



Annual Comprehensive Financial Report – 2023

Employees Retirement System of Texas | A Component Unit of the State of Texas

Fiscal Year Ended August 31, 2023

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

Published February 2024

2023 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, 2023

Table of Contents

Introductory Section

Highlights of Retirement Programs	3
Executive Director's Message	4
Letter of Transmittal	6
Certificate of Achievement	10
Public Pension Standards Award	11
Organizational Chart and Data	12
Consultants and Advisors	13
Summary of Plan Provisions	15

Financial Section

Independent Auditors' Report	27
Management's Discussion and Analysis	32
Basic Financial Statements – Exhibits:	
Government-Wide Financial Statements:	
I Statement of Net Position	37
II Statement of Activities	38
Fund Financial Statements:	
III Balance Sheet – Governmental Funds	39
IV Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	40
V Statement of Net Position – Proprietary Fund	41
VI Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund	42
VII Statement of Cash Flows – Proprietary Fund	43
VIII Statement of Fiduciary Net Position	44
IX Statement of Changes in Fiduciary Net Position - Pension and Other Employee Benefit Trust Funds	46
Notes to the Basic Financial Statements	51
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund and Other Governmental Funds:	
Judicial Retirement System One	81
Death Benefits- Retiree \$5,000 Lump Sum	81
Death Benefits - Peace Officers, Firemen, etc.	81
Compensation to Victims of Crime	82
Social Security Administration	82
Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans	83
Schedule of Employer Contributions – Defined Benefit Plans	86
Schedule of Changes in Net OPEB Liability and Related Ratios	87
Schedule of Contributions from Employers and Non-employer Contributing Entities – Other Postemployment Benefits Plan	88
Schedule of Investment Returns – Annual Money-Weighted Rate of Return, Net of Investment Expense	88
Notes to the Required Supplementary Information	89
Other Supplementary Information	
Fiduciary Funds:	
Supporting Schedules:	
Revenues, Expenses and Changes in Statutory Account Balances (Non-GAAP Presentation):	
1 Employees Retirement Fund	91
2 Law Enforcement and Custodial Officer Supplemental Retirement Fund	92
3 Judicial Retirement System Plan Two Fund	93
Other Supplementary Schedules:	
4 Administrative and Investment Expenses/Expenditures – Statutory Administrative Funds and Accounts	94
5 Professional and Consulting Fees	96

Table of Contents (Concluded)

Investment Section

Report on Investment Activity	99
Outline of Investment Policies	104
Time-Weighted Rates of Return and Asset Allocations	106
Broker Commissions	107
Fees for Alternative Investments	109
Investment Advisory and Service Fees	109
List of Largest Assets Held	110
Investment Summary at Fair Value	111
Gain Share Interest Rate (GSIR) Calculation	112

Actuarial Section

Pension Plans:	
Actuary's Certification Letter	115
Actuarial Balance Sheet - Employees Retirement Fund	120
Actuarial Balance Sheet - Law Enforcement and Custodial Officers Supplemental Retirement Fund	121
Actuarial Balance Sheet - Judicial Retirement System of Texas Plan Two Fund	122
Summary of Actuarial Methods and Assumptions	123
Active Member Valuation Data	128
Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls	129
Schedule of Funding Progress - Defined Benefit Plans	130
Solvency Test	131
Analysis of Financial Experience	132
State Retiree Health Plan:	
Actuary's Certification Letter - State Retiree Health Plan	133
Actuarial Valuation Results	134
Summary of Actuarial Methods and Assumptions	135
Active Member Valuation Data	138
Retirees and Nominees Added to and Removed	138
Schedule of Funding Progress - State Retiree Health Plan	138

Statistical Section

Summary of Statistical Section	142
Governmental Activities:	
Net Position	143
Changes in Net Position	143
Governmental Funds:	
Fund Balances	144
Changes in Fund Balances	144
Changes in Net Position:	
Proprietary Fund	145
Defined Benefit Plans	146
Deferred Compensation Plans and Cafeteria Plan	148
Benefit and Refund Payments - Defined Benefit Plans	149
Average Benefit Payments - Employee Class	151
Retired Members by Type of Benefit	152
Contribution Rates	153
Other Statistical Information:	
Defined Benefit Plans	154
Other Programs	155
Listing of Participating Reporting Entities for State Retiree Health Plan	156



INTRODUCTORY SECTION



Highlights of Retirement Programs

Executive Director's Message

Letter of Transmittal

Certificate of Achievement

Public Pension Standards Award

Organizational Chart and Data

Consultants and Advisors

Summary of Plan Provisions



Highlights of Retirement Programs

As of August 31, 2023

	ERS (Note A)	LECOS (Note A)	JRS II
Retirement Census Data			
Active Members	139,958	31,744	623
Terminated Employees Entitled to But Not Yet Receiving Benefits	164,112	35,082	185
Total Retirement Accounts	304,070	66,826	808
Retirees and Beneficiaries Currently Receiving Benefits	124,504	16,368	579
Total Retirements During the Fiscal Year	4,490	616	50
Funded Ratios (Note B)	70.8%	100.0 %	101.2 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Note C)	70.95%	57.83 %	87.19 %
Results of Investments - Pension Trust Funds			
Interest, Dividends & Securities Lending Income	\$ 774,371,430	\$ 24,706,595	\$ 13,689,594
Net Appreciation in Fair Value of Investments	1,323,090,963	41,340,201	22,953,305
Other Transactions Summary			
Member Contributions	\$ 758,060,144	\$ 10,902,451	\$ 8,830,106
State Retirement Contributions, including legacy and one-time payments	2,205,096,540	24,800,350	14,685,583
Retirement Benefits	2,858,897,890	96,112,239	39,903,224
Member Contributions Withdrawn	139,434,538	3,419,180	310,516
Administrative Expenses	42,322,176	2,480,715	244,344
Investment Expenses	36,509,954	1,356,890	604,060
Money-Weighted Rates of Return	6.53%	6.41 %	6.46%
Time Weighted Rates of Return			
	1-Year	3-Year	5-Year
Investment Pool Trust Fund (Gross)	6.75%	9.67%	7.75%

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 fair value, changes in single discount rate application, and other adjustments as required by GASB Statement No. 67.

Executive Director's Message



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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 Employees Retirement System of Texas

PORTER WILSON
EXECUTIVE DIRECTOR

BRIAN BARTH
CHAIR

I. CRAIG HESTER
VICE-CHAIR

BOARD OF TRUSTEES
NEIKA CLARK
STUART GREENFIELD, PH.D.
JAMES (JIM) KEE, PH.D.
JOHN R. RUTHERFORD

Ladies and Gentlemen:

I am pleased to present you with the 2023 Annual Comprehensive Financial Report. This document reflects the results of activities undertaken by the Employees Retirement System of Texas (ERS) for the fiscal year ended August 31, 2023.

The state's retirement benefits and health coverage administered by ERS are an investment in Texas funded by both members and taxpayers. These benefits play a critical role in ensuring Texas has the workforce necessary to fulfill the mission of state government and to provide critical services Texans rely on daily. 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.

State lawmakers have taken decisive action to address the unfunded liabilities in the ERS Retirement Plan, the Law Enforcement and Custodial Officer Supplemental Plan (LECOS) and the Judicial Retirement System Plan Two (JRS 2). The 87th Legislature put the ERS Retirement Plan on a path to actuarial soundness, establishing ongoing Legacy Payments to pay off the unfunded liability by August 31, 2054. Each Legacy Payment is an actuarially determined amount that is in addition to the percent-of-payroll contributions from the employees, state and employers beginning with Fiscal Year 2022. The 88th Legislature continued the ERS Legacy Payments at the \$510 million per year base level established by the 87th Legislature and provided an additional \$900 million one-time payment to further address the ERS Plan's existing liabilities and cement their commitment to the health of the state employee retirement plan.

In addition, the 88th Legislature addressed the challenges with the LECOS and JRS 2 Plans. The combination of state and employee contributions to LECOS and JRS 2 had not been enough to cover the basic cost of the benefits, referred to as normal cost. To resolve that funding deficiency, beginning in fiscal year 2023 the 88th Legislature increased the state contribution to LECOS from 0.5% of payroll to 1.75% of payroll and for JRS 2 from 15.663% to 19.25% of payroll, covering normal cost in each plan. In addition, in fiscal year 2024 the state appropriated one-time funding of \$772 million and \$99 million for LECOS and JRS 2, respectively, to pay off the unfunded actuarial liability in each of these plans. Upon receipt of these one-time funds in early September 2023, the LECOS and JRS 2 Plans will be 100% funded for the first time in many years.

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
Page 2

To further mitigate the risk of significant future liabilities, the 88th Legislature established a new cash balance benefit for judges taking office on or after September 1, 2024 similar to the cash balance benefit adopted for employees hired on or after September 1, 2022 for ERS and LECOS.

ERS pays approximately 60% of retirement annuities from returns on the ERS Retirement Trust Fund's (Trust's) investments. The Trust earned a net return of 6.8% for Fiscal Year 2023 based on time-weighted return measurements. This is below the assumed return rate of 7%, but above the policy benchmark (the standard against which ERS measures the Trust's performance) of 5.9%. Despite a challenging year, performance trends for the Trust relative to the benchmark have remained strong over the longer term. For the five-year and ten-year periods ending August 31, 2023, the Trust returned 7.7% and 8.0%, respectively, outperforming the policy benchmarks of 6.2% and 7.1%.

The state's health plans administered by ERS remain on solid financial footing. The 88th Legislature continued to provide up to 100% of the funding for full-time employees and retirees, and 50% for their families. ERS continues to aggressively manage the plans to achieve cost savings while ensuring the health insurance plan provides needed care for health plan participants. Further, ERS encourages members to improve health outcomes and has issued a request for proposal for a wellness initiative to further a goal of having the healthiest workforce in the United States.

Thank you for your ongoing support. We appreciate the giant steps taken to address the unfunded liabilities in the ERS, LECOS and JRS 2 plans, which ensures the stability for the state's retirement plans for many year to come. We are pleased to report on the financial condition of the plans and benefits administered by ERS.

Sincerely,



Porter Wilson
Executive Director

Letter of Transmittal



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February 20, 2024

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

Ladies and Gentlemen:

I am pleased to present the Employees Retirement System of Texas (System) Annual Comprehensive Financial Report (ACFR) for the year ended August 31, 2023 in compliance with Texas Government Code ANN Sec. 2101.011 and in accordance with requirements established by the Texas Comptroller of Public Accounts.

The System's Finance Department 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 on a basis for making management decisions, to determine compliance with legal provisions, and to determine responsible stewardship over the asset 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.

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, 2023.

The Employees 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 member 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.

PORTER WILSON
EXECUTIVE DIRECTOR

BRIAN BARTH
CHAIR

I. CRAIG HESTER
VICE-CHAIR

BOARD OF TRUSTEES
NEIKA CLARK
STUART GREENFIELD, PH.D.
JAMES (JIM) KEE, PH.D.
JOHN R. RUTHERFORD

The Judicial Retirement System (JRS) Plans 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. JRS I was established in 1940 as a pay-as-you-go pension plan. The JRS 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 System's investments are highly diversified and based on an asset allocation intended to withstand market fluctuations. It maintains a professional and diversified investment program optimizing the mix of internal management and external advisors. The investment portfolio closed the fiscal year with a fair value of \$35.6 billion and a net time weighted rate of return of 6.8% for the year. Despite a challenging year, the System outperformed the policy benchmark return of 5.9%. The gross time weighted rates of return for three and five years were 9.67% and 7.75%, respectively.

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 70.8% for funding purposes as of August 31, 2023. 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's 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 by introducing a level-dollar contribution structure, Legacy Payments. The Legacy Payment is calculated for each biennium to fully amortize the Unfunded Actuarially Accrued Liability by August 31, 2054. These payments are in addition to the member and state percentage of payroll contributions. The 88th Legislature continued the ERS Legacy Payments at the \$510 million per year base level established by the 87th Legislature and provided an additional \$900 million one-time payment to further address the ERS Plan's existing liabilities. As a result, the System has met the first two goals identified in the ERS Pension Funding Priorities and Guideline: (1) fund normal costs, and (2) avoid trust fund depletion. Since there is now a closed amortization structure, actuarial projections indicate the third goal to meet the current statutory standard of a 31-year funding period for unfunded liabilities will be met next year and the plan is on a path to meet the fourth goal to match the funding period to the average years of service at retirement.

The LECOS Retirement Plan actuarial value of asset to the actuarial accrued liability ratio was 100% for funding purposes as of August 31, 2023. The JRS II Retirement Plan actuarial valuation of assets to the actuarial accrued liability ratio was 101.2% for funding purposes as of August 31, 2023. The 88th Legislature increased state contributions for LECOS and JRS II to cover the normal cost of each plan beginning September 1, 2023 as well as providing one-time funding to payoff the unfunded accrued liability for each of the plans. The one-time funding, \$772 million for LECOS and \$99 million for JRS II, was received by the plans on September 8, 2023 and considered in the funding valuation for each of these plans. In addition, changes to the benefit structure were made for judges entering the JRS II plan on or after September 1, 2024 similar to the cash benefit for employees hired on or after September 1, 2022. After reflecting the 88th Legislature provisions, the System has met the four goals identified in the ERS Pension Funding Priorities and Guidelines for LECOS and JRS II: (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 the funding period to the average years of service at retirement once a 31-year funding period is achieved with a closed amortization period.

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 (GASB) to assess applicability. The System adopted GASB Statement No. 96 "Subscription-Based Information Technology Arrangements" (SBITAs) effective September 1, 2022 and relevant requirements in GASB Statement No. 99 "Omnibus 2022". Additional information on these standards is presented in the Financial Section.

MAJOR INITIATIVES

The System continued implementation of the cash balance benefit for individuals hired after August 31, 2022 who do not already have a retirement account with ERS (Group 4) in preparation for the first Gain Sharing Interest Rate (GSIR). Group 4 members are guaranteed 4% annual growth on their account balance. The gain-sharing adjustment to Group 4 members and annuitants is determined solely by the five-year matched performance for the period ending August 31. Per statute, the ERS Trust and Group 4 population split the returns in excess of 4%, with the gain sharing adjustment to the Group 4 population capped at 3%. The five-year matched performance number for the period ending August 31, 2023 is 7.53%, resulting in a GSIR of 1.77%, rounded to the nearest basis point, to be applied to Group 4 member accounts and annuity payments.

The System entered into a multi-year contract during fiscal year 2023 to replace aging pension and insurance benefit systems. The Retirement Insurance System Enhancement (RISE) is a multi-divisional team project working with the vendor to implement, test, train and communicate to both members and employers. The team and vendor are currently reviewing requirements to access fit and identify solutions to any gaps. Additionally, the System is replacing its financial system. System staff are working with the Comptroller of Public Accounts to move to the Centralized Accounting and Payroll/Personnel System (CAPPS) Financials with a targeted go-live date of September 1, 2025.

As mentioned, to mitigate the risk of future unfunded liabilities for the JRS II Retirement Plan, the 88th Legislature established a cash balance benefit for judges taking office on or after September 1, 2024. System staff have begun modifications to the existing pension system for this new benefit.

The System held contribution rates (premiums) for the group benefits health plan stable for the seventh consecutive year while maintaining competitive benefits. One element of the System's cost containment efforts is regular bidding of vendor contracts. The System awarded the contract for the pharmacy benefit management services to a new vendor with a go live date of January 1, 2024. Additionally, the System issued a request for proposal (RFP) for the medical services third-party administrator, conducted evaluations of the submissions, and received approval for contract award at the December board meeting. The System continues to strive for improved health outcomes of its participants and has issued a RFP for a wellness initiative toward that goal.

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, 2022. 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 comprehensive annual 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 34 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 2023 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, 2022

Christopher P. Morill

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2023***

Presented to

Employees Retirement System of Texas

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

Presented by the Public Pension Coordinating Council, a confederation of

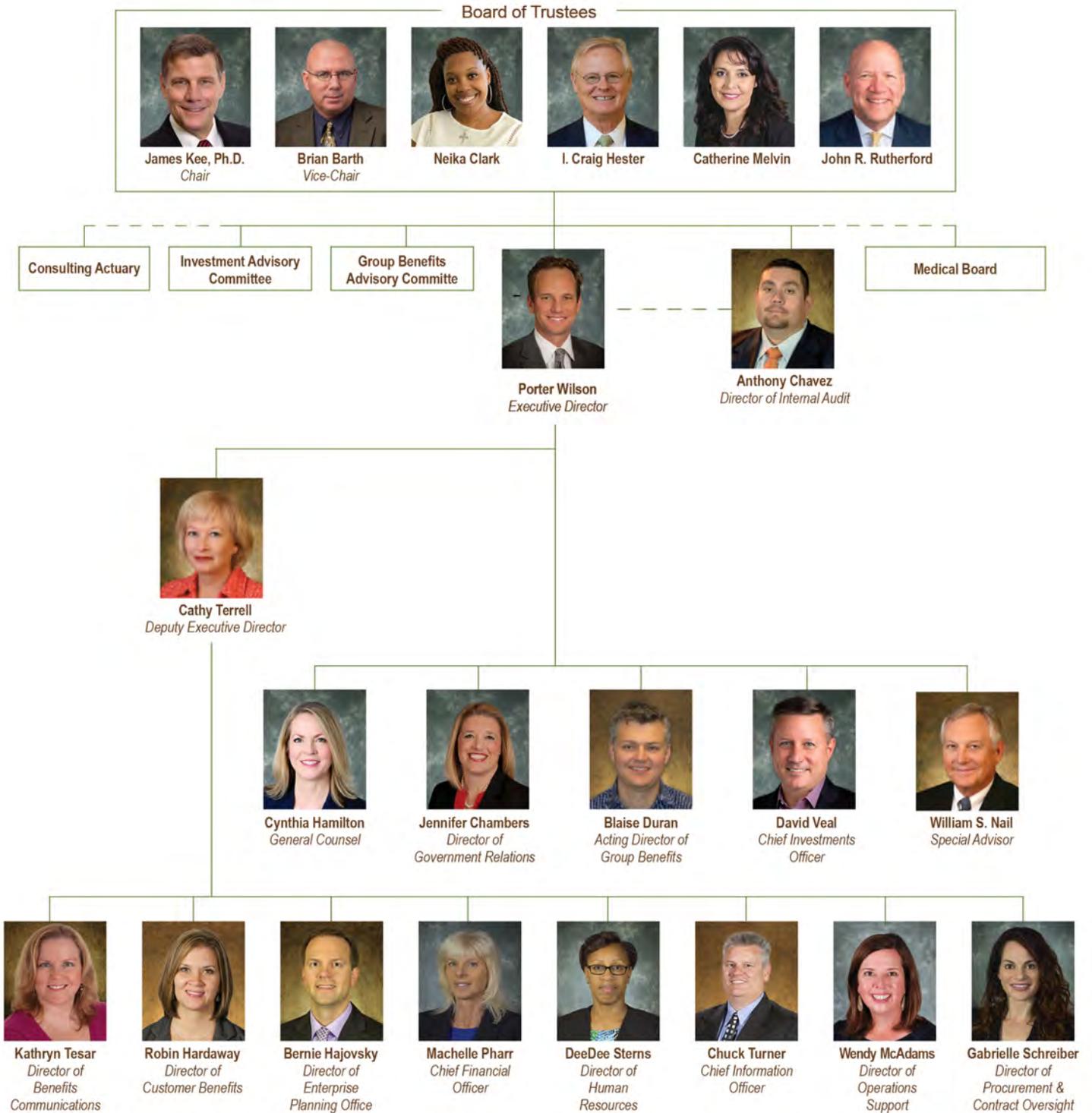
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive style with a large, prominent 'A' and 'W'.

Alan H. Winkle
Program Administrator

Organizational Chart and Data

As of August 31, 2023



Consultants and Advisors

As of August 31, 2023

Consulting Actuaries

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

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

Investment Advisory Committee

Gene L. Needles, Jr., Chair
Laurie L. Dotter, CPA, Vice-Chair
Robert G. Alley, CFA
Ryan Bailey, CFA, CAIA, FRM, CMT
Managing Partner – Carbonado Partners
Ruby Muñoz Dang
Partner, Director of Marketing and Client Services
Garcia Hamilton & Associates
James R. Hille, CFA, CAIA
Ken D. Mindell, CPA
Milton Hixson, CPA, CFP
CEO, FMP Wealth Advisors

Investment Consultants

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

External Investment Advisors

Domestic Equity

Brandywine Global Investment Management, LLC

International Equity

Acadian Asset Management
Altrinsic Global Advisors, LLC
Arrowstreet Capital, LP
Axiom International Investors, LLC
Brandywine Global Investment Management, LLC
Global Alpha Capital Management Limited
GQG Partners, LLC
JOHCM (USA), Inc.

Manager of Emerging Managers

Legato Capital Management, LLC

Audit Services

CliftonLarsonAllen L.L.P., Boston, Massachusetts

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
Dana Haulotte
Texas Legislative Council

Small State Agency Representative

Janice McCoy
Texas Optometry Board

Four-year Institution of Higher Education Representative

Janet Bezner
Texas State University

Two-year Institution of Higher Education representative

Kara Sharman
Kilgore 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.

Please refer to pages 107 to 109 in the Investment Section for a schedule of fees and commission.



Summary of Plan Provisions

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

The Employees Retirement System of Texas (ERS) 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.

The 87th Texas Legislature passed Senate Bill 321 to address the unfunded pension liabilities (or debt) in the Employees Retirement System of Texas Retirement Trust Fund and created a new cash balance retirement benefit called Group 4. The new retirement benefit is effective September 1, 2022 and applies to all state employees hired September 1, 2022 and later that do not have an established retirement account.

The 88th Texas Legislature passed Senate Bill 1245 to create a new cash balance benefit for JRS II. The new retirement benefit is effective September 1, 2024 and applies to all judges hired September 1, 2024 and later that do not have an established retirement account.

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.

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.

Summary of Plan Provisions (Continued)

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

Service Retirement Eligibility without Reduced Benefits:	
ERS (Continued)	<p>Hire date on or after 9-1-2013 and prior to 9-1-2022:</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. <p>Hire date on or after 9-1-2022:</p> <ul style="list-style-type: none"> • Age 65 with 5 years of service credit, or • Rule-of-80 with at least 10 years of service credit, or • Age 55 with at least 10 years or service as a certified peace officer or custodial officer. <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 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 and prior to 9-1-2022:</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer at or over age 57. <p>Hire date on or after 9-1-2022</p> <ul style="list-style-type: none"> • 20 years of service credit as a certified peace officer/custodial officer.
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 and prior to 9-1-2022:</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).

Summary of Plan Provisions (Continued)

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

Early Service Retirement Eligibility with Reduced Benefits (Continued):	
LECOS	<p>Hire date prior to 9-01-2009:</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 and prior to 9-1-2022:</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).
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. Reduction percentages for early retirement from 50%: <ul style="list-style-type: none"> 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:</p> <p>Hire date prior to 9-1-2022:</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>Hire date effective on or after 9-1-2022:</p> <ul style="list-style-type: none"> Standard monthly annuity is equal to member account balance plus 150% state match multiplied by an annuity conversion factor. <p>Elected Class:</p> <p>Hire date 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>Hire date effective on or after 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.

Summary of Plan Provisions (Continued)

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

Standard Service Retirement without Reduced Benefits (Continued):	
ERS (Continued)	<p>Elected Class (continued):</p> <p>Hire date effective on or after 9-1-2022:</p> <ul style="list-style-type: none"> • Non-legislative standard monthly annuity is equal to member account balance plus 150% state match multiplied by an annuity conversion factor. • Legislative standard monthly annuity is equal to member notional account balance plus 150% state match multiplied by an annuity conversion factor. <p>District Attorneys Only:</p> <p>Hire date prior to 9-1-2022:</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. <p>Hire date effective on or after 9-1-2022:</p> <ul style="list-style-type: none"> • Standard monthly annuity is equal to member account balance plus 150% state match multiplied by an annuity conversion factor.
LECOS	<p>Hire date prior to 9-1-2022:</p> <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. <p>Hire date on or after 9-1-2022:</p> <ul style="list-style-type: none"> • Standard monthly annuity is equal to member account balance plus 300% state match multiplied by an annuity conversion factor.
JRS II	<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%.

Summary of Plan Provisions (Continued)

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

Optional Annuity Plans:	
ERS	<p>Employee Class and Elected Class:</p> <p>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 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; • Option 6: For retirements that occur after 9/1/24, lifetime with guaranteed annual increasing annuity at a certain percentage; 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 five 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 9-1-2009:</p> <ul style="list-style-type: none"> • Five or more years of service credit. <p>Hire date on or after 9-1-2009 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 9-1-2013 and prior to 9-1-2022:</p> <ul style="list-style-type: none"> • 10 or more years of service credit. <p>Hire date on or after 9-1-2022</p> <ul style="list-style-type: none"> • 5 (Five) 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. <p>Hire date prior to 9-1-2022:</p> <ul style="list-style-type: none"> • 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. <p>Hire date effective on or after 9-1-2022:</p> <ul style="list-style-type: none"> • Upon or after leaving State employment, a member may apply for a refund of contributions, accrued interest and applicable gain share. A refund cancels membership, terminates the member's rights to benefits, and forfeits their retirement group should they return to state employment.

Summary of Plan Provisions (Continued)

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

LECOS	<ul style="list-style-type: none"> • Same as ERS.
JRS II	<ul style="list-style-type: none"> • Same as ERS.
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"> • The optional annuity plans available are the same as those under a service retirement except there is no partial lump-sum option. <p>Hire date prior to 9-1-2022:</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. <p>Hire date effective on or after 9-1-2022:</p> <ul style="list-style-type: none"> • For occupational disability, the payee may choose the standard retirement annuity for those hired prior to 9-1-2022 or the standard annuity option for those hired on or after 9-1-2022. • For non-occupational, the benefit is calculated the same as a standard service retirement.

Summary of Plan Provisions (Continued)

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

Disability Retirement Benefits (Continued):	
ERS	<p>Elected Class Only:</p> <ul style="list-style-type: none"> The optional annuity plans available are the same as those under a service retirement except there is no partial lump-sum option. <p>Hire date prior to 9-1-2022:</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. <p>Hire date effective on or after 9-1-2022:</p> <ul style="list-style-type: none"> For occupational disability, the payee may choose either the standard retirement annuity for those hired prior to 9-1-2022 or the standard annuity option for those hired on or after 9-1-2022. For non-occupational, the benefit is calculated the same as a standard service retirement. The optional annuity plans available are the same as those under a service retirement except there is no partial lump-sum option.
LECOS	<p>Hire date prior to 9-1-2022:</p> <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. <p>Hire date effective on or after 9-1-2022:</p> <ul style="list-style-type: none"> For occupational disability, the payee gets to choose the standard retirement annuity for those hired prior to 9-1-2022 or the standard annuity option for those hired on or after 9-1-2022. For non-occupational, the benefit is calculated the same as a standard service retirement.
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.

