability of TRS-Care.

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-ActiveCare receives funding from the state in the amount of \$75 per employee per month and participating entities are required to provide at least \$150 per employee per month. Active employees pay premiums established by TRS to pay for the cost of the program. The TRS Board of Trustees approved a modest increase in premiums and plan design changes for fiscal year 2017. As noted above, the 84th Legislature created a joint interim committee and TRS will continue to work with the legislature on options to improve the affordability of TRS-ActiveCare.

AGENCY HIGHLIGHTS

During the past year, TRS continued progress on the TRS Enterprise Application Modernization (TEAM) Program. We launched the Reporting Entity Certification Portal for employers throughout the state to certify that they can use the new system, which is currently scheduled to go live in September 2017. TRS also completed the redesign of our website. The new site, launched in September, automatically customizes visitors' view depending on whether they are using a desktop computer or mobile device. The site also offers enhanced search and global navigation functions, enables

Letter of Transmittal

searches by topic area as well as by a visitor's role or relationship with TRS, and offers improved access for persons with disabilities.

During 2016, TRS also began work on a series of videos to help members learn about retirement self-sufficiency. In the series of short animated whiteboard videos, a cast of characters will walk members through three important concepts: "what you have – your TRS defined benefit plan;" "what you need – to save more;" and "how to get it – by saving smart." The series will cover a variety of topics, including how members can estimate their TRS benefit, learn how receiving TRS benefits may affect their Social Security benefits, and estimate how inflation could impact their TRS benefits. Most videos will cover topics applicable to all members, some will target early and mid-career members, and others will focus on members nearing retirement.

The past year marked the one-year anniversary of the opening of TRS' investment office in London. TRS opened the office to generate more deal flow and direct investment opportunities, and it has delivered on that goal. Even though our London presence is very small, it has enabled TRS to hit the ground running and identify new investment opportunities in real time – a particular advantage in the past year during Brexit when quick reaction times and being close to where the action is provided us with a distinct advantage over many competitors. The office continues to build upon our reputation as a leading institutional investor and enables us to strengthen our investment relationships with key players overseas.

TRS also completed a remote counseling pilot project to determine whether counseling sessions conducted through the internet could be offered as an option for members. Remote counseling allows members with a computer or tablet and an internet connection to meet with a benefit counselor without traveling to Austin. As a result of this successful pilot project, beginning in September 2016, members will have the option of either a remote or in-person appointment with a TRS benefit counselor.

Thanks to the hard work and dedication of its employees, TRS was named a "Top Workplace" by the *Austin American-Statesman* for the fifth year in a row.

ACKNOWLEDGMENTS

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

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

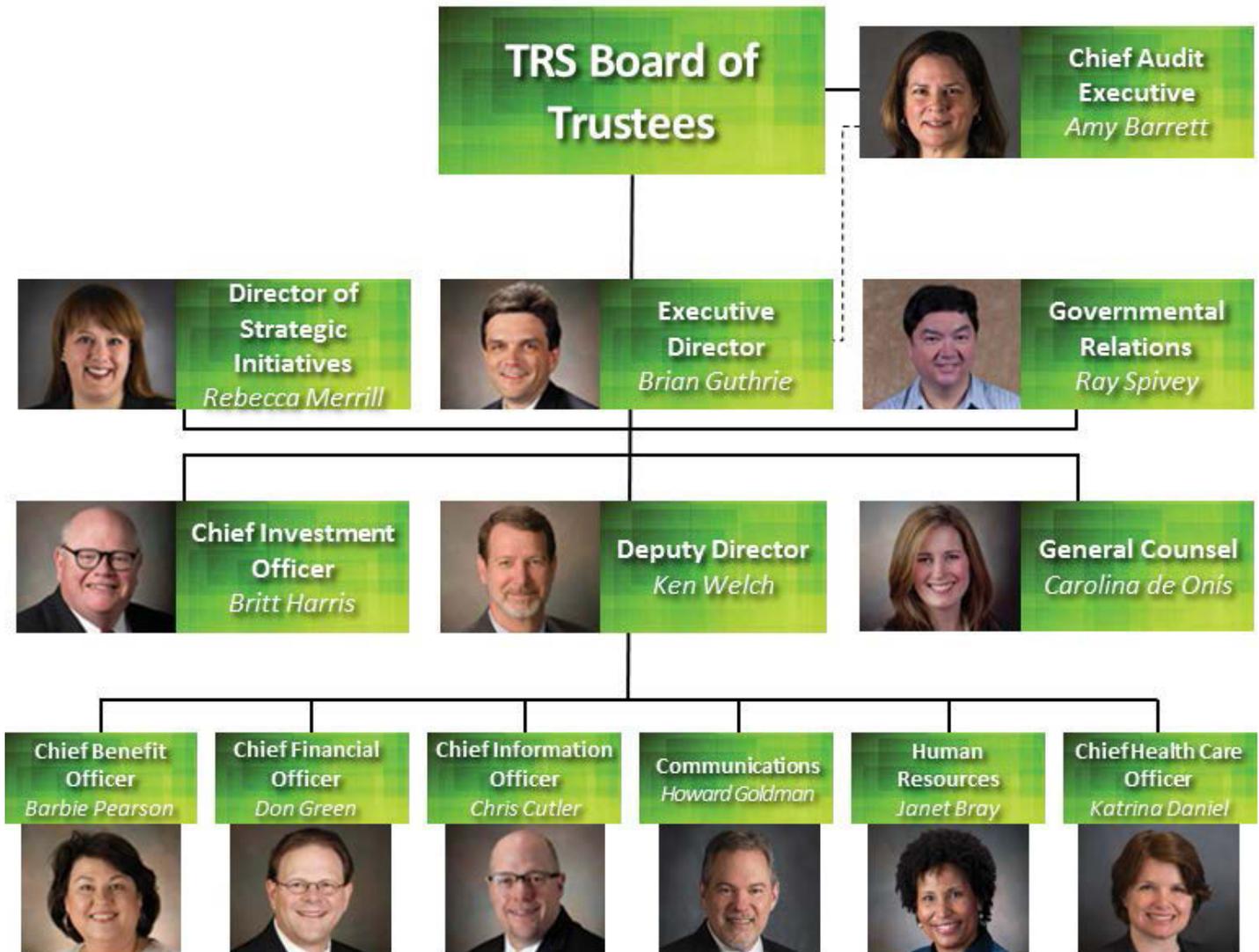
TRS trustees and staff are keenly focused on prudent pension trust fund portfolio management and efficient, service-oriented delivery of valuable retirement and related benefits for public education employees and retirees. We are pleased to report on operational results for the year and to acknowledge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

Respectfully submitted,



Brian K. Guthrie
Executive Director

Organization Chart



On Sept. 1, 2016, Merita Zoga was named director of governmental relations, and Ray Spivey, former director of governmental relations, was named as special advisor to the executive director.

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*
 Barbie Pearson, *Chief Benefit Officer*
 Don Green, *Chief Financial Officer*
 Katrina Daniel, *Chief Health Care Officer*
 Chris Cutler, *Chief Information Officer*
 Howard J. Goldman, *Director, Communications*
 Ray Spivey, *Director, Governmental Relations*
 Janet L. Bray, *Director, Human Resources*
 Rebecca K. Merrill, *Director, Strategic Initiatives*

GENERAL INVESTMENT CONSULTANT

Aon Hewitt Investment Consulting, Inc., Chicago, IL

CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

INTERNATIONAL TAX CONSULTING AND COMPLIANCE SERVICES

Ernst & Young, LLP, Austin, TX and London, England

INVESTMENT CONSULTANTS

Albourne America, L.L.C., San Francisco, CA (Absolute Return)
 BlackRock Investment Management, L.L.C., New York, NY (Private Equity Co-investments)
 Frank Fernandes, Austin (Intern Program)
 Green Street Advisors, Inc., Newport Beach, CA (Real Estate)
 Grosvenor Capital Management, L.P., Chicago, IL (Emerging Managers)
 Hamilton Lane Advisors, L.L.C., San Francisco, CA and Bala Cynwyd, PA (Private Equity)
 LaSalle Investment Management, Inc., Chicago, IL (Real Estate)
 Leading Edge Investment Advisors, L.L.C., San Francisco, CA (Emerging Managers)
 The Rock Creek Group, L.P., Washington, D.C. (Emerging Managers)
 The Townsend Group, Inc., Cleveland, OH (Real Estate)

Tudor, Pickering, Holt & Co., L.L.C., Houston (Energy and Natural Resources)
 Valuation Research Corporation, New York, NY (Private Investment Valuation)
 W.D. Von Gonten & Co., Houston (Oil and Gas)

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

Bill Barnes, Haslet
 Marcia McNeil, Austin
 Grace Mueller, McQueeney
 Teresa Koehler, Houston
 Dr. Celeste Cardenas, McAllen
 Dr. H. John Fuller, Mineola
 Dr. Bruce Gearing, Austin
 Jesus H. Soto, San Antonio
 Andrea Avery, Lancaster

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

On Sept. 1, 2016, Merita Zoga was named director of governmental relations, and Ray Spivey, former director of governmental relations, was named as special advisor to the executive director.

For a schedule of fees and commissions, please refer to the Investment Section.

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, 2016, participating employers included the

Public School Districts	1,025
Charter Schools	173
Community and Junior Colleges	50
Senior Colleges and Universities	49
Regional Service Centers	20
Medical Schools	9
Other Education Districts	5
State Agencies	1
	1,332

Member Categories

	2016	2015
Current Members:		
Active Contributing	847,631	828,851
Deferred Retirement Option	42	94
Inactive Non-vested	167,275	161,295
Inactive Vested	95,078	91,265
Total Current Members	1,110,026	1,081,505
Retirement Recipients:		
Service	370,761	355,384
Disability	9,650	9,495
Survivor	13,503	12,859
Total Retirement Recipients	393,914	377,738
TOTAL MEMBERSHIP	1,503,940	1,459,243

Population Changes

	2016	2015
Active Membership:		
New Members	97,729	96,854
Members Withdrawing	(38,459)	(38,519)
Service Retirements	(20,833)	(20,247)
Disability Retirements	(791)	(777)
In-Service Deaths	(1,386)	(1,267)
Other Changes	(7,739)	(5,964)
NET INCREASE	28,521	30,080
Retired Membership:		
Retirements	21,624	21,024
Deaths After Retirement	(8,355)	(8,138)
Option Continuations	2,601	2,331
Other Changes	306	(661)
NET INCREASE	16,176	14,556

Active Member Profile

	2016	2015
Average Annual Salary	\$46,343	\$44,787
Average Age	44.5	44.6
Average Years of Service	10.2	10.3

Annuitant and Beneficiary Profile

	2016	2015
Average Monthly Annuities		
Life Annuities	\$2,035	\$2,012
Disability Annuities	\$1,231	\$1,226
Annuities Certain	\$1,108	\$1,075
Average Age of Current Retirees	70.9	70.8
Average Age at Retirement		
All Retirees	60.1	60.0
Current Year Retirees	61.8	61.7
Average Years of Service		
All Retirees	24.3	24.4
Current Year Retirees	23.4	23.2
Average Salary at Retirement		
All Retirees	\$43,800	\$42,962
Current Year Retirees	\$51,962	\$50,813
Ratio of Current Members to Retirees	2.8 to 1	2.9 to 1

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

Membership of TRS-Care is eligible to TRS public school retirees.

Member Categories

	2016	2015
Retirees	200,231	194,619
Surviving Spouses	6,351	6,071
Surviving Children	106	105
Dependent Spouses and Children	54,840	52,236
TOTAL	261,528	253,031

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

Membership of TRS-ActiveCare includes employees of public school districts, open enrollment charter schools, regional service centers and other educational districts.

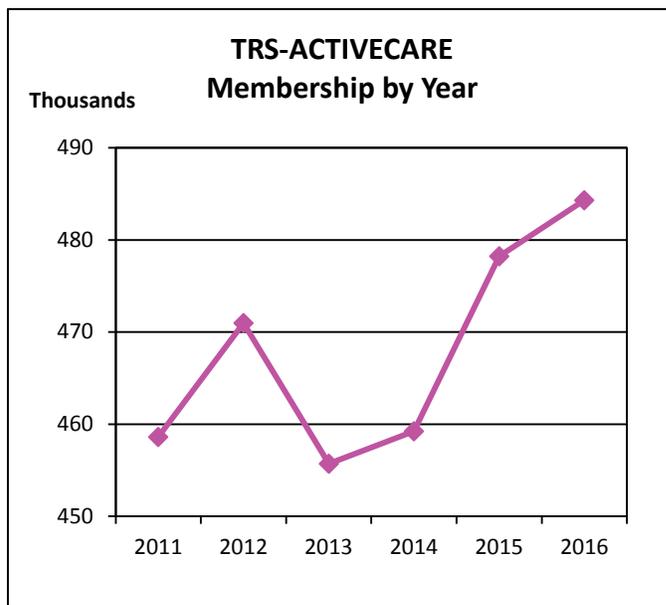
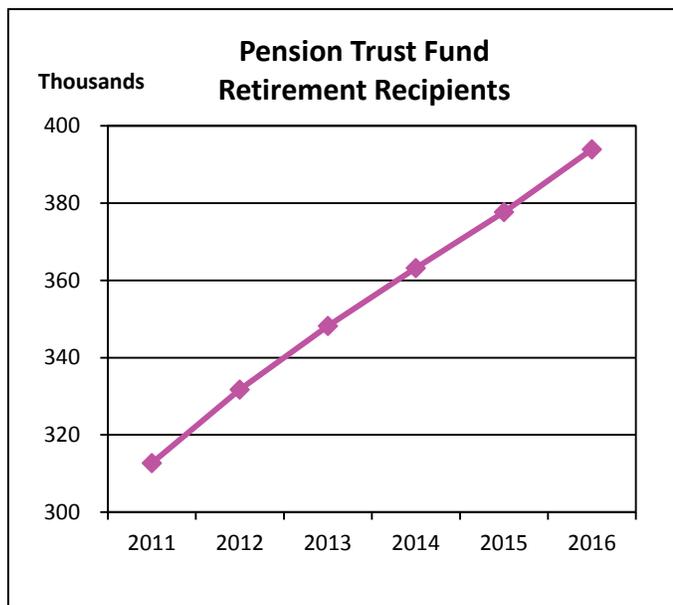
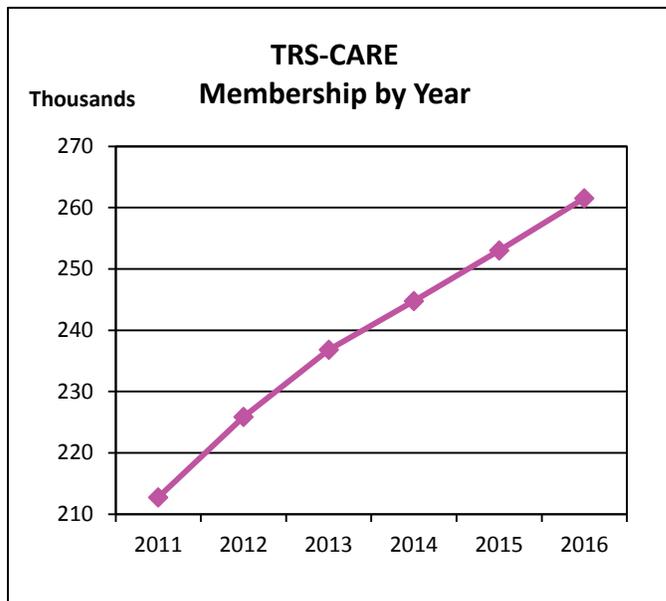
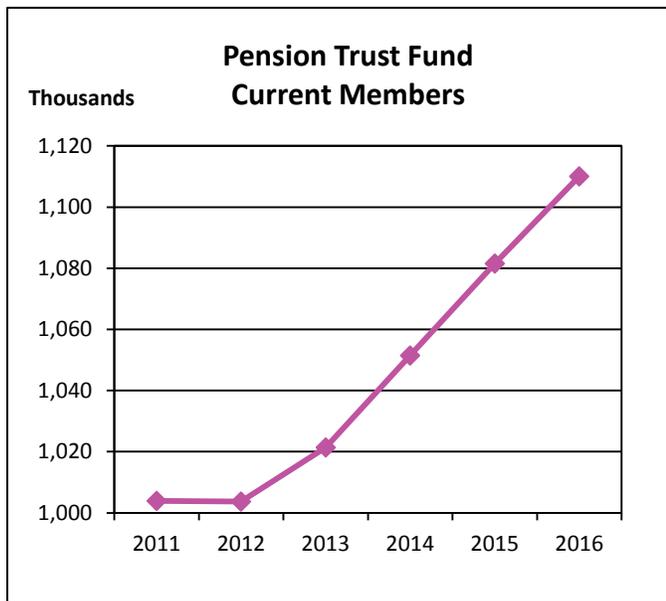
Member Categories

	2016	2015
Employees	296,523	290,354
Dependents	187,793	187,887
TOTAL	484,316	478,241

As of August 31, 2016 there were 1,101 participating employers.

Membership

Using the data presented on the previous page, the following presents a graphical view of the growth of the system for Current Members, Retirement Recipients, TRS-Care and TRS-ActiveCare as of August 31, 2016.



Communications

During fiscal year 2016, TRS communicated with 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 2016, TRS published three TRS News issues to provide members and retirees with important information relating to their benefits. Employers also received TRS-related information through nine Update newsletters. Annual statements were distributed in October to all active members of the system. In early 2016, TRS published a high-level summary of its Comprehensive Annual Financial Report for the first time. TRS also published a number of other publications for members and retirees, including brochures and other materials related to TRS pension and health care benefits.

THE INTERNET

Over the past year, the TRS website received a total of 3,470,048 visits, representing a 4.2 percent increase from 3,328,859 visits in the previous fiscal year. In addition, 1,734,049 unique visitors used the site during fiscal year 2016 — a .1 percent increase from 1,732,348 visitors in fiscal year 2015.

MyTRS was promoted during the year through email, newsletter articles, social media, and the agency website. As of Aug. 31, 2016, 553,521 members and retirees had registered to participate in MyTRS, nearly 12.79 percent more than in the previous year.

In fiscal year 2016, TRS undertook a project to redesign its external website. The new site was launched in September 2016. The new site features a "responsive design" that customizes the view for visitors based on whether they are viewing it from a desktop computer, laptop or mobile device. The new site features enhanced how-to, search and global navigation functions. It also enables visitors to search by topic as well as by their role or relationship to TRS such as member, retiree, beneficiary or TRS-covered employer. The site also offers improved access to persons with disabilities, reducing the need for those visitors to resize documents or scroll through multiple website pages to find the information they are seeking.

SOCIAL MEDIA

In 2015-16, TRS broadened its engagement through social media with a growing number of members, retirees, and others. In fiscal year 2016, TRS recorded more than 9,655 Facebook likes, 3,014 followers on LinkedIn and 2,643 followers on Twitter. In addition, TRS videos were viewed 89,266 times on YouTube. During the year, TRS expanded its use of LinkedIn to attract and recruit new employees through a Career Page managed by Human Resources.

WEBCASTING OF BOARD MEETINGS

As part of its commitment to open and transparent communication, TRS continued to webcast board meetings during the past year. 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 on-demand playback. All TRS board meetings are archived on the TRS website where individual agenda items can be easily accessed through an online catalog.

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 members and retirees at more than 30 conventions around the state and provided updates on TRS developments. These meetings provide an opportunity for TRS representatives to meet with

Communications

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

In 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 11,990 people attended 172 group presentations, and 15,450 people attended four conventions where TRS was represented. In addition, 9,636 people visited individually with a TRS counselor – 9,242 in Austin and 394 in field office visit locations. Fiscal year 2016 was the tenth year that one-on-one retirement counseling sessions were offered in limited field locations throughout Texas (450 available appointments in 10 cities).

TELECOMMUNICATIONS

In fiscal year 2016, the agency's Benefit Counseling department handled a total of 506,362 calls. In addition, 205,590 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-Care staff and contractors responded to 584,908 calls. TRS-ActiveCare staff and contractors responded to 354,629 calls, a 23 percent reduction in call volume from the prior fiscal year.

COORDINATION WITH REPORTING ENTITIES

The TRS Reporting and Query System (TRAQS), the agency's internet-based reporting system for employers, had 1,332 reporting entities submit monthly reports to TRS by year end. During the year, seven professional association and software user group presentations were attended by 302 people. Five participating employers traveled to TRS for onsite training, and 20 face-to-face conference training sessions were conducted for reporting officials, which were attended by a total of 1,384 reporting entity personnel. Additionally, 109 face-to-face sessions were held throughout the state to train reporting entity personnel on the new TRS Reporting Entity Portal, which is part of the larger Line of Business implementation. A total of 1,833 reporting entity personnel attended these training sessions.

TRS expanded outreach to TRS-ActiveCare stakeholders in fiscal year 2016, more than doubling the number of in-person meetings and significantly increasing online resources. TRS-ActiveCare contractors held 52 in-person trainings around the state and five live webinars for benefits administrators. Online tools continued to grow in importance as a means to communicate information to TRS-ActiveCare benefits administrators and plan participants. On-demand webinars about annual enrollment and plan changes were accessed 12,431 times. Throughout the year, the TRS-ActiveCare website was viewed 292,237 times by 188,149 unique visitors. More than 50,000 visitors accessed coverage documents through the website, and there were 32,171 visits to view or print an identification card. ALEX, an online benefits counselor that provides an overview of plan options, also launched in fiscal year 2016, and there were 22,753 visits to ALEX during annual enrollment.

FINANCIAL AWARENESS INITIATIVES

During the past fiscal year, TRS developed an outreach program to help members learn about retirement self-sufficiency through a series of financial awareness videos. Through these short, animated whiteboard videos, a cast of characters will guide viewers through three important concepts: "what you have – your TRS defined benefit plan;" "what you need – to save more;" and "how to get it – by saving smart." The series will cover a variety of topics, including how to estimate TRS benefits, understanding how TRS benefits may affect members' Social Security benefits, and the impact of inflation on their TRS benefits. Most videos will cover topics applicable to all members. However, some will target early- and mid-

Communications

career members, and others will target members nearing retirement. TRS began releasing the videos in September 2016 and plans to continue releasing them through early 2017.

HEALTH CARE COMMUNICATION INITIATIVES

TRS is dedicated to helping participants in its health plans make health care decisions that are right for them. Communication is key to this objective. In fiscal year 2016, the Health and Insurance Benefits Department added staff dedicated to health care communications. TRS developed a new “Medicare 101” video that explains how Medicare and TRS health plans work together. In the last quarter of the fiscal year, TRS developed a plan to communicate changes to retiree health plans approved by the TRS Board at its June 2016 meeting. The plan includes direct mail, online resources, and social media outreach. TRS health plan administrators also committed to lead more than 100 face-to-face meetings across the state in the first quarter of fiscal year 2017 to educate participants about the changes to retiree health plans.

Financial Section

WHAT ARE THE FACTORS USED TO CALCULATE YOUR BENEFIT?

32	X	\$600,000	X	2.3%	=	\$44,160
YEARS SERVICE CREDIT		FINAL AVERAGE SALARY		MULTIPLIER		STANDARD ANNUITY

≈ 74%

A cartoon fish is drawn on the tablet screen, with the text "≈ 74%" written next to it.

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Independent Auditor's Report

Teacher Retirement System Board of Trustees

Mr. R. David Kelly, Chairman
Ms. Dolores Ramirez, Vice Chair
Ms. T. Karen Charleston
Mr. Joe Colonna
Mr. David Corpus
Mr. John Elliott
Dr. Greg Gibson
Mr. Christopher Moss
Ms. Anita Smith Palmer

Report on the Financial Statements

We have audited the accompanying financial statements of the major enterprise fund 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, 2016, 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. 17-303

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise fund and aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund of the System, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Teacher Retirement System Financial Statements

As discussed in Note 1, the financial statements of the System, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the major enterprise fund and the aggregate remaining funds information 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, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Investments with Values that are not Readily Determined

As discussed in Note 3, the financial statements include investments valued at approximately \$52.1 billion as of August 31, 2016, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Employer's Net Position Liability and Related Ratios, Schedule of Employer's Net Pension Liability (Historical), Schedule of Employer and Non-Employer Contributing Entity Actuarially Determined Contributions (including the note to that schedule), Schedule of Investment Returns, Schedule of Funding Progress, and Schedule of Contributions from Employers and Other Contributing Entities, as listed in the table of contents 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 are 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, Statistical and Benefits sections have 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued 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.



Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

November 17, 2016

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, 2016. The information presented here should be considered in conjunction with other areas of the Financial Section as well as information presented in the Executive Director's Letter of Transmittal in the Introductory Section of the *TRS Comprehensive Annual Financial Report*.

FINANCIAL HIGHLIGHTS

The net position of the TRS Pension Trust Fund was \$134 billion as of August 31, 2016, an increase of 4.3%, in fiscal year 2016.

- As of August 31, 2016, 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 79.7%, which is a slight decrease from the level at August 31, 2015. The unfunded actuarial accrued liability increased to \$35.5 billion, from the \$33 billion reported at August 31, 2015.
- The annual rate of return on investments for the pension fund for the year ended August 31, 2016 was 7.38%. The rate of return for fiscal year 2015 was (0.27%).
- The net position of TRS-Care was \$641.5 million as of August 31, 2016, a decrease of \$331.4 million from fiscal year end 2015.
- As of August 31, 2016, the date of the most recent actuarial valuation, TRS-Care trust fund's unfunded actuarial accrued liability was \$49.6 billion, which is more than the \$43.2 billion reported at August 31, 2015.
- TRS-ActiveCare had a net position of \$53.6 million as of August 31, 2016, a decrease of \$34.3 million or (39%) in fiscal year 2016.

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, 2016, and summarizes any changes in net position for the year then ended. The information available in each of these sections is summarized as follows:

Management's Discussion and Analysis

Fund Financial Statements

Individual fund financial statements are presented for all fiduciary and proprietary funds as of August 31, 2016 and for the year then ended. Comparative data in total as of August 31, 2015, and for the year then ended has also been presented with the exception of agency funds. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries, to pay health care benefits for covered participants, and to administer the 403(b) Administrative Program. Fiduciary funds presented include the Pension Trust Fund, TRS-Care and Agency Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of TRS. Proprietary funds account for business-type activities and include the TRS-ActiveCare and the non-major 403(b) Administrative Program enterprise funds.

Notes to the Financial Statements

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

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

Management’s Discussion and Analysis

Required Supplementary Information

Required supplementary information 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

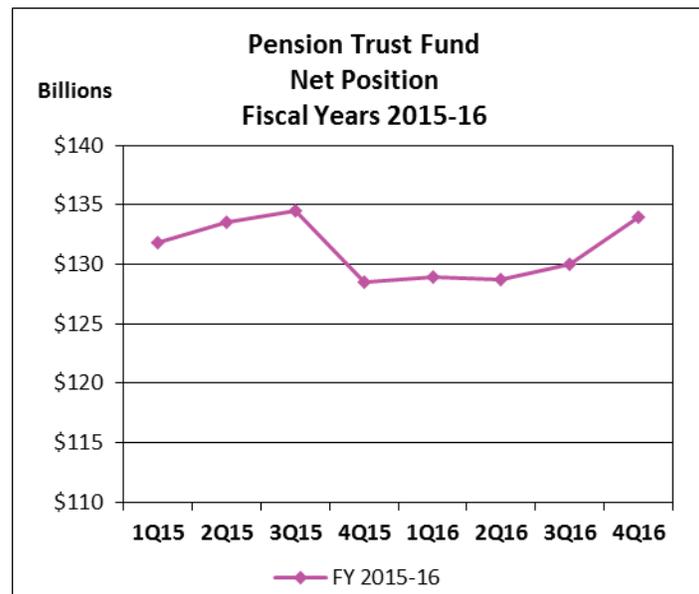
Other schedules include information on agency funds, changes in statutory reserve account balances, schedule of administrative expenses, investing activity expenses, and payments to consultants.

FINANCIAL ANALYSIS OF TRS FUNDS

Pension and Other Employee Benefit Trust Funds

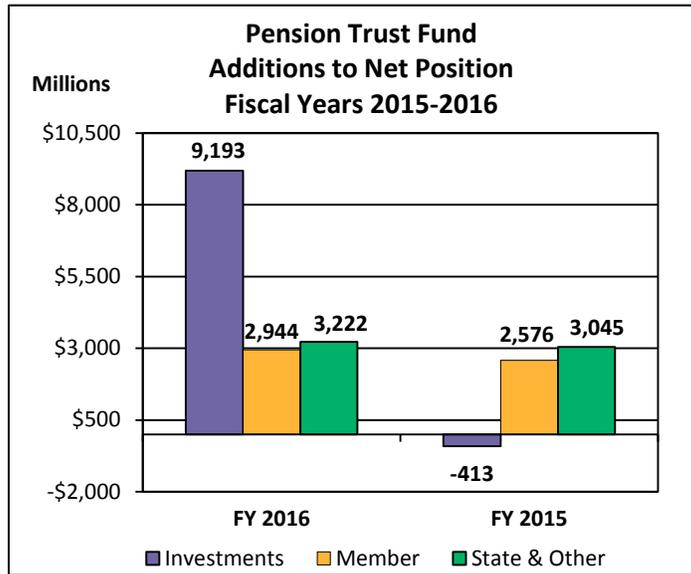
Pension Trust Fund

Net position held in trust for benefits at August 31, 2016 was \$134 billion, an increase of \$5.5 billion from the \$128.5 billion at August 31, 2015.

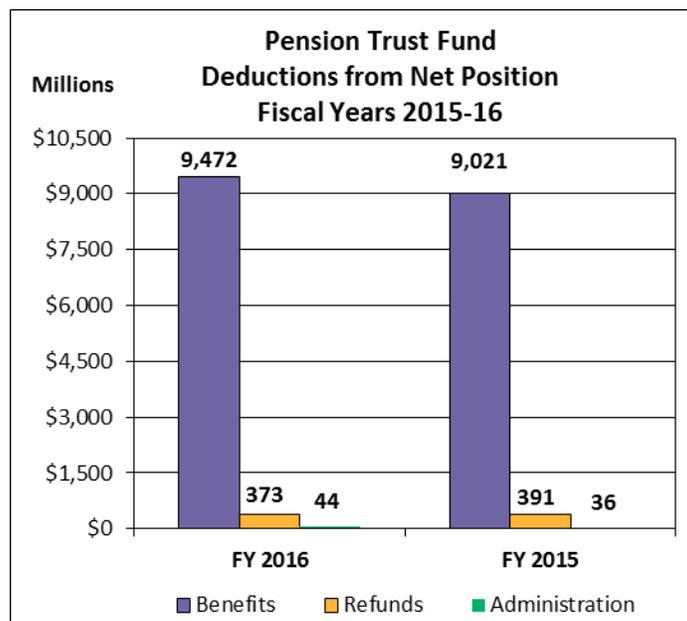


Refer to the following page for a graph of Additions to Net Position. Fiscal year 2016 investment gain was \$9.2 billion, an increase of \$9.6 billion from the \$412.8 million loss in fiscal year 2015. Current year income from member contributions was \$2.9 billion while state contributions and other additions totaled \$3.2 billion. Total contributions and other additions increased \$545.5 million, or 9.7%, during fiscal year 2016. An increase in the member contribution rate from 6.7% in fiscal year 2015 to 7.2% in fiscal year 2016, and normal payroll growth resulted in an increase in total contributions. The state contribution rate remained at 6.8% for fiscal year 2016.

Management's Discussion and Analysis



Deductions from TRS net position held in trust for benefits are predominantly retirement, death, and survivor benefit payments. During fiscal year 2016, retirement benefits and other payments totaled \$9.4 billion, an increase of approximately \$450 million, or 5%, from fiscal year 2015 payments of \$9 billion. Refunds of Contributions for fiscal year 2016 were \$373.4 million, a decrease of \$17.9 million from fiscal year 2015. Administrative expenses were \$44.4 million, an increase of \$8.8 million from fiscal year 2015. Administrative expenses, excluding investing activities expense, on a cost per member basis were \$29.52 for fiscal year 2016 as compared to \$24.37 in fiscal year 2015. Investment cost per member was \$157.92 for fiscal year 2016. Investment expense in basis points of net position was 18.53 for fiscal year 2016 and was calculated using average net asset value. Investment expense in basis points for fiscal year 2015 was 19.75.

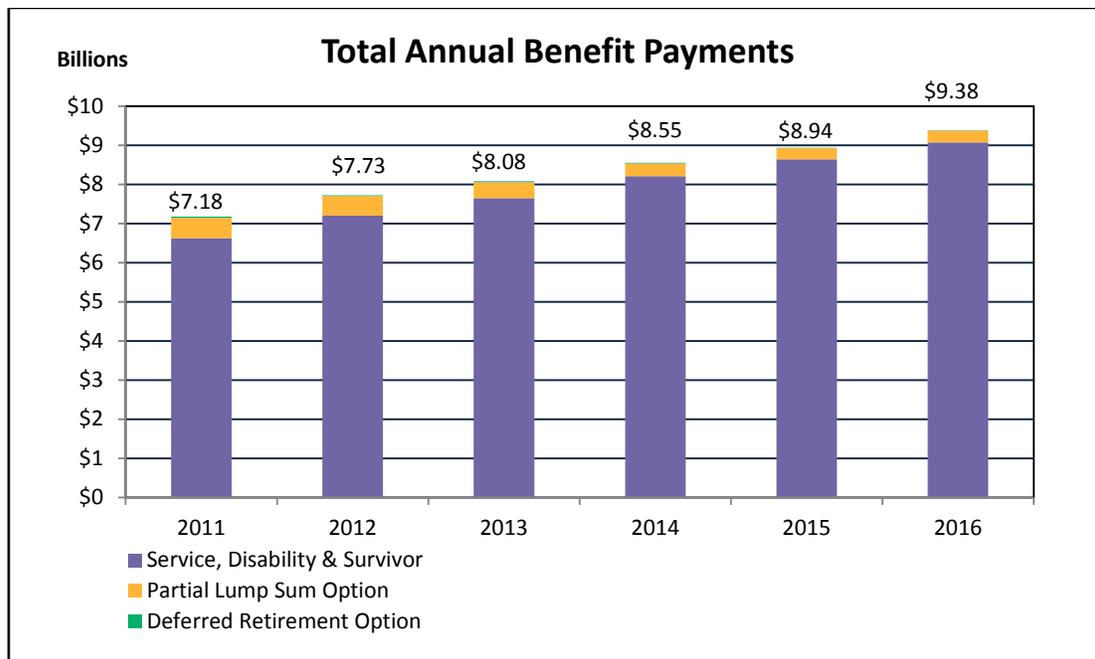


Management’s Discussion and Analysis

Growth of the System - As of August 2016, the monthly annuity payroll had grown to \$760 million, and TRS was paying benefits to 393,914 recipients. Refer to the following graph for details on benefit payments by type of recipient.

Service recipients include retirees and beneficiaries receiving continuing monthly annuity payments. Disability recipients are disabled members who are receiving continuing monthly disability payments. Survivor recipients are beneficiaries who have elected to receive death benefits in the form of monthly benefits. The number of retiree accounts increased by 16,176 during fiscal year 2016.

Of the current TRS member accounts, 847,673 (active contributing and deferred retirement option participants) were employed during fiscal year 2016 and made contributions to the system. The remaining 262,353 members are no longer employed by TRS covered employers, but have maintained their membership in TRS by leaving their contributions with the system. The number of current member accounts increased by 28,521 during fiscal year 2016.



TRS Enterprise Application Modernization (TEAM) is the name of the related projects that will modernize TRS technologies, allowing greater efficiency and flexibility in providing services to TRS membership. The Line of Business (LOB) project is in progress and will replace TRS' mainframe-based pension administration systems. In late September 2016, a totally redesigned TRS website will be unveiled with a more user-friendly design offering enhanced search functionality and navigation.

Management's Discussion and Analysis

Statement of Net Position - Pension Trust Fund

(Dollars in Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$1,965,622	\$3,311,486	(\$1,345,864)	(40.6) %
Investments	132,762,467	127,042,429	5,720,038	4.5
Invested Securities Lending Collateral	18,128,073	19,372,422	(1,244,349)	(6.4)
Capital Assets	69,485	53,725	15,760	29.3
TOTAL ASSETS	\$152,925,647	\$149,780,062	\$3,145,585	2.1 %
Liabilities				
Benefits Payable	\$138,542	\$760,271	(\$621,729)	(81.8) %
Investments Purchased Payable/Securities Sold Short	615,627	1,053,106	(437,479)	(41.5)
Accounts Payable and Other	46,817	48,495	(1,678)	(3.5)
Collateral Obligations	18,116,023	19,379,484	(1,263,461)	(6.5)
TOTAL LIABILITIES	\$18,917,009	\$21,241,356	(\$2,324,347)	(10.9) %
Total Net Position Restricted for Pensions	\$134,008,638	\$128,538,706	\$5,469,932	4.3 %

Statement of Changes in Net Position - Pension Trust Fund

(Dollars in Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percentage Change
Additions				
Member Contributions	\$2,943,669	\$2,576,024	\$367,645	14.3 %
State Contributions as Non-Employer Contributing Entity	1,675,631	1,591,483	84,148	5.3
Employer Contributions	1,483,389	1,377,973	105,416	7.7
Other	63,334	75,028	(11,694)	(15.6)
Investment Income/Loss	9,193,281	(412,759)	9,606,040	2,327.3
TOTAL ADDITIONS	\$15,359,304	\$5,207,749	\$10,151,555	194.9 %
Deductions				
Retirement Benefits and Other	\$9,471,551	\$9,021,388	\$450,163	5.0 %
Refunds of Contributions	373,419	391,341	(17,922)	(4.6)
Administrative Expenses	44,403	35,557	8,846	24.9
TOTAL DEDUCTIONS	\$9,889,373	\$9,448,286	\$441,087	4.7 %
Change in Net Position	\$5,469,931	(\$4,240,537)	\$9,710,468	229.0 %

On a GAAP basis, the overall financial condition of the fund increased during 2016 due to a net investment gain during the year of \$9.2 billion. In fiscal year 2015, there was a net investment loss of \$412.8 million. The 2016 investment gains were driven by strong returns in Public Equities and U.S. Treasuries and generally positive returns across most asset classes.

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, consideration should be given to the long time horizon of TRS investment performance. The time-weighted rate of return for the total Fund for the fiscal year ending August 31, 2016 is as follows:

- One-Year 7.38%
- Three-Year 7.78%
- Five-Year 7.98%
- Ten-Year 5.98%

The asset allocation investment categories and targets are determined by and subject to the System's Investment Policy Statement which is reviewed and adjusted by the Board of Trustees as necessary to aid the Fund in achieving a long-term portfolio return of 8%. The following table presents the actual investment allocations for fiscal year 2016 and 2015, compared to the target allocations for fiscal year 2016 and 2015.

