

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

AGENDA

December 13, 2012 – 11:00 a.m.

December 14, 2012 – 10:00 a.m.

TRS East Building, 5th Floor, Boardroom

*The December 13-14, 2012 meeting of the TRS Board of Trustees will be held by telephone conference call as authorized under Texas Government Code Section 551.130. The Board intends to have a quorum physically present at the following location: **1000 Red River Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

NOTE: The Board may take up any item posted on the agenda without regard to the agenda item number during its meeting on Thursday, December 13, 2012, or the following day beginning at the time and place specified on this agenda.

The open sessions of the December 13-14, 2012 Board meetings are streamed live 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 the approval of the September 13-14, 2012 Board meeting minutes – David Kelly.
3. Consider canceling the January 18, 2013 Board meeting – David Kelly.
4. Recognize the service of Conni Brennan – David Kelly.
5. Receive public comment – David Kelly.
6. Discuss and consider investment matters, including the following items:
 - A. Performance Review: Third Quarter 2012 – Brady O'Connell and Steve Voss, Hewitt EnnisKnupp.
 - B. Review Quarterly Portfolio Performance and market update – Britt Harris.
 - C. Receive the report of the Investment Management Committee on its December 13, 2012 meeting, and consider related matters – Todd Barth.
7. Review the Comprehensive Annual Financial Report for fiscal year 2012 – Jamie Michels and Cindy Haley.

8. Review the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2012 – Joseph Newton, Gabriel, Roeder, Smith & Company.
9. Review the TRS-Care Actuarial Valuation report as of August 31, 2012, and receive an overview and update on the status of the health benefit programs – Joseph Newton and William Hickman, Gabriel, Roeder, Smith & Company.
10. Receive the report of the Policy Committee on its December 13, 2012 meeting, and consider adoption of proposed amendments to the following TRS rules in Chapter 41 of Title 34 of the Texas Administrative Code – Joe Colonna:
 - A. Rule § 41.2, relating to additional enrollment opportunities;
 - B. Rule § 41.5, relating to payment of contributions; and
 - C. Rule § 41.7, relating to effective date of coverage.
11. Receive an update on the implementation of legislation from the 82nd Texas Legislative Session and discuss legislative preparation for the upcoming 83rd Texas Legislative Session – Brian Guthrie.
12. Receive the report of the Risk Management Committee on its December 13, 2012 meeting, and consider related matters – Eric McDonald.
13. Receive an update on human resource matters, including the inclusion of TRS in the Austin American-Statesman's Top 100 Work Places of 2012, the selection process for the position of TRS General Counsel, and an update on the TRS Leadership Development Program – Janet Bray.
14. Receive a report on the investments in private investment fund CVC European Equity Partners IV L.P. and restricted securities of Delta Topco under Section 825.3011, Government Code and Subchapter D of the Open Meetings Act (Chapter 551, Government Code) – Rich Hall and Michael Lazorik.

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

15. Discuss and consider selecting an Independent Program Assessment (IPA) vendor for the TEAM Program, including:
 - A. Receive an overview of the role of the IPA vendor in the TEAM Program and the IPA vendor selection process – Amy Barrett.
 - B. Interview IPA vendor finalists and consider a resolution selecting an IPA vendor – David Kelly.

16. Receive the report of the Audit Committee on its December 14, 2012 meeting, and discuss and consider related matters – Chris Moss.
17. Receive the report of the Benefits Committee on its December 14, 2012 meeting, and discuss and consider related matters – Chris Moss.
18. Receive the report of the Chief Benefit Officer, and consider related matters – Marianne Woods Wiley:
 - A. Approve members qualified for retirement.
 - B. Approve minutes of Medical Board meetings.
19. Receive 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.
20. Receive the Deputy Director's report, including matters related to communications outreach efforts, an update on the receipt of an IRS determination letter of qualified plan status for the pension plan, an update on the backup generator installation, and an update on the TEAM Program – Ken Welch.
21. Receive the Executive Director's report, including matters related to – Brian Guthrie:
 - A. Discuss upcoming Board agendas.
 - B. Retirement plan benefits and operations.
 - C. Investment activity and operations.
 - D. Health-benefit programs and operations.
 - E. Administrative operations and other financial, audit, legal, staff services, and special project matters.
22. 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 Pfizer securities litigation; other securities litigation; the LIBOR litigation; the declaratory judgment action by a retiree relating to ownership in Educational Independent Contractors, L.L.C., and other litigation involving benefit-program contributions, retirement benefits, and open records – Dennis Gold, Tim Wei, Rebecca Smith, and Dan Junell.
23. Consult with the Board's attorney in closed session on any item listed above as authorized by Subchapter D of the Open Meetings Act (Chapter 551, Government Code) – David Kelly.

Tab 2



Teacher Retirement System of Texas

Minutes of the Board of Trustees

September 13-14, 2012

The Board of Trustees of the Teacher Retirement System of Texas met on September 13-14, 2012, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, 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
Jerry Albright, Deputy Chief Investment Officer
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
Amy Morgan, Chief Information Officer
Sylvia Bell, Director of Investment Operations
Stuart Bernstein, Investment Manager
Dinah Arce, Internal Auditor
Patricia Cantú, Director, Investment Business Center
Mary Chang, Assistant General Counsel
Chris Cutler, Director of Network Infrastructure and Support
Dennis Gold, Assistant General Counsel
Terry Harris, Compliance Officer
Dan Herron, Communications Specialist
Brian Gomolski, Senior Investment Auditor
Scot Leith, Manager – Investment Accounting
Dan Junell, Secretary to the Board and Assistant General Counsel
Lynn Lau, Assistant Secretary to the Board and Program Specialist
Melinda Nink, Executive Assistant
Rebecca Smith, Assistant General Counsel
Hugh Ohn, Director of Investment Audit and Compliance

Sharon Toalson, Assistant to the Chief Investment Officer
David Veal, Chief of Staff to the Chief Investment Officer
Angela Vogeli, Assistant General Counsel
Dale West, Managing Director – External Public Markets

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

Ed Wicker
Sheila Payne
Charlsetta Finley
Philip Mullins
Mary Blevins
Wayne Blevins
Charles Dunlap
Ronnie Jung
Chester Cunningham
Dr. Keith Brown, Investment Advisor
Steven Huff, Reinhart Boerner Van Deuren, Fiduciary Counsel
Brady O’Connell, Hewitt EnnisKnupp, Investment Counsel
Steve Voss, Hewitt EnnisKnupp, Investment Counsel
Victor Ferreira, HP
Jim Valveri, HP
Craig teDuits, State Street
John Claisse, Albourne America

Mr. Kelly called the meeting to order at 8:37 a.m.

1. Call roll of Board members.

Ms. Lau called the roll. All trustees were present.

2. Consider administrative matters, including the following – David Kelly:

A. Consider the approval of the July 20, 2012 Board meeting minutes.

On a motion by Mr. Moss, seconded by Mr. Barth, the board unanimously approved the July 20, 2012 board minutes as presented by staff.

B. Consider excusing Board member absence from the June 7, 2012 Board meeting.

On a motion by Ms. Sissney, seconded by Mr. McDonald, the board unanimously voted to excuse Ms. Clifton’s absence from the June 7, 2012 board meeting.

C. Consider the election of the Board Vice-Chair and Texas Growth Fund Trustee.

On a motion by Ms. Palmer, seconded by Mr. McDonald, the board unanimously elected Ms. Clifton to be the board vice-chair.

On a motion by Mr. Moss, seconded by Ms. Clifton, the board unanimously elected Ms. Palmer to be the Texas Growth Fund Trustee.

D. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's public announcement of committee chairs.

On a motion by Ms. Sissney, seconded by Mr. Barth, the board unanimously approved the following committee appointments:

Audit Committee

Chris Moss, Chair
Karen Charleston
Eric McDonald
Anita Palmer
Nanette Sissney

Benefits Committee

Chris Moss, Chair
Karen Charleston
Charlotte Clifton
Anita Palmer
Nanette Sissney

Budget Committee

Nanette Sissney, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Chris Moss

Policy Committee

Joe Colonna, Chair
Todd Barth
Charlotte Clifton
David Kelly
Eric McDonald

Investment Management Committee

Todd Barth, Chair
Joe Colonna
David Kelly
Eric McDonald
Nanette Sissney

Risk Management Committee

Eric McDonald, Chair
Todd Barth
Karen Charleston
David Kelly
Chris Moss

Ethics Committee

Charlotte Clifton, Chair

Compensation Committee

Nanette Sissney, Chair
Charlotte Clifton
Joe Colonna
David Kelly
Anita Palmer

Texas Growth Fund Representative

Anita Palmer

E. Consider Board and committee meeting dates for calendar year 2013, including any off-site meeting locations.

On a motion by Ms. Clifton, seconded by Mr. McDonald, the board unanimously voted to adopt the following meeting schedule for calendar year 2013:

January 18, 2013
February 20 – 22, 2013
April 18 – 19, 2013 (quarterly meeting)
June 13 – 14, 2013 (quarterly meeting)
July 26, 2013
September 12 – 13, 2013 (quarterly meeting)
October 18, 2013
December 12 – 13, 2013 (quarterly meeting)

3. Recognize and celebrate TRS' 75th anniversary year, including viewing the 75th anniversary video – David Kelly.

As part of the TRS 75th anniversary ceremony, trustees and Mr. Guthrie were presented with a plaque and a Texas flag. Mr. Kelly read the resolution issued by the Governor as follows:

To all to whom these presents shall come,

Greetings: Know ye that this official recognition is presented to the:

Teacher Retirement System of Texas
on the occasion of its
75th anniversary

Congratulations on your years of success! Since 1937, TRS has been a tremendous resource for teachers and public education employees throughout Texas.

Your efforts have helped to ensure that teachers are prepared for their retirement, and that retirees are compensated for their hard work for Texas children.

As you celebrate the past and look forward to the future, you continue to demonstrate the hard work and commitment that have helped your organization achieve its longevity.

First Lady Anita Perry joins me in sending best wishes.

In testimony whereof, I have signed my name and caused the Seal of the State of Texas to be affixed at the City of Austin, this the 28th day of June, 2012.

Rick Perry
Governor of Texas

Mr. Kelly introduced former trustees Ed Wicker, Sheila Payne, Charlsetta Finley, Philip Mullins, and former executive directors, Wayne Blevins, Charles Dunlap, and Ronnie Jung. Mr. Wicker, Ms. Payne, Ms. Finley, Mr. Mullins, Mr. Blevins, Mr. Dunlap, and Mr. Jung delivered remarks and acknowledged TRS 75th anniversary, respectively.

Whereupon, a video honoring TRS 75th anniversary was shown.

The board meeting was recessed at 9:40 a.m. on September 13, 2012.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 13, 2012 at 2:03 p.m. in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, 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
Jerry Albright, Deputy Chief Investment Officer
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
Betsey Jones, Director of Health Care Policy and Administration
Amy Morgan, Chief Information Officer
Marianne Woods Wiley, Chief Benefit Officer
Thomas Albright, Deputy Chief of Staff to the Chief Investment Officer
Jase Auby, Chief Risk Officer
Sylvia Bell, Director of Investment Operations
Michelle Bertram, Administrative Assistant, Communications
Patricia Cantú, Director, Investment Business Center
Chi Chai, Senior Managing Director – Internal Public Markets
Susanne Gealy, Director, External Public Markets
Janis Hydak, Managing Director – Macro, Risk, Quant and Thematic Strategies
Dan Junell, Secretary to the Board and Assistant General Counsel
Lynn Lau, Assistant Secretary to the Board and Program Specialist
Rebecca Merrill, Special Advisor to the Executive Director and Manager of Special Projects
Noel Sherman, Manager, Client Services & Support

Sharon Toalson, Assistant to the Chief Investment Officer
David Veal, Chief of Staff to the Chief Investment Officer
Dale West, Managing Director – External Public Markets

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

Philip Mullins
Dr. Keith Brown, Investment Advisor
Steven Huff, Reinhart Boerner Van Deuren, Fiduciary Counsel
Steve Voss, Hewitt EnnisKnupp and Associates
Brady O’Connell, Hewitt EnnisKnupp and Associates
Edward Chancellor, GMO
Brian Huggon, GMO
Vaughn Brock
Bill Barnes, Texas Retired Teachers Association
Ted Melina Raab, Texas American Federation of Teachers
Craig teDuits, State Street
John Claisse, Albourne America

After reconvening the board meeting, Mr. Kelly took up agenda item number 5.

5. Discuss and consider investment matters, including the following items:

A. Performance Review: Second Quarter 2012 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.

Mr. Voss of Hewitt EnnisKnupp (HEK) presented HEK’s performance review of the TRS portfolio for the second quarter of 2012.

B. Review Quarterly Portfolio Performance and market update – Britt Harris.

Mr. Harris presented the quarterly portfolio performance review as of June 30, 2012.

C. Review of capital markets and perspective on the long term – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.

Mr. O’Connell and Mr. Voss provided a historical overview of the capital markets and broad measures of different asset classes over the past 75 years. They also provided expected returns for various asset classes over the next ten-year and 30-year periods.

D. Receive the following presentation: “A Financial Historian’s View of Markets” – Edward Chancellor, GMO, LLC.

Mr. Chancellor presented his view on global markets.

E. Discuss the duties of Board Investment Advisor, Dr. Keith Brown – Brian Guthrie.

Mr. Guthrie recapped that in July the board discussed expanding Dr. Brown’s role as

investment advisor to the board and authorized the executive director to negotiate a new contract with Dr. Brown on behalf of TRS. Consequently, TRS and Dr. Brown entered a new contract beginning September 1, 2012 for a three-year term with two one-year extensions available. Mr. Guthrie highlighted the key expansion of Dr. Brown's service: providing investment education to trustees. He stated that Dr. Brown would provide a one-day orientation for new trustees and on-going training for all trustees under the new contract terms.

Dr. Brown stated his commitment to provide education opportunities to trustees. He stated that he would lay out further details after consulting trustees on their topics of interest.

F. Review the report of the Investment Management Committee on its September 13, 2012 meeting, and consider related matters – Committee Chair.

Mr. Barth, committee chair, presented the following report of the Investment Management Committee:

The Investment Management Committee met today. Dale West provided a review of the performance and investment processes for external public markets. An update regarding progress on the 2011 priorities as well as the 2012 priorities was also provided. Finally, a discussion regarding the hedge fund strategies and exit from the dislocated credit investments was reported.

G. Review the report of the Risk Committee on its September 13, 2012 meeting, and consider related matters – Committee Chair.

Mr. McDonald, committee chair, presented the following report of the Risk Management Committee:

The Risk Management Committee met on September 13, 2012. Jase Auby reviewed the various risk measures, including asset allocation tracking error, levels of leverage, and derivative exposures.

6. Receive the report of the Policy Committee on its September 13, 2012 meeting, and consider the following related matters – Committee Chair:

A. Consider proposed changes to the Investment Policy Statement.

B. Consider proposed changes to the General Authority Resolution (also known as the TRS-477).

Mr. Colonna, committee chair, presented the following report of the Policy Committee:

The Policy Committee met on September 13, 2012 at 11:35 a.m. in the boardroom to consider rules and policies. The committee

authorized public comment publication of proposed rules necessary to implement the Medicare Advantage plans for TRS-Care recently adopted by the board. The board does not need to act on the proposed rules today. The proposed rules will be published in the *Texas Register* and the board will consider the final adoption at a future meeting.

The committee also adopted an updated policy review schedule. The committee reviewed and adopted recommendations for amending the Investment Policy Statement (IPS) and the board's general authority resolution, which is also known as TRS 477. The committee accepted all of the proposed changes in the September 6, 2012 draft of the TRS 477 general authority resolution, and the substitution of the word "to" for "may" in the third line of the first paragraph of Section C of the draft.

Upon a motion by Mr. Colonna, the board unanimously adopted the following resolution regarding the amended IPS, as recommended by the Policy Committee:

Resolved, That the Board of Trustees (the "board") hereby adopts the revised Investment Policy Statement as presented to and recommended for adoption by the Policy Committee, effective as of October 1, 2012;

Resolved, That the revised Investment Policy Statement as adopted above supersedes all prior versions of the board's Investment Policy Statement.

Upon a motion by Mr. Colonna, the board unanimously adopted the amended TRS 477 as recommended by the Policy Committee.

7. Receive the report of the Compensation Committee on its September 13, 2012 meeting, and consider adopting a Performance Incentive Pay Plan for performance periods commencing October 1, 2012 and each October 1 thereafter – Committee Chair.

Ms. Sissney, committee chair, presented the following report of the Compensation Committee:

The Compensation Committee met on September 13, 2012. Jerry Albright presented the proposed changes to the Performance Incentive Pay Plan (pay plan) for the performance periods commencing October 1, 2012, and a summary of the incentive paid since the inception of the program. The committee considered the proposed changes and recommends that the board adopt a proposed resolution amending the pay plan for those periods.

Upon a motion by Ms. Sissney, the board unanimously adopted the following resolution relating to the pay plan for the performance periods commencing October 1, 2012 and each

October 1 thereafter, as recommended by the Policy Committee:

Whereas, the Board of Trustees (the "board") of the Teacher Retirement System of Texas desires to adopt a Performance Incentive Compensation Plan for performance periods commencing on October 1, 2012 and each October 1 thereafter (the "Plan"); now, therefore, be it

Resolved, That the board hereby adopts the Plan as presented to be effective for the performance period commencing as of October 1, 2012 and ending on September 30, 2013;

Resolved, That the terms of the Plan will apply to each performance period commencing on each October 1 and ending on September 30, and will continue in effect for each subsequent performance period thereafter until the Plan is terminated, rescinded, superseded, repealed, or modified by further action of the board or pursuant to applicable law; and

Resolved, That the board's adoption of the Plan for the one-year performance period commencing on October 1, 2012 does not terminate, rescind, modify, repeal, or supersede the terms or conditions of any performance incentive compensation plans adopted by the board relating to any prior performance period, as defined in each such plan.

The board would meet in executive session under section 551.074 of the Texas Open Meetings Act (Act) on agenda items 8 and 9 to deliberate personnel matters concerning the executive director and the chief investment officer. Mr. Kelly stated that the executive session would also be held under section 551.071 of the Act for the board to receive legal advice from its attorney on agenda items 8, 9, and 17, as needed. He asked all members of the public and staff whose presence was not needed for the executive session to leave the meeting room.

- 8. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly.**
- 9. Discuss the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly.**
- 17. 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.**

After completing the closed session, Mr. Kelly announced that the open session was reconvened at 7:01 p.m.

Mr. Kelly announced that the board meeting was recessed at 7:01 p.m. and would reconvene in open session in the morning on the following day, September 14, 2012.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 14, 2012 at 10:43 a.m. in the boardroom located on the fifth floor of the TRS East

Building offices at 1000 Red River Street, Austin, 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
Janet Bray, Director of Human Resources
Conni Brennan, General Counsel
Howard Goldman, Director of Communications
Don Green, Chief Financial Officer
Amy Morgan, Chief Information Officer
Marianne Woods Wiley, Chief Benefit Officer
Michelle Bertram, Administrative Assistant, Communications
Adam Fambrough, Assistant Manager, Benefit Processing
Dan Junell, Secretary to the Board and Assistant General Counsel
Lynn Lau, Assistant Secretary to the Board and Program Specialist
Jamie Michels, Manager, General Accounting
Mike Rehling, Manager, Benefit Processing
Rebecca Smith, Assistant General Counsel

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

Jay Masci, Provaliant
Leroy DeHaven, Texas Retired Teachers Association
Jerry Pybus, Texas Retired Teachers Association
Stephen Caruso, Texas Retired Teachers Association
Bill Barnes, Texas Retired Teachers Association
Janice Barnes, Texas Retired Teachers Association
Dr. Carole Buchanan, Texas Retired Teachers Association
Bertha White, Texas Retired Teachers Association
Marcy Cann, Texas Retired Teachers Association
Terry Allen, Texas Retired Teachers Association
Joyce Allen, Texas Retired Teachers Association
George Brown, Texas Retired Teachers Association
Tim Lee, Texas Retired Teachers Association
John Grey, Texas State Teachers Association
Ann Fickel, Texas Classroom Teachers Association
Ted Melina Raab, Texas American Federation of Teachers

Mr. Kelly announced that the board would take up agenda item number 4.

4. Receive public comment

Mr. Leroy DeHaven of Texas Retired Teachers Association (TRTA) introduced TRTA members: Mr. Jerry Pybus of Amarillo, Mr. Stephen Caruso of Killeen, Mr. Bill Barnes of Haslett, Mr. Janice Barnes, Dr. Carole Buchanan of Austin, Ms. Bertha White of Victoria, and Ms. Marcy Cann of Houston.

Mr. Kelly presented to Ms. Clifton, Ms. Charleston, Ms. Palmer, and Ms. Sissney certificates of achievement from the Stanford Law School's Fiduciary College in conjunction with the National Council on Teacher Retirement (NCTR) Trustee Workshop.

At 10:55 a.m., Mr. Kelly announced that the board would meet in Executive Session under section 551.074 of the Texas Open Meetings Act (Act) on agenda items 8 and 9 to deliberate personnel matters concerning the Executive Director and the Chief Investment Officer. He stated that the executive session would also be held under section 551.071 of the Act and the board would receive legal advice from its attorney on agenda items 8, 9, and 17, as needed. He asked all members of the public and staff whose presence was not needed for the executive session to leave the meeting room.

- 8. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly.**
- 9. Discuss the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly.**
- 17. 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.**

After completing the executive session, Mr. Kelly announced that the open session was reconvened at 11:47 a.m.

Mr. Kelly announced that the board would take up agenda item 10.

10. Receive an update on the TEAM Program – Amy Morgan and Jay Masci, Provaliant.

Ms. Morgan provided an update on the development of the TEAM program. Per Mr. Kelly's request to reformat future reports, staff said that they would track the progress of the work on each project to date against its timeline of scheduled milestones for the various lines of business. Ms. Morgan provided further updates on each project, future timeline, risks, and mitigation strategies. The trustees discussed the need for detailed monthly transparency reports later in the project. Responding to a question from Mr. Kelly regarding tracking the expenditure of the budget line item balance contingency and the overall project contingency, Ms. Morgan

stated that an overall project contingency is in place but not the individual line item contingency. In response to Mr. Kelly's question about tracking budgetary expenditures on the project, Mr. Welch provided a detailed update on the project expenditures and cost estimates. Mr. Welch stated that staff would improve the format of the timeline report.

11. Consider concurring in the Medical Board's certification regarding a disability retiree under § 824.307 of the Government Code, discontinuing annuity payments, and restoring the individual to membership – Marianne Woods Wiley.

Ms. Woods Wiley presented information regarding a determination made by the Medical Board that a specific disability retiree was no longer disabled. She stated that, in accordance with Government Code section 824.307, the Medical Board must certify its findings and present those findings to the board for consideration whether to restore the disability retiree to active membership.

The board had a discussion concerning the Medical Board's decision on the disability retiree. Ms. Woods Wiley responded to Mr. Colonna that the Medical Board's decision was made by a two-to-one vote. She described the procedural history of the case. She explained the Medical Board procedure for resolving split opinions to make a final determination. She responded to Mr. Kelly that the board can either restore the disability retiree to active membership or remand the case to the Medical Board for further consideration. General discussion followed about the case and the board's options.

On a motion by Ms. Sissney, seconded by Mr. Colonna, the board unanimously voted to remand the case to the Medical Board.

12. Receive the report of the Audit Committee on its September 14, 2012 meeting, and discuss and consider the following related matters – Committee Chair:

- A. Adoption of the Audit Plan for fiscal years 2013-2015.**
- B. Amendments to the Internal Audit Charter.**
- C. Evaluation and compensation of the Chief Audit Executive.**

Mr. Moss, committee chair, presented the following report of the Audit Committee:

The Audit Committee met at 8:00 a.m. on Friday, September 14, 2012, in the fifth floor boardroom. Representatives from the State Auditor's Office provided an overview of the planned audit of TRS' Comprehensive Annual Financial Report for the year ending August 31, 2012. Internal Audit staff reported on the results of eight projects:

- 1. audits of external private market investments;
- 2. quarterly testing of compliance with the Investment Policy Statement;

3. testing of information systems support change management process;
4. quarterly testing of information security;
5. quarterly testing of benefit payments;
6. following up on prior audit and consulting recommendations;
7. options for auditing reported data for 2013; and
8. results of the quality assurance and self-assessment improvement program.

The committee approved recommendations to the board to adopt the following proposals:

- the revisions to the internal audit charter;
- the audit plan for fiscal year 2013; and
- the annual performance appraisal for the chief audit executive.

Upon a motion by Mr. Moss, the board unanimously adopted the audit plan for fiscal years 2013, the amended Internal Audit Charter, and the annual performance appraisal for the chief audit executive, as recommended by the Audit Committee.

13. Receive the Chief Financial Officer's 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 – Don Green.

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a report of the expenditures paid during the months of June and July 2012 that were required to perform the fiduciary duties of the board.

14. Receive the Deputy Director's report, including updates on the following: potential future IRS rule changes affecting charter school participation in the TRS pension plan; riders directing the use of appropriated funds; the amendment of pension accounting and financial reporting standards by the Governmental Accounting Standards Board; the Strategic Partnership Network training program; and the calculation of investment cost per member – Ken Welch.

Mr. Welch stated that the proposed IRS regulations on the definition of a governmental plan and the IRS decision on TRS' recertification as a qualified pension plan were both pending.

Mr. Welch summarized the riders in TRS' appropriation request. He updated the board on the development of Governmental Accounting Standards Board (GASB) Statements 67 and 68 relating to pension accounting and financial reporting standards.

Mr. Welch provided a detailed layout of the Strategic Partner Network (SPN) exchange program.

Mr. Welch stated that staff would work with the Legislative Budget Board to reach clarity and consistency in defining investment costs.

Ms. Palmer and Mr. McDonald left the meeting at 1:07 p.m.

- 15. Receive the Executive Director's report, including matters related to the following – Brian Guthrie:**
 - A. Hearings for the upcoming 83rd Regular Legislative Session.**
 - B. An update on the National Association of State Retirement Administrators conference.**
 - C. December 2012 agenda overview.**
 - D. Planned TRS outreach at Texas Retired Teachers Association (TRTA) fall 2012 meetings.**
 - E. Enterprise Risk Management program.**
 - F. Retirement plan benefits and operations.**
 - G. Investment activity and operations.**
 - H. Health-benefit programs and operations.**
 - I. Administrative operations and other financial, audit, legal, staff services, and special project matters.**

Mr. Guthrie stated that the pension plan and health care plan studies had been released and hard copies were available upon request. He recognized the staff and consultants who participated in completing the studies.

Mr. Guthrie provided a list of past and upcoming legislative and stakeholder meetings and district conventions.

Mr. Guthrie provided a summary of the legislative appropriation request for FY 2014-15.

Mr. Guthrie discussed the transition to electronic meeting materials. Trustees commented on the merits of the switch. Mr. Guthrie stated that staff would discuss ways to improve features of the electronic meeting books.

Mr. Guthrie presented the proposed December meeting agendas. Mr. Kelly asked staff to

update the board on the implementation of rule changes the board made in response to recent statutory changes. Mr. Barth suggested that Mr. Harris be consulted on the proposed agenda item concerning TRS' assumed investment rate of return. Mr. Moss pointed out that the selection of the Independent Project Assessment (IPA) vendor for the TEAM Program should be on the December agenda.

16. 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 Pfizer securities litigation, other securities litigation; litigation involving allegations of Libor rate manipulations or fiduciary duties related to investments; and litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Conni Brennan.

Ms. Brennan referred board members to the confidential report included in the materials presented to the board. The board members had no questions about the litigation report or other related materials.

The meeting adjourned at 1:35 p.m.

Tab 6A



Performance Review: Third Quarter 2012

Teacher Retirement System of Texas

December 2012

Hewitt ennisknupp

An Aon Company

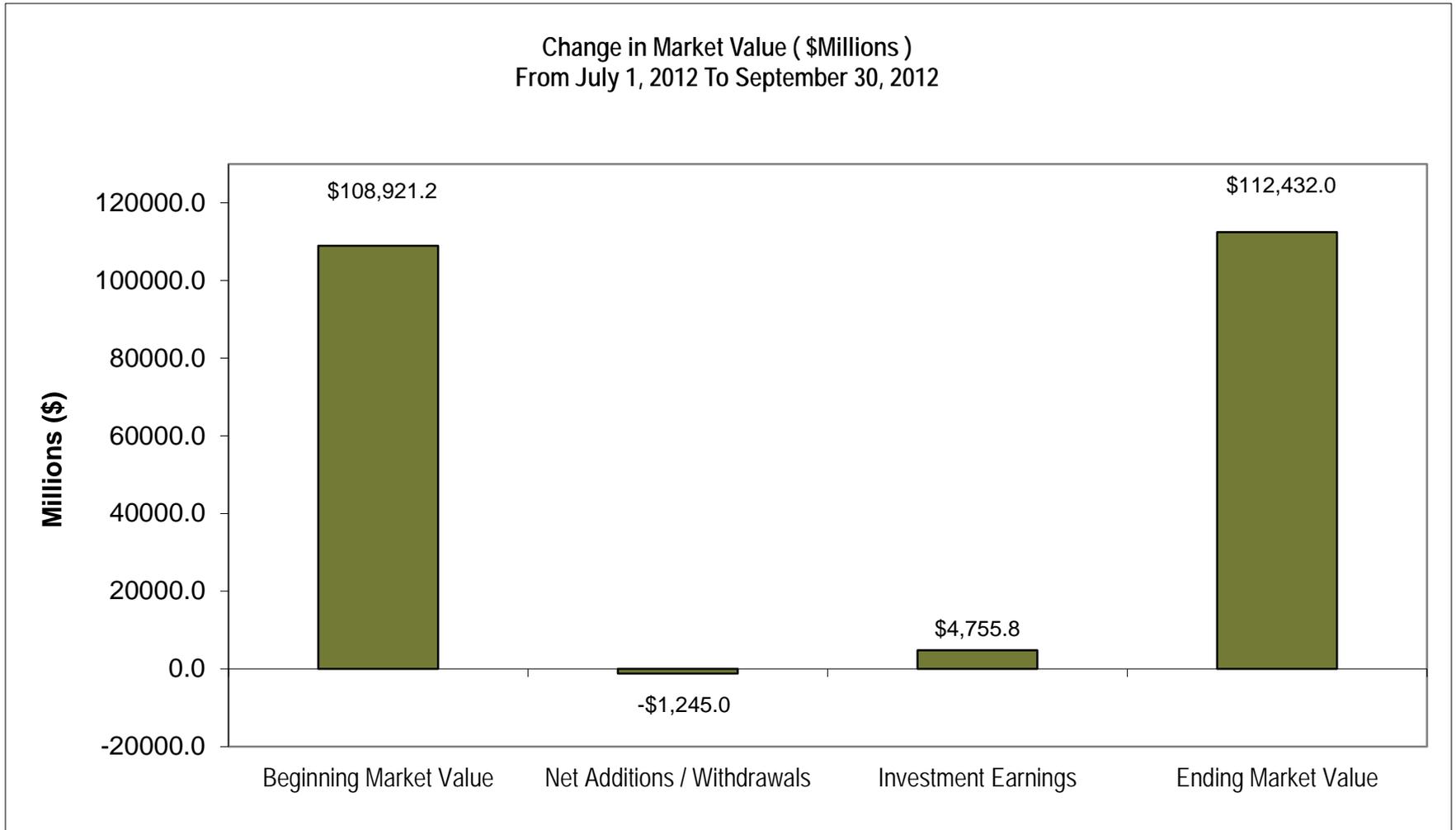
Summary

- In stark contrast to the second quarter, risky assets performed well in the third quarter and TRS outperformed its benchmark by 73 basis points.
 - Performance during the year-to-date and trailing 12 month periods is strong in both absolute and relative terms.
- As illustrated on the following page, only one asset class posted a negative return during the quarter and year.
 - Private equity posted a modest decline, due to the fact that it is reported on a lag and therefore reflects second quarter performance.
- While favorable third quarter relative performance came from many areas of the TRS portfolio, Private Equity and Other Absolute Return had the largest positive impacts.
 - These two asset classes accounted for 46 of the 73 basis points in value added.
- Small Cap equity was a source of underperformance during the quarter, but all other asset classes posted flat or favorable performance relative to benchmarks.
 - During the year-to-date period, Small Cap performed well relative to the index
 - Stable Value Hedge Funds and U.S. Large Cap were the only asset classes to lag their benchmarks during the first 9 months of the year (and U.S. Large Cap lagged by a small margin).

1. Market Summary – Third Quarter 2012

	Third Quarter	YTD	One Year	Three Years	Five Years	Ten Years
Global Equity:						
MSCI USA Standard	6.4%	16.4%	30.1%	13.3%	1.2%	8.2%
MSCI USA Small Cap	5.6	15.0	31.8	14.4	3.9	11.1
MSCI EAFE + Canada Index	7.3	9.9	13.8	2.5	-4.8	8.7
MSCI Emerging Markets Index	7.7	12.0	16.9	5.6	-1.3	17.0
HFRI Fund of Funds Composite Index	2.4	3.4	2.9	1.5	-1.6	3.6
State Street Private Equity Index (qtr lagged)	-0.6	8.7	2.1	14.2	3.0	10.8
Global Equity Policy Benchmark	5.1	11.7	16.4	8.8	-0.6	--
Stable Value:						
Barclays Capital Long Treasury Index	0.2%	4.4%	6.3%	12.0%	11.1%	7.7%
HFRI Fund of Funds Conservative Index	1.6	2.4	2.4	1.6	-1.5	2.9
3 Month LIBOR + 2%	0.6	1.8	2.5	2.4	3.2	4.2
90 Day US Treasury Bill	0.0	0.1	0.1	0.1	0.7	1.8
Stable Value Policy Benchmark	0.5	3.8	5.3	9.5	8.8	--
Real Return:						
Barclays Capital US Treasury TIPS Index	2.1%	6.3%	9.1%	9.3%	7.9%	6.6%
NCREIF ODCE (qtr lagged)	2.3	7.7	11.3	7.4	-1.8	--
Goldman Sachs Commodities Index	11.5	3.5	12.7	6.5	-5.5	3.4
MSCI US REIT	0.0	14.9	32.4	20.5	2.1	11.0
Real Return Policy Benchmark	2.0	8.2	12.9	9.8	3.7	--
TRS Policy Benchmark	3.7	9.8	14.0	9.7	2.7	8.1

2. Market Value Change



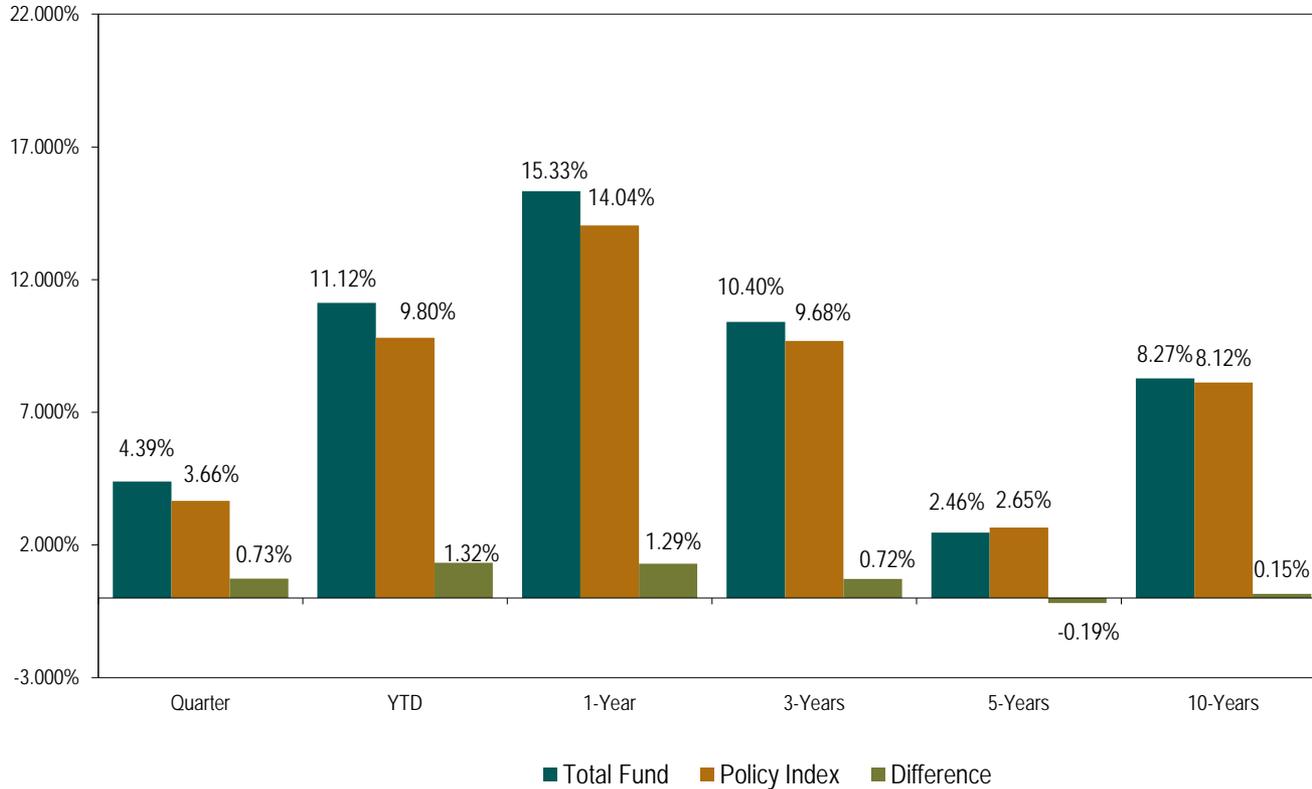
3. Asset Allocation Detail

	Market Value (\$ in millions) as of 9/30/2012		Policy Target	Relative Allocation to Policy Target	Ranges
	(\$)	(%)			
Total Fund	\$112,432	100%	100%	--	--
U.S. Large	\$25,052	22.3%	18%	+4.3%	13-23%
U.S. Small	\$1,600	1.4%	2%	-0.6%	0-7%
Non-U.S. Developed	\$14,499	12.9%	15%	-2.1%	10-20%
Emerging Markets	\$12,048	10.7%	10%	+0.7%	5-15%
Directional Hedge Funds	\$5,720	5.1%	5%	+0.1%	0-10%
Private Equity	\$13,043	11.6%	12%	-0.4%	7-17%
Global Equity	\$71,962	64.0%	62%	+2.0%	55-69%
Long Treasuries	\$12,032	10.7%	13%	-2.3%	0-20%
Stable Value Hedge Funds	\$3,984	3.5%	4%	-0.5%	0-10%
Absolute Return (including OAR)	\$1,979	1.8%	0%	+1.8%	0-20%
Cash	\$2,256	2.0%	1%	+1.0%	0-5%
Stable Value	\$20,251	18.0%	18%	0.0%	13-23%
TIPS	\$5,276	4.7%	5%	-0.3%	0-10%
Real Assets	\$13,367	11.9%	13%	-1.1%	5-20%
REITS	\$712	0.6%	2%	-1.4%	0-5%
Commodities	\$864	0.8%	0%	+0.8%	0-5%
Real Return	\$20,219	18.0%	20%	-2.0%	15-25%

Note: Actual allocations above are based upon Account Level information

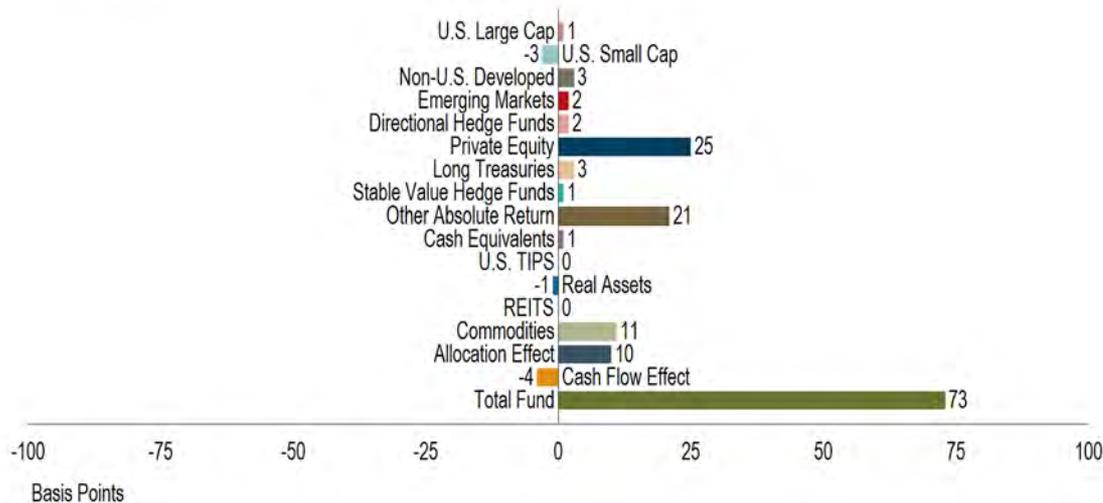
4. Total TRS Performance Ending 9/30/2012

Investment Results
As of 9/30/2012



5. Total Fund Attribution - Quarter Ending 9/30/2012

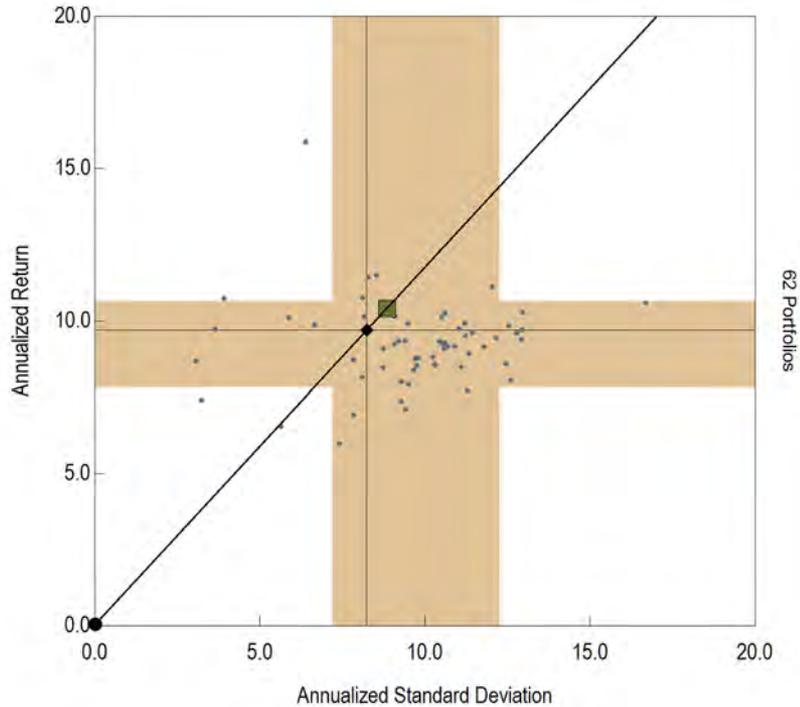
TOTAL FUND ATTRIBUTION ANALYSIS
3 MONTHS ENDING 9/30/12



Asset Class	Allocation Effect (in bps)
U.S. Large Cap	5
U.S. Small Cap	-2
Non-U.S. Developed	1
Emerging Markets	-1
Directional Hedge Funds	0
Private Equity	1
Long Treasuries	2
Stable Value Hedge Funds	1
Cash Equivalents	-2
Other Absolute Return	-3
U.S. TIPS	0
Real Assets	2
REITS	0
Commodities	6
Total Allocation Effect	10

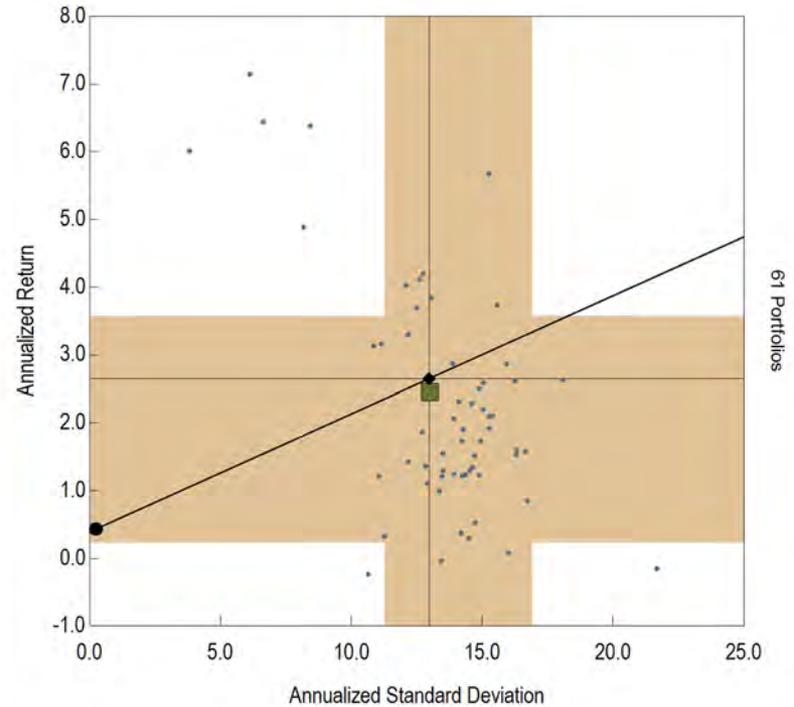
6. Risk Profile

Annualized Return vs. Annualized Standard Deviation
3 Years Ending September 30, 2012