Summary of Plan Provisions (Continued)

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

ERS	<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. 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.
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Summary of Plan Provisions (Continued)

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

Death Benefits (Continued):	
ERS (Continued)	<ul style="list-style-type: none"> 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 Auditors' 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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Employees Retirement System of Texas (ERS), a blended component unit of the State of Texas, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the ERS' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ERS as of August 31, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the ERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ERS' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ERS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ERS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion & analysis, budgetary comparison schedules, 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, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary 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 and other supplementary schedules, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory, investment, actuarial, and statistical sections, as listed in the table of contents, but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Board of Trustees
Employees Retirement System of Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2024, on our consideration of the 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

Boston, Massachusetts
February 16, 2024



Management's Discussion and Analysis

Year Ended August 31, 2023

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, 2023. 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 include the Governmental Funds financial 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 six 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 governmental funds in Exhibits III and IV had slight changes from the prior year. Reduced benefits payments led to a decrease in both appropriated revenue and expenditures. The changes in the program are summarized in thousands as follows:

	2023	2022	Changes
	\$	\$	%
Legislative Appropriations	52,012.86	56,436.34	(7.84)
Benefit Payments	51,968.51	56,438.63	(7.92)

The Employees Life, Accident and Health Insurance and Benefits Fund is an internal service fund which holds the majority of balances within governmental activities. Additional details about this fund can be found in Exhibit V and VI. The increase in Net Position is attributed to increased investment returns. The changes in the program are summarized in millions as follows:

	2023	2022	Changes
	\$	\$	%
Net Position	3,431.57	3,129.54	9.65
Current Liabilities	726.47	715.05	1.60
Member and Employer Contributions	2,715.88	2,774.94	(2.13)
Benefit Payments	2,491.38	2,461.45	1.22

Financial Highlights – Fiduciary Funds

Net position of the Fiduciary Funds administered by the System totaled \$35.89 billion as of August 31, 2023, compared with \$33.80 billion as of August 31, 2022. The investment portfolio returned 6.75% for the year using gross time weighted rate of return. The majority of the increase resulted primarily from investment performance and the one-time funding from the legislature. The time weighted rate of return for three and five years were 9.67% and 7.75%, respectively.

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2023

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

Fund Name	Rate (%)
	%
Employees Retirement System Fund	6.53
Law Enforcement and Custodial Officer Supplemental Retirement Fund	6.41
Judicial Retirement System of Texas Plan Two Fund	6.46
Overall	6.53

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. See the *Investment Section* for additional information.

Actual Asset Allocation

Asset Class	%
Alternative Investments	35.27
Special Situations	0.30
Global Credit Fixed Income Securities	10.51
Public Equities	32.66
Other Investments	3.59
Hedge Funds	5.89
Rates Fixed Income Securities	11.78

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

	2023	2022	Changes
	\$	\$	%
Contributions:			
Retirement & Other	3,134.13	2,161.98	44.97
Insurance	966.80	849.87	13.76
Total (Exh. IX)	4,100.93	3,011.85	36.16
Benefit Payments:			
Retirement & Other	3,171.37	3,106.17	2.10
Insurance	957.94	816.91	17.26
Total (Exh. IX)	4,129.32	3,923.08	5.26

Retirement contributions increased due to one-time additional funding to reduce the unfunded liability from the legislature. Benefit payments increased due to growth in the number of retirees and beneficiaries.

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:

	2023	2022	Changes
	\$	\$	%
Changes in Fiduciary Net Position (Exh. IX)	2,088.63	(1,678.87)	236.14
Total Net Position	35,887.41	33,798.79	6.18

The increase in changes in Fiduciary Net Position is due primarily to investment performance. The gross time weighted rate of return was 6.75%, which was higher than the previous year return of (1.55)%.

Additions

Retirement benefits are financed through the collection of member and State retirement contributions, investment income, legislative appropriations, and contributions transferred from the Teachers 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:

	2023	2022	Changes
	\$	\$	%
Member Contributions	834.35	797.51	4.62
Employer Contributions	1,651.63	1,478.45	11.71
Legacy Payments & One-time Contributions	1,393.97	517.39	169.42
Non-Employer Contributing Entity Contributions	42.25	36.75	14.97
Other Contributions	246.90	241.04	2.43
Net Investment Income (Loss)	2,169.92	(736.58)	394.59
Other Additions	2.62	1.87	40.11
Total Additions (Exh. IX)	6,341.64	2,336.43	171.42

Contributions increased due to receipt of one-time additional funding from the legislature to reduce the actuarial unfunded liability. The increase in the net investment income is due primarily to market fluctuations.

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2023

For the Employees Retirement Fund, member and State retirement contribution rates for Fiscal Year 2023 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. For the Employees Retirement Fund, employees hired on or after September 1, 2022, members contribute 6% and the state contribution remains at 10%. For LECOS, employees hired on or after September 1, 2022, members contribute 2% to the supplemental fund and the state contribution remains unchanged.

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:

	2023	2022	Changes
	\$	\$	%
Retirement Benefits and Refunds	4,196.78	3,971.82	5.66
Administrative Expenses	54.81	42.39	29.30
Other Deductions	1.42	1.09	30.28
Total Deductions (Exh. IX)	4,253.01	4,015.30	5.92

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:

	2023	2022	Changes
	\$	\$	%
Cash and Cash Equivalents	140.57	102.96	36.53
Securities Lending Collateral	405.75	232.56	74.47
Legislative Appropriation	—	—	
Investments	35,271.40	33,167.00	6.34
Receivables	561.71	657.45	(14.56)
Due From Other Funds/Agencies	90.79	55.40	63.88
Prepaid Claims Expense	0.09	—	5632.10
Capital Assets	82.88	72.33	14.59
Total Assets (Exh. VIII)	36,553.19	34,287.70	6.61

Liabilities

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

	2023	2022	Changes
	\$	\$	%
Accounts Payable	207.83	224.15	(7.28)
Due To Other Funds/Agencies	32.65	25.67	27.19
Compensable Leave	5.31	4.66	13.95
Securities Lending Obligations	404.71	232.38	74.16
Other Liabilities	15.28	2.06	641.75
Total Liabilities (Exh. VIII)	665.78	488.92	36.17

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2023

Funding Status and Progress

For funding purposes, the latest annual actuarial valuation of the System's pension and OPEB plans, as of August 31, 2023, (compared to the August 31, 2022 actuarial valuation) is summarized as follows:

Employees Retirement System Fund

	August 31, 2023	August 31, 2022
Unfunded Actuarial Accrued Liability	\$14,015,751,489	\$14,246,571,466
Recommended Legacy Contribution	\$510,000,000	\$510,000,000
Funded Ratio	70.8%	68.9%
Contribution rate as a percentage of payroll	19.1%	19.5%
Normal cost as a percentage of payroll	13.5%	14.1%

The 87th Texas Legislature passed Senate Bill 321, providing a legacy payment annually to the Employees Retirement System to pay off the current unfunded liability no later than 2054. The legacy payment began September 1, 2021 for Fiscal Year 2022. Additionally, Senate Bill 321 established a cash balance benefit in the defined benefit plan for state employees hired on or after September 1, 2022. The 88th Texas Legislature passed SB 30 providing additional one-time funding of \$900 million toward the accrued actuarial liability.

As a result of the state's commitment to make constant adequate contributions and investment performance for Fiscal Year 2023, the latest annual actuarial valuation projects the Employees Retirement System fund to be actuarially sound in 31 years.

Law Enforcement and Custodial Officer Supplemental Retirement Fund

	August 31, 2023	August 31, 2022
Unfunded Actuarial Accrued Liability	(\$111,127)	\$715,293,382
Funded Ratio	100.0%	58.6%
Contribution rate as a percentage of payroll	2.4%	1.0%
Normal cost as a percentage of payroll	2.1%	1.9%

In addition to the payroll contribution, the State contributes court fees to the LECOS fund. The total of the contribution rate and court fees estimated at \$15.8 million is sufficient to cover the normal cost of the plan. The 88th Texas Legislature appropriated a \$772 million lump sum to pay off the unfunded liability and increased the state contribution to 1.75% to cover the ongoing cost of the benefits for Fiscal Year 2024.

Judicial Retirement System of Texas Plan Two Fund

	August 31, 2023	August 31, 2022
Unfunded Actuarial Accrued Liability	(\$7,767,971)	\$88,936,109
Funded Ratio	101.2%	86.2%
Contribution rate as a percentage of payroll	28.6%	25.0%
Normal cost as a percentage of payroll	28.2%	26.8%

The 88th Texas Legislature appropriated a \$99 million lump sum to pay off the unfunded liability and increased the state contribution to 19.25% to cover the ongoing cost of the benefits for Fiscal Year 2024.

Management’s Discussion and Analysis (Concluded)

Year Ended August 31, 2023

The total of the contributions rates is sufficient to cover normal cost. Additionally, Senate Bill 1241 (88th Texas Legislature) established a cash balance benefit in the defined benefit plan for judges taking office on or after September 1, 2024.

State Retiree Health Plan

	August 31, 2023	August 31, 2022
Unfunded Actuarial Accrued Liability	\$26,717,529,567	\$28,486,965,705
Funded Ratio	0.6%	0.6%
Contribution rate as a percentage of Actuarially Determined Contribution	42.0%	35.0%
Normal cost as a percentage of payroll	7.1%	8.2%
Actuarially Determined Contribution as a percentage of payroll	14.6%	16.6%

The State Retiree Health Plan is currently funded on a pay-as-you-go basis. The decrease in the unfunded actuarially accrued liability is primarily due to the increase in the discount rate.

The net plan position as of August 31, 2023 is \$169.98 million and the net changes in Fiscal Year 2023 are summarized as follows:

Additions:	\$
Employer Contributions	801,018,586
Non-Employer Contributing Entity Contributions	42,250,455
Federal revenues	123,528,284
Investment Income	6,463,962
Other Revenues	—
Total Additions	973,261,287
Deductions:	
Health Care Claims	1,139,894,483
Less Payments from Members	(181,951,869)
Total Benefit Payments	957,942,614
Administrative Expenses	7,913,197
Total Deductions	965,855,811
Net changes	7,405,476

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 Machelle.Pharr@ers.texas.gov.

Exhibit I

Statement of Net Position

As of August 31, 2023

	Governmental Activities
Assets	\$
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	177,242,182
Total Cash and Cash Equivalents	177,242,182
Securities Lending Collateral	41,783,786
Short-Term Investments	1,548,211,637
Legislative Appropriations	158,866
Receivables	381,295,333
Due from Fiduciary Funds	18,103,868
Total Current Assets	2,166,795,672
Non-Current Assets:	
Public Equities	5,520,631
Fixed Income	1,985,965,532
Other Investments	99,900
Total Non-Current Assets	1,991,586,063
Total Assets	4,158,381,735
Liabilities	
Current Liabilities:	
Payables	647,023,997
Due to Fiduciary Funds	37,859,253
Obligations Under Securities Lending	41,689,670
Funds Held for Others	195,055
Total Current Liabilities	726,767,975
Total Liabilities	726,767,975
Net Position	
Restricted for:	
Employees Life, Accident and Health Insurance and Benefits	3,431,565,459
Social Security Administration	3,211
Death Benefits - Retiree Lump Sum	45,090
Total Net Position (Exh. II & III)	\$ 3,431,613,760

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

Exhibit II

Statement of Activities

Year Ended August 31, 2023

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
	\$	\$	\$	\$
Governmental Activities				
Judicial Retirement System Plan One	16,876,287	16,876,287	—	—
Social Security Administration	73,657	72,918	—	(739)
Death Benefits-Peace Officers, Firemen, etc.	20,223,672	20,223,672	—	—
Compensation to Victims of Crime	1,560,322	1,560,322	—	—
Death Benefits-Retiree \$5,000 Lump Sum	13,234,567	13,279,657	—	45,090
Employees Life, Accident And Health Insurance and Benefits	2,507,396,747	2,716,965,197	92,453,984	302,022,434
Total Governmental Activities	\$ 2,559,365,252	\$ 2,768,978,053	\$ 92,453,984	\$ 302,066,785
			General Revenues:	—
			Total General Revenues	—
			Change in Net Position (Exh. IV)	302,066,785
			Net Position - Beginning	3,129,546,975
			Net Position - Ending (Exh. I)	\$ 3,431,613,760

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, 2023

	General Funds Totals (Note 1.E)	Social Security Administration (Fund 0929)	Death Benefits - Peace Officers, Firemen, etc (Fund 1054)	Compensation to Victims of Crime (Fund 3003)	Death Benefits - Retiree \$5,000 Lump Sum (Fund 3008)	Total Governmental Funds
	\$	\$	\$	\$	\$	\$
Assets						
Current Assets:						
Cash and Cash Equivalents:						
Cash in State Treasury	1,387	119,494	—	—	—	120,881
Total Cash and Cash Equivalents	1,387	119,494	—	—	—	120,881
Legislative Appropriations	155,783	—	—	—	3,083	158,866
Accounts Receivable	—	14,385	—	—	—	14,385
Due From Other Funds (Note 5.A)	—	8,789	—	—	45,090	53,879
Total Current Assets	157,170	142,668	—	—	48,173	348,011
Total Assets	157,170	142,668	—	—	48,173	348,011

Liabilities & Fund Balances

Current Liabilities:						
Payables:						
Voucher/Accounts Payable	157,170	—	—	—	3,083	160,253
Due To Other Funds (Note 5.A)	—	139,457	—	—	—	139,457
Unearned Revenues	—	—	—	—	—	—
Total Current Liabilities	157,170	139,457	—	—	3,083	299,710
Total Liabilities	157,170	139,457	—	—	3,083	299,710

Fund Balances:

Committed	—	—	—	—	—	—
Restricted	—	3,211	—	—	45,090	48,301
Total Fund Balances (Exh. IV)	—	3,211	—	—	45,090	48,301
Total Liabilities & Fund Balances	\$ 157,170	\$ 142,668	\$ —	\$ —	\$ 48,173	\$ 348,011

Total Fund Balances - Governmental Funds (above): \$ 48,301

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.

3,431,565,459

Net Position of Governmental Activities (Exh. I) \$3,431,613,760

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, 2023

	General Funds Totals (Note 1.E)	Social Security Administration (Fund 0929)	Death Benefits - Peace Officers, Firemen, etc (Fund 1054)	Compensation to Victims of Crime (Fund 3003)	Death Benefits - Retiree \$5,000 Lump Sum (Fund 3008)	Total Governmental Funds
Revenues	\$	\$	\$	\$	\$	\$
Legislative Appropriations out of the State's General Revenue Fund:						
Appropriation Revenue:						
For Judicial Retirement System Plan One	16,876,287	—	—	—	—	16,876,287
For Death Benefits Peace Officers, etc.	—	—	20,223,672	—	—	20,223,672
For Victims of Crime	—	—	—	1,560,322	—	1,560,322
For Death Benefits-Retirees	—	—	—	—	13,279,657	13,279,657
Total Appropriation Revenue	16,876,287	—	20,223,672	1,560,322	13,279,657	51,939,938
Administration Fees for Social Security Administration	—	72,918	—	—	—	72,918
Total Revenues	16,876,287	72,918	20,223,672	1,560,322	13,279,657	52,012,856
Expenditures						
Current:						
Death Benefits	—	—	20,223,672	1,560,322	13,234,567	35,018,561
Retirement Benefits	16,876,287	—	—	—	—	16,876,287
Administrative Expenditures:						
Salaries & Wages	—	37,870	—	—	—	37,870
Payroll Related Costs	—	11,752	—	—	—	11,752
Professional Fees & Services	—	14,277	—	—	—	14,277
Travel	—	157	—	—	—	157
Materials & Supplies	—	2,439	—	—	—	2,439
Communications & Utilities	—	1,833	—	—	—	1,833
Repairs & Maintenance	—	1,807	—	—	—	1,807
Rentals & Leases	—	1,228	—	—	—	1,228
Printing & Reproduction	—	164	—	—	—	164
Other Expenditures	—	2,130	—	—	—	2,130
Total Administrative Expenditures	—	73,657	—	—	—	73,657
Total Expenditures	16,876,287	73,657	20,223,672	1,560,322	13,234,567	51,968,505
Net Change in Fund Balance	—	(739)	—	—	45,090	44,351
Fund Balances - Beginning	—	3,950	—	—	—	3,950
Fund Balances - Ending (Exh. III)	\$ —	\$ 3,211	\$ —	\$ —	\$ 45,090	\$ 48,301
Net Change in Fund Balances - Governmental Funds:					\$	44,351
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.						302,022,434
Change in Net Position of Governmental Activities (Exh. II)						\$ 302,066,785

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, 2023

	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 in State Treasury	177,121,301
Total Cash and Cash Equivalents	177,121,301
Securities Lending Collateral	41,783,786
Short-Term Investments	1,548,211,637
Receivables:	
Interest Receivable	21,838,605
Accounts Receivable	356,837,276
Unsettled Sales-Investment Receivables	2,605,067
Total Receivables	381,280,948
Due From Other Funds (Note 5.A)	18,049,989
Total Current Assets	2,166,447,661
Non-Current Assets:	
Investments: (Note 2.A)	
Public Equities	5,520,631
Fixed Income	1,985,965,532
Other Investments	99,900
Total Non-Current Assets	1,991,586,063
Total Assets	4,158,033,724
Liabilities	
Current Liabilities:	
Payables:	
Claims Payable:	
Incurred, Self-Funded	56,854,930
Incurred But Not Reported, Self-Funded	565,743,592
Total Claims Payable	622,598,522
Premiums Payable	947,255
Administrative and Other Fees Payable	7,173,466
Accounts Payable	16,027,067
Other Payable	117,434
Total Payables	646,863,744
Due To Other Funds (Note 5.A):	
Other Interfunds Payable	37,719,796
Total Due To Other Funds	37,719,796
Obligations Under Securities Lending	41,689,670
Funds Held for Others	195,055
Total Current Liabilities	726,468,265
Total Liabilities	726,468,265
Net Position	
Restricted For:	
Employee Life, Accident and Health Insurance and Benefits	3,431,565,459
Total Net Position (Exh. VI)	\$ 3,431,565,459

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, 2023

	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	2,130,270,313
From Members:	
For Employees	578,448,586
For COBRA	7,163,052
Total Contributions from Members	585,611,638
Total Contributions to Insurance Program	2,715,881,951
Other Operating Revenues:	
COBRA 2% Administration Fee	143,261
Warrants Voided by Statute of Limitations	17,454
Penalty Assessed to Insurance Carrier	922,531
Total Other Operating Revenues	1,083,246
Total Operating Revenues	2,716,965,197
Operating Expenses	
Employee Benefit Payments:	
For Employees ¹	2,462,357,311
For COBRA	26,775,745
For Health Savings Accounts	2,120,005
For SmartShoppERS Reward	124,699
Total Employee Benefit Payments	2,491,377,760
Administrative Expenses:	
Salaries & Wages	6,149,647
Payroll Related Costs	1,867,686
Professional Fees & Services	2,388,719
Travel	47,716
Materials & Supplies	458,949
Communications & Utilities	849,206
Repairs & Maintenance	405,203
Rentals & Leases	150,297
Printing & Reproduction	24,812
Other Operating Expenses	3,676,752
Total Administrative Expenses	16,018,987
Total Operating Expenses	2,507,396,747
Operating Income	209,568,450
Non-Operating Revenues (Expenses)	
Net Decrease in Fair Value of Investments	(35,577,607)
Interest Income	127,666,522
Class Action Settlements	51,507
Securities Lending Activities:	
Loan Premium on Securities Lending	540,756
Broker Rebates	(190,632)
Agent Fees	(31,154)
Net Securities Lending Activity	318,970
Commission on Futures Contracts	(2,515)
Other Non-Operating Expenses	(2,893)
Total Non-Operating Revenues (Expenses)	92,453,984
Change in Net Position	302,022,434
Net Position - Beginning	3,129,543,025
Net Position - Ending (Exh. V)	\$ 3,431,565,459

¹ The benefit payments are reported net of \$372,433,019 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, 2023

	<u>Internal Service Fund</u>
	<u>Employees Life, Accident and Health Insurance and</u>
	<u>Benefits Fund (0973), (U/F 0973 and 4973)</u>
Cash Flows from Operating Activities:	\$
Cash Received from Members	587,274,063
Cash Received from Employers and Non-employer Contributing Entities	2,108,073,641
Cash Received from Pharmacy Rebates	307,213,689
Cash Payments to Insurance Carriers and Third Party Administrators	(2,884,567,866)
Cash Payments for Goods and Services	(5,982,688)
Net Cash Provided by Operating Activities	112,010,839
Cash Flows from Investing Activities:	
Net Purchases of Short-Term Investment Fund	(24,694,589)
Interest on Deposit in State Treasury	6,450,925
Net Cash Used by Investing Activities	(18,243,664)
Net Increase in Cash and Cash Equivalents	93,767,175
Cash and Cash Equivalents:	
Beginning of Year	83,354,126
End of Year	177,121,301
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	209,568,451
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(96,983,242)
Increase in Due From Other Funds	(2,604,505)
Decrease in Accounts Payable	(8,175,900)
Increase in Due To Other Funds	10,206,035
Total Adjustments	(97,557,612)
Net Cash Provided by Operating Activities	\$ 112,010,839
Non-Cash Investing Activities:	
Net Depreciation in Fair Value of Non-Cash Equivalent Investments	\$ (35,577,607)

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, 2023

	Employees Retirement Fund (0935) and (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 in Bank	678,575	—	—	—
Cash in State Treasury	70,342,542	2,789,269	1,650,986	—
Total Cash and Cash Equivalents	71,021,117	2,789,269	1,650,986	—
Securities Lending Collateral	387,100,654	11,926,757	6,725,873	—
Short-Term Investments	828,773,823	25,336,122	14,510,322	—
Total Cash and Short-Term Investments	1,286,895,594	40,052,148	22,887,181	—
Legislative Appropriations	—	—	—	—
Investments: (Note 1.G)				
Public Equities	11,006,226,139	339,111,562	191,160,292	—
Fixed Income	5,865,430,968	180,723,003	99,622,654	—
Alternative Investments	15,674,450,228	482,918,036	272,347,262	—
Other Investments	211,013,568	6,501,197	3,666,230	—
Total Investments	32,757,120,903	1,009,253,798	566,796,438	—
Receivables:				
Federal Receivable	—	—	—	—
Interest and Dividends Receivable	104,596,970	3,240,231	1,734,274	—
Contributions/Accounts Receivable	140,891,422	5,078,789	1,970,409	—
Unsettled Sales-Investment Receivables	67,227,226	2,079,456	1,132,501	—
Total Receivables	312,715,618	10,398,476	4,837,184	—
Due From Other Funds (Note 5.A)	49,331,376	232,257	50,365	—
Due From Other Agencies (Note 1.G)	41,109,093	—	—	—
Prepaid Claims Expense	89,822	—	—	—
Capital Assets:				
Non-Depreciable:				
Land	874,889	—	—	—
Depreciable, Net of Accumulated Depreciation/Amortization of \$7,474,399				
Right-to-use lease and SBITA assets	14,110,376	—	—	—
Depreciable, Net of Accumulated Depreciation/Amortization of \$28,614,497				
Building	66,569,832	—	—	—
Furniture and Equipment	356,516	—	—	—
Vehicles	6,918	—	—	—
Computer Software	961,022	—	—	—
Total Capital Assets	82,879,553	—	—	—
Total Assets	34,530,141,959	1,059,936,679	594,571,168	—
Liabilities				
Payables:				
Voucher/Accounts Payable	24,306,213	672,731	489,761	—
Unsettled Purchases-Investment Payables	40,463,256	1,246,645	703,059	—
Total Payables	64,769,469	1,919,376	1,192,820	—
Due To Other Funds (Note 5.A)	6,531,327	5,167,422	1,057,615	—
Due To Other Agencies (Note 1.G)	2,729,453	—	—	—
Unearned Revenue	110,354	252,074	61,379	—
Employees Compensable Leave	5,311,067	—	—	—
Obligations Under Securities Lending	386,102,119	11,895,536	6,708,613	—
Funds Held for Others	—	—	—	—
Lease and SBITA Liabilities (Note 2.D)	14,631,934	—	—	—
Interest Payable - Lease and SBITA Liabilities	225,852	—	—	—
Total Liabilities	480,411,575	19,234,408	9,020,427	—
Fiduciary Net Position Restricted for Pension and Other Postemployment Benefits	\$ 34,049,730,384	\$ 1,040,702,271	\$ 585,550,741	\$ —

USAS Funds (U/F) are:

Fund 0955: 0955, 0935, 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;
Fund 0001: 1001; Fund 0001: 2001; Fund 8070: 8070; Fund 0980: 0980; Fund 0973: 4973.

