

# Statement of Fiduciary Net Assets

AUGUST 31, 2009

(With Comparative Totals for Pension and Other Employee Benefit Trust Funds for August 31, 2008)

EXHIBIT I

	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>ASSETS</b>		
<b>Cash:</b>		
Cash in State Treasury	\$ 819,859,004	\$ 849,770,247
Cash in Bank	124,042,211	
Cash on Hand	2,152,196	
<b>TOTAL CASH</b>	<b>\$ 946,053,411</b>	<b>\$ 849,770,247</b>
<b>Receivables:</b>		
Sale of Investments	\$ 339,937,324	\$
Interest and Dividends	245,842,715	1,248,212
Member and Retiree	79,987,993	38,413,843
Reporting Entities	49,945,344	8,510,352
Other	484,129	5,389,708
Due from State's General Fund	75,155,068	26,201,993
Due from Employees Retirement System of Texas	791,929	
<b>TOTAL RECEIVABLES</b>	<b>\$ 792,144,502</b>	<b>\$ 79,764,108</b>
<b>Investments:</b>		
Short-Term	\$ 8,996,775,374	\$
Equities	43,046,546,588	
Fixed Income	16,577,616,180	
Alternative Investments	17,314,897,399	
Derivative Investments	302,282,839	
Pooled Investments	1,474,814,193	
<b>TOTAL INVESTMENTS</b>	<b>\$ 87,712,932,573</b>	<b>\$ -0-</b>
Invested Securities Lending Collateral	\$ 21,852,868,153	\$
<b>Capital Assets:</b>		
Land	\$ 1,658,310	\$
Building, Capital Projects, Leasehold Improvements and Equipment, at Cost, Net of Accumulated Depreciation/Amortization	28,831,028	
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 30,489,338</b>	<b>\$ -0-</b>
<b>TOTAL ASSETS</b>	<b>\$111,334,487,977</b>	<b>\$ 929,534,355</b>

FIDUCIARY FUND TYPES		
TOTAL - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
2009	2008	Agency Funds
\$ 1,669,629,251	\$ 1,003,788,682	\$ 3,312
124,042,211	199,793,684	
2,152,196	3,358,224	
<u>\$ 1,795,823,658</u>	<u>\$ 1,206,940,590</u>	<u>\$ 3,312</u>
\$ 339,937,324	\$ 63,134,327	\$
247,090,927	320,965,696	
118,401,836	110,204,053	
58,455,696	47,927,136	
5,873,837	10,500,360	
101,357,061	130,736,292	
791,929	733,184	
<u>\$ 871,908,610</u>	<u>\$ 684,201,048</u>	<u>\$ -0-</u>
\$ 8,996,775,374	\$ 17,374,423,868	\$
43,046,546,588	50,917,099,622	
16,577,616,180	20,619,077,668	
17,314,897,399	15,118,758,132	
302,282,839	(415,383,006)	
1,474,814,193	975,618,115	
<u>\$ 87,712,932,573</u>	<u>\$ 104,589,594,399</u>	<u>\$ -0-</u>
<u>\$ 21,852,868,153</u>	<u>\$ 19,347,275,331</u>	<u>\$</u>
\$ 1,658,310	\$ 1,658,310	\$
28,831,028	26,297,396	
<u>\$ 30,489,338</u>	<u>\$ 27,955,706</u>	<u>\$ -0-</u>
<u>\$112,264,022,332</u>	<u>\$ 125,855,967,074</u>	<u>\$ 3,312</u>

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# Statement of Fiduciary Net Assets

AUGUST 31, 2009

(With Comparative Totals for Pension and Other Employee Benefit Trust Funds for August 31, 2008)

(concluded)

EXHIBIT I

	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>LIABILITIES</b>		
Accounts Payable	\$ 6,734,844	\$ 509,972
Accounts Payable-External Manager Fees	16,754,738	
Benefits Payable	549,796,590	
Health Care Claims Payable		128,716,328
Reinstatement Installment Receipts	21,126,610	
Investments Purchased Payable	159,557,070	
Securities Lending Collateral	21,915,032,131	
Due to Employees Retirement System of Texas	5,025,029	
Compensable Absences Payable	5,102,778	159,663
Deferred Rent	2,386,505	
Funds Held for Others		
<b>TOTAL LIABILITIES</b>	<b>\$ 22,681,516,295</b>	<b>\$ 129,385,963</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS</b>	<b>\$ 88,652,971,682</b>	<b>\$ 800,148,392</b>

