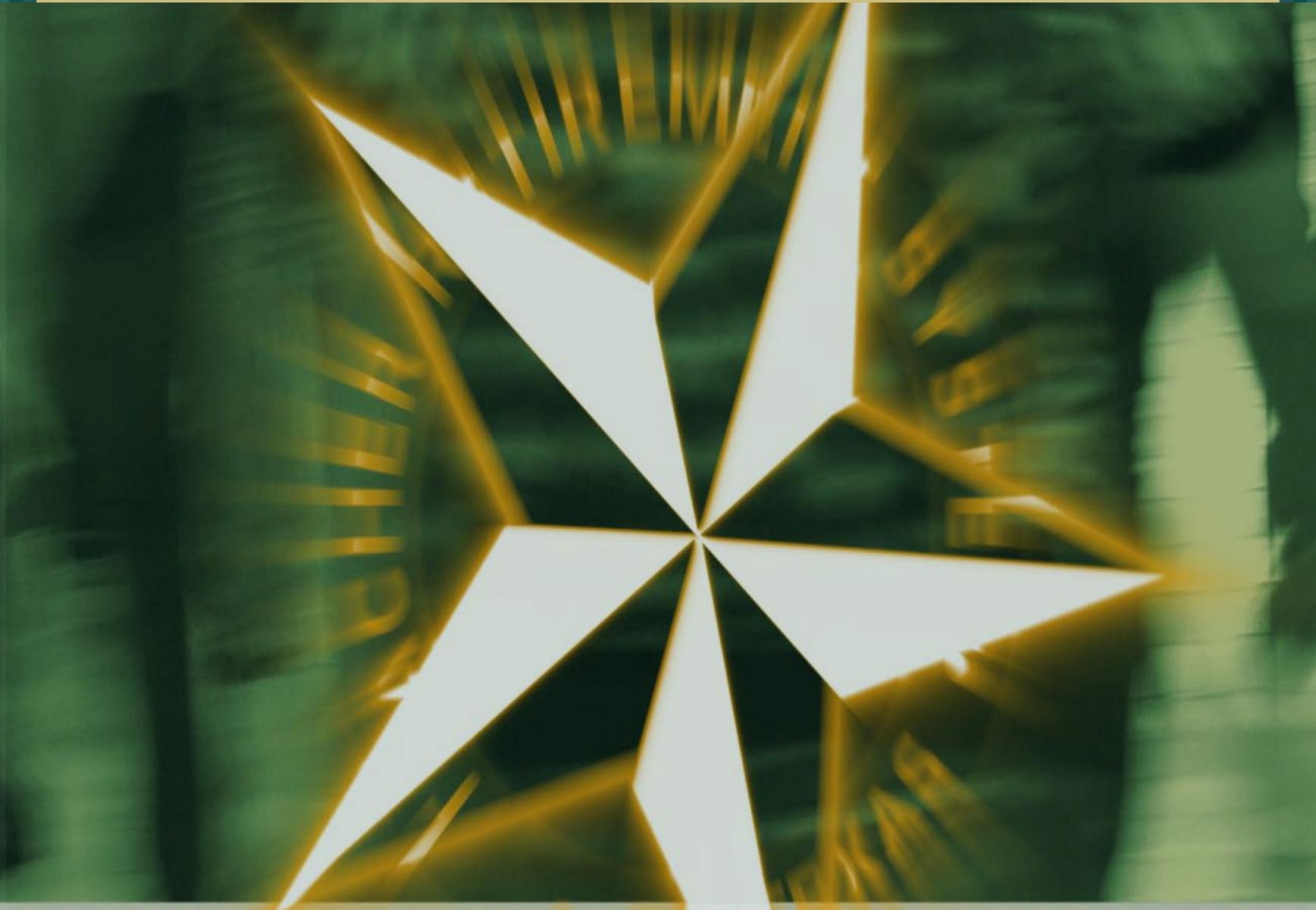


Teacher Retirement System of Texas

2011

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT



A Component Unit of the State of Texas

FISCAL YEAR ENDED AUGUST 31, 2011



TRS Mission Statement

The mission of the Teacher Retirement System of Texas is:

- 1. to deliver retirement and related benefits authorized by law for members and their beneficiaries; and**
- 2. to prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.**

TEACHER RETIREMENT SYSTEM OF TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Texas

FISCAL YEAR ENDED

August 31, 2011



Brian K. Guthrie, Executive Director

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

www.trs.state.tx.us



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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 2011

**Linus D. Wright****(Vice Chair)**

Retired educator and administrator, Dallas
Retiree position
Term expires 2011

**Todd Barth**

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

**Charlotte Clifton**

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

**Robert P. Gauntt**

Partner, Avalon Advisors L.P., Houston
Direct appointment of the governor
Term expires 2013

**Eric C. McDonald**

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

**Christopher Moss**

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

**Philip Mullins**

Power Plant Operator
University of Texas
Austin
Higher education position
Term expires 2011

**Nanette Sissney**

Counselor
Whitesboro ISD
Whitesboro
Active public education position
Term expires 2015

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

In August 2011, Governor Perry reappointed R. David Kelly of Plano as board chair for a term ending August 31, 2017. He also appointed two new trustees to six-year terms ending August 31, 2017 – T. Karen Charleston of Houston (replacing Philip Mullins) and Anita Palmer of Wichita Falls (replacing Linus D. Wright). In addition, Joe Colonna of Dallas was appointed by Governor Perry to fill the position formerly held by Robert P. Gauntt who resigned from the board in August 2011.



Professional Awards



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teacher Retirement System of Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2010

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



President

Executive Director

Professional Awards



Public Pension Coordinating Council

***Recognition Award for Administration
2010***

Presented to

Teacher Retirement System of Texas

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator



Letter of Transmittal

Teacher Retirement System of Texas



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

November 10, 2011

The Honorable Rick Perry

The Honorable David Dewhurst

The Honorable Joe Straus

The Board of Trustees and Members
of the Teacher Retirement System

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

On behalf of the board of trustees, I am pleased to present this *Comprehensive Annual Financial Report* (CAFR) of the Teacher Retirement System of Texas (TRS or System) for the fiscal year ended August 31, 2011, the System's 74th year of operation. During the past fiscal year, the System experienced steady growth as membership grew to more than 1,316,500 participants. The pension trust fund continued to rebound from the stock market decline of 2008-2009 ending the 2011 fiscal year with net assets of \$107.4 billion compared to \$95.7 billion at the close of the 2010 fiscal year. Although continued funding progress is needed to return the fund to a fully funded status, TRS is well positioned to ensure that benefits are secure for our current and future retirees. Benefit payments continued to grow as TRS paid out \$7.18 billion to annuitants during fiscal year 2011.

MANAGEMENT RESPONSIBILITY

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

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TRS the Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report* for the previous fiscal year. To be awarded the cer-

tificate, 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 21 years. We believe that the current report continues to meet program requirements, and it is being submitted to the GFOA for consideration again this year.

FINANCIAL INFORMATION

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

INVESTMENTS

For the 12 month period ending August 31, 2011, the total portfolio had a return of 15.5 percent, with investment gains totaling \$11.8 billion for fiscal year 2011. For the past 10 years, the time-weighted compound annual return has been 5.8 percent.

Investment risks are diversified over a very broad range of market sectors and securities. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from future markets. The System has completed its transition to the long-term asset allocation adopted by the TRS Board in fiscal year 2008. That asset allocation has increased TRS holdings in private markets and reduced holdings in public markets. This shift in assets is intended to increase investment diversification and returns without increasing risks to the fund.

PENSION PLAN BENEFITS

For fiscal year 2011, TRS paid pension benefit payments to more than 312,000 retirees and their beneficiaries totaling \$7.18 billion. These

Letter of Transmittal



benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

ACTUARIAL SOUNDNESS OF THE PENSION TRUST FUND

As of August 31, 2011, the System had a funded ratio of 82.7% with an Unfunded Actuarial Accrued Liability of \$24.1 billion. However, because of poor investment performance in fiscal years 2008 and 2009, the System is now deferring net investment losses of \$7.8 billion.

Because of the two significant market downturns in the last 10 years, current contributions are not sufficient to amortize the unfunded liabilities and therefore the funding period is "never". Absent ongoing investment gains in excess of eight percent, adjustments will need to be made to contributions and/or benefits to bring the fund back into a position to amortize unfunded liabilities over 30 years.

ACTIVE MEMBER HEALTH BENEFITS PROGRAM

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

RETIREE HEALTH BENEFITS PROGRAM

TRS also administers TRS-Care, a health benefits program for retirees that was established in 1985. TRS-Care is the source of health benefits coverage, which almost all retired public school employees rely upon. Funding is provided by premium payments from retiree participants and contributions from the state, school districts, and active employees. During 2011, TRS-Care also received additional revenue from the Medicare Part D prescription drug program and Early Retiree Reinsurance Program.

An actuarial valuation for TRS-Care was conducted as of August 31, 2011. The valuation results indicate that TRS-Care has an Unfunded Actuarial Accrued Liability of \$28.9 billion. More detailed information about the valuation results is included in the Notes to the Financial Statements and the Required Supplementary Information.

Based on projections, TRS-Care is solvent from a cash flow perspective until FY 2014. As in the past, changes to the benefit structure and/or funding structure will need to be considered to extend the life of the program. TRS trustees remain focused on the need to balance revenues and expenses in a fiscally responsible manner, and to offer a program that best suits all participants' needs given available resources.

At the conclusion of the 82nd Texas Legislature, a rider was added to the General Appropriations Act, requiring TRS to conduct a study of TRS-Care and report to the legislature on potential changes to improve the program's sustainability. Staff will evaluate possible changes, seek public input, and complete this study in the coming year.

ORGANIZATIONAL CHANGE

On September 1, 2011, I began serving as executive director of the retirement system, and Ken Welch assumed his new responsibilities as the agency's deputy director. These changes followed Ronnie Jung's announcement that he will retire in January 2012, after serving as

the agency's chief financial officer, deputy director and then as executive director since 2004. TRS trustees and I especially appreciate his invaluable assistance during the transition before his retirement. Mr. Jung guided TRS during one of the most challenging periods in the agency's history, which included significant growth in membership, one of the nation's deepest recessions and, most recently, significant gains in plan net assets. We wish to acknowledge his valuable leadership and considerable contributions to the agency and all TRS members.



Brian K. Guthrie

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.

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. We are grateful for the dedicated service and leadership provided by our outgoing trustees, Robert Gauntt, Philip Mullins and Linus Wright. We also look forward to the future contributions of our new trustees, Karen Charleston, Joe Colonna and Anita Smith Palmer.

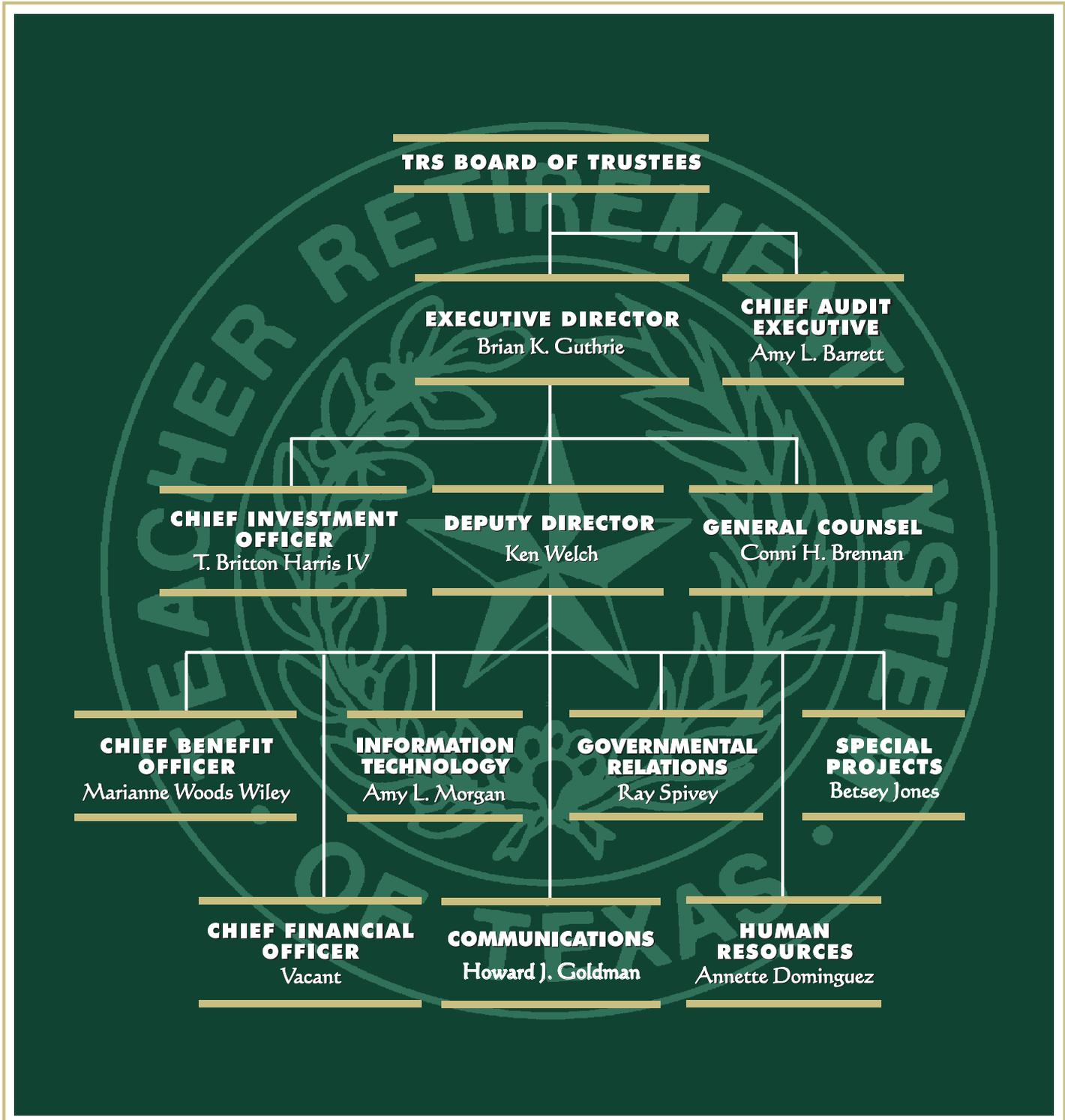
TRS trustees and staff are keenly focused on prudent pension trust fund portfolio management and efficient, service-oriented delivery of valuable retirement and related benefits for public education employees and retirees. We are pleased to report on operational results for the year and to acknowledge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

Respectfully submitted,

Brian K. Guthrie
Executive Director



Organization Chart



Effective September 1, 2011

Staff and Advisors



EXECUTIVE ADMINISTRATIVE STAFF

Brian K. Guthrie, *Executive Director*
 Ken Welch, *Deputy Director*
 T. Britton Harris IV, *Chief Investment Officer*
 Conni H. Brennan, *General Counsel*
 Amy L. Barrett, *Chief Audit Executive*
 Marianne Woods Wiley, *Chief Benefit Officer*
 Vacant, *Chief Financial Officer*
 Howard J. Goldman, *Director, Communications*
 Ray Spivey, *Director, Governmental Relations*
 Annette Dominguez, *Director, Human Resources*
 Amy L. Morgan, *Director, Information Technology*
 Betsey Jones, *Director, Special Projects*

GENERAL INVESTMENT CONSULTANT

Hewitt Ennis Knupp, Chicago, IL

CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

INVESTMENT CONSULTANTS

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

INVESTMENT ADVISORS

Keith C. Brown, Ph.D., Austin

AUDIT SERVICES

Texas State Auditor's Office, Austin

FIDUCIARY COUNSEL

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

MEDICAL BOARD

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

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

B. Sue Passmore, *Chair*, Dallas
 Wendell Whittenburg, Sweetwater
 William (Bill) W. Barnes, Haslet
 Kim Kriegel, Red Oak
 Dr. Ignacio Salinas, Jr., Benavides
 Nelda Van Dyke, Brenham
 Beth Wallace, San Antonio
 Leona Ellyce Warns, San Antonio
 Gary R. Willis, Midland

HEALTH CARE CONSULTANT

Gabriel, Roeder, Smith & Company, Dallas

MASTER CUSTODIAN AND SECURITIES LENDING AGENT

State Street Bank and Trust Company,
 Boston, MA

PERFORMANCE MEASUREMENT

State Street Bank and Trust Company,
 Boston, MA

Effective September 1, 2011



Membership

PENSION TRUST FUND

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2011, participating entities included the following:

Independent School Districts	1,030
Charter Schools	197
Community and Junior Colleges	51
Senior Colleges and Universities	46
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	2
Total	<u>1,360</u>

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

At August 31, 2011, and August 31, 2010, membership consisted of the following:

	<u>Year Ended August 31,</u>	
	<u>2011</u>	<u>2010</u>
Current Members:		
Active Contributing	847,523	853,984
Active Non-contributing	109,545	107,203
Deferred Retirement Option	324	466
Inactive Non-vested	14,881	13,497
Inactive Vested	31,613	29,039
Total Current Members	<u>1,003,886</u>	<u>1,004,189</u>
Retirement Recipients:		
Service	292,838	277,088
Disability	8,785	8,677
Survivor	11,057	10,726
Total Retirement Recipients	<u>312,680</u>	<u>296,491</u>
TOTAL MEMBERSHIP	<u>1,316,566</u>	<u>1,300,680</u>

Membership changes are summarized below:

	<u>2011</u>	<u>2010</u>
Active Membership:		
New Members	66,337	74,780
Members Withdrawing	(40,402)	(36,140)
Service Retirements	(20,401)	(16,054)
Disability Retirements	(753)	(652)
In-Service Deaths	(1,266)	(1,285)
Other Changes	(3,818)	(5,428)
Net Increase/(Decrease)	<u>(303)</u>	<u>15,221</u>
Retired Membership:		
Retirements	21,154	16,706
Deaths After Retirement	(6,753)	(6,436)
Option Continuations	1,983	1,852
Other Changes	(195)	(245)
Net Increase	<u>16,189</u>	<u>11,877</u>

Active Member Profile

	<u>2011</u>	<u>2010</u>
Average Annual Salary	\$ 44,392	\$ 43,916
Average Age	44.3	44.2
Average Years of Service	9.9	9.7

Annuitant and Beneficiary Profile

	<u>2011</u>	<u>2010</u>
Average Monthly Annuities		
Life Annuities	\$ 1,897	\$ 1,863
Disability Annuities	\$ 1,174	\$ 1,167
Annuities Certain	\$ 984	\$ 1,000
Average Age of Current Retirees	70.2	70.2
Average Age at Retirement		
All Retirees	59.8	59.8
Current Year Retirees	61.0	60.7
Average Years of Service		
All Retirees	24.6	24.6
Current Year Retirees	24.6	24.0
Average Salary at Retirement		
All Retirees	\$ 39,234	\$38,023
Current Year Retirees	\$ 51,130	\$49,345
Ratio of Current Members to Retirees	3.2 to 1	3.4 to 1

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

Participation for the Retired Plan is summarized below:

	<u>2011</u>	<u>2010</u>
Retirees	167,726	161,578
Surviving Spouses	5,063	4,802
Surviving Children	70	65
Dependent Spouses	33,701	31,889
TOTAL *	<u>206,560</u>	<u>198,334</u>

* Excludes 6,182 and 5,887 dependent children for 2011 and 2010, respectively.

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

Participation for the Active Plan is summarized below:

	<u>2011</u>	<u>2010</u>
Employees	270,490	245,686
Dependents	188,110	168,435
TOTAL	<u>458,600</u>	<u>414,121</u>

As of September 1, 2011, there were 1,120 participating entities.

Communications



During fiscal year 2011, TRS expanded its efforts to improve communications with its members, retirees, and the general public.

The year began with a concerted effort to reach out to members and retirees regarding TRS-related matters throughout the state. TRS staff spoke at conferences across Texas to provide updates on new legislation, investment performance, pension- and health care-related issues, and to explain new ways that members and retirees can obtain the latest information from TRS.

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

PRINT PUBLICATIONS

During fiscal year 2011, TRS published three *TRS News* issues to provide members, retirees and employers with important information relating to their benefits. In addition, the agency introduced a comprehensive new booklet to help those seeking information on returning to work for a TRS-covered employer after retirement.

Titled *Employment After Retirement*, the booklet is divided into three sections – for those who are retired, those who have not yet retired, and those who have taken disability retirement. The *TRS Benefits Handbook* continues to be the primary guide for members and retirees wishing to learn about their retirement and health care benefits. Featured on the TRS website and mailed to members and retirees, the handbook is also available in Spanish. Additional benefit information is available to members and retirees through brochures, newsletters, other print materials and the TRS website.

THE INTERNET

During the past year, TRS undertook two major website initiatives: *MyTRS*, a new and improved online access section of the TRS website, and the TRS Broker Relations Portal.

Prior to *MyTRS*, separate web applications had allowed members to view account information, register for benefit presentations, and request information from TRS. However, in November 2010, TRS launched *MyTRS* by mailing temporary user IDs and passwords to members with the 2010 TRS Annual Statement of Account. This enabled members to create their own unique *MyTRS* user IDs and passwords.

Once active members select a valid user ID and password for *MyTRS*, they can:

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

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

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

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

Most recently, *MyTRS* introduced options to register to receive electronic notification of 1099-Rs and TRS Annual Statements of Account rather than receiving them by mail. Members were also given the ability to register for field office visits around the state. By the end of the fiscal year, nearly 170,000 members and retirees had registered for *MyTRS*. Participation is expected to increase significantly as new *MyTRS* features continue to be introduced.

During the past year, TRS also introduced the TRS Broker Relations Portal, a Web-based application to manage broker relations, including numerous compliance and evaluation documents that are exchanged between brokers and TRS' Trade Management team. The system automates processes used by brokers and TRS traders, reduces paper, and saves staff time. The annual compliance process with brokers was successfully completed using the system in the spring of 2011.



Communications

TRS has also begun posting online surveys to its website that enable visitors to provide feedback regarding the site and offer suggestions for improvements. This information will play an important role in helping TRS better serve members and retirees.

During fiscal year 2011, the TRS website received a total of 1,987,815 visits, representing a 24.18 percent increase from 1,600,691 visits in the previous fiscal year. In addition, 1,102,462 unique visitors used the site during fiscal year 2011 — a 29.54 percent increase from 851,070 visitors in fiscal year 2010.

VIDEO PRODUCTION

Fiscal year 2011 saw TRS produce the first in a series of issue-oriented videos called “TRS Today.” The first videos featured interviews with TRS executives on topics such as TRS-Care, TRS-ActiveCare and various communication initiatives. Subsequent videos have focused on new legislation, actuarial valuations and other topics. More “TRS Today” programs are slated for the coming year. In addition to issue-oriented videos, TRS produced instructional videos on topics such as “Steps to Retirement.” TRS also produced a video to illustrate how TRS adds value to its members, the Texas and local economies, and state’s educational system. Finally, TRS established a video library for use in future video productions.

WEBCASTING OF BOARD MEETINGS

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

ASSOCIATION AND REPORT CARD TOUR MEETINGS

In the fall of 2010, TRS continued its outreach to members and retirees through a series of Texas Retired Teacher Association meetings. TRS officials spoke to retirees at more than 40 conventions around the state and provided updates on TRS developments. In addition, in November 2010, TRS trustees and staff hosted town-hall style Report Card Tour meetings in San Antonio, El Paso and Lufkin. The San Antonio meeting was webcast live and recorded for on-demand viewing. These meetings provide an opportunity for trustees and TRS executives to meet with members and retirees face-to-face not only to provide an update on the

fund’s status and other pertinent information, but also to answer any questions they may have. Legislators or their representatives from the area typically attend the meetings as do members of the news media.

GROUP PRESENTATIONS AND INDIVIDUAL RETIREMENT COUNSELING SESSIONS

Over the past year, TRS made a number of group presentations to professional associations, to employee and retiree groups and at regional education service centers. Presentations focused on retirement options, health care benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 15,921 people attended 212 group presentations, and 34,900 people attended nine conventions where TRS was represented. In addition, 10,088 people visited individually with a TRS counselor — 9,645 in Austin and 433 in field office visit locations. Fiscal year 2011 was the fifth 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 2011, the agency’s Benefit Counseling department handled a total of 496,210 calls. In addition, 273,132 calls were completed during the past year within the agency’s automated telephone system.

TRS and its contractors also provided telephone assistance to a large number of members seeking health care-related information. TRS-ActiveCare staff and contractors responded to 1,015,102 calls, and TRS-Care staff and contractors responded to 442,559 calls.

COORDINATION WITH REPORTING ENTITIES

The TRS Reporting and Query System (TRAQS), the agency’s Internet-based reporting system for employers, had 1,360 reporting entities submit monthly reports to TRS by year-end. TRAQS training was conducted through 10 webinar sessions with a total of 800 reporting entity staff participating. Some sessions were recorded and placed in the Employers section of the TRS website. Webinars offer participants greater convenience than traveling to a central location. They also save TRS staff time and travel expenses. More sessions are planned in the coming year. TRS-ActiveCare training seminars were conducted in 20 locations around the state for approximately 1,590 administrators of 987 districts/entities. These seminars provided information regarding enrollment and ongoing administrative issues for TRS-ActiveCare.

FINANCIAL SECTION





Independent Auditor's Report

Teacher Retirement System Board of Trustees

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

We have audited the accompanying financial statements of the major enterprise fund and the aggregate remaining fund information, consisting of the fiduciary funds and the nonmajor enterprise fund of the Teacher Retirement System (System), a component unit of the State of Texas, as of and for the year ended August 31, 2011, which collectively comprise the System's basic financial statements, listed as Exhibits I through V in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's fiscal year 2010 financial statements and, in our report dated November 10, 2010, we expressed unqualified opinions on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise fund and the aggregate remaining fund information of the System as of August 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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SAO Report No. 12-303

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The information presented as Required Supplementary Information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The information in Exhibit A and Schedules 1 through 4, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, Benefits, and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, 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* and should be considered in assessing the results of our audit.



John Keel, CPA
State Auditor

November 10, 2011



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, 2011. The information presented here should be considered in conjunction with other areas of the Financial Section as well as information presented in the Executive Director's Letter of Transmittal in the Introductory Section of the *TRS Comprehensive Annual Financial Report*.

FINANCIAL HIGHLIGHTS

- The net assets of the TRS Pension Trust Fund were \$107.4 billion at August 31, 2011, an increase of 12.3%, in fiscal year 2011.
- As of August 31, 2011, 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 82.7%, which is lower than the 82.9% level at August 31, 2010.
- The TRS annual rate of return on investments for the year ended August 31, 2011 was 15.5% on a market value basis and was due to strong performance in private equities and real assets. The rate of return for fiscal year 2010 was 10.7%.
- Net Assets of TRS-Care (Retired Plan) were \$890.9 million at August 31, 2011, an increase of 9.3% in fiscal year 2011.
- As of August 31, 2011, the date of the most recent actuarial valuation, the TRS-Care trust fund's unfunded actuarial accrued liability was \$28.9 billion, which is greater than the \$25.0 billion reported at August 31, 2010.
- Net assets of TRS-ActiveCare (Active plan) were \$188.1 million at August 31, 2011, a decrease of \$111.7 million or 37.3% in fiscal year 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Collectively, this information presents the net assets available for pension and other post-employment benefits, health care benefits, and other purposes as of August 31, 2011, and summarizes any changes in net assets for the same. The information available in each of these sections is summarized as follows:

Fund Financial Statements

Individual fund financial statements are presented for all fiduciary and proprietary funds as of August 31, 2011 and for the year then ended. Comparative data in total as of August 31, 2010,

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) Certification 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) Certification Program enterprise funds.

Notes to the Financial Statements

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

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

Management's Discussion and Analysis



- Note 13 provides information on subsequent events.

Required Supplementary Information

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

Other Supplementary Schedules

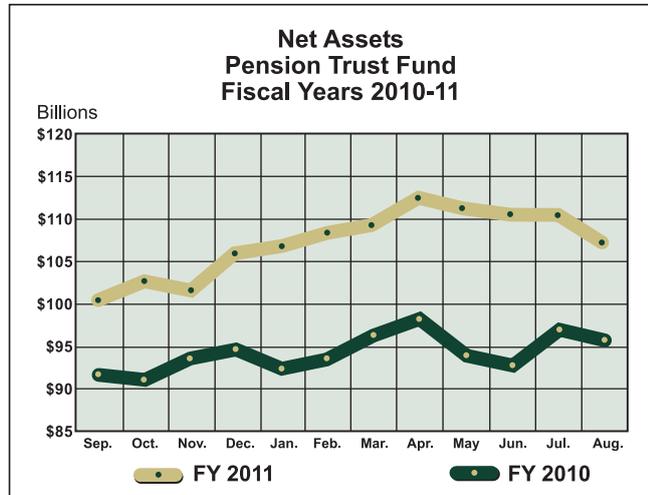
Other schedules include information on agency funds, changes in statutory reserve account balances, budgets for administrative and capital expenses, investing activity expenses, and payments to consultants.

FINANCIAL ANALYSIS OF TRS FUNDS

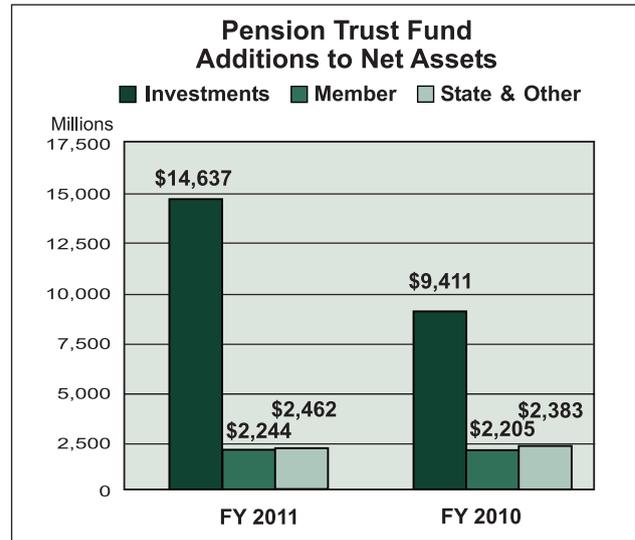
Pension and Other Employee Benefit Trust Funds

Pension Trust Fund

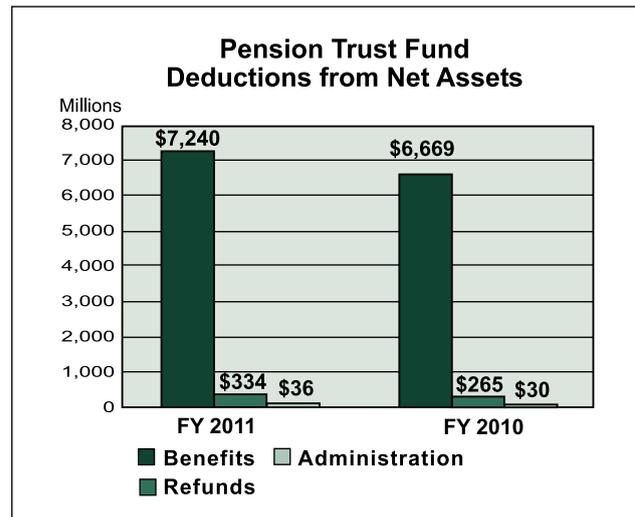
Net assets held in trust for benefits at August 31, 2011, were \$107.4 billion, an increase of \$11.7 billion over the \$95.7 billion at August 31, 2010.



Additions to net assets in the form of member, state and reporting entity contributions for fiscal year 2011 were \$2.2 billion, \$1.9 billion and \$0.4 billion, respectively. Total contributions increased \$77.7 million, or 1.7%, during fiscal year 2011. A decrease in active membership offset with overall payroll growth which resulted in the slight increase in total contributions. The state contribution rate was 6.644% for fiscal year 2011 as provided by Section 17.13(c), Article IX of the General Appropriations Act. The member contribution rate remained at 6.4% for fiscal year 2011.



Deductions from TRS net assets held in trust for benefits are predominately retirement, death, and survivor benefits. During fiscal year 2011, benefit payments totaled \$7.2 billion, an increase of approximately \$570.7 million, or 8.6%, from fiscal year 2010 benefit payments of \$6.7 billion. Other deductions for fiscal year 2011 include \$334.3 million in refunds, an increase of \$69.1 million from fiscal year 2010, and administrative expenses of \$35.8 million, an increase of \$5.9 million over fiscal year 2010. Administrative expenses excluding investing activities expense on a cost per member basis were \$27.23 for fiscal year 2011 as compared to \$23.06 in fiscal year 2010. During fiscal year 2011, in accordance with Generally Accepted Accounting Principles (GAAP), a one-time expense adjustment or impairment for the remaining net book value of a 2001 technology project was made. Excluding this one-time adjustment, the cost per member would be \$24.46.





Management's Discussion and Analysis

Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 2,381,172	\$ 1,483,683	\$ 897,489	60.5%
Investments	106,048,102	94,925,160	11,122,942	11.7
Invested Securities Lending Collateral	22,760,168	23,601,465	(841,297)	-3.6
Capital Assets	29,045	30,998	(1,953)	-6.3
TOTAL ASSETS	\$ 131,218,487	\$ 120,041,306	\$ 11,177,181	9.3%
Liabilities				
Benefits Payable	\$ 649,897	\$ 578,168	\$ 71,729	12.4%
Investments Purchased Payable	235,904	119,435	116,469	97.5
Accounts Payable and Other	132,675	73,609	59,066	80.2
Collateral Obligations	22,779,224	23,581,689	(802,465)	-3.4
TOTAL LIABILITIES	\$ 23,797,700	\$ 24,352,901	\$ (555,201)	-2.3%
Net Assets	\$ 107,420,787	\$ 95,688,405	\$ 11,732,382	12.3%

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

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Percentage Change
Additions				
Member Contributions	\$ 2,243,955	\$ 2,205,017	\$ 38,938	1.8%
State Contributions and Other	2,461,638	2,383,453	78,185	3.3
Investment Income	14,636,935	9,411,447	5,225,488	55.5
TOTAL ADDITIONS	\$ 19,342,528	\$ 13,999,917	\$ 5,342,611	38.2%
Deductions				
Retirement Benefits	\$ 7,240,027	\$ 6,669,305	\$ 570,722	8.6%
Refunds of Contributions	334,269	265,186	69,083	26.1
Administrative Expenses	35,850	29,993	5,857	19.5
TOTAL DEDUCTIONS	\$ 7,610,146	\$ 6,964,484	\$ 645,662	9.3%
Change in Net Assets	\$ 11,732,382	\$ 7,035,433	\$ 4,696,949	66.8%

On a GAAP basis, the overall financial condition of the fund improved during 2011 due to net investment income during the year of \$14.6 billion – an increase of 55.5% over fiscal year 2010. This net gain is comprised of net appreciation in fair value of investments of \$12.6 billion, \$2.1 billion in

interest and dividends, and net income of \$79.5 million from securities lending reduced by investing activity expenses of \$183.4 million. The net investment gain for fiscal year 2010 was \$9.4 billion.

Management's Discussion and Analysis



INVESTMENTS

The following investment information is calculated per the Certified Financial Analyst (CFA) Institute guidelines. When comparing returns, it is important to remember that as a pension fund, the TRS investment performance has a very long horizon.

Below are rate of return results for the total fund for the periods ending August 31, 2011:

- One-Year 15.5%
- Three-Years 3.6%
- Five-Years 4.0%
- Ten-Years 5.8%

The following table presents the actual investment allocations as of fiscal year end 2011 and 2010 as compared to the target allocations for 2011 and 2010.

