

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES**

AGENDA

February 15, 2012 – 10:30 a.m.

**Region 17 Education Service Center – Main Hall
1111 West Loop 289
Lubbock, TX**

NOTE: The Board may take up any item posted on the agenda during its meeting on Wednesday February 15, 2012, or during the meeting on the following two days beginning at the time and place specified on this agenda.

The open portions of the February 15-17, 2012 Board meetings are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' Web site at www.trs.state.tx.us.

1. Call roll of Board members.
2. Consider and discuss Board administration matters, including the following – R. David Kelly:
 - A. Consider the approval of the December 8-9, 2011 Board meeting minutes.
 - B. Introduce and welcome TRS' new Chief Financial Officer.
3. Provide opportunity for public comment – R. David Kelly.
4. Overview of the theme and agenda for the February 15-17, 2012 TRS Board meeting, a review of TRS' history, structure, operations and recent legislative and organizational accomplishments, and a discussion of agency objectives for Calendar Year 2012 – Brian Guthrie.
5. Receive an overview of financial matters, including a panel discussion on financial valuations, assumptions, and operations – Vin DeBaggis, State Street; Sylvia Bell; Jamie Michels; Scot Leith; Hugh Ohn; and Don Green (moderator).
6. Discuss and consider investment matters, including:
 - A. Overview of Apollo Investment Corporation – Steve LeBlanc and Leon Black, Apollo Investment Corporation.
 - B. Overview of KKR & Co. L.P. – Steve LeBlanc and George Roberts, KKR & Co. L.P.

- C. Review of current market conditions – Henry McVey, KKR & Co. L.P.
- D. Update on TRS’ Emerging Managers Program – Stuart Bernstein.
- E. Historical overview of investment policy and operations prior to 2007 – Brian Guthrie.
- F. Investment, operating, and risk postures in investment matters from 2007 to the present, including changes in asset allocation, delegations to staff, the use of strategic partnerships, and the implementation of risk management – Britt Harris.
- G. Review of services provided by Hewitt EnnisKnupp from 2007 to the present and discussion of services for calendar year 2012 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.

NOTE: The Board meeting likely will recess after the last item above and resume Thursday morning to take up items listed below.

Thursday, February 16, 2012 – 8:00 am

7. Provide opportunity for public comment – R. David Kelly.
8. Discuss the submission and response process for in-person and web-cast audience questions on the pension benefit design study and the retirees health benefit program (TRS-Care) study – Brian Guthrie.
9. Discuss legislatively required study on pension benefit design options:
 - A. Receive a presentation on and discuss the status and scope of the pension benefit design study, including a panel discussion on pension design and sustainability issues – Keith Brainard, National Association of State Retirement Administrators; Mary Beth Braitman, Ice Miller, LLP; Joseph Newton, Gabriel, Roeder, Smith & Company; and Rebecca Merrill (moderator).
 - B. Respond to in-person and web-cast audience questions on pension benefit design and sustainability issues – Keith Brainard, National Association of State Retirement Administrators; Mary Beth Braitman, Ice Miller, LLP; Joseph Newton, Gabriel, Roeder, Smith & Company; and Rebecca Merrill (moderator).
10. Discuss the retirees health benefit program (TRS-Care):
 - A. Receive a presentation on and discuss the status of the legislatively required retirees TRS-Care study – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.
 - B. Discuss and consider selecting a pharmacy benefit manager (PBM) for TRS-Care and directing the selected PBM to administer the Employer Group Waiver Plan (EGWP) option – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.
 - C. Respond to in-person and web-cast audience questions on the TRS-Care study – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.
11. Receive a presentation on and consider premiums and plan design for the preferred-provider organization (PPO) plan options under the active employees health benefit program (TRS-ActiveCare) – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.
12. Consider premiums and plan design for health maintenance organizations (HMOs) under the active employees health benefit program (TRS-ActiveCare) – Betsey Jones.
13. Consider the enrollment periods for the 2012-2013 plan year for the active employees health benefit program (TRS-ActiveCare), including presentation of participation data – Betsey Jones.

14. Discuss budget planning, including – Don Green:
 - A. An overview of the state budgeting process.
 - B. A presentation on TRS budget planning and the development of the Legislative Appropriations Request for the upcoming 83rd Session of the Texas Legislature.
15. Review the reports of the Chief Financial Officer – Don Green:
 - A. Review the report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.
 - B. Quarterly financial reports on TRS programs.
16. Discuss and consider Board operational matters, including the following – Brian Guthrie:
 - A. Discuss the Board meeting agenda planning process, including timelines, frequency of meetings, and the use of Board committees in accomplishing Board business.
 - B. Preview draft agendas for April and May Board meetings and consider canceling the May Board meeting.
 - C. Review Staff's recommendation for electronic Board materials.
 - D. Review the Board training calendar.
 - E. Consider a resolution authorizing staff to make non-substantive corrections to Board items after adoption, including policies and resolutions, for syntax, typographical errors, and formatting and providing that the staff-corrected versions shall constitute the versions adopted by the Board.
17. Discuss and consider authorizing a direct private investment in the restricted equity securities of an investment management company and authorizing staff to negotiate and execute the subscription agreement, investment contracts, and related transaction documents – Jerry Albright and Rich Hall.
18. Discuss personnel issues, including the duties and responsibilities of the Executive Director and provide input to the Executive Director on the duties and evaluation of the Chief Investment Officer – R. David Kelly.

***NOTE:** The Board meeting likely will recess after the last item above and resume Friday morning to take up items listed below.*

Friday, February 17, 2012 – 8:00 am

19. Provide opportunity for public comment – R. David Kelly.
20. Discuss workforce continuity planning, including an update on the TRS staffing profile and the development and implementation of the TRS Leadership Development Program – Brian Guthrie and Ken Welch.
21. Receive an update on the TEAM Program, including organizational structure, achievements of the program since FY 2010, a timeline of upcoming milestones, communications, financial/ HR software update, and an overview of the data management process – Ken Welch; Marianne Woods Wiley; Garry Sitz; Amy Morgan; Jay Masci, Provaliant; Barbie Pearson; and Don Green.
22. Receive a presentation on and discuss TRS' Enterprise Risk Management Program – Jay LeBlanc.
23. Receive a communications update, including the launch of TRS' social media presence, promotion of *MyTRS*, and plans to celebrate TRS' 75th anniversary year – Howard Goldman.
24. Review trustee roles, responsibilities, and fiduciary duties; qualifications for office and standards of conduct; immunities, indemnification, and insurance; and requirements related to trustee ethics, conflicts, and disclosures – Tim Wei; Steve Huff; and Keith Johnson, Reinhart Boerner Van Deuren, s.c.
25. Review the Texas Open Government requirements – Dan Junell.
26. Review the Deputy Director's report, including – Ken Welch:
 - A. Discuss an update on the implementation of legislation authorizing background checks on TRS employees and filling the vacancy for the position of TRS Human Resources Director.
 - B. Consider proposed changes to the Resolution Designating Persons Authorized to Sign TRS Vouchers (Voucher Authority Resolution).
 - C. Provide an update on the January power outage and, if necessary, make a fiduciary finding concerning the purchase of a back-up power generator.
27. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Retirement plan benefits and operations.
 - B. Investment activity and operations.

- C. Health-benefit programs and operations.
 - D. Administrative operations, including financial, audit, legal, and staff services and special projects.
 - E. Member communications.
28. Consult with the Board's attorney in Executive Session on any item listed above as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.

Legislative Studies

Legislative Study Overview

**Board of Trustees Meeting
February 16, 2012**

Legislative Studies

- The General Appropriations Act for the 2012-2013 Biennium requires TRS to study:
 - A comprehensive review of potential plan design and other changes that would improve the long-term sustainability of TRS-Care; and
 - The actuarial and fiscal impacts from potential changes to the TRS pension plan including changes to retirement eligibility; final average salary; benefit multiplier; and the creation of a hybrid plan that includes defined benefit and defined contribution features, such as a two-part plan or a cash balance plan.
- Both studies are due September 1, 2012.

Outreach

- Committed to preparing these studies in an objective manner and presenting the most up-to-date and accurate information possible.
- Keep the stakeholders informed through:
 - TRS newsletters;
 - “TRS Today” videos;
 - TRS website;
 - social media, and
 - town hall meetings.

Input

- Dedicated to preparing these studies in a transparent manner that actively seeks stakeholder input.
- During February Board meeting legislative study presentations, TRS will offer interactive Q & A sessions on study issues.
 - Audience present in hall can submit questions in writing on the cards provided.
 - Web-cast audience can submit questions via the internet link
 - TRS will respond to questions at the noticed agenda item.
- Stakeholders can also provide input at the legislative study town hall meeting at TRS Headquarters on March 12 at 1:00 p.m. (Also web cast)

Ask A Question Feature

Click on this button to ask a question

Ask a Question

Name:

Email:

Subject:

Question:

Time: 00:01 HH:MM:SS

- Click on the "Ask a Question" Balloon.
- E-mail box will appear
- Name and e-mail address are optional, but suggested.
- If e-mail address is provided, TRS can respond to questions not answered during the meeting.
- Submit subject and question.
- Click on 'send' button.

Legislative Studies

Pension Plan Design Study

**Board of Trustees Meeting
February 16, 2012**

Objectives

- Overview of the legislative study.
 - Actuarial snapshot and study background.
- Overview of current pension plan.
 - Constitutional background and benefit design.
- Discuss study scope.
 - Actuarial, fiscal, and other considerations.
 - Defined contribution, hybrids, and cash balance plans.
 - Outline and timeline.
- Hear from the experts on pension viability and design.

Actuarial Snapshot as of 8/31/11



Market Value of Assets	\$107.4 billion
Smoothed Value of Assets	\$115.2 billion
Funded Ratio	82.7%
Funding Period (Based on current funding provisions in the GAA)	Never
Actuarially Required Contribution	8.13%
Projected Exhaustion Date	2075

Study Background

In the Government Effectiveness and Efficiency Report, the Legislative Budget Board (LBB) recommended that the legislature either:

- Implement one of three options: 1) fully fund ERS and TRS at current benefit levels; (2) Maintain the defined benefit plans but make benefit changes so that current funding levels are sufficient to fully fund the plans; or (3) Create new hybrid plan structures; or
- Include a rider that requires ERS and TRS to study their pension plans for benefit design and structure options.

Study Background

Out of funds appropriated elsewhere in this Act, the Employees Retirement System and the Teacher Retirement System shall each individually report on the actuarial and fiscal impacts from potential changes to the state, university and school district pension plans as of August 31, 2011, including but not limited to: retirement eligibility; final average salary; benefit multiplier; and the creation of a hybrid plan that includes defined benefit and defined contribution features such as a two-part plan or a cash balance plan. The report shall be submitted to the Legislative Budget Board and the Governor no later than September 1, 2012.

GAA Article IX Section 18.03

Current Plan

- The Texas Constitution provides for the establishment of the Teacher Retirement System to provide benefits for public education employees.
- System and benefits must meet the following conditions:
 - Financing of the benefits must be based on sound actuarial principles.
 - The system must have a board of trustees to administer the system and to invest the funds of the system.
 - The amount contributed by members may not be less than 6% of current compensation.
 - The amount contributed by the state may not be less than 6% nor more than 10% of the aggregate compensation paid to system members.

Current Plan (Cont'd)

- The state sets retirement eligibility and the formula for determining retirement benefits.
- Eligibility for study discussion is Rule of 80 + minimum age 60.
 - Adopted in 2005 and applies to members joining after 8/31/2007.
 - Five percent reduction per year for each year of retirement before age 60.
- Current formula is 5 year final average salary x years of service credit x 2.3 percent.
 - 5 year final average salary was adopted in 2005.
 - 2.3% multiplier was adopted in 2001.

Study Scope

- The study charge does not ask for TRS to make a recommendation.
- Study the actuarial and fiscal impacts of:
 - Changing the benefit design of the current plan, including changes to retirement eligibility, final average salary, and multiplier; and
 - Creating a new plan structure such as a two-part or cash balance plan.
- Also assess impact to providing adequate replacement income; balancing risk; and offering value to members, the state, and other stakeholders.

Other Study Considerations

- Principles to consider in addition to actuarial and fiscal analysis:
 - Costs are appropriately shared by the sponsor and member.
 - Risks are appropriately shared between the sponsor and member.
 - Provide an adequate level of benefits so members may retire at an appropriate age.
 - Financial planners often recommend a replacement ratio of 70% to 90% of preretirement income.
 - TRS' current replacement ratio after a 30-year career is 69% of the final average salary when retiring at age 60.
 - Almost 80% of TRS members are not in Social Security.

Characteristics of Alternative Benefit Structures

Consideration	Defined Benefit	Cash Balance	Hybrid Plan	Defined Contribution
Cost Variability	Uncertain and can escalate. Can be managed with plan design	Uncertain, can be partially managed with plan design	DB cost is uncertain but smaller in magnitude	Predictable and stable
Investment Risk/Reward	Employer	Can vary with plan design	Shared by employee and the employer	Employee
Adequate Benefit Level	Targeted replacement income	Can vary with plan design	DB benefit can be targeted DC benefit is uncertain	Uncertain
Payment Form	Monthly annuity	Lump sum / Monthly Annuity	Lump sum / Monthly annuity	Lump Sum

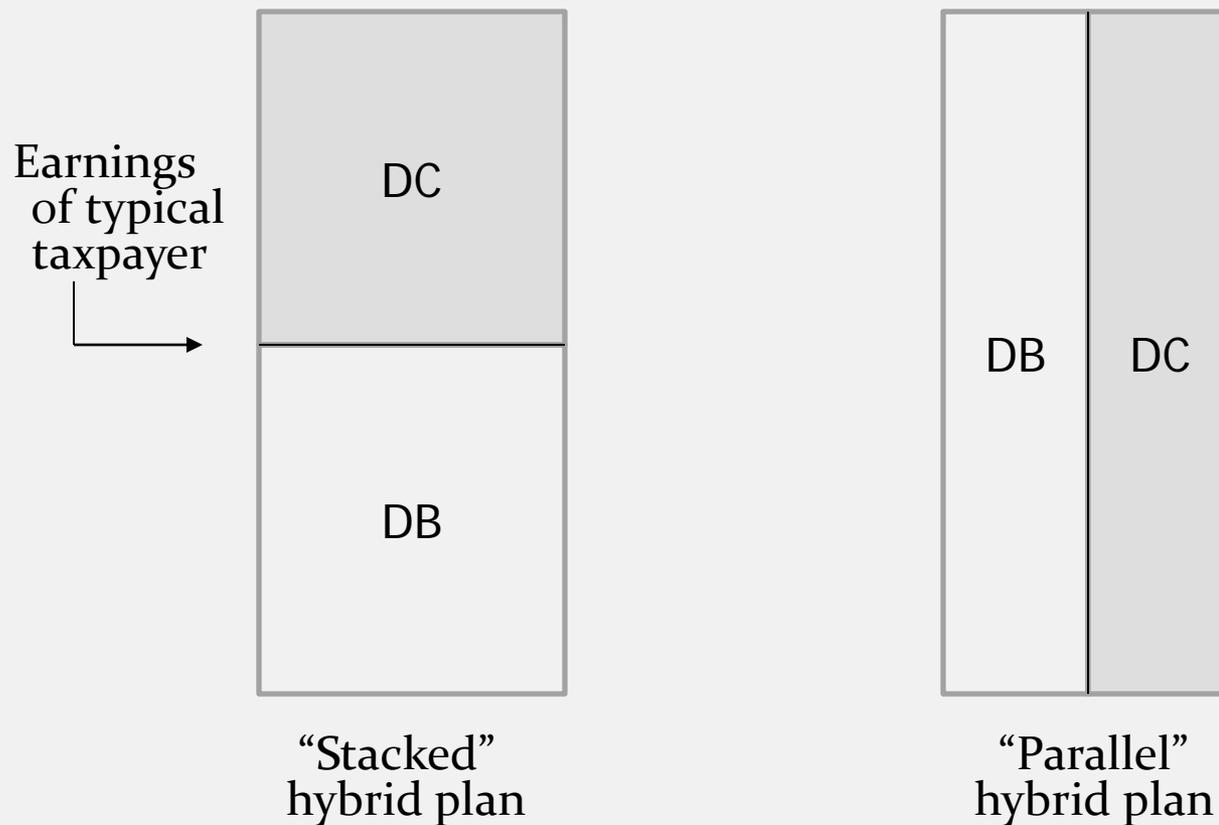
Defined Contribution Plans

- The employer's cost are fixed and certain.
- The account is portable.
- The member account is subject to investment earnings and losses.
 - Member bears investment risk.
- Member is responsible for decisions to ensure those resources are sufficient for his/her retirement needs.
 - Member bears longevity risk

Hybrid Plans

- Provides a smaller DB and DC benefit with the goal that both benefits combined will provide adequate retirement resources.
- Investment and longevity risks are shared between the employee and employer.
- The defined benefit portion of the plan is designed to provide a lifetime annuity.
- Flexibility in designing hybrid plan options.

Options for Hybrid Plan Design



Source: Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby. (April 2011). A Role for Defined Contribution Plans in the Public Sector. *State and Local Pension Plans Issue Brief Number 16*. Retrieved from http://crr.bc.edu/images/stories/slp_16_508.pdf. © 2011, by Trustees of Boston College, Center for Retirement Research.

Two-Part Plan Examples

System	Participation	DB Structure	DC Structure
Georgia State Employee Pension & Savings Plan	<ul style="list-style-type: none"> • DB mandatory • New hires after 1/1/09 auto-enrolled in 401(k) & can opt out 	<ul style="list-style-type: none"> • Formula is 1% x years of service x 24 months FAS • Employer 7.42% • Member 1.25% 	<ul style="list-style-type: none"> • Member mandatorily contributes 1% of salary & additional contributions voluntary • Employer matches 100% on first 1% & 50% thereafter up to a total of 3%
Utah Retirement System Tier II Hybrid	<ul style="list-style-type: none"> • New hires must chose between DC and hybrid 	<ul style="list-style-type: none"> • Formula 1.5% x years of service x 5 year FAS • Employer 10% split between DB and DC Currently 7.59% • Member any required amount over 10% 	<ul style="list-style-type: none"> • Employer contributes difference between what goes to DB and 10% Currently 2.41% • Member contribution is voluntary

Cash Balance Plans

- Members have a “virtual” account to which both the employer and the member contribute a set percentage of wages (pay credits).
- Pay credits then earn interest at an amount specified in the plan (interest credits).
- Under the Pension Protection Act, cash balance plans must have a minimum interest credit of zero or higher and the maximum cannot be more than a market rate of return (either the rate or method of determining rate can be established by state law)
- Virtual account can be converted to an annuity at retirement or other options may be made available.

Cash Balance Example

	Contributions	Benefit Determination
TMRS	<ul style="list-style-type: none"> • Member 5-7% as determined by employer • 5% minimum annual interest credit as per statute (TMRS Board can increase it) • Employer matches employee account at 1:1, 1.5:1, or 2:1 as determined by employer 	<ul style="list-style-type: none"> • Lifetime monthly annuity based on accumulated balances, member's life expectancy, other credits, future interest assumptions, and selected pay out option
Nebraska PERS	<ul style="list-style-type: none"> • Member 4.8% as per statute • 5% minimum or applicable federal mid-term rate + 1.5% as per statute • Employer matches member contributions at a rate of 1.56:1 as per statute 	<ul style="list-style-type: none"> • Lifetime monthly annuity based on accumulated account balances and selected pay out option

Broad Outline

- Executive Summary
 - Scope of study and findings
- Plan Background
 - History, current funding structure and valuation, and member profile
- Analysis of Benefit Designs
 - Retirement eligibility
 - Final average salary
 - Multiplier
- Analysis of Plan Structures
 - Defined Contribution
 - Hybrid Two-Part Plan
 - Cash Balance Plan

Proposed Timeline

February	<ul style="list-style-type: none"> • 16 Receive Board direction on the study timeline and scope • Produce TRS Today video
March	<ul style="list-style-type: none"> • Town hall meeting (web cast from Austin) • Develop plan design and structural options for fiscal and actuarial analysis
April	<ul style="list-style-type: none"> • 19-20 Update Board • Include article in <i>TRS Chalkboard</i>
April to May	<ul style="list-style-type: none"> • Receive results of actuarial and fiscal analysis
June	<ul style="list-style-type: none"> • 8-9 Update Board
August to Sept	<ul style="list-style-type: none"> • Release the Study
August to Sept	<ul style="list-style-type: none"> • Town hall meeting (web cast from Austin)

Questions and Answers





BEST PRACTICE

Developing a Policy for Retirement Plan Design Options (1999, 2007) (CORBA)

Background. The retirement benefit is a form of compensation designed to assist the employer in the recruitment and retention of public employees and other workforce management goals. It is also provided to assist employees in preparing for retirement and compensate individuals for their years in public service.

Broadly speaking, there are two types of retirement plans, defined benefit and defined contribution. Defined benefit plans, with very few exceptions, provide a retirement benefit calculated using a formula based upon a plan participant's years of service and compensation. Generally, both employers and participants contribute to these public sector defined benefit plans. All assets accumulated to fund the retirement benefits are invested by the retirement board or a central agency responsible for investing government funds. All investment-related risk is generally borne by the employer. These plans are predominant in the public sector, covering over 90 percent of full-time public sector employees.¹

Principal features of defined benefit plans generally include:

1. Investment risk born by the plan sponsor;
2. Life expectancy risk born by the plan sponsor;
3. Survivor and disability coverage generally provided;
4. Guaranteed lifetime annuity to members at retirement unless they choose an alternate payment method;
5. Investments directed by the plan;
6. Generally lower investment costs associated with a defined benefit plan as compared to other plan designs;
7. More useful tool for employers to attract and retain employees for full careers and to manage workforce levels; and
8. Guaranteed or ad-hoc cost-of-living adjustments provided to annuitants.

A defined contribution plan provides for benefits based solely on the assets available in an employee's individual account, to which both employees and employers may contribute. All employees have their own accounts set up within the plan to which contributions and investment gains and losses are recorded. Typically, under a defined contribution plan, employees direct the investment of their contributions among investment options selected by plan trustees, the employer or the employer's designated agent and therefore fully bear the investment risk. The dollar amount accumulated in a defined contribution plan will vary depending upon the amount contributed to the plan, the investment performance, the level of risk taken, and the fees paid.

Principal features of defined contribution plans generally include:

1. Portable vested benefits;
2. Employer obligations fulfilled annually as contributions are made, so there is no unfunded liability;
3. Investments directed by participants;
4. Account balances at retirement dependant upon a combination of investment rate of return, contribution levels and the period of investment;
5. Easier to understand account values as participants can see their balance on a regular basis;
6. Investment risk and fees born by participant;
7. Life expectancy risk born by the participant;

¹ U.S. Department of Labor. Bureau of Labor Statistics. *Employee Benefits in State and Local Governments, 1998*.

8. No cost of living allowances after retirement; however, participants continue to earn investment income on their remaining assets; and
9. Neither disability nor survivor coverage generally provided.

In addition to defined benefit and defined contribution plans, some entities provide retirement benefits through “hybrid plans” that incorporate features of both defined benefit and defined contribution plans.

For any of these plans, the actual costs to plan sponsors and participants are determined by the number and amount of benefits actually paid to recipients, and the source and amount of plan contributions and investment returns.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments have a policy statement that will guide their on-going plan design decisions. This policy should encourage governments to provide sustainable and properly funded retirement plans, which will attract employees in a competitive labor market, facilitate effective management of the workforce, and fulfill retirement needs.

In developing a policy for retirement plan design, a state or local government should consider the following:

- Purpose of the retirement plan (e.g., level of replacement income and purchasing power retention);
- Ability of public retirees to contribute to the economic viability of their community and not become a financial liability to the community in which they live due to inadequate retirement income;
- Organization’s philosophy regarding employer and employee responsibilities in preparing for retirement;
- Availability of Social Security, retiree medical benefits, disability and survivor benefits, and supplemental (e.g. 457) savings plans;
- Costs, including the employer’s ability to sustain payments and perhaps increase benefits over time and cost predictability;
- Labor market considerations such as competitive environment, workforce mobility, length of employee service, and recruitment and retention of employees;
- Investment risk and control, including how investment risk is allocated between employer and employee;
- Portability of benefits;
- A plan design that can be communicated to and understood by plan participants;
- Employee educational efforts; and
- Advantages of the different types of plans (e.g., defined benefit, defined contribution, and hybrid.)

References

- *Benefit Design in Public Employee Retirement Systems*, Thomas P. Bleakney and Jane D. Pacelli, GFOA, 1994.
- *An Elected Official’s Guide to Public Retirement Plans*, Cathie G. Eitelberg, GFOA, 1997.
- *Investing Public Funds*, Second Edition, Girard Miller with M. Corinne Larson and W. Paul Zorn, GFOA, 1998.
- *An Elected Official’s Guide to Defined Benefit and Defined Contribution Plans*, Nicholas Greifer, GFOA, 1999.
- *A Comparative Analysis of Defined Benefit and Defined Contribution Retirement Plans*, Paul Matson and Susanne Dobel, 2006. (Available at: <http://www.nasra.org/resources/ASRS%20DBDC%20White%20Paper.pdf>).

Approved by the GFOA’s Executive Board on March 2, 2007.



BEST PRACTICE

Essential Design Elements of Hybrid Retirement Plans (2008) (CORBA)

Background. In its Best Practice (BP), *Developing a Policy for Retirement Plan Design Options* (2007), the Government Finance Officers Association (GFOA) recommends that public sector employers or plan sponsors have a policy statement that will guide their plan design decisions. Once a pension plan design decision has been made, GFOA members can refer to this BP on *Essential Design Elements of Hybrid Retirement Plans* to review the essential elements of offering a hybrid retirement plan or incorporating a hybrid feature.

Separate best practices have been adopted for the *Essential Design Elements of Defined Benefit Retirement Plans* and the *Essential Design Elements of Defined Contribution Retirement Plans*. These best practices should be consulted accordingly.

The emergence of hybrid plans in recent years, offering a combination of defined benefit and defined contribution plan features shows how the public retirement benefits environment is changing. Hybrid plans may be offered as a primary, optional or supplemental plan.

(A) Hybrid Account Balance Plans

There are a growing number of hybrid plans that express future retirement benefits as account balances. The key difference between defined contribution plans and hybrid plans is that defined contribution plans establish an actual funded account for each participant, which contains employer and employee contributions and investment gains and losses, while hybrid plans establish “accounting” or notational accounts for each participant. The participant’s balance in a hybrid plan continues to grow throughout employment, and the benefit is defined by the current value of the account.

The most common hybrid account balance plans are:

1. **Cash Balance Plans** - In cash balance plans, the employer sets aside a percentage of an employee’s salary each period and the balance set aside earns interest at a set rate. In other words, the employer promises to make a contribution to an account, usually with a specified percentage of pay (also referred to as a credit to the employee’s account), and to credit the account with interest, usually a specified rate of return or a rate based on the yield of a particular benchmark. The employer invests the funds, retaining all investment income and bearing all the risks. The plans generally provide participants the option of receiving their vested account balances as an annuity or as a lump-sum.
2. **Pension Equity Plans** – In a pension equity plan, the balance in the employees’ account equals a given percentage of the employees’ final average salary for each year of service. Some plans increase the percentage with additional years of service. Pension equity plans have various flexible features, which should be analyzed before a plan is selected. The plans generally provide participants the option of receiving their vested account balances as an annuity or as a lump-sum.

