



2021 Annual Comprehensive Financial Report

Employees Retirement System of Texas | A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2021



The mission of the Employees Retirement System of Texas is to support the state workforce by offering competitive benefits at a reasonable cost.

Published December 2021

2021 Annual Comprehensive Financial Report

Porter Wilson, Executive Director

Prepared by: Finance Division



A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2021

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Highlights of Retirement Programs

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Certificate of Achievement

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Consultants and Advisors

Summary of Plan Provisions



Highlights of Retirement Programs

As of August 31, 2021

	ERS (Note A)	LECOS (Note A)	JRS II
Retirement Census Data			
Active Members	136,726	32,498	584
Terminated Employees Entitled to But Not Yet Receiving Benefits	145,050	29,626	192
Total Retirement Accounts	281,776	62,124	776
Retirees and Beneficiaries Currently Receiving Benefits	120,294	15,343	528
Total Retirements During the Fiscal Year	5,418	847	51
Funded Ratios (Note B)	68.0%	60.5%	84.6%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Note C)	76.06%	37.22%	80.31%
Results of Investments - Pension Trust Funds			
Interest, Dividends & Securities Lending Income	\$ 697,543,021	\$ 23,432,937	\$ 12,068,904
Net Appreciation in Fair Value of Investments	6,279,155,880	210,724,511	108,720,738
Other Transactions Summary			
Member Contributions	\$ 718,357,239	\$ 9,077,532	\$ 8,758,637
State Retirement Contributions	739,600,127	20,294,220	14,321,889
Retirement Benefits	2,666,714,057	88,123,365	34,943,715
Member Contributions Withdrawn	127,058,530	3,560,285	198,524
Administrative Expenses	21,850,725	1,780,707	234,946
Investment Expenses	40,260,717	1,386,474	657,073
Money-Weighted Rates of Return	25.50%	25.38%	25.53%
Time Weighted Rates of Return			
Investment Pool Trust Fund (Gross)	1-Year 25.51%	3-Year 11.38%	5-Year 11.17%

ERS - Employees Retirement Fund

LECOS - Law Enforcement and Custodial Officer Supplemental Retirement Fund

JRS II - Judicial Retirement System Plan Two

Note A: The members of the LECOS are also members of the ERS.

Note B: Funded Ratios are based on actuarial projections for funding purposes. The actuarial accrued liability used in the Funded Ratio Calculation for ERS and LECOS is based on a current liability of the benefit provisions in effect for each active member.

Note C: This calculation reflects market value, changes in single discount rate application, and other adjustments as required by GASB Statement No. 67.

Executive Director's Message



200 E. 18TH STREET, AUSTIN TEXAS 78701 | P.O. BOX 13207, AUSTIN, TEXAS 78711-3207 | (877) 275-4377 TOLL-FREE | WWW.ERS.TEXAS.GOV

December 17, 2021

The Honorable Greg Abbott, Governor of Texas
The Honorable Glenn Hegar, Texas Comptroller
Jerry McGinty, Director, Legislative Budget Board
Lisa Collier, State Auditor
The Board of Trustees and Members of the Employee Retirement System of Texas

PORTER WILSON
EXECUTIVE DIRECTOR

I. CRAIG HESTER
CHAIR

CATHERINE MELVIN
VICE-CHAIR

BOARD OF TRUSTEES
BRIAN BARTH
ILESA DANIELS
JAMES KEE PH.D.

Ladies and Gentlemen:

I am pleased to present the Employees Retirement System of Texas (ERS) Annual Comprehensive Financial Report (ACFR) for the year ended August 31, 2021. The state's retirement benefits and health coverage administered by ERS are an investment in Texas, funded by both members and taxpayers. Benefits, including the state's contributions toward health insurance and retirement, account for more than a third of total compensation for the average State employee. Thus, these benefits play a critical role in ensuring Texas has the workforce necessary to fulfill the mission of state government and providing the crucial services Texans rely on daily.

In Fiscal Year 2021, the COVID-19 pandemic continued to present substantial challenges to Texas. We are grateful that, despite these challenges, the 87th Texas Legislature passed important measures to benefit Texans. One of the items addressed during this session was the debt obligations of the state, specifically the retirement plan for state employees. With the passage of Senate Bill 321, the state committed to paying off the ERS Retirement Trust Plan's current long-term unfunded liability by 2054. They also adopted benefit changes for state agency employees hired on or after September 1, 2022—to reduce the risk of future large unfunded liabilities. I commend our legislators and the Governor for taking this critical step to restore the Trust Fund to health. Their increased investment in our state workers and retirees will help not only to protect Texas' strong financial standing, but also to ensure a qualified workforce for the future.

Although FY21 was marked with uncertainty, ERS earned a net return of 25.46% significantly above the policy benchmark return of 18.5%. Early in the fiscal year, COVID-19 spread rapidly, with new variants of the virus emerging. However by mid-year, vaccines had been developed and authorized for emergency use. This, along with the approval of a \$1.9 trillion pandemic relief package, fueled the reopening of the economy. The net position of the Fiduciary Funds administered by ERS totaled \$35.48 billion as of August 31, 2021, compared with \$29.51 billion as of August 31, 2020. During this period, ERS paid more than \$2.8 billion in annuities to more than 120,000 retirees and beneficiaries. These regular monthly payments are important not only to the annuitants, but also to the local economies where they live.

Action taken by the 87th Texas Legislature changed the trajectory for state employees' retirement plan. However, the current member and state contribution rates for the judicial plan and law enforcement and custodial officers' supplemental (LECOS) plan are still not actuarially sound and are on a path to fund depletion. ERS will continue to work with leadership offices and the 88th Legislature to assist in developing a plan to bring these funds back to fiscal health.

The Honorable Greg Abbott, Governor of Texas
The Honorable Glenn Hegar, Texas Comptroller
Jerry McGinty, Director, Legislative Budget Board
Lisa Collier, State Auditor
The Board of Trustees and Members of the Employee Retirement System of Texas
December 17, 2021
Page 2

Health plans administered by ERS remain on solid financial footing. In addition to the substantial boost to the ERS retirement plan, the Legislature maintained funding for insurance benefits for state employees and retirees. This is good news, given the uncertainty of the pandemic. State appropriations are only part of the equation when it comes to keeping insurance benefits affordable. ERS continues aggressive cost management, while ensuring appropriate access to care for health plan participants. During this fiscal year, our popular HealthSelect of Texas® plans expanded their Virtual Visits program to include mental health services and further grew the number of mental health providers in their statewide network—increasing access to critical services for many participants, especially those in rural areas. ERS continues to encourage members to improve health outcomes and controls costs by adopting healthy behaviors and participating in wellness and disease management programs.

Thank you for your ongoing support. We are honored to play a role in supporting this great state, its leadership, and its employees and retirees. We appreciate the giant steps to address the employees retirement plan in FY21. We look forward to working with you to address the financial condition of the judicial and LECOS plans, so they may continue to support the economic security of Texas and the dedicated public servants who devote their careers to our state.

Sincerely,

A handwritten signature in blue ink that reads "Porter Wilson". The signature is written in a cursive, flowing style.

Porter Wilson
Executive Director

Letter of Transmittal



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December 17, 2021

The Board of Trustees and Members of the Employees Retirement System of Texas

Ladies and Gentlemen:

PORTER WILSON
EXECUTIVE DIRECTOR

I am pleased to present the Employees Retirement System of Texas (ERS or "the System") Annual Comprehensive Financial Report (ACFR) for the year ended August 31, 2021 in compliance with Texas Government Code ANN Sec 2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

I. CRAIG HESTER
CHAIR

CATHERINE MELVIN
VICE-CHAIR

The System's Finance Division prepared this report in accordance with generally accepted accounting principles applied on a consistent basis as promulgated by the Government Accounting Standards Board (GASB). Its purpose is to provide information as a basis for making management decisions, to determine compliance with legal provisions, and to determine responsible stewardship over the assets contributed by the members and the state. CliftonLarsonAllen, LLP audited the report. For information regarding the scope of the audit, please see the Independent Auditor's Report in the Financial Section.

BOARD OF TRUSTEES
BRIAN BARTH
ILESA DANIELS
JAMES KEE PH.D.

The System's management is responsible for the accuracy, completeness and fair presentation of the information – including all disclosures. We believe the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets and the reliability of financial records.

Please refer to the Management's Discussion and Analysis in the Financial Section for an overview of the financial activities of the current and prior fiscal years.

SYSTEM'S STRUCTURE AND SERVICES

For financial reporting purposes, the System is considered a Retirement System of the State of Texas. The System's financial activities will be included in the annual financial report for the State of Texas for the fiscal year ended August 31, 2021.

The Employee's Retirement System was established in 1947 by the Texas Constitution to provide benefits for officers and employees of the state. The System administers retirement and disability annuities and death and survivor benefits for employees of the State of Texas and their beneficiaries, and proportional retirement benefits for members of the Proportionate Retirement Program.

The Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Plan was established in 1979 and is governed by Title 8, Subtitle B of the Texas Government Code. The program provides supplemental retirement benefits to certain certified peace officer and custodial officers specified in statute.

The Judicial Retirement Plan I and II were established to provide benefits for judges. Both Plans were created under Article XVI, Section 67 of the Texas Constitution and are governed by Title 8, Subtitle E of the Texas Government Code. Plan I was established in 1940 as a pay-as-you-go pension plan. The Judicial Retirement Plan II is governed by Section 840.103 and 840.106, Texas Government Code, and was established as a new plan of actuarially funded retirement benefits for judges becoming members of the Judicial Retirement System after August 31, 1985.

Although the Texas Judicial Retirement Systems are separate legal entities, the Employees Retirement System of Texas and the Texas Judicial Retirement Systems are a single accounting entity because they are governed by the same Board of Trustees (the Board), directed by the same management, and part of the System's goal of administering comprehensive and actuarially sound retirement programs.

The Board is responsible for accountability for all fiscal and budgetary matters. Operating administrative expenses, including capital items, are budgeted annually. The Board must approve any subsequent budget increase. Budgetary control is maintained in the financial system with automated edits, and through processes and procedures for approvals, encumbrances, and reporting. The Legislature determines the level of member and state contributions and benefit structure for the pension plans.

FINANCIAL CONDITION

Investment Performance

The investment portfolio closed the fiscal year with a fair value of \$34.9 billion and a gross return of 25.51% for the year. The gross time weighted rates of return for three and five years were 11.38% and 11.17%.

The System's investments are highly diversified and based on an asset allocation intended to withstand market fluctuations. The System successfully sustained operations and investment management during the COVID-19 pandemic. It maintains a professional and diversified investment program optimizing the mix of internal management and external advisors. During Fiscal Year 2021, the System held more than 4,000 meetings with external companies, brokers, managers and advisors to conduct due diligence on investment ideas.

Please refer to the Investment Section for additional information on the System's investment policies, strategies, safeguards and fees.

Funding Status

The Employees Retirement Plan's ratio of actuarial value of assets to the actuarial accrued liability was 68% for funding purposes as of August 31, 2021. The funded status is one of many metrics to show trends and assess future expectations regarding the health of a retirement plan. The funded status measure does not reflect normal cost contributions, the timing of amortization payments or future experience – and thus alone is not appropriate for assessing the sufficiency of a plan assets to cover the plan's benefit obligations. The 87th Texas Legislature changed the funding structure of the Employees Retirement Plan from a fixed-contribution structure to an actuarially determined structure. Senate Bill 321 introduced a new level-dollar contribution structure called legacy payments. These amounts are calculated for each biennium to fully amortize the Unfunded Actuarial Accrued Liability before the end of Fiscal Year 2054 and are in addition to the member and state percentage of payroll contributions. With implementation of the legacy payments and benefit changes for individuals hired after August 31, 2022, the System has met the first two goals and is on a path to meet the remaining two goals identified in the ERS Pension Funding Priorities and Guidelines: (1) fund normal costs; (2) avoid trust fund depletion; (3) meet current statutory standard of a 31-year funding period for unfunded liabilities; and (4) match funding period to the average years of service at retirement once a 31-year funding period is achieved with a closed amortization period.

The LECOS Retirement plan actuarial value of assets to the actuarial accrued liability ratio was 60.5% for funding purposes as of August 31, 2021. The JRS II Retirement Plan actuarial valuation of asset to the actuarial accrued liability ratio was 84.6% as of August 31, 2021. Contributions to LECOS and JRS II are less than the normal cost and no payment is available to amortize the unfunded liability. The System is committed to working with the Legislature to return the retirement plans to an actuarially sound status.

Additional information on funding status is presented in the Financial and Actuarial Sections.

New Accounting Standards

The System evaluated new reporting standards issued by the Governmental Accounting Standards Board to assess applicability. The System adopted GASB Statement No. 87 Leases effective September 1, 2020. The System also adopted GASB 98, the Annual Comprehensive Financial Report, which changes the name of the annual financial statements. Additional information on reporting changes is presented in the Financial Section.

MAJOR INITIATIVES

and integration of computer systems to enroll state employees in the new benefit and administer their accounts. However, other key components include policy development and communications. System staff have identified a dozen policy topics over the past five months and may identify more. ERS staff expect to present many of these new and/or amended policies to the Board in the form of Rule amendments and adoptions. Adopting the policies through the formal rule-making process will increase transparency and clarity of the benefit's operations to members and stakeholders.

A multi-divisional team is developing materials to educate employer agencies and future members on the structure and unique financial elements of the new cash balance retirement benefit. The team is also reviewing existing communication, education and correspondence materials for appropriate updates, clarifications and revisions to ensure members make the most informed decisions possible when preparing for their retirement security. In addition, information is being provided to current members, although the new benefits do not apply to them.

The System is also implementing legislation passed during the 87th legislative session regarding the Texas Employees Group Benefits Program. This includes Senate Bill 827 which limits member cost share for insulin to \$25 per prescription per month, and Senate Bill 1065, which requires the System's health plans to cover diagnostic imaging (including mammograms, ultrasound and MRIs) to detect breast cancer and abnormalities in the breast for those with a personal history of breast cancer. At the direction of the legislature, the system will also be engaging a third-party vendor to examine alternative methods to deliver the current benefits supplied under the Group Benefits Program and provide a report by August 31, 2022.

The System continues to enhance performance and accountability by expanding the use of technological solutions. During Fiscal Year 2021, the System engaged a consultant to help evaluate and identify solutions to replace aging pension and insurance benefit systems. The System is in the process of issuing a Request for Proposal and anticipates seeking contract approval in late Fiscal Year 2022.

AWARDS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officer Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the System for its Annual Comprehensive Financial Report for the fiscal year ended August 31, 2020. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a

Certificate of Achievement, a government unit must publish an easily readable and efficiently organized annual comprehensive financial report whose contents meet or exceed program standards and satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. The System has received a Certificate of Achievement for each of the last 32 years. We believe the current report continues to meet the Certificate of Achievement program requirements and are submitting it to the GFOA for consideration again this year.

Public Pension Standards Award for Administration

The Public Pension Coordinating Council (PPCC) gave the 2021 Public Pension Standards Award for Administration to the System in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis was accomplished with the efficient and dedicated service of the Finance staff and other employees of the System. I would like to express my appreciation for management's support in preparing this report and to all the employees of the System who contributed to its preparation.

Sincerely,

Machelle Pharr

Machelle Pharr, CPA
Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Employees Retirement System of Texas

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

August 31, 2020

Christopher P. Morrill

Executive Director/CEO



Public Pension Coordinating Council

Recognition Award for Administration
2021

Presented to

Employees Retirement System of Texas

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

Presented by the Public Pension Coordinating Council, a confederation of

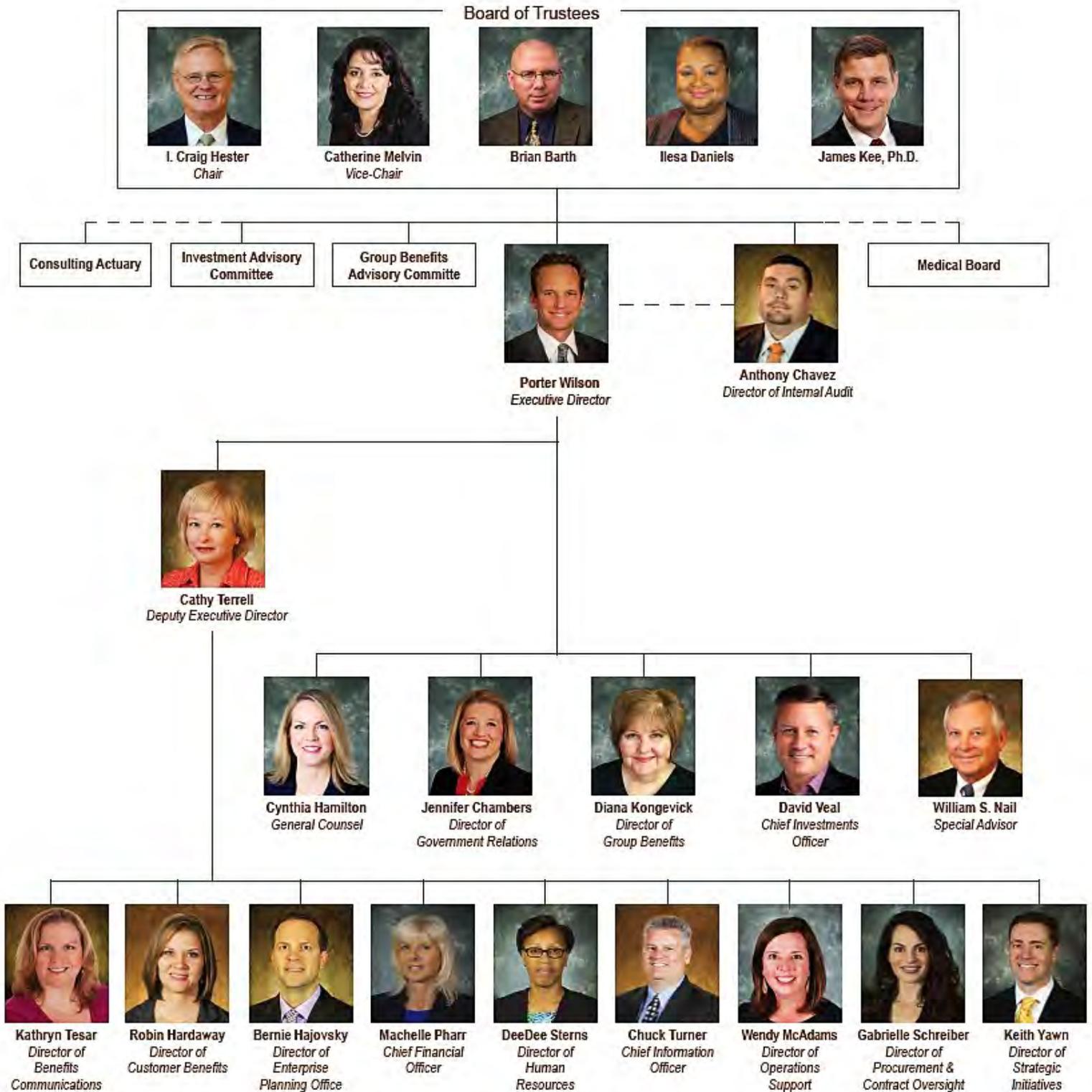
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

Organizational Chart and Data

As of August 31, 2021



Consultants and Advisors

As of August 31, 2021

Consulting Actuaries

Mitchell L. Bilbe, FSA
Philip S. Dial, FSA
Christopher S. Johnson, FSA
Rudd and Wisdom, Inc.

Ryan Falls, FSA, FCA, EA, MAAA
Joseph Newton, FSA, FCA, EA, MAAA
Dana Woolfrey, FSA, FCA, EA, MAAA
Gabriel, Roeder, Smith & Company

Investment Advisory Committee

Gene L. Needles, Jr., Chair
*Chairman and CEO,
Resolute Investment Managers*
Laurie L. Dotter, Vice-Chair
Robert G. Alley, CFA
Caroline Cooley
*Chief Investment Officer – Diversified Funds,
Crestline Investors, Inc.*
James R. Hille, CFA, CAIA
*Chief Investment Officer,
Texas Christian University Endowment*
Ken D. Mindell
*Senior Vice-President and Treasurer,
Rosewood Management Corporation*
Milton Hixson, CPA, CFP
CEO, FMP Wealth Advisors

Investment Consultants

Aksia TorreyCove Partners, LLC
Albourne America, LLC
CBRE Caledon Capital Management Inc.
Meketa Investment Group
NEPC, LLC

External Investment Advisors

Domestic Equity

Barrow, Hanley, Mewhinney & Strauss, LLC
Brandywine Global Investment Management, LLC

International Equity

Acadian Asset Management
Altrinsic Global Advisors, LLC
Arrowstreet Capital, LP
Axiom International Investors, LLC
BlackRock, Inc.
EAM Investors, LLC
Global Alpha Capital Management Limited
GQG Partners, LLC
JOHCM (USA), Inc.
Kayne Anderson Rudnick Investment Management, LLC
Lazard Asset Management
Pzena Investment Management, LLC
Quantitative Management Associates, LLC

Please refer to pages 101 to 103 in the Investment Section for a schedule of fees and commission.

Manager of Emerging Managers

Legato Capital Management, LLC

Global Custodian

BNY Mellon Asset Servicing

Group Benefits Advisory Committee

Large State Agency Representatives

Sandra White
Department of Criminal Justice
Matthew Miller
Department of Motor Vehicles

Mid-sized State Agency Representatives

Megan LaVoie
Office of Court Administration
Jane Thomas
Lottery Commission

Small State Agency Representative

Teresa Nelson
Department of Savings and Mortgage Lending

Four-year Institution of Higher Education Representative

Janet Bezner
Texas State University

Two-year Institution of Higher Education representative

Missy Kittner
McLennan Community College

Retiree Representatives

James Dobbins, Garland
Gary White, Austin

Health-Related Institution Representative

Barbara Cherry
Texas Tech University Health Sciences Center

Insurance or Benefit Design Consultant Representative

Jennifer Cawley
Texas Association of Life and Health Insurers

Medical Board

Ace Alsup, M.D.
William Deaton, M.D.
William P. Taylor, M.D.
William M. Loving, M.D.



Summary of Plan Provisions

Effective since September 1, 2009 (Except as noted below)

The Employees Retirement System of Texas was created by the Texas Legislature in 1947 and is administered in accordance with the Texas Constitution. The System provides retirement, disability, and survivorship benefits for State employees, law enforcement and custodial officers, elected state officials and two classes of judges. The System administers the trust funds, with a fiduciary obligation to the members and retirees of the System who are its beneficiaries.

The retirement programs complement the Social Security and Medicare programs by providing a retirement annuity with service, disability and survivorship benefits. The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), and Judicial Retirement System of Texas Plan Two (JRS II) are single employer defined benefit pension plans. The Judicial Retirement System of Texas Plan One (JRS I) is a pay-as-you-go plan for justices assuming the bench prior to September 1, 1985.

For a complete description of the provision of the law that describes the Retirement Plans, see Vernon's Texas Statutes and Codes Annotated (V.T.S.C.A.), Texas Government Code, Title 8. The following is a summary of the various plan provisions.

Note: This summary does not include changes to the plan for employees hired on or after September 1, 2022 made by the 87th Texas Legislature.

Membership:	
ERS	<p>Employee Class Only:</p> <ul style="list-style-type: none"> Employees and appointed officers of every department, commission, board, agency, or institution of the State except those who are included in the coverage of Teacher Retirement System of Texas, and JRS II. <p>Elected Class Only:</p> <ul style="list-style-type: none"> Persons who hold State offices that are normally filled by statewide election and that are not included under the plan provisions of JRS II. Members of the Legislature. District and criminal district attorneys.
LECOS	<ul style="list-style-type: none"> Law enforcement officers recognized as commissioned law enforcement officers by the Texas Commission on Law Enforcement and employed at an agency defined by statute. Custodial officers certified in accordance with the statutory requirements as having a normal job assignment that requires frequent or infrequent planned contact with inmates of that institution and employed at an agency defined by statute.
JRS II	<ul style="list-style-type: none"> Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service after August 31, 1985.
Service Retirement Eligibility without Reduced Benefits:	
ERS	<p>Employee Class Only:</p> <p>Hire date prior to 9-1-2009:</p> <ul style="list-style-type: none"> Age 60 with at least five years of service credit, or Rule-of-80 with at least five years of service credit, or Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. <p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> Age 65 with 10 years of service credit, or Rule-of-80, with at least 10 years of service credit at age 60, or Age 60 with at least 10 years of service credit as a certified peace officer or custodial officer. <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> Age 65 with 10 years of service credit, or Rule-of-80, with at least 10 years of service credit at age 62, or Age 62 with at least 10 years of service credit as a certified peace officer or custodial officer.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

Service Retirement Eligibility without Reduced Benefits (Continued):	
ERS (contd)	<p>Elected Class Only:</p> <ul style="list-style-type: none"> • Age 60 with eight years of service credit • Age 50 with 12 years of service credit.
LECOS	<p>Hire date prior to 9-1-2009:</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer and the member's age is at or over the age of 50 or the age at which the sum of age and years of service credit equals or exceeds the number 80. <p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer at or over age 55. <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer at or over age 57.
JRS II	<ul style="list-style-type: none"> • Age 65 with at least 10 years of service credit and currently holding a judicial office, or • Age 65 with at least 12 years of service if not currently holding a judicial office, or • 20 years of service at any age, regardless of whether the member currently holds a judicial office, or • The sum of age and years of service credit equals or exceeds the number 70 and served at least 12 years on an appellate court, regardless of whether the member currently holds a judicial office.
Early Service Retirement Eligibility with Reduced Benefits:	
ERS	<p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> • Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 60, up to 25%), or • Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. (5% annuity reduction for each year retired under age 60, up to 25%) <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> • Rule-of-80, with at least 10 years of service credit. (5% annuity reduction for each year retired under age 62, no cap), or • Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. (5% annuity reduction for each year retired under age 62, no cap)
LECOS	<p>Hire date prior to 09-01-2009:</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer, under the age of 50 (Actuarial reduction is applied). <p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer (5% annuity reduction for each year retired under age 55, up to 25%) <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer (5% annuity reduction for each year retired under age 57, no cap and an additional actuarial reduction for those that retire prior to age 50).

Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

Early Service Retirement Eligibility with Reduced Benefits (Continued):	
JRS II	<ul style="list-style-type: none"> • Age 60, but less than age 65, with 10 years of service credit and currently holding judicial office, or • Age 60, but less than age 65, with 12 years of service credit, if not currently holding a judicial office. <p>Effective 09-01-2019:</p> <ul style="list-style-type: none"> • Reduction percentages for early retirement from 50%: Age 60: 40% Age 61: 41.7% Age 62: 43.6% Age 63: 45.6% Age 64: 47.7%
Standard Service Retirement without Reduced Benefits:	
ERS	<p>Employee Class Only:</p> <ul style="list-style-type: none"> • Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit. • The average monthly compensation for those hired prior to 9-1-2009 is the average of the highest 36 months of compensation. • The average monthly compensation for those hired on or after 9-1-2009 and prior to 9-1-2013 is the average of the highest 48 months of compensation. • The average monthly compensation for those hired on or after 9-1-2013 is the average of the highest 60 months of compensation. • Minimum standard annuity is \$150 per month. • Maximum standard annuity is 100% of the average monthly compensation. <p>Elected Class Only:</p> <p>Prior to 9-1-2019</p> <ul style="list-style-type: none"> • Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit. • Retirement benefits are automatically adjusted should State judicial salaries change. • Maximum standard annuity is 100% of the State salary being paid to a district judge. <p>Effective 9-1-2019</p> <ul style="list-style-type: none"> • Standard monthly annuity is 2.3% of the current State base salary of a district judge multiplied by the number of years of service credit. • Retirement benefits are automatically adjusted should State judicial salaries change. • Maximum standard annuity is 100% of the State base salary being paid to a district judge. <p>District Attorneys Only:</p> <p>Effective 9-1-2019</p> <ul style="list-style-type: none"> • Standard monthly annuity is 2.3% of the salary being paid to a district judge based on the same number of years of contributing service. • Maximum standard annuity is 100% of the State base salary being paid to a district judge based on the same number of years of contributing service.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

Standard Service Retirement without Reduced Benefits (Continued):	
LECOS	<ul style="list-style-type: none"> • Standard monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit. • The average monthly compensation for those hired prior to 9-1-2009 is the average of the highest 36 months of compensation. • The average monthly compensation for those hired on or after 9-1-2009 and prior to 9-1-2013 is the average of the highest 48 months of compensation. • The average monthly compensation for those hired on or after 9-1-2013 is the average of the highest 60 months of compensation. • Minimum standard annuity is \$150 per month. • Maximum standard annuity is 100% of the average monthly compensation.
JRS II	<p>Prior to 9-1-2019</p> <ul style="list-style-type: none"> • Standard monthly annuity is equal to 50% of the salary for the last position from which the retiring member was elected or appointed. • An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge. • The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%. • The monthly annuity of a member who elects to make contributions after reaching the Rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%. <p>Effective 9-1-2019</p> <ul style="list-style-type: none"> • Standard monthly annuity is between 40%-47.7% (age 60-64) of the state salary paid to a judge of the last court they held judicial office based on Texas Gov't Code Section 839.102. • An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge. • The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each year with the total, including the additional 10%, not to exceed 90%. • The monthly annuity of a member who elects to make contributions after reaching the rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

Optional Annuity Plans:	
ERS	<p>Employee Class and Elected Class: Members can choose one of the following beneficiary options at retirement and still receive a lifetime annuity that is actuarially reduced for life at time of retirement.</p> <ul style="list-style-type: none"> • Option 1: Lifetime with 100% to surviving beneficiary; • Option 2: Lifetime with 50% to surviving beneficiary; • Option 1: Lifetime with 100% to surviving beneficiary; • Option 2: Lifetime with 50% to surviving beneficiary; • Option 3: Lifetime with five years certain (if retiree dies before receiving 60 payments, the surviving beneficiary gets the remaining 60 payments); • Option 4: Lifetime with 10 years certain (if retiree dies before receiving 120 payments, the surviving beneficiary gets the remaining 120 payments); • Option 5: Lifetime with 75% to surviving beneficiary; and • One-time partial lump sum of up to three years of standard annuity at retirement if the annuity is not age reduced (annuity is reduced for life and the reduced annuity is in addition to the calculation of the six beneficiary options listed above). • If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard amount.
LECOS	<ul style="list-style-type: none"> • Same as ERS.
JRS II	<ul style="list-style-type: none"> • Same as ERS except for the one-time partial lump sum.
Vesting Requirement:	
ERS	<p>Employee Class Only:</p> <p>Hire date prior to 09-01-2009:</p> <ul style="list-style-type: none"> • Five or more years of service credit. <p>Hire date on or after 09-01-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> • 10 or more years of service credit. <p>Hire date on or after 09-01-2013:</p> <ul style="list-style-type: none"> • 10 or more years of service credit. <p>Elected Class Only:</p> <ul style="list-style-type: none"> • Eight or more years of service credit.
LECOS	<ul style="list-style-type: none"> • 20 or more years of service credit as a certified peace officer/custodial officer.
JRS II	<ul style="list-style-type: none"> • 10 or more years of service credit if currently hold a judicial office • 12 or more years of service credit if not currently holding a judicial office.
Vested Benefits after Termination of Employment:	
ERS	<ul style="list-style-type: none"> • Member is entitled to a deferred retirement benefit based on service and compensation prior to termination. • Member must leave accumulated contributions in the System to which the member contributed. • Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership, terminates the member's rights to benefits, and forfeits their retirement group should they return to state employment.
LECOS	<ul style="list-style-type: none"> • Same as ERS.
JRS II	<ul style="list-style-type: none"> • Same as ERS.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

Disability Retirement Eligibility:	
ERS	<p>Employee Class Only:</p> <ul style="list-style-type: none"> For occupational disability, the member must have at least one month of service credit and they must make a retirement contribution in the month they become mentally or physically incapacitated to continue to perform his/her state job or any other job offering comparable pay. Other eligibility requirements also apply. For non-occupational disability, at least 10 years of Employee Class service credit, which may include up to five years of purchased military service credit or transferred Teacher Retirement System of Texas service credit, and be a contributing member at the time they become mentally or physically incapacitated to continue to perform his/her state job or any other job offering comparable pay. Other eligibility requirements also apply. <p>Elected Class Only:</p> <ul style="list-style-type: none"> For occupational disability, the member must have at least one month of service and they must make a retirement contribution in the month they become mentally or physically incapacitated to continue to perform his/her state job or any other job offering comparable pay. Other eligibility requirements also apply. For non-occupational disability, eight years of Elected Class service credit (exclusive of military service) or six years of Elected Class service plus two years of military service if purchased before January 1, 1978, and be a contributing member at the time they become mentally or physically incapacitated to continue to perform his/her state job or any other job offering comparable pay. Other eligibility requirements also apply.
LECOS	<ul style="list-style-type: none"> Same as ERS Employee Class only.
JRS II	<ul style="list-style-type: none"> At least seven years of service credit.
Disability Retirement Benefits:	
ERS	<p>Employee Class Only:</p> <ul style="list-style-type: none"> For occupational disability, the benefits are the same as those under the standard service retirement, except the standard annuity is equal to not less than 35% of the average monthly compensation (calculated the same as a standard service retirement) regardless of the years of service credit or age. For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service credit. The optional annuity plans available are the same as those under a service retirement except there is no partial lump-sum option. <p>Elected Class Only:</p> <ul style="list-style-type: none"> For non-occupational disability, the retirement is calculated in the same manner as the standard retirement annuity and is not reduced because of age. For occupational disability, the amount of a monthly annuity is 18.4% of the State base salary of a district judge or 2.3% of the State base salary of a district judge times the years of elected service, whichever is greater. Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.

Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

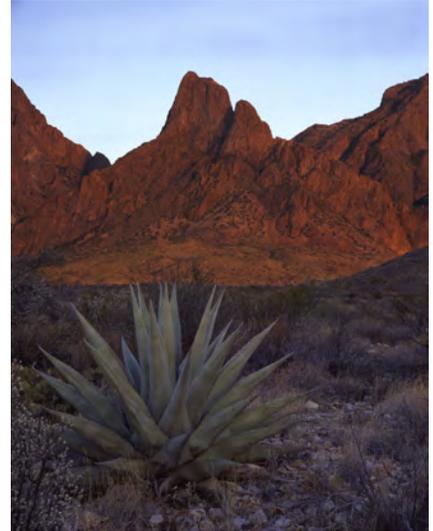
Disability Retirement Benefits (Continued):	
LECOS	<ul style="list-style-type: none"> For occupational disability, the standard annuity is a minimum of 50% of the highest average monthly compensation (calculated the same as a standard service retirement) regardless of the years of service credit or age. The standard annuity is increased to 100% of the average monthly compensation (calculated the same as a standard service retirement) if the retired member can prove that their occupational disability makes them incapable of substantial gainful activity solely because of the occupational disability and they are considered totally disabled under federal social security law due to the same condition that qualified them for occupational benefits. For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.
JRS II	<ul style="list-style-type: none"> Same as standard JRS II service retirement benefits.
Death Benefits:	
ERS	<p>Non-Retiree Employee Class:</p> <ul style="list-style-type: none"> If an active state employee dies and the death is determined to be an occupational death, the surviving spouse or minor children may be eligible for a one-time death benefit equal to one year of the member's salary. If there is not a surviving spouse or minor children, this occupational death benefit is not payable to anyone else. <p>A contributing member with less than 10 years of service credit:</p> <ul style="list-style-type: none"> For a contributing member that had less than 10 years of service credit, the designated beneficiary(ies) or estate of the active account will receive a one-time refund of the member's retirement account balance at the time of the member's death and may be eligible for an Additional Death Benefit (ADB). This is an additional 5% of the member's retirement account balance for each full year of state service. The maximum is 100% of the member's retirement account balance. <p>A contributing member with at least 10 years of service credit:</p> <ul style="list-style-type: none"> May select a death benefit plan: a lifetime monthly payment, a 10-year guaranteed monthly payment or a one-time refund of the retirement account balance at the time of the death. If the member was age 60 with five or more years of service credit and less than 10 years, and the beneficiary is either the spouse or a minor child, they may be eligible for a death benefit plan. If a one-time refund of the member's retirement account balance is selected, the beneficiary(ies) or estate may be eligible for an Additional Death Benefit (ADB). This is an additional 5% of the member's retirement account balance for each full year of state service. The maximum is 100% of the member's retirement account balance. If a lifetime monthly payment or a 10-year guaranteed monthly payment is selected, the beneficiary(ies) or estate are eligible for a one-time partial lump sum of up to three years of standard annuity. Only one beneficiary can be eligible for a lifetime monthly payment. An individual beneficiary, multiple beneficiaries or estate can be eligible for a 10-year guaranteed monthly payment. <p>Retiree Employee Class:</p> <ul style="list-style-type: none"> If a member selected an optional service retirement and dies, the beneficiary will receive a monthly payment based on the option chosen. If a retired member selected a standard annuity and dies after retiring from the state, the designated beneficiary(ies) or estate will receive a one-time refund of the member's retirement account balance if there is any money left in the account.

Summary of Plan Provisions (Concluded)

Effective since September 1, 2009 (Except as noted below)

Death Benefits (Continued):	
ERS (contd)	<p>Retiree Employee Class (contd):</p> <ul style="list-style-type: none"> If the member was retired, the designated beneficiary(ies) or estate is eligible for a one-time Retiree Lump Sum Death Benefit in the amount of \$5,000. If retired under the Proportionate Retirement Program with less than five years of service credit, this payment will be reduced proportionately. <p>Elected Class Only:</p> <ul style="list-style-type: none"> For members with less than 8 years of service credit at the time of death, the designated beneficiary(ies) or estate will receive a one-time refund of the member's retirement account balance. If contributing, the beneficiary(ies) or estate may be eligible for an Additional Death Benefit (ADB). This is an additional 5% of the member's retirement account balance for each full year of state service. The maximum is 100% of the member's retirement account balance. For a contributing member with at least 8 years of service credit and is age 60 or above, at the time of death, the surviving spouse if designated as the beneficiary may be eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. If there is no surviving spouse, and the surviving minor child(ren) is designated as the beneficiary(ies) or estate they may be eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. If the surviving spouse/minor child selects the one-time refund, they are eligible for the ADB. This option is not available if they select a monthly payment. If there is no surviving spouse/minor child, the beneficiary (ies) or estate may be eligible for a refund of the member's retirement account balance plus the ADB. For a contributing or non-contributing member with at least 8 years of state service but less than 10 years of state service, the surviving spouse is eligible to receive a monthly payment that is one-half of the monthly standard annuity the member would have received at age 60. This annuity cannot be paid if there is no surviving spouse. The beneficiary (ies) or estate would then be eligible for a refund of the member's retirement account balance plus the ADB if the member was contributing. If a member selected an optional service retirement and dies, the beneficiary (ies) or estate will receive a monthly payment based on the option chosen. If a retired member selected a standard annuity and dies after retiring from the state, the designated beneficiary (ies) or estate will receive a one-time refund of the member's, retirement account balance if there is any money left in the account. If a member is retired, the designated beneficiary(ies) or estate is eligible for a one-time Retiree Lump Sum Death Benefit in the amount of \$5,000. If retired under the Proportionate Retirement Program with less than eight years of service credit, this payment will be reduced proportionately.
LECOS	<ul style="list-style-type: none"> Same as ERS except beneficiary(ies) of deceased members with at least 20 years of certified peace officer/custodial officer service, under age of 50 at the time of death, are not eligible for a one-time partial lump sum of up to three years of the monthly payment.
JRS II	<ul style="list-style-type: none"> Same as ERS except not eligible for a one-time partial lump sum of up to three years of the monthly payment and the Lump Sum Death Benefit in the amount of \$5,000 is reduced proportionately if retired under the Proportionate Retirement Program with less than 10 years of service credit.

FINANCIAL SECTION



Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Other Supplementary Information





INDEPENDENT AUDITORS' REPORT

Board of Trustees
Employees Retirement System of Texas
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund and the aggregate remaining fund information of the Employees Retirement System of Texas (ERS), a component unit of the State of Texas, as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the ERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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



Board of Trustees
Employees Retirement System of Texas

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund and the aggregate remaining fund information of the ERS, a component unit of the State of Texas, as of August 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

ERS' Financial Statements

As discussed in Note 1, Section 1.A, the financial statements of the ERS, a component unit of the State of Texas, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the State of Texas that is attributable to ERS. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2021, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion & analysis, budgetary comparison schedule – appropriated general fund, schedules of changes in net pension liability and related ratios – defined benefit plans, employer contributions – defined benefit plans, changes in net OPEB liability and related ratios, contributions from employers and non-employer contributing entities – other postemployment benefits plan and investment returns – annual money-weighted rate of return, net of investment expense and the related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the ERS' basic financial statements. The supporting schedules, other supplementary schedules and the introductory, investment, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Trustees
Employees Retirement System of Texas

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

The introductory, investment, actuarial and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2021, on our consideration of ERS' 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 solely 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 the effectiveness of the ERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ERS' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
December 17, 2021

Management's Discussion and Analysis

Year Ended August 31, 2021

We are pleased to provide this overview of the financial activities of the Employees Retirement System of Texas (the System) for the year ended August 31, 2021. Please read it in conjunction with the Basic Financial Statements, which begin after this discussion.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The Financial Section includes the following exhibits in the Basic Financial Statements Section.

