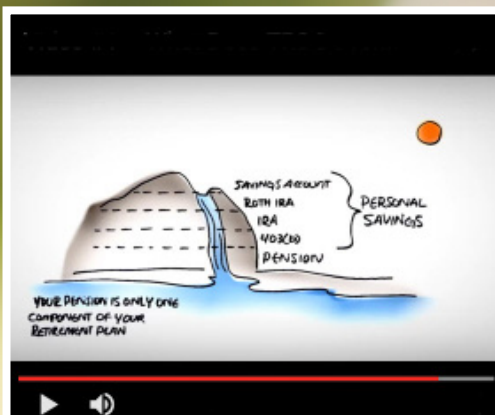
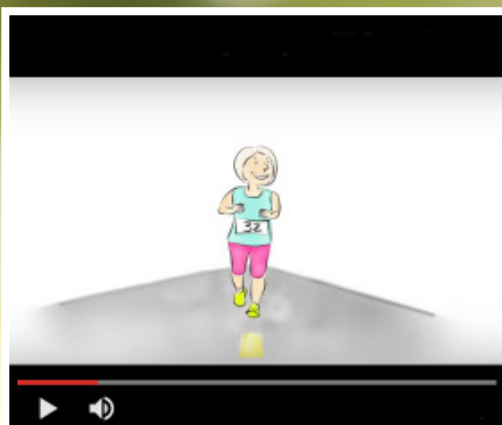


Teacher Retirement System of Texas

Summary Annual Report

2016



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.

TRS Financial Awareness Video Series

The cover of the *Comprehensive Annual Financial Report* (CAFR) and *Summary Annual Report* for fiscal year 2016 represents TRS' series of new financial awareness videos that rolled out in November 2016. The videos are aimed at helping our current members learn about retirement self-sufficiency. Starring in this series of short, animated whiteboard videos is a diverse cast of characters.

The series introduces members to three interrelated themes:

One, what you have – your TRS defined benefit plan. Topics include how the TRS pension plan works and how to estimate your TRS retirement benefit. Spoiler alert: pension, benefit and annuity all mean the same thing!

Two, what you need – to save more. Topics include whether your TRS pension will provide enough income in retirement, and reasons why the answer is probably “no” – like the impact of inflation and the fact that you may not be eligible to participate in Social Security.

And three, how to get it – by saving smart. Topics include setting financial goals, enrolling in a 403(b) plan, taking advantage of compound interest, working with financial advisors, and more.

Some of the videos are more relevant to early- and mid-career members, while others may be of more interest to members who are near retirement. However, no matter where you are in your career, you'll find something valuable in every video.

To view the current videos and keep up with the latest releases, please visit the Financial Awareness Video Series page of the TRS website at www.trs.texas.gov or tune in to us on our YouTube channel TRSofTexas.



Board of Trustees

R. David Kelly,
Chair,
Plano

Nanette Sissney,
Vice Chair,
Whitesboro

Todd Barth,
Houston

Karen Charleston,
Houston

Joe Colonna,
Dallas

David Corpus,
Humble

Christopher Moss,
Lufkin

Anita Palmer,
Jacksboro

Dolores Ramirez,
San Benito

John Elliott of Austin and Greg Gibson of Schertz were sworn in as members of the TRS Board on May 13. They replaced Todd Barth and Nanette Sissney, respectively.



Brian K. Guthrie
Executive Director

“We hope that this CAFR summary will be a convenient resource for those wishing to learn more about TRS developments over the past year.”

From the Executive Director

It is my pleasure to present you with the Teacher Retirement System of Texas' (TRS) *Summary Annual Report* for fiscal year 2016, our 79th year of operation. We have prepared this summary of our full *Comprehensive Annual Financial Report* (CAFR) for fiscal year 2016 so you can read about the financial highlights of the past fiscal year. We hope that this CAFR summary will be a convenient resource for those wishing to learn more about TRS developments last year. Our full report is posted on the Publications page of the TRS website.

During the past fiscal year, the System experienced modest growth as membership grew to 1,503,940 participants. The pension trust fund saw positive returns, ending 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.