- Total Fund
- ◆ Total Fund Benchmark
- Risk Free
- 68% Confidence Interval
- Public Funds >\$1B Net

Annualized Return vs. Annualized Standard Deviation
5 Years Ending September 30, 2012



- Total Fund
- ◆ Total Fund Benchmark
- Risk Free
- 68% Confidence Interval
- Public Funds >\$1B Net

7. Global Equity: Performance Summary Ending 9/30/2012

	Third Quarter	YTD	One Year	Three Years
Total Global Equity	5.6%	12.4%	17.6%	8.8%
Global Equity Benchmark	5.1	11.7	16.4	8.8
<i>Difference</i>	+0.5	+0.7	+1.2	0.0
Total U.S.	6.2%	16.4%	30.1%	12.8%
U.S. Benchmark	6.3	16.3	30.2	13.1
<i>Difference</i>	-0.1	-0.1	-0.1	-0.3
<u>U.S. Large Cap</u>	6.4%	16.3%	30.0%	12.8%
Large Cap Benchmark	6.4	16.4	30.1	12.8
<i>Difference</i>	0.0	-0.1	-0.1	0.0
<u>U.S. Small Cap</u>	3.0%	19.0%	34.9%	15.1%
Small Cap Benchmark	5.6	15.0	31.8	14.4
<i>Difference</i>	-2.6	+4.0	+3.1	+0.7
Non-U.S. Equity	7.6%	10.9%	14.9%	4.0%
Non-U.S. Benchmark	7.5	10.8	15.1	3.9
<i>Difference</i>	+0.1	+0.1	-0.2	+0.1
<u>Non-U.S. Developed</u>	7.5%	10.0%	13.7%	3.1%
MSCI EAFE + Canada	7.3	9.9	13.8	2.5
<i>Difference</i>	+0.2	+0.1	-0.1	+0.6
<u>Emerging Markets</u>	8.0%	12.7%	17.2%	5.5%
MSCI Emerging Markets	7.7	12.0	16.9	5.6
<i>Difference</i>	+0.3	+0.7	+0.3	-0.1

7. Global Equity (cont'd): Performance Summary Ending 9/30/2012

	Third Quarter	YTD	One Year	Three Years
Directional Hedge Funds	2.7%	4.5%	7.5%	--
HFRI Fund of Funds Composite Index	2.4	3.4	2.9	--
<i>Difference</i>	+0.3	+1.1	+4.6	--
Public Equity	6.6%	12.4%	20.0%	7.4%
Public Equity Benchmark	6.5	12.3	19.9	7.7
<i>Difference</i>	+0.1	+0.1	+0.1	-0.3
Private Equity	1.4%	11.4%	6.4%	16.5%
Private Equity Benchmark	-0.6	8.7	2.1	14.2
<i>Difference</i>	+2.0	+2.7	+4.3	+2.3

8. Stable Value: Performance Summary Ending 9/30/2012

	Third Quarter	YTD	One Year	Three Years
Total Stable Value	1.9%	6.4%	7.8%	11.7%
Total Stable Value Benchmark	0.5	3.8	5.3	9.5
<i>Difference</i>	+1.4	+2.6	+2.5	+2.2
Long Treasuries	0.5%	4.9%	7.0%	12.8%
Treasury Benchmark	0.2	4.4	6.3	12.0
<i>Difference</i>	+0.3	+0.5	+0.7	+0.8
Stable Value Hedge Funds	1.9%	1.5%	1.6%	2.8%
Hedge Funds Benchmark	1.6	2.4	2.4	2.4
<i>Difference</i>	+0.3	-0.9	-0.8	+0.4
Other Absolute Return	21.5%	33.6%	33.0%	17.9%
Other Absolute Return Benchmark	0.6	1.9	2.5	2.4
<i>Difference</i>	+20.9	+31.7	+30.5	+15.5
Cash Equivalents	0.7%	0.9	1.2%	-0.4%
Cash Benchmark	0.0	0.1	0.1	0.1
<i>Difference</i>	+0.7	+0.8	+1.1	-0.5

Note: Performance of Cash Equivalents is shown net of fees paid to TRS Strategic Partners

9. Real Return: Performance Summary Ending 9/30/2012

	Third Quarter	YTD	One Year	Three Year
Total Real Return	2.9%	9.6%	13.6%	11.4%
Real Return Benchmark	2.0	8.2	12.9	9.8
<i>Difference</i>	+0.9	+1.4	+0.7	+1.6
TIPS	2.2%	6.3%	9.2%	9.4%
U.S. TIPS Benchmark	2.1	6.3	9.1	9.3
<i>Difference</i>	+0.1	0.0	+0.1	+0.1
Real Assets	2.3%	10.0%	12.0%	9.4%
Real Asset Benchmark	2.3	7.7	11.3	7.4
<i>Difference</i>	0.0	+2.3	+0.7	+2.0
REITS	0.0%	15.0%	32.7%	20.3%
REITS Benchmark	0.0	14.9	32.4	20.5
<i>Difference</i>	0.0	+0.1	+0.3	-0.2
Commodities	22.1%	10.9%	12.4%	9.2%
Commodities Benchmark	11.5	3.5	12.7	6.5
<i>Difference</i>	+10.6	+7.4	-0.3	+2.7

Appendix – Supplemental Reporting

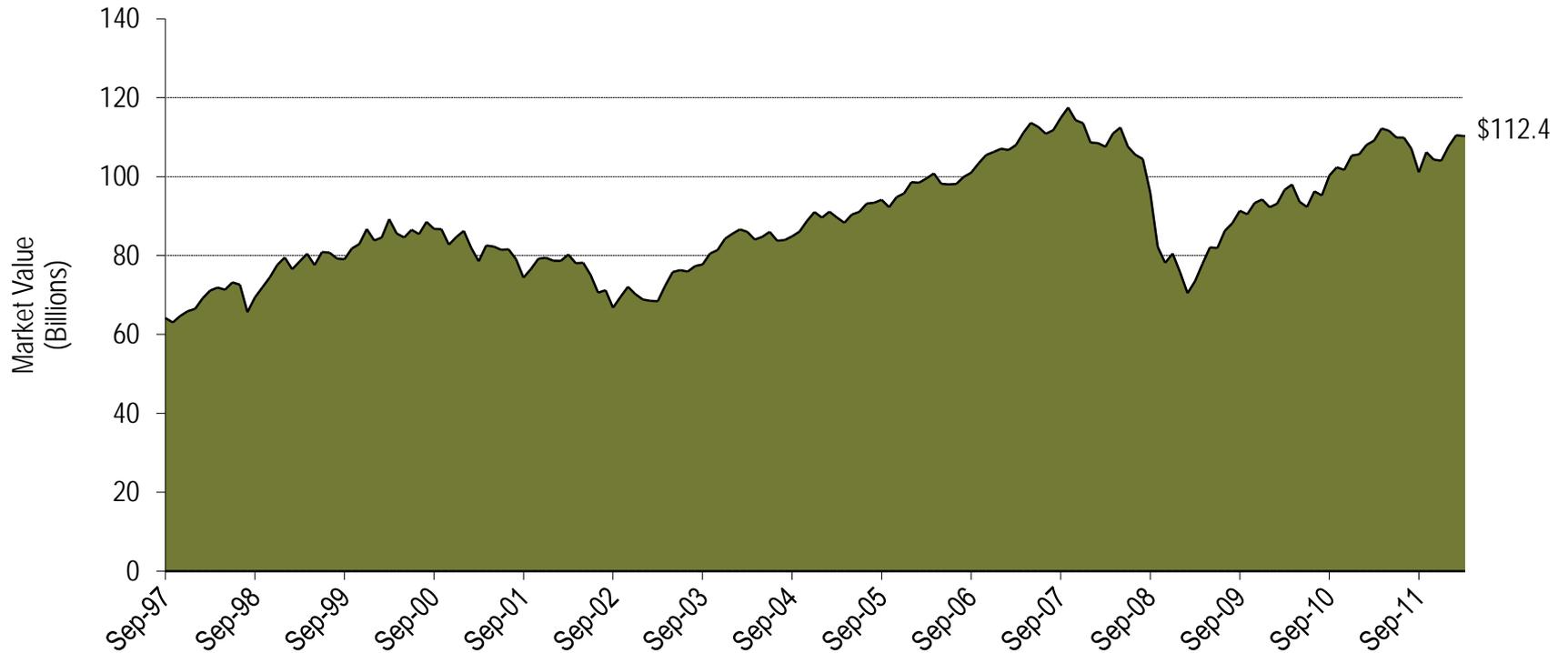
Historical Excess Performance

Quarterly and Cumulative Excess Performance
Total Fund vs. Total Fund Benchmark



TRS Asset Growth

Total Fund Historical Growth (September 1997 - September 2012)



External Manager Program: Public Equity Performance as of 9/30/2012

	Allocation (\$ in billions)	Third Quarter	YTD	One Year	Three Years
EP Total Global Equity	\$27.7	6.4%	12.9%	19.8%	7.6%
EP Global Equity Benchmark	--	5.1	11.7	16.4	8.8
<i>Difference</i>	--	+1.3	+1.2	+3.4	-1.2
EP Total U.S. Large Cap	\$7.2	6.5%	16.4%	30.1%	13.3%
EP Large Cap Benchmark	--	6.4	16.4	30.1	12.8
<i>Difference</i>	--	+0.1	0.0	0.0	+0.5
EP Total U.S. Small Cap	\$1.9	3.8%	16.6%	32.0%	--
EP Small Cap Benchmark	--	5.6	15.0	31.8	--
<i>Difference</i>	--	-1.8	+1.6	+0.2	--
EP Total Non-U.S. Developed	\$5.0	7.8%	8.6%	11.4%	2.3%
MSCI EAFE + Canada Index	--	7.3	9.9	13.8	2.5
<i>Difference</i>	--	+0.5	-1.3	-2.4	-0.2
EP Total Emerging Markets	\$6.9	7.6%	13.3%	16.9%	5.9%
MSCI Emerging Markets Index	--	7.7	12.0	16.9	5.6
<i>Difference</i>	--	-0.1	+1.3	0.0	+0.3
EP Total World Equity	\$3.8	6.3%	14.6%	19.4%	--
EP World Equity Benchmark	--	6.8	12.9	21.0	--
<i>Difference</i>	--	-0.5	+1.7	-1.6	--
EP Total Directional Hedge Funds	\$1.2	3.1%	5.4%	6.2%	--
HFRI Fund of Funds Composite Index	--	2.4	3.4	2.9	--
<i>Difference</i>	--	+0.7	+2.0	+3.3	--

Strategic Partnership Program: Performance Summary Ending 9/30/2012

	Allocation (\$ in billions)	Third Quarter	YTD	One Year	Three Years
Strategic Partnership Program (SPN)	\$5.7	5.6%	12.4%	19.8%	10.4%
SPN Benchmark	--	5.2	11.5	19.1	10.2
<i>Difference</i>	--	+0.4	+0.9	+0.7	+0.2
Blackrock	\$1.3	5.0%	11.0%	17.9%	9.6%
J.P. Morgan	\$1.3	5.6%	12.8%	21.3%	10.4%
Neuberger Berman	\$1.3	6.1%	12.5%	19.1%	10.8%
Morgan Stanley	\$1.3	5.4%	13.3%	21.0%	10.9%
Barclays Capital	\$0.5	5.8%	12.3%	20.0%	--

- SPNs in aggregate outperform the benchmark during all time periods shown above
- Three-year return of the SPN coincidentally matches the return of the TRS total portfolio at 10.4%.

Benchmarks

- **Total Fund Performance Benchmark** – 18% MSCI US Standard, 2% MSCI US Small Cap, 10% MSCI Emerging Markets, 15% MSCI EAFE plus Canada, 5% HFRI FoF Composite Index, 12% State Street Private Equity (1 qtr lagged), 13% BC Long Term Treasury, 4% HFRI FoF Conservative Index, 1% Citigroup 3 Mo T-Bill, 5% BC US TIPS, 2% MSCI US REIT Index, 13% NCREIF ODCE (1 qtr lagged)
- **Global Equity Benchmark**– 24% MSCI EAFE plus Canada, 29% MSCI US Standard, 3% MSCI US Small Cap, 16% MSCI Emerging markets index, 8% HFRI FoF Composite Index, and 19% State Street Private Equity (1 qtr lagged)
- US Large Cap Benchmark - MSCI US Standard Index
- US Small Cap Benchmark - MSCI US Small Cap Index
- Emerging Markets Benchmark – MSCI Emerging Markets
- Non-US Developed Benchmark– MSCI EAFE plus Canada
- Directional Hedge Funds – HFRI Fund of Funds (FoF) Composite Index
- Private Equity Benchmark - State Street Private Equity (1 qtr lagged)
- **Stable Value Benchmark** – 22% HFRI FoF Conservative Index, 72% BC Long Term Treasury, and 6% Citigroup 3 mo T-Bill.
- US Treasuries Benchmark – Barclays Capital (BC) Long Term Treasury
- Stable Value Hedge Funds – HFRI Fund of Funds (FoF) Conservative Index
- Other Absolute Return Benchmark - 3 Mo LIBOR + 2%
- Cash Benchmark - Citigroup 3 Mo T-Bill
- **Real Return Benchmark** – 25% BC US TIPS, 65% NCREIF ODCE, and 10% MSCI US REIT Index
- US TIPS Benchmark - BC US TIPS Index
- Real Assets Benchmark –NCREIF ODCE (1qtr lagged)
- REITS Benchmark – MSCI US REIT Index
- Commodities Benchmark - Goldman Sachs Commodity Index

Note: Returns and market values (based on account level) reported are provided by State Street. Net additions/withdrawals are reported on a gross (adjusted for expenses) total fund level as provided by State Street. All rates of return for time periods greater than one year are annualized. The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

Description of Performance Attribution

- A measure of the source of the deviation of a fund's performance from that of its policy benchmark. Each bar on the attribution graph represents the contribution made by the asset class to the total difference in performance. A positive value for a component indicates a positive contribution to the aggregate relative performance. A negative value indicates a detrimental impact. The magnitude of each component's contribution is a function of (1) the performance of the component relative to its benchmark, and (2) the weight (*beginning of period*) of the component in the aggregate.
- The individual Asset Class effect, also called Selection Effect, is calculated as
Actual Weight of Asset Class x (Actual Asset Class Return – Asset Class Benchmark Return)
- The bar labeled Allocation Effect illustrates the effect that a Total Fund's asset allocation has on its relative performance. Allocation Effect calculation = (Asset Class Benchmark Return – Total Benchmark Return) x (Actual Weight of Asset Class – Target Policy Weight of Asset Class).
- The bar labeled Cash Flow Effect describes the impact of asset movements on the Total Fund results. Cash Flow Effect calculation = (Total Fund Actual Return – Total Fund Policy Return) – Current Selection Effect – Current Allocation Effect
- The bar labeled Benchmark Effect results from the weighted average return of the asset classes' benchmarks being different from the Total Funds' policy benchmark return. Benchmark Effect calculation = Total Fund Policy Return – (Asset Class Benchmark Return x Target Policy Weight of Asset Class)
- Cumulative Effect
Cumulative Effect calculation = Current Effect t * (1 + Cumulative Total Fund Actual Return $t-1$) + Cumulative Effect $t-1$ * (1 + Total Fund Benchmark Return t)

Tab 6B



Review of Current Global Risks

Britt Harris

Chief Investment Officer

December 2012

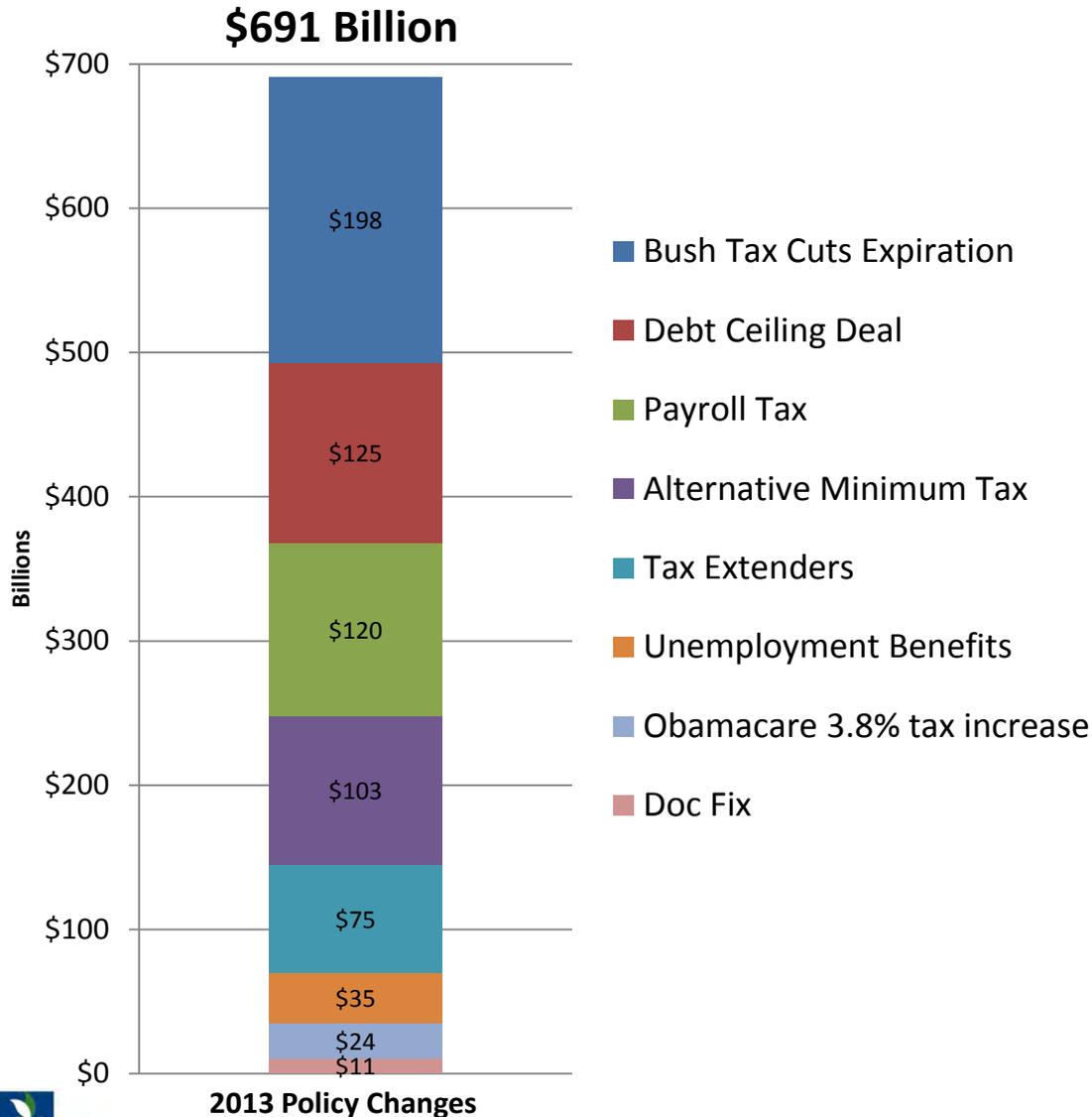
Agenda

- I. US Fiscal Cliff
- II. Europe
- III. China

Country Data

	GDP (\$B)	Market Cap	GDP/Market Cap	Government Debt/GDP	Interest/GDP	GDP Growth		Inflation		1-Year Performance of MSCI Index
						2012E	2013E	2012E	2013E	
USA	15,094	16,565	0.91	68%	2.0%	2.2%	2.0%	2.1%	2.0%	30.0%
China	7,319	2,627	2.79	44%	1.5%	7.7%	8.1%	2.7%	3.1%	17.4%
Japan	5,867	3,522	1.67	206%	1.1%	2.0%	0.9%	0.0%	0.0%	-0.6%
Core Europe										
Germany	3,571	1,484	2.41	81%	1.8%	0.9%	1.0%	2.0%	1.9%	32.0%
France	2,773	1,585	1.75	86%	2.5%	0.1%	0.3%	2.1%	1.7%	18.7%
United Kingdom	2,432	3,280	0.74	36%	3.2%	-0.1%	1.1%	2.7%	2.2%	16.5%
Netherlands	836	285	2.93	65%	1.4%	-0.6%	0.3%	2.5%	2.3%	23.1%
Switzerland	636	1,182	0.54	52%	0.1%	0.9%	1.1%	-0.6%	0.5%	21.1%
Subtotal	10,247	7,816	1.31	68%	2.2%	0.3%	0.8%	2.1%	1.9%	20.8%
Troubled Europe										
Italy	2,195	480	4.57	120%	4.9%	-2.3%	-0.7%	3.3%	2.1%	9.2%
Spain	1,491	541	2.76	69%	2.6%	-1.5%	-1.5%	2.5%	2.2%	-2.5%
Greece	299	40	7.47	108%	5.8%	-6.5%	-3.4%	1.2%	0.7%	-37.6%
Portugal	238	65	3.65	165%	4.0%	-3.2%	-1.8%	2.8%	1.4%	-10.2%
Ireland	217	103	2.11	108%	3.8%	0.1%	1.1%	1.7%	1.2%	31.8%
Subtotal	4,439	1,229	3.61	104%	4.1%	-2.2%	-1.1%	2.8%	2.0%	3.4%
Other										
Developed	6,534	9,941	0.66	60%	2.6%	2.0%	2.1%	2.0%	2.2%	14.1%
Emerging	13,681	8,579	1.59	43%	3.0%	3.4%	4.1%	5.0%	5.1%	16.8%
WORLD	69,994	50,241	1.39	64%	2.3%	2.2%	2.5%	2.8%	2.7%	21.2%

Fiscal Cliff



- The Fiscal Cliff refers to a series of governmental policy changes that will kick in at the end of 2012 if current laws are not changed
- Result of expiration of tax cuts, stimulus measures, and other cuts due to debt ceiling agreement
- Under current law, aggregate reduction in the federal budget represents more than \$600B, or approximately 4% of GDP

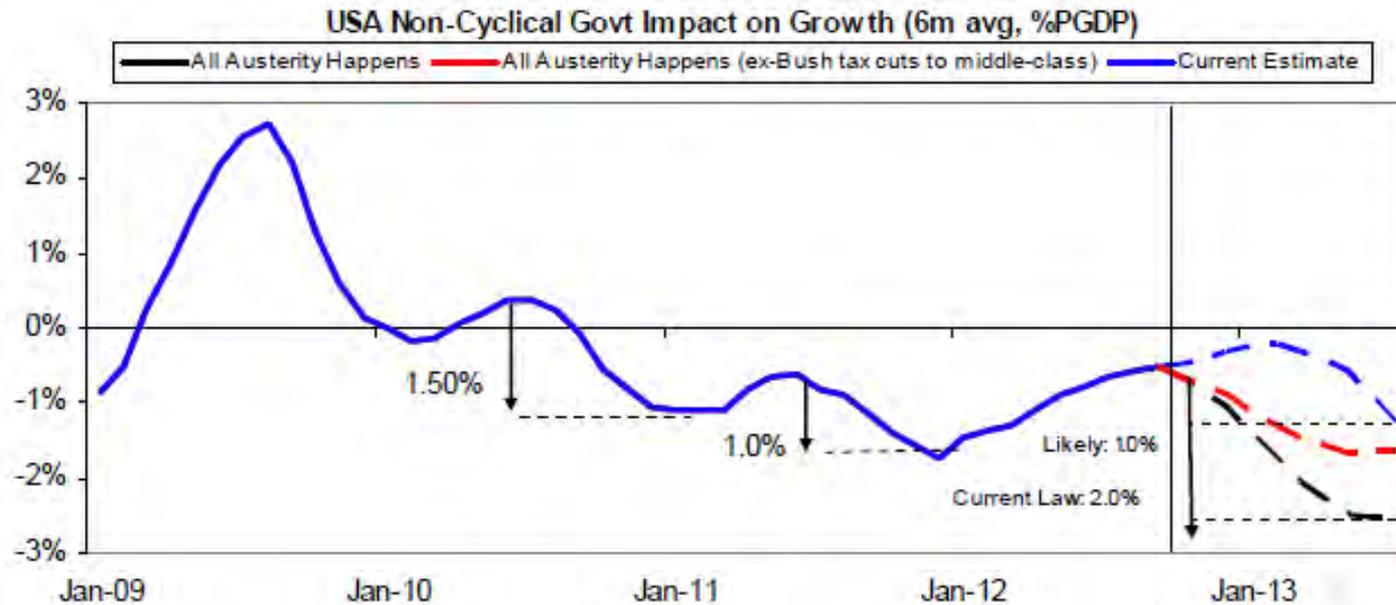
Fiscal Cliff

- According to the Congressional Budget Office, if no changes are made, the United States will slip into recession
 - GDP contraction of 1.3% annualized in the first half of 2013
 - Over the calendar year, growth 3.9% lower than if no fiscal cliff
- Despite ongoing partisanship in Washington, it is unlikely that Congress will allow all parts of the fiscal cliff to proceed as written
 - Some or most of the provisions will likely be extended on at least a temporary basis
 - Markets discounting approximately 1.5% hit to GDP rather than 4%

Probabilities of Fiscal Impact

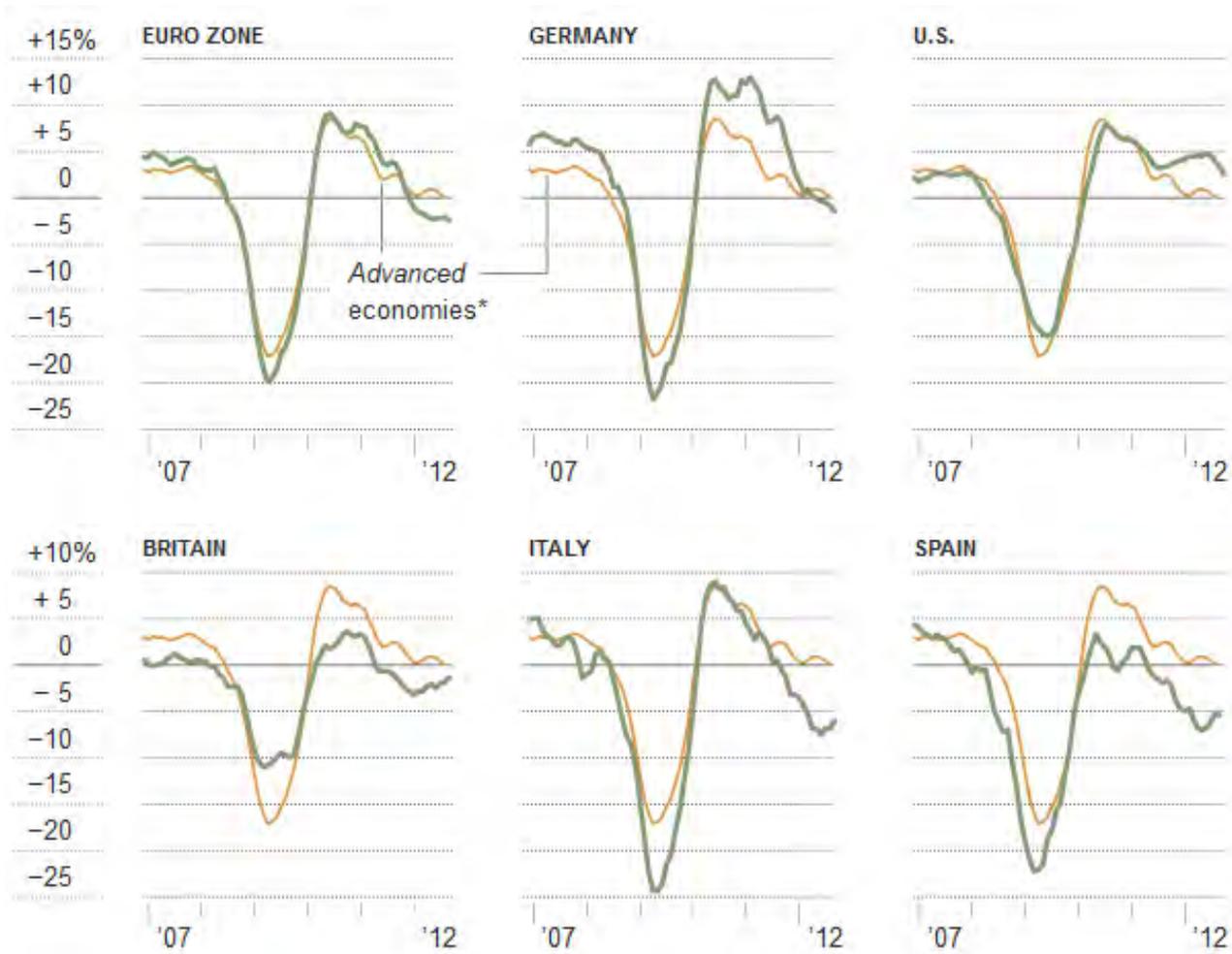
USA Fiscal Austerity 2013						
	Size (bln per year)	Recipient	Impact per dollar spent	Full Impact (1H 2013)	Likelihood of Hit to Growth	Likely Impact
Bush Tax Cuts Expiration	\$198					
To Middle Class	\$145	Households (Middle)	Moderate	-0.7%	Not Likely	-0.1%
To Upper Income	\$52	Households (Rich)	Low	-0.2%	Moderately Likely	-0.2%
2012 Stimulus Fading	\$155					
Roll-off of employee payroll tax cuts	\$120	Households	Moderate	-0.3%	Likely	-0.2%
Roll-off of Extended UE Benefits	\$35	Households	Moderate	-0.1%	Likely	-0.1%
Budget Control Act (Debt Ceiling Deal)	\$125					
Sequestration	\$78	Mixed	Moderate	-0.5%	Moderately Likely	-0.2%
Discretionary Caps	\$47	Mixed	Moderate	-0.3%	Likely	-0.3%
Other	\$213					
Alternative Minimum Tax	\$103	Households	Low	-0.5%	Not Likely	-0.1%
Tax Extenders (~80 tax provisions)	\$75	Mixed	Low	-0.3%	Moderately Likely	-0.1%
Obamacare 3.8% tax increase	\$24	Households (Rich)	Low	-0.1%	Likely	-0.1%
Doc Fix	\$11	Businesses	Low	-0.1%	Not Likely	0.0%
Total Impact of Govt Programs	\$691			-3.1%		-1.2%

Forecast Impact on Growth



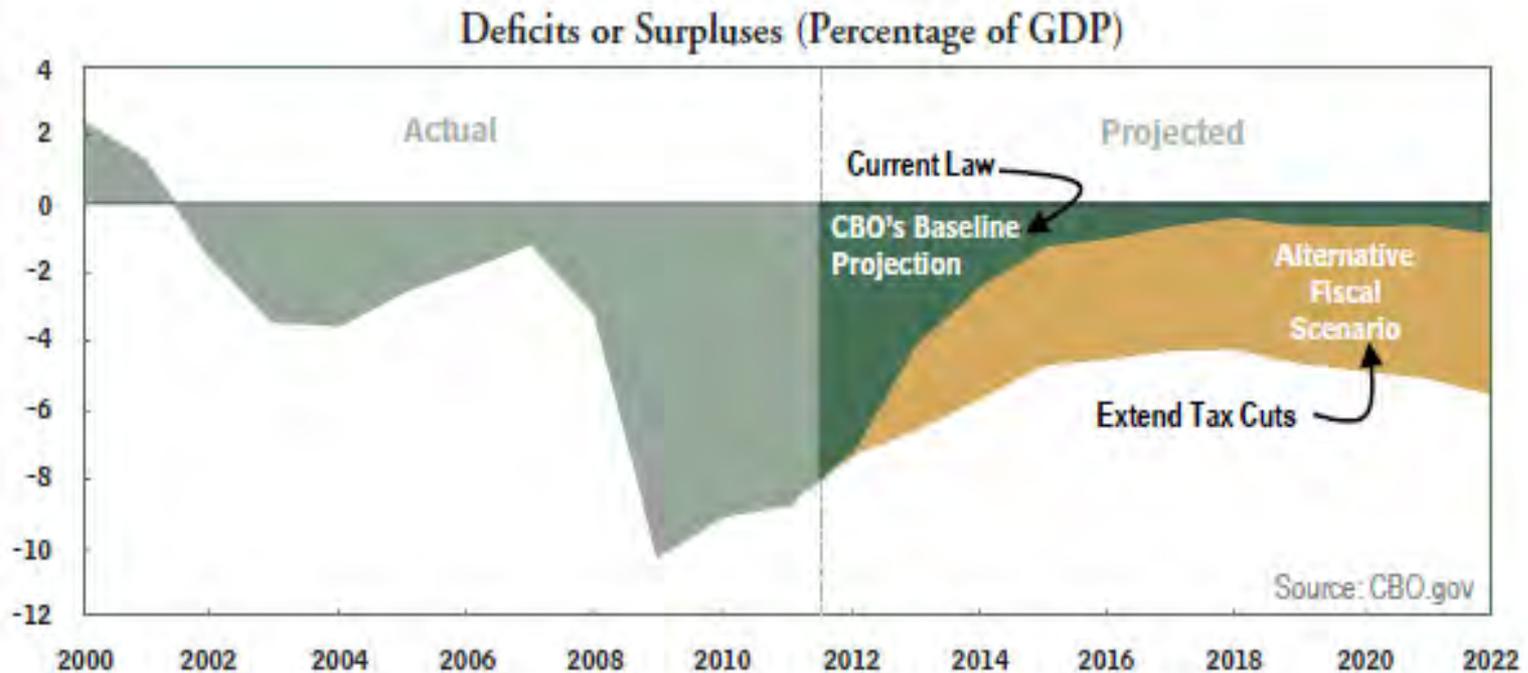
- Wide range of possible outcomes
- Dependent on multiple factors
 - Politics – lame duck session/previous promises
 - Monetary policy stance
 - Pace of economic recovery

Global Industrial Production



- Year over year change in the three-month average of industrial production indexes

Long Term Implications



- Fixing the fiscal cliff may be necessary to prevent a recession in the short term, but will keep federal deficit on an unsustainable footing long term

Income Tax Rates

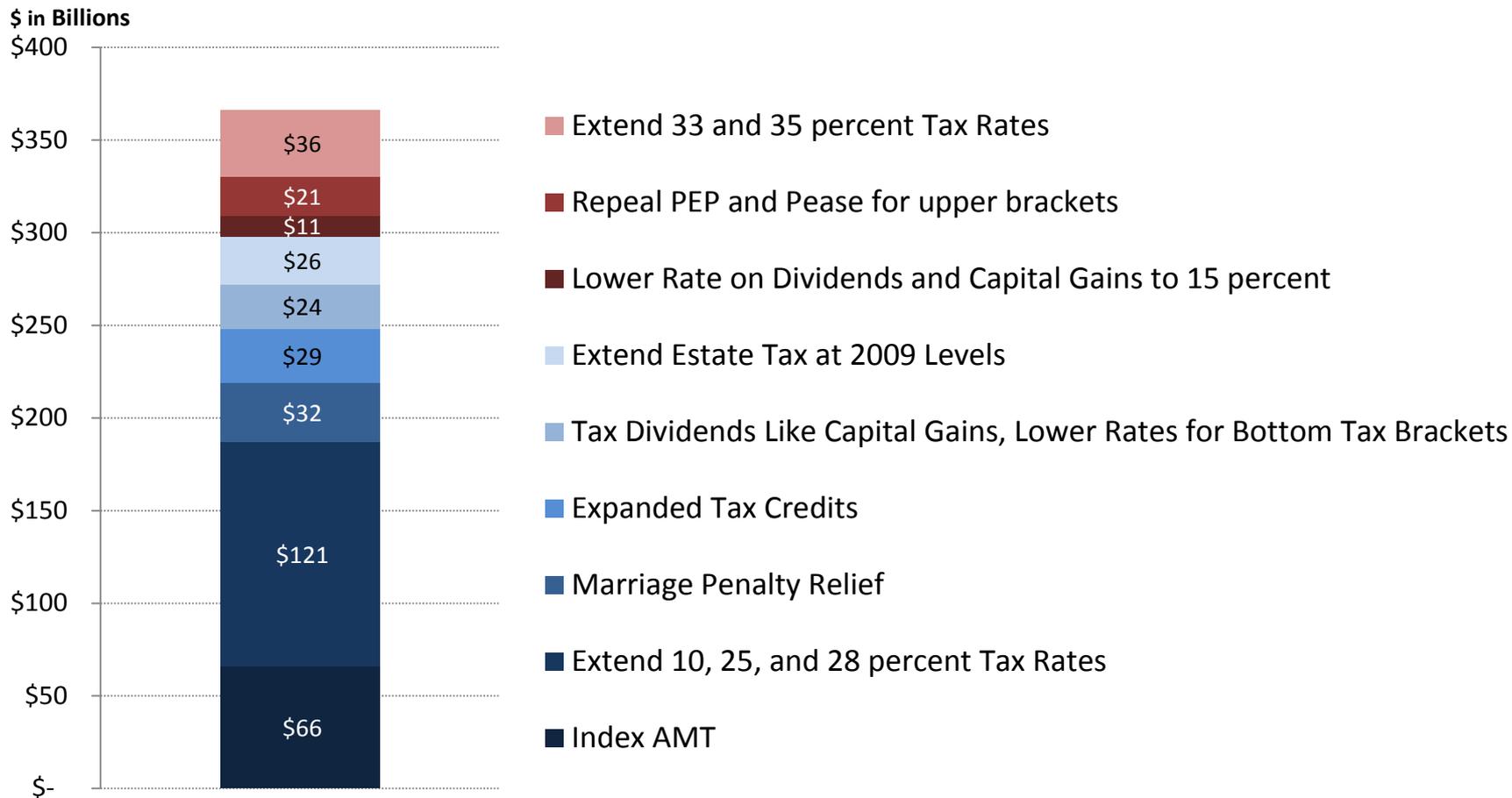
	Pre-Bush Rate	Current Law		Obama Budget
	<u>2000</u>	<u>2011-2012</u>	<u>2013</u>	<u>2013</u>
Top Taxable Income Rate (excluding Medicare/healthcare tax)	39.6%	35.0%	39.6%	39.6%
Top Dividend Rate	39.6	15.0	43.4 ¹	43.4 ¹
Top Capital Gains Rate	20.0	15.0	23.8 ¹	30.0 ²
Estate Tax Rate	55%	35%	55%	55%
Estate Exemption	\$675,000	\$5 million	\$1 million	\$1 million

¹Includes the recently enacted healthcare tax of 3.8%.

²Includes Buffett tax.

Tax Cut Extension – Effect on Deficit

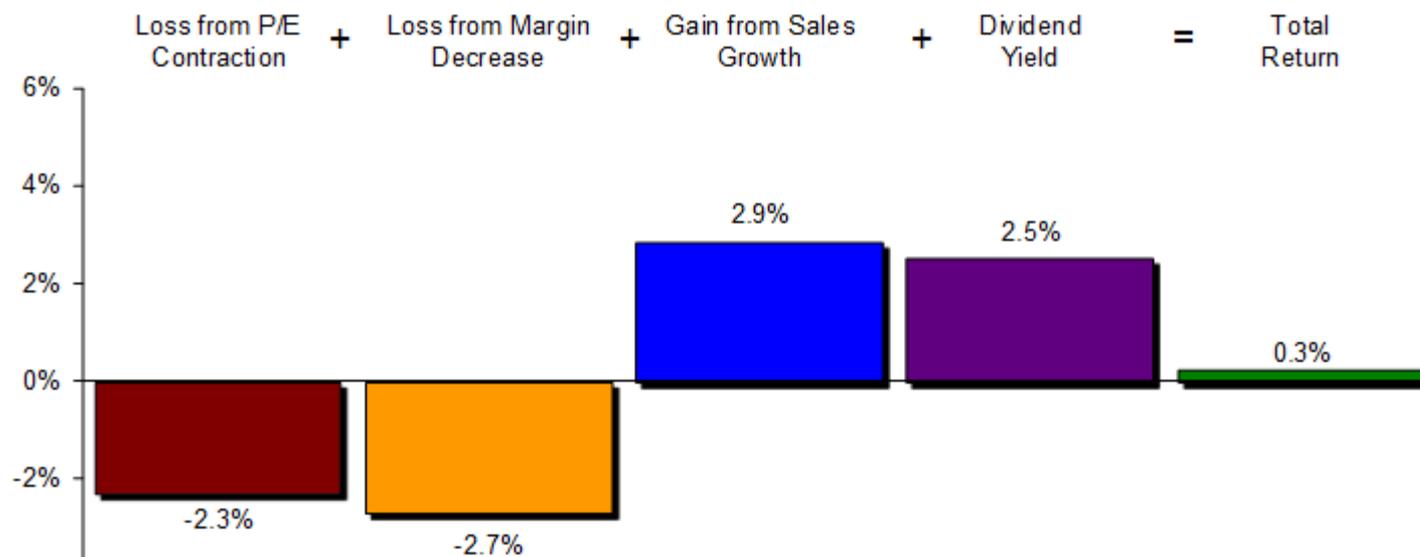
Annual Revenue Cost of Extending 2001/2003 Tax Cuts



GMO 7-Year Asset Class Return Forecast

S&P 500

	P/E	Profit Margin	Real Sales per Share Growth	Dividend Yield
1926-1999 Averages	14.0	4.9%	1.8%	4.3%
Starting Levels	17.6	7.3%	1.9%	2.2%
Assumption for Next 7 Years	15.0 (Terminal Value)	6.1% (Terminal Value)	2.9%	2.5%



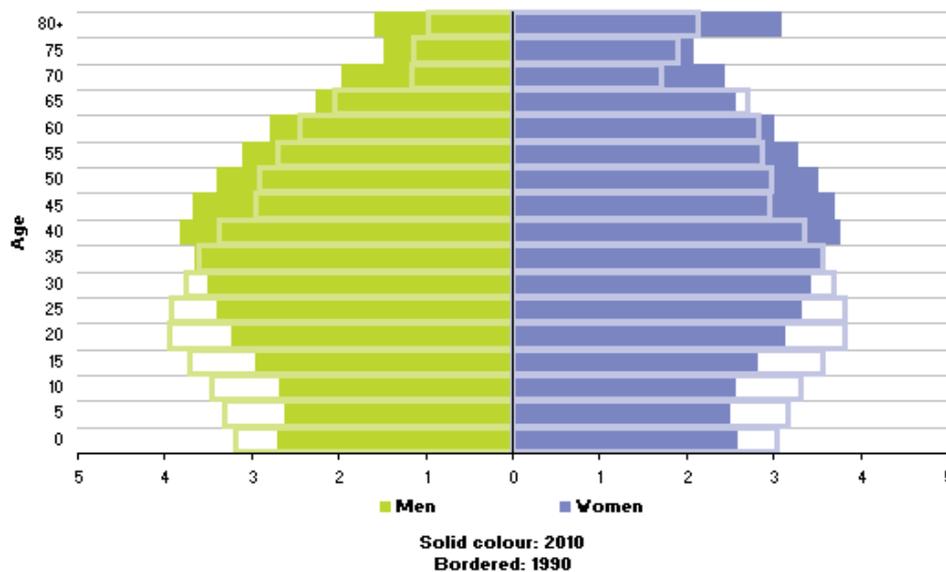
The chart represents a real return forecast for the above named asset class and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from the forecasts above.

