TRS Board of Trustees Meeting

July 26, 2013
TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES

AGENDA

July 26, 2013 – 8:00 a.m.

TRS East Building, 5th Floor, Boardroom

NOTE: The Board may take up any item posted on the agenda during its meeting on Friday, July 26, 2013.

The open portions of the July 26, 2013 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 approval of the June 13-14, 2013 Board meeting minutes – David Kelly.

3. Recognize the service of outgoing Trustees – David Kelly.

4. Provide opportunity for public comments – David Kelly.

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
   A. An update on new trustee orientation.
   B. Discuss upcoming TRTA presentations.
   C. Board operational matters, including a review of draft agendas for upcoming meetings.
   D. Enterprise Risk Management program.
   E. Retirement plan benefits and operations.
   F. Investment activity and operations.
   G. Health-benefit programs and operations.
   H. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.

6. Review the report of the Deputy Director, including a report on legislative implementation and a TEAM update – Ken Welch.
7. Discuss and consider a resolution directing staff to prepare for the payment of a cost of living adjustment consistent with the provisions of Senate Bill 1458 as passed by the 83rd Texas Legislature – Ken Welch.

8. Discuss and consider the following TRS-Care matters – Brian Guthrie; Betsey Jones; and William Hickman, Gabriel, Roeder, Smith and Company:
   A. Receive the report on the June 4, 2013 Retirees Advisory Committee meeting.
   B. Discuss the role of the Retirees Advisory Committee.
   C. Adopt premiums and plan design for TRS-Care, the retiree health benefits program, including (i) adopting premiums and plan design for the three standard plans and the fully-insured Medicare Advantage Plans and (ii) adopting plan design for the Medicare Part D Plans.
   D. Discuss and consider automatic enrollment and dis-enrollment provisions for the Aetna Medicare Advantage and Express Scripts Medicare Part D plans for TRS-Care participants turning 65 years of age – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.

9. Provide an update on TRS-ActiveCare, the active employee health benefits program, and discuss and consider eliminating TRS-ActiveCare 3 and moving TRS-ActiveCare 3 participants to TRS-ActiveCare 2 – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.

10. Discuss the performance evaluation of Gabriel, Roeder, Smith and Company (GRS) as the provider of health benefits consulting services and consider a two-year extension to the existing health benefits consulting contract between TRS and GRS – Betsey Jones.

11. Discuss and consider selecting a pension fund actuarial services firm, including receiving staff’s recommendation on the selection of a firm; and considering a resolution selecting the pension fund actuarial services firm – Rebecca Merrill.

12. Consider authorizing the Executive Director to purchase directors' and officers' and fiduciary liability insurance for fiscal year 2014 through the State Office of Risk Management – Ken Welch.


14. Consider a resolution 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, 2014 – Don Green.

15. 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.

16. Review the report of the Chief Benefit Officer, and consider the following related matters – Marianne Woods Wiley:

A. Approve members qualified for retirement.

B. Approve minutes of Medical Board meetings.

17. Discuss and consider selecting Board fiduciary counsel, including considering a finding that deliberating or conferring on the selection of fiduciary counsel in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person; 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.

18. Receive a presentation from Focus Consulting on the evaluation of the Chief Audit Executive, Chief Investment Officer, and Executive Director – Keith Robinson, Focus Consulting.

NOTE: The Board meeting likely will recess after the last item above to conduct the Audit Committee meeting and resume upon adjournment of the committee meeting to take up the items listed below.

19. Discuss and consider personnel and compensation matters, including the following items:

A. Review the report of the Audit Committee on its July 26, 2013 meeting, and discuss and consider the evaluation and compensation of the Chief Audit Executive – Chris Moss.

B. Discuss and consider the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly.

C. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly and Keith Robinson, Focus Consulting.

20. Discuss and consider the adoption of a resolution regarding salary limits for the following particular employees: Chief Investment Officer, Deputy Director Investment Officer, Deputy Administrative Officer, and the Investment Fund Directors listed as exempt positions in the 2014 - 2015 General Appropriations Act – David Kelly.

21. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.
Tab 2
Mr. Kelly called the meeting to order at 1:10 p.m.

1. **Call roll of Board members.**

Ms. Lau called the roll. A quorum was present. Mr. Joe Colonnetta was absent.
2. Consider administrative matters, including:
   
   A. Approval of the April 18-19, 2013 Board meeting minutes.
   
   On a motion by Mr. Moss, seconded by Ms. Clifton, the board unanimously approved the minutes for the April 18-19, 2013 meeting.
   
   B. Excuse Board member absence from the April 18-19, 2013 Board meeting.
   
   On a motion by Ms. Sissney, seconded by Ms. Clifton, the board unanimously excused the absence of Mr. McDonald from the April 19, 2013 board meeting.
   
3. Provide opportunity for public comments
   
   Mr. Tim Lee of Texas Retired Teachers Association (TRTA) commented on the positive outcome from the current legislative session. He stated that TRTA would continue to assist in preparing for the next legislative session.
   
4. Review and discuss the Executive Director's report on the following matters:
   
   A. Legislation impacting TRS, including proposed state funding for TRS’ administrative budget, the TRS Pension Trust Fund, and the retirees’ health benefit program (TRS-Care).
   
   B. Board operational matters, including a review of draft agendas for upcoming meetings.
   
   C. Enterprise Risk Management program.
   
   D. Retirement plan benefits and operations.
   
   E. Investment activity and operations.
   
   F. Health-benefit programs and operations.
   
   G. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.
   
   Mr. Guthrie recognized TRS Health and Insurance Benefits Counselor Team as the winner of the Shining Example Award for TRS team excellence in customer service. He introduced team members: Elvira George, Wendy Gershon, Susan Greb, Teresa Luna, Chase Dierschke, Elizabeth Taylor, Trina Miller, and Joann Matthews.
   
   Mr. Guthrie introduced Juan Garcia from the Governor’s Office, Meredith Fowler from Speaker Straus’ Office, and Jonathan Mathers and Carly Reedholm from Representative William Callegari’s Office. He expressed his appreciation to their efforts over the legislative session.
Mr. Guthrie provided an update on the legislative session. He summarized bills impacting TRS, including TRS’ omnibus bill (HB 3357) and those related to the pension fund — SB 1458, which contains the Cost of Living Adjustments (COLA), and SB 1, the General Appropriations Act. In response to Mr. Kelly’s question concerning the TEAM program funding, Mr. Guthrie stated that a rider in SB 1 would allow TRS to hire people with special talent over the course of summer to ensure that the fund would not need to divert resources from TEAM. He also clarified for Ms. Clifton that the COLA would be paid to eligible annuitants beginning October 1, 2013. Mr. Guthrie stated that the TRS actuary had projected that under the provisions of SB 1458 and SB 1, the funding period of the TRS pension fund would be 29.5 years, meaning the fund would be actuarially sound and able to provide the COLA to the retirees. He confirmed for Mr. Barth that the deferred losses from previous years should be fully amortized by August 31, 2014.

Mr. Guthrie summarized the key provisions of the TRS-Care and TRS-ActiveCare legislation, including the grandfathering provisions.

Mr. Guthrie summarized the key provisions of TRS’ omnibus bill (HB 3357). He noted that the bill authorized the board to meet in executive session for board procurements, including those of fiduciary counsel, actuarial services, and health-care contracts.

Mr. Guthrie laid out the plans to implement the SB 1458 provisions.

Mr. Guthrie provided highlights of the all hands meetings with TRS employees to discuss the TEAM program and to express appreciation to employees for their hard work on TEAM. He also laid out the schedule of upcoming conferences and continuing education opportunities for trustees and TRS executives. He provided a brief update on the administrative operations.

Mr. Guthrie provided an overview of the July and September meeting agendas. He also presented a list of board-approved contracts and their expiration dates.

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

   A. **Performance review: first quarter 2013 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.**

Mr. O’Connell presented the performance review for the first quarter of 2013. He highlighted the strong performance in terms of absolute return performance and performance relative to the benchmark over the quarter, the trailing year, and the three-year period. He stated that the positive returns could be attributed to the strong capital markets during the second half of 2012. He noted that the value added was attributed to a broad range of asset classes, while the underperformance was attributed mainly to the asset allocation, with the underweight to positive performing asset classes and overweight to the underperforming asset classes. Mr. O’Connell also presented TRS rankings relative to a peer universe based on its return, risk, and risk-adjusted return. He stated that the rankings reflect positive performance for the past three years. Per Dr. Brown’s request, Mr. O’Connell discussed the composition of the peer group. He stated that they were composed of public pension funds that were $1 billion or greater, which would include funds that were smaller than TRS and less heavily invested in alternative investments.
He stated that TRS would outperform those peers if alternative investments performed well. Further discussion followed relating to the composition of the peer group. Mr. O’Connell concurred with Dr. Brown that the peer group could be broadened to include all large public and endowment-type funds. Mr. O’Connell stated that the lack of a comparable peer group was the reason that HEK did not focus on peer comparison to determine a fund’s performance. He stated that HEK tried to emphasize the performance relative to the asset allocation performance benchmark as the primary source.

B. Receive a presentation on and discuss related party fees – Eric Lang.

Mr. Barth stated that the board asked staff to prepare the current presentation to keep the board abreast of the current related party transaction fees. He stated that the inquiry responded to public comments made at a previous board meeting suggesting that the fund was paying high fees in some transactions.

Mr. Lang provided a presentation on related party transactions. He described the scope of those transaction fees and explained the fee verification process. Responding to a question from Mr. Kelly, Mr. Lang confirmed that having transaction fees could impose risk on the investment but staff was aligned with the fund manager to reach the highest possible profit.

Mr. Rob Kochis of the Townsend Group provided a presentation on real estate transactions and their fees. He explained the standard process of fee management. Responding to a question from Mr. Kelly, Mr. Lang stated that a tracking system for fees was not in place. Mr. Hall stated that quarterly statements of those fees were presented at the advisory board meetings of the private real estate funds in which TRS was an investor.

C. Review the report of the Investment Management Committee on its June 13, 2013, meeting – Todd Barth.

Mr. Barth, Committee Chair, provided the following committee report:

The Investment Management Committee met today. The first presentation was a review of the private equity portfolio, which was presented by Rich Hall. Next, Eric Lang reviewed the real assets portfolio. The committee then received an introduction to the energy and natural resources investment initiative. The presentation began with a discussion of the Energy and Natural Resources (ENR) opportunities. Then Jase Auby presented a review of the associated risks of the ENR investments. And finally Vaughn Brock reviewed the strategic plan for the investments in this asset class.


Mr. Bob Prince of Bridgewater provided a presentation on the global market outlook.
E. Market review – Josh Harris and Jim Zelter, Apollo Investment Corporation.

Mr. Josh Harris of Apollo profiled Apollo, including its investments and performance. He also presented his view and projections on the U.S. market.

6. Receive an update on and discuss due diligence regarding investment in two master limited partnership funds of funds for the Private Markets Strategic Partnership Network, including the following:

   A. Introduction of the Private Markets Strategic Partnership Network presentations – David Veal.

   B. Overview of Apollo Management Corporation’s Private Markets Strategic Partnership dealings with TRS – Josh Harris and Jim Zelter, Apollo Management Corporation.

   C. Review of the legal terms of the master limited partnership funds of funds – Angela Vogeli; Denise Lopez; and Scott Cheskiewicz, Jackson Walker.

   D. Update on Private Markets Strategic Partnership Network – Courtney Villalta.

   E. Overview and summary of the Private Markets Strategic Partnership Network – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.

Mr. Kelly announced that the board would go into executive session on agenda items 6A through 6E and 21 under the following statutes: §825.3011 of the Government Code, to confer about confidential investment matters relating to the private investment fund or the purchase, holding, or disposal of restricted securities; and §551.071 of the Government Code, to seek advice from the board’s legal counsel as needed. All members of the public and staff not needed for the Executive Session left the meeting room.

Whereupon, the board went into executive session at 5:47 p.m.

The meeting was reconvened in open session and then recessed at 6:45 p.m.
The Board of Trustees of the Teacher Retirement System of Texas reconvened on June 14, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

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

Others present:
Brian Guthrie, TRS
Ken Welch, TRS
Amy Barrett, TRS
Janet Bray, TRS
Carolina de Onis, TRS
Dennis Gold, TRS
Howard Goldman, TRS
Don Green, TRS
T. Britton Harris IV, TRS
Jerry Albright, TRS
Betsey Jones, TRS
Amy Morgan, TRS
Ray Spivey, TRS
Marianne Woods Wiley, TRS
Thomas Albright, TRS
Jase Auby, TRS
Mohan Balachandran, TRS
Michelle Bertram, TRS
Chi Chai, TRS
Janie Duarte, TRS
Adam Fambrough, TRS
Cindy Haley, TRS
Dan Herron, TRS
Bob Jordan, TRS
Dan Junell, TRS
Lynn Lau, TRS
Jay LeBlanc, TRS
Rebecca Merrill, TRS
Jamie Michels, TRS
Melinda Nink, TRS
Hugh Ohn, TRS
Barbie Pearson, TRS
Shunne Powell, TRS
Mike Rehling, TRS
Noel Sherman, TRS
Rebecca Smith, TRS
Susan Wade, TRS
Tim Wei, TRS
David Veal, TRS
Angela Vogeli, TRS
Steve Huff, Reinhart Boerner Van Deuren
Ann Fickel, Texas Classroom Teachers Association
David P. Moore, Pension Review Board
Brady O’Connell, Hewitt EnnisKnupp
Jay Masci, Provaliant
Michael Johnson, Bridgepoint Consulting
Andrea Anderson, Bridgepoint Consulting
Joe Newton, Gabriel Roeder Smith and Company
Richard Tonkovich, HP Enterprise Services
Ernie Sanders, HP Enterprise Services
Victor Ferreira, HP Enterprise Services
Ted Melina Raab, Texas American Federation of Teachers
Josh Sanderson, Association of Texas Professional Educators
Jim Baker, UnitedHere
Claudio Rodriguez, Harrah’s Casino and UnitedHere
Cindy Ferrara, Caesars Palace Hotel and UnitedHere
Ollie Stewart, Paris Las Vegas Hotel and Casino
Christina Kline, Culinary Workers Union Local 226
Elmer Portillo, Las Vegas Planet Hollywood Casino
Francisco Rufino, Paris Las Vegas Hotel and Casino
Karl Koelker, VR Election Services

Mr. Kelly called the meeting to order at 11:50 a.m.

1. **Call roll of Board members.**

Ms. Lau called the roll. A quorum was present. Mr. Colonnetta was absent.

7. **Provide an opportunity for public comment – David Kelly.**
Mr. Jim Baker of UniteHere addressed the board concerning TRS’ investments in both Apollo Investment Fund VI, sponsored by Apollo Global Management, and TPG Partners V, sponsored by TPG Capital. He stated his concern regarding the high transaction and monitoring fees collected by Apollo and TPG from Caesars Entertainment. He stated that the investment fees and losses relating to those investments had caused Caesars to reduce staff in order to cut costs. He urged all limited partners of those investments, including TRS, to request Apollo and TPG to cease collecting monitoring fees on Caesars Entertainment and invest the money back into Caesars Entertainment.

Mr. Claudio Rodriguez and Ms. Cindy Ferrara addressed the board concerning the negative impact of the investment fees collected by Apollo and TPG. They stated examples of reduced personnel and other resources that had hurt customer service quality and jeopardized workers’ safety.


