

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

AGENDA

July 20, 2012 – 9:30 a.m.

TRS East Building, 5th Floor, Boardroom

The open portions of the July 20, 2012 Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' Web site at www.trs.state.tx.us.

1. Call roll of Board members.
2. Consider Board approval of the June 7-8, 2012 Board meeting minutes – David Kelly.
3. Provide opportunity for public comments – David Kelly.
4. Discuss and consider selecting Board fiduciary counsel, including receiving an overview on the responsibilities of fiduciary counsel and the process used to select the finalist firms, interviewing finalist firms for the position, and considering a resolution selecting fiduciary counsel – David Kelly.
5. Receive an update on the Executive Director's goals and initiatives for FY 2012 – Brian Guthrie.
6. Discuss and consider Board operational matters, including the following – Brian Guthrie:
 - A. Receive an overview of Board meeting agendas for the September 13-14, 2012 and November 2, 2012 Board meetings.
 - B. Consider canceling the November 2, 2012 meeting.
7. Review and consider the role, performance, and engagement of Board Investment Advisor, Dr. Keith Brown – Brian Guthrie.
8. Receive the report of the Policy Committee on its July 20, 2012 meeting – Todd Barth.
9. Receive the report of the Investment Management Committee on its July 20, 2012 meeting – Todd Barth.
10. Review performance of the custodial, securities lending, and related services provided by State Street Bank and Trust Company and consider authorizing the Executive Director to renew the Custody Agreement and the Securities Lending Agreement between State Street and the retirement system – Sylvia Bell and Scot Leith.

11. Discuss and consider a revised premium table and employer health benefit surcharge table for the TRS-Care program to include certain categories of coverage for the TRS-Care Medicare Advantage plans, in addition to those previously adopted by the Board in June 2012 – Betsey Jones.
12. Discuss and consider future enrollment opportunities for Express Scripts Medicare plan and for Aetna Medicare Advantage plans – Betsey Jones.
13. Receive an update on the legislatively-required Retirees Health Benefits Program (TRS-Care) study – Betsey Jones and William Hickman, Gabriel, Roeder, Smith and Co.
14. Receive an update on the legislatively-required Pension Benefit Design Study – Rebecca Merrill and Joseph Newton, Gabriel, Roeder, Smith and Co.
15. Consider the following statutory certifications of estimated state contributions – Don Green:
 - A. Consider certifying to the State Comptroller of Public Accounts the estimated amount of state contributions to be received by the retired school employees group health benefit fund for the fiscal year ending August 31, 2013.
 - B. Consider certifying to the Legislative Budget Board and the Office of the Governor the estimate of state contributions to be received by the retired school employees group health benefit fund for fiscal years 2014 and 2015.
 - C. Consider certifying to the State Comptroller of Public Accounts the estimate of state contributions to the Pension Trust Fund for fiscal years 2014 and 2015.
16. Receive an update on the development of the Legislative Appropriations Request for the 2014-2015 Biennium – Don Green.
17. Consider authorizing the Executive Director to purchase directors' and officers' and fiduciary liability insurance for fiscal year 2013 through the State Office of Risk Management – Ken Welch.
18. Consider a resolution authorizing the Executive Director to amend the actuarial valuation and pension consulting services contract with Gabriel, Roeder, Smith and Company to extend the contract term by one year – Ken Welch.

19. Receive a communications update, including the following items – Howard Goldman:
 - A. TRS' 75th anniversary.
 - B. Agency graphic design project.
20. Review 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.
21. Review the reports of the Chief Financial Officer – Don Green:
 - A. Report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.
 - B. Financial reports on TRS programs.
22. Review and discuss the Deputy Director's report, including an update on the TEAM Program and an update on the amendment of pension accounting and financial reporting standards by the Governmental Accounting Standards Board – Ken Welch.
23. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Discuss the process for conducting the Executive Director's annual performance evaluation and providing input to the Executive Director on the Chief Investment Officer's performance evaluation.
 - B. Retirement plan benefits and operations.
 - C. Investment activity and operations.
 - D. Health-benefit programs and operations.
 - E. Administrative operations, including financial, audit, legal, staff services, and special projects.
24. Consult with the Board's attorney in Executive Session on any item listed above as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.

Tab 2



Teacher Retirement System of Texas

Minutes of the Board of Trustees

June 7-8, 2012

The Board of Trustees of the Teacher Retirement System of Texas met on June 7, 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
Joe Colonna
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

TRS executives and staff:

Brian Guthrie, Executive Director
Ken Welch, Deputy Director
Conni Brennan, General Counsel
Howard Goldman, Director of Communications
T. Britton Harris IV, Chief Investment Officer
Jerry Albright, Deputy Chief Investment Officer
Jase Auby, Chief Risk Officer
Ashley Baum, Chief of Staff to the Chief Investment Officer
Sylvia Bell, Director of Investment Operations
Patricia Cantú, Director – Investment Business Management
Chris Cutler, Director of Network Infrastructure and Support
Dan Herron, Communications Specialist
Janis Hydak, Managing Director – Macro, Risk, Quant and Thematic Strategies
Dan Junell, Secretary to the Board and Assistant General Counsel
Eric Lang, Managing Director – Real Assets
Lynn Lau, Assistant Secretary to the Board and Program Specialist
Jay LeBlanc, Director of Risk Management & Strategic Planning
Steve LeBlanc, Senior Managing Director – External Private Markets
Rebecca Merrill, Special Advisor to Executive Director and Manager of Special Projects
Hugh Ohn, Director of Investment Audit and Compliance
Rhonda Price, Information Specialist
Sharon Toalson, Assistant to the Chief Investment Officer
David Veal, Incoming Chief of Staff to the Chief Investment Officer

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

Dr. Keith Brown, Investment Advisor
Steven Huff, Reinhart Boerner Van Deuren, Fiduciary Counsel
Steve Voss, Hewitt EnnisKnupp, Investment Counsel
Brady O'Connell, Hewitt EnnisKnupp, Investment Counsel
Craig teDuits, State Street
Jeff Lambert, State Street
Tim Lee, Texas Retired Teachers Association
Tom Rogers, Austin Retired Teachers Association
Jim Baker, Unite Here
Leroy DeHaven, Texas Retired Teachers Association
Ann Fickel, Texas Retired Teachers Association
Ted Melina Raab, Texas AFT
Eric St. Pierre, Aetna
Tathata Lohachitkul, Albourne

Mr. Kelly called the meeting to order at 3:05 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Ms. Clifton was absent.

2. Consider Board administration matters, including the following items – David Kelly:

A. Consider approval of the April 19-20, 2012 Board meeting minutes.

On a motion by Mr. Barth, seconded by Ms. Palmer, the board unanimously approved the April 19-20, 2012 board minutes as presented by staff.

B. Consider excusing a Board member absence from the April 19-20, 2012 Board meeting.

On a motion by Ms. Sissney, seconded by Mr. McDonald, the board unanimously excused the absence of Mr. Colonna from the April 19-20, 2012 board meeting.

3. Provide opportunity for public comments – David Kelly.

Mr. Kelly called for public comments. Mr. Jim Baker of United Here and Mr. Tom Rogers of Austin Retired Teachers Association distributed to board members materials relating to the Walton Street investment and the social benefits of a defined benefit plan, respectively. The submitted materials were also provided to the board secretary.

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

A. Recognize TRS as Private Equity International's LP of the year and recognize Steve LeBlanc.

Mr. Kelly announced that TRS had been recognized as the Limited Partner (LP) of the

Year by the *Private Equity International*. He presented the award to Mr. LeBlanc, who led the private markets team in the past four years. Mr. LeBlanc reiterated the accomplishments achieved by the private markets team and briefly mentioned the organizational changes that would occur after his departure from TRS. He expressed his appreciation for the opportunity to serve Texas public education employees. Board members, Mr. Guthrie, Mr. Harris, and Mr. Albright expressed their appreciation to Mr. LeBlanc for his contribution to the fund's success and acknowledged his accomplishments.

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

Mr. Brady O’Connell of Hewitt EnnisKnupp (HEK) presented HEK’s performance review of the TRS portfolio for the first quarter of 2012. He stated that the outperformance during the quarter was broadly distributed to a range of assets, including equities and commodities, and resulted in about \$7 billion value added to the net assets. He stated that the underweighting to the Long Treasury bonds and overweighting to tactical and absolute return investments helped generate a very favorable relative performance during the first quarter. He stated that the long-term performance had been favorable except in the five-year period, which was relatively modest. He stated that the Global Equity Portfolio had a 10.4 percent return, which outperformed its benchmark by 70 basis points; the Stable Value Portfolio outperformed its benchmark by 150 basis points despite its negative return of -2.2 percent. He reported a modest 3.9 percent return of the Real Return Portfolio during the first quarter with the benchmark at 3.1 percent, which added 80 basis points. He noted that the broad distribution of the outperformance was a favorable outcome.

Presenting the historical performance, Mr. O’Connell noted that the third quarter of 2011 was very difficult. He said that market value declined significantly but later recovered. He highlighted the aggregated performance of the Strategic Partnership Program during the first quarter of 2012, which outperformed its benchmark by 130 basis points.

C. Review Quarterly Portfolio Performance and Market Update – Britt Harris.

Mr. Harris provided an executive summary of the three-year performance ending March 31, 2012. He stated that the period was recovering after the global equity market bottomed out in 2008. He reported the fund achieved historic investment earnings of \$45 billion during the past three years. He stated that the fund had added value averaging 160 basis points per year and was ranked at 15th percentile among public funds greater than \$10 billion in assets by Trust Universe Companion Services (TUCS) and second of 66 funds on risk/return basis according to HEK’s report. Responding to a question from Mr. Barth regarding the dollar amount of alpha added each year over the past three years, Mr. Harris stated that the fund outperformed the average pension system in the universe of comparable funds by \$5.6 billion, of which about \$3 billion were attributable to the execution and about \$2.5 billion to the investment policy. He noted that 99.7 percent of the excess return accrued to the total fund assets and 0.3 percent was paid out to investment staff. He responded to Mr. Kelly that the 0.3 percent paid to investment staff was about \$13 million for the three-year period. Mr. Harris reviewed the challenging market conditions during the three-year period. He stated that the aggregated growth had helped sustain the fund’s position in the global equity regime. He also noted that global equity greatly

outperformed global government bond markets during the three-year period.

Continuing to review the three-year performance figures, Mr. Harris stated that the trust outperformed in 11 out of 14 asset classes during the period. He noted the outperformance of the international equity over U.S. equity. He noted the major modifications of the asset mix from March 2009 through March 2012, including the addition of the Directional Hedge Funds Portfolio, the increased private equity allocation, the increased long-term Treasury bond allocation resulting from a reallocation from dislocated credit, and the decreased allocation to Treasury Inflation-Protected Securities (TIPS) because of its low, long-term expected return. Presenting the fund's risk measures, he stated that the assets were managed within the normal 2 percent tracking error and 0.5 percent information ratio. He stated that the risk level was well controlled and as expected for the three-year period. He noted that private equity, real assets and commodities had deviated widely from the 2 percent tracking error because of the difficulty in benchmarking those assets. He concluded that during the three-year period, the Strategic Partnership Network (SPN) was up 20.2 percent per year; the External Public Market portfolios outperformed the market in five of six areas; and the Hedge Fund Portfolio had been restructured. He also noted that the trust outperformed in 79 percent of rising markets and 67 percent of falling markets. Mr. Harris stated that no bubble signal had been detected recently; equity was preferred over bonds, and international equity was preferred over U.S. equity. He stated that only 7 out of 23 recovery periods lasted longer than three years and the current recovery had lasted over three years. He stated that government economic and political factors would be increasingly influential. He also noted the depreciation of the U.S. dollar over the past three years. He further analyzed the domestic economic data from 2009 to 2012. He also summarized his analysis of the current financial calamity in the European Union. He compared the current bull market with all bull markets that had lasted at least three years from 1921 to date and the GMO 7-year forecasts of asset class returns.

Mr. Albright reviewed organizational changes in the Investment Management Division (IMD) since 2007. He noted that 68 employees had been added to the IMD since 2007 and their overall credentials. He stated that talent recruitment had been quite successful. He presented the major awards received by the IMD. He also presented the latest changes to the IMD organizational structure.

D. Receive the report of the Investment Management Committee on its June 7, 2012 meeting – Todd Barth.

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

The Investment Management Committee met on June 7, 2012. An overview of the external product market team was presented. First, Steve LeBlanc reviewed the accomplishments of the team since 2008, which were substantial.

An educational presentation regarding various topics affecting product markets was also made. Next, Rich Hall reviewed the private equity portfolios and Eric Lang reviewed the real asset portfolios.

5. **Receive the report of the Policy Committee on its June 7, 2012 meeting and consider related matters, including the following – Todd Barth:**
 - A. **Consider amendments to the Soft Dollar Policy.**
 - B. **Consider adoption of a customized Personal Financial Statement.**
 - C. **Consider making a fiduciary finding regarding business class travel.**
 - D. **Consider adoption of amendments to Rule 41.4 relating to the administration and processing of the return-to-work TRS-Care surcharge.**

Mr. Barth, Committee Chair, presented the following report of the Policy Committee:

The Policy Committee met on June 7 in the boardroom. After consideration of the April 2012 minutes, the committee recommended final adoption of the proposed amendments to TRS rule 41.4. Rule 41.4 governs the health benefits surcharge paid by a TRS-covered employer who hires a retiree enrolled in TRS-Care. The proposed amendments will streamline the administration of the rule and ease the reporting requirements on TRS retirees.

The committee then recommended board adoption of staff's proposal for a customized personal financial statement (PFS). Texas statute requires key employees to file a PFS with TRS. The customized PFS will not only require additional disclosures, but also make the form more user-friendly and reviewer-friendly.

Next, the committee received an update on and discussed the review of the investment policy statement (IPS). The committee will meet in July to discuss possible IPS amendments with adoption anticipated in September. Finally, the committee did not take up and hear committee agenda item number 4 regarding business class travel.

On a motion by Mr. Barth, seconded by Mr. McDonald, the board unanimously adopted the following resolution regarding TRS rule 41.4 as recommended by the committee:

Whereas, Section 1575.204 of the Texas Insurance Code requires that each state fiscal year, each employer who reports to TRS the employment of a retiree who retired from TRS on or after September 1, 2005 and is enrolled in TRS-Care shall contribute to the TRS-Care fund the difference, if any, between the contribution amount that the reported retiree is required to pay for coverage of himself and his dependents in TRS-Care and the full cost of coverage for the retiree and his dependents (hereinafter, the "health benefit surcharge");

Whereas, TRS-Care rule §41.4 provides details about the health benefit surcharge, including the responsibilities of employers and retirees with regard to the health benefit surcharge;

Whereas, Staff has recommended amendments to TRS-Care rule §41.4 in order to facilitate administrative efficiency, to promote more accurate payments of the health benefit surcharge, and to clarify and update the rule itself;

Whereas, Pursuant to the authority granted by the Policy Committee at its December 2011 meeting, TRS published proposed amendments to TRS-Care rule §41.4 for public comment in the January 6, 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 rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS-Care rule 34 TEX. ADMIN. CODE §41.4 as published in the January 6, 2012 issue of the *Texas Register* (37 TexReg 58);
- 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 text and reasoned justification for its 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 rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

On a motion by Mr. Barth, seconded by Mr. Moss, the board unanimously voted to adopt the following resolution adopting the customized personal financial statement as recommended by the committee:

Whereas, In accordance with Government Code Section 825.212(b), Teacher Retirement System ("TRS") employees who exercise significant decision-making or fiduciary authority shall file financial disclosure statements with TRS the content of which must comply substantially with the requirements of Subchapter B of Chapter 572 of the Government Code ("Subchapter B"); and

Whereas, The Board of TRS wishes to adopt a customized financial disclosure statement that substantially complies with Subchapter B and that will facilitate review of the statement and completion of the statement; now therefore be it

Resolved, That the Board adopts the customized financial disclosure statement (TRS Form 678) as presented by the staff to the Policy Committee; and further

Resolved, That the foregoing resolution is effective for the 2011 reporting year and shall remain effective until modified by the Board.

Mr. Barth stated that the committee also recommended at the April Policy Committee meeting that the board adopt amendments to the soft dollar policy at this board meeting. On a motion by Mr. Barth, seconded by Ms. Sissney, the board unanimously adopted the following resolution amending the soft dollar policy as recommended by the committee at the April Policy Committee meeting:

Resolved, That the Board of Trustees hereby adopts the amended Soft Dollar Policy, as presented to the Policy Committee on April 19, 2012 and recommended for adoption by the Policy Committee, with the recommended version of the Soft Dollar Policy, to be effective as of today's date, June 7, 2012.

Resolved, That the amended Soft Dollar Policy adopted effective as of June 7, 2012, supersedes in all respects all prior versions of the policy.

6. Consider ratification of the Executive Director's designation of additional key employees – Brian Guthrie.

Mr. Guthrie recapped that at the April board meeting, the board adopted a new designation of key employees and authorized the executive director to designate any employee as a supplemental key employee with a requirement that the designation would need to be presented to the board at the next board meeting for ratification. Mr. Guthrie explained why he had since added to the key employee list two employees and one position: Patricia Cantú and Stuart Bernstein and the position of "Chief of Staff to the Chief Investment Officer" (chief of staff to the CIO), which is part of the executive team in the Investment Management Division (IMD). He said that David Veal would become the chief of staff to the CIO in August 2012, and the incumbent, Ashley Baum, would move to a profit center in IMD. Mr. Albright confirmed for Mr. Colonna that the title and duties as the chief of staff to the CIO rotated every two years to an IMD employee who had served as a deputy chief of staff.

On a motion by Mr. Colonna, seconded by Mr. Moss, the board unanimously ratified the executive director's designation of Patricia Cantú, Stuart Bernstein, and the position of chief of staff to the CIO as supplemental key employees.

The board meeting was recessed at 5:00 p.m. on June 7, 2012.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on June 8, 2012 at 9:25 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
Conni Brennan, General Counsel
Howard Goldman, Director of Communications
Don Green, Chief Financial Officer
Jerry Albright, Deputy Chief Investment Officer
Betsey Jones, Director of Health Care Policy and Administration
Amy Morgan, Chief Information Officer
Marianne Woods Wiley, Chief Benefit Officer
Ashley Baum, Chief of Staff to the Chief Investment Officer
Michelle Bertram, Administrative Assistant, Communications
Mary Chang, Assistant General Counsel
Chris Cutler, Director of Network Infrastructure and Support
Jan Engler, Audit Manager
Edward Esquivel, Assistant Director, Health and Insurance Benefits Department
Tom Guerin, Manager, Benefit Counseling
Wm. Clarke Howard, Assistant General Counsel
Denise Hope, Benefit Consultant, Benefit Processing
Bob Jordan, Director, TRS Health & Insurance Benefits
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
Liz Oliphint, Manager, Benefit Processing
Barbie Pearson, Assistant Manager, Benefit Counseling
Charmaine Skillman, Assistant General Counsel
David Veal, Incoming Chief of Staff to the Chief Investment Officer
Yimei Zhao, Team Leader for Health Benefit Finance and Special Projects

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

Dr. Alice D. Cox, Medical Board member
Dr. James A. Reinartz, Medical Board member
Steven Huff, Reinhart Boerner Van Deuren, Fiduciary Counsel
Bill Hickman, Gabriel, Roeder, Smith & Company, Health Care Consultant
Lewis Ward, Gabriel, Roeder, Smith & Company, Actuary
Joe Newton, Gabriel, Roeder, Smith & Company, Actuary (by videoconference)
Amy Cohen, Gabriel, Roeder, Smith & Company
West Garrett, State Street

Tim Lee, Texas Retired Teachers Association
Ann Fickel, Texas Retired Teachers Association
Bill Barnes, Texas Retired Teachers Association
Ted Melina Raab, Texas AFT
Eric St. Pierre, Aetna
Pat Del Rio, Aetna
Sally Imig, Aetna
Bill Barnes, Texas Retired Teachers Association
John Grey, Texas State Teachers Association
Laura Zeller, UnitedHealthcare
Jane Funk, UnitedHealthcare
Curt Olson, Texas Budget Source
Jill Stearns, Express Scripts

1. Call roll of board members.

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

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

On behalf of the Texas Retired Teachers Association (TRTA), Mr. Tim Lee discussed TRTA's letter to the board concerning the investment performance incentive pay plan (plan). He suggested that 80-100 percent of the incentive compensation be tied to excess performance and the excess performance that triggers incentive compensation payment be set at least 20 basis points over the benchmark. He suggested that the board review the maximum award opportunity, which now could be up to 125 percent of the employee's base salary. Finally, he said, TRTA believes that incentive compensation should be limited to the individuals directly involved in making key investment decisions and the current policy of making all Investment personnel eligible should be reviewed. Mr. Barth said that he believed the incentive compensation plan was reasonable and effective, but he wanted to discuss the issues raised by TRTA when the board reviewed the plan at upcoming meetings. Mr. Guthrie stated that staff would present an overview of the plan to the board in July and any proposed changes would be presented to the board in September 2012. Mr. Lee stated that he recognized the importance of recruiting qualified investment personnel to manage the fund and appreciated the board's willingness to continue to address issues concerning TRS retirees.

Mr. Lee discussed TRTA's second letter to the board that includes ideas, questions, and concerns raised by TRTA members about the proposed introduction of a Medicare Advantage plan as part of TRS-Care. He expressed his appreciation to TRS staff for finding solutions to reduce health benefit costs for TRS retirees. He noted the importance of educating and communicating with members regarding the Medicare Advantage plans to put them at ease. He also requested that the questions raised in TRTA's letter be addressed if the board decides to adopt the Medicare Advantage plans. Mr. Guthrie assured that those questions would be addressed by the provider if a provider was selected. He stated that staff would continue seeking every opportunity to communicate with members about those issues. Mr. Kelly expressed his appreciation to Mr. Lee for his input from members' perspective. He stated that the board takes TRS members' health benefit plans seriously and would continue to provide them with the best benefits within the funding constraints, many of which he noted were unfortunately beyond the

board's control. He stated that the feedback given by TRTA was crucial in balancing many issues that the board had to consider to make the best decisions for the members.

On behalf of Texas American Federation of Teachers (AFT), Mr. Ted Melina Raab expressed Texas AFT's support for the proposed rates and benefits for TRS-Care as presented at the meeting of the Retiree Advisory Committee on June 1, 2012.

8. 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 – Marianne Woods Wiley.

Ms. Woods Wiley reminded trustees that at the April board meeting the board expressed their desire to meet the Medical Board members and discuss their duties. She stated that Dr. Alice D. Cox and Dr. James A. Reinartz were both present at this meeting. Ms. Woods Wiley provided an overview of the Medical Board, including its structure, function and process. Dr. Cox and Dr. Reinartz introduced themselves. Responding to a question from Mr. Moss regarding the process for reviewing disability retirement applications and files, Dr. Cox and Ms. Woods Wiley explained that Medical Board members separately reviewed and discussed them as needed at meetings of the Medical Board. Dr. Reinartz stated that Medical Board members rarely differed with each other on their findings, but they met when necessary to discuss certain cases to avoid overlooking or misinterpreting a fact. Mr. Moss and Mr. Kelly expressed their interest in supplemental or enhanced benefits for disability retirees and other TRS participants. Mr. Guthrie agreed to have staff present an overview of supplemental benefit options at a future meeting.

The board took up agenda item 9 and allowed a member of the public to testify at the meeting from a remote location by videoconference call, specifically to receive an update by Mr. Joe Newton of Gabriel, Roeder, Smith and Company (GRS) on the legislatively-required Pension Benefit Design Study (study).

9. Receive an update on the legislatively-required Pension Benefit Design Study – Rebecca Merrill and Joseph Newton, Gabriel, Roeder, Smith and Co.

Ms. Merrill introduced Ms. Ashley Baum, who led an investment team in modeling the investment aspects of the study, and Mr. Lewis Ward of GRS, who worked with Mr. Newton on the study.

Ms. Merrill stated the objectives of the current discussion and summarized the following key findings so far from the study being done by staff and GRS:

1. It is more expensive to provide the same level of benefits under the alternative structures than the current defined benefit (DB) plan administered by TRS.
2. Part of the DB plan's value is the efficiency of a centralized investment function.
3. Plans that have changed their structure from a DB plan to other plans have reduced benefits to engender savings.
4. The impact on unfunded liability varies depending on plan structure and benefits.

Ms. Merrill said that the study would also address retirement replacement income and identify human capital management issues.

Ms. Merrill explained the peer comparison study using a relative benefit index. She stated that the study compares TRS' base benefit level with that of other plans. The base benefit level, she said, is derived from the retirement benefits provided to a typical TRS retiree (age 62 with 32 years of service and final average salary of \$45,000). She noted that, unlike TRS, the base benefit of other comparable plans is supplemented by a cost-of-living adjustment (COLA) or Social Security benefit. She said that the study shows that TRS is not as generous as other state employee and teacher plans. Responding to a request from Mr. Kelly to compare benefit levels based on different periods in a retiree's life, Mr. Newton stated that he would provide the data for the board's reference. Mr. Newton noted that the plans included in the current study are basically teacher plans from the states surrounding Texas, including New Mexico, Colorado, Oklahoma, Arkansas and Louisiana. The study also includes the Employee Retirement System (ERS) of Texas. Responding to a question from Mr. Kelly as to whether the sample was sufficiently broad to avoid a biased comparison, Mr. Newton stated that the selection was based on a human capital perspective and considered comparable membership and regional factors. He noted that including largest plans across the nation—plans that offer much higher benefits—would make TRS' plan even more conspicuous as a less generous plan.

Ms. Merrill presented the chart comparing the future benefits of current new hires. She noted that TRS stayed at a score of 54 percent for new hires despite some changes made to the benefit structure in 2005, while one plan had significantly scaled back its benefits to new hires. Presenting the comparisons with municipal plans within Texas, she noted that some of those DB plans included cash balance plans.

Mr. Ward presented the actuarial modeling of benefit design structures, including the current TRS plan, a 100 percent pass-through cash balance plan, a DB/DC hybrid plan, a DC pooled funds plan, and a DC self-directed plan. He stated that the model set a score of 100 for a plan to produce the same level of TRS benefits at the same cost as TRS' current plan. He noted that the replacement ratio varies by an individual's retirement age. He said that, at various retirement ages under the model, almost every alternative plan costs more than TRS' current plan. Responding to a question from Ms. Sissney, Mr. Newton and Mr. Ward explained the cash-balance plan. Mr. Ward then compared the income replacement ratios for the alternative plans assuming they all cost the same as TRS' plan. He explained that TRS' current DB plan provides a higher benefit level at the same relative cost.

Mr. Ward described the effects different possible changes to TRS' current plan would have on the cost of a new hire, unfunded liability, 30-year employer contribution rate, and income replacement ratio for the typical retiree. The hypothetical changes, he said, involved retirement eligibility, accrual multiplier, salary averaging period and member contribution rate. He said that changing retirement eligibility would have the most significant impact. Responding to a question from Mr. Guthrie as to how a grandfather provision could be incorporated in the study, Mr. Newton stated that additional scenarios would be provided at a future meeting that included grandfather provisions. Responding to a question from Mr. Colonna as to why increasing the minimum retirement age by two years would make such a difference, Mr. Ward and Mr. Newton explained that delaying retirement produces significant savings to the fund

because the retiree would not fully recapture the two years' worth of benefits paid out over a lifetime, even though the additional years of service resulted in a higher annuity. Discussing the combined effect of the possible changes, Mr. Ward said that applying them all to all current active members without a grandfathering provision would have the greatest impact. He noted that applying the changes only to new hires would not decrease the UAAL.

Next, Mr. Ward discussed the impact of applying the proposed changes only to new hires. He explained that the UAAL would still need to be amortized if the current DB plan was closed to new entrants. Mr. Ward presented a chart showing that, if the plan received the 30-year annual required contribution, then the fund would gradually become 100 percent funded. Mr. Ward, Mr. Newton and Ms. Merrill discussed issues relating to the UAAL, including how to fill the gap between the 30-year actuarially determined contribution rate (ARC) of 8.13 percent of pay and the actual 6.4 percent contribution rate. They discussed the difficulties in switching to a different plan design closed to new hires, including contribution rates, amortization of unfunded liability, and payment of legacy and transition costs. Mr. Newton laid out the options for amortizing the unfunded liability and the factors to be considered in each option. Ms. Merrill briefly noted the legal questions relating to the constitutional limits on contribution rates and whether one can make contributions to one plan based on one's membership in a different plan.

Per Mr. Kelly's request, Ms. Merrill reviewed the legislative requirement that TRS report on the actuarial and fiscal impacts of potential changes to the current defined benefit plan, including changes to the DB structure and the actuarial and fiscal impacts of switching to a different plan design. Mr. Kelly and Mr. Barth discussed the extent to which the required study called for TRS to identify and address a problem, its causes and proposed solutions. Mr. Guthrie stated that the system was only instructed to provide the facts relating to the actuarial and fiscal impacts of the potential changes the legislature specified, and staff was trying to frame the study to identify whether a problem exists with the current plan structure. Ms. Sissney said that, despite the importance of basing scenarios and comparisons in the study on actuarial data, she was concerned about the variability of data over time and how changes in the data depending on when it was collected could affect the results of the study. Mr. McDonald stated that the study would be a chance to clarify misconceptions about different plans and their costs.

Presenting the total cost of closing the plan, Mr. Ward explained the way of calculating the total cost of the current DB plans for current members and a future DC plan for new hires. He compared the cost with the employer normal cost and the amortization cost in the current DB plan versus the employer normal cost on the closed DB participants, the DC contribution on new participants, and the amortization charge on the total payroll. He illustrated the projected cost for the year 2020 under that scenario with the assumption that the new DC plan had member contributions of 6.4 percent plus 100 percent employer match. Based on the comparison, he stated that the total cost difference between two plans would be about \$800 million. Responding to a question from Mr. Colonna, Mr. Ward clarified that benefits would differ widely under those two plans. Mr. Ward said that the major argument for switching to a DC plan is based on eliminating the risk to the state, not providing benefits to members.

Ms. Baum provided an overview of the impact of investment returns in the study. She explained the cash flow needs and investment cash flow assumptions used in the model. Mr. Ward noted that the issue with closing a plan was that at some point the investment structure of

the fund would need to be altered to ensure that cash would be available to pay benefits. Ms. Baum illustrated Mr. Ward's point and noted that the cash flow needs under the current plan would only be altered slightly from 2.5 percent to 3.1 percent at year 34. Under the scenario of a DC plan for both current and new participants, she noted, the cash flow needs would be 15.9 percent at year 1, and therefore the investment structure would need to be adjusted accordingly. She stated that the research done by staff indicates that institutionally managed DB systems had historically performed better for an average investor than self-managed investments. She explained the investment advantages of an institutionally managed DB plan. Concerning the approach of the study, she stated that, for each structure considered, the investment staff would model asset allocations, cash flows, investment returns, costs under a self-directed DC plan, and the likelihood of achieving the retirement income replacement target. She stated that the investment staff would submit their findings to the actuary and share the results of the initial discussions with the board at the next board meeting.

Ms. Merrill concluded the presentation by presenting the upcoming timeline for the study.

After the brief recess at 11:35 a.m., the meeting reconvened at 11:55 a.m.

Mr. Kelly announced that the board would take up agenda item 14.

- 14. Review the report of the Budget Committee on its June 7, 2012 meeting, and consider adoption of related matters, including the following – Nanette Sissney and Don Green:**
- A. Consider adoption of the proposed fiscal year 2013 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2013 budget.**
 - B. Consider adoption of the proposed fiscal year 2013 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans), including the optional long-term care insurance program.**
 - C. Consider adoption of the proposed fiscal year 2013 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.**

Ms. Sissney, Committee Chair, presented the following report of the Budget Committee:

The Budget Committee met on Thursday, June 7. The first item of business was the approval of the minutes of the April meeting.

After that Mr. Don Green provided an overview of the proposed FY 2013 operating budget. The total operating budget from all sources of funding is \$145 million, which includes \$82.5 million for administrative operations; \$21 million for TEAM; \$34.8 million for soft dollars; \$3.8 million for the operation of the TRS-Care; \$2.7 million for operations of TRS-ActiveCare; and an additional

\$59,000 for the 403(b) certification program.

Compared to FY 2012, the increase in the administrative operation budget is approximately 1 percent. Almost all of the increase is attributable to employer matching costs related to retirement, social security and health insurance.

For the TEAM budget it was noted that proposed FY 2013 budget is approximately \$21 million, which includes a carry-forward of \$7.4 million from FY 2012 and an increase of three positions, as previously authorized through the Legislative Budget Board.

For the soft dollar budget, a total of \$34.8 million was being requested, in line with the changes to the soft dollar policy, which should allow the generation of increased revenues related to Section 28(e) arrangements and will be spent on allowable investment expenditures, such as professional fees, subscriptions, and reference information software and contracted services.

Mr. Green explained that the requested increase to the administrative budget for TRS-ActiveCare is almost identical to the decrease requested for the administrative budget for TRS-Care because the external claims and rebate audit is performed in the first year of the biennium for TRS-Care and in the second year of the biennium for TRS-ActiveCare. The committee discussed and considered the proposed budget.

On a motion by Ms. Sissney, seconded by Mr. Barth, the board unanimously adopted the fiscal year 2013 administrative operations budget for the pension trust fund, the TRS health benefits fund, retired and active, including the long-term care insurance program as presented and the general provisions described on pages 2.1 and 2.2 of the budget document in the Budget Committee Book.

On a motion by Ms. Sissney, seconded by Mr. Moss, the board unanimously adopted the following resolution authorizing transfer pension trust funds to the TRS expense account for the pension administrative operation expenses under the approved fiscal year 2013 budget:

Whereas, Section 825.404(d) of the Government Code says the Legislature shall appropriate from the general revenue fund a specified amount of money to be used to pay operating expenses of the Teacher Retirement System of Texas (retirement system or TRS) for each fiscal year;

Whereas, No funds from the general revenue fund were appropriated to pay operating expenses of the retirement system for fiscal year 2013; and

Whereas, Section 825.312 of the Government Code provides that the retirement system shall pay from the expense account of the retirement system account for the pension trust fund all administrative expenses of the retirement system that exceed the amounts appropriated under Section 824.404(d) and that are required to perform the fiduciary duties of the board;

Whereas, Section 825.313(d) of the Government Code provides that the TRS Board of Trustees (board) may authorize transferring from the interest account to the expense account of the retirement system an amount necessary to cover TRS' operating expenses for the fiscal year that exceed the amount of operating expenses appropriated under Section 825.404(d) and that are required to perform the fiduciary duties of the board; now, therefore, be it

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in fiscal year 2013 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$86,764,394 plus the unexpended balance from the FY 2012 TEAM capital budget and any expense reimbursements or expense recoveries received, as approved today in the Fiscal Year 2013 Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amount as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in fiscal year 2013, if any; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and

Resolved, That the staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the expenses of the retirement system under the approved budget for fiscal year 2013, but not to exceed the amount of \$86,764,394 plus the unexpended balance from the FY 2012 TEAM capital budget, any expense reimbursements or expense recoveries received, any additional amounts necessary to pay performance incentive compensation payable in fiscal year 2013 and, as applicable, to achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by the General Provisions adopted by the board.