Source: GMO As of 10/31/12

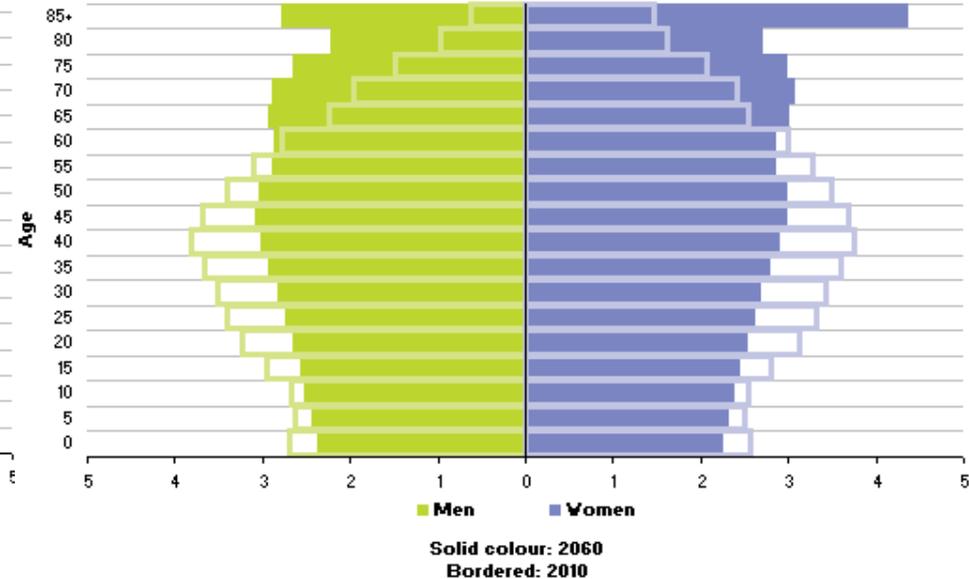
Europe

- The creation of the European currency union has been as much a political project as an economic one
 - Largely due to fallout post-World Wars
 - Ignores economic theory on “optimal currency areas”
- Multitude of flaws in the Euro system exposed by the financial crisis and its aftermath
 - Lack of fiscal integration
 - Excess borrowing at artificially low interest rates
 - Structural imbalances between different parts of the continent

Demographics



(1) Excluding French overseas departments in 1990.

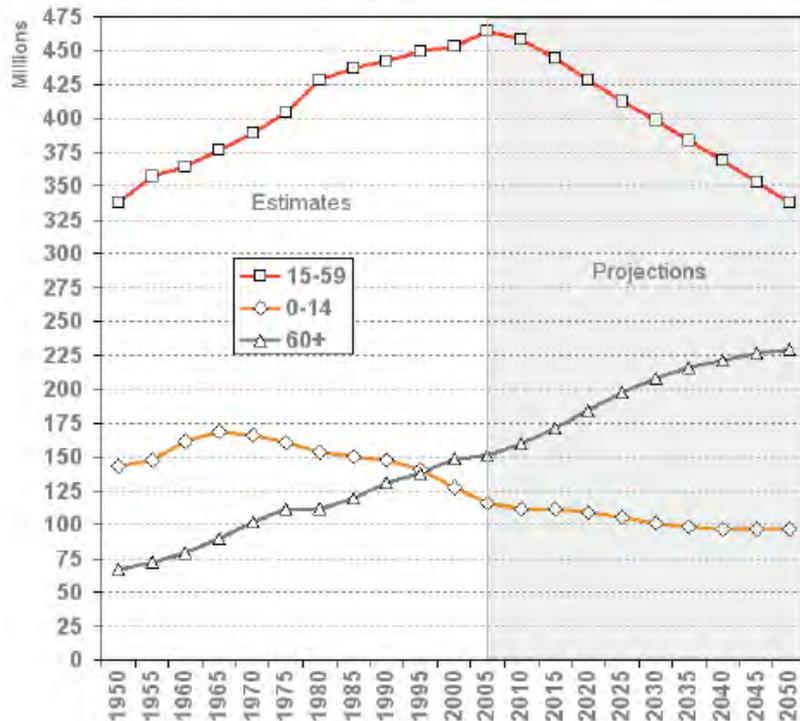


(1) 2060 data are projections (EUROPOP2010 convergence scenario).

- The European crisis is unfolding against a backdrop of rapidly deteriorating demographics
- As the population ages, a smaller proportion will be actively engaged in the work force
- In the coming decades, high dependency ratios, labor shortages will further impair the region's competitiveness

Demographics

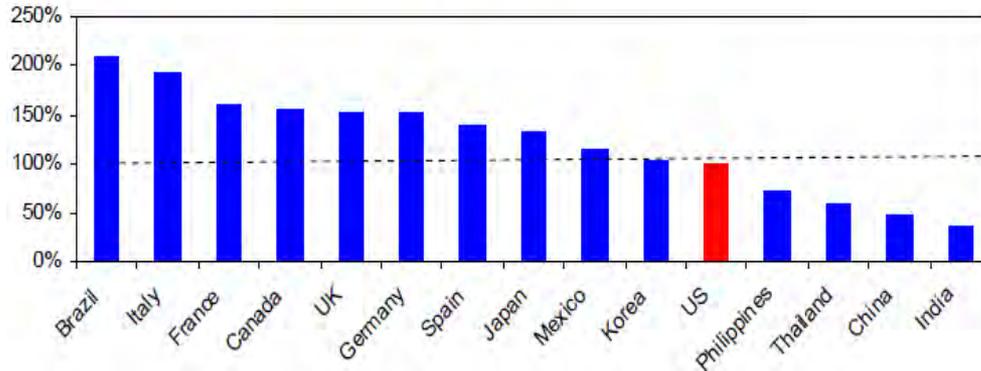
Figure 2: Europe's population by age groups, 1950-2050



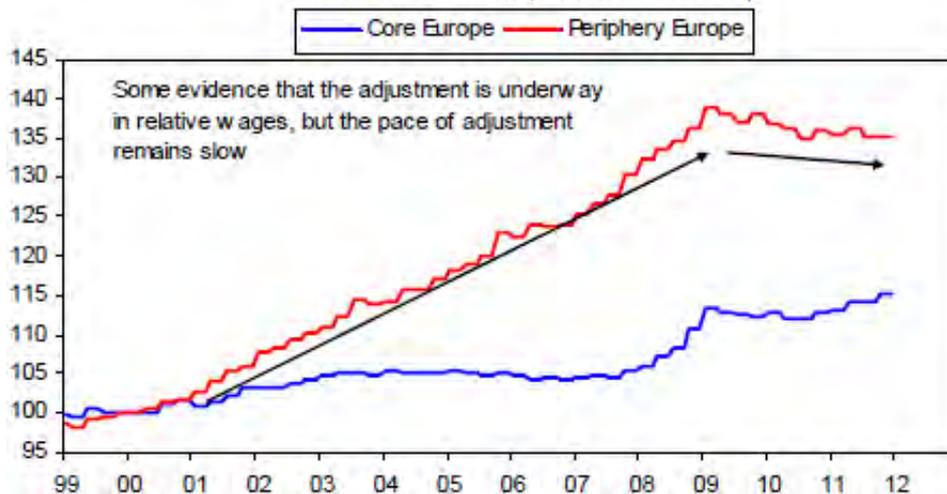
- Beyond the problem of aging, Europe is actually facing a decline in absolute population in coming decades
- Total population expected to shrink from approximately 725 million to around 650 million by 2050
- Even if Europe can maintain high per capita living standards, this fact alone will greatly diminish its share of global production

European Competitiveness

Manufacturing Unit Labor Costs (% of US)

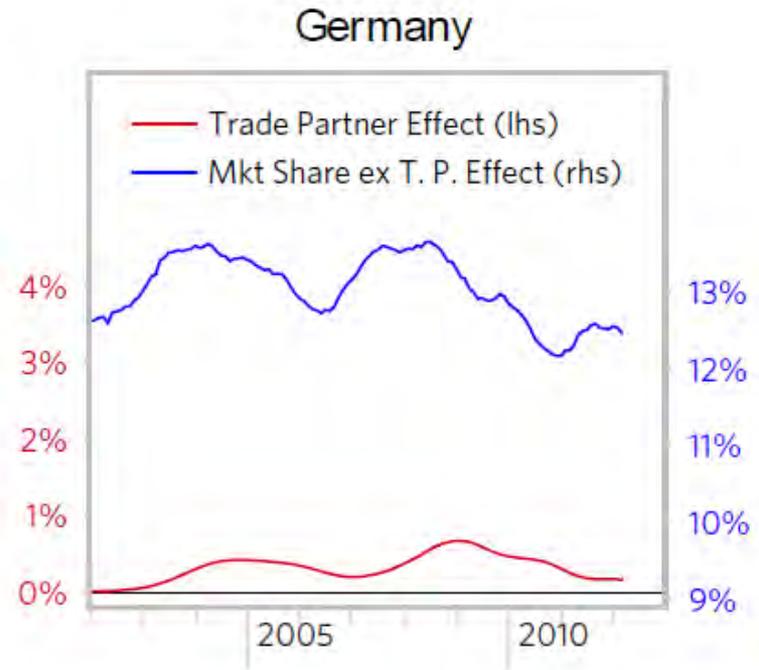
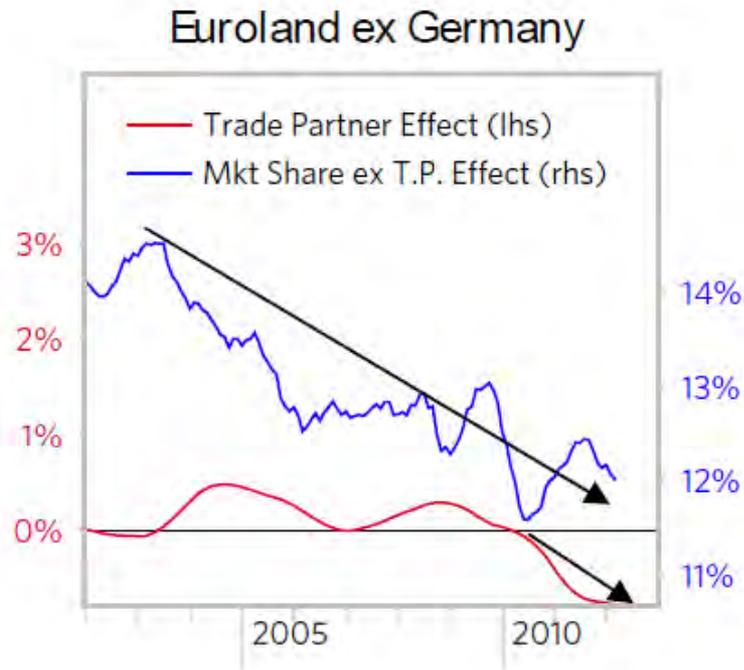


Unit Labor Costs (Indexed to 2000)



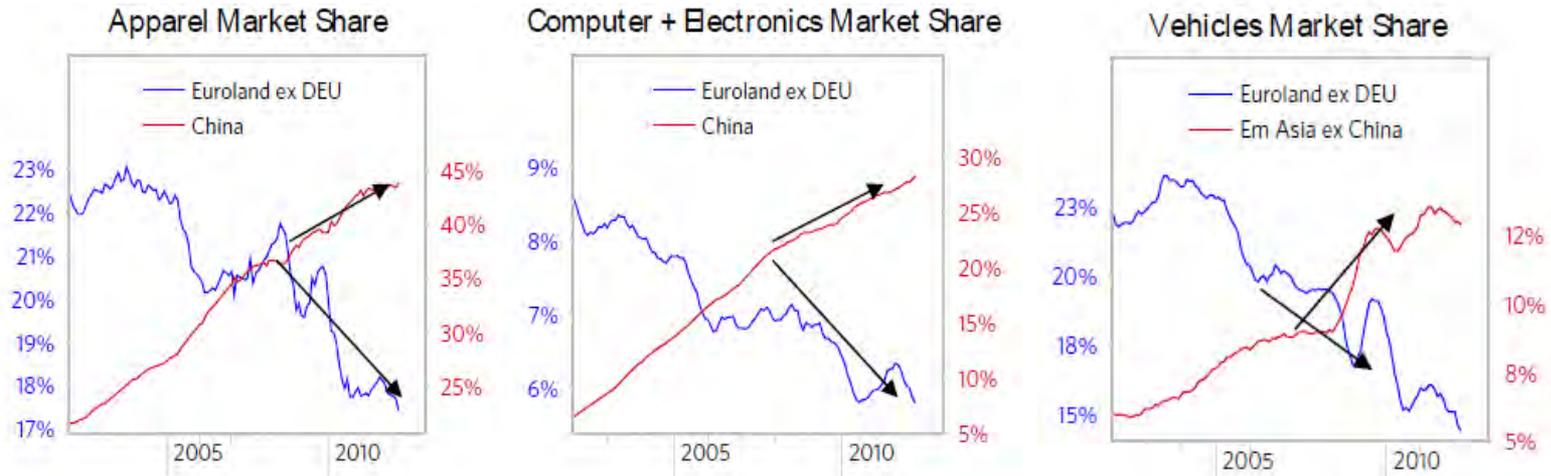
- Europe at a major disadvantage in producing tradable goods due to high labor costs – compared not only to emerging economies, but also US and Japan
- This problem is particularly stark in the European periphery, which has seen runaway labor cost inflation over the last decade or so
- Since the periphery does not have an independent monetary policy, the typical path of stabilizing this imbalance through currency devaluation is not an option

European Market Share



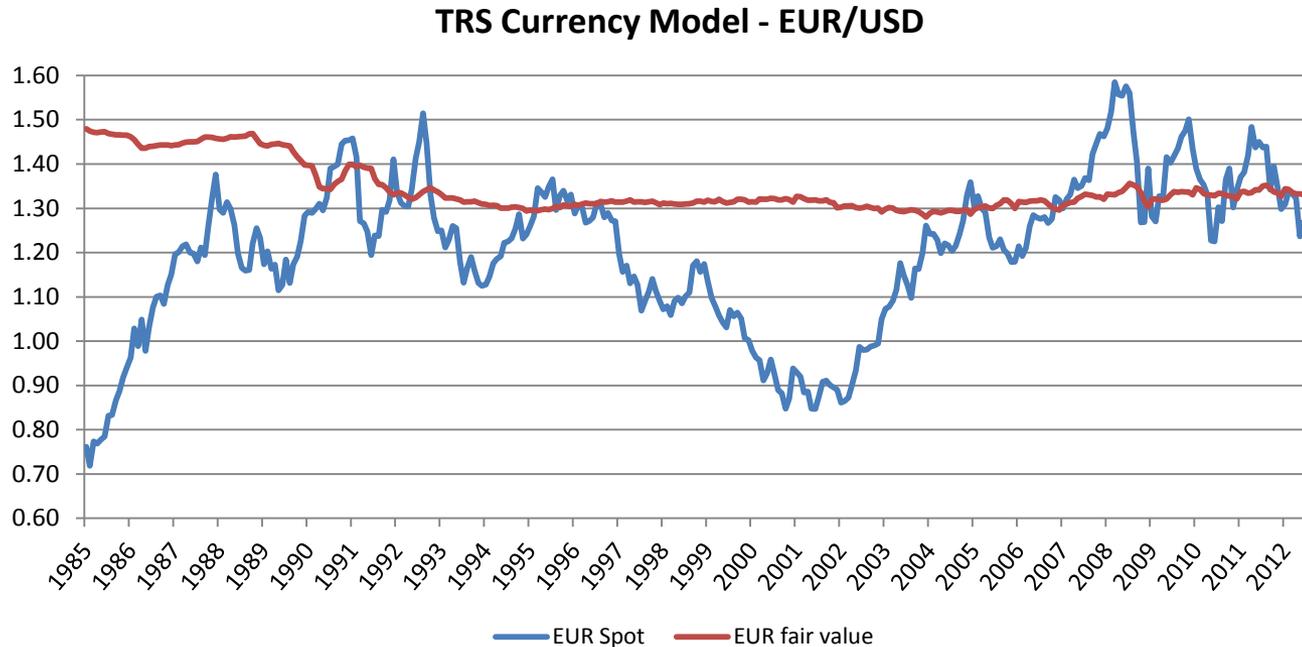
- With the exception of Germany, lack of competitiveness has led to rapid declines in global market share
- This outcome holds true even when the effect of the weakness of the economies of Europe's trading partners is stripped out

European Market Share



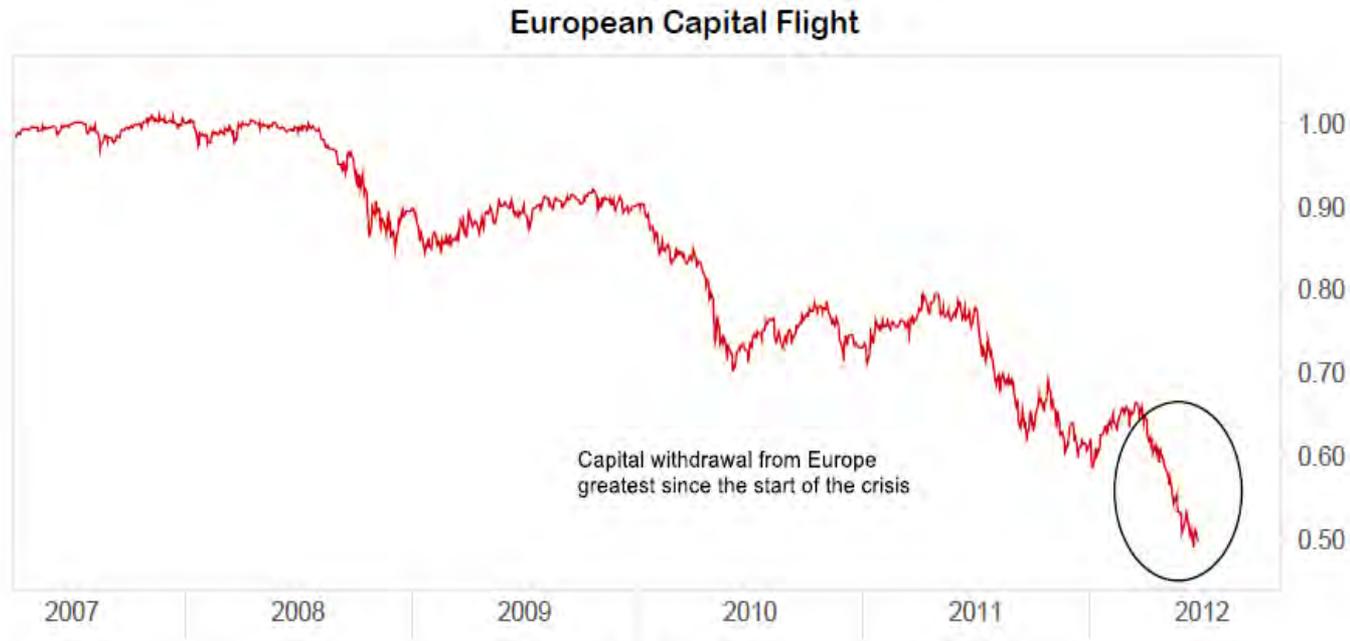
- This loss of global market share is consistent across sectors and industries
- Europe's loss is primarily the gain of emerging countries, particularly China and other rapidly growing Asian nations

Currency



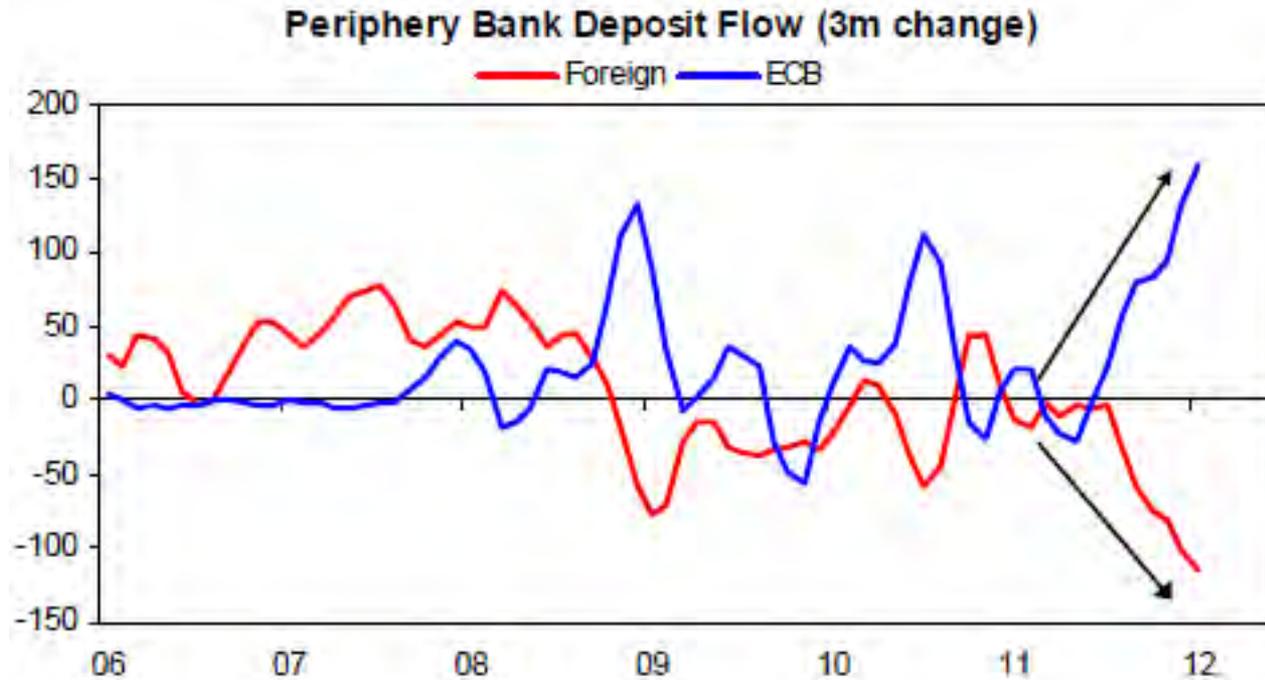
- Currency devaluation is typically a route to counteract declining competitiveness, but the Euro cannot be devalued without political consensus – which is unlikely due to the inflationary effect it would have on the relatively stronger economies of the core countries
- TRS' currency model shows Euro fair value at \$1.33 as of September 30 – in the event of a devaluation, this could move as low as \$1.00-\$1.10

Capital Flight



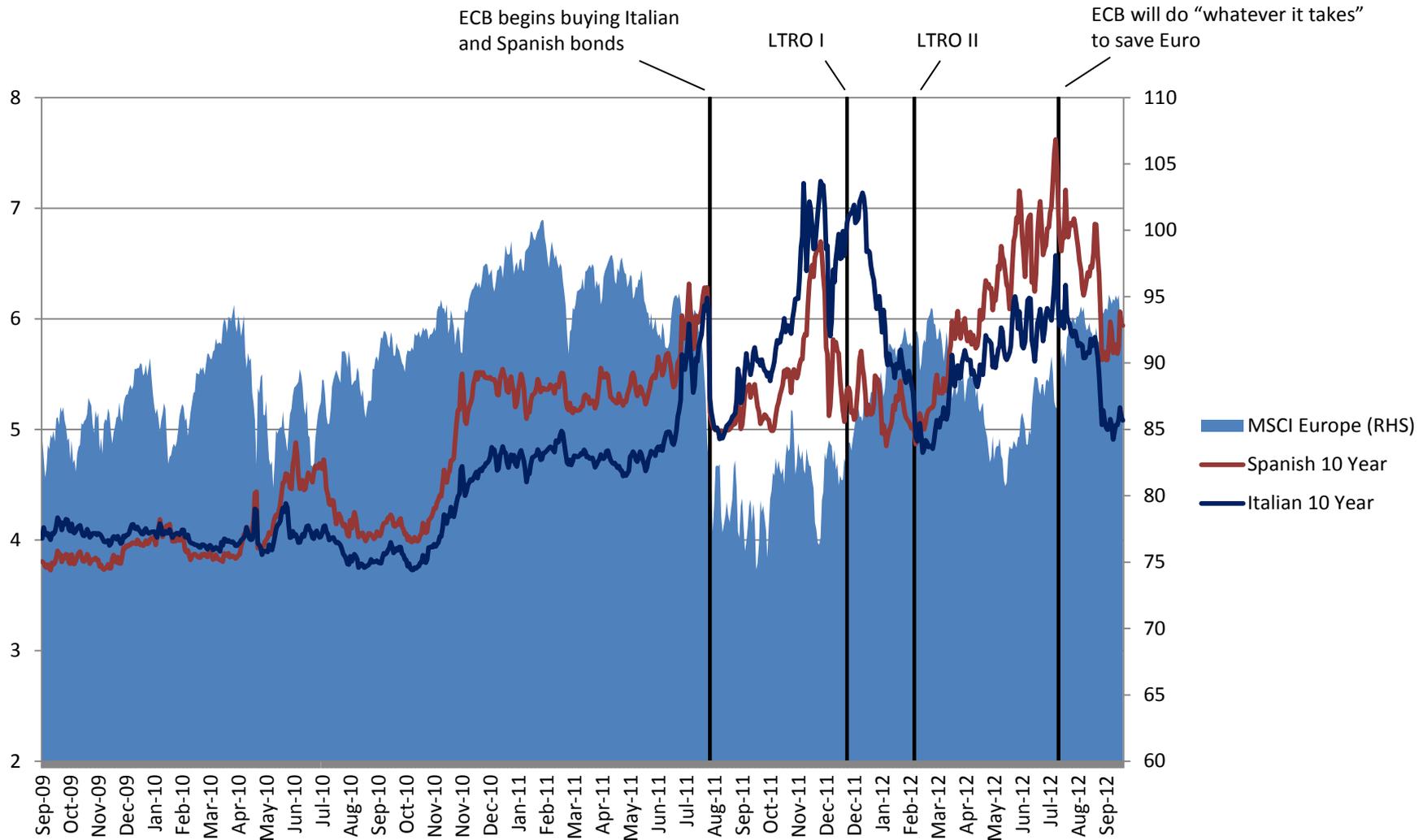
- The recent deterioration in European economic conditions has driven capital withdrawal from Europe to their highest levels in recent history
- Such flows place pressure on both governments and financial institutions, who are struggling to fund their debt loads

Capital Flows

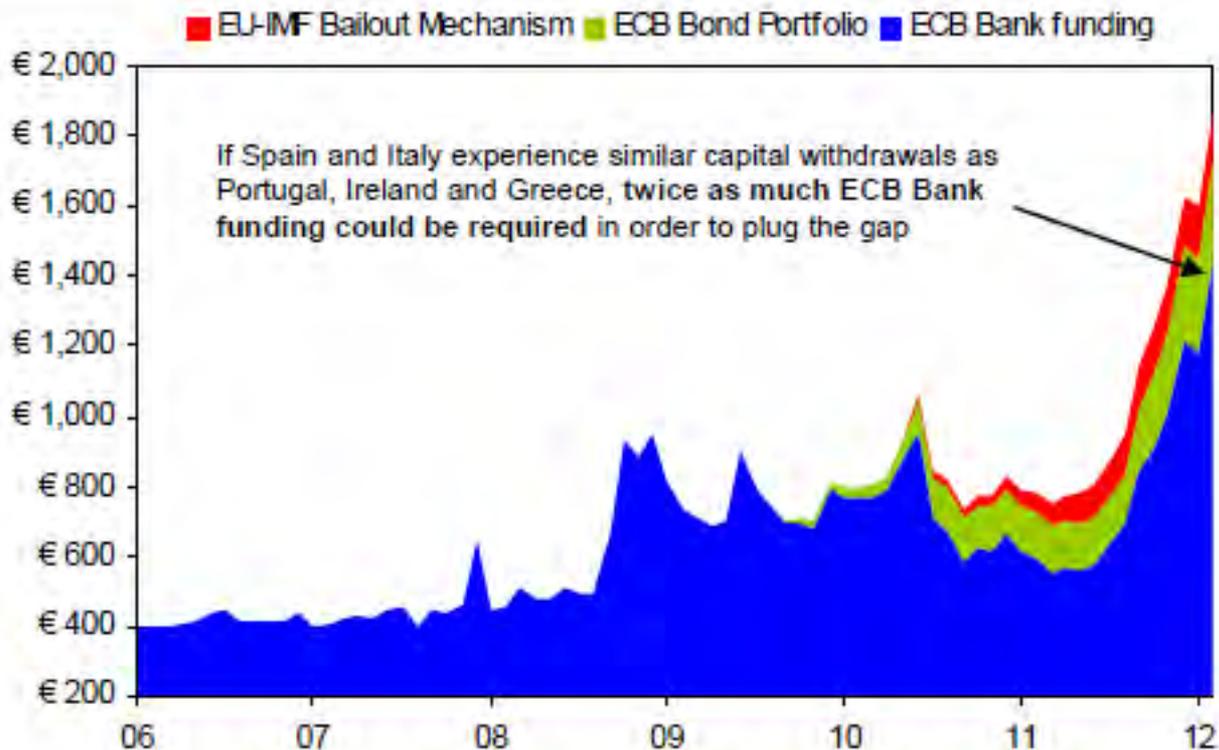


- The European Central Bank has been forced to step in to fill the resulting funding gap

European Equity Returns and Central Bank Action



The ECB Backstop



- This use of central bank liquidity facilities is unprecedented
- The Spanish financial system has nearly exhausted its supply of collateral for additional lending, making it highly vulnerable to further economic deterioration

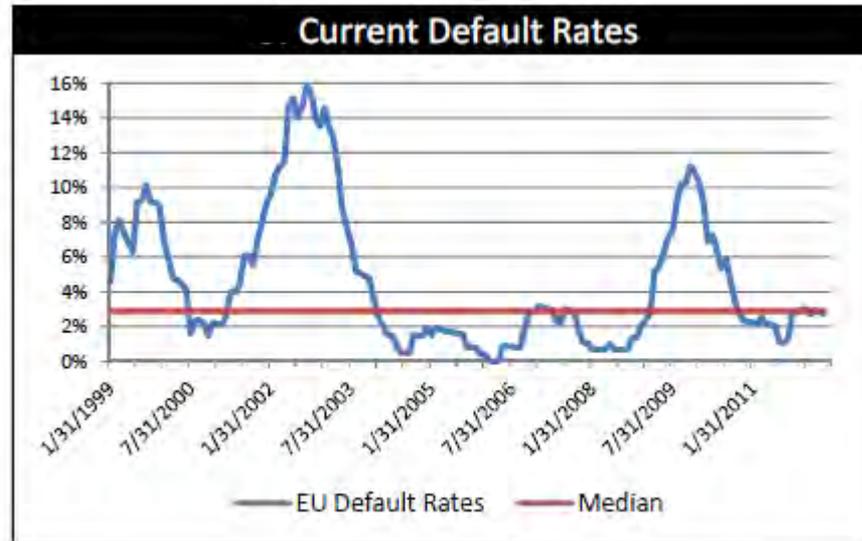
Euro Default?

The Sovereign Default League Table

Country	Start date	No. of defaults or rescheduling	Most recent official default	Approx. No. of years locked out of capital markets	% of years locked out since start date
Spain	1550	18	1939	Two centuries	43
Portugal	1550	7	1890	Two centuries	43
Greece	1826	5	1932	110 years	59
Brazil	1890	11	1990	60	49
Mexico	1825	9	1982	95	51
Russia	1800	7	1998	70	33
China	1900	4	1949	40	36
Poland	1919	3	1981	45	48

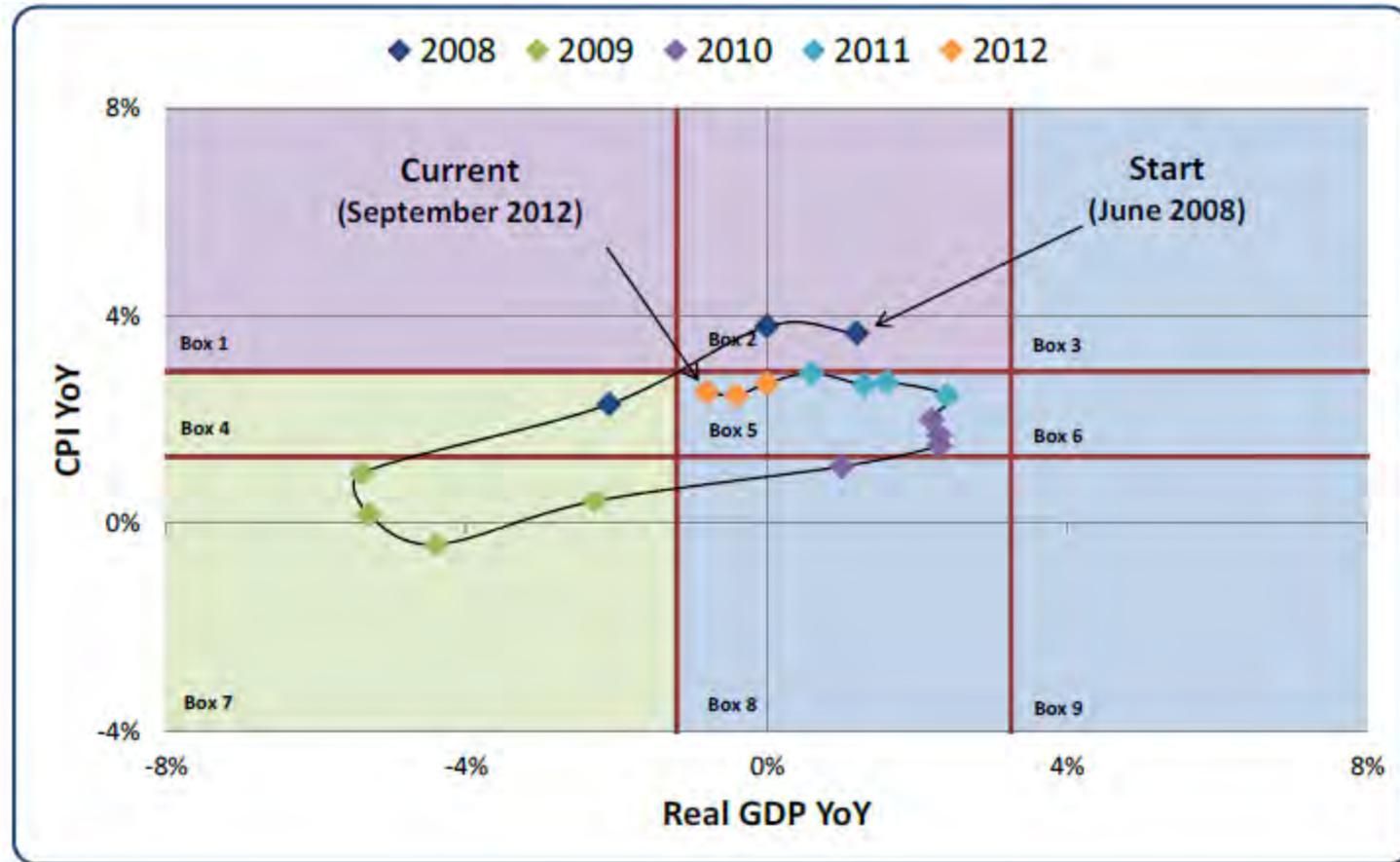
- Sovereign default and exit from the Euro is the “black swan” event most feared by investors, but is fairly common in broader historical context
- What is different today is that default is cloaked in terms like “haircuts” and “restructurings”

Corporate Default



- On the corporate side, credit defaults have been at or near long-term averages since late 2010, following a spike during the financial crisis
- Liquidity provisions by the ECB meant to stabilize financial markets have likely depressed defaults in recent months

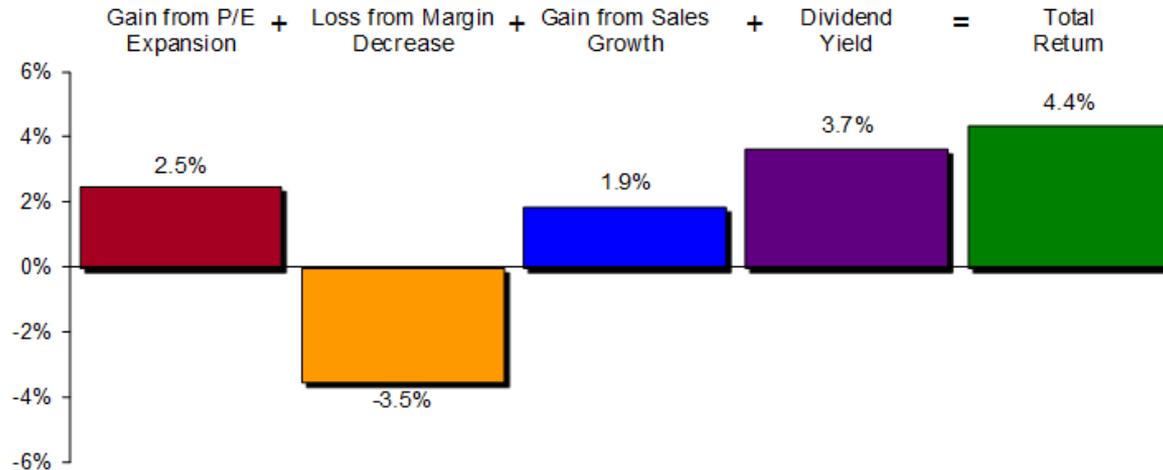
Europe – Economic Conditions



- Conditions in Europe, while far from ideal, are still broadly supportive of strong equity returns

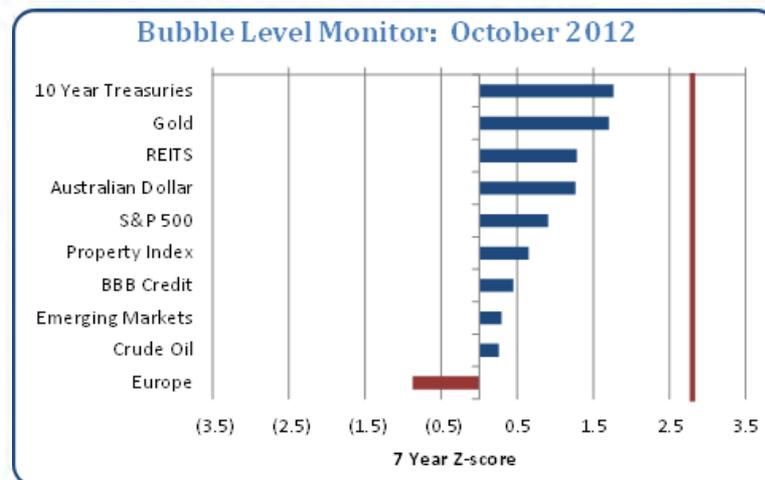
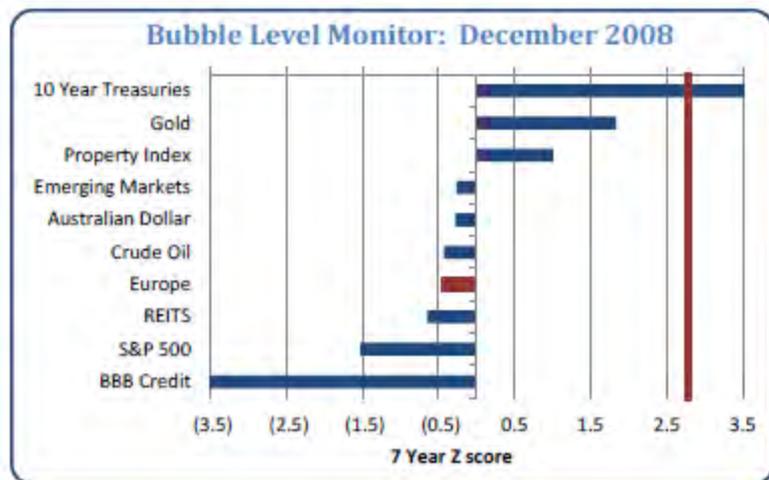
EAFE ex-Japan Equity Valuation

	P/E	Profit Margin	Real Sales per Share Growth	Dividend Yield
Starting Levels	12.7	7.3%	0.7%	3.9%
Assumption for Next 7 Years	15.0 <small>(Terminal Value)</small>	5.7% <small>(Terminal Value)</small>	1.9%	3.7%



- European markets may have priced in overly pessimistic scenarios, providing an opportunity to capture value
- GMO estimates a real return of 4.4% in EAFE ex-Japan over the next seven years, which compares favorably to the 0.3% expectation for US equity

European Equity Valuation



- The TRS Bubble Monitor also indicates that Europe may be undervalued
- In December 2008, at the depths of the financial crisis, seven of ten major asset classes tracked by the monitor were below their seven year pricing averages
- Almost four years later, European equities are the only asset class for which this is still the case

China

- China has reached an important inflection point in its rise to economic power – is its slowdown in growth temporary or the new normal?
 - Strong growth has been fueled by infrastructure investment and rapid urbanization
 - These drivers are approaching maturity – China must avoid the “middle income trap”
- Factors hurting Chinese growth
 - Weak global economy hurts export-driven economic model
 - Demographics beginning to tip due to one child policy
 - Struggle to convert to consumption-driven model

China

Figure 4

Monthly increase in China foreign exchange reserves and RRR for large banks



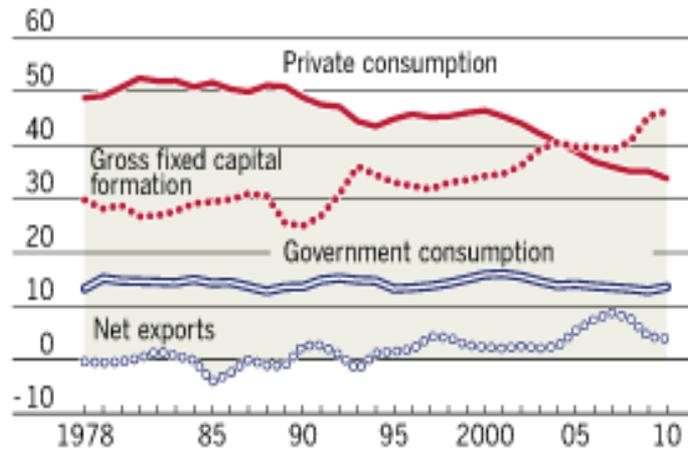
Source: CEIC Data, PBOC

- China is seeing substantial capital outflows for the first time in recent history
- How will Chinese leadership respond in advance of upcoming succession?