He noted that the changes enacted by SB 1458, including the COLA, resulted in a slight decrease in the funded ratio in the August 31, 2012 pension fund valuation from 81.9% before the changes to 81.5% after the changes. Describing the increases in member and state contribution rates, and additional contribution from the local school districts under the legislation, he stated that the total contribution rate increased by about 2.66% of payroll, which would equate to about $1 billion. Together with the positive impact of the increase of minimum retirement age, the net increase of the contribution rate would be 2.95%, or $1.1 billion, which would be allocated towards amortization of the Unfunded Actuarial Accrued Liability (UAAL) annually and created a new funding period of about 29.5 years on a smoothed basis.

Mr. Newton presented the projections of the next actuarial valuation based on different market return rates and the new provisions outlined in the current legislation. He stated that the legislation improved the projected funded ratio for the upcoming decade. Comparing two different assumed market return rates going forward, Mr. Newton cautioned that the fund currently had a 7.5% return rate and would still need to achieve the 8% target rate to improve the funded ratio. Mr. Newton stated that the increase of minimum retirement age had caused the cash flow to be more manageable because of the delay of those benefit payments.

Mr. Newton concluded that SB 1458 had a positive effect in changing the funding period from "never" to a calculable funding period. He noted that the impact of the COLA was immediate and permanent and would require revenue increases to pay for in the coming decades. Per Mr. Guthrie’s request, Mr. Newton also shared his observations on the impact of the new accounting standard under the Governmental Accounting Standards Board (GASB).

9. Discuss trustee elections and receive an update on nominees to be considered for the active public education member appointment currently held by Charlotte Clifton – Howard Goldman and Karl Koelker, VR Election Services, Inc.

Mr. Goldman provided an update and timeline of the trustee elections. He introduced Mr. Karl Koelker of VR Election Services (VRES). He stated that TRS contracted with VRES to manage
this year’s election. He stated that the firm provided election management for many public fund board elections nationwide.

Mr. Koelker provided details on the election, including the process and results. He reported that there were 768,802 eligible voters with a voter turnout of 3.25%. He also reported the total votes each candidate received both by mail and internet as follows:

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Votes</th>
<th>Percentage of Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dolores Ramirez</td>
<td>12,289</td>
<td>49.12%</td>
</tr>
<tr>
<td>Lindsey Pollock</td>
<td>9,138</td>
<td>36.52%</td>
</tr>
<tr>
<td>Hiram Burguete</td>
<td>3,451</td>
<td>13.79%</td>
</tr>
</tbody>
</table>

10. **Review the report of the Audit Committee on its June 14, 2013, meeting and consider adopting revisions to the Audit Plan for Fiscal Year 2013 – Christopher Moss.**

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

The Audit Committee met at 8 a.m. on Friday, June 14, 2013. The State Auditor’s Office presented the audit of incentive compensation. The Chief Audit Executive and staff of the Texas Department of Assistive and Rehabilitative Services presented their report on Internal Audit’s external quality assurance review. Internal Audit presented the status of the employer audit project, audit of health care administration, audit of emerging manager program, quarterly investment testing, status of prior audit and consulting recommendations, and quarterly internal audit status reports. The committee considered a recommendation to the board regarding revisions to the audit plan for fiscal year 2013. The audit plan will be amended to cancel two audit projects that include the ethics and communications policies, compliance audit, and the procurement and contracting audit, and revise the audit project employer reporting audit. These audits will be replaced by an investment compliance self-assessment and development of TRS employer self-audits in the areas of pension surcharge, TRS-Care surcharge, and employment after retirement.

On a motion by Mr. Moss as the committee chair, the board unanimously adopted the changes to the Audit Plan for FY 2013.

11. **Review the report of the Benefits Committee on its June 14, 2013, meeting – Christopher Moss.**

Mr. Moss, Committee Chair, provided the following report of the Benefits Committee:

The Benefits Committee met this morning, June 14, 2013, to receive an update on TRS-ActiveCare. Betsey Jones and Bill Hickman with Gabriel Roeder Smith and Company provided information on the overall financial condition of the program. Discussion included the recommendation that will be made to the Policy Committee to improve solvency by amending TRS-ActiveCare rule §41.41 in 34 Texas Administration Code, relating to premium payments.
12. Review the report of the Policy Committee on its June 14, 2013, meeting and consider the following actions – Committee Presiding Officer:

A. Adopt a resolution amending the Policy on Negotiated Rulemaking and Alternative Dispute Resolution.

B. Adopt a resolution amending on an emergency basis TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41.

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

The Policy Committee met on June 14, 2013, in the board room. After consideration of the April 2013 minutes, staff discussed the statutorily required review of TRS’ 403(b) rules. The committee approved staff’s proposed rule review plan and authorized public comment publication of the related rule review notice in the Texas Register. The committee then reviewed the Policy on Negotiated Rulemaking and Alternative Dispute Resolution. The committee recommended that the board adopt minor changes to the policy, to delete an obsolete citation, and to improve the wording and format of the current policy. The committee also recommended public comment publication in the Texas Register of proposed amendments to TRS rule §47.17 relating to qualified domestic relations orders and discussed the executive director’s authorization of public comment publication in the Texas Register of proposed amendments to TRS rule §25.1. The committee discussed TRS-ActiveCare funding matters. The committee adopted a resolution that recommends to the board amending on an emergency basis TRS-ActiveCare rule §41.41 and authorizes for public comment publication in the Texas Register proposed permanent amendments to rule §41.41.

On a motion by Mr. Barth as the presiding chair of the committee, the board unanimously adopted the following resolution amending the Policy on Negotiated Rulemaking and Alternative Dispute Resolution:

Resolved, That the Board of Trustees (Board) hereby adopts the Alternative Dispute Resolution and Negotiated Rulemaking Policy (Policy) as presented to and recommended for adoption by the Policy Committee, with the changes recommended by the Policy Committee; and

Resolved, That the amended Policy as adopted above, effective upon adoption, supersedes in all respects all prior versions of the Policy.

On a motion by Mr. Barth as the presiding chair of the committee, the board unanimously adopted the following resolution amending on an emergency basis rule §41.41:

Whereas, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer the uniform group health benefits program under the Texas School Employees Uniform Group Health Coverage Act (TRS-ActiveCare), as described in the statute;
Whereas, During the current plan year, TRS-ActiveCare has experienced an unexpectedly high level of claims, which has placed the solvency of the TRS-ActiveCare fund at risk;

Whereas, This risk constitutes an imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare;

Whereas, 34 TEX. ADMIN. CODE § 41.41 provides that each participating entity in TRS-ActiveCare shall remit to TRS the amount on each bill for premiums directed to the participating entity by TRS or the administering firm;

Whereas, 34 Tex. Admin. Code § 41.41 further provides that each participating entity shall remit payment on or before the sixth day after the last day of each month in which TRS or the administering firm issues a bill;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (GRS), have recommended that each participating entity be required to remit payment on or before the fifteenth day of each month in which TRS or the administering firm issue the bill to the participating entity, beginning with bills generated on or after September 1, 2013;

Whereas, By moving the due date of each bill forward in time by approximately three (3) weeks, the risk to the solvency of the TRS-ActiveCare fund can be alleviated and the imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare can be eliminated;

Whereas, By acting quickly, TRS can provide adequate notice, direction, and instruction to both the administering firm and the participating entities in TRS-ActiveCare concerning the proposed new payment deadlines;

Whereas, the TRS Policy Committee has recommended that the TRS Board of Trustees (board) adopt, on an emergency basis, the proposed amendments to 34 Tex. Admin. Code § 41.41, as marked in the text of 34 Tex. Admin. Code § 41.41 attached hereto and incorporated herein for all purposes; now, therefore, be it

Resolved. That the board hereby —

1) Finds that during the current plan year, TRS-ActiveCare has experienced an unexpectedly high level of claims, which has placed the solvency of the TRS-ActiveCare fund at risk;

2) Finds that this risk to the solvency of the TRS-ActiveCare fund constitutes an imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare;

3) Finds that this risk can be alleviated and the imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare can be eliminated by requiring that each participating entity remit payment on or before the fifteenth day of each month in which TRS or BCBSTX issue the bill for TRS-ActiveCare premiums, beginning with bills generated on or after September 1, 2013;

4) Finds that there exists an urgent need for TRS to provide adequate notice, direction, and instruction to both the administering firm and the participating entities in TRS-ActiveCare concerning the proposed new payment deadlines;

5) Finds that the above noted risk and need to provide prompt notice, direction, and instruction requires the adoption of amended rule 34 Tex. Admin. Code § 41.41, as
marked in the attached and incorporated text, on an emergency basis with fewer than 30
days’ notice;

6) Adopts amendments to rule 34 Tex. Admin. Code § 41.41, as marked in the attached and
incorporated text, on an emergency basis; and

7) Grants the Chairman of the board the authority to sign an order showing the action of
the board.

13. **Review the report of the Risk Management Committee on its June 14, 2013, meeting**
– Eric McDonald.

Mr. McDonald, Committee Chair, provided the following report of the committee:

The Risk Management Committee met on Friday, June 14, 2013. A report on the
Enterprise Risk Management (ERM) program was provided by the Risk Management and
Strategic Planning staff, which included information on the annual ERM public pension
fund peer group, introduction of the TRS stoplight report used to communicate the rate of
risk within TRS, and an update on risk management activities related to the following
risk categories: TEAM program, 403(b) program, employer reporting, records
management, open government, business continuity, investment accounting, and
communication and external relations.

14. **Review the report of the Budget Committee on its June 14, 2013, meeting, and
consider adoption of related matters, including** – Nanette Sissney and Don Green:

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

The Budget Committee met today, Friday, June 14, 2013, at 10:15 a.m. The first item of
business was the approval of minutes of the April 13, 2013 Budget Committee meeting.
Mr. Don Green then provided an overview of the general provisions and recommended
administrative operating budget for FY 2014. The total FY 2014 operating budget for all
funds is $154.7 million, which includes $93.6 million for administrative operations, $21.4
million for TEAM, $33.1 million for soft dollars, $4 million for the operation of TRS-
Care, $2.5 million for the operations of TRS-ActiveCare, and $66,748 for the 403(b)
certification program. The FY 2014 operating budget reflects a 6.7% increase above the
approved FY 2013 operating budget. Increases over the FY 2013 budget include
approximately $4.4 million or 3% for salaries and wages due to an expected 1% across-
the-board pay raise authorized by the legislature, and funding for additional resources and
benefit increases. An additional $400,000 is budgeted for SB 1458 implementation. An
additional $4.1 million is included for building repairs that cover the replacement of air
handlers and the pressurization of stairwells. Finally, an additional $2.3 million is
budgeted for operating cost increase. Incentive compensation is estimated to be $9.3
million, which includes the maximum allowed for the first half of the plan year, $5.1
million, plus the remaining balance of the last plan year, $4.2 million. The Budget
Committee also discussed the TEAM program. The total operating and capital expense
that is budgeted to that program is $21.4 million, or an increase of 1.8% from FY 2013 budget. A new rider 17 authorizes the agency to use funds appropriated to the TEAM capital program budget for salaries and wages for FTEs and contract workers assigned to the TEAM program. The TEAM FTEs are also exempt from the FTE calculation for reporting purposes. For the soft dollar budget, a total of $33.1 million is being requested in line with the changes to the soft dollar policy, which should allow for the generation of revenues related to Section 28(e) arrangements and will be spent on allowable investment expenditures such as professional services, subscriptions, reference information, software, and contracted services. For the next agenda item, Mr. Green presented the recommended administrative operating budgets for TRS health benefits funds. The total FY 2014 operating budget for TRS-Care is $4 million and $2.5 million for both the TRS-ActiveCare plan and the long-term care insurance program. The committee discussed the variance explanations. For the final agenda item, Mr. Green presented the recommended administrative operating budget for the 403(b) certification program. The total FY 2014 operating budget is $66,748, which reflects a 13.5% increase above the prior year budgeted amount. The proposed resolution reflects the revised language in the Government Code, and eliminates sections repeated by HB 3357. Rider 15 language is included that appropriates TRS additional funds and FTEs to implement modifications to the benefit structure.

A. Consider the adoption of the proposed fiscal year 2014 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 2014 budget.

B. Consider the adoption of the proposed fiscal year 2014 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 the adoption of the proposed fiscal year 2014 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.

On a motion by Ms. Sissney as the committee chair, the board adopted the FY 2014 administrative operations budget for the pension trust fund, the TRS health benefit funds, retired and active plans, including the long-term care insurance program and the 403(b) certification program as presented, and the general provisions described on pages 4 and 5 of the budget document.

On a motion by Ms. Sissney, the board adopted the following resolution authorizing staff to transfer pension trust funds to the TRS expense account for pension administrative operation expenses under the approved fiscal year 2014 budget:

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 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 (the “TRS board” or “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 are required to perform the fiduciary duties of the board;

Whereas, Rider 15, “Contingency for Senate Bill 1458,” of the TRS bill pattern in the State General Appropriations Act, 83rd Legislature, R.S., provides that, upon a finding of fact by the TRS board that additional resources are necessary to implement SB 1458, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2014 and authorized additional full-time equivalent employees (FTEs) to be added to the FTE cap for fiscal year 2014 for SB 1458 implementation; now, therefore, be it

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in fiscal year 2014 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of $105,686,702, as approved today in the Fiscal Year 2014 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 2014, 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 to implement Senate Bill 1458, contingent on its final passage, under this finding of fact by the board that additional resources are necessary for implementation; 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 2014, but not to exceed the amount of $105,686,702, plus any additional amounts necessary to pay performance incentive compensation payable in fiscal year 2014 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.


Mr. Moss and Mr. Guthrie both expressed their appreciation to Bridgepoint Consulting for the work they provided as the TEAM Program Independent Program Assessment (IPA) vendor.

Mr. Johnson provided the IPA observations of the TEAM program. He described the current strength of the TEAM program, including the line of business (LOB) vendor evaluation methodology and effective communication established with employees, who would be the end users. He also provided an update on the status of the previously reported recommendations.

Mr. Johnson presented three new recommendations. He stated that the overlap of the LOB and financial system replacement (FSR) systems could risk conflict in sharing resources between two systems and needed to be addressed. He stated that the concern relating to matching the data
management project plan to match deliverables and milestones and documentation improvement had been addressed. The third new recommendation, he stated, related to the elevated risk of executing the increasingly complex FSR statement of work (SOW) requirements. Mr. Welch agreed with Mr. Johnson’s observation that those concerns needed to be addressed. Ms. Michels stated that staff was paying close attention to the overlapping implementation of the LOB and FSR systems. She stated that staff was trying to fulfill the complex SOW requirements through the procurement process and ensure that the pricing of procuring those deliverables stayed within the budget. Responding to a question from Mr. McDonald, Mr. Welch recapped the expansion of the FSR system project. He noted that the project was in the envision stage and the scope could be narrowed down if the expansion was found to be too complex for the current implementation. He responded to Mr. Kelly that the final decision would be made based on the recommendation of staff and consultants, which would be derived from the cost analysis of the pricing received from the vendors. He stated that Mr. Guthrie would make the decision regarding the scope of the project based on those recommendations. Mr. Guthrie stated that he would be willing to narrow the scope of the project if expanding it would jeopardize the LOB implementation.

Mr. Johnson presented a list of completed activities and the IPA budget status.

16. **Receive an update on the TEAM Program, including an update on the schedule and a review of dependencies between TEAM projects – Janet Bray and Jay Masci, Provaliant.**

Mr. Masci of Provaliant provided an update on the current TEAM program progress. He stated that the FSR team would provide an estimated timeline of contract negotiations in July. He also stated that the organization change management project team was looking into areas that could be completed in house and limit the engagement of consultants in that project. He also briefly updated the board on the progress on the website redesign project. Per Mr. Kelly’s request, Mr. Masci also explained the decommissioning process being used to transition from the legacy system to the new system during implementation.

