



*"If you have to put someone on a pedestal, put teachers.
They are society's heroes."*

— Guy Kawasaki

TEACHER RETIREMENT SYSTEM of TEXAS
POPULAR ANNUAL FINANCIAL REPORT
2022



A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2022



Our Mission

IMPROVING the retirement security of our members by prudently investing and managing the trust assets and delivering benefits that make a **POSITIVE DIFFERENCE** in their lives.





We believe that the importance of teachers to the future of Texas cannot be understated. Providing value that goes beyond the purely economic and reaches a much more important goal – the education of Texas children. That's why, for the past 85 years, the Teacher Retirement System of Texas has been learning from the past and preparing for the future. Keeping our promise to teachers and to Texas.

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Brian K. Guthrie
Executive Director

For fiscal year 2022, TRS made pension benefit payments totaling \$13.1 billion to 475,952 retirees and their beneficiaries.

It is my pleasure to present the Teacher Retirement System of Texas' (TRS) Popular Annual Financial Report (PAFR) for fiscal year 2022, the System's 85th year of operation. The PAFR summarizes our Annual Comprehensive Financial Report (ACFR), providing financial highlights of the past year for those wishing to learn more about TRS developments. The 2022 ACFR can be viewed in the Publications Section of the TRS website: trs.texas.gov.

Pension Trust Fund

During the past fiscal year, the System experienced growth as membership increased by 70,988, ending the year with 1,948,907 participants. The Pension Trust Fund experienced market volatility resulting in negative returns for the fund, ending the 2022 fiscal year with a net position of \$184.2 billion compared to \$201.8 billion at the close of the 2021 fiscal year. TRS investment earnings, combined with contribution increases and benefit changes approved by the 86th Texas Legislature, are continuing to enable TRS to provide secure benefits for current and future retirees.

For fiscal year 2022, TRS made pension benefit payments totaling \$13.1 billion to 475,952 retirees and their beneficiaries. These benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

Retiree Health Benefits Program

TRS administers TRS-Care, a health benefits program for eligible retired public education employees and their eligible dependents that was established in 1985. The 85th Legislature, in regular and special sessions, passed legislation that restructured TRS-Care and provided additional funding to address the solvency and affordability of TRS-Care. The state contribution rate to TRS-Care is 1.25 percent of public school payroll and the district contribution is 0.75 percent. Active employee contributions remained unchanged at 0.65 percent.

Active Member Health Benefits Program

TRS-ActiveCare, initiated in 2002, is a self-funded health benefits program that offers plan options that range from catastrophic coverage with reduced premiums to a comprehensive plan at higher premiums. TRS-ActiveCare covers active employees currently employed by public education employers that participate in the program, along with the employees' eligible dependents.

Investments

For the twelve-month period ending August 31, 2022, the total portfolio delivered investment returns of (6.72) percent, which is 1.98 percent below the Pension Trust Funds (Fund) benchmark. As a result, the total investment value of the Fund as of August 31 was \$183.5 billion, or \$17.7 billion less than this time last year, after contributions and benefit payouts. On a three-year annualized basis, the Fund has returned 7.73 percent, which is 0.01 percent above its benchmark. Annual rates of return for the five and ten-year periods ending August 31, 2022, were 7.31 percent and 8.14 percent, respectively, exceeding the Board's adopted long-term assumed rate of return of 7.00 percent.

Thank You

We are pleased to report on operational results for the year and to acknowledge the substantial support of state leadership, trustees, members, interested associations, and TRS staff.



Jarvis V. Hollingsworth, Chair
Vice Chairman and Chief Operating Officer
Irradiant Partners L.P.
Missouri City
Direct appointment of the governor
Term expires 2023



John Elliott
Partner
Elliott Stratmann, PLLC
Austin
Direct appointment of the governor
Term expires 2021



Nanette Sissney, Vice Chair
Counselor and Former Teacher
Whitesboro Independent School District
Whitesboro
At-Large position
Term expires 2023



Christopher Moss
President
Allendale, Inc.
DBA The Advanced Financial Group
Lufkin
Position nominated by the State Board
of Education
Term expires 2021