	Fiscal Year 2016		Fiscal Year 2015	
	Target	Actual	Target	Actual
U.S.	18.9 %	20.1 %	19.8 %	20.6 %
Non-U.S. Developed	13.9	13.7	14.8	15.8
Emerging Markets	9.8	10.2	10.3	8.9
Directional Hedge Funds	4.1	3.8	4.6	4.9
Public Equity	46.8	47.8	49.5	50.2
Private Equity	12.0	12.0	11.8	12.5
TOTAL GLOBAL EQUITY	58.7 %	59.8 %	61.3 %	62.7 %
U.S. Treasuries	11.9 %	10.1 %	12.8 %	8.7 %
Absolute Return	0.0	1.9	0.0	2.3
Stable Value Hedge Funds	4.0	4.1	4.0	4.2
Cash	1.0	0.2	1.0	0.5
TOTAL STABLE VALUE	16.9 %	16.3 %	17.8 %	15.7 %
Global Inflation Linked Bonds	3.9 %	3.4 %	4.8 %	4.6 %
Real Assets	14.2	13.9	12.3	12.9
Energy and Natural Resources	1.9	1.9	1.6	1.8
Commodities	0.0	0.2	0.0	0.2
TOTAL REAL RETURN	20.0 %	19.4 %	18.7 %	19.5 %
TOTAL RISK PARITY	4.3 %	4.5 %	2.2 %	2.1 %
TOTAL	100.0 %	100.0 %	100.0 %	100.0 %

* Due to rounding, table may not foot.

Management’s Discussion and Analysis

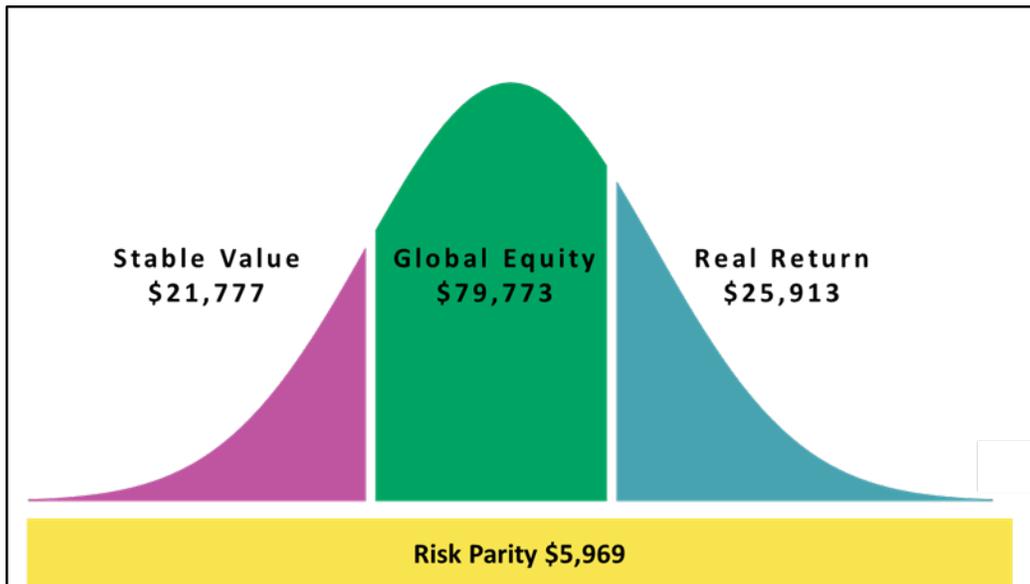
The annual money weighted rate of return, net of pension plan investment expense, was 7.27% for fiscal year 2016. At the end of fiscal year 2016 the Pension Trust Fund’s investment value was \$133.4 billion*, an increase of approximately \$5.5 billion from fiscal year 2015. TRS follows a diversified investment approach that focuses on the three most common economic scenarios. TRS is positioned to take advantage of any of these various market scenarios.

TRS has allocated 58.7% to Global Equity markets, which should perform well under favorable Gross Domestic Product (GDP) growth and moderate inflation, 16.9% to a Stable Value portfolio, which should perform well and minimize downside risk in stagnant GDP growth and low inflation, 20.0% to Real Return, which should perform well in low GDP growth and high inflation, and 4.3% to the Risk Parity strategy, which has a balanced exposure to all three economic scenarios. Looking ahead, with valuations across major asset classes being high relative to history and fundamentals, return expectations remain muted in the coming years. Divergence in the monetary policies of the US and other developed economies will persist as the Federal Reserve seeks to tighten financial conditions. China will manage its transition from an investment-led growth model to one fueled by domestic consumption, likely leading to slower growth in Asia and risks of financial shock. Ongoing shifts in the global financial system arising from regulatory and structural changes will present opportunities for TRS to use its comparative advantages of being large, unlevered, liquid and long-term towards seeking new opportunities to add value for the Trust.

Pension Trust Fund Total Investment Value

August 31, 2016

\$133,432,555,733



(Chart rounded to millions)

* Differences between the Total Investment Value above and Total Investments on Exhibit I are due to differences in reporting methodologies. The Total Investment Value includes Investment related cash, Investment related Receivables and Payables, Securities Sold Short, and External Manager Fees Payable. In accordance with GASB standards, these items are not included in the Total Investments on Exhibit I. A complete reconciliation of the two values is located on the Investment Summary Market Values page in the Investment Section.

Management’s Discussion and Analysis

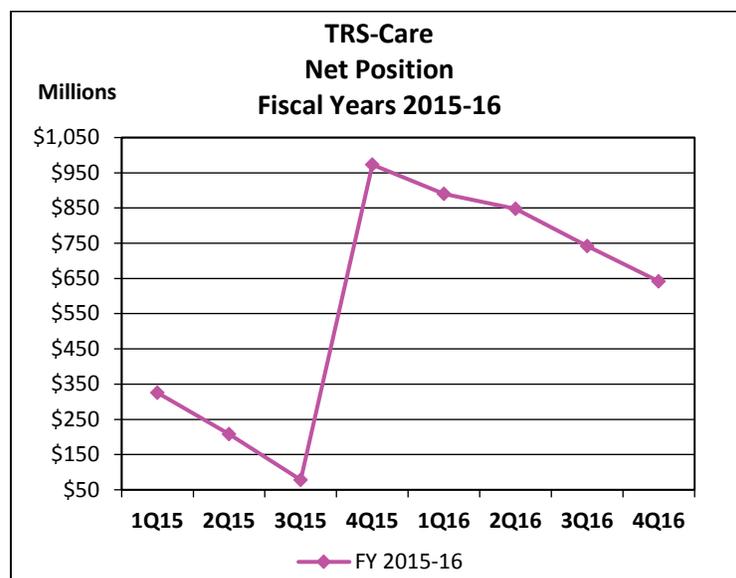
TRS-Care

The net position of TRS-Care at August 31, 2016 was \$641.5 million, a decrease of \$331.4 million from the \$972.9 million at August 31, 2015.

Additions to net position include premium contributions received from retirees, contributions received from active members, participating employers and the State, federal revenue and investment earnings. Total contributions of \$718.6 million increased by \$36.3 million from the \$682.3 million in fiscal year 2015 due to normal payroll growth.

Retiree premiums of \$374.7 million in fiscal year 2016 increased \$5.7 million from fiscal year 2015 due to growth in the retiree population. Federal revenue received in fiscal year 2016 includes Retiree Drug Subsidy (RDS) payments totaling \$18.8 million and Employer Group Waiver Plan (EGWP) subsidy payments totaling \$105.9 million. Investment income was \$5.4 million, an increase of \$3.9 million from the \$1.5 million in fiscal year 2015. Investment income increased due to the receipt of \$768 million in supplemental funding for fiscal years 2016-17. The supplemental appropriation was passed by the 2015 Texas Legislature under House Bill 2. Cash in the State Treasury decreased \$363.9 million in fiscal year 2016.

Deductions from net position totaled \$1.8 billion during fiscal year 2016. This is an increase of \$110 million or 6.6% over the \$1.7 billion in fiscal year 2015. The change is principally due to an increase in enrollment and health care cost inflation. Administrative expenses were \$4.7 million, an increase of 24.7% from fiscal year 2015. The increase was largely due to professional fees which included actuarial and legal fees to support a legislative committee analysis of TRS-Care and the annual claim audit of medical and pharmacy plan administrators. Deductions for Affordable Care Act mandated Patient-Centered Outcomes Research Institute (PCORI) and Transitional Reinsurance Program fees totaled \$2.9 million. The PCORI fees support research on clinical effectiveness of medical treatments. The Transitional Reinsurance Program provides support to insurers of high risk individuals.



Management's Discussion and Analysis

Statement of Net Position - TRS-Care

(Dollars in Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$777,316	\$1,134,174	(\$356,858)	(31.5) %
TOTAL ASSETS	\$777,316	\$1,134,174	(\$356,858)	(31.5) %
Liabilities				
Accounts Payables and Other	\$915	\$2,651	(\$1,736)	(65.5) %
Health Care Fees Payables	1,735	2,603	(868)	(33.3)
Health Care Claims Payables	133,180	156,001	(22,821)	(14.6)
TOTAL LIABILITIES	\$135,830	\$161,255	(\$25,425)	(15.8) %
Total Net Position	\$641,486	\$972,919	(\$331,433)	(34.1) %

Statement of Changes in Net Position - TRS-Care

(Dollars in Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percentage Change
Additions				
Member Contributions	\$208,582	\$198,196	\$10,386	5.2 %
State Contributions	297,071	281,098	15,973	5.7
Participating Employers and Other Contributions	212,936	202,977	9,959	4.9
Health Care Premiums	374,736	369,066	5,670	1.5
Rebates and Discount Income	218,995	231,569	(12,574)	(5.4)
Federal Revenue	124,740	126,807	(2,067)	(1.6)
Other Revenue	89		89	N/A
Investment Income	5,422	1,496	3,926	262.4
Supplemental Appropriation from State		768,101	(768,101)	(100.0)
TOTAL ADDITIONS	\$1,442,571	\$2,179,310	(\$736,739)	(33.8) %
Deductions				
Health Care / Insurance Premium and Payments	\$1,720,942	\$1,613,181	\$107,761	6.7 %
Health Care Claims Processing	45,485	42,873	2,612	6.1
Health Care Fees	2,876	4,508	(1,632)	(36.2)
Administrative Expenses	4,701	3,769	932	24.7
TOTAL DEDUCTIONS	\$1,774,004	\$1,664,331	\$109,673	6.6 %
Change in Net Position	(\$331,433)	\$514,979	(\$846,412)	(164.4) %

Management’s Discussion and Analysis

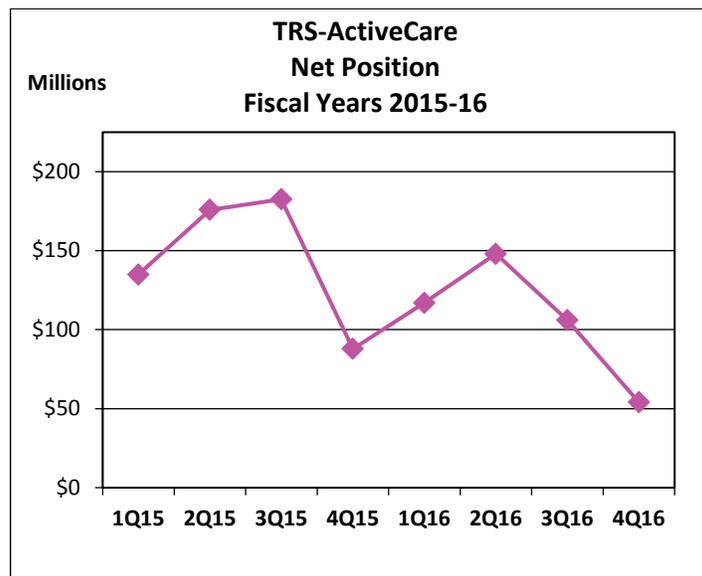
Enterprise Funds

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 was \$53.6 million at the end of fiscal year 2016, a decrease of \$34.3 million or 39% from fiscal year 2015.

Revenues for fiscal year 2016 included \$2.1 billion from health care premiums, an increase of \$130 million, or 6.7% over fiscal year 2015. This was primarily due to an increase in premiums. Investment income for the year was \$3.1 million, an increase of \$1.5 million, or 100% from fiscal year 2015. Other revenues for 2016 totaled \$356 thousand, an increase of \$119 thousand from fiscal year 2015.

Health care claims for fiscal year 2016 were \$1.8 billion, a \$203 million, or 13% increase over the \$1.6 billion in fiscal year 2015. Other expenses included claims processing costs of \$112 million, \$214.5 million for HMO premium payments, and \$2.6 million for administrative expenses. Health care fees mandated by the Affordable Care Act totaled \$13.8 million.



Management's Discussion and Analysis

Statement of Net Position - TRS-ActiveCare

(Dollars in Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$349,990	\$370,343	(\$20,353)	(5.5) %
TOTAL ASSETS	\$349,990	\$370,343	(\$20,353)	(5.5) %
Liabilities				
Accounts Payable and Other	\$347	\$262	\$85	32.4 %
Unearned Premium Revenue		715	(715)	(100.0)
Premiums and Fees Payable	25,195	28,177	(2,982)	(10.6)
Health Care Claims Payable	270,897	253,374	17,523	6.9
TOTAL LIABILITIES	\$296,439	\$282,528	\$13,911	4.9 %
Total Net Position	\$53,551	\$87,815	(\$34,264)	(39.0) %

Statement of Revenues, Expenses, and Changes in Net Position - TRS-ActiveCare

(Dollars in Thousands)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Percentage Change
Revenues (Operating and Non-Operating)				
Health Care Premiums	\$2,073,564	\$1,943,949	\$129,615	6.7 %
Investment Income	3,079	1,537	1,542	100.3
Other Revenue	356	237	119	50.2
TOTAL REVENUE	\$2,076,999	\$1,945,723	\$131,276	6.7 %
Operating Expenses				
Health Care Claims	\$1,768,287	\$1,565,256	\$203,031	13.0 %
Health Care Claims Processing	111,988	113,032	(1,044)	(0.9)
Health Care Fees	13,814	22,041	(8,227)	(37.3)
Premium Payments to HMO's	214,529	178,192	36,337	20.4
Administrative Expenses	2,645	2,226	419	18.8
TOTAL EXPENSES	\$2,111,263	\$1,880,747	\$230,516	12.3 %
Change in Net Position	(\$34,264)	\$64,976	(\$99,240)	(152.7) %

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

as of AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
ASSETS		
Cash		
Cash in State Treasury	\$ 313,880,686	\$ 496,179,205
Cash in Bank (Note 3B)	142,480,269	
Cash on Hand (Note 3B)	1,974,350	19,801
TOTAL CASH	\$ 458,335,305	\$ 496,199,006
Receivables		
Sale of Investments	\$ 943,213,488	\$
Interest and Dividends	218,746,465	404,228
Member and Retiree	1,068,010	30,811,237
Service Credit Purchases	10,311,624	
Participating Employers	272,842,305	26,667,825
Due from State's General Fund	58,916,173	18,766,094
Due from Employees Retirement System of Texas	1,812,677	
Prepaid Expenses and Deposits	69,608	
Other	306,790	204,468,000
TOTAL RECEIVABLES	\$ 1,507,287,140	\$ 281,117,384
Investments (Note 1F and 3)		
Short-Term Investment Fund	\$ 3,227,490,758	\$
Short-Term Foreign Currency Contracts	(14,948)	
Equity Investments	47,785,677,843	
Fixed Income Investments	20,483,627,614	
Alternative Investments	52,120,428,956	
Derivative Investments	41,503,506	
Pooled Investments	9,103,753,601	
TOTAL INVESTMENTS	\$ 132,762,467,330	\$ 0
Invested Securities Lending Collateral	\$ 18,128,072,568	\$ 0
Capital Assets (Note 2)		
Intangible Assets	\$ 10,727,011	\$
Less Accumulated Amortization	(9,920,670)	
Depreciable Assets	56,513,102	
Less Accumulated Depreciation	(33,114,122)	
Non-Depreciable Assets	45,279,732	
TOTAL CAPITAL ASSETS	\$ 69,485,053	\$ 0
TOTAL ASSETS	\$ 152,925,647,396	\$ 777,316,390

Fiduciary Fund Types		
Total Pension and Other Employee Benefit Trust Funds		Agency Funds Child Support Employee Deductions
2016	2015	
\$ 810,059,891	\$ 1,827,232,570	\$ 6,337
142,480,269	398,825,412	
1,994,151	3,087,674	
\$ 954,534,311	\$ 2,229,145,656	\$ 6,337
\$ 943,213,488	\$ 1,364,937,789	\$
219,150,693	215,209,214	
31,879,247	48,220,592	
10,311,624	26,393,340	
299,510,130	215,680,847	
77,682,267	161,771,779	
1,812,677	1,711,632	
69,608	66,819	
204,774,790	182,522,374	
\$ 1,788,404,524	\$ 2,216,514,386	\$ 0
\$ 3,227,490,758	\$ 3,373,532,192	\$
(14,948)	86,385	
47,785,677,843	47,167,558,671	
20,483,627,614	21,563,259,009	
52,120,428,956	48,186,507,871	
41,503,506	65,340,265	
9,103,753,601	6,686,145,072	
\$ 132,762,467,330	\$ 127,042,429,465	\$ 0
\$ 18,128,072,568	\$ 19,372,421,460	\$ 0
\$ 10,727,011	\$ 10,569,751	\$
(9,920,670)	(9,499,614)	
56,513,102	55,987,505	
(33,114,122)	(30,368,999)	
45,279,732	27,036,363	
\$ 69,485,053	\$ 53,725,006	\$ 0
\$ 153,702,963,786	\$ 150,914,235,973	\$ 6,337

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Statement of Fiduciary Net Position

as of AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
LIABILITIES (Note 1F)		
Accounts Payable	\$ 7,746,706	\$ 331,145
Payroll Payable	5,054,596	257,669
External Manager Fees Payable	17,619,651	
Benefits Payable	138,541,977	
Health Care Claims Payable		133,180,593
Fees Payable		1,734,759
Investments Purchased Payable	476,565,551	
Securities Sold Short	139,061,759	
Collateral Obligations	18,116,023,297	
Due to Employees Retirement System of Texas	7,706,962	
Employee Compensable Absences Payable (Note 4)	8,280,209	326,071
Unrealized Lease Incentives	344,916	
Other Liabilities	64,299	
Funds Held for Others		
TOTAL LIABILITIES	\$ 18,917,009,923	\$ 135,830,237
NET POSITION		
Net Investment in Capital Assets	\$ 69,485,053	\$
Restricted for Pensions/Other Post Employment Benefits	133,939,152,420	641,486,153
NET POSITION RESTRICTED FOR PENSIONS AND OTHER POST EMPLOYMENT BENEFITS	\$ 134,008,637,473	\$ 641,486,153

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

Fiduciary Fund Types		
Total Pension and Other Employee Benefit Trust Funds		Agency Funds Child Support Employee Deductions
2016	2015	
\$ 8,077,851	\$ 7,273,168	\$
5,312,265	5,254,057	
17,619,651	23,235,445	
138,541,977	760,271,035	
133,180,593	158,604,093	
1,734,759	0	
476,565,551	865,498,021	
139,061,759	187,607,731	
18,116,023,297	19,379,483,580	
7,706,962	7,065,544	
8,606,280	8,044,352	
344,916	273,495	
64,299	0	
		6,337
\$ 19,052,840,160	\$ 21,402,610,521	\$ 6,337
\$ 69,485,053	\$ 53,725,006	\$
134,580,638,573	129,457,900,446	
\$ 134,650,123,626	\$ 129,511,625,452	\$ 0

Statement of Changes in Fiduciary Net Position

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
ADDITIONS		
Contributions		
Member	\$ 2,943,669,320	\$ 208,581,990
State's General Fund - Non-Employer Contributing Entity	1,675,631,248	297,070,920
Employer		
State's General Fund	104,714,221	
Participating Employer Contributions	992,916,840	200,139,910
Surcharges		
Employment after Retirement-Employee	9,184,795	
Employment after Retirement-Employer	9,769,093	12,796,441
Non-OASDI Participating Employers	366,804,399	
Purchase of Service Credit-Refundable	18,818,999	
Purchase of Service Credit - Non-Refundable	18,570,535	
State Contributions for 415 Excess Benefit Arrangement	3,482,186	
Employees Retirement System of Texas:		
For Service Contributions	20,376,732	
For 415 Excess Benefit Arrangement	91,960	
Health Care Premiums		374,736,269
Federal Revenue (Note 6)		124,739,649
Rebate and Discount Income		218,995,436
Supplemental Appropriation from State		
TOTAL CONTRIBUTIONS AND PREMIUMS	\$ 6,164,030,328	\$ 1,437,060,615
Investment Income		
Investing Activities Income (Loss)*	\$ 9,338,243,204	5,421,446
Less: Investing Activity Expenses (Schedule 3)	(237,509,682)	
Net Income (Loss) from Investing Activities	\$ 9,100,733,522	\$ 5,421,446
From Securities Lending Activities:		
Securities Lending Income	\$ 165,668,053	
Securities Lending Expenses:		
Borrower Rebates	(62,836,239)	
Management Fees	(10,284,776)	
Net Income from Securities Lending Activities	\$ 92,547,038	\$ 0
TOTAL NET INVESTMENT INCOME	\$ 9,193,280,560	\$ 5,421,446
Other Additions		
Miscellaneous Revenue	\$ 1,993,029	\$ 89,388
TOTAL ADDITIONS	\$ 15,359,303,917	\$ 1,442,571,449

*Investing Activities Income (Loss) includes Interest from Investing Activities, Investment Dividends and Net Increase (Decrease) in Fair Value of Investments. This is a presentation change from the prior year.

Fiduciary Fund Types	
Total Pension and Other Employee Benefit Trust Funds	
2016	2015
\$ 3,152,251,310	\$ 2,774,220,584
1,972,702,168	1,872,581,346
104,714,221	93,079,033
1,193,056,750	1,115,734,063
9,184,795	7,481,714
22,565,534	19,798,438
366,804,399	344,855,875
18,818,999	23,508,475
18,570,535	26,580,631
3,482,186	2,151,359
20,376,732	18,989,008
91,960	65,227
374,736,269	369,066,459
124,739,649	126,806,652
218,995,436	231,569,472
0	768,100,754
<u>\$ 7,601,090,943</u>	<u>\$ 7,794,589,090</u>
\$ 9,343,664,650	\$ (233,932,606)
(237,509,682)	(259,203,853)
<u>\$ 9,106,154,968</u>	<u>\$ (493,136,459)</u>
\$ 165,668,053	\$ 120,970,871
(62,836,239)	(30,143,454)
(10,284,776)	(8,954,378)
<u>\$ 92,547,038</u>	<u>\$ 81,873,039</u>
<u>\$ 9,198,702,006</u>	<u>\$ (411,263,420)</u>
\$ 2,082,417	\$ 3,733,133
<u>\$ 16,801,875,366</u>	<u>\$ 7,387,058,803</u>

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Statement of Changes in Fiduciary Net Position

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	Fiduciary Fund Types	
	Pension and Other Employee Benefit Trust Funds	
	Pension Trust Fund	TRS-Care
DEDUCTIONS		
Benefits	\$ 9,379,122,730	\$
Refunds of Contributions - Active	366,039,111	
Refunds of Contributions - Death	7,379,576	
415 Excess Benefit Arrangement	3,286,875	
Benefits Paid to Employees Retirement System of Texas:		
For Service Contributions	88,854,383	
For 415 Excess Benefit Arrangement	287,271	
Health Care Claims and Insurance Premium Payments		1,720,941,708
Health Care Claims Processing		45,485,440
Patient-Centered Outcomes Research Institute Fee		347,059
Transitional Reinsurance Fee		2,528,652
Administrative Expenses, Excluding Investing Activity Expenses:		
Salaries and Wages	21,651,008	2,452,184
Payroll Related Costs	5,287,735	593,225
Professional Fees and Services	3,230,329	1,484,281
Travel	94,828	16,129
Materials and Supplies	3,298,412	33,160
Communications and Utilities	392,019	2,922
Repairs and Maintenance	5,035,767	
Rentals and Leases	754,018	55,335
Printing and Reproduction	81,888	42,841
Depreciation Expense	2,435,241	
Amortization Expense	421,057	
Gain/Loss on Capital Asset	832	
Other Expense	1,719,576	21,600
TOTAL DEDUCTIONS	\$ 9,889,372,656	\$ 1,774,004,536
Net Increase (Decrease) in Net Position	\$ 5,469,931,261	\$ (331,433,087)
NET POSITION: RESTRICTED FOR PENSIONS/OTHER POST EMPLOYMENT BENEFITS - BEGINNING OF YEAR	\$ 128,538,706,212	\$ 972,919,240
NET POSITION: RESTRICTED FOR PENSIONS/OTHER POST EMPLOYMENT BENEFITS - END OF YEAR	\$ 134,008,637,473	\$ 641,486,153

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

Fiduciary Fund Types	
Total Pension and Other Employee Benefit Trust Funds	
2016	2015
\$ 9,379,122,730	\$ 8,935,111,459
366,039,111	385,866,706
7,379,576	5,474,475
3,286,875	1,929,315
88,854,383	84,059,353
287,271	287,271
1,720,941,708	1,613,181,278
45,485,440	42,872,769
347,059	337,148
2,528,652	4,170,490
24,103,192	23,378,338
5,880,960	7,348,740
4,714,610	1,101,193
110,957	101,112
3,331,572	2,297,812
394,941	134,576
5,035,767	1,988,978
809,353	241,683
124,729	82,103
2,435,241	1,641,856
421,057	530,953
832	0
1,741,176	479,315
\$ 11,663,377,192	\$ 11,112,616,923
\$ 5,138,498,174	\$ (3,725,558,120)
\$ 129,511,625,452	\$ 133,237,183,572
\$ 134,650,123,626	\$ 129,511,625,452

Statement of Net Position**PROPRIETARY FUNDS**

AS OF AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
ASSETS		
Current Assets		
Cash		
Cash In State Treasury	\$ 336,782,123	\$ 277,351
TOTAL CASH	\$ 336,782,123	\$ 277,351
Receivables		
Interest	\$ 288,812	\$ 194
Health Care Premiums	12,919,356	
TOTAL RECEIVABLES	\$ 13,208,168	\$ 194
TOTAL ASSETS	\$ 349,990,291	\$ 277,545
LIABILITIES (Note 1F)		
Current Liabilities		
Accounts Payable	\$ 131,402	\$
Payroll Payable	120,330	5,338
Unearned Premium Revenue		
Fees Payable	7,535,944	
Premiums Payable to HMOs	17,658,919	
Health Care Claims Payable	270,897,392	
Employee Compensable Absences Payable (Note 4)	72,420	4,564
TOTAL CURRENT LIABILITIES	\$ 296,416,407	\$ 9,902
Non-Current Liabilities		
Employee Compensable Absences Payable (Note 4)	\$ 22,990	\$ 89
TOTAL NON-CURRENT LIABILITIES	\$ 22,990	\$ 89
TOTAL LIABILITIES	\$ 296,439,397	\$ 9,991
NET POSITION		
Restricted for Health Care Programs	\$ 53,550,894	\$
Restricted for Administrative Expenses		267,554
TOTAL NET POSITION	\$ 53,550,894	\$ 267,554

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

Total Enterprise Funds	
2016	2015
\$ 337,059,474	\$ 370,512,248
\$ 337,059,474	\$ 370,512,248
\$ 289,006	\$ 138,183
12,919,356	0
\$ 13,208,362	\$ 138,183
\$ 350,267,836	\$ 370,650,431
\$ 131,402	\$ 1,866
125,668	126,674
	714,480
7,535,944	13,508,000
17,658,919	14,669,296
270,897,392	253,374,387
76,984	101,787
\$ 296,426,309	\$ 282,496,490
\$ 23,079	\$ 39,595
\$ 23,079	\$ 39,595
\$ 296,449,388	\$ 282,536,085
\$ 53,550,894	\$ 87,815,276
267,554	299,070
\$ 53,818,448	\$ 88,114,346

Statement of Revenues, Expenses and Changes in Net Position**PROPRIETARY FUNDS**

For the Fiscal Year Ended AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
OPERATING REVENUES		
Health Care Premiums	\$ 2,073,563,707	\$
Administrative Fees	156,054	
Certification Fees		12,000
Product Registration Fees		3,000
TOTAL OPERATING REVENUES	\$ 2,073,719,761	\$ 15,000
OPERATING EXPENSES		
Health Care Claims	\$ 1,768,287,120	\$
Health Care Claims Processing	111,987,718	
Premium Payments to HMOs	214,529,160	
Patient-Centered Outcomes Research Institute Fees	683,288	
Transitional Reinsurance Fee	13,131,104	
Administrative Expenses:		
Salaries and Wages	1,170,092	41,185
Payroll Related Costs	220,837	7,453
Professional Fees and Services	1,190,957	
Travel	12,915	
Materials and Supplies	3,175	
Communications and Utilities	811	
Repairs and Maintenance		
Rentals and Leases	41,599	
Other Operating Expense	4,406	
TOTAL OPERATING EXPENSES	\$ 2,111,263,182	\$ 48,638
OPERATING INCOME (LOSS)	\$ (37,543,421)	\$ (33,638)
NON-OPERATING REVENUE		
Investment Income	\$ 3,079,039	\$ 2,122
Other Non-operating Revenue	200,000	
TOTAL NON-OPERATING REVENUES	\$ 3,279,039	\$ 2,122
Change in Net Position	\$ (34,264,382)	\$ (31,516)
TOTAL NET POSITION - BEGINNING OF YEAR	\$ 87,815,276	\$ 299,070
TOTAL NET POSITION - END OF YEAR	\$ 53,550,894	\$ 267,554

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

Total Enterprise Funds			
	2016		2015
\$	2,073,563,707	\$	1,943,949,265
	156,054		141,534
	12,000		27,000
	3,000		21,000
\$	<u>2,073,734,761</u>	\$	<u>1,944,138,799</u>
\$	1,768,287,120	\$	1,565,255,957
	111,987,718		113,032,001
	214,529,160		178,192,468
	683,288		939,522
	13,131,104		21,101,894
	1,211,277		1,233,066
	228,290		220,908
	1,190,957		782,921
	12,915		6,779
	3,175		943
	811		1,056
			250
	41,599		56,668
	4,406		1,271
\$	<u>2,111,311,820</u>	\$	<u>1,880,825,704</u>
\$	<u>(37,577,059)</u>	\$	<u>63,313,095</u>
\$	3,081,161	\$	1,538,768
	200,000	\$	95,215
\$	<u>3,281,161</u>	\$	<u>1,633,983</u>
\$	(34,295,898)	\$	64,947,078
\$	88,114,346	\$	23,167,268
\$	<u>53,818,448</u>	\$	<u>88,114,346</u>

Statement of Cash Flows**PROPRIETARY FUNDS**

For the Fiscal Year Ended AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Administrative Program
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Health Care Premiums	\$ 2,059,929,871	\$
Receipts from Long-Term Care Administrative Fees	156,054	
Receipts from Certification/Product Registration Fees		15,000
Payments for Administrative Expenses	(2,559,268)	(46,950)
Payments for Health Care Claims	(1,750,764,115)	
Payments for Health Care Claims Processing	(111,987,718)	
Payments for HMO Premiums	(211,539,537)	
Payments for Affordable Care Act Fees	(19,786,448)	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (36,551,161)	\$ (31,950)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Other Non-operating Revenue	\$ 200,000	
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	\$ 200,000	\$ 0
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	\$ 2,928,302	\$ 2,035
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 2,928,302	\$ 2,035
Net Increase (Decrease) in Cash	\$ (33,422,859)	\$ (29,915)
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 370,204,982	\$ 307,266
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 336,782,123	\$ 277,351
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (37,543,421)	\$ (33,638)
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/ Unearned Premium Revenue	\$ (13,633,836)	\$
Increase in Premiums Payable to HMOs	2,989,623	
Increase in Health Care Claims Payable	17,523,005	
(Decrease) in Affordable Care Act Fees Payable	(5,972,056)	
Increase (Decrease) in Accounts Payable	129,907	(370)
Increase (Decrease) in Payroll Payable	(176)	(830)
Increase (Decrease) in Employee Compensable Absences Payable	(44,207)	2,888
Total Adjustments	\$ 992,260	\$ 1,688
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (36,551,161)	\$ (31,950)

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

Total Enterprise Funds	
2016	2015
\$ 2,059,929,871	\$ 1,945,240,439
156,054	141,534
15,000	48,000
(2,606,218)	(2,433,998)
(1,750,764,115)	(1,487,764,675)
(111,987,718)	(113,032,001)
(211,539,537)	(176,256,324)
(19,786,448)	(27,333,416)
\$ (36,583,111)	\$ 138,609,559
\$ 200,000	\$ 95,215
\$ 200,000	\$ 95,215
\$ 2,930,337	\$ 1,475,767
\$ 2,930,337	\$ 1,475,767
\$ (33,452,774)	\$ 140,180,541
\$ 370,512,248	\$ 230,331,707
\$ 337,059,474	\$ 370,512,248
\$ (37,577,059)	\$ 63,313,095
\$ (13,633,836)	\$ 1,291,174
2,989,623	1,936,144
17,523,005	77,491,282
(5,972,056)	(5,292,000)
129,537	(126,471)
(1,006)	13,055
(41,319)	(16,720)
\$ 993,948	\$ 75,296,464
\$ (36,583,111)	\$ 138,609,559

Notes to the Financial Statements

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Teacher Retirement System of Texas (TRS or system) is 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 operation 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 as follows:

- Three are direct appointments by the Governor.
- Two appointments are from a list nominated by the State Board of Education.
- Two appointments are from three public school district active members nominated by employees of public school districts.
- One appointment is from three higher education active members nominated by employees of institutions of higher education.
- One appointment is from three retired member candidates 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 multiple-employer, cost-sharing, defined benefit plan with a special funding situation 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 Texas Insurance Code, Title 8, Subtitle H, Chapter 1575 and Texas Administrative Code, Title 34, Part 3, Chapter 41. The inception of the plan was fiscal year 1986.

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

Notes to the Financial Statements

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

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

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

The 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.

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.

Notes to the Financial Statements

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

C. NEW ACCOUNTING PRONOUNCEMENTS

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

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued February 2015 and is effective for fiscal years beginning after June 15, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes, applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued in June 2015 and is effective for fiscal years beginning after June 15, 2015. This statement identifies the hierarchy of the sources of accounting principles used to prepare financial statements in conformity with GAAP and the framework for selecting those principles.

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, 2015, from which the summarized information was derived.

For fiscal year 2016, Investing Activities Income (Loss) includes Interest from Investing Activities, Investment Dividends and Net Increase (Decrease) in Fair Value of Investments. This information was presented separately for fiscal year 2015.

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 2016 and 2015, contributions were made by the State of Texas to the retirement system at the rate of 6.8% of the aggregate compensation paid to active retirement system members for each year. Although appropriated by the legislature, administrative expenses and capital outlay for the Pension Trust Fund are paid from the fund's Expense Account, and not from the state's General Fund.

TRS-Care received contributions from the state's General Fund equal to 1.00% of salaries paid to public education employees in fiscal year 2016. Administrative expenses for this program are paid from the trust fund.

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

Cash and Cash Equivalents

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

Receivables

Receivables represent the amount of money owed to TRS for goods or services delivered or used that have not been received at fiscal year-end.

- *Sale of Investments* receivables occur when 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 on bank accounts and other investments that TRS earned in the current fiscal year but did not receive until after fiscal year-end.
- *Member and Retiree* receivables represent contributions that are due from members for the current fiscal year but not received until after fiscal year-end.
- *Participating Employers* receivables represent contributions that are due from participating employers for the current fiscal year which are not received until after fiscal year-end.
- *Service Credit Purchase* receivables represent the outstanding balance due from members on service credit purchase installment contracts at fiscal year-end. Payments can be made on a monthly basis for up to five years for purchasing additional creditable service. Receivables are recognized when an agreement is signed.
- *Other* receivables represent amounts owed to TRS such as refund or annuity repayments due at fiscal year-end but not received until the next fiscal year.

Investments

Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Measurement, recognition, or disclosure of an asset or liability depends on the aggregation or disaggregation of the unit of account of the asset or liability. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach.

Fair value maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value, assigning the highest priority to

Notes to the Financial Statements

unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Fair value inputs are categorized into the following three levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the system's measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly;
- Level 3 – Unobservable inputs for an asset or liability.

For investments that do not have a readily determinable fair value and fall outside of the fair value hierarchy, the system establishes fair value by utilizing the Net Asset Value Per Share (NAVPS), or equivalent, as a practical expedient, provided all of the following criteria are met:

- Fair value is not readily determinable;
- The NAVPS is calculated consistently with the Financial Accounting Standards Board's measurement principles for investment companies (FASB ASC Topic 946);
- The NAVPS represents a proportionate share of the net assets to which it is attributed;
- And the NAVPS is provided by the investee.

The system obtains the NAVPS from the most recent capital account statement or audited financial statement issued by a General Partner or Fund Administrator. If either statement's fiscal year end does not coincide with the system's fiscal year end, the NAVPS is adjusted for any distributions or contributions that occur subsequent to the statement's measurement date through the system's fiscal year end.

- *Short-Term Investments* include the Short-Term Investment Fund (STIF) and Short-Term Foreign Currency Contracts. The following fair value measurements determine the appropriate level within the fair value hierarchy:
 - The STIF is a 2a-7 like fund and is priced at the NAVPS by the custodian bank.
 - Short-Term Foreign Currency Contracts are priced at the spot rate in active markets and valued at Level 1.
- *Equity Investments* include both Domestic and International Equity. The following fair value measurements determine the appropriate level within the fair value hierarchy:
 - Equities priced at the last sale price in their respective active markets are valued at Level 1.
 - Equities that are not actively traded with a stale price as of the system's measurement date are valued at Level 3.

Notes to the Financial Statements

- *Fixed Income Investments* include Asset and Mortgage Backed Bonds, Corporate Bonds, Inflation Index Bonds, Sovereign Government Issue Bonds, U.S. Government Agency Bonds, U.S. Treasury Bonds, and U.S. Treasury STRIPS. The following fair value measurements determine the appropriate level within the fair value hierarchy:
 - U.S. Treasury Bonds priced at the last sale price of the primary exchange are valued at Level 1.
 - Fixed Income Investments priced using a bid evaluation matrix pricing technique that is based on their relationships to non-proprietary index market quotations, yields, maturities, call features, and ratings are valued at Level 2.
- *Alternative Investments* include Absolute Return, Energy and Natural Resources, Hedge Funds, Other Private Markets, Private Equity, Private Markets Strategic Partnerships, Real Assets, and Risk Parity. The following fair value measurements determine the appropriate level within the fair value hierarchy:
 - Other Private Markets priced by a third party that uses a guideline market multiples approach and a sum of parts valuation analyses is valued at Level 3.
 - All other Alternative Investments are valued at the NAVPS by the General Partners or Fund Administrators.
- *Derivative Investments* include Futures, Forwards, Options, Rights, Swaps, and Warrants, and they are either executed on an exchange or in a bilateral deal in an over-the-counter (OTC) market with an International Swaps and Derivatives Association (ISDA) counterparty as a broker. The following fair value measurements determine the appropriate level within the fair value hierarchy:
 - Futures priced at the settle price, Options priced at the mean and settle price, and Rights and Warrants priced at the last sale price in their respective active markets are valued at Level 1.
 - Derivative Investments that are valued using a matrix pricing technique that are based on their relationship to benchmark quoted prices are valued at Level 2.
- *Pooled Investments* include Commingled Equity, Commingled Fixed Income, and Mutual Funds and are priced at the NAVPS by the General Partners or Fund Administrators.
- *Invested Securities Lending Collateral* is comprised of the reinvested cash collateral received from borrowers in the securities lending program, in addition to the operating costs of the program. The following fair value measurements of the reinvested cash collateral determine the appropriate level within the fair value hierarchy:
 - Securities priced at the last sale price in their respective active markets are valued at Level 1.
 - Securities priced using a bid evaluation matrix pricing technique that is based on their relationships to non-proprietary index market quotations, yields, maturities, call features, and ratings are valued at Level 2.