- Exhibits I and II are the government-wide statements of governmental net position and activities. These exhibits exclude the Fiduciary Fund activities and balances.
- Exhibits III and IV are Special Revenue Funds statements for four of the programs presented in the government-wide statements.
- Exhibits V and VI are the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position for the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Program). Highlights are presented under the heading Financial Analysis on Government-wide Statements below.
- Exhibit VII is a required Statement of Cash Flows for the Proprietary Fund under which the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Program) is reported. This statement reports the transactions for the year on a cash basis. It is similar to Exhibit VI, the Statement of Revenues, Expenses, and Changes in Net Position, except that the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.
- Exhibits VIII and IX, the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position, report activities of the defined benefit plans, including the retiree insurance plan. These exhibits also report the cafeteria plan and other deferred compensation plans.

Financial Analysis on Government-wide Statements

The government-wide activities of the System are comprised of seven programs:

- Social Security Administration,
- Death Benefits for Public Safety Officers,
- Compensation to Victims of Crime,

- Death Benefits for Retirees,
- Judicial Retirement System Plan One,
- Unappropriated Receipts General Revenue, and
- Employees Life, Accident and Health Insurance and Benefits

The Employees Life, Accident and Health Insurance and Benefits in Exhibits I and II had significant changes from the prior year. Exhibits V and VI provide additional information on the Employees Life, Accident and Health Insurance and Benefits. The changes in the program are summarized in millions as follows:

	2021	2020	Changes
	\$	\$	%
Net Position	2,967.76	2,591.96	14.50
Current Liabilities	739.01	713.94	3.51
Member and Employer Contributions	2,767.68	2,765.37	0.08
Benefit Payments	2,495.98	2,298.10	8.61

The change in Net Position is primarily due to increase in interest revenues from the fixed income, short term and securities lending investments. Benefit payments increased due to higher utilization of health care services in comparison to the prior year and increases in claims related to COVID-19.

Financial Highlights – Fiduciary Funds

Net position of the Fiduciary Funds administered by the System totaled \$35.48 billion as of August 31, 2021, compared with \$29.51 billion as of August 31, 2020. The investment portfolio returned 25.5% for the year. The majority of the increase resulted primarily from investment performance. The time weighted rate of return for three and five years were 11.38% and 11.17%, respectively.

The one year money-weighted rates of return for the Fiduciary Funds are summarized as follows:

Fund Name	Rate (%)
Employees Retirement System Fund	25.50
Law Enforcement and Custodial Officer Supplemental Retirement Fund	25.38
Judicial Retirement System of Texas Plan Two Fund	25.53
Overall	25.49

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2021

The System's management has confidence in the financial markets and maintains a long term approach to investing the System's assets. The System's investments are highly diversified and are designed to withstand market fluctuations.

Asset Allocation

Asset Class	%
Alternative Investments	34.11
Directional Growth	1.45
Global Credit Fixed Income Securities	9.64
Global Public Equity Special Situations	1.42
International Equity	16.45
Large Cap Domestic Equity	17.86
Small and Mid Cap Domestic Equity	3.13
Other Investments	2.62
Hedge Funds	4.24
Rates Fixed Income Securities	9.08

For additional details, please see the Report on Investment Activity in the Investment Section.

Changes in contributions and benefit payments in the Defined Benefit Plans are summarized in millions as follows:

	2021	2020	Changes
	\$	\$	%
Contributions:			
Retirement & Other	1,622.70	1,611.71	0.68
Insurance	913.49	897.20	1.82
Total (Exh. IX)	2,536.19	2,508.91	1.09
Benefit Payments:			
Retirement & Other	2,951.12	2,848.39	3.61
Insurance	874.47	846.74	3.27
Total (Exh. IX)	3,825.59	3,695.13	3.53

Retirement benefit payments increased due to growth in the number of retirees and beneficiaries. Insurance payments increased due to COVID-19 related claims.

See Exhibits VIII and IX for more information regarding each of the defined benefit plans and the deferred compensation and cafeteria plans.

Fiduciary Net Position

The amount of changes in fiduciary net position (in millions) were as follows:

	2021	2020	Changes
	\$	\$	%
Changes in Fiduciary Net Position (Exh. IX)	5,970.76	672.79	787.47
Total Net Position	35,477.65	29,506.89	20.24

The increase in changes in Fiduciary Net Position is due primarily to investment performance. The gross time weighted rate of return was 25.51%, which was higher than the previous year return of 6.85%.

Additions

Retirement benefits are financed through the collection of member and State retirement contributions, investment income, legislative appropriations, and contributions transferred from the Teacher Retirement System. Additions in Fiduciary Net Position have been extracted from Exhibit IX, Statement of Changes in Fiduciary Net Position. The additions in millions were as follows:

	2021	2020	Changes
	\$	\$	%
Member Contributions	798.09	801.21	(0.39)
Employer Contributions	1,541.01	1,520.75	1.33
Non-Employer Contributing Entity Contributions	39.19	37.74	3.84
Net Investment Income	7,290.29	1,884.31	286.89
Other Additions	223.06	226.07	(1.33)
Total Additions (Exh. IX)	9,891.64	4,470.08	121.29

The increase in the net investment income is due primarily to investment performance.

For the Employees Retirement Fund, member and State retirement contribution rates for Fiscal Year 2021 were 9.5% and 10.0% respectively. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), both the State and member contributed 0.5% of the covered payroll. For the Judicial Retirement Plan II Fund, member and State retirement contribution rates were 9.5% and 15.663% respectively.

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2021

Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation or depreciation in fair value of investments, and is net of investment expenses.

Deductions

Benefit payments are the primary expense of a retirement system. Total deductions are comprised of benefit payments, refunds of contributions to members or beneficiaries for reasons of separation from service or death, other death benefit payments, contributions transferred to the Teacher Retirement System, and the cost of administering the System. Deductions in Net Position have been extracted from Exhibit IX, Statement of Changes in Fiduciary Net Position.

Changes in deductions are summarized in millions as follows:

	2021	2020	Changes
	\$	\$	%
Retirement Benefits and Refunds	3,885.72	3,761.05	3.31
Administrative Expenses	34.18	35.03	(2.43)
Other Deductions	.98	1.21	(19.01)
Total Deductions (Exh. IX)	3,920.88	3,797.29	3.25

Assets

Investments, both short-term and long-term, are the primary asset of the System's pension and other employee benefit trust funds as shown in the following table. Asset information has been extracted from Exhibit VIII. Changes in assets are summarized in millions as follows:

	2021	2020	Changes
	\$	\$	%
Cash and Cash Equivalents	104.79	128.79	(18.63)
Securities Lending Collateral	313.73	112.86	177.98
Legislative Appropriation	—	0.25	(100.00)
Investments	34,806.71	28,979.23	20.11
Receivables	749.35	615.44	21.76
Due From Other Funds/Agencies	15.46	22.58	(31.53)
Capital Assets	67.52	43.79	54.19
Total Assets (Exh. VIII)	36,057.56	29,902.94	20.58

Liabilities

The condensed liabilities have been extracted from Exhibit VIII, Statement of Fiduciary Net Position. Changes in liabilities are summarized in millions as follows:

	2021	2020	Changes
	\$	\$	%
Accounts Payable	251.91	273.04	(7.74)
Due To Other Funds/Agencies	7.25	5.37	35.01
Compensable Leave	4.63	4.36	6.19
Securities Lending Obligations	314.11	112.89	178.24
Other Liabilities	2.01	0.39	415.38
Total Liabilities (Exh. VIII)	579.91	396.05	46.42

Funding Status and Progress

For funding purposes, the latest annual actuarial valuation of the System's pension and OPEB plans, as of August 31, 2021, (compared to the August 31, 2020 actuarial valuation) is summarized as follows:

Employees Retirement System Fund

	August 31, 2021	August 31, 2020
Unfunded Actuarial Accrued Liability	\$14,118,331,031	\$14,715,104,328
Annual Legacy Contribution	\$510 million	
Funded Ratio	68.0 %	66.0 %
Contribution rate as a percentage of payroll	19.50 %	19.50 %
Normal cost as a percentage of payroll	14.12 %	14.16 %

The 87th Texas Legislation passed Senate Bill 321, providing a legacy payment annually to the Employees Retirement System to pay off the current unfunded liability by 2054. The legacy payment begins September 1, 2021 for Fiscal Year 2022. Additionally, Senate Bill 321 establishes a cash balance benefit in the defined benefit plan for state employees hired on or after September 1, 2022.

As a result of the state's commitment to make constant adequate contributions and strong investment performance for fiscal year 2021, the latest annual actuarial valuation projects the

Management's Discussion and Analysis (Concluded)

Year Ended August 31, 2021

Employees Retirement System fund to be actuarially sound in 33 years compared to last year's actuarial valuation projected depletion date of 2061.

Law Enforcement and Custodial Officer Supplemental Retirement Fund

	August 31, 2021	August 31, 2020
Unfunded Actuarial Accrued Liability	\$ 652,701,151	\$ 641,524,299
Funded Ratio	60.5 %	60.1 %
Contribution rate as a percentage of payroll	1.00 %	1.00 %
Normal cost as a percentage of payroll	1.97 %	1.96 %

In addition to the payroll contribution, the State contributes court fees to the LECOS fund. The total contribution rate and approximately \$15 million from court fees is less than the normal cost of the plan by 0.02%, and no payments will be available to amortize the unfunded actuarial accrued liability over a finite period of time. For Fiscal Year 2021, the total employer contribution rate to fund the normal cost plus amortize the unfunded actuarial accrued liability balance over 31 years as a level percentage of payroll is 3.97%.

Judicial Retirement System of Texas Plan Two Fund

	August 31, 2021	August 31, 2020
Unfunded Actuarial Accrued Liability	\$ 95,021,008	\$ 104,428,095
Funded Ratio	84.6 %	82.3 %
Contribution rate as a percentage of payroll	25.053 %	25.083 %
Normal cost as a percentage of payroll	26.64 %	26.26 %

The total contribution rate is below the normal cost by 1.587% of payroll for the current fiscal year, and it is not sufficient to amortize the unfunded actuarial accrued liability over a finite period of time.

State Retiree Health Plan

	August 31, 2021	August 31, 2020
Unfunded Actuarial Accrued Liability	\$35.9 B	\$33.04 B
Funded Ratio	0.6 %	0.6 %
Contribution rate as a percentage of Actuarially Determined Contribution	29.68 %	30.42 %
Normal cost as a percentage of payroll	12.80 %	12.40 %
Actuarially Determined Contribution as a percentage of payroll	21.60 %	20.50 %

The State Retiree Health Plan is currently funded on a pay-as-you-go basis. The net plan position as of is \$135.65 million and the net changes in Fiscal Year 2021 are summarized as follows:

Additions:	\$
Employer Contributions	766,689,167
Non-Employer Contributing Entity Contributions	39,188,518
Federal revenues	107,612,306
Investment Income	233,490
Other Revenues	59,357
Total Additions	913,782,838
Deductions:	
Health Care Claims	1,066,896,850
Less Payments from Members	(192,426,941)
Total Benefit Payments	874,469,909
Administrative Expenses	8,607,490
Total Deductions	883,077,399
Net changes	30,705,439

Contacting the System's Financial Management

This financial report is designed to provide a general overview of the System's finances. If you have questions about this report or need additional financial information, please contact Machel Pharr, Chief Financial Officer at Machel.Pharr@ers.texas.gov.

Exhibit I

Statement of Net Position

As of August 31, 2021

Governmental Activities

	\$
Assets	
Current Assets:	
Cash and Cash Equivalents:	
Cash on Hand	46,980
Cash in State Treasury	130,107,124
Total Cash and Cash Equivalents	130,154,104
Securities Lending Collateral	22,668,555
Short-Term Investments	1,301,370,130
Legislative Appropriations	190,935
Receivables	264,142,620
Due from Fiduciary Funds	3,555,986
Due from Other Agencies	—
Total Current Assets	1,722,082,330
Non-Current Assets:	
Public Equities	17,913,312
Fixed Income	1,815,194,102
Alternative Investments	151,822,490
Other Investments	(27,244)
Total Non-Current Assets	1,984,902,660
Total Assets	3,706,984,990
Liabilities	
Current Liabilities:	
Payables	712,024,378
Due to Fiduciary Funds	4,862,867
Due to Other Agencies	—
Unearned Revenue	47,164
Obligations Under Securities Lending	22,284,263
Total Current Liabilities	739,218,672
Total Liabilities	739,218,672
Net Position	
Restricted for:	
Employees Life, Accident and Health Insurance and Benefits	2,967,760,085
Unrestricted	6,233
Total Net Position (Exh. II & III)	\$2,967,766,318

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit II
Statement of Activities
Year Ended August 31, 2021

	Program Revenues			Net (Expense)
	Expenses	Changes for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Functions/Programs	\$	\$	\$	\$
Governmental Activities				
Judicial Retirement System Plan One	18,711,844	18,711,844		
Social Security Administration	94,120	71,912		(22,208)
Death Benefits-Peace Officers, Firemen, etc.	25,602,818	25,602,818		
Compensation to Victims of Crime	3,500,000	3,500,000		
Death Benefits-Retiree \$5,000 Lump Sum	11,891,006	11,891,006		
Employees Life, Accident and Health Insurance and Benefits	2,512,943,620	2,767,840,998	120,907,460	375,804,838
Total Governmental Activities	2,572,743,408	2,827,618,578	120,907,460	375,782,630

General Revenues:	
Transfers	27,221
Total General Revenues	27,221
Change in Net Position (Exh. IV)	375,809,851
Net Position - Beginning	2,591,956,467
Net Position - Ending (Exh. I)	2,967,766,318

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit III

Balance Sheet – Governmental Funds

As of August 31, 2021

	General Fund Totals (Note 1.E)	Non-major Special Revenue Funds Totals (Note 1.E)	Total Governmental Funds
Assets	\$	\$	\$
Current Assets:			
Cash and Cash Equivalents:			
Cash in State Treasury		7,304	7,304
Total Cash and Cash Equivalents		7,304	7,304
Legislative Appropriations	186,185	4,750	190,935
Accounts Receivable		5,214	5,214
Due From Other Funds (Note 5.A)		10,542	10,542
Total Current Assets	186,185	27,810	213,995
Total Assets	186,185	27,810	213,995
Liabilities & Fund Balances			
Current Liabilities:			
Payables:			
Voucher/Accounts Payable	186,185	4,750	190,935
Due To Other Funds (Note 5.A)		16,643	16,643
Unearned Revenues		184	184
Total Current Liabilities	186,185	21,577	207,762
Total Liabilities	186,185	21,577	207,762
Fund Balances:			
Committed		6,233	6,233
Total Fund Balances (Exh. IV)		6,233	6,233
Total Liabilities & Fund Balances	186,185	27,810	213,995
Total Fund Balances - Governmental Funds (above):			6,233
Amounts reported for 'Governmental Activities' in the Statement of Net Position (Exhibit I) are different because:			
An Internal Service Fund is used by the System to account for the assets and liabilities associated with the Group Benefits Program for State employees and employees of certain institutions of higher education.			
The Net Position of the Internal Service Fund (Exhibit V) are included with 'Governmental Activities' in the Statement of Net Position.			2,967,760,085
Net Position of Governmental Activities (Exh. I)			2,967,766,318

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit IV

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Year Ended August 31, 2021

	General Fund Totals (Note 1.E)	Non-major Special Revenue Funds Totals (Note 1.E)	Total Governmental Funds
Revenues	\$	\$	\$
Legislative Appropriations out of the State's General Revenue Fund:			
Appropriation Revenue:			
For Judicial Retirement System Plan One	18,711,844		18,711,844
For Death Benefits Peace Officers, etc.		25,602,818	25,602,818
For Victims of Crime		1,641,006	1,641,006
For Death Benefits-Retirees		13,750,000	13,750,000
Total Appropriation Revenue	18,711,844	40,993,825	59,705,668
Administration Fees for Social Security Administration		71,912	71,912
Total Revenues	18,711,844	41,065,737	59,777,580
Expenditures			
Current:			
Death Benefits		40,993,825	40,993,825
Retirement Benefits	18,711,844		18,711,844
Administrative Expenditures:			
Salaries & Wages		62,194	62,194
Payroll Related Costs		19,923	19,923
Professional Fees & Services		5,047	5,047
Travel		3	3
Materials & Supplies		1,974	1,974
Communications & Utilities		1,237	1,237
Repairs & Maintenance		2,809	2,809
Rentals & Leases		701	701
Printing & Reproduction		8	8
Other Expenditures		224	224
Total Administrative Expenditures		94,120	94,120
Total Expenditures	18,711,844	41,087,945	59,799,789
Deficiency of Revenues Under Expenditures		(22,208)	(22,208)
Other Financing Sources			
Transfers In-Retirement Membership Fees (Note 5.B)		27,221	27,221
Net Change in Fund Balance		5,013	5,013
Fund Balances - Beginning		1,221	1,221
Fund Balances - Ending (Exh. III)	—	6,233	6,233
Net Change in Fund Balances - Governmental Funds:			5,013
Amounts reported for 'Governmental Activities' in the Statement of Activities (Exhibit II) are different because:			
An Internal Service Fund is used by the System to account for the revenues and expenses associated with the Group Benefits Program for State employees and employees of certain institutions of higher education.			
The net revenue (expense) of the Internal Service Fund (Exhibit VI) is included in 'Governmental Activities' in the Statement of Activities.			375,804,838
Change in Net Position of Governmental Activities (Exh. II)			375,809,851

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit V

Statement of Net Position – Proprietary Fund

As of August 31, 2021

	Internal Service Fund
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973 and 4973)
Assets	\$
Current Assets:	
Cash and Cash Equivalents:	
Cash on Hand	46,980
Cash in State Treasury	130,099,820
Total Cash and Cash Equivalents	130,146,800
Securities Lending Collateral	22,668,555
Short-Term Investments	1,301,370,130
Receivables:	
Interest Receivable	11,399,844
Accounts Receivable	250,836,456
Unsettled Sales-Investment Receivables	1,901,106
Total Receivables	264,137,406
Due From Other Funds (Note 5.A)	3,545,444
Due From Other Agencies (Note 1.G)	
Total Current Assets	1,721,868,335
Non-Current Assets:	
Investments: (Note 2.A)	
Public Equities	17,913,312
Fixed Income	1,815,194,102
Alternative Investments	151,822,490
Other Investments	(27,244)
Total Non-Current Assets	1,984,902,660
Total Assets	3,706,770,995
Liabilities	
Current Liabilities:	
Payables:	
Claims Payable:	
Incurred, Self-Funded	36,933,496
Incurred But Not Reported, Self-Funded	653,353,787
Total Claims Payable	690,287,283
Premiums Payable	7,397,749
Administrative and Other Fees Payable	6,024,609
Accounts Payable	152,278
Unsettled Purchases-Investment Payables	7,971,524
Total Payables	711,833,443
Due To Other Funds (Note 5.A) :	
Payable to State Retiree Health Plan	
Other Interfunds Payable	4,846,224
Total Due To Other Funds	4,846,224
Due to Other Agencies	
Unearned Revenue	46,980
Obligations Under Securities Lending	22,284,263
Total Current Liabilities	739,010,910
Total Liabilities	739,010,910
Net Position	
Restricted For:	
Employee Life, Accident and Health Insurance and Benefits	2,967,760,085
Total Net Position (Exh. VI)	2,967,760,085

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit VI

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund

Year Ended August 31, 2021

	Internal Service Fund
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973 and 4973)
Operating Revenues	
Contributions to Insurance Program:	
From Employers	2,190,022,050
From Members:	
For Employees	569,387,720
For COBRA	8,265,852
Total Contributions from Members	577,653,572
Total Contributions to Insurance Program	2,767,675,622
Other Operating Revenues:	
COBRA 2% Administration Fee	165,376
Warrants Voided by Statute of Limitations	7,560
Penalty Assessed to Insurance Carrier	1,166,466
Miscellaneous Operating Revenue	11,540,997
Total Other Operating Revenues	12,880,399
Total Operating Revenues	2,780,556,021
Operating Expenses	
Employee Benefit Payments:	
For Employees ¹	2,467,113,906
For COBRA	27,305,982
For Health Savings Accounts	1,457,507
For SmarShoppers Reward	105,425
Total Employee Benefit Payments	2,495,982,820
Administrative Expenses:	
Salaries & Wages	9,357,765
Payroll Related Costs	3,113,661
Professional Fees & Services	1,568,268
Travel	522
Materials & Supplies	1,067,404
Communications & Utilities	524,723
Repairs & Maintenance	741,710
Rentals & Leases	64,964
Printing & Reproduction	16,458
Other Operating Expenses	635,826
Total Administrative Expenses	17,091,301
Total Operating Expenses	2,513,074,121
Operating Income	267,481,900
Non-Operating Revenues (Expenses)	
Net Increase in Fair Value of Investments	49,798,870
Interest Revenue	58,388,790
Securities Lending Activities:	
Loan Premium on Securities Lending	4,777
Broker Rebates	146,089
Agent Fees	(15,102)
Net Securities Lending Activity	135,764
Commission on Futures Contracts	(486)
Total Non-Operating Revenues	108,322,938
Change in Net Position	375,804,838
Net Position - Beginning	2,591,955,247
Net Position - Ending (Exh. V)	2,967,760,085

¹ The benefit payments are reported net of \$ 208,063,054 pharmacy rebates.

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.



Exhibit VII

Statement of Cash Flows – Proprietary Fund

Year Ended August 31, 2021

**Internal Service Fund
Employees Life, Accident and Health
Insurance and Benefits
Fund (0973)/(U/F 0973 and 4973)**

Cash Flows from Operating Activities:	
Cash Received from Members	583,462,239
Cash Received from Employers and Non-employer Contributing Entities	2,202,604,285
Cash Received from Pharmacy Rebates	198,878,993
Cash Payments to Insurance Carriers and Third Party Administrators	(2,689,938,534)
Cash Payments for Goods and Services	(13,466,324)
Other Cash Received	96,617
Net Cash Used by Operating Activities	281,637,276
Cash Flows from Investing Activities:	
Net Purchases of Short-Term Investment Fund	(245,793,189)
Interest on Deposit in State Treasury	606,560
Net Cash Provided by Investing Activities	(245,186,629)
Net Increase in Cash and Cash Equivalents	36,450,647
Cash and Cash Equivalents:	
Beginning of Year	93,696,153
End of Year	130,146,800
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	267,481,900
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Change in Assets and Liabilities:	
Decrease in Accounts Receivable	9,135,644
Increase in Due From Other Funds	(2,627,577)
Increase in Accounts Payable	14,015,088
Decrease in Due To Other Funds	(6,414,759)
Increase in Unearned Revenue	46,980
Total Adjustments	14,155,376
Net Cash Used by Operating Activities	281,637,276
Non-Cash Investing Activities:	
Net Appreciation in Fair Value of Non-Cash Equivalent Investments	49,798,870

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Exhibit VIII

Statement of Fiduciary Net Position

As of August 31, 2021

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Assets	\$	\$	\$	\$
Cash and Short-Term Investments:				
Cash and Cash Equivalents:				
Cash on Hand	20,177			
Cash in Bank	500			
Cash in State Treasury	66,768,084	3,880,305	1,760,707	
Total Cash and Cash Equivalents	66,788,761	3,880,305	1,760,707	—
Securities Lending Collateral	298,574,924	9,954,321	5,205,334	
Short-Term Investments	629,205,411	20,964,789	10,969,023	
Total Cash and Short-Term Investments	994,569,096	34,799,415	17,935,064	—
Legislative Appropriations				
Investments: (Note 1.G)				
Public Equities	13,757,423,876	458,289,260	239,893,649	
Fixed Income	5,251,649,793	174,943,705	91,575,098	
Alternative Investments	13,079,092,392	435,692,585	228,065,315	
Other Investments	334,476,520	11,142,129	5,832,400	
Total Investments	32,422,642,581	1,080,067,679	565,366,462	—
Receivables:				
Federal Receivable				
Interest and Dividends Receivable	93,020,458	3,099,237	1,622,040	
Contributions/Accounts Receivable	118,419,717	1,321,399	1,919,669	
Unsettled Sales-Investment Receivables	293,404,653	9,773,937	5,116,213	
Total Receivables	504,844,828	14,194,573	8,657,922	—
Due From Other Funds (Note 5.A)	5,601,613	218,826	47,375	
Due From Other Agencies (Note 1.G)	9,423,002			
Prepaid Claims Expense	172			
Capital Assets:				
Non-Depreciable:				
Land and Land Improvements	874,889			
Depreciable, Net of Accumulated Depreciation/Amortization of \$314,038				
Leased Assets	1,543,225			
Depreciable, Net of Accumulated Depreciation/Amortization of \$21,760,837				
Building	64,924,774			
Furniture and Equipment	170,839			
Vehicles	14,137			
Total Capital Assets	67,527,864	—	—	—
Total Assets	34,004,609,156	1,129,280,493	592,006,823	—
Liabilities				
Payables:				
Voucher/Accounts Payable	25,229,192	674,476	422,937	
Unsettled Purchases-Investment Payables	60,068,274	2,001,003	1,047,434	
Total Payables	85,297,466	2,675,479	1,470,371	—
Due To Other Funds (Note 5.A)	3,186,553	433,707	92,968	
Due To Other Agencies (Note 1.G)	2,518,573			
Unearned Revenue	226,635	171,671	51,074	
Employees Compensable Leave	4,631,764			
Obligations Under Securities Lending	298,936,786	9,958,224	5,212,679	
Long-term Liabilities:				
Long-term Lease Liability (Note 2.D)	1,564,347			
Interest Payable - Lease	2,598			
Total Liabilities	396,364,722	13,239,081	6,827,092	—
Net Position Restricted for Pension and Other Employee Benefits	33,608,244,434	1,116,041,412	585,179,731	—

USAS Funds (U/F) are:

Fund 0955: 0955, 0980, 8070, 8955, 9014, 9015; Fund 0977: 0977, 8977; Fund 0993: 0993, 8993; Fund 5039: 5039;

Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 3944: 0973, 3944; Fund 0943: 0943, 8943;

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

State Retiree Health Plan (3973)	Total Defined Benefit Plans	Texasaver 401(k) Trust Fund (0946)	Texasaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
	20,177					20,177
	500	206,126	242,825			449,451
21,230,477	93,639,573	3,581,114	3,956,679	398,067	2,741,241	104,316,674
21,230,477	93,660,250	3,787,240	4,199,504	398,067	2,741,241	104,786,302
	313,734,579					313,734,579
49,786,126	710,925,349			140,397	27,566,969	738,632,715
71,016,603	1,118,320,178	3,787,240	4,199,504	538,464	30,308,210	1,157,153,596
	—					—
	14,455,606,785					14,455,606,785
	5,518,168,596					5,518,168,596
	13,742,850,292					13,742,850,292
	351,451,049					351,451,049
—	34,068,076,722	—	—	—	—	34,068,076,722
200,684,267	200,684,267					200,684,267
8,984	97,750,719	666	736	75	641	97,752,837
15,630,342	137,291,127		12,969	9,715	5,302,550	142,616,361
	308,294,803					308,294,803
216,323,593	744,020,916	666	13,705	9,790	5,303,191	749,348,268
101,277	5,969,091	25,259	16,109	1,395	22,094	6,033,948
	9,423,002					9,423,002
	172					172
	874,889					874,889
	1,543,225					1,543,225
	64,924,774					64,924,774
	170,839					170,839
	14,137					14,137
—	67,527,864	—	—	—	—	67,527,864
287,441,473	36,013,337,945	3,813,165	4,229,318	549,649	35,633,495	36,057,563,572
150,904,468	177,231,073	206,126	242,825	992	11,111,298	188,792,314
	63,116,711					63,116,711
150,904,468	240,347,784	206,126	242,825	992	11,111,298	251,909,025
884,114	4,597,342	50,517	32,217	2,802	44,188	4,727,066
	2,518,573					2,518,573
	449,380		2,697			452,077
	4,631,764					4,631,764
	314,107,689					314,107,689
	1,564,347					1,564,347
	2,598					2,598
151,788,582	568,219,477	256,643	277,739	3,794	11,155,486	579,913,139
135,652,891	35,445,118,468	3,556,522	3,951,579	545,855	24,478,009	35,477,650,433

Exhibit IX

Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

Year Ended August 31, 2021

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Additions	\$	\$	\$	\$
Contributions:				
Members	718,357,239	9,077,532	8,758,637	
Employers	739,600,127	20,294,220	14,321,889	
Non-Employer Contributing Entity Contributions				
Service Contributions Transferred from Teacher Retirement System (Note 1.G)	112,294,348			
Federal Revenues				
Total Contributions	1,570,251,714	29,371,752	23,080,526	—
Investment Income:				
From Investing Activities:				
Net Appreciation in Fair Value of Investments	6,279,155,880	210,724,511	108,720,738	
Interest and Dividends	695,693,646	23,370,731	12,036,943	
Class Action Settlements	728,217	24,500	12,584	
Total Investing Activity Income	6,975,577,743	234,119,742	120,770,265	—
Less: Investment Expense	(40,260,717)	(1,386,474)	(657,073)	
Net Income, Investing Activities	6,935,317,026	232,733,268	120,113,192	—
From Securities Lending Activities:				
Loan Premium on Securities Lending	87,979	2,971	1,515	
Broker Rebates	1,966,827	66,146	33,995	
Agent Fees	(205,431)	(6,911)	(3,549)	
Net Income, Securities Lending Activities	1,849,375	62,206	31,961	—
Net Investment Income	6,937,166,401	232,795,474	120,145,153	—
Other Additions:				
Other Revenue:				
Warrants Voided by Statute of Limitations	362,785	14,349		
Reimbursements - Third Party				
Sale of Surplus Equipment	9			
Rental Income	41,418			
Miscellaneous Revenue	13,589			
Administration Fees				
Total Other Revenue	417,801	14,349	—	—
Transfer In:				
Interfund Transfers In (Note 1.G):				841,053
Interagency Transfers In (Note 5.C):				235,677
Total Transfers In	—	—	—	1,076,730
Total Other Additions	417,801	14,349	—	1,076,730
Total Additions	8,507,835,916	262,181,575	143,225,679	1,076,730

USAS Funds (U/F) are:

Fund 0955: 0955, 0980, 8070, 8955, 9014, 9015; Fund 0977: 0977, 8977; Fund 0993: 0993, 8993; Fund 5039: 5039;

Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 3944: 0973, 3944; Fund 0943: 0943, 8943;

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

State Retiree Health Plan (3973)	Total Defined Benefit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
	736,193,408			40,833	61,850,867	798,085,108
766,689,167	1,540,905,403				105,425	1,541,010,828
39,188,518	39,188,518					39,188,518
	112,294,348					112,294,348
107,612,306	107,612,306					107,612,306
913,489,991	2,536,193,983	—	—	40,833	61,956,292	2,598,191,108
	6,598,601,129					6,598,601,129
233,490	731,334,810	12,510	16,012	1,872	16,634	731,381,838
	765,301					765,301
233,490	7,330,701,240	12,510	16,012	1,872	16,634	7,330,748,268
	(42,304,264)	(42,207)	(58,658)			(42,405,129)
233,490	7,288,396,976	(29,697)	(42,646)	1,872	16,634	7,288,343,139
	92,465					92,465
	2,066,968					2,066,968
	(215,891)					(215,891)
—	1,943,542	—	—	—	—	1,943,542
233,490	7,290,340,518	(29,697)	(42,646)	1,872	16,634	7,290,286,681
	379,820					379,820
2,686	56,671	640,854	15,170		158,400	871,095
56,671	9					9
	41,418					41,418
	13,589					13,589
		367,007	412,241			779,248
59,357	491,507	1,007,861	427,411	—	158,400	2,085,179
	841,053					841,053
	235,677					235,677
—	1,076,730	—	—	—	—	1,076,730
59,357	1,568,237	1,007,861	427,411	—	158,400	3,161,909
913,782,838	9,828,102,738	978,164	384,765	42,705	62,131,326	9,891,639,698

- to next page

Exhibit IX (Concluded)

Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

Year Ended August 31, 2021

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Deductions	\$	\$	\$	\$
Benefits:				
Benefits	2,666,714,057	88,123,365	34,943,715	1,222,185
Health Care Claims ¹				
Less: Payments from Members				
Refunds of Contributions	127,058,530	3,560,285	198,524	
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	29,299,864			
Total Benefits	2,823,072,451	91,683,650	35,142,239	1,222,185
Administrative Expenses:				
Salaries & Wages	9,027,665	997,569	103,390	
Payroll Related Costs	3,000,660	353,931	34,644	
Professional Fees & Services	6,261,629	245,632	78,146	
Travel	4,248	154	67	
Materials & Supplies	327,260	42,090	5,990	
Communications & Utilities	332,048	43,487	3,840	
Repairs & Maintenance	377,472	47,555	4,743	
Rentals & Leases	121,307	13,088	1,589	
Printing & Reproduction	27,098	3,037	84	
Depreciation	646,058			
Amortization	314,038			
Interest Expense	41,616			
Other Operating Expenses	1,369,626	34,164	2,453	
Total Administrative Expenses	21,850,725	1,780,707	234,946	—
Other Deductions:				
Loss on Sale of Capital Assets	6,572			
Interfund Transfers Out (Note 1.G):				
Membership Fees	27,221			
Other Transfers	841,053			
Interagency Transfers Out (Note 5.C):				100,877
Total Transfers Out	868,273	—	—	100,877
Total Other Deductions	874,846	—	—	100,877
Total Deductions	2,845,798,022	93,464,357	35,377,185	1,323,062
Net Increase	5,662,037,894	168,717,218	107,848,494	(246,332)
Net Position Restricted for Pension and Other Employee Benefits:				
Beginning of Year	27,946,206,540	947,324,194	477,331,237	246,332
End of Year (Exh. VIII)	33,608,244,434	1,116,041,412	585,179,731	—

¹ The benefit payments in the State Retiree Health Plan are reported net of \$202,261,509 pharmacy rebates.

State Retiree Health Plan (3973)	Total Defined Benefit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
	2,791,003,322			29,943	60,101,211	2,851,134,476
1,066,896,850	1,066,896,850					1,066,896,850
(192,426,941)	(192,426,941)					(192,426,941)
	130,817,339					130,817,339
	29,299,864					29,299,864
874,469,909	3,825,590,434	—	—	29,943	60,101,211	3,885,721,588
4,715,990	14,844,614	159,147	92,746	10,217	135,990	15,242,714
1,570,313	4,959,548	51,605	30,830	3,460	47,279	5,092,722
790,844	7,376,251	9,745	4,689	483	9,772	7,400,940
262	4,731	7	3		8	4,749
537,163	912,503	4,061	1,871	291	7,722	926,448
264,432	643,807	3,225	2,013	174	7,423	656,642
373,958	803,728	5,996	2,761	402	11,808	824,695
47,389	183,373	1,516	699	105	2,948	188,641
8,192	38,411	31	17		26	38,485
	646,058					646,058
	314,038					314,038
	41,616					41,616
298,947	1,705,190	15,404	1,424	48	1,084,873	2,806,939
8,607,490	32,473,868	250,737	137,053	15,180	1,307,849	34,184,687
	6,572					6,572
	27,221					27,221
	841,053					841,053
	100,877					100,877
—	969,150	—	—	—	—	969,150
—	975,723	—	—	—	—	975,723
883,077,399	3,859,040,025	250,737	137,053	45,123	61,409,060	3,920,881,998
30,705,439	5,969,062,713	727,427	247,712	(2,418)	722,266	5,970,757,700
104,947,452	29,476,055,755	2,829,095	3,703,867	548,273	23,755,743	29,506,892,733
135,652,891	35,445,118,468	3,556,522	3,951,579	545,855	24,478,009	35,477,650,433



Notes to the Basic Financial Statements

August 31, 2021

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Notes to the Basic Financial Statements

August 31, 2021

1. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB).

1.A The Reporting Entity

(In accordance with GASB Statement 14)

The Texas Constitution under Article XVI, Section 67 authorized the Texas Legislature to establish by law an Employees Retirement System of Texas (the System) to provide benefits for officers and employees of the State. The System was established in 1947 and operates primarily under Vernon's Texas Codes Annotated (V.T.C.A.), Texas Government Code, Title 8, Subtitle B.

The System has the powers, privileges and immunities of a corporation. The System is governed by a Board of Trustees, which is made up of six members responsible for the general administration and operations of the System. The six-member board is composed of three elected members and three members who are appointed respectively by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. The Board appoints a person other than a member of the Board to serve at the Board's will as Executive Director to manage a staff of approximately 400 to provide benefits to State and higher education employees, retirees, and beneficiaries. The Texas Legislature has the authority to set the contribution rates for both employee and employer retirement contributions.

Although the Employees Retirement System is a separate legal entity and by statute must prepare a separate annual financial report, it is also a retirement system of the State of Texas financial reporting entity and is included in the State's annual financial report as a blended component unit.

1.B New Accounting Pronouncements

The System adopted GASB Statement No. 87 Leases effective September 1, 2020. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

The System also adopted GASB 98, the Annual Comprehensive Financial report which changed the name of the annual financial statements.

1.C Basic Financial Statements

(In accordance with GASB Statement 34)

The Basic Financial Statements consist of:

- Government-wide Financial Statements;
- Fund Financial Statements and Combining Financial Statements of the Defined Benefit Plans; and
- Notes to the Basic Financial Statements.

Government-wide financial statements report all assets, liabilities and net position of the System's Governmental Funds and Internal Service Fund. Governmental activities are generally financed through intergovernmental revenues and other non-exchange revenues. Fiduciary activities are excluded from the government-wide financial statements.

Fund financial statements are presented immediately after the government-wide financial statements. These statements present information for Governmental Funds, the Internal Service Fund, and the Fiduciary Funds. Fund financial statements have been prepared using the measurement focus appropriate for each type of fund.

1.D Measurement Focus – Basis of Accounting

(In accordance with GASB Statement 34)

Measurement *focus* refers to the definition of the resource flows measured. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The government-wide Statement of Net Position and Statement of Activities use the economic resources measurement focus and the accrual basis of accounting.

The government-wide Statement of Activities presents the System's governmental activities by function and distinguishes between program revenues and general revenues. Program revenues are further broken down into charges for services, and operating grants and contributions

Program revenues of the governmental activities are: appropriations from the State's General Revenue

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Fund for Judicial Retirement System Plan One, law enforcement and peace officer death benefits, lump sum retiree death benefits, benefits for victims of crime, insurance premiums received by the Internal Service Fund from employees and the State of Texas, and all investment income deposited or credited to the Internal Service Fund.

Program expenses of the governmental activities are: death benefit expenses of the appropriated Special Revenue Funds, claims expenses, premium payments of the Internal Service Fund, and all administrative expenses. All other revenues and expenses of the governmental activities are considered to be general revenues/expenses. Special Revenue Funds are accounted for under the modified accrual basis of accounting and current financial resources measurement focus. Under this combination, the financial statements focus on current assets and current liabilities and the changes in net current assets. All revenues reported are recognized based on the criteria of measurability and availability. Special Revenue Funds are considered to be available if the revenues are due at year end and collected within 60 days thereafter. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related liability is incurred. Benefit payments to participants are recorded upon distribution.

Proprietary fund distinguishes operating activities from non-operating ones. Operating activities generally include providing services and producing or delivering goods. The majority of the operating revenues in the System's proprietary fund are insurance premiums. Operating expenses include the costs of claims and related administrative expenses. Non-operating revenues and expenses are those items that do not meet any of the above definitions.

The System does not have a policy for eliminating internal activities in the Government-wide Statement of Activities because the funds reported in the Government-wide Statement of Activities are distinct programs and do not have activities among each other.

Pension and Other Employee Benefit Trust Funds, and Internal Service Funds are maintained on the full accrual basis of accounting and the economic resources measurement focus. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. 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 when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Capital assets are depreciated.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

1.E Basis of Presentation

(In accordance with GASB Statement 34)

Fund Structure

The fund financial statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. These accounts are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with applicable statutory guidelines or restrictions. The System's funds fall under three fund categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Following is a brief description of each fund category and fund type used by the System.

Governmental Fund Category

Governmental Fund reporting focuses primarily on the sources, uses, and balances of current financial resources and whether current-year revenues were sufficient to pay for current-year services.

General Fund

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. The system reports the following funds as General Fund:

Notes to the Basic Financial Statements (Continued)

August 31, 2021

- Judicial Retirement System Plan One Fund (JRS I) (General Revenue Fund) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle D and is used to account for appropriations received from the State's General Revenue Fund for annuity and refund payments to eligible judicial employees who commenced service prior to September 1, 1985.
- Unappropriated Receipts (General Revenue Fund) – This fund accounts for member contributions received from the Judicial Retirement System Plan One Fund.

For Fiscal Year 2021, the System continues to report the Special Revenue Funds as nonmajor funds. The reporting is based on a statement on page 58 of GASB Statement No. 34, published in June of 1999, "The provisions of this statement need not be applied to immaterial items." The total assets, liabilities, revenues, or expenditures/ expenses of the individual governmental funds displayed in Exhibits III and IV are much less than 5% of the funds managed by the System, and the activities in these funds are not the core of the System's business, which is pension and group benefits. Therefore, the System is reporting the governmental funds on Exhibits III and IV as nonmajor funds for Fiscal Year 2021.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes. The System displays General Revenue Funds/Accounts of the State of Texas as Special Revenue Funds.

- Social Security Administration Fund – This fund accounts for the expenditures of administration of the Social Security Program.
- Death Benefits Program for Commissioned Peace Officers, Firemen, etc. Fund (General Revenue Fund) – This fund accounts for payments of death benefits and administrative fees, which are funded by an appropriation from the State's General Revenue Fund. Established by V.T.C.A., Texas Government Code, Title 6, Chapter 615.
- Compensation to Victims of Crime – This fund accounts for payments of death benefits to the beneficiaries of victims of crime. It is funded by an appropriation from the Victims of Crime Fund 0469, which was established by Texas Criminal Procedure Code, Article 56.54.

