



Annual Comprehensive Financial Report – 2022

Employees Retirement System of Texas | A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2022

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

Published December 2022

2022 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, 2022

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INTRODUCTORY SECTION



Highlights of Retirement Programs

Executive Director's Message

Letter of Transmittal

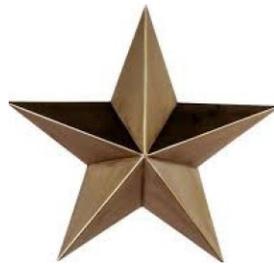
Certificate of Achievement

Public Pension Standards Award

Organizational Chart and Data

Consultants and Advisors

Summary of Plan Provisions



Highlights of Retirement Programs

As of August 31, 2022

	ERS (Note A)	LECOS (Note A)	JRS II
Retirement Census Data			
Active Members	133,751	31,075	583
Terminated Employees Entitled to But Not Yet Receiving Benefits	155,148	32,371	192
Total Retirement Accounts	288,899	63,446	775
Retirees and Beneficiaries Currently Receiving Benefits	122,720	15,923	536
Total Retirements During the Fiscal Year	5,543	812	15
Funded Ratios (Note B)	68.9%	58.6 %	86.2 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Note C)	69.74%	43.38 %	78.65 %
Results of Investments - Pension Trust Funds			
Interest, Dividends & Securities Lending Income	\$ 771,805,711	\$ 25,489,694	\$ 13,587,228
Net Depreciation in Fair Value of Investments	(1,458,869,348)	(29,046,722)	(17,142,707)
Other Transactions Summary			
Member Contributions	\$ 721,520,248	\$ 8,729,103	\$ 8,575,821
State Retirement Contributions	743,016,784	20,904,901	14,384,970
Retirement Benefits	2,774,277,421	92,839,175	36,805,748
Member Contributions Withdrawn	165,563,614	4,362,457	301,975
Administrative Expenses	31,641,814	1,680,319	321,731
Investment Expenses	42,679,237	1,524,304	742,274
Money-Weighted Rates of Return	(2.19)%	(0.46)%	(0.74)%
Time Weighted Rates of Return			
	1-Year	3-Year	5-Year
Investment Pool Trust Fund (Gross)	(1.55)%	9.71 %	8.31%

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



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

December 15, 2022

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

Ladies and Gentlemen:

I am pleased to present the Employees Retirement System of Texas (ERS) Annual Comprehensive Financial Report (ACFR) for the year ended August 31, 2022. The state's retirement benefits and health coverage administered by ERS are an investment in Texas, funded by both members and taxpayers. Benefits, including the state's contributions toward health insurance and retirement, account for more than one third of total compensation for the average state employee. Thus, these benefits play a critical role in ensuring Texas has the workforce necessary to fulfill the mission of state government and providing the crucial services Texans rely on daily.

PORTER WILSON
EXECUTIVE DIRECTOR

On September 2, 2022, ERS celebrated its 75th anniversary. We like to say ERS serves the people who serve Texas. I take pride in knowing the programs we administer make a positive impact on the hundreds of thousands of Texans who serve or served their fellow Texans. I am especially proud to be part of ERS as we not only celebrate this important milestone, but also work to ensure our programs continue to serve members and retirees for the next 75 years and beyond.

JAMES KEE, PH.D.
CHAIR

BRIAN BARTH
VICE-CHAIR

In 1947, ERS launched with an initial state appropriation of \$25,000. In that fiscal year, the state contributed an additional \$1.7 million to match members' contributions to the retirement fund. That year, ERS paid a total of approximately \$38,000 in annuities to 153 retirees. The average monthly annuity check was \$21. Fast forward to Fiscal Year 2022, when we paid approximately \$2.9 billion in annuities to more than 138,000 retirees and beneficiaries. In addition, we paid approximately \$3.2 billion in claims through our self-funded medical and prescription drug plans. ERS didn't start administering health insurance until 1977, but it quickly became a vitally important benefit for members and retirees.

BOARD OF TRUSTEES
NEIKA CLARK
I. CRAIG HESTER
CATHERINE MELVIN
JOHN R. RUTHERFORD

Our retirement and insurance programs depend on support from both members and the state. As we prepare for the 88th Texas Legislature, this is the first time in many years that we have not had to seek an exceptional request to increase contributions to restore the main ERS retirement plan to actuarial soundness. This is a result of the passage in 2021 of Senate Bill 321, which commits the state to pay an actuarially determined amount – in addition to the percent-of-payroll contributions from the employees, the state and agency employers – to pay off the plans' previous debt by no later than 2054. The 87th Legislature also mitigated the risk of significant future liabilities by implementing a cash balance benefit for employees hired on or after September 1, 2022 in both the main ERS retirement plan and the Law Enforcement and Custodial Officers Supplemental (LECOS) plan.

The Honorable Greg Abbott, Governor of Texas
The Honorable Glenn Hegar, Texas Comptroller
Jerry McGinty, Director, Legislative Budget Board
Lisa Collier, State Auditor
The Board of Trustees and Members of the Employee Retirement System of Texas
December 15, 2022
Page 2

During the 88th legislative session, we will continue to provide information on the funding requirements to restore the LECOS plan and the Judicial Retirement System Plan 2 to actuarial soundness. Both plans are currently on a path to depletion, at which time the plans would become pay-as-you-go similar to the group benefits plan.

Currently ERS pays over 60% of retirement annuities from returns on its investments. The overall objective of the ERS investment program is to invest prudently in a diversified portfolio of securities at a reasonable and predictable cost to maximize the probability that earned benefits are provided to current and future members, retirees and beneficiaries. 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, 2022, the Fund returned 8.3%, well above the policy benchmark return of 6.6%. Additionally, the Fund returned 8.3%, outperforming the policy benchmark return of 7.4% for the 10 years ended August 31, 2022.

Health plans administered by ERS remain on solid financial footing. ERS continues aggressive cost management, while ensuring appropriate access to care for health plan participants. As a result, ERS seeks to continue funding at the 2022-23 level in the 88th legislative session despite an increasing health cost trend. ERS continues to encourage members to improve health outcomes and control costs by adopting healthy behaviors and participating in wellness and disease management programs. It is worth noting that more than one in 50 Texans get their health insurance through ERS-administered plans and that our claims payments provide income to hundreds of thousands of health professionals and facilities throughout the state.

Thank you for your ongoing support. I salute the vision of the state employees and lawmakers who established the Employees Retirement System of Texas, and the voters of Texas who approved its creation more than 75 years ago. And I am grateful that dedicated public servants have continued to fund these programs over the decades. We appreciate the giant steps to address the main ERS plan in the 87th Texas Legislature and look forward to working with you to address the financial condition of the judicial and LECOS plans.

Sincerely,



Porter Wilson
Executive Director

Letter of Transmittal



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December 15, 2022

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 ("the System") Annual Comprehensive Financial Report (ACFR) for the year ended August 31, 2022 in compliance with Texas Government Code ANN Sec 2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

PORTER WILSON
EXECUTIVE DIRECTOR

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

JAMES KEE, PH.D.
CHAIR

BRIAN BARTH
VICE-CHAIR

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.

BOARD OF TRUSTEES
NEIKA CLARK
I. CRAIG HESTER
CATHERINE MELVIN
JOHN R. RUTHERFORD

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, 2022.

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

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

The Judicial Retirement 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 \$33.3 billion and a time weighted gross return of (1.55%) for the year. Despite a challenging year, the System outperformed the policy benchmark return of (3.4%). The gross time weighted rates of return for three and five years were 9.71% and 8.31%.

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

Funding Status

The Employees Retirement Plan's ratio of actuarial value of assets to the actuarial accrued liability was 68.9% for funding purposes as of August 31, 2022. The funded status is one of many metrics to show trends and assess future expectations regarding the health of a retirement plan. The funded status measure does not reflect normal cost contributions, the timing of amortization payments or future experience – and thus alone is not appropriate for assessing the sufficiency of a plan assets to cover the plan's benefit obligations. The 87th Texas Legislature changed the funding structure of the Employees Retirement Plan from a fixed-contribution structure to an actuarially determined structure by introducing a new level-dollar contribution structure called legacy payments. These amounts are calculated for each biennium to fully amortize the Unfunded Actuarial Accrued Liability before the end of Fiscal Year 2054 and are in addition to the member and state percentage of payroll contributions. The first legacy payment of \$510 million as recommended in the August 31, 2021 ERS Funding Valuation was received at the beginning of Fiscal Year 2022. As a result of these changes, the System has met the first two goals identified in the ERS Pension Funding Priorities and Guidelines: (1) fund normal costs and (2) avoid trust fund depletion. It is on a path to meet the third goal to meet current statutory standard of a 31-year funding period for unfunded liabilities by approximately 2024 and shortly thereafter meet and ultimately exceed the fourth goal to match funding period to the average years of service at retirement once a 31-year funding period is achieved with a closed amortization period.

The LECOS Retirement plan actuarial value of assets to the actuarial accrued liability ratio was 58.6% for funding purposes as of August 31, 2022. The JRS II Retirement Plan actuarial valuation of asset to the actuarial accrued liability ratio was 86.2% as of August 31, 2022. While benefit changes were made to employees hired on or after September 1, 2022 who participate in the LECOS retirement plan, contributions to LECOS are less than the normal cost and no payment is available to amortize the unfunded liability. Contributions to JRS II are also less than the normal cost; thus, no payment is available to amortize the funded liability. The System is committed to working with the 88th Legislature to return the retirement plans to an actuarially sound status.

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

New Accounting Standards

The System evaluated new reporting standards issued by the Governmental Accounting Standards Board to assess applicability. The System determined that all applicable standards effective for financial statements ending with the fiscal year August 31, 2022 were adopted in prior years.

MAJOR INITIATIVES

The System continues implementation of the cash balance benefit for individuals hired after August 31, 2022 who do not already have a retirement account with ERS. Key policies were adopted and procedural and technical changes were designed, implemented, communicated and in place for individuals hired beginning September 1, 2022, fourteen months after passage of the legislation. The System continues to implement technical changes for processes that will occur later in the member's employment.

The system issued a Request for Proposal (RFP) to replace aging pension and insurance benefit systems during fiscal year 2022. The System has evaluated responses to that RFP and anticipates contract execution in early calendar year 2023. The Retirement Insurance System Enhancement (RISE) is a multiple year project that will require a multi-divisional team working with the vendor to implement, test, train and communicate to both members and employers.

During the current fiscal year, the System will be conducting an election to fill one of the three elected positions on the ERS Board. This includes implementation of legislation passed during the 87th Session which permits a retiree to run and be elected.

The System held contribution rates (premiums) for the group benefits health plan stable for the sixth consecutive year while maintaining competitive benefits. One element of the System's cost containment efforts is regular bidding of vendor contracts. During fiscal year 2022, the System issued a RFP for pharmacy benefit management services. The System will complete evaluation of proposals and contract execution during the current fiscal year.

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, 2021. 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 33 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 2022 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, 2021

Christopher P. Morill

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2022***

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

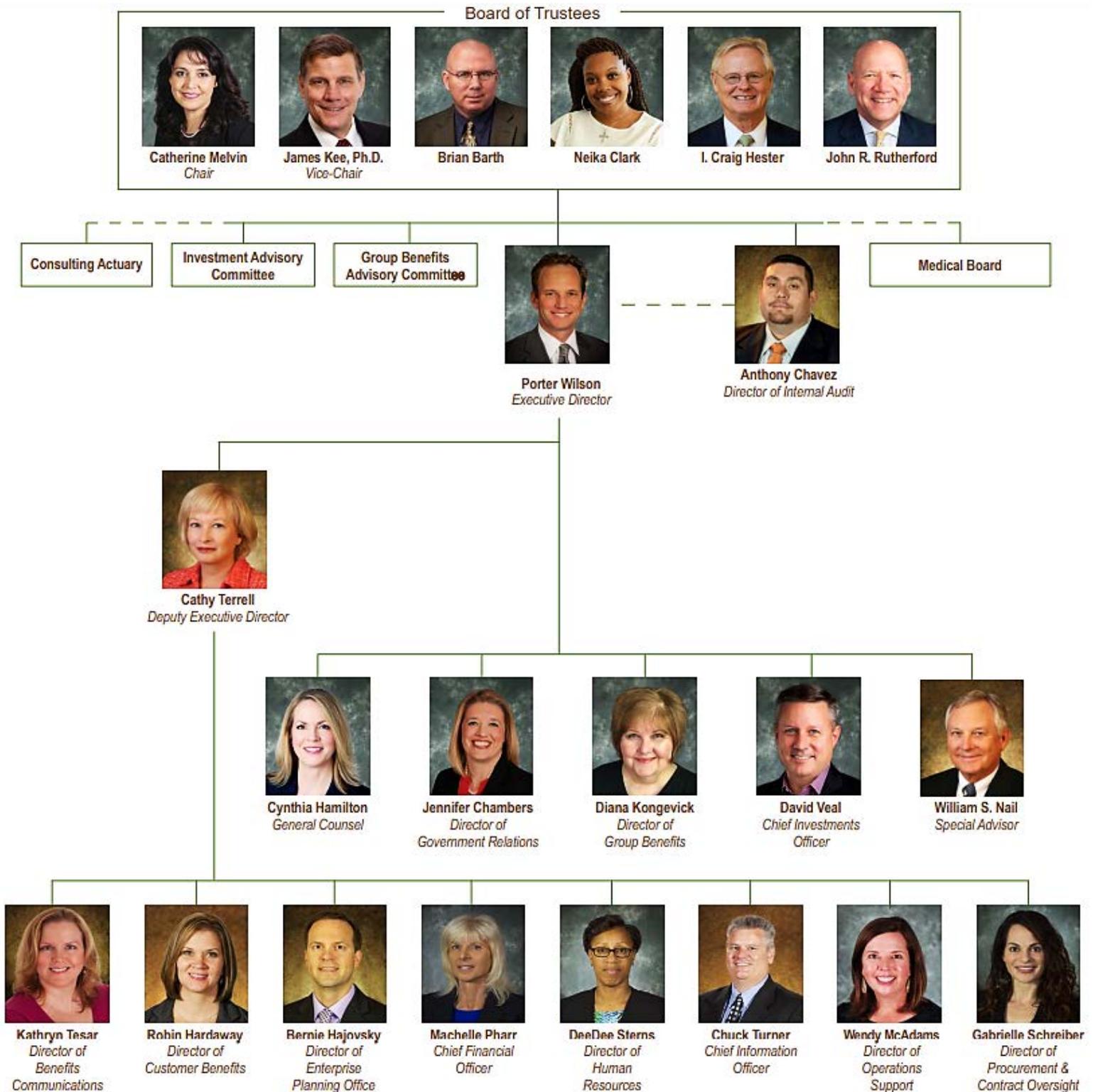
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive, flowing style.

Alan H. Winkle
Program Administrator

Organizational Chart and Data

As of August 31, 2022



Consultants and Advisors

As of August 31, 2022

Consulting Actuaries

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

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

Investment Advisory Committee

Gene L. Needles, Jr., Chair
Laurie L. Dotter, CPA, Vice-Chair
Robert G. Alley, CFA
Ryan Bailey, CFA, CAIA, FRM, CMT
Managing Partner – Carbonado Partners
Caroline Cooley
Chief Investment Officer – Diversified Funds, Crestline Investors, Inc.
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 Caledon Capital Management 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
EAM Investors, LLC
Global Alpha Capital Management Limited
GQG Partners, LLC
JOHCM (USA), Inc.
Kayne Anderson Rudnick Investment Management, LLC
Pzena Investment Management, LLC
Quantitative Management Associates, LLC

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
Jan Thomas
Lottery Commission

Small State Agency Representative

Teresa Nelson
Department of Savings and Mortgage Lending

Four-year Institution of Higher Education Representative

Janet Bezner
Texas State University

Two-year Institution of Higher Education representative

Missy Kittner
McLennan Community College

Retiree Representatives

James Dobbins, Garland
Gary White, Austin

Health-Related Institution Representative

Barbara Cherry
Texas Tech University Health Sciences Center

Insurance or Benefit Design Consultant Representative

Jennifer Cawley
Texas Association of Life and Health Insurers

Medical Board

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

Please refer to pages 105 to 107 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.

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

Note: The following summary of the various plan provisions does not include changes to the plan for employees hired on or after September 1, 2022.

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
JRS II	<ul style="list-style-type: none"> Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service after August 31, 1985.
Service Retirement Eligibility without Reduced Benefits:	
ERS	<p>Employee Class Only:</p> <p>Hire date prior to 9-1-2009:</p> <ul style="list-style-type: none"> Age 60 with at least five years of service credit, or Rule-of-80 with at least five years of service credit, or Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. <p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> Age 65 with 10 years of service credit, or Rule-of-80 with at least 10 years of service credit at age 60, or Age 60 with at least 10 years of service credit as a certified peace officer or custodial officer. <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> Age 65 with 10 years of service credit, or Rule-of-80 with at least 10 years of service credit at age 62, or Age 62 with at least 10 years of service credit as a certified peace officer or custodial officer.

Summary of Plan Provisions (Continued)

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

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

Summary of Plan Provisions (Continued)

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

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

Summary of Plan Provisions (Continued)

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

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

Summary of Plan Provisions (Continued)

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

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

Summary of Plan Provisions (Continued)

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

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

Summary of Plan Provisions (Continued)

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

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

Summary of Plan Provisions (Concluded)

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

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

FINANCIAL SECTION



Independent 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 component unit of the State of Texas, as of and for the year ended August 31, 2022, 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, 2022, 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.

Emphasis of Matter

As discussed in Note 1, Section 1.A, the financial statements of the ERS are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, general fund, and aggregate remaining fund information of the State of Texas that is attributable to the funds of the ERS. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2022, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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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.

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.

Board of Trustees
Employees Retirement System of Texas

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 schedule – appropriated general fund, schedules of changes in net pension liability and related ratios – defined benefit plans, employer contributions – defined benefit plans, changes in net OPEB liability and related ratios, contributions from employers and non-employer contributing entities – other postemployment benefits plan, and investment returns – annual money-weighted rate of return, net of investment expense, and the related notes, 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.

Board of Trustees
Employees Retirement System of Texas

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022, 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
December 15, 2022



Management's Discussion and Analysis

Year Ended August 31, 2022

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, 2022. 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 General and Special Revenue funds for four of the programs presented in the government-wide statements.
- Exhibits V and VI are the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position for the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Program). Highlights are presented under the heading Financial Analysis on Government-wide Statements below.
- Exhibit VII is a required Statement of Cash Flows for the Proprietary Fund under which the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Program) is reported. This statement reports the transactions for the year on a cash basis. It is similar to Exhibit VI, the Statement of Revenues, Expenses, and Changes in Net Position, except that the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.
- Exhibits VIII and IX, the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position, report activities of the defined benefit plans, including the retiree insurance plan. These exhibits also report the cafeteria plan and other deferred compensation plans.

Financial Analysis on Government-wide Statements

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

- Social Security Administration,
- Death Benefits for Public Safety Officers

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

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

	2022	2021	Changes
	\$	\$	%
Net Position	3,129.54	2,967.76	5.45
Current Liabilities	715.05	739.01	(3.24)
Member and Employer Contributions	2,774.94	2,768.68	0.23
Benefit Payments	2,461.45	2,495.98	(1.38)

The change in Net Position is primarily due to increase in interest revenues from short term and securities lending investments. Benefit payments decreased due to increases in pharmacy rebates in comparison to the prior year.

Financial Highlights – Fiduciary Funds

Net position of the Fiduciary Funds administered by the System totaled \$33.79 billion as of August 31, 2022, compared with \$35.48 billion as of August 31, 2021. The investment portfolio returned (1.55) % for the year using gross time weighed rate of return. The majority of the decrease resulted primarily from investment performance. The time weighted rate of return for three and five years were 9.71% and 8.31%, respectively.

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

Fund Name	Rate (%)
	%
Employees Retirement System Fund	(2.19)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(0.46)
Judicial Retirement System of Texas Plan Two Fund	(0.74)
Overall	(2.09)

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2022

The System's management remains confident 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.

Actual Asset Allocation

Asset Class	%
Alternative Investments	36.11
Directional Growth	1.46
Global Credit Fixed Income Securities	9.43
Global Public Equity Special Situations	0.86
International Equity	11.52
Large Cap Domestic Equity	16.06
Small and Mid Cap Domestic Equity	2.78
Other Investments	6.27
Hedge Funds	4.61
Rates Fixed Income Securities	10.90

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

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

	2022	2021	Changes
	\$	\$	%
Contributions:			
Retirement & Other	2,161.98	1,622.70	33.23
Insurance	849.87	913.49	(6.96)
Total (Exh. IX)	3,011.85	2,536.19	18.75
Benefit Payments:			
Retirement & Other	3,106.17	2,951.12	5.25
Insurance	816.91	874.47	(6.58)
Total (Exh. IX)	3,923.08	3,825.59	2.55

Retirement contributions increased due to the legacy payment and 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:

	2022	2021	Changes
	\$	\$	%
Changes in Fiduciary Net Position (Exh. IX)	(1,678.87)	5,970.76	(281.18)
Total Net Position	33,798.79	35,477.65	(4.73)

The decrease in changes in Fiduciary Net Position is due primarily to investment performance. The gross time weighted rate of return was (1.55)%, which was lower than the previous year return of 25.51%.

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:

	2022	2021	Changes
	\$	\$	%
Member Contributions	797.51	798.09	(0.07)
Employer Contributions	1,478.45	1,541.01	(4.06)
Non-Employer Contributing Entity Contributions	554.14	39.19	1,313.98
Net Investment Income	(736.58)	7,290.29	(110.10)
Other Additions	242.91	223.06	8.90
Total Additions (Exh. IX)	2,336.43	9,891.64	(76.38)

The increase in the Non-Employer Contributing Entity contributions is due to receipt of the legacy payment. The decrease in the net investment income is due primarily to market fluctuations.

For the Employees Retirement Fund, member and State retirement contribution rates for Fiscal Year 2022 were 9.5% and 10.0% respectively. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), both the State and

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2022

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:

	2022	2021	Changes
	\$	\$	%
Retirement Benefits and Refunds	3,971.82	3,885.72	2.22
Administrative Expenses	42.39	34.18	24.02
Other Deductions	1.09	.98	11.22
Total Deductions (Exh. IX)	4,015.30	3,920.88	2.40

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:

	2022	2021	Changes
	\$	\$	%
Cash and Cash Equivalents	102.96	104.79	(1.75)
Securities Lending Collateral	232.56	313.73	(25.87)
Legislative Appropriation	—	—	—
Investments	33,167.00	34,806.71	(4.71)
Receivables	657.45	749.35	(12.26)
Due From Other Funds/Agencies	55.40	15.46	258.34
Capital Assets	72.33	67.52	7.13
Total Assets (Exh. VIII)	34,287.70	36,057.56	(4.90)

Liabilities

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

	2022	2021	Changes
	\$	\$	%
Accounts Payable	224.15	251.91	(11.02)
Due To Other Funds/Agencies	25.67	7.25	254.07
Compensable Leave	4.66	4.63	0.65
Securities Lending Obligations	232.38	314.11	(26.02)
Other Liabilities	2.06	2.01	2.49
Total Liabilities (Exh. VIII)	488.92	579.91	(15.69)

Management's Discussion and Analysis (Continued)

Year Ended August 31, 2022

Funding Status and Progress

For funding purposes, the latest annual actuarial valuation of the System's pension and OPEB plans, as of August 31, 2022, (compared to the August 31, 2021 actuarial valuation) is summarized as follows:

Employees Retirement System Fund

	August 31, 2022	August 31, 2021
Unfunded Actuarial Accrued Liability	\$14,246,571,466	\$14,118,331,031
Recommended Legacy Contribution	\$ 510,000,000	\$ 510,000,000
Funded Ratio	68.9 %	68.0 %
Contribution rate as a percentage of payroll	19.5 %	19.5 %
Normal cost as a percentage of payroll	14.07 %	14.12 %

The 87th Texas Legislation passed Senate Bill 321, providing a legacy payment annually to the Employees Retirement System to pay off the current unfunded liability no later than 2054. The legacy payment began September 1, 2021 for Fiscal Year 2022. Additionally, Senate Bill 321 establishes a cash balance benefit in the defined benefit plan for state employees hired on or after September 1, 2022.

As a result of the state's commitment to make constant adequate contributions and investment performance for fiscal year 2022, the latest annual actuarial valuation projects the Employees Retirement System fund to be actuarially sound in 32 years.

Law Enforcement and Custodial Officer Supplemental Retirement Fund

	August 31, 2022	August 31, 2021
Unfunded Actuarial Accrued Liability	\$ 715,293,382	\$ 652,701,151
Funded Ratio	58.6 %	60.5 %
Contribution rate as a percentage of payroll	1.0 %	1.0 %
Normal cost as a percentage of payroll	1.94 %	1.97 %

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 \$13

million is less than the normal cost of the plan by 0.16%, and no payments will be available to amortize the unfunded actuarial accrued liability over a finite period of time. For Fiscal Year 2022, the total employer contribution rate to fund the normal cost plus amortize the unfunded actuarial accrued liability balance over 31 years as a level percentage of payroll is 3.40%.

Judicial Retirement System of Texas Plan Two Fund

	August 31, 2022	August 31, 2021
Unfunded Actuarial Accrued Liability	\$ 88,936,109	\$ 95,021,008
Funded Ratio	86.2 %	84.6 %
Contribution rate as a percentage of payroll	25.043 %	25.053 %
Normal cost as a percentage of payroll	26.81 %	26.64 %

The total contribution rate is below the normal cost by 1.767% of payroll for the current fiscal year, and it is not sufficient to amortize the unfunded actuarial accrued liability over a finite period of time.

State Retiree Health Plan

	August 31, 2022	August 31, 2021
Unfunded Actuarial Accrued Liability	\$28,486,965,705	\$35,875,507,408
Funded Ratio	0.6 %	0.6 %
Contribution rate as a percentage of Actuarially Determined Contribution	34.97 %	29.68 %
Normal cost as a percentage of payroll	8.2 %	12.8 %
Actuarially Determined Contribution as a percentage of payroll	16.6 %	21.6 %

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.