(B) Plans with Hybrid Features

1. Defined Benefit Plan (DB) with Defined Contribution (DC) features - Public sector plans have options under section 401(a) of the IRC to add a defined contribution feature to a defined benefit plan. There are several variations of DB plans with defined contribution features. Some of these are referred to as blended plans or combination plans. Although not considered a traditional hybrid plan or feature, another common approach is to simply offer a defined benefit plan and a separate voluntary defined contribution plan such as a 457, 403(b) or 401(k) plan.
2. Defined Contribution Plan (DC) with Defined Benefit (DB) features – Defined contribution plans may seek ways to allow members to manage the risk of outliving their money. This could include the purchase of an annuity contract, or allowing a transfer out of the DC plan into an appropriate DB plan where the employee can annuitize this transferring DC balance.

Recommendation. Should an employer choose to provide a hybrid retirement benefit plan, the GFOA recommends that retirement system administrators and finance professionals consider the following before adopting hybrid plans or combining hybrid features with defined benefit or defined contribution plans:

1. Whether the hybrid plan will serve as the primary income replacement vehicle or will a hybrid feature be added to supplement a defined benefit or defined contribution plan.
2. Whether the plan will replace a current defined benefit plan or defined contribution plan, become part of a blended plan, or be offered as an alternative to all employees or to new employees at the time of hire.
3. The purpose of the hybrid plan; is the hybrid plan intended to:
 - (a) Reduce the employer's cost by utilizing hybrid plan cost control features including how investment risk is allocated between the employer and employee.
 - (b) Enhance the employer's ability to recruit and retain employees, including older employees and/or younger more mobile employees, by offering retirement plans providing:
 - 1) predictable and/or guaranteed benefits, including adequate disability, survivor benefits and other ancillary benefits.
 - 2) portable benefits upon termination or retirement.
 - 3) benefits which are easily communicated to the participant.
4. Whether the hybrid plan or feature under consideration achieves the employer's stated purpose for changing, supplementing or replacing the current plan.
5. Whether there are projected short and long-term costs and/or savings of changing the plan or feature and will the plan or feature be sustainable long-term. Evaluation of costs and/or savings should include not only direct pension costs but also an estimate of the impact on other benefits and on total compensation costs. Consideration should also be given to the possible increased cost of administering additional plans or more complex plan features. For example, does the internal plan staff have the knowledge and skills to administer a hybrid plan or will additional consulting services be required?
6. Plan conversions or implementing new plans should be undertaken with competent professional advice and assistance. Conversion of a defined benefit plan to a hybrid plan should be undertaken with careful consideration and with legal assistance. Consider whether the hybrid plan or plan feature complies with

the Pension Protection Act of 2006 and its implementing regulations. Particular attention should be paid to issues regarding age discrimination.

7. Whether the relevant plan or features comply with GFOA Recommended Practices for Defined Benefit and/or Defined Contribution Retirement Plans, as appropriate.

References

- *Hybrid Retirement Plans: The Retirement Income System Continues to Evolve*, Employee Benefit Research Institute, EBRI Issue Brief #171/Special Report SR-32, March 1996, www.ebri.org/publications.
- *Hybrid Pension Plan Coverage: Retirement Into the 21st Century*, testimony presented to the United States Senate, Committee on Health, Education, Labor and Pensions, September 21, 1999, by Ron Gebhardtshauer, Senior Pension Fellow, American Academy of Actuaries, www.actuary.org.
- *What is a Pension Equity Plan?*, L. Bernard Green, U.S. Department of Labor, Bureau of Labor Statistics, posted October 29, 2003, www.bls.gov/opub/cwc.
- *Role of Employer-Sponsored Retirement Plans in Increasing National Savings*, Testimony of James A. Klein, President of the American Benefits Council, before a Hearing of the Senate Special Committee on Aging on the Washington D.C., April 12, 2005, www.americanbenefitscouncil.org
- *The Value of Defined Benefit Plans*, American Academy of Actuaries, July 2006 Issue Brief, www.actuary.org.
- American Benefits Institute, policy and research affiliate of the American Benefits Council, various issue papers and publications, www.americanbenefitscouncil.org
- The Center for American Progress, issue papers and publications, www.americanprogress.org.
- *Final Retirement Legislation Should Include Comprehensive Clarification of the Validity of Hybrid Plans Without Costly Mandates*, American Benefits Council, www.americanbenefitscouncil.org.
- Gabriel, Roeder, Smith & Company, issue papers and publications, www.gabrielroeder.com.
- The International Foundation of Employee Benefit Plans, issue papers and publications, www.ifebp.org.
- The Pension Protection Act (H.R. 4), House Committee on Education & the Workforce, bill summary, <http://edworkforce.house.gov/>.
- Pension Research Council Publication, University of Pennsylvania, Pennsylvania Press, issue papers and publications, www.pensionresearchcouncil.org.
- Pension Rights Center, issue papers and publications, www.pensionrightscenter.org.

Approved by the GFOA's Executive Board, February 22, 2008.

RESOLUTION 2010-01 - Guiding Principles for Retirement Security and Plan Sustainability

WHEREAS, state and local government employee retirement systems have demonstrated the ability to thrive in highly volatile market environments; and

WHEREAS, the resilience of public plans during periodic market declines is sustained through long-term investment and financing strategies; statutory, contractual, moral, and in some cases constitutional benefit protections; as well as the ability to adjust plan designs, financing structures, and governing statutes to accommodate changing needs and fiscal realities; and

WHEREAS, needed periodic modifications, which have a history in state and local government retirement plans, require an open public legislative and regulatory process involving all stakeholders - governments, their plans, their employees (who typically share in the financing of their pension), and other taxpayers; and

WHEREAS, this open public process requires honest, unbiased and relevant information on public financing and long-term retirement policy objectives that should not be unduly influenced by projections that include unrelated healthcare liabilities or irrelevant corporate sector metrics, or that exclude relevant data regarding the inefficiencies and steep transition costs of closing, rather than adjusting existing plans; and

WHEREAS, differing plan designs, financial conditions, and fiscal frameworks across the country do not lend themselves to one-size-fits all solutions, but rather, require a range of tailored approaches, agreed to by the relevant stakeholders, in order to best secure the viability of each state and local retirement system for the very long-term; and

WHEREAS, core elements of public pension plan design – which include mandatory participation, benefit adequacy, shared financial responsibility, pooled assets invested by professionals over long time frames, and benefits that cannot be outlived – are the most reliable and economical means of providing retirement security, while also assisting in the retention of qualified workers needed to perform essential public services and providing economic stability to local communities; and

WHEREAS, these core components of public pension plan design are indispensable to sound retirement policy and not only should be retained in current and future benefit designs in the public sector, but also should be cultivated in the design of retirement plans for employees outside the public sector; and

WHEREAS, federal policy should be supportive of these central features of public pension design and the flexibility of state and local governments to meet local needs and concerns, and should also encourage the development of similar design characteristics in retirement plans beyond the public sector;

NOW, THEREFORE, BE IT RESOLVED, that the National Association of State Retirement Administrators supports the following guiding principles to retirement security and public plan sustainability:

- Participation of all relevant stakeholders, including government employers, their plans, their employees, plan beneficiaries and retirees, and other taxpayers in discussions and processes pertaining to the design and financing arrangements of public retirement plans
- Policy-driven decision making based on objective and pertinent information that fairly reflects the long-term time horizon and economic effects of public plan financing, benefit adequacy and benefit distributions
- Tailored solutions, achieved by affected stakeholders working through the state and local legislative and regulatory processes
- Retention of core, indispensable elements of public plan design, namely mandatory participation, shared financing, benefit adequacy, pooled investment and longevity risks, and lifetime benefit payouts
- Removal of federal policy barriers to the preservation of these central retirement plan design features in the public sector and adoption of federal policies that encourage their inclusion in the private sector.

Adopted August 11, 2010

As research director for the National Association of State Retirement Administrators, Keith Brainard collects, prepares and distributes to NASRA members news, studies and reports pertinent to public retirement system administration and policy. NASRA members are the directors of 81 statewide public retirement systems in the United States. Combined, these systems hold assets of more than \$2 trillion to fund pension and other benefits for most of the nation's 22 million working and retired employees of state and local government.

Mr. Brainard is co-author of *The Governmental Plans Answer Book, Second Edition*, and he created and maintains the Public Fund Survey, an online compendium of public pension data sponsored jointly by NASRA and the National Council on Teacher Retirement. Keith created the State & Local Pension Exchange, predecessor to the Public Fund Survey and recipient of the *Award for Excellence in Government Finance* from the Government Finance Officers Association. He has discussed public pension issues before Congress, state legislative committees, public pension boards of trustees, and on broadcast television and radio.

Mr. Brainard previously served as manager of budget & planning for the Arizona State Retirement System and he provided fiscal research and analysis for the Texas and Arizona legislatures. He has a master's degree from the University of Texas-Austin, LBJ School of Public Affairs.

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Professional Experience

Mary Beth works with governmental retirement and health systems on federal tax questions, compliance with federal law, fiduciary issues and plan design innovations. Recent projects include financing/designing health benefits; fiduciary audits on governance and investment practices; innovative pick-up programs; qualified excess benefit arrangements; correction projects; and design of comprehensive compliance strategies.

In the last several years, a number of complex "change" questions have arisen, often in connection with sustainability and design projects. Ice Miller's Employee Benefits Group strives to be creative and constructive in these projects.

She is currently a member of the Advisory Board of the National Council of Teachers Retirement (NCTR), the Emeritus Board of the National Association of Public Pension Attorneys (NAPPA), the National Association of Government Defined Contribution Administrators (NAGDCA), the Indiana Municipal Lawyers Association and the American College of Employee Benefits Counsel. She is also a member of the IRS Determination Liaison Group.

Education

Indiana University School of Law-Indianapolis (1981)

Admitted to Practice

Indiana, Texas

Professional Associations

Member, Indiana Municipal Lawyers Association
Member, National Association of Public Pension Attorneys Emeritus Board

Member, National Council of Teachers Retirement Corporate Advisory Committee

Member, National Association of Governmental Defined Contribution Administrators, American College of Employee Benefits Counsel, IRS Determination Letter Liaison Group

Special Certifications

Fellow, American College of Employee Benefits Counsel, Inducted in September 2006

Awards and Recognitions

The Best Lawyers in America Employee Benefits Law, 1989-2012

Martindale-Hubbell Bar Register of Preeminent Lawyers, 2004-2011

Who's Who of American Women, Most Recently Listed in 2010-2011

Who's Who in American Law, 2011

Indiana Super Lawyers, 2011

Who's Who in America, 2011

Published In

Contributor, CCH Law, Explanation and Analysis, Pension Protection Act of 2006; "Update on Legal Issues Affecting Public Plans," NCTR Annual Conference, Austin, Texas, October 2006; "Current Regulatory Requirements for Employee Health Expense Accounts - HRAs and HSAs," NAGDCA, September 2006; "Guide to the Proposed 415 Regulations for Qualified Governmental Plans," NCTR Annual Conference, Tampa, Fla., October 2005; "Selected Federal Regulatory Development for Governmental Plans," NAPPA Annual Conference, June 2005; "Plan Assets - A Moving Target?" NAPPA Annual Conference, June 2004; "Advanced Tax" Workshop, NAPPA Annual Conference, San Francisco, Calif., June 2003; "Retiree Health Care Programs," Government Finance Officers Association Annual Convention, May 2003; "403(b) Plan Update;" "Governmental Plan 457 Proposed Regulations," IRS Leadership Conference, Chicago, Ill., Oct. 24, 2002; "Governmental Plan 457 Proposed Regulations," Public Safety Employees Pension and Benefits Conference, Palm Springs, Calif., Oct. 21-23, 2002; "Recent Regulatory Developments for Public Pension Plans," National Council on Teacher Retirement 80th Annual Convention, Anchorage, Alaska, Oct. 7-10, 2002; "Portability Issues After EGTRRA;" "Governmental Plans Update - ALI-ABA Retirement, Deferred Compensation and Welfare Plans of Tax Exempt and Governmental Employers" and "Retirement Savings Legislation Included in Tax Relief Bill Applicable to Governmental Plans," ALI-ABA - Washington, D.C., Sept. 11-13, 2002; "High Performance Plans - Innovations in Service Purchase, Retiree Medical, and Leave Conversion," National Association of State Personnel Executives, August 2002 Convention

Speaking Engagements

She is a frequent writer and speaker on public plan issues. She recently presented in the following: "Governmental Plans Tax Update," National Council on Teacher Retirement, October 2011; "Legal Perspective," American College of Bond Counsel, October 2011; "Governmental Plans Tax Update," P2F2 Annual Conference, October 2011; "Governmental Plans Tax Update," National Council on Teacher Retirement, October 2010; "Governmental Plans Health Update 2010/2011 Legal Activity," P2F2 Annual Conference, September 2010; "Governmental Plans Tax Update," P2F2 Annual Conference, September 2010, "Tax Panel, Part 1: Operational Compliance Reviews," P2F2 Annual Conference, October 2009; "Tax Panel, Part 2: IRS Compliance Update," P2F2 Annual Conference, October 2009; "Legal Update for Governmental Plans," National Council on Teacher Retirement, October 2009; "Update on PPA Provisions Affecting Distributions from Governmental Plans," ALI-ABA Course of Study: Retirement, Deferred Compensation, and Welfare Plans for Tax-Exempt and Governmental Employers, Sept. 11, 2009; "Governmental Plans and IRS Compliance," P2F2 Conference, October 2008; "Update on Legal Issues Affecting Public Plans," National Council on Teacher Retirement, October 2008; "Revenue, Expenses, and Disclosure," National Association of Government Defined Contribution Administrators, September 2008; Moderated at the National Association of Public Pension Attorneys Conference, June 2008; "Compliance Countdown for 403(b) and Governmental 457(b) Plans," Great Lakes Benefits Conference, April 2008; "Implementing a Domestic Partner Benefits Policy," 2007 Winter Edition Human Resources 2008, Answers to Your Top 25 Question; "Legislative/Regulatory Developments In The Public Sector," 53rd Annual Employee Benefits Conference (International Foundation of Employee Benefit Plans), November 2007; "Developing An Approach To Funding Retiree Health Benefits: One Size Does Not Fit All," National Education Association Retirement Benefits Forum, November 2007; "Governmental Plans Legal Update – Selected Regulatory Developments," National Council on Teacher Retirement, October 2007; "Current Regulatory Overview – GASB Standards 43/45 – Funding for Retiree Health Care" – National Association of Government Defined Contribution Administrators, September 2007; "Pension Protection Act of 2006 Workshop," Municipal Law XXIV, June 21, 2007; "Current Benefit Issues," Panel, NAPPA Annual Conference, June 2007; "GASB Statement 45," Public Employee Forum (NCPERS, International Association of Fire Fighters and American Federation of Teachers), Washington, D.C., February 7, 2007; "Update on Legal Issues Affecting Public Plans," National Council on Teacher Retirement, Austin, Texas, October 2006; "Current Regulatory Requirements for Employee Health Expense Accounts – HRAs and HSAs," National Association of Government Defined Contribution Administrators, September 2006; "Federal Regulatory Update," NCTR Annual Conference, October 2005;

"Selected Federal Regulatory Developments for Governmental Plans," NAPPA Annual Conference, June 2005; "Plan Assets - A Moving Target?," NAPPA Annual Conference, June 2004; "Advanced Tax Workshop," NAPPA Annual Conference, June 2003; "The Changing Landscape of the Way We View Retirement - Early Retirement Incentives," NAPPA Annual Conference, June 2003; "403(b) Plan Update," and "Governmental Plan 457 Proposed Regulations," IRS Leadership Conference, Chicago, Ill., October 24, 2002; "Governmental Plan 457 Proposed Regulations," Public Safety Employees Pension and Benefits Conference, Palm Springs, Cal., Oct. 21-23, 2002; "Recent Regulatory Developments for Public Pension Plans," National Council on Teacher Retirement 80th Annual Convention, Anchorage, Alaska, Oct. 7-10, 2002; "Portability Issues After EGTRRA," "Governmental Plans Update - ALI-ABA Retirement, Deferred Compensation and Welfare Plans of Tax Exempt and Governmental Employers," and "Retirement Savings Legislation Included in Tax Relief Bill Applicable to Governmental Plans," ALI-ABA, Washington, D.C., Sept. 11-13, 2002; "High Performance Plans - Innovations in Service Purchase, Retiree Medical, and Leave Conversion," National Association of State Personnel Executives, August 2002 Convention

Internal Committees

Co-Chair, Ice Miller's Employee Benefits Group

Mr. Joseph Newton, FSA, EA, FCA, MAAA, is a Senior Consultant & Actuary and the Pension Practice Team Leader for Gabriel, Roeder, Smith & Company's (GRS) Southwest Region and a serves on the company's Board of Directors. Joe has 12 years of experience with public pension retirement systems. He provides actuarial valuations, benefit and cost studies, experience analyses, asset-liability modeling, and related consulting. Joe's pension clients include statewide plans in Texas, Colorado, Rhode Island, Hawaii, and Wyoming. Joe also serves as an actuary for statewide post-retirement medical plans in Texas and South Carolina. He has spoken at national conferences such as the NCTR and SCTR.

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Legislative Studies

TRS-Care Study

Board of Trustees Meeting
February 16, 2012

TRS-Care Fund Balance



	Retire Premiums	State Contributions	Member Contributions	District Contributions	Investment Income	Part D Subsidy	ERRP Reimbursemt	Medical Incurred	Drug Incurred	Admin	Fund Balance
2011	\$345,164,271	\$282,782,431	\$183,808,580	\$158,724,010	\$8,168,640	\$66,258,008	\$70,629,797	\$608,461,321	\$384,017,059	\$47,151,354	\$890,870,306
2012	\$367,664,736	\$282,782,431	\$183,808,580	\$160,760,146	\$9,150,175	\$61,939,142	\$0	\$710,452,870	\$459,109,388	\$54,022,740	\$733,390,518
2013	\$370,649,070	\$141,391,216	\$183,808,580	\$160,760,146	\$6,256,884	\$73,083,506	\$0	\$782,239,160	\$530,269,864	\$56,654,881	\$300,176,016
2014	\$379,683,773	\$296,921,553	\$192,999,009	\$168,536,663	\$2,203,336	\$84,794,462	\$0	\$863,634,346	\$610,186,417	\$58,205,238	(\$106,711,189)
2015	\$388,164,593	\$311,767,630	\$202,648,960	\$176,702,006	\$0	\$98,012,026	\$0	\$952,562,783	\$699,303,273	\$59,702,375	(\$640,984,405)
2016	\$396,261,002	\$327,356,012	\$212,781,408	\$185,275,616	\$0	\$112,703,094	\$0	\$1,050,924,677	\$798,035,845	\$61,135,240	(\$1,316,703,036)
2017	\$403,411,281	\$343,723,812	\$223,420,478	\$194,277,906	\$0	\$129,330,949	\$0	\$1,155,429,880	\$907,747,116	\$62,466,294	(\$2,148,181,900)

TRS-Care Plan Design

- Law requires a basic plan at no cost for retiree only coverage.
- Optional coverage may be offered at a cost to retirees.
- Premiums for optional coverage is based on:
 - Medicare status
 - Years of service

TRS-Care Enrollment

- TRS-Care offers three plans.
- 222,722 covered lives as of January 1, 2012:

<u>TRS-Care 1</u>	<u>TRS-Care 2</u>	<u>TRS-Care 3</u>
31,808	39,530	151,384

- 56% Medicare, 44% non-Medicare or Part B only.

82nd Legislative Session



- Several significant riders to Appropriations Bill regarding TRS-Care:
 - All estimated General Revenue in excess of the state's actual obligations for retirement and retiree insurance contributions are re-appropriated to TRS-Care for FY 2012.
 - It is the intent of the Legislature that the TRS Board of Trustees shall not increase retiree health insurance premiums for the 2012-2013 biennium.

82nd Legislative Session



- Riders (cont'd)
 - TRS shall conduct a study of the current Texas Public School Retired Employees Group Insurance Program. The study shall include a comprehensive review of potential plan design and other changes that would improve the long-term sustainability of the health insurance program.
 - Report due to the LBB and the Governor by September 1, 2012.

Federal Health Care Legislation



- Affordable Care Act (ACA) provides for sweeping changes in the medical environment.
- Some changes already in effect.
- 2014 next major milestone. Health care exchanges to be established for the individual market.
- Uncertain future.

- Legislation has been challenged by 26 states, including Texas.
- The Supreme Court docket outlines 3 days of arguments in March:
 - March 26: Does the Anti-Injunction Act apply? If it does, legal action must wait until the penalty becomes effective in 2014.
 - March 27: Commerce Clause and the individual mandate. Can the federal government force an individual to engage in interstate commerce by buying insurance?
 - March 28: A Severability Clause was not in the final ACA draft passed by the Senate. If the individual mandate is ruled unconstitutional, can any, or some parts of the remaining law survive.
- The Supreme Court is expected to provide a ruling in June 2012.

Plan Sponsor Initiatives

- Take advantage of federal subsidies.
 - Employer Group Waiver Plan (EGWP + Wrap)
 - Medicare Advantage
- Plan for Individual Exchanges included in the ACA and determine if they provide an option for early retirees.
- Consider private exchanges for Medicare retirees.
- Evaluate Defined Contribution alternatives.

TRS-Care Initiatives



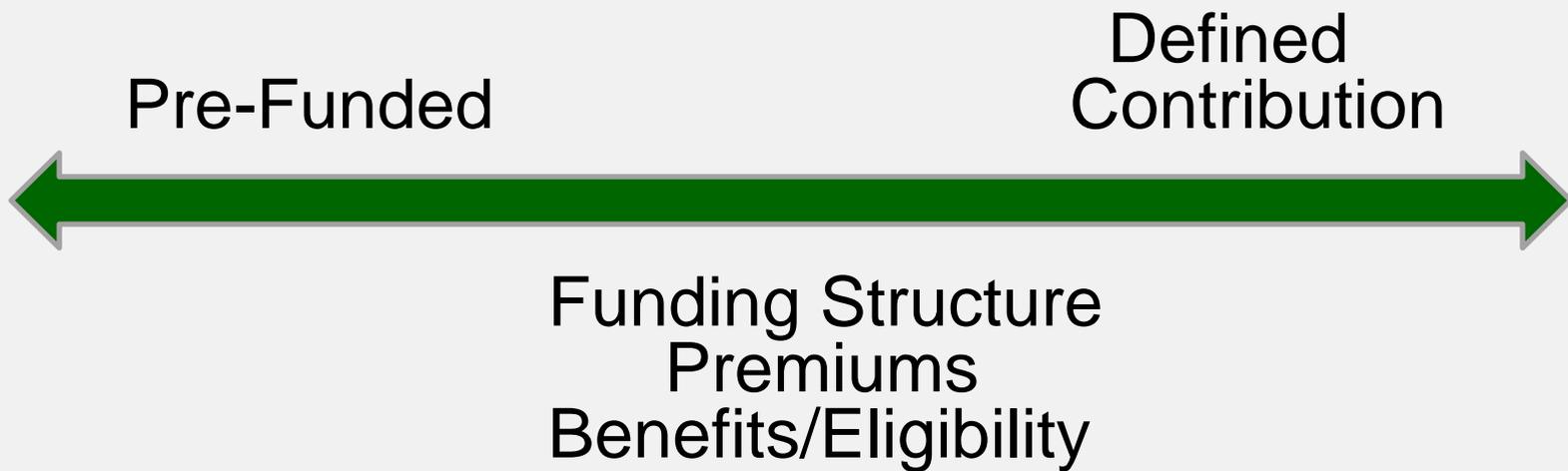
- Medicare Part D EGWP: RFP issued for a PBM with RDS or EGWP option. Staff recommendation today.
- Medicare Advantage: RFP issued for potential fully-insured Medicare Advantage plan offering. Recommendation to the Board in May.
- Anticipate significant savings which should be considered in discussion of premiums and benefits in May.

TRS-Care Study



- Options for long-term sustainability.
- Three-legged stool:
 - Benefits/eligibility (including how benefits are managed)
 - Retiree premiums
 - Other contributions (state, district, active employee, federal)

TRS-Care Study



TRS-Care Study Potential Options



- Prefund TRS-Care by contributing the Annual Required Contribution.
- Continue to fund on a biennial basis. This would require linking revenue growth to TRS-Care trend.
- Tighten the eligibility requirement (e.g., require satisfaction of Rule of 85).
- Discontinue TRS-Care 2 and TRS-Care 3 and offer only a base plan.

TRS-Care Study Potential Options



- Index deductibles and copays.
- Phase out pharmacy benefit by 2020.
- Cover Non-Medicare retirees under ActiveCare.

TRS-Care Study Potential Options



- Defined Contribution approaches
 - Provide a flat amount to each retiree.
 - Provide a flat amount to each retiree based on Medicare status.
 - Base flat amount on years of service.
 - Base flat amount on ability to pay similar to Medicare Part B approach.
 - Base flat amount on expected cost of base plan.

TRS-Care Study Potential Options



- Private exchanges for Medicare retirees.
- Individual exchange options for Non-Medicare retirees in 2014.

Health Care

TRS-Care PBM Background Information Board of Trustees Meeting

February 16, 2012

TRS-Care RFP

- RFP issued in September for a pharmacy benefit manager (PBM):
 - To determine if more favorable overall pricing available in the PBM market
 - Explore Employer Group Waiver Plan (EGWP)
- Requested proposals for both the RDS and EGWP options.

Board Action

- Final staff recommendations will be presented to the Board.
- Board will take action:
 - To select a PBM vendor
 - Whether to change to EGWP option

Medicare Part D

- Federal program introduced in January 2006 to subsidize the cost of prescription drugs for Medicare beneficiaries.
- Several options available to plan sponsors:
 - Retiree drug subsidy (RDS)
 - Employer Group Waiver Plan (EGWP), either direct or indirect with or without a wrap around plan
 - Retirees obtain Medicare Part D plan in private market

Medicare Part D

- RDS
 - Reimburses plans 28% of the cost of drugs between \$320 and \$6,500 (FY 13)
 - Relatively less complex
 - Administratively inexpensive
 - Invisible to members
 - Preferential tax treatment

Medicare Part D

- EGWP option
 - Administratively complex and expensive
 - Extensive required member communication
 - Federal funding can be used to offset GASB 43 OPEB (Other Post Employment Benefits) long-term liability for retiree benefits

Medicare Part D

- Standard Part D:
 - Plan is reimbursed a flat risk adjusted amount per member per month
 - Reinsurance for members reaching catastrophic Rx levels
 - Members pay a % of the cost of drugs which varies as their out-of-pocket share accumulates
- Wrap can stabilize the member cost share by providing supplemental coverage to the standard Part D plan.

Medicare Part D



- TRS-Care opted for the RDS.
- Since 2006 TRS has continued to compare the RDS option to the EGWP option and has determined that there was no financial advantage to the EGWP option.

Medicare Part D

- Affordable Care Act
 - Federal health care legislation includes a provision to close the “donut hole”
 - Drug manufacturers provide a 50% discount on brand drugs in the “donut hole”
 - Elimination of the RDS tax-favored treatment
- What happens if the Supreme Court rules against ACA?

Memorandum

To: Board of Trustees of the Teacher Retirement System of Texas

From: Brian Guthrie, Executive Director

Date: February 1, 2012

Re: Selection of TRS-Care Pharmacy Benefit Manager

Introduction

As authorized under Chapter 1575, the Teacher Retirement System of Texas (TRS) and its consultant, Gabriel Roeder Smith & Company (GRS), solicited and evaluated proposals to select a pharmacy benefit manager (PBM) for TRS-Care, the statewide health benefits plan for retired Texas school employees. The pharmacy benefit manager will work closely with the health plan administrator and will provide retail and mail order prescription services to eligible TRS-Care participants and manage pharmacy utilization. The Request for Proposals (RFP) was posted and published October 18, 2011.