- Lump Sum Retiree Death Benefit Fund (General Revenue Fund) – This fund accounts for the payments of the \$5,000 lump sum benefit, which is an additional benefit provided by the System to the beneficiaries of retirees who die while still receiving a retirement annuity.

Proprietary Fund Category

Proprietary Fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

Internal Service Fund

Internal Service Funds are used to report any activity that provides goods or services, on a cost-reimbursement basis, to other funds, departments, agencies of the reporting entity, or other governments.

- Employees Life, Accident and Health Insurance and Benefits Fund – This fund accounts for the services provided to State of Texas agencies and higher education institutions that participate in the Texas Employees Group Benefits Program. Established by Chapter 1551, Texas Insurance Code.
- Health Savings Account – This fund accounts for the employee and employer contributions to the Health Savings Account that the System has received and pending to be deposited to the bank who administers the employees' Health Savings Account.

Fiduciary Fund Category

The fiduciary funds are not part of the government-wide financial statements.

Pension and Other Employee Benefit Trust Funds

Pension and Other Employee Benefit Trust Funds (Pension Trust Funds) report the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, deferred compensation plans, and other employee benefit plans.

- Employees Retirement System Fund (ERS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the accumulation of resources for pension benefit payments to qualified State employees or beneficiaries.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

- Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of benefits as provided by the Commissioned Law Enforcement and Custodial Officer Supplemental Retirement Benefit Act.
- Judicial Retirement System Plan Two Fund (JRS II) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle E and is used to account for the accumulation of resources for pension benefit payments to eligible judicial employees who commenced service after August 31, 1985.
- Excess Benefit Arrangement (EBA) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of annuities otherwise payable from the Employees Retirement Fund that exceed the limitations on benefits imposed by Internal Revenue Code (IRC) Section 415(b).
- State Retiree Health Plan (SRHP) – The System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. The State Retiree Health Plan (SHRP) is a cost-sharing multiple-employer postemployment health care plan that covers retired employees of the State, and other entities as specified by the state legislature.
- TexaSaver 401(k) Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for the costs of administering the IRC Section 401(k) deferred compensation plan.
- TexaSaver 457 Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 457 and the costs of administering the program.
- Commuter Spending Account Fund – This fund is a qualified transportation benefits plan authorized under Section 132 of the Internal Revenue Code. The Commuter Benefits program offers State employees pre-tax deduction for qualified parking expenses or mass transit expenses.
- State Employees Cafeteria Plan Trust Fund (TexFlex) – This fund is established by Chapter 1551, Texas Insurance Code and is used to

account for before-tax salary reduction contributions from State employees and employees of higher education institutions, reimbursements for health care and dependent care, and the costs of administering the program.

Custodial Funds

Custodial Funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. These are clearing accounts that are immaterial to the financial statements. The system reports the following funds as Custodial Funds:

- USPS - Direct Deposit Return Money – This fund accounts for direct deposits that are processed through the Uniform Statewide Accounting Payroll System and returned by financial institutions because of death, termination, retirement, incorrect account number, or incorrect routing numbers. The System transfers the funds back to the original issuing funds.
- USPS - Overpayment to Employees – This fund is used to provide a temporary depository for money held in suspense pending final disposition. Items held in the fund are cleared to the various Special Funds or the General Revenue Fund, or refunded to the payer.
- Direct Deposit Correction Account – This fund accounts for monies which had been transmitted for direct deposit but were returned because problems prevented credit from being given to individual depositors. The System transfers the funds back to the original issuing fund.
- Child Support Employee Deductions - Offset Account – This fund accounts for monies withheld in compliance with state and federal law for child support orders. The orders received by employers require that child support payments be deducted from the paychecks of employees. Texas enacted a statute mandating electronic submittal of child support payments deducted from non-custodial parent payrolls, effective September 1, 2009. This process allows all child support payments from an agency to be paid to the State Disbursement Unit (SDU). Once received by the SDU, the payment is sent to the custodial parent in compliance with the order.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

1.F Budgets

Appropriated Budgets

The Texas Legislature appropriates monies out of the State's General Revenue Fund for benefit payments of the Judicial Retirement System Plan One Fund and all Special Revenue Funds other than the Social Security Administration Fund on an 'estimated to be' basis. This type of appropriation means that the System has the authority to increase the appropriations as needed during the time period that the appropriation is allowed to remain open. For benefit payments, expenditures in excess of appropriations received are not a violation of budgetary authority. The System is required to lapse all unencumbered appropriations by November 1 of each year.

Non-appropriated Budget

The Texas Legislature does not appropriate monies to the System for administrative expenses. A non-appropriated budget for administrative expenses, including capital outlay, is prepared annually and approved by the System's Board of Trustees at the line-item level. The System's management must approve any transfers between line items, and the Board must approve any amendments to the approved budget. Administrative expenses are budgeted in and paid primarily from the Employees Retirement Fund. Expenses are allocated monthly to the other funds based on percentages determined by time sheets and resource requirements used to administer each fund within each division. Expenses are limited by a statutory provision that no expense can be made for more than the State of Texas pays for similar services. Non-appropriated budgets are not lapsed at year-end.

1.G Assets, Liabilities, Fund Balances and Net Position

(In accordance with GASB Statement 34)

Cash and Short-Term Investments

Cash and Cash Equivalents (in accordance with GASB Statement 9), as reported in the Statement of Cash Flows for the Internal Service Fund, are composed of cash on hand, cash in local banks, cash in the State Treasury, and cash equivalents. Cash in local banks is held by Fiduciary Funds. Cash balances of most state funds are pooled and invested by the Treasury Operations Division at the Comptroller's office. Interest earned is deposited in the specified funds designated by law.

The Statement of Cash Flows for the proprietary fund shows the change in cash and cash equivalents during the fiscal year. Both Cash Equivalents and Short-Term Investments are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. 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. Restricted securities held as collateral for Securities Lending are not included as cash equivalents on the Statement of Cash Flows. The petty cash account, and the Texa\$aver and State Employees Cafeteria Plan accounts (Cash in Bank) are maintained at a local commercial bank.

Valuation

Cash Equivalents and Short-Term Investments are reported at amortized cost.

Investments

Investments of the Employees Retirement System Fund, the Law Enforcement and Custodian Officer Supplemental Retirement Fund, the Judicial Retirement System Plan Two Fund, and the long-term portion of the Employees Life, Accidental and Health Insurance and Benefits Fund are consolidated in the Investments pool Fund. See also *Investment Unit Trust Accounting*.

Valuation

Investments of the Pension Trust Funds and Internal Service Fund are reported at fair value in accordance with GASB Statement 72. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Public Equities and Fixed Income

The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Public real estate are listed securities (Real Estate Investment Trusts or "REITs" and Real Estate Operating Companies or "REOCs") traded in the public exchange.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Other Investments

Other investments are derivative investments. Derivative investments are either executed on an exchange or in a bilateral deal in an over-the-counter (OTC) market. Options are priced at the mean and settle price and Forwards priced at the last sale price in their respective active markets. In addition, other investments include one commingled equity limited partnership priced at the net asset value per share by the general partner.

Alternative Investments

For alternative investments, the System has established a Valuation Committee that periodically reviews and approves the fair value of these investments. Certain foreign alternative investments in the inception year are reported at cost, which approximates fair value. Fair value at fiscal year-end is based on the fair value of net assets reported in the partnership's most recent capital account statements from the general partner or administrator of the fund, adjusted for any cash flow and material changes in fair value, according to the Valuation Committee guidelines, between the reporting date of partnership's most recent capital account statements and the System's fiscal year end date. The System's alternative investments include private equity, private real estate, private infrastructure, private fixed income and hedge funds.

The general nature of the System's private equity funds is that distributions are received through the liquidation of the underlying assets of the funds. Private equity partnerships have an expected life of approximately seven to fifteen years and are not liquid in nature. The fair value of the net assets is estimated using recent observable information for similar investments, such as discounted cash flows earning multiples and company comparables.

The System's private real estate investments are limited partnerships. The partnerships participate in both closed-ended and open-ended commingled funds. The System does not directly own buildings other than its headquarters. Closed-ended funds typically have a pre-determined life of seven to twelve years (plus possible extensions) and are illiquid in nature. Open-ended funds do not have a pre-determined liquidation date and the System has the ability to sell its interests periodically. The fair value of private real estate is based on the set asset values of limited partner interests in the commingled funds.

Each commingled fund is audited annually and the underlying investments may be periodically appraised by an independent third party. Valuation assumptions can be subjective and are based on market and property specific inputs.

The System's hedge fund investments represent ownership interest in limited partnerships or limited liability companies. These types of investments consist of private commingled investment vehicles that issues securities to accredited investors or qualified purchasers. The fair values of hedge funds are based on the net assets of the limited partnerships. These funds' valuations are appraised by an independent administrator and reconciled annually to the audited financial statements. In general, the System's hedge funds are categorized into the following strategies:

- Equity Long/Short hedge funds — This strategy includes long and short investments made primarily in developed market common stocks. Management of each hedge fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long to a net short position.
- Event-Driven hedge funds — These types of investments include hedge funds that aim to profit from a catalyst. In many instances, these catalysts can be associated with economic, political, corporate, and government-driven events. A majority of these investments are targeted at corporate actions.
- Macro hedge funds — These types of investments include hedge funds that invest in a range of strategies which are based on movements in macroeconomic variables. Management of each hedge fund can use a variety of instruments including fixed income, currency, commodity, or equity securities.
- Multi-Strategy hedge funds — These investments include hedge funds that pursue multiple strategies aimed at diversifying risks and reducing volatility. The System defines multi-strategy funds as having 50% of the funds' exposure to event-driven strategies and the other 50% to relative value strategies.
- Opportunistic hedge funds — These include investments in hedge funds that provide niche and often uncorrelated exposures. Management of such funds can use a variety of instruments including credit, equity, and derivative securities; some of which may be less-liquid in nature.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

- Relative Value hedge funds — This strategy seeks to capitalize on the mispricing of related securities or financial instruments.

Private fixed income funds are ownership in limited partnerships which consists of private investment funds that are either commingled or separate. These funds are classified as predominately “credit” instruments that may be liquid or illiquid. The System utilizes a process similar to that of private equity funds in assessing the fair value of the fund. The expected life of the funds is approximately three to ten years, with the option of two one-year extensions. The valuations are reviewed at the end of each reporting period as financial statements or cash flows information becomes available.

The System’s private infrastructure investments are in large-scale public systems, services and facilities that are necessary for economic activity. These types of relatively illiquid investments are often made in essential services with high barriers to entry and predictable cash flows and have expected life from ten to twelve years, with the option of one to three-year extension.

The fair value of the net assets is estimated using a variety of approaches, which may involve using recent information from comparable companies, replacement cost analysis, and discounted cash flows. Each investment is typically audited annually and appraised periodically by an independent third party.

If the System has investments where no readily ascertainable market value exists, the System’s management, in consultation with their investment advisors and the Master Trust Custodian, will determine the fair values for those investments.

Short-Term Investments

The System’s short-term investment is Short-Term Investment Fund, which is a 2a-7 like fund and is priced at the Net Asset Value per Share by the custodian bank.

Invested Securities Lending Collateral

The cash collateral from the borrowers in the securities lending program that the System reinvested are valued according to the types of those investments.

Permissible Investments

Eligible securities are as follows:

- Domestic equities, screened to eliminate against any known bankruptcy proceedings, lawsuits, or breach of corporate ethics that might jeopardize the company’s economic future or existence.
- Equities of companies domiciled in countries outside of the United States.
- Global fixed income securities, subject to a minimum credit rating of “CCC-, Caa3,” or their equivalent as rated by two Nationally Recognized Securities Rating Organizations, as included in the Barclays Capital Universal Index or successor index. Fixed income and short-term securities that downgrade to below the acceptable rating described above will be exchanged or sold within one year, but special exceptions may be permitted and reported to the Board of Trustees.
- Interests in private securities exempted from registration under federal and state securities laws, including certain limited liability securities and vehicles, such as limited partner interests in limited partnerships, trusts and limited liability corporations as deemed appropriate by the System.
- Private equity and private real estate investments must be institutional in quality and meet the parameters specified in the System’s investment policy.
- Global publicly traded real estate equities subject to the quality standards set forth in the investment policy.
- Foreign currencies transactions and foreign currency derivatives are permitted as necessary to facilitate the settlement of foreign security transactions, consistent with industry best practices. These transactions are also permitted to settle private market transactions, meet capital calls or exchange distributions back into U.S. dollars.
- Forward, futures and options, subject to the restrictions set forth in the investment policy.

Investment Asset Allocation

The System’s policy in regard to the allocation of investment assets is established and may be amended by the Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plans (See Figure 14 in Note 3.B for the most recent target asset allocation).

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Investment Unit Trust Accounting

In order to provide flexibility of asset allocation and effectively invest in a diversified manner, the Board of Trustees directed that investment unit trust accounting be implemented. The pension funds began the unit trust accounting on September 1, 2006 and the long term portion of the Employees Life, Accident and Health Insurance and Benefits Fund on January 1, 2009. Unit trust accounting involved assigning units to each fund based on the share of the funds' investment fair value to the total fair value of the consolidated investments. The custodian bank prepares consolidated bank statements and fund statements that show the unit trust accounting activity. Investment earnings and appreciation increase the per unit value of all participating funds. Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value of the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the participating funds on a daily basis using the pro rata fair value share.

Unsettled Sales - Investment Receivables and Unsettled Purchases - Investment Payables

The System reports Unsettled Sales - Investment Receivables to account for sales of investments that traded before fiscal year and settled after fiscal year end. Likewise, the System reports Unsettled Purchases - Investment Payables to account for purchases of investments that are traded before fiscal year end and settled after fiscal year end.

Capital Assets

Pension Trust Funds are accounted for on a cost of service measurement focus. This means that all capital assets associated with the funds' activities are included in their statements of net position. Purchases of capital assets by these funds are reported at cost. Donated capital assets or donated works of art or similar items are reported at the estimated value on the acquisition date. If donated capital assets are received in a service concession arrangement, they are reported at acquisition value. Depreciation of all exhaustible capital assets is charged as an expense against the funds' operations. Accumulated depreciation is reported on the statements of net position. Depreciation has been provided over the estimated useful lives, using the straight-line method. The capitalization thresholds and estimated useful lives are shown in Figure 1.

Figure 1
Capitalization Thresholds and Useful Lives

Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
	\$	
Land	—	N/A
Building & Building Improvements	100,000	10 - 30
Computer Software	100,000	5 - 6
Furniture and Equipment	5,000	3 - 15
Motor Vehicles	5,000	7
Internally Generated Computer Software	1,000,000	5 - 6

Accounts Payable

Accounts Payable under the Internal Service Fund include claims incurred but not reported by the participants prior to fiscal year end and payable in future years as estimated by the System's actuary.

Employees Compensable Leave

Under Section 661.062 of Texas Government Code Chapter 661, a State employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months.

In Fiduciary Fund types, salary costs related to employees' rights to be compensated for vacation time 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 Position for the Employees Retirement Fund. No liability is recorded for non-vesting accumulating rights to receive sick leave benefits.

Fund Balances – Governmental Funds

Fund balance is the difference between fund assets and liabilities on the governmental fund statements. Committed fund balance reports an amount that has spending limitations that are internally imposed by formal action of the government's highest level of decision making authority (e.g., legislature). These committed fund balance amounts usually cannot be redeployed for other purposes unless the same decision makers reverse or modify the imposed restrictions by the same type of formal action that was originally used to create the restriction.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Net Position – Restricted for Pension Benefits

The net position of the retirement trust funds consists of up to five reserve accounts, depending on the particular fund.

- The Employee Savings Account represents the accumulation of active and inactive member deposits plus interest.
- The State Accumulation Account represents reserves available to fund the future active member retirement, death, and survivor benefits.
- The Retirement Annuity Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases for current retirees.
- The Interest Account represents the interest, dividends, securities lending income, and net appreciation or depreciation received and accrued on the invested assets of the fund. All investment income is transferred to the Employee Savings, State Accumulation, and Retirement Annuity Reserve accounts based on applicable Texas statutes.
- The Expense Account represents reserves to pay all administration and maintenance expenses of the retirement trust funds.

See Note 3.D for the balances of each funded plans' legally required reserves.

Restricted Net Position – Proprietary Fund (In accordance with GASB Statement 34)

Chapter 1551 of the Texas Insurance Code requires that the System estimate funds needed for an average 60-day period, considering projected claims and administrative expenses for a contingency reserve fund for self-funded coverage. The System is further required to include this amount in its legislative appropriations request. Subject to adequate appropriation from the legislature, the estimated amount must be placed in the contingency reserve fund along with interest on, earnings of, and proceeds from the sale of investments of assets in the contingency reserve fund. This reserve amount is reported as 'Restricted Net Position' in both the government-wide and the proprietary fund Statement of Net Position.

Interfund Activity and Balances (In accordance with GASB Statement 34)

Activities between the System and agencies of the State of Texas, and activities between the System's

funds have been analyzed and classified in accordance with the following criteria:

Interfund Services Provided and Used

This activity represents transactions that would be treated as revenues, expenditures or expenses if they involved organizations external to State government. They are accounted for as revenues by the recipient fund and as expenditures or expenses by the disbursing fund. Contributions for retirement and insurance from other funds within the State of Texas reporting entity are reported as Interfund Services Provided and Used. The accrual of Interfund Services Provided and Used is classified as Accounts Receivable and Accounts Payable on the government-wide and the fund financial statements.

Interfund Reimbursements

This activity represents expenditures or expenses applicable to a particular fund but paid from another fund. The transactions are reported as expenditures or expenses in the reimbursing fund and a reduction of corresponding amounts in the reimbursed fund. Administrative expenses paid by the Employees Retirement System Fund and subsequently reimbursed by the System's other funds are reported as Interfund Reimbursements in the financial statements. The accrual of Interfund Reimbursements is reported on the government-wide Statement of Net Position as Due From External Parties or Due To External Parties and on the fund financial statements as Due From Other Funds or Due To Other Funds.

Interfund Transfers

This activity represents routine transfers of resources. Interfund transfers are reported in the Other Financing Sources (Uses) section for Governmental Funds and as Other Additions or Other Deductions in the Pension Trust Fund financial statements. The accrual of Interfund Transfers is reported on the government-wide Statement of Net Position as Due From External Parties or Due To External Parties and on the fund financial statements as Due From Other Funds or Due To Other Funds. Retirement Membership Fees received by the Employees Retirement System Fund and transferred to other funds of the System are reported as Interfund Transfers. See Note 5.B Interfund Transfers.

Interagency Activity and Balances (In accordance with GASB Statement 34)

This activity represents routine transfers of funds between the System and other agencies and institutions within the State of Texas financial reporting entity.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

At year end, the accrual of transfers from or to the funds of the System are reported as Due To Other Agencies or Due From Other Agencies on the Statements of Net Position. See Note 5.C Interagency Transfers.

2. Detail Disclosures on Funds

(In accordance with GASB Statements 3, 28, 40, 67, and 72)

2.A Deposits, Investments, and Repurchase Agreements

Deposits

The total carrying amounts of Deposit as of August 31, 2021 are presented in Figure 2. The deposits with the custodian bank are temporary deposits related to unsettled trade or income transactions.

Figure 2
Deposits of Cash in Bank

Deposits	Carrying Value	Bank Balance
	\$	\$
Fiduciary Funds:		
Cash on Hand (Exh. VIII)	20,177	20,177
Cash in Bank (Exh. VIII)	449,451	449,451
Deposits with Custodian Bank	21,665,044	21,665,044
Totals	22,134,672	22,134,672
Proprietary Funds:		
Cash on Hand (Exh. V)	46,980	46,980
Deposits with Custodian Bank	(135,303)	(135,303)
Totals	(88,323)	(88,323)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System does not have a deposit policy for custodial credit risk. The balance of deposits with custodian bank as of August 31, 2021 represents amounts held in foreign currency and cash balance not yet invested. These deposits were uninsured and uncollateralized and subject to custodial credit risk.

Investments

Policy of Asset Allocation

The System categorizes investment assets into principal components that align with investment strategies. The System's investment categories are public equities, fixed income securities, alternative investments and other investments. A principal category may include one or more investment asset classes, depending on the investment strategy.

The majority of the investments in the public equities category are equity securities that are issued in the United States and overseas. Real Estate Investment Trust (REITs) and Exchange Traded Funds (ETFs) are also included in this category to provide liquidity.

The fixed income category includes domestic and international fixed income securities that have a relatively low risk of default, as well as securities that have high risk and long maturity. This category also invests in ETFs and REITs to provide liquidity.

Alternative Investments category includes private equity, private real estate, private infrastructure, private fixed income and hedge funds. Private equity investments are set up in private equity limited partnerships. Private real estate investments are set up in limited partnerships that specialize in real estate. Private Infrastructure investments are limited partnerships based on event-driven strategies (e.g., tender offers, mergers, and acquisitions). Hedge fund investments are set up in hedge fund limited partnership. Private fixed income funds are limited partnerships that invest in foreign and domestic fixed income securities.

The majority of the investments in the other investments category are commingled funds. Derivatives are also reported in this category.

Short-term investments category includes money market and bond funds and cash in bank to meet the System's short-term liquidity requirement.

Fair Value Measurement

The System categorizes their fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority (Level 1) to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs.

- Level 1: Unadjusted quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The System uses the following valuation techniques to measure fair value of investments:

- Market Approach:** Prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or group of assets and liabilities are used to measure fair value.
- Cost Approach:** The amount that would be required currently to replace the present service capacity of an asset is used to measure fair value.
- Income Approach:** Future amounts (for example, cash flows, or revenues and expenses) are converted to a single current amount to determine fair value.

U.S. treasury securities, equity securities, Real Estate Investment Trusts, and Exchange Traded Funds classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and debt derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Index linked debt securities are valued by multiplying the external market price feed by the applicable day's Index Ratio.

Level 2 debt securities also have non-proprietary information from multiple independent sources that were readily available to market participants who are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Level 3 debt securities use proprietary information or single source pricing. Value of equity securities classified in Level 3 is based on last trade data that is 30 days or more before the fiscal year end. Real assets, if any, classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers.

The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

When inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The fair values of alternative investments are measured at net asset value (NAV) per share (or its equivalent). The System's investments are summarized in Figure 3.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy limits holding of securities by counterparties to those involved with securities lending and those used as collateral for futures contracts. The System has contracted with the BNY Mellon Asset Servicing to serve as the custodian for the System's investments. Investments are registered in the name of the System or in the name of the System's custodian and are held in the name of the System by the custodian.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Figure 3
Fair Value of Investments

	Level 1	Level 2	Level 3	NAV	Total
Fiduciary Funds:					
Investments:					
Public Equities:					
Domestic Equities	7,082,919,770	29,456,311			7,112,376,081
International Equities	5,622,002,342	466,533			5,622,468,875
Exchange Traded Funds (ETFs)	64,892,465	—			64,892,465
Real Estate Investment Trust (REITs)	1,655,695,351	174,013			1,655,869,364
Total Public Equities	14,425,509,928	30,096,857			14,455,606,785
Fixed Income:					
U.S. Treasury Securities	2,490,553,508	91,709,115			2,582,262,623
U.S. Government Agency Obligations	—	486,854,934			486,854,934
Corporate Obligations	—	1,903,405,853	5,066,391		1,908,472,244
Corporate Asset and Mortgage Backed Securities	—	46,179,778	2,627,731		48,807,509
International Obligations	—	382,113,589	5,213,590		387,327,179
Exchange Traded Funds (ETFs)	70,635,580	—			70,635,580
Real Estate Investment Trust (REITs)	—	33,808,527			33,808,527
Total Fixed Income	2,561,189,088	2,944,071,796	12,907,712		5,518,168,596
Other Investments:					
Derivatives	(15,643,079)				(15,643,079)
Commingled Funds	—			367,094,128	367,094,128
Total Other Investments	(15,643,079)			367,094,128	351,451,049
Investments Measured at the Net Asset Value (NAV):					
Equity Long/Short				785,202,159	785,202,159
Event Driven				187,711,564	187,711,564
Macro				213,490,644	213,490,644
Multi-Strategies				542,171,305	542,171,305
Opportunistic				187,265,258	187,265,258
Private Equity				6,291,309,562	6,291,309,562
Private Real Estate				2,934,187,012	2,934,187,012
Private Infrastructure				1,456,883,154	1,456,883,154
Private Fixed Income				778,946,163	778,946,163
Relative Value				365,683,471	365,683,471
Total Investments Measured at the NAV:				13,742,850,292	13,742,850,292
Total Investments	16,971,055,937	2,974,168,653	12,907,712	14,109,944,420	34,068,076,722
					(Exh. VIII)
Securities Lending Collateral (Note A):					
Government Repurchase Agreements				313,734,579	313,734,579
Total Securities Lending Collateral				313,734,579	313,734,579
					(Exh. VIII)
Short-Term Investments (Note A):					
Money Market and Bond Funds				712,824,263	712,824,263
Investment in Pool Cash				4,143,408	4,143,408
Deposits				21,665,044	21,665,044
Total Short-Term Investments				738,632,715	738,632,715
					(Exh. VIII)
Proprietary Fund:					
Investments:					
Public Equities:					
Domestic Equities	8,266,640	5,228,663			13,495,303
International Equities	433,519	82,812			4,418,009
Total Public Equities	12,601,837	5,311,475			17,913,312
Fixed Income:					
U.S. Treasury Securities	1,102,479,210	40,596,354			1,143,075,564
U.S. Government Agency Obligations		215,513,315			215,513,315
Corporate Obligations		337,865,350	899,313		338,764,663
Corporate Asset and Mortgage Backed Securities		16,459,076	466,437		16,925,513
International Obligations		67,827,332	925,442		68,752,774
Exchange Traded Funds (ETFs)	26,161,067	—			26,161,067
Real Estate Investment Trust (REITs)		6,001,206			6,001,206
Total Fixed Income	1,128,640,277	684,262,633	2,291,192		1,815,194,102
Other Investments:					
Derivatives	(27,244)				(27,244)
Total Other Investments	(27,244)				(27,244)
Investments Measured at the Net Asset Value (NAV):					
Opportunistic				13,555,122	13,555,122
Private Fixed Income				138,267,368	138,267,368
Total Investments Measured at the NAV				151,822,490	151,822,490
Total Investments	1,141,214,870	689,574,108	2,291,192	151,822,490	1,984,902,660
					(Exh. V)

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Figure 3
Fair Value of Investments (Concluded)

	Level 1	Level 2	Level 3	NAV	Total
Securities Lending Collateral (Note A):					
Government Repurchase Agreements				22,668,555	22,668,555
Total Securities Lending Collateral		—	—	22,668,555	22,668,555
					(Exh. V)
Short-Term Investments (Note A):					
Money Market and Bond Funds				1,301,505,433	1,301,505,433
Deposits				(135,303)	(135,303)
Total Short-Term Investments		—	—	1,301,370,130	1,301,370,130
					(Exh. V)

Note A: Investments are reported at amortized cost.

Foreign Currency Risk

Foreign currency risk for investments and deposits is the risk that changes in exchange rates will adversely affect the investments and deposits. The System does not have a policy for managing foreign currency risk. The System's investment and deposit exposure to foreign currency risk as of August 31, 2021 is summarized in Figure 4.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index. Excluding those securities issued by or explicitly guaranteed by the U.S. Government, which are not considered to have credit risk, the System's credit quality distribution for securities with credit risk exposure as of August 31, 2021 is summarized in Figure 5. The securities were rated according to categories from Standard & Poor's, Moody's, or Fitch ratings, whichever is lower. A withdrawn rating signifies the removal of a rating on either an obligation or an issuer due to inadequate information, bankruptcy, reorganization, liquidation, or maturity of obligation.

The System earns interest on monies held at the custodial agent bank overnight when a domestic security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the System's money is invested overnight in a Common Trust Fund at the custodial agent bank. The System does not earn any interest on any failed foreign security purchase transactions.

Concentration Risk

Concentration risk is the risk of loss attributable to the magnitude of investment in a single issuer. The System's investment policies stipulate that investments in the securities of any one corporation may not exceed 3% of the fair value of the total fund.

As of August 31, 2021, the System was not exposed to any concentration risk.

Figure 4
Foreign Currency Risk

Currency	Investments			Investments Total (USD)	Short-term Investments Deposits (USD)
	Public Equities (USD)	Alternative Investments (USD)	Fixed Income (USD)		
Fiduciary Funds:	\$	\$		\$	\$
Australian Dollar	177,749,997	99,742,481		277,492,478	785,141
Brazilian Real	116,194,808			116,194,808	219,784
Canadian Dollar	343,669,063		4,722,085	348,391,148	4,297
Chilean Peso	5,468,522			5,468,522	15,920
Chinese Yuan Renminbi	42,868,936			42,868,936	36,791
Colombian Peso	208,044			208,044	
Czech Koruna	7,805,945			7,805,945	
Danish Krone	94,042,773			94,042,773	188,747
Egyptian Pound	—				2,237
Euro	1,303,534,126	656,450,495		1,959,984,621	(257,228)
Hong Kong Dollar	433,509,264			433,509,264	57,000
Hungarian Forint	8,392,528			8,392,528	39,286
Indian Rupee	193,212,802			193,212,802	567,046
Indonesian Rupiah	18,312,895			18,312,895	1,704
Israeli Shekel	25,879,461			25,879,461	65,125
Japanese Yen	945,890,507			945,890,507	179,006
Kuwaiti Dinar	5,514,989			5,514,989	
Malaysian Ringgit	21,103,473			21,103,473	1,091
Mexican Peso	48,182,383			48,182,383	21,783
New Taiwan Dollar	203,170,627			203,170,627	1,176,689
New Zealand Dollar	6,378,274			6,378,274	3,519
Norwegian Krone	22,166,442			22,166,442	779
Pakistan Rupee	1,184,192			1,184,192	
Philippine Peso	10,685,508			10,685,508	
Polish Zloty	10,650,682			10,650,682	5
Pound Sterling	544,202,256	101,458,820		645,661,076	363,691
Qatari Riyal	6,373,676			6,373,676	
Russian Ruble	19,313,417			19,313,417	1,146
Saudi Arabia Riyal	17,623,967			17,623,967	36,544
Singapore Dollar	74,004,255			74,004,255	217,257
South African Rand	49,125,895			49,125,895	198,120
South Korean Won	248,975,610	32,260		249,007,870	40,543
Swedish Krona	171,224,183			171,224,183	(30,789)
Swiss Franc	262,676,329			262,676,329	98,395
Thai Baht	22,606,277			22,606,277	10,778
Turkish Lira	11,294,124			11,294,124	
UAE Dirham	10,360,127			10,360,127	
Proprietary Funds:					
Investments:					
Canadian Dollar	—	—	838,197	838,197	—
Total for Investments	5,483,556,357	857,684,056	5,560,282	6,346,900,695	4,044,407

Notes to the Basic Financial Statements (Continued)

August 31, 2021

**Figure 5
Fixed Income Investments Credit Risk**

Standard & Poors/ Moody's/ Fitch Ratings	U. S Treasury Securities	U.S. Government Agency Obligations	Corporate Obligations	Corporate Asset and Mortgage Backed Securities	International Obligations	Real Estate Investment Trust(REITs)	Exchange Traded Funds (ETFs)	Total
Fiduciary Funds	\$	\$	\$	\$	\$	\$	\$	\$
Investments:								
A/A2/A				6,199,989				6,199,989
AA/Aa2/AA				2,841,638				2,841,638
AA-/Aa3/AA-								—
AA+/Aa1/AA+	2,582,262,623	486,854,934						3,069,117,557
AAA/Aaa/AAA				8,998,487				8,998,487
B/B2/B			170,903,065		108,500,301			279,403,366
B-/B3/B-			147,241,930		32,245,141			179,487,071
B+/B1/B+			246,247,380	4,882,152	83,317,317	6,203,050		340,649,899
BB/Ba2/BB			363,061,419	7,631,416	14,499,911	10,447,357		395,640,103
BB-/Ba3/BB-			320,398,222		54,820,906	972,781		376,191,909
BB+/Ba1/BB+			332,584,355		11,646,373			344,230,728
BBB/Baa2/BBB			6,148,854					6,148,854
BBB-/Baa3/BBB-			52,682,665	2,507,872		7,478,306		62,668,843
CCC-/Caa3/C			5,585,667					5,585,667
CCC/Caa2/CC			34,706,269		28,244,672			62,950,941
CCC+/Caa1/CCC			140,596,555		25,194,883			165,791,438
D/D/			13,846,114		1,998,067			15,844,181
Not Rated			74,469,749	15,745,955	26,859,608	8,707,033	70,635,580	196,417,925
Investments Totals	2,582,262,623	486,854,934	1,908,472,244	48,807,509	387,327,179	33,808,527	70,635,580	5,518,168,596
Proprietary Funds	\$	\$	\$	\$	\$	\$	\$	\$
Investments:								
A/A2/A				2,047,748				2,047,748
AA/Aa2/AA				1,257,891				1,257,891
AA-/Aa3/AA-								—
AA+/Aa1/AA+	1,143,075,564	215,513,315						1,358,588,879
AAA/Aaa/AAA				3,983,309				3,983,309
B/B2/B			30,336,265		19,259,420			49,595,685
B-/B3/B-			26,136,279		5,723,696			31,859,975
B+/B1/B+			43,710,309	866,610	14,789,297	1,101,077		60,467,293
BB/Ba2/BB			64,445,464	1,354,620	2,573,817	1,854,465		70,228,366
BB-/Ba3/BB-			56,872,504		9,731,022	172,674		66,776,200
BB+/Ba1/BB+			59,035,612		2,067,297			61,102,909
BBB/Baa2/BBB			1,091,456					1,091,456
BBB-/Baa3/BBB-			9,351,472	445,162		1,327,442		11,124,076
CCC-/Caa3/C			991,488					991,488
CCC/Caa2/CC			6,160,560		5,013,590			11,174,150
CCC+/Caa1/CCC			24,956,687		4,472,235			29,428,922
D/D/			2,457,764		354,668			2,812,432
NR			13,218,803	6,970,173	4,767,732	1,545,548	26,161,067	52,663,323
Investments Totals	1,143,075,564	215,513,315	338,764,663	16,925,513	68,752,774	6,001,206	26,161,067	1,815,194,102

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of August 31, 2021, the System invested \$65,733,022 in asset backed and mortgage backed obligations, which are subject to early principal payment in a period of declining interest

rates and could reduce or eliminate the stream of income that would have been received. As a result, the fair value of these investments is highly sensitive to interest rate changes. U.S. Government Agency Obligations are implicitly guaranteed by the US

Notes to the Basic Financial Statements (Continued)

August 31, 2021

government. The System does not have a policy for interest rate risk management. However, interest rate risk is managed through duration, by operating within

defined risk parameters versus a benchmark index. As of August 31, 2021, the System's exposure to interest rate risk is summarized in Figure 6.

**Figure 6
Investment Interest Rate Risk**

Investment Type	Fiduciary Funds		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
U.S. Treasury Securities	\$ 2,582,262,623	3.97	\$ 1,143,075,564	3.97
U.S. Government Agency Obligations	486,854,934	4.48	215,513,315	4.48
Corporate Obligations	1,908,472,244	5.25	338,764,663	5.25
Corporate Asset and Mortgage Backed Securities	48,807,509	1.28	16,925,513	1.2
International Obligations	387,327,179	4.12	68,752,774	4.12
Real Estate Investment Trusts (REITs)	33,808,527	4.05	6,001,206	4.05
Totals	5,447,533,016	4.45	1,789,033,035	4.26

Securities Lending

Securities lending transactions are governed by the Texas Government Code Section 815.303. The System participates in a securities lending program, administered by the securities lending agent bank, whereby certain securities are transferred to an approved independent broker/dealer (borrower) with a simultaneous agreement to return the collateral for the same securities in the future. The contract with the System's securities lending agent bank requires the bank to indemnify the System fully if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the contract limits the total amount of securities that can be lent to 25% of holdings.

The System is permitted to loan securities under 1) open loans which are generally overnight loans, and 2) term loans with specified expected termination dates. Securities lent include fixed income securities and domestic and international equities. The System's securities lending agent bank lends the securities for initial collateralization in the form of cash or U.S. Government or Agency securities of 102% for domestic securities and 105% for international securities. Cash collateral is invested in repurchase agreements. The policy is to ensure that the difference in maturities between the cash collateral investments and the loan tenor is no more than five days.

The System cannot pledge or sell collateral securities received unless the borrower defaults and, therefore, the System does not establish an asset and a corresponding liability in the balance sheet for the collateral value of securities received. No significant violations of legal or contractual provisions and no borrower or lending agent default losses were reported in Fiscal Year 2021.

The System received net securities lending income totaling \$2,079,306 for the fiscal year ended August 31, 2021. The collateral information as of August 31, 2021 is summarized in Figure 7.

**Figure 7
Securities Lending Collateral Summary**

Investment Type	Underlying Securities Fair Value	Cash Collateral Fair Value
	\$	\$
Fiduciary Funds:		
Domestic Equities	75,666,589	77,248,799
International Equities	55,700,620	58,131,120
Corporate Obligations	101,692,998	103,670,634
Exchange Traded Funds - Equities (ETFs)	27,775,171	28,344,741
Exchange Traded Funds - Fixed Income (ETFs)	7,980,872	8,146,056
Trust (REITs) - Equity	37,109,679	38,193,229
Totals	305,925,929	313,734,579
		Exh. VIII
Proprietary Fund:		
International Obligations	243,641	254,306
Corporate Obligations	18,051,085	18,741,733
Fixed Income (ETFs)	3,532,848	3,672,516
Totals	21,827,574	22,668,555
		Exh. V

Repurchase Agreements

During Fiscal Year 2021, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2021, the System had \$336,403,134 balance in these assets.

Alternative Investments

The System makes contingent commitments to investments in entities that manage private equity, private real estate, private infrastructure, private fixed income, and hedge fund portfolios. The categories of these investments as of August 31, 2021 are summarized in Figure 8.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

**Figure 8
Alternative Investments (Note A)**

Currency	No. of Funds	Commitment	Remaining Commitment	Adjusted Funded Amount	Fair Value	Redemption Frequency	Redemption Notice	Redemption Restrictions
		\$	\$	\$	\$			
Private Equity:								
US Dollar	158	8,327,104,337	2,689,103,544	5,638,000,793	5,751,124,356	N/A	N/A	N/A
Euro Dollar	14	569,157,818	227,890,788	341,267,030	441,767,627	N/A	N/A	N/A
British Pound	3	107,347,500	22,796,649	84,550,851	98,385,319	N/A	N/A	N/A
Korean Won	1	24,577,841	0	24,577,841	32,260	N/A	N/A	N/A
Sub-total	176	9,028,187,496	2,939,790,981	6,088,396,516	6,291,309,562			
Private Real Estate:								
US Dollar	80	5,174,995,795	1,862,591,359	3,312,404,436	2,784,452,866	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
Euro Dollar	3	225,465,950	36,744,205	188,721,745	146,660,644	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
British Pound	1	58,246,367	3,072,647	55,173,720	3,073,502	N/A	N/A	N/A
Sub-total	84	5,458,708,112	1,902,408,211	3,556,299,901	2,934,187,012			
Private Infrastructure:								
US Dollar	32	2,063,600,000	862,553,534	1,201,046,466	1,289,118,446	N/A	N/A	N/A
Australian Dollar	2	94,339,289	895,1889	85,387,400	99,742,482	N/A	N/A	N/A
Euro Dollar	4	246,689,969	195,249,117	51,440,852	68,022,226	N/A	N/A	N/A
Sub-total	38	2,404,629,258	1,066,754,540	1,337,874,718	1,456,883,154			
Private Fixed Income:								
US Dollar	9	1,150,000,000	409,882,144	740,117,856	917,213,531	N/A	N/A, 90 Days	N/A
Hedge Funds:								
Equity Long/Short								
US Dollar	2	310,000,000		310,000,000	583,348,460	Monthly	30 Days	N/A
US Dollar	1	75,000,000		75,000,000	96,906,194	Annually	45 Days	12 Month Lockup
US Dollar	1	100,000,000		100,000,000	104,947,505	Quarterly	45 Days	25% Investor Gate
Event Driven								
US Dollar	1	109,554,176		109,554,176	61,882,115	Monthly	30 Days	N/A
US Dollar	1	80,000,000		80,000,000	2,742,345	Quarterly	60 Days	12 Month Lockup
US Dollar	1	100,000,000		100,000,000	123,087,104	Quarterly	65 Days	N/A
Macro								
US Dollar	1	100,000,000		100,000,000	80,563,365	Quarterly	30 Days	N/A
US Dollar	1	105,000,000		105,000,000	92,698,303	Quarterly	60 Days	25% Fund Gate, 24 Month Lockup
US Dollar	1	40,000,000		40,000,000	40,228,976	Monthly	45 Days	N/A
Multi-Strategies								
US Dollar	1	145,000,000		145,000,000	165,747,523	Quarterly	180 Days	12.5% Fund Gate, 12 Month Lockup
US Dollar	1	16,345,085		16,345,085	13,637,330	N/A	N/A	N/A
US Dollar	1	172,500,000		172,500,000	196,179,102	Varies	Varies	Varies
US Dollar	1	125,000,000		125,000,000	166,607,350	Rolling 9 Month	60 Days	25% Investor Gate, 9 Month Lockup
Opportunistic								
US Dollar	1	125,000,000	2,562,532	122,437,468	110,900,817	Annually	N/A	36 Month Lockup
US Dollar	1	150,000,000		150,000,000	89,919,563	Quarterly	60 Days	33% Investor Gate
Relative Value								
US Dollar	1	100,000,000		100,000,000	86,564,885	Quarterly	45 Days	N/A
US Dollar	1	100,000,000		100,000,000	129,120,883	Quarterly	60 Days	50% Investor Gate
US Dollar	1	100,000,000		100,000,000	149,997,703	Quarterly	45 Days	25% Investor Gate
Sub-total	19	2,053,399,261	2,562,532	2,050,836,729	2,295,079,523			
Total	326	20,094,924,128	6,321,398,408	13,773,525,719	13,894,672,782			

Note A: Commitment, Remaining Commitment, Adjusted Funded Amount, and Fair Value are reported in US Dollar

Notes to the Basic Financial Statements (Continued)

August 31, 2021

2.B Fund Equity

Fiduciary Net Position Held in Trust for Pension Benefits and Other Purposes

A summary of pension plan and other employee benefit fiduciary net position at August 31, 2021 is presented in Figure 9.