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
\$ —	\$ 678,575	\$ 76,831	\$ 2,713	\$ —	\$ —	\$ 758,119
54,438,788	129,221,585	3,762,015	3,963,707	—	2,866,422	139,813,729
54,438,788	129,900,160	3,838,846	3,966,420	—	2,866,422	140,571,848
—	405,753,284	—	—	—	—	405,753,284
41,711,764	910,332,031	—	—	—	27,895,680	938,227,711
96,150,552	1,445,985,475	3,838,846	3,966,420	—	30,762,102	1,484,552,843
—	—	—	—	—	—	—
—	11,536,497,993	—	—	—	—	11,536,497,993
—	6,145,776,625	—	—	—	—	6,145,776,625
—	16,429,715,526	—	—	—	—	16,429,715,526
—	221,180,995	—	—	—	—	221,180,995
—	34,333,171,139	—	—	—	—	34,333,171,139
203,897,370	203,897,370	—	—	—	—	203,897,370
615,853	110,187,328	14,405	15,324	—	139,211	110,356,268
24,465,239	172,405,859	44,828	30,986	—	4,539,853	177,021,526
—	70,439,183	—	—	—	—	70,439,183
228,978,462	556,929,740	59,233	46,310	—	4,679,064	561,714,347
—	49,613,998	25,827	16,109	—	22,202	49,678,136
—	41,109,093	—	—	—	—	41,109,093
—	89,822	—	—	—	—	89,822
—	874,889	—	—	—	—	874,889
—	14,110,376	—	—	—	—	14,110,376
—	66,569,832	—	—	—	—	66,569,832
—	356,516	—	—	—	—	356,516
—	6,918	—	—	—	—	6,918
—	961,022	—	—	—	—	961,022
—	82,879,553	—	—	—	—	82,879,553
325,129,014	36,509,778,820	3,923,906	4,028,839	—	35,463,368	36,553,194,933
139,640,126	165,108,831	239,269	18,050	—	52,219	165,418,369
—	42,412,960	—	—	—	—	42,412,960
139,640,126	207,521,791	239,269	18,050	—	52,219	207,831,329
15,508,883	28,265,247	974,004	221,666	—	461,832	29,922,749
—	2,729,453	—	—	—	—	2,729,453
—	423,807	—	—	—	—	423,807
—	5,311,067	—	—	—	—	5,311,067
—	404,706,268	—	—	—	—	404,706,268
—	—	—	—	—	—	—
—	14,631,934	—	—	—	—	14,631,934
—	225,852	—	—	—	—	225,852
155,149,009	663,815,419	1,213,273	239,716	—	514,051	665,782,459
\$ 169,980,005	\$ 35,845,963,401	\$ 2,710,633	\$ 3,789,123	\$ —	\$ 34,949,317	\$ 35,887,412,474

Exhibit IX

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

Year Ended August 31, 2023

	Employees Retirement Fund (0955) and (0935)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Additions	\$	\$	\$	\$
Contributions:				
Members	758,060,144	10,902,451	8,830,106	\$ —
Employers	811,125,316	24,800,350	14,685,583	—
Legacy Payment and One-Time Additional Funding	1,393,971,224	—	—	—
Non-Employer Contributing Entity Contributions	—	—	—	—
Service Contributions Transferred from				
Teacher Retirement System	111,757,708	—	—	—
Federal Revenues	—	—	—	—
Others - Forfeitures	—	—	—	—
Total Contributions	3,074,914,392	35,702,801	23,515,689	—
Investment Income:				
From Investing Activities:				
Net Appreciation in Fair Value of Investments	1,323,090,963	41,340,201	22,953,305	—
Interest and Dividends	771,755,948	24,623,598	13,643,331	—
Class Action Settlements	437,374	13,909	7,730	—
Total Investing Activity Income	2,095,284,285	65,977,708	36,604,366	—
Less: Investment Expense	(36,509,954)	(1,356,890)	(604,060)	—
Net Income, Investing Activities	2,058,774,331	64,620,818	36,000,306	—
From Securities Lending Activities:				
Loan Premium on Securities Lending	4,614,549	145,999	81,427	—
Broker Rebates	(1,740,083)	(54,752)	(30,573)	—
Agent Fees	(258,983)	(8,250)	(4,591)	—
Net Income, Securities Lending Activities	2,615,483	82,997	46,263	—
Net Investment Income	2,061,389,814	64,703,815	36,046,569	—
Other Additions:				
Other Revenue:				
Warrants Voided by Statute of Limitations	399,580	11,992	4,138	—
Reimbursements - Third Party	2,550	—	—	—
Disposal of Surplus Equipment	1,520	—	—	—
Rental Income	152,554	—	—	—
Miscellaneous Revenue	533,813	—	—	—
Administration Fees	—	—	—	—
Total Other Revenue	1,090,017	11,992	4,138	—
Transfer In:				
Interfund Transfers In (Note 1.G):	—	—	—	821,596
Interagency Transfers In (Note 5.C):	—	—	—	246,871
Total Transfers In	—	—	—	1,068,467
Total Other Additions	1,090,017	11,992	4,138	1,068,467
Total Additions	\$ 5,137,394,223	\$ 100,418,608	\$ 59,566,396	\$ 1,068,467

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
\$	\$	\$	\$	\$	\$	\$
—	777,792,701	—	—	—	56,556,130	834,348,831
801,018,586	1,651,629,835	—	—	—	—	1,651,629,835
—	1,393,971,224	—	—	—	—	1,393,971,224
42,250,455	42,250,455	—	—	—	—	42,250,455
—	111,757,708	—	—	—	—	111,757,708
123,528,284	123,528,284	—	—	—	—	123,528,284
—	—	—	—	—	11,617,138	11,617,138
966,797,325	4,100,930,207	—	—	—	68,173,268	4,169,103,475
—	1,387,384,469	—	—	—	—	1,387,384,469
6,463,962	816,486,839	137,953	148,138	—	1,133,775	817,906,705
—	459,013	—	—	—	—	459,013
6,463,962	2,204,330,321	137,953	148,138	—	1,133,775	2,205,750,187
—	(38,470,904)	(71,406)	(8,510)	—	(21,843)	(38,572,663)
6,463,962	2,165,859,417	66,547	139,628	—	1,111,932	2,167,177,524
—	4,841,975	—	—	—	—	4,841,975
—	(1,825,408)	—	—	—	—	(1,825,408)
—	(271,824)	—	—	—	—	(271,824)
—	2,744,743	—	—	—	—	2,744,743
6,463,962	2,168,604,160	66,547	139,628	—	1,111,932	2,169,922,267
—	415,710	—	—	—	—	415,710
—	2,550	(381,873)	(77,968)	—	68,468	(388,823)
—	1,520	—	—	—	—	1,520
—	152,554	—	—	—	—	152,554
—	533,813	—	—	—	124,699	658,512
—	—	505,975	204,168	—	—	710,143
—	1,106,147	124,102	126,200	—	193,167	1,549,616
—	821,596	—	—	—	—	821,596
—	246,871	—	—	—	—	246,871
—	1,068,467	—	—	—	—	1,068,467
—	2,174,614	124,102	126,200	—	193,167	2,618,083
\$ 973,261,287	\$ 6,271,708,981	\$ 190,649	\$ 265,828	\$ —	\$ 69,478,367	\$ 6,341,643,825

- to next page

Exhibit IX (Concluded)
Statement of Changes in Fiduciary Net Position –
Pension and Other Employee Benefit Trust Funds
Year Ended August 31, 2023

	Employees Retirement Fund (0955) and (0935)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Deductions	\$	\$	\$	\$
Benefits:				
Benefits	2,858,897,890	96,112,239	39,903,224	1,021,934
Less: Payments from Members	—	—	—	—
Refunds of Contributions	139,434,538	3,419,180	310,516	—
Service Contributions Transferred to Teacher Retirement System (Note 3.A)	32,274,517	—	—	—
Total Benefits	3,030,606,945	99,531,419	40,213,740	1,021,934
Administrative Expenses:				
Salaries & Wages	13,950,246	1,185,923	111,377	—
Payroll Related Costs	4,357,551	369,607	33,937	—
Professional Fees & Services	9,079,342	504,149	63,149	—
Travel	49,606	3,933	474	—
Materials & Supplies	4,905,509	129,435	12,528	—
Communications & Utilities	778,449	51,444	4,785	—
Repairs & Maintenance	821,238	120,394	6,071	—
Rentals & Leases	408,424	40,045	3,873	—
Printing & Reproduction	92,861	6,431	1,032	—
Depreciation	3,628,209	—	—	—
Amortization	981,041	—	—	—
Interest Expense	486,962	—	—	—
Other Operating Expenses	2,782,738	69,354	7,118	—
Total Administrative Expenses	42,322,176	2,480,715	244,344	—
Other Deductions:				
Loss on Disposal of Capital Assets	4,912	—	—	—
Other	—	—	—	—
Interfund Transfers Out (Note 1.G)	821,596	—	—	—
Interagency Transfers Out (Note 5.C):	—	—	—	46,533
Total Transfers Out	821,596	—	—	46,533
Total Other Deductions	826,508	—	—	46,533
Total Deductions	3,073,755,629	102,012,134	40,458,084	1,068,467
Net Increase (Decrease)	2,063,638,594	(1,593,526)	19,108,312	—
Fiduciary Net Position Restricted for Pension and Other Postemployment Benefits:				
Beginning of Year	31,986,091,790	1,042,295,797	566,442,429	—
End of Year (Exh. VIII)	\$ 34,049,730,384	\$ 1,040,702,271	\$ 585,550,741	\$ —

¹ The benefit payments in the State Retiree Health Plan are reported net of \$287,730,256 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
\$	\$	\$	\$	\$	\$	\$
1,139,894,483	4,135,829,770	—	—	—	67,462,795	4,203,292,565
(181,951,869)	(181,951,869)	—	—	—	—	(181,951,869)
—	143,164,234	—	—	—	—	143,164,234
—	32,274,517	—	—	—	—	32,274,517
957,942,614	4,129,316,652	—	—	—	67,462,795	4,196,779,447
3,320,338	18,567,884	284,022	60,426	—	93,213	19,005,545
1,009,252	5,770,347	83,011	19,047	—	27,324	5,899,729
1,340,419	10,987,059	122,368	15,933	—	79,368	11,204,728
26,111	80,124	1,028	139	—	323	81,614
255,378	5,302,850	16,422	2,000	—	24,251	5,345,523
458,718	1,293,396	5,810	1,732	—	1,437	1,302,375
218,883	1,166,586	5,874	737	—	30,295	1,203,492
81,221	533,563	5,585	673	—	1,339	541,160
13,408	113,732	1,658	197	—	420	116,007
—	3,628,209	—	—	—	—	3,628,209
—	981,041	—	—	—	—	981,041
—	486,962	—	—	—	—	486,962
1,189,469	4,048,679	53,024	4,320	—	909,567	5,015,590
7,913,197	52,960,432	578,802	105,204	—	1,167,537	54,811,975
—	4,912	—	—	—	—	4,912
—	—	—	—	545,690	—	545,690
—	821,596	—	—	—	—	821,596
—	46,533	—	—	—	—	46,533
—	868,129	—	—	—	—	868,129
—	873,041	—	—	545,690	—	1,418,731
965,855,811	4,183,150,125	578,802	105,204	545,690	68,630,332	4,253,010,153
7,405,476	2,088,558,856	(388,153)	160,624	(545,690)	848,035	2,088,633,672
162,574,529	33,757,404,545	3,098,786	3,628,499	545,690	34,101,282	33,798,778,802
\$ 169,980,005	\$ 35,845,963,401	\$ 2,710,633	\$ 3,789,123	\$ —	\$ 34,949,317	\$ 35,887,412,474



Notes to the Basic Financial Statements

August 31, 2023

Index

Note	Page
1. Summary of Significant Accounting Policies	53
A. The Reporting Entity	53
B. New Accounting Pronouncements	53
C. Basic Financial Statements	53
D. Measurement Focus - Basis of Accounting	53
E. Basis of Presentation	54
F. Budgets	56
G. Assets, Liabilities, Fund Balances and Net Position	56
2. Detail Disclosures on Funds	62
A. Deposits, Investments, and Repurchase Agreements	62
B. Fund Equity	69
C. Derivative Investment	69
D. Leases	70
3. Defined Benefit Plans	70
A. Plan Descriptions and Contributions	70
B. Net Pension Liability	71
C. Retirement Systems Membership	74
D. Reserves	74
E. Historical Trend Information	74
4. Other Postemployment Benefits Plan	75
A. Plan Descriptions and Contributions	75
B. Net OPEB Liability	75
C. State Retiree Health Plan Membership	77
D. Reserves	77
E. Historical Trend Information	77
5. Interfund Activity and Transactions	78
A. Interfund Receivables and Payables	78
B. Interfund Transfers	78
C. Interagency Transfers	78
6. Contingent Liability	78
A. Litigation	78
B. Sick Leave	79
C. Incentive Compensation Plan	79
7. Risk Management	79
A. Risk Exposure	79
B. Risk Financing	79
C. Liabilities	80
8. Termination Benefits	80
9. Subsequent Events	80



Notes to the Basic Financial Statements

August 31, 2023

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 440 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 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. 96 "Subscription-Based Information Technology Arrangements" (SBITAs) effective September 1, 2022. This statement requires recognition of certain technology subscription assets and liabilities for subscriptions previously classified as expenses. Additionally, the System adopted relevant requirements related to leases and SBITAs in GASB Statement No. 99 "Omnibus 2022". The implementation of this standard resulted in SBITA

assets and liabilities being reported in the fiduciary funds.

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 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,

Notes to the Basic Financial Statements (Continued)

August 31, 2023

and all investment income deposited or credited to the Internal Service Fund.

Program expenses of the governmental activities are: death benefit expenses, 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. Governmental Funds financial statements are accounted for under the modified accrual basis of accounting and current financial resources measurement focus. All revenues reported are recognized based on the criteria of measurability and availability. Governmental Funds and revenues 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 fund appropriated by the State and is used to account for the Judicial Retirement System Plan One Fund (JRS I) general activities. The system reports the following funds as General Fund:

- 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.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

Other Major Governmental Funds

Other Major Governmental Funds consist of special revenue funds and are used to account for activities for specific purposes.

- 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.

The Legislature establishes an estimated appropriation for these programs which ERS administers drawing additional funds or lapsing funds to the General Revenue Fund based on actual activity during the fiscal year.

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 Fund (HSA) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle I, Chapter 1653 and is used to account for member contributions for HSA. ERS acts as a pass through from the members payroll deduction to the third-party administering bank.

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.
- 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).

Notes to the Basic Financial Statements (Continued)

August 31, 2023

- 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. This plan was discontinued in fiscal year 2022, and the last financial activity is reported in fiscal year 2023.
- 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.

1.F Budgets

Governmental Funds

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 Other Major Governmental 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.

Fiduciary Funds

The Texas Legislature does not appropriate monies to the System for administrative expenses. A 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. Fiduciary funds 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 TexaSaver and State Employees Cafeteria Plan accounts (Cash in Bank) are maintained at a local commercial bank.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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.

Valuation

Investments of the Pension Trust Funds and Internal Service Fund are reported at fair value in accordance with GASB Statement No.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.

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:

Notes to the Basic Financial Statements (Continued)

August 31, 2023

- **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.
- **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 fair 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

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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).

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.

Receivables

Federal Receivables represent cash receipts due to the State Retiree Health Plan related to the Affordable Care Act Program and earned rebates and discounts from the insurance program vendors. Interest and Dividends Receivables represent income earned in the current year that will be received the following fiscal year. The Contributions/Accounts Receivables represent contributions that are due from members and the State. The Unsettled Investment Receivables account for sales of investments that traded before fiscal year and settled after fiscal year.

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 estimated acquisition 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

Notes to the Basic Financial Statements (Continued)

August 31, 2023

Table 1.(a) presents the composition of the System's Capital Assets. Subscription based information technology arrangements, previously recorded as expenses, are capitalized as a result of implementing GASB Statement No. 96. The following is a summary of changes in capital assets for fiscal year 2023:

Figure 1. (a)

Capital Assets Activity and Balances

	Land	Computer Software	Right-to-Use Assets	Building	Furniture & Equipment	Vehicles	Total
Cost	\$	\$	\$	\$	\$	\$	\$
Balances as of August 31, 2022	874,889	5,639,276	1,857,262	88,466,551	1,296,842	46,905	98,181,725
Additions	—	1,029,666	19,727,513	—	290,360	—	21,047,539
Disposals	—	—	—	—	(260,815)	—	(260,815)
Balances as of August 31, 2023	874,889	6,668,942	21,584,775	88,466,551	1,326,387	46,905	118,968,449
Accumulated Depreciation and Amortization							
Balances as of August 31, 2022	—	(5,639,276)	(597,905)	(18,491,368)	(1,075,170)	(36,377)	(25,840,096)
Depreciation and Amortization Expense	—	(68,644)	(6,876,494)	(3,405,351)	(150,604)	(3,609)	(10,504,702)
Disposals	—	—	—	—	255,903	—	255,903
Balances as of August 31, 2023	—	(5,707,920)	(7,474,399)	(21,896,719)	(969,871)	(39,987)	(36,088,896)
Net Capital Assets - August 31, 2023	\$874,889	\$961,022	\$14,110,376	\$66,569,832	\$356,516	\$6,918	\$82,879,553

Certain amortization expenses are investment related and are included in "Less: Investment Expense" on Exhibit IX. Please see Other Supplementary Information Schedule 4 for further detail.

Liabilities

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. The Unsettled Investment Payables under the Fiduciary funds is to account for purchases of investments that are traded before fiscal year end and settled after fiscal year end.

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.

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.

Restricted fund balance reports an amount with statutory constraints. Membership fees collected in the ERS pension fund may be applied only to programs administered by the retirement system's board of trustees.

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.

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.

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.

- 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.

Fund Balances – Governmental Funds

Fund balance is the difference between fund assets and liabilities on the governmental fund statements.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

- 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. 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.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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 amount of Cash in Bank as of August 31, 2023 are presented in Figure 2.

Figure 2
Deposits of Cash in Bank

Deposits	Carrying Value	Bank Balance
	\$	\$
Fiduciary Funds:		
Cash in Bank (Exh. VIII)	758,119	758,119
Totals	\$758,119	\$758,119

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, 2023 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. 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: Unadjusted quoted prices for identical instruments in active markets. 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

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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, 2023

Figure 3
Fair Value of Investments

	Level 1	Level 2	Level 3	NAV	Total
Fiduciary Funds:					
Investments:	\$	\$	\$	\$	\$
Public Equities:					
Domestic Equities	5,821,551,776	10,713,093			5,832,264,869
International Equities	4,250,617,222	329,182			4,250,946,404
Exchange Traded Funds (ETFs)	651,116,023	—			651,116,023
Real Estate Investment Trust (REITs)	802,170,697	—			802,170,697
Total Public Equities	11,525,455,718	11,042,275	—	—	11,536,497,993
Fixed Income:					
U.S. Treasury Securities	3,108,770,708	—			3,108,770,708
U.S. Government Agency Obligations		813,334,515			813,334,515
Corporate Obligations		1,788,167,109			1,788,167,109
Corporate Asset and Mortgage Backed Securities		18,589,774			18,589,774
International Obligations		411,179,904			411,179,904
Real Estate Investment Trust (REITs)		5,734,615			5,734,615
Total Fixed Income	3,108,770,708	3,037,005,917	—	—	6,145,776,625
Other Investments:					
Derivatives	322,347				322,347
Commingled Funds	—			220,858,648	220,858,648
Total Other Investments	322,347	—	—	220,858,648	221,180,995
Investments Measured at the Net Asset Value (NAV):					
Equity Long/Short				1,054,250,741	1,054,250,741
Event Driven				287,928,660	287,928,660
Macro				314,219,039	314,219,039
Multi-Strategies				344,565,654	344,565,654
Opportunistic				126,156,940	126,156,940
Private Equity				6,547,464,476	6,547,464,476
Private Real Estate				3,797,060,181	3,797,060,181
Private Infrastructure				2,186,694,979	2,186,694,979
Private Fixed Income				1,313,436,387	1,313,436,387
Relative Value				457,938,469	457,938,469
Total Investments Measured at the NAV:	—	—	—	16,429,715,526	16,429,715,526
Total Investments	14,634,548,773	3,048,048,192	—	16,650,574,174	34,333,171,139
					(Exh. VIII)
Securities Lending Collateral (Note A):					
Government Repurchase Agreements				405,753,284	405,753,284
Total Securities Lending Collateral	—	—	—	405,753,284	405,753,284
					(Exh. VIII)
Short-Term Investments (Note A):					
Money Market and Bond Funds				932,671,487	932,671,487
Investment in Pool Cash				5,556,224	5,556,224
Total Short-Term Investments	—	—	—	938,227,711	938,227,711
					(Exh. VIII)
Proprietary Fund:	\$	\$	\$	\$	\$
Investments:					
Public Equities:					
Domestic Equities	3,077,088	1,893,614			4,970,702
International Equities	491,744	58,185			549,929
Total Public Equities	3,568,832	1,951,799	—	—	5,520,631
Fixed Income:					
U.S. Treasury Securities	1,262,131,473				1,262,131,473
U.S. Government Agency Obligations		330,206,112			330,206,112
Corporate Obligations		316,071,029			316,071,029
Corporate Asset and Mortgage Backed Securities		3,864,364			3,864,364
International Obligations		72,678,921			72,678,921
Real Estate Investment Trust (REITs)		1,013,633			1,013,633
Total Fixed Income	1,262,131,473	723,834,059	—	—	1,985,965,532
Other Investments:					
Derivatives	99,900				99,900
Total Other Investments	99,900	—	—	—	99,900
Total Investments	1,265,800,205	725,785,858	—	—	1,991,586,063
					(Exh. V)

Notes to the Basic Financial Statements (Continued)

August 31, 2023

Figure 3
Fair Value of Investments (Concluded)

	Level 1	Level 2	Level 3	NAV	Total
Securities Lending Collateral (Note A):					
Government Repurchase Agreements	—			41,783,786	41,783,786
Total Securities Lending Collateral	—	—	—	41,783,786	41,783,786
					(Exh. V)
Short-Term Investments (Note A):					
Money Market and Bond Funds				1,548,211,637	1,548,211,637
Total Short-Term Investments	—	—	—	1,548,211,637	1,548,211,637
					(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, 2023 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, 2023 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, 2023, 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	117,052,952	110,856,668		227,909,620	433,688
Brazilian Real	64,947,351			64,947,351	122,590
Canadian Dollar	238,841,282		4,325,280	243,166,562	2,493
Chilean Peso	958,328			958,328	9,382
Chinese Yuan Renminbi	54,947,150			54,947,150	—
Colombian Peso	225,955			225,955	
Czech Koruna	—			—	1
Danish Krone	101,335,854			101,335,854	20,809
Egyptian Pound	149,095			149,095	3,443
Euro	1,217,420,560	791,846,267		2,009,266,827	9,756,084
Hong Kong Dollar	147,747,608			147,747,608	50,416
Hungarian Forint	1,618,129			1,618,129	3,914
Indian Rupee	182,674,324			182,674,324	228,565
Indonesian Rupiah	12,466,743			12,466,743	7,680
Israeli Shekel	9,699,536			9,699,536	11,897
Japanese Yen	696,645,189			696,645,189	12,235
Kuwaiti Dinar	542,683			542,683	40,407
Malaysian Ringgit	3,388,697			3,388,697	33,464
Mexican Peso	40,880,058			40,880,058	6,615
New Taiwan Dollar	152,521,983			152,521,983	1,795,992
Norwegian Krone	6,423,148			6,423,148	29,160
Philippine Peso	784,662			784,662	6,629
Polish Zloty	3,381,651			3,381,651	19,457
Pound Sterling	291,834,771	72,073,157		363,907,928	30,713
Qatari Riyal	341,456			341,456	10,852
Saudi Arabia Riyal	17,663,687			17,663,687	145,795
Singapore Dollar	63,681,924			63,681,924	1,295
South African Rand	4,629,346			4,629,346	4,955
South Korean Won	187,462,880	28,116		187,490,996	79,112
Swedish Krona	15,860,715			15,860,715	21,221
Swiss Franc	336,795,357			336,795,357	4,489
Thai Baht	7,528,706			7,528,706	13,610
Turkish Lira	18,678,854			18,678,854	5,807
UAE Dirham	2,505,851			2,505,851	5,629
Total for Investments	4,001,636,485	974,804,208	4,325,280	4,980,765,973	12,918,039
Proprietary Funds:					
Investments:					
Canadian Dollar			764,523	764,523	
Total for Investments	4,001,636,485	974,804,208	5,089,803	4,981,530,496	12,918,039

Notes to the Basic Financial Statements (Continued)

August 31, 2023

**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)	Total
Fiduciary Funds	\$	\$	\$	\$	\$	\$	\$
Investments:							
A/A2/A				2,523,592			2,523,592
A+/A1/A+				1,733,316			1,733,316
AA+/Aa1/AA+	3,105,288,143	813,334,515					3,918,622,658
B/B2/B			243,753,331		58,764,656		302,517,987
B-/B3/B-			136,992,146		49,301,848		186,293,994
B+/B1/B+			252,502,325	3,741,955	90,140,398		346,384,678
BB/Ba2/BB			323,453,939		22,320,593		345,774,532
BB-/Ba3/BB-			365,439,079		94,264,317	5,734,615	465,438,011
BB+/Ba1/BB+			217,596,572		25,486,068		243,082,640
BBB/Baa2/BBB			6,503,822	2,560,579			9,064,401
BBB-/Baa3/BBB-			25,785,188				25,785,188
BBB+/Baa3/BBB+			6,373,605	4,288,962			10,662,567
Ca/C/C			8,067,333				8,067,333
CCC-/Caa3/C			2,219,479		26,437,391		28,656,870
CCC/Caa2/CC			39,375,394		3,375,735		42,751,129
CCC+/Caa1/CCC			82,806,998		756,834		83,563,832
D/D/					6,910,802		6,910,802
Not Rated	3,482,565		77,297,898	3,741,370	33,421,262		117,943,095
Investments Totals	3,108,770,708	813,334,515	1,788,167,109	18,589,774	411,179,904	5,734,615	6,145,776,625
Proprietary Funds	\$	\$	\$	\$	\$	\$	\$
Investments:							
A/A2/A				1,024,554			1,024,554
A+/A1/A+				306,376			306,376
AA+/Aa1/AA+	1,260,717,585	330,206,112					1,590,923,697
B/B2/B			43,085,104	661,417	10,387,063		54,133,584
B-/B3/B-			24,214,319		8,714,446		32,928,765
B+/B1/B+			44,631,550		15,932,945		60,564,495
BB/Ba2/BB			57,172,743		3,945,321		61,118,064
BB-/Ba3/BB-			64,593,910	452,600	16,661,877	1,013,633	82,722,020
BB+/Ba1/BB+			38,461,714		4,504,840		42,966,554
BBB/Baa2/BBB			1,149,596	758,104			1,907,700
BBB-/Baa3/BBB-			4,557,712				4,557,712
BBB+/Baa3/BBB+			1,126,579				1,126,579
Ca/C/C			1,425,957				1,425,957
CCC-/Caa3/C			392,309		4,672,994		5,065,303
CCC/Caa2/CC			6,959,876		596,684		7,556,560
CCC+/Caa1/CCC			14,636,715		133,776		14,770,491
D/D/					1,221,533		1,221,533
Not Rated	1,413,888		13,662,945	661,313	5,907,442		21,645,588
Investments Totals	1,262,131,473	330,206,112	316,071,029	3,864,364	72,678,921	1,013,633	1,985,965,532

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, 2023, the System invested \$22,454,138 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 government.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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, 2023, 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	3,108,770,708	3.33	1,262,131,473	3.33
U.S. Government Agency Obligations	813,334,515	5.68	330,206,112	5.68
Corporate Obligations	1,788,167,109	4.21	316,071,029	4.21
Corporate Asset and Mortgage Backed Securities	18,589,774	2.52	3,864,364	2.41
International Obligations	411,179,904	3.52	72,678,921	3.52
Real Estate Investment Trusts (REITs)	5,734,615	1.42	1,013,633	1.42
Totals	6,145,776,625	3.91	1,985,965,532	3.87

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 and the System does not accept any non-cash collateral. There were no significant violations of legal or contractual provisions and no borrower or lending agent default losses were reported in Fiscal Year 2023.

The System received net securities lending income totaling \$3,063,713 for the fiscal year ended August 31, 2023. The collateral information as of August 31, 2023 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	8,542,784	8,762,252
International Equities	2,929,922	3,225,239
Corporate Obligations	265,568,462	272,364,406
Exchange Traded Funds - Equities (ETFs)	90,537,660	92,619,824
International Obligations	20,752,098	21,277,776
Real Estate Investment Trust (REITs) - Equity	80,275	112,791
U.S. Treasury Securities	7,262,849	7,390,996
Totals	395,674,050	405,753,284
		Exh. VIII
Proprietary Fund:		
Corporate Obligations	34,367,068	35,234,941
Domestic Equities	1,022,696	1,047,748
International Equities	1,655	1,695
International Obligations	2,685,517	2,752,640
U.S. Treasury Securities	2,700,025	2,746,762
Totals	40,776,961	41,783,786
		Exh. V

Notes to the Basic Financial Statements (Continued)

August 31, 2023

Repurchase Agreements

During Fiscal Year 2023, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2023, the System had \$447,537,070 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, 2023 are summarized in Figure 8.

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	180	9,453,291,581	2,692,881,662	6,760,409,919	5,982,028,082	N/A	N/A	N/A
Euro Dollar	15	759,128,241	117,430,384	641,697,857	493,335,121	N/A	N/A	N/A
British Pound	3	98,837,700	5,695,938	93,141,762	72,073,157	N/A	N/A	N/A
Korean Won	1	21,559,891	0	21,559,891	28,116	N/A	N/A	N/A
Sub-total	199	10,332,817,413	2,816,007,984	7,516,809,429	6,547,464,476			
Private Real Estate:								
US Dollar	89	5,600,947,050	1,435,340,682	4,165,606,368	3,665,583,363	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
Euro Dollar	3	328,311,747	65,462,725	262,849,022	131,476,819	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
Sub-total	92	5,929,258,797	1,500,803,407	4,428,455,390	3,797,060,181			
Private Infrastructure:								
US Dollar	42	2,633,163,622	785,393,387	1,847,770,235	1,908,803,982	N/A	N/A	N/A
Australian Dollar	2	113,866,912	594,514	113,272,398	110,856,668	N/A	N/A	N/A
Euro Dollar	4	307,670,214	87,022,233	220,647,981	167,034,328	N/A	N/A	N/A
Sub-total	48	3,054,700,748	873,010,134	2,181,690,614	2,186,694,979			
Private Fixed Income:								
US Dollar	14	1,842,000,000	599,454,738	1,242,545,262	1,313,436,387	N/A	N/A, 90 Days	N/A
Hedge Funds:								
Equity Long/Short								
US Dollar	2	310,000,000	—	310,000,000	590,033,494	Monthly	30 Days	N/A
US Dollar	1	75,000,000	—	75,000,000	94,542,999	Annually	45 Days	12 Month Lockup
US Dollar	1	100,000,000	—	100,000,000	110,958,592	Quarterly	45 Days	25% Investor Gate
US Dollar	1	126,483,581	—	126,483,581	142,463,353	N/A	N/A	5 Year Lockup
US Dollar	1	65,760,000	—	65,760,000	59,910,625	N/A	N/A	4 Year Lockup
US Dollar	1	48,380,228	—	48,380,228	56,056,872	N/A	N/A	3 Year Lockup
US Dollar	1	—	—	—	37,833	N/A	N/A	5 Year Lockup
US Dollar	1	—	—	—	246,974	N/A	N/A	3 Year Lockup
Event Driven								
US Dollar	1	109,554,176	—	109,554,176	68,744,646	Monthly	30 Days	N/A
US Dollar	1	80,000,000	—	80,000,000	5,031,984	Quarterly	60 Days	12 Month Lockup
US Dollar	1	100,000,000	—	100,000,000	133,554,637	Quarterly	65 Days	N/A
US Dollar	1	75,000,000	—	75,000,000	80,597,393	Quarterly	60 Days	12 Month (soft) Lockup
Macro								
US Dollar	1	100,000,000	—	100,000,000	104,945,215	Quarterly	30 Days	N/A
US Dollar	1	105,000,000	—	105,000,000	110,052,332	Quarterly	60 Days	24 Month Lockup
US Dollar	1	40,000,000	—	40,000,000	1,199,157	Monthly	45 Days	N/A
US Dollar	1	104,114,000	—	104,114,000	98,022,335	N/A	N/A	5 Year Lockup
US Dollar	1	—	—	—	—	N/A	N/A	5 Year Lockup
Multi-Strategies								
US Dollar	1	145,000,000	—	145,000,000	151,868,657	Quarterly	180 Days	12 Month Lockup
US Dollar	1	16,345,085	—	16,345,085	9,107,779	N/A	N/A	N/A
US Dollar	1	125,000,000	—	125,000,000	183,589,217	Rolling 9 Month	60 Days	Lockup
Opportunistic								
US Dollar	1	125,000,000	—	125,000,000	126,156,940	Annually	N/A	36 Month Lockup
Relative Value								
US Dollar	1	100,000,000	—	100,000,000	99,647,511	Quarterly	45 Days	N/A
US Dollar	1	100,000,000	—	100,000,000	160,351,103	Quarterly	60 Days	Gate
US Dollar	1	100,000,000	—	100,000,000	71,255,102	Quarterly	45 Days	Gate
US Dollar	1	50,000,000	—	50,000,000	50,000,000	Quarterly	90 Days	Gate
US Dollar	1	75,000,000	—	75,000,000	76,684,753	Quarterly	90 Days	Gate
Sub-total	28	2,275,637,070	—	2,275,637,070	2,585,059,503			
Total	381	23,434,414,028	5,789,276,263	17,645,137,765	16,429,715,526			

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, 2023

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, 2023 is presented in Figure 9.