Other Assets

Prepaid deposits and rent expense reflects payment for rental costs applicable to a future accounting period.

Notes to the Financial Statements

Capital Assets

Capital assets associated with the funds' activities are included in the statement of net position. Purchases of capital assets by the fund are reported at cost on the acquisition date. Depreciation of all exhaustible capital assets is charged as an expense against the fund's 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.

Liabilities

- *Accounts Payable* represents the liability for assets or services received at fiscal year-end for which payment has not been made.
- *Benefits Payable* for the Pension Trust Fund represent the liability for retirement, disability, and death benefits due at fiscal year-end and payable within the next 30 days.
- *Health Care Claims Payable* for TRS-Care and TRS-ActiveCare include an estimate for health care claims incurred but not reported to the system at fiscal year-end.
- *Investments Purchased Payable* represent the liability for securities purchased prior to fiscal year-end for which payment has not been made. Foreign investments purchased payable is reported at current exchange rates.
- *Securities Sold Short* represent obligations to deliver securities which include both Domestic and International Equity. These obligations are priced at fair value at the last sale price in their respective active markets and valued at Level 1 in the fair value hierarchy.
- *Collateral Obligations* are the cash collateral received from borrowers in the securities lending program.
- *Employee Compensable Absences Payable* represents the liability that becomes due upon the resignation, retirement and use of leave balances by 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 inter-fund activity.

Notes to the Financial Statements

Legal Reserve Accounts

The Pension Trust Fund has five statutorily required reserves. The statutory accounts are a requirement of the Texas Government Code, Chapter 825, Sections 307-313.

- The *Member Savings Account* represents the accumulation of active member deposits plus interest.
- The *State Contribution Account* represents the reserves available to fund future active member retirement, death, and survivor benefits. 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 *Retired Reserve Account* represents the reserves available to fund retirement, death, survivor benefits and post-retirement benefit increases.
- The *Deferred Retirement Option Account* represents the accumulation of participating member deposits plus interest less benefits paid out.
- The *Expense Account* represents the 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.

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 shown below:

Asset Class	Capitalization Threshold	Depreciable Life
Land and Land Improvements	\$ 0	--
Construction in Progress	0	--
Buildings and Building Improvements	100,000	15-50 years
Facilities and Other Improvements	100,000	10 years
Leasehold Improvements	100,000	22 years
Furniture and Equipment	5,000	5-10 years
Vehicles, Boats, and Aircraft	5,000	5-7 years
Internally Developed Computer Software	1,000,000	5 years
Computer Software	100,000	5 years
Other Capital Assets	Various	6 years

Notes to the Financial Statements

Capital asset balances and current year transactions are presented in the following table:

Asset Class	Balance 09/01/2015	Reclasses & Completed CIP	Additions	Deletions	Balance 08/31/2016 (Exhibit I)
Non-Depreciable Assets:					
Land and Land Improvements	\$ 1,658,310	\$	\$	\$	\$ 1,658,310
Construction in Progress	25,253,917		18,243,369		43,497,286
Other Tangible Capital Assets	124,136				124,136
Total Non-Depreciable Assets	\$ 27,036,363	\$ 0	\$ 18,243,369	\$ 0	\$ 45,279,732
Depreciable Assets:					
Buildings and Building Improvements	\$39,175,704	\$	\$	\$	\$39,175,704
Furniture and Equipment	12,844,101		608,648	(83,051)	13,369,698
Vehicle, Boats & Aircraft	76,363				76,363
Leasehold Improvements	3,547,715				3,547,715
Facilities and Other Improvements	343,622				343,622
Total Depreciable Assets at Historical Cost	\$55,987,505	\$ 0	\$ 608,648	\$ (83,051)	\$56,513,102
Less Accumulated Depreciation for:					
Buildings and Building Improvements	\$(19,499,544)	\$	\$(1,353,671)	\$	\$(20,853,215)
Furniture and Equipment	(7,574,237)		(1,412,792)	82,219	(8,904,810)
Vehicles, Boats & Aircraft	(46,906)		(5,991)		(52,897)
Leasehold Improvements	(3,097,900)		(20,524)		(3,118,424)
Facilities and Other Improvements	(150,412)		(34,364)		(184,776)
Total Accumulated Depreciation	\$(30,368,999)	\$ 0	\$(2,827,342)	\$ 82,219	\$(33,114,122)
Depreciable Assets, Net	\$ 25,618,506	\$ 0	\$(2,218,694)	\$ (832)	\$ 23,398,980
Intangible Assets:					
Computer Software	\$ 10,569,751	\$	\$ 157,260	\$	\$ 10,727,011
Total Amortizable Assets at Historical Cost	\$ 10,569,751	\$ 0	\$ 157,260	\$ 0	\$ 10,727,011
Less Accumulated Amortization for:					
Computer Software	\$ (9,499,614)	\$	\$ (421,056)	\$	\$ (9,920,670)
Total Accumulated Amortization	\$ (9,499,614)	\$ 0	\$ (421,056)	\$ 0	\$ (9,920,670)
Intangible Assets, Net	\$ 1,070,137	\$ 0	\$ (263,796)	\$ 0	\$ 806,341
Fiduciary Capital Assets, Net of Accumulated Depreciation/Amortization	\$ 53,725,006	\$ 0	\$ 15,760,879	\$ (832)	\$ 69,485,053

Notes to the Financial Statements

NOTE 3: DEPOSITS AND INVESTMENTS

A. INVESTMENT POLICY AND TARGET ASSET ALLOCATION

The Board of Trustees has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board adopts the Investment Policy Statement which establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff (Investment Division) and legal staff. The Board also monitors the actions of staff, consultants, and advisors to ensure compliance with its policies. The current Investment Policy Statement has been in effect since October 1, 2014, and there were no significant investment policy changes during the reporting period. For the fiscal year ended August 31, 2016, there were no significant violations of state statute, investment policy, or contractual provisions. The Statement in its entirety can be accessed at www.trs.texas.gov.

The total or overall investment portfolio includes all assets invested by TRS to provide retirement, death, health, and disability benefits administered by the system, and is structured and managed to achieve the following objectives:

- a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and
- b. As applicable to the pension plan, achieve a long-term rate of return that:
 - i. Exceeds the assumed actuarial rate of return adopted by the Board;
 - ii. Exceeds the long-term rate of inflation by an annualized 5%; and
 - iii. Exceeds the return of a composite benchmark of the respective long-term normal asset mix weighting of the major asset classes.

Categories of permissible investments include cash equivalents, debt securities, private markets, derivatives, mutual funds, closed-end funds, publicly traded or Rule 144A assets, and commingled funds. The target asset allocation, long-term expected real rate of return, and expected contribution to long-term portfolio returns by asset class set forth in the Investment Policy Statement is shown in the table on the following page as of August 31, 2016.

Notes to the Financial Statements

Asset Allocation and Long-Term Expected Real Rate of Return			
Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns ¹
Global Equity			
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
Stable Value			
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
Real Return			
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
Risk Parity			
Risk Parity	5	6.7	0.3
Inflation Expectation			2.2%
Alpha			1.0
Total	100%		8.7%

¹ The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns

For the fiscal year ended August 31, 2016, the annual money-weighted rate of return on pension plan investments was 7.27%. The annual money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

B. CASH AND DEPOSITS

Cash and deposits of the System are maintained in bank accounts and in the State of Texas Treasury. The Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United States government, and obligations of federal credit organizations. The Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance. As of August 31, 2016, the carrying amount and bank balance of cash and deposits at the Treasury totaled \$313,880,686. The carrying amount of the System's bank accounts totaled \$142,480,269, the bank balance totaled \$142,477,658, and cash on hand totaled \$1,974,350.

Notes to the Financial Statements

C. INVESTMENTS

The System reports the following recurring fair value measurements as of August 31, 2016.

Investment Type	Fair Value					Total
	Quoted Prices in		Significant Other	Significant	Net Asset Value Per	
	Active Markets for	Identical Assets				
Level 1	Level 2	Level 3	(NAVPS)			
Investments						
Alternative Investments						
Absolute Return	\$ -	\$ -	\$ -	\$ 180,056,761	\$ -	\$ 180,056,761
Directional Hedge Funds	-	-	-	5,100,368,014	-	5,100,368,014
Domestic Private Equity	-	-	-	10,246,807,262	-	10,246,807,262
Domestic Real Assets	-	-	-	14,852,018,532	-	14,852,018,532
Energy and Natural Resources	-	-	-	2,163,502,297	-	2,163,502,297
International Private Equity	-	-	-	3,149,571,074	-	3,149,571,074
International Real Assets	-	-	-	2,885,199,536	-	2,885,199,536
Other Private Market	-	-	707,215,046	-	-	707,215,046
Private Markets Strategic Partnerships	-	-	-	3,836,638,277	-	3,836,638,277
Risk Parity	-	-	-	3,471,459,388	-	3,471,459,388
Stable Value Hedge Funds	-	-	-	5,527,592,769	-	5,527,592,769
Total Alternative Investments	-	-	707,215,046	51,413,213,910	-	52,120,428,956
Derivative Investments						
Futures	-	-	-	-	-	-
Forwards	4,624,554	-	-	-	-	4,624,554
Options	827,631	5,154,399	-	-	-	5,982,030
Rights	697,854	487,644	-	-	-	1,185,498
Swaps	-	15,976,447	-	-	-	15,976,447
Warrants	863,780	12,871,197	-	-	-	13,734,977
Total Derivative Investments	7,013,819	34,489,687	-	-	-	41,503,506
Equity Investments						
Domestic Equity	21,289,355,958	-	3,918,737	-	-	21,293,274,695
International Equity	26,488,300,265	-	4,102,883	-	-	26,492,403,148
Total Equity Investments	47,777,656,223	-	8,021,620	-	-	47,785,677,843
Fixed Income Investments						
Asset and Mortgage Backed Bonds	-	157,236,825	-	-	-	157,236,825
Domestic Corporate Bonds	-	30,922,786	-	-	-	30,922,786
Inflation Index Bonds	-	5,169,585,378	-	-	-	5,169,585,378
International Corporate Bonds	-	7,312,109	-	-	-	7,312,109
Sovereign Government Issue Bonds	-	645,940,600	-	-	-	645,940,600
U.S. Government Agency Bonds	-	12,000,235	-	-	-	12,000,235
U.S. Treasury Bonds	14,234,243,528	-	-	-	-	14,234,243,528
U.S. Treasury STRIPS	-	226,386,153	-	-	-	226,386,153
Total Fixed Income Investments	14,234,243,528	6,249,384,086	-	-	-	20,483,627,614
Pooled Investments						
Commingled Domestic Equity	-	-	-	3,837,356,716	-	3,837,356,716
Commingled Fixed Income	-	-	-	154,206,474	-	154,206,474
Commingled International Equity	-	-	-	4,733,036,456	-	4,733,036,456
Domestic Mutual Funds	-	-	-	285,070,598	-	285,070,598
International Mutual Funds	-	-	-	94,083,357	-	94,083,357
Total Pooled Investments	-	-	-	9,103,753,601	-	9,103,753,601
Short-Term Investments						
Short-Term Investment Fund	-	-	-	3,227,490,758	-	3,227,490,758
Short-Term Foreign Currency Contracts	(14,948)	-	-	-	-	(14,948)
Total Short-Term Investments	(14,948)	-	-	3,227,490,758	-	3,227,475,810
Total Investments	\$ 62,018,898,622	\$ 6,283,873,773	\$ 715,236,666	\$ 63,744,458,269	\$ -	\$ 132,762,467,330
Securities Lending						
Invested Securities Lending Collateral*	\$ 5,191,993,000	\$ 12,926,876,745	\$ -	\$ -	\$ -	\$ 18,118,869,745
Total Securities Lending	\$ 5,191,993,000	\$ 12,926,876,745	\$ -	\$ -	\$ -	\$ 18,118,869,745
Securities Sold Short						
Securities Sold Short	\$ (139,061,759)	\$ -	\$ -	\$ -	\$ -	\$ (139,061,759)
Total Securities Sold Short	\$ (139,061,759)	\$ -	\$ -	\$ -	\$ -	\$ (139,061,759)

* Excludes receivables and payables related to the Securities Lending Pool.

Notes to the Financial Statements

The System manages unfunded capital commitments that it is legally obligated to fund when called by a General Partner. Funding of committed capital occurs 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 System prior to the full funding of the System's commitment, the outstanding invested capital of the investment might at times be substantially less than the total commitment. The fair value of all investments reported at the Net Asset Value Per Share (NAVPS) and any related unfunded commitments is presented in the following table as of August 31, 2016.

Investment Type	Investments Valued at the NAVPS	
	Fair Value	Unfunded Capital Commitment*
Alternative Investments		
Absolute Return	\$ 180,056,761	\$ 79,875,951
Directional Hedge Funds	5,100,368,014	25,000,000
Domestic Private Equity	10,246,807,262	7,355,747,194
Domestic Real Assets	14,852,018,532	8,119,636,961
Energy and Natural Resources	2,163,502,297	2,620,688,624
International Private Equity	3,149,571,074	2,504,544,350
International Real Assets	2,885,199,536	1,821,374,790
Private Markets Strategic Partnerships	3,836,638,277	6,226,020,247
Risk Parity	3,471,459,388	300,000,000
Stable Value Hedge Funds	5,527,592,769	-
Total Alternative Investments	51,413,213,910	29,052,888,117
Pooled Investments		
Commingled Domestic Equity	3,837,356,716	-
Commingled Fixed Income	154,206,474	-
Commingled International Equity	4,733,036,456	-
Domestic Mutual Funds	285,070,598	-
International Mutual Funds	94,083,357	-
Total Pooled Investments	9,103,753,601	-
Short-Term Investments		
Short-Term Investment Fund	3,227,490,758	-
Total Short-Term Investments	3,227,490,758	-
Total Investments	\$ 63,744,458,269	\$ 29,052,888,117
*The System also reports an unfunded capital commitment balance of \$198,289,591 for an externally managed fund that invests in Equity Investments which are not reported at the NAVPS.		

As of August 31, 2016, \$82,360,207 worth of investments in Directional Hedge Funds contain certain less liquid or non-marketable assets in the process of liquidation. Additionally, as of August 31, 2016, the System has no plans to sell investments for an amount different from the NAVPS (or its equivalent), and all investments to be sold have been identified.

The System achieves portfolio diversification by investing in a variety of strategies, geographies, and industry sectors. The significant investment strategies of the investees for investments reported at the NAVPS, as of August 31, 2016, are disclosed on the subsequent page.

Notes to the Financial Statements

Significant Investment Strategies	
Alternative Investments	
Absolute Return	
Absolute Return	Includes using short selling, futures, options, derivatives, arbitrage, leverage and unconventional assets.
Directional Hedge Funds	
Event Driven	Seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as an earnings call, bankruptcy, merger, acquisition, or spinoff.
Fixed Income	Trades in a variety of corporate credit instruments.
Long Short Equity	Involves buying long equities that are expected to increase in value and selling short equities that are expected to decrease in value.
Multi Strategy	Trades in a broad range of instruments, including without limitation, equities, currencies, futures, forwards, options, swaps and other derivative products.
Multi Strategy (Emerging Managers)	Trades in a broad range of instruments, including without limitation, equities, currencies, futures, forwards, options, swaps and other derivative products with emerging managers.
Redemption and Holdbacks	Contains certain less liquid or non-marketable assets in the process of liquidation.
Domestic Private Equity	
Buyouts	Acquires shares of a company to gain a controlling interest.
Credit/Special Situations	Invests and trades in public and private debt obligations or equity securities or other indebtedness of companies undergoing financial distress, a turnaround in business operations or companies which management believes are undervalued because of a discrete extraordinary event.
Emerging Managers	Trades in a broad range of instruments with emerging managers.
Venture/Growth Equity	Invests in companies with potential for significant growth.
Domestic Real Assets	
Core	Invests in stable, fully leased, multi-tenant properties within strong, diversified metropolitan areas.
New and Emerging Managers	Trades in a broad range of instruments with emerging managers.
Opportunistic	Targets underperforming and/or undermanage properties, or properties that are temporarily depressed.
Other	Trades in debt instruments and equity investments in real estate and real estate related securities and businesses.
Special Situations	Providing both equity and debt capital to distressed properties.
Value Added	Involves buying a property, improving it in some way, and selling it at an opportune time for gain. Properties are considered value added when they exhibit management or operational problems, require physical improvement, and/or suffer from capital constraints.
Energy and Natural Resources	
Energy and Natural Resources	Invests in natural resources interests (mineral, royalty or working interests), timber and agricultural property, water, power generation, renewable energy, and associated infrastructure, services and technology.
International Private Equity	
Buyouts	Acquires shares of a company to gain a controlling interest.
Credit/Special Situations	Invests and trades in public and private debt obligations or equity securities or other indebtedness of companies undergoing financial distress, a turnaround in business operations or companies which management believes are undervalued because of a discrete extraordinary event.
Venture/Growth Equity	Invests in companies with potential for significant growth.
International Real Assets	
Opportunistic	Targets underperforming and/or undermanage properties, or properties that are temporarily depressed.
Other	Trades in debt instruments and equity investments in real estate and real estate related securities and businesses.
Special Situations	Providing both equity and debt capital to distressed properties.
Value Added	Involves buying a property, improving it in some way, and selling it at an opportune time for gain. Properties are considered value added when they exhibit management or operational problems, require physical improvement, and/or suffer from capital constraints.
Private Markets Strategic Partnerships	
Buyouts	Acquires shares of a company to gain a controlling interest.
Credit/Special Situations	Invests and trades in public and private debt obligations or equity securities or other indebtedness of companies undergoing financial distress, a turnaround in business operations or companies which management believes are undervalued because of a discrete extraordinary event.
Energy and Natural Resources	Invests in natural resources interests (mineral, royalty or working interests), timber and agricultural property, water, power generation, renewable energy, and associated infrastructure, services and technology.
Opportunistic	Targets underperforming and/or undermanage properties, or properties that are temporarily depressed.
Other	Trades in debt instruments and equity investments in real estate and real estate related securities and businesses.
Venture/Growth Equity	Invests in companies with potential for significant growth.
Risk Parity	
Risk Parity	Targets specific levels of risk and divides that risk equally across the entire investment portfolio in order to achieve optimal portfolio diversification.
Stable Value Hedge Funds	
Commodities and Trends	Trades in a number of debt, equity, foreign exchange and commodity instruments and derivative contracts relating to those instruments, including swaps, indices, forwards, futures and option contracts.
Equity Market Neutral	Seeks to exploit differences in stock prices by being long and short in stocks within the same sector, industry, market capitalization, country, etc.
Fixed Income	Trades in a variety of corporate credit instruments.
Macro & Volatility	Trades in currency markets, credit markets, credit market spreads, emerging markets, equity markets and commodity markets, utilizing a broad variety of instruments, including, but not limited to, exchange traded funds, exchange traded futures contracts, over the counter ("OTC") derivatives, cash securities and spot and forward currency contracts traded in the international currency market.
Multi Strategy	Trades in a broad range of instruments, including without limitation, equities, currencies, futures, forwards, options, swaps and other derivative products.
Redemption and Holdbacks	Contains certain less liquid or non-marketable assets in the process of liquidation.
Reinsurance	Provides property catastrophe and specialty reinsurance coverages to insurers and reinsurers on a worldwide basis.
Pooled Investments	
Commingled Domestic Equity	
External Public Total Non-US Developed	Invests in long positions in equity securities as well as certain derivatives in non-US developed markets.
External Public Total USA	Invests in long positions in equity securities as well as certain derivatives in US markets.
External Public Total World Equity	Invests in common and preferred stock in countries represented in the MSCI ACWI Value Index, as well as certain other global markets, ADRs, swaps, warrants, and other derivative instruments, money market instruments, and currency forwards and/or futures.
Public Strategic Partnership	Invests in strategic partners who invest in public markets.
Commingled Fixed Income	
Public Strategic Partnership	Invests in strategic partners who invest in public markets.
Commingled International Equity	
External Public Total Emerging Markets	Invests mainly in equity and equity-related securities traded in the securities markets of newly industrializing countries and emerging markets.
External Public Total Non-US Developed	Invests in long positions in equity securities as well as certain derivatives in non-US developed markets.
Public Strategic Partnership	Invests in strategic partners who invest in public markets.
Domestic Mutual funds	
Public Strategic Partnership	Invests in strategic partners who invest in public markets.
International Mutual funds	
External Public Total Emerging Markets	Invests mainly in equity and equity-related securities traded in the securities markets of newly industrializing countries and emerging markets.
Short-Term Investments	
Short-Term Investment Fund	Invests in highly liquid short-term funds.

Notes to the Financial Statements

The System’s Directional Hedge Funds, Stable Value Hedge Funds, Commingled Domestic Equity, and Commingled International Equity are subject to redemption restrictions that constrain the System’s ability to redeem these types of Alternative and Pooled Investments. The following table details the redemption frequency, redemption notice period, redemption restrictions, such as lockups and gates, and an estimate of the eventual lapse of those restrictions, or, if an estimate cannot be made, the fiscal year in which the restriction took place, by fair value as of August 31, 2016.

Fair Value	Redemption Frequency	Redemption Notice Period	Redemption Terms and Restrictions	
			Redemption Restrictions	Redemption Restrictions Lapse
Directional Hedge Funds				
\$ 583,958,532	NA	NA	NA	NA
430,194,332	Monthly	45-90 Days	NA	NA
259,507,746	Monthly	45 Days	20% Fund Gate	No Estimate; Effective 2015
252,459,657	Monthly	90 Days	36 Months, 10% of Capital Lockup Period	Lapses 08/01/2019
17,398,847	Monthly	60 Days	25% Investor Gate	No Estimate; Effective 2016
1,265,996,630	Quarterly	45-90 Days	NA	NA
158,273,061	Quarterly	60 Days	20% Quarterly Fund Gate	No Estimate; Effective 2010
716,078	Quarterly	40 Days	25% Fund Gate	No Estimate; Effective 2011
249,698,455	Quarterly	90 Days	25% Investor Gate	No Estimate; Effective 2012-2015
508,605,450	Quarterly	30 Days	25% Quarterly Investor Gate	No Estimate; Effective 2001 - 2016
10,680,435	Quarterly	30 Days	12 Month Lockup; 25% Investor Gate	Lockup Lapses 01/01/2017; Gate - No Estimate; Effective 2016
265,439,722	Quarterly	65 Days	1/8 Quarterly Investor Gate; 20% Fund Gate	No Estimate; Effective 2012
13,170,870	Quarterly	90 Days	33 1/3% Gate	No Estimate; Effective 2014
286,005,286	Quarterly	24 Months	35% Investor Gate	No Estimate; Effective 2014
294,037,077	Semi-Annual, 9/30 and 3/31	90 Days	20% Fund Gate	No Estimate; Effective 2010
497,228,376	Semi-Annual	95 Days	NA	NA
6,997,458	Yearly	60 Days	20% Fund Gate	No Estimate; Effective 2012
\$ 5,100,368,014	Total Directional Hedge Funds			
Stable Value Hedge Funds				
\$ 255,283,755	Daily	15 Days	NA	NA
276,864,105	Bi-Monthly	15 or 30 Day Notice	10% Fund Gate for 15 Day Notice	No estimate; Effective 2013
843,417,608	Monthly	2-30 Days	NA	NA
170,681,515	Monthly	90 Days	10% Fund Gate	No estimate; Effective 2012
266,798,510	Monthly	45-90 Days	20% Fund Gate	No estimate; Effective 2006 - 2007
128,697,277	Monthly	90 Days	20% Investor Gate	No estimate; Effective 2010
830,574,522	Quarterly	45-90 Days	NA	NA
229,159,283	Quarterly	45 Days	10% Fund Gate	No estimate; Effective 2007
340,894,331	Quarterly	45 Days	15% Fund Gate	No estimate; Effective 2011
241,824,163	Quarterly	45 Days	20% Fund Gate	No estimate; Effective 2009
2,935,946	Quarterly	45 Days	20% Fund Gate or 50% Fund Gate in a 12-month period	No estimate; Effective 2007
222,090,767	Quarterly	90 Days	25% Fund Gate	No estimate; Effective 2015
574,405,088	Quarterly	90 Days	25% Quarterly Investor Gate	No estimate; Effective 2014 - 2015
277,491,390	12/31, Monthly, Quarterly	12/31 - 90 Days; Monthly - 45-90 Days; Quarterly - 45 Days	24 Month Lockup; 1/6th Investor Gate	Lockup - Lapses October 1, 2016; Gate - No estimate; Effective 2014
276,801,529	Monthly & Quarterly Dealing Day	30 Days	NA	NA
290,343,500	Semi-Annual	90 Days	16.67% Semi-Annual Investor Gate	No estimate; Effective 2013
164,211,687	Semi-Annual; Monthly	Semi-Annual, 10/31 or 03/31 Notice; Monthly, 20 Day Notice	36 Month Lockup	Lapses January 1, 2018
135,117,794	Annual	03/01	Up to 50% can be redeemed at 25% Fund Gate. Redemption could also be gated if request exceeds the amount of capital required by law.	No estimate; Effective 2013
\$ 5,527,592,769	Total Stable Value Hedge Funds			
Commingled Domestic Equity				
\$ 656,537,980	NA	NA	NA	NA
1,762,214,663	Daily	5 Days	NA	NA
1,093,855,455	Monthly	6-10 Days	NA	NA
324,748,618	Annual	90 Days	25% Fund Gate	No Estimate; Effective 2010
\$ 3,837,356,716	Total Commingled Domestic Equity			
Commingled International Equity				
\$ 980,484,128	NA	NA	NA	NA
85,202,566	Daily	3 Days	NA	NA
1,891,675,998	Monthly	5-30 Days	NA	NA
603,806,082	Monthly	90 Days	12, 36, 48 Month Lockup	No Estimate; Rolling 3 Year Lock Up Period
1,171,867,681	Quarterly	60 Days	NA	NA
\$ 4,733,036,456	Total Commingled International Equity			

Notes to the Financial Statements

The System receives distributions through the liquidation of the underlying assets of the investees for a majority of its Alternative Investment interests in Private Equity, Real Assets, Energy and Natural Resources, and Private Market Strategic Partnerships since these investments can never be redeemed with the investees. The following table discloses the System's estimate of the period over which the underlying assets are expected to be liquidated by the investees as of August 31, 2016.

Alternative Investment	Liquidation Period					
	Less than 1 Year	1-5 Years	6-10 Years	Greater than 10 Years	NA	Total
Domestic Private Equity	\$ 958,458,774	\$ 2,994,657,938	\$ 4,248,282,628	\$ 149,993,808	\$ 1,895,414,115	\$ 10,246,807,263
Domestic Real Assets	722,102,871	2,407,192,532	5,088,412,951	5,620,238,302	1,014,071,876	14,852,018,532
Energy and Natural Resources	39,569,599	185,486,899	1,082,331,032	348,033,094	508,081,672	2,163,502,296
International Private Equity	122,069,295	1,856,691,551	881,106,765	-	289,703,463	3,149,571,074
International Real Assets	222,534,003	939,330,385	1,447,408,164	64,454,456	211,472,529	2,885,199,537
Private Markets Strategic Partnerships	-	-	-	-	3,836,638,277	3,836,638,277
Total	\$ 2,064,734,542	\$ 8,383,359,305	\$ 12,747,541,540	\$ 6,182,719,660	\$ 7,755,381,932	\$ 37,133,736,979

D. DERIVATIVE INVESTMENTS

Derivatives are used to efficiently manage and reduce the risk of the overall investment portfolio. Through the use of derivatives, the risks that are bound together in traditional cash market investments can be separated and managed independently. Derivative Investments are classified as Investments on the Statement of Fiduciary Net Position, and the changes in their fair value are classified as Investment Revenue on the Statement of Changes in Fiduciary Net Position. The fair value, changes in fair value, and notional value of the System's Derivative Investments, classified by derivative type, are displayed in the following table as of August 31, 2016.

Fiduciary Funds	Fair Value	Change in Fair Value	Notional Value
Derivative Investments		Gain/(Loss)	\$
Forwards			
FX Forwards	\$ 4,624,554	\$ (76,766,812)	(1,726,437,266)
Total Forwards	4,624,554	(76,766,812)	
Futures			
Commodity Futures	-	(12,767,631)	596,830,249
Fixed Income Futures	-	277,899,225	1,046,212,953
Foreign Currency Futures	-	3,240,965	35,695,634
Index Futures	-	181,596,208	2,634,882,167
Total Futures	-	449,968,767	
Options			
Equity Options	9,046,305	(508,747)	6,615,632
Futures Options	55,094	(448,926)	69,270
Index Options	(3,119,369)	28,531,288	(2,992,278)
Total Options	5,982,030	27,573,615	
Rights			
Rights	1,185,498	(6,189,091)	6,638,159
Total Rights	1,185,498	(6,189,091)	
Swaps			
Credit Default Swaps	2,864,040	13,740,134	343,307,143
Interest Rate Swaps	(2,754,909)	(13,487,434)	(192,383,489)
Total Return Swaps	15,867,316	13,533,470	(160,461,246)
Total Swaps	15,976,447	13,786,170	
Warrants			
Warrants	13,734,977	(4,066,863)	10,216,399
Total Warrants	13,734,977	(4,066,863)	
Total	\$ 41,503,506	\$ 404,305,786	

Notes to the Financial Statements

The System's over-the counter (OTC) Derivative Investments include contingent features that require the System to post collateral in the event that the fair value surpasses a specified contractual threshold. The aggregate fair value of all Derivative Investments with these collateral posting provisions is \$27,328,327. If the collateral posting requirements were triggered at August 31, 2016, the System would be required to post \$9,077,608 in collateral to its counterparties. Since fair value has not surpassed the specified contractual threshold, the System has posted no collateral at August 31, 2016.

E. SECURITIES LENDING

The System is authorized by Texas Government Code, Section 825.303 to contractually lend securities to borrowers in accordance with the Securities Lending Policy established by the Board of Trustees and as required by statute. The System's lending agent, State Street Global Advisors, administers its securities lending program for domestic and international equity and fixed income securities. TRS securities held by a prime broker are not eligible for securities lending by the prime broker. The Policy in its entirety can be accessed at www.trs.texas.gov. There were no significant policy violations during the fiscal year.

Collateral received from borrowers are delivered in the form of cash or government securities eligible for book entry in either the Federal Reserve System or the Participants Trust Company, or their respective successors. The initial collateral delivered to secure a loan of domestic securities must have a market value of at least 102% of the initial market value of the domestic loaned securities and at least 105% of the initial market value of the international loaned securities. Collateral is marked to market daily. If, while the loan is outstanding, the current market value of the collateral initially delivered is less than 100% or 105% of the current market value of the domestic or international securities, respectively, the securities lending agent must require the borrower to deliver additional collateral to restore the value to 102% or 105% of the market value of the loaned securities for domestic or international securities, respectively. The System is authorized to invest cash collateral in the following types of instruments: U.S. government securities or U.S. government-sponsored enterprise (GSE) securities, money market instruments, repurchase agreements, fixed or floating rate debt obligations, and derivative instruments.

The securities lending contracts require 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. All securities loans can be terminated on demand by the System or the borrower.

The par value, dollar-weighted average maturity of the collective cash collateral investment portfolio may not exceed 120 days. The expected final maturity of any individual fixed-rate instrument and individual floating-rate instrument may not exceed 36 months and seven years, respectively. As of August 31, 2016, the maturities of the investments made with cash collateral generally match the maturities of their securities loans, with the weighted average maturity of the invested cash collateral at 26 days and the weighted average term of all securities on loan at 17 days.

As of August, 31, 2016, the System reported \$18,128,072,568 worth of Invested Securities Lending Collateral. The System holds \$18,116,023,297 in cash collateral and \$615,404,158 in non-cash collateral. Securities on loan totaled \$18,303,012,328 and include investments in Domestic Corporate Bonds, Domestic Equity, International Equity, U.S. Government Agency Bonds, and U.S. Treasury Bonds.

Notes to the Financial Statements

F. DEPOSIT AND INVESTMENT RISK FACTORS

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System 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. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Deposits

The System does not have a formal deposit policy for custodial credit risk. Deposits held at the State of Texas Treasury are not subject to custodial credit risk since the Treasury holds collateral in the System's name in excess of depository insurance. Deposits held in bank accounts in excess of depository insurance are uninsured and uncollateralized. As of August 31, 2016, \$142,149,672 of the System's bank balance was uninsured and uncollateralized.

Investments

The System has contracted with State Street Bank and Trust Company and Goldman Sachs to serve as custodians for the System's investments. The System does not have a formal investment policy for custodial credit risk. As of August 31, 2016, the Short-Term Investment Fund is held by the custodian in a 2a-7 like investment pool not evidenced by a security and is not exposed to custodial credit risk. All other investments are registered in the name of the Teachers Retirement System of Texas or in the name of the System's custodian. These securities are held in the name of the System by the custodian.

Securities Lending

The System does not have a formal investment policy for custodial credit risk for its securities lending program. The System's reinvests all cash collateral received in an unrated cash collateral pool held by the System's securities lending agent and is, therefore, not exposed to custodial credit risk. Since non-cash collateral is not reported on the balance sheet, it is exposed to custodial credit risk, as is the related underlying securities on loan. The following table shows the underlying securities for the non-cash collateral loans, which are held by the counterparty, the securities lending agent, but not in the System's name and are not insured.

Investment Type	Securities on Loan Fair Value	Non-Cash Collateral Value
Domestic Corporate Bonds	\$ 6,082,951	\$ 6,230,403
Domestic Equity	467,354,155	476,725,072
International Equity	119,488,475	129,470,284
U.S. Treasury Bonds	2,920,692	2,978,400
Total	\$ 595,846,273	\$ 615,404,159

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Notes to the Financial Statements

Investments

The System does not have a formal credit risk policy for its investments. The S&P credit rating and fair value of the System's Short-Term Investment Fund and Fixed Income Investments as of August 31, 2016 is disclosed in the following table.

S&P Rating	Investment Type										Total
	Asset and Mortgage Backed Bonds	Domestic Corporate Bonds	Inflation Index Bonds	International Corporate Bonds	Short-Term Investment Fund	Sovereign Government Issue Bonds	U.S. Government Agency Bonds ¹	U.S. Treasury Bonds ²	U.S. Treasury STRIPS ²		
NA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,234,243,530	\$ 226,386,153	\$ -	\$ 14,460,629,683
AAA	1,983,249	-	-	-	-	-	-	-	-	-	1,983,249
AA+	963,541	-	5,169,585,378	-	-	13,331,803	12,000,235	-	-	-	5,195,880,957
AA	1,129,830	-	-	-	-	-	-	-	-	-	1,129,830
AA-	510,659	-	-	-	-	-	-	-	-	-	510,659
A+	1,416,233	-	-	-	-	-	-	-	-	-	1,416,233
A	1,099,349	-	-	-	-	7,525,333	-	-	-	-	8,624,682
A-	479,676	-	-	-	-	-	-	-	-	-	479,676
BBB+	7,151,843	-	-	-	-	5,635,948	-	-	-	-	12,787,791
BBB	2,354,940	-	-	-	-	-	-	-	-	-	2,354,940
BBB-	1,572,388	605,875	-	391,730	-	-	-	-	-	-	2,569,993
BB+	15,233,308	4,001,681	-	1,716,703	-	-	-	-	-	-	20,951,692
BB	4,145,298	3,000,270	-	945,420	-	-	-	-	-	-	8,090,988
BB-	5,610,216	3,761,203	-	763,094	-	-	-	-	-	-	10,134,513
B+	9,070,166	3,181,873	-	950,550	-	-	-	-	-	-	13,202,589
B	6,091,472	3,337,743	-	1,304,984	-	-	-	-	-	-	10,734,199
B-	17,766,281	3,200,281	-	1,013,813	-	15,564,735	-	-	-	-	37,545,110
CCC+	-	2,382,693	-	-	-	-	-	-	-	-	2,382,693
CCC	46,208,577	597,199	-	140,219	-	-	-	-	-	-	46,945,995
CCC-	-	243,469	-	-	-	-	-	-	-	-	243,469
CC	1,035,792	-	-	-	-	-	-	-	-	-	1,035,792
D	10,702,790	-	-	-	-	-	-	-	-	-	10,702,790
NR ³	22,711,214	6,610,500	-	85,596	3,227,490,758	603,882,781	-	-	-	-	3,860,780,849
Total	\$ 157,236,822	\$ 30,922,787	\$ 5,169,585,378	\$ 7,312,109	\$ 3,227,490,758	\$ 645,940,600	\$ 12,000,235	\$ 14,234,243,530	\$ 226,386,153	\$ -	\$ 23,711,118,372

¹U.S. Government Agency Bonds (FHLB, FNMA, FHLMC) are implicitly guaranteed by the U.S. Government.
²U.S. Treasury Bonds and U.S. Treasury STRIPS are explicitly guaranteed by the U.S. Government.
³NR represents unrated securities.

Derivative Investments

The maximum allowable unsecured counterparty exposure for over-the-counter (OTC) derivative transactions is \$500 million, based on the total net market value of all OTC positions held with each counterparty. The total counterparty exposure for each counterparty, including the collateralized portions of these agreements, may not exceed 5% of the market value of the System's total fund value. The minimum credit rating, based on a Nationally Recognized Statistical Rating Organization (NRSRO), must be rated at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level, subsequent to the inception of transaction, additional eligible collateral may be posted or the transaction may be terminated.

All OTC derivatives must be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement and Credit Support Annex or, if centrally cleared by clearing agreements, the close-out netting provisions and collateralization provisions must be included.

The counterparty limits for repurchase transactions and tri-party repurchase transactions may not exceed 5% of the market value of the System's total fund value unless the 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. Each repurchase agreement will be entered into under the Public Securities Association (PSA) and International Securities Market Association (ISMA) Global Master Repurchase Agreement. Each ISDA Master Agreement must also

Notes to the Financial Statements

include a table that delineates the excess purchased securities margin (haircut) required, based on the collateral type, duration, and credit quality.

The aggregate fair value of investment derivative instruments in asset positions as of August 31, 2016, was \$126,022,189, which represents the maximum amount of loss due to credit risk that would be recognized if all counterparties failed to perform as contracted. The exposure is reduced by \$89,538,414 of liabilities included in netting arrangements with those counterparties, resulting in a net exposure of \$36,483,775. The following table discloses the net exposure to credit risk by counterparty and their corresponding credit rating by each of the Big Three credit rating agencies as of August 31, 2016.