Figure 9
Net Position - Fiduciary Fund

Fund Type	Amount
	\$
Defined Benefit Plans (Note A)	35,445,118,468
Deferred Compensation Plans and Cafeteria Plan:	
Administration - Deferred Compensation Plans	7,508,101
Administration - State Employees Cafeteria Plan	24,478,009
Total Deferred Compensation Plans and Cafeteria Plan	31,986,110
Commuter Spending Account Fund	545,855
Net Position Restricted for Pension and Other Benefits	35,477,650,433

Exh. VIII

Note A: See Note 3.D Reserves for details of the statutorily required reserve balances of the Defined Benefit Plans

2.C Derivative Investment

Derivatives are generally defined as contracts or securities whose value depends on, or derives from, the value of an underlying asset, reference rate, or index.

Futures Contracts

The System purchases and sells futures contracts as a means of adjusting the portfolio mix and as a lower transaction cost substitute for transactions which would otherwise occur in the underlying portfolios. A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. Upon entering into a futures contract, the System pledges to the broker cash or U.S. government securities equal to the minimum "initial margin" requirement of the futures exchange. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts.

The System's investment managers seek to control this risk through counterparty credit requirements and the use of Commodity Futures Trading Commission approved futures and exchange traded options. The System anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The System receives or pays a daily "variation margin," which is an amount of cash equal to the daily fluctuation in value of the contract.

The accumulated value of the variation margin is the fair value of the futures contract. The outstanding futures contracts as of August 31, 2021 are summarized in Figure 10.

Options

An option is a contract that gives buyers the right, but not the obligations, to buy (call) or sell (put) an asset at a specified future date at a price agreed upon when the option is originated. The option's price is usually a small percentage of the underlying asset's value.

As a writer of financial options, the System receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the System pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The System has option contracts as of August 31, 2021 is summarized in Figure 10.

Forward Contracts

The System enters into forward contracts to minimize the short-term impact of foreign exchange rate fluctuations on the asset and liability positions of international equities. The System had no outstanding forward contracts on August 31, 2021.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Figure 10
Summary of Outstanding Derivative Investments

Options	Expiration Date	No. of Options	Put/Call	Change in Fair Value		Fair Value		Notional Amount
				Classification	Amount	Classification	Amount	
Equity	9/17/2021	566	Put	Investment Revenue	7,508	Investments	(7,250)	(14,758)
Equity	10/15/2021	1,335	Put	Investment Revenue	14,221	Investments	(58,545)	(72,766)
Total Options		1,901			21,729		(65,795)	(87,524)

Futures	Expiration Date	No. of Futures	Long/Short	Change in Fair Value		Fair Value		Notional Amount
				Classification	Amount	Classification	Amount	
C\$ CURRENCY FUTURE (CME)	9/14/2021	87	Short	Investment Revenue	81,719	Investments	81,719	(6,982,559)
S&P 500 EMINI INDEX FUT(CME)	9/17/2021	960	Short	Investment Revenue	(15,826,886)	Investments	(15,826,886)	(201,157,114)
EURO FX CURR FUTURE (CME)	12/13/2021	462	Short	Investment Revenue	269,577	Investments	269,577	(68,625,365)
US ULTRA BOND FUTURE (CBT)	12/21/2021	90	Short	Investment Revenue	(128,939)	Investments	(128,939)	(17,626,374)
Total Futures		1,599			(15,604,529)		(15,604,529)	(294,391,412)
Derivative Investments Grand Total		3,500			(15,582,800)		(15,670,324)	(294,478,936)

2.D Future Minimum Lease Payments

(In accordance with GASB Statement 87)

The System leases equipment under long-term, non-cancellable lease agreements. The leases expire at various dates through 2027. The outstanding lease liability as of August 31, 2021 was \$1.85 million. The total future minimum lease payments under the lease agreements as of August 31, 2021 are presented in Figure 11.

Figure 11
Future Minimum Lease Payments

Year Ended	Principal	Interest
2022	338,794	31,394
2023	313,153	24,452
2024	272,827	18,380
2025	243,192	12,993
2026	249,863	7,648
2027	229,041	2,155
	1,646,870	97,022

3. Defined Benefit Plans

(In accordance with GASB Statements 67 and 73)

The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), and Judicial Retirement System of Texas Plan Two (JRS II) are single employer defined benefit pension plans. ERS, LECOS, and JRS II are administered through trust. Each plan provides service retirement, death and disability benefits. Benefit and contribution provisions of each plan are authorized by State law and may be amended by the Texas Legislature.

Member contribution rates of the ERS, LECOS, and JRS II and State contribution rates of the ERS, LECOS, and JRS II are set by State law. The law prohibits any amendment to the plan that would cause the period required to amortize any unfunded actuarial accrued liability to equal or exceed 31 years. Administrative expenses of the ERS, LECOS and JRS II are financed through investment earnings. A description of the benefits including the key elements of pension formulas is provided in the Summary of Plan Provisions under the Introductory Section of this report.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

3.A Plan Descriptions and Contributions

Employees Retirement Plan

Plan Description

There are two classes of membership within this retirement plan: (1) the elected class and (2) the employee class.

Membership in the elected class is limited to persons who hold State offices that are normally filled by statewide election (including legislators) and excludes officials covered by the Judicial Retirement System of Texas Plan Two.

Membership in the employee class includes all employees and appointed officers of the State and excludes independent contractors and their employees and employees covered by the Teacher Retirement System of Texas.

System Employees

System employees are members of the Employees Retirement Plan.

Contributions

Employees are required to contribute a percentage of their monthly gross compensation, including base salary, longevity pay, hazardous duty pay, and benefit replacement pay and excluding overtime pay and emoluments other than housing and utilities. The contribution rate for employee class was 9.5% for Fiscal Year 2021. Legislators and other elected class members are required to contribute 9.5% of their compensation to the System.

For Fiscal Year 2021, the State contributed 10% of the payroll of members for both the employee class, legislators, and for other elected class members. See Note 3.B Funded Status and Funding Progress.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

Plan Description

The plan covers custodial officers who are certified in accordance with the statutory requirements as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates managed by the hiring institutions. The plan also covers law enforcement officers who have been commissioned and recognized as commissioned law

enforcement officers by the Texas Commission of Law Enforcement.

The monthly benefit amount payable from this fund is equal to the excess of the total benefit over the regular benefit payable to the member from the Employees Retirement System Fund.

Contributions

For Fiscal Year 2021, both employee members and the State contributed 0.5% of the covered payroll for LECOS members. An additional \$11,972,916 was contributed by the State from dedicated court fees. See Note 3.B Funded Status and Funding Progress.

Judicial Retirement System of Texas Plan Two

Plan Description

The plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts and certain commissions to a court who first became members after August 31, 1985. Members of the Judicial Retirement System of Texas Plan One are excluded from this plan.

Contributions

Members are required to contribute 9.5% of their compensation to the System during Fiscal Year 2021. Members who accrue 20 years of service credit in the retirement system may cease making contributions, but are considered contributing members for all other purposes; however, the State contribution continues. For the fiscal year ended August 31, 2021 the State contributed 15.663% of the payroll of members. See Note 3.B Funded Status and Funding Progress.

3.B Net Pension Liability

(In accordance with GASB Statement 67)

Summary of Actuarial Assumptions

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The assumptions are presented in Figure 12. Based on the actuarial assumptions listed in Figure 12, the components of the net pension liability as of August 31, 2021 are determined and summarized in Figure 13.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

The projected cash flow from the employer are based on contributions for the most recent five year period, modified for consideration of subsequent events. The legislature passed Senate Bill No. 321 in the 87th legislative session during fiscal year 2021 requiring a legacy payment beginning in Fiscal Year 2022 to pay off the current unfunded actuarial liability by 2054. The legacy payment is an actuarially determined

amount each biennium. The actuarially determined amount for fiscal year 2022 and 2023 is \$510 million each year. The passage of this bill indicates that the legislature is committed to funding the state pension obligations. Projected employer contributions are based on Fiscal Year 2021 funding levels. See Note 3.A for descriptions of member and State contributions.

**Figure 12
Actuarial Assumptions - Defined Benefit Plans**

	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II
(In accordance with GASB Statement No. 67)			
Valuation Date	August 31, 2021		
Actuarial Cost Method	Entry Age Normal		
Investment Rate of Return	7.0%		
Projected Salary Increases	0.0% – 8.8%	3.75% – 8.75%	2.3% plus follows State judicial tiered salary schedule as prescribed in Section 659.012
Inflation Rate	2.3%		
Last Experience Study	5-year period from September 1, 2014 to August 31, 2019		
Mortality Rate	2020 State Retirees of Texas (SRT) mortality table. Generational mortality improvements in accordance with ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries ("Scale U-MP") and projected from the year 2020. Rates for male LECO members are set forward one year.		

**Figure 13
Net Pension Liability**

	ERS	LECOS	JRS II
	\$	\$	\$
Total Pension Liability	44,183,687,166	2,998,396,321	728,607,461
Plan Fiduciary Net Position	33,608,244,434	1,116,041,412	585,179,731
Net Pension Liability	10,575,442,732	1,882,354,909	143,427,730
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.06%	37.22%	80.31%

Note: For Figure 13, the LECOS net Pension Liability difference is due to rounding.

The long-term expected rate of return on the System's pension plan investments was determined using a building-block method in which best estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of rates of return for each major asset class included in the System's target allocation as of August 31, 2021 are summarized in Figure 14.

In May 2020, the System Board of Trustees adopted a long-term rate of return assumption of 7.0% after considering 1) the long-term expected return from the building block method; 2) an analysis of long-term expected return performed by the System investment consultant; and 3) analyses and recommendations of the System pension actuary.

A single discount rate was used to measure the total pension liability as of August 31, 2021. This single discount rate was based on an expected rate of return on pension plan investments and a municipal bond rate, if applicable. Based on the stated assumptions and the projection of cash flow if the pension plan's fiduciary net position and future contributions were not sufficient to finance the benefit;

Notes to the Basic Financial Statements (Continued)

August 31, 2021

the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the fiscal year before the fiduciary net position is depleted, and the municipal bond rate was applied to all benefit payments after that fiscal year.

**Figure 14
Target Allocation**

Asset Class	Target Allocation	Real Return	Long-term Expected Portfolio Real Rate of Return
	%	%	%
Global Equity	37.00	8.10	2.15
Private Equity	13.00	11.20	1.16
Global Credit	13.00	5.80	0.39
Special Situations	1.00	7.80	0.17
Real Estate Investment Trust (REIT)	3.00	7.60	0.16
Private Real Asset - Infrastructure/Land	7.00	7.20	0.34
Private Real Estate	9.00	5.70	0.31
Fixed Income - Rates	11.00	1.90	(0.04)
Absolute Returns	5.00	5.80	0.18
Cash	1.00	1.80	(0.01)
Totals	100.00		4.79
Inflation			2.30
Expected Nominal Rate of Return			7.09

The single discount rate, the municipal bond rates, and the year when the fiduciary net position is projected to be depleted are summarized in Figure 15.

**Figure 15
Assumptions for Single Discount Rate**

	ERS	LECOS	JRS II
Expected investment rate of return	7.00 %	7.00 %	7.00 %
Municipal bond rate (Note A)	1.95 %	1.95 %	1.95 %
Year fiduciary net position depleted	Never	2040	2051
Single Discount Rate	7.00 %	2.70 %	5.27 %

Note A: The source of the municipal bond rate is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

The sensitivity of the net pension liability to one percentage point increase or decrease to the single discount rate is summarized in Figure 16.

**Figure 16
Sensitivity of Net Pension Liability**

Pension Plan	1% Decrease	Single Discount Rate	1% Increase
ERS:	6.00%	7.00%	8.00%
	\$15,868,656,816	\$10,575,442,732	\$6,169,639,446
LECOS:	1.70%	2.70%	3.70%
	\$2,443,864,070	\$1,882,354,909	\$1,444,133,224
JRS II:	4.27%	5.27%	6.27%
	\$222,841,431	\$143,427,730	\$75,919,338

Money Weighted Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the fiscal year ended August 31, 2021, the annual money-weighted rate of return on the defined benefit plans was 25.50%. See Schedule of Investment Returns – Defined Benefit Plans in the Required Supplementary Information section for details.

3.C Retirement Systems Membership

The membership of the retirement plans as of August 31, 2021 is summarized in Figure 17. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

3.D Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2021 are presented in Figure 18. See Note 1.G, Net Position - Restricted for Pension Benefits, for a description of each reserve account.

3.E Historical Trend Information

Historical trend information is designed to provide information about the ERS, LECOS, and JRS II's progress made in accumulating sufficient assets to pay benefits when due. This information is presented in the Required Supplementary Information immediately after the Notes to the Basic Financial Statements.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Figure 17
Retirement Systems Membership

	ERS			
	Employee Class	Elected Class	LECOS	JRS II
Retirees and Beneficiaries Currently Receiving Benefits	119,552	742	15,343	528
Terminated Employees Entitled to By Not Yet Receiving Benefits	144,912	138	29,626	192
Active Employees	136,391	335	32,498	584
Totals	400,855	1,215	77,467	1,304

Note: Estimated based on actuarial valuation as of August 31, 2021.

Figure 18
Reserves

	ERS	LECOS	JRS II	Totals
Net Plan Assets Reserved For:	\$	\$	\$	\$
Employee Savings	6,524,147,308	61,910,665	82,231,906	6,668,289,879
State Accumulation	635,834,052	83,558,212	136,687,833	856,080,097
Annuity Reserves	26,448,263,074	970,572,535	366,259,992	27,785,095,601
Total Net Plan Assets Reserved	33,608,244,434	1,116,041,412	585,179,731	35,309,465,577
	(Exh. VIII)	(Exh. VIII)	(Exh. VIII)	

4. Other Postemployment Benefits Plan (OPEB)

(In accordance with GASB Statement 74)

4.A Plan Descriptions and Contributions

State Retiree Health Plan

State Retiree Health Plan

Plan Description

In addition to the pension benefits described in Note 3, the System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. This Program is governed by the same Board of Trustees who are also responsible for the System's defined benefit pension plans. See Note 1.A for structure of the Board of Trustees.

The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer postemployment health care plan with a special funding situation. This plan covers retired employees of the State, and other entities as specified by the State legislature.

Benefit and contribution provisions of the State Retiree Health Plan are authorized by State law and may be amended by the Texas Legislature. Participating entities are listed in Figure 19.

Figure 19
Participating Reporting Entities in the State Retiree Health Plan

	August 31, 2021
State Agencies	114
Universities	27
Junior and Community Colleges	50
Other Entities	8
Total Participating Entities	199

The principal participating employer is the state of Texas. State agencies and universities employ 180,984 which is 80.5% of the employees covered by the State Retiree Health Plan.

Contributions

Figure 20 summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium, which is based on a blended rate. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity, the State of Texas pays part of the premiums for the junior and community college.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

**Figure 20
Employer Contribution Rates -
State Retiree Health Plan**

Fiscal Year 2021	
	\$
Retiree Only	624.82
Retiree & Spouse	1,339.90
Retiree & Children	1,103.58
Retiree & Family	1,818.66

Figure 21 summarizes premium contributions by source and claims expenses on a pay-as-you-go basis for the current fiscal year. The System's actuaries have estimated certain health, life, accidental death and dismemberment, and indemnity administrative fees.

**Figure 21
Contributions by Source and Claims Expenses -
State Retiree Health Plan**

	Amount
	\$
Contributions:	
Employers	766,689,167
Non-Employer Contributing Entities	39,188,518
Federal Revenues:	
Medicare Part D	1,583,707
Direct Subsidy	1,815,400
Low Income Premium Subsidy	344,727
Low Income Cost Sharing	3,335,754
Catastrophe Reinsurance	100,532,718
Total Federal Revenues	107,612,306
Total Contributions	913,489,991
Claims Expenses	1,066,896,850
Less: Payments from Inactive Members	(192,426,941)
Benefit Payments	874,469,909

4.B Net OPEB Liability

(In accordance with GASB Statement 74)

Summary of Actuarial Assumptions

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The assumptions are presented in Figure 22.

Figure 23 shows the System's net OPEB liability for the State Retiree Health Plan as of August 31, 2021. Calculations are based on the benefit provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of cost between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

**Figure 23
Net OPEB Liability**

	Amount
	\$
Total OPEB Liability	36,011,160,299
Less: Plan Fiduciary Net Position	135,652,891
Net OPEB Liability	35,875,507,408
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.38 %

The required Schedule of Changes in Net OPEB Liability and Related Ratios immediately following the notes to the financial statements presents the information about the Plan fiduciary net position and the total OPEB liability in Fiscal Year 2021. Multiyear trend information is presented.

Investment Policy

The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The System's Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments is 2.4%.

Discount Rate

Because the State Retiree Health Plan does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bond rate. The assumption of the discount rate is summarized in Figure 24.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

**Figure 22
Actuarial Assumptions -
State Retiree Health Plan**

Valuation Date	August 31, 2021
Actuarial Cost Method	Entry Age
Last Experience Study	State Agency Members: 5-year period from September 1, 2014 to August 31, 2019 Higher Education Members: 7-year period from September 1, 2010 to August 31, 2017
Actuarial Assumptions:	
Discount Rate	2.14%
Projected Annual Salary Increase	2.30% to 9.05%, including inflation
Annual Healthcare Trend Rate	<u>HealthSelect</u> 5.25% for FY2023, 5.15% for FY2024, 5.00% for FY2025, 4.75% for FY2026, 4.60% for FY2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2030 and later years <u>HealthSelect Medicare Advantage</u> 0% for FY2023, 66.67% for FY2024, 24.00% for FY2025, 4.75% for FY2026, 4.60% for FY2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2030 and later year <u>Pharmacy</u> 10.00% for FY2023 and FY2024, decreasing 100 basis points per year to 5.00% for FY2029 and 4.30% for FY2030 and later year
Inflation Assumption Rate	2.30%
Ad hoc Postemployment Benefit Changes	None
Mortality Rate	<u>State Agency Members</u> a. Service Retirees, Survivors and other Inactive Members (Regular, Elected, CPO/CO and JRS I and II Employee Classes): 2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020. b. Disability Retirees (Regular, Elected, CPO/CO and JRS I and II Employee Classes): 2020 State Retirees of Texas Mortality table with a 3 year set forward for males and females with minimum rates at all ages of 3.0% for males and 2.5% for females, respectively, and Ultimate MP Projection Scale projected from the year 2020. c. Active Members: Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP Projection Scale from the year 2010. <u>Higher Education Members</u> a. Service Retirees, Survivors and other Inactive Members: Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018. b. Disability Retirees: Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members. c. Active Members: Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014

**Figure 24
Assumptions for Single Discount Rate -
State Retiree Health Plan**

Expected investment rate of return	Not applicable because the plan operates on a pay-as-you-go basis
Municipal bond rate (Note A)	2.14%
Year fiduciary net position depleted	2022
Single Discount Rate	2.14%
<i>Note A: The source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.</i>	

The sensitivity of the net OPEB liability to one percentage point increase or decrease to the discount rate is summarized in Figure 25.

**Figure 25
Sensitivity of Net OPEB Liability to Changes in
Discount Rate (In Thousands) -
State Retiree Health Plan**

	1% Decrease	Single Discount Rate	1% Increase
Rate	1.14%	2.14%	3.14%
Net OPEB Liability	\$42,729,091	\$35,875,507	\$30,513,602

Notes to the Basic Financial Statements (Continued)

August 31, 2021

The initial healthcare trend rate is 5.25% for HealthSelect and 0% for HealthSelect Medicare Advantage and the ultimate rate is 4.3% for both. The sensitivity of the net OPEB liability to the changes in the discount rate and healthcare trend rate is summarized in Figure 26.

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the year ended August 31, 2021, the annual money-weighted rate of return on the State Retiree Health Plan was 0.18%.

4.C State Retiree Health Plan Membership

The membership of the State Retiree Health Plan includes retirees who retired with at least 10 years of service to eligible entities. These retirees must meet certain age requirements. Surviving spouses and dependents of these retirees are also covered. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

The membership of the State Retiree Health Plan as of August 31, 2021 is summarized in Figure 27.

Figure 27
State Retiree Health Plan Membership

Active Members	224,904
Inactive Members Currently Receiving Benefit Payments	134,517
Inactive Members Entitled to But Not Yet Receiving Benefit Payments	14,969
Total	374,390

Note: Estimated based on actuarial valuation as of August 31, 2021

4.D Reserves

The State Retiree Health Plan is a pay-as-you-go plan and has no reserves.

4.E Historical Trend Information

The historical trend information is designed to provide funding progress in the State Retiree Health Plan. This information is presented in the Required Supplementary Information immediately after the Notes to the Basic Financial Statements.

Figure 26
Sensitivity of Net OPEB Liability to Changes in Discount and Healthcare Trend Rates - State Retiree Health Plan

	1% Decrease (HealthSelect: 4.25% decreasing to 3.30%; HealthSelect Medicare Advantage: -1.00% to 3.30%; Pharmacy: 9.00% decreasing to 3.30%)	Current Healthcare Cost Trend Rates (HealthSelect: 5.25% decreasing to 4.30%; HealthSelect Medicare Advantage: 0.00% to 4.30%; Pharmacy: 10.00% decreasing to 4.30%)	1% Increase (HealthSelect: 6.25% decreasing to 5.30%; HealthSelect Medicare Advantage: 1.00% to 5.30%; Pharmacy: 11.00% decreasing to 5.30%)
Net OPEB Liability	\$30,041,514,206	\$35,875,507,408	\$43,519,076,260

5. Interfund Activity and Transactions

5.A Interfund Receivables and Payables (In accordance with GASB Statement 38)

At year-end, accruals related to interfund transfers and interfund reimbursements between the System’s funds, are reported as Due From Other Funds or Due To Other Funds in the fund financial statements (See Note 1.G).

The majority of the due to other funds balance in the Employees Life, Accident and Health Insurance and Benefits fund are payments from retirees, which are due to the State Retiree Health Plan. Figure 28 presents individual interfund receivable and interfund payable balances at August 31, 2021

**Figure 28
Interfund Receivables and Payables**

	Due From Other Funds	Due to Other Funds
Governmental Activities:	\$	\$
Governmental Funds	10,542	16,643
Employees Life, Accident & Health Insurance and Benefits Fund	3,545,444	4,846,224
Total Governmental Activities	3,555,986	4,862,867
Fiduciary Funds:		
Pension & Other Employee Benefit Trust Funds	6,033,948	4,727,066
Total - Interfund Receivables & Payables	9,589,934	9,589,934

5.B Interfund Transfers (In accordance with GASB Statement 38)

Interfund Transfers include transfers of membership fees from the Employees Retirement Fund to other funds of the System and transfers between the Employees Retirement Fund and the Excess Benefit Arrangement Fund for retirement benefit payments (See Note 1.G). Interfund Transfers between governmental activities and fiduciary funds are reclassified to revenues and expenses in the government-wide Statement of Activities. Figure 29 presents interfund transfers for the year ended August 31, 2021.

**Figure 29
Interfund Transfers**

	Transfers In	Transfers Out
	\$	\$
Governmental Activities:		
Non-Major Governmental Fund:		
Social Security Administration	27,221	
Total Governmental Activities	27,221	—
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	841,053	868,274
Total - Interfund Transfers	868,274	868,274

5.C Interagency Transfers

Interagency Transfers include transfers between the System’s funds and other funds of the State of Texas reporting entity that are for payment of benefits from the Compensation to Victims of Crime fund that are funded by the Office of the Attorney General. (See Note 1.G). Also included in this category is the amount transferred to the Teacher Retirement System for service established in the Employees Retirement Fund and payable from the Excess Benefit Arrangement Fund. Interagency Transfers between Governmental Activities and other funds of the State are reclassified to revenues and expenses in the government-wide Statement of Activities.

6. Contingent Liability

6.A Litigation

The System is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the System’s attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the System.

6.B Sick Leave

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. In the event of an employee’s death, a payment is made to the employee’s estate for one-half of the accumulated leave or 336 hours, whichever is less. Such payments are recognized as expenses/expenditures when paid.

Notes to the Basic Financial Statements (Continued)

August 31, 2021

Service credit is given upon retirement at the rate of one month of service for each 160 hours of an employee's accumulated sick leave balance. Additional fractions of 160 hours are counted as full months of service credit. Effective August 28, 1995, accumulated sick leave may also be used to meet service requirements to qualify for retirement at a rate of one month of service for each 160 hours of accrued unused sick leave for employees hired before September 1, 2009. Employees hired after September 1, 2009 are not able to use accumulated sick leave to meet retirement eligibility. The additional contingent liability for future compensation of sick leave, based on accumulated sick leave balances as of August 31 was not considered material.

6.C Incentive Compensation Plan

An Incentive Compensation Plan was adopted in December 2006 and amended subsequently to enable the System to remain competitive in its efforts to attract, retain, and motivate talented employees who are specialized in investments and other functions that support investment decisions. The purpose of the Plan is to provide the opportunity for Plan participants to earn performance incentive pay based on the System's investment performance and the participant's job performance.

Payments can only be earned following years in which the System earns a positive return, and plan participants must be employed by the System on the designated dates in the Plan in order to earn and receive payment. The Board of Trustees may cancel or modify the Plan at any time. The performance incentive pay is paid over the subsequent 2 years. The remaining liability for the incentive pay plan as of August 31, 2021 will not exceed \$8.5 million.

7. Risk Management

(In accordance with GASB Statement 10)

7.A Risk Exposure

The System is exposed to the following types of claims for risk of loss:

- Health insurance
- Life insurance
- Accidental death and dismemberment (AD & D) insurance
- Disability insurance
- Dental insurance
- Property and casualty
- Unemployment
- Workers' compensation

7.B Risk Financing

Claims for health, life, accidental death and dismemberment (AD & D), disability, and dental insurance coverages are recorded in the Employees Life, Accident and Health Insurance and Benefits Fund under the Texas Employees Group Benefits Program (GBP). These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts, dental health maintenance organization (DHMO) contracts, and dental discount plan.

The System purchases commercial insurance to cover the risk of loss related to general liability; theft of, damage to, and destruction of assets; and natural disasters. Claims for unemployment and workers compensation are funded by the System on a pay-as-you-go basis, and they are paid out of the Employees Retirement System Fund. These claim expenses are allocated periodically to other funds based on percentages determined by a study of each fund's usage. The risk financing for different coverages is summarized in Figure 30.

Notes to the Basic Financial Statements (Concluded)

August 31, 2021

**Figure 30
Summary of Risk Financing**

Type of Coverage	Plan Name	Self-Funded	Risk Retained with
Health	• HealthSelect	Yes	System
	• Consumer Directed HealthSelect	Yes	System
	• HMOs	No	Insurance Carrier
	• Prescription Drug	Yes	System
	• Vision	Yes	System
Life	N/A	No	Insurance Carrier
Accidental Death and Dismemberment	N/A	No	Insurance Carrier
Disability	N/A	Yes	System
Dental	• DHMOs	No	Insurance Carrier
	• Dental Indemnity Plan	Yes	System
Property and Casualty	N/A	No	Insurance Carrier
Unemployment	N/A	Yes	System
Workers' Compensation	N/A	Yes	System

7.C Liabilities

For self-funded coverages of the Internal Service Fund, the System's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Based on the estimates provided by the System's insurance actuary (Rudd and Wisdom, Inc.), liabilities are reevaluated to consider current settlements, frequency of claims, past experience and economic factors. Changes in the balances of the self-funded claims liabilities for the current fiscal year are presented in Figure 31.

**Figure 31
Changes in Self-Funded Claims Liabilities**

	August 31, 2021	August 31, 2020
	\$	\$
Beginning Balance	675,154,110	635,161,172
Current-Year Claims and Changes in Estimates	2,331,332,400	2,160,806,204
Claim Payments	(2,316,199,227)	(2,120,813,266)
Ending Balance	690,287,283	675,154,110

For coverages that are insured (not self-funded), no significant reductions in insurance coverage occurred in the past year. For both self-funded and insured coverages of the Internal Service Fund, the balance of claims that have been incurred but not reported as of August 31, 2021 is 653,353,787. Claim settlements did not exceed coverage in the last three fiscal years.

8. Termination Benefits

(In accordance with GASB Statement 47)

Termination benefits in the form of healthcare continuation under Consolidated Omnibus Budget Reconciliation Act (COBRA) are provided for both voluntary and involuntary terminations under the Group Benefits Program. The System maintains the COBRA membership in the Group Benefits Program as part of a group without designating the entity where the members worked prior to being eligible for COBRA benefits. The Group Benefits Program has 1,512 COBRA participants.

The COBRA members are eligible to remain in the Group Benefits Program for 18 months, 29 months if disabled, and their dependents are eligible to remain in the program for 36 months. The premium rates are set annually, and are based on the experience of the group.

Required Supplementary Information

Budgetary Comparison Schedule - Appropriated General Fund

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	
Budgetary Fund Balance - Beginning 09-01-2020	—	—	—	—
Revenue				
Legislative Appropriations	18,711,844	18,711,844	18,711,844	—
Expenditures				
Retirement Benefits	18,711,844	18,711,844	18,711,844	—
Access of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2021	—	—	—	—

Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans (in 000's)

	2014	2015	2016	2017	2018	2019	2020	2021
	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (Note A)								
Total Pension Liability								
Service Cost	1,139,451	1,231,203	1,146,791	1,457,263	1,445,557	1,346,986	1,827,864	2,146,247
Interest	2,324,180	2,373,849	2,522,626	2,510,128	2,559,723	2,694,083	2,516,723	2,376,688
Changes of Benefit Terms	—	(87,835)	—	—	—	—	—	—
Difference between Expected and Actual Experience	(252,967)	(284,751)	133,557	115,632	91,881	(578,195)	510,657	(747,551)
Changes of Assumptions	1,199,067	(3,429,167)	5,301,965	2,219,672	(1,982,914)	8,469,458	6,366,987	(22,817,318)
Benefit Payments and Refunds	(1,963,481)	(2,049,291)	(2,147,307)	(2,288,825)	(2,406,361)	(2,540,262)	(2,621,737)	(2,711,256)
Net Change in Total Pension Liability	2,446,250	(2,245,992)	6,957,632	4,013,870	(292,114)	9,392,070	8,600,494	(21,753,190)
Total Pension Liability - Beginning	37,064,667	39,510,917	37,264,925	44,222,557	48,236,427	47,944,313	57,336,383	65,936,877
Total Pension Liability - Ending	39,510,917	37,264,925	44,222,557	48,236,427	47,944,313	57,336,383	65,936,877	44,183,687
Plan Fiduciary Net Position								
Contributions - Employer	482,239	500,395	686,763	700,078	697,189	712,648	735,856	739,573
Contributions - Member	430,595	462,159	674,678	685,461	683,933	694,788	713,985	718,357
Pension Plan Net Investment Income	3,252,417	56,941	1,273,414	2,832,628	2,430,297	758,467	1,791,061	6,937,215
Benefit Payments and Refunds	(1,963,481)	(2,049,291)	(2,147,307)	(2,288,825)	(2,406,361)	(2,540,262)	(2,621,737)	(2,711,256)
Pension Plan Administrative Expense	(20,195)	(21,840)	(20,449)	(23,095)	(23,550)	(27,752)	(24,182)	(21,851)
Net Change in Plan Fiduciary Net Position	2,181,575	(1,051,636)	467,099	1,906,247	1,381,508	(402,111)	594,983	5,662,038
Plan Fiduciary Net Position - Beginning	22,868,542	25,050,117	23,998,481	24,465,580	26,371,827	27,753,335	27,351,224	27,946,206
Plan Fiduciary Net Position - Ending	25,050,117	23,998,481	24,465,580	26,371,827	27,753,335	27,351,224	27,946,207	33,608,244
Net Pension Liability - Ending	14,460,800	13,266,444	19,756,977	21,864,600	20,190,978	29,985,159	37,990,670	10,575,443
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.4%	64.4%	55.32%	54.67%	57.89%	47.7%	42.38%	76.06%
Covered Payroll (Note B)	5,955,461	6,150,195	6,742,143	6,859,707	6,811,926	6,947,625	7,158,435	7,188,368
Net Pension Liability as a Percentage of Covered Payroll	242.82%	215.71%	293.04%	318.74%	296.41%	431.59%	530.71%	147.12%

- to next page

Required Supplementary Information (Continued)

Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans (Continued) (in 000's)

	2014	2015	2016	2017	2018	2019	2020	2021
	\$	\$	\$	\$	\$	\$	\$	\$
Law Enforcement and Custodial Officer Supplemental Fund (Note A)								
Total Pension Liability								
Service Cost	54,528	57,459	71,429	99,390	79,309	71,926	96,690	91,246
Interest	88,025	87,224	88,410	82,236	91,171	96,085	86,012	82,146
Difference between Expected and Actual Experience	(76,585)	(9,640)	(21,657)	(17,532)	(21,651)	(54,147)	(1,841)	(27,962)
Changes of Assumptions	68,228	148,114	375,371	(144,398)	(87,015)	427,818	158,946	82,179
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)	(86,706)	(91,669)
Net Change in Total Pension Liability	77,049	221,813	449,011	(50,060)	(13,819)	459,432	253,101	135,940
Total Pension Liability - Beginning	1,465,929	1,542,978	1,764,791	2,213,802	2,163,742	2,149,923	2,609,355	2,862,456
Total Pension Liability - Ending	1,542,978	1,764,791	2,213,802	2,163,742	2,149,923	2,609,355	2,862,456	2,998,396
Plan Fiduciary Net Position								
Contributions - Employer	27,758	26,728	27,497	26,583	26,110	25,864	22,293	20,294
Contributions - Member	8,180	8,376	9,539	9,583	9,275	9,098	8,950	9,078
Pension Plan Net Investment Income	111,741	1,918	44,831	99,341	84,938	26,250	61,097	232,795
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)	(86,706)	(91,669)
Pension Plan Administrative Expense	(1,324)	(1,411)	(1,421)	(1,811)	(1,851)	(2,167)	(1,933)	(1,781)
Net Change in Plan Fiduciary Net Position	89,208	(25,733)	15,904	63,940	42,839	(23,205)	3,701	168,717
Plan Fiduciary Net Position - Beginning	780,670	869,878	844,145	860,049	923,989	966,828	943,623	947,324
Plan Fiduciary Net Position - Ending	869,878	844,145	860,049	923,989	966,828	943,623	947,324	1,116,041
Net Pension Liability - Ending	673,100	920,646	1,353,753	1,239,753	1,183,095	1,665,732	1,915,132	1,882,355
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	56.38%	47.83%	38.85%	42.70%	44.97%	36.16%	33.09%	37.22%
Covered Payroll (Note B)	1,496,013	1,506,028	1,725,880	1,746,349	1,689,590	1,682,633	1,662,147	1,586,537
Net Pension Liability as a Percentage of Covered Payroll	44.99%	61.13%	78.44%	70.99%	70.02%	99.00%	115.22%	118.65%

- to next page

Required Supplementary Information (Continued)

Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans (Concluded) (in 000's)

	2014	2015	2016	2017	2018	2019	2020	2021
Judicial Retirement System Plan II (Note A)								
Total Pension Liability								
Service Cost	17,805	16,244	19,429	20,420	16,056	16,415	28,965	37,434
Interest	28,004	30,785	30,980	31,671	34,440	36,103	35,248	32,800
Changes of Benefit Terms	—	—	—	—	—	(1,019)	—	—
Difference between Expected and Actual Experience	(640)	(10,066)	(5,833)	5,091	(1,463)	26,592	(12,695)	(1,793)
Changes of Assumptions	(25,924)	35,653	23,397	(56,699)	—	111,655	113,895	(86,361)
Benefit Payments and Refunds	(16,420)	(19,238)	(21,155)	(23,361)	(24,865)	(29,220)	(32,041)	(35,142)
Net Change in Total Pension Liability	2,825	53,378	46,818	(22,878)	24,168	160,526	133,372	(53,062)
Total Pension Liability - Beginning	383,461	386,286	439,664	486,482	463,604	487,772	648,298	781,670
Total Pension Liability - Ending	386,286	439,664	486,482	463,604	487,772	648,298	781,670	728,608
Plan Fiduciary Net Position								
Contributions - Employer	12,211	12,457	12,374	12,495	12,560	13,100	14,186	14,322
Contributions - Member	5,195	5,465	5,754	6,017	5,940	6,463	8,634	8,759
Pension Plan Net Investment Income	46,186	820	19,862	44,875	39,192	12,832	30,633	120,145
Benefit Payments and Refunds	(16,420)	(19,238)	(21,155)	(23,361)	(24,866)	(29,220)	(32,041)	(35,142)
Pension Plan Administrative Expense	(267)	(284)	(226)	(295)	(296)	(363)	(273)	(235)
Net Change in Plan Fiduciary Net Position	46,905	(780)	16,609	39,731	32,530	2,812	21,139	107,849
Plan Fiduciary Net Position - Beginning	318,385	365,290	364,510	381,119	420,850	453,380	456,192	477,331
Plan Fiduciary Net Position - Ending	365,290	364,510	381,119	420,850	453,380	456,192	477,331	585,180
Net Pension Liability - Ending	20,996	75,154	105,363	42,754	34,392	192,106	304,339	143,428
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.56%	82.91%	78.34%	90.78%	92.95%	70.37%	61.07%	80.31%
Covered Payroll (Note B)	77,441	77,501	78,261	78,190	78,772	79,711	88,579	89,583
Net Pension Liability as a Percentage of Covered Payroll	27.11%	96.97%	134.63%	54.68%	43.66%	241.00%	343.58%	160.11%

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Note B: The covered payroll is the annual payroll for the fiscal year as reported by the System. The change in the Total Pension Liability due to the change in the Single Discount Rate is included as an assumption change.

Required Supplementary Information (Continued)

Schedule of Employer Contributions – Defined Benefit Plans

Fiscal Year (Note A)	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency/(Excess)	Actual Contribution as a % of	
				Covered Payroll	Covered Payroll
	\$	\$	\$	\$	%
Employee Retirement Fund					
2014	727,892,157	482,239,018	245,653,139	5,955,460,705	8.10
2015	737,111,059	500,394,986	236,716,073	6,150,194,660	8.14
2016	679,806,017	686,763,354	(6,957,337)	6,742,143,036	10.19
2017	713,527,832	700,078,188	13,449,644	6,859,706,582	10.21
2018	933,914,990	697,189,414	236,725,576	6,811,925,525	10.23
2019	946,266,489	712,647,639	233,618,850	6,947,624,737	10.26
2020	985,000,670	735,855,712	249,144,958	7,158,435,103	10.28
2021	1,148,701,141	739,572,907	409,128,234	7,188,367,590	10.29
Law Enforcement and Custodial Officer Supplemental Fund					
2014	40,205,389	27,757,980	12,447,409	1,496,012,750	1.86
2015	38,131,404	26,728,318	11,403,086	1,506,027,764	1.77
2016	43,167,243	27,497,297	15,669,946	1,725,879,688	1.59
2017	45,332,090	26,583,162	18,748,928	1,746,349,412	1.52
2018	53,560,012	26,109,655	27,450,357	1,689,590,272	1.55
2019	54,853,838	25,864,146	28,989,692	1,682,633,066	1.54
2020	56,679,229	22,293,664	34,385,565	1,662,147,480	1.34
2021	59,019,190	20,294,220	38,724,970	1,586,537,362	1.28
Judicial Retirement System Plan II					
2014	13,448,473	12,210,663	1,237,810	77,441,466	15.77
2015	13,107,449	12,457,095	650,354	77,500,736	16.07
2016	12,895,678	12,374,200	521,478	78,260,550	15.81
2017	12,444,384	12,494,828	(50,444)	78,189,668	15.98
2018	12,934,435	12,559,722	374,713	78,772,445	15.94
2019	13,056,631	13,100,263	(43,632)	79,710,813	16.43
2020	16,342,752	14,186,283	2,156,469	88,578,603	16.02
2021	21,383,347	14,321,889	7,061,458	89,582,518	15.99

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information (Continued)

Schedule of Changes in Net OPEB Liability and Related Ratios

(in 000's)

	2017 (Note A)	2018	2019	2020	2021
State Retiree Health Plan (Note B)					
Total OPEB Liability					
Service Cost	2,303,979	1,495,979	1,206,106	1,539,978	1,564,918
Interest	1,225,588	1,261,856	1,221,955	1,063,159	755,312
Difference between Expected and Actual	(501,666)	(935,689)	(89,009)	(818,424)	(15,786)
Changes of Assumptions	(8,728,822)	(5,924,045)	3,006,228	(2,520,337)	1,325,578
Benefit Payments and Refunds	(728,548)	(662,723)	(740,841)	(737,408)	(768,441)
Net Change in Total OPEB Liability	(6,429,469)	(4,764,622)	4,604,439	(1,473,032)	2,861,581
Total OPEB Liability - Beginning	41,212,263	34,782,794	30,018,172	34,622,611	33,149,579
Total OPEB Liability - Ending	34,782,794	30,018,172	34,622,611	33,149,579	36,011,160
Plan Fiduciary Net Position					
Contributions - Employer	892,205	307,029	401,285	748,369	766,689
Contributions - Non-employer Contributing Entity	45,035	16,585	20,183	37,737	39,189
Contributions - Member (Note C)	195,806				
Contributions - Federal Revenues for Medicare	1,659	1,418	1,480	1,768	1,584
Contributions - Adjustments	(2,071)				
Net Investment Income	4,517	10,907	3,323	1,336	233
Health Care Claims	(995,816)	(938,921)	(1,038,588)	(1,076,890)	(1,066,897)
Payment from Members (Note C)		203,123	209,837	230,151	192,427
Total Benefit Payments	(995,816)	(735,798)	(828,751)	(846,739)	(874,470)
Administrative Expense	(5,629)	(5,818)	(6,008)	(6,815)	(8,607)
Other - Federal Revenues	71,462	73,075	87,909	109,331	106,029
Other Additions	356	3,249	85	24	59
Net Change in Plan Fiduciary Net Position	207,524	(329,353)	(320,494)	45,011	30,706
Plan Fiduciary Net Position - Beginning	502,259	709,783	380,430	59,936	104,947
Plan Fiduciary Net Position - Ending	709,783	380,430	59,936	104,947	135,653
Net OPEB Liability - Ending	34,073,011	29,637,742	34,562,675	33,044,632	35,875,507
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	2.04%	1.27%	0.17%	0.32%	0.38%
Covered Employee Payroll	11,745,310	12,047,167	12,320,028	12,655,247	12,586,390

Note A: The beginning balance and components of the total OPEB liability for fiscal year 2017 are recalculated based on the correct discount rate defined under GASB Statement No. 74.