Management's Discussion and Analysis (Concluded)

Year Ended August 31, 2022

The net plan position as of is \$162.57 million and the net changes in Fiscal Year 2022 are summarized as follows:

Additions:	\$	
Employer Contributions		699,999,453
Non-Employer Contributing Entity Contributions		36,750,724
Federal revenues		113,120,551
Investment Income		738,182
Other Revenues		—
Total Additions		850,608,910
Deductions:		
Health Care Claims		1,007,573,310
Less Payments from Members		(190,659,955)
Total Benefit Payments		816,913,355
Administrative Expenses		6,773,917
Total Deductions		823,687,272
Net changes		26,921,638

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, 2022

Governmental Activities

	\$
Assets	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank	2,218
Cash in State Treasury	83,392,941
Total Cash and Cash Equivalents	83,395,159
Securities Lending Collateral	32,873,543
Short-Term Investments	1,552,597,791
Legislative Appropriations	173,364
Receivables	277,268,249
Due from Fiduciary Funds	15,489,288
Total Current Assets	1,961,797,394
Non-Current Assets:	
Public Equities	14,878,069
Fixed Income	1,716,892,412
Alternative Investments	151,101,196
Other Investments	208,081
Total Non-Current Assets	1,883,079,758
Total Assets	3,844,877,152
Liabilities	
Current Liabilities:	
Payables	655,303,880
Due to Fiduciary Funds	27,616,171
Obligations Under Securities Lending	32,410,126
Total Current Liabilities	715,330,177
Total Liabilities	715,330,177
Net Position	
Restricted for:	
Employees Life, Accident and Health Insurance and Benefits	3,129,543,025
Unrestricted	3,950
Total Net Position (Exh. II & III)	\$3,129,546,975

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

Exhibit II
Statement of Activities
Year Ended August 31, 2022

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
	\$	\$	\$	\$
Functions/Programs				
Governmental Activities				
Judicial Retirement System Plan One	17,767,823	17,767,823	—	—
Social Security Administration	83,706	81,423	—	(2,283)
Death Benefits-Peace Officers, Firemen, etc.	24,940,802	24,940,802	—	—
Compensation to Victims of Crime	4,071,822	4,071,822	—	—
Death Benefits-Retiree \$5,000 Lump Sum	9,574,472	9,574,472	—	—
Employees Life, Accident And Health Insurance and Benefits	2,475,293,131	2,775,101,360	(138,025,289)	161,782,940
Total Governmental Activities	2,531,731,756	2,831,537,702	(138,025,289)	161,780,657
			General Revenues:	
			Revenues	—
			Total General Revenues	—
			Change in Net Position (Exh. IV)	161,780,657
			Net Position - Beginning	2,967,766,318
			Net Position - Ending (Exh. I)	\$ 3,129,546,975

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, 2022

	General Fund Totals (Note 1.E)	Other Governmental Funds Totals (Note 1.E)	Total Governmental Funds
	\$	\$	\$
Assets			
Current Assets:			
Cash and Cash Equivalents:			
Cash in State Treasury	1,594	39,439	41,033
Total Cash and Cash Equivalents	1,594	39,439	41,033
Legislative Appropriations	173,364		173,364
Accounts Receivable	—	21,523	21,523
Due From Other Funds (Note 5.A)	—	43,804	43,804
Total Current Assets	174,958	104,766	279,724
Total Assets	174,958	104,766	279,724
Liabilities & Fund Balances			
Current Liabilities:			
Payables:			
Voucher/Accounts Payable	173,364	—	173,364
Due To Other Funds (Note 5.A)	1,594	100,816	102,410
Total Current Liabilities	174,958	100,816	275,774
Total Liabilities	174,958	100,816	275,774
Fund Balances:			
Committed	—	3,950	3,950
Total Fund Balances (Exh. IV)	—	3,950	3,950
Total Liabilities & Fund Balances	174,958	104,766	279,724
Total Fund Balances - Governmental Funds (above):			3,950
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.			
			3,129,543,025
Net Position of Governmental Activities (Exh. I)			\$3,129,546,975

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, 2022

	General Fund Totals (Note 1.E)	Other Governmental Funds Totals (Note 1.E)	Total Governmental Funds
	\$	\$	\$
Revenues			
Legislative Appropriations out of the State's General Revenue Fund:			
Appropriation Revenue:			
For Judicial Retirement System Plan One	17,767,823	—	17,767,823
For Death Benefits Peace Officers, etc.	—	24,940,802	24,940,802
For Victims of Crime	—	4,071,822	4,071,822
For Death Benefits-Retirees	—	9,574,472	9,574,472
Total Appropriation Revenue	17,767,823	38,587,096	56,354,919
Administration Fees for Social Security Administration		81,423	81,423
Total Revenues	17,767,823	38,668,519	56,436,342
Expenditures			
Current:			
Death Benefits	—	38,587,096	38,587,096
Retirement Benefits	17,767,823	—	17,767,823
Administrative Expenditures:			
Salaries & Wages	—	41,901	41,901
Payroll Related Costs	—	12,765	12,765
Professional Fees & Services	—	12,255	12,255
Travel	—	75	75
Materials & Supplies	—	2,679	2,679
Communications & Utilities	—	7,234	7,234
Repairs & Maintenance	—	4,250	4,250
Rentals & Leases	—	1,247	1,247
Printing & Reproduction	—	138	138
Other Expenditures	—	1,162	1,162
Total Administrative Expenditures		83,706	83,706
Total Expenditures	17,767,823	38,670,802	56,438,625
Net Change in Fund Balance		(2,283)	(2,283)
Fund Balances - Beginning	—	6,233	6,233
Fund Balances - Ending (Exh. III)	—	3,950	3,950
Net Change in Fund Balances - Governmental Funds:			(2,283)
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.			
			161,782,940
Change in Net Position of Governmental Activities (Exh. II)			\$161,780,657

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, 2022

	<u>Internal Service Fund</u>
	<u>Employees Life, Accident and Health Insurance and</u>
	<u>Benefits Fund (0973), (0935) (U/F 0973 and 4973)</u>
Assets	\$
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank	2,218
Cash in State Treasury	83,351,908
Total Cash and Cash Equivalents	83,354,126
Securities Lending Collateral	32,873,543
Short-Term Investments	1,552,597,791
Receivables:	
Interest Receivable	13,505,934
Accounts Receivable	259,821,837
Unsettled Sales-Investment Receivables	3,918,955
Total Receivables	277,246,726
Due From Other Funds (Note 5.A)	15,445,484
Due From Other Agencies (Note 1.G)	
Total Current Assets	1,961,517,670
Non-Current Assets:	
Investments: (Note 2.A)	
Public Equities	14,878,069
Fixed Income	1,716,892,412
Alternative Investments	151,101,196
Other Investments	208,081
Total Non-Current Assets	1,883,079,758
Total Assets	3,844,597,428
Liabilities	
Current Liabilities:	
Payables:	
Claims Payable:	
Incurred, Self-Funded	38,434,741
Incurred But Not Reported, Self-Funded	609,355,624
Total Claims Payable	647,790,365
Premiums Payable	1,403,793
Administrative and Other Fees Payable	5,024,298
Accounts Payable	175,321
Unsettled Purchases-Investment Payables	697,817
Other Payable	38,922
Total Payables	655,130,516
Due To Other Funds (Note 5.A) :	
Other Interfunds Payable	27,513,761
Total Due To Other Funds	27,513,761
Due to Other Agencies	
Obligations Under Securities Lending	32,410,126
Total Current Liabilities	715,054,403
Total Liabilities	715,054,403
Net Position	
Restricted For:	
Employee Life, Accident and Health Insurance and Benefits	3,129,543,025
Total Net Position (Exh. VI)	\$3,129,543,025

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, 2022

	Internal Service Fund
	Employees Life, Accident and Health Insurance and Benefits Fund (0973), (0935), (U/F 0973 and 4973)
Operating Revenues	\$
Contributions to Insurance Program:	
From Employers	2,211,812,446
From Members:	
For Employees	554,878,179
For COBRA	8,245,819
Total Contributions from Members	563,123,998
Total Contributions to Insurance Program	2,774,936,444
Other Operating Revenues:	
COBRA 2% Administration Fee	164,916
Warrants Voided by Statute of Limitations	15,341
Penalty Assessed to Insurance Carrier	182,230
Miscellaneous Operating Revenue	3,305
Total Other Operating Revenues	365,792
Total Operating Revenues	2,775,302,236
Operating Expenses	
Employee Benefit Payments:	
For Employees ¹	2,428,326,967
For COBRA	31,211,186
For Health Savings Accounts	1,764,875
For SmartShoppERS Reward	147,575
Total Employee Benefit Payments	2,461,450,603
Administrative Expenses:	
Salaries & Wages	7,530,729
Payroll Related Costs	2,294,622
Professional Fees & Services	951,719
Travel	19,205
Materials & Supplies	438,506
Communications & Utilities	1,276,810
Repairs & Maintenance	588,995
Rentals & Leases	189,032
Printing & Reproduction	28,838
Other Operating Expenses	522,110
Total Administrative Expenses	13,840,566
Total Operating Expenses	2,475,291,169
Operating Income	300,011,067
Non-Operating Revenues (Expenses)	
Net Decrease in Fair Value of Investments	(206,655,984)
Interest Revenue	68,200,251
Securities Lending Activities:	
Loan Premium on Securities Lending	229,567
Broker Rebates	27,905
Agent Fees	(25,746)
Net Securities Lending Activity	231,726
Commission on Futures Contracts	(4,120)
Total Non-Operating Revenues (Expenses)	(138,228,127)
Change in Net Position	161,782,940
Net Position - Beginning	2,967,760,085
Net Position - Ending (Exh. V)	\$3,129,543,025

¹ The benefit payments are reported net of \$244,445,876 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, 2022

**Internal Service Fund
Employees Life, Accident and Health
Insurance and Benefits
Fund (0973),(0935)/(U/F 0973 and 4973)**

	\$
Cash Flows from Operating Activities:	
Cash Received from Members	566,677,933
Cash Received from Employers and Non-employer Contributing Entities	2,202,477,568
Cash Received from Pharmacy Rebates	(2,754,272,001)
Cash Payments to Insurance Carriers and Third Party Administrators	241,394,057
Cash Payments for Goods and Services	(4,009,540)
Net Cash Provided by Operating Activities	252,268,017
Cash Flows from Investing Activities:	
Net Purchases of Short-Term Investment Fund	(299,699,053)
Interest on Deposit in State Treasury	638,362
Net Cash Used by Investing Activities	(299,060,691)
Net Decrease in Cash and Cash Equivalents	(46,792,674)
Cash and Cash Equivalents:	
Beginning of Year	130,146,800
End of Year	83,354,126
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	300,011,067
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(8,985,380)
Increase in Due From Other Funds	(11,900,040)
Decrease in Accounts Payable	(49,478,187)
Increase in Due To Other Funds	22,667,537
Decrease in Unearned Revenue	(46,980)
Total Adjustments	(47,743,050)
Net Cash Provided by Operating Activities	\$252,268,017
Non-Cash Investing Activities:	
Net Depreciation in Fair Value of Non-Cash Equivalent Investments	(206,655,984)

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, 2022

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Assets	\$	\$	\$	\$
Cash and Short-Term Investments:				
Cash and Cash Equivalents:				
Cash in Bank	—	—	—	—
Cash in State Treasury	65,882,419	4,175,757	2,460,381	—
Total Cash and Cash Equivalents	65,882,419	4,175,757	2,460,381	—
Securities Lending Collateral	221,371,763	7,260,276	3,927,072	—
Short-Term Investments	545,170,932	17,864,903	9,670,920	—
Total Cash and Short-Term Investments	832,425,114	29,300,936	16,058,373	—
Legislative Appropriations	—	—	—	—
Investments: (Note 1.G)				
Public Equities	10,635,718,747	348,392,468	188,745,984	—
Fixed Income	5,514,205,093	180,627,898	97,857,426	—
Alternative Investments	14,548,799,796	476,572,613	258,189,183	—
Other Investments	253,712,012	8,310,802	4,502,481	—
Total Investments	30,952,435,648	1,013,903,781	549,295,074	—
Receivables:				
Interest and Dividends Receivable	96,230,328	3,152,805	1,707,561	—
Contributions/Accounts Receivable	125,778,450	4,701,307	1,912,359	—
Unsettled Sales-Investment Receivables	164,519,071	5,389,124	2,919,625	—
Total Receivables	386,527,849	13,243,236	6,539,545	—
Due From Other Funds (Note 5.A)	34,343,848	232,257	133,373	—
Due From Other Agencies (Note 1.G)	20,223,439	—	—	—
Prepaid Claims Expense	1,567	—	—	—
Capital Assets:				
Non-Depreciable:				
Land and Land Improvements	874,889	—	—	—
Depreciable, Net of Accumulated Depreciation/Amortization of \$597,905				
Leased Assets	1,259,357	—	—	—
Depreciable, Net of Accumulated Depreciation/Amortization of \$25,242,190				
Building	69,975,184	—	—	—
Furniture and Equipment	221,672	—	—	—
Vehicles	10,528	—	—	—
Total Capital Assets	72,341,630	—	—	—
Total Assets	32,298,299,095	1,056,680,210	572,026,365	—
Liabilities				
Payables:				
Voucher/Accounts Payable	36,016,667	1,851,039	82,496	—
Unsettled Purchases-Investment Payables	36,707,634	1,202,426	651,429	—
Total Payables	72,724,301	3,053,465	733,925	—
Due To Other Funds (Note 5.A)	9,247,704	3,823,123	873,258	—
Due To Other Agencies (Note 1.G)	2,622,347	—	—	—
Unearned Revenue	449,242	261,701	51,074	—
Employees Compensable Leave	4,663,244	—	—	—
Obligations Under Securities Lending	221,209,550	7,246,124	3,925,679	—
Long-term Liabilities:				
Long-term Lease Liability (Note 2.D)	1,286,963	—	—	—
Interest Payable - Lease	3,954	—	—	—
Total Liabilities	312,207,305	14,384,413	5,583,936	—
Fiduciary Net Position Restricted for Pension and Other Postemployment Benefits	\$31,986,091,790	\$1,042,295,797	\$566,442,429	—

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	TexasSaver 401(k) Trust Fund (0946)	TexasSaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
—	—	295,147	6,469	—	—	301,616
20,613,854	93,132,411	3,393,766	3,706,465	—	2,421,690	102,654,332
20,613,854	93,132,411	3,688,913	3,712,934	—	2,421,690	102,955,948
—	232,559,111	—	—	—	—	232,559,111
51,552,783	624,259,538	—	—	139,166	26,963,871	651,362,575
72,166,637	949,951,060	3,688,913	3,712,934	139,166	29,385,561	986,877,634
—	11,172,857,199	—	—	—	—	11,172,857,199
—	5,792,690,417	—	—	—	—	5,792,690,417
—	15,283,561,592	—	—	—	—	15,283,561,592
—	266,525,295	—	—	—	—	266,525,295
—	32,515,634,503	—	—	—	—	32,515,634,503
219,681,339	219,681,339	—	—	—	—	219,681,339
191,665	101,282,359	2,989	3,202	211	49,468	101,338,229
26,202,233	158,594,349	—	10,676	179,547	4,815,354	163,599,926
—	172,827,820	—	—	—	—	172,827,820
246,075,237	652,385,867	2,989	13,878	179,758	4,864,822	657,447,314
—	34,709,478	317,330	57,520	—	91,944	35,176,272
—	20,223,439	—	—	—	—	20,223,439
—	1,567	—	—	—	—	1,567
—	874,889	—	—	—	—	874,889
—	1,259,357	—	—	—	—	1,259,357
—	69,975,184	—	—	—	—	69,975,184
—	221,672	—	—	—	—	221,672
—	10,528	—	—	—	—	10,528
—	72,341,630	—	—	—	—	72,341,630
318,241,874	34,245,247,544	4,009,232	3,784,332	318,924	34,342,327	34,287,702,359
147,314,325	185,264,527	295,147	6,469	—	27,393	185,593,536
—	38,561,489	—	—	—	—	38,561,489
147,314,325	223,826,016	295,147	6,469	—	27,393	224,155,025
8,353,755	22,297,840	615,299	149,364	(226,766)	213,652	23,049,389
(735)	2,621,612	—	—	—	—	2,621,612
—	762,017	—	—	—	—	762,017
—	4,663,244	—	—	—	—	4,663,244
—	232,381,353	—	—	—	—	232,381,353
—	1,286,963	—	—	—	—	1,286,963
—	3,954	—	—	—	—	3,954
155,667,345	487,842,999	910,446	155,833	(226,766)	241,045	488,923,557
\$162,574,529	\$33,757,404,545	\$3,098,786	\$3,628,499	\$545,690	\$34,101,282	\$33,798,778,802

Exhibit IX

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

Year Ended August 31, 2022

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Additions	\$	\$	\$	\$
Contributions:				
Members	721,520,248	8,729,103	8,575,821	—
Employers	743,016,784	20,904,901	14,384,970	—
Non-Employer Contributing Entity Contributions	516,866,616	522,605	—	—
Service Contributions Transferred from				
Teacher Retirement System (Note 3.A)	127,457,857	—	—	—
Federal Revenues	—	—	—	—
Others - Forfeitures	—	—	—	—
Total Contributions	2,108,861,505	30,156,609	22,960,791	—
Investment Income:				
From Investing Activities:				
Net Depreciation in Fair Value of Investments	(1,458,869,348)	(29,046,722)	(17,142,707)	—
Interest and Dividends	769,734,584	25,421,301	13,550,757	—
Class Action Settlements	1,660,184	55,106	29,114	—
Total Investing Activity Income (Loss)	(687,474,580)	(3,570,315)	(3,562,836)	—
Less: Investment Expense	(42,679,237)	(1,524,304)	(742,274)	—
Net Income (Loss), Investing Activities	(730,153,817)	(5,094,619)	(4,305,110)	—
From Securities Lending Activities:				
Loan Premium on Securities Lending	2,056,744	67,674	36,341	—
Broker Rebates	245,218	8,341	4,194	—
Agent Fees	(230,835)	(7,622)	(4,064)	—
Net Income, Securities Lending Activities	2,071,127	68,393	36,471	—
Net Investment Income (Loss)	(728,082,690)	(5,026,226)	(4,268,639)	—
Other Additions:				
Other Revenue:				
Warrants Voided by Statute of Limitations	326,233	5,954	—	—
Reimbursements - Third Party	—	—	—	—
Sale of Surplus Equipment	851	—	—	—
Rental Income	45,980	—	—	—
Miscellaneous Revenue	131	—	—	—
Administration Fees	—	—	—	—
Total Other Revenue	373,195	5,954	—	—
Transfer In:				
Interfund Transfers In (Note 1.G):	—	—	—	997,796
Interagency Transfers In (Note 5.C):	—	—	—	288,368
Total Transfers In	—	—	—	1,286,164
Total Other Additions	373,195	5,954	—	1,286,164
Total Additions	\$1,381,152,010	\$25,136,337	\$18,692,152	\$1,286,164

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
\$	\$	\$	\$	\$	\$	\$
—	738,825,172	—	—	—	58,681,016	797,506,188
699,999,453	1,478,306,108	—	—	—	147,575	1,478,453,683
36,750,724	554,139,945	—	—	—	—	554,139,945
—	127,457,857	—	—	—	—	127,457,857
113,120,551	113,120,551	—	—	—	—	113,120,551
—	—	—	—	—	462,462	462,462
849,870,728	3,011,849,633	—	—	—	59,291,053	3,071,140,686
37,291	(1,505,021,486)	—	—	—	—	(1,505,021,486)
700,891	809,407,533	20,203	21,609	209	137,221	809,586,775
—	1,744,404	—	—	—	—	1,744,404
738,182	(693,869,549)	20,203	21,609	209	137,221	(693,690,307)
—	(44,945,815)	(80,744)	(11,193)	(1)	(23,279)	(45,061,032)
738,182	(738,815,364)	(60,541)	10,416	208	113,942	(738,751,339)
—	2,160,759	—	—	—	—	2,160,759
—	257,753	—	—	—	—	257,753
—	(242,521)	—	—	—	—	(242,521)
—	2,175,991	—	—	—	—	2,175,991
738,182	(736,639,373)	(60,541)	10,416	208	113,942	(736,575,348)
—	332,187	—	—	—	—	332,187
—	—	—	—	—	39,347	39,347
—	851	—	—	—	—	851
—	45,980	—	—	—	—	45,980
—	131	—	—	—	—	131
—	—	96,384	68,279	—	—	164,663
—	379,149	96,384	68,279	—	39,347	583,159
—	997,796	—	—	—	—	997,796
—	288,368	—	—	—	—	288,368
—	1,286,164	—	—	—	—	1,286,164
—	1,665,313	96,384	68,279	—	39,347	1,869,323
\$850,608,910	\$2,276,875,573	\$35,843	\$78,695	\$208	\$59,444,342	\$2,336,434,661

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Exhibit IX (Concluded)

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

Year Ended August 31, 2022

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
Deductions	\$	\$	\$	\$
Benefits:				
Benefits	2,774,277,421	92,839,175	36,805,748	1,194,286
Less: Payments from Members	—	—	—	—
Refunds of Contributions	165,563,614	4,362,457	301,975	—
Service Contributions Transferred to Teacher Retirement System (Note 3.A)	30,824,009	—	—	—
Total Benefits	2,970,665,044	97,201,632	37,107,723	1,194,286
Administrative Expenses:				
Salaries & Wages	12,072,202	856,647	141,112	—
Payroll Related Costs	4,563,248	282,036	56,853	—
Professional Fees & Services	5,967,683	265,072	69,816	—
Travel	22,609	1,435	304	—
Materials & Supplies	1,220,462	72,579	15,596	—
Communications & Utilities	774,159	39,394	7,089	—
Repairs & Maintenance	915,537	86,318	11,234	—
Rentals & Leases	96,312	29,488	5,273	—
Printing & Reproduction	109,742	5,245	1,638	—
Depreciation	3,515,648	—	—	—
Amortization	283,868	—	—	—
Interest Expense	20,316	—	—	—
Other Operating Expenses	2,080,028	42,105	12,816	—
Total Administrative Expenses	31,641,814	1,680,319	321,731	—
Other Deductions:				
Interfund Transfers Out (Note 1.G):				
Other Transfers	997,796	—	—	—
Interagency Transfers Out (Note 5.C):	—	—	—	91,878
Total Transfers Out	997,796	—	—	91,878
Total Other Deductions	997,796	—	—	91,878
Total Deductions	3,003,304,654	98,881,951	37,429,454	1,286,164
Net Increase (Decrease)	(1,622,152,644)	(73,745,614)	(18,737,302)	—
Fiduciary Net Position Restricted for Pension and Other Postemployment Benefits:				
Beginning of Year	33,608,244,434	1,116,041,412	585,179,731	—
End of Year (Exh. VIII)	\$31,986,091,790	\$1,042,295,797	\$566,442,429	—

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

State Retiree Health Plan (3973)	Total Defined Benefit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	Commuter Spending Account Fund (3944)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
1,007,573,310	3,912,689,940	—	—	—	48,740,270	3,961,430,210
(190,659,955)	(190,659,955)	—	—	—	—	(190,659,955)
—	170,228,046	—	—	—	—	170,228,046
—	30,824,009	—	—	—	—	30,824,009
816,913,355	3,923,082,040	—	—	—	48,740,270	3,971,822,310
3,709,165	16,779,126	288,084	71,085	252	90,178	17,228,725
1,130,187	6,032,324	63,551	18,999	73	19,303	6,134,250
430,432	6,733,003	82,969	10,690	8	25,825	6,852,495
9,491	33,839	407	53	—	111	34,410
215,981	1,524,618	7,673	738	18	1,901	1,534,948
628,877	1,449,519	4,402	1,703	3	1,350	1,456,977
290,102	1,303,191	5,008	438	12	1,225	1,309,874
93,105	224,178	2,114	157	1	505	226,955
14,204	130,829	857	82	—	212	131,980
—	3,515,648	—	—	—	—	3,515,648
—	283,868	—	—	—	—	283,868
—	20,316	—	—	—	—	20,316
252,373	2,387,322	38,514	297,830	6	940,189	3,663,861
6,773,917	40,417,781	493,579	401,775	373	1,080,799	42,394,307
—	997,796	—	—	—	—	997,796
—	91,878	—	—	—	—	91,878
—	1,089,674	—	—	—	—	1,089,674
—	1,089,674	—	—	—	—	1,089,674
823,687,272	3,964,589,495	493,579	401,775	373	49,821,069	4,015,306,291
26,921,638	(1,687,713,922)	(457,736)	(323,080)	(165)	9,623,273	(1,678,871,630)
135,652,891	35,445,118,468	3,556,522	3,951,579	545,855	24,478,009	35,477,650,433
\$162,574,529	\$33,757,404,545	\$3,098,786	\$3,628,499	\$545,690	\$34,101,282	\$33,798,778,802



Notes to the Basic Financial Statements

August 31, 2022

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Notes to the Basic Financial Statements

August 31, 2022

1. Summary of Significant Accounting Policies

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

1.A The Reporting Entity

(In accordance with GASB Statement 14)

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

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

Although the 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 has reviewed new accounting pronouncements and determined that all applicable statements effective for periods ending August 31, 2022 were implemented in previous years.

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

Notes to the Basic Financial Statements

August 31, 2022

sum retiree death benefits, benefits for victims of crime, insurance premiums received by the Internal Service Fund from employees and the State of Texas, and all investment income deposited or credited to the Internal Service Fund.

Program expenses of the governmental activities are: death benefit expenses, 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

August 31, 2022

Other Governmental Funds

Other 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.

Combining statements presenting the financial information for other governmental funds are included in Other Supplementary Information. 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.

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).
- 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.
- Texa\$aver 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.
- Texa\$aver 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

Notes to the Basic Financial Statements

August 31, 2022

salaries of State employees in accordance with the provisions of IRC Section 457 and the costs of administering the program.