Michael Ball
Senior Vice President
Hilltop Securities, Inc.
Argyle
Active public education position
Term expires 2025



James Dick Nance
Former Texas Public School Teacher
Member of Texas Athletic Directors
Association
Hallettsville
Retiree position
Term expires 2023



David Corpus
Bank Office President
Allegiance Bank
Humble
Position nominated by the State Board
of Education
Term expires 2025



Robert H. Walls, Jr.
Business and Legal Executive
Energy, Media and Private Equity Industries
San Antonio
Direct appointment of the governor
Term expires 2025

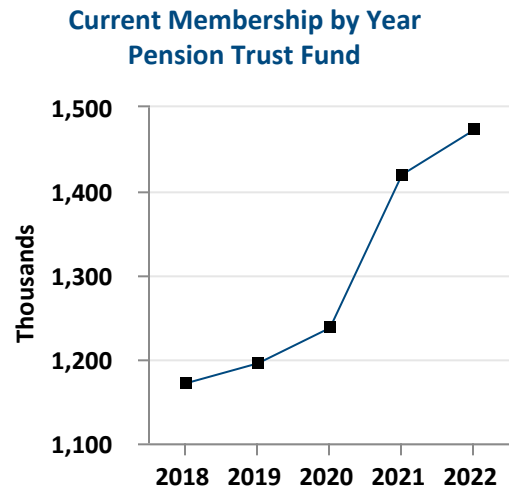
The Active Public Education Board position is currently vacant.

Award for Outstanding Achievement in Popular Annual Financial Reporting

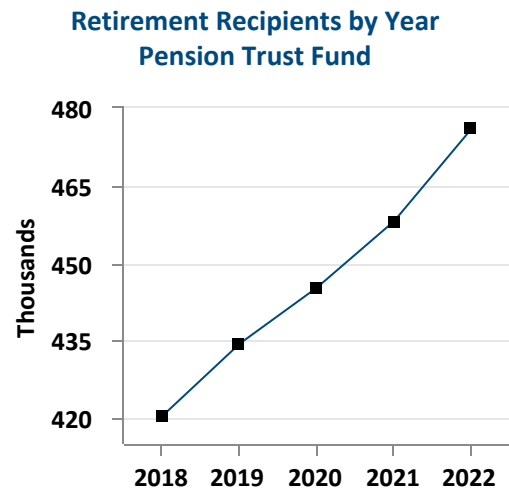
The fiscal year 2021 PAFR was submitted to the Government Finance Officers Association (GFOA) for the Popular Annual Financial Reporting Award Program. At the time of publication GFOA had not completed the review of the 2021 PAFR.

Membership of the Teacher Retirement System of Texas includes employees and retirees of state-supported educational institutions in Texas. The following tables represent TRS Pension Trust Fund participating employer and membership information for fiscal year 2022.

| Number of Participating Employers | |
|--------------------------------------|--------------|
| Participating Employers | 2022 |
| Public School Districts | 1,021 |
| Charter Schools | 197 |
| Community and Junior Colleges | 50 |
| Senior Colleges and Universities | 48 |
| Regional Service Centers | 20 |
| Medical Schools | 9 |
| Other Education Districts | 2 |
| State Agencies | 1 |
| Total Participating Employers | 1,348 |



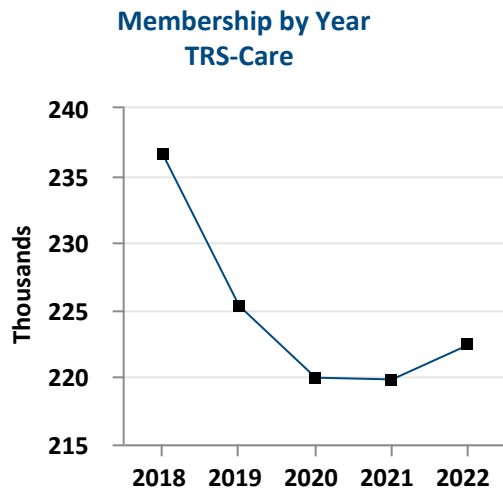
| Membership Numbers by Category | | |
|------------------------------------|------------------|------------------|
| Member Categories | As of August 31, | |
| | 2022 | 2021 |
| Current Members | | |
| Active Contributing | 928,418 | 918,545 |
| Inactive Non-vested | 419,580 | 384,340 |
| Inactive Vested | 124,957 | 116,901 |
| Total Current Members | 1,472,955 | 1,419,786 |
| Retirement Recipients | | |
| Service | 444,557 | 427,995 |
| Disability | 11,907 | 11,892 |
| Survivor | 19,488 | 18,246 |
| Total Retirement Recipients | 475,952 | 458,133 |
| Total Membership | 1,948,907 | 1,877,919 |