INVESTMENT ALLOCATIONS

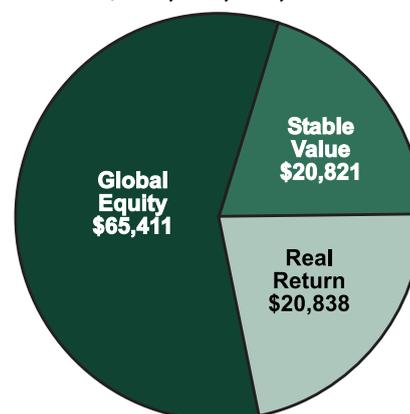
	Fiscal Year 2011		Fiscal Year 2010	
	Target	Actual	Target	Actual
Public Equity	50.0%	50.7%	52.0%	51.7%
Private Equity	10.0	10.4	8.0	9.0
TOTAL GLOBAL EQUITY	60.0%	61.1%	60.0%	60.7%
Fixed Income	15.0%	14.1%	15.0%	15.3%
Short-Term	1.0	1.3	1.0	1.0
Hedge Funds	4.0	4.0	4.0	4.2
TOTAL STABLE VALUE	20.0%	19.4%	20.0%	20.5%
Global Inflation Linked Bonds	8.0%	5.3%	8.0%	8.6%
Real Assets	8.0	9.7	2.0	6.0
Commodities	2.0	3.1	8.0	2.2
REITS (Real Estate Investment Trust)	2.0	1.4	2.0	2.0
TOTAL REAL RETURN	20.0%	19.5%	20.0%	18.8%
TOTAL	100.0%	100.0%	100.0%	100.0%

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

TRS had an annual rate of return of 15.5 percent for the fiscal year of 2011 on investments. At the end of fiscal year 2011 the Pension Trust Fund's investment value was approximately \$11.8 billion more than at the end of fiscal year 2010. TRS' investment strategy is designed to address three different potential market scenarios and have an advantage in each of them by allocating 60 percent to global equities, 20 percent to real return, and 20 percent to stable value. This allocation provides for good performance in any of the three scenarios. TRS continues to enhance its asset management capabilities by adding a new strategic partner, an internal gold fund, a bubble monitor and building a Co-Investment Program for lower fees and increased transparency. Due to lower interest rates today and European sovereign debt concerns, the outlook is for muted returns over the next few years. For additional details on investments and their performance refer to the Investment

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

Pension Trust Fund Investments Market Value as of August 31, 2011 \$107,070,439,217*



(graph rounded to millions)

*On a CFA Institute basis



Management's Discussion and Analysis

TRS-Care (Retired Plan)

Net assets of the TRS-Care (Retired Plan) increased \$76 million, from \$814.9 million at the end of fiscal year 2010 to \$890.9 million at the end of fiscal year 2011.

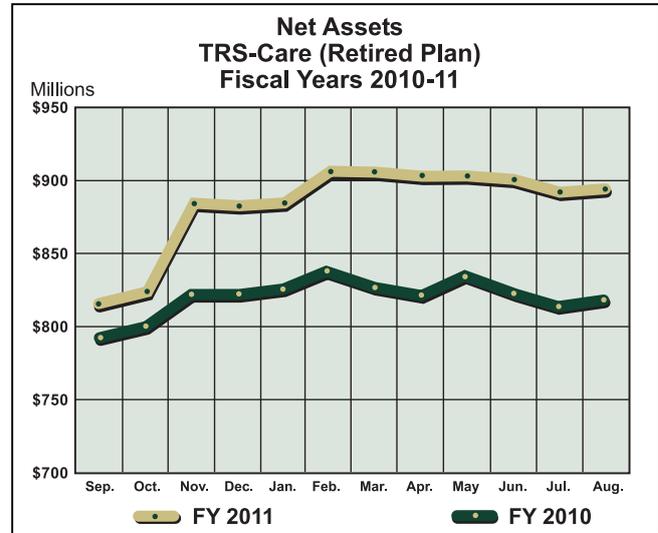
Additions to net assets include health care premiums; active member, state and reporting entity contributions; investment earnings and federal revenue. Retiree premiums of \$345.2 million for fiscal year 2011 increased \$12.7 million over fiscal year 2010. The total contributions of \$625.4 million increased by 1.4% from the fiscal year 2010 total of \$616.7 million due to overall payroll growth and an increase in plan participation.

Federal revenue payments received in fiscal year 2011 from the federal government include Medicare Part D retiree drug subsidy payments totaling \$66.3 million and \$70.6 million for the Early Retiree Reinsurance Program (ERRP). This resulted in an increase in federal revenue of \$66.1 million primarily due to receipt of the new ERRP funds (See Note 6 for more details).

Investment income of \$8.2 million decreased \$3.5 million from fiscal year 2010 as a result of lower interest rates in fiscal year 2011.

Deductions from net assets include claims payments, claims processing costs, and administrative expenses. Claims payments and processing costs during fiscal year 2011 totaled

\$1.037 billion and increased \$22.7 million or 2.2% over fiscal year 2010 claims of \$1.014 billion. The increase is due to the rising costs of health care and growth in plan participation. A fiscal year end decrease in the estimated amount for claims incurred but not reported resulted in an increase of \$27.3 million in net assets. Administrative expenses increased by 3.7% from fiscal year 2010 primarily due to slight increases in personnel costs.



Net Assets – TRS-Care (Retired Plan) (Dollars in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 991,128	\$ 945,970	\$ 45,158	4.8%
TOTAL ASSETS	\$ 991,128	\$ 945,970	\$ 45,158	4.8%
Liabilities				
Accounts Payable and Other	\$ 1,323	\$ 3,398	\$ (2,075)	-61.1%
Health Care Claims Payable	98,935	127,608	(28,673)	-22.5
TOTAL LIABILITIES	\$ 100,258	\$ 131,006	\$ (30,748)	-23.5%
Total Net Assets	\$ 890,870	\$ 814,964	\$ 75,906	9.3%

Management's Discussion and Analysis



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

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Percentage Change
Additions				
Member Contributions	\$ 183,809	\$ 181,513	\$ 2,296	1.3%
State Contributions	256,997	253,626	3,371	1.3
Reporting Entities and Other Contributions	184,617	181,644	2,973	1.6%
Health Care Premiums	345,164	332,482	12,682	3.8
Federal Revenue	136,888	70,796	66,092	93.4
Investment Income	8,169	11,679	(3,510)	-30.1
TOTAL ADDITIONS	\$ 1,115,644	\$ 1,031,740	\$ 83,904	8.1%
Deductions				
Health Care Claims	\$ 992,478	\$ 971,357	\$ 21,121	2.2%
Health Care Claims Processing	44,116	42,535	1,581	3.7
Administrative Expenses	3,144	3,032	112	3.7
TOTAL DEDUCTIONS	\$ 1,039,738	\$ 1,016,924	\$ 22,814	2.2%
Change in Net Assets	\$ 75,906	\$ 14,816	\$ 61,090	412.3%

Enterprise Funds

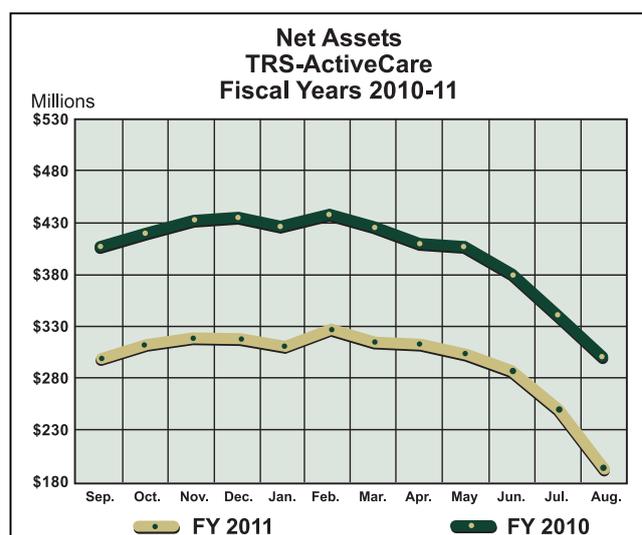
TRS-ActiveCare

The TRS-ActiveCare program operates under the authority of the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and the Texas Administrative Code, Title 34, Part 3, Chapter 41, and began operations in fiscal year 2003. Net assets of the plan were \$188.1 million at the end of fiscal year 2011, a decrease of \$111.7 million, or 37.3%, from fiscal year 2010.

Revenues for fiscal year 2011 included \$1.5 billion from health care premiums, an increase of \$220.4 million, or 16.6%, over fiscal year 2010. This increase is due to an increase in plan participation. Investment income for the year was \$3.4 million which decreased \$3.0 million or 47.3% from fiscal year 2010 due to lower interest rates and reduced cash balances in fiscal year 2011. Federal revenue reimbursements are related to the American Recovery and Reinvestment Act (ARRA). Federal and other revenues for 2011 totaled \$871 thousand, a decrease of \$544 thousand from fiscal year 2010. The decrease is primarily attributable to the ARRA program which is nearing an end.

Health care claims for fiscal year 2011 were \$1.5 billion, a \$197.0 million, or 15%, increase over the \$1.3 billion in fiscal year 2010. The increase is due to the rising costs of health care

and pharmacy benefits and to growth in plan participation. Other expenses included claims processing costs of \$77 million, \$76.3 million for HMO premium reimbursements, and \$2.2 million for administrative expenses. An upward adjustment to claims incurred but not reported decreased plan net assets by \$3.8 million for fiscal year 2011.





Management's Discussion and Analysis

Net Assets – TRS-ActiveCare (Dollars in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 365,374	\$ 451,561	\$ (86,187)	-19.1%
TOTAL ASSETS	\$ 365,374	\$ 451,561	\$ (86,187)	-19.1%
Liabilities				
Accounts Payable and Other	\$ 326	\$ 342	\$ (16)	-4.7%
Premiums Payable to HMO's	6,238	5,309	929	17.5
Health Care Claims Payable	170,741	146,100	24,641	16.9
TOTAL LIABILITIES	\$ 177,305	\$ 151,751	\$ 25,554	16.8%
Total Net Assets	\$ 188,069	\$ 299,810	\$ (111,741)	-37.3%

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

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Percentage Change
Revenues (Operating and Non-Operating)				
Health Care Premiums	\$ 1,549,531	\$ 1,329,171	\$ 220,360	16.6%
Investment Income	3,387	6,421	(3,034)	-47.3
Federal Revenue and Other	871	1,415	(544)	-38.4
TOTAL REVENUE	\$ 1,553,789	\$ 1,337,007	\$ 216,782	16.2%
Expenses				
Health Care Claims	\$ 1,510,091	\$ 1,313,114	\$ 196,977	15.0%
Health Care Claims Processing	76,961	67,907	9,054	13.3
Premium Payments to HMO's	76,271	64,532	11,739	18.2
Administrative Expenses	2,207	1,883	324	17.2
TOTAL EXPENSES	\$ 1,665,530	\$ 1,447,436	\$ 218,094	15.1%
Change in Net Assets	\$ (111,741)	\$ (110,429)	\$ (1,312)	1.2%

Management's Discussion and Analysis



403(b) Certification Program (Non-Major Fund)

The 403(b) Certification Program began on September 1, 2001, and operates under the authority of Vernon's Civil Statutes, Title 109, Article 6228a-5 and Sections 4-8A. Net assets were \$122.0 thousand for fiscal year 2011 as compared to \$245.8 thousand in fiscal year 2010. The fund's total revenues of \$24.7 thousand decreased \$38.7 thousand from the fiscal year 2010 total of \$63.4 thousand due to fewer companies seeking product registration for marketing. Deductions from the fund were administrative expenses of \$148.4 thousand for fiscal year 2011 including personnel costs. This represents a decrease of \$24.4 thousand from the fiscal year 2010 total of \$172.8 thousand which is attributable to reduced program staff.

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 Assets

AUGUST 31, 2011

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2010)

EXHIBIT I

	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	TRS-Care (Retired Plan)
ASSETS		
Cash		
Cash in State Treasury	\$ 891,767,954	\$ 928,047,496
Cash in Bank (Note 3A)	184,856,481	
Cash on Hand (Note 3B)	2,563,416	
TOTAL CASH	\$ 1,079,187,851	\$ 928,047,496
Receivables		
Sale of Investments	\$ 931,132,294	\$
Interest and Dividends	244,762,871	657,739
Member and Retiree	80,060,214	39,998,328
Reporting Entities	44,574,753	8,680,440
Other	234,809	10,948,726
Due from State's General Fund		2,795,631
Due from Employees Retirement System of Texas	1,219,459	
TOTAL RECEIVABLES	\$ 1,301,984,400	\$ 63,080,864
Investments (Notes 1F and 3E)		
Short-Term	\$ 12,213,781,658	\$
Short-Term Foreign Currency Contracts	(44,158)	
Equities	41,913,520,425	
Fixed Income	20,442,247,585	
Alternative Investments	26,905,492,896	
Derivative Investments	(93,266,114)	
Pooled Investments	4,666,369,268	
TOTAL INVESTMENTS	\$ 106,048,101,560	\$ 0
Invested Securities Lending Collateral	\$ 22,760,168,002	\$ 0
Capital Assets (Note 2)		
Intangible Assets	\$ 8,839,708	\$
Less Accumulated Amortization	(7,908,543)	
Depreciable Assets	46,476,931	
Less Accumulated Depreciation	(20,692,331)	
Non-Depreciable Assets	2,329,417	
TOTAL CAPITAL ASSETS	\$ 29,045,182	\$ 0
TOTAL ASSETS	\$ 131,218,486,995	\$ 991,128,360

TOTAL - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		FIDUCIARY FUND TYPES
2011	2010	Agency Funds
\$ 1,819,815,450	\$ 1,735,044,840	\$ 3,977
184,856,481	84,868,536	
2,563,416	3,672,003	
<hr/>	<hr/>	<hr/>
\$ 2,007,235,347	\$ 1,823,585,379	\$ 3,977
<hr/>	<hr/>	<hr/>
\$ 931,132,294	\$ 147,800,560	\$
245,420,610	224,372,715	
120,058,542	121,996,630	
53,255,193	57,397,895	
11,183,535	11,656,975	
2,795,631	41,871,897	
1,219,459	971,294	
<hr/>	<hr/>	<hr/>
\$ 1,365,065,264	\$ 606,067,966	\$ 0
<hr/>	<hr/>	<hr/>
\$ 12,213,781,658	\$ 8,175,829,363	\$
(44,158)	(467,338)	
41,913,520,425	42,805,497,400	
20,442,247,585	19,502,462,264	
26,905,492,896	21,070,904,758	
(93,266,114)	(123,664,947)	
4,666,369,268	3,494,599,035	
<hr/>	<hr/>	<hr/>
\$ 106,048,101,560	\$ 94,925,160,535	\$ 0
<hr/>	<hr/>	<hr/>
\$ 22,760,168,002	\$ 23,601,464,926	\$ 0
<hr/>	<hr/>	<hr/>
\$ 8,839,708	\$ 12,853,867	\$
(7,908,543)	(7,753,817)	
46,476,931	40,899,745	
(20,692,331)	(18,622,169)	
2,329,417	3,620,047	
<hr/>	<hr/>	<hr/>
\$ 29,045,182	\$ 30,997,673	\$ 0
<hr/>	<hr/>	<hr/>
\$ 132,209,615,355	\$ 120,987,276,479	\$ 3,977

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Statement of Fiduciary Net Assets

AUGUST 31, 2011

(concluded)

(With Comparative Data for Pension and Other Employee Benefit Trust Funds for August 31, 2010)

EXHIBIT I

	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	TRS-Care (Retired Plan)
LIABILITIES (Note 1F)		
Accounts Payable	\$ 7,783,405	\$ 977,410
Payroll Payable	3,645,801	162,475
External Manager Fees Payable	44,297,345	
Benefits Payable	649,896,558	
Health Care Claims Payable		98,934,646
Investments Purchased Payable	235,903,809	
Collateral Obligations	22,779,223,912	
Due to State's General Fund	45,577,164	
Due to Employees Retirement System of Texas	5,656,783	
Purchased Service Installment Receipts	19,563,023	
Compensable Absences Payable (Note 4)	4,618,755	183,523
Deferred Rent	1,533,547	
Funds Held for Others		
TOTAL LIABILITIES	\$ 23,797,700,102	\$ 100,258,054
NET ASSETS HELD IN TRUST FOR PENSION/OTHER EMPLOYEE BENEFITS	\$ 107,420,786,893	\$ 890,870,306

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

TOTAL - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		FIDUCIARY FUND TYPES
2011	2010	Agency Funds
\$ 8,760,815	\$ 4,927,492	\$
3,808,276	14,488,487	
44,297,345	4,082,409	
649,896,558	578,168,075	
98,934,646	127,607,686	
235,903,809	119,435,388	
22,779,223,912	23,581,689,266	
45,577,164	19,411,437	
5,656,783	5,126,112	
19,563,023	21,223,985	
4,802,278	5,538,937	
1,533,547	2,207,893	
		3,977
\$ 23,897,958,156	\$ 24,483,907,167	\$ 3,977
\$ 108,311,657,199	\$ 96,503,369,312	\$ 0



Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

EXHIBIT II

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	TRS-Care (Retired Plan)
ADDITIONS		
Contributions		
Contributions Paid by Member	\$ 2,243,954,725	\$ 183,808,580
Employer (Notes 10 and 12):		
Contributions from State's General Fund	1,595,771,774	256,997,446
Contributions from Federal/Private Funding Sources	324,764,720	25,784,985
Legislative Revenue from State's General Fund Paid on Behalf of TRS for Employee Fringe Benefits (Note 6)		108,440
Reporting Entities	411,889,817	155,471,641
Purchase of Service Credit - Refundable	45,158,612	
Purchase of Service Credit - Non-Refundable	60,018,492	
Contributions from Employee's Retirement System of Texas:		
For Service Contributions	12,628,712	
For 415 Excess Benefit Arrangement	45,053	
Contributions from the State for 415 Excess Benefit Arrangement	1,705,535	
Employment after Retirement Surcharge paid by		
Reporting Entities:		
Employee	3,983,605	
Employer	4,095,094	3,252,369
Health Care Premiums		345,164,271
Federal Revenue (Note 6)		136,887,805
TOTAL CONTRIBUTIONS AND PREMIUMS	\$ 4,704,016,139	\$ 1,107,475,537
Investment Income		
From Investing Activities:		
Net Appreciation in Fair Value of Investments	\$ 12,616,681,465	\$ 8,168,640
Interest	1,003,311,852	
Dividends	1,120,858,771	
Total Investing Activities Income	\$ 14,740,852,088	\$ 8,168,640
Less: Investing Activity Expenses (Schedule 3)	(183,369,775)	
Net Income From Investing Activities	\$ 14,557,482,313	\$ 8,168,640
From Securities Lending Activities:		
Securities Lending Income	\$ 135,755,199	\$ 0
Securities Lending Expenses:		
Borrower Rebates	(36,111,713)	
Management Fees	(20,190,571)	
Net Income from Securities Lending Activities	\$ 79,452,915	\$ 0
TOTAL NET INVESTMENT INCOME	\$ 14,636,935,228	\$ 8,168,640
Other Additions		
Legislative Appropriations	\$ 0	\$ 0
Miscellaneous Revenues	1,576,613	
TOTAL OTHER ADDITIONS	\$ 1,576,613	\$ 0
TOTAL ADDITIONS	\$ 19,342,527,980	\$ 1,115,644,177

TOTAL - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
2011	2010
\$ 2,427,763,305	\$ 2,386,530,281
1,852,769,220	1,828,247,655
350,549,705	332,407,488
108,440	262,486
567,361,458	559,521,632
45,158,612	37,442,030
60,018,492	47,077,732
12,628,712	11,167,772
45,053	43,562
1,705,535	1,460,948
3,983,605	2,989,345
7,347,463	5,675,767
345,164,271	332,481,933
136,887,805	70,795,686
<u>\$ 5,811,491,676</u>	<u>\$ 5,616,104,317</u>
\$ 12,616,681,465	\$ 7,542,738,000
1,011,480,492	924,165,767
1,120,858,771	958,159,970
<u>\$ 14,749,020,728</u>	<u>\$ 9,425,063,737</u>
(183,369,775)	(111,918,654)
<u>\$ 14,565,650,953</u>	<u>\$ 9,313,145,083</u>
\$ 135,755,199	\$ 164,683,341
(36,111,713)	(40,036,033)
(20,190,571)	(16,331,481)
<u>\$ 79,452,915</u>	<u>\$ 108,315,827</u>
<u>\$ 14,645,103,868</u>	<u>\$ 9,421,460,910</u>
\$ 1,576,613	\$ 2,805,955
	2,453,980
<u>\$ 1,576,613</u>	<u>\$ 5,259,935</u>
<u>\$ 20,458,172,157</u>	<u>\$ 15,042,825,162</u>

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Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

(concluded)

EXHIBIT II

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	TRS-Care (Retired Plan)
DEDUCTIONS		
Benefits	\$ 7,173,504,788	\$
415 Excess Benefit Arrangement	1,547,229	
Benefits Paid to Employee's Retirement System of Texas:		
For Service Contributions	64,772,079	
For 415 Excess Benefit Arrangement	203,359	
Refunds of Contributions - Active	330,284,482	
Refunds of Contributions - Death	3,984,340	
Health Care Claims		992,478,380
Health Care Claims Processing		44,007,586
Premium Payments to HMO's		108,286
Administrative Expenses, Excluding		
Investing Activity Expenses:		
Salaries and Wages	17,207,826	1,679,019
Payroll Related Costs	4,705,791	402,013
Professional Fees and Services	488,028	799,324
Travel	148,784	4,486
Materials and Supplies	4,824,890	118,957
Communications and Utilities	474,586	1,466
Repairs and Maintenance	794,811	
Rentals and Leases	252,570	116,564
Printing and Reproduction	291,769	14,276
Depreciation	1,128,178	
Amortization	154,726	
Loss on Impairment of Capital Asset	4,477,619	
Other Expenses	900,241	7,817
TOTAL DEDUCTIONS	\$ 7,610,146,096	\$ 1,039,738,174
Change in Net Assets	\$ 11,732,381,884	\$ 75,906,003
NET ASSETS HELD IN TRUST FOR PENSION/OTHER EMPLOYEE BENEFITS - BEGINNING OF YEAR	\$ 95,688,405,009	\$ 814,964,303
NET ASSETS HELD IN TRUST FOR PENSION/OTHER EMPLOYEE BENEFITS - END OF YEAR	\$ 107,420,786,893	\$ 890,870,306

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

TOTAL - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
2011	2010
\$ 7,173,504,788	\$ 6,617,397,376
1,547,229	1,301,151
64,772,079	61,570,749
203,359	203,359
330,284,482	261,475,649
3,984,340	3,710,940
992,478,380	971,356,805
44,007,586	42,435,939
108,286	99,662
18,886,845	17,680,495
5,107,804	4,896,860
1,287,352	2,238,578
153,270	23,974
4,943,847	2,277,466
476,052	845,934
794,811	2,081,982
369,134	419,804
306,045	518,411
1,128,178	659,943
154,726	824,572
4,477,619	
908,058	556,275
\$ 8,649,884,270	\$ 7,992,575,924
\$ 11,808,287,887	\$ 7,050,249,238
\$ 96,503,369,312	\$ 89,453,120,074
\$ 108,311,657,199	\$ 96,503,369,312



Statement of Net Assets

PROPRIETARY FUNDS

AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

EXHIBIT III

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Certification Program
ASSETS		
Current Assets		
Cash		
Cash in State Treasury	\$ 259,110,267	\$ 146,859
TOTAL CASH	\$ 259,110,267	\$ 146,859
Accounts Receivable		
Interest	\$ 224,584	\$ 99
Health Care Premiums	105,994,766	
ARRA Cobra Premiums	44,519	
TOTAL ACCOUNTS RECEIVABLE	\$ 106,263,869	\$ 99
TOTAL ASSETS	\$ 365,374,136	\$ 146,958
LIABILITIES (Note 1F)		
Current Liabilities		
Accounts Payable	\$ 84,790	\$
Payroll Payable	113,364	11,737
Premiums Payable to HMOs	6,238,055	
Health Care Claims Payable	170,741,328	
Compensable Absences Payable (Note 4)	80,504	8,501
TOTAL CURRENT LIABILITIES	\$ 177,258,041	\$ 20,238
Non-Current Liabilities		
Compensable Absences Payable (Note 4)	\$ 46,668	\$ 4,688
TOTAL NON-CURRENT LIABILITIES	\$ 46,668	\$ 4,688
TOTAL LIABILITIES	\$ 177,304,709	\$ 24,926
NET ASSETS		
Restricted for Health Care Programs	\$ 188,069,427	\$
Restricted for 403(b) Program Administration		122,032
TOTAL NET ASSETS	\$ 188,069,427	\$ 122,032

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

Total Enterprise Funds	
2011	2010
\$ 259,257,126	\$ 387,561,788
\$ 259,257,126	\$ 387,561,788
\$ 224,683	\$ 419,236
105,994,766	63,350,046
44,519	446,080
\$ 106,263,968	\$ 64,215,362
\$ 365,521,094	\$ 451,777,150
\$ 84,790	\$ 63,636
125,101	115,771
6,238,055	5,308,671
170,741,328	146,100,209
89,005	85,369
\$ 177,278,279	\$ 151,673,656
\$ 51,356	\$ 47,590
\$ 51,356	\$ 47,590
\$ 177,329,635	\$ 151,721,246
\$ 188,069,427	\$ 299,810,127
122,032	245,777
\$ 188,191,459	\$ 300,055,904



Statement of Revenues, Expenses and Changes in Fund Net Assets

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

EXHIBIT IV

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Certification Program
OPERATING REVENUES		
Health Care Premiums	\$ 1,549,530,891	\$
Administrative Fees	135,917	
Certification Fees		12,000
Product Registration Fees		3,000
TOTAL OPERATING REVENUES	\$ 1,549,666,808	\$ 15,000
OPERATING EXPENSES		
Health Care Claims	\$ 1,510,090,981	\$
Health Care Claims Processing	76,960,951	
Premium Payments to HMOs	76,270,706	
Administrative Expenses		
Salaries and Wages	1,144,484	115,014
Payroll Related Cost	257,632	33,430
Professional Fees and Services	726,115	
Materials and Supplies	4,390	
Communication and Utilities	883	
Travel	2,221	
Rental and Leases	65,140	
Printing and Reproduction	885	
Other Operating Expenses	5,301	
TOTAL OPERATING EXPENSES	\$ 1,665,529,689	\$ 148,444
OPERATING (LOSS)	\$ (115,862,881)	\$ (133,444)
NON-OPERATING REVENUES		
Investment Income	\$ 3,387,062	\$ 1,801
Federal Revenue - ARRA Cobra Reimbursements	667,746	
On Behalf Fringe Benefits Paid by the State (Note 6)	67,373	7,898
TOTAL NON-OPERATING REVENUES	\$ 4,122,181	\$ 9,699
Change in Net Assets	\$ (111,740,700)	\$ (123,745)
TOTAL NET ASSETS - BEGINNING	\$ 299,810,127	\$ 245,777
TOTAL NET ASSETS - ENDING	\$ 188,069,427	\$ 122,032

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

Total Enterprise Funds	
2011	2010
\$ 1,549,530,891	\$ 1,329,171,411
135,917	125,321
12,000	30,000
3,000	21,000
<u>\$ 1,549,681,808</u>	<u>\$ 1,329,347,732</u>
\$ 1,510,090,981	\$ 1,313,114,197
76,960,951	67,906,654
76,270,706	64,532,253
1,259,498	1,217,962
291,062	275,858
726,115	478,581
4,390	9,121
883	1,021
2,221	3,358
65,140	65,745
885	209
5,301	4,128
<u>\$ 1,665,678,133</u>	<u>\$ 1,447,609,087</u>
<u>\$ (115,996,325)</u>	<u>\$ (118,261,355)</u>
\$ 3,388,863	\$ 6,425,587
667,746	1,225,158
75,271	72,362
<u>\$ 4,131,880</u>	<u>\$ 7,723,107</u>
\$ (111,864,445)	\$ (110,538,248)
\$ 300,055,904	\$ 410,594,152
<u>\$ 188,191,459</u>	<u>\$ 300,055,904</u>



Statement of Cash Flows

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

EXHIBIT V

	Enterprise Funds	
	Major Fund	Non-Major Fund
	TRS-ActiveCare	403(b) Certification Program
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Health Care Premiums	\$ 1,506,886,171	\$
Receipts from Long-Term Care Administrative Fees	135,917	
Receipts from Certification/Product Registration Fees		15,000
Payments for Administrative Expenses	(2,164,504)	(153,105)
Payments for Health Care Claims	(1,485,449,862)	
Payments for Health Care Claims Processing	(76,960,951)	
Payments for HMO Premiums	(75,341,322)	
NET CASH (USED) BY OPERATING ACTIVITIES	\$ (132,894,551)	\$ (138,105)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from Federal Revenue	\$ 1,069,307	\$
Proceeds from on Behalf Fringe Benefits Paid by the State	67,373	7,898
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	\$ 1,136,680	\$ 7,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	\$ 3,581,445	\$ 1,971
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 3,581,445	\$ 1,971
Net (Decrease) in Cash	\$ (128,176,426)	\$ (128,236)
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 387,286,693	\$ 275,095
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 259,110,267	\$ 146,859
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES		
Operating (Loss)	\$ (115,862,881)	\$ (133,444)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:		
Changes in Assets and Liabilities:		
(Increase) in Health Care Premiums Receivable	\$ (42,644,720)	\$
Increase (Decrease) in Premiums Payable to HMOs	929,384	
Increase in Health Care Claims Payable	24,641,119	
Increase (Decrease) in Accounts Payable	21,154	
Increase (Decrease) in Payroll Payable	9,955	(625)
Increase (Decrease) in Compensable Absences Payable	11,438	(4,036)
Total Adjustments	\$ (17,031,670)	\$ (4,661)
Net Cash (Used) by Operating Activities	\$ (132,894,551)	\$ (138,105)

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

Total Enterprise Funds	
2011	2010
\$ 1,506,886,171	\$ 1,322,251,502
135,917	125,321
15,000	51,000
(2,317,609)	(2,075,599)
(1,485,449,862)	(1,295,363,008)
(76,960,951)	(67,812,825)
(75,341,322)	(64,559,935)
<hr/>	<hr/>
\$ (133,032,656)	\$ (107,383,544)
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\$ 1,069,307	\$ 949,297
75,271	72,362
<hr/>	<hr/>
\$ 1,144,578	\$ 1,021,659
<hr/>	<hr/>
\$ 3,583,416	\$ 6,795,240
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\$ 3,583,416	\$ 6,795,240
\$ (128,304,662)	\$ (99,566,645)
\$ 387,561,788	\$ 487,128,433
\$ 259,257,126	\$ 387,561,788
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\$ (115,996,325)	\$ (118,261,355)
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\$ (42,644,720)	\$ (6,765,305)
929,384	(27,682)
24,641,119	17,845,019
21,154	(196,612)
9,330	3,309
7,402	19,082
<hr/>	<hr/>
\$ (17,036,331)	\$ 10,877,811
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\$ (133,032,656)	\$ (107,383,544)
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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 governed by a nine member board of trustees which has significant independence in the operations and management of the system. The state legislature confirms trustees appointed by the governor, establishes laws with regard to structure, benefits and contributions, and authorizes Pension Trust Fund administrative expenses. State contributions and appropriations received by TRS are determined by the legislature. TRS is a separate legal entity and considered a discrete component unit of the State of Texas.

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

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

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

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

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

The system also administers a 403(b) Certification Program in which companies must be certified by TRS to offer to public education employees a qualified investment product under IRS Code 403(b) through payroll deduction. 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.

Agency funds are used to account for the purchase of savings bonds by participating TRS employees and also garnishments of salaries and wages for child support payments from TRS employees.

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

The accounts of TRS are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a complete set of self-balancing 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 (Retired Plan or the employee benefit trust fund) and Agency Funds.
- Proprietary Funds – include TRS-ActiveCare and the 403(b) Certification Program which is not considered a major fund. Both are Enterprise 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 assets and changes in net assets. The pension and other employee benefit trust funds are used to report resources held in trust for the members and beneficiaries of the defined benefit pension plan and the other employee benefit plan. Agency funds are used to report resources held in a purely custodial capacity by the reporting government.

The proprietary, enterprise funds account for business-type activities. The reporting focus is on the determination of operating income, changes in net assets, financial position, and cash flows.

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 the funds' financial statements. Capital assets are depreciated or amortized if appropriate.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary funds' financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmen-

Notes to the Financial Statements



tal Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to the same limitation. TRS has elected not to follow subsequent private-sector guidance.

C. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 59, *Financial Instruments Omnibus* was issued in June 2010, and is effective for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement were implemented by TRS during fiscal year 2011.

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, 2010, from which the summarized information was derived. Certain items from the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements. These reclassifications had no effect on previously reported net assets.

E. BUDGETS AND APPROPRIATIONS

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

The Pension Trust Fund receives state contributions for retirement benefits from general revenue appropriations. In fiscal years 2011 and 2010, contributions were made to the retirement system at the rate of 6.644% 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. However, for each fiscal year of the 2010-2011 biennium, the 81st Legislature, Regular Session appropriated \$3.7 million of general revenue to fund exempt salary positions. In response to the letter from the Governor, Lieutenant Governor and Speaker of the House dated January 15, 2010, requesting a reduction in General Revenue and General Revenue-Dedicated spending by five percent, TRS returned all of the appropriations as a part of this statewide cost saving effort.

TRS-Care (Retired Plan) receives appropriations from the state's General Fund equal to 1.0% of the salaries of public education employees. Administrative expenses for this program are paid from the trust fund.

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

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

F. ASSETS, LIABILITIES AND LEGAL RESERVES

Investments

Short-term investments are those maturing within one year of purchase date. Included in short-term investments are foreign currency contracts. At the time the system is notified that an international trade has been consummated, the system trader will buy or sell a foreign currency exchange contract in the currency native to the security transaction for settlement date. These foreign exchange contracts are reported at the spot rate and the net difference between the value of the foreign currency and the U.S. dollar is reported in the net appreciation (depreciation) in fair value of investments. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. Transactions involving foreign currency are accounted for in accordance with FASB Accounting Standards Codification (ASC) 946-830; the subtopic "Foreign Currency Matters" of the topic "Financial Services – Investment Companies".

Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and the lowest priority to the use of unobservable inputs. Management's estimated market values for investments without readily ascertainable market values could differ significantly if a ready market for these assets existed. Because of the inherent uncertainties in estimating fair value, it is at least reasonably possible that the estimates will change in the near-term.

Global foreign exchange holdings are translated using the London 4 O'clock Closing Spot Rate from a third party vendor.

The fair value of equity investments is measured based on the primary exchange last sale price or the official close price from the



Notes to the Financial Statements

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

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

The system has ownership interests in the form of Limited Partnerships (LP). These LPs include equity securities of companies that have not "gone public" (i.e., private equity), various investment vehicles in real estate companies (i.e., real estate), and diversified baskets of investments in collective vehicles whose returns are intended to be largely independent of the returns of the public markets (i.e., absolute return). These investments are generally illiquid, and the system's ability to gain insight into the underlying portfolios of some of the LPs may be limited. The fair value of these LPs is measured based on the Net Asset Value (NAV) of the entity as provided from the General Partner (GP). The system determines whether the NAV is in accordance with the Investment Companies Guide and is in phase with TRS' fiscal year end. If these conditions are not met, the system adjusts the NAV accordingly or performs further analysis to estimate fair value of its LP interest. A NAV that is out of phase may be adjusted for subsequent contributions, distributions, management fees and reserves, material changes in fair value of the underlying investments which make up the NAV, or an updated valuation obtained from the GP.

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

Investment derivative instruments are reported at fair value. When the fund holds investment derivatives with offsetting market risks, it nets the offsetting positions.

The fair value of option and future contracts traded in active markets is estimated based on the current exchange close price. For option contracts, if a current day close price is not available, a fully vetted valuation model to estimate fair value is discerned through coordination with the portfolio manager and/or the independent clearing broker. TRS did not enter into any option contracts during fiscal year 2011. For future contracts, if a current day close price is not available, the last price or settlement price may also be used, depending on availability; or if quoted prices are not available, a fully vetted valuation model to estimate fair value is discerned through coordination with the portfolio manager and/or the independent clearing broker. Futures contracts are marked to market daily. The net offsetting positions are reported as accruals, with a daily variation margin (the gain or loss) recorded between the daily value of the contracts and the value on the previous day.

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

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

Securities Lending

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

Liabilities

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

Benefits payable for the Pension Trust Fund represents the liability for retirement, disability, and death benefits due at fiscal year end and payable within the next 30 days. The health care claims payable for TRS-Care and TRS-ActiveCare includes an estimate for health care claims incurred but not reported to the system at August 31, 2011.

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

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

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total cost. Until that time, these funds are a deferred revenue.

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

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

Collateral Obligations represent both collateral associated with securities lending and that associated with derivative instrument activity.