Eligibility for Consideration

The PBM must have demonstrated conclusively the capability to administer plans as large and complex as TRS-Care. Rules adopted by the Board of Trustees and minimum requirements recommended by GRS for organizations submitting proposals state that respondents must have:

- At least five years experience providing pharmacy benefit management services and must have at least five years experience in the administration of a retail pharmacy network.
- At least one million (1,000,000) covered lives across the respondent's pharmacy benefit management book of business as of the Proposal submission date.
- At least one employer group of at least 200,000 covered lives with composition similar to TRS-Care (both Medicare and non-Medicare retirees).
- Three government clients with at least 50,000 covered lives.
- At least one billion dollars (\$1,000,000,000) in annual pharmacy benefit premiums, services or product income.
- Proof of current URAC (Utilization Review Accreditation Commission) accreditation.

In addition, the organization must offer access to a statewide network of providers.

Responses

The following seven organizations responded by the December 7, 2011 deadline:

- Aetna
- CVSCaremark, L.L.C.
- Express Scripts, Inc.
- InformedRX
- Medco Health Solutions, Inc.
- Navitus
- Scott & White Health Plan

Scott & White Health Plan withdrew its proposal before it was evaluated.

The non-financial portions of each of the six remaining proposals were evaluated by a review team consisting of three voting TRS senior staff members, supported by five other TRS employees from Health & Insurance Benefits, Legal, Internal Audit, Purchasing and a team provided by GRS. The GRS team consisted of Bill Hickman, Amy Cohen, ASA, Mike Madalena, and Kevin DeStefino, RhP. Each voting team member independently scored the proposals.

The financial portions of each of the six remaining proposals were evaluated by the GRS team, which presented their analysis to TRS for inclusion in the overall evaluation of each proposal.

Based on aggregated results, three finalists were identified and invited to best and final offer meetings conducted on January 19, 2012. These finalists were CVSCaremark, LLC, Express Scripts, Inc., and Medco Health Solutions, Inc. Each respondent was asked additional questions during the best and final offer meeting and to provide additional clarifying information and data for consideration by TRS.

Evaluation Methodology

The evaluation team consisting of TRS staff members and GRS consultants reviewed the finalists' proposals, responses during the best and final offer meetings, and subsequent information provided to TRS by the respondents. In its review the team considered, among other factors, the following:

- Statewide Network Access – Existing networks and willingness to solicit additional providers if requested by TRS.
- Quality of Service – Service to TRS-Care participants and TRS. It includes staff dedicated to TRS, training, performance guarantees and flexibility.
- Costs – Includes administrative costs, guaranteed rebates, and network discounts.

Evaluation Process

Questionnaire and Administrative Requirements— Respondents completed a detailed questionnaire that encompassed general information, corporate capability information, corporate financial information, network access, quality management, administrative ability, and the ability to manage TRS-Care and conduct participant enrollments. They were provided a list of administrative requirements to which they either agreed or provided alternatives for the consideration of the evaluation team.

Program Costs/Pricing

TRS requested each PBM to provide responses and pricing for two different benefit alternatives. The alternatives were as follows:

- *Proposal #1* – The PBM would pass 100% of the rebate revenue to TRS and there would be minimum guaranteed rebates per script. Any administrative fees would be specifically identified in the proposal. The respondent would facilitate TRS’s claims under the Retiree Drug Subsidy (RDS) program. (This alternative resembles the current contractual arrangement for TRS-Care.)
- *Proposal# 2* – Essentially the same as Proposal #1 for TRS-Care 1 participants and for non-Medicare enrollees in TRS-Care 2 and TRS-Care 3. Medicare enrollees in TRS-Care 2 and TRS Care 3 would, beginning January 1, 2013, be enrolled in an Employer Group Waiver Program (EGWP) through the PBM’s contract with the Centers for Medicaid and Medicare Services (CMS). This EGWP would include a “Wrap” feature so that enrollees would continue to enjoy similar benefits to the current program.

Under each scenario the proposed pharmacy discounts and rebates were applied to TRS-Care’s actual average wholesale price (AWP) for FY 2011. The proposed dispensing fees were multiplied by the actual number of scripts, by type, for FY 2011. Member copayments were taken into account to approximate the FY 2011 annual cost under the proposed program prior to the guaranteed rebates being applied. The total program cost was trended forward based on expected annual trend and growth to FY 2013 and FY 2014. Estimated FY 2013 and FY 2014 guaranteed rebates were then calculated and taken into account to estimate the program cost under each alternative for each proposing PBM.

The administrative costs and projected plan savings under the EGWP arrangement for Medicare enrollees was included in the financial analysis by GRS.

Finalists Interviews – In finalist interviews with Caremark, Express Scripts, and Medco, the evaluation team explored several elements of the respondents’ proposals in greater detail.

Evaluation Team — The evaluation team consisting of TRS and GRS staff will consider all the information provided by the finalists in their proposals, interview responses, and subsequent materials and determine the ranking of each PBM finalist for presentation to TRS Executive Management.

Recommendation to the TRS Board of Trustees — TRS Executive Management will review the final recommendation of the evaluation team and present its recommendation to the Trustees during their February 16, 2012, meeting.

Health Care

TRS-ActiveCare Board of Trustees Meeting

February 16, 2012

TRS-ActiveCare



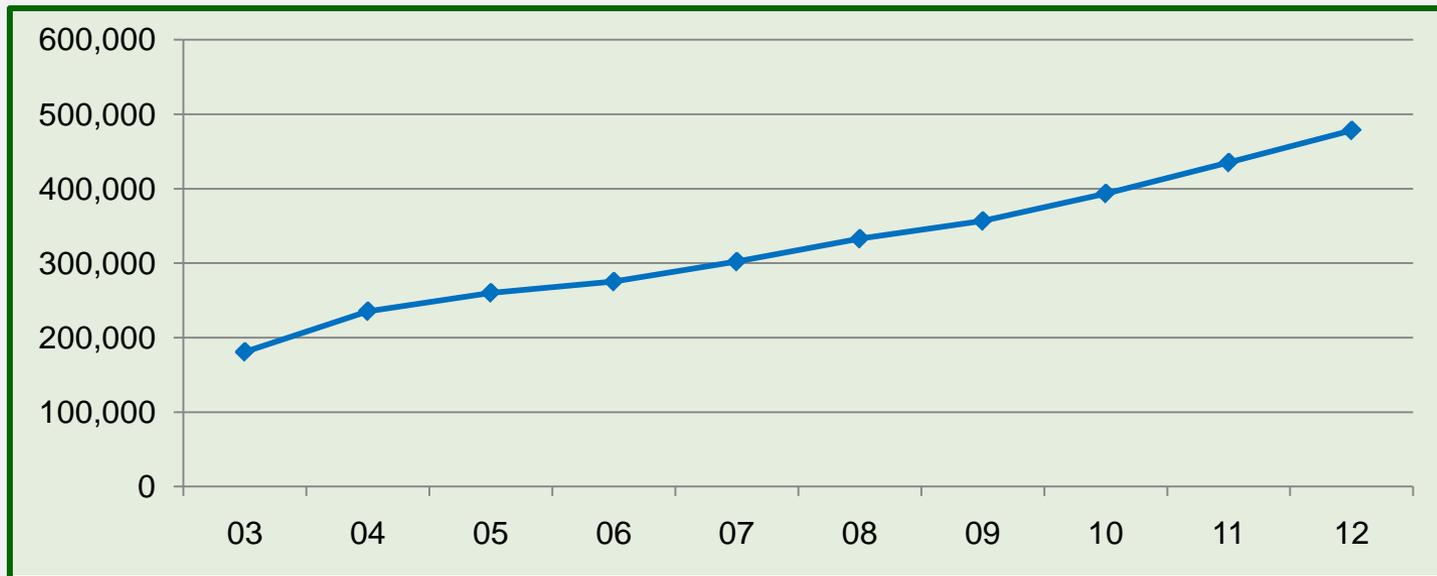
- Established by HB 3343, 77th Legislature.
- Effective September 1, 2002.
- Initially only small districts participated.
- FY 2012 marks the 10th anniversary.
- Total expenditures for FY 11 were \$1.7 billion.

- Law requires:
 - Catastrophic plan
 - Comprehensive plan comparable to Health Select for State employees
- May offer additional plans.
- Currently offer 4 PPO and 3 HMO options.

TRS-ActiveCare



- As of January 2012, nearly 480k covered lives.
- Approximately 60% of public educators are employed by ActiveCare districts.
- Enrollment has grown 2.5X since inception.



TRS-ActiveCare



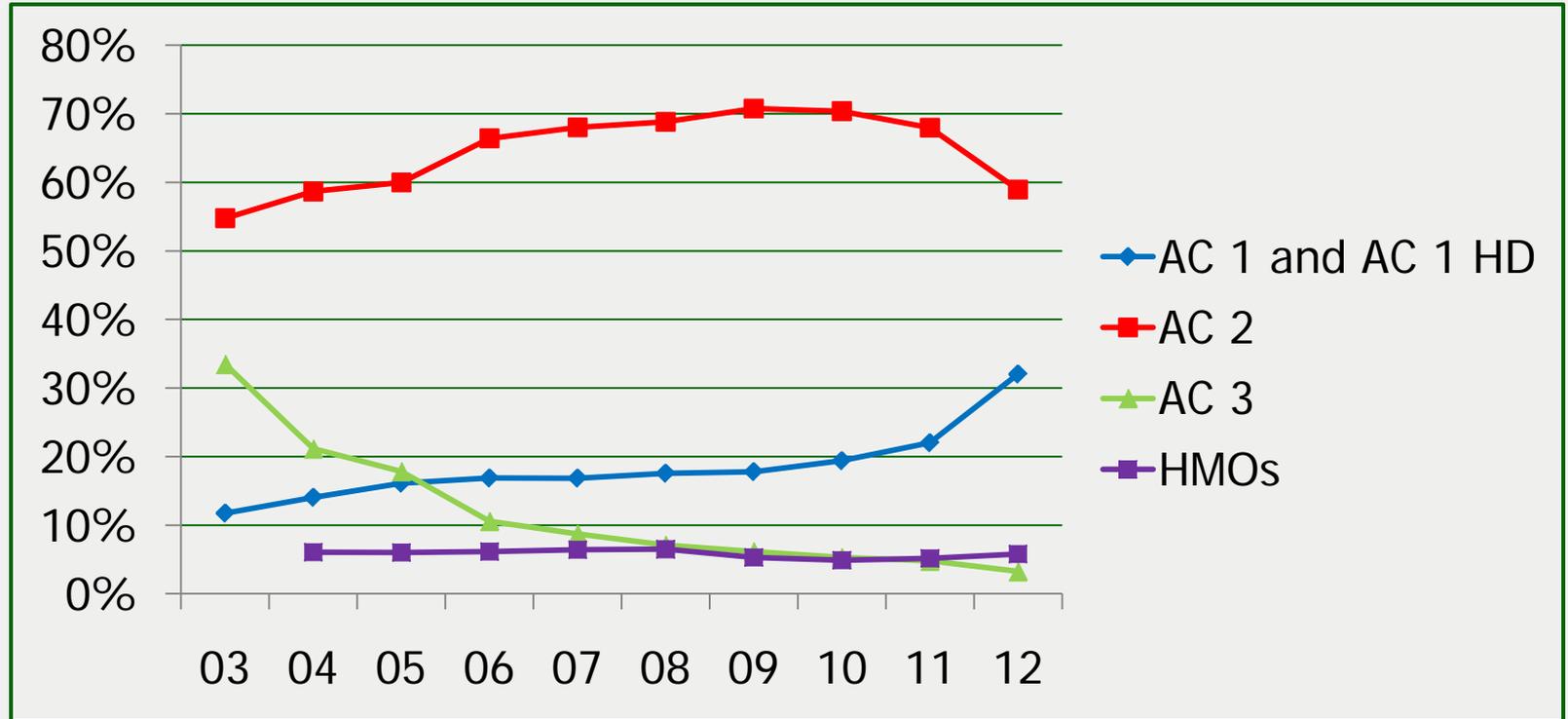
- Although rates increased 9.5% and benefits overall were reduced by 9.5%, 18 entities joined ActiveCare effective FY 12.

Entity	Total Eligible	Total Participating	Percent Participating
<500	820	805	98%
501-1,000	111	96	86%
>1,000	98	46	47%
Charters	190	151	79%
RSC	20	20	100%
Other Ed	5	5	100%
Total	1,244	1,123	90%

- Funding for coverage has not changed since the inception of the program.
 - The State contributes \$75/mth through school finance formulas.
 - The district contributes a minimum of \$150/mth, but may contribute more.
 - Premium increases may pass entirely to the employee. The % impact on the employee may be much greater.

TRS-ActiveCare

- Significant shift in enrollment as premiums have increased and benefits have been reduced.



January 27, 2012

Mr. Brian Guthrie
Executive Director
Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701

Dear Mr. Guthrie:

Subject: FY 2013 HMO Renewals for TRS-ActiveCare

We have reviewed the fiscal year 2013 HMO renewal notices received from the three HMO plans currently offered to TRS-ActiveCare participants. Renewals were received from SHA, L.L.C. d/b/a FIRSTCARE, Scott & White Health Plan, and Valley Baptist Health Plan containing proposed premium rate and plan design changes.

The proposed premiums and plan design changes are summarized below for the three HMO plans. Each includes a \$5.00 TRS administrative fee.

FIRSTCARE

FIRSTCARE proposes the following premium rates and plan design changes:

Proposed Premium Rates

<u>Coverage Tier</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>% Change</u>
Employee Only	\$368.78	\$382.06	3.6%
Employee & Spouse	\$927.48	\$961.16	3.6%
Employee & Children	\$586.34	\$607.56	3.6%
Employee & Family	\$936.68	\$970.70	3.6%

Proposed Plan Design Changes

- Decrease the annual individual deductible from \$750 to \$600, with the family deductible increasing from \$1,250 to \$1,500.
- Increase the individual out-of-pocket maximum from \$3,500 to \$4,000, with the family out-of-pocket maximum increasing from \$6,000 to \$8,000.
- Reduce the physician office visit copay for primary care physicians from \$30 per visit to \$25 per visit.
- Reduce the limit for durable medical equipment from \$4,000 to \$3,000.
- Reduce the limit for accidental dental care from \$10,000 to \$3,000.
- Add a 30 visit limit to home health services.
- Discontinue coverage for infertility diagnostic testing.

- Change the prescription drug benefits as follows:
 - Decrease the annual individual deductible from \$150 to \$100, with the annual family deductible decreasing from \$450 to \$300.
 - Decrease Tier 3 copay from \$65 to \$60.
 - Add an out-of-pocket maximum of \$4,000 to Tier 4.
 - Copay no longer applies for generic birth control.
- Other minor benefit changes will be reflected in the Enrollment Guide and the HMO's Evidence of Coverage.

Scott & White Health Plan

Scott & White Health Plan proposes the following premium rates and plan design changes:

Proposed Premium Changes

<u>Coverage Tier</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>% Change</u>
Employee Only	\$388.80	\$398.00	2.4%
Employee & Spouse	\$934.90	\$961.00	2.8%
Employee & Children	\$623.90	\$641.00	2.7%
Employee & Family	\$968.90	\$997.00	2.9%

Proposed Plan Design Changes

- Increase the annual individual deductible from \$750 to \$1,000, with the annual family deductible increasing from \$2,250 to \$3,000.
- Increase outpatient surgery copay from \$100 to \$150.
- Increase the inpatient hospital copay from \$100 per day (\$500 per admission) to \$150 per day (\$750 per admission).
- Increase the emergency room copay from \$100 to \$150.
- Change in the prescription drug benefits as follows:
 - Increase deductible (excluding generics) from \$50 to \$100.
- Other minor benefit changes will be reflected in the Enrollment Guide and the HMO's Evidence of Coverage.

Valley Baptist Health Plan

Valley Baptist Health Plan proposes the following premium rates and plan design changes:

Proposed Premium Changes

<u>Coverage Tier</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>% Change</u>
Employee Only	\$375.96	\$387.06	3.0%
Employee & Spouse	\$913.86	\$941.04	3.0%
Employee & Children	\$590.36	\$607.86	3.0%
Employee & Family	\$932.40	\$960.14	3.0%

Proposed Plan Design Changes

- Reduce the limit for durable medical equipment from \$4,000 to \$3,000.
- Reduce the limit for accidental dental care from \$10,000 to \$3,000.
- Add a 30 visit limit to home health services.
- Discontinue coverage for infertility diagnostic testing.
- Change in the prescription drug benefits as follows:
 - Increase the annual deductible from \$50 to \$100.
 - Add a 20% copay to Tier 4, with an annual out-of-pocket maximum of \$4,000.
 - Copay no longer applies for generic birth control.
- Other minor benefit changes will be reflected in the Enrollment Guide and the HMO's Evidence of Coverage.

Summary

Each of the three current HMO contracts contains a provision that allows TRS to continue the contract for an additional one-year term, subject to approval by TRS. Given the proposed benefits, premium, enrollment levels, and recent performance, it is recommended to accept all of the renewals without exception.

Please let me know if you have questions or if additional information is needed.

Sincerely,



William J. Hickman
Consultant

WJH/ls



Teacher Retirement System of Texas

RESOLUTION AUTHORIZING FISCAL YEAR 2012 PLAN ENROLLMENT PERIODS FOR TRS-ACTIVECARE

February 15-17, 2012

Whereas, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer the uniform group health benefits program under the Texas School Employees Uniform Group Health Coverage Act (TRS-ActiveCare), as described in the statute;

Whereas, 34 TEX. ADMIN. CODE § 41.36 provides that the TRS Board of Trustees may set the plan enrollment periods for TRS-ActiveCare by resolution;

Whereas, TRS staff and the TRS-ActiveCare health plan administrator, Blue Cross and Blue Shield of Texas, have recommended that the plan enrollment periods for Fiscal Year 2013 TRS-ActiveCare coverage, effective September 1, 2012, occur from April 23, 2012 through May 25, 2012, and from August 1, 2012 through August 31, 2012;

Whereas, these plan enrollment periods do not affect the enrollment periods for any entity that becomes a participating entity after September 1, 2012; and

Whereas, the Board desires to adopt the recommended plan enrollment dates; now, therefore, be it

Resolved, That the Fiscal Year 2013 TRS-ActiveCare plan enrollment dates for entities who are participating entities on or before September 1, 2012 are from April 23, 2012 through May 25, 2012, and from August 1, 2012 through August 31, 2012.

Financials

Overview of the Texas Budget Process

February 16, 2012

Components of the Current System



- Biennial focus – legislatively driven
- Prepare long range (five year) visions through Strategic Plans
- Submit budget requests (LARs) to carry out functions and accomplish this vision
- Success in achieving goals and objectives is evaluated using performance measures
- This year's process will again be difficult due to continued budget constraints

A Quick Look at the Numbers FY 2012-13 Texas Budget



- \$173.5 Billion for two years (All Funds)

- Functional Breakdown
 - Education = 42%
 - Health and Human Services = 32%

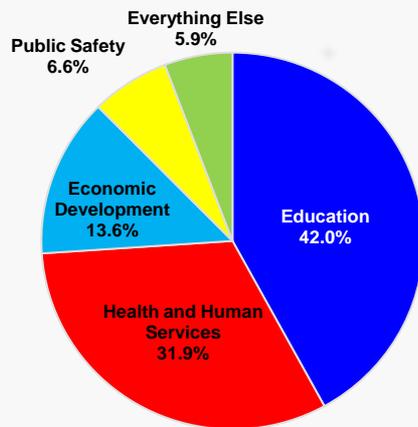
- Method of Finance Breakdown
 - General Revenue = 47%
 - Federal Funds = 31%

- Health and Human Services accounts for 57% of total federal funding, a decrease of 6% from FY 2010-11 biennium excluding ARRA funds

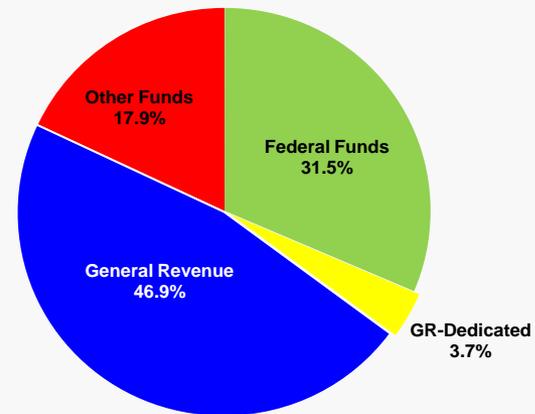
FY 2012-13 All Funds Texas Budget TOTAL = \$173.5 Billion



FUNCTIONAL BREAKDOWN



FUNDING SOURCE BREAKDOWN



Texas Budgeting Timeline

2012

- February/March Strategic Planning Instructions to Agencies
- March – May Negotiate Structure and Measure Changes
- May Biennial Budget Request Instructions to Agencies
- June / July Agencies Submit Strategic Plans
- July / August Agencies Submit Budget Requests (LARs)
- August / September GOBPP/LBB Joint Budget Hearings
- November LBB meets to adopt a spending limit
- September – December LBB and GOBPP Budget Preparations

2013

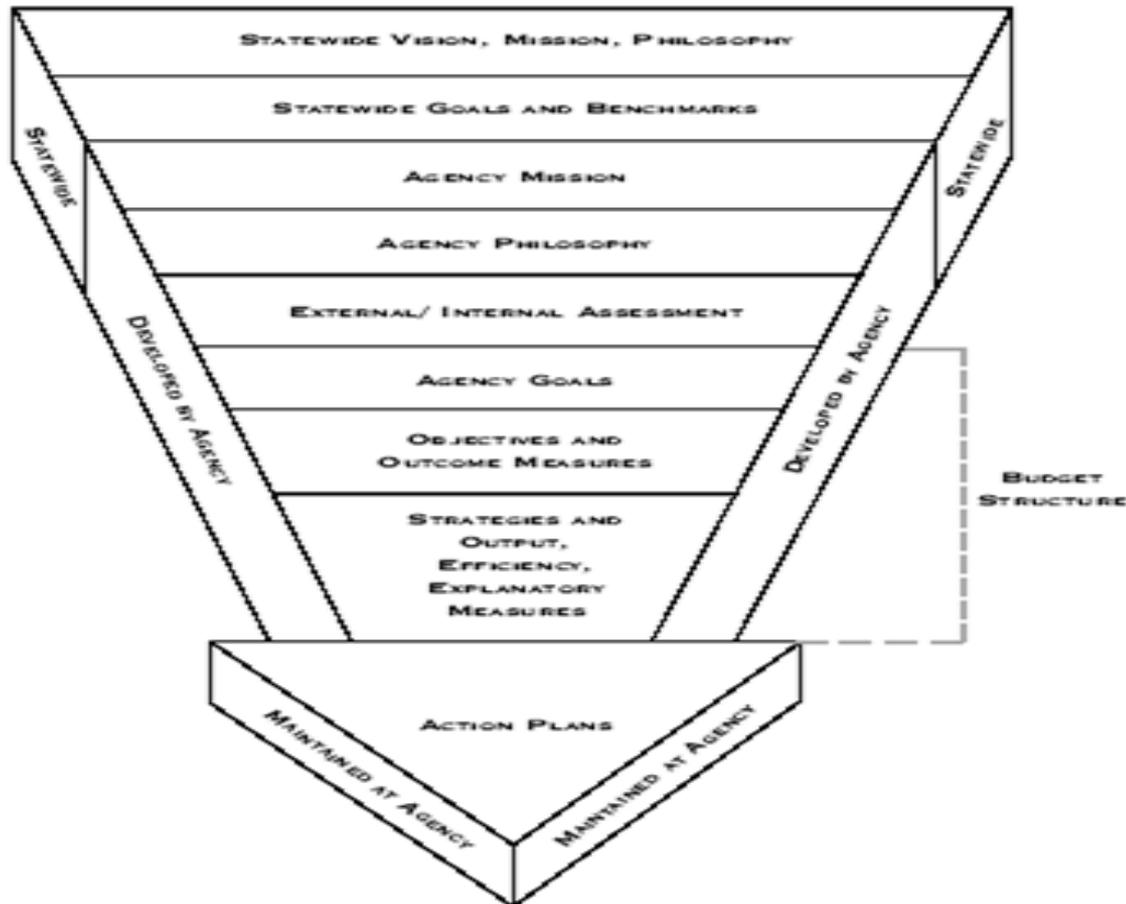
- January LBB submits budget estimates to 83rd Legislature
- January Comptroller releases Biennial Revenue Estimate
- January/February Governor delivers budget by State of the State
- January – May Legislature adopts appropriations bill
- June Comptroller certifies appropriations bill
- June Governor signs appropriations bill with line item vetoes
- Summer/Fall Agencies develop Operating Budgets for FY 2014

Strategic Planning Instructions

- Provide agencies with guidelines and a timeline to prepare 2013-17 Strategic Plans
- Outline process for agencies to request budget structure and performance measure changes
- All changes require joint approval of LBB and GOBPP
- Governor provides overall vision, mission, and philosophy, as well as statewide goals and benchmarks
- Current instructions are likely in the final stages of negotiations and substantial changes are unlikely

Current Strategic Planning Template

**FIGURE 2
STRATEGIC PLANNING TEMPLATE**



Legislative Appropriations Request (LAR) Instructions



- Provide agencies with direction on how and when to submit budget requests (LAR) for 2014-15
- Leadership generally provides a framework for baseline requests
- In the past, agencies have been allowed to request “exceptional” items that fall beyond the baseline
- Leadership Budget Guidance since 2002:

Time Period/Date of Letter	Baseline
FY 2004-05 (June 10, 2002)	100% of FY 2002-03
FY 2006-07 (June 16, 2004)	95% of FY 2004-05
FY 2008-09 (June 2, 2006)	90% of FY 2006-07
FY 2010-11 (May 5, 2008)	90% of FY 2008-09
FY 2012-13 (May 27, 2010)	90% of FY 2010-11
FY 2014-15	TBD

LBB/GOBPP Joint Budget Hearings



- Will occur during August and September 2012
- Are public hearings with public testimony
- First opportunity for the Executive Directors and Chief Financial Officers to present requests in a committee setting
- Provide LBB and GOBPP staff with the information they need to make budget recommendations

What to Expect Until Session Commencement

- LBB/GOBPP staff spend the fall developing recommendations
- Questions and requests for additional information should be anticipated
- Staff needs to be responsive to LBB/GOBPP requests during this period

What to Expect After Session Commencement



- Comptroller releases Biennial Revenue Estimate (BRE) – identifies revenue constraints
- LBB submits recommended amounts in “Legislative Budget Estimates” document, which is the typical starting point for House and Senate hearings
- Governor submits budget in conjunction with State of the State – generally includes policy goals
- Testimony occurs in front of the Senate Finance Committee and the House Appropriation Subcommittee
- Provide an updated actuarial valuation of the Pension Trust Fund as of February 28th to Leadership