Mr. Masci explained the concept of project interdependencies in terms of resources, schedule, and funding. He provided the current status and timeline of these interdependencies. He stated that, to manage resources, the project dependencies were monitored and reported regularly. He presented the phases of the project. He stated that the actual dependency dates would be available after the contract with a LOB vendor was signed. Per Mr. Kelly’s request, Mr. Masci and staff agreed to provide an estimated outcome of any major schedule delays.

Ms. Pearson provided an overview of the accomplishments, including the formation of organizational change advisory groups, completion of FSR development, conducting functionality assessments, and holding the all hands meeting.

Ms. Bray reviewed the all hands meeting. She stated that the meeting was intended mainly to communicate with all TRS employees regarding the TEAM program. She concluded that the meeting received positive feedback from employees in general.

17. **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 2013 that were required to perform the fiduciary duties of the board. He explained for Ms. Sissney that the increase of expenditures in March was due to the payment for the heating and air conditioning project.

18. **Review the report of the Deputy Director, including an update on TRS building security improvements – Ken Welch.**

Mr. Welch provided an update on the building security, including the upgrade of elevator security to limit unescorted public access to certain floors.

Mr. Welch stated that staff had shortened the hold time on calls to the telephone counseling to two minutes and 20 seconds with the help of additional phone lines and other resources. Responding to a question from Mr. McDonald regarding the installation of the backup generator, Mr. Welch stated that it had been installed and tested successfully. Ms. Morgan confirmed that the generator had been operating properly.

19. **Review the report of the General Counsel on pending or contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Carolina de Onís and Dennis Gold.**

Ms. de Onís stated that no new litigation activity of significance had occurred other than what was stated in the report. She highlighted the new format of the security class action report that provided historical data from each reporting period. She noted that the data did not reflect the opt-out cases in which TRS had filed its own claims rather than proceeding as members of a class in certain securities litigation. Per Mr. Kelly’s request, staff agreed to describe the process of deciding whether opting out of a class action was in TRS’ best interests with historical data reference at the next quarterly board meeting.

Ms. de Onís stated that a reconciliation process had been implemented with State Street, TRS' custodial bank, to ensure a claim would be filed each time TRS was entitled to take a distribution from a class settlement. She stated that staff would continue to monitor the process to secure recoveries. She explained that staff would continue to handle claims for the foreign cases and those filed prior to the engagement of State Street. She confirmed for Ms. Clifton that the securities litigation-claim service provided by State Street would not incur additional costs to TRS.

The meeting adjourned at 2:00 p.m.
| Tab 5 |

TRTA Fall Conventions.

State Street Contract Update.

Update on Agendas for September and October Board Meetings.
New Trustee Orientation
TRTA Fall Conventions
## TRTA Fall Conventions

<table>
<thead>
<tr>
<th>DATE</th>
<th>LOCATION</th>
<th>TRTA District President</th>
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</thead>
<tbody>
<tr>
<td>September 16</td>
<td>Midland</td>
<td>Ann Parish</td>
</tr>
<tr>
<td>September 18</td>
<td>Abilene</td>
<td>Bob Warner</td>
</tr>
<tr>
<td>September 23</td>
<td>Waco</td>
<td>Laura Rothrock</td>
</tr>
<tr>
<td>September 26</td>
<td>Brownwood</td>
<td>Lynn Granzin</td>
</tr>
<tr>
<td>September 27</td>
<td>San Marcos</td>
<td>Mollye Long</td>
</tr>
<tr>
<td>October 1</td>
<td>Henderson</td>
<td>Gloria Bethany</td>
</tr>
<tr>
<td>October 3</td>
<td>Pittsburg</td>
<td>Mary Nell Short</td>
</tr>
<tr>
<td>October 3</td>
<td>Beaumont</td>
<td>Linda Briggs</td>
</tr>
<tr>
<td>October 7</td>
<td>Dallas</td>
<td>Jo Long</td>
</tr>
<tr>
<td>October 8</td>
<td>Wichita Falls</td>
<td>Dale Thomas</td>
</tr>
<tr>
<td>October 8</td>
<td>El Paso</td>
<td>Norma K. Irwin</td>
</tr>
<tr>
<td>October 10</td>
<td>Lubbock</td>
<td>Mary Sexton</td>
</tr>
<tr>
<td>October 15</td>
<td>Mansfield</td>
<td>Jo Ann Smith</td>
</tr>
<tr>
<td>October 16</td>
<td>Huntsville</td>
<td>Don Allphin</td>
</tr>
<tr>
<td>October 18</td>
<td>Houston</td>
<td>Marcy Cann</td>
</tr>
<tr>
<td>October 21</td>
<td>McAllen</td>
<td>Maria Garza</td>
</tr>
<tr>
<td>October 22</td>
<td>Corpus Christi</td>
<td>Leroy DeHaven</td>
</tr>
<tr>
<td>October 23</td>
<td>Beeville</td>
<td>Carolyn Hale</td>
</tr>
<tr>
<td>October 24</td>
<td>Amarillo</td>
<td>Tommy Hayes</td>
</tr>
<tr>
<td>October 24</td>
<td>Boerne</td>
<td>Dr. Charlotte Travis</td>
</tr>
</tbody>
</table>
State Street Contract Update
## Current and Proposed Service Arrangement

<table>
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<tr>
<th>Service Delivery</th>
<th>Current</th>
<th>Proposed</th>
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</thead>
<tbody>
<tr>
<td>Global Trade Processing and Settlement</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Asset Servicing (Valuation, Corporate Actions, Proxy, Tax Reclaim, GASB)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Month-End accounting and book-of-record services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>On-site Client Service support</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Daily Performance Services</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Daily Compliance Services</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Private Equity and Real Assets Services</td>
<td>X</td>
<td>X</td>
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<tr>
<td>IT Allowance</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Commission Management Services</td>
<td>X</td>
<td>X</td>
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<tr>
<td>IFS Risk Services</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Daily operations, accounting and book-of-record services</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Additional dedicated operations and accounting support</td>
<td>X</td>
<td></td>
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<tr>
<td>Dedicated reconciliation support team</td>
<td>X</td>
<td></td>
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<tr>
<td>Integrated OTC Derivatives trade processing and valuation</td>
<td>X</td>
<td></td>
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<tr>
<td>Customized Service Level Agreement and KPIs</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Additional Services (eHorizon and Expense Manager)</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Note: Negotiations ongoing as of 07/15/13
Upcoming Agendas
September 12-13, 2013 Major items include:

Board

• Welcome new trustees.
• Receive committee chairman and concur on committee appointments.
• Adopt Board calendar for CY 2014.
• Report on Q2 earnings and market review.
• Discuss ED’s goals and objectives for FY 2014.
• Ratify Incentive Compensation Policy.
• Amend IPS as necessary to implement the Energy & Natural Resources Portfolio.
• Adopt rules as necessary to implement legislation.

Committees

• Review External Public Markets Portfolio.
• Discuss IMD Research and Development initiatives.
• Begin review of Mission Statement.
• Begin review of the Proxy Voting Policy.
• Review the Investment Risk Report.
October 18, 2013 Major items include:

- One day meeting.
- No committee meetings.
- Comprehensive overview from State Street on the services provided.
- Presentation from CEM on pension administration benchmarking survey results.
Tab 6
Teacher Retirement System of Texas

Deputy Director’s Report

Ken Welch
July 26, 2013
Legislation Update

- Staff has identified 43 separate pieces of legislation which have passed that potentially have an impact on TRS.

- We have established an implementation workgroup to review the legislation and determine each bill’s specific impact on TRS and its effective date.
The workgroup is analyzing each provision to determine the specific actions required to implement the legislation including:

- Policies and Procedure
- IT Programing Changes
- Modifications or adoption of Rule/Board Actions
- Communications initiatives – publications, mailers, social media, etc.
- Reporting Requirements
- Review implications for TEAM Business Rules and Requirements
A spreadsheet has been developed to track:

- Required actions
- Individual/group responsible
- Required delivery date
- Current status
**SUBJECT:** Normal age retirement eligibility change for non-vested members as of 9-1-2014 and for new members on or after 9-1-14

**BILL NUMBER:** SB 1458, Section 1

**PRIMARY RESPONSIBILITY:** Woods Wiley

**EFFECTIVE DATE:** September 1, 2014

**STATUTORY CITATION:** Section 824.202, Government Code

**BRIEF BILL SUMMARY:** This bill increases the normal retirement age to age 62 with the Rule of 80 and at least five years of service for all members who are not vested as of August 31, 2014 and new members on or after September 1, 2014. (The definition of having five years as of August 31, 2014 will be outlined in a separate action plan.)

<table>
<thead>
<tr>
<th>ACTION STEPS</th>
<th>PERSONS RESPONSIBLE</th>
<th>TARGET DATE</th>
<th>DATE COMPLETED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meet with Legal to determine how this affects current Tiers communicated to members</td>
<td>Woods Wiley/Benefit Services Smith/Legal</td>
<td>End of July 2013</td>
<td></td>
</tr>
<tr>
<td>2. Include in TRS News</td>
<td>Goldman/Communications Rehling and Guerin/ Benefit Processing (BP) &amp; Benefit Counseling (BP)</td>
<td>July 2013</td>
<td>July 2013</td>
</tr>
<tr>
<td>4. Meet with IT and submit service request for web site programming</td>
<td>Fambrough/BP</td>
<td>Request by 8/2013 Complete by 12/2013</td>
<td></td>
</tr>
<tr>
<td>5. Meet with IT and submit service request for mainframe programming</td>
<td>Fambrough/BP</td>
<td>Request Aug 2013 Complete Aug 2014</td>
<td></td>
</tr>
<tr>
<td>6. Identify manual spreadsheet calculations that need to be revised in BP and BA, and update them</td>
<td>Fambrough/BP</td>
<td>Dec 2013</td>
<td></td>
</tr>
<tr>
<td>7. Determine if rule changes are necessary and if so, work with Legal to draft rules and timeline for Board approval (See Chapters 29 and 51 of Admin Code)</td>
<td>Rehling, Mynar &amp; Zunker; BP</td>
<td>August 2013</td>
<td></td>
</tr>
<tr>
<td>8. Work with Rebecca Merrill and Mary Chang to contact actuary to determine if new actuarial tables are needed for retirement calculation and/or service credit purchase calculation</td>
<td>Rehling, Fambrough &amp; Mynar BP</td>
<td>Sept 2013</td>
<td></td>
</tr>
<tr>
<td>9. Revise forms, retirement instructions, paragraphs, etc.</td>
<td>Rehling &amp; Fambrough/BP</td>
<td>Dec 2013</td>
<td></td>
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<tr>
<td>12. Revise Counseling presentations and other Counseling materials</td>
<td>Guerin/BP</td>
<td>Aug 2013</td>
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</tbody>
</table>
TEAM Update
Tab 7
Whereas, The Texas Legislature has enacted legislation providing for the Teacher Retirement System of Texas (TRS) to make a one-time cost-of-living adjustment (adjustment or COLA) payable to eligible annuitants receiving a monthly death or retirement annuity, as provided by section 2 of Senate Bill 1458 (to be codified as new section 824.702 of the Texas Government Code to be effective September 1, 2013); and

Whereas, New section 824.702 requires the adjustment to be made beginning with an annuity payable for the month of September 2013 and the TRS Board of Trustees (board) to determine the eligibility for and the amount of any adjustment in monthly annuities under section 824.702; now, therefore, be it

Resolved, That the board directs the Executive Director and his designees to determine the annuitants eligible for a COLA and the amount to pay to them and to take all necessary action to timely pay the COLA in accordance with section 824.702.
1. Call to order – Sue Passmore, Chair

2. Roll call of Committee Members

3. Approval of Minutes from the June 1, 2012 RAC meeting

4. Public comments

5. Update of Legislation - Brian Guthrie, Executive Director

6. HIB Department Overview – Bob Jordan, Director of Health and Insurance Benefits

7. Update on Medicare Advantage and Medicare D plans - Betsey Jones, Director of Health Care Policy and Administration & Bill Hickman, Consultant, Gabriel, Roeder, Smith & Company

8. TRS Financial Update - Betsey Jones, Director of Health Care Policy and Administration & Bill Hickman, Consultant, Gabriel, Roeder, Smith & Company

9. Update on Retiree Advisory Committee nominations – Averi Mullins, Program Manager, Health and Insurance Benefits
Teacher Retirement System of Texas

Retirees Advisory Committee

Board of Trustees Meeting

July 26, 2013
RAC Background

- RAC established by law in 1985.
- Advisory committee for TRS-Care.
- Nine members appointed by TRS Board with staggered four-year terms.
  - Five retirees
  - Four active members
- Five positions will expire on January 31, 2014.
Appointment Process

- Call for nominations – September 2013
- Nominations closed – October 2013
- Information sent to Benefits Committee and TRS Board – November 2013
- TRS management recommendations to Benefits Committee. TRS Board determines appointments – December 2013
RAC Responsibilities

- Hold public meetings on group coverage.
- Recommend to the TRS Board minimum standards and features of plans it considers appropriate.
- Recommend to the TRS Board desirable changes in rules and legislation affecting the program.
Tab 8 C
Teacher Retirement System of Texas

TRS-Care

Board of Trustees Meeting

July 26, 2013
- Law requires a basic plan at no cost for retiree only coverage.
- Optional coverage may be offered at a cost to retirees.
- Retiree premiums for optional coverage is based on:
  - Medicare status
  - Years of service
TRC-Care Enrollment

- TRS-Care offers three standard plans and two Medicare Advantage and Part D plans.

- 235,000 covered lives as of July 1, 2013 (includes both Standard and Medicare plans):

<table>
<thead>
<tr>
<th>TRS-Care 1</th>
<th>TRS-Care 2</th>
<th>TRS-Care 3</th>
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<tbody>
<tr>
<td>31,000</td>
<td>49,000</td>
<td>155,000</td>
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</table>

- 59% Medicare, 41% non-Medicare or Part B only.
TRS-Care Enrollment

- Aetna Medicare Advantage participation rate: 70%
- Express Scripts Medicare Part D participation rate: 83%
- Additional enrollment opportunity effective January 1, 2014
  - Enrollment period October 15 to November 15, 2013
  - Not an automatic enrollment, retirees and beneficiaries must take action to enroll
  - Extensive communication strategy
Age-ins have a very low participation rate of < 30%.

Staged roll-out, next phase is implementing auto enrollment for age-ins.
• **SB 1458**
  - Provision goes into effect August 31, 2014
  - TRS-Care 1 only until age 62
  - Grandfathered if as of August 31, 2014:
    - Age plus years of service 70 or greater
    - 25 years of service credit
  - No impact until FY 2020
HB 3357

- Trustee may spend a part of the money for part of the cost of optional coverage if program is projected to remain solvent during the currently funded biennium.
- State contribution restored to 1%
- Riders added to Appropriations Bill
  - Upon passage of SB 1458, any general revenue funds available through settle up for FY 2013 in excess of amount required to provide for a pension fund state contribution rate of 6.8% in FY 2014 are available for TRS-Care.
  - Public community/junior college bill pattern--Allows for settle up funding to be drawn from formula funding should the amounts for both FY 2012 and FY 2013 not be paid this year.
▪ Riders added to Appropriations Bill (cont.)
  • It is the intent of the Legislature that the TRS Board of Trustees shall not increase retiree health insurance premiums for the 2014-2015 biennium.
Law requires that retirees pay at least 30% of the total costs.