Figure 9
Net Position - Fiduciary Fund

Fund Type	Amount
	\$
Defined Benefit Plans (Note A)	35,845,963,401
Deferred Compensation Plans and Cafeteria Plan:	
Administration - Deferred Compensation Plans	6,499,756
Administration - State Employees Cafeteria Plan	34,949,317
Total Deferred Compensation Plans and Cafeteria Plan	41,449,073
Net Position Restricted for Pension and Other Benefits	35,887,412,474
	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, 2023 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 had no outstanding option contracts as of August 31, 2023.

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, 2023.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

Figure 10
Summary of Outstanding Derivative Investments

Futures	Expiration Date	No. of Futures	Long/ Short	Change in Fair Value		Fair Value		Notional Amount
				Classification	Amount	Classification	Amount	
					\$		\$	\$
C\$ CURRENCY FUTURE (CME)	9/19/2023	95	Short	Investment Revenue	158,982	Investments	158,982	(7,187,558)
US 3YR NOTE FUTURE (CBT)	12/29/2023	400	Long	Investment Revenue	263,265	Investments	263,265	83,002,360
Derivative Investments Grand Total		495			422,247		422,247	75,814,802

2.D Future Minimum Lease and SBITA Payments

(In accordance with GASB Statement 87 and 96)

The System leases equipment under long-term, non-cancellable lease agreements. The System implemented GASB Statements 96 Subscription Based Information Technology Agreements (SBITA) in fiscal year 2023, which dictated certain long-term technology subscriptions be capitalized. The leases and subscriptions expire at various dates through 2028. The outstanding liability as of August 31, 2023 was \$15.6 million. The future minimum payments under the lease and subscription agreements as of August 31, 2023 are presented in Figure 11.

Figure 11
Future Minimum Lease and SBITA Payments

Year Ended	Principal	Interest
	\$	\$
2024	5,158,093	79,618
2025	5,922,064	91,410
2026	3,181,040	49,101
2027	327,993	5,063
2028	42,745	660
	14,631,934	225,852

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.

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

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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 members hired or taking office prior to September 1, 2022 is 9.5%. Employees and elected class members hired or taking office on or after September 1, 2022 contribute 6.0%. For Fiscal Year 2023, 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 LECOS, employees hired prior to September 1, 2022 contribute 0.5% to the supplemental fund. The State contributes 0.5% of covered payroll. For LECOS, employees hired on or after September 1, 2022, members contribute 2% to the supplemental fund and the state contribution remains unchanged. An additional \$15,840,511 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 2023. 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, 2023 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, 2023 are determined and summarized in Figure 13.

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 2023 funding levels. See Note 3.A for descriptions of member and State contributions.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

**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, 2023		
Actuarial Cost Method	Entry Age Normal		
Amortization Method	Level Percent of Payroll plus Level Dollar Legacy Payment, Closed		Level Percent of Payroll, Open
Remaining Amortization Period	31 Years		
Asset Valuation Method	Marked to market as of August 31, 2017. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.		
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 ("Ultimate MP") and projected from the year 2020. Rates for male LECO members are set forward one year.		
Cost-of-living Adjustments	None – Employee 2.3% – Elected	None	None

**Figure 13
Net Pension Liability**

	ERS	LECOS	JRS II
	\$	\$	\$
Total Pension Liability	47,992,451,024	1,799,711,133	671,588,378
Plan Fiduciary Net Position	34,049,730,384	1,040,702,271	585,550,741
Net Pension Liability	<u>13,942,720,640</u>	<u>759,008,862</u>	<u>86,037,637</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.95 %	57.83 %	87.19 %

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 geometric 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 the Asset-Liability Study presented to the Board in August 2022 are summarized in Figure 14.

A single discount rate was used to measure the total pension liability as of August 31, 2023. 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, 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.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

**Figure 14
Target Allocation**

Asset Class	Target Allocation	Real Return	Long-term Expected Portfolio Real Rate of Return
	%	%	%
Global Equity	35.00	5.07	1.78
Private Equity	16.00	7.61	1.22
Global Credit	12.00	4.73	0.57
Special Situations	0.00	4.39	0.00
Real Estate Investment Trust (REIT)	3.00	4.68	0.14
Private Real Asset - Infrastructure/Land	5.00	4.20	0.21
Private Real Estate	9.00	3.37	0.30
Fixed Income - Rates	12.00	2.05	0.25
Absolute Returns	6.00	3.71	0.22
Cash	2.00	0.39	0.01
Totals	100.00		4.70
Inflation			2.50
Expected Nominal Rate of Return			7.20

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.

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. The long-term expected return was used as the single discount rate for LECOS and JRS II for the first time due to one-time additional funding received from the State in September 2023 for \$772 and \$99 million respectively.

**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)	4.13 %	4.13 %	4.13 %
Year fiduciary net position depleted	Never	Never	Never
Single Discount Rate	7.00 %	7.00 %	7.00 %

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%
	\$19,760,619,924	\$13,942,720,640	\$9,109,813,101
LECOS:	6.00%	7.00%	8.00%
	\$990,805,627	\$759,008,862	\$568,050,251
JRS II:	6.00%	7.00%	8.00%
	\$150,402,242	\$86,037,637	\$30,554,444

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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, 2023, the annual money-weighted rate of return on the defined benefit plans was 6.53%. 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, 2023 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, 2023 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.

Figure 17
Retirement Systems Membership

	ERS		LECOS	JRS II
	Employee Class	Elected Class		
Retirees and Beneficiaries Currently Receiving Benefits	123,764	740	16,368	579
Terminated Employees Entitled To But Not Yet Receiving Benefits	163,969	143	35,082	185
Active Employees	139,626	332	31,744	623
Totals	427,359	1,215	83,194	1,387

Note: Estimated based on actuarial valuation as of August 31, 2023.

Figure 18
Reserves

	ERS	LECOS	JRS II	Totals
Net Plan Assets Reserved For:	\$	\$	\$	\$
Employee Savings	7,019,857,752	70,297,895	90,460,332	7,180,615,979
State Accumulation	(1,056,386,441)	(81,665,882)	89,526,472	(1,048,525,851)
Annuity Reserves	28,086,259,073	1,052,070,258	405,563,937	29,543,893,268
Total Net Plan Assets Reserved	34,049,730,384	1,040,702,271	585,550,741	35,675,983,396
	(Exh. VIII)	(Exh. VIII)	(Exh. VIII)	

Note: The Interest Account and the Expense Account have a total Net Plan Assets Reserved of \$0.

4. Other Postemployment Benefits Plan (OPEB)

(In accordance with GASB Statement 74)

4.A Plan Descriptions and Contributions 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, 2023
State Agencies	115
Universities	27
Junior and Community Colleges	50
Other Entities	8
Total Participating Entities	200

The principal participating employer is the state of Texas. State agencies and universities employ 184,715 which is 80.6% 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.

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

	Fiscal Year 2023
	\$
Retiree Only	624.82
Retiree & Spouse	1,340.82
Retiree & Children	1,104.22
Retiree & Family	1,820.22

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	801,018,586
Non-Employer Contributing Entities	42,250,455
Federal Revenues:	
Medicare Part D	1,519,014
Direct Subsidy	(1,346,017)
Low Income Premium Subsidy	788,612
Low Income Cost Sharing	4,212,551
Catastrophe Reinsurance	118,354,124
Total Federal Revenues	123,528,284
Total Contributions	966,797,325
Claims Expenses	1,139,894,483
Less: Payments from Inactive Members	(181,951,869)
Benefit Payments	957,942,614

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.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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

Valuation Date	August 31, 2023
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	3.81%
Projected Annual Salary Increase	2.30% to 8.95%, including inflation
Annual Healthcare Trend Rate	HealthSelect 5.60% for FY2025, 5.30% for FY2026, 5.00% for FY2027, 4.75% for FY2028, 4.60% for FY2029, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2032 and later years HealthSelect Medicare Advantage 16.40% for FY2025, 8.40% for FY2026, 5.00% for FY2027, 4.75% for FY2028, 4.60% for FY2029, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2032 and later years Pharmacy 10.00% for FY2025 and FY2026, decreasing 100 basis points per year to 5.00% for FY2031 and 4.30% for FY2032 and later years
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 set forward three years for males and females. Generational mortality improvements in accordance with the Ultimate MP-2019 Projection Scale are projected from the year 2020. Minimum rates of 3.0% and 2.5% apply at all ages for males and females, respectively. 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-2019 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-2021 Projection Scale from the year 2021. b. Disability Retirees: Tables based on TRS experience with Ultimate MP Projection Scale from the year 2021 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 Pub-2010 Amount-Weighted Below-Median Income Teacher Mortality with a 2-year set forward for males with Ultimate MP Projection Scale from the year 2010.

Figure 23 shows the System's net OPEB liability for the State Retiree Health Plan as of August 31, 2023. 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	\$ 26,887,509,572
Less: Plan Fiduciary Net Position	169,980,005
Net OPEB Liability	26,717,529,567
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.63 %

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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 2023. 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 amended the investment policy statement in August 2022 to require that all funds in this plan be invested in cash and equivalent securities.

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.

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)	3.81%
Year fiduciary net position depleted	2024
Single Discount Rate	3.81%
<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	2.81%	3.81%	4.81%
Net OPEB Liability	\$31,001,855	\$26,717,530	\$23,271,537

The initial healthcare trend rate is 5.60% for HealthSelect and 16.40% 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, 2023, the annual money-weighted rate of return on the State Retiree Health Plan was 4.61%.

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, 2023 is summarized in Figure 27.

Figure 27
State Retiree Health Plan Membership

Active Members	229,119
Inactive Members Currently Receiving Benefit Payments	139,641
Inactive Members Entitled to But Not Yet Receiving Benefit Payments	17,069
Total	385,829
<i>Note: Estimated based on actuarial valuation as of August 31, 2023</i>	

4.D Reserves

The State Retiree Health Plan is a pay-as-you-go plan and is not expected to accumulate funds. Although there are some accumulated funds as of August 31, 2023, these are not sufficient to cover a full year's benefit payments and are expected to be depleted shortly.

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.

Notes to the Basic Financial Statements (Continued)

August 31, 2023

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

	1% Decrease (HealthSelect: 4.60% decreasing to 3.30%; HealthSelect Medicare Advantage: 15.40% to 3.30%; Pharmacy: 9.00% decreasing to 3.30%)	Current Healthcare Cost Trend Rates (HealthSelect: 5.60% decreasing to 4.30%; HealthSelect Medicare Advantage: 16.40% to 4.30%; Pharmacy: 10.00% decreasing to 4.30%)	1% Increase (HealthSelect: 6.60% decreasing to 5.30%; HealthSelect Medicare Advantage: 17.40% to 5.30%; Pharmacy: 11.00% decreasing to 5.30%)
Net OPEB Liability	\$22,980,788,845	\$26,717,529,567	\$31,463,209,092

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, 2023.

Figure 28
Interfund Receivables and Payables

	Due From Other Funds	Due to Other Funds
Governmental Activities:	\$	\$
Governmental Funds	53,879	139,457
Employees Life, Accident & Health Insurance and Benefits Fund	18,049,989	37,719,796
Total Governmental Activities	18,103,868	37,859,253
Fiduciary Funds:		
Pension & Other Employee Benefit Trust Funds	49,678,136	29,922,749
Total - Interfund Receivables & Payables	67,782,002	67,782,002

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, 2023.

Figure 29
Interfund Transfers

	Transfers In	Transfers Out
	\$	\$
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	821,596	821,596
Total - Interfund Transfers	821,596	821,596

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.F). 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. 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 paid 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 of \$17,419,001 for the incentive pay plan as of August 31, 2023 is for amounts earned in prior fiscal years.

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, 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, 2023

**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
	• 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, 2023	August 31, 2022
	\$	\$
Beginning Balance	647,790,365	690,287,283
Current-Year Claims and Changes in Estimates	2,363,780,692	(2,397,853,864)
Claim Payments	(2,388,972,535)	2,355,356,946
Ending Balance	622,598,522	647,790,365

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, 2023 is \$565,743,592. 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 1,089 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.

9. Subsequent Events

The 88th Texas Legislature appropriated one-time payments of \$772 million and \$99 million to LECOS and JRS II plans, respectively, to pay-off the unfunded accrued actuarial liability. These payments were received in September 2023, and will be reflected in the System's financial statements for the year ended August 31, 2024.

Required Supplementary Information

Budgetary Comparison Schedule - General Fund (Judicial Retirement System Plan One)

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2022	—	—	—	—
Revenue				
Legislative Appropriations	19,464,760	16,876,287	16,876,287	—
Expenditures				
Retirement Benefits	19,464,760	16,876,287	16,876,287	—
Excess of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2023	—	—	—	—

Budgetary Comparison Schedule - Major Governmental Fund (Death Benefits- Retiree \$5,000 Lump Sum)

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2022	—	—	—	—
Revenue				
Legislative Appropriations	13,750,000	13,279,657	13,279,657	—
Expenditures				
Death Benefits	13,750,000	13,234,567	13,234,567	—
Excess of Revenue over Expenditures	—	45,090	45,090	—
Budgetary Fund Balance - Ending 08-31-2023	—	45,090	45,090	—

Budgetary Comparison Schedule - Major Governmental Fund (Death Benefits - Peace Officers, Firemen, etc.)

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2022	—	—	—	—
Revenue				
Legislative Appropriations	9,589,984	20,223,672	20,223,672	—
Expenditures				
Death Benefits	9,589,984	20,223,672	20,223,672	—
Excess of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2023	—	—	—	—

Required Supplementary Information (Continued)

Budgetary Comparison Schedule - Major Governmental Fund (Compensation to Victims of Crime)

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2022	—	—	—	—
Revenue				
Legislative Appropriations	4,196,324	1,560,322	1,560,322	—
Expenditures				
Death Benefits	4,196,324	1,560,322	1,560,322	—
Excess of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2023	—	—	—	—

Budgetary Comparison Schedule - Major Governmental Fund (Social Security Administration)

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2022	3,950	3,950	3,950	—
Revenue				
Administration Fees	72,918	72,918	72,918	—
Transfers In				
Expenditures				
Total Administrative Expenditures	73,657	73,657	73,657	—
Deficiency of Revenue over Expenditures	(739)	(739)	(739)	—
Budgetary Fund Balance - Ending 08-31-2023	3,211	3,211	3,211	—

Required Supplementary Information (Continued)

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employees Retirement Fund										
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	\$ 985,244	\$ 1,026,494
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	3,027,806	3,144,127
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)	509,628	878,615
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)	(2,843,879)	(2,919,271)
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)	1,678,799	2,129,965
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	44,183,687	45,862,486
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	\$45,862,486	\$47,992,451
Plan Fiduciary Net Position										
Contributions - Employer	\$ 482,239	\$ 500,395	\$ 686,763	\$ 700,078	\$ 697,189	\$ 712,648	\$ 735,856	\$ 739,573	\$ 1,259,883	\$ 1,305,085
Contributions - Member	430,595	462,159	674,678	685,461	683,933	694,788	713,985	718,357	721,520	758,060
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	(728,036)	2,062,075
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)	(2,843,879)	(2,919,271)
Pension Plan Administrative Expense	(20,195)	(21,840)	(20,449)	(23,095)	(23,550)	(27,752)	(24,182)	(21,851)	(31,641)	(42,311)
Additional One-Time State Funding										900,000
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	(1,622,153)	2,063,638
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	33,608,244	31,986,092
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	\$31,986,092	\$34,049,730
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	\$13,876,394	\$13,942,721
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.40%	64.40 %	55.32%	54.67 %	57.89%	47.70 %	42.38%	76.06 %	69.74%	70.95%
Covered Employee Payroll (Note A)	\$5,955,461	\$6,150,195	\$6,742,143	\$6,859,707	\$6,811,926	\$6,947,625	\$7,158,435	\$7,188,368	\$7,205,608	\$7,856,401
Net Pension Liability as a Percentage of Covered Employee Payroll	242.82%	215.71 %	293.04%	318.74 %	296.41%	431.59 %	530.71%	147.12 %	192.58%	177.47%

- 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	2022	2023
Law Enforcement and Custodial Officer Supplemental Fund										
Total Pension Liability										
Service Cost	\$ 54,528	\$ 57,459	\$ 71,429	\$ 99,390	\$ 79,309	\$ 71,926	\$ 96,690	\$ 91,246	\$ 93,712	\$59,220
Interest	88,025	87,224	88,410	82,236	91,171	96,085	86,012	82,146	80,910	106,020
Difference between Expected and Actual Experience	(76,585)	(9,640)	(21,657)	(17,532)	(21,651)	(54,147)	(1,841)	(27,962)	65,927	32,677
Changes of Assumptions	68,228	148,114	375,371	(144,398)	(87,015)	427,818	158,946	82,179	(739,123)	(701,313)
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)	(86,706)	(91,669)	(97,196)	(99,519)
Net Change in Total Pension Liability	77,049	221,813	449,011	(50,060)	(13,819)	459,432	253,101	135,940	(595,770)	(602,915)
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	2,998,396	2,402,626
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	\$2,402,626	\$1,799,711
Plan Fiduciary Net Position										
Contributions - Employer	\$27,758	\$26,728	\$27,497	\$26,583	\$26,110	\$25,864	\$22,293	\$20,294	\$21,428	\$24,800
Contributions - Member	8,180	8,376	9,539	9,583	9,275	9,098	8,950	9,078	8,729	10,902
Pension Plan Net Investment Income	111,741	1,918	44,831	99,341	84,938	26,250	61,097	232,795	(5,026)	64,704
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)	(86,706)	(91,669)	(97,196)	(99,519)
Pension Plan Administrative Expense	(1,324)	(1,411)	(1,421)	(1,811)	(1,851)	(2,167)	(1,933)	(1,781)	(1,681)	(2,481)
Net Change in Plan Fiduciary Net Position	89,208	(25,733)	15,904	63,940	42,839	(23,205)	3,701	168,717	(73,746)	(1,594)
Plan Fiduciary Net Position - Beginning	780,670	869,878	844,145	860,049	923,989	966,828	943,623	947,324	1,116,042	1,042,296
Plan Fiduciary Net Position - Ending	\$869,878	\$844,145	\$860,049	\$923,989	\$966,828	\$943,623	\$947,324	\$1,116,041	\$1,042,296	\$1,040,702
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	\$1,360,330	\$759,009
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%	43.38%	57.83%
Covered Employee Payroll (Note A)	\$1,496,013	\$1,506,028	\$1,725,880	\$1,746,349	\$1,689,590	\$1,682,633	\$1,662,147	\$1,586,537	\$1,581,950	\$1,704,482
Net Pension Liability as a Percentage of Covered Employee Payroll	44.99%	61.13%	78.44%	70.99%	70.02 %	99.00%	115.22%	118.65%	85.99%	44.53%

- 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	2022	2023
Judicial Retirement System Plan II										
Total Pension Liability										
Service Cost	\$17,805	\$16,244	\$19,429	\$20,420	\$16,056	\$16,415	\$28,965	\$37,434	\$31,450	\$29,481
Interest	28,004	30,785	30,980	31,671	34,440	36,103	35,248	32,800	38,249	41,248
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)	(4,769)	1,459
Changes of Assumptions	(25,924)	35,653	23,397	(56,699)	0	111,655	113,895	(86,361)	(36,200)	(80,619)
Benefit Payments and Refunds	(16,420)	(19,238)	(21,155)	(23,361)	(24,865)	(29,220)	(32,041)	(35,142)	(37,108)	(40,210)
Net Change in Total Pension Liability	2,825	53,378	46,818	(22,878)	24,168	160,526	133,372	(53,062)	(8,378)	(48,641)
Total Pension Liability - Beginning	383,461	386,286	439,664	486,482	463,604	487,772	648,298	781,670	728,607	720,229
Total Pension Liability - Ending	\$386,286	\$439,664	\$486,482	\$463,604	\$487,772	\$648,298	\$781,670	\$728,608	\$720,229	\$671,588
Plan Fiduciary Net Position										
Contributions - Employer	\$12,211	\$12,457	\$12,374	\$12,495	\$12,560	\$13,100	\$14,186	\$14,322	\$14,385	\$14,686
Contributions - Member	5,195	5,465	5,754	6,017	5,940	6,463	8,634	8,759	8,576	8,830
Pension Plan Net Investment Income	46,186	820	19,862	44,875	39,192	12,832	30,633	120,145	(4,269)	36,047
Benefit Payments and Refunds	(16,420)	(19,238)	(21,155)	(23,361)	(24,866)	(29,220)	(32,041)	(35,142)	(37,108)	(40,210)
Pension Plan Administrative Expense	(267)	(284)	(226)	(295)	(296)	(363)	(273)	(235)	(321)	(244)
Net Change in Plan Fiduciary Net Position	46,905	(780)	16,609	39,731	32,530	2,812	21,139	107,849	(18,737)	19,109
Plan Fiduciary Net Position - Beginning	318,385	365,290	364,510	381,119	420,850	453,380	456,192	477,331	585,179	566,442
Plan Fiduciary Net Position - Ending	\$365,290	\$364,510	\$381,119	\$420,850	\$453,380	\$456,192	\$477,331	\$585,180	\$566,442	\$585,551
Net Pension Liability - Ending	\$20,996	\$75,154	\$105,363	\$42,754	\$34,392	\$192,106	\$304,339	\$143,428	\$153,787	\$86,037
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 %	78.65 %	87.19%
Covered Payroll (Note A)	\$77,441	\$77,501	\$78,261	\$78,190	\$78,772	\$79,711	\$88,579	\$89,583	\$90,028	\$91,665
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 %	170.82 %	93.86%

Note A: 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	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency/(Excess)	Covered Payroll	Actual Contribution as a % of 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
2022	1,259,883,400	1,259,883,400	—	7,205,607,848	17.48
2023	1,305,085,539	2,205,085,540	(900,000,000)	7,856,401,438	28.07
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
2022	62,803,409	21,427,506	41,375,903	1,581,949,840	1.35
2023	67,838,399	24,800,350	43,038,049	1,704,482,394	1.46
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
2022	21,345,576	14,384,970	6,960,606	90,027,734	15.98
2023	21,394,619	14,685,583	6,709,036	91,665,033	16.02

Required Supplementary Information (Continued)

Schedule of Changes in Net OPEB Liability and Related Ratios

(in 000's)

	2017 (Note A)	2018	2019	2020	2021	2022	2023
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	\$1,617,052	\$1,037,900
Interest	1,225,588	1,261,856	1,221,955	1,063,159	755,312	797,736	1,050,906
Changes of Benefit Terms	—	—	—	—	—	—	(133,956)
Difference between Expected and Actual Experience	(501,666)	(935,689)	(89,009)	(818,424)	(15,786)	(482,638)	(201,234)
Changes of Assumptions	(8,728,822)	(5,924,045)	3,006,228	(2,520,337)	1,325,578	(8,588,389)	(2,679,714)
Benefit Payments and Refunds	(728,548)	(662,723)	(740,841)	(737,408)	(768,441)	(705,380)	(835,933)
Net Change in Total OPEB Liability	(6,429,469)	(4,764,622)	4,604,439	(1,473,032)	2,861,581	(7,361,619)	(1,762,031)
Total OPEB Liability - Beginning	41,212,263	34,782,794	30,018,172	34,622,611	33,149,579	(36,011,160)	28,649,541
Total OPEB Liability - Ending	\$34,782,794	\$30,018,172	\$34,622,611	\$33,149,579	\$36,011,160	\$28,649,541	\$26,887,510
Plan Fiduciary Net Position							
Contributions - Employer	\$ 892,205	\$ 307,029	\$ 401,285	\$ 748,369	\$ 766,689	\$ 699,999	\$ 801,019
Contributions - Non-employer Contributing Entity	45,035	16,585	20,183	37,737	39,189	36,751	42,250
Contributions - Federal Revenues for Medicare	1,659	1,418	1,480	1,768	1,584	1,588	1,519
Contributions - Adjustments	(2,071)	—	—	—	—	—	—
Net Investment Income	4,517	10,907	3,323	1,336	233	738	6,464
Health Care Claims	(995,816)	(938,921)	(1,038,588)	(1,076,890)	(1,066,897)	(1,007,573)	(1,139,895)
Payment from Members (Note C)	195,806	203,123	209,837	230,151	192,427	190,660	181,952
Total Benefit Payments	(995,816)	(735,798)	(828,751)	(846,739)	(874,470)	(816,913)	(957,943)
Administrative Expense	(5,629)	(5,818)	(6,008)	(6,815)	(8,607)	(6,774)	(7,913)
Other - Federal Revenues	71,462	73,075	87,909	109,331	106,029	111,533	122,009
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	26,922	7,405
Plan Fiduciary Net Position - Beginning	502,259	709,783	380,430	59,936	104,947	135,653	162,575
Plan Fiduciary Net Position - Ending	\$ 709,783	\$ 380,430	\$ 59,936	\$ 104,947	\$ 135,653	\$ 162,575	\$ 169,980
Net OPEB Liability - Ending	\$34,073,011	\$29,637,742	\$34,562,675	\$33,044,632	\$35,875,507	\$28,486,966	\$26,717,530
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	2.04%	1.27%	0.17%	0.32%	0.38%	0.57%	0.63%
Covered Employee Payroll	\$11,745,310	\$12,047,167	\$12,320,028	\$12,655,247	\$12,586,390	\$12,734,130	\$13,765,151

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.