**FIDUCIARY FUND  
TYPES**

**TOTAL - PENSION AND OTHER  
EMPLOYEE BENEFIT TRUST FUNDS**

2009	2008	Agency Funds
\$ 7,244,816	\$ 4,761,321	\$
16,754,738	1,374,018	
549,796,590	520,209,568	
128,716,328	123,324,862	
21,126,610	28,152,145	
159,557,070	182,710,162	
21,915,032,131	19,347,275,331	
5,025,029	4,531,950	
5,262,441	4,290,847	
2,386,505		
		3,312
<b>\$ 22,810,902,258</b>	<b>\$ 20,216,630,204</b>	<b>\$ 3,312</b>
<b>\$ 89,453,120,074</b>	<b>\$ 105,639,336,870</b>	<b>\$ -0-</b>

# Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

EXHIBIT II

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>ADDITIONS:</b>		
<b>Contributions:</b>		
Member	\$ 2,107,057,870	\$ 173,856,344
State - General Fund	1,481,843,941	245,611,097
State - Federal Funds/Private Grants	275,182,487	21,860,202
Reporting Entities	412,728,096	149,562,613
Health Care Premiums		329,723,191
<b>TOTAL CONTRIBUTIONS AND PREMIUMS</b>	<b>\$ 4,276,812,394</b>	<b>\$ 920,613,447</b>
<b>Investment Income:</b>		
From Investing Activities:		
Net Depreciation in Fair Value of Investments	\$ (16,030,794,035)	\$
Interest	776,676,251	17,482,143
Dividends	1,108,384,911	
<b>TOTAL INVESTING ACTIVITIES INCOME (LOSS)</b>	<b>\$ (14,145,732,873)</b>	<b>\$ 17,482,143</b>
Less: Investing Activity Expenses	(68,990,517)	
<b>NET INCOME (LOSS) FROM INVESTING ACTIVITIES</b>	<b>\$ (14,214,723,390)</b>	<b>\$ 17,482,143</b>
From Securities Lending Activities:		
Securities Lending Income	\$ 371,868,589	\$
Securities Lending Expenses:		
Borrower Rebates	(93,966,133)	
Management Fees	(35,047,788)	
Net Income from Securities Lending Activities	\$ 242,854,668	\$ -0-
<b>TOTAL NET INVESTMENT INCOME (LOSS)</b>	<b>\$ (13,971,868,722)</b>	<b>\$ 17,482,143</b>
<b>Other Additions:</b>		
Reinstatement of Contribution Refunds	\$ 37,880,721	\$
Reinstatement Fees	36,661,692	
Legislative Appropriations for Excess Benefits	1,553,381	
Miscellaneous Revenues	3,899	
On Behalf Fringe Benefits Paid by the Federal Government		61,530,735
On Behalf Fringe Benefits Paid by the State		95,929
<b>TOTAL OTHER ADDITIONS</b>	<b>\$ 76,099,693</b>	<b>\$ 61,626,664</b>
<b>TOTAL ADDITIONS</b>	<b>\$ (9,618,956,635)</b>	<b>\$ 999,722,254</b>

**TOTAL - PENSION AND OTHER  
EMPLOYEE BENEFIT TRUST FUNDS**

2009	2008
\$ 2,280,914,214	\$ 2,163,707,900
1,727,455,038	1,685,067,990
297,042,689	272,095,738
562,290,709	495,197,110
329,723,191	328,505,433
\$ 5,197,425,841	\$ 4,944,574,171
\$(16,030,794,035)	\$ (7,992,472,030)
794,158,394	1,835,245,865
1,108,384,911	1,397,529,103
\$(14,128,250,730)	\$ (4,759,697,062)
(68,990,517)	(29,330,150)
\$(14,197,241,247)	\$ (4,789,027,212)
\$ 371,868,589	\$ 929,696,098
(93,966,133)	(682,745,643)
(35,047,788)	(33,642,743)
\$ 242,854,668	\$ 213,307,712
\$(13,954,386,579)	\$ (4,575,719,500)
\$ 37,880,721	\$ 44,045,625
36,661,692	43,161,749
1,553,381	1,646,494
3,899	3,596
61,530,735	59,486,239
95,929	91,945
\$ 137,726,357	\$ 148,435,648
\$ (8,619,234,381)	\$ 517,290,319