- Commuter Spending Account Fund – This fund is a qualified transportation benefits plan authorized under Section 132 of the Internal Revenue Code. The Commuter Benefits program offers State employees pre-tax deduction for qualified parking expenses or mass transit expenses.
- State Employees Cafeteria Plan Trust Fund (TexFlex) – This fund is established by Chapter 1551, Texas Insurance Code and is used to account for before-tax salary reduction contributions from State employees and employees of higher education institutions, reimbursements for health care and dependent care, and the costs of administering the program.

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 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 Texa\$aver and State Employees Cafeteria Plan accounts (Cash in Bank) are maintained at a local commercial bank.

Valuation

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

Investments

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

Valuation

Investments of the Pension Trust Funds and Internal Service Fund are reported at fair value in accordance with GASB Statement 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.

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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:

- 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

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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 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

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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

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.

Employees Compensable Leave

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

In Fiduciary Fund types, salary costs related to employees' rights to be compensated for vacation time are accrued as expenses of the period in which the services were rendered.

Accumulated compensable leave liabilities are reported in the Statement of Fiduciary Net Position for the Employees Retirement Fund. No liability is recorded for non-vesting accumulating rights to receive sick leave benefits.

Fund Balances – Governmental Funds

Fund balance is the difference between fund assets and liabilities on the governmental fund statements. Committed fund balance reports an amount that has spending limitations that are internally imposed by

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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.

Net Position – Restricted for Pension Benefits

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

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

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

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

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

government-wide and the proprietary fund Statement of Net Position.

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

Activities between the System and agencies of the State of Texas, and activities between the System's funds have been analyzed and classified in accordance with the following criteria:

Interfund Services Provided and Used

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

Interfund Reimbursements

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

Interfund Transfers

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

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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.

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, 2022 are presented in Figure 2.

Figure 2
Deposits of Cash in Bank

Deposits	Carrying Value	Bank Balance
	\$	\$
Fiduciary Funds:		
Cash in Bank (Exh. VIII)	301,616	301,616
Totals	301,616	301,616
Proprietary Funds:		
Cash on Hand (Exh. V)	2,218	2,218
Totals	2,218	2,218

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, 2022 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.

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

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

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

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

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

Level 3 debt securities use proprietary information or single source pricing. Value of equity securities classified in Level 3 is based on last trade data that is 30 days or more before the fiscal year end. Real assets, if any, classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

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

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

Custodial Credit Risk

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

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Figure 3
Fair Value of Investments

	Level 1	Level 2	Level 3	NAV	Total
Fiduciary Funds:					
Investments:					
Public Equities:					
Domestic Equities	5,862,210,241	25,005,252			5,887,215,493
International Equities	3,758,323,356	469,878			3,758,793,234
Exchange Traded Funds (ETFs)	399,933,010				399,933,010
Real Estate Investment Trust (REITs)	1,126,915,462				1,126,915,462
Total Public Equities	11,147,382,069	25,475,130	—	—	11,172,857,199
Fixed Income:					
U.S. Treasury Securities	2,902,999,687	—			2,902,999,687
U.S. Government Agency Obligations		732,616,549			732,616,549
Corporate Obligations		1,701,539,373	8,163,794		1,709,703,167
Corporate Asset and Mortgage Backed Securities		22,769,736			22,769,736
International Obligations		371,282,118			371,282,118
Exchange Traded Funds (ETFs)	28,226,167				28,226,167
Real Estate Investment Trust (REITs)		25,092,993			25,092,993
Total Fixed Income	2,931,225,854	2,853,300,769	8,163,794	—	5,792,690,417
Other Investments:					
Derivatives	3,598,580				3,598,580
Commingled Funds				262,926,715	262,926,715
Total Other Investments	3,598,580	—	—	262,926,715	266,525,295
Investments Measured at the Net Asset Value (NAV):					
Equity Long/Short				1,001,380,798	1,001,380,798
Event Driven				268,435,943	268,435,943
Macro				342,143,452	342,143,452
Multi-Strategies				345,258,357	345,258,357
Opportunistic				121,236,507	121,236,507
Private Equity				6,489,096,639	6,489,096,639
Private Real Estate				3,692,468,016	3,692,468,016
Private Infrastructure				1,827,919,176	1,827,919,176
Private Fixed Income				885,438,075	885,438,075
Relative Value				310,184,629	310,184,629
Total Investments Measured at the NAV:				15,283,561,592	15,283,561,592
Total Investments	14,082,206,503	2,878,775,899	8,163,794	15,546,488,307	32,515,634,503
					(Exh. VIII)
Securities Lending Collateral (Note A):					
Government Repurchase Agreements				232,559,111	232,559,111
Total Securities Lending Collateral	—	—	—	232,559,111	232,559,111
					(Exh. VIII)
Short-Term Investments (Note A):					
Money Market and Bond Funds				647,096,547	647,096,547
Investment in Pool Cash				4,266,028	4,266,028
Total Short-Term Investments	—	—	—	651,362,575	651,362,575
					(Exh. VIII)
Proprietary Fund:					
Investments:					
Public Equities:					
Domestic Equities	8,736,776	4,267,180			13,003,956
International Equities	1,793,928	80,185			1,874,113
Total Public Equities	10,530,704	4,347,365	—	—	14,878,069
Fixed Income:					
U.S. Treasury Securities	1,074,112,354	—			1,074,112,354
U.S. Government Agency Obligations		271,068,746			271,068,746
Corporate Obligations		290,369,977	1,393,162		291,763,139
Corporate Asset and Mortgage Backed Securities		7,489,395			7,489,395
International Obligations		63,359,792			63,359,792
Exchange Traded Funds (ETFs)	4,816,833	—			4,816,833
Real Estate Investment Trust (REITs)		4,282,153			4,282,153
Total Fixed Income	1,078,929,187	636,570,063	1,393,162	—	1,716,892,412
Other Investments:					
Derivatives	208,081				208,081
Total Other Investments	208,081	—	—	—	208,081
Investments Measured at the Net Asset Value (NAV):					
Private Fixed Income				151,101,196	151,101,196
Total Investments Measured at the NAV	—	—	—	151,101,196	151,101,196
Total Investments	1,089,667,972	640,917,428	1,393,162	151,101,196	1,883,079,758
					(Exh. V)

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Figure 3
Fair Value of Investments (Concluded)

	Level 1	Level 2	Level 3	NAV	Total
Securities Lending Collateral (Note A):					
Government Repurchase Agreements	—			32,873,543	32,873,543
Total Securities Lending Collateral	—	—	—	32,873,543	32,873,543
					(Exh. V)
Short-Term Investments (Note A):					
Money Market and Bond Funds				1,552,597,791	1,552,597,791
Total Short-Term Investments	—	—	—	1,552,597,791	1,552,597,791
					(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, 2022 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, 2022 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, 2022, the System was not exposed to any concentration risk.

Figure 4
Foreign Currency Risk

Currency	Investments			Investments Total (USD)	Short-term Investments Money Market Mutual funds (USD)
	Public Equities (USD)	Alternative Investments (USD)	Fixed Income (USD)		
Fiduciary Funds:	\$	\$	\$	\$	
Australian Dollar	147,314,449	104,440,264		251,754,713	553,331
Brazilian Real	73,253,641		4,411,856	77,665,497	1,014,654
Canadian Dollar	285,973,002			285,973,002	161,612
Chilean Peso	4,054,398			4,054,398	10,660
Chinese Yuan Renminbi	56,079,707			56,079,707	
Czech Koruna	4,111,222			4,111,222	1
Danish Krone	49,665,774			49,665,774	18,254
Egyptian Pound	272,113			272,113	
Euro	750,920,633	648,810,543		1,399,731,176	54,850
Hong Kong Dollar	299,395,207			299,395,207	274,996
Hungarian Forint	1,696,205			1,696,205	12,690
Indian Rupee	149,967,227			149,967,227	152,994
Indonesian Rupiah	27,762,237			27,762,237	18,606
Israeli Shekel	23,667,931			23,667,931	46,933
Japanese Yen	629,200,619			629,200,619	20,133
Kuwaiti Dinar	5,803,042			5,803,042	4,695
Malaysian Ringgit	10,040,972			10,040,972	12,576
Mexican Peso	27,984,621			27,984,621	312,473
New Taiwan Dollar	141,536,188			141,536,188	76,370
New Zealand Dollar	5,584,421			5,584,421	
Norwegian Krone	15,638,721			15,638,721	23,886
Philippine Peso	5,074,293			5,074,293	
Polish Zloty	7,551,473			7,551,473	18,742
Pound Sterling	336,067,254	119,217,518		455,284,772	7
Qatari Riyal	7,113,401			7,113,401	
Russian Ruble					1,384
Saudi Arabia Riyal	27,755,926			27,755,926	41,035
Singapore Dollar	66,273,176			66,273,176	10,291
South African Rand	24,796,004			24,796,004	26,184
South Korean Won	125,170,794	27,784		125,198,578	87,875
Swedish Krona	61,881,533			61,881,533	(34,825)
Swiss Franc	182,611,608			182,611,608	17,213
Thai Baht	18,822,262			18,822,262	
Turkish Lira	14,631,816			14,631,816	27,410
UAE Dirham	15,290,461			15,290,461	
Total for Investments	3,602,962,331	872,496,109	4,411,856	4,479,870,296	2,965,030
Proprietary Funds:					
Investments:					
Canadian Dollar			752,889	752,889	
Total for Investments	3,602,962,331	872,496,109	5,164,745	10,736,657,841	2,965,030

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**Figure 5
Fixed Income Investments Credit Risk**

Standard & Poors/ Moody's/ Fitch Ratings	U. S Treasury Securities	U.S. Government Agency Obligations	Corporate Obligations	Corporate Asset and Mortgage Backed Securities	International Obligations	Real Estate Investment Trust(REITs)	Exchange Traded Funds (ETFs)	Total
Fiduciary Funds	\$	\$	\$	\$	\$	\$	\$	\$
Investments:								
A/A2/A				5,665,848				5,665,848
AA/Aa2/AA							6,366,541	6,366,541
AA-/Aa3/AA-				2,884,888				2,884,888
AA+/Aa1/AA+	2,883,286,537	732,616,549						3,615,903,086
AAA/Aaa/AAA	19,713,150			5,815,458				25,528,608
B/B2/B			199,143,966		71,227,831			270,371,797
B-/B3/B-			115,812,197		29,935,892			145,748,089
B+/B1/B+			291,934,232	682,803	90,278,722			382,895,757
BB/Ba2/BB			283,831,025		10,290,165	10,146,794		304,267,984
BB-/Ba3/BB-			337,511,068		80,710,686	14,946,199		433,167,953
BB+/Ba1/BB+			269,270,766		16,276,927			285,547,693
BBB/Baa2/BBB			5,480,282					5,480,282
BBB-/Baa3/BBB-			64,614,221	1,926,941				66,541,162
BBB+/Baa3/BBB+			6,124,629					6,124,629
CCC-/Caa3/C			33,934,784					33,934,784
CCC/Caa2/CC			6,685,525		27,295,297			33,980,822
CCC+/Caa1/CCC			43,073,572		22,280,026			65,353,598
D/D/			3,618,755		1,464,040			5,082,795
Not Rated			48,668,145	5,793,798	21,522,532		21,859,626	97,844,101
Investments Totals	2,902,999,687	732,616,549	1,709,703,167	22,769,736	371,282,118	25,092,993	28,226,167	5,792,690,417
Proprietary Funds	\$	\$	\$	\$	\$	\$	\$	\$
Investments:								
A/A2/A				1,681,193				1,681,193
AA/Aa2/AA							1,086,459	1,086,459
AA-/Aa3/AA-				1,067,411				1,067,411
AA+/Aa1/AA+	1,066,818,472	271,068,746						1,337,887,218
AAA/Aaa/AAA	7,293,882			2,151,724				9,445,606
B/B2/B			33,984,185		12,155,125			46,139,310
B-/B3/B-			19,763,507		5,108,600			24,872,107
B+/B1/B+			49,818,969	116,521	15,406,186			65,341,676
BB/Ba2/BB			48,436,145		1,756,030	1,731,564		51,923,739
BB-/Ba3/BB-			57,596,716		13,773,387	2,550,589		73,920,692
BB+/Ba1/BB+			45,951,417		2,777,680			48,729,097
BBB/Baa2/BBB			935,218					935,218
BBB-/Baa3/BBB-			11,026,504	328,835				11,355,339
BBB+/Baa3/BBB+			1,045,176					1,045,176
CCC-/Caa3/C			5,791,016					5,791,016
CCC/Caa2/CC			1,140,894		4,657,979			5,798,873
CCC+/Caa1/CCC			7,350,563		3,802,116			11,152,679
D/D/			617,545		249,840			867,385
Not Rated			8,305,284	2,143,711	3,672,849		3,730,374	17,852,218
Investments Totals	1,074,112,354	271,068,746	291,763,139	7,489,395	63,359,792	4,282,153	4,816,833	1,716,892,412

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, 2022, the System invested \$30,259,131 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,

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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. 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, 2022, the System's exposure to interest rate risk is summarized in Figure 6.

**Figure 6
Investment Interest Rate Risk**

Investment Type	Fiduciary Funds		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
	\$		\$	
U.S. Treasury Securities	2,902,999,687	4.66	1,074,112,354	4.66
U.S. Government Agency Obligations	732,616,549	5.74	271,068,746	5.74
Corporate Obligations	1,709,703,167	3.53	291,763,139	3.53
Corporate Asset and Mortgage Backed Securities	22,769,736	3.50	7,489,395	3.14
International Obligations	371,282,118	2.91	63,359,792	2.91
Real Estate Investment Trusts (REITs)	25,092,993	3.02	4,282,153	3.02
Exchanged Traded Funds (ETFs)	28,226,167	4.61	4,816,833	4.61
Totals	5,792,690,417	4.34	1,716,892,412	4.57

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 2022.

The System received net securities lending income totaling \$2,407,717 for the fiscal year ended August 31, 2022. The collateral information as of August 31, 2022 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	19,754,944	20,409,403
International Equities	6,008,108	6,197,646
Corporate Obligations	161,471,966	165,247,102
Exchange Traded Funds - Equities (ETFs) - Equities	22,239,222	22,765,101
Exchange Traded Funds - Equities (ETFs) - Fixed Income	6,345,924	6,482,764
International Obligations	1,978,244	2,037,894
Real Estate Investment Trust (REITs) - Equity	1,942,088	1,986,518
U.S. Treasury Securities	7,257,693	7,432,683
Totals	226,998,189	232,559,111
		Exh.VIII
Proprietary Fund:		
Corporate Obligations	27,555,408	28,580,990
International Equities	30,345	31,538
International Obligations	337,590	352,472
Exchange Traded Funds - Fixed Income (ETFs)	1,082,940	1,121,253
U.S. Treasury Securities	2,685,352	2,787,290
Totals	31,691,635	32,873,543
		Exh. V

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Repurchase Agreements

During Fiscal Year 2022, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2022, the System had \$265,432,654 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, 2022 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	178	9,091,398,887	2,752,218,810	6,339,180,077	5,964,801,492	N/A	N/A	N/A
Euro Dollar	14	468,237,638	122,991,621	345,246,017	405,543,692	N/A	N/A	N/A
British Pound	3	90,760,800	9,959,214	80,801,586	118,723,671	N/A	N/A	N/A
Korean Won	1	21,305,215	0	21,305,215	27,784	N/A	N/A	N/A
Sub-total	196	9,671,702,540	2,885,169,645	6,786,532,895	6,489,096,639			
Private Real Estate:								
US Dollar	91	5,667,795,870	1,766,423,364	3,901,372,506	3,547,513,442	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
Euro Dollar	3	187,566,011	29,610,765	157,955,246	144,460,727	N/A, Monthly/ Quarterly	N/A, 45-90 Days	N/A
British Pound	1	49,246,483	2,597,880	46,648,603	493,847	N/A	N/A	N/A
Sub-total	95	5,904,608,364	1,798,632,009	4,105,976,355	3,692,468,016			
Private Infrastructure:								
US Dollar	45	2,458,163,622	887,750,988	1,570,412,634	1,624,672,787	N/A	N/A	N/A
Australian Dollar	2	88,491,892	602,0348	82,471,544	104,440,264	N/A	N/A	N/A
Euro Dollar	4	210,139,437	129,577,746	80,561,691	98,806,125	N/A	N/A	N/A
Sub-total	51	2,756,794,951	1,023,349,082	1,733,445,869	1,827,919,176			
Private Fixed Income:								
US Dollar	13	1,767,000,000	768,095,153	998,904,847	1,036,539,271	N/A	Days	N/A
Hedge Funds:								
Equity Long/Short								
US Dollar	2	310,000,000		310,000,000	541,686,035	Monthly	30 Days	N/A
US Dollar	1	75,000,000		75,000,000	86,168,760	Annually	45 Days	12 Month Lockup
US Dollar	1	100,000,000		100,000,000	107,943,134	Quarterly	45 Days	25% Investor Gate
US Dollar	1	126,483,581		126,483,581	148,090,896	N/A	N/A	5 Year Lockup
US Dollar	1	65,760,000		65,760,000	59,810,948	N/A	N/A	4 Year Lockup
US Dollar	1	48,380,228		48,380,228	57,362,303	N/A	N/A	3 Year Lockup
US Dollar	1				27,425	N/A	N/A	5 Year Lockup
US Dollar	1				291,297	N/A	N/A	3 Year Lockup
Event Driven								
US Dollar	1	109,554,176		109,554,176	63,097,886	Monthly	30 Days	N/A
US Dollar	1	80,000,000		80,000,000	4,927,123	Quarterly	60 Days	12 Month Lockup
US Dollar	1	100,000,000		100,000,000	125,041,110	Quarterly	65 Days	N/A
US Dollar	1	75,000,000		75,000,000	75,369,824	Quarterly	60 Days	12 Month (soft) Lockup
Macro								
US Dollar	1	100,000,000		100,000,000	100,374,398	Quarterly	30 Days	N/A
US Dollar	1	105,000,000		105,000,000	97,620,550	Quarterly	60 Days	Month Lockup
US Dollar	1	40,000,000		40,000,000	40,715,132	Monthly	45 Days	N/A
US Dollar	1	104,114,000		104,114,000	103,433,372	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	163,809,140	Quarterly	180 Days	12 Month Lockup
US Dollar	1	16,345,085		16,345,085	9,484,743	N/A	N/A	N/A
US Dollar	1	125,000,000		125,000,000	171,964,474	Rolling 9 Month	60 Days	9 Month Lockup
Opportunistic								
US Dollar	1	125,000,000		125,000,000	121,236,507	Annually	N/A	36 Month Lockup
Relative Value								
US Dollar	1	100,000,000		100,000,000	101,311,036	Quarterly	45 Days	N/A
US Dollar	1	100,000,000		100,000,000	140,225,070	Quarterly	60 Days	50% Investor Gate
US Dollar	1	100,000,000		100,000,000	68,648,523	Quarterly	45 Days	25% Investor Gate
Sub-total	25	2,150,637,070	—	2,150,637,070	2,388,639,686			
Total	380	22,250,742,925	6,475,245,889	15,775,497,036	15,434,662,788			

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

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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, 2022 is presented in Figure 9.

Figure 9
Net Position - Fiduciary Fund

Fund Type	Amount
	\$
Defined Benefit Plans (Note A)	33,757,404,545
Deferred Compensation Plans and Cafeteria Plan:	
Administration - Deferred Compensation Plans	6,727,285
Administration - State Employees Cafeteria Plan	34,101,282
Total Deferred Compensation Plans and Cafeteria Plan	40,828,567
Commuter Spending Account Fund	545,690
Net Position Restricted for Pension and Other Benefits	33,798,778,802
	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, 2022 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, 2022.

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, 2022.

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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)	9/20/2022	89	Short	Investment Revenue	73,514	Investments	73,514	(6,854,424)
US LONG BOND FUTURE (CBT)	12/20/2022	800	Short	Investment Revenue	690,375	Investments	690,375	(109,365,375)
EURO FX CURR FUTURE (CME)	9/19/2022	372	Short	Investment Revenue	3,002,366	Investments	3,002,366	(49,762,766)
US ULTRA BOND (CBT)	12/20/2022	150	Short	Investment Revenue	40,406	Investments	40,406	(22,465,406)
Derivative Investments Grand Total		1,411			3,806,661		3,806,661	(188,447,971)

2.D Future Minimum Lease Payments

(In accordance with GASB Statement 87)

The System leases equipment under long-term, non-cancellable lease agreements. The leases expire at various dates through 2027. The outstanding lease liability as of August 31, 2022 was \$1.29 million. The total future minimum lease payments under the lease agreements as of August 31, 2022 are presented in Figure 11.

Figure 11
Future Minimum Lease Payments

Year Ended	Principal	Interest
	\$	\$
2023	281,587	1,779
2024	251,344	989
2025	251,344	593
2026	251,344	395
2027	251,344	198
2028	—	—
	1,286,963	3,954

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.

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Contributions

Employees are required to contribute a percentage of their monthly gross compensation, including base salary, longevity pay, hazardous duty pay, and benefit replacement pay and excluding overtime pay and emoluments other than housing and utilities. The contribution rate for employee class was 9.5% for Fiscal Year 2022. Legislators and other elected class members are required to contribute 9.5% of their compensation to the System.

For Fiscal Year 2022, the State contributed 10% of the payroll of members for both the employee class, legislators, and for other elected class members. See Note 3.B Funded Status and Funding Progress.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

Plan Description

The plan covers custodial officers who are certified in accordance with the statutory requirements as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates managed by the hiring institutions. The plan also covers law enforcement officers who have been commissioned and recognized as commissioned law enforcement officers by the Texas Commission of Law Enforcement. The monthly benefit amount payable from this fund is equal to the excess of the total benefit over the regular benefit payable to the member from the Employees Retirement System Fund.

Contributions

For Fiscal Year 2022, both employee members and the State contributed 0.5% of the covered payroll for LECOS members. An additional \$12,610,562 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 2022. 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, 2022 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, 2022 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 2022 funding levels. See Note 3.A for descriptions of member and State contributions.

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**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, 2022		
Actuarial Cost Method	Entry Age Normal		
Investment Rate of Return	7.0%		
Projected Salary Increases	0.0% – 8.8%	3.75% – 8.75%	2.3% plus follows State judicial tiered salary schedule as prescribed in Section 659.012
Inflation Rate	2.3%		
Last Experience Study	5-year period from September 1, 2014 to August 31, 2019		
Mortality Rate	2020 State Retirees of Texas (SRT) mortality table. Generational mortality improvements in accordance with ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries ("Scale U-MP") and projected from the year 2020. Rates for male LECO members are set forward one year.		

**Figure 13
Net Pension Liability**

	ERS	LECOS	JRS II
	\$	\$	\$
Total Pension Liability	45,862,486,091	2,402,626,052	720,229,371
Plan Fiduciary Net Position	31,986,091,790	1,042,295,797	566,442,429
Net Pension Liability	13,876,394,301	1,360,330,255	153,786,942
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.74 %	43.38 %	78.65 %

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of rates of return for each major asset class included in the System's target allocation as of August 31, 2022 are summarized in Figure 14.

A single discount rate was used to measure the total pension liability as of August 31, 2022. 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.

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.

Notes to the Basic Financial Statements

August 31, 2022

Figure 14
Target Allocation

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

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

Figure 15
Assumptions for Single Discount Rate

	ERS	LECOS	JRS II
Expected investment rate of return	7.00 %	7.00 %	7.00 %
Municipal bond rate (Note A)	3.91 %	3.91 %	3.91 %
Year fiduciary net position depleted	Never	2038	2046
Single Discount Rate	7.00 %	4.45 %	5.77 %

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%
	\$19,386,260,895	\$13,876,394,301	\$9,293,605,207
LECOS:	3.45%	4.45%	5.45%
	\$1,745,059,162	\$1,360,330,255	\$1,052,818,141
JRS II:	4.77%	5.77%	6.77%
	\$229,224,388	\$153,786,942	\$89,348,623

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, 2022, the annual money-weighted rate of return on the defined benefit plans was (2.09)%. 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, 2022 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, 2022 are presented in Figure 18. See Note 1.G, Net Position - Restricted for Pension Benefits, for a description of each reserve account.

3.E Historical Trend Information

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

Notes to the Basic Financial Statements (Continued)

August 31, 2022

Figure 17
Retirement Systems Membership

	ERS			
	Employee Class	Elected Class	LECOS	JRS II
Retirees and Beneficiaries Currently Receiving Benefits	121,979	741	15,923	536
Terminated Employees Entitled To But Not Yet Receiving	155,019	129	32,371	192
Active Employees	133,416	335	31,075	583
Totals	410,414	1,205	79,369	1,311

Note: Estimated based on actuarial valuation as of August 31, 2022.

Figure 18
Reserves

	ERS	LECOS	JRS II	Totals
Net Plan Assets Reserved For:	\$	\$	\$	\$
Employee Savings	6,691,282,397	64,465,378	89,229,671	6,844,977,446
State Accumulation	(2,119,375,699)	(38,506,213)	107,867,464	(2,050,014,448)
Annuity Reserves	27,414,185,092	1,016,336,632	369,345,294	28,799,867,018
Total Net Plan Assets Reserved	31,986,091,790	1,042,295,797	566,442,429	33,594,830,016
	(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

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, 2022
State Agencies	114
Universities	27
Junior and Community Colleges	50
Other Entities	8
Total Participating Entities	199

The principal participating employer is the state of Texas. State agencies and universities employ 178,096 which is 80.4% of the employees covered by the State Retiree Health Plan.

Contributions

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

Notes to the Basic Financial Statements (Continued)

August 31, 2022

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

	Fiscal Year 2022
	\$
Retiree Only	624.82
Retiree & Spouse	1,339.90
Retiree & Children	1,103.58
Retiree & Family	1,818.66

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

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

	Amount
	\$
Contributions:	
Employers	699,999,453
Non-Employer Contributing Entities	36,750,724
Federal Revenues:	
Medicare Part D	1,390,226
Direct Subsidy	4,789,088
Low Income Premium Subsidy	126,025
Low Income Cost Sharing	3,617,996
Catastrophe Reinsurance	103,197,216
Total Federal Revenues	<u>113,120,551</u>
Total Contributions	<u>849,870,728</u>
Claims Expenses	1,007,573,310
Less: Payments from Inactive Members	(190,659,955)
Benefit Payments	<u>816,913,355</u>

4.B Net OPEB Liability

(In accordance with GASB Statement 74)

Summary of Actuarial Assumptions

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

The assumptions are presented in Figure 22.