Required Supplementary Information (Continued)

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
2022	2,111,027,890	738,337,709	1,372,690,181	12,734,129,932	5.80
2023	2,013,370,300	843,269,041	1,170,101,259	13,765,151,105	6.13

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

Schedule of Investment Returns

– Annual Money-Weighted Rate of Return, Net of Investment Expense

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	%	%	%	%	%	%	%	%	%	%
Defined Benefit Plans:										
Employees Retirement Fund	14.58	0.23	5.40	11.84	9.42	2.80	6.70	25.50	(2.19)	6.53
Law Enforcement and Custodial Officer Supplemental Fund	14.55	0.22	5.39	11.80	9.40	2.79	6.64	25.38	(0.46)	6.41
Judicial Retirement System Plan II	14.55	0.23	5.47	11.88	9.40	2.86	6.78	25.53	(0.74)	6.46
Overall	14.58	0.23	5.40	11.84	9.42	2.80	6.70	25.49	(2.09)	6.53
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	0.59	4.61

Required Supplementary Information (Continued)

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, 2023, based on the actuarial assumptions described in Figure 1. These contributions are reported in the Schedule of Employer's Contribution – Defined Benefit Plans.

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, 2023		
Actuarial Cost Method	Entry Age Normal		
Amortization Method	Level Percent of Payroll plus Level Dollar Legacy Payment, Closed	Level Percent of Payroll, Open	
Amortization Period	31 Years		
Asset Valuation Method	Marked to market as of August 31, 2017. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.		
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	2.30%		
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 ("Ultimate MP") and projected from the year 2020. Rates for male LECO members are set forward one year.		
Cost-of-living Adjustments	None – Employee 2.3% – Elected	None	None

Required Supplementary Information (Concluded)

Notes to The Required Supplementary Information (Concluded)

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 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.
- Proportion of future retirees assumed to cover dependent children.
- 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.
- 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.
- The Patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act and the rate of future increases in the fee have been updated to reflect recent plan experience and expected trends.
- The discount rate was changed from 3.59% as of August 31, 2022 to 3.81% as of August 31, 2023 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, 2023
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	3.81%
Projected Salary Increases	2.30% to 8.95%, including inflation
Inflation Rate	2.30%
	HealthSelect
	5.60% for FY2025, 5.30% for FY2026, 5.00% for FY2027, 4.75% for FY2028, 4.60% for FY2029, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2032 and later years
	HealthSelect Medicare Advantage
Healthcare Cost and Trend Rate	16.40% for FY2025, 8.40% for FY2026, 5.00% for FY2027, 4.75% for FY2028, 4.60% for FY2029, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2032 and later years
	Pharmacy
	10.00% for FY2025 and FY2026, decreasing 100 basis points per year to 5.00% for FY2031 and 4.30% for FY2032 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, 2023

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	751,166,232	—	—	—	—	751,166,232
Employer Contributions	—	810,652,959	—	—	—	810,652,959
Legacy Payment and One-Time Additional Funding	—	1,393,971,224	—	—	—	1,393,971,224
Service Contributions from Teacher Retirement System	—	—	111,757,708	—	—	111,757,708
Membership Fees	—	—	—	—	472,357	472,357
Penalty Interest	—	6,893,912	—	—	—	6,893,912
Investment Income:						
Net Appreciation in Fair Value of Investments	—	—	—	1,323,090,963	—	1,323,090,963
Interest and Dividends	—	—	—	774,371,431	—	774,371,431
Class Action Settlements	—	—	—	437,374	—	437,374
Rental Income	—	—	—	—	152,554	152,554
Warrants Voided By Statute of Limitations	—	399,580	—	—	—	399,580
Sale of Surplus Equipment	—	—	—	—	1,520	1,520
Recycling Revenue	—	—	—	—	810	810
Reimbursement - Third Party	—	—	—	—	2,550	2,550
Miscellaneous	—	—	—	—	533,003	533,003
Total Operating Revenues	751,166,232	2,211,917,675	111,757,708	2,097,899,768	1,162,794	5,173,904,177
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits	—	—	2,850,662,055	—	—	2,850,662,055
Death Benefits:						
Active Members	—	5,372,769	—	—	—	5,372,769
Retirees	—	44,277	2,818,789	—	—	2,863,066
Member Contributions Withdrawn	139,434,538	—	—	—	—	139,434,538
Service Contributions to Teacher Retirement System	—	—	32,274,517	—	—	32,274,517
Administrative Expenses	—	—	—	—	74,716,959	74,716,959
Depreciation Expense	—	—	—	—	3,628,209	3,628,209
Lease Interest Expense	—	—	—	—	486,962	486,962
Total Operating Expenses	139,434,538	5,417,046	2,885,755,361	—	78,832,130	3,109,439,075
Income (Loss) Before Non-Operating Expenses and Operating Transfers	611,731,694	2,206,500,629	(2,773,997,653)	2,097,899,768	(77,669,336)	2,064,465,102
Non-Operating Revenues (Expenses)						
Loss on Disposal of Fixed Assets	—	—	—	—	(4,912)	(4,912)
Income (Loss) Before Operating Transfers	611,731,694	2,206,500,629	(2,773,997,653)	2,097,899,768	(77,674,248)	2,064,460,190
Operating Transfers In (Out)						
Distribution of Interest	131,013,856	70,249,223	1,818,140,845	(2,019,403,924)	—	—
Establishment of Benefit Reserves	(410,792,885)	(1,217,137,904)	1,627,930,789	—	—	—
Expenses	—	—	—	(78,495,844)	78,495,844	—
Member Accounts-Escheated	(3,377,310)	3,377,310	—	—	—	—
Excess Benefit Arrangement Transfers	—	—	—	—	(821,596)	(821,596)
Net Operating Transfers	(283,156,339)	(1,143,511,371)	3,446,071,634	(2,097,899,768)	77,674,248	(821,596)
Net Income	328,575,355	1,062,989,258	672,073,981	—	—	2,063,638,594
Account Balances - Beginning	6,691,282,397	(2,119,375,699)	27,414,185,092	—	—	31,986,091,790
Account Balances - Ending	\$ 7,019,857,752	\$ (1,056,386,441)	\$ 28,086,259,073	\$ —	\$ —	\$ 34,049,730,384

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, 2023

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	10,902,287	—	—	—	—	10,902,287
State Retirement Contributions	—	24,800,350	—	—	—	24,800,350
Penalty Interest	—	164	—	—	—	164
Investment Income:						
Net Appreciation in Fair Value of Investments	—	—	—	41,340,201	—	41,340,201
Interest and Dividends	—	—	—	24,706,595	—	24,706,595
Class Action Settlements	—	—	—	13,909	—	13,909
Warrants Voided By Statute of Limitations	—	11,992	—	—	—	11,992
Total Operating Revenues	10,902,287	24,812,506	—	66,060,705	—	101,775,498
Retirement System Benefits Paid:						
Retirement Benefits	—	—	96,071,379	—	—	96,071,379
Refunds of Retirement Contributions	3,419,180	—	—	—	—	3,419,180
Death Benefits:						
Active Members	—	40,860	—	—	—	40,860
Retirees	—	—	—	—	—	—
Administrative Expenses	—	—	—	—	3,837,605	3,837,605
Total Operating Expenses	3,419,180	40,860	96,071,379	—	3,837,605	103,369,024
Income (Loss) Before Operating Transfers	7,483,107	24,771,646	(96,071,379)	66,060,705	(3,837,605)	(1,593,526)
Operating Transfers In (Out)						
Distribution of Interest	1,356,213	(8,359,065)	69,225,952	(62,223,100)	—	—
Establishment of Benefit Reserves	(3,006,804)	(59,572,248)	62,579,052	—	—	—
Distribution of Interest for Administrative Expenses	—	—	—	(3,837,605)	3,837,605	—
Net Operating Transfers	(1,650,591)	(67,931,313)	131,805,004	(66,060,705)	3,837,605	—
Net Income (Loss)	5,832,516	(43,159,667)	35,733,625	—	—	(1,593,526)
Account Balances - Beginning	64,465,379	(38,506,215)	1,016,336,633	—	—	1,042,295,797
Account Balances - Ending	\$ 70,297,895	\$ (81,665,882)	\$ 1,052,070,258	\$ —	\$ —	\$ 1,040,702,271

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, 2023

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	8,796,549	—	—	—	—	8,796,549
Employer Contributions	—	14,685,583	—	—	—	14,685,583
Penalty Interest	—	33,557	—	—	—	33,557
Investment Income:						
Net Appreciation in Fair Value of Investments	—	—	—	22,953,305	—	22,953,305
Interest and Dividends	—	—	—	13,689,594	—	13,689,594
Class Action Settlements	—	—	—	7,730	—	7,730
Warrants Voided by Statute of Limitations	—	4,138	—	—	—	4,138
Total Operating Revenues	8,796,549	14,723,278	—	36,650,629	—	60,170,456
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits	—	—	39,866,180	—	—	39,866,180
Death Benefits:						
Active Members	—	37,044	—	—	—	37,044
Member Contributions Withdrawn	310,516	—	—	—	—	310,516
Administrative Expenses	—	—	—	—	848,404	848,404
Total Operating Expenses	310,516	37,044	39,866,180	—	848,404	41,062,144
Income (Loss) Before Operating Transfers	8,486,033	14,686,234	(39,866,180)	36,650,629	(848,404)	19,108,312
Operating Transfers In (Out)						
Distribution of Interest	1,486,678	8,755,771	25,559,776	(35,802,225)	—	—
Establishment of Benefit Reserves	(8,742,051)	(41,782,997)	50,525,048	—	—	—
Distribution of Interest for Administrative Expenses	—	—	—	(848,404)	848,404	—
Net Operating Transfers	(7,255,373)	(33,027,226)	76,084,824	(36,650,629)	848,404	—
Net Income (Loss)	1,230,660	(18,340,992)	36,218,644	—	—	19,108,312
Account Balances - Beginning	89,229,672	107,867,464	369,345,293	—	—	566,442,429
Account Balances - Ending	\$ 90,460,332	\$ 89,526,472	\$ 405,563,937	\$ —	\$ —	\$ 585,550,741

Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts

Year Ended August 31, 2023

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Personnel Services	\$	\$
Salaries and Wages	23,135,495	15,250,493
Payroll Related Costs:		
Retirement Contributions	2,132,154	1,466,351
Retirement Membership Fees	833	364
Employees Insurance Contributions	2,315,426	946,562
Retirees Insurance Contributions	1,073,095	722,321
Social Security Contributions	1,694,794	947,119
Unemployment Compensation	2,271	762
Total Payroll Related Costs	7,218,573	4,083,479
Total Personnel Services	30,354,068	19,333,972
Professional Fees and Services		
Actuarial Services	987,632	—
Audit Services	291,102	62,016
Investment Consulting Fees	—	3,406,489
Investment Advisors	—	10,073,276
Group Benefits Advisors	952	207
Medical Board Member Fees	54,800	—
Architectural Services	1,255,074	—
Legal Services	482,968	105,086
Computer Programming Services	7,223,964	858,739
Other Professional Services	2,911,639	140,066
Total Professional Fees and Services	13,208,131	14,645,879
Other Services and Charges		
Travel	79,786	463,735
Materials and Supplies:		
Postage	869,472	90,066
General Office and Other Supplies	76,466	13,276
Subscriptions	41,906	52,602
Furniture and Equipment	4,444,499	28,886
Computer Software	295,918	(140,116)
Total Materials and Supplies	5,728,261	44,714
Communications and Utilities:		
Electricity, Gas and Water	490,584	35,222
Telephone and Telegraph	602,085	23,757
Electronic Communication Services	51,686	955,760
Total Communications and Utilities	1,144,355	1,014,739
Repairs and Maintenance:		
Land and Building	219,162	16,149
Furniture and Equipment	17,546	3,819
Computer Software and Equipment	1,327,348	113,988
Total Repairs and Maintenance	1,564,056	133,956
Rentals and Leases:		
Computer Software and Equipment	306,793	21,216
Office Equipment	235,093	59,021
Space	125,319	10,363
Total Rentals and Leases	667,205	90,600
Printing and Reproduction Services	138,449	9,761
Depreciation	3,628,209	—
Amortization	981,041	5,895,453
Interest on Leases	486,962	—

- to next page

Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts

Year Ended August 31, 2023

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Other Services and Charges (continued)	\$	\$
Other Operating Expenses/Expenditures:		
Membership Fees	39,142	104,816
Employee Training	110,616	88,984
Insurance - Building and Vehicle	82,195	9,786
Fees and Other Charges	3,643,593	71,665
Investment Banking	—	1,009,181
Tenure Awards	5,627	1,213
Temporary Employment Agencies	818,200	88,621
Cleaning Services	235,707	32,626
Advertising Services	4,911	1,276
Freight/Delivery Services	6,166	1,381
Purchased Contracted Services	2,514,312	80,766
Prompt Payment Interest	743	129
Social Security Admin Fee Allocation	11,000	—
Third Party Administrator Fee - Cafeteria Plan	901,294	—
Total Other Operating Expenses/Expenditures	8,373,506	1,490,444
Total Other Services and Charges	22,791,830	9,143,402
Total Expenses/Expenditures	66,354,029	43,123,253
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	42,322,176	36,509,954
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	2,480,715	1,356,890
Judicial Retirement System Plan Two Trust Fund (0993)	244,344	604,060
TexaSaver 401(k) Trust Fund (0946)	578,802	71,406
TexaSaver 457 Trust Fund (0945)	105,204	8,510
State Employees Cafeteria Plan Trust Fund (0943)	1,167,537	21,843
State Retiree Health Plan (3973)	7,913,197	—
Total Fiduciary Funds	54,811,975	38,572,663
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	11,468,397	4,550,590
Total Proprietary Fund	11,468,397	4,550,590
Social Security Administration Trust Account (0929)	73,657	—
Total Governmental Funds	73,657	—
Total Method of Finance	\$ 66,354,029	\$ 43,123,253

Note A: \$102,620,328 management fees were deducted and paid from the net asset value of Alternative Investments during Fiscal Year 2023. 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, 2023

Nature of Service	Totals (Note A)
	\$
Actuarial Services	987,632
Audit Fees - Financial	235,000
Audit Fees - Insurance Carrier	(46,826)
Audit Fees - Other	164,944
Investment Consulting Fees	3,406,489
Investment Advisors	10,073,276
Group Benefits Advisors	1,159
Medical Board	54,800
Architectural Services	1,255,074
Legal Services	588,054
Computer Programming Services	8,082,703
Educational Services	89,144
Other Professional Services	1,357,452
Other Consulting Services	1,605,109
Total Professional and Consulting Fees	27,854,010
Method of Finance:	
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	22,651,738
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	945,670
Judicial Retirement System Plan Two Trust Fund (0993)	284,434
Texas\$aver 401(k) Trust Fund (0946)	130,523
Texas\$aver 457 Trust Fund (0945)	16,918
Health Savings Account (4973)	
State Employees Cafeteria Plan Trust Fund (0943)	81,312
State Retiree Health Plan (3973)	1,340,419
Total Fiduciary Funds	25,451,014
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	2,388,719
Total Proprietary Fund	2,388,719
Social Security Administration Fund (0929)	14,277
Total Governmental Funds	14,277
Total Method of Finance	\$ 27,854,010

Note A: The Total Professional and Consulting fees amount reflects both the Investment and Non-Investment portion of fees.

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

Comparison of Actual versus Assumed Investment Performance



Report on Investment Activity

Fiscal Year 2023

Overview

The ERS Trust Fund earned a net return of 6.7% for the Fiscal Year 2023 (“FY23”), outperforming the Policy Benchmark return of 5.9% and closing the period with a fair value of \$35.6 billion. At fiscal year-end, the Trust held 32.7% of its assets in Public Equity, 18.6% in Real Assets (i.e. Public Real Estate, Private Real Estate and Private Infrastructure), 18.4% in Private Equity, 11.5% in Rates, 10.6% in Credit (i.e. Public Credit and Private Credit), 5.9% in Hedge Funds, 2.1% in Cash and 0.3% in Special Situations.

Over the last fiscal year, the global economy grappled with challenges such as tepid growth, banking disruptions, and complications arising from China. Rising interest rates cast their influence across multiple sectors. Nonetheless, the equity market, particularly in developed regions, displayed impressive resilience. Equity markets were supported by positive factors like easing inflation, hopes for lower interest rates, improved earnings cycles, tightening credit spreads, and enthusiasm in Artificial Intelligence. In fixed income, performance diverged across different sectors, with elevated treasury yields affecting overall performance. The real estate market faced its set of challenges, notably as rate hikes increased borrowing costs and raised lending criteria.

Despite a challenging year, performance trends for the Trust relative to the benchmark have remained strong over the longer term. For the five years ended August 31, 2023, the Fund returned 7.7%, well above the Policy Benchmark return of 6.2%. For the 10 years ended August 31, 2023, the Fund returned 8.0%, outperforming the Policy Benchmark return of 7.1%. Such high levels are among the best performances in the industry as well as in the history of the ERS Trust.

During FY23, the Investments Division continued to work with the Executive Director, Board of Trustees, Investment Advisory Committee (IAC) and other divisions within the agency to sustain a competitive investment organization that delivers superior returns. Notable accomplishments during this period included:

- a. Committed \$748 million to Private Equity with allocations to sixteen investments.
- b. Committed \$240 million to Private Credit with allocations to two investments.
- c. Committed \$230 million to Private Real Estate with allocations to four investments.
- d. Committed \$260 million to Private Infrastructure with allocations to four investments.

- e. Committed \$125 million to Hedge Funds with allocations to two investments.
- f. Committed to Special Situations for the first time with a \$100 million allocation to one investment.
- g. Successfully transitioned the Directional Growth Portfolio to the External Public Equities team, and the ERS PAAMCO Launchpad portfolio from the Special Situations Portfolio to the Hedge Funds Program.
- h. Upgraded the Trust-level allocation process to drive incremental long-term returns.
- i. Restructured the Public Equity Program to consolidate the internally managed portfolios into one global sector portfolio (Lone Star Fund), trim the number of satellite managers, and introduce a Global Tactical Portfolio to provide liquidity and manage positioning of the overall asset class.
- j. Expanded the universe of available instruments within the Cash portfolio.
- k. Harmonized the capital planning process across the teams within private markets.
- l. Improved risk reporting with a dedicated team regularly and independently monitoring more than one hundred metrics.

Performance across asset classes was generally positive on an absolute and relative basis. For example, liquid assets such as Public Equity and Public Credit delivered strong performance of 15% and 7.5%, respectively and likewise for private market assets such as Private Credit and Private Infrastructure gaining 12.3% and 11.8%, respectively. Private Real Estate and Private Infrastructure also significantly outperformed their policy benchmark returns.

During Fiscal Year 2023, the division continued to execute on other strategic priorities, including the expansion of the emerging manager program with \$155 million in new commitments. The Investments Division co-hosted another successful TRS/ERS Emerging Manager Conference virtually with Fed President William Dudley as the keynote speaker and over two thousand attendees.

During Fiscal Year 2024, the Investments Division will continue to support retirement income security through initiatives such as increasing investment in the Trust-level allocation decision process, improving data governance and management, procurement for seven investment consulting roles, and streamlining technology subscriptions to reduce expenses.

Report on Investment Activity (Concluded)

Fiscal Year 2023

Equity

Despite facing slower economic growth, turmoil within the banking sector, a rapid rise in global interest rates, an earnings recession, and an inverted yield curve at multi-decade lows – global equity markets posted positive returns for FY23 as fears of a “hard landing” receded to a “soft landing” or “no landing” scenario. Developed Markets significantly outperformed Emerging Markets as China’s disappointing COVID reopening and looming structural concerns (debt, defaults, deflation, and demographics) weighed down the emerging markets index.

Whereas equity market declines during Fiscal Year 2022 were driven by concerns over higher inflation and the risk of recession, returns in FY23 have been best explained by anticipation of a Federal Reserve “pivot” with earnings bottoming and credit spreads tightening, which lifted price-to-earnings (P/E) multiples. The global equity markets rebound commenced in late September 2022 as the primary global risks (i.e., peak inflation, European winter energy crisis, escalation of Sino-U.S. relations) ebbed coupled with excessively bearish investor sentiment and positioning. This drove substantial market gains, particularly in Europe (where stocks advanced roughly 30% in five months) and Emerging Markets (where stocks advanced 25% in three months).

After the Silicon Valley Bank failure and regional banking fallout in the U.S., the bond market “priced in” a recession and multiple rate cuts by the Federal Reserve in late 2023, which pushed down rates and provided a tailwind to risk assets, particularly for long duration equities. U.S. economic surprises reached a two-year high, pushing the highly anticipated recession further out, and the positive swing in sentiment and positioning was further boosted by the Artificial Intelligence (AI) frenzy and solid earnings. Meanwhile, Europe and China economic data started to decouple from the U.S. and Japan, posting the weakest economic surprises since the Global Financial Crisis (GFC) and COVID. Indeed, the exceptionalism of U.S. equity markets continued with the S&P 500 Index outperforming other regions the last few months of the fiscal year.

Factor Performance: Factor returns were mostly positive in FY23 amid the higher global equity markets. Growth and Quality outperformed as U.S. technology and AI-leveraged themes drove leadership within the global equity universe. Large capitalization stocks bested small and mid-capitalization stocks across most regions as investors

preferred shorter duration assets and better capitalized companies given the higher funding cost.

Sector Performance: Sector leadership in FY23 was pro-cyclical driven largely by Information Technology, Industrials and Communication Services as cautious positioning and strong U.S. economic data pushed investors toward risk assets. Financials underperformed as investors worried about credit risk as consumers exhausted excess savings and experienced tighter lending conditions. Healthcare lagged the market due to tough COVID comps and pricing headwinds. Higher real rates and the risk-on rotation hurt Utilities and Consumer Staples. Real Estate posted the worst returns due to higher rates and looming Commercial Real Estate defaults.

Public Real Estate

Global public real estate markets recorded weak performance for FY23, down 4.5% as measured by the FTSE EPRA / NAREIT Developed Index. Both the US market and the international market finished the fiscal year in negative territory, down 3.1% and 6.7%, respectively. Inflation has been the key driver of the Federal Reserve’s dramatic interest rate actions over FY23. Real estate as an interest rate sensitive sector experienced a decline in earnings as rising interest expenses eroded profits. Bond yields rose significantly during the fiscal year with US 10 Year Treasury yield increasing by 92 basis points and real estate capitalization rates rose accordingly.

Meanwhile, the US banking industry turmoil in the first half of 2023 resulted in a meaningful tightening of lending standards, restricting access to capital across the board. Commercial real estate, suffering from rising funding costs and tightening access to capital, saw values decline. With challenges in securing funding, transactions dried up because buyers and sellers were far apart on pricing. Despite such a muted transaction market, a significant amount of real estate dry powder remains to be deployed.

Leading economic indicators continue to signal weakening growth prospects for the economy. However, consumers have shown surprising strength. With the labor market remaining tight, they continued to dig into excess pandemic savings to fuel consumption. Whether this strength will lead to a “soft landing” remains to be seen. However, inflation pressures were easing over the recent months and the market seemed to anticipate that global central banks are close to the end of the hiking cycle.

Report on Investment Activity (Continued)

Fiscal Year 2023

Among the major real estate sectors, retail was the only sector posting a positive return of 11.5% for FY23, significantly outperforming due to several factors. Retail had one of the higher cap rates and has not seen much supply over the last several years. As a result, the fundamentals are now better balanced and skewed in favor of landlords. Coupled with the post pandemic pent up demand, retail turned from out of favor into being back in vogue. Industrial posted -0.1% returns, a continued moderation from very strong returns during the pandemic (FY20 +21.8%, FY21 +32.6%, FY22 -14.7%). Industrial continues to see strong rental growth, albeit moderating, supported by robust demand dynamics. Office was the worst performer, down 13.5%, as the sector continued to face structural headwinds such as hybrid work style.

Private Real Estate

Since inception (2008) through Fiscal Year End 2023 ("FYE23"), the Private Real Estate ("PRE") program has closed more than \$6.5 billion in commitments to 102 investments (88 commingled funds and 14 co-investments). There are 89 active investments today with \$1.4 billion unfunded commitments as of FY23. ERS currently holds Limited Partner Advisory Committee (LPAC) seats in 84 funds and Limited Partner Observer Seats in three funds. Approximately \$5.9 billion in capital has been called and the net asset value of the ERS Private Real Estate portfolio stands at approximately \$3.8 billion. ERS has received \$4.5 billion as income, realized gains or a return of principal, resulting in a 0.8x Distribution to Paid in Capital.

Private Real Estate program has produced total Time Weighted Returns ("TWR") net of fees of 10.9%, and Total Value to Paid In capital (TVPI) of 1.4x since inception through FY23. The market disruption and a significant slowdown in transaction volumes resulted in lower than expected distributions for FY23. As the market normalizes and the portfolio matures, more meaningful distributions from realizations will continue to balance annual cash inflows and outflows.

For FY23, ERS committed \$230 million across four investments. These commitments consist of both domestic and international strategies including one top-up commitment to an existing fund, two new commitments with existing manager relationships (re-ups), and one new manager. For FY23, Staff has focused on select sectors including primarily industrial opportunities to reduce the current non-strategic program underweight, as well as well-positioned non-core US residential. ERS staff continues to build its Pan-Asian exposure as well. These commitments

were above the commitment target of \$200 million but below the upper range of \$300 million.

Given significant market disruption from rapidly rising interest rates and the resetting of cap rates/repricing in the sector, Private Real Estate return for FY23 ended slightly negative, generating a -2.1% TWR net of fees, but significantly outperforming the benchmark return of -10.7%, producing a positive relative return of 8.6%. As of FYE23, the Private Real Estate portfolio represented 10.7% of the Trust assets, 170 bps (approx. 20%) above the 9% target, though it remains within the tactical range of 4%-14% per policy guidelines.

The current trust allocation to Private Real Estate primarily results from the strong appreciation, with the NAV increasing by 26.8% over FY22, from post-COVID to the market peak in early 2022 and the denominator effect (i.e., variance in the size of the overall Trust portfolio due to increases or decreases in value to other asset classes). These effects are expected to moderate as private market returns normalize and public markets performance improves. The fiscal year to date 3% NAV increase is a combination of the net capital called and positive income returns, offset by 2% depreciation of the value of existing portfolio investments. For FY23/24, Staff continues to add prudently to the portfolio on a glide path to return to the 9% target allocation while maintaining appropriate vintage year exposure for FY23 and beyond.

Private Infrastructure

For FY23, Private Infrastructure made four fund commitments totaling \$260 million. In August 2022 the target Trust allocation to Private Infrastructure was reduced from 7% to 5%. The tactical plan for FY23 targeted commitments \$250 million with a range of \$200 million to \$300 million, aiming at returning the portfolio to its current 5% target allocation in coming years while prudently maintaining vintage year diversification.

Since the inception of the program \$2.7 billion in capital has been called and ERS has received back \$1.3 billion in income, realized gains, or a return of principal, resulting in a 0.47x Distribution to Paid in Capital.

From inception through FY23, Private Infrastructure has closed on thirty co-investments and twenty-eight funds with commitments totaling \$3.13 billion (adjusted for currency). ERS holds an LP Advisory Committee seat on twenty-three funds and an

Report on Investment Activity (Concluded)

Fiscal Year 2023

observer seat on three funds. At the end of FY23, the Infrastructure portfolio net asset value was \$2.19 billion, or 6.2% of the System's assets, compared to \$1.83 billion, or 5.5%, at the end of FY22.

Infrastructure generally continued to display resilience and inflation protection characteristics, as expected from the asset class in the long term, which partially offset the generalized slight increases in discount rates. Its relative strong performance compared to other asset classes has exacerbated the denominator effect among most infrastructure investors, leading to a significant slowdown in fundraising activity. The portfolio benefited from its geographic, sector, currency and manager diversification as well as its direct and co-investment program. The majority of the portfolio continues to be invested in energy/power and digital infrastructure assets and in developed economies (about 70% and 68% respectively as of June 30, 2023).

Private Equity

Since inception through Fiscal Year End 2023, the Private Equity program ("PE") has closed on \$12.4 billion in commitments to 219 investments (144 commingled funds and 75 co-investments). There are 172 active investments today with \$2.8 billion unfunded as of FY23. ERS currently holds Limited Partner Advisory Committee seats in 90 funds and Limited Partner Observer Seats in four funds. Approximately \$10.7 billion in capital has been called and the net asset value of the portfolio stands at \$6.5 billion, compared to \$6.5 billion a year earlier. ERS has received \$10.0 billion in distributions resulting in a 0.9x Distribution to Paid in Capital.