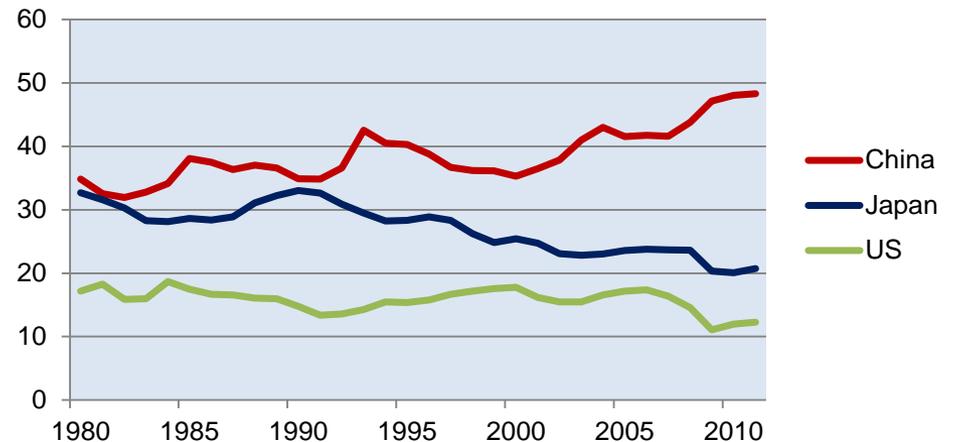
Economic Transition

Composition of China's GDP

Per cent

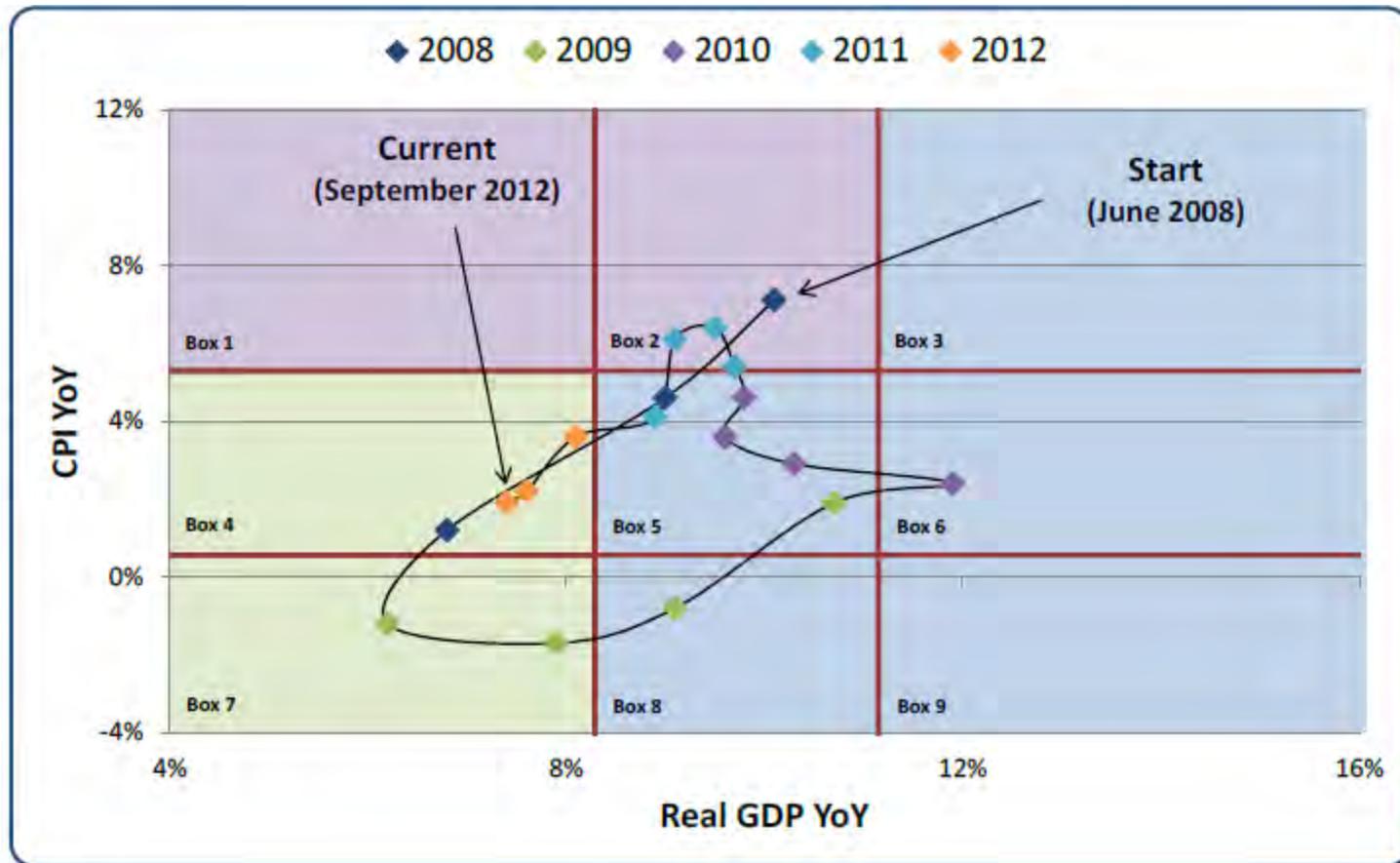


Comparison: Investment Share of GDP



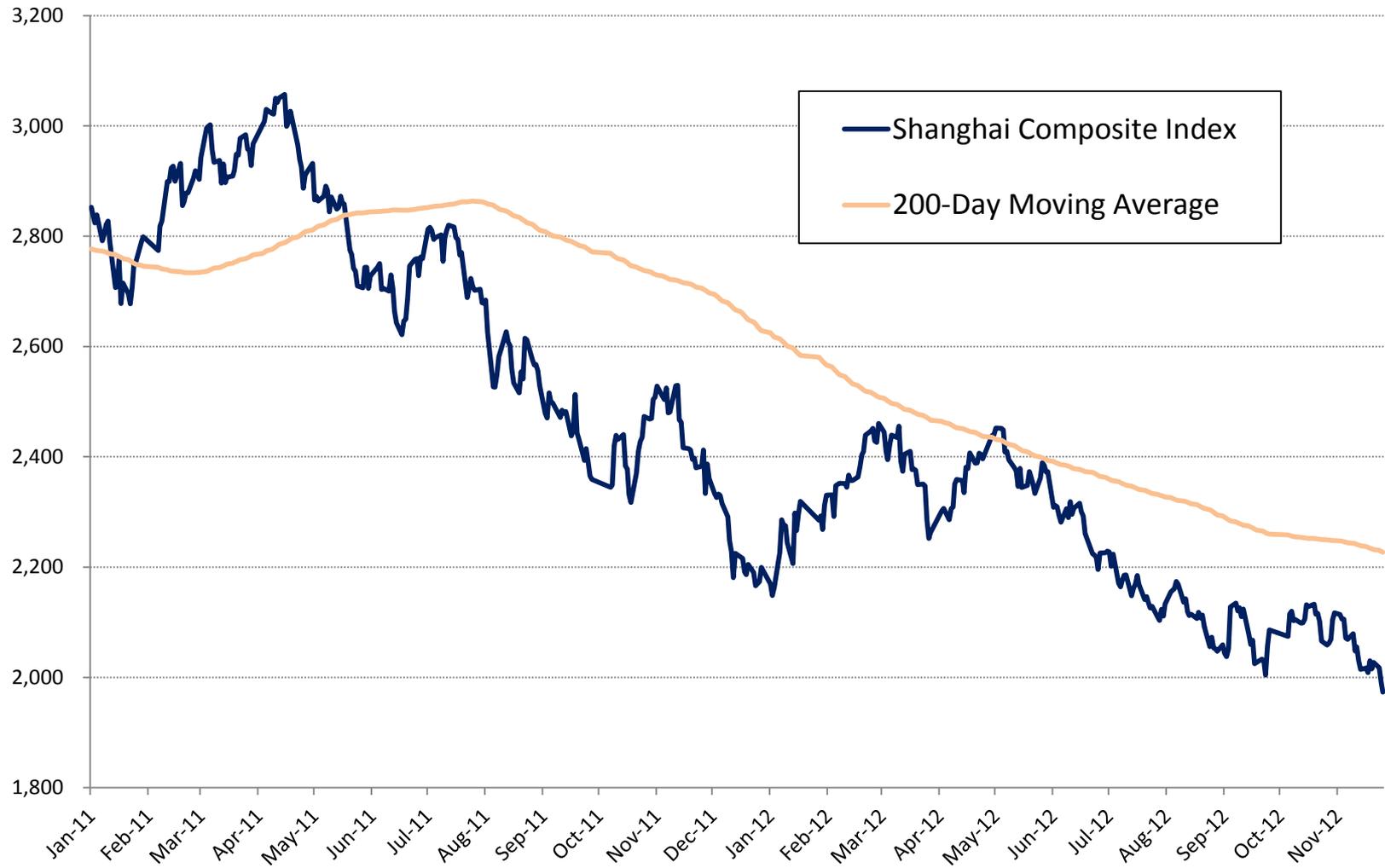
- Investment has grown rapidly as a share of GDP
- If this was to reverse as the government wishes, growth rate of investment must fall below growth rate of GDP
- This would be similar to Japan in the 1990's – which saw dire results

China - Economic Conditions



- Deceleration of GDP growth has put China in Box 4 – part of the Stable Value regime
- Such positioning is generally not supportive of strong equity returns

China's Equity Performance



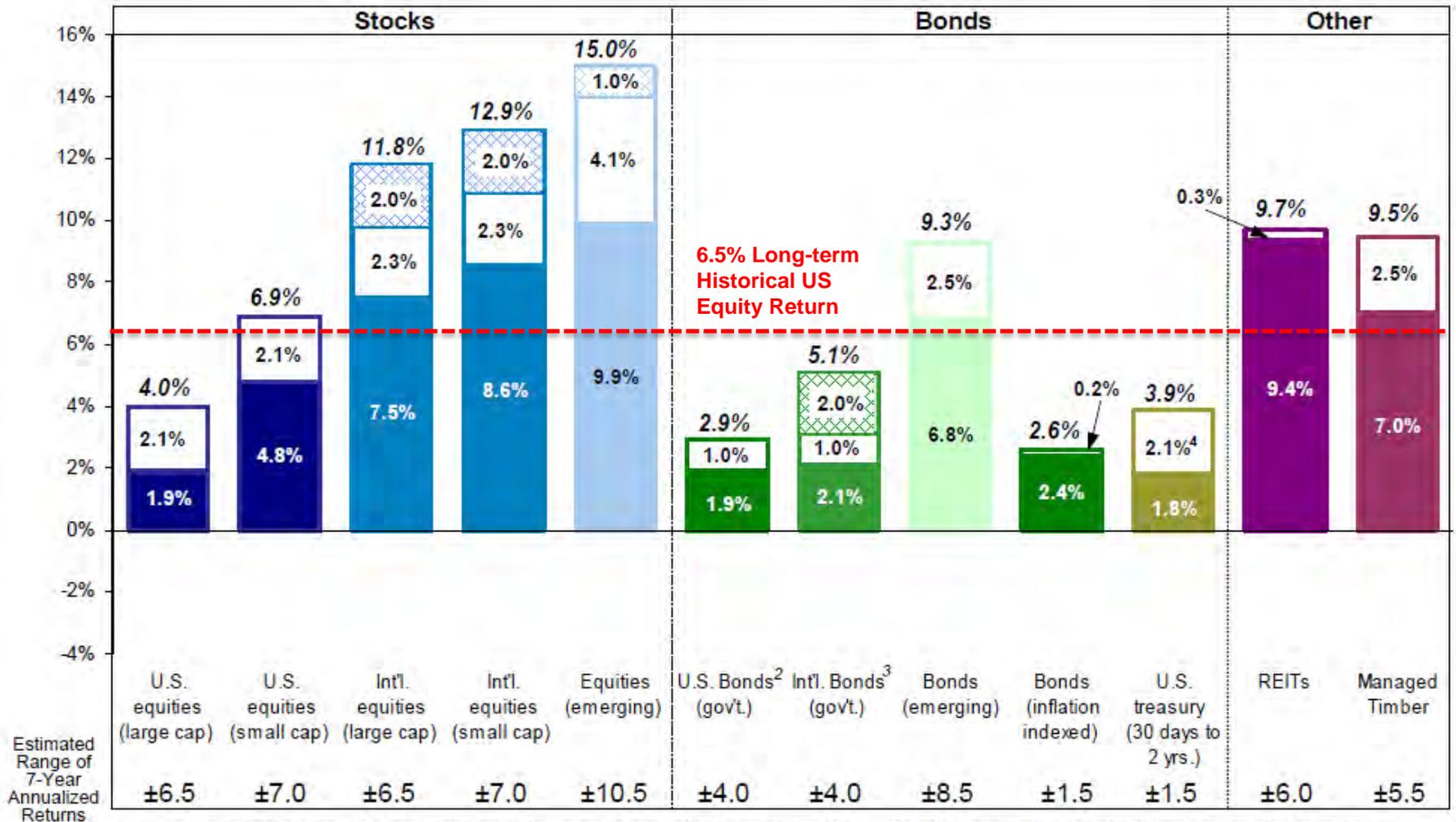
Ten Year Comparison

September 2002 vs. September 2012

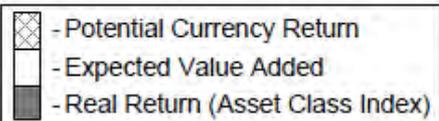
	USA		Europe		P/E Ratios		
<u>Economic</u>	<u>2002</u>	<u>2012</u>	<u>2002</u>	<u>2012</u>	MSCI World	<u>2002</u>	<u>2012</u>
CPI	1.5%	2.0%	1.9%	2.7%	<i>Trailing</i>	15.3x	13.5x
GDP Growth	2.3%	2.3%	1.4%	-0.5%	<i>Projected</i>	15.4x	12.7x
Debt/GDP	33.6%	67.7%	68.0%	88.0%	<i>Shiller</i>	18.3x	18.8x
					USA (S&P 500)		
					<i>Trailing</i>	16.9x	14.5x
					<i>Projected</i>	18.2x	13.8x
					<i>Shiller</i>	22.4x	21.9x
<u>Yields</u>	<u>2002</u>	<u>2012</u>	<u>2002</u>	<u>2012</u>	Germany		
Discount (Fed Funds) Rate	1.75%	0.25%	3.25%	0.75%	<i>Trailing</i>	11.7x	12.3x
Short-Term Sovereign	2.99%	0.83%	3.07%	0.02%	<i>Projected</i>	14.1x	10.7x
Long-Term Sovereign	4.52%	2.54%	4.88%	2.26%	<i>Shiller</i>	15.7x	17.5x
Inflation-Linked	2.35%	-0.46%	4.42%	2.01%	Japan		
Bond Aggregate	4.29%	1.61%	5.07%	2.88%	<i>Trailing</i>	26.7x	15.1x
High Yield	13.60%	6.51%	17.42%	8.00%	<i>Projected</i>	20.3x	13.7x
					<i>Shiller</i>	51.3x	15.2x
<u>FX</u>		<u>2002</u>	<u>2012</u>		China		
US/EUR		0.99	1.29		<i>Trailing</i>	39.3x	10.6x
JPY/USD		121.81	77.96		<i>Projected</i>	10.1x	9.5x
CNY/USD		8.28	6.28		<i>Shiller</i>	5.5x	13.0x

GMO 7-Year Asset Class Return Forecast

As of September 2002



The chart represents real return forecasts¹ for several asset classes and an estimate of value expected to be added from active management.

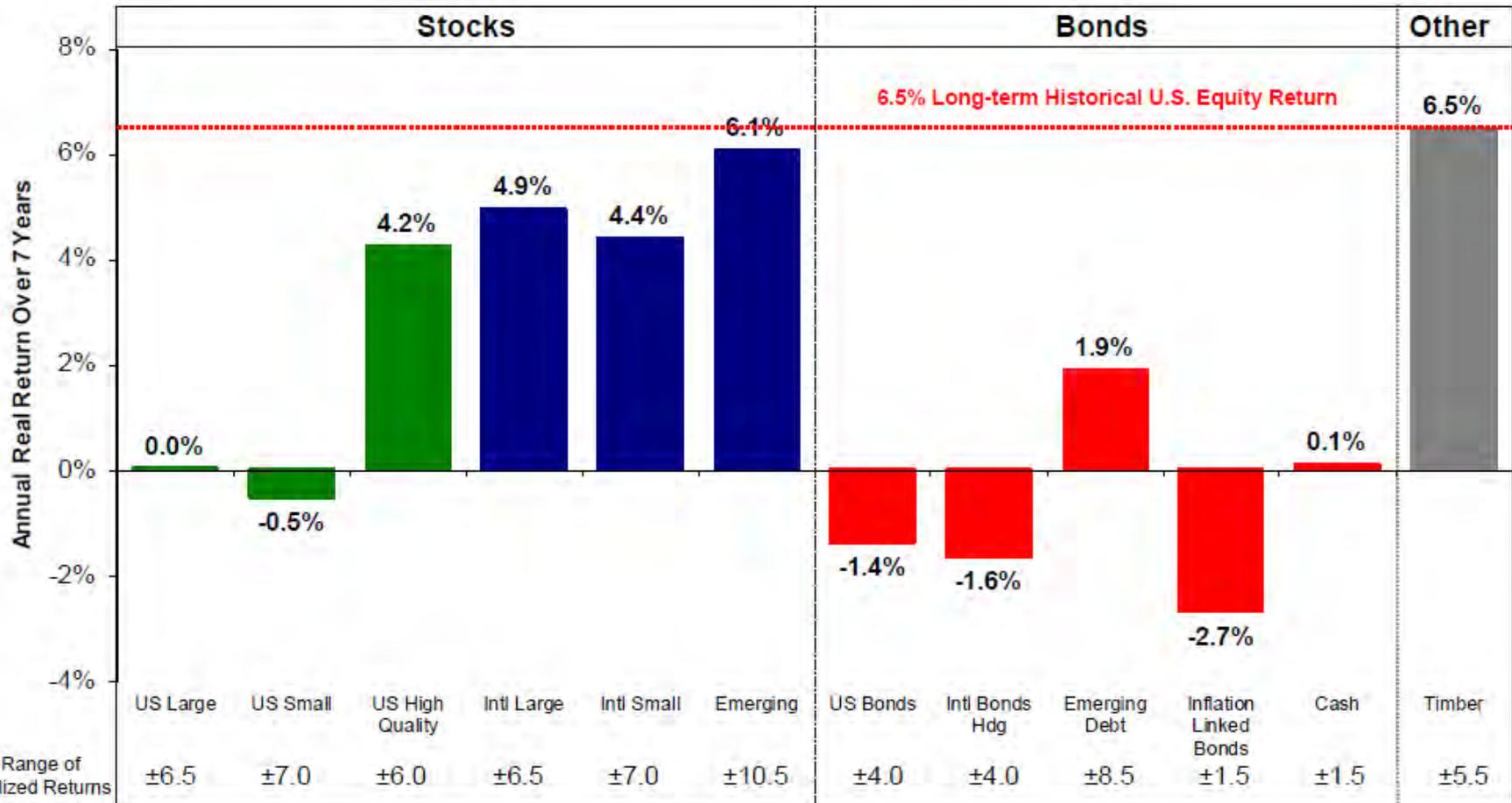


¹ Long-term inflation assumption: 2.2% per year.
² Bond with same duration as Lehman Brothers Government Bond Index.
³ Bond with same duration as J.P. Morgan Non-U.S. Government Bond Index.
⁴ Alpha transported from management of global equities.



GMO 7-Year Asset Class Return Forecast

As of September 2012

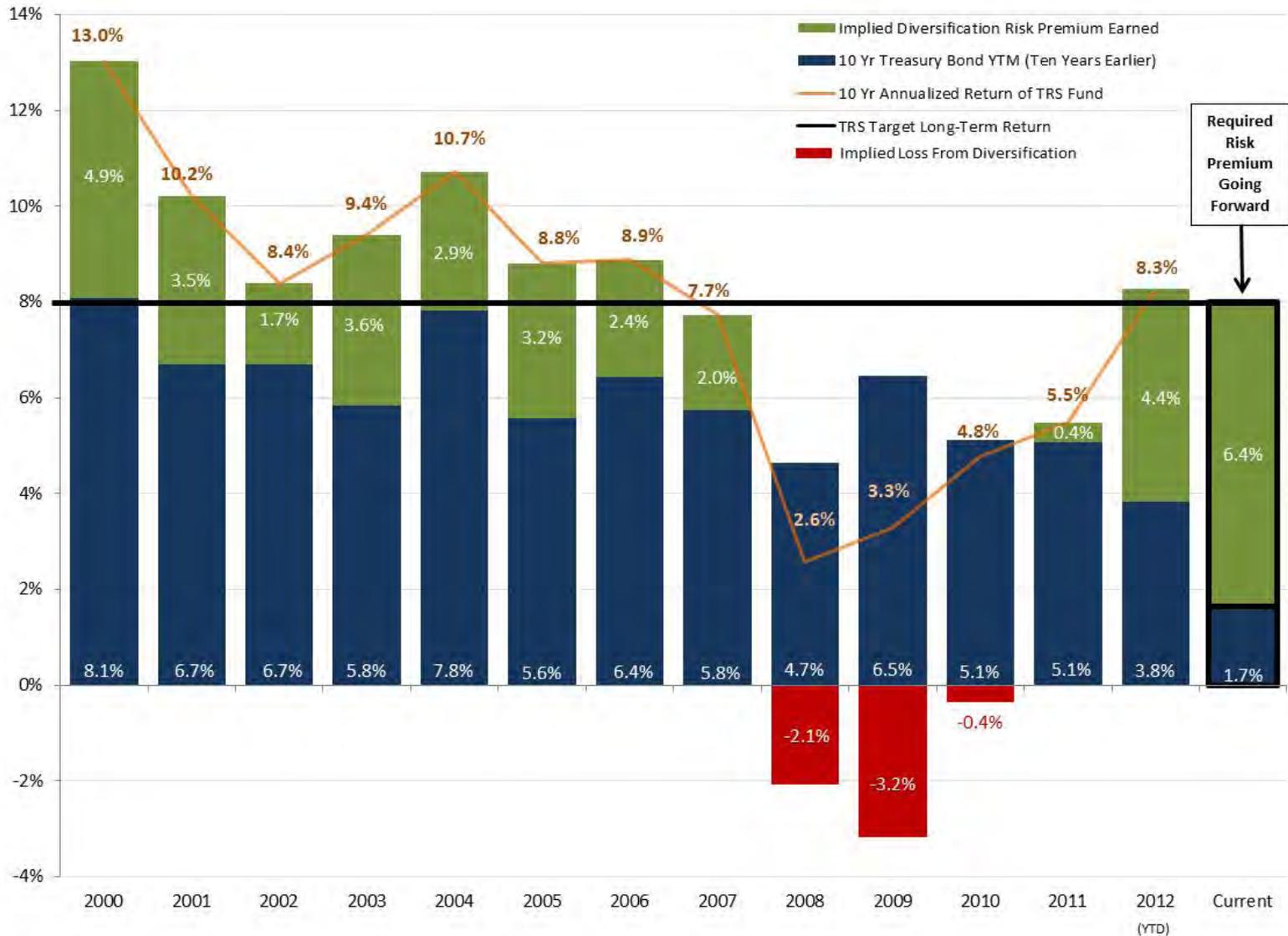


*The chart represents real return forecasts¹ for several asset classes. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Actual results may differ materially from the forecasts above.

¹ U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.



Historical Ability to Produce 8% Annualized Investment Return



Tab 7

Teacher Retirement System of Texas



Comprehensive Annual Financial Report – Fiscal Year 2012

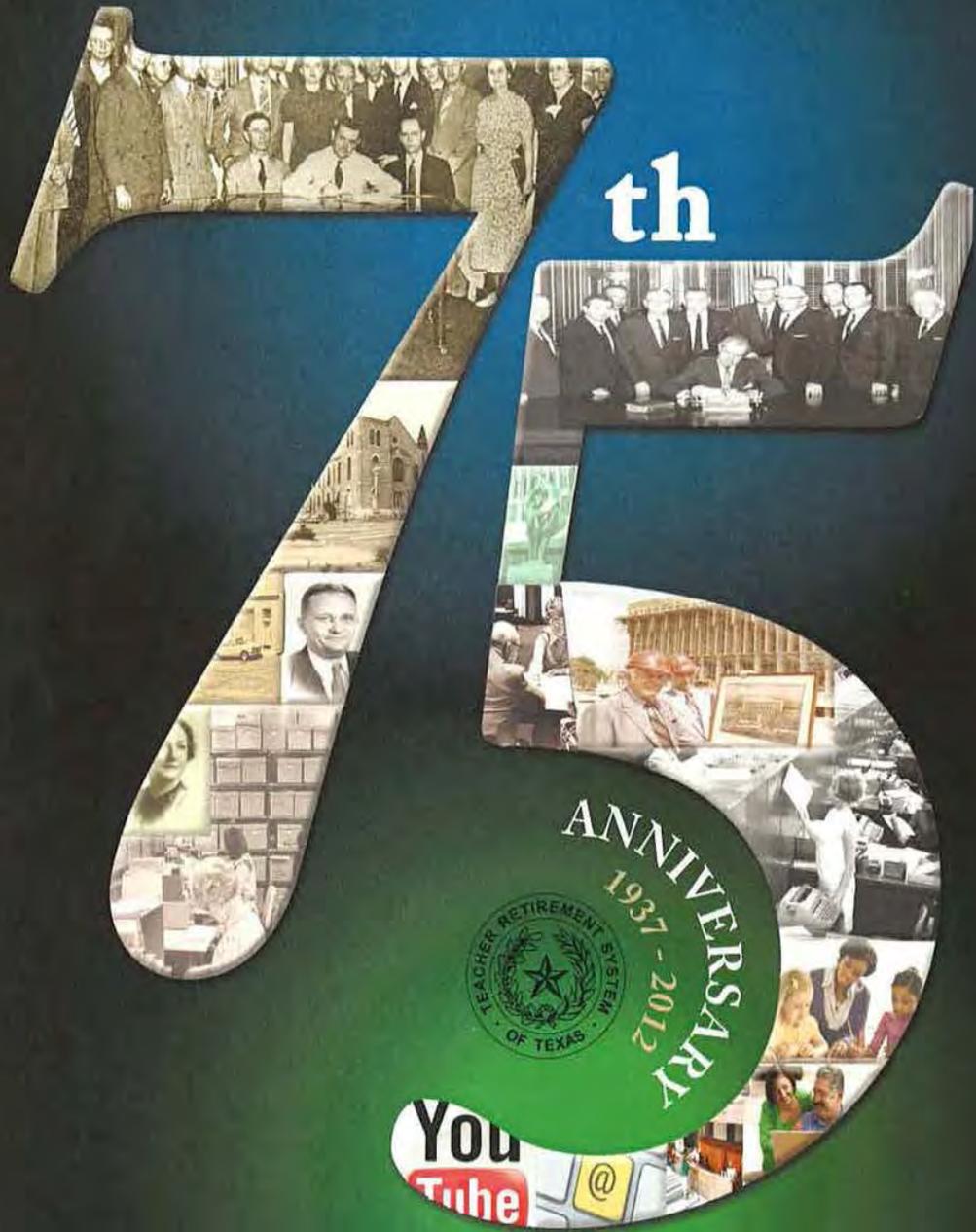
- Jamie Michels
- Cindy Haley



2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Teacher Retirement System of Texas



A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2012

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to
Teacher Retirement System
of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danson
President

Jeffrey R. Emer
Executive Director



CAFR FY 2012

TEACHER RETIREMENT SYSTEM OF TEXAS ANNUAL FINANCIAL REPORT HIGHLIGHTS Fiscal Year 2012

<u>Membership</u>	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Current Members* -- Average Age -- 44.4	1,003,655	1,003,886	(231)
Retirees and Beneficiaries	331,747	312,680	19,067
Total Membership	<u>1,335,402</u>	<u>1,316,566</u>	<u>18,836</u>

*Employed by 1,357 Reporting Entities



CAFR FY 2012

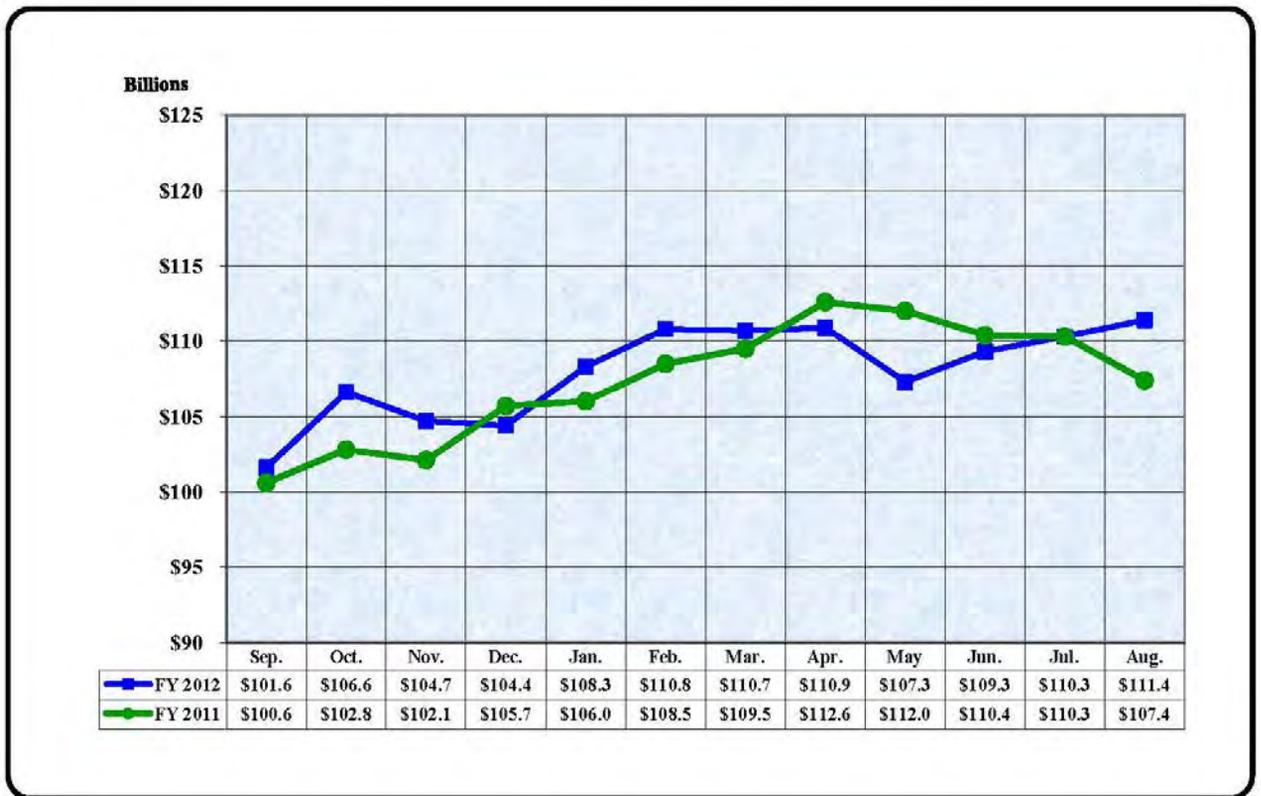
TEACHER RETIREMENT SYSTEM OF TEXAS ANNUAL FINANCIAL REPORT HIGHLIGHTS Fiscal Year 2012

PENSION TRUST FUND	
<u>Financial</u>	(billions)
Net Assets - September 1, 2011	\$ 107.4
Investment Income	7.8
Member Contributions	2.3
State Contributions - General Fund	1.4
Contributions from Federal/Private Funding Sources	0.3
Employer Contributions	0.4
Pension Payments to Retirees & Beneficiaries	(7.8)
Withdrawals/Refunds of Member Accounts/Other	<u>(0.4)</u>
Net Assets - August 31, 2012	\$ <u><u>111.4</u></u>
Benefits Administration Cost Per Member	\$24.57
Investment Costs - Basis Points -----	13.75



CAFR FY 2012

Pension Trust Fund Net Assets – Fiscal Years 2011-12



CAFR FY 2012

TEACHER RETIREMENT SYSTEM OF TEXAS ANNUAL FINANCIAL REPORT HIGHLIGHTS Fiscal Year 2012

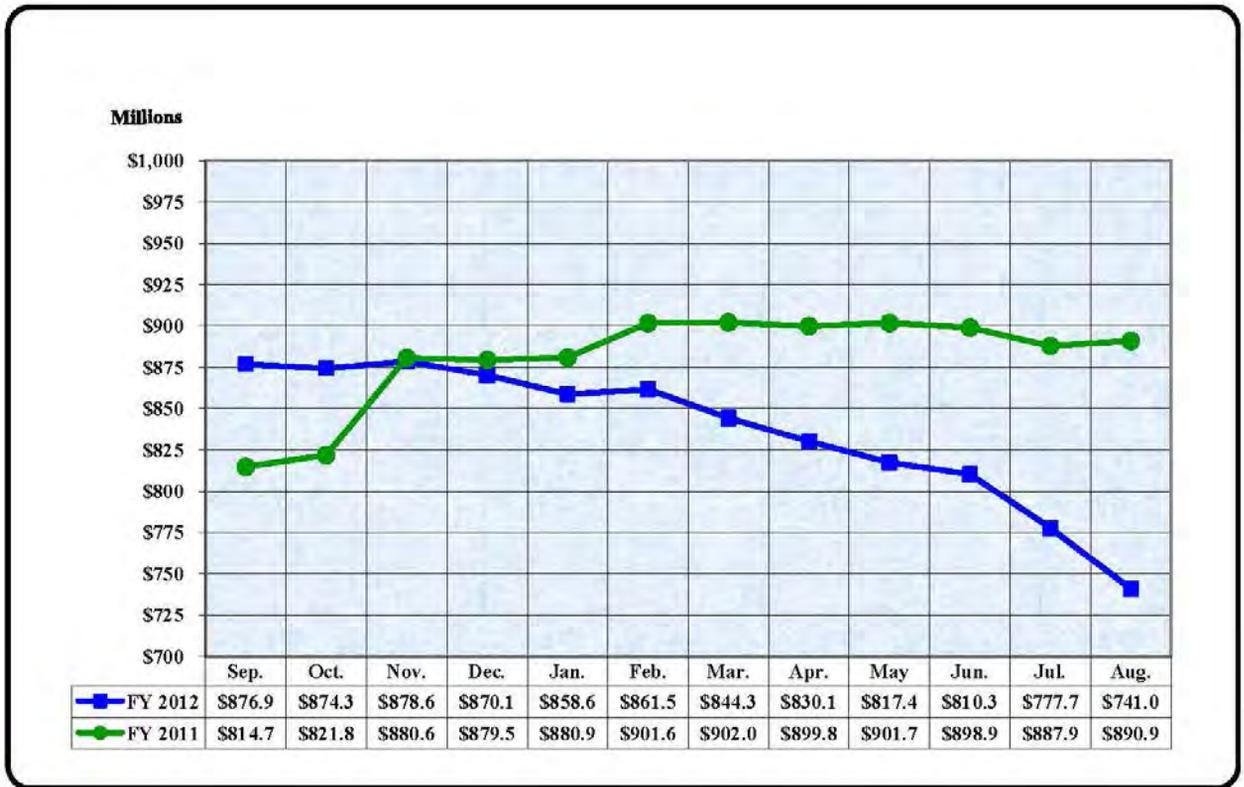
HEALTH BENEFIT PROGRAMS

<u>Financial</u>	<u>RETIRED</u>	<u>ACTIVE</u>
	(millions)	
Net Assets - September 1, 2011	\$ 890.9	188.1
Retiree or Active Health Benefit Premiums	363.3	1,750.1
State Contributions - 1.0% of Payroll	247.5	
Contributions from Federal/Private Funding Sources	24.4	
Active Contributions - 0.65% of Payroll	176.8	
Employer Contributions - 0.55% of Payroll	154.6	
Investment Income	5.2	1.7
Medicare Part D Reimbursement	68.6	
Medical & Rx Claims	(1,142.1)	(1,808.6)
Claims Processing & Internal Administration	<u>(48.2)</u>	<u>(85.5)</u>
Net Assets - August 31, 2012	\$ <u>741.0</u>	<u>45.8</u>
<u>Membership</u> -- (includes dependents)	<u>225,886</u>	<u>470,967</u>



CAFR FY 2012

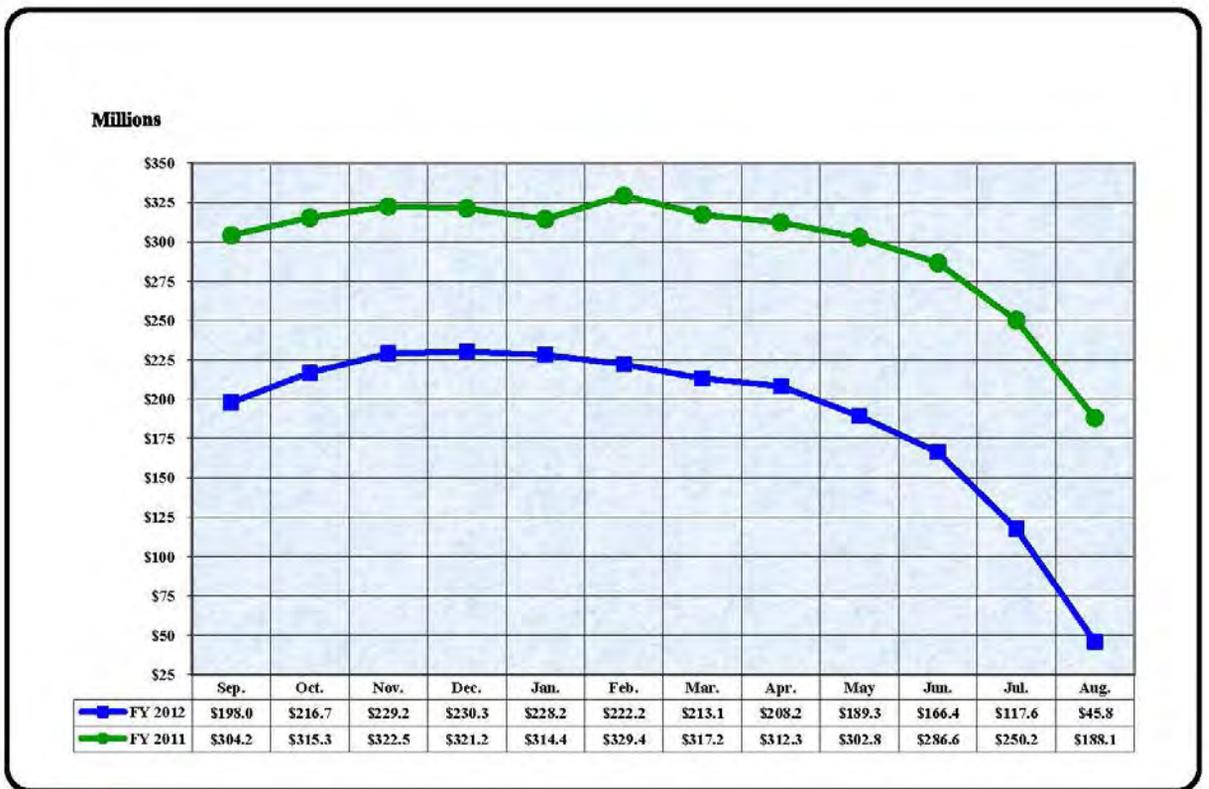
TRS-Care Net Assets – Fiscal Years 2011-12





CAFR FY 2012

TRS-ActiveCare Net Assets – Fiscal Years 2011-12



Tab 8

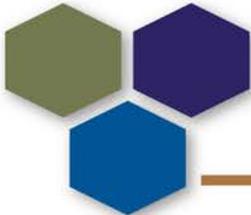


Teacher Retirement System of Texas

Actuarial Valuation as of
August 31, 2012

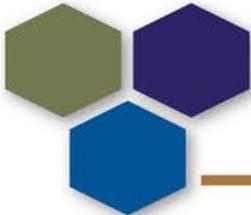
GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com



Actuarial Valuation

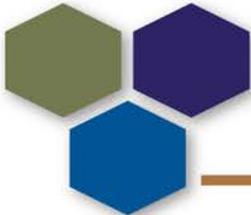
- ◆ Prepared as of August 31, 2012 using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods as of that date
- ◆ Purposes:
 - Measure the actuarial liabilities
 - Determine adequacy of current statutory contributions
 - Provide other information for reporting
 - GASB #25
 - CAFR
 - Explain changes in actuarial condition of TRS
 - Track changes over time
 - Warn about possible future problems and issues



Actuarial Valuation

– Key Changes and Issues

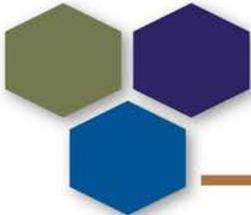
- ◆ Forecast mainly unchanged from previous valuations:
 - ▶ Market assets returns 7.4%, net of expenses*
 - ▶ Liabilities grew slower than expected, mostly due to lower than projected salary increase
 - ▶ Projected future contributions into the System have decreased based on a lower active population count
 - Active count down 2.3% since peak in 2010
 - Overall, FY2012 total covered payroll was 9% lower than expected from the 2010 projection from 2 years ago
 - Contributions are made as a percentage of payroll
 - This has moved the calculated depletion date up about 10 years



Actuarial Valuation

– Key Changes and Issues

- ◆ 30-year actuarially determined contribution rate (ARC) from 2012 valuation 8.62% of pay
 - ▶ Assumes member rate continues at 6.40%
 - ▶ Effective split rate would be 7.60% (same rate for member and employer)
- ◆ Funding period continues to be N/A or “Never”
 - ▶ Fund projected to sustain approximately 55 years under current benefits and current contributions
- ◆ Projection has expectation of decreasing funded status and increasing calculated contribution rates over the next few valuations
 - ▶ 30 year calculated contribution based on market assets: 9.79%
 - Up from 9.40% based on 2011 valuation
 - ▶ If 6.40%/6.40% contribution policy continues, the 30 year ARC is projected to exceed the 10% constitutional maximum in 2015



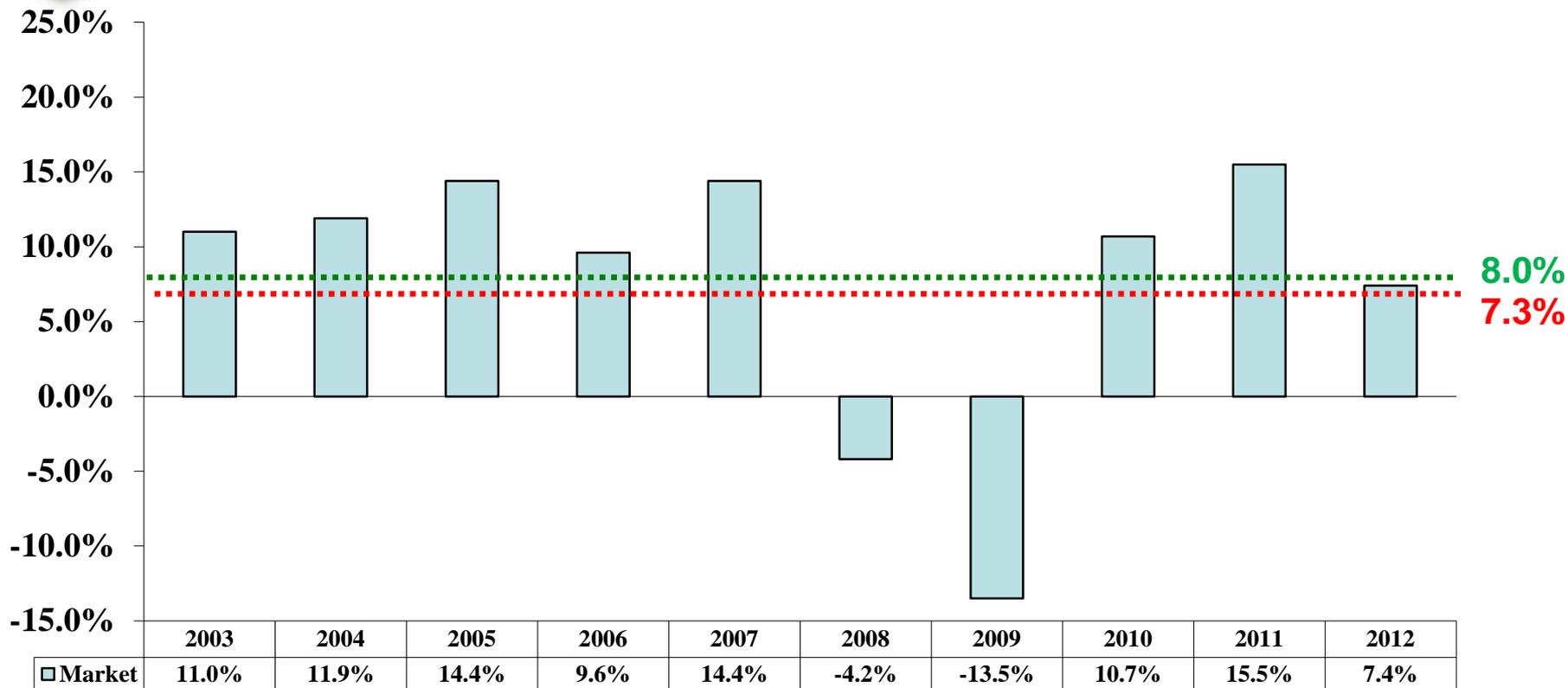
Sources of Change

	UAAL (\$ in millions)	30 Year Contribution Rate
As of August 31, 2011	\$24,062	8.13%
Expected change	422	0.00%
Contribution shortfall	836	0.13%
Liability growth slower than expected	(1,427)	-0.23%
Recognition of deferred investment losses	2,083	0.33%
FY2012 investment performance	125	0.02%
Payroll growth (Includes change in population)	-	0.32%
Re-amortization to 30 Years	-	<u>-0.08%</u>
As of August 31, 2012	\$26,101	8.62%

Not contributing the actuarially determined rate increased the UAAL by \$836 million and increased the 30 year contribution rate by 0.13% for all future years

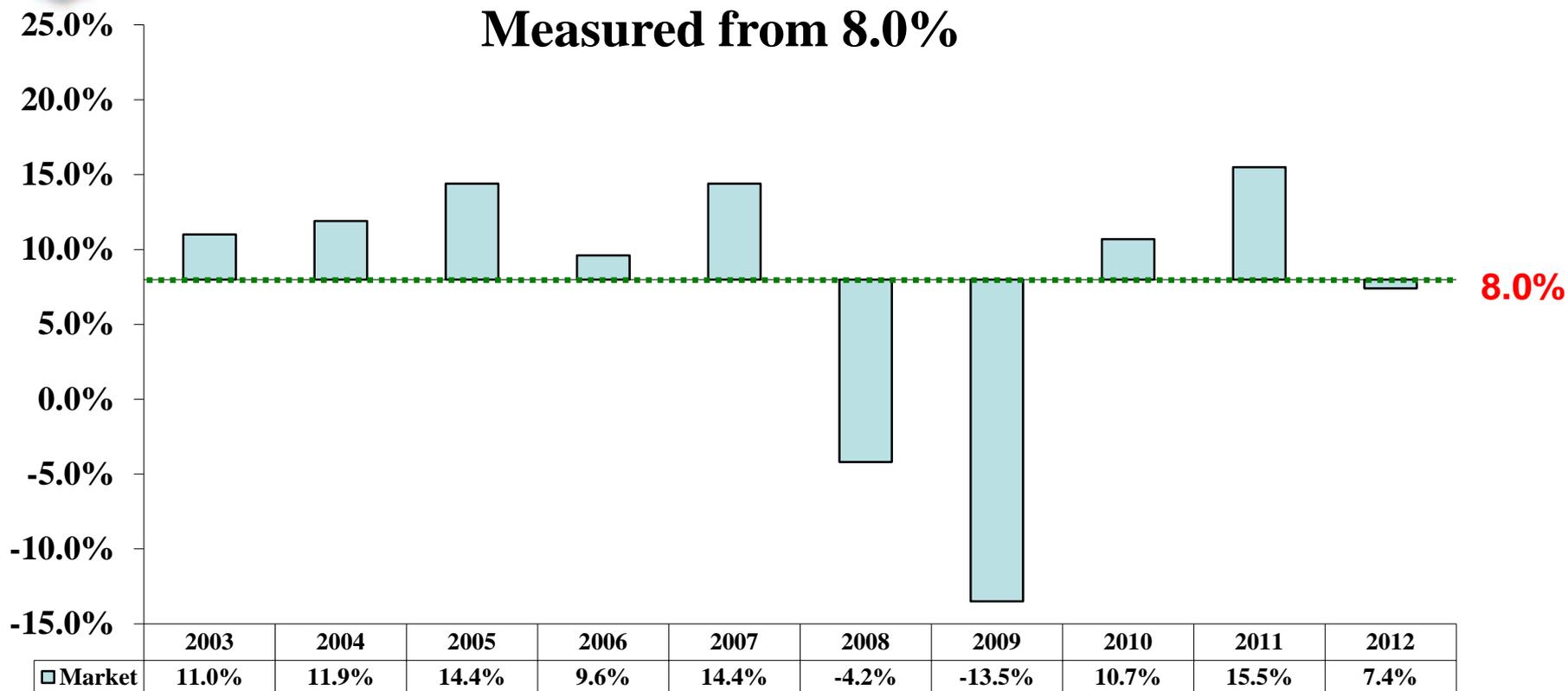
Also, a decreasing active population (payroll) does not decrease the dollar amounts needed to amortize the UAAL, so the contribution rate must increase to achieve the same dollar contribution

Estimated Yields Based on Market Value of Assets



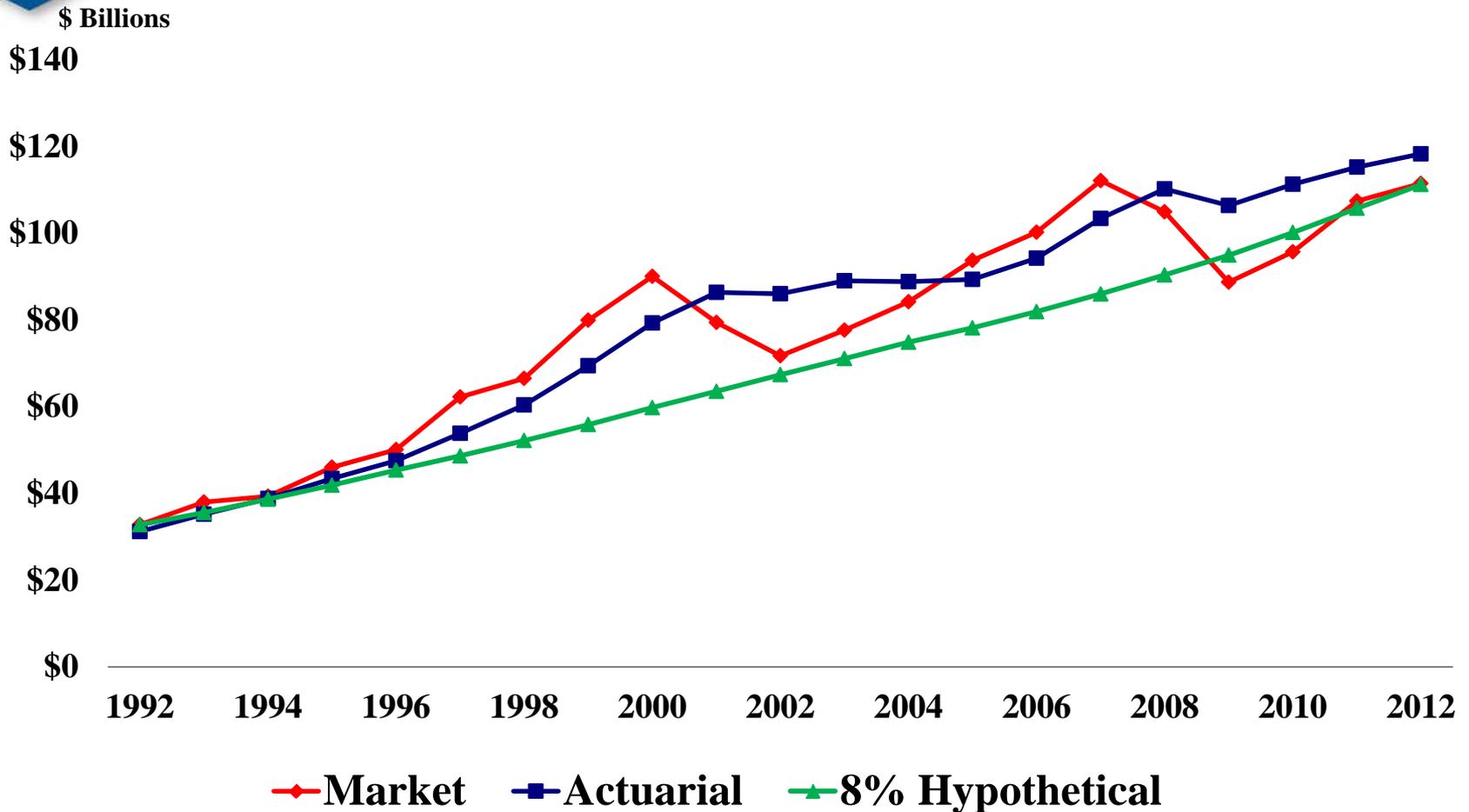
7.33% average compound return (on market value) over last 10 years. 8.09% over last 20 years.