Note B: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Note C: In fiscal year 2017, payments from members were reported as contributions from members. Beginning from fiscal year 2018, payments from members are reported as deductions from benefit payments.

Schedule of Contributions from Employers and Non-employer Contributing Entities – Other Postemployment Benefits Plan

Fiscal Year (Note A)	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency/(Excess)	Covered Employee Payroll	Actual Contribution as a % of Covered Payroll
	\$	\$	\$	\$	%
State Retiree Health Plan					
2017	2,714,958,093	936,827,489	1,778,130,604	11,745,310,057	7.98
2018	2,332,643,695	325,031,537	2,007,612,158	12,047,166,658	2.70
2019	2,687,207,910	422,947,418	2,264,260,492	12,320,028,164	3.43
2020	2,590,236,378	787,874,304	1,802,362,074	12,655,246,687	6.23
2021	2,720,518,130	807,461,391	1,913,056,739	12,586,390,133	6.42

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information (Continued)

Schedule of Investment Returns

– Annual Money-Weighted Rate of Return, Net of Investment Expense (Note A)

	2014	2015	2016	2017	2018	2019	2020	2021
	%	%	%	%	%	%	%	%
Defined Benefit Plans:								
Employees Retirement Fund	14.58	0.23	5.40	11.84	9.42	2.80	6.70	25.50
Law Enforcement and Custodial Officer Supplemental Fund	14.55	0.22	5.39	11.80	9.40	2.79	6.64	25.38
Judicial Retirement System Plan II	14.55	0.23	5.47	11.88	9.40	2.86	6.78	25.53
Overall	14.58	0.23	5.40	11.84	9.42	2.80	6.70	25.49
Other Post-Employment Benefit Plan:								
State Retiree Health Plan	N/A	N/A	N/A	1.03	1.84	2.32	1.59	0.18

Note A: Schedule intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to The Required Supplementary Information

Defined Benefit Plans

The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board of Trustees. Additional information on the actuarial assumptions as of the latest actuarial valuation is summarized in Figure 1. The total pension liability reported in the Schedule of Changes in Net Pension Liability and Related Ratios was provided by the System's actuary. The net pension liability is measured as the total pension liability less the amount of fiduciary net position of the pension plans.

The actuarially determined contributions for the

Employees Retirement Fund, the Law Enforcement and Custodial Supplemental Fund, and Judicial Retirement Plan II are calculated as of August 31, 2021, based on the actuarial assumptions described in Figure 1. These contributions are reported in the Schedule of Employer's Contribution – Defined Benefit Plans.

Other Postemployment Benefit Plan

The assumptions and methods used for this actuarial valuation are the same as those used for defined benefit plans where appropriate. Additional information on the actuarial assumptions as of

Figure 1
Summary of Actuarial Assumptions - Defined Benefit Plans

	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II
(In accordance with GASB Statement No. 67)			
Valuation Date	August 31, 2021	August 31, 2021	August 31, 2021
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years	31 years	31 years
Asset Valuation Method	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.
Actuarial Assumptions:			
Investment Rate of Return	7.00%	7.00%	7.00%
Projected Salary Increases	0.0% – 8.80%	3.75% – 8.5%	3.00%
Inflation Rate	2.30%	2.30%	2.30%
Cost-of-living Adjustments	None – Employee 3.5% – Elected	None	None

Required Supplementary Information (Concluded)

Notes to The Required Supplementary Information (Concluded)

the latest actuarial valuation is summarized in Figure 2. The following assumptions have been changed since the previous Other Postemployment Benefits (OPEB) valuation:

- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The proportion of future retirees assumed to be married and electing coverage for their spouse.
- The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement.
- The percentage of Higher Education vested terminated members assumed to have terminate less than one year before the valuation date.
- Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent health plan experience and its effects on our short term expectations. The annual rate of increase in the Patient-Centered Outcomes Research Institute Fee payable under the Affordable Care Act has been updated to reflect recent health plan experience and its effects on our short-term expectations. Assumed expenses directly related to the payment of GBP HealthSelect medical benefits have been updated to reflect recent contract revisions.
- The discount rate was changed from 2.20% as of August 31, 2020 to 2.14% as of August 31, 2021 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

Figure 2
Summary of Actuarial Assumptions - Other Postemployment Benefit Plan

State Retiree Health Plan (In accordance with GASB Statement No. 74)	
Valuation Date	August 31, 2021
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Amortization Period	30 Years
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Discount Rate	2.14%
Projected Salary Increases	2.30% to 9.05%, including inflation
Inflation Rate	2.30%
	<u>HealthSelect</u> 5.25% for FY2023, 5.15% for FY2024, 5.00% for FY2025, 4.75% for FY2026, 4.60% for FY2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2030 and later years
	<u>HealthSelect Medicare Advantage</u> 0% for FY2023, 66.67% for FY2024, 24.00% for FY2025, 4.75% for FY2026, 4.60% for FY2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2030 and later years
Healthcare Cost and Trend Rate	<u>Pharmacy</u> 10.00% for FY2023 and FY2024, decreasing 100 basis points per year to 5.00% for FY2029 and 4.30% for FY2030 and later years



Other Supplementary Information – Schedule 1

Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Employees Retirement Fund
Year Ended August 31, 2021

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	709,215,766					709,215,766
Employer Contributions		739,108,054				739,108,054
Service Contributions from Teacher Retirement System			112,294,348			112,294,348
Membership Fees					492,073	492,073
Penalty Interest		9,141,474				9,141,474
Investment Income:						
Net Appreciation in Fair Value of Investments				6,279,155,879		6,279,155,879
Interest and Dividends				697,543,021		697,543,021
Class Action Settlements				728,217		728,217
Rental Income					41,418	41,418
Warrants Voided By Statute of Limitations		362,785				362,785
Sale of Surplus Equipment					9	9
Directed Commissions						
Recycling Revenue					13,400	13,400
Reimbursement - Third Party						
Miscellaneous					189	189
Total Operating Revenues	709,215,766	748,612,313	112,294,348	6,977,427,118	547,089	8,548,096,633
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			2,660,545,221			2,660,545,221
Death Benefits:						
Active Members		4,290,510				4,290,510
Retirees			1,878,326			1,878,326
Member Contributions Withdrawn	127,058,530					127,058,530
Service Contributions to Teacher Retirement System			29,299,864			29,299,864
Re-Issue Warrants Voided						
Administrative Expenses					61,423,767	61,423,767
Depreciation Expense					646,058	646,058
Fees for Other Programs						
Interest Expenses					41,616	41,616
Total Operating Expenses	127,058,530	4,290,510	2,691,723,411		62,111,441	2,885,183,892
Income (Loss) Before Non-Operating Expenses and Operating Transfers	582,157,236	744,321,803	(2,579,429,063)	6,977,427,117	(61,564,352)	5,662,912,741
Non-Operating Revenues (Expenses)						
Loss on Disposal of Fixed Assets					(6,573)	(6,573)
Income (Loss) Before Operating Transfers	582,157,236	744,321,803	(2,579,429,063)	6,977,427,117	(61,570,925)	5,662,906,168
Operating Transfers In (Out)						
Distribution of Interest	122,870,198	5,074,096,735	1,718,020,985	(6,914,987,918)		
Establishment of Benefit Reserves	(456,982,686)	(1,247,885,168)	1,704,891,574			
Distribution of Interest for Administrative Expenses				(62,439,199)	62,439,199	
Benefits Waived		600	(600)			
Member Accounts-Escheated	(2,888,473)	2,888,473				
Membership Fees Transferred Out					(27,221)	(27,221)
Excess Benefit Arrangement Transfers					(841,053)	(841,053)
Net Operating Transfers	(337,000,961)	3,829,076,920	3,422,911,959	(6,977,427,117)	61,570,925	(868,274)
Net Income (Loss)	245,156,275	4,573,398,723	843,482,896			5,662,037,894
Account Balances - Beginning	6,278,991,033	(3,937,564,672)	25,604,780,179			27,946,206,540
Account Balances - Ending	6,524,147,308	635,834,051	26,448,263,075			33,608,244,434

Note: As required by Texas Government Code Chapter 815.322, the System moved funds from the State Accumulation Account to the Retirement Annuity Reserve Account based on the actuarial determined present value of future benefits to be paid to retirees. Fund balance is sufficient to pay the future annuities to the current population of retirees.

Other Supplementary Information – Schedule 2

Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Law Enforcement and Custodial Officer Supplemental Retirement Fund

Year Ended August 31, 2021

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	9,075,949					9,075,949
State Retirement Contributions		20,294,220				20,294,220
Penalty Interest		1,583				1,583
Investment Income:						
Net Appreciation in Fair Value of Investments				210,724,511		210,724,511
Interest and Dividends				23,432,936		23,432,936
Class Action Settlements				24,501		24,501
Warrants Voided By Statute of Limitations		14,349				14,349
Total Operating Revenues	9,075,949	20,310,152		234,181,948		263,568,049
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			88,097,351			88,097,351
Refunds of Retirement Contributions	3,560,285					3,560,285
Death Benefits:						
Active Members		26,014				26,014
Administrative Expenses					3,167,181	3,167,181
Total Operating Expenses	3,560,285	26,014	88,097,351		3,167,181	94,850,831
Income (Loss) Before Operating Transfers	5,515,664	20,284,138	(88,097,351)	234,181,948	(3,167,181)	168,717,218
Operating Transfers In (Out)						
Distribution of Interest	1,215,085	165,874,413	63,925,269	(231,014,767)		
Establishment of Benefit Reserves	(3,243,730)	(71,147,051)	74,390,781			
Distribution of Interest for Administrative Expenses				(3,167,181)	3,167,181	
Net Operating Transfers	(2,028,645)	94,727,362	138,316,050	(234,181,948)	3,167,181	
Net Income (Loss)	3,487,019	115,011,500	50,218,699			168,717,218
Account Balances - Beginning	58,423,646	(31,453,288)	920,353,836			947,324,194
Account Balances - Ending	61,910,665	83,558,212	970,572,535			1,116,041,412

Note: As required by Texas Government Code Chapter 815.322, the System moved funds from the State Accumulation Account to the Retirement Annuity Reserve Account based on the actuarial determined present value of future benefits to be paid to retirees. Fund balance is sufficient to pay the future annuities to the current population of retirees.

Other Supplementary Information – Schedule 3

Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Judicial Retirement System Plan Two Fund

Year Ended August 31, 2021

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	8,747,225					8,747,225
Employer Contributions		14,321,889				14,321,889
Penalty Interest		11,412				11,412
Investment Income:						
Net Appreciation in Fair Value of Investments				108,720,738		108,720,738
Interest and Dividends				12,068,904		12,068,904
Class Action Settlements				12,584		12,584
Total Operating Revenues	8,747,225	14,333,301		120,802,226		143,882,751
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			34,930,074			34,930,074
Death Benefits:						
Active Members		13,641				13,641
Member Contributions Withdrawn	198,524					198,524
Administrative Expenses					892,019	892,019
Total Operating Expenses	198,524	13,641	34,930,074		892,019	36,034,258
Income (Loss) Before Operating Transfers	8,548,701	14,319,660	(34,930,074)	120,802,226	(892,019)	107,848,494
Operating Transfers In (Out)						
Distribution of Interest	1,374,967	95,998,783	22,536,457	(119,910,207)		
Establishment of Benefit Reserves	(7,000,595)	(46,948,287)	53,948,883			
Distribution of Interest for Administrative Expenses				(892,019)	892,019	
Net Operating Transfers	(5,625,628)	49,050,496	76,485,339	(120,802,226)	892,019	
Net Income (Loss)	2,923,073	63,370,156	41,555,266			107,848,494
Account Balances - Beginning	79,308,833	73,317,678	324,704,726			477,331,237
Account Balances - Ending	82,231,906	136,687,834	366,259,991			585,179,731

Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts

Year Ended August 31, 2021

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Personnel Services	\$	\$
Salaries and Wages	24,262,777	15,335,023
Payroll Related Costs:		
Retirement Contributions	2,263,042	1,173,333
Retirement Membership Fees	926	252
Employees Insurance Contributions	2,621,411	782,802
Retirees Insurance Contributions	1,474,897	347,293
Social Security Contributions	1,778,462	851,393
Unemployment Compensation	3,794	893
Total Payroll Related Costs	8,142,532	3,155,966
Total Personnel Services	32,405,309	18,490,989
Professional Fees and Services		
Actuarial Services	1,164,372	
Audit Services	704,953	
Investment Consulting Fees		3,153,482
Investment Advisors		12,844,548
Medical Board Member Fees	50,149	
Legal Services	148,737	657,715
Computer Programming Services	5,110,353	506,495
Other Professional Services	1,720,863	85,014
Total Professional Fees and Services	8,899,427	17,247,254
Other Services and Charges		
Travel	5,274	
Materials and Supplies:		
Postage	708,584	
General Office and Other Supplies	62,963	253
Subscriptions	29,775	2,182,713
Furniture and Equipment	153,058	330
Computer Software	982,396	
Total Materials and Supplies	1,936,776	2,183,296
Communications and Utilities:		
Electricity, Gas and Water	150,770	
Telephone and Telegraph	695,703	
Electronic Communication Services	231,944	4,071,908
Total Communications and Utilities	1,078,417	4,071,908
Repairs and Maintenance:		
Land and Building	110,935	
Furniture and Equipment	18,841	
Computer Software and Equipment	1,439,438	
Total Repairs and Maintenance	1,569,214	
Rentals and Leases:		
Computer Software and Equipment	46,847	
Office Equipment	87,981	
Space	119,479	
Total Rentals and Leases	254,307	
Printing and Reproduction Services	54,951	
Depreciation	646,058	
Amortization	314,038	
Interest on Leases	41,616	

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Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures Statutory Administrative Funds and Accounts (Concluded) Year Ended August 31, 2021

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Other Services and Charges (continued)	\$	\$
Other Operating Expenses/Expenditures:		
Membership Fees	42,707	68,229
Employee Training	48,955	13,893
Insurance - Building and Vehicle	43,579	
Fees and Other Charges	59,950	46,966
Investment Banking		1,005,886
Tenure Awards	2,387	43
Temporary Employment Agencies	332,818	
Cleaning Services	171,063	
Advertising Services	643	396
Freight/Delivery Services	4,857	
Purchased Contracted Services	1,653,121	406
Prompt Payment Interest	4,356	
SORM Assessment	3,835	904
Third Party Administrator Fee - Cafeteria Plan	1,071,409	
Total Other Operating Expenses/Expenditures	3,439,680	1,136,723
Total Other Services and Charges	9,340,331	7,391,927
Total Expenses/Expenditures	50,645,067	43,130,170
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	21,850,725	40,260,717
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	1,780,707	1,386,474
Judicial Retirement System Plan Two Trust Fund (0993)	234,946	657,073
TexaSaver 401(k) Trust Fund (0946)	250,737	42,207
TexaSaver 457 Trust Fund (0945)	137,053	58,658
Commuter Spending Account Fund (3944)	15,180	
State Employees Cafeteria Plan Trust Fund (0943)	1,307,849	
State Retiree Health Plan (3973)	8,607,490	
Total Fiduciary Funds	34,184,687	42,405,129
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	16,366,260	725,041
Total Proprietary Fund	16,366,260	725,041
Social Security Administration Trust Account (0929)	94,120	
Total Governmental Funds	94,120	—
Total Method of Finance	50,645,067	43,130,170

Note A: \$99,848,801 management fees were deducted and paid from the net asset value of Alternative Investments during Fiscal Year 2021. The accrued management fees were reported as deductions from the fair value of Alternative Investments. Details of the management fees are listed in the Investment Section

Other Supplementary Information – Schedule 5

Professional and Consulting Fees

Year Ended August 31, 2021

Nature of Service	Totals
	\$
Actuarial Services - Retirement	528,492
Actuarial Services - Insurance	635,880
Audit Fees - Financial	230,001
Audit Fees - Insurance Carrier	338,631
Audit Fees - Other	136,321
Investment Consulting Fees	3,153,482
Investment Advisors	12,844,548
Medical Board	50,149
Legal Services	806,452
Computer Programming Services	5,616,848
Educational Services	58,866
Other Professional Services	1,691,511
Other Consulting Services	55,500
Total Professional and Consulting Fees	26,146,681
Method of Finance:	
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	22,609,079
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	793,747
Judicial Retirement System Plan Two Trust Fund (0993)	351,550
TexaSaver 401(k) Trust Fund (0946)	9,745
TexaSaver 457 Trust Fund (0945)	4,689
Commuter Spending Account Fund (3944)	483
State Employees Cafeteria Plan Trust Fund (0943)	13,229
State Retiree Health Plan (3973)	790,844
Total Fiduciary Funds	24,573,366
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	1,568,268
Total Proprietary Fund	1,568,268
Social Security Administration Fund (0929)	5,047
Total Governmental Funds	5,047
Total Method of Finance	26,146,681

INVESTMENT SECTION



Report on Investment Activity

Outline of Investment Policies

Time-weighted Rates of Return and Asset Allocations

Broker Commissions

Fees for Alternative Investments

Investment Advisory and Service Fees

List of Largest Assets Held

Investment Summary at Fair Value



Report on Investment Activity

Fiscal Year 2021

Overview

The System's investment portfolio closed the fiscal year with a fair value of \$34.9 billion and received a net return of 25.46% for the year, compared to the global policy benchmark return of 18.5%. At fiscal year-end, Fund positioning included 40.31% of its assets in global public equity, 18.72% in fixed income, 12.20% in global real estate, 17.75% in private equity, 4.17% in infrastructure, 4.24% in absolute return hedge funds, and 2.61% in cash and other investments.

The beginning of the fiscal year was marked by significant uncertainty, with COVID-19 spreading rapidly and new variants of the virus emerging. Nevertheless, the U.S. economy gained steam in the second fiscal quarter as the approval of a \$1.9 trillion pandemic relief package in March and vaccinations against COVID-19 fueled the reopening of the economy. As a result, the widely followed S&P 500 index of U.S. equities rose 100% from its lows in March 2020.

Performance trends for the Fund relative to the benchmark have remained strong over the longer term. For the five years ended August 31, 2021, the Fund returned 11.17%, well above the policy benchmark return of 9.6%. For the 10 years ended August 31, 2021 the fund returned 9.32%, outperforming the policy benchmark return of 8.6%.

During Fiscal Year 2021, the Investments Division continued to work with the Executive Director, Board of Trustees, Investment Advisory Committee (IAC) and other divisions within the agency to build a competitive investment organization. The division successfully sustained operations while working from home and attending many meetings virtually in order to conduct business during the COVID-19 global pandemic.

Some of the most notable accomplishments during this period included:

- Held more than 4,000 meetings with external companies, brokers, managers and advisors to conduct due diligence on investable ideas.
- Held more than 40 meetings of Asset Class Investment Committees.
- Committed \$300 million to two Fixed Income funds.
- Committed \$1.3 billion to five international equity advisors.
- Committed \$165 million to hedge fund investments associated with the Absolute Return portfolio.
- Committed \$775 million to real estate investments and closed on 11 funds.
- Committed \$861 million to Private Equity and closed on seven new commitments to existing managers (re-ups), four new relationships, and 12 co-investments.

- Committed \$483 million to Private Infrastructure and closed on four funds and six co-investments.
- Allocated to a second emerging hedge fund manager for PAAMCO Launchpad, completing the initial commitment. The Board approved an increase in the aggregate allocation to PAAMCO Launchpad by \$175
- Added 12 new strategies focused on international equity markets in an effort to refresh the select pool of investment advisors within the Global Equity asset class.

Performance across asset classes was strong on an absolute and relative basis. For example, the Absolute Return portfolio experienced its strongest year for performance since its inception, gaining 15.2%, compared to gains of 3.6% for the benchmark and 13.1% for the HFRI Fund of Funds Diversified Index. The portfolio benefited significant realizations to its existing side-pocket investments, exposure that has historically been between 0 and 2% of the portfolio in any given year.

The Investments Division co-hosted the successful TRS/ERS Emerging Manager Conference with 3,482 investment professionals in attendance and 2,079 allocator meetings held. As part of its efforts to equip stakeholders for informed decision-making, staff also broadened its in-house educational conferences and promoted strategic outreach, including through the creation of investment primers for the Board, IAC and external stakeholders.

During 2022 the Investments Division will continue its goal to expand existing core competencies for innovative investment management by exploring new investment alternatives and enhancing the investment manager monitoring process through implementing a manager scorecard. To promote performance and accountability, the division will continue to review and refine the asset class procedures, guidelines and tactical plans. It will also continue to enhance the Emerging Manager Program by again co-hosting the ERS/TRS Emerging Manager Conference and the Real Estate Emerging Manager Conference.

Domestic Equity

Fiscal Year 2021 was a strong year for equity returns, with the S&P 600 Small Cap index finishing as the best performer followed by the S&P 400 Mid Cap index. The fiscal year was particularly volatile for the NASDAQ and S&P 500 Growth indexes, as technology and growth stocks were hurt by the COVID-19 vaccine rollout and threat of rising interest rates. Ultimately, the threat of rising interest rates subsided and the two indices finished the year slightly behind the S&P 500 Value index, which finished third behind the small- and mid-cap indices.

Report on Investment Activity (Continued)

Fiscal Year 2021

The unemployment rate began the fiscal year at 8% and finished at near 5% as COVID-19 infection rates declined, restrictions eased and businesses began to rehire. Toward the end of the fiscal year, there were 10.9 million job openings, a ratio of roughly five openings to every four unemployed persons.

Commodities were a major topic as recession fears abated and consumer spending accelerated, both of which were supported by various stimulus programs and historic savings. Lumber was the story for much of the year as supply chains were disrupted due to COVID-19 and DIY home improvement projects became priorities to families stuck at home during lockdown. As the year progressed, mobility increased and businesses reopened leading to a sharp reversal in lumber prices. The trend was similar across commodities that benefited from lockdowns. Commodities that benefit from re-openings continued to break to new highs. Hot-rolled steel, for example, finished the fiscal year up more than 245% as companies in industries such as automotive attempted to meet demand and rebuild inventories.

Within S&P 500 sectors, Financials was the best-performing, finishing more than 16% above second-place Consumer Services. Consumer Staples was the worst-performing sector for the fiscal year followed by Utilities.

Within S&P 500 stocks, Moderna Inc. was the top performer, returning 480% for the fiscal year, well above the remaining top four of Bath & Body Works, Devon Energy, Tapestry and Nucor Corp, which gained 165% to 185%.

International Equity

International stock markets, as measured by the MSCI ACWI ex U.S. Index, rose 25.4% during the fiscal year. COVID-19 vaccines allowed global economies to reopen, while investors were able to look past the variants and inflationary concerns.

Returns were positive across all sectors, with Information Technology (47.0%) and Financials (35.0%) leading the index while Communication Services (10.1%) and Staples (12.7%) contributed the least to performance. The chart below shows returns for the MSCI ACWI ex U.S. index sector for FY21.

EAFE led the broader international index in FY21, rising 26.8%. Europe and Developed Asian markets saw steady gains through most of the fiscal year, driven by rising vaccination rates, the phasing out of lockdown restrictions, a strong consumer and continued government stimulus support.

Info Technology was the top-performing international sector, driven by semiconductor demand and supply constraints. Cyclical sectors Materials, Financials, Discretionary and Industrials also did well due to

support from pricing power, rising interest rates and government stimulus. Laggards consisted of the more defensive sectors including Staples, Utilities and Health Care.

From a country standpoint, Northern European countries the Netherlands, Sweden and France were the strongest performers, while New Zealand was the only country with negative returns. European countries tended to outperform, while Asia, Japan, Hong Kong and Australia lagged due to impacts from slowing Chinese demand and the Chinese regulatory crackdown.

MSCI Emerging Markets had a mixed FY21, returning 21.4% and lagging the broader international index. The fiscal year was a tale of two halves, with a strong run of outperformance from October through most of February, followed by a leveling off and then meaningful underperformance the remainder of the fiscal year.

Among the emerging market sectors, Info Tech and Materials were the big winners as economies rebounded, vaccines allowed industries to return to work, and supply chain constraints supported pricing power. Laggards were focused in Discretionary, which was the only sector with negative performance, as certain areas of consumer behavior continued to be impacted by the COVID-19 virus.

Emerging market country performance followed a similar pattern, as Mexico, Taiwan and India were largely able to keep their economies humming and benefited from the global reopening. China was the only major country with negative performance, as a broad-based regulatory crackdown upended entire industries and spooked investors, while other country laggards, like Malaysia and Indonesia, tended to struggle with renewed COVID-19 outbreaks.

Real Estate

For the fiscal year ending August 31, 2021, the global real estate securities market was up 34.5%, as measured by the FTSE EPRA / NAREIT Developed Index. Those gains outperformed the MSCI World Index return of 30.3% for the same period. This market had been steadily rising since the positive vaccine news in November 2020, which fueled the reopening trade despite rising COVID-19 cases.

By sector, the best performers were those that were most sensitive to the vaccine rollout and the most exposed subsectors, such as Lodging, Retail and Self-Storage, which all posted returns above 50%. Meanwhile the more defensive Logistics sector was the laggard on a relative basis, though the space was still up 29%. By region, the best performer was the Middle East while Asia was the worst.

All of the constituent countries in the FTSE EPRA/ NAREIT Developed Index posted positive returns.

Report on Investment Activity (Continued)

Fiscal Year 2021

Asia

Australia was up 28.7% in USD terms and up 30.3% in local terms. Despite rising COVID-19 cases and multiple rounds of lockdowns, Retail and Residential exposure names led the performance in the reopening trade while the Industrial subsector in Australia lagged.

Japan was up 20.3% in USD terms and up 24.7% in local currency terms, as the country hosted the 2020 Olympic Games in Tokyo in August but closed the event to spectators amid COVID-19 concerns.

Hong Kong was up 14.1%, as the housing market remained strong and retail sales started to show growth during the second half of the fiscal year after consecutive 24 months of decline.

Singapore was up 9.7% with diverging returns among individual names ranging from -12% to +49%, as the vaccine rollout was among the most successful in Asia with close to an 80% vaccination rate.

Europe

Despite rising COVID-19 cases, the U.K. rebounded strongly from an early sell-off and finished the fiscal year up 37.6% in USD terms and up 33.9% in local currency. The removal of the Brexit overhang, with the withdrawal agreement officially signed in January, was a tailwind to performance.

Continental Europe was up 28.1% with Sweden, up 71.2%, the strongest-performing country. Like the U.K., where the Bank of England increased its bond-buying target, the EU government was proactive in approving a \$2.2 trillion budget and stimulus plan.

United States

U.S. real estate securities, as measured by the FTSE EPRA / NAREIT U.S. Index, were up 42.7%, a substantial rebound from the index's Fiscal Year 2020 performance of -16%. Despite a 60 basis point increase in the U.S. 10-year bond yield, listed U.S. real estate went on to significantly outperform general equities on the back of easy monetary policy as well as the expectation that rental growth would accelerate on the back of robust economic activity.

The announcement of a vaccine in November 2020 buoyed those subsectors that were most levered to a re-opening economy. REITs that stood to benefit from increasing migration trends away from the urban core, such as Retail, Self-Storage, Lodging/Resorts and Residential, outperformed the index.

Conversely, defensive subsectors such as Industrial and Diversified that outperformed during the onset of the pandemic were relative underperformers in 2021. Subsectors such as Health Care and Office that have experienced continued secular headwinds both

throughout the worst of the pandemic as well as through 2021 were also relative underperformers during the year.

Private Real Estate

During the fiscal year, ERS committed \$775 million across 12 investments, one top-up, two "re-up" investments to managers that ERS already has commitments, four co-investment commitments, and four investments with new managers. Eight of these new commitments were for non-core investment strategies, four were for core investment strategies, and all were equity investments. These commitments were above the commitment target of \$500 million but below the upper range of \$800 million approved in the Fiscal Year 2021 Tactical Plan. All of these commitments were committed to domestic funds except two, one with a global focus and the other a Pan Asian Fund.

Co-investments typically have focused investments, lower management fees and stronger governance structures. From inception through the end of Fiscal Year 2021, ERS' Private Real Estate portfolio has total co-investment commitments of \$460 million in 11 co-investments (two have been fully realized). The ERS team expects to make additional co-investments in Fiscal Year 2022 as opportunities become available that meet risk and return parameters. The team is looking for additional co-investments with a strong hands-on property management approach that can drive performance, create value for ERS and complement the existing portfolio of investments.

As of August 31, 2021, Private Real Estate's commitments totaled approximately \$5.4 billion to 81 funds and 11 co-investments. ERS continues to play an active role in monitoring and steering each investment and ERS is on the advisory boards on all but seven fund investments. Since inception, approximately \$4.6 billion in capital has been called and the net asset value of the ERS Private Real Estate portfolio stands at approximately \$2.9 billion. ERS has received back approximately \$3.5 billion as income, realized gains or a return of principal.

In Fiscal Year 2021, approximately \$665 million in equity capital was called and \$485 million was returned as income, realized gains or a return of principal resulting in net calls of \$180 million. Staff carefully monitors the pace of capital calls and distributions from all investments to ensure the Private Real Estate portfolio is within an acceptable range of the target allocation.

At the end of FY21, the Private Real Estate portfolio represented 8.4% of the Trust assets, which is below the target weight of 9% of the Trust's assets. Staff continue to add prudently to the portfolio to achieve the 9% target allocation while maintaining appropriate vintage year exposure.

Report on Investment Activity (Continued)

Fiscal Year 2021

Private Equity

Private Equity closed on 23 deals during Fiscal Year 2021, including 11 co-investments, with commitments totaling \$861 million versus a goal of \$800 million and a tactical range of \$600 million to \$1.0 billion.

As of August 31, 2021, the Private Equity portfolio net asset value was \$6.29 billion, compared to \$4.49 billion at fiscal year-end August 31, 2020. Since inception, Private Equity has closed on 123 funds and 70 co-investments with commitments totaling \$10.9 billion (adjusted for currency exchange rates). In addition, ERS has obtained LP Advisory Committee seats on 78 active funds and four fund LP Advisory Observer seats.

Fixed Income

During Fiscal Year 2021, the U.S. economy continued to expand at a robust pace and recovered substantially from the depths of the COVID-19 pandemic. While COVID-19 remains a significant factor economic outlooks and the recovery has not been linear, the rebound has remained on a positive trajectory.

Even so, there are headwinds that have limited the ability of businesses to keep up with the robust demand for goods and services. Market participants point to the enhanced federal unemployment benefits, worker absenteeism, materials shortages, rising commodity costs and logistical issues as challenges. The Federal Reserve generally believes that these issues are transitory, though it intends to monitor them closely in case policy action is needed. In coming months, the Fed has signaled its intent to begin reducing its accommodative policies as economic conditions continue to improve.

Over the course of the fiscal year, Treasury yields increased and the yield curve steepened. The 10-year Treasury yield increased 61 basis points to 1.31%, and the yield spread between 2-year and 10-year Treasuries increased from 57 basis points to 110 basis points.

As a result, the U.S. Treasury index returned -2.11% for the fiscal year. Investment-grade corporate bonds returned a modest 2.53% and emerging market debt returned 3.73%, while high-yield bonds delivered an impressive 10.14%.

- **Labor:** The economy continues to steadily add back jobs. The unemployment rate peaked at 14.8% in April 2020, but has now declined to 5.2%. There is still more work to be done, but this rapid decline has been impressive. While recent job growth has decelerated, market participants continue to believe we will see robust job growth in the coming months, particularly as enhanced federal unemployment benefits expire.

- **Inflation:** The Federal Reserve's preferred measure of inflation, Core PCE, has accelerated to 3.6% year-over-year. This is clearly above the Fed's target of 2%, but officials believe inflation will be transitory as current labor and supply chain constraints ease.
- **Housing:** Throughout the pandemic, demand for housing has been exceptionally robust. Low inventories have led to all-time high prices in many markets and continue to constrain sales. Builders are also facing shortages of materials and labor. The S&P CoreLogic Case-Shiller U.S. National Home Price Index currently has single family home prices up 18.61% year-over-year.
- **Durable Goods:** The Industrial sector has bounced back very strongly over the past year, but is beginning to see moderate growth. In August 2021, durable goods orders declined 0.1%. Orders are still outpacing shipments, which is positive for capital investment.

Private Infrastructure

For Fiscal Year 2021, Private Infrastructure closed on 10 deals (three fund investments, one top-up to an existing fund, and six direct/co-investments), with commitments totaling \$483 million. Following the approval of the amended Tactical Plan at the Board meeting in May with a range of \$333 million to \$618 million, the program's target commitments for FY21 were \$475 million.

Since inception, Private Infrastructure has closed on 26 co-investments and 21 funds with commitments totaling \$2.4 billion (adjusted for currency exchange rates). ERS holds an LP Advisory Committee seat on 20 funds and an observer seat on one fund. As of August 31, 2021, the Infrastructure portfolio net asset value was \$1.46 billion, or 4.2% of the System's assets, compared to \$1.08 billion, or 3.7% of the System's assets, at the end of Fiscal Year 2020.

Hedge Funds

The dominant theme within hedge funds during Fiscal Year 2021 was the COVID-19 pandemic and its effects on public health and global economies. During this time, several drug manufacturers successfully developed vaccines to help mitigate the impact of infection. As of the end of the fiscal year, an estimated 40% of the world population had received at least one dose of a COVID-19 vaccine. During the fiscal year, the U.S. also saw Democrat Joe Biden elected president and the Democratic Party gain control of the U.S. Senate.

Overall, market sentiment was positive over the past fiscal year, though there were periods of uncertainty that led to bouts of equity market volatility. Market pullbacks occurred, mostly attributable to headwinds such as ongoing fears of the global pandemic, inflationary

Report on Investment Activity (Concluded)

Fiscal Year 2021

concerns and swings from retail investor participation in “meme” stocks (shares of companies that have seen a recent surge in viral activity, which is usually fueled by online social media platforms.)

Equity markets were supported by government intervention via generous stimulus packages. In response to the challenges created due to the global pandemic, U.S. and European central banks announced stimulus packages within the trillions of dollars. Inflationary concerns began to dominate the headlines in Q1 of 2021. Within the U.S., this was mostly due to the amount of stimulus pumped into the market and the proposal of a \$2 trillion infrastructure plan. The U.S. Federal Reserve has remained committed to maintaining low interest rates and has provided some indication of tapering sooner than originally anticipated.

During Q1 2021, a family office called Archegos Capital lost approximately \$20 billion in just two days and was forced to close due to its inability to meet a margin call. This event caused significant volatility in global markets as several large banks had to unwind equity positions. Market volatility has also resulted from the Chinese government taking new actions to implement President Xi’s vision of a “common prosperity.” These developments have shaken several sectors that include Technology, Consumer, Real Estate and Gaming.

The ERS Absolute Return portfolio performed well on both an absolute and relative basis. For Fiscal Year 2021, the ERS Absolute Return portfolio generated a preliminary estimated return of +15.3%. During the same period the portfolio’s primary benchmark (90-day T-bills plus 350 basis points) returned an estimated +3.6% and its secondary benchmark (HFRI Fund of Funds Diversified) returned +13.1%.

All managers ended the fiscal year in positive territory and a side-pocket investment representing less than 1% of assets for the Absolute Return portfolio was the only detractor. The graphs below indicate current and historical positioning of the Absolute Return portfolio. Please note the graphs are as of July 2021, as the final performance numbers are not yet available for August 2021. The five strategies (and current positioning) include event-driven (30.3%), relative value (25.0%), equity long/short (18.1%), global macro (17.9%) and opportunistic (8.7%).

Key Portfolio Statistics

Statistics	2021	2020
Contributions to Pool	1,524,800,000	1,308,700,000
Withdrawals from Pool	(2,694,100,000)	(2,615,200,000)
Interest & Dividends	731,101,318	649,744,916
Securities Lending Net Income	1,943,543	2,430,095
Net Appreciation in Fair Value	6,598,601,129	1,268,829,652

*Basic of Presentation:
Master custodian and the System's financials records. The time weighted method is used to calculate the rates of return.*

Outline of Investment Policies

Fiscal Year 2021

Background

The Board of Trustees' investment policies are governed by the Texas Government Code and the Texas State Constitution. As fiduciaries of the System's funds, the Board of Trustees practices the following duties of care:

- Manage the assets for the exclusive benefit of the Beneficiaries;
- Adopt a long-term asset allocation
- Establish prudent investment policies defining investment objectives and strategies;
- Seek to maximize investment returns while maintaining the safety of principal;
- Diversify the assets to reduce risk of loss;
- Monitor investment performance;
- Efficiently manage the costs associated with implementation of the Trust; and
- Exercise reasonable care consistent with ERS' fiduciary duty, and maintain the integrity of the investment program.

Investments shall be made in securities that are considered prudent investments, exercising the judgment and care, under the circumstances prevailing at the time of the investment, 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 from the disposition and the probable safety of their capital. However, the Board of Trustees shall not participate in individual investment selections unless it is specifically provided for herein because that responsibility has been delegated to the Executive Director and the System's investment staff, with oversight by the Board of Trustees.

Roles and Responsibilities

The Board of Trustees is responsible for formulating, adopting, and overseeing the investment policies of the Trust. The Board shall (i) invest the funds as a single Trust without distinction as to their source (ii) hold securities purchased with such funds collectively for the proportionate benefit of the pension plans. Separate investment objective, investment guidelines, investment strategy and accounting will be used for Texas Employees Group Benefits Program assets.

The Board of Trustees will approve alternative investments over 0.6% of the total market value of the System's assets as reported in the most recent

Annual Comprehensive Financial Report pursuant to Texas Government Code Section 815.3016.

In accordance with Texas Government Code 815.301 (b), the Executive Director is delegated full authority and responsibility by the Board of Trustees to perform the responsibilities of the Board of Trustees and in the implementation of the Trust subject to the Board of Trustees' policies, rules, regulation and directives consistent with constitutional and statutory limitations. The Executive Director will establish procedures and controls for efficient implementation of the Trust by the System's staff. The Executive Director may delegate to another employees of the System any right, power of duty assigned to the Executive Director pursuant to Texas Government Code § 815.202 (f).

Asset Allocation

The Board of Trustees has adopted the assets allocation to improve the long-term expected return and the return relative to the risk taken of the trust. This framework for the asset allocation between return seeking and risk reduction/liquidity assets provides broader diversification and improved returns in disparate economic regimes. This framework is segregated into asset classes that are geared to seek returns and those that provide both risk reduction and liquidity as needed. In addition, the Board of Trustees has established specific sub-targets with minimums and maximums around target allocations.

Risk Management

The following statements represent the core values and beliefs that form the basis of the risk philosophy for the Trust in a long-term perspective:

- The System's investment program is structured to address systematic risk (or market risk) and non-systematic risk (risks associated with an asset class or portfolio).
- Risk management recognizes that some risks are quantitative or statistically measurable while others are not.
- Risk reporting should be timely, relevant, and understandable.

Risk management is a primary responsibility for the System's staff and investment results will be reviewed in the context of risk-adjusted returns. The Risk Management framework is established through (1) the adoption of the investment policies and the

Outline of Investment Policies (Concluded)

Fiscal Year 2021

strategic asset allocation, (2) adoption of individual asset class benchmarks, and (3) reasonable risk limits within the investment policies for the implementation of the investment program. The goal is not to eliminate risk but to strive to achieve a balance between risk and return. The System's Chief Investment Officer is responsible for reporting and effectively communicating risk management results to the Board of Trustees on a regular basis.

Permissible Investments

The Board of Trustees will consider investment instruments appropriate for the System's funds and deemed to be prudent based on:

- Compliance with the definition of "securities" set forth in Texas Government Code § 815.301(f);
- Their consistency with Policy and portfolio objectives;
- Their application to the portfolio's diversification;
- The System's staff and /or advisor competency in evaluating, managing and trading the securities;
- Consideration of their liquidity within the portfolio; and
- The costs.

Proxy Voting

All proxies and bond exchanges shall be voted to consider only those factors that relate to the economic value of the System's investment, and such votes should cast in accordance with the System's best interest and investment objectives for the funds.