PE has produced total TWR net of fees of 12.2%, and Total Value to Paid In capital (TVPI) of 1.5x since inception through FYE23. Despite a significant market slowdown in transaction volumes, Capital Distributions outpaced Capital Calls in FY23.

During FY23 the program closed on 16 investments, including 6 co-investments, with commitments totaling \$748 million versus an approved commitment budget of \$600 million and a tactical range of \$450 million to \$750 million. Commitments reached the high end of its tactical range driven by attractive co-investment opportunities that were sourced by staff from existing private equity managers.

As market interest rate rose significantly, private equity managers sought additional capital from strategic LPs to obtain necessary capital to complete transactions. This allowed the program to source attractive co-investment opportunities during FY23.

Despite the slowdown in M&A transactions and declines in private equity valuations, the PE portfolio delivered a return of almost 1.0% to the Trust during FY23.

Rates & Cash

The U.S. economy improved during Fiscal Year 2023 as growth remained steady and prospects of a recession or "hard landing" eased. Inflation fell from 8.3% y/y to 3.7% y/y as the Federal Reserve continued its hiking campaign by taking the target rate from 2.5% to 5.5%. The successive hikes contributed to bouts of volatility during the year in most asset classes. However, the volatility index known as VIX finished the year near its lowest levels of 13.57 after a high of 33.63 in October and an average of 20.31 for the year. High yield spreads confirmed this move by ending the year at 3.73% versus the annual average of 4.43%.

Over the course of the Fiscal Year, Treasury yields increased and the yield curve inverted further in response to Fed tightening. The 10-year Treasury yield increased 91 basis points to 4.11% and the yield spread between two year and ten year Treasuries increased from -31 basis points to -76 basis points.

Against this backdrop, interest rate assets saw lower returns as a result of higher Treasury yields. However, credit spreads allowed some asset classes to realize positive gains. Securities with longer duration, such as investment grade corporate bonds, fell more than shorter duration instruments. It is noteworthy to add that the 3-month Treasury Bill index, often seen as a surrogate for cash, gained 4.25%.

- a. **Labor Market:** Job creation exceeded expectations as non-farm payrolls increased 3.1 million, dropping the unemployment rate to a low of 3.4% before ending at 3.8% as more workers entered the labor force. However, continuing jobless claims show employers are starting to reduce their headcount as those claims increased by 368 thousand to 1.7 million.
- a. **Inflation:** Almost all measures of inflation fell from elevated levels as supply chains improved and tighter monetary policy worked its way through the economy. Inflation started the Fiscal Year at 8.2% before falling rapidly to a low of 3.0% before ending the year at 3.7%. Durable goods prices have contributed to the majority of the decline while prices for services have remained stubbornly high.

Report on Investment Activity (Continued)

Fiscal Year 2023

- a. **Manufacturing:** New orders for durable goods fell over the year as companies temper their spending plans against a backdrop of higher capital costs, tighter loan standards, and lingering concerns about the U.S. economic outlook. Much of the positive gains in orders come from higher prices. However, when adjusting for inflation, several months show losses. These factors are steering some prospective buyers toward new construction while others have pulled out of the market altogether.
- a. **Housing:** Existing home sales are well below typical levels as a result of higher borrowing costs and a lack of inventory. Homeowners have been discouraged from listing their properties as mortgage rates have more than doubled over the past few years, keeping asking prices elevated.

Credit

Market conditions for FY23 for credit and hedge funds were relatively strong as the pace of inflation declined and investors became less concerned about the ultimate size of the Fed's monetary tightening. The weighted average yield on below investment grade bonds ended the year at 8.43%, which was only one basis point higher than where they began. High yield bonds' average credit spread tightened approximately the same amount as underlying Treasury yields increased, but default rates increased approximately 50 bps to 1.3% overall and the average recovery rate on these defaulted issues fell from 55% to 24%. Those losses detracted approximately 1%, but Public Credit's benchmark still returned 7.19% for the year.

In Private Credit, the Fed's target for short-term rates rose by 3.0% (from 2.5% to 5.5%) in FY23, which resulted in the same increase in the Secured Over-Night Finance Rate (SOFR), which is the base rate charged on almost all commercial bank loans. Unlike high yield bonds, which have fixed coupon payments, commercial bank loans are floating rate instruments and their coupon payments increased to reflect the increase in SOFR, as opposed to bonds, whose prices fell to make their yields increase. The weighted average price of bank loans increased from \$94.26 to \$95.36 in the year. As with high yield bonds, defaults on bank loans more than doubled to 2.2% with recovery rates falling from 60% to 40%, but despite those headwinds the Private Credit benchmark returned 11.44% for the period.

Hedge Fund

Market conditions for hedge fund strategies were bifurcated during FY23. The year began with a sharp downward move in equity markets, which was followed by a period of chop and sideways price movement as calendar 2022 moved into Q1 of 2023. It took until March 2023 for the S&P 500 Index to rise sustainably above its August 2022 low of 3,955. From Q2 2023 until the end of the fiscal year, global markets steadily rose. Investors gravitated toward risk assets, with sentiment shifting in favor of the Fed engineering a soft landing. The aggressive rate increases noted above caused the portfolio's Treasury Bill-based benchmark return to increase rapidly, and at the current Fed Fund's target of 5.50%, equates to a 9.0% target return. While the performance of the ERS Hedge Fund Program was positive during the fiscal year, the investment strategies employed by the funds were challenged to keep pace with the benchmark.

During FY23, the Hedge Fund team made two new hedge fund investments totaling \$125 million. Additionally, the Hedge Fund team successfully transitioned the Directional Growth Portfolio to the External Public Equities team and incorporated the ERS PAAMCO Launchpad Portfolio from the Special Situations Portfolio into the Hedge Fund Program.

Key Portfolio Statistics

Statistics	2023	2022
Contributions to Pool	2,469,300,000	1,775,200,000
Withdrawals from Pool	(2,634,600,000)	(2,815,700,000)
Interest & Dividends	810,022,876	808,706,642
Securities Lending Net Income	2,744,744	2,175,990
Net Appreciation in Fair Value	1,387,384,469	(1,505,058,777)

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 2023

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;
- Diligently 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 fair 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 strategic asset allocation, (2) adoption of individual

Outline of Investment Policies (Concluded)

Fiscal Year 2023

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

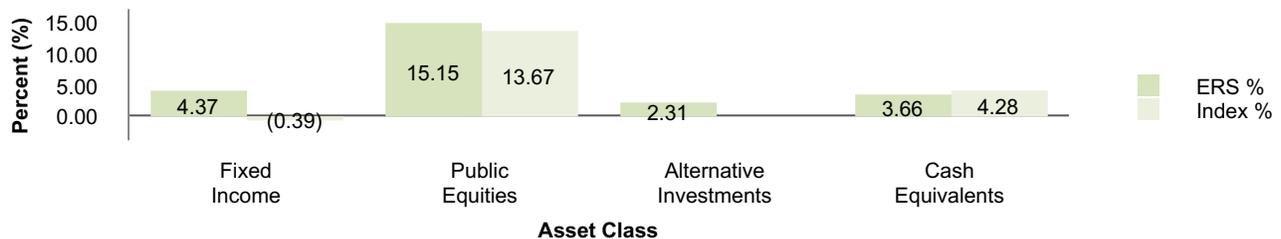
Time-Weighted Rates of Return and Asset Allocations

Investment Pool

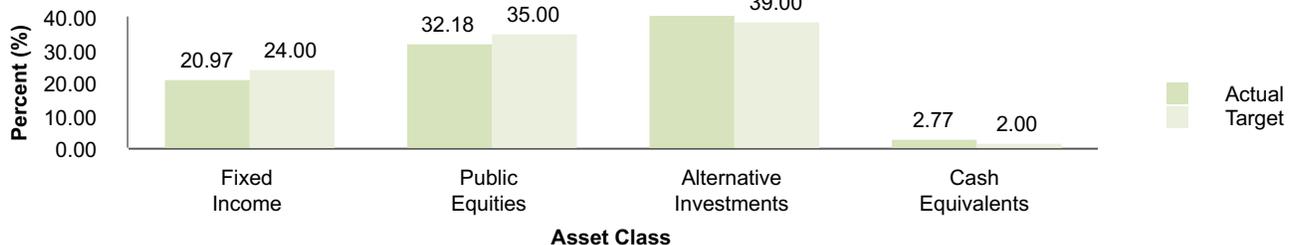
August 31, 2023

	Time-Weighted Rates of Return (Note A)								
	2019	2020	2021	2022	2023	3 Year (2021-2023)	5 Year (2019-2023)	10 Year (2014-2023)	
	%	%	%	%	%	%	%	%	%
Fixed Income									
ERS	6.57	4.16	9.17	(6.63)	4.37	2.09	3.38	3.18	
Index	10.08	6.41	0.88	(11.85)	(0.39)	(3.96)	0.74	1.77	
Public Equities									
ERS	(1.48)	13.61	31.16	(15.08)	15.15	8.65	7.50	8.71	
Index	(1.12)	15.81	30.43	(16.02)	13.67	7.58	7.35	8.69	
Alternative Investments									
ERS	6.47	0.98	31.05	14.92	2.31	15.50	10.62	10.70	
Index	NA	NA	NA	NA	NA	NA	NA	NA	
Cash Equivalents									
ERS	2.16	1.02	(0.13)	0.50	3.66	1.33	1.43	1.59	
Index	2.36	1.26	0.08	0.38	4.28	1.56	1.66	1.07	
ERS Overall									
ERS	3.04	6.85	25.51	(1.55)	6.75	9.67	7.75	8.04	
Index	3.06	8.17	18.50	(3.38)	5.92	6.64	6.22	7.06	
Change in CPI	1.78	1.01	5.22	8.41	3.30	5.62	3.91	2.71	

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. Time-weighted returns are calculated by geometrically linking their respective daily time-weighted returns. 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:

$$\left(\frac{\text{Ending Fair Value}}{\text{Beginning Fair Value} \pm \text{Net External Cash Flows}} - 1 \right) * 100$$

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

Fixed Income Securities Portfolio:	Barclays Capital Universal
Public Equities Portfolio:	Public Equity
Cash Equivalents Portfolio:	BofA Merrill Lynch 3 Month US Treasury Bill Consumer Price Idx All Item Seasonal Adj 1 Month in Arrears

Basis of Presentation: Master custodian records.

Broker Commissions

Year Ended August 31, 2023

Domestic Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		\$	\$
Baird, Robert W & Co., Inc.	4,769,390	80,296	0.017
Barclays Capital	3,846,654	68,571	0.018
BMO Capital Markets Corp.	2,733,734	45,949	0.017
BNY Mellon Clearing	9,692,630	188,309	0.019
Capital Institutional Services, Inc.	326,015	9,246	0.028
Citigroup Global Markets, Inc.	2,414,908	35,608	0.015
Cowen & Co., LLC	2,571,749	51,435	0.020
Credit Suisse	2,146,507	42,930	0.020
Goldman Sachs	5,337,069	106,741	0.02
Instinet LLC	4,960,201	99,204	0.020
International Strategy Investment Group, Inc.	4,960,201	99,204	0.020
Jefferies & Co, Inc.	9,103,712	182,074	0.020
JP Morgan Securities, LLC	10,807,273	181,072	0.017
Keybank Capital Markets, Inc.	1,100,665	22,013	0.020
Liquidnet, Inc.	1,406,769	28,135	0.020
Merrill Lynch & Co., Inc.	20,110,143	426,294	0.021
Morgan Stanley & Co., Inc.	7,681,923	152,638	0.020
National Financial Services, LLC	8,294,685	148,881	0.018
Needham & Company, LLC	197,000	3,940	0.020
Piper Jaffray	268,052	4,099	0.015
Stifel, Nicolaus & Co., Inc.	5,215,039	90,297	0.017
SunTrust Robinson Humphrey, Inc.	1,841,880	36,838	0.020
UBS	4,727,517	79,151	0.017
Wells Fargo Securities, LLC	6,750,626	119,937	0.018
	139,242,815	2,662,431	0.019

- to next page

Broker Commissions (Concluded)

Year Ended August 31, 2023

International Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
	\$	\$	
Arqaam Capital Ltd	410,175	134	0.000
Bank of America	3,204,912	71,602	0.022
Barclays Capital	6,102,623	125,882	0.021
Berenberg	1,197,739	53,208	0.044
BMO Nesbitt Burns	4,093,814	61,540	0.015
BNP Paribas	7,055,763	156,550	0.022
BNY Mellon Clearing	6,366,483	258,729	0.041
Caceis Bank	1,459,597	76,124	0.052
Calyon Securities	451,940	34	0.000
Citigroup Global Markets, Inc.	60,596,289	311,303	0.005
CLSA	8,681,263	89,755	0.010
Credit Lyonnais Securities	32,780,201	200,003	0.006
Credit Suisse	2,628,030	95,847	0.036
Daiwa Securities	55,998,536	512,810	0.009
Exane	12,507,317	178,937	0.014
Financial Brokerage Group	75,138	1,704	0.023
Fubon Securities Co., Ltd.	338,000	3,122	0.009
HSBC	51,680,047	318,820	0.006
Investec Securities Limited	856,430	11,560	0.013
Jefferies & Co, Inc.	70,525,369	617,291	0.009
JP Morgan Securities, LLC	148,912,373	646,194	0.004
Kepler Cheuvreux	1,683,048	91,751	0.055
Liquidnet, Inc.	3,179,043	32,605	0.010
Macquarie Securities (USA), Inc.	93,247,113	358,734	0.004
Merrill Lynch & Co., Inc.	37,894,615	943,232	0.025
Mirae Asset Securities	262,164	1,601	0.006
Mitsubishi Securities	5,016,064	162,559	0.032
Mizuho Securities USA, Inc.	715,000	48,819	0.068
Morgan Stanley & Co., Inc.	38,132,153	441,787	0.012
Parel	1,836,254	94,096	0.051
Raymond James & Associates Inc.	2,940,927	50,483	0.017
RBC Capital Markets	577,404	8,828	0.015
Sanford C Bernstein & Co., Inc.	9,233,299	380,698	0.041
Santander	24,834,435	136,019	0.005
Societe Generale	176,643	3,912	0.022
Stifel, Nicolaus & Co., Inc.	677,385	2,197	0.003
UBS	7,028,254	191,454	0.027
Unibank	382,000	5,815	0.015
	703,737,840	6,745,739	0.010

Basis of Presentation: Master custodian records.

Fees for Alternative Investments

Year Ended August 31, 2023

Investment Type	Management Fees		Profit Share		Other Fees
	Asset Value	(Note A)	(Note B)		
	\$	\$	\$	\$	
Private Equity	6,547,464,476	35,196,688	33,505,233		18,582,708
Private Real Estate	3,797,060,181	23,590,623	10,932,710		9,414,813
Private Infrastructure	2,186,694,979	15,588,880	11,864,679		5,166,544
Private Fixed Income	1,313,436,387	964,506	—		3,719,794
Hedge Funds (Note C)	2,585,059,503	25,788,223	15,322,681		8,143,929
Public Equity	448,689,913	1,491,409	1,852,392		—
Grand Total	16,878,405,439	102,620,329	73,477,695		45,027,788

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, 2023 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, 2022 to June 30, 2023 and September 1, 2022 to June 30, 2023 due to timing issues.

Investment Advisory and Service Fees

Year Ended August 31, 2023

Advisory Service	Asset Value	Fees	Basis Points	Other Investment Services	Fees
	\$	\$			\$
Public Equity Advisors	1,453,009,202	7,704,321	53	Custodian Fees	1,007,880
Total	1,453,009,202	7,704,321	53	Security Lending Agent Fees	302,978
				Investment Consultant Fees	3,406,488
				Investment Banking Fees:	16,330
				Total	4,733,676

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 \$1,363,971 during Fiscal Year 2023.

Basis of Presentation: Master custodian records.

List of Largest Assets Held (Note A)

Year Ended August 31, 2023

Ten Largest Stock Holdings

No. of Shares	Description	Fair Value
1,088,100	VANGUARD S&P 500 ETF	450,288,423
2,060,691	APPLE INC	387,142,018
1,006,729	MICROSOFT CORP	329,965,497
1,677,026	AMAZON.COM INC	231,446,358
452,779	NVIDIA CORP	223,469,075
1,539,540	ALPHABET INC	211,455,819
379,559	MASTERCARD INC	156,621,226
508,519	META PLATFORMS INC	150,465,687
1,105,000	EXXON MOBIL CORP	122,864,950
2,327,436	SAMSUNG ELECTRONICS CO LTD	117,802,553

Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
65,000,000	U S TREASURY NOTE 0.625% 08/15/2030 DD 08/15/20 AA+	51,217,969
60,000,000	U S TREASURY NOTE 1.250% 08/15/2031 DD 08/15/21 AA+	48,450,000
60,000,000	U S TREASURY NOTE 0.875% 11/15/2030 DD 11/15/20 AA+	48,018,750
55,000,000	U S TREASURY NOTE 1.125% 02/15/2031 DD 02/15/21 AA+	44,678,906
55,000,000	U S TREASURY NOTE 1.375% 11/15/2031 DD 11/15/21 AA+	44,575,781
45,000,000	U S TREASURY NOTE 2.000% 02/15/2025 DD 02/15/15 AA+	43,034,766
50,000,000	U S TREASURY NOTE 1.625% 05/15/2031 DD 05/15/21 AA+	41,875,000
40,000,000	U S TREASURY NOTE 4.625% 06/30/2025 DD 06/30/23 AA+	39,776,562
40,000,000	U S TREASURY NOTE 2.125% 05/15/2025 DD 05/15/15 AA+	38,131,250
40,000,000	U S TREASURY NOTE 3.500% 02/15/2033 DD 02/15/23 AA+	38,093,750

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, 2023

Type of Investment	Pooled Trust Funds (Note A)				Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fund 0973	Fair Value	% Total
	\$	\$	\$	\$		
Public Equities:						
Domestic Equities	5,564,208,308	171,445,067	96,611,494	4,970,702	5,837,235,571	15.07 %
Foreign Equities	4,055,537,989	124,950,022	70,458,392	549,929	4,251,496,332	10.97 %
Exchange Traded Funds	621,184,539	19,138,261	10,793,224	—	651,116,024	1.68 %
Real Estate Investment Trust	765,295,303	23,578,212	13,297,182	—	802,170,697	2.07 %
Total Public Equities	11,006,226,139	339,111,562	191,160,292	5,520,631	11,542,018,624	29.79 %
Fixed Income:						
U.S. Treasury Securities	2,964,467,584	90,360,880	53,942,244	1,262,131,473	4,370,902,181	11.29 %
U.S. Government Agency Obligations	775,581,100	23,640,734	14,112,681	330,206,108	1,143,540,623	2.95 %
Corporate Obligations	1,709,132,341	53,655,964	25,378,804	316,071,033	2,104,238,142	5.43 %
Corporate Asset and Mortgage Backed Securities	17,762,528	555,436	271,810	3,864,364	22,454,138	0.06 %
Real Estate Investment Trust	5,481,152	172,074	81,389	1,013,634	6,748,249	0.02 %
Foreign Obligations	393,006,263	12,337,915	5,835,726	72,678,920	483,858,824	1.25 %
Total Fixed Income	5,865,430,968	180,723,003	99,622,654	1,985,965,532	8,131,742,157	21.00 %
Alternative Investments	15,674,450,228	482,918,036	272,347,262	—	16,429,715,526	42.41 %
Other Investments	211,013,568	6,501,197	3,666,230	99,900	221,280,895	0.57 %
Short-term Investments:	—	—	—	—	—	— %
Investment in Pool Cash	5,287,894	178,613	89,716	—	5,556,223	0.01 %
Other Short-term Investment	823,485,928	25,157,509	14,420,606	1,548,211,637	2,411,275,680	6.22 %
Total Short-term Investments	828,773,822	25,336,122	14,510,322	1,548,211,637	2,416,831,903	6.23 %
Total Before Securities Lending Collateral (Notes B & C)	33,585,894,725	1,034,589,920	581,306,760	3,539,797,700	38,741,589,105	100.00 %
Securities Lending Collateral	387,100,654	11,926,757	6,725,873	41,783,786	447,537,070	
Total Pension Investment Pool						
Trust Fund (0888)	33,972,995,379	1,046,516,677	588,032,633	3,581,581,486	39,189,126,175	
Cash Equivalents:						
Cash in State Treasury	70,342,542	2,789,269	1,650,986	177,121,301		
Total Investments	34,043,337,921	1,049,305,946	589,683,619	3,758,702,787		

Note A: The 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					Total
	Fund 0955	Fund 0977	Fund 0993	Fund 0973		
	\$	\$	\$	\$	\$	
Total Fair Value of Investments Before Securities Lending Collateral, as above	33,585,894,725	1,034,589,920	581,306,760	3,539,797,700		38,741,589,105
Unsettled Sales-Investment Receivables	67,227,226	2,079,456	1,132,501	2,605,067		73,044,250
Unsettled Purchases-Investment Payables	(40,463,256)	(1,246,645)	(703,058)	—		(42,412,959)
Accrued Interest and Dividends/Tax Reclaims Receivable/Prepaid Fees	104,016,329	3,221,455	1,724,832	14,108,321		123,070,937
Securities Lending Fees Payables/Miscellaneous Payables	(1,790,766)	(55,527)	(29,575)	(117,434)		(1,993,302)
Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards	33,714,884,258	1,038,588,659	583,431,460	3,556,393,654		38,893,298,031

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.

Gain Share Interest Rate (GSIR) Calculation

August 31, 2023

Gain Share Interest Rate (GSIR) Calculation

In 2021, the 87th Texas Legislature enacted Senate Bill 321 in an effort to return the ERS Pension Trust to long-term financial solvency and to initiate structural changes to mitigate future financial liability risk. The legislation established an annual Legacy payment to retire the Trust's unfunded liabilities by 2054, coupled with a new cash balance benefit for employees. The cash balance benefit, known as Group 4, applies to employees who begin state service on or after September 1, 2022, who do not already have a retirement account with ERS.

As part of the plan design for the cash balance benefit structure, the Legislature included a gain-sharing provision for Group 4 members and annuitants to share in the investment returns generated by the ERS Trust. A gain-sharing adjustment is made to Group 4 member account balances and annuity payments when the average annual net return of Trust fund investments over the preceding five-year matched performance period ending August 31 exceeds 4%. The five-year matched performance figure is calculated using the Global Investment Performance Standards methodology, net of all internal and external investment expenses.

The gain-sharing adjustment to Group 4 members and annuitants is determined solely by the

five-year matched performance for the period ending each August 31. Per statute, the ERS Trust and Group 4 population split the returns in excess of 4%. If the five-year matched performance number exceeds 10%, then the gain sharing adjustment to the Group 4 population is capped at 3%. If the five-year matched performance figure is equal to or below 4%, then no gain sharing adjustment is made

The five-year matched performance number for the period ending August 31, 2023 is 7.53%. This results in a Gain Sharing Interest Rate (GSIR) of 1.77%, rounded to the nearest basis point, to be applied to Group 4 member accounts and annuity payments.

GSIR Calculation
$GSIR = (5\text{-year matched performance} - 4\%) \div 2$
$GSIR = (7.53\% - 4\%) \div 2$
$GSIR = 3.53\% \div 2$
$GSIR = 1.765\%$ rounded up to the nearest basis point 1.77%

The gain sharing adjustments will be applied in December 2023. For Group 4 members, the gain sharing adjustment will be applied to their account balance as of August 31. For Group 4 annuitants, the gain sharing adjustment will be applied to their monthly payment amount beginning with their December 29, 2023 payment.

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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December 4, 2023

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, 2023

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, 2023, 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, 2023 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, 2023, 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

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Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
December 4, 2023
Page 2

Actuarial Standards of Practice issued by the Actuarial Standards Board. The actuarial assumptions and 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.

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. However, after recognizing the one-time lump sum funding from the most recent legislative session paid on September 8, 2023, for LECOSRF and JRS-2, the fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current plan members for all three plans (ERF, LECOSRF and JRS-2). 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. 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

There were no material changes to the plan provisions of ERF and LECOSRF during the past year. A cash balance structure was adopted for judges who take office on or after September 1, 2024. 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 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.



Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
December 4, 2023
Page 3

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 less than 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 budgeted for each biennium to fully amortize the Unfunded Actuarial Accrued Liability (UAAL) as required before the end of fiscal year 2054. The 2023 Legislature appropriated \$510 million per year for fiscal years 2024 and 2025. We recommended a continued appropriation of \$510 million which is still expected to eliminate the UAAL before the end of fiscal year 2054. The target date of 2054 produces an amortization period of 31 years as of this 2023 valuation.

For transparency, based on the results of this actuarial valuation, the minimum annual Legacy Payment beginning in FY2024 that would be expected to eliminate the UAAL by 2054 in accordance with Section 815.407 is \$385 million. However, we recommend the actual contributions remain at the \$510 million shown in the original legislative analysis. This will not only accelerate the pace the UAAL is eliminated, but will significantly reduce the volatility experienced in the Legacy Payments from biennium to biennium.

The unfunded actuarial accrued liability (UAAL) decreased from \$14.2 billion as of August 31, 2022 to \$14.0 billion as of August 31, 2023. **Combined with the new Legacy Payment contribution structure, and assuming all other assumptions are met, it is likely the UAAL will decrease slowly for the next few years and then start to more meaningfully decline year over year going forward.**

The funded ratio—actuarial value of assets divided by the actuarial accrued liability—increased from 68.9% to 70.8% as of August 31, 2023. This increase in the funded ratio was primarily due to the additional State contributions received during fiscal year 2023 as part of Senate Bill 30. 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.

With the Legacy Payment structure, every objective of this 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 next year and the fourth level will be met within the next decade.



Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
December 4, 2023
Page 4

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. Member contributions are 0.50% of compensation for all members hired before September 1, 2022 and 2.00% for members hired on or after September 1, 2022, resulting in a blended rate of 0.68% as of September 1, 2023. For the fiscal year beginning September 1, 2023, House Bill 1 increased State contributions from 0.50% to 1.25% 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 2024 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 2024, the contribution from court fees is expected to be approximately 0.83% of payroll. The total expected contribution for fiscal year 2024, as a rate of pay, is 3.26%.

The unfunded actuarial accrued liability (UAAL) of LECOSRF decreased from \$715 million as of August 31, 2022 to \$0.1 million as of August 31, 2023. Additionally, the LECOSRF funded ratio—actuarial value of assets divided by the actuarial accrued liability—increased from 58.6% to 100.0%, as of August 31, 2023. This drastic increase in the funded ratio was due to the \$772 million allocated to the fund by House Bill 1.

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.

After reflecting the House Bill 1 changes, there is no unfunded liability and all Board objectives are currently being met. The total contribution rate for the current fiscal exceeds the normal cost of 2.11% of pay, and is sufficient to fund the ongoing costs of the plan.

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, 2023, members accruing benefits contribute 9.50% of pay. 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, 2023 is 9.36% of payroll. For the fiscal year beginning September 1, 2023, House Bill 1 increased State contributions from 15.663% to 19.25% of payroll. The total expected contribution for fiscal year 2024, as a rate of pay, is 28.61%.

The unfunded actuarial accrued liability (UAAL) of JRS-2 decreased from \$88.9 million as of August 31, 2022 to a surplus of \$7.8 million as of August 31, 2023. Additionally, the JRS-2 funded ratio—actuarial value of assets divided by the actuarial accrued liability—increased from 86.2% to 101.2%, as of August 31, 2023. This drastic increase in the funded ratio was due to the \$99 million allocated to the fund by House Bill 1.



Actuary's Certification Letter – Pension Plans (Concluded)

Board of Trustees
December 4, 2023
Page 5

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.