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# Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)  
(concluded)

EXHIBIT II

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
<b>DEDUCTIONS:</b>		
Benefits	\$ 6,342,010,323	\$
Refunds of Contributions	266,695,076	
Health Care Claims		885,132,865
Health Care Claims Processing		40,364,063
Administrative Expenses, Net of Investing Activity Expenses	28,310,448	2,916,259
Excess Benefits	1,553,381	
<b>TOTAL DEDUCTIONS</b>	<b>\$ 6,638,569,228</b>	<b>\$ 928,413,187</b>
<b>Net Increase (Decrease)</b>	<b>\$(16,257,525,863)</b>	<b>\$ 71,309,067</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS - BEGINNING OF YEAR</b>	<b>\$104,910,497,545</b>	<b>\$ 728,839,325</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS - END OF YEAR</b>	<b>\$ 88,652,971,682</b>	<b>\$ 800,148,392</b>

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**TOTAL - PENSION AND OTHER  
EMPLOYEE BENEFIT TRUST FUNDS**

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<b>2009</b>	<b>2008</b>
\$ 6,342,010,323	\$ 6,450,520,672
266,695,076	278,002,614
885,132,865	833,509,538
40,364,063	36,747,710
31,226,707	29,123,198
1,553,381	1,646,494
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\$ 7,566,982,415	\$ 7,629,550,226
\$ (16,186,216,796)	\$ (7,112,259,907)
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\$105,639,336,870	\$112,751,596,777
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\$ 89,453,120,074	\$105,639,336,870
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# Statement of Net Assets

PROPRIETARY FUNDS

AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

EXHIBIT III

	Enterprise Funds	
	Major Fund	Nonmajor Fund
	TRS-ActiveCare	403(b) Certification Program
<b>ASSETS</b>		
<b>Current Assets:</b>		
<b>Cash:</b>		
Cash in State Treasury	\$ 486,766,302	\$ 362,131
<b>TOTAL CASH</b>	<b>\$ 486,766,302</b>	<b>\$ 362,131</b>
<b>Short-Term Investments</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>Accounts Receivable:</b>		
Investment Interest	\$ 788,428	\$ 462
Health Care Premiums	56,584,741	
ARRA Cobra Premiums	170,219	
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>\$ 57,543,388</b>	<b>\$ 462</b>
<b>TOTAL ASSETS</b>	<b>\$ 544,309,690</b>	<b>\$ 362,593</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 365,378	\$ 7,333
Premiums Payable to HMOs	5,336,353	
Health Care Claims Payable	128,255,190	
Compensable Absences Payable	72,508	
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 134,029,429</b>	<b>\$ 7,333</b>
<b>Noncurrent Liabilities:</b>		
Compensable Absences Payable	\$ 41,369	\$
<b>TOTAL LIABILITIES</b>	<b>\$ 134,070,798</b>	<b>\$ 7,333</b>
<b>NET ASSETS</b>		
Restricted for Administrative Expenses	\$	\$ 355,260
Unrestricted	410,238,892	
<b>TOTAL NET ASSETS</b>	<b>\$ 410,238,892</b>	<b>\$ 355,260</b>

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**Total Enterprise Funds**

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**2009****2008**

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\$ 487,128,433 \$ 116,016,467

\$ 487,128,433 \$ 116,016,467

\$ -0- \$ 428,523,342

\$ 788,890 \$ 1,266,521  
56,584,741 49,961,692  
170,219

\$ 57,543,850 \$ 51,228,213

\$ 544,672,283 \$ 595,768,022

\$ 372,711 \$ 188,024  
5,336,353 5,552,472  
128,255,190 113,019,499  
72,508 72,187