Estimated Yields Based on Market Value of Assets



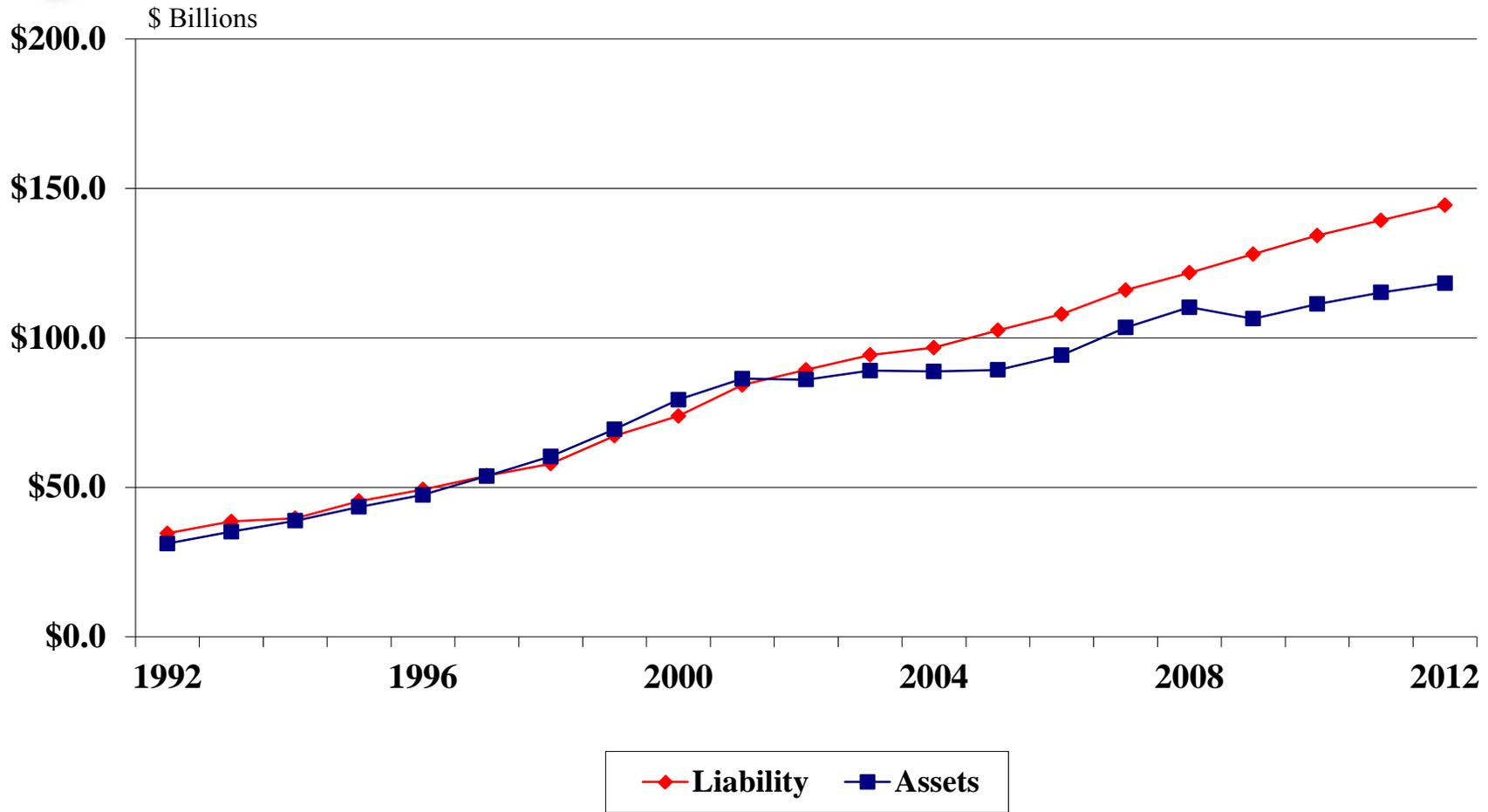
7.33% average compound return (on market value) over last 10 years. 8.09% over last 20 years.

Market and Actuarial Values of Assets



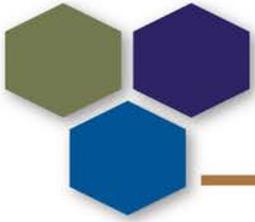
8% Hypothetical assumes 8% had been earned on market every year since 1992, all cash flows unchanged
8.09% average compound return (on market value) over last 20 years.

Actuarial Values of Assets vs. Actuarial Accrued Liability

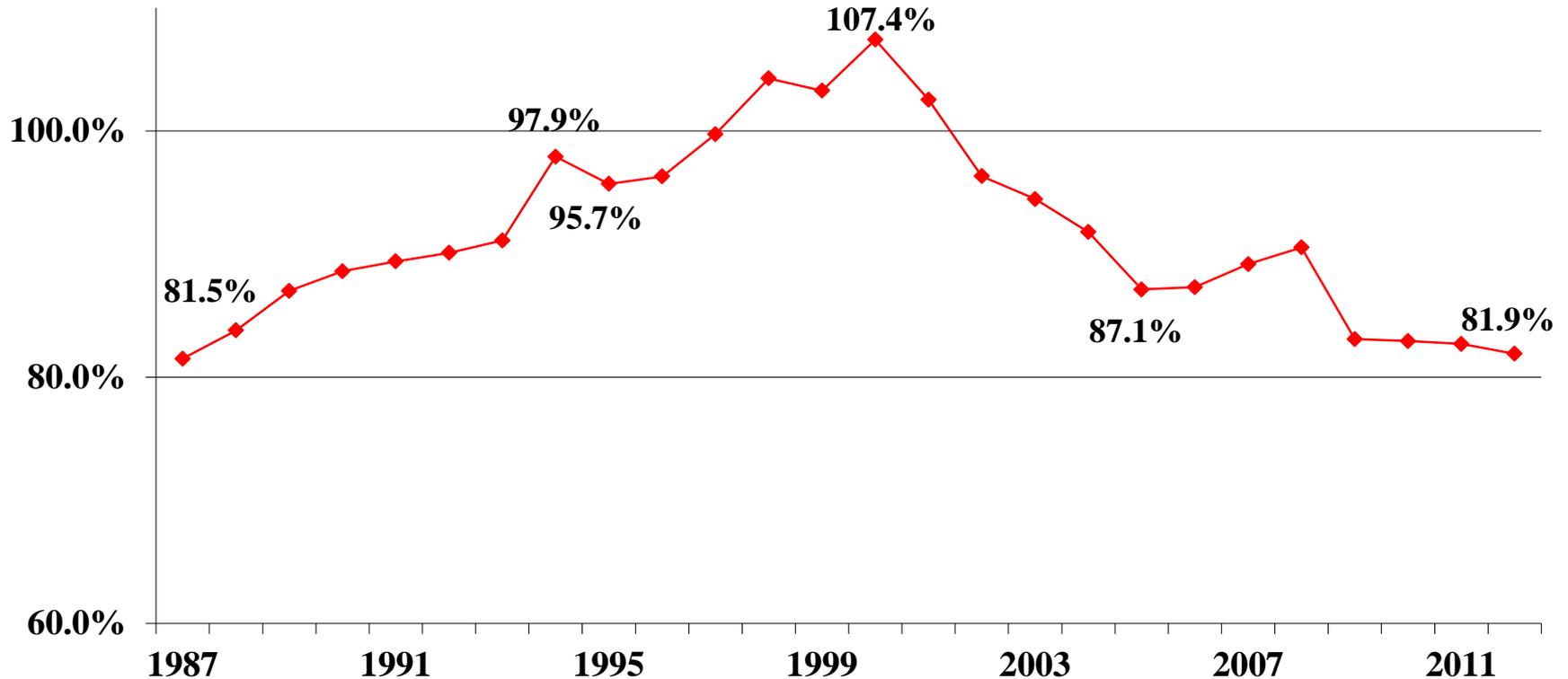


Average Annual Growth 1992-2001: Assets 12.0%, Liabilities 10.4%

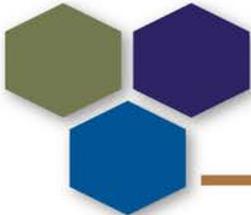
Average Annual Growth 2001-2011: Assets 2.9%, Liabilities 5.0%



GASB #25 Funded Ratio



77.2% based on market value of assets as of August 31, 2012, 77.1% last year
81.9% lowest funded ratio since 1987



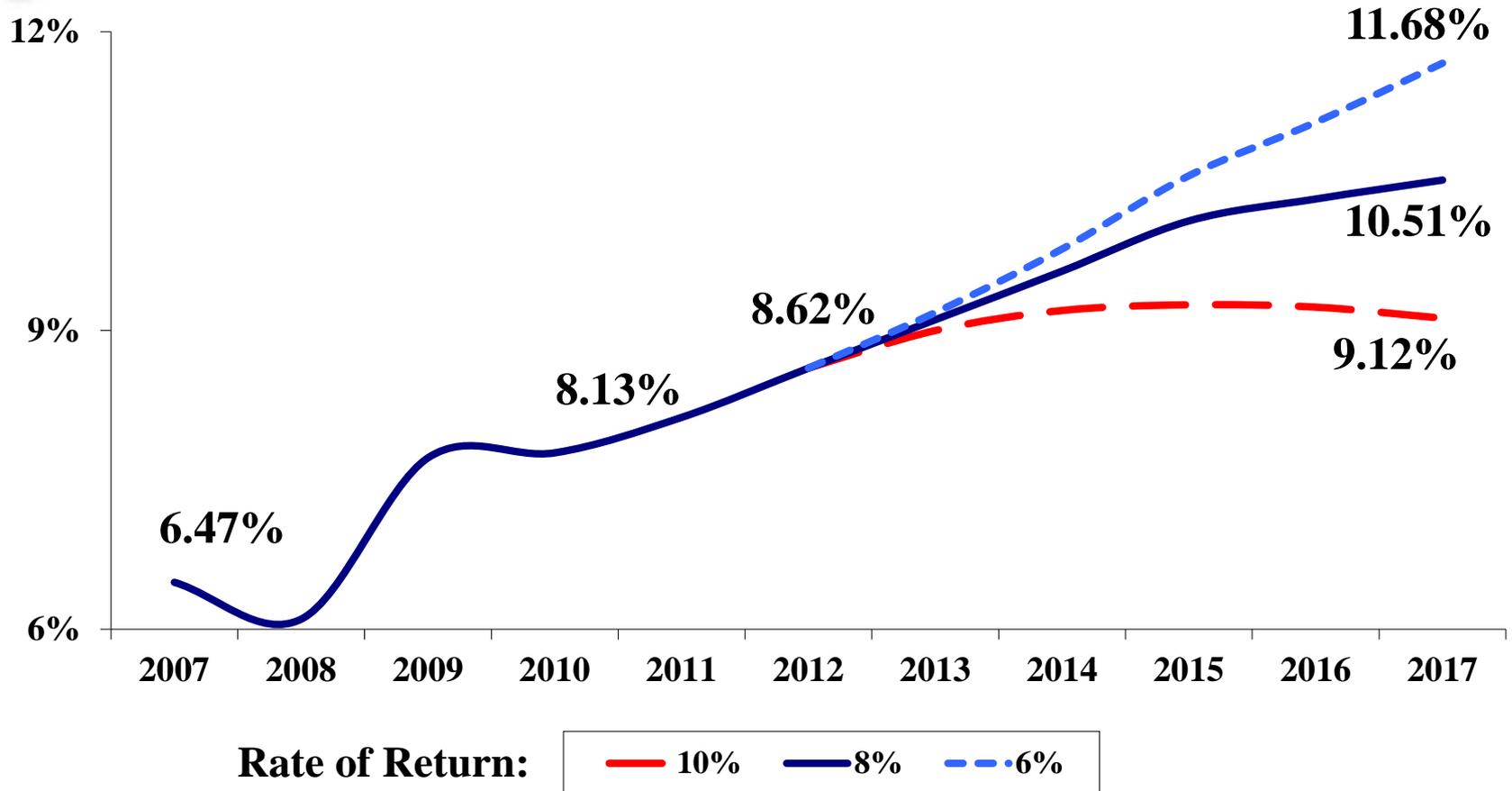
Next Year Projections

	Market Return for 12 month period ending August 31, 2013						
	16%	12%	8%	4%	0%	-4%	-8%
UAAL	\$27.1	\$28.3	\$29.7	\$30.6	\$31.4	\$32.3	\$33.2
Funded Ratio	82.1%	81.3%	80.4%	79.8%	79.2%	78.6%	78.1%
Funding Period based on 6.40%/6.40% rate	Never	Never	Never	Never	Never	Never	Never
30 Year employer ARC	8.68%	8.88%	9.11%	9.25%	9.39%	9.54%	9.68%

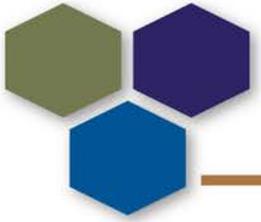
A 66% return on MVA is necessary to produce an actuarial value of assets that would produce a funding period of less than 30 years at the next valuation

A 28% return on MVA is necessary to produce a funding period of less than 30 years at the next valuation, if MVA were used to determined funding period

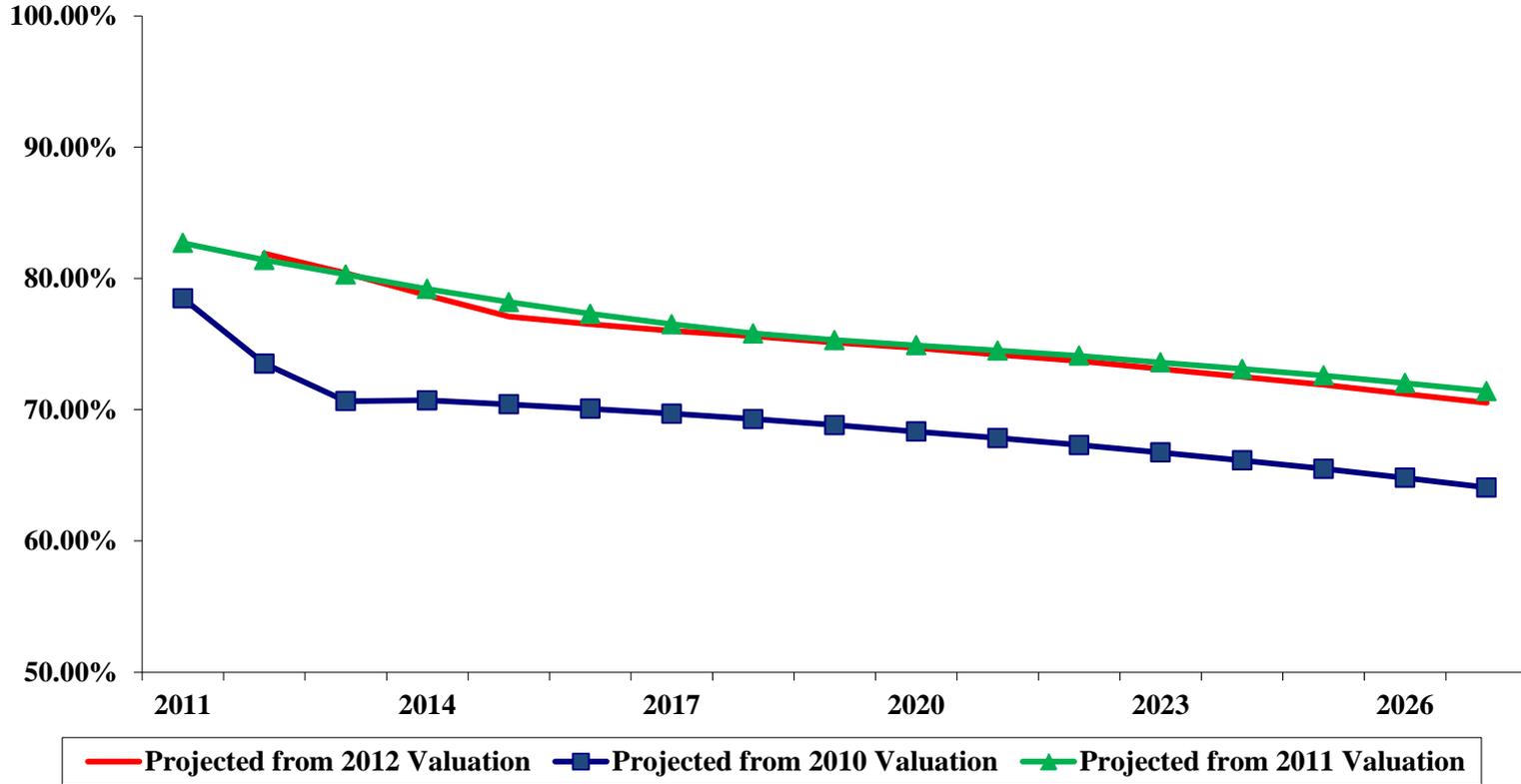
Estimated Changes in ARC Rates Due to Recognition of Deferred Asset Gains/(Losses)

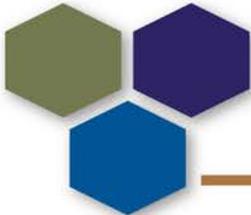


- Expected ARC at each valuation date based on stated return during each year
- Assumes continuation of 6.4% State contribution rate
- Constitutional Maximum = 10.00% State contribution rate



Projection of Funded Ratio from 08/31/2012 Valuation



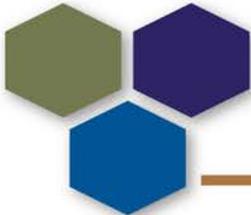


What does this all mean?

- ◆ If all assumptions are met from 9/1/2012 forward and the current contribution policy continues, the Fund's assets are expected to last until 2065
 - ▶ Lower projected active population and payroll from prior projections lowers contributions sooner than benefit payments
- ◆ Sustainability can only be improved from three areas based on the actuarial funding equation:

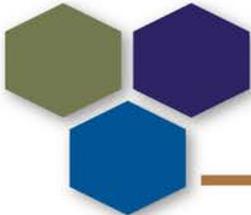
$$C + I = B$$

- ▶ Where:
 - C = Contributions
 - I = Investment Earnings
 - B = Benefits



Non-benefit scenarios

	Current Expectation	Per year experience needed to be actuarially sound (meet 30 year ARC) as of:			Needed to not have a depletion date
		8/31/2013	8/31/2017	8/31/2022	
Market Return on Assets	8.0% per year	66%	14.2%	10.5%	8.6%
ER Contribution Rate	6.40%	9.11%	9.70%	9.50%	8.40%
ER/EE Split Contribution Rate	6.40%	7.88%	8.20%	8.09%	7.49%
Payroll Growth	3.50% per year	NA	NA	NA	5.50%
Population Growth	None	NA	NA	NA	2.00%



Updated Defined Benefit Illustrations

Prospective Changes to All Current Actives

Provision	Current Provisions	Illustrated Provision	Cost of a New Hire	UAAL (Smoothed)	Impact on 30 Year Employer Contribution Rate		Replacement Ratio for a 62/32 retiree
					Smoothed	Ultimate	
Current Provisions as of August 31, 2012			10.60%	\$26.1B	8.62%	9.79%	67.8%
Retirement Eligibility *	Rule 80	Rule 80, Min Age 62	10.39%	\$13.9B	6.35%	7.51%	67.8%
Accrual Multiplier	2.30% per year	2.00%	9.51%	\$24.5B	7.26%	8.42%	59.0%
Salary Averaging Period	5 Years	7 Years	10.27%	\$23.0B	7.77%	8.93%	65.2%
Member Contribution Rate	6.40% per year	7.40%	10.90%	\$25.4B	7.80%	8.97%	67.8%

- Change applied to all members not currently eligible to retire as of 8/31/2013
- The Ultimate column represents the projected ARC after all current deferred investment losses are recognized

Unreduced Retirement Eligibility Scenarios

Prospective Changes to All Current Actives

Illustrated Provision	Grandfathered Group	Cost of a New Hire	UAAL (Smoothed)	30 Year Employer Contribution Rate (6.40% EE Rate)		Equal ER and EE rate	
				Smoothed	Ultimate	Smoothed	Ultimate
Current Provisions as of August 31, 2012		10.60%	\$26.1B	8.62%	9.79%	7.61%	8.25%
Rule 80, Min Age 60	Within 5 years	10.60%	\$19.0B	7.42%	8.59%	6.96%	7.59%
Rule 80, Min Age 60	None	10.60%	\$17.3B	7.12%	8.29%	6.79%	7.43%
Rule 80, Min Age 62	Within 5 years	10.39%	\$17.3B	6.92%	8.09%	6.68%	7.32%
Rule 80, Min Age 62	None	10.39%	\$13.9B	6.35%	7.51%	6.37%	7.00%

Grandfathering scenarios would protect current retirement eligibility provisions for any active member within 5 years of retirement eligibility as of 8/31/2013. Otherwise, all active members not eligible to retire would be impacted by the new provisions.

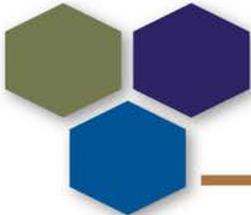
The "Ultimate" scenario assumes the current deferred asset losses are fully recognized without offsetting gains



Illustrative combinations

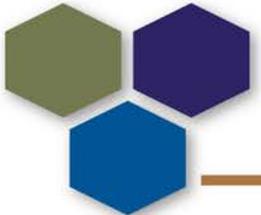
Funding Goal	Contribution Strategy		
	High	Medium	Low
Funding Period less than “Never” based on Market Assets (Eliminate depletion date)	7.50%	7.00% Minimum Age 60 Retirement eligibility with 5 year grandfathering	6.75% Minimum Age 62 Retirement eligibility with 5 year grandfathering
Actuarially Sound (30 year ARC) as of 8/31/2012	7.65% Contribution Minimum Age 62 Retirement eligibility for post 2007 hires	7.05% Contribution Minimum Age 60 Retirement eligibility with 5 year grandfathering	6.75% Contribution Minimum Age 62 Retirement eligibility with 5 year grandfathering
Actuarially sound after recognition of deferred asset losses	8.25% Contribution Minimum Age 62 Retirement eligibility for post 2007 hires	7.40% Contribution Minimum Age 62 Retirement eligibility with 5 year grandfathering	6.65% Contribution Minimum Age 62 Retirement eligibility with 5 year grandfathering 2% future benefit accruals (multiplier)

All contribution examples assume member and employer rates are equal
 Increases in contribution rates can be phased-in over a few years, minimum
 increase of 0.25% per year, 0.5% per year would be better for the Plan. A strategy of this type will increase the ultimate cost.



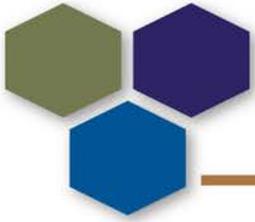
Delays

- ◆ If a decision is put off until the next legislative session, with no change this session, it will increase the contribution rate needed from the employer and the member by 0.20% *each* to attain the same funding goals from the same benefit changes
- ◆ For phase-in contribution schedules:
 - ▶ For every 1% of salary less than the ARC received in a given year, the ARC for the next year and every year thereafter is increased by 0.07% of salary (or 0.04% if split between employer and employee)
 - So, if the ARC is 8.62%/6.40% and the actual contribution is 6.40%/6.40%, then the ARC after that year would be 8.78%/6.40%



Recommendations

- ◆ The current combination of benefit structure and contribution policy is likely not sustainable indefinitely
- ◆ GRS recommends the contribution rate be increased beginning with the next biennium
 - ▶ Does not have to jump to the current or projected ARC all at once
 - ▶ For example, one option would be to increase the Employer rate by 1% and the Member rate by 0.50% for the 2014-2015 biennium



- ◆ Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this presentation concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.
- ◆ This presentation shall not be construed to provide tax advice, legal advice or investment advice.

Tab 9A

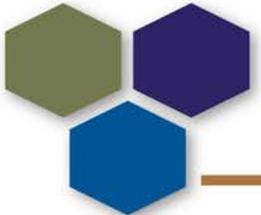


TRS-Care OPEB

GASB 43 & 45 2012 Actuarial Valuation

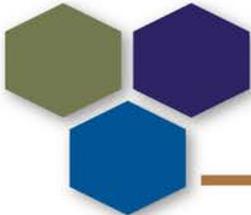


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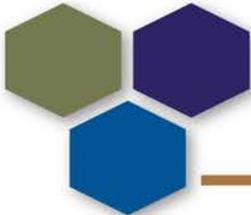
Current Funding Policy

- ◆ Active Employees: 0.65% of payroll
- ◆ Local Employers: 0.55% of payroll
- ◆ State assistance: 1.00% of payroll
 - ▶ 0.50% for FY2013
 - ▶ 1.00% thereafter
- ◆ There is a statutory requirement that the State is responsible for any shortfall



Impact of changes

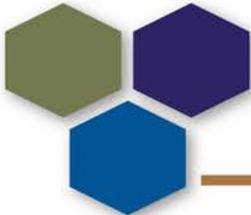
- ◆ Baseline 2012 results with prior assumptions are consistent with those expected in 2011 valuation.
 - ▶ Reflects a decreased active population
- ◆ New plan design
 - ▶ Medicare Advantage recognition, decreased cost
 - ▶ Medicare Prescription Plan options, decreased cost
 - ▶ Overall impact was 12.2% decrease in the ARC
 - ▶ The assumption is that these savings are temporary and the costs will ultimately migrate back to current levels
 - Updates will be made as experience unfolds
- ◆ Changes to OPEB assumptions
 - ▶ New health care trend, increased cost
 - Initial medical rate remained at 10.0%
 - Initial Rx rate remained at 9.5%
 - ▶ Overall impact was 5.3% increase in the ARC



2012 Results

Current Funding Policy (\$millions)

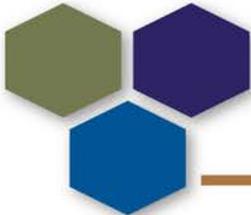
	2012	2011	2010
	(1)	(2)	(3)
Discount Rate	5.25%	5.25%	5.25%
Unfunded Actuarial Accrued Liability (in Millions)	\$26,801	\$28,894	\$24,993
Normal Cost (in Millions)	\$1,069	\$1,173	\$1,103
Annual Required Contribution (in Millions)	\$2,225	\$2,420	\$2,181
ARC per active member (\$)	\$3,347	\$3,551	\$3,146
Total ARC as a % of Payroll	7.47%	7.93%	7.09%
Employer ARC as a % of Payroll (Net of Active Member Contributions)			
Contributions: 2012 2011 & before	6.82%	7.28%	6.44%
State 0.50% 1.00%			
District <u>0.55%</u> <u>0.55%</u>			
Total 1.05% 1.55%			



Results by Scenario

Advanced Funding Policy (\$millions)

	2012	2011	2010
	(1)	(2)	(3)
Discount Rate	8.00%	8.00%	8.00%
Unfunded Actuarial Accrued Liability (in Millions)	\$17,982	\$19,371	\$16,653
Normal Cost (in Millions)	\$604	\$658	\$614
Annual Required Contribution (in Millions)	\$1,684	\$1,821	\$1,614
ARC per active member (\$)	\$2,533	\$2,672	\$2,328
Total ARC as a % of Payroll	5.65%	5.97%	5.25%
Employer ARC as a % of Payroll (Net of Active Member Contributions)			
Current Contributions: State * 1.00%	5.00%	5.32%	4.60%
*State 2012 is 0.50% District <u>0.55%</u>			
Total 1.55%			



Cash Estimates for FY2013

- ◆ The current projected contributions are \$506 million (1.70% of payroll)
- ◆ The current expected net claims are \$791 million (\$285 million more than projected contributions)
- ◆ To increase to advance funding, the contribution requirement is 5.65% of payroll (increase of \$1,178 million above the current \$506 million)

Tab 9B



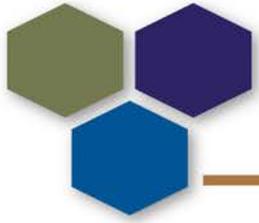
Health Benefits Briefing

December 13, 2012

GRS

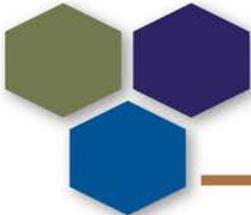
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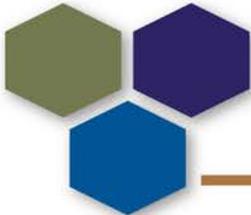
TRS-Care

Health Care Program
for Retired Public School Employees and Their Dependents



Overview of TRS-Care History

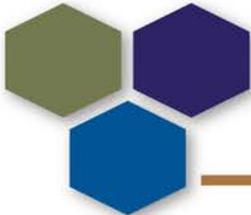
- ◆ Created in 1985...coverage began September 1, 1986
- ◆ Historically operated through a separate trust fund
- ◆ Provides health coverage for retired Texas public school employees
- ◆ Higher education retirees are generally covered by ERS, UT or A&M
- ◆ Self-funded plan with benefits provided through a network of hospitals and physicians
 - ▶ Medical is administered by Aetna and includes Aetna commercial medical network (as of 9/1/2003)
 - ▶ Pharmacy service administered by Express Scripts (as of 9/1/2012)



Overview of TRS-Care Plan Design

Program Redesigned Effective September 1, 2004

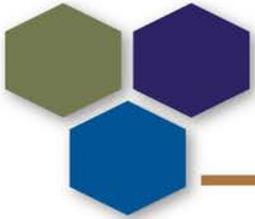
- ◆ TRS-Care 1
 - ▶ Catastrophic plan with different deductibles for retirees (1) under 65, (2) with Medicare Part B Only, and (3) with Medicare Parts A&B
- ◆ TRS-Care 2
 - ▶ Comprehensive plan with \$1,000 deductible and \$35 office visit copay and includes managed pharmacy program
- ◆ TRS-Care 3
 - ▶ Comprehensive plan with \$300 deductible and \$25 office visit copay and includes managed pharmacy program
- ◆ Retiree premium structure based on years of service and Medicare status
- ◆ Coinsurance limit \$3,000 effective 9/1/2007



Overview of TRS-Care Plan Design

Goals of the Program Redesign

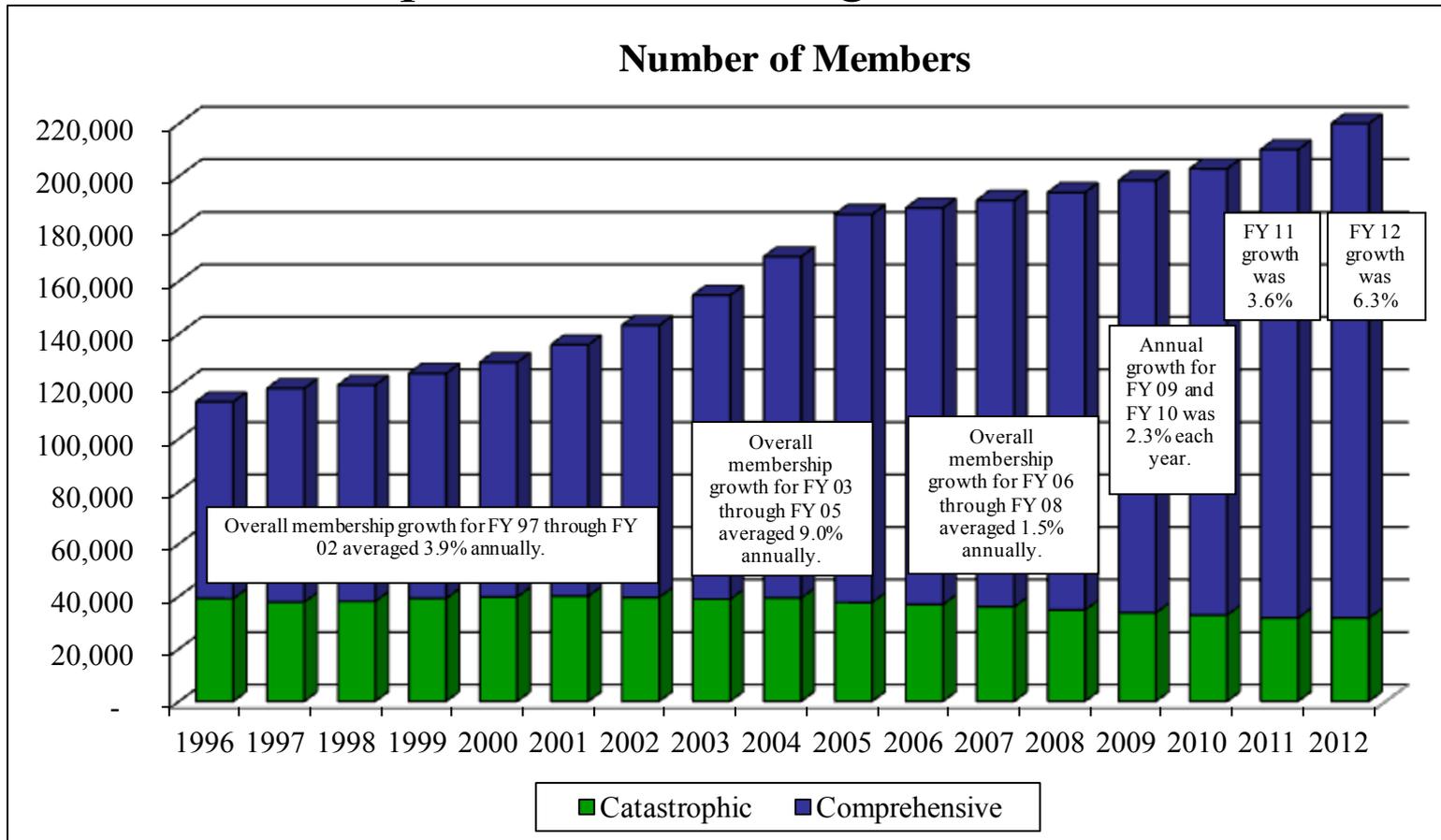
- ◆ Create a more cost effective comprehensive TRS-Care 2 Program
- ◆ Reduce number of pre-65 retirees through new TRS-Care eligibility requirements
- ◆ Since September 2004:
 - ▶ TRS-Care 1 participation has decreased by approximately 6,900
 - ▶ TRS-Care 2 participation has increased by approximately 37,300
 - ▶ TRS-Care 3 participation has increased by approximately 8,700

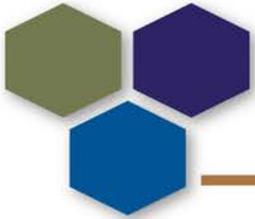


TRS-Care Participation Growth

Overall Membership

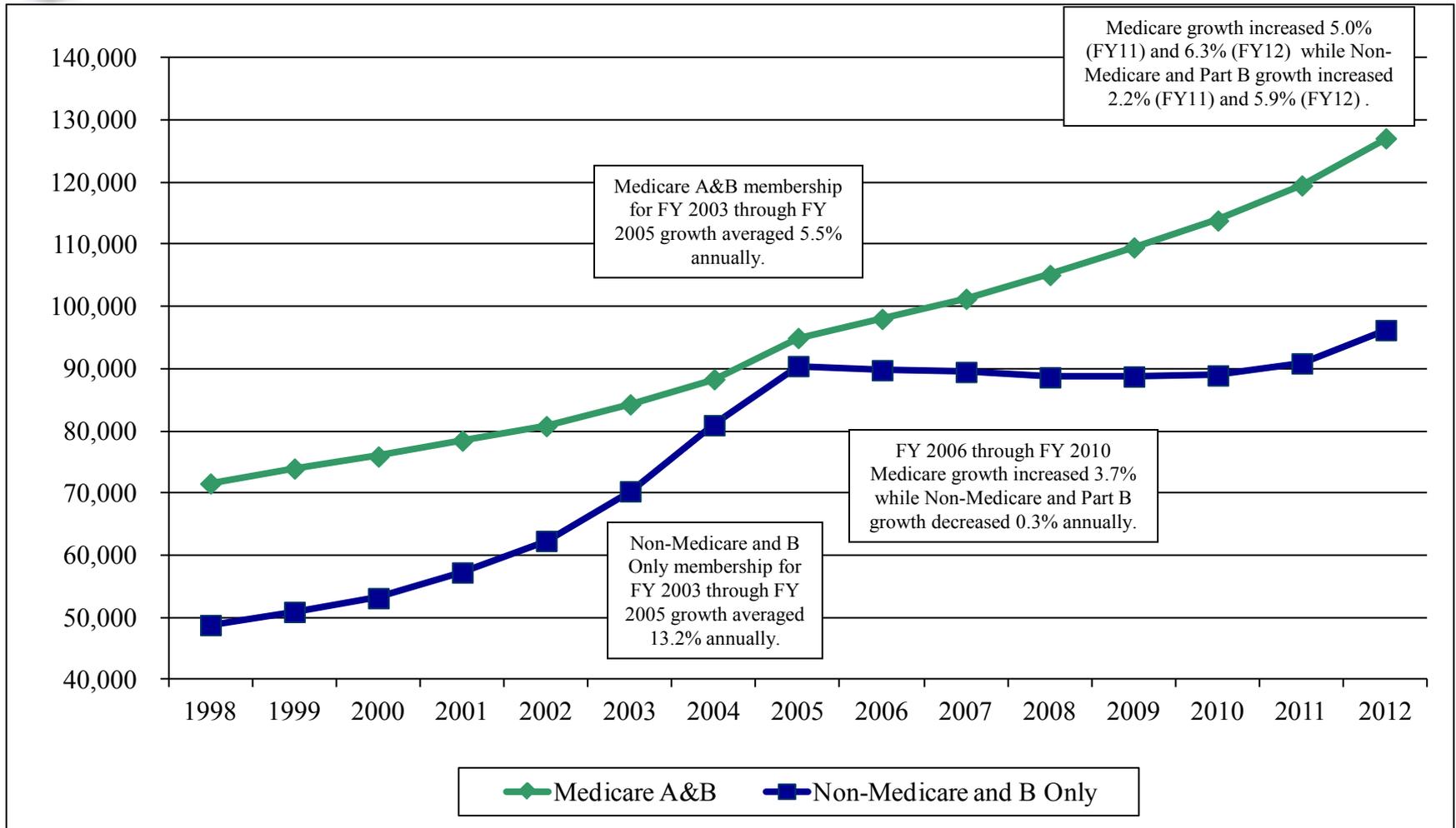
- ◆ Most retirees participate in TRS-Care health care coverage
- ◆ Most elect comprehensive coverage