Figure 23 shows the System's net OPEB liability for the State Retiree Health Plan as of August 31, 2022. 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	28,649,540,234
Less: Plan Fiduciary Net Position	<u>162,574,529</u>
Net OPEB Liability	<u>28,486,965,705</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.57 %

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 2022. 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. The expected rate of return on these investments is currently 4.1%, in line with the prevailing returns on 90-day US treasury bills.

Discount Rate

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

Notes to the Basic Financial Statements (Continued)

August 31, 2022

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

Valuation Date	August 31, 2022
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	3.59%
Projected Annual Salary Increase	2.30% to 8.95%, including inflation
Annual Healthcare Trend Rate	<u>HealthSelect</u> 5.60% for FY2024, 5.30% for FY2025, 5.00% for FY2026, 4.75% for FY2027, 4.60% for FY2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2031 and later years <u>HealthSelect Medicare Advantage</u> 66.67% for FY2024, 24.00% for FY2025, 5.00% for FY2026, 4.75% for FY2027, 4.60% for FY2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2031 and later years <u>Pharmacy</u> 10.00% for FY2024 and FY2025, decreasing 100 basis points per year to 5.00% for FY2030 and 4.30% for FY2031 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 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members. c. Active Members: Sex Distinct 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 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)	3.59%
Year fiduciary net position depleted	2023
Single Discount Rate	3.59%

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.

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	2.59%	3.59%	4.59%
Net OPEB Liability	\$33,224,410	\$28,486,966	\$24,698,149

Notes to the Basic Financial Statements (Continued)

August 31, 2022

The initial healthcare trend rate is 5.60% for HealthSelect and 66.67% 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, 2022, the annual money-weighted rate of return on the State Retiree Health Plan was 0.59%.

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, 2022 is summarized in Figure 27.

Figure 27
State Retiree Health Plan Membership

Active Members	221,404
Inactive Members Currently Receiving Benefit Payments	138,353
Inactive Members Entitled to But Not Yet Receiving Benefit Payments	15,451
Total	<u>375,208</u>

Note: Estimated based on actuarial valuation as of August 31, 2022

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, 2022, 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.

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: 65.67% 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: 66.67% to 4.30%; Pharmacy: 10.00% decreasing to 4.30%)	1% Increase (HealthSelect: 6.60% decreasing to 5.30%; HealthSelect Medicare Advantage: 67.67% to 5.30%; Pharmacy: 11.00% decreasing to 5.30%)
Net OPEB Liability	\$24,395,171,244	\$28,486,965,705	\$33,711,082,728

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.F).

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, 2022.

**Figure 28
Interfund Receivables and Payables**

	Due From Other Funds	Due to Other Funds
Governmental Activities:	\$	\$
Governmental Funds	43,804	102,410
Employees Life, Accident & Health Insurance and Benefits Fund	15,445,484	27,513,761
Total Governmental Activities	15,489,288	27,616,171
Fiduciary Funds:		
Pension & Other Employee Benefit Trust Funds	35,176,272	23,049,389
Total - Interfund Receivables & Payables	50,665,560	50,665,560

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.F). 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, 2022.

**Figure 29
Interfund Transfers**

	Transfers In	Transfers Out
	\$	\$
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	997,796	997,796
Total - Interfund Transfers	997,796	997,796

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.

Notes to the Basic Financial Statements (Continued)

August 31, 2022

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 for the incentive pay plan as of August 31, 2022 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.

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

Notes to the Basic Financial Statements (Concluded)

August 31, 2022

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, 2022	August 31, 2021
	\$	\$
Beginning Balance	690,287,283	675,154,110
Current-Year Claims and Changes in Estimates	(2,397,853,864)	2,331,382,400
Claim Payments	2,355,356,946	(2,316,199,227)
Ending Balance	647,790,365	690,287,283

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, 2022 is 609,355,624. 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 1,289 COBRA participants.

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

Required Supplementary Information

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

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2021	—	—	—	—
Revenue				
Legislative Appropriations	19,464,760	17,767,823	17,767,823	—
Expenditures				
Retirement Benefits	19,464,760	17,767,823	17,767,823	—
Excess of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2022	—	—	—	—

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

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2021	—	—	—	—
Revenue				
Legislative Appropriations	13,750,000	9,574,472	9,574,472	—
Expenditures				
Retirement Benefits	13,750,000	9,574,472	9,574,472	—
Excess of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2022	—	—	—	—

Budgetary Comparison Schedule - Other Governmental Funds (Death Benefits - Peace Officers, Firemen, etc.)

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	\$
Budgetary Fund Balance - Beginning 09-01-2021	—	—	—	—
Revenue				
Legislative Appropriations	9,589,984	24,940,802	24,940,802	—
Expenditures				
Retirement Benefits	9,589,984	24,940,802	24,940,802	—
Excess of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2022	—	—	—	—

Required Supplementary Information (Continued)

Budgetary Comparison Schedule - Other Governmental Funds (Compensation to Victims of Crime)

	Budget			Variance with Final Budget
	Original	Final	Actual	
	\$	\$	\$	
Budgetary Fund Balance - Beginning 09-01-2021	—	—	—	—
Revenue				
Legislative Appropriations	4,196,324	4,071,822	4,071,822	—
Expenditures				
Retirement Benefits	4,196,324	4,071,822	4,071,822	—
Excess of Revenue over Expenditures	—	—	—	—
Budgetary Fund Balance - Ending 08-31-2022	—	—	—	—

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
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (Note A)									
Total Pension Liability									
Service Cost	1,139,451	1,231,203	1,146,791	1,457,263	1,445,557	1,346,986	1,827,864	2,146,247	985,244
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
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
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)
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
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
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
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
Contributions - Member	430,595	462,159	674,678	685,461	683,933	694,788	713,985	718,357	721,520
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)
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)
Pension Plan Administrative Expense	(20,195)	(21,840)	(20,449)	(23,095)	(23,550)	(27,752)	(24,182)	(21,851)	(31,641)
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)
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
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
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
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%
Covered Employee Payroll (Note B)	5,955,461	6,150,195	6,742,143	6,859,707	6,811,926	6,947,625	7,158,435	7,188,368	7,205,608
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%

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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
Law Enforcement and Custodial Officer Supplemental Fund (Note A)									
Total Pension Liability									
Service Cost	54,528	57,459	71,429	99,390	79,309	71,926	96,690	91,246	93,712
Interest	88,025	87,224	88,410	82,236	91,171	96,085	86,012	82,146	80,910
Difference between Expected and Actual Experience	(76,585)	(9,640)	(21,657)	(17,532)	(21,651)	(54,147)	(1,841)	(27,962)	65,927
Changes of Assumptions	68,228	148,114	375,371	(144,398)	(87,015)	427,818	158,946	82,179	(739,123)
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)	(86,706)	(91,669)	(97,196)
Net Change in Total Pension Liability	77,049	221,813	449,011	(50,060)	(13,819)	459,432	253,101	135,940	(595,770)
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
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
Plan Fiduciary Net Position									
Contributions - Employer	27,758	26,728	27,497	26,583	26,110	25,864	22,293	20,294	21,428
Contributions - Member	8,180	8,376	9,539	9,583	9,275	9,098	8,950	9,078	8,729
Pension Plan Net Investment Income	111,741	1,918	44,831	99,341	84,938	26,250	61,097	232,795	(5,026)
Benefit Payments and Refunds	(57,147)	(61,344)	(64,542)	(69,756)	(75,633)	(82,250)	(86,706)	(91,669)	(97,196)
Pension Plan Administrative Expense	(1,324)	(1,411)	(1,421)	(1,811)	(1,851)	(2,167)	(1,933)	(1,781)	(1,681)
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)
Plan Fiduciary Net Position - Beginning	780,670	869,878	844,145	860,049	923,989	966,828	943,623	947,324	1,116,042
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
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
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%
Covered Employee Payroll (Note B)	1,496,013	1,506,028	1,725,880	1,746,349	1,689,590	1,682,633	1,662,147	1,586,537	1,581,950
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%

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

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

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

Required Supplementary Information (Continued)

Schedule of Employer Contributions – Defined Benefit Plans

Fiscal Year (Note A)	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency/(Excess)	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
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
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

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

Required Supplementary Information (Continued)

Schedule of Changes in Net OPEB Liability and Related Ratios

(in 000's)

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

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

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

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

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

Fiscal Year (Note A)	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency/(Excess)	Covered Employee Payroll	Actual Contribution as a % of Covered Payroll
	\$	\$	\$	\$	%
State Retiree Health Plan					
2017	2,714,958,093	936,827,489	1,778,130,604	11,745,310,057	7.98
2018	2,332,643,695	325,031,537	2,007,612,158	12,047,166,658	2.70
2019	2,687,207,910	422,947,418	2,264,260,492	12,320,028,164	3.43
2020	2,590,236,378	787,874,304	1,802,362,074	12,655,246,687	6.23
2021	2,720,518,130	807,461,391	1,913,056,739	12,586,390,133	6.42
2022	2,111,027,890	738,337,709	1,372,690,181	12,734,129,932	5.80

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

Required Supplementary Information (Continued)

Schedule of Investment Returns

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	%	%	%	%	%	%	%	%	%
Defined Benefit Plans:									
Employees Retirement Fund	14.58	0.23	5.40	11.84	9.42	2.80	6.70	25.50	(2.19)
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)
Judicial Retirement System Plan II	14.55	0.23	5.47	11.88	9.40	2.86	6.78	25.53	(0.74)
Overall	14.58	0.23	5.40	11.84	9.42	2.80	6.70	25.49	(2.09)
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

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

Notes to The Required Supplementary Information

Defined Benefit Plans

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

The actuarially determined contributions for the

Employees Retirement Fund, the Law Enforcement and Custodial Supplemental Fund, and Judicial Retirement Plan II are calculated as of August 31, 2022, based on the actuarial assumptions described in Figure 1. These contributions are reported in the Schedule of Employer's Contribution – Defined Benefit Plans.

Other Postemployment Benefit Plan

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

Figure 1
Summary of Actuarial Assumptions - Defined Benefit Plans

	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II
(In accordance with GASB Statement No. 67)			
Valuation Date	August 31, 2022	August 31, 2022	August 31, 2022
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percentage of Payroll, plus Level Dollar Legacy Payment	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Amortization Period	UAAL to be eliminated by 2054	31 years	31 years
Asset Valuation Method	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.	Marked to Market. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.
Actuarial Assumptions:			
Investment Rate of Return	7.00%	7.00%	7.00%
Projected Salary Increases	0.0% – 8.80%	3.75% – 8.5%	2.30%
Inflation Rate	2.30%	2.30%	2.30%
Cost-of-living Adjustments	None – Employee 3.5% – Elected	None	None

Required Supplementary Information (Concluded)

Notes to The Required Supplementary Information (Concluded)

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

- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- 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 has been updated to reflect the most recent information.
- The discount rate was changed from 2.14% as of August 31, 2021 to 3.59% as of August 31, 2022 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, 2022
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Amortization Period	30 Years
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Discount Rate	2.30%
Projected Salary Increases	2.30% to 8.95%, including inflation
Inflation Rate	2.30%
	<u>HealthSelect</u>
	5.60% for FY2024, 5.30% for FY2025, 5.00% for FY2026, 4.75% for FY2027, 4.60% for FY2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2031 and later years
	<u>HealthSelect Medicare Advantage</u>
Healthcare Cost and Trend Rate	66.67% for FY2024, 24.00% for FY2025, 5.00% for FY2026, 4.75% for FY2027, 4.60% for FY2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2031 and later years
	<u>Pharmacy</u>
	10.00% for FY2024 and FY2025, decreasing 100 basis points per year to 5.00% for FY2030 and 4.30% for FY2031 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, 2022

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	711,794,778					711,794,778
Employer Contributions		742,498,319				742,498,319
Non-Employer Contributing Entity Contributions		516,866,616				516,866,616
Service Contributions from Teacher Retirement System			127,457,857			127,457,857
Membership Fees					518,465	518,465
Penalty Interest		9,725,469				9,725,469
Investment Income:						
Net Appreciation in Fair Value of Investments				(1,458,869,348)		(1,458,869,348)
Interest and Dividends				771,805,711		771,805,711
Class Action Settlements				1,660,184		1,660,184
Rental Income					45,980	45,980
Warrants Voided By Statute of Limitations		326,233				326,233
Sale of Surplus Equipment					851	851
Directed Commissions						
Recycling Revenue					29	29
Reimbursement - Third Party						
Miscellaneous					102	102
Total Operating Revenues	711,794,778	1,269,416,637	127,457,857	(685,403,453)	565,427	1,423,831,246
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			2,768,065,307			2,768,065,307
Death Benefits:						
Active Members		4,136,285				4,136,285
Retirees			2,079,807			2,079,807
Member Contributions Withdrawn	165,563,614					165,563,614
Service Contributions to Teacher Retirement System			30,824,009			30,824,009
Re-Issue Warrants Voided		(3,978)				(3,978)
Administrative Expenses					70,785,085	70,785,085
Depreciation Expense					3,515,648	3,515,648
Fees for Other Programs					20,316	20,316
Interest Expenses						
Total Operating Expenses	165,563,614	4,132,307	2,800,969,123	—	74,321,049	3,044,986,093
Income (Loss) Before Non-Operating Expenses and Operating Transfers	546,231,164	1,265,284,330	(2,673,511,266)	(685,403,453)	(73,755,622)	(1,621,154,847)
Non-Operating Revenues (Expenses)						
Loss on Disposal of Fixed Assets						
Income (Loss) Before Operating Transfers	546,231,164	1,265,284,330	(2,673,511,266)	(685,403,453)	(73,755,622)	(1,621,154,847)
Operating Transfers In (Out)						
Distribution of Interest	125,750,268	(2,663,673,434)	1,777,766,294	760,156,871		—
Establishment of Benefit Reserves	(501,875,111)	(1,359,791,879)	1,861,666,990			—
Distribution of Interest for Administrative Expenses				(74,753,418)	74,753,418	—
Member Accounts-Escheated	(2,971,232)	2,971,232				—
Excess Benefit Arrangement Transfers					(997,796)	(997,796)
Net Operating Transfers	(379,096,075)	(4,020,494,081)	3,639,433,284	685,403,453	73,755,622	(997,796)
Net Income (Loss)	167,135,089	(2,755,209,751)	965,922,018	—	—	(1,622,152,644)
Account Balances - Beginning	6,524,147,308	635,834,051	26,448,263,075			33,608,244,434
Account Balances - Ending	6,691,282,397	(2,119,375,699)	27,414,185,092	—	—	31,986,091,790

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, 2022

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	8,729,104					8,729,104
State Retirement Contributions		20,904,901				20,904,901
Non-Employer Contributing Entity Contributions		522,605				522,605
Penalty Interest						
Investment Income:						
Net Appreciation in Fair Value of Investments				(29,046,722)		(29,046,722)
Interest and Dividends				25,489,693		25,489,693
Class Action Settlements				55,106		55,106
Warrants Voided By Statute of Limitations		5,954				5,954
Total Operating Revenues	8,729,104	21,433,460	—	(3,501,923)	—	26,660,641
Retirement System Benefits Paid:						
Retirement Benefits			92,669,843			92,669,843
Refunds of Retirement Contributions	4,362,457					4,362,457
Death Benefits:						
Active Members		162,830				162,830
Retirees			6,808			6,808
Re-Issue Warrants Voided		(306)				(306)
Administrative Expenses					3,204,623	3,204,623
Total Operating Expenses	4,362,457	162,524	92,676,651	—	3,204,623	100,406,255
Income (Loss) Before Operating Transfers	4,366,647	21,270,936	(92,676,651)	(3,501,923)	(3,204,623)	(73,745,614)
Operating Transfers In (Out)						
Distribution of Interest	1,261,626	(74,811,409)	66,843,237	6,706,546		0
Establishment of Benefit Reserves	(3,073,558)	(68,523,953)	71,597,511			0
Distribution of Interest for Administrative Expenses				(3,204,623)	3,204,623	0
Net Operating Transfers	(1,811,932)	(143,335,362)	138,440,748	3,501,923	3,204,623	—
Net Income (Loss)	2,554,715	(122,064,426)	45,764,097	—	—	(73,745,614)
Account Balances - Beginning	61,910,665	83,558,212	970,572,535	—	—	1,116,041,412
Account Balances - Ending	64,465,378	(38,506,213)	1,016,336,632	—	—	1,042,295,797

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, 2022

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
Operating Revenues	\$	\$	\$	\$	\$	\$
Contributions to Retirement System:						
Member Contributions	8,574,491					8,574,491
Employer Contributions		14,384,970				14,384,970
Penalty Interest		1,330				1,330
Investment Income:						
Net Appreciation in Fair Value of Investments				(17,142,707)		(17,142,707)
Interest and Dividends				13,587,228		13,587,228
Class Action Settlements				29,114		29,114
Total Operating Revenues	8,574,491	14,386,300	—	(3,526,365)	—	19,434,426
Operating Expenses						
Retirement System Benefits Paid:						
Retirement Benefits			36,805,748			36,805,748
Death Benefits:						
Active Members						
Member Contributions Withdrawn	301,975					301,975
Administrative Expenses					1,064,005	1,064,005
Total Operating Expenses	301,975	—	36,805,748	—	1,064,005	38,171,728
Income (Loss) Before Operating Transfers	8,272,516	14,386,300	(36,805,748)	(3,526,365)	(1,064,005)	(18,737,302)
Operating Transfers In (Out)						
Distribution of Interest	1,489,689	(29,924,380)	23,844,321	4,590,370		—
Establishment of Benefit Reserves	(2,764,439)	(13,282,290)	16,046,729			—
Distribution of Interest for Administrative Expenses				(1,064,005)	1,064,005	—
Net Operating Transfers	(1,274,750)	(43,206,670)	39,891,050	3,526,365	1,064,005	—
Net Income (Loss)	6,997,766	(28,820,370)	3,085,302	—	—	(18,737,302)
Account Balances - Beginning	82,231,906	136,687,834	366,259,991			585,179,731
Account Balances - Ending	89,229,671	107,867,464	369,345,294	—	—	566,442,429

Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts

Year Ended August 31, 2022

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Personnel Services	\$	\$
Salaries and Wages	23,372,890	17,325,089
Payroll Related Costs:		
Retirement Contributions	2,210,977	1,244,207
Retirement Membership Fees	918	252
Employees Insurance Contributions	2,481,333	785,717
Retirees Insurance Contributions	1,559,954	367,273
Social Security Contributions	1,738,270	938,707
Unemployment Compensation	8,766	2,063
Total Payroll Related Costs	8,000,218	3,338,219
Total Personnel Services	31,373,108	20,663,308
Professional Fees and Services		
Actuarial Services	838,283	
Audit Services	(1,085,762)	
Investment Consulting Fees		3,282,044
Investment Advisors		16,358,529
Group Benefits Advisors	218	
Medical Board Member Fees	59,850	
Architectural Services	1,294	
Legal Services	450,779	481,191
Computer Programming Services	5,445,252	360,874
Other Professional Services	1,419,680	60,105
Total Professional Fees and Services	7,129,594	20,542,743
Other Services and Charges		
Travel	39,184	183,279
Materials and Supplies:		
Postage	803,609	
General Office and Other Supplies	96,822	337
Subscriptions	33,621	57,669
Furniture and Equipment	233,205	2,495
Computer Software	803,717	
Total Materials and Supplies	1,970,974	60,501
Communications and Utilities:		
Electricity, Gas and Water	373,248	
Telephone and Telegraph	640,306	
Electronic Communication Services	236,760	6,509,573
Total Communications and Utilities	1,250,314	6,509,573
Repairs and Maintenance:		
Land and Building	157,754	
Furniture and Equipment	60,091	
Computer Software and Equipment	1,685,275	
Total Repairs and Maintenance	1,903,120	—
Rentals and Leases:		
Computer Software and Equipment	62,429	
Office Equipment	221,601	
Space	133,204	
Total Rentals and Leases	417,234	—
Printing and Reproduction Services	160,956	
Depreciation	3,515,648	
Amortization	283,868	
Interest on Leases	20,316	

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Other Supplementary Information – Schedule 4

Administrative and Investment Expenses/Expenditures Statutory Administrative Funds and Accounts (Concluded) Year Ended August 31, 2022

	Administrative Expenses (Note A)	
	Non-Investment	Investment
Other Services and Charges (continued)	\$	\$
Other Operating Expenses/Expenditures:		
Membership Fees	42,180	58,162
Employee Training	125,526	75,795
Insurance - Building and Vehicle	136,755	
Fees and Other Charges	34,704	91,556
Investment Banking		926,175
Tenure Awards	4,991	
Temporary Employment Agencies	384,976	28,440
Cleaning Services	171,185	
Advertising Services	12,470	394
Freight/Delivery Services	5,504	
Purchased Contracted Services	2,008,113	8,035
Prompt Payment Interest	277	
Third Party Administrator Fee - Cafeteria Plan	934,723	
Total Other Operating Expenses/Expenditures	3,861,404	1,188,557
Total Other Services and Charges	13,423,018	7,941,910
Total Expenses/Expenditures	51,925,720	49,147,961
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	31,641,814	42,679,237
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	1,680,319	1,524,304
Judicial Retirement System Plan Two Trust Fund (0993)	321,731	742,274
TexaSaver 401(k) Trust Fund (0946)	483,469	80,744
TexaSaver 457 Trust Fund (0945)	105,955	11,193
Commuter Spending Account Fund (3944)	373	1
State Employees Cafeteria Plan Trust Fund (0943)	1,080,799	23,279
State Retiree Health Plan (3973)	6,773,917	
Total Fiduciary Funds	42,088,377	45,061,032
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	9,755,862	4,084,704
Total Proprietary Fund	9,755,862	4,084,704
Social Security Administration Trust Account (0929)	81,481	2,225
Total Governmental Funds	81,481	2,225
Total Method of Finance	51,925,720	49,147,961

Note A: \$87,962,680 management fees were deducted and paid from the net asset value of Alternative Investments during Fiscal Year 2022. 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, 2022

Nature of Service	Totals (Note A)
	\$
Actuarial Services - Retirement	632,553
Actuarial Services - Insurance	205,730
Audit Fees - Financial	237,001
Audit Fees - Insurance Carrier	(1,526,219)
Audit Fees - Other	203,456
Investment Consulting Fees	3,282,044
Investment Advisors	16,358,529
Group Benefits Advisors	218
Medical Board	59,850
Architectural Services	1,294
Legal Services	931,970
Computer Programming Services	5,806,126
Educational Services	71,108
Other Professional Services	1,068,683
Other Consulting Services	339,994
Total Professional and Consulting Fees	27,672,337
Method of Finance:	
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	24,845,237
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	902,472
Judicial Retirement System Plan Two Trust Fund (0993)	386,335
Texasaver 401(k) Trust Fund (0946)	97,805
Texasaver 457 Trust Fund (0945)	13,476
Commuter Spending Account Fund (3944)	9
State Employees Cafeteria Plan Trust Fund (0943)	28,152
State Retiree Health Plan (3973)	430,432
Total Fiduciary Funds	26,703,918
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	956,164
Total Proprietary Fund	956,164
Social Security Administration Fund (0929)	12,255
Total Governmental Funds	12,255
Total Method of Finance	27,672,337

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

Other Supplementary Information– Schedule 6

Combining Balance Sheet - Other Governmental Funds

Year Ended August 31, 2022

	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)	Other Governmental Totals
Assets	\$	\$	\$	\$	\$
Current Assets:					
Cash and Cash Equivalents:					
Cash in State Treasury	39,439	—	—	—	39,439
Total Cash and Cash Equivalents	39,439	—	—	—	39,439
Accounts Receivable	21,523	—	—	—	21,523
Due From Other Funds (Note 5.A)	43,804	—	—	—	43,803
Total Current Assets	104,766	—	—	—	104,766
Total Assets	104,766	—	—	—	104,766
Liabilities					
Current Liabilities:					
Payables:					
Due To Other Funds (Note 5.A)	100,816	—	—	—	100,816
Total Current Liabilities	100,816	—	—	—	100,816
Total Liabilities	100,816	—	—	—	100,816
Fund Balances:					
Committed	3,950	—	—	—	3,950
Total Liabilities and Fund Balance	104,766	—	—	—	104,766

Other Supplementary Information– Schedule 7

Combining statement of Revenues, Expenditures and Changes in Fund Balances- Other Governmental Funds

Year Ended August 31, 2022

	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)	Other Governmental Funds Totals
Revenues	\$	\$	\$	\$	\$
Appropriation Revenue	—	24,940,802	4,071,822	9,574,472	38,587,096
Administrative Fees	81,423	—	—	—	81,423
Total Revenues	81,423	24,940,802	4,071,822	9,574,472	38,668,519
Expenditures					
Current:					
Death Benefits	—	24,940,802	4,071,822	9,574,472	38,587,096
Administrative Expenditures:					
Salaries & Wages	41,901	—	—	—	41,901
Payroll Related Costs	12,765	—	—	—	12,765
Professional Fees & Services	12,255	—	—	—	12,255
Travel	75	—	—	—	75
Materials & Supplies	2,679	—	—	—	2,679
Communications & Utilities	7,234	—	—	—	7,234
Repairs & Maintenance	4,250	—	—	—	4,250
Rentals & Leases	1,247	—	—	—	1,247
Printing & Reproduction	138	—	—	—	138
Other Expenditures	1,162	—	—	—	1,162
Total Administrative Expenditures	83,706	—	—	—	83,706
Total Expenditures	83,706	24,940,802	4,071,822	9,574,472	38,670,802
Net Change in Fund Balance	(2,283)	—	—	—	(2,283)
Fund Balances - Beginning	6,233	—	—	—	6,233
Fund Balances - Ending	3,950	—	—	—	3,950

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 2022

Overview

The System's investment portfolio closed the fiscal year with a fair value of \$33.3 billion and received a net return of -1.6% for the year, outperforming the policy benchmark return of -3.4%. At fiscal year-end, Trust positioning included 33.4% of its assets in global public equity, 20.8% in fixed income, 13.9% in global real estate, 19.5% in private equity, 5.5% in infrastructure, 5.7% in absolute return hedge funds and 1.3% in cash.