Interfund/Interagency Transactions And Balances

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

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

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

Legal Reserve Accounts

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

NOTE 2: CAPITAL ASSETS

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

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

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



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Asset Class	Balance 09/01/2010	Reclassifications and Completed CIP	Additions	Deletions	Balance 08/31/2011 (Exhibit I)
Non-Depreciable Assets:					
Land and Land Improvements	\$ 1,658,310	\$	\$	\$	\$ 1,658,310
Construction in Progress	1,837,601	(1,776,610)	485,980		546,971
Other Tangible Capital Assets	124,136				124,136
Total Non-Depreciable Assets	\$ 3,620,047	\$ (1,776,610)	\$ 485,980	\$ 0	\$ 2,329,417
Depreciable Assets:					
Buildings and Building Improvements	\$ 31,087,285	\$ 1,635,003	\$ 2,161,468		\$ 34,883,756
Furniture and Equipment	6,422,928		1,592,784	(185,123)	7,830,589
Vehicles, Boats and Aircraft	45,721				45,721
Leasehold Improvements	3,096,189				3,096,189
Other Capital Assets	247,622		29,432		277,054
Facilities and Other Improvements		141,607	202,015		343,622
Total Depreciable Assets at Historical Cost	\$ 40,899,745	\$ 1,776,610	\$ 3,985,699	\$ (185,123)	\$ 46,476,931
Less Accumulated Depreciation for:					
Buildings and Building Improvements	\$ (13,677,060)	\$	\$ (927,383)	\$	\$ (14,604,443)
Furniture and Equipment	(3,953,629)		(789,218)	184,576	(4,558,271)
Vehicles, Boats and Aircraft	(45,721)				(45,721)
Leasehold Improvements	(774,047)		(516,031)		(1,290,078)
Other Capital Assets	(171,712)		(9,142)		(180,854)
Facilities and Other Improvements			(12,964)		(12,964)
Total Accumulated Depreciation	\$ (18,622,169)	\$ 0	\$ (2,254,738)	\$ 184,576	\$ (20,692,331)
Depreciable Assets, Net	\$ 22,277,576	\$ 1,776,610	\$ 1,730,961	\$ (547)	\$ 25,784,600
Intangible Assets:					
Computer Software	\$ 12,853,867	\$	\$ 462,913	\$ (4,477,072)	\$ 8,839,708
Total Amortizable Assets at Historical Cost	\$ 12,853,867	\$ 0	\$ 462,913	\$ (4,477,072)	\$ 8,839,708
Less Accumulated Amortization for:					
Computer Software	\$ (7,753,817)	\$	\$ (154,726)	\$	\$ (7,908,543)
Total Accumulated Amortization	\$ (7,753,817)	\$ 0	\$ (154,726)	\$ 0	\$ (7,908,543)
Intangible Assets, Net	\$ 5,100,050	\$ 0	\$ 308,187	\$ (4,477,072)	\$ 931,165
Fiduciary Capital Assets, Net of Accumulated Depreciation/Amortization	\$ 30,997,673	\$ 0	\$ 2,525,128	\$ (4,477,619)	\$ 29,045,182

NOTE 3: DEPOSITS AND INVESTMENTS

A. CASH IN BANK AND DEPOSITS

Cash and deposits of the system are maintained in bank accounts or in the State Treasury. Foreign bank deposits are reported at current exchange rates. At August 31, 2011, the carrying amount totaled \$184,856,481 and the bank balance totaled \$184,854,794. The State Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United States, and obligations of various federal credit organizations. The State Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance.

Notes to the Financial Statements



B. CASH ON HAND AND CASH EQUIVALENTS

At August 31, 2011, the system had \$2,563,416 in cash on hand. This total is related to checks for purchases of special service that were being held pending approval of rollover transfer forms.

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

C. CUSTODY OF INVESTMENTS

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

D. INVESTMENT LEGAL PROVISIONS AND OTHER CONSTRAINTS

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

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

The objectives of the Private Equity and Real Asset investments is to provide a long-term rate of return in excess of the return of the Investment Policy benchmark for each authorized strategy, provide diversification to the Total Fund, and provide for enhanced returns and diversification within the portfolio by allocating assets among the various strategies. Private equity funds build portfolios of private investments in the equity or equity-rights securities of privately-owned operating companies. Real assets focus on private or public real estate equity, private or public real estate debt, infrastructure, timber, agricultural real estate, oil and gas, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, REITS, MLPs, non-fixed assets and other opportunistic investments in real assets. Funding of committed capital in either the Private Equity or the Real Asset Portfolio will occur over an extended time period and may take several years before the total allocation to each asset class is fully invested. Because an individual investment may begin to return capital to the investor prior to the full funding of the investor's commitment, the outstanding invested capital of a Private Equity or Real Asset investment might at times be substantially less than the total commitment. Hedge funds are private commingled investment vehicles with the general characteristics as set forth in Texas Government Code, Section 825.3012. Hedge funds include private investment fund of funds or a commingled vehicle that itself invests in hedge funds. TRS investment policy establishes criteria to analyze and determine whether a private investment fund should be classified as a hedge fund. During fiscal year 2011, the permissible hedge fund allocation was increased from a maximum of 5% to a maximum of 10% of the market value of the total fund on the date of each hedge fund investment as a result of a change in the Government Code. Other Absolute Return investments include credit sensitive investments as well as other limited partnerships that are not hedge funds, private equity, or real assets. A commingled fund is a fund which is (i) exempt under the provisions of Section 501(a) of the Internal Revenue Code of 1986, (ii) is not required to be registered as an investment company under Section 3(c)(1), 3(c)(7) or other provisions of the Investment Company Act of 1940, or (iii) is an investment company registered under the Investment Company Act of 1940, as amended, provided that investment and reinvestment of assets complies with the investment guidelines in all respects.



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E. INVESTMENTS

The fair values of investments at August 31, 2011, are shown in the following table.

Pension Trust Fund	
Investment Type	Fair Value
Short-Term Investments:	
Short-Term Investment Fund	\$ 7,070,923,524
Other Short-Term	5,142,858,134
Short-Term Foreign Currency Contracts	(44,158)
Equities:	
Domestic Equities:	
Equity Securities	19,009,420,961
Equity Commingled Funds	1,565,541,883
International Equities:	
Equity Securities	22,904,099,464
Equity Commingled Funds	2,779,834,064
Equity Mutual Funds	94,571,615
Debt Securities:	
Domestic Debt Securities:	
Asset and Mortgage Backed	979,350,073
Corporate	169,086,716
U.S. Treasury	13,551,666,360
U.S. Treasury STRIPS	74,163,157
U.S. Treasury TIPS	5,627,763,979
U.S. Government Agency	12,532,454
Debt Commingled Funds	151,420,783
International Debt Securities:	
Government	12,249,634
Corporate	15,435,212
Debt Commingled Funds	11,805,720
Alternative Investments:	
Domestic Alternative Investments:	
Private Equity	8,020,684,628
Real Assets	8,123,515,611
Absolute Return - Hedge Funds	3,995,283,051
Other Absolute Return	1,688,767,744
International Alternative Investments:	
Private Equity	3,077,485,846
Real Assets	1,671,124,629
Absolute Return - Hedge Funds	328,631,387
Investment Derivatives:	
Domestic Investment Derivatives:	
Forward Contracts	(27,320,899)
Swap Contracts	(65,570,546)
Warrants	80,817
International Investment Derivatives:	
Swap Contracts	(478,509)
Warrants	23,023
Other Investments:	
Other Commingled Funds - Domestic	63,195,203
Total Investments (Exhibit I)	\$ 106,048,101,560
Invested Securities Lending Collateral:	
Securities Lending Pooled Investments	\$ 22,760,168,002
Total Securities Lending Collateral (Exhibit I)	\$ 22,760,168,002

Notes to the Financial Statements



F. DERIVATIVES

The fair value balances and notional amounts of investment derivative instruments outstanding at August 31, 2011, classified by type, and the changes in fair value of such investment derivative instruments for the fiscal year ended August 31, 2011 are as follows.

	Changes in Fair Value		Fair Value at August 31, 2011		Notional
	Classification	Amount Gain/(Loss)	Classification	Amount	
Fiduciary Funds					
Investment Derivatives:					
Forward Contracts	Investment Revenue	\$ (49,953,250)	Investment	\$ (27,320,899)	\$11,619,782,632
Futures Contracts	Investment Revenue	\$ 220,711,897	Investment	\$ -0-	\$14,149,497,819
Swap Contracts	Investment Revenue	\$1,750,131,755	Investment	\$ (66,049,055)	\$ 6,062,787,733
Warrants	Investment Revenue	\$ 881,051	Investment	\$ 103,840	\$ 355,247

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

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

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

Any counterparty to an over-the-counter derivative transaction must have a credit rating of at least A- (Standard & Poors or Fitch) or A3 (Moody's) and is subject to established ISDA Master Agreements. All ISDA Master Agreements provide that netting applies. The system and external managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all over-the-counter derivative positions, less collateral posted, for any individual counterparty may not exceed \$500 million.

Forward Contracts

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

Futures Contracts

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

Swap Contracts

The system's swap contracts are a bilateral financial contract in that the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract. Swap transactions are used to efficiently manage or reduce the risk of the overall investment portfolio, or both. An interest rate swap is structured such that one stream of future interest payments is exchanged for another based on the notional amount. A total return swap is structured such that the total return (cash flows plus capital appreciation/



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depreciation) is exchanged, rather than just the cash flows. Investment managers or sponsors of Real Asset Funds investments in commodities are limited to swaps and instruments that constitute a security that is underlain by a financial instrument as opposed to a physical commodity.

Option Contracts

An option contract provides the right, but not the obligation, to buy or sell a specific amount of a specific security within a predetermined time period. During fiscal year 2011 and at August 31, 2011, respectively, the system entered into and held no option contracts.

G. DEPOSITS AND INVESTMENTS RISK FACTORS

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

Custodial Credit Risk – Deposits

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

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. As of August 31, 2011, the balance of uncollateralized cash in U.S. and non-U.S. banks for investments pending settlement was \$151,906,367.

Custodial Credit Risk – Investments

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

Short-Term investments totaling \$5,112,558,134 are held by the custodian's agent in an investment pool not evidenced by a security, and are not exposed to custodial credit risk. All other investments (including exchange traded investment derivative instruments) are registered in the name of Teacher Retirement System or in the name of the system's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the system.

Any cash collateral received associated with investment derivative activity is invested in an agent managed pool that is not evidenced by securities that exist in physical or book entry form. At August 31, 2011, the system held \$30,300,000 associated with investment derivative activity.

At August 31, 2011, the deposits with broker to open futures contracts in the amount of \$505,261,049 were uninsured and uncollateralized.

Credit Risk of Investment Derivative Instruments and Debt Securities

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

The system's investment policy establishes tracking error limits that are intended to reduce the tracking error of the asset class. The system does not have a formal credit risk policy relating to its investments in Short-Term Investment Funds. For over-the-counter (OTC) derivatives, any counterparty in a transaction with TRS must have a credit rating of at least A- (Standard & Poors or Fitch) or A3 (Moody's) or better at the inception of the contract. All OTC derivative transactions, including those managed through Agency Agreements, must be subject to established ISDA Master Agreements and have full documentation of all legal obligations of TRS under the transactions. All ISDA Master Agreements provide that netting applies. To minimize the system's exposure to loss related to credit risk, the system may use collateral arrangements to mitigate counterparty credit risk. The system has negotiated thresholds for each counterparty above which collateral must be posted. The net market value of all over-the-counter derivative positions, less collateral posted, for any individual counterparty may not exceed \$500 million. The net market value of all over-the-counter derivative positions, without consideration collateral, may not exceed five percent of the total market value of the fund. The system's investment policy clarifies that termination of the transaction is allowed. Repurchase transactions and triparty repurchase transactions may not exceed five percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnification agreement by an organization that bears a long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

The system's rated counterparties on investment derivative instruments in an asset position, and rated debt investments as of

Notes to the Financial Statements



August 31, 2011, using the Standard & Poor's (S&P) rating scale, are as follows:

Investment Derivative Instruments - the aggregate fair value of investment derivative instruments in asset positions at August 31, 2011, was \$50,308,626. This represents the maximum loss that would be recognized at August 31, 2011, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$30,300,000 of collateral held and by \$173,448,571 of liabilities included in netting arrangements with those counterparties resulting in a zero net exposure of investment derivative instruments to credit risk.

The aggregate fair value of investment derivative instruments in asset positions of \$50,308,626 at August 31, 2011, was executed with two counterparties, 27% with an S&P rating of AA and 73% with an S&P rating of A.

Debt Securities:

Investment Type	S&P Rating	Fair Value
Short-Term Investment Fund	NR	\$ 7,070,923,524
Other Short-Term	NR	5,142,858,134
Total Credit Risk of Short-Term		\$ 12,213,781,658
Short-Term Foreign Currency Contracts		\$ (44,158)
Total Short-Term (Exhibit I)		\$ 12,213,737,500
U.S. Government Agency Obligations	AA	\$ 9,349,765
U.S. Government Agency Obligations	NR	32,240
Total U.S. Government Agency Obligations		\$ 9,382,005
Asset and Mortgage Backed Obligations	AAA	\$ 6,973,360
Asset and Mortgage Backed Obligations	AA	62,311,003
Asset and Mortgage Backed Obligations	A	43,094,307
Asset and Mortgage Backed Obligations	BBB	16,269,703
Asset and Mortgage Backed Obligations	BB	23,726,965
Asset and Mortgage Backed Obligations	B	101,352,584
Asset and Mortgage Backed Obligations	CCC	323,948,592
Asset and Mortgage Backed Obligations	CC	106,903,363
Asset and Mortgage Backed Obligations	D	75,975,316
Asset and Mortgage Backed Obligations	NR	218,794,880
Total Asset and Mortgage Backed Obligations		\$ 979,350,073

(to next page)



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(concluded)

Investment Type	S&P Rating	Fair Value
Corporate Obligations	AAA	\$ 384,844
Corporate Obligations	AA	3,959,823
Corporate Obligations	A	17,935,626
Corporate Obligations	BBB	43,430,987
Corporate Obligations	BB	12,149,396
Corporate Obligations	B	27,749,796
Corporate Obligations	CCC	1,781,050
Corporate Obligations	CC	1,317,098
Corporate Obligations	NR	60,378,096
Total Corporate Obligations		\$ 169,086,716
International Government Obligations	AAA	\$ 4,844,629
International Government Obligations	CC	1,671,106
International Government Obligations	NR	5,733,899
Total International Government Obligations		\$ 12,249,634
International Corporate Obligations	AA	\$ 890,495
International Corporate Obligations	A	2,132,633
International Corporate Obligations	BBB	6,822,851
International Corporate Obligations	BB	981,849
International Corporate Obligations	B	4,104,257
International Corporate Obligations	NR	503,127
Total International Corporate Obligations		\$ 15,435,212
Total Credit Risk of Debt Securities (excluding Short-Term)		\$ 1,185,503,640
U.S. Government Obligations and U.S. Government Agency Obligations		\$ 19,256,743,945
Total Fixed Income (Exhibit I)		\$ 20,442,247,585

Interest Rate Risk of Debt Securities and Investment Derivative Instruments

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

The table on the next page shows the long-term fixed income investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2011.

Notes to the Financial Statements



Investment Type	Fair Value	Effective Weighted Duration Rate*
U.S. Government Obligations	\$ 19,253,593,496	11.49
U.S. Government Agency Obligations	12,532,454	8.99
Asset and Mortgage Backed Obligations	979,350,073	4.32
Corporate Obligations	169,086,716	5.55
International Government Obligations	12,249,634	7.65
International Corporate Obligations	15,435,212	6.32
Total Fixed Income (Exhibit I)	\$ 20,442,247,585	11.09

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

The table below shows the maturities of the system's Swap contracts at August 31, 2011.

Less than 1 Year	Maturities in Years			Total
	1-5	6-10	11-20	
\$ (64,093,651)	\$ 2,076,453	\$ 589,996	\$ (626,393)	\$ (62,053,595)

Investments Highly Sensitive to Interest Rate Changes

The system's investments in long-term Asset and Mortgage Backed Obligations are subject to prepayments by the obligees of the underlying assets in periods of decreasing interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2011, these securities totaled \$979,350,073.

The system invests in Commingled Funds which hold a preponderance of investments with fair values that are highly sensitive to market conditions. The fair value of the Commingled Fund fluctuates as market conditions fluctuate. Interest rate changes are a part of changes in market conditions. As of August 31, 2011, these funds totaled \$163,226,503.

The system's investments in Swap contracts have various reference rates based on various interbank offered rates and Treasury Bill rates. As these reference rates fluctuate, the payments due to/from the system fluctuate. At August 31, 2011, the notional amount and fair value of these contracts appear on the following page.



Notes to the Financial Statements

Terms	Notional	Fair Value
U.S. LIBOR-Varied Terms	\$ 3,267,238,636	\$ (174,566,287)
GBP LIBOR-Varied Terms	4,210,946	177,552
1 month EURIBOR	6,287,029	(251,882)
1 month STIBOR	820,285	(80,220)
1 month HIBOR	4,179,756	104,115
1 month U.S. Treasury Bill	728,327,376	45,606,838
3 month Canada Banker's Acceptance	30,269,819	16,615,320
3 month STIBOR	72,137,883	10,063,980
3 month U.S. Treasury Bill	1,726,916,784	73,951,099
6 month EURIBOR	30,992,862	6,451,950
JPY Overnight	855,988	33,346
U.S. Fed Funds Effective Rate	28,849,662	(1,304,251)
Fixed Rate	154,067,917	(38,855,155)
Total	\$ 6,055,154,943	\$ (62,053,595)

Foreign Currency Risk – Deposits and Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or an investment. The system does not have a formal deposit policy for foreign currency risk. The risk of holding investments in foreign currency is managed by engaging in currency overlay strategies. The maximum notional exposure of the fund to any single non-U.S. dollar developed market currency and any emerging market currency will be limited to 2% and 1% of the market value of the fund respectively. The system's exposure to foreign currency risk at August 31, 2011, is presented in the tables on the following pages.

Notes to the Financial Statements



Deposits:

Currency	Cash in Non-U.S. Banks
Australian Dollar	\$ 4,355,235
Botswana Pula	9,809
Brazilian Real	3,779,330
Canadian Dollar	1,163,953
Chilean Peso	139,660
Colombian Peso	96,678
Croatian Kuna	100,846
Czech Koruna	73,459
Danish Krone	297,430
Egyptian Pound	126,058
Euro	27,249,109
Ghanaian Cedi	10,247
Hong Kong Dollar	30,118,228
Hungarian Forint	61,940
Indian Rupee	6,064,412
Indonesian Rupiah	1,753,231
Israeli Shekel	74,412
Japanese Yen	35,324,555
Jordanian Dinar	160,969
Kenyan Shilling	150,334
Lithuania Litas	44,861
Malaysian Ringgit	941,671
Mauritius Rupee	71,358
Mexican Peso	128,751
Moroccan Dirham	129,485
New Turkish Lira	275,114
New Zealand Dollar	46,723
Nigerian Naira	94,751
Norwegian Krone	1,252,517
Pakistan Rupee	87,883
Peruvian Nuevo Sol	54,835
Philippine Peso	100,384
Polish Zloty	573,288
Pound Sterling	16,464,381
Qatar Riyal	74,510
Singapore Dollar	721,681
South African Rand	4,805,459
South Korean Won	1,317,647
Swedish Krona	2,485,855
Swiss Franc	3,178,658
Taiwan Dollar	6,775,501
Thai Baht	1,171,162
United Arab Emirates Dirham	(3)*
Total Deposits Subject to Foreign Currency Risk	<u>\$ 151,906,367</u>

* Balance is related to the timing of trade related costs.



Notes to the Financial Statements

Investments:

Currency	Debt	Equity	Alternative Investments	Derivatives	Total Fair Value
Australian Dollar	\$ 970,403	\$ 734,955,748	\$	\$ (185,134)	\$ 735,741,017
Botswana Pula		4,854,270			4,854,270
Brazilian Real		975,801,805			975,801,805
Canadian Dollar	1,805,333	1,085,102,548		(102,345)	1,086,805,536
Chilean Peso		72,413,682			72,413,682
Colombian Peso		18,664,609			18,664,609
Croatian Kuna		5,492,938			5,492,938
Czech Koruna		33,602,172			33,602,172
Danish Krone		108,178,032			108,178,032
Egyptian Pound		50,697,112			50,697,112
Euro	6,434,602	2,816,038,728	2,606,298,201	(149,425)	5,428,622,106
Ghanaian Cedi		3,942,575			3,942,575
Hong Kong Dollar		1,713,190,010		104,117	1,713,294,127
Hungarian Forint		49,021,599			49,021,599
Indian Rupee	826	394,122,977			394,123,803
Indonesian Rupiah		360,574,376			360,574,376
Israeli Shekel		53,365,729			53,365,729
Japanese Yen		2,294,525,774		33,346	2,294,559,120
Jordanian Dinar		6,821,148			6,821,148
Kenyan Shilling		4,785,483			4,785,483
Malaysian Ringgit		181,502,632		22,803	181,525,435
Mauritius Rupee		6,128,271			6,128,271
Mexican Peso		365,497,667			365,497,667
Moroccan Dirham		15,258,678			15,258,678
New Turkish Lira		213,649,668			213,649,668
New Zealand Dollar		12,062,793			12,062,793
Nigerian Naira		6,353,387			6,353,387
Norwegian Krone		175,154,778			175,154,778
Pakistan Rupee		15,935,578			15,935,578
Peruvian Nuevo Sol		4,820,829			4,820,829
Philippine Peso		53,071,305			53,071,305
Polish Zloty		81,070,934			81,070,934
Pound Sterling		2,561,891,922	156,010,516	177,552	2,718,079,990
Qatar Riyal		18,594,074			18,594,074
Romanian Leu		3,033,513			3,033,513
Singapore Dollar		140,801,095			140,801,095
South African Rand		681,707,169			681,707,169
South Korean Won		1,181,566,847			1,181,566,847
Swedish Krona	3,039,295	255,089,705		(380,861)	257,748,139
Swiss Franc		1,026,733,478		24,460	1,026,757,938
Taiwan Dollar		656,628,491			656,628,491
Thai Baht		255,884,007			255,884,007
United Arab Emirates Dirham		11,134,450			11,134,450
Total Investments Subject to Foreign Currency Risk	\$ 12,250,459	\$ 18,709,722,586	\$ 2,762,308,717	\$ (455,487)	\$ 21,483,826,275

H. SECURITIES LENDING

The system is authorized by Texas Government Code, Section 825.303 to contractually lend securities to borrowers in accordance with policy established by the board of trustees and as required by statute. The system has a contract with State Street Bank and Trust Company to administer its securities lending program for domestic and international equity and fixed income securities. Authorized collateral for the program consists of cash or government securities eligible for book entry in either the Federal Reserve System or Participants Trust Company. The required collateral is based upon the lent security's fair value plus accrued income. At a loan's inception, the value of the collateral must be at least 102% of the value of domestic lent securities and at least 105% for international lent

Notes to the Financial Statements



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

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

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

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

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

Investment Type	Fair Value
U.S. Government Obligations	\$ 254,803,385
Domestic Equities	20,483,793
International Equities	8,334,579
Total	\$ 283,621,757

The system earns income from fees paid by the borrowers and interest earned from investing the cash collateral. The contract requires the custodian to indemnify the system if the borrower fails to return the securities or income distributions made while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Substantially all securities loans can be terminated on demand either by the system or the borrower, although, as of August 31, 2011, the weighted average term of these loans was 8 days. As of August 31, 2011, the weighted average maturity of the invested cash collateral was 31 days, and there was no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts owed to the system. During the year there were no borrower or custodian default losses and no recoveries of prior period losses. Authorized borrowers have specific limits that vary from \$50 million to \$5.5 billion. During fiscal year 2011, one of TRS' approved borrowers exceeded their borrowing limit. At all times, the loan was sufficiently collateralized and no losses were incurred. The borrower was brought into full compliance with its borrowing limit within 20 days and the exception was presented to the Compliance Committee of the TRS Board. During the year, there were no other significant violations of contractual provisions. The total market value of all loans cannot exceed 30% of the portfolio.

The following table represents the fair market values of the securities lending transactions based on type of collateral received as of August 31, 2011.

	Cash	Non-Cash	Total
Securities on Loan	\$ 22,119,226,323	\$ 283,621,757	\$ 22,402,848,080
Collateral Received	\$ 22,748,923,912	\$ 289,961,257	\$ 23,038,885,169
Reinvested Collateral	\$ 22,760,168,002		\$ 22,760,168,002

For fiscal year 2011, the system earned income of \$79,452,915 from securities lending.

I. OTHER INVESTMENTS AND CONTINGENT COMMITMENTS

The system's investment derivative instruments include provisions that require the system to post collateral in the event that the fair value surpasses a specified contractual threshold. At August 31, 2011, the aggregate fair value of all investment derivative instruments with these collateral posting provisions is (\$93,266,114). If the collateral posting thresholds of all these investment derivative instruments did not exist at August 31, 2011, the system would be required to post the aggregate amount of \$173,448,571 in collateral to its counterparties. Where none of the contractual thresholds were surpassed, the system has posted no collateral at August 31, 2011.

The system's investments in certain limited partnerships commit the system to possible future capital contributions. At August 31, 2011, the remaining commitment was \$14,305,596,488.



Notes to the Financial Statements

NOTE 4: EMPLOYEE COMPENSABLE LEAVE

Salary costs related to employees' rights to be compensated for leave balances are accrued as expenses of the period in which the services were rendered. Accumulated compensable leave liabilities are reported in the Statement of Fiduciary Net Assets for the Pension and Other Employee Benefit Trust Funds and in the Statement of Net Assets for the Enterprise Funds. The employees' compensable leave activity for fiscal year 2011 is shown in the table below.

	Beginning Balance 09/01/10	Additions	Reductions	Ending Balance 08/31/11	Amounts Due Within One Year	Amounts Due Thereafter
Fiduciary Funds:						
Pension Trust Fund	\$ 5,361,881	\$ 4,496,542	\$ (5,239,668)	\$ 4,618,755	\$ 2,656,156	\$ 1,962,599
TRC-Care (Retired Plan)	177,056	200,724	(194,257)	183,523	116,228	67,295
Proprietary Funds						
TRC-ActiveCare	115,734	134,934	(123,496)	127,172	80,504	46,668
403(b) Certification Program	17,225	17,702	(21,738)	13,189	8,501	4,688
Total	<u>\$ 5,671,896</u>	<u>\$ 4,849,902</u>	<u>\$ (5,579,159)</u>	<u>\$ 4,942,639</u>	<u>\$ 2,861,389</u>	<u>\$ 2,081,250</u>

NOTE 5: OPERATING LEASES

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

Rental expenses related to the lease for the fiscal year ended August 31, 2011 for the Pension Trust Fund were \$1,693,775 and include amortization of deferred rent of \$674,345.

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

Fiscal Year Ending	Amount
August 31, 2012	\$ 1,726,423
August 31, 2013	1,773,457
August 31, 2014	1,821,274
August 31, 2015	1,061,742
Total	<u>\$ 6,382,896</u>

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

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

For the fiscal year ended August 31, 2011, the state provided retirement contributions of \$108,440 on behalf of employees paid from TRC-Care (Retired Plan). In the Enterprise Funds, the state provided on behalf retirement contributions of \$67,373 for TRC-ActiveCare and \$7,898 for the 403(b) Certification Program.

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

Notes to the Financial Statements



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 \$66,258,009 for the fiscal year ended August 31, 2011.

The Patient Protection and Affordable Care Act, signed into law on March 23, 2010, along with the Health Care and Education Affordability Reconciliation Act of 2010, signed into law on March 30, 2010 (together, the PPACA), embody sweeping federal health care legislation. Under the PPACA, TRS-Care received \$70,629,796 for the fiscal year ended August 31, 2011 from the U.S. Department of Health and Human Services for participation in the Early Retiree Reinsurance Program, a program that went into effect June 1, 2010. The program reimburses participating plans for a portion of health benefit costs for retirees age 55 and older who are not eligible for Medicare, and their spouses, surviving spouses, and dependents.

NOTE 7: DEFERRED COMPENSATION

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

NOTE 8: CONTINGENT LIABILITIES

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

A Performance Incentive Compensation Plan was adopted effective July 1, 2006, to enable the system to remain competitive in its efforts to attract, retain and motivate high caliber investment division staff. The July 1, 2006 Plan was terminated by the board of trustees September 13, 2007, and a new Plan was adopted effective October 1, 2007 and modified effective October 1, 2008. The purpose of the Plan is to provide the opportunity for investment division employees to earn performance incentive pay based on the fund's investment performance and the employee's job performance. As of August 31, 2011, the liability is estimated not to exceed \$5.8 million for the first half of the incentive plan year ending September 30, 2011. Payments can only be earned following years in which the fund experiences a positive return, and employees must be employed by TRS on the designated dates in the Plan to earn and receive payment. The board of trustees may cancel or modify the Plan at any time.

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

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

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

NOTE 9: CONTINUANCE SUBJECT TO REVIEW

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

NOTE 10: POST-EMPLOYMENT HEALTH CARE BENEFITS

A. PLAN DESCRIPTION

TRS Employees

Employees of the system who retire with 10 or more years of eligible service credit and meet the Rule of 80 or are at least 65 years of age continue to receive health care and basic life insurance benefits through the Group Benefits Program of the State Retiree Health Plan (SRHP) in accordance with Texas Insurance Code, Chapter 1551. The SRHP is maintained and administered through the Employees Retirement System (ERS) of Texas and is considered a cost-sharing, multiple-employer, defined benefit post-employment health care plan. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the SRHP.



Notes to the Financial Statements

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, 2011, 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			
Type of Coverage	FY 2011	FY 2010	FY 2009
Member Only	\$ 411.04	\$ 385.38	\$ 360.54
Member/Spouse	\$ 647.38	\$ 605.70	\$ 566.57
Member/Children	\$ 569.30	\$ 532.90	\$ 498.49
Member/Family	\$ 805.64	\$ 753.22	\$ 704.52

The system covers 100% of a Member Only premium and 50% of their additional premiums for family coverage. The basic plan includes up to \$2,500 for life insurance for the retiree. The retiree contributes any premium over and above the system's contribution for additional coverage. The board has adopted contributions based on rates set by the Texas Legislature on a biennial basis. At August 31, 2011, there were 173 retirees and their beneficiaries receiving post-employment health care and basic life insurance benefits. Contractually required contributions to the SRHP are currently based on the annual pay-as-you-go expenses of the SRHP. For the year ended August 31, 2011, 2010, and 2009 the system recognized expenditures of \$1,113,697, \$996,954 and \$908,334, respectively, for these benefits. The system has annually made 100 percent of its contractually required contributions to the SRHP.

Public School Employees

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

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

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

Eligibility generally includes TRS public school retirees with more than 10 years of service and their dependents. Retirees can receive a free basic level of coverage, and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. During fiscal year 2011, deductibles were \$1,800 for those eligible for Part A of Medicare, \$3,000 for those not eligible for Part A, but eligible for Part B, and \$4,000 for those not eligible for either Part A or Part B.

At August 31, 2011, the number of reporting entities was:

Independent School Districts	1,029*
Charter Schools	197
Regional Education Service Centers	20
Education Districts	5
Total	<u>1,251</u>

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

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

Notes to the Financial Statements



At August 31, 2011, OPEB membership before actuarial adjustments consisted of the following:

Retirees and beneficiaries receiving benefits	179,877*
Active plan members	681,457
Total	861,334

**Excludes 6,182 dependent children*

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 2011. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Actuarial implications of the overall funding are determined by the system's actuary.

	Contribution Rate	Amount
Active Employee	.65%	\$ 183,808,580
State	1.00	257,105,886
Reporting Entities	.55	155,471,641
Federal or Private Funding Sources	1.00	25,784,985
Total		\$ 622,171,092

The contributions shown above and premium contributions of \$345,164,271 contribute toward the total plan expenditures of \$1,039,738,174. Expenses for TRS-Care are recognized as retirees report claims and include a provision for estimated claims incurred but not yet received.

The actuarial valuation as of August 31, 2011, is similar to the actuarial valuations performed for the pension plan; however, certain economic and behavioral assumptions are unique to medical benefits. The demographic assumptions are identical to those used in the August 31, 2011 valuation for the pension plan.

Additional valuation information follows:

Valuation Date	August 31, 2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Investment Rate of Return *	5.25 %
Projected Salary Increases *	4.25% to 7.25 %
Weighted-Average at Valuation Date	5.62 %
Payroll Growth Rate	3.50 %
Health Care Trend Rates *	10.00% to 4.25 %**

* Includes Inflation at 3.00%

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



Notes to the Financial Statements

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

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

C. FUNDED STATUS AND FUNDING PROGRESS – OPEB PLAN

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

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2011	\$891	\$29,785	\$28,894	3.0%	\$30,515	95%

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

NOTE 11: RISK MANAGEMENT

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

NOTE 12: PENSION DISCLOSURE

A. PLAN DESCRIPTION

TRS is the administrator of a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employing district but are the liability of the State of Texas. That is, unless the employing district is a senior college, medical school, or state agency, in which case the employer is considered the State of Texas. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the pension trust fund during that fiscal year. However, for fiscal year 2011 the Pension Trust Fund paid the employer's share for its own employees.

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

Notes to the Financial Statements



At August 31, 2011, the number of reporting entities was as follows:

Independent School Districts	1,030
Charter Schools	197
Community and Junior Colleges	51
Senior Colleges and Universities	46
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	<u>2</u>
Total	<u><u>1,360</u></u>

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

At August 31, 2011, TRS gross membership before actuarial adjustments consisted of the following:

Retirees and beneficiaries currently receiving benefits	312,680
Terminated employees entitled to benefits but not yet receiving them	<u>64,703</u>
Total	<u><u>377,383</u></u>
Current Active Members:	
Fully-Vested	588,694
Non-Vested	<u>368,698</u>
Total	<u><u>957,392</u></u>

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

B. CONTRIBUTIONS

Contribution requirements are not actuarially determined but are established pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in this manner are determined by the system's actuary.

Current contribution rates and contributions for fiscal year 2011 are shown in the table on the following page. For fiscal years 2010-11 the State of Texas contribution rate was 6.644% and in 2009 the state's rate was 6.58%. The member contribution rate was 6.4% for fiscal years 2009-2011. These rates are set by the General Appropriations Act. In certain instances, the reporting entity (public school, college, university, medical school or other entity) is required to make all or a portion of the state's and/or member's contribution.



Notes to the Financial Statements

	Contribution Rate	Amount
Member	6.400%	\$2,243,954,725
State	6.644	1,595,771,774
Reporting Entities	6.644	411,889,817
Federal or Private Funding Sources	6.644	324,764,720
Total		\$4,576,381,036

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

C. LEGAL RESERVE ACCOUNT BALANCES

The balances in the five legally required reserve accounts are sufficient to meet statutory requirements. As of August 31, 2011 the reserve accounts had the following balances:

Member Savings Account	\$ 29,150,974,343
State Contribution Account	15,672,128,723
Retired Reserve Account	62,479,240,823
Deferred Retirement Option Account	83,931,941
Expense Account	34,511,063
Total (Exhibit I)	\$107,420,786,893

D. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLAN

The funded status of the Pension Trust Fund as of August 31, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2011	\$115,253	\$139,315	\$24,062	82.7%	\$36,797	65.4%

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

Notes to the Financial Statements



Additional actuarial valuation information follows:

Valuation Date	August 31, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method.....	Level Percent, Open
Remaining Amortization Period *	30 Years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return **	8.00%
Projected Salary Increases **	4.25% to 7.25%
Weighted-Average Projected Salary Increases **	5.62%
Cost-of-Living Adjustments	None

* The state's contribution rate would need to increase from 6.00% to 8.13% beginning in fiscal year 2012 in order to amortize the unfunded actuarial accrued liability (UAAL) over the 30-year maximum acceptable amortization period permitted by Governmental Accounting Standards Board Statement No. 25.

** Includes Inflation at 3.00%

NOTE 13: SUBSEQUENT EVENTS

Under the Patient Protection and Affordable Care Act of 2010 TRS-Care has been approved for participation in the Early Retiree Reinsurance Program. (See Note 6 for amounts received during fiscal year 2011.) While funds remain available, reimbursements under the program will be provided for 80 percent of qualified costs between \$15,000 and \$90,000. TRS estimates that its additional claim for fiscal year ended August 31, 2011 will be approximately \$98.7 million. However, because of the uncertainty surrounding the availability of funds, TRS cannot reasonably estimate the amount, if any, it will actually receive. As of November 10, 2011, TRS has not received any additional funds attributable to this program.