Ms. Sissney continued the committee report as follows:

Mr. Green explained that the agency is beginning to feel the impact of TEAM and other workload drivers. The various divisions of the agency requested a total of 64 FTEs. An analysis of the amount of overtime and compensation time being accumulated from September to April of FY 2012 was determined to be equivalent to approximately 23 additional FTEs.

Given the current economic situation of the fund and the overall state economy, it was determined that only the most critical subset of positions would be requested, and this analysis recommends 13 such positions, so that is what TRS will ask for in its Legislative Appropriations Request (LAR) this year.

In an effort to reach actuarial soundness with the pension trust fund, the appropriations request will include exceptional item requests sufficient to fund a 6.9 percent contribution rate for FY 2014 and a 7.4 percent contribution rate for

FY 2015.

For the TRS-Care program the request will include a state contribution rate of 1 percent for both years of the biennium.

There was further discussion with Mr. Guthrie, Mr. Welch, and Mr. Green with regard to fiscal year 2014-2015 and the legislative appropriation request.

Mr. Kelly announced that the board would take up agenda items 10 and 11 and Ms. Clifton would preside over this portion of the meeting as Vice Chair of the board.

10. Discuss and consider the following TRS-Care matters – Betsey Jones and William Hickman, Gabriel, Roeder, Smith and Company:

Ms. Jones reviewed the board's selection of the pharmacy benefit manager (PBM) for TRS-Care and establishment of the Employer Group Waiver Plan (EGWP)/wrap option in February. She stated that staff projected that the TRS-Care fund balance would become insolvent after 2014 with a deficit of \$641 million. She profiled the TRS-Care plans: TRS-Care 1, TRS-Care 2 and TRS-Care 3. She noted that the retiree premiums for the optional coverage were based on the individual's Medicare status and years of service. She reviewed the riders to the current general appropriations act concerning TRS-Care. She said that Medco, which the board selected as the PBM for TRS-Care in February, had since been purchased by Express Scripts and therefore Express Scripts would be the PBM for TRS-Care effective September 1, 2012. She stated that the EGWP option would generate significantly more savings to the plan compared with the retiree drug subsidy (RDS) option. She stated that staff would present today a proposal of establishing the Medicare Advantage (MA) plans, which would be discussed further when the board took up agenda item 10B.

A. Receive the report on the June 1, 2012 Retirees Advisory Committee.

Ms. Jones presented the agenda of the Retiree Advisory Committee (RAC) meeting on June 1, 2012. She stated that the committee discussed the topics in the current agenda item. She stated that staff also provided the committee recommendations relating to the MA plan, Medicare Part-D plan, and benefits and premiums for TRS-Care plans. She stated that the RAC responded favorably to staff's recommendations. She noted that staff also provided an update on the TRS-Care study.

B. Adopt a vendor for fully-insured Medicare Advantage Plans for the retirees health benefits program (TRS-Care).

Ms. Jones presented a memo to the board laying out the process for selecting the MA plan carrier. She stated that staff received proposals from Aetna, Humana, and United Healthcare. She explained the process for evaluating the proposals. She stated that the evaluation team was comprised of three voting TRS senior staff members, supported by five other TRS employees (from Health & Insurance Benefits, Legal, Internal Audit, and Purchasing) and a team provided by GRS. She announced that the evaluation team unanimously voted to recommend Aetna as the MA plan carrier based on their competitive price quote and favorable service record with TRS-Care retirees. She stated that, if approved, the contract would be effective January 1,

2013. Ms. Jones also presented a memo from Mr. Hickman, TRS' health benefits consultant. Mr. Hickman noted that communication and education would be crucial during implementation.

Ms. Jones provided an overview of the MA plans for TRS-Care. Responding to a question from Ms. Sissney and Mr. Barth, Ms. Jones confirmed that the contract term would be two years with four optional one-year renewals. She confirmed for Ms. Sissney that the contract would include an option to terminate with a 90-day notice at no cost to TRS. Responding to a question from Ms. Sissney as to whether the plan still could generate savings to participants if the enrollment level was low, Ms. Jones confirmed that it still would generate savings regardless of the enrollment. Ms. Jones responded to Ms. Palmer that members could opt out their individual participation without affecting the membership as a whole. Ms. Jones confirmed for Mr. Moss that Aetna had always provided excellent customer service for TRS retirees in the past.

On a motion by Mr. Barth, seconded by Mr. McDonald, the board unanimously adopted the following resolution to select Aetna as the MA Plan carrier for TRS-Care:

Whereas, Chapter 1575, Texas Insurance Code, authorized 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 staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS"), have recommended that beginning January 1, 2013, TRS-Care offer qualified fully-insured Medicare Advantage plans to eligible TRS-Care 2 and TRS-Care 3 participants who have Medicare Parts A and B;

Whereas, TRS issued a Request for Proposals ("RFP") to entities interested in providing coverage in qualified fully-insured Medicare Advantage plans (the "Medicare Advantage services");

Whereas, TRS received responsive proposals from several entities to provide the Medicare Advantage services;

Whereas, TRS staff and GRS have discussed the proposals with the TRS Board of Trustees (the "Board"), provided relevant information to the Board, and made a recommendation to the Board concerning the selection of a Medicare Advantage carrier; and

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

Resolved, That the Board hereby selects Aetna Life Insurance Company to be the Medicare Advantage carrier to provide, implement, and administer coverage in qualified, fully insured Medicare Advantage plans for TRS-Care beginning on January 1, 2013, subject to negotiation and execution of a final agreement for a two-year term to commence on January 1, 2013, with four optional one-year renewals; and

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

Mr. Guthrie invited Mr. Eric St. Pierre, Aetna's representative, to give a profile of Aetna and their plan to manage the MA plans for TRS. Per Mr. Guthrie's request, Mr. St. Pierre explained the provider network under the program. Mr. St. Pierre stated that the plans would provide an extended service area, in which the in- and out-of-network benefits would be the same. He stated that members would be encouraged to go to an in-network provider, but they could still see an out-of-network provider if the provider would accept the Medicare terms. He stated that Aetna had supported the TRS-Care program for over 25 years and had a strong relationship working with the provider community and would be dedicated to keep the disruption to the TRS-Care retirees at its minimum. Responding to a question members had in terms of the complexity of the referral system, Mr. St. Pierre clarified that no referrals would be required and it was an open-access program. Responding to a question from Mr. Kelly, Ms. Jones stated that the contract negotiating process could be started on this day. Mr. St. Pierre explained the source of cost savings. He stated that participants enrolled in an MA plan could receive better benefits at a lower cost because the plan could help them manage their health conditions.

C. Adopt premiums and plan design for fully-insured Medicare Advantage Plans for the retirees health benefits program (TRS-Care).

Ms. Jones explained the eligibility and enrollment process of the MA plans. She noted that the plans would combine Medicare and TRS-Care into one. She also laid out some of the communication strategies staff would use to educate and communicate with all retirees about the new plans. She presented the advantages of joining an MA plan. She stated that the deductible and out-of-pocket maximum for the 2012 plan year would be extended to December 31, 2012.

Presenting the projected savings under the program, Mr. Hickman stated that the plan would save over the two-year period about \$150 million if the enrollment reached 60 percent, and about \$250 million at full participation. Ms. Jones referred the board to the exhibits with the premium chart, proposed plan design and current plan design for TRS-Care 2 and 3 for cost and benefit comparisons. She also presented the automatic enrollment and opt-out provisions. Responding to a question from Ms. Palmer as to how the new plans would affect the sustainability of TRS-Care, Mr. Guthrie projected that participation in them would generate savings for the TRS-Care fund and postpone its depletion. He said that the recommended design for the MA plans would offer incentives like premium discounts to encourage and retain participation. Responding to a question from Ms. Palmer about whether eliminating the premium

discount would increase savings to the fund, Mr. Guthrie stated that staff believed that the savings realized from increased participation outweighed any increased revenue gained by not offering it. He responded to Ms. Palmer that the current analysis is based on the assumption that the legislative contribution to the TRS-Care fund would be at least one percent. He stated that staff would request a contribution based on the most conservative participation level between 50 to 60 percent with a note that staff was conducting a study on the long-term options for the sustainability of the plan, which would be part of the discussion during the upcoming legislative session, he said. Responding to a question from Ms. Palmer, Mr. Guthrie stated that if the state contribution is only half a percent, it would shorten the life of the fund. Ms. Jones confirmed for Mr. Moss that the premium discount would not be given to those who are not eligible for Medicare or choose to opt out of the MA plans. Mr. Kelly opined that the MA plans were part of a larger initiative to reduce operating costs without sacrificing benefits. Responding to a question from Ms. Sissney relating to members' skeptical view on the possibility of receiving higher benefits at a lower cost under the MA plans, Mr. St. Pierre provided one of the successful examples in which a fund participated in the MA plans and resulted in a lower cost and higher member benefits and satisfaction. Responding to a question from Mr. McDonald regarding re-enrollment, Ms. Jones stated that the current plan was to have an annual enrollment period so that those who chose to opt out could enroll into the plan at a later time. Responding to a question from Mr. Colonna, Ms. Jones stated that when a retiree first became eligible for Medicare and was already in TRS-Care, the retiree would have received materials from TRS-Care informing them that their premiums would decrease and they had an opportunity to upgrade their coverage when they turn 65. She noted that retirees who did not contribute to Medicare would not be eligible for Medicare Part A but could buy Part B, which would reduce their TRS-Care premium. She clarified that people who paid Medicare taxes while working did not need to pay a Part A premium. She noted that most retirees buy Part B. Ms. Jones confirmed for Ms. Palmer that participants who selected TRS-Care 1 would not be eligible for the MA plans while TRS-Care 2 participants could enroll in the TRS-Care 2 MA plan but not upgrade to TRS-care 3 MA plan, and likewise TRS-Care 3 participants could enroll in the TRS-Care 3 MA plan. She stated that currently a retiree must be at least 65 years old to have an opportunity to enroll in a MA plan. Responding to a question from Ms. Palmer about how many MA-plan participants left and returned to their previous plan, Mr. St. Pierre stated that the satisfaction in the MA plans was generally very high and the number of MA participants who discontinued their enrollment had been insignificant. He noted that participants would be given an option to opt out of the MA plan at any point in time.

On a motion by Mr. McDonald, seconded by Mr. Moss, the board unanimously adopted the following resolution approving the premium rates, benefit design, and automatic enrollment for the MA plans in the TRS-Care program:

Whereas, Chapter 1575, Insurance Code, authorized 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, During its June 2012 meeting, the TRS Board of Trustees ("Board") selected a Medicare Advantage carrier for TRS-Care, to provide coverage in qualified fully-insured Medicare Advantage plans to eligible

TRS-Care 2 and TRS-Care 3 participants who have Medicare Parts A and B;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS"), have recommended that for the plan year commencing on January 1, 2013, a set of premium rates for the Medicare Advantage plans, as listed in Exhibit A attached to this resolution and incorporated herein by reference, be adopted by the Board;

Whereas, TRS staff and "GRS, have recommended the proposed benefit designs, as set out in Exhibit B attached to this resolution and incorporated herein by reference, be included in and adopted by the Board as a part of the Medicare Advantage plans that will be available to certain TRS-Care enrollees for the plan year commencing on January 1, 2013;

Whereas, TRS staff and GRS have recommended that for the plan year commencing on January 1, 2013, a set of automatic enrollment and opt out provisions concerning the Medicare Advantage plans, as set out in Exhibit C attached to this resolution and incorporated herein by reference, be adopted by the Board; and

Whereas, The Board desires to adopt the recommendations of TRS staff and GRS; now, therefore, be it

Resolved, That for the plan year commencing on January 1, 2013, the Board hereby adopts and authorizes the set of premium rates for the TRS-Care Medicare Advantage plans as listed in Exhibit A, to remain in effect thereafter until further action by the Board;

Resolved, That the Board hereby adopts and authorizes, as a part of the Medicare Advantage plans that will be available to certain TRS-Care enrollees for the plan year commencing on January 1, 2013, the inclusion of the proposed benefit designs, as set out in Exhibit B, to remain in effect hereafter until further action by the Board;

Resolved, That for the plan year commencing on January 1, 2013, the Board hereby adopts and authorizes the set of automatic enrollment and opt out provisions concerning the Medicare Advantage plans as set out in Exhibit C, to remain in effect thereafter until further action by the Board; and

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable to implement the premium rates, the benefit designs, and the automatic enrollment provisions, as adopted or authorized herein, and to otherwise create, implement, and continue the Medicare Advantage plans until further action by the Board.

D. Adopt premiums and plan design for Medicare Part D Employer Group Waiver Plans (EGWP) plus wrap for the retirees health benefits program (TRS-Care).

Ms. Jones reviewed the board's action at the February 2012 meeting to establish in TRS-Care the Medicare Part D Employer Group Waiver Plans (EGWP) plus wrap (the Medicare Prescription plans). She summarized the eligibility, enrollment, incentive, and benefit provisions of the Medicare Prescription plans. Ms. Jones addressed the pending legal challenge to the constitutionality of certain provisions of the federal Affordable Care Act (ACA) and the possible ramifications to TRS-Care. She explained that, if a decision by the U. S. Supreme Court modifying or overturning the ACA made the new Medicare Prescription plans more expensive for participants than the current Retiree Drug Subsidy ("RDS") Program, then staff recommends reverting back to the RDS Program.

Mr. Hickman laid out the savings estimated under the Medicare Prescription plans, assuming different levels of participation. He and Ms. Jones noted that those savings do not include the approximate \$75 million in savings expected over the biennium from switching to the new PBM, Express Scripts, effective September 1, 2012. Responding to a question from Mr. Kelly regarding the statistics on improving patient health outcomes, Mr. Hickman stated that the disease and care management provided by the plans would in the long run generate savings through lower utilization. He confirmed for Mr. Kelly that actual data on the effect of participating or not in disease and care management programs can be tracked and compared over time. Ms. Jones confirmed for Ms. Palmer that retirees who are not eligible for Medicare cannot enroll in the Medicare Prescription plans.

Ms. Jones presented GRS' recommendation and staff's proposed resolution. She noted that the PBM's name in Exhibit A would need to be changed from "Medco" to "Express Scripts." She confirmed for Ms. Sissney that no change would be needed for Exhibit B. On a motion by Mr. Moss, seconded by Mr. Barth, the board unanimously voted to adopt the following resolution approving benefit designs and automatic enrollment for Medicare Prescription Plans in the TRS-Care Program, with the name changed from "Medco" to "Express Scripts" in Exhibit A to the resolution:

Whereas, Chapter 1575, Insurance Code, authorized 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, During its February 2012 meeting, the TRS Board of Trustees ("Board") adopted the establishment in TRS-Care of an Indirect Employer Group Waiver Plans with a benefit Wrap ("Medicare Prescription plans");

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS"), have recommended the proposed benefit designs, as set out in Exhibit A attached to this resolution and incorporated herein by reference, be included as a part of the Medicare

Prescription plans that will be available to certain TRS-Care enrollees for the plan year commencing on January 1, 2013;

Whereas, TRS staff and GRS have recommended that for the plan year commencing on January 1, 2013, a set of automatic enrollment and opt out provisions concerning the Medicare Prescription plans, as set out in Exhibit B attached to this resolution and incorporated herein by reference, be adopted by the Board;

Whereas, TRS staff and GRS have recommended that the Executive Director or his designees should be allowed to take any actions that are necessary or advisable for the TRS-Care program to continue to use the Retiree Drug Subsidy ("RDS") Program with regard to the drug claims of those Medicare eligible individuals who choose to not enroll in the TRS-Care Medicare Prescription plans or who choose to opt out of enrollment in the TRS-Care Medicare Prescription plans;

Whereas, TRS staff and GRS have recommended that if the Patient Protection and Affordable Care Act, Public Law No. 111-148, as modified by the subsequently enacted Health Care and Education Reconciliation Act of 2010, Public Law No. 111-152 (together, the "PPACA"), is overturned or modified and such action causes the use of the TRS-Care Medicare Prescription plans to be economically inferior to the use of the RDS Program, then the Executive Director or his designees should be allowed to take any actions that are necessary or advisable for the TRS-Care program to adjust its use of the RDS Program, including the termination of the Medicare Prescription plans; and

Whereas, The Board desires to adopt the recommendations of TRS staff and GRS; now, therefore, be it

Resolved, That the Board hereby adopts and authorizes, as a part of the Medicare Prescription plans that will be available to certain TRS-Care enrollees for the plan year commencing on January 1, 2013, the inclusion of the proposed benefit designs, as set out in Exhibit A, to remain in effect hereafter until further action by the Board;

Resolved, That for the plan year commencing on January 1, 2013, the Board hereby adopts and authorizes the set of automatic enrollment and opt out provisions concerning the Medicare Prescription plans as set out in Exhibit B, to remain in effect hereafter until further action by the Board;

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable to implement the benefit designs and the automatic enrollment provisions, as adopted or authorized herein, and to otherwise create, implement, and continue the Medicare Prescription plans until further action by the Board;

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that are necessary or advisable for the TRS-Care program to continue to use the RDS Program with regard to

the drug claims of those Medicare eligible individuals who choose to not enroll in the TRS-Care Medicare Prescription plans or who choose to opt out of enrollment in the TRS-Care Medicare Prescription plans; and

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that are necessary or advisable for the TRS-Care program to adjust its use of the RDS Program, including the termination of the Medicare Prescription plans, if the PPACA is overturned or modified and such action causes the use of the Medicare Prescription plans to be economically inferior to the use of the RDS Program.

Mr. Hickman presented the savings under the MA plans and prescription drug plan for the four-year period. He noted that the amount of revenue that both plan managers, Aetna and Express Scripts, would receive from the Center for Medicare and Medicaid Statistics (CMS) was currently unknown. He stated that if both plans could reach 80 percent participation, the TRS-Care fund would be solvent through FY 2015.

E. Adopt premiums and plan design for TRS-Care 1, 2, and 3 under the retirees health benefits program (TRS-Care).

Ms. Jones presented the proposed premiums and benefits for TRS-Care 1, 2, and 3. She profiled the TRS-Care plans and recapped the intent of the legislature that the premiums not be increased for TRS-Care for the 2012-2013 biennium. She stated that staff proposed keeping premiums at the same level while expanding preventive services. She noted that the generic co-pay waiver program would continue next year and a co-pay incentive program would be added to encourage participation in a disease management program by the non-Medicare population. Per Mr. Moss' request, Mr. Jordan explained the incentive for disease management. He stated that in light of the significant cost savings for the plan under Aetna's disease management program, the plan would waive the co-pays for tier 1 and tier 2 drugs as long as Aetna certifies that they are engaged with a disease management nurse and in compliance with the clinical therapy. Mr. Hickman noted that GRS' analysis had included recognition of a half percent reduction in state funding for the 2013 fiscal year and additional funding of \$96.6 million as a result of the rider to the general appropriation act. He said that, taking into consideration the savings to TRS-Care produced by the transition to Express Scripts as the plan's PBM and the implementation of both the MA and Part D plan initiative, GRS recommended no change to the premiums and to add the preventive services for TRS-Care 1, 2, and 3 through August 31, 2013. Mr. Guthrie confirmed for Mr. Kelly that the current proposal relating to premium and benefits is separated from the funding request. On a motion by Ms. Clifton, seconded by Mr. McDonald, the board voted to adopt the following resolution approving premium rates and benefit plan design for TRS-Care 1, 2, and 3:

Whereas, Chapter 1575, Insurance Code, authorized 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, Due to the funding available to TRS-Care, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS") have recommended that for the 2013 plan year, beginning September 1, 2012, premium rates at all levels of coverage in TRS-Care 1, 2, and 3 remain unchanged from the current premium rates for the 2012 plan year, as set out in Exhibit A attached to this resolution and incorporated herein by reference;

Whereas, TRS staff and GRS have further recommended that for the 2013 plan year, beginning September 1, 2012, the following benefit design changes be made to TRS-Care 1, 2, and 3 - in replacement of limited preventive services that require either a copayment and/or a coinsurance payment, these plans will pay 100% of A and B listed preventive services as defined by the U.S. Preventive Services Task Force; and

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

Resolved, That the Board hereby adopts the existing premium rates at all levels of coverage in TRS-Care 1, 2, and 3 for the 2013 plan year, beginning September 1, 2012, and hereafter until further action by the Board, and directs that such premium rates shall remain unchanged from the current premium rates for the 2012 plan year, as set out in Exhibit A attached to this resolution and incorporated herein by reference;

Resolved, That the Board hereby adopts and authorizes for the 2013 plan year, commencing on September 1, 2012, the following benefit design changes as part of TRS-Care 1, 2, and 3 - in replacement of limited preventive services that require either a copayment and/or a coinsurance payment, these plans will pay 100% of A and B listed preventive services as defined by the U.S. Preventive Services Task Force;

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable (i) to implement the premium rates and benefit designs, as amended, adopted or authorized herein or as required by controlling law, and (ii) to otherwise amend, implement, and continue the existing approved plans of coverage for TRS-Care 1, 2, and 3 until further action by the Board; and

Resolved, That the Board finds that, considering the actions taken in the resolutions above, TRS-Care is projected to remain financially solvent for the 2013 plan year.

F. Adopt total costs for each of the various options available under TRS-Care and the return-to-work health benefit surcharge to be paid by the employer of a reported retiree.

Ms. Jones clarified that, under this agenda item, staff was asking the board to consider the amount of the health benefit surcharge for each of the TRS-Care plan options. She stated that the

surcharge refers to the portion of the retiree's health care cost a district would need to pay TRS when a retiree who was already covered by TRS-Care returned to work at the school district. She stated that staff was recommending that the board increase the surcharge amount by 7 percent for fiscal year 2013. She presented the surcharge amounts for participants enrolled in an MA plan.

On a motion by Ms. Clifton, seconded by Mr. Barth, the board unanimously voted to adopt the following resolution adopting the return-to-work health benefit surcharge:

Whereas, Chapter 1575, Texas Insurance Code, authorized 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, Section 1575.204, Insurance Code, requires the employer of a reported retiree to pay a health benefit surcharge based on the difference between the amount the retiree is required to pay monthly for the retiree's and any enrolled dependent's coverage under TRS-Care and the monthly full cost of such coverage for the retiree and any enrolled dependent (the "monthly employer health benefit surcharge amount");

Whereas, The TRS Board of Trustees ("Board") has adopted (i) monthly premium rates for the TRS-Care 1 plan, the TRS-Care 2 plan, and the TRS-Care 3 plan, effective September 1, 2012, and (ii) monthly premium rates for the TRS-Care 2 Medicare Advantage plan or the TRS-Care 3 Medicare Advantage plan, effective January 1, 2013;

Whereas, William J. Hickman, with the TRS health benefits consultant, Gabriel, Roeder and Smith & Company, has calculated the monthly employer health benefit surcharge amounts for those participants enrolled in either the TRS-Care 1 plan, the TRS-Care 2 plan or the TRS-Care 3 plan, effective September 1, 2012, as set out in Exhibit 1 attached hereto; and

Whereas, Mr. Hickman has also calculated the monthly employer health benefit surcharge amounts for those participants enrolled in either the TRS-Care 2 Medicare Advantage plan or the TRS-Care 3 Medicare Advantage plan, effective September 1, 2012, as set out in Exhibit 2 attached hereto; now, therefore, be it

Resolved, That the Board hereby approves and adopts the monthly employer health benefit surcharge amounts set out in Exhibit 1 and Exhibit 2, attached hereto, such amounts to be paid monthly by the retiree's employer beginning September 1, 2012 and hereafter in accordance with applicable law, including related Board rules, until further action by the Board or until superseded by applicable law; and

Resolved, That the Executive Director is authorized to take all actions deemed necessary, in accordance with applicable law, to implement this resolution.

11. Receive an update on the legislatively-required Retirees Health Benefits Program (TRS-Care) study – Betsey Jones and William Hickman, Gabriel, Roeder, Smith and Co.

Ms. Jones reviewed the TRS-Care study required by the legislature. She provided the background and outline of the study and briefly discussed the options available in solving the long-term solvency of the TRS-Care fund. Mr. Hickman stated that the major cost driver of TRS-Care is the non-Medicare population, whose liability falls solely on TRS-Care. He explained the options for maintaining the overall structure and design of the current program and developing separate solutions for Medicare and non-Medicare retirees. Mr. Hickman described other options for lowering costs associated with the non-Medicare population, including establishing service requirements for non-Medicare retirees, requiring the non-Medicare population to purchase Medicare Part B, and not offering TRS-Care 2 or 3 to non-Medicare retirees until after they turn 65 and are eligible for Medicare. Responding to Mr. Kelly's question about the size of the non-Medicare population among TRS retirees, Mr. Hickman said that it numbered about 100,000. Mr. Hickman concluded that staff and GRS would continue to model all the options and would present a study to the board.

After a recess at 1:45 p.m., the meeting reconvened at 2:01 p.m.

12. Receive a presentation on and discuss TRS and Capitol Complex facilities planning issues – Don Green and Jim Smith.

Mr. Green reviewed the history of TRS building facilities from 1937 to date. He highlighted the major repairs and renovations completed from 2001 until now. He projected facility maintenance needs. He summarized the findings of the space assessment completed by the Texas Facilities Commission (TFC) in 2011. He described the options suggested by the TFC to prepare for the future space needs, including remodeling the Red River campus, demolishing the Red River campus and building a new facility on the site, purchasing a new building and selling the Red River campus, or building on another site and selling the Red River campus. Mr. Green discussed the pros and cons of each of those options. Mr. Guthrie noted that the legislature had asked TRS to review the long-term space needs and present a plan for consideration during the next legislative session. Further discussion followed about the relative merits and concerns regarding the TFC's proposals. Mr. Green concluded by presenting the next steps in space planning for TRS over the short and long terms.

13. Receive an update on and discuss the proposed Strategic Plan for FY 2013-2017 – Ken Welch, Don Green, and Jay LeBlanc.

Mr. Welch presented for the board's review a draft five-year Strategic Plan for fiscal years 2013 through 2017. He provided the background and purpose of the document. He stated that the Strategy Plan was due July 2012 and welcomed comments from board members.

15. Receive an update on the development of the Legislative Appropriations Request for the 2014-2015 Biennium – Don Green.

Mr. Kelly announced that the board would defer the agenda item 15 to the July board meeting.

Mr. Kelly announced that the board would take up agenda item 16.

16. Receive the report of the Risk Management Committee on its June 7, 2012 meeting – Eric McDonald.

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

The Risk Management Committee met on Thursday, June 7. A report on the enterprise risk management program was provided by Risk Management and Strategic Planning staff, which included a discussion of the risk management activities related to the TEAM program, workforce continuity, confidential information, procurement, and contract management.

Overviews were also provided by staff of TRS' disaster recovery and business continuity initiatives, including those in information technology and risk management's strategic planning process.

TRS' Risk Manager discussed the results of the report from the State Office of Risk Management on TRS' risk management program. The Chief Risk Officer of investments provided a report on trust liquidity stress testing.

17. Receive the report of the Audit Committee on its June 8, 2012 meeting – Christopher Moss.

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

The Audit Committee met at 8:00 a.m. on Friday, June 8, 2012. Representatives from the State Auditor's Office presented a report on their audit of incentive compensation.

Internal audit staff presented the results of four projects in the areas of payroll, investment risk management, information technology security, and investment policy compliance. They also reported on the status of outstanding recommendations.

Internal audit staff presented the results of a survey of other pension fund activities in the area of employer audits, discussed the process for developing the annual audit plan for 2013, and presented routine administrative reports.

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

Mr. Welch reported on the latest accomplishments in upgrading the data management and financial/HR system. He stated that staff planned to complete the initial draft of the Statement of Work (SOW) and execute the contract by the end of this month. He stated that the commitments gathering—defining what needed to be accomplished for the financial/HR system—had been completed.

Ms. Morgan provided an update on the accomplishments in the pension administrative line of business (LOB) system. She stated that 82 out of 102 sessions for commitments gathering for the request for offer (RFO) from prospective LOB vendors had been completed. She stated that the first round of documented business rules had been submitted to the Core Management Team (CMT) and staff conducted an all-day vendor demonstration from one of the potential vendors. She also stated that informal meetings had been conducted with consultants to prepare for the independent project assessment RFO. Other accomplishments, she said, included initial risk identification and assessment, meeting with Mr. Moss and Ms. Sissney to discuss the process, identifying complementary projects, including organizational change, enterprise security, and communication plan. Ms. Morgan also discussed the on-going activities in the core projects of the TEAM program. Mr. Welch presented the program dashboard and highlighted issues that were being addressed or need to be addressed. He noted three vacancies currently in General Accounting that needed to be filled. He also noted that project demonstrations led to a need to have a second-round review, which was not on the original project plan. Mr. Moss provided a brief summary of his visit with staff and commented that the meeting was very educational and informative. He stated his intent to continue to get involved in the program as much as he could.

19. Discuss the performance evaluation of Gabriel, Roeder, Smith and Company as the provider of pension trust fund actuarial services and the provider of health benefits consulting services – Ken Welch and Betsey Jones.

Mr. Welch presented a memo from staff evaluating the pension trust fund actuarial services provided by GRS. He stated that staff had been exceptionally pleased with GRS' services provided on the pension side. He noted that TRS entered into a three-year contract last time, pursuant to the version of the statute that applied then. He explained that the statute had been amended to extend the contract term to four years, which would allow the contract to be rebid every fourth year at the first of the biennium and avoid having to conduct the rebidding process in a legislative year. Therefore, he said, staff would propose to the board at the next board meeting to extend GRS' contract by one year to make the current term a four-year term.

Ms. Jones presented a memo from staff concerning the health benefits consulting services provided by GRS. She stated that staff had been equally pleased on the health care side with GRS and relied extensively on the expertise of Mr. Hickman's team.

20. Receive a communications update, including the following items – Howard Goldman and Paul Ruggiere, University of North Texas (UNT) Survey Research Center:

- A. An update on TRS' 75th anniversary.**
- B. Report on the Member Satisfaction Survey.**
- C. Screen the 2012 video value brochure, "A Great Value for All Texans."**

Mr. Goldman updated the board on activities by the Communications Department. He highlighted the significant amount of time the communications staff spent working with other departments in providing TRS-related information to the news media and responding to press

inquiries. He described preparations for celebrating TRS' 75th anniversary in September. He noted that Communications was developing a TRS graphics style guide for the agency.

Mr. Goldman presented other communication initiatives, including the promotion of *MyTRS* and the registration of about 90,000 new *MyTRS* users. Mr. Goldman discussed the new *MyTRS* brochure and online video, to which he would send board members a link.

Dr. Ruggiere of the University of North Texas Survey Research Center presented the Member Satisfaction Survey to the board. He explained the survey process and highlighted some of the key findings. He concluded that the overall ratings among TRS active members and retirees were very high: 98.9 percent of retirees and 97.4 percent of active members reported that they were satisfied or very satisfied with TRS member services. On the health care side, he reported, 93 percent of the retirees were satisfied or very satisfied with insurance company claim services, and 92 percent were satisfied with timeliness and accuracy of the response they received. He noted that 80 percent of the active members were satisfied or very satisfied with the insurance company claim services. He also noted that both retirees and active members continued to highly rate the usability of the *TRS Benefits Handbook*. Mr. Goldman stated that the restructuring of the last edition of the *TRS Benefit Handbook* seemed to have produced positive results. Dr. Ruggiere also noted that retirees had become more receptive to receiving the handbook by e-mail or via internet, even though those methods were still not the most preferred. Mr. Goldman said that the member newsletter would include more articles about the alternatives to regular mail for obtaining a copy of the handbook. He said that, despite a definite difference between retirees and active members in their preferences for obtaining TRS publications, the number of retirees who had internet access had increased from 42 percent in 2000 to 75 percent. Dr. Ruggiere reported that 16 percent of retirees and 11 percent of active members who were unwilling to use the internet to access their account information had security concerns. Dr. Ruggiere also noted the increase of social media users. Dr. Ruggiere made recommendations for conducting future surveys, particularly for increasing the response rates. He noted that mailing and calling potential respondents had become less effective, especially among the younger age groups.

21. Review the Benefit Services Statistics Report – Marianne Woods Wiley.

Ms. Woods Wiley presented the Benefit Services Statistics Report, including retirement estimates, yearly retirement estimates, retirement applications received, disability retirement statistics, refunds, death claims, new service purchase bills, member telephone calls and average speed of answer (ASA), counseling office visits, group sessions, and monthly conventions. Ms. Woods Wiley noted that retirement estimates typically peaked around March and April. She stated that the Benefits Services Division had cross-trained the retirement estimate team to assist the retirement application processing team with their workload during the months of June, July, and August, and typically the retirement application process did not end until September. She noted that, with the cost for certain types of service credit going up after August 31, 2013, more new service purchase bills were being sent out monthly in the year-to-date than in the last year. Presenting the ASA, she said that the call volume was high in September because the office visit counselors were traveling and not available to provide telephone assistance in Austin. She noted that five new telephone counselors were training with more experienced counselors, which might also slow down the ASA. Responding to a question from Ms. Clifton, Ms. Woods Wiley

responded that there were 33 telephone counselors and 15 office visit counselors. During peak days, she said, the managers helped with walk-ins and other administrative tasks to relieve some of the workload. She stated that the year-to-date ASA was 3.36 minutes compared with 3.52 minutes last year. Responding to a question from Mr. McDonald as to how long it takes for people to set up an appointment with a counselor, Ms. Woods Wiley stated that if they called on this day (June 8), they would have an appointment set up on August 22. She stated that group sessions of about 10 people were available to go through the retirement packets, and participants could stay after the sessions to receive individual assistance.

22. Review the report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board – 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 March and April 2012 that were required to perform the fiduciary duties of the board. He reported that the pension trust fund disbursed a total of approximately \$5.3 million and \$5 million for administrative operations in March and April, respectively. He noted a year-to-date cash disbursements of about \$52.4 million as of April 30, 2012 compared with \$56.2 million at the same time in 2011.

23. Review and discuss the Deputy Director's report on the following matters – Ken Welch:

A. An update on potential future IRS rule changes affecting charter school participation in the TRS pension plan.

Mr. Welch provided an update on the pending IRS regulations on the definition of a governmental plan. He said that a change in the definition might affect participation in TRS by some categories of charter school employees. He stated that TRS would file related comments with IRS by the deadline of June 18.

B. An update on riders directing the use of appropriated funds.

Mr. Welch discussed an appropriation act rider that may restrict the amount of general revenue funds that can be used as state or employer matching funds for TRS members employed by public junior colleges. He stated that the legislature would like to limit the contributions to TRS paid from general revenue appropriations for junior colleges to no more than the contribution on the maximum amount that could have been paid for salaries out of a junior college's general revenue funds. Mr. Welch pointed out that such interpretation of the restriction could diminish the unexpended balances in the pension fund and therefore reduce the amount of reappropriated money into the health care fund. He stated that staff was working with the legislative leadership and the comptroller's office to discuss the issue and would continue to monitor the situation closely.

24. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:

- A. Receive an overview of agendas for the July 20, 2012 and September 13-14, 2012 Board meetings.**
- B. Retirement plan benefits and operations.**
- C. Investment activity and operations.**
- D. Health-benefit programs and operations.**
- E. Administrative operations, including financial, audit, legal, staff services, and special projects.**

Mr. Guthrie presented the agenda items for the July and September board and committee meetings. He noted the addition of a Policy Committee meeting in July to discuss the incentive pay plan for the IMD. He also noted that the July meeting would be the last meeting for the board to discuss both the pension fund and TRS-Care studies. He stated that staff would present the final drafts of the studies in July. He noted that Mr. Kelly had suggested scheduling a board meeting in mid-August to present the final drafts of the studies to the board, if needed. Mr. Guthrie asked if the board would like to consider the adoption of the performance incentive pay plan at the Policy Committee meeting in September or have a Compensation Committee meeting in September to discuss it. Mr. Kelly responded that he preferred discussing the incentive pay plan at the Policy Committee meeting. Responding to Mr. Moss' question regarding the Texas Growth Fund, Mr. Guthrie stated that it would require legislative action to remove TRS' seat on the Growth Fund board.