The beginning of the fiscal year was marked by a changing investment landscape. Evidence of increasing prices in the economy as reflected by higher inflation prompted the Fed towards a restrictive stance implementing a series of rate increases over the past year. The Fed's rate increases combined with its decision to reduce the amount of liquidity available in the economy were actions taken to mitigate the risk of a sustained and increasing inflationary environment. As financial conditions tightened, economic activity began to show signs of a slowdown and risk levels surged mainly due to concerns about an unfolding recessionary event. These headwinds only helped to negatively impact the performance of financial assets over the course of the year.

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, 2022, the Fund returned 8.3%, well above the policy benchmark return of 6.6%. For the 10 years ended August 31, 2022 the fund returned 8.3%, outperforming the policy benchmark return of 7.4%.

During Fiscal Year 2022, 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 the competitive investment organization that has delivered superior returns. The division transitioned successfully to a hybrid schedule that allowed staff to work by alternating between office and home environments

Some of the most notable accomplishments during this period included:

- Committed \$636 million to Private Equity with allocations to 11 primary funds and 2 co-investments.
- Committed \$500 million to five private credit funds within Fixed Income.
- Committed \$420 million to Real Estate and closed 8 investments, including one top up to an existing fund and 3 co-investments.
- Committed \$345 million to Private Infrastructure and closed on 2 funds and 3 co-investments.
- Committed \$75 million to a convertible arbitrage hedge fund in the Absolute Return Portfolio.

- Simplified the broker vote process to utilize the budget for investment research more effectively.
- Refreshed the Public Equity Select Pool of investment advisors by adding 5 domestic strategies.
- Allocated to two emerging hedge fund managers for PAAMCO Launchpad to bring the total allocation count to 4.

Performance across asset classes was mixed on an absolute and relative basis. For example, liquid assets such as Public Equities, Public Real Estate and Rates portfolios experienced negative absolute returns of 15.2%, 14% and 7.41%. On the other hand, private market assets such as Private Equity, Private Real Estate, Infrastructure and the Absolute Return portfolio delivered strong performance gaining 19.4%, 23.4% and 13.1% respectively. On a relative basis, private equity and infrastructure bettered their policy benchmark returns.

The Investments Division co-hosted the successful TRS/ERS Emerging Manager Conference virtually with more than 1,000 attendees. In addition, ERS co-hosted the Biennial Real Estate Emerging Manager (REEM) Conference in person with more than 100 attendees.

During 2023 the Investments Division will continue its goal to support retirement income security through initiatives such as expanding the level of excess return from Trust-level allocation decisions, refining the procurement process for external advisors, enhancing the portfolio construction process within public equities, and researching a new order management system to improve the efficiency of the trading process. Additional goals for the upcoming year include the continued refinement of the Investment Implementation Plan, ensuring alignment of capital plans across the investment teams within private markets, and working with NEPC to complete the regular evaluation of the investment policies, procedures and practices of ERS.

Domestic Equity

The US equity markets recorded a weak performance for the fiscal year ending August 31, 2022. The momentum from strong FY2021 equity markets was interrupted by a concerned inflation outlook from the Federal Reserve (Fed). Inflation was driven by increasing food and gas prices, along with a strong jobs market that was helped by an improving COVID-19 picture. Though the Fed highlighted their inflationary concerns following the December meeting, Not until the minutes of the December meeting were released in early January did investors appear to take the Fed inflation concerns seriously. Stocks immediately fell and continued to retreat until a mid-July inflation report appeared to support the potential of a less aggressive Fed. This began a one month bear market rally that ultimately faded in August on worsening investor

Report on Investment Activity (Concluded)

Fiscal Year 2022

sentiment that the Fed would over-tighten and send the country into a recession. For the entire fiscal year, the S&P 500 finished down 10.6%, the S&P 400 mid cap index lost 9.8% and the S&P 600 small cap index fell 11.3%.

With the more hawkish Fed, the 10Y Treasury Bond moved from 1.65% to 3.2% by the fiscal year end. As one would expect, longer duration sectors (internet/media, retail/apparel, and semis) were the relative losers with Moderna, a FY21 winner, falling 65% as the pandemic faded. The relative winners were the more defensive groups (energy, utilities staples, and healthcare). Value stocks significantly outperformed higher multiple growth stocks as long rates moved higher. With the exception of the energy sector, performance was a reversal of that generated in FY21. Energy stocks were up 77.4% for the fiscal year, led by Occidental Petroleum (178%) and Devon Energy (157%).

The group was helped by a strong dollar, reduced global capacity, and strong demand. The Russian invasion of Ukraine in February of 2022 initially pushed up prices of oil and food prices. Oil prices have retraced their moves following the invasion with West Texas Intermediate (WTI) significantly off its highs and pump prices coming down to more reasonable levels. That said, food prices continue to rise. Other commodities like lumber and steel were volatile during the fiscal year but ended the year lower. The major exception has been lithium, clearly impacting electrical vehicle production.

The U.S. consumer remains rather strong. Consumer spending continued to grow, peaking at fiscal year-end. Unemployment started the year at 4.7%, finishing around 3.7%. It did move up slightly in August, potentially reflecting an impact from rate hikes. In FY21, there were 1.25 job vacancies for every job seeker. This fiscal year, that number increased to 2 jobs for every individual looking for a job. With a strong consumer, credit statistics from the banks remain strong. It is to be seen in FY23 whether the Fed actions will place significant stress on the consumer and labor markets, ultimately leading us into a recession.

International Equity

International stock markets, as measured by the MSCI ACWI ex U.S. Index, fell (-19.3%) during Fiscal Year 2022, as Russia's invasion of Ukraine rocked Energy and Materials markets, and central banks' determination to bring inflation under control spurred investors' concerns of a global recession. Returns were negative across all but one sector, with Energy (+15.3%) and Utilities (-11.0%) leading the index while Info Tech (-33.2%) and Discretionary (-25.7%) were the smallest contributors to performance.

MSCI EAFE matched the broader international index in FY22 (-19.5%). Europe and Developed Asian markets faced steady pressure through most of the fiscal year as the pandemic easing gave way to energy supply concerns after the Russian invasion of Ukraine was followed by mounting recession concerns due to central banks' actions to combat inflation. Energy was the top performing sector, and the only one with positive returns, as strong demand and reduced global capacity were exacerbated by the Russian invasion of Ukraine. Conversely, growth oriented Info Tech was the worst performer, as rising interest rates caused investors to question lofty valuations. From a country standpoint, energy independent Norway was the only country with positive returns. The Netherlands was one of the worst performers due to its relatively higher weighting in Info Tech stocks, along with Germany which has a high dependence on imported Russian natural gas. On the whole, mainland European countries tended to underperform, while Asian countries were somewhat better off, particularly Australia due to its higher proportion of Materials companies.

MSCI Emerging Markets had a mixed FY22, lagging the broader international index (-21.9%). It was a volatile fiscal year, as EM equities were hit by numerous major headwinds. China's real estate industry faced systemic financial issues, while the overall economy struggled with bouts of Covid outbreaks followed by severe lockdowns. Russia's invasion of Ukraine caused havoc in Eastern Europe, shocked Energy and Materials markets, and led to heavy sanctions while Russian stocks were eventually deleted from the index. Persistent inflation and the commitment of central banks to bring it under control led to several interest rate hikes by the Federal Reserve, leading to a strong US Dollar and concerns around slower economic growth and even outright recession. As a result, EM equities lagged developed markets for most of the fiscal year. Defensive oriented Utilities stocks were the best performing sector as well as the only one that finished the year with positive returns, while Health Care and Discretionary were the worst performers. For country performance, the Middle East (Qatar, Kuwait, etc...) and Indonesia were among the best performers, as investors favored markets with independent, domestic growth stories and sought to avoid the turmoil in China and Russia. Russia was by far the worst performer, as its stocks were deleted from EM indices at zero value, followed by Eastern European countries such as Poland and Hungary, who saw some of the most direct impacts from the invasion.

Real Estate

For the fiscal year ending August 31, 2022, the global real estate securities market was down 16.3%, as measured by the FTSE EPRA / NAREIT Developed Index, creating a reversed material change from the prior year return of +34.5% in FY21. The market was

Report on Investment Activity (Continued)

Fiscal Year 2022

range bound until April when inflation concerns turned out to be worse than transitory and expectations of rising interest rates have started to be priced in. Sentiment around the globe have deteriorated rapidly since April. The continuation of the hawkish stance of the Fed and other major central banks around the world, the escalating Russia-Ukraine crisis, mainland China property market woes, rising risk of recession, and extreme FX moves, have triggered a sharp rise in risk-off sentiment across global equity markets.

All regions posted negative returns with Middle East being the best relative performer but still down 5.4%. Continental Europe was the worst performer down 42.1%.

All of the constituent countries in the FTSE EPRA/NAREIT Developed Index posted negative returns in USD terms. Global currencies have weakened significantly against the USD. Japanese yen was down over 20% during the period and Euro and British pound were down over 10%.

Asia

Australia was down 13.1% as the central bank turned hawkish. As the country continued to re-open, retail sector was the best performer up 3%. Japan was down close to 20% in USD terms while its local currency return was actually up 1.6%. Japan was the only major developed country not to hike interest rates and as a result, Japanese yen weakened significantly against the USD. Hong Kong was down 8.1% and performed relatively better than most of its global peers as the Hong Kong property companies started buying back shares. Office sector was up 4% supported by the surprising dividend increase and share buybacks. Retail was the worst performer in Hong Kong down close to 12%, as Hong Kong's border re-opening prospects remained murky under the strict Covid policies. Singapore was down 1.3% in USD terms and local return was up 2.4%. Singapore's property market remained resilient, particularly the housing market and office market enjoyed strong fundamentals.

Europe

The pan European market was extremely challenging during the period. UK was down 30.9% and Continental Europe was down 42.1% in USD terms. Both the British pound and Euro weakened significantly against the USD. Risk-off sentiment grew rapidly as interest rates were expected to rise amid increasing risk of a recession. The onset of the Russia-Ukraine war and the subsequent energy crisis exacerbated the fear.

United States

U.S. real estate securities, as measured by the FTSE EPRA / NAREIT U.S. Index, were down 10.8% and gave back part of the +42.7% gain in FY21. Self Storage posted the best performance up 5.6%, following the +67.6% gain in the previous fiscal year. Lodging/Resorts sector did well too, posted a positive 2.4% return (+56.8% in previous period). Office subsector, as it continues to experience secular headwinds, was the worst performer down 26.6%.

Private Real Estate

Since inception (2008) through Fiscal Year End 2022, the Private Real Estate ("PRE") program has closed more than \$6.4 billion in commitments to 100 investments (86 commingled funds and 14 co-investments). There are 89 active investments today with \$1.8 billion unfunded as of FY22. ERS currently holds Limited Partner Advisory Committee (LPAC) seats in 84 funds and Limited Partner Observer Seats in two funds. Approximately \$5.3 billion in capital has been called and the net asset value of the ERS Private Real Estate portfolio stands at approximately \$3.7 billion. ERS has received back approximately \$4.1 billion as income, realized gains or a return of principal, resulting in a 0.8x Distribution to Paid in Capital (Source: BNY/Burgiss).

As of August 31, 2022, Private Real Estate Program has produced total Time Weighted Returns ("TWR") net of fees of 12.0%, and Total Value to Paid In capital (TVPI) of 1.5x since inception through the end of FY22 (Source: BNY/Burgiss). Total PRE Capital Calls and Distributions for FY22 and since Inception are shown in the following table. As the portfolio matures, more meaningful distributions from realizations will continue to balance annual cash inflows and outflows as in FY22.

For FY22, ERS committed \$420 million across 9 investments. These commitments consist of existing manager relationships (re-ups), new managers, and both domestic and international strategies.

For FY22, Staff has focused on compelling core/core-plus investments, reducing the core underweight to just 200 basis points below target. Co-Investments accounted for \$45 million of these commitments, including one programmatic co-investment for \$25 million. These commitments were above the commitment target of \$350 million but below the upper range of \$700 million.

Report on Investment Activity (Concluded)

Fiscal Year 2022

For FY22, Private Real Estate had another strong year of returns driven by historic highs for appreciation in the market, generating a 23.7% net of fees TWR. As of the end of FY22, the Private Real Estate portfolio represented 11.1% of the Trust assets, 210 bps 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 is a result primarily of strong appreciation (NAV increased 26.8% over FY22) and the denominator effect (e.g. variance in the size of the overall Trust portfolio due to increases or decreases in value to public equities, fixed income, etc.) The fiscal year to date NAV increases are a combination of the net capital called (about 9% of total increase) and appreciation (about 91% of total increase) of the Portfolio investments. For FY23, 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 Equity

Private Equity closed on 14 investments during FY22, including 3 co-investments, with commitments totaling \$636 million versus an approved commitment budget of \$800 million and a tactical range of \$600 million to \$1.0 billion. Private Equity targeted the lower end of its tactical range due to the Trust's over allocation to Private Equity as compared to the Private Equity target of 13% allocation.

As of August 31, 2022, the Private Equity portfolio net asset value was \$6.51 billion, compared to \$6.20 billion at fiscal year-end August 31, 2021. Since inception, Private Equity has closed on 139 funds and 76 co-investments with commitments totaling \$11.8 billion (currency adjustments based on closing dates). In addition, ERS has obtained LP Advisory Committee and Observer seats on 94 funds.

Fixed Income

During Fiscal Year 2022, the U.S. economy realized a disappointing rate of real growth over the fiscal year of under 2%, but robust nominal growth of over 9%. That resulted in the Federal Reserve abandoning the notion that current high inflation is transitory, and it raised short term interest rates +2.25% in the period and combined those moves with messaging that it is neither finished raising nor expecting to reverse itself soon. However, the majority of bond coupons are fixed so the high nominal growth observed resulted in a relatively positive environment for current debt payments. Concerns now exist regarding the impact that refinancing this debt will have.

Over the course of the fiscal year Treasury yields increased and the yield curve inverted as a result of the

Fed actions. The 10-year Treasury yield increased 181 basis points to 3.19%, and the yield spread between 2-year and 10-year Treasuries decreased from 110 basis points to -30 basis points.

As a result of these yield movements the U.S. Treasury index returned -7.57% for the fiscal year, with investment-grade corporate bonds losing -14.91%, emerging market debt declining -21.31%, while high-yield bonds lost -10.61%.

- **Labor:** The economy continued creating jobs with non-farm payrolls increasing +5.6 million and the unemployment rate declining from 5.2% to 3.7%. Further, initial jobless claims began the year at 381 thousand and declined to just 171 thousand in March, before subsequently rising back to 228 thousand.
- **Inflation:** The Federal Reserve's preferred measure of inflation, Core PCE, accelerated from a year-over-year level of 3.6% to 5.3% in February, and was 4.6% as of the end of July. The Fed's stated target for the measure is 2%, and has thus far consistently signaled its intent to bring inflation down.
- **Housing:** Throughout the pandemic and recovery, housing demand remained exceptionally strong with the S&P CoreLogic Case-Shiller U.S. National Home Price Index for single family home prices up 18% year-over-year again as of June. Signs are beginning to indicate that higher interest rates are starting to slow demand though. The most recent monthly house price increase was the smallest since July of 2020, and mortgage applications and pending home sales have both declined in recent months.
- **Durable Goods:** The industrial sector continue to grow strongly with nominal new orders for durable goods up 9.3% year-over-year.

Private Infrastructure

For Fiscal Year 2022, Private Infrastructure closed 7 transactions (three fund investments, three co-investments, and one continuation investment), with commitments totaling \$345 million. Following the approval of the amended Tactical Plan at the Board meeting in May with a range of \$315 million to \$585 million, the program's target commitments for FY22 were \$450 million.

Report on Investment Activity (Continued)

Fiscal Year 2022

Since inception, Private Infrastructure has closed on 30 co-investments and 24 funds with commitments totaling \$2.86 billion (adjusted for currency exchange rates). ERS holds an LP Advisory Committee seat on 22 funds and an observer seat on one fund. As of August 31, 2022, the Infrastructure portfolio net asset value was \$1.83 billion, or 5.4% of the System's assets, compared to \$1.48 billion, or 4.2% of the System's assets, at the end of Fiscal Year 2021.

Hedge Funds

Market conditions during Fiscal Year 2022 can be described as being 'A Tale of Two Cities.' During the time frame from September 2021 thru December 2021, market conditions were generally characterized by risk on sentiment. Market conditions continued on their recovery path from the COVID-19 pandemic. Interest rates and U.S. Treasury bond yields remained low, while equity markets continued to grind higher. COVID-19 still lurked in the background, with the Omicron variant garnishing attention; but in general, markets were risk on and saw positive returns. However, towards the end of calendar year 2021, we started to see signs that inflation was becoming more persistent. The Federal Reserve retired the word "transitory" when describing inflation and coupled this with multiple projected interest rate increases for calendar year 2022. Additionally, the Fed announced that the pace of their tapering plan would double, leading to zero net purchases by the end of March 2022.

The first quarter of 2022 started off with a sharp reversal in global financial markets, in large part due to the Russian invasion of Ukraine. The NATO sanctions that followed were numerous and included the banning of select Russian banks from using the SWIFT payment system. The military actions that unfolded also caused ripple effects into a number of commodity markets, most notably energy. The economic uncertainty that followed caused risk assets to sell off sharply; however, due to global central banks raising interest rates in order to combat inflation, bond markets offered nowhere to hide. Adding to the mix was China and their zero-COVID policy. This initiative caused growth concerns in the region and put added pressure on global supply chains, thus resulting in a further push to inflation.

The second quarter of 2022 saw continued economic concerns as a decline in growth combined with seemingly persistently high inflation caused fears of stagflation to increase. The continuation of the Ukraine/Russia war produced further supply chain issues in commodity markets and led to a general level of uncertainty across the macroeconomic landscape. While May of 2022 provided a bit of a relief rally, a higher than expected year-over-year inflation print in June 2022 saw a sharp decline in risk assets once again. Thus, the Fed maintained their hawkish stance towards battling inflation, which only exasperated the downward move.

Choppy market conditions persisted throughout the remaining months of Fiscal Year 2022. The Fed continued with their aggressive interest rate hiking cycle with multiple 75 bps increases. This led to further equity market declines, particularly in high growth sectors and industries (i.e. Technology). While the U.S. Treasury curve temporarily inverted in March of 2022 (as defined by the yield on the U.S. 2-year Treasury vs. the U.S. 10-year Treasury), a persistence inversion began in early July 2022 and remained through the end of the fiscal year.

Despite these challenging market conditions, the ERS Absolute Return Portfolio performed well on both an absolute and relative basis. For Fiscal Year 2022, the ERS Absolute Return Portfolio generated a preliminary estimated return of +3.96%. During the same period the portfolio's primary benchmark (90-day T-bills plus 350 basis points) returned an estimated +3.72% and its secondary benchmark (HFRI Fund of Funds Diversified) returned -2.88%.

In general, manager performance during the fiscal year was mixed but positive. Positive contributors were led by Global Macro, where all three underlying managers that make up the strategy bucket saw strong returns during Fiscal Year 2022. In turn, the largest detractor was an Equity Long/Short manager. However, negative attribution from this manager was offset by positive attribution from the two additional Equity Long/Short managers that make up the strategy bucket. The graphs below indicate current and historical positioning of the Absolute Return Portfolio as of August 31, 2022. The five strategies (and current positioning) include event-driven (33.5%), relative value (19%), equity long/short (16.9%), global macro (21.9%) and opportunistic (8.7%).

Key Portfolio Statistics

Statistics	2022	2021
Contributions to Pool	1,775,200,000	1,524,800,000
Withdrawals from Pool	(2,815,700,000)	(2,694,100,000)
Interest & Dividends	809,586,775	731,101,318
Securities Lending Net Income	2,175,991	1,943,543
Net Appreciation in Fair Value	(1,505,021,486)	6,598,601,129

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 2022

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

Outline of Investment Policies (Concluded)

Fiscal Year 2022

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

Permissible Investments

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

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

Proxy Voting

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

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

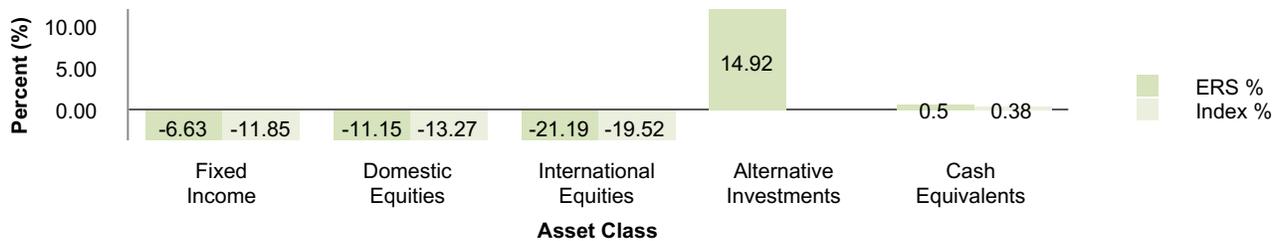
Time-Weighted Rates of Return and Asset Allocations

Investment Pool

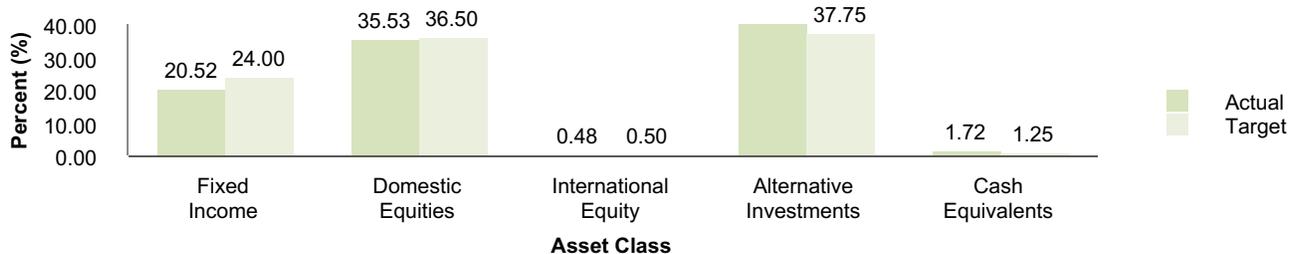
August 31, 2022

	Time-Weighted Rates of Return (Note A)								
						3 Year	5 Year	10 Year	
	2018	2019	2020	2021	2022	(2020-2022)	(2018-2022)	(2013-2022)	
	%	%	%	%	%	%	%	%	
Fixed Income									
ERS	1.19	6.57	4.16	9.17	-6.63	2.02	2.75	2.59	
Index	-0.93	10.08	6.41	0.88	-11.85	-1.82	0.63	1.64	
Domestic Equities									
ERS	20.89	-0.01	17.67	33.69	-11.15	11.81	11.06	12.32	
Index	20.06	1.72	21.64	33.49	-13.27	12.09	11.46	12.88	
International Equities									
ERS	3.72	-2.96	10.01	27.3	-21.19	3.34	2.13	4.86	
Index	3.18	-3.27	8.31	24.87	-19.52	2.87	1.67	4.48	
Alternative Investments									
ERS	12.5	6.47	0.98	31.05	14.92	15	12.74	11.71	
Index	NA	NA	NA	NA	NA	NA	NA	NA	
Cash Equivalents									
ERS	2.72	2.16	1.02	-0.13	0.5	0.46	1.25	0.79	
Index	1.52	2.36	1.26	0.08	0.38	0.57	1.12	0.66	
ERS Overall									
ERS	9.58	3.04	6.85	25.51	-1.55	9.71	8.31	8.37	
Index	7.94	3.06	8.17	18.5	-3.38	7.39	6.62	7.42	
Change in CPI	2.9	1.82	1.03	5.28	8.48	4.89	3.87	2.59	

Overall One Year Time-Weighted Return



Overall One Year Average Asset Allocation



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

$$\frac{\text{Ending Fair Value}}{\text{Beginning Fair Value} + \text{Net Cash Flows}}$$

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

Fixed Income Securities Portfolio:	Bloomberg Barclays Capital and Floating Fixed Income
Domestic Equities Portfolio:	S&P 500/ S&P 1500 Blend/MSCI USA IMI USD Blended Index
International Equities Portfolio:	MSCI EAFE/MSCI ACWI ex US Blended Index (i.e., Europe, Australia and Far East Index excluding securities unavailable to foreign investors)
Cash Equivalents Portfolio:	91-Day U.S. Treasury Bill

Basis of Presentation: Master custodian records.

