



An Audit Report on the Financial Statements of the
Teacher Retirement System of Texas for the
Fiscal Year Ended August 31, 2000

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January 24, 2001

Members of the Legislative Audit Committee:

We have completed the fiscal year 2000 audit of the Teacher Retirement System's (System) financial statements and conclude that they are accurately stated in accordance with generally accepted accounting principles. Our audit opinion, dated November 10, 2000, is included in the financial section of the System's *Comprehensive Annual Financial Report*, which the System released on November 17, 2000. We have also provided the System with a management letter (SAO No. 01-357) and a report on compliance and internal control (SAO No. 01-358) in which we state, for the third consecutive year, that we found no instances of significant noncompliance or weaknesses in internal control.

Key Fiscal Year Highlights

- The net assets of the pension trust fund increased by \$10 billion to a total of \$90 billion. This is a 12.6 percent increase compared to a 20 percent increase last year.
- The System's pension plan remains actuarially fully funded for the third consecutive year, meaning that as of August 31, 2000, the pension plan has sufficient assets to pay benefits to retirees and currently active members when they retire. In fact, the August 31, 2000, actuarial analysis determined that actuarial assets exceeded actuarial liabilities by \$5.4 billion. This figure compares to an actuarial excess of \$2.2 billion last year.
- Continuation of the retiree insurance plan will require legislative action to address long-term funding needs. System management estimates that the retiree insurance plan has sufficient funding to continue operating only through fiscal year 2001. The System is requesting supplemental funding of \$457 million for its 2002-2003 biennial appropriations and projects significant increases in future bienniums. The combined active and retired insurance plans lost \$74.8 million, which caused the fund balance to decline from \$122 million to \$47.5 million during fiscal year 2000.

The attachment to this letter contains additional information on notable statistics, notable system achievements, and the objective, scope, and methodology for the audit.

We thank the management and staff of the Teacher Retirement System for their cooperation during this audit. If you have any questions, please contact Carol A. Smith, CPA, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cbg/khm

Attachment

cc: Teacher Retirement System Board Members
Mr. Charles L. Dunlap, Executive Director, Teacher Retirement System

SAO Report No. 01-014

Notable Statistics

Pension plan membership continued to increase in fiscal year 2000. As of August 31, 2000, current membership totaled 788,856, and retirement recipient membership totaled 179,393, compared to 748,884 and 170,351, respectively, for fiscal year 1999. Benefit payments increased substantially from \$2.6 billion in 1999 to \$3.3 billion in 2000. The sharp rise is due in part to substantial benefit increases, such as the multiplier increase to 2.2 percent and the partial lump sum option, which were granted by the Legislature. The System paid more than \$184 million in fiscal year 2000 to retirees under the new partial lump sum payment option.

Retired Insurance Plan membership increased from 125,612 to 131,408 between the ends of fiscal years 1999 and 2000. However, the Active Insurance Plan membership decreased from 86 in 1999 to zero in 2000.

Notable System Achievements

The System received the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for each of the past 10 years.

The University of North Texas Survey Research conducted a satisfaction survey for the System in the spring of 2000. The survey assessed customer satisfaction with several customer relations and service areas as well as overall System services. The survey results showed that retirees gave the System an overall approval rating (satisfied or very satisfied) of 99.1 percent, and active members gave the System an overall approval rating of 96.4 percent.

The System reported that its total portfolio investment performance exceeded its targeted benchmark. The one-year return ending June 30, 2000, is reported to be 7.9 percent as compared to 7.8 percent for the benchmark. The three-year and five-year returns are reported to be 13.6 percent and 15.5 percent, respectively, as compared to benchmark returns of 13.5 percent and 15.2 percent.

Objective, Scope, and Methodology

Our objective was to express an opinion on the System's general purpose financial statements for the fiscal year ending August 31, 2000.

The scope of this audit included expressing an opinion on the System's general purpose financial statements and compliance with applicable generally accepted auditing standards and *Government Auditing Standards*.

We gained an understanding of the System's overall control environment and internal controls to the extent necessary to plan the audit. We tested internal controls and significant accounts as deemed necessary to support our opinion.

Tests of accounts primarily included tests of details supporting entries, confirmations, and analytical review. In addition, we tested compliance with laws and regulations primarily related to investments, pension fund reserve account balances, and benefit payments. We also conducted interviews, administered questionnaires, reviewed documents, and recalculated amounts.

ATTACHMENT