Financials

**Overview of Planning
TRS Budget
Fiscal Year 2014-2015**

**Board of Trustees Meeting
February 16, 2012**

TRS Budget Timeline, 2012-13



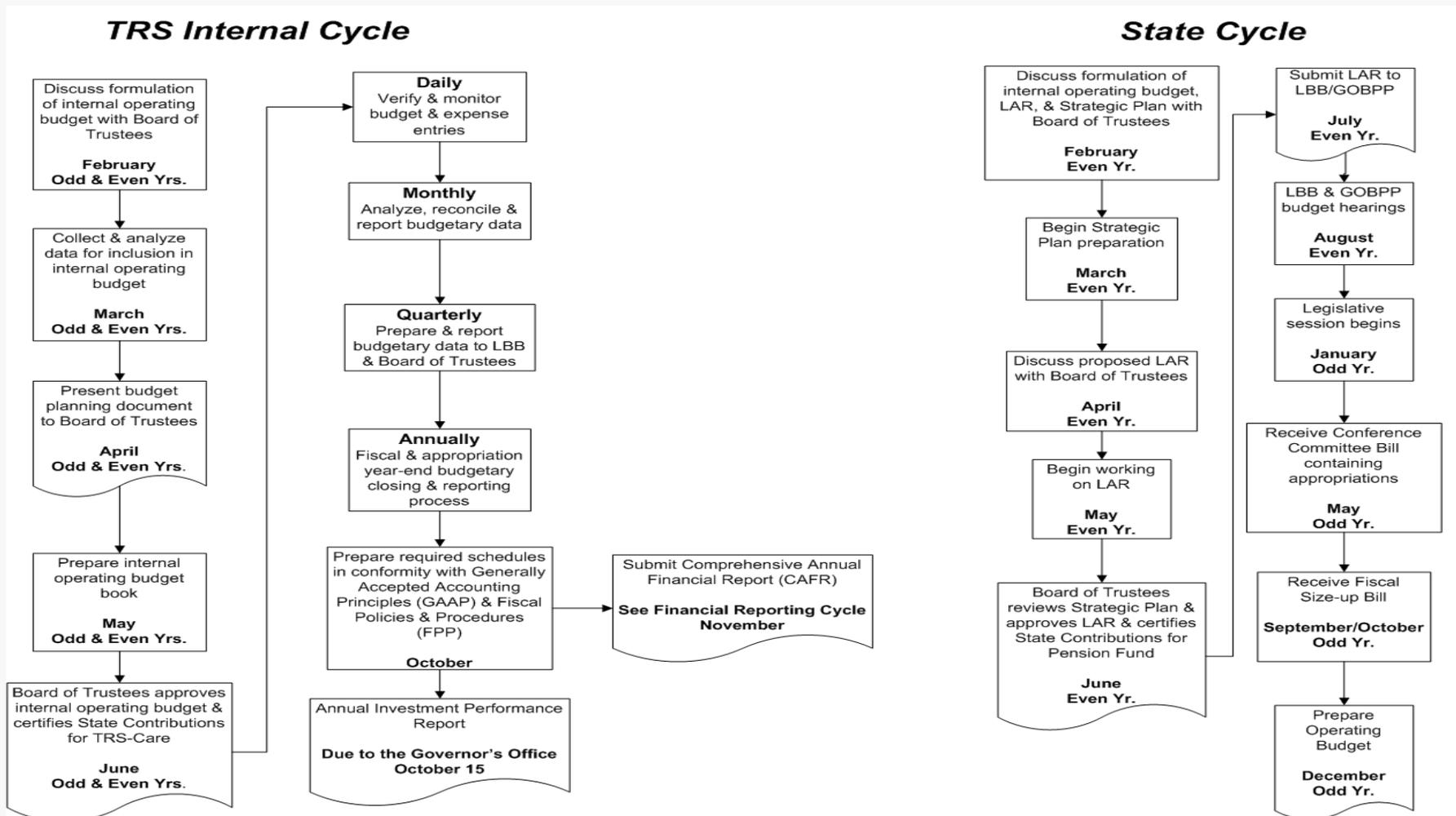
2012

- February 15-17 Board review of LAR components and 2014-15 drivers
- March Staff begins preparing draft of 2013-17 Strategic Plan
- April 19-20 Budget Committee meets to review budget planning document and discuss proposed 2014-15 LAR
- May Staff prepares 2014-15 LAR
- June 7-8 Board receives 2013-17 Strategic Plan;
Board approves 2014-15 LAR ;
Board approves 2013 Administrative Operations Budget
- July TRS submits 2014-15 LAR
- August LBB/GOBPP Budget Hearings
- November Pre-filing of legislation begins

2013

- January 83rd Legislative Session begins

Budgetary Reporting Cycle



TRIS LAR Components

- Assumptions on covered payroll growth rates
 - Covered payroll growth is currently assumed at zero
- Assumptions on member contribution rate
 - Statutory minimum member contribution is 6.4%
- Assumptions on state contribution rates

Pension Trust Fund:

- Statutory state contribution rate floor is 6% and ceiling 10%
- Annual required contribution rate was 8.13% as of the 8/31/11 actuarial valuation

TRIS-Care:

- Statutory minimum state contribution rate is 1%
- State contribution rate will be only 0.5% during fiscal year 2013

TRS LAR Components (continued)



- Rider addition and/or deletion

- Pension Trust Fund Administrative Operations
 - Appropriated by state and funded by the trust
 - Full Time Equivalents (FTEs) appropriation
 - Remove from the appropriation process

- TEAM
 - Re-appropriating 2012-13 unexpended balances

TRS 2014-15 LAR Drivers



- Continued state budget challenges
- Actuarial recommendation to increase state contribution rate for Pension Trust Fund
 - Increase does not have to occur all at one time
 - Blended increase between member and state
- Uncertainty in payroll growth
- Funding TRS-Care
- Increased member retirements
- Space planning assessment and lease renewal
- Sustain program funding and FTEs for TEAM

TRS 2014-15 LAR Drivers (continued)

- Restore capital budget authority reduced during 2012-13
- Staffing and workforce assessments
 - 25% of current workforce will be eligible for retirement entering into 2014-15 biennium
 - Impact on benefit administration resulting in increased need for staffing modifications
- Monitoring of international investments requiring increased out-of-state travel expenses
- Increased actuarial fees with passing into standard the GASB Exposure Draft on Pension Accounting

November and December 2011 Cash Disbursements Pension Trust Fund

To: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

From: Don Green, Chief Financial Officer

Date: February 1, 2012

Section 825.314(b) of the Texas Government Code requires the staff of the retirement system to report to the board the amounts and uses, since the preceding board meeting, of any money expended by the system for administrative expenses paid from the Pension Trust Fund along with an explanation of why the amounts were needed to perform the fiduciary duties of the board. The 82nd Texas State Legislature adopted provisions allowing operating expenses of the system to be paid out of the Pension Trust Fund. On June 16, 2011, the board approved the Administrative Operations budget for fiscal year 2012.

During November 2011 the Pension Trust Fund disbursed a total of \$4.9 million for administrative operations, which included approximately \$3.7 million for salaries & other personnel costs, \$0.4 million for professional fees, and \$0.8 million for other operating expenses. Items of interest include payments of \$327,346 for investment counsel, \$147,131 for leased space, \$110,688 for software purchases and maintenance, and \$100,000 for the absolute return consultant.

Additionally, TEAM program disbursements in November included \$194,741 for Cisco network switches.

A total of \$6.0 million was disbursed for administrative operations in December 2011. Administrative operating costs included approximately \$4.0 million for salaries & other personnel costs, \$0.4 million for professional fees, \$1.5 million for other operating expenses, and \$0.1 million for capital projects. Items of interest include payments of \$490,258 in postage for mailing benefit handbooks, \$371,026 for investment counsel, \$159,260 for software purchases and maintenance, \$146,774 for leased space, and \$93,924 for TRS newsletter printing services.

Cash Disbursements from the Pension Trust Fund

Fiscal Year

Month	2012	2011
September	\$ 6,793,546	\$ 7,254,568
October	6,450,857	5,216,390
November	4,929,626	7,108,612
December	5,984,486	5,493,018 (a)
January		15,385,714 (b)
February		5,038,352
March		5,482,609
April		5,177,178
May		4,800,661
June		5,503,529
July		5,493,462
August		5,830,201
Totals	<u>\$ 24,158,515</u> (c)	<u>\$ 77,784,294</u>

(a) Cash Disbursements totaled \$25,072,588 at December 31, 2010.

(b) Includes \$9.7 million in incentive compensation pay.

(c) Includes reimbursements of \$147,248.

Financial Report for the First Quarter Ended November 30, 2011 Pension Trust Fund

To: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

From: Don Green, Chief Financial Officer

Date: February 1, 2012

Net Assets Held in Trust for Pension Benefits:

For the first quarter ended November 30, the *Net Assets Held in Trust for Pension Benefits* were \$104.7 billion. This is a decrease of \$2.7 billion from the fiscal year beginning net assets of \$107.4 billion.

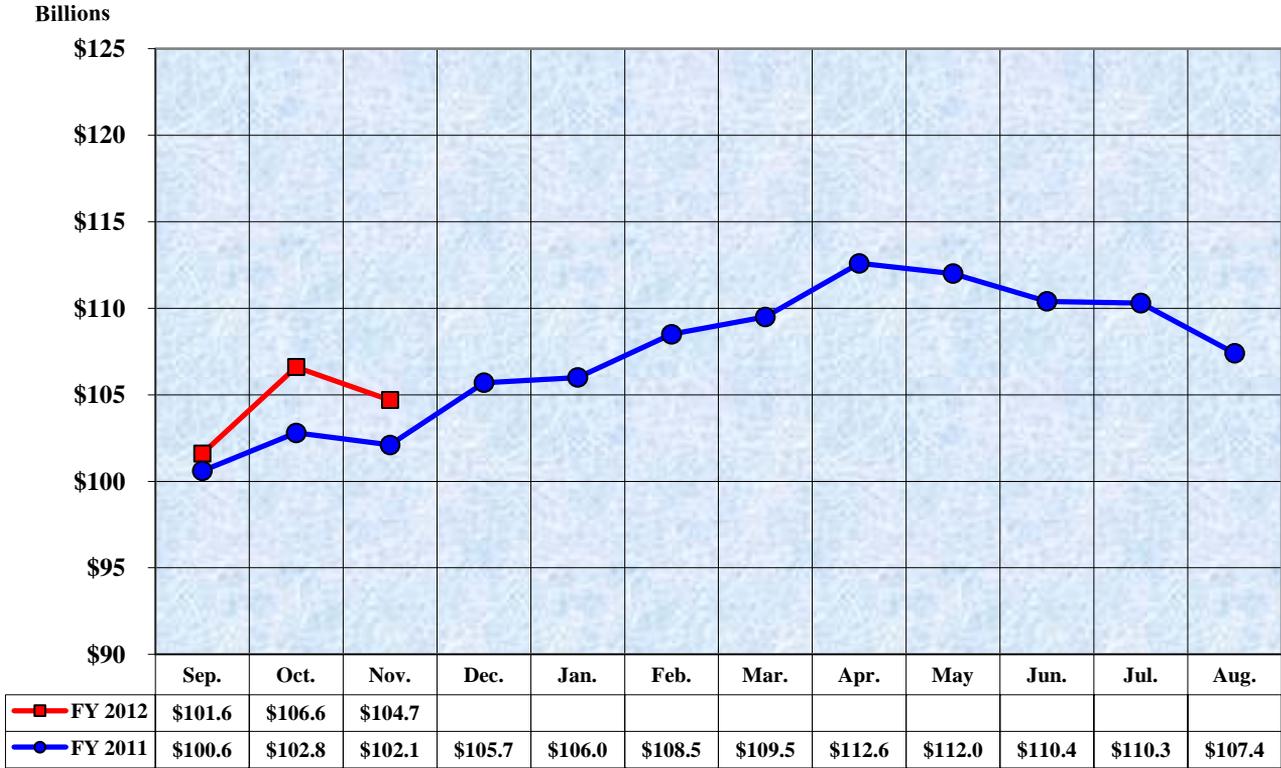
Total Additions for the first quarter, excluding Net Appreciation in Fair Value of Investments, were \$1.5 billion. Contributions and other additions totaled \$1.1 billion. Interest, dividend, and securities lending income totaled \$440.8 million. *Total Deductions* for the first quarter were \$2.1 billion including external manager fees of \$21.3 million. Benefit payments account for 93% of all deductions.

Administrative Operations:

The *Total Administrative Expenses* for the first quarter ended November 30, 2011 were \$16.1 million of which \$5.8 million was for September, \$5.9 million for October, and \$4.4 million for November. *Salaries and Other Personnel Costs* were \$11.2 million. *Professional Fees and Services* were \$427.5 thousand, *Other Operating Expenses* were \$4.5 million, and *Capital Expenses* were \$5 thousand. At the end of the first quarter, 78% of the total funds budgeted were remaining.

Pension Trust Fund

Net Assets - FY 2012 YTD and FY 2011

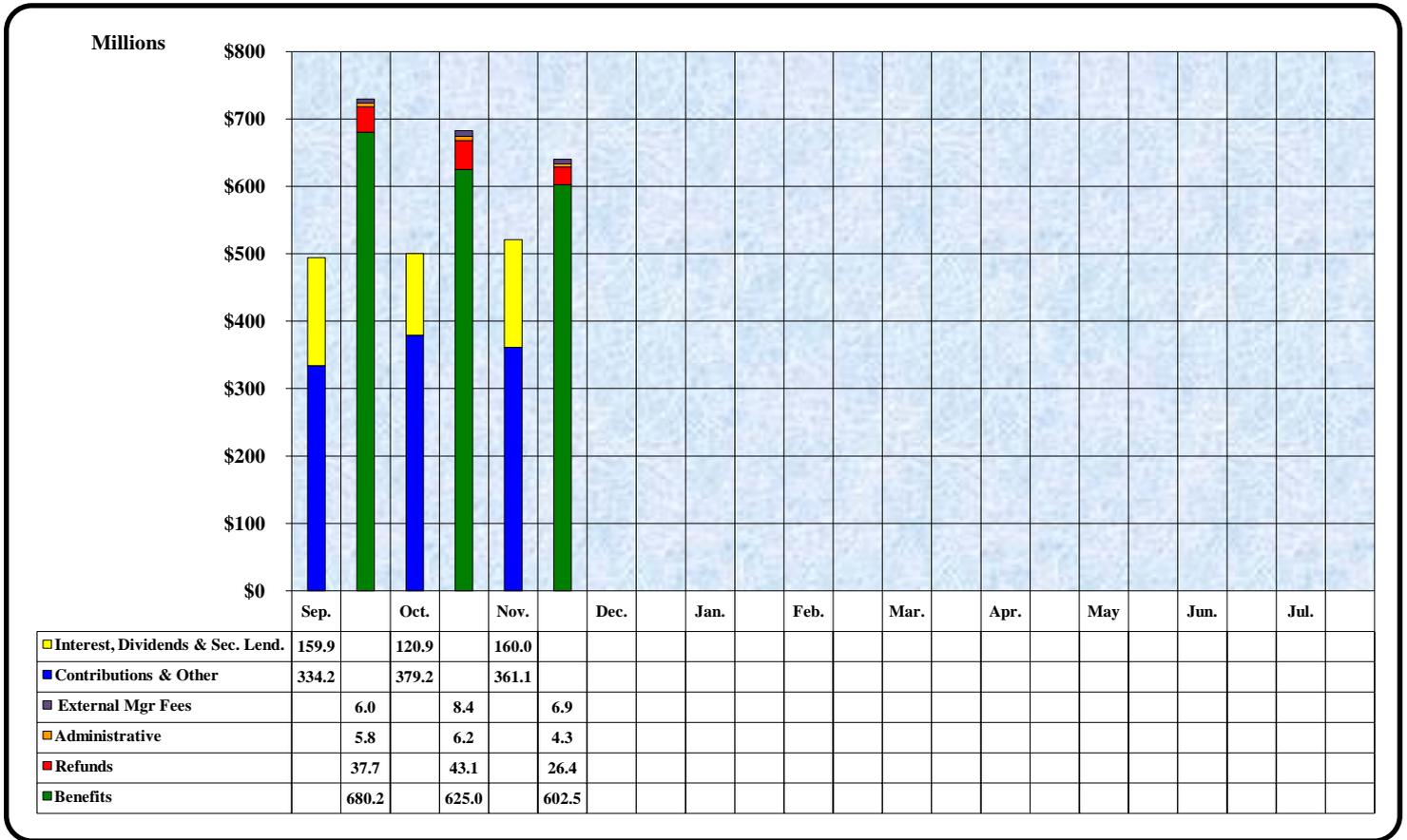


Source: Unaudited monthly financial statements.

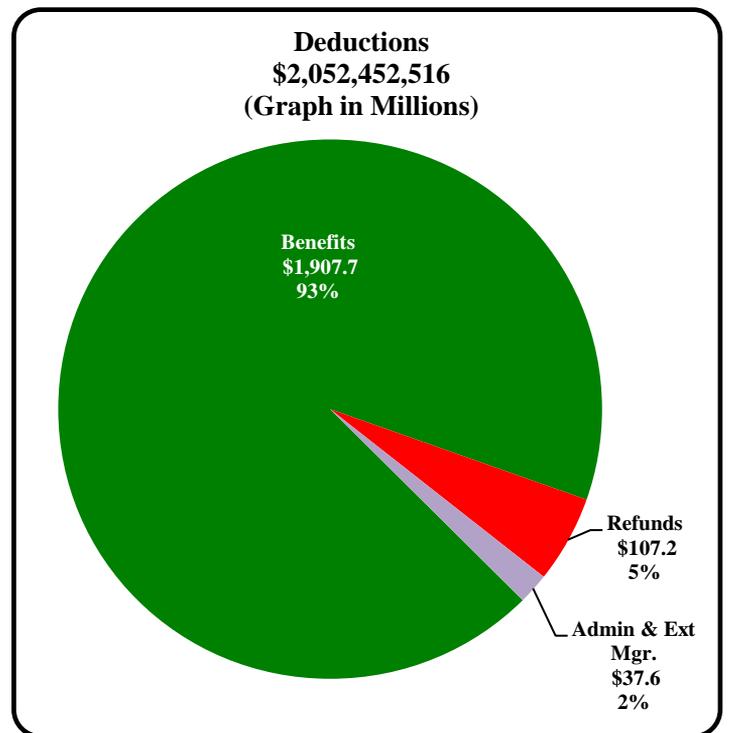
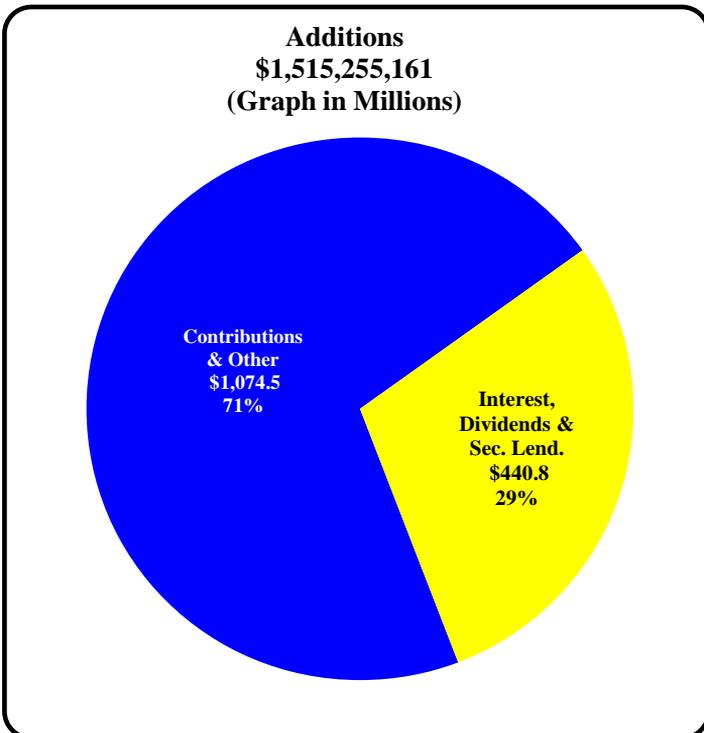
Pension Trust Fund Additions and Deductions - FY 2012

(Excludes Net Appreciation/Depreciation in Fair Value; External Manager Fees Reported as Deductions)

Monthly



YTD for the First Quarter Ended November 30

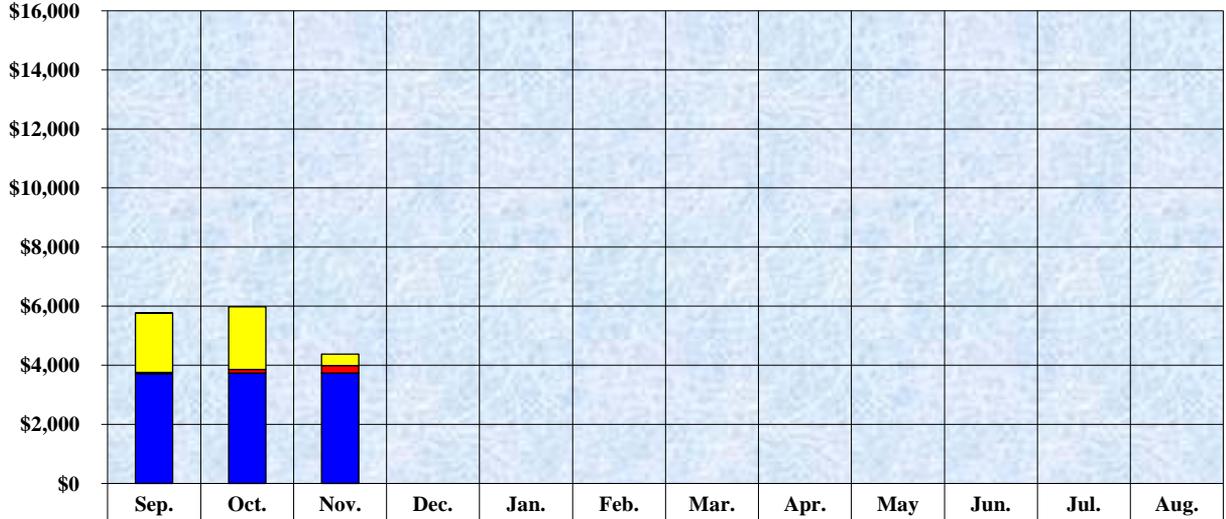


Source: Unaudited monthly financial statements.

**Pension Trust Fund
Administrative Expenses
(Excludes Encumbered Funds)**

Monthly - FY 2012

Thousands

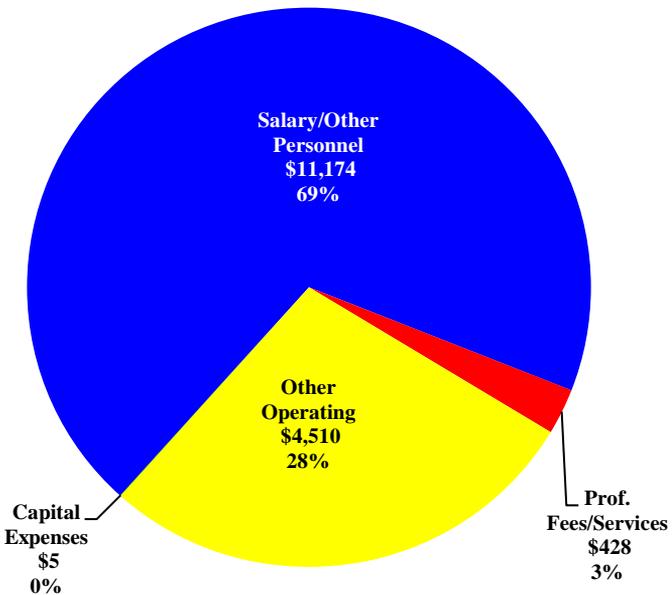


	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
■ Capital Expenses	5	-	-									
■ Other Operating	2,007	2,118	385									
■ Prof. Fees/Services	42	127	259									
■ Salary/Other Personnel	3,713	3,731	3,730									
Remaining Budget %	92%	84%	78%									

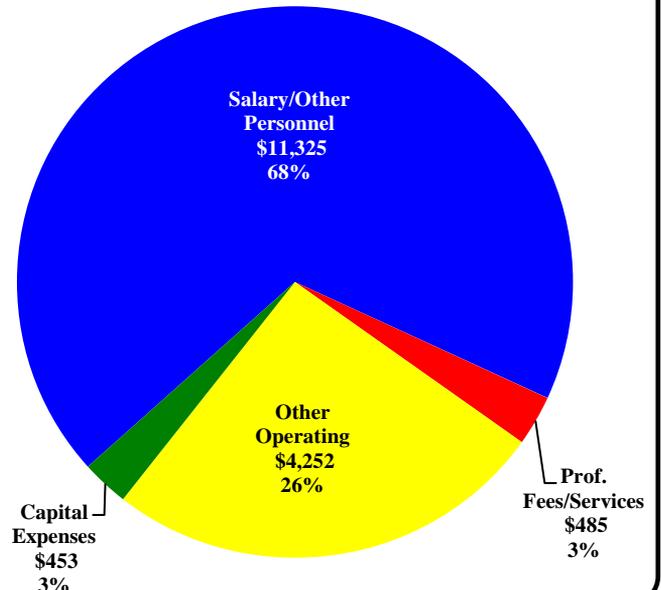
FY 2012 Total Budget \$72,710,241

YTD for the First Quarter Ended November 30 - FY 2012 and FY 2011

**FY 2012
\$16,117,427
(Graph in Thousands)**



**FY 2011
\$16,513,952
(Graph in Thousands)**



Source: Unaudited monthly financial statements.

Pension Trust Fund Administrative Expenses

FY 2012 YTD and FY 2011

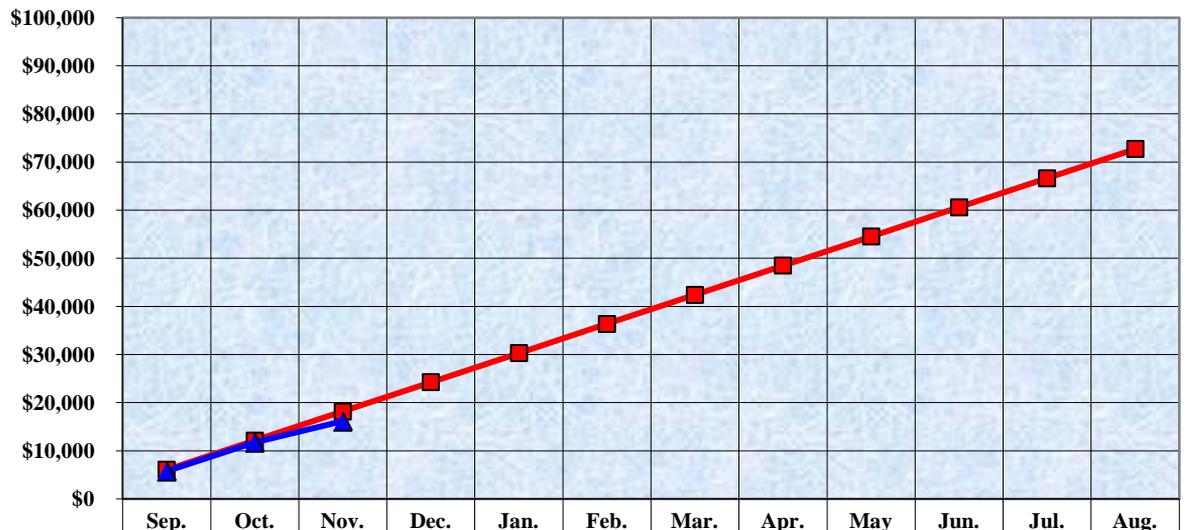
Thousands



2012 Encumbered	4,296	3,291	3,535									
2012 Expenses	5,768	11,744	16,117									
2011 Exp & Enc.	10,676	15,343	20,717	25,611	40,046	45,372	50,762	55,358	59,912	64,459	70,700	73,191

Budget to YTD Actual - FY 2012 (Excludes Encumbered Funds)

Thousands



2012 Budget	6,059	12,118	18,178	24,237	30,296	36,355	42,414	48,473	54,533	60,592	66,651	72,710
2012 Actual	5,768	11,744	16,117									

Budget Totaled \$18,177,560 as of November 30
Actual Expenses Totaled \$16,117,427 as of November 30

Source: Unaudited monthly financial statements.

