

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

AGENDA

April 19, 2012 – 2:30 p.m.

April 20, 2012 – 9:30 a.m.

TRS East Building, 5th Floor, Boardroom

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, April 19, 2012, or during the meeting on the following day beginning at the time and place specified on this agenda.

The open portions of the April 19-20, 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 approval of the February 15-17, 2012 Board meeting minutes – David Kelly.
3. Provide opportunity for public comments – David Kelly.
4. Discuss and consider investment matters, including the following items:
 - A. Performance Review: Fourth Quarter 2011 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.
 - B. Review Quarterly Portfolio Performance and market update – Britt Harris.
 - C. Review the report of the Investment Management Committee on its April 19, 2012 meeting – Todd Barth.
 - D. Review the report of the Risk Management Committee on its April 19, 2012 meeting – Eric McDonald.
5. Receive the report of the Policy Committee and consider proposed amendments to the following – Todd Barth:
 - A. Key Employee Determinations adopted under Government Code Section 825.212 and related financial disclosures.
 - B. Employee Ethics Policy.
 - C. Code of Ethics for Contractors.

6. Provide an opportunity for public comment – David Kelly.
7. Receive an update on the legislatively required Pension Benefit Design Study – Rebecca Merrill and Joseph Newton, Gabriel, Roeder, Smith & Company.
8. Receive the report of the Budget Committee on its April 19, 2012 meeting – Nanette Sissney.
9. Receive an update on the development of the Legislative Appropriations Request for the 2014-2015 Biennium – Don Green.
10. Receive the results of the most recent CEM Pension Administration Benchmarking study – Betsey Jones and Jan Hartford, CEM Benchmarking, Inc.
11. Consider renewal of Dr. Alice Cox’s Medical Board service contract – Marianne Woods Wiley.
12. Review the report of the Audit Committee on its April 20, 2012 meeting – Christopher Moss.
13. Receive a communications update, including an update on plans for celebration of TRS’ 75th anniversary – Howard Goldman.
14. Discuss Board operational matters, including – Brian Guthrie:
 - A. Staff’s recommendation regarding the structure and use of committees in accomplishing Board business.
 - B. Review outlines of the draft June and July Board meeting agendas.
 - C. The possible transition to electronic Board books.
15. Review the report of the Chief Benefit Officer, and consider related matters – Marianne Woods Wiley:
 - A. Approve members qualified for retirement.
 - B. Review report of status of retired payroll.
 - C. Approve minutes of Medical Board meetings.
16. Review the report of the Chief Financial Officer 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 – Don Green.
17. Review the report of the Deputy Director, including an update on potential future IRS rule changes affecting charter school participation in the TRS pension plan and an update on the TEAM Program – Ken Welch.
18. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Provide an overview of the selection process for fiduciary counsel.

- B. Provide an update on the National Council on Teacher Retirement Legislative Committee.
 - C. Investment activity and operations, including transition planning for the Investment Management Division.
 - D. Retirement plan benefits and operations.
 - E. Health-benefit programs and operations.
 - F. Administrative operations, including financial, audit, legal, and staff services and special projects, including riders directing the use of appropriated funds.
 - G. Member communications.
19. Review the report of the General Counsel on pending or contemplated litigation, including updates on the following: the Bank of America securities class action; the Countrywide securities litigation; the Tyco securities litigation, other securities litigation; litigation involving fiduciary duties related to investments; and litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Conni Brennan
20. 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.

Tab 2



Teacher Retirement System of Texas

Minutes of the Board of Trustees

February 15-17, 2012

The Board of Trustees of the Teacher Retirement System of Texas met on February 15, 2012, in the Main Hall of the Region 17 Education Service Center at 1111 West Loop 289, Lubbock, Texas. The following people were present:

Board trustees:

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

TRS executives and staff:

Brian Guthrie, Executive Director
Ken Welch, Deputy Director
Amy Barrett, Chief Audit Executive
Conni Brennan, General Counsel
Howard Goldman, Director of Communications
Don Green, Chief Financial Officer
T. Britton Harris IV, Chief Investment Officer
Jerry Albright, Deputy Chief Investment Officer
Betsey Jones, Director of Health Care Policy and Administration
Ray Spivey, Director of Governmental Relations
Jase Auby, Chief Risk Officer
Ashley Baum, Chief of Staff, Investment Management Division
Sylvia Bell, Director of Investment Operations
Stuart Bernstein, Investment Manager
Chi Chai, Senior Managing Director – Internal Public Markets
Dan Herron, Communications Specialist
Dan Junell, Secretary to the Board and Assistant General Counsel
Scot Leith, Manager – Investment Accounting
Rebecca Merrill, Special Advisor to Executive Director and Manager of Special Projects
Jamie Michels, Manager – General Accounting
Melinda Nink, Executive Assistant
Hugh Ohn, Director of Investment Audit and Compliance
Rhonda Price, Information Specialist

Outside counsel, consultants, contractors, representatives of associations and organizations, and others:

Texas Senator Robert Duncan
Dr. Keith Brown
Steve Voss, Hewitt EnnisKnupp
Brady O'Connell, Hewitt EnnisKnupp
Leon Black, Apollo Global Management

George Roberts, KKR
Henry McVey, KKR
Vin DeBaggis, State Street
Jeff Lambert, State Street
J. Robert Massengale, Pension Review Board
David Mildenberg, Bloomberg News
Kimberly Lile, Office of Representative John Fuello
Chris Wynn, Lubbock Republican Party
Mike Lee, Booker ISD
Sue Lewis, Lubbock-South Plains Retired Teachers Association
Cheryl Sevigny, Lubbock-South Plains Retired Teachers Association
JoAnne Corbet, Lubbock-South Plains Retired Teachers Association
Elaine Milam, Lubbock-South Plains Retired Teachers Association
Challa Goedeke, Lubbock-South Plains Retired Teachers Association
Sue Ball, Lubbock-South Plains Retired Teachers Association
Beth Hyatt, Lubbock-South Plains Retired Teachers Association
Claire Seale, Lubbock-South Plains Retired Teachers Association
Jan Pendleton, Lubbock-South Plains Retired Teachers Association
Gene Sorley, Lubbock-South Plains Retired Teachers Association
Jann Newnan, Lubbock-South Plains Retired Teachers Association
Myrna Parsons, Lubbock-South Plains Retired Teachers Association
Imogene Sorley, Lubbock-South Plains Retired Teachers Association
Jack Booe, Lubbock-South Plains Retired Teachers Association
Bob Reufro, Lubbock-South Plains Retired Teachers Association
Paula Miller, Lubbock-South Plains Retired Teachers Association & Slaton Retired Teachers
Larry Mullican, Lubbock-South Plains Retired Teachers Association & LISD
Betty Mullican, Lubbock-South Plains Retired Teachers Association & LISD
W. Frank Mullican, Lubbock-South Plains Retired Teachers Association & Texas State Teachers Association
Doris Mullican, Lubbock-South Plains Retired Teachers Association & Texas State Teachers Association
Betty Wimberly, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Gail Carter, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
John Carter, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Mary Sexton, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Peggy Clark, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
James Vardy, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Association
Susan Thornbill, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
James L. Gordon, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Betty F. Smith, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Nancy Byler, Texas Retired Teachers Association
LaWynn Rogers, Texas Retired Teachers Association
Maridell Fryar, Texas Retired Teachers Association
Francis Plemmons, Texas Retired Teachers Association
Mary Jane Hamilton, Texas Retired Teachers Association
Becky Hamilton, Texas Retired Teachers Association
Bill Barnes, Texas Retired Teachers Association
Janice Barnes, Texas Retired Teachers Association
Aubrey Cherry, Texas Retired Teachers Association
Frances Cherry, Texas Retired Teachers Association
Dara Scott Nichols, Texas Retired Teachers Association
Richard Roberts, Texas Retired Teachers Association
Tim Lee, Texas Retired Teachers Association
Jackie Kennedy, Texas Retired Teachers Association
Sharon Miller, Texas Retired Teachers Association
Connie Jennings, Texas Retired Teachers Association

Romi Garcia, Texas Retired Teachers Association
Jeanete Moore, Texas Retirement Teachers Association
Shelby Hildebrant, Texas Retired Teachers Association & Texas Tech University
Jill Nelson, Texas Retired Teachers Association – Lubbock-South Plains
Debbie L. Settler, Texas Retired Teachers Association – Lubbock-South Plains
Marcia Evans, Texas Retired Teachers Association – Lubbock-South Plains
Dennis Hargrove, Texas Retired Teachers Association – Lubbock-South Plains
Anita Phillips, Texas Retired Teachers Association – Lubbock-South Plains
Marjorie Reynolds, Texas Retired Teachers Association – Lubbock-South Plains
Linda Martin, Texas Retired Teachers Association – Levelland
Robert Martin, Texas Retired Teachers Association
Patty Jan, Texas Retired Teachers Association – Lubbock-South Plains
Barbara Sudduta, Texas Retired Teachers Association
Ann Fickel, Texas Classroom Teachers Association
Janet Wright, Texas Tech University
Minerva Trevino, Texas Educators Association
Clinton Gill, Texas State Teachers Association
John Grey, Texas State Teachers Association
Mary Jane Goodwin, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Virginia Baskerville, Texas State Teachers Association & Texas Education Association
Pat Christensen, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Bobbie Lippe, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Jim Northcutt, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Darlene Northcutt, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Fernando Rodriguez, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Brenda Rodriguez, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Jan Caffey, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Kathi Elmore, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Kari Boyce, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Linda Andersen, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Francene James, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Francene Allen-Noah, Scurry County Retired Teachers Association
Josh Sanderson, Association of Texas Professional Educators
Jane Hodgkins, Slaton Retired Teachers Association
Carl Andersen
Martha Walker
Billae Becknal
Drew Foster
Gayle Settle
Ann Hamilton
Glenna Burns
Jesse A. Garza
Suzanne Anglin
Weldon Day
Wanda Russell
Jan Blarchilt
Irene Masters
Panzie Beggs
Jerry Tooke
Robena Tooke
Lewis E. Sessums, Insurance/Investments

Mr. Kelly called the meeting to order at 10:37 a.m.

1. Call roll of Board members.

Mr. Junell called the roll. All the trustees were present except Mr. McDonald, who joined the meeting during item 4.

2. Consider and discuss Board administration matters, including the following – R. David Kelly:

Mr. Kelly expressed his appreciation to the leadership at the Region 17 Education Service Center for providing the facilities for conducting this meeting.

A. Consider the approval of the December 8-9, 2011 Board meeting minutes.

On a motion by Ms. Palmer, seconded by Mr. Barth, the board unanimously approved the amended minutes for the December 8-9, 2011 meeting with the correction of a typographical error on page six as noted by Ms. Palmer.

B. Introduce and welcome TRS' new Chief Financial Officer.

Mr. Kelly introduced Mr. Don Green, the new Chief Financial Officer. Mr. Green briefly described his background.

3. Provide opportunity for public comment – R. David Kelly.

Ms. Francene Allen Noah of the Scurry County Retired Teachers Association expressed her appreciation to the board for keeping the TRS fund financially sound.

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.

Mr. Guthrie reviewed the structure and agenda items for the meeting, whose theme was "Constructing a Secure Future." He said that the meeting would assess TRS' current situation and goals. He highlighted the opportunities for public comment and questions during the three-day meeting and encouraged the public to submit their ideas and questions.

Mr. Guthrie reviewed significant events in TRS' history concerning the pension fund, health benefit plans and the 403(b) program, including major legislation. He looked back on recent statutory changes extending TRS' investment authority and improving the administration of retirement benefits.

Mr. Guthrie stressed the importance of the TEAM project and the study of defined benefit (DB) and defined contribution (DC) plans. He also reviewed the 403(b) program, TRS-ActiveCare, TRS-Care, and retirement plan operations. He addressed the finances of the pension

fund, benefit calculation history, and historical changes in the retirement plan, including benefit adjustments.

After a recess at 11:55 a.m., the meeting reconvened at 12:05 p.m.

Mr. Kelly introduced Senator Robert Duncan and expressed his appreciation to Senator Duncan for his tireless support and close attention to the issues relating to the system.

Senator Duncan expressed his appreciation for the work of the TRS board and his faith in the ability of the board to manage and maintain the health of a DB plan. He stated that the Texas Legislature continued to make sure that decisions on appropriations and statutory changes relating to the fund are made to ensure the health of the fund.

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).

Mr. Vin DeBaggis of State Street Bank provided an overview of the role of State Street as the custodian bank for TRS. Ms. Sylvia Bell provided an overview of the investment operations. Mr. Scot Leith provided an overview of the functions of TRS Investment Accounting. Ms. Jamie Michels provided an overview of the functions of TRS General Accounting and, Mr. Hugh Ohn of Internal Audit provided an overview of the internal and external audit processes.

After a recess at 1:27 p.m., the meeting reconvened at 1:48 p.m.

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.

Mr. Steve LeBlanc presented items (6)(A) and (6)(B) concurrently. He introduced Leon Black of Apollo Investment Corporation (Apollo) and George Roberts of **KKR & Co. L.P.** (KKR) and profiled both firms.

Mr. Black provided an overview of Apollo Global Management (Apollo). He presented the history of Apollo and its historical performance. He also discussed Apollo's capabilities, including its integrated platform of information, flexible investment mandate and core industry expertise.

Mr. Roberts provided an overview of KKR. He presented the history and corporate culture of KKR. He discussed the firm's investment strategies and capabilities and presented KKR's historical performance and global exposures.

Responding to a question from Mr. Barth, Mr. Black and Mr. Roberts discussed both firms' succession planning. Per Mr. Kelly's request, the firms also discussed performance evaluation metrics. Mr. LeBlanc noted that staff expected Apollo and KKR to maintain their top quartile-investor status, which would continue to be the main performance metrics that staff applied in the relationships. Responding to a question from Mr. McDonald regarding the most opportunistic areas to invest in, Mr. Black responded that European credit and the whole spectrum of credit in general were the most promising. Mr. Roberts concurred with Mr. Black's opinion and stated that investments in natural resources and Asian markets would also be opportunistic. Per Ms. Sissney's request, Mr. Black stated that the fund TRS invested in had a 46 percent overall return. Mr. Roberts stated that the natural resources funds in which KKR had invested for TRS had performed better than projected.

C. Review of current market conditions – Henry McVey, KKR & Co. L.P.

Mr. McVey reviewed the current U.S. and global market conditions. He highlighted the U.S., European, and Japanese government debt loads. He discussed urbanization in China as the driver of changes in global economies. He also discussed current opportunistic areas, including energy, the de-leveraging in the developed markets, growth in the emerging markets, and real assets and commodities.

After a brief recess at 3:50 p.m., the meeting reconvened at 4:08 p.m.

D. Update on TRS' Emerging Managers Program – Stuart Bernstein.

Mr. Bernstein provided an update on the emerging managers program. Responding to a question from Mr. Kelly about how to handle the program's future funding needs, Mr. LeBlanc explained that Credit Suisse hoped to recycle the allocated capital back into the program as the invested principal produced distributions. He confirmed for Mr. Kelly that staff would not allocate more capital above the mandates for 2011 and 2012.

E. Historical overview of investment policy and operations prior to 2007 – Brian Guthrie.

Mr. Guthrie provided a historical overview of TRS investment operations. He highlighted the major legislative modifications that expanded TRS' investment authority. He explained the role of the board in the investment process. General discussion followed relating to the effect of asset allocation and risk management on creating alpha. Profiling the Investment Management Division (IMD), Mr. Guthrie reviewed the historical and existing partnerships, staffing levels, and expenses. He presented the historical transition to the current asset allocation.

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.

Mr. Harris provided an overview of the IMD. He reviewed the history of TRS investment

executives from 2007 to 2011 and profiled the current members of the Internal Investment Committee (IIC). He explained the performance incentive pay plan for investment staff, investment management policy and diversification strategies. He described the role of the IIC and their investment authority. He also discussed the legislative authority granted for external management, hedge fund allocation, and derivatives. Per Mr. Barth's request, Mr. Harris stated that staff would present in detail the derivatives usage at a future meeting. Mr. Albright discussed the historical expansion of the investment authority and the general restrictions on using that authority.

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.

Mr. Voss explained the role of Hewitt EnnisKnupp (HEK) as the investment advisor for the board and IMD. Mr. O'Connell and Mr. Voss explained HEK's role in reviewing and advising the board on investment policies. Mr. Voss discussed the upcoming review of the Investment Policy Statement and the development of possible changes to it.

Dr. Brown highlighted the board's role in reviewing and modifying the Investment Policy Statement and monitoring compliance with its provisions. He noted the importance of the auditing function in monitoring compliance to ensure that sufficient checks and balances were in place.

Whereupon, the meeting recessed at 6:40 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on February 16, 2012, in the Main Hall of the Region 17 Education Service Center at 1111 West Loop 289, Lubbock, Texas. The following people were present:

Trustees:

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

TRS executives and staff:

Brian Guthrie, Executive Director
Ken Welch, Deputy Director
Amy Barrett, Chief Audit Executive
Conni Brennan, General Counsel
Howard Goldman, Director of Communications
T. Britton Harris IV, Chief Investment Officer
Jerry Albright, Deputy Chief Investment Officer
Betsey Jones, Director of Health Care Policy and Administration

Ray Spivey, Director of Governmental Relations
Jase Auby, Chief Risk Officer
Ashley Baum, Chief of Staff, Investment Management Division
Chi Chai, Senior Managing Director – Internal Public Markets
Dan Herron, Communications Specialist
Dan Junell, Secretary to the Board and Assistant General Counsel
Rebecca Merrill, Special Advisor to Executive Director and Manager of Special Projects
Melinda Nink, Executive Assistant
Rhonda Price, Information Specialist

Others:

Texas Representative John Frullo
Robin Tipper, Texas Representative Charles Perry's Office
Sue Lewis, Lubbock-South Plains Retired Teachers Association
Bill Lees, Lubbock-South Plains Retired Teachers Association
Mary Lees, Lubbock-South Plains Retired Teachers Association
Mickey Aadress, Lubbock-South Plains Retired Teachers Association
Challa Goedeke, Lubbock-South Plains Retired Teachers Association
Carla Moore, Lubbock-South Plains Retired Teachers Association
Beth Hyatt, Lubbock-South Plains Retired Teachers Association
Claire Seale, Lubbock-South Plains Retired Teachers Association
Jan Pendleton, Lubbock-South Plains Retired Teachers Association
Jan Caffey, Lubbock-South Plains Retired Teachers Association
Deborah Howell, Lubbock-South Plains Retired Teachers Association
Myrna Parsons, Lubbock-South Plains Retired Teachers Association
Sylvia Owen, Lubbock-South Plains Retired Teachers Association
Daun Tavenner, Lubbock-South Plains Retired Teachers Association
Bob Renfro, Lubbock-South Plains Retired Teachers Association
Pat Renfro, Lubbock-South Plains Retired Teachers Association
Paula Miller, Lubbock-South Plains Retired Teachers Association & Slaton Retired Teachers
Emmy Thomas, Lubbock-South Plains Retired Teachers Association & LISD
Margaret Smith, Lubbock-South Plains Retired Teachers Association & Texas State Teachers Association
Carol Parrish, Lubbock-South Plains Retired Teachers Association
Vieta C. Zeeck, Lubbock-South Plains Retired Teachers Association
Candie Conard, Lubbock-South Plains Retired Teachers Association
Cynthia Kristinck, Lubbock-South Plains Retired Teachers Association
MayBelle Kern, Slaton Texas Teachers Retirement Association
Betty Wimberly, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Gail Carter, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Lewis Taver, Lubbock-South Plains Retired Teachers Association
Mary Sexton, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Betty F. Smith, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
James Vardy, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Mauris Whitten, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Shirley Castle, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Susan Thornbill, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Jeanette Moore, Texas Retired Teachers Association, Lubbock-South Plains Retired Teachers Association & Slaton Retired Teachers Association
Linda Black, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Don Black, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Beryl Waddell, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Pat Baker, Texas Retired Teachers Association
Iris Anderson, Texas Retired Teachers Association
Pat Cantrell, Texas Retired Teachers Association
Billie Corley, Texas Retired Teachers Association

Toni Hancock, Texas Retired Teachers Association
Nancy Byler, Texas Retired Teachers Association
LaWynn Rogers, Texas Retired Teachers Association
Katherine Shoemaker, Texas Retired Teachers Association
Martha Ginn, Texas Retired Teachers Association
H. Clyde Bearden, Texas Retired Teachers Association
Jane Clayton, Texas Retired Teachers Association
Shirley Boyce, Texas Retired Teachers Association
Wanda White, Texas Retired Teachers Association
Gertrude Miller, Texas Retired Teachers Association
Linda Carter, Texas Retired Teachers Association
Barbara Osborn, Texas Retired Teachers Association
Linda Taylor, Texas Retired Teachers Association
Joan Sanders, Texas Retired Teachers Association
Janis Sessuman, Texas Retired Teachers Association
Francis Plemmons, Texas Retired Teachers Association
James Logan, Texas Retired Teachers Association
Noelia Alvarado, Texas Retired Teachers Association
Marti Parr, Texas Retired Teachers Association
Donna Smith, Texas Retired Teachers Association
Aubrey Cherry, Texas Retired Teachers Association
Jackie Williams, Texas Retired Teachers Association
Shirley Taylor, Texas Retired Teachers Association
Fred Satterwhite, Texas Retired Teachers Association
Tim Lee, Texas Retired Teachers Association
Dorothy Filgo, Texas Retired Teachers Association
Mary Helen Wall, Texas Retired Teachers Association
Lyndia Donnell, Texas Retired Teachers Association
Ann Jones, Texas Retired Teachers Association
Diane Broome, Texas Retired Teachers Association
Kaye Robertson, Texas Retired Teachers Association
Richard Robert, Texas Retirement Teachers Association
Jo Ann Smith, Texas Retired Teachers Association
Linda Hooper, Texas Retired Teachers Association
Debbie L. Settler, Texas Retired Teachers Association
Ann Pandles, Texas Retired Teachers Association
Dennis Hargrove, Texas Retired Teachers Association
Margaret McFadyier, Texas Retired Teachers Association
Marjorie Reynolds, Texas Retired Teachers Association
Pamela Munfee, Texas Retired Teachers Association
Robert Martin, Texas Retired Teachers Association
Patty Jan, Texas Retired Teachers Association
Phyllis Muholsi, Texas Retired Teachers Association
Ann Fickel, Texas Classroom Teachers Association
Darrell W. Hunt, Texas Retired Teachers Association
Eddie Ruth Andreuss, Texas Retired Teachers Association
Richard Wilde, Texas Retired Teachers Association
Margaret Adams, Texas Retired Teachers Association
Mary O'Neil, Texas Retired Teachers Association
W. J. Bennett, Texas Retired Teachers Association
Robin Carter, Texas Retired Teachers Association
Dorothy Harry, Texas Retired Teachers Association
Barbara Peek, Texas Retired Teachers Association
Robert Peek, Texas Retired Teachers Association
Delmarie Davis, Texas Retired Teachers Association

Glenda Rhoten, Texas Retired Teachers Association
Louise K. Reynolds, Texas Retired Teachers Association
Charles Scarborough, Texas Retired Teachers Association
Mira Jean Kaufmann, Texas Retired Teachers Association
Alan Hendrix, Texas Retired Teachers Association & Lubbock-South Plains Retired Teachers Association
Nancy Reed, Texas Retired Teachers Association & Texas Tech University
Minerva Trevino, Texas Educators Association
Clinton Gill, Texas State Teachers Association
John Grey, Texas State Teachers Association
Marilyn Brown, Texas State Teachers Association
David Ring, Texas State Teachers Association
Pat Christensen, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Jo Ann Knight, Texas State Teachers Association
Judith Clark, Texas State Teachers Association
Fernando Rodriguez, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Brenda Rodriguez, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Gerald Haschke, Texas State Teachers Association
Bobbie Duncan, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Brenda Massey, Yoakum County retired Teachers Association
Kari Boyce, Texas State Teachers Association & Lubbock-South Plains Retired Teachers Association
Patsy Robena Tooke, Texas State Teachers Association
Harvey Wellman, Texas State Teachers Association
Judy Norman, Texas Retired Teachers Association
Josh Sanderson, Association of Texas Professional Educators
Edwin I. Knight, Slaton Retired Teachers Association
Glenda King, Texas Retired Teachers Association
Beaman Floyd, Texas Association of School Administrator
Amy Benaski, Texas Association of School Administrator
Ted Melina Raab, Texas American Federation of Teachers
Grace Rogers, American Federation of Teachers
Steve Burler, Tahoka ISD
Deborah Cole
Dennis A. Harp
James Harris
Caroline Ysusaga
Mary Mayfield
Drew Foster
Gayle Settle
Ann Hamilton
Sarah Duncan
Suzanne Anglin
Patty Lloyd
Seldon Day
Mildred Martin
Gloria O. Castillo
Viola Johnson
Karin Burk
Mike Burk
Bianca Lytal
Carmaleta Barnett
Lynn Vitatoe
Richard Belt
Marlene Belt
Marilyn Pate

David Boyer, Lubbock Christian University
Dr. June Hogue, Wayland Baptist University
Becky Chmielewski, Aetna
Eric St. Pierre, Aetna
Jill Stearns, Medco
Mark Wermes, Medco
Roger Holland, Medco
Jody Wright, Legislative Budget Board
Jeff Lambert, State Street
Vin DeBaggis, State Street

Mr. Kelly called the meeting to order at 8:10 a.m.

1. Call roll of Board members.

Mr. Junell called the roll. All trustees were present.

7. Provide opportunity for public comment – R. David Kelly.

Mr. Tim Lee of the Texas Retired Teachers Association thanked the board for its efforts in helping TRS achieve strong investment returns. He noted the advantages of the defined benefit (DB) plan efficiently administered by TRS, including providing benefits at a relatively low administrative cost. He addressed TRS' fiduciary duties in the context of state government. He asked the board to supply factual information about TRS-Care funding and sustainability and ways to help long-term retirees, who have not had a benefit increase in many years.

Ms. Ann Fickel of the Texas Classroom Teachers Association asked that TRS' study of DB and defined contribution (DC) plans consider the impact of any plan design options on TRS members. She also asked that the board continue to keep the members' organizations involved in the studies of the retirement plan and TRS-Care.

Mr. John Gray of the Texas State Teachers Association expressed his appreciation for the time the board devoted to the current and future retirees and the comments given by Senator Duncan, Mr. Kelly, and Mr. Guthrie relating to TRS' DB plan. He asked that the board strive for keeping the DB plan.

Mr. Josh Sanderson of the Association of Texas Professional Educators stated that active teachers paid close attention to the retirement plan study. He stated that TRS' DB plan benefitted not only individual members but also the state's education goals and system because it helped to recruit and retain quality educators.

Mr. Beamen Floyd of the Texas Association of School Administrators (TASA) stated that his organization trusted that the TRS board and staff would come up with a plan based on the current study that TASA members would feel comfortable with based on TRS' good track record. He noted that the concern TASA had was that the study was used to push TRS to a certain direction.

Ms. Bobbie Duncan of Texas State Teachers Association shared her personal story and

stated that her retirement benefits had lost buying power because they had not been increased since she retired years ago. She also expressed her appreciation to the trustees for serving on the board.

Mr. Ted Melina Raab of Texas American Federation of Teachers stated that the ultimate beneficiaries of this system are the school children whom the state depends on as the future leaders and workers of Texas. He urged that the board not be constrained by the current budget in the discussion with the legislature. He stated that continuing the DB plan is the best option for sustaining a good health care system for retirees.

Mr. Kelly concluded that it was his wish to closely involve members' organizations in the study and to receive support from them for educating members about the study.

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.

Mr. Guthrie provided an overview of the agenda items to be taken up on this day. He explained the requirements and process of completing the pension plan study and the retiree health benefit program study. Responding to a question from Mr. Kelly, Mr. Guthrie stated that the TRS-Care fund is projected to need additional funding to continue its operation in the early part of 2015. He stated that the purpose of the TRS-Care study was to provide the legislature information, lay out the options and their pros and cons. He noted that many public funds were facing the same issue with different levels of urgency. He stated that staff is committed to preparing those studies in an objective manner knowing that they cannot advocate for or against any proposal. He noted that staff is also committed to providing members accurate information via newsletters, videos, website, social media, and public meetings and to listening to the feedback from the members. He stated that throughout this meeting, members of the audience, whether present at the meeting or on the web, would have the opportunity to submit questions on both the pension issue and the TRS-Care issue. He explained the ways the audience can submit their questions during and after the meeting online or offline. He noted that a town hall meeting would be conducted on March 12, 2012 in Austin to discuss the same issues.

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).**

Ms. Merrill introduced Ms. Mary Beth Braitman of Ice Miller, Mr. Joe Newton of Gabriel, Roeder, Smith & Company, and Mr. Keith Brainard of National Association of State Retirement Administrators. Ms. Merrill laid out the objectives of the current panel discussion. She stated that an internal work group comprised of eleven staff members from the Legal,

Financial, and Investment divisions had been formed to examine and discuss the issues.

Mr. Newton provided an overview of the actuarial condition of the pension fund. He explained and evaluated the current market and smoothed values of assets, funded ratio, funding period, actuarially required contribution, and projected exhaustion date as of August 31, 2011. Mr. Newton confirmed for Mr. Barth that the addition of new members would extend the projected exhaustion date to 2075.

Ms. Braitman laid out the key cost drivers for pension plans. She stated that plan design is the critical driver regardless of its plan type. She explained the critical design elements that would drive the cost: the types and times for access to benefits, the requirements for unreduced benefits, reduced benefits, disability benefits, and survivor benefits. She explained other critical cost drivers: the vesting rules, the formula multipliers, the contribution rates, cost sharing, compensation definition, the funding of any unfunded accrued liability, the underfunding of normal costs, and benefit enhancements that are retroactive.

Mr. Brainard provided a comparison between TRS and other public retirement plans in terms of costs, and employee and employer contribution rates. He stated that TRS' costs had been significantly lower than most other plans and its contribution rates were the lowest among any teacher retirement plans nationwide whose members do not participate in Social Security. Responding to a question from Mr. Moss, Mr. Brainard stated that much of the additional cost paid by other plans was to amortize the unfunded liability. Responding to a question from Ms. Palmer, Mr. Brainard noted that on a national basis for all public employee retirement systems typically employers are contributing about \$2 for every dollar in contributions that employees contribute but the two contributions were about equal for TRS.

Ms. Merrill provided the background of the current pension plan study. She stated that during the last legislative session the legislature decided that one of their focuses would be on the long-term solvency of ERS and TRS. She stated that the legislature at the end decided to direct ERS and TRS to conduct a study. She noted that TRS was not asked to make a recommendation to the legislature but provide the facts from the study.

Mr. Brainard laid out other qualitative aspects that should be addressed in the current discussion. He highlighted the retirement benefits as one of the incentive to recruit and retain qualified school teachers. Ms. Braitman concurred with Mr. Brainard that it is crucial to consider the overall sustainability of the plan design including whether a plan can create a livable replacement income that is sustainable over the employee's lifetime so as to recruit and retain quality employees.

Mr. Brainard provided an overview of TRS' retirement eligibility and compared it with other plans. He stated that TRS' rule of 80 at age 60 is in the mainstream, but given recent changes in other states, it is probably becoming in the earlier half relative to the rest of the nation. Mr. Newton stated that the formula for determining retirement benefits currently falls in the median on the retirement date but may be pushed to the far end of the less generous packages in 15 or 20 years. He noted that it will become more difficult to compare because of the addition of the DC components to the new plan designs. Mr. Newton also discussed the way of coming up

with new plan designs by targeting risk management and sharing, and the retirement age adjustment. Mr. Brainard stated that increasing retirement age is a way to tackle the increasing longevity, and in some cases it will increase employee contributions. By shortening the period of time in which a retirement benefit will be paid out, he said, it will also reduce the plan risk.

Ms. Braitman laid out the factors in judging the value of a plan design. She highlighted the factor of whether the design maximizes value to the stakeholders and minimizes expenses. She noted that the value of being able to manage one's own portfolio may not be high for a majority of the participants. She pointed out that, in the two state systems that had a hybrid system and allowed participants to choose a partial DC plan, a majority of participants opted out of the partial DC plan and chose instead to have their plan centrally managed by the system. She stated that other elements to consider for their value are mortality risk sharing and technology support and access to meaningful information and resources, for which DB participants have a tremendous dependence on the system.

Mr. Newton explained different plan structures that are available: DB plans, DC plans, and hybrid plans. He provided the pros and cons of the three plan types. Responding to a comment by Mr. Kelly relating to the risks under the DC plans, Mr. Newton concurred and noted that the hybrid approach is responding to the failure to manage those risks under both the DB and DC plans. Mr. Newton noted that the volatility risk typically would be with the state and the argument was about who should bear the risk when a fund has underperformed for a long period of time. Per Mr. Kelly's request, Mr. Newton stated that the risks for ending the DB plans and starting the new DC plans for new hires is that the fund will need to come up with about \$25 billion, the unfunded liability, within the lifetime of the grandfathered members without the flexibility of extending the funding period using the contributions from the new hires. Mr. Newton noted that Texas has a healthy population growth of one to two percent, which should correspond to the teacher population growth. He stated that the population growth is an advantage for having a DB plan. He confirmed for Mr. McDonald that in other states where the population is shrinking, their funding is reduced because of a shrinking payroll base. Ms. Sissney noted that the teacher population is not growing because of the financial condition in the state and therefore it was good that teacher growth was not put into consideration in the current study. Mr. Brainard also noted that teachers' salaries have also been frozen across the state.