Required Supplementary Information

PENSION TRUST FUND

FISCAL YEARS 2006-2011

SCHEDULE OF FUNDING PROGRESS

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

(DOLLAR AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (UAAL) (3)-(2)	(5) Funded Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a % of Covered Payroll (4)/(6)
2006	\$ 94,218	\$ 107,912	\$ 13,694	87.3%	\$ 28,397	48.2%
2007	103,419	115,964	12,545	89.2	31,114	40.3
2008	110,233	121,756	11,523	90.5	33,238	34.7
2009	106,384	128,030	21,646	83.1	35,097	61.7
2010	111,293	134,191	22,898	82.9	36,629	62.5
2011	115,253	139,315	24,062	82.7	36,797	65.4

SCHEDULE OF CONTRIBUTIONS FROM STATE AND REPORTING ENTITIES

Fiscal Year Ended	ARC Rate	State and Reporting Entities Annual Required Contributions (ARC)			Total	Percentage of ARC Contributed
		From State General Fund	From State Federal Funds/ Private Grants	From Reporting Entities		
2006	7.19%	\$ 1,596,301,608	\$	\$ 316,538,818	\$ 1,912,840,426	83%
2007	7.02	1,721,223,689		324,945,946	2,046,169,635	85
2008	6.47	1,426,771,115	247,210,170	346,051,153	2,020,032,438	102
2009	6.10	1,373,745,903	255,108,385	380,362,287*	2,009,216,575*	108
2010	7.72	1,829,819,802	356,466,503	475,562,176	2,661,848,481	86
2011	7.77	1,866,217,141	379,804,617	481,695,346	2,727,717,104	86

*Calculation revision from fiscal year 2009 CAFR.

Required Supplementary Information

TRS-CARE (RETIRED PLAN)

FISCAL YEARS 2007-2011



SCHEDULE OF FUNDING PROGRESS

(DOLLAR AMOUNTS SHOWN IN MILLIONS)

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The August 31, 2007 actuarial valuation was the first actuarial valuation of TRS-Care. This and future valuations will set the ARC on a prospective basis, meaning each valuation will set the ARC for the following fiscal year. The employer ARC was determined by netting the active employee contributions (0.65%) out of the total ARC rate (7.09%). The ARC for fiscal year 2011 was determined by applying the employer ARC determined in the 2010 valuation as a percentage of payroll (6.44%) to the actual payroll paid in fiscal year 2011 (\$28.3 billion).



Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

EXHIBIT A

	Balances September 1, 2010	Additions	Deductions	Balances August 31, 2011
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 500	\$	\$ 500	\$ 0
Liabilities:				
Funds Held for Others	\$ 500	\$	\$ 500	\$ 0
Child Support Employee Deductions				
Assets:				
Cash in State Treasury	\$ 3,607	\$ 36,473	\$ 36,103	\$ 3,977
Liabilities:				
Funds Held for Others	\$ 3,607	\$ 32,866	\$ 32,496	\$ 3,977
Totals - All Agency Funds				
				(Exhibit I)
Assets:				
Cash in State Treasury	\$ 4,107	\$ 36,473	\$ 36,603	\$ 3,977
TOTAL ASSETS	\$ 4,107	\$ 36,473	\$ 36,603	\$ 3,977
Liabilities:				
Funds Held for Others	\$ 4,107	\$ 32,866	\$ 32,996	\$ 3,977
TOTAL LIABILITIES	\$ 4,107	\$ 32,866	\$ 32,996	\$ 3,977

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Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

SCHEDULE 1

INTEREST ACCOUNT	2011	2010
Additions:		
Interest, Dividends and Other Income:		
Short-Term	\$ 49,926,058	\$ 49,813,039
Equities	1,120,858,771	958,159,969
Fixed Income	973,604,208	868,114,125
Derivatives	(20,218,414)	(5,440,626)
Securities Lending Program	79,452,915	108,315,827
Miscellaneous		1,665,193
Net Appreciation in Fair Value of Investments	12,616,681,465	7,542,738,000
TOTAL ADDITIONS	\$ 14,820,305,003	\$ 9,523,365,527
Deductions:		
Transfers Out:		
Allocation of Interest to/(from):		
Member Savings Account	\$ 1,385,602,532	\$ 1,300,356,529
State Contribution Account	(4,100,053,356)	(3,900,921,846)
Retired Reserve Account	4,692,033,648	4,432,496,003
Deferred Retirement Option Account Expense Account	4,829,832	5,639,288
	83,256,827	66,482,415
Transfer to State Contribution Account for Net Appreciation in Fair Value of Investments	12,616,681,465	7,542,738,000
External Manager Fees	137,954,055	76,575,138
TOTAL DEDUCTIONS	\$ 14,820,305,003	\$ 9,523,365,527
Net Change in Account Balance	\$ 0	\$ 0
Account Balance - Beginning September 1	\$ 0	\$ 0
Account Balance - Ending August 31	\$ 0	\$ 0

Comparative Schedule of Changes in Account Balance



PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

MEMBER SAVINGS ACCOUNT	2011	2010
Additions:		
Contributions:		
Contributions Paid by Member	\$ 2,243,954,725	\$ 2,205,017,425
Employment After Retirement Surcharge Paid by		
Reporting Entities - Employee	3,983,605	2,989,345
Purchase of Service Credit - Refundable	45,158,612	37,442,030
Transfer In:		
Allocation from Interest Account	1,385,602,532	1,300,356,529
TOTAL ADDITIONS	\$ 3,678,699,474	\$ 3,545,805,329
Deductions:		
Refund of Contributions - Active	\$ 330,284,482	\$ 261,475,648
Transfers Out:		
Transfer to Retired Reserve Account:		
For Dormant Accounts	18,046,747	17,544,399
To Fund Benefits	1,915,168,372	1,439,582,886
TOTAL DEDUCTIONS	\$ 2,263,499,601	\$ 1,718,602,933
Net Change in Account Balance	\$ 1,415,199,873	\$ 1,827,202,396
Account Balance - Beginning September 1	\$ 27,735,774,470	\$ 25,908,572,074
Account Balance - Ending August 31	\$ 29,150,974,343	\$ 27,735,774,470

SCHEDULE 1



Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

SCHEDULE 1

STATE CONTRIBUTION ACCOUNT	2011	2010
Additions:		
Contributions:		
State Contributions - General Fund	\$ 1,595,771,774	\$ 1,574,621,766
Contributions - Federal/Private Funding Sources	324,764,720	306,782,830
Reporting Entities	411,889,817	406,218,171
Employment After Retirement Surcharge		
Paid by Reporting Entities - Employer	4,095,094	3,060,987
Purchase of Service Credit - Non-Refundable	60,018,492	47,077,732
Transfers In:		
Transfers from Interest Account:		
For Investment Income	(4,100,053,356)	(3,900,921,846)
For Net Appreciation in Fair Value of Investments	12,616,681,465	7,542,738,000
Transfers from Retired Reserve Account:		
For Retirement Benefits Forfeited While Member Returned to Teaching	36,576,537	52,061,421
For Retirement Benefits Waived by Member Based on Actuarial Valuation as of August 31	46,176	43,650
		572,244,213
TOTAL ADDITIONS	\$ 10,949,790,719	\$ 6,603,926,924
Deductions:		
Transfers Out:		
Transfers to Retired Reserve Account:		
To Fund Benefits Based on Actuarial Valuation as of August 31	\$ 4,745,429,605	\$ 4,015,209,483
	497,268,028	
TOTAL DEDUCTIONS	\$ 5,242,697,633	\$ 4,015,209,483
Net Change in Account Balance	\$ 5,707,093,086	\$ 2,588,717,441
Account Balance - Beginning September 1	\$ 9,965,035,637	\$ 7,376,318,196
Account Balance - Ending August 31	\$ 15,672,128,723	\$ 9,965,035,637

Comparative Schedule of Changes in Account Balance



PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

RETIRED RESERVE ACCOUNT	2011	2010
Additions:		
Contributions Transferred in From Employees Retirement System of Texas	\$ 12,628,712	\$ 11,167,772
Transfers In:		
Allocation from Interest Account	4,692,033,648	4,432,496,003
Transfer from Member Savings Account:		
For Dormant Accounts	18,046,747	17,544,399
To Fund Benefits	1,915,168,372	1,439,582,886
Transfer from State Contribution Account:		
To Fund Benefits	4,745,429,605	4,015,209,483
Based on Actuarial Valuation as of August 31	497,268,028	
TOTAL ADDITIONS	\$ 11,880,575,112	\$ 9,916,000,543
Deductions:		
Benefits Paid:		
Service Retirement Annuities	\$ 6,241,946,655	\$ 5,841,963,927
Partial Lump Sums	524,925,790	385,555,126
Disability Retirement Annuities	144,865,109	141,396,837
Death and Survivor Benefits:		
Annual Salary	47,295,194	45,698,147
Survivor Annuities	86,898,720	82,574,358
Life Annuities	84,893,007	83,238,898
60 Monthly Payments	11,564,275	10,824,948
Remainder of Contributions	3,293,923	3,537,843
Refund of Contributions - Death	3,984,340	3,710,941
Benefits Transferred to Employees Retirement System of Texas	64,772,079	61,570,750
Transfers Out:		
Transfer to Deferred Retirement Option Account to Fund Benefits	956,666	5,161,454
Transfers to State Contribution Account:		
For Retirement Benefits Forfeited While Member Returned to Teaching	36,576,537	52,061,421
For Retirement Benefits Waived by Member	46,176	43,650
Based on Actuarial Valuation as of August 31		572,244,213
TOTAL DEDUCTIONS	\$ 7,252,018,471	\$ 7,289,582,513
Net Change in Account Balance	\$ 4,628,556,641	\$ 2,626,418,030
Account Balance - Beginning September 1	\$ 57,850,684,182	\$ 55,224,266,152
Account Balance - Ending August 31	\$ 62,479,240,823	\$ 57,850,684,182

SCHEDULE 1



Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

SCHEDULE 1

DEFERRED RETIREMENT OPTION ACCOUNT	2011	2010
Additions:		
Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 956,666	\$ 5,161,454
Allocation from Interest Account	4,829,832	5,639,288
TOTAL ADDITIONS	\$ 5,786,498	\$ 10,800,742
Deductions:		
Benefits Paid	\$ 27,822,115	\$ 22,607,290
Net Change in Account Balance	\$ (22,035,617)	\$ (11,806,548)
Account Balance - Beginning September 1	\$ 105,967,558	\$ 117,774,106
Account Balance - Ending August 31	\$ 83,931,941	\$ 105,967,558

Comparative Schedule of Changes in Account Balance



PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

EXPENSE ACCOUNT	2011	2010
Additions:		
Legislative Appropriations	\$	\$ 2,805,955
On Behalf Fringe Benefits Paid by the State		160,975
Miscellaneous Revenues	1,576,613	788,787
Transfers In:		
Allocation from Interest Account	83,256,827	66,482,415
TOTAL ADDITIONS	\$ 84,833,440	\$ 70,238,132
Deductions:		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 57,695,600	\$ 43,008,202
Professional Fees and Services	4,619,847	7,089,576
Consumable Supplies and Fuels	399,778	410,343
Utilities	706,891	880,128
Travel	709,149	690,540
Rentals	1,384,529	1,859,462
Dues, Fees and Staff Development	299,043	277,052
Subscriptions and Reference Information	195,529	202,629
Printing and Reproduction Services	311,082	538,358
Postage, Mailing and Delivery Services	2,059,866	2,305,069
Software Purchases and Maintenance	2,348,229	1,890,191
Maintenance - Computer Hardware	349,574	362,032
Maintenance - Buildings and Equipment	727,166	831,101
Miscellaneous Expenses	803,571	688,781
Insurance Premiums	668,723	727,826
Furniture and Equipment - Expensed	1,099,878	733,724
Depreciation	2,254,739	1,500,507
Amortization	154,726	1,340,603
Loss on Impairment of Capital Assets	4,477,619	
TOTAL DEDUCTIONS	\$ 81,265,539 *	\$ 65,336,124
Net Change in Account Balance	\$ 3,567,901	\$ 4,902,008
Account Balance - Beginning September 1	\$ 30,943,162	\$ 26,041,154
Account Balance - Ending August 31	\$ 34,511,063	\$ 30,943,162

* This amount includes total internal administrative investing activity expenses of \$45,415,720 (Schedule 3). Total administrative expenses net of investing activity expenses are \$35,849,819 (Exhibit II).



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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

SCHEDULE 2

	FIDUCIARY FUND		
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	PENSION TRUST FUND		
	Budget	Actual	Variance
Expenses:			
Salaries and Wages	\$ 47,657,535	\$ 46,197,804	\$ 1,459,731
Other Personnel Costs:			
Longevity Pay	\$ 621,820	\$ 590,580	\$ 31,240
Employer Retirement Contributions	2,575,000	2,354,167	220,833
Employer FICA Contributions	3,113,191	2,683,568	429,623
Employer Health Insurance Contributions	3,962,554	3,959,468	3,086
Benefit Replacement Pay	143,965	138,039	5,926
Other Employee Benefits	45,000	33,609	11,391
TOTAL OTHER PERSONNEL COSTS	\$ 10,461,530	\$ 9,759,431	\$ 702,099
Professional Fees and Services	\$ 8,550,771	\$ 4,777,632	\$ 3,773,139
Other Operating Expenses:			
Consumable Supplies and Fuels	\$ 468,353	\$ 385,329	\$ 83,024
Utilities	984,787	783,043	201,744
Travel	900,157	715,481	184,676
Rentals	2,195,826	2,066,383	129,443
Dues, Fees and Staff Development	418,901	290,099	128,802
Subscriptions and Reference Information	240,266	198,030	42,236
Printing and Reproduction Services	359,300	335,663	23,637
Postage, Mailing and Delivery Services	2,245,850	2,065,564	180,286
Software Purchases and Maintenance	2,784,429	2,604,797	179,632
Computer Hardware Maintenance	469,100	347,454	121,646
Miscellaneous Expenses	1,032,702	812,077	220,625
Insurance Premiums	701,446	668,723	32,723
Furniture and Equipment - Expensed	403,650	366,014	37,636
Maintenance - Buildings and Equipment	937,021	817,646	119,375
TOTAL OTHER OPERATING EXPENSES	\$ 14,141,788	\$ 12,456,303	\$ 1,685,485
TOTAL ADMINISTRATIVE EXPENSES - BUDGETARY BASIS	\$ 80,811,624	\$ 73,191,170	\$ 7,620,454
Pension Trust Fund:			
Adjustments Between Budgetary Basis and GAAP:			
Salaries and Wages		\$ 2,492,221	
Professional Fees and Services		31,478	
Other Operating Expenses		(816,859)	
Reclass from Capital Assets		609,430	
Depreciation Expense		2,254,739	
Loss on Impairment of Capital Asset		4,477,619	
Amortization		154,726	
Change in Compensable Absence Obligation		(743,127)	
Prior Year Adjustments		(385,858)	
TOTAL DEDUCTIONS (SCHEDULE 1 - EXPENSE ACCOUNT) GAAP BASIS		\$ 81,265,539 *	
Capital Expenses:			
Furniture and Equipment - Capitalized	\$ 890,203	\$ 844,327	\$ 45,876
Capital Projects	5,827,996	5,636,896	191,100
TOTAL CAPITAL EXPENSES	\$ 6,718,199	\$ 6,481,223	\$ 236,976

* This amount includes total internal administrative investing activity expenses of \$45,415,720 (Schedule 3). Administrative expenses net of investing activity expenses are \$35,849,819 (Exhibit II).

FIDUCIARY FUND			
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS			
TRS-CARE (RETIRED PLAN)			
Budget	Actual	Variance	
\$ 1,655,000	\$ 1,614,819	\$	40,181
\$ 46,560	\$ 45,100	\$	1,460
110,070	108,440		1,630
124,164	121,526		2,638
172,717	172,047		670
13,631	12,633		998
16,250			16,250
\$ 483,392	\$ 459,746	\$	23,646
\$ 1,093,000	\$ 799,865	\$	293,135
\$ 5,482	\$ 2,749	\$	2,733
2,131	1,466		665
8,827	4,486		4,341
119,693	116,564		3,129
3,595	3,270		325
570	242		328
23,730	14,276		9,454
137,280	117,101		20,179
11,000	5,240		5,760
1,250	45		1,205
500			500
\$ 314,058	\$ 265,439	\$	48,619
\$ 3,545,450	\$ 3,139,869	\$	405,581

TRS-Care:

	\$ 6,467
	(2,414)
TOTAL ADMINISTRATIVE EXPENSES (EXHIBIT II) GAAP BASIS	\$ 3,143,922

(to next page)



(concluded)

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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

SCHEDULE 2

	PROPRIETY FUND		
	ENTERPRISE FUND MAJOR FUND		
	TRS-ACTIVECARE		
	Budget	Actual	Variance
Expenses:			
Salaries and Wages	\$ 1,147,053	\$ 1,103,421	\$ 43,632
Other Personnel Costs:			
Longevity Pay	\$ 30,060	\$ 27,820	\$ 2,240
Employer Retirement Contributions	75,150	67,373	7,777
Employer FICA Contributions	89,229	82,758	6,471
Employer Health Insurance Contributions	114,469	107,501	6,968
Benefit Replacement Pay	2,400	1,805	595
Other Employee Benefits	9,825		9,825
TOTAL OTHER PERSONNEL COSTS	\$ 321,133	\$ 287,257	\$ 33,876
Professional Fees and Services	\$ 965,000	\$ 866,115	\$ 98,885
Other Operating Expenses:			
Consumable Supplies and Fuels	\$ 3,500	\$ 1,151	\$ 2,349
Utilities	1,600	883	717
Travel	8,000	2,221	5,779
Rentals	65,140	65,140	
Dues, Fees and Staff Development	5,550	5,255	295
Subscriptions and Reference Information	1,000	689	311
Printing and Reproduction Services	1,400	885	515
Postage, Mailing and Delivery Services	4,750	2,883	1,867
Software Purchases and Maintenance			
Computer Hardware Maintenance			
Miscellaneous Expenses	3,000	1,251	1,749
Insurance Premiums			
Furniture and Equipment - Expensed	4,250	132	4,118
Maintenance - Buildings and Equipment	500		500
TOTAL OTHER OPERATING EXPENSES	\$ 98,690	\$ 80,490	\$ 18,200
TOTAL ADMINISTRATIVE EXPENSES	\$ 2,531,876	\$ 2,337,283	\$ 194,593
TRS-ActiveCare:			
Adjustments Between Budgetary Basis and GAAP:			
Professional Fees and Services		\$ (140,000)	
Other Operating Expenses		(975)	
Change in Compensable Absence Obligation		11,438	
Prior Year Adjustments		(695)	
TOTAL ADMINISTRATIVE EXPENSES (Exhibit IV) - GAAP BASIS		\$ 2,207,051	

PROPRIETARY FUND		
ENTERPRISE FUND NON-MAJOR FUND		
403(b) CERTIFICATION PROGRAM		
Budget	Actual	Variance
\$ 127,200	\$ 116,830	\$ 10,370
\$ 2,500	\$ 2,220	\$ 280
8,600	7,898	702
9,658	8,433	1,225
20,000	17,099	2,901
3,150		3,150
\$ 43,908	\$ 35,650	\$ 8,258
\$	\$	\$
\$	\$	\$

\$ 0	\$ 0	\$ 0
\$ 171,108	\$ 152,480	\$ 18,628

403(b) Certification Program

	\$ 4,036
TOTAL ADMINISTRATIVE EXPENSES (EXHIBIT IV) - GAAP BASIS	\$ 148,444



Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011 (With Comparative Data for August 31, 2010)

SCHEDULE 3

	2011	2010
Direct Expenses:		
Salaries and Other Personnel Costs	\$ 29,476,277	\$ 16,283,310
Professional Fees and Services	3,767,718	5,232,615
Consumable Supplies	35,633	41,972
Travel	506,220	490,522
Building Lease	1,019,436	1,486,486
Copier Rentals	75,000	74,039
Dues, Fees and Staff Development	27,648	41,146
Subscriptions and Reference Materials	36,796	40,989
Reproduction and Printing Services	12,721	
Software Upgrades	150,796	196,123
Telecommunication and Data Services	322,907	357,760
Furniture and Equipment - Expensed	40,086	246,601
Depreciation - Leasehold Improvements	516,031	516,031
Total Direct Expenses	\$ 35,987,269	\$ 25,007,594
Indirect Expenses:		
Depreciation	\$ 200,523	\$ 173,164
Executive Management Support	1,030,719	827,413
Legal Support	1,515,794	1,585,381
Audit Support	761,710	1,442,557
Human Resources Support	609,223	558,432
Fiscal Management Support	1,531,627	1,505,945
Information Technology Support	2,339,344	2,643,578
Staff Services Support	1,057,415	1,191,293
Other Support Services	382,096	408,159
Total Indirect Expenses	\$ 9,428,451	\$ 10,335,922
Total Internal Administrative Investing Activity Expenses*	\$ 45,415,720	\$ 35,343,516
External Manager Fees **	\$ 137,954,055	\$ 76,575,138
Total Investing Activity Expenses (Exh. II) ***	\$ 183,369,775	\$ 111,918,654

* Not netted against or included in performance calculations.

** Performance calculations net of External Manager Fees

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

During fiscal year 2011, the system paid commissions to various brokers totaling \$58,304,167. A portion of the total commissions was paid to soft dollar brokers generating \$6,516,399 of soft dollar credits. Soft dollar credits were spent during fiscal year 2011 in accordance with Section 28(e) of the Securities Exchange Act of 1934 totaling \$6,155,201. Unspent soft dollar credits (totaling \$2,428,236) are held by the receiving broker and will be utilized in the new fiscal year. Another portion of the total commissions was paid through various Commission Sharing Arrangements (CSA) generating \$11,036,887 in CSA proceeds. These proceeds were used to acquire research services from various investment related firms totaling \$14,536,387. Unspent CSA proceeds (totaling \$6,396,266) are held by either State Street Bank and Trust Company as the system's CSA agent or by the CSA broker as a reserve for future expenses.

Through its contractual agreements with various firms, the system benefited from \$6,773,218 in vendor paid expenses and contractual allowances. Vendor paid expenses are legal arrangements that are used to acquire investment related items other than those paid for with Soft Dollar credits and CSA proceeds.

In addition to the commission expenses mentioned above, \$416,378,165 was paid to various Alternative and Pooled Investment General Partners for a total of \$474,712,229 in fees and commissions which are not included in Investing Activities Expense on Exhibit II. These amounts are reported in the Schedule of Fees and Commissions and are netted against investment performance on Exhibit II in the Net Appreciation in Fair Value of Investments amount. Custodial management fees were netted against income from securities lending activities.

Schedule of Professional and Consulting Fees - Budgetary Basis



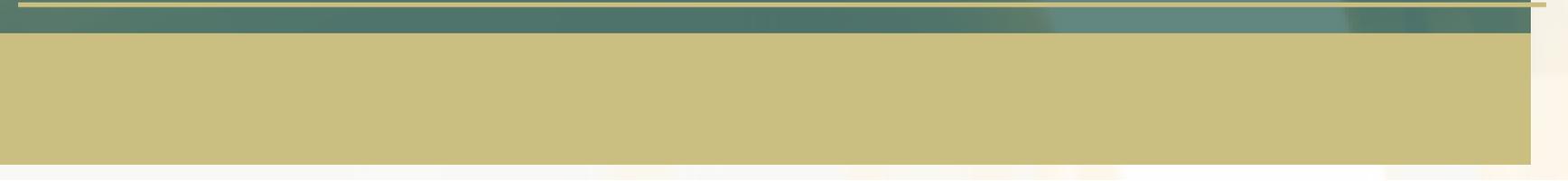
FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Individual or Firm	Nature of Service	Amount
Fulbright & Jaworski, LLP	Legal Services	\$ 1,320,839
Gabriel, Roeder, Smith, & Company	Actuarial Services and Health Care Consulting	1,000,319
Hewitt Ennis Knupp, Inc.	Consulting Services	675,000
Albourne America, LLC	Consulting Services	400,070
Grant Thornton, LLP	Consulting Services	334,950
State Auditors Office	Audit Services	298,341
Akin Gump Strauss Hauer & Feld, LLP	Legal Services	286,676
Reinhart Boerner Van Deuren, SC	Legal Services	255,228
Duff & Phelps, LLC	Audit Services	239,017
Jackson Walker, LLP	Legal Services	215,796
Austin Project Group	Consulting Services	165,374
Ernst & Young	Financial and Accounting Services	152,635
Sagebrush Solutions, Inc.	Audit Services	150,000
Clifton Gunderson, LLP	Audit Services	140,000
SR Batliboi & Company	Financial and Accounting Services	130,456
VR Election Services DBA Voice Retrieval	Board Election Services	125,000
Seyfarth Shaw, LLP	Legal Services	100,000
Easyvista, Inc.	Consulting Services	59,137
Keith C. Brown	Consulting Services	48,000
Cooley Godward Kronish, LLP	Legal Services	39,300
Alice D. Cox, MD	Medical Services	33,300
James Allen Reinarz, MD	Medical Services	33,300
Larry Wilson, MD	Medical Services	33,300
Provaliant Holdings, LLC	Consulting Services	30,850
Ice Miller	Legal Services	30,326
Sourcepulse, LLC	Consulting Services	25,500
Career Management Associates of Iowa, LLC	Temporary Employment Services	18,127
Workers Assistance Program, Inc.	Other Professional Services	16,012
SHI Government Solutions	Other Professional Services	15,307
MACTEC Engineering and Consulting, Inc.	Architectural/Engineering Services	13,939
Korn/Ferry International	Consulting Services	12,742
RFD & Associates, Inc.	Consulting Services	9,600
Bickerstaff Heath Delgado Acosta, LLP	Legal Services	7,176
Texas Facilities Commission	Consulting Services	7,000
INX, Inc.	Consulting Services	4,995
Allied Consultants, Inc.	Consulting Services	4,080
SFW, LLC	Consulting Services	2,900
Workplace Dynamics, LLC	Consulting Services	2,883
Terracon Consultants, Inc.	Consulting Services	1,915
The Network, Inc.	Financial and Accounting Services	1,830
Jaster-Quintanilla & Associates, Inc.	Architectural/Engineering Services	642
John W Peavy III Ph.D., CFA	Educational/Training Services	600
Riva Jackson	Educational/Training Services	555
J. Robert Anderson Landscape Architects	Architectural/Engineering Services	231
Karen A. Knowlton	Medical Services	200
MWM Design Group, Inc.	Architectural/Engineering Services	61
The Townsend Group, Inc.	Consulting Services	47
Timothy Wei	Other Professional Services	31
Ysabel Soliz	Medical Services	25
TOTAL PROFESSIONAL AND CONSULTING FEES		\$ 6,443,612
METHOD OF FINANCE:		
Fiduciary Funds:		
Pension Trust Fund		\$ 4,777,632
TRS-Care (Retired Plan)		799,865
Total Fiduciary Funds		5,577,497
Proprietary Fund:		
TRS-ActiveCare		866,115
Total Proprietary Fund		866,115
TOTAL METHOD OF FINANCE		\$ 6,443,612

SCHEDULE 4

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INVESTMENT SECTION



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Investment Overview



PORTFOLIO STRUCTURE

In 2008, TRS began a transition to a more diversified investment strategy. That transition is now complete. The investment strategy focuses on three possible economic scenarios. Scenario One is characterized by favorable Gross Domestic Product (GDP) growth and an average Consumer Price Index (CPI) which, since 1948, has been the prevailing economic condition 66% of the time. Scenario Two is one of low GDP growth and high CPI, which has occurred 21% of the time. Finally, Scenario Three is characterized by stagnant GDP and low CPI, which has occurred 13% of the time. TRS is positioned to take advantage of any of these various market scenarios by allocating 60% to global equity markets, which perform well under Scenario One, 20% to real return, which should perform well in Scenario Two, and 20% to a stable value portfolio, which should perform well and minimize downside risk in Scenario Three.

INVESTMENT PORTFOLIO PERFORMANCE

TRS had a return of 15.5% for the year ending August 31, 2011, which exceeded the fund's benchmark by 1%. This return ranked in the second quartile of public pension funds for the year. The total investment value of the trust as of August 31 was \$107.1 billion. Annual rates of return for the three-, five- and 10-year periods ending August 31, 2011 were 3.6%, 4.0% and 5.8% 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, 2011, and include comparisons with established benchmarks for the same time period.

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

STRATEGIC INITIATIVES

In July 2011, the Investment Management Division (IMD) celebrated the third anniversary of its Strategic Partnership Network (SPN). Four managers, JPMorgan, Neuberger Berman, Morgan Stanley, and BlackRock, were funded \$1 billion each to invest globally across the same public asset classes as the trust. The IMD gains valuable insight from the positioning of each Strategic Partner and incorporates that information into our own Tactical Asset Allocation models. In addition, each year the SPN collaborates to produce eight research projects used to benefit the trust, with a special focus on asset allocation. In July 2011, a fifth partner, Barclays Capital, was added to the SPN with an allocation of \$500 million. As of August 31, 2011, the total SPN is valued at \$5 billion. For the three-year period as of August 31, the SPN returned 5.3% annually, which added 1.83% over

its three-year benchmark. For the one-year period, the SPN returned 14.89% to the trust, adding 0.8% over its benchmark.

The Investment Management Division has a dedicated risk management function. Risk Management performs an independent risk certification for every new manager commitment and monitors the performance of each manager and portfolio monthly with a risk alarm review. During the last 12 months, the Risk Management team launched an improved suite of tools and reports, which monitor the risk levels of the trust and its portfolios. One of the tools developed is a bubble monitor, which scans the global markets for significant overvaluations in an asset class. The indications from this monitor provide an independent alert on asset classes where something abnormal is occurring. The IMD investigates each signal and may decide to lower our exposure to that asset class, either through entering into protective derivatives or an outright sale.

On October 1, 2009, the IMD launched an internal gold fund to provide protection in times of uncertainty. Uncertainty has continued in the last 12 months due to continued concerns about Europe and potential currency devaluation in the US. For the one-year ended August 31, 2011, the gold fund produced a return of 41.94%.

In 2011, the Private Markets Group continued to build TRS' first Principal Investments Program. Since the beginning of the program in 2009, the trust has committed \$2.7 billion in nine private equity principal investments and nine real asset principal investments. While this program is still growing, we believe the combination of lower fees and increased transparency into the decision-making of our private partners will be accretive to the trust.

In September, the board reviewed and adjusted the investment policy to help achieve the trust's targeted 8% long-term return. The primary adjustments starting October 1, 2011 are to incorporate the increased allocation to hedge funds approved by the Texas Legislature and to increase the amount allocated to private equity. These changes result in a 2% increase to Global Equity from current 60% policy benchmark to a 62% allocation and corresponding decrease in Stable Value from a current 20% policy benchmark to a 18% allocation. This adjustment will provide greater flexibility for the IMD to respond to changes in market conditions.

Looking forward, our investment outlook has not changed in the past 12 months. Due to the very low interest rates today and the European sovereign debt concerns, our expectations are for muted returns over the next few years.

*Prepared by:
Investment staff of the system*



Total Time-Weighted Returns

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

Total Portfolio ¹	2006	2007	2008	2009	2010	2011	3 Years	5 Years	10 Years
TRS	10.4%	17.5%	-2.1%	-21.9%	15.6%	22.2%	3.4%	4.9%	5.7%
Custom Benchmark ²	9.7%	16.9%	-2.0%	-19.5%	12.8%	21.2%	3.3%	4.7%	5.4%
TRS Public Equity	14.0%	21.9%	-10.3%	-26.8%	14.4%	30.3%	2.6%	3.4%	4.7%
Public Equity Composite Benchmark ³	13.5%	22.1%	-10.9%	-27.3%	14.3%	31.2%	2.9%	3.4%	4.5%
TRS Private Equity	45.3%	32.4%	14.8%	-28.8%	24.6%	24.6%	3.4%	10.9%	13.1%
Private Equity Composite Benchmark ⁴	19.6%	21.4%	-12.4%	-22.8%	34.9%	21.9%	8.3%	6.3%	7.5%
Total TRS Global Equity Global Equity Composite Benchmark ⁵	14.8%	22.3%	-8.8%	-27.7%	16.1%	29.5%	2.8%	3.9%	5.1%
TRS Fixed Income	-0.3%	6.7%	4.4%	-0.7%	21.9%	4.6%	8.2%	7.3%	6.6%
Fixed Income Composite Benchmark ⁶	-0.5%	6.6%	9.2%	6.6%	11.7%	-1.1%	5.6%	6.5%	6.2%
TRS Hedge Funds	11.2%	15.2%	-1.2%	-10.5%	7.7%	5.9%	0.5%	2.9%	4.5%
Hedge Fund Composite Benchmark ⁷	5.8%	9.8%	5.9%	3.9%	2.4%	2.3%	2.9%	4.8%	5.4%
Total TRS Stable Value Stable Value Composite Benchmark ⁸	0.5%	7.2%	4.5%	-3.6%	19.1%	5.0%	6.5%	6.2%	6.2%
TRS Real Assets	n/a	13.7%	7.0%	-33.0%	-8.9%	19.4%	-10.0%	-2.4%	n/a
Real Assets Composite Benchmark ⁹	n/a	18.8%	9.7%	-24.6%	-15.7%	19.0%	-8.9%	-0.3%	n/a
Total TRS Real Return Real Return Composite Benchmark ¹⁰	11.7%	13.7%	24.5%	-25.7%	7.7%	17.4%	-02.0%	5.5%	n/a
	n/a	18.8%	18.6%	-22.3%	2.6%	16.8%	-2.4%	5.6%	n/a

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

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

³ 64% S&P 500/ 11% S&P 400/ 5% S&P 600, 20% MSCI ACWI free-ex-US through 6/04; 61% S&P 500/ 12% S&P 400/ 6% S&P 600, 21% MSCI ACWI free-ex-US through 6/05; 60.16% S&P 500/ 12.20% S&P 400/ 6.5% S&P 600, 21.14% MSCI ACWI free-ex-US through 3/06; 59.82% S&P 500/ 11.97% S&P 400/ 5.99% S&P 600, 22.22% MSCI ACWI free-ex-US through 9/07; 27.27% Russell 1000 Growth/27.27% Russell 1000 Value/9.09% Russell 2000/27.27% MSCI EAFE + Canada/9.10% 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; currently 20% MSCI EM/ 30% MSCI EAFE + Canada/ 40% MSCI USA Gross/ 10% MSCI USA Small Cap.

⁴ 3 years at 0, then Russell 2000 + 500 bps through 9/07; Russell 3000 + 5% through 9/09; currently SSPEI.

⁵ 61.31% S&P 500/ 10.95% S&P 400/ 4.38% S&P 600, 18.98% MSCI ACWI free-ex-US/4.38% Private Equity Composite (3 years 0, then Russell 2000+5%) through 6/04; 57% S&P 500/ 11% S&P 400/ 6% S&P 600, 20% MSCI ACWI free-ex-US/6% Russell 2000 + 5% through 6/05, 56.48% S&P 500/ 11.45% S&P 400/ 6.11% S&P 600, 19.85% MSCI ACWI free-ex-US/6.11% Russell 2000 + 5% through 3/06; 56.00% S&P 500/ 11.21% S&P 400/ 5.6% S&P 600, 20.8% MSCI ACWI free-ex-US/6.39% Russell 2000 + 5% through 9/07; 25% Russell 1000 Growth/25% Russell 1000 Value/8.33% Russell 2000/25% MSCI EAFE + Canada/8.33% MSCI EM, 8.34% 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/13.3 SSPEI 1 QTR lagged/ 8.4% MSCI USA Small Cap/ 13.3% MSCI USA Large Cap through 9/10; currently 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.

⁶ 96.61% SB Large Pension Fund/3.39% SB High Yield Market Index through 12/03; 96.61% LB Aggregate/3.39% SB High Yield Market Index through 06/04; 93.22% LB Aggregate/ 6.78% Citigroup High Yield Index through 03/05; 93.22% LB Aggregate/ 6.78% Lehman US Corp High Yield Index through 03/06; 100% LB Universal through 9/07; 66.67% Lehman Long Treasury/ 33.33% Lehman Intermediate Gov-Credit through 9/08; 80% BC Long Treasury/ 20% BC Intermediate Gov-Credit through 9/09; currently 100% BC Long Treasury.

⁷ 6-month T-Bill + 300 bps through 3/03; 70% 3-month LIBOR/ 30% S&P 500 through 9/07; currently 3-month LIBOR + 2%.