Texas Public School Retired Employees Group Insurance Program (TRS-Care)

Membership of TRS-Care is eligible to TRS public school retirees. There were 1,239 participating employers during fiscal year 2022.

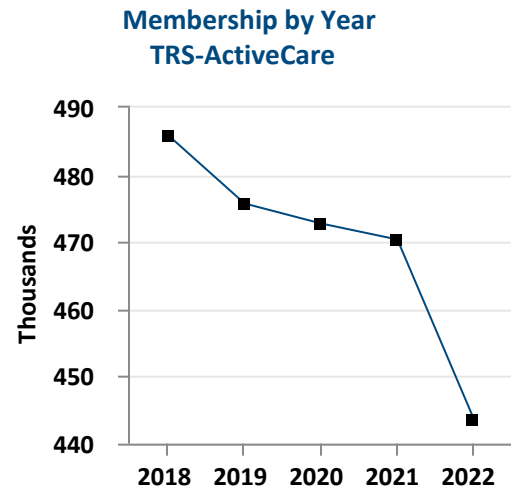
| Membership Numbers by Category | | |
|--------------------------------|------------------|----------------|
| Member Categories | As of August 31, | |
| | 2022 | 2021 |
| Retirees | 182,607 | 179,594 |
| Surviving Spouses | 5,925 | 6,005 |
| Surviving Children | 123 | 112 |
| Dependent Spouses and Children | 33,747 | 34,120 |
| Total Membership | 222,402 | 219,831 |



Texas Public School Employees Group Insurance Program (TRS-ActiveCare)

Membership of TRS-ActiveCare includes employees of public school districts, open enrollment charter schools, regional service centers, and other educational districts. There were 1,095 participating employers during fiscal year 2022.

| Membership Numbers by Category | | |
|--------------------------------|------------------|----------------|
| Member Categories | As of August 31, | |
| | 2022 | 2021 |
| Employees | 284,388 | 302,627 |
| Dependents | 159,291 | 167,752 |
| Total Membership | 443,679 | 470,379 |



Pension Trust Fund Overview

The Teacher Retirement System of Texas (TRS or System) is a separate legal entity and considered a discrete component unit of the State of Texas. The System is governed by a nine member board of trustees which has significant independence in the operation and management of the System under the provisions of the state constitution and laws.

TRS administers retirement and related benefits to employees and beneficiaries of employees of public, state-supported, educational institutions of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The Pension Trust Fund is a multiple-employer, cost-sharing, defined benefit pension plan with a special funding situation that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

Funding Status

As of August 31, 2022, the System had a funded ratio of 79.0 percent with an Unfunded Actuarial Accrued Liability (UAAL) of \$51.7 billion. The UAAL increased \$4.1 billion during the year largely due to unfavorable investment performance for fiscal year 2022 and larger than expected salary increases. In addition, the assumed rate of investment return was lowered from 7.25 percent to 7.00 percent in conjunction with an experience analysis performed during the year. Even with these events, the UAAL is anticipated to be fully amortized by 2048, which is on track with the original projections from SB 12 of the 86th legislature.