Reasonable interpretation is that retirees share is a combination of both premiums and out-of-pocket costs of covered charges.
TRS-Care
FY 2014 Distribution of Cost

- State Contributions, 25.5%
- Retiree Contributions, 40.7%
- Active Employee Contributions, 12.9%
- District Contributions, 11.3%
- Other Contributions, 9.6%
## TRS-Care Funding Projection
(Data thru May 2013)

<table>
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<tr>
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<td>2013</td>
<td>$364,603,745</td>
<td>$137,322,247</td>
<td>$102,363,704</td>
<td>$178,518,921</td>
<td>$156,169,256</td>
<td>$8,073,001</td>
<td>$107,953,648</td>
<td>$677,052,949</td>
<td>$463,504,148</td>
<td>$1,080,929</td>
<td>$47,516,833</td>
<td>$606,863,319</td>
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<td>2014</td>
<td>$368,624,190</td>
<td>$274,644,494</td>
<td>$75,596,097</td>
<td>$178,518,921</td>
<td>$156,169,256</td>
<td>$6,938,953</td>
<td>$141,820,920</td>
<td>$695,154,627</td>
<td>$543,879,717</td>
<td>$12,888,343</td>
<td>$51,964,398</td>
<td>$505,289,066</td>
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<td>2015</td>
<td>$376,254,164</td>
<td>$274,644,494</td>
<td>$178,518,921</td>
<td>$156,169,256</td>
<td>$4,481,218</td>
<td>$151,269,303</td>
<td>$760,449,427</td>
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<td>$32,349,059</td>
<td>$54,033,721</td>
<td>$171,664,138</td>
<td>$314,177,748</td>
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</table>
• Each 1% increase in TRS-Care premiums for FY14 = $3.7m

• A 10% increase in TRS-Care premiums for FY14 = $36.8m

• $796m negative fund balance for the FY16 - FY17 biennium with 10% increase
July 5, 2013

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

Dear Mr. Guthrie:

Subject:     TRS-Care Plan Design and Funding

Dear Mr. Guthrie:

We have reviewed the TRS-Care Health Care Program and are pleased to offer our observations regarding the status of the plan and our recommendations regarding retiree contributions and benefit levels for the 2014 fiscal year.

**Plan Funding**

Our review and analysis has included return of the state contribution to 1% of the salary of each active employee beginning in fiscal year 2014. Supplemental funding of $75,596,097 has also been included in fiscal year 2014. For projection purposes, active public education payroll was assumed to be constant beginning in fiscal year 2014.

**Retiree Contributions and Benefits**

Taking into consideration the savings to TRS-Care produced by the implementation of both the Medicare Advantage and Medicare Part D plan initiatives our projections indicate TRS-Care solvency through fiscal year 2015. Plan experience through May 2013 has been included in our analysis. As a result, we recommend that the current benefit levels and retiree contribution rates be continued through August 31, 2014. Our analysis also indicates that, in accordance with statutory requirements, the retiree share of total plan cost continues to be greater than 30%.

Please let us know if you have questions.

Sincerely,

Gabriel, Roeder, Smith & Company

[Signature]

William J. Hickman  
Consultant
RESOLUTION APPROVING PREMIUM RATES AND BENEFIT PLAN DESIGNS FOR THE TRS-CARE STANDARD PLANS, TRS-CARE MEDICARE ADVANTAGE PLANS, AND TRS-CARE MEDICARE PRESCRIPTION PLANS

July 26, 2013

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, TRS-Care offers coverage in three standard plans (“TRS-Care Standard plans”), historically known as TRS-Care 1, TRS-Care 2, and TRS-Care 3; in two qualified fully-insured Medicare Advantage plans (“TRS-Care Medicare Advantage plans”), available to eligible TRS-Care 2 and TRS-Care 3 participants who have Medicare Parts A and B; and in two Medicare Prescription plans (“TRS-Care Medicare Prescription plans”), available to eligible TRS-Care 2 and TRS-Care 3 participants who have either Medicare Part A or Medicare Part B or both;

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 2014 plan year, beginning September 1, 2013, premium rates at all levels of coverage in the TRS-Care Standard plans remain unchanged from the current premium rates for the 2013 plan year;

Whereas, TRS staff and GRS have further recommended that for the plan year commencing on January 1, 2014, premium rates in the TRS-Care Medicare Advantage plans remain unchanged from the current premium rates for the plan year that commenced on January 1, 2013;

Whereas, TRS staff and GRS have further recommended that for the 2014 plan year, beginning September 1, 2013, benefit plan designs for TRS-Care Standard plans remain unchanged from the current benefit plan designs for the 2013 plan year;
Whereas, TRS staff and GRS, have further recommended that for the plan year commencing on January 1, 2014, benefit plan designs for the TRS-Care Medicare Advantage Plans and the TRS-Care Medicare Prescription plans remain unchanged from the current benefit plan designs for the plan year that commenced on January 1, 2013; and

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

Resolved, That for the 2014 plan year, beginning September 1, 2013, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the premium rates at all levels of coverage in the TRS-Care Standard plans that are currently in place for the 2013 plan year;

Resolved, That for the plan year commencing on January 1, 2014, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the premium rates in the TRS-Care Medicare Advantage plans that are currently in place for the plan year that commenced on January 1, 2013;

Resolved, That for the 2014 plan year, beginning September 1, 2013, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the benefit plan designs at all levels of coverage in the TRS-Care Standard plans that are currently in place for the 2013 plan year;

Resolved, That for the plan year commencing on January 1, 2014, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the benefit plan designs for the TRS-Care Medicare Advantage plans and the TRS-Care Medicare Prescription plans that are currently in place for the plan year that commenced on January 1, 2013;

Resolved, That the Board finds that, considering the actions taken in the resolutions above, TRS-Care is projected to remain financially solvent during the currently funded biennium; and

Resolved, That for the plan year commencing on September 1, 2013 for the TRS-Care Standard plans, and for the plan year commencing on January 1, 2014 for the TRS-Care Medicare Advantage plans and the TRS-Care Medicare Prescription plans, and for all plan years thereafter until further action by the Board, 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, and to otherwise implement and continue the TRS-Care Standard plans, the TRS-Care Medicare Advantage plans, and the TRS-Care Medicare Prescription plans until further action by the Board.
Tab 8 D
Teacher Retirement System of Texas

RESOLUTION ESTABLISHING AUTOMATIC ENROLLMENT
FOR TRS-CARE 2 AND TRS-CARE 3 ENROLLEES
INTO THE MEDICARE ADVANTAGE PLANS AND
MEDICARE PRESCRIPTION PLANS
IN THE TRS-CARE PROGRAM

July 26, 2013

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 July 2012 meeting, the TRS Board of Trustees (“Board”) adopted a resolution entitled “Resolution Establishing Enrollment Opportunities and Opt Out Provisions for the Medicare Advantage Plans and Medicare Prescription Plans in the TRS-Care Program” (the “July 2012 Medicare Plans Enrollment Resolution”), and authorized thereby for plan years commencing on or after January 1, 2013, among other things, (i) initial enrollment opportunities for the Medicare plans under TRS-Care, as set out in Exhibit A attached to that resolution, (ii) annual enrollment opportunities for the Medicare plans under TRS-Care, as set out in Exhibit B attached to that resolution, and (iii) opt out provisions for the Medicare plans under TRS-Care, as set out in Exhibit C attached to that resolution;

Whereas, TRS staff has recommended that the Board adopt a set of automatic enrollment provisions, which are contained in Exhibit A, attached to this resolution and incorporated herein by reference, to be effective as soon as administratively feasible as determined by the Executive Director or his designees in his or their discretion and to remain effective thereafter until further action by the Board, for individuals who are enrolled in either TRS-Care 2 or TRS-Care 3 and who then enroll in Medicare Parts A and/or B because they turn age 65; and

Whereas, the Board desires to adopt the recommendations of TRS staff; now, therefore, be it
Resolved, That the Board hereby adopts and authorizes the set of automatic enrollment provisions set out in Exhibit A, attached hereto and incorporated herein by reference, to be effective as soon as administratively feasible as determined by the Executive Director or his designees in his or their discretion, and to remain effective thereafter until further action by the Board, for individuals who are enrolled in either TRS-Care 2 or TRS-Care 3 and who then enroll in Medicare Parts A and/or B because they turn age 65;

Resolved, That the part of Exhibit A to the July 2012 Medicare Plans Enrollment Resolution Board that addresses individuals who are enrolled in either TRS-Care 2 or TRS-Care 3 and who then enroll in Medicare Parts A and/or B because they turn age 65 shall terminate when the automatic enrollment provisions set out in Exhibit A, attached hereto, become effective;

Resolved, That all remaining portions of Exhibit A to the July 2012 Medicare Plans Enrollment Resolution not altered by the automatic enrollment provisions noted above, along with Exhibits B and C to the July 2012 Medicare Plans Enrollment Resolution, shall remain in place 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, in accordance with applicable law, to implement this resolution, to adjust the timing of disenrollment from the Medicare Advantage plans and the Medicare Prescription plans in unusual circumstances, and to otherwise create, implement, and continue the Medicare Advantage plans and the Medicare Prescription plans until further action by the Board.
Exhibit A

Automatic Enrollment in the TRS-Care Medicare Advantage Plans and the TRS-Care Medicare Prescription Plans for Individuals who are Enrolled in Either TRS-Care 2 or TRS-Care 3 and who Then Enroll in Medicare Parts A and/or B Because They Turn Age 65

As soon as administratively feasible, as determined by the Executive Director or his designees in his or their discretion, automatic enrollment will begin as detailed herein. An individual enrolled in either TRS-Care 2 or TRS-Care 3 who then becomes enrolled in Medicare Parts A and/or B because he turns age 65 shall be automatically enrolled in a TRS-Care Medicare Advantage plan and/or a TRS-Care Medicare Prescription plan according to the following automatic enrollment provisions:

- Subject to other applicable eligibility criteria and the timing of the completion of the Age 65 Additional Enrollment Opportunity, an individual who is enrolled in TRS-Care 2 or TRS-Care 3 and who then becomes enrolled in Medicare Parts A and B because he turns age 65 shall be automatically enrolled in a TRS-Care Medicare Advantage plan and a TRS-Care Medicare Prescription plan, in a manner and when deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion.

- Subject to other applicable eligibility criteria and the timing of the completion of the Age 65 Additional Enrollment Opportunity, an individual who is enrolled in TRS-Care 2 or TRS-Care 3 and who then becomes enrolled, because he turns age 65, in Medicare Part A or Medicare Part B, but not both, shall remain enrolled in the TRS-Care medical plan and shall be automatically enrolled in a TRS-Care Medicare Prescription plan, in a manner and when deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion.

- Notwithstanding anything to the contrary, a dependent may only choose available plans within the same TRS-Care level of coverage (i.e., TRS-Care 1, TRS-Care 2, or TRS-Care 3) in which the retiree or surviving spouse is enrolled.
RESOLUTION DISCONTINUING TRS-ACTIVECARE 3

July 26, 2013

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

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (“GRS”), have recommended that TRS-ActiveCare 3 be discontinued effective September 1, 2013;

Whereas, TRS staff and GRS have recommended that all enrollees who have selected coverage in TRS-ActiveCare 3 for the 2014 plan year be transitioned over to and enrolled in TRS-ActiveCare 2 effective September 1, 2013; 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 authorizes the Executive Director or his designees to take any actions that are necessary or advisable to continue the existing approved TRS-ActiveCare 3 plan of coverage through August 31, 2013, and to discontinue TRS-ActiveCare 3 effective September 1, 2013;

Resolved, That the Board hereby authorizes the Executive Director or his designees to take any actions that are necessary or advisable to transition all enrollees who have selected coverage in TRS-ActiveCare 3 for the 2014 plan year over to TRS-ActiveCare 2, and enroll these individuals in TRS-ActiveCare 2 effective September 1, 2013.
MEMORANDUM

Date:       July 09, 2013

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

From:  Betsey Jones, Director of Health Care Policy and Administration
        Bob Jordan, Director, TRS Health & Insurance Benefits

Subject:   Evaluation of Health Care Consultant, Gabriel, Roeder, Smith & Company for the period September 2012 through June 2013

Summary of Work Performed

During this period, Gabriel, Roeder, Smith & Company (GRS) provided continued professional advice and technical support for TRS staff in a timely manner. Services performed included the following:

• TRS-Care
  o Provided month monitoring and status of TRS-Care fund balance.
  o Participated in the PBM transition meetings with the new vendor.
  o Provided Legislative analysis and support.
  o Provided recommendations for TRS-Care rates and benefits.
  o Prepared the OPEB actuarial valuation.
  o Provided actuarial attestation for the Medicare D subsidy and whether plans met Medicare D creditable coverage standards.
  o Provided periodic utilization reports for medical and drug expenses.
  o Participated in year-end reviews of Aetna and Caremark.
  o Participated in the implementation meetings with vendors for the Medicare Advantage and Medicare Part D plans.

• TRS-ActiveCare
  o Provided monitoring and status of TRS-ActiveCare fund balance.
  o Assisted in developing RFPs for TPA and PBM vendors.
  o Provided recommendations for TRS-ActiveCare PPO rates and benefits.
  o Determined whether PPO plans met Medicare D creditable coverage standards.
  o Provided periodic utilization reports for medical and drug expenses.
  o Participated in year-end reviews for BCBSTX and Medco Health.
Assessment of Performance

Feedback from TRS staff interfacing with GRS was extremely positive. It was noted that GRS was very flexible and always responded quickly to requests for information. GRS staff readily made themselves available for conference calls and meetings on short notice, and the quality of information provided was exceptional. Their experience in the industry and their in-depth knowledge of TRS programs also proved to be invaluable to TRS.

TRS staff especially appreciates the professional services provided by Mr. Bill Hickman and his team. They are highly committed to serving the needs of TRS. In summary, GRS’ performance overall is outstanding and exceeds expectations.
RESOLUTION CONCERNING THE EXTENTION OF THE HEALTH CARE CONSULTANT AND ACTUARIAL SERVICES CONTRACT WITH GABRIEL, ROEDER, SMITH & COMPANY

July 26, 2013

WHEREAS, Chapter 1575, Insurance Code, authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement and administer the uniform group health benefits program under the Texas Public School Retired Employees Group Benefits Act (“TRS-Care”), as described in the statute;

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

WHEREAS, During its June 2008 meeting, the TRS Board of Trustees (“Board”) authorized a contract with Gabriel, Roeder, Smith & Company (“GRS”) to provide health care consulting and actuarial services to TRS and the Board;

WHEREAS, Effective September 1, 2008, TRS entered into a contract (“Current Contract”) with GRS to provide health care consulting and actuarial services to TRS and the Board;

WHEREAS, The Current Contract is set to expire on August 31, 2014;

WHEREAS, TRS staff recommends that the Current Contract be extended for an additional two (2) year period, effective from September 1, 2014 through August 31, 2016;

WHEREAS, The Board desires to adopt the recommendation of TRS staff; now, therefore, be it

Resolved, That the Board, pursuant to Chapters 1575 and 1579 of the Insurance Code, hereby authorizes the Executive Director or his designees to negotiate, with the assistance and advice of legal counsel, a two (2) year extension, effective from September 1, 2014 through August 31, 2016, of the Current Contract with GRS to provide health care consulting and actuarial services to TRS and the Board; and, if
negotiations are deemed by the Executive Director, in his discretion to be successful, then the Executive Director is hereby authorized to execute the two (2) year extension of the Current Contract with GRS on such terms and conditions as the Executive Director deems, in his discretion, to be in the best interest of TRS, and further to 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 reasonably necessary or advisable with respect to such contract extension, it being understood that the Board’s approval of a contract extension pursuant to this resolution shall not be construed as a binding agreement or obligation to extend the Current Contract, and there shall be no binding agreement among the parties until a full and final written contract extension is negotiated and signed by both parties.
Tab 11
Whereas, Section 825.206(a) of the Government Code and TRS Bylaws subsection 1.8(o) provides that the Board of Trustees (Board) of the Teacher Retirement System of Texas (TRS) shall select, designate, and evaluate an actuary as its technical advisor;

Whereas, Section 825.206(c) of the Government Code provides that the Board shall redesignate its actuary every four years after advertising for and reviewing proposals from providers of actuarial services;

Whereas, Section 825.101 of the Texas Government Code states that the Board is responsible for the general administration and operation of the retirement system and its assets, and Section 825.103 of the Texas Government Code provides that the Board has exclusive authority over the purchase of goods and services when using trust funds, including the purchase of actuarial valuation and pension consulting services;

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

Whereas, TRS conducted a competitive procurement for actuarial valuation and pension consulting services;

Whereas, The Board wishes to authorize the executive director to enter into a contract for actuarial valuation and pension consulting services; now, therefore be it

Resolved, That the Board, pursuant to Section 825.206of the Texas Government Code, hereby authorizes the executive director or the deputy director of TRS to negotiate, with the assistance and advice of legal counsel, a contract with ____________________________ to provide actuarial valuation and pension consulting services for the TRS pension fund; and

Resolved, That, if negotiations are deemed in his or her discretion to be successful, then the executive director or the deputy director is hereby authorized to execute a contract on such terms and conditions as such officer may deem, in his or her discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents, including all future extensions or amendments to the contract, that such officer may deem necessary or appropriate to effect this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract or amendments.
Tab 12
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: July 8, 2013

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, 2013 through November 1, 2014.