Broker Commissions

Year Ended August 31, 2022

Domestic Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		\$	\$
Baird, Robert W & Co., Inc.	1,752,854	34,057	0.019
Barclays Capital	782,571	15,651	0.02
BMO Capital Markets Corp.	929,259	18,373	0.020
BNY Mellon Clearing	5,559,845	111,197	0.020
Capital Institutional Services, Inc.	162,493	4,875	0.030
Citigroup Global Markets, Inc.	1,936,502	38,455	0.02
Cowen & Co., LLC	2,137,256	42,745	0.020
Credit Suisse	4,293,162	85,863	0.020
Goldman Sachs	4,003,725	80,075	0.02
Instinet LLC	84,012	840	0.010
International Strategy Investment Group, Inc.	1,620,500	32,410	0.020
Jefferies & Co, Inc.	5,646,369	112,927	0.020
JonesTrading	412,000	8,240	0.020
JP Morgan Securities, LLC	7,657,527	153,151	0.020
Liquidnet, Inc.	410,807	8,128	0.020
Merrill Lynch & Co., Inc.	18,008,251	360,245	0.020
Morgan Stanley & Co., Inc.	8,032,181	159,444	0.020
National Financial Services, LLC	5,941,903	98,928	0.017
Raymond James & Associates, Inc.	8,693,002	173,860	0.020
Sanford C Bernstein & Co., Inc.	3,969,628	79,393	0.020
Stifel, Nicolaus & Co., Inc.	2,044,294	40,886	0.02
SunTrust Robinson Humphrey, Inc.	457,519	9,150	0.020
UBS	3,303,558	66,071	0.020
Wells Fargo Securities, LLC	2,584,188	51,684	0.020
	90,423,406	1,786,648	0.020

- to next page

Broker Commissions (Concluded)

Year Ended August 31, 2022

International Equity

Brokerage Firm	No. of Shares Traded	Commissions		Commission Per Share
		\$	\$	
Barclays Capital	5,920,858		30,402	0.005
BMO Nesbitt Burns	227,659		3,523	0.015
BNP Paribas	461,674		15,931	0.035
BNY Mellon Clearing	13,239,601		150,424	0.011
Calyon Securities	1,059,368		18,205	0.017
Citigroup Global Markets, Inc.	15,031,110		89,183	0.006
CLSA	3,990,073		61,369	0.015
Credit Lyonnais Securities	24,785,853		90,977	0.004
Credit Suisse	5,199,312		45,760	0.009
Daiwa Securities	73,545,420		243,253	0.003
Exane	2,151,203		64,496	0.030
Financial Brokerage Group	71,000		1,217	0.017
Fubon Securities Co., Ltd.	367,000		523	0.001
HSBC	66,350,176		263,165	0.004
Investec Securities Limited	100,000		327	0.003
Investment Technology Group, Inc.	122,550		2,451	0.020
Jefferies & Co, Inc.	63,414,819		258,204	0.004
JP Morgan Securities, LLC	45,163,640		329,816	0.007
KEB Salomon Smith Barney Securities	17,936		6,678	0.372
Kepler Cheuvreux	963,594		39,885	0.041
Liquidnet, Inc.	462,101		9,615	0.021
Macquarie Securities (USA), Inc.	99,007,567		218,613	0.002
Merrill Lynch & Co., Inc.	12,395,188		278,269	0.022
Mirae Asset Securities	35,765		10,028	0.280
Mitsubishi Securities	836,508		71,245	0.085
Mizuho Securities USA, Inc.	130,500		5,711	0.044
Morgan Stanley & Co., Inc.	69,912,504		122,020	0.002
Parel	2,741,286		53,363	0.019
Redburn Partners, LLP	2,979,519		26,326	0.009
Sanford C Bernstein & Co., Inc.	2,007,146		62,074	0.031
Santander	60,234,400		93,056	0.002
Societe Generale	449,100		4,252	0.009
Stifel, Nicolaus & Co., Inc.	1,895,618		6,379	0.003
The Depository Trust Company	58,089		12,325	0.212
UBS	15,408,970		107,382	0.007
	590,737,107		2,796,447	0.005

Basis of Presentation: Master custodian records.

Fees for Alternative Investments

Year Ended August 31, 2022

Investment Type	Management Fees		Profit Share	Other Fees
	Asset Value	(Note A)	(Note B)	
	\$	\$	\$	\$
Private Equity	6,489,096,639	25,804,985	65,578,467	12,988,147
Private Real Estate	3,692,468,016	27,258,647	30,719,590	6,193,794
Private Infrastructure	1,827,919,176	14,680,130	5,373,744	7,422,047
Private Fixed Income	1,036,539,271	3,612,993	—	3,501,186
Hedge Funds (Note C)	2,388,639,686	16,407,019	46,746,400	—
Public Equity	679,878,983	198,906	1,834,419	—
Grand Total	16,114,541,771	87,962,680	150,252,620	30,105,174

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, 2022 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, 2021 to June 30, 2022.

Investment Advisory and Service Fees

Year Ended August 31, 2022

Advisory Service	Asset Value		Fees	Basis Points	Other Investment Services	Fees
	\$	\$				
Domestic Equity Advisors	363,864,873	934,648	26	Custodian Fees	898,036	
International Equity Advisors	1,647,070,295	12,625,982	77	Security Lending Agent Fees	268,269	
Total	2,010,935,168	13,560,630	67	Investment Consultant Fees	3,279,822	
				Investment Banking Fees:	32,259	
				Total	4,478,386	

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 \$841,908 during Fiscal Year 2022.

Basis of Presentation: Master custodian records.

List of Largest Assets Held (Note A)

Year Ended August 31, 2022

Ten Largest Stock Holdings

No. of Shares	Description	Fair Value
2,480,600	Apple, Inc	389,999,932
1,115,890	Microsoft Corporation	291,771,758
668,400	Vanguard S&P 500 ETF	242,729,460
1,320,000	Amazon.com, Inc	167,336,400
1,416,000	Alphabet, Inc	154,556,400
375,000	Tesla, Inc	103,353,750
175,525	UnitedHealth Group, Inc	91,155,398
636,607	Prologis, Inc	79,263,938
442,801	Meta Platforms, Inc	72,145,567
444,852	Johnson & Johnson	71,772,422

Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
60,000,000	U S TREASURY NOTE 0.875% 11/15/2030 DD 11/15/20, Rating AA+	50,156,250
55,000,000	U S TREASURY NOTE 1.125% 02/15/2031 DD 02/15/21, Rating AA+	46,775,781
50,000,000	U S TREASURY NOTE 1.625% 05/15/2031 DD 05/15/21, Rating AA+	44,171,875
45,000,000	U S TREASURY NOTE 2.000% 02/15/2025 DD 02/15/15, Rating AA+	43,432,031
50,000,000	U S TREASURY NOTE 0.625% 08/15/2030 DD 08/15/20, Rating AA+	41,023,438
40,000,000	U S TREASURY NOTE 2.500% 05/15/2024 DD 05/15/14, Rating AA+	39,354,688
40,000,000	U S TREASURY NOTE 2.875% 05/15/2028 DD 05/15/18, Rating AA+	38,968,750
40,000,000	U S TREASURY NOTE 2.125% 05/15/2025 DD 05/15/15, Rating AA+	38,590,625
40,000,000	U S TREASURY NOTE 2.250% 02/15/2027 DD 02/15/17, Rating AA+	38,090,625
45,000,000	U S TREASURY NOTE 0.625% 05/15/2030 DD 05/15/20, Rating AA+	37,096,875

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, 2022

Type of Investment	Pooled Pension Trust Funds (Note A)				Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fund 0973	Fair Value	% Total
	\$	\$	\$	\$		
Public Equities:						
Domestic Equities	5,604,185,847	183,575,382	99,454,264	13,003,956	5,900,219,449	16.15 %
Foreign Equities	3,578,088,125	117,206,837	63,498,272	1,874,113	3,760,667,347	10.30 %
Exchange Traded Funds	380,706,111	12,470,727	6,756,172		399,933,010	1.10 %
Real Estate Investment Trust	1,072,738,664	35,139,522	19,037,276		1,126,915,462	3.09 %
Total Public Equities	10,635,718,747	348,392,468	188,745,984	14,878,069	11,187,735,268	30.63 %
Fixed Income:						
U.S. Treasury Securities	2,763,437,109	90,521,449	49,041,129	1,074,112,353	3,977,112,040	10.89 %
U.S. Government Agency Obligations	697,395,789	22,844,478	12,376,282	271,068,746	1,003,685,295	2.75 %
Corporate Obligations	1,627,508,677	53,312,031	28,882,461	291,763,140	2,001,466,309	5.48 %
Corporate Asset and Mortgage Backed Securities	21,675,074	710,007	384,655	7,489,395	30,259,131	0.08 %
Exchange Traded Funds	26,869,185	880,149	476,832	4,816,833	33,042,999	0.09 %
Real Estate Investment Trust	23,886,640	782,451	423,902	4,282,153	29,375,146	0.08 %
Foreign Obligations	353,432,619	11,577,333	6,272,165	63,359,792	434,641,909	1.19 %
Total Fixed Income	5,514,205,093	180,627,898	97,857,426	1,716,892,412	7,509,582,829	20.56 %
Alternative Investments	14,548,799,796	476,572,613	258,189,183	151,101,196	15,434,662,788	42.26 %
Other Investments	253,712,012	8,310,802	4,502,481	208,081	266,733,376	0.73 %
Short-term Investments:						
Investment in Pool Cash	4,058,163	139,762	68,103		4,266,028	0.01 %
Other Short-term Investment	541,112,769	17,725,141	9,602,817	1,552,597,791	2,121,038,518	5.81 %
Total Short-term Investments	545,170,932	17,864,903	9,670,920	1,552,597,791	2,125,304,546	5.82 %
Total Before Securities Lending Collateral (Notes B & C)	31,497,606,580	1,031,768,684	558,965,994	3,435,677,549	36,524,018,807	100.00 %
Securities Lending Collateral	221,371,763	7,260,276	3,927,072	32,873,543	265,432,654	
Total Pension Investment Pool Trust Fund (0888)	31,718,978,343	1,039,028,960	562,893,066	3,468,551,092	36,789,451,461	
Cash Equivalents:						
Cash in State Treasury-Pension Funds	65,882,419	4,175,757	2,460,381	83,354,126		
Total Investments	31,784,860,762	1,043,204,717	565,353,447	3,551,905,218		

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

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

	Fair Value				
	Fund 0955	Fund 0977	Fund 0993	Fund 0973	Total
	\$	\$	\$	\$	\$
Total Fair Value of Investments Before Securities Lending Collateral, as above	31,497,606,580	1,031,768,684	558,965,994	3,435,677,549	36,524,018,807
Unsettled Sales-Investment Receivables	164,519,071	5,389,124	2,919,625	3,918,955	176,746,775
Unsettled Purchases-Investment Payables	(36,707,634)	(1,202,426)	(651,429)	(697,817)	(39,259,306)
Accrued Interest and Dividends/Tax Reclaims Receivable/Prepaid Fees	96,125,470	3,148,766	1,705,883	10,709,268	111,689,387
Securities Lending Fees Payables/Miscellaneous Payables	(4,648,612)	(152,274)	(82,496)	(38,922)	(4,922,304)
Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards	31,716,894,875	1,038,951,874	562,857,577	3,449,569,033	36,768,273,359

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.

Comparison of Actual versus Assumed Investment Performance

	Annualized Return	Weighted Average Assumed Return	Actual Trust Balance	Hypothetical Trust Balance	Accumulated Excess/(Shortfall)
1 Year	(1.59)	7.00%	\$33,133,214,990	\$36,302,345,430	\$(3,169,130,440)
5 Year	8.27	7.19%	33,133,214,990	31,901,150,467	1,232,064,523
10 Year	8.30	7.41%	33,133,214,990	31,250,162,418	1,883,052,572
20 Year	7.61	7.71%	33,133,214,990	37,559,650,120	(4,426,435,131)

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:

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Summary of Actuarial Methods and Assumptions

Active Member Valuation Data

Retirees and Nominees Added to and Removed

Schedule of Funding Progress — State Retiree Health Plan



Actuary's Certification Letter – Pension Plans



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November 23, 2022

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, 2022

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, 2022, 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, 2022 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, 2022, 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

5605 North MacArthur Boulevard | Suite 870 | Irving, Texas 75038-2631

Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
November 23, 2022
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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.

This actuarial valuation adjusts for any notable across-the-board pay increases budgeted by the State Legislature for the current biennium. Specifically, there were no across-the-board increases effective September 1, 2022.

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

The results of the actuarial valuation are dependent upon the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. A review of the impact of a different set of assumptions on the funded status of ERF, LECOSRF and JRS-2 is outside the scope of this actuarial valuation.

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

Benefits

There were no changes to the plan provisions of ERF, LECOSRF or JRS-2 during the past year. 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



Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
November 23, 2022
Page 3

- identify a recommended plan for the state of Texas, as the plan sponsor, to achieve a 100% funded ratio while following funding best practices and sound actuarial principles, in accordance with Texas Government Code Section 802.2011.

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

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

Funding Policy and Objectives – Employees Retirement Fund

Senate Bill 321, enacted during the 2021 Regular Legislative Session, introduced a new level dollar contribution structure in Texas Government Code Section 815.407, called Legacy Payments. These amounts are budgeted for each biennium to fully amortize the Unfunded Actuarial Accrued Liability (UAAL) as required before the end of fiscal year 2054. The 2021 Legislature appropriated \$510 million per year for fiscal years 2022 and 2023. We recommended a continued appropriation of \$510 million for fiscal years 2024 and 2025 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 32 years as of this 2022 valuation.

ERS expects to collect less than the \$510 million (approximately \$337.8 million) in FY 2023 due to logistical issues with certain funding sources, or more specifically the method of financing the contributions. ERS is working with Legislative leadership to address this in the future to ensure ERS receives timely Legacy Payments to fully realize the interest savings associated with paying off the UAAL as outlined in Section 815.407. The impact of the lower than expected Legacy Payment in FY2023 is expected to be made up beginning with the Legacy Payment budgeted for the upcoming biennium.

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 \$499 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) increased from \$14.1 billion as of August 31, 2021 to \$14.2 billion as of August 31, 2022. Combined with the new Legacy Payment contribution structure, and assuming all other assumptions are met, it is likely the UAAL will remain approximately flat for the next few years and then start to decline year over year going forward.

Despite the increase in the UAAL, the funded ratio—actuarial value of assets divided by the actuarial



Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
November 23, 2022
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accrued liability—increased from 68.0% to 68.9% as of August 31, 2022. This increase in the funded ratio was primarily due to anticipated improvement as a result of the first Legacy Payment received during fiscal year 2022. The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

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 within a couple of years and the fourth level will be met within approximately 10 years.

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

The member contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2022, members contribute 0.50% of payroll and the State contributes 0.50% of payroll. LECOSRF also receives a portion of the court fees collected under Section 133.102 of the Local Government Code. The contribution from this source is expected to be approximately \$13.0 million for fiscal year 2023 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 2023, the contribution from court fees is expected to be approximately 0.78% of payroll.

The unfunded actuarial accrued liability (UAAL) of LECOSRF increased from \$653 million as of August 31, 2021 to \$715 million as of August 31, 2022. Additionally, the LECOSRF funded ratio—actuarial value of assets divided by the actuarial accrued liability—decreased from 60.5% to 58.6%, as of August 31, 2022. This decrease was primarily due to expected deterioration in the fund based on the current funding policy. The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

The total contribution rate for the current fiscal year is less than the normal cost by 0.16% of payroll and no payment will be available to amortize the unfunded liability. The projected contributions are not expected to exceed the normal cost in any year and will not be sufficient to eliminate the unfunded liability over a finite period of time. Assuming the market value of assets earns 7.00% per year, LECOSRF is projected to become insolvent in the year 2045, after which the funding would revert to a pay-as-you-go status. As a result, the first and second levels of the Board's funding period goal are not currently being realized.

The third level of the Board's funding period goal is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Further, Section 811.006 of the Texas Government Code limits the modifications to



Actuary's Certification Letter – Pension Plans (Continued)

Board of Trustees
November 23, 2022
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LECOSRF that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are expected to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. In this context, the Actuarially Sound Contribution (ASC) rate is the contribution rate that meets this standard. Based on the actuarial valuation as of August 31, 2022, the ASC employer rate for LECOSRF is 3.40% of payroll in addition to the expected annual contributions from court fees of \$13.0 million. Based on the current employer contribution rate of 0.50% of payroll, in addition to court fees, the third level of the Board's funding period goal is not currently being realized.

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

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, 2022, members accruing benefits contribute 9.50% of payroll and the State contributes 15.663% of payroll. Since some active JRS-2 members have elected to cease contributing to the plan as well as cease accruing additional benefits, the effective member contribution rate for the fiscal year beginning September 1, 2022 is 9.38% of payroll. This State contribution rate is subject to future legislative appropriations.

The unfunded actuarial accrued liability (UAAL) of JRS-2 decreased from \$95.0 million as of August 31, 2021 to \$88.9 million as of August 31, 2022. Additionally, the JRS-2 funded ratio—actuarial value of assets divided by the actuarial accrued liability—increased from 84.6% to 86.2%, as of August 31, 2022. This increase in plan funding levels was primarily due to greater than expected returns on the AVA as well as liability gains associated with less than expected retirements during the year. Although there was a shortfall of \$44.7 million on the market value of assets when compared to the expected return, the \$62.2 million in deferred asset gains from the 2021 valuation absorbed this year's shortfall resulting in net deferred asset gains of \$17.4 million and a \$8.7 million gain on the actuarial value of assets. The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

The valuation shows that the total normal cost for funding purposes is 26.81% of payroll. The total contribution rate is 25.043% of payroll for the current fiscal year. The total contribution rate for the current fiscal year is less than the normal cost by 1.767% of payroll and no payment will be available to amortize the unfunded liability. As a result, the projected contributions are not expected to exceed the normal cost in any year and will not be sufficient to eliminate the unfunded liability over a finite period of time. Assuming the market value of assets earns 7.00% per year, JRS-2 is projected to become insolvent in the year 2069, after which the funding would revert to a pay-as-you-go status. As a result, the first and second levels of



Actuary's Certification Letter – Pension Plans (Concluded)

Board of Trustees
November 23, 2022
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the Board's funding period goal are not currently being realized.

The third level of the Board's funding period goal is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Further, Section 840.106 of the Texas Government Code also limits the modifications to JRS-2 that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are expected to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. In this context, the Actuarially Sound Contribution (ASC) rate is the contribution rate that meets this standard. Based on the actuarial valuation as of August 31, 2022, the ASC rate for JRS-2 is 32.72% of payroll. Based on the total contribution rate of 25.043% of payroll, the third level of the Board's funding period goal is also not currently being realized.

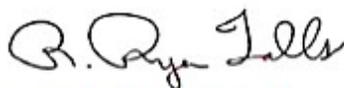
The ASC is currently calculated based on a 31-year open amortization period. This means that the ASC will always be calculated with the same 31-year period and the UAAL would never completely be eliminated. We recommend that the Board seek a plan funding strategy that meets the fourth level of the Board's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

Certification

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

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

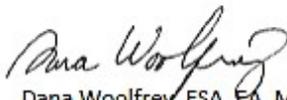
Respectfully submitted,
Gabriel, Roeder, Smith & Company



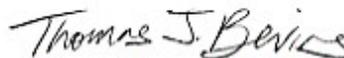
R. Ryan Falls, FSA, EA, MAAA
Senior Consultant & Actuary



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



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



Thomas J. Bevins, ASA, MAAA
Consultant & Actuary



Actuarial Balance Sheet –

Employees Retirement Fund

August 31, 2022 (With Comparative Totals at August 31, 2021)

ACTUARIAL BALANCE SHEET	August 31, 2022	August 31, 2021
Assets:		
Actuarial Value Assets	\$ 31,615,914,625	\$ 30,065,356,135
Present Value of Future Normal Cost		
Member	5,184,845,737	4,853,112,423
Employer	2,084,714,167	1,981,917,236
Total	<u>7,269,559,904</u>	<u>6,835,029,659</u>
Total	\$ 38,885,474,529	\$ 36,900,385,794
Liabilities:		
Present Value of Benefits		
Active Members		
– service retirement	\$ 21,176,153,883	\$ 20,249,302,685
– disability	186,811,574	176,796,812
– death before retirement	185,606,414	177,623,914
– termination	1,886,010,237	1,820,961,038
Total	<u>23,434,582,108</u>	<u>22,424,684,449</u>
Inactive Members	2,176,980,296	2,046,823,576
Annuitants	27,520,483,591	26,547,208,800
Total	\$ 53,132,045,995	\$ 51,018,716,825
Unfunded Accrued Liability (UAL)	\$ 14,246,571,466	\$ 14,118,331,031

SUMMARY OF ACTUARIAL VALUATION RESULTS

Total Contribution Rate	19.5 %	19.5 %
Annual Legacy Contribution	510,000,000	510,000,000
Normal Cost		
– dollars	\$ 1,051,148,269	\$ 1,008,820,829
– percent of payroll	14.07 %	14.12 %
Contribution Available to Amortize UAL	5.43 %	5.38 %
Accrued Liability	\$ 45,862,486,091	\$ 44,183,687,166
Amortization Period in Years	32 years	33 Years
Funded Ratio	68.9 %	68.0 %
Valuation Payroll	\$ 7,470,847,680	\$ 7,144,623,435
Active Members	133,751	136,726

Actuarial Balance Sheet –

Law Enforcement and Custodial Officers Supplemental Retirement Fund

August 31, 2022 (With Comparative Totals at August 31, 2021)

ACTUARIAL BALANCE SHEET	<u>August 31, 2022</u>	<u>August 31, 2021</u>
Assets:		
Actuarial Value Assets	\$ 1,014,061,586	\$ 997,651,850
Present Value of Future Normal Cost		
Member	56,521,535	52,302,599
Employer	159,750,427	150,117,517
Total	<u>216,271,962</u>	<u>202,420,116</u>
Total	\$ 1,230,333,548	\$ 1,200,071,966
Liabilities:		
Present Value of Benefits		
Active Members		
– service retirement	\$ 889,928,621	\$ 844,082,263
– disability	4,691,409	4,493,877
– death before retirement	4,276,464	4,064,587
– termination	14,063,584	13,794,143
Total	<u>912,960,078</u>	<u>866,434,870</u>
Inactive Members	16,330,219	15,765,712
Annuitants	1,016,336,633	970,572,535
Total	\$ 1,945,626,930	\$ 1,852,773,117
Unfunded Accrued Liability (UAL)	\$ 715,293,382	\$ 652,701,151
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	1.00 %	1.00 %
Estimated Contribution from Court Fees	\$ 13,000,000	\$ 15,000,000
Normal Cost		
– dollars	\$ 32,362,545	\$ 31,237,180
– percent of payroll	1.94 %	1.97 %
Contribution Available to Amortize UAL	(0.94)%	(0.97)%
Accrued Liability	\$ 1,729,354,968	\$ 1,650,353,001
Amortization Period in Years	Never	Never
Funded Ratio	58.6 %	60.5 %
Valuation Payroll	\$ 1,668,172,418	\$ 1,585,643,659
Active Members	31,075	32,498

Actuarial Balance Sheet –

Judicial Retirement System of Texas Plan Two Fund

August 31, 2022 (With Comparative Totals at August 31, 2021)

ACTUARIAL BALANCE SHEET

Assets:

	<u>August 31, 2022</u>	<u>August 31, 2021</u>
Actuarial Value Assets	\$ 553,371,109	\$ 523,026,487
Present Value of Future Normal Cost		
Member	53,224,670	55,415,666
Employer	89,588,447	92,162,977
Total	<u>142,813,117</u>	<u>147,578,643</u>
Total	\$ 696,184,226	\$ 670,605,130

Liabilities:

Present Value of Benefits

Active Members		
– service retirement	\$ 341,366,250	\$ 335,822,592
– disability	14,817,456	4,062,388
– death before retirement	5,207,314	5,233,682
– termination	29,795,761	30,120,854
Total	<u>391,186,781</u>	<u>375,239,516</u>
Inactive Members	24,588,261	24,126,630
Annuitants	369,345,293	366,259,992
Total	\$ 785,120,335	\$ 765,626,138

Unfunded Accrued Liability (UAL)

\$ 88,936,109	\$ 95,021,008
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SUMMARY OF ACTUARIAL VALUATION RESULTS

Total Contribution Rate	25.043 %	25.053 %
Normal Cost		
– dollars	\$ 24,371,997	\$ 24,207,432
– percent of payroll	26.81 %	26.64 %
Contribution Available to Amortize UAL	(1.767)%	(1.587)%
Accrued Liability	\$ 642,307,218	\$ 618,047,495
Amortization Period in Years	Never	Never
Funded Ratio	86.2 %	84.6 %
Valuation Payroll	\$ 90,906,367	\$ 90,868,738
Active Members	583	584

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 2022. 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 JRSII, 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"> Includes 2.3% annually for inflation No salary increase for legislators. 	<ul style="list-style-type: none"> Includes 2.3% annually for inflation plus follows State judicial tiered salary schedule as prescribed in Section 659.012
Payroll Growth per Year, Compounded Annually	2.70% per year, compounded annually		2.30% per year, compounded annually
Post-retirement Increase	N/A	2.30% per year, compounded annually	N/A

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

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

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

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

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

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

The demographic assumptions are summarized in Tables 3 to 9.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regular State Employees – Males & Females

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

LECO Members
Males & Females (Note L)

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

Elected Class

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

Judicial Class (Note M)

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

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

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

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

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

Eligibility C: 20 years of CPO/CO service

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

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

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

Active Member Valuation Data

Valuation Year August 31	Number (Note A)	Actual Annual Payroll	Average Pay (Note B)	Change in Average Pay
		\$	\$	%
Employees Retirement Fund:				
2013	133,669	5,713,759,137	42,564	0.90
2014	134,162	5,955,460,705	44,374	4.30
2015	142,409	6,150,194,660	44,990	1.40
2016	146,390	6,742,143,036	46,495	3.30
2017	141,629	6,859,706,582	47,986	3.20
2018	141,535	6,811,925,525	48,581	1.20
2019	141,865	6,947,624,737	49,220	1.30
2020	142,062	7,158,435,103	50,834	3.30
2021	136,726	7,188,367,590	51,910	2.10
2022	133,751	7,205,607,848	55,853	7.60
Law Enforcement and Custodial Officer Supplemental Retirement Fund:				
2013	37,415	1,429,059,562	39,469	0.10
2014	37,084	1,496,012,750	41,584	5.40
2015	38,526	1,506,027,764	41,957	0.90
2016	39,066	1,725,879,688	44,634	6.40
2017	38,206	1,746,349,412	45,029	0.90
2018	37,167	1,689,590,272	45,321	0.60
2019	36,296	1,682,633,066	45,305	0.00
2020	35,230	1,662,147,480	46,250	2.10
2021	32,498	1,586,537,362	46,768	1.10
2022	31,075	1,581,949,840	53,682	14.80
Judicial Retirement Plan Two Fund:				
2013	545	68,781,009	127,550	0.30
2014	554	77,441,466	142,820	12.00
2015	563	77,500,736	142,721	(0.10)
2016	548	78,260,550	142,770	0.00
2017	557	78,189,668	142,424	(0.20)
2018	561	78,772,445	142,731	0.20
2019	573	79,710,813	142,600	(0.10)
2020	570	88,578,603	157,563	10.50
2021	584	89,582,518	155,597	(1.20)
2022	583	90,027,934	155,929	0.20