Ms. Braitman and Mr. Brainard explained and discussed different types of hybrid plans. They also provided some examples of hybrid plans nationwide and emphasized the variety of ways to design a hybrid plans. Ms. Braitman also explained the cash balance plans. Ms. Merrill provided some examples of the cash balance plans. There was a discussion regarding the Wisconsin plan design, which combines a defined benefit plan with a money purchase plan.

After a brief recess at 10:30 a.m., the meeting reconvened at 10:55 a.m.

Ms. Merrill provided an outline of the pension fund study for the board's review. She stated that the topic on the impact of recruiting and retaining qualified teachers, which was discussed at this meeting, will be added to the outline. Mr. Kelly suggested framing the study with a goal to find a solution to a problem. Mr. Barth concurred. Ms. Merrill stated that staff would bring back a more comprehensive outline to the board at the April meeting as staff worked

through all the issues. Mr. Guthrie noted that the study was also a way to educate about the current plan and its long-term fiscal situation. Ms. Merrill then provided a proposed timeline for the study and noted that the study is due September 1, 2012. Responding to a question from Mr. Moss regarding the outside resources available to the current study, Mr. Brainard stated that there were plenty of similar studies completed. Ms. Merrill noted that CalPERS had completed an analysis.

Ms. Braitman discussed the following lessons learned from other states:

- Consider the long-term effects of any change;
- Consider whether all safety net issues have been fully vetted, particularly in a non-Social Security covered population;
- Consider the cost to administer and communicate plan terms; and
- Consider the importance of human resource policies and personnel needs that are supported by a stable and understandable benefit structure.

Concerning the process of putting the study together, Mr. Newton stated that comparing retirement benefits with the private sector may help conclude that the value of the benefits provided by a public plan cannot be reduced further to stay competitive. Mr. Brainard also discussed the background of the recent public focus on the pension reform issues. He noted the aging of the baby-boomer population and stated that about half of the private sector workforce did not participate in an employer-sponsored retirement plan and were not prepared for retirement. Mr. Barth suggested including this issue as a type of fiscal cost in the study.

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).

Ms. Merrill read the questions submitted by the audience.

1. What should be expected in the next legislative session regarding benefit design changes and cost of living adjustment (COLA)? Are there funds available for a COLA and is it a possibility in the next legislative session? Will there be any potential changes that will impact current retirees?

Mr. Guthrie briefly summarized some of the related bills that were filed in the last session. He stated that those issues would be discussed in future legislative session, which would lay the foundation for further actions. Mr. Guthrie stated that based on the definition of being actuarially sound (with a 30 or 31-year funding period), TRS was not actuarially sound and would not be able under the current law to pay a COLA. He stated that it was unlikely that potential changes, if made, would impact the current retirees.

2. How does Texas compare with other states in terms of funding issues? How do you as the board communicate the historical failure by other states to the legislature?

Mr. Brainard commended the State of Texas for having the State constitutional provisions that established a minimum required contribution, which avoided the failure of paying the annual required contribution. Mr. Guthrie stated that TRS would be cautious and respectful in drawing conclusion from the comparisons with other funds that are in a worse financial situation.

3. Are TRS members better advantaged by moving away from a DB plan? Are Texas taxpayers advantaged by a DC plan?

Ms. Braitman stated that it does not depend on the plan type but rather the design features of the plan, which would determine the ultimate cost and value of a plan. She noted that it was important to also consider factors beyond the budget issue, such as the impact of the plan on the education system and what is important for the membership.

4. How much on average does it cost each member to have their pension plan managed? What share of the pension fund's value comes from employee contributions and what portion from investment earnings?

Ms. Merrill responded that it is \$40 per person for investment administrative expenses. She stated that about 60 percent of the pension fund's value is from investment earnings, about 20 percent from employee contributions, and 20 percent from the state contribution.

5. Why are the supplemental slides not included in the book?

Ms. Merrill apologized for not being able to include them into the board book in time. She stated that those slides would be available online in the following week.

6. Will a plan design change help TRS to be considered actuarially sound enough to implement a benefit increase for current retirees?

Mr. Newton stated that a plan design change is not likely to lead to a benefit increase for current retirees because a new revenue stream would be needed to provide any future benefit enhancement.

7. What is the condition of the fund and are retirees in danger of losing their benefits?

Ms. Merrill responded that the pension fund had the resources to pay benefits through 2075 assuming current funding conditions do not change. She confirmed that retirees were not in danger of losing their current benefits.

8. Should the local district also make contribution into the system in addition to the state and members?

Mr. Guthrie stated that most of the funding received by the districts is from the state, and the districts would need to rely on a different source of funding if they are asked to contribute to their employees' retirement fund.

9. Some suggested that the valuation assumptions used by TRS, particularly the investment return assumption, are unrealistic and will lead TRS towards risky bets and shaky markets. How are the assumptions derived and how do they measure up to actual experience?

Mr. Newton stated that the fund had outperformed the 8 percent assumption over the past 20 years. He stated that TRS conducts experience study every five years to look at these assumptions to see if the TRS assumption is within the range of assumptions that would be reasonable. He said the study completed in 2009 concluded that the current 8 percent assumption is still within the reasonable range. Per Mr. McDonald's request, Mr. Newton explained further the process and approach of monitoring the actuarial assumptions.

10. To what extent will the Texas Public Policy Foundation influence the decisions made by the TRS board or the legislature?

Mr. Guthrie stated that the board would refrain from advocating for any particular proposal and would identify the pros and cons of each proposal and provide good information to the legislature in the study. Ms. Palmer suggested that staff unify ideas from members. Ms. Sissney stated that it would be a good opportunity for TRS to present to the legislature the healthy condition of the TRS pension trust fund.

11. Is it possible that the school district would be asked to contribute to Social Security if TRS switches to a DC plan?

Ms. Braitman explained that the federal law exempts employers from Social Security coverage if their employees are covered by a qualified replacement plan, a plan that is equal to or better than Social Security. She said that regardless of the retirement plan type, if the plan that TRS offers does not provide a sufficient level of benefits to meet that qualified replacement plan structure, contribution to Social Security will become mandatory.

Mr. Kelly then announced that the meeting was in recess at 12:07. The meeting reconvened at 12:42 p.m.

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.**

Ms. Jones provided an overview of the TRS-Care fund balance. She stated that the plan would become insolvent after fiscal year 2013. She laid out the components that would affect the fund balance: retiree premiums, state contributions, member contributions, district contributions, investment income, Medicare Part D subsidy, ERRP reimbursement, medical and drug claims incurred. She noted a different retiree drug subsidy option, Employer Group Waiver Plan (EGWP), which may generate potential savings. She stated that payroll growth is projected to be zero percent for 2013 and 2014 but noted a rider in the appropriations bill that any revenue in

excess of the state's actual obligations for retirement and retiree insurance contributions are re-appropriated to TRS-Care in FY 2012.

Ms. Jones provided the background of the TRS-Care plan design and profiled TRS-Care 1, 2, and 3. She recapped that the current general appropriations act included a rider asking TRS not to raise retiree premiums through the current biennium and to provide a comprehensive review of alternatives that would improve the sustainability of the program, which is due to the Legislative Budget Board and the Governor by September 1, 2012.

Mr. Bill Hickman of Gabriel, Roeder, Smith & Company explained the federal health care legislation—Affordable Care Act (ACA) passed on March 23, 2010 and the changes that have affected the TRS-Care program. He noted the uncertainty about the law. He also presented some arguments presented to the Supreme Court relating to the ACA. He stated that the Supreme Court is expected to provide a ruling in June 2012.

Mr. Hickman laid out the following plan sponsor initiatives:

- Taking advantage of federal subsidies (EGWP) and Medicare Advantage
- Planning for individual exchanges included in the ACA
- Considering private exchanges for Medicare retirees
- Evaluating defined contribution alternatives to provide coverage

Ms. Jones stated other initiatives that staff had explored to improve the financial projections for the program. Mr. Guthrie noted that staff intended to evaluate and fully vet these ideas prior to the legislative session.

Mr. Hickman presented the potential options to address the sustainability issue:

- Prefunding TRS-Care by contributing the annual required contribution
- Continue to fund on a biennial basis
- Tighten the eligibility requirement
- Discontinue TRS-Care 2 and TRS-Care 3 and offer only a base plan
- Index deductibles and co-pays
- Phase out pharmacy benefit by 2020
- Cover non-Medicare retirees under TRS-ActiveCare
- Defined contribution approaches
- Private exchanges for Medicare retirees
- Individual exchange options for non-Medicare retirees in 2014

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.

Ms. Jones stated that staff requested proposals in September 2011 for a pharmacy benefit

manager (PBM) to determine if more favorable overall pricing was available in the PBM market and to explore a wrap-around supplemental plan (EGWP/wrap). She profiled the Medicare Part D subsidy for prescription drugs and explained the EGWP/wrap option. Ms. Jones gave an overview of the RFP evaluation methodology and process. She announced the three finalists: Express Scripts, CVS Caremark, and Medco Health Solution (Medco). Mr. Hickman explained in detail the financial analysis completed in the evaluation. Ms. Jones concluded by stating that the evaluation team voted unanimously to recommend Medco as the PBM for TRS-Care and to recommend establishing an indirect EGWP/wrap. She explained that the recommendation to establish an indirect EGWP/wrap was based on projected savings over the retiree drug subsidy (RDS) option. She said that the recommended selection of Medco as the PBM was based on the company's competitive price quote, clinical management capabilities, and favorable service record. If approved, she noted, the new contract with Medco would take effect September 1, 2012, with the indirect EGWP/wrap effective January 1, 2013.

Mr. Hickman presented the projected savings from staff's recommendation over the next biennium. He stated that the EGWP option will save about \$220 million over the next biennium compared with \$75 million by going with the RDS. Responding to a question from Mr. Colonna, Ms. Jones stated that the minimum requirements for bidding included the firm's financial viability and staff made the decision in conjunction with GRS on the candidate's financial viability. Responding to a question from Mr. Moss, Ms. Jones stated that the administrative fees for the EGWP/wrap option were a factor in the financial analysis completed during the evaluation and the fees would be paid by the TRS-Care trust fund. She noted that the EGWP/wrap option was a much favorable option financially compared with RDS.

On a motion by Mr. Moss, seconded by Mr. Barth, the trustees present unanimously adopted the following resolution presented by the staff with the insertion of Medco being selected as the PBM for TRS-Care:

Whereas, Chapter 1575, Texas Insurance Code, governs the Texas Public School Retired Employees Group Insurance Program ("TRS-Care") and authorizes the Teacher Retirement System of Texas ("TRS"), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals ("RFP") to interested entities for pharmacy benefit management services for TRS-Care;

Whereas, one of the options addressed in the RFP is the possible establishment of an Indirect Employer Group Waiver Plan with a benefit Wrap (Indirect EGWP + Wrap);

Whereas, TRS received responsive proposals from several entities to provide pharmacy benefit management services for TRS-Care and to establish an Indirect Employer Group Waiver Plan with a benefit Wrap (Indirect EGWP + Wrap);

Whereas, TRS staff and the TRS healthcare consultant, Gabriel, Roeder, Smith & Company ("GRS"), have discussed the proposals with the TRS Board of Trustees (the "Board"), provided relevant information to the

Board, and made a recommendation to the Board concerning the selection of a pharmacy benefit manager;

Whereas, TRS staff and GRS have recommended that beginning January 1, 2013, TRS-Care establish an Indirect Employer Group Waiver Plan with a benefit Wrap (Indirect EGWP + Wrap);

Whereas, The Board has considered the recommendations made by TRS staff and GRS and desires to adopt these recommendations; now, therefore, be it

Resolved, That the Board hereby approves and adopts the establishment in TRS-Care of an Indirect Employer Group Waiver Plan with a benefit Wrap (Indirect EGWP + Wrap);

Resolved, That the Board hereby selects Medco Health Solutions, Inc. to be the pharmacy benefit manager for TRS-Care, subject to negotiation and execution of the following two separate, final agreements: (1) in order to implement and provide pharmacy benefit services to all participants enrolled in the traditional TRS-Care 1, TRS-Care 2, or TRS-Care 3 plans, an agreement for a two-year term to commence on September 1, 2012, with four optional one-year renewals, and (2) in order to establish, implement and provide pharmacy benefit services to Medicare eligible participants enrolled in an Indirect Employer Group Waiver Plan with a benefit Wrap (Indirect EGWP + Wrap), an agreement for a two-year term to commence on January 1, 2013, with four optional one-year renewals;

Resolved, That the Board authorizes the Executive Director to expend funds deemed by him to be necessary or advisable to implement the Board's selection of the pharmacy benefit manager and further to execute all documents and take all actions deemed by the Executive Director to be necessary or advisable to implement this resolution, including the establishment in TRS-Care of an Indirect Employer Group Waiver Plan with a benefit Wrap (Indirect EGWP + Wrap), as well as all actions deemed by him to be necessary to negotiate a contract with the pharmacy benefit manager on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of TRS-Care, it being understood that the Board's selection pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is negotiated and signed by both parties.

C. Respond to in-person and web-cast audience questions on the TRS-Care study – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.

Mr. Guthrie read the questions received from the audience. The following questions were discussed:

1. Why has the TRS-Care fund balance dropped so fast?

Mr. Hickman responded that while the current revenue source stayed flat, the health care costs have skyrocketed at almost 10 percent per year and therefore the fund balance is being depleted; and when the balance is short, the increase in health care cost spending will cause the balance to dip quickly.

2. What are the health care cost drivers? Are prescription drug costs a significant cost driver?

Mr. Hickman stated that one factor is costly specialty drugs that do not have a generic alternative. He stated that one of the criteria for evaluating PBMs was how well they control and manage specialty drugs. He noted that once the patent of the specialty drug expires, the availability of generic alternatives will reduce the cost.

3. Does TRS-Care offer coverage comparable to ERS Health Select? Is the cost of such coverage the same as for ERS retirees?

Ms. Jones stated that the plan offered under TRS-Care is not comparable to ERS Health Select, and the funding structure for Health Select is completely different from that for TRS-Care. The ERS premium is 100 percent funded for employee or retiree coverage, and is 50 percent funded for the dependent coverage. She noted that the only 100-percent-funded plan within TRS-Care is the catastrophic plan. Mr. Guthrie stated that ERS offers one plan for both their active and retired members while TRS has separate plans (TRS-Care and TRS-ActiveCare) for two groups of members.

4. When I worked for Fort Bend ISD my medical premiums were \$135 per month for only myself. I chose TRS-Care 2 when I retired, and the premium became \$200 per month. Can you please explain the difference?

Ms. Jones stated that it would be difficult to compare TRS-Care plans with a plan offered by a particular district. She stated that generally speaking, especially for the non-Medicare group, the retiree coverage is by far more expensive than the one for an active population. Without knowing the specifics, she said, it would be difficult to explain the discrepancy in the premiums.

5. Why is the state unable to establish a pre-funded health care fund similar to the TRS Pension Fund to help pick up some of the costs of providing health care to retirees?

Mr. Guthrie stated that based on the actuarial cost analysis done by GRS, it would be significantly more costly to have a pre-funded health care plan than continuing the pay-as-you-go plan.

After the question-and-answer session, the board took a brief recess at 1:47 p.m. The meeting then reconvened at 2:28 p.m.

The question below was received after the board took the recess at 1:47 p.m.

6. Why are the pink copies of materials not being distributed to members of the

audience?

Mr. Guthrie stated that the materials relating to the PBM candidates were currently considered to be confidential.

Mr. Kelly recognized and acknowledged Representative John Frullo of District 84 who was present at the meeting.

Representative Frullo expressed his appreciation to the board for the effort to solve difficult issues facing TRS.

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.

Ms. Jones referred the board to the information regarding staff's recommendation for TRS-ActiveCare PPO rates and benefits for FY 2013. She provided the background of the TRS-ActiveCare plan. Ms. Jones stated that although the rates increased by 9.5 percent in 2011 and the overall benefits were reduced by 9.5 percent, 18 entities had joined TRS-ActiveCare effective fiscal year 2012. She said 90 percent of all eligible entities currently participate in the program. Ms. Jones stated that funding for coverage has not changed since the inception of the program, with the state contributing \$75 per month through school finance formulas and the district contributing a minimum of \$150 a month. She stated that any premium increases may pass entirely to the employee. She noted that the increased premium and reduced benefits had increased the enrollment in the high deductible plans—TRS-ActiveCare 1 and TRS-ActiveCare 1-HD.

Mr. Hickman discussed GRS' recommendations on TRS-ActiveCare rates and benefits. He stated that based on the analysis, an increase in total revenue of approximately 6 percent for FY 2013 will be needed. He stated the recommended rate increase for each plan for FY 2013: 4 percent for TRS-ActiveCare 1, 4 percent for TRS-ActiveCare 1-HD, 6 percent for TRS-ActiveCare 2, and 9 percent for TRS-ActiveCare 3. He stated that GRS also recommended eliminating the deductible for generic prescriptions and increasing the deductible for brand prescriptions, which he said, would encourage members to seek less expensive generic alternatives. The last recommendation, he said, was to charge the retail convenience fee after the first fill for TRS-ActiveCare 2 and 3, which would encourage members to utilize mail service pharmacists. Mr. Hickman confirmed for Mr. Moss that most of the drugs are available by mail order.

On a motion by Mr. Barth, seconded by Mr. McDonald, the board unanimously adopted the following resolution to approve premium rates and benefits for TRS-ActiveCare 1, 1-HD, 2 and 3:

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, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (“GRS”), have recommended that benefit changes, as indicated below, be made to TRS-ActiveCare 1, 1-HD, 2 and 3 for the plan year commencing on September 1, 2012;

Whereas, TRS staff and GRS have recommended that for the plan year commencing on September 1, 2012, rates at all levels of coverage in TRS-ActiveCare 1 and in TRS-ActiveCare 1-HD be increased approximately four percent (4%), that rates at all levels of coverage in TRS-ActiveCare 2 be increased approximately six percent (6%), and that rates at all levels of coverage in TRS-ActiveCare 3 be increased approximately nine percent (9%); and

Whereas, The TRS Board of Trustees (“Board”) desires to adopt the recommendations of TRS staff and GRS; now, therefore, be it

Resolved, That the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare 2, beginning in the plan year commencing on September 1, 2012 and thereafter, until further action by the Board:

Plan Feature	From 2011-2012 Plan Year	To 2012-2013 Plan Year
Prescription Drug Deductible (per person, per plan year)	\$100 plan year deductible, which applies to both brand and generic drugs combined.	\$0.00 plan year deductible for generic drugs; \$200 plan year deductible for brand drugs.
Retail Convenience Fee	With a participating retail pharmacy, the retail convenience fee applies after the second fill.	With a participating retail pharmacy, the retail convenience fee applies after the first fill.

Resolved, That, the Board hereby adopts and authorizes the following benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare 3, beginning in the plan year commencing on September 1, 2012 and thereafter, until further action by the Board:

Plan Feature	From 2011-2012 Plan Year	To 2012-2013 Plan Year
Retail Convenience Fee	With a participating retail pharmacy, the retail convenience fee applies after the second fill.	With a participating retail pharmacy, the retail convenience fee applies after the first fill.

Resolved, That the Board hereby adopts and authorizes the following premium rates for TRS-ActiveCare 1, 1-HD, 2, and 3 for the plan year commencing on September 1, 2012 and thereafter, until further action by the Board:

	Proposed Gross Monthly Premium Before State and District Contributions
	Commencing 9-1-2012
ActiveCare 1	
Employee Only	\$338.00
Employee and Spouse	\$771.00
Employee and Child(ren)	\$540.00
Employee and Family	\$850.00
ActiveCare 1-HD	
Employee Only	\$298.00
Employee and Spouse	\$731.00
Employee and Child(ren)	\$466.00
Employee and Family	\$957.00
ActiveCare 2	
Employee Only	\$460.00
Employee and Spouse	\$1,046.00
Employee and Child(ren)	\$731.00
Employee and Family	\$1,150.00
ActiveCare 3	
Employee Only	\$637.00
Employee and Spouse	\$1,448.00
Employee and Child(ren)	\$1,015.00
Employee and Family	\$1,592.00

and

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that are necessary or advisable to implement the benefit structure and premium rates, as adopted or authorized herein, and to otherwise continue the existing approved plans of coverage for TRS-ActiveCare 1, 1-HD, 2, and 3, until further action by the Board.

12. Consider premiums and plan design for health maintenance organizations (HMOs) under the active employees health benefit program (TRS-ActiveCare) – Betsey Jones.

Ms. Jones presented a memo with staff's recommendation relating to the proposed FY 2013 health maintenance organization (HMO) premium and benefits for TRS-ActiveCare. She explained the proposed benefits changes under the proposal of each HMO. Mr. Hickman stated that the proposed changes were a combination of benefits changes and rate increases.

Responding to a question from Mr. Kelly regarding the demographics of HMO participants out of a concern about the limited home visits available for older participants, Mr. Hickman stated that HMOs typically attract families and a generally younger population and he could provide the data on the demographics to the board in the future. Mr. Hickman and Ms. Jones confirmed for Mr. Moss that the HMOs are mostly geographically local organizations. Responding to a question from Ms. Sissney, Ms. Clifton stated that there were minimal increases in premium and some design changes made in 2011 for FY 2012.

On a motion by Mr. McDonald, seconded by Ms. Palmer, the board voted unanimously to adopt the following resolution:

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, TRS currently has contracts with three health maintenance organizations, SHA, L.L.C. d/b/a FIRSTCARE, Scott & White Health Plan, and Valley Baptist Health Plan, Inc., to offer benefits to participants in TRS-ActiveCare who reside or work in the respective service areas of each health maintenance organization ("HMO");

Whereas, the respective contract with each HMO automatically renews for successive one (1) year terms, unless terminated as provided in each contract;

Whereas, Staff and TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS") have recommended that during Fiscal Year 2013, SHA, L.L.C. d/b/a FIRSTCARE, Scott & White Health Plan, and Valley Baptist Health Plan, Inc. be allowed to provide health care services to TRS-ActiveCare participants in their respective service areas under the same respective plan design that each HMO offered in Fiscal Year 2012, with only those major changes in benefits noted hereafter, along with other minor benefit changes that will be reflected in the TRS-ActiveCare Enrollment Guide and the Evidence of Coverage issued by each respective HMO;

Whereas, Staff and GRS have recommended that the premiums to be paid by TRS-ActiveCare participants enrolled in an HMO include the rates offered for Fiscal Year 2013 by each of the three HMOs plus a monthly administration fee of \$5.00 per contract between a participant and an HMO to cover the clearinghouse fees and other administrative expenses incurred by the TRS-ActiveCare program; and

Whereas, The Board desires to approve the recommendations, including the respective plan design offered in Fiscal Year 2013 by each of the three HMOs, with the respective changes in benefits proposed by SHA, L.L.C. d/b/a FIRSTCARE, Scott & White Health Plan, and Valley Baptist Health Plan, Inc., and to approve the rates offered for Fiscal Year

2013 by each of the three HMOs and the premiums recommended by Staff and GRS; now, therefore, be it

Resolved, that the Board hereby approves the proposal for SHA, L.L.C. d/b/a FIRSTCARE to offer to TRS-ActiveCare participants during Fiscal Year 2013 the same plan design it offered in Fiscal Year 2012, with the following proposed major benefit changes, and approves and adopts the following monthly premiums to be charged to TRS-ActiveCare participants enrolled in this HMO during Fiscal Year 2013 according to coverage tier:

SHA, L.L.C. d/b/a FIRSTCARE Benefit Change Highlights *

Benefit	2011-2012 Plan Year	Commencing 9-1-2012
Annual Deductible (Medical) Per Member Per Family	\$750 \$1,250	\$600 \$1,500
Out-of-pocket Maximum Per Member Per Family (Excludes Deductible)	\$3,500 \$6,000	\$4,000 \$8,000
Physician Office Visit	\$30 PCP	\$25 PCP
Durable Medical Equipment Limit	\$4,000	\$3,000
Accidental Dental Care Limit	\$10,000	\$3,000
Home Health Care Limit	N/A	30 visits
Infertility Diagnostic Testing	Covered	Not Covered
Outpatient Prescription Drugs <ul style="list-style-type: none"> • Annual Deductible • Tier 3 Copay • Tier 4 Out-of-pocket Max. • Generic Birth Control 	\$150 individual/\$450 family \$65 Unlimited Copay applies	\$100 individual/\$300 family \$60 \$4000 No copay

* Other minor benefit changes will be reflected in the Enrollment Guide and the HMO's Evidence of Coverage

SHA, L.L.C. d/b/a FIRSTCARE Premium Changes

Coverage Tier	FY 2012 Premiums	FY 2013 Premiums	Percent Change
Employee Only	\$368.78	\$382.06	+3.6%
Employee & Spouse	\$927.48	\$961.16	+3.6%
Employee & Child(ren)	\$586.34	\$607.56	+3.6%
Employee & Family	\$936.68	\$970.70	+3.6%

Resolved, that the Board hereby approves the proposal for Scott & White Health Plan to offer to TRS-ActiveCare participants during Fiscal Year 2013 the same plan design it offered in Fiscal Year 2012, with the following proposed major benefit changes, and approves and adopts the following monthly premiums to be charged to TRS-ActiveCare participants enrolled in this HMO during Fiscal Year 2013, according to coverage tier:

Scott & White Health Plan Benefit Change Highlights *

Benefit	2011-2012 Plan Year	Commencing 9-1-2012
Annual Deductible (Medical) Per Member Per Family	\$750 \$2,250	\$1,000 \$3,000
Outpatient Surgery	\$100 copay plus 20% after deductible	\$150 copay plus 20% after deductible
Inpatient Hospital	\$100 per day (\$500 maximum) then 20% after deductible	\$150 per day (\$750 maximum) then 20% after deductible
Emergency Room	\$100 copay plus 20% after deductible	\$150 copay plus 20% after deductible
Prescription Drug Deductible	\$50 (Generics excluded)	\$100 (Generics excluded)

* Other minor benefit changes will be reflected in the Enrollment Guide and the HMO's Evidence of Coverage

Scott & White Health Plan Premium Changes

Coverage Tier	FY 2012 Premiums	FY 2013 Premiums	Percent Change
Employee Only	\$388.80	\$398.00	+2.4%
Employee & Spouse	\$934.90	\$961.00	+2.8%
Employee & Child(ren)	\$623.90	\$641.00	+2.7%
Employee & Family	\$968.90	\$997.00	+2.9%

Resolved, that the Board hereby approves the proposal for Valley Baptist Health Plan, Inc. to offer to TRS-ActiveCare participants during Fiscal Year 2013 the same plan design it offered in Fiscal Year 2012, with the following proposed major benefit changes, and approves and adopts the following monthly premiums to be charged to TRS-ActiveCare participants enrolled in this HMO during Fiscal Year 2013 according to coverage tier:

Valley Baptist Health Plan, Inc. Benefit Change Highlights *

Benefit	2011-2012 Plan Year	Commencing 9-1-2012
Durable Medical Equipment Limit	\$4,000	\$3,000
Accidental Dental Care Limit	\$10,000	\$3,000
Home Health Care Limit	N/A	30 visits
Infertility Diagnostic Treatment	Covered	Not Covered
Outpatient Prescription Drugs <ul style="list-style-type: none"> • Annual Deductible • Tier 4 Copay • Generic Birth Control 	\$50 N/A Copay applies	\$100 20% (\$4,000 OOP Max.) No copay

* Other minor benefit changes will be reflected in the Enrollment Guide and the HMO's Evidence of Coverage

Valley Baptist Health Plan, Inc. Premium Changes

Coverage Tier	FY 2012 Premiums	FY 2013 Premiums	Percent Change
Employee Only	\$375.96	\$387.06	+3.0%
Employee & Spouse	\$913.86	\$941.04	+3.0%
Employee & Child(ren)	\$590.36	\$607.86	+3.0%
Employee & Family	\$932.40	\$960.14	+3.0%

Resolved, that the approved plans of coverage offered by each HMO to participants in TRS-ActiveCare who reside or work in the respective service areas of each HMO, each of which commences on September 1, 2012, shall remain unchanged until further action by the Board.

Resolved, that with prior written approval from the Executive Director or his designee, each HMO may offer to participants in TRS-ActiveCare who reside or work in the respective service areas of each HMO, lower premiums than those herein approved, each of which commences on September 1, 2012.

Resolved, that the Board authorizes the Executive Director or his designees to take any actions, including the expenditure of funds and the execution of all documents, deemed by him or such designee to be necessary or advisable to implement this resolution and to administer the TRS-ActiveCare contracts with the HMOs.

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.

Ms. Jones stated that a statute requires the board to adopt the enrollment period for TRS-ActiveCare. Ms. Jones stated that staff recommended that the board open enrollment from April 23, 2012 through May 25, 2012 in the spring and from August 1, 2012 through August 31, 2012 in the summer. On a motion by Ms. Palmer, seconded by Ms. Sissney, the board adopted the following resolution:

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.

14. Discuss budget planning, including – Don Green:

A. An overview of the state budgeting process.

Mr. Green provided an overview of the state budgeting process. He highlighted the significant growth of spending on health and human services over the past decade and noted that TRS' appropriation accounts for about 2.1 percent of the state's general revenue. He presented the strategic planning and legislative appropriations request instructions.

B. A presentation on TRS budget planning and the development of the Legislative Appropriations Request for the upcoming 83rd Session of the Texas Legislature.

Mr. Green provided the projected TRS budgeting timeline for the 2012 and 2013. He laid out the budgetary reporting cycle. He explained the components of the legislative appropriation request (LAR): assumptions on payroll growth rates, member and state contribution rates, and the pension fund administrative operations. Responding to a question from Mr. Kelly, Mr. Green stated that exceptions would need to be granted to hire beyond the number of FTEs set by the legislature for the agency. He stated that staff recommended that the unexpended balances appropriated for the TEAM project be carried forward into the next legislative session.

Mr. Green highlighted the LAR drivers for TRS for the 2014-2015 biennium: the increase member retirements, program funding, the TEAM project, staffing and workforce assessments, and GASB exposure draft. Responding to a question from Ms. Palmer, Mr. Green stated that TRS' operating expenses had been funded by the trust fund but not the General Revenue (GR) fund. He confirmed for Ms. Palmer that ERS' operating expenses are also funded by their trust fund. Mr. Guthrie clarified for Mr. Barth that the board is authorized by the statute to make decisions on transferring funds to cover operating expenses and the state is required by the constitution to contribute at least 6 percent of active member salaries to go toward member benefits.

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.

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a report of the expenditures paid during the months of November and December 2011 that were required to perform the fiduciary duties of the board. He reported that, during the month of November, the pension trust fund disbursed a total of about \$24.1 million for the first quarter of FY 2012, \$1 million below the cash disbursements at the same time in FY 2011. Responding to a question from Mr. Barth, Mr. Green stated that the difference could be attributed to the approximately \$600,000 paid in December for the 2006 incentive compensation payment. He noted that the mailing of the Benefit Handbook caused an increase in the operating expenses in December from November. Mr. Welch confirmed for Ms. Clifton that the Benefit Handbook is mailed to all members this year and staff is exploring the alternative of providing an option to access it online.

B. Quarterly financial reports on TRS programs.

Mr. Green reported on the finances of TRS programs for the first quarter of FY 2012 ending November 30, 2010. He reported that the total deductions for the first quarter were \$2.1 billion, tracking closely to the historical trend. He stated that 78 percent of the total funds budgeted were remaining for fiscal year 2012 after the first quarter, also closely tracking the budget. Mr. Green responded to Ms. Palmer's question by referring to the financial data that reflects the encumbrances. Mr. Green reported that the soft dollar administrative expenses were

tracking below budget at this time last year. Per Mr. McDonald's request, staff will provide details on the difference in the soft dollar expenses from last year.

Mr. Green reported on the funds for the TRS-Care and TRS-ActiveCare programs for the first quarter of FY 2012. He stated that the expenses for both programs were tracking closely with budgeted funds.

Mr. Green concluded his report by noting that staff was seeking another way to present the financial report in the future to make the report more user-friendly and comprehensible.

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.

Mr. Guthrie recapped the ideas presented by staff previously regarding improving the board agenda planning process in order to target items for agenda inclusion better, allow staff more time to develop and refine board meeting materials, and provide the trustees more time with the materials in advance. He discussed each of the staff's recommendations:

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

The board underwent a thorough discussion relating to reducing the number of board committees. Mr. Kelly then suggested that board members provide their feedback on the issue to Mr. Guthrie and the board will continue to discuss the issue with staff at a future meeting.

A four minutes recess took place at 3:48 p.m. due to fire alarms going off in the Service Center building. The board reconvened at 3:52 p.m.

B. Preview draft agendas for April and May Board meetings and consider canceling the May Board meeting.

Mr. Guthrie provided a summary of the April and May board and committee agenda items. He stated that the projected items to be discussed in May are not time-sensitive and can be postponed to the June meeting; and therefore staff recommended that the May board meeting be canceled. Board members generally supported staff's recommendation. On a motion by Ms. Sissney, seconded by Ms. Clifton, the board unanimously voted to cancel the May 2012 board meeting.

C. Review Staff’s recommendation for electronic Board materials.

Mr. Guthrie discussed the plan to switch the board meeting materials from paper to electronic format. He laid out the cons of providing paper copies in terms of cost, convenience, and environmental impact. He highlighted the requirements for choosing electronic delivery of the materials in terms of security, ability to go completely paperless, ease of use and accessibility, support for mobile devices and document annotations, ability to print on demand, and cost savings. He presented the following three options recommended by staff and discussed their pros and cons:

Option 1: Thumb drives and CD/DVD

Option 2: Cloud-based file sharing and Web Portal

Option 3: Purpose-built web portal and clients for multiple platforms

The board members discussed their preference and concerns. The board then agreed to try out staff’s recommendation for the June 2012 meeting to receive the materials in electronic format in addition to the paper format.