Counterparty	Net Exposure	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Goldman Sachs International	\$ 22,092,505	61%	A	A	A1
Deutsche Bank AG	7,277,200	20%	BBB+	A-	Baa2
Barclays Bank	4,702,682	13%	A-	A	A2
Bank of America	490,228	1%	A	A+	A1
JPMorgan Chase Bank	1,860,773	5%	A+	AA-	Aa3
Toronto Dominion Bank	60,387	0%	AA-	AA-	Aa1
Total	\$ 36,483,775	100%			

The System's net exposure to credit risk is limited to 5% of the market value of the System's total fund value. As of August 31, 2016, significant concentrations of net exposure to credit risk existed at Goldman Sachs International (61%) and Deutsche Bank AG (20%), but the net exposure for each counterparty did not surpass 5% of the market value of the System's total fund value.

Securities Lending

Instruments having a maturity at the time of purchase of less than 13 months must qualify as "first tier securities" within Rule 2a-7 under the Investment Company Act of 1940. Instruments having a maturity at the time of purchase greater than 13 months must be rated at the time of purchase within the highest major, long-term rating category of an NRSRO, or, if unrated, be determined to be of comparable quality by the collective trust fund's trustee. As of August 31, 2016, there was no credit risk exposure because the amounts owed to borrowers exceeded the amounts owed to the System.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Investments

The System does not have a formal interest rate risk policy for its investments. The following table presents the fair value and the weighted effective duration rate for the System's Fixed Income Investments that are subject to interest rate risk as of August 31, 2016.

Notes to the Financial Statements

Fixed Income Investment Type	Fair Value	Weighted Effective Duration Rate
Asset and Mortgage Backed Bonds	\$ 157,236,822	1.17
Domestic Corporate Bonds	30,922,787	3.26
Inflation Index Bonds	5,169,585,378	5.03
International Corporate Bonds	7,312,109	4.24
Sovereign Government Issue Bonds	645,940,600	7.84
U.S. Government Agency Bonds	12,000,235	11.03
U.S. Treasury Bonds	14,234,243,530	18.49
U.S. Treasury STRIPS	226,386,153	12.51
Total	\$ 20,483,627,614	14.53

Asset and Mortgage Backed Bonds are highly sensitive to interest rate changes because they are based on cash flows from interest payments on underlying mortgages, making them sensitive to prepayments by mortgagees in periods of declining interest rates.

Derivative Investments

The System does not have a formal interest rate risk policy for its Derivative Investments. The System's investments in Swaps are highly sensitive to interest rate changes because they are based on fluctuating Interbank Offered Rates. As the Rates fluctuate, the total expected cash flows will fluctuate. The reference rates, embedded options, fair value, and notional value of the System's Interest Rate and Return Swaps that are exposed to interest rate risk, as of August 31, 2016, are presented in the following table.

Notes to the Financial Statements

Reference Rate & Embedded Options	Fair Value	Investment Maturities (in Years)			Notional Value \$
		Less than 1	1-5	6-10	
Interest Rate Swaps					
Receive Variable 3-month LIBOR, Pay Fixed 1.49900%	\$ (45,628)	\$ -	\$ -	\$ (45,628)	(10,140,000)
Receive Variable 3-month LIBOR, Pay Fixed 1.50550%	(27,671)	-	-	(27,671)	(5,700,000)
Receive Variable 3-month LIBOR, Pay Fixed 1.623500%	(765,838)	-	-	(765,838)	(46,750,000)
Receive Variable 3-month LIBOR, Pay Fixed 1.79900%	(612,951)	-	-	(612,951)	(17,520,000)
Receive Variable 6-month EURIB, Pay Fixed 0.28200%	(55,734)	-	-	(55,734)	(28,957,486)
Receive Variable 6-month EURIB, Pay Fixed 0.28500%	(54,838)	-	-	(54,838)	(25,152,918)
Receive Variable 6-month EURIB, Pay Fixed 0.52200%	(740,482)	-	-	(740,482)	(27,665,537)
Receive Variable 6-month EURIB, Pay Fixed 0.55300%	(1,855,600)	-	-	(1,855,600)	(61,367,595)
Receive Variable 6-month EURIB, Pay Fixed 0.57900%	(692,582)	-	-	(692,582)	(21,514,298)
Receive Variable 6-month JPYIB, Pay Fixed 0.00000%	350,684	-	-	350,684	(22,538,232)
Receive Variable 6-month LIGBP, Pay Fixed 0.86950%	(108,144)	-	-	(108,144)	(5,880,550)
Receive Fixed 1.00000%, Pay Variable 3-month LIBOR	(804,231)	-	(804,231)	-	15,174,000
Receive Fixed 2.20000%, Pay Variable 6-month MBBSW	33,492	-	-	33,492	2,263,669
Receive Fixed 2.42000%, Pay Variable 6-month MBBSW	57,191	-	-	57,191	1,648,901
Receive Fixed 2.44308%, Pay Variable 6-month MBBSW	851,581	-	-	851,581	22,929,047
Receive Fixed 2.48750%, Pay Variable 6-month MBBSW	541,627	-	-	541,627	12,918,397
Receive Fixed 2.50800%, Pay Variable 6-month MBBSW	566,444	-	-	566,444	12,950,714
Receive Fixed 2.54540%, Pay Variable 6-month MBBSW	607,771	-	-	607,771	12,918,397
Total Interest Rate Swaps	(2,754,909)	-	(804,231)	(1,950,678)	
Total Return Swaps					
Receive Variable 1-month LIBOR, Pay Equity	(879,416)	(879,416)	-	-	(73,454,874)
Receive Variable 3-month LIBOR, Pay Equity	291,548	(448,725)	740,273	-	(183,086,808)
Receive Variable 3-month LIBOR, Pay Equity	1,064,413	1,064,413	-	-	(176,256,854)
Receive Equity, Pay Variable 1-month FEDFU	314,687	-	314,687	-	31,513,299
Receive Equity, Pay Variable 1-month JPYIB	(844,591)	-	(844,591)	-	11,331,780
Receive Equity, Pay Variable 1-month LIBOR	34,830	(146,072)	180,902	-	23,152,903
Receive Equity, Pay Variable 3-month LIBOR	11,245,642	11,245,642	-	-	143,247,190
Total Return Swaps	11,227,113	10,835,842	391,271	-	
Total Swaps	\$ 8,472,204	\$ 10,835,842	\$ (412,960)	\$ (1,950,678)	

Foreign Currency Risk

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 applying currency hedge ratios to the System's public-markets and private-markets non-dollar exposures. Each currency hedge ratio is the percentage of aggregate, non-dollar currency exposure to be passively hedged. The hedging horizon is intermediate (one to three years). The System's exposure to foreign currency risk as of August 31, 2016 is presented in the following table.

Notes to the Financial Statements

Currency by Country	Cash	Alternative Investments	Derivative Investments	Equity Investments	Fixed Income Investments	Pooled Investments	Total
Argentina Peso	\$ -	\$ -	-	\$ -	\$ 9,546,818	\$ -	\$ 9,546,818
Australia Dollar	9,556,126	-	1,573,863	577,071,589	127,781,490	-	715,983,068
Bangladesh Taka	61,331	-	-	10,108,093	-	-	10,169,424
Botswana Pula	21,963	-	-	4,537,789	-	-	4,559,752
Brazil Real	1,772,797	-	1,155,853	753,628,668	-	-	756,557,318
Canada Dollar	6,816,918	-	(1,994,963)	959,086,085	-	-	963,908,040
Chile Peso	449,277	-	(69,727)	74,524,784	-	-	74,904,334
China Yuan Renminbi Offshore	-	-	(420,508)	-	-	-	(420,508)
China Yuan Renminbi	8,116	-	(108,183)	5,654,642	-	-	5,554,575
Colombia Peso	128,723	-	689,032	33,088,663	-	-	33,906,418
Croatia Kuna	54,057	-	-	7,347,854	-	-	7,401,911
Czech Republic Koruna	448,769	-	-	38,297,744	-	-	38,746,513
Denmark Krone	69,016	-	35,917	329,451,329	-	-	329,556,262
Egypt Pound	1,463,324	-	-	25,080,643	-	-	26,543,967
Euro Member Countries	25,498,162	1,960,600,188	(4,727,602)	4,210,190,357	188,899,123	603,806,082	6,984,266,310
Ghana Cedi	161,516	-	-	2,343,950	-	-	2,505,466
Hong Kong Dollar	11,499,710	-	110,925	2,806,573,004	-	-	2,818,183,639
Hungary Forint	2,065	-	(48,070)	57,974,869	-	-	57,928,864
India Rupee	3,636,495	-	594,556	904,898,981	85,596	-	909,215,628
Indonesia Rupiah	416,772	-	(23,400)	403,502,499	-	-	403,895,871
Israel Shekel	69,648	-	(105,631)	23,494,761	-	-	23,458,778
Japan Yen	39,050,997	-	(5,895,884)	3,497,389,327	3,529,789	-	3,534,074,229
Jordan Dinar	86,681	-	-	6,834,807	-	-	6,921,488
Kenya Shilling	31,331	-	-	9,098,991	-	-	9,130,322
Korea (South) Won	288,608	-	(1,542,937)	1,563,516,525	-	-	1,562,262,196
Kuwait Dinar	36,106	-	-	17,980,681	-	-	18,016,787
Malaysia Ringgit	1,277,949	-	(274,133)	181,459,175	-	-	182,462,991
Mauritius Rupee	22,009	-	-	6,595,392	-	-	6,617,401
Mexico Peso	3,106,336	-	(328,462)	379,037,620	7,525,333	-	389,340,827
Morocco Dirham	164,359	-	-	6,976,462	-	-	7,140,821
New Zealand Dollar	667,757	-	1,867,471	18,559,465	13,331,803	-	34,426,496
Nigeria Naira	92,391	-	-	4,189,210	-	-	4,281,601
Norway Krone	1,974,685	-	8,260,037	270,906,392	-	-	281,141,114
Oman Rial	55,830	-	-	6,415,096	-	-	6,470,926
Pakistan Rupee	76,416	-	-	62,263,323	-	-	62,339,739
Peru Sol	82,347	-	-	5,642,478	-	-	5,724,825
Philippines Peso	32,108	-	(87,470)	121,786,310	-	-	121,730,948
Poland Zloty	318,397	-	100,091	118,550,465	-	-	118,968,953
Qatar Riyal	73,963	-	-	33,671,024	-	-	33,744,987
Romania New Leu	71,295	-	-	11,966,883	-	-	12,038,178
Russia Ruble	-	-	(393,340)	37,236,519	-	-	36,843,179
Singapore Dollar	631,572	-	(205,097)	84,499,408	-	-	84,925,883
South Africa Rand	2,338,121	-	(1,504,685)	757,843,416	4,909,843	-	763,586,695
Sri Lanka Rupee	67,251	-	-	7,471,492	-	-	7,538,743
Sweden Krona	115,634	-	166,933	228,775,430	-	-	229,057,997
Switzerland Franc	(507,277)	-	142,748	932,158,315	-	-	931,793,786
Taiwan New Dollar	6,923,805	-	(480,553)	924,451,100	-	-	930,894,352
Thailand Baht	193,377	-	659,040	291,446,290	-	-	292,298,707
Tunisia Dinar	57,358	-	4	2,486,708	-	-	2,544,070
Turkey Lira	253,201	-	485,542	213,970,528	-	-	214,709,271
United Arab Emirates Dirham	895,573	-	-	47,676,517	-	-	48,572,090
United Kingdom Pound	8,182,297	447,103,863	13,407,028	2,365,368,032	280,851,929	-	3,114,913,149
Viet Nam Dong	124,658	-	-	7,053,375	-	-	7,178,033
Total Foreign Currency Risk	\$ 128,919,920	\$ 2,407,704,051	\$ 11,038,395	\$ 23,450,133,060	\$ 636,461,724	\$ 603,806,082	\$ 27,238,063,232

Notes to the Financial Statements

NOTE 4: EMPLOYEE COMPENSABLE LEAVE

Salary costs related to employees' rights to be compensated for leave balances are accrued as expenses in the period in which the services are 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 2016 is shown in the table below:

Fund	Beginning Balance 09/01/15	Additions	Reductions	Ending Balance 08/31/16	Due Within One Year	Amounts Due Thereafter
<i>Fiduciary Funds:</i>						
Pension Trust Fund	\$ 7,729,025	\$ 8,346,727	\$ (7,795,543)	\$ 8,280,209	\$ 5,613,493	\$ 2,666,716
TRS-Care	315,327	332,147	(321,403)	326,071	212,986	113,085
<i>Proprietary Funds:</i>						
TRS-ActiveCare	139,617	137,720	(181,927)	95,410	72,420	22,990
403(b) Administrative Program	1,765	7,456	(4,568)	4,653	4,564	89
Total	\$ 8,185,734	\$ 8,824,050	\$ (8,303,441)	\$ 8,706,343	\$ 5,903,463	\$ 2,802,880

NOTE 5: OPERATING LEASES

In fiscal year 2014, TRS entered into a non-cancelable operating lease agreement for building space which expires March 31, 2021. As part of the building lease, TRS received a construction allowance which is 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, 2016 for the Pension Trust Fund were \$2,046,248 and includes an adjustment for amortization of unrealized lease incentives of \$71,421. Rental expenses related to Teacher Retirement Investment Company of Texas (TRICOT) located in London were \$362,730 for leases and \$4,061 for machine rentals.

Off-site storage fees for data security was \$15,324, copier rentals were \$465,015 and rental for a mail machine was \$64,609.

The future minimum lease payment for the next five years are as follows:

Fiscal Year	Amount
2017	\$ 1,475,696
2018	1,280,475
2019	1,214,230
2020	1,248,503
2021	731,457
Total	<u>\$ 5,950,361</u>

Notes to the Financial Statements

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 pension plan they administer (Note 12).

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 \$18,846,119 for the fiscal year ended August 31, 2016. Under TRS-Care's Employer Group Waiver Plan (EGWP) reimbursements totaled \$39,383,586 for Medicare Part D direct subsidies, \$60,663,690 for catastrophic reinsurance subsidies and \$5,846,254 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.

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 September 2015 to enable the system to remain competitive in its efforts to attract, retain and motivate high caliber investment division staff. The Plan is subject to annual review and approval by the Board. 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, 2016 the liability is estimated not to exceed \$12.8 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."

Notes to the Financial Statements

NOTE 10: POST-EMPLOYMENT HEALTH CARE BENEFITS

A. PLAN DESCRIPTION

TRS Employees

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

Benefits and contribution provisions of the SRHP are not actuarially determined, but are authorized by state law and may be amended by the Texas Legislature. For the year ended August 31, 2016, 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:

Employer Contribution Rates			
Retiree Health and Basic Life Premium			
For the Fiscal Year			
Type of Coverage	2016	2015	2014
Member Only	\$576.54	\$537.66	\$503.14
Member & Spouse	906.78	845.54	791.16
Member & Children	797.66	743.80	696.00
Member & Family	1,127.90	1,051.68	984.02

The system covers 100% of a Member Only premium and 50% of the additional premium 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, 2016, there were 267 retirees and their beneficiaries receiving postemployment 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, 2016, 2015, and 2014 the system recognized expenditures of \$2,027,898, \$1,822,022, and \$1,649,877, 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 contribution rates. 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

Notes to the Financial Statements

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. To alleviate a funding shortfall for the 2016-17 biennium, the 84th Texas legislature, House Bill 2 appropriated \$768 million in supplemental funding that was paid in August 2015.

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 2016, deductibles were \$1,800 for those enrolled in Medicare Part A and eligible for Part B, \$3,000 for those not enrolled in Medicare Part A, but eligible for Part B, and \$4,000 for those not enrolled in Medicare.

During fiscal year 2016, the number of reporting entities is summarized in the chart below. Other contributing entities include the State of Texas and the Federal Government.

Independent School Districts	1,024*
Charter Schools (open enrollment only)	173
Regional Education Service Centers	20
Other Educational Districts	<u>5</u>
Total	<u>1,222</u>

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

During fiscal year 2016, OPEB membership consisted of the following:

Retirees and beneficiaries receiving Benefits	268,211
Active Plan Members	<u>699,129</u>
Total	<u>967,340</u>

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 2016. 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.

Notes to the Financial Statements

Contribution Rates		
Contributor	Rate	Amount
Active Employee	0.65 %	\$ 208,581,990
State	1.00	297,070,920
Participating Employers	0.55	189,111,901
Federal/Private Funding*	1.00	23,824,450
Total		\$ 718,589,261

**Included in Participating Employers on Exhibit II*

The following table shows past and future contribution rates:

Contribution Rates			
Year	Active Employee	State	Participating Employers *
2013	0.65%	0.50%	0.55%
2014	0.65	1.00	0.55
2015	0.65	1.00	0.55
2016	0.65	1.00	0.55
2017	0.65	1.00	0.55

**Contributions from Federal/Private Funding and remitted by the employer is paid at the State rate.*

The contributions shown above and premium contributions of \$374,736,269 contribute toward the total plan expenditures of \$1,774,004,536. Expenses for TRS-Care are recognized as retirees report claims and include a provision for estimated claims incurred but not yet received.

C. ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions and most of the economic assumptions were identical to those which were adopted by the Board in 2015 based on the 2015 actuarial experience study of TRS.

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2016 TRS annual actuarial valuation:

- Rates of Retirement
- Rates of Termination
- Rates of Disability Incidence
- General Inflation
- Wage Inflation
- Expected Payroll Growth

Notes to the Financial Statements

Actuarial Methods:	Valuation Date	August 31, 2016
	Actuarial Cost Method	Projected Unit Credit
	Amortization Method	Level Percent of Payroll, Open
	Amortization Period	30 Years
	Asset Valuation Method	Market

Actuarial Assumptions:	Investment Rate of Return *	4.75%
	Discount Rate	4.75%
	Payroll Growth Rate	2.50%
	Projected Salary Increases *	3.50% to 9.50%
	Healthcare Trend Rates *	9.50% to 4.20%**
	Ad hoc post-employment benefit changes	None

**Includes Inflation at 2.50%*

*** Initial rates are 7.25% for medical and 9.50% for prescriptions.*

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

1. The discount rate for the current funding policy scenario was changed from 5.25% to 4.75%.
2. The savings from the Medicare Advantage plans and the Medicare Part D plan are expected to last longer than previously assumed. The impact of these changes, which are related to the Medicare Advantage premiums and drug rebates, were measured in with the liability experience.
3. The ultimate trend assumption for the Cadillac Tax was increased from 4.00% to 4.20% to reflect the anticipated impact of the high-cost employer health plans effective January 1, 2020.

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

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

Notes to the Financial Statements

D. FUNDED STATUS AND FUNDING PROGRESS – OPEB PLAN

Schedule of Funding Progress						
(DOLLAR AMOUNTS SHOWN IN MILLIONS)						
Valuation as of August 31 (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3)-(2) (4)	Funded Ratio Assets as a % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
2016	\$641	\$50,198	\$49,557	1.3%	\$32,892	151%

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 with a special funding situation. 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.

Notes to the Financial Statements

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. The benefit formula is 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to equal the annual standard annuity. For members who are grandfathered, the three highest annual salaries are used. To be eligible for disability retirement, a member must have a physical or mental disability that precludes the member's continued performance of current duties, and the disability must be certified by the TRS Medical Board as probably permanent. 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). Death and Survivor retirement benefits are available to the beneficiary of an active member. 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.

As of August 31, 2016, the numbers of participating employers were as follows:

Independent School Districts	1,025
Charter Schools (open enrollment only)	173
Community and Junior Colleges	50
Senior Colleges and Universities	49
Regional Service Centers	20
Medical Schools	9
Educational Districts	5
State Agencies	<u>1</u>
Total	<u>1,332</u>

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

As of August 31, 2016, TRS gross membership consisted of the following:

Retired plan members or beneficiaries currently receiving benefits	393,914
Inactive plan members entitled to but not yet receiving benefits	262,353
Active plan members	<u>847,673</u>
Total	<u>1,503,940</u>

The Average Expected Remaining Service Life (AERSL) of 6.7724 is based on the membership information as of the beginning of the fiscal year.

Notes to the Financial Statements

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.
- 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.

The following table shows contributions to the pension fund by type of contributor:

Fiscal Year 2016		
<u>Contributor</u>	<u>Contribution Rate</u>	<u>Amount</u>
Member	7.2%	\$ 2,943,669,320
Non-Employer Contributing Entity (State)	6.8	1,675,631,248
Employers	6.8	<u>1,097,631,061</u>
Total		<u><u>\$ 5,716,931,629</u></u>

Employers are also required to pay surcharges in the following cases:

- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the applicable salary.
- When employing a retiree of the Teacher Retirement System, the employer shall pay an amount equal to the member contribution and the state contribution as an employment after retirement surcharge.

Notes to the Financial Statements

The following table shows the types of surcharges paid by the participating employers:

<u>Surcharge</u>	Fiscal Year 2016	
	<u>Contribution Rate</u>	<u>Amount</u>
Non-OASDI	1.5%	\$ 366,804,399
Employment after Retirement - Employer	6.8	9,769,093
Employment after Retirement - Employee	7.2	9,184,795
Total		<u>\$ 385,758,287</u>

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act established the employer contribution rate for fiscal year 2016. Contribution rates and amounts for fiscal year 2016 are as follows:

The following table shows past and future contribution rates:

<u>Year</u>	Contribution Rates	
	<u>Member</u>	<u>Employer</u>
2014	6.4%	6.8%
2015	6.7	6.8
2016	7.2	6.8
2017	7.7	6.8

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, 2016 were:

Member Savings Account	\$ 34,871,425,091
State Contribution Account	12,274,656,928
Retired Reserve Account	86,718,000,757
Deferred Retirement Option Account	18,083,634
Expense Account	<u>126,471,063</u>
Total (Exhibit 1)	<u>\$ 134,008,637,473</u>

Notes to the Financial Statements

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 account 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, 2016 are as follows:

<u>Components of Liability</u>	<u>Amount</u>
Total Pension Liability	\$171,797,150,487
Less: Plan Fiduciary Net Position	<u>(134,008,637,473)</u>
Net Pension Liability	<u>\$ 37,788,513,014</u>
Net Position as a Percentage of Total Pension Liability	78.00 %

Actuarial Assumptions – The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions have been selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. 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, 2014 and were adopted in September 2015.

The active mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females. The Post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

Discount Rate – A single discount rate of 8.0 % was used to measure the total pension liability. There was no change in the discount rate since the previous fiscal year. This single discount rate was based on the expected rate of return on pension plan investments of 8.0%. The projection of cash flows used to determine this single discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2013 legislative session.

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 with no cross-over point to a municipal bond rate.

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, 2016 are summarized in Note 3.

Notes to the Financial Statements

The following assumptions were applied to this measurement period:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00 %
Long-term expected Investment Rate of Return	8.00 %
Municipal Bond Rate*	N/A*
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2115
Inflation	2.50 %
Salary Increases	3.50 % to 9.50 % including inflation
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

* If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

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 one-percentage point lower (7%) or one-percentage point higher (9%) than the current rate:

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumptions		
1% Decrease	Current Single Discount Rate	1% Increase
7%	8%	9%
\$58,483,888,620	\$37,788,513,014	\$20,234,650,980

Funding Progress – The required schedule of funding progress immediately following the notes to the financial statements 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 over time.

Notes to the Financial Statements

NOTE 13: COMPONENT UNITS

A. DESCRIPTION

TRICOT (Teacher Retirement Investment Company of Texas Ltd.) is a private company limited by shares in the United Kingdom (UK) that began operating in November 2015. TRS is the sole shareholder of TRICOT. TRS formed TRICOT for the purpose of opening a London investment office to increase investment opportunities for the TRS portfolio. The Blended Component Units Financial Information is for the period ended August 31, 2016.

B. CRITERIA FOR INCLUSION AS A COMPONENT UNIT

The following was reviewed for compliance with GASB 14 as modified by GASB 39 and 61:

- TRICOT is considered a special purpose government entity engaged only in fiduciary activities on behalf of TRS.
- TRICOT is a part of the System. TRS maintains complete control over TRICOT and all related assets. If TRICOT were dissolved, any remaining assets net of liabilities would revert to TRS.
- As a “private limited liability company” in the UK, TRICOT is legally separate according to GASB 14, paragraph 15.

C. PRESENTATION METHOD

TRICOT is presented as a **Blended Component Unit** according to GASB 14, as modified by GASB 39 and 61, based on the following:

- TRS’ executive director, as a shareholder representative, appoints the sole director of TRICOT.
- TRICOT is financially dependent upon TRS and has no other sources of funding.
- It would be misleading to exclude TRICOT in the financial statements although TRICOT is immaterial to TRS.
- TRICOT provides services exclusively to TRS.

D. FUND TYPE

TRICOT serves the Pension Trust Fund of TRS and is reported as a **Fiduciary Fund Type** and blended into TRS in compliance with GASB 14, paragraphs 52 and 54 as modified by GASB 61, paragraphs 8 and 9 and GASB codification 2600.107.

Written requests for the financial statements of the individual component unit (TRICOT) should be addressed to:

Communications Department
Teacher Retirement System of Texas
1000 Red River Street
Austin, TX 78701
(512)542-6400

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Required Supplementary Information**PENSION TRUST FUND**

Fiscal Years 2007-2016

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

LAST TEN FISCAL YEARS

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

	2016	2015	2014	2013
Total Pension Liability*				
Service Cost	\$ 4,392,077	\$ 4,225,449	\$ 3,965,994	\$
Interest on Net Pension Liability	12,896,571	12,555,646	11,813,446	
Differences between Expected and Actual Experience	373,669	(1,588,619)	482,639	
Changes of Actuarial Assumptions	0	(1,474,724)	2,028,541	
Benefit Payments	(9,379,123)	(8,935,112)	(8,548,643)	
Refunds of Member Accounts	(373,419)	(391,341)	(410,600)	
Net Change in Total Pension Liability	\$ 7,909,775	\$ 4,391,299	\$ 9,331,377	
Total Pension Liability--Beginning	163,887,375	159,496,076	150,164,699	
Total Pension Liability--Ending (a)	\$ 171,797,150	\$ 163,887,375	\$ 159,496,076	\$ 150,164,699
Plan Fiduciary Net Position				
Contributions--Employer	\$ 1,483,390	\$ 1,377,973	\$ 984,552	\$ 925,694
Contributions--Member	2,943,669	2,576,024	2,357,686	2,252,095
Non-Employer Contributing Entity	1,675,631	1,591,483	1,530,624	1,337,215
Net Investment Income	9,193,281	(412,759)	19,434,430	9,834,136
Benefit Payments	(9,379,123)	(8,935,112)	(8,548,643)	(8,075,209)
Refunds of Member Accounts	(373,419)	(391,341)	(410,600)	(391,292)
Administrative Expense	(44,403)	(35,557)	(41,904)	(36,264)
Other	(29,095)	(11,248)	84,954	91,882
Net Change in Plan Fiduciary Net Position	\$ 5,469,931	\$ (4,240,537)	\$ 15,391,099	\$ 5,938,257
Plan Fiduciary Net Position--Beginning	\$ 128,538,706	\$ 132,779,243	\$ 117,388,144	\$ 111,449,887
Plan Fiduciary Net Position--Ending (b)	\$ 134,008,637	\$ 128,538,706	\$ 132,779,243	\$ 117,388,144
Net Pension Liability--Ending (a)-(b)	\$ 37,788,513	\$ 35,348,669	\$ 26,716,833	\$ 32,776,555
Plan Fiduciary Net Position as a Percentage of the total Pension Liability*	78.00%	78.43%	83.25%	78.17%
Covered-Employee Payroll*	\$ 40,742,826	\$ 38,448,124	\$ 36,654,291	\$ 35,188,983
Net Pension Liability as a percentage of Covered - Employee Payroll*	92.75%	91.94%	72.89%	93.14%

*Total pension liability will be presented on a prospective basis in accordance with GASB 67, paragraph 50.

Required Supplementary Information

PENSION TRUST FUND

Fiscal Years 2007-2016

2012	2011	2010	2009	2008	2007						
\$	\$	\$	\$	\$	\$						
\$	0	\$	0	\$	0						
\$	760,838	\$	856,220	\$	835,605	\$	791,450	\$	703,723	\$	469,568
	2,188,020		2,243,955		2,205,017		2,107,058		1,998,139		1,862,596
	1,299,078		1,484,286		1,461,035		1,378,304		1,352,243		1,283,642
	7,847,298		14,636,935		9,411,447		(13,971,869)		(4,604,972)		14,298,547
	(7,723,622)		(7,173,505)		(6,617,397)		(6,294,434)		(6,406,645)		(5,762,885)
	(381,231)		(334,269)		(265,187)		(266,695)		(278,003)		(280,006)
	(33,074)		(35,850)		(29,993)		(28,310)		(26,124)		(27,503)
	71,793		54,610		34,906		26,970		43,335		45,878
\$	4,029,100	\$	11,732,382	\$	7,035,433	\$	(16,257,526)	\$	(7,218,304)	\$	11,889,837
\$	107,420,787	\$	95,688,405	\$	88,652,972	\$	104,910,498	\$	112,128,780	\$	100,238,963
\$	111,449,887	\$	107,420,787	\$	95,688,405	\$	88,652,972	\$	104,910,498	\$	112,128,780

Required Supplementary Information

PENSION TRUST FUND

For Fiscal Years Ending August 31

SCHEDULE OF THE EMPLOYERS' NET PENSION LIABILITY (HISTORICAL)						
(DOLLAR AMOUNTS IN THOUSANDS)						
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	NPL as a % of Covered Payroll
2013	\$150,164,699	\$117,388,144	\$32,776,555	78.17%	\$35,188,983	93.14%
2014	159,496,076	132,779,243	26,716,833	83.25	36,654,291	72.89
2015	163,887,375	128,538,706	35,348,669	78.43	38,448,124	91.94
2016	171,797,150	134,008,637	37,788,513	78.00	40,742,826	92.75

*Total pension liability will be presented on a prospective basis in accordance with GASB 67, paragraph 50.

SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTING ENTITY ACTUARIALLY DETERMINED CONTRIBUTIONS (ADC)					
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%
2015	3,171,970,234	2,969,455,641	202,514,593	38,448,124,045	7.72
2016	3,226,831,846	3,159,020,596	67,811,250	40,742,826,333	7.75

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

Note 1: Actuarial Assumptions – The information presented in the preceding table was used in the actuarial valuation for determining the actuarially determined contribution rate. The assumptions are as follows:

Valuation Date	August 31, 2016
Actuarial Cost Method	Ultimate Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Remaining Amortization Period	33 years
Asset Valuation Method	5 year Smoothed Market
Actuarial Assumptions:	
Inflation	2.50%
Salary Increases	3.50% to 9.50% including inflation
Investment Rate of Return	8.00%
Ad hoc post-employment benefit changes	None
Benefit Changes during the year	None

Required Supplementary Information

PENSION TRUST FUND

For Fiscal Years Ending August 31

SCHEDULE OF INVESTMENT RETURNS							
Annual Money-Weighted Rate of Return, Net of Investment Expense							
2016	2015**	2014**	2013**	2012**	2011**	2010**	2009**
7.27%	(0.31%)	16.87%	9.01%	7.41%	15.60%	10.69%	(13.46%)

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

***The annual money-weighted rate of return has been restated due to changing from a cash basis to an accrual basis methodology.*

Required Supplementary Information**TRS-CARE**

For Fiscal Years 2009-2016

SCHEDULE OF FUNDING PROGRESS						
(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)
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
2015	973	44,203	43,230	2.2	31,254	138
2016	641	50,198	49,557	1.3	32,892	151

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES						
Annual Required Contributions (ARC)						
(DOLLAR AMOUNTS SHOWN IN THOUSANDS)						
[1]	[2]	Actual Contributions				[7]
		[3]	[4]	[5]	[6]	
Fiscal Year Ended	Annual Required Contributions (ARC)	From State	From Employers	On-Behalf From Federal Government	Total (3)+(4)+(5)	Percentage Contributed (6)/(2)
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
2015	2,357,011	1,049,199	202,976	126,807	1,378,982	58.5
2016	3,853,953	297,071	212,936	124,740	634,747	16.5

NOTE 1: The employer ARC was determined by netting the active employee contributions (0.65%) out of the total ARC (12.66%). The ARC for FY2016 was determined by applying the Employer ARC determined in the 2015 valuation as a percentage of payroll (12.01%) to the actual payroll paid in FY2016 (\$32.1 billion).

Statement of Changes in Assets and Liabilities

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

	Balances September 1, 2015	Additions	Deductions	Balances August 31, 2016
Child Support Employee Deductions				
Total Assets:				
Cash in State Treasury	\$6,599	\$79,081	\$79,343	\$6,337
TOTAL ASSETS	\$6,599	\$79,081	\$79,343	\$6,337
Total Liabilities:				
Funds Held for Others	\$6,599	\$79,081	\$79,343	\$6,337
TOTAL LIABILITIES	\$6,599	\$79,081	\$79,343	\$6,337

Exhibit A

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

	INTEREST ACCOUNT	2016	2015
Schedule 1	Additions		
	Investing Activities Income (Loss)*	\$ 9,338,243,204	\$ (235,428,286)
	Securities Lending Program	92,547,038	81,873,039
	Transfers In:		
	Transfer from State Contribution Account for:		
	Allocation of Interest	1,844,080,496	212,729,627
	Investing Income		7,107,642,634
	Transfer from Deferred Retirement Option Account for		
	Revokes	2,370,155	
	TOTAL ADDITIONS	\$ 11,277,240,893	\$ 7,166,817,014
	Deductions		
	Bank Fees	\$ 18,210,965	\$ 7,150,913
	External Manager Fees	143,254,507	181,939,993
	External Legal Fees	3,758,721	2,655,297
	External Custodial Fees	22,000,000	22,000,000
Transfers Out:			
Allocation of Interest to:			
Member Savings Account	681,633,434	659,595,576	
Retired Reserve Account	6,487,969,444	6,189,324,942	
Deferred Retirement Option Account	403,677	667,930	
Expense Account	117,033,476	103,482,363	
Transfer to State Contribution Account for Investing			
Income	3,802,976,669		
TOTAL DEDUCTIONS	\$ 11,277,240,893	\$ 7,166,817,014	
Net Change in Account Balance	\$ 0	\$ 0	
Account Balance - Beginning September 1	\$ 0	\$ 0	
Account Balance - Ending August 31	\$ 0	\$ 0	

*Investing Activities Income (Loss) includes Interest from Investing Activities, Investment Dividends and Net Increase (Decrease) in Fair Value of Investments.

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

MEMBER SAVINGS ACCOUNT	2016	2015
Additions		
Contributions:		
Contributions Paid by Member	\$ 2,943,669,320	\$ 2,576,024,311
Purchase of Service Credit-Refundable	29,004,823	23,508,475
Transfer In:		
Allocation from Interest Account	681,633,434	659,595,576
TOTAL ADDITIONS	\$ 3,654,307,577	\$ 3,259,128,362
Deductions		
Refund of Contributions-Active	\$ 366,039,111	\$ 385,866,706
Transfers Out:		
Transfer to Retired Reserve Account:		
For Dormant Accounts	20,604,877	24,054,441
To Fund Benefits	2,319,697,385	2,037,001,787
Transfer to State Contribution Account	33,756,075	
Transfer to Expense Account	24,926,487	
TOTAL DEDUCTIONS	\$ 2,765,023,935	\$ 2,446,922,934
Net Change in Account Balance	\$ 889,283,642	\$ 812,205,428
Account Balance - Beginning September 1	\$ 33,982,141,449	\$ 33,169,936,021
Account Balance - Ending August 31	\$ 34,871,425,091	\$ 33,982,141,449

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

STATE CONTRIBUTION ACCOUNT	2016	2015
Additions		
Contributions:		
State's General Fund - Non-Employer Contributing Entity	\$ 1,675,631,248	\$ 1,591,482,988
State's General Fund - Employer	104,714,221	93,079,033
Participating Employers	992,916,840	924,216,283
Surcharges:		
Employment after Retirement - Employee	9,184,795	7,481,714
Employment after Retirement - Employer	9,769,093	8,339,748
Non-OASDI Participating Employers	366,804,399	344,855,875
Purchase of Service Credit-Non-Refundable	31,337,547	26,580,631
Transfers In:		
Transfer from Interest Account for:		
Investing Income	3,802,976,669	
Transfer from Member Savings Account	33,756,075	
Transfer from Retired Reserve Account:		
For Retirement Benefits Forfeited While		
Member Returned to Teaching	1,102,206	1,096,898
For Retirement Benefits Waived by Member	26,205	33,889
TOTAL ADDITIONS	\$ 7,028,219,298	\$ 2,997,167,059
Deductions		
Transfers Out:		
Transfer to Interest Account for:		
Allocation of Interest	\$ 1,844,080,496	\$ 212,729,627
Investing Income		7,107,642,634
Transfer to Retired Reserve Account:		
To Fund Benefits	4,990,946,874	4,339,063,087
Based on Actuarial Valuation as of August 31	318,769,982	556,680,791
TOTAL DEDUCTIONS	\$ 7,153,797,352	\$ 12,216,116,139
Net Change in Account Balance	\$ (125,578,054)	\$ (9,218,949,080)
Account Balance - Beginning September 1	\$ 12,400,234,982	\$ 21,619,184,062
Account Balance - Ending August 31	\$ 12,274,656,928	\$ 12,400,234,982

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

Schedule 1

RETIRED RESERVE ACCOUNT	2016	2015
Additions		
Contributions Transferred in from Employees Retirement System of Texas	\$ 20,376,732	\$ 18,989,008
Transfers In:		
Allocation from Interest Account	6,487,969,444	6,189,324,942
Transfer from Member Savings Account:		
For Dormant Accounts	20,604,877	24,054,441
To Fund Benefits	2,319,697,385	2,037,001,787
Transfer from State Contribution Account:		
To Fund Benefits	4,990,946,874	4,339,063,087
Based on Actuarial Valuation as of August 31	318,769,982	556,680,791
Transfer from Deferred Retirement Option Account to Fund Benefits	4,073,970	40,337
TOTAL ADDITIONS	\$ 14,162,439,264	\$ 13,165,154,393
Deductions		
Benefits Paid:		
Service Retirement Annuities	\$ 8,633,505,859	\$ 8,215,765,876
Partial Lump Sums	300,420,702	288,923,266
Disability Retirement Annuities	173,464,936	169,318,064
Death and Survivor Benefits:		
Annual Salary	44,952,730	39,574,595
Survivor Annuities	108,509,074	100,150,048
Life Annuities	92,087,967	90,563,081
60 Monthly Payments	15,523,059	14,443,193
Remainder of Contributions	5,491,553	6,730,215
Refund of Contributions-Death	7,379,576	5,474,475
Benefits Transferred to		
Employees Retirement System of Texas	88,854,383	84,059,353
Retirement Benefits Forfeited:		
Member Returned to Teaching	1,102,206	1,096,898
For Retirement Benefits Waived by Member	26,205	33,889
TOTAL DEDUCTIONS	\$ 9,471,318,250	\$ 9,016,132,953
Net Change in Account Balance	\$ 4,691,121,014	\$ 4,149,021,440
Account Balance - Beginning September 1	\$ 82,026,879,743	\$ 77,877,858,303
Account Balance - Ending August 31	\$ 86,718,000,757	\$ 82,026,879,743

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

DEFERRED RETIREMENT OPTION ACCOUNT	2016	2015
Additions		
Transfers In:		
Allocation from Interest Account	\$ 403,677	\$ 667,930
Transfer from Expense Account	780	
TOTAL ADDITIONS	\$ 404,457	\$ 667,930
Deductions		
Benefits Paid	\$ 5,166,851	\$ 9,643,121
Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	4,073,970	40,337
Allocation to Interest Account for DROP Revokes	2,370,155	
TOTAL DEDUCTIONS	\$ 11,610,976	\$ 9,683,458
Net Change in Account Balance	\$ (11,206,519)	\$ (9,015,528)
Account Balance - Beginning September 1	\$ 29,290,153	\$ 38,305,681
Account Balance - Ending August 31	\$ 18,083,634	\$ 29,290,153

Schedule 1

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

EXPENSE ACCOUNT	2016	2015
Additions:		
Miscellaneous Revenues	\$ 1,993,029	\$ 3,733,133
Transfers In:		
Transfer from Member Savings	24,926,487	
Allocation from Interest Account	117,033,476	103,482,363
TOTAL ADDITIONS	\$ 143,952,992	\$ 107,215,496
Deductions:		
Transfer Out:		
Transfer to Deferred Retirement Option Account	\$ 780	\$
Service Credit Purchase:		
Refundable	10,185,824	
Non-Refundable	12,767,012	
Administrative Expenses:		
Salaries, Wages and Other Personnel Costs	68,006,934	63,381,520
Professional Fees and Services	4,138,955	1,634,050
Travel	1,108,647	921,395
Materials and Supplies	4,722,937	3,470,876
Communications and Utilities	873,295	644,183
Repairs and Maintenance	6,590,710	3,693,269
Rentals and Leases	3,025,845	1,879,531
Printing and Reproduction	185,388	235,925
Depreciation Expense	2,827,341	2,939,923
Amortization Expense	421,057	530,953
Gain/Loss on Capital Assets	832	
Other Expense	2,786,257	1,683,004
TOTAL DEDUCTIONS	\$ 117,641,814 *	\$ 81,014,629
Net Change in Account Balance	\$ 26,311,178	\$ 26,200,867
Account Balance - Beginning September 1	\$ 100,159,885	\$ 73,959,018
Account Balance - Ending August 31	\$ 126,471,063	\$ 100,159,885

* This amount includes total internal administrative investing activity expenses of \$50,285,489 (Schedule 3) and Administrative expenses net of investing activity expenses are \$44,402,710 (Exhibit II).