After reflecting the House Bill 1 changes, there is no unfunded liability and all Board objectives are currently being met. The total contribution rate for the current fiscal exceeds the normal cost of 28.24% of pay, and is sufficient to fund the ongoing costs of the plan.

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. 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



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



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



Thomas J. Bevins, ASA, MAAA
Consultant & Actuary



Actuarial Balance Sheet –

Employees Retirement Fund

August 31, 2023 (With Comparative Totals at August 31, 2022)

ACTUARIAL BALANCE SHEET	August 31, 2023	August 31, 2022
Assets:		
Actuarial Value Assets	\$33,976,699,535	\$31,615,914,625
Present Value of Future Normal Cost		
Member	5,692,606,062	5,184,845,737
Employer	2,319,556,692	2,084,714,167
Total	8,012,162,754	7,269,559,904
Total	\$ 41,988,862,289	\$38,885,474,529
Liabilities:		
Present Value of Benefits		
Active Members		
– service retirement	\$23,037,112,089	\$21,176,153,883
– disability	210,393,714	186,811,574
– death before retirement	203,245,511	185,606,414
– termination	2,081,409,177	1,886,010,237
Total	25,532,160,491	23,434,582,108
Inactive Members	2,272,889,683	2,176,980,296
Annuitants	28,199,563,604	27,520,483,591
Total	\$56,004,613,778	\$53,132,045,995
Unfunded Accrued Liability (UAL)	\$14,015,751,489	\$14,246,571,466

SUMMARY OF ACTUARIAL VALUATION RESULTS

Total Contribution Rate	19.1%	19.5%
Annual Legacy Contribution	510,000,000	510,000,000
Normal Cost		
– dollars	\$1,155,896,644	\$1,051,148,269
– percent of payroll	13.52%	14.07%
Contribution Available to Amortize UAL	5.56%	5.43%
Accrued Liability	\$47,992,451,024	\$45,862,486,091
Amortization Period in Years	31 years	32 years
Funded Ratio	70.8%	68.9%
Valuation Payroll	\$8,549,531,392	\$7,470,847,680
Active Members	139,958	133,751

Actuarial Balance Sheet –

Law Enforcement and Custodial Officers Supplemental Retirement Fund

August 31, 2023 (With Comparative Totals at August 31, 2022)

ACTUARIAL BALANCE SHEET	August 31, 2023	August 31, 2022
Assets:		
Actuarial Value Assets	\$1,799,822,260	\$1,014,061,586
Present Value of Future Normal Cost		
Member	82,073,780	56,521,535
Employer	172,009,171	159,750,427
Total	<u>254,082,951</u>	<u>216,271,962</u>
Total	\$2,053,905,211	\$1,230,333,548
Liabilities:		
Present Value of Benefits		
Active Members		
– service retirement	\$951,747,974	\$889,928,621
– disability	4,971,920	4,691,409
– death before retirement	4,843,259	4,276,464
– termination	23,228,957	14,063,584
Total	<u>984,792,110</u>	<u>912,960,078</u>
Inactive Members	16,931,716	16,330,219
Annuitants	1,052,070,258	1,016,336,633
Total	\$2,053,794,084	\$1,945,626,930
Unfunded Accrued Liability (UAL)	<u>(\$111,127)</u>	<u>\$715,293,382</u>

SUMMARY OF ACTUARIAL VALUATION RESULTS

Total Contribution Rate	2.43%	1.00%
Estimated Contribution from Court Fees	\$15,000,000	\$13,000,000
Normal Cost		
– dollars	\$37,915,290	\$32,362,545
– percent of payroll	2.11%	1.94%
Contribution Available to Amortize UAL	0.32%	(0.94%)
Accrued Liability	\$1,799,711,133	\$1,729,354,968
Funded Ratio	100.00%	58.60%
Valuation Payroll	\$1,796,933,176	\$1,668,172,418
Active Members	31,744	31,075

Actuarial Balance Sheet –

Judicial Retirement System of Texas Plan Two Fund

August 31, 2023 (With Comparative Totals at August 31, 2022)

ACTUARIAL BALANCE SHEET	August 31, 2023	August 31, 2022
Assets:		
Actuarial Value Assets	\$ 679,356,349	\$553,371,109
Present Value of Future Normal Cost		
Member	58,863,794	53,224,670
Employer	101,851,850	89,588,447
Total	<u>160,715,644</u>	<u>142,813,117</u>
Total	\$ 840,071,993	\$696,184,226
Liabilities:		
Present Value of Benefits		
Active Members		
– service retirement	\$ 351,676,948	\$341,366,250
– disability	15,985,074	14,817,456
– death before retirement	5,319,800	5,207,314
– termination	32,231,757	29,795,761
Total	<u>405,213,579</u>	<u>391,186,781</u>
Inactive Members	21,526,506	24,588,261
Annuitants	405,563,937	369,345,293
Total	\$ 832,304,022	\$785,120,335
Unfunded Accrued Liability (UAL)	<u>(\$7,767,971)</u>	<u>\$88,936,109</u>
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	28.610%	25.043%
Normal Cost		
– dollars	\$ 26,549,914	\$24,371,997
– percent of payroll	28.240%	26.810%
Contribution Available to Amortize UAL	0.370 %	(1.767%)
Accrued Liability	\$ 671,588,378	\$642,307,218
Funded Ratio	101.200%	86.200%
Valuation Payroll	\$ 94,015,277	\$90,906,367
Active Members	623	583

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 2023. 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 a result, the normal cost is expected to change over time as the number of members eligible for the newest benefit provisions increases over time. For LECOSRF and JRS II, a fixed contribution rate is set by statute and an open group projection is used to project the amount available to amortize the unfunded liability and to determine the years required to amortize the

unfunded actuarial accrued liability (or, funding period). For ERS, an open group projection is used to calculate the most appropriate Legacy Payment in accordance with Section 815.407.

Actuarial Valuation of Assets

The actuarial value of assets is based on the fair 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 fair 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 below 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 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 %	0 %
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:				
2014	134,162	5,955,460,705	44,374	4.3
2015	142,409	6,150,194,660	44,990	1.4
2016	146,390	6,742,143,036	46,495	3.3
2017	141,629	6,859,706,582	47,986	3.2
2018	141,535	6,811,925,525	48,581	1.2
2019	141,865	6,947,624,737	49,220	1.3
2020	142,062	7,158,435,103	50,834	3.3
2021	136,726	7,188,367,590	51,910	2.1
2022	133,751	7,205,607,848	55,853	7.6
2023	139,958	7,856,401,438	61,086	9.4
Law Enforcement and Custodial Officer Supplemental Retirement Fund:				
2014	37,084	1,496,012,750	41,584	5.4
2015	38,526	1,506,027,764	41,957	0.9
2016	39,066	1,725,879,688	44,634	6.4
2017	38,206	1,746,349,412	45,029	0.9
2018	37,167	1,689,590,272	45,321	0.6
2019	36,296	1,682,633,066	45,305	0.0
2020	35,230	1,662,147,480	46,250	2.1
2021	32,498	1,586,537,362	46,768	1.1
2022	31,075	1,581,949,840	53,682	14.8
2023	31,744	1,704,482,394	56,607	5.4
Judicial Retirement Plan Two Fund:				
2014	554	77,441,466	142,820	12.0
2015	563	77,500,736	142,721	(0.1)
2016	548	78,260,550	142,770	0.0
2017	557	78,189,668	142,424	(0.2)
2018	561	78,772,445	142,731	0.2
2019	573	79,710,813	142,600	(0.1)
2020	570	88,578,603	157,563	10.5
2021	584	89,582,518	155,597	(1.2)
2022	583	90,027,934	155,929	0.2
2023	623	91,665,033	150,907	(3.2)

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:										
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
2022	5,543	149,841,072	3,781	63,698,916	664	11,906,352	122,720	2,659,301,868	3.8	21,670
2023	4,490	123,789,624	3,580	60,919,476	874	15,012,948	124,504	2,737,184,964	2.9	21,985
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
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
2022	812	5,203,620	301	1,222,752	69	459,288	15,923	90,677,880	5.1	5,695
2023	616	4,436,964	264	1,094,676	93	199,272	16,368	94,219,440	3.9	5,756
Judicial Retirement Plan Two Fund:										
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
2022	15	1,264,092	10	627,228	3	142,608	536	37,098,636	2.1	69,214
2023	50	4,095,768	12	726,420	5	434,856	579	40,902,840	10.3	70,644

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:						
2014	25,431,922	32,924,737	7,492,815	77.2	6,171,443	121.4
2015	25,850,542	33,868,360	8,017,818	76.3	6,659,647	120.4
2016	26,557,130	35,303,165	8,746,035	75.2	6,806,457	128.5
2017	26,371,827	37,629,785	11,257,958	70.1	6,796,226	165.7
2018	27,359,943	38,989,263	11,629,320	70.2	6,875,887	169.1
2019	28,060,120	39,801,359	11,741,239	70.5	6,984,577	168.1
2020	28,543,208	43,258,312	14,715,104	66.0	7,221,559	203.8
2021	30,065,356	44,183,687	14,118,331	68.0	7,144,623	197.6
2022	31,615,915	45,862,486	14,246,571	68.9	7,470,848	190.7
2023	33,976,700	47,992,451	14,015,751	70.8	8,549,531	163.9
Law Enforcement and Custodial Officer Supplemental Retirement Fund:						
2014	883,595	1,206,770	323,175	73.2	1,609,491	20.1
2015	909,249	1,262,311	353,062	72.0	1,750,709	20.2
2016	933,534	1,312,392	378,858	71.1	1,743,679	21.7
2017	923,990	1,399,877	475,887	66.0	1,720,362	27.7
2018	953,054	1,452,658	499,604	65.6	1,684,458	29.7
2019	968,130	1,482,635	514,505	65.3	1,644,392	31.3
2020	968,063	1,609,587	641,524	60.1	1,629,387	39.4
2021	997,652	1,650,353	652,701	60.5	1,585,644	41.2
2022	1,014,062	1,729,355	715,293	58.6	1,668,172	42.9
2023	1,799,822	1,799,711	(111)	100.0	1,796,933	0.0
Judicial Retirement System Plan Two Fund:						
2014	348,431	386,286	37,855	90.2	79,123	47.8
2015	372,615	404,011	31,396	92.2	80,352	39.1
2016	395,457	425,865	30,408	92.9	78,238	38.9
2017	420,850	463,604	42,754	90.8	79,330	53.9
2018	447,078	487,772	40,694	91.7	80,072	50.8
2019	467,787	534,564	66,777	87.5	91,027	73.4
2020	486,802	591,230	104,428	82.3	89,811	116.3
2021	523,026	618,047	95,021	84.6	90,869	104.6
2022	553,371	642,307	88,936	86.2	90,906	97.8
2023	679,356	671,588	(7,768)	101.2	94,015	(8.3)

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, August 31, 2013 and August 31, 2022.

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

Note C: A history of contributions by Fund, the ADC compared to the actual contributions paid, including the deficiency or (excess), for each of the last 10 years, is shown in the Schedule of Employer Contributions, found on page 86 in the Required Supplementary Information (RSI) in the Financial Section

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				Portion of Accrued Liabilities Covered by Assets			
	(1)		(3)		(1)		(3)	
	Active Member Contributions	Retirees and Beneficiaries	Active Member (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(3)
	\$	\$	\$	\$	%	%	%	%
Employees Retirement Fund (Note A):								
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	
2022	6,691,282,397	27,520,483,591	11,650,720,103	31,615,914,625	100	90.6	0.0	
2023	7,019,857,575	28,199,563,604	12,773,029,845	33,976,699,535	100	95.6	0.0	
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A):								
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	
2022	64,465,378	1,016,336,633	648,552,957	1,014,061,586	100	93.4	0.0	
2023	70,297,895	1,052,070,258	677,342,980	1,799,822,260	100	100.0	100.0	
Judicial Retirement Plan Two Fund (Note A):								
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	
2022	89,229,672	369,345,293	183,732,253	553,371,109	100	100	51.6	
2023	90,460,332	405,563,937	175,564,109	679,356,349	100	100	100.0	

Note A: For 2016 and prior, 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	
	2023	2022	2023	2022	2023	2022
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.	(925.8)	28.2	(723.6)	48.1	(91.7)	8.0
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.	(152.1)	(371.4)	(11.4)	(17.7)	(5.8)	(8.7)
<u>Active Member Demographics</u> Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment.	20.5	(24.1)	2.6	(7.9)	3.9	(5.9)
<u>Pay Increases</u> If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	869.1	625.9	15.9	37.7	(3.8)	(0.2)
<u>Death After Retirement</u> If retirees live longer than assumed, there is a loss. If not as long, a gain.	(28.3)	(98.7)	(0.5)	(3.0)	1.5	0.8
<u>Other</u> Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(14.2)	(31.6)	1.6	5.4	(0.8)	(0.1)
Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience	(230.8)	128.3	(715.4)	62.6	(96.7)	(6.1)
Non-Recurring Items						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	0.0	0.0	0.0	0.0	0.0	0.0
Composite Increase/(Decrease) During Year	(230.8)	128.3	(715.4)	62.6	(96.7)	(6.1)

Actuary's Certification Letter - State Retiree Health Plan



EMPLOYEES RETIREMENT SYSTEM OF TEXAS
GROUP BENEFITS PROGRAM
FY23 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, 2023 (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, 2023 provided by ERS, former employee data as of August 31, 2023 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. We have independently confirmed the model developed by Winklevoss and have sufficiently tested it to ensure the model provides an accurate representation of the plan's liabilities.

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 by the aggregation of the assumptions.

Rudd and Wisdom, Inc. prepared the following schedules in the Actuarial Section of the ERS ACFR for the State Retiree Health Plan: (a) Active Member Valuation Data, (b) Retirees and Nominees Added and Removed and (c) Schedule of Funding Progress.

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.
Member of American Academy of Actuaries

Christopher S. Johnson, F.S.A.
Member of American Academy of Actuaries

Khiem D. Ngo, F.S.A.
Member of American Academy of Actuaries

Actuarial Valuation Results



EMPLOYEES RETIREMENT SYSTEM OF TEXAS
GROUP BENEFITS PROGRAM
FY23 GASB No. 74 ACTUARIAL VALUATION

Summary of Results for FY2023

Actuarial Valuation Results as of August 31, 2023		
	(\$ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	229,119	
b. Deferred Vested	17,069	
c. Retirees and Nominees	139,641	
d. Total Number of Members	385,829	
2. Payroll of Active Members for FY2023	\$13,765,151	
3. Actuarial Present Value of Projected Benefit Payments		
a. Actives	\$24,534,873	
b. Deferred Vested	1,961,086	
c. Retirees and Nominees	11,614,404	
d. Total	\$38,110,363	276.9%
4. Total OPEB Liability		
a. Actives	\$13,312,020	
b. Deferred Vested	1,961,086	
c. Retirees and Nominees	11,614,404	
d. Total	\$26,887,510	195.3%
5. Fiduciary Net Position	\$169,980	1.2%
6. Net OPEB Liability [4.d - 5]	\$26,717,530	194.1%
7. Actuarially Determined Contribution for FYE August 31, 2023		
a. Normal Cost	\$977,051	7.1%
b. Amortization of Net OPEB Liability	1,036,319	7.5%
c. Total ADC for FYE August 31, 2023	\$2,013,370	14.6%

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 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 cover dependent children.
- 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.
- Annual rate of increase in the Patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act.
- 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.

The discount rate was changed from 3.59% as of August 31, 2022 to 3.81% as of August 31, 2023 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) the municipal bond rate which is the 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, 2023, 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, 2023 is 3.81% 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. The valuation reflects Senate Bill 1055, which added Stephen F. Austin State University into the University of Texas System. As a result, eligible employees of Stephen F. Austin ceased being members under this OPEB plan effective August 31, 2023. Accordingly, this valuation reflects the minor benefit changes that will become effective September 1, 2023, 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 2024, are provided for in the Fiscal Year 2024 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

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

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

Variability in Future Actuarial Measurement

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- Plan experience differing from that anticipated by the economic or demographic assumptions;
- Changes in economic or demographic assumptions;
- Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- Changes in plan provisions, applicable law or applicable accounting standards.

Retiree group benefits models necessarily rely on the use of approximations and estimates and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements.

Economic Assumptions

Administrative Expenses

The expenses to directly related to the payment of GBP health benefits are \$193.44 for medical for HealthSelect plus \$27.00 for prescription drugs for HealthSelect and HealthSelect Medicare Advantage per year per covered member for fiscal year 2023. The expenses per covered member are the same regardless of whether the member covers dependents.

Affordable Care Act (ACA) Fees

The assumed Patient-Centered Outcomes Research Institute (PCORI) fee payable under the ACA (per year per covered member) is \$4.02 for FY2024. Under current law, the PCORI fee will be applicable to the GBP for members enrolled in the self-funded HealthSelect Plan through August 31, 2029; i.e., through FY2029. During that period, the fee is projected to increase at a rate of 4.5% per year.

Stop-loss Reinsurance

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

Discount Rate

Equal to the municipal bond rate of 3.81%.

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
	%	%
2025	5.60	16.40
2026	5.30	8.40
2027	5.00	5.00
2028	4.75	4.75
2029	4.60	4.60
2030	4.50	4.50
2031	4.40	4.40
2032 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 2024 at the rates shown below.

Fiscal Year	Annual Rate of Increase	
	HealthSelect	HealthSelect Medicare
	%	%
2025	0.00	10.55
2026	7.00	9.85
2027	6.45	8.65
2028	5.90	7.70
2029	5.45	6.80
2030	5.05	5.85
2031	4.60	4.95
2032 and beyond	4.30	4.30

Expense Trend Rate

The expenses directly related to the payment of GBP Health benefits are assumed to increase 2.30% per annum.

Trend Rate for the Opt-Out Credit and Additional Contribution for Tobacco Users

The monthly opt-out benefit of \$60 and additional monthly contribution of \$30 paid by tobacco users in fiscal year 2024 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 (Note B)		
	Not Medicare Eligible	Medicare Eligible	Total	Not Medicare Eligible	Medicare Eligible	Total	Not Medicare Eligible	Medicare Eligible	Overall	Not Medicare Eligible	Medicare Eligible	Overall
			\$	\$	\$	\$	\$	\$	\$	%	%	%
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	3.4	3.0	3.4
2021	212,114	12,790	224,904	11,682,386,853	904,003,280	12,586,390,133	55,076	70,680	55,963	2.9	1.0	2.8
2022	208,778	12,626	221,404	11,826,633,702	907,496,230	12,734,129,932	56,647	71,875	57,515	2.9	1.7	2.8
2023	215,982	13,137	229,119	12,797,739,903	967,411,202	13,765,151,105	59,254	73,640	60,079	4.6	2.5	4.5

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.

Note B: Calculations for the % Change in Average Pay previously presented were corrected for years 2020-2022

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		
		\$	\$	\$	\$		%	\$
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	(22,869,993)	4,648	(12,877,011)	134,517	1,066,896,850	(0.9)	7,931
2022	8,352	(129,163,245)	4,516	(69,839,705)	138,353	1,007,573,310	(5.6)	7,283
2023	6,621	73,289,149	(5,333)	(59,032,025)	139,641	1,139,894,484	13.1	8,163

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

Note B: Annual Benefits previously presented for 2022 was corrected

Schedule of Funding Progress – State Retiree Health Plan

Actuarial Valuation Date August 31	(a)	(b)	(c)	Funded Ratio (a)/(b) %	(e)	(f)
	Actuarial Value of Assets	Actuarial Liability (AAL)	(Overfunded) Unfunded AAL (UAAL) (b) - (a)		Covered Payroll	UAAL As A Percentage Of Covered Payroll (c)/(e)
	(000's)	(000's)	(000's)		(000's)	%
2014	0	24,701,904	24,701,904	0.0	10,963,773	225.3
2015	0	25,740,698	25,740,698	0.0	11,176,584	230.3
2016	0	27,091,372	27,091,372	0.0	11,786,869	229.8
2017	709,783	34,782,794	34,073,011	2.0	11,745,310	290.1
2018	380,430	30,018,172	29,637,742	1.27	12,047,167	246.0
2019	59,936	34,622,611	34,562,675	0.17	12,320,028	280.5
2020	104,947	33,149,579	33,044,632	0.32	12,655,247	261.1
2021	135,653	36,011,160	35,875,507	0.38	12,586,690	285.0
2021	135,653	36,011,160	35,875,507	0.38	12,586,690	285.0
2022	162,575	28,649,540	28,486,966	0.57	12,734,130	223.7
2023	169,980	26,887,510	26,717,530	0.63	13,765,151	194.1

Note A: A history of contributions by State Retiree Health Plan, the ADC compared to the actual contributions paid, including the deficiency or (excess), for each of the last 10 years, is shown in the Schedule of Contributions from Employers and Non-employer Contributing Entities, found on page 88 in the Required Supplementary Information in the Financial Section.



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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Governmental Activities:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	379,311	440,466	498,874	87,945	1,060,687	2,033,429	2,591,955	2,967,760	3,129,543	3,431,614
Unrestricted	5	17	22	4	25	4	1	6	4	—
Total Governmental Activities	379,316	440,483	498,896	87,949	1,060,712	2,033,433	2,591,956	2,967,766	3,129,547	3,431,614

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)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Expenses	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Governmental Activities:											
Social Security Administration		156	178	139	152	85	94	117	94	84	74
Judicial Retirement System Plan I							19,941	18,712	17,768	16,876	
Death Benefits:											
Peace Officers, Firemen, etc.	5,738	2,162	7,281	8,826	9,432	7,831	7,839	25,603	24,941	20,224	
Compensation to Victims of Crime	1,625	1,000	2,000	3,500	4,905	2,000	3,500	3,500	4,072	1,560	
Retiree \$5,000 Lump Sum	8,846	9,286	10,080	10,893	10,167	9,811	9,696	11,891	9,574	13,235	
Employees Life, Accident and Health Insurance and Benefits:											
Claims Expenses	2,047,749	2,242,195	2,455,030	2,434,697	2,163,858	2,212,805	2,298,095	2,495,983	2,461,451	2,491,378	
Administration	24,535	36,692	19,390	14,977	13,911	13,158	17,050	16,960	13,841	16,019	
Total Expenses	2,088,649	2,291,513	2,493,920	2,473,045	2,202,358	2,245,699	2,356,238	2,572,743	2,531,731	2,559,365	
Program Revenues											
Governmental Activities:											
Charges for Services:											
Administration Fees		70	71	71	70	70	73	66	72	81	73
Appropriations:											
Judicial Retirement System Plan I								18,712	17,768	16,876	
Death Benefits:											
Peace Officers, Firemen, etc.	5,738	2,162	7,281	8,826	9,432	7,831	7,839	25,603	24,941	20,224	
Compensation to Victims of Crime	1,625	1,000	2,000	3,500	4,905	2,000	3,500	3,500	4,072	1,560	
Retiree \$5,000 Lump Sum	8,846	9,289	10,075	10,893	10,167	9,811	9,696	11,891	9,574	13,280	
Insurance Contributions:											
Employer	1,631,916	1,834,956	1,992,220	1,963,388	2,582,653	2,529,624	2,219,782	2,190,022	2,211,812	2,130,270	
Member	482,566	495,723	521,361	562,140	559,111	562,373	545,585	577,654	563,124	585,612	
Other	141	121	120	125	135	141	142	165	165	143	
Operating Grants and Contributions:											
Investment Income	10,913	6,298	19,492	13,569	5,631	91,752	95,789	108,192	(138,226)	92,454	
Other	647	2,945	1,386	1,782	2,981	14,815	12,374	12,715	200	940	
Total Program Revenues	2,142,462	2,352,565	2,554,006	2,564,293	3,175,085	3,218,420	2,914,714	2,948,526	2,693,511	2,861,432	
General Revenues											
Transfers			90	115	(1,673)	64	37	—	48	27	—
Total General Revenues	—	90	115	(1,673)	64	37	—	48	27	—	
Net Revenue Governmental Activities	53,813	61,142	60,201	89,575	972,791	972,758	558,476	375,830	161,807	302,067	

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.E for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Governmental Funds:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted:										
Social Security Administration Fund	5	17	22	4	25	4	1	6	4	3
Death Benefits Retiree	—	—	—	—	—	—	—	—	—	45
Total Governmental Funds	5	17	22	4	25	4	1	6	4	48

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.E for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Judicial Retirement System Plan I (Note B)							19,941	18,712	17,768	16,876
Death Benefits:										
Public Employee Survivors	5,738	2,162	7,281	8,826	9,432	7,831	7,840	25,603	24,941	20,224
Victims of Crime	1,625	1,000	2,000	3,500	4,904	2,000	(554)	1,641	4,072	1,560
Retiree \$5,000 Lump Sum	8,847	9,289	10,075	10,893	10,167	9,810	13,750	13,750	9,575	13,280
Administration Fees	70	71	71	70	70	74	66	72	81	72,918
Total Revenues	16,280	12,522	19,427	23,289	24,573	19,715	41,043	59,778	56,437	52,013
Expenditures										
Judicial Retirement System Plan I (Note B)							19,941	18,712	17,768	16,876
Death Benefits:										
Public Employee Survivors	5,738	2,162	7,281	8,826	9,432	7,831	7,840	25,603	24,941	20,224
Victims of Crime	1,625	1,000	2,000	3,500	4,904	2,000	3,500	3,500	4,072	1,560
Retiree \$5,000 Lump Sum	8,846	9,286	10,080	10,893	10,167	9,810	9,696	11,891	9,575	13,235
Administrative Expenditures	156	178	139	152	86	95	117	94	84	74
Total Expenditures	16,365	12,626	19,500	23,371	24,589	19,736	41,094	59,800	56,440	51,969
Excess of Revenues Over (Under) Expenditures	(85)	(104)	(73)	(82)	(16)	(21)	(51)	(22)	(3)	44
Other Financing Sources (Uses)										
Transfers In - Retirement Membership Fees	90	115	77	64	36	—	48	27	—	—
Net Change in Fund Balances	5	11	4	(18)	20	(20)	(3)	5	(3)	44

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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Insurance Contributions:										
Employer	1,631,916	1,834,956	1,992,220	1,963,388	2,582,653	2,529,624	2,219,782	2,190,022	2,211,812	2,130,270
Member	482,566	495,723	521,360	562,140	559,111	562,373	545,585	577,654	563,124	585,612
Other	604	1,856	1,480	1,905	3,116	14,956	12,066	12,880	366	1,083
Total Operating Revenues	2,115,086	2,332,535	2,515,060	2,527,433	3,144,880	3,106,953	2,777,433	2,780,556	2,775,302	2,716,965
Operating Expenses										
Benefit Payments:										
Employee	2,017,586	2,213,193	2,428,066	2,408,452	2,141,516	2,186,649	2,269,293	2,467,114	2,428,327	2,462,357
COBRA	30,163	29,003	26,963	25,972	21,817	25,282	27,664	27,306	31,211	26,776
Health Savings Account				273	525	874	1,138	1,563	1,765	2,120
SmartShoppERS Reward									148	125
Administrative and Other Expenses	24,535	36,692	19,390	15,060	13,880	13,066	17,148	17,091	13,841	16,019
Total Operating Expenses	2,072,284	2,278,888	2,474,419	2,449,757	2,177,738	2,225,871	2,315,243	2,513,074	2,475,292	2,507,397
Operating Income	42,802	53,647	40,641	77,676	967,142	881,082	462,190	267,482	300,011	209,569
Non-Operating Revenues (Expenses)										
Net Appreciation (Depreciation) in Fair Value of Investments	1,284	(3,195)	7,771	(830)	(15,417)	33,360	32,731	49,799	(206,656)	(35,578)
Investment Income	9,629	9,493	11,721	14,482	21,017	58,300	63,156	58,389	68,200	127,667
Other	184	1,210	25	1	—	—	—	135	228	365
Total Non-Operating Revenues (Expenses)	11,097	7,508	19,517	13,653	5,600	91,660	95,887	108,323	(138,228)	92,454
Transfer Out			(1,750)							
Change in Net Position	53,899	61,155	58,408	91,329	972,742	972,742	558,077	375,805	161,783	302,023