D. Review the Board training calendar.

Mr. Guthrie presented the board training calendar for the rest of the calendar year 2012 for the board members’ reference.

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.

Mr. Guthrie presented the proposed resolution that authorizes staff to make non-substantive corrections to resolutions or other adopted materials. On a motion by Ms. Palmer, seconded by Mr. McDonald, the board unanimously adopted the following resolution:

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.

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.

Mr. Kelly announced that the board would go into executive session on agenda item 17 to consult with TRS employees, consultants or legal counsel of third parties concerning the purchase of restricted securities under section 825.3011 of the Texas Government Code and to receive legal advice from its attorney under section 551.071 of the Texas Open Meetings Act. All members of the public and staff not needed for the executive session are required to leave the meeting room at this time.

Whereupon the open session recessed at 4:40 p.m.

The meeting was reconvened in open session at 7:16 p.m.

Mr. Kelly stated that due to the confidential nature of the subject matter, the board would refer to the current project exclusively as "Project Simon" (project) until the board reached a decision and vote on the matter. The board members then discussed the merits of the project. Trustees in general highlighted the uniqueness of the project and expressed their support to the project. Mr. McDonald stated that the project is a non-correlated asset class that has a return stream, which is much different from other assets. He stated that as the chairman of the Risk Management Committee, he believed that the project should be viewed in the overall enterprise position. He opined that the project would provide the fund another opportunity to diversify the entire portfolio of assets and another way to earn a return. Mr. Kelly stated that there are

operating and downside considerations. As someone who has been in a sub-S corporation, he stated that he had concerns with regard to the current structure and timing of the project. Despite her concern about the novelty of the project, Ms. Sissney stated that she believed the positive side of the project surpassed its negative side. Mr. Voss of HEK stated that the project fits into the TRS investment portfolio and is appropriate. Per Mr. Barth's request, Mr. Rich Hall discussed the relative return potential of the project compared with a baseline private equity investment. He stated that the project has an equal return potential as the current baseline private equity investment but is more defined and staff will be able to underwrite it specifically. He stated that the downside is more protected than the fund's average private equity investment because at least half or more of the return would come from current income and annual distributions as a part of owning this business.

Mr. Kelly next called for a motion and then a voice vote. On a motion by Mr. Barth, seconded by Mr. Moss, the board voted to approve Project Simon investment as presented by staff with Mr. Kelly voting "nay" and Ms. Charleston abstaining. Mr. Kelly then announced that the opportunity was to invest in Bridgewater.

Whereupon, the meeting recessed at 7:30 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on February 17, 2012, in the Main Hall of the Region 17 Education Service Center at 1111 West Loop 289, Lubbock, Texas. The following people were present:

Board trustees:

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

TRS executives and staff:

Brian Guthrie, Executive Director
Ken Welch, Deputy Director
Amy Barrett, Chief Audit Executive
Conni Brennan, General Counsel
Howard Goldman, Director of Communications
Betsey Jones, Director of Health Care Policy and Administration
Amy Morgan, Chief Information Officer
Ray Spivey, Director of Governmental Relations
Garry Sitz, Manager of Information System Architecture
T. A. Miller, Deputy Information Officer
Liz Oliphint, Manager – Benefits Processing
Barbie Pearson, Assistant Manager – Benefit Counseling
Dan Herron, Communications Specialist
Dan Junell, Secretary to the Board and Assistant General Counsel
Rebecca Merrill, Special Advisor to Executive Director and Manager of Special Projects
Melinda Nink, Executive Assistant

Rhonda Price, Information Specialist

Outside counsel, consultants, contractors, representatives of associations and organizations, and others:

Bill Lees, Lubbock-South Plains Retired Teachers Association
Mary Lees, Lubbock-South Plains Retired Teachers Association
Carla Moore, Lubbock-South Plains Retired Teachers Association
Jan Caffey, Lubbock-South Plains Retired Teachers Association
Kay Hanna, Lubbock-South Plains Retired Teachers Association
Geneva Scott, Texas Retired Teachers Association
Tommye Ruth Stallings, Lubbock-South Plains Retired Teachers Association
Martha Ginn, Texas Retired Teachers Association
Dennis Hargrove, Lubbock-South Plains Retired Teachers Association
Betty F. Smith, Lubbock-South Plains Retired Teachers Association
Margaret McFadyier, Texas Retired Teachers Association
Marjorie Reynolds, Texas Retired Teachers Association
Ann Fickel, Texas Classroom Teachers Association
Judy Olson
Peggy Dean
Patsi Robena Tooke
Jerry Tooke
Suzanne Anglin
Jay Masci, Provaliant

Mr. Kelly called the meeting to order at 8:04 a.m.

2. Call roll of Board members.

Mr. Junell called the roll. All trustees were present.

Mr. Guthrie provided an overview of the agenda items to be discussed on this day.

19. Provide opportunity for public comment – R. David Kelly.

Mr. Kelly called for public comment. No comments were received.

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.

Mr. Kelly announced that the board would go into executive session on agenda item 18, pursuant to the following sections of the Texas Open Meeting Act to receive legal advice from its attorney under section 551.071 of the Act and to discuss personnel matters under section 551.074 of the Act. All members of the public and staff not needed for the executive session are asked to leave the room at this time and take their belongings with them.

Whereupon, the open session recessed at 8:09 a.m.

The meeting was reconvened in open session at 9:45 a.m. and then recessed at 9:46 a.m. and reconvened at 9:58 a.m.

Mr. Kelly announced that the board would take up agenda item 21.

- 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.**

Ms. Woods Wiley provided an overview of the organizational structure of the TEAM program. She laid out the entities that provide the additional oversight function: the Independent Project Assessment (IPA) for the Line of Business Project (LOB), and the State of Texas Quality Assurance Team (QAT), which consists of the Legislative Budget Board (LBB), Department of Information Resources (DIR), and State Auditor's Office (SAO).

Mr. Sitz provided an overview of the program management. He recapped that Provaliant had been selected to be the program manager. He explained the role of each team. Responding to a question from Mr. Kelly, Mr. Sitz explained the function of the independent project assessment. Mr. Sitz stated that TEAM has three major projects: the LOB, which is the pension administration functionality, the financial system upgrade, and the data management project. He further explained how the project is managed.

Ms. Morgan provided an update on the accomplishments of TEAM to date. She briefly mentioned the actions staff had taken to set the foundation for TEAM. She highlighted the approval received from the LBB to increase FTEs by 12 in FY 2012 and by three in FY 2013. She stated that IT personnel structure had been rearranged and the network and phone systems have been upgraded in preparation for TEAM.

Mr. Masci presented the projected timeline for TEAM for FY 2012 and 2013. He explained for Mr. Kelly the process of developing the Statement of Work for data assessment. He noted that currently no dates had been set for the completion of the financial HR system upgrade because it will depend on the vendors who will be selected to provide their timeline for completing the project.

Mr. Masci gave a presentation on the data management project. He explained the elements in a data management project and its phases—assessment, conditioning and the migration. He explained different data issues that will be uncovered during the assessment phase. He explained the ways of conditioning the data. Mr. Masci confirmed for Mr. Kelly that not all of the data will be conditioned in time because of the high volume of membership data TRS has.

Ms. Pearson presented the revised communication plan for TEAM. Mr. Welch confirmed for Mr. Kelly that staff will continue to keep the board informed of any successes and issues. Ms. Pearson then presented the sample internal and external communication channels.

Mr. Green provided an update on the financial system upgrade. He provided the projected timeline for the upgrade. He stated that the objectives of the project are to eliminate and reduce

manual processes, minimize or eliminate reconciliation of data, provide enhanced query and reporting functionality, and ease the process of making modifications to the system. Responding to a question from Mr. Kelly regarding the flexibility of changing the scale of the project, Mr. Welch stated that the ability to modify the scale of the project is very important and will be part of the specifications in selecting a LOB solution. Responding to a question from Mr. Colonna regarding the purpose of the state oversight, Mr. Welch stated that TRS voluntarily reports to the legislature and uses the project standard and framework set by the legislature on TEAM despite the fact that TRS is exempted from the reporting requirements under the statute. He noted that keeping the legislature informed of TEAM would provide them information for making appropriate decisions during the legislative sessions. Mr. Welch clarified for Mr. Kelly that TEAM is a multi-year project and would need to be addressed during each budget cycle. Mr. Green stated that staff would discuss results of the financial system update with the Texas Comptroller of Public Accounts to ensure that the system will align with the state's financial system.

22. Receive a presentation on and discuss TRS' Enterprise Risk Management Program – Jay LeBlanc.

Mr. LeBlanc provided a presentation on TRS' Enterprise Risk Management (ERM) Program. He provided the historical background of ERM and laid out the principles and benefits of ERM. He presented the ERM organizational structure and explained the ERM approaches. He presented a sample Stoplight Report, which is used to identify the risk drivers. He also explained how the report is being used to monitor risks. Mr. LeBlanc also explained the logistics of combining investment risk management with ERM in the Risk Management Committee. He noted that the investment staff and ERM staff will rotate in reporting investment and ERM matters to the Risk Management Committee.

After a brief recess at 11:25 a.m., the board reconvened around 11:40 a.m.

Mr. Kelly announced the board would take up agenda item 24.

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.

Mr. Steve Huff explained the guidelines on food and meals, lodging and entertainment, transportation, and conference tokens pursuant to the new Trustee Ethics Policy (policy).

Mr. Keith Johnson of Reinhart Boerner Van Deuren touched on various hot topics including certain provisions of the Dodd-Frank Act (Act). The Act directs the SEC to require advisory shareholder votes on executive compensation in order to encourage shareholders to seek to align pay with performance and address situations where executive compensation was structured to allow loading up on risk without accountability. Mr. Johnson confirmed for Mr. Kelly that the votes cast by TRS on approving executive compensation would need to be publicized according to the Act. Mr. Kelly and Mr. Barth then requested that staff include the

proxy voting policy in the upcoming policy meeting agenda for the board to review and consider for any changes, if needed.

Mr. Wei presented the ethics topic relating to trustee personal investing. With regard to private investments such as hedge funds, private equity funds and real estate funds, Mr. Wei stated that TRS policy does not allow trustees to have an overlap with TRS' investments. He noted that staff periodically provides lists of TRS' current investments and lists of upcoming private investments to trustees as a reference. Mr. Wei confirmed for Mr. Kelly that even if a trustee makes the private investment before TRS does, it likely would still be considered as a conflict; and if that is the case, all the factors in the case would be considered and the trustee potentially could approach the full board for a waiver. Mr. Wei clarified for Mr. Kelly that as long as a trustee is not managing a fund of funds and influencing the fund's decisions, the current policy is not concerned with the underlying holdings of a pooled investment vehicle such as a mutual fund; otherwise the trustee would likely need to sell the holdings if the trustee is making those decisions. Mr. Wei stated that for public investments, overlapping with TRS' investments is allowed as long as the investment is not in TRS contractors. He also noted that trading on any confidential investment information about TRS' trading is prohibited. He confirmed for Mr. McDonald that owning an exchange-traded fund that might include securities that are issued by the vendors is allowed.

Mr. Huff presented the guidelines on disclosures and conflict of interest. Mr. Huff also explained the recusal practices. He reminded the board that a TRS trustee can recuse himself or herself, even if there is no actual conflict, but the trustee feels that the situation creates an appearance of a conflict. He noted that there may be situations where recusal is not a cure but still required.

Mr. Johnson explained the voluntary stewardship codes for institutional investors. He provided an overview on the emerging trend among the public funds in adopting the codes.

Mr. Wei presented the topics relating to trustee qualifications, prohibitions on eligibility to serve as a trustee, grounds for removal of a trustee, and dual office holding.

Mr. Johnson introduced a potential enterprise risk management tool released by Institutional Shareholder Services for integrating corporate governance issues into their investment process. He explained the capabilities of the tool.

Mr. Wei recapped the procedures developed under the Trustee Ethics Policy for notifying the board of blackout periods on trustee communications with persons or entities pursuing TRS business or investments. He presented a memo issued by Mr. Guthrie to the board regarding the notification procedures. Responding to a question from Mr. Barth, Mr. Wei clarified that a trustee is not allowed to have communications during the blackout period with an entity pursuing TRS business if the communication relates to the TRS business opportunity. Ms. Brennan confirmed for Mr. Kelly that a trustee who owns stock in a potential vendor would have to sell that stock in order for the board to consider voting on a contract with that vendor.

Mr. Gold presented the materials relating to immunities and indemnification for the board's reference.

25. Review the Texas Open Government requirements – Dan Junell.

Mr. Junell provided a presentation on the Open Government Laws comprised of the Open Meetings Act (OMA) and Public Information Act (PIA). He laid out the policy requirements and applications of the OMA and the PIA. He explained the two definitions of what constitutes a meeting and exceptions to the “gathering” meeting definition. He highlighted the requirements regarding a quorum and the executive session procedures. He noted the potential of inadvertently forming a quorum on social media sites.

Mr. Junell provided a brief overview of the PIA. Mr. Kelly cautioned new trustees on the information they communicate in any form that may be subject to disclosure according to the PIA. Mr. Junell confirmed for Mr. Colonna that the current quorum is five for the board and three for committees. Responding to a question from Mr. Colonna, Mr. Junell stated that a private conversation that does not constitute a quorum initially is generally not unlawful but may not be advisable as there is a potential risk of forming a quorum eventually.

Mr. Kelly announced that the board would take up agenda item 26.

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.

Mr. Welch provided the background of the new TRS Criminal Background Check policy. He stated that pursuant to the new policy, criminal history record information checks will be conducted on current employees hired since January 1, 2011 and all finalists for positions prior to an offer of employment being extended. He noted that the policy includes a self-reporting requirement for employees to report any incidents occurring on or after February 1, 2012. Mr. Guthrie noted that current employees who apply for a new position within TRS would also have to go through the criminal check.

B. Consider proposed changes to the Resolution Designating Persons Authorized to Sign TRS Vouchers (Voucher Authority Resolution).

Mr. Welch presented the proposed amended resolution designating persons authorized to sign TRS vouchers and stated the changes. He stated that the resolution updates Mr. Green as the Chief Financial Officer.

On a motion by Mr. Barth, seconded by Mr. Colonna, the board unanimously approved the following resolution:

Whereas, In accordance with section 825.104 of the Texas Government Code, the Board of Trustees (the "Board") of the Teacher Retirement System of Texas ("TRS") has previously granted authority to certain persons to approve and sign vouchers for payment from accounts of TRS; and

Whereas, The Board desires to re-designate those persons to whom this authority has been granted as follows: substitute Brian K. Guthrie for Ronnie G. Jung as Executive Director; redesignate Ken Welch as Deputy Director; and add Don Green as Chief Financial Officer; now, therefore, be it

Resolved, That the Board designates the following persons to approve and sign vouchers for payment from accounts of TRS from and after February 17, 2012, and until the designated person separates from employment with TRS, is no longer employed in any capacity for which authority is granted under this resolution, or is not re-designated by the Board, whichever occurs first:

Brian Guthrie	Executive Director
Ken Welch	Deputy Director
Don Green	Chief Financial Officer
Jamie Michels	Manager of General Accounting
Scot Leith	Manager of Investment Accounting
Cindy Haley	Team Leader of Financial Reporting
L. Michele Price	Team Leader of Budgeting
Martha Rivera	Team Leader of Employee Payroll & Benefits
Vicki Garcia	Team Leader of Investment Accounting

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.

Mr. Welch reported an power-outage incident occurred in January 2012 that impacted TRS offices. He reported that the total staff costs for recovery from the incident were about \$6,000. Mr. Welch stated that staff recommended putting a backup generator in place to provide ongoing power and minimize the impact of a power outage. He updated the board that the Facilities Commission has already approved the award of a backup 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, including riders directing the use of appropriated funds.**
- E. Member communications.**

Mr. Guthrie provided a brief remark and expressed his appreciation to the board, the audience and staff for making this meeting successful.

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.

Mr. Guthrie provided an overview of the current TRS workforce profile. He provided the data on staff's average full-time equivalents (FTEs) and salary by division, overall historical turnover rates compared with the state average, and age and tenure demographics.

Mr. Guthrie laid out the issues facing TRS workforce continuity. He noted that about 25 percent of the TRS workforce will be eligible to retire as of December 31, 2013. He highlighted the areas of vulnerability where a high percentage of employees are eligible to retire in five years.

Mr. Welch laid out the plans for recruiting and retaining talent. He introduced the internship program, the mentor program for interns, and the leadership development program. He laid out the objectives, components, and application process of the leadership development program. Mr. Welch stated that the program is intended to train and prepare people and give them exposure beyond their current job assignments so that they can learn other aspects of the organization and have the skill set to work in another division if needed. Responding to a question from Mr. Moss regarding the time management for the staff who will be working on the TEAM project in addition to participating in the program, Mr. Welch stated that it will require some delicate balance between TEAM and the training opportunities. He presented the timeline of the program implementation and completion. Responding to a question from Ms. Charleston, Mr. Welch stated that web-based training might be available in addition to classroom training. He noted that well-known speakers will be arranged to speak during the training sessions.

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.

Mr. Goldman provided an update on TRS communication accomplishments. He highlighted the publication on the 2011 legislative changes to members, the progress on improving and restructuring a number of TRS publications, and developing a TEAM communications plan. He also noted the launch of the first online survey relating to TRS website.

Mr. Goldman provided an update on the social media program, the promotion of MyTRS, and the TRS 75th anniversary preparation. He reported that TRS has officially launched its presence on Facebook, YouTube, LinkedIn, and Twitter as of February 2012. He shared with the board the recognition and comments received via these social media channels. He gave an update on the efforts in promoting MyTRS through newsletter, promotional recordings for the 1-800 number callers, promotional materials, posters, website and e-mail. He reported that as of January 23, 2012, 537 out of 1,300 entities had forwarded the message to their employees to inform them about *MyTRS*. Responding to a question from Mr. Kelly, Mr. Goldman laid out the proposed projects to further develop and promote MyTRS.

Mr. Goldman provided an update on the preparation of TRS' 75th anniversary celebration. He noted the support received from members' association, school districts, and

higher education institutions. Per Mr. Kelly's suggestion, staff will look into the possibility of recording stories from members for the celebration.

Whereupon, the meeting was adjourned at 1:45 p.m.

Tab 5

Tab 5 A

MEMORANDUM

TO: Policy Committee of the Board of Trustees

FROM: Brian Guthrie, Executive Director
Timothy Wei, Assistant General Counsel

COPIES: Board of Trustees
Steven Huff, Fiduciary Counsel

DATE: March 29, 2012

RE: Determination of TRS Key Employees and Clarification of Reporting Requirements under the Financial Statement Disclosures

I. Background and Statutory Requirements

Section 825.212 of the Government Code requires the Board to determine TRS employees who exercise “significant decisionmaking or fiduciary authority.” The law requires these “key employees” to file personal financial statements with TRS. In addition, TRS policy imposes certain other requirements on key employees, such as the Executive Director’s pre-approval for any outside employment and disclosure of certain business interests.

The term “significant decisionmaking ... authority” is relatively self-explanatory. The term “fiduciary authority” bears explanation, and ERISA provides guidance on the meaning of this term:

a person is a fiduciary with respect to a [pension] plan to the extent ... he exercises any discretionary authority or discretionary control respecting management of such plan or exercises any authority or control respecting management or disposition of its assets

29 U.S.C. § 1002(21)(A). Accordingly, a person may be viewed as exercising significant fiduciary authority if the person exercises significant discretionary control of the management of TRS or significant authority or control of the management or disposition of TRS’ assets.

The Board of Trustees has previously approved a list of TRS positions designated as “key employees.” Under the current designation system, holders of certain TRS titles are key employees. Additionally, in the Investment Management Division (“IMD”), employees with certain state classifications are key employees. As discussed below, the staff recommends certain changes to the determinations of IMD and certain other key employees to more effectively implement the statutory mandate of determining employees who exercise “significant decisionmaking or fiduciary authority.”

II. Determinations of Key Employees

A. Recommended Senior Staff Key Employee Determinations

The staff recommends that the Board determine that the holders of the following TRS working titles are key employees:

Title	Current Incumbent
Executive Director	Brian Guthrie
Deputy Director	Ken Welch
Chief Investment Officer	Britt Harris
Deputy Chief Investment Officer	Jerry Albright
Chief Benefit Officer	Marianne Woods Wiley
Chief Financial Officer	Donald Green
General Counsel	Conni Brennan
Chief Audit Executive	Amy Barrett
Chief Information Officer	Amy Morgan
Deputy Chief Information Officer	T.A. Miller
Director of Health Care Policy and Administration	Betsey Jones
Manager of General Accounting	Jamie Michels
Manager of Investment Accounting	Scot Leith

All of these employees exercise significant decisionmaking or fiduciary authority. With two exceptions, the Board previously determined all are key employees. The staff recommends adding the titles Director of Health Care Policy and Administration, currently held by Betsey Jones, and Deputy Chief Information Officer, currently held by T.A. Miller. Staff recommends that these titles be added to the list of key employees because of the positions' authority over significant TRS contracts and management functions.

B. Additional Recommended IMD Employees Determinations

Staff also recommends that the Board make additional determinations of key employees among IMD staff. In the IMD, key employees presently are determined by the state classification they hold. All positions that are filled with employees whose state classification title is Investment Fund Director, Chief Trader I or II, Trader I or II, or Portfolio Manager I, II, III, or IV are key employee positions. This determination method casts an overbroad net and captures as key employees some employees that do not exercise "significant decisionmaking or fiduciary authority." For example, under the current system, employees who make investment recommendations are designated as key employees, even though they do not make the actual investment decision. Neither do those same employees exercise significant discretionary authority over the disposition of TRS assets. Thus, these employees do not exercise significant decisionmaking or fiduciary authority. Accordingly, staff recommends changes to the determinations of key employees in the IMD.

The staff recommends a functional approach for IMD key employee determinations. The Board may implement this functional approach by determining four groups of IMD employees as key:

- Internal Investment Committee ("IIC") members;
- IMD employees with the TRS working title of Director and higher;

- Employees with authority to approve or execute TRS’ trades; and

1. Members of the IIC

The staff recommends that the Board determine any employee who is or was a voting member of the IIC at any time during a reporting year to be a key employee subject to applicable requirements. IIC members vote to approve or disapprove potential investments in private funds for TRS, among other duties. Accordingly, IIC members exercise both significant decisionmaking and fiduciary authority and should be deemed key employees.

Through the current Investment Policy Statement (“IPS”), the Board appointed certain persons to the IIC. The IPS also authorizes the Chief Investment Officer to appoint and remove persons who are IMD Directors as non-permanent voting members of the IIC. The current IIC voting members are:

Title	Current Incumbent
Chief Investment Officer	Britt Harris
Deputy Chief Investment Officer	Jerry Albright
Chief Risk Officer	Jase Auby
Director – Investment Operations*	Sylvia Bell
Senior Managing Director – Internal Public Markets	Chi Kit Chai
Senior Managing Director – External Private Markets	Steve LeBlanc
Managing Director – Strategic Research & Quantitative Analysis*	Nigel Lewis
Managing Director – External Public Markets*	Dale West

* Appointed by the CIO as a non-permanent voting member.

2. IMD Employees with the Title of Director or Higher

The staff recommends that the Board determine any IMD employee who holds the title of Director or higher during a reporting period to be a key employee. Such employees are expected to be taking a leadership role in managing the IMD and in making investment decisions on behalf of TRS and accordingly are exercising significant decisionmaking and fiduciary authority.

The chart attached as Exhibit 1 shows the titles held by all IMD employees.

3. IMD Employees with Authority to Execute or Approve Trades

The staff recommends that the Board determine any employee with authority to approve or execute trades in the TRS order management system during a reporting period to be a key employee. Those employees with authority to approve trades are exercising significant decisionmaking and fiduciary authority and are accordingly key employees. Those employees with authority to execute trades are disposing of TRS assets and accordingly are exercising significant fiduciary authority. This designation will include the senior employees in the Internal Public Markets group, a few senior employees from the External Public Markets group, and employees from the Trading group.

C. Employees with Authority Delegated Under The Board’s Authority Resolution (TRS Form 477) and Voucher Authority Resolution

For the same reasons, the staff recommends that the Board determine any person designated as an authorized signatory under the Board’s Authority Resolution (TRS Form 477) or Voucher Authority Resolution to be a key employee. This group of employees is authorized, directly or indirectly,¹ by the Board to enter or exit investment transactions on behalf of TRS or to authorize transfer of payments from TRS’ accounts at the Comptroller’s office. Under this authority, they are exercising significant fiduciary authority. This group of employees is primarily composed of IMD employees but also includes a few employees from TRS’ executive and financial staff.

D. Any Employee Designated Key by the Executive Director or Chief Audit Executive

Finally, the staff recommends that the Board authorize the Executive Director to designate any employee as a supplemental key employee upon notice to the General Counsel. If the Executive Director concludes that an employee who does not meet the above criteria but for whom it would be prudent because of the influence the employee exercises, the nature of the employee’s job, the information to which the employee has access, or another reason to require compliance with the key employee obligations, he or she may designate such an employee as a supplemental key employee.

III. Recommended Changes to Required Personal Financial Statement Disclosures

As noted above, TRS’ statute requires key employees to file personal financial statements with TRS. The statute further provides that the “content of a financial disclosure statement must comply substantially with the requirements of” the personal financial statement required by Subchapter B of Chapter 572 of the Texas Government Code. The Texas Ethics Commission has promulgated a form personal financial statement that meets the requirements of Subchapter B. (Trustees are also required to fill out the same form and file it with the Texas Ethics Commission and TRS.) Historically, TRS has required key employees to use the Ethics Commission form, although it has authority to develop its own form that substantially complies with Subchapter B’s requirements.

Among other things, Subchapter B requires disclosure of certain information regarding the investments and personal trading of key employees. Specifically, Subchapter B requires disclosure of the name of any stock held, the number of shares (within specified ranges), and any net gain or loss (within specified ranges) if shares were sold. Similar information is required for bonds.

Under the procedures in TRS Trading Policy for Employees and Certain Contractors, key employees already disclose most if not all the information required by Subchapter B for publicly traded stocks and bonds. Further, TRS receives and reviews the information in real time or with a relatively short delay. Under the Trading Policy, key employees must also disclose all broker accounts (as defined in the Policy), pre-clear certain trades, and supply trading confirmations directly from their broker for most trades. Additionally, key employees must direct their brokers to permit TRS to obtain copies of their account statements at TRS’ request. Accordingly, TRS receives a great deal of information regarding key employees’ personal investments and trading and reviews it on a timely basis.

¹ In the current Authority Resolution, the Board authorized the Executive Director to designate IMD employees from within a specified group of working titles to have signature authority for TRS in investment matters.

Because of these robust procedures under the Trading Policy, the staff recommends that key employees who have fully complied with the Trading Policy for a given reporting period be permitted to supply a statement of compliance with the Trading Policy and annual account statements for the beginning and end of the reporting period in lieu of resupplying all the information for publicly traded stocks and bonds that is required by the Ethics Commission form personal financial statement. Key employees would still have to disclose all other information required by the personal financial statement and disclose information for any securities not covered by the Trading Policy. For instance, employees do not need to pre-clear or disclose mutual fund trades or many exchange-traded funds (“ETFs”) trades, and so, key employees would still have to provide the information required by the personal financial statement for such investments.

IV. Effective Date

Finally, to capture the efficiencies that the proposals above offer, the staff recommends that these changes be applied to the calendar year 2011 reporting period. For the two employees who are newly determined to be key employees, the requirements will be applied as of the date the Board determines the employee to be key. The annual compliance periods are approaching, and the Board has given the Executive Director sufficient authority to extend any reporting requirement deadlines necessary to implement these changes.

Exhibit 1

Britt Harris, CIO**Jerry Albright, Deputy CIO****Senior Managing Directors**

Chi Kit Chai Steve LeBlanc

Managing Directors

David DeStefano Rich Hall Janis Hydak Eric Lang Nigel Lewis Shayne McGuire Dale West

Senior Directors

Mark Albert Bernie Bozzelli Ralph Linn

DirectorsJase Auby M. Balachandran Sylvia Bell
Patrick Cosgrove Susanne Gealy
Katy Hoffman Neil Randall John Ritter Curt Rogers**Senior Investment Managers**Tom Cammack Kay Cuclis Michael Lazorik Allen MacDonell Steve Peterson Matt Robertson Wayne Speer Courtney Villalta
Mark Cassens Brad Gilbert Kevin Lincoln Scott Moore Michael Pia Corina Scoggins Joe Tannehill John Watkins
Tim Jones Jaime Llano James Nield Demetrius Pope KJ Van Ackeren Grant Walker**Investment Managers**Phillip Auth Stuart Bernstein Rich Campbell William Guinn Craig McCullough Marshall Reid Tayyib Shah Nathan Zinn
Ashley Baum Grant Birdwell Todd Centurino Amet Kumar Stacey Peot Craig Rochette Daniel Steinberg Jennifer Wenzel
John DeMichelle Brad Thawley**Senior Associate**Jeremy Aston Patricia Cantu David Cox Jingshan Fu
Brian Baumhover Kendall Courtney Karoline Freeman Jon Hook Kelly Newhall Scott Ramsower Matt Talbert Susan Wade
Mark Telschow**Associate**

JB Daumerie Ranu Dutta Barbara Forssell Roy Kurian Terri Krumnow Lourdes Llano Barbara Woodard Tony Yiu

Senior Analyst

Pat Barker Rachel Clark Jelena Melenseko Jared Simpson Kristi Vorce Ross Willman Irma Z-Castillo

AnalystAndy Cronin Chase Hill Felicia Jones Jon Klekman Melissa Kleihege Steve Lambert Lilly Rodgers Molly Rose
Maribel Nesuda**Assistants**Gracie Marsh Monica Larson Cynthia Mendoza Hugo Rangel Marina Salazar Susan K. White
Babette Ruiz Sharon Toalson



April 19 - 20, 2012

Teacher Retirement System of Texas

Board of Trustees

Resolution Adopting Revised TRS Key Employee Determinations and Clarifying Reporting Requirements under the Financial Disclosure Statement Required by Government Code Section 825.212(b)

Whereas, In accordance with Government Code Section 825.212 and the Employee Ethics Policy, as revised from time to time, the Board of Trustees of the Teacher Retirement System of Texas (the “Board”) has previously determined employees who exercise significant decisionmaking or fiduciary authority (“key employees”); and

Whereas, The Board desires to adopt the following determinations of key employees; now, therefore be it

Resolved, That the following positions are determined to be key employees and their current and future incumbents subject to all applicable requirements for key employees:

Title
Executive Director
Deputy Director
Chief Investment Officer
Deputy Chief Investment Officer
Chief Benefit Officer
Chief Financial Officer
General Counsel
Chief Audit Executive
Chief Information Officer
Deputy Chief Information Officer
Director of Health Care Policy and Administration
Manager of General Accounting
Manager of Investment Accounting

Further resolved, That all employees who hold a voting position on the Internal Investment Committee at any time during a reporting period are determined to be key employees subject to all applicable requirements for key employees;

Further resolved, That all Investment Management Division employees who hold the working title of Director or higher during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who have authority to approve or execute securities trades in the TRS order management system during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who hold authority during a reporting period under the Board's Authority Resolution (TRS 477) or Voucher Authority Resolution either through direct delegation from the Board or otherwise are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason;

Further resolved, That, when completing the financial disclosure statement required by Government Code Section 825.212(b), key employees who have complied fully with the TRS Trading Policy for Employees and Certain Contractors ("Trading Policy") for a reporting period need not supply information for Securities (as defined in the Trading Policy) traded in Covered Accounts (as defined in the Trading Policy) if such key employees instead provide a statement of compliance with the Trading Policy and annual account statements (or equivalent information) for any Covered Accounts for the beginning and end of the reporting period; and

Further resolved, That the foregoing resolutions and all applicable key employee requirements are effective for the 2011 reporting year and shall remain effective until modified by the Board.

Tab 5 B

LEGAL SERVICES MEMORANDUM

TO: Policy Committee of the Board of Trustees

FROM: Conni Brennan, General Counsel
Timothy Wei, Assistant General Counsel

COPIES: Board of Trustees
Steven Huff, Fiduciary Counsel

DATE: March 29, 2012

RE: Revisions to the Employee Ethics Policy

In 2009, the Board adopted the Trustee Governance and Ethics Policy and the Employee Ethics Policy, which had interrelated provisions and references. In December 2011, the Board replaced the Trustee Governance and Ethics Policy with a new Trustee Ethics Policy. Accordingly, the Employee Ethics Policy now needs certain revisions to make it consistent with the new Trustee Ethics Policy. The bulk of those changes fall in the section on Trustee-Staff relations and communications, which was greatly simplified by the new Trustee Ethics Policy. Further, references to the superseded Trustee Governance and Ethics Policy need to be replaced with references to the Trustee Ethics Policy. The proposed revisions to the Trustee-Staff relations section are attached as Exhibit 1.

Additionally, the staff recommends revisions to the Benefits (*i.e.*, gifts) section of the Employee Ethics Policy to allow, with the Executive Director's approval, third parties to pay for food, lodging, entertainment, and transportation in connection with business conferences that benefit TRS, provided other conditions also outlined in the Policy are also met. The proposed modification inserts a requirement for staff to obtain Executive Director approval, as already noted, and the requirement is extended not only with regard to business conferences but also to business meetings, business meals, and receptions. The staff also recommends that the Benefits section be revised so that Employees are not permitted to "solicit" even permissible gifts from Restricted Donors (*i.e.*, persons or entities doing business with or seeking to do business with TRS). The proposed revisions to the Benefits section are attached as Exhibit 2.