⁸ 90.48% SB Large Pension Fund/3.17% SB High Yield Index/4.76% Hedge Fund Composite, 1.59%/91-day T-Bill through 12/03; 90.48% LB Aggregate/3.17% SB High Yield Index/4.76% Hedge Fund Composite/1.59% 91 day T-Bill through 06/04; 87.3% LB Aggregate/ 6.35% Citigroup High Yield Index/4.76% Hedge Fund Composite/1.59% 91-day T-Bill through 03/05; 87.3% LB Aggregate/ 6.35% Lehman High Yield /4.76% Hedge Fund Composite/1.59% 91-day T-Bill through 03/06; 93.63% LB Aggregate/4.77% Hedge Fund Composite/1.6% 91-day T-Bill through 9/07; 50% Lehman Long Treasury/ 25% Lehman Intermediate Gov-Credit/ 20% Hedge Fund Composite/ 5% 91 day T-Bill through 9/08; 60% Lehman Long Treasury/ 15% Lehman Intermediate Gov-Credit/ 20% Hedge Fund Composite/ 5% 91-day T-Bill through 9/09, currently 75% Lehman Long Treasury/ 20% Hedge Fund Composite/ 5% 91-day T-Bill.

⁹ 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.

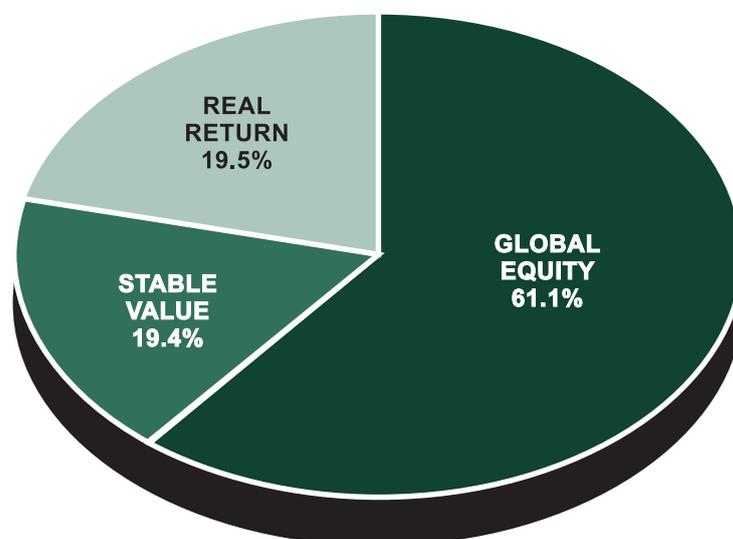
¹⁰ Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps through 9/07; 50% LB Global Inflation Linked Bond Index/ 20% Real Estate Composite Index/ 5% US Core CPI + 5%/ 15% Goldman Sachs Commodity Index/ 10% NAREIT Index through 9/08; 25% BC Global Inflation Linked Bond Index/ 25%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

Asset Allocation

PENSION TRUST FUND - AUGUST 31, 2011



Asset Allocation Actual at Fiscal Year End



	POLICY RANGES			
	Low	High	Neutral	Actual
Public Equity	45.0%	55.0%	50.0%	50.7%
Private Equity	5.0%	15.0%	10.0%	10.4%
TOTAL GLOBAL EQUITY	55.0%	65.0%	60.0%	61.1%
Fixed Income ¹	0.0%	20.0%	15.0%	14.1%
Short-Term	0.0%	5.0%	1.0%	1.3%
Hedge Funds	0.0%	5.0%	4.0%	4.0%
TOTAL STABLE VALUE	15.0%	25.0%	20.0%	19.4%
Inflation Linked Bonds	0.0%	13.0%	8.0%	5.3%
Real Assets	0.0%	13.0%	8.0%	9.7%
Commodities	0.0%	7.0%	2.0%	3.1%
REITS ²	0.0%	7.0%	2.0%	1.4%
TOTAL REAL RETURN	15.0%	25.0%	20.0%	19.5%
TOTAL				100.0%

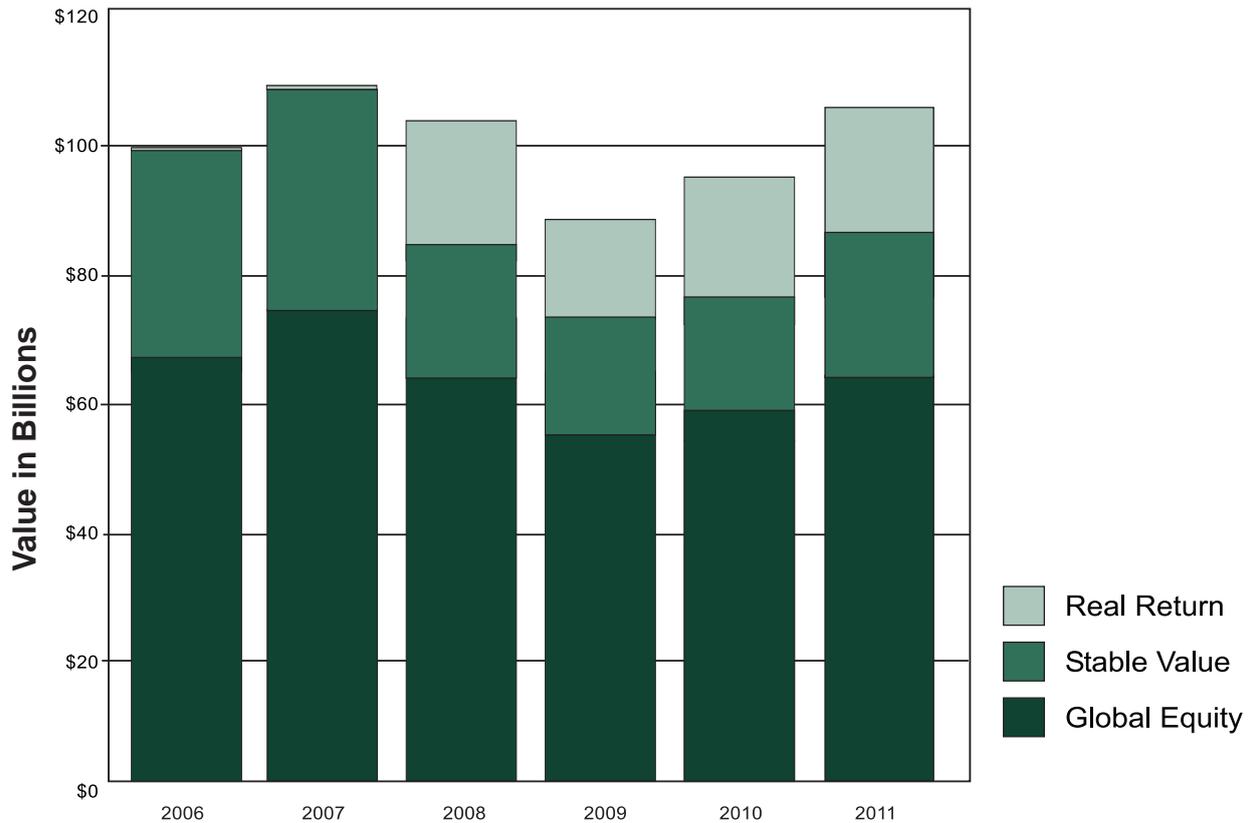
¹ Does not include Inflation Linked Bonds in Real Return Portfolio.

² Dedicated portfolio in addition to Global Equity holdings.



Investment Summary

PENSION TRUST FUND - AUGUST 31



	2006	2007	2008	2009	2010	2011
Public Equity	\$ 65.971	\$ 70.551	\$ 58.125	\$ 48.718	\$ 49.363	\$ 54.312
Private Equity	2.326	3.796	6.064	5.867	8.501	11.099
TOTAL GLOBAL EQUITY	\$ 68.297	\$ 74.347	\$ 64.189	\$ 54.585	\$ 57.864	\$ 65.411
Fixed Income ²	\$ 27.664	\$ 32.076	\$ 16.161	\$ 13.333	\$ 14.833	\$ 15.121
Short-Term	2.032	1.313	1.167	0.800	0.700	1.376
Hedge Funds	1.682	2.817	3.997	3.582	3.947	4.324
TOTAL STABLE VALUE	\$ 31.378	\$ 36.206	\$ 21.325	\$ 17.715	\$ 19.480	\$ 20.821
Inflation Linked Bonds	\$ n/a	\$ n/a	\$ 10.288	\$ 8.509	\$ 8.167	\$ 5.635
Real Assets	0.261	1.214	3.657	3.742	5.704	10.343
Commodities	n/a	n/a	3.211	1.697	2.068	3.323
REITS ³	n/a	n/a	1.804	1.936	1.960	1.537
TOTAL REAL RETURN	\$ 0.261	\$ 1.214	\$ 18.960	\$ 15.884	\$ 17.899	\$ 20.838
TOTAL	\$ 99.936	\$ 111.767	\$ 104.474	\$ 88.184	\$ 95.243	\$ 107.070

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 below:

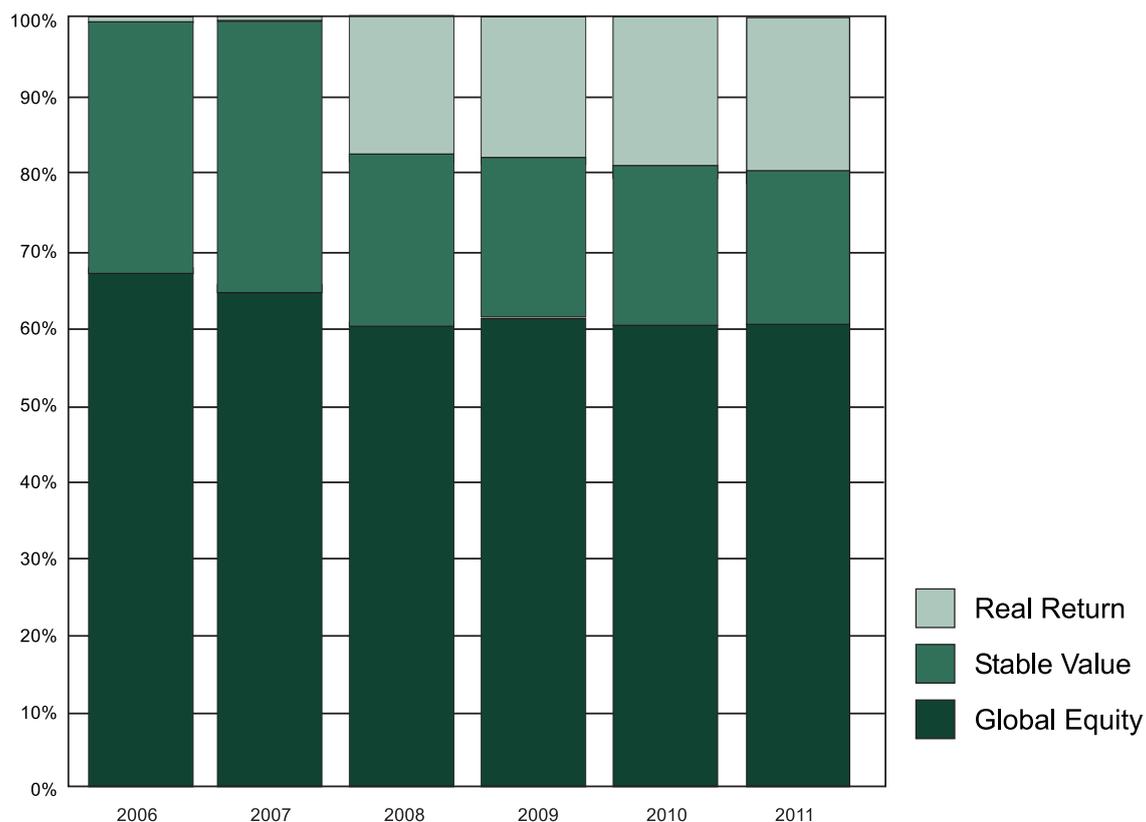
Total Market Value at 8/31/11	\$ 107.070
Less Investment Related Cash	(0.184)
Less Investment Related Receivables	(2.481)
Plus Investment Related Payables	1.586
Plus Short-Term Asset Pool Adjustment From Amortized Cost to Fair Value	0.027
Plus Amounts Related to Collateral Activities	0.030
Total Investments Exhibit I	\$ 106.048

² Does not include Inflation Linked Bonds in Real Return Portfolio.

³ Dedicated portfolio in addition to Global Equity holdings.

Investment Summary

PENSION TRUST FUND - AUGUST 31



PERCENTAGE OF MARKET VALUES

	2006	2007	2008	2009	2010	2011
Public Equity	66.0%	63.1%	55.6%	55.2%	51.8%	50.7%
Private Equity	2.3%	3.4%	5.8%	6.7%	8.9%	10.4%
TOTAL GLOBAL EQUITY	68.3%	66.5%	61.4%	61.9%	60.7%	61.1%
Fixed Income ¹	27.7%	28.7%	15.5%	15.1%	15.6%	14.1%
Short-Term	2.0%	1.2%	1.1%	0.9%	0.7%	1.3%
Hedge Funds	1.7%	2.5%	3.8%	4.1%	4.1%	4.0%
TOTAL STABLE VALUE	31.4%	32.4%	20.4%	20.1%	20.4%	19.4%
Inflation Linked Bonds	n/a	n/a	9.9%	9.7%	8.6%	5.3%
Real Assets	0.3%	1.1%	3.5%	4.2%	6.0%	9.7%
Commodities	n/a	n/a	3.1%	1.9%	2.2%	3.1%
REITS ²	n/a	n/a	1.7%	2.2%	2.1%	1.4%
TOTAL REAL RETURN	0.3%	1.1%	18.2%	18.0%	18.9%	19.5%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Does not include Inflation Linked Bonds in Real Return Portfolio.

² Dedicated portfolio in addition to Global Equity holdings.



Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2011

Top Ten Domestic Equity Market Holdings

Issuer Name	Market Value	Total Shares
Apple Incorporated	\$ 496,638,508	1,290,540
Vanguard Small Cap ETF	482,580,000	7,000,000
General Growth Properties	328,175,645	24,059,798
SPDR Gold Shares	312,999,403	1,761,888
Exxon Mobil Corporation	289,769,978	3,913,695
Johnson & Johnson	268,483,543	4,080,297
AT&T Incorporated	239,461,435	8,408,056
Microsoft Corporation	236,025,205	8,873,128
International Business Machines Corporation	226,558,986	1,317,893
Google Incorporated A Shares	226,042,841	417,855
	\$ 3,106,735,544	61,123,150

Top Ten International Equity Market Holdings

Issuer Name	Market Value	Total Shares
Vanguard Emerging Markets ETF	\$ 1,117,792,260	25,433,271
Nestle SA	232,937,882	3,763,830
Samsung Electronics Company LTD.	216,984,251	311,142
Novartis AG	205,091,291	3,519,810
Roche AG	180,879,545	1,033,808
Schlumberger LTD.	177,097,728	2,266,996
Royal Dutch Shell A Shares	172,964,714	5,144,180
Vodafone Group	161,085,657	61,448,275
Sanofi	126,669,001	1,736,613
British American Tobacco	120,880,069	2,706,004
	\$ 2,712,382,398	107,363,929

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2011



Top Ten Fixed Income Market Holdings

Description	Market Value	Par Value
U.S. TREASURY 4.375% due 15 Nov 2039	\$ 1,335,395,476	\$ 1,166,050,000
U.S. TREASURY 4.500% due 15 Feb 2036	1,004,217,612	854,050,000
U.S. TREASURY 4.375% due 15 Feb 2038	928,656,805	807,900,000
U.S. TREASURY 3.500% due 15 Feb 2039	860,564,804	871,820,000
U.S. TREASURY 4.250% due 15 May 2039	799,808,630	712,074,000
U.S. TREASURY 4.375% due 15 May 2040	674,369,035	589,195,000
U.S. TREASURY 2.375% due 15 Jan 2025	627,577,359	508,159,805
U.S. TREASURY 3.875% due 15 Aug 2040	610,047,227	579,970,000
U.S. TREASURY 5.500% due 15 Aug 2028	563,589,091	425,100,000
U.S. TREASURY 6.125% due 15 Nov 2027	537,962,363	382,600,000
	\$ 7,942,188,402	\$ 6,896,918,805

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



Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Fund Name*	Fees
ACI Multi-Strategy Market Neutral Fund LTD	\$ 4,709,365
Advent International GPE VI-A, L.P.	2,731,201
AEW Core Property Trust (U.S.), Inc.	916,917
AEW Senior Housing Investors, L.P.	444,902
AG Real Value Fund, LLC	2,247,669
Aleutian Fund LTD	4,805,257
Alpha Private Equity Fund V, L.P.	46,815
Alterna Core Capital Assets Fund, L.P.	1,612,325
Amici Fund International LTD	4,041,829
Apax Europe V-A, L.P.	692,314
Apax Europe VII-A, L.P.	5,671,968
Apollo Credit Opportunity Fund II, L.P.	2,840,507
Apollo Investment Fund VII, L.P.	6,026,398
AQR Global Stock Selection Fund, LLC	1,691,947
ARA Asia Dragon LTD	2,250,001
Austin Ventures VIII, L.P.	523,676
Avenue Special Situations Fund V, L.P.	5,629,578
Bain Capital Fund VIII, L.P.	598,809
Bain Capital VII Coinvestment Fund, L.P.	228,128
Bain Capital VIII Coinvestment Fund, L.P.	626,285
Black Diamond Relative Value LTD	1,650,542
BlackRock Diamond Property Fund, Inc.	545,564
BlackRock Retail Opportunity Fund, LLC	388,350
Blackstone / GSO Capital Solutions Fund, L.P.	340,000
Blackstone Capital Partners V, L.P.	3,944,137
Blackstone Capital Partners VI, L.P.	2,051,267
Blackstone GGP Principal Transaction Partners, L.P.	27,481
Blackstone Real Estate Partners Europe III, L.P.	3,484,813
Blackstone Real Estate Partners V, L.P.	1,814,992
Blackstone Real Estate Partners VI, L.P.	3,749,404
BlueTrend Fund LTD	4,198,660
Bridgepoint Europe IV, L.P.	3,863,367
Brockton Capital Fund II, L.P.	2,976,241
Brookfield Americas Infrastructure Fund, L.P.	2,682,671
Camden Multifamily Co-Investment Fund, L.P.	35,474
Camden Multifamily Value Add Fund, L.P.	2,250,000
Candover 2001 Fund, L.P.	146,736
Canyon-Johnson Urban Fund III, L.P.	1,000,000
Capmark Commercial Realty Partners II, L.P.	602,138
Capmark Commercial Realty Partners III, L.P.	1,467,900
Capmark Structured Real Estate Partners, L.P.	942,493

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Fund Name*	Fees
Capri Urban Investors, LLC	\$ 835,456
Carlyle Europe Partners III, L.P.	1,734,835
Carlyle Europe Real Estate Partners III, L.P.	1,462,327
Carlyle Partners III, L.P.	71,973
Carlyle Partners IV, L.P.	773,333
Carlyle Partners V, L.P.	5,334,273
Carlyle Realty Partners V, L.P.	1,437,429
CB Richard Ellis Strategic Partners U.S. Opportunity V, L.P.	623,680
CB Richard Ellis Strategic Partners U.S. Value V, L.P.	957,234
Cerberus Institutional (Series Four), L.P.	1,385,096
Charterhouse Capital Partners IX, L.P.	5,943,353
Charterhouse Capital Partners VIII, L.P.	949,365
CIM Fund III, L.P.	2,109,376
CIM Urban REIT, LLC	1,544,355
Colony Distressed Credit Fund, L.P.	3,817,300
Colony Investors VIII, L.P.	3,082,900
Congress Avenue Partners, L.P.	5,048,967
CPI Capital Partners Europe, L.P.	919,324
Credit Suisse CFG Middle Market Buyout	1,800,000
Credit Suisse CFG RE-UP Bridge Program	163,247
Crestview Partners II, L.P.	1,480,428
CSFB Emerging Opportunities Fund, L.P.	3,329,656
CVC Capital Partners Asia Pacific III, L.P.	4,137,082
CVC European Equity Partners IV, L.P.	251,806
CVC European Equity Partners Tandem Fund, L.P.	375,230
CVC European Equity Partners V, L.P.	3,898,993
D. E. Shaw BMCAE Special Fund, L.P.	2,162,464
Deephaven Global Multi-Strategy Fund LTD	61,497
Double Black Diamond LTD	3,841,830
EnCap Energy Capital Fund VII, L.P.	905,992
EnCap Energy Infrastructure Fund, L.P.	1,347,358
Energy Fund XV, L.P.	1,807,243
ESL Limited	4,164,012
FC Co-Investment Partners, L.P.	2,667
First Reserve Energy Infrastructure Fund, L.P.	2,847,175
First Reserve Fund X, L.P.	425,098
First Reserve Fund XI, L.P.	1,887,000
First Reserve Fund XII, L.P.	4,238,000
Five Arrows Realty Securities V Co-Investment, L.P.	53,739
Five Arrows Realty Securities V, L.P.	297,189
Five Mile Capital Partners II, L.P.	3,000,000



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Fund Name*	Fees
Focus Select Fund LTD	\$ 1,608,887
Footbridge Captital Fund, Inc.	4,407
Fore Multi Strategy Offshore Fund LTD	5,957,012
Forum Asian Realty Income II, L.P.	993,319
Forum Asian Realty Income III, L.P.	2,000,001
Forum Europe Realty Income III, L.P.	1,523,831
Fudo Capital II, L.P.	2,625,000
GoldenTree Offshore Fund LTD	267,911
Goldman Sachs Vintage Fund, L.P.	25,994
Gores Capital Partners III, L.P.	3,849,000
Gramercy Offshore Fund LTD	25,299
Green Equity Investors V, L.P.	419,574
GSO Special Situations Fund, L.P.	5,536,686
Halcyon European Structured Opportunities Offshore Fund LTD	51,343
Halcyon Partners Offshore LTD	3,419,609
Heitman America Real Estate Trust, L.P.	936,574
Hellman & Friedman Capital Partners V, L.P.	219,457
Hellman & Friedman Capital Partners VI, L.P.	1,499,000
Henderson Asia Pacific Absolute Return Fund LTD	1,861,018
Henderson Japan Absolute Return Fund LTD	880,160
HgCapital 5, L.P. **	(1,010,446)
HgCapital 6, L.P.	2,626,252
Highland Capital Partners VI - B, L.P.	914,384
Invesco San Jacinto Core Fund, L.P.	341,366
Investcorp Interlachen Multi-Strategy Fund LTD	50,865
Investcorp Silverback Arbitrage Fund LTD	1,116,837
Investcorp Waterloo Macro Fund LTD	1,862,574
Investcorp White Eagle European Fund LTD	284,640
Iron Point Real Estate Partners, L.P.	1,500,000
Ivory Offshore Flagship Fund LTD	1,528,407
J.H. Whitney V, L.P.	370,220
J.H. Whitney VI, L.P.	248,585
JPMCB Strategic Property Fund	2,474,760
Kelso Investment Associates VII, L.P.	498,388
Kelso Investment Associates VIII, L.P.	4,491,000
King Street Capital LTD	4,669,295
KKR 2006 Fund, L.P.	3,251,534
KKR FI Partners I, L.P.	1,126,769
KKR Mezzanine Partners I, L.P.	1,402,033
KKR Natural Resources I, L.P.	1,562,500
Kohlberg TE Investors VI, L.P.	1,528,703

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Fund Name*	Fees
L&B Diversified Strategy Partners, L.P.	\$ 1,116,570
Lansdowne Pecan Street Europe, L.P.	1,598,289
LaSalle Property Fund, L.P.	379,576
Lee Equity Partners, L.P.	2,943,467
Level Global Overseas LTD	590,536
Level Global, L.P.	226,608
Lindsay Goldberg III, L.P.	3,601,218
Lion Capital Fund I, L.P.	357,816
Lion Capital Fund II, L.P.	2,968,589
Lion Capital Fund III, L.P.	4,273,916
Lionstone Cash Flow Real Estate Partners One, L.P.	555,281
Lone Star Real Estate Fund II (U.S.), L.P.	4,575,000
Longacre International LTD	1,366,982
MacFarlane Urban Real Estate Fund II, L.P.	1,034,503
Madison Dearborn Capital Partners IV, L.P.	360,121
Marathon Credit Dislocation Fund, L.P.	3,207,580
MKP Credit Offshore LTD	6,595,773
Morgan Creek Partners Asia, L.P.	1,058,274
Morgan Stanley Infrastructure Partners, L.P.	3,000,000
Morgan Stanley RE Mezzanine Partners A, L.P.	115,972
Nautic Partners V, L.P.	89,600
New Enterprise Associate-s XIII, L.P.	1,629,204
Nordic Capital Fund V, L.P.	200,012
Northwest Fund LTD	2,674,783
NuWave Offshore Fund LTD	2,799,392
Oak Investment Partners X, L.P.	1,076,671
Oak Investment Partners XI, L.P.	1,512,510
Oak Investment Partners XII, L.P.	2,464,829
Oaktree Loan Fund 2x, L.P.	860,670
Oaktree Opportunities Fund VIII, L.P.	1,359,194
Oaktree TT Multi-Strategy Fund, L.P.	895,917
OCM Opportunities Fund VI, L.P.	258,856
OCM Opportunities Fund VII, L.P.	658,414
OCM Opportunities Fund VIIb, L.P.	1,434,389
O'Connor Global Fundamental Market Neutral Long/Short LTD	4,913,987
Onex Partners II, L.P.	834,838
Onex Partners III, L.P.	3,703,742
Onex Partners, L.P.	280,615
P2 Capital Master Fund VI, L.P.	4,373,335
Parkway Properties Office Fund II, L.P.	733,900
Patria-Brazilian Private Equity IV, L.P.	986,301



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Fund Name*	Fees
PCCP Mezzanine Recovery Partners II, L.P.	\$ 714,440
Permira Europe III, L.P.	504,904
Permira IV, L.P.	2,644,575
Perry Partners International, Inc.	4,986,651
PIMCO Distressed Mortgage Fund, L.P.	7,537,111
PLA Residential Fund III, L.P.	2,332,963
PLA Residential Fund IV, L.P.	1,498,471
PLA Retail Fund I, L.P.	756,936
Polaris Venture Partners IV, L.P.	1,977,138
PREI Mezzanine Fund I, L.P.	1,134,861
Prime Property Fund, LLC	1,719,400
Principal Green Property Fund I, L.P.	1,107,386
Principal Green Property Sidecar I, L.P.	183,447
Principal Real Estate Strategic Debt Fund I, L.P.	991,928
Principal Real Estate Strategic Equity Fund I, L.P.	1,318,750
PRISA	1,747,887
PRISA II	1,490,934
ProLogis Mexico Industrial Fund I, L.P.	491,940
Prologis Targeted U.S. Logistics REIT, Inc.	951,252
Providence Equity Partners V, L.P.	457,097
Providence Equity Partners VI, L.P.	1,143,597
Quad-C Partners VI, L.P.	58,663
Quad-C Partners VII Co-Investment, L.P.	270,849
Quad-C Partners VII, L.P.	1,014,759
Ranger Co-Investment Fund, L.P.	733,093
Red River Direct Investment Fund, L.P.	2,500,001
Red River HYPI	2,917
Red River Venture Capital Fund, L.P.	290,044
Republic Loan Funding LTD	2,150,239
RLJ Real Estate Fund III, L.P.	843,750
RMBS Opportunities Fund, L.P.	397,299
Rock Creek Limestone Emerging Markets, L.P.	2,775,175
RREEF America REIT III, Inc.	460,981
Shepherd Investments International LTD	675,621
SP5 Wood Partners Co-Investment Venture 2, L.P.	11,625
SP5 Wood Partners Development, L.P.	130,381
Squadron Emerging Asia Fund, L.P.	1,000,000
Square Mile Partners III, L.P.	2,187,500
SteelRiver Infrastructure Fund North America, L.P.	4,024,056
STG Capital Fund LTD	407,137
Stockbridge Real Estate Fund II, L.P.	696,244

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Fund Name*	Fees
Stockbridge Real Estate Fund III, L.P.	\$ 2,250,000
Stratford Land Fund III, L.P.	1,846,182
Stratford Land Fund IV, L.P.	2,605,575
TA X, L.P.	672,652
TA XI, L.P.	1,505,815
Texas Growth Fund II - 1998 Trust	3,984,123
Thayer Hotel Investors V, L.P.	2,332,882
The Resolute Fund, L.P. **	(504,024)
Thomas H. Lee Equity Partners V, L.P.	110,107
TLF Logistics II, L.P.	90,762
TLF Logistics, L.P.	1,217,137
TPG Partners V, L.P.	836,608
TPG Partners VI, L.P.	2,798,544
TPG STAR, L.P.	1,971,015
Tricon IX, L.P.	1,175,000
Triton Fund II, L.P.	297,506
Triton Fund III, L.P.	3,517,388
TT-EEIF Co-Investments, LLC	51,318
U.S. Government Building Fund, LLC	917,911
U.S. Republic Core Fund, L.P.	444,923
Vicis Capital Fund (International)	254,946
Walker Smith International Fund LTD	3,174,167
Walton Street Real Estate Fund Sidecar V, L.P.	170,288
Walton Street Real Estate Fund V, L.P.	906,564
Walton Street Real Estate Fund VI, L.P.	1,218,314
Warburg Pincus Private Equity X, L.P.	3,303,397
Wayzata Opportunities Fund II, L.P.	3,428,444
Westbrook Real Estate Fund VIII, L.P.	2,250,000
Willis Stein & Partners III, L.P.	581,717
Wolverine Convertible Arbitrage Fund LTD	7,844,378
Zachry Hastings Infrastructure Partners, L.P.	1,476,866
Zais Lubeck II-A CLO Fund, L.P.	171,609
Zaxis Offshore LTD	1,937,668
Total	\$ 416,378,165

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

** Negative balance is equal to the refund in the current year of expenses paid in a prior year.



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

External Manager ***	Fees
Acadian Asset Management, LLC	\$ 874,705
Alliance Bernstein, L.P.	885,780
Artio Global Investment Management, LLC****	(1,036)
Artisan Partners Limited Partnership	3,933,137
Barclays Capital Fund Solutions - Americas	163,580
Baring International Investment LTD	3,513,211
BlackRock Financial Management, Inc.	6,757,453
BME Investment Partners, LLC	374,304
Brandes Investment Partners, L.P.	3,020,878
Cantillion Pacific LTD	3,201,790
DePrince Race & Zollo, Inc.	3,003,335
Dimensional Fund Advisors, L.P.	7,377,092
Eaton Vance Management	5,276,314
GMO, LLC	1,234,127
Goldman Sachs Asset Management, L.P.	1,261,083
Independent Franchise Partners, LLP	392,134
Jennison Associates, LLC	2,458,120
JP Morgan Asset Management, Inc.	17,023,093
Knight Vinke Asset Management, LLC	2,203,727
Lazard Asset Management, LLC	4,700,714
Marathon Asset Management	7,186,414
Mondrian Investment Partners LTD	744,201
Morgan Stanley Investment Management, Inc.	7,592,636
Neuberger Berman, LLC	17,052,365
Omega Advisors, Inc.	19,472,146
P2 Capital Partners, LLC ****	(599,002)
Penn Capital Management Co., Inc.	638,045
Platinum Investment Management LTD	3,566,607
Sasco Capital, Inc.	2,278,491
Security Capital Research & Management, Inc.	805,314
Stephens Investment Management Group	1,237,896
Vaughan Nelson Investment Management, L.P.	1,962,708
Wellington Management Company, LLP	5,985,636
Westwood Management Corp.	2,377,057
Total	\$ 137,954,055

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

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

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Abel Noser Corporation	18,900	\$ 283	\$ 0.015
ABN AMRO Bank N.V.	92,935	4,036	0.045
Access Securities, Inc.	44,780	1,343	0.030
Allen & Company, LLC	4,778	177	0.037
American Technology Research, Inc.	441,033	16,149	0.037
Ancora Securities, Inc.	151,460	6,058	0.040
Assent, LLC	95,500	1,537	0.020
Atlantic Equities, L.P.	128,850	2,148	0.017
Auerbach Grayson & Co.	51,760	1,812	0.035
Avondale Partners, LLC	284,040	11,362	0.040
Barclays Capital, Inc.	600,302,521	4,871,740	0.027
Bear Stearns Securities Corp.	460,008	18,353	0.040
Bley Investment Group	4,055,172	117,266	0.027
Bloomberg Tradebook, LLC	8,042,796	139,676	0.015
BMO Capital Markets	11,187,726	339,248	0.034
BMO Nesbitt Burns, Inc.	104,336	5,386	0.047
BNP Paribas Securities Corp.	41,500	1,824	0.066
BNY Convergenx	21,825,859	893,371	0.039
BNY Mellon	247,205	9,551	0.039
BOE Securities, Inc./Broadcort Cap Corp.	1,965,102	49,080	0.026
Brean Murray, Carret & Co., LLC	177,003	6,965	0.038
Bridge Trading Company	35,690	1,428	0.040
Broadcort Capital Corp.	130,800	5,232	0.040
Brockhouse & Cooper, Inc.	120,697	2,136	0.019
Brown Brothers Harriman & Co.	19,200	768	0.040
Brunswick Warburg Nominees	4,843,548	21,883	0.004
BTIG, LLC	7,849,263	110,504	0.019
B-Trade Services, LLC	4,466,491	89,330	0.020
Buckingham Research Group, Inc.	85,660	3,286	0.039
Cabrera Capital Markets	586,262	17,588	0.030
Canaccord Genuity, Inc.	1,136,499	39,787	0.037
Canadian Imperial Bank of Commerce	58,643	2,595	0.057
Cantor Fitzgerald & Co.	25,580,765	775,570	0.032
Capital Institutional Services, Inc.	5,894,528	145,655	0.020
Caris & Company, Inc.	78,906	2,629	0.036
Carr Securities Corp.	713	21	0.029



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Cedel Bank	53,866	\$ 1,001	\$ 0.019
Charles River Brokerage	150	2	0.013
Citation Group	898,916	16,767	0.018
Citigroup Global Markets, Inc.	48,826,662	934,783	0.021
CL King & Associates, Inc.	163,710	5,112	0.037
CLSA Singapore Pte. LTD	83,200	6,799	0.083
Collins Stewart, LLC	106,719	3,709	0.037
Cowen & Company, LLC	3,794,081	131,067	0.037
Craig - Hallum	621,045	24,585	0.039
Credit Agricole	4,566,016	96,382	0.024
Credit Lyonnais Securities, Inc.	138,500	4,155	0.030
Credit Research & Trading, LLC	33,100	1,324	0.040
Credit Suisse First Boston	465,759,858	5,050,733	0.023
CSI US Institutional Desk	673,082	26,656	0.039
Cuttone & Co., Inc.	5,200	117	0.023
Dahlman Rose & Company, LLC	64,815	2,593	0.040
Davenport & Co. of Virginia, Inc.	189,829	7,593	0.040
David H. Rankin & Co.	1,170,497	23,410	0.020
Davidson D.A. & Company, Inc.	65,849	2,634	0.040
Dematted Monness, LLC	176,400	6,422	0.033
Deutsche Bank Securities, Inc.	58,118,892	1,409,455	0.021
Dominick & Dominick	166,981	6,208	0.033
Dowling & Partners	41,117	1,606	0.039
East Shore Partners, Inc.	258,933	9,376	0.038
Evercore Group, LLC	217,797	8,058	0.037
Fidelity Capital Markets	3,830,230	81,251	0.024
Fig Partners, LLC	148,187	5,927	0.040
Financial Advisory Clinic Investments, Inc.	38,180	1,145	0.030
First Analysis Securities Corp.	31,200	1,560	0.050
First Clearing, LLC	249,140	9,966	0.040
Fortis Clearing Americas, LLC	1,944,293	45,986	0.024
Friedman, Billings & Ramsey	2,035,291	68,585	0.032
GFI Securities, LLC	748	28	0.037
GMP Securities, L.P.	6,800	272	0.040
Goldman Sachs & Co.	101,503,245	2,116,738	0.021
Goldsmith & Harris	28,320	1,133	0.040