25. Review the report of the General Counsel on pending or contemplated litigation, including updates on the following: the Bank of America securities class action; other securities litigation; adversary proceedings related to a third-party bankruptcy; and litigation involving benefit-program contributions, retirement or death 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 3:50 p.m.

(Agenda item #10.C.) Exhibit A - "TRS-Care Monthly Premium Rates Effective January 1, 2013" attached to the resolution approving premium rates, benefit designs, and automatic enrollment for Medicare Advantage Plans in the TRS-Care Program.

Exhibit A

Effective January 1, 2013

TRS-Care Monthly Premium Rates

Participants Enrolled in Medicare Advantage

	TRS-Care 2			TRS-Care 3		
	<20 YOS	20-29 YOS	30+ YOS	<20 YOS	20-29 YOS	30+ YOS
Retiree or Surviving Spouse						
With Medicare Advantage	\$65	\$55	\$45	\$95	\$85	\$75
Retiree and Spouse						
Both with Medicare Advantage	\$160	\$145	\$130	\$245	\$225	\$205
Retiree with Medicare Advantage/Spouse with B Only*	\$260	\$240	\$220	\$385	\$360	\$335
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$305	\$285	\$265	\$450	\$425	\$400
Retiree with B Only*/Spouse with Medicare Advantage	\$260	\$245	\$230	\$395	\$370	\$345
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$305	\$290	\$275	\$460	\$435	\$410
Retiree or Surviving Spouse & Child(ren)						
With Medicare Advantage	\$127	\$117	\$107	\$177	\$167	\$157
Retiree, Spouse & Child(ren)						
Retiree and Spouse with Medicare Advantage	\$222	\$207	\$192	\$327	\$307	\$287
Retiree with Medicare Advantage/Spouse with B Only*	\$322	\$302	\$282	\$467	\$442	\$417
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$367	\$347	\$327	\$532	\$507	\$482
Retiree with B Only*/Spouse with Medicare Advantage	\$362	\$307	\$292	\$477	\$452	\$427
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$367	\$352	\$337	\$542	\$517	\$492

*"Part B of Medicare Only" means the individual is not covered by Medicare Part A and is eligible to purchase Medicare Part B.

(Agenda item #10.C.) Exhibit B - "Comparison of Medicare Advantage plan designs to current TRS-Care 2 and TRS-Care 3 benefits" attached to the resolution approving premium rates, benefit designs, and automatic enrollment for Medicare Advantage Plans in the TRS-Care Program.

Exhibit B

Comparison of Medical Benefits (Amounts shown reflect the participant cost share)

Currently, Medicare eligible participants receive benefits from Medicare first and TRS-Care as secondary payor. Please note that the "Current Medical Benefits" columns reflect the cost sharing amounts AFTER Medicare pays and not the combined effect of both Medicare and TRS-Care benefits. Under the Medicare Advantage Plans, enrolled participants will receive medical benefits with a single payor plan.

Plan Provisions	Current Medical Benefits after Medicare Pays Through December 31, 2012		Medicare Advantage Plan Design Effective January 1, 2013	
	TRS-Care 2	TRS-Care 3	TRS-Care 2	TRS-Care 3
Plan Provisions				
Deductible	\$1,000	\$300	\$500	\$150
Annual Out-of-Pocket Maximum (excluding deductible)	\$3,000	\$3,000	\$3,000	\$3,000
Benefit Categories				
HOSPITAL AND FACILITY SERVICES				
Inpatient Hospital • Days 1-60 • Days 61-90 • 60 Lifetime Reserve Days • Days 91+ after use of Lifetime Reserve Days	20% coinsurance	20% coinsurance	\$500 copay per stay	\$250 copay per stay
Skilled Nursing Facility • Days 1-20 • Days 21-100 • Days 101+	20% coinsurance	20% coinsurance	\$0 copay per day \$50 copay per day 20% coinsurance	\$0 copay per day \$25 copay per day 20% coinsurance
Other inpatient charges	Not covered	Not covered	See Inpatient Hospital	See Inpatient Hospital
Outpatient Hospital or Facilities	20% coinsurance	20% coinsurance	\$250 copay	\$75 copay
Urgent Care Facility	20% coinsurance	20% coinsurance	\$35 copay	\$35 copay
Emergency Room	20% coinsurance	20% coinsurance	\$65 copay	\$50 copay
EXTENDED CARE SERVICES				
Convalescent Care	See Skilled Nursing Facility	See Skilled Nursing Facility	See Skilled Nursing Facility	See Skilled Nursing Facility
Home Health Care	20% coinsurance	20% coinsurance	\$0 copay	\$0 copay
Hospice	20% coinsurance	20% coinsurance	Not covered Per CMS guidelines, hospice will continue to be covered by Medicare even for participants with a Medicare Advantage plan.	
Private Duty Nursing	20% coinsurance	20% coinsurance	20% coinsurance	20% coinsurance
PHYSICIAN AND LAB				
Office Visits • Physician • Specialist	20% coinsurance 20% coinsurance	20% coinsurance 20% coinsurance	\$5 copay \$10 copay	\$5 copay \$10 copay
Laboratory Services	20% coinsurance	20% coinsurance	\$0 copay	\$0 copay
Diagnostic x-rays and lab tests billed by radiology/pathology • Flat film x-rays and labs • Therapeutic radiology services, diagnostic radiology service or diagnostic procedure and test	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Allergy Injections	20% coinsurance	20% coinsurance	See Part B Drugs	See Part B Drugs
Office surgery	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Non-office physician services	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Routine Physical exam (including office visit, lab and child immunizations)	Not covered	Not covered	\$0 copay	\$0 copay
OTHER PREVENTIVE SERVICES				
Cervical Cancer Screening ¹	0% coinsurance	0% coinsurance	\$0 copay	\$0 copay
Mammogram Screening ¹	0% coinsurance	0% coinsurance	\$0 copay	\$0 copay
Prostate Screening ¹ • Digital Rectal Exam • PSA Test	0% coinsurance 0% coinsurance	0% coinsurance 0% coinsurance	\$0 copay \$0 copay	\$0 copay \$0 copay
Flu shot ¹	20% coinsurance	20% coinsurance	\$0 copay	\$0 copay
Zostavax Vaccine (TRS - age 60+, one per lifetime)	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Colorectal Cancer screening • Fecal Occult Blood Test ¹ • Flexible Sigmoidoscopy ² • Colonoscopy ³ • Barium Enema (physician)	20% coinsurance	20% coinsurance	\$0 copay	\$0 copay
BEHAVIORAL HEALTH (Mental and chemical dependency)				
Inpatient Facility	20% coinsurance	20% coinsurance	\$500 copay per stay	\$250 copay per stay
Inpatient Physician	20% coinsurance	20% coinsurance		
Outpatient	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Office Visit	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
OTHER MEDICAL SERVICES				
Physical, Occupational and Speech Therapy	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Chiropractic Care • Medicare Covered Visits (Subluxation correction) • Up to 20 additional Visits	20% coinsurance (maximum 20 visits per year)	20% coinsurance (maximum 20 visits per year)	5% coinsurance	5% coinsurance
Home Infusion Services	20% coinsurance	20% coinsurance	20% coinsurance	20% coinsurance
Durable Medical Equipment	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Prosthetics	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Ambulance	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance
Part B Covered Drugs	20% coinsurance	20% coinsurance	5% coinsurance	5% coinsurance

¹ One per Plan Year;

² One per five years;

³ One per 10 years;

(Agenda item #10.C.) Exhibit C - Automatic Enrollment and Opt Out Provisions of the TRS-Care Medicare Advantage Plans in the TRS-Care Program.

Exhibit C

AUTOMATIC ENROLLMENT AND OPT OUT PROVISIONS
OF THE TRS-CARE MEDICARE ADVANTAGE PLANS
IN THE TRS-CARE PROGRAM

An individual who is enrolled in the TRS-Care 2 plan or the TRS-Care 3 plan as of 11:59:59 p.m. on December 31, 2012 and who has not provided to TRS notice (in a manner and by a deadline deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion) that the individual desires to remain in his then-current medical plan, shall be subject to the following automatic enrollment provisions:

- At 12:00:00 a.m. on January 1, 2013, an individual who is enrolled as of 11:59:59 p.m. on December 31, 2012 in the TRS-Care 2 plan and has Medicare Parts A and B shall be automatically enrolled in the TRS-Care 2 Medicare Advantage plan.
- At 12:00:00 a.m. on January 1, 2013, an individual who is enrolled as of 11:59:59 p.m. on December 31, 2012 in the TRS-Care 2 plan and has either Medicare Part A or Medicare Part B, but not both, shall remain in his then-current TRS-Care 2 medical plan.
- At 12:00:00 a.m. on January 1, 2013, an individual who is enrolled as of 11:59:59 p.m. on December 31, 2012 in the TRS-Care 3 plan and has Medicare Parts A and B shall be automatically enrolled in the TRS-Care 3 Medicare Advantage plan.
- At 12:00:00 a.m. on January 1, 2013, an individual who is enrolled as of 11:59:59 p.m. on December 31, 2012 in the TRS-Care 3 plan and has either Medicare Part A or Medicare Part B, but not both, shall remain in his then-current TRS-Care 3 medical plan.
- An individual who is enrolled as of 11:59:59 p.m. on December 31, 2012 in the TRS-Care 2 plan or the TRS-Care 3 plan, and has neither Medicare Part A nor Medicare Part B, shall remain enrolled in his then-current TRS-Care 2 or TRS-Care 3 medical plan.

Individuals who are enrolled in the TRS-Care 2 plan or the TRS-Care 3 plan as of 11:59:59 p.m. on December 31, 2012, and are thereafter automatically enrolled in a TRS-Care Medicare Advantage plan, will have the following rights to opt out of the TRS-Care Medicare Advantage plan:

- Following automatic enrollment in the TRS-Care 2 Medicare Advantage plan, an individual may opt out of the enrollment by giving TRS notice in a manner deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion. Disenrollment from the TRS-Care 2 Medicare Advantage plan will be effective at the end of the last day of the month in which such notice is received by TRS. Disenrollment from the TRS-Care 2 Medicare Advantage plan will result in enrollment in the TRS-Care 2 medical plan, which will be effective on the first day of the month following the date the same above-referenced notice is received by TRS.

(Agenda item #10.C.) Exhibit C - Automatic Enrollment and Opt Out Provisions of the TRS-Care Medicare Advantage Plans in the TRS-Care Program.

- Following automatic enrollment in the TRS-Care 3 Medicare Advantage plan, an individual may opt out of the enrollment by giving TRS notice in a manner deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion. Disenrollment from the TRS-Care 3 Medicare Advantage plan will be effective at the end of the last day of the month in which such notice is received by TRS. Disenrollment from the TRS-Care 3 Medicare Advantage plan will result in enrollment in the TRS-Care 3 medical plan, which will be effective on the first day of the month following the date the same above-referenced notice is received by TRS.
- Individuals may opt out of a TRS-Care Medicare Advantage plan at any time.

(Agenda item #10.D.) Exhibit A - "Comparison of the plan designs of the Medicare Prescription Plans to the current TRS-Care 2 and TRS-Care 3 benefits" attached to the resolution approving benefit designs and automatic enrollment for Medicare Prescription Plans in the TRS-Care Program.

Exhibit A

TRS-Care Comparison of Pharmacy Benefits

	TRS-Care 2		TRS-Care 3	
	Current Pharmacy Benefits <i>Effective September 1, 2012</i>	Express Scripts Medicare Plan <i>Effective January 1, 2013</i>	Current Pharmacy Benefits <i>Effective September 1, 2012</i>	Express Scripts Medicare Plan <i>Effective January 1, 2013</i>
Retail (Up to a 31-Day Supply)				
• Tier 1 (Generic)	\$10 copayment per prescription	\$5 copayment per prescription	\$10 copayment per prescription	\$5 copayment per prescription
• Tier 2 (Preferred Brand)	\$30 copayment per prescription	\$25 copayment per prescription	\$25 copayment per prescription	\$20 copayment per prescription
• Tier 3 (Non-Preferred Brand)	\$50 copayment per prescription	\$50 copayment per prescription	\$40 copayment per prescription	\$40 copayment per prescription
Mail Order and Retail Plus (Up to a 90-Day Supply)				
• Tier 1 (Generic)	\$20 copayment per prescription	\$15 copayment per prescription	\$20 copayment per prescription	\$15 copayment per prescription
• Tier 2 (Preferred Brand)	\$75 copayment per prescription	\$70 copayment per prescription	\$50 copayment per prescription	\$45 copayment per prescription
• Tier 3 (Non-Preferred Brand)	\$125 copayment per prescription	\$125 copayment per prescription	\$80 copayment per prescription	\$80 copayment per prescription
Catastrophic Level¹				
• Tier 1 (Generic)	Not applicable	5% of drug cost, with a minimum of \$2.65 and a maximum of Retail and Mail Order copay schedule shown above.	Not applicable	5% of drug cost, with a minimum of \$2.65 and a maximum of Retail and Mail Order copay schedule shown above.
• Tier 2 (Preferred Brand)		5% of drug cost, with a minimum of \$6.60 and a maximum of Retail and Mail Order copay schedule shown above.		5% of drug cost, with a minimum of \$6.60 and a maximum of Retail and Mail Order copay schedule shown above.
• Tier 3 (Non-Preferred Brand)		5% of drug cost, with a minimum of \$6.60 and a maximum of Retail and Mail Order copay schedule shown above.		5% of drug cost, with a minimum of \$6.60 and a maximum of Retail and Mail Order copay schedule shown above.

¹ Catastrophic levels of pharmacy spend per participant is subject to change as it is determined by CMS on an annual basis.

(Agenda item #10.E.) Exhibit A - "TRS-Care Monthly Premium Rates for the 2013 plan year, beginning September 1, 2012" attached to the resolution approving premium rates and benefit plan design for TRS-Care 1, TRS-Care 2, and TRS-Care 3.

Exhibit A

Fiscal Year 2012 - 2013

TRS-Care Monthly Premium Rates

Participants Not Enrolled in Medicare Advantage

	TRS-Care 1	TRS-Care 2			TRS-Care 3		
		<20 YOS	20-29 YOS	30+ YOS	<20 YOS	20-29 YOS	30+ YOS
Retiree or Surviving Spouse							
With Part A&B of Medicare	\$0	\$80	\$70	\$60	\$110	\$100	\$90
With Part B of Medicare Only*	\$0	\$165	\$155	\$145	\$245	\$230	\$215
Not Eligible for Medicare	\$0	\$210	\$200	\$190	\$310	\$295	\$280
Retiree and Spouse							
Both with Part A&B of Medicare	\$20	\$190	\$175	\$160	\$275	\$255	\$235
Both with Part B of Medicare Only*	\$75	\$360	\$340	\$320	\$535	\$505	\$475
Neither Eligible for Medicare	\$140	\$450	\$430	\$410	\$665	\$635	\$605
Retiree with A&B/Spouse with B Only*	\$60	\$275	\$255	\$235	\$400	\$375	\$350
Retiree with A&B/Spouse not eligible for Medicare	\$90	\$320	\$300	\$280	\$465	\$440	\$415
Retiree with B Only*/Spouse not eligible for Medicare	\$120	\$405	\$385	\$365	\$600	\$570	\$540
Retiree with B Only*/Spouse with A&B	\$25	\$275	\$260	\$245	\$410	\$385	\$360
Retiree not eligible for Medicare/Spouse with A&B	\$30	\$320	\$305	\$290	\$475	\$450	\$425
Retiree not eligible for Medicare/Spouse with Part B Only*	\$80	\$405	\$385	\$365	\$600	\$570	\$540
Retiree or Surviving Spouse & Child(ren)							
With Part A&B of Medicare	\$41	\$142	\$132	\$122	\$192	\$182	\$172
With Part B of Medicare Only*	\$34	\$227	\$217	\$207	\$327	\$312	\$297
Not Eligible for Medicare	\$28	\$272	\$262	\$252	\$392	\$377	\$362
Retiree, Spouse & Child(ren)							
Retiree and Spouse with Medicare A&B	\$61	\$252	\$237	\$222	\$357	\$337	\$317
Retiree and Spouse with Medicare Part B Only	\$109	\$422	\$402	\$382	\$617	\$587	\$557
Retiree and Spouse not eligible for Medicare	\$168	\$512	\$492	\$472	\$747	\$717	\$687
Retiree with A&B/Spouse with B Only*	\$101	\$337	\$317	\$297	\$482	\$457	\$432
Retiree with A&B/Spouse not eligible for Medicare	\$131	\$382	\$362	\$342	\$547	\$522	\$497
Retiree with B Only*/Spouse not eligible for Medicare	\$154	\$467	\$447	\$427	\$682	\$652	\$622
Retiree with B Only*/Spouse with A&B	\$59	\$377	\$322	\$307	\$492	\$467	\$442
Retiree not eligible for Medicare/Spouse with A&B	\$58	\$382	\$367	\$352	\$557	\$532	\$507
Retiree not eligible for Medicare/Spouse with Part B Only*	\$108	\$467	\$447	\$427	\$682	\$652	\$622
Surviving Children Only							
Surviving Children Only	\$28	\$62	\$62	\$62	\$82	\$82	\$82

*Part B of Medicare Only" means the individual is not covered by Medicare Part A and is eligible to purchase Medicare Part B.

(Agenda item #10.F.) Exhibit 1 - "TRS-Care monthly employer health benefit surcharge amounts for those participants enrolled in either the TRS-Care 1 plan, the TRS-Care 2 plan or the TRS-Care 3 plan, effective September 1, 2012" attached to the resolution concerning the employer health benefit surcharge for TRS-Care.

Exhibit 1

Fiscal Year 2013

TRS-Care Monthly Employer Surcharge Amounts

Return to Work Participants Not Enrolled in Medicare Advantage

	TRS-Care 1	TRS-Care 2			TRS-Care 3		
		<20 YOS	20-29 YOS	30+ YOS	<20 YOS	20-29 YOS	30+ YOS
Retiree							
With Part A&B of Medicare	\$40	\$231	\$248	\$265	\$277	\$294	\$311
With Part B of Medicare Only*	\$140	\$308	\$325	\$342	\$450	\$476	\$501
Not Eligible for Medicare	\$253	\$787	\$804	\$840	\$835	\$861	\$886
Retiree and Spouse							
Both with Part A&B of Medicare	\$48	\$416	\$442	\$467	\$455	\$490	\$524
Both with Part B of Medicare Only*	\$157	\$453	\$488	\$522	\$479	\$530	\$582
Neither Eligible for Medicare	\$279	\$1,092	\$1,126	\$1,160	\$1,063	\$1,114	\$1,165
Retiree with A&B/Spouse with B Only*	\$49	\$378	\$413	\$447	\$308	\$351	\$393
Retiree with A&B/Spouse not eligible for Medicare	\$51	\$536	\$570	\$604	\$505	\$547	\$590
Retiree with B Only*/Spouse not eligible for Medicare	\$157	\$610	\$645	\$679	\$678	\$729	\$780
Retiree with B Only*/Spouse with A&B	\$149	\$493	\$519	\$544	\$628	\$670	\$713
Retiree not eligible for Medicare/Spouse with A&B	\$257	\$972	\$998	\$1,023	\$1,013	\$1,055	\$1,098
Retiree not eligible for Medicare/Spouse with Part B Only*	\$272	\$932	\$967	\$1,001	\$866	\$917	\$969
Retiree & Child(ren)							
With Part A&B of Medicare	\$45	\$239	\$257	\$274	\$289	\$306	\$323
With Part B of Medicare Only*	\$145	\$314	\$331	\$349	\$460	\$485	\$511
Not Eligible for Medicare	\$257	\$795	\$813	\$830	\$847	\$872	\$898
Retiree, Spouse & Child(ren)							
Retiree and Spouse with Medicare A&B	\$53	\$424	\$450	\$476	\$467	\$501	\$536
Retiree and Spouse with Medicare Part B Only	\$163	\$462	\$496	\$530	\$491	\$542	\$593
Retiree and Spouse not eligible for Medicare	\$284	\$1,100	\$1,134	\$1,169	\$1,075	\$1,126	\$1,177
Retiree with A&B/Spouse with B Only*	\$55	\$387	\$421	\$455	\$320	\$362	\$405
Retiree with A&B/Spouse not eligible for Medicare	\$57	\$544	\$578	\$613	\$516	\$559	\$602
Retiree with B Only*/Spouse not eligible for Medicare	\$173	\$619	\$653	\$687	\$687	\$739	\$790
Retiree with B Only*/Spouse with A&B	\$154	\$501	\$527	\$553	\$638	\$681	\$724
Retiree not eligible for Medicare/Spouse with A&B	\$262	\$980	\$1,006	\$1,032	\$1,024	\$1,067	\$1,110
Retiree not eligible for Medicare/Spouse with Part B Only*	\$276	\$941	\$975	\$1,009	\$876	\$927	\$978

Part B of Medicare Only means the individual is not covered by Medicare Part A and is eligible to purchase Medicare Part B.

(Agenda item #10.F.) Exhibit 2 - "TRS-Care monthly employer health benefit surcharge amounts for those participants enrolled in either the TRS-Care 2 Medicare Advantage plan or the TRS-Care 3 Medicare Advantage plan, effective September 1, 2012" attached to the resolution concerning the employer health benefit surcharge for TRS-Care.

Exhibit 2

Effective January 1, 2013

TRS-Care Monthly Employer Surcharge Amounts

Return to Work with Participants Enrolled in Medicare Advantage

	TRS-Care 2 Advantage			TRS-Care 3 Advantage		
	<20 YOS	20-29 YOS	30+ YOS	<20 YOS	20-29 YOS	30+ YOS
Retiree						
With Medicare Advantage	\$216	\$233	\$250	\$262	\$279	\$296
Retiree and Spouse						
Both with Medicare Advantage	\$386	\$412	\$437	\$425	\$460	\$494
Retiree with Medicare Advantage/Spouse with B Only*	\$363	\$398	\$432	\$293	\$336	\$378
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$521	\$555	\$589	\$490	\$532	\$575
Retiree with B Only*/Spouse with Medicare Advantage	\$478	\$504	\$529	\$613	\$655	\$698
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$957	\$983	\$1,008	\$998	\$1,040	\$1,083
Retiree & Child(ren)						
With Medicare Advantage	\$224	\$242	\$259	\$274	\$291	\$308
Retiree, Spouse & Child(ren)						
Retiree and Spouse with Medicare Advantage	\$394	\$420	\$446	\$437	\$471	\$506
Retiree with Medicare Advantage/Spouse with B Only*	\$372	\$406	\$440	\$305	\$347	\$390
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$529	\$563	\$598	\$501	\$544	\$587
Retiree with B Only*/Spouse with Medicare Advantage	\$486	\$512	\$538	\$623	\$666	\$709
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$965	\$991	\$1,017	\$1,009	\$1,052	\$1,095

*Part B of Medicare Only" means the individual is not covered by Medicare Part A and is eligible to purchase Medicare Part B.

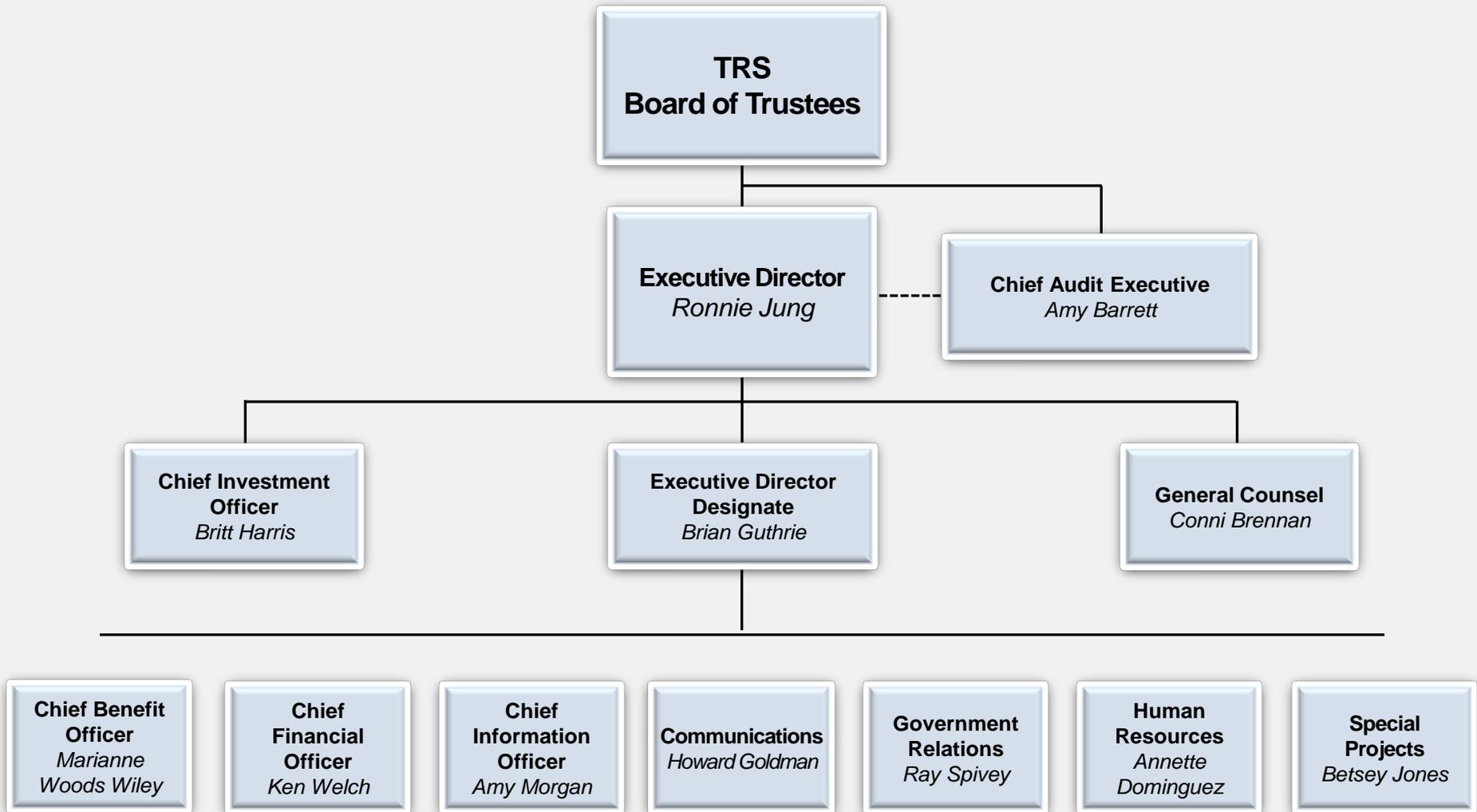
Tab 5

ED Goals and Initiatives Update for FY 2012

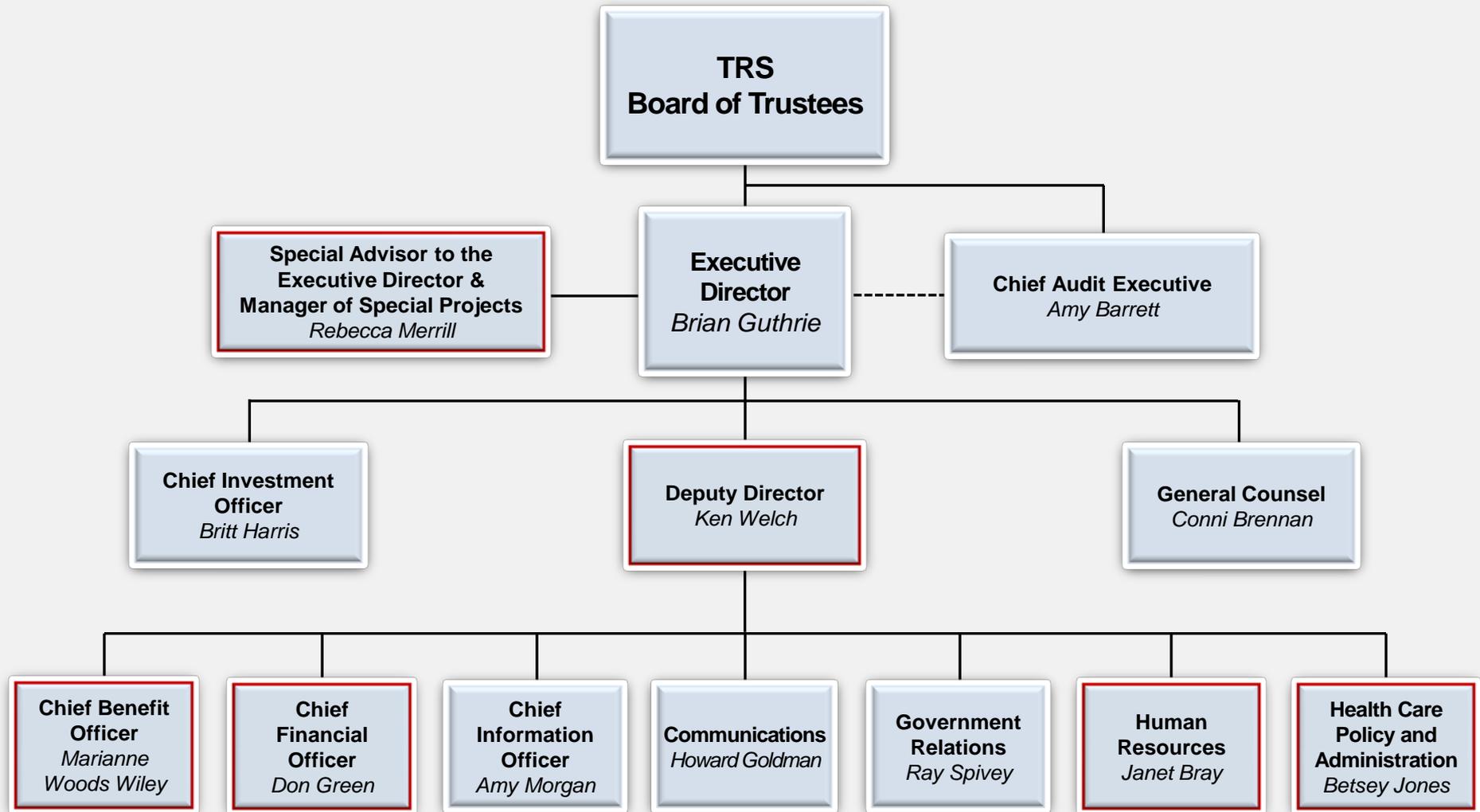
July 20, 2012

Brian Guthrie

TRS Organizational Chart as of August 31, 2011



TRS Organizational Chart as of June 1, 2012



Review of Stated Goals for FY 2012



- Prioritize three critical areas:
 - TRS-Care sustainability
 - Long-term pension issues
 - TEAM
 - Augment current executive team with additional solid performers who add value to agency priorities and operations
 - Ongoing discussion and clarification of board delegation of responsibilities to staff
 - Succession planning, professional development and knowledge management
-

Review of Stated Goals for FY 2012 (Cont'd)



- Effective communication with:
 - Stakeholders
 - Legislative leaders
 - Board members
 - Strategic partners
 - Associations
- Maintain and augment professional credibility and respect on the national stage

Review of Stated Goals for FY 2012 (Cont'd)



- Prepare for upcoming legislative session:
 - Legislative approval of TEAM
 - Legislative studies
 - Strategic Plan
 - Legislative Appropriations Request
 - Facilities planning
- Celebrate the 75th anniversary of TRS

Annual Performance Evaluations ED and CIO



- In Diligent Boardbooks, the ED and CIO evaluations and related materials will be in your Resource Center in the Administration section by Friday, July 27th.
- Performance evaluations are now facilitated by Survey Monkey.
- Please complete your evaluations no later than Friday, August 17th.
- Your responses are anonymous and will be submitted directly to the HR Director.
- Results will be reported at the September Board meeting in executive session.

Tab 6

Overview of September and November Agendas

TRS Board Meeting
July 20, 2012

Informational Reporting and Consent Agenda



- Staff informational reports — such as CFO and CBO reports — could be noticed on the agenda and provided to the Board in the meeting materials but only presented if any Board members have questions or wish to discuss the reports.
- Staff is examining the use of a true consent agenda for routine Board consideration items. A consent agenda could be useful when the Board adopts a large number of rules, such as during the statutory rule review process.

Outline of September Agenda



- September meeting will include three special events to celebrate TRS' 75th anniversary, including:
 - Friends of TRS Dinner on Wednesday, September 12th.
 - Brief ceremony at the beginning of the meeting on Thursday, September 13th.
 - Premiere viewing of the TRS 75th anniversary video.
 - **Process for Committee Assignments:**
 - Convene the full Board before committee meetings to receive the Board Chair's announcement of committee chairs and consider consenting to committee assignments.
 - Recess full Board after addressing assignments.
 - Conduct committee meetings.
 - Reconvene full Board after committee meetings.
-

Outline of September Agenda



■ Policy Committee Meeting

- Consider recommending adoption of amendments to the IPS.
- Consider recommending adoption of amendments to Investment Authority Resolution (TRS 477).
- Consider publishing for public comment publication a TRS rule amendment to require that QDRO's conform to a model QDRO form adopted by TRS.
- Adopt the updated Policy Review Schedule (committee level only).

Outline of September Agenda



- **Compensation Committee Meeting**

- Consider recommending to the Board amendments to the Performance Incentive Pay Plan.

- **Investment Management Committee Meeting**

- Review External Public Markets Portfolio.

- **Risk Management Committee Meeting**

- Review the Investment Risk Report.

Outline of September Agenda



■ Audit Committee Meeting

- Consider recommending to the Board revisions to the Internal Audit Charter.
- Consider recommending to the Board the Audit Plan for FY 2013-2015.
- Consider a recommendation to the Board on the evaluation and compensation of the Chief Audit Executive.
- Receive status of prior audit and consulting recommendations.

Outline of September Agenda



■ Audit Committee Meeting, Con't

- Receive State Auditor's Office Reports, including plans for auditing 2012 CAFR.
- Receive Internal Audit Reports:
 - Private partnership and selection monitoring;
 - Quarterly testing of compliance with IPS;
 - Quarterly testing of benefit payments; and
 - Quarterly testing of information security.
- Receive Internal Audit Administrative Reports
 - Results of Quality Assurance and Improvement Program Self-Assessment; and
 - Quarterly Audit Plan Status Reports.

Outline of September Agenda



■ Board Meeting

- Administrative matters, including
 - Elect Board Vice-Chair and Texas Growth Fund Trustee;
 - Consent to the Board Chair's appointment of committee members;
 - Receive the Board Chair's announcement of committee chairs; and
 - Consider meeting dates for calendar year 2013.

- Recognize and celebrate TRS' 75th anniversary year, including viewing the 75th anniversary video.

Outline of September Agenda



- Investment Reporting:
 - Quarterly performance and market updates;
 - Receive IMC report and RMC report.