Finally, the staff recommends revisions to certain limitations on outside employment restrictions. The Policy prohibits Investment Management Division employees and other employees who have access to current information regarding TRS' investment recommendation or decisions from acting as an investment adviser outside of TRS. The staff believes that this flat prohibition is unduly restrictive and recommends that this flat prohibition be revised to permit the Executive Director to allow such outside investment adviser activities on a case-by-case basis. The staff also recommends that the prohibition be clarified that it also applies to investment advice provided to individuals. The proposed revisions to the Outside Employment section are attached as Exhibit 3.

Exhibit 1

XI. Trustee-Staff Relations and Communications

The Board has articulated the role and responsibility of Trustees and staff¹ by developing and implementing policies that clearly separate the policy-making responsibilities of the Board and the management responsibilities of the Executive Director and the staff of TRS². Significantly, the Board has delegated certain responsibilities to the Executive Director in Article 4.1 of the Bylaws. Additionally, the Board has delineated significant authority of staff in TRS rules and in policies adopted by the Board, including the Investment Policy Statement, the Proxy Voting Policy, and the Securities Lending Policy.

It is important that the Trustees and staff have an open and productive working relationship to accomplish the goals of TRS for members, beneficiaries and retirees.

The following will assist staff with its interactions with Trustees.

- A. The Board and staff recognize the distinctively separate policymaking and implementation roles that each plays in fund governance³.
- B. Providing Direction to TRS Staff, Consultants and Agents:

The Board collectively is empowered to direct TRS's management, staff, and consultants on policy matters of TRS operations. Conversely, no individual Trustee speaks for or binds the Board or TRS. Staff, Consultants and agents should not interpret communications from individual Trustees as direction.

- C. Staff shall keep the Executive Director and the Deputy Director informed of contacts from a Trustee related to a TRS Matter.
- D. Referrals of Potential Investments or Third-Party Service Providers:

If a Trustee makes a referral, the Trustee will make a referral and any follow-up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concern.

With regard to all referrals, including those from a Trustee, the staff will evaluate the referred party or opportunity under then existing operating standards and procedures, without regard to the source of the referral.

¹ Stanford, Best Practices, supra note 2 at 8

² Texas Government Code, Chapter 825.113; Colorado, Governance Manual, supra note 10 at 3-1; Maryland, Governance Policies, supra note 11 at ii; Virginia, Code of Ethics, supra note 5 at 5.

³ Stanford, Best Practices, supra note 2 at 18.

XI. Trustee-Staff Relations ~~and~~; Communications, ~~and~~ Disclosures

The Board has articulated the role and responsibility of Trustees and staff¹ by developing and implementing policies that clearly separate the policy-making responsibilities of the Board and the management responsibilities of the Executive Director and the staff of TRS². Significantly, the Board has delegated certain responsibilities to the Executive Director in Article 4.1 of the Bylaws. Additionally, the Board has delineated significant authority of staff in TRS rules and in policies adopted by the Board, including the Investment Policy Statement, the Proxy Voting Policy, and the Securities Lending Policy.

It is important that the Trustees and staff have an open and productive working relationship to accomplish the goals of TRS for members, beneficiaries and retirees.

The following will assist staff with its interactions with Trustees.

A. The Board and staff ~~should~~ recognize the distinctively separate policymaking and implementation roles that each plays in fund governance³.

~~B. The Board, and individual Trustees may visit TRS to observe the management and operations of staff.~~

~~B.~~ Providing Direction to TRS Staff, Consultants and Agents:

The Board collectively is empowered to direct TRS's management, staff, and consultants on policy matters of TRS operations. Conversely, no individual Trustee speaks for or binds the Board or TRS. Staff, Consultants and agents should not interpret communications from individual Trustees as direction.

~~To the extent practicable, a Trustee will direct his communications to the Executive Director [or the Deputy Director] or, if designated by the Executive Director with regard to a specific TRS Matter or with regard to a general category of matters, to the Executive Director's designee. The Executive Director is deemed to have designated the Chief Investment Officer or the Deputy Chief Investment Officer as his designee with regard to investment matters. However, a Trustee is not prohibited from communicating with any TRS Executive Council staff member, Consultant, or agent. If a staff member who is not on the Executive Council and is not a designee of the Executive Director, as provided above, is contacted by a Trustee, that staff member shall refer the contact to the Executive Director, Deputy Director, or the Employee's departmental Executive Council member, or one of their designees.~~

~~DC.~~ Staff, ~~including Executive Council staff members and designees,~~ shall ~~notify~~ keep the Executive Director and the Deputy Director informed of ~~all~~ contacts from a Trustee

¹ Stanford, Best Practices, supra note 2 at 8

² Texas Government Code, Chapter 825.113; Colorado, Governance Manual, supra note 10 at 3-1; Maryland, Governance Policies, supra note 11 at ii; Virginia, Code of Ethics, supra note 5 at 5.

³ Stanford, Best Practices, supra note 2 at 18.

related to a TRS Matter, ~~in accordance with procedures developed by the Executive Director.~~

~~E. Trustee Requests for Specific Information from Staff:~~

~~Trustees will direct questions regarding any aspect of TRS's operations to the Executive Director or the person(s) designated by the Executive Director for that purpose. The Executive Director is deemed to have designated the Chief Investment Officer or the Deputy Chief Investment Officer as his designees with regard to investment matters. As soon as practicable after receiving a request for information directly from the Trustee, or after receiving notice from the designee of the request, the Executive Director will ensure that information that has been requested by the Board or by an individual Trustee is made available to all Trustees, as appropriate.⁴ The Executive Director shall develop procedures for this purpose and to ensure that Trustees are advised that the information is to be used for a TRS purpose and is not to be used for personal gain or the gain of any third party.~~

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~~FD. Referrals of Potential Investments or Third-Party Service Providers:~~

~~If a Trustee makes a referral, the Trustee will make a referral and any follow-up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concern. Individual Trustees may refer fund managers, vendors, consultants or others for staff consideration regarding an investment opportunity or other opportunity for doing business with TRS. Any referrals by individual Trustees for consideration for investment or for doing business in any way with TRS, including dealings with agents of TRS or entities in which TRS has an interest, shall be directed to the Executive Director or his designee. The Executive Director is deemed to have designated the Chief Investment Officer or the Deputy Chief Investment Officer as his designees with regard to investment matters. As soon as practicable, the Executive Director's designee(s) shall, in accordance with procedures developed by the Executive Director, notify the Executive Director and Deputy Director of any received referral. The Executive Director or his designee may forward referrals that are not related to investment matters to the appropriate director for evaluation. The Executive Director or his designee shall forward referrals that are related to investment matters to the Chief Investment Officer or the Deputy Chief Investment Officer.~~

With regard to all referrals, including those from a Trustee, the staff will evaluate the referred party or opportunity under then existing operating standards and procedures, without regard to the source of the referral.

~~In accordance with procedures developed by the Executive Director, notice of any subsequent communications initiated by a referring Trustee to any Employee regarding the status, review, due diligence, or decision making regarding the referral shall be given~~

⁴Virginia, Code of Ethics, supra note 5 at 4.

~~to the Executive Director and Deputy Director as soon as practicable. Such subsequent communications will be communicated to the other Trustees by the Executive Director or his designee.~~

~~G. — Maintenance of Disclosures by a Trustee:~~

~~The Executive Director shall make all written disclosures by the Trustees available to any Trustee upon request. A notebook with disclosures sorted by the month of receipt will be available before each Board meeting for perusal by Trustees. The Executive Director, in his discretion, may share a particular disclosure with another TRS Employee or Consultant.~~

Exhibit 2

VII. Benefits

- A. An Employee shall not solicit, accept, or agree to accept from any donor:
1. a Benefit that the Employee knows or should know is consideration for the Employee's decision, opinion, recommendation, vote, or other exercise of discretion as an Employee, or for having exercised the Employee's official powers or performed the Employee's official duties in favor of another¹;
 2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee²;
 3. a Benefit that might reasonably tend to influence the Employee in the discharge of official duties or that the Employee knows or should know is offered with the intent to influence the Employee's official conduct³;
 4. a Benefit if the source of the Benefit is not identified or if the Employee knows or has reason to know that the Benefit is being offered through an intermediary; or
 5. a Benefit that creates a reasonably foreseeable conflict of interest or an actual conflict of interest as defined in subsection IV. A. or that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.
- B. Except as provided in this subsection VII. B., in subsection VII. C., or in subsection VII. D., an Employee shall not solicit, accept or agree to accept (or offer, give, or agree to give) any Benefit from (to) a Restricted Donor.
- C. As long as the prohibitions in subsection VII. A. are not violated, an Employee may accept, or agree to accept from a Restricted Donor:
1. gifts given on special occasions between Trustees and/or Employees;
 2. an item with a value of less than \$50, received from the same donor or employees of the same donor on infrequent occasions, excluding cash or a negotiable instrument as described by Section 3.104, Business & Commerce Code;
 3. a fee prescribed by law to be received by the Employee or any other Benefit to which the Employee is lawfully entitled or for which he gives legitimate consideration in a capacity other than as an Employee of TRS⁴; or

¹ Section 36.02(a)(1) of the Texas Penal Code and Section 572.051(a)(5) of the Texas Government Code.

² Section 36.02(a)(3) of the Texas Penal Code.

³ Section 572.051(a)(1) of the Texas Government Code.

⁴ Section 36.10(a)(1) of the Texas Penal Code.

4. a Benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Employee⁵.
- D. Food, Lodging, Transportation and Entertainment. The following apply to items of food, lodging, transportation and entertainment offered by or accepted from a Restricted Donor:
1. No standard set forth in subsection VII. A. may be violated when acting under subsections VII. D. 2. through 5. immediately below.
 2. Modest items of food (with a value less than \$50 per person) are permissible only if given or accepted on infrequent occasions.⁶
 3. Food items (with a value of \$50 or more per person) are permissible only if
 - provided in connection with a business meeting, business meal, business conference or reception; and
 - the donor or a representative of the donor is present⁷.
 4. Lodging, transportation, or entertainment are permissible only if (i) approved by the Executive director; (ii) in connection with receptions, business meals, business meetings, or business conferences that serve a TRS purpose; and (iii) the donor or a representative of the donor will be present at the reception, business meal, business meeting, business conference, or entertainment⁸.
 5. If the Employee is required by law to report any items of food, lodging, transportation, and entertainment, such must be reported by the Employee⁹.
- E. If otherwise permitted by this Policy, lodging and transportation may not be accepted from a person registered as a lobbyist in Texas unless in connection with a fact-finding trip or to a seminar or conference at which the Employee will provide services, such as speaking, and the services are more than merely perfunctory¹⁰. Entertainment provided by a lobbyist may not exceed the cumulative value of \$500 in a calendar year. Benefits provided by a lobbyist, other than food, lodging, transportation and entertainment, may not exceed the cumulative value of \$500 in a calendar year.
- F. If an unsolicited Benefit that violates any provision of this section VII. is received by an Employee, he or she should attempt to return the Benefit to its source. If that is not possible or feasible, the Benefit should be donated to charity.

⁵ Section 36.02(a)(2) of the Texas Penal Code.

⁶ This is a departure from the current Ethics Policy by allowing acceptance of food items that could be entirely social in nature, not “tied” to a business function.

⁷ Section 36.10(b) of the Texas Penal Code.

⁸ Section 36.10(b) of the Texas Penal Code. The current Ethics Policy does not allow for the acceptance of lodging and air transportation.

⁹ Section 36.10(b) of the Texas Penal Code. Section 572.021 et seq., Government Code, requires state officers to file verified financial statements.

¹⁰ Section 305.025 of the Texas Government Code.

VII. Benefits

- A. An Employee shall not solicit, accept, or agree to accept from any donor:
1. a Benefit that the Employee knows or should know is consideration for the Employee's decision, opinion, recommendation, vote, or other exercise of discretion as an Employee, or for having exercised the Employee's official powers or performed the Employee's official duties in favor of another¹;
 2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee²;
 3. a Benefit that might reasonably tend to influence the Employee in the discharge of official duties or that the Employee knows or should know is offered with the intent to influence the Employee's official conduct³;
 4. a Benefit if the source of the Benefit is not identified or if the Employee knows or has reason to know that the Benefit is being offered through an intermediary; or
 5. a Benefit that creates a reasonably foreseeable conflict of interest or an actual conflict of interest as defined in subsection IV. A. or that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.
- B. Except as provided in this subsection VII. B., in subsection VII. C., or in subsection VII. D., an Employee shall not solicit, accept or agree to accept (or offer, give, or agree to give) any Benefit from (to) a Restricted Donor.
- C. As long as the prohibitions in subsection VII. A. are not violated, an Employee may ~~solicit~~, accept, or agree to accept from a Restricted Donor:
1. gifts given on special occasions between Trustees and/or Employees;
 2. an item with a value of less than \$50, received from the same donor or employees of the same donor on infrequent occasions, excluding cash or a negotiable instrument as described by Section 3.104, Business & Commerce Code;
 3. a fee prescribed by law to be received by the Employee or any other Benefit to which the Employee is lawfully entitled or for which he gives legitimate consideration in a capacity other than as an Employee of TRS⁴; or

¹ Section 36.02(a)(1) of the Texas Penal Code and Section 572.051(a)(5) of the Texas Government Code.

² Section 36.02(a)(3) of the Texas Penal Code.

³ Section 572.051(a)(1) of the Texas Government Code.

⁴ Section 36.10(a)(1) of the Texas Penal Code.

4. a Benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Employee⁵.
- D. Food, Lodging, Transportation and Entertainment. The following apply to items of food, lodging, transportation and entertainment offered by or accepted from a Restricted Donor:
1. No standard set forth in subsection VII. A. may be violated when acting under subsections VII. D. 2. through 5. immediately below.
 2. Modest items of food (with a value less than \$50 per person) are permissible only if given or accepted on infrequent occasions.⁶
 3. Food items (with a value of \$50 or more per person) are permissible only if
 - provided in connection with a business meeting, business meal, business conference or reception; and
 - the donor or a representative of the donor is present⁷.
 4. Lodging, transportation, and-or entertainment are permissible only if (i) approved by the Executive director; (ii) in connection with receptions, business meals, and business meetings, or business conferences that serve a TRS purpose; and (iii) the donor or a representative of the donor will be present at the reception, business meal, business meeting, business conference, or entertainment⁸.
 5. If the Employee is required by law to report any items of food, lodging, transportation, and entertainment, such must be reported by the Employee⁹.
- E. If otherwise permitted by this Policy, lodging and transportation may not be accepted from a person registered as a lobbyist in Texas unless in connection with a fact-finding trip or to a seminar or conference at which the Employee will provide services, such as speaking, and the services are more than merely perfunctory¹⁰. Entertainment provided by a lobbyist may not exceed the cumulative value of \$500 in a calendar year. Benefits provided by a lobbyist, other than food, lodging, transportation and entertainment, may not exceed the cumulative value of \$500 in a calendar year.
- F. If an unsolicited Benefit that violates any provision of this section VII. is received by an Employee, he or she should attempt to return the Benefit to its source. If that is not possible or feasible, the Benefit should be donated to charity.

⁵ Section 36.02(a)(2) of the Texas Penal Code.

⁶ This is a departure from the current Ethics Policy by allowing acceptance of food items that could be entirely social in nature, not “tied” to a business function.

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⁹ Section 36.10(b) of the Texas Penal Code. Section 572.021 et seq., Government Code, requires state officers to file verified financial statements.

¹⁰ Section 305.025 of the Texas Government Code.

Exhibit 3

VIII. Outside Employment

- A. Employees may not engage in outside employment, business, or other activities that detract from the ability to fulfill their full-time responsibilities to TRS.
- B. Employees who work in the TRS Investment Management Division or who in the course of their regular duties for TRS have access to current information concerning investment recommendations or decisions of TRS, may not, without advance approval from the Executive Director, advise, manage, or oversee an investment function for any entity, whether profit or nonprofit, or person even if such activity would not detract from the ability to fulfill their full-time responsibilities to TRS. An investment function means management of or investment advice with respect to a portfolio of investments. This prohibition does not extend to advice or management relating to individual transactions for family members or to functions normally viewed as those of a treasurer such as investing in certificates of deposit or other money market instruments.
- C. Key Employees must obtain advance written approval from the Executive Director for any outside employment or business.
- D. Any outside employment or business undertaken by the Executive Director must be approved in advance by the Board.

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- A. Employees may not engage in outside employment, business, or other activities that detract from the ability to fulfill their full-time responsibilities to TRS.
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- C. Key Employees must obtain advance written approval from the Executive Director for any outside employment or business.
- D. Any outside employment or business undertaken by the Executive Director must be approved in advance by the Board.



April 19 - 20, 2012

Teacher Retirement System of Texas

Board of Trustees

Resolution Approving Certain Changes to the Employee Ethics Policy

Whereas, In October 2009, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Employee Ethics Policy; and

Whereas, It is now necessary and prudent to adopt certain changes to the Employee Ethics Policy to conform it to the related and newly adopted Trustee Ethics Policy and to make certain other changes; and now, therefore be it

Resolved, That the Board hereby (1) authorizes the staff to make any technical changes to the Employee Ethics Policy necessitated by the adoption of the Trustee Ethics Policy and (2) adopts the substantive revisions to the Employee Ethics Policy, as presented by the staff to the Policy Committee. [with the following changes, if any, to the recommended revisions:

- _____
- _____]

[optional language bracketed]

Tab 5 C

LEGAL SERVICES MEMORANDUM

TO: Policy Committee of the Board of Trustees

FROM: Conni Brennan, General Counsel
Timothy Wei, Assistant General Counsel

COPIES: Board of Trustees
Steven Huff, Fiduciary Counsel

DATE: March 30, 2012

RE: Revisions to the Contractor Code of Ethics Policy

In 2010, the Board revised the Code of Ethics for Contractors (“Code”). The staff recommends limited changes to two sections of the Code: the definition of conflict of interest and procedures to cure conflicts.

As provided in the Investment Policy Statement, the Investment Management Division (“IMD”) uses investment consultants to provide “prudence letters” to TRS. These letters advise TRS whether an investment under consideration is a prudent investment for TRS. The investment consultants who provide the prudence letters are sometimes large, sophisticated financial institutions that provide a range of services to a variety of clients. For some of TRS’ investment consultants, such services include managing investment funds. From time to time, a TRS investment consultant may not only be providing a prudence letter to TRS on the prudence of a given investment but also be considering investing its own money or causing a fund that it manages to invest in the same investment. Such a situation can be an alignment of interests between TRS and the investment consultant: both parties benefit if the investment does well, and neither party is on both sides of the transaction.

Such a situation, nonetheless, may technically fall within a definition of conflict of interest under the Code that is targeted at preventing undisclosed self-dealing. That provision states it is a conflict of interest if an investment consultant has:

A direct or indirect pecuniary interest in any party to a transaction with TRS and the Transaction is connected with any financial advice or service the [investment consultant] provides to TRS ... concerning TRS matters.

Even though TRS’ and the investment consultant’s interests likely are in alignment, a technical conflict could arise under this definition of conflict where the investment consultant is both providing TRS with a prudence letter and also considering the investment for itself or one of the funds it manages.

Staff is recommending changes to the Code that will allow staff to resolve these situations in a timely and efficient manner while still ensuring that TRS’ interests are fully protected. First, the proposed changes would make clear that this limited situation is not necessarily a conflict of interest as long as there is both adequate and timely disclosure from the consultant and a true alignment of interests

between TRS and the consultant. The proposed changes authorize the General Counsel to evaluate whether a true alignment of interests exists.

Second, to the extent that upon full examination of the facts, the General Counsel determines that there may be potential conflicts, she may approve preventive, curative, or mitigating efforts by a Contractor, including an investment consultant. Presently, the General Counsel may approve curative measures for actual conflicts of interest, but she is not authorized to approve prospective curative measures for potential conflicts. Clarifying and expressly stating the General Counsel's authority to approve prospective curative measures for potential conflicts provides additional flexibility to manage prospective cures for potential conflicts in fluid and fast-paced situations, and assist in ensuring that the advice TRS receives is both objective and provided by the most skilled and experienced investment consultants available.

Clean and marked-up copies of the relevant Code Section showing the proposed revisions are attached as Exhibits 1 and 2 respectively.

Exhibit 1

I. Conflicts of Interest

A. Conflicts of Interest Defined.

- (1) Conflict of Interest for Contractors (excluding Brokers). A conflict of interest exists for a Contractor (excluding a Broker) when the Contractor has a personal, commercial (including private commercial), or business relationship or interest, unrelated to the services that the Contractor performs for TRS, that could reasonably be expected to diminish the Contractor's independence of judgment in the performance of the Contractor's responsibilities to TRS.

For example, a person's independence of judgment reasonably could be diminished when he or she is in a position to take action or not take action with respect to TRS or its business and a reasonable person could expect that such act or failure to act on behalf of TRS is influenced by considerations of gain or benefit to the Contractor, a Trustee, an Employee or a third party, rather than motivated by the interests of TRS, its members, and beneficiaries. A conflict of interest shall not be deemed to exist solely because a Contractor is or has a relative who is a member, retiree, annuitant or beneficiary of TRS, provided the relative is not also an Employee.

For example, a Contractor may not participate in or advise or consult on a specific matter before TRS that involves a business, contract, property or investment in which the Contractor has a pecuniary interest if it is reasonably foreseeable that action or inaction by or on behalf of TRS on that matter would be likely to, directly or indirectly, confer a benefit on the Contractor by reason of the Contractor's interest in such business, contract, property or investment. The foregoing prohibition does not apply if

- The benefit is merely incidental to the Contractor's membership in a large class sharing a common class interest, such as the class of TRS members.
- The benefit is merely an increase in fees or the awarding of another contract to the Contractor for other business with TRS.

- (2) Additional Conflicts of Interest for Brokers, Financial Advisors and Financial Services Providers. A conflict of interest exists for a Broker, Financial Advisor or a Financial Services Provider when the Broker, Financial Advisor or Financial Services Provider has one of the following:

- A direct or indirect pecuniary interest in any party to a transaction with TRS and the transaction is connected with any financial advice or service the Broker, such Financial Advisor, or Financial Services Provider provides to TRS or to a Trustee concerning TRS matters.
- A relationship (without regard to whether the relationship is direct, indirect, personal, private, commercial, or business) with one of the following:

- Any party to a transaction with TRS, other than a relationship necessary to provide the Broker, Financial Advisor or such Financial Services Provider services to TRS;
- An Employee; or
- A Trustee

if a reasonable person could expect the relationship to diminish the Broker, Financial Advisor, or Financial Services Provider independence of judgment in the performance of the Broker, Financial Advisor or Financial Services Provider responsibilities to TRS.

Notwithstanding the definition of a conflict in this subsection I.A.2, if a TRS Financial Advisor is asked to advise TRS in a transaction and the Financial Advisor or the Financial Advisor's affiliate holds or intends to hold or acquire a direct or indirect pecuniary interest in a limited partnership (or similar vehicle, including a co-investment or alternate or parallel investment vehicle) in which TRS is considering investing, the Financial Advisor will not be deemed, in future or past applications of this subsection, to have a disqualifying conflict of interest under this Code solely because of that pecuniary interest. The Financial Advisor must disclose such a pecuniary interest in writing to TRS as soon as practicable, but to the extent possible before performing any services for TRS related to the particular transaction. The General Counsel may review any such disclosures to analyze whether the Financial Advisor's exercise of judgment on behalf of TRS in performing advisory or consulting services is, or is likely to be, affected by the Financial Advisor's interest under the circumstances. The General Counsel may consider whether the disclosed interest aligns the Financial Advisor's interests with TRS' interest (or is at least not harmful or opposed to TRS' interests) in the transaction. If the General Counsel determines that no conflict of interest exists based on the Financial Advisor's disclosures, then, to the extent applicable, the Financial Advisor shall further disclose the interest in any written advice, prudence letter, or recommendation provided to TRS for the transaction.

- B. Determination of a Potential Conflict of Interest. If a Contractor, Trustee, or Employee (to the extent a Trustee or an Employee is or reasonably should be aware of the circumstances) is uncertain whether a Contractor has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur, the Contractor, Trustee, or Employee should promptly inform the General Counsel, who shall determine whether a conflict of interest exists under the circumstances presented. If the General Counsel determines that a conflict does not now exist but would exist upon the occurrence of the anticipated circumstances and they later do occur, the Contractor must file a disclosure statement on the occurrence of such events.
- C. Disclosure. Contractors must promptly disclose conflicts in writing to the General Counsel by submitting a completed Conflict of Interest Disclosure Statement. A Contractor who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about any matters affected by the conflict of interest until the Contractor cures the conflict under Section I.D or obtains a waiver under Section I.E.

The General Counsel shall send a copy of all Conflict of Interest Disclosure Statements received to the Ethics Committee of the Board. If a person or entity with a duty to disclose conflicts reasonably believes that disclosure to the General Counsel would be ineffective, the person or entity shall disclose the conflict to the Ethics Committee of the Board by submitting a Conflict of Interest Disclosure Statement to the Chair of such committee, addressed to:

Chair of the Ethics Committee of the Board
c/o Executive Director of TRS
1000 Red River Street
Austin, Texas 78701-2698

Whether disclosure is made to the General Counsel or to the Ethics Committee of the Board, a Contractor shall provide a copy of the Conflict of Interest Disclosure Statement to the Employee assigned to monitor or manage the performance of the Contractor.

Brokers, Financial Advisors and Financial Services Providers must additionally file a Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers as provided in Section III.B. This Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers is not the same form as the Conflict of Interest Disclosure Statement referenced above.

- D. Cure, Prevention, and Mitigation. A Contractor with a conflict of interest must disclose that conflict and cure (eliminate) it. A Contractor who cannot or does not want to eliminate the conflict of interest must terminate his or its relationship with TRS as promptly as responsibly and legally possible, or seek a waiver of the conflict under Section I.E.

Alternatively, if a Contractor or a Contractor's employee may prudently refrain or withdraw from taking action on a particular TRS matter in which a conflict or potential conflict exists, he or it may cure the conflict or prevent or mitigate the potential conflict in that manner provided that

- The person, persons, or entity may be and is or are effectively separated from influencing the action taken.
- The action may properly and prudently be taken by others without undue risk to the interests of TRS.
- The nature of the conflict is not such that the person, persons, or entity must regularly and consistently withdraw from decisions that are normally his, their, or its responsibility with respect to the services provided to TRS.

The General Counsel shall determine whether or not the Contractor's proposed cure of an existing conflict or a preventive or mitigating measure for a potential conflict is appropriate and sufficient under this Section. The General Counsel shall inform the Executive Director and the Chief Audit Executive of any such determination.

- E. Waiver. The Chief Investment Officer or Executive Director may determine that a Broker, or Financial Services Provider does not need to take further actions to cure a conflict provided the disclosures by the Broker or Financial Services Provider are deemed sufficient under the circumstances to inform TRS of the nature and extent of any bias, and to form a judgment about the credibility or value of the analysis, research, recommendations or other services provided by the Broker or such Financial Services Provider. The Chief Investment Officer or Executive Director shall notify the Chief Audit Executive and the General Counsel of the relevant facts and determination. In such an event, the Broker or Financial Services Provider may continue to provide analysis or research or recommendations and perform services without taking further action to cure the disclosed conflict of interest.

For all other conflicts where a Contractor seeks a waiver, the Board, after consultation with the General Counsel, may expressly waive a conflict. The Board will decide whether to waive the prohibition against involvement in any matter affected by a disclosed conflict of interest at a meeting held in compliance with the Texas laws governing open meetings of the Board. To assist the Board in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships or interests that do not constitute material conflicts of interest. Any waiver granted by the Board, including the reasons supporting the waiver, must be included in the minutes of the meeting. Records of all waivers granted, including reasons supporting the Board's decision in each case, will be maintained by the Office of the General Counsel.

Exhibit 2

I. Conflicts of Interest

A. Conflicts of Interest Defined.

- (1) Conflict of Interest for Contractors (excluding Brokers). A conflict of interest exists for a Contractor (excluding a Broker) when the Contractor has a personal, commercial (including private commercial), or business relationship or interest, unrelated to the services that the Contractor performs for TRS, that could reasonably be expected to diminish the Contractor's independence of judgment in the performance of the Contractor's responsibilities to TRS.

For example, a person's independence of judgment reasonably could be diminished when he or she is in a position to take action or not take action with respect to TRS or its business and a reasonable person could expect that such act or failure to act on behalf of TRS is influenced by considerations of gain or benefit to the Contractor, a Trustee, an Employee or a third party, rather than motivated by the interests of TRS, its members, and beneficiaries. A conflict of interest shall not be deemed to exist solely because a Contractor is or has a relative who is a member, retiree, annuitant or beneficiary of TRS, provided the relative is not also an Employee.

For example, a Contractor may not participate in or advise or consult on a specific matter before TRS that involves a business, contract, property or investment in which the Contractor has a pecuniary interest if it is reasonably foreseeable that action or inaction by or on behalf of TRS on that matter would be likely to, directly or indirectly, confer a benefit on the Contractor by reason of the Contractor's interest in such business, contract, property or investment. The foregoing prohibition does not apply if

- The benefit is merely incidental to the Contractor's membership in a large class sharing a common class interest, such as the class of TRS members.
- The benefit is merely an increase in fees or the awarding of another contract to the Contractor for other business with TRS.

- (2) Additional Conflicts of Interest for Brokers, Financial Advisors and Financial Services Providers. A conflict of interest exists for a Broker, Financial Advisor or a Financial Services Provider when the Broker, Financial Advisor or Financial Services Provider has one of the following:

- A direct or indirect pecuniary interest in any party to a transaction with TRS and the transaction is connected with any financial advice or service the Broker, such Financial Advisor, or Financial Services Provider provides to TRS or to a Trustee concerning TRS matters.
- A relationship (without regard to whether the relationship is direct, indirect, personal, private, commercial, or business) with one of the following:

- Any party to a transaction with TRS, other than a relationship necessary to provide the Broker, Financial Advisor or such Financial Services Provider services to TRS;
- An Employee; or
- A Trustee

if a reasonable person could expect the relationship to diminish the Broker, Financial Advisor, or Financial Services Provider independence of judgment in the performance of the Broker, Financial Advisor or Financial Services Provider responsibilities to TRS.

Notwithstanding the definition of a conflict in this subsection I.A.2, if a TRS Financial Advisor is asked to advise TRS in a transaction and the Financial Advisor or the Financial Advisor's affiliate holds or intends to hold or acquire a direct or indirect pecuniary interest in a limited partnership (or similar vehicle, including a co-investment or alternate or parallel investment vehicle) in which TRS is considering investing, the Financial Advisor will not be deemed, in future or past applications of this subsection, to have a disqualifying conflict of interest under this Code solely because of that pecuniary interest. The Financial Advisor must disclose such a pecuniary interest in writing to TRS as soon as practicable, but to the extent possible before performing any services for TRS related to the particular transaction. The General Counsel may review any such disclosures to analyze whether the Financial Advisor's exercise of judgment on behalf of TRS in performing advisory or consulting services is, or is likely to be, affected by the Financial Advisor's interest under the circumstances. The General Counsel may consider whether the disclosed interest aligns the Financial Advisor's interests with TRS' interest (or is at least not harmful or opposed to TRS' interests) in the transaction. If the General Counsel determines that no conflict of interest exists based on the Financial Advisor's disclosures, then, to the extent applicable, the Financial Advisor shall further disclose the interest in any written advice, prudence letter, or recommendation provided to TRS for the transaction.

- B. Determination of a Potential Conflict of Interest. If a Contractor, Trustee, or Employee (to the extent a Trustee or an Employee is or reasonably should be aware of the circumstances) is uncertain whether a Contractor has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur, the Contractor, Trustee, or Employee should promptly inform the General Counsel, who shall determine whether a conflict of interest exists under the circumstances presented. If the General Counsel determines that a conflict does not now exist but would exist upon the occurrence of the anticipated circumstances and they later do occur, the Contractor must file a disclosure statement on the occurrence of such events.
- C. Disclosure. Contractors must promptly disclose conflicts in writing to the General Counsel by submitting a completed Conflict of Interest Disclosure Statement. A Contractor who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about any matters affected by the conflict of interest until the Contractor cures the conflict under Section I.D or obtains a waiver under Section I.E.

The General Counsel shall send a copy of all Conflict of Interest Disclosure Statements received to the Ethics Committee of the Board. If a person or entity with a duty to disclose conflicts reasonably believes that disclosure to the General Counsel would be ineffective, the person or entity shall disclose the conflict to the Ethics Committee of the Board by submitting a Conflict of Interest Disclosure Statement to the Chair of such committee, addressed to:

Chair of the Ethics Committee of the Board
c/o Executive Director of TRS
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Whether disclosure is made to the General Counsel or to the Ethics Committee of the Board, a Contractor shall provide a copy of the Conflict of Interest Disclosure Statement to the Employee assigned to monitor or manage the performance of the Contractor.

Brokers, Financial Advisors and Financial Services Providers must additionally file a Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers as provided in Section III.B. This Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers is not the same form as the Conflict of Interest Disclosure Statement referenced above.

D. Cure, Prevention, and Mitigation. A Contractor with a conflict of interest must disclose that conflict and cure (eliminate) it. A Contractor who cannot or does not want to eliminate the conflict of interest must terminate his or its relationship with TRS as promptly as responsibly and legally possible, or seek a waiver of the conflict under Section I.E.

Alternatively, if a Contractor or a Contractor's employee may prudently refrain or withdraw from taking action on a particular TRS matter in which a conflict or potential conflict exists, he or it may cure the conflict or prevent or mitigate the potential conflict in that manner provided that

- The person, persons, or entity may be and is or are effectively separated from influencing the action taken.
- The action may properly and prudently be taken by others without undue risk to the interests of TRS.
- The nature of the conflict is not such that the person, persons, or entity must regularly and consistently withdraw from decisions ~~which-that~~ are normally his, their, or its responsibility with respect to the services provided to TRS.