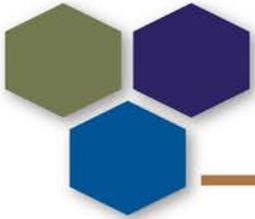




TRS-Care Participation Growth

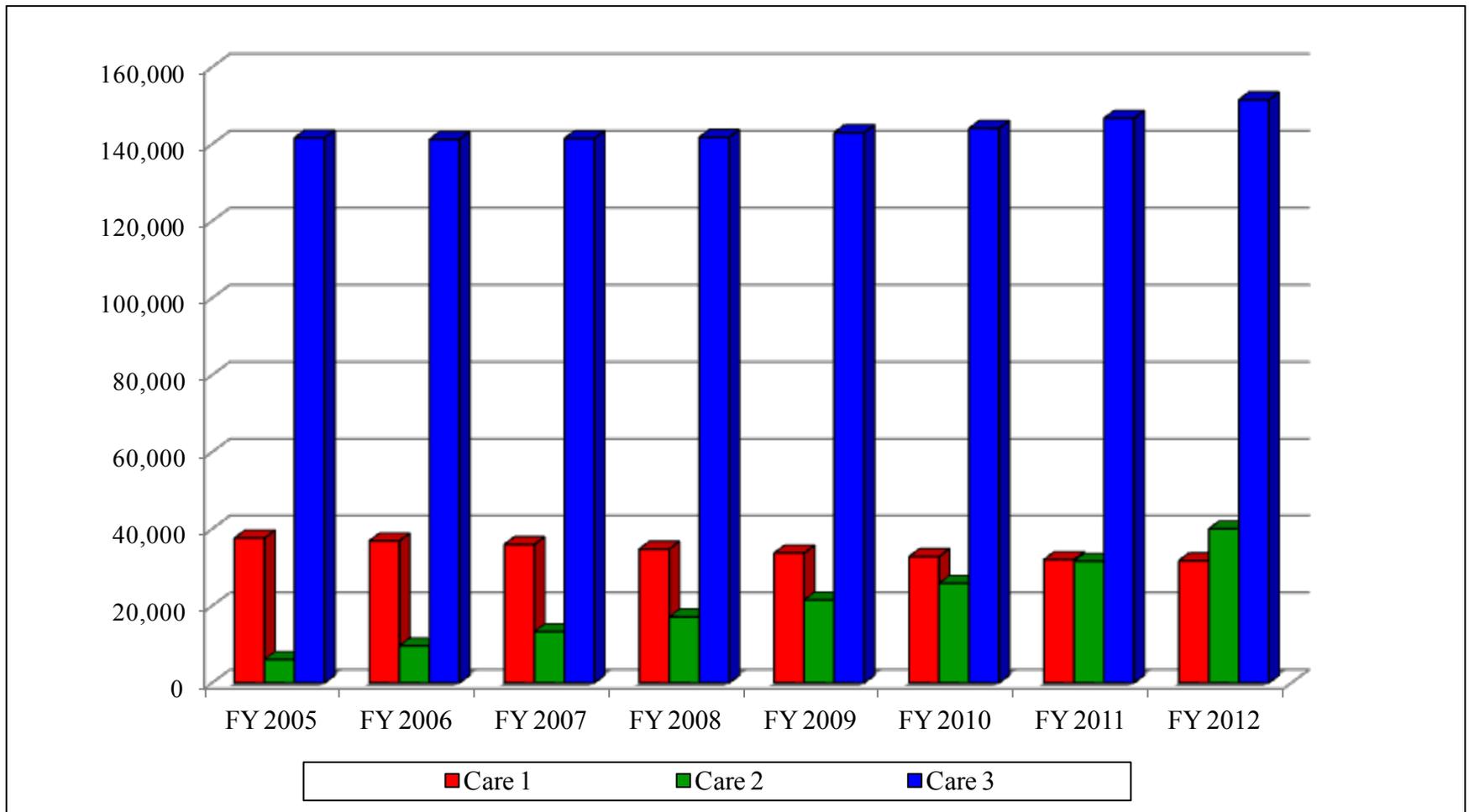
Number Of Members By Medicare Status

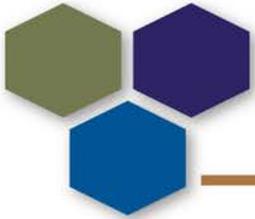




TRS-Care Participation Growth

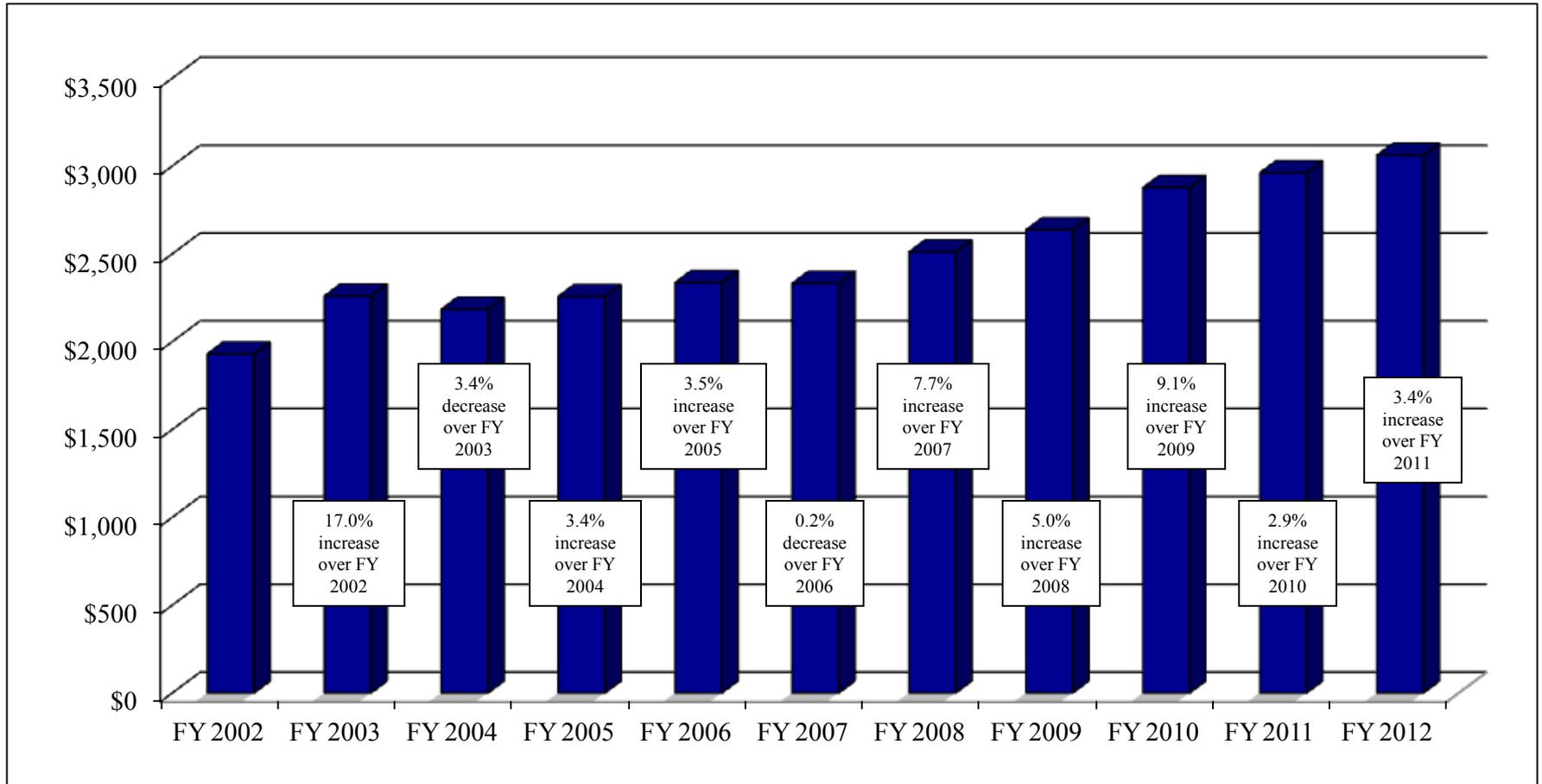
Number Of Members By TRS-Care Level

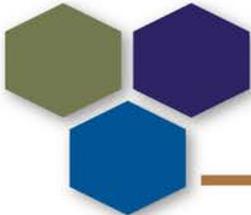




TRS-Care Claims Cost

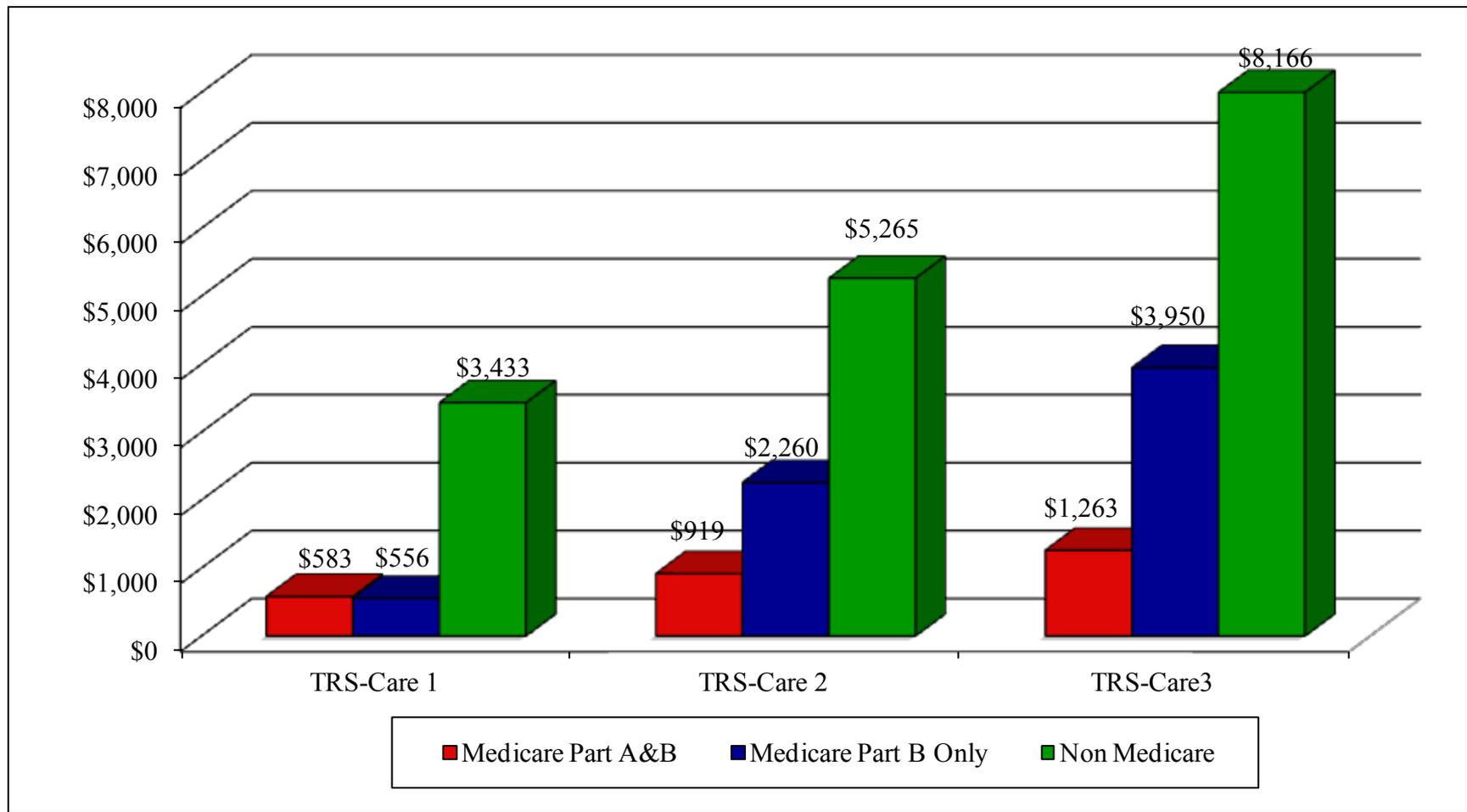
Medical Claims Per Member

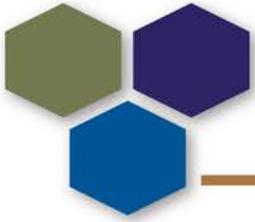




TRS-Care Claims Cost

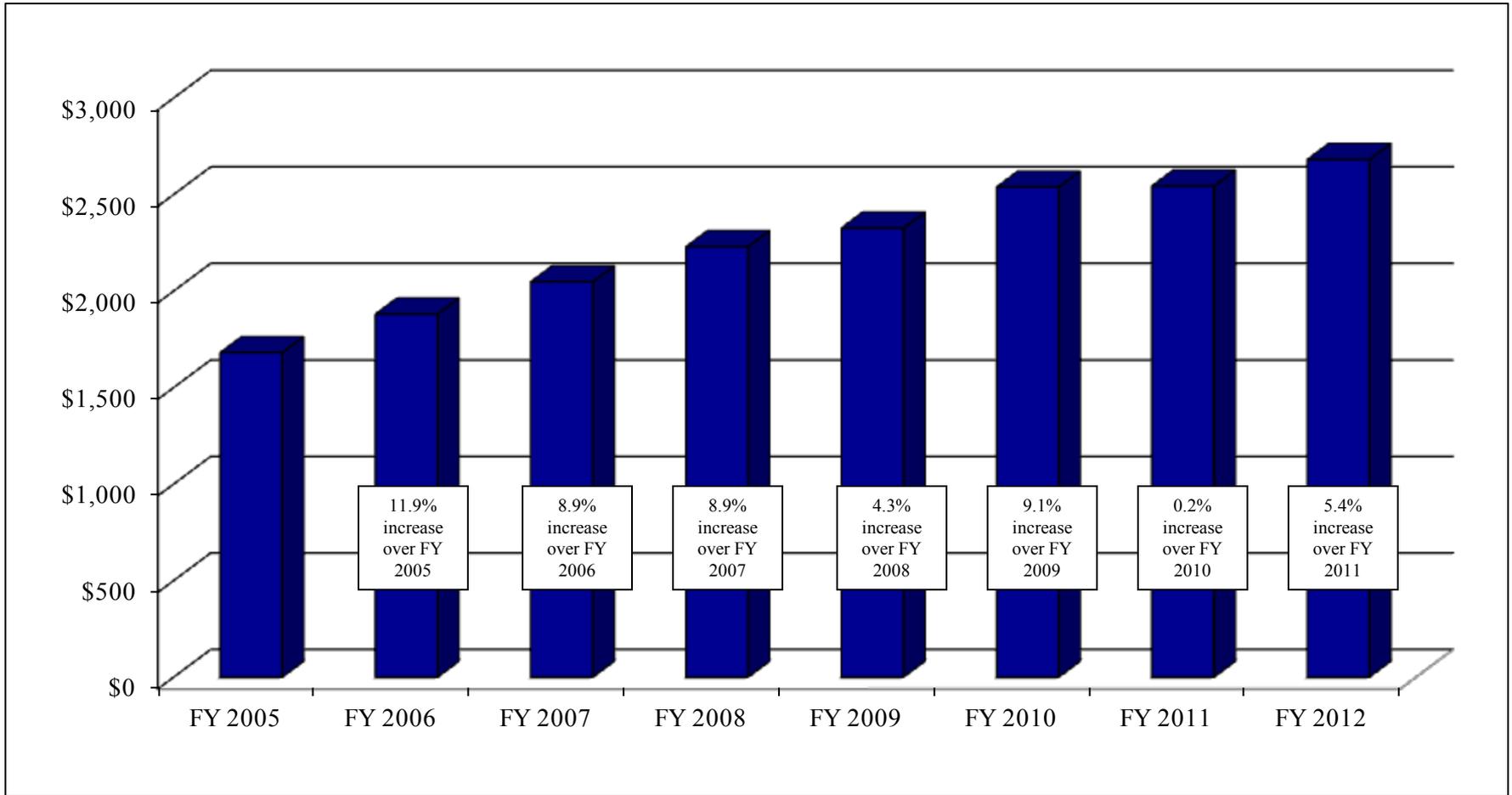
FY 2012 Average Medical Claims Per Member By TRS-Care Level And Medicare Status

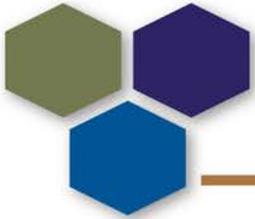




TRS-Care Claims Cost

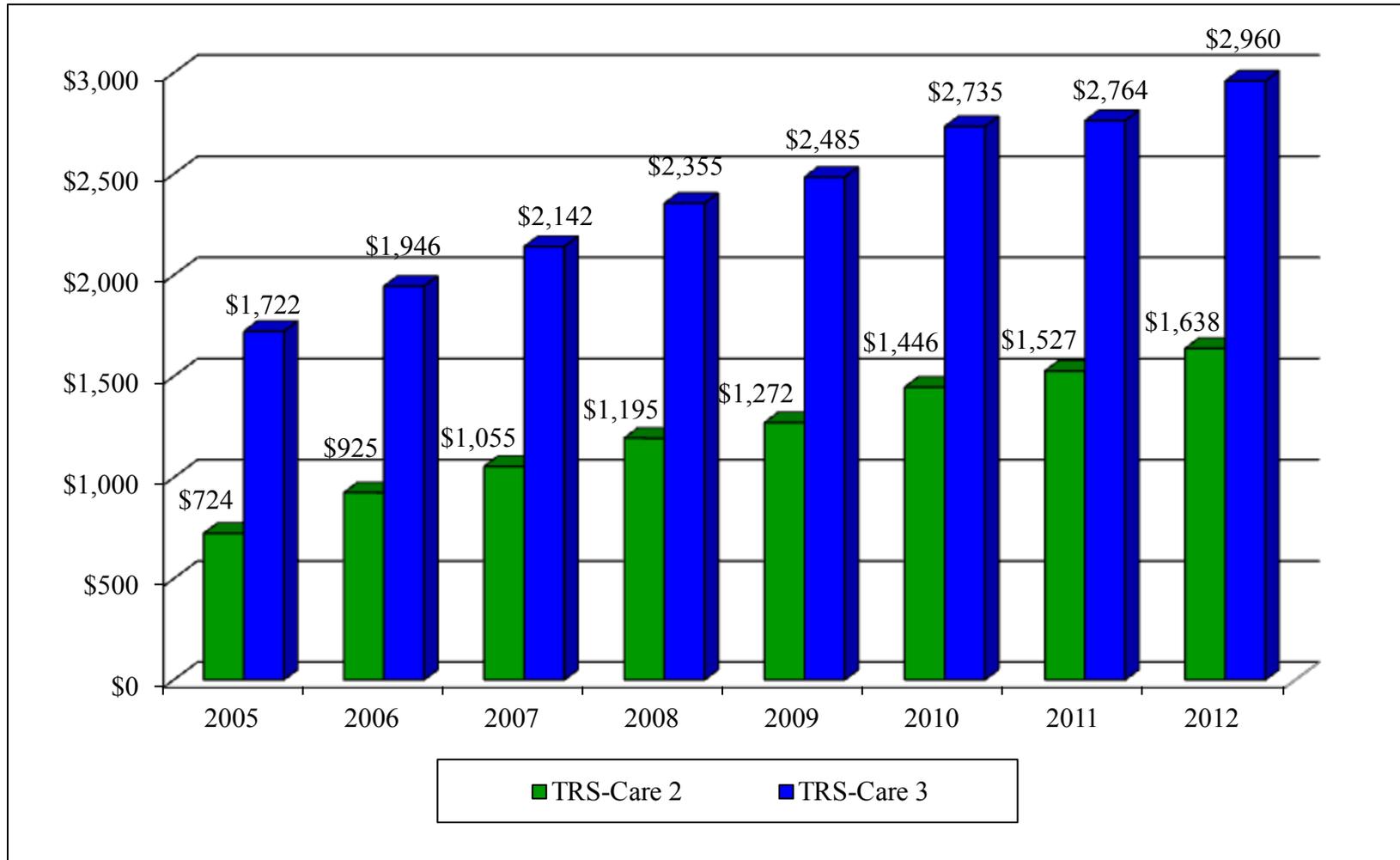
Average Pharmacy Claims Per Member

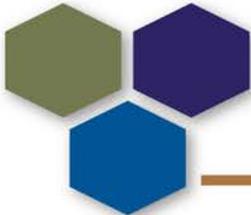




TRS-Care Claims Cost

Average Pharmacy Claims Per Member By TRS-Care Level

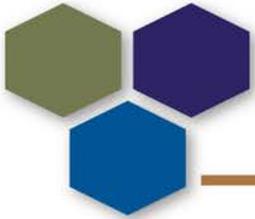




TRS-Care Funding

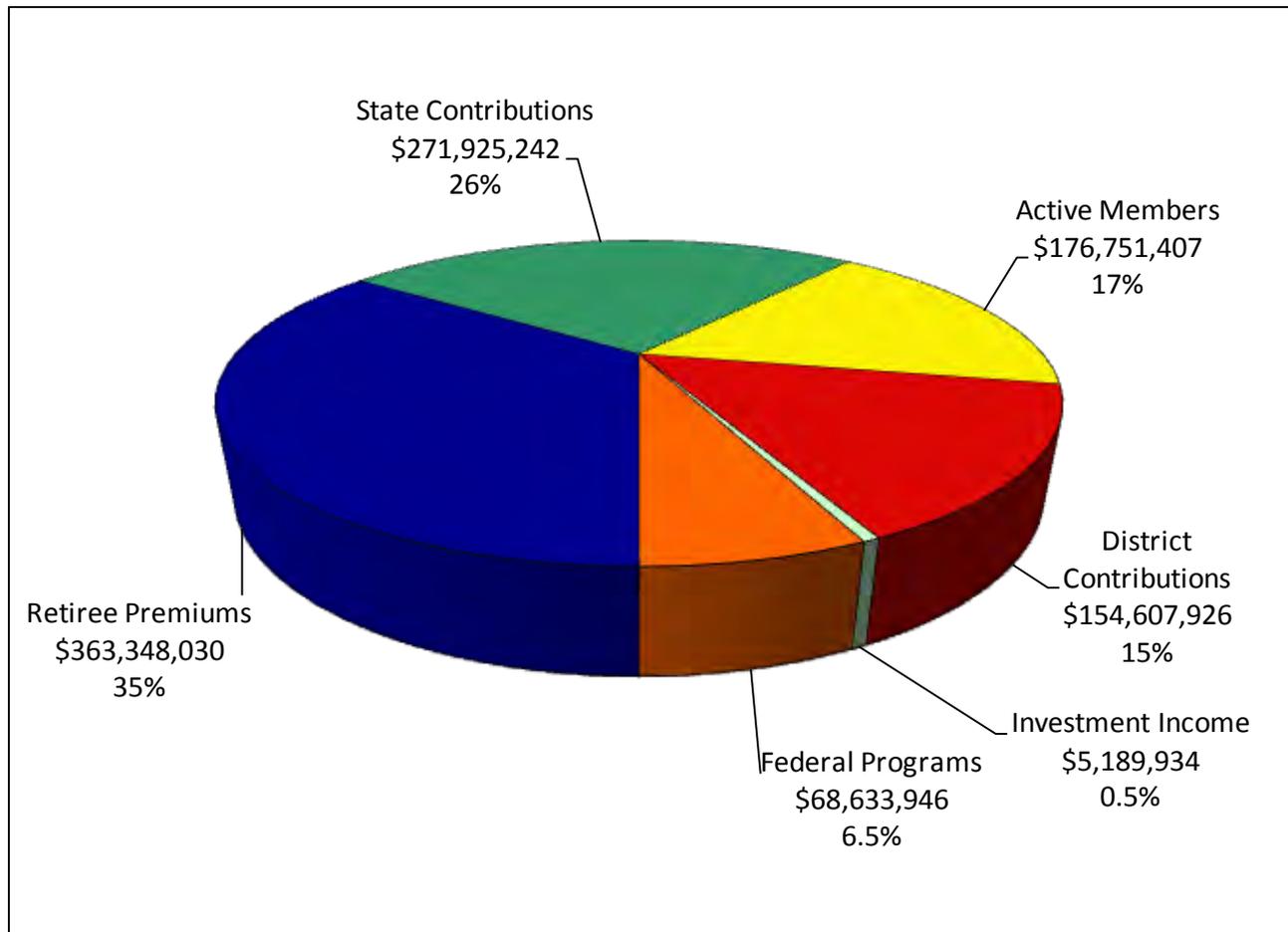
Funding Sources

- ◆ State Contributions: 1.0% of public education covered payroll for FY 2012, and 0.5% for FY 2013
- ◆ Active TRS members: 0.65% of employee's salary
- ◆ School Districts: 0.55% of employee's salary
- ◆ Retiree Contributions: tiered by years of service and Medicare status for Care 2 & 3 Coverage and Dependent Coverage
- ◆ Employer surcharge to account for the "return to work" employees
- ◆ Medicare Part D Program Subsidy
- ◆ Investment Income
- ◆ Retirees also pay substantial amounts for deductibles, copays, medical co-insurance and Medicare Part B premiums

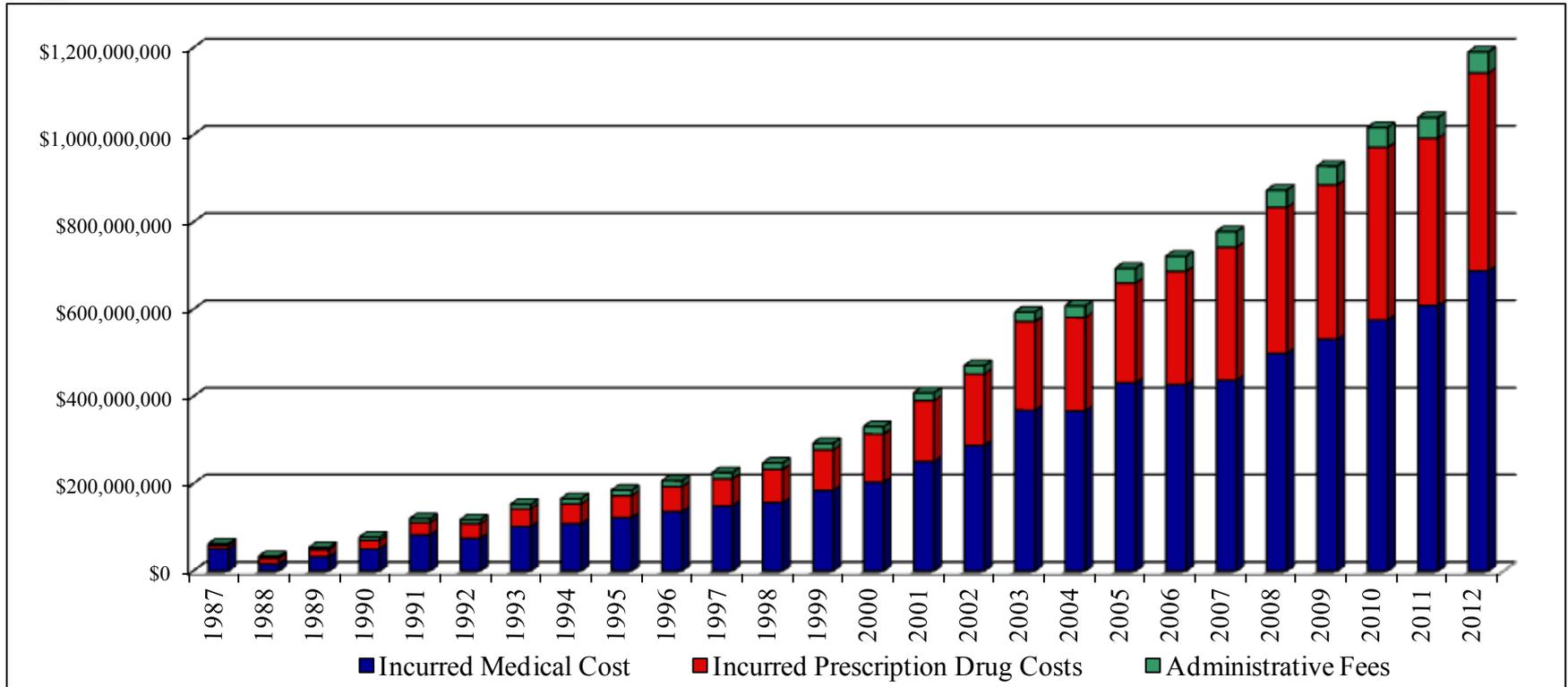


TRS-Care Funding

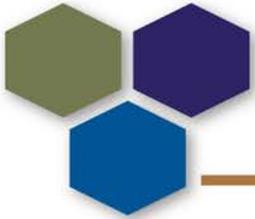
FY 2012 Distribution of Funding Sources



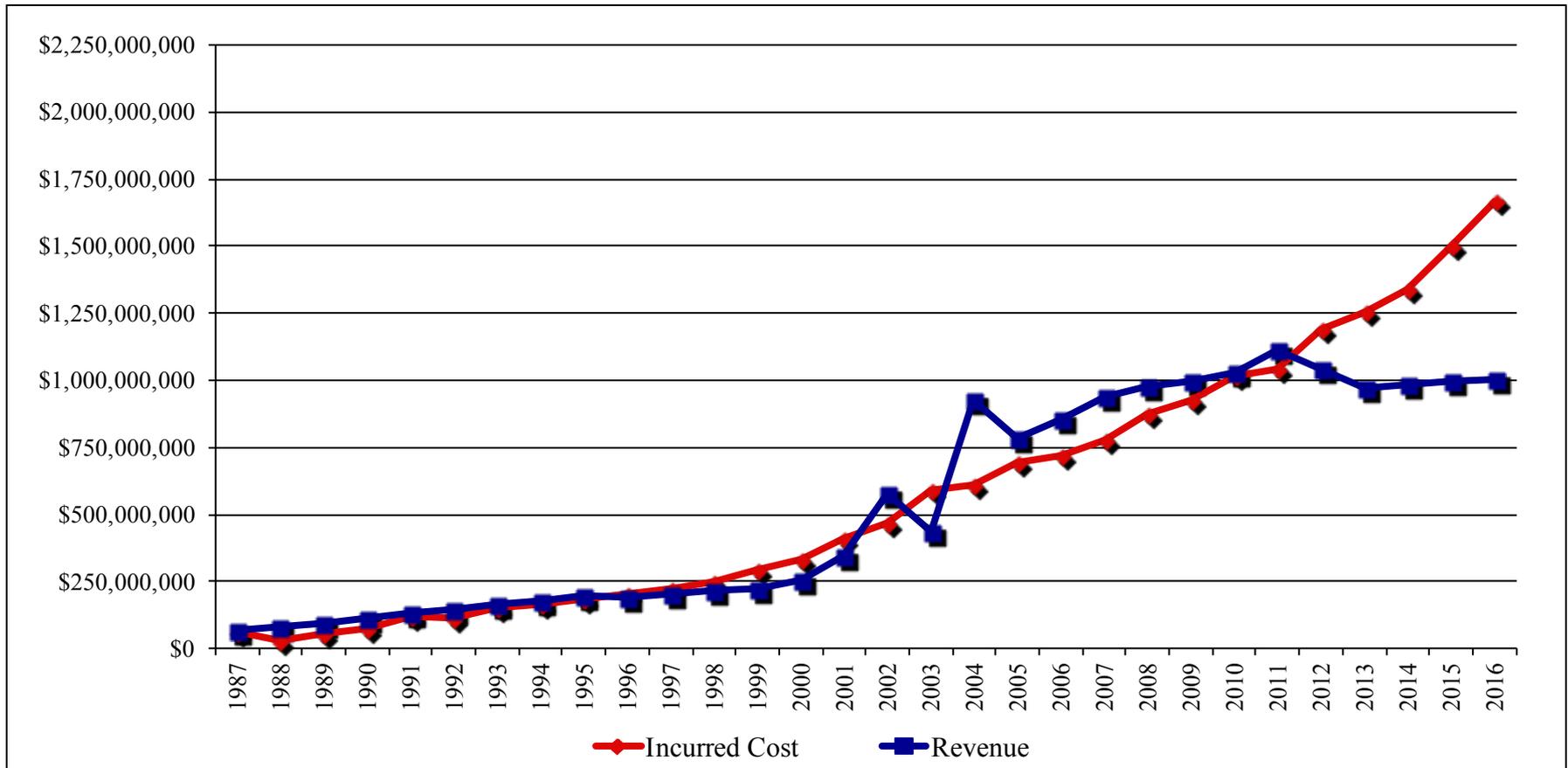
TRS Care Historical Expenditures

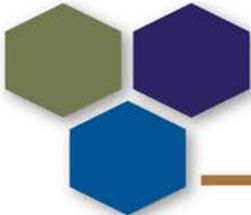


This chart is only part of the picture of total health care costs. In addition to expenditures made by TRS-Care, retiree costs are shared by Medicare, provider discounts, and retirees. In FY 2012 Medicare paid an estimated \$1.441 billion. Provider discounts contributed over \$712 million and retiree copayments and payments for non-covered services are estimated at \$784 million.



TRS-Care Funding Revenue Versus Incurred Cost





FY 2013 Initiatives

- ◆ New contract with Express Scripts for Pharmacy Benefit Management services effective September 1, 2012.
 - ▶ Projected savings during the current biennium ending August 31, 2015 = \$82.6 million.
- ◆ Express Scripts Medicare Prescription Plan effective January 1, 2013.
 - ▶ If 80% of eligible individuals participate, projected savings through the biennium ending August 31, 2015 = \$162.1 million.
- ◆ Aetna Medicare Advantage Plan effective January 1, 2013.
 - ▶ If 80% of eligible individuals participate, projected savings through the biennium ending August 31, 2015 = \$345.3 million.

TRS-Care Funding

Financial History & Projection Through FY 2017 with Data Through August 2012
(60% participation assumed in the Medicare Advantage and Part D Plans)

Fiscal Year	Contributions									Expenditures				Ending Balance (Incurred Basis)
	Retiree Contributions	State Contributions	Supplemental Appropriations	Active Employee Contributions	District Contributions	Investment Income	RDS Subsidy	ERRP Subsidy	Part D Plan Revenues	Medical Incurred	Drug Incurred	Medicare Advantage Premiums	Administrative Costs	
FY 1986	\$0	\$0	\$250,000	\$17,625,194	\$0	\$572,153	\$0	\$0	\$0	\$0	\$0	\$0	\$362,371	\$18,084,976
FY 1987	\$22,617,624	\$25,931,680	\$0	\$18,522,629	\$0	\$2,568,998	\$0	\$0	\$0	\$50,988,845	\$7,044,825	\$0	\$3,941,936	\$25,750,301
FY 1988	\$23,948,600	\$31,357,632	\$0	\$19,598,520	\$0	\$5,703,832	\$0	\$0	\$0	\$16,157,649	\$12,441,672	\$0	\$4,614,755	\$73,144,809
FY 1989	\$25,428,632	\$37,420,711	\$0	\$20,789,215	\$0	\$8,802,914	\$0	\$0	\$0	\$32,926,324	\$15,458,710	\$0	\$5,212,073	\$111,989,174
FY 1990	\$37,556,561	\$44,369,915	\$0	\$22,184,958	\$0	\$13,098,835	\$0	\$0	\$0	\$50,171,919	\$19,835,965	\$0	\$7,186,851	\$152,004,708
FY 1991	\$46,563,787	\$47,277,743	\$0	\$23,638,871	\$0	\$15,801,047	\$0	\$0	\$0	\$82,697,189	\$28,683,081	\$0	\$8,258,029	\$165,647,857
FY 1992	\$56,395,797	\$50,392,512	\$0	\$25,196,592	\$0	\$17,314,372	\$0	\$0	\$0	\$74,307,953	\$33,829,694	\$0	\$8,862,560	\$197,946,923
FY 1993	\$65,154,653	\$54,029,406	\$0	\$27,014,703	\$0	\$17,181,190	\$0	\$0	\$0	\$101,627,864	\$40,700,513	\$0	\$10,067,359	\$208,931,140
FY 1994	\$80,128,944	\$56,912,083	\$0	\$28,456,041	\$0	\$16,467,438	\$0	\$0	\$0	\$108,284,693	\$45,712,060	\$0	\$11,668,828	\$225,230,065
FY 1995	\$89,006,331	\$59,849,850	\$0	\$29,924,925	\$0	\$16,841,673	\$0	\$0	\$0	\$122,054,551	\$50,782,093	\$0	\$12,219,847	\$235,796,353
FY 1996	\$82,622,236	\$63,634,087	\$0	\$31,817,043	\$0	\$16,818,747	\$0	\$0	\$0	\$135,982,304	\$57,074,921	\$0	\$13,593,578	\$224,037,663
FY 1997	\$87,657,784	\$67,616,395	\$0	\$33,808,197	\$0	\$16,202,440	\$0	\$0	\$0	\$148,823,489	\$62,530,982	\$0	\$14,097,454	\$203,870,554
FY 1998	\$91,390,173	\$72,210,190	\$0	\$36,105,095	\$0	\$15,260,517	\$0	\$0	\$0	\$156,537,913	\$76,256,158	\$0	\$14,616,678	\$171,425,780
FY 1999	\$96,474,107	\$76,488,424	\$0	\$38,244,213	\$0	\$9,762,741	\$0	\$0	\$0	\$184,398,533	\$93,459,890	\$0	\$14,905,196	\$99,631,646
FY 2000	\$120,227,960	\$85,505,637	\$0	\$42,738,069	\$0	\$6,923,485	\$0	\$0	\$0	\$203,029,971	\$110,903,247	\$0	\$16,837,127	\$24,256,451
FY 2001	\$131,213,445	\$90,118,787	\$76,281,781	\$45,059,394	\$0	\$5,824,134	\$0	\$0	\$0	\$250,691,898	\$139,774,848	\$0	\$18,237,767	(\$35,950,521)
FY 2002	\$143,797,748	\$94,792,026	\$285,515,036	\$47,378,092	\$0	\$7,140,560	\$0	\$0	\$0	\$287,729,918	\$163,979,754	\$0	\$19,017,292	\$71,945,978
FY 2003	\$162,954,010	\$98,340,798	\$124,661,063	\$49,170,399	\$0	\$3,394,956	\$0	\$0	\$0	\$368,462,963	\$203,281,400	\$0	\$21,690,329	(\$82,967,487)
FY 2004	\$248,552,679	\$198,594,194	\$298,197,463	\$99,297,097	\$79,457,387	\$4,840,982	\$0	\$0	\$0	\$366,840,457	\$214,514,500	\$0	\$26,332,200	\$238,285,158
FY 2005	\$322,780,191	\$202,397,566	\$64,172,167	\$101,198,783	\$80,914,228	\$11,300,868	\$0	\$0	\$0	\$431,036,095	\$229,522,988	\$0	\$33,333,010	\$327,156,868
FY 2006	\$326,844,982	\$215,666,940	\$0	\$140,183,511	\$118,607,527	\$21,435,792	\$34,611,607	\$0	\$0	\$427,553,404	\$259,532,887	\$0	\$34,434,969	\$462,985,967
FY 2007	\$323,957,945	\$238,190,720	\$0	\$154,823,968	\$136,008,512	\$32,671,539	\$52,329,617	\$0	\$0	\$437,519,747	\$304,773,401	\$0	\$35,878,194	\$622,796,927
FY 2008	\$328,505,433	\$254,722,174	\$0	\$165,569,413	\$141,672,630	\$29,252,347	\$59,486,239	\$0	\$0	\$498,767,038	\$334,742,500	\$0	\$39,656,301	\$728,839,324
FY 2009	\$329,723,191	\$267,471,299	\$0	\$173,856,344	\$149,562,613	\$17,482,143	\$61,530,735	\$0	\$0	\$531,239,020	\$353,893,845	\$0	\$43,184,393	\$800,148,391
FY 2010	\$332,481,933	\$279,250,547	\$0	\$181,512,856	\$155,918,241	\$11,679,229	\$70,795,686	\$0	\$0	\$575,539,788	\$395,817,017	\$0	\$45,465,776	\$814,964,302
FY 2011	\$345,164,271	\$282,782,431	\$0	\$183,808,580	\$158,724,010	\$8,168,640	\$66,258,008	\$70,629,797	\$0	\$608,461,321	\$384,017,059	\$0	\$47,151,354	\$890,870,304
FY 2012	\$363,348,030	\$271,925,242	\$0	\$176,751,407	\$154,607,926	\$5,189,934	\$71,575,942	(\$2,941,996)	\$0	\$687,987,585	\$454,143,825	\$0	\$48,181,723	\$741,013,656
FY 2013	\$360,436,594	\$135,962,621	\$102,363,704	\$176,751,407	\$154,673,667	\$7,662,931	\$42,712,408	\$0	\$80,127,487	\$703,602,405	\$519,566,978	\$857,691	\$45,069,858	\$532,607,544
FY 2014	\$364,703,885	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$5,283,505	\$34,092,532	\$0	\$126,823,377	\$704,719,846	\$619,959,478	\$10,425,738	\$45,456,224	\$286,299,874
FY 2015	\$372,637,813	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$2,107,589	\$39,484,691	\$0	\$134,481,983	\$778,346,843	\$708,517,876	\$26,190,178	\$46,525,556	(\$121,218,188)
FY 2016	\$380,185,737	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$0	\$45,487,787	\$0	\$141,865,530	\$853,528,339	\$806,344,806	\$35,089,649	\$47,559,492	(\$692,851,103)
FY 2017	\$386,817,053	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$0	\$52,293,786	\$0	\$149,353,569	\$932,532,155	\$915,240,264	\$40,463,196	\$48,516,005	(\$1,437,788,000)
FY 2018	\$393,082,747	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$0	\$59,871,760	\$0	\$156,614,186	\$1,019,041,643	\$1,035,941,867	\$46,495,167	\$49,447,496	(\$2,375,795,165)

NOTES

- Reduction in pharmacy spend as a result of the implementation of ESI/Medco as the new PBM effective 9/1/2012;
- 60% participation in Medicare Advantage and 60% participation in Part D plan, which will be effective 1/1/2013; CY2013 CMS Subsidy values assumed for Part D Revenue.
- Enrollment assumptions based on GASB headcounts
- 10% medical trend, 9.5% pharmacy trend;
- Interest Rate = 1%

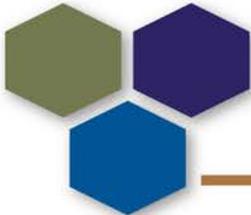
TRS-Care Funding

Financial History & Projection Through FY 2017 with Data Through August 2012
(80% participation assumed in the Medicare Advantage and Part D Plans)