Schedule of Administrative Expenses

ALL FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

	Pension Trust Fund	TRS-Care
Personnel Services:		
<i>Salaries and Wages:</i>		
Salaries	\$ 21,230,268	\$ 2,371,805
Longevity Pay	97,219	60,440
Benefit Replacement Pay	58,953	9,195
Employee Compensable Absences	264,568	10,744
<i>Payroll Related Costs:</i>		
Employer FICA Contributions	1,739,700	178,245
Employer Health Insurance Contributions	3,539,030	411,980
Other Employee Benefits	9,005	3,000
TOTAL PERSONNEL SERVICES	\$ 26,938,743	\$ 3,045,409
Professional Fees and Services	\$ 3,230,329	\$ 1,484,281
Other Operating Expenses:		
Travel	\$ 94,828	\$ 16,129
Materials and Supplies:		
Consumable Supplies and Fuels	309,303	1,479
Subscriptions and Reference Information	236,008	575
Postage, Mailing and Delivery Services	2,065,606	31,016
Furniture and Equipment - Expensed	687,495	90
Communications and Utilities	392,019	2,922
Repairs and Maintenance		
Software Purchases and Maintenance	3,175,463	
Computer Hardware Maintenance	796,964	
Maintenance - Buildings and Equipment	1,063,340	
Rentals and Leases	754,018	55,335
Printing and Reproduction	81,888	42,841
Depreciation Expense	2,435,241	
Amortization Expense	421,057	
Gain/Loss Capital Assets	832	
Other Expense		
Dues, Fees and Staff Development	217,799	2,669
Insurance Premiums	316,770	
Other Miscellaneous Expenses	1,185,007	18,931
TOTAL OTHER OPERATING EXPENSES	\$ 14,233,638	\$ 171,987
TOTAL ADMINISTRATIVE EXPENSES	\$ 44,402,710	\$ 4,701,677

		403(b) Administrative			
TRS-ActiveCare		Program		Total	
\$	1,191,466	\$	37,798	\$	24,831,337
	21,220		500		179,379
	1,614				69,762
	(44,208)		2,887		233,991
	86,901		2,841		2,007,687
	133,936		4,612		4,089,558
					12,005
\$	1,390,929	\$	48,638	\$	31,423,719
\$	1,190,957	\$		\$	5,905,567
\$	12,915	\$		\$	123,872
	736				311,518
	733				237,316
	1,706				2,098,328
					687,585
	811				395,752
					3,175,463
					796,964
					1,063,340
	41,599				850,952
					124,729
					2,435,241
					421,057
					832
	4,009				224,477
					316,770
	397				1,204,335
\$	62,906	\$	0	\$	14,468,531
\$	2,644,792	\$	48,638	\$	51,797,817

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

Schedule 3

	2016	2015
Direct Expenses:		
Salaries and Other Personnel Costs	\$ 31,621,307	\$ 30,504,075
Professional Fees and Services	66,584	254,558
Consumable Supplies	9,280	14,709
Travel	900,124	720,295
Building Lease	2,016,261	1,430,445
Copier Rentals	105,453	97,441
Dues, Fees and Staff Development	109,477	42,641
Subscriptions and Reference Materials	323,320	63,092
Printing and Reproduction Services	8,085	12,565
Software Upgrades	198,984	110,545
Telecommunication and Data Services	164,785	300,894
Furniture and Equipment - Expensed	183,287	83,661
Depreciation - Leasehold Improvements	20,524	259,729
Total Direct Expenses	\$ 35,727,471	\$ 33,894,650
Indirect Expenses:		
Depreciation	\$ 371,576	\$ 350,965
Executive Management Support	2,931,214	2,860,773
Legal Support	1,921,986	2,257,077
Audit Support	583,535	623,865
Human Resources Support	962,387	786,448
Fiscal Management Support	1,912,260	1,261,884
Information Technology Support	4,408,164	2,008,639
Staff Services Support	1,430,214	1,032,172
Other Support Services	36,682	381,177
Total Indirect Expenses	\$ 14,558,018	\$ 11,563,000
Total Internal Administrative Investing Activity Expenses*	\$ 50,285,489	\$ 45,457,650
Bank Fees**	\$ 18,210,965	\$ 7,150,913
External Manager Fees**	143,254,507	181,939,993
External Legal Fees**	3,758,721	2,655,297
External Custodial Fees**	22,000,000	22,000,000
Total Investing Activity Expenses (Exh. II)***	\$ 237,509,682	\$ 259,203,853

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

** Performance calculations are net of Bank Fees, External Manager Fees, External Legal Fees and External Custodial Fees.

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016 (With Comparative Data for August 31, 2015)

*** *The investing activity expenses do not include the following expenditures:
During fiscal year 2016, the system paid commissions to various brokers totaling \$30,631,015. A portion of the total commissions was paid through various Commission Sharing Arrangements (CSA) generating \$17,744,600 in CSA proceeds. These proceeds were used in accordance with Section 28(e) of the Securities Exchange Act of 1934 to acquire research services from various investment related firms totaling \$13,137,149. Unspent CSA proceeds (totaling \$9,828,546.56) are held by State Street Bank and Trust Company as the system's CSA Administrator.*

During fiscal year 2016, the system paid commissions through various external managers totaling \$764,363. A portion of the total commissions was paid through various Commission Recapture Arrangements (CRA) generating \$449,858 in CRA proceeds. These proceeds were used to acquire services totaling \$289,878. Unspent CRA proceeds (totaling \$639,673) are held by State Street Bank and Trust Company as the system's CRA Administrator.

Through its contractual agreements with various firms, the system benefited from \$4,877,880 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 \$64,952,768 in commission expenses \$532,873,420 in management fees and \$406,809,020 in performance/carried interest was paid to various Alternative and Pooled Investment General Partners for a total of \$1,004,635,208 in fees and commissions, which are not included in Investing Activities Expense on Exhibit II.

Schedule of Professional and Consulting Fees

ALL FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

Individual or Firm	Nature of Service	Amount
Hewlett Packard	Consulting Services	\$ 3,074,752
Gabriel, Roeder, Smith, & Company	Legal Services	1,988,656
Jackson Walker	Legal Services	1,412,259
Hamilton Lane	Investment Consulting Services	1,400,000
Ernst & Young LLP	Financial and Accounting Services	1,356,276
Provaliant Holdings LLC	Consulting Services	1,345,664
Allied Consultants Inc	Investment Consulting Services	1,103,624
AON Consulting Inc	Investment Consulting Services	900,000
Norton Rose Fullbright	Legal Services	835,344
Seyfarth Shaw LLP	Legal Services	728,494
Catapault Systems	IT Consulting Services	625,411
The Townsend Group	Investment Consulting Services	600,000
Albourne America LCL	Investment Consulting Services	484,450
Teksystems	Temporary Employment Services	439,208
Rhyan Technology Services	Consulting Services	400,820
Katten Muchin Roseman LLP	Legal Services	272,005
State Street Bank And Trust Company	Investment Consulting Services	248,725
State Auditors Office	Financial and Accounting Services	229,000
Bridgepoint Consulting LLC	Consulting Services	225,001
Truven Health Analytics Inc	Consulting Services	213,000
Austin Ribbon & Computer Supplies Inc	Other Professional Services	211,447
Squire Patton Boggs LLP	Legal Services	211,097
Focus Consulting Group Inc	Consulting Services	203,503
Protiviti Inc	Consulting Services	200,481
IG Igloo Holdings Inc	Consulting Services	191,969
Neos Consulting Group, LLC	IT Consulting Services	142,319
Reinhart Boerner Van Deuren SC	Legal Services	124,764
Soal Technologies LLC	Temporary Employment Services	123,738
Foster Pepper PLLC	Legal Services	119,715
Ice Miller	Legal Services	116,039
CEM Benchmarking Inc	Other Professional Services	115,000
Customer Relationship Metrics LC	Other Professional Services	80,016
TIBH Industries Inc	Temporary Employment Services	77,786
UBM LLC	Consulting Services	68,550
Texas A&M University	Other Professional Services	62,374
Brown, Keith C	Investment Consulting Services	60,353
Cognizant Technology Solutions	Consulting Services	58,806
Purrington Moody Weil	Legal Services	40,005
Knowability, Inc	Consulting Services	37,000

Schedule of Professional and Consulting Fees

ALL FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

Individual or Firm	Nature of Service	Amount
(continued from previous page)		
Cox, Alice Md	Medical Services	36,630
Reinarz, James Allen Md	Medical Services	36,630
Wilson, Larry Md	Medical Services	36,630
TRICOT Ltd	Other Professional Services	35,000
Gardere Wynne Sewell	Legal Services	27,081
Rosen Consulting Group	Investment Consulting Services	23,750
Workers Assistance Program Inc	Consulting Services	20,458
Lyris Technologies	Other Professional Services	16,650
Robert Half International, Inc	Temporary Employment Services	12,894
Delta Strategy Group	Investment Consulting Services	12,000
Franklin Covey Co	Consulting Services	10,707
Aggregate Payees less than \$10,000	Other Professional Services	46,897
		<u>\$ 20,442,978</u>
Prior Budget Year Expenditure Adjustment		(429,180)
TOTAL PROFESSIONAL AND CONSULTING FEES		<u><u>\$ 20,013,798</u></u>

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Investment Section



Investment Overview

INVESTMENT POLICY

The board of trustees has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff (“Investment Management Division”) and legal staff. The board also monitors the actions of staff, consultants and advisors to ensure compliance with its policies. The board has a Policy Committee of the board (“Policy Committee”), an Investment Management Committee of the board (“IMD Committee”) and a Risk Management Committee of the board (“Risk Management Committee”), each of which is a standing committee of the board charged with those responsibilities set forth in the *Bylaws of the Board*. The board and the Investment Management Division are assisted by outside investment consultants and internal and external legal counsel.

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. TRS’ long-term asset allocation target is 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 Aug. 31, 2016, the TRS Pension Fund (Trust) delivered investment returns of 7.4 percent, which is 0.5 percent below the fund’s benchmark. By asset class, returns were 5.2 percent for Global Equity, 14 percent for Stable Value and 7.1 percent for Real Return. On a three-year annualized basis, the fund has returned 7.8 percent, which is 0.2 percent above its benchmark. As a result, the total investment value of the fund as of Aug. 31 was \$133.4 billion, or \$5.5 billion more than this time last year, after contributions and benefit payouts. Annual rates of return for the five- and 10-year periods ending Aug. 31, 2016, were 8 percent and 6 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, 2016, 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 2016 marked the eighth 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 Aug. 31, 2016, the total Public SPN is valued at \$6.8 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 2012, establishing long-term partnerships with Apollo and KKR to manage assets in private equity, real assets and credit markets. In early 2015, TRS committed another \$1 billion each to KKR and Apollo to be directed toward tactical opportunities, including non-traditional credit investments. Tactical value strategies launched this year and delivered an 8.6 percent return to the Trust. As of Aug. 31, 2016, the total Private SPN had a net asset value of \$3.8 billion and commitments totaled \$10 billion. These partnerships remain in their early stages, but are already proving beneficial to the Trust.

Investment Overview

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 program began in 2009, the fund has committed \$7.8 billion in more than 55 principal investments across Energy and Natural Resources, Private Equity and Real Assets. In addition, the Investment Management Division (IMD) has committed another \$2.2 billion across more than 70 smaller principal investments in separate dedicated vehicles managed by select general partners, as well as an even greater volume of principal investments in side-car vehicles.

In late 2014, the IMD executed an initiative called "Preferred Destination" 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. This effort has been highly accretive to the Trust's returns producing an even greater level of high quality deal flow for TRS, which will continue to make principal investments a greater portion of IMD's private market investments. In light of the increased deal flow, during 2016, all IMD investment professionals were trained and certified on the Texas Way Valuation methodology to standardize the investment process using a common framework for assessing long-term intrinsic value of investments throughout the Trust.

To further support the "Preferred Destination" effort, the IMD opened TRS' first international office in London on Nov. 1, 2015. The presence in London was designed to strengthen the IMD's overall knowledge of markets in the United Kingdom and Europe; and it has proven particularly valuable in navigating through the market movements surrounding the Brexit referendum, providing an insider perspective of the long-term impact from Britain's decision to exit from the European Union. As a result of the work by the London team to deepen relationships with TRS' general partners, three new investments have been made to date and TRS is on track to increase the number of private markets deal opportunities by 50 percent over the prior year. TRS will continue to build upon its reputation as a leading institutional investor and strengthen investment relationships with key players overseas.

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. The Risk group is also increasingly active in managing certain quantitative investment strategies, with a goal of generating alpha that is uncorrelated to the alpha generated by the rest of the Trust. Risk Parity approached its target allocation during the year and is adding strong value to the Trust with returns of 11.1 percent over the prior year.

Looking ahead, with valuations across major asset classes high relative to history and fundamentals, return expectations remain muted in the coming years. Divergence in the monetary policies of the U.S. and other developed economies will persist as the Federal Reserve seeks to tighten financial conditions. China will manage its transition from an investment-led growth model to one fueled by domestic consumption, likely leading to slower growth in Asia and risks of financial shock. Ongoing shifts in the global financial system arising from regulatory and structural changes will present opportunities for TRS to use its comparative advantages of being large, unlevered, liquid and long term toward seeking new opportunities to add value for the Trust.

*Prepared by:
Investment staff of the system*

Total Time-Weighted Returns

Pension Trust Fund
For Periods Ending June 30

Total Portfolio ¹	2011	2012	2013	2014	2015	2016	3 Years	5 Years	10 Years
TRS	22.2%	2.7%	10.2%	16.3%	4.2%	1.3%	7.1%	6.8%	5.9%
Custom Benchmark²	21.2%	4.1%	8.7%	15.5%	3.8%	1.8%	6.9%	6.7%	5.7%
TRS U.S.A.	31.9%	2.2%	20.9%	24.5%	5.8%	-1.5%	9.1%	9.9%	N/A
U.S.A. Composite Benchmark ³	32.8%	3.4%	21.2%	25.1%	7.7%	2.3%	11.3%	11.5%	N/A
TRS Non-US Developed	30.1%	-13.1%	18.7%	22.8%	-0.6%	-9.8%	3.2%	2.6%	N/A
Non-U.S. Developed Composite Benchmark ⁴	30.3%	-14.1%	17.1%	23.8%	-5.3%	-9.8%	1.9%	1.2%	N/A
TRS Emerging Markets	27.2%	-15.9%	5.6%	14.5%	-4.6%	-10.0%	-0.6%	-2.7%	N/A
Emerging Markets Composite Benchmark ⁵	27.8%	-16.0%	2.9%	14.3%	-5.1%	-12.1%	-1.6%	-3.8%	N/A
TRS Directional Hedge Funds	N/A	N/A	10.0%	12.6%	1.4%	-9.2%	1.2%	N/A	N/A
Directional Hedge Fund Composite Benchmark ⁶	N/A	N/A	7.2%	7.7%	3.8%	-5.4%	1.9%	N/A	N/A
TRS Public Equity	30.3%	-8.1%	15.7%	20.9%	1.3%	-6.2%	4.7%	4.1%	3.8%
Public Equity Composite Benchmark⁷	31.2%	-7.7%	14.8%	20.8%	0.8%	-5.0%	5.0%	4.2%	3.8%
TRS Private Equity	24.6%	7.1%	16.7%	21.7%	12.6%	4.7%	12.8%	12.4%	11.7%
Private Equity Composite Benchmark ⁸	21.9%	7.3%	8.9%	17.6%	8.4%	4.1%	9.9%	9.2%	7.7%
Total TRS Global Equity	29.5%	-5.5%	15.8%	21.0%	3.2%	-4.2%	6.2%	5.5%	4.7%
Global Equity Composite Benchmark⁹	30.3%	-5.2%	13.7%	20.2%	2.3%	-3.2%	6.0%	5.1%	4.5%
TRS U.S. Treasuries	-0.4%	33.1%	-7.9%	6.6%	8.2%	20.6%	11.7%	11.3%	N/A
U.S. Treasuries Composite Benchmark ¹⁰	-1.1%	32.3%	-8.4%	6.3%	6.3%	19.3%	10.5%	10.3%	N/A
TRS Absolute Return	14.0%	2.4%	28.8%	12.3%	13.6%	6.2%	10.7%	12.3%	N/A
Absolute Return Composite Benchmark ¹¹	2.3%	2.5%	2.3%	2.2%	2.3%	2.5%	2.3%	2.4%	N/A
TRS Stable Value Hedge Funds	5.9%	-2.6%	5.5%	5.1%	5.2%	2.5%	4.2%	3.1%	3.0%
Stable Value Hedge Fund Composite Benchmark ¹²	2.3%	1.7%	6.9%	6.6%	2.6%	-3.3%	1.9%	2.9%	3.8%
Total TRS Stable Value	5.0%	18.9%	-2.7%	6.2%	7.6%	15.5%	9.7%	8.8%	7.5%
Stable Value Composite Benchmark¹³	-0.3%	23.9%	-4.6%	6.0%	5.4%	12.7%	8.0%	8.3%	7.1%
TRS Global Inflation Linked Bonds	8.3%	11.7%	-4.5%	4.5%	-1.6%	4.4%	2.4%	2.7%	N/A
Global Inflation Linked Bonds Composite Benchmark ¹⁴	7.7%	11.7%	-4.8%	4.4%	-1.7%	4.4%	2.3%	2.6%	N/A
TRS Real Assets	19.4%	11.5%	10.6%	13.4%	13.2%	11.7%	12.8%	12.2%	N/A
Real Assets Composite Benchmark ¹⁵	19.0%	13.6%	9.7%	12.7%	12.4%	12.6%	12.6%	12.2%	N/A
TRS Energy and Natural Resources	N/A	N/A	N/A	N/A	-6.3%	-16.4%	N/A	N/A	N/A
Energy and Natural Resources Composite Benchmark ¹⁶	N/A	N/A	N/A	N/A	-9.0%	-18.7%	N/A	N/A	N/A
TRS Commodities	28.4%	-18.2%	-29.9%	32.2%	-57.0%	21.8%	-11.5%	-16.9%	N/A
Commodities Composite Benchmark ¹⁷	26.1%	-10.7%	2.0%	10.4%	-36.8%	-26.1%	-19.8%	-14.0%	N/A
Total TRS Real Return	17.4%	10.2%	4.6%	10.6%	6.4%	7.0%	8.0%	7.7%	6.6%
Real Return Composite Benchmark¹⁸	16.8%	11.6%	5.7%	9.8%	6.7%	7.5%	8.0%	8.3%	N/A
TRS Risk Parity	N/A	N/A	N/A	N/A	N/A	2.3%	N/A	N/A	N/A
Risk Parity Benchmark¹⁹	N/A	N/A	N/A	N/A	N/A	1.2%	N/A	N/A	N/A

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

Total Time-Weighted Returns

Pension Trust Fund

For Periods Ending June 30

² 50% Total Domestic Equity Composite/ 13.4% MS ACWI Ex-US/ 28.35% LB Aggregate/ 2.06% Citigroup High Yield Index/ 4.12% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.55% Absolute Return Composite (70% 3-month LIBOR/ 30% S&P 500)/ 0.52% 91-day T-Bill through 9/07, 15% Russell 1000 Growth/15% Russell 1000 Value/5% Russell 2000/15% MSCI EAFE + Canada/5% MSCI EM/5 % Russell 3000 + 5%/10% Lehman Long Treasuries/4% 3 month LIBOR + 2%/5% Lehman Intermediate Gov-Credit/1% Citigroup 90 day US Treasury/10% Lehman Global Inflation Linked Bonds/4% Real Estate Composite/1% US Core CPI + 5%/3% Goldman Sachs Commodity Index, 2% NAREIT through 9/08, 10% Russell 1000 Growth/ 10% Russell 1000 Value/ 5% Russell 2000/ 8% MSCI EAFE + Canada/ 5% MSCI EM/ 15% MSCI World/ 7% Russell 3000 + 5%/ 12% BC Long Treasuries/ 4% 3 month LIBOR + 2%/ 3% BC Intermediate Gov-Credit/ 1% Citigroup 90 day US Treasury/ 5% BC Global Inflation Linked Bonds/ 5% BC US TIPS/ 5% Real Estate Composite/ 1% US Core CPI + 5%/ 2% Goldman Sachs Commodity Index/ 2% NAREIT through 9/09, 5% MSCI USA Small Cap/ 8% MSCI USA Large Cap/ 33% MSCI World Net/ 6% MSCI EM Net, 4% 3 month LIBOR+2%/ 15% BC Long Treasury/ 2% Goldman Sachs Commodity/ 8% BC US TIPS/ 8% SSPEI 1 QTR lagged/ 8% NCREIF ODCE Net lagged/ 2% MSCI US REIT/ 1% 90 day US Treasury through 9/10, 5% MSCI Small Cap / 20% MSCI USA/ 15% MSCI EAFE+Canada/10% MSCI EM/ 15% BC Long Treasuries/ 4% 3 month LIBOR + 2%/ 1% Citigroup 90 day US Treasury/ 8% BC US TIPS/ 2% MSCI US REIT/ 10% SSPEI 1 QTR lagged/ 2% Goldman Sachs Commodity Index/ 8% NCREIF Open Ended fund lagged through 9/11, 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, 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) through 9/14, 20.13% MSCI USA Investible Market / 15.13% MSCI EAFE+Canada/ 10.24% MSCI EM/ 13.13% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 4.89% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 5.13% BC US TIPS/ 11.97% SSPEI Adj 1 QTR lagged/ 11.84% NCREIF Open Ended fund lagged/ 1.99% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter)/0.55% Risk Parity Benchmark through 12/14, 20.03% MSCI USA Investible Market / 15.03% MSCI EAFE+Canada/ 10.25% MSCI EM/ 13.03% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 4.78% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 5.03% BC US TIPS/ 11.77% SSPEI Adj 1 QTR lagged/ 12.01% NCREIF Open Ended fund lagged/ 1.96% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter)/1.11% Risk Parity Benchmark through 3/15, 19.97% MSCI USA Investible Market / 14.97% MSCI EAFE+Canada/ 10.31% MSCI EM/ 12.97% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 4.66% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 4.97% BC US TIPS/ 11.43% SSPEI Adj 1 QTR lagged/ 12.17% NCREIF Open Ended fund lagged/ 1.85% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter)/1.71% Risk Parity Benchmark through 6/2015, 19.815% MSCI USA Investible Market / 14.815% MSCI EAFE+Canada/ 10.252% MSCI EM/ 12.815% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 4.562% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 4.815% BC US TIPS/ 11.869% SSPEI Adj 1 QTR lagged/ 12.255% NCREIF Open Ended fund lagged/ 1.614% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) / 2.188% Risk Parity Benchmark through 9/2015, 19.355% MSCI USA Investible Market / 14.355% MSCI EAFE+Canada/ 9.902% MSCI EM/ 12.356% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 4.453% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 4.356% BC US TIPS/ 12.561% SSPEI Adj 1 QTR lagged/ 13.109% NCREIF Open Ended fund lagged/ 1.82% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) / 2.733% Risk Parity Benchmark through 12/2015, 19.34% MSCI USA Investible Market / 14.34% MSCI EAFE+Canada/ 9.907% MSCI EM/ 12.34% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 4.433% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 4.34% BC US TIPS/ 11.961% SSPEI Adj 1 QTR lagged/ 13.73% NCREIF Open Ended fund lagged/ 1.775% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) / 2.834% Risk Parity Benchmark through 3/2016, currently 19.076% MSCI USA Investible Market / 14.076% MSCI EAFE+Canada/ 9.794% MSCI EM/ 12.076% BC Long Treasuries/ 4% HFRI FOF: Conservative Index/ 4.281% HFRI Fund of Funds Composite/ 1% Citigroup 90 day US Treasury/ 4.076% BC US TIPS/ 12.071% SSPEI Adj 1 QTR lagged/ 10.7% NCREIF Open Ended fund lagged/ 1.887% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) / 3.593% Risk Parity Benchmark.

³ 43% Russell 1000 Growth/ 43% Russell 1000 Value/ 14% Russell 2000 through 9/08, 40% Russell 1000 Growth/ 40% Russell 1000 Value/ 20% Russell 2000 through 9/09, 81% MSCI Large Cap/ 19% MSCI Small Cap through 9/10, 80% MSCI USA/ 20% MSCI Small Cap through 9/11, 90% MSCI USA/ 10% MSCI Small Cap through 9/14, Currently MSCI USA Investible Market.

⁴ 100% MSCI EAFE + Canada Index.

⁵ 100% MSCI EM Index.

⁶ 100% HFRI Fund of Funds Composite.

⁷ 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, 20% MSCI EM/ 30% MSCI EAFE+Canada/ 36% MSCI USA Gross/ 4% MSCI USA Small Cap / 10% HFRI Fund of Funds Composite through 9/14, 20.320% MSCI EM/ 30.026% MSCI EAFE+Canada/ 39.948% MSCI USA Investible Market / 9.706% HFRI Fund of Funds Composite through 12/14, 20.468% MSCI EM/ 30.006% MSCI EAFE+Canada/ 39.988% MSCI USA Investible Market / 9.538% HFRI Fund of Funds Composite through 3/15, 20.660% MSCI EM/ 29.990% MSCI EAFE+Canada/ 40.010% MSCI USA Investible Market / 9.340% HFRI Fund of Funds Composite through 6/15, 20.735% MSCI EM/ 29.963% MSCI EAFE+Canada/ 40.075% MSCI USA Investible Market / 9.227% HFRI Fund of Funds Composite through 9/15, 20.601% MSCI EM/ 29.866% MSCI EAFE+Canada/ 40.268% MSCI USA Investible Market / 9.265% HFRI Fund of Funds Composite through 12/15, 20.63% MSCI EM/ 29.863% MSCI EAFE+Canada/ 40.275% MSCI USA Investible Market / 9.232% HFRI Fund of Funds Composite through 3/16, currently 20.739 % MSCI EM/ 29.804 % MSCI EAFE+Canada/ 40.392 % MSCI USA Investible Market / 9.065 % HFRI Fund of Funds Composite.

⁸ 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.

⁹ 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, 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 through 9/14, 16.421% MSCI EM/ 24.263 % MSCI EAFE+Canada/ 32.281% MSCI USA Investible Market/ 7.843% HFRI Fund of Funds Composite/ 19.192% SSPEI Adj 1 QTR lagged through 12/14, 16.575% MSCI EM/ 24.298 % MSCI EAFE+Canada/ 32.382% MSCI USA Investible Market/ 7.724% HFRI Fund of Funds Composite/ 19.021% SSPEI Adj 1 QTR lagged through 3/15, 16.808% MSCI EM/ 24.404 % MSCI

Total Time-Weighted Returns

Pension Trust Fund For Periods Ending June 30

EAFE+Canada/ 32.555% MSCI USA Investible Market/ 7.595% HFRI Fund of Funds Composite/ 18.638% SSPEI Adj 1 QTR lagged through 6/15, 16.721% MSCI EM/ 24.162% MSCI EAFE+Canada/ 32.317% MSCI USA Investible Market/ 7.441% HFRI Fund of Funds Composite/ 19.359% SSPEI Adj 1 QTR lagged through 9/15, 16.333% MSCI EM/ 23.678% MSCI EAFE+Canada/ 31.925% MSCI USA Investible Market/ 7.346% HFRI Fund of Funds Composite/ 20.718% SSPEI Adj 1 QTR lagged through 12/15, 16.52% MSCI EM/ 23.91% MSCI EAFE+Canada/ 32.24% MSCI USA Investible Market/ 7.39% HFRI Fund of Funds Composite/ 19.94% SSPEI Adj 1 QTR lagged through 3/16, currently 16.517% MSCI EM/ 23.737% MSCI EAFE+Canada/ 32.169% MSCI USA Investible Market/ 7.22% HFRI Fund of Funds Composite/ 20.357% SSPEI Adj 1 QTR lagged.

¹⁰ 100% BC Long Treasuries Index.

¹¹ 100% 3 month LIBOR+2%.

¹² 70% 3-month LIBOR/ 30% S&P 500 through 9/07, 3 Month LIBOR + 2% through 9/11, currently 100% HFRI FOF: Conservative Index.

¹³ 100% Citigroup 90 day US Treasury.

¹⁴ 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, 72.2% BC Long Treasury/ 22.2% HFRI FOF: Conservative Index/ 5.6% Citigroup 91 day T-Bill through 9/14, 72.423% BC Long Treasury/ 22.062% HFRI FOF: Conservative Index/ 5.515% Citigroup 91 day T-Bill through 12/14, 72.270% BC Long Treasury/ 22.180% HFRI FOF: Conservative Index/ 5.550% Citigroup 91 day T-Bill through 3/15, 72.170% BC Long Treasury/ 22.260% HFRI FOF: Conservative Index/ 5.570% Citigroup 91 day T-Bill through 6/15, 71.934% BC Long Treasury/ 22.453% HFRI FOF: Conservative Index/ 5.613% Citigroup 91 day T-Bill through 9/15, 71.191% BC Long Treasury/ 23.047% HFRI FOF: Conservative Index/ 5.762% Citigroup 91 day T-Bill through 12/15, 71.165% BC Long Treasury/ 23.068% HFRI FOF: Conservative Index/ 5.767% Citigroup 91 day T-Bill through 3/16, currently 70.719% BC Long Treasury/ 23.425% HFRI FOF: Conservative Index/ 5.856% Citigroup 91 day T-Bill.

¹⁵ 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.

¹⁶ 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.

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

¹⁸ 100% Goldman Sachs Commodity Index.

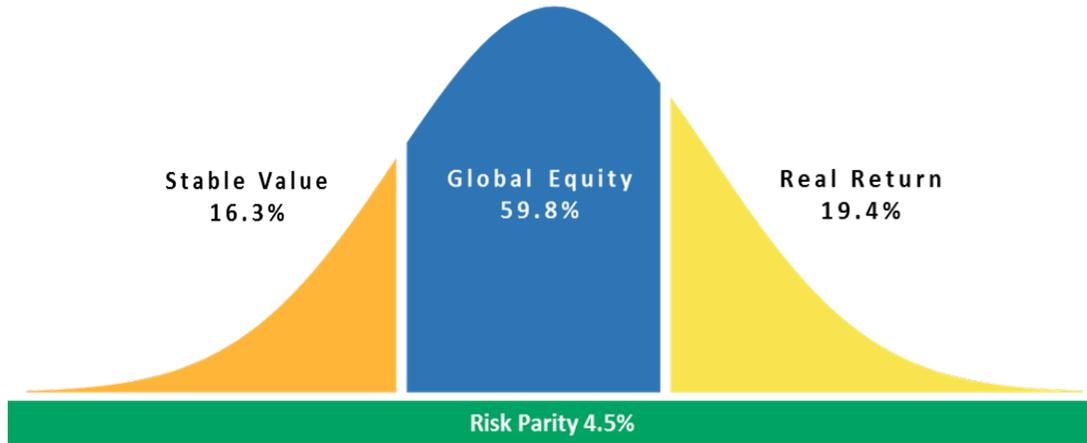
¹⁹ NCREIF Property Index (1 quarter lag) + 200 bps through 9/07, 50% LB Global Inflation Linked Bond Index/ 20% Real Estate Composite Index/ 5% US Core CPI + 5%/ 15% Goldman Sachs Commodity Index/ 10% NAREIT Index through 9/08, 25% BC Global Inflation Linked Bond Index/ 25% BC US TIPS Index/ 25% Real 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, 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) through 9/14, 27.059% BC US TIPS/ 62.451% NCREIF Open Ended Net 1 QTR lagged/ 10.490% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) through 12/14, 26.474% BC US TIPS/ 63.213% NCREIF Open Ended Net 1 QTR lagged/ 10.313% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) through 3/15, 26.165% BC US TIPS/ 64.113% NCREIF Open Ended Net 1 QTR lagged/ 9.722% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) through 6/15, 25.772% BC US TIPS/ 65.596% NCREIF Open Ended Net 1 QTR lagged/ 8.632% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) through 9/15, 22.586% BC US TIPS/ 67.977% NCREIF Open Ended Net 1 QTR lagged/ 9.437% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) through 12/15, 21.87% BC US TIPS/ 69.19% NCREIF Open Ended Net 1 QTR lagged/ 8.94% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter) through 3/16, currently 20.345% BC US TIPS/ 70.235% NCREIF Open Ended Net 1 QTR lagged/ 9.42% (75% Cambridge Associates Natural Resources (reweighted)/25% quarterly Consumer Price Index lagged 1 quarter).

²⁰ An equal weighted blend of realized returns from a custom index of externally managed Risk Parity portfolios.

Asset Allocation

PENSION TRUST FUND

August 31, 2016



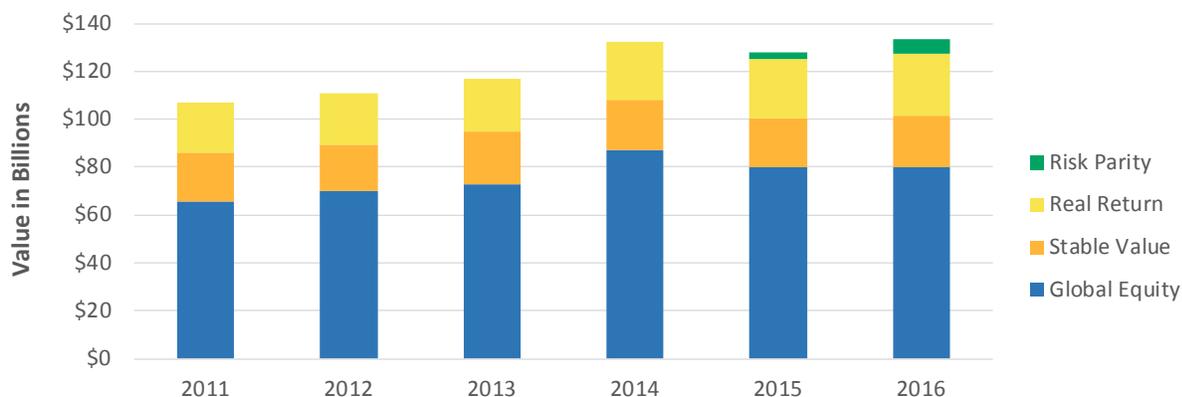
	POLICY RANGES			
	Low	High	Transition Normal	Actual
U.S.	13%	23%	18.9%	20.1%
Non-U.S. Developed	8%	18%	13.9%	13.7%
Emerging Markets	4%	14%	9.8%	10.2%
Directional Hedge Funds	0%	10%	4.1%	3.8%
<i>Public Equity</i>	39%	49%	46.8%	47.8%
Private Equity	8%	18%	12.0%	12.0%
Total Global Equity	50.0%	64.0%	58.7%	59.8%
U.S. Treasuries	0.0%	20%	11.9%	10.1%
Absolute Return	0.0%	20%	0.0%	1.9%
Stable Value Hedge Funds	0.0%	10.0%	4.0%	4.1%
Cash	0.0%	5.0%	1.0%	0.2%
Total Stable Value	11.0%	21.0%	16.9%	16.3%
TRS Global Inflation Linked Bonds	0.0%	8.0%	3.9%	3.4%
TRS Real Assets	11.0%	21.0%	14.2%	13.9%
TRS Energy and Natural Resources	0.0%	8.0%	1.9%	1.9%
TRS Commodities	0.0%	5.0%	0.0%	0.2%
Total Real Return	17.0%	27.0%	20.0%	19.4%
Total Risk Parity	0.0%	10.0%	4.3%	4.5%
Total				100.0%

* Due to rounding, table may not foot.