TEACHER RETIREMENT SYSTEM OF TEXAS
PENSION TRUST FUND
FY 2012 BUDGET BASIS ADMINISTRATIVE EXPENSES
 Unaudited Statements For Internal Use Only

	Actual YTD November 30, 2011	Encumbered YTD November 30, 2011	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 8,909,262.32	\$	\$ 38,268,281.00	\$ 29,359,018.68	77%
Longevity Pay	148,240.00		626,240.00	478,000.00	76%
Employer Retirement Contributions	540,740.20		2,285,972.00	1,745,231.80	76%
Employer FICA Contributions	469,388.61		2,750,392.00	2,281,003.39	83%
Employer Health Insurance Contributions	1,074,899.79		4,290,351.00	3,215,451.21	75%
Benefit Replacement Pay	13,086.43		132,008.00	118,921.57	90%
Other Employee Benefits	19,113.51	3,587.88	431,000.00	408,298.61	95%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 11,174,730.86	\$ 3,587.88	\$ 48,784,244.00	\$ 37,605,925.26	77%
PROFESSIONAL FEES AND SERVICES	\$ 427,525.68	\$ 1,339,723.15	\$ 8,166,224.00	\$ 6,398,975.17	78%
OTHER OPERATING EXPENSES					
Consumable Supplies and Fuels	\$ 85,518.79	\$ 39,880.87	\$ 481,610.00	\$ 356,210.34	74%
Utilities	210,666.71	138,115.99	1,191,605.00	842,822.30	71%
Travel	276,753.12	52,215.49	907,708.00	578,739.39	64%
Rentals	576,873.39	1,117,341.05	2,159,427.00	465,212.56	22%
Dues, Fees and Staff Development	38,363.85	29,795.00	417,776.00	349,617.15	84%
Subscriptions and Reference Information	68,161.91	25,026.66	258,505.00	165,316.43	64%
Printing and Reproduction Services	(4,214.87)	310,150.99	592,650.00	286,713.88	48%
Postage, Mailing and Delivery Services	782,031.04	39,538.96	2,497,300.00	1,675,730.00	67%
Software Purchases and Maintenance	1,407,826.17	215,449.97	2,713,106.00	1,089,829.86	40%
Computer Hardware Maintenance	252,426.24	43,594.64	514,877.00	218,856.12	43%
Miscellaneous Expenses	126,203.28	116,366.28	1,072,770.00	830,200.44	77%
Insurance Premiums	615,240.00		793,100.00	177,860.00	22%
Furniture and Equipment - Expensed	24,197.81	8,863.65	353,200.00	320,138.54	91%
Maintenance - Buildings and Equipment	49,740.81	51,979.41	818,183.00	716,462.78	88%
TOTAL OTHER OPERATING EXPENSES	\$ 4,509,788.25	\$ 2,188,318.96	\$ 14,771,817.00	\$ 8,073,709.79	55%
TOTAL OPERATING EXPENSES	\$ 16,112,044.79	\$ 3,531,629.99	\$ 71,722,285.00	\$ 52,078,610.22	73%

**TEACHER RETIREMENT SYSTEM OF TEXAS
PENSION TRUST FUND
FY 2012 BUDGET BASIS ADMINISTRATIVE EXPENSES**
Unaudited Statements For Internal Use Only
(concluded)

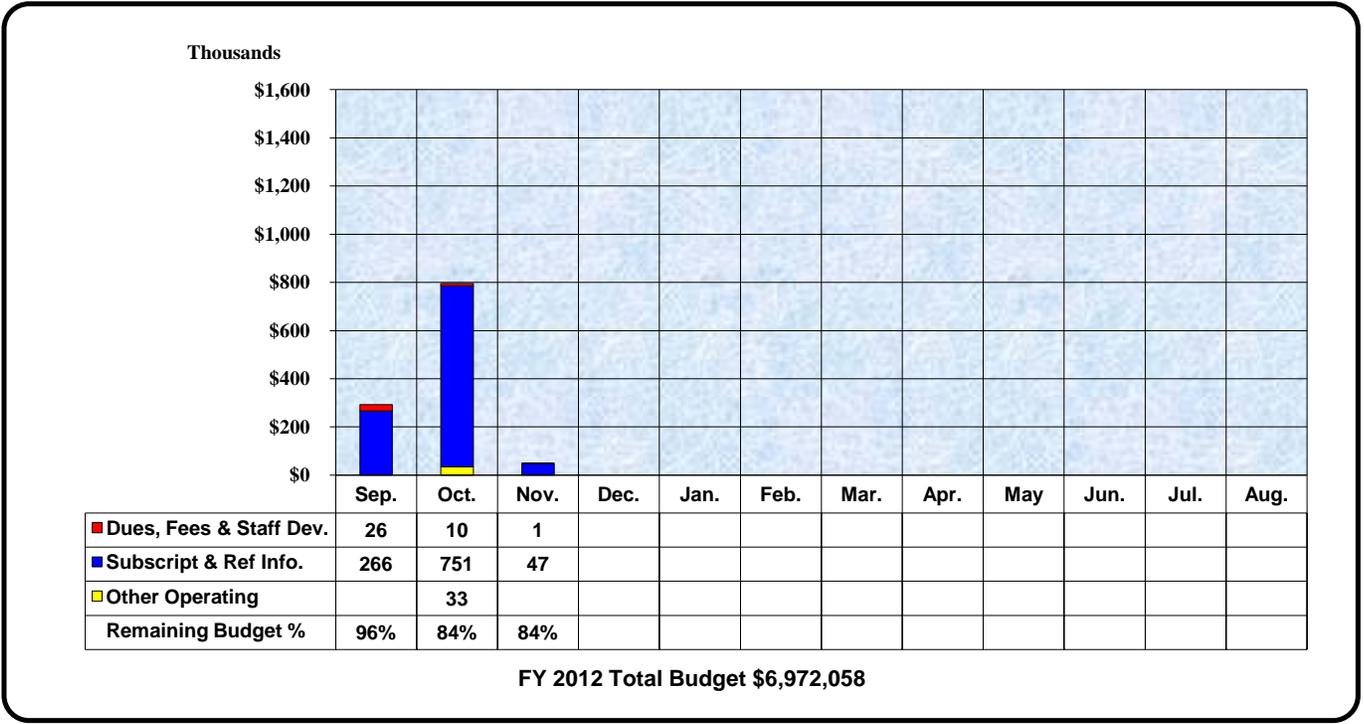
	Actual YTD November 30, 2011	Encumbered YTD November 30, 2011	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
CAPITAL EXPENSES					
Furniture and Equipment	\$ 1,221.50	\$ 3,589.00	\$ 87,956.00	\$ 83,145.50	95%
Capital Budget Items	4,160.98		900,000.00	895,839.02	100%
TOTAL CAPITAL EXPENSES	<u>\$ 5,382.48</u>	<u>\$ 3,589.00</u>	<u>\$ 987,956.00</u>	<u>\$ 978,984.52</u>	99%
TOTAL OPERATING AND CAPITAL EXPENSES*	<u><u>\$ 16,117,427.27</u></u>	<u><u>\$ 3,535,218.99</u></u>	<u><u>\$ 72,710,241.00</u></u>	<u><u>\$ 53,057,594.74</u></u>	<u>73%</u>
METHOD OF FINANCE					
Administrative Operation Appropriations**	\$ 14,019,312.24	\$ 3,535,218.99	\$ 63,251,518.00	\$ 45,696,986.77	72%
Employer Retirement Contributions	540,740.20		2,285,972.00	1,745,231.80	76%
Employer FICA Contributions	469,388.61		2,750,392.00	2,281,003.39	83%
Employer Health Insurance Contributions	1,074,899.79		4,290,351.00	3,215,451.21	75%
Benefit Replacement Pay	<u>13,086.43</u>		<u>132,008.00</u>	<u>118,921.57</u>	90%
TOTAL OPERATING AND CAPITAL EXPENSES	<u><u>\$ 16,117,427.27</u></u>	<u><u>\$ 3,535,218.99</u></u>	<u><u>\$ 72,710,241.00</u></u>	<u><u>\$ 53,057,594.74</u></u>	<u>73%</u>

*Amounts are net of reimbursements.

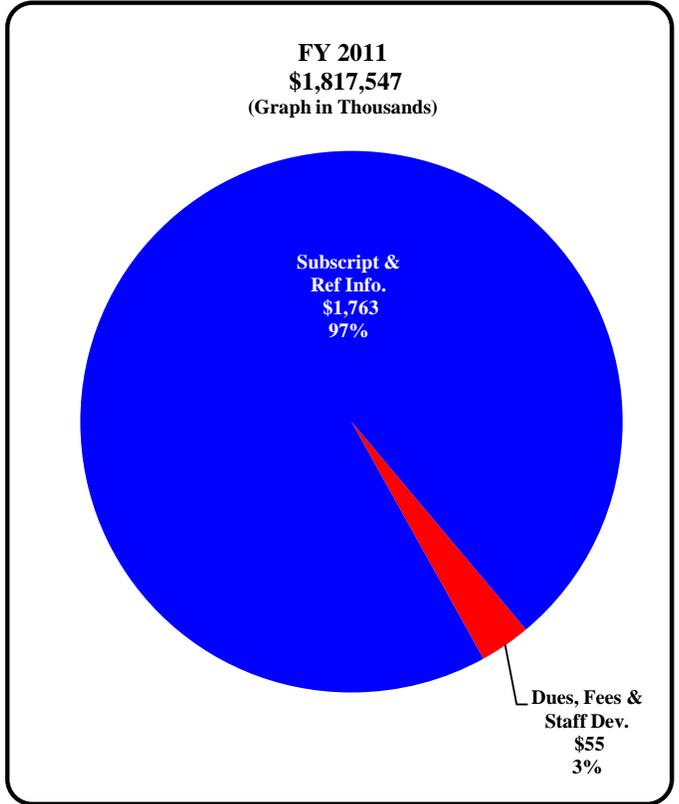
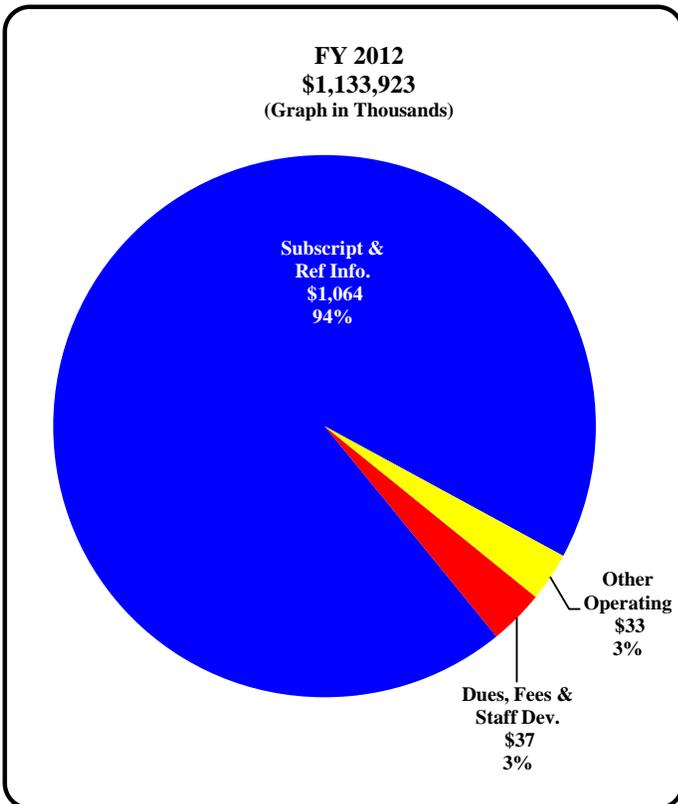
**Capital Budget in the amount of \$25 million for TRS Enterprise Application Modernization (TEAM) is presented separately.

Investment Soft Dollars Administrative Expenses

Monthly - FY 2012



YTD for the First Quarter Ended November 30 - FY 2012 and FY 2011



Source: Unaudited budgetary reports.

Investment Soft Dollars Administrative Expenses

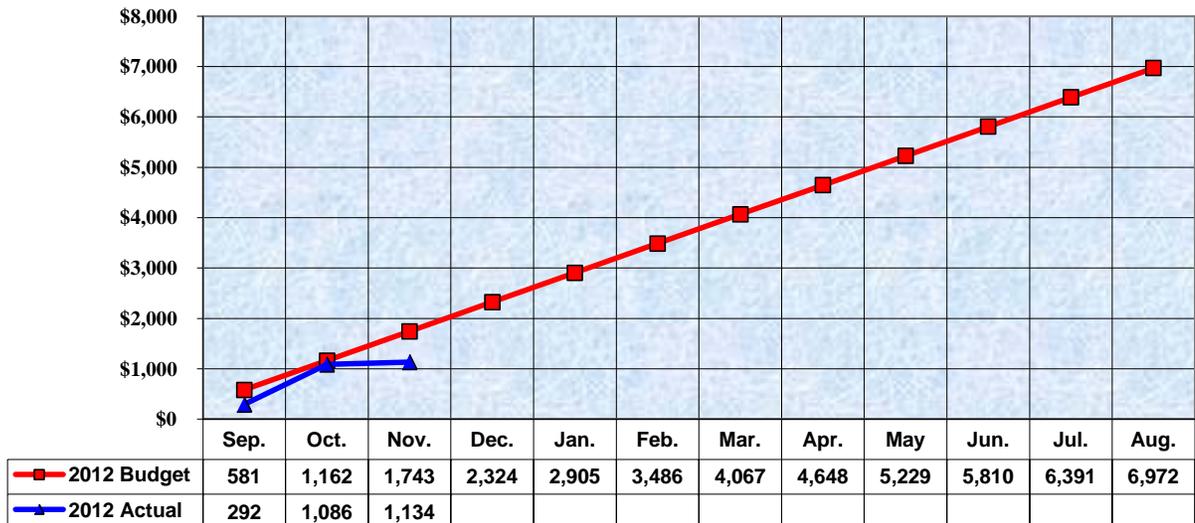
FY 2012 YTD and FY 2011

Thousands



Budget to YTD Actual - FY 2012

Thousands

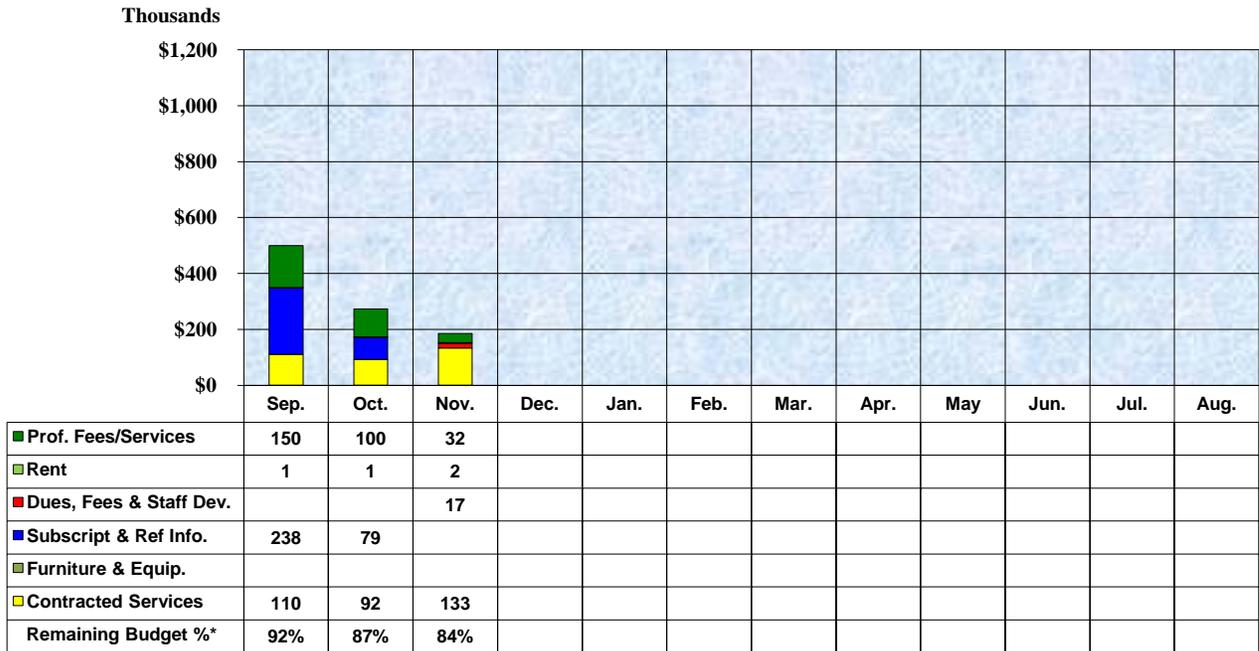


Budget Totaled \$1,743,015 as of November 30
Actual Expenses Totaled \$1,133,923 as of November 30

Source: Unaudited budgetary reports.

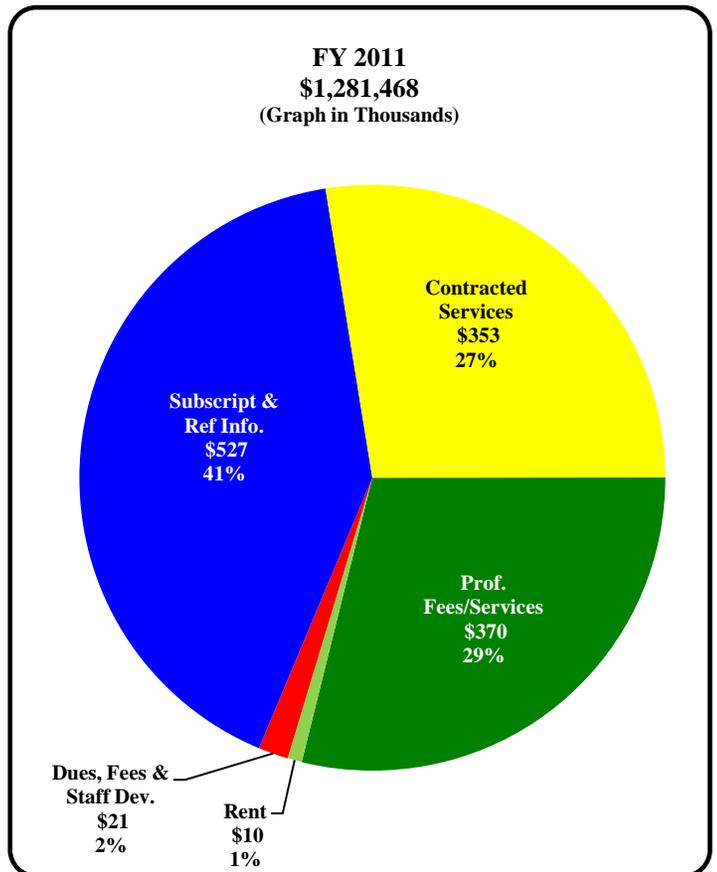
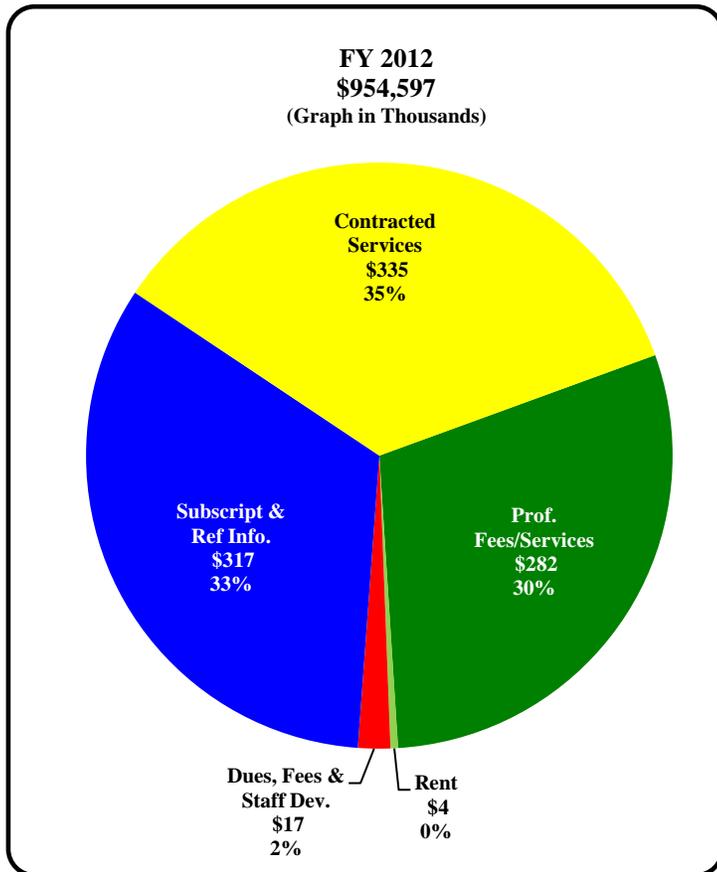
SSB/TRS Partnership Account Administrative Expenses

Monthly - FY 2012



FY 2012 Total Budget \$6,000,000

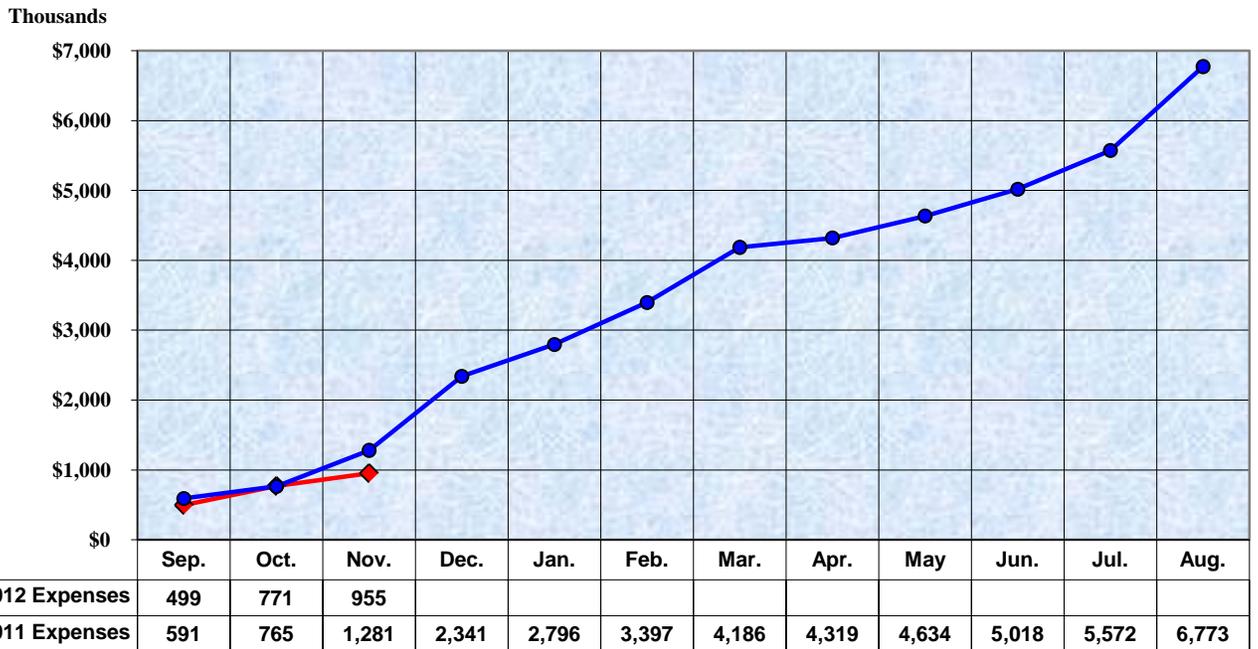
YTD for the First Quarter Ended November 30 - FY 2012 and FY 2011



Source: Unaudited budgetary reports.

SSB/TRS Partnership Account Administrative Expenses

FY 2012 YTD and FY 2011



Budget to YTD Actual - FY 2012



Budget Totaled \$1,500,000 as of November 30
Actual Expenses Totaled \$954,597 as of November 30

Source: Unaudited budgetary reports.

Financial Report for the First Quarter Ended November 30, 2011 TRS-Care

To: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

From: Don Green, Chief Financial Officer

Date: February 1, 2012

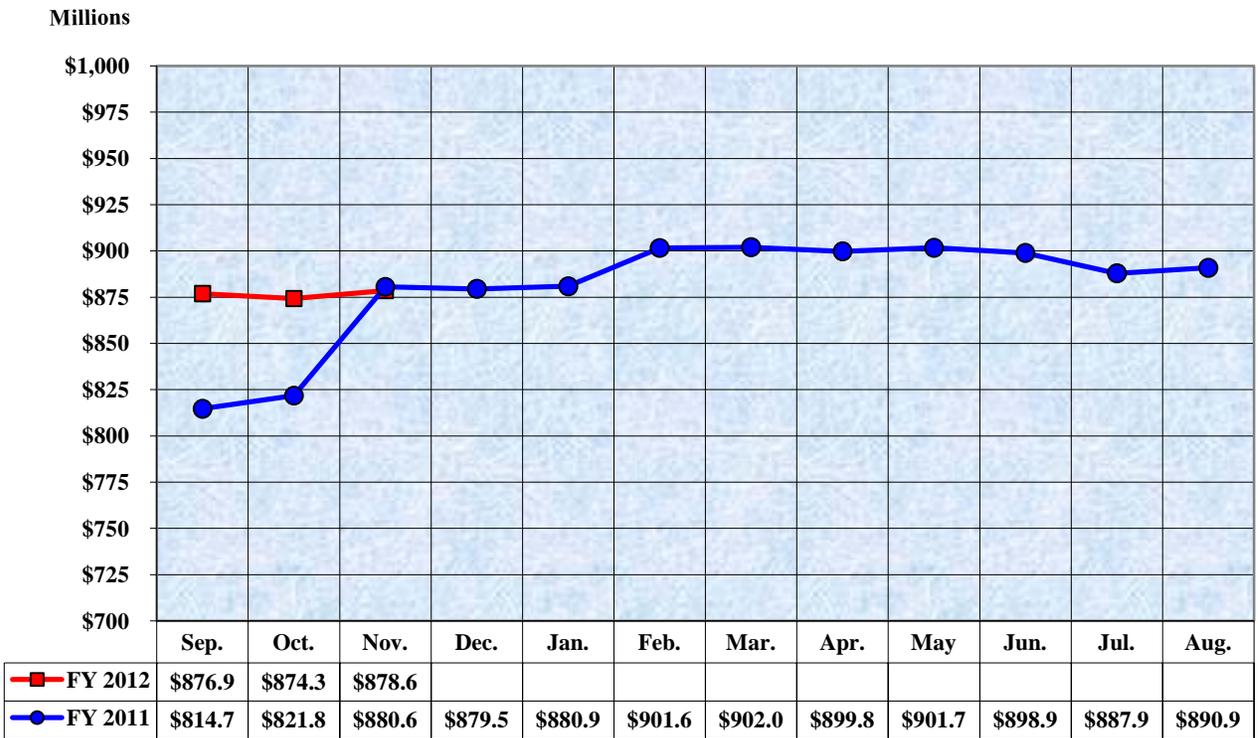
Net Assets Held in Trust for Other Employee Benefits:

For the quarter ended November 30, 2011, the *Net Assets Held in Trust for Other Employee Benefits* were \$878.6 million, a decrease of \$12.3 million from the fiscal year beginning net assets of \$890.9 million. *Total Additions* include contributions and other additions of \$159.4 million, premiums of \$91.2 million, and federal revenue income of \$16.1 million. *Total Deductions* were \$278.9 million including medical claims payments and processing fees of \$170.7 million and pharmacy claims payments and processing fees of \$107.6 million.