\$ 134,036,762 \$ 118,832,182

\$ 41,369 \$ 45,514

\$ 134,078,131 \$ 118,877,696

\$ 355,260 \$ 419,702  
410,238,892 476,470,624

\$ 410,594,152 \$ 476,890,326

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

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

EXHIBIT IV

	Enterprise Funds	
	Major Fund	Nonmajor Fund
	TRS-ActiveCare	403(b) Certification Program
<b>OPERATING REVENUES:</b>		
Health Care Premiums	\$1,172,011,048	\$
Administrative Fees	187,813	
ARRA Cobra Reimbursements	170,219	
Certification Fees		6,000
Product Registration Fees		9,000
<b>TOTAL OPERATING REVENUES</b>	<b>\$1,172,369,080</b>	<b>\$ 15,000</b>
<b>OPERATING EXPENSES:</b>		
Health Care Claims	\$1,122,646,958	\$
Health Care Claims Processing	60,934,432	
Premium Payments to HMOs	64,820,440	
Administrative Expenses	1,861,949	88,000
<b>TOTAL OPERATING EXPENSES</b>	<b>\$1,250,263,779</b>	<b>\$ 88,000</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (77,894,699)</b>	<b>\$ (73,000)</b>
<b>NONOPERATING REVENUES:</b>		
Investment Income	\$ 11,597,992	\$ 8,558
On Behalf Fringe Benefits Paid by the State	64,975	
<b>TOTAL NONOPERATING REVENUES</b>	<b>\$ 11,662,967</b>	<b>\$ 8,558</b>
<b>Change in Net Assets</b>	<b>\$ (66,231,732)</b>	<b>\$ (64,442)</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>\$ 476,470,624</b>	<b>\$ 419,702</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 410,238,892</b>	<b>\$ 355,260</b>

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**Total Enterprise Funds**

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<b>2009</b>	<b>2008</b>
\$ 1,172,011,048	\$1,096,537,022
187,813	186,844
170,219	
6,000	30,000
9,000	180,000
<hr/>	<hr/>
\$ 1,172,384,080	\$1,096,933,866
\$ 1,122,646,958	\$ 952,156,339
60,934,432	54,583,499
64,820,440	68,204,743
1,949,949	2,022,258
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\$ 1,250,351,779	\$1,076,966,839
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\$ (77,967,699)	\$ 19,967,027
\$ 11,606,550	\$ 21,183,977
64,975	61,894
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\$ 11,671,525	\$ 21,245,871
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\$ (66,296,174)	\$ 41,212,898
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\$ 476,890,326	\$ 435,677,428
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\$ 410,594,152	\$ 476,890,326
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# Statement of Cash Flows

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

EXHIBIT V

	Enterprise Funds	
	Major Fund	Nonmajor Fund
	TRS-ActiveCare	403(b) Certification Program
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Health Care Premiums	\$ 1,165,530,400	\$
Receipts from Long-Term Care Administrative Fees	187,813	
Receipts from Certification/Product Registration Fees		15,000
Payments for Administrative Expenses	(1,749,846)	(96,667)
Payments for Health Care Claims	(1,107,449,363)	
Payments for Health Care Claims Processing	(60,896,335)	
Payments for HMO Premiums	(65,036,559)	
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (69,413,890)</b>	<b>\$ (81,667)</b>
Interest Received	\$ 12,074,969	\$ 9,212
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 12,074,969</b>	<b>\$ 9,212</b>
Net Increase (Decrease) in Cash	\$ (57,338,921)	\$ (72,455)
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 544,105,223	\$ 434,586
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 486,766,302	\$ 362,131
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (77,894,699)	\$ (73,000)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
(Increase) in Health Care Premiums Receivable	\$ (6,793,268)	\$
Increase (Decrease) in Premiums Payable to HMOs	(216,119)	
Increase in Health Care Claims Payable	15,235,692	
Increase (Decrease) in Accounts Payable	193,353	(8,667)
Increase (Decrease) in Compensable Absences Payable	(3,824)	
On Behalf Fringe Benefits Paid by the State	64,975	
<b>Total Adjustments</b>	<b>\$ 8,480,809</b>	<b>\$ (8,667)</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (69,413,890)</b>	<b>\$ (81,667)</b>