The General Counsel shall determine whether or not the Contractor's proposed cure of an existing conflict or a preventive or mitigating measure for a potential conflict is appropriate and sufficient under this Section. The General Counsel shall inform the Executive Director and the Chief Audit Executive of ~~its~~ any such determination.

- E. Waiver. The Chief Investment Officer or Executive Director may determine that a Broker, or Financial Services Provider does not need to take further actions to cure a conflict provided the disclosures by the Broker or Financial Services Provider are deemed sufficient under the circumstances to inform TRS of the nature and extent of any bias, and to form a judgment about the credibility or value of the analysis, research, recommendations or other services provided by the Broker or such Financial Services Provider. The Chief Investment Officer or Executive Director shall notify the Chief Audit Executive and the General Counsel of the relevant facts and determination. In such an event, the Broker or Financial Services Provider may continue to provide analysis or research or recommendations and perform services without taking further action to cure the disclosed conflict of interest.

For all other conflicts where a Contractor seeks a waiver, the Board, after consultation with the General Counsel, may expressly waive a conflict. The Board will decide whether to waive the prohibition against involvement in any matter affected by a disclosed conflict of interest at a meeting held in compliance with the Texas laws governing open meetings of the Board. To assist the Board in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships or interests that do not constitute material conflicts of interest. Any waiver granted by the Board, including the reasons supporting the waiver, must be included in the minutes of the meeting. Records of all waivers granted, including reasons supporting the Board's decision in each case, will be maintained by the Office of the General Counsel.



April 19 - 20, 2012

Teacher Retirement System of Texas

Board of Trustees

Resolution Approving Certain Changes to the Code of Ethics for Contractors

Whereas, In September 1994, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Code of Ethics for Contractors ("Code") and last revised it in September 2010; and

Whereas, It is now necessary and prudent to adopt certain changes to the Code; and now, therefore be it

Resolved, That the Board hereby adopts the substantive revisions to the Code, as presented by the staff to the Policy Committee. [with the following changes, if any, to the recommended revisions:

- _____
- _____]

[optional language bracketed]

Tab 7

Pension Benefit Design Study

TRS Board Meeting
April 20, 2012

Objectives

- Background
 - Study charge;
 - Additional considerations;
 - Constitutional parameters; and
 - Current plan provisions.

- Study Development
 - System design basics;
 - Replacement income;
 - Illustrated options; and
 - Next steps.



Background

Constructing a Secure Future



Study Charge

- Study the actuarial and fiscal impacts of potential changes to the TRS pension plan, including:
 - changes to final average salary, eligibility, and multiplier; and
 - moving to a hybrid plan or cash balance plan.

Additional Considerations



- As part of this study, TRS will also discuss the following pension design issues:
 - balancing risk;
 - providing adequate replacement income;
 - offering value to members, the state, and other stakeholders; and
 - managing human capital.

Constitutional Parameters



- 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 Provisions



- 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%
 - 5 year final average salary was adopted in 2005.
 - 2.3% multiplier was adopted in 2001.



Study Development

Constructing a Secure Future



System Design Basics

- Retirement system design breaks down into:
 - Inputs
 - Contributions (deferred income)
 - Investment returns
 - Outcomes
 - Retirement replacement income (benefits)
- Inputs: Employer and employee defer some level of the employee's compensation that is then invested and generates returns out of which replacement income is paid.
- Outcomes: Ideally retirement replacement income allows career employees to retire without experiencing a markedly reduced standard of living or having to rely on social services.

System Design Basics

The allocation of input and outcome risk between the employer and the members dictates system design.

Structure	Input Risks		Outcome Risks
	Contribution	Returns	
Defined Benefit	Employer / Employee	Employer	Employer
Hybrid and other Alternative Structures	Employer / Employee	Employer (DB) Employer (DC)	Employer (DB) Employee (DC)
Defined Contribution	Employer / Employee	Employee	Employee

Replacement Income

- Identifying an adequate amount of retirement replacement income is **not** the same thing as allocating responsibility for the risk of generating adequate replacement income.
- Measuring the amount of a person's retirement replacement income against the amount of a person's working-life income results in a replacement ratio.
- A replacement ratio helps to achieve some post-retirement standard-of-living consistency.

Replacement Income

- Replacement Ratio =
$$\frac{\text{retirement income}}{\text{pre-retirement income}}$$
- An adequate ratio is generally recognized as one that:
 - Allows retirees to maintain the same standard of living post retirement; and
 - Accounts for the fact that some major expenses are eliminated in retirement, such as saving for retirement and certain taxes.
- Typically, a replacement ratio of around 70%-90% is adequate, but it varies depending on income level.
- This presentation only measures replacement income at initial retirement, but the lack of post-retirement increases will lower effective purchasing power over time. Full study will more specifically address this issue.

Illustrative Options: DB Plan

- Illustrated DB plan modifications:
 - Moving from 5 year to 7 year final average salary.
 - Compared to other DB plans 5 years is on the high end. So, 7 years is not common among other plans, but would engender savings.
 - Reducing multiplier from 2.3% to 2.0%.
 - 2.0% is in the mid-range for other plans where members have no social security, but keep in mind that TRS does not offer a COLA.
 - Move retirement eligibility to rule of 80 and minimum age 62.
 - 61 was the average age of 2011 retirees.

Defined Benefit Illustrations



Changes to New Hires Only

Provision	Current Provisions	Illustrated Provision	Cost of a New Hire	UAAL *	Impact on 30 Year Employer Contribution Rate	Replacement Ratio for a 62/32 retiree
Current Provisions as of August 31, 2011			10.60%	\$24.06B	8.13%	67.8%
Accrual Multiplier	2.30% per year	2.00%	9.51%	NA	7.60%	59.0%
Salary Averaging Period	5 Years	7 Years	10.27%	NA	7.97%	65.2%
Retirement Eligibility	Rule 80, Min Age 60	Rule 80, Min Age 62	10.39%	NA	8.02%	67.8%
Member Contribution Rate	6.40% per year	7.40%	10.90%	NA	7.79%	67.8%

*Changes to new hires only will not decrease the current UAAL. In fact, due to the use of the Ultimate Entry Age Normal Cost Method, the UAAL would increase for a few years if changes are only made to New Hires.

Defined Benefit Illustrations



Prospective Changes to All Current Actives

Provision	Current Provisions	Illustrated Provision	Cost of a New Hire	UAAL *	Impact on 30 Year Employer Contribution Rate	Replacement Ratio for a 62/32 retiree
Current Provisions as of August 31, 2011			10.60%	\$24.0B	8.13%	67.8%
Accrual Multiplier	2.30% per year	2.00%	9.51%	\$21.9B	6.69%	59.0%
Salary Averaging Period	5 Years	7 Years	10.27%	\$20.4B	7.20%	65.2%
Retirement Eligibility *	Rule 80	Rule 80, Min Age 62	10.39%	\$14.3B	6.33%	67.8%
Member Contribution Rate	6.40% per year	7.40%	10.90%	\$23.4B	7.31%	67.8%
Combined		All of above	9.19%	\$9.3B	3.31%	56.7%

* Change applied to all members not currently eligible to retire

Illustrative Options: Alternative Structures

- The following slides discuss illustrative alternative plan structures that vary the allocation of risks.
- The structures have been developed to all provide a similar retirement benefit for a member retiring at age 62 with 32 years of service (approximately 70% replacement ratio).
 - As such, all of the designs provide a similar benefit to the current design and are at least as costly as, if not more costly, than the current design
- The designs have been created for a group of new hires and may not be appropriate for current mid career employees.

Alternative Structure Assumptions



- Assumptions:
 - The salary for an individual would increase per the assumptions used in the actuarial valuation, which are based on historical TRS data.
 - The TRS Defined Benefit Trust would yield 8.00% per year on investments, net of expenses.
 - Self Directed DC accounts would earn 1.50% less than the TRS DB Trust, or 6.50%.
 - A Pooled DC Plan would earn around 0.75% less per year because of the shorter time horizon, higher cash flow requirements due to lump sums at retirement, and, due to the complexities of administering individual accounts, higher administrative costs.
 - Self Directed accounts would annuitize at retirement at a 5.00% discount rate and a 10% load on mortality to illustrate a private insurer annuity contract.

Alternative Structures



*Assumes Member hired at age 30 and 5 year cliff vesting across all plans

Structure	Benefit	Relative Cost*	*Replacement Ratio at Age		
			60	62	65
Current	2.3% multiplier 5 year FAS	100	63.6%	67.8%	74.2%
DB/DC Hybrid	14.36% into Program First credit is to DB with remaining to DC 1.5% multiplier 5 year FAS	130	63.0%	68.7%	78.2%
100% Pass Through Cash Balance	Pay credit to virtual account - 17.6% Interest credit to virtual account - 5 year smoothed earnings, Annuitized at retirement into trust fund at 5% Discount Rate	109	60.2%	69.9%	87.5%
DC Pooled Funds	Credit to DC account - 20% Account is professionally managed by TRS Lump Sum at Retirement	132	60.0%	68.9%	84.9%
DC Self Directed	Credit to DC account – 22% Self Directed Assets/Annuity options	153	63.0%	68.7%	78.2%

* A measure of each plan's cost compared to the current plan. Score of 100 = same cost as current plan.

Sensitivity to Investment Returns



*Assumes member hired at age 30

Structure	Benefit	Investment Earnings	Relative Cost		*Replacement Ratio at Age 62	
			8%	7%	8%	7%
Current	2.3% multiplier 5 year FAS		100	118	67.8%	67.8%
DB/DC Hybrid	14.36% into Program First credit is to DB with remaining to DC 1.5% multiplier 5 year FAS		130	130	68.7%	60.9%
100% Pass Through Cash Balance	Pay credit to virtual account - 17.6% Interest credit to virtual account - 5 year smoothed earnings, Annuitized at retirement into trust fund at 5% Discount Rate		109	122	69.9%	59.5%
DC Pooled Funds	Credit to DC account - 20% Account is professionally managed by TRS Lump Sum at Retirement		132	132	68.9%	58.9%
DC Self Directed	Credit to DC account – 22% Self Directed Assets/Annuity options		153	153	68.7%	57.8%

Cash Balance Provisions

- Cash Balance plans can take on many forms and the important provisions are:
 - Member contribution rate;
 - Employer match;
 - Interest crediting rate; and
 - Annuitization policy, including discount rate and mortality.
- Different combinations can create a similar targeted benefit pattern, but each provision needs to be strategically selected to meet the goals of the program.

Cash Balance Comparisons



*Assumes Member hired at age 30

Structure	Benefit	Relative Cost	*Replacement Ratio at Age		
			60	62	65
100% Pass Through Cash Balance	Pay credit into virtual account – 17.6% 100% 5 year R, Annuitized 5% Discount Rate	109	60.2%	69.9%	87.5%
100% Pass Through Cash Balance, Immunized Post Retirement	Pay credit into virtual account – 17.6% 100% 5 year R, Annuitized 5% Discount Rate Immunized in Portfolio	146	60.2%	69.9%	87.5%
75% Pass Through Cash Balance	Pay credit into virtual account - 22% 75% 5 year R, Annuitized 6% Discount Rate	110	61.8%	69.8%	83.8%
75% Pass Through Cash Balance plus 2%	Pay credit into virtual account – 17.6% 75% 5 year R + 2% Annuitized 5% Discount Rate	109	60.2%	69.9%	87.5%
100% Pass Through Cash Balance, Higher Annuitization Credit	Pay credit into virtual account – 13.28% 100% 5 year R, Annuitized 8% Discount Rate	104	59.7%	68.6%	87.5%

Sensitivity to Investment Returns



*Assumes member hired at age 30

Structure	Formula	Investment Earnings	Relative Cost		Replacement Ratio at Age 62	
			8%	7%	8%	7%
100% Pass Through Cash Balance	Pay credit into virtual account – 17.6% 100% 5 year R, Annuitized 5% Discount Rate		109	122	69.9%	59.5%
100% Pass Through Cash Balance, Immunized Post Retirement	Pay credit into virtual account – 17.6% 100% 5 year R, Annuitized 5% Discount Rate Immunized in Portfolio		146	148	69.9%	59.5%
75% Pass Through Cash Balance	Pay credit into virtual account - 22% 75% 5 year R, Annuitized 6% Discount Rate		110	126	69.8%	62.3%
75% Pass Through Cash Balance plus 2%	Pay credit into virtual account – 17.6% 75% 5 year R + 2% Annuitized 5% Discount Rate		109	126	69.9%	61.9%
100% Pass Through Cash Balance, Higher Annuitization Credit	Pay credit into virtual account – 13.28% 100% 5 year R, Annuitized 8% Discount Rate		104	117	68.6%	58.4%

Next Steps/Additional Information



- For the illustrated options, the next steps are to examine:
 - Diminishing value of replacement income from lack of post-retirement increases.
 - Impact of each structure on current UAAL and contribution requirements.
 - Sensitivity to Investment Returns, Entry Ages, and Retirement Ages.

Study Dates

March - April		<ul style="list-style-type: none"> • Develop plan design and structural options for fiscal and actuarial analysis
April	19-20 th TBD	<ul style="list-style-type: none"> • Update Board • Houston area town hall
April to May		<ul style="list-style-type: none"> • Receive results of actuarial and fiscal analysis
June	19-20 th	<ul style="list-style-type: none"> • Update Board
July	20 th	<ul style="list-style-type: none"> • Update Board
August to Sept		<ul style="list-style-type: none"> • Release the Study

Tab 9

Legislative Appropriations Request 2014-2015 Biennium



- Request for Pension Fund State Contribution
 - 0% salary growth for Public Education
 - 2% Salary growth for Higher Education
 - Seek a 6.4% statutory state matching contribution rate.
 - Actuaries have recommended that TRS seek an increase in the state contribution rate. Staff is contemplating requesting a 0.5% increase each year and seeks guidance from the board on this issue.

- Request for TRS-Care State Contribution
 - Use a 0% salary growth for Public Education
 - Seek a 1% statutory state matching contribution rate.
 - Seek resolution on program insolvency projected to occur in the last quarter of Fiscal Year 2014 with options as presented in the healthcare study.

Legislative Appropriations Request 2014-2015 Biennium (continued)



- Request for Administrative Operations
 - Request additional staff to support impact on benefit administration .
 - Increases in operating expenses over the proposed Fiscal Year 2013 Administrative Operations Budget are anticipated due to being held constant by appropriated amounts for three consecutive fiscal years (2011-2013).
 - Reevaluate capital projects deferred and reduced in 2012-13 biennium.
- Request for TEAM
 - Sustain program funding and FTEs as set forth in the project management plan.

Tab 10

Teacher Retirement System of Texas

Pension Administration Benchmarking Results FY 2011



This analysis provides you with insight into your:

- **Pension administration costs**
- **Service levels and best practices**
- **The analysis can also be used to:**
 - Support your business decisions
 - Develop performance goals and standards
 - Measure and manage your performance
 - Communicate to your stakeholders

CEM's universe of benchmarking participants:

Participants

Australia*

AusCoal
 AustralianSuper
 BUSS(Q)
 Cbus
 QSuper
 REST
 SunSuper
 VicSuper

Canada

APS
 BC Pension Corporation
 Canada Post
 Defence Canada
 HOOPP
 LAPP
 OMERS
 Ontario Pension Board
 Ontario Teachers
 PWGSC
 RCMP

Denmark

ATP

The Netherlands

ABN-AMRO
 ABP
 bpfBOUW
 Pensioenfonds DSM Nederland
 Pensioenfonds Metaal en Techniek
 PF Horeca en Catering
 PFZW

United Kingdom*

BSA NHS Pension Scheme
 Irish Construction Workers ' Pension Scheme
 Met Police
 Railways Pension Scheme
 Scottish Public Pension Agency (SPPA)
 The Pension Protection Fund (PPF)
 Universities Superannuation Scheme (USS)

United States

Arizona SRS
 CalSTRS
 Colorado PERA
 Delaware PERS
 Idaho PERS
 Illinois MRF
 Indiana PRS
 Iowa PERS
 LACERA
 Maine PERS
 Michigan ORS
 MOSERS
 Nevada PERS
 New Mexico ERB
 North Carolina RS
 NYC TRS
 NYSLRS
 Ohio PERS
 Ohio SERS
 Oklahoma PERS
 Oklahoma TRS

Orange County ERS
 Oregon PERS
 San Bernardino County ERA
 South Dakota RS
 STRS Ohio
 TRS Louisiana
 TRS of Texas
 Utah RS
 Virginia RS
 Washington State DRS
 Wisconsin DETF

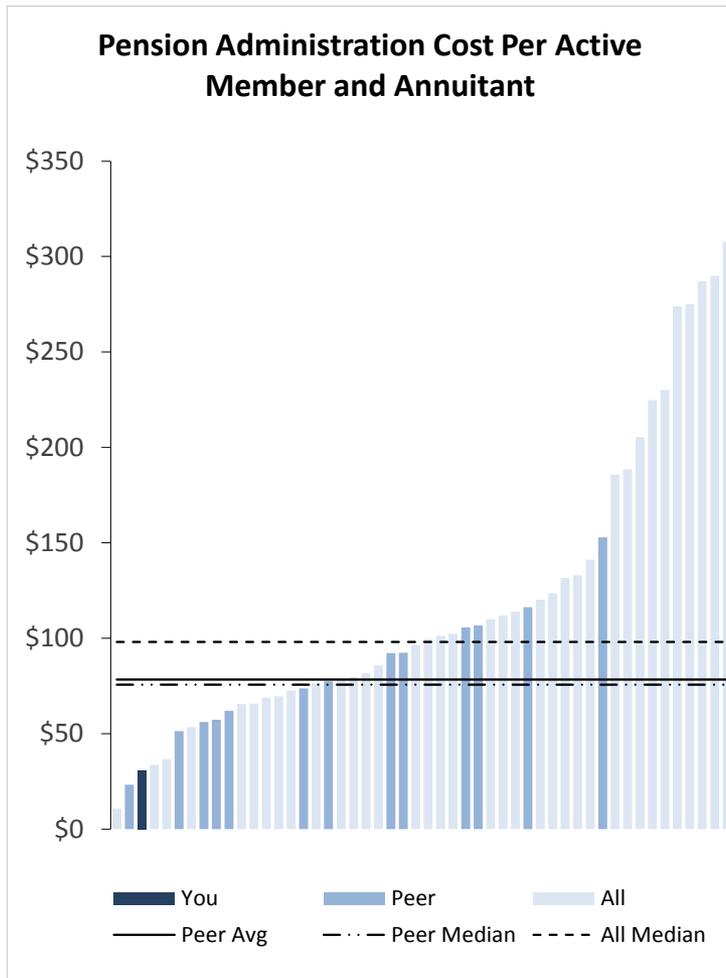
Sweden

Alecta

TRS was compared to the following peers:

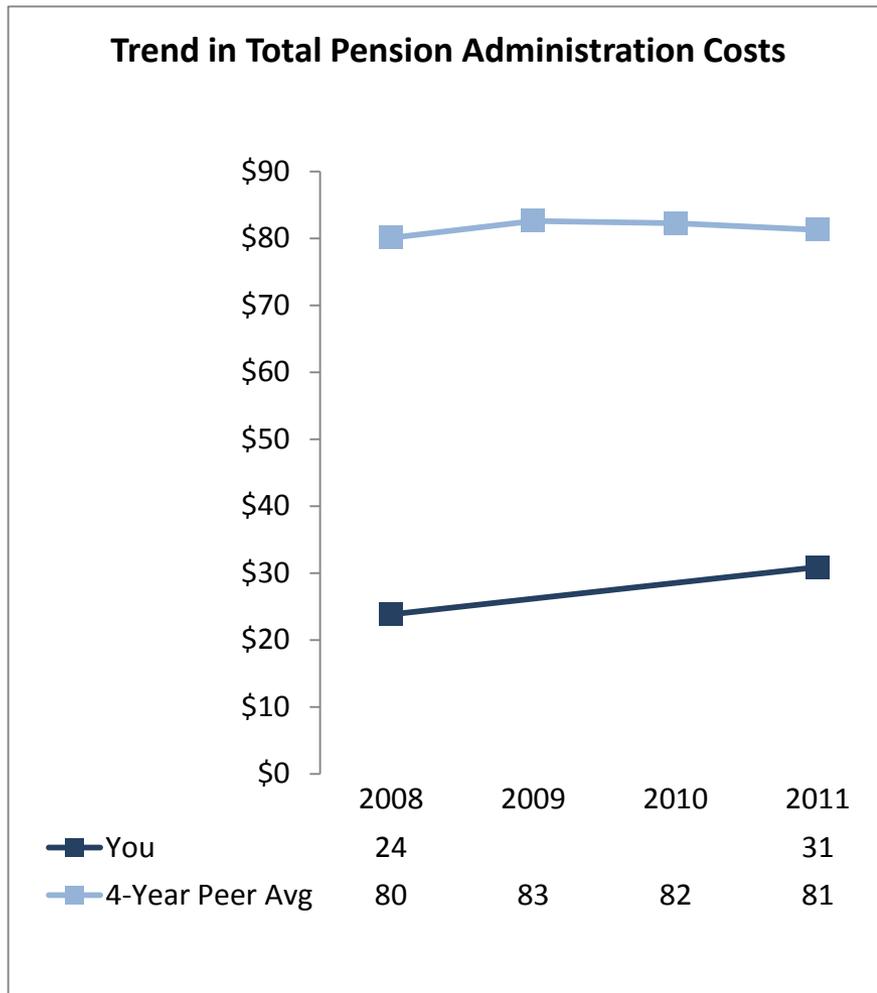
Custom Peer Group for TRS of Texas			
Peers (sorted by size)	Membership (in 000's)		
	Active	Annuitants	Total
TRS of Texas	848	313	1,161
NYSLRS	545	385	930
North Carolina RS	500	247	747
CalSTRS	430	254	683
Ohio PERS	372	177	549
Michigan ORS	262	239	500
Virginia RS	340	156	496
Washington State DRS	294	139	432
Wisconsin DETF	267	156	422
Indiana PRS	261	122	383
STRS Ohio	203	138	341
Colorado PERA	238	95	333
Arizona SRS	209	113	322
Oregon PERS	194	120	313
Peer Median	280	156	464
Peer average	354	189	544

Your Total Pension Administration Cost was \$31 per active and annuitant.



- This was \$48 below the peer average of \$78.
- TRS is one of the lowest cost systems in CEM's universe.
- Your total pension administration cost was \$35.8 million.
- Note: A one time adjustment of \$4.5M for a 2001 technology project was made in 2011.
- Excluding this adjustment, TRS cost per member would be \$27.

Your Total Cost per active and annuitant -



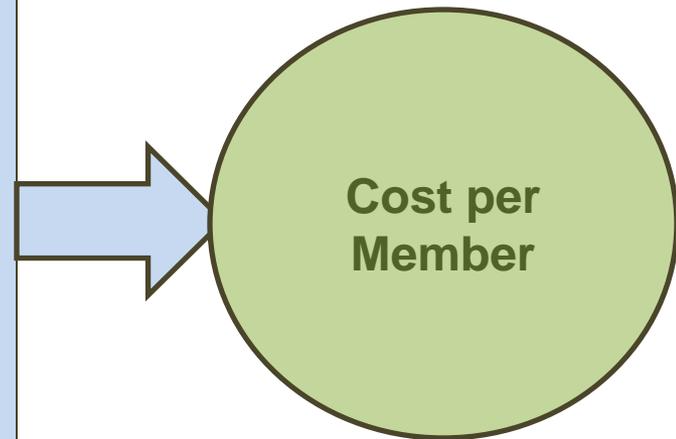
- Increased by 9% between 2008 and 2011.
- The average cost of your peers increased by 0.5%.
- The primary reason for your increased cost was higher IT/IS spending.
- Your costs were still well below the peer average.

Your cost comparisons for the member and employer activities:

Activity	<u>(\$000s)</u>	<u>\$s per Active Member and</u>			<u>More/ -Less</u>	
	You	You	Peer Me	Peer Avg	(vs. average) \$s	%
1. Member Transactions						
a. Pension Payments	327	0.28	2.45	3.23	-2.95	-91%
b. Pension Inceptions	1,379	1.19	3.01	3.77	-2.59	-69%
c. Withdrawals and Transfers-out	1,195	1.03	1.49	1.67	-0.64	-38%
d. Purchases and Transfers-in	752	0.65	0.95	1.72	-1.07	-62%
e. Disability	129	0.11	1.73	2.48	-2.37	-96%
2. Member Communication						
a. Call Center	2,303	1.98	4.85	5.28	-3.29	-62%
b. Mail Room, Imaging	1,616	1.39	1.53	2.04	-0.65	-32%
c. 1-on-1 Counseling	881	0.76	1.72	2.75	-2.00	-72%
d. Presentations and Group Counseling	203	0.18	0.94	1.02	-0.84	-83%
e. Written Pension Estimates	1,077	0.93	0.77	1.09	-0.16	-15%
f. Mass Communication	1,712	1.48	2.18	2.79	-1.32	-47%
3. Collections and Data Maintenance						
a. Data and Money from Employers	376	0.32	1.97	2.66	-2.34	-88%
b. Service to Employers	516	0.44	1.08	1.36	-0.92	-67%
c. Data Not from Employers	29	0.02	1.25	1.15	-1.13	-98%

CEM's new cost model:

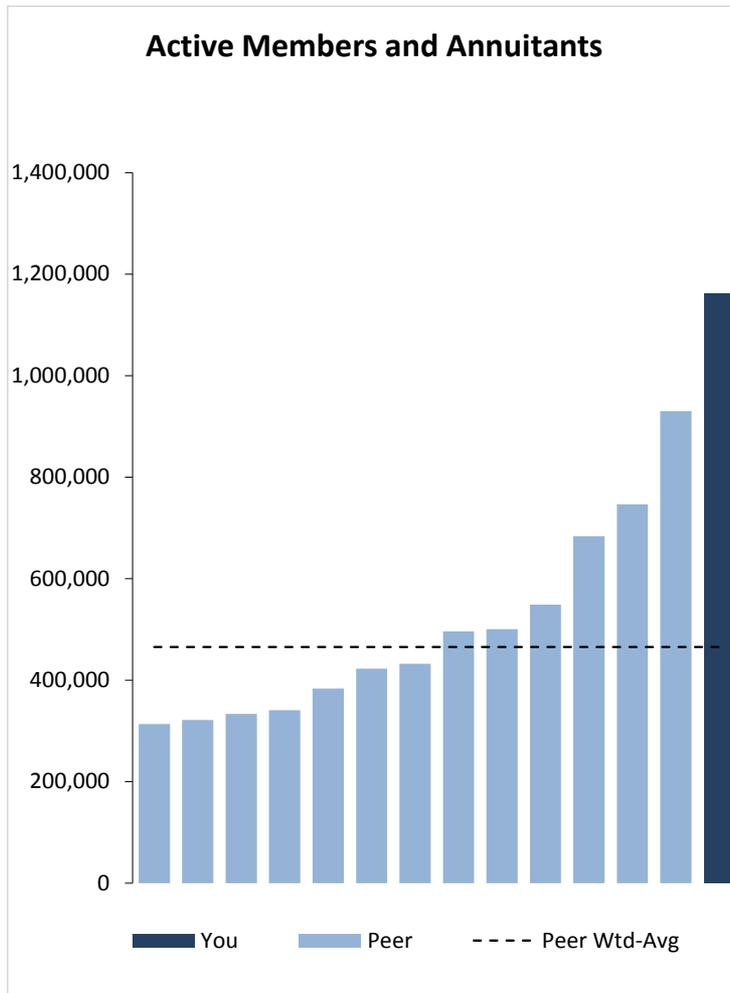
1. Economies of scale
2. Transactions per member (Workloads)
3. Transactions per FTE (Productivity)
4. Cost per FTE
5. Third party and other costs
6. Back-office activity costs



Reasons why your total cost was \$48 below the peer average:

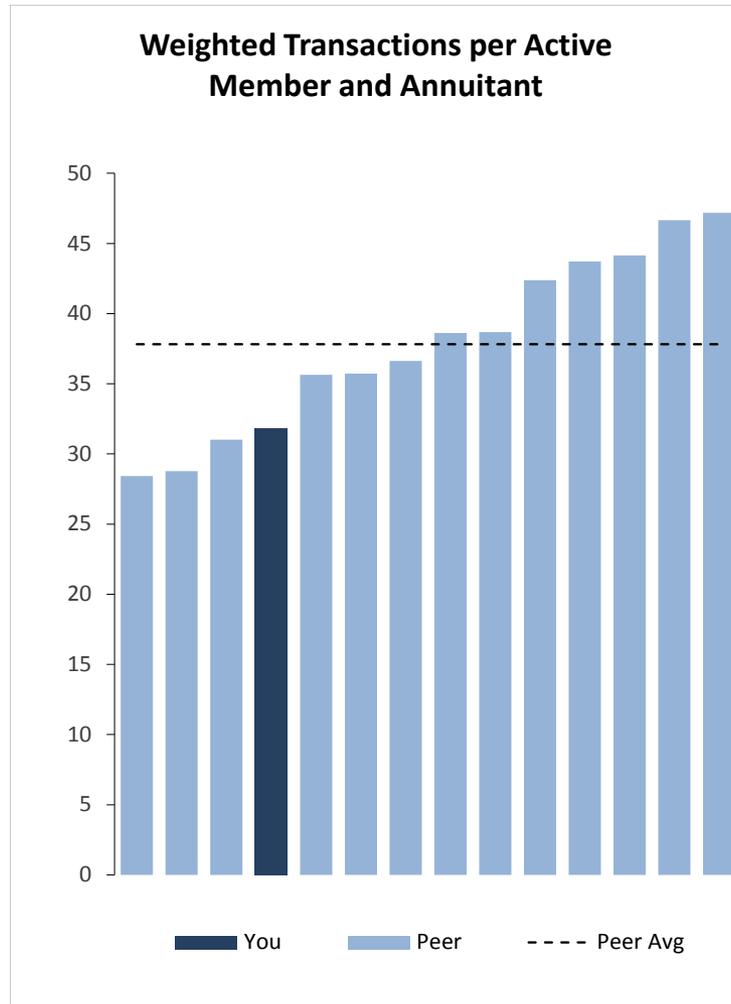
Reason	Impact
1. Economies of scale advantage	-\$5.49
2. Lower transactions per member (workloads)	-\$2.73
3. Higher transactions per FTE (productivity)	-\$16.68
4. Higher costs per FTE for: salaries and benefits, building and utilities, HR and IT desktop	\$4.00
5. Lower third-party and other costs in front-office activities	-\$6.12
6. Paying more/-less for back-office activities:	
- Governance and Financial Control	-\$2.75
- Major Projects	-\$0.68
- IT Strategy, Database, Applications	-\$7.18
- Actuarial, Legal, Audit, Other Support Services	-\$9.95
Total	-\$47.58

Reason 1: You had an economies of scale advantage.



- You had 150% more members than the peer average.
- This means you had a cost advantage relative to the average peer of \$5.49 per member.

Reason 2: You had lower transaction volumes (workloads).



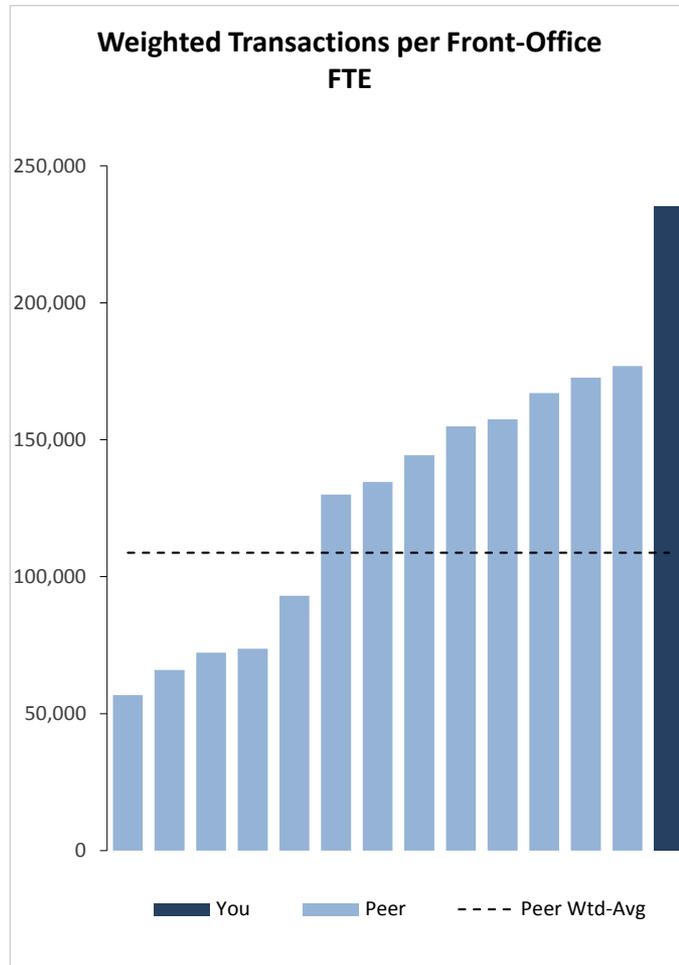
- Your transactions were 16% below the peer average.
- Your lower transaction volumes decreased your total cost per member by \$2.73 relative to the peer average.