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, 2013.

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 (no retention applies)
- $100,000 sublimit of liability for HIPAA penalties (no retention applies)
- $50,000 sublimit of liability for Section 4975(a) Penalties (no retention applies)
- $50,000 sublimit of liability for Health and Patient Care Penalties (no retention applies)
- $500,000 retention for each claim

The total premium for the Fiduciary Liability coverage is [redacted]

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
- $5,000,000 IP Claim sublimit (infringement, misappropriation or violation of any patent, service mark, trade secret, title, or other proprietary or licensing rights or intellectual property of any products, technologies, or services - $1,000,000 retention and 80% co-insurance.)
- $10,000,000 employment practices sublimit
- $150,000 sublimit for defense costs for Wage & Hour Claims
- $100,000 retention for indemnifiable claims brought against an individual or claims against 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’/EPL is [redacted].

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 2014, 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, amendments, extensions, agreements, certificates, or affidavits, or modifications as may be necessary or desirable in connection with acquiring and maintaining such insurance.
Tab 13
DATE: July 8, 2013

TO: Board of Trustees

FROM: Rebecca M. Smith, Assistant General Counsel

COPY: Brian Guthrie, Executive Director
      Ken Welch, Deputy Director
      Carolina de Onís, General Counsel
      Rebecca Merrill, Special Advisor to the Executive Director and
      Manager of Special Projects

RE: Proposed Amendments to Chapter 25, relating to Membership Credit

BACKGROUND INFORMATION

Proposed amendments to §25.1 were previously published under the authority of the Executive Director without prior consideration by the Policy Committee. (The Executive Director is authorized in section 5.7 of the Bylaws of the Board of Trustees to draft and submit proposed rules to the Secretary of State.) The expedited publication of the proposed amendments to §25.1 was necessary because there was not sufficient time between the June and July board meetings to meet the required timelines for publication for public comment of the proposed amendments before adoption and staff believed it was important to have the amended rule in place by the start of the 2013-2014 school year. The Policy Committee was subsequently informed about the publication of the proposed amendments for public comment at its June 2013 meeting.

Although the Board of Trustees adopted amendments to §25.1 at the April 2013 board meeting, after the amendments were adopted staff received comments from community college employers and community college adjunct faculty members who were concerned that the amendments resulted in minimum eligibility requirements that were too restrictive. TRS was asked to provide an exception to the minimum eligibility requirements for adjunct faculty members that would allow the individual to teach the equivalent of three 3-hour classes without becoming eligible for membership in TRS. In response, staff proposed carving out a specific minimum eligibility requirement for adjunct faculty members and to include a definition of adjunct faculty for TRS purposes.
The proposed amendments have been published for public comment in the Texas Register for at least 30 days before the board considers adoption at the July board meeting. TRS received a positive written comment in support of the proposed amendments. No changes were made to the proposed rule in response to these comments.

WHY THE ACTION IS REQUESTED

The changes to §25.1 adopted at the April 2013 board meeting address how employment in institutions of higher education that is expressed in terms of the number of courses or semester hours taught is considered in determining eligibility for TRS membership. The changes established the same standard for workloads expressed in course credits or semester hours for determining membership eligibility as the one used for one-half time employment for retirees.

After the original amendments to the rule were adopted, staff received comments from administrators of community colleges and community college districts as well as adjunct faculty members. They expressed concerns that the requirements under the Affordable Care Act to provide health benefits to employees who work 30 hours or more and the 2-to-1 standard adopted by TRS for converting instructional hours to clock hours would result in employers having to limit adjunct faculty members to teaching fewer classes. Administrators were concerned that additional faculty would have to be hired and employees were concerned that their incomes would be reduced if the number of classes they could teach were reduced. The proposed amendments represent a compromise effort to provide relief to both the employers and the employees.

SUMMARY OF PROPOSED AMENDMENTS

Section 25.1. The standards for membership eligibility in TRS are established in §25.1: employment for one-half or more of the standard full-time workload, for a period of four and one-half months or more, with pay at a rate comparable to the rate of compensation for other persons employed in similar positions. Consistent application of this standard is difficult when the workload is expressed in terms of the number of semester hours or course credits taught, as is the common practice for faculty employed in institutions of higher education.

The rule amendments adopted in April 2013 established the same ratio for determining membership eligibility as that used for converting semester hours or course credits to clock hours for the purpose of determining the number of hours worked by a retiree under the one-half time exception: two clock hours for every hour of instruction in the classroom or lab. This conversion ratio reflects the instructional time as well as preparation, grading, and other time typically associated with one hour of instruction. Providing the same conversion ratio for membership eligibility and employment after retirement reduces confusion, eases communication, and improves consistent administration of the standard. The amendments also
clarified that employment in an institution of higher education is “regular” employment if it is expected to continue more than one full semester in the same school year or if it continues for more than one full semester in a school year.

The amendments proposed for adoption at the July 2013 board meeting establish an eligibility requirement specifically for adjunct faculty. Historically, it has proven difficult to apply the membership eligibility requirements consistently to this group of employees. By its nature, employment as an adjunct faculty member is not permanent employment, although a large percentage of the faculty for many community colleges is employed as adjunct faculty. The purpose of the proposed amendments is to carve out a standard for membership eligibility for adjunct faculty that allows the employee to teach the equivalent of three 3-hour classes each semester without becoming eligible for TRS membership. The April 2013 amendments made teaching three 3-hour classes the equivalent of working 18 clock hours ((3 x 3) x 2 = 18 clock hours). However, because there is no full-time equivalent position for adjunct faculty, the 15-hour minimum threshold for membership eligibility established in §25.1(e) applied to adjunct faculty members. For adjunct faculty, the 15-hour minimum threshold limits the employee to teaching no more than two 3-hour classes to avoid membership eligibility and the benefits provided by the employer that are tied to TRS membership eligibility. The proposed amendments will effectively allow the employee to teach one additional 3-hour class without becoming eligible for membership in TRS.

The proposed amendments for adjunct faculty also establish a definition for an adjunct faculty position that is lacking in the TRS rules. The definition will also aid in the consistent administration of the membership eligibility requirements for adjunct faculty.

Prior to publication of the latest proposed rule amendments in the Texas Register, representatives of Texas Community College Teachers Association (TCCTA) and Texas Association of Community Colleges (TACC) provided input to staff confirming that allowing adjunct faculty to teach the equivalent of three 3-hour classes without establishing eligibility for membership in TRS would avoid a conflict for employers with the anticipated requirements under the Affordable Care Act. The latest proposed amendments to §25.1 reflect changes both groups previously indicated they would support.

ACTION REQUESTED

Staff requests that the Board of Trustees adopt the proposed amendments to §25.1 without changes to the published text of the proposed rule.
RULE §25.1. Full-time Service.

(a) Employment of a person by a TRS covered employer for one-half or more of the standard full-time work load at a rate comparable to the rate of compensation for other persons employed in similar positions is regular, full-time service eligible for membership.

(b) Any employee of a public state-supported educational institution in Texas shall be considered to meet the requirements of subsection (a) of this section if his or her customary employment is for 20 hours or more for each week and for four and one-half months or more.

(c) Membership eligibility for positions requiring a varied work schedule is based on the average of the number of hours worked per week in a calendar month and the average number of hours worked must equal or exceed one-half of the hours required for a similar full-time position.

(d) For purposes of subsection (a) of this section, full-time service is employment that is usually 40 clock hours per week. If the TRS-covered employer has established a lesser requirement for full-time employment for specified positions that is not substantially less than 40 hours per week, full-time service includes employment in those positions. In no event may full-time employment require less than 30 hours per week.

(e) Beginning on the first day of the 2011-2012 school year and thereafter:

1. Except as provided in subsection (j) of this section regarding adjunct faculty, if there is no equivalent full-time position of a given position, the minimum number of hours required per week that will qualify the position for TRS membership is 15.

2. The requirement in this subsection applies to all positions, including bus drivers.

(f) For school years prior to the 2011-2012 school year:

1. If there is no equivalent full-time position of a given non-certified position, the minimum number of hours required per week that will qualify the position for TRS membership is 15.

2. If there is no equivalent full-time position of a given certified position, the minimum number of hours required per week that will qualify the position for TRS membership is 20.

3. Persons regularly employed as bus drivers for routes approved by the Transportation Department of the Texas Education Agency are eligible for membership. A person will be considered regularly employed as a bus driver if his or her customary employment requires driving at least one such route per day.

(g) For purposes of subsection (a) of this section, regular employment is employment that is expected to continue for four and one-half months or more. Employment with an institution of higher education (including community and junior colleges) is regular employment if it is expected to continue for more
Employment that is expected to continue for less than four and one-half months or for no more than one full semester in a school year is temporary employment and is not eligible for membership.

(h) For purposes of subsection (a) of this section, a rate of compensation is comparable to other persons employed in similar positions if the rate of compensation is within the range of pay established by the Board of Trustees for other similarly situated employees or is the customary rate of pay for persons employed by that employer in similar positions.

(i) For purposes of this section, employment in institutions of higher education (including community and junior colleges) measured or expressed in terms of the number of courses; semester or course hours/credits; instructional units; or other units of time representing class or instructional time must be converted to clock hours and counted as a minimum of two clock hours for each clock hour of instruction or time in the classroom or lab in order to reflect instructional time as well as preparation, grading, and other time typically associated with one hour of instruction. If the employer has established a greater amount of preparation time for each hour in the classroom or lab, the employer’s standard will be used to determine the number of clock hours scheduled for work.

(j) Beginning on the first day of the 2013-2014 school year, the minimum number of hours required per week that will qualify an adjunct faculty position for TRS membership is 20. For purposes of this section, an adjunct faculty position is an instructor position that is filled on a semester-by-semester basis, compensated on a per class basis, and the duties include only those directly related to instruction of students.
Whereas, Section 825.102 of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, The standards for membership eligibility in TRS are established in TRS rule §25.1 and provide that employment for one-half or more of the standard full-time work load, for a period of four and one-half months or more, with pay at a rate comparable to the rate of compensation for other persons employed in similar positions is eligible for membership and consistent application of this standard is difficult when the work load is expressed in terms of the number of semester hours or course credits taught by faculty employed in institutions of higher education rather than in clock hours;

Whereas, The adopted related rule amendments in April 2013 establishing the same ratio for converting semester hours or course credits to clock hours for the purpose of determining eligibility for membership as that used for the purpose of determining the number of hours worked by a retiree under the one-half time exception to employment after retirement and the conversion ratio of two clock hours for every hour of instruction in the classroom or lab reflects the instructional time as well as preparation, grading, and other time typically associated with one hour of instruction;

Whereas, Providing the same conversion ratio for membership eligibility and employment after retirement reduces confusion, eases communication, and improves consistent administration of the standard;

Whereas, The latest proposed amendments to TRS rule §25.1 would establish an eligibility requirement specifically for adjunct faculty, a group of employees to whom it has proven historically difficult to consistently apply the membership eligibility requirements;

Whereas, The proposed amendments to TRS rule §25.1 would effectively allow an adjunct faculty employee to teach one additional 3-hour class without becoming eligible for membership in TRS and would also establish a definition for an adjunct faculty position to aid in the consistent administration of the membership eligibility requirements for adjunct faculty;

Whereas, The latest proposed amendments to TRS rule §25.1 were published for public comment in the June 21, 2013 issue of the Texas Register under the executive director's authority in §5.7 of the board's bylaws, 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 a positive written comment in support of the proposed amendments; and

**Whereas,** 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 rule 34 Tex. Admin. Code §25.1 without changes to the text of
the proposed rule as published for public comment in the June 21, 2013 issue of the
Texas Register (38 TexReg 3888);

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.
Tab 14
MEMORANDUM

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

From: Don Green, Chief Financial Officer

Date: July 10, 2013

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 Employees Group Benefits Program (Retiree Health, TRS-Care) for the upcoming fiscal year under the appropriations authorized by law.

This certification amount includes the adjustment between the estimated 2013 appropriation authorized in the General Appropriations Act and the current estimates of the 2013 state contribution based on the most recent information. The certified amount also includes an estimated amount for Rider 4 settle up authority. The amount over that needed to reach a contribution rate of 6.8 percent is estimated at $50 million.
At its meeting on July 26, 2013, the Board of Trustees of the Teacher Retirement System, on a motion by __________ seconded by ______________ voted to certify $277,711,984 as the estimated amount of state contributions to be received by the retired school employees group insurance fund (TRS-Care) for the 2014 fiscal year under the appropriations authorized by Chapter 1575 of the Insurance Code, the Texas Public School Employees Group Benefits Program. This amount includes $247,531,484 authorized in the General Appropriations Act (Senate Bill 1, 83rd Legislature, Regular Session), less an amount of ($19,819,500) due to fiscal year 2013 payroll costs less than estimates. These contributions are based on 1.0 percent of the salary of each active public school employee.

The amount certified also includes an estimated amount of $50,000,000 due to provisions in Rider 4, paragraph b, of TRS bill pattern (Senate Bill 1, 83rd Legislature, Regular Session) which allows for any general revenue available in excess of the amount required to provide for a state contribution rate of 6.8 percent in fiscal year 2014 to be appropriated 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 26, 2013

SIGNED: ____________________________
Brian Guthrie
Executive Director
July 26, 2013
Tab 15
Teacher Retirement System of Texas

Financial Statements
Third Quarter as of May 31, 2013

Don Green, Chief Financial Officer

Board of Trustees Meeting
July 26, 2013
Section 825.314(b) of the Texas Government Code requires the staff of the retirement system to report to the board at each board meeting the amounts and uses since the preceding board meeting of any money expended by the system from the Pension Trust Fund along with an explanation of why the amounts were needed to perform the fiduciary duties of the board. The 82\textsuperscript{nd} Texas State Legislature adopted provisions allowing operating expenses of the system to be paid out of the Pension Trust Fund. On June 8, 2012, the board approved the Administrative Operations budget for fiscal year 2013.