The 84th legislature created a joint interim committee to study TRS-Care and 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 as well as the affordability of TRS-ActiveCare.

During the past year, TRS also continued its program of auditing reports submitted by reporting entities 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. In addition to reviewing elements of this data, TRS auditors are testing eligibility and compensation for accuracy, completeness and compliance with TRS laws and rules.

The TRS Pension Trust Fund finished the year with an investment net value of \$133.4 billion, an increase of \$5.5 billion after contributions and benefit payouts, from fiscal year 2015. For the 12-month period ending Aug. 31, 2016, the portfolio delivered returns of 7.4 percent. Annual rates of return for five-year and 10-year periods ending Aug. 31, 2016 were 8.0 percent and 6.0 percent, respectively.

We are saddened to report that TRS Trustee Anita Palmer passed away in January 2017. She was a wonderful woman who cared passionately for educators and was steadfastly committed to the mission of TRS. She will be greatly missed. We would like to dedicate this publication in her honor.

Thank you for your interest in the latest developments of your retirement system.

Membership

The Teacher Retirement System of Texas was ranked the sixth largest retirement system in the nation for 2016 and continues to be the largest public retirement system in Texas, serving more than 1.5 million participants.

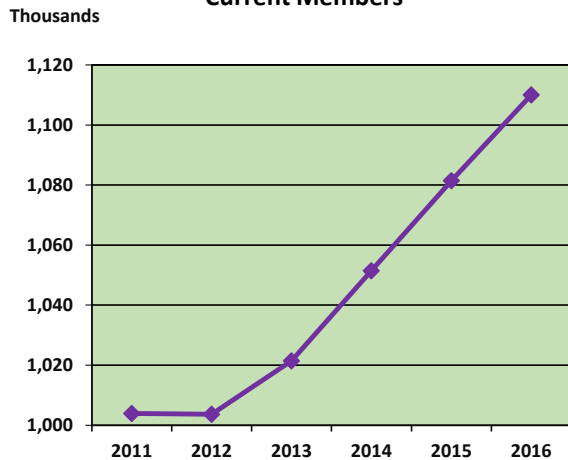
TRS is comprised of Current Members, Retirement Recipients, and TRS-Care and TRS-ActiveCare participants. The following tables represent membership data for the fiscal year ending Aug. 31, 2016.

TRS membership includes employees and retirees of state-supported educational institutions in Texas. At Aug. 31, 2016, participating employers included the following:

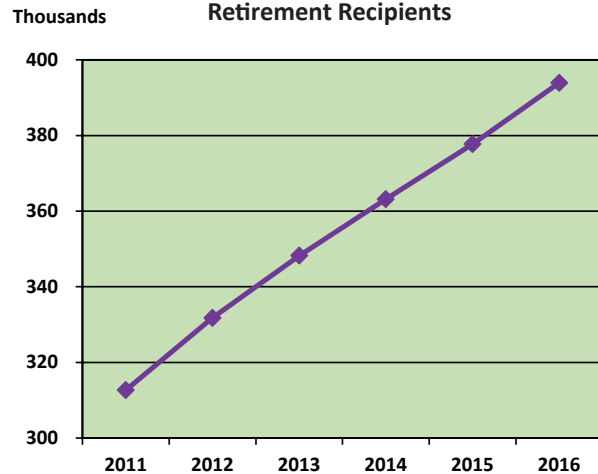
| | |
|----------------------------------|--------------|
| Public School Districts | 1,025 |
| Charter Schools | 173 |
| Community and Junior Colleges | 50 |
| Senior Colleges and Universities | 49 |
| Regional Service Centers | 20 |
| Medical Schools | 9 |
| Other Educational Districts | 5 |
| State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