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Gordon, Haskett & Company	570,960	\$ 22,838	\$ 0.040
Green Street Advisors	100,588	3,498	0.036
Greig Middleton & Co.	406,600	15,044	0.037
Guggenheim Capital Markets, LLC	14,566	539	0.037
Guzman & Co.	5,083,193	116,284	0.021
Heflin & Co., LLC	73,660	2,946	0.040
Height Securities, LLC	47,700	1,908	0.040
Hibernia Southcoast Capital, Inc.	733,776	28,972	0.039
Howard Weil, Inc.	767,776	30,479	0.039
HSBC Securities, Inc.	4,930,170	105,264	0.023
Hudson Securities, Inc.	25,800	1,032	0.040
ING Bank N.V.	735,825	15,952	0.103
Instinet, LLC	25,610,765	703,993	0.018
Invemed Associates	18,800	752	0.040
Investment Technology Group, Inc.	24,504,063	484,002	0.019
ISI Group, Inc.	3,479,265	94,539	0.029
Island Trader Securities, Inc.	45,693	1,698	0.038
J.A. Glynn & Co.	79,100	1,582	0.020
Jackson Partners & Associates, Inc.	560,310	22,412	0.040
Jackson Securities	3,545,050	106,522	0.031
Janco Partners, Inc.	42,940	1,718	0.040
Janney Montgomery Scott, LLC	717,066	28,235	0.039
Jefferies & Company, Inc.	32,492,264	785,274	0.026
JFD Securities	819,876	25,436	0.031
JMP Securities	333,889	13,069	0.041
JNK Securities, Inc.	45,385	1,815	0.040
Johnson Rice & Co.	378,389	15,136	0.040
Jones Trading Institutional Services, LLC	16,400,104	521,451	0.035
JP Morgan Securities, Inc.	111,390,827	1,994,980	0.023
Kaufman Brothers	25,400	1,016	0.040
Keefe Bruyette & Woods, Inc.	592,353	20,655	0.030
Keybank Capital Markets, Inc.	1,713,109	61,428	0.039
Knight Securities	16,587,239	447,768	0.019
LaBranche Financial Services, LLC	8,925	89	0.010
Lazard Capital Markets, LLC	1,488,727	49,334	0.037
Leerink Swann & Company	499,503	19,359	0.039



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Liquidnet, Inc.	15,211,242	\$ 303,349	\$ 0.020
Longbow Securities, LLC	199,807	7,992	0.040
Loop Capital Markets, LLC	5,403,619	108,072	0.020
M.R. Beal & Company	6,103,703	119,732	0.016
M.S. Howells & Co.	21,540	862	0.040
Macquarie Bank Limited	1,292,090	74,362	0.052
Madison Williams and Company	82,200	2,793	0.035
Man Securities, Inc.	55,040	2,067	0.035
Maxim Group	26,400	1,056	0.040
Melvin Securities	7,300	73	0.010
Merrill Lynch and Co., Inc.	76,434,571	1,491,866	0.024
Merriman Curhan Ford & Co.	380,160	15,206	0.040
Miller Tabak & Company, LLC	109,440	4,332	0.039
Mizuho Securities USA, Inc.	390,027	15,601	0.040
MKM Partners, LLC	176,835	7,029	0.039
Mogavero Lee & Co., Inc.	729,660	29,186	0.040
Morgan Joseph & Co., Inc.	207,170	7,479	0.035
Morgan Keegan & Co., Inc.	448,413	17,852	0.038
Morgan Stanley Co., Inc.	84,874,990	2,364,624	0.022
National Financial Services Corp.	9,492,928	272,427	0.023
Needham & Company	860,026	30,520	0.036
Nomura Securities International, Inc.	12,866,611	263,532	0.019
O'Connor & Co., LLC	628,800	13,681	0.024
Oppenheimer & Co., Inc.	2,953,957	108,804	0.036
Oscar Gruss & Son, Inc.	38,600	1,544	0.040
Pacific Crest Securities	45,372	2,048	0.043
Penserra Securities, LLC	6,780,850	178,203	0.021
Penson Financial Services, Inc.	1,258,006	45,797	0.036
Pershing, LLC	80,684,745	694,485	0.033
Pickering Energy Partners, Inc.	447,534	17,118	0.037
Pipeline Trading Systems, LLC	1,173,873	16,225	0.015
Piper Jaffray	1,663,428	43,138	0.041
Portales Partners, LLC	124,905	4,792	0.039
Prime Executions, Inc.	64,600	1,938	0.030
Pritchard Capital Partners, LLC	81,205	3,248	0.040
Pulse Trading, LLC	244,841	4,974	0.016

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Raymond James & Associates, Inc.	3,025,749	\$ 117,475	\$ 0.040
RBC Capital Markets	16,091,488	446,451	0.028
RBS Securities, Inc.	24,272	302	0.013
Renaissance Capital	17,977,036	22,748	0.028
Reynders, Gray & Company, Inc.	662,470	26,499	0.040
Ridge Clearing & Outsourcing Solutions	2,969,395	95,677	0.033
Robert W. Baird & Co., Inc.	2,882,336	115,866	0.040
Rochdale Securities, LLC	1,272,080	50,354	0.039
Rosenblatt Securities, LLC	2,137	43	0.020
ROTH Capital Partners, LLC	1,295,716	41,560	0.034
Sanders Morris Harris	131,330	5,253	0.040
Sandler O'Neill & Partners, L.P.	445,689	17,653	0.038
Sanford C. Bernstein Co., LTD	24,436,418	534,798	0.020
Santander Investment Securities, Inc.	455,900	18,236	0.040
Schneider Bernet & Hickman, Inc.	45,100	1,804	0.040
Scotia Capital (USA), Inc.	26,601	760	0.038
Scott & Stringfellow, Inc.	425,889	16,939	0.040
SG Americas Securities, LLC	10,176,485	206,032	0.020
Sidoti & Company, LLC	311,396	13,092	0.044
Simmons & Company International	182,308	7,140	0.040
SJ Levinson & Sons, LLC	8,935,893	249,828	0.025
Soleil Securities	57,365	2,295	0.040
Spear, Leeds & Kellogg	412,296	5,538	0.014
Standard Chartered Bank	6,400	569	0.088
State Street Global Markets, LLC	189,058	5,470	0.030
Stephens, Inc.	1,137,795	45,473	0.040
Sterne Agee & Leach, Inc.	4,187,198	138,758	0.037
Stifel Nicolaus & Co., Inc.	7,713,077	244,243	0.036
Strategas Securities, LLC	72,810	2,912	0.040
Stuart Frankel & Co., Inc.	23,400	936	0.040
Suntrust Capital Markets, Inc.	460,322	17,763	0.039
TD Waterhouse	3,428	127	0.034
The Benchmark Company, LLC	245,062	9,744	0.037
Thinquequity Partners, LLC	123,711	5,731	0.047
Troika Dialog (UK) LTD	1,622,017	11,141	0.014
Tudor, Pickering, Holt & Co.	333,207	9,448	0.026



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Brokerage Firm - Domestic	Shares Traded	Commissions Paid	Average Commission per Share
Tuohy Brothers Investment Research, Inc.	23,700	\$ 948	\$ 0.040
UBS AG	46,144,821	978,429	0.020
UniCredit Bank AG	10,000	589	0.059
VTB Bank Europe PLC	16,845,549	22,943	0.023
Watermill Institutional Trading, LLC	5,300	212	0.040
Wedbush Morgan Securities, Inc.	167,075	6,546	0.039
Wedge Securities, LLC	298,900	11,956	0.040
Weeden & Co.	27,676,100	557,479	0.019
Wells Fargo Securities, LLC	3,461,902	127,140	0.038
William Blair & Company LLC	963,818	41,637	0.044
William O'Neal + Co.	262,295	9,705	0.037
Williams Capital Group, L.P.	644,105	25,555	0.034
Wunderlich Securities, Inc.	518,488	20,739	0.040
Zacks & Company	9,100	364	0.040
Total	2,168,449,909	\$ 34,144,841	\$ 0.023

Futures Contracts Brokerage Firm - Domestic	Contracts Traded	Commissions Paid	Average Commission per Contract
Goldman Sachs & Co.	838,884	\$ 1,841,430	\$ 2.287
Morgan Stanley Co. Incorporated	13,874	34,635	2.132
Total	852,758	\$ 1,876,065	\$ 2.267

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
ABG Securities	3,862,692	\$ 17,727	\$ 0.011
ABN AMRO Bank N.V.	6,770,344	65,389	0.143
Ak Yatirim Menkul Degerler A.S.	100,746	989	0.011
Ambit Capital Pvt. LTD	41,200	813	0.020
Antique Stock Broking LTD	994,028	25,555	0.046
Arbutnot Securities Limited	17,610	456	0.026
Atlantic Equities, LLP	100,000	5,209	0.052
Banchile Corredores de Bolsa S.A.	84,937	2,580	0.065
Banco Itau S.A.	2,730,561	66,841	0.032
Banco Pactual S.A.	229,612	4,538	0.027
Banco Santander	3,534,825	62,745	0.045
Bank am Bellevue AG	32,371	977	0.046
Bank of New York	458,696	4,485	0.026
Bank Vonobel AG	268,461	33,523	0.205
Banque Nationale Du Canada	78,900	2,406	0.030
Barclays Capital, Inc.	42,239,733	786,074	0.097
Barnard Jacobs Mellett & Co. (Pty) LTD	11,979,255	18,120	0.018
Batlivala & Karani Securities India Pvt. LTD	225,286	6,216	0.041
Batucha Securities and Investments LTD	159,912	2,760	0.015
Beltone Securities Brokerage	10,556	164	0.015
Bloomberg Tradebook, LLC	115,899	1,946	0.018
BNP Paribas Securities Corp.	27,189,640	158,255	0.147
Bradesco S.A. CTVM	675,635	19,073	0.038
Brockhouse & Cooper, Inc.	839,678	12,865	0.010
CACEIS Bank Deutschland GmbH	4,769	923	0.194
Cadiz Stock Broking	284,984	1,557	0.006
Calyon Securities, Inc.	1,300,800	6,433	0.009
Canaccord Genuity Corp.	287,851	1,217	0.015
Canadian Imperial Bank of Commerce	279,800	1,751	0.006
Cantor Fitzgerald & Co.	2,147,887	6,238	0.015
Carnegie Investment Bank	2,408,539	54,861	0.066
Celfin Capital S.A. Corredores de Bolsa	183,147	12,475	0.068
Central Securities Clearing System LTD	13,330,837	11,031	0.001
Chase Manhattan Frankfurt	190,500	2,458	0.013
Chevreur de Virieu	592,145	16,744	0.046
China International Cap Corp. HK Secs LTD	29,634,739	69,833	0.006



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
CIMB Securities (HK) LTD.	51,100	\$ 365	\$ 0.007
Citigroup Global Markets, Inc.	160,209,163	1,536,480	0.088
CLSA Securities	45,650,257	207,288	0.624
Collins Stewart & Co.	675,208	15,389	0.023
Commerzbank	15,100	1,705	0.113
Credit Agricole	24,093,446	365,742	0.163
Credit Lyonnais Securities	109,118,711	297,781	0.101
Credit Suisse First Boston	341,418,430	1,722,173	0.060
Crestco LTD	619,795	2,876	0.005
Daewoo Securities Co. LTD	53,370	12,209	0.261
Daiwa Securities Group Inc.	17,534,572	83,769	0.048
Dalal & Broacha Stock Broking Pvt. LTD	16,500	695	0.042
Danske Bank Group	12,353	1,258	0.107
Davy Stockbrokers	175,910	8,837	0.053
DBS Vickers Securities	658,210	4,993	0.008
Deutsche Bank Securities, Inc.	123,890,569	974,118	0.086
Deutsche Boerse AG	222,459	4,036	0.032
Dexia Securities France	138,586	10,389	0.076
Dhanki Securities Pvt. LTD	5,597	781	0.149
DnB NOR	805,851	10,105	0.039
Dolat Capital Markets LTD	135,338	2,991	0.033
Dongwon Securities	109,499	18,115	0.261
Dundee Securities Corp.	26,400	516	0.020
Edelweiss Securities Pvt. LTD	1,039,949	37,824	0.053
EFG Eurobank Securities S.A.	9,150,000	11,323	0.006
EFG Istanbul Menkul De Erler Anonim Sirketi	753,027	7,203	0.019
ENAM Securities Pvt. LTD	383,416	9,237	0.040
Erik Penser Fondkommission AB	21,066	3,529	0.167
Euroclear Bank S.A. N.V.	24,186	885	0.059
Euromobiliare Sim S.P.A.	207,503	3,090	0.015
Evolution Beeson Gregory LTD	288,103	368	0.001
Evolution Securities LTD	64,051	2,469	0.039
Exane S.A.	1,494,714	40,604	0.066
Execution LTD	675,900	866	0.008
Financial Brokerage Group (FBG)	2,926,737	24,411	0.044
G Trade Services LTD	11,922,199	125,695	0.062

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
Geojit BNP Paribas Financial Service LTD	315,997	\$ 9,979	\$ 0.079
Goldman Sachs & Co.	102,977,828	690,202	0.098
Hannuri Investment & Securities Co. LTD	7,785	6,607	0.859
Helvea S.A.	33,565	14,945	0.750
Hoare Govett (India) Securities Pvt. LTD	4,651,876	16,368	0.040
HSBC Securities, Inc.	95,103,140	981,720	0.090
HVB Capital Markets, Inc.	26,554	3,916	0.200
ICAP Securities LTD	14,717	474	0.024
Icatu DTVM LTD	488,388	17,682	0.043
Icici Brokerage Services	5,900	98	0.017
IM Trust S.A. Corredores de Bolsa	94,904	2,028	0.021
India Infoline LTD	250,269	16,532	0.072
Infinity Financial Services	97,854	3,287	0.029
ING Bank N.V.	1,418,119	31,017	0.066
Instinet, LLC	96,588,862	380,566	0.050
Intermonte Sec SIM Spa	233,986	9,776	0.059
Investec Securities	483,273	9,670	0.026
Investment Technology Group, Inc.	84,817,605	322,395	0.047
JBWere Pty LTD	131,066	1,221	0.010
Jefferies & Company, Inc.	9,605,614	198,777	0.037
JM Financial Institutional Securities Private	1,483,383	13,981	0.028
JM Morgan Stanley Secs Pvt. LTD	5,660,837	81,232	0.040
JP Morgan Securities, Inc.	379,900,503	2,808,155	0.097
KAS-Associatie N.V.	384,621	26,282	0.076
KBC Peel Hunt LTD	83,074	735	0.009
Kepler Equities	466,095	4,977	0.062
KGI Securities (Hong Kong) Co. LTD	765,600	3,384	0.005
Kim Eng Holdings Limited	2,746,600	3,990	0.002
Kingsway Financial Services Group LTD	800	10	0.012
Knight Securities	1,507,546	8,173	0.014
Kotak Securities LTD	794,486	19,996	0.026
LarrainVial S.A.	1,322,648	5,699	0.022
Liberum Capital Limited	843,353	11,231	0.008
Link S.A. CCTVM	34,000	798	0.044
Liquidnet, Inc.	25,314,037	57,660	0.074
Loop Capital Markets, LLC	208,605	3,369	0.122



(continued)

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
M. M. Warburg & Co.	32,000	\$ 501	\$ 0.016
Macquarie Bank Limited	102,680,159	435,461	0.083
MainFirst Bank AG	41,886	6,087	0.158
Man Financial Sify Securities India Pvt. LTD	16,476	988	0.060
MBI Corredos de Bolsa	930,660	13,175	0.025
Merrill Lynch and Co., Inc.	263,834,027	1,508,821	0.063
MF Global	636,057	14,170	0.032
Miller Tabak Roberts Securities, LLC	450,900	1,570	0.003
Mischler Financial Group, Inc.	3,962,554	92,382	0.028
Mitsubishi UFJ Securities	23,000	479	0.017
Mizuho Securities USA, Inc.	256,961	11,197	0.099
Morgan Stanley	593,391,441	3,250,568	0.098
Motilal Oswal Securities Limited	767,249	16,111	0.038
Natexis Bleichroeder, Inc.	49,571	2,046	0.041
NCB Stockbrokers LTD	8,040	167	0.022
Nesbitt Burns	6,916,821	206,204	0.029
Nomura Financial	31,976,658	222,638	0.086
Nordea Bank Norge ASA	76,509	2,378	0.020
Numis Securities Limited	4,366,224	46,722	0.014
Oddo Finance	118,629	6,286	0.049
Parel	11,861	1,365	0.115
Penson Financial Services, Inc.	49,300	1,903	0.033
Pereire Tod Limited	1,369,084	17,361	0.026
Pershing Securities Limited	10,578,225	126,489	0.189
Petercam S.A.	135,495	4,549	0.055
Quaker Securities	11,710,734	70,003	0.029
Raymond James & Associates, Inc.	332,204	8,206	0.295
Redburn Partners, LLP	319,753	12,380	0.032
Renaissance Capital	196,564	19,951	0.105
Ridge Clearing & Outsourcing Solutions	444,200	8,913	0.021
Royal Bank Of Canada	3,301,243	85,632	0.027
Royal Bank Of Scotland PLC	2,704,206	56,329	0.032
Salomon Smith Barney, Inc.	7,377,814	39,287	0.012
Samsung Securities Co. LTD	1,482,869	27,756	0.084
Sanford C. Bernstein LTD	4,509,886	62,359	0.269
Scotia Capital	320,898	10,354	0.030

Schedule of Fees and Commissions

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011



(continued)

Brokerage Firm - International	Shares Traded	Commissions Paid	Average Commission per Share
SG Securities	79,088,203	\$ 32,466	\$ 0.004
Six Sis Ag	2,674	380	0.117
SJ Levinson & Sons, LLC	7,017,838	56,051	0.017
Skandinaviska Enskilda Bank	650,109	24,355	0.073
Societe Generale	9,488,732	78,963	0.042
SS Kantilal Ishwarlal Securities	392,170	7,695	0.029
Standard Bank	207,452	9,452	0.092
Standard Chartered Bank	1,339,529	11,114	0.011
State Street Bank & Trust Co.	38,150	597	0.013
Stockbrokers Botswana LTD	420,833	2,944	0.012
Sungard Institutional Brokerage, Inc.	2,185	55	0.031
Svenska Handelsbanken	301,842	22,250	0.088
Swedbank Group	392,000	510	0.001
TD Waterhouse Cda	190,661	5,606	0.028
TONGYANG Securities, Inc.	1,025	4,222	4.119
Toronto Dominion Bank	45,600	912	0.020
UBS AG	133,059,545	1,023,696	0.064
Upline International S.A.	12,800	2,149	0.543
Valores Finamex, S.A. de C.V.	1,819,683	5,547	0.003
Weeden & Co. LTD	15,935,311	194,182	0.033
WOOD & Company	18,769	1,031	0.159
Woori Investment Securities	119,397	19,876	0.799
Xp Inverimentos CCTVM S.A.	63,373	908	0.013
Yuanta Core Pacific Securities	4,685,884	5,877	0.004
Total	3,137,511,263	\$ 20,703,900	\$ 0.083

Futures Contracts Brokerage Firm - International	Contracts Traded	Commissions Paid	Average Commission per Contract
Goldman Sachs & Co.	480,051	\$ 1,524,368	\$ 3.845
Morgan Stanley Co. Incorporated	20,600	54,993	3.545
Total	500,651	\$ 1,579,361	\$ 3.828

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ACTUARIAL SECTION



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November 1, 2011

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, 2011

We certify that the information included herein and contained in the 2011 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2011.

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 members of the American Academy of Actuaries, and are also Enrolled Actuaries. All are experienced in performing valuations for large public retirement systems.

Actuarial Valuations

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

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

Financing Objective of the Plan

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

Progress Toward Realization of Financing Objective

The actuarial accrued liability, the unfunded actuarial accrued liability (UAAL), and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Based on this actuarial valuation as of August 31, 2011, the System's under-funded status has increased to \$24.1 billion from \$22.9 billion as of August 31, 2010. This increase in the UAAL is due to a loss on the actuarial value of assets of the System.

This valuation shows a normal cost equal to 10.60% of pay. The State set its contribution rate to 6.00% of pay as of September 1, 2011, which combined with the member contribution rate of 6.40% of pay provides a total contribution rate of 12.40% of pay. Therefore, there is 1.80% of pay available to amortize the UAAL. If payroll grows as expected, the contributions provided by this portion of the contribution rate are insufficient to amortize the current unfunded actuarial accrued liabilities of the System over any period of time (i.e. the funding period is never). Although the state contribution is scheduled to increase to 6.40% in fiscal year 2013, if the current assumptions are met (the trust earns an average 8.0% per annum) and the current 6.40% member contribution rate and the State fiscal year 2013 contribution rate of 6.40% continue, the fund is projected to remain solvent until the year 2075, after which the funding would return to a pay-as-you-go status. Therefore, for the current benefit structure to be sustainable, the contribution levels will need to be increased if all of the current assumptions are met.

The actuarial valuation report as of August 31, 2011 reveals that while the System has an unfunded liability of \$24.1 billion, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 82.7%. However, because of the significant shortfall in investment income in FY2009, the System is still deferring net investment losses of \$7.8 billion compared to the last valuation when the System was deferring \$15.6 billion in deferred losses and the funded status using the market value of assets is only 77.1%. If there are no significant investment gains or other actuarial gains over the next several years, the funded status of the System would be expected to decline towards this number.

The System earned a 15.5% return on a dollar-weighted market value of assets basis for the plan year ending August 31, 2011, net of expenses. The System experienced a loss on the actuarial value of assets of \$2.0 billion and a gain on the actuarial liabilities of

\$1.4 billion and a gain due to assumption change of \$0.3 billion for a total experience related loss of \$0.3 billion.

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

Plan Provisions

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

Disclosure of Pension Information

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

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

Actuarial Methods and Assumptions

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

The following assumptions and methods have been modified since the prior valuation:

- Small reductions in the rates of retirement at most age and service combinations
- Decrease in the post-retirement rates of mortality for both males and females
- The salary increase assumption in the first year of employment was reduced
- The method for determining the actuarial value of assets was modified to a method that sets the actuarial value of assets as the expected actuarial value of assets plus 20% of the difference between the actual market value of assets and the expected actuarial value of assets

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

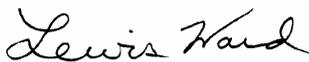
In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are internally consistent and reasonably related to the experience of the System and to reasonable expectations. The actuarial assumptions and methods used in this report comply with the parameters for disclosure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

Data

In preparing the August 31, 2011 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

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

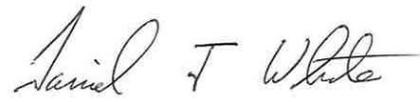
Respectfully submitted,
Gabriel, Roeder, Smith & Company



Lewis Ward
Consultant



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



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Gabriel Roeder Smith & Company



Actuarial Information Pension Trust Fund

Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2011 (With Comparative Data for August 31, 2010)

	2011	2010
Present Value of Benefits Presently Being Paid		
Service Retirement Benefits	\$ 61,583,573,864	\$ 56,633,460,577
Disability Retirement Benefits	909,607,883	891,512,713
Death Benefits	769,355,667	754,052,179
Present Survivor Benefits	207,631,666	197,246,581
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 63,470,169,080	\$ 58,476,272,050
Present Value of Benefits Payable in the Future to Present Active Member		
Service Retirement Benefits	\$ 95,886,611,576	\$ 95,802,642,330
Disability Retirement Benefits	1,343,397,174	1,265,949,485
Termination Benefits	6,952,317,408	6,067,357,073
Death and Survivor Benefits	1,744,820,375	1,513,834,539
TOTAL ACTIVE MEMBER LIABILITIES	\$ 105,927,146,533	\$ 104,649,783,427
Present Value of Benefits Payable in the Future to Present Inactive Members		
Inactive Vested Participants:		
Retirement Benefits	\$ 2,221,502,905	1,798,775,860
Death Benefits	128,252,686	122,792,410
TOTAL INACTIVE VESTED BENEFITS	\$ 2,349,755,591	\$ 1,921,568,270
Refunds of Contributions to Inactive Non-vested Members	\$ 311,886,726	\$ 294,211,296
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 1,145,189,668	\$ 1,103,421,506
TOTAL INACTIVE LIABILITIES	\$ 3,806,831,985	\$ 3,319,201,072
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 173,204,147,598	\$ 166,445,256,549

Summary of Cost Items

	2011	2010
Actuarial Present Value of Future Benefits	\$ 173,204,147,598	\$ 166,445,256,549
Present Value of Future Normal Costs	(33,889,057,041)	(32,254,146,314)
Actuarial Accrued Liability	\$ 139,315,090,557	\$ 134,191,110,235
Actuarial Value of Assets	(115,252,828,399)	(111,292,527,887)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 24,062,262,158	\$ 22,898,582,348

Actuarial Information Pension Trust Fund



Actuarial Methods and Assumptions

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

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

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

Actuarial Assumptions

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

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

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



Actuarial Information Pension Trust Fund

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

Probability of Decrement Due to Withdrawal										
Male Members										
Years of Service										
Age	0	1	2	3	4	5	6	7	8	9
20	0.2606	0.2266	0.1716	0.1335	0.1050	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.2173	0.1890	0.1560	0.1233	0.0952	0.0789	0.0652	0.0648	0.0628	0.0536
40	0.2172	0.1888	0.1430	0.1253	0.0873	0.0833	0.0690	0.0608	0.0542	0.0464
50	0.1937	0.1684	0.1245	0.0993	0.0754	0.0684	0.0644	0.0544	0.0512	0.0466
60	0.2021	0.1757	0.1324	0.1160	0.0751	0.0664	0.0518	0.0495	0.0426	0.0341
70	0.2371	0.2062	0.1724	0.1174	0.1017	0.0000	0.0000	0.0000	0.0000	0.0000
Female Members										
Years of Service										
Age	0	1	2	3	4	5	6	7	8	9
20	0.1938	0.1685	0.1438	0.1263	0.1075	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.1948	0.1694	0.1435	0.1218	0.1007	0.0935	0.0825	0.0724	0.0564	0.0570
40	0.1807	0.1571	0.1235	0.1052	0.0826	0.0743	0.0641	0.0578	0.0560	0.0459
50	0.1755	0.1526	0.1199	0.0971	0.0792	0.0708	0.0638	0.0549	0.0472	0.0402
60	0.1959	0.1703	0.1356	0.1082	0.0846	0.0660	0.0671	0.0509	0.0463	0.0438
70	0.2483	0.2159	0.1929	0.1994	0.1254	0.0000	0.0000	0.0000	0.0000	0.0000

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

Probability of Decrement Due to Retirement							
Male Members							
Years of Service							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.010
55	0.010	0.010	0.010	0.010	0.010	0.010	0.010
60	0.020	0.020	0.020	0.020	0.240	0.240	0.240
65	0.250	0.250	0.250	0.250	0.250	0.250	0.250
70	0.200	0.200	0.200	0.200	0.200	0.200	0.200
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Female Members							
Years of Service							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.010
55	0.010	0.010	0.010	0.010	0.010	0.010	0.010
60	0.030	0.030	0.030	0.030	0.250	0.250	0.250
65	0.250	0.250	0.250	0.250	0.250	0.250	0.250
70	0.250	0.250	0.250	0.250	0.250	0.250	0.250
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000

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

Actuarial Information Pension Trust Fund



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

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

This weighted average salary increase rate is 6.49% based on the active member service distribution as of August 31, 2011.

Disability Annuitants

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

Service Retirement Annuitants, Nominees and Survivors

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

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



Actuarial Information Pension Trust Fund

Actuarial Value of Assets

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income with the resulting value not being less than 80% or more than 120% of the market value of assets.

Funding of Unfunded Actuarial Accrued Liability

Funded by the excess of future state contributions required by Law over the amount of such contributions required to fund the normal cost of benefits. Based on a study of all new entrants hired in the period from 2007 through 2010 and taking into account all changes in benefit provisions, the normal cost for benefits provided by the System is 10.60% of payroll (6.40% by members plus 4.20% by the State), which is 1.80% of payroll less than the total contributions required by Law. It is intended that the excess amount of 1.80% of payroll will be used to amortize any unfunded actuarial accrued liabilities of the System, assuming that total payroll increases by 3.50% per year.

As of the valuation as of August 31, 2011, these excess contributions of 1.80% of pay are insufficient to amortize the UAAL under the required time period.

Assumed State Contribution Rate

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

Schedule of Active Member Valuation Data

See table below:

Valuation as of August 31	Number	Annual Payroll in Thousands	Average Annual Pay	Annual Percentage Increase in Average Pay
2006	761,658	\$28,397,283	\$37,284	2.8%
2007	777,789	31,114,096	40,003	7.3
2008	801,455	33,237,904	41,472	3.7
2009	817,537	35,096,890	42,930	3.5
2010	834,060	36,628,844	43,916	2.3
2011	828,919	36,797,011	44,392	1.1

Actuarial Information Pension Trust Fund



Other Actuarial Information

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

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

(1) Valuation as of August 31	Added to Rolls		Removed from Rolls		Rolls - End of Year		(8) % Increase in Annual Allowances	(9) Average Annual Allowance
	(2) Number	(3) Annual Allowances	(4) Number	(5) Annual Allowances	(6) Number	(7) Annual Allowances		
2006	15,810	\$324,292,542	7,175	\$120,623,840	257,144	\$5,282,107,571	4.0%	\$20,541
2007	15,861	336,348,640	7,698	131,295,705	265,307	5,487,160,506	3.9	20,682
2008	17,727	391,920,863	7,806	135,160,090	275,228	5,743,921,279	4.7	20,870
2009	17,326	392,452,923	7,940	136,537,511	284,614	5,999,836,691	4.5	21,081
2010	20,076	473,512,423	8,199	142,187,645	296,491	6,331,161,469	5.5	21,354
2011	24,688	620,038,676	8,499	147,985,004	312,680	6,803,215,141	7.5	21,758

Solvency Test

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

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

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

Solvency Test							
(AMOUNTS SHOWN IN MILLIONS)							
Aggregate Actuarial Accrued Liabilities For					Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets		
(1) Valuation as of August 31	(2) Active Member Contributions*	(3) Retirees and Beneficiaries*	(4) Active Members (State Financed Portion)	(5) Valuation Assets	(6) Active Member Contributions*	(7) Retirees and Beneficiaries*	(8) Active Members (State Financed Portion)
2006	\$ 20,590	\$ 49,144	\$ 38,177	\$ 94,128	100%	100%	64.1%
2007	22,236	51,293	42,435	103,419	100	100	70.4
2008	23,928	53,243	44,585	110,233	100	100	74.2
2009	23,914	55,484	48,632	106,384	100	100	55.5
2010	27,559	58,476	48,156	111,293	100	100	52.5
2011	28,911	63,470	46,934	115,253	100	100	48.7

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



Actuarial Information Pension Trust Fund

Analysis of Financial Experience

Changes in Unfunded Actuarial Accrued Liabilities (UAAL)* Resulting from Differences Between Assumed Experience and Actual Experience

	Increase/(Decrease) for Year (in Billions)					
	2011	2010	2009	2008	2007	2006
Investment (Gains)/Losses	\$ 1.958	\$ 1.161	\$ 10.321	\$ (1.232)	\$ (4.140)	\$ (.264)
Legislative Changes/ Benefit Increases					.360	
Contribution Experience	0.826	0.797	0.149	0.228	.496	.508
Assumption Changes	(0.271)			.676		
Liability Experience	(1.350)	(0.705)	(0.347)	(.694)	2.135	.254
Net Increase/(Decrease)	\$ 1.163	\$ 1.253	\$ 10.123	\$ (1.022)	\$ (1.149)	\$.498
Beginning UAAL	22.899	21.646	11.523	12.545	13.694	13.196
Ending UAAL	\$ 24.062	\$ 22.899	\$ 21.646	\$ 11.523	\$ 12.545	\$ 13.694

* Calculated on a 5-year smoothed market basis.

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November 1, 2011

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, 2011 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, 2011. This report was prepared at the request of TRS.

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

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

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

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

Respectfully submitted,

William J. Hickman
Senior Consultant

Joseph P. Newton, FSA, MAAA
Senior Consultant

Mehdi Riaz, ASA, EA, MAAA
Actuary

Actuarial Information TRS-Care



Actuarial Present Value of Future Benefits

From Actuarial Valuation as of August 31, 2011 (With Comparative Data for August 31, 2010)
Based on a 5.25% discount rate

	2011	2010
Present Value of Benefits Being Paid		
Future Medical Claims	\$ 8,970,466,574	\$ 7,098,035,116
Future Rx Claims	9,560,281,792	8,484,675,649
Retiree Premiums Collected	(4,820,521,600)	(4,664,226,865)
NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES	\$ 13,710,226,766	\$ 10,918,483,900
Present Value of Benefits Payable in the Future to Present Active Members		
Future Medical Claims	\$ 22,513,074,606	\$ 21,258,228,041
Future Rx Claims	19,700,869,923	20,923,712,165
Retiree Premiums Collected	(10,795,062,742)	(12,748,598,151)
NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES	\$ 31,418,881,787	\$ 29,433,342,055
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 45,129,108,553	\$ 40,351,825,955

Summary of Cost Items

	2011	2010
Actuarial Present Value of Future Benefits	\$ 45,129,108,553	\$ 40,351,825,955
Present Value of Future Normal Costs	(15,343,939,596)	(14,544,057,386)
Actuarial Accrued Liability	\$ 29,785,168,957	\$ 25,807,768,569
Actuarial Value of Assets	(890,870,306)	(814,964,303)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 28,894,298,651	\$ 24,992,804,266



Actuarial Information TRS-Care

Actuarial Methods and Assumptions

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

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

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

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

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

* Expected employer provided claims and expenses (net of retiree premiums).

Annual Allowances in Column (7) include increases due to health care inflation for continuing retirees. Therefore, the annual allowance is not equal to the beginning of year allowance plus the "Added to Rolls" allowance minus the "Removed from Rolls" allowance.

Solvency Test

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

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

Actuarial Information TRS-Care



Solvency Test

(AMOUNTS SHOWN IN MILLIONS)

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

*Active member contributions are non-refundable.

Analysis of Financial Experience

(AMOUNTS SHOWN IN MILLIONS)

Valuation as of August 31	Asset Gain/(Loss)	Liability Gain/(Loss)	New Assumptions Gain/(Loss)	Benefit Changes Gain/(Loss)	Contributions Gain/(Loss)	Net Gain/(Losses)
2011	\$ (36)	\$ (44)	\$ (2,003)	\$ 0	\$ (1,243)	\$ (3,326)

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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 Pension Trust Fund, TRS-Care (Retired Plan), TRS-ActiveCare (Active Plan), and the Non-major 403(b) Certification Program.