Total Administrative Expenses (excluding TEAM Program) of $5.7 million were disbursed in May, 2013. Salaries and Other Personnel Costs were $3.9 million, Professional Fees were $0.7 million, Capital Projects were $0.4 million, and Other Operating Expenses were $0.7 million. Items of interest include $176 thousand for outside legal counsel, $331 thousand for investment counsel and $157 thousand for building rent.

TEAM Program Expenses of $467 thousand were disbursed in May, 2013. Salaries and Other Personnel Costs were $137 thousand, Professional Fees were $311 thousand, and Other Operating Expenses were $19 thousand. Item of interest includes $163 thousand for data management services.
## Pension Trust Fund

**Cash Disbursements - FY 2013**

YTD for the Month Ended May 31

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>$6,956,188</td>
<td>$6,793,546</td>
</tr>
<tr>
<td>October</td>
<td>7,527,488</td>
<td>6,450,857</td>
</tr>
<tr>
<td>November</td>
<td>7,342,717</td>
<td>4,929,626</td>
</tr>
<tr>
<td>December</td>
<td>5,384,514</td>
<td>5,984,486</td>
</tr>
<tr>
<td>January</td>
<td>13,588,764 (a)</td>
<td>12,409,354</td>
</tr>
<tr>
<td>February</td>
<td>5,410,553</td>
<td>5,413,959</td>
</tr>
<tr>
<td>March</td>
<td>7,046,291</td>
<td>5,482,609</td>
</tr>
<tr>
<td>April</td>
<td>5,272,203</td>
<td>5,071,073</td>
</tr>
<tr>
<td>May</td>
<td>6,204,350</td>
<td>5,398,689</td>
</tr>
<tr>
<td>Totals</td>
<td>$64,733,068 (b)</td>
<td>$57,934,199</td>
</tr>
</tbody>
</table>

(a) Includes $7 million in incentive compensation pay.
(b) Includes reimbursements of $330,642.
(c) Cash Disbursements totaled $74,094,530 at August 31, 2012.

## TEAM

**Administrative Expenses - FY 2013**

YTD for the Month ended May 31

- **Salaries & Personnel**: $1,120 million (25%)
- **Professional Fees & Services**: $1,565 million (36%)
- **Other Operating**: $1,723 million (39%)

**Total**: $4,408,481 million (Graph in Millions)
Pension Trust Fund

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

From: Don Green, Chief Financial Officer

Date: July 12, 2013

Net Assets Held in Trust for Pension Benefits:

For the third quarter ended May 31, 2013, Net Assets Held in Trust for Pension Benefits were $119.2 billion, an increase of $2.7 billion over the second quarter and an increase of $7.8 billion over the $111.4 billion at August 31, 2012. Total Additions excluding Net Appreciation in Fair Value of Investments were $1.8 billion, an increase of $327.9 million from the second quarter. Interest, dividend, and securities lending income totaled $672.9 million, an increase of $322.5 million from the second quarter. Total Deductions were $2.1 billion including external manager fees of $36.5 million. Benefit payments account for 93% of all deductions.

Administrative Operations:

Total Administrative Expenses were $15.7 million of which $5.5 million was for March, $4.8 million for April, and $5.4 million for May. Salaries and Other Personnel Costs were $11.8 million, Professional Fees and Services were $1.5 million, Other Operating Expenses were $2.2 million, and Capital Expenses were $161 thousand. At the end of the third quarter 32% of the total funds budgeted were remaining.
Financial Statements
Third Quarter

Pension Trust Fund
Net Assets - FY 2013 YTD and FY 2012

Additions and Deductions - FY 2013
YTD for the Third Quarter Ended May 31

Source: Unaudited monthly financial statements.
Pension Trust Fund (excludes TEAM)

Administrative Expenses

YTD for the Third Quarter Ended May 31 - FY 2012 and FY 2013

<table>
<thead>
<tr>
<th></th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary &amp; Other</td>
<td>$40,672,000</td>
<td>$42,195,000</td>
</tr>
<tr>
<td>Personnel</td>
<td>74%</td>
<td>77%</td>
</tr>
<tr>
<td>Other Operating</td>
<td>$10,129,000</td>
<td>$9,381,000</td>
</tr>
<tr>
<td>Personnel</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Capital Expenses</td>
<td>$144,000</td>
<td>$171,000</td>
</tr>
<tr>
<td>Prof. Fees/Serv</td>
<td>$3,613,000</td>
<td>$3,076,000</td>
</tr>
<tr>
<td>Operating</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Operating</td>
<td>$10,129,000</td>
<td>$9,381,000</td>
</tr>
<tr>
<td>Personnel</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Capital Expenses</td>
<td>$144,000</td>
<td>$171,000</td>
</tr>
<tr>
<td>Prof. Fees/Serv</td>
<td>$3,613,000</td>
<td>$3,076,000</td>
</tr>
<tr>
<td>Operating</td>
<td>7%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Budget to YTD Actual - FY 2013
(Excluding TEAM and Encumbered Funds)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 Budget</td>
<td>6,165</td>
<td>12,330</td>
<td>18,495</td>
<td>24,660</td>
<td>37,724</td>
<td>43,889</td>
<td>50,054</td>
<td>56,219</td>
<td>62,384</td>
<td>68,549</td>
<td>74,714</td>
<td>80,878</td>
</tr>
<tr>
<td>2013 Actual</td>
<td>4,912</td>
<td>10,596</td>
<td>16,528</td>
<td>21,312</td>
<td>33,934</td>
<td>44,584</td>
<td>49,424</td>
<td>54,823</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Budget Totaled $62,383,759 as of May 31
Actual Expenses Totaled $54,822,929 as of May 31

Source: Unaudited monthly financial statements.
Financial Statements
Third Quarter

Pension Trust Fund (Excludes TEAM)
FY 2013 Budget Basis Administrative Expenses

<table>
<thead>
<tr>
<th>SALARIES AND OTHER PERSONNEL COSTS</th>
<th>Actual YTD</th>
<th>Encumbered YTD</th>
<th>Annual Budget Amount</th>
<th>Remaining Budget Amount</th>
<th>% Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages</td>
<td>$27,070,691.41</td>
<td>$38,284,981.00</td>
<td>$11,214,289.59</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Longevity Pay</td>
<td>449,280.00</td>
<td>636,720.00</td>
<td>187,440.00</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Employer Retirement Contributions</td>
<td>1,736,895.42</td>
<td>2,450,239.00</td>
<td>713,343.58</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Employer FICA Contributions</td>
<td>2,131,572.72</td>
<td>2,804,067.00</td>
<td>672,494.28</td>
<td>76%</td>
<td></td>
</tr>
<tr>
<td>Employer Health Insurance Contributions</td>
<td>3,503,652.98</td>
<td>4,805,304.00</td>
<td>1,301,651.02</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td>Benefit Replacement Pay</td>
<td>103,612.54</td>
<td>129,836.00</td>
<td>26,214.46</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Other Employee Benefits</td>
<td>299,674.56</td>
<td>461,000.00</td>
<td>153,825.44</td>
<td>67%</td>
<td></td>
</tr>
<tr>
<td>TOTAL SALARIES AND OTHER PERSONNEL COSTS</td>
<td>$35,295,388.63</td>
<td>$49,572,147.00</td>
<td>$14,269,258.37</td>
<td>71%</td>
<td></td>
</tr>
</tbody>
</table>

| PROFESSIONAL FEES AND SERVICES     | $3,076,277.89 | $492,094.76 | $4,495,999.93 | 44% |

<table>
<thead>
<tr>
<th>OTHER OPERATING EXPENSES</th>
<th>Actual YTD</th>
<th>Encumbered YTD</th>
<th>Annual Budget Amount</th>
<th>Remaining Budget Amount</th>
<th>% Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumable Supplies and Fuels</td>
<td>$276,702.83</td>
<td>$17,082.67</td>
<td>$453,210.00</td>
<td>$159,424.50</td>
<td>65%</td>
</tr>
<tr>
<td>Utilities</td>
<td>403,532.07</td>
<td>275,592.60</td>
<td>1,085,355.00</td>
<td>406,230.33</td>
<td>63%</td>
</tr>
<tr>
<td>Travel</td>
<td>632,567.99</td>
<td>96,553.28</td>
<td>1,175,212.00</td>
<td>446,090.73</td>
<td>62%</td>
</tr>
<tr>
<td>Rentals</td>
<td>1,702,290.14</td>
<td>348,068.06</td>
<td>2,229,197.00</td>
<td>178,838.80</td>
<td>92%</td>
</tr>
<tr>
<td>Dues, Fees and Staff Development</td>
<td>169,007.14</td>
<td>62,627.85</td>
<td>292,904.00</td>
<td>127,834.09</td>
<td>56%</td>
</tr>
<tr>
<td>Subscriptions and Reference Information</td>
<td>128,991.55</td>
<td>36,078.36</td>
<td>292,904.00</td>
<td>127,834.09</td>
<td>56%</td>
</tr>
<tr>
<td>Printing and Reproduction Services</td>
<td>209,769.82</td>
<td>100,223.04</td>
<td>456,785.00</td>
<td>146,792.14</td>
<td>68%</td>
</tr>
<tr>
<td>Postage, Mailing and Delivery Services</td>
<td>1,756,346.22</td>
<td>70,384.25</td>
<td>2,277,364.00</td>
<td>450,633.53</td>
<td>80%</td>
</tr>
<tr>
<td>Software Purchases and Maintenance</td>
<td>1,948,339.02</td>
<td>214,884.89</td>
<td>2,713,106.00</td>
<td>549,882.09</td>
<td>80%</td>
</tr>
<tr>
<td>Computer Hardware Maintenance</td>
<td>365,314.27</td>
<td>77,030.94</td>
<td>465,000.00</td>
<td>22,654.79</td>
<td>95%</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>469,236.39</td>
<td>111,752.86</td>
<td>1,120,370.00</td>
<td>539,380.75</td>
<td>52%</td>
</tr>
<tr>
<td>Insurance Premiums</td>
<td>660,685.40</td>
<td>903,100.00</td>
<td>32,414.60</td>
<td>32,414.60</td>
<td>95%</td>
</tr>
<tr>
<td>Furniture and Equipment - Expensed</td>
<td>260,465.33</td>
<td>36,281.56</td>
<td>461,072.00</td>
<td>164,325.11</td>
<td>64%</td>
</tr>
<tr>
<td>Maintenance - Buildings and Equipment</td>
<td>397,377.28</td>
<td>251,872.83</td>
<td>940,136.00</td>
<td>290,885.89</td>
<td>69%</td>
</tr>
<tr>
<td>TOTAL OTHER OPERATING EXPENSES</td>
<td>$9,380,625.45</td>
<td>$1,698,433.19</td>
<td>$14,757,779.42</td>
<td>$3,678,720.78</td>
<td>75%</td>
</tr>
</tbody>
</table>

| TOTAL OPERATING EXPENSES        | $47,752,291.97 | $2,198,027.95 | $72,394,299.00       | $22,443,979.08         | 69%        |

Source: Unaudited monthly financial statements.
# Third Quarter

## Pension Trust Fund (Excludes TEAM)

### FY 2013 Budget Basis Administrative Expenses

(continued)

### CAPITAL EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>Actual YTD</th>
<th>Encumbered YTD</th>
<th>Annual Budget Amount</th>
<th>Remaining Budget Amount</th>
<th>% Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and Equipment</td>
<td>$ 55,669.43</td>
<td>$ 59,713.19</td>
<td>$ 146,665.00</td>
<td>$ 31,282.38</td>
<td>79%</td>
</tr>
<tr>
<td>Capital Budget Items</td>
<td>115,124.64</td>
<td>321,278.01</td>
<td>1,437,590.31</td>
<td>1,001,187.66</td>
<td>30%</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL EXPENSES</strong></td>
<td>$ 170,794.07</td>
<td>$ 380,991.20</td>
<td>$ 1,584,255.31</td>
<td>$ 1,032,470.04</td>
<td>35%</td>
</tr>
</tbody>
</table>

### TOTAL OPERATING AND CAPITAL EXPENSES

|                      | $ 47,923,086.04 | $ 2,579,019.15 | $ 73,978,554.31 | $ 23,476,449.12 | 68%        |

### PERFORMANCE INCENTIVE COMPENSATION

|                      | $ 6,899,843.13 | $ 6,899,843.13 | $ 6,899,843.13 | $ 100%         |

### TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION

|                      | $ 54,822,929.17 | $ 2,579,019.15 | $ 80,878,397.44 | $ 23,476,449.12 | 71%        |

### METHOD OF FINANCE

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Encumbered</th>
<th>Annual Budget</th>
<th>Remaining Budget</th>
<th>% Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Operation Appropriations</td>
<td>$ 47,347,186.51</td>
<td>$ 2,579,019.15</td>
<td>$ 70,688,951.44</td>
<td>$ 20,762,745.78</td>
<td>71%</td>
</tr>
<tr>
<td>Employer Retirement Contributions</td>
<td>1,736,895.42</td>
<td>2,450,239.00</td>
<td>713,343.58</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Employer FICA Contributions</td>
<td>2,131,572.72</td>
<td>2,804,067.00</td>
<td>672,494.28</td>
<td>76%</td>
<td></td>
</tr>
<tr>
<td>Employer Health Insurance Contributions</td>
<td>3,503,652.98</td>
<td>4,805,304.00</td>
<td>1,301,651.02</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td>Benefit Replacement Pay</td>
<td>103,621.54</td>
<td>129,836.00</td>
<td>26,214.46</td>
<td>80%</td>
<td></td>
</tr>
</tbody>
</table>

### TOTAL OPERATING AND CAPITAL EXPENSES

|                      | $ 54,822,929.17 | $ 2,579,019.15 | $ 80,878,397.44 | $ 23,476,449.12 | 71%        |

---

**Source:** Unaudited monthly financial statements.
Financial Statements
Third Quarter

TRS Enterprise Application Modernization - TEAM
FY 2013 Budget Basis Administrative Expenses