Administrative Operations:

Total Administrative Operating Expenses for the quarter ended November 30, 2011 were \$621 thousand. Expenses were \$164 thousand for September, \$197 thousand for October, and \$260 thousand for November. *Salaries and Other Personnel Costs* were \$500 thousand, *Professional Fees and Services* were \$80 thousand, and *Other Operating Expenses* were \$41 thousand. As anticipated, overall expenses continued to track closely with budgeted funds. At the end of the first quarter, 84% of the total funds budgeted were remaining.

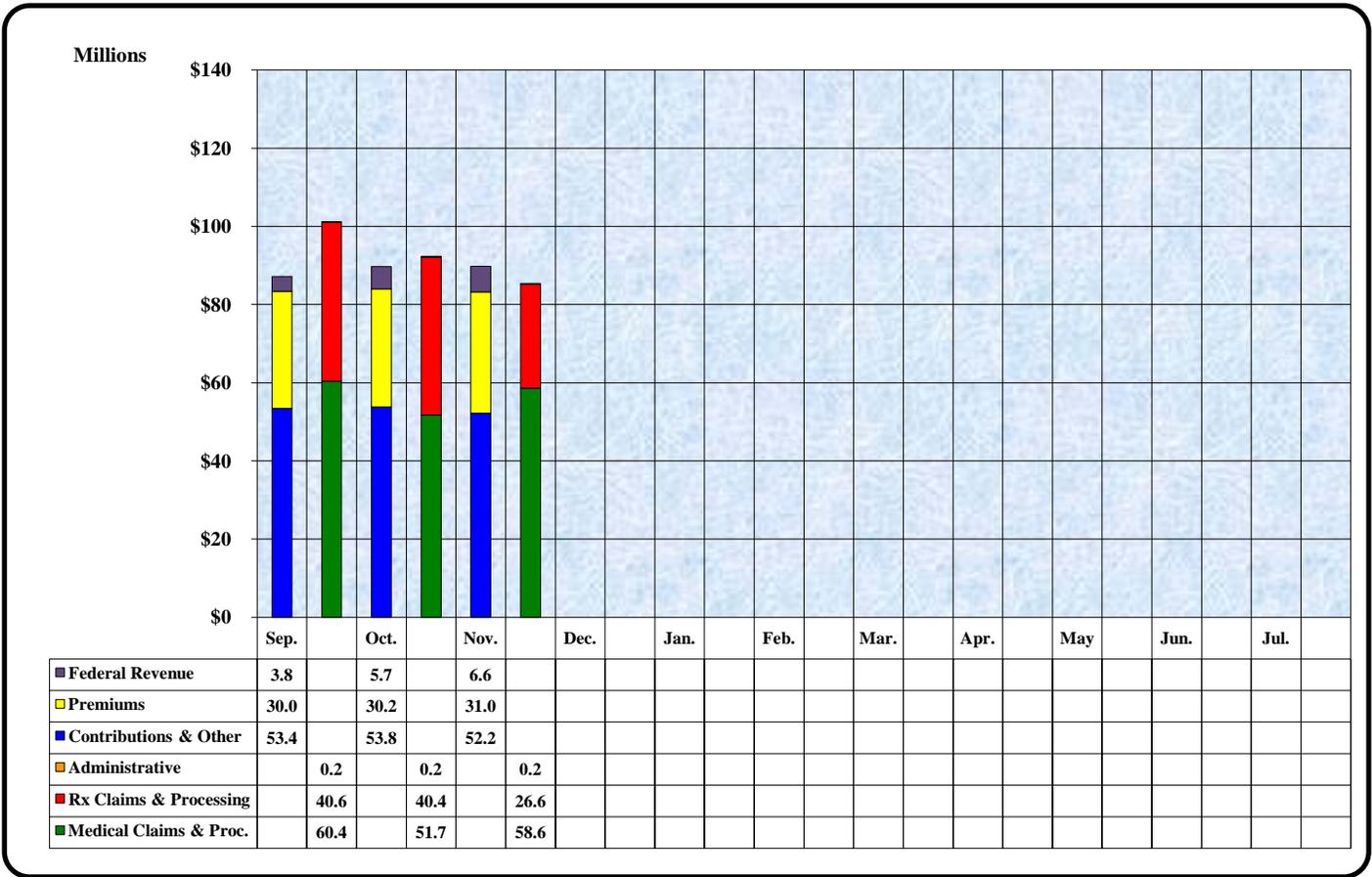
**TRS-Care
Net Assets - FY 2012 YTD and FY 2011**



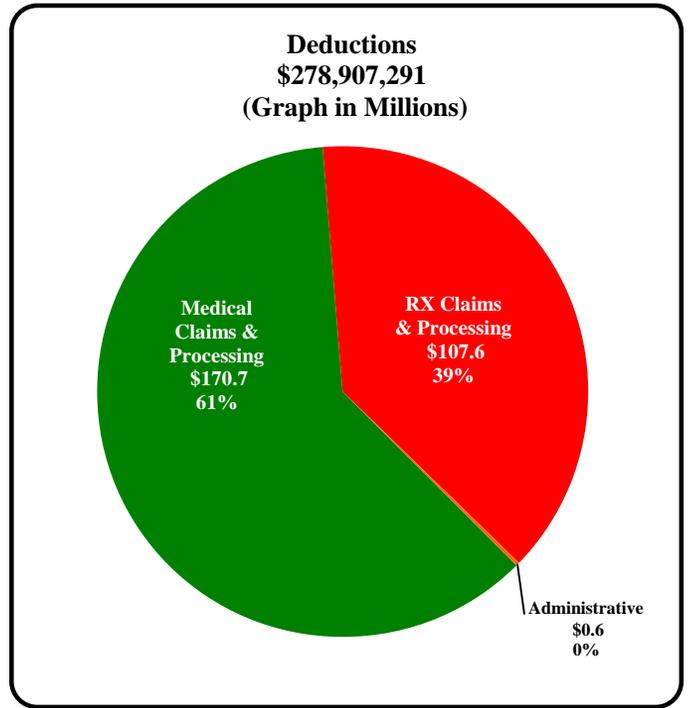
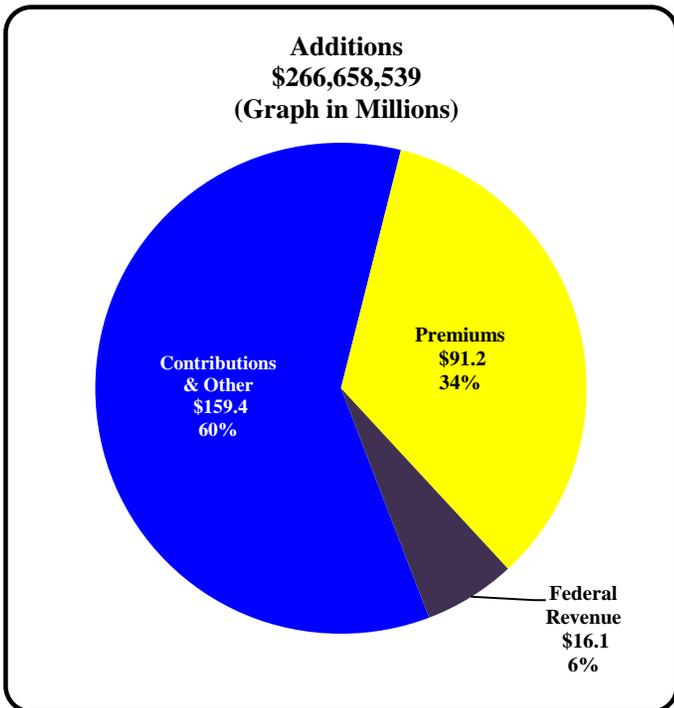
Source: Unaudited monthly financial statements.

TRS-Care Additions and Deductions - FY 2012

Monthly



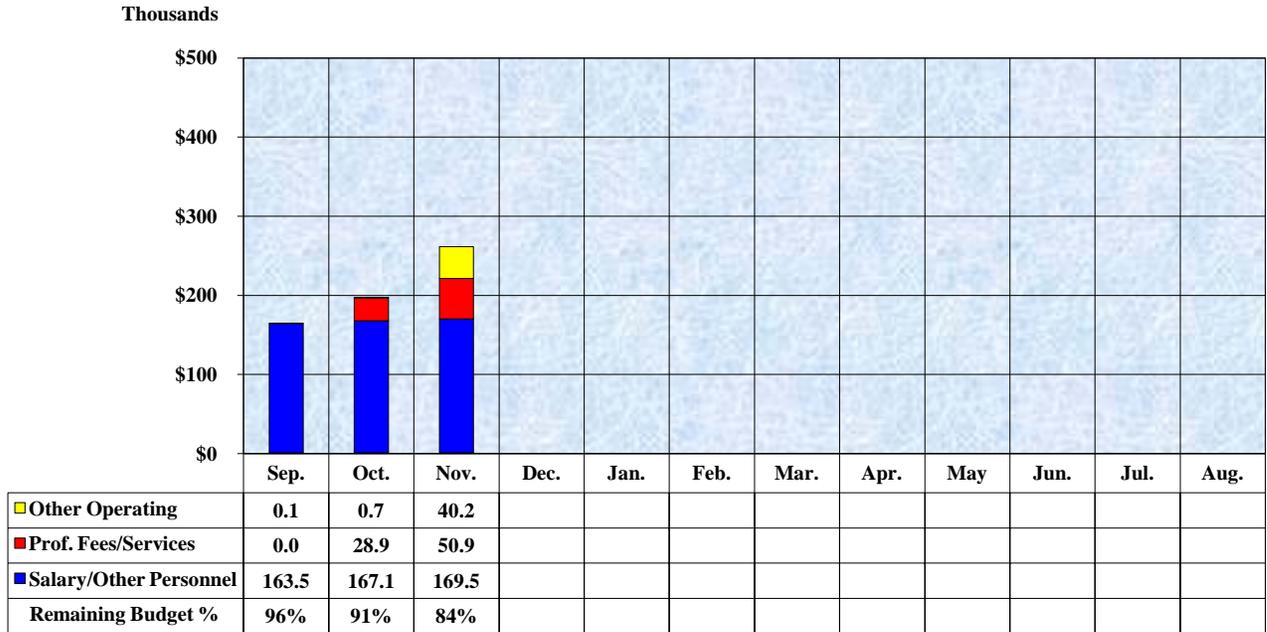
YTD for the First Quarter Ended November 30



Source: Unaudited monthly financial statements.

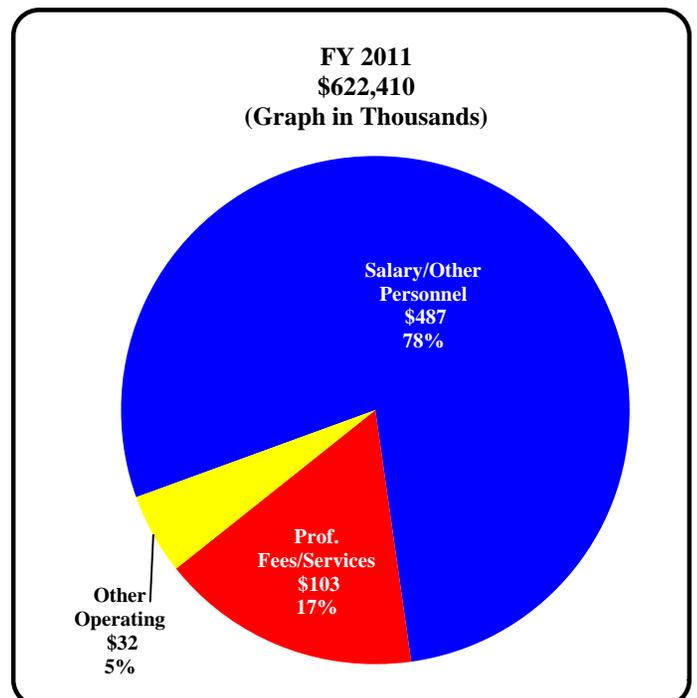
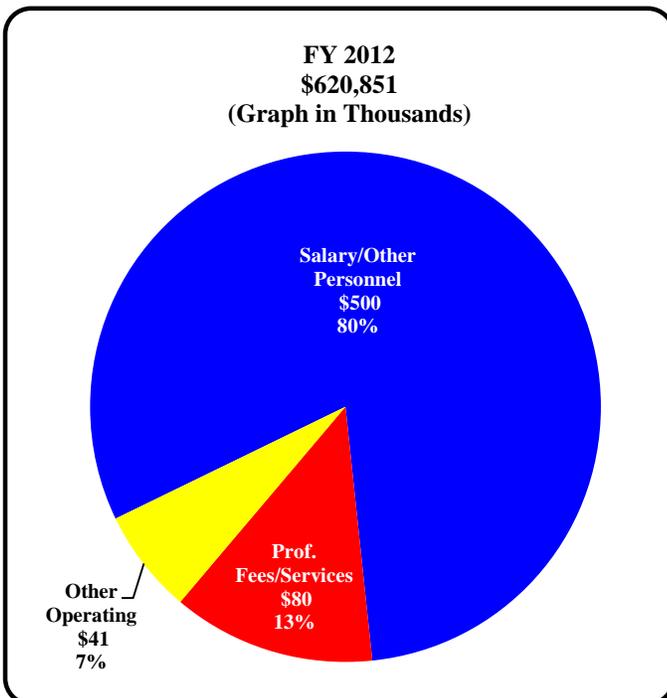
**TRS-Care
Administrative Expenses
(Excludes Encumbered Funds)**

Monthly - FY 2012



Total Budget \$3,997,330

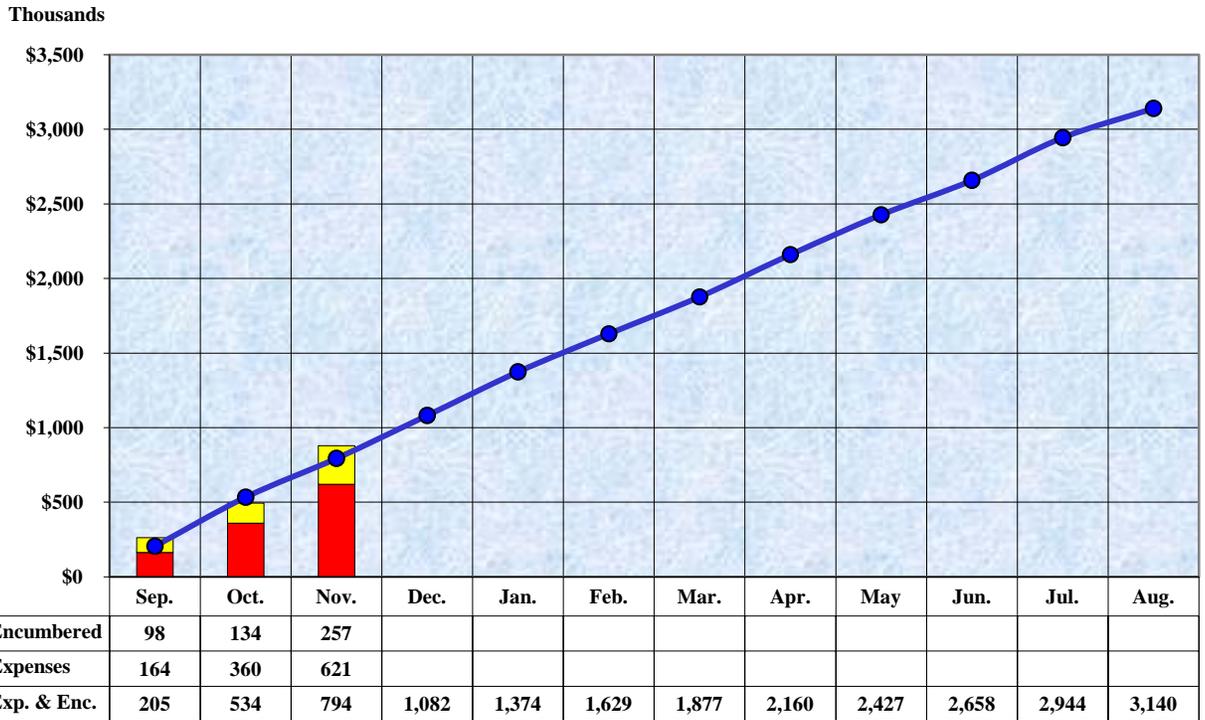
YTD for the First Quarter Ended November 30 - FY 2012 and FY 2011



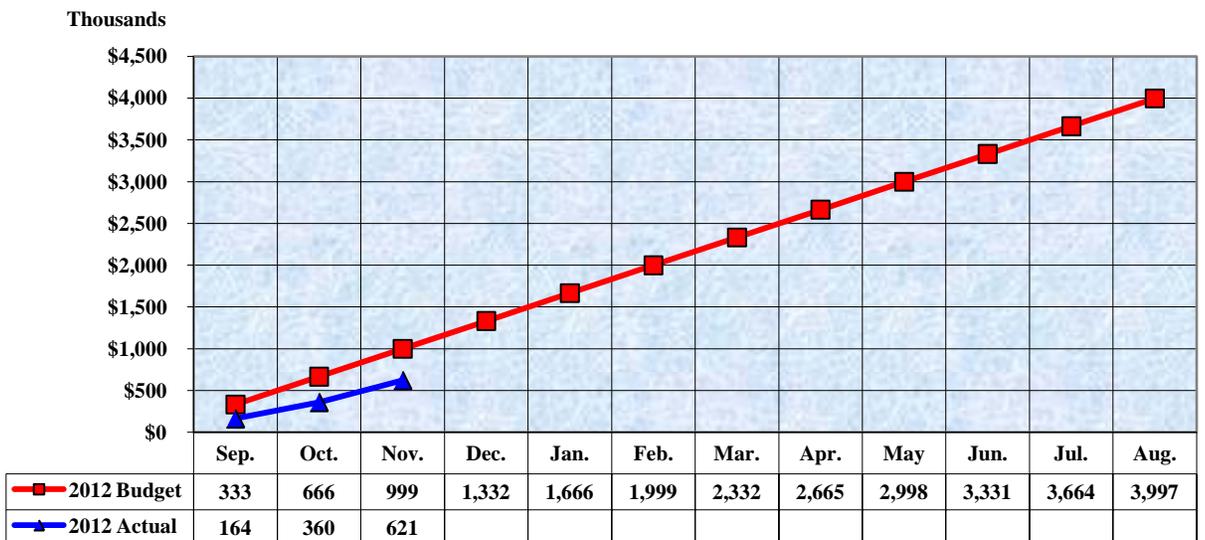
Source: Unaudited monthly financial statements.

TRS-Care Administrative Expenses

FY 2012 YTD and FY 2011



Budget to YTD Actual - FY 2012 (Excludes Encumbered Funds)



Budget Totaled \$999,333 as of November 30
Actual Expenses Totaled \$620,851 as of November 30

Source: Unaudited monthly financial statements.

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS-CARE
FY 2012 BUDGET BASIS ADMINISTRATIVE EXPENSES
 Unaudited Statements For Internal Use Only

	Actual YTD November 30, 2011	Encumbered YTD November 30, 2011	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 384,689.18	\$ 0.00	\$ 1,815,673.00	\$ 1,430,983.82	79%
Longevity Pay	11,900.00		48,040.00	36,140.00	75%
Employer Retirement Contributions	23,888.23		96,847.00	72,958.77	75%
Employer FICA Contributions	29,465.59		126,285.00	96,819.41	77%
Employer Health Insurance Contributions	46,473.00		189,271.00	142,798.00	75%
Benefit Replacement Pay	1,546.74		11,345.00	9,798.26	86%
Other Employee Benefits	2,172.13		64,150.00	61,977.87	97%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 500,134.87	\$ 0.00	\$ 2,351,611.00	\$ 1,851,476.13	79%
PROFESSIONAL FEES AND SERVICES	\$ 79,792.63	\$ 244,917.66	\$ 1,346,000.00	\$ 1,021,289.71	76%
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 680.44	\$ 572.26	\$ 5,200.00	\$ 3,947.30	76%
Utilities	285.37		2,031.00	1,745.63	86%
Travel	1,324.27	724.51	10,355.00	8,306.22	80%
Rentals	26,853.94		107,416.00	80,562.06	75%
Dues, Fees and Staff Development	97.50	344.00	2,270.00	1,828.50	81%
Subscriptions and Reference Information			570.00	570.00	100%
Printing and Reproduction Services	5,100.86	766.66	15,000.00	9,132.48	61%
Postage, Mailing and Delivery Services	5,925.92	7,759.75	135,277.00	121,591.33	90%
Miscellaneous Expenses	645.59	916.66	14,600.00	13,037.75	89%
Furniture and Equipment - Expensed	9.91	500.00	6,500.00	5,990.09	92%
Maintenance - Buildings and Equipment			500.00	500.00	100%
TOTAL OTHER OPERATING EXPENSES	\$ 40,923.80	\$ 11,583.84	\$ 299,719.00	\$ 247,211.36	82%
TOTAL OPERATING EXPENSES	\$ 620,851.30	\$ 256,501.50	\$ 3,997,330.00	\$ 3,119,977.20	78%
Less: Employer Retirement Contributions paid on behalf of Employees	\$ (23,888.23)	\$ 0.00	\$ (96,847.00)	\$ (72,958.77)	75%
TOTAL CASH OUTLAY FOR OPERATING EXPENSES	\$ 596,963.07	\$ 256,501.50	\$ 3,900,483.00	\$ 3,047,018.43	78%

Financial Report for the First Quarter Ended November 30, 2011 TRS-ActiveCare

To: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

From: Don Green, Chief Financial Officer

Date: February 1, 2012

The fund captures financial activity for the following programs:

- TRS-ActiveCare health care program for active public school employees
- Optional life and long-term care insurance for active members and retirees

Net Assets – Restricted for Health Care Programs

For the first quarter ended November 30, 2011 the *Net Assets* were \$229.2 million. This is a \$41.1 million increase from the fiscal year beginning net assets of \$188.1 million.

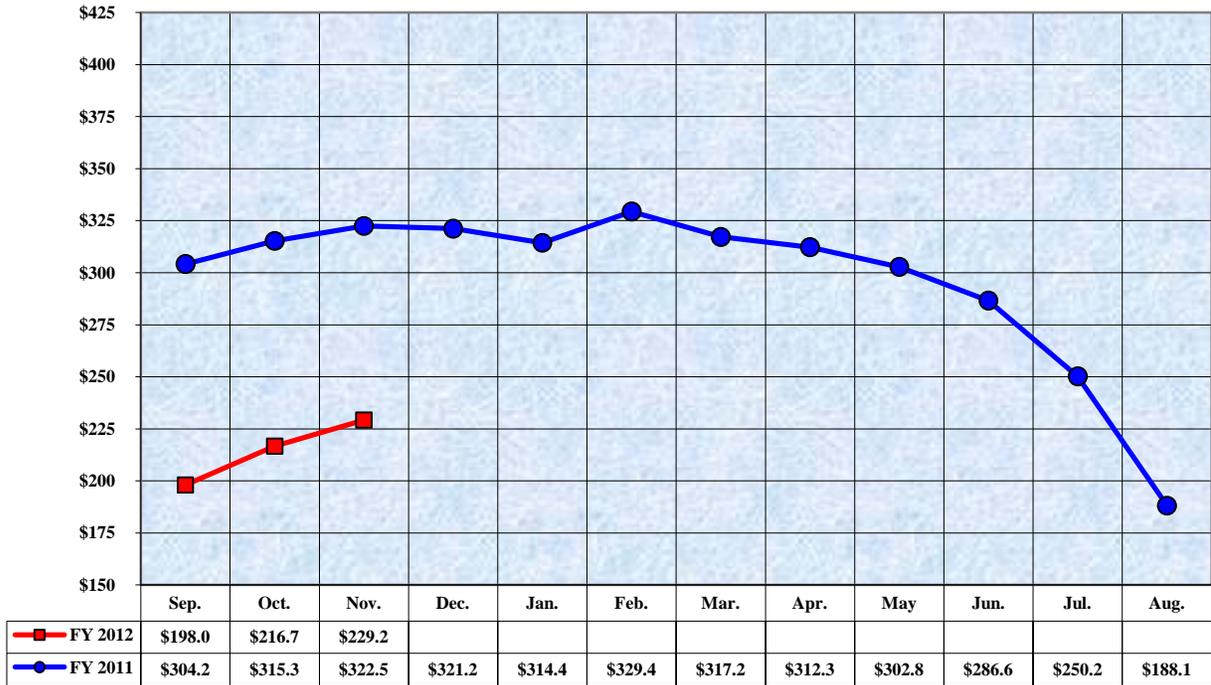
Total Revenues for the first quarter were \$431.9 million. Health care premiums accounted for 429.9 million of total revenues. Other revenues were COBRA premiums of \$1.8 million, investment income of \$161 thousand, and administrative fee revenue of \$34 thousand. *Total Expenses* for the first quarter were \$390.8 million. Total Expenses include medical claims payments and processing fees of \$318.6 million, pharmacy claims payments and processing fees of \$49.9 million, HMO payments of \$21.9 million, and administrative costs of \$436 thousand.

Administrative Operations:

The *Total Administrative Operating Expenses* for the first quarter ended November 30, 2011 were \$456.5 thousand. Expenses were \$120.8 thousand for September, \$147.3 thousand for October, and \$188.4 thousand for November. *Salaries and Other Personnel Costs* were \$378.2 thousand, *Professional Fees and Services* were \$57.7 thousand, and *Other Operating Expenses* were \$20.6 thousand. As anticipated, overall expenses continued to track closely to budgeted funds. At the end of the first quarter, 82% of the total funds budgeted were remaining.

TRS-ActiveCare Net Assets - FY 2012 YTD and FY 2011

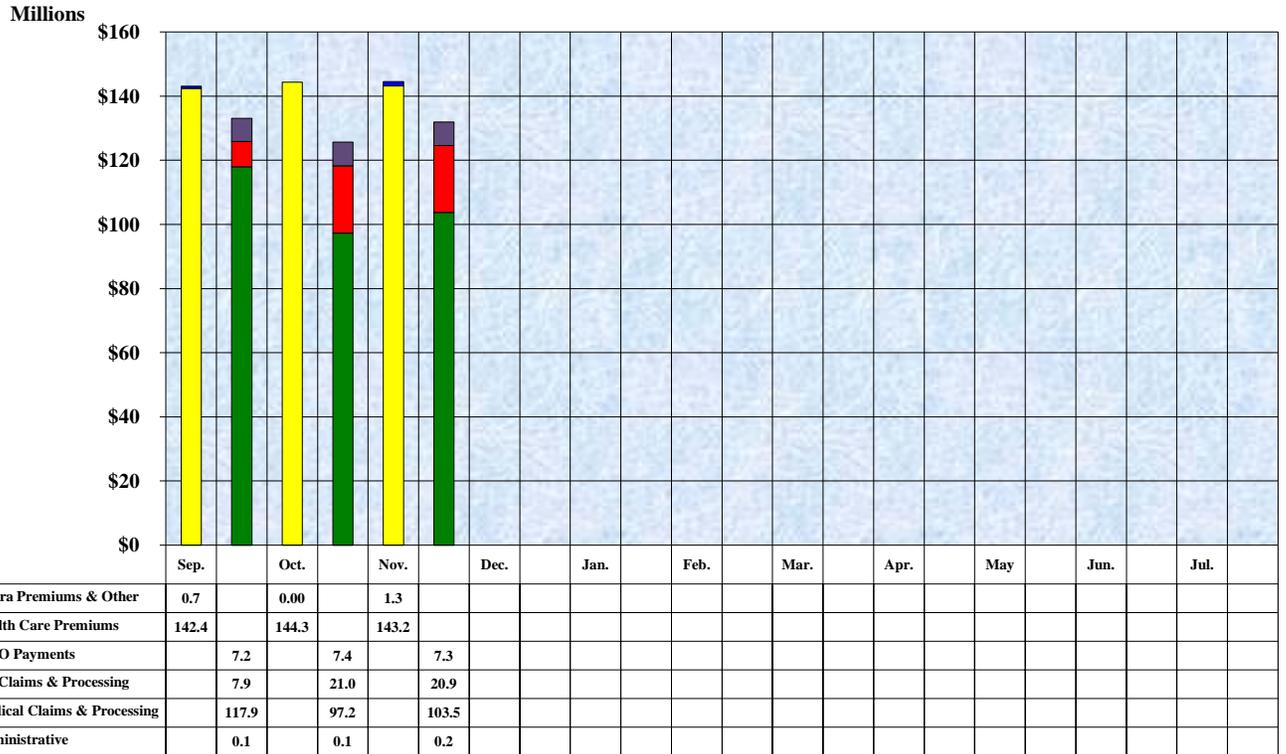
Millions



Source: Unaudited monthly financial statements.