SB12 increased contribution rates for the State, employers, and members in a phased approach that concludes in fiscal year 2025. The State's base rate of 7.75 percent in fiscal year 2022 will increase to 8.00 percent in fiscal year 2023 and phase-in to 8.25 percent by fiscal year 2024. In addition, all public education employers paid a supplemental contribution rate of 1.70 percent for fiscal year 2022 and will pay 0.10 percent more each year until the rate reaches 2.00 percent in fiscal year 2025. At the end of the phase-in period, these supplemental contributions will equal approximately 1.24 percent of total payroll. Combined, with additional contributions from retirees, these contributions are ultimately assumed to approximate 9.56 percent of total payroll. The member contribution rate of 8.00 percent in fiscal year 2022 will be retained for fiscal year 2023 and will be 8.25 percent in fiscal year 2024 and thereafter.

The contributions provided by the increased contribution rate pattern are sufficient to amortize the current UAAL of the System over a period of 26 years based on the smoothed asset value as of the valuation date. Therefore, the financing objectives of the Statute are expected to be met, assuming all assumptions are realized.

| Statement of Fiduciary Net Position | | | |
|--|-----------------------|-----------------------|-------------------|
| Pension Trust Fund | | | |
| As of August 31 | | | |
| (Dollars in Thousands) | | | |
| | 2022 | 2021 | Percentage Change |
| Assets | | | |
| Cash and Receivables | \$ 5,347,981 | \$ 4,420,746 | 21.0 % |
| Investments | 195,157,348 | 210,460,436 | (7.3) |
| Invested Securities Lending Collateral | 6,957,898 | 8,239,393 | (15.6) |
| Capital and Right to Use Assets | 158,671 | 52,180 | 204.1 |
| Total Assets | \$ 207,621,898 | \$ 223,172,755 | (7.0)% |
| Total Deferred Outflow of Resources | \$ 51,449 | \$ 45,752 | 12.5 % |
| Liabilities | | | |
| Benefits Payable | \$ 273,747 | \$ 85,174 | 221.4 % |
| Net Other Post-Employment Benefit Liability | 124,038 | 105,874 | 17.2 |
| Investments Purchased Payable and Other Investment Liabilities | 15,921,601 | 12,556,007 | 26.8 |
| Collateral Obligations | 6,963,789 | 8,324,434 | (16.3) |
| Accounts Payable and Other | 190,194 | 153,425 | 24.0 |
| Total Liabilities | \$ 23,473,369 | \$ 21,224,914 | 10.6 % |
| Total Deferred Inflow of Resources | \$ 14,361 | \$ 186,591 | (92.3)% |
| Total Net Position | \$ 184,185,617 | \$ 201,807,002 | (8.7)% |
| Prior Period Adjustment | | \$ (519) | |
| Restated Net Position | \$ 184,185,617 | \$ 201,806,483 | (8.7)% |

| Statement of Changes in Fiduciary Net Position | | | |
|---|------------------------|----------------------|-------------------|
| Pension Trust Fund | | | |
| For the Fiscal Years Ended August 31 | | | |
| (Dollars in Thousands) | | | |
| | 2022 | 2021 | Percentage Change |
| Additions | | | |
| Member Contributions | \$ 4,213,622 | \$ 3,839,244 | 9.8 % |
| Non-Employer Contributing Entity Contributions | 2,153,483 | 1,879,553 | 14.6 |
| Employer Contributions | 2,504,170 | 2,124,028 | 17.9 |
| Supplemental Funding - Appropriations | 701,101 | — | — |
| Supplemental Appropriation - Non-Employer Contributing Entity | — | 261,000 | (100.0) |
| Other Revenue | 93,012 | 106,854 | (13.0) |
| Investment Income | (13,383,751) | 40,512,139 | (133.0) |
| Total Additions | \$ (3,718,363) | \$ 48,722,818 | (107.6)% |
| Deductions | | | |
| Retirement Benefits and Other | \$ 13,248,393 | \$ 11,802,310 | 12.3 % |
| Refunds of Contributions | 579,462 | 449,136 | 29.0 |
| Other Post-Employment Benefit Expense | 12,595 | 9,255 | 36.1 |
| Administrative Expenses | 62,053 | 71,360 | (13.0) |
| Total Deductions | \$ 13,902,503 | \$ 12,332,061 | 12.7 % |
| Change in Net Position | \$ (17,620,866) | \$ 36,390,757 | (148.4)% |
| Prior Period Adjustment | | \$ (519) | |
| Restated Change in Net Position | \$ (17,620,866) | \$ 36,390,238 | (148.4)% |