Investment Summary

PENSION TRUST FUND

August 31, 2016



MARKET VALUES (in billions)¹

	2011	2012	2013	2014	2015	2016
U.S.	\$ 26.528	\$ 23.085	\$ 22.842	\$ 29.981	\$ 26.355	\$ 26.815
Non-U.S. Developed	12.488	17.301	16.641	19.718	20.175	18.237
Emerging Markets	15.296	10.754	12.829	15.594	11.437	13.669
Directional Hedge Funds	N/A	5.584	5.918	6.496	6.222	5.101
Public Equity	54.312	56.724	58.230	71.789	64.189	63.822
Private Equity	11.099	13.101	14.365	15.594	16.032	15.951
Total Global Equity	\$ 65.411	\$ 69.825	\$ 72.595	\$ 87.383	\$ 80.221	\$ 79.773
U.S. Treasuries	\$ 11.907	\$ 13.476	\$ 16.312	\$ 11.650	\$ 11.141	\$ 13.410
Absolute Return	3.214	0.999	0.465	2.068	2.961	2.544
Stable Value Hedge Funds	4.324	3.936	4.207	5.055	5.395	5.528
Cash	1.376	0.957	1.129	1.698	0.673	0.295
Total Stable Value	\$ 20.821	\$ 19.368	\$ 22.113	\$ 20.471	\$ 20.170	\$ 21.777
Global Inflation Linked Bonds	\$ 5.635	\$ 5.499	\$ 5.924	\$ 6.318	\$ 5.839	\$ 4.515
Real Assets	11.880	15.219	15.920	15.335	16.495	18.580
Energy and Natural Resources	N/A	N/A	N/A	2.540	2.259	2.581
Commodities	3.323	1.155	0.498	0.169	0.244	0.237
Total Real Return	\$ 20.838	\$ 21.873	\$ 22.342	\$ 24.362	\$ 24.837	\$ 25.913
Total Risk Parity	N/A	N/A	N/A	N/A	\$ 2.715	\$ 5.969
Total	\$ 107.070	\$ 111.066	\$ 117.050	\$ 132.216	\$ 127.943	\$ 133.432

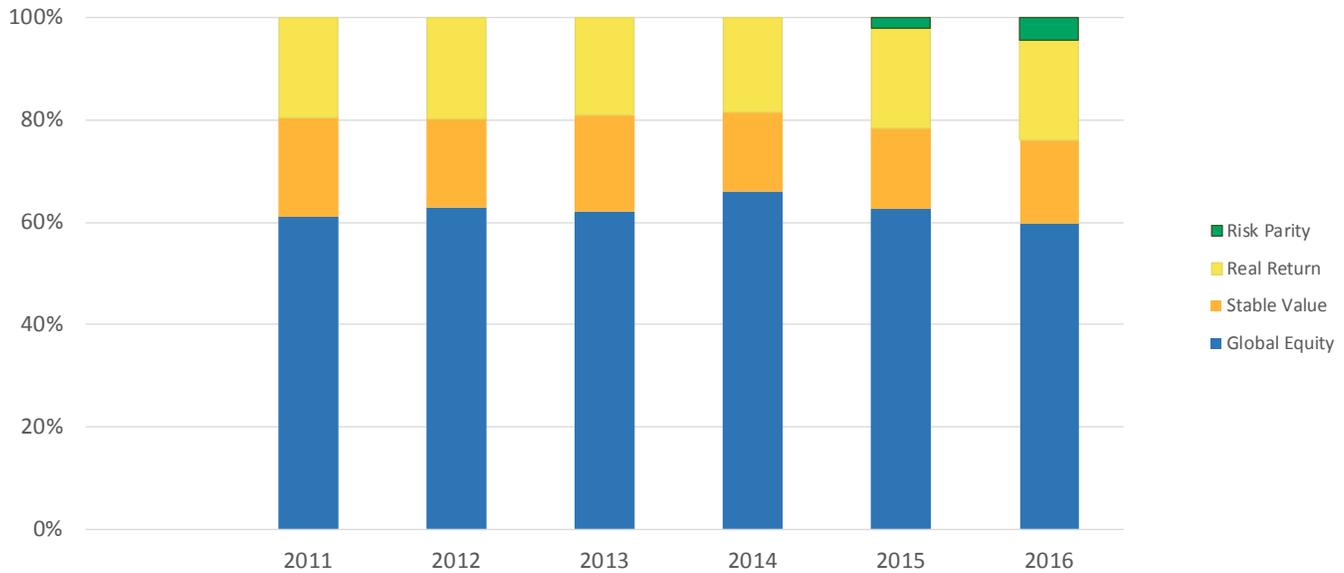
¹ Investment values are based on industry standard investment performance methodology. Investment values in Exhibit I are in compliance with GASB Reporting Standards. A reconciliation is provided.

Total Market Value 8/31/16	\$ 133.432
Less Investment Related Cash	(0.142)
Less Investment Related Receivables	(1.161)
Plus Investment Related Payables	0.494
Plus Securities Sold Short	0.139
Total Investments Exhibit I	\$ 132.762

Investment Summary

PENSION TRUST FUND

August 31, 2016



PERCENTAGE OF MARKET VALUES

	2011	2012	2013	2014	2015	2016
U.S.	24.8%	19.7%	19.5%	22.7%	20.6%	20.1%
Non-U.S. Developed	11.7%	15.6%	14.2%	14.9%	15.8%	13.7%
Emerging Markets	14.3%	9.7%	11.0%	11.8%	8.9%	10.2%
Direction Hedge Funds	N/A	5.0%	5.0%	4.9%	4.9%	3.8%
Public Equity	50.7%	51.1%	49.7%	54.3%	50.2%	47.8%
Private Equity	10.4%	11.8%	12.3%	11.8%	12.5%	12.0%
Total Global Equity	61.1%	62.9%	62.0%	66.1%	62.7%	59.8%
U.S. Treasuries	11.1%	12.1%	13.9%	8.8%	8.7%	10.1%
Absolute Return	3.0%	0.9%	0.4%	1.6%	2.3%	1.9%
Stable Value Hedge Funds	4.0%	3.5%	3.6%	3.8%	4.2%	4.1%
Cash	1.3%	0.9%	1.0%	1.3%	0.5%	0.2%
Total Stable Value	19.4%	17.4%	18.9%	15.5%	15.7%	16.3%
Global Inflation Linked Bonds	5.3%	5.0%	5.1%	4.8%	4.6%	3.4%
Real Assets	11.1%	13.7%	13.6%	11.6%	12.9%	13.9%
Energy and Natural Resources	N/A	N/A	N/A	1.9%	1.8%	1.9%
Commodities	3.1%	1.0%	0.4%	0.1%	0.2%	0.2%
Total Real Return	19.5%	19.7%	19.1%	18.4%	19.5%	19.4%
Total Risk Parity	N/A	N/A	N/A	N/A	2.1%	4.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Largest Holdings

PENSION TRUST FUND

August 31, 2016

Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Apple Incorporated	\$ 504,134,150	4,751,500
Microsoft Corporation	401,317,648	6,984,296
Alphabet Incorporated Class A	302,669,730	383,199
Johnson & Johnson	292,573,109	2,451,593
Facebook Incorporated	267,587,921	2,121,693
Oracle Corporation	250,964,920	6,088,426
Amazon.Com Incorporated	243,103,017	316,063
Alphabet Incorporated Class C	237,208,678	309,248
J.P. Morgan Chase & Company	230,645,678	3,416,973
Pfizer Incorporated	230,030,958	6,610,085
	<u>\$ 2,960,235,809</u>	<u>33,433,076</u>

Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Samsung Electronics Company LTD.	\$ 429,331,964	295,497
Tencent Holdings LTD.	402,729,997	15,480,059
China Construction Bank	265,405,226	354,945,170
Nestle S.A.	234,893,625	2,947,570
Alibaba Group Holdings ADR	209,628,042	2,156,889
Taiwan Semiconductor Manufacturing	195,545,582	35,254,313
Shire PLC.	167,478,598	2,685,898
Roche Holdings A.G.	163,319,041	669,179
Total S.A.	162,909,921	3,421,558
China Mobile LTD.	155,476,950	12,588,683
	<u>\$ 2,386,718,946</u>	<u>430,444,816</u>

Largest Holdings

PENSION TRUST FUND

August 31, 2016

Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury 3.750% due 15 Nov 2043	\$ 881,987,644	\$ 663,790,000
U.S. Treasury 3.000% due 15 May 2045	845,517,650	725,760,000
U.S. Treasury 3.625% due 15 Feb 2044	816,320,580	628,050,000
U.S. Treasury 3.000% due 15 Nov 2045	737,095,129	632,195,000
U.S. Treasury 2.875% due 15 Aug 2045	703,207,274	617,900,000
U.S. Treasury 3.125% due 15 Aug 2044	616,160,364	516,900,000
U.S. Treasury 3.000% due 15 Nov 2044	609,772,816	523,500,000
U.S. Treasury 3.375% due 15 May 2044	571,281,830	458,500,000
U.S. Treasury 2.875% due 15 May 2043	544,493,458	478,865,000
U.S. Treasury 3.625% due 15 Aug 2043	543,484,965	418,175,000
	<u>\$ 6,869,321,710</u>	<u>\$ 5,663,635,000</u>

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

Investment Manager Fees
PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2016

	Assets Under Management	Fees Paid From the Pension Trust Fund*		Fees Netted Against Returns**	
		Management Fees	Performance Fees	Management Fees	Performance Fees/Carried Interest
Absolute Return	\$ 180,056,761	\$ -	\$ -	\$ 314,518	\$ 3,893,369
Energy and Natural Resources	2,163,502,297	482,728	-	34,016,794	5,157,088
Hedge Funds	10,627,960,783	2,078,227	-	141,154,676	60,282,101
Pooled Investments	9,103,753,601	75,955,817	63,467,563	25,915,855	30,407,155
Private Equity	13,396,378,336	-	-	136,969,810	206,605,030
Real Assets	17,737,218,069	900,782	-	152,767,681	100,464,277
Risk Parity	3,471,459,388	369,391	-	9,400,764	-
Private Markets Strategic Partnerships	3,836,638,277	-	-	32,333,322	-
Total	\$ 60,516,967,512	\$ 79,786,945	\$ 63,467,563	\$ 532,873,420	\$ 406,809,020

* Fees Paid directly from the pension trust fund are accrued or paid to external managers based on assets under management and the performance of the investment manager. They are reported as External Manager Fees in Schedule 3. TRS calculates returns for these managers net of all fees.

** Fees Netted Against Returns are fees incurred and charged by general partners that are not paid directly from the pension trust fund. These types of fees are netted against investment performance on Exhibit II in the Net Increase/(Decrease) in Fair Value of Investments. Fees are earned by the funds based on each fund's governing documents. TRS calculates returns for these funds net of all fees.

Broker Commissions
PENSION TRUST FUND
For the Fiscal Year Ended August 31, 2016

Brokerage Firm	Shares Traded	Commissions Paid	Commissions Paid Per Share
Merrill Lynch and Co Inc.	544,457,562	\$ 5,056,561	\$ 0.01
Morgan Stanley & Co., Inc.	590,443,577	4,844,218	0.01
Goldman Sachs & Co.	5,523,023,406	4,652,051	0.00
J.P. Morgan Securities, Inc.	618,656,187	3,752,911	0.01
Citigroup Global Markets, Inc.	472,093,638	3,350,916	0.01
Deutsche Bank Securities, Inc.	298,282,835	2,815,821	0.01
UBS AG	365,421,370	2,209,643	0.01
Credit Suisse Group	412,685,785	2,201,104	0.01
Jefferies & Company, Inc.	385,501,961	2,182,684	0.01
Barclays Capital PLC	115,083,375	1,993,254	0.02
Summary of 255 remaining firms	2,499,098,964	23,531,889	0.01
Total	11,824,748,660	\$ 56,591,053	\$ 0.00

Futures Contracts Brokerage Firm	Shares Traded	Commissions Paid	Commissions Paid Per Share
Goldman Sachs & Co.	189,103,810	\$ 6,439,904	\$ 0.03
JP Morgan Securities, Inc.	69,594,861	1,081,649	0.02
Credit Suisse Group AG	264,876	840,163	3.17
Total	258,963,547	\$ 8,361,715	\$ 0.03

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Actuarial Section



Actuarial Information Pension Trust Fund



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November 7, 2016

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, 2016

We certify that the information included herein and contained in the 2016 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2016. This report was prepared at the request of the Board and is intended for use by the TRS staff and those designated or approved by the Board. This report may be provided to parties other than TRS staff only in its entirety and only with the permission of the Board.

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 statutory contribution rates 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. This report may not be appropriate for other purposes. 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.

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, employer, and State contribution rates are established by Law that, over time, are intended to remain level as a percent of payroll and provide assets to cover benefits when due. The actuarially determined employer contribution rates determined in this actuarial valuation are intended

Actuarial Information Pension Trust Fund

Board of Trustees
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to provide for the normal cost plus the level percentage of payroll required to amortize the unfunded actuarial accrued liability over a period not in excess of 30 years.

Progress Toward Realization of Financing Objective

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Based on this actuarial valuation as of August 31, 2016, the System's under-funded status has increased to \$35.5 billion from \$33.0 billion as of August 31, 2015. The System's UAAL was expected to increase from the prior year based on the deferral of investment losses from prior valuations and the scheduled future increased contributions not being effective for this fiscal year. For example, if the fiscal year 2017 contribution rates would have been effective during fiscal year 2016, the UAAL increase in this valuation would have been \$0.2 billion less. In addition, the UAAL increased due to a loss on the actuarial value of assets and a loss due to demographic experience.

This valuation shows a normal cost equal to 9.93% of pay plus an addition to the normal cost of 0.12% of pay to cover the annual cost of administrative expenses. The State began contributing the current contribution rate of 6.80% in fiscal year 2014 and it is assumed the rate will remain at that level. In addition, covered employers whose employees are not participating in Social Security began contributing 1.50% of salary (capped at the minimum salary schedule) in fiscal year 2015. Combined these contributions were approximately 7.70% of total payroll. The member contribution rate increased beginning in fiscal year 2015 to 6.7% of pay and will continue to increase to 7.70% of pay in fiscal year 2017. Thereafter, as a result, for FY2017 and thereafter, the System is expected to receive a total contribution rate of 15.40% of pay.

Hence, beginning in FY2017, there is expected to be 5.35% of pay available to amortize the UAAL (15.40% less normal cost of 9.93% less administrative expenses of 0.12%). 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 33.6 years based on the smoothed asset value as the valuation date. Therefore, the financing objectives of the System are being met. However, the 33.6 amortization period is longer than the target of less than 30 years.

The actuarial valuation report as of August 31, 2016 reveals that the funded ratio (the ratio of actuarial assets to actuarial accrued liability) is 79.7%. This is the first time the funded ratio has been less than 80% since 1986. The funded status is one of many metrics used to show trends and develop future expectations about the health of the System. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

The System earned less than the assumed rate of return during fiscal year 2016 (7.3% on market value compared to an assumed 8.0%). Because of this shortfall and the continued recognition of the

Actuarial Information Pension Trust Fund

Board of Trustees
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unfavorable investment performance from FY2015, the System is now deferring net investment losses of \$4.8 billion and the funded status using the market value of assets is 76.9%. If there are no significant investment gains or other actuarial gains over the next several years, the funded status of the System would be expected to decrease towards this number. This \$4.8 billion in net deferred losses compares to the last valuation when the System was deferring \$4.9 billion in net deferred losses and had a 77.2% funded ratio based on the market value of assets.

The System's UAAL increased by \$2.0 billion more than expected during the year. The continued recognition of the deferred investment losses from fiscal year 2015 and the current year's shortfall resulted in a loss on the actuarial value of assets of \$1.5 billion. Therefore, the liabilities actually increased \$0.5 billion more than expected. This \$0.5 billion represents a loss of 0.26% of total liabilities and was due to the liabilities growing faster than expected due to a combination of salary increases being slightly larger than expected and fewer than expected retiree deaths during the year.

Based on the actuarial (smoothed) value of assets, 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. It should be noted that with the \$4.8 billion in deferred investment losses still to be recognized in the actuarial value of assets, future losses in the actuarial value of assets will result in an increase in the funding period in future valuations until the losses are fully recognized.

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 \$39.1 billion in 2026. Extending the projection further would show the UAAL starts to decrease in 2028 and is fully amortized 20 years after that.

Please note these expectations are based on the current benefit provisions, assumptions, and contribution rates. 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.

Gabriel Roeder Smith & Company

Actuarial Information Pension Trust Fund

Board of Trustees
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Page 4

Disclosure of Pension Information

Beginning with fiscal year 2014, the System began reporting financial information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67. The disclosure information for GASB No. 67 is 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, 2014 and adopted on September 24, 2015. There have been no changes in the actuarial assumptions or methods since the prior valuation.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. Section D provides illustrative results based on future investment experience deviating from the assumptions. Based on the scope of this engagement, we have not performed analysis on the potential range of future measurements based on other factors. 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

Member data for retired, active and inactive members was supplied as of August 31, 2016 by the TRS staff. The staff also supplied asset information as of August 31, 2016. We did not audit this data, but we did apply a number of tests to the data and concluded that it was reasonable and consistent with the prior year's data. GRS is not responsible for the accuracy or completeness of the information provided to us by TRS.

Gabriel Roeder Smith & Company

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The following schedules in the Actuarial Section of the TRS CAFR were prepared by GRS:

- Actuarial Present Value of Future Benefits
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Schedule of Funding Progress
- Post-Retirement Mortality
- Rates of Retirement
- Probability of Decrement due to Withdrawal
- Active Mortality

All other schedules shown in the actuarial section were prepared by TRS staff based upon our work. For further information please see the full actuarial valuation report.

This document and the PowerPoint presentation of the actuarial valuation results presented to the TRS Board on December 1, 2016 comprise the full actuarial 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, 2016 (With Comparative Data for August 31, 2015)

	<u>2016</u>	<u>2015</u>
Present Value of Benefits Presently Being Paid		
Service Retirement Benefits	\$84,731,139,810	\$80,335,545,136
Disability Retirement Benefits	1,141,195,638	1,113,095,219
Death Benefits	867,637,073	851,515,997
Present Survivor Benefits	256,188,158	243,282,654
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$86,996,160,679	\$82,543,439,006
Present Value of Benefits Payable in the Future to Present Active Members		
Service Retirement Benefits	\$102,594,460,159	\$98,467,131,191
Disability Retirement Benefits	1,305,439,740	1,203,603,679
Termination Benefits	8,518,349,795	7,863,244,733
Death and Survivor Benefits	1,846,700,055	1,758,578,113
TOTAL ACTIVE MEMBER LIABILITIES	\$114,264,949,749	\$109,292,557,716
Present Value of Benefits Payable in the Future to Present Inactive Members		
Inactive Vested Participants	\$4,333,837,796	\$4,084,868,043
Refunds of Contributions to Inactive Non-vested Members	\$413,997,543	\$400,439,304
Future Survivor Benefits Payable On Behalf of Present Annuitants	1,401,763,178	1,341,025,218
TOTAL INACTIVE LIABILITIES	\$6,149,598,517	\$5,826,332,565
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$207,410,708,945	\$197,662,329,287

Summary of Cost Items

	<u>2016</u>	<u>2015</u>
Actuarial Present Value of Future Benefits	\$207,410,708,945	\$197,662,329,287
Present Value of Future Normal Costs	(33,171,982,143)	(31,209,404,783)
Actuarial Accrued Liability	\$174,238,726,802	\$166,452,924,504
Actuarial Value of Assets	(138,786,120,728)	(133,485,187,642)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$35,452,606,074	\$32,967,736,862

Actuarial Information Pension Trust Fund

Actuarial Methods and Assumptions:

Financing Objective and Funding Policy: The funding policy of the Teacher Retirement System (TRS) is established by 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.

Plan Provisions: For plan provisions, see Note 12.

Actuarial Methods and Assumptions: The actuarial valuation for 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 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, 2014 and was adopted on September 24, 2015. The results of the actuarial valuation are dependent on the assumptions used. Actual results can and will differ as actual experience deviates from these assumptions. Seemingly minor changes in assumptions can materially change the liabilities, calculated contribution rates and funding periods. There have been no changes in the actuarial assumptions or methods since the prior valuation. Post-Retirement Mortality rates for current and future retirees are prepared in accordance with the Actuarial Standards of Practice No. 35 which advises actuaries to “*adjust mortality rates to reflect mortality improvement prior to the measurement date and to include an assumption as to the expected mortality improvement after the measurement date.*” .

Actuarial Methods: The actuarial cost method used for *financial reporting purposes* was the Individual Entry Age Normal method as prescribed by GASB 67 and the method used for *funding purposes* was the Ultimate Entry Age Normal (EAN) 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 new members are currently being hired into; which reflects the longer term normal cost.

Actuarial Assumptions:

1. Investment Return Rate: 8.00% per annum, compounded annually, composed of an assumed 2.50% inflation rate and a 5.50% real rate of return, net of investment expenses.

2. Post-Retirement Mortality, Assumed Retirement Age, Disability Retirement, Death, and Withdrawal from System: Rates and scales developed in the actuarial investigation as of August 31, 2014, with values at specimen ages shown in the tables below:

Actuarial Information Pension Trust Fund

a. Post-Retirement Mortality:

Post-Retirement Mortality		
Age	Male Members	Female Members
40	0.001938	0.001585
50	0.004247	0.002791
60	0.005584	0.003882
70	0.015547	0.009613
80	0.053691	0.035591
90	0.162983	0.133727
100	0.407509	0.284047
110	0.500000	0.467915

b. Assumed Retirement Age:

For members hired after August 31, 2007 and who are vested as of August 31, 2014, the retirement rates for members once they reach unreduced retirement eligibility at age 60 are increased 10% for each year the member is beyond the Rule of 80 (i.e. if the member reached the Rule of 80 at age 58 then the probability of retirement at age 60 is 120% of the rate shown below).

For members hired after August 31, 2007 and who are not vested as of August 31, 2014, or, for members hired after August 31, 2014, 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).

Assumed Retirement Age					
Normal Retirement			Early Retirement		
Age	Male	Female	Age	Male	Female
50	0.1300	0.3000	45-46	0.0100	0.0100
51	0.1300	0.1200	47	0.0100	0.0200
52	0.1300	0.1300	48	0.0200	0.0300
53	0.1300	0.1400	49	0.0300	0.0400
54	0.1400	0.1500	50-58	0.0100	0.0100
55	0.1500	0.1600	59	0.0100	0.0200
56	0.1600	0.1700	60-61	0.0200	0.0200
57	0.1700	0.1800	62	0.0500	0.0400
58	0.1800	0.1900	63	0.0500	0.0500
59	0.1800	0.2000	64	0.0600	0.0600
60	0.2200	0.2100	65	0.0500	0.0500
61	0.2000	0.2200			
62	0.2400	0.2300			
63-64	0.2000	0.2300			
65-74	0.2200	0.2300			
75	1.0000	1.0000			

Actuarial Information Pension Trust Fund

c. Disability Retirement:

Probability of Decrement Due to Disability				
<u>Age</u>	<u>For Service >= 10</u>		<u>For Service < 10</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	0.000184	0.000276	0.000037	0.000055
30	0.000184	0.000276	0.000037	0.000055
40	0.000430	0.000469	0.000086	0.000094
50	0.001993	0.001817	0.000399	0.000363
60	0.003505	0.002754	0.000701	0.000551

d. Active Mortality: RP-2014 Employee Mortality Tables for male and female multiplied by 90%, with full generational projection using Scale BB.

Active Mortality		
<u>Age</u>	<u>Male Members</u>	<u>Female Members</u>
20	0.000365	0.000146
30	0.000407	0.000196
40	0.000565	0.000356
50	0.001517	0.000992
60	0.004219	0.002198
70	0.012469	0.005678
80	0.034930	0.016542
90	0.123749	0.092945

e. Withdrawal:

Probability of Decrement Due to Withdrawal		
<u>Years of Service</u>	<u>Male Members</u>	<u>Female Members</u>
1	0.149027	0.143098
2	0.119756	0.117329
3	0.096637	0.097896
4	0.072275	0.076765
5	0.062453	0.068443
6	0.055556	0.060368
7	0.047176	0.049631
8	0.041464	0.043108
9	0.036978	0.038477
10	0.033777	0.035264

Actuarial Information Pension Trust Fund

3. Rates of Salary Increase: The following table reflects an inflation rate of 2.50%, plus productivity component of 1.00%, plus step-rate/promotional component as shown.

Rates of Salary Increase			
<u>Years of Service</u>	<u>Merit, Promotion,</u>		<u>Total</u>
	<u>Longevity</u>	<u>General</u>	
1	6.00%	3.50%	9.50%
2	2.50	3.50	6.00
3	1.90	3.50	5.40
4	1.70	3.50	5.20
5	1.50	3.50	5.00
6	1.40	3.50	4.90
7	1.20	3.50	4.70
8-12	1.00	3.50	4.50
13	0.80	3.50	4.30
14	0.70	3.50	4.20
15	0.60	3.50	4.10
16-17	0.50	3.50	4.00
18	0.40	3.50	3.90
19-20	0.30	3.50	3.80
21-22	0.20	3.50	3.70
23-24	0.10	3.50	3.60
25 or more	0.00	3.50	3.50

4. Actuarial Value of Assets: The intent of the actuarial asset valuation method is to smooth out year-to-year fluctuations in market rates of return. The current asset method determines the expected actuarial value of assets and then recognizes at least 20% of the difference between that expected actuarial value of assets and the actual market value of assets. Each year a base is set up to reflect this difference. If the current year's base is of the opposite sign from the remaining deferred bases then it is offset against any prior deferred bases of the opposite sign. However, because this year the signs are the same, there is no offsetting of this year's base against a prior year's remaining deferred base.

Any remaining bases are then recognized over the remaining number of years. This is intended to ensure the smoothed value of assets will converge towards the market value in a reasonable and finite amount of time.

5. Actuarial Cost Method: The normal cost of the Retirement System is developed based on the valuation method known as the entry-age-normal actuarial cost method.

Funding of Unfunded Actuarial Accrued Liability: Funded by the excess of future State/employer contributions required by law over the amount of such contributions required to fund the normal cost of benefits. The normal cost to pay for the benefits earned under the Retirement System is 9.93% of payroll, this amount being inclusive of the amount contributed by the employees. The normal cost rate reflects the ultimate member contribution rate of 7.7% that begins in fiscal year 2017. An additional 0.12% of payroll is used to pay for administrative expenses of the System, bringing the total normal cost to 10.05% (9.93% plus .12%) of pay.

Actuarial Information Pension Trust Fund

The State's contribution rate increased to 6.8% beginning in fiscal year 2014. Beginning in fiscal year 2015, covered employers whose employees are not participating in Social Security began contributing 1.5% of the minimum salary schedule. Combined with the State contribution, it is expected that these aggregate contributions will be approximately 7.7% of total payroll. Since the total State/employer contribution rate is 7.70%, this allows 5.35% of pay contributed by the State to be available to amortize the unfunded actuarial accrued liabilities beginning in fiscal year 2017.

As of the valuation as of August 31, 2016, these excess contributions of 5.35% of pay are sufficient to amortize the UAAL, but not under the prescribed 30 year funding period.

Schedule of Active Member Valuation Data:

Active Member Valuation Data					
<u>Valuation Year</u>	<u>Active Members</u>	<u>Annualized Payroll in Millions</u>	<u>Average Annual Salary</u>	<u>Annual Percentage Increase in Average Salary</u>	
2007	777,789	\$ 31,114	\$ 40,003	7.3%	
2008	801,455	33,238	41,472	3.7	
2009	817,537	35,097	42,930	3.5	
2010	834,060	36,629	43,916	2.3	
2011	828,919	36,797	44,392	1.1	
2012	815,155	36,310	44,543	0.3	
2013	831,302	37,104	44,634	0.2	
2014	857,342	39,195	45,717	2.4	
2015	828,851	37,122	44,787	(2.0)	
2016	847,631	39,281	46,343	3.5	

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

Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls								
<u>Valuation as of August 31</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		<u>Average Annual Benefits</u>	<u>% Increase Average Annual Benefits</u>
	<u>Number</u>	<u>Annual Benefits</u>	<u>Number</u>	<u>Annual Benefits</u>	<u>Number</u>	<u>Annual Benefits</u>	<u>Benefits</u>	<u>Benefits</u>
2007	15,861	\$336,348,640	7,698	\$131,295,705	265,307	\$5,487,160,506	\$20,682	3.9%
2008	17,727	391,920,863	7,806	135,160,090	275,228	5,743,921,279	20,870	4.7
2009	17,326	392,452,923	7,940	136,537,511	284,614	5,999,836,691	21,081	4.5
2010	20,076	473,512,423	8,199	142,187,645	296,491	6,331,161,469	21,354	5.5
2011	24,688	620,038,676	8,499	147,985,004	312,680	6,803,215,141	21,758	7.5
2012	27,915	697,134,389	8,848	155,597,838	331,747	7,344,751,692	22,140	8.0
2013	25,825	743,998,946	9,344	165,231,795	348,228	7,923,518,843	22,754	7.9
2014	24,429	573,876,713	9,475	174,915,127	363,182	8,322,480,429	22,915	5.0
2015	25,134	604,436,264	10,578	191,966,951	377,738	8,734,949,742	23,124	5.0
2016	27,018	673,313,552	10,842	195,097,916	393,914	9,213,165,378	23,389	5.5

Actuarial Information Pension Trust Fund

Analysis of Financial Trends:

Financial Experience								
Changes in Unfunded Actuarial Accrued Liabilities (UAAL)*								
Resulting from Differences Between Assumed Experience and Actual Experience								
Increase/(Decrease) for Year (Billions)								
<u>As of</u> <u>August 31</u>	<u>Investment</u> <u>Gains/</u> <u>(Losses)</u>	<u>Legislative</u> <u>Changes/</u> <u>Benefit</u> <u>Increases</u>	<u>Contribution</u> <u>Experience</u>	<u>Assumption</u> <u>Changes</u>	<u>Liability</u> <u>Experience</u>	<u>Net</u> <u>Increase/</u> <u>(Decrease)</u>	<u>Beginning</u> <u>UAAL</u>	<u>Ending</u> <u>UAAL</u>
2016	(\$1.504)		\$0.525	\$0.00	(\$0.460)	\$2.485	\$32.968	\$35.453
2015	(1.237)		0.912	0.68	(1.501)	1.330	31.638	32.968
2014	1.095		1.157	2.282	0.358	2.702	28.936	31.638
2013	(2.045)		1.911	0.708	(1.829)	2.835	26.101	28.936
2012	(2.208)		1.258		(1.427)	2.039	24.062	26.101
2011	(1.958)		0.826	(0.271)	(1.350)	1.163	22.899	24.062
2010	(1.161)		0.797		(0.705)	1.253	21.646	22.899
2009	(10.321)		0.149		(0.347)	10.123	11.523	21.646
2008	1.232		0.228	0.676	(0.694)	(1.022)	12.545	11.523
2007	4.140	0.360	0.496		2.135	(1.149)	13.694	12.545

*Calculated on a 5-year smoothed market basis

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)).

Actuarial Information Pension Trust Fund

The following table shows the solvency test:

Solvency Test								
(AMOUNTS SHOWN IN MILLIONS)								
Valuation as of August 31	Aggregate Actuarial Accrued Liabilities For				Portion of Aggregate Actuarial Accrued Liabilities Covered by Valuation Assets			
	Active Member Contributions	Retirees and Beneficiaries	Active Members (State Financed Portion)	Valuation Assets	Active Member Contributions	Retirees and Beneficiaries	Active Members (State Financed Portion)	
	(1) *	(2) *	(3)		(1) *	(2) *	(3)	
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	
2015	33,856	82,535	50,062	133,485	100	100	34.1	
2016	34,803	86,986	52,451	138,786	100	100	32.4	

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

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.

Schedule of Funding Progress							
(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)	Projected Payroll	UAAL as a % of Covered Payroll (4)/(6)	
2007	\$ 103,419	\$ 115,964	\$ 12,545	89.2%	\$ 31,114	40.3%	
2008	110,233	121,757	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	38,522	82.1	
2015	133,485	166,453	32,968	80.2	39,620	83.2	
2016	138,786	174,239	35,453	79.7	42,376	83.7	

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

Actuarial Information TRS-Care



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November 4, 2016

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, 2016 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, 2016. 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 2015 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 4, 2016
 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 based on the current funding policy.

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, FSA, MAAA
 Consultant

Gabriel Roeder Smith & Company

Actuarial Information TRS-Care

Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2016 (With Comparative Data for August 31, 2015)
Based on a 4.75% discount rate

	<u>2016</u>	<u>2015</u>
Present Value of Benefits Being Paid		
Future Medical Claims	\$ 12,182,178,229	\$ 11,456,408,122
Future Rx Claims	17,064,181,212	14,992,390,269
Retiree Premiums Collected	(5,986,260,264)	(5,699,607,494)
NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES	\$ 23,260,099,177	\$ 20,749,190,897
Present Value of Benefits Payable in the Future to Present Active Members		
Future Medical Claims	\$ 31,279,247,825	\$ 27,343,585,400
Future Rx Claims	36,380,473,859	30,521,332,625
Retiree Premiums Collected	(12,392,538,894)	(11,174,537,629)
NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES	\$ 55,267,182,790	\$ 46,690,380,396
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 78,527,281,967	\$ 67,439,571,293

Summary of Cost Items

	<u>2016</u>	<u>2015</u>
Actuarial Present Value of Future Benefits	\$ 78,527,281,967	\$ 67,439,571,293
Present Value of Future Normal Costs	(28,328,831,535)	(23,236,242,417)
Actuarial Accrued Liability	\$ 50,198,450,432	\$ 44,203,328,876
Actuarial Value of Assets	(641,486,153)	(972,919,240)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 49,556,964,279	\$ 43,230,409,636

Actuarial Information TRS-Care

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

All of the demographic assumptions (rates of mortality, retirement, termination, and disability) and most of the economic assumptions (general inflation, salary increases and general payroll growth) used in this OPEB valuation are identical to those which were adopted by the board in 2015 after the preparation of an actuarial experience study and used in the respective valuation.

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2016 TRS annual actuarial valuation:

- Rates of Mortality
- Rates of Retirement
- Rates of Termination
- Rates of Disability Incidence
- General Inflation
- Wage Inflation
- Expected Payroll Growth

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

1. The discount rate for the current funding policy scenario was changed from 5.25% to 4.75%.
2. The savings from the Medicare Advantage plans and the Medicare Part D plan design are expected to last longer than previously assumed. The impact of these changes, which are related to the Medicare Advantage premiums and drug rebates, were measured in with the liability experience.

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 health care trends and aging factors as disclosed above.

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.

Unfunded actuarial accrued liabilities are amortized to produce payments (principal & interest) which are a level percent of payroll.

Actuarial Information TRS-Care

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls:

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls								
(1) <u>Valuation</u> as of August 31	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		(8) <u>% Increase</u> in Annual Allowances	(9) <u>Average</u> Annual Allowances
	(2) Number	(3) Annual Allowances	(4) Number	(5) Annual Allowances	(6) Number	(7) Annual Allowances *		
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
2015	19,171	106,177,651	11,116	31,400,277	259,578	1,050,329,854	12.5	4,046
2016	20,883	120,035,127	12,250	48,462,388	268,211	1,132,169,358	7.8	4,221

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

Solvency Test:

Solvency Test							
(AMOUNTS SHOWN IN MILLIONS)							
(1) <u>Valuation</u> as of August 31	<u>Aggregate Actuarial Accrued Liabilities For</u>			(5) <u>Valuation</u> Assets	<u>Portion of Aggregate Actuarial Accrued Liabilities</u> <u>Covered by Valuation Assets</u>		
	(2) Active Member Contributions*	(3) Beneficiaries and Vested Terminations	(4) Members (Employer Financed Portion)		(6) Active Member Contributions (5)/(2)	(7) Beneficiaries and Vested Terminations [(5)-(2)]/(3)	(8) Members (Employer Financed Portion) [(5)-(2)-(3)]/(4)
2008	NA	\$9,318	\$12,994	\$729	NA	7.8%	0.0%
2009	NA	9,642	14,716	800	NA	8.3	0.0
2010	NA	10,918	14,889	815	NA	7.5	0.0
2011	NA	13,710	16,075	891	NA	6.5	0.0
2012	NA	12,676	14,866	741	NA	5.8	0.0
2013	NA	14,367	15,468	551	NA	3.8	0.0
2014	NA	16,307	17,411	458	NA	2.8	0.0
2015	NA	20,749	23,454	973	NA	4.7	0.0
2016	NA	23,260	26,938	641	NA	2.8	0.0

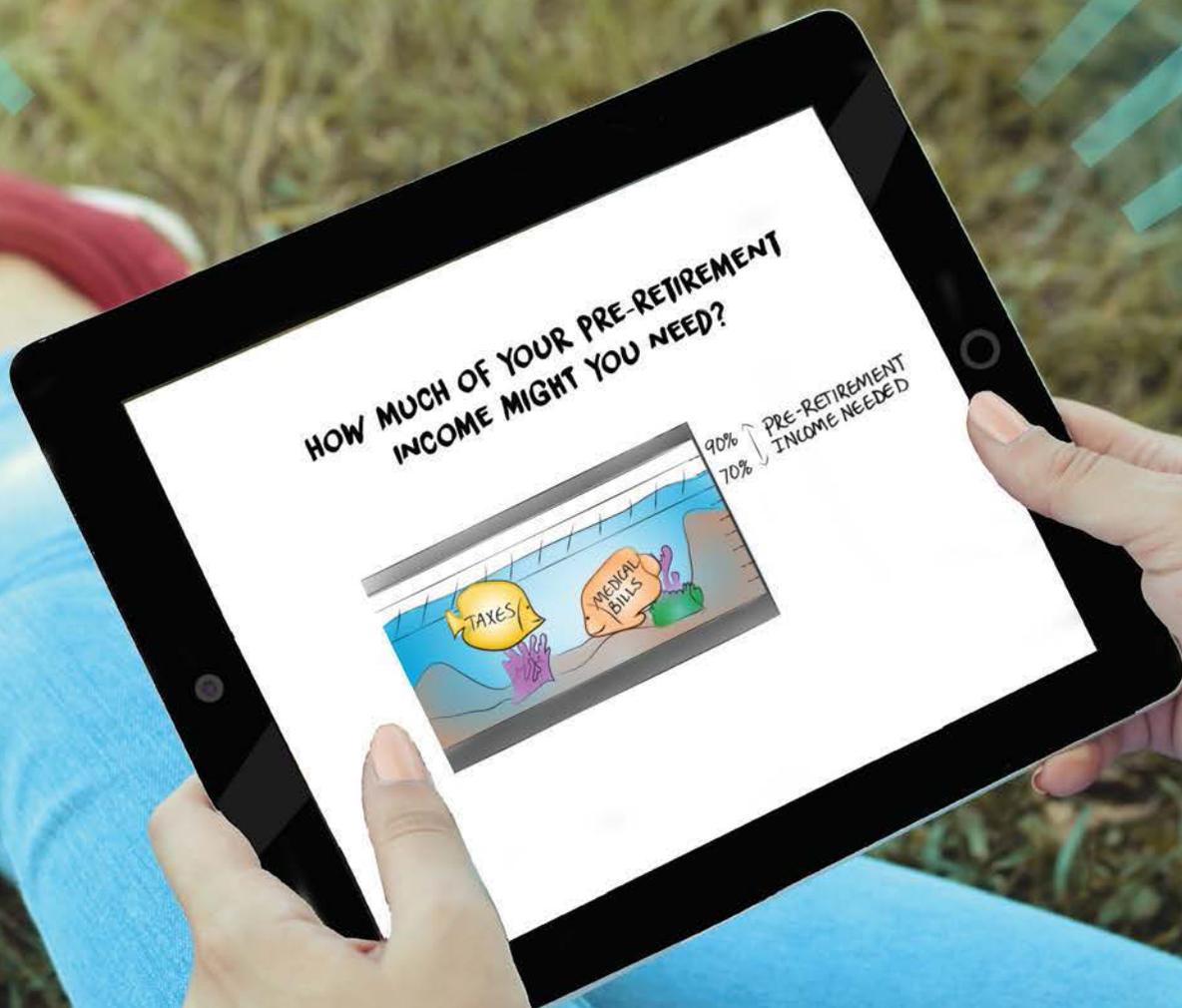
*Active member contributions are non-refundable.