Basis of Presentation: Texas Statute and the System's Investment Policy

Time-Weighted Rates of Return and Asset Allocations

Investment Pool

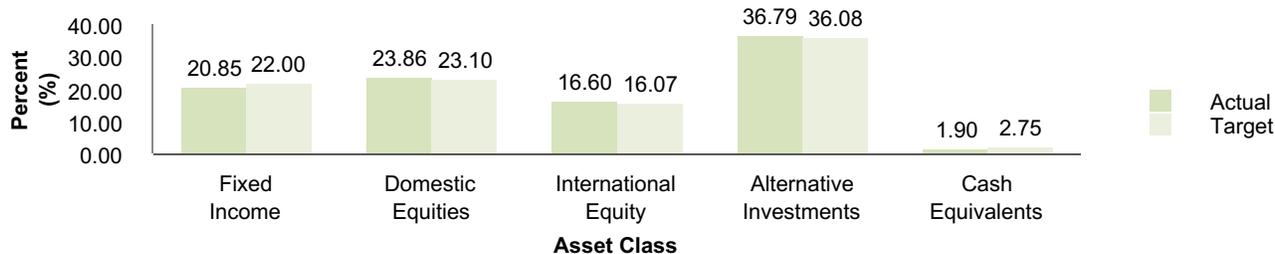
August 31, 2021

	Time-Weighted Rates of Return (Note A)								
						3 Year	5 Year	10 Year	
	2017	2018	2019	2020	2021	(2019-2021)	(2017-2021)	(2012-2021)	
	%	%	%	%	%	%	%	%	%
Fixed Income									
ERS	3.49	1.19	6.57	4.16	9.17	6.62	4.88	3.9	
Index	1.34	-0.93	10.08	6.41	0.88	5.72	3.48	3.58	
Domestic Equities									
ERS	15.81	20.89	-0.01	17.67	33.69	16.3	17.11	15.45	
Index	15.87	20.06	1.72	21.64	33.49	18.21	18.1	16.37	
International Equities									
ERS	19.38	3.72	-2.96	10.04	27.3	10.76	10.97	7.22	
Index	18.88	3.18	-3.27	8.31	24.87	9.37	9.92	6.57	
Alternative Investments									
ERS	11.26	12.5	6.47	0.98	31.05	12.11	12.01	10.85	
Index	NA	NA	NA	NA	NA	NA	NA	NA	
Cash Equivalents									
ERS	1.91	2.72	2.16	1.01	-0.13	1.01	1.53	0.89	
Index	0.62	1.52	2.36	1.26	0.08	1.23	1.17	0.63	
ERS Overall									
ERS	12.15	9.58	3.04	6.85	25.51	11.38	11.17	9.32	
Index	11.08	7.94	3.06	8.17	18.5	9.73	9.64	8.63	
Change in CPI	1.74	2.89	1.82	1.05	5.28	2.7	2.55	1.91	

Overall One Year Time-Weighted Return



Overall One Year Average Asset Allocation



Note A: The Time-Weighted Rate of Return measures the gross of fees performance of the total investment portfolio, considering income and market impact, including realized and unrealized gains, and eliminates the effect of timing of cash flows due to contributions and withdrawals which are not controllable by the investment managers. The 5-year return is used to smooth market swings and to maintain consistency with the long-term nature of the fund. The Time-Weighted Rate of Return is calculated as follows:

$$\text{Ending Market Value} / (\text{Beginning Market Value} + \text{Net Cash Flows})$$

The indices used for comparison are net of fees. The names of the index are listed as follow:

Fixed Income Securities Portfolio:

Bloomberg Barclays Capital and Floating Fixed Income

Domestic Equities Portfolio:

S&P 500/ S&P 1500 Blend/MSCI USA IMI USD Blended Index

International Equities Portfolio:

MSCI EAFE/MSCI ACWI ex US Blended Index

Cash Equivalents Portfolio:

(i.e., Europe, Australia and Far East Index excluding securities unavailable to foreign investors)
91-Day U.S. Treasury Bill

Basis of Presentation: Master custodian records.

Broker Commissions

Year Ended August 31, 2020

Domestic Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		\$	\$
Baird, Robert W & Co., Inc.	3,586,933	71,739	0.020
Barclays Capital	736,195	14,724	0.020
BMO Capital Markets Corp.	1,145,028	22,901	0.020
BNY Mellon Clearing	4,998,606	99,972	0.020
Capital Institutional Services, Inc.	464,554	13,887	0.030
Citigroup Global Markets, Inc.	3,744,862	45,397	0.012
Cowen & Co., LLC	1,888,970	37,779	0.020
Credit Suisse	4,137,116	82,742	0.020
Goldman Sachs	2,324,552	42,049	0.018
Instinet LLC	37,660	377	0.010
Investment Technology Group, Inc.	472,400	4,724	0.010
Jefferies & Co, Inc.	4,360,206	86,489	0.020
JP Morgan Securities, LLC	7,548,228	150,965	0.020
Merrill Lynch & Co., Inc.	16,290,602	325,812	0.020
Mirae Asset Securities	96,541	1,931	0.020
Morgan Stanley & Co., Inc.	4,399,800	84,649	0.019
National Financial Services, LLC	7,681,170	147,384	0.019
Raymond James & Associates, Inc.	7,755,030	155,101	0.020
Sanford C Bernstein & Co., Inc.	3,742,623	69,852	0.019
Stifel, Nicolaus & Co., Inc.	4,083,878	81,678	0.020
UBS	6,787,374	131,747	0.019
Wells Fargo Securities, LLC	3,207,444	64,149	0.020
	89,489,772	1,736,048	0.019

- to next page

Broker Commissions (Concluded)

Year Ended August 31, 2021

International Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		\$	\$
ABN AMRO Clearing	34,536	1,091	0.032
Banesto Banco de Emisiones, SA	47,699,372	89,899	0.002
Bank of America	144,832	750	0.005
Barclays Capital	3,016,954	23,749	0.008
BMO Nesbitt Burns	1,160,997	17,745	0.015
BNP Paribus	1,027,548	15,290	0.015
BNY Mellon Clearing	10,269,051	82,189	0.008
Caceis Bank	47,000	7,199	0.153
Calyon Securities	8,998,181	86,149	0.010
Citigroup Global Markets, Inc.	24,831,047	132,694	0.005
CLSA	10,073,300	108,291	0.011
Credit Lyonnais Securities	21,516,800	59,524	0.003
Credit Suisse	6,966,025	62,837	0.009
Daiwa Securities	64,344,208	329,076	0.005
Euroclear Bank SA	104,000	3,011	0.029
Exane	7,724,489	82,060	0.011
Financial Brokerage Group	32,000	1,346	0.042
Goldman Sachs	23,700	72	0.003
HSBC	73,644,030	391,881	0.005
Instinet LLC	1,261,080	18,272	0.014
Investec Securities Limited	1,104,557	10,855	0.010
Investment Technology Group, Inc.	92,471	4,100	0.044
Jefferies & Co, Inc.	35,933,872	267,301	0.007
JP Morgan Securities, LLC	61,053,140	219,934	0.004
KEB Salomon Smith Barney Securities	82,220	5,452	0.066
Kepler Cheuvreux	1,202,341	20,039	0.017
Macquarie Securities (USA), Inc.	59,198,858	220,252	0.004
Merrill Lynch & Co., Inc.	10,321,973	169,159	0.016
Mirae Asset Securities	43,422	4,900	0.113
Mitsubishi Securities	351,228	26,500	0.075
Mizuho Securities USA, Inc.	560,710	58,381	0.104
Morgan Stanley & Co., Inc.	20,854,169	85,824	0.004
Parel	2,038,433	13,664	0.007
Redburn Partners, LLP	5,434,204	135,981	0.025
Sanford C Bernstein & Co., Inc.	3,792,847	68,485	0.018
Societe Generale	268,639	4,351	0.016
The Depository Trust Company	219,000	2,800	0.013
UBS	7,730,203	87,856	0.011
	493,201,437	2,918,959	0.006

Basis of Presentation: Master custodian records.

Fees for Alternative Investments

Year Ended August 31, 2021

Investment Type	Management Fees		Profit Share		Other Fees
	Asset Value	(Note A)	(Note B)		
	\$	\$	\$	\$	
Private Equity	6,291,309,562	40,652,368	81,501,885		13,735,330
Private Real Estate	2,934,187,012	27,237,527	9,827,123		9,357,459
Private Infrastructure	1,456,883,154	8,595,034	2,358,839		4,640,263
Private Fixed Income	917,213,531	117,331	—		415,045
Hedge Funds (Note C)	2,295,079,523	20,210,107	56,062,775		—
Public Equity	788,255,179	3,037,434	1,592,345		—
Grand Total	14,682,927,961	99,849,801	151,342,967		28,148,097

Note A: These amounts are management fees that the System paid to external entities in the current fiscal year. Any unpaid accruals of management fees as of August 31, 2021 were reported as part of the fair value of Investments.

Note B: These amounts are the profit that the System shared with, and were paid to, external entities in the current fiscal year when the target investment returns of the underlying investments were surpassed.

Note C: The amounts reported are for the period from July 1, 2020 to June 30, 2021.

Investment Advisory and Service Fees

Year Ended August 31, 2021

Advisory Service	Asset Value		Basis Points	Other Investment Services	
	Asset Value	Fees		Other Investment Services	Fees
	\$	\$		\$	
Domestic Equity Advisors	374,591,249	917,380	24	Custodian Fees	960,203
International Equity Advisors	2,720,627,374	9,448,326	35	Security Lending Agent Fees	230,735
Total	3,095,218,623	10,365,706	33	Investment Consultant Fees	3,153,482
				Investment Banking Fees:	46,169
				Total	4,390,589

Directed Commissions

Consistent with the System's Investment Policy as adopted by the Board of Trustees, and in order to maximize the System's resources including commission dollars generated through trade activity, directed commissions are sometimes used to fund a portion of budgeted investment program expenses. Trade activity in excess of the level required to support research products used by the System's investment staff is directed toward the payment of budgeted items. Directed Commissions totaled \$646,425 during Fiscal Year 2021.

Basis of Presentation: Master custodian records.

List of Largest Assets Held (Note A)

Year Ended August 31, 2021

Ten Largest Stock Holdings

No. of Shares	Description	Fair Value
2,552,600	Apple, Inc	387,561,258
1,114,100	Microsoft Corporation	336,324,508
64,400	Amazon.com, Inc	223,518,876
74,168	Alphabet, Inc	215,772,512
405,400	Facebook, Inc	153,800,652
632,574	JP Morgan Chase & Company	101,180,211
712,607	Prologis, Inc	95,959,659
411,859	NVIDIA Corporation	92,194,637
503,500	Johnson & Johnson	87,170,955
3,696,414	Taiwan Semiconductor Manufacturing Company, Ltd.	81,895,040

Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
682,555	iSHARES MBS ETF	74,118,647
60,000,000	U S Treasury Note 0.875% 11/15/2030 Dd 11/15/20, Rating AA+	57,993,750
45,000,000	U S Treasury Note 2.750% 02/15/2028 Dd 02/15/18, Rating AA+	49,939,453
50,000,000	U S Treasury Note 0.625% 05/15/2030 Dd 05/15/20, Rating AA+	47,492,188
50,000,000	U S Treasury Note 0.625% 08/15/2030 Dd 08/15/20, Rating AA+	47,367,188
45,000,000	U S Treasury Note 2.000% 02/15/2025 Dd 02/15/15, Rating AA+	47,302,735
45,000,000	U S Treasury Note 1.500% 08/15/2026 Dd 08/15/16, Rating AA+	46,585,547
40,000,000	U S Treasury Note 2.875% 05/15/2028 Dd 05/15/18, Rating AA+	44,781,250
40,000,000	U S Treasury Note 2.250% 02/15/2027 Dd 02/15/17, Rating AA+	42,993,750
40,000,000	U S Treasury Note 2.500% 05/15/2024 Dd 05/15/14, Rating AA+	42,325,000

Note A: The investment portfolio listing is available for review at the System's office or the listing will be mailed upon request.

Basis of Presentation: System's financial records

Investment Summary at Fair Value

August 31, 2021

Type of Investment	Pooled Pension Trust Funds (Note A)				Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fund 0973	Fair Value	% Total
	\$	\$	\$	\$		
Public Equities:						
Domestic Equities	6,764,914,810	225,353,804	117,962,499	12,759,548	7,120,990,661	18.73 %
Foreign Equities	5,354,857,308	178,381,768	93,374,768	5,153,764	5,631,767,608	14.81 %
Exchange Traded Funds	61,758,261	2,057,300	1,076,903		64,892,464	0.17 %
Real Estate Investment Trust	1,575,893,497	52,496,388	27,479,479		1,655,869,364	4.36 %
Total Public Equities	13,757,423,876	458,289,260	239,893,649	17,913,312	14,473,520,098	38.07 %
Fixed Income:						
U.S. Treasury Securities	2,457,543,428	81,866,036	42,853,158	1,143,075,564	3,725,338,186	9.80 %
U.S. Government Agency Obligations	463,340,612	15,434,868	8,079,454	215,513,315	702,368,249	1.85 %
Corporate Obligations	1,816,296,058	60,504,713	31,671,474	338,764,663	2,247,236,907	5.91 %
Corporate Asset and Mortgage Backed Securities	46,450,184	1,547,355	809,970	16,925,513	65,733,022	0.17 %
Exchange Traded Funds	67,223,993	2,239,375	1,172,211	26,161,067	96,796,647	0.25 %
Real Estate Investment Trust	32,175,629	1,071,839	561,059	6,001,206	39,809,732	0.10 %
Foreign Obligations	368,619,889	12,279,518	6,427,771	68,752,774	456,079,953	1.20 %
Total Fixed Income	5,251,649,793	174,943,705	91,575,098	1,815,194,102	7,333,362,697	19.29 %
Alternative Investments	13,079,092,392	435,692,585	228,065,315	151,822,490	13,894,672,782	36.55 %
Other Investments	334,476,520	11,142,129	5,832,400	(27,244)	351,423,805	0.92 %
Short-term Investments:						
Investment in Pool Cash	3,941,453	135,907	66,048		4,143,408	0.01 %
Other Short-term Investment	625,263,958	20,828,882	10,902,975	1,301,370,130	1,958,365,945	5.15 %
Total Short-term Investments	629,205,411	20,964,789	10,969,023	1,301,370,130	1,962,509,353	5.16 %
Total Before Securities Lending Collateral (Notes B & C)	33,051,847,992	1,101,032,468	576,335,485	3,286,272,790	38,015,488,734	100.00 %
Securities Lending Collateral	298,574,924	9,954,321	5,205,334	22,668,555	336,403,134	
Total Pension Investment Pool Trust Fund (0888)	33,350,422,915	1,110,986,789	581,540,819	3,308,941,345	38,351,891,868	
Cash Equivalents:						
Cash in State Treasury-Pension Funds	66,768,084	3,880,305	1,760,707	130,146,800		
Total Investments	33,417,190,999	1,114,867,093	583,301,526	3,439,088,145		

Note A: The Pension Investment Pool Trust Fund (Fund 0888) includes the Employees Retirement Fund (Fund 0955), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (Fund 0977), the Judicial Retirement System Plan Two Fund (Fund 0993), and the long-term investments from the Employees Life, Accident and Health Insurance and Benefits Fund (Fund 0973).

Note B: Fair value of investments adjusted to comply with the CFA Institute Standards:

	Fair Value				
	Fund 0955	Fund 0977	Fund 0993	Fund 0973	Total
	\$	\$	\$	\$	\$
Total Fair Value of Investments Before Securities Lending Collateral, as above	33,051,847,992	1,101,032,468	576,335,485	3,286,272,790	38,015,488,734
Unsettled Sales-Investment Receivables	293,404,653	9,773,937	5,116,213	1,901,106	310,195,908
Unsettled Purchases-Investment Payables	(60,068,274)	(2,001,003)	(1,047,434)	(7,971,524)	(71,088,235)
Accrued Interest and Dividends/Tax Reclaims Receivable/Prepaid Fees	92,997,589	3,097,949	1,621,636	11,399,844	109,086,205
Securities Lending Fees Payables/Miscellaneous Payables	(2,092,665)	(69,801)	(36,451)	10,044	(2,188,874)
Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards	33,376,089,295	1,111,833,550	581,989,449	3,291,612,260	38,361,524,554

Note C: The investment portfolio listing is available for review at the System's office or the listing will be mailed upon request.

Basis of Presentation: System's financial records in accordance with the CFA Institute Standards.



ACTUARIAL SECTION



Pension Plans:

Actuary's Certification Letter

Actuarial Balance Sheets

Summary of Actuarial Methods and Assumptions

Active Member Valuation Data

Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls

Schedule of Funding Progress — Defined Benefit Plans

Solvency Test

Analysis of Financial Experience

State Retirees Health Plan:

Actuary's Certification Letter

Actuarial Valuation Results

Summary of Actuarial Methods and Assumptions

Active Member Valuation Data

Retirees and Nominees Added to and Removed

Schedule of Funding Progress — State Retiree Health Plan



Actuary's Certification Letter – Pension Plans



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November 29, 2021

Board of Trustees
Employees Retirement System of Texas
200 East 18th Street
Austin, TX 78701

Subject: Actuarial Certification for Funded Programs as of August 31, 2021

Members of the Board,

At the request of the Employees Retirement System of Texas (ERS), Gabriel Roeder Smith & Company (GRS) has performed the actuarial valuations of the Employees Retirement Fund (ERF), including separate actuarial valuations of the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) and the Judicial Retirement System of Texas Plan Two (JRS-2). The information in the Actuarial Section is based on our annual actuarial valuation reports for the three programs, with the most recent valuations conducted as of August 31, 2021, and is intended to be used in conjunction with the full reports.

This letter and the schedules listed below represent GRS' certification of the funded status as required for the financial report for the fiscal year ended August 31, 2021 for ERF, LECOSRF and JRS-2. GRS prepared the *Actuarial Balance Sheets* and the supporting schedules in the Actuarial Section for the Defined Benefit Plans. GRS prepared the *Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans* and the *Schedule of Employer Contributions – Defined Benefit Plans* of the Required Supplementary Information and the *Notes to the Required Supplementary Information* for the Defined Benefit Plans presented in the Financial Section of this report. GRS also prepared the *Retired Members by Type of Benefit* schedule in the Statistical Section. Full actuarial valuation reports have also been provided to ERS.

Data

The valuation was based upon information as of August 31, 2021, furnished by ERS staff, concerning system benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by ERS staff.

Actuarial Assumptions and Methods

The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees on May 20, 2020 based on the experience investigation that covered the five-year period from September 1, 2014 through August 31, 2019. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of ERF, LECOSRF and JRS-2, and meet the parameters set by Actuarial Standards of Practice issued by the Actuarial Standards Board. The actuarial assumptions and

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Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
November 29, 2021
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methods used to develop the *Schedules of Changes in the Employers' Net Pension Liability and Related Ratios* and the *Schedule of Employer Contributions*, noted above, meet the parameters set forth in the disclosures presented in the Financial Section by Government Accounting Standards Board Statement No. 67.

This actuarial valuation adjusts for any notable across-the-board pay increases budgeted by the State Legislature for the current biennium. Specifically, regular State employees did not receive an across-the-board increase effective September 1, 2021 nor September 1, 2022. Additionally, commissioned law enforcement positions were assumed to receive the scheduled increases to State Salary Schedule C on September 1, 2021.

For financial reporting purposes, a blended discount rate, calculated under the methods prescribed by GASB Statement No. 67, was used to determine the actuarial present value of projected benefit payments for LECOSRF and JRS-2. For LECOSRF, and JRS-2, the blended discount rate differs from the discount rate used for funding purposes. Due to the Legacy Payments introduced by Senate Bill 321, the ERF's fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Other than the difference in the LECOSRF and JRS-2 discount rate, all actuarial methods and assumptions are the same for both funding and financial reporting purposes.

The results of the actuarial valuation are dependent upon 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. A review of the impact of a different set of assumptions on the funded status of ERF, LECOSRF and JRS-2 is outside the scope of this actuarial valuation.

The current actuarial assumptions are outlined in the section titled "Summary of Actuarial Methods and Assumptions – Pension Plans."

Benefits

SB 321 created a new defined benefit structure for state employees who began work on or after September 1, 2022. The new structure is a cash balance retirement benefit with meaningful cost and risk sharing mechanisms. The overall average value provided by the State is not meaningfully different from the previous benefit structure. As no current members are in the new benefit structure and the value is similar, the change to the benefit structure had minimal impact to this valuation and forward-looking projections. However, the new structure is designed to mitigate unexpected future increases in the UAAL. The impact will be realized in the future if experience deviates from the assumptions. The current benefit provisions are outlined in the section titled "Summary of Plan Provisions."

Board Funding Policy

The ERS Board of Trustees approved the Pension Funding Priorities and Guidelines on May 23, 2018 and



Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
November 29, 2021
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adopted updates in August, 2020. For the Board, adoption of this policy is intended to:

- enhance communications and provide transparency to the Legislature and plan members and retirees regarding Board of Trustees' positions on plan funding strategy;
- provide policy guidance to current and future Boards;
- ensure that legislators, elected officials and other stakeholders have clear and accurate information about the Trust's funding goals and the needs of the Board in supporting sound fiduciary investment decisions in accordance with Texas Government Code Section 815.106; and
- identify a recommended plan for the state of Texas, as the plan sponsor, to achieve a 100% funded ratio while following funding best practices and sound actuarial principles, in accordance with Texas Government Code Section 802.2011.

The policy states that the main objective of ERS' retirement programs is to fully fund the long-term cost of benefits provided by statute, through disciplined and timely accumulation of contributions and prudent investment of assets to deliver earned benefits on a continuing basis. In support of this objective, the policy laid out a multi-level funding period goal to gradually achieve funding on sound actuarial principles:

1. Fund normal costs,
2. Avoid trust fund depletion of the pre-funded plans,
3. Meet current statutory standard of a 31-year funding period for unfunded liabilities, per Texas Government Code Sections 811.006 and 840.106, and
4. Match funding period to the average years of service at retirement once a 31-year funding period is achieved, and closed.

Funding Policy and Objectives – Employees Retirement Fund

Senate Bill 321, enacted during the 2021 Regular Legislative Session, introduced a new level dollar contribution structure in Texas Government Code Section 815.407, called Legacy Payments. These amounts are calculated for each biennium to fully amortize the Unfunded Actuarial Accrued Liability (UAAL) as required before the end of fiscal year 2054. The 2021 Legislature appropriated \$510 million per year for fiscal years 2022 and 2023. The target date of 2054 produces an amortization period of 33 years as of this 2021 valuation. Senate Bill 321 changed the funding structure of ERS from a fixed contribution rate structure to an actuarially determined structure. Each year during the actuarial valuation process a Legacy Payment account will be determined to meet the requirements of Section 815.407. This valuation finds the \$510 million annual Legacy Payments fulfill these requirements.

The unfunded actuarial accrued liability (UAAL) decreased from \$14.7 billion as of August 31, 2020 to \$14.1 billion as of August 31, 2021. Additionally, the funded ratio—actuarial value of assets divided by the actuarial accrued liability—increased from 66.0% to 68.0%, as of August 31, 2021. This increase in the funded ratio was primarily due to the strong investment performance from fiscal year 2021. The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.



Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
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With the passage of SB 321 and the introduction of the Legacy Payment structure, every objective of the Board Funding Policy should eventually be met. This valuation finds ERF now meets the first and second levels of the policy. In addition, since the new policy has a closed amortization structure, actuarial projections indicate the third level funding goal will be met within a couple of years and the fourth level will be met within approximately 10 years.

Funding Policy and Objectives – Law Enforcement and Custodial Officer Supplemental Retirement Fund

The member contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2021, members contribute 0.50% of payroll and the State contributes 0.50% of payroll. LECOSRF also receives a portion of the court fees collected under Section 133.102 of the Local Government Code. The contribution from this source is expected to be approximately \$15.0 million for fiscal year 2022 and all subsequent years. It should be noted that level dollar contributions from court fees in future years will result in total contributions that are not expected to remain level as a percent of payroll over time. For fiscal year 2022, the contribution from court fees is expected to be approximately 0.95% of payroll.

The unfunded actuarial accrued liability (UAAL) of LECOSRF increased from \$642 million as of August 31, 2020 to \$653 million as of August 31, 2021. Additionally, the LECOSRF funded ratio—actuarial value of assets divided by the actuarial accrued liability—increased from 60.1% to 60.5% as of August 31, 2021. This increase was primarily due to gains on assets. The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

The total contribution rate for the current fiscal year is less than the normal cost by 0.02% of payroll and no payment will be available to amortize the unfunded liability. The projected contributions are not expected to exceed the normal cost in any year and will not be sufficient to eliminate the unfunded liability over a finite period of time. Assuming the market value of assets earns 7.00% per year, LECOSRF is projected to remain solvent until the year 2050, after which the funding would revert to a pay-as-you-go status. As a result, the first and second levels of the Board's funding period goal are not currently being realized.

The third level of the Board's funding period goal is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Further, Section 811.006 of the Texas Government Code limits the modifications to LECOSRF that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are expected to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. In this context, the Actuarially Sound Contribution (ASC) rate is the contribution rate that meets this standard. Based on the actuarial valuation as of August 31, 2021, the ASC employer rate for LECOSRF is 3.25% of payroll in addition to the expected annual contributions from court fees of \$15.0 million. Based on the current employer contribution rate of 0.50% of payroll, in addition to court fees, the third level of the Board's funding period goal is also not



Actuary's Certification Letter – Pension Plans (Continued)

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currently being realized.

The ASC is currently calculated based on a 31-year open amortization period. This means that the ASC will always be calculated with the same 31-year period and the UAAL would never completely be eliminated. We recommend that the Board seek a plan funding strategy that meets the fourth level of the Board's funding period goal or meets an ultimate goal of eliminating the UAAL by a certain date.

Funding Policy and Objectives – Judicial Retirement System Plan Two

The member contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2021, members accruing benefits contribute 9.50% of payroll and the State contributes 15.663% of payroll. Since some active JRS-2 members have elected to cease contributing to the plan as well as cease accruing additional benefits, the effective member contribution rate for the fiscal year beginning September 1, 2021 is 9.39% of payroll. This State contribution rate is subject to future legislative appropriations.

The unfunded actuarial accrued liability (UAAL) of JRS-2 decreased from \$104.4 million as of August 31, 2020 to \$95.0 million as of August 31, 2021. Additionally, the funded ratio of JRS-2—actuarial value of assets divided by the actuarial accrued liability—increased from 82.3% to 84.6% as of August 31, 2021. This increase in plan funding levels was primarily due to gains on assets and the lack of legislative pay increases as of September 1, 2021 and September 1, 2022. The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

The valuation shows that the total normal cost for funding purposes is 26.64% of payroll. The total contribution rate is 25.053% of payroll for the current fiscal year. The total contribution rate for the current fiscal year is less than the normal cost by 1.587% of payroll and no payment will be available to amortize the unfunded liability. As a result, the projected contributions are not expected to exceed the normal cost in any year and will not be sufficient to eliminate the unfunded liability over a finite period of time. Assuming the market value of assets earns 7.00% per year, JRS-2 is projected to remain solvent until the year 2076, after which the funding would revert to a pay-as-you-go status. As a result, the first and second levels of the Board's funding period goal are not currently being realized.

The third level of the Board's funding period goal is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Further, Section 840.106 of the Texas Government Code also limits the modifications to JRS-2 that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are expected to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. In this context, the Actuarially Sound Contribution (ASC) rate is the contribution rate that meets this standard. Based on the actuarial valuation as of August 31, 2021, the ASC rate for JRS-2 is 33.10% of payroll. Based on the total contribution rate of



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25.053% of payroll, the third level of the Board's funding period goal is not currently being realized.

The ASC is currently calculated based on a 31-year open amortization period. This means that the ASC will always be calculated with the same 31-year period and the UAAL would never completely be eliminated. We recommend that the Board seek a plan funding strategy that meets the fourth level of the Board's funding period goal or meets an ultimate goal of eliminating the UAAL by a certain date.

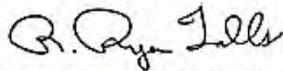
Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. Actuarial valuations are performed on an annual basis. In our opinion, our calculations also comply with the requirements of, where applicable, the Governmental Accounting Standards Board, the Internal Revenue Code and ERISA.

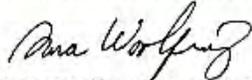
The signing actuaries are independent of the plan sponsor. Mr. Falls, Mr. Newton and Ms. Woolfrey are Enrolled Actuaries and Fellows of the Society of Actuaries, and all of the undersigned are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, each of the undersigned are experienced in performing valuations for large public retirement systems.

Respectfully submitted,

Gabriel, Roeder, Smith & Company



R. Ryan Falls, FSA, EA, MAAA
Senior Consultant & Actuary



Dana Woolfrey, FSA, EA, MAAA
Senior Consultant & Actuary



Joseph P. Newton, FSA, EA, MAAA
Pension Market Leader & Actuary



Actuarial Balance Sheet –

Employees Retirement Fund

August 31, 2021 (With Comparative Totals at August 31, 2020)

ACTUARIAL BALANCE SHEET

Assets:

	August 31, 2021	August 31, 2020
Actuarial Value Assets	\$ 30,065,356,135	\$ 28,543,207,745
Present Value of Future Normal Cost		
Member	4,853,112,423	4,967,126,377
Employer	1,981,917,236	2,056,813,451
Total	<u>6,835,029,659</u>	<u>7,023,939,828</u>
Total	\$ 36,900,385,794	\$ 35,567,147,573

Liabilities:

Present Value of Benefits		
Active Members		
– service retirement	\$ 20,249,302,685	\$ 20,518,535,700
– disability	176,796,812	173,006,886
– death before retirement	177,623,914	176,360,290
– termination	1,820,961,038	1,864,913,185
Total	<u>22,424,684,449</u>	<u>22,732,816,061</u>
Inactive Members	2,046,823,576	1,944,655,661
Annuitants	26,547,208,800	25,604,780,179
Total	\$ 51,018,716,825	\$ 50,282,251,901
Unfunded Accrued Liability (UAL)	\$ 14,118,331,031	\$ 14,715,104,328

SUMMARY OF ACTUARIAL VALUATION RESULTS

Total Contribution Rate	19.5 %	19.5 %
Annual Legacy Contribution	510,000,000	
Normal Cost		
– dollars	\$ 1,008,820,829	\$ 1,022,572,697
– percent of payroll	14.12 %	14.16 %
Contribution Available to Amortize UAL	5.38 %	5.34 %
Accrued Liability	\$ 44,183,687,166	\$ 43,258,312,073
Amortization Period in Years	33 Years	Never
Funded Ratio	68.0 %	66.0 %
Valuation Payroll	\$ 7,144,623,435	\$ 7,221,558,595
Active Members	136,726	142,062

Actuarial Balance Sheet –

Law Enforcement and Custodial Officers Supplemental Retirement Fund

August 31, 2021 (With Comparative Totals at August 31, 2020)

ACTUARIAL BALANCE SHEET	<u>August 31, 2021</u>	<u>August 31, 2020</u>
Assets:		
Actuarial Value Assets	\$ 997,651,850	\$ 968,062,761
Present Value of Future Normal Cost		
Member	52,302,599	55,185,707
Employer	150,117,517	158,372,607
Total	<u>202,420,116</u>	<u>213,558,314</u>
Total	\$ 1,200,071,966	\$ 1,181,621,075
Liabilities:		
Present Value of Benefits		
Active Members		
– service retirement	\$ 844,082,263	\$ 860,946,338
– disability	4,493,877	4,629,103
– death before retirement	4,064,587	4,163,566
– termination	13,794,143	14,910,772
Total	<u>866,434,870</u>	<u>884,649,779</u>
Inactive Members	15,765,712	18,141,759
Annuitants	970,572,535	920,353,836
Total	\$ 1,852,773,117	\$ 1,823,145,374
Unfunded Accrued Liability (UAL)	\$ 652,701,151	\$ 641,524,299
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	1.00 %	1.00 %
Estimated Contribution from Court Fees	\$ 15,000,000	\$ 17,100,000
Normal Cost		
– dollars	\$ 31,237,180	\$ 31,935,981
– percent of payroll	1.97 %	1.96 %
Contribution Available to Amortize UAL	(0.02)%	0.09 %
Accrued Liability	\$ 1,650,353,001	\$ 1,609,587,060
Amortization Period in Years	Never	Never
Funded Ratio	60.5 %	60.1 %
Valuation Payroll	\$ 1,585,643,659	\$ 1,629,386,809
Active Members	32,498	35,230

Actuarial Balance Sheet –

Judicial Retirement System of Texas Plan Two Fund

August 31, 2021 (With Comparative Totals at August 31, 2020)

ACTUARIAL BALANCE SHEET

Assets:

	<u>August 31, 2021</u>	<u>August 31, 2020</u>
Actuarial Value Assets	\$ 523,026,487	\$ 486,802,031
Present Value of Future Normal Cost		
Member	55,415,666	52,898,234
Employer	92,162,977	87,176,795
Total	<u>147,578,643</u>	<u>140,075,029</u>
Total	\$ 670,605,130	\$ 626,877,060

Liabilities:

Present Value of Benefits

Active Members		
– service retirement	\$ 335,822,592	\$ 344,914,059
– disability	4,062,388	3,787,651
– death before retirement	5,233,682	5,504,170
– termination	30,120,854	28,323,291
Total	<u>375,239,516</u>	<u>382,529,171</u>
Inactive Members	24,126,630	24,071,258
Annuitants	366,259,992	324,704,726
Total	\$ 765,626,138	\$ 731,305,155

Unfunded Accrued Liability (UAL)

\$ 95,021,008	\$ 104,428,095
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SUMMARY OF ACTUARIAL VALUATION RESULTS

Total Contribution Rate	25.053 %	25.083 %
Normal Cost		
– dollars	\$ 24,207,432	\$ 23,584,280
– percent of payroll	26.64 %	26.26 %
Contribution Available to Amortize UAL	(1.587)%	(1.177)%
Accrued Liability	\$ 618,047,495	\$ 591,230,126
Amortization Period in Years	Never	Never
Funded Ratio	84.6 %	82.3 %
Valuation Payroll	\$ 90,868,738	\$ 89,810,664
Active Members	584	570

Summary of Actuarial Methods and Assumptions – Pension Plans

In May 2020, the Board of Trustees of the System adopted the actuarial methods and assumptions for the Employees Retirement System (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF), and the Judicial Retirement Plan II Fund (JRS II) with assistance from the System's actuary and based on the actuarial experience study that covered the fiscal years from 2015 to 2019. No plan provision change took place in fiscal year 2021. This actuarial valuation also incorporates the most significant across-the-board pay increases budgeted by the State Legislature when they are granted for the current biennium.

The System relies on the services of qualified actuaries to perform periodic valuations of the assets and liabilities of the pension funds. Gabriel, Roeder, Smith and Company has been the pension actuary for the System since June 2013. The actuarial methods used for the three funds are summarized in Figure 1.

Actuarial Cost Method

The Entry Age Normal Actuarial Cost Method was used for the actuarial valuation. Actuarial gains and losses resulting from differences between actual and assumed experience are recognized as they occur each year. These gains or losses increase or decrease the unfunded actuarial accrued liability.

The normal cost rate is based on the benefits payable to each individual member. As the number of members eligible for the newest benefit provisions increases over time, the normal cost rate is expected to decrease, and the amount available to amortize the unfunded liability will increase as a percentage of payroll. The calculation of the years required to amortize the unfunded actuarial accrued liability uses

an open group projection. The total contribution rate is set by statute; the variable from year to year is the funding period.

Actuarial Valuation of Assets

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original time frame. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of investment-related expenses.

For actuarial assumptions, the members of the System are segregated into four groups – Regular State Employees, Law Enforcement and Custodial Officer (LECO) Members, Elected Class, and Judicial Class. The economic assumptions for these groups are summarized in Figure 1.

Pension Liability for GASB Statement 67 Reporting

The calculation of the liability associated with the benefits to satisfy the reporting requirements of GASB Statement No. 67 is not applicable for purposes of funding the plan. A calculation of the plan's liability for other purposes may produce significantly different results. The Schedule of Employer Contribution in the Required Supplementary Information section provides a comparison of the actuarial determined contribution to actual contribution.

Summary of Actuarial Methods and Assumptions – Pension Plans (Continued)

**Figure 1
Economic Assumptions for Employee Classes**

	Employee Class & Supplemental Benefits for CPO/CO's	Elected Class	Judicial Class
Investment Rate of Return	7.0% per year, compounded annually.		
Administrative Expenses (As a percentage of payroll per year, compounded annually)	ERS Fund: 0.33% LECOSRF: 0.08%	0.33%	0.33%
Inflation	2.30%	Legislators: 0.00% Others: 2.30%	2.30%
Salary Increase:	<ul style="list-style-type: none"> Includes 2.3% annual increase for inflation plus increases for merit, promotion and longevity. See Table 1 for rates of salary increase for sample ages. 	<ul style="list-style-type: none"> No real wage growth. No increase in merit, promotion, and longevity except for District Attorneys. See Table 2 below for the salary structure for District Attorneys. 	<ul style="list-style-type: none"> No real wage growth See Table 2 on next page for the salary structure for judges.
Payroll Growth per Year, Compounded Annually	2.70% per year, compounded annually		2.30% per year, compounded annually
Post-retirement Increase	N/A	2.30% per year, compounded annually	N/A

**Table 1
Economic Assumption –
Rates of Merit, Promotion and Longevity Salary Increases
For Regular State Employees and LECO Members, Male and Female (Note A)**

Age	Years of Service – Non-CPO/CO							Years of Service – CPO/CO					
	0	1	2-4	5-9	10-14	15-19	20+	0	1	2-4	5-8	9-17	18+
20	6.50%	4.95%	4.45%	4.00%				6.45%	4.45%	2.95%	1.95%	1.70%	1.45%
30	5.60	4.95	4.45	2.70	2.20%	1.70%		6.45	4.45	2.95	1.95	1.70	1.45
40	4.60	4.45	3.70	2.70	2.20	1.60	1.50%	6.45	4.45	2.95	1.95	1.70	1.45
50	3.60	3.40	2.90	2.40	1.90	1.40	1.30	6.45	4.45	2.95	1.95	1.70	1.45
60+	2.60	2.40	2.00	1.70	1.30	1.10	1.00	6.45	4.45	2.95	1.95	1.70	1.45

Note A: No salary increases are assumed where no rates are shown.

**Table 2
Economic Assumption –
Rates of Merit, Promotion and Longevity Salary Increases
For District Attorneys in the Elected Class and Judges, Male and Female**

Age	Years of Eligibility Service		
	Less than 4	4 or more, but less than 8	8 or more
All	State base salary	110% of State base salary	120% of State base salary

Summary of Actuarial Methods and Assumptions – Pension Plans (Continued)

The demographic assumptions are summarized in Tables 3 to 9.

Table 3
Demographic Assumption –
Annual Rates of Termination from Active Employment before Retirement (Note B)

Eligibility Service	Male and Female Regular State Employees		Eligibility Service	Male and Female LECO Members
	Entry age 35 or younger	Entry age over 35		All entry ages
0	25.25%	19.63%	0	26.45%
5	10.86	8.16	5	10.13
10	5.67	5.11	10	5.70
15	3.64	3.29	15	3.34
20	1.92	1.00	19+	0.00
25+	0.85	1.00		

Elected and Judicial Class: 4 per 100 members not eligible for service retirement

Note B: Entry age is the determined as a member's current age minus their current years of State service, which is generally the age at which the member was hired with the State.

Table 4
Demographic Assumption –
Mortality Rates for Active Members (Notes C & D)

Age	Regular State Employees		LECO Members	
	Females	Males	Females	Males
20	0.0130%	0.0370%	0.0160%	0.0410%
30	0.0150	0.0360	0.0270	0.0410
40	0.0360	0.0660	0.0490	0.0590
50	0.0830	0.1490	0.0910	0.1200
60	0.1860	0.3190	0.1680	0.2640
65	0.2960	0.4680	0.2280	0.4100

Note C: It is assumed that 1.0% of Regular State Employee and LECO Member deaths are occupational. It is also assumed that there are no occupational deaths of members in the Elected and Judicial Classes.

Note D: The base rates indicated above are based on the Pub-2010 Active Member Mortality Tables, General for Non-LECO and Public Safety for LECO. Additionally, generational mortality improvements are projected from the year 2010 based on the Ultimate MP scale.

Table 5
Demographic Assumption –
Mortality Rates for Service Retirees and Beneficiaries (Note E)

Age	Females (All)	Males (Non-LECO)	Males (LECO)
50	0.1179%	0.1771%	0.1975%
55	0.2086	0.3052	0.3403
60	0.3691	0.5260	0.5865
65	0.6530	0.9066	1.0109
70	1.1554	1.5627	1.7424
75	2.0443	2.6933	3.0031
80	3.6170	4.6421	5.1761

Table 6
Demographic Assumption –
Mortality Rates for Disability Retirees (Note F)

Age	Females	Males
50	2.5000%	3.0000%
55	2.5000	3.0000
60	2.5000	3.0000
65	2.5000	3.0000
70	2.5000	3.0000
75	2.8789	3.7337
80	5.0937	6.4353

Note E: The base rates indicated above are based on the 2020 State Retirees of Texas Mortality Tables. Rates shown for male LECO Members are based on the same base rates with ages set forward one year. Additionally, generational mortality improvements are projected from the year 2020 based on the Ultimate MP scale.