TRS-Care is the source of health benefits coverage upon which a substantial portion of retired public education employees rely. Funding is provided by premium payments from retiree participants and contributions from the state, public schools, and active public education employees. TRS-Care also receives additional revenue from the Medicare Part D subsidy program. Financial highlights for fiscal year 2022 with prior year comparisons are presented in the tables below.

| Statement of Fiduciary Net Position | | | |
|--|---------------------|---------------------|-------------------|
| TRS-Care | | | |
| As of August 31 | | | |
| (Dollars in Thousands) | | | |
| | 2022 | 2021 | Percentage Change |
| Assets | | | |
| Cash and Receivables | \$ 3,298,185 | \$ 2,721,100 | 21.2 % |
| Capital Assets | 10,206 | 12,811 | (20.3) |
| Total Assets | \$ 3,308,391 | \$ 2,733,911 | 21.0 % |
| Liabilities | | | |
| Accounts Payables and Other | \$ 9,912 | \$ 8,177 | 21.2 % |
| Health Care Fees Payable | 8,119 | 8,137 | (0.2) |
| Health Care Claims Payables | 172,423 | 163,935 | 5.2 |
| Total Liabilities | \$ 190,454 | \$ 180,249 | 5.7 % |
| Total Deferred Inflow of Resources | \$ — | \$ 14,420 | (100.0)% |
| Net Position | \$ 3,117,937 | \$ 2,539,242 | 22.8 % |

| Statement of Changes in Fiduciary Net Position | | | |
|---|---------------------|---------------------|-------------------|
| TRS-Care | | | |
| For the Fiscal Years Ended August 31 | | | |
| (Dollars in Thousands) | | | |
| | 2022 | 2021 | Percentage Change |
| Additions | | | |
| Member Contributions | \$ 263,328 | \$ 250,414 | 5.2 % |
| Non-Employer Contributing Entity Contributions | 451,341 | 447,338 | 0.9 |
| Participating Employers Contributions | 370,736 | 334,028 | 11.0 |
| Rebates and Discount Income | 508,932 | 416,754 | 22.1 |
| Federal Revenue | 141,003 | 173,912 | (18.9) |
| Supplemental Funding - Appropriations | 83,000 | — | — |
| Supplemental Appropriation - Non-Employer Contributing Entity | — | 5,520 | (100.0) |
| Other Revenue | 28,360 | — | — |
| Investment Income | 13,538 | 9,227 | 46.7 |
| Total Additions | \$ 1,860,238 | \$ 1,637,193 | 13.6 % |
| Deductions | | | |
| Health Care Claims | \$ 1,635,850 | \$ 1,553,439 | 5.3 % |
| Less: Health Care Premiums Paid by Retirees | (399,788) | (533,596) | (25.1) |
| Health Care Claims Processing | 26,848 | 30,726 | (12.6) |
| Insurance Premium Payments | 6 | 15,490 | (100.0) |
| Health Care Fees | 162 | 20,303 | (99.2) |
| Administrative Expenses | 18,465 | 7,906 | 133.6 |
| Total Deductions | \$ 1,281,543 | \$ 1,094,268 | 17.1 % |
| Change in Net Position | \$ 578,695 | \$ 542,925 | 6.6 % |