Actuarial Information TRS-Care

Analysis of Financial Experience:

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)
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)		(1,522)	(3,400)
2015	(36)	(3,369)	(6,232)		(1,004)	(10,641)
2016	(37)	1,517	(4,199)		(3,518)	(6,237)

Statistical Section



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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 the 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 Net Position
- Benefit and Refund Deductions from Net Position by Type
- Benefit Deductions from Net Position by Type

OPERATING INFORMATION

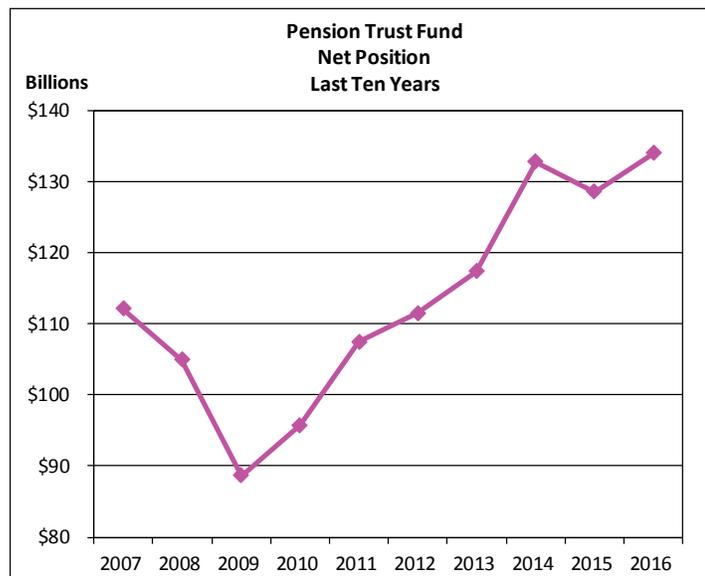
The schedules presented immediately following the Financial Trends Information contain contextual data about the system's benefit operations, resources and the benefit services it provides. The operating information schedules presented are:

- Average Benefit Payments – Pension Trust Fund
- Average Monthly Benefit – Pension Trust Fund
- Average Benefit Payments – Health Benefits
- Retired Members by Type of Benefit – Pension Trust Fund
- 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

	2016	2015	2014	2013
Additions				
Member Contributions	\$ 2,943,669,320	\$ 2,576,024,311	\$ 2,357,686,000	\$ 2,252,094,934
State's General Fund				
Non-Employer Contributing Entity	1,675,631,248	1,591,482,988	1,530,623,829	1,337,214,693
Employer Contributions	104,714,221	93,079,033	120,206,921	105,559,580
Participating Employers	1,378,675,127	1,284,893,620	864,345,470	820,134,412
Purchase of Service Credit	37,389,534	50,089,106	143,534,091	148,400,880
415 Excess Benefit Arrangement	3,574,146	2,216,586	2,273,832	2,520,830
Service Contributions Transferred in from ERS	20,376,732	18,989,008	17,440,313	16,365,042
Net Investment Income	9,193,280,560	(412,759,100)	19,434,430,034	9,834,136,005
Other	1,993,029	3,733,133	4,143,449	2,629,383
TOTAL ADDITIONS	\$ 15,359,303,917	\$ 5,207,748,685	\$ 24,474,683,939	\$ 14,519,055,759
Deductions				
Benefits	\$ 9,379,122,730	\$ 8,935,111,459	\$ 8,548,642,525	\$ 8,075,208,484
Excess Benefits	3,574,146	2,216,586	2,273,832	2,520,830
Refunds of Contributions	373,418,687	391,341,181	410,600,319	391,292,412
Service Contributions Transferred to ERS	88,854,383	84,059,353	80,163,847	75,513,146
Administrative Expenses, Excluding Investing Activity Expenses	44,402,710	35,556,979	41,904,190	36,264,062
TOTAL DEDUCTIONS	\$ 9,889,372,656	\$ 9,448,285,558	\$ 9,083,584,713	\$ 8,580,798,934
Net Increase (Decrease)	\$ 5,469,931,261	\$ (4,240,536,873)	\$ 15,391,099,226	\$ 5,938,256,825
Net Position - Beginning of Year	\$ 128,538,706,212	\$ 132,779,243,085	\$ 117,388,143,859	\$ 111,449,887,034
Net Position - End of Year	\$ 134,008,637,473	\$ 128,538,706,212	\$ 132,779,243,085	\$ 117,388,143,859



2012	2011	2010	2009	2008	2007
\$ 2,188,020,423	\$ 2,243,954,725	\$ 2,205,017,425	\$ 2,107,057,870	\$ 1,998,138,487	\$ 1,862,595,865
1,299,077,635	1,484,285,519	1,461,034,870	1,378,304,342	1,352,243,134	1,283,641,587
91,532,506	111,486,255	116,553,826	103,539,599	98,785,295	187,489,771
669,305,127	744,733,236	719,051,333	687,910,583	604,937,605	282,077,713
125,971,764	105,177,104	84,519,762	74,542,413	87,207,374	86,497,411
2,483,369	1,750,588	1,504,510	1,553,381	1,646,494	1,453,605
14,940,228	12,628,712	11,167,772	9,558,927	8,897,722	7,913,660
7,847,298,290	14,636,935,228	9,411,446,873	(13,971,868,722)	(4,604,971,847)	14,298,546,578
1,867,389	1,576,613	788,787	3,899	3,596	5,405
\$ 12,240,496,731	\$ 19,342,527,980	\$ 14,011,085,158	\$ (9,609,397,708)	\$ (453,112,140)	\$ 18,010,221,595
\$ 7,723,622,166	\$ 7,173,504,788	\$ 6,617,397,374	\$ 6,294,434,115	\$ 6,406,644,540	\$ 5,762,885,044
2,483,369	1,750,588	1,504,510	1,553,381	1,646,494	1,453,605
381,231,352	334,268,822	265,186,589	266,695,076	278,002,614	280,005,584
70,985,963	64,772,079	61,570,750	57,135,135	52,773,854	48,538,424
33,073,740	35,849,819	29,992,608	28,310,448	26,122,662	27,502,276
\$ 8,211,396,590	\$ 7,610,146,096	\$ 6,975,651,831	\$ 6,648,128,155	\$ 6,765,190,164	\$ 6,120,384,933
\$ 4,029,100,141	\$ 11,732,381,884	\$ 7,035,433,327	\$ (16,257,525,863)	\$ (7,218,302,304)	\$ 11,889,836,662
\$ 107,420,786,893	\$ 95,688,405,009	\$ 88,652,971,682	\$ 104,910,497,545	\$ 112,128,799,849	\$ 100,238,963,187
\$ 111,449,887,034	\$ 107,420,786,893	\$ 95,688,405,009	\$ 88,652,971,682	\$ 104,910,497,545	\$ 112,128,799,849

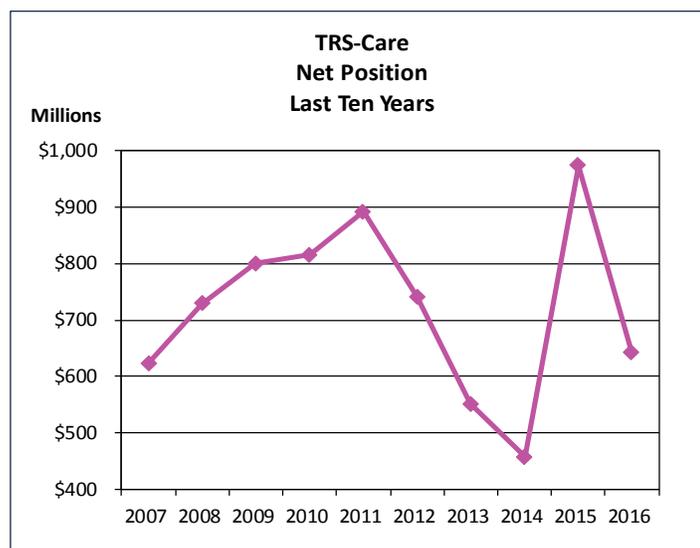
FINANCIAL TRENDS INFORMATION
Changes in Fiduciary Net Position

TRS-CARE

For the Fiscal Years Ended August 31

	2016	2015	2014	2013
Additions				
Health Care Premiums	\$ 374,736,269	\$ 369,066,459	\$ 363,631,292	\$ 355,685,504
State Contributions	297,070,920	281,098,358	267,497,910	139,095,786
Member Contributions	208,581,990	198,196,273	189,003,903	180,824,523
Participating Employers	212,936,351	202,976,470	193,124,772	160,952,396
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees			139,422	117,770
Federal Revenue	124,739,649	126,806,652	78,589,415	74,511,473
Rebate and Discount Income*	218,995,436	231,569,472	200,859,859	82,074,803
Investment Income	5,421,446	1,495,680	2,061,745	3,041,001
Supplemental Appropriation		768,100,754	36,058,148	102,363,704
Other	89,388			
TOTAL ADDITIONS	\$ 1,442,571,449	\$ 2,179,310,118	\$ 1,330,966,466	\$ 1,098,666,960
Deductions				
Health Care Claims and Insurance Premium Payments	\$ 1,720,941,708	\$ 1,613,181,278	\$ 1,375,039,945	\$ 1,241,656,374
Health Care Claims Processing and Other	48,361,151	47,380,407	45,387,769	43,577,852
Administrative Expenses	4,701,677	3,769,680	3,646,546	3,398,109
TOTAL DEDUCTIONS	\$ 1,774,004,536	\$ 1,664,331,365	\$ 1,424,074,260	\$ 1,288,632,335
Net Increase (Decrease)	\$ (331,433,087)	\$ 514,978,753	\$ (93,107,794)	\$ (189,965,375)
Net Position - Beginning of Year	\$ 972,919,240	\$ 457,940,487	\$ 551,048,281	\$ 741,013,656
Net Position - End of Year	\$ 641,486,153	\$ 972,919,240	\$ 457,940,487	\$ 551,048,281

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



2012	2011	2010	2009	2008	2007
\$ 363,348,030	\$ 345,164,271	\$ 332,481,933	\$ 329,723,191	\$ 328,505,433	\$ 323,957,945
271,925,242	282,782,431	279,250,547	267,471,299	254,722,174	238,190,720
176,751,407	183,808,580	181,512,856	173,856,344	165,569,413	154,823,968
154,607,926	158,724,010	155,918,241	149,562,613	141,672,630	136,008,512
103,676	108,440	101,511	95,929	91,945	55,932
68,633,946	136,887,805	70,795,686	61,530,735	59,486,239	52,329,617
5,189,934	8,168,640	11,679,229	17,482,143	29,252,347	32,671,539
\$ 1,040,560,161	\$ 1,115,644,177	\$ 1,031,740,003	\$ 999,722,254	\$ 979,300,181	\$ 938,038,233
\$ 1,142,131,410	\$ 992,478,380	\$ 971,356,805	\$ 885,132,865	\$ 833,509,538	\$ 742,293,147
44,571,383	44,115,872	42,535,601	40,364,063	36,747,710	33,407,937
3,714,018	3,143,922	3,031,686	2,916,259	3,000,536	2,526,189
\$ 1,190,416,811	\$ 1,039,738,174	\$ 1,016,924,092	\$ 928,413,187	\$ 873,257,784	\$ 778,227,273
\$ (149,856,650)	\$ 75,906,003	\$ 14,815,911	\$ 71,309,067	\$ 106,042,397	\$ 159,810,960
\$ 890,870,306	\$ 814,964,303	\$ 800,148,392	\$ 728,839,325	\$ 622,796,928	\$ 462,985,968
\$ 741,013,656	\$ 890,870,306	\$ 814,964,303	\$ 800,148,392	\$ 728,839,325	\$ 622,796,928

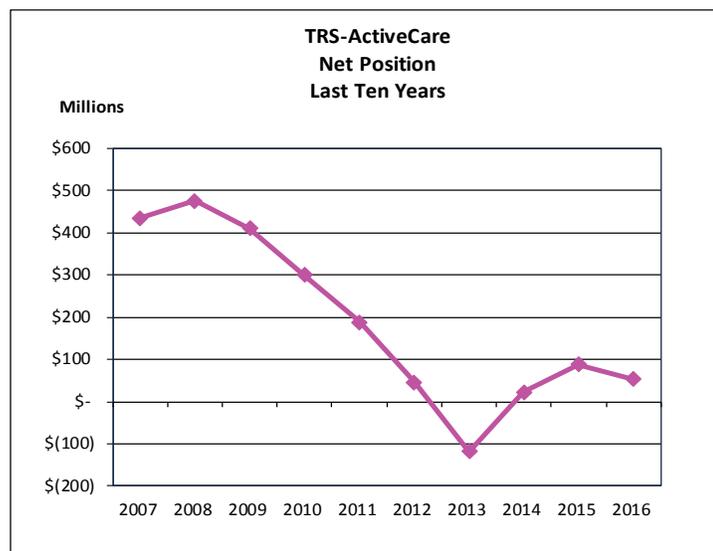
FINANCIAL TRENDS INFORMATION
Revenues, Expenses, and Changes in Net Position

TRS-ACTIVECARE

For the Fiscal Years Ended August 31

	2016	2015	2014	2013
Revenues				
Health Care Premiums	\$ 2,073,563,707	\$ 1,943,949,265	\$ 1,928,895,465	\$ 1,808,521,683
Administrative Fees and Other	356,054	236,749	139,608	137,630
Investment Income	3,079,039	1,537,408	940,022	746,936
Federal Revenue ARRA-COBRA Reimbursements				
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees			79,792	75,664
TOTAL REVENUES	\$ 2,076,998,800	\$ 1,945,723,422	\$ 1,930,054,887	\$ 1,809,481,913
Expenses				
Health Care Claims	\$ 1,768,287,120	\$ 1,565,255,957	\$ 1,521,834,989	\$ 1,785,069,768
Health Care Claims Processing and Other	125,802,110	135,073,416	109,925,954	84,903,101
Premium Payments to HMOs	214,529,160	178,192,468	154,913,859	100,905,702
Administrative Expenses	2,644,792	2,225,417	2,569,850	2,351,802
TOTAL EXPENSES	\$ 2,111,263,182	\$ 1,880,747,258	\$ 1,789,244,652	\$ 1,973,230,373
Net Increase (Decrease)	\$ (34,264,382)	\$ 64,976,164	\$ 140,810,235	\$ (163,748,460)
Net Position - Beginning of Year	\$ 87,815,276	\$ 22,839,112	\$ (117,971,123)	\$ 45,777,337
Net Position - End of Year*	\$ 53,550,894	\$ 87,815,276	\$ 22,839,112	* \$ (117,971,123)

* 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.

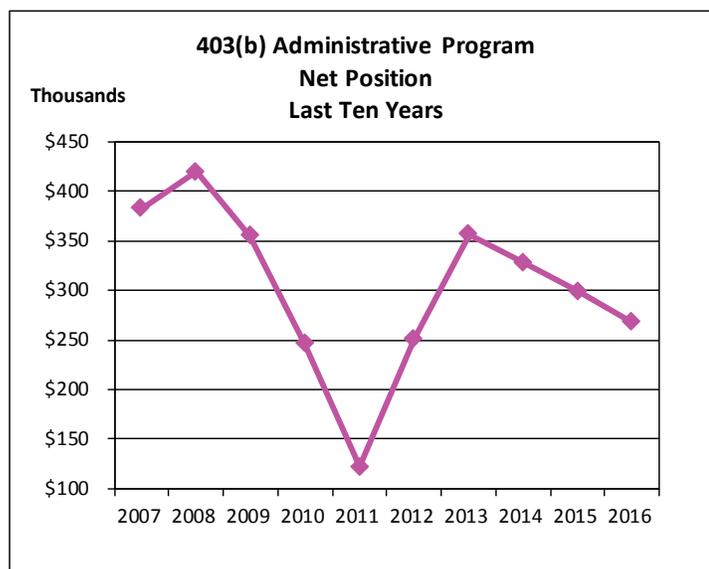


2012	2011	2010	2009	2008	2007
\$ 1,749,905,117	\$ 1,549,530,891	\$ 1,329,171,411	\$ 1,172,011,048	\$ 1,096,537,022	\$ 939,694,028
136,324	135,917	125,321	187,813	186,844	184,937
1,697,553	3,387,062	6,421,269	11,597,992	21,164,640	26,016,380
29,706	667,746	1,225,158	170,219		
72,094	67,373	64,328	64,975	61,894	46,446
\$ 1,751,840,794	\$ 1,553,788,989	\$ 1,337,007,487	\$ 1,184,032,047	\$ 1,117,950,400	\$ 965,941,791
\$ 1,718,903,645	\$ 1,510,090,981	\$ 1,313,114,197	\$ 1,122,646,958	\$ 952,156,339	\$ 801,148,962
83,346,223	76,960,951	67,906,654	60,934,432	54,583,499	48,177,777
89,706,406	76,270,706	64,532,253	64,820,440	68,204,743	58,742,363
2,176,610	2,207,051	1,883,148	1,861,949	1,830,258	1,775,831
\$ 1,894,132,884	\$ 1,665,529,689	\$ 1,447,436,252	\$ 1,250,263,779	\$ 1,076,774,839	\$ 909,844,933
\$ (142,292,090)	\$ (111,740,700)	\$ (110,428,765)	\$ (66,231,732)	\$ 41,175,561	\$ 56,096,858
\$ 188,069,427	\$ 299,810,127	\$ 410,238,892	\$ 476,470,624	\$ 435,295,063	\$ 379,198,205
\$ 45,777,337	\$ 188,069,427	\$ 299,810,127	\$ 410,238,892	\$ 476,470,624	\$ 435,295,063

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

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

	2016	2015	2014	2013
Revenues				
Certification Fees	\$ 12,000	\$ 27,000	\$ 15,000	\$ 60,000
Product Registration Fees	3,000	21,000	15,000	81,000
Investment Income	2,122	1,360	1,324	1,333
Fringe Benefits Paid by State's General Fund on Behalf of TRS Employees			3,131	2,890
TOTAL REVENUES	\$ 17,122	\$ 49,360	\$ 34,455	\$ 145,223
Expenses				
Administrative Expenses	\$ 48,638	\$ 78,446	\$ 62,636	\$ 40,194
TOTAL EXPENSES	\$ 48,638	\$ 78,446	\$ 62,636	\$ 40,194
Net Increase (Decrease)	\$ (31,516)	\$ (29,086)	\$ (28,181)	\$ 105,029
Net Position - Beginning of Year	\$ 299,070	\$ 328,156	\$ 356,337	\$ 251,308
Net Position - End of Year	\$ 267,554	\$ 299,070	\$ 328,156	\$ 356,337



2012	2011	2010	2009	2008	2007
\$ 114,000	\$ 12,000	\$ 30,000	\$ 6,000	\$ 30,000	\$ 171,000
63,000	3,000	21,000	9,000	180,000	
707	1,801	4,318	8,558	19,337	12,070
2,772	7,898	8,034			
<u>\$ 180,479</u>	<u>\$ 24,699</u>	<u>\$ 63,352</u>	<u>\$ 23,558</u>	<u>\$ 229,337</u>	<u>\$ 183,070</u>
\$ 51,203	\$ 148,444	\$ 172,835	\$ 88,000	\$ 192,000	\$ 24,000
\$ 51,203	\$ 148,444	\$ 172,835	\$ 88,000	\$ 192,000	\$ 24,000
\$ 129,276	\$ (123,745)	\$ (109,483)	\$ (64,442)	\$ 37,337	\$ 159,070
\$ 122,032	\$ 245,777	\$ 355,260	\$ 419,702	\$ 382,365	\$ 223,295
<u>\$ 251,308</u>	<u>\$ 122,032</u>	<u>\$ 245,777</u>	<u>\$ 355,260</u>	<u>\$ 419,702</u>	<u>\$ 382,365</u>

FINANCIAL TRENDS INFORMATION

Benefit and Refund Deductions from Net Position by Type

PENSION TRUST FUND

Last Ten Fiscal Years

	2016	2015	2014	2013
Type of Benefit				
Service Retirements**	\$ 8,633,505,859	\$ 8,215,765,876	\$ 7,795,690,586	\$ 7,251,369,740
Deferred Retirement Option	5,166,851	9,643,121	14,974,505	17,223,523
Partial Lump Sum Option	300,420,702	288,923,266	322,033,388	410,323,790
Disability Retirements	173,464,936	169,318,064	164,299,506	156,308,471
Death and Survivor Benefits:				
Annual Salary	44,952,730	39,574,595	44,846,010	41,219,707
Survivor Annuities	108,509,074	100,150,048	97,822,817	94,563,001
Life Annuities	92,087,967	90,563,081	89,547,742	87,044,328
60 Monthly Payments	15,523,059	14,443,193	13,415,885	12,659,471
Remainder of Contributions	5,491,553	6,730,215	6,012,086	4,496,453
TOTAL BENEFITS	\$ 9,379,122,731	\$ 8,935,111,459	\$ 8,548,642,525	\$ 8,075,208,484
Type of Refund				
Death	\$ 7,379,576	\$ 5,474,475	\$ 5,455,829	\$ 4,705,228
Separation	366,039,111	385,866,706	405,144,490	386,587,184
TOTAL REFUNDS	\$ 373,418,687	\$ 391,341,181	\$ 410,600,319	\$ 391,292,412

* 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

	2016	2015	2014	2013
Type of Claim				
Medical Claims and Insurance				
Premiums	\$ 858,985,138	\$ 805,668,819	\$ 691,283,731	\$ 687,469,016
Prescription drugs***	716,536,786	649,457,501	539,842,962	496,229,923
TOTAL	\$ 1,575,521,924	\$ 1,455,126,320	\$ 1,231,126,693	\$ 1,183,698,939

*** Note: For TRS-CARE, 2013 and 2014 Prescription claims numbers have been revised to reflect claims net of rebates. These two years were reported gross of rebates in 2013 and 2014.

Benefit Deductions from Net Position by Type

TRS-ACTIVECARE

Last Ten Fiscal Years

	2016	2015	2014	2013
Type of Claim				
Medical Claims and Insurance				
Premiums	\$ 1,644,795,868	\$ 1,479,302,696	\$ 1,397,249,236	\$ 1,613,167,792
Prescription drugs	325,475,512	264,145,729	279,499,612	272,807,678
TOTAL	\$ 1,970,271,380	\$ 1,743,448,425	\$ 1,676,748,848	\$ 1,885,975,470

2012	2011	2010	2009	2008	2007
\$ 6,808,592,209	\$ 6,241,946,655	\$ 5,841,963,927	\$ 5,565,925,090	\$ 5,649,308,335 *	\$ 5,064,191,508
22,361,937	27,822,115	22,607,290	23,272,668	26,757,772	31,939,855
501,152,157	524,925,790	385,555,126	348,261,100	363,668,944	325,688,244
150,238,202	144,865,109	141,396,837	138,569,650	146,907,654	134,866,736
46,859,444	47,295,194	45,698,147	43,235,232	42,216,290	38,928,295
92,126,049	86,898,720	82,574,358	79,951,723	78,862,569	76,116,829
85,816,402	84,893,007	83,238,898	81,764,240	85,576,098	78,322,931
11,816,313	11,564,275	10,824,948	10,180,012	10,169,530	9,386,943
4,659,453	3,293,923	3,537,843	3,274,400	3,177,348	3,443,703
\$ 7,723,622,166	\$ 7,173,504,788	\$ 6,617,397,374	\$ 6,294,434,115	\$ 6,406,644,540	\$ 5,762,885,044
\$ 5,294,006	\$ 3,984,340	\$ 3,710,941	\$ 3,084,718	\$ 2,520,283	\$ 2,073,365
375,937,346	330,284,482	261,475,648	263,610,358	275,482,331	277,932,219
\$ 381,231,352	\$ 334,268,822	\$ 265,186,589	\$ 266,695,076	\$ 278,002,614	\$ 280,005,584

2012	2011	2010	2009	2008	2007
\$ 687,987,585	\$ 608,461,321	\$ 575,539,788	\$ 531,239,020	\$ 498,767,038	\$ 437,519,746
454,143,825	384,017,059	395,817,017	353,893,845	334,742,500	304,773,401
\$ 1,142,131,410	\$ 992,478,380	\$ 971,356,805	\$ 885,132,865	\$ 833,509,538	\$ 742,293,147

2012	2011	2010	2009	2008	2007
\$ 1,450,574,875	\$ 1,242,673,156	\$ 1,092,107,916	\$ 934,733,927	\$ 788,240,087	\$ 659,478,760
268,328,770	267,417,825	221,006,281	187,913,031	163,916,252	141,670,202
\$ 1,718,903,645	\$ 1,510,090,981	\$ 1,313,114,197	\$ 1,122,646,958	\$ 952,156,339	\$ 801,148,962

OPERATING INFORMATION
Average Benefit Payments

PENSION TRUST FUND

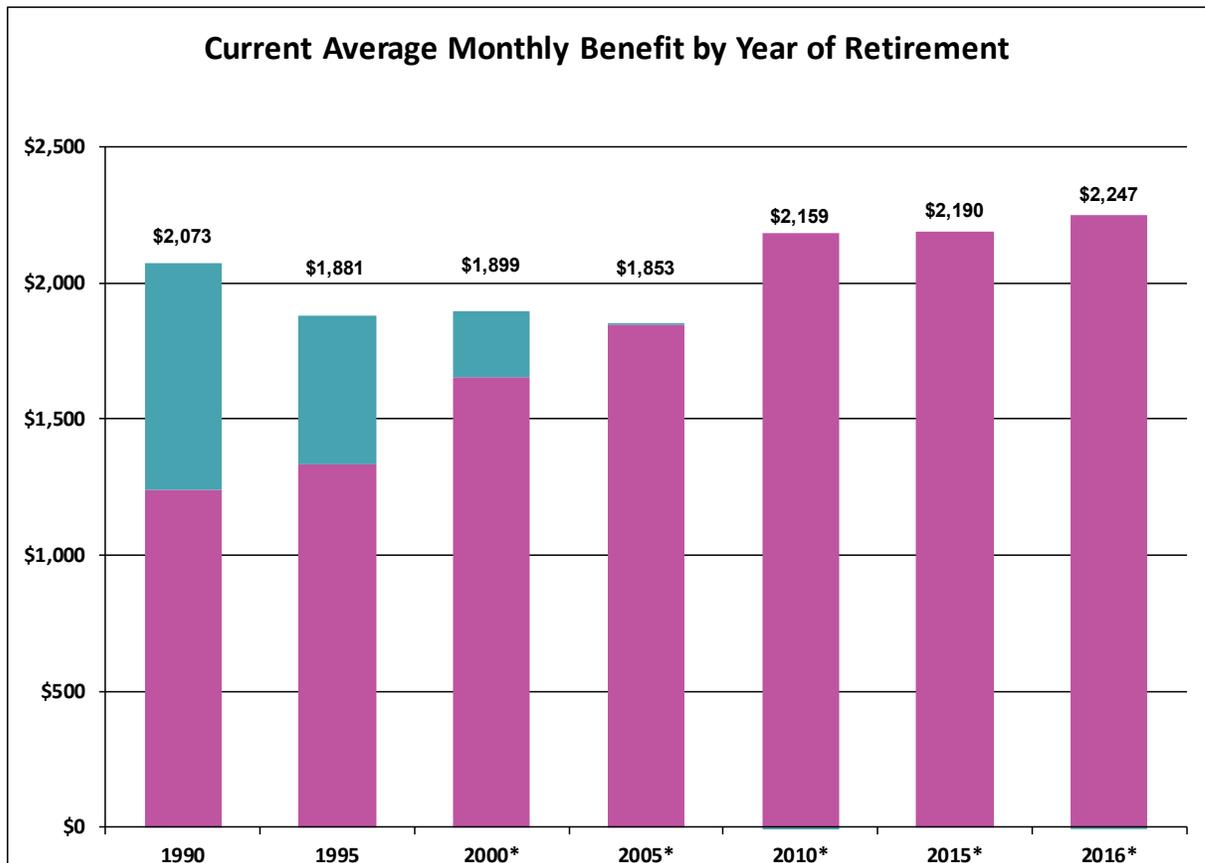
Last Ten Fiscal Years

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
9-1-06 to 8-31-07						
Average Monthly Benefit *	\$ 310	\$ 602	\$ 1,123	\$ 1,700	\$ 2,428	\$ 3,461
Average Final Average Salary	\$ 27,435	\$ 31,601	\$ 37,444	\$ 44,116	\$ 51,682	\$ 61,113
Number of Retirees	1,574	1,183	1,554	2,625	3,289	2,834
9-1-07 to 8-31-08						
Average Monthly Benefit *	\$ 315	\$ 621	\$ 1,153	\$ 1,760	\$ 2,538	\$ 3,515
Average Final Average Salary	\$ 27,892	\$ 32,365	\$ 38,421	\$ 45,582	\$ 53,616	\$ 61,848
Number of Retirees	1,532	1,280	1,902	2,941	3,754	3,332
9-1-08 to 8-31-09						
Average Monthly Benefit *	\$ 351	\$ 659	\$ 1,220	\$ 1,774	\$ 2,614	\$ 3,638
Average Final Average Salary	\$ 29,747	\$ 33,093	\$ 40,368	\$ 45,670	\$ 54,752	\$ 63,080
Number of Retirees	1,462	1,377	1,918	2,878	3,361	3,229
9-1-09 to 8-31-10						
Average Monthly Benefit *	\$ 363	\$ 671	\$ 1,227	\$ 1,840	\$ 2,639	\$ 3,736
Average Final Average Salary	\$ 30,278	\$ 34,347	\$ 40,453	\$ 47,302	\$ 55,174	\$ 64,234
Number of Retirees	1,675	1,604	2,236	3,517	3,825	4,187
9-1-10 to 8-31-11						
Average Monthly Benefit *	\$ 389	\$ 711	\$ 1,266	\$ 1,870	\$ 2,668	\$ 3,772
Average Final Average Salary	\$ 32,133	\$ 35,566	\$ 42,116	\$ 48,191	\$ 55,189	\$ 64,945
Number of Retirees	2,092	2,046	2,873	4,545	4,984	6,394
9-1-11 to 8-31-12						
Average Monthly Benefit *	\$ 390	\$ 726	\$ 1,305	\$ 1,923	\$ 2,783	\$ 3,861
Average Final Average Salary	\$ 32,190	\$ 36,522	\$ 43,163	\$ 49,383	\$ 56,754	\$ 66,323
Number of Retirees	2,139	2,226	2,853	4,257	4,373	5,208
9-1-12 to 8-31-13						
Average Monthly Benefit *	\$ 389	\$ 742	\$ 1,289	\$ 1,936	\$ 2,797	\$ 3,862
Average Final Average Salary	\$ 31,582	\$ 37,083	\$ 43,050	\$ 49,217	\$ 56,455	\$ 65,472
Number of Retirees	2,234	2,381	3,070	4,388	4,676	4,952
9-1-13 to 8-31-14						
Average Monthly Benefit *	\$ 413	\$ 800	\$ 1,325	\$ 1,962	\$ 2,845	\$ 3,872
Average Final Average Salary	\$ 32,910	\$ 39,267	\$ 43,889	\$ 49,222	\$ 56,835	\$ 65,447
Number of Retirees	2,292	2,286	3,084	4,252	4,429	4,197
9-1-14 to 8-31-15						
Average Monthly Benefit *	\$ 424	\$ 824	\$ 1,344	\$ 2,007	\$ 2,849	\$ 3,987
Average Final Average Salary	\$ 33,580	\$ 40,061	\$ 44,613	\$ 49,606	\$ 56,892	\$ 66,598
Number of Retirees	2,274	2,235	3,101	4,131	4,393	4,413
9-1-15 to 8-31-16						
Average Monthly Benefit *	\$ 445	\$ 835	\$ 1,350	\$ 2,037	\$ 2,885	\$ 4,036
Average Final Average Salary	\$ 33,983	\$ 40,380	\$ 44,728	\$ 49,974	\$ 57,550	\$ 67,108
Number of Retirees	1,985	2,115	2,979	4,055	4,059	4,422

* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$325.7, \$363.7, \$348.3, \$385.6, \$524.9, \$501.2, \$410.3, \$322.0, \$288.9 and \$300.4 million in fiscal years 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 respectively.

OPERATING INFORMATION
Average Monthly Benefits
 PENSION TRUST FUND

The following graph of service retiree accounts as of August 31, 2016 reflects benefit increases and decreases since retirement:



Original Benefits	\$1,243	\$1,335	\$1,656	\$1,846	\$2,184	\$2,190	\$2,249
Increase(Decrease) Since Retirement	830	546	243	7	(25)	0	(2)
Current Benefits	\$2,073	\$1,881	\$1,899	\$1,853	\$2,159	\$2,190	\$2,247
Number of Retirees**	3,512	5,439	10,313	10,495	16,315	20,655	19,822

* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,792, \$2,018, \$2,360, \$2,300 and \$2,350 fiscal years 2000, 2005, 2010, 2015 and 2016 respectively.

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

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OPERATING INFORMATION

Average Benefit Payments

TRS-CARE
Last Ten Fiscal Years

2016		
Average Benefit Per Participant	\$	6,062
Benefit Payments	\$	1,575,521,924
Average Participants		259,889
2015		
Average Benefit Per Participant	\$	5,780
Benefit Payments	\$	1,455,126,320
Average Participants		251,758
2014		
Average Benefit Per Participant	\$	5,059 *
Benefit Payments	\$	1,231,126,693 *
Average Participants		243,336
2013		
Average Benefit Per Participant	\$	5,053 *
Benefit Payments	\$	1,183,698,939 *
Average Participants		234,277
2012		
Average Benefit Per Participant	\$	5,115
Benefit Payments	\$	1,142,131,410
Average Participants		223,287
2011		
Average Benefit Per Participant	\$	4,718
Benefit Payments	\$	992,478,380
Average Participants		210,353
2010		
Average Benefit Per Participant	\$	4,790
Benefit Payments	\$	971,356,805
Average Participants		202,778
2009		
Average Benefit Per Participant	\$	4,464
Benefit Payments	\$	885,132,865
Average Participants		198,282
2008		
Average Benefit Per Participant	\$	4,302
Benefit Payments	\$	833,509,538
Average Participants		193,733
2007		
Average Benefit Per Participant	\$	3,891
Benefit Payments	\$	742,293,147
Average Participants		190,748

Average Benefit Payments

TRS-ACTIVECARE
Last Ten Fiscal Years

2016		
Average Benefit Per Participant	\$	4,053
Benefit Payments	\$	1,970,271,380
Average Participants		486,139
2015		
Average Benefit Per Participant	\$	3,607
Benefit Payments	\$	1,743,448,426
Average Participants		483,299
2014		
Average Benefit Per Participant	\$	3,603
Benefit Payments	\$	1,676,748,847
Average Participants		465,330
2013		
Average Benefit Per Participant	\$	3,966
Benefit Payments	\$	1,885,975,470
Average Participants		475,508
2012		
Average Benefit Per Participant	\$	3,868
Benefit Payments	\$	1,718,903,645
Average Participants		444,382
2011		
Average Benefit Per Participant	\$	3,662
Benefit Payments	\$	1,510,090,981
Average Participants		412,385
2010		
Average Benefit Per Participant	\$	3,509
Benefit Payments	\$	1,313,114,197
Average Participants		374,201
2009		
Average Benefit Per Participant	\$	3,324
Benefit Payments	\$	1,122,646,958
Average Participants		337,781
2008		
Average Benefit Per Participant	\$	3,060
Benefit Payments	\$	952,156,339
Average Participants		311,200
2007		
Average Benefit Per Participant	\$	2,835
Benefit Payments	\$	801,148,962
Average Participants		282,639

*Note: For TRS-CARE, 2013 and 2014 Average Benefit Per Participant and Benefit Payments numbers have been revised to reflect prescription drug claims net of rebates. These two years were reported as gross numbers in previous years.