**Pension Trust Fund
Current Members**



**Pension Trust Fund
Retirement Recipients**





Health Benefit Plans

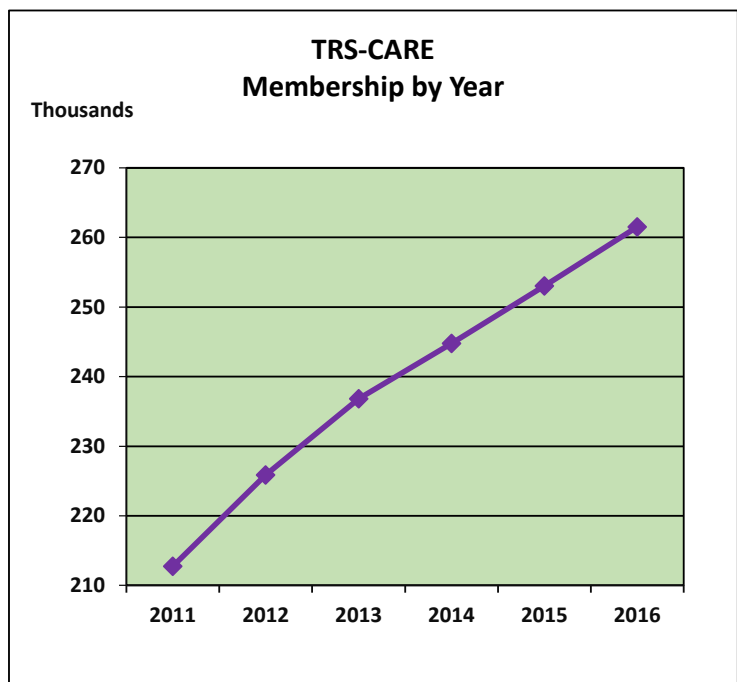
TRS administers retirement and related benefits to employees and beneficiaries of employees of the public, state-supported, educational institutions of Texas. The System administers the Texas Public School Retired Employees Group Insurance Program (TRS-Care) and the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare).

TRS-Care provides health care coverage for eligible retirees (and their eligible dependents). The statutory authority for the program is Texas Insurance Code, Title 8, Subtitle H, Chapter 1575, with associated rules found in the Texas Administrative Code, Title 34, Part 3, Chapter 41, Subchapter A. TRS-Care began providing health care coverage on Sept. 1, 1986.

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 |



TRS-ActiveCare provides health care coverage for eligible employees (and their eligible dependents) of participating public education entities. The statutory authority for the program is Texas Insurance Code, Title 8, Subtitle H, Chapter 1579, with associated rules found in the Texas Administrative Code, Title 34, Part 3, Chapter 41, Subchapter C. TRS-ActiveCare began providing health care coverage Sept. 1, 2002.

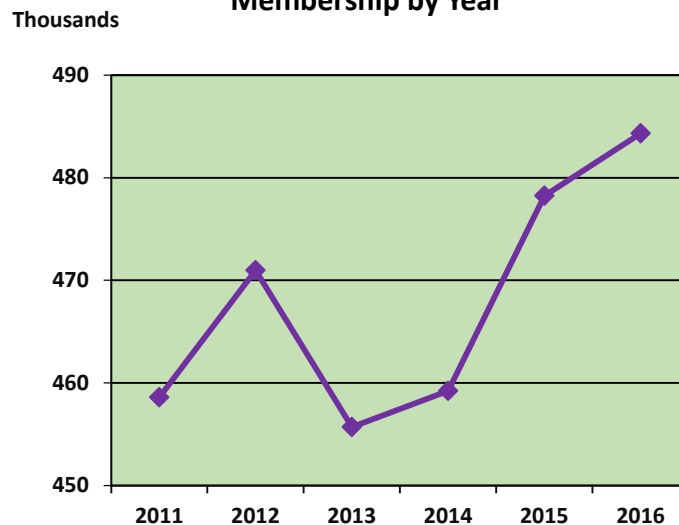
TEXAS ACTIVE SCHOOL EMPLOYEES UNIFORM GROUP BENEFITS PROGRAM (TRS-ACTIVECARE)

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 Aug. 31, 2016 there were 1,101 participating employers.

**TRS-ACTIVECARE
Membership by Year**



Pension Fund

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.