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

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

Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls

Valuation Year August, 31	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls end of Year		Increase Average	
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	Annual Benefits	Annual Benefit
	\$	\$	\$	\$	\$	\$	%	\$		
Employees Retirement Fund:										
2013	5,287	108,395,484	2,418	36,921,000	699	8,999,592	91,367	1,730,993,748	4.9	18,946
2014	6,231	132,027,948	2,331	38,751,696	573	11,250,312	95,840	1,835,520,312	6.0	19,152
2015	6,042	134,725,212	2,506	40,066,764	627	10,129,440	100,003	1,940,308,200	5.7	19,402
2016	5,668	132,332,424	2,555	42,411,504	642	10,458,660	103,758	2,040,687,780	5.2	19,668
2017	5,967	141,001,272	2,869	48,060,288	674	11,351,772	107,530	2,144,980,536	5.1	19,948
2018	6,029	151,352,376	2,912	49,203,420	714	11,816,892	111,361	2,258,946,384	5.3	20,285
2019	6,034	155,789,472	2,910	49,004,268	670	11,670,672	115,155	2,377,402,260	5.2	20,645
2020	5,264	136,837,956	3,104	53,016,372	681	11,670,036	117,996	2,472,893,880	4.0	20,957
2021	5,418	137,951,364	3,943	62,890,008	823	13,298,124	120,294	2,561,253,360	3.6	21,292
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
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
2013	744	3,771,816	183	1,336,200	51	230,952	9,089	49,034,904	5.8	5,395
2014	1,071	5,376,924	194	1,238,712	58	225,252	10,024	53,398,368	8.9	5,327
2015	959	4,989,900	197	1,336,440	59	332,088	10,845	57,383,916	7.5	5,291
2016	803	4,540,728	205	1,149,108	72	305,328	11,515	61,080,864	6.4	5,304
2017	876	5,132,832	214	1,106,412	71	310,464	12,248	65,417,748	7.1	5,341
2018	966	6,151,404	205	1,094,460	71	287,868	13,080	70,762,560	8.2	5,410
2019	1,020	6,720,840	179	981,720	60	284,784	13,981	76,786,464	8.5	5,492
2020	873	5,648,916	230	1,150,728	73	346,260	14,697	81,630,912	6.3	5,554
2021	847	5,608,728	282	1,349,016	81	347,100	15,343	86,237,724	5.6	5,621
2022	812	5,203,620	301	1,222,752	69	459,288	15,923	90,677,880	5.1	5,695
Judicial Retirement Plan Two Fund:										
2013	43	2,571,696	5	278,964	1	68,580	254	15,253,008	18.3	60,051
2014	14	1,024,752	7	348,120	6	249,000	267	16,178,640	6.1	60,594
2015	57	4,365,012	9	467,832	7	403,020	322	20,478,840	26.6	63,599
2016	10	555,060	5	319,908	4	289,548	331	21,003,540	2.6	63,455
2017	48	3,177,144	8	448,908	7	383,532	378	24,115,308	14.8	63,797
2018	16	1,032,864	6	481,368	5	309,336	393	24,976,140	3.6	63,553
2019	83	6,458,064	6	424,044	2	122,124	472	31,132,284	24.6	65,958
2020	18	1,399,572	7	527,352	1	29,868	484	32,034,372	2.9	66,187
2021	51	4,633,020	12	643,452	5	295,224	528	36,319,164	13.4	68,786
2022	15	1,264,092	10	627,228	3	142,608	536	37,098,636	2.1	69,214

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:						
2013	24,667,639	31,886,026	7,218,387	77.40	5,959,473	121.10
2014	25,431,922	32,924,737	7,492,815	77.20	6,171,443	121.40
2015	25,850,542	33,868,360	8,017,818	76.30	6,659,647	120.40
2016	26,557,130	35,303,165	8,746,035	75.20	6,806,457	128.50
2017	26,371,827	37,629,785	11,257,958	70.10	6,796,226	165.70
2018	27,359,943	38,989,263	11,629,320	70.20	6,875,887	169.10
2019	28,060,120	39,801,359	11,741,239	70.50	6,984,577	168.10
2020	28,543,208	43,258,312	14,715,104	66.00	7,221,559	203.80
2021	30,065,356	44,183,687	14,118,331	68.00	7,144,623	197.60
2022	31,615,915	45,862,486	14,246,571	68.90	7,470,848	190.70
Law Enforcement and Custodial Officer Supplemental Retirement Fund:						
2013	843,017	1,197,164	354,147	70.40	1,627,699	21.80
2014	883,595	1,206,770	323,175	73.20	1,609,491	20.10
2015	909,249	1,262,311	353,062	72.00	1,750,709	20.20
2016	933,534	1,312,392	378,858	71.10	1,743,679	21.70
2017	923,990	1,399,877	475,887	66.00	1,720,362	27.70
2018	953,054	1,452,658	499,604	65.60	1,684,458	29.70
2019	968,130	1,482,635	514,505	65.30	1,644,392	31.30
2020	968,063	1,609,587	641,524	60.10	1,629,387	39.40
2021	997,652	1,650,353	652,701	60.50	1,585,644	41.20
2022	1,014,062	1,729,355	715,293	58.60	1,668,172	42.90
Judicial Retirement System Plan Two Fund:						
2013	318,026	359,059	41,033	88.60	77,854	52.70
2014	348,431	386,286	37,855	90.20	79,123	47.80
2015	372,615	404,011	31,396	92.20	80,352	39.10
2016	395,457	425,865	30,408	92.90	78,238	38.90
2017	420,850	463,604	42,754	90.80	79,330	53.90
2018	447,078	487,772	40,694	91.70	80,072	50.80
2019	467,787	534,564	66,777	87.50	91,027	73.40
2020	486,802	591,230	104,428	82.30	89,811	116.30
2021	523,026	618,047	95,021	84.60	90,869	104.60
2022	553,371	642,307	88,936	86.20	90,906	97.80

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

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

Solvency Test

Funding Objective

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

Evaluation of Funding Objective

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

1. Active member contributions on deposit;

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

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

Valuation Year August 31,	Aggregate Accrued Liabilities For				Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member (Employer Financed Portion)			(1)	(2)	(3)
						%	%	%
Employees Retirement Fund (Note A):								
2013	5,201,006,487	16,148,245,090	10,536,774,798	24,667,639,104	100	100	31.5	
2014	5,213,640,470	17,113,870,539	10,597,226,202	25,431,922,496	100	100	29.3	
2015	5,235,063,313	18,080,000,823	10,553,295,814	25,850,542,024	100	100	24.0	
2016	5,509,428,282	19,017,977,910	10,775,759,170	26,557,130,705	100	100	18.8	
2017	5,709,094,713	21,378,759,742	10,541,930,919	26,371,827,298	100	96.7	0.0	
2018	5,897,455,633	22,527,977,524	10,563,830,405	27,359,943,116	100	95.3	0.0	
2019	6,044,422,496	23,686,007,554	10,070,928,628	28,060,120,223	100	92.9	0.0	
2020	6,278,991,035	25,604,780,179	11,374,540,859	28,543,207,745	100	87.0	0.0	
2021	6,524,147,307	26,547,208,800	11,112,331,059	30,065,356,135	100	88.7	0.0	
2022	6,691,282,397	27,520,483,591	11,650,720,103	31,615,914,625	100	90.6	0.0	
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A):								
2013	24,432,912	482,687,108	690,043,817	843,016,798	100	100	48.7	
2014	29,508,062	533,252,341	644,009,518	883,594,932	100	100	49.8	
2015	34,455,599	578,926,025	648,929,765	909,249,614	100	100	45.6	
2016	41,480,394	618,987,770	651,924,337	933,534,062	100	100	41.9	
2017	47,025,982	702,926,185	649,924,490	923,989,580	100	100	26.8	
2018	51,536,313	762,668,410	638,453,074	953,054,283	100	100	21.7	
2019	54,737,312	829,115,833	598,782,057	968,129,751	100	100	14.1	
2020	58,423,646	920,353,836	630,809,578	968,062,761	100	98.8	0.0	
2021	61,910,663	970,572,535	617,869,803	997,651,850	100	96.4	0.0	
2022	64,465,378	1,016,336,633	648,552,957	1,014,061,586	100	93.4	0.0	
Judicial Retirement Plan Two Fund (Note A):								
2013	64,435,226	147,052,378	147,571,031	318,025,658	100	100	72.2	
2014	69,364,268	153,382,909	163,539,195	348,430,575	100	100	76.9	
2015	67,427,634	194,524,402	142,058,536	372,615,005	100	100	77.9	
2016	73,450,388	196,779,287	155,635,632	395,457,335	100	100	80.5	
2017	72,977,421	241,314,049	149,312,220	420,850,181	100	100	71.4	
2018	78,282,916	246,496,810	162,991,820	447,077,710	100	100	75.0	
2019	70,242,531	308,068,547	156,252,668	467,787,034	100	100	57.3	
2020	79,308,832	324,704,726	187,216,568	486,802,031	100	100	44.2	
2021	82,231,905	366,259,992	169,555,598	523,026,487	100	100	44.0	
2022	89,229,672	369,345,293	183,732,253	553,371,109	100	100	51.6	

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

Analysis of Financial Experience

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

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

Age and Service Retirement:

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

Disability Retirement:

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

Death-in-Service Benefit:

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

Withdrawal from Employment:

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

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

Type of Activity	Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)					
	ERS		LECOS		JRS II	
	2022	2021	2022	2021	2022	2021
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.	28.2	614.1	48.1	49.2	8.0	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.	(371.4)	(843.9)	(17.7)	(28.1)	(8.7)	(14.9)
<u>Active Member Demographics</u> Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment.	(24.1)	(48.4)	(7.9)	(9.5)	(5.9)	2.5
<u>Pay Increases</u> If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	625.9	65.4	37.7	(1.6)	(0.2)	3.1
<u>Death After Retirement</u> If retirees live longer than assumed, there is a loss. If not as long, a gain.	(98.7)	(85.2)	(3.0)	(2.5)	0.1	(0.1)
<u>Other</u> Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(31.6)	12.4	5.4	(0.3)	(0.1)	1.7
Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience	128.3	(285.6)	62.6	7.2	(6.1)	0.3
Non-Recurring Items						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	0.0	(311.2)	0.0	4.0	0.0	(9.7)
Composite Increase/(Decrease) During Year	128.3	(596.8)	62.6	11.2	(6.1)	(9.4)

Actuary's Certification Letter - State Retiree Health Plan



EMPLOYEES RETIREMENT SYSTEM OF TEXAS
GROUP BENEFITS PROGRAM
FY22 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, 2022 (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, 2022 provided by ERS, former employee data as of August 31, 2022 provided by the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial methods and assumptions described in Section VIII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section IX.

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

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

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. In our opinion, each of the assumptions used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption. All of our work conforms to generally accepted actuarial principles and practices and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. We are neither aware of any material inconsistencies among the assumptions, nor are we aware of any unreasonable results caused 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
FY22 GASB No. 74 ACTUARIAL VALUATION

Summary of Results for FY2022

Actuarial Valuation Results as of August 31, 2022		
	(\$ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	221,404	
b. Deferred Vested	15,451	
c. Retirees and Nominees	138,353	
d. Total Number of Members	375,208	
2. Payroll of Active Members for FY2022	\$12,734,130	
3. Actuarial Present Value of Projected Benefit Payments		
a. Actives	\$26,278,662	
b. Deferred Vested	2,007,604	
c. Retirees and Nominees	12,472,078	
d. Total	\$40,758,344	320.1 %
4. Total OPEB Liability		
a. Actives	\$14,169,858	
b. Deferred Vested	2,007,604	
c. Retirees and Nominees	12,472,078	
d. Total	\$28,649,540	225.0 %
5. Fiduciary Net Position	\$162,575	1.3 %
6. Net OPEB Liability [4.d - 5]	\$28,486,965	223.7 %
7. Actuarially Determined Contribution for FYE August 31, 2022		
a. Normal Cost	\$1,037,900	8.2 %
b. Amortization of Net OPEB Liability	1,073,128	8.4 %
c. Total ADC for FYE August 31, 2022	\$2,111,028 ¹	16.6 %

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

Summary of Actuarial Methods and Assumptions – State Retiree Health Plan

Consistency with Assumptions Used for Retirement Plan Valuations

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

Actuarial Cost Method

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

Changes in Actuarial Assumptions

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

- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and 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.
- Demographic assumptions for Higher Education members, including pre-retirement mortality and post-retirement mortality assumptions, termination, disability and retirement rate assumptions and assumed salary increases
- 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 2.14% as of August 31, 2021 to 3.59% as of August 31, 2022 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 payments. The discount rate is the single rate of return that, when applied to all projected benefit

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

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, 2022, 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, 2022 is 3.59% based upon the Bond Buyer Index of general obligation bonds with 20 years to maturity with an average credit quality that is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA rating.

Health Benefit Cost Trend

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

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

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

Changes in Plan Provisions

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

to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the minor benefit changes that will become effective September 1, 2022, 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 2023, are provided for in the Fiscal Year 2023 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.

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.

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

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 \$9.00 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.

Stop-loss Reinsurance

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

Discount Rate

Equal to the municipal bond rate of 3.59%.

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
	%	%
2024	5.60	66.67
2025	5.30	24.00
2026	5.00	5.00
2027	4.75	4.75
2028	4.60	4.60
2029	4.50	4.50
2030	4.40	4.40
2031 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 2023 at the rates shown below.

Fiscal Year	Annual Rate of Increase	
	HealthSelect	HealthSelect Medicare
	%	%
2024	0.00	29.10
2025	0.00	14.70
2026	6.35	7.65
2027	5.85	6.90
2028	5.40	6.20
2029	5.00	5.50
2030	4.60	4.80
2031 and beyond	4.30	4.30

Expense Trend Rate

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

Trend Rate for the Opt-Out Credit

The monthly benefit of \$60 in fiscal year 2023 is not assumed to increase in the future.

Health Coverage by Governmental Plans

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

Active Member Valuation Data – State Retiree Health Plan

Valuation Year August 31,	Number of Members (Note A)			Actual Annual Payroll Not			Average Pay			% Change in Average Pay		
	Not Medicare Eligible	Medicare Eligible	Total	Not Medicare Eligible	Medicare Eligible	Total	Not Medicare Eligible	Medicare Eligible	Overall	Not Medicare Eligible	Medicare Eligible	Overall
			\$	\$	\$	\$	\$	\$	\$	%	%	%
2013			226,181			10,478,117,000			46,326			1.5
2014			228,805			10,963,773,000			47,918			3.4
2015			230,023			11,176,584,000			48,589			1.4
2016			235,108			11,786,869,000			50,134			3.2
2017	218,237	11,962	230,199	10,940,126,454	805,183,603	11,745,310,057	50,130	67,312	51,022			1.8
2018	219,333	12,578	231,911	11,201,279,203	845,887,455	12,047,166,658	51,070	67,251	51,947	1.9	(0.1)	1.8
2019	220,937	12,950	233,887	11,440,052,736	879,975,428	12,320,028,164	51,780	67,952	52,675	1.4	1.0	1.4
2020	219,474	12,893	232,367	11,752,663,149	902,583,538	12,655,246,687	53,549	70,006	54,462	4.9	4.1	4.8
2021	212,114	12,790	224,904	11,682,386,853	904,003,280	12,586,390,133	55,076	70,680	55,963	7.8	5.1	7.7
2022	208,778	12,626	221,404	11,826,633,702	907,496,230	12,734,129,932	56,647	71,875	57,515	9.4	5.8	9.2

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

Retirees and Nominees Added and Removed– State Retiree Health Plan

Valuation Year August 31,	Added to Rolls		Removed from Rolls		Rolls End of Year		Increase/ (Decrease) Annual Benefits	Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No. (Note A)	Annual Benefits		
		\$	\$	\$		%	\$	
2013	7,790	47,110,385	3,111	18,813,916	100,054	724,381,544	4.1	7,240
2014	7,950	150,776,296	3,234	61,334,659	104,770	813,823,181	12.3	7,768
2015	7,880	86,944,401	3,339	36,841,035	109,311	863,926,547	6.2	7,903
2016	7,431	88,326,138	3,312	39,366,999	113,430	912,885,686	5.7	8,048
2017	8,046	149,945,106	3,596	67,014,989	117,880	995,815,803	9.1	8,448
2018	8,228	(104,727,144)	3,758	(47,832,354)	122,350	938,921,013	(5.7)	7,674
2019	8,435	179,098,524	3,741	79,431,841	127,044	1,038,587,696	10.6	8,175
2020	7,806	77,337,422	3,940	39,035,286	130,910	1,076,889,832	3.7	8,226
2021	8,255	64,788,485	4,648	36,479,331	134,517	1,066,896,850	(0.9)	7,931
2022	8,352	(67,526,630)	4,516	(36,512,244)	138,353	1,007,573,310	(6.4)	7,283

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

Schedule of Funding Progress – State Retiree Health Plan

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a)	(b) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL As A Percentage Of Covered Payroll (c)/(e)						
							(000's)	(000's)	(000's)	%	(000's)	%
2013	0	23,030,469	23,030,469	0.0	10,478,117	219.8						
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						



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

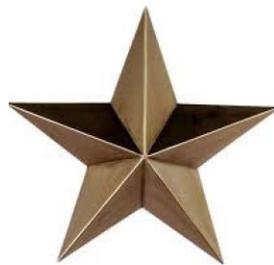
Contribution Rates

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Governmental Activities:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	325,412	379,311	440,466	498,874	87,945	1,060,687	2,033,429	2,591,955	2,967,760	3,129,543
Unrestricted	—	5	17	22	4	25	4	1	6	4
Total Governmental Activities	325,412	379,316	440,483	498,896	87,949	1,060,712	2,033,433	2,591,956	2,967,766	3,129,547

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)										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Expenses	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Governmental Activities:											
Social Security Administration		92	156	178	139	152	85	94	117	94	84
Judicial Retirement System Plan I								19,941	18,712	17,768	
Death Benefits:											
Peace Officers, Firemen, etc.	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,839	25,603	24,941	
Compensation to Victims of Crime	2,000	1,625	1,000	2,000	3,500	4,905	2,000	3,500	3,500	4,072	
Retiree \$5,000 Lump Sum	9,108	8,846	9,286	10,080	10,893	10,167	9,811	9,696	11,891	9,574	
Employees Life, Accident and Health Insurance and Benefits:											
Claims Expenses	1,934,325	2,047,749	2,242,195	2,455,030	2,434,697	2,163,858	2,212,805	2,298,095	2,495,983	2,461,451	
Administration	9,356	24,535	36,692	19,390	14,977	13,911	13,158	17,050	16,960	13,841	
Total Expenses	1,960,325	2,088,649	2,291,513	2,493,920	2,473,045	2,202,358	2,245,699	2,356,238	2,572,743	2,531,731	
Program Revenues											
Governmental Activities:											
Charges for Services:											
Administration Fees		75	70	71	71	70	70	73	66	72	81
Appropriations:											
Judicial Retirement System Plan I								19,941	18,712	17,768	
Death Benefits:											
Peace Officers, Firemen, etc.	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,839	25,603	24,941	
Compensation to Victims of Crime	2,000	1,625	1,000	2,000	3,500	4,905	2,000	3,500	3,500	4,072	
Retiree \$5,000 Lump Sum	9,108	8,846	9,289	10,075	10,893	10,167	9,811	9,696	11,891	9,574	
Insurance Contributions:											
Employer	1,527,002	1,631,916	1,834,956	1,992,220	1,963,388	2,582,653	2,529,624	2,219,782	2,190,022	2,211,812	
Member	460,944	482,566	495,723	521,361	562,140	559,111	562,373	545,585	577,654	563,124	
Other	179	141	121	120	125	135	141	142	165	165	
Operating Grants and Contributions:											
Investment Income	(5,885)	10,913	6,298	19,492	13,569	5,631	91,752	95,789	108,192	(138,226)	
Other	2,039	647	2,945	1,386	1,782	2,981	14,815	12,374	12,715	200	
Total Program Revenues	2,000,906	2,142,462	2,352,565	2,554,006	2,564,293	3,175,085	3,218,420	2,914,714	2,948,526	2,693,512	
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	40,581	53,903	61,167	58,413	91,312	972,764	972,721	558,523	375,810	161,781	

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Governmental Funds:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Committed:										
Social Security Administration Fund	—	5	17	22	4	25	4	1	6	4
Total Governmental Funds	—	5	17	22	4	25	4	1	6	4

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Judicial Retirement System Plan I (Note B)								19,941	18,712	17,768
Death Benefits:										
Public Employee Survivors	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,840	25,603	24,941
Victims of Crime	2,000	1,625	1,000	2,000	3,500	4,904	2,000	(554)	1,641	4,072
Retiree \$5,000 Lump Sum	9,108	8,847	9,289	10,075	10,893	10,167	9,810	13,750	13,750	9,574
Administration Fees	75	70	71	71	70	70	74	66	72	81
Total Revenues	16,627	16,280	12,522	19,427	23,289	24,573	19,715	41,043	59,778	56,436
Expenditures										
Judicial Retirement System Plan I (Note B)								19,941	18,712	17,768
Death Benefits:										
Public Employee Survivors	5,444	5,738	2,162	7,281	8,826	9,432	7,831	7,840	25,603	24,941
Victims of Crime	2,000	1,625	1,000	2,000	3,500	4,904	2,000	3,500	3,500	4,072
Retiree \$5,000 Lump Sum	9,108	8,846	9,286	10,080	10,893	10,167	9,810	9,696	11,891	9,574
Administrative Expenditures	92	156	178	139	152	86	95	117	94	83
Total Expenditures	16,644	16,365	12,626	19,500	23,371	24,589	19,736	41,094	59,800	56,438
Excess of Revenues Over (Under) Expenditures	(17)	(85)	(104)	(73)	(82)	(16)	(21)	(51)	(22)	(2)
Other Financing Sources (Uses)										
Transfers In - Retirement Membership Fees		90	115	77	64	36	—	48	27	—
Net Change in Fund Balances	(17)	5	11	4	(18)	21	(21)	(3)	5	(2)

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Insurance Contributions:										
Employer	1,527,002	1,631,916	1,834,956	1,992,220	1,963,388	2,582,653	2,529,624	2,219,782	2,190,022	2,211,812
Member	460,944	482,566	495,723	521,360	562,140	559,111	562,373	545,585	577,654	563,124
Other	2,199	604	1,856	1,480	1,905	3,116	14,956	12,066	12,880	366
Total Operating Revenues	1,990,145	2,115,086	2,332,535	2,515,060	2,527,433	3,144,880	3,106,953	2,777,433	2,780,556	2,775,302
Operating Expenses										
Benefit Payments:										
Employee	1,900,026	2,017,586	2,213,193	2,428,066	2,408,452	2,141,516	2,186,649	2,269,293	2,467,114	2,428,327
COBRA	34,299	30,163	29,003	26,963	25,972	21,817	25,282	27,664	27,306	31,211
Health Savings Account					273	525	874	1,138	1,563	1,765
SmartShoppERS Reward										148
Administrative and Other Expenses	9,356	24,535	36,692	19,390	15,060	13,880	13,066	17,148	17,091	13,841
Total Operating Expenses	1,943,681	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
Operating Income (Loss)	46,464	42,802	53,647	40,641	77,676	967,142	881,082	462,190	267,482	300,011
Non-Operating Revenues (Expenses)										
Net Appreciation (Depreciation) in Fair Value of Investments	(17,215)	1,284	(3,195)	7,771	(830)	(15,417)	33,360	32,731	49,799	(206,656)
Investment Income	11,331	9,629	9,493	11,721	14,482	21,017	58,300	63,156	58,389	68,200
Other	18	184	1,210	25	1	—	—	—	135	228
Total Non-Operating Revenues (Expenses)	(5,866)	11,097	7,508	19,517	13,653	5,600	91,660	95,887	108,323	(138,228)
Transfer Out				(1,750)						
Change in Net Position	40,598	53,899	61,155	58,408	91,329	972,742	972,742	558,077	375,805	161,783