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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (ERS)										
Additions										
Member Contributions	430,595	462,160	674,678	685,462	683,933	694,788	713,985,00	718	721,520	758,060
Employer Contributions	482,329	500,510	686,841	700,142	697,226	712,648	735,903,00	740	743,017	811,125
Legacy Payment and One-Time Additional Funding									516,867	1,393,971
Investment Income (Net of Expenses)	3,252,362	56,905	1,273,373	2,832,594	2,430,255	758,868	1,791,017,0	6,937	(728,083)	2,061,390
Other Additions	80,324	84,203	89,035	93,506	97,318	103,006	108,033,00	113	127,831	112,848
Total Additions	4,245,610	1,103,778	2,723,927	4,311,704	3,908,732	2,269,310	3,348,938,0	8,507,836	1,381,152	5,137,394
Deductions										
Retirement Benefits	1,933,694	2,041,389	2,146,522	2,257,219	2,374,013	2,496,771	2,602,286,0	2,689,845	2,798,885	2,850,662
Death Benefits	3,053	4,730	5,082	3,664	5,132	3,444	4,793,000	6,169	6,216	8,236
Refunds	106,809	87,167	84,445	120,944	123,948	142,303	121,569,00	127,059	165,564	139,435
Administrative and Other Expenses	20,480	22,127	20,779	23,630	24,132	28,903	25,308,000	22,725	32,640	75,423
Total Deductions	2,064,036	2,155,413	2,256,828	2,405,457	2,527,225	2,671,421	2,753,956,0	2,845,798	3,003,305	3,073,756
Change in Net Position	2,181,574	(1,051,635)	467,099	1,906,247	1,381,507	(402,111)	594,982,00	594,982	(1,622,153)	2,063,638
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)										
Additions										
Member Contributions	8,180	8,377	9,539	9,583	9,275	9,098	8,950	9,078	8,729	10,902
Employer Contributions	27,758	26,728	27,497	26,583	26,110	25,864	22,293	20,294	20,905	24,800
Investment Income (Net of Expenses)	111,741	1,919	44,831	99,341	84,937	26,250	61,097	232,796	(5,020)	64,704
Other Additions		4	4	1	5	3	9	14	523	12
Total Additions	147,679	37,028	81,871	135,508	120,327	61,215	92,349	262,182	25,137	100,418
Deductions										
Retirement Benefits	55,222	59,211	62,698	66,800	72,228	78,470	83,198	88,097	92,670	96,071
Death Benefits	6	9	22	18	18	15	29	26	170	41
Refunds	1,919	2,128	1,826	2,938	3,392	3,768	3,487	3,560	4,363	3,419
Administrative and Other Expenses	1,324	1,412	1,421	1,811	1,851	2,167	1,933	1,782	1,680	2,481
Total Deductions	58,471	62,760	65,967	71,567	77,489	84,420	88,647	93,465	98,883	102,012
Change in Net Position	89,208	(25,732)	15,904	63,941	42,838	(23,205)	3,702	168,717	(73,746)	(1,594)
Judicial Retirement System of Texas Plan Two (JRS II)										
Additions										
Member Contributions	5,195	5,465	5,754	6,017	5,940	6,463	8,634	8,759	8,576	8,830
Employer Contributions	12,211	12,457	12,374	12,495	12,560	13,100	14,186	14,322	14,385	14,686
Investment Income (Net of Expenses)	46,186	820	19,862	44,875	39,191	12,832	30,633	120,145	(4,269)	36,047
Other Additions		2				1				4
Total Additions	63,592	18,744	37,990	63,387	57,691	32,396	53,453	143,226	18,692	59,567
Deductions										
Retirement Benefits	16,166	19,158	20,825	22,988	24,706	28,980	31,902	34,929	36,805	39,866
Death Benefits		26	31	—	—	27	11	14	—	37
Refunds	254	56	299	374	159	213	128	199	302	311
Administrative and Other Expenses	267	284	226	294	296	363	273	235	322	244
Total Deductions	16,687	19,524	21,381	23,656	25,161	29,583	32,314	35,377	37,429	40,458
Change in Net Position	46,905	(780)	16,609	39,731	32,530	2,813	21,139	(35,234)	(18,737)	19,109

- to next page

Changes in Net Position – Defined Benefit Plans (Concluded)

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Excess Benefit Arrangement										
Additions										
Other Additions	569	493	457	540	746	817	953	1,324	1,077	1,069
Total Additions	493	457	540	746	817	953	1,324	1,077	1,286	1,069
Deductions										
Retirement Benefits	422	392	448	668	753	797	988	1,222	1,194	1,022
Administrative and Other Expenses	71	65	92	78	64	156	90	101	92	47
Total Deductions	493	457	540	746	817	953	1,078	1,323	1,286	1,069
Change in Net Position	—	—	—	—	—	—	246	(246)	—	—
State Retiree Health Plan										
Additions										
Member Contributions	155,276	169,075	183,284	195,806						
Employer Contributions	605,512	612,769	663,986	890,735	307,028	401,285	748,369	766,689	699,999	801,019
Non-Employer Contributing Entity Contributions (Note A)	N/A	N/A	N/A	44,433	16,585	20,183	37,737	39,189	36,751	42,251
Federal Revenues	63,362	86,054	69,186	73,120	74,493	89,389	111,099	107,612	113,121	123,528
Early Retirees Reinsurance Program Investment Income (Net of Expenses)	255	324	1,137	4,517	10,907	3,324	1,336	234	738	6,464
Other Additions		3,969	5,961	357	3,249	85	24	59	—	
Total Additions	824,405	872,191	923,554	1,208,968	412,262	514,266	898,565	913,783	850,609	973,262
Deductions										
Healthcare Benefits	813,823	863,926	912,886	995,815	938,921	1,038,588	1,076,890	1,066,897	1,007,573	1,139,895
Less: Payments from Members (Note B)	N/A	N/A	N/A	N/A	(203,123)	(209,837)	(230,151)	(192,427)	(190,660)	(181,952)
Administrative and Other Expenses	10,582	8,265	10,668	5,629	5,817	6,008	6,815	8,607	6,774	7,913
Total Deductions	824,405	872,191	923,554	1,001,444	741,615	834,759	853,554	883,077	823,687	965,856
Change in Net Position	—	—	—	207,524	(329,353)	(320,493)	45,011	30,706	26,922	7,406

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, and the state employees' cafeteria plan (TexFlex). The information source of this schedule is Exhibit IX.

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Texa\$aver 401(k) Plan										
Additions										
Investment Income (Net of Expenses)	(7)	7	18	(7)	59	71	11	(30)	(61)	67
Other Additions	398	188	50	565	390	486	1,210	1,008	96	124
Total Additions	391	195	68	558	449	557	1,221	978	35	191
Deductions										
Administrative and Other Expenses	590	529	433	479	482	490	260	251	494	579
Total Deductions	590	529	433	479	482	490	260	251	494	579
Change in Net Position	(199)	(334)	(365)	79	(33)	67	961	727	(459)	(388)
Texa\$aver 457 Plan										
Additions										
Investment Income (Net of Expenses)	(2)	6	17	18	52	75	23	(43)	10	140
Other Additions	507	581	587	719	763	896	570	427	68	126
Total Additions	505	587	604	737	815	971	593	384	79	266
Deductions										
Administrative and Other Expenses	334	265	233	269	512	523	165	137	402	105
Total Deductions	334	265	233	269	512	523	165	137	402	105
Change in Net Position	171	322	371	468	303	448	428	247	(323)	161
Commuter Spending Account Fund (CSA)										
Additions										
Contributions			73	129	141	140	127	41	—	—
Investment Income (Net of Expenses)			1	4	7	12	8	2	2	—
Other Additions					6					
Transfers In			1,750	—	—	—	—	—	—	—
Total Additions	—	—	1,824	133	154	152	135	43	2	—
Deductions										
Reimbursement Account Claims			43	114	116	115	79	30	—	—
Administrative and Other Expenses			1,276	72	19	4	12	15	3	546
Total Deductions	—	—	1,319	186	135	119	91	45	3	546
Change in Net Position	—	—	505	(53)	19	33	44	(2)	(1)	(546)
State Employees Cafeteria Plan (TexFlex)										
Additions										
Contributions	83,214	83,092	80,953	79,559	76,656	73,406	73,290	61,956	59,291	68,173
Investment Income (Net of Expenses)	9	20	34	72	193	336	184	17	114	1,112
Other Additions	113	398	194	92	101	—	—	158	39	193
Total Additions	83,336	83,510	81,181	79,723	76,950	73,742	73,474	62,131	59,444	69,478
Deductions										
Reimbursement Account Claims	78,720	77,744	81,179	69,697	73,729	71,301	65,837	60,101	48,740	67,463
Administrative and Other Expenses	2,460	3,662	1,815	1,619	1,526	1,452	1,391	1,308	1,081	1,168
Total Deductions	81,180	81,406	82,994	71,316	75,255	72,753	67,228	61,409	49,821	68,631
Change in Net Position	2,156	2,104	(1,813)	8,407	1,695	989	6,246	722	9,623	847

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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employees Retirement Fund:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Type of Benefit										
Retirement Benefits:										
Service:										
Retirees	1,799,608	1,906,043	2,013,347	2,120,153	2,232,174	2,351,834	2,461,583	2,548,194	2,651,880	2,726,055
Survivors	21,370	21,835	21,396	21,493	21,686	21,232	21,075	21,099	21,049	21,035
Disability	27,386	26,797	26,148	25,640	25,166	24,654	24,078	23,304	22,887	22,174
Partial Lump Sum Option	63,359	62,438	58,351	59,262	61,250	62,846	56,401	55,586	57,650	33,028
Proportional	21,971	24,276	27,280	30,671	33,737	36,205	39,149	41,662	45,419	48,371
Total Retirement Benefits	1,933,694	2,041,389	2,146,522	2,257,219	2,374,013	2,496,771	2,602,286	2,689,845	2,798,885	2,850,662
Death Benefits:										
Total Death Benefits	3,053	4,730	5,082	3,664	5,132	3,444	4,792	6,168	6,216	8,236
Refunds:										
Resignation	82,026	102,175	80,876	78,206	115,416	117,908	115,652	119,913	157,315	129,653
Death	4,642	4,634	6,291	6,239	5,528	6,040	5,917	7,145	8,249	9,781
Total Refunds	86,668	106,809	87,167	84,445	120,944	123,948	121,569	127,058	165,564	139,435
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service	50,261	54,747	58,444	62,571	67,822	73,632	78,830	83,594	88,370	91,935
Disability	1,053	1,022	1,008	990	922	883	858	800	1,107	1,031
Partial Lump Sum Option	3,907	3,442	3,247	3,239	3,484	3,955	3,511	3,703	3,193	3,105
Total Retirement Benefits	55,221	59,211	62,699	66,800	72,228	78,470	83,199	88,097	92,670	96,071
Death Benefits:										
Total Death Benefits	6	9	21	18	18	15	29	26	170	41
Refunds:										
Resignation	1,895	2,097	1,772	2,892	3,355	3,732	162	3,509	4,209	3,323
Death	24	31	54	46	37	36		52	154	97
Total Refunds	1,919	2,128	1,826	2,938	3,392	3,768	162	3,561	4,363	3,419
Judicial Retirement System of Texas Plan Two:										
Type of Benefit										
Retirement Benefits:										
Service and Disability	12,670	15,389	16,841	18,550	19,947	23,753	26,172	29,097	30,841	33,609
Proportional	3,138	3,411	3,589	3,996	4,338	4,869	5,218	5,418	5,533	5,826
Total Retirement Benefits	16,166	19,158	20,825	22,988	24,707	28,980	31,902	34,929	36,805	39,866
Death Benefits:										
Total Death Benefits	—	27	31	—	—	27	11	14	—	37
Refunds:										
Resignation	228	56	224	215	159	138	75	141	302	192
Death	26		75	159		76	53	58	—	118
Total Refunds	254	56	299	374	159	214	128	199	302	310

- to next page

Benefit and Refund Payments - Defined Benefit Plans

Last Ten Years (in 000's)

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Excess Benefit Arrangement:										
Type of Benefit										
Retirement Benefits:										
Service	422	392	448	668	753	797	988	1,223	1,194	1,022
Total Retirement Benefits	422	392	448	668	753	797	988	1,223	1,194	1,022
State Retiree Health Plan:										
Type of Benefit										
Insurance Benefits:										
Accrued Claims	22,706	9,848	(5,601)	20,769	(27,916)	4,781	6,762	2,615	(3,007)	(13,482)
Life Claims	41,763	45,740	46,994	55,347	54,426	58,278	60,363	76,494	78,383	73,873
Prescriptions Drugs	241,583	253,591	279,144	255,976	289,856	308,940	355,589	352,935	405,163	472,783
Administrative Fees	19,077	18,721	19,338	20,744	19,802	19,776	20,405	21,514	22,486	22,072
HMO Payments	110,232	139,696	156,418	188,633	179,537	201,752	195,654	147,134	(9,547)	48,246
Health	358,696	373,469	391,327	426,911	393,907	411,988	409,119	431,006	476,243	313,630
Dental	19,766	22,861	25,266	27,436	29,309	33,073	28,998	35,199	37,852	40,820
Total Insurance Benefits	813,823	863,926	912,886	995,816	938,921	1,038,588	1,076,890	1,066,897	1,007,573	957,942

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, 2013 to August 31, 2023	5-10	10-15	15-20	20-25	25-30
- Period 9/30/13 to 8/31/14:						
Average Monthly Benefit	\$ 512.67	927.26	1,477.37	2,003.54	2,913.50	3,880.13
Average Final Average Salary	\$ 3,387.08	3,544.67	3,840.21	4,147.69	4,846.31	5,385.83
Number of Retired Members	305	557	651	832	689	523
- Period 9/30/14 to 8/31/15:						
Average Monthly Benefit	\$ 582.93	955.91	1,449.01	1,991.20	2,946.79	4,059.31
Average Final Average Salary	\$ 3,758.21	3,700.32	3,806.72	4,217.55	4,910.36	5,643.32
Number of Retired Members	246	603	680	981	862	603
- Period 9/30/15 to 8/31/16:						
Average Monthly Benefit	\$ 560.04	935.19	1,468.08	2,055.43	3,098.61	4,326.72
Average Final Average Salary	\$ 3,499.42	3,692.82	3,867.25	4,298.55	5,164.11	5,908.75
Number of Retired Members	202	587	623	879	883	597
- Period 9/30/16 to 8/31/17:						
Average Monthly Benefit	\$ 595.60	958.44	1,514.74	2,102.33	3,131.51	4,349.94
Average Final Average Salary	\$ 3,674.73	3,774.45	3,990.66	4,333.23	5,164.36	6,054.07
Number of Retired Members	247	703	674	884	840	608
- Period 9/30/17 to 8/31/18:						
Average Monthly Benefit	\$ 611.14	984.64	1,625.30	2,245.17	3,235.28	4,559.85
Average Final Average Salary	\$ 3,609.22	3,832.98	4,226.19	4,650.79	5,346.59	6,237.41
Number of Retired Members	140	660	609	792	783	626
- Period 9/30/18 to 8/31/19:						
Average Monthly Benefit	\$ 589.11	1,027.54	1,684.12	2,397.52	3,250.66	4,648.41
Average Final Average Salary	\$ 3,692.40	3,969.68	4,403.06	4,893.65	5,340.79	6,312.50
Number of Retired Members	130	725	577	811	810	595
- Period 9/30/19 to 8/31/20:						
Average Monthly Benefit	\$ 659.48	1,023.44	1,685.12	2,253.52	3,377.98	4,658.43
Average Final Average Salary	\$ 4,090.84	3,897.65	4,362.60	4,630.89	5,570.79	6,337.40
Number of Retired Members	95	627	492	705	731	516
- Period 9/30/20 to 8/31/21:						
Average Monthly Benefit	\$ 564.43	1,111.12	1,703.98	2,367.28	3,405.50	4,666.26
Average Final Average Salary	\$ 3,463.71	4,150.16	4,458.02	4,824.46	5,589.30	6,364.07
Number of Retired Members	103	652	538	781	767	614
- Period 9/30/21 to 8/31/22:						
Average Monthly Benefit	\$ 685.82	1,094.91	1,759.93	2,374.20	3,422.44	4,694.68
Average Final Average Salary	\$ 4,231.87	4,148.03	4,576.14	4,849.01	5,657.24	6,372.82
Number of Retired Members	78	600	579	687	720	531
- Period 9/30/22 to 8/31/23:						
Average Monthly Benefit	\$ 643.74	1,116.65	1,863.48	2,559.45	3,566.49	5,120.74
Average Final Average Salary	\$ 4,014.58	4,227.36	4,847.90	5,252.90	5,839.13	6,970.74
Number of Retired Members	78	511	429	516	578	377
Five Year Average -						
Period 9/30/18 to 8/31/23:						
Average Monthly Benefit	\$ 619.61	1,056.56	1,713.96	2,355.99	3,365.95	4,698.53
Average Final Average Salary	\$ 3,804.36	4,028.22	4,462.92	4,829.13	5,541.10	6,397.71
Average Number of Retired Members	125	755	645	858	878	652
Ten Year Average -						
Period 9/30/13 to 8/31/23:						
Average Monthly Benefit	\$ 582.91	1,012.72	1,607.73	2,211.16	3,221.62	4,475.38
Average Final Average Salary	\$ 3,661.35	3,892.90	4,199.59	4,565.83	5,322.94	6,132.06
Average Number of Retired Members	162	623	585	787	766	559

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, 2023

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	7,236	7,008	228	4,623	1,526	485	137	242	223
301-600	12,444	11,908	536	8,771	2,170	618	186	297	402
601-900	14,326	13,769	557	10,140	2,433	791	211	251	500
901-1,200	13,720	13,415	305	9,456	2,390	942	207	258	467
1,201-1,500	13,606	13,463	143	9,102	2,397	1,067	203	194	643
1,501-2,000	19,460	19,359	101	12,700	3,295	1,896	264	329	976
2,001-2,500	14,284	14,254	30	8,834	2,549	1,653	181	275	792
2,501-3,000	9,641	9,632	9	5,678	1,799	1,186	146	218	614
3,001-4,000	10,801	10,795	6	6,194	2,165	1,270	124	229	819
4,001-10,999	8,986	8,983	3	4,491	2,346	1,084	75	163	827
Total	124,504	122,586	1,918	79,989	23,070	10,992	1,734	2,456	6,263
Law Enforcement And Custodial Officer Supplemental Retirement Fund (Not e A)									
\$									
0-200	433	433	—	310	86	20	3	4	10
201-400	7,293	7,259	34	4,108	1,801	771	74	83	456
401-600	5,492	5,479	13	3,059	1,184	705	45	91	408
601-800	1,513	1,510	3	685	413	208	16	28	163
801-1,000	878	877	1	349	288	127	7	9	98
1,001-1,200	448	448	—	152	173	63	—	5	55
1,201-1,400	169	169	—	54	68	21	1	4	21
1,401-1,600	62	61	1	19	26	6	—	1	10
1,601-1,800	21	21	—	9	7	3	—	1	1
1,801-9,999	59	41	18	21	20	4	—	1	13
Total	16,368	16,298	70	8,766	4,066	1,928	146	227	1,235
Judicial Retirement Plan Two Fund (Note A)									
\$									
0-2,000	37	37	—	17	17	1	1	—	1
2,001-2,500	15	15	—	7	8	—	—	—	—
2,501-3,000	7	7	—	—	3	1	1	—	2
3,001-3,500	8	8	—	3	2	2	—	—	1
3,501-4,000	20	20	—	7	10	2	—	1	—
4,001-4,500	39	39	—	15	17	5	—	1	1
4,501-5,000	47	47	—	22	18	3	—	3	1
5,001-5,500	68	68	—	25	26	5	1	—	11
5,501-6,000	60	60	—	25	26	5	—	1	3
6,001-6,500	59	58	1	28	25	3	—	—	3
6,501-7,000	47	47	—	15	21	6	—	2	3
7,001-9,999	172	170	2	81	50	22	—	6	13
Total	579	576	3	245	223	55	3	14	39

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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Defined Benefit Plans		%	%	%	%	%	%	%	%	%
Employees Retirement Fund										
Employee Class:										
Employee	6.60	6.50	6.60	6.90	9.50	9.50	9.50	9.50	9.50	9.50
Employee (hired on/after 9/1/22)										6.00
Employer	8.00	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
Legislators (took office on/after 9/1/22)										6.00
Employer	8.00	6.50	8.00	8.00	10.00	10.00	10.00	10.00	10.00	10.00
Other Elected Class	6.60	6.50	6.60	6.90	9.50	9.50	9.50	9.50	9.50	9.50
Other Elected Class (took office on/after 9/1/22)										6.00
Employer	8.00	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
Employee (hired on/after 9/1/22)										2.00
Employer	0.50	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	15.66	15.66	15.66	15.66	15.66	15.66	15.66	15.66	15.66	15.66
State Retire Health Plan (Note B)										
Group Benefits Program										
Employee Only:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
State Contribution Monthly Rate	503.14	470.38	503.14	537.66	576.54	617.30	621.90	624.82	624.82	624.82
HealthSelect Monthly Premium	503.14	470.38	503.14	537.66	576.54	617.30	621.90	624.82	624.82	624.82
Employee & Children:										
State Contribution Monthly Rate	503.15	470.38	503.15	537.66	797.66	854.10	860.48	864.52	864.52	864.52
HealthSelect Monthly Premium	888.86	830.86	888.86	949.94	1,018.78	1,090.90	1,099.06	1,104.22	1,104.22	1,104.22
Employee & Spouse:										
State Contribution Monthly Rate	791.16	739.58	791.16	845.54	906.78	970.98	978.22	982.82	982.82	982.82
HealthSelect Monthly Premium	1,079.18	1,008.78	1,079.18	1,153.42	1,237.02	1,324.66	1,334.54	1,340.82	1,340.82	1,340.82
Employee & Family:										
State Contribution Monthly Rate	984.02	919.82	984.02	1,051.68	1,127.90	1,207.78	1,216.80	1,222.52	1,222.52	1,222.52
HealthSelect Monthly Premium	1,464.90	1,369.26	1,464.90	1,565.70	1,679.26	1,798.26	1,811.70	1,820.22	1,820.22	1,820.22

Note A: Beginning in Fiscal Year 2018, an additional amount is contributed by employer from dedicated court fees. It was \$15.8 million in FY 2023.

Note B: The State Retiree Health Plan is a pay-as-you-go plan. The monthly rates toward eligible health and basic life premium 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.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employees Retirement Fund										
Active Contributing Members	134,162	142,409	146,390	141,629	141,535	141,865	142,490	136,726	133,751	139,958
Non-Contributing Members	96,507	101,122	108,873	112,192	119,736	125,935	134,909	145,050	155,148	164,112
Retirees and Beneficiaries	95,840	100,003	103,758	107,530	111,361	115,155	117,996	120,294	122,720	124,504
Service and Disability Retirements	6,231	6,042	5,668	5,966	6,029	6,034	5,264	5,418	5,543	4,490
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note B)										
Active Contributing Members	37,084	38,526	39,066	38,206	37,167	36,296	35,230	32,498	31,075	31,744
Non-Contributing Members	11,311	12,962	15,203	17,100	19,842	22,207	25,511	29,626	32,371	35,082
Retirees and Beneficiaries	10,024	10,845	11,515	12,248	13,080	13,981	14,697	15,343	15,923	16,368
Service and Disability Retirements	1,071	959	803	876	965	1,020	873	847	812	616
Judicial Retirement System of Texas Plan Two (Note C)										
Active Contributing Members	554	563	548	557	561	573	570	584	583	623
Non-Contributing Members	139	148	166	158	153	187	187	192	192	185
Retirees and Beneficiaries	267	322	331	378	393	472	17	50	536	579
Service and Disability Retirements	14	57	10	48	16	83	<10	<10	15	50
State Retiree Health Plan										
Retirees	104,770	109,311	113,430	117,880	122,350	127,044	130,910	135,517	138,353	139,641
Dependents	36,933	38,130	38,910	39,880	41,061	42,024	42,855	43,189	43,823	43,315

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.

Note C: For privacy purposes, when the number of retirements is below 10, the system reports <10 for publications.

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 fair 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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
457 Deferred Compensation Plan (Note A)										
TexaSaver 457 Plan (Note A):										
Total Participants	26,902	29,129	31,515	33,131	34,023	34,102	33,456	33,660	33,683	33,665
Participants Currently Deferring	20,030	16,685	17,052	19,803	18,591	18,281	17,886	17,806	17,229	16,934
Current Fair Value of Plan Assets (in millions)	591.1	603.7	669.7	759	869.0	896.2	1,053.0	1,322.0	1,161.0	1,300.0
Original 457 Plan (Notes A & B):										
Total Participants	580	513	468	440	424	401	388	375	352	324
Participants Currently Deferring	32	22	17	15	14	12	10	8	5	3
TexaSaver 401(k) Deferred Compensation Plan										
Total Participants	151,034	165,513	181,249	195,737	206,617	220,430	213,974	220,946	225,635	237,415
Participants Currently Deferring	89,774	82,851	92,527	95,813	95,392	99,909	103,190	102,249	99,267	107,654
Current Fair Value of Plan Assets (in millions)	1,853.9	1,836.2	1,984.7	2,193.6	2,449	2,478.1	2,876.0	3,558.0	3,041.0	3,357.0
Deferrals (in millions)	152.2	160.3	182.3	159.3	135.1	141.9	148.2	158.2	172.1	176.7
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	46,173	46,609	48,010	47,799	46,337	44,584	43,134	40,261	37,586	36,551
Dependent Care	3,785	3,880	3,825	3,713	3,636	3,574	3,117	2,336	2,531	2,458
Total Redirected (in millions)	78.9	78.5	80.3	78.7	75.8	73.0	69.9	62.2	54.3	52.3
Premium Conversion:										
Participants	221,876	222,789	226,864	223,026	223,233	224,699	224,626	216,339	211,898	219,950
Premiums Redirected (in millions)	509.2	522.1	548.3	504.5	505.8	509.7	506.4	505.1	449.2	449.9
Tax Savings (in millions):										
Employees	115,300.0	118,300.0	124,200.0	132,100.0	131,700.0	132,000.0	130,500.0	128,500.0	114,000.0	113,700.0
State of Texas	39.0	39.9	41.9	44.6	44.5	44.6	44.1	43.4	38.5	38.4
Group Benefits Program (Note D)										
Membership:										
Active	228,805	230,023	235,108	230,199	231,911	233,887	232,367	224,904	221,404	229,119
Dependents	169,282	166,772	168,161	166,266	164,685	163,172	162,180	156,935	150,118	148,911
COBRA (Note E)	1,144	1,167	984	723	1,104	1,137	1,199	1,512	1,289	1,089
Total Membership	399,231	397,962	404,253	397,188	397,700	398,196	395,746	383,351	372,811	379,119
Death Benefit Programs										
Lump Sum Payments	9	23	29	8	14	21	17	14	40	40
Monthly Payments to Guardians	99	111	112	114	114	111	122	139	165	176
Victims of Violent Crime	5	11	8	4	4	7	10	7	7	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, 2023.

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. The plan was discontinued as of August 31, 2021.

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
Behavioral Health Executive Co
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 - Semi-Independent
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
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
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 Permanent School Fund Corporation
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

- to next page

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

Texas State Board of Pharmacy
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 - *transferred to
University of Texas System effective 8/31/23*
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
University of Houston - Clear Lake
University of Houston - Downtown
University of Houston - Victoria University of Houston
System
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
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 184,715 which is 80.6% of the employees covered by the State Retiree Health Plan.

ERS SUPPORTS THE STATE WORKFORCE BY OFFERING
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