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**Total Enterprise Funds**

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<b>2009</b>	<b>2008</b>
\$ 1,165,530,400	\$ 1,085,380,356
187,813	186,844
15,000	210,000
(1,846,513)	(1,980,609)
(1,107,449,363)	(937,231,469)
(60,896,335)	(54,533,806)
(65,036,559)	(67,442,395)
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\$ (69,495,557)	\$ 24,588,921
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\$ 12,084,181	\$ 22,199,110
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\$ 12,084,181	\$ 22,199,110
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\$ (57,411,376)	\$ 46,788,031
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\$ 544,539,809	\$ 497,751,778
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\$ 487,128,433	\$ 544,539,809
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\$ (77,967,699)	\$ 19,967,027
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\$ (6,793,268)	\$ (11,049,733)
(216,119)	762,348
15,235,692	14,974,564
184,686	(154,054)
(3,824)	26,875
64,975	61,894
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\$ 8,472,142	\$ 4,621,894
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\$ (69,495,557)	\$ 24,588,921
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# Balance Sheet

GOVERNMENTAL FUND

AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

EXHIBIT VI

	School Employee Children's Health Insurance Program Special Revenue Fund*	
	2009	2008
TOTAL ASSETS	\$ -0-	\$ -0-
TOTAL LIABILITIES AND FUND BALANCE	\$ -0-	\$ -0-

\* This fund has activity presented on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

# Statement of Revenues, Expenditures, and Changes in Fund Balance

GOVERNMENTAL FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

EXHIBIT VII

	School Employee Children's Health Insurance Program Special Revenue Fund*	
	2009	2008
<b>REVENUES:</b>		
Legislative Appropriations	\$ 13,192,708	\$ 13,120,309
<b>TOTAL REVENUES</b>	<b>\$ 13,192,708</b>	<b>\$ 13,120,309</b>
<b>EXPENDITURES:</b>		
Administrative Expenditures	\$	\$
<b>TOTAL EXPENDITURES</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
Excess of Revenues Over Expenditures	\$ 13,192,708	\$ 13,120,309
<b>OTHER FINANCING SOURCES (USES):</b>		
Transfer Out to HHSC	\$ (13,192,708)	\$ (13,120,309)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (13,192,708)</b>	<b>\$ (13,120,309)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ -0-</b>	<b>\$ -0-</b>

\* The interagency contract with the Health and Human Services Commission (HHSC) for the Children's Health Insurance Program became effective September 1, 2007. Legislative appropriations were received by TRS in fiscal years 2009 and 2008 and transferred to HHSC in September 2008 and 2007, respectively.



# Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

EXHIBIT A

	Balances September 1, 2008	Additions	Deductions	Balances August 31, 2009
<b>Employees' Savings Bond Account</b>				
<b>Assets:</b>				
Cash in State Treasury	\$ 675	\$ 5,850	\$ 6,075	\$ 450
<b>Liabilities:</b>				
Funds Held for Others	\$ 675	\$ 5,825	\$ 6,050	\$ 450
<b>Child Support Employee Deductions</b>				
<b>Assets:</b>				
Cash in State Treasury	\$	\$ 2,970	\$ 108	\$ 2,862
<b>Liabilities:</b>				
Funds Held for Others	\$	\$ 2,970	\$ 108	\$ 2,862
<b>Totals - All Agency Funds</b>				
				<b>(Exhibit I)</b>
<b>Assets:</b>				
Cash in State Treasury	\$ 675	\$ 8,820	\$ 6,183	\$ 3,312
<b>TOTAL ASSETS</b>	<b>\$ 675</b>	<b>\$ 8,820</b>	<b>\$ 6,183</b>	<b>\$ 3,312</b>
<b>Liabilities:</b>				
Funds Held for Others	\$ 675	\$ 8,795	\$ 6,158	\$ 3,312
<b>TOTAL LIABILITIES</b>	<b>\$ 675</b>	<b>\$ 8,795</b>	<b>\$ 6,158</b>	<b>\$ 3,312</b>