- Receive Policy Committee report and consider:
 - Amendments to the IPS; and
 - Amendments to Investment Authority Resolution.

- Receive Compensation Committee Report and consider:
 - Amendments to the Performance Incentive Pay Plan.

Outline of September Agenda



- Receive Audit Committee Report and Consider:
 - Audit Plan for FY 2013-2015
 - Amendments to the Internal Audit Charter; and
 - Evaluation and compensation of the Chief Audit Executive.

- Discuss and consider the evaluation, compensation, and duties of the Executive Director

- Discuss the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director.

Outline of September Agenda



- Receive communications update (Informational Report)
 - Process for conducting Board nominating elections to be held in Spring 2013; and
 - Planned outreach efforts for FY 2013.
- Standard Reports from CBO, CFO, DD, and ED (Informational Reports).
- Receive Litigation Report (Informational Report).

Outline of November Agenda



- Currently, there are only three items being considered. All can be moved to the December meeting:
 - Supplemental Benefits Overview.
 - Leadership Development Program Update.
 - Development of Legislative Agenda.
- The actuarial valuation and CAFR will not be ready until mid-November.
- The next meeting is scheduled for December 13th & 14th.
- Should the November 2nd meeting be canceled?

Tab 7

Role of the Board Investment Advisor

TRS Board Meeting
July 20, 2012

History and Background

- Fiduciary duty and Board Bylaws charge the Board with obtaining expert advice and assistance with respect to its investment functions.
- In 1993, the Board decided to engage an independent investment advisor in addition to the investment consultants retained at that time.

History and Background



- Previous advisors were:
 - John Peavy who resigned to become the TRS Chief Investment Officer; and
 - Craig Hester who resigned to become the Chairman of the ERS Board.

- Current advisor, Dr. Keith Brown, was retained in 2002.

Scope of Work

- Dr. Brown's scope of work includes:
 - Attending Board meetings when investment reports are presented.
 - Offering independent advice to the Board regarding staff and investment counsel recommendations, including providing a written opinion on such matters in Board materials.
 - Providing advice to the Board regarding TRS investment matters, including advice on investment policies, asset allocation, and cash flow.
 - Being available to Board members for questions or consultation regarding TRS investment matters.
 - Bringing to the Board's attention any IMD actions that Dr. Brown thinks necessitate Board discussion.

Renewal

- The current contract was executed in 2008 for a three year term and provides for three one-year renewals.
- Proposed resolution authorizes the ED to exercise the renewal options for August 2012 and August 2013.
- The resolution also authorizes the ED to increase Dr. Brown's scope of work, if needed.

RESOLUTION ON INVESTMENT SERVICES CONSULTANT

Resolved, That the Board of Trustees (the “board”) of the Teacher Retirement System of Texas (“TRS”) hereby renews and extends the existing contract of Dr. Keith C. Brown to provide investment consulting services and serve as an investment consultant to the board for an additional period of one year commencing September 1, 2012; and

Resolved, That the board authorizes the Executive Director to negotiate and execute any documents now or during the extended term of such contract, including amendments thereto and future renewal options, on such terms and conditions as the Executive Director may deem, in his discretion, to be in the best interest of TRS, and further to take such actions and execute and deliver all such other documents that the Executive Director 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 associated with such contract and deemed in the discretion of the Executive Director, or his designee, to be reasonably necessary or advisable with respect to such contract.

Tab 10

State Street Contract Renewal

Sylvia Bell, Director of Investment Operations
Scot Leith, Manager of Investment Accounting

Agenda

- Relationship History
- Services Provided
- Keys to Successful Working Relationship

Relationship History



- September 2002: State Street retained to serve as TRS global custodian and securities lending agent (four-year initial term, with two one -year extension options, which TRS invoked)
- April 2008: TRS issued a Master Custodian and Securities Lending Services Request for Proposal
- June 2008: TRS re-appointed State Street for both global custody and securities lending
- February 2009: State Street and TRS agreed to the terms of the current contract (to terminate on January 30, 2013 with an option of a two-year extension)

Services Provided

- Trade Settlement and Custody Services
 - 40+ US, International developed and emerging markets
 - Equities, Bonds and Foreign Exchange (FX) settlement
 - Interface with Bloomberg Order Management System
- Accounting Services
 - Derivatives SerDaily full service accounting
 - Daily pricing and valuation
 - Official investment book of record
 - Interface into statewide accounting system
- Derivatives Services
 - Trade processing for Futures, Swaps, Options and Forwards
 - Collateral management services
- Performance and Analytics Services
 - Daily and monthly Pure View reporting
 - Risk reporting
 - Private Equity and Real Assets reporting
- Daily Investment Compliance Monitoring
- Securities Lending and separately managed Cash Collateral pool
- Short-Term Investment Fund and FX Management
- Commission Management Service
- Proxy management
- Customized class-action support

Keys to Successful Working Relationship



- State Street has created a *decade-long* knowledge repository that benefits TRS across its entire enterprise
- Dedicated *Austin-based* personnel responding to accounting, investment support, performance and risk service needs
- Development of *customized solutions* for TRS
- Enhanced performance reporting via Pure View
- Integration of Private Edge (Private Equity/Real Assets data) into eFront's analytics tool
- Bloomberg trade capture conversion
- “*Flexible Categorization*” general ledger mapping infrastructure to support TRS' financial reporting



Board of Trustees

July 20, 2012

Proposed Resolution

Agenda Item 10

10. *Review performance of the custodial, securities lending, and related services provided by State Street Bank and Trust Company, and consider authorizing the Executive Director to renew the Custody Agreement and the Securities Lending Agreement between State Street and the retirement system – Sylvia Bell and Scot Leith.*

Resolved, That the Board hereby authorizes the Executive Director to extend for two additional years the existing Custody Agreement and the Securities Lending Agreement, each dated as of February 6, 2009 and amended as of April 1, 2011 between the retirement system and State Street Bank and Trust Company (the “agreements”);

And

Resolved, That the Executive Director and his designees are hereby authorized to negotiate such amendments or modifications relating to the services to be provided by State Street under each of the agreements during the extended term on such terms and conditions as they deem necessary or desirable and in the best interest of the retirement system;

And

Resolved, that each of the Executive Director and the Deputy Director, acting individually without the joinder of the other, are hereby authorized to execute and deliver any and all documents and do any and all things they deem reasonably necessary or desirable and in the best interest of the retirement system to effectuate and carry out the purposes of these resolutions.

Tab 11



Teacher Retirement System of Texas

**RESOLUTION APPROVING REVISED
PREMIUM RATES FOR
MEDICARE ADVANTAGE PLANS
IN THE TRS-CARE PROGRAM**

July 20, 2012

Whereas, Chapter 1575, Insurance Code, authorized 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, during its June 2012 meeting, the TRS Board of Trustees ("Board") selected a Medicare Advantage carrier for TRS-Care, to provide coverage in qualified fully-insured Medicare Advantage plans to eligible TRS-Care 2 and TRS-Care 3 participants who have Medicare Parts A and B;

Whereas, also during its June 2012 meeting, the Board adopted a resolution entitled "Resolution Approving Premium Rates, Benefit Designs, and Automatic Enrollment for Medicare Advantage Plans in the TRS-Care Program" and referred to as the June Medicare Advantage Plans Resolution, and authorized thereby, among other things, a set of premium rates for the Medicare Advantage plans for the plan year commencing on January 1, 2013;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS"), have recommended additions to the existing set of premium rates for the Medicare Advantage plans for the plan year commencing on January 1, 2013, which additions are highlighted in the complete set of premium rates set out in Exhibit A, attached to this resolution and incorporated herein by reference; and

Whereas, the Board desires to adopt the recommendations of TRS staff and GRS as reflected in the revised set of premium rates presented to the Board; now, therefore, be it

Resolved, That for the plan year commencing on January 1, 2013, the Board hereby adopts and authorizes, in full replacement of the set of premium rates adopted by the Board in June 2012, the set of premium rates for the TRS-Care Medicare Advantage plans as listed in Exhibit A, to remain in effect thereafter until further action by the Board; and

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable to implement the premium rates, as adopted or authorized herein, and except for the set of premium rates expressly revised and replaced by the Board's action today in adopting this resolution, the June Medicare Advantage Plans Resolution remains in full force and effect.

Exhibit A

Effective January 1, 2013

TRS-Care Monthly Premium Rates

Participants Enrolled in Medicare Advantage

	TRS-Care 2			TRS-Care 3		
	<20 YOS	20-29 YOS	30+ YOS	<20 YOS	20-29 YOS	30+ YOS
Retiree or Surviving Spouse						
With Medicare Advantage	\$65	\$55	\$45	\$95	\$85	\$75
Retiree and Spouse						
Both with Medicare Advantage	\$160	\$145	\$130	\$245	\$225	\$205
Retiree with Medicare Advantage/Spouse with A&B	\$175	\$160	\$145	\$260	\$240	\$220
Retiree with Medicare Advantage/Spouse with B Only*	\$260	\$240	\$220	\$385	\$360	\$335
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$305	\$285	\$265	\$450	\$425	\$400
Retiree with A&B/Spouse with Medicare Advantage	\$175	\$160	\$145	\$260	\$240	\$220
Retiree with B Only*/Spouse with Medicare Advantage	\$260	\$245	\$230	\$395	\$370	\$345
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$305	\$290	\$275	\$460	\$435	\$410
Retiree or Surviving Spouse & Child(ren)**						
Retiree or Surviving Spouse with Medicare Advantage/Child not eligible for Medicare	\$127	\$117	\$107	\$177	\$167	\$157
Retiree or Surviving Spouse with Medicare Advantage/Child with Medicare Advantage	\$112	\$102	\$92	\$162	\$152	\$142
Retiree or Surviving Spouse with A&B/Child with Medicare Advantage	\$127	\$117	\$107	\$177	\$167	\$157
Retiree or Surviving Spouse with Part B of Medicare Only*/Child with Medicare Advantage	\$212	\$202	\$192	\$312	\$297	\$282
Retiree or Surviving Spouse not eligible for Medicare/Child with Medicare Advantage	\$257	\$247	\$237	\$377	\$362	\$347
Retiree, Spouse & Child(ren), where children are not enrolled in a Medicare Advantage Plan						
Retiree and Spouse with Medicare Advantage	\$222	\$207	\$192	\$327	\$307	\$287
Retiree with Medicare Advantage/Spouse with A&B	\$237	\$222	\$207	\$342	\$322	\$302
Retiree with Medicare Advantage/Spouse with B Only*	\$322	\$302	\$282	\$467	\$442	\$417
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$367	\$347	\$327	\$532	\$507	\$482
Retiree with A&B/Spouse with Medicare Advantage	\$237	\$222	\$207	\$342	\$322	\$302
Retiree with B Only*/Spouse with Medicare Advantage	\$322	\$307	\$292	\$477	\$452	\$427
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$367	\$352	\$337	\$542	\$517	\$492
Retiree, Spouse & Child(ren), where children are enrolled in a Medicare Advantage Plan**						
Retiree, Spouse and Child(ren) with Medicare Advantage	\$207	\$192	\$177	\$312	\$292	\$272
Retiree and Child with Medicare Advantage/Spouse with A&B	\$222	\$207	\$192	\$327	\$307	\$287
Retiree and Child with Medicare Advantage/Spouse with B Only*	\$307	\$287	\$267	\$452	\$427	\$402
Retiree and Child with Medicare Advantage/Spouse not eligible for Medicare	\$352	\$332	\$312	\$517	\$492	\$467
Retiree with A&B/Spouse and Child with Medicare Advantage	\$222	\$207	\$192	\$327	\$307	\$287
Retiree with A&B/Spouse with A&B/Child with Medicare Advantage	\$237	\$222	\$207	\$342	\$322	\$302
Retiree with A&B/Spouse with B Only*/Child with Medicare Advantage	\$322	\$302	\$282	\$467	\$442	\$417
Retiree with A&B/Spouse not eligible for Medicare/Child with Medicare Advantage	\$367	\$347	\$327	\$532	\$507	\$482
Retiree with B Only*/Spouse and Child with Medicare Advantage	\$307	\$292	\$277	\$462	\$437	\$412
Retiree with B Only*/Spouse with A&B/Child with Medicare Advantage	\$322	\$307	\$292	\$477	\$452	\$427
Retiree with B Only*/Spouse with B Only*/Child with Medicare Advantage	\$407	\$387	\$367	\$602	\$572	\$542
Retiree with B Only*/Spouse not eligible for Medicare/Child with Medicare Advantage	\$452	\$432	\$412	\$667	\$637	\$607
Retiree not eligible for Medicare/Spouse and Child with Medicare Advantage	\$352	\$337	\$322	\$527	\$502	\$477
Retiree not eligible for Medicare/Spouse with A&B/Child with Medicare Advantage	\$367	\$352	\$337	\$542	\$517	\$492
Retiree not eligible for Medicare/Spouse with B Only/Child with Medicare Advantage	\$452	\$432	\$412	\$667	\$637	\$607
Retiree and Spouse not eligible for Medicare/Child with Medicare Advantage	\$497	\$477	\$457	\$732	\$702	\$672
Surviving Children Only						
Surviving Children Only with Medicare Advantage	\$47	\$47	\$47	\$67	\$67	\$67

* "Part B of Medicare Only" means the individual is not covered by Medicare Part A and is eligible to purchase Medicare Part B.

** Rates are shown for one dependent child enrolled in a Medicare Advantage plan. For families with two or more dependent children enrolled in a Medicare Advantage plan, there will be an additional \$15 per month reduction in premium for the second and subsequent children enrolled in a Medicare Advantage plan; however, in no case shall premium be less than \$0.



Teacher Retirement System of Texas

**RESOLUTION CONCERNING ADDITIONS
TO THE EMPLOYER HEALTH BENEFIT
SURCHARGES APPROVED IN
JUNE 2012 FOR TRS-CARE**

July 20, 2012

Whereas, Chapter 1575, Texas Insurance Code, authorized 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, Section 1575.204, Insurance Code, requires the employer of a reported retiree to pay a health benefit surcharge based on the difference between the amount the retiree is required to pay monthly for the retiree's and any enrolled dependent's coverage under TRS-Care and the monthly full cost of such coverage for the retiree and any enrolled dependent (the "monthly employer health benefit surcharge amount");

Whereas, during its meeting in June, 2012, the TRS Board of Trustees ("Board") adopted (i) monthly premium rates for the TRS-Care 1 plan, the TRS-Care 2 plan, and the TRS-Care 3 plan, effective September 1, 2012, and (ii) monthly premium rates for the TRS-Care 2 Medicare Advantage plan and the TRS-Care 3 Medicare Advantage plan, effective January 1, 2013;

Whereas, also during its June 2012 meeting, the Board adopted a resolution entitled "Resolution Concerning the Employer Health Benefit Surcharge for TRS-Care" and referred to as the June Employer Health Benefit Surcharge Resolution, and authorized thereby, among other things, (i) monthly employer health benefit surcharge amounts for those participants enrolled in either the TRS-Care 1 plan, the TRS-Care 2 plan or the TRS-Care 3 plan, as set out in Exhibit 1 attached to that resolution, and (ii) monthly employer health benefit surcharge amounts for those participants enrolled in either the TRS-Care 2 Medicare Advantage plan or the TRS-Care 3 Medicare Advantage plan, as set out in Exhibit 2 attached to that resolution;

Whereas, during its meeting in July, 2012, the Board revised the monthly premium rates for the TRS-Care 2 Medicare Advantage plan and the TRS-Care 3 Medicare Advantage plan, effective January 1, 2013;

Whereas, to correspond with the revised monthly premium rates for the TRS-Care 2 Medicare Advantage plan and the TRS-Care 3 Medicare Advantage plan, William J. Hickman, with the TRS health benefits consultant, Gabriel, Roeder and Smith & Company ("GRS"), has calculated additional monthly employer health benefit surcharge amounts for those participants enrolled in either the TRS-Care 2 Medicare Advantage plan or the TRS-Care 3 Medicare Advantage plan, which additions are highlighted in the complete set of surcharge amounts set out in Exhibit 2, attached to this resolution and incorporated herein by reference;

Whereas, TRS staff and GRS have recommended that for the plan year commencing on January 1, 2013, for those participants enrolled in either the TRS-Care 2 Medicare Advantage plan or the TRS-Care 3 Medicare Advantage plan, the Board approve and adopt the monthly employer health benefit surcharge amounts set out in Exhibit 2, attached hereto, such amounts to be paid monthly by the retiree's employer beginning January 1, 2013 and hereafter; and

Whereas, the Board desires to adopt the recommendations of TRS staff and GRS as reflected in the revised set of employer health benefit surcharge amounts presented to the Board; now, therefore, be it

Resolved, That the Board hereby adopts and authorizes, in full replacement of the set of employer health benefit surcharge amounts in Exhibit 2 to the June Employer Health Benefit Surcharge Resolution, the set of employer health benefit surcharge amounts for the TRS-Care Medicare Advantage plans set out in Exhibit 2, attached hereto, such amounts to be paid monthly by the retiree's employer beginning January 1, 2013 and hereafter in accordance with applicable law, including related Board rules, until further action by the Board or until superseded by applicable law; and

Resolved, That the Executive Director is authorized to take all actions deemed necessary, in accordance with applicable law, to implement the employer health benefit surcharge amounts, as adopted or authorized herein, and except for the set of employer health benefit surcharge amounts expressly revised and replaced by the Board's action today in adopting this resolution, the June Employer Health Benefit Surcharge Resolution remains in full force and effect.

Exhibit 2

Effective January 1, 2013

TRS-Care Monthly Employer Surcharge Amounts

Return to Work with Participants Enrolled in Medicare Advantage

	TRS-Care 2 Advantage			TRS-Care 3 Advantage		
	<20 YOS	20-29 YOS	30+ YOS	<20 YOS	20-29 YOS	30+ YOS
Retiree						
With Medicare Advantage	\$216	\$233	\$250	\$262	\$279	\$296
Retiree and Spouse						
Both with Medicare Advantage	\$386	\$412	\$437	\$425	\$460	\$494
Retiree with Medicare Advantage/Spouse with A&B	\$401	\$427	\$452	\$440	\$475	\$509
Retiree with Medicare Advantage/Spouse with B Only*	\$363	\$398	\$432	\$293	\$336	\$378
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$521	\$555	\$589	\$490	\$532	\$575
Retiree with A&B/Spouse with Medicare Advantage	\$401	\$427	\$452	\$440	\$475	\$509
Retiree with B Only*/Spouse with Medicare Advantage	\$478	\$504	\$529	\$613	\$655	\$698
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$957	\$983	\$1,008	\$998	\$1,040	\$1,083
Retiree & Child(ren)**						
Retiree with Medicare Advantage/Child not eligible for Medicare	\$224	\$242	\$259	\$274	\$291	\$308
Retiree with Medicare Advantage/Child with Medicare Advantage	\$209	\$227	\$244	\$259	\$276	\$293
Retiree with A&B/Child with Medicare Advantage	\$224	\$242	\$259	\$274	\$291	\$308
Retiree with Part B of Medicare Only*/Child with Medicare Advantage	\$299	\$316	\$334	\$445	\$470	\$496
Retiree not eligible for Medicare/Child with Medicare Advantage	\$780	\$798	\$815	\$832	\$857	\$883
Retiree, Spouse & Child(ren), where children are not enrolled in a Medicare Advantage Plan						
Retiree and Spouse with Medicare Advantage	\$394	\$420	\$446	\$437	\$471	\$506
Retiree with Medicare Advantage/Spouse with A&B	\$409	\$435	\$461	\$452	\$486	\$521
Retiree with Medicare Advantage/Spouse with B Only*	\$372	\$406	\$440	\$305	\$347	\$390
Retiree with Medicare Advantage/Spouse not eligible for Medicare	\$529	\$563	\$598	\$501	\$544	\$587
Retiree with A&B/Spouse with Medicare Advantage	\$409	\$435	\$461	\$452	\$486	\$521
Retiree with B Only*/Spouse with Medicare Advantage	\$486	\$512	\$538	\$623	\$666	\$709
Retiree not eligible for Medicare/Spouse with Medicare Advantage	\$965	\$991	\$1,017	\$1,009	\$1,052	\$1,095
Retiree, Spouse & Child(ren), where children are enrolled in a Medicare Advantage Plan**						
Retiree, Spouse and Child(ren) with Medicare Advantage	\$379	\$405	\$431	\$422	\$456	\$491
Retiree and Child with Medicare Advantage/Spouse with A&B	\$394	\$420	\$446	\$437	\$471	\$506
Retiree and Child with Medicare Advantage/Spouse with B Only*	\$357	\$391	\$425	\$290	\$332	\$375
Retiree and Child with Medicare Advantage/Spouse not eligible for Medicare	\$514	\$548	\$583	\$486	\$529	\$572
Retiree with A&B/Spouse and Child with Medicare Advantage	\$394	\$420	\$446	\$437	\$471	\$506
Retiree with A&B/Spouse with A&B/Child with Medicare Advantage	\$409	\$435	\$461	\$452	\$486	\$521
Retiree with A&B/Spouse with B Only*/Child with Medicare Advantage	\$372	\$406	\$440	\$305	\$347	\$390
Retiree with A&B/Spouse not eligible for Medicare/Child with Medicare Advantage	\$529	\$563	\$598	\$501	\$544	\$587
Retiree with B Only*/Spouse and Child with Medicare Advantage	\$471	\$497	\$523	\$608	\$651	\$694
Retiree with B Only*/Spouse with A&B/Child with Medicare Advantage	\$486	\$512	\$538	\$623	\$666	\$709
Retiree with B Only*/Spouse with B Only*/Child with Medicare Advantage	\$447	\$481	\$515	\$476	\$527	\$578
Retiree with B Only*/Spouse not eligible for Medicare/Child with Medicare Advantage	\$604	\$638	\$672	\$672	\$724	\$775
Retiree not eligible for Medicare/Spouse and Child with Medicare Advantage	\$950	\$976	\$1,002	\$994	\$1,037	\$1,080
Retiree not eligible for Medicare/Spouse with A&B/Child with Medicare Advantage	\$965	\$991	\$1,017	\$1,009	\$1,052	\$1,095
Retiree not eligible for Medicare/Spouse with B Only/Child with Medicare Advantage	\$926	\$960	\$994	\$861	\$912	\$963
Retiree and Spouse not eligible for Medicare/Child with Medicare Advantage	\$1,085	\$1,119	\$1,154	\$1,060	\$1,111	\$1,162

* "Part B of Medicare Only" means the individual is not covered by Medicare Part A and is eligible to purchase Medicare Part B.

** Rates are shown for one dependent child enrolled in a Medicare Advantage plan. For families with two or more dependent children enrolled in a Medicare Advantage plan, there will be an additional \$15 per month reduction in premium for the second and subsequent children enrolled in a Medicare Advantage plan; however, in no case shall premium be less than \$0.

Tab 12



Teacher Retirement System of Texas

**RESOLUTION ESTABLISHING ENROLLMENT
OPPORTUNITIES AND OPT OUT PROVISIONS
FOR THE MEDICARE ADVANTAGE PLANS AND
MEDICARE PRESCRIPTION PLANS
IN THE TRS-CARE PROGRAM**

July 20, 2012

Whereas, Chapter 1575, Insurance Code, authorized 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, during its June 2012 meeting, the TRS Board of Trustees ("Board") selected a Medicare Advantage carrier for TRS-Care, to provide coverage beginning on January 1, 2013 in qualified fully-insured Medicare Advantage plans to eligible TRS-Care 2 and TRS-Care 3 participants who have Medicare Parts A and B;

Whereas, during its February 2012 meeting, the Board adopted the establishment in TRS-Care of Indirect Employer Group Waiver Plans with a benefit Wrap ("Medicare Prescription plans") to provide coverage beginning on January 1, 2013 for eligible TRS-Care 2 and TRS-Care 3 participants who have either Medicare Part A, Medicare Part B, or both;

Whereas, TRS staff has recommended that for plan years commencing on or after January 1, 2013, the Board adopt a set of initial enrollment opportunities, as set out in Exhibit A, attached to this resolution and incorporated herein by reference, in the Medicare Advantage plans and the Medicare Prescription plans for individuals who are enrolled in TRS-Care and who become eligible for such Medicare plans;

Whereas, TRS staff has further recommended that for plan years commencing on or after January 1, 2013, the Board adopt a set of annual enrollment opportunities, as set out in Exhibit B, attached to this resolution and incorporated herein by reference, in the Medicare Advantage plans and the Medicare Prescription plans for individuals who are enrolled in TRS-Care 2 or TRS-Care 3 and are eligible for such Medicare plans;

Whereas, TRS staff has further recommended that for plan years commencing on or after January 1, 2013, the Board adopt a set of opt out provisions concerning the Medicare Advantage plans and the Medicare Prescription plans, as set out in Exhibit C, attached to this resolution and incorporated herein by reference; and

Whereas, the Board desires to adopt the recommendations of TRS staff; now, therefore, be it

Resolved, That for plan years commencing on or after January 1, 2013, the Board hereby adopts and authorizes the set of initial enrollment opportunities, as set out in Exhibit A, in the Medicare Advantage plans and the Medicare Prescription plans for individuals who are enrolled in TRS-Care and who become eligible for such Medicare plans, to remain in effect thereafter until further action by the Board;

Resolved, That for plan years commencing on or after January 1, 2013, the Board hereby adopts and authorizes the set of annual enrollment opportunities, as set out in Exhibit B, in the Medicare Advantage plans and the Medicare Prescription plans for individuals who are enrolled in TRS-Care 2 or TRS-Care 3 and are eligible for such Medicare plans, to remain in effect thereafter until further action by the Board;

Resolved, That for plan years commencing on or after January 1, 2013, the Board hereby adopts and authorizes the set of opt out provisions concerning the Medicare Advantage plans and the Medicare Prescription plans, as set out in Exhibit C, to remain in effect thereafter until further action by the Board; and

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable to implement this resolution, including the establishment from year to year of the dates for each such set of annual enrollment opportunities and to otherwise create, implement, and continue the Medicare Advantage plans and the Medicare Prescription plans until further action by the Board.

Exhibit A

Initial Enrollment Opportunities in the TRS-Care Medicare Advantage Plans and the TRS-Care Medicare Prescription Plans for Individuals who are Enrolled in TRS-Care and are Eligible for such Medicare Plans

On or after January 1, 2013, an individual who is enrolled in TRS-Care and who initially becomes eligible for a TRS-Care Medicare Advantage plan or a TRS-Care Medicare Prescription plan may choose to enroll in such Medicare plan or plans according to the following enrollment provisions, in a manner and by a deadline deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion:

- For individuals who become enrolled in Medicare Parts A and/or B and who have an Age 65 Additional Enrollment Opportunity under Section 1575.161(b), Insurance Code and TRS-Care Rule 41.2(a):
 - An individual who is enrolled in TRS-Care 1, TRS-Care 2, or TRS-Care 3 and who is enrolled in Medicare Parts A and B at the time of his Age 65 Additional Enrollment Opportunity may choose to remain in his current coverage or may choose enrollment in one of the following combinations of coverage: (1) either the TRS-Care 2 medical plan or the TRS-Care 2 Medicare Advantage plan in combination with either the TRS-Care 2 drug plan or the TRS-Care 2 Medicare Prescription plan; or (2) either the TRS-Care 3 medical plan or the TRS-Care 3 Medicare Advantage plan in combination with either the TRS-Care 3 drug plan or the TRS-Care 3 Medicare Prescription plan.
 - An individual who is enrolled in TRS-Care 1, TRS-Care 2, or TRS-Care 3 and who is enrolled in Medicare Part A but is not enrolled in Medicare Part B at the time of his Age 65 Additional Enrollment Opportunity may choose to remain in his current coverage or may choose enrollment in one of the following combinations of coverage: (1) the TRS-Care 2 medical plan in combination with either the TRS-Care 2 drug plan or the TRS-Care 2 Medicare Prescription plan; or (2) the TRS-Care 3 medical plan in combination with either the TRS-Care 3 drug plan or the TRS-Care 3 Medicare Prescription plan.
 - An individual who is enrolled in TRS-Care 1 and who is not enrolled in Medicare Part A but who is enrolled in Medicare Part B at the time of his Age 65 Additional Enrollment Opportunity may choose to remain in his current coverage or may choose enrollment in the TRS-Care 2 medical plan in combination with either the TRS-Care 2 drug plan or the TRS-Care 2 Medicare Prescription plan.
 - An individual who is enrolled in TRS-Care 2 and who is not enrolled in Medicare Part A but who is enrolled in Medicare Part B at the time of his Age 65 Additional Enrollment Opportunity may choose to remain in his current coverage or may choose enrollment in one of the following combinations of coverage: (1) the TRS-Care 2 medical plan in combination with the TRS-Care 2 Medicare Prescription plan;

or (2) the TRS-Care 3 medical plan in combination with either the TRS-Care 3 drug plan or the TRS-Care 3 Medicare Prescription plan.

- An individual who is enrolled in TRS-Care 3 and who is not enrolled in Medicare Part A but who is enrolled in Medicare Part B at the time of his Age 65 Additional Enrollment Opportunity may choose to remain in his current coverage or may choose enrollment in the TRS-Care 3 medical plan in combination with the TRS-Care 3 Medicare Prescription plan.
 - Notwithstanding anything to the contrary, a dependent may only choose available plans within the same TRS-Care tier (*i.e.*, TRS-Care 1, TRS-Care 2, or TRS-Care 3) in which the retiree or surviving spouse is enrolled.
- For individuals who become enrolled in Medicare Parts A and/or B and who do not have an Age 65 Additional Enrollment Opportunity under Section 1575.161(b), Insurance Code and TRS-Care Rule 41.2(a) at the time of receipt of notice from the federal government of his enrollment in Medicare Parts A and/or B:
- An individual who is enrolled in TRS-Care 2 and who becomes enrolled in Medicare Parts A and B may choose to remain in his current coverage or may choose enrollment in one of the following combinations of coverage: either the TRS-Care 2 medical plan or the TRS-Care 2 Medicare Advantage plan in combination with either the TRS-Care 2 drug plan or the TRS-Care 2 Medicare Prescription plan.
 - An individual who is enrolled in TRS-Care 3 and who becomes enrolled in Medicare Parts A and B may choose to remain in his current coverage or may choose enrollment in one of the following combinations of coverage: either the TRS-Care 3 medical plan or the TRS-Care 3 Medicare Advantage plan in combination with either the TRS-Care 3 drug plan or the TRS-Care 3 Medicare Prescription plan.
 - An individual who is enrolled in TRS-Care 2 and who becomes enrolled in either Medicare Part A or Medicare Part B, but not both, will remain in his TRS-Care 2 medical plan but may choose to either remain in his current TRS-Care 2 drug plan or may choose to enroll in the TRS-Care 2 Medicare Prescription plan.
 - An individual who is enrolled in TRS-Care 3 and who becomes enrolled in either Medicare Part A or Medicare Part B, but not both, will remain in his TRS-Care 3 medical plan but may choose to either remain in his current TRS-Care 3 drug plan or may choose to enroll in the TRS-Care 3 Medicare Prescription plan.
 - Notwithstanding anything to the contrary, a dependent may only choose available plans within the same TRS-Care tier (*i.e.*, TRS-Care 1, TRS-Care 2, or TRS-Care 3) in which the retiree or surviving spouse is enrolled.

Exhibit B

Annual Enrollment Opportunities in the TRS-Care Medicare Advantage Plans
and the TRS-Care Medicare Prescription Plans for Individuals
who are Enrolled in TRS-Care 2 or TRS-Care 3
and are Eligible for such Medicare Plans

On or after January 1, 2013, during an annual enrollment opportunity established by the Executive Director or his designees in his or their discretion, an individual (1) who is enrolled (i) in the TRS-Care 2 medical plan and/or the TRS-Care 2 drug plan or (ii) in the TRS-Care 3 medical plan and/or the TRS-Care 3 drug plan, and (2) who is eligible for but not enrolled in a TRS-Care Medicare Advantage plan or a TRS-Care Medicare Prescription plan, may choose to enroll in such Medicare plan or plans according to the following enrollment provisions, in a manner deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion:

- An individual who is enrolled in the TRS-Care 2 medical plan and who is enrolled in Medicare Parts A and B may choose to enroll in the TRS-Care 2 Medicare Advantage plan.
- An individual who is enrolled in the TRS-Care 2 drug plan and who is enrolled in Medicare Part A and/or Medicare Part B may choose to enroll in the TRS-Care 2 Medicare Prescription plan.
- An individual who is enrolled in the TRS-Care 3 medical plan and who is enrolled in Medicare Parts A and B may choose to enroll in the TRS-Care 3 Medicare Advantage plan.
- An individual who is enrolled in the TRS-Care 3 drug plan and who is enrolled in Medicare Part A and/or Medicare Part B may choose to enroll in the TRS-Care 3 Medicare Prescription plan.
- Notwithstanding anything to the contrary, a dependent may only choose available plans within the same TRS-Care tier (*i.e.*, TRS-Care 1, TRS-Care 2, or TRS-Care 3) in which the retiree or surviving spouse is enrolled.

Exhibit C

Opt Out Provisions

An individual may opt out of a TRS-Care Medicare Advantage plan or a TRS-Care Medicare Prescription plan at any time by giving TRS notice in a manner deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion.

- Disenrollment from the TRS-Care 2 Medicare Advantage plan will be effective at the end of the last day of the month in which such notice is received by TRS. Disenrollment from the TRS-Care 2 Medicare Advantage plan will result in enrollment in the TRS-Care 2 medical plan, which will be effective on the first day of the month following the date the same above-referenced notice is received by TRS.
- Disenrollment from the TRS-Care 2 Medicare Prescription plan will be effective at the end of the last day of the month in which such notice is received by TRS. Disenrollment from the TRS-Care 2 Medicare Prescription plan will result in enrollment in the TRS-Care 2 drug plan, which will be effective on the first day of the month following the date the same above-referenced notice is received by TRS.
- Disenrollment from the TRS-Care 3 Medicare Advantage plan will be effective at the end of the last day of the month in which such notice is received by TRS. Disenrollment from the TRS-Care 3 Medicare Advantage plan will result in enrollment in the TRS-Care 3 medical plan, which will be effective on the first day of the month following the date the same above-referenced notice is received by TRS.
- Disenrollment from the TRS-Care 3 Medicare Prescription plan will be effective at the end of the last day of the month in which such notice is received by TRS. Disenrollment from the TRS-Care 3 Medicare Prescription plan will result in enrollment in the TRS-Care 3 drug plan, which will be effective on the first day of the month following the date the same above-referenced notice is received by TRS.

Tab 13

Memorandum

To: TRS Board of Trustees
Brian Guthrie, Executive Director

From: Betsey Jones, Director of Health Care Policy and Administration

Date: July 10, 2012

Re: TRS-Care Study

Legislative Study Charge

During the 82nd Texas Legislative session, funding projections for TRS-Care indicated that under the current funding structure the program would be solvent through the 2012-2013 biennium. At that time the projected shortfall for the 2014-2015 biennium was projected to be over \$800 million. To address this near-term insolvency, the Legislature directed TRS to conduct a study. The study is to include a comprehensive review of potential plan design and other changes that would improve the sustainability of the program with a report of the findings and recommendations due by September 1, 2012.