Benefit Payments to TRS Retirees and their Beneficiaries

During the past fiscal year, TRS paid pension benefit payments to 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. Not only does TRS provide great value to its members, but it also benefits Texans by adding significant dollars to the state and local economies.

Overview of Pension Trust Fund

The Teacher Retirement System of Texas (TRS or System) is a public employee retirement system (PERS) that operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The TRS Pension Trust Fund is a multiple-employer, cost-sharing, defined benefit retirement plan with a special funding situation that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.



Pension Trust Fund Funding Status

(Dollars in Millions)

| | 2016 | 2015 |
|--------------------------------------|--------------|--------------|
| Actuarial Accrued Liability | \$ 174,239 | \$ 166,453 |
| Actuarial Value of Assets | \$ (138,786) | \$ (133,485) |
| Unfunded Actuarial Accrued Liability | \$ 35,453 | \$ 32,968 |
| Funded Ratio | 79.7% | 80.2% |



Funding Status of TRS Pension Fund

An important measure of the financial strength of a pension fund is the funding status. This is a measure of the assets held by the plan versus the future benefits that will be paid out. If projected future benefits exceed the assets, there is an unfunded liability.

As of Aug. 31, 2016, TRS had a funded ratio of 79.7 percent with an Unfunded Actuarial Accrued Liability (UAAL) of \$35.5 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 currently 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. 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.

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 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.

Financial

TRS tracks many complex financial data points throughout each fiscal year. The following information represents financial highlights of budgets and appropriation administration for the fiscal year ending Aug. 31, 2016.

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 TRS 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 percent of the aggregate compensation paid to active retirement system members for each year. Although appropriated

by the legislature, administrative expenses and capital outlays 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 one percent 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.

Effective Sept. 1, 1977, 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.). Contributions to this arrangement are made from the state's general revenue appropriations. They yield no net position; therefore, for reporting purposes only the contributions and benefits are reflected in the Statement of Changes in Net Position for the pension fund.

Pension Trust Fund Statement of Net Position

(Dollars in Thousands)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|---------------------------|---------------------|---------------------|
| Total Assets | \$ 152,925,647 | \$ 149,780,062 |
| Total Liabilities | \$ 18,917,009 | \$ 21,241,356 |
| Total Net Position | | |
| Restricted for Pensions | \$ 134,008,638 | \$ 128,538,706 |

Statement of Changes in Net Position

(Dollars in Thousands)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|-------------------------------|---------------------|---------------------|
| Total Additions | \$ 15,359,304 | \$ 5,207,749 |
| Total Deductions | \$ 9,889,373 | \$ 9,448,286 |
| Change in Net Position | \$ 5,469,931 | \$ (4,240,537) |



TRS-Care

Statement of Net Position

(Dollars in Thousands)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|---------------------------|---------------------|---------------------|
| Total Assets | \$ 777,316 | \$ 1,134,174 |
| Total Liabilities | \$ 135,830 | \$ 161,255 |
| Total Net Position | \$ 641,486 | \$ 972,919 |

Statement of Changes in Net Position

(Dollars in Thousands)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|-------------------------------|---------------------|---------------------|
| Total Additions | \$ 1,442,571 | \$ 2,179,310 |
| Total Deductions | \$ 1,774,004 | \$ 1,664,331 |
| Change in Net Position | \$ (331,433) | \$ 514,979 |

TRS-ActiveCare

Statement of Net Position

(Dollars in Thousands)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|---------------------------|---------------------|---------------------|
| Total Assets | \$ 349,990 | \$ 370,343 |
| Total Liabilities | \$ 296,439 | \$ 282,528 |
| Total Net Position | \$ 53,551 | \$ 87,815 |

Statement of Revenues, Expenses, and Changes in Net Position

(Dollars in Thousands)

| | Fiscal Year 2016 | Fiscal Year 2015 |
|-------------------------------|---------------------|---------------------|
| Total Revenue | \$ 2,076,999 | \$ 1,945,723 |
| Total Expenses | \$ 2,111,263 | \$ 1,880,747 |
| Change in Net Position | \$ (34,264) | \$ 64,976 |



Britt Harris
Chief Investment Officer

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.