# Rate of Return on Assets

YEAR ENDED AUGUST 31, 2009

EXHIBIT B

	<b>Pension Trust Fund</b>	<b>Health Benefits Plans and 403(b) Program</b>
<b>Cash and Short-Term Investments *</b>	-4.56%	1.10%
<b>Long-Term Investments: **</b>		
Global Equities	-17.14%	
Stable Value	1.96%	
Real Return	-20.24%	

\* The rate of return for the Pension Trust Fund was included in Stable Value in the Annual Investment Performance Report for fiscal year ended August 31, 2009.

\*\* These asset allocation investment categories are based on the portfolio that the underlying securities are invested in. The portfolios are determined by and subject to the system's investment policy guidelines. Rates for Long-Term Investments include appreciation in market value.



November 5, 2009

**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, 2009**

We certify that the information included herein and contained in the 2009 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2009.

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. Carter 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 have been set by Law and 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 31 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, 2009, the System's under-funded status has increased to \$21.6 billion from \$11.5 billion as of August 31, 2008. 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 10.42% of pay. The State set its contribution rate to 6.40% of pay as of September 1, 2009, which combined with the member contribution rate of 6.40% of pay provides a total contribution rate of 12.80% of pay. Therefore, there is 2.38% 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). Further, if the current assumptions are met (the trust earns an average 8.0% per annum) and the current 6.40% member and 6.40% State contribution rates continue, the fund is projected to remain solvent until the year 2058, after which the funding would return to a pay-as-you-go status. Therefore, for the current benefit structure to be sustainable, it is likely an increase in the contribution requirement will be needed.

The actuarial valuation report as of August 31, 2009 reveals that while the System has an unfunded liability in excess of \$21 billion, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 83.1%. However, because of the significant shortfall in investment income in FY2009, the System is now deferring net investment losses of \$17.7 billion compared to the last valuation when the System was deferring \$5.3 billion in net investment losses. Therefore, in the absence of actuarial gains in the future, the funded status of the System should decline as these deferred investment losses are recognized.

However, there has been a significant recovery since the February 28<sup>th</sup> update. As of the update, the UAAL was \$40.4 billion and the funded ratio was 67.7%. The increase from a 67.7% funded ratio to the current 83.1% is almost as dramatic as the decrease from the prior valuation. This illustrates the unique volatility during the past 24 months.

The System earned a negative (13.5)% return on a dollar-weighted market value of assets basis for the plan year ending August 31, 2009. The System experienced a loss on the actuarial value of assets of \$10.3 billion and a gain on the actuarial liabilities of \$0.3 billion for a total experience related loss of \$10.0 billion.

We normally only recognize 20% of a given year's investment income excess/(shortfall) in the valuation. However, with the sharp decline in the market value of assets this year, the preliminary actuarial value of assets was outside the 80%-120% market value corridor. Therefore, the actuarial value of assets was decreased until it was equal to 120% of the market value of assets. This resulted in the additional recognition of \$5.4 billion in investment losses in this valuation (or more than 1/2 of the actuarial loss on assets).

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. This valuation would reflect any changes to plan provisions as enacted by the 81<sup>st</sup> Texas Legislature, but there were no material changes passed by the legislature. Therefore, 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.

#### ***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, 2007 and were adopted on April 11, 2008. There have been no changes to these assumptions since the prior valuation.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. 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***

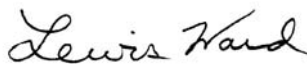
In preparing the August 31, 2009 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

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



W. Michael Carter, FSA, EA, MAAA  
*Senior Consultant*



Lewis Ward  
*Consultant*



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



Gabriel Roeder Smith & Company  
Consultants & Actuaries

5605 N. MacArthur Blvd.  
Suite 870  
Irving, TX 75038-2631

469.524.0000 phone  
469.524.0003 fax  
www.gabrielroeder.com

November 5, 2009

**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, 2009 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, 2009. 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 2008 Experience Study of TRS. Assumptions applicable only to TRS-Care have not 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*