Where you did more/ fewer transactions:

Where did you do more/fewer transactions?			
Front Office Transactions (or Transaction Driver)	Volume per 1,000 Active Members and Annuitants		
	You	Peer Average	More/ -Less
1. Member Transactions			
a. Pension Payments (Annuitants)	269	352	-23%
b. New Payee Inceptions	20	26	-24%
c. Withdrawals and Transfers-out	35	32	9%
d. Purchases and Transfers-in	6	13	-52%
e. Disability Applications	0.6	2.1	-69%
2. Member Communication			
a. Calls and Emails	736	805	-9%
b. Incoming Mail	564	485	16%
c. Members Counseled 1-on-1	9	29	-70%
d. Member Presentations	0	1	-84%
e. Written Estimates	33	23	43%
3. Collections and Data Maintenance			
a. Data and Money from Employers (Active Members)	731	648	13%
b. Service to Employers (Active Members)	731	648	13%
c. Data Not from Employers (Actives, Inactives, Annuitants)	1,134	1,390	-18%
Weighted Total	31,831	37,818	-16%

- Differences in transaction volumes per member reflect differences in:
 - Membership mix
 - Member demographics
 - Member type/ industry group
 - System and plan complexity
 - Service levels

Reason 3: You had higher transactions per FTE (productivity).



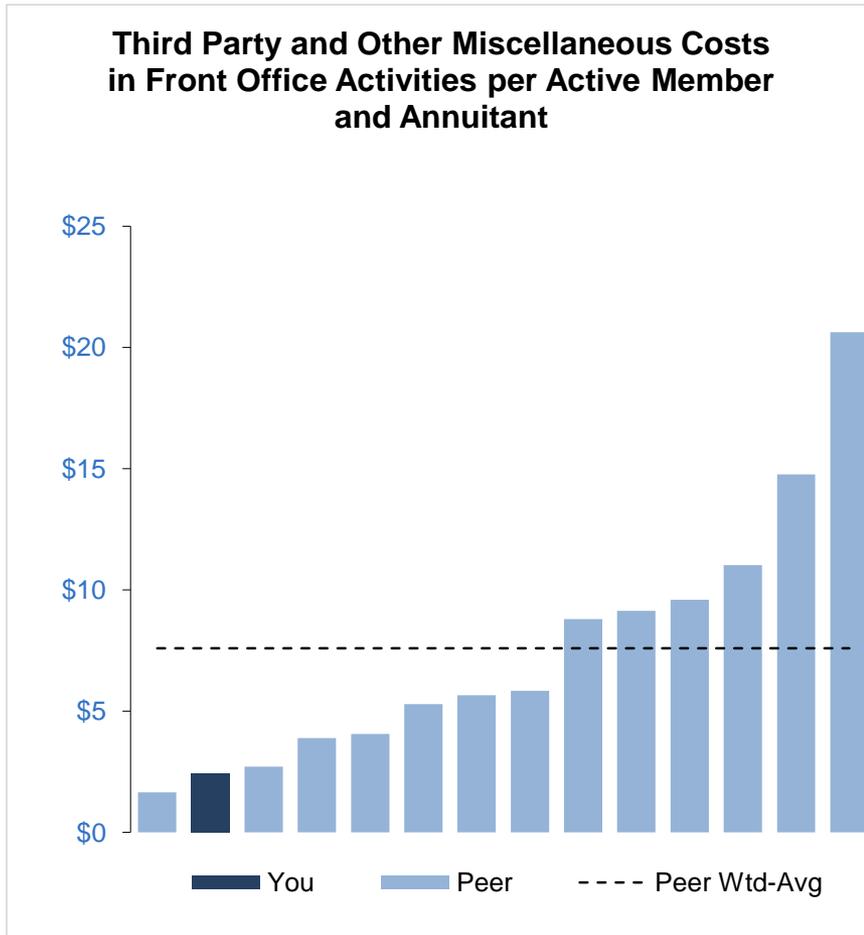
- Your transactions per front-office FTE were 116% above the peer average.
- Your higher transaction volumes per FTE decreased your cost per member by \$16.68 relative to the peer average.

Reason 4: Your overall costs per FTE were higher.

Cost per FTE		
	You	FTE- Peer Avg
Salaries and Benefits	\$76,042	\$72,508
Pay-as-you-go benefits for reti	\$0	\$1,053
Building and Utilities	\$11,854	\$9,774
Human Resources	\$2,172	\$2,654
IT Desktop, Networks,	\$13,750	\$10,655
Total	\$103,818	\$96,644

- Your higher costs per FTE increased your total cost by \$4 per member relative to the peer average.

Reason 5: You had lower third party and other miscellaneous costs in the front-office activities.



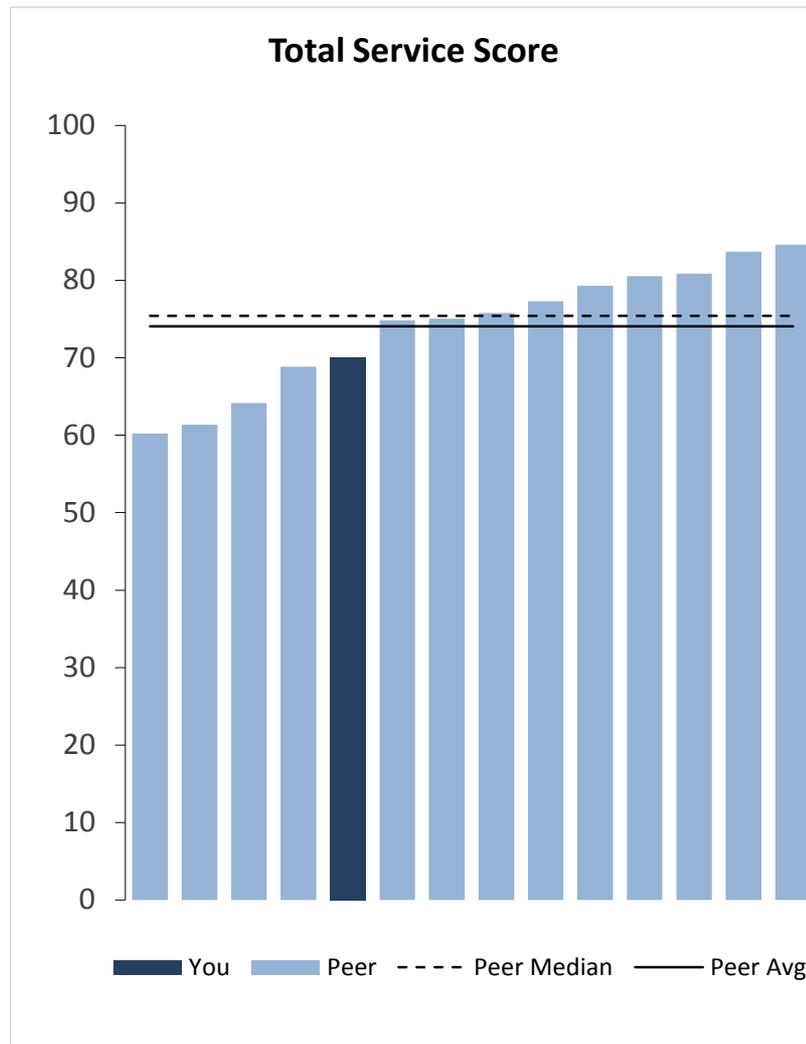
- Your third party and other miscellaneous costs in the front-office activities were \$2.44 per member.
- This was 68% below the peer average of \$7.59.
- This decreased your total cost per member by \$6.12 relative to the peer average.

Reason 6: You paid less for back-office activities.

Back-Office Activities - Cost per Member			
Back Office Activities	You	Peer Avg	More/-less
Governance and Financial Contrc	\$3.10	\$5.85	-\$2.75
Major Projects	\$4.82	\$5.51	-\$0.68
IT Strategy, Database, Applicatio	\$5.40	\$12.59	-\$7.18
Actuarial, Legal, Audit, Other	\$3.04	\$12.98	-\$9.95
Total	\$16.36	\$36.92	-\$20.56

- Your cost per active and retiree of \$16.36 for back-office activities was below the peer average of \$36.92.
- This decreased your total cost per member by \$20.56 relative to the peer average.

Your total service score was 70 out of 100.



- This was below the peer median of 75.
- CEM defines service from the member's perspective:
 - Faster turnaround times
 - More availability
 - More choice
 - Higher quality

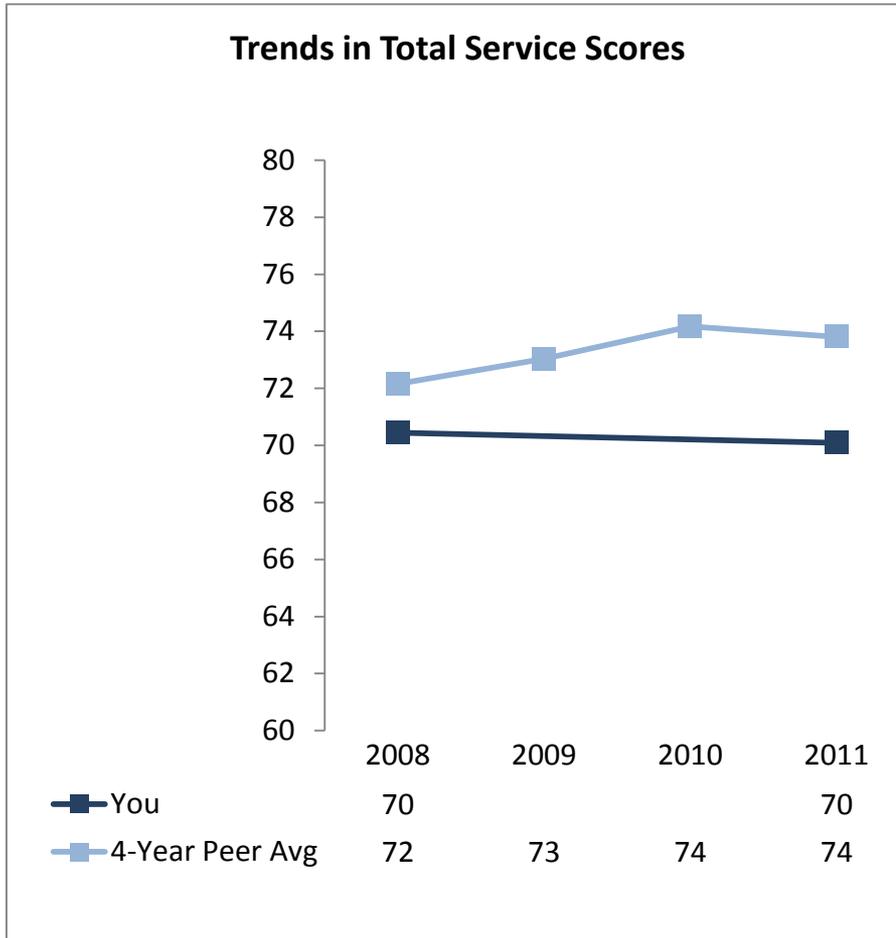
Your service scores by activity:

Service Scores by Activity				
Activity	Weight	Score out of 100		
		You	Peer Median	% Higher /-Lower
1. Member Transactions				
a. Pension Payments	19.7%	95	97	-2%
b. Pension Inceptions	7.4%	85	82	4%
c. Withdrawals and Transfers-out	0.3%	90	85	6%
d. Purchases and Transfers-in	3.1%	64	78	-18%
e. Disability	4.8%	90	82	10%
2. Member Communication				
a. Call Center	21.2%	37	55	-33%
c. 1-on-1 Counseling	7.4%	75	76	-1%
d. Member Presentations	6.5%	56	81	-31%
e. Written Pension Estimates	4.7%	68	82	-17%
f. Mass Communication				
a. Website	7.6%	72	76	-5%
b. Newsletters	3.8%	90	85	6%
c. Member statements	6.6%	88	81	9%
d. Other mass communication	0.9%	77	58	33%
3. Other				
Satisfaction Surveying	5.0%	42	41	2%
Disaster Recovery	1.0%	90	81	11%
Weighted Total Service Score	100.0%	70	75	-7%

Where you can make service improvements:

Biggest potential improvements to your total service score		
Rank	Factor	Potential Improvement
# 1	23.4% of your incoming calls resulted in undesired outcomes, and 0.0% of your incoming calls resulted in irritating outcomes. To achieve a perfect service score, members must experience no undesired or irritating call outcomes.	+ 5.3
# 2	On average, members calling your call center reach a knowledgeable person in 296 seconds. To achieve a perfect service score, members must reach a knowledgeable person on the phone in 20 seconds or less.	+ 5.2
# 3	You offer 4 of the 13 website transactions and tools applicable to you. To achieve a perfect service score you must offer all 13 on-line transactions and tools.	+ 1.9
# 4	On average, you had 75.1 attendees per presentation. To achieve a perfect service score you must average 20 attendees per presentation or fewer.	+ 1.4

Your total service score remained stable between 2008 and 2011.



- However, you have experience service changes at the activity level:
 - More web capability
 - Improved pension inception processing
 - Higher percentage of undesired call outcomes

Service is moving online:

Online Tool	% offering tool			If offered: Volume per 1,000 active members and annuitants		
	You	Peer	All	You	Peer Median	All Median
Benefit calculators						
In non-secure area	Yes	79%	54%	143.4	310.5	281.5
In secure area not linked to member data	No	21%	12%	n/a	14.7	57.6
In secure area linked to member's salary and service	Yes	79%	80%	48.4	338.5	317.7
Service credit purchase calculator	No	79%	67%	n/a	48.0	49.4
Download forms	Yes	100%	98%	30.9	339.0	301.7
Register for counseling sessions or presentations	Yes	79%	57%	1.7	6.5	14.4
Change address	No	64%	60%	n/a	11.9	23.8
Change beneficiary	No	50%	40%	n/a	20.9	20.9
Change family information	No	29%	24%	n/a	82.0	48.3
Tools for annuitants						
Change banking information for direct deposit	No	29%	26%	n/a	6.1	5.7
Change tax withholding amount	No	50%	35%	n/a	10.0	6.2
Download or print duplicate tax receipts	Yes	79%	53%	5.6	19.5	18.6
View annuity payment details	Yes	93%	60%	19.5	114.4	115.7
Apply for retirement	No	36%	27%	n/a	3.0	6.8
View status of disability application	No	0%	2%	n/a	n/a	0.0
Secure mailbox	No	43%	28%	n/a	37.5	37.5
Download member statement	Yes	64%	62%	18.1	223.1	114.1
View pensionable earnings and/or service without download	Yes	86%	84%	67.6	577.6	647.6
If yes:						
Are both salary and service data available?	Yes	100%	95%			
Is online data up-to-date to the most recent pay period?	Yes	75%	67%			
Is a complete annual history from the beginning of employment provided?	No	58%	52%			

Key Takeaways:

- Your total cost was \$31 per active and retiree – below the peer average of \$78.
- Your lower than average cost reflects:
 - An economies of scale advantage
 - Higher transactions per FTE (productivity)
 - Lower third-party and other costs in front-office activities
 - Lower back-office costs
- Your total service score of 70 remained stable between 2008 and 2011.
- However, you did improve your web capability and your pension inception processing.

**Investment
Cost Effectiveness Analysis**
(for the 5 years ending December 31, 2010)

**Teacher Retirement System
of Texas**

Prepared February 2, 2012 by:



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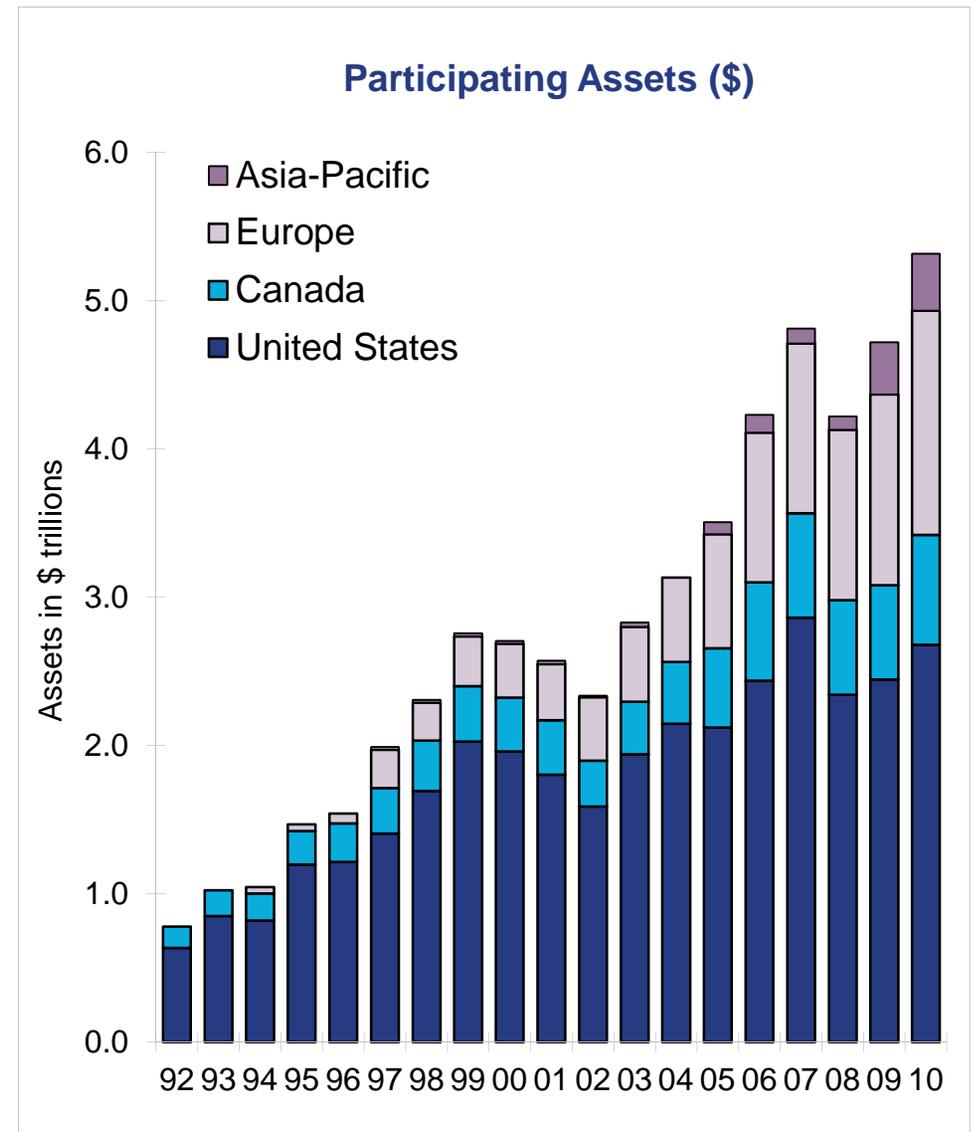
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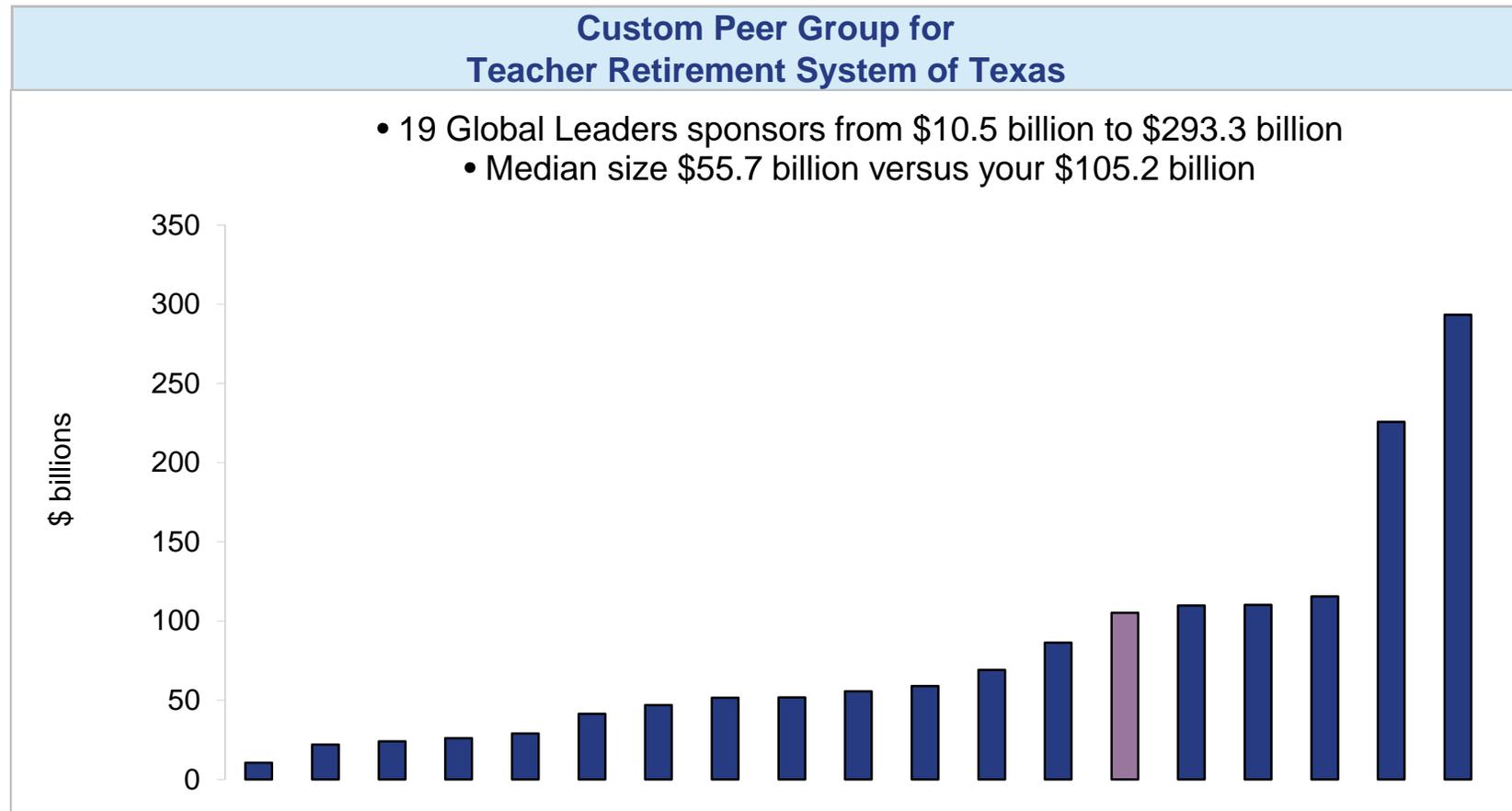
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This benchmarking report compares your cost and return performance to CEM's extensive pension database.

- 201 U.S. pension funds participate. The median U.S. fund had assets of \$3.6 billion, while the average U.S. fund had assets of \$15.0 billion. Total participating U.S. assets were \$2.7 trillion.
- 92 Canadian funds participate with assets totaling \$739 billion.
- 54 European funds participate with aggregate assets of \$1,513 billion. Included are funds from the Netherlands, Norway, Sweden, Finland, Denmark and the U.K.
- 7 Asia-Pacific funds participate with aggregate assets of \$385 billion. Included are funds from Australia and New Zealand.



The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.



To preserve client confidentiality, given potential access to documents as permitted by the Freedom of Information Act, we do not disclose your peers' names in this document.

What gets measured gets managed, so it is critical that you measure and compare the right things:

1. Policy Return

How did the impact of your policy mix decision compare to other funds?

2. Value Added

Are your implementation decisions (i.e., the amount of active versus passive management) adding value?

3. Costs

Are your costs reasonable? Costs matter and can be managed.

4. Cost Effectiveness

Net implementation value added versus excess cost. Does paying more get you more?

5. Risk

How much risk was taken to obtain your value added? What is the risk of your policy mix? What is the risk of the mismatch between your assets and liabilities?

Your 3-year total return of 0.4% was below the Global median of 0.9%.

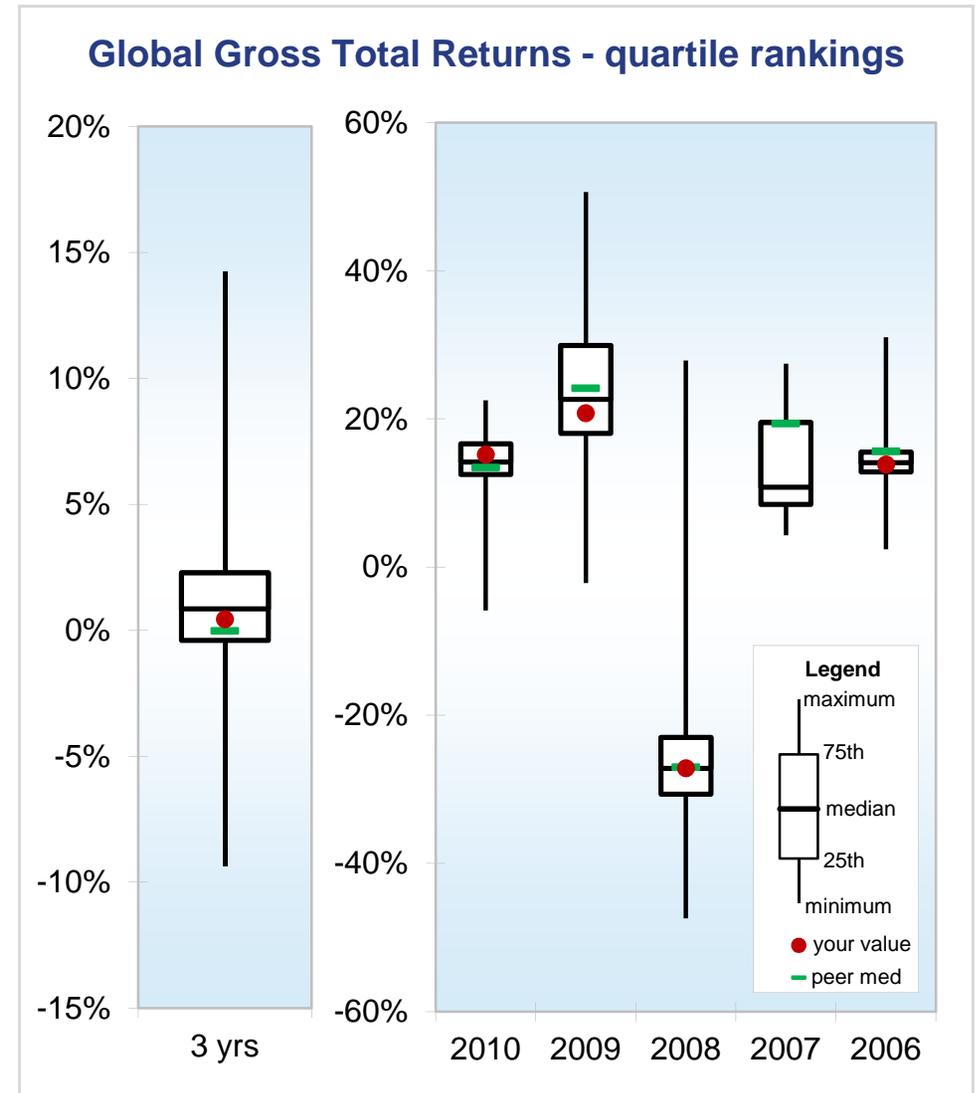
Total returns, by themselves, provide little insight into the reasons behind relative performance. Therefore, we separate total return into its more meaningful components: policy return and value added.

	Your 3-yr.
Total Fund Return	0.44%
Policy Return	-0.06%
Value Added	0.50%

This approach enables you to understand the contribution from both policy mix decisions (which tend to be the board's responsibility) and implementation decisions (which tend to be management's responsibility).

The median 3-year total return of your peers was 0.0%.

Actual and policy returns have been converted to USD using unhedged currency returns.



1. Policy Return

Your 3-year policy return of -0.1% was below the Global median of 1.1%.

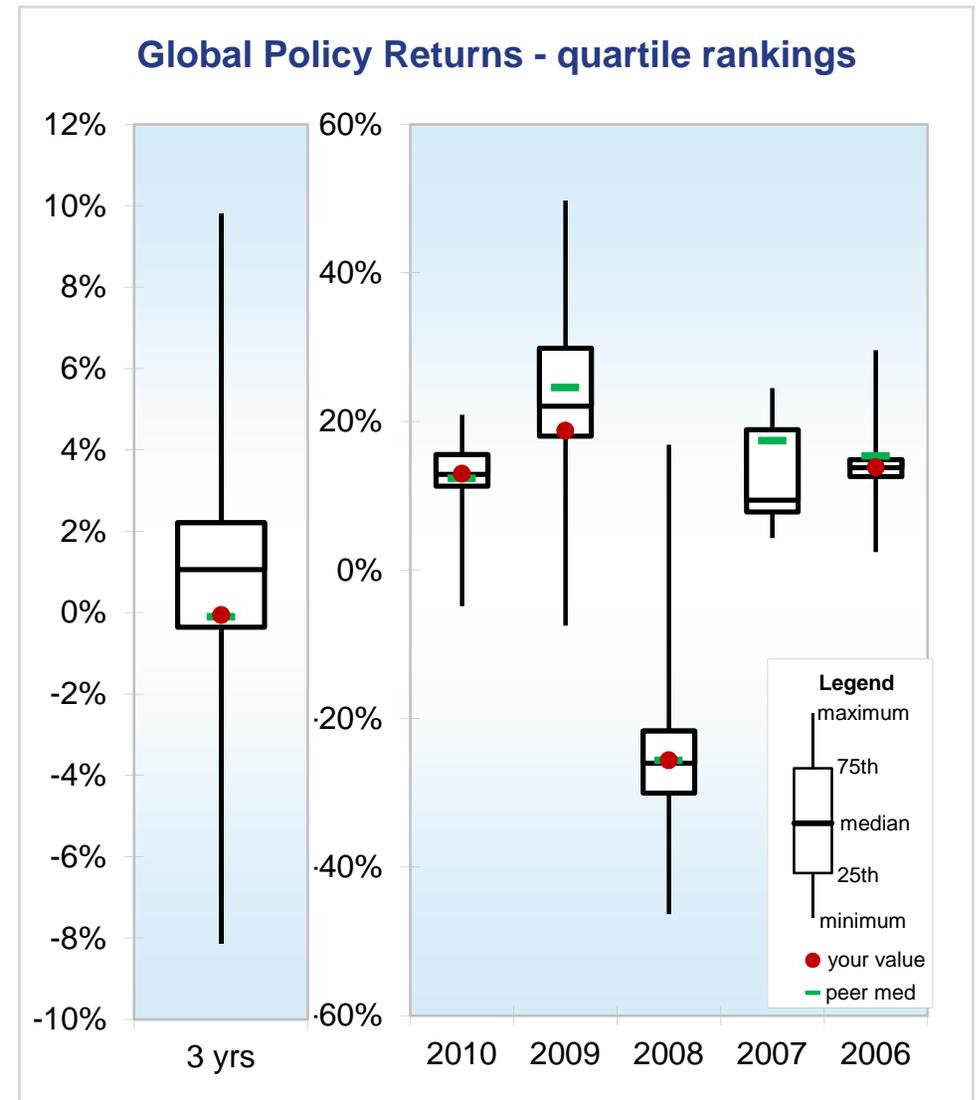
Your policy return is the return you could have earned passively by indexing your investments according to your policy mix.

Having a higher or lower relative policy return is not necessarily good or bad. Your policy return reflects your investment policy, which should reflect your:

- Long term capital market expectations
- Liabilities
- Appetite for risk

Each of these three factors is different across funds. Therefore, it is not surprising that policy returns often vary widely between funds.

The median 3-year policy return of your peers was 1.1%.



Your 3-year average policy asset mix compares to the Global and peer averages as follows:

3-Year Average Policy Mix			
Asset class	Your fund	Global avg	Peer avg
U.S. Stock	25%	22%	6%
EAFE/Global Stock	19%	26%	35%
Emerging Mkt Stock	<u>7%</u>	<u>2%</u>	<u>2%</u>
Total Stock	51%	50%	44%
U.S. Bonds	11%	12%	7%
Long Bonds	4%	7%	2%
High Yield Bonds	0%	1%	1%
Inflation Index Bonds	8%	2%	7%
Fixed Income - Other	0%	15%	16%
Cash	<u>1%</u>	<u>1%</u>	<u>1%</u>
Total Fixed Income	24%	37%	34%
Real Estate	9%	4%	7%
Other Real Assets*	3%	2%	5%
Hedge Funds	4%	3%	1%
Private Equity	9%	4%	7%
Total	100%	100%	100%

* Includes Infrastructure, REITs, Commodities and Natural Resources

2. Value Added

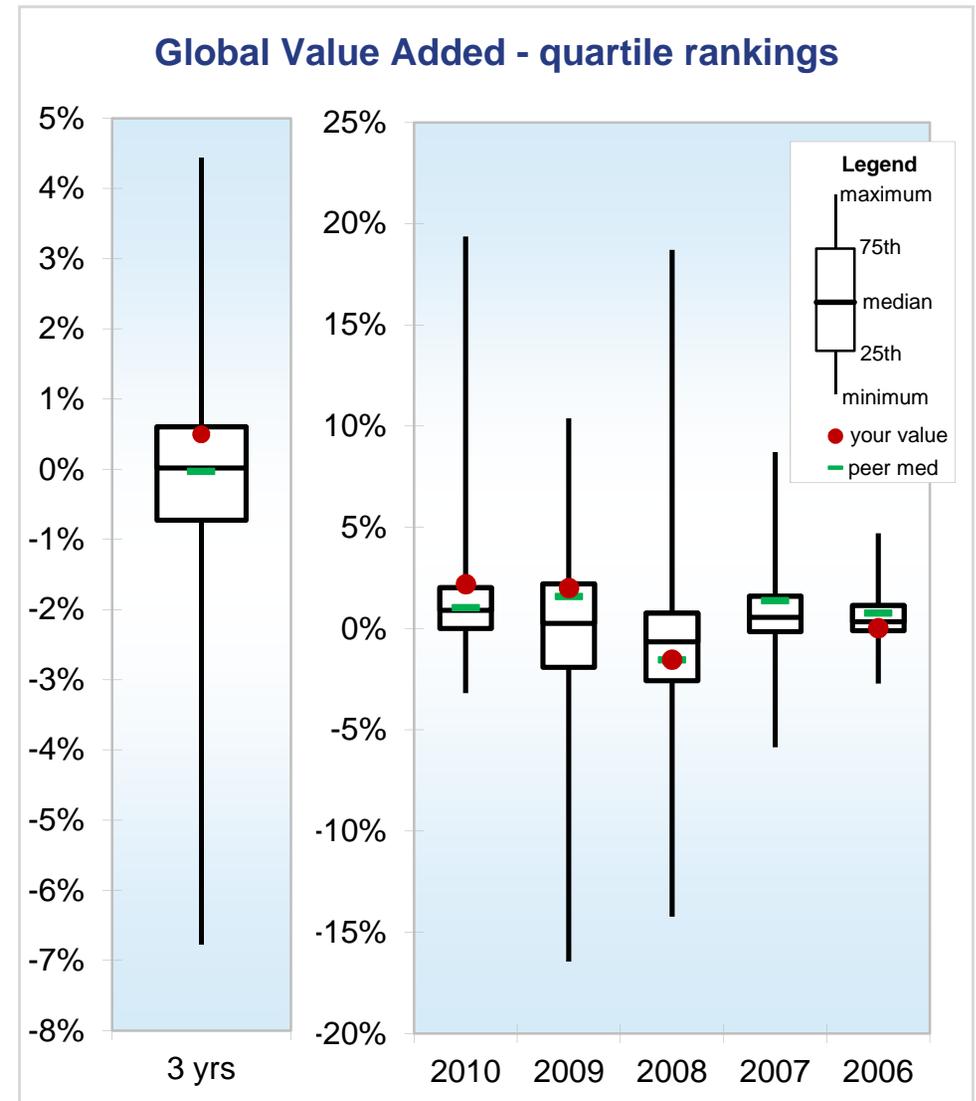
Value added is the component of your total return from active management. Your 3-year value added was 0.5%.