Options to Improve Solvency

TRS-Care solvency can be looked upon as a three legged stool representing the options available for extending the life of the fund:

- Benefits/eligibility (including how benefits are managed)
- Retiree premiums
- Other contributions (state, district, active employee, federal)

The following options, exploring a variety of changes, will be included in the study:

1. Pre-fund the long-term liability.
2. Fund on a pay-as-you-go basis for the biennium.
 - a. Increase only the state contribution. No change to district and employee contributions. No change to retiree premiums.
 - b. Proportionate increases to the state, district and active employee contributions. No change to retiree premiums.
 - c. Proportionate increases to all, including retiree premiums.
3. Retiree pays full cost for optional coverage.

4. Require retirees to purchase Medicare Part B.
 - a. Grandfather existing retirees who did not purchase Medicare Part B when first eligible.
 - b. Consider paying the Medicare Part B late penalty for retirees up to a break-even age.
5. Opt out consequence. Eligible enrollees must participate in a Medicare Advantage plan and the Medicare Part D plan or move to the TRS-Care 1 catastrophic plan. To provide more Medicare Advantage choices, issue an RFP for regional plans.
6. Tighten eligibility requirements.
 - a. Grandfather employees currently eligible to retire and enroll in TRS-Care.
 - b. No grandfather opportunity.
7. Non-Medicare retirees may enroll only in the TRS-Care 1 catastrophic plan until they reach age 65.
8. Defined contribution approach. Establish a Health Reimbursement Account for the non-Medicare retirees to allow retirees to shop for insurance.
9. Move the non-Medicare retirees to TRS-ActiveCare to spread costs over a larger, healthier population.

Tab 14

Pension Benefit Design Study

TRS Board Meeting
July 20, 2012

Objectives

- Review study evolution.
- Discuss next steps.
- Receive feedback on the Executive Summary.

Study Evolution

- February – Lubbock, TX Board Retreat
 - Overview of study charge and background.
 - Expert panel, consisting of Mary Beth Braitman from Ice Miller, LLP, Keith Brainard with NASRA, and Joe Newton of GRS, discussed national issues, other system reforms, and how TRS compares to other plans.
 - Discussed study scope and process.

Study Evolution

- April - May
 - Discussed concepts in system design, including risk balancing, replacement ratio, and relative cost.
 - Presented potential alternative plan structures and potential changes to the existing DB plan as directed by the study charge.
 - Conducted town hall meetings in Austin and DFW.
 - Met individually with each trustee to discuss detailed outline.

Study Evolution



- June
 - Compared TRS' benefit level to other major systems through the Relative Benefit Index.
 - Discussed amortizing the existing UAAL, if a new plan structure results in closing the plan.

Next Steps

Distribute full study internally for first review	July 23
Deadline to receive first round comments	July 30
Distribute full study internally for second review	August 6
Deadline to receive second round review	August 13
Meet with association groups to discuss findings	Around August 13
Conduct final proof	August 13-20
Deliver study to printer	August 20
Meet with legislative leadership offices before release	Around August 20
Deliver study to LBB and GOBPP	August 31



Questions

Constructing a Secure Future



Tab 15 a

MEMORANDUM

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

From: Don Green, Chief Financial Officer

Date: July 20, 2012

Subject: State Comptroller Annual Certification for Retiree Health Benefits
Plan (TRS-Care)

The attached certification is required under Section 1575.209 of the Insurance Code. This annual certification provides that before August 31 of each year, the Board must certify to the Comptroller of Public Accounts the estimated amount of state contributions due the Texas Public School Retired Employees Group Insurance Program for the upcoming fiscal year under the appropriations authorized by law.

STATE OF TEXAS

§

COUNTY OF TRAVIS

§

§

At its meeting on July 20, 2012, the Board of Trustees of the Teacher Retirement System, on a motion by _____, seconded by _____, voted to certify \$133,675,493 as the estimated amount of state contributions to be received by the retired school employees group insurance fund for the 2013 fiscal year under the appropriations authorized by Chapter 1575 of the Insurance Code, the Texas Public School Retired Employees Group Benefits Act. This is the amount authorized in the General Appropriations Act (House Bill 1, 82nd Legislature, Regular Session). These contributions are based on 0.5 percent of the salary of each active public school employee for fiscal year 2013.

Based on adjustments between the estimated fiscal year 2012 appropriations authorized in the General Appropriations Act and the most current estimates for the 2012 state contributions, the following are the projected amounts that are affected by Rider 18.

Estimated fiscal year 2012 excess of state's actual statutory obligations for retiree insurance contributions re-appropriated to TRS-Care for deposit in the Texas Public School Retired Employees Group Insurance Trust Fund:
\$ 20,298,835

Estimated fiscal year 2012 excess of state's actual statutory obligations for retirement contributions re-appropriated to TRS-Care for deposit in the Texas Public School Retired Employees Group Insurance Trust Fund:
\$ 76,261,001

Per Rider 18 – Contingency Appropriation: Funding for the Texas Public School Retired Employees Group Insurance Program (Art. III-29, 2012-13 GAA), all estimated General Revenue appropriations made to A.1.1, TRS – Public Education Retirement and A.1.2, TRS – Higher Education Retirement for fiscal year 2012 in excess of the state's actual statutory obligations for retirement and retiree insurance contributions are hereby re-appropriated to A.2.1, Retiree Health – Statutory Funds, for deposit to the Texas Public School Retired Employees Group Insurance Trust Fund.

This estimate of state contributions is required by Section 1575.209 of the Insurance Code.

SIGNED: _____
R. David Kelly
Chairman, Board of Trustees
July 20, 2012

SIGNED: _____
Brian Guthrie
Executive Director
July 20, 2012

Tab 15 b

MEMORANDUM

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

From: Don Green, Chief Financial Officer

Date: July 20, 2012

Subject: Certification of Amount Necessary to Pay State Contributions for
Fiscal Years 2014 and 2015 – Retiree Health Benefits Plan (TRS-
Care)

The attached certification is required under Section 1575.208 of the Insurance Code. Not later than October 31 preceding each regular session of the Legislature, the Board is required to certify to the Legislative Budget Board and the budget division of the Governor's Office the amounts necessary to pay the state contributions for the following biennium to the Texas Public School Retired Employees Group Insurance Trust Fund.

STATE OF TEXAS

§

COUNTY OF TRAVIS

§

§

At its meeting on July 20, 2012, the Board of Trustees of the Teacher Retirement System, on a motion by _____, seconded by _____, voted to certify the following estimated amounts as necessary to pay the state's contributions to the retired school employees group insurance fund for the 2014–2015 biennium:

Fiscal Year 2013 Final Settlement	\$ (10,115,407)
Fiscal Year 2014	\$ 247,120,173
Fiscal Year 2015	\$ 123,560,086

These estimates are required by Section 1575.208 of the Insurance Code, and are based on the assumption that the minimum statutory contribution rate of 1.0 percent will apply to fiscal year 2014 and the rate of 0.5 percent for fiscal year 2015.

Based on the Legislative Appropriations Request (LAR) budget instructions allowing for the submission of exceptional items, a contribution rate of 1.0% is requested for fiscal year 2015. In addition, supplemental funding in the amount of \$110,529,739 is being requested to ensure solvency for the biennium. If approved, the estimated amount of the exceptional items request for fiscal year 2015 would be:

Fiscal Year 2015	\$ 234,089,825
------------------	----------------

SIGNED: _____

R. David Kelly
Chairman, Board of Trustees
July 20, 2012

SIGNED: _____

Brian Guthrie
Executive Director
July 20, 2012

Tab 15 c

MEMORANDUM

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

From: Don Green, Chief Financial Officer

Date: July 20, 2012

Subject: Certification of State Contributions to the Pension Trust Fund for
Fiscal Years 2014 and 2015

The attached certification is required under Section 825.404 of the Government Code. Before the 2nd day of November of each even-numbered year, the Board shall certify to the Comptroller of Public Accounts for review and adoption an estimate of the amount necessary to pay the state contributions to the retirement system for the following biennium.

The first estimate on the certification is based on a state contribution rate of 6.4% of covered payroll. The second estimate is based on the rate of 6.9% of covered payroll for fiscal year 2014 and on the rate of 7.4% of covered payroll for fiscal year 2015. These are included in the Legislative Appropriations Request (LAR) budget instructions allowing for the submission of exceptional items.

STATE OF TEXAS

§

COUNTY OF TRAVIS

§

§

At its meeting on July 20, 2012, the Board of Trustees of the Teacher Retirement System, in compliance with Texas Government Code, Section 825.404 (b), on a motion by _____, seconded by _____, voted to certify the following estimated amounts as necessary to pay the state's contributions from General Revenue to the retirement system for the 2014–2015 biennium based on the appropriated contribution rate of 6.4% of the aggregate annual compensation of all members of the Teacher Retirement System to be:

Fiscal Year 2013 Final Settlement	\$ (82,617,992)
Fiscal Year 2014	\$ 1,486,803,606
Fiscal Year 2015	\$ 1,490,397,650

These amounts are net of estimated funds to be received by the System for contributions based on compensation above the statutory minimum, other educational and general income, federal/private funding sources, and first ninety day new member contributions.

Based on the Legislative Appropriations Request (LAR) budget instructions allowing for the submission of exceptional items, a contribution rate of 6.9% is requested for fiscal year 2014 and a rate of 7.4% is requested for fiscal year 2015. If approved, the estimated amount of the exceptional items request for state contributions to the retirement system for the 2014–2015 biennium would be:

Fiscal Year 2014	\$ 116,156,532
Fiscal Year 2015	\$ 232,874,633

SIGNED: _____

R. David Kelly
Chairman, Board of Trustees
July 20, 2012

SIGNED: _____

Brian Guthrie
Executive Director
July 20, 2012

Tab 16

TEACHER RETIREMENT SYSTEM OF TEXAS
2014 – 2015 Legislative Appropriations Request (LAR) Update

- **LAR instructions and policy letter were issued June 4, 2012 (attached). The LAR submission date for TRS is August 16, 2012.**
- **Base reconciliation was submitted to LBB on June 14, 2012. TRS will continue to work with staff from the LBB, Governor’s Office, and the Legislature on the final LAR document.**
- **Per LBB guidance, the base request for TRS-Care is the statutorily required 1.0% of payroll for FY 2014; however, the baseline for FY 2015 is 0.5%, with an exceptional item requested that restores the other 0.5%.**
 - **An additional exceptional item request is also being submitted for supplemental funding for TRS-Care in the amount of \$110.5 million required for solvency for the biennium. This assumes a 60% participation rate in the Medicare Advantage and Medicare Part D plans.**
- **Retired plan salary growth assumptions remain at 0%.**
- **Pension fund salary growth assumptions remain at 0% for public education and 2% for higher education.**
- **TRS’ baseline request for pension funding is 6.4% of payroll with exceptional items requesting state matching increases to 6.9% in FY 2014 and 7.4% in FY 2015.**
- **\$25 million is being requested for the TEAM program as well as the authority to transfer into the 2014 – 2015 biennium any unexpended funding from the 2012 – 2013 biennium.**



Legislative Budget Board
Robert E. Johnson Bldg.
1501 N. Congress Avenue, 5th Floor
Austin, TX 78701
(512) 463-1200

**Governor's Office of
Budget, Planning and Policy**
1100 San Jacinto, 4th Floor
Austin, TX 78701
(512) 463-1778

MEMORANDUM

June 4, 2012

**TO: State Agency Board/Commission Chairs
State Agency Heads/Executive Directors
Appellate Court Justices and Judges
Chancellors, Presidents, and Directors of Institutions and Agencies of Higher Education**

Detailed instructions for the submission of legislative appropriations requests for the 2014–15 biennium have been posted on the external websites of the Legislative Budget Board and the Governor's Office. A staggered schedule of submission dates is included as an appendix to the instructions.

As a starting point for budget deliberations, an agency's baseline request for General Revenue Funds and General Revenue-Dedicated Funds may not exceed the sum of amounts expended in fiscal year 2012 and budgeted in fiscal year 2013. Establishment of agency budget baselines through the legislative appropriations request process does not preclude the possibility that state agencies may be asked to reduce their fiscal year 2013 budgets should state fiscal conditions warrant it. Agencies must also submit a supplemental schedule detailing how they would reduce the baseline request by an additional 10 percent (in 5 percent increments) in General Revenue Funds and General Revenue Dedicated Funds.

Exceptions to the baseline request limitation include amounts necessary to:

- maintain funding for the Foundation School Program;
- satisfy debt service requirements for bond authorizations;
- maintain benefits and eligibility in Medicaid entitlement programs, the Children's Health Insurance Program, the foster care program, the adoption subsidies program, and the permanency care assistance program; and
- satisfy employer contribution requirements for state pension systems and employee group benefits (not including payroll contributions made by state agencies and institutions of higher education for group health insurance), though group benefit modifications may be considered.

Funding requests for other purposes that exceed the baseline spending level may not be included in the baseline request but may be submitted as Exceptional Items.

We appreciate the opportunity to work with you and your staff during this budget cycle.

Sincerely,

Handwritten signature of Ursula Parks in black ink.

Ursula Parks
Acting Director
Legislative Budget Board

Handwritten signature of Jonathan Hurst in black ink.

Jonathan Hurst
Director
Governor's Office of Budget, Planning and Policy

TEACHER RETIREMENT SYSTEM OF TEXAS
Summary of Legislative Appropriations Request (LAR) for FY 2014 & 2015

DRAFT

BASE REQUEST

APPROPRIATION			(A)	(B)	Base Request Net Incr (Decr)	(C)	(D)	Grand Total Requested
	2014	2015	2014-2015 Biennium	2012-2013 Baseline		Exceptional Items Request 2014	Exceptional Items Request 2015	
Pension Trust Fund								
Public Education - 6.4% State Contribution	\$ 1,307,101,424	1,307,101,424	2,614,202,848	2,543,773,634	70,429,214	102,117,299	204,234,598	2,920,554,744
Higher Education - 6.4% State Contribution	182,287,109	185,882,984	368,170,094	332,159,203	36,010,890	14,241,180	29,044,216	411,455,490
Higher Education - General Revenue Dedicated	110,344,561	112,551,452	222,896,013	204,252,500	18,643,513	8,620,669	17,586,164	249,102,846
Administrative Operations*	80,638,608	78,411,088	159,049,696	149,773,752	9,275,944	n/a	n/a	159,049,696
Total Pension Trust Fund	\$ 1,680,371,702	1,683,946,948	3,364,318,651	3,229,959,089	134,359,561	124,979,148	250,864,978	3,740,162,776
Retiree Health Benefits Program (TRS-Care)								
State Contribution Rate at 1.0%/0.5%	\$ 247,120,173	123,560,086	370,680,259	370,612,235	68,024	-	(E) 234,089,825	604,770,085
GRAND TOTAL APPROPRIATIONS	\$ 1,927,491,875	1,807,507,035	3,734,998,910	3,600,571,325	134,427,585	124,979,148	484,954,804	4,344,932,861
METHOD OF FINANCING								
General Revenue Fund	\$ 1,733,923,779	1,613,957,737	3,347,881,516	3,241,846,245	106,035,271	116,156,532	466,964,458	3,931,002,506
General Revenue Dedicated -								
Other Educational & General	110,344,561	112,551,452	222,896,013	204,252,500	18,643,513	8,620,669	17,586,164	249,102,846
Sub-Total GR & GR Dedicated	\$ 1,844,268,340	1,726,509,189	3,570,777,529	3,446,098,745	124,678,784	124,777,201	484,550,623	4,180,105,352
Pension Trust Fund - Employee Retirement	\$ 2,584,927	2,586,758	5,171,685	4,698,828	472,857	201,947	404,181	5,777,813
Pension Trust Fund -Administration	80,638,608	78,411,088	159,049,696	149,773,752	9,275,944	n/a	n/a	159,049,696
GRAND TOTAL FUNDING	\$ 1,927,491,875	1,807,507,035	3,734,998,910	3,600,571,325	134,427,585	124,979,148	484,954,804	4,344,932,861

FTEs - Requested/Authorized

503

503

490

NOTES:

- (A) Baseline request for pension fund state contribution is 6.4%. Payroll growth assumptions are at 0% for Public Education and 2% for Higher Education. Baseline request for TRS-Care state contribution is 1.0% for FY 2014 and 0.5% for 2015.
- (B) Pension fund state contribution rate is 6.0% for FY 2012 and 6.4% for FY 2013. TRS-Care is 1.0% for FY 2012 and 0.5% for FY 2013. Note: Implementation of Rider 18 in FY 2013 would increase base for TRS-Care. Settle up amounts due to state for FY 2012 would be re-appropriated to TRS-Care.
- (C) Exceptional Items Request based on state matching percentage of 6.9%.
- (D) Exceptional Items Request based on state matching percentage of 7.4%.
- (E) Exceptional Items Request for TRS-Care based on state matching percentage of 1.0% for FY 2015 and \$110.5 million supplemental funding required for solvency.

* Administrative Operations Strategy includes \$25 million for the TEAM program: \$12.1 million for FY 2014 and \$12.9 million for FY 2015.

Tab 17

MEMORANDUM

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

From: Jay LeBlanc, Director of Risk Management and Strategic Planning

Date: June 15, 2012

Subject: Purchase System Liability Insurance

Attached for your consideration is a proposed resolution that would grant the Executive Director, or his designee, authority to purchase the Directors' and Officers' Liability Insurance, Fiduciary Liability Insurance, and Employment Practices Liability Insurance for the policy period of November 1, 2012 through November 1, 2013.

Section 825.112 of the Government Code authorizes the Trustees to "self-insure, or purchase any insurance, including fiduciary and liability coverage for trust assets or the trustees, employees, and agents of the board of trustees, in amounts the board of trustees considers reasonable and prudent."

If approved, staff will obtain quotes from the liability insurer. Staff will initiate insurance quotes through the State Office of Risk Management (SORM), but may need to seek quotes outside SORM.

TRS has purchased these policies through SORM since 2004. The insurer is the Westchester Fire Insurance Company; A.M. Best rated A+ XV. The broker is Arthur J. Gallagher Risk Management Services, Inc. Fiduciary Liability, Directors' & Officers' Liability, and Employment Practices Liability are arranged under one policy with endorsements which expires November 1, 2012.

The Fiduciary Liability section currently provides the following coverage:

- \$25,000,000 aggregate for all loss combined including defense costs
- \$150,000 sublimit of liability for Cap Penalties
- \$100,000 sublimit of liability for HIPAA penalties
- \$500,000 retention for each claim

The total premium for the Fiduciary Liability coverage was \$410,290.

The Directors' & Officers' Liability section provides the following coverage:

- \$25,000,000 aggregate for all loss combined including defense costs plus \$1,000,000 additional aggregate for non-indemnifiable loss once the \$25,000,000 is eroded
- \$5,000,000 punitive damages sublimit
- \$10,000,000 employment practices sublimit
- \$100,000 retention for indemnifiable claims brought against an individual or the organization

- \$0 retention for non-indemnifiable claims
- \$250,000 retention for employment practices claim
- \$250,000 retention for third party claim

The premium for the Directors' & Officers' liability is \$177,718.

The combined limit of liability under all coverages is \$51,100,000.

It is anticipated that the coverage and rates will not change significantly for the renewal policies. Any change in premium will be due to increased exposure or changes in the insurance premium market, *e.g.*, FTEs, budget, and plan balances.

Proposed Resolution on System Liability Insurance

Resolved, That, pursuant to Texas Government Code Section 825.112, the Executive Director or his designee is authorized to purchase directors and officers insurance coverage, including fiduciary liability and employment practices liability insurance with coverage limits of up to \$25 million under each policy for fiscal year 2013, at a cost to be determined by the Executive Director, and to negotiate and agree to such terms and conditions of coverage as the Executive Director or his designee may deem in his or her discretion to be in the best interest of TRS, and to execute and deliver any authorizations to bind coverage and such other documents, applications, contracts, agreements, certificates, or affidavits as may be necessary or desirable in connection with acquiring such insurance.

Tab 18

MEMORANDUM

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

From: Don Green, Chief Financial Officer

Date: June 14, 2012

Subject: Approval to Amend Pension Actuarial Services Contract

The Executive Director recommends that the Board of Trustees amend Gabriel, Roeder, Smith and Company's (GRS) contract for pension actuarial services. The amendment would add another year of services, from September 1, 2012 through August 31, 2013.

Section 825.206 of the Government Code provides that the Board shall designate an actuary as a technical advisor. Each year, the Board evaluates the performance of the actuary. The Board most recently evaluated GRS' pension actuarial services in June, 2012. The evaluation was favorable.

The Board last selected GRS for TRS' pension actuarial services in June 2009. At the time, state law required the Trustees to advertise and review proposals from actuarial service providers at least every *three* years. Consequently, TRS contracted with GRS for three years, with the contract beginning September 1, 2009, and expiring on August 31, 2012.

The Legislature changed the statute in 2011 to provide that Board advertising and review of proposals occurs at least once every four years. Thus, TRS now can utilize GRS for up to four years without the necessity to advertise and solicit proposals.

Under By-Law 1.8 (o), it is the responsibility of the Board to select an actuary. Thus, your approval to amend GRS' contract term by adding one year through August 31, 2013 is needed. Should you desire to approve the amendment, a resolution is attached for your consideration that delegates authority to the Executive Director to execute an amendment of GRS' contract for an additional 1 year term.

Resolution to Amend Pension Actuary Contract Term

Resolved, That the Board of Trustees of the Teacher Retirement System of Texas (the "Board"), pursuant to Section 825.206 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 amendment with Gabriel, Roeder, Smith & Company ("GRS") to provide pension consulting and actuarial services to TRS and the Board for an additional one year term; 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 amendment 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 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 amendment.

AMENDMENT TO CONTRACT FOR ACTUARIAL CONSULTING SERVICES
TRS CONTRACT No. 5201 000 247 TRSCNTR

WHERE AS, the Teacher Retirement System of Texas ("TRS") entered into an agreement for actuarial consulting services effective September 1, 2009 with Gabriel Roeder, Smith and Company ("GRS"); and

WHEREAS, pursuant to Section 825.206 of the Government Code, the TRS Board of Trustees approved the amendment of the GRS's contract through August 31, 2013; and

WHEREAS, TRS and GRS wish to amend the second paragraph of the contract and Section 1 paragraph B by modifying the contract term to include services through August 31, 2013;

IT IS UNDERSTOOD AND AGREED AS FOLLOWS:

- A. Paragraph 2 is amended by striking the last 2 sentences of the paragraph and replacing them with a new paragraph that states:

TRS agrees to engage GRS as its consulting actuary pursuant to Section 825.206, Government Code, for the period beginning September 1, 2012 and ending August 31, 2013, conditioned upon favorable evaluation of performance by the TRS Board of Trustees.

- B. Section 1., paragraph B is amended by striking the last 2 sentences of paragraph B. and replacing them with the following:

GRS will prepare annual actuarial valuations for fiscal year ending August 31, 2012. GRS shall also prepare an update of the appropriate actuarial valuation as of February 28, 2013 (in support of the 2013 Texas Legislative Session).

- C. Contract in all other respects is ratified and confirmed.

Executed to be effective as of September 1, 2012.

Gabriel Roeder, Smith and Company

By: _____
_____ (Print name & title)

Date: _____

Teacher Retirement System of Texas

By: _____
Brian Guthrie, Executive Director

Date: _____

Tab 19

MEMORANDUM

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

FROM: Howard Goldman, Director of Communications

DATE: July 20, 2012

SUBJECT: Communications Update

At the next Board of Trustees meeting, in September, we will celebrate TRS' 75th anniversary. A committee of TRS employees has been preparing for this event by working on a variety of initiatives, including those listed below:

Employee Barbeque Lunch – On Thursday, September 6, TRS employees will officially launch the retirement system's 75th anniversary with a barbeque lunch held in the TRS cafeteria.

Friends of TRS Dinner – On Wednesday evening, September 12, the Texas Retired Teachers Association (TRTA) will host a special anniversary dinner and program at the Shoal Crossing Event Center, 8611 North Mopac Expressway (Loop 1), which is just south of U.S. Highway 183. TRTA Executive Director Tim Lee is organizing the celebration and will provide additional details over the next few weeks.

Official Anniversary Program – On Thursday morning, September 13, we will begin the TRS Board meeting with a brief ceremony to commemorate the system's anniversary. At that ceremony, we will honor past leaders of the system, recognize some of our oldest and most knowledgeable members, read a proclamation from the governor, and debut a new TRS video.

TRS 75th Anniversary Video – At the September 13th board meeting, we will introduce a new video celebrating TRS' 75-year history and the diverse contributions of our participants. The video will include historical information about the system, thoughts about the future, and interviews with members, retirees and agency officials. We will place the video on our website and YouTube channel and will widely publicize it to members, retirees, and the general public.

Website History Museum – TRS staff has searched through internal and external archives to identify historic milestones, photographs, and related information that we will place in a new section of the TRS website. The material will appear in a cyber museum that will invite visitors to trace the history of TRS, by decade, from 1937 to the present. Also featured on the website will be interesting facts about what life was like in Texas and the world in 1937.

Communications Update

July 20, 2012

Page 2

Umlauf Sculpture Display – TRS staff will unveil a display featuring photographs of the Charles Umlauf sculpture titled “Spirit of Learning” while it was under construction. The sculpture now stands at the entrance to the TRS Administration Building on Red River Street. Included with the photographs, which have never previously been seen by the public, will be a brief history of the project with biographical information about one of Texas’ most famous sculptors.

TRS Staff 75th Anniversary Photograph – To commemorate the occasion of TRS’ 75th anniversary, we will take an all-employee photograph in early September. The photograph will be displayed at TRS and made available for purchase by employees.

Audio Interviews – Staff will add a series of audio interviews to the TRS website, which were conducted with various members and retirees who have shared their memories about working in public education and how it has enriched their lives. Photographs of those interviewed will also be placed on the website.

Graphic Design Project – In honor of its 75 years of service, TRS will introduce a series of design changes to provide the agency with an updated and more contemporary image. We will begin using the new designs following the September anniversary celebration. The designs include new logos for TRS, its 75th anniversary celebration, TRS-ActiveCare, and TRS-Care. We will also begin using newly designed letterhead, business cards, and print and electronic design templates. In addition, we will introduce a new graphics style guide for employees to ensure a more consistent, inviting, and contemporary external face for the agency. Current TRS materials will continue to be used until depleted. They will then be replaced with materials featuring the updated designs.

We will publicize TRS’ 75th Anniversary through the August issue of *TRS News*, the TRS website, social media sites, and other means. All of us look forward to celebrating our anniversary with you in September and will provide additional information in advance of the next board meeting.

Tab 20 a

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TEACHER RETIREMENT SYSTEM OF TEXAS
BOARD REPORT
SUMMARY OF DISBURSEMENTS

PAGE 1

	March 1, 2012 through May 31, 2012		
	NUMBER OF	GROSS	AVERAGE
	PAYMENTS	PAYMENT TOTAL	PAYMENT
	-----	-----	-----
Service Retirees	2,137	3,532,065.43	1,652.81
Disability Retirees	193	198,355.16	1,027.74
Survivor Benefits	307	76,958.34	250.67
Survivor Benefit Lump Sum Payment	2,684	16,058,679.67	5,983.11
Life Annuity as Death Settlement	47	78,052.27	1,660.68
60 Monthly Payments as Death Settlement	52	71,055.99	1,366.46
Refund of Deposit as Death Settlement	128	2,672,158.91	20,876.24
Twice Annual Salary as Death Settlement	298	10,210,062.44	34,261.95
Lump Sum DROP Member Payment	3	480,389.34	160,129.78
5 Annual DROP Member Payments			
10 Annual DROP Member Payments			
60 Monthly DROP Member Payments			
120 Monthly DROP Member Payments	1	2,353.13	2,353.13
DROP Payments to Beneficiary of Active Member			
12 Month Partial Lump Sum Option Payment	221	5,776,780.32	26,139.27
24 Month Partial Lump Sum Option Payment	128	6,683,303.52	52,213.30
36 Month Partial Lump Sum Option Payment	343	28,367,217.72	82,703.25
Totals:	6,542	74,207,432.24	11,343.23
Total Refunds:	37,366	269,131,536.44	7,202.57

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 20 b

**TEACHER RETIREMENT SYSTEM OF TEXAS
MEDICAL BOARD MEETING
OPEN SESSION AGENDA
MARCH 13, 2012**

The Medical Board of the Teacher Retirement System of Texas met at 12:00 p.m. Tuesday, March 13, 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. Kirsten Morgan, Legal Services, TRS
Mr. Mike Rehling, Assistant Manager, TRS
Ms. Denise Hope, Benefit Consultant, TRS

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

1. REVIEW OF MINUTES FROM THE JANUARY 10, 2012 MEETING.

The minutes of the January 10, 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 12:21 p.m.
The meeting was re-opened at 12:37 p.m.

3. REVIEW OF DISABILITY STATISTICS.

**PG. 2 TRS Medical Board Minutes
March 13, 2012**

4. DISCUSSION OF COMPENSATION FOR MEDICAL BOARD MEMBERS.

Dr. Wilson led the discussion in support of an increase in the compensation of the Medical Board members.

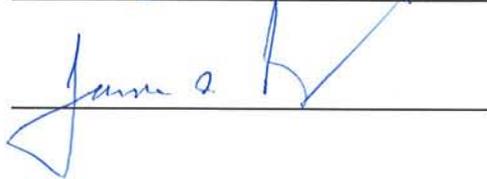
5. DISCUSSION OF ITEMS TO BE PLACED ON FUTURE AGENDAS.

6. DISCUSSION OF THE DATE OF NEXT BOARD MEETING.

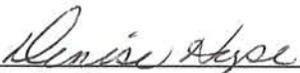
The next Medical Board meeting was scheduled for May 8, 2012.
The meeting was adjourned at 1:02 p.m.

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





Attest:


Denise Hope

Tab 21 a

May 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: July 6, 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 May 2012 the Pension Trust Fund disbursed a total of \$5.2 million for administrative operations, which included approximately \$3.8 million for salaries & other personnel costs, \$0.6 million for professional fees, and \$0.8 million for other operating expenses. Items of interest include payments of \$331,000 for investment consultants, \$238,000 for investment counsel, \$129,000 for leased space, and \$109,000 for software purchases and maintenance.

Additionally, TEAM program disbursements for May totaled \$184,000, which included \$40,000 for salaries & other personnel costs, \$98,000 for professional fees, and \$46,000 for software purchases and maintenance.

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 (b)
June		5,503,529
July		5,493,462
August		5,830,201
Totals	<u>\$ 57,811,581</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 \$60,957,102 at May 31, 2011.

(c) Includes reimbursements of \$428,511.

Tab 21 b

Financial Report for the Three Quarters Ended May 31, 2012 Pension Trust Fund

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

From: Don Green, Chief Financial Officer

Date: July 6, 2012

Net Assets Held in Trust for Pension Benefits:

For the third quarter ended May 31, 2012 the *Net Assets Held in Trust for Pension Benefits* were \$107.3 billion. This is a decrease of \$3.5 billion from the end of the second quarter and a decrease of \$.1 billion from the fiscal year beginning net assets of \$107.4 billion.

Total Additions for the third quarter, excluding Net Appreciation in Fair Value of Investments, were \$1.8 billion. Contributions and other additions totaled \$1.1 billion, for an \$8 million increase over the second quarter. Interest, dividend, and securities lending income totaled \$696.8 million, an increase of \$297.5 million over the second quarter. This was primarily due to higher income and dividend payouts throughout the quarter, particularly in May, 2012. *Total Deductions* for the third quarter were \$2.0 billion including external manager fees of \$35.5 million, which decreased by \$14.8 million. Benefit payments account for 93% of all deductions.

Administrative Operations:

The *Total Administrative Expenses* for the third quarter ended May 31, 2012 were \$15.4 million of which \$5.2 million was for March, \$5.0 million for April, and \$5.2 million for May. *Salaries and Other Personnel Costs* were \$11.4 million. *Professional Fees and Services* were \$1.7 million, *Other Operating Expenses* were \$2.3 million, and *Capital Expenses* were \$42,000. At the end of the third quarter, 33% of the total funds budgeted were remaining.

Pension Trust Fund Net Assets - FY 2012 YTD and FY 2011

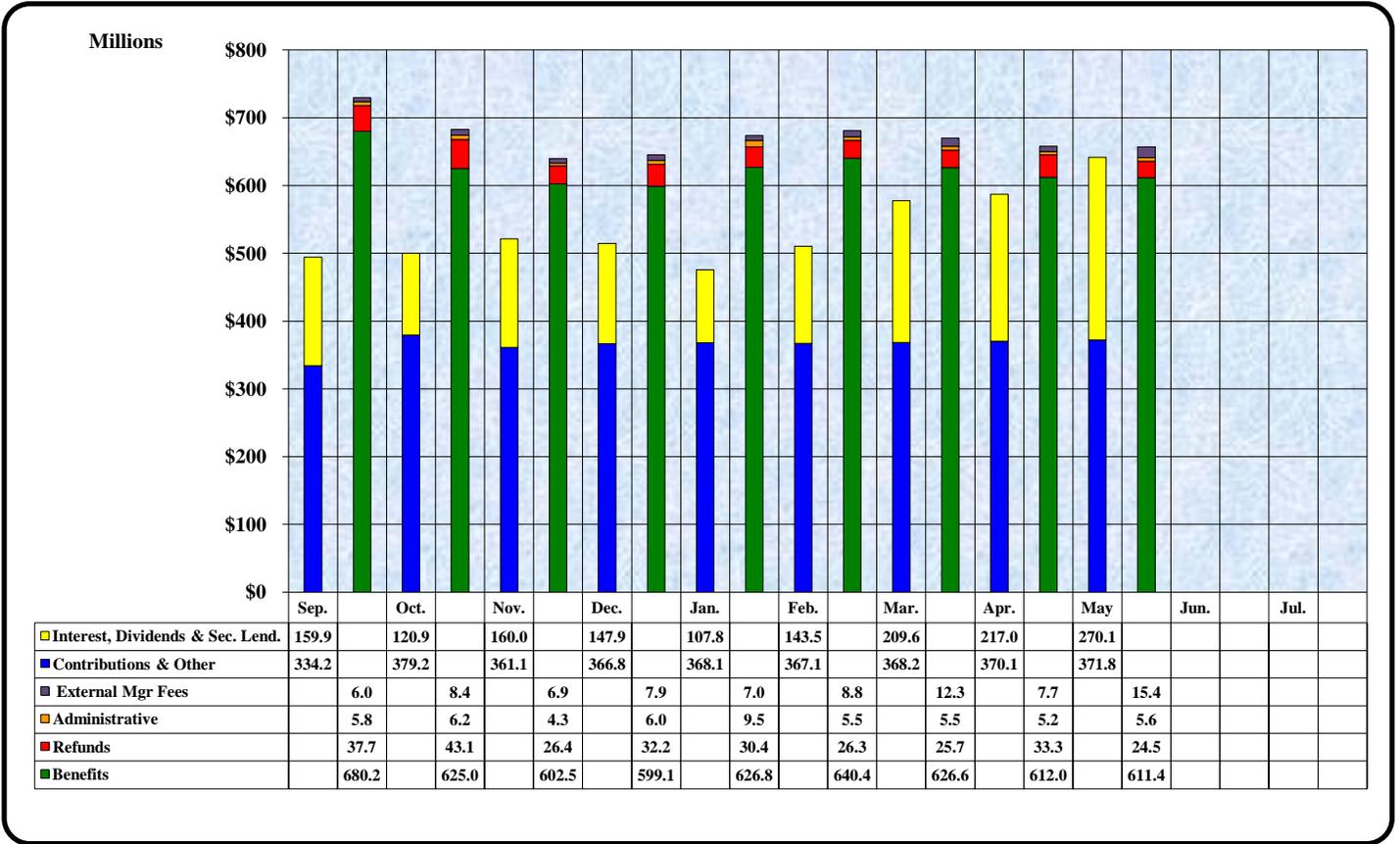


Source: Unaudited monthly financial statements.