<table>
<thead>
<tr>
<th></th>
<th>Actual YTD May 31, 2013</th>
<th>Encumbered YTD May 31, 2013</th>
<th>Annual Budget Amount</th>
<th>Remaining Budget Amount</th>
<th>% Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALARIES AND OTHER PERSONNEL COSTS</strong></td>
<td>$852,461.84</td>
<td>$1,210,950.00</td>
<td>$358,488.16</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$1,412.00</td>
<td>$17,655.00</td>
<td>$3,535.00</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Longevity Pay</td>
<td>$55,587.77</td>
<td>$77,501.00</td>
<td>$21,913.23</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>Employer Retirement Contributions</td>
<td>$66,407.21</td>
<td>$92,638.00</td>
<td>$26,230.79</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>Employer FICA Contributions</td>
<td>$72,942.84</td>
<td>$106,720.00</td>
<td>$33,777.16</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>Employer Health Insurance Contributions</td>
<td>$1,976.56</td>
<td>$4,125.00</td>
<td>$2,148.44</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Benefit Replacement Pay</td>
<td>$1,976.56</td>
<td>$4,125.00</td>
<td>$2,148.44</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Other Employee Benefits</td>
<td>$15,095.00</td>
<td>$15,095.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL SALARIES AND OTHER PERSONNEL COSTS</strong></td>
<td>$1,063,496.22</td>
<td>$1,524,684.00</td>
<td>$461,187.78</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td><strong>PROFESSIONAL FEES AND SERVICES</strong></td>
<td>$1,307,215.75</td>
<td>$1,884,484.10</td>
<td>$14,830,506.00</td>
<td>$11,633,806.15</td>
<td>22%</td>
</tr>
<tr>
<td><strong>OTHER OPERATING EXPENSES</strong></td>
<td>$2,394.22</td>
<td>$2,381.69</td>
<td>$25,000.00</td>
<td>$20,224.09</td>
<td>19%</td>
</tr>
<tr>
<td>Travel</td>
<td>$5,570.00</td>
<td>$11,895.00</td>
<td>$50,000.00</td>
<td>$32,535.00</td>
<td>35%</td>
</tr>
<tr>
<td>Dues, Fees and Staff Development</td>
<td>$194,229.62</td>
<td>$153,560.51</td>
<td>$2,870,000.00</td>
<td>$2,522,209.87</td>
<td>12%</td>
</tr>
<tr>
<td>Software Purchases and Maintenance</td>
<td>$20,997.80</td>
<td>$15,152.94</td>
<td>$53,500.00</td>
<td>$17,349.26</td>
<td>68%</td>
</tr>
<tr>
<td><strong>TOTAL OTHER OPERATING EXPENSES</strong></td>
<td>$223,191.64</td>
<td>$182,990.14</td>
<td>$2,998,500.00</td>
<td>$2,592,318.22</td>
<td>14%</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>$2,593,903.61</td>
<td>$2,072,474.24</td>
<td>$19,353,690.00</td>
<td>$14,687,312.15</td>
<td>24%</td>
</tr>
<tr>
<td><strong>CAPITAL EXPENSES</strong></td>
<td>$1,641,796.14</td>
<td>$1,689,534.00</td>
<td>$47,737.86</td>
<td>97%</td>
<td></td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>$1,641,796.14</td>
<td>$1,689,534.00</td>
<td>$47,737.86</td>
<td>97%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL EXPENSES</strong></td>
<td>$4,235,699.75</td>
<td>$2,072,474.24</td>
<td>$21,043,224.00</td>
<td>$14,735,050.01</td>
<td>30%</td>
</tr>
<tr>
<td><strong>METHOD OF FINANCE</strong></td>
<td>$4,038,785.37</td>
<td>$2,072,474.24</td>
<td>$20,762,240.00</td>
<td>$14,650,980.39</td>
<td>29%</td>
</tr>
<tr>
<td>Administrative Operation Appropriations</td>
<td>$55,587.77</td>
<td>$77,501.00</td>
<td>$21,913.23</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>Employer Retirement Contributions</td>
<td>$66,407.21</td>
<td>$92,638.00</td>
<td>$26,230.79</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>Employer FICA Contributions</td>
<td>$72,942.84</td>
<td>$106,720.00</td>
<td>$33,777.16</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>Employer Health Insurance Contributions</td>
<td>$1,976.56</td>
<td>$4,125.00</td>
<td>$2,148.44</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OPERATING AND CAPITAL EXPENSES</strong></td>
<td>$4,235,699.75</td>
<td>$2,072,474.24</td>
<td>$21,043,224.00</td>
<td>$14,735,050.01</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Source:** Unaudited monthly financial statements.
Financial Statements
Third Quarter

Investment Soft Dollars
Administrative Expenses
YTD for the Third Quarter Ended May 31 - FY 2012 and FY 2013

Budget to YTD Actual - FY 2013

Source: Unaudited monthly financial statements.
Financial Statements
Third Quarter

SSB/TRS Partnership Account
Administrative Expenses
YTD for the Third Quarter Ended May 31 - FY 2012 and FY 2013

FY 2012
$3,897,067
(Graph in Thousands)

FY 2013
$4,958,680
(Graph in Thousands)

Budget to YTD Actual - FY 2013

Thousands

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 Budget</td>
<td>500</td>
<td>1,000</td>
<td>1,500</td>
<td>2,000</td>
<td>2,500</td>
<td>3,000</td>
<td>3,500</td>
<td>4,000</td>
<td>4,500</td>
<td>5,000</td>
<td>5,500</td>
<td>6,000</td>
</tr>
<tr>
<td>2013 Actual</td>
<td>649</td>
<td>2,524</td>
<td>2,538</td>
<td>2,581</td>
<td>3,472</td>
<td>4,041</td>
<td>4,239</td>
<td>4,600</td>
<td>4,959</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Budget Totaled $4,500,000 as of May 31
Actual Expenses Totaled $4,958,680 as of May 31

Source: Unaudited monthly financial statements.
Financial Statements
Third Quarter

TRS-Care

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

From:       Don Green, Chief Financial Officer

Date:       July 12, 2013

Net Assets Held in Trust for Other Employee Benefits:
For the third quarter ended May 31, 2013, Net Assets Held in Trust for Other Employee Benefits were $573.6 million, a decrease of $113.4 million from the second quarter and a $167.4 million decrease from the $741.0 million at August 31, 2012. Total Additions include contributions and other additions of $121.4 million, premiums of $88.4 million, and federal revenue of $13.7 million. Total Deductions were $336.9 million including medical claims payments and processing fees of $181.5 million and pharmacy claims payments and processing fees of $154.5 million.

Administrative Operations:
Total Administrative Expenses were $973 thousand of which $250 thousand was for March, $386 thousand for April, and $337 thousand for May. Salaries and Other Personnel Costs were $574 thousand, Professional Fees and Services were $300 thousand, and Other Operating Expenses were $99 thousand. At the end of the third quarter, 39% of the total funds budgeted were remaining.
TRS-Care

Net Assets - FY 2013 YTD and FY 2012

Additions and Deductions - FY 2013
YTD for the Third Quarter Ended May 31

- **Additions**: $782,669,846 (Graph in Millions)
  - Contrib. & Other*: $471.2 million (60%)
  - Premiums: $269.2 million (35%)
  - Federal Revenue: $42.3 million (5%)

- **Deductions**: $950,035,087 (Graph in Millions)
  - Medical Claims & Processing: $546.4 million (58%)
  - RX Claims & Processing: $401.4 million (42%)
  - Admin.: $2.2 million (0%)

*Includes $102.4 million from Re-appropriations

Source: Unaudited monthly financial statements.
Financial Statements
Third Quarter

TRS-Care
Administrative Expenses
YTD for the Third Quarter Ended May 31 - FY 2012 and FY 2013

FY 2012
$2,559,600
(Graph in Thousands)

FY 2013
$2,302,235
(Graph in Thousands)

Budget to YTD Actual - FY 2013
(Excludes Encumbered Funds)

Budget Toted $2,841,235 as of May 31
Actual Expenses Toted $2,302,235 as of May 31

Source: Unaudited monthly financial statements.
## Financial Statements
### Third Quarter

**TRS-Care**

**FY 2013 Budget Basis Administrative Expenses**

<table>
<thead>
<tr>
<th></th>
<th>Actual May 31, 2013</th>
<th>Encumbered May 31, 2013</th>
<th>Annual Budget Amount</th>
<th>Remaining Budget Amount</th>
<th>% Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALARIES AND OTHER PERSONNEL COSTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$1,349,413.30</td>
<td>-</td>
<td>$1,815,673.00</td>
<td>$466,259.70</td>
<td>74%</td>
</tr>
<tr>
<td>Lump Sum Payments</td>
<td>7,061.26</td>
<td>50,000.00</td>
<td>42,938.74</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Longevity Pay</td>
<td>39,280.00</td>
<td>54,100.00</td>
<td>14,820.00</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td>Employer Retirement Contributions</td>
<td>87,843.61</td>
<td>116,203.00</td>
<td>28,359.39</td>
<td>76%</td>
<td></td>
</tr>
<tr>
<td>Employer FICA Contributions</td>
<td>102,112.63</td>
<td>138,899.00</td>
<td>36,786.37</td>
<td>74%</td>
<td></td>
</tr>
<tr>
<td>Benefit Replacement Pay</td>
<td>11,563.94</td>
<td>12,377.00</td>
<td>813.06</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>Other Employee Benefits</td>
<td>14,150.00</td>
<td>-</td>
<td>14,150.00</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>Employer Health Insurance Contributions</td>
<td>166,980.38</td>
<td>233,442.00</td>
<td>66,461.62</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL SALARIES AND OTHER PERSONNEL COSTS</strong></td>
<td>$1,764,255.12</td>
<td>-</td>
<td>$2,434,844.00</td>
<td>$670,588.88</td>
<td>72%</td>
</tr>
<tr>
<td><strong>PROFESSIONAL FEES AND SERVICES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL PROFESSIONAL FEES AND SERVICES</strong></td>
<td>$420,452.88</td>
<td>$99,339.65</td>
<td>$1,031,000.00</td>
<td>$511,207.47</td>
<td>50%</td>
</tr>
<tr>
<td><strong>OTHER OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumable Supplies</td>
<td>$1,594.47</td>
<td>692.27</td>
<td>$5,200.00</td>
<td>2,913.26</td>
<td>44%</td>
</tr>
<tr>
<td>Utilities</td>
<td>4,264.78</td>
<td>5,531.00</td>
<td>1,266.22</td>
<td>77%</td>
<td></td>
</tr>
<tr>
<td>Travel In-State</td>
<td>2,165.89</td>
<td>857.80</td>
<td>6,500.00</td>
<td>3,476.31</td>
<td>47%</td>
</tr>
<tr>
<td>Travel Out of State</td>
<td>2,818.21</td>
<td>5,455.00</td>
<td>2,636.79</td>
<td>76%</td>
<td></td>
</tr>
<tr>
<td>Rental - Building</td>
<td>41,255.52</td>
<td>20,627.75</td>
<td>20,627.73</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>Dues, Fees and Staff Development</td>
<td>1,109.00</td>
<td>3,325.00</td>
<td>2,216.00</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Subscriptions and Reference Information</td>
<td>570.00</td>
<td>570.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing and Reproduction Services</td>
<td>19,710.49</td>
<td>1,115.25</td>
<td>40,000.00</td>
<td>19,174.26</td>
<td>52%</td>
</tr>
<tr>
<td>Postage, Mailing and Delivery Services</td>
<td>27,847.26</td>
<td>36,723.72</td>
<td>135,277.00</td>
<td>70,706.02</td>
<td>48%</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>16,767.57</td>
<td>29,600.00</td>
<td>12,832.43</td>
<td>57%</td>
<td></td>
</tr>
<tr>
<td>Furniture and Equipment - Expensed</td>
<td>6,500.00</td>
<td>6,500.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance - Buildings and Equipment</td>
<td>(5.71)</td>
<td>2,000.00</td>
<td>2,005.71</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OTHER OPERATING EXPENSES</strong></td>
<td>$117,527.48</td>
<td>60,016.79</td>
<td>$322,469.00</td>
<td>$144,924.73</td>
<td>55%</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>$2,302,235.48</td>
<td>$159,356.44</td>
<td>$3,788,313.00</td>
<td>$1,326,721.08</td>
<td>65%</td>
</tr>
<tr>
<td>Less: Employer Retirement Contributions paid on behalf of Employees</td>
<td>(87,843.61)</td>
<td>-</td>
<td>(116,203.00)</td>
<td>(28,359.39)</td>
<td>76%</td>
</tr>
<tr>
<td><strong>TOTAL CASH OUTLAY FOR OPERATING EXPENSES</strong></td>
<td>$2,214,391.87</td>
<td>$159,356.44</td>
<td>$3,672,110.00</td>
<td>$1,298,361.69</td>
<td>65%</td>
</tr>
</tbody>
</table>

**Source:** Unaudited monthly financial statements.
TRS-ActiveCare

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

From: Don Green, Chief Financial Officer

Date: July 12, 2013

The fund captures financial activity for the following programs:

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

Net Assets – Restricted for Health Care Programs

For the third quarter ended May 31, 2013, Net Assets were $34.7 million, a decrease of $39.9 million from the second quarter and a decrease of $11.1 million over the $45.8 million at August 31, 2012. Total Revenues were $453.8 million. Health care premiums were $450.2 million, COBRA premiums were $3.4 million, investment income was $198 thousand and optional life and long-term care administrative fees were $46 thousand. Total Expenses were $493.8 million including medical claims payments and processing fees of $394.0 million, pharmacy claims payments and processing fees of $73.8 million, and HMO payments of $25.2 million.

Administrative Operations:

Total Administrative Expenses were $762 thousand of which $325 thousand was for March, $227 thousand for April, and $210 thousand for May. Salaries and Other Personnel Costs were $373 thousand, Professional Fees and Services were $353 thousand and Other Operating Expenses were $36 thousand. At the end of the third quarter, 40% of the total funds budgeted were remaining.
Financial Statements
Third Quarter

TRS-ActiveCare
Net Assets - FY 2013 YTD and FY 2012

Revenues and Expenses - FY 2013
YTD for the Third Quarter Ended May 31

Source: Unaudited monthly financial statements.
TRS-ActiveCare
Administrative Expenses
YTD for the Third Quarter Ended May 31 - FY 2012 and FY 2013

Budget to YTD Actual - FY 2013
(Excludes Encumbered Funds)

Source: Unaudited monthly financial statements.
## Financial Statements

### Third Quarter

**TRS-ActiveCare**

**FY 2013 Budget Basis Administrative Expenses**

<table>
<thead>
<tr>
<th></th>
<th>Actual YTD</th>
<th>Encumbered YTD</th>
<th>Annual Budget Amount</th>
<th>Remaining Budget Amount</th>
<th>Expended %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALARIES AND OTHER PERSONNEL COSTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$863,955.46</td>
<td>$1,295,835.00</td>
<td>$431,879.54</td>
<td>67%</td>
<td></td>
</tr>
<tr>
<td>Longevity Pay</td>
<td>$19,720.00</td>
<td>$32,040.00</td>
<td>$12,320.00</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>Employer Retirement Contributions</td>
<td>$56,476.55</td>
<td>$82,933.00</td>
<td>$26,456.45</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>Employer FICA Contributions</td>
<td>$64,025.53</td>
<td>$99,131.00</td>
<td>$35,105.47</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>Employer Health Insurance Contributions</td>
<td>$96,274.72</td>
<td>$141,422.00</td>
<td>$45,147.28</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>Benefit Replacement Pay</td>
<td>$773.43</td>
<td>$2,063.00</td>
<td>$1,289.57</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>Other Employee Benefits</td>
<td>$2,366.00</td>
<td>$59,500.00</td>
<td>$57,134.00</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL SALARIES AND OTHER PERSONNEL COSTS</strong></td>
<td>$1,103,591.69</td>
<td>$1,712,924.00</td>
<td>$609,332.31</td>
<td>64%</td>
<td></td>
</tr>
<tr>
<td><strong>PROFESSIONAL FEES AND SERVICES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Fees and Services</td>
<td>$519,538.92</td>
<td>$149,583.33</td>
<td>$950,750.00</td>
<td>$281,627.75</td>
<td>70%</td>
</tr>
<tr>
<td><strong>OTHER OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumable Supplies</td>
<td>$278.04</td>
<td>$497.64</td>
<td>$3,000.00</td>
<td>$2,224.32</td>
<td>26%</td>
</tr>
<tr>
<td>Utilities</td>
<td>$430.98</td>
<td>$1,500.00</td>
<td>$1,069.02</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>$2,544.06</td>
<td>$700.00</td>
<td>$8,350.00</td>
<td>$5,105.94</td>
<td>39%</td>
</tr>
<tr>
<td>Rentals</td>
<td>$31,122.54</td>
<td>$14,111.00</td>
<td>$62,245.00</td>
<td>$17,011.46</td>
<td>73%</td>
</tr>
<tr>
<td>Dues, Fees and Staff Development</td>
<td>$4,509.00</td>
<td>$8,700.00</td>
<td>$4,191.00</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>Subscriptions and Reference Information</td>
<td>$848.00</td>
<td>$900.00</td>
<td>$52.00</td>
<td>94%</td>
<td></td>
</tr>
<tr>
<td>Printing and Reproduction Services</td>
<td>$755.52</td>
<td>$412.50</td>
<td>$1,425.00</td>
<td>256.98</td>
<td>82%</td>
</tr>
<tr>
<td>Postage, Mailing and Delivery Services</td>
<td>$1,007.91</td>
<td>$1,041.85</td>
<td>$4,775.00</td>
<td>$2,725.24</td>
<td>43%</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>$791.72</td>
<td>$166.63</td>
<td>$3,300.00</td>
<td>$2,341.65</td>
<td>29%</td>
</tr>
<tr>
<td>Furniture and Equipment - Expensed</td>
<td>$4,500.00</td>
<td>$4,500.00</td>
<td>$0.00</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Maintenance - Buildings and Equipment</td>
<td>$2,000.00</td>
<td>$2,000.00</td>
<td>$0.00</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OTHER OPERATING EXPENSES</strong></td>
<td>$42,287.77</td>
<td>$16,929.62</td>
<td>$100,695.00</td>
<td>$41,477.61</td>
<td>59%</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>$1,665,418.38</td>
<td>$166,512.95</td>
<td>$2,764,369.00</td>
<td>$932,437.67</td>
<td>66%</td>
</tr>
<tr>
<td>Less: Employer Retirement Contributions paid on behalf of Employees</td>
<td>$ (56,476.55)</td>
<td>-</td>
<td>$(82,933.00)</td>
<td>$(26,456.45)</td>
<td>68%</td>
</tr>
<tr>
<td><strong>TOTAL CASH OUTLAY FOR OPERATING EXPENSES</strong></td>
<td>$1,608,941.83</td>
<td>$166,512.95</td>
<td>$2,681,436.00</td>
<td>$905,981.22</td>
<td>66%</td>
</tr>
</tbody>
</table>