Value added equals your total return minus your policy return. It can be further broken down into value added from:

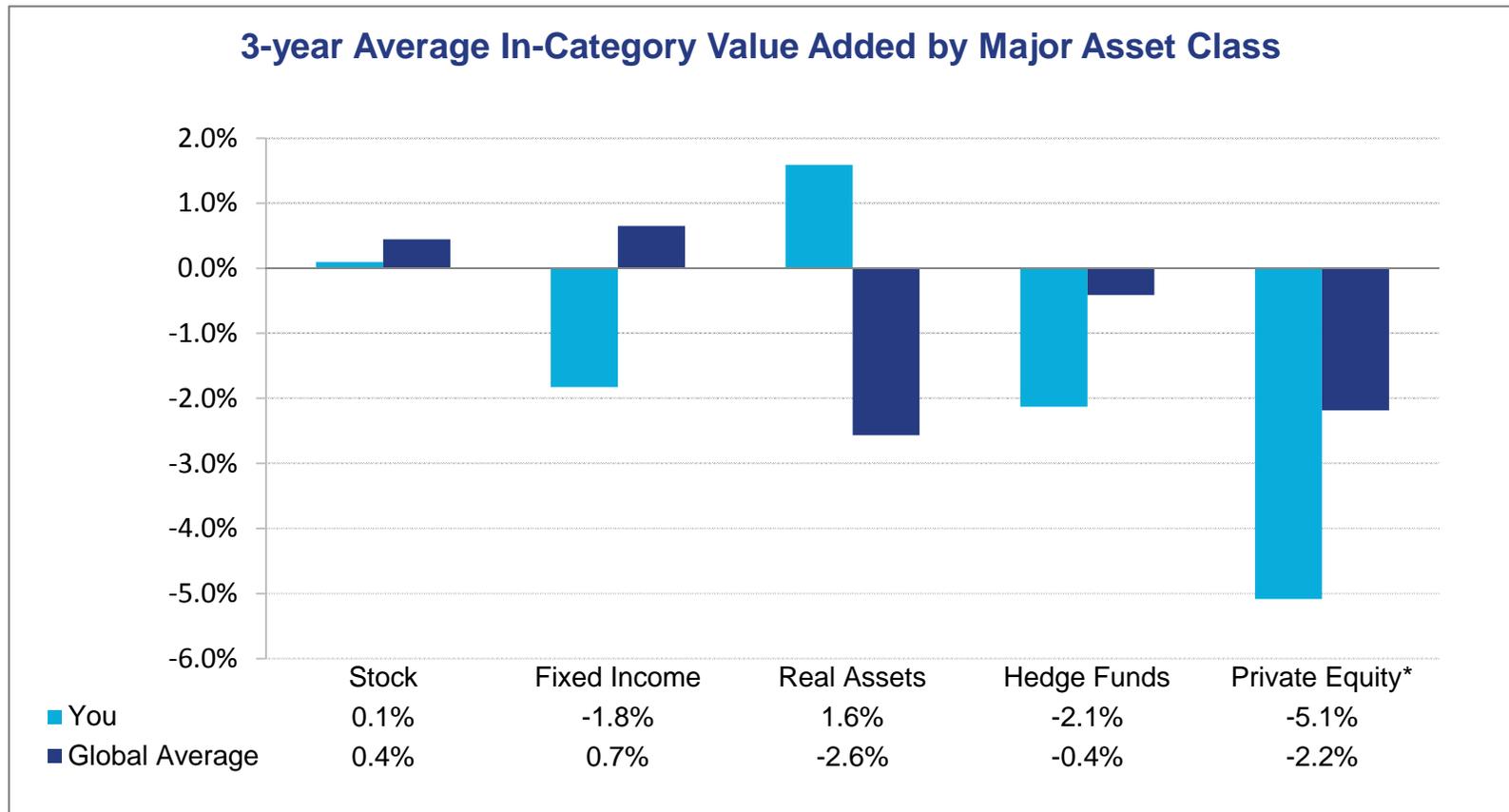
- Security selection decisions within each asset category ("in-category"), and
- Asset mix decisions that result in varying from your policy mix. Mix also includes the value added from overlays.

Teacher Retirement System of Texas					
Year	Total return	Policy return	Value added		
			Total	In-category	Mix
2010	15.2%	13.0%	2.2%	2.1%	0.1%
2009	20.8%	18.8%	2.0%	(3.5)%	5.5%
2008	(27.2)%	(25.6)%	(1.5)%	0.2%	(1.7)%
3-year	0.4%	(0.1)%	0.5%	(0.3)%	0.8%

Your 3-year value added of 0.5% compares to a median of 0.0% for your peers and 0.0% for the Global universe.



You had positive 3-year value added in stock and real assets.



* Private equity value added is net whereas the other asset classes are gross.

Comparisons of value added for private equity & hedge funds must be interpreted with caution because the types of investments and benchmarks can be extremely varied. It may be more useful to compare total returns. Your 3-year private equity return of -0.2% was below the Global average of 0.5%. Your 3-year hedge fund return of 0.1% was below the Global average of 1.1%.

3. Costs

Your asset management costs in 2010 were \$467.2 million or 46.9 basis points.

Your Investment Management Costs (\$000s)						
	Internal		External			Total
	Passive	Active	Passive	Active: base	Active: perform	
U.S. Stock - Large Cap	205	3,695		22,227	20,000	46,127
U.S. Stock - Small/Mid Cap	92	217		6,445		6,754
Stock - EAFE	72	3,690		18,076		21,838
Stock - Emerging	101	1,542		22,117		23,760
Fixed Income - U.S.	247			486		733
Inflation Indexed Bonds	221			199		420
Fixed Income - High Yield				17,544		17,544
Hedge Funds - Direct				38,239		38,239
Commodities	85	244		80		409
REITs	58					58
Real Estate ex-REITs - Limited Partnerships				126,345		126,345
Diversified Private Equity				167,476		167,476
Total investment management costs					45.1bp	449,703

Notes

¹ Total cost excludes carry/performance fees for real estate, infrastructure, hedge funds, private equity and overlays. Performance fees are included for the public market asset classes.

² Excludes non-investment costs, such as PBGC premiums and preparing checks for retirees.

Your Oversight, Custodial and Other Asset Related Costs ² (\$000s)		
Oversight of the fund		3,709
Trustee & custodial		1
Consulting and performance measurement		3,773
Other (overhead allocated to IMD)		10,000
Total oversight, custodial & other costs		1.8bp
Total asset management costs		46.9bp

Benchmark cost analysis suggests that your fund was slightly low cost by 1.3 basis points in 2010.

To assess your cost performance, we start by calculating your benchmark cost. Your benchmark cost is an estimate of what your cost would be given your actual asset mix and the median costs that your peers pay for similar services. It represents the cost your peers would incur if they had your actual asset mix.

Your total cost of 46.9 bp was slightly lower than your benchmark cost of 48.2 bp. Thus, your cost savings was 1.3 bp.

	\$000s	basis points
Your actual cost	467,186	46.9 bp
Your benchmark cost	<u>480,103</u>	<u>48.2 bp</u>
Your excess cost	(12,917)	(1.3) bp

You were slightly low cost primarily because you had a slightly lower cost implementation style.

Reasons for Your Low Cost Status		
	Excess Cost/ (Savings)	
	\$000s	bps
1. Implementation style differences	(8,068)	(0.8)
2. Paying more or (less) than your peers	(4,849)	(0.5)
Total Savings in 2010	(12,917)	(1.3)

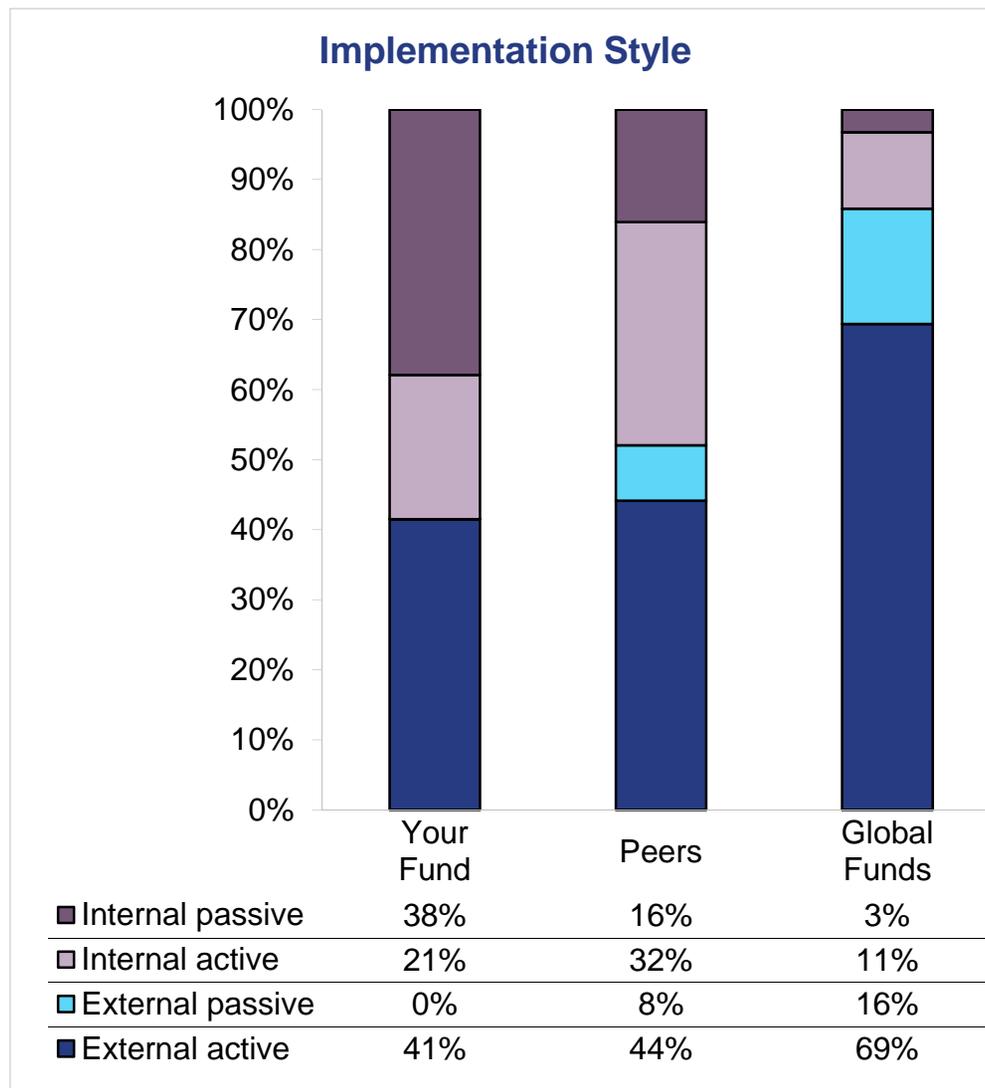
These reasons are examined in detail in the following pages.

Differences in cost performance is often caused by differences in implementation style.

Implementation style is defined as the way in which you implement your asset allocation. It includes internal, external, active and passive styles.

The greatest cost impact is usually caused by differences in the use of:

- External active management because it tends to be much more expensive than internal or passive management. You used less external active management than your peers (your 41% versus 44% for your peers).
- Within external active holdings, fund of funds usage because it is more expensive than direct fund investment. You had less in fund of funds. Your 0% (hedge funds, real assets and private equity) in fund of funds compared to 12% for your peers.



Differences in implementation style saved you 0.8 bp relative to your peers.

Cost Impact of Differences in Implementation Style						
Asset class	Your avg holdings in \$mils	% External Active			Cost ^{1,2} premium	Cost/ (Savings) in \$000s
		You	Peer average	More/ (less)		
Stock - U.S.	21,904	28.5%	23.4%	5.1%	36.0 bp	4,021
Stock - EAFE	13,843	35.3%	27.4%	7.9%	37.5 bp	4,095
Stock - Emerging	8,490	44.6%	61.4%	(16.7%)	51.8 bp	(7,360)
Fixed Income - U.S.	9,187	6.0%	39.9%	(33.9%)	13.2 bp	(4,103)
Fixed Income - Inflation Indexed	8,040	3.1%	7.8%	(4.6%)	11.0 bp	(409)
Fixed Income - High Yield	4,924	100.0%	96.5%	3.5%	N/A	0
Fixed Income - Other	14	0.0%	10.6%	(10.6%)	48.5 bp	(7)
Hedge funds	3,895	100.0%	100.0%	0.0%		
of which Fund of Funds represent:		0.0%	29.9%	(29.9%)	67.6 bp	(7,874)
Commodities	2,756	2.0%	37.2%	(35.2%)	62.2 bp	(6,032)
REITs	1,852	0.0%	26.4%	(26.4%)	31.4 bp	(1,539)
Real Estate ex-REITs	9,888	100.0%	79.6%	20.4%	71.0 bp	14,299
of which Ltd Partnerships represent:		100.0%	31.8%	68.2%	46.5 bp	31,373
Diversified Private Equity	15,719	100.0%	96.5%	3.5%	86.4 bp	4,743
of which Fund of Funds represent:		0.0%	13.4%	(13.4%)	128.6 bp	(27,025)
Total		41.5%	44.1%	(2.6%)		4,181
Total external active style impact in bps						0.4 bp
Impact of differences in the use of lower cost styles ³						0.2 bp
Savings from your lower use of portfolio level overlays						(1.5) bp
Total style impact						(0.8) bp

1. The cost premium is the additional cost of external active management relative to the average of other lower cost implementation styles - internal passive, internal active and external passive.
2. A cost premium of 'N/A' indicates that there was insufficient peer data to calculate the premium.
3. The 'Impact of differences in the use of lower cost styles' quantifies the net impact of your relative use of internal passive, internal active and external passive management.

The net impact of differences in external investment management costs added 1.6 bps, primarily due to performance fees paid in the Strategic Partners Network.

Impact of Paying More/(Less) for External Investment Management					
	Your avg holdings in \$mils	Cost in bps			Cost/ (Savings) in \$000s
		You	Peer median	More/ (Less)	
Stock - U.S. - Active	6,243	78.0	42.2	35.8	22,339
Stock - EAFE - Active	4,882	37.0	41.6	(4.6)	(2,244)
Stock - Emerging - Active	3,791	58.3	58.3	0.0	0
Fixed Income - U.S. - Active	548	8.9	15.2	(6.4)	(348)
Fixed Income - Inflation Indexed - Active	251	7.9	14.1	(6.1)	(153)
Fixed Income - High Yield - Active	4,924	35.6	35.7	(0.1)	(59)
Hedge Funds - Active	3,895	98.2	124.0	(25.8)	(10,059)
Commodities - Active	55	14.6	67.7	(53.1)	(290)
Real Estate ex-REITs - Limited Partnership	9,888	127.8	120.5	7.2	7,160
Diversified Private Equity - Active**	15,719	106.5	**	**	**
Total external investment management impact				1.6 bp	16,345

** Line-item comparisons were not done for the direct private equity because CEM collects these costs on a gross basis before rebates. However, you provided costs on a net basis, so we have neutralized the impact in your report.

The net impact of differences in internal investment management costs saved 1.5 bps.

Impact of Paying More/(Less) for Internal Investment Management					
	Your avg holdings in \$mils	Cost in bps			Cost/ (Savings) in \$000s
		You	Peer median	More/ (Less)	
Stock - U.S. - Passive	7,966	0.4	0.4	0.0	0
Stock - U.S. - Active	7,696	5.1	14.6	(9.5)	(7,343)
Stock - EAFE - Passive	1,524	0.5	0.4	0.1	13
Stock - EAFE - Active	7,438	5.0	6.9	(1.9)	(1,424)
Stock - Emerging - Passive	1,829	0.6	1.8	(1.3)	(233)
Stock - Emerging - Active	2,870	5.4	9.8	(4.4)	(1,262)
Fixed Income - U.S. - Passive	8,639	0.3	1.4	(1.1)	(931)
Fixed Income - Inflation Indexed - Passive	7,789	0.3	2.9	(2.6)	(2,050)
Fixed Income - Other - Passive	14	0.0	4.6	(4.6)	(6)
Commodities - Passive	2,310	0.4	3.8*	(3.4)	(792)
Commodities - Active	391	6.2	6.4	(0.2)	(6)
REITs - Passive	1,852	0.3	5.8	(5.5)	(1,017)
Total internal investment management impact				(1.5) bp	(15,052)

*Universe median used as peer data was insufficient.

The net impact of differences in your oversight, custodial & other costs saved you 0.6 bps.

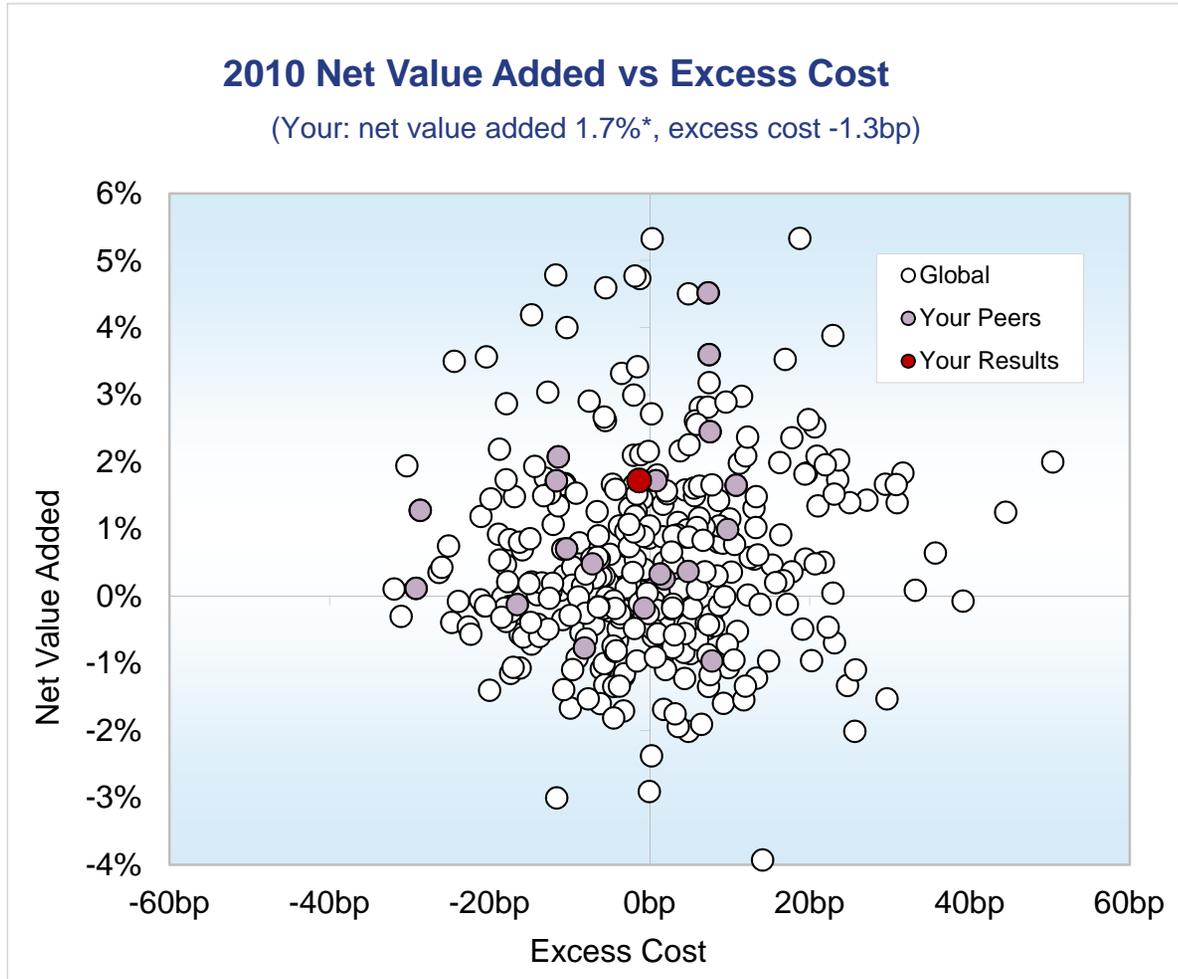
Impact of Differences in Oversight, Custodial & Other Costs					
	Your avg holdings in \$mils	Cost in bps			Cost/ (Savings) in \$000s
		You	Peer median	More/ (Less)	
Oversight	99,703	0.4	1.3	(1.0)	(9,694)
Custodial / trustee	99,703	0.0	0.5	(0.5)	(4,591)
Consulting / performance measurement	99,703	0.4	0.3	0.0	483
Audit	99,703	0.0	0.1	(0.1)	(996)
Other (overhead allocated to IMD)	99,703	1.0	0.1	0.9	8,656
Total impact				(0.6) bp	(6,141)

In summary, you were low cost by 1.3 bps primarily because you had a slightly lower cost implementation style.

Explanation of Your Cost Status		
	Excess Cost/ (Savings)	
	\$000s	bps
1. Implementation style differences		
• Lower use of fund of funds	(34,899)	(3.5)
• Differences in the use of external active management	39,080	3.9
• Lower use of overlays	(14,496)	(1.5)
• Other style differences	<u>2,247</u>	<u>0.2</u>
	(8,068)	(0.8)
2. Paying more or (less) than your peers		
• External investment management costs	16,345	1.6
• Internal investment management costs	(15,052)	(1.5)
• Oversight, custodial & other costs	<u>(6,141)</u>	<u>(0.6)</u>
	(4,849)	(0.5)
Total Savings	(12,917)	(1.3)

4. Cost Effectiveness

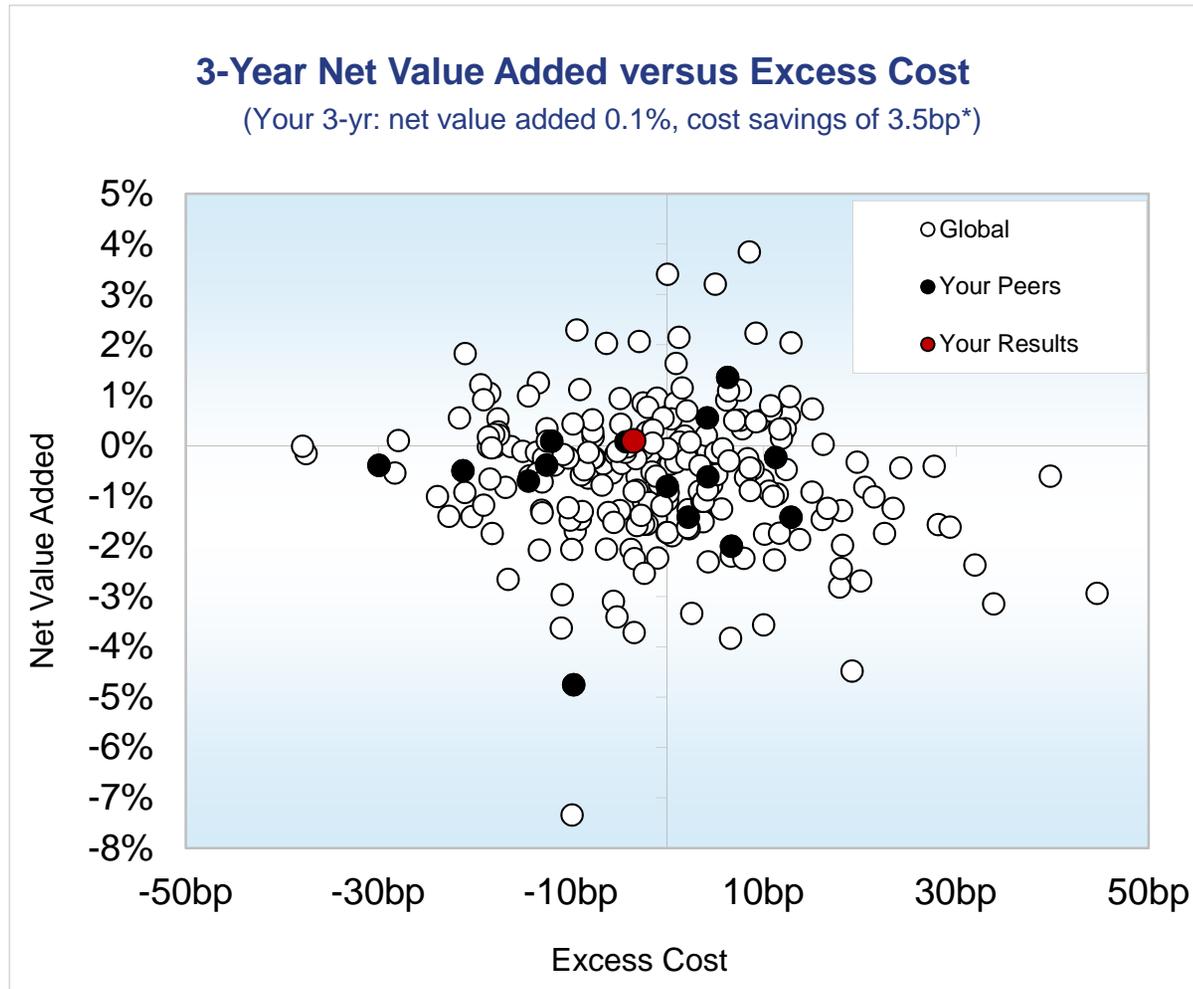
For 2010 you were in the positive net value added, low cost quadrant of the cost effectiveness chart.



¹ Your 2010 Net implementation value added of 1.7% equals your 2.2% gross impl. value added minus your 0.5% actual cost.

4. Cost Effectiveness

Your 3-year performance placed in the positive value added, low cost quadrant.



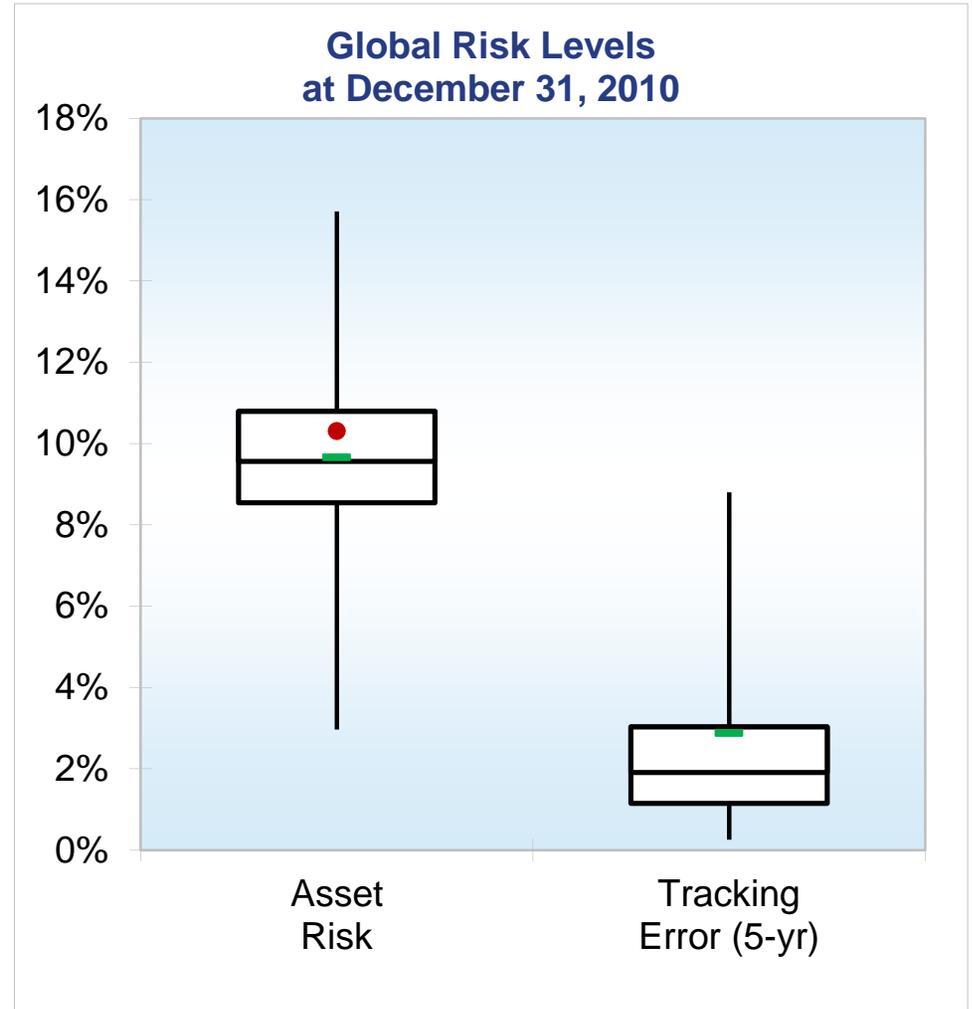
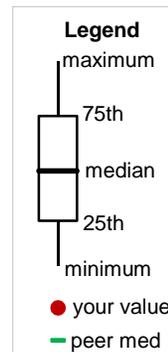
* Your 3-year net value added of 0.1% equals your 3-year 0.5% gross value added minus your 0.4% 3-year average cost.

5. Risk

Comparison of risk levels

Your asset risk of 10.3% is above the Global median of 9.6%. Asset risk is the expected standard deviation of your policy return. It is based on the historical variance of, and covariance between, the asset classes in your policy mix.

We could not calculate tracking error for you fund as we don't have 5 consecutive years of data.



In summary:

1. Policy Return

Your 3-year policy return was -0.1%. This compares to the Global median of 1.1% and the peer median of -0.1%.

2. Value Added

Your 3-year value added was 0.5%. This was above the Global median of 0.0% and above the peer median of 0.0%.

3. Costs

Your actual cost of 46.9 bps was below your benchmark cost of 48.2 bps. This suggests that your fund was slightly low cost. You were low cost by 1.3 bps primarily because you had a lower cost implementation style.

4. Cost Effectiveness

Your 3-year performance placed in the positive value added, low cost quadrant on the cost effectiveness chart.

5. Risk

Your asset risk of 10.3% was above the Global median of 9.6%. Your asset-liability risk of 14.1% was above the Global median of 12.2%. We could not calculate tracking error for you fund as we don't have 5 consecutive years of data.

Tab 11

MEMORANDUM

DATE: March 29, 2012

TO: TRS Board of Trustees
Brian Guthrie
Ken Welch

FROM: Marianne Woods Wiley

SUBJECT: Consider Reappointment of Alice Dilling Cox, M.D. to the TRS Medical Board

Government Code Section 825.204 states that the Board of Trustees shall appoint a Medical Board composed of three physicians. The TRS Medical Board is comprised of three licensed physicians and is charged with determining whether TRS members who apply for disability retirement benefits meet the statutory requirements to receive such benefits. Specifically, members of the TRS Medical Board must determine whether a member is mentally or physically disabled from the further performance of duty and whether the disability is probably permanent. The term of one of the current three members of the Medical Board will expire August 31, 2012.

Medical Board members must be physicians licensed to practice medicine in the State of Texas and be of good standing in the medical profession. The position requires review of TRS member applications for disability retirement and supportive documentation provided by the member and the member's physician(s). The majority of TRS disability retirements are related to neurological, metabolic, neoplastic, psychological, cardiovascular, or degenerative joint diseases, or related to back problems. Medical Board members must be experienced in these areas, and in rendering decisions concerning disability. Approximately one thousand disability applications are filed each year. The TRS Medical Board meets at noon once every other month to discuss matters related to disability retirement. Members are typically appointed to the three-member board for a six-year term and are currently paid \$33,300 per year for services performed under contract. Compensation will be re-evaluated as part of the next budget process.