OPERATING INFORMATION

Retired Members by Type of Benefit

PENSION TRUST FUND

Fiscal Year 2016

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*						
		1	2	3	4	5	6	7
\$ 1-200	14,674	5,786	6,973	260	1,550	55	36	14
\$ 201-400	39,990	10,886	12,260	661	2,479	984	1,019	11,701
\$ 401-600	25,355	12,346	8,815	1,337	2,314	336	207	
\$ 601-800	23,022	13,651	5,506	1,321	1,901	406	237	
\$ 801-1,000	22,280	14,921	3,859	1,176	1,725	412	187	
\$ 1,001-1,200	19,849	14,314	2,671	893	1,498	333	140	
\$ 1,201-1,400	16,989	12,296	2,097	740	1,488	249	119	
\$ 1,401-1,600	17,440	12,628	2,365	656	1,431	281	79	
\$ 1,601-1,800	17,621	13,160	2,357	569	1,225	236	74	
\$ 1,801-2,000	18,502	14,727	1,982	502	1,024	220	47	
\$ 2,001-3,000	93,358	80,776	6,054	1,318	4,240	891	79	
\$ 3,001-4,000	54,735	50,854	1,268	188	2,018	397	10	
\$ 4,001-5,000	19,606	18,436	286	24	731	124	5	
\$ over 5,000	10,493	9,907	106	6	394	79	1	
Totals	393,914	284,688	56,599	9,651	24,018	5,003	2,240	11,715

***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
Fiscal Year 2016

Benefit Range	Average Participants
\$ 0	15,214
\$ 1 - 5,000	179,691
\$ 5,001 - 10,000	34,226
\$ 10,001 - 20,000	16,842
\$ 20,001 - 30,000	4,469
\$ 30,001 - 40,000	2,347
\$ 40,001 - 50,000	1,687
\$ 50,001 - 100,000	3,334
\$ over 100,000	2,079
Total	259,889

Option Selected**					
1	2	3	4	5	6
6,407	5,123	1,424	552	1,123	45
11,961	8,589	2,771	1,253	2,109	13,307
11,578	7,663	3,098	1,204	1,812	
10,188	6,982	3,327	1,125	1,400	
10,008	6,532	3,408	1,102	1,230	
8,317	6,216	3,293	931	1,092	
6,639	5,667	3,080	734	869	
6,654	6,013	3,091	760	922	
6,701	6,066	3,219	697	938	
6,914	6,465	3,462	670	991	
33,456	34,344	17,480	3,201	4,877	
20,097	19,409	10,850	1,740	2,639	
7,444	6,588	4,233	561	780	
3,688	3,824	2,371	240	370	
150,052	129,481	65,107	14,770	21,152	13,352

****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

Fiscal Year 2016

Benefit Range	Average Participants
\$ 0	64,221
\$ 1 - 5,000	363,488
\$ 5,001 - 10,000	25,381
\$ 10,001 - 20,000	16,761
\$ 20,001 - 30,000	5,562
\$ 30,001 - 40,000	2,920
\$ 40,001 - 50,000	1,784
\$ 50,001 - 100,000	3,638
\$ over 100,000	2,384
Total	486,139

OPERATING INFORMATION
Principal Participating Employers

PENSION TRUST FUND
 Current Fiscal Year and Nine Years Ago

Participating Reporting Entity	2016			2007		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	24,326	1	2.80%	24,108	1	3.21%
Dallas ISD	20,260	2	2.33	19,732	2	2.62
UT MD Anderson Cancer Center	19,103	3	2.20	14,471	3	1.92
Cypress Fairbanks ISD	14,792	4	1.70	11,689	4	1.55
Northside ISD	13,691	5	1.57	11,163	6	1.48
Austin ISD	12,077	6	1.39	11,493	5	1.53
Fort Worth ISD	11,545	7	1.33	10,240	7	1.36
UT SW Medical Center-Dallas	11,353	8	1.30			
UT at Austin	10,263	9	1.18	9,590	9	1.27
UT Med Br at Galveston	10,108	10	1.16	9,638	8	1.28
El Paso ISD				8,811	10	1.17
All Other	722,322		83.04%	621,241		82.61%
Total	869,840		100.00%	752,176		100.00 %

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

OPERATING INFORMATION
Principal Participating Employers

TRS-CARE

Current Fiscal Year and Nine Years Ago

Participating Reporting Entity	2016			2007		
	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment
Houston ISD	24,326	1	3.40%	24,108	1	3.83%
Dallas ISD	20,260	2	2.84	19,732	2	3.14
Cypress Fairbanks ISD	14,792	3	2.07	11,689	3	1.86
Northside ISD	13,691	4	1.92	11,163	5	1.77
Austin ISD	12,077	5	1.69	11,493	4	1.83
Fort Worth ISD	11,545	6	1.62	10,240	6	1.63
Aldine ISD	9,658	7	1.35	8,268	8	1.31
Katy ISD	9,588	8	1.34			
North East ISD	9,285	9	1.30	8,244	9	1.31
Fort Bend ISD	8,801	10	1.23	8,152	10	1.30
El Paso ISD				8,811	7	1.40
All Other	579,917		81.24%	507,213		80.62%
Total	713,940		100.00%	629,113		100.00 %

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

List of Participating Employers

PUBLIC SCHOOLS

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

List of Participating Employers*(Continued)*

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

List of Participating Employers*(Continued)*

Dickinson ISD	Everman ISD	Garrison ISD
Dilley ISD	Excelsior ISD	Gary ISD
Dime Box ISD	Ezzell ISD	Gatesville ISD
Dimmitt ISD	Fabens ISD	Gause ISD
Divide ISD	Fairfield ISD	George West ISD
Dodd City ISD	Falls City ISD	Georgetown ISD
Donna ISD	Fannindel ISD	Gholson ISD
Doss Cons ISD	Farmersville ISD	Giddings ISD
Douglass ISD	Farwell ISD	Gilmer ISD
Dripping Springs ISD	Fayetteville ISD	Gladewater County Line ISD
Driscoll ISD	Ferris ISD	Glasscock County ISD
Dublin ISD	Flatonia ISD	Glen Rose ISD
Dumas ISD	Florence ISD	Godley ISD
Duncanville ISD	Floresville ISD	Goldburg ISD
Eagle Mount Saginaw ISD	Flour Bluff ISD	Goldthwaite ISD
Eagle Pass ISD	Floydada ISD	Goliad ISD
Eanes ISD	Follett ISD	Gonzales ISD
Early ISD	Forestburg ISD	Goodrich ISD
East Bernard ISD	Forney ISD	Goose Creek CISD
East Central ISD	Forsan ISD	Gordon ISD
East Chambers ISD	Fort Bend ISD	Gorman ISD
Eastland ISD	Fort Davis ISD	Grady ISD
Ector Cty ISD	Fort Elliott Cons ISD	Graford ISD
Ector ISD	Fort Hancock ISD	Graham ISD
Edcouch Elsa ISD	Fort Sam Houston ISD	Granbury ISD
Eden CISD	Fort Stockton ISD	Grand Prairie ISD
Edgewood ISD - Edgewood	Fort Worth ISD	Grand Saline ISD
Edgewood ISD - San Antonio	Franklin ISD	Grandfalls Royalty ISD
Edinburg CISD	Frankston ISD	Grandview Hopkins ISD
Edna ISD	Fredericksburg ISD	Grandview ISD
El Campo ISD	Freer ISD	Granger ISD
El Paso ISD	Frenship ISD	Grape Creek ISD
Electra ISD	Friendswood ISD	Grapeland ISD
Elgin ISD	Friona ISD	Grapevine-Colleyville ISD
Elkhart ISD	Frisco ISD	Greenville ISD
Elysian Fields ISD	Frost ISD	Greenwood ISD
Ennis ISD	Fruitvale ISD	Gregory-Portland ISD
Era ISD	Gainesville ISD	Groesbeck ISD
Etoile ISD	Galena Park ISD	Groom ISD
Eula ISD	Galveston ISD	Groveton ISD
Eustace ISD	Ganado ISD	Gruver ISD
Evadale ISD	Garland ISD	Gunter ISD
Evant ISD	Garner ISD	Gustine ISD

List of Participating Employers

(Continued)

Guthrie CSD	Hondo ISD	Jourdanton ISD
Hale Center ISD	Honey Grove ISD	Judson ISD
Hallettsville ISD	Hooks ISD	Junction ISD
Hallsburg ISD	Houston ISD	Karnack ISD
Hallsville ISD	Howe ISD	Karnes City ISD
Hamilton ISD	Hubbard ISD - Dekalb	Katy ISD
Hamlin ISD	Hubbard ISD - Hubbard	Kaufman ISD
Hamshire Fannett ISD	Huckabay ISD	Keene ISD
Happy ISD	Hudson ISD	Keller ISD
Hardin ISD	Huffman ISD	Kelton ISD
Hardin-Jefferson ISD	Hughes Springs ISD	Kemp ISD
Harlandale ISD	Hull Daisetta ISD	Kenedy County Wide CSD
Harleton ISD	Humble ISD	Kenedy ISD
Harlingen CISD	Hunt ISD	Kennard ISD
Harmony ISD	Huntington ISD	Kennedale ISD
Harper ISD	Huntsville ISD	Kerens ISD
Harrold ISD	Hurt-Euleess-Bedford ISD	Kermit ISD
Hart ISD	Hutto ISD	Kerrville ISD
Hartley ISD	Idalou ISD	Kilgore ISD
Harts Bluff ISD	Industrial ISD	Killeen ISD
Haskell CISD	Ingleside ISD	Kingsville ISD
Hawkins ISD	Ingram ISD	Kirbyville Cons ISD
Hawley ISD	Iola ISD	Klein ISD
Hays Cons ISD	Iowa Park Cons ISD	Klondike ISD
Hearne ISD	Ira ISD	Knippa ISD
Hedley ISD	Iraan-Sheffield ISD	Knox City O'Brien CISD
Hemphill ISD	Iredell ISD	Kopperl ISD
Hempstead ISD	Irion County ISD	Kountze ISD
Henderson ISD	Irving ISD	Kress ISD
Henrietta ISD	Italy ISD	Krum ISD
Hereford ISD	Itasca ISD	La Feria ISD
Hermleigh ISD	Jacksboro ISD	La Gloria ISD
Hico ISD	Jacksonville ISD	La Grange ISD
Hidalgo ISD	Jarrell ISD	La Joya ISD
Higgins ISD	Jasper ISD	La Marque ISD
High Island ISD	Jayton Girard ISD	La Porte ISD
Highland ISD	Jefferson ISD	La Poynor ISD
Highland Park ISD - Amarillo	Jim Hogg County ISD	La Pryor ISD
Highland Park ISD - Dallas	Jim Ned Cons ISD	La Vega ISD
Hillsboro ISD	Joaquin ISD	La Vernia ISD
Hitchcock ISD	Johnson City ISD	La Villa ISD
Holland ISD	Jonesboro ISD	Lackland ISD
Holliday ISD	Joshua ISD	Lago Vista ISD

List of Participating Employers

(Continued)

Lake Dallas ISD	Loop ISD	McKinney ISD
Lake Travis ISD	Lorraine ISD	McLean ISD
Lake Worth ISD	Lorena ISD	McLeod ISD
Lamar Cons ISD	Lorenzo Cons ISD	McMullen County ISD
Lamesa ISD	Los Fresnos Cons ISD	Meadow ISD
Lampasas ISD	Louise ISD	Medina ISD
Lancaster ISD	Lovejoy ISD	Medina Valley ISD
Laneville ISD	Lovelady ISD	Melissa ISD
Laredo ISD	Lubbock Cooper ISD	Memphis ISD
Lasara ISD	Lubbock ISD	Menard ISD
Latexo ISD	Lueders-Avoca ISD	Mercedes ISD
Lazbuddie ISD	Lufkin ISD	Meridian ISD
Leakey ISD	Luling ISD	Merkel ISD
Leander ISD	Lumberton ISD	Mesquite ISD
Leary ISD	Lyford Cons ISD	Mexia ISD
Lefors ISD	Lytle ISD	Meyersville ISD
Leggett ISD	Mabank ISD	Miami ISD
Leon ISD	Madisonville Cons ISD	Midland ISD
Leonard ISD	Magnolia ISD	Midlothian ISD
Levelland ISD	Malakoff ISD	Midway ISD - Henrietta
Leveretts Chapel ISD	Malone ISD	Midway ISD - Waco
Lewisville ISD	Malta ISD	Milano ISD
Lexington ISD	Manor ISD	Mildred ISD
Liberty Eylau ISD	Mansfield ISD	Miles ISD
Liberty Hill ISD	Marathon ISD	Milford ISD
Liberty ISD	Marble Falls ISD	Miller Grove ISD
Lindale ISD	Marfa ISD	Millsap ISD
Linden Kildare Cons ISD	Marion ISD	Mineola ISD
Lindsay ISD	Marlin ISD	Mineral Wells ISD
Lingleville ISD	Marshall ISD	Mission Cons ISD
Lipan ISD	Mart ISD	Monahans-Wickett-Pyote ISD
Little Cypress-Mauriceville Cons ISD	Martins Mill ISD	Montague ISD
Little Elm ISD	Martinsville ISD	Monte Alto ISD
Littlefield ISD	Mason ISD	Montgomery ISD
Livingston ISD	Matagorda ISD	Moody ISD
Llano ISD	Mathis ISD	Moran ISD
Lockhart ISD	Maud ISD	Morgan ISD
Lockney ISD	May ISD	Morgan Mill ISD
Lohn ISD	Maypearl ISD	Morton ISD
Lometa ISD	McAllen ISD	Motley County ISD
London ISD	McCamey ISD	Moulton ISD
Lone Oak ISD	McDade ISD	Mount Calm ISD
Longview ISD	McGregor ISD	Mount Enterprise ISD

List of Participating Employers

(Continued)

Mount Pleasant ISD	Olfen ISD	Pleasanton ISD
Mount Vernon ISD	Olney ISD	Plemons-Stinnett-Phillips
Muenster ISD	Olton ISD	Point Isabel ISD
Muleshoe ISD	Onalaska ISD	Ponder ISD
Mullin ISD	Orange Grove ISD	Poolville ISD
Mumford ISD	Orangefield ISD	Port Aransas ISD
Munday Consolidated ISD	Ore City ISD	Port Arthur ISD
Murchison ISD	Overton ISD	Port Neches-Groves ISD
Nacogdoches ISD	Paducah ISD	Post ISD
Natalia ISD	Paint Creek ISD	Poteet ISD
Navarro ISD	Paint Rock ISD	Poth Cons ISD
Navasota ISD	Palacios ISD	Pottsboro ISD
Nazareth ISD	Palestine ISD	Prairie Lea ISD
Neches ISD	Palmer ISD	Prairie Valley ISD
Nederland ISD	Palo Pinto ISD	Prairiland ISD
Needville ISD	Pampa ISD	Premont ISD
New Boston ISD	Panhandle ISD	Presidio ISD
New Braunfels ISD	Panther Creek Cons ISD	Priddy ISD
New Caney ISD	Paradise ISD	Princeton ISD
New Deal ISD	Paris ISD	Pringle-Morse Cons ISD
New Diana ISD	Pasadena ISD	Progreso ISD
New Home ISD	Patton Springs ISD	Prosper ISD
New Summerfield ISD	Pawnee ISD	Quanah ISD
New Waverly ISD	Pearland ISD	Queen City ISD
Newcastle ISD	Pearsall ISD	Quinlan ISD
Newton ISD	Peaster ISD	Quitman ISD
Nixon Smiley CISD	Pecos Barstow Toyah ISD	Rains ISD
Nocona ISD	Penelope ISD	Ralls ISD
Nordheim ISD	Perrin Whitt Cons ISD	Ramirez Common SD
Normangee ISD	Perryton ISD	Randolph Field ISD
North East ISD	Petersburg ISD	Ranger ISD
North Hopkins ISD	Petrolia ISD	Rankin ISD
North Lamar ISD	Pettus ISD	Raymondville ISD
North Zulch ISD	Pewitt Cons ISD	Reagan County ISD
Northside ISD - San Antonio	Pflugerville ISD	Red Lick ISD
Northside ISD - Vernon	Pharr-San Juan-Alamo ISD	Red Oak ISD
Northwest ISD	Pilot Point ISD	Redwater ISD
Nueces Canyon Cons ISD	Pine Tree ISD	Refugio ISD
Nursery ISD	Pittsburg ISD	Ricardo ISD
O Donnell ISD	Plains ISD	Rice Cons ISD
Oakwood ISD	Plainview ISD	Rice ISD
Odem-Edroy ISD	Plano ISD	Richards ISD
Oglesby ISD	Pleasant Grove ISD	Richardson ISD

List of Participating Employers

(Continued)

Richland Springs ISD	San Benito Cons ISD	Skidmore Tynan ISD
Riesel ISD	San Diego ISD	Slaton ISD
Rio Grande City CISD	San Elizario ISD	Slidell ISD
Rio Hondo ISD	San Felipe Del Rio CISD	Slocum ISD
Rio Vista ISD	San Isidro ISD	Smithville ISD
Rising Star ISD	San Marcos Cons ISD	Smyer ISD
River Road ISD	San Perlita ISD	Snook ISD
Rivercrest ISD	San Saba ISD	Snyder ISD
Riviera ISD	San Vicente ISD	Socorro ISD
Robert Lee ISD	Sands Cons ISD	Somerset ISD
Robinson ISD	Sanford-Fritch ISD	Somerville ISD
Robstown ISD	Sanger ISD	Sonora ISD
Roby CISD	Santa Anna ISD	South San Antonio ISD
Rochelle ISD	Santa Fe ISD	South Texas ISD
Rockdale ISD	Santa Gertrudis ISD	Southland ISD
Rocksprings ISD	Santa Maria ISD	Southside ISD
Rockwall ISD	Santa Rosa ISD	Southwest ISD
Rogers ISD	Santo ISD	Spearman ISD
Roma ISD	Savoy ISD	Splendora ISD
Roosevelt ISD	Schertz-Cibolo-Universal City ISD	Spring Branch ISD
Ropes ISD	Schleicher Cty ISD	Spring Creek ISD
Roscoe ISD	Schulenburg ISD	Spring Hill ISD
Rosebud-Lott Cons ISD	Scurry Rosser ISD	Spring ISD
Rotan ISD	Seagraves ISD	Springlake-Eath ISD
Round Rock ISD	Sealy ISD	Springtown ISD
Round Top Carmine ISD	Seguin ISD	Spur ISD
Roxton ISD	Seminole Public Schools	Spurger ISD
Royal ISD	Seymour ISD	Stafford Muncpl School Dist
Royse City ISD	Shallowater ISD	Stamford ISD
Rule ISD	Shamrock ISD	Stanton ISD
Runge ISD	Sharyland ISD	Stephenville ISD
Rusk ISD	Shelbyville ISD	Sterling City ISD
S & S Cons ISD	Sheldon ISD	Stockdale ISD
Sabinal ISD	Shepherd ISD	Stratford ISD
Sabine ISD	Sherman ISD	Strawn ISD
Sabine Pass ISD	Shiner ISD	Sudan ISD
Saint Jo ISD	Sidney ISD	Sulphur Bluff ISD
Salado ISD	Sierra Blanca ISD	Sulphur Springs ISD
Saltillo ISD	Silsbee ISD	Sundown ISD
Sam Rayburn Cons ISD	Silverton ISD	Sunnyvale ISD
San Angelo ISD	Simms ISD	Sunray ISD
San Antonio ISD	Sinton ISD	Sweeny ISD
San Augustine ISD	Sivells Bend ISD	Sweet Home ISD

List of Participating Employers

(Continued)

Sweetwater ISD	Valentine ISD	Wheeler ISD
Taft ISD	Valley Mills ISD	White Deer ISD
Tahoka ISD	Valley View ISD - Pharr	White Oak ISD
Tarkington ISD	Valley View ISD - Valley View	White Settlement ISD
Tatum ISD	Van Alstyne ISD	Whiteface ISD
Taylor ISD	Van ISD	Whitehouse ISD
Teague ISD	Van Vleck ISD	Whitesboro ISD
Temple ISD	Vega ISD	Whitewright ISD
Tenaha ISD	Venus ISD	Whitharral ISD
Terlingua CSD	Veribest ISD	Whitney ISD
Terrell County ISD	Vernon Cons ISD	Wichita Falls ISD
Terrell ISD	Victoria ISD	Wildorado ISD
Texarkana ISD	Vidor ISD	Willis ISD
Texas City ISD	Vysehrad ISD	Wills Point ISD
Texhoma ISD	Waco ISD	Wilson ISD
Texline ISD	Waelder ISD	Wimberley ISD
Thorndale ISD	Walcott ISD	Windham School District
Thrall ISD	Wall ISD	Windthorst ISD
Three Rivers ISD	Waller ISD	Winfield ISD
Three Way ISD	Walnut Bend ISD	Wink-Loving Cons ISD
Throckmorton ISD	Walnut Springs ISD	Winnsboro ISD
Tidehaven ISD	Warren ISD	Winona ISD
Timpson ISD	Waskom ISD	Winters ISD
Tioga ISD	Water Valley ISD	Woden ISD
Tolar ISD	Waxahachie ISD	Wolfe City ISD
Tom Bean ISD	Weatherford ISD	Woodsboro ISD
Tomball ISD	Webb CISD	Woodson ISD
Tornillo ISD	Weimar ISD	Woodville ISD
Trent ISD	Wellington ISD	Wortham ISD
Trenton ISD	Wellman-Union ISD	Wylie ISD - Abilene
Trinidad ISD	Wells ISD	Wylie ISD - Wylie
Trinity ISD	Weslaco ISD	Yantis ISD
Troup ISD	West Hardin County Cons ISD	Yoakum ISD
Troy ISD	West ISD	Yorktown ISD
Tulia ISD	West Orange-Cove Cons ISD	Ysleta ISD
Tuloso-Midway ISD	West Oso ISD	Zapata County ISD
Turkey Quitaque CISD	West Rusk County Cons ISD	Zavalla ISD
Tyler ISD	West Sabine ISD	Zephyr ISD
Union Grove ISD	Westbrook ISD	
Union Hill ISD	Westhoff ISD	
United ISD	Westphalia ISD	
Utopia ISD	Westwood ISD	
Uvalde Cons ISD	Wharton ISD	
		<u>CHARTER SCHOOLS</u>
		A Plus Academy
		A W Brown Fellowship Charter School

List of Participating Employers

(Continued)

A+ Unlimited Potential	Eden Park Academy	KIPP Truth Academy
Academy Of Accelerated Learning	Education Center Intermediate Acad	La Academia De Estrellas
Academy Of Careers & Technologies	El Paso Academy East	La Amistad Academy
Academy Of Dallas	El Paso Leadership Academy	La Fe Preparatory School
Accelerated Intermediate Academy	Eleanor Kolitz Hebrew Lang Academy	Leadership Prep School
Alief Montessori School	Erath Excels! Academy	Legacy Preparatory
Alpha Charter School	Evolution Academy Charter School	Life School
Ambassadors Preparatory Academy	Excellence In Leadership Academy	Lighthouse Charter School
Amigos Por Vida-Friends For Life Charter	Faith Family Academy Waxahachie	Manara Academy
Aristoi Classical Academy	Fallbrook College Prep Academy	Meadowland Charter School
Arlington Classics Academy	Focus Learning Academy	Meridian World School
Arrow Academy	Fort Worth Academy of Fine Arts	Meyerpark Elementary Charter
Austin Achieve Public School	Gateway Academy	Midland Academy Charter School
Austin Discovery School	Gateway Charter Academy	Mid-Valley Academy
Basis San Antonio	George Gervin Academy	Montessori For All
Beatrice Mayes Institute	George I Sanchez Charter	New Frontiers Charter School
Beta Academy	Global Learning Village	Newman International Academy
Bexar County Academy	Golden Rule Charter School	North Texas Elem School of Arts
Big Springs Charter School	Great Hearts Academy - San Antonio	Nova Charter School
Bob Hope School	Gulf Coast Trades Center	Nova Charter Southeast
Brazos River Charter School	Harmony School Of Excel - Houston	Nyos Charter School
Brazos School For Inquiry	Harmony School Of Science - Houston	Odyssey Academy
Bright Ideas Charter School	Harmony Science Academy - Austin	Orenda Charter School
Brooks Acad of Science & Eng	Harmony Science Academy El Paso	Panola Charter School
Burnham Wood Charter School	Harmony Science Academy Houston	Paso Del Norte Academy
Calvin Nelms Charter	Harmony Science Acad San Antonio	Pegasus School Of Liberal
Carpe Diem Schools	Harmony Science Academy Waco	Pineywoods Academy
Cedars International Academy	Henry Ford Academy - San Antonio	Por Vida Academy
Chaparral Star Academy	High Point Academy	Premier High Schools
Chapel Hill Academy	Houston Gateway Charter School	Premier Learning Academy
Cityscape Schools Inc.	Houston Heights High School	Promise Community School
Compass Academy	Houston Hghts Learning Academy	Radiance Academy of Learning
Comquest Academy	Idea Public Schools	Ranch Academy
Core Academy	Inspired Vision Academy	Rapoport Academy
Corpus Christi Montessori School	International Leadership of Texas	Raul Yzaguirre School
Crosstimbers Academy	Jean Massieu Academy	Richard Milburn - Killeen
Cumberland Academy	John H Wood Charter School	Rise Academy
Dallas Comm Charter School	Jubilee Academic Center	San Antonio School Inquiry
Dr M L Garza-Gonzalez Charter	Katherine Anne Porter School	School of Excellence In Education
Draw Academy	Ki Charter Academy	School of Science & Tech Discovery
Eagle Advantage School	KIPP Aspire Academy	School of Science & Technology
East Fort Worth Montessori School	KIPP Austin College Prep	Seashore Charter Schools
East Texas Charter School	KIPP Inc Charter	Ser-Ninos Charter School

List of Participating Employers

(Continued)

Shekinah Radiance Academy
 South Plains Academy
 South Texas Educational Tech Inc
 Southwest High School
 Southwest Preparatory School
 St Anthony School
 St Marys Charter School
 Stepping Stones Charter Elementary
 Tekoa Academy
 Temple Education Center
 Texans Can Academies
 Texas College Preparatory
 Texas Education Center
 Texas Empowerment Academy
 Texas Preparatory School
 Texas Serenity Academy
 The Children First Academy - Dallas
 The East Austin College Prep Acad
 The Ehrhart School
 The Excel Center
 The North Hills School
 The Pro-Vision Academy
 The Rhodes School
 TLC Academy
 Treetops International
 Trinity Basin Preparatory
 Trinity Charter School
 Trinity Environmental Academy
 Two Dimensions Prep Academy
 Ume Preparatory Academy
 Universal Academy
 Vanguard Academy
 Varnett Charter School
 Victory Preparatory Academy
 Village Tech Schools
 Vista Del Futuro Charter
 Waco Charter School
 Walipp Academy
 Westlake Academy
 Winfree Academy Charter School
 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 College 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 A
 Lamar University-Beaumont
 Midwestern State University
 Prairie View A & M University
 Sam Houston State University
 Stephen F Austin State University
 Sul Ross State University
 Tarleton State University
 Texas A&M - Agrilife Extension Service
 Texas A&M - Agrilife Research
 Texas A&M - Eng Exp Station
 Texas A&M- Eng Ext Service
 Texas A&M - Forest Service
 Texas A&M - International University
 Texas A&M - Transportation Inst
 Texas A&M University
 Texas A&M University - Central Texas
 Texas A&M University - Commerce
 Texas A&M University - Corpus Christi
 Texas A&M University - Galveston
 Texas A&M University - Kingsville
 Texas A&M University - San Antonio
 Texas A&M University - System Office
 Texas A&M University -Texarkana
 Texas Southern University
 Texas State Tech College
 Texas State University - San Marcos
 Texas State University System

List of Participating Employers

(Continued)

Texas Tech University	Region 11 Educ Service Center
Texas Woman's University	Region 12 Educ Service Center
U of N Texas System Admin	Region 13 Educ Service Center
Univ of TX - Arlington	Region 14 Educ Service Center
Univ of TX - Austin	Region 15 Educ Service Center
Univ of TX - Dallas	Region 16 Educ Service Center
Univ of TX - El Paso	Region 17 Educ Service Center
Univ of TX - Pan American	Region 18 Educ Service Center
Univ of TX - Permian Basin	Region 19 Educ Service Center
Univ of TX - Rio Grande Valley	Region 20 Educ Service Center
Univ of TX - San Antonio	
Univ of TX - Tyler	
University of Houston	
University of North TX	Anderson City Spc Ed Co Op
University of Texas System	Bowie County Sch Dist
UNT at Dallas	Dallas County School Dist
UT Brownsville	Harris City Dept Education
West Texas A & M University	Parker County Co-Op

OTHER EDUCATIONAL DISTRICTS

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

MEDICAL SCHOOLS

Texas A&M University System HSC
Texas A&M Vet Medical Diag Lab
U N T HSC at Fort Worth
UT Health Ctr at Tyler
UT HSC at Houston
UT HSC at San Antonio
UT Med Anderson Cancer Cent
UT Med Br at Galveston
UT SW Medical Center

OTHER ENTITIES

Teacher Retirement System

REGIONAL SERVICE CENTERS

Region 01 Educ Service Center
Region 02 Educ Service Center
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

Benefits Section



HOW CAN YOU PLAN FOR A
FINANCIALLY SECURE RETIREMENT?



Changes in the Law

STATE: The Legislature did not meet in fiscal year 2016. No noteworthy state law developments affecting TRS occurred during the fiscal year.

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

Federal

INVESTMENTS

Rulemaking under the Dodd–Frank Wall Street Reform and Consumer Protection Act (2010) (Dodd–Frank) - During this fiscal year, the Commodities Futures Trading Commission (CFTC) and the U.S. Prudential Regulators issued final rules on margin requirements for uncleared swaps. The CFTC also adopted a rule implementing a cross-border approach to the margin rules which closely aligned with the cross-border margin requirements already adopted by the Prudential Regulators. The rules will govern the posting of initial and variation margin between swap counterparties. As a public pension plan, TRS is classified as a “Special Entity” by the rules promulgated under Dodd–Frank. As a Special Entity, the final margin rules will not impact TRS until March of 2017, at the earliest. Amendments will be made to the existing swap trading and collateral documentation between TRS and its swap counterparties to ensure compliance.

BENEFITS

Health Care

Federal Patient Protection and Affordable Care Act of 2010 (PPACA) - During this fiscal year, TRS continued to monitor regulations issued with regard to the PPACA and implemented various provisions of the PPACA that impact the health benefit plans administered by TRS. TRS began implementing newly issued regulations under Section 1557, which prohibits discrimination on the basis of race, color, national origin, sex, age, or disability in certain health programs or activities. TRS will again allow certain school districts, charter schools, and other entities participating in TRS-ActiveCare to designate TRS, acting in its capacity as trustee of TRS-ActiveCare, to fulfill the reporting requirements under Internal Revenue Code Section 6055 for months of enrollment in calendar year 2016. Section 6055 addresses the reporting of health care coverage selected by active employees and COBRA qualified beneficiaries (and their dependents) who are enrolled in one of the PPO plans offered under TRS-ActiveCare.

PENSION

Tax Laws, Regulations and Guidance

IRS Determination Letter Program - In July 2015, the IRS issued Announcement 2015-19 indicating that effective Jan. 1, 2017, the IRS is eliminating the existing staggered five-year determination letter application filing cycles for individually designed qualified plans. Effective Jan. 1, 2017, determination letter applications for individually designed plans will be limited to initial plan qualification and upon plan termination. Qualified plans that are in Cycle E can continue to file their determination letter applications through Jan. 31, 2016 (the end of the most recent Cycle E period), and qualified plans that are in Cycle A can file during the last Cycle A period that begins Feb. 1, 2016 and ends on Jan. 1, 2017. Off-cycle filings are eliminated effective July 21, 2015 and through Dec. 31, 2016, except for determination letters for new plans and terminating plans. The IRS also indicated that individually designed plans will be permitted to submit determination letter applications in certain other limited circumstances as determined in the future by the IRS and U.S. Treasury Department. In January 2016, the IRS issued Notice 2016-03 indicating that it intends to amend existing guidance to provide that expiration dates included in determination letters issued prior to Jan. 4, 2016 are no longer operative. The IRS also indicated that it will issue future guidance that addresses the extent to which a determination

Changes in the Law

letter can be relied upon after a subsequent change in law or plan amendment. The IRS subsequently issued Rev. Proc. 2016-37 in June 2016, modifying the determination program as discussed above. The IRS extended the remedial amendment period for individually designed governmental plans within the meaning of IRC Section 414(d) in Rev. Proc. 2016-37. The IRS also indicated in Rev. Proc. 2016-37 that circumstances that will be considered in evaluating whether to accept determination letter applications include significant law changes, new approaches in plan design, the inability of certain types of plans to convert to pre-approved plan documents, the IRS' case load and resources, and additional situations as determined in the future by the IRS and U.S. Treasury Department. TRS will continue to monitor the issuance of additional federal guidance.

Normal Retirement Age Regulations - In January 2016, the IRS and the U.S. Treasury Department issued a Notice of Proposed Rulemaking for governmental plans regarding pension distributions upon attainment of "normal-retirement age" (NRA). The guidance provides that a NRA under a governmental plan must satisfy the pre-ERISA vesting rules. A governmental plan is permitted to use a period of service to determine NRA if the period of service used is reasonable and uniformly applicable and the other pre-ERISA rules relating to NRA are satisfied. A governmental plan is allowed to specify a NRA that is less than age 65 if the lower age is an age that is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed. The guidance also distinguishes between governmental plans that allow "in-service distributions" and those that do not. In the case of a governmental plan that allows "in-service" distributions before age 62, the plan's NRA must meet the reasonably representative requirement, which may be satisfied by meeting one of the safe harbors set forth in the guidance. In the case of a governmental plan that does not allow "in-service" distributions before age 62, the plan is not required to define NRA or comply with the reasonably representative requirement or the safe harbors, but the plan's NRA must satisfy the pre-ERISA vesting rules.

Safe harbors for governmental plans provided in the IRS' Notice of Proposed Rulemaking that are deemed to satisfy the reasonably representative requirement include the following: (1) the NRA is at least age 62 or the later of age 62 or another specified date, such as five years of service; (2) the NRA is the later of age 60 or the age at which the participant has been credited with at least five years of service; (3) the NRA is the later of age 55 or the age at which the participant has been credited with at least 10 years of service; (4) the NRA is the participant's age if the sum of the participant's age plus the number of years of service credited to the participant equals 80 or more; and (5) the NRA is based on a combination of any of the other safe harbors (except for the qualified public safety employee safe harbors) with 25 years of service, so that the NRA is the participant's age when the number of years of service that have been credited to the participant equals 25 if that age is earlier than what the participant's NRA would be under the other safe harbors. The guidance also includes three safe harbors specifically for qualified public safety employees: (1) the NRA is age 50 or later; (2) the NRA is based on a combination of the participant's age plus the number of years of service credited to the participant that equals 70 or more; and (3) the NRA is the participant's age when the number of years of service that have been credited to the participant equals 20 or more.

In addition, the Notice of Proposed Rulemaking provides that the use of different NRAs based on different classifications of employees or benefit structures in a single plan would not fail to satisfy the pre-ERISA rules. Additionally, the use of one NRA for employees hired before a certain date and another NRA for employees hired on or after that date generally would not fail to satisfy the pre-ERISA rules. The guidance further provides that a NRA in a governmental plan that does not satisfy any of the safe harbors could still satisfy the reasonably representative requirement based on all of the relevant facts and circumstances. The final regulations are anticipated to be effective for TRS on Sept. 1, 2017. TRS will continue to monitor developments with respect to these anticipated changes in federal regulations.

Same-Sex Marriage - In June 2015, the U.S. Supreme Court handed down the *Obergefell v. Hodges* ruling. Consequently, a same-sex person who is married to a TRS member or retiree is eligible under the pension plan for benefits available to a spouse under state law. TRS immediately complied with the ruling. In December 2015, the IRS issued Notice 2015-86

Changes in the Law

providing guidance on the application of the *Obergefell* decision to qualified retirement plans. The guidance had limited effect for TRS because TRS already recognized same-sex marriages for federal tax law purposes pursuant to the U.S. Supreme Court's June 26, 2013 decision in the *U.S. v. Windsor* case and subsequent IRS guidance implementing the *Windsor* decision. TRS will continue to monitor the issuance of additional federal guidance.

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 IRS received over 2,000 comments from the public charter school community regarding the draft proposed regulations contained in the preliminary guidance. In February 2015, the IRS issued Notice 2015-07 indicating that the IRS anticipates issuing proposed regulations that provide that a state or local retirement system that covers public charter school employees will not fail to be a governmental plan under Section 414(d) if certain requirements are satisfied. The IRS and the U.S. Treasury Department anticipate that the final regulations under Section 414(d) will apply prospectively and will include a delayed effective date. In addition, the IRS and the U.S. Treasury Department anticipate that the final regulations will contain certain transition relief. The IRS and the U.S. Treasury Department will also continue to review other comments received in response to the 2011 advance notice of proposed rulemaking. TRS will continue to monitor developments.

Other Developments

OFAC Iran Sanctions

Effective Jan. 16, 2016, the U.S. lifted certain of the economic and trade sanctions against Iran administered by the Office of Foreign Assets Control (OFAC) of the U.S. Treasury Department. Prior to Jan. 16, 2016, the U.S. had primary and secondary sanctions. The primary sanctions generally prohibit U.S. persons, such as TRS, from engaging in transactions or dealings with Iran or its government. The secondary sanctions generally are directed toward non-U.S. persons for specified conduct involving Iran that occurs outside of U.S. jurisdiction. Effective Jan. 16, 2016, the U.S. lifted the “nuclear-related” secondary sanctions and removed 400 individuals and entities from OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List), the Foreign Sanctions Evaders List (FSE List), and/or the Non-SDN Iran Sanctions Act List (NS-ISA List). However, the primary sanctions remain in place. On Jan. 20, 2016, the Governor of Texas issued a directive that Texas will continue to enforce the investment restrictions in Texas Government Code Chapter 807, and the revocation of some of the Iran sanctions did not trigger the revocation of the Texas sanctions. TRS will continue to monitor developments.

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 retirement; disability retirement; death benefits; and survivor benefits on behalf of eligible employees of public and higher education in Texas. The TRS Benefits Handbook, a general information booklet, is available to TRS members, annuitants and the public on the TRS website, www.trs.texas.gov. Retirement benefits are financed by member, state, and employer contributions, along with earnings from pension trust fund investments.

TRS also administers two separate trust funds related to health care. First, TRS administers TRS-ActiveCare, the statewide health benefits program for eligible public education employees of participating entities and their eligible dependents. The program is mainly financed by plan participant premium payments. 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 subsidy revenue from the Medicare Part D program.

In addition to the three trust funds, 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 fiscal year 2016.

The major retirement plan benefits are:

SERVICE RETIREMENT

Normal Retirement Eligibility

For members whose membership began prior to Sept. 1, 2007, who had 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 had 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 retirement or optional annuity selection.

Early Age Retirement Eligibility

For members whose membership began prior to Sept. 1, 2007, who had 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 had 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, and the member is less than age 60, 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 Age Retirement Benefit - The standard annuity amount calculated under the benefit formula (or the minimum benefit, if applicable) and used to determine the amount of any optional retirement annuity is reduced for early age retirement. The amount of the reduction varies depending on age, years of service credit, and whether a member is grandfathered.

Summary of Benefits

DISABILITY RETIREMENT

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

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

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), available for election at the time of retirement, eligible members may elect to receive an actuarially reduced service retirement annuity plus a lump sum distribution.

Members may elect to receive a 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 annual distribution options are available, including rollovers to another eligible retirement plan.

Summary of Benefits

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 credited by TRS and service credit used to calculate their retirement benefits and to have a portion of the standard annuity amount deposited into a DROP account while continuing to work for a TRS-covered employer. Interest on DROP accounts prior to Sept. 2014 was credited at a rate of five percent. The DROP account is currently credited at the rate of two percent per annum. Members are not considered to be retired while participating in DROP.

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

Participation in DROP ends at the earliest of the expiration of the election period, retirement, or death. The accumulated DROP account may be distributed as a single lump sum or in monthly or yearly installments covering five or 10 years. Distributions commence at retirement or in the event the member dies before retiring, at the member's death. Eligible distributions may be rolled over to another eligible retirement plan. Members who participated in DROP but continued working in membership eligible employment after the close of their participation period earn post-DROP retirement benefits based solely on creditable compensation received and service credit earned after their DROP participation period ended. Post-DROP benefits are distributed with the retirement and DROP benefits.

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 qualifying USERRA military service, up to a maximum of five years, may also be counted in determining eligibility for TRS service retirement benefits. The USERRA service and/or compensation credit may also be purchased to increase the amount of the retirement benefit or may simply be verified and used to establish eligibility. 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 was absent from service because of sickness, accident or another reason TRS determines is involuntary or in furtherance of the objectives or welfare of the public school system. Active member death benefits are also payable if the member dies when eligible to retire or would have become eligible without further service before the fifth anniversary of the members last day of service as a member 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:

Summary of Benefits

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, and is 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 to eligible beneficiaries. 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.

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. 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 of the balance of accumulated contributions 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.

Summary of Benefits

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 part-time employees of participating school districts, open enrollment charter schools, regional education service centers, and other educational districts, went into effect on Sept. 1, 2002. The program initially focused on smaller districts, where affordable health coverage was often harder to find, and later expanded to include larger school districts. In fiscal year 2016, 1,101 entities participated in the program. Employees can choose from three PPO plans and, in certain areas, employees also have the option of enrolling in a health maintenance organization.

RETIREE HEALTH COVERAGE

The program under the Texas Public School Retired Employees Group Benefits Act, known as TRS-Care, makes a basic level of health coverage available at no cost to eligible TRS public school retirees. Eligible retirees and their dependents may pay premiums and participate in one of the two standard medical plans and one of the two standard prescription plans that provide more comprehensive 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.



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