Fiscal Year	Contributions									Expenditures				Ending Balance (Incurred Basis)
	Retiree Contributions	State Contributions	Supplemental Appropriations	Active Employee Contributions	District Contributions	Investment Income	RDS Subsidy	ERRP Subsidy	Part D Plan Revenues	Medical Incurred	Drug Incurred	Medicare Advantage Premiums	Administrative Costs	
FY 1986	\$0	\$0	\$250,000	\$17,625,194	\$0	\$572,153	\$0	\$0	\$0	\$0	\$0	\$0	\$362,371	\$18,084,976
FY 1987	\$22,617,624	\$25,931,680	\$0	\$18,522,629	\$0	\$2,568,998	\$0	\$0	\$0	\$0	\$50,988,845	\$7,044,825	\$3,941,936	\$25,750,301
FY 1988	\$23,948,600	\$31,357,632	\$0	\$19,598,520	\$0	\$5,703,832	\$0	\$0	\$0	\$0	\$16,157,649	\$12,441,672	\$4,614,755	\$73,144,809
FY 1989	\$25,428,632	\$37,420,711	\$0	\$20,789,215	\$0	\$8,802,914	\$0	\$0	\$0	\$0	\$32,926,324	\$15,458,710	\$5,212,073	\$111,989,174
FY 1990	\$37,556,561	\$44,369,915	\$0	\$22,184,958	\$0	\$13,098,835	\$0	\$0	\$0	\$0	\$50,171,919	\$19,835,965	\$7,186,851	\$152,004,708
FY 1991	\$46,563,787	\$47,277,743	\$0	\$23,638,871	\$0	\$15,801,047	\$0	\$0	\$0	\$0	\$82,697,189	\$28,683,081	\$8,258,029	\$165,647,857
FY 1992	\$56,395,797	\$50,392,512	\$0	\$25,196,592	\$0	\$17,314,372	\$0	\$0	\$0	\$0	\$74,307,953	\$33,829,694	\$8,862,560	\$197,946,923
FY 1993	\$65,154,653	\$54,029,406	\$0	\$27,014,703	\$0	\$17,181,190	\$0	\$0	\$0	\$0	\$101,627,864	\$40,700,513	\$10,067,359	\$208,931,140
FY 1994	\$80,128,944	\$56,912,083	\$0	\$28,456,041	\$0	\$16,467,438	\$0	\$0	\$0	\$0	\$108,284,693	\$45,712,060	\$11,668,828	\$225,230,065
FY 1995	\$89,006,331	\$59,849,850	\$0	\$29,924,925	\$0	\$16,841,673	\$0	\$0	\$0	\$0	\$122,054,551	\$50,782,093	\$12,219,847	\$235,796,353
FY 1996	\$82,622,236	\$63,634,087	\$0	\$31,817,043	\$0	\$16,818,747	\$0	\$0	\$0	\$0	\$135,982,304	\$57,074,921	\$13,593,578	\$224,037,663
FY 1997	\$87,657,784	\$67,616,395	\$0	\$33,808,197	\$0	\$16,202,440	\$0	\$0	\$0	\$0	\$148,823,489	\$62,530,982	\$14,097,454	\$203,870,554
FY 1998	\$91,390,173	\$72,210,190	\$0	\$36,105,095	\$0	\$15,260,517	\$0	\$0	\$0	\$0	\$156,537,913	\$76,256,158	\$14,616,678	\$171,425,780
FY 1999	\$96,474,107	\$76,488,424	\$0	\$38,244,213	\$0	\$9,762,741	\$0	\$0	\$0	\$0	\$184,398,533	\$93,459,890	\$14,905,196	\$99,631,646
FY 2000	\$120,227,960	\$85,505,637	\$0	\$42,738,069	\$0	\$6,923,485	\$0	\$0	\$0	\$0	\$203,029,971	\$110,903,247	\$16,837,127	\$24,256,451
FY 2001	\$131,213,445	\$90,118,787	\$76,281,781	\$45,059,394	\$0	\$5,824,134	\$0	\$0	\$0	\$0	\$250,691,898	\$139,774,848	\$18,237,767	(\$35,950,521)
FY 2002	\$143,797,748	\$94,792,026	\$285,515,036	\$47,378,092	\$0	\$7,140,560	\$0	\$0	\$0	\$0	\$287,729,918	\$163,979,754	\$19,017,292	\$71,945,978
FY 2003	\$162,954,010	\$98,340,798	\$124,661,063	\$49,170,399	\$0	\$3,394,956	\$0	\$0	\$0	\$0	\$368,462,963	\$203,281,400	\$21,690,329	(\$82,967,487)
FY 2004	\$248,552,679	\$198,594,194	\$298,197,463	\$99,297,097	\$79,457,387	\$4,840,982	\$0	\$0	\$0	\$0	\$366,840,457	\$214,514,500	\$26,332,200	\$238,285,158
FY 2005	\$322,780,191	\$202,397,566	\$64,172,167	\$101,198,783	\$80,914,228	\$11,300,868	\$0	\$0	\$0	\$0	\$431,036,095	\$229,522,988	\$33,333,010	\$327,156,868
FY 2006	\$326,844,982	\$215,666,940	\$0	\$140,183,511	\$118,607,527	\$21,435,792	\$34,611,607	\$0	\$0	\$0	\$427,553,404	\$259,532,887	\$34,434,969	\$462,985,967
FY 2007	\$323,957,945	\$238,190,720	\$0	\$154,823,968	\$136,008,512	\$32,671,539	\$52,329,617	\$0	\$0	\$0	\$437,519,747	\$304,773,401	\$35,878,194	\$622,796,927
FY 2008	\$328,505,433	\$254,722,174	\$0	\$165,569,413	\$141,672,630	\$29,252,347	\$59,486,239	\$0	\$0	\$0	\$498,767,038	\$334,742,500	\$39,656,301	\$728,839,324
FY 2009	\$329,723,191	\$267,471,299	\$0	\$173,856,344	\$149,562,613	\$17,482,143	\$61,530,735	\$0	\$0	\$0	\$531,239,020	\$353,893,845	\$43,184,393	\$800,148,391
FY 2010	\$332,481,933	\$279,250,547	\$0	\$181,512,856	\$155,918,241	\$11,679,229	\$70,795,686	\$0	\$0	\$0	\$575,539,788	\$395,817,017	\$45,465,776	\$814,964,302
FY 2011	\$345,164,271	\$282,782,431	\$0	\$183,808,580	\$158,724,010	\$8,168,640	\$66,258,008	\$70,629,797	\$0	\$0	\$608,461,321	\$384,017,059	\$47,151,354	\$890,870,304
FY 2012	\$363,348,030	\$271,925,242	\$0	\$176,751,407	\$154,607,926	\$5,189,934	\$71,575,942	(\$2,941,996)	\$0	\$0	\$687,987,585	\$454,143,825	\$48,181,723	\$741,013,656
FY 2013	\$357,577,583	\$135,962,621	\$102,363,704	\$176,751,407	\$154,673,667	\$7,746,698	\$33,154,412	\$0	\$106,835,970	\$682,950,493	\$520,645,245	\$1,143,593	\$44,580,221	\$566,760,167
FY 2014	\$360,206,225	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$5,824,510	\$17,803,933	\$0	\$169,099,373	\$665,692,248	\$628,630,519	\$13,901,169	\$44,705,308	\$370,115,281
FY 2015	\$367,893,913	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$3,122,529	\$20,636,331	\$0	\$179,307,262	\$735,137,968	\$717,139,213	\$34,919,906	\$45,753,261	\$11,475,283
FY 2016	\$375,204,417	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$171,903	\$23,789,299	\$0	\$189,155,577	\$803,773,724	\$815,001,812	\$46,786,198	\$46,767,825	(\$509,182,763)
FY 2017	\$381,594,893	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$0	\$27,366,187	\$0	\$199,140,653	\$875,299,389	\$923,940,034	\$53,951,704	\$47,704,975	(\$1,198,626,816)
FY 2018	\$387,628,027	\$271,925,242	\$0	\$176,751,407	\$154,673,667	\$0	\$31,351,388	\$0	\$208,818,402	\$953,447,584	\$1,044,689,604	\$61,993,556	\$48,618,895	(\$2,076,228,321)

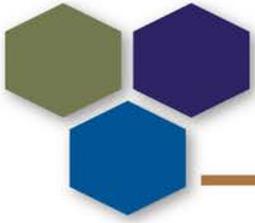
NOTES

- Reduction in pharmacy spend as a result of the implementation of ESI/Medco as the new PBM effective 9/1/2012;
- 80% participation in Medicare Advantage and 80% participation in Part D plan, which will be effective 1/1/2013; CY2013 CMS Subsidy values assumed for Part D Revenue.
- Enrollment assumptions based on GASB headcounts
- 10% medical trend, 9.5% pharmacy trend;
- Interest Rate = 1%



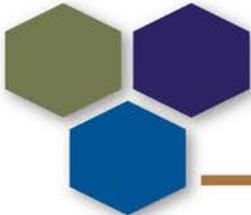
Cost Drivers

- ◆ Increase in medical costs
- ◆ Increase in Rx costs
- ◆ Maintaining access and choice in managing providers
- ◆ Increased utilization due to aging population
- ◆ Potential increase in number of retirees (Non-Medicare)
- ◆ Potential plan changes in Medicare program
- ◆ Technology increases and development of new biogenetic drugs



TRS-ActiveCare

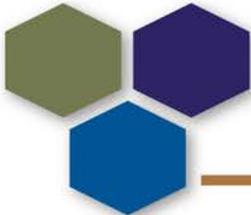
Health Care Program
for Employees and Dependents of
Public Education Entities



TRS-ActiveCare Overview

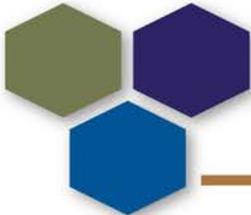
History

- ◆ Coverage began on September 1, 2002
- ◆ Self-funded, managed care plan
- ◆ 4 options offering medical and prescription drug benefits
- ◆ Medical benefits administered by Blue Cross Blue Shield
- ◆ Prescription drug benefits administered by Medco Health Solutions
- ◆ Effective September 1, 2003, HMO plans were made available to members in metropolitan areas
- ◆ Approximately 5% of the covered population has elected coverage in the HMO plans



Overview of TRS-ActiveCare Plan Design (FY 2013)

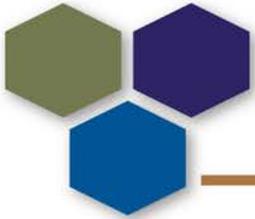
- ◆ TRS-ActiveCare 1
 - ▶ \$1,200 deductible; 80% network/60% non-network plan coinsurance; \$2,000 coinsurance maximum
- ◆ TRS-ActiveCare 1-HD
 - ▶ \$2,400 deductible; 80% network/60% non-network plan coinsurance; \$3,000 coinsurance maximum
- ◆ TRS-ActiveCare 2
 - ▶ \$750 deductible; \$150 per day hospital copay; 80% network/60% non-network plan coinsurance; \$30 office visit copay/\$50 specialist copay; \$2,000 coinsurance maximum; managed drug card program
- ◆ TRS-ActiveCare 3
 - ▶ \$300 network deductible, \$500 non-network deductible; \$150 per day hospital copay; \$20 office visit copay/\$30 specialist copay; \$1,000 network coinsurance maximum, \$3,000 non-network coinsurance maximum; managed drug card program



TRS-ActiveCare Participation

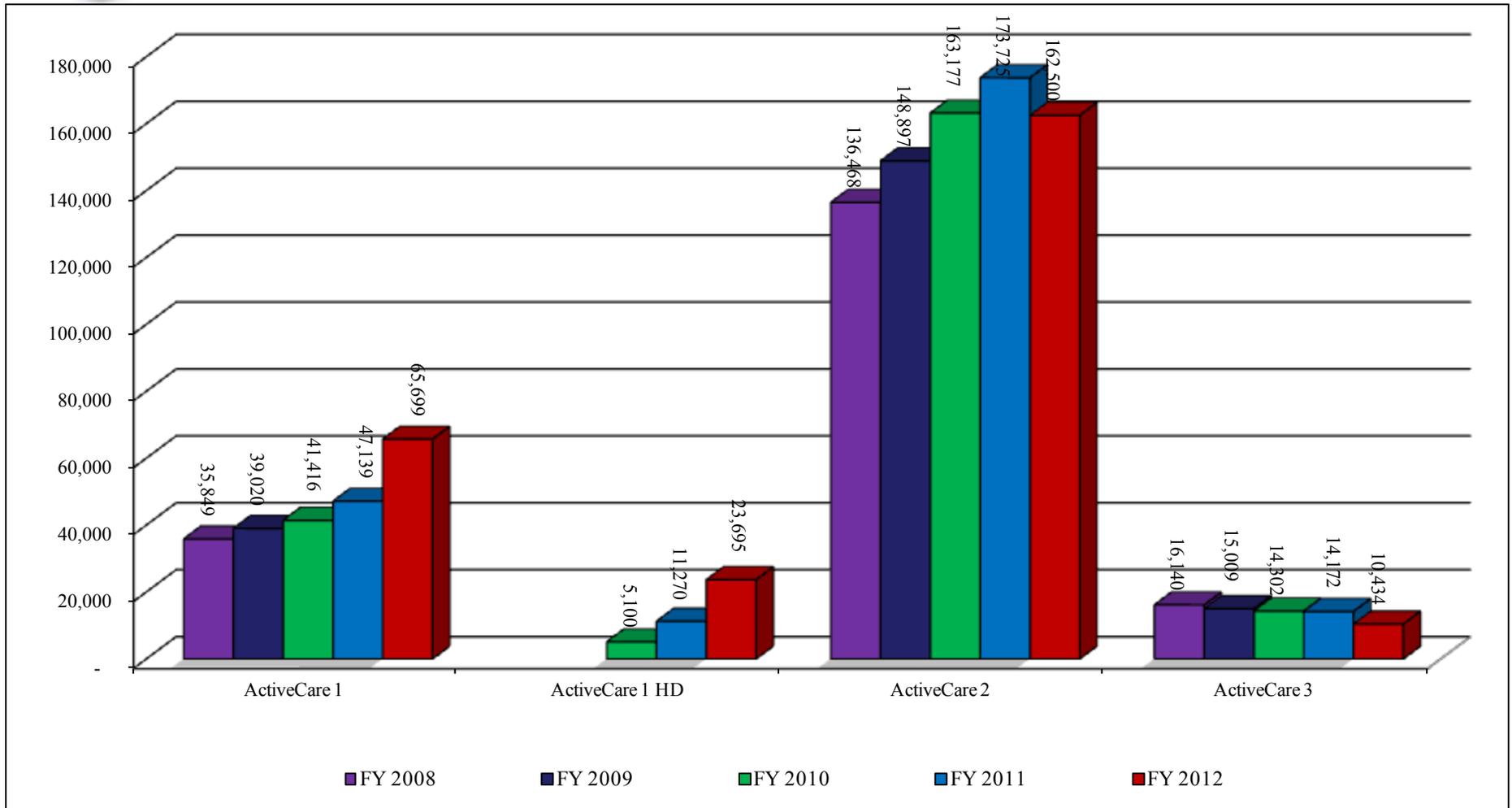
Entities Participating

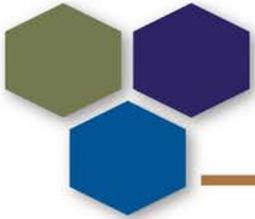
Entity Type	# Eligible	# Participating	% Participating
Less than 500	820	805	98.2%
500 – 1,000	111	96	86.5%
More than 1,000	98	48	49.0%
Charter	190	146	76.8%
RSC	20	20	100.0%
Other Ed	5	5	100.0%
Total	1,244	1,120	90.0%



TRS-ActiveCare Participation

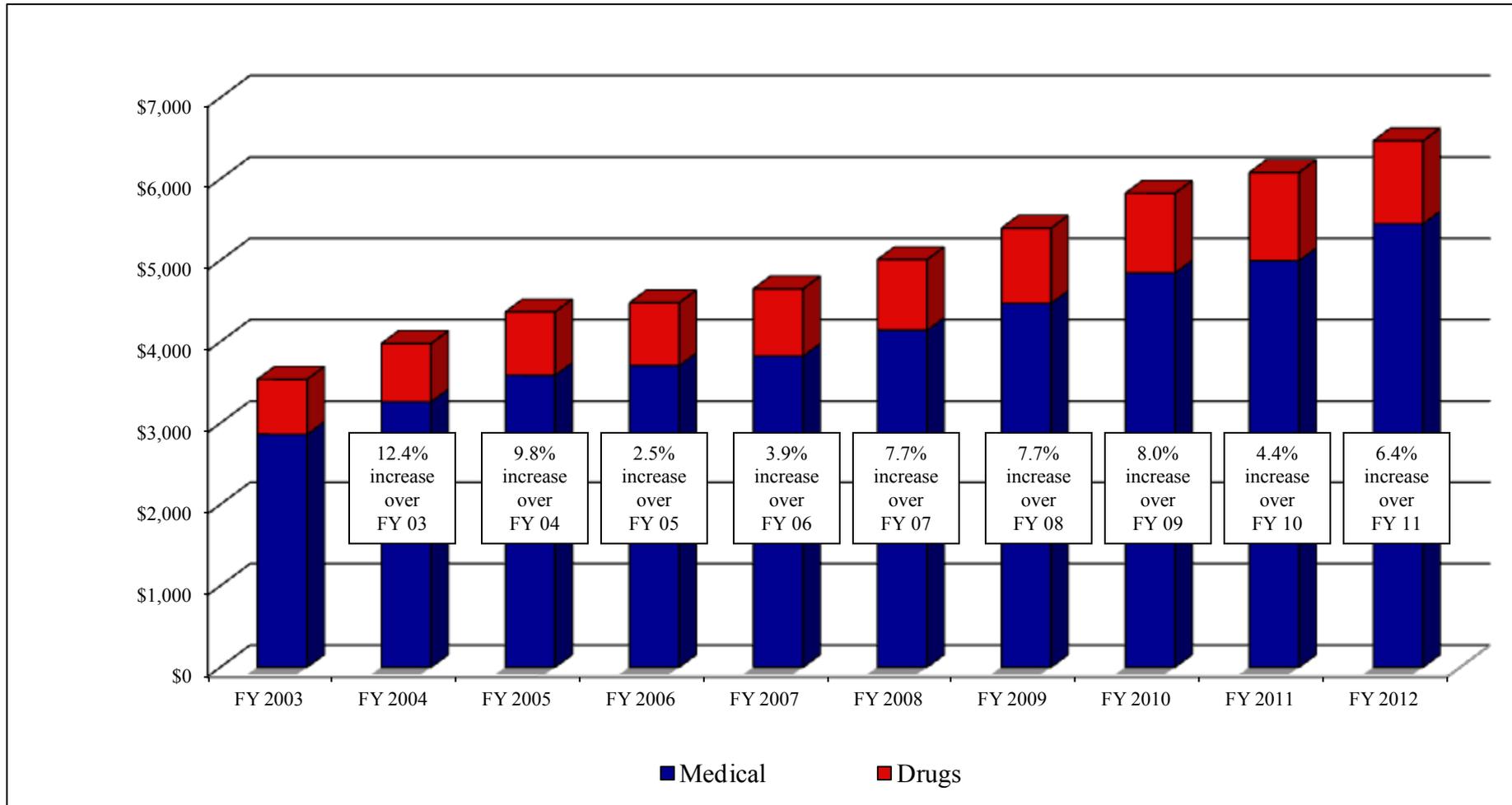
Number of Employees By Plan Level

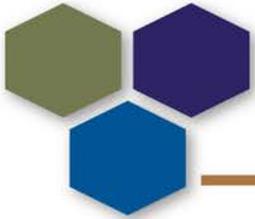




TRS-ActiveCare Claims Cost

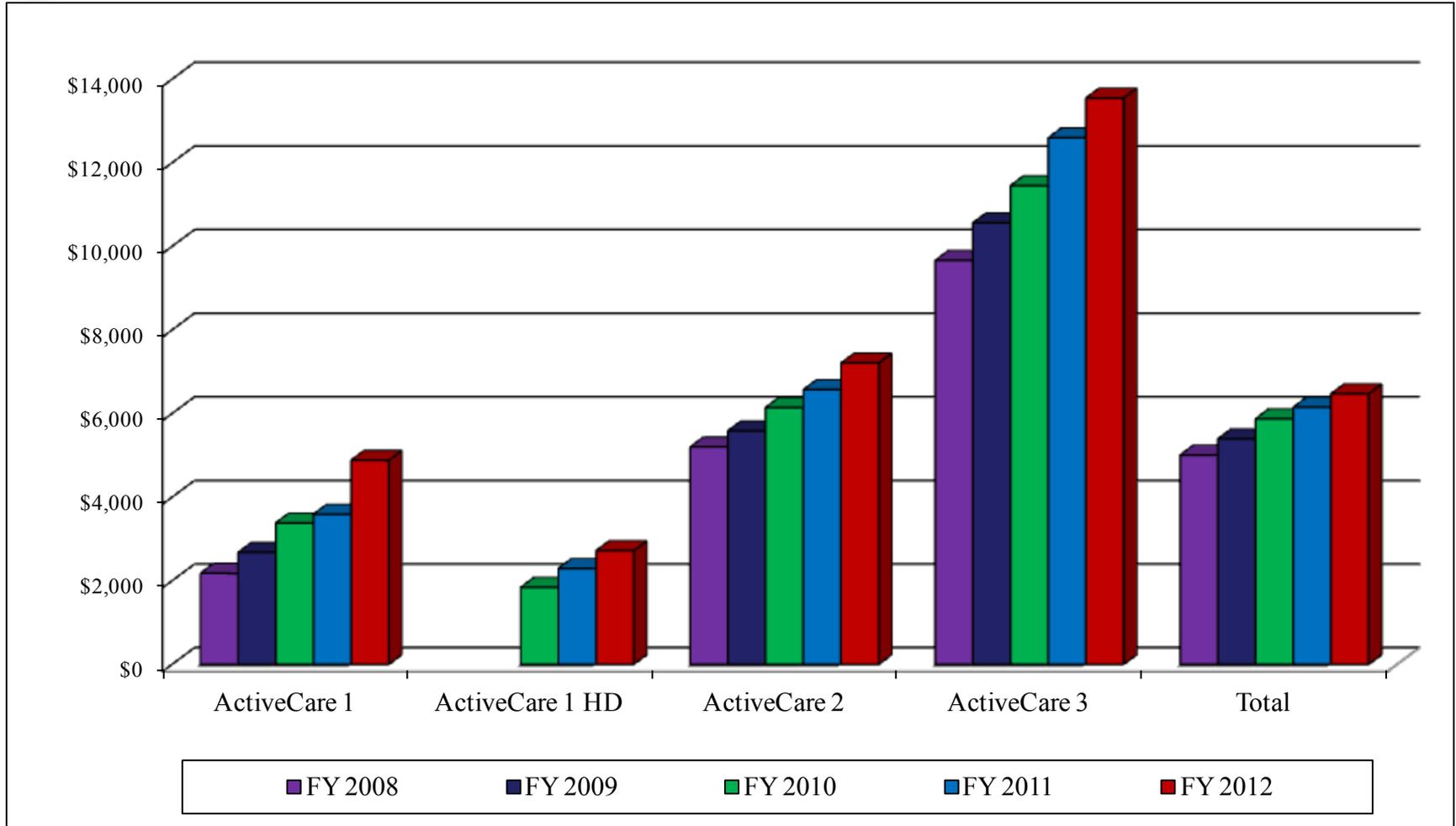
Average Paid Claim Cost Per Employee

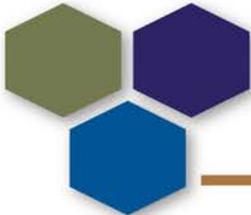




TRS-ActiveCare Claims Cost

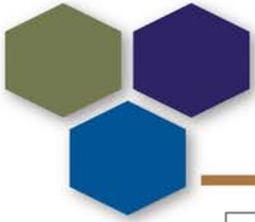
Average Paid Claim Cost Per Employee



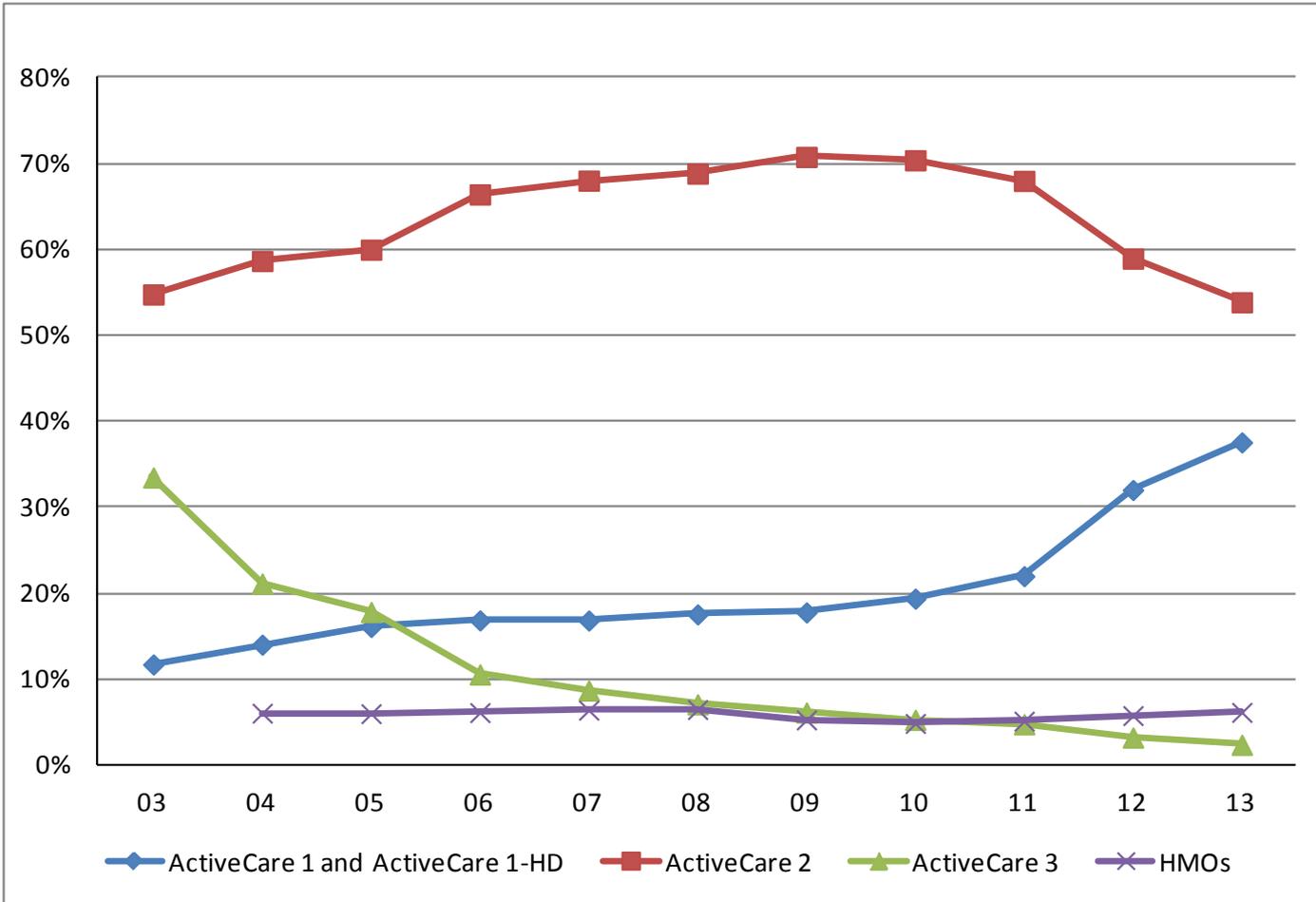


TRS-ActiveCare Funding Overview

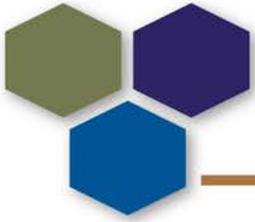
- ◆ District Funding
 - ▶ Required to contribute \$150 per month per employee (districts may elect to contribute more)
- ◆ State Funding
 - ▶ Contributes \$75 per month per employee, through school finance formulas
- ◆ Funding requirements for Districts and State have not changed since program inception



TRS-ActiveCare Participation Enrollment Distribution

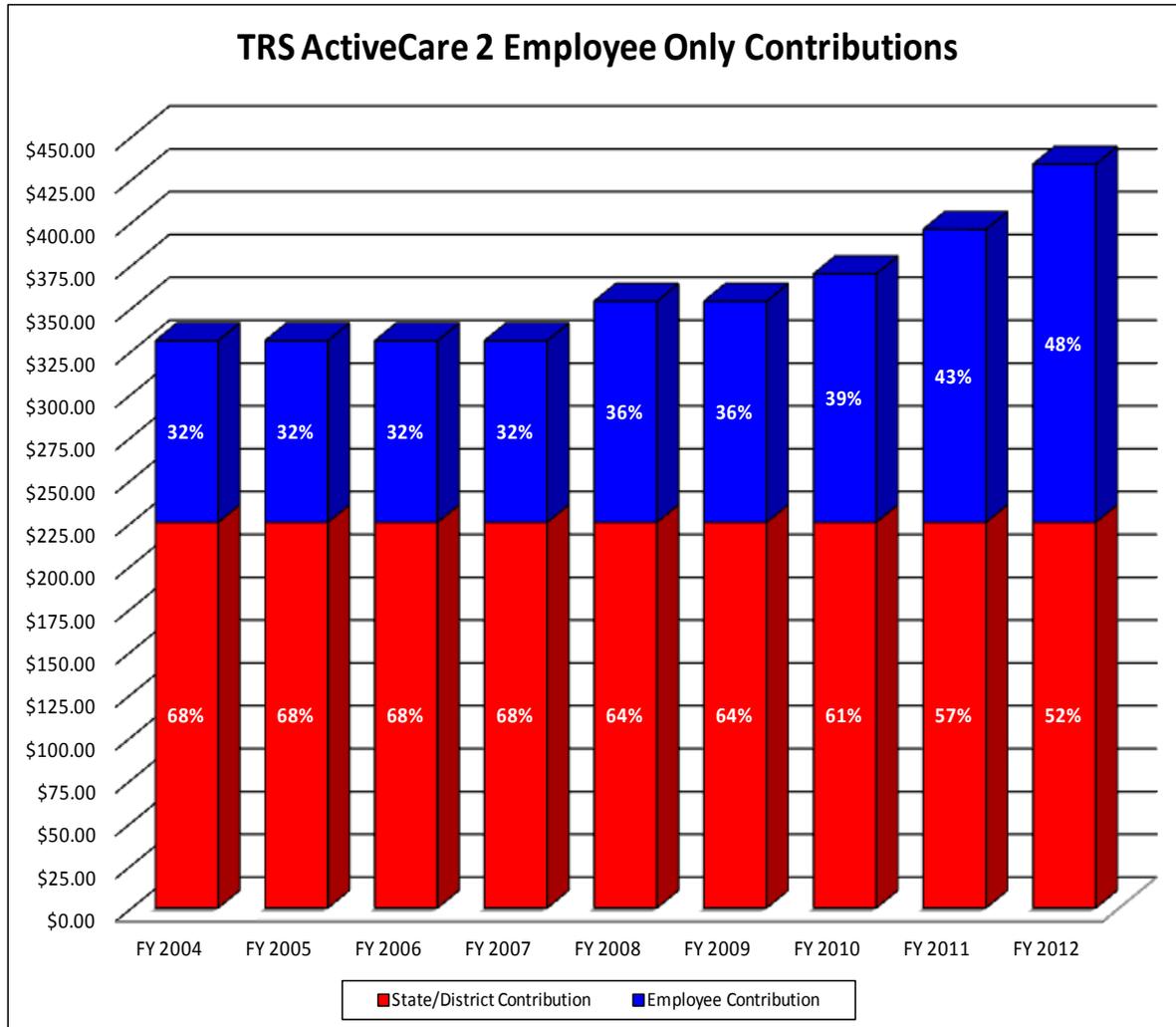


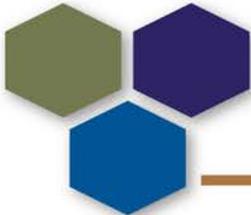
There has been a significant shift in enrollment as premiums have increased and benefits have been reduced.



TRS-ActiveCare 2

Monthly Contribution per Employee





TRS-ActiveCare

Cost Drivers

- ◆ Increase in number of participating entities and employees
- ◆ Increase in medical costs
- ◆ Increase in pharmacy costs
- ◆ State and district contribution toward premium not linked to industry trend
- ◆ Technology increases and development of new biogenetic drugs

Tab 10 A - C



M E M O R A N D U M

To: TRS Policy Committee and Board of Trustees

From: Wm. Clarke Howard, TRS Assistant General Counsel

Copy: Brian K. Guthrie, TRS Executive Director; Ken Welch, TRS Deputy Director; Betsey Jones, Director of Health Care Policy and Administration; Conni Brennan, TRS General Counsel

Date: November 26, 2012

Re: Adoption of Proposed Amendments to TRS-Care rules 34 TAC §§41.2, 41.5 and 41.7

Background

Staff is recommending final action to adopt proposed amendments to the following three TRS-Care rules: (1) TRS-Care rule §41.2 (Additional Enrollment Opportunities), (2) TRS-Care rule §41.5 (Payment of Contributions), and (3) TRS-Care rule §41.7 (Effective Date of Coverage).

Adoption of Proposed Rule Amendments

At its September 2012 meeting, the Policy Committee authorized publication of proposed amendments to TRS-Care rules §§41.2, 41.5 and 41.7. The staff submitted the proposed amendments to the Texas Secretary of State for publication in the *Texas Register*. The proposed amendments were published for at least 30 days before this meeting, and they now may be adopted by the Board of Trustees. No public comments were submitted concerning the proposed changes to these rules.

Summary of Proposed Rule Amendments

While a number of the proposed rule amendments include changes to improve the clarity of the rules, the most substantive amendments are proposed mainly to address the upcoming introduction of the TRS-Care Medicare Advantage (medical) plans and the TRS-Care Medicare Part D (drug) plans.

1. Addition of the New Medicare Advantage Plans and the New Medicare Part D Plans.

Currently, there is only one medical plan and one drug plan offered in both the TRS-Care 2 level of coverage and the TRS-Care 3 level of coverage in TRS-Care. Thus, a reference to the TRS-Care 2 level of coverage was a clear reference to the medical plan and the drug plan offered at this level of coverage. The same can also be said with regard to the TRS-Care 3 level of coverage. However, with the introduction of the new TRS-Care Medicare Advantage (medical) plans and the new TRS-Care Medicare Part D (drug) plans on January 1, 2013, for the first time, there will be several available medical plans and several available drug plans within both the TRS-Care 2 and TRS-Care 3 levels of coverage. Consequently, unlike in the past, there will be the need, beginning on January 1, 2013, to distinguish between the plans offered under the TRS-Care 2 and TRS-Care 3 levels of coverage and the levels of coverage themselves.

Further, not all individuals enrolled in TRS-Care at the TRS-Care 2 and TRS-Care 3 levels of coverage will be able to, under law, enroll in the new TRS-Care Medicare Advantage (medical) plans and the new TRS-Care Medicare Part D (drug) plans.

Consequently, to address the above noted distinctions, staff is proposing clarifying language: (1) in subsections (a)(5), (a)(6), and (a)(7) of TRS-Care rule §41.2, which addresses the opportunities to enroll in TRS-Care that are in addition to the initial enrollment opportunities described in TRS-Care rule §41.1; and (2) in subsections (e) and (h)(3)(B) of TRS-Care rule §41.5, which addresses the payment of contributions in TRS-Care.

2. Special Enrollment Opportunities.

With the passage of time, there is no longer a need to distinguish between the special enrollment events that occurred on or before August 31, 2011 and those that occurred or will occur on or after September 1, 2011. In light of the need to make the changes to TRS-Care rule §41.2, noted above, staff recommends that TRS take advantage of this opportunity to also make the deletions found in subsection (b) of TRS-Care rule §41.2. These deletions simplify this subsection by removing references to special enrollment events "that occur" on or before August 31, 2011; such events can no longer take place.

The same can also be said with regard to the deletions proposed in subsection (g) of TRS-Care rule §41.7, which addresses the effective dates of coverage under TRS-Care. The changes to this subsection are consistent with the above noted deletions found in subsection (b) of TRS-Care rule §41.2.

3. Non-substantive changes to enhance clarity.

There are a handful of proposed amendments that are non-substantive in nature, yet enhance the clarity of certain TRS-Care rules. These non-substantive proposed amendments include those marked changes found in subsection (d) of TRS-Care rule §41.2, in subsection (h)(3)(C) of TRS-Care rule §41.5, and in subsections (m) and (n) of TRS-Care rule § 41.7.

Requested Action

Staff requests that the Policy Committee recommend that the Board of Trustees adopt the proposed amendments to TRS-Care rules §§41.2, 41.5 and 41.7, each as published in the *Texas Register*.

In turn, staff requests the Board of Trustees adopt the proposed amendments to TRS-Care rules §§41.2, 41.5 and 41.7, each as published in the *Texas Register*.

**CONSIDERATION OF ADOPTION OF PROPOSED
AMENDMENTS TO TRS-CARE RULES 34 TAC §§41.2, 41.5 AND 41.7**

TRS Policy Committee and Board of Trustee Meetings
December 13 - 14, 2012

Text of Proposed Rule Changes Published
for Public Comment in the *Texas Register*

TEXAS ADMINISTRATIVE CODE

<u>TITLE 34</u>	PUBLIC FINANCE
<u>PART 3</u>	TEACHER RETIREMENT SYSTEM OF TEXAS
<u>CHAPTER 41</u>	HEALTH CARE AND INSURANCE PROGRAMS
<u>SUBCHAPTER A</u>	RETIREE HEALTH CARE BENEFITS (TRS-CARE)

RULE § 41.2. Additional Enrollment Opportunities

(a) Age 65 Additional Enrollment Opportunity. "Eligible participants," as defined in paragraph (1) of this subsection, have an additional enrollment opportunity in TRS-Care as described in this subsection when they become 65 years old (the "Age 65 Additional Enrollment Opportunity").

(1) For purposes of this subsection, the term "eligible participants" means:

(A) all TRS service retirees who are enrolled in TRS-Care;

(B) dependents, as defined in Insurance Code, §1575.003, who are enrolled in TRS-Care and who are eligible to enroll in TRS-Care in their own right as a TRS service or disability retiree; and

(C) surviving spouses, as defined in Insurance Code, §1575.003 who are enrolled in TRS-Care.

(2) Those eligible participants who are enrolled in TRS-Care on August 31, 2004, and who become 65 years old after that date have the Age 65 Additional Enrollment Opportunity on the date that they become 65 years old.

(3) Those eligible participants who enroll in TRS-Care after August 31, 2004, and who become 65 years old after the date of their enrollment have the Age 65 Additional Enrollment Opportunity on the date that they become 65 years old.

(4) The Age 65 Additional Enrollment Opportunity for those eligible participants who enroll in TRS-Care after August 31, 2004, and who are 65 years old or older when they enroll in TRS-Care runs concurrently with the initial enrollment period as set out in §41.1 of this title (relating to Initial Enrollment Periods for the Health Benefits Program Under the Texas Public School Retired Employees Group Benefits Act (TRS-Care)).

(5) An eligible participant who is not enrolled in Medicare Part A at the time of his or her Age 65 Additional Enrollment Opportunity can enroll:

(A) in any plan, for which he or she is eligible under law, located in the next-higher TRS-Care coverage tier (level of coverage), as determined by TRS-Care; and

(B) add dependent coverage in any plan, for which the dependent is eligible under law, located in that same coverage tier (level of coverage).

(6) An eligible participant who is enrolled in Medicare Part A at the time of his or her Age 65 Additional Enrollment Opportunity can enroll:

(A) in any plan, for which he or she is eligible under law, located in any TRS-Care coverage tier (level of coverage); and

(B) add dependent coverage in any plan, for which the dependent is eligible under law, located in that same coverage tier (level of coverage).

(7) An eligible participant, at the time of his or her Age 65 Additional Enrollment Opportunity, can:

(A) choose to remain in the same TRS-Care coverage tier (level of coverage),

(B) enroll in any plan, for which he or she is eligible under law, located in that same TRS-Care coverage tier (level of coverage); and

(C) add dependent coverage in any plan, for which the dependent is eligible under law, in that same coverage tier (level of coverage).

(8) The period to enroll in TRS-Care pursuant to the Age 65 Additional Enrollment Opportunity for eligible participants described in paragraph (2) or (3) of this subsection expires at the end of the later of:

(A) the 31st day following the last day of the month in which the eligible participant becomes 65 years old; or

(B) the 31st day after the date printed on the notice of the additional enrollment opportunity sent to the eligible participant at the eligible participant's last-known address, as shown in the TRS-Care records.

(b) Special Enrollment Opportunity.

~~(1) For a special enrollment event that occurs on or after September 1, 2011, a~~An individual who becomes eligible for coverage under the special enrollment provisions of the Health Insurance Portability and Accountability Act of 1996 (Pub. L. No. 104-191, 110 Stat. 1936 (1996)), including a dependent whose coverage under TRS-Care was waived due to the existence of other coverage for the dependent during the Age 65 Additional Enrollment Opportunity described in subsection (a) of this section, may elect to enroll in TRS-Care.

~~(2) For a special enrollment event that occurs on or before August 31, 2011, except as provided in the exceptions found in subparagraphs (A) - (C) of this paragraph, an individual who becomes eligible for coverage under the special enrollment provisions of the Health Insurance Portability and Accountability Act of 1996 (Pub. L. No. 104-191, 110 Stat. 1936 (1996)), including a dependent whose coverage under TRS-Care was waived due to the existence of other coverage for the dependent during the Age 65 Additional Enrollment Opportunity described in subsection (a) of this section, may elect to enroll in TRS-Care.~~

~~(A) In no event may an individual who is already enrolled in TRS-Care elect a different plan, for himself or any eligible dependents, but may only add eligible dependents for coverage under the individual's existing plan selection upon the occurrence of a special enrollment event.~~

~~(B) In no event may a TRS retiree enroll in TRS-Care as a result of a special enrollment event applicable to his dependent.~~

~~(C) In no event, as a result of a special enrollment event applicable to the dependent, may the dependent of a TRS retiree enroll in TRS-Care if the TRS retiree is not enrolled in TRS-Care.~~

~~(23)~~ The enrollment period for an individual who becomes eligible for coverage due to a special enrollment event shall be the 31 calendar days immediately after the date of the special enrollment event. To make an effective election, a completed TRS-Care application must be received by TRS within this 31-day period.

(c) Enrollment Opportunity Established by TRS. If an eligible TRS retiree or his eligible dependent does not have either an Age 65 Additional Enrollment Opportunity or a special enrollment event, then he may enroll in TRS-Care only during a subsequent enrollment period established by TRS.

(d) This section does not affect the right of a TRS service retiree or surviving spouse enrolled in a TRS-Care coverage tier (level of coverage) to drop coverage, select a lower coverage tier (level of coverage), or drop dependents at any time.

RULE § 41.5. Payment of Contributions

(a) Retirees, surviving spouses, and surviving dependent children or their representative (collectively, "participants") shall pay monthly contributions as set by the trustee for their and their dependents' participation in TRS-Care.

(b) To be eligible for TRS-Care coverage, a participant must authorize the trustee in writing to deduct the contribution amount from the annuity payment. After such authorization, the trustee may deduct the amount of the contribution from the annuity payment.

(c) If the amount of the contribution is more than the amount of the annuity payment, the participant will be billed directly by TRS or the TRS-Care administrator for the entire contribution amount.

(d) Failure to timely pay the full amount of a required contribution for coverage of a dependent or a surviving dependent child will result in termination of coverage for the dependent or surviving dependent child at the end of the month for which the last contribution was made.

(e) Failure to timely pay the full amount of a required contribution for coverage of a retiree or a surviving spouse enrolled in [a TRS-Care 2 plan](#) or [a TRS-Care 3 plan](#) will result in termination of coverage in [the TRS-Care 2 plan](#) or [the TRS-Care 3 plan](#), as applicable, and enrollment in TRS-Care 1 for the retiree or surviving spouse, resulting in a decrease in coverage at the end of the month for which the last contribution was made. The retiree or surviving spouse will not be able to change his or her TRS-Care coverage tier ([level of coverage](#)) unless and until the retiree or surviving spouse has an additional enrollment opportunity as set out in §41.2 of this title (relating to Additional Enrollment [Opportunity Opportunities](#)) or some other opportunity under Insurance Code, §1575.161.

(f) A disability retiree whose annuity payments are forfeited under §31.36 of this title (Relating to Forfeiture of Disability Retirement Annuity Payments Due to Excess Compensation) shall pay the total monthly cost of coverage, as determined by the trustee, attributable to the participation of that disability retiree and the dependents of that disability retiree during the months for which the disability retiree's annuity payments are forfeited. A disability retiree shall pay the total monthly cost of coverage starting with the calendar month for which the first annuity payment is forfeited. The disability retiree shall continue to pay the total monthly cost of coverage for each month of coverage in which the annuity payment for that month is forfeited in accordance with §31.36 of this title. Nothing in this section shall be construed to prevent TRS from collecting the total monthly cost of coverage for months in which annuities should have been but were not forfeited if TRS determines that a disability retiree knowingly failed to

report compensation as required and the failure resulted in payment of annuities by TRS that the disability retiree was not eligible to receive.

(g) Notwithstanding subsections (d) and (e) of this section, a disability retiree whose annuity payments are forfeited under §31.36 of this title who fails to timely pay the full amount of a required contribution for coverage attributable to his participation or that of his dependents, including but not limited to amounts found due and owing pursuant to a TRS determination that a disability retiree knowingly failed to report compensation as required and the failure resulted in payment of annuities by TRS that the disability retiree was not eligible to receive, shall have coverage under TRS-Care for himself and his dependents suspended unless TRS-Care receives full payment of all costs of coverage currently due and owing within thirty-one (31) days after TRS-Care mails written notice to the disability retiree of the current amount due and owing. Under such circumstances, the suspension of coverage will be effective at midnight of the last day of the month in which TRS-Care mailed the above written notice to the disability retiree of the current amount due and owing. During such a suspension, coverage under TRS-Care will cease and the costs of coverage for TRS-Care will no longer accrue.

(h) If TRS resumes payment of an annuity to a disability retiree whose coverage has been suspended as described in subsection (g) of this section, the following shall apply:

(1) Such disability retiree shall pay, no later than the last day of the month in which TRS resumes annuity payments to the disability retiree, all costs of coverage due and owing attributable to the participation of that disability retiree and the dependents of that disability retiree, including past due amounts for coverage prior to the suspension and the costs of coverage for all months during which the disability retiree's annuity payments are resumed, if any.

(2) Upon payment, reinstatement of TRS-Care coverage shall be effective the first day of the earliest month for which the disability retiree's annuity payments are resumed.

(3) If payment in full of all required contributions then due and owing is not timely received by TRS-Care, then notwithstanding subsections (d) and (e) of this section:

(A) TRS-Care coverage for the dependents of that disability retiree shall be terminated effective the last day of the month in which coverage was suspended under subsection (g) of this section;

(B) TRS-Care coverage for the disability retiree enrolled in [a TRS-Care 2 plan](#) or [a TRS-Care 3 plan](#) prior to the suspension, as applicable, will terminate effective the last day of the last month during which the disability retiree's coverage was suspended and the disability retiree will be enrolled in TRS-Care 1, effective the first day of the earliest month for which the disability retiree's annuity payments are resumed following the suspension, resulting in a decrease in coverage; and

(C) TRS-Care coverage for the disability retiree enrolled prior to the suspension in TRS-Care 1 will resume effective the first day of the earliest month for which the disability retiree's annuity payments are resumed following the suspension. The disability retiree will not be able to change his TRS-Care coverage tier ([level of coverage](#)) or add dependents unless and until the disability retiree has an additional enrollment opportunity as set out in §41.2 of this title (~~relating to Additional Enrollment Opportunity~~) or some other opportunity under Insurance Code, §1575.161.