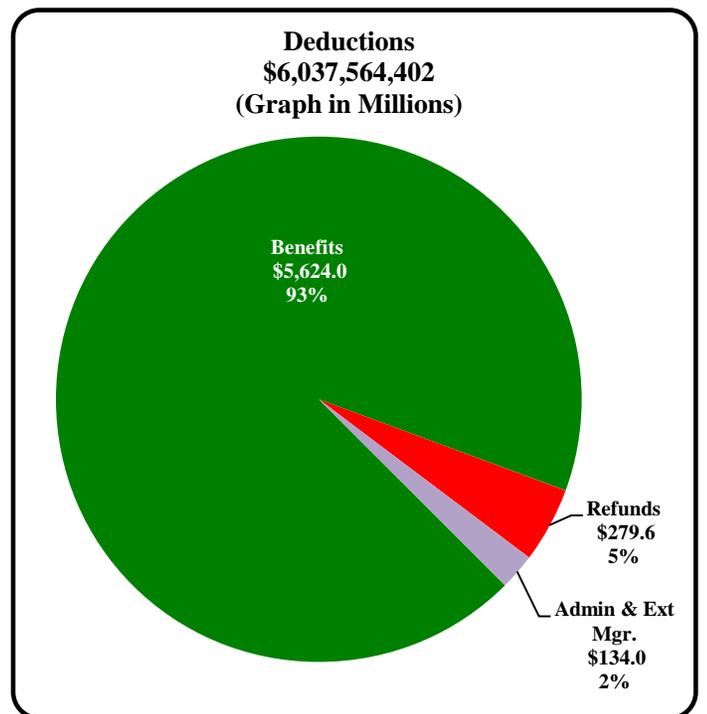
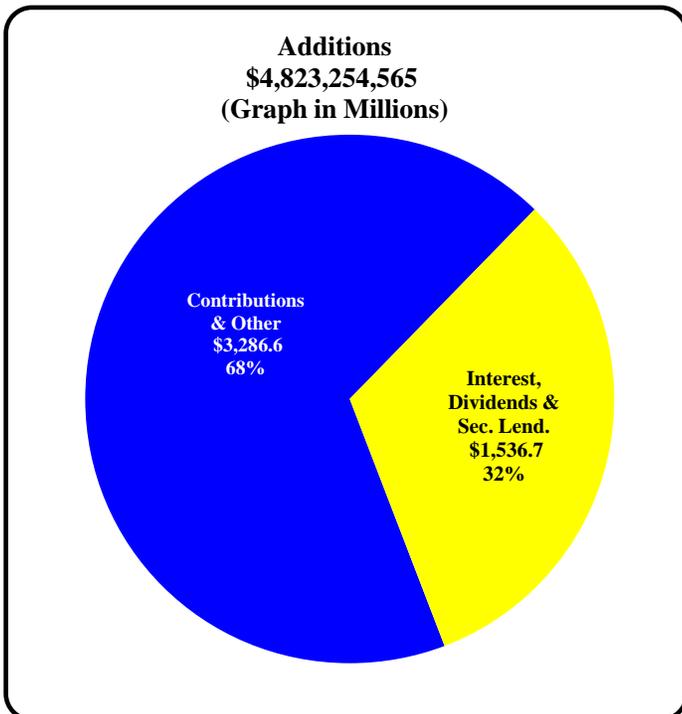
Pension Trust Fund Additions and Deductions - FY 2012

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

Monthly



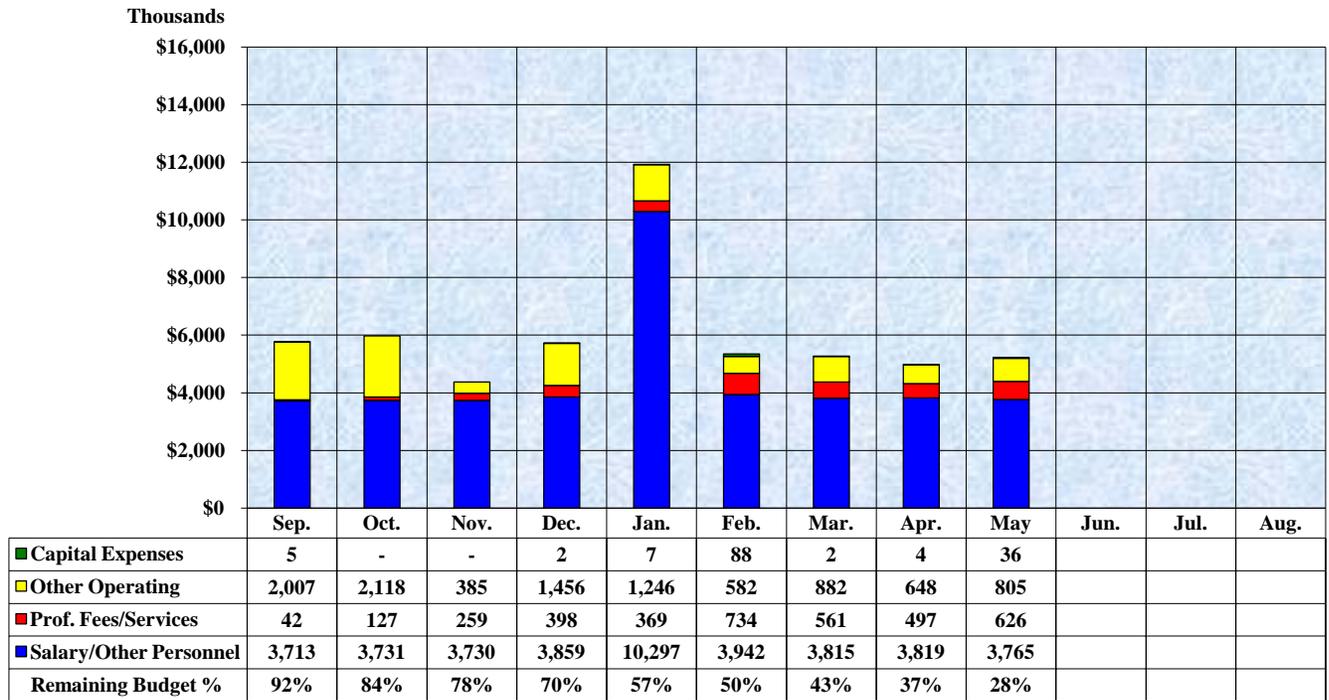
YTD for the Three Quarters Ended May 31



Source: Unaudited monthly financial statements.

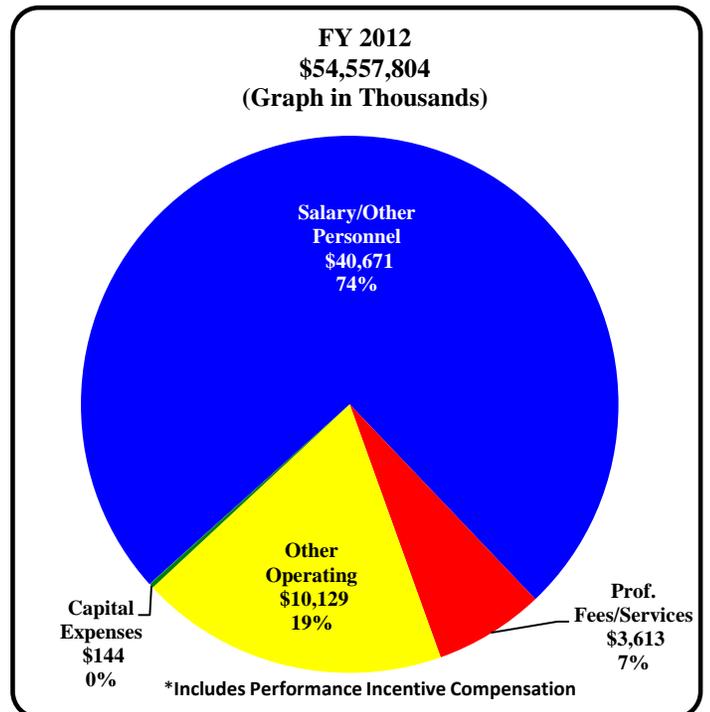
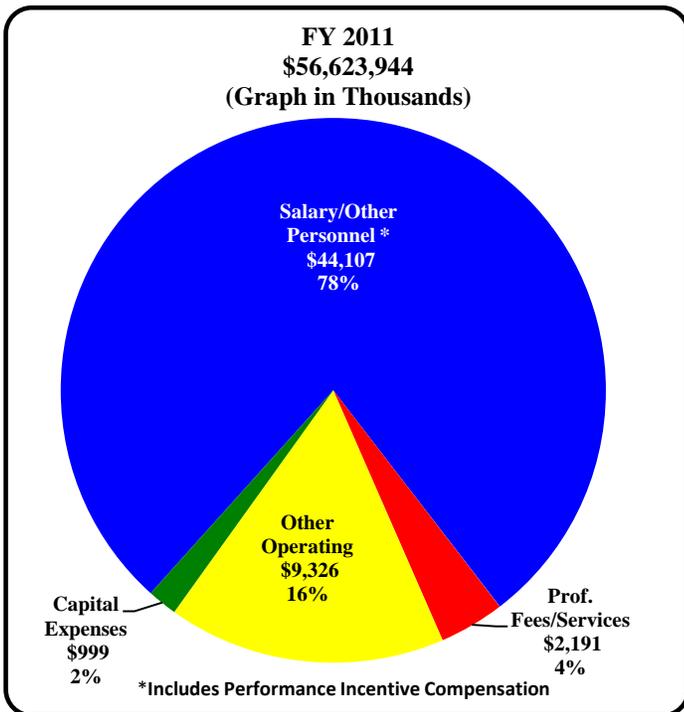
**Pension Trust Fund
Administrative Expenses
(Excludes Encumbered Funds)**

Monthly - FY 2012



FY 2012 Total Budget \$78,791,039

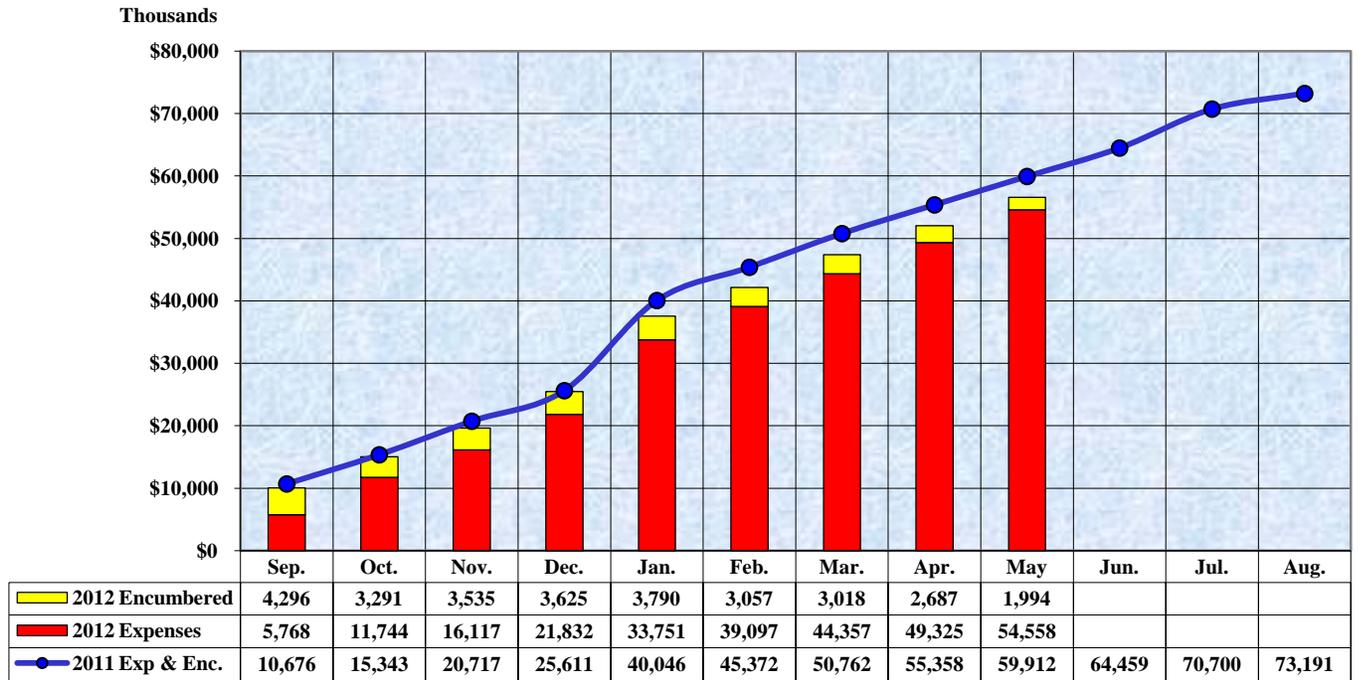
YTD for the Three Quarters Ended May 31 - FY 2011 and FY 2012



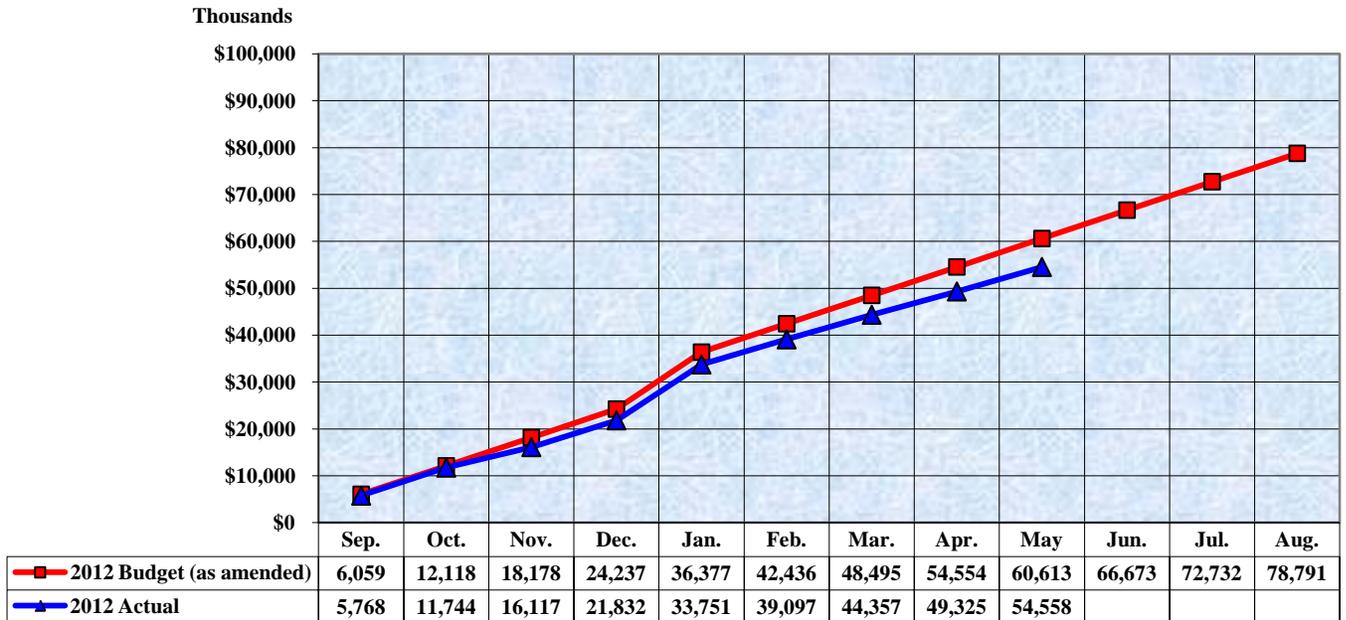
Source: Unaudited monthly financial statements.

Pension Trust Fund Administrative Expenses

FY 2012 YTD and FY 2011



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



Budget Totaled \$60,613,481 as of May 31
Actual Expenses Totaled \$54,557,804 as of May 31

Source: Unaudited monthly financial statements.

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

	Actual YTD May 31, 2012	Encumbered YTD May 31, 2012	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 26,912,159.09	\$	\$ 38,268,281.00	\$ 11,356,121.91	30%
Longevity Pay	440,460.00		626,240.00	185,780.00	30%
Employer Retirement Contributions	1,559,084.99		2,285,972.00	726,887.01	32%
Employer FICA Contributions	2,076,069.95		2,750,392.00	674,322.05	25%
Employer Health Insurance Contributions	3,208,587.70		4,290,351.00	1,081,763.30	25%
Benefit Replacement Pay	113,918.77		132,008.00	18,089.23	14%
Other Employee Benefits	280,208.60	3,500.00	461,000.00	177,291.40	38%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 34,590,489.10	\$ 3,500.00	\$ 48,814,244.00	\$ 14,220,254.90	29%
PROFESSIONAL FEES AND SERVICES	\$ 3,613,106.98	\$ 392,509.06	\$ 7,929,824.00	\$ 3,924,207.96	49%
OTHER OPERATING EXPENSES					
Consumable Supplies and Fuels	\$ 264,139.82	\$ 12,658.67	\$ 471,610.00	\$ 194,811.51	41%
Utilities	543,873.49	199,809.99	1,072,684.00	329,000.52	31%
Travel	636,369.42	48,156.28	922,958.00	238,432.30	26%
Rentals	1,592,742.26	359,720.18	2,180,687.00	228,224.56	10%
Dues, Fees and Staff Development	154,882.67	71,000.70	405,826.00	179,942.63	44%
Subscriptions and Reference Information	161,437.61	32,760.62	249,311.61	55,113.38	22%
Printing and Reproduction Services	480,229.99	178,464.95	715,750.00	57,055.06	8%
Postage, Mailing and Delivery Services	2,095,376.78	105,284.37	2,727,600.00	526,938.85	19%
Software Purchases and Maintenance	2,228,288.11	187,961.75	2,713,106.00	296,856.14	11%
Computer Hardware Maintenance	341,563.17	29,868.36	465,317.00	93,885.47	20%
Miscellaneous Expenses	452,005.43	153,866.41	1,095,470.00	489,598.16	45%
Insurance Premiums	659,218.66	1,640.00	665,000.00	4,141.34	1%
Furniture and Equipment - Expensed	104,717.90	35,400.13	346,193.39	206,075.36	60%
Maintenance - Buildings and Equipment	414,617.69	121,749.76	937,104.00	400,736.55	43%
TOTAL OTHER OPERATING EXPENSES	\$ 10,129,463.00	\$ 1,538,342.17	\$ 14,968,617.00	\$ 3,300,811.83	22%
TOTAL OPERATING EXPENSES	\$ 48,333,059.08	\$ 1,934,351.23	\$ 71,712,685.00	\$ 21,445,274.69	30%

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

	Actual YTD May 31, 2012	Encumbered YTD May 31, 2012	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
CAPITAL EXPENSES					
Furniture and Equipment	\$ 18,441.56	\$ 3,970.00	\$ 97,556.00	\$ 75,144.44	77%
Capital Budget Items	125,505.30	55,704.64	900,000.00	718,790.06	80%
TOTAL CAPITAL EXPENSES	\$ 143,946.86	\$ 59,674.64	\$ 997,556.00	\$ 793,934.50	80%
TOTAL OPERATING AND CAPITAL EXPENSES*	\$ 48,477,005.94	\$ 1,994,025.87	\$ 72,710,241.00	\$ 22,239,209.19	31%
PERFORMANCE INCENTIVE COMPENSATION	\$ 6,080,798.05	\$	\$ 6,080,798.05	\$	
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 54,557,803.99	\$ 1,994,025.87	\$ 78,791,039.05	\$ 22,239,209.19	28%
METHOD OF FINANCE					
Administrative Operation Appropriations**	\$ 41,519,344.53	\$ 1,994,025.87	\$ 63,251,518.00	\$ 19,738,147.60	31%
Performance Incentive Compensation	6,080,798.05		6,080,798.05		
Employer Retirement Contributions	1,559,084.99		2,285,972.00	726,887.01	32%
Employer FICA Contributions	2,076,069.95		2,750,392.00	674,322.05	25%
Employer Health Insurance Contributions	3,208,587.70		4,290,351.00	1,081,763.30	25%
Benefit Replacement Pay	113,918.77		132,008.00	18,089.23	14%
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 54,557,803.99	\$ 1,994,025.87	\$ 78,791,039.05	\$ 22,239,209.19	28%

*Amounts are net of reimbursements.

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

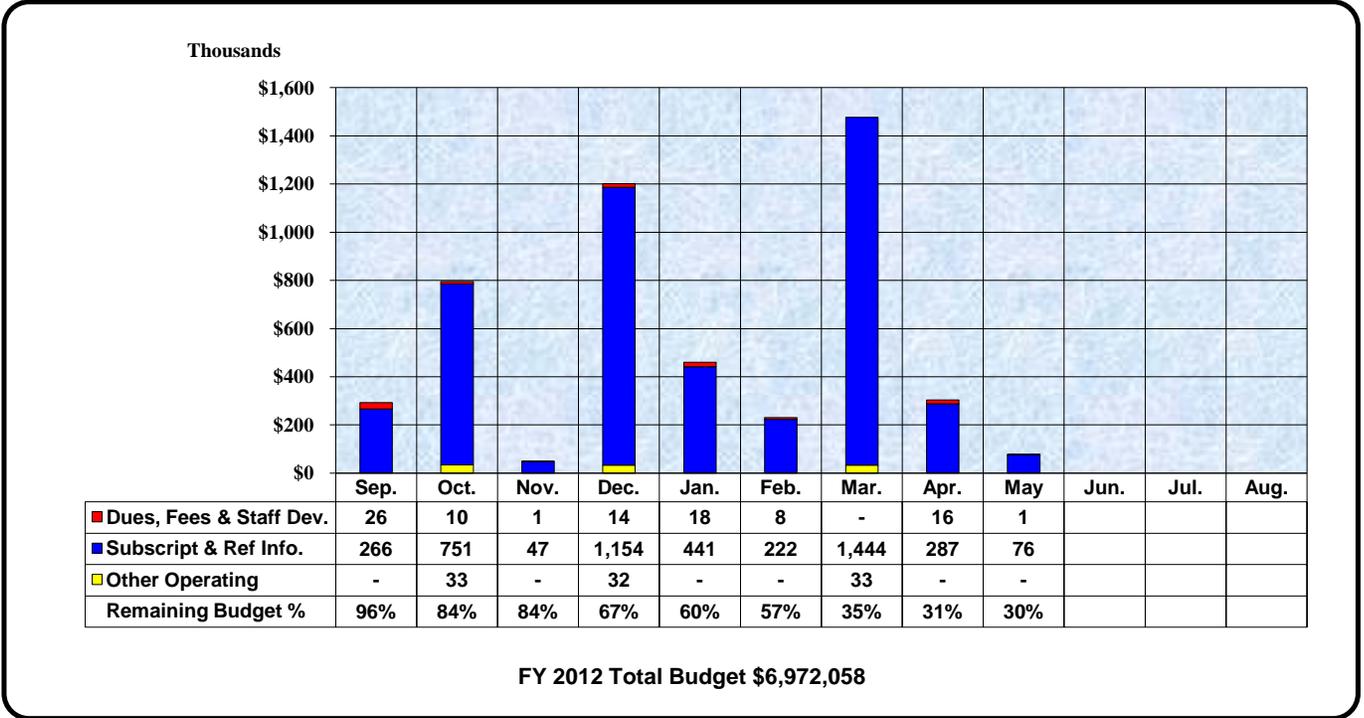
TEACHER RETIREMENT SYSTEM OF TEXAS
TRS ENTERPRISE APPLICATION MODERNIZATION - TEAM
FY 2012 BUDGETARY BASIS ADMINISTRATIVE EXPENSES
 Unaudited Statements For Internal Use Only

	Actual YTD May 31, 2012	Encumbered YTD May 31, 2012	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 56,749.89	\$	\$ 909,000.00	\$ 852,250.11	94%
Longevity Pay	820.00		14,475.00	13,655.00	94%
Employer Retirement Contributions	3,454.18		57,600.00	54,145.82	94%
Employer FICA Contributions	4,349.49		68,850.00	64,500.51	94%
Employer Health Insurance Contributions	4,520.03		85,375.00	80,854.97	95%
Benefit Replacement Pay			4,125.00	4,125.00	100%
Other Employee Benefits			15,095.00	15,095.00	100%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	<u>\$ 69,893.59</u>	<u>\$</u>	<u>\$ 1,154,520.00</u>	<u>\$ 1,084,626.41</u>	<u>94%</u>
PROFESSIONAL FEES AND SERVICES					
	<u>\$ 256,292.36</u>	<u>\$ 440,300.00</u>	<u>\$ 7,058,000.00</u>	<u>\$ 6,361,407.64</u>	<u>90%</u>
OTHER OPERATING EXPENSES					
Travel	\$ 1,124.78	\$	\$ 20,000.00	\$ 18,875.22	94%
Dues, Fees and Staff Development	1,050.00		1,225.00	175.00	14%
Software Purchases and Maintenance	45,714.90		2,738,719.68	2,693,004.78	98%
Furniture and Equipment - Expensed		9,783.32	10,055.32	272.00	3%
TOTAL OTHER OPERATING EXPENSES	<u>\$ 47,889.68</u>	<u>\$ 9,783.32</u>	<u>\$ 2,770,000.00</u>	<u>\$ 2,712,055.00</u>	<u>98%</u>
TOTAL OPERATING EXPENSES	<u>\$ 374,075.63</u>	<u>\$ 450,083.32</u>	<u>\$ 10,982,520.00</u>	<u>\$ 10,158,361.05</u>	<u>92%</u>
CAPITAL EXPENSES					
Furniture and Equipment	\$ 103,694.18	\$ 288,167.88	\$ 910,000.00	\$ 518,137.94	57%
TOTAL CAPITAL EXPENSES	<u>\$ 103,694.18</u>	<u>\$ 288,167.88</u>	<u>\$ 910,000.00</u>	<u>\$ 518,137.94</u>	<u>57%</u>
TOTAL OPERATING AND CAPITAL EXPENSES*	<u>\$ 477,769.81</u>	<u>\$ 738,251.20</u>	<u>\$ 11,892,520.00</u>	<u>\$ 10,676,498.99</u>	<u>90%</u>
METHOD OF FINANCE					
Capital Budget Appropriation*	\$ 465,446.11	\$ 738,251.20	\$ 25,000,000.00	\$ 23,796,302.69	95%
Estimated Unexpended Balance of Capital Budget Appropriation			(13,323,430.00)	(13,323,430.00)	100%
Employer Retirement Contributions	3,454.18		57,600.00	54,145.82	94%
Employer FICA Contributions	4,349.49		68,850.00	64,500.51	94%
Employer Health Insurance Contributions	4,520.03		85,375.00	80,854.97	95%
Benefit Replacement Pay			4,125.00	4,125.00	100%
TOTAL OPERATING AND CAPITAL EXPENSES	<u>\$ 477,769.81</u>	<u>\$ 738,251.20</u>	<u>\$ 11,892,520.00</u>	<u>\$ 10,676,498.99</u>	<u>90%</u>

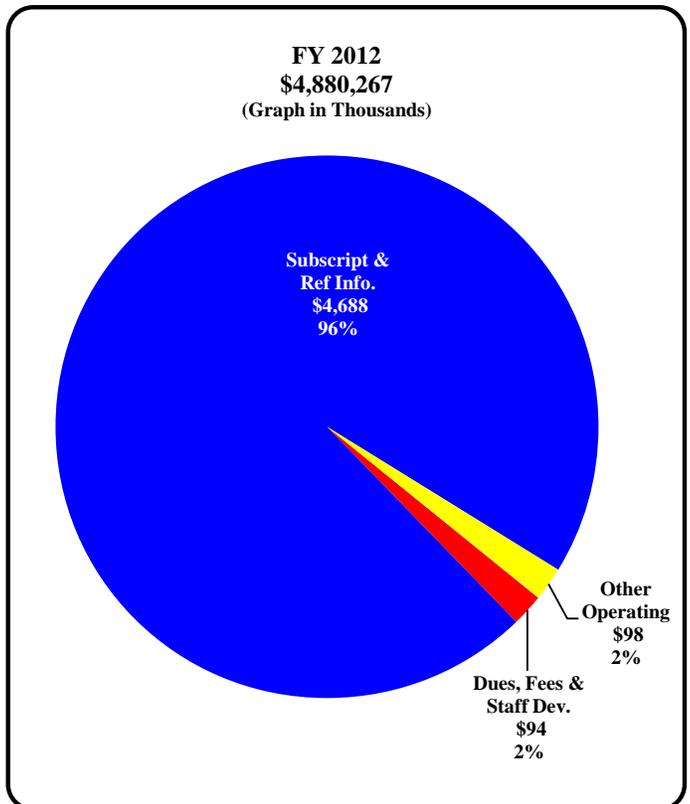
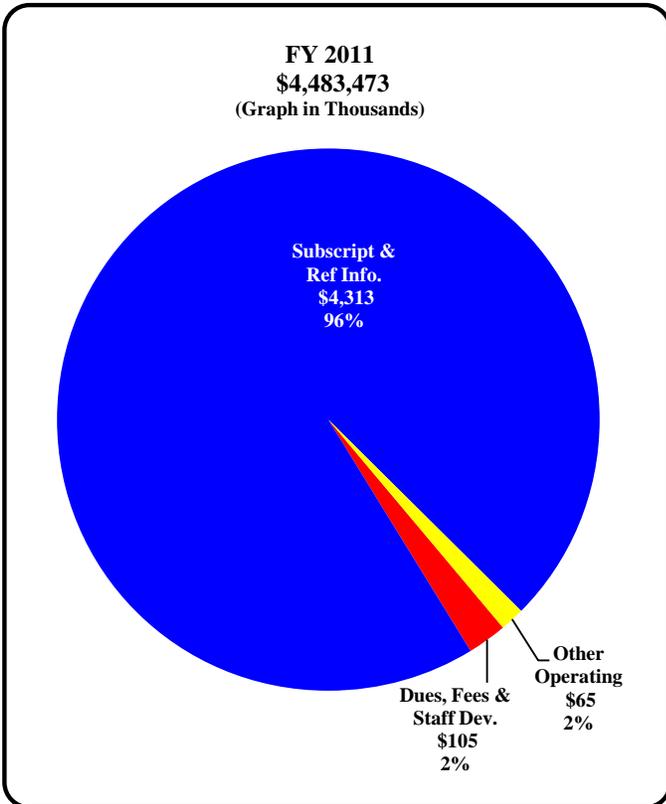
*Component of Administrative Operation Appropriations.

Investment Soft Dollars Administrative Expenses

Monthly - FY 2012



YTD for the Three Quarters Ended May 31 - FY 2011 and FY 2012

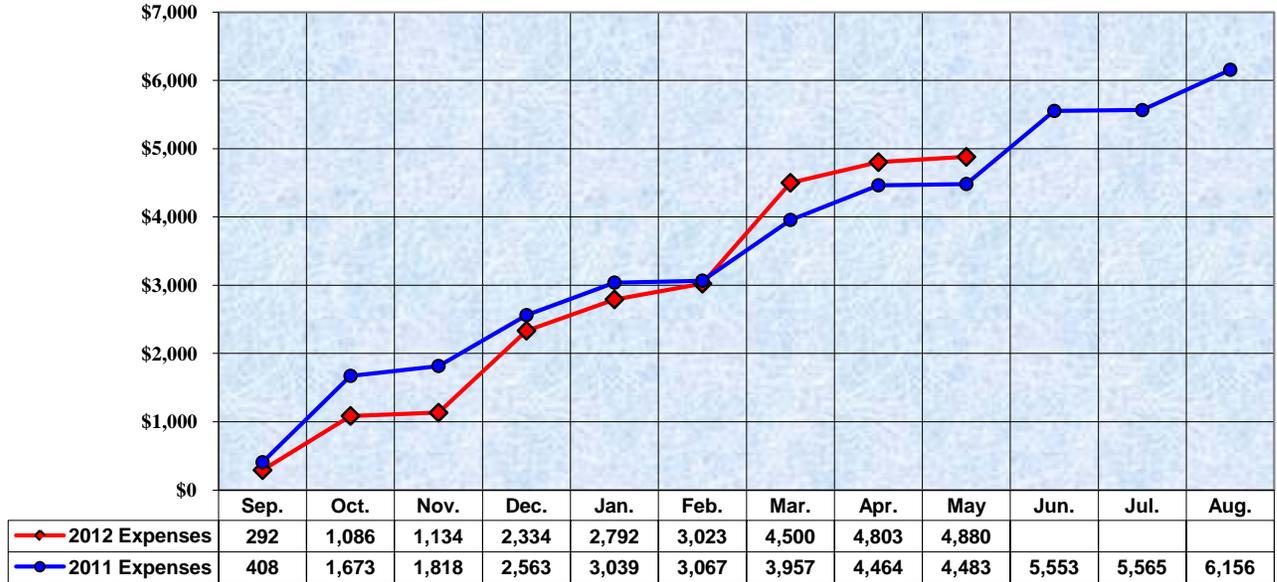


Source: Unaudited budgetary reports.