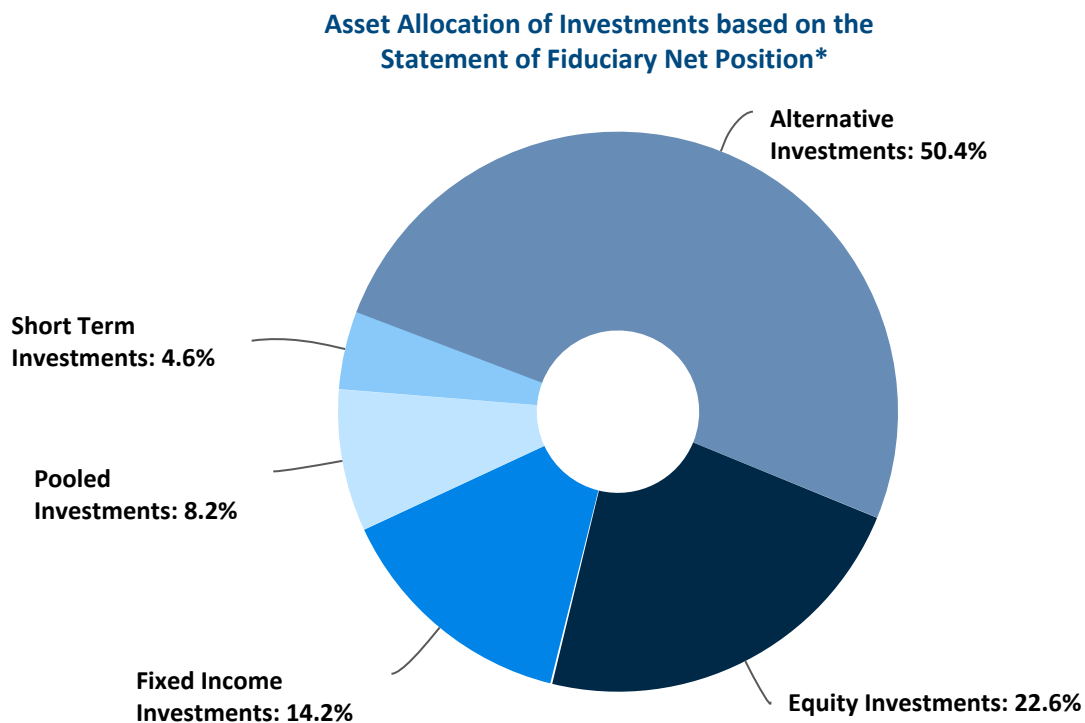
TRS-ActiveCare is funded by State, employer, and active employee contributions. Each plan year, the TRS Board of Trustees has made plan changes and increased premiums to sustain the program. Financial highlights for fiscal year 2022 with prior year comparisons are presented in the tables below.

| Statement of Net Position | | | |
|---|-------------------|-------------------|-------------------|
| TRS-ActiveCare | | | |
| As of August 31 | | | |
| (Dollars in Thousands) | | | |
| | 2022 | 2021 | Percentage Change |
| Assets | | | |
| Cash | \$ 744,871 | \$ 312,964 | 138.0 % |
| Receivables | 85,444 | 55,601 | 53.7 |
| Total Assets | \$ 830,315 | \$ 368,565 | 125.3 % |
| Liabilities | | | |
| Accounts Payable and Other | \$ 734 | \$ 26,658 | (97.2)% |
| Premiums and Fees Payable | 1,125 | 1,093 | 2.9 |
| Health Care Claims Payable | 280,408 | 284,290 | (1.4) |
| Total Liabilities | \$ 282,267 | \$ 312,041 | (9.5)% |
| Total Deferred Inflow of Resources | \$ 508 | \$ 281 | 80.8 % |
| Total Net Position | \$ 547,540 | \$ 56,243 | 873.5 % |

| Statement of Revenues, Expenses, and Changes in Net Position | | | |
|---|---------------------|---------------------|-------------------|
| TRS-ActiveCare | | | |
| For the Fiscal Years Ended August 31 | | | |
| (Dollars in Thousands) | | | |
| | 2022 | 2021 | Percentage Change |
| Revenues (Operating and Non-Operating) | | | |
| Health Care Premiums | \$ 2,044,856 | \$ 2,031,686 | 0.6 % |
| Rebate and Discount Income | 174,729 | 147,047 | 18.8 |
| Supplemental Funding - Appropriations | 638,338 | — | — |
| Investment Income | 1,656 | 2,122 | (22.0) |
| Other Revenue | — | 143 | (100.0) |
| Total Revenue | \$ 2,859,579 | \$ 2,180,998 | 31.1 % |
| Operating Expenses | | | |
| Health Care Claims | \$ 2,151,584 | \$ 110,465 | 5.4 % |
| Health Care Claims Processing | 64,914 | (8,545) | (11.6) |
| Health Care Fees | 1,043 | (45) | (4.1) |
| Premium Payments to HMOs | 146,752 | (26,546) | (15.3) |
| Administrative Expenses | 3,989 | (101) | (2.5) |
| Total Expenses | \$ 2,368,282 | \$ 75,228 | 3.3 % |
| Change in Net Position | \$ 491,297 | \$ (112,056) | (538.4)% |