FINANCIAL TRENDS INFORMATION

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

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

OPERATING INFORMATION

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

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

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



Financial Trends Information

Changes in Fiduciary Net Assets

PENSION TRUST FUND

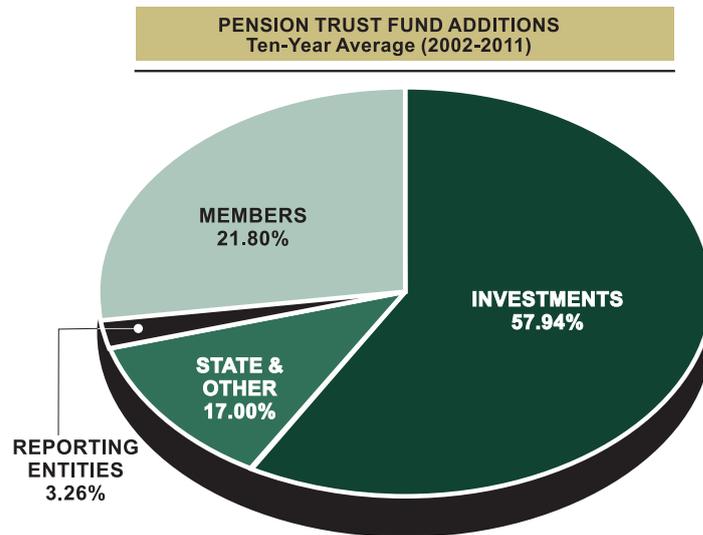
FOR THE FISCAL YEARS ENDED AUGUST 31

	2011	2010	2009	2008
Additions:				
Member Contributions	\$ 2,349,131,829	\$ 2,289,537,187	\$ 2,181,600,283	\$ 2,085,345,861
State Contributions	1,922,287,082	1,885,876,036	1,758,579,809	1,704,088,048
Reporting Entities Contributions	419,968,516	412,268,503	412,728,096	353,524,480
Service Contributions Transferred in from ERS	12,628,712	11,167,772	9,558,927	8,897,722
Investment Income:				
Interest, Dividends and Securities Lending	2,203,623,538	1,978,962,334	2,126,151,392	3,414,753,511
Net Appreciation (Depreciation) in Fair Value	12,616,681,465	7,542,738,000	(16,030,794,035)	(7,992,472,030)
Less: Investing Activity Expenses	(183,369,775)	(111,918,654)	(68,990,517)	(29,330,150)
Other	1,576,613	2,453,980	1,768,337	2,080,418
TOTAL ADDITIONS	\$ 19,342,527,980	\$ 14,011,085,158	\$ (9,609,397,708)	\$ (453,112,140)
Deductions:				
Benefits	\$ 7,173,504,788	\$ 6,617,397,374	\$ 6,294,434,115	\$ 6,406,644,540
Excess Benefits	1,750,588	1,504,510	1,553,381	1,646,494
Refunds of Contributions	334,268,822	265,186,589	266,695,076	278,002,614
Service Contributions Transferred to ERS	64,772,079	61,570,750	57,135,135	52,773,854
Administrative Expenses, Excluding Investing Activity Expenses	35,849,819	29,992,608	28,310,448	26,122,662
TOTAL DEDUCTIONS	\$ 7,610,146,096	\$ 6,975,651,831	\$ 6,648,128,155	\$ 6,765,190,164
Net Increase (Decrease)	\$ 11,732,381,884	\$ 7,035,433,327	\$(16,257,525,863)	\$ (7,218,302,304)
Net Assets - Beginning of Year	\$ 95,688,405,009	\$ 88,652,971,682	\$104,910,497,545	\$112,128,799,849
Restatements				
Beginning of Year, As Restated	\$ 95,688,405,009	\$ 88,652,971,682	\$104,910,497,545	\$112,128,799,849
Net Assets - End of Year	\$107,420,786,893	\$ 95,688,405,009	\$ 88,652,971,682	\$104,910,497,545

Financial Trends Information



2007	2006	2005	2004	2003	2002
\$ 1,949,093,276	\$ 1,853,971,836	\$ 1,728,333,818	\$ 1,721,504,445	\$ 1,672,212,387	\$ 1,560,700,102
1,472,584,963	1,333,143,442	1,258,597,882	1,242,305,696	1,239,532,126	1,201,948,321
282,077,713	267,399,619	221,158,942	192,395,672	182,536,228	157,781,530
7,913,660	6,908,439	6,188,845	5,600,176	4,037,793	3,091,464
3,084,172,953	2,640,734,877	2,360,711,299	2,134,920,032	2,144,222,155	2,413,196,778
11,232,429,170	6,326,056,726	9,607,205,397	7,024,439,015	5,673,389,054	(8,477,880,514)
(20,942,402)	(19,099,395)	(17,394,917)	(16,252,645)	(14,604,331)	(12,921,671)
2,892,262	3,178,512	2,324,123	2,754,738	3,272,714	3,270,611
\$ 18,010,221,595	\$ 12,412,294,056	\$ 15,167,125,389	\$ 12,307,667,129	\$ 10,904,598,126	\$ (3,150,813,379)
\$ 5,762,885,044	\$ 5,540,134,272	\$ 5,349,900,638	\$ 5,452,404,274	\$ 4,727,518,136	\$ 4,342,750,926
1,453,605	1,041,961	926,187	516,529	461,925	690,735
280,005,584	267,810,017	245,148,971	221,857,340	187,379,932	187,925,863
48,538,424	45,716,307	41,200,491	38,068,440	28,609,871	24,183,510
27,502,276	26,444,405	25,114,716	24,841,300	23,428,162	24,597,361
\$ 6,120,384,933	\$ 5,881,146,962	\$ 5,662,291,003	\$ 5,737,687,883	\$ 4,967,398,026	\$ 4,580,148,395
\$ 11,889,836,662	\$ 6,531,147,094	\$ 9,504,834,386	\$ 6,569,979,246	\$ 5,937,200,100	\$ (7,730,961,774)
\$100,238,963,187	\$93,707,816,093	\$84,202,981,707	\$ 77,633,002,461	\$ 71,695,802,361	\$ 79,427,814,814
					(1,050,679)
\$100,238,963,187	\$93,707,816,093	\$84,202,981,707	\$ 77,633,002,461	\$ 71,695,802,361	\$ 79,426,764,135
\$112,128,799,849	\$100,238,963,187	\$93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461	\$ 71,695,802,361





Financial Trends Information

Changes in Fiduciary Net Assets

TRS-CARE (RETIRED PLAN)

FOR THE FISCAL YEARS ENDED AUGUST 31

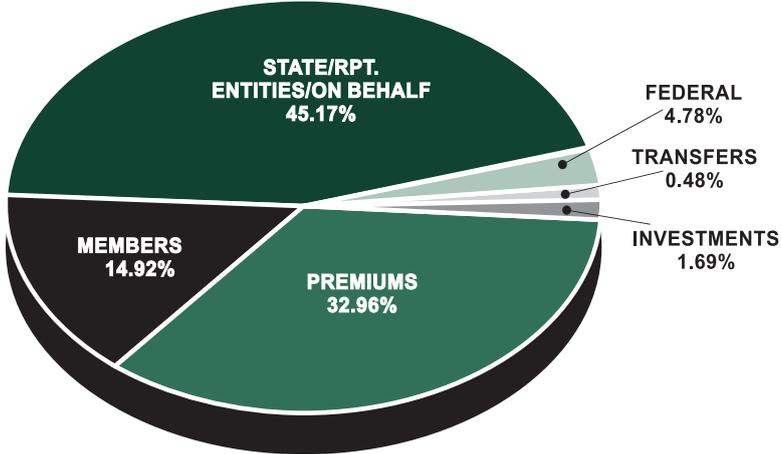
	2011	2010	2009	2008
Additions:				
Health Care Premiums	\$ 345,164,271	\$ 332,481,933	\$ 329,723,191	\$ 328,505,433
State Contributions	282,782,431	279,250,547	267,471,299	254,722,174
Member Contributions	183,808,580	181,512,856	173,856,344	165,569,413
Reporting Entities Contributions	158,724,010	155,918,241	149,562,613	141,672,630
On Behalf Fringe Benefits Paid by the State	108,440	101,511	95,929	91,945
Federal Revenue	136,887,805	70,795,686	61,530,735	59,486,239
Investment Income	8,168,640	11,679,229	17,482,143	29,252,347
Legislative Appropriations Transfer from TRS-ActiveCare				
TOTAL ADDITIONS	\$ 1,115,644,177	\$ 1,031,740,003	\$ 999,722,254	\$ 979,300,181
Deductions:				
Health Care Claims	\$ 992,478,380	\$ 971,356,805	\$ 885,132,865	\$ 833,509,538
Health Care Claims Processing	44,115,872	42,535,601	40,364,063	36,747,710
Administrative Expenses, Excluding Investing Activity Expenses	3,143,922	3,031,686	2,916,259	3,000,536
Legislative Appropriations Transfer to TRS-ActiveCare				
TOTAL DEDUCTIONS	\$ 1,039,738,174	\$ 1,016,924,092	\$ 928,413,187	\$ 873,257,784
Net Increase (Decrease)	\$ 75,906,003	\$ 14,815,911	\$ 71,309,067	\$ 106,042,397
Net Assets - Beginning of Year	\$ 814,964,303	\$ 800,148,392	\$ 728,839,325	\$ 622,796,928
Restatements				
Beginning of Year, As Restated	\$ 814,964,303	\$ 800,148,392	\$ 728,839,325	\$ 622,796,928
Net Assets - End of Year	\$ 890,870,306	\$ 814,964,303	\$ 800,148,392	\$ 728,839,325

Financial Trends Information



	2007	2006	2005	2004	2003	2002
\$	323,957,945	\$ 326,844,982	\$ 322,780,191	\$ 248,552,679	\$ 162,917,666	\$ 143,797,748
	238,190,720	215,666,940	266,569,733	454,791,657	265,001,861	380,271,220
	154,823,968	140,183,511	101,198,783	99,297,097	49,170,399	47,378,092
	136,008,512	118,607,527	80,914,228	79,457,387		
	55,932	53,283	41,994	37,173	36,344	35,842
	52,329,617	34,611,607				
	32,671,539	21,435,792	11,258,874	4,803,809	3,394,956	7,140,560
				42,000,000		
\$	938,038,233	\$ 857,403,642	\$ 782,763,803	\$ 928,939,802	\$ 480,521,226	\$ 578,623,462
\$	742,293,147	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957	\$ 571,744,362	\$ 451,709,670
	33,407,937	31,975,150	31,262,147	23,914,851	19,388,818	16,828,256
	2,526,189	2,513,102	2,070,863	2,417,349	2,301,516	2,163,441
					42,000,000	
\$	778,227,273	\$ 721,574,543	\$ 693,892,093	\$ 607,687,157	\$ 635,434,696	\$ 470,701,367
\$	159,810,960	\$ 135,829,099	\$ 88,871,710	\$ 321,252,645	\$ (154,913,470)	\$ 107,922,095
\$	462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)	\$ 71,945,984	\$ (35,950,516)
						(25,595)
\$	462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)	\$ 71,945,984	\$ (35,976,111)
\$	622,796,928	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)	\$ 71,945,984

TRS-CARE (RETIRED PLAN) ADDITIONS
Ten-Year Average (2002-2011)





Financial Trends Information

Revenues, Expenses, and Changes in Net Assets

TRS-ACTIVECARE (ACTIVE PLAN) *

FOR THE FISCAL YEARS ENDED AUGUST 31

	2011	2010	2009	2008
Revenues				
Health Care Premiums	\$ 1,549,530,891	\$ 1,329,171,411	\$ 1,172,011,048	\$ 1,096,537,022
Administrative Fees	135,917	125,321	187,813	186,844
Investment Income	3,387,062	6,421,269	11,597,992	21,164,640
Federal Revenue ARRA - Cobra Reimbursements**	667,746	1,225,158	170,219	
On Behalf Fringe Benefits Paid by the State	67,373	64,328	64,975	61,894
Legislative Appropriations Transfer From TRS-Care (Retired Plan)				
State Contributions				
TOTAL REVENUES	\$ 1,553,788,989	\$ 1,337,007,487	\$ 1,184,032,047	\$ 1,117,950,400
Expenses				
Health Care Claims	\$ 1,510,090,981	\$ 1,313,114,197	\$ 1,122,646,958	\$ 952,156,339
Health Care Claims Processing	76,960,951	67,906,654	60,934,432	54,583,499
Premium Payments to HMOs	76,270,706	64,532,253	64,820,440	68,204,743
Administrative Expenses	2,207,051	1,883,148	1,861,949	1,830,258
Legislative Appropriations Transfer to TRS-Care (Retired Plan)				
TOTAL EXPENSES	\$ 1,665,529,689	\$ 1,447,436,252	\$ 1,250,263,779	\$ 1,076,774,839
Change in Net Assets	\$ (111,740,700)	\$ (110,428,765)	\$ (66,231,732)	\$ 41,175,561
Net Assets - Beginning of Year	\$ 299,810,127	\$ 410,238,892	\$ 476,470,624	\$ 435,295,063
Restatements				
Beginning of Year, As Restated	\$ 299,810,127	\$ 410,238,892	\$ 476,470,624	\$ 435,295,063
Net Assets - End of Year	\$ 188,069,427	\$ 299,810,127	\$ 410,238,892	\$ 476,470,624

* The TRS-ActiveCare Plan, enacted by H.B. 3343, 77th Legislature, began operations in fiscal year 2003 and is accounted for as a proprietary fund. Prior to fiscal year 2003, TRS accounted for TRS-ActiveCare (Active Plan) as a fiduciary fund. The net assets of the Active Plan were transferred to TRS-ActiveCare on September 1, 2002.

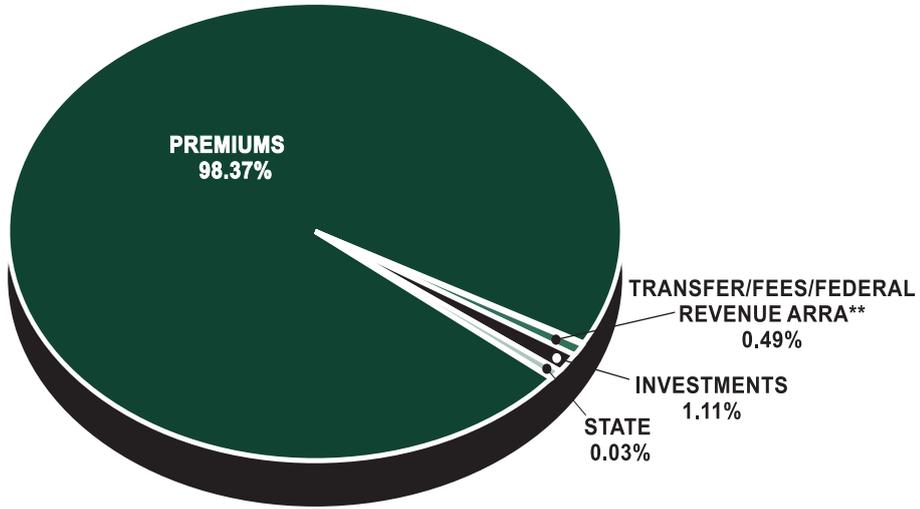
** The American Recovery and Reinvestment Act (ARRA) of 2009 which was signed into law on February 17, 2009 was created to preserve jobs and promote economic recovery.

Financial Trends Information



2007	2006	2005	2004	2003	2002
\$ 939,694,028	\$ 861,464,205	\$ 823,726,341	\$ 758,062,552	\$ 584,572,852	\$
184,937	183,470	183,317	192,763	136,288	108,198
26,016,380	18,650,516	8,915,711	3,641,100	2,459,154	590,967
46,446	40,979	35,626	24,050	31,266	23,843
				42,000,000	2,674,579
\$ 965,941,791	\$ 880,339,170	\$ 832,860,995	\$ 761,920,465	\$ 629,199,560	\$ 3,397,587
\$ 801,148,962	\$ 708,972,484	\$ 663,361,138	\$ 520,998,423	\$ 473,450,544	\$ (34,455)
48,177,777	53,013,214	53,697,572	53,564,510	42,411,388	
58,742,363	49,466,150	42,574,641	40,210,539		
1,775,831	1,680,952	1,607,113	918,619	1,771,441	2,750,107
			42,000,000		
\$ 909,844,933	\$ 813,132,800	\$ 761,240,464	\$ 657,692,091	\$ 517,633,373	\$ 2,715,652
\$ 56,096,858	\$ 67,206,370	\$ 71,620,531	\$ 104,228,374	\$ 111,566,187	\$ 681,935
\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779	\$ 24,855,592	\$ 24,179,853
			(278,849)		(6,196)
\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,142,930	\$ 24,855,592	\$ 24,173,657
\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779	\$ 24,855,592

TRS-ACTIVECARE REVENUES
Ten-Year Average (2002-2011)





Financial Trends Information

Revenues, Expenses, and Changes in Net Assets

403(b) CERTIFICATION PROGRAM
FOR THE FISCAL YEARS ENDED AUGUST 31

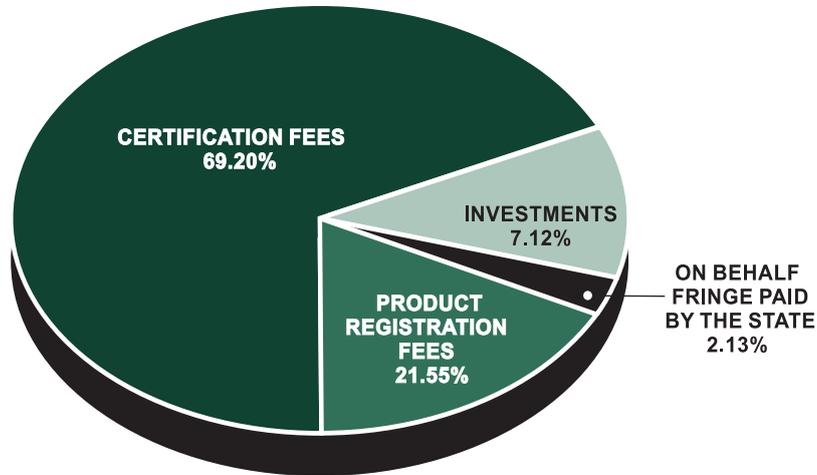
	2011	2010	2009	2008
Revenues:				
Certification Fees	\$ 12,000	\$ 30,000	\$ 6,000	\$ 30,000
Product Registration Fees	3,000	21,000	9,000	180,000
Investment Income	1,801	4,318	8,558	19,337
On Behalf Fringe Benefits Paid by the State	7,898	8,034		
TOTAL REVENUES	\$ 24,699	\$ 63,352	\$ 23,558	\$ 229,337
Expenses:				
Administrative Expenses	\$ 148,444	\$ 172,835	\$ 88,000	\$ 192,000
TOTAL EXPENSES	\$ 148,444	\$ 172,835	\$ 88,000	\$ 192,000
Change in Net Assets	\$ (123,745)	\$ (109,483)	\$ (64,442)	\$ 37,337
Net Assets - Beginning of Year	\$ 245,777	\$ 355,260	\$ 419,702	\$ 382,365
Net Assets - End of Year	\$ 122,032	\$ 245,777	\$ 355,260	\$ 419,702

Financial Trends Information



2007	2006	2005	2004	2003	2002
\$ 171,000	\$ 30,000	\$ 10,000	\$ 15,000	\$ 55,000	\$ 325,000
12,070	9,532	5,529	3,495	4,617	1,164
				1,197	3,953
\$ 183,070	\$ 39,532	\$ 15,529	\$ 18,495	\$ 60,814	\$ 330,117
\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 45,074	\$ 124,118
\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000	\$ 45,074	\$ 124,118
\$ 159,070	\$ 15,532	\$ (8,471)	\$ (5,505)	\$ 15,740	\$ 205,999
\$ 223,295	\$ 207,763	\$ 216,234	\$ 221,739	\$ 205,999	\$
\$ 382,365	\$ 223,295	\$ 207,763	\$ 216,234	\$ 221,739	\$ 205,999

403(b) CERTIFICATION PROGRAM REVENUES
Ten-Year Average (2002-2011)





Financial Trends Information

Benefits and Refund Deductions from Net Assets by Type

PENSION TRUST FUND
LAST TEN FISCAL YEARS

	2011	2010	2009	2008
Type of Benefit				
Service Retirements **	\$ 6,241,946,655	\$ 5,841,963,927	\$ 5,565,925,090	\$ 5,649,308,335*
Deferred Retirement Option	27,822,115	22,607,290	23,272,668	26,757,772
Partial Lump Sum Option	524,925,790	385,555,126	348,261,100	363,668,944
Disability Retirements	144,865,109	141,396,837	138,569,650	146,907,654
Death and Survivor Benefits:				
Annual Salary	47,295,194	45,698,147	43,235,232	42,216,290
Survivor Annuities	86,898,720	82,574,358	79,951,723	78,862,569
Life Annuities	84,893,007	83,238,898	81,764,240	85,576,098
60 Monthly Payments	11,564,275	10,824,948	10,180,012	10,169,530
Remainder of Contributions	3,293,923	3,537,843	3,274,400	3,177,348
Excess Benefits	1,750,588	1,504,510	1,553,381	1,646,494
TOTAL BENEFITS	\$ 7,175,255,376	\$ 6,618,901,884	\$ 6,295,987,496	\$ 6,408,291,034
Type of Refund				
Death	\$ 3,984,340	\$ 3,710,941	\$ 3,084,718	\$ 2,520,283
Separation	330,284,482	261,475,648	263,610,358	275,482,331
TOTAL REFUNDS	\$ 334,268,822	\$ 265,186,589	\$ 266,695,076	\$ 278,002,614

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

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

Health Care Claims Deductions from Net Assets by Type

TRS-CARE (RETIRED PLAN)
LAST TEN FISCAL YEARS

	2011	2010	2009	2008
Type of Claim				
Medical	\$ 608,461,321	\$ 575,539,788	\$ 531,239,020	\$ 498,767,038
Prescription Drugs	384,017,059	395,817,017	353,893,845	334,742,500
TOTAL	\$ 992,478,380	\$ 971,356,805	\$ 885,132,865	\$ 833,509,538

Health Care Claims Expenses from Net Assets by Type

TRS-ACTIVECARE (ACTIVE PLAN)
LAST NINE FISCAL YEARS (SINCE PLAN INCEPTION)

	2011	2010	2009	2008
Type of Claim				
Medical	\$ 1,242,673,156	\$ 1,092,107,916	\$ 934,733,927	\$ 788,240,087
Prescription Drugs	267,417,825	221,006,281	187,913,031	163,916,252
TOTAL	\$ 1,510,090,981	\$ 1,313,114,197	\$ 1,122,646,958	\$ 952,156,339

Financial Trends Information



2007	2006	2005	2004	2003	2002
\$ 5,064,191,508	\$ 4,857,348,525	\$ 4,674,681,613	\$ 4,289,249,761	\$ 3,892,777,093	\$ 3,591,219,348
31,939,855	36,033,028	55,152,336	139,047,656	89,305,527	48,697,685
325,688,244	313,359,714	288,088,743	696,201,755	427,944,774	386,442,648
134,866,736	132,155,505	129,331,288	125,992,690	122,409,366	119,913,327
38,928,295	37,880,818	40,838,680	41,669,051	41,284,946	43,685,098
76,116,829	74,115,776	74,325,670	74,320,247	70,611,609	71,664,740
78,322,931	77,537,970	76,113,908	75,839,736	74,581,837	72,919,628
9,386,943	8,581,053	7,583,719	7,089,131	6,385,087	5,649,671
3,443,703	3,121,883	3,784,681	2,994,247	2,217,897	2,558,781
1,453,605	1,041,961	926,187	516,529	461,925	690,735
\$ 5,764,338,649	\$ 5,541,176,233	\$ 5,350,826,825	\$ 5,452,920,803	\$ 4,727,980,061	\$ 4,343,441,661
\$ 2,073,365	\$ 2,322,538	\$ 1,766,957	\$ 1,460,631	\$ 1,297,262	\$ 1,504,798
277,932,219	265,487,479	243,382,014	220,396,709	186,082,670	186,421,065
\$ 280,005,584	\$ 267,810,017	\$ 245,148,971	\$ 221,857,340	\$ 187,379,932	\$ 187,925,863

2007	2006	2005	2004	2003	2002
\$ 437,519,746	\$ 427,553,404	\$ 431,036,095	\$ 366,840,457	\$ 368,462,963	\$ 287,729,917
304,773,401	259,532,887	229,522,988	214,514,500	203,281,399	163,979,753
\$ 742,293,147	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957	\$ 571,744,362	\$ 451,709,670

2007	2006	2005	2004	2003
\$ 659,478,760	\$ 587,513,767	\$ 546,106,804	\$ 425,394,453	\$ 392,085,280
141,670,202	121,458,717	117,254,334	95,603,970	81,365,264
\$ 801,148,962	\$ 708,972,484	\$ 663,361,138	\$ 520,998,423	\$ 473,450,544



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+
9-1-01 to 8-31-02						
Average Monthly Benefit *	\$ 235.62	\$ 465.19	\$ 948.58	\$ 1,446.47	\$ 2,210.88	\$ 3,032.32
Average Final Average Salary	\$ 20,405	\$ 24,637	\$ 31,300	\$ 36,564	\$ 46,505	\$ 53,956
Number of Retirees	1,207	1,252	1,648	3,077	4,982	4,722
9-1-02 to 8-31-03						
Average Monthly Benefit *	\$ 267.23	\$ 501.44	\$ 969.32	\$ 1,476.39	\$ 2,222.05	\$ 3,044.63
Average Final Average Salary	\$ 23,438	\$ 26,804	\$ 31,814	\$ 37,452	\$ 46,435	\$ 53,748
Number of Retirees	1,504	1,637	2,157	3,790	6,000	5,085
9-1-03 to 8-31-04						
Average Monthly Benefit *	\$ 269.62	\$ 482.03	\$ 983.69	\$ 1,498.10	\$ 2,181.65	\$ 3,039.38
Average Final Average Salary	\$ 23,472	\$ 26,777	\$ 32,463	\$ 38,613	\$ 46,745	\$ 54,523
Number of Retirees	1,795	2,278	3,090	5,670	7,998	6,254
9-1-04 to 8-31-05						
Average Monthly Benefit *	\$ 272.29	\$ 534.30	\$ 1,058.22	\$ 1,602.60	\$ 2,333.09	\$ 3,268.08
Average Final Average Salary	\$ 24,774	\$ 28,314	\$ 35,336	\$ 41,197	\$ 49,446	\$ 58,164
Number of Retirees	1,410	1,227	1,427	2,073	3,174	2,492
9-1-05 to 8-31-06						
Average Monthly Benefit *	\$ 279.86	\$ 581.08	\$ 1,094.99	\$ 1,632.03	\$ 2,339.64	\$ 3,311.32
Average Final Average Salary	\$ 25,456	\$ 30,647	\$ 36,767	\$ 42,297	\$ 49,650	\$ 58,987
Number of Retirees	1,494	1,129	1,578	2,483	3,332	2,701
9-1-06 to 8-31-07						
Average Monthly Benefit *	\$ 309.31	\$ 599.69	\$ 1,118.68	\$ 1,697.33	\$ 2,424.40	\$ 3,454.36
Average Final Average Salary	\$ 27,448	\$ 31,601	\$ 37,444	\$ 44,120	\$ 51,683	\$ 61,103
Number of Retirees	1,575	1,183	1,554	2,626	3,290	2,835
9-1-07 to 8-31-08						
Average Monthly Benefit *	\$ 314.01	\$ 619.37	\$ 1,149.46	\$ 1,756.45	\$ 2,534.82	\$ 3,507.17
Average Final Average Salary	\$ 27,891	\$ 32,392	\$ 38,415	\$ 45,578	\$ 53,609	\$ 61,837
Number of Retirees	1,532	1,282	1,902	2,942	3,754	3,332
9-1-08 to 8-31-09						
Average Monthly Benefit *	\$ 350.03	\$ 656.43	\$ 1,216.76	\$ 1,769.01	\$ 2,607.96	\$ 3,626.69
Average Final Average Salary	\$ 29,740	\$ 33,084	\$ 40,362	\$ 45,647	\$ 54,736	\$ 63,059
Number of Retirees	1,464	1,377	1,917	2,877	3,361	3,229
9-1-09 to 8-31-10						
Average Monthly Benefit *	\$ 362.62	\$ 669.56	\$ 1,224.03	\$ 1,836.62	\$ 2,634.63	\$ 3,726.76
Average Final Average Salary	\$ 30,285	\$ 34,364	\$ 40,460	\$ 47,303	\$ 55,169	\$ 64,233
Number of Retirees	1,676	1,603	2,238	3,517	3,823	4,186
9-1-10 to 8-31-11						
Average Monthly Benefit *	\$ 385.71	\$ 711.76	\$ 1,266.00	\$ 1,870.17	\$ 2,665.53	\$ 3,766.87
Average Final Average Salary	\$ 32,046	\$ 35,690	\$ 42,073	\$ 48,182	\$ 55,116	\$ 64,929
Number of Retirees	1,737	1,692	2,407	3,852	4,283	5,510

* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$386.4, \$427.9, \$696.2, \$288.1, \$313.4, \$325.7, \$363.7, \$348.3, \$385.6 and \$524.9 million in fiscal years 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011 respectively.

Operating Information



Average Health Care Claims

TRS-CARE (RETIRED PLAN)
LAST TEN FISCAL YEARS

2011		
Average Claims Per Participant	\$	4,718.15
Health Care Claims	\$	992,478,380
Average Participants		210,353
2010		
Average Claims Per Participant	\$	4,790.25
Health Care Claims	\$	971,356,805
Average Participants		202,778
2009		
Average Claims Per Participant	\$	4,464.01
Health Care Claims	\$	885,132,865
Average Participants		198,282
2008		
Average Claims Per Participant	\$	4,302.36
Health Care Claims	\$	833,509,538
Average Participants		193,733
2007		
Average Claims Per Participant	\$	3,891.49
Health Care Claims	\$	742,293,147
Average Participants		190,748
2006		
Average Claims Per Participant	\$	3,658.53
Health Care Claims	\$	687,086,291
Average Participants		187,804
2005		
Average Claims Per Participant	\$	3,563.06
Health Care Claims	\$	660,559,083
Average Participants		185,391
2004		
Average Claims Per Participant	\$	3,434.58
Health Care Claims	\$	581,354,957
Average Participants		169,265
2003		
Average Claims Per Participant	\$	3,698.31
Health Care Claims	\$	571,744,362
Average Participants		154,596
2002		
Average Claims Per Participant	\$	3,156.18
Health Care Claims	\$	451,709,670
Average Participants		143,119

Average Health Care Claims

TRS-ACTIVECARE (ACTIVE PLAN)
LAST NINE FISCAL YEARS
(SINCE PLAN INCEPTION)

2011		
Average Claims Per Participant	\$	3,661.85
Health Care Claims	\$	1,510,090,981
Average Participants		412,385
2010		
Average Claims Per Participant	\$	3,509.11
Health Care Claims	\$	1,313,114,197
Average Participants		374,201
2009		
Average Claims Per Participant	\$	3,323.59
Health Care Claims	\$	1,122,646,958
Average Participants		337,781
2008		
Average Claims Per Participant	\$	3,059.63
Health Care Claims	\$	952,156,339
Average Participants		311,200
2007		
Average Claims Per Participant	\$	2,834.53
Health Care Claims	\$	801,148,962
Average Participants		282,639
2006		
Average Claims Per Participant	\$	2,744.75
Health Care Claims	\$	708,972,484
Average Participants		258,301
2005		
Average Claims Per Participant	\$	2,714.19
Health Care Claims	\$	663,361,138
Average Participants		244,405
2004		
Average Claims Per Participant	\$	2,357.20
Health Care Claims	\$	520,998,423
Average Participants		221,024
2003		
Average Claims Per Participant	\$	2,616.24
Health Care Claims	\$	473,450,544
Average Participants		180,966



Operating Information

Retired Members by Type of Benefit

PENSION TRUST FUND

AS OF AUGUST 31, 2011

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement ^a						
		1	2	3	4	5	6	7
\$ 1 - 200	12,890	4,847	6,555	321	1,063	53	37	14
\$ 201 - 400	33,923	8,399	11,715	651	1,832	1,052	766	9,508
\$ 401 - 600	21,855	9,774	8,326	1,336	1,879	276	264	0
\$ 601 - 800	19,331	10,734	5,084	1,338	1,556	340	279	0
\$ 801 - 1,000	18,448	11,945	3,494	1,052	1,388	354	215	0
\$ 1,001 - 1,200	16,077	11,145	2,511	772	1,197	291	161	0
\$ 1,201 - 1,400	13,901	9,440	2,300	635	1,181	225	120	0
\$ 1,401 - 1,600	14,663	9,927	2,751	576	1,071	241	97	0
\$ 1,601 - 1,800	15,039	10,635	2,651	508	923	230	92	0
\$ 1,801 - 2,000	15,924	12,065	2,375	413	781	236	54	0
\$ over 2,000	130,629	113,834	8,817	1,257	5,379	1,239	103	0
Totals	312,680	212,745	56,579	8,859	18,250	4,537	2,188	9,522

^aType of Retirement:

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

Health Care Claims by Benefit Range

TRS-CARE (RETIRED PLAN)

AS OF AUGUST 31, 2011

Benefit Range	Average Participants
\$ 0	27,375
\$ 1 - 5,000	134,135
\$ 5,001 - 10,000	29,365
\$ 10,001 - 20,000	11,373
\$ 20,001 - 30,000	3,009
\$ 30,001 - 40,000	1,413
\$ 40,001 - 50,000	943
\$ 50,001 - 100,000	1,671
\$ over 100,000	1,069
Total	210,353

Health Care Claims by Benefit Range

TRS-ACTIVECARE (ACTIVE PLAN)

AS OF AUGUST 31, 2011

Benefit Range	Average Participants
\$ 0	62,192
\$ 1 - 5,000	294,597
\$ 5,001 - 10,000	28,299
\$ 10,001 - 20,000	14,293
\$ 20,001 - 30,000	4,973
\$ 30,001 - 40,000	2,430
\$ 40,001 - 50,000	1,612
\$ 50,001 - 100,000	2,578
\$ over 100,000	1,411
Total	412,385

Operating Information



Option Selected ^b					
1	2	3	4	5	6
5,902	4,504	1,049	413	970	52
10,939	7,230	2,099	924	1,786	10,945
10,609	6,293	2,367	952	1,634	0
9,054	5,620	2,565	897	1,195	0
8,633	5,130	2,675	878	1,132	0
6,969	4,885	2,576	715	932	0
5,478	4,662	2,391	563	807	0
5,677	5,019	2,482	618	867	0
5,767	5,194	2,561	589	928	0
5,809	5,621	2,888	584	1,022	0
45,491	48,740	24,844	4,279	7,275	0
120,328	102,898	48,497	11,412	18,548	10,997

^bOption 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



Operating Information

Principal Participating Reporting Entities

PENSION TRUST FUND

CURRENT FISCAL YEAR AND NINE YEARS AGO

Participating Reporting Entity	2011			2002		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	23,777	1	2.92%	25,646	1	3.75%
Dallas ISD	19,780	2	2.43	19,327	2	2.82
UT MD Anderson Cancer Center	16,254	3	1.99	10,415	4	1.52
Cypress Fairbanks ISD	13,193	4	1.62	9,098	8	1.33
Northside ISD	12,775	5	1.57	9,362	7	1.37
Austin ISD	12,299	6	1.51	10,716	3	1.57
Fort Worth ISD	10,987	7	1.35	10,254	5	1.50
UT at Austin	10,111	8	1.24	8,963	9	1.31
UT Medical Branch at Galveston	9,128	9	1.12	9,866	6	1.44
North East ISD	8,956	10	1.10			
El Paso ISD				8,567	10	1.25
All other	678,029		83.15	562,148		82.14
Total	815,289		100.00%	684,362		100.00%

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

Operating Information



Principal Participating Reporting Entities

TRS-CARE (RETIRED PLAN)

CURRENT FISCAL YEAR AND NINE YEARS AGO

Participating Reporting Entity	2011			2002		
	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment
Houston ISD	23,777	1	3.52%	25,646	1	4.44%
Dallas ISD	19,780	2	2.92	19,327	2	3.35
Cypress Fairbanks ISD	13,193	3	1.95	9,098	6	1.58
Northside ISD	12,775	4	1.89	9,362	5	1.62
Austin ISD	12,299	5	1.82	10,716	3	1.86
Fort Worth ISD	10,987	6	1.62	10,254	4	1.78
North East ISD	8,956	7	1.32			
El Paso ISD	8,860	8	1.31	8,567	7	1.48
Aldine ISD	8,538	9	1.26	7,741	9	1.34
Arlington ISD	8,119	10	1.20	7,671	10	1.33
San Antonio ISD				7,856	8	1.36
All other	548,992		81.19	461,084		79.86
Total	676,276		100.00%	577,322		100.00%

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



Listing of Participating Reporting Entities

Community and Junior Colleges

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

Universities

Angelo State University
Lamar Inst of Technology
Lamar St Coll at Orange
Lamar St Coll at Port Arthur
Lamar University
Midwestern State Univ
Prairie View A & M Univ
Sam Houston State Univ
Stephen F Austin State U
Sul Ross State University
Tarleton State University
Texas A & M at Galveston
Texas A & M-Central Texas (Killeen)
Texas A & M Corpus Christi
Texas A & M U-Commerce
Texas A & M U-Kingsville

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

Medical Schools

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

School Districts

Abbott I S D
Abermathy I S D
Abilene I S D
Academy I S D
Adrian I S D
Agua Dulce I S D
Alamo Heights I S D
Alba Golden I S D
Albany I S D
Aldine I S D
Aledo I S D
Alice I S D
Alief I S D
Allen I S D
Alpine I S D
Alto I S D
Alvarado I S D
Alvin I S D
Alvord I S D
Amarillo I S D
Amherst I S D
Anahuac I S D
Anderson Shiro Cons I S D
Andrews I S D
Angleton I S D
Anna I S D
Anson I S D

Anthony I S D
Anton I S D
Apple Springs I S D
Aquila I S D
Aransas County I S D
Aransas Pass I S D
Archer City I S D
Argyle I S D
Arlington I S D
Arp I S D
Aspermont I S D
Athens I S D
Atlanta I S D
Aubrey I S D
Austin I S D
Austwell Tivoli I S D
Avalon I S D
Avery I S D
Avinger I S D
Axtell I S D
Azle I S D
Baird I S D
Ballinger I S D
Balmorhea I S D
Bandera I S D
Bangs I S D
Banquete I S D
Barbers Hill I S D
Bartlett I S D
Bastrop I S D
Bay City I S D
Beaumont I S D
Beckville I S D
Beeville I S D
Bellevue I S D
Bells I S D
Bellville I S D
Belton I S D
Ben Bolt Palito I S D
Benavides I S D
Benjamin I S D
Big Sandy I S D, Big Sandy
Big Sandy I S D, Dallardsville
Big Spring I S D
Birdville I S D
Bishop Cons I S D
Blackwell I S D
Blanco I S D
Bland I S D
Blanket I S D
Bloomburg I S D
Blooming Grove I S D
Bloomington I S D
Blue Ridge I S D
Bluff Dale I S D
Blum I S D
Boerne I S D
Boles I S D
Bolling I S D
Bonham I S D
Booker I S D
Borden County I S D
Borger I S D
Bosqueville I S D
Bovina I S D
Bowie I S D
Boyd I S D
Boys Ranch I S D
Brackett I S D
Brady I S D
Brazos I S D
Brazosport I S D
Breckenridge I S D
Bremond I S D
Brenham I S D