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (ERS)										
Additions										
Member Contributions	422,588	430,595	462,160	674,678	685,462	683,933	694,788	713,985	718,357	721,520
Employer Contributions	375,737	482,329	500,510	686,841	700,142	697,226	712,648	735,903	739,600	743,017
Investment Income (Net of Expenses)	2,097,577	3,252,362	56,905	1,273,373	2,832,594	2,430,255	758,868	1,791,017	6,937,166	(728,083)
Other Additions	75,637	80,324	84,203	89,035	93,506	97,318	103,006	108,033	112,713	644,698
Total Additions	2,971,539	4,245,610	1,103,778	2,723,927	4,311,704	3,908,732	2,269,310	3,348,938	8,507,836	1,381,152
Deductions										
Retirement Benefits	1,819,779	1,933,694	2,041,389	2,146,522	2,257,219	2,374,013	2,496,771	2,602,286	2,689,845	2,798,885
Death Benefits	3,283	3,053	4,730	5,082	3,664	5,132	3,444	4,793	6,169	6,216
Refunds	86,668	106,809	87,167	84,445	120,944	123,948	142,303	121,569	127,059	165,564
Administrative and Other Expenses	18,911	20,480	22,127	20,779	23,630	24,132	28,903	25,308	22,725	32,640
Total Deductions	1,928,641	2,064,036	2,155,413	2,256,828	2,405,457	2,527,225	2,671,421	2,753,956	2,845,798	3,003,305
Change in Net Position	1,042,898	2,181,574	(1,051,635)	467,099	1,906,247	1,381,507	(402,111)	594,982	5,662,038	(1,622,153)
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)										
Additions										
Member Contributions	7,185	8,180	8,377	9,539	9,583	9,275	9,098	8,950	9,078	8,729
Employer Contributions	7,117	27,758	26,728	27,497	26,583	26,110	25,864	22,293	20,294	20,905
Investment Income (Net of Expenses)	71,885	111,741	1,919	44,831	99,341	84,937	26,250	61,097	232,796	(5,020)
Other Additions			4	4	1	5	3	9	14	523
Total Additions	86,187	147,679	37,028	81,871	135,508	120,327	61,215	92,349	262,182	25,137
Deductions										
Retirement Benefits	50,848	55,222	59,211	62,698	66,800	72,228	78,470	83,198	88,097	92,670
Death Benefits	6	6	9	22	18	18	15	29	26	170
Refunds	1,531	1,919	2,128	1,826	2,938	3,392	3,768	3,487	3,560	4,363
Administrative and Other Expenses	805	1,324	1,412	1,421	1,811	1,851	2,167	1,933	1,782	1,680
Total Deductions	53,190	58,471	62,760	65,967	71,567	77,489	84,420	88,647	93,465	98,883
Change in Net Position	32,997	89,208	(25,732)	15,904	63,941	42,838	(23,205)	3,702	168,717	(73,746)
Judicial Retirement System of Texas Plan Two (JRS II)										
Additions										
Member Contributions	4,268	5,195	5,465	5,754	6,017	5,940	6,463	8,634	8,759	8,576
Employer Contributions	4,549	12,211	12,457	12,374	12,495	12,560	13,100	14,186	14,322	14,385
Investment Income (Net of Expenses)	28,753	46,186	820	19,862	44,875	39,191	12,832	30,633	120,145	(4,269)
Other Additions	1		2				1			
Total Additions	37,571	63,592	18,744	37,990	63,387	57,691	32,396	53,453	143,226	18,692
Deductions										
Retirement Benefits	14,586	16,166	19,158	20,825	22,988	24,706	28,980	31,902	34,929	36,805
Death Benefits			26	31	—	—	27	11	14	—
Refunds	285	254	56	299	374	159	213	128	199	302
Administrative and Other Expenses	228	267	284	226	294	296	363	273	235	322
Total Deductions	15,099	16,687	19,524	21,381	23,656	25,161	29,583	32,314	35,377	37,429
Change in Net Position	22,472	46,905	(780)	16,609	39,731	32,530	2,813	21,139	107,849	(18,737)

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Changes in Net Position – Defined Benefit Plans (Concluded)

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Excess Benefit Arrangement	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Additions										
Other Additions	569	493	457	540	746	817	953	1,324	1,077	1,286
Total Additions	569	493	457	540	746	817	953	1,324	1,077	1,286
Deductions										
Retirement Benefits	488	422	392	448	668	753	797	988	1,222	1,194
Administrative and Other Expenses	81	71	65	92	78	64	156	90	101	92
Total Deductions	569	493	457	540	746	817	953	1,078	1,323	1,286
Change in Net Position	—	—	—	—	—	—	—	246	(246)	—
State Retiree Health Plan										
Additions										
Member Contributions	141,008	155,276	169,075	183,284	195,806					
Employer Contributions	535,905	605,512	612,769	663,986	890,735	307,028	401,285	748,369	766,689	699,999
Non-Employer Contributing Entity Contributions (Note A)	N/A	N/A	N/A	N/A	44,433	16,585	20,183	37,737	39,189	36,751
Federal Revenues	50,874	63,362	86,054	69,186	73,120	74,493	89,389	111,099	107,612	113,121
Early Retirees Reinsurance Program										
Investment Income (Net of Expenses)	236	255	324	1,137	4,517	10,907	3,324	1,336	234	738
Other Additions			3,969	5,961	357	3,249	85	24	59	
Total Additions	728,023	824,405	872,191	923,554	1,208,968	412,262	514,266	898,565	913,783	850,609
Deductions										
Healthcare Benefits	724,381	813,823	863,926	912,886	995,815	938,921	1,038,588	1,076,890	1,066,897	1,007,573
Less: Payments from Members (Note B)	N/A	N/A	N/A	N/A	N/A	(203,123)	(209,837)	(230,151)	(192,427)	(190,660)
Administrative and Other Expenses	3,642	10,582	8,265	10,668	5,629	5,817	6,008	6,815	8,607	6,774
Total Deductions	728,023	824,405	872,191	923,554	1,001,444	741,615	834,759	853,554	883,077	823,687
Change in Net Position	—	—	—	—	207,524	(329,353)	(320,493)	45,011	30,706	26,922

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

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

Changes in Net Position – Deferred Compensation Plans and Cafeteria Plan

Last Ten Fiscal Years (in 000's)

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

	Fiscal Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Texa\$aver 401(k) Plan										
Additions										
Investment Income (Net of Expenses)	27	(7)	7	18	(7)	59	71	11	(30)	(61)
Other Additions	550	398	188	50	565	390	486	1,210	1,008	86
Total Additions	577	391	195	68	558	449	557	1,221	978	25
Deductions										
Administrative and Other Expenses	759	590	529	433	479	482	490	260	251	483
Total Deductions	759	590	529	433	479	482	490	260	251	483
Change in Net Position	(182)	(199)	(334)	(365)	79	(33)	67	961	727	(458)
Texa\$aver 457 Plan										
Additions										
Investment Income (Net of Expenses)	11	(2)	6	17	18	52	75	23	(43)	10
Other Additions	520	507	581	587	719	763	896	570	427	(227)
Total Additions	531	505	587	604	737	815	971	593	385	(217)
Deductions										
Administrative and Other Expenses	330	334	265	233	269	512	523	165	137	106
Total Deductions	330	334	265	233	269	512	523	165	137	106
Change in Net Position	201	171	322	371	468	303	448	428	248	(323)
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
Total Deductions	—	—	—	1,319	186	135	119	91	45	3
Change in Net Position	—	—	—	505	(53)	19	33	44	(2)	(1)
State Employees Cafeteria Plan (TexFlex)										
Additions										
Contributions	95,578	83,214	83,092	80,953	79,559	76,656	73,406	73,290	61,956	59,291
Investment Income (Net of Expenses)	20	9	20	34	72	193	336	184	17	114
Other Additions	92	113	398	194	92	101	—	—	158	39
Total Additions	95,690	83,336	83,510	81,181	79,723	76,950	73,742	73,474	62,131	59,444
Deductions										
Reimbursement Account Claims	92,799	78,720	77,744	81,179	69,697	73,729	71,301	65,837	60,101	48,740
Administrative and Other Expenses	2,365	2,460	3,662	1,815	1,619	1,526	1,452	1,391	1,308	1,081
Total Deductions	95,164	81,180	81,406	82,994	71,316	75,255	72,753	67,228	61,409	49,821
Change in Net Position	526	2,156	2,104	(1,813)	8,407	1,695	989	6,246	722	9,623

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

Benefit and Refund Payments - Defined Benefit Plans (Concluded)

Last Ten Years (in 000's)

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

	Fiscal Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service:										
Retirees	1,649,308	1,799,608	1,906,043	2,013,347	2,120,153	2,232,174	2,351,834	2,461,583	2,548,194	2,651,880
Survivors	59,425	21,370	21,835	21,396	21,493	21,686	21,232	21,075	21,099	21,049
Disability	27,980	27,386	26,797	26,148	25,640	25,166	24,654	24,078	23,304	22,887
Partial Lump Sum Option	63,641	63,359	62,438	58,351	59,262	61,250	62,846	56,401	55,586	57,650
Proportional	19,425	21,971	24,276	27,280	30,671	33,737	36,205	39,149	41,662	45,419
Total Retirement Benefits	1,819,779	1,933,694	2,041,389	2,146,522	2,257,219	2,374,013	2,496,771	2,602,286	2,689,845	2,798,885
Death Benefits:										
Total Death Benefits	3,283	3,053	4,730	5,082	3,664	5,132	3,444	4,792	6,168	6,216
Refunds:										
Resignation	84,004	82,026	102,175	80,876	78,206	115,416	117,908	115,652	119,913	157,315
Death	4,056	4,642	4,634	6,291	6,239	5,528	6,040	5,917	7,145	8,249
Total Refunds	88,060	86,668	106,809	87,167	84,445	120,944	123,948	121,569	127,058	165,564
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
Type of Benefit										
Retirement Benefits:										
Service	46,561	50,261	54,747	58,444	62,571	67,822	73,632	78,830	83,594	88,370
Disability	1,088	1,053	1,022	1,008	990	922	883	858	800	1,107
Partial Lump Sum Option	3,199	3,907	3,442	3,247	3,239	3,484	3,955	3,511	3,703	3,193
Total Retirement Benefits	50,848	55,221	59,211	62,699	66,800	72,228	78,470	83,199	88,097	92,670
Death Benefits:										
Total Death Benefits	6	6	9	21	18	18	15	29	26	170
Refunds:										
Resignation	1,513	1,895	2,097	1,772	2,892	3,355	3,732	162	3,509	4,209
Death	18	24	31	54	46	37	36	162	52	154
Total Refunds	1,531	1,919	2,128	1,826	2,938	3,392	3,768	162	3,561	4,363
Judicial Retirement System of Texas Plan Two:										
Type of Benefit										
Retirement Benefits:										
Service and Disability	11,346	12,670	15,389	16,841	18,550	19,947	23,753	26,172	29,097	30,841
Proportional	2,882	3,138	3,411	3,589	3,996	4,338	4,869	5,218	5,418	5,533
Total Retirement Benefits	14,586	16,166	19,158	20,825	22,988	24,707	28,980	31,902	34,929	36,805
Death Benefits:										
Total Death Benefits	—	—	27	31	—	—	27	11	14	—
Refunds:										
Resignation	210	228	56	224	215	159	138	75	141	302
Death	75	26		75	159		76	53	58	—
Total Refunds	285	254	56	299	374	159	214	128	199	302

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Benefit and Refund Payments - Defined Benefit Plans

Last Ten Years (in 000's)

	Fiscal Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Excess Benefit Arrangement:										
Type of Benefit										
Retirement Benefits:										
Service	488	422	392	448	668	753	797	988	1,223	1,194
Total Retirement Benefits	488	422	392	448	668	753	797	988	1,223	1,194
State Retiree Health Plan:										
Type of Benefit										
Insurance Benefits:										
Accrued Claims	36,356	22,706	9,848	(5,601)	20,769	(27,916)	4,781	6,762	2,615	(3,007)
Life Claims	37,349	41,763	45,740	46,994	55,347	54,426	58,278	60,363	76,494	78,383
Prescriptions Drugs	217,332	241,583	253,591	279,144	255,976	289,856	308,940	355,589	352,935	405,163
Administrative Fees	15,775	19,077	18,721	19,338	20,744	19,802	19,776	20,405	21,514	22,486
HMO Payments	98,107	110,232	139,696	156,418	188,633	179,537	201,752	195,654	147,134	(9,547)
Health	301,785	358,696	373,469	391,327	426,911	393,907	411,988	409,119	431,006	476,243
Dental	17,677	19,766	22,861	25,266	27,436	29,309	33,073	28,998	35,199	37,852
Total Insurance Benefits	724,381	813,823	863,926	912,886	995,816	938,921	1,038,588	1,076,890	1,066,897	1,007,573

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, 2012 to August 31, 2022	5-10	10-15	15-20	20-25	25-30
- Period 9/30/12 to 8/31/13:						
Average Monthly Benefit	\$ 549.68	949.62	1,506.24	2,086.60	2,930.88	3,746.73
Average Final Average Salary	\$ 3,537.06	3,567.74	3,898.13	4,255.67	4,853.01	5,148.16
Number of Retired Members	257	543	680	829	784	541
- Period 9/30/13 to 8/31/14:						
Average Monthly Benefit	\$ 512.00	928.80	1,482.37	2,009.06	2,903.92	3,884.48
Average Final Average Salary	\$ 3,377.84	3,547.42	3,846.48	4,153.77	4,842.54	5,385.14
Number of Retired Members	308	562	664	841	702	525
- Period 9/30/14 to 8/31/15:						
Average Monthly Benefit	\$ 578.72	954.22	1,450.61	1,991.01	2,959.21	4,057.52
Average Final Average Salary	\$ 3,716.11	3,694.16	3,807.98	4,209.72	4,923.95	5,640.35
Number of Retired Members	249	614	690	988	869	611
- Period 9/30/15 to 8/31/16:						
Average Monthly Benefit	\$ 563.48	932.25	1,463.32	2,049.37	3,103.93	4,324.77
Average Final Average Salary	\$ 3,511.17	3,683.36	3,854.38	4,289.29	5,167.63	5,907.11
Number of Retired Members	206	595	640	895	886	605
- Period 9/30/16 to 8/31/17:						
Average Monthly Benefit	\$ 593.79	956.66	1,516.47	2,101.73	3,131.08	4,354.05
Average Final Average Salary	\$ 3,657.84	3,762.04	3,997.25	4,329.60	5,160.07	6,048.26
Number of Retired Members	252	707	688	894	842	613
- Period 9/30/17 to 8/31/18:						
Average Monthly Benefit	\$ 613.03	985.30	1,623.06	2,245.08	3,235.60	4,561.41
Average Final Average Salary	\$ 3,618.15	3,829.86	4,217.69	4,643.82	5,346.59	6,233.16
Number of Retired Members	145	664	617	799	790	625
- Period 9/30/18 to 8/31/19:						
Average Monthly Benefit	\$ 587.65	1,028.56	1,681.63	2,389.95	3,244.56	4,656.71
Average Final Average Salary	\$ 3,688.68	3,970.61	4,394.65	4,873.22	5,331.59	6,313.24
Number of Retired Members	131	738	588	818	816	598
- Period 9/30/19 to 8/31/20:						
Average Monthly Benefit	\$ 658.49	1,024.08	1,683.74	2,252.27	3,376.98	4,654.40
Average Final Average Salary	\$ 4,083.05	3,890.03	4,358.66	4,622.40	5,568.05	6,336.49
Number of Retired Members	96	636	496	713	732	521
- Period 9/30/20 to 8/31/21:						
Average Monthly Benefit	\$ 568.42	1,106.46	1,706.74	2,364.40	3,403.81	4,663.89
Average Final Average Salary	\$ 3,575.87	4,135.12	4,460.99	4,814.44	5,586.17	6,356.38
Number of Retired Members	104	663	533	784	772	618
- Period 9/30/21 to 8/31/22:						
Average Monthly Benefit	\$ 685.68	1,097.26	1,770.76	2,383.65	3,429.85	4,713.39
Average Final Average Salary	\$ 4,246.27	4,141.32	4,585.55	4,853.82	5,664.36	6,379.98
Number of Retired Members	79	606	576	683	719	523
Five Year Average -						
Period 9/30/17 to 8/31/22:						
Average Monthly Benefit	\$ 555.59	807.98	1,348.76	1,803.86	2,647.33	3,709.97
Average Final Average Salary	\$ 3,779.59	3,914.29	4,296.68	4,652.75	5,403.35	6,255.79
Average Number of Retired Members	141	670	593	781	780	576
Ten Year Average -						
Period 9/30/12 to 8/31/22:						
Average Monthly Benefit	\$ 568.17	976.12	1,552.45	2,148.05	3,115.26	4,272.25
Average Final Average Salary	\$ 3,423.79	3,353.51	3,626.00	4,029.68	4,638.60	5,272.32
Average Number of Retired Members	194	618	629	825	787	570

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, 2022

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	7,277	7,042	235	4,656	1,533	486	136	244	222	
301-600	12,521	11,969	552	8,808	2,175	629	195	305	409	
601-900	14,329	13,754	575	10,073	2,429	813	232	271	511	
901-1,200	13,642	13,320	322	9,370	2,373	953	211	263	472	
1,201-1,500	13,522	13,365	157	9,024	2,384	1,080	207	192	635	
1,501-2,000	19,135	19,030	105	12,436	3,218	1,894	275	334	978	
2,001-2,500	14,025	13,997	28	8,624	2,467	1,662	188	283	801	
2,501-3,000	9,405	9,396	9	5,482	1,735	1,189	150	220	629	
3,001-4,000	10,451	10,444	7	5,933	2,082	1,257	126	232	821	
4,001-10,999	8,413	8,412	1	4,200	2,164	1,016	77	161	795	
Total	122,720	120,729	1,991	78,606	22,560	10,979	1,797	2,505	6,273	
Law Enforcement And Custodial Officer Supplemental Retirement Fund (Not e A)										
\$										
\$ 0-200	430	430	—	299	90	23	3	4	11	
201-400	7,240	7,203	37	4,082	1,773	772	74	86	453	
401-600	5,283	5,269	14	2,906	1,129	692	45	94	417	
601-800	1,434	1,432	2	642	382	202	16	28	164	
801-1,000	838	837	1	328	273	124	9	9	95	
1,001-1,200	416	416	—	145	153	58	—	5	55	
1,201-1,400	154	154	—	51	59	17	1	3	23	
1,401-1,600	51	50	1	16	21	4	—	1	9	
1,601-1,800	20	20	—	9	7	2	—	1	1	
1,801-9,999	57	34	23	26	16	3	—	1	11	
Total	15,923	15,845	78	8,504	3,903	1,897	148	232	1,239	
Judicial Retirement Plan Two Fund (Note A)										
\$										
\$ 0-2,000	35	35	—	16	15	1	1	—	2	
2,001-2,500	12	12	—	7	5	—	—	—	—	
2,501-3,000	7	7	—	—	3	1	1	—	2	
3,001-3,500	7	7	—	2	2	2	—	—	1	
3,501-4,000	19	19	—	8	8	2	—	1	—	
4,001-4,500	41	41	—	15	18	6	—	1	1	
4,501-5,000	47	47	—	23	18	3	—	3	—	
5,001-5,500	66	66	—	23	26	5	1	—	11	
5,501-6,000	59	59	—	24	26	5	—	1	3	
6,001-6,500	59	58	1	31	21	5	—	—	2	
6,501-7,000	45	45	—	14	19	7	—	2	3	
7,001-9,999	139	137	2	68	38	20	—	4	9	
Total	536	533	3	231	199	57	3	12	34	

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Defined Benefit Plans	%	%	%	%	%	%	%	%	%	%
Employees Retirement Fund										
Employee Class:										
Employee	6.50	6.60	6.90	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Employer	6.50	8.00	8.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Elected Class:										
Legislators	8.00	8.00	8.00	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Employer	6.50	8.00	8.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Other Elected Class	6.50	6.60	6.90	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Employer	6.50	8.00	8.00	10.00	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	0.500	0.500	0.500	0.500	0.500	0.500	0.500
Employer	0.50	0.50	0.50	0.500	0.500	0.500	0.500	0.500	0.500	0.500
Judicial Retirement System Plan Two Fund										
Employee	6.00	6.00	6.90	7.20	7.50	7.50	7.50	9.50	9.50	9.50
Employer	6.50	15.66	15.66	15.66	15.66	15.66	15.66	15.66	15.66	15.66
<hr/>										
State Retiree Health Plan (Note B)										
Group Benefits Program										
Employee Only:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
State Contribution Monthly Rate	470.38	503.14	537.66	576.54	617.30	621.90	624.82	624.82	624.82	624.82
HealthSelect Monthly Premium	470.38	503.14	537.66	576.54	617.30	621.90	624.82	624.82	624.82	624.82
Employee & Children:										
State Contribution Monthly Rate	470.38	503.15	537.66	797.66	854.10	860.48	864.52	864.52	864.20	864.20
HealthSelect Monthly Premium	830.86	888.86	949.94	1,018.78	1,090.90	1,099.06	1,104.22	1,104.22	1,103.58	1,103.58
Employee & Spouse:										
State Contribution Monthly Rate	739.58	791.16	845.54	906.78	970.98	978.22	982.82	982.82	982.36	982.36
HealthSelect Monthly Premium	1,008.78	1,079.18	1,153.42	1,237.02	1,324.66	1,334.54	1,340.82	1,340.82	1,339.90	1,339.90
Employee & Family:										
State Contribution Monthly Rate	919.82	984.02	1,051.68	1,127.90	1,207.78	1,216.80	1,222.52	1,222.52	1,221.74	1,221.74
HealthSelect Monthly Premium	1,369.26	1,464.90	1,565.70	1,679.26	1,798.26	1,811.70	1,820.22	1,820.22	1,818.66	1,818.66

Note A: Beginning in Fiscal Year 2018, an additional amount equivalent to 1.07% of payroll is contributed by employer from dedicated court fees.
 Note B: The State Retiree Health Plan is a pay-as-you-go plan. The monthly rates as shown above are the same for active and retired members of the Group Benefits Program.

Statistical Information – Defined Benefit Plans

(All items expressed as numbers unless otherwise indicated)

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

	Fiscal Year (Note A)									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Employees Retirement Fund										
Active Contributing Members	133,669	134,162	142,409	146,390	141,629	141,535	141,865	142,490	136,726	133,751
Non-Contributing Members	96,015	96,507	101,122	108,873	112,192	119,736	125,935	134,909	145,050	155,148
Retirees and Beneficiaries	91,367	95,840	100,003	103,758	107,530	111,361	115,155	117,996	120,294	122,720
Service and Disability Retirements	5,287	6,231	6,042	5,668	5,966	6,029	6,034	5,264	5,418	5,543
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note B)										
Active Contributing Members	37,415	37,084	38,526	39,066	38,206	37,167	36,296	35,230	32,498	31,075
Non-Contributing Members	10,187	11,311	12,962	15,203	17,100	19,842	22,207	25,511	29,626	32,371
Retirees and Beneficiaries	9,089	10,024	10,845	11,515	12,248	13,080	13,981	14,697	15,343	15,923
Service and Disability Retirements	744	1,071	959	803	876	965	1,020	873	847	812
Judicial Retirement System of Texas Plan Two (Note C)										
Active Contributing Members	545	554	563	548	557	561	573	570	584	583
Non-Contributing Members	152	139	148	166	158	153	187	187	192	192
Retirees and Beneficiaries	254	267	322	331	378	393	472	17	50	536
Service and Disability Retirements	43	14	57	10	48	16	83	<10	<10	15
State Retiree Health Plan										
Retirees	100,054	104,770	109,311	113,430	117,880	122,350	127,044	130,910	135,517	138,353
Dependents	35,830	36,933	38,130	38,910	39,880	41,061	42,024	42,855	43,189	43,823

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
457 Deferred Compensation Plan (Note A)										
TexaSaver 457 Plan (Note A):										
Total Participants	24,689	26,902	29,129	31,515	33,131	34,023	34,102	33,456	33,660	33,683
Participants Currently Deferring	14,385	20,030	16,685	17,052	19,803	18,591	18,281	17,886	17,806	17,229
Current Fair Value of Plan Assets (in millions)	494.7	591.1	603.7	669.7	759	869.0	896.2	1,053.0	1,322.0	1,161.0
Original 457 Plan (Notes A & B):										
Total Participants	598	580	513	468	440	424	401	388	375	352
Participants Currently Deferring	38	32	22	17	15	14	12	10	8	5
TexaSaver 401(k) Deferred Compensation Plan										
Total Participants	135,237	151,034	165,513	181,249	195,737	206,617	220,430	213,974	220,946	225,635
Participants Currently Deferring	69,692	89,774	82,851	92,527	95,813	95,392	99,909	103,190	102,249	99,267
Current Fair Value of Plan Assets (in millions)	1,593.8	1,853.9	1,836.2	1,984.7	2,193.6	2,449	2,478.1	2,876.0	3,558.0	3,041.0
Deferrals (in millions)	145.7	152.2	160.3	182.3	159.3	135.1	141.9	148.2	158.2	172.1
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										
Dependent Care	46,942	46,173	46,609	48,010	47,799	46,337	44,584	43,134	40,261	37,586
Total Redirected (in millions)	3,747	3,785	3,880	3,825	3,713	3,636	3,574	3,117	2,336	2,531
Premium Conversion:	91.9	78.9	78.5	80.3	78.7	75.8	73.0	69.9	62.2	54.3
Participants										
Premiums Redirected (in millions)	219,357	221,876	222,789	226,864	223,026	223,233	224,699	224,626	216,339	211,898
Tax Savings (in millions):	500.9	509.2	522.1	548.3	504.5	505.8	509.7	506.4	505.1	449.2
Employees										
State of Texas	113.5	115.3	118.3	124.2	132.1	131.7	132.0	130.5	128.5	114.0
	38.3	39	39.9	41.9	44.6	44.5	44.6	44.1	43.4	38.5
Group Benefits Program (Note D)										
Membership:										
Active	226,181	228,805	230,023	235,108	230,199	231,911	233,887	232,367	224,904	221,404
Dependents	171,023	169,282	166,772	168,161	166,266	164,685	163,172	162,180	156,935	150,118
COBRA (Note E)	1,674	1,144	1,167	984	723	1,104	1,137	1,199	1,512	1,289
Total Membership	398,878	399,231	397,962	404,253	397,188	397,700	398,196	395,746	383,351	372,811
Death Benefit Programs										
Lump Sum Payments	14	9	23	29	8	14	21	17	14	40
Monthly Payments to Guardians	107	99	111	112	114	114	111	122	139	165
Victims of Violent Crime	13	5	11	8	4	4	7	10	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, 2018.

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

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

Listing of Participating Reporting Entities for State Retiree Health Plan

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

State Agencies

Attorney General
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 Public Finance Authority
Texas Racing Commission Texas Real Estate Commission
Texas School for the Blind and Visually Impaired
Texas School for the Deaf
Texas State Board of Examiners of Psychologists
Texas State Board of Pharmacy

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

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

Universities

Angelo State University
Lamar Institute of Technology
Lamar State College - Orange
Lamar State College - Port Arthur
Lamar University
Midwestern State University
Sam Houston State University
Stephen F. Austin State University
Sul Ross State University
Texas Southern University
Texas State Technical College System
Texas State University
Texas State University System
Texas Tech University
Texas Tech University Health Sciences Center
Texas Tech University Health Sciences Center - El Paso
Texas Tech University System
Texas Woman's University University of Houston
University of Houston
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 178,096 which is 80.4% of the employees covered by the State Retiree Health Plan.

ERS SUPPORTS THE STATE WORKFORCE BY OFFERING
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200 E. 18th Street
P.O. Box 13207
Austin, Texas 78711-3207
www.ers.texas.gov