RULE § 41.7. Effective Date of Coverage

(a) Except as allowed by subsection (c) of this section, for TRS members who take a service or disability retirement and enroll in coverage during their initial enrollment period as described in §41.1 of this title (relating to Initial Enrollment Periods for the Health Benefits Program Under the Texas Public School Retired Employees Group Benefits Act (TRS-Care)), the effective date of coverage is:

(1) the first day of the month following the effective date of retirement if the application for coverage is received by TRS-Care on or before the effective retirement date; or

(2) the first day of the month following the receipt of the application for coverage by TRS-Care if the application is received after the effective retirement date but within the initial enrollment period.

(b) A TRS member who takes a service or disability retirement and enrolls in coverage during his or her initial enrollment period may, at any time during his or her initial enrollment period, make changes to his or her coverage elections. The effective date of coverage for the new elections is the first day of the month following receipt by TRS-Care of the application requesting the change in coverage.

(c) Regardless of the date a TRS member submits his application for retirement, if a TRS member enrolls in coverage during his initial enrollment period as described in §41.1 of this title, the TRS member may defer the effective date of coverage described in subsection (a) of this section for himself and his eligible dependents to the first day of any of the three (3) months immediately following the month after the effective date of retirement. This deferment period runs concurrent with, and does not extend, the enrollment period as described in §41.1 of this title. In no event may a TRS member defer the effective date of TRS-Care coverage to a date prior to the date upon which TRS-Care receives the application for coverage from the TRS member.

(d) The effective date of coverage for a surviving spouse or for a surviving dependent child is the first day of his or her eligibility if TRS-Care receives an application within the initial enrollment period as described in §41.1 of this title and the deceased participant had the surviving spouse or the surviving dependent child enrolled in TRS-Care before the participant died.

(e) If the surviving spouse or the surviving dependent child was not enrolled in TRS-Care immediately preceding his or her becoming eligible for coverage, the effective date of coverage will be, at the election of the surviving spouse or the surviving dependent child, either the first day of the month following:

(1) TRS-Care's receipt of an application during the initial enrollment period as described in §41.1 of this title; or

(2) the month of the death of the deceased TRS service or disability retiree or deceased active TRS member, provided TRS-Care receives an application during the initial enrollment period as described in §41.1 of this title.

(f) The effective date of coverage for an eligible dependent who is enrolled under a retiree's or surviving spouse's TRS-Care coverage during the initial enrollment period is the same date as the retiree or surviving spouse's effective date of coverage unless the dependent is enrolled after the retiree's effective retirement date and after the retiree has enrolled but within the initial enrollment period, in which case the dependent's effective date of coverage will be the first day of the month following TRS-Care's receipt of the application to enroll the dependent.

(g) ~~The effective date of coverage for a special enrollment event is determined as follows:~~

~~(1) For a special enrollment event that occurs on or after September 1, 2011, the effective date of coverage for an eligible individual who is enrolled in TRS-Care as a result of a special enrollment event, as described in §41.2(b)(1) of this chapter (relating to Additional Enrollment Opportunities), is the date specified under the provisions of the Health Insurance Portability and Accountability Act of 1996 (Pub. L. No. 104-191, 110 Stat. 1936 (1996)).~~

~~(2) For a special enrollment event that occurs on or before August 31, 2011, the effective date of coverage for an eligible individual who is enrolled under a retiree's or surviving spouse's TRS-Care coverage as a result of a special enrollment event, as described in and limited by §41.2(b)(2) of this chapter, is the date specified under the provisions of the Health Insurance Portability and Accountability Act of 1996 (Pub. L. No. 104-191, 110 Stat. 1936 (1996)).~~

(h) The effective date of coverage for a retiree, a surviving spouse, and an eligible dependent described in §41.2(a)(2) or (3) of this title who submit an application within the time period described by §41.2(a)(8) of this title is:

(1) the first day of the month following the retiree's or surviving spouse's 65th birthday if the application for coverage is received by TRS-Care on or before the retiree's or surviving spouse's 65th birthday; or

(2) the first day of the month following the receipt of the application by TRS-Care if the application is received after the retiree's or surviving spouse's 65th birthday but within the enrollment period.

(i) Except as provided in subsections (l), (m), and (n) of this section, the effective date of changes in coverage due to the acquisition of Medicare is the first of the month following the date of TRS-Care's receipt of a copy of the participant's or dependent's Medicare card.

(j) Except as provided in subsections (l), (m), and (n) of this section, the effective date of reduction in coverage shall be the first day of the month following TRS-Care's receipt of a signed request for reduced coverage.

(k) A retiree, surviving spouse, or surviving dependent child may cancel any coverage by submitting the appropriate cancellation notice to TRS-Care. Cancellations will be effective on:

(1) the first day of the month following the date printed on the notice of cancellation form ("notice date") sent to the retiree at the retiree's last known address, as shown in the TRS-Care records, if TRS-Care receives the completed notice of cancellation within fourteen days of the notice date; or

(2) the first day of the month following TRS-Care's receipt of the retiree's completed notice of cancellation form if the form is received more than fourteen calendar days after the notice date; or

(3) the first day of the month following TRS-Care's receipt of a written request to cancel coverage from a surviving spouse or from or on behalf of a surviving dependent child.

(l) Where a participant who has Medicare Part A coverage incorrectly enrolls in an insurance coverage option that provides for coverage without corresponding Medicare Part A coverage and payment is made by Medicare and TRS-Care in a manner that violates the provisions of Chapter 1575, Insurance Code, which requires TRS-Care to be secondary to Medicare, TRS may seek the recovery of funds paid in violation of Chapter 1575 and may make the effective date of the correct coverage retroactive to the first day of the earliest month for which recovery of such overpaid funds is possible under Medicare rules.

(m) Where a participant who has Medicare Part A coverage incorrectly enrolls in a TRS-Care coverage option that provides for coverage without corresponding Medicare Part A [coverage](#) and there is no claim made upon TRS-Care or the legitimate claim is less than the amount of overpaid contributions, TRS-Care may refund or credit the amount due to the participant and may make the effective date of the correct coverage retroactive to when the participant was first enrolled in both Medicare and TRS-Care to a maximum

retroactive period of twelve months, including the month in which proof of Medicare Part A [coverage](#) is received by TRS-Care.

(n) Upon TRS-Care's discovery that a participant does not have Medicare Part A coverage and is incorrectly enrolled in a TRS-Care coverage option that requires Medicare Part A coverage, TRS-Care will contact the participant and advise the participant that the cost of coverage and the coverage will be adjusted prospectively effective the first day of the next month unless a copy of a Medicare card showing [Medicare](#) Part A coverage is received prior to that date. Claims will be paid based upon the coverage in effect at the time the services were provided. Any claims already paid as if [Medicare](#) Part A were in effect will not be adjusted.



Teacher Retirement System of Texas

BOARD RESOLUTION

Adopting Amended TRS-Care Rules 34 TAC §§41.2, 41.5 and 41.7

December 13 - 14, 2012

Whereas, Chapter 1575, 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 Public School Retired Employees Group Benefits Act (TRS-Care), as described in the statute;

Whereas, TRS-Care rule §41.2 provides details about additional enrollment opportunities with regard to TRS-Care;

Whereas, TRS-Care rule §41.5 addresses the payment of contributions into TRS-Care by participants in TRS-Care;

Whereas, TRS-Care rule §41.7 describes the effective dates of coverage under TRS-Care;

Whereas, staff has recommended amendments to TRS-Care rules §§41.2, 41.5 and 41.7 in order to address issues that will arise from the introduction on January 1, 2013 of the TRS-Care Medicare Advantage (medical) plans and the TRS-Care Medicare Part D (drug) plans and in order to clarify and update these rules;

Whereas, pursuant to the authority granted by the Policy Committee at its September 2012 meeting, TRS published proposed amendments to TRS-Care rules §§41.2, 41.5 and 41.7 for public comment in the October 5, 2012 issue of the *Texas Register*, and the public had at least 30 days notice of TRS' intention to adopt the proposed amendments before the board considered their adoption, and TRS received no comments; and

Whereas, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published texts of the proposed rules; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS-Care rules 34 Tex. Admin. Code §§41.2, 41.5 and 41.7 as published in the October 5, 2012 issue of the *Texas Register* (37 TexReg 7980);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule texts and reasoned justification for their adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rules; and
- 4) Grants the presiding officer of the board the authority to sign an order showing the action of the board.

Tab 11

Teacher Retirement System of Texas



Legislative Overview

- Implementation of Legislation From 82nd Texas Legislative
- Session Preparation for the 83rd Texas Legislative Session.

Brian Guthrie
December 13, 2012



Legislative Overview

Implementation of Key Legislation from 2011 Session:

- TRS Board Composition – HB 2120
- Omnibus Bill – SB 1667
- Employment After Retirement – SB 1669
- School Year – HB 2561
- Cost of Service Credit – SB 1668
- Extension of Investment Authority – HB 1061



TRS Board Composition – HB 2120

- Changed the higher education appointee position to an at-large appointee position.
- At-large appointee position is eligible to be filled by any member who is employed by a public school or institution of higher education or any retiree of the system.
- Similarly, eligible voters in the at-large nominating election are members who are employed by a public school or institution of higher education and retirees of the system.



TRS Board Composition Implementation

- In November 2011, the Board adopted rule amendments to implement HB 2120.
- The amendments provide that the at-large position will not be filled until the term of the current higher education trustee expires in 2017.



Omnibus Bill – SB 1667

- Authorized TRS access to criminal history information for employees & applicants.
- Authorized TRS Trustees to participate in meetings of the TRS Board and Committees by telephone conference call with certain limitations and notice requirements.
- Provided limited protection of names of applicants for Executive Director, Chief Investment Officer, and Chief Audit Executive positions.



Omnibus Bill – SB 1667 (Cont'd)

- In relation to Qualified Domestic Relations Orders (QDROs), authorized TRS to:
 - accept court orders as QDROs without Social Security number in the order;
 - require use of the TRS model QDRO by parties; and
 - assess a fee on parties to the QDRO.
- Required members to notify TRS of service not reflected on annual statement within 5 years of when the service was rendered to preserve opportunity to have the service credited.
- Made minor changes to various beneficiary and administrative statutes.



Omnibus Bill Implementation

- Adopted policy and process changes where necessary for implementation (e.g., new HR policy on criminal background checks and new process for Trustees to participate in Board meetings via telephone conference call).
- Adopted (or in process of adopting) rule amendments where necessary (e.g. adopted rules regarding the requirement to notify for service credit not reflected in Annual Statement and in the process of considering rule amendments on use of model QDRO)
- Model QDRO form is currently being revised and new guidance posted on the website addressing Social Security numbers in QDROs.



Omnibus Bill Implementation (Cont'd)

- Conducted communication outreach regarding the requirement to notify for service credit not reflected on Annual Statement:
 - Website information posted immediately
 - *TRS News*
 - Rule revisions
 - Annual statement notification
 - *TRS Benefits Handbook* notification
 - *TRS Service Credit* brochure notification



Employment After Retirement – SB 1669

- Legislature repealed several specific exceptions allowing work after service retirement without loss of annuity payments (bus driver, acute shortage area, principal, etc.), as well as the exception allowing full-time employment for six months after a one-month break after retirement.
- Full-time employment now requires a 12-month break in service after retirement, then a retiree may work full time all year, without loss of annuities.



Employment After Retirement – SB 1669 (Cont'd)

- Half-time employment and work as a substitute are still allowed.
- Those who retired before January 1, 2011, may work in any capacity without loss of annuities (service retirement) with no 12-month break in service requirement.
- Surcharges still apply.
- New law took effect immediately.



Implementation of Employment After Retirement

- Adopted (or in process of adopting) rule amendments where necessary to implement statutory changes (e.g. TRS modified the one-half time rule to allow all retirees to work same amount of time and in process of considering rule amendments to synchronize definitions of “half-time” for EAR and “half-time” for surcharge applicability).
- TRAQs – TRS software for employer reporting – was modified and reporting official instructions were updated.
- Benefit Accounting staff training
- Counselor training.
- *TRS Benefits Handbook* revisions.



Implementation of Employment After Retirement (Cont'd)

- Communications Outreach:
 - TRS website provided immediate notice;
 - TRS also notified employers by email;
 - *TRS News* article summarized the legislation;
 - New Employment After Retirement brochure was published;
 - New Employment After Retirement information was developed for retirement packets for pending retirees; and
 - Meetings with retiree and active member associations were held.



Standardized School Year – HB 2561

- Old law allowed school year to be either Sept. 1 through Aug. 31 or the member's contract year, starting as early as July 1.
- HB 2561 requires standard school year of Sept. 1 – Aug. 31 starting with the 2012-2013 school year.
- Start and end of “school year” affect the year in which year the member's service and compensation will be credited.



Implementation of Standardized School Year

- Adopted rule amendments to implement legislation.
- Decision Repository clarification of treatment of 2012-2013 salary to address transition from “contract year” to standard school year (use the more advantageous salary calculation).
- TRAQs instructions.
- IT programming.
- Training for staff.
- *TRS Benefits Handbook* revisions.
- Communications Outreach:
 - Notice on website;
 - *TRS News* article;
 - *Update* (newsletter for reporting officials) article;
 - Meetings with member and retiree associations; and
 - Notice on Annual Statement mail-out to active members.



Service Credit Purchase Costs – SB 1668

- Bill increased costs for reinstated, developmental leave, out of state, and unreported service credit.
- Reinstated: fee increased from 6% to 8%; other three types of credit purchases changed to actuarial cost.
- Bill also required verification of unreported service or compensation within 5 years of the work, to preserve opportunity to purchase.
- Bill allowed a two-year window to purchase the credit at the lower cost; window ends August 31, 2013.



Implementation of Service Purchase Cost

- New billing forms and IT programming for increased cost
- In the process of adopting a Decision Repository clarification allowing members to pay bills at “old” cost or set up installment payment plans prior to the window closing in Summer 2013.
- *TRS Benefits Handbook* revisions.
- Communications outreach:
 - TRS website;
 - *TRS News*;
 - *TRS Service Credit* brochure update; and
 - Notice on Annual Statement to each active member



Extension of Investment Authority – HB 1061

- HB 1061 extended the date to September 1, 2019, for TRS's authority to use external managers and derivatives, and increased TRS's hedge fund allocation from 5% to 10%.



Implementation of Investment Authority

- Amended the Investment Policy Statement (IPS) effective October 1, 2011, to increase the authorized allocation to hedge funds from 4% to 9%. The authorized allocation in the IPS is 1% less than the statutory authorization so as not to risk exceeding the statutory cap.
- Changed asset allocation to differentiate between stable value hedge funds and directional hedge funds.
- As of August 31, 2012, the actual hedge fund allocation was 8.6%.
- As of November 27, 2012 (date this presentation finalized), the actual hedge fund allocation was 8.4% (unaudited).

Legislative Preparation for 2013 Legislative Session

Potential Issues and Requests:

- Budget Request Update
- Investments
- Public Information
- Ethics
- Board activities
- Confidentiality of TRS Employee Information
- Confidentiality of Membership Records
- Financial and Administrative
- Pension Benefits
- Health Benefits



Budget Request Update

- The FY 2014-15 Legislative Appropriations Request (LAR) as submitted in July contained the following notable elements:
 - Assumes a state contribution rate of 6.4% each year to the pension trust fund and payroll growth of 0% per year for public education and 2% per year for higher education.
 - An exceptional item request that the contribution rate be increased to 6.9% for FY 2014 and 7.4% for FY 2015. Each 1.0% increase costs approximately \$250 million per year in general revenue.
 - Assumes a state contribution rate of 1.0% for FY 2014 and 0.5% for FY 2015 for TRS-Care with the same payroll growth assumptions as noted above.
 - An exceptional item request to increase the state contribution rate by 0.5% in 2015, consistent with the statutory contribution rate of 1.0%. The cost is approximately \$125 million more in general revenue than the base request.
- The Legislative Budget Board will release their Legislative Budget Estimates in January 2013. This will create a new baseline for all agencies, including TRS, to request changes or additions.



Budget Request Update

- The Legislative Budget Board will release their Legislative Budget Estimates in January 2013. This will create a new baseline for all agencies, including TRS, to request changes or additions.
- TRS will have sufficient information in January 2013 to determine if TRS-Care will remain solvent through the FY 2014-15 biennium based on member enrollment in Medicare Advantage and Medicare Part D. However, there will be significant funding issues for FY 2016 and beyond.
- The administrative budget for TRS is funded entirely from the Pension Trust Fund and no general revenue is being requested. The FY 2014-15 request includes 13 additional FTEs for workload-related issues and a request for the second installment of funding for TEAM (\$25 million).
- Both administrative requests will be modified based on amounts included in the introduced bill, as well as Executive planning that will take place in January 2013.

Investments

- Currently, TRS is tracking and evaluating the impact of financial regulations (e.g. Dodd-Frank and Basel III) on investment operations and working with TRS advisors to ascertain the need to pursue legislation.



Ethics

- Seek changes to the impact of common law conflict of interest laws on TRS operations & trustees' ability to serve
- Consider seeking limited authority to accept gifts
- Examine simplifying TRS' complex ethics law provision, along the lines of ethics provision applicable to ERS.
- TRS would benefit from more flexibility to use recusal and disclosure as remedies when there are conflicts, as defined in current law



Board Activities

- Explore authorization to use closed session to meet with auditors (for example, discussion on fraud) and for procurement decisions where public discussion may competitively disadvantage TRS in the marketplace.
- Enhance flexibility of law on telephone participation in board meeting to allow invited speakers to address board by telephone, instead of videoconferencing.



Confidentiality of TRS Employee Information

- Conflicting language between TRS's enabling statute and the Public Information Act (PIA) has resulted in sensitive information (e.g. birthdates, Social Security numbers, etc.) for key employees being ruled public when the information would, otherwise, be confidential under the PIA.
- Seek changes to ensure that TRS employees receive the same level of protection for confidential information afforded other state employees under the PIA.



Confidentiality of Membership Records

- Last session, HB 2460 created a new, more protective, standard related to confidentiality of member records. That standard may be revised this session, and TRS will look for opportunities to maintain the standard in statute.
- Monitor open records bills for impact on confidentiality of membership records and offer suggestions for improvement as opportunities arise



Financial & Administrative

- Identify obsolete language regarding legislative appropriation of TRS operating budget and related provisions; may suggest clean-up to reflect actual budget process.
- TRS is not seeking any TEAM specific legislation this session but will continue to evaluate the statutory structures & requirements as TEAM progresses. As TEAM evolves, TRS may pursue statutory changes in subsequent sessions.



Pension Benefits

- Modify restrictions on changing beneficiaries in certain circumstances. This is a member friendly provision that will afford members greater flexibility in designating and changing beneficiaries.
- Address an unintended consequence of a 2005 statutory change. Legislation from 2005 inadvertently significantly reduced the amount of death benefit available when a member dies just short of normal age retirement.
- Minor clean-up or improvements:
 - Beneficiary-related provisions
 - Protecting TRS Medical Board members from subpoena, similar to ERS law; and
 - Eliminating obsolete provisions.



Health Benefits

- Modify eligibility for TRS-Care and TRS-ActiveCare to align with federal health care law.
- Clarify law on allowable contributions for optional coverage under TRS-Care.
- Be prepared to provide draft language needed to enact alternatives identified in the TRS-Care study, should legislature select an option identified by TRS.

Tab 13

Teacher Retirement System of Texas



December 13, 2012





Process for designation

- 138 nominations
- 85 designated Best Place to Work
 - Three categories
 - Small, medium, and large employers
 - TRS considered large employer
- Winners
 - Determined solely on employee feedback
 - Announced in November 25 Austin American-Statesman
 - Only State agency designated Best Place

Recognition



TRS Ranked in the Top Ten

Teacher Retirement System of Texas



General Counsel Selection Process

December 13, 2012





Requirements

■ Education:

- Bachelor's from an accredited 4 year college
- Juris Doctor degree

■ Licensing:

- Licensed to practice law in Texas, or
- The ability to obtain a license within six months of employment

■ Experience:

- Seven years of legal experience with progressively more responsibility
- Managing a legal staff of attorneys, paralegals, and support personnel



Preferred Experience

■ Preferred legal experience:

- Providing legal advice to a diverse group of clients including governing boards and high-level executives (public or private sector)
- Working with governmental entities, public pension funds, or state investment boards
- Rendering legal advice on employee benefits, healthcare, insurance, IRS requirements, securities issues, probate matters, community property, domestic relations, and administrative law
- Advising on or negotiating financial and investment transactions
- Advising clients on trust law concepts, fiduciary responsibility and ethics



Posting Timeline

- Position posted November 30, 2012 – December 28, 2012
 - Input from staff
 - Other public pension funds
 - TRS partners – Outside service providers
 - Board members
- Application Screening to be completed by January 15, 2013
- Telephone Screening of top candidates
- Assessments for top 5 candidates
- Interviews scheduled to begin February 1, 2013
 - Executive Counsel panel
 - Executive Director and Deputy Director will also interview
- Top two candidates presented to Chair and Vice Chair in February 2013
- Targeted start date: March-June 2013



Potential Advertising Sources

- Lawjobs.com
 - Texas Lawyer
 - National Law Journal
- National Assn. of Public Pension Attorneys
- National Assn. of State Retirement Administrators
- National Council on Teacher Retirement
- State Bar of Texas
- American Bar Association
- National Bar Association
- General Counsel Forum
- Twitter
- Facebook
- LinkedIn
- Association of Corporate Counsel
- Dallas Bar Association
- San Antonio Bar Association
- Austin Bar Association
- Houston Bar Association
- Austin American-Statesman

TRS Leadership Development Program

Teacher Retirement System of Texas



Overview

TRS interactive program to enhance professional leadership development

- Training
- Experiential activities
- Mentoring



Program Participants

- **19 Participants – Team Leaders and Individual Contributors**
- **360 Degree Assessments**
- **Individualized Development Plans**

3 Project Teams

- **Data Management**
- **Electronic Records**
- **Hiring and Selection Process**

January 2013 – Project presentations to Executive Council

- **Project overview**
- **Results**
- **Implementation**

February 2013 – Participant graduation
Next LDP Session 2014

Tab 14A

Independent Program Assessment Vendor Selection

Teacher Retirement System of Texas



- TEAM Program Organization: Projects
 - Pension Administration Line of Business Solution (LOB)
 - Data Management Project
 - Financial System Replacement Project
 - Organizational Change Management
 - Business Rules
 - Reporting Entity Outreach
 - Business Procedures and Training
 - TRS Website Enhancements
 - Legacy System Decommissioning
 - Maintenance & Enhancements New Solution
 - Independent Program Assessment (IPA)



IPA Vendor Selection

- TEAM Program Organization: Roles
 - Legislature - State of Texas Quality Assurance Team (QAT)
 - Trustees and Executive Director
 - IPA Vendor
 - TRS Enterprise Risk Management
 - Executive Steering Committee (ESC)
 - TRS Core Management Team (CMT)
 - » TRS Program Manager
 - » TRS Project Management Office

■ IPA Project Description

- Select experienced vendor to provide independent assessment to the Board of Trustees (quarterly) and Executive Director (monthly) of the risks and progress made to the TEAM Program.
- Accomplish objectives through gathering and analyzing information; and, making recommendations on significant activities within and relating to the successful outcome of the TEAM Program.
- Provide recommendations that will improve TEAM Program governance and management and advise on best practices in key areas.

■ IPA Selection Process

- June - August: Executive Steering Committee (ESC) discussed and finalized Request for Offer (RFO)
 - Appointed project sponsor
 - Established project scope
 - Appointed evaluation team
 - Established evaluation criteria and weighting
- September: Posted RFO
 - Held mandatory bidders conference with 30 companies attending
 - Provided written responses to submitted questions
- October - November: Selected finalists
 - Received and evaluated 8 responses meeting minimum qualifications
 - Interviewed 4 finalists
- December 14: Trustees consider selection for IPA vendor

Tab 14B

TRS BOARD OF TRUSTEES
DECEMBER 14, 2012

**RESOLUTION REGARDING SELECTION OF TEAM INDEPENDENT PROGRAM ASSESSMENT
SERVICES AND RELATED CONTRACT AUTHORITY**

WHEREAS, The Board of Trustees (“Board”) of the Teacher Retirement System of Texas (“TRS”) is engaged in an electronic pension administration system modernization effort, TRS Enterprise Application Modernization (“TEAM”);

WHEREAS, The Board has determined that it requires independent assistance with program assessment for the life of the TEAM program;

WHEREAS, Section 825.101 of the Texas Government Code states that the Board is responsible for the general administration and operation of the retirement system, and Section 825.103 of the Texas Government Code states that the Board has exclusive authority over the purchase of goods and services using trust funds and shall control all aspects of information technology and associated resources relating to the retirement system;

WHEREAS, TRS Bylaws subsection 1.8(j) provides that the Board is responsible for monitoring and evaluating the effectiveness of the retirement system;

WHEREAS, TRS Bylaws subsections 5.6(b) and 5.6(e) delegate authority to the Executive Director to contract for the purchase of services and the execution of vouchers for payments, in accordance with actions of the Board;

WHEREAS, TRS conducted a competitive procurement for TEAM independent program assessment;

WHEREAS, The Board wishes to authorize the Executive Director to enter into a contract for independent program assessment services for the TEAM program; now, therefore be it

Resolved, That the Board of Trustees of the Teacher Retirement System of Texas (the “Board”), pursuant to Sections 825.101 and 825.103 of the Texas Government Code, hereby authorizes the Executive Director or the Deputy Director of the Teacher Retirement System of Texas (“TRS”) to negotiate, with the assistance and advice of legal counsel, a contract with _____ to provide independent program assessment services to the Board for the life of the TEAM program; and, if negotiations are deemed in his or her discretion to be successful, then the Executive Director or the Deputy Director is hereby authorized to execute a contract on such terms and conditions as such officer may deem, in his or her discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents, including all future extensions or amendments to the contract, that such officer may deem necessary or appropriate to effect this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract or amendments.

Tab 15

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

MEETING AGENDA

**December 14, 2012 – 9:00 a.m.
TRS East Building – 5th Floor, Boardroom**

The Audit Committee will meet at 9:00 a.m. on Friday, December 14, 2012, in the 5th Floor Boardroom and conclude at approximately 10:30 a.m.

Representatives from the State Auditor's Office will provide the results of the financial audit of the fiscal year 2012 Comprehensive Annual Financial Report.

Mr. Joe Newton, Gabriel Roeder Smith & Company, and Mr. Don Green will provide a summary of the changes to Governmental Accounting Standards impacting pension accounting and financial reporting.

Representatives from CliftonLarsonAllen LLP will report on the status of the Telephone Counseling Center Performance Measure Audit and report on the results of the Internal Network Vulnerability agreed-upon procedures. Internal Audit staff will report on the results of the quarterly testing of compliance with the Investment Policy Statement.

The status of prior audit and consulting recommendations, a summary of the Fiscal Year 2012 Internal Audit Annual Report, and the quarterly internal audit status reports will also be presented.

Tab 17A

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TEACHER RETIREMENT SYSTEM OF TEXAS
BOARD REPORT
SUMMARY OF DISBURSEMENTS

PAGE 1

	June 1, 2012 through August 31, 2012		
	NUMBER OF	GROSS	AVERAGE
	PAYMENTS	PAYMENT TOTAL	PAYMENT
Service Retirees	8,985	21,940,904.48	2,441.94
Disability Retirees	229	272,770.73	1,191.13
Survivor Benefits	233	58,675.00	251.82
Survivor Benefit Lump Sum Payment	2,370	13,718,857.55	5,788.54
Life Annuity as Death Settlement	44	66,603.70	1,513.72
60 Monthly Payments as Death Settlement	44	52,203.88	1,186.45
Refund of Deposit as Death Settlement	156	2,554,839.21	16,377.17
Twice Annual Salary as Death Settlement	307	11,598,046.01	37,778.65
Lump Sum DROP Member Payment	30	4,656,241.75	155,208.05
5 Annual DROP Member Payments	1	55,746.61	55,746.61
10 Annual DROP Member Payments	1	22,639.41	22,639.41
60 Monthly DROP Member Payments	1	5,021.29	5,021.29
120 Monthly DROP Member Payments	4	7,426.02	1,856.50
DROP Payments to Beneficiary of Active Member			
12 Month Partial Lump Sum Option Payment	935	32,383,744.68	34,635.02
24 Month Partial Lump Sum Option Payment	542	38,332,679.28	70,724.50
36 Month Partial Lump Sum Option Payment	1,423	148,294,092.84	104,212.29
Totals:	15,305	274,020,492.44	17,903.98
Total Refunds:	37,814	322,552,019.29	8,529.96

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 17B

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

The Medical Board of the Teacher Retirement System of Texas met at 12:00 p.m. Tuesday, July 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. Beckie Smith, Legal Services, TRS
Ms. Liz Oliphint, Manager of Benefit Processing, TRS
Mr. Mike Rehling, Assistant Manager, TRS
Ms. Denise Hope, Benefit Consultant, TRS

Dr. Wilson called the meeting to order at 12:11 p.m.

1. REVIEW OF MINUTES FROM THE MAY 8, 2012 and the June 8, 2012 MEETINGS.

The minutes of the May 8, 2012 and June 8, 2012 meetings 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 12:23 p.m.
The meeting was re-opened at 12:42 p.m.

3. REVIEW OF DISABILITY STATISTICS.

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

4. COMPENSATION FOR MEDICAL BOARD MEMBERS UPDATE.

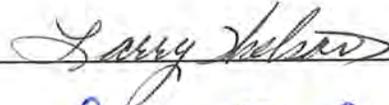
Liz Oliphint informed the Medical Board members that the agency's FY 2013 budget was approved by the Board of Trustees at their June meeting. The budget request did include a 10% increase in compensation for the Medical Board members. The increase will begin in September. Liz also told the Medical Board members that this was her last meeting, as she is retiring effective August 31, 2012. Mike Rehling is the new Manager for Benefit Processing and Adam Fambrough is the new Assistant Manager.

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

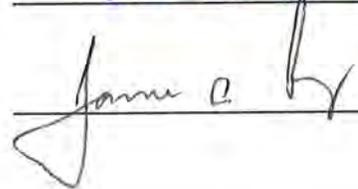
6. DISCUSSION OF THE DATE OF NEXT BOARD MEETING.

The next Medical Board meeting was scheduled for September 11, 2012.
The meeting was adjourned at 12:52 p.m.

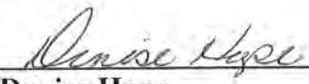
**Dr. Larry Wilson, Chairman
TRS Medical Board**







Attest:



Denise Hope

**TEACHER RETIREMENT SYSTEM OF TEXAS
MEDICAL BOARD MEETING
OPEN SESSION AGENDA
June 8, 2012**

In regard to the TRS Board of Trustees agenda item #1, the Medical Board of the Teacher Retirement System of Texas met at approximately 9:45 a.m., Friday, June 8, 2012 in the TRS offices.

The following Medical Board members were present:

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

The following Medical Board members were absent:

Dr. Larry Wilson, Austin

Others present:

Refer to the minutes of the TRS Board of Trustees for Friday, June 8, 2012.

Receive an overview of the TRS Medical Board, introduce Medical Board members present at the Board meeting, and discuss their duties on the Medical Board.

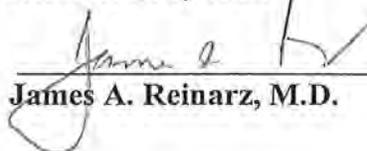
Medical Board members Dr. Alice D. Cox and Dr. James A. Reinartz participated in the June 8, 2012 meeting of the Board of Trustees of the Teacher Retirement System of Texas. No disability files were considered at this meeting. Marianne Woods Wiley, Chief Benefit Officer, reminded the trustees that, at their April meeting, they had expressed their desire to meet the Medical Board members and discuss their duties. Ms. Woods Wiley provided an overview of the Medical Board, including its structure, function and process. Drs. Cox and Reinartz introduced themselves. Responding to a question from trustee Chris Moss regarding the process for reviewing disability retirement applications and files, Dr. Cox and Ms. Woods Wiley explained that Medical Board members separately reviewed each application. Applications may be discussed, as needed, at meetings of the Medical Board. Dr. Reinartz stated that Medical Board members rarely differed with each other on their findings but, during their meetings, they discuss certain cases to avoid overlooking or misinterpreting a fact. Board Member Christopher Moss and Board of Trustees Chair David Kelly expressed their interest in supplemental or enhanced benefits for disability retirees and other TRS participants. Brian Guthrie, Executive Director of TRS, agreed to have staff present an overview of supplemental benefit options at a future meeting.

PG. 2 TRS Medical Board Minutes
June 8, 2012

Upon the conclusion of this Board of Trustees agenda item at approximately 10:00 a.m., the meeting of the TRS Medical Board was concluded.

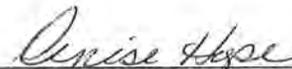


Alice D. Cox, M.D.



James A. Reinarz, M.D.

Attest:



Denise Hope

**TEACHER RETIREMENT SYSTEM OF TEXAS
MEDICAL BOARD MEETING
OPEN SESSION AGENDA
MAY 8, 2012**

The Medical Board of the Teacher Retirement System of Texas met at 12:00 p.m. Tuesday, May 8, 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
Ms. Denise Hope, Benefit Consultant, TRS

Dr. Wilson called the meeting to order at 12:11 p.m.

1. REVIEW OF MINUTES FROM THE MARCH 13, 2012 MEETING.

The minutes of the March 13, 2012 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 12:17 p.m.
The meeting was re-opened at 12:46 p.m.

3. REVIEW OF DISABILITY STATISTICS.

4. COMPENSATION FOR MEDICAL BOARD MEMBERS UPDATE.

Marianne Woods Wiley informed the Medical Board members that our budget request had been submitted to the Board of Trustees for their review. The budget request did include a proposal for an increase in compensation for the Medical Board members. Ms. Woods Wiley stated that the Board of Trustees would be reviewing the proposed budget for the entire agency at their meeting in June.

5. DISCUSSION OF MEDICAL BOARD INTRODUCTION TO THE BOARD OF TRUSTEES.

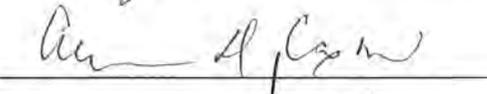
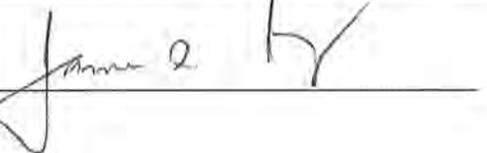
The Board of Trustees has asked to be introduced to the Medical Board at their next meeting scheduled for Friday, June 8, 2012. Marianne Woods Wiley will introduce the Medical Board members to the Board of Trustees and will provide an overview of the Medical Board, including its structure, function and the disability application process.

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

7. DISCUSSION OF THE DATE OF NEXT BOARD MEETING.

The next Medical Board meeting was scheduled for July 10, 2012.
The meeting was adjourned at 1:04 p.m.

Dr. Larry Wilson, Chairman
TRS Medical Board

Attest:


Denise Hope

Tab 18

**August 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: September 28, 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 August 2012 the Pension Trust Fund disbursed a total of \$4.3 million for administrative operations, which included approximately \$3.0 million for salaries & other personnel costs, \$0.2 million for professional fees, \$0.3 million for capital projects, and \$0.8 million for other operating expenses. Items of interest include payments of \$207,000 for investment counsel.

Additionally, disbursements for August 2012 for TEAM program expenses were \$250,000 for professional fees, and \$148,000 for other operating costs. Items of interest include payments of \$183,000 for TEAM program management and other consulting services, \$135,000 for an IBM Power 770 Server, software, and hardware maintenance, and \$68,000 for data management project 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 (a)	12,409,354	15,385,714
February	5,413,959	5,038,352
March	5,359,992	5,482,609
April	5,071,073	5,177,178
May	5,398,688	4,800,661
June	5,264,585	5,503,529
July	6,285,330	5,493,462 (b)
August	<u>4,733,034</u>	<u>5,830,201</u>
Totals	<u>\$ 74,094,530</u> (c)	<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 \$71,954,093 at July 31, 2011.

(c) Includes reimbursements of \$569,930.

September and October 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: November 30, 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 8, 2012, the board approved the Administrative Operations budget for fiscal year 2013.

During September 2012 the Pension Trust Fund disbursed a total of \$6.7 million for administrative operations, which included approximately \$4.6 million for salaries & other personnel costs, \$0.3 million for professional fees, \$0.4 million for capital projects, and \$1.3 million for other operating expenses. Items of interest include payments of \$232,000 for investment counsel, \$286,000 for leased space, and \$382,000 in software purchases and maintenance.

A total of \$7.3 million was disbursed for administrative operations in October 2012. Administrative operating costs included approximately \$3.9 million for salaries & other personnel costs, \$0.5 million for professional fees, \$0.9 million for capital projects, and \$2.0 million for other operating expenses. Items of interest include payments of \$388,000 for software purchases and maintenance and \$152,000 for leased space.

Additionally, disbursements for September and October 2012 for TEAM program expenses were \$116,000 for salaries & other personnel costs, \$259,000 for professional fees, and \$114,000 for other operating expenses.

**Pension Trust Fund
Cash Disbursements**

Month	Fiscal Year	
	2013	2012
September	\$ 6,956,188 (a)	\$ 6,793,546
October	7,261,226	6,450,857
November		4,929,626
December		5,984,486
January		12,409,354 (b)
February		5,413,959
March		5,359,992
April		5,071,073
May		5,398,688
June		5,264,585
July		6,285,330
August		4,733,034
Totals	<u>\$ 14,217,414</u>	<u>\$ 74,094,530 (c)</u>

(a) Includes reimbursements of \$256.30.

(b) Includes \$6.1 million in incentive compensation pay for FY 2012.

(c) Includes reimbursements of \$569,930.17.

Tab 19

Teacher Retirement System of Texas



Deputy Director's Report

Ken Welch

December 14, 2012



TRTA 2012 District Fall Conventions Update

DATE	DISTRICT	CITY	TRS PRESENTER
09-06-12	VIII	Mt. Pleasant	Spivey
09-19-12	XIV	Abilene	Spivey
09-21-12	XIII	San Marcos	Guthrie
09-24-12	XII	Waco	Welch
09-27-12	XV	Brownwood	Spivey
10-02-12	VII	Henderson	Spivey
10-03-12	VI	Huntsville	Guthrie
10-04-12	V	Beaumont	Zoga
10-08-12	XI	Fort Worth	Spivey
10-09-12	IX	Wichita Falls	Spivey
10-11-12	IV	Katy	Spivey
10-11-12	XX	Boerne	Zoga
10-11-12	XVII	Lubbock	Welch
10-15-12	X	Dallas	Welch
10-15-12	XVIII	Midland	Green
10-16-12	XIX	El Paso	Spivey
10-18-12	XVI	Amarillo	Spivey
10-26-12	I	Weslaco	Zoga
10-30-12	II	Corpus Christi	Green
10-31-12	III	Columbus	Zoga



- TEAM Program
- Backup Generator Installation
- Potential Dates for Trustee Tours - Red River Campus
 - Monday, January 14th
 - Thursday, January 17th
 - Wednesday, January 23rd
 - Thursday, January 24th

Tab 20

Teacher Retirement System of Texas



Executive Director's Report

Brian Guthrie

December 14, 2012



Director Update: National Presence

- Attended NCTR 90th Annual Conference in Tucson, AZ with Ms. Clifton, Ms. Sissney, Ms. Charleston, and Ms. Palmer.
- Upgraded NIRS membership to the “Visionary Circle”, which will allow us to have input on their research plan and national activities.
- NCTR/NASRA/NIRS Joint Legislative Conference will be held February 26-28, 2013 in Washington D.C. Details forthcoming.



Director Update: Legislative Activity

- November
 - Information Request from the Comptroller's Office
 - Senate State Affairs testimony on 11/19/12
 - Legislative staff briefing on 11/20/12
- 83rd Regular session begins on January 8, 2013
- A list of filed bills that impact TRS will be provided prior to each board meeting during the session
- Senate Committee Chairs are set; House Committees assignments will be completed by early February
- The Comptroller's Pension Report, which addresses all the statewide pension plans and several of the larger local plans in the state, can be found at:
<http://www.texas Transparency.org/yourmoney/>

Report to the Comptroller's Office

Comptroller Request on 11-09-2012

From: Susan Combs
Sent: Friday, November 09, 2012 11:53 AM
To: Susan Combs
Subject: Public Pension Plans

Ladies and Gentlemen:

My office is in the process of creating a new report relating to public pension plans in the State of Texas. We greatly appreciate your assistance in helping us obtain useful information as we finalize this report in the next few weeks. I am making this request for information under Chapter 552 of the Texas Gov't Code (the Texas Public Information Act).

For a better picture of your plan's rate of return over the last 10 years, we would like you to provide us with the following information, if available:

- One, three, five and ten-year annualized rates of return for the period ending Sept. 30, 2012; and
- Calendar year returns for each year from 2000 through 2011.

We sincerely appreciate your timely response to this request for public information. Please send your information to my email address at Susan.Combs@cpa.state.tx.us.

Thank you again and please let me know if you have any questions.

Sincerely,

Susan Combs
Texas Comptroller of Public Accounts

TRS Response on 11-13-2012



Teacher Retirement System

Below are investment returns for the Teacher Retirement System of Texas (TRS) as of September 30, 2012 and rolling 1 year investment returns as of December 31 from 2000 – 2011. These returns were calculated independently by our custodian, State Street Bank, using industry best practices. The returns are presented net of all external fees and expenses. TRS has a target annual return of 8.0%.

Total Fund Returns as of 09/30/12:

Period	Return
1 Year	15.33%
3 Years	10.40%
5 Years	2.46%
10 Years	8.27%

Calendar Year Returns:

As of:	1 Year Return
12/31/2000	-0.53%
12/31/2001	-4.88%
12/31/2002	-9.52%
12/31/2003	23.33%
12/31/2004	11.45%
12/31/2005	7.94%
12/31/2006	13.71%
12/31/2007	9.30%
12/31/2008	-27.21%
12/31/2009	20.24%
12/31/2010	14.72%
12/31/2011	1.85%





Director Update: Operations

- Building Security
- 11th Street Parking Garage Entrance
 - Striping of the street
 - Engineering solution
 - Mirrors
- State Street Visit in October
- Corrections to February 2011 Board minutes and August 2011 Audit Committee minutes (typos)
- Report to Audit Committee Chair on special travel is included with your electronic materials
- High-level meetings with Ontario Municipal Employees Retirement System (OMERS) to discuss strategic partnerships and knowledge exchange



Director Update: Goals for FY 2013

- Guide TRS through a successful Legislative session
 - Protect the fiduciary interests of the Fund
 - Educate and inform lawmakers
- Support the TEAM program by:
 - Securing essential resources required for successful completion of each phase
 - Completing all foundation work timely so that the Line of Business vendor contract is completed on time



Director Update: Goals for FY 2013

- Foster an agency culture that supports agility, competence, and accountability by:
 - Reviewing the agency's strategic plan and refining as needed
 - Educating managers on best practices for strategic planning
 - Assessing the agency's core values to ensure alignment with the TRS mission, vision, and strategies
 - Implementing a performance appraisal system that support's agency values and essential competencies
 - Soliciting structured input from Executive Council members regarding optimal organizational design (January 2013)
 - Continuing targeted communications with TRS professionals
 - Attracting and retaining a new general counsel for TRS



Director Update: Goals for FY 2013

- Resolve Open Records and media challenges around Investment-related requests from outside parties by:
 - Realigning or adding staff as necessary
 - Implementing more efficient processes and procedures, including automation
 - Creating and maintaining a “Super 16” resource for use in responding to requests

- Support TRS Board of Trustees by providing:
 - Educational opportunities related to investments and board responsibilities and duties
 - Clear and accurate information regarding TRS progress toward accomplishing business initiatives



January Agenda Overview

■ January

- Off quarter (one day) meeting. No committee meetings.
- No critical or time sensitive items are currently scheduled. Staff recommends that the board consider canceling this meeting.



February Agenda Overview

■ February

- 3 day “Board retreat” meeting. Held in Austin this year.
- No committee meetings. Board Agenda Includes the following:
 - Administrative matters.
 - Update on Organizational Initiatives
 - Primers on Benefits, Finance, Communications, Government Relations, Human Resources and other areas
 - Investments training from Dr. Brown



February Agenda Overview

- Presentation by the selected IPA Vendor for the TEAM Program.
- Consider TRS-ActiveCare PPO premiums and plan designs.
- Consider TRS-ActiveCare HMO premiums and plan designs.
- Consider enrollment periods for the TRS-ActiveCare 2013-2014 plan year.
- Receive an update on the TRS-Care Medicare Advantage and Prescription Drug Plans.
- Receive the actuarial valuation update (potential)
- Trustee tours will be scheduled in advance of February meeting.



February Agenda Overview

- Update on Dodd Frank .
- Oversight Panel, which provides an overview of the Internal Audit and Enterprise Risk Management functions.
- Training on ethics and fiduciary, including qualifications for office.
- Training on open meetings and open records.
- Receive Trustee educational opportunities calendar.
- Obtain Trustee input on Board Orientation materials.