Due to the very specific TRS disability retirement statutory requirements and experience requirements, staff recommends that the Board of Trustees reappoint Alice Dilling Cox, M.D. to the TRS Medical Board effective September 1, 2012 for a six-year term. Dr. Cox resides in Fredericksburg, Texas and she has practiced medicine for more than thirty years. She has extensive experience related to disability and worker's compensation review and determinations. In addition to having served on the TRS Medical Board since September 1, 2000, Dr. Cox serves as a disability examiner for the Social Security Administration. She has performed in an exemplary manner as a current member of the TRS Medical Board and she has demonstrated that her schedule allows her to devote adequate time to the disability process and be readily available to TRS staff. She works very well with TRS staff and the other members of the Medical Board.

If the Board concurs with this recommendation, the attached resolution is proposed for consideration.

TRS BOARD OF TRUSTEES
APRIL 2012

**RESOLUTION REGARDING APPOINTMENT TO THE TRS MEDICAL BOARD
AND RELATED CONTRACT AUTHORITY**

WHEREAS, The Board of Trustees (“Board”) of the Teacher Retirement System of Texas (“TRS”) appoints as members of the TRS Medical Board three physicians licensed in Texas who are in good standing with the medical profession, pursuant to §825.204, TEX. GOV’T CODE, and the Bylaws of the Board, article 1.8(s);

WHEREAS, TRS Rule § 51.1(c) provides that members of the Medical Board shall be paid, as independent contractors, fees and expenses in accordance with contracts negotiated by the executive director or his designee subject to the applicable resolutions, policies, and annual budget adopted by the Board of Trustees;

WHEREAS, The appointed term of one currently-serving member expires on August 31, 2012; and

WHEREAS, The Board wishes to appoint a member to the TRS Medical Board beginning September 1, 2012 for a six-year term and confirm the Executive Director’s authority to enter into contracts, including amendments, with the appointed members of the TRS Medical Board, subject to the term of the appointment specified by the Board; now, therefore be it

RESOLVED, That the Board hereby appoints Dr. Alice Dilling Cox to the TRS Medical Board for a term of six years beginning September 1, 2012.

RESOLVED, That under TRS Rule § 51.1(c) the Executive Director or his designee shall negotiate all terms of the Medical Board members’ contracts, including the independent contractor duties, responsibilities, fee amounts and structure in accordance with the annual budget, and term of the agreement, as well as amendments; and

RESOLVED, That the Executive Director may not alter the length and commencement date of the appointed term of any TRS Medical Board member, which are set by the Board.

Tab 12

**TEACHER RETIREMENT SYSTEM OF TEXAS
BOARD OF TRUSTEES
AUDIT COMMITTEE**

MEETING AGENDA

**April 20, 2012 – 8:00 a.m.
TRS East Building – Room 345E**

The Audit Committee will meet at 8:00 a.m. on Friday, April 20, 2012 in Room 345E and conclude at approximately 9:30 a.m.

The State Auditor will provide a report on the roles and priorities of the State Auditor's Office.

A representative from Sagebrush Solutions, LLC will present the results of the audit of the TRS-Care Service Providers.

Internal Audit staff will present the results of four projects in the areas of benefits testing, building security, investment accounting, and investment policy compliance. They will also report on the status of outstanding recommendations.

Internal Audit staff will present the plan for conducting the reporting entity study and routine quarterly reports.

Tab 13

MEMORANDUM

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

FROM: Howard Goldman, Director of Communications

DATE: April 20, 2012

SUBJECT: Communications Update

During the last few months, TRS Communications has undertaken a number of projects to assist TRS departments and serve our members. We hosted and webcast two legislative study town hall meetings, produced two videos that explain the studies, published new brochures on special service credit and employment after retirement, updated the TRS Value Brochure (as well as an accompanying video), and revised frequently asked questions throughout the website. In addition, we have continued to see progress in three areas: social media, *MyTRS* promotion, and planning for TRS' 75th anniversary. Listed below is a summary of recent developments in these three areas:

Social Media Program

We continue to see increased visits to our social media sites established in Dec. 2011 and early 2012.

- Facebook: 1816 likes, up from 700 in February
- YouTube: 3 new videos (total of 7 posted), 780 views, up from 400 in February
- Twitter: Started Feb.1, now have 82 followers
- LinkedIn: 552 followers, up from 450 in February

MyTRS Promotion

Current Activities

1. Promoting *MyTRS* through *TRS News* issues
2. Featuring *MyTRS* promotional recordings for 1-800# callers who are placed on hold
3. Distributing *MyTRS* promotional materials at benefit presentations/conventions
4. Creating *MyTRS* posters for the building lobby, cafeteria, etc.
5. Placing general information on the TRS website, including FAQs
6. Sent a *MyTRS* promotional e-mail message from Brian to TRS-covered employers in mid-November with a request that they forward the message to nearly 798,000 active members. As of March 30th, 749 entities had sent the message to 541,458 employees, resulting in 70,668 new *MyTRS* registrations. We now have 249,553 total *MyTRS* registrations. Follow-up efforts are continuing with remaining employers.
7. Developing a *MyTRS* brochure
8. Developing a *MyTRS* instructional video
9. Adding *MyTRS* information to TRS *Social Media* sites

Upcoming Projects

1. Provide higher visibility *for* e-mail subscription information on the TRS website's home page
2. Develop promotional material for employers to use with new employee orientations, place in their newsletters, and post on their websites, etc.
3. Produce table tents to promote *MyTRS* for members attending counseling visits
4. Add a consistent reference to *MyTRS* in TRS printed materials (brochures, envelopes, etc.)
5. Bring a laptop to conventions, presentations, and field office visits so members can register while at the meetings. (Presentations may be difficult due to the number of people attending and only one staff member presenting. Internet capabilities may also vary in some locations.)
6. Place a TV in the lobby to play the *MyTRS* video at various times throughout the day.
7. Add computers in member-waiting areas at TRS with instructions on how to sign up for *MyTRS*.
8. Consider adding employee e-mail addresses when employers enroll new members (TEAM).

75th Anniversary Celebration

- A TRS 75th Anniversary Committee has been formed. The committee has begun planning the celebration, slated for Sept. 2012. Committee members have also surveyed other pension funds to identify those that have celebrated similar anniversaries and the activities they have undertaken.
- A draft project plan and timeline is now being finalized.
- TRS is continuing to coordinate with TRTA Executive Director Tim Lee, of TRTA, who will lead the effort to work with associations and other parties to develop an independent Friends of TRS Committee. The committee will organize anniversary activities that require fundraising.
- In April, staff will meet with retired TRS employees at the TRS Retiree Roundup. Several of these former employees participated in the 50th anniversary celebration.
- TRS representatives will discuss anniversary activities with other pension fund representatives at the NCTR Communications Workshop in May.
- We are now finalizing a scope of work for a 75th anniversary video.
- We have begun work on a graphics style guide project to produce updated and consistent TRS communication materials as well as commemorative publications, anniversary graphics, etc.
- In addition to activities mentioned at our last board meeting (official anniversary program, highlights of what was happening in Texas/U.S. 75 years ago, recognition of our oldest retirees, a time capsule ceremony, special recognition of school districts and higher education institutions, a photography display of the Umlauf statue while under construction, and a commemorative plaque), we are considering an online 75th anniversary museum, a type of Story Corps project, an all-employee event (such as a picnic, barbeque, or potluck) and more.

As progress continues on each of these initiatives, we will provide you with updates at future board meetings.

Tab 14

Board Operations

TRS Board Meeting
April 20, 2012

Objectives

- Review committee structure recommendation
- Preview June and July Board agendas
- Discuss electronic board materials

Tab 14 A



Committee Structure

Constructing a Secure Future



Committee Structure

- Currently, 8 committees with 5 members each.
- Move to the following 4 committees with 7 members each, except Ethics:
 - Administration & Benefits
 - Investment Management
 - Audit
 - Ethics (committee of the whole)

Committee Structure

- Administration and Benefits:
 - Policy matters not related to investments or ethics;
 - Benefit matters;
 - Budget matters;
 - Enterprise risk management; and
 - Compensation matters could be assigned to this committee or handled through an ad hoc committee.
- Investment Management:
 - Policy matters related to investments; and
 - Investment risk management.

Committee Structure

- **Audit:**
 - Purview remains the same.

- **Ethics:**
 - Policy matters related to ethics; and
 - Other ethics matters.

Committee Structure

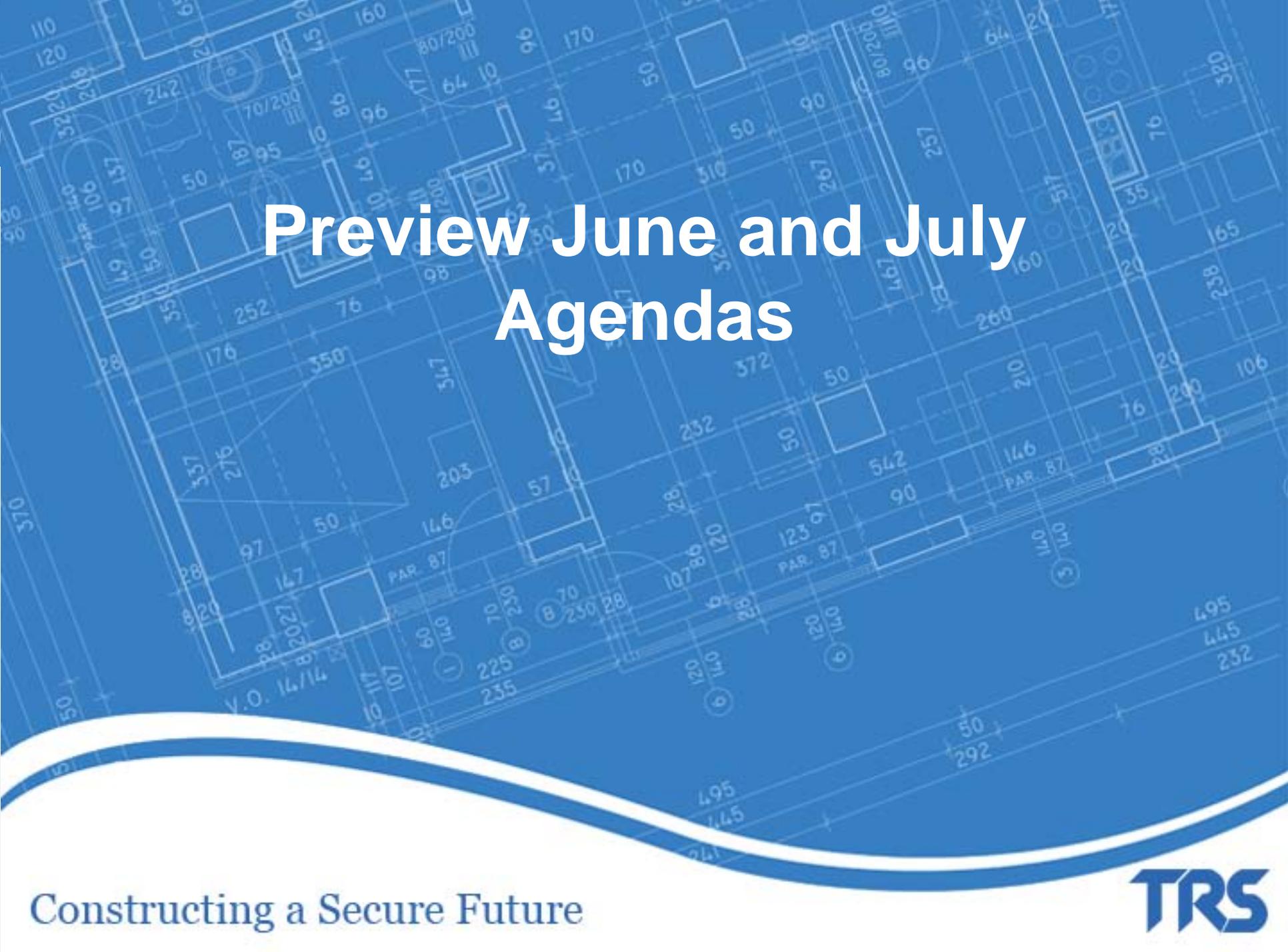
- Each committee has 7 members with a chair and a vice-chair.
- Chairs serve only on his or her own committee and Ethics Committee.
 - Vice-chairs serve on all committees.
 - Chair of Administration & Benefits does not serve on IMC or Audit.
 - Chair of IMC does not serve on Administration & Benefits or Audit.
 - Chair of Audit does not serve on Administration & Benefits or IMC.

Committee Structure

Next Steps:

- If the Board wishes to proceed with the new committee structure, then staff will draft Bylaw amendments.
- Bylaw amendments will be voted on at the June Board meeting.
- In September, which is when the Chairman regularly appoints committee chairs and members, the new structure would take effect.

Tab 14 B

The background is a detailed architectural blueprint with various lines, dimensions, and annotations. The text is centered in a large, white, sans-serif font.

Preview June and July Agendas

Constructing a Secure Future



Outline of June Agenda

■ Budget Committee Meeting

- Consider recommending adoption of FY 2013 budgets, including
 - Pension trust administration and general provisions;
 - Health benefits (retired and active plans); and
 - 403(b) certification program.
- Consider recommending budgetary-related fiduciary findings.
- Discuss LAR for 2014-2015 Biennium.
- Discuss proposed Strategic Plan for FY 2013-2017.

Outline of June Agenda

■ Benefits Committee Meeting

- Given the level of public interest in these items, it might be appropriate to take up and discuss them directly at the Board level rather than going through the committee.
- Discuss and consider recommending to the Board a vendor for fully-insured Medicare Advantage Plans for TRS-Care.
- Discuss and consider recommending to the Board premiums and plan design for the following:
 - Fully-insured Medicare Advantage Plans for TRS-Care;
 - Medicare Part D Employer Group Waiver Plans (EGWP) plus wrap for TRS-Care; and
 - TRS-Care 1, 2, and 3.

Outline of June Agenda



■ Benefits Committee Meeting (cont'd)

- Consider recommending to the Board the amount of the return-to-work TRS-Care surcharge.
- Evaluate GRS as provider of health benefits consulting.
- Review Benefit Services Statistics Report.
- Receive the report on the June 1, 2012 Retirees Advisory Committee.

Outline of June Agenda

■ Policy Committee Meeting

- Continue IPS review and discuss possible amendments for adoption in September.
- Consider recommending adoption of amendments to Investment Authority Resolution (TRS 477).
- Consider recommending adoption of Rule 41.4, relating to the administration and processing of the return-to-work TRS-Care surcharge.
- Consider Bylaw amendments to restructure committees, if desired.

Outline of June Agenda

- **Investment Management Committee Meeting**
 - Review External Private Markets Portfolio and strategic plan, including:
 - Private strategic partnership accounts;
 - Emerging managers;
 - Private equity;
 - Real assets; and
 - Principal investments.

Outline of June Agenda

■ Risk Management Committee Meeting

- Receive an update on TRS' Enterprise Risk Management Program and discuss the Spotlight Report on the following:
 - TEAM;
 - Contract procurement and management;
 - Confidential information; and
 - Workforce continuity.

Outline of June Agenda

- **Audit Committee Meeting**
 - Receive reports on Network Penetration Tests, Hot Site Tests, and Disaster Recovery Initiatives.
 - Audit Reports:
 - Employee compensation, payroll, and position control;
 - Investment risk management;
 - Quarterly testing of compliance with IPS; and
 - Quarterly testing of information security.
 - Status or prior recommendations
 - Internal Audit Projects
 - Reporting entity study;
 - Audit Plan for 2013
 - Internal Audit Administrative Reports
-

Outline of June Agenda

- Administrative matters.
 - Investment reporting:
 - HEK presentation on quarterly performance;
 - IMD presentation; and
 - Receive IMC report.
 - Receive Risk Committee Report on Enterprise Risk Management topics.
 - Receive Budget Committee report and consider:
 - 2013 Administrative operations budgets and General Provisions for the pension trust fund, health care fund, and 403(b) certification program.
 - Make budgetary-related fiduciary findings.
-

Outline of June Agenda

- Receive update on LAR for 2014-2015 Biennium.
- TRS-Care Study Update.
- Receive Benefits Committee report and consider:
 - Vendor and premiums and plan design for Medicare Advantage plans;
 - Medicare Part D EGWP with wrap for premiums and plan design;
 - Premiums and plan design for TRS-Care 1, 2, and 3; and
 - Setting the amount of the return-to-work TRS-Care surcharge.
- Receive Policy Committee report and consider:
 - Amendments to Rule 41.4 relating the administration and processing of the return-to-work TRS-Care surcharge;
 - Amendments to Investment Authority Resolution; and
 - Bylaw changes to committee structures, if desired.

Outline of June Agenda



- TEAM Update.
- Communications update on 75th Anniversary events and Report on the Member Satisfaction Survey.
- Receive Audit Committee report.
- Receive Litigation Report.
- Standard Reports from CBO, CFO, DD, and ED.

Outline of July Agenda



- Administrative matters
- Discuss final proposed Legislative Appropriations Request for the 2014-2015 Biennium.
- Receive Pension Benefit Design Study update.
- Consider authorizing the purchase of directors' and officers' and fiduciary liability insurance.
- Consider certifying to the State Comptroller the estimated amounts of state contributions to be received by TRS-Care for FY 2013.

Outline of July Agenda con't



- Consider certifying to the Legislative Budget Board and the Governor's Office the estimated amounts necessary to pay state contributions to TRS-Care for the 2014-2015 biennium.
- Conduct interviews and select fiduciary counsel.
- TEAM Update.
- Communications update on 75th Anniversary events.
- Standard Reports from CFO, DD, and ED.

Tab 14 C

Electronic Board Books

Constructing a Secure Future



Electronic Board Books



- Is there support for the concept of moving to electronic board materials?
- Does the Board support using an application, such as the one they “test drove” during this meeting for the materials?
- Is the Board comfortable with staff selecting a provider and moving to a full electronic book for the June meeting?

- 15. Review the report of the Chief Benefit Officer, and consider related matters – Marianne Woods Wiley:**
 - A. Approve members qualified for retirement.**
 - B. Review report of status of retired payroll.**
 - C. Approve minutes of Medical Board meetings.**

TAB A

AC4016
03/01/2012
18:44:16

TEACHER RETIREMENT SYSTEM OF TEXAS
BOARD REPORT
SUMMARY OF DISBURSEMENTS

PAGE 1

	December 1, 2011 through February 29, 2012		
	NUMBER OF PAYMENTS	GROSS PAYMENT TOTAL	AVERAGE PAYMENT
Service Retirees	3,668	7,454,644.31	2,032.34
Disability Retirees	196	205,956.24	1,050.79
Survivor Benefits	291	73,250.00	251.71
Survivor Benefit Lump Sum Payment	2,514	14,824,954.97	5,896.95
Life Annuity as Death Settlement	40	58,662.66	1,466.56
60 Monthly Payments as Death Settlement	49	63,169.44	1,289.17
Refund of Deposit as Death Settlement	138	2,077,639.56	15,055.35
Twice Annual Salary as Death Settlement	313	11,240,488.98	35,912.10
Lump Sum DROP Member Payment	9	1,589,256.63	176,584.07
5 Annual DROP Member Payments			
10 Annual DROP Member Payments	1	19,014.92	19,014.92
60 Monthly DROP Member Payments			
120 Monthly DROP Member Payments	5	11,083.64	2,216.72
DROP Payments to Beneficiary of Active Member			
12 Month Partial Lump Sum Option Payment	335	10,412,389.32	31,081.75
24 Month Partial Lump Sum Option Payment	215	12,677,061.00	58,963.07
36 Month Partial Lump Sum Option Payment	536	47,456,054.40	88,537.41
Totals:	8,310	108,163,626.07	13,016.08
Total Refunds:	37,537	279,770,461.00	7,453.19

SUMMARY OF DISBURSEMENTS
Glossary

The Summary of Disbursements on the preceding page provides data related to annuitants added to the payroll during the quarter. Specifically, for each category listed, the data includes: (1) the number of new payment inceptions, (2) the gross total of all new payments, and (3) the average of all payments. The categories are defined as follows:

Service Retirees: Members who have met the eligibility requirements and applied for a monthly service retirement annuity.

Disability Retirees: Members who have met the eligibility requirements, applied and been approved for a monthly disability retirement annuity.

Survivor Benefits: Monthly survivor benefits paid to eligible beneficiaries of deceased active members and retirees.

Survivor Benefit Lump Sum Payment: Single lump-sum survivor benefit, or reduced lump-sum in conjunction with monthly survivor benefit, paid to eligible beneficiaries of deceased active members and retirees.

Life Annuity as Death Settlement: Actuarially reduced monthly life annuity payment to eligible beneficiary of deceased active member. (One of several options which may be payable upon the death of an active member.)

60 Monthly Payments as Death Settlement: Monthly standard annuity payment, for a period of 60 months, to eligible beneficiary of deceased active member.

Refund of Deposit as Death Settlement: Payment of accumulated contributions and interest to beneficiary of deceased active member.

Twice Annual Salary as Death Settlement: Lump-sum payment equal to twice the member's annual salary rate, not to exceed \$80,000, paid to beneficiary of deceased active member.

Lump Sum DROP Member Payment: One-time, lump-sum distribution, at retirement, of member's DROP account balance. (One of several DROP distribution options that may be elected by a retiree.)

5 Annual DROP Member Payments: Initial or subsequent annual DROP payment under this DROP distribution election.

10 Annual DROP Member Payments: Initial or subsequent annual DROP payment under this DROP distribution election.

60 Monthly DROP Member Payments: Initial or subsequent monthly DROP payment under this DROP distribution election.

120 Monthly DROP Member Payments: Initial or subsequent monthly DROP payment under this DROP distribution election.

DROP Payments to Beneficiary of Active Member: Lump-sum distribution of DROP account balance to beneficiary of deceased active member who participated in DROP prior to death.

12 Month Partial Lump Sum Option Payment: Lump-sum payment to retiree who elected a partial lump-sum option (PLSO) distribution equal to 12 months of standard annuity.

24 Month Partial Lump Sum Option Payment: Lump-sum payment to retiree who elected a partial lump-sum option (PLSO) distribution equal to 24 months of standard annuity.

36 Month Partial Lump Sum Option Payment: Lump-sum payment to retiree who elected a partial lump-sum option (PLSO) distribution equal to 36 months of standard annuity.

Total Refunds: Number, gross total, and average amount of all refunds of terminated member accounts.

TAB B

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02/28/2012
19:48:29

TEACHER RETIREMENT SYSTEM OF TEXAS
RETIRED PAYROLL REPORT
2011-2012

MONTH	TOTAL PAYEES	ANNUITANTS PAID TOTAL PAYMENTS	TOTAL AMOUNT	NUMBER	SUSPENDED NUMBER	AMOUNT	DEFERRED NUMBER	AMOUNT	NUMBER	AMOUNT	RTT NUMBER	AMOUNT
August (2010-2011)	297,122	311,587	568,025,824.00	93	343,501.39	1,050	7,744,720.92	1,050	7,744,720.92	1,050		.00
September	300,838	315,519	584,361,534.50	89	715,943.89	1,064	8,478,545.21	1,064	8,478,545.21	1,064	1	601.12
October	303,569	318,088	579,021,994.93	99	1,347,098.28	1,105	9,812,696.43	1,105	9,812,696.43	1,105	1	601.12
November	303,796	318,359	578,771,978.67	77	169,075.65	1,099	9,852,618.91	1,099	9,852,618.91	1,099	2	2,598.72
December	303,875	318,517	581,521,003.85	82	202,551.80	1,098	9,709,707.92	1,098	9,709,707.92	1,098	2	3,954.88
January	304,320	319,177	590,851,431.90	81	104,965.01	1,095	9,699,471.78	1,095	9,699,471.78	1,095	4	4,611.83
February	305,462	320,481	595,038,447.82	80	127,742.47	1,088	9,389,967.54	1,088	9,389,967.54	1,088	4	4,611.83

TOTAL YEAR TO DATE 3,509,566,391.67

AP3082
 02/14/2012
 19:51:17

TEACHER RETIREMENT SYSTEM OF TEXAS
 BOARD REPORT
 FEBRUARY MONTHLY PAYROLL

	Number of Payments	Gross Payment Total	Average Payment

Service Retirees	274,632	530,158,893.12	1,930.43
Disability Retirees	10,608	11,586,678.40	1,092.26
Option Continuations	18,837	28,948,774.76	1,536.80
Survivor Benefits	10,416	2,610,946.66	250.67
Life Annuity as Death Settlement	4,532	7,024,383.15	1,549.95
60 Monthly Payments as Death Settlement	781	849,121.02	1,087.22
Lump Sum DROP Member Payment	1	117,683.12	117,683.12
5 Annual DROP Member Payments	1	22,857.40	22,857.40
10 Annual DROP Member Payments	6	105,533.37	17,588.90
60 Monthly DROP Member Payments	40	79,108.95	1,977.72
120 Monthly DROP Member Payments	343	481,789.32	1,404.63
DROP Payments to Beneficiary of Retired Member	11	12,549.45	1,140.86
DROP Payments to Beneficiary of Active Member			
12 Month Partial Lump Sum Option Payment	79	2,076,550.56	26,285.45
24 Month Partial Lump Sum Option Payment	65	3,150,965.04	48,476.39
36 Month Partial Lump Sum Option Payment	129	7,812,613.50	60,562.90
PLSO Payments to Beneficiary of Retired Member			
Totals:	320,481	595,038,447.82	1,856.70
Retirees:	284,607	554,728,353.15	1,949.10
Beneficiaries:	35,874	40,310,094.67	1,123.65
Total Payments:	320,481	595,038,447.82	1,856.70
Multiple Payments:	15,019		
Total Annuitants:	305,462	595,038,447.82	1,947.99

TAB C

**TEACHER RETIREMENT SYSTEM OF TEXAS
MEDICAL BOARD MEETING
OPEN SESSION AGENDA
JANUARY 10, 2012**

The Medical Board of the Teacher Retirement System of Texas met at 12:00 p.m. Tuesday, January 10, 2012 in the TRS offices.

The following members were present:

Dr. Alice Cox, Fredericksburg
Dr. James Allen Reinartz, Austin
Dr. Larry Wilson, Austin

Others present:

Ms. Marianne Woods Wiley, Chief Benefit Officer, TRS
Ms. Beckie Smith, Legal Services, TRS
Ms. Liz Oliphint, Manager of Benefit Processing, TRS
Mr. Mike Rehling, Assistant Manager, TRS
Mr. Adam Fambrough, Team Leader, TRS
Ms. Denise Hope, Benefit Consultant, TRS

Dr. Wilson called the meeting to order at 12:16 p.m.

1. REVIEW OF MINUTES FROM THE NOVEMBER 8, 2011 MEETING.

The minutes of the November 8, 2011 meeting were reviewed and approved.

2. CONSIDERATION OF FILES OF TRS MEMBERS WHO ARE CURRENTLY APPLYING FOR DISABILITY RETIREMENT AND THE FILES OF DISABILITY RETIREES WHO ARE DUE A RE-EXAMINATION REPORT.

Dr. Wilson announced that the Medical Board would enter into Executive Session, as provided by section 551.078 of the Texas Government Code, to deliberate medical information of individual members and retirees.

The Board entered into closed session at 12:19 p.m.
The meeting was re-opened at 12:32 p.m.

3. REVIEW OF DISABILITY STATISTICS.

**PG. 2 TRS Medical Board Minutes
January 10, 2012**

4. DISCUSSION OF COMPENSATION FOR MEDICAL BOARD MEMBERS.

Marianne Woods Wiley and Liz Oliphint are willing to recommend an increase to the budget for this purpose; however, they do not have budget approval authority and cannot offer any assurance of approval. At the request of staff, Dr. Wilson agreed to prepare a summary of information in support of the request such as an explanation of the increased complexity of the medical records that are being received today compared to information received in prior years.

5. DISCUSSION OF ITEMS TO BE PLACED ON FUTURE AGENDAS.

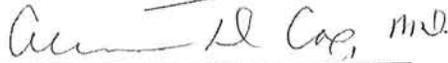
Compensation for Medical Board Members will be discussed in more detail at our next meeting.

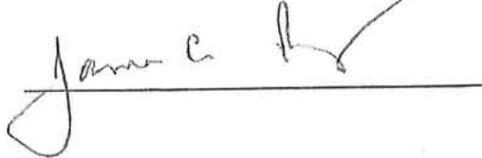
6. DISCUSSION OF THE DATE OF NEXT BOARD MEETING.

The next Medical Board meeting was scheduled for March 13, 2012.
The meeting was adjourned at 12:59 p.m.

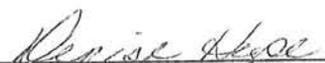
**Dr. Larry Wilson, Chairman
TRS Medical Board**







Attest:



Denise Hope

**TEACHER RETIREMENT SYSTEM OF TEXAS
MEDICAL BOARD MEETING
OPEN SESSION AGENDA
NOVEMBER 8, 2011**

The Medical Board of the Teacher Retirement System of Texas met at 12:00 p.m. Tuesday, November 8, 2011 in the TRS offices.

The following members were present:

Dr. Alice Cox, Fredericksburg
Dr. James Allen Reinartz, Austin
Dr. Larry Wilson, Austin

Others present:

Ms. Marianne Woods Wiley, Chief Benefit Officer, TRS
Ms. Beckie Smith, Legal Services, TRS
Ms. Liz Oliphint, Manager of Benefit Processing, TRS
Mr. Mike Rehling, Assistant Manager, TRS
Mr. Adam Fambrough, Team Leader, TRS
Ms. Denise Hope, Benefit Consultant, TRS

Dr. Wilson called the meeting to order at 12:17 p.m.

1. REVIEW OF MINUTES FROM THE SEPTEMBER 13, 2011 MEETING.

The minutes of the September 13, 2011 meeting were reviewed and approved.

2. CONSIDERATION OF FILES OF TRS MEMBERS WHO ARE CURRENTLY APPLYING FOR DISABILITY RETIREMENT AND THE FILES OF DISABILITY RETIREES WHO ARE DUE A RE-EXAMINATION REPORT.

Dr. Wilson announced that the Medical Board would enter into Executive Session, as provided by section 551.078 of the Texas Government Code, to deliberate medical information of individual members and retirees.

The Board entered into closed session at 12:22 p.m.
The meeting was re-opened at 12:43 p.m.

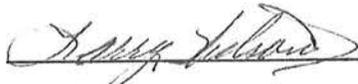
3. REVIEW OF DISABILITY MONTHLY REPORT.

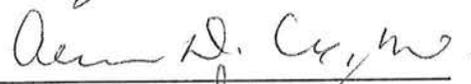
**PG. 2 TRS Medical Board Minutes
November 8, 2011**

- 4. DISCUSSION OF METHODS OF PROVIDING MEDICAL RECORDS TO MEMBERS OF THE MEDICAL BOARD.**
- 5. DISCUSSION OF ITEMS TO BE PLACED ON FUTURE AGENDAS**
- 6. DATE OF NEXT BOARD MEETING.**

The next Medical Board meeting was scheduled for January 10, 2012.
The meeting was adjourned at 12:57 p.m.

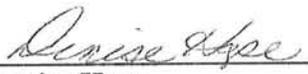
**Dr. Larry Wilson, Chairman
TRS Medical Board**







Attest:



Denise Hope

Tab 16

January and February 2012 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: April 4, 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 January 2012 the Pension Trust Fund disbursed a total of \$5.9 million for administrative operations, which included approximately \$3.8 million for salaries & other personnel costs, \$0.8 million for professional fees, and \$1.3 million for other operating expenses. Items of interest include payments of \$367,563 for investment consultants, \$314,750 for software purchases and maintenance, \$294,348 in postage for TRS newsletter, \$244,744 for investment counsel, \$149,544 for leased space, \$136,849 to mail tax forms (1099s), and \$120,500 for State Auditor's fiscal year 2011 CAFR audit.

Additionally, approximately \$6.1 million was disbursed for performance incentive compensation and \$0.4 million for associated other personnel costs in January 2012. The incentive compensation payments were for the two plan years ending September 30, 2010 and 2011.

A total of \$5.4 million was disbursed for administrative operations in February 2012. Administrative operating costs included approximately \$4.0 million for salaries & other personnel costs, \$0.8 million for professional fees, and \$0.6 million for other operating expenses. Items of interest include payments of \$552,083 for investment consultants, \$219,219 for investment counsel, \$146,095 for leased space, and \$99,688 for an enterprise service desk management application.

TEAM program disbursements in January were \$37,813 for program management services; February disbursements included \$103,694 for a back-up power supply system and \$85,600 for program management and other consulting 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
January	12,409,354	15,385,714
February	5,413,959	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>\$ 41,981,828</u>	<u>\$ 77,784,294</u>

(a) Includes \$6.1 million in incentive compensation pay for FY 2012 and \$9.7 million for FY 2011.

(b) Cash Disbursements totaled \$45,496,654 at February 28, 2011.

(c) Includes reimbursements of \$286,105.

Tab 17

Deputy Director Report

Board of Trustees Meeting

April 20, 2012

Ken Welch

Proposed IRS Standards



- In November 2011, the IRS released a proposal to establish new standards for determining whether a retirement plan is a “governmental” plan. The draft standards are a very preliminary proposal.

What does the IRS proposal mean for TRS?



- Employers covered by TRS and employees allowed to participate in TRS must meet the definition of “governmental” employers and employees in order for TRS to maintain its qualified plan status.
- The IRS has already received comments expressing that the preliminary standards are not practical for certain segments of the governmental plan population, specifically charter school employees. In Texas open enrollment charter school employees are allowed to participate in TRS, and those charter schools are treated as TRS-covered employers.

What are the next steps?



- The IRS is holding two town hall meetings and a phone forum to hear from the public. It also will hold a public hearing on July 9, 2012. Written comments are due June 18, 2012.
- TRS will carefully monitor how IRS addresses the concerns raised by the charter school community and provide updates as needed to employers and employees.