Note F: The base rates indicated above are based on the 2020 State Retirees of Texas Mortality Tables, with ages set forward three years, subject to minimum rates of 3.0% and 2.5% for males and females, respectively. Additionally, generational mortality improvements are projected from the year 2020 based on the Ultimate MP scale.

Summary of Actuarial Methods and Assumptions – Pension Plans (Continued)

Table 7
Demographic Assumption –
Disability Retirement Rates (Note G)

Age	Regular State Employees, Elected		LECO Members
	Class and Judicial Class		Females & Males
	Females	Males	
30	0.0135%	0.0275%	0.0092%
40	0.0896	0.0749	0.0586
50	0.2072	0.1484	0.1774
60	0.5583	0.3740	0.3150

Note G: It is assumed that 99% of Regular State Employee disability retirements are non-occupational and 1% of Regular State Employee disability retirements are occupational. Similarly, it is assumed that 95% of LECO Member disability retirements are non-occupational, 4.5% of LECO Member disability retirements are non-total occupational, and 0.5% of LECO Member disability retirements are total occupational. It is also assumed that there are no occupational disability retirements in the Elected and Judicial Classes. The rates do not apply before the member is eligible for the benefit.

Table 8
Demographic Assumption –
Percentage of Members Electing Various Benefit Options (Notes H & I)

	Option Selection Percentage		
	Standard	Option 1	Option 4
Male Member			
Disability	50 %	50 %	50 %
Service Retirement			
Non-LECO Members	100 %	0 %	0 %
LECO Members	60 %	40 %	0 %
Death Benefit Plan	0 %	85 %	15 %
Female Member			
Disability	75 %	25 %	0 %
Service Retirement	100 %	0 %	0 %
Death Benefit Plan	0 %	70 %	30 %

Note H: Descriptions of Options 1 and 4 are presented in the Summary of Plan Provisions in the Introductory Section.

Note I: Males are assumed to be two years older than females.

Summary of Actuarial Methods and Assumptions – Pension Plans (Concluded)

**Table 9
Demographic Assumption –
Service Retirement Rate (Note J and K)**

Regular State Employees – Males & Females

Age	Eligibility A Rule of 80	Eligibility B Other Age/ Service
<50	50%	
50	40	
51	35	
52	30	
53	28	
54	27	
55	26	
56	25	
57	24	
58	23	
59	22	
60	21	18%
61	20	12
62	33	20
63-64	27	18
65-74	27	27
75	100	100

**LECO Members
Males & Females (Note L)**

Age	Eligibility C 20 yrs CPO/CO	Age	Eligibility D Age 55 & 10 yrs CPO/CO
<48	3%		
48	4	55	20%
49	5	56	18
50	60	57	16
51-61	33	58-61	14
62-74	50	62-74	27
75	100	75	100

Elected Class

Age	Male & Female
50-61	10%
62-74	20
75	100

Judicial Class (Note M)

Age	Male & Female	
	Unreduced	Reduced
50-64	20%	10%
65-69	20	N/A
70-74	25	N/A
75	100	N/A

Note J: No service retirements are assumed where no rates are shown.

Note K: Service retirement rates are determined by the first set of eligibility requirements satisfied. Adjustments are made to individuals depending on their age of first eligibility.

Eligibility A: Age plus eligibility service is greater than or equal to 80 ("Rule of 80")

Eligibility B: Regular State Employee retirement eligibility other than Rule of 80

Eligibility C: 20 years of CPO/CO service

Eligibility D: Age 55 and 10 years of CPO/CO service

Note L: LECO Members are assumed to follow retirement patterns for Eligibility A or B if either is satisfied prior to satisfying Eligibility C or D.

Note M: Judicial Class members are assumed to retire when they have accrued a standard retirement annuity of 90% of salary.

Active Member Valuation Data

Valuation Year August 31	Number (Note A)	Actual Annual Payroll	Average Pay (Note B)	Change in Average Pay
		\$	\$	%
Employees Retirement Fund:				
2011	137,293	5,926,331,865	41,620	1.50
2012	132,669	5,720,722,855	42,188	1.40
2013	133,669	5,713,759,137	42,564	0.90
2014	134,162	5,955,460,705	44,374	4.30
2015	142,409	6,150,194,660	44,990	1.40
2016	146,390	6,742,143,036	46,495	3.30
2017	141,629	6,859,706,582	47,986	3.20
2018	141,535	6,811,925,525	48,581	1.20
2019	141,865	6,947,624,737	49,220	1.30
2020	142,062	7,158,435,103	50,834	3.30
2021	136,726	7,188,367,590	51,910	2.10
Law Enforcement and Custodial Officer Supplemental Retirement Fund:				
2011	36,806	1,520,864,574	39,454	3.90
2012	37,404	1,457,492,314	39,444	0.00
2013	37,415	1,429,059,562	39,469	0.10
2014	37,084	1,496,012,750	41,584	5.40
2015	38,526	1,506,027,764	41,957	0.90
2016	39,066	1,725,879,688	44,634	6.40
2017	38,206	1,746,349,412	45,029	0.90
2018	37,167	1,689,590,272	45,321	0.60
2019	36,296	1,682,633,066	45,305	0.00
2020	35,230	1,662,147,480	46,250	2.10
2021	32,498	1,586,537,362	46,768	1.10
Judicial Retirement Plan Two Fund:				
2011	546	67,927,624	127,573	0.00
2012	541	68,373,289	127,130	(0.30)
2013	545	68,781,009	127,550	0.30
2014	554	77,441,466	142,820	12.00
2015	563	77,500,736	142,721	(0.10)
2016	548	78,260,550	142,770	0.00
2017	557	78,189,668	142,424	(0.20)
2018	561	78,772,445	142,731	0.20
2019	573	79,710,813	142,600	(0.10)
2020	570	88,578,603	157,563	10.50
2021	584	89,582,518	155,597	(1.20)

Note A: Number of active contributing members as of August 31, excluding those who retired August 31 because they were included as retirees in the actuarial valuation.

Note B: The average rate of salary is based on the salary for the month of August.

Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls

Valuation Year August, 31	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls end of Year		Increase Average	
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	Annual Benefits	Annual Benefit
	\$	\$	\$	\$	\$	\$	%	\$		
Employees Retirement Fund:										
2011	5,808	123,585,132	2,237	35,797,140	548	8,145,660	83,430	1,552,999,200	6.6	18,614
2012	5,928	124,604,412	2,128	35,049,012	569	7,965,072	87,799	1,650,519,672	6.3	18,799
2013	5,287	108,395,484	2,418	36,921,000	699	8,999,592	91,367	1,730,993,748	4.9	18,946
2014	6,231	132,027,948	2,331	38,751,696	573	11,250,312	95,840	1,835,520,312	6.0	19,152
2015	6,042	134,725,212	2,506	40,066,764	627	10,129,440	100,003	1,940,308,200	5.7	19,402
2016	5,668	132,332,424	2,555	42,411,504	642	10,458,660	103,758	2,040,687,780	5.2	19,668
2017	5,967	141,001,272	2,869	48,060,288	674	11,351,772	107,530	2,144,980,536	5.1	19,948
2018	6,029	151,352,376	2,912	49,203,420	714	11,816,892	111,361	2,258,946,384	5.3	20,285
2019	6,034	155,789,472	2,910	49,004,268	670	11,670,672	115,155	2,377,402,260	5.2	20,645
2020	5,264	136,837,956	3,104	53,016,372	681	11,670,036	117,996	2,472,893,880	4.0	20,957
2021	5,418	137,951,364	3,943	62,890,008	823	13,298,124	120,294	2,561,253,360	3.6	21,292
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
2011	695	3,915,084	186	1,536,500	44	22,352	7,728	42,536,244	6.0	5,504
2012	895	5,069,712	195	1,439,820	49	202,200	8,477	46,368,336	9.0	5,470
2013	744	3,771,816	183	1,336,200	51	230,952	9,089	49,034,904	5.8	5,395
2014	1,071	5,376,924	194	1,238,712	58	225,252	10,024	53,398,368	8.9	5,327
2015	959	4,989,900	197	1,336,440	59	332,088	10,845	57,383,916	7.5	5,291
2016	803	4,540,728	205	1,149,108	72	305,328	11,515	61,080,864	6.4	5,304
2017	876	5,132,832	214	1,106,412	71	310,464	12,248	65,417,748	7.1	5,341
2018	966	6,151,404	205	1,094,460	71	287,868	13,080	70,762,560	8.2	5,410
2019	1,020	6,720,840	179	981,720	60	284,784	13,981	76,786,464	8.5	5,492
2020	873	5,648,916	230	1,150,728	73	346,260	14,697	81,630,912	6.3	5,554
2021	847	5,608,728	282	1,349,016	81	347,100	15,343	86,237,724	5.6	5,621
Judicial Retirement Plan Two Fund:										
2011	43	2,792,244	1	29,580	2	152,880	208	12,532,536	30.3	60,253
2012	8	441,948	4	250,680	3	167,892	215	12,891,696	2.9	59,961
2013	43	2,571,696	5	278,964	1	68,580	254	15,253,008	18.3	60,051
2014	14	1,024,752	7	348,120	6	249,000	267	16,178,640	6.1	60,594
2015	57	4,365,012	9	467,832	7	403,020	322	20,478,840	26.6	63,599
2016	10	555,060	5	319,908	4	289,548	331	21,003,540	2.6	63,455
2017	48	3,177,144	8	448,908	7	383,532	378	24,115,308	14.8	63,797
2018	16	1,032,864	6	481,368	5	309,336	393	24,976,140	3.6	63,553
2019	83	6,458,064	6	424,044	2	122,124	472	31,132,284	24.6	65,958
2020	18	1,399,572	7	527,352	1	29,868	484	32,034,372	2.9	66,187
2021	51	4,633,020	12	643,452	5	295,224	528	36,319,164	13.4	68,786

Schedule of Funding Progress – Defined Benefit Plans

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets (000's)	[Note A] (b) Actuarial Accrued Liability (AAL) (000's)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a) (000's)	(b) Funded Ratio (a)/(b) %	[Note B] (e) Covered Payroll (000's)	(f) UAAL As A Percentage Of Covered Payroll (c)/(e) %
Employees Retirement Fund:						
2011	23,997,445	28,398,213	4,400,768	84.50	5,795,185	75.90
2012	24,272,514	29,377,069	5,104,555	82.60	5,676,509	89.90
2013	24,667,639	31,886,026	7,218,387	77.40	5,959,473	121.10
2014	25,431,922	32,924,737	7,492,815	77.20	6,171,443	121.40
2015	25,850,542	33,868,360	8,017,818	76.30	6,659,647	120.40
2016	26,557,130	35,303,165	8,746,035	75.20	6,806,457	128.50
2017	26,371,827	37,629,785	11,257,958	70.10	6,796,226	165.70
2018	27,359,943	38,989,263	11,629,320	70.20	6,875,887	169.10
2019	28,060,120	39,801,359	11,741,239	70.50	6,984,577	168.10
2020	28,543,208	43,258,312	14,715,104	66.00	7,221,559	203.80
2021	30,065,356	44,183,687	14,118,331	68.00	7,144,623	197.60
Law Enforcement and Custodial Officer Supplemental Retirement Fund:						
2011	830,522	960,953	130,431	86.40	1,475,432	8.80
2012	832,451	1,015,668	183,217	82.00	1,498,979	12.20
2013	843,017	1,197,164	354,147	70.40	1,627,699	21.80
2014	883,595	1,206,770	323,175	73.20	1,609,491	20.10
2015	909,249	1,262,311	353,062	72.00	1,750,709	20.20
2016	933,534	1,312,392	378,858	71.10	1,743,679	21.70
2017	923,990	1,399,877	475,887	66.00	1,720,362	27.70
2018	953,054	1,452,658	499,604	65.60	1,684,458	29.70
2019	968,130	1,482,635	514,505	65.30	1,644,392	31.30
2020	968,063	1,609,587	641,524	60.10	1,629,387	39.40
2021	997,652	1,650,353	652,701	60.50	1,585,644	41.20
Judicial Retirement System Plan Two Fund:						
2011	283,936	300,163	16,227	94.60	69,655	23.30
2012	300,433	315,199	14,766	95.30	68,778	21.50
2013	318,026	359,059	41,033	88.60	77,854	52.70
2014	348,431	386,286	37,855	90.20	79,123	47.80
2015	372,615	404,011	31,396	92.20	80,352	39.10
2016	395,457	425,865	30,408	92.90	78,238	38.90
2017	420,850	463,604	42,754	90.80	79,330	53.90
2018	447,078	487,772	40,694	91.70	80,072	50.80
2019	467,787	534,564	66,777	87.50	91,027	73.40
2020	486,802	591,230	104,428	82.30	89,811	116.30
2021	523,026	618,047	95,021	84.60	90,869	104.60

Note A: For ERS and LECOS, the actuarial accrued liability along with funded ratio are based on a total liability, which is based on the benefit provisions in effect for each active member and a normal cost rate that is based on the benefits in effect for new members after plan changes in August 31, 2009 and August 31, 2013.

Note B: Covered payroll is the expected payroll for the fiscal year following the valuation date.

Solvency Test

Funding Objective

The System's funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due – the ultimate test of financial soundness.

Evaluation of Funding Objective

A short-term solvency test is one way of evaluating a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with:

1. Active member contributions on deposit;

2. The liabilities for future benefits to present retirees; and
3. The liabilities for service already rendered by active members.

In a system that has been following the level contribution rate of payroll financing principle, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present assets except in rare circumstances. In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time. Following is a summary of the solvency test:

Valuation Year August 31,	Aggregate Accrued Liabilities For				Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1)		(3)			(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Member (Employer Financed Portion)					
\$	\$	\$	\$	\$	%	%	%	
Employees Retirement Fund (Note A):								
2012	5,075,213,967	15,243,956,208	9,657,986,616	24,272,514,483	100	100	40.9	
2013	5,201,006,487	16,148,245,090	10,536,774,798	24,667,639,104	100	100	31.5	
2014	5,213,640,470	17,113,870,539	10,597,226,202	25,431,922,496	100	100	29.3	
2015	5,235,063,313	18,080,000,823	10,553,295,814	25,850,542,024	100	100	24.0	
2016	5,509,428,282	19,017,977,910	10,775,759,170	26,557,130,705	100	100	18.8	
2017	5,709,094,713	21,378,759,742	10,541,930,919	26,371,827,298	100	96.7	0.0	
2018	5,897,455,633	22,527,977,524	10,563,830,405	27,359,943,116	100	95.3	0.0	
2019	6,044,422,496	23,686,007,554	10,070,928,628	28,060,120,223	100	92.9	0.0	
2020	6,278,991,035	25,604,780,179	11,374,540,859	28,543,207,745	100	87.0	0.0	
2021	6,524,147,307	26,547,208,800	11,112,331,059	30,065,356,135	100	88.7	0.0	
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A):								
2012	19,540,552	447,451,269	577,263,635	832,451,079	100	100	63.3	
2013	24,432,912	482,687,108	690,043,817	843,016,798	100	100	48.7	
2014	29,508,062	533,252,341	644,009,518	883,594,932	100	100	49.8	
2015	34,455,599	578,926,025	648,929,765	909,249,614	100	100	45.6	
2016	41,480,394	618,987,770	651,924,337	933,534,062	100	100	41.9	
2017	47,025,982	702,926,185	649,924,490	923,989,580	100	100	26.8	
2018	51,536,313	762,668,410	638,453,074	953,054,283	100	100	21.7	
2019	54,737,312	829,115,833	598,782,057	968,129,751	100	100	14.1	
2020	58,423,646	920,353,836	630,809,578	968,062,761	100	98.8	0.0	
2021	61,910,663	970,572,535	617,869,803	997,651,850	100	96.4	0.0	
Judicial Retirement Plan Two Fund (Note A):								
2012	63,677,503	122,570,887	128,950,762	300,433,111	100	100	88.5	
2013	64,435,226	147,052,378	147,571,031	318,025,658	100	100	72.2	
2014	69,364,268	153,382,909	163,539,195	348,430,575	100	100	76.9	
2015	67,427,634	194,524,402	142,058,536	372,615,005	100	100	77.9	
2016	73,450,388	196,779,287	155,635,632	395,457,335	100	100	80.5	
2017	72,977,421	241,314,049	149,312,220	420,850,181	100	100	71.4	
2018	78,282,916	246,496,810	162,991,820	447,077,710	100	100	75.0	
2019	70,242,531	308,068,547	156,252,668	467,787,034	100	100	57.3	
2020	79,308,832	324,704,726	187,216,568	486,802,031	100	100	44.2	
2021	82,231,905	366,259,992	169,555,598	523,026,487	100	100	44.0	

Note A: The actuarial accrued liability for ERS and LECOS is based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2013.

Analysis of Financial Experience

Actual financial experience will not coincide exactly with assumed financial experience because the future cannot be predicted with 100 percent precision. The assumed experience should be changed to reflect observed reality when an actuarial investigation reveals that the difference between actual and assumed experience in the various risk areas to be material and persistent.

If the differences between actual and assumed experience is financially favorable or unfavorable, such differences are called actuarial gains or losses. In the actuarial valuation of the System, actuarial gains and losses are recognized immediately, with actuarial gains decreasing the unfunded actuarial accrued liability and actuarial losses increasing the unfunded actuarial accrued liability. A general description of actuarial gains and losses for age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment is summarized as follows:

Age and Service Retirement:

If members retire at younger (older) ages or with final average pay that is higher (lower) than assumed, there is a loss (gain).

Disability Retirement:

If disability claims are more (less) than assumed, there is a loss (gain).

Death-in-Service Benefit:

If survivor claims are more (less) more than assumed, there is a loss (gain).

Withdrawal from Employment:

If withdrawals are less (more) than assumed, there is a loss (gain).

The gains and losses in actuarial accrued liabilities resulting from differences between assumed experience and actual experience are summarized as follows:

Type of Activity	Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)					
	ERS		LECOS		JRS II	
	2021	2020	2021	2020	2021	2020
Contribution Income and Interest on Unfunded Actuarial Accrued Liability						
If contributions are received in excess of both the normal cost and interest on the unfunded actuarial accrued liability, there is a decrease. If less, an increase.	614.1	520.6	49.2	43.4	8.0	8.5
Components of (Gain)/Loss						
<u>Investment Income</u> If there is greater investment income than assumed on the actuarial value of assets, there is a gain. If less income, a loss.	(843.9)	243.2	(28.1)	8.4	(14.9)	3.9
<u>Active Member Demographics</u> Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment.	(48.4)	16.7	(9.5)	(6.0)	2.5	(5.4)
<u>Pay Increases</u> If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	65.4	284.7	(1.6)	7.2	3.1	(1.5)
<u>Death After Retirement</u> If retirees live longer than assumed, there is a loss. If not as long, a gain.	(85.2)	(45.5)	(2.5)	(1.5)	(0.1)	(0.8)
<u>Other</u> Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	12.4	46.3	(0.3)	6.4	1.7	(2.2)
Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience	(285.6)	1,066.0	7.2	57.9	0.3	2.5
Non-Recurring Items						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	(311.2)	1,907.9	4.0	69.1	(9.7)	35.1
Composite Increase/(Decrease) During Year	(596.8)	2,973.9	11.2	127	(9.4)	37.6

Actuary's Certification Letter – State Retiree Health Plan



EMPLOYEES RETIREMENT SYSTEM OF TEXAS
GROUP BENEFITS PROGRAM
FY21 GASB No. 74 ACTUARIAL VALUATION

Section I - Certification of GASB No. 74 Actuarial Valuation

At the request of the Employees Retirement System of Texas (ERS), we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP) for the twelve-month period ending August 31, 2021 (GBP OPEB). The purpose of this report is to present the results of our valuation and provide the information necessary to determine financial statement entries consistent with the Governmental Accounting Standards Board Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB No. 74).

Actuarial computations under GASB No. 74 are for purposes of fulfilling governmental plan financial accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB No. 74 and the GBP. The information presented in this report is solely for purposes of compliance with GASB No. 74. This report does not provide any advice with respect to the manner in which the benefits are funded (i.e., pay-as-you go funding as opposed to prefunding the benefits).

We have based our valuation on current and former employee data as of August 31, 2021 provided by ERS, former employee data as of August 31, 2021 provided by the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial methods and assumptions described in Section VIII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section IX.

To the best of our knowledge, all current active and retired employees eligible to participate in the plan as of the valuation date and all other individuals who have a vested benefit under the plan have been included in the valuation. Furthermore, to the best of our knowledge and belief, all plan benefits have been considered in the development of costs.

ERS and TRS remain solely responsible for the accuracy and comprehensiveness of the respective data provided. However, to the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent that any imperfections exist in the data records, we have relied on best estimates provided by ERS and TRS. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information. We have utilized ProVal, a software licensed from Winklevoss Technologies, LLC, in the development of the liabilities summarized in the report.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. In our opinion, each of the assumptions used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption. All of our work conforms to generally accepted actuarial principles and practices and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. We are neither aware of any material inconsistencies among the assumptions, nor are we aware of any unreasonable results caused

The undersigned individuals are members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Mitchell L. Bilbe, F.S.A.
Member of American Academy of Actuaries

Philip S. Dial, F.S.A.
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Actuary's Certification Letter – State Retiree Health Plan



EMPLOYEES RETIREMENT SYSTEM OF TEXAS
GROUP BENEFITS PROGRAM
FY21 GASB No. 74 ACTUARIAL VALUATION

Summary of Results for FY2021

Actuarial Valuation Results as of August 31, 2021		
	(\$ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	224,904	
b. Deferred Vested	14,969	
c. Retirees and Nominees	134,517	
d. Total Number of Members	374,390	
2. Payroll of Active Members for FY2021	\$12,586,390	
3. Actuarial Present Value of Projected Benefit Payments		
a. Actives	\$40,260,243	
b. Deferred Vested	2,710,795	
c. Retirees and Nominees	14,353,514	
d. Total	\$57,324,552	455.4 %
4. Total OPEB Liability		
a. Actives	\$18,946,851	
b. Deferred Vested	2,710,795	
c. Retirees and Nominees	14,353,514	
d. Total	\$36,011,160	286.1 %
5. Fiduciary Net Position	\$135,653	1.1 %
6. Net OPEB Liability [4.d - 5]	\$35,875,507	285.0 %
7. Actuarially Determined Contribution for FYE August 31, 2021		
a. Normal Cost	\$1,617,052	12.8 %
b. Amortization of Net OPEB Liability	1,103,466	8.8 %
c. Total ADC for FYE August 31, 2021	\$2,720,517 ¹	21.6 %

¹ Adjusted due to rounding error caused by rounding individual components.

Summary of Actuarial Methods and Assumptions – State Retiree Health Plan

Consistency with Assumptions Used for Retirement Plan Valuations

Most of the employees and retirees covered by the Group Benefits Program are also covered by either the System or Teacher Retirement System (TRS) retirement plans that are subject to periodic actuarial valuations. Where appropriate, assumptions were utilized that were previously adopted by the System and TRS Boards for use in performing the retirement plan valuations. However, certain aspects of the OPEB valuation process require the use of assumptions that are unique to OPEB; for example, the discount rate assumption and the health benefit cost trend assumption as discussed below.

Actuarial Cost Method

The Entry Age Normal Actuarial Cost Method was used for the actuarial valuation. Actuarial gains and losses resulting from differences between actual and assumed experience are recognized as they occur each year. These gains or losses increase or decrease the unfunded actuarial accrued liability. Unfunded net OPEB liability is amortized over 30 years as a level percentage of projected payroll.

Changes in Actuarial Assumptions

The following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- Proportion of future retirees assumed to be married and electing coverage for their spouse.
- Proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement.
- Percentage of Higher Education vested terminated members assumed to have terminated less than one year before the valuation date.
- Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.
- Annual rate of increase in the Patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act has been updated to reflect recent health plan

experience and its effects on our short-term expectations.

- Assumed expenses directly related to the payment of GBP HealthSelect medical benefits have been updated to reflect recent contract revisions.

The discount rate was changed from 2.20% as of August 31, 2020 to 2.14% as of August 31, 2021 as a result of requirements by GASB No. 74 to reflect the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

Discount Rate Assumptions

In accordance with Paragraph No. 48 of GASB No. 74, the discount rate should be the single rate that reflects the following:

- (a) the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that (i) the OPEB plan's fiduciary net position (i.e., plan assets) is projected to be sufficient to make projected benefit payments and (ii) OPEB plan assets are expected to be invested using a strategy to achieve that return, and
- (b) a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), to the extent that the conditions in (a) are not met.

For each future period, if the amount of the OPEB plan's fiduciary net position is projected to be greater than or equal to the benefit payments that are projected to be made in that period and OPEB plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, the actuarial present value of benefit payments projected to be made in the period should be determined using the long-term expected rate of return on those investments. Per Paragraph No. 52 of GASB No. 74, the long-term expected rate of return should be based on the nature and mix of current and expected OPEB plan investments over a period representative of the expected length of time between (1) the point at which a plan member begins to provide service to the employer and (2) the point at which all benefits to the plan member have been paid. For this purpose, the long-term expected rate of return should be determined net of OPEB plan investment expense but without reduction for OPEB plan administrative expense. The municipal bond rate discussed in (b) above should be used to calculate the actuarial present value of all other benefit

Summary of Actuarial Methods and Assumptions – State Retiree Health Plan (Continued)

payments. The discount rate is the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values determined using the long-term rate of return and the municipal bond rate applied to the appropriate periods as described above.

For this plan, the amount that the participating employers contribute to the OPEB plan each year is limited to the anticipated cost of providing benefits incurred during that year. As a result, the GBP is not expected to accumulate funds. (Although there are some accumulated funds as of August 31, 2021, such funds provide less than a full year's benefit payments and are expected to be depleted shortly.) Since no plan assets are expected to accumulate, the discount rate assumption must be based solely on the municipal bond rate discussed in (b) above. The assumed discount rate for the fiscal year ending August 31, 2021 is 2.14% based upon the Bond Buyer Index of general obligation bonds with 20 years to maturity with an average credit quality that is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA rating.

Health Benefit Cost Trend

For purposes of this valuation, the health benefit cost trend represents the expected annual rate of increase in health benefit costs, excluding the effects of changes in demographics and changes in plan provisions.

The health benefit cost trend has exceeded the rate of price increases in the general economy, as measured by changes in the Consumer Price Index (CPI), for many decades. Although this pattern is expected to continue for the foreseeable future, many economists anticipate that the degree to which the health benefit cost trend exceeds general inflation will eventually abate. These economists believe that the health benefit cost trend will reach an ultimate level that still exceeds general inflation, but not by as wide a margin as in past decades.

The health benefit cost trend assumption used in this report begins with our short term expectations of expected health benefit cost increases in the next year and gradually declines to a rate that exceeds the assumed rate of general price inflation by 2.0%.

Changes in Plan Provisions

Under Q/A #4.107 of GASB's Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, any plan changes that have been adopted and communicated

to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the minor benefit changes that will become effective September 1, 2021, since these changes were communicated to plan members in advance of the preparation of this report. These changes, which are not expected to have a significant impact on plan costs for Fiscal Year 2022, are provided for in the Fiscal Year 2022 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

High-Cost Plan Excise Tax and Health Insurance Providers Fee

Prior to August 31, 2020, the effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 4980I (sometimes referred to as the "Cadillac Tax") and the Health Insurance Providers Fee imposed by Section 9010 of the ACA (sometimes referred to as the "HIP Fee") were included in the Net OPEB Liability as of each measurement date. However, the Cadillac Tax and the HIP Fee provisions of the ACA were repealed by the Further Consolidated Appropriations Act, 2020 which was signed into law on December 20, 2019. Due to the repeal of these provisions, the Net OPEB Liability as of both August 31, 2020 and August 31, 2021 presented in this report is not adjusted for the Cadillac Tax nor the HIP Fee provisions of the ACA.

Medicare Part D

The Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy, the Retiree Drug Subsidy (RDS), to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the basic coverage provided under Medicare Part D.

For purposes of GASB No. 74, the valuation of future OPEB may not reflect the anticipated receipt of future RDS payments as required under GASB Technical Bulletin No. 2006-1. The Bulletin requires that the RDS payments to an employer be reported by the employer as revenue, rather than being netted against the employer's OPEB cost for prescription drug coverage.

ERS implemented an Employer Group Waiver Plan plus Commercial Wrap (EGWP plus Wrap) on January 1, 2013 in order to provide the plan with the benefit of increased subsidies and discounts available under such an arrangement. ERS is no longer eligible for the RDS for retirees enrolled in the EGWP plus

Summary of Actuarial Methods and Assumptions – State Retiree Health Plan (Concluded)

Wrap. As a result, the RDS has been significantly reduced.

The projected cost of the EGWP plus Wrap reflects the subsidies which are expected to be provided by the Federal government under Medicare Part D and the discounts expected to be provided by drug manufacturers as required under the ACA.

Economic Assumptions

Administrative Expenses

The expenses to directly related to the payment of BP health benefits are \$193.44 for medical for HealthSelect plus \$9.00 for prescription drugs for HealthSelect and HealthSelect Medicare Advantage per year per covered member for fiscal year 2022. The expenses per covered member are the same regardless of whether the member covers dependents.

Stop-loss Reinsurance

Stop-loss reinsurance is not purchased for the Group Benefits Program.

Discount Rate

Equal to the municipal bond rate of 2.14%.

Health Benefit Cost Trend

The Annual Rate of Increase in Per Capita Health Benefit Cost assumptions are shown below.

Fiscal Year	Annual Rate of Increase	
	HealthSelect	HealthSelect Medicare
	%	%
2023	5.25	0.00
2024	5.15	66.67
2025	5.00	24.00
2026	4.75	4.75
2027	4.60	4.60
2028	4.50	4.50
2029	4.40	4.40
2030 and beyond	4.30	4.30

Trend Rate for Retiree Contributions

The portions of retiree contributions attributable to non-life insurance benefits for both HealthSelect and HealthSelect Medicare Advantage Plan are assumed to increase from their amounts in fiscal year 2022 at

the rates shown below.

Fiscal Year	Annual Rate of Increase	
	HealthSelect	HealthSelect Medicare
	%	%
2023	0.00	0.00
2024	6.75	28.15
2025	6.30	13.80
2026	5.80	6.95
2027	5.40	6.25
2028	5.00	5.50
2029	4.60	4.80
2030 and beyond	4.30	4.30

Expense Trend Rate

The expenses directly related to the payment of GBP Health benefits are contractually guaranteed at the current rate through fiscal year 2023. They are assumed to increase 2.30% per annum thereafter.

Trend Rate for the Opt-Out Credit

The monthly benefit of \$60 in fiscal year 2022 is not assumed to increase in the future.

Health Coverage by Governmental Plans

There has been no consideration of anticipated changes in laws concerning health costs covered by governmental programs. However, presently enacted changes in the law that take effect in future periods that will affect future benefit coverages are considered. The proportion of health benefits which are currently covered by governmental programs has been assumed to remain constant in the future.

Active Member Valuation Data – State Retiree Health Plan

Valuation Year August 31,	Number of Members (Note A)			Actual Annual Payroll Not			Average Pay			% Change in Average Pay		
	Not Medicare Eligible	Medicare Eligible	Total	Not Medicare Eligible	Medicare Eligible	Total	Not Medicare Eligible	Medicare Eligible	Overall	Not Medicare Eligible	Medicare Eligible	Overall
			\$	\$	\$	\$	\$	\$	\$	%	%	%
2012			225,075			10,268,696,000			45,623			0.2
2013			226,181			10,478,117,000			46,326			1.5
2014			228,805			10,963,773,000			47,918			3.4
2015			230,023			11,176,584,000			48,589			1.4
2016			235,108			11,786,869,000			50,134			3.2
2017	218,237	11,962	230,199	10,940,126,454	805,183,603	11,745,310,057	50,130	67,312	51,022			1.8
2018	219,333	12,578	231,911	11,201,279,203	845,887,455	12,047,166,658	51,070	67,251	51,947	1.9	(0.1)	1.8
2019	220,937	12,950	233,887	11,440,052,736	879,975,428	12,320,028,164	51,780	67,952	52,675	1.4	1.0	1.4
2020	219,474	12,893	232,367	11,752,663,149	902,583,538	12,655,246,687	53,549	70,006	54,462	4.9	4.1	4.8
2021	212,114	12,790	224,904	11,682,386,853	904,003,280	12,586,390,133	55,076	70,680	55,963	6.4	4.0	6.2

Note A: Includes return-to-work retirees and employees who have not yet satisfied the 90-day waiting period. Active members are reported by the eligibility of Medicare since the implementation of GASB Statement 74 in Fiscal year 2017.

Retirees and Nominees Added and Removed– State Retiree Health Plan

Valuation Year August 31,	Added to Rolls		Removed from Rolls		Rolls End of Year		Increase/ (Decrease) Annual Benefits	Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No. (Note A)	Annual Benefits		
			\$	\$	\$	\$	%	\$
2012	7,869	76,049,400	2,707	26,161,612	95,375	696,085,075	7.7	7,298
2013	7,790	47,110,385	3,111	18,813,916	100,054	724,381,544	4.1	7,240
2014	7,950	150,776,296	3,234	61,334,659	104,770	813,823,181	12.3	7,768
2015	7,880	86,944,401	3,339	36,841,035	109,311	863,926,547	6.2	7,903
2016	7,431	88,326,138	3,312	39,366,999	113,430	912,885,686	5.7	8,048
2017	8,046	149,945,106	3,596	67,014,989	117,880	995,815,803	9.1	8,448
2018	8,228	(104,727,144)	3,758	(47,832,354)	122,350	938,921,013	(5.7)	7,674
2019	8,435	179,098,524	3,741	79,431,841	127,044	1,038,587,696	10.6	8,175
2020	7,806	77,337,422	3,940	39,035,286	130,910	1,076,889,832	3.7	8,226
2021	8,255	64,788,485	4,648	36,479,331	134,517	1,066,896,850	(0.9)	7,931

Note A: Includes retirees who receive the Opt-Out Credit in lieu of health benefits.

Schedule of Funding Progress – State Retiree Health Plan

Actuarial Valuation Date August 31	(a)		(b)		(c)	(b)	(e)	(f)
	Actuarial Value of Assets	Accrued Liability (AAL)	Actuarial (AAL)	(Overfunded) Unfunded AAL (UAAL)	(b) - (a)	Funded Ratio (a)/(b)	Covered Payroll	UAAL As A Percentage Of Covered Payroll (c)/(e)
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
2012	0	20,823,410	20,823,410	20,823,410	0.0	10,268,696	202.8	
2013	0	23,030,469	23,030,469	23,030,469	0.0	10,478,117	219.8	
2014	0	24,701,904	24,701,904	24,701,904	0.0	10,963,773	225.3	
2015	0	25,740,698	25,740,698	25,740,698	0.0	11,176,584	230.3	
2016	0	27,091,372	27,091,372	27,091,372	0.0	11,786,869	229.8	
2017	709,783	34,782,794	34,073,011	34,073,011	2.0	11,745,310	290.1	
2018	380,430	30,018,172	29,637,742	29,637,742	1.27	12,047,167	246.0	
2019	59,936	34,622,611	34,562,675	34,562,675	0.17	12,320,028	280.5	
2020	104,947	33,149,579	33,044,632	33,044,632	0.32	12,655,247	261.1	
2021	135,653	36,011,160	35,875,507	35,875,507	0.38	12,586,690	285.0	



STATISTICAL SECTION



Summary of Statistical Section

Governmental Activities:

Net Position

Changes in Net Position

Governmental Funds:

Fund Balances

Changes in Fund Balances

Changes in Net Position:

Proprietary Fund

Defined Benefit Plans

Deferred Compensation Plan and Cafeteria Plan

Benefit and Refund Payments — Defined Benefit Plans

Average Benefit Payments — Employee Class

Retired Members by Type of Benefit

Contribution Rates

Other Statistical Information:

Defined Benefit Plans

Other Programs

List of Participating Reporting Entities for State Retiree Health Plan



This section contains additional historical perspective, context, and detail to assist financial statement users in understanding the System's economic condition and benefit offerings.

Financial Trends

The following statistical information provides trends to assist in understanding changes over time in financial performance of the benefit offerings:

- Net Position – Governmental Activities
- Changes in Net Position – Governmental Activities
- Fund Balances – Governmental Funds
- Changes in Fund Balances – Governmental Funds
- Changes in Net Position – Proprietary Fund
- Changes in Net Position – Defined Benefit Plans
- Changes in Net Position – Deferred Compensation Plans and Cafeteria Plan

Operating Information

The following statistical information provides benefit and member data to assist in understanding of the System's operations and benefit offerings:

- Benefit and Refund Payments – Defined Benefit Plans
- Average Benefit Payments – Employee Class
- Retired Members by Type of Benefit
- Contribution Rates
- Other Information: Defined Benefit Plans
- Other Information: Other Programs
- List of Participating Reporting Entities for State Retiree Health Plan

Net Position – Governmental Activities

Last Ten Fiscal Years (in 000's)
(Accrual Basis of Accounting)

This schedule provides ten year trend information for restricted and unrestricted assets. The information source of this schedule is Exhibit I.

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Governmental Activities:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	284,814	325,412	379,311	440,466	498,874	87,945	1,060,687	2,033,429	2,591,955	2,967,760
Unrestricted	18	—	5	17	22	4	25	4	1	6
Total Governmental Activities	284,832	325,412	379,316	440,483	498,896	87,949	1,060,712	2,033,433	2,591,956	2,967,766

Changes in Net Position – Governmental Activities

Last Ten Fiscal Years (in 000's)
(Accrual Basis of Accounting)

This schedule provides trend information for the last ten fiscal years for expenses, program revenues, general revenues, and net revenues. The information source of this schedule is Exhibits II and VI.

	Fiscal Year (Note A)									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Expenses	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental Activities:										
Social Security Administration	105	92	156	178	139	152	85	94	117	94
Judicial Retirement System Plan I									19,941	18,712
Death Benefits:										
Peace Officers, Firemen, etc.	2,141	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,839	25,603
Compensation to Victims of Crime	1,000	2,000	1,625	1,000	2,000	3,500	4,905	2,000	3,500	3,500
Retiree \$5,000 Lump Sum	8,628	9,108	8,846	9,286	10,080	10,893	10,167	9,811	9,696	11,891
Employees Life, Accident and Health Insurance and Benefits:										
Claims Expenses	1,826,996	1,934,325	2,047,749	2,242,195	2,455,030	2,434,697	2,163,858	2,212,805	2,298,095	2,495,983
Administration	9,401	9,356	24,535	36,692	19,390	14,977	13,911	13,158	17,050	16,960
Total Expenses	1,848,271	1,960,325	2,088,649	2,291,513	2,493,920	2,473,045	2,202,358	2,245,699	2,356,238	2,572,743
Program Revenues										
Governmental Activities:										
Charges for Services:										
Administration Fees	74	75	70	71	71	70	70	73	66	72
Appropriations:										
Judicial Retirement System Plan I									19,941	18,712
Death Benefits:										
Peace Officers, Firemen, etc.	2,141	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,839	25,603
Compensation to Victims of Crime	1,000	2,000	1,625	1,000	2,000	3,500	4,905	2,000	3,500	3,500
Retiree \$5,000 Lump Sum	8,628	9,108	8,846	9,289	10,075	10,893	10,167	9,811	9,696	11,891
Insurance Contributions:										
Employer	1,434,186	1,527,002	1,631,916	1,834,956	1,992,220	1,963,388	2,582,653	2,529,624	2,219,782	2,190,022
Member	444,786	460,944	482,566	495,723	521,361	562,140	559,111	562,373	545,585	577,654
Other	192	179	141	121	120	125	135	141	142	165
Operating Grants and Contributions:										
Investment Income	13,188	(5,885)	10,913	6,298	19,492	13,569	5,631	91,752	95,789	108,192
Other	875	2,039	647	2,945	1,386	1,782	2,981	14,815	12,374	12,715
Total Program Revenues	1,905,070	2,000,906	2,142,462	2,352,565	2,554,006	2,564,293	3,175,085	3,218,420	2,914,714	2,948,526
General Revenues										
Transfers	40	—	90	115	(1,673)	64	37	—	48	27
Total General Revenues	40	—	90	115	(1,673)	64	37	—	48	27
Net Revenue Governmental Activities	56,839	40,581	53,903	61,167	58,413	91,312	972,764	972,721	558,523	375,810

Note A: Because of the implementation of GASB Statement 84 Fiduciary Activities, Judicial Retirement System Plan I is reclassified from an Agency Fund to a General Fund beginning in Fiscal Year 2020.