Investment Soft Dollars Administrative Expenses

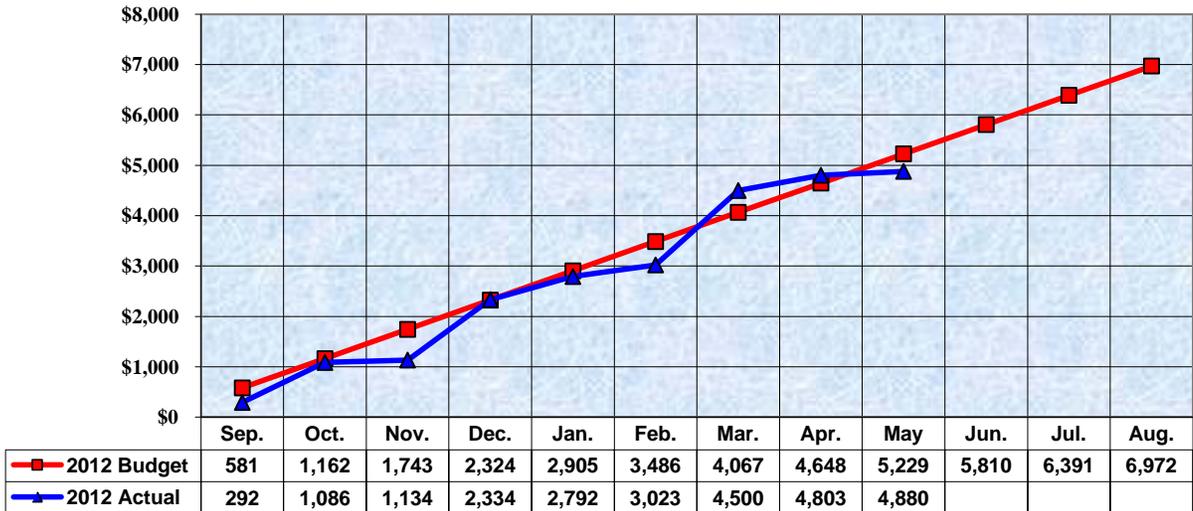
FY 2012 YTD and FY 2011

Thousands



Budget to YTD Actual - FY 2012

Thousands

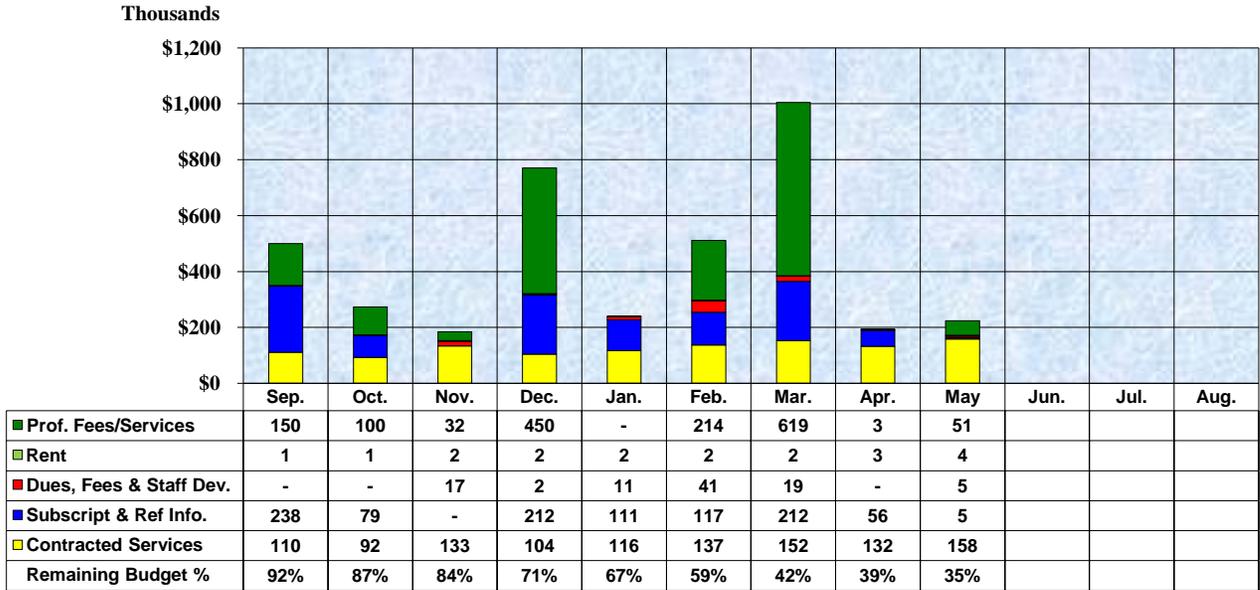


Budget Totaled \$5,229,043 as of May 31
Actual Expenses Totaled \$4,880,267 as of May 31

Source: Unaudited budgetary reports.

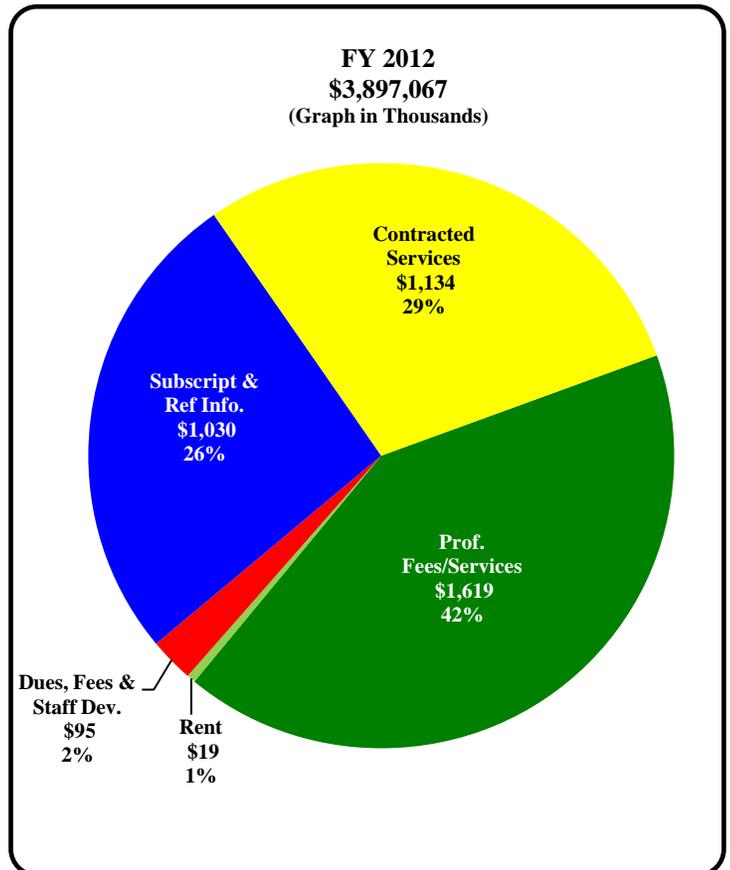
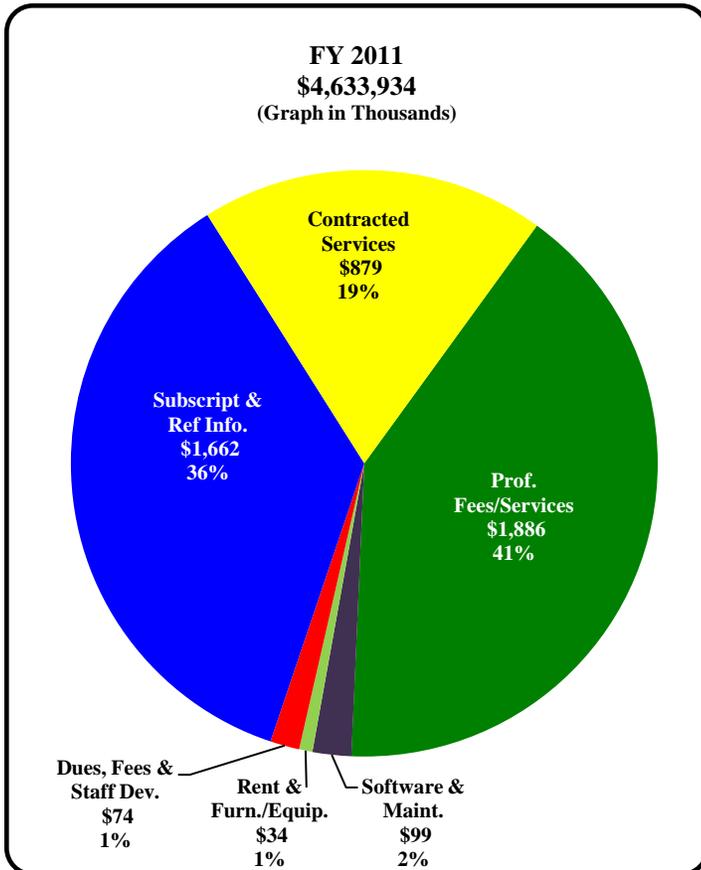
SSB/TRS Partnership Account Administrative Expenses

Monthly - FY 2012



FY 2012 Total Budget \$6,000,000

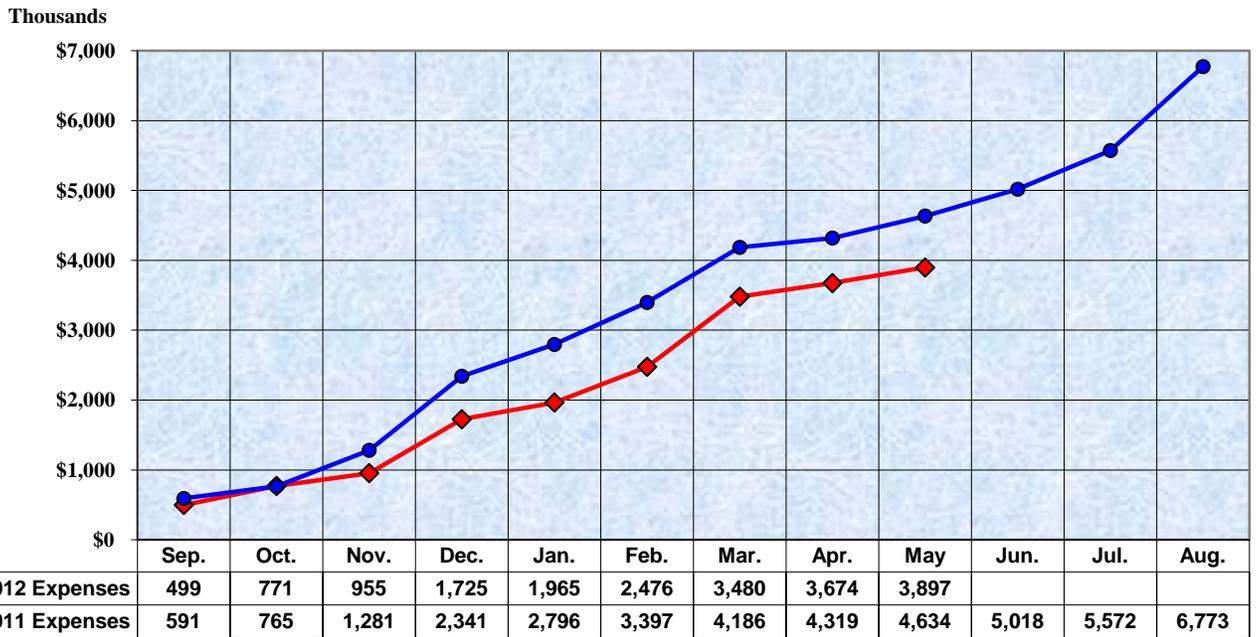
YTD for the Three Quarters Ended May 31 - FY 2011 and FY 2012



Source: Unaudited budgetary reports.

SSB/TRS Partnership Account Administrative Expenses

FY 2012 YTD and FY 2011



Budget to YTD Actual - FY 2012



Budget Totaled \$4,500,000 as of May 31
Actual Expenses Totaled \$3,897,067 as of May 31

Source: Unaudited budgetary reports.

Financial Report for the Three Quarters Ended May 31, 2012 TRS-Care

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

From: Don Green, Chief Financial Officer

Date: July 6, 2012

Net Assets Held in Trust for Other Employee Benefits:

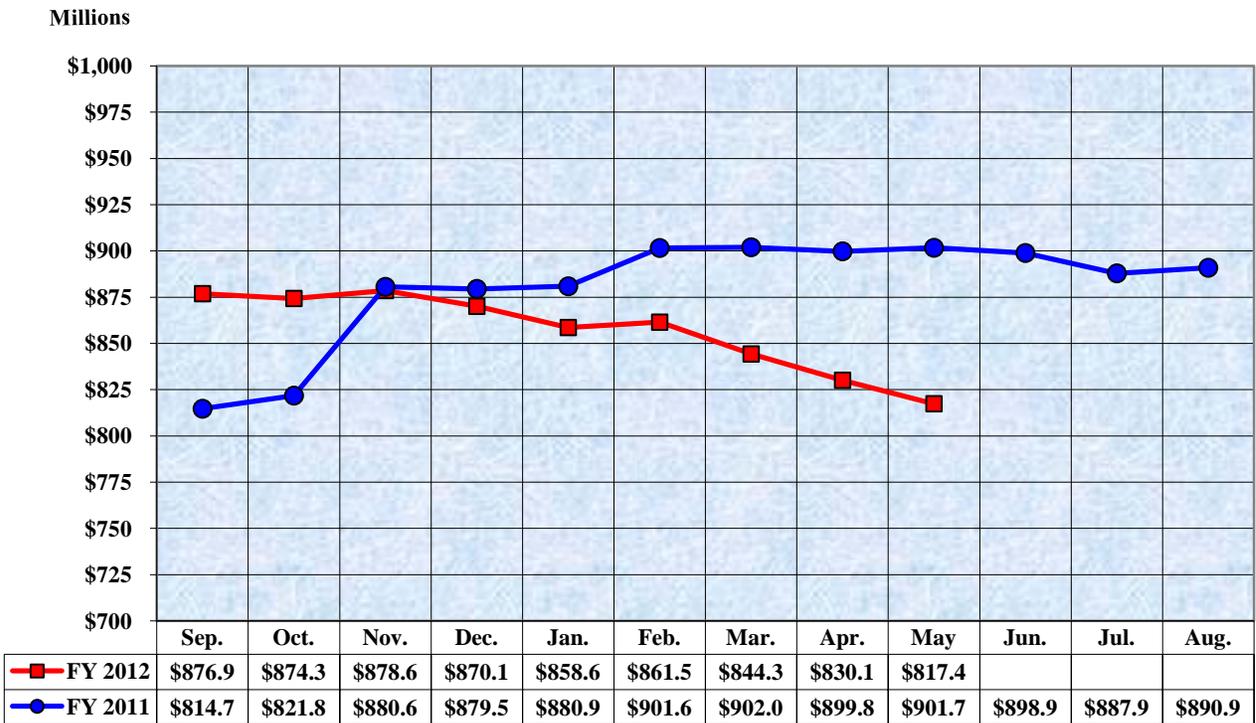
For the period ended May 31, 2012, the *Net Assets Held in Trust for Other Employee Benefits* were \$817.4 million. This is a decrease of \$44.1 million from the end of the second quarter and a \$73.5 million decrease for the fiscal year over the beginning net assets of \$890.9 million.

Total Additions for the third quarter were \$266.9 million. This represents a \$2.9 million decrease from the second quarter total of \$269.8 million. Contributions and other additions were \$157.2 million. Federal revenue and premiums were \$19.2 and \$90.5 million, respectively. *Total Deductions* were \$311 million for the third quarter, an increase of \$24.1 million from the second quarter total of \$286.9 million. Total deductions include medical claims payments and processing fees of \$191 million, pharmacy claims payments and processing fees of \$119 million, and \$1 million for administrative expenses for the quarter end. Pharmacy claims and processing costs dropped in May due to the receipt of \$14.7 million in pharmacy rebates.

Administrative Operations:

Total Administrative Expenses for the quarter ended May 31, 2012 were \$1.0 million of which \$417,000 was for March, \$188,000 for April, and \$431,000 for May. *Salaries and Other Personnel Costs* were \$0.6 million, *Professional Fees and Services* were \$428,000 and *Other Operating Expenses* were \$44,000. As anticipated, overall expenses continued to track closely with budgeted funds. At the end of the third quarter, 36% of the total funds budgeted were remaining.

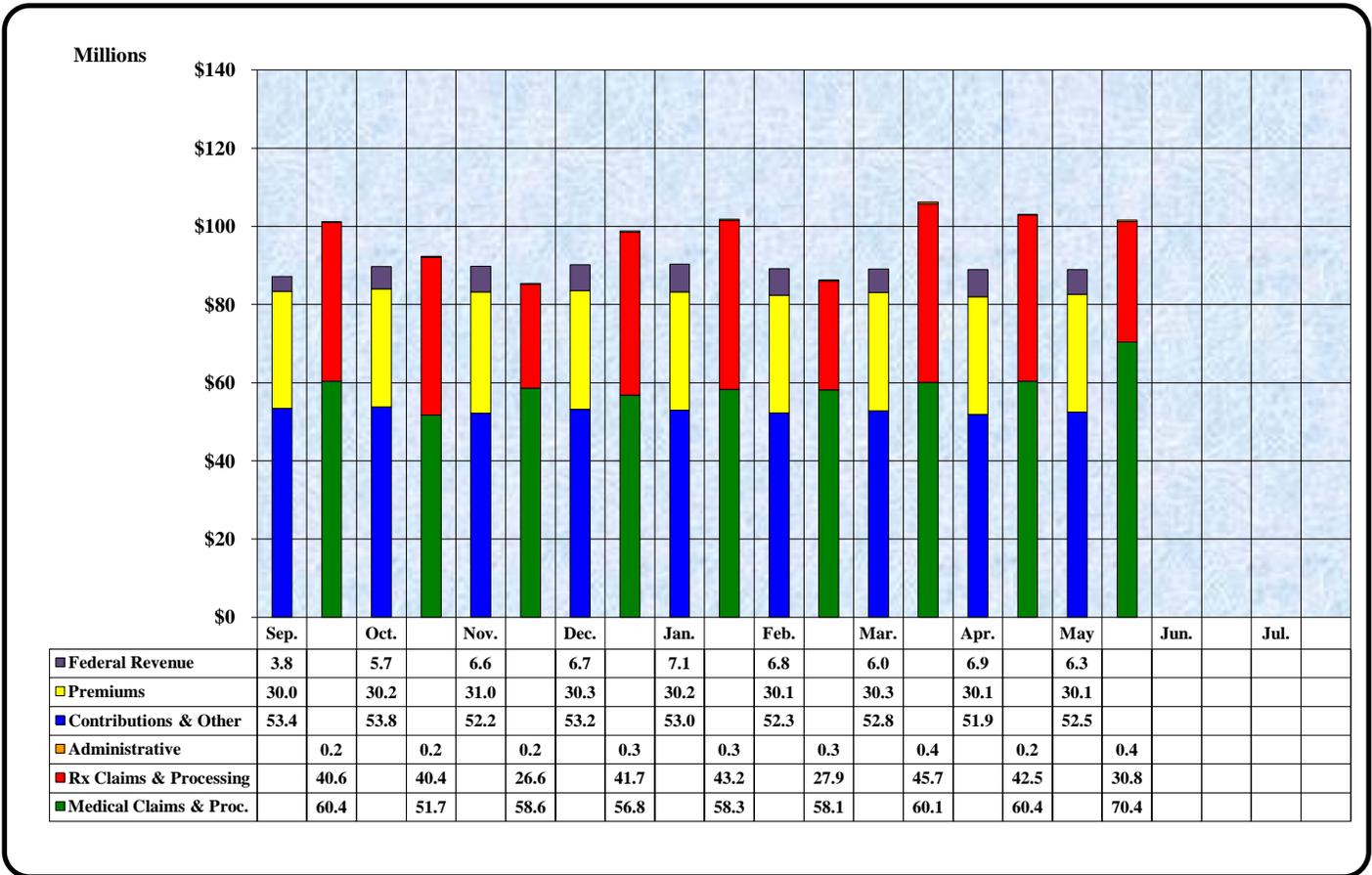
**TRS-Care
Net Assets - FY 2012 YTD and FY 2011**



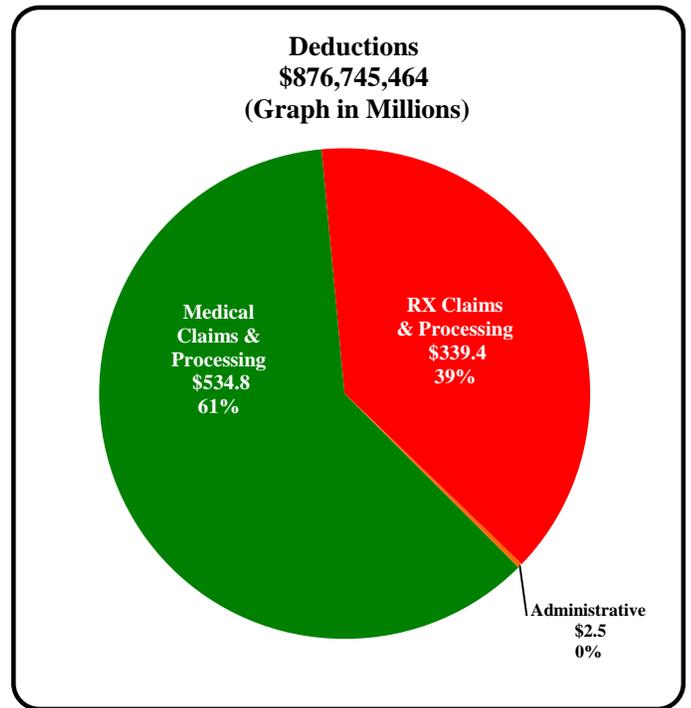
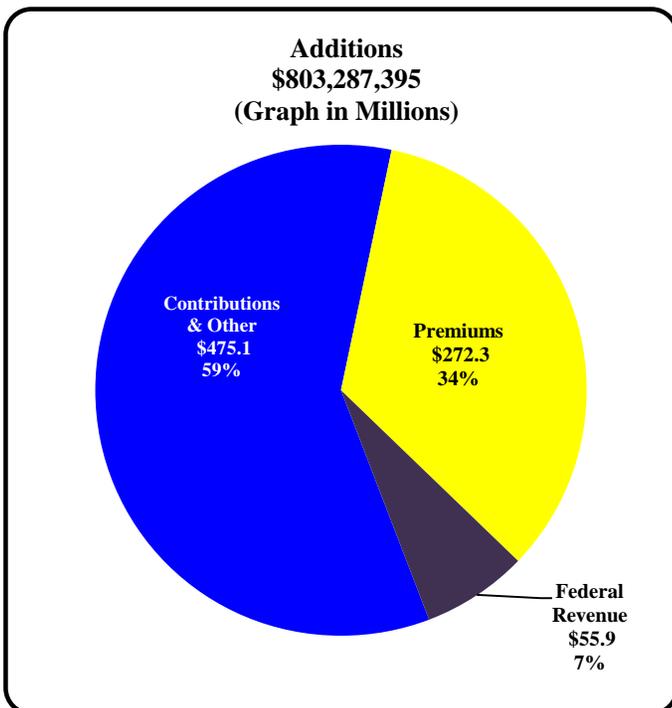
Source: Unaudited monthly financial statements.

TRS-Care Additions and Deductions - FY 2012

Monthly



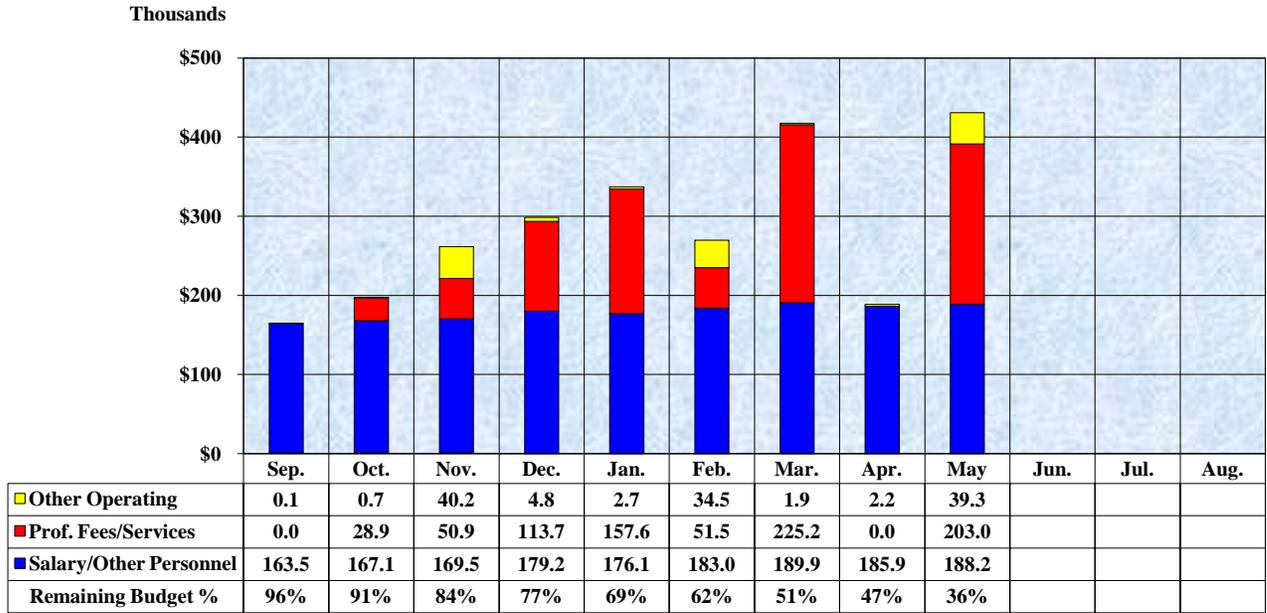
YTD for the Three Quarters Ended May 31



Source: Unaudited monthly financial statements.

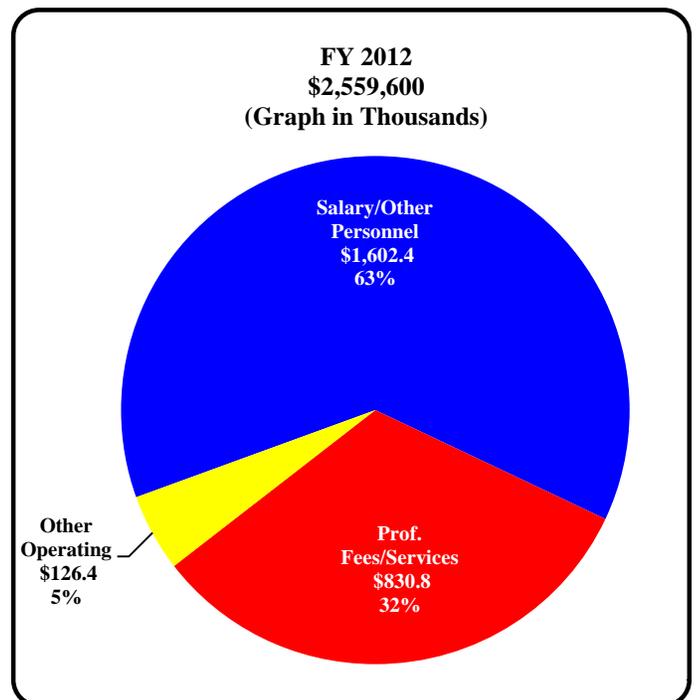
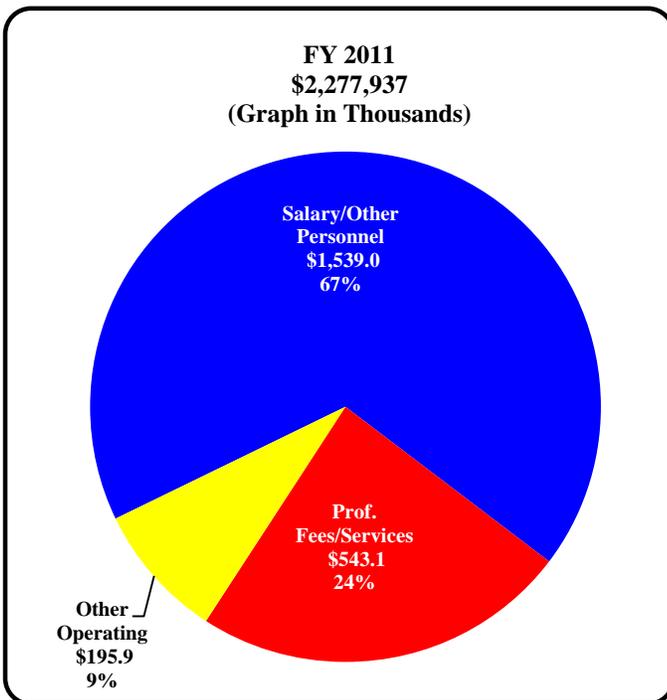
**TRS-Care
Administrative Expenses
(Excludes Encumbered Funds)**

Monthly - FY 2012



Total Budget \$3,997,330

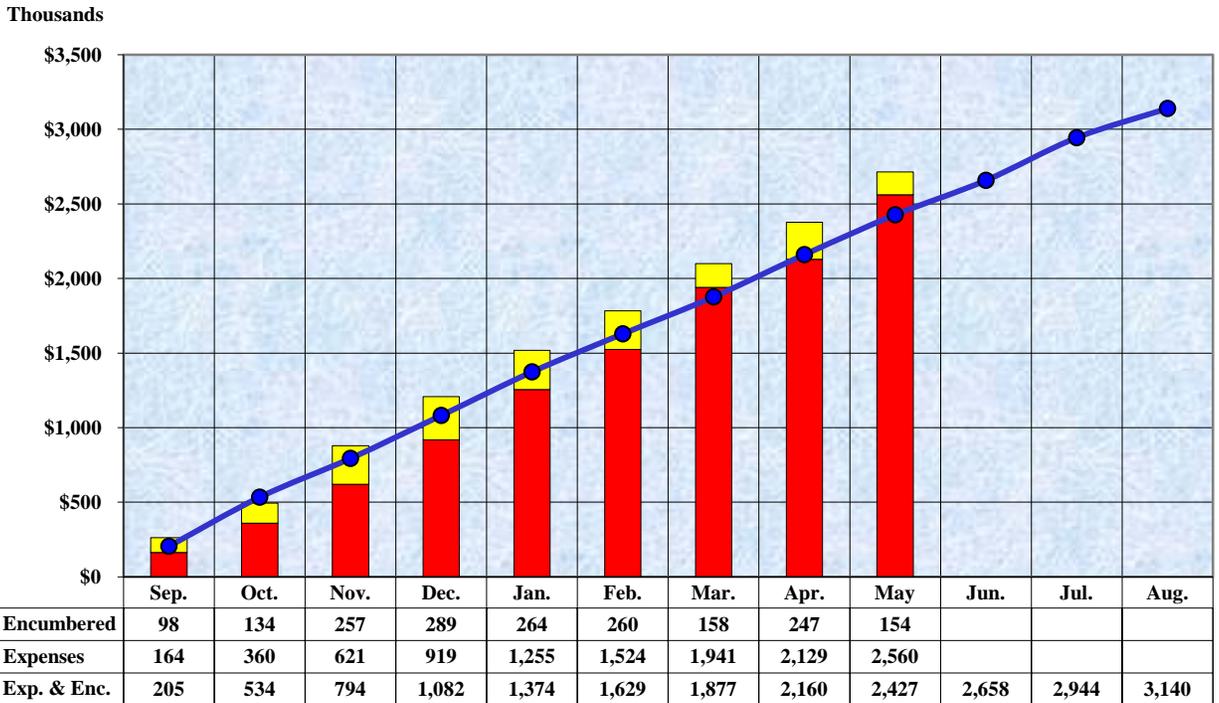
YTD for the Three Quarters Ended May 31 - FY 2011 and FY 2012



Source: Unaudited monthly financial statements.

TRS-Care Administrative Expenses

FY 2012 YTD and FY 2011



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



Budget Totaled \$2,997,998 as of May 31
Actual Expenses Totaled \$2,559,600 as of May 31

Source: Unaudited monthly financial statements.

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

	Actual YTD May 31, 2012	Encumbered YTD May 31, 2012	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 1,235,909.51	\$ 0.00	\$ 1,815,673.00	\$ 579,763.49	32%
Longevity Pay	36,680.00		48,040.00	11,360.00	24%
Employer Retirement Contributions	76,792.53		96,847.00	20,054.47	21%
Employer FICA Contributions	93,530.63		126,285.00	32,754.37	26%
Employer Health Insurance Contributions	146,499.18		189,271.00	42,771.82	23%
Benefit Replacement Pay	10,828.08		11,345.00	516.92	5%
Other Employee Benefits	2,172.13		64,150.00	61,977.87	97%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,602,412.06	\$ 0.00	\$ 2,351,611.00	\$ 749,198.94	32%
PROFESSIONAL FEES AND SERVICES	\$ 830,764.88	\$ 116,667.66	\$ 1,234,500.00	\$ 287,067.46	23%
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 1,775.40	\$ 810.48	\$ 5,200.00	\$ 2,614.12	50%
Utilities	811.24	294.22	2,031.00	925.54	46%
Travel	4,325.56		10,355.00	6,029.44	58%
Rentals	71,280.62		107,416.00	36,135.38	34%
Dues, Fees and Staff Development	628.50	225.00	2,270.00	1,416.50	62%
Subscriptions and Reference Information			570.00	570.00	100%
Printing and Reproduction Services	17,733.97	24,750.00	50,000.00	7,516.03	15%
Postage, Mailing and Delivery Services	25,359.48	7,125.98	210,277.00	177,791.54	85%
Miscellaneous Expenses	2,872.24	1,249.98	14,600.00	10,477.78	72%
Furniture and Equipment - Expensed	1,259.91	850.00	6,500.00	4,390.09	68%
Maintenance - Buildings and Equipment	376.13	1,623.87	2,000.00	-	
TOTAL OTHER OPERATING EXPENSES	\$ 126,423.05	\$ 36,929.53	\$ 411,219.00	\$ 247,866.42	60%
TOTAL OPERATING EXPENSES	\$ 2,559,599.99	\$ 153,597.19	\$ 3,997,330.00	\$ 1,284,132.82	32%
Less: Employer Retirement Contributions paid on behalf of Employees	\$ (76,792.53)	\$ 0.00	\$ (96,847.00)	\$ (20,054.47)	21%
TOTAL CASH OUTLAY FOR OPERATING EXPENSES	\$ 2,482,807.46	\$ 153,597.19	\$ 3,900,483.00	\$ 1,264,078.35	32%

Financial Report for the Three Quarters Ended May 31, 2012 TRS-ActiveCare

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

From: Don Green, Chief Financial Officer

Date: July 6, 2012

The fund captures financial activity for the following programs:

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

Net Assets – Restricted for Health Care Programs

Net Assets were \$189.3 million for the period ended May 31, 2012. This is a \$1.2 million increase from the fiscal year beginning net assets of \$188.1 million.

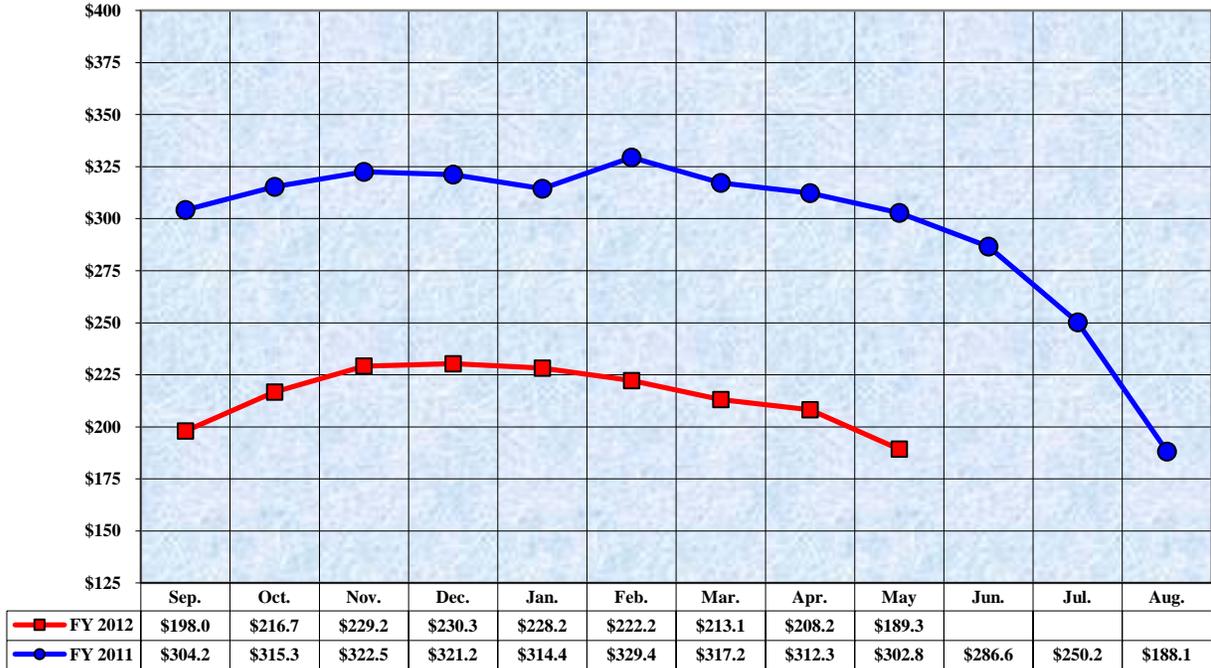
Total Revenues for the third quarter were \$440.3 million. Health care premiums accounted for \$438.2 million of total revenues. Other revenues were COBRA premiums of \$1.8 million, investment income of \$290,000 and optional life and long-term care administrative fees of \$45,000. *Total Expenses* for the third quarter were \$473.2 million, which includes medical claims payments and processing fees of \$375.6 million, pharmacy claims payments and processing fees of \$74.4 million, HMO payments of \$22.7 million, and administrative costs of \$476,000.