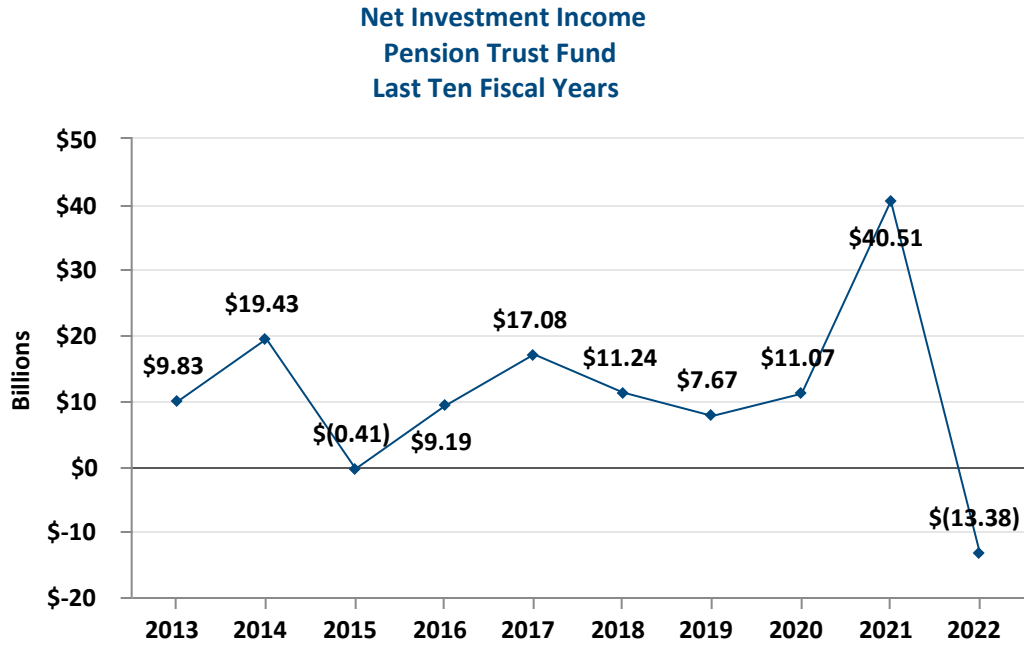
TRS' long-term investment strategy is centered on a broad diversification of assets so the portfolio can weather volatile market conditions such as those recently brought on over the last fiscal year. Creating a mix of public and private, U.S. and international assets, and active and passive asset management gives the pension fund this diversification while preserving the flexibility to quickly capitalize on changing conditions. Through this unpredictable time in the markets, the TRS Investment Management Division (IMD) staff has remained focused on monitoring risk and safeguarding assets for the Trust's members. The Trust returned (6.72) percent for the fiscal year ended August 31, 2022 and closed the period with a total of \$183.5 billion in assets under management, a \$17.7 billion decrease over last year, net of benefit payments. Annualized rates of return for the 5-year and 10-year period ending August 31, 2022 were 7.31 percent and 8.14 percent, respectively, and continue to remain in excess of the Trust's long-term investment return assumption of 7.00 percent.

The chart below presents net investments of the System (excluding securities lending collateral and obligations) allocated based on investment classifications within the Statement of Fiduciary Net Position as of August 31, 2022.



*An overview of each investment type is provided in Note 3.C. of the Notes to the Financial Statements, including the fair value of each component. Derivative instruments are reported on a net basis, and the details of which are described in Note 3.D. Derivative instruments are not presented in the chart above because the percentage is small.

The chart below presents net investment income for the last ten fiscal years.



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THANK YOU

*We are extremely grateful to all of our
members who allow us the privilege of
earning their trust every day.*





Teacher Retirement System of Texas

1000 Red River Street

Austin, Texas
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1-800-223-8778

www.trs.texas.gov