Fund Balances – Governmental Funds

Last Ten Fiscal Years (in 000's)
(Modified Accrual Basis of Accounting)

This schedule provides information on the modified accrual basis of accounting for the last ten fiscal years for committed Social Security Administration Funds and Total Governmental Funds. The information source of this schedule is Exhibit III. Please see Note 1.D for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Governmental Funds:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Committed:										
Social Security Administration Fund	18	—	5	17	22	4	25	4	1	6
Total Governmental Funds	18	—	5	17	22	4	25	4	1	6

Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years (in 000's)
(Modified Accrual Basis of Accounting)

This schedule provides trend information on the modified accrual basis of accounting for Revenues, Expenditures, and net change in Fund Balances. This information is obtained from Exhibit IV. Please see Note 1.D for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2012	2013	2014	2015	2,016	2,017	2018	2019	2020	2021
Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Judicial Retirement System Plan I (Note B)									19,941	18,712
Death Benefits:										
Public Employee Survivors	2,141	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,840	25,603
Victims of Crime	1,000	2,000	1,625	1,000	2,000	3,500	4,904	2,000	(554)	1,641
Retiree \$5,000 Lump Sum	8,628	9,108	8,847	9,289	10,075	10,893	10,167	9,810	13,750	13,750
Administration Fees	74	75	70	71	71	70	70	74	66	72
Total Revenues	11,843	16,627	16,280	12,522	19,427	23,289	24,573	19,715	41,043	59,778
Expenditures										
Judicial Retirement System Plan I (Note B)									19,941	18,712
Death Benefits:										
Public Employee Survivors	2,141	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,840	25,603
Victims of Crime	1,000	2,000	1,625	1,000	2,000	3,500	4,904	2,000	3,500	3,500
Retiree \$5,000 Lump Sum	8,628	9,108	8,846	9,286	10,080	10,893	10,167	9,810	9,696	11,891
Administrative Expenditures	105	92	156	178	139	152	86	95	117	94
Total Expenditures	11,874	16,644	16,365	12,626	19,500	23,371	24,589	19,736	41,094	59,800
Excess of Revenues Over (Under) Expenditures	(31)	(17)	(85)	(104)	(73)	(82)	(16)	(21)	(51)	(22)
Other Financing Sources (Uses)										
Transfers In - Retirement Membership Fees	40		90	115	77	64	36		48	27
Net Change in Fund Balances	9	(17)	5	11	4	(18)	20	(21)	(3)	5

Note A: Include lapsed appropriations

Note A: Because of the implementation of GASB Statement 84 Fiduciary Activities, Judicial Retirement System Plan I is reclassified from an Agency Fund to a General Fund beginning in Fiscal Year 2020.

Changes in Net Position – Proprietary Fund

Last Ten Fiscal Years (in 000's)

This schedule provides trend information on Operating Revenues, Operating Expenses and the resulting Operating Income or Loss. It also provides non-operating revenue and expense information and the resulting change in net position. The information source of this schedule is Exhibit VI.

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Insurance Contributions:										
Employer	1,434,186	1,527,002	1,631,916	1,834,956	1,992,220	1,963,388	2,582,653	2,529,624	2,219,782	2,190,022
Member	444,786	460,944	482,566	495,723	521,360	562,140	559,111	562,373	545,585	577,654
Federal Revenues-COBRA Stimulus	27									
Other	835	2,199	604	1,856	1,480	1,905	3,116	14,956	12,066	12,880
Total Operating Revenues	1,879,834	1,990,145	2,115,086	2,332,535	2,515,060	2,527,433	3,144,880	3,106,953	2,777,433	2,780,556
Operating Expenses										
Benefit Payments:										
Employee	1,792,645	1,900,026	2,017,586	2,213,193	2,428,066	2,408,452	2,141,516	2,186,649	2,269,293	2,467,114
COBRA	34,351	34,299	30,163	29,003	26,963	25,972	21,817	25,282	27,664	27,306
Health Savings Account						273	525	874	1,138	1,563
Administrative and Other Expenses	9,401	9,356	24,535	36,692	19,390	15,060	13,880	13,066	17,148	17,091
Total Operating Expenses	1,836,397	1,943,681	2,072,284	2,278,888	2,474,419	2,449,757	2,177,738	2,225,871	2,315,244	2,513,074
Operating Income (Loss)	43,437	46,464	42,802	53,647	40,641	77,676	967,142	881,082	462,189	267,482
Non-Operating Revenues (Expenses)										
Net Appreciation (Depreciation) in Fair Value of Investments	5,395	(17,215)	1,284	(3,195)	7,771	(830)	(15,417)	33,360	32,731	49,799
Investment Income	7,794	11,331	9,629	9,493	11,721	14,482	21,017	58,300	63,156	58,525
Other	204	18	184	1,210	25	1				
Total Non-Operating Revenues (Expenses)	13,393	(5,866)	11,097	7,508	19,517	13,653	5,600	91,660	95,887	108,323
Transfer Out					(1,750)					
Change in Net Position	56,830	40,598	53,899	61,155	58,408	91,329	972,742	972,742	558,076	375,805

Changes in Net Position – Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

This schedule provides summarized trend information on additions and deductions for each of the defined benefit plans. This information source of this schedule is Exhibit IX.

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (ERS)										
Additions										
Member Contributions	411,066	422,588	430,595	462,160	674,678	685,462	683,933	694,788	713,985	718,357
Employer Contributions	347,121	375,737	482,329	500,510	686,841	700,142	697,226	712,648	735,903	739,600
Investment Income (Net of Expenses)	1,614,670	2,097,577	3,252,362	56,905	1,273,373	2,832,594	2,430,255	758,868	1,791,017	6,937,166
Other Additions	71,255	75,637	80,324	84,203	89,035	93,506	97,318	103,006	108,033	112,712
Total Additions	2,444,112	2,971,539	4,245,610	1,103,778	2,723,927	4,311,704	3,908,732	2,269,310	3,348,938	8,507,836
Deductions										
Retirement Benefits	1,712,821	1,819,779	1,933,694	2,041,389	2,146,522	2,257,219	2,374,013	2,496,771	2,602,286	2,689,845
Death Benefits	3,654	3,283	3,053	4,730	5,082	3,664	5,132	3,444	4,793	6,169
Refunds	88,060	86,668	106,809	87,167	84,445	120,944	123,948	142,303	121,569	127,059
Administrative and Other Expenses	18,024	18,911	20,480	22,127	20,779	23,630	24,132	28,903	25,308	22,725
Total Deductions	1,822,559	1,928,641	2,064,036	2,155,413	2,256,828	2,405,457	2,527,225	2,671,421	2,753,956	2,845,798
Change in Net Position	621,553	1,042,898	2,181,574	(1,051,635)	467,099	1,906,247	1,381,507	(402,111)	594,982	5,662,038
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)										
Additions										
Member Contributions	7,287	7,185	8,180	8,377	9,539	9,583	9,275	9,098	8,950	9,078
Employer Contributions	(3)	7,117	27,758	26,728	27,497	26,583	26,110	25,864	22,293	20,294
Investment Income (Net of Expenses)	51,909	71,885	111,741	1,919	44,831	99,341	84,937	26,250	61,097	232,796
Other Additions	1			4	4	1	5	3	9	14
Total Additions	59,194	86,187	147,679	37,028	81,871	135,508	120,327	61,215	92,349	262,182
Deductions										
Retirement Benefits	46,868	50,848	55,222	59,211	62,698	66,800	72,228	78,470	83,198	88,097
Death Benefits	6	6	6	9	22	18	18	15	29	26
Refunds	1,220	1,531	1,919	2,128	1,826	2,938	3,392	3,768	3,487	3,560
Administrative and Other Expenses	844	805	1,324	1,412	1,421	1,811	1,851	2,167	1,933	1,782
Total Deductions	48,938	53,190	58,471	62,760	65,967	71,567	77,489	84,420	88,647	93,465
Change in Net Position	10,256	32,997	89,208	(25,732)	15,904	63,941	42,838	(23,205)	3,702	168,717
Judicial Retirement System of Texas Plan Two (JRS II)										
Additions										
Member Contributions	4,170	4,268	5,195	5,465	5,754	6,017	5,940	6,463	8,634	8,759
Employer Contributions	4,150	4,549	12,211	12,457	12,374	12,495	12,560	13,100	14,186	14,322
Investment Income (Net of Expenses)	41,181	28,753	46,186	820	19,862	44,875	39,191	12,832	30,633	120,145
Other Additions		1		2				1		
Total Additions	49,501	37,571	63,592	18,744	37,990	63,387	57,691	32,396	53,453	143,226
Deductions										
Retirement Benefits	12,782	14,586	16,166	19,158	20,825	22,988	24,706	28,980	31,902	34,929
Death Benefits	21			26	31			27	11	14
Refunds	179	285	254	56	299	374	159	213	128	199
Administrative and Other Expenses	230	228	267	284	226	294	296	363	273	235
Total Deductions	13,212	15,099	16,687	19,524	21,381	23,656	25,161	29,583	32,314	35,377
Change in Net Position	36,289	22,472	46,905	(780)	16,609	39,731	32,530	2,813	21,139	107,849

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Changes in Net Position – Defined Benefit Plans (Concluded)

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Excess Benefit Arrangement	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Additions										
Other Additions	506	569	493	457	540	746	817	953	1,324	1,077
Total Additions	506	569	493	457	540	746	817	953	1,324	1,077
Deductions										
Retirement Benefits	297	436	488	422	392	448	668	753	797	988
Administrative and Other Expenses	45	70	81	71	65	92	78	64	156	90
Total Deductions	342	506	569	493	457	540	746	817	953	1,078
Change in Net Position	—	—	—	246						
State Retiree Health Plan										
Additions										
Member Contributions	135,133	134,993	141,008	155,276	169,075	183,284	195,806			
Employer Contributions	444,895	483,636	535,905	605,512	612,769	663,986	890,735	307,028	401,285	748,369
Non-Employer Contributing Entity Contributions (Note A)	N/A	N/A	N/A	N/A	N/A	N/A	44,433	16,585	20,183	37,737
Federal Revenues	38,207	39,612	50,874	63,362	86,054	69,186	73,120	74,493	89,389	111,099
Early Retirees Reinsurance Program		40,724								
Investment Income (Net of Expenses)	436	329	236	255	324	1,137	4,517	10,907	3,324	1,336
Other Additions						5,961	357	3,249	85	24
Total Additions	648,847	699,294	728,023	824,405	872,191	923,554	1,208,968	412,262	514,266	898,565
Deductions										
Healthcare Benefits	646,197	696,085	724,381	813,823	863,926	912,886	995,815	938,921	1,038,588	1,076,890
Less: Payments from Members (Note B)	N/A	(203,123)	(209,837)	(230,151)						
Administrative and Other Expenses	2,650	3,209	3,642	10,582	8,265	10,668	5,629	5,817	6,008	6,815
Total Deductions	648,847	699,294	728,023	824,405	872,191	923,554	1,001,444	741,615	834,759	853,554
Change in Net Position	—	—	—	—	—	—	207,524	(329,353)	(320,493)	45,011

Note A: To comply with the reporting requirements under GASB Statement 74, the System begins report the contributions from non-employer contributing entity in Fiscal Year 2017. These contributions are the portion of the insurance premiums that the State of Texas pays for the retirees from the junior and community colleges and were reported as part of the employer contributions before Fiscal Year 2017.

Note B: Beginning from fiscal year 2018, contributions from members are reported as payments from members to be in compliance with the reporting requirements under GASB Statement 74.

Changes in Net Position – Deferred Compensation Plans and Cafeteria Plan

Last Ten Fiscal Years (in 000's)

This schedule provides summarized trend information on additions and deductions for the TexSaver 401(k) and 457 plans, the Commuter Spending Account, and the state employees' cafeteria plan (TexFlex). The information source of this schedule is Exhibit IX.

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Texa\$aver 401(k) Plan										
Additions										
Investment Income (Net of Expenses)	26	27	(7)	7	18	(7)	59	71	11	(30)
Other Additions	607	550	398	188	50	565	390	486	1,210	1,008
Total Additions	633	577	391	195	68	558	449	557	1,221	978
Deductions										
Administrative and Other Expenses	596	759	590	529	433	479	482	490	260	251
Total Deductions	596	759	590	529	433	479	482	490	260	251
Change in Net Position	37	(182)	(199)	(334)	(365)	79	(33)	67	961	727
Texa\$aver 457 Plan										
Additions										
Investment Income (Net of Expenses)	12	11	(2)	6	17	18	52	75	23	(43)
Other Additions	486	520	507	581	587	719	763	896	570	427
Total Additions	498	531	505	587	604	737	815	971	593	385
Deductions										
Administrative and Other Expenses	452	330	334	265	233	269	512	523	165	137
Total Deductions	452	330	334	265	233	269	512	523	165	137
Change in Net Position	46	201	171	322	371	468	303	448	428	248
Commuter Spending Account Fund (CSA)										
Additions										
Contributions					73	129	141	140	127	41
Investment Income (Net of Expenses)					1	4	7	12	8	2
Other Additions							6			
Transfers In					1,750					
Total Additions	0	0	0	0	1,824	133	154	152	135	43
Deductions										
Reimbursement Account Claims					43	114	116	115	79	30
Administrative and Other Expenses					1,276	72	19	4	12	15
Total Deductions	0	0	0	0	1,319	186	135	119	91	45
Change in Net Position	0	0	0	0	505	(53)	19	33	44	(2)
State Employees Cafeteria Plan (TexFlex)										
Additions										
Contributions	95,986	95,578	83,214	83,092	80,953	79,559	76,656	73,406	73,290	61,956
Investment Income (Net of Expenses)	19	20	9	20	34	72	193	336	184	17
Other Additions	76	92	113	398	194	92	101			158
Total Additions	96,081	95,690	83,336	83,510	81,181	79,723	76,950	73,742	73,474	62,131
Deductions										
Reimbursement Account Claims	92,093	92,799	78,720	77,744	81,179	69,697	73,729	71,301	65,837	60,101
Administrative and Other Expenses	2,485	2,365	2,460	3,662	1,815	1,619	1,526	1,452	1,391	1,308
Total Deductions	94,578	95,164	81,180	81,406	82,994	71,316	75,255	72,753	67,228	61,409
Change in Net Position	1,503	526	2,156	2,104	(1,813)	8,407	1,695	989	6,246	722

Note A: The System implemented the Commuter Spending Accounts on January 1, 2016.

Benefit and Refund Payments - Defined Benefit Plans (Concluded)

Last Ten Years (in 000's)

This schedule provides trend information on benefit and refund payments by types from the defined benefit plans. This information is obtained from the System's detailed records for refunds and benefit payments

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service:										
Retirees	1,585,066	1,649,308	1,799,608	1,906,043	2,013,347	2,120,153	2,232,174	2,351,834	2,461,583	2,548,195
Survivors	21,410	59,425	21,370	21,835	21,396	21,493	21,686	21,232	21,075	21,099
Disability	28,376	27,980	27,386	26,797	26,148	25,640	25,166	24,654	24,078	23,304
Partial Lump Sum Option	60,687	63,641	63,359	62,438	58,351	59,262	61,250	62,846	56,401	55,586
Proportional	17,282	19,425	21,971	24,276	27,280	30,671	33,737	36,205	39,149	41,662
Total Retirement Benefits	1,712,821	1,819,779	1,933,694	2,041,389	2,146,522	2,257,219	2,374,013	2,496,771	2,602,286	2,689,846
Death Benefits										
Active Members:										
Occupational	117	86	32	116	132	43	209	51	129	547
Non-Occupational	1,920	1,999	1,453	2,909	3,317	2,053	3,401	1,858	2,786	3,743
Retiree	1,617	1,198	1,568	1,705	1,633	1,568	1,522	1,535	1,877	1,878
Total Death Benefits	3,654	3,283	3,053	4,730	5,082	3,664	5,132	3,444	4,792	6,168
Refunds:										
Resignation	74,640	84,004	82,026	102,175	80,876	78,206	115,416	117,908	115,652	119,913
Death	4,895	4,056	4,642	4,634	6,291	6,239	5,528	6,040	5,917	7,145
Total Refunds	79,535	88,060	86,668	106,809	87,167	84,445	120,944	123,948	121,569	127,058
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service	42,670	46,561	50,261	54,747	58,444	62,571	67,822	73,632	78,830	83,594
Disability	1,093	1,088	1,053	1,022	1,008	990	922	883	858	800
Partial Lump Sum Option	3,105	3,199	3,907	3,442	3,247	3,239	3,484	3,955	3,511	3,703
Total Retirement Benefits	46,868	50,848	55,221	59,211	62,699	66,800	72,228	78,470	83,199	88,097
Death Benefits:										
Active Members:										
Non-Occupational	6	6	6	9	21	18	18	15	28	26
Annuity Death Refund									1	
Total Death Benefits	6	6	6	9	21	18	18	15	29	26
Refunds:										
Resignation	1,205	1,513	1,895	2,097	1,772	2,892	3,355	3,732	162	3,509
Death	15	18	24	31	54	46	37	36	—	52
Total Refunds	1,220	1,531	1,919	2,128	1,826	2,938	3,392	3,768	162	3,561
Judicial Retirement System of Texas Plan Two:										
Type of Benefit										
Retirement Benefits:										
Service and Disability	10,300	11,704	13,028	15,747	17,236	18,992	20,369	24,111	26,684	29,511
Proportional	2,482	2,882	3,138	3,411	3,589	3,996	4,337	4,869	5,218	5,418
Total Retirement Benefits	12,782	14,586	16,166	19,158	20,825	22,988	24,707	28,980	31,902	34,929
Death Benefits:										
Active Members:										
Non-Occupational	21				5			27	11	14
Annuity Death Refund				27	26					
Total Death Benefits	21	—	—	27	31	—	—	27	11	14
Refunds:										
Resignation	117	210	228	56	224	215	159	138	75	141
Death	62	75	26		75	159		76	53	58
Total Refunds	179	285	254	56	299	374	159	214	128	199

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Benefit and Refund Payments - Defined Benefit Plans

Last Ten Years (in 000's)

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Excess Benefit Arrangement:										
Type of Benefit										
Retirement Benefits:										
Service	436	488	422	392	448	668	753	797	988	1,223
Total Retirement Benefits	436	488	422	392	448	668	753	797	988	1,223
State Retiree Health Plan:										
Type of Benefit										
Insurance Benefits:										
Accrued Claims	50,148	36,356	22,706	9,848	(5,601)	20,769	(27,916)	4,781	6,762	2,615
Life Claims	29,722	37,349	41,763	45,740	46,994	55,347	54,426	58,278	60,363	76,494
Prescriptions Drugs	201,279	217,332	241,583	253,591	279,144	255,976	289,856	308,940	355,589	352,935
Administrative Fees	15,061	15,775	19,077	18,721	19,338	20,744	19,802	19,776	20,405	21,514
HMO Payments	73,491	98,107	110,232	139,696	156,418	188,633	179,537	201,752	195,654	147,134
Health	310,261	301,785	358,696	373,469	391,327	426,911	393,907	411,988	409,119	431,006
Dental	16,123	17,677	19,766	22,861	25,266	27,436	29,309	33,073	28,998	35,199
Total Insurance Benefits	696,085	724,381	813,823	863,926	912,886	995,816	938,921	1,038,588	1,076,890	1,066,897

Average Benefit Payments – Employee Class

Last Ten Fiscal Years

This schedule provides ten years of information for service retirements. It shows the average monthly benefit, the average final salary and the number of retired members. The information source of this schedule is the System's member records.

Retirement Effective Dates (Note A)	Years of Credited Service						
	September 30, 2011 to August 31, 2021	5-10	10-15	15-20	20-25	25-30	30+
- Period 9/30/11 to 8/31/12:							
Average Monthly Benefit	\$ 508.72	870.88	1,428.07	2,074.70	2,850.00	3,712.65	
Average Final Average Salary	\$ 3,311.36	3,343.86	3,694.67	4,249.41	4,716.35	5,081.27	
Number of Retired Members	220	517	646	789	728	542	
- Period 9/30/12 to 8/31/13:							
Average Monthly Benefit	\$ 551.27	954.10	1,510.07	2,085.50	2,925.71	3,746.77	
Average Final Average Salary	\$ 3,547.40	3,580.14	3,898.07	4,256.22	4,849.57	5,138.06	
Number of Retired Members	271	563	684	836	794	546	
- Period 9/30/13 to 8/31/14:							
Average Monthly Benefit	\$ 512.17	924.78	1,479.47	2,007.88	2,902.89	3,881.65	
Average Final Average Salary	\$ 3,385.23	3,533.92	3,842.21	4,152.96	4,845.44	5,381.38	
Number of Retired Members	319	584	675	861	711	529	
- Period 9/30/14 to 8/31/15:							
Average Monthly Benefit	\$ 581.19	951.89	1,447.61	1,985.59	2,951.83	4,054.34	
Average Final Average Salary	\$ 3,744.62	3,680.82	3,798.96	4,200.88	4,911.75	5,631.90	
Number of Retired Members	262	624	704	1,001	876	620	
- Period 9/30/15 to 8/31/16:							
Average Monthly Benefit	\$ 562.33	929.04	1,464.80	2,053.99	3,092.30	4,316.17	
Average Final Average Salary	\$ 3,490.00	3,670.77	3,855.86	4,294.02	5,148.61	5,899.12	
Number of Retired Members	215	611	655	914	896	610	
- Period 9/30/16 to 8/31/17:							
Average Monthly Benefit	\$ 591.06	957.19	1,516.58	2,102.14	3,118.05	4,352.60	
Average Final Average Salary	\$ 3,630.18	3,766.15	3,995.30	4,329.80	5,138.85	6,045.35	
Number of Retired Members	261	724	702	902	854	620	
- Period 9/30/17 to 8/31/18:							
Average Monthly Benefit	\$ 610.95	985.23	1,624.73	2,244.27	3,226.78	4,564.31	
Average Final Average Salary	\$ 3,618.41	3,826.13	4,215.94	4,640.26	5,335.92	6,228.97	
Number of Retired Members	147	672	621	805	800	631	
- Period 9/30/18 to 8/31/19:							
Average Monthly Benefit	\$ 588.33	1,027.84	1,684.39	2,380.95	3,246.85	4,647.47	
Average Final Average Salary	\$ 3,688.28	3,965.07	4,400.52	4,859.37	5,335.52	6,297.77	
Number of Retired Members	132	747	595	827	822	601	
- Period 9/30/19 to 8/31/20:							
Average Monthly Benefit	\$ 654.79	1,023.99	1,685.04	2,271.28	3,366.82	4,657.41	
Average Final Average Salary	\$ 4,057.19	3,895.30	4,358.15	4,640.85	5,552.29	6,337.48	
Number of Retired Members	98	647	503	722	745	523	
- Period 9/30/20 to 8/31/21:							
Average Monthly Benefit	\$ 568.65	1,110.80	1,705.84	2,367.21	3,385.77	4,653.45	
Average Final Average Salary	\$ 3,480.06	4,158.14	4,454.70	4,817.43	5,573.65	6,338.94	
Number of Retired Members	105	671	535	781	780	618	
Five Year Average -							
Period 9/30/16 to 8/31/21:							
Average Monthly Benefit	\$ 541.95	815.83	1,330.57	1,816.18	2,645.58	3,730.22	
Average Final Average Salary	\$ 3,673.28	3,920.87	4,268.11	4,650.16	5,380.41	6,246.42	
Average Number of Retired Members	149	692	591	807	800	599	
Ten Year Average -							
Period 9/30/11 to 8/31/21:							
Average Monthly Benefit	\$ 563.29	977.96	1,545.67	2,149.16	3,107.74	4,270.79	
Average Final Average Salary	\$ 3,383.55	3,322.76	3,652.66	3,985.82	4,600.42	5,185.18	
Average Number of Retired Members	203	636	632	844	801	584	

Note A: This schedule includes service retirements of the employee class as of November 2, 2020. It does not include disability retirements or the elected state official class. This schedule does not include Partial Lump Sum (PLSO) payments.

Retired Members by Type of Benefit

August 31, 2021

This schedule provides the average amount of monthly benefit, the number of retirees and the type of retirement for ERS, LECOS, and JRS2. The information source of this schedule is the System's pension actuary.

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5	
Employees Retirement Fund (Note A)										
\$										
\$ 0-300	7,258	7,016	242	4,652	1,522	482	133	247	222	
301-600	12,656	12,081	575	8,871	2,210	633	209	322	411	
601-900	14,296	13,676	620	10,043	2,414	803	251	276	509	
901-1,200	13,506	13,177	329	9,269	2,322	969	219	265	462	
1,201-1,500	13,389	13,235	154	8,890	2,368	1,077	220	203	631	
1,501-2,000	18,699	18,593	106	12,109	3,124	1,880	287	336	963	
2,001-2,500	13,623	13,597	26	8,331	2,372	1,636	196	290	798	
2,501-3,000	9,183	9,173	10	5,308	1,664	1,204	157	219	631	
3,001-4,000	9,953	9,949	4	5,611	1,972	1,221	125	231	793	
4,001-10,999	7,731	7,730	1	3,807	1,993	951	76	150	754	
Total	120,294	118,227	2,067	76,891	21,961	10,856	1,873	2,539	6,174	
Law Enforcement And Custodial Officer Supplemental Retirement Fund (Not e A)										
\$										
\$ 0-200	430	430	0	292	95	23	4	4	12	
201-400	7,152	7,114	38	4,028	1,757	761	75	90	441	
401-600	4,951	4,936	15	2,700	1,034	668	48	90	411	
601-800	1,367	1,365	2	604	361	198	15	26	163	
801-1,000	788	788	0	306	253	117	9	9	94	
1,001-1,200	394	393	1	134	150	54	0	5	51	
1,201-1,400	151	145	6	50	56	17	1	2	25	
1,401-1,600	57	49	8	23	21	4	0	0	9	
1,601-1,800	20	16	4	10	6	2	0	1	1	
1,801-9,999	33	28	5	11	14	1	0	1	6	
Total	15,343	15,264	79	8,158	3,747	1,845	152	228	1,213	
Judicial Retirement Plan Two Fund (Note A)										
\$										
\$ 0-2,000	35	35	0	17	15	1	1	0	1	
2,001-2,500	10	10	0	6	4	0	0	0	0	
2,501-3,000	8	8	0	1	3	1	1	0	2	
3,001-3,500	7	7	0	2	2	2	0	0	1	
3,501-4,000	20	20	0	9	8	2	0	1	0	
4,001-4,500	42	42	0	15	19	6	0	1	1	
4,501-5,000	46	46	0	23	17	3	0	3	0	
5,001-5,500	66	66	0	23	26	5	1	0	11	
5,501-6,000	58	58	0	24	25	5	0	1	3	
6,001-6,500	59	58	1	31	20	5	1	0	2	
6,501-7,000	45	45	0	12	21	7	0	2	3	
7,001-9,999	132	130	2	68	34	17	0	4	9	
Total	528	525	3	231	194	54	4	12	33	

Note A: These calculations are based on actuarial estimates.

Note B: Life - standard annuity.

Option 1 - a reduced annuity for the lifetime of the member, then pays the same amount throughout the life of the nominee.

Option 2 - a reduced annuity for the lifetime of the member, then pays one-half of that amount throughout the life of the nominee.

Option 3 - a reduced annuity to the member or the nominee for a guaranteed period of 5 years, and for the lifetime of the member.

Option 4 - a reduced annuity to the member or the nominee for a guaranteed period of 10 years, and for the lifetime of the member.

Option 5 - a reduced annuity for the lifetime of the member, then pays three-fourths of that amount throughout the life of the nominee.

Contribution Rates

Last Ten Fiscal Years

This schedule provides the amounts contributed by the employer for the defined benefit plans including ERS, LECOS, JRS2 and the State Retiree Health Plan. The rates are determined by the General Appropriations Act. Employer contribution rates are also listed for the Group Benefits Program. Those rates are set by the System's Board of Trustees and incorporated into the system's records

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Defined Benefit Plans	%	%	%	%	%	%	%	%	%	%
Employees Retirement Fund										
Employee Class:										
Employee	6.50	6.50	6.60	6.90	9.50	9.50	9.50	9.50	9.50	9.50
Employer	6.50	6.50	8.00	8.00	10.00	10.00	10.00	10.00	10.00	10.00
Elected Class:										
Legislators	8.00	8.00	8.00	8.00	9.50	9.50	9.50	9.50	9.50	9.50
Employer	6.00	6.50	8.00	8.00	10.00	10.00	10.00	10.00	10.00	10.00
Other Elected Class	6.50	6.50	6.60	6.90	9.50	9.50	9.50	9.50	9.50	9.50
Employer	6.00	6.50	8.00	8.00	10.00	10.00	10.00	10.00	10.00	10.00
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A)										
Employee	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Employer	0.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Judicial Retirement System Plan Two Fund										
Employee	6.00	6.00	6.00	6.90	7.20	7.50	7.50	7.50	9.50	9.50
Employer	6.00	6.50	15.66	15.663	15.663	15.663	15.663	15.663	15.663	15.663
<hr/>										
State Retire Health Plan (Note B)										
Group Benefits Program										
Employee Only:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
State Contribution Monthly Rate	438.30	470.38	503.14	537.66	576.54	617.30	621.90	624.82	624.82	624.82
HealthSelect Monthly Premium	438.30	470.38	503.14	537.66	576.54	617.30	621.90	624.82	624.82	624.82
Employee & Children:										
State Contribution Monthly Rate	606.20	470.38	503.15	537.66	797.66	854.10	860.48	864.52	864.52	864.20
HealthSelect Monthly Premium	774.10	830.86	888.86	949.94	1,018.78	1,090.90	1,099.06	1,104.22	1,104.22	1,103.58
Employee & Spouse:										
State Contribution Monthly Rate	689.04	739.58	791.16	845.54	906.78	970.98	978.22	982.82	982.82	982.36
HealthSelect Monthly Premium	939.78	1,008.78	1,079.18	1,153.42	1,237.02	1,324.66	1,334.54	1,340.82	1,340.82	1,339.90
Employee & Family:										
State Contribution Monthly Rate	856.94	919.82	984.02	1,051.68	1,127.90	1,207.78	1,216.80	1,222.52	1,222.52	1,221.74
HealthSelect Monthly Premium	1,275.58	1,369.26	1,464.90	1,565.70	1,679.26	1,798.26	1,811.70	1,820.22	1,820.22	1,818.66

Note A: Beginning in Fiscal Year 2018, an additional amount equivalent to 1.07% of payroll is contributed by employer from dedicated court fees.

Note B: The State Retiree Health Plan is a pay-as-you-go plan. The monthly rates as shown above are the same for active and retired members of the Group Benefits Program.

Statistical Information – Defined Benefit Plans

(All items expressed as numbers unless otherwise indicated)

This schedule provides member census information for active, non-contributing, and various retirement for ERS, LECOS, and JRS2 and the State Retiree Health Plan. The member records for retiree and actives are from the System's actuarial records and the refunds are obtained from the System's records.

	Fiscal Year (Note A)									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Employees Retirement Fund										
Active Contributing Members	132,669	133,669	134,162	142,409	146,390	141,629	141,535	141,865	142,490	136,726
Non-Contributing Members	90,190	96,015	96,507	101,122	108,873	112,192	119,736	125,935	134,909	145,050
Retirees and Beneficiaries	87,799	91,367	95,840	100,003	103,758	107,530	111,361	115,155	117,996	120,294
Service and Disability Retirements	5,928	5,287	6,231	6,042	5,668	5,966	6,029	6,034	5,264	5,418
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note B)										
Active Contributing Members	37,404	37,415	37,084	38,526	39,066	38,206	37,167	36,296	35,230	32,498
Non-Contributing Members	7,129	10,187	11,311	12,962	15,203	17,100	19,842	22,207	25,511	29,626
Retirees and Beneficiaries	8,477	9,089	10,024	10,845	11,515	12,248	13,080	13,981	14,697	15,343
Service and Disability Retirements	895	744	1,071	959	803	876	965	1,020	873	847
Judicial Retirement System of Texas Plan Two										
Active Contributing Members	541	545	554	563	548	557	561	573	570	584
Non-Contributing Members	143	152	139	148	166	158	153	187	187	192
Retirees and Beneficiaries	215	254	267	322	331	378	393	472	17	50
Service and Disability Retirements	8	43	14	57	10	48	16	83	1	1
State Retiree Health Plan										
Retirees	95,375	100,054	104,770	109,311	113,430	117,880	122,350	127,044	130,910	134,517
Dependents	35,549	35,830	36,933	38,130	38,910	39,880	41,061	42,024	42,855	43,189

Note A: The source of the retirement systems and State Retiree Health Plan membership is the System's actuaries. The System's actuaries include members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

Note B: The members of the LECOS are also members of the ERS.

Statistical Information – Other Programs

(All items expressed as numbers unless otherwise indicated)

This schedule provides ten year historical trend information for members of the TexaSaver 457 and 401(k) deferred compensation plans, the Commuter Spending Accounts, the cafeteria plan, and the Group Benefits Program. It also provides death benefit program information. Participant counts, current market values, and death benefit payments are from the System's records. Group Benefit Program member counts are from the System's insurance actuary.

	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
457 Deferred Compensation Plan (Note A)										
TexaSaver 457 Plan (Note A):										
Total Participants	23,219	24,689	26,902	29,129	31,515	33,131	34,023	34,102	33,456	33,660
Participants Currently Deferring	14,189	14,385	20,030	16,685	17,052	19,803	18,591	18,281	17,886	17,806
Current Fair Value of Plan Assets (in millions)	\$ 442.6	494.7	591.1	603.7	669.7	759	869	896.2	1,053.0	1,322
Original 457 Plan (Notes A & B):										
Total Participants	657	598	580	513	468	440	424	401	388	375
Participants Currently Deferring	53	38	32	22	17	15	14	12	10	8
TexaSaver 401(k) Deferred Compensation Plan										
Total Participants	121,516	135,237	151,034	165,513	181,249	195,737	206,617	220,430	213,974	220,946
Participants Currently Deferring	66,910	69,692	89,774	82,851	92,527	95,813	95,392	99,909	103,190	102,249
Current Fair Value of Plan Assets (in millions)	\$ 1,527.2	1,593.8	1,853.9	1,836.2	1,984.7	2,193.6	2,449	2,478.1	2,876.0	3,558
Deferrals (in millions)	\$ 105.5	145.7	152.2	160.3	182.3	159.3	135.1	141.9	148.2	158.2
Commuter Spending Account (CSA)										
Reimbursement Accounts:										
Parking					14	26	26	29	32	24
Transit					127	120	134	129	72	45
Participant Contributions (Note C)										
Cafeteria Plan										
Reimbursement Accounts:										
Health Care	47,591	46,942	46,173	46,609	48,010	47,799	46,337	44,584	43,134	40,261
Dependent Care	3,747	3,747	3,785	3,880	3,825	3,713	3,636	3,574	3,117	2,336
Total Redirected (in millions)	\$ 92.8	91.9	78.9	78.5	80.3	78.7	75.8	73	69.9	62.2
Premium Conversion:										
Participants	218,587	219,357	221,876	222,789	226,864	223,026	223,233	224,699	224,626	216,339
Premiums Redirected (in millions)	\$ 487.5	500.9	509.2	522.1	548.3	504.5	505.8	509.7	506.4	505.1
Tax Savings (in millions):										
Employees	\$ 110.4	113.5	115.3	118.3	124.2	132.1	131.7	132.0	130.5	128.5
State of Texas	\$ 37.3	38.3	39	39.9	41.9	44.6	44.5	44.6	44.1	43.4
Group Benefits Program (Note D)										
Membership:										
Active	237,041	226,181	228,805	230,023	235,108	230,199	231,911	233,887	232,367	224,904
Dependents	172,695	171,023	169,282	166,772	168,161	166,266	164,685	163,172	162,180	156,935
COBRA (Note E)	2,460	1,674	1,144	1,167	984	723	1,104	1,137	1,199	1,512
Total Membership	412,196	398,878	399,231	397,962	404,253	397,188	397,700	398,196	395,746	383,351
Death Benefit Programs										
Lump Sum Payments	14	9	23	29	8	14	21	17	13	14
Monthly Payments to Guardians	107	99	111	112	114	114	111	122	116	139
Victims of Violent Crime	13	5	11	8	4	4	7	10	4	7

Note A: In fiscal year 2001, a new TexaSaver 457 Plan was established with different investment options. The original 457 Plan only offers life insurance products.

Note B: Data for the original 457 Plan is as of June 30, 2018.

Note C: The System implemented the Commuter Spending Accounts on January 1, 2016. During fiscal year 2018, the participant contributions to the reimbursement accounts were immaterial for reporting in this schedule.

Note D: In fiscal year 2007, the Group Benefits Program was separated into two funds (Active and Retiree) due to the implementation of GASB 43. Retired members and their dependents were moved to a fiduciary fund named the State Retiree Health Plan. The source of the membership is the System's actuary.

Listing of Participating Reporting Entities for State Retiree Health Plan

This schedule provides a list of state agencies, universities, junior and community colleges, and other entities participating in the plan. The source of the data is from the System's records.

State Agencies

Attorney General
Board of Law Examiners Bond Review Board
Cancer Prevention and Research Institute of Texas
Commission on Jail Standards
Commission on State Emergency Communications
Comptroller – Judiciary Section
Comptroller - State Energy Conservation Office Comptroller of Public Accounts
Court of Appeals - First Court of Appeals District
Court of Appeals - Second Court of Appeals District
Court of Appeals - Third Court of Appeals District
Court of Appeals - Fourth Court of Appeals District
Court of Appeals - Fifth Court of Appeals District
Court of Appeals - Sixth Court of Appeals District
Court of Appeals - Seventh Court of Appeals District
Court of Appeals - Eighth Court of Appeals District
Court of Appeals - Ninth Court of Appeals District
Court of Appeals - Tenth Court of Appeals District
Court of Appeals - Eleventh Court of Appeals District
Court of Appeals - Twelfth Court of Appeals District
Court of Appeals - Thirteenth Court of Appeals District
Court of Appeals - Fourteenth Court of Appeals District
Court of Criminal Appeals
Credit Union Department
Department of Agriculture
Department of Family and Protective Services
Department of Information Resources
Department of Public Safety Department of Savings and Mortgage Lending
Department of State Health Services
District Courts - Comptroller's Judiciary Section Employees Retirement System of Texas
Executive Council of Physical and Occupational Therapy Examiners
General Land Office
Governor - Executive
Governor - Fiscal
Health and Human Services Commission
Health Professions Council
House of Representatives
Legislative Budget Board
Legislative Reference
Library Office of Capital and Forensic Writs
Office of Consumer Credit Commissioner
Office of Court Administration
Office of Injured Employee Counsel
Office of Public Insurance Counsel
Office of Public Utility Counsel
Parks and Wildlife Department
Public Utility Commission of Texas
Railroad Commission of Texas
Secretary of State
Senate
Soil and Water Conservation Board
State Auditor
State Bar of Texas
State Board of Dental Examiners
State Board of Veterinary Medical Examiners
State Commission on Judicial Conduct
State Law Library
State Office of Administrative Hearings
State Office of Risk Management
State Pension Review Board
State Preservation Board
State Prosecuting Attorney
State Securities Board
Sunset Advisory Commission
Supreme Court
Teacher Retirement System of Texas
Texas Alcoholic Beverage Commission
Texas Animal Health Commission
Texas Board of Architectural Examiners
Texas Board of Chiropractic Examiners
Texas Board of Nursing
Texas Board of Professional Engineers
Texas Board of Professional Geoscientists
Texas Commission on Environmental Quality
Texas Commission on Fire Protection
Texas Commission on Law Enforcement
Texas Commission on the Arts
Texas Department of Banking
Texas Department of Criminal Justice
Texas Department of Housing and Community Affairs
Texas Department of Insurance
Texas Department of Licensing and Regulation
Texas Department of Motor Vehicles
Texas Department of Transportation Texas Education Agency
Texas Emergency Services Retirement System
Texas Ethics Commission
Texas Facilities Commission
Texas Funeral Service Commission
Texas Higher Education Coordinating Board
Texas Historical Commission
Texas Juvenile Justice Department
Texas Legislative Council
Texas Lottery Commission
Texas Medical Board
Texas Military Department
Texas Optometry Board
Texas Public Finance Authority
Texas Racing Commission Texas Real Estate Commission
Texas School for the Blind and Visually Impaired
Texas School for the Deaf
Texas State Board of Examiners of Psychologists
Texas State Board of Pharmacy

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Listing of Participating Reporting Entities for State Retiree Health Plan (Concluded)

Texas State Board of Plumbing Examiners
Texas State Board of Public Accountancy
Texas State Library and Archives Commission
Texas Treasury Safekeeping Trust Company
Texas Veterans Commission
Texas Water Development Board
Texas Workforce Commission

Universities

Angelo State University
Lamar Institute of Technology
Lamar State College - Orange
Lamar State College - Port Arthur
Lamar University
Midwestern State University
Sam Houston State University
Stephen F. Austin State University
Sul Ross State University
Texas Southern University
Texas State Technical College System
Texas State University
Texas State University System
Texas Tech University
Texas Tech University Health Sciences Center
Texas Tech University Health Sciences Center - El Paso
Texas Tech University System
Texas Woman's University University of Houston
University of Houston - Clear Lake
University of Houston - Downtown
University of Houston - Victoria University of Houston
System
University of North Texas University of North Texas at
Dallas
University of North Texas Health Science Center at Fort
Worth
University of North Texas System

Junior and Community Colleges

Alamo Community College
Alvin Community College
Amarillo College
Angelina College
Austin Community College
Blinn College
Brazosport College
Central Texas College
Cisco Junior College
Clarendon College
Coastal Bend College
College of the Mainland
Collin County Community College District
Cooke County College
Dallas County Community College

Del Mar College
El Paso Community College
Frank Phillips College
Galveston College
Grayson County College
Hill College
Houston Community College
Howard College and Southwest Collegiate Institute for the
Deaf are a part of the Howard County Junior College
District
Kilgore College
Laredo Junior College
Lee College
Lone Star College System
McLennan Community College
Midland College
Navarro College
North Central Texas College
Northeast Texas Community College
Odessa College
Panola College
Paris Junior College
Ranger Junior College
San Jacinto College
South Plains College
South Texas Community College
Southwest Texas Counties Junior College
Tarrant County College District
Temple College
Texarkana College
Texas Southmost College
Trinity Valley Community College
Tyler Junior College
Vernon Regional Junior College
Victoria College
Weatherford College
Western Texas College
Wharton County Junior College

Other Entities

Community Supervision & Corrections Departments
Texas Cooperative Inspection Program
Texas County and District Retirement System
Texas Municipal Retirement System
Texas Turnpike Authority
University of Texas Medical Branch at Galveston
University of Texas Mental Sciences Institute
Windham School District

The principal participating employer is the state of Texas. State agencies and universities employ 180,984 which is 80.5% of the employees covered by the State Retiree Health Plan.

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