Investment

From the Chief Investment Officer

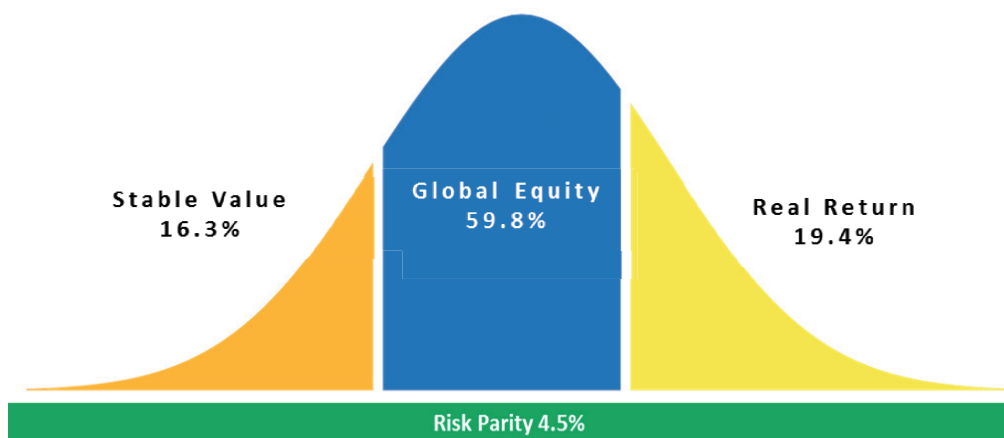
"The TRS Pension Fund is the second largest return-seeking enterprise in our state – only the giant corporation Exxon is larger. TRS is expected to earn approximately 8 percent per year. To place that in context, our portfolio is expected to earn about \$5 million per hour. Not only is our portfolio highly diversified, well managed, carefully monitored, and independently calculated, but the people who work for the fund are passionate about producing results for our members. The result is one of the most secure investment portfolios in our country."

- Britt Harris, CIO

Asset Allocation

PENSION TRUST FUND

August 31, 2016



Real Return Portfolio: TRS' inflation-sensitive portfolio, designed to generate returns for the Trust in environments where price levels are increasing faster than expected. Allocations within this portfolio include Inflation-linked Bonds, Commodities, Energy and Natural Resources, and Real Assets.

Stable Value Portfolio: constructed to generate returns in deflationary environments marked by slowing global growth, providing valuable diversification to the rest of the Trust during periods of market stress. This is accomplished by allocations to Long Treasuries, Cash, Absolute Return assets, and Stable Value Hedge Fund strategies.

Risk Parity Portfolio: seeks equal risk exposure across economic conditions, providing the Trust a portfolio that is balanced across varying environments and outcomes. The TRS Risk Parity portfolio is diversified across allocations to nominal bonds, inflation-linked bonds, commodities, public equities, and credit.

TRS Investment Risks are diversified over a broad range of market sectors and securities. TRS' investment strategy is designed to address four different potential market scenarios and has an advantage in each of them by having a target allocation of 58.7 percent to Global Equities, 20.0 percent to Real Return, 16.9 percent to Stable Value, and 4.3 percent to Risk Parity, which has a balanced exposure to all three economic scenarios. Actual allocation percentages, effective Aug. 31, 2016, are shown on page 10. This allocation is designed to minimize downside risk while capturing upside performance in any of the four scenarios. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from future markets.

Global Equity Portfolio: the Trust's key driver of returns in normal economic conditions, marked by steady growth and stable inflation. This portfolio includes publicly listed equities in the U.S., Developed Non-U.S. and Emerging Markets, as well as allocations to the alternative asset classes of equity-sensitive Directional Hedge Funds and Private Equity.



Rate of return results for the total fund for period ending Aug. 31, 2016:

| | |
|----------|-------|
| 1 Year | 7.38% |
| 3 Years | 7.78% |
| 5 Years | 7.98% |
| 10 Years | 5.98% |

Notes



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