# Actuarial Present Value of Future Benefits

PENSION TRUST FUND

ACTUARIAL VALUATION - AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

	2009	2008
<b>Present Value of Benefits Presently Being Paid:</b>		
Service Retirement Benefits	\$ 53,709,973,268	\$ 51,453,985,083
Disability Retirement Benefits	879,916,286	874,471,160
Death Benefits	766,356,875	754,788,755
Present Survivor Benefits	198,255,242	195,511,577
<b>TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID</b>	<b>\$ 55,554,501,671</b>	<b>\$ 53,278,756,575</b>
<b>Present Value of Benefits Payable in the Future to Present Active Members:</b>		
Service Retirement Benefits	\$ 91,873,230,382	\$ 87,025,085,373
Disability Retirement Benefits	1,208,634,286	1,142,684,668
Termination Benefits	5,708,049,103	5,331,386,735
Death and Survivor Benefits	1,446,008,078	1,359,266,421
<b>TOTAL ACTIVE MEMBER LIABILITIES</b>	<b>\$ 100,235,921,849</b>	<b>\$ 94,858,423,197</b>
<b>Present Value of Benefits Payable in the Future to Present Inactive Members:</b>		
Inactive Vested Participants Retirement Benefits	\$ 1,658,895,358	\$ 1,486,427,638
Death Benefits	115,999,840	106,067,772
<b>TOTAL INACTIVE VESTED BENEFITS</b>	<b>\$ 1,774,895,198</b>	<b>\$ 1,592,495,410</b>
Refunds of Contributions to Inactive Non-vested Members	\$ 279,784,905	\$ 257,432,662
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 1,054,137,786	\$ 1,011,941,816
<b>TOTAL INACTIVE LIABILITIES</b>	<b>\$ 3,108,817,889</b>	<b>\$ 2,861,869,888</b>
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 158,899,241,409</b>	<b>\$ 150,999,049,660</b>

## Summary of Cost Items

	2009	2008
Actuarial Present Value of Future Benefits	\$ 158,899,241,409	\$ 150,999,049,660
Present Value of Future Normal Costs	(30,869,937,598)	(29,242,507,363)
Actuarial Accrued Liability	\$ 128,029,303,811	\$ 121,756,542,297
Actuarial Value of Assets	(106,383,566,018)	(110,233,419,723)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 21,645,737,793</b>	<b>\$ 11,523,122,574</b>

# Actuarial Present Value of Future Benefits

HEALTH BENEFITS TRUST FUND - RETIRED PLAN

ACTUARIAL VALUATION - AUGUST 31, 2009 (With Comparative Totals for August 31, 2008)

	2009	2008
<b>Present Value of Benefits Being Paid:</b>		
Future Medical Claims	\$ 6,943,767,460	\$ 6,415,785,531
Future Rx Claims	6,975,762,195	7,682,912,536
Retiree Premiums Collected	(4,277,647,489)	(4,780,209,360)
<b>NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES</b>	<b>\$ 9,641,882,166</b>	<b>\$ 9,318,488,707</b>
<b>Present Value of Benefits Payable in the Future to Present Active Members:</b>		
Future Medical Claims	\$ 20,759,485,903	\$ 19,813,365,411
Future Rx Claims	20,543,501,184	20,014,551,561
Retiree Premiums Collected	(12,427,826,780)	(13,724,782,116)
<b>NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES</b>	<b>\$ 28,875,160,307</b>	<b>\$ 26,103,134,856</b>
<b>TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS</b>	<b>\$ 38,517,042,473</b>	<b>\$ 35,421,623,563</b>

## Summary of Cost Items

	2009	2008
Actuarial Present Value of Future Benefits	\$ 38,517,042,473	\$ 35,421,623,563
Present Value of Future Normal Costs	(14,159,550,909)	(13,108,725,516)
Actuarial Accrued Liability	\$ 24,357,491,564	\$ 22,312,898,047
Actuarial Value of Assets	(800,148,392)	(728,839,325)
<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY</b>	<b>\$ 23,557,343,172</b>	<b>\$ 21,584,058,722</b>