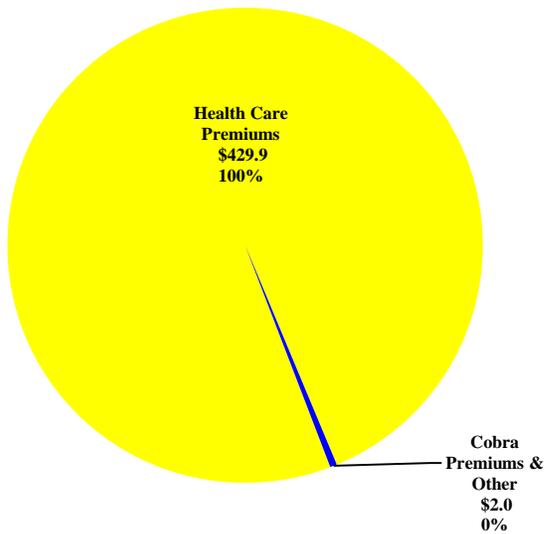
TRS-ActiveCare Revenues and Expenses - FY 2012

Monthly

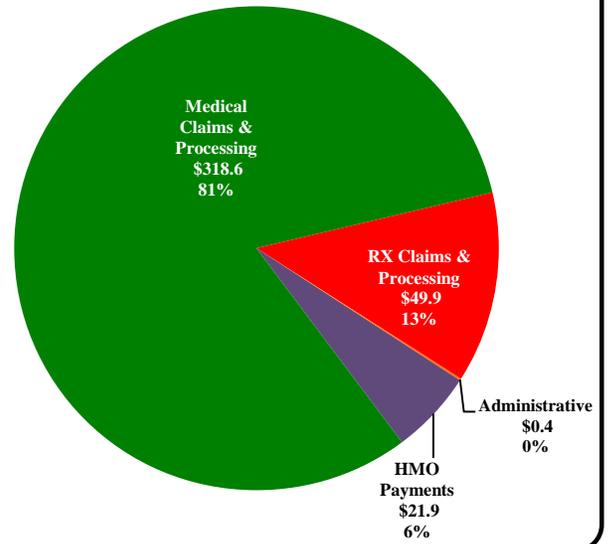


YTD for the First Quarter Ended November 30

Revenues
\$431,956,337
(Graph in Millions)



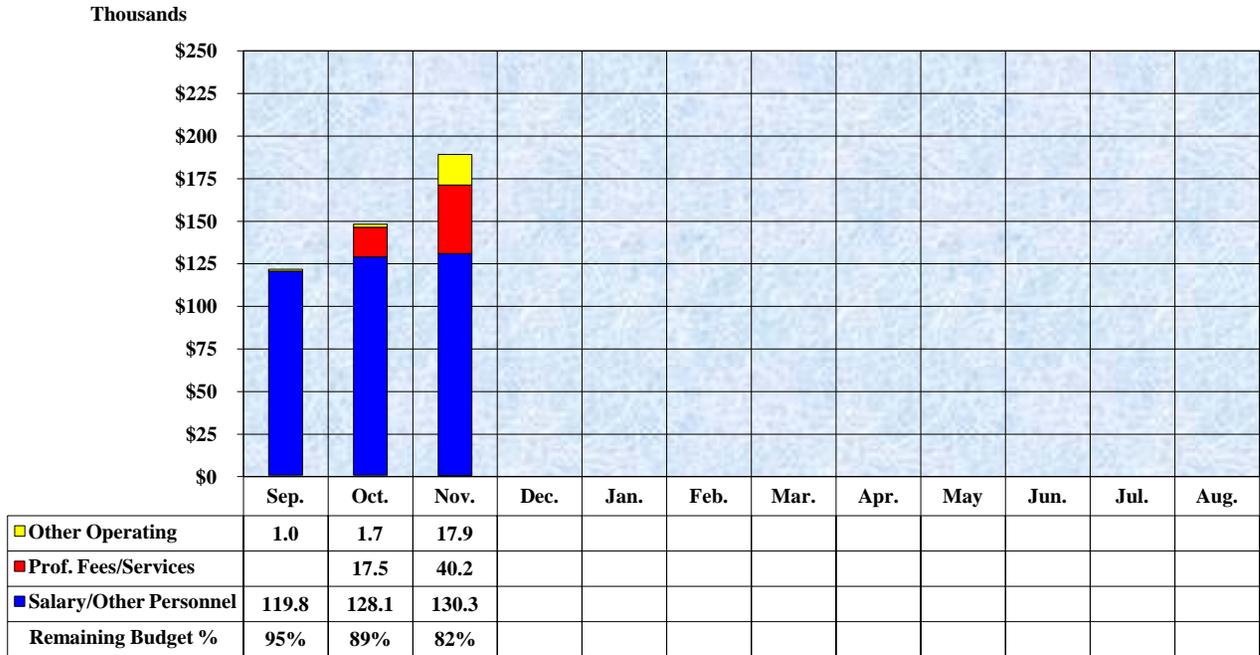
Expenses
\$390,799,802
(Graph in Millions)



Source: Unaudited monthly financial statements.

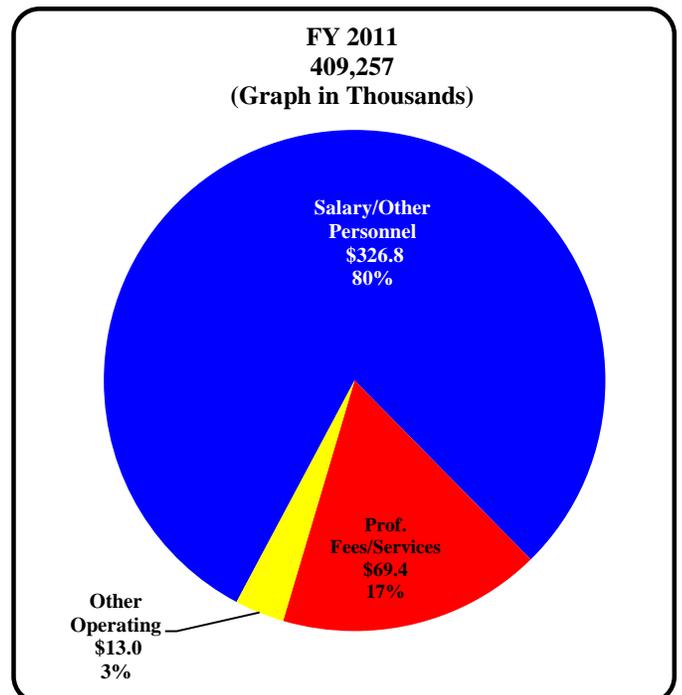
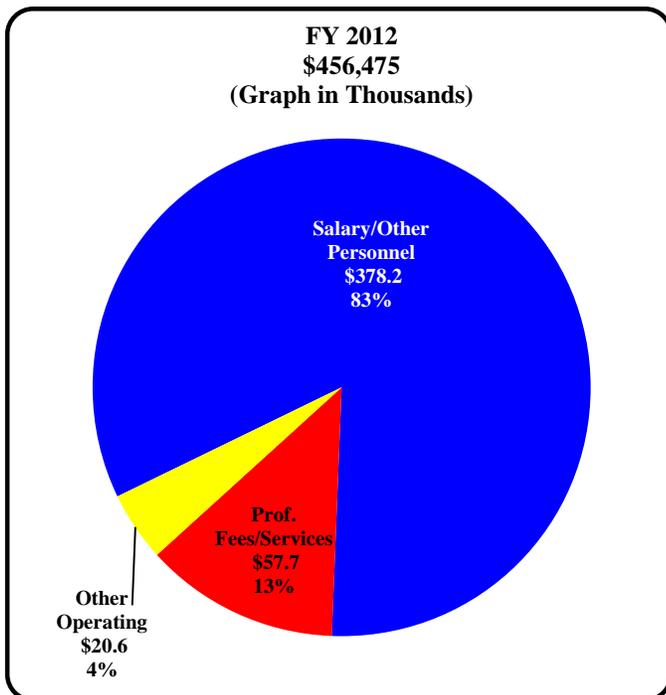
**TRS-ActiveCare
Administrative Expenses
(Excludes Encumbered Funds)**

Monthly - FY 2012



Total Budget \$2,514,462

YTD for the First Quarter Ended November 30 - FY 2012 and FY 2011



Source: Unaudited monthly financial statements.

TRS-ActiveCare Administrative Expenses

FY 2012 YTD and FY 2011

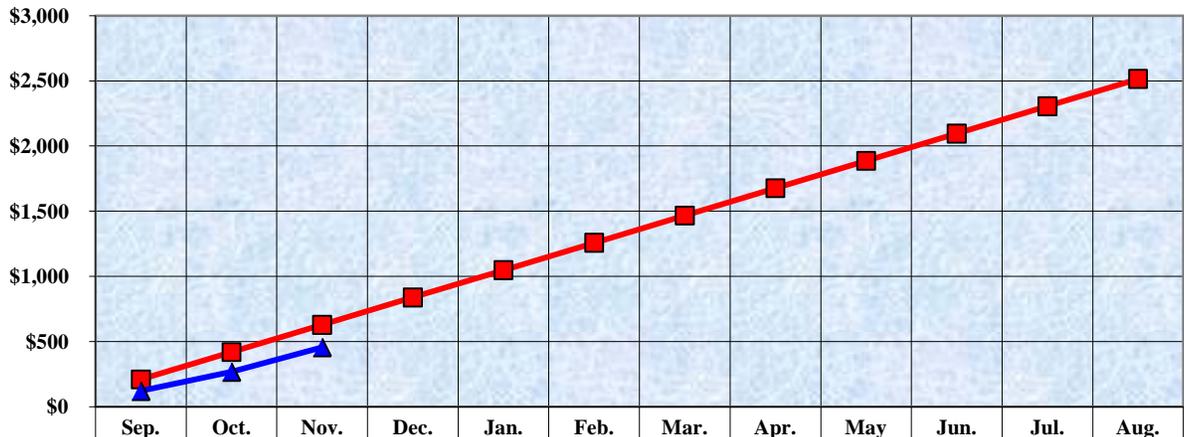
Thousands



2012 Encumbered	46	67	53									
2012 Expenses	121	268	456									
2011 Exp. & Enc.	163	324	481	639	815	1,124	1,494	1,657	1,835	1,989	2,172	2,337

Budget to YTD Actual - FY 2012 (Excludes Encumbered Funds)

Thousands



2012 Budget	210	419	629	838	1,048	1,257	1,467	1,676	1,886	2,095	2,305	2,514
2012 Actual	121	268	456									

Budget Totaled \$628,616 as of November 30
Actual Expenses Totaled \$456,475 as of November 30

Source: Unaudited monthly financial statements.

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS-ACTIVECARE
FY 2012 BUDGET BASIS ADMINISTRATIVE EXPENSES
 Unaudited Statements For Internal Use Only

	Actual YTD November 30, 2011	Encumbered YTD November 30, 2011	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 296,342.13	\$ 0.00	\$ 1,295,835.00	\$ 999,492.87	77%
Longevity Pay	7,780.00		32,040.00	24,260.00	76%
Employer Retirement Contributions	18,278.34		76,856.00	58,577.66	76%
Employer FICA Contributions	21,599.18		97,720.00	76,120.82	78%
Employer Health Insurance Contributions	33,702.96		120,801.00	87,098.04	72%
Benefit Replacement Pay	515.58		3,095.00	2,579.42	83%
Other Employee Benefits			59,525.00	59,525.00	100%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 378,218.19	\$ 0.00	\$ 1,685,872.00	\$ 1,307,653.81	78%
PROFESSIONAL FEES AND SERVICES	\$ 57,669.50	\$ 45,834.32	\$ 728,000.00	\$ 624,496.18	86%
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 186.02	\$ 393.42	\$ 3,000.00	\$ 2,420.56	81%
Utilities	165.07		1,500.00	1,334.93	89%
Travel	1,993.53	196.51	9,100.00	6,909.96	76%
Rentals	15,709.88		62,840.00	47,130.12	75%
Dues, Fees and Staff Development	1,407.50	2,120.00	8,700.00	5,172.50	59%
Subscriptions and Reference Information	475.00		1,000.00	525.00	53%
Printing and Reproduction Services	164.01	116.65	1,400.00	1,119.34	80%
Postage, Mailing and Delivery Services	310.39	379.23	4,750.00	4,060.38	85%
Miscellaneous Expenses	146.53	249.99	3,300.00	2,903.48	88%
Furniture and Equipment - Expensed	29.73	3,325.00	4,500.00	1,145.27	25%
Maintenance - Buildings and Equipment			500.00	500.00	100%
TOTAL OTHER OPERATING EXPENSES	\$ 20,587.66	\$ 6,780.80	\$ 100,590.00	\$ 73,221.54	73%
TOTAL OPERATING EXPENSES	\$ 456,475.35	\$ 52,615.12	\$ 2,514,462.00	\$ 2,005,371.53	80%
Less: Employer Retirement Contributions paid on behalf of Employees	\$ (18,278.34)	\$ 0.00	\$ (76,856.00)	\$ (58,577.66)	76%
TOTAL CASH OUTLAY FOR OPERATING EXPENSES	\$ 438,197.01	\$ 52,615.12	\$ 2,437,606.00	\$ 1,946,793.87	80%

Financial Report for the First Quarter Ended November 30, 2011
403(b) Certification Program

To: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

From: Don Green, Chief Financial Officer

Date: February 1, 2012

Net Assets Restricted for 403(b) Program Administration:

For the first quarter ended November 30, 2011, *Net Assets* were \$110 thousand. This is a decrease of \$12 thousand from the fiscal year beginning net assets of \$122 thousand.

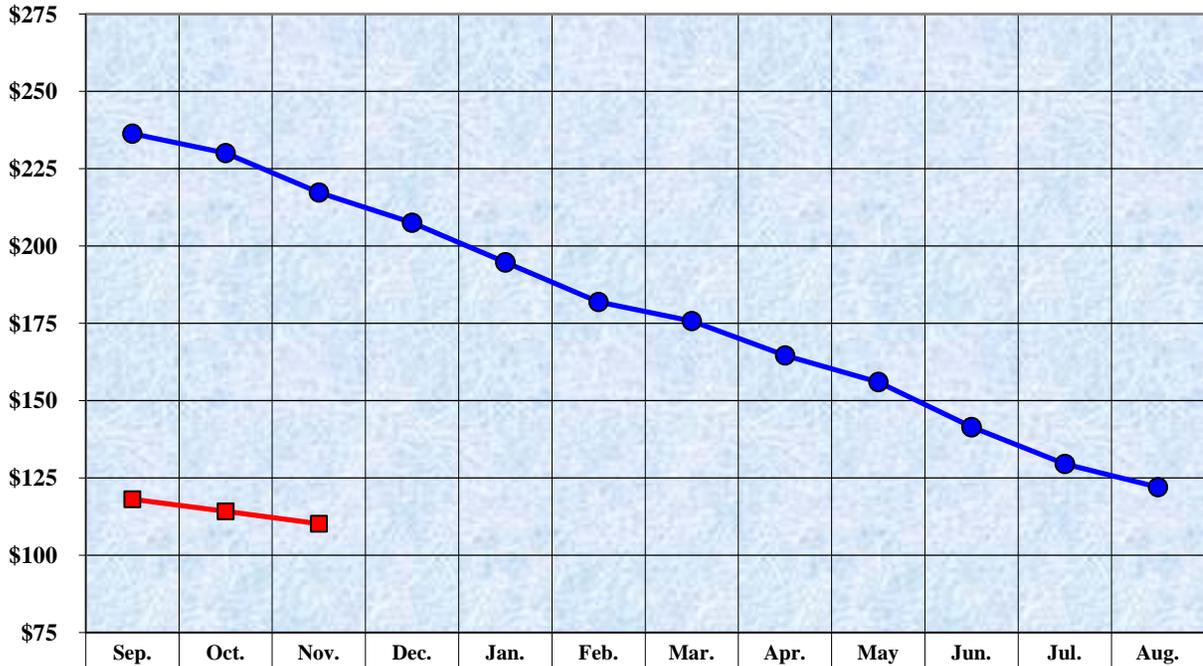
Total Revenues for the first quarter were \$73 from investment income. *Total Expenses* which are comprised of administrative expenses were \$12 thousand.

Administrative Operations:

The *Total Operating Expenses* for the first quarter on a budgetary basis were \$12.6 thousand. These are comprised of *Salaries and Other Personnel Costs*. At the end of the first quarter, 78% of the total funds budgeted were remaining.

403(b) Certification Program Net Assets - FY 2012 YTD and FY 2011

Thousands



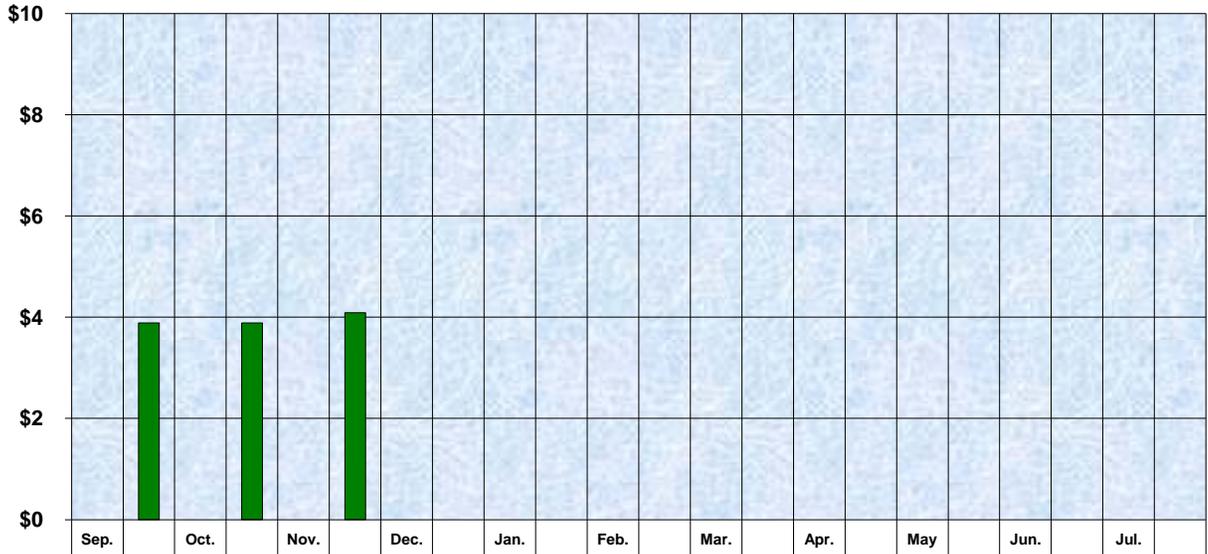
■ FY 2012	\$118.1	\$114.2	\$110.2									
● FY 2011	\$236.3	\$230.1	\$217.3	\$207.5	\$194.7	\$181.9	\$175.7	\$164.6	\$156.0	\$141.4	\$129.5	\$122.0

Source: Unaudited monthly financial statements.

403(b) Certification Program

Revenues and Expenses Monthly - FY 2012

Thousands

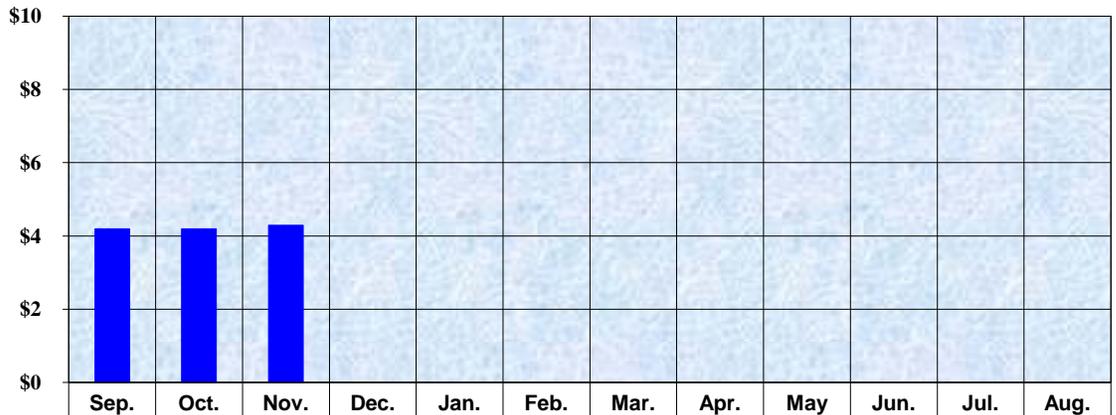


	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
■ Certification Fees/Other	0.0	0.0	0.0								
■ Product Registration Fees	0.0	0.0	0.0								
■ Administrative	3.9	3.9	4.1								

Administrative Expenses (Excludes Encumbered Funds)

Monthly - FY 2012

Thousands



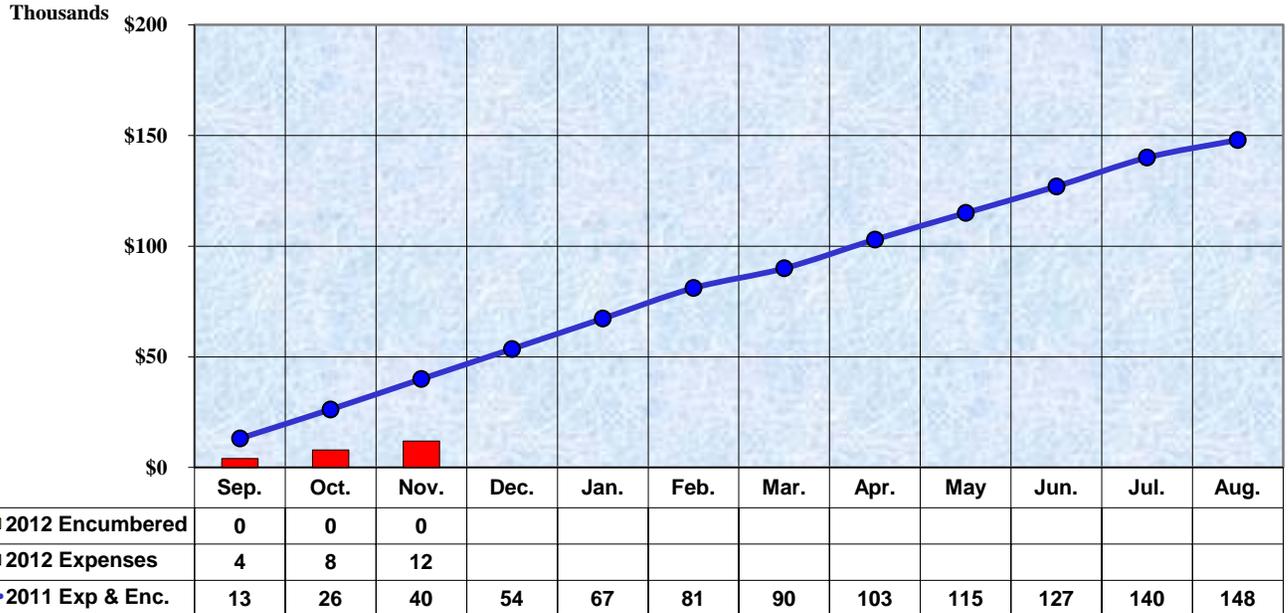
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
Remaining Budget %	93%	86%	78%									
■ Salary/Other Personnel	4.2	4.2	4.3									

Total Budget \$58,452

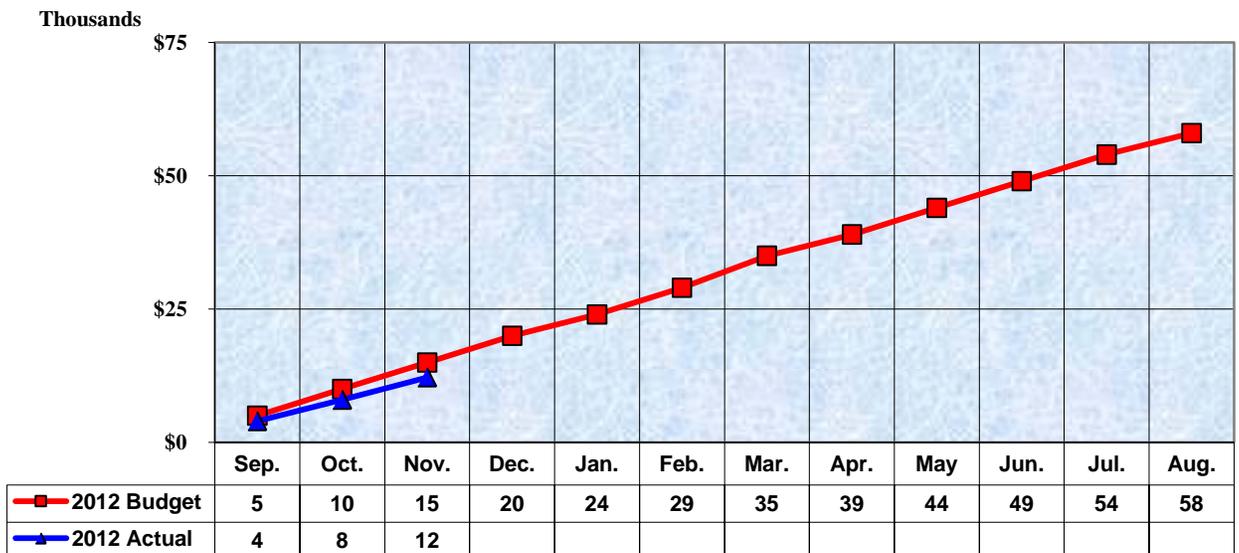
Source: Unaudited monthly financial statements

403(b) Certification Program Administrative Expenses

FY 2012 YTD and FY 2011



Budget to YTD Actual Expenses - FY 2012 (Excludes Encumbered Funds)



Budget Totaled \$14,613 as of November 30
Actual Expenses Totaled \$12,621 as of November 30

Source: Unaudited monthly financial statements.