Source: Unaudited monthly financial statements.
403(b) Administrative Program

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

From: Don Green, Chief Financial Officer

Date: July 12, 2013

For the third quarter ended May 31, 2013, Net Assets were $334 thousand, an increase of $4 thousand over the second quarter of $330 thousand. Total Revenues were $21 thousand. Product Registration Fees were $9 thousand and Certification Fees were $12 thousand. Total Operating Expenses were $17 thousand for Salaries and Other Personnel Costs. At the end of the third quarter, 21% of the total funds budgeted were remaining.

403(b) Certification Program  
Net Assets – FY 2013 YTD and FY 2012

Source: Unaudited monthly financial statements.
Tab 16 A
<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Payments</th>
<th>Gross Payment Total</th>
<th>Average Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Retirees</td>
<td>2,368</td>
<td>3,968,999.39</td>
<td>1,676.09</td>
</tr>
<tr>
<td>Disability Retirees</td>
<td>212</td>
<td>223,613.57</td>
<td>1,054.78</td>
</tr>
<tr>
<td>Survivor Benefits</td>
<td>291</td>
<td>72,950.00</td>
<td>250.68</td>
</tr>
<tr>
<td>Survivor Benefit Lump Sum Payment</td>
<td>2,899</td>
<td>17,325,613.67</td>
<td>5,976.41</td>
</tr>
<tr>
<td>Life Annuity as Death Settlement</td>
<td>47</td>
<td>71,454.24</td>
<td>1,520.30</td>
</tr>
<tr>
<td>60 Monthly Payments as Death Settlement</td>
<td>57</td>
<td>60,359.32</td>
<td>1,058.93</td>
</tr>
<tr>
<td>Refund of Deposit as Death Settlement</td>
<td>127</td>
<td>2,292,678.53</td>
<td>18,052.58</td>
</tr>
<tr>
<td>Twice Annual Salary as Death Settlement</td>
<td>317</td>
<td>11,431,414.97</td>
<td>36,061.24</td>
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<td>Lump Sum DROP Member Payment</td>
<td>3</td>
<td>456,228.80</td>
<td>152,076.26</td>
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<td>5 Annual DROP Member Payments</td>
<td></td>
<td></td>
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<tr>
<td>10 Annual DROP Member Payments</td>
<td>1</td>
<td>33,583.62</td>
<td>33,583.62</td>
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<tr>
<td>60 Monthly DROP Member Payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>120 Monthly DROP Member Payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DROP Payments to Beneficiary of Active Member</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Month Partial Lump Sum Option Payment</td>
<td>219</td>
<td>5,686,143.12</td>
<td>25,964.12</td>
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<td>24 Month Partial Lump Sum Option Payment</td>
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<tr>
<td>36 Month Partial Lump Sum Option Payment</td>
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<td>25,067,513.44</td>
<td>77,680.22</td>
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<td>Totals:</td>
<td>7,012</td>
<td>74,438,025.63</td>
<td>10,615.80</td>
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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.
Tab 16 B
The Medical Board of the Teacher Retirement System of Texas met at 12:00 p.m. Tuesday, May 14, 2013 in the TRS offices.

The following members were present:

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

Others present:

Ms. Marianne Woods Wiley, Chief Benefit Officer, TRS
Ms. Beekie Smith, Legal Services, TRS
Ms. Kirsten Morgan, Legal Services, TRS
Mr. Mike Rehling, Manager, Benefit Processing, TRS
Mr. Adam Fambrough, Assistant Manager, Benefit Processing, TRS
Ms. Andrea Torrez, Benefit Consultant, Benefit Processing, TRS
Ms. Denise Hope, Benefit Consultant, Benefit Processing, TRS

Dr. Wilson called the meeting to order at 12:09 p.m.

1. REVIEW OF MINUTES FROM THE March 19, 2013 MEETING.

The minutes of the March 19, 2013 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 12:16 p.m.
The meeting was re-opened at 12:42 p.m.

3. REVIEW OF DISABILITY STATISTICS.
4. DISCUSSION OF PROPOSED LEGISLATION.

Marianne Woods Wiley discussed legislation regarding the medical board not being subject to subpoena regarding findings it makes on member files.

5. DISCUSSION OF ITEMS TO BE PLACED ON FUTURE AGENDA

6. DISCUSSION OF THE DATE OF NEXT BOARD MEETING.

The next Medical Board meeting was scheduled for July 9, 2013. The meeting was adjourned at 12:49 p.m.

Dr. Larry Wilson, Chairman
TRS Medical Board

Attest:

Andrea Torrez
The Medical Board of the Teacher Retirement System of Texas met at 12:00 p.m. Tuesday, March 19, 2013 in the TRS offices.

The following members were present:

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

Others present:

Ms. Marianne Woods Wiley, Chief Benefit Officer, TRS
Ms. Beckie Smith, Legal Services, TRS
Ms. Kirsten Morgan, Legal Services, TRS
Mr. Mike Rehling, Manager, Benefit Processing, TRS
Mr. Adam Fambrough, Assistant Manager, Benefit Processing, TRS
Ms. Andrea Torrez, Benefit Consultant, Benefit Processing, TRS
Ms. Denise Hope, Benefit Consultant, Benefit Processing, TRS

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

1. REVIEW OF MINUTES FROM THE JANUARY 8, 2013 MEETING.

The minutes of the January 8, 2013 meeting were reviewed and approved.

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

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

The Board entered into closed session at 12:17 p.m.
The meeting was re-opened at 12:41 p.m.

3. REVIEW OF DISABILITY STATISTICS.
4. **DISCUSSION OF ITEMS TO BE PLACED ON FUTURE AGENDAS.**

   Marianne Woods Wiley will discuss proposed Legislative changes.

5. **DISCUSSION OF THE DATE OF NEXT BOARD MEETING.**

   The next Medical Board meeting was scheduled for May 14, 2013.
   The meeting was adjourned at 12:58 p.m.

Dr. Larry Wilson, Chairman
TRS Medical Board

Attest:

Denise Hope
Tab 18
Board Overview
C-Suite Evaluations

Teacher Retirement System of Texas
July 26, 2013

Prepared by:
Focus Consulting Group
FOCUS Consulting Group
Connecting Culture to Results

FCG C-Suite Assessment
TRS PROCESS REVIEW MAP:

1. Determine “Who and How”
   1. Assessment will be for: Brian Guthrie, Britt Harris and Amy Barrett
   2. TRS Board overview presentation (Complete)
   3. Discuss and agree on transparency level in the process

2. Refine the Criteria
   1. Determine the performance goals being assessed for each candidate
   2. Determine the specific competencies to be assessed (Complete)
   3. Customize the FCG system

3. Assess the Individual(s)
   1. Implement the FCG 360 process for assessment
   2. Implement the Enneagram leadership personality tool (Complete)
   3. Interview TRS Board pensioners to obtain performance feedback

4. Review the Data
   1. Prepare the final feedback reports
   2. Review the feedback with each individual assessed
   3. Review the summary feedback reports with the TRS Board

5. Prepare Next Steps
   1. Prepare development plans with individual assessed
   2. Prepare performance goals and objectives for next year
   3. Ratify goals and development with the TRS Board
The Audit Committee and the Board will go into executive session to conduct personnel evaluations. Several procedural actions will occur as follows:

• Focus Consulting will provide an overview of the evaluation process and metrics in open session. (Complete)

• The Board will adjourn and the Audit Committee will convene. The Audit Committee will approve the minutes from their previous meeting in open session and then adjourn into executive session to conduct the Chief Audit Executive evaluation. When finished, the Committee will reconvene in open session, take actions as appropriate and adjourn.

• The Board will reconvene and immediately go into closed session to conduct the evaluations of the Chief Investment Officer and the Executive Director. While in executive session, the board will also discuss the evaluation process and exempt position compensation.

• The Board will reconvene in open session to review the report of the Audit Committee and take up any additional business related to the evaluations.
Tab 19 A
Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the “Board”) shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(u) of the Board’s bylaws provides that the Board shall be responsible for the selection, replacement, dismissal, performance evaluation, and compensation, in consultation with the Audit Committee and the Executive Director, of the Chief Audit Executive;

Whereas, The Board wishes to amend the salary of the Chief Audit Executive; now, therefore be it

Resolved, That effective September 1, 2013, the Board hereby increases the monthly salary of the Chief Audit Executive and authorizes an additional one-time merit as follows:

Chief Audit Executive’s salary (the incumbent is Amy L. Barrett): Increase the monthly base salary amount for FY 2014 by _____% of FY 2013 monthly base salary; and

Chief Audit Executive’s salary (the incumbent is Amy L. Barrett): Award a one-time merit in the amount of $____________.

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.
RESOLUTION REGARDING SALARY INCREASE OF THE CHIEF AUDIT EXECUTIVE

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the “Board”) shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(u) of the Board’s bylaws provides that the Board shall be responsible for the selection, replacement, dismissal, performance evaluation, and compensation, in consultation with the Audit Committee and the Executive Director, of the Chief Audit Executive;

Whereas, The Board wishes to amend the salary of the Chief Audit Executive; now, therefore be it

Resolved, That effective September 1, 2013, the Board hereby increases the monthly salary of the Chief Audit Executive as follows:

Chief Audit Executive’s salary (the incumbent is Amy L. Barrett): Increase the monthly base salary amount for FY 2014 by _____% of FY 2013 monthly base salary; and

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.
TRS BOARD OF TRUSTEES
JULY 26, 2013

RESOLUTION REGARDING ONE-TIME MERIT OF THE CHIEF AUDIT EXECUTIVE

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the “Board”) shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(u) of the Board’s bylaws provides that the Board shall be responsible for the selection, replacement, dismissal, performance evaluation, and compensation, in consultation with the Audit Committee and the Executive Director, of the Chief Audit Executive;

Whereas, The Board wishes to amend the salary of the Chief Audit Executive; now, therefore be it

Resolved, That effective September 1, 2013, the Board hereby awards a one-time merit as follows:

Chief Audit Executive’s salary (the incumbent is Amy L. Barrett): Award a one-time merit in the amount of $________.

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.
Tab 19 C
Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the “Board”) shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(d) of the Board’s bylaws provides that the Board shall be responsible for the selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the Executive Director;

Whereas, During the 83rd Session of the Texas Legislature, lawmakers significantly increased the compensation of most top state agency executives; however, any salary increase for the Executive Director of TRS must be approved by the Board;

Whereas, The Board wishes to amend the salary of the Executive Director; now, therefore be it

Resolved, That effective September 1, 2013, the Board hereby increases the monthly salary of the Executive Director and authorizes an additional one month salary increase as follows:

Executive Director’s salary (the incumbent is Brian K. Guthrie): Increase the monthly base salary amount for FY 2014 by _____% of FY 2013 monthly base salary; and

Executive Director’s salary (the incumbent is Brian K. Guthrie): One-month salary increase in the amount of $______________.

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.
RESOLUTION REGARDING SALARY OF THE EXECUTIVE DIRECTOR

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the “Board”) shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(d) of the Board’s bylaws provides that the Board shall be responsible for the selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the Executive Director;

Whereas, During the 83rd Session of the Texas Legislature, lawmakers significantly increased the compensation of most top state agency executives; however, any salary increase for the Executive Director of TRS must be approved by the Board;

Whereas, The Board wishes to amend the salary of the Executive Director; now, therefore be it

Resolved, That effective September 1, 2013, the Board hereby increases the monthly salary of the Executive Director as follows:

Executive Director’s salary (the incumbent is Brian K. Guthrie): Increase the monthly base salary amount for FY 2014 by _____% of FY 2013 monthly base salary; and

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.
TRS BOARD OF TRUSTEES
JULY 26, 2013

RESOLUTION REGARDING ONE MONTH SALARY INCREASE
OF THE EXECUTIVE DIRECTOR

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the “Board”) shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(d) of the Board’s bylaws provides that the Board shall be responsible for the selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the Executive Director;

Whereas, During the 83rd Session of the Texas Legislature, lawmakers significantly increased the compensation of most top state agency executives; however, any salary increase for the Executive Director of TRS must be approved by the Board;

Whereas, The Board wishes to amend the salary of the Executive Director; now, therefore be it

Resolved, That effective September 1, 2013, the Board hereby authorizes a one month salary increase to the Executive Director as follows:

Executive Director’s salary (the incumbent is Brian K. Guthrie): One month salary increase in the amount of $______________.

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.
Tab 20
TEACHER RETIREMENT SYSTEM OF TEXAS
BOARD RESOLUTION

Regarding the Salary Ranges for Exempt Positions

July 26, 2013

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (board) shall approve the rate of compensation of all persons it employs;

Whereas, The board’s bylaws delegate authority to the Executive Director and subsection 4.1.2(c) specifically provides that the Executive Director assumes responsibility for the compensation of all TRS personnel, with limited exceptions for the Executive Director and Chief Audit Executive whose salaries are set by the board;

Whereas, The General Provisions in the TRS Budget for Fiscal Year (FY) 2014 adopted by the board provide direction to the Executive Director regarding salaries and specifically authorize the Executive Director to set the annual base salary rate for all exempt positions, other than the Executive Director position, within the not-to-exceed amounts listed in the General Appropriations Act that becomes effective September 1, 2014 (the “GAA”), or any amended limits adopted by the board from time to time;

Whereas, During the 83rd Session of the Texas Legislature, lawmakers increased the salary of most state employees by three percent; however, any salary increase for TRS exempt positions must be within the not-to-exceed amounts listed in the GAA and increases to those amounts must be approved by the board;

Whereas, The GAA, consistent with