Bridge City I S D
Bridgeport I S D
Broaddus I S D
Brock I S D
Bronite I S D
Brookeland I S D
Brooks County I S D
Brookesmith I S D
Brownfield I S D
Brownsboro I S D
Brownsville I S D
Brownwood I S D
Bruceville Eddy I S D
Bryan I S D
Bryson I S D
Buckholts I S D
Buena Vista I S D
Buffalo I S D
Bullard I S D
Buna I S D
Burkburnett I S D
Burkeville I S D
Burlison I S D
Burnet Cons I S D
Burton I S D
Bushland I S D
Byers I S D
Bynum Cons I S D
Caddo Mills I S D
Calallen I S D
Caldwell I S D
Calhoun County I S D
Callisburg I S D
Calvert I S D
Cameron I S D
Campbell I S D
Canadian I S D
Canton I S D
Canutillo I S D
Canyon I S D
Carlisle I S D
Carrizo Springs C I S D
Carroll I S D
Carrilton Farmers Branch I S D
Carthage I S D
Castleberry I S D
Cayuga I S D
Cedar Hill I S D
Celeste I S D
Celina I S D
Center I S D
Center Point I S D
Centerville I S D, Centerville
Centerville I S D, Groveton
Central I S D
Central Heights I S D
Channelview I S D
Channing I S D
Chapel Hill I S D, Mt. Pleasant
Chapel Hill I S D, Tyler
Charlotte I S D
Cherokee I S D
Chester I S D
Chico I S D
Childress I S D
Chillicothe I S D
Chilton I S D
China Spring I S D
Chireno I S D
Chisum I S D
Christoval I S D
Cisco I S D
City View I S D
Clarendon Cons I S D
Clarksville I S D

Listing of Participating Reporting Entities



(Continued)

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



(Continued)

Listing of Participating Reporting Entities

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

Listing of Participating Reporting Entities



(Continued)

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

Regional Service Centers

Region 01 Ed Serv Center
 Region 02 Ed Serv Center
 Region 03 Ed Serv Center
 Region 04 Ed Serv Center
 Region 05 Ed Serv Center
 Region 06 Ed Serv Center
 Region 07 Ed Serv Center
 Region 08 Ed Serv Center
 Region 09 Ed Serv Center
 Region 10 Ed Serv Center
 Region 11 Ed Serv Center
 Region 12 Ed Serv Center
 Region 13 Ed Serv Center
 Region 14 Ed Serv Center
 Region 15 Ed Serv Center
 Region 16 Ed Serv Center
 Region 17 Ed Serv Center
 Region 18 Ed Serv Center
 Region 19 Ed Serv Center
 Region 20 Ed Serv Center

Charter Schools

A+ Academy
 Academy of Accelerated
 Academy of Careers and Tech
 Academy of Dallas
 Accelerated Int Academy
 Alief Montessori School
 ALPHA Charter School
 Alphonso Crutch's Charter
 Ambassador's Prep Academy
 American Inst of Learning
 Amigos Por Vida Charter
 Arlington Classics Acad
 Arrow Academy
 Austin Discovery School
 A W Brown Flwshp Chtr Sch
 Azleway Charter School
 Bay Area Charter School
 Beatrice Mayes Institute



(Continued)

Listing of Participating Reporting Entities

Benji's Special Educ Acad	K I P P Aspire Academy	St. Anthony School
Bexar County Academy	K I P P Austin College	St. Mary's Charter School
Big Springs Charter Sch	K I P P Southeast Houston	Stepping Stones Charter Elementary
Bob Hope School	K I P P Truth Academy	Summit International Preparatory
Brazos River Charter Sch	Koinonia Community	Technology Education Ctr
Brazos School for Inquiry	Learning Academy	T E K O A Academy
Bright Ideas Charter Sch	La Academia de Estrellas	Texas Empowerment Academy
Brooks Academy of Science	La Amistad Academy	Texas Preparatory School
& Engineering	Le Fe Preparatory School	Texas Serenity Academy
Burnham Wood Charter Sch	Leadership Prep School	The East Austin College Prep Academy
Calvin Nelms Charter	Life Charter School	The Education Center
Cedars International Acad	Lighthouse Charter School	The Ehrhart School
Chapel Hill Academy	Mainland Prep Academy	The Encino School
Children First Ac Houston	Manara Academy	The Legends Academy
Children First Ele Acad	Meadowland Charter School	The North Hills School
City Center-Health Careers	Medical Center Charter	The Rhodes School
Com Quest Academy	Meridian World School	TLC Academy - San Angelo
Compass Academy	Metro Charter Academy	T O V A S
Corpus Christi Montessori	Meyer Park Elementary	Transformative Charter
Charter School	Mid Valley Academy	Treetops International
Crosstimbers Academy	Midland Academy	Trinity Basin Preparatory
Cumberland Academy	N Houston H S Business	Trinity Charter School
Dallas Can Academy	New Frontiers Charter School	Two Dimensions Prep Acad
Dallas Comm Charter Sch	Newman International Academy	Universal Academy
Dr. Garza-Gonzalez Ch Sch	North Texas Elementary School	Vanguard Academy
Draw Academy	of Arts	Varnett Charter School
Eagle Advantage School	Northwest Prep Academy	Victory Prep Academy
East Fort Worth Montessori	Nova Charter School	Vista del Futuro Charter School
East Texas Charter School	Nova Charter Southeast	Waco Charter School
Eden Park Academy	N Y O S Charter School	Walipp Academy
Education Center Int Acad	Odyssey Academy	West Houston Charter
El Paso Academy East	One Stop Multiservice	Westlake Academy
Erath Excels! Academy	Orenda Charter School	Williams Preparatory
Evolution Academy Charter	Outreach Word Academy	Winfree Academy Charter Schools
Faith Family Acad Oak Cliff	Panola Charter School	Yes Preparatory Public Schools
Faith Fam Acad Waxahachie	Paradigm Accelerated Sch	Zoe Learning Academy
Focus Learning Academy	Paso Del Norte Academy	
Ft Worth Acad Fine Arts	Peak Preparatory School	
Gabriel Tafolla Charter	Pegasus Charter School	
Gateway Academy	Phoenix Charter School	
Gateway Charter Academy	Pineywoods Academy	
George Gervin Academy	Por Vida Inc	
George I Sanchez Charter, Houston	Premier Learning Academy	
George I Sanchez Charter, San Antonio	Radiance Acad of Learning	
Girls & Boys Prep Acad	Ranch Academy	
Golden Rule Charter School	Rapoport Academy	
Gulf Coast Trades Center	Raul Yzaguirre School	
Hampton Preparatory	Reconciliation Scholar's Academy	
Harmony School Academy, Brownsville	Responsive Education Solutions	
Harmony School Academy, Laredo	Richard Milburn - Amarillo	
Harmony School of Excellence, Houston	Richard Milburn - Corpus Christi	
Harmony School of Science, Houston	Richard Milburn - Fort Worth	
Harmony Science Academy, Austin	Richard Milburn - Houston	
Harmony Science Academy, El Paso	Richard Milburn - Killeen	
Harmony Science Academy, Fort Worth	Richard Milburn - Odessa	
Harmony Science Academy, Houston	Ripley House Charter School	
Harmony Science Academy, Lubbock	Rise Academy	
Harmony Science Academy, San Antonio	S T A R Charter School	
Harmony Science Academy, Waco	San Antonio Prep Academy	
Heights Academy	San Antonio Sch Inquiry	
Henry Ford Academy	San Antonio Tech Academy	
Higgs Carter King Academy	School of Excellence	
Honors Academy	School of Science & TECH-Discovery -	
Houston Alt Prep Charter	San Antonio	
Houston Gateway Charter	School of Science & Technology -	
Houston Hghts Learning Ac	Corpus Christi	
Idea Public Schools	School of Science & Technology -	
Inspired Vision Academy	San Antonio	
Jamie's House Charter Sch	Seashore Learning Ctr	
Jean Massieu Academy	Seashore Middle Academy	
John H.Wood Charter Sch	Ser-Ninos	
Juan B. Galaviz Charter	Shekinah Radiance Academy	
Jubilee Academic Center	South Plains Academy	
Katherine Anne Porter Sch	Southwest High School	
K I P P Academy	Southwest Preparatory Sch	

Other Educational Districts

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

Other Entities

Teacher Retirement System
Texas Education Agency

BENEFITS SECTION



2011 Changes in TRS Law

STATE

In fiscal year 2011, the 82nd Texas Legislature, Regular Session, enacted several significant new laws affecting TRS.

FUNDING, INTERIM STUDIES, AND OTHER GENERAL APPROPRIATIONS ACT PROVISIONS

Under House Bill 1, the General Appropriations Act (GAA), the state contribution rate to the retirement plan was reduced from 6.644 percent in the FY 2010-2011 biennium to 6.0 percent of payroll for the first year of the 2012-2013 biennium. Effective September 1, 2012, the state contribution rate will increase to 6.4 percent for the second year of the biennium.

The member contribution rate for the retirement plan remains at 6.4 percent for both years of the biennium. The state contribution rate to TRS-Care remains at 1 percent effective September 1, 2011 but is reduced to 0.5 percent effective September 1, 2012 for the second year of the biennium. The active member contribution rate to TRS-Care and the participating employer rate remain unchanged.

Several GAA riders are important to TRS participants:

- TRS is required to conduct a study of TRS-Care and report to the legislature on potential changes to improve the program's sustainability.
- The legislature expressed its intent that TRS not increase retiree health insurance premiums for the 2012-2013 biennium. At its June 2011 meeting, the TRS Board of Trustees considered updated financial information and left TRS-Care premiums unchanged for the 2011-2012 school year.
- TRS is required to report to the legislature on the impact of potential changes to the pension plan, including retirement eligibility, final average salary, benefit multiplier, and the creation of a hybrid defined contribution/defined benefit retirement plan.
- TRS is authorized to establish a pilot program for TRS participants in the group health benefit programs to test alternatives to traditional fee-for-service payments.

INVESTMENTS

Under House Bill 1061, TRS is authorized to use derivatives in its investment portfolio and to use external managers to invest up to 30 percent of the TRS fund until September 1, 2019. TRS is authorized to increase its allocation to hedge funds from five percent to 10 percent until September 1, 2019.

PURCHASING SERVICE CREDIT

Senate Bill 1668 makes significant changes to the cost of certain kinds of purchased service credit and makes other administrative adjustments.

- To purchase out-of-state service credit, developmental leave service credit, and unreported service or compensation credit (including substitute service), the cost will increase to the actuarial cost of the additional benefit resulting from the credit.

- To purchase withdrawn service credit, the member will be required to deposit the withdrawn amount plus a fee of eight percent (increased from six percent).

- For withdrawn service, developmental leave, unreported service or compensation credit (including substitute service credit), an eligible member may purchase credit for eligible service rendered before September 1, 2011 at the old cost, if the credit is purchased before September 1, 2013, or an installment agreement is signed and received by TRS before that date. For out-of-state service credit to be purchased at the old cost, the same September 1, 2013 deadline applies, but the out-of-state service must have been rendered before January 1, 2006 by a person who was a member of TRS on December 31, 2005.

- A person with unreported service or compensation, including substitute service, will be required to verify the service to TRS within five years of when it was rendered in order for it to be creditable. For service rendered before September 1, 2011, the person will have until August 31, 2016 to verify the service. The person will no longer be required, however, to purchase verified unreported service to receive retirement benefits.

- For members with military service that qualifies as USERRA service (Uniformed Services Employment and Reemployment Rights Act of 1994), the service may be counted toward length of service requirements for TRS benefit eligibility (but not benefit amount), even if the member does not purchase credit for the service.

EMPLOYMENT AFTER RETIREMENT

Senate Bill 1669 made substantial changes to employment after retirement restrictions.

- Service retirees who retired before January 1, 2011 may now work in Texas public education in any capacity without any loss of monthly annuities. Surcharge requirements for employers still apply to retirees who retired after September 1, 2005 and are working in TRS-eligible positions. Following enactment of the legislation, the TRS Board of Trustees established new TRS-Care surcharge rates, effective September 1, 2011.

- Service retirees who retire after January 1, 2011 may work *full time for as much as 12 months each school year without any loss of annuities only if they have a break in service of 12 full consecutive calendar months after retirement. Though the 12-month break need not immediately*

2011 Changes in TRS Law



follow retirement, a retiree will forfeit monthly annuities for months in which the retiree works full time until after a 12-month break has occurred. The bill repeals the former exceptions that allowed service retirees to work on a full-time basis without loss of annuities in certain circumstances (i.e., the bill repeals the six-month exception, the bus driver exception, the principal/assistant principal exception, the acute shortage area exception, and the nurse faculty exception). Retirees who have not served a 12-full-consecutive-calendar-month break in service after retirement may only work as substitutes or on a one-half time basis. Working full-time in the absence of the break in service of 12 full consecutive calendar months will result in the loss of the annuity for the month in which the full-time work occurs. Also, working in any capacity for a TRS-covered employer, including work as a substitute, will reset the computation of the required 12-full-consecutive-calendar-month break in service.

STANDARDIZED SCHOOL YEAR

Under House Bill 2561, starting with the 2012-2013 school year, all TRS members will use a standardized school year of September 1 through August 31 for TRS benefit purposes. This means that TRS service credit and creditable compensation will be determined on a September 1–August 31 basis.

TRS ADMINISTRATION

Senate Bill 1667 is a TRS omnibus bill that covers a range of administrative and benefit matters, including the following:

- **Service Credit not on Member's Annual Statement.** Members now must notify TRS in writing if eligible membership service is not shown as service credit on the member's annual statement. To receive TRS credit for the missing service, the member must notify TRS within five years of when the service was rendered. The bill also provides a transition period for members who have service that was rendered more than five years before the bill takes effect on September 1, 2011. A member who seeks to establish credit for service rendered before September 1, 2011, but that is not credited on the annual statement must notify TRS in writing by August 31, 2016.
- **Qualified Domestic Relations Orders.** For members and retirees who are subject to a Qualified Domestic Relations Order (QDRO), a court order that divides their TRS retirement benefits (usually as a result of divorce), the bill repeals the requirement that the QDRO must state the parties' social security numbers. TRS may allow the parties to use an alternate method, acceptable to TRS, to verify their social security numbers. The bill also authorizes TRS to establish a fee for administering a QDRO and to require use of the TRS model QDRO.
- **Amounts Owed to TRS.** If a TRS beneficiary or other

participant owes TRS money, TRS may deduct that amount from the participant's TRS benefit payments.

- **Benefits not Payable to Person Causing Death of TRS Participant.** The bill expands the grounds for making a person ineligible to receive benefits payable on the death of a member or annuitant to include being found not guilty of causing the death by reason of insanity or found incompetent to stand trial.
- **TRS Board of Trustee Nominating Elections.** TRS will have greater flexibility to use electronic voting in board nominating elections. Also, if fewer than three persons are nominated for a board position that has a nominating election, TRS may forward fewer than three names to the governor. The bill also authorizes the governor to appoint the trustee if no person is nominated.
- **Access to Criminal History Information.** TRS is authorized to obtain criminal history information about applicants or employees.
- **Board Meeting Participation by Telephone Conference Call.** A member of the TRS Board of Trustees may now participate in one board meeting per year by telephone conference call (not counting an emergency meeting).

Additionally, House Bill 2120 modified the nominating election requirements for one position on the TRS Board of Trustees. The current higher education trustee position will now be an "at-large" seat. TRS retirees, members in public school districts, and members in higher education institutions may run for nomination to this trustee position in the next election (2017). The top three vote recipients' names will be submitted to the governor for appointment.

FEDERAL

On the federal level, TRS continued to monitor significant health care and financial reform laws enacted in earlier years, which have potential for significant effect on TRS programs.

TAX LAWS, REGULATIONS, AND GUIDANCE

Federal tax law changes often have significant impact on the TRS pension plan because, under state law, the TRS pension plan is intended to operate as a "qualified" retirement plan. A qualified plan must meet specific federal tax law requirements in order to enable member contributions to receive certain favorable tax treatments. Additionally, TRS is subject to federal tax law requirements regarding reporting and withholding of income paid to annuitants and other participants, as well as requirements applicable to investment activity.

- **Normal Retirement Age Regulations.** In October 2009, the Internal Revenue Service (IRS) issued Notice 2009-86 to indicate that the IRS and the U.S. Treasury Department intend to extend the date by which govern-



2011 Changes in TRS Law

mental plans must comply with final regulations concerning distributions from a pension plan upon attainment of "normal retirement age." The extension changed the effective date to plan years beginning on or after January 1, 2013, giving the IRS and the U.S. Treasury Department additional time to consider comments received with respect to the effect of the regulations on governmental plans. The final regulations continue to generate significant discussion in the governmental plan community due to concern that the regulations do not allow a definition of "normal retirement age" that is conditioned directly or indirectly on the completion of a stated number of years of service. The regulations appear to require normal retirement age to be stated in terms of age only. In governmental plans, including the TRS retirement plan, using years of service, or years of service in combination with age, is a common method of determining eligibility for unreduced service retirement benefits. The IRS could consider a distribution prior to its definition of "normal retirement age" to be an "in service" distribution, not permitted for qualified plans. The IRS continues to receive information from governmental plans about how the regulations will negatively impact their members, but to date it has not issued additional guidance to address plan concerns. TRS continues to monitor developments. In the absence of federal regulation changes to address governmental plan concerns, TRS could be required to obtain state law amendments to its plan in order to comply with the current final regulations effective September 1, 2013, which is the starting date of the first TRS plan year after the January 1, 2013 effective date of the federal regulations.

- Vendor Tax Withholding Regulations.** In May 2011, the IRS issued final regulations relating to Section 3402(t) of the Internal Revenue Code, which was added by Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA", Public Law 109-222). Section 3402(t) (1) provides that the Government of the United States, every state, every political subdivision thereof, and every instrumentality of the foregoing (including multi-state agencies) making any payment to any person providing any property or services (including any payment made in connection with a government voucher or certificate program which functions as a payment for property or services) shall deduct and withhold from such payment a tax in an amount equal to three percent of such payment. Under the statute, section 3402(t) applies to payments made after December 31, 2010. As reported in TRS' annual report for fiscal year 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) delayed implementation of the withholding requirement for federal, state, and local government payers to apply to payments made after December 31, 2011. In the final regulations, the effective date was again extended to apply the new requirements

to payments made after December 31, 2012. This TIPRA withholding provision continues to draw negative reaction from state governments due to the administrative burdens and cost of compliance, but to date Congress has not repealed or substantially modified the requirement. TRS continues to evaluate the extent to which this provision applies to its business operations and the possible effects.

- Health Care.** The Patient Protection and Affordable Care Act, signed into law on March 23, 2010, along with the Health Care and Education Affordability Reconciliation Act of 2010, signed into law on March 30, 2010 (together, the PPACA), embody the sweeping federal health care legislation that affects the TRS-Care and TRS-ActiveCare health benefit programs.

During fiscal year 2011, TRS-Care was accepted as an approved plan in the Early Retiree Reinsurance Program (the ERRP) established under the PPACA. Through the ERRP, TRS-Care has received approximately \$70 million in federal funds. As long as funds remain available, the ERRP may reimburse participating plans for a substantial portion of the health care claims for retirees age 55 and older who are not eligible for Medicare, as well as claims for their spouses, surviving spouses, and dependents. TRS-Care has applied to receive additional funding under the ERRP during the next fiscal year.

Also during fiscal year 2011, TRS prepared for the implementation of various other provisions of the PPACA that will impact the health benefit plans administered by TRS. Four significant areas of impact are: (1) TRS-Care and TRS-ActiveCare no longer are permitted to "opt out" of the special enrollment provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA); (2) both health plans are required to extend dependent coverage for adult children to age 26; (3) TRS-ActiveCare (but not TRS-Care) is required to provide first dollar coverage, without any cost sharing requirements, for preventive health services; and (4) both health plans are required to have an internal appeals process, followed by an external review process involving independent review organizations.

Summary of Benefits



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

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

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

RETIREMENT PLAN BENEFITS

This summary of benefits is based on statutory provisions of the plan effective for FY 2011.

The major retirement plan benefits are:

SERVICE RETIREMENT

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

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

For grandfathered members who re-enter TRS on or after September 1, 2007, age 55 with at least 20 years of service

credit and the sum of member's age and years of credited service equals or exceeds 80.

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

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

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

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

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

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

DISABILITY RETIREMENT

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

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

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



Summary of Benefits

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

ANNUITY PAYMENT OPTIONS

All service and eligible disability retirees may select an optional form of payment that reduces the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. Actuarial factors for disability retirees are different from those for service retirees because of different assumptions about life expectancy for the two groups. The available options include 100, 75, and 50 percent joint and survivor annuities, and five- and 10-year guaranteed period annuities. Selection of a 100 or 75 percent joint and survivor annuity may be unavailable to certain retirees based on the minimum distribution provisions of federal tax law.

THE POP-UP PROVISION

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

PARTIAL LUMP SUM OPTION

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

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

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

DEFERRED RETIREMENT OPTION PLAN

The Deferred Retirement Option Plan (DROP), which is closed

to new participants, is a preretirement benefit provision for active members who are eligible for normal age service retirement and have at least 25 years of credited service.

Members who elected to participate in DROP (before enrollment was closed effective December 31, 2005) chose to freeze their salary amounts and service credit used to calculate their retirement benefits and to have a portion of the standard annuity amount deposited into a DROP account while continuing to work for a TRS-covered employer. Interest on DROP accounts is credited at the rate of five percent per annum. Members are not considered to be retired while participating in DROP.

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

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

MINIMUM SERVICE CREDIT REQUIRED FOR SERVICE RETIREMENT BENEFITS

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

DEATH AND SURVIVOR BENEFITS

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

Summary of Benefits



when the member is within five years of being eligible to retire when leaving employment:

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

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

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

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

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

GRANDFATHER PROVISIONS

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

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

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

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

HEALTH BENEFITS

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

HEALTH BENEFITS FOR ACTIVE PUBLIC SCHOOL EMPLOYEES

TRS-ActiveCare, the statewide health benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS, went into effect on September 1, 2002. The program initially addressed the most critical areas of the state with regard to availability and affordability of health benefits for public school employees and therefore focused on smaller districts. The program has now been expanded to include larger school districts and more than 1,118 entities participated in the program in fiscal year 2011. Employees of participating entities can choose from four preferred provider organization plans, and employees of certain areas also have the option of choosing coverage under a health maintenance organization.



Summary of Benefits

RETIREE HEALTH COVERAGE

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

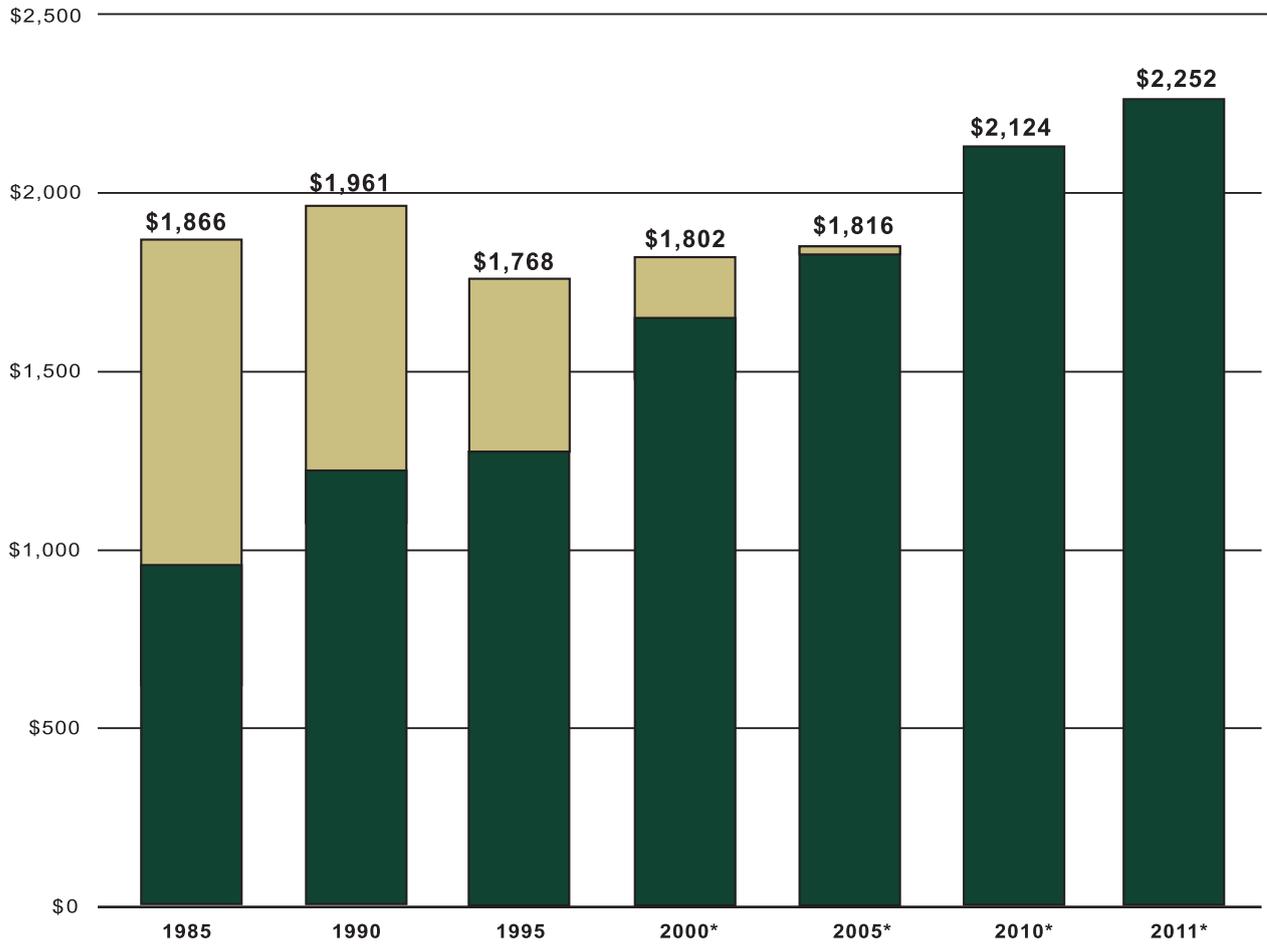
LONG-TERM CARE INSURANCE PROGRAM

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

Average Monthly Benefit



Current Average Monthly Benefit by Year of Retirement
 Service Retiree Accounts as of August 31, 2011



	1985	1990	1995	2000*	2005*	2010*	2011*
Original Benefits	\$ 953	\$ 1,209	\$ 1,295	\$ 1,621	\$ 1,812	\$ 2,124	\$ 2,254
Benefit Increases (Decreases)	913	752	473	181	4	-	(2)
Current Benefits	\$ 1,866	\$ 1,961	\$ 1,768	\$ 1,802	\$ 1,816	\$ 2,124	\$ 2,252
Number of Retirees**	2,749	4,969	6,684	11,558	11,314	17,136	19,624

* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,755, \$1,982, \$2,298 and \$2,440 for fiscal years 2000, 2005, 2010 and 2011, respectively.

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



Growth of the System

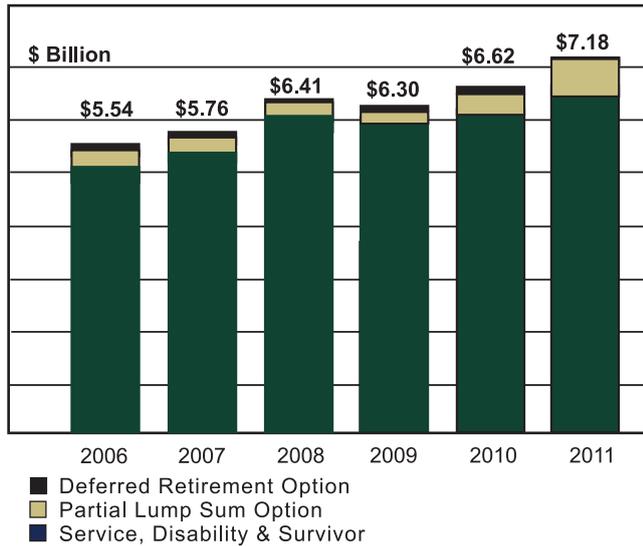
Benefit payments during fiscal year 2011 totaled approximately \$7.18 billion, an increase of \$556 million from the previous year. As of August 2011, the monthly annuity payroll had grown to approximately \$568 million, and TRS was paying benefits to 312,680 recipients.

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

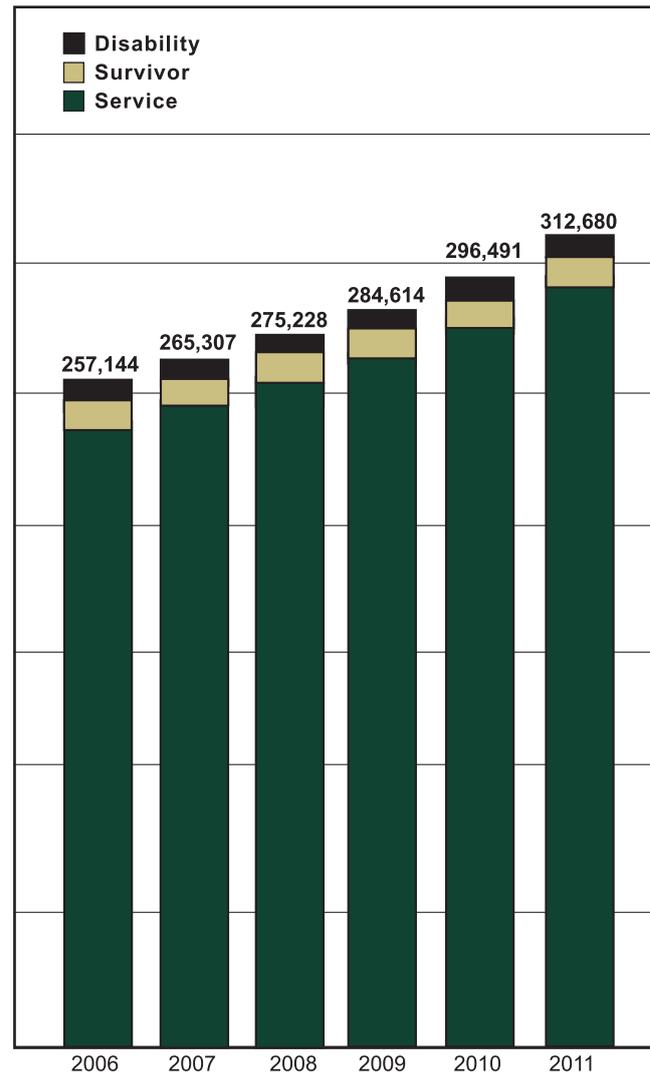
in the form of monthly benefits. The number of retiree accounts increased by 16,189 during fiscal year 2011.

Of the current TRS member accounts, 847,847 (active contributing and deferred retirement option participants) were employed during fiscal year 2011 and made contributions to the system. The remaining 156,039 members are no longer employed by TRS-covered employers but have maintained their membership in TRS by leaving their contributions with the system. The number of current member accounts decreased by 303 during fiscal year 2011.

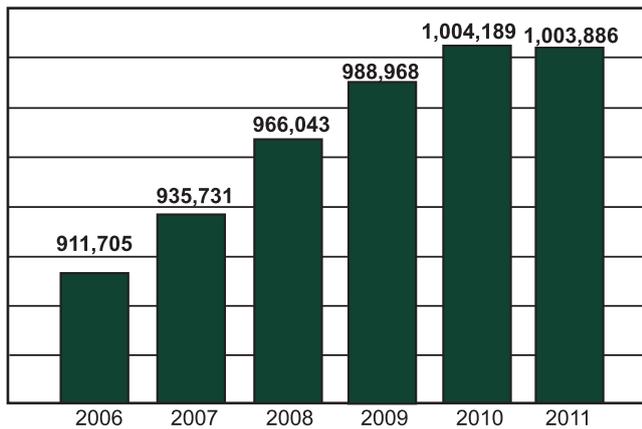
Benefit Payments



Annuities

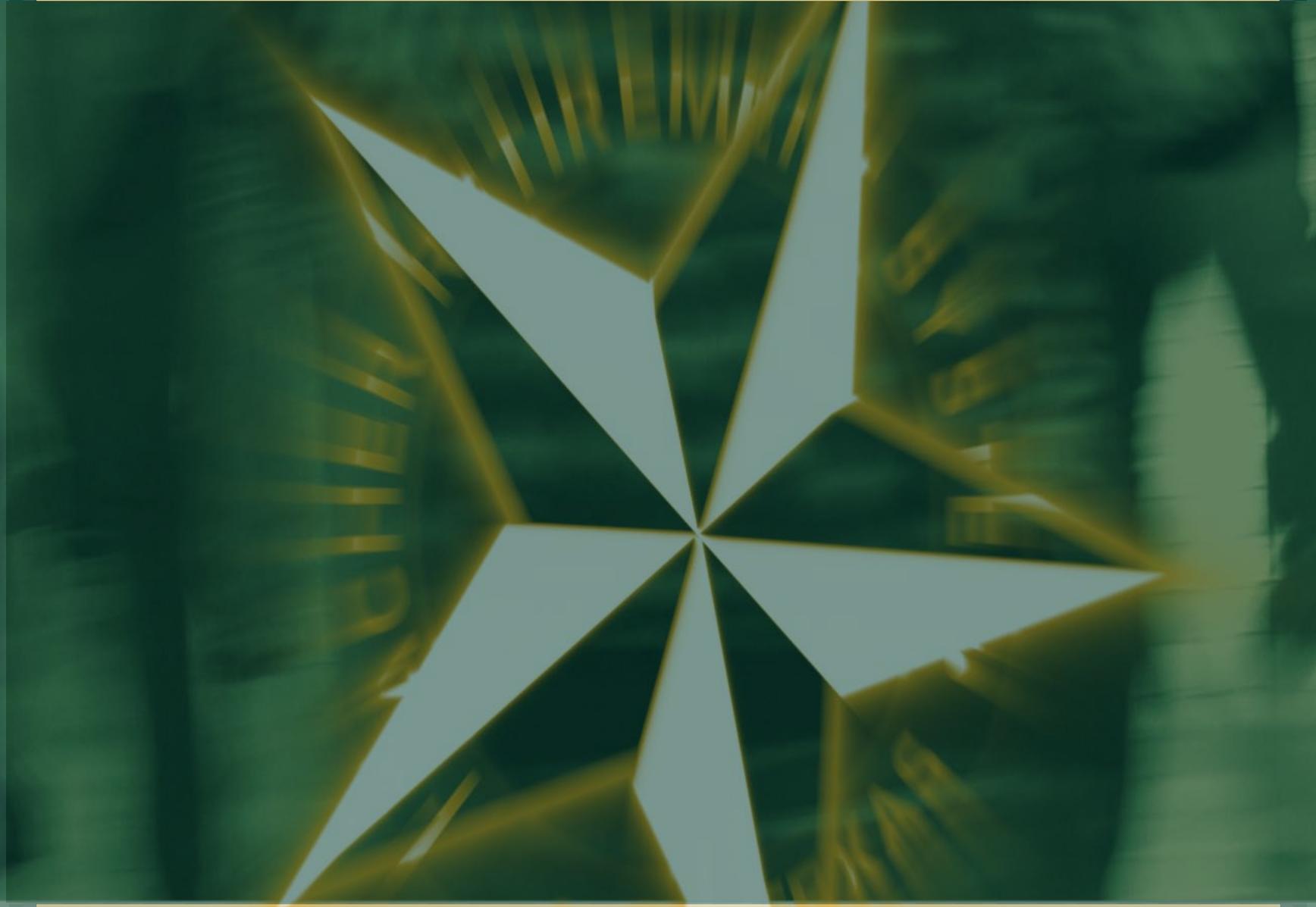


Member Accounts



Teacher Retirement System of Texas

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



www.trs.state.tx.us