TEACHER RETIREMENT SYSTEM OF TEXAS
403(b) CERTIFICATION PROGRAM
FY 2012 BUDGET BASIS ADMINISTRATIVE EXPENSES
 Unaudited Statements For Internal Use Only

	Actual YTD November 30, 2011	Encumbered YTD November 30, 2011	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 10,847.53	\$ 0.00	\$ 45,386.00	\$ 34,538.47	76%
Employer Retirement Contributions	666.33		2,739.00	2,072.67	76%
Employer FICA Contributions	849.56		3,274.00	2,424.44	74%
Employer Health Insurance Contributions			5,021.00	5,021.00	100%
Benefit Replacement Pay	257.79		1,032.00	774.21	75%
Other Employee Benefits			1,000.00	1,000.00	100%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 12,621.21	\$ 0.00	\$ 58,452.00	\$ 45,830.79	78%
TOTAL OPERATING EXPENSES	\$ 12,621.21	\$ 0.00	\$ 58,452.00	\$ 45,830.79	78%
Less: Employer Retirement Contributions paid on behalf of Employees	\$ (666.33)	\$ 0.00	\$ (2,739.00)	\$ (2,072.67)	76%
TOTAL CASH OUTLAY FOR OPERATING EXPENSES	\$ 11,954.88	\$ 0.00	\$ 55,713.00	\$ 43,758.12	79%

Operations

Board Operations

Board of Trustees Meeting
February 16, 2012

Board Operations Objectives



- Discuss the Board agenda planning process, including timelines, frequency of meetings, and the use of Board committees in accomplishing business
- Preview agendas for April and May meetings
- Review Staff's recommendation for electronic Board materials
- Review Board training calendar
- Consider a resolution for addressing non-substantive corrections to Board actions

Operations

Board Operations

Board of Trustees Meeting
February 16, 2012

Board Operations Objectives



- Discuss the Board agenda planning process, including timelines, frequency of meetings, and the use of Board committees in accomplishing business
- Preview agendas for April and May meetings
- Review Staff's recommendation for electronic Board materials
- Review Board training calendar
- Consider a resolution for addressing non-substantive corrections to Board actions

Operations

Board Agenda Planning Process Tab A

Board Agenda Planning Goals



At the December meeting, staff discussed adjusting the Board agenda planning process in order to:

- Better target items for agenda inclusion
- Allow staff more time to develop and refine Board meeting materials
- Give trustees more time with the materials in advance of meetings

Staff Recommendation

To accomplish the stated goals, staff recommends:

- Developing and reviewing Board agendas earlier
- Disseminating Board materials 2 weeks prior Board meetings, with some exceptions
- Adjusting the frequency of meetings or alternating the agenda focus
- Evaluating the number of Board committees

Develop and Review Agendas Earlier

- Staff will develop Board agendas two to three months in advance of the meeting
- At each Board meeting, staff will preview for Board input the outline for the next two Board agendas, including committee meetings
- Discussion of preview agendas must be limited only to adding or removing agenda items. The substantive merits of a particular item cannot be discussed

Disseminate Materials Earlier



- Set an internal review deadline of 21 days in advance of the Board meeting
- Aim to disseminate meeting materials two weeks in advance of the Board meeting
- Except out “time-sensitive” materials
- Be aware that early dissemination of materials means that new issues or updated information could arise after the Board materials have been sent out but before the posting deadline

Time-Sensitive Materials

- “Time-sensitive” items will not be available for dissemination two weeks in advance
- Will be disseminated five to seven days in advance
- Examples of “time-sensitive” items includes:
 - IMD’s quarterly reporting of investment performance
 - Financial Division’s reporting of quarterly financial information
 - Minutes from the prior meeting
- IMD quarterly reporting is regularly “time-sensitive”
- All other “time-sensitive” items will vary depending on the exact meeting date

Proposed Process

Action	Standard Items	Time-Sensitive Items
Posting Deadline	7 Full Days Prior to Board Meeting	
Provide Materials Electronically	14 Days Prior to Meeting	5-7 Days Prior to Meeting
Deadline for Internal Review	21 Days Prior to Meeting	10 Days Prior to Meeting
Outline of Agenda Developed	1 to 2 Months Prior to Board Preview Meeting	
Note: deadlines are based on calendar days		

Adjust Meeting Frequency

- TRS Board Bylaws Section 2.1.1 provides that the Board shall meet approximately eight but no less than four times per fiscal year
- The Board will meet 8 times in FY 2012, including once a month for April, May, June and July
- Frequent meetings lead to tight turn around times for Board materials, which:
 - Hinders adherence to new, more aggressive, dissemination deadlines
 - Results in more materials being deemed “time-sensitive”
 - Diverts staff attention away from agency operational functions

Adjust Meeting Frequency (Cont'd)

- In 2008, Internal Audit examined the Board preparation process
- Audit found that preparation for seven to eight annual Board meetings and associated committee meetings is a continual process that:
 - Spans up to eight weeks per meeting
 - Involves the equivalent of 202 staff members contributing 1,680 hours (Excluding ED and Executive Assistant resources)
 - Often entails management and staff members working on materials for two different Board meetings concurrently

Adjusting Meeting Frequency (Cont'd)

Staff recommends:

- Reducing the number of meetings to provide one full month between meetings or alternating the agenda focus between Investments and non-Investment topics
- For example, with four meetings in four months the Board could cancel the May Board meeting or narrowly focus the May agenda on health care matters
- This will help ease staff resources for meeting preparation

Evaluate Committees

Currently, the Board has established the following eight committees:

- Audit
- Benefits
- Budget
- Compensation*
- Investment Management
- Policy
- Ethics
- Risk Management

TRS Board Bylaws Section 3.1.1 through 3.1.7

*Established by Board resolution; not in Bylaws

Evaluate Committees (Cont'd)



- TRS Board Bylaws provide that the Board shall establish committees to make recommendations to the Board and help carry out the Board's responsibilities
- Under the Bylaws, the committees may not exercise authority required to be exercised by the Board as a whole under the Bylaws or state or federal law
- The Bylaws also provide that the Board may consider or take any action otherwise specified to be taken or considered by a committee

TRS Board Bylaws Section 1.8(I)

Evaluate Committees (Cont'd)



The Bylaws provide that:

- Committees have 5 members except Ethics, which is comprised of the entire Board
- Audit and Risk Management committees shall meet on a quarterly basis or at the call of the committee chair
- Benefits, Budget, Investment Management, Policy, and Ethics committees shall meet at the call of the committee chair

TRS Bylaws Sections 3.1.1 through 3.1.7 and 3.3

Evaluate Committees (Cont'd)



A December 2011 survey by the Association of Public Pension Fund Auditors shows that out of the 28 responsive funds TRS has:

- More Board committees than 23 funds, including Arizona State Retirement System and Ohio Public Employees Retirement System.
- The same number of Board committees as 4 funds, including Colorado Public Employees Retirement Association
- Less Board committees than 1 fund, which is the New York State Teachers' Retirement System

Evaluate Committees (Cont'd)

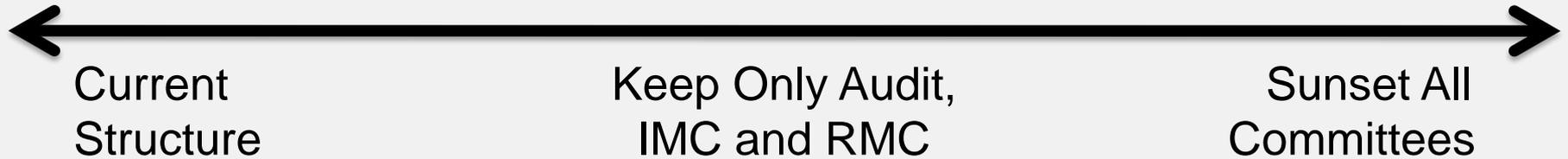
Committees At Funds of Comparable Size

Fund	Estimated Members	Estimated Fund Size	Number of Committees	Number of Trustees
CalPERS	1.6 million	\$183 billion	8 Committees	13
NY State & Local Employees & Police & Fire	991,861	\$155 billion	No committees 1 Retirement Council & 3 Advisory Committees*	22 Retirement Council members
Florida Retirement System	895, 499	\$106 billion	No committees Administered by the SBA with 3 Advisory Councils*	3 SBA members

*Trustees do not serve on these advisory committees or councils; rather, Trustees appoint others to serve in an advisory capacity.

Board Committees

Range Of Options



Board Agenda Planning Next Steps



- After upcoming review of the April and May agendas, Board can consider canceling May meeting or direct staff to narrowly focus May agenda

Staff will:

- Continue to develop agendas for early Board preview
- Identify which materials can be disseminated two weeks in advance and which are “time-sensitive”
- At Board direction, bring a resolution to adjust the number of Board committees

Operations

Preview April and May Agendas Tab B

Outline of April Agenda

- **Budget Committee Meeting**
 - Overview of FY 2013 Budget
 - Legislative Appropriations Request (LAR) for 2014-2015
 - Strategic Plan Discussion

- **Investment Management Committee Meeting**
 - Internal Public Markets Review
 - Trading Management Group Presentation
 - Passive and Overlay Risk Portfolios

- **Risk Management Committee Meeting**
 - Bi-Annual Risk Report
 - Securities Lending Program Report

Outline of April Agenda (Cont'd)



■ Policy Committee Meeting

- Investment Policy Statement Review
- Investment Authority Resolution (TRS 477)
- Discuss or Consider Recommending Ethics Policy Revisions
 - Employee Ethics
 - Contractors
 - Review Designation of Key Employees (regular review due under the policy review schedule)
- Soft Dollar Policy Amendments
- Use State Street for Broker Services & Futures Commission Merchant
- Possible amendments to the Staff Travel Policy

Outline of April Agenda (Cont'd)



■ Joint Meeting of Benefits and Audit Committees

- Presentation on roles of Audit Committee, External Auditor, and Internal Auditor Responsibilities.
- Claims and process audit results for TRS-Care for Aetna and Caremark
- Audit Reports
 - Building Security Audit
 - Investment Accounting Audit
 - Quarterly Testing of IPS Compliance
 - Quarterly Testing of Benefit Payments
 - Quarterly Testing of Information Security
- Status of Prior Audit Recommendations
- Internal Audit Administrative Reports

Outline of April Agenda (Cont'd)



- Administrative matters
- Investment reporting:
 - HEK presentation on quarterly performance
 - IMD presentation
 - Receive IMC report
 - Receive RMC report
- Receive Budget Committee report
- LAR Presentation, including space planning update
- Pension Benefit Design Study update
- Consider renewing Dr. Cox's Medical Board contract

Outline of April Agenda (Cont'd)



- Receive Policy Committee report and consider:
 - Amendments to the Key Employee Policy, if any
 - Amendments to staff or contractor ethics policies, if any
 - Waiver to use State Street's Prime Broker Services and as a Futures Commission Merchant
- Receive communications update, including update on celebration of TRS' 75th Anniversary
- CEM Pension Administration Benchmarking Study results
- Receive Audit Committee Report
- Litigation Report
- Standard Reports from CBO, CFO, DD, and ED (including a TEAM update in the ED report)

Outline of May Agenda

- May is constructed to be a health care only agenda
- The estimated meeting time is from 90 minutes to two hours
- Several executive staff members will be at either the CEM or PRISM conferences on the east and west coast
- **Benefits Committee Meeting**
 - Receive a presentation on and consider recommending to the Board:
 - Premiums and plan design for TRS-Care 1, 2, and 3
 - Whether the Board should select a Medicare Advantage vendor

Outline of May Agenda (Cont'd)



- Administrative matters
- TRS-Care Study update
- Receive Benefits Committee report and consider
 - Premiums and plan design for TRS-Care 1, 2, and 3
 - Whether to select a Medicare Advantage Vendor
- Member Satisfaction Survey Results.
- Standard Reports from CFO, DD, and ED

Operations

Electronic Board Materials Tab C

Electronic Board Materials



Issues

- Annual cost of assembling books by hand and mailing them overnight is estimated at \$33,000 not including staff time
- Carrying printed books can be cumbersome as books do not have the portability of a laptop or tablet device
- Printing books results in excess copies
- TRS' "Go Green" initiative that includes considering changes to existing practices to incorporate environmental sustainability

Electronic Board Materials



Base Requirements

- Secure
- Ability to go completely paperless
- Ease of use and accessibility
- Support for mobile devices (e.g. iPad)
- Support for document annotations
- Ability to print on demand
- Cost savings

Electronic Board Materials

Option 1

- Thumb Drives
- CD / DVD

Option 2

- Cloud Based File Sharing
- Web Portal

Option 3

- Purpose Built Web Portal
- Clients for multiple platforms

Option 1: Thumb Drives

Positives

- Well known format - keeps it simple
- Improves distribution and mobility
- Least disruptive to current processes
- Achieves cost reduction goals

Challenges

- Physical distribution
- Difficult to manage and minimally secure
- No iPad compatibility
- USB not always an option

Option 2: Cloud File Storage

Positives

- Web access and centralized management
- Mobile app for iPad and other devices
- Centralized access control and security
- Achieves cost reduction goals
- Some efficiency improvements

Challenges

- Design for general purpose file sharing
- Subject to network availability and throughput
- Degree of technical support required
- Ongoing expense for service and storage
- Introduces new security and privacy challenges

Option 3: Board Portal

Positives

- Purpose built solution with ubiquitous access
- Looks and works like a book with mobile device support
 - Provides annotation and offline capabilities
- Built-in meeting and material archival
- Achieves cost reduction and efficiency goals
- Vendors attentive to security and privacy

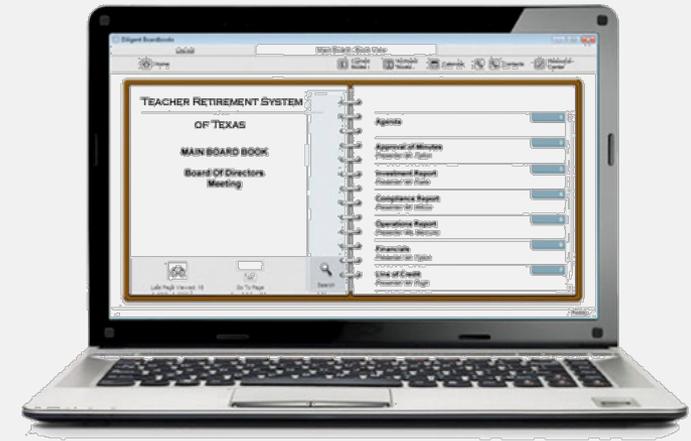
Potential Challenges

- Greater impact on trustees and admin staff
 - Minimized by vendor support services
- Can be subject to network availability and throughput
- Ongoing service costs and reliance on vendor
- Risk analysis, assessments and due diligence

Recommendation

■ TRS Board Portal (Option 3)

- Costs an estimated \$10,000 to \$15,000 **less** annually than printing, hand assembling, and mailing over night
- Easily view Board materials securely on-line from multiple devices
- Make annotations, bookmarks and highlights to any document and have access to them during Board meetings
- Easily search and print materials as needed
- Access materials across multiple platforms including Windows computers and Apple iPads



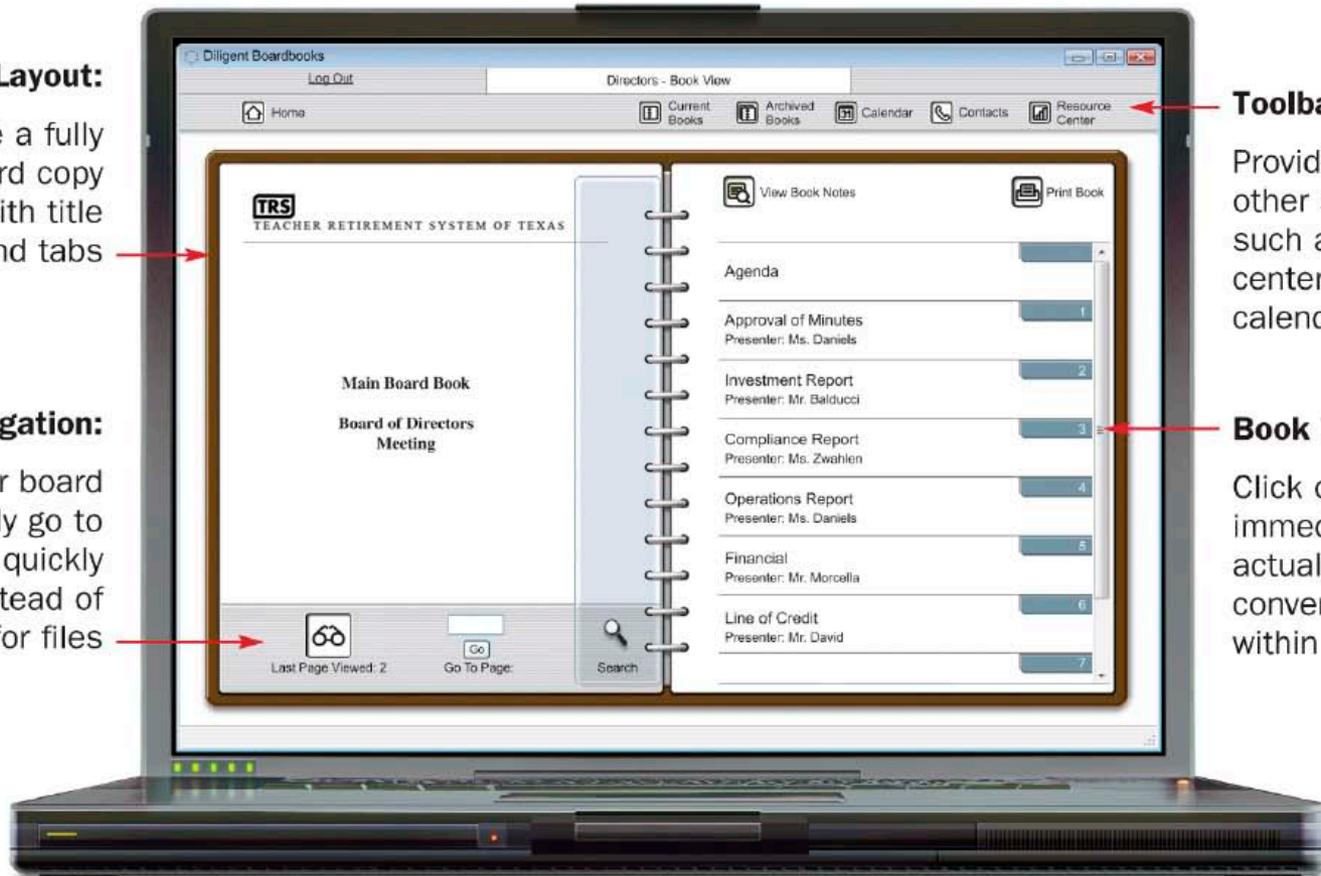
Recommendation

Layout:

Works just like a fully paginated hard copy board book—with title pages and tabs

Navigation:

Allows your board members to easily go to specific pages quickly and easily—instead of searching for files



Toolbar:

Provides quick links to other site locations, such as the resource center, archives, calendar, and contacts

Book Tabs:

Click on any tab to immediately see the actual documents conveniently organized within the tab

Recommendation

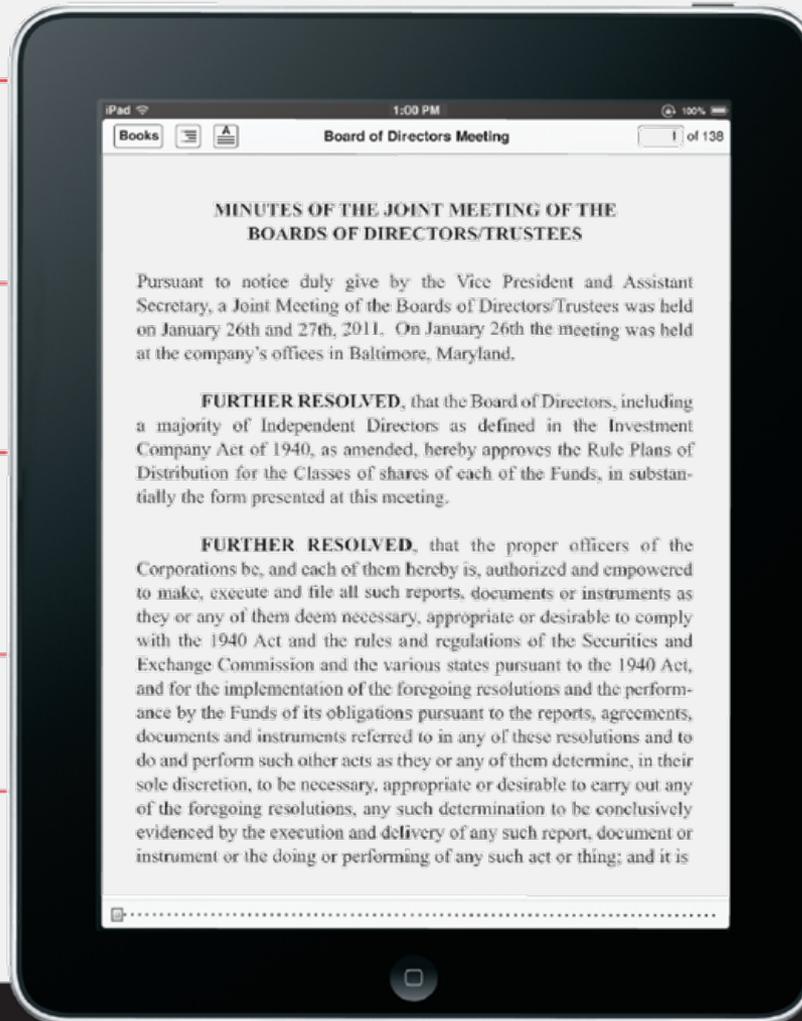
Take full advantage of the iPad's features and screen size

Instantly switch from portrait to landscape

Page through board materials with a simple finger swipe

Make easy annotations

Easily take board materials with you wherever you go



Your Board Materials...

In An Encrypted Book That Updates Itself With A Simple Finger Tap

Recommendation

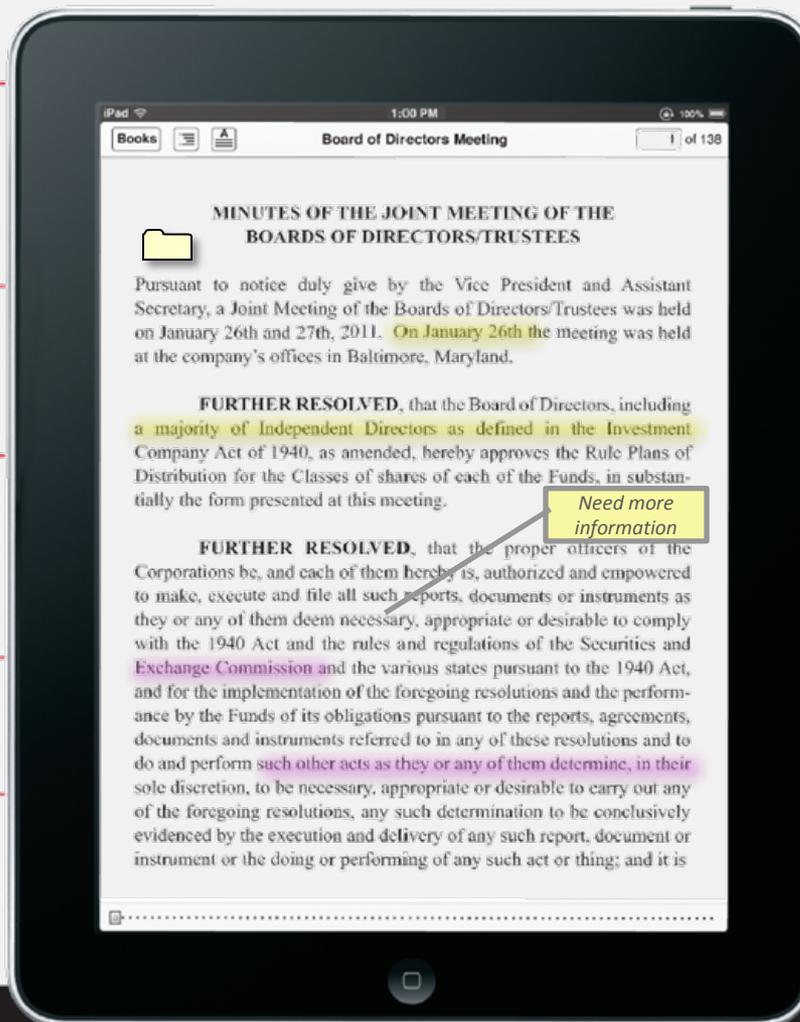
Take full advantage of the iPad's features and screen size

Instantly switch from portrait to landscape

Page through board materials with a simple finger swipe

Make easy annotations

Easily take board materials with you wherever you go



Your Board Materials...

In An Encrypted Book That Updates Itself With A Simple Finger Tap

Security & Risk

- Reliability, service availability and sustainability
- Transparency and visibility
 - Controls to ensure information security
- Privacy and confidentiality
 - Controls over physical and logical access
 - Information segregated or encrypted
- Data location and end of service guarantees
- Certifications
 - SAS70 Type 2, ISO 27001
- Disaster recovery and backup

Next Steps on Electronic Board Materials



- If Board concurs with staff's recommendation for Option 3, then staff will:
 - Identify vendors that meet our base requirements
 - Narrow vendors and conduct a thorough security analysis
 - With security concerns satisfied, negotiate a service agreement
 - At a spring Board meeting, bring the selected vendor in for a Board training session

Operations

Board Training Calendar Tab D

Board Training Calendar

- March • 25-28 TEXPERS Annual Conference – Corpus Christi, TX
- April • 17 – 18 Introduction to Investments, Callan College, San Francisco, CA
- May • 20 – 23 Southern Conference on Teacher Retirement, Nashville, TN
• 30 – 31 Hewitt EnnisKnupp Client Conference
- June • 27-29 Market Makers, Institute for Fiduciary Education, California
- July • 23 – 25 NCTR Trustee Institute and Workshop, Menlo Park, CA
- August • 3 – 8 National Association of Retirement Administrators, Olympic Valley, CA
• 19-21 TEXPERS Summer Education Forum – San Antonio, TX
- October • 1 Public Pension Seminar–Pension Review Board Austin, TX
• 6 – 11 NCTR Annual Convention, Tucson, AZ
• 23 – 24 Introduction to Investments, Callan College, San Francisco, CA

Operations

Resolution Tab E

Resolution Regarding Correction of Errors and Other Edits

February, 2012

WHEREAS, the Board of Trustees (the "Board") of the Teacher Retirement System of Texas ("TRS") desires to express its intent and authorization for staff to modify resolutions, motions, policies, rules, or a written document adopted at any time by the Board for any purpose and on any topic, provided that the sole purpose of the staff's modification is to make technical non-substantive corrections or to clarify the action of the Board in order to reflect accurately the intent of the Board or to comply with publication requirements; now, therefore, be it

RESOLVED, That, with regard to a resolution, motion, policy, rule, or a written document adopted previously or hereafter by the Board for any purpose and on any topic, the staff is authorized (i) to make technical non-substantive corrections thereto, such as to correct syntax, grammar, numbering, punctuation, formatting, mathematical, and typographical errors; and (ii) to substitute the intended option or language or to add or to delete a word or phrase when such substitution, addition, or deletion is necessary to correct an inadvertent mistake, including without limitation identifying the wrong version of a document or the wrong section number of a rule, statute, or document, and thereby clarify the action of the Board to reflect accurately the Board's intent either as such intent is clearly and unequivocally expressed in the records evidencing the Board's deliberation of the matter or is necessarily implied from all the relevant circumstances; and (iii) to work with the Office of the Secretary of State in preparing and filing rules and related documents that must be filed and to make any technical changes required by law or by the Secretary of State for publication of Board-adopted rules; and

RESOLVED FURTHER, That the Executive Director or the Deputy Director is authorized and directed to exercise his judgment and discretion in evaluating whether any correction, substitution, addition, or deletion is warranted under the circumstances and should be implemented by staff or, instead, brought to the attention of the Board for further review and consideration, it being the expectation of the Board that the authority granted by these resolutions will be used to correct manifest errors or comply with publication requirements and to avoid cluttering the Board's agenda with such evident clarifications and ministerial edits; and such revised version of the resolution, motion, policy, rule, or written document as modified by staff under the authority of these resolutions shall constitute the version adopted by the Board.