Administrative Operations:

The *Total Administrative Operating Expenses* for the third quarter ended May 31, 2012 were \$493,000. Expenses were \$147,000 for March, \$145,000 for April, and \$201,000 for May. *Salaries and Other Personnel Costs* were \$369,000 *Professional Fees and Services* were \$104,000 and *Other Operating Expenses* were \$21,000. At the end of the third quarter, 42% of the total funds budgeted were remaining.

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

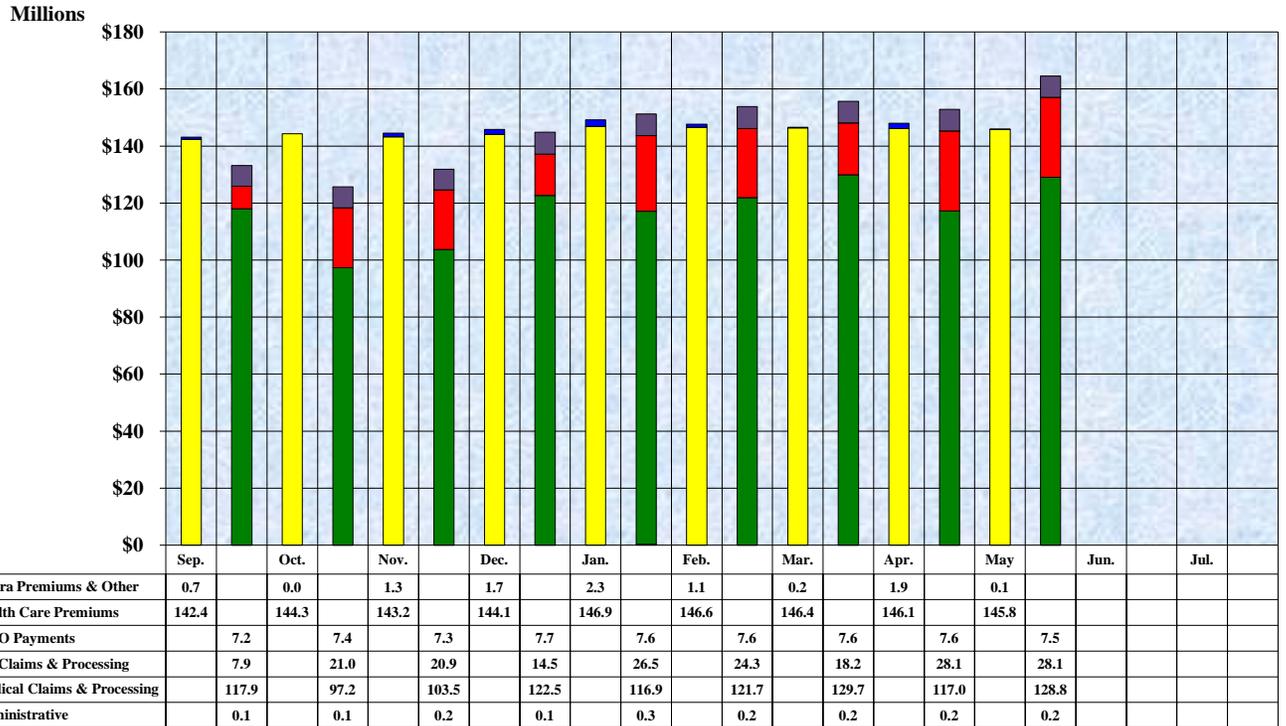
Millions



Source: Unaudited monthly financial statements.

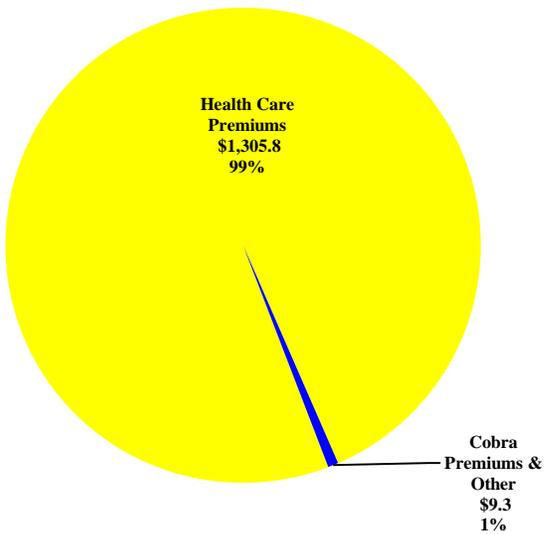
TRS-ActiveCare Revenues and Expenses - FY 2012

Monthly

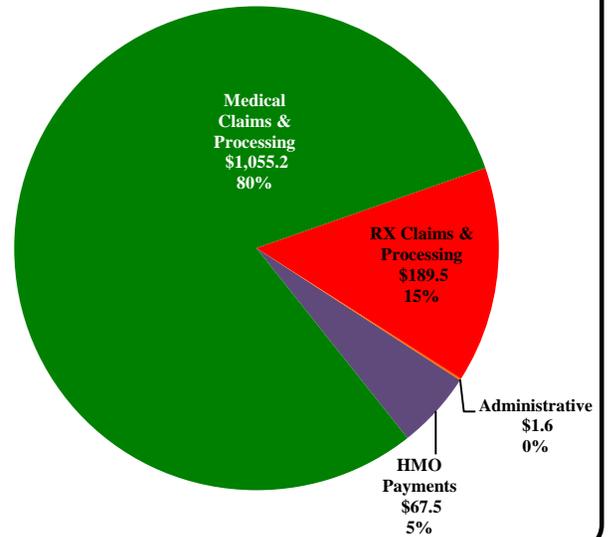


YTD for the Three Quarters Ended May 31

Revenues
\$1,315,058,016
(Graph in Millions)



Expenses
\$1,313,789,372
(Graph in Millions)

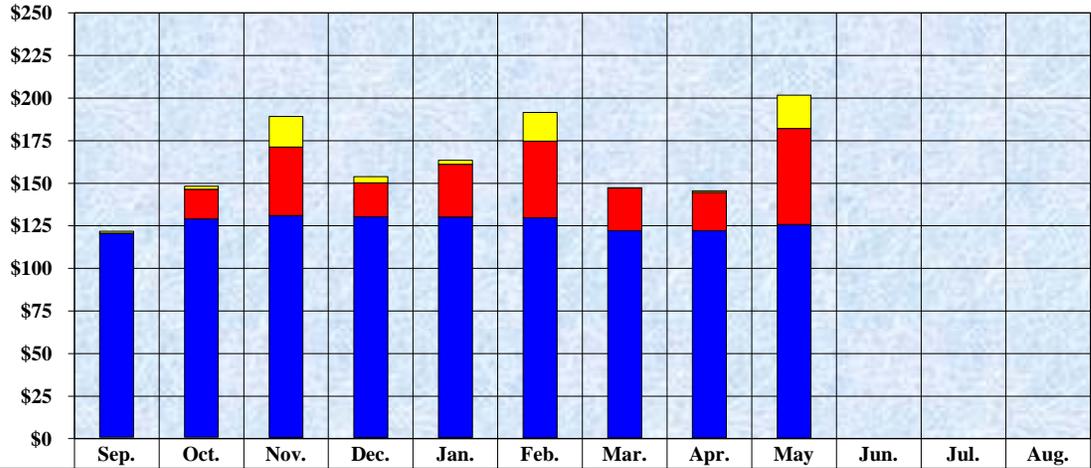


Source: Unaudited monthly financial statements.

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

Monthly - FY 2012

Thousands

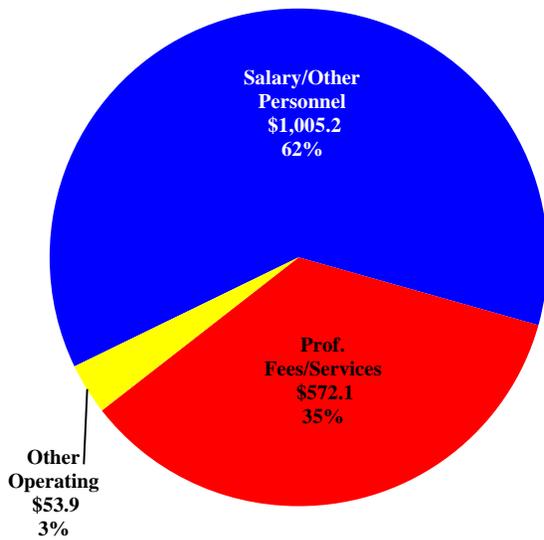


Other Operating	1.0	1.7	17.9	3.5	2.3	16.8	0.3	0.8	19.6			
Prof. Fees/Services		17.5	40.2	20.0	31.1	45.0	25.0	22.6	56.3			
Salary/Other Personnel	119.8	128.1	130.3	129.6	129.4	129.1	121.6	121.6	125.4			
Remaining Budget %	95%	89%	82%	76%	69%	62%	56%	50%	42%			

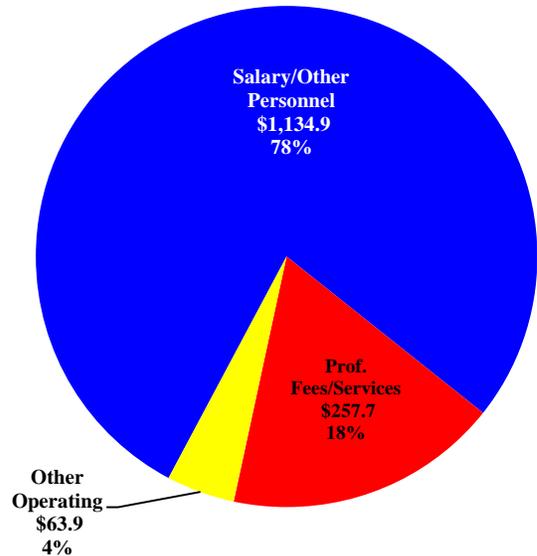
Total Budget \$2,514,462

YTD for the Third Quarter Ended May 31 - FY 2011 and FY 2012

**FY 2011
\$1,631,219
(Graph in Thousands)**



**FY 2012
\$1,456,519
(Graph in Thousands)**

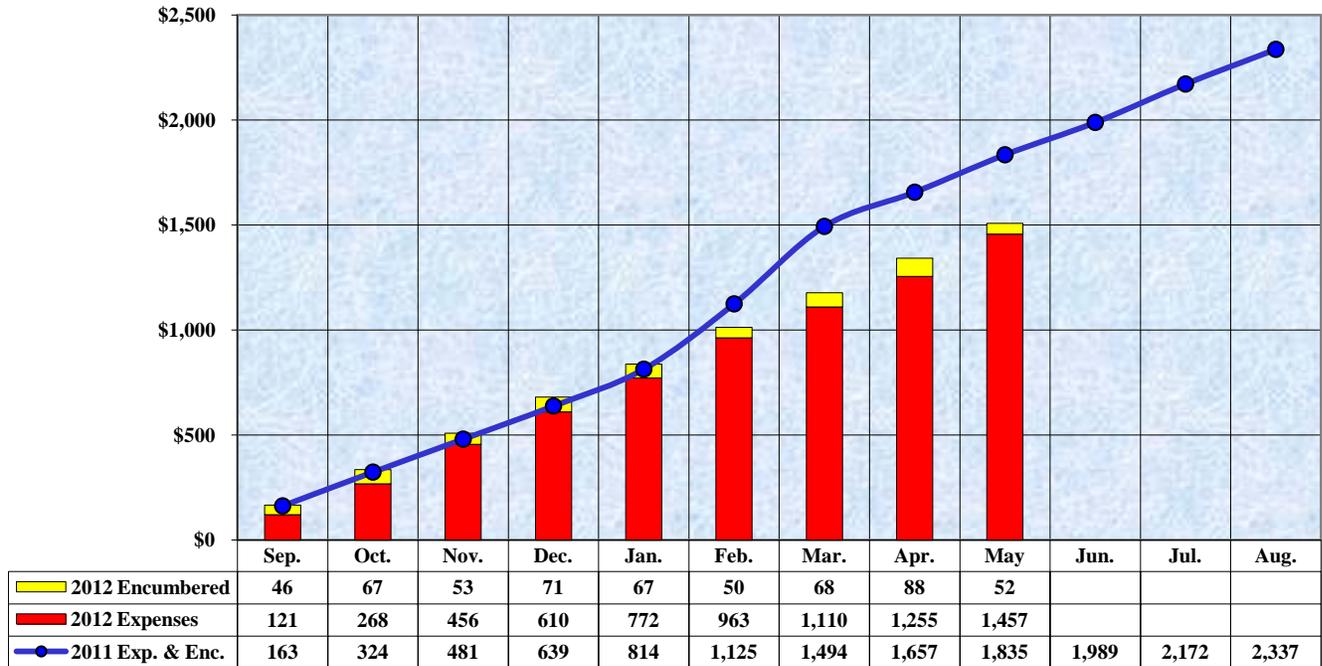


Source: Unaudited monthly financial statements.

TRS-ActiveCare Administrative Expenses

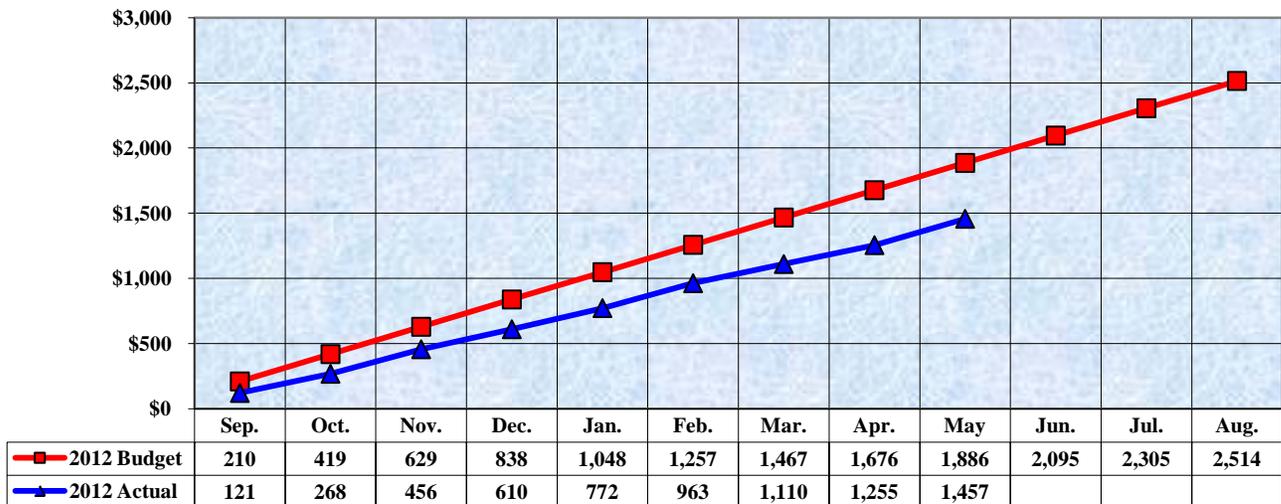
FY 2012 YTD and FY 2011

Thousands



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

Thousands



Budget Totaled \$1,885,847 as of May 31
Actual Expenses Totaled \$1,456,519 as of May 31

Source: Unaudited monthly financial statements.

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

	Actual YTD May 31, 2012	Encumbered YTD May 31, 2012	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 882,761.44	\$ 0	\$ 1,295,835.00	\$ 413,073.56	32%
Longevity Pay	22,600.00		32,040.00	9,440.00	29%
Employer Retirement Contributions	54,200.53		76,856.00	22,655.47	29%
Employer FICA Contributions	66,547.89		97,720.00	31,172.11	32%
Employer Health Insurance Contributions	99,482.28		120,801.00	21,318.72	18%
Benefit Replacement Pay	1,546.86		3,095.00	1,548.14	50%
Other Employee Benefits	7,738.94		59,525.00	51,786.06	87%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,134,877.94	\$ 0.00	\$ 1,685,872.00	\$ 550,994.06	33%
PROFESSIONAL FEES AND SERVICES	\$ 257,723.97	\$ 45,833.32	\$ 726,500.00	\$ 422,942.71	58%
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 397.34	\$ 779.34	\$ 3,000.00	\$ 1,823.32	61%
Utilities	399.83	249.97	1,500.00	850.20	57%
Travel	5,875.63	473.08	9,100.00	2,751.29	30%
Rentals	46,195.23	0.01	62,840.00	16,644.76	26%
Dues, Fees and Staff Development	4,195.50	1,965.00	8,700.00	2,539.50	29%
Subscriptions and Reference Information	824.00	-	1,000.00	176.00	18%
Printing and Reproduction Services	173.38	199.95	1,400.00	1,026.67	73%
Postage, Mailing and Delivery Services	1,525.04	550.15	4,750.00	2,674.81	56%
Miscellaneous Expenses	570.61	583.31	3,300.00	2,146.08	65%
Furniture and Equipment - Expensed	3,384.38	-	4,500.00	1,115.62	25%
Maintenance - Buildings and Equipment	376.13	1,623.87	2,000.00	-	0%
TOTAL OTHER OPERATING EXPENSES	\$ 63,917.07	\$ 6,424.68	\$ 102,090.00	\$ 31,748.25	31%
TOTAL OPERATING EXPENSES	\$ 1,456,518.98	\$ 52,258.00	\$ 2,514,462.00	\$ 1,005,685.02	40%
Less: Employer Retirement Contributions paid on behalf of Employees	\$ (54,200.53)	\$ 0.00	\$ (76,856.00)	\$ (22,655.47)	29%
TOTAL CASH OUTLAY FOR OPERATING EXPENSES	\$ 1,402,318.45	\$ 52,258.00	\$ 2,437,606.00	\$ 983,029.55	40%

Financial Report for the Three Quarters Ended May 31, 2012
403(b) Certification Program

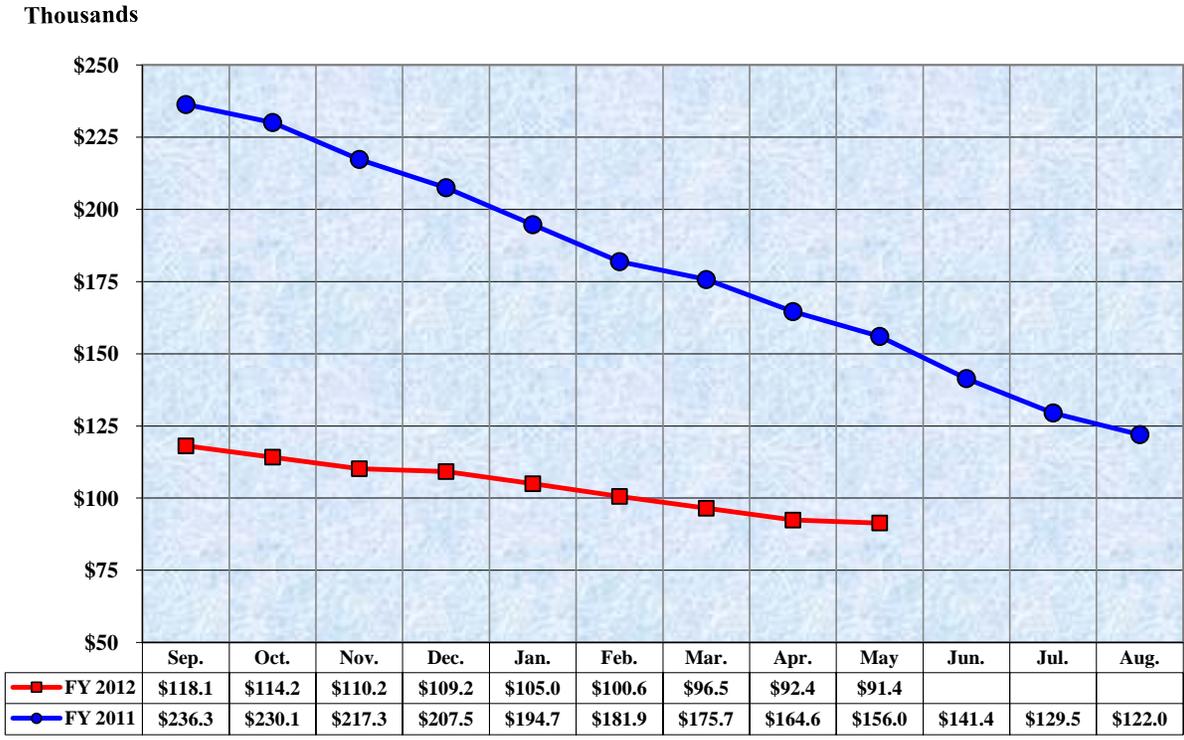
To: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

From: Don Green, Chief Financial Officer

Date: July 6, 2012

Net Assets were \$91,000 for the period ended May 31, 2012. This is a decrease of \$9,000 from the end of the second quarter and a \$31,000 decrease from the fiscal year beginning net assets of \$122,000. *Total Revenues* for the third quarter were \$3,100 for a decrease of \$200 from the second quarter total of \$3,300. Product Registration fees were \$3,000 and investment income was \$103. The *Total Operating Expenses* for the third quarter on a budgetary basis were \$13,000 which is comprised of *Salaries and Other Personnel Costs*. At the end of the third quarter, 33% of the total funds budgeted were remaining.

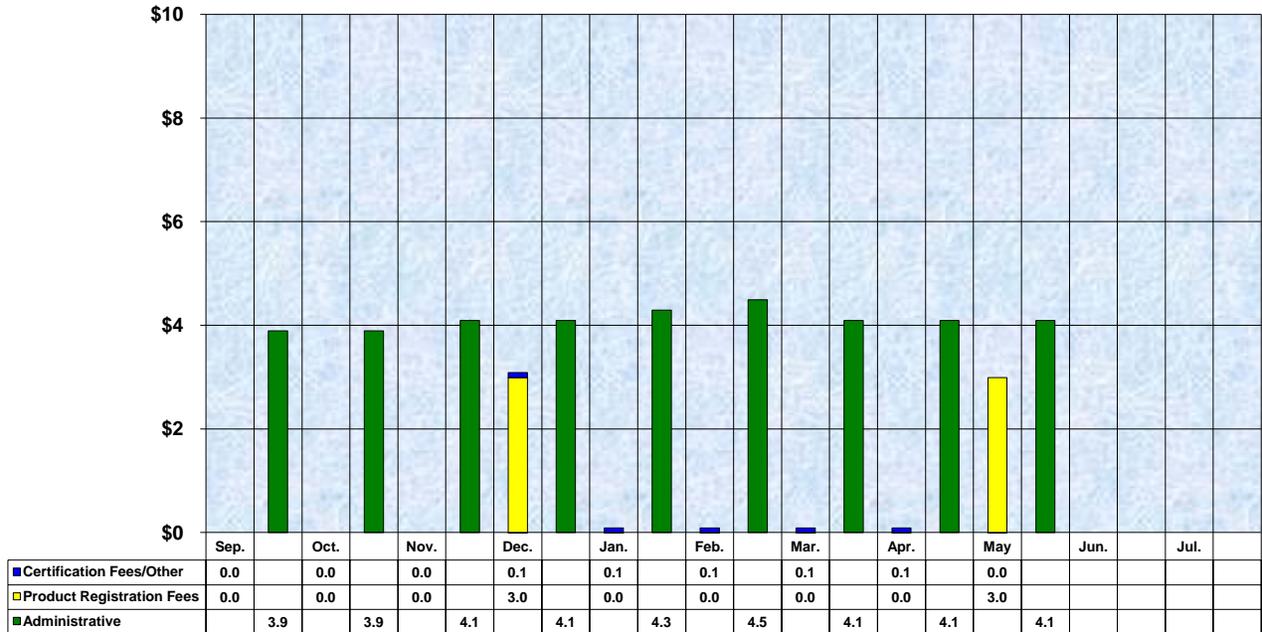
**403(b) Certification Program
Net Assets - FY 2012 YTD and FY 2011**



Source: Unaudited monthly financial statements.

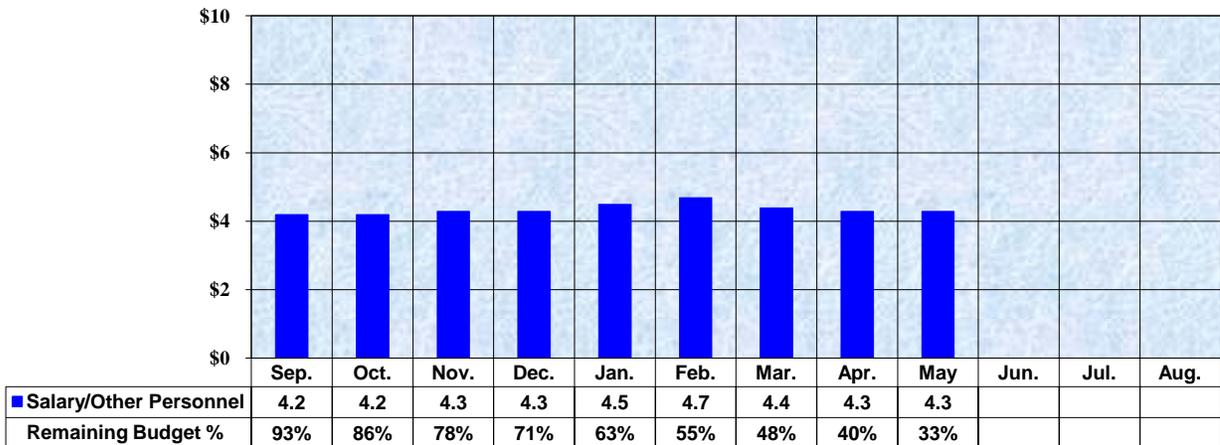
**403(b) Certification Program
Revenues and Expenses
Monthly - FY 2012**

Thousands



**Administrative Expenses
(Excludes Encumbered Funds)
Monthly - FY 2012**

Thousands

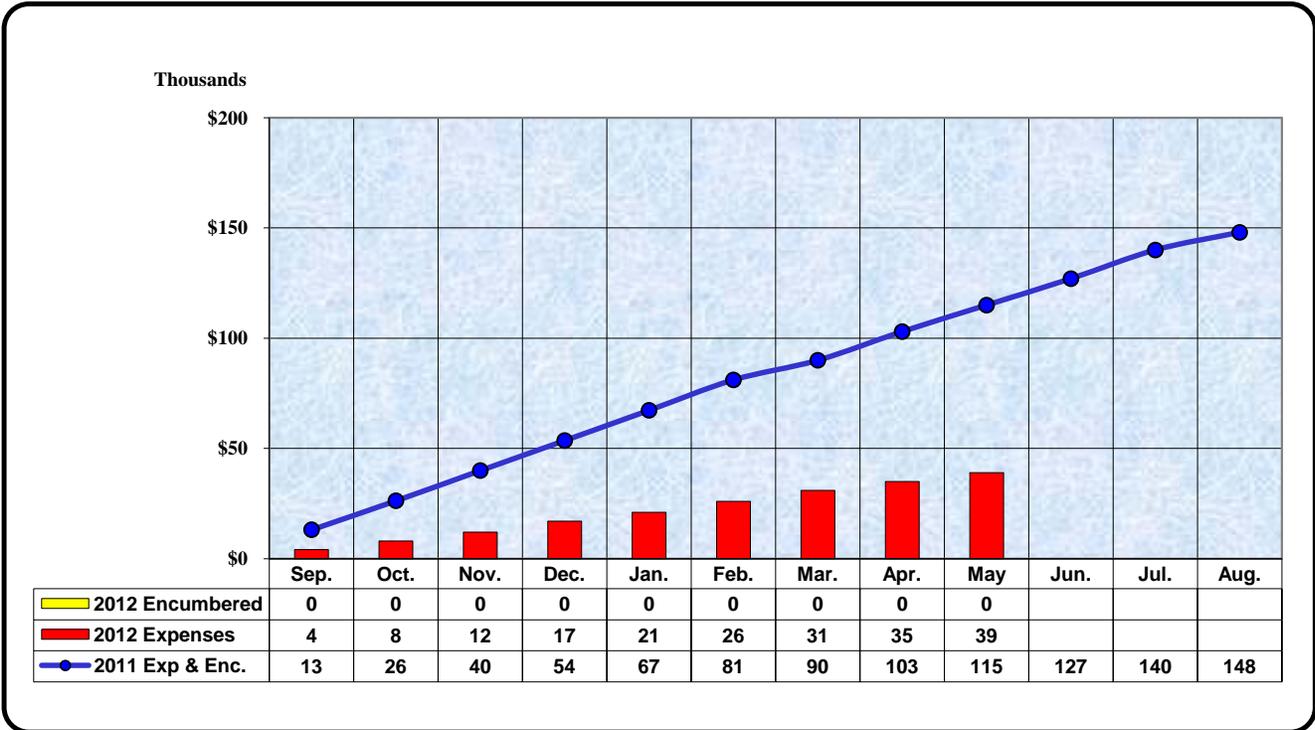


Total Budget \$58,452

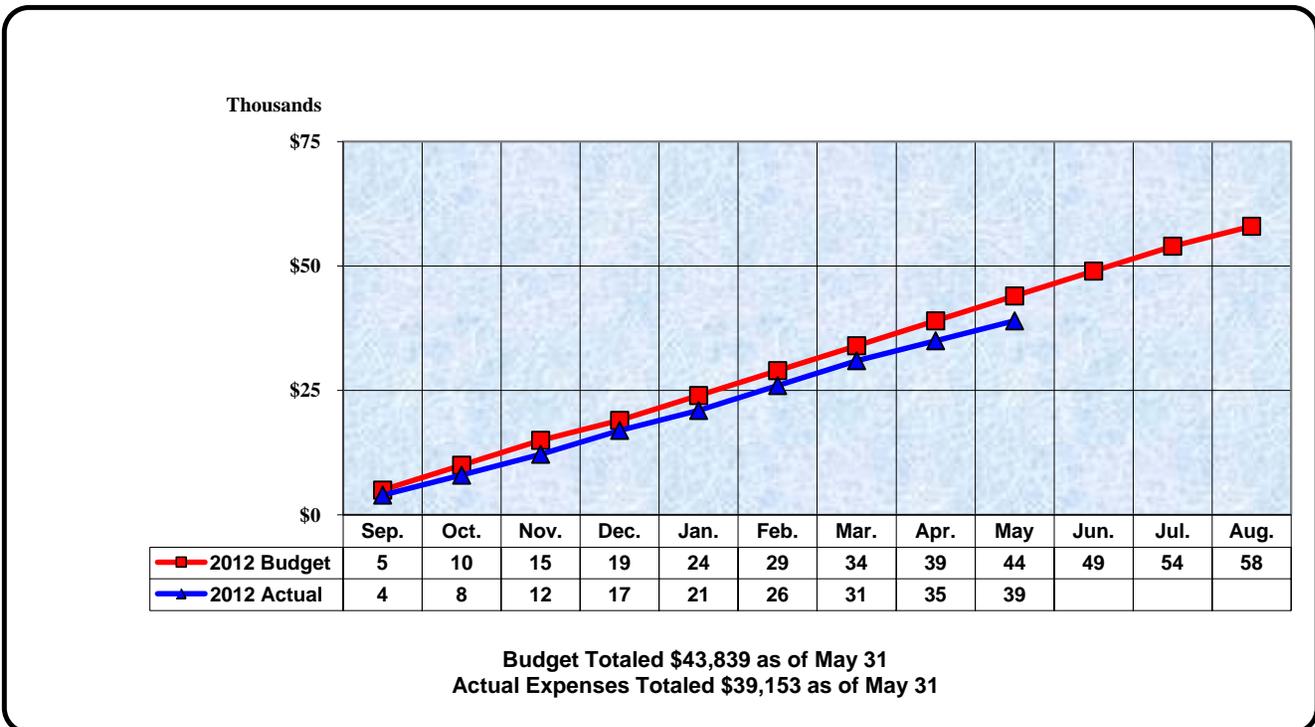
Source: Unaudited monthly financial statements.

403(b) Certification Program Administrative Expenses

FY 2012 YTD and FY 2011



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



Source: Unaudited monthly financial statements.

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

	Actual YTD May 31, 2012	Encumbered YTD May 31, 2012	Annual Budget Amount	Remaining Budget Amount	Remaining Budget %
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 33,677.32		\$ 45,386.00	\$ 11,708.68	26%
Employer Retirement Contributions	2,067.08		2,739.00	671.92	25%
Employer FICA Contributions	2,635.49		3,274.00	638.51	20%
Employer Health Insurance Contributions			5,021.00	5,021.00	100%
Benefit Replacement Pay	773.43		1,032.00	258.57	25%
Other Employee Benefits			1,000.00	1,000.00	100%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 39,153.32		\$ 58,452.00	\$ 19,298.68	33%
TOTAL OPERATING EXPENSES	\$ 39,153.32	\$	\$ 58,452.00	\$ 19,298.68	33%
Less: Employer Retirement Contributions paid on behalf of Employees	\$ (2,067.08)		\$ (2,739.00)	\$ (671.92)	25%
TOTAL CASH OUTLAY FOR OPERATING EXPENSES	\$ 37,086.24	\$	\$ 55,713.00	\$ 18,626.76	33%

Tab 22

Deputy Director Report

GASB Statements 67 & 68

July 20, 2012

Ken Welch

GASB Statements 67 & 68



GASB Statement 67 (Plans)

- Effective for plan fiscal years beginning after June 15, 2013
- This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures*.

GASB Statement 68 (Employers)

- Effective for employer fiscal years beginning after June 15, 2014
- This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement 50.

GASB Statements 67 & 68 (Cont'd)



Reporting Pension Liability

- Net Pension Liability (NPL) is reported on the employer's balance sheet and is the UAAL based on the blended discount rate, entry age normal cost method and market value of assets.
- NPL would be the total pension liability minus the plan net position. Total pension liability is the actuarial accrued liability based on the blended discount rate and the entry age normal costs. Plan net position is the plan assets at market value.

Discounting

- Payments would be discounted at a blended rate using:
 - Long-term rate of return on assets for payments expected to be covered by projected assets
 - Include future contributions intended to fund benefits for current plan participants
 - High-quality municipal bond index rate for any payments thereafter.

GASB Statements 67 & 68 (Cont'd)



Allocation

- Reporting entities, if considered cost-sharing employers, will be required to report their proportionate share of the net pension liability of the plan and recognize its estimated allocated share of the plan's collective pensions expense.

Notes and Required Supplementary Information (RSI)

- Additional new disclosure in both the Notes and RSI including:
 - Policy for determining annual contributions to the plan
 - Sensitivity analysis showing the effect on the NPL of a 1% increase and decrease in the discount rate
 - Two 10 year schedule reporting numerous demographic and financial metrics about the plan

GASB Statements 67 & 68 (Cont'd)

Upcoming

- Statements 67 and 68 will be available for download at the GASB website in early August.
- Comptroller's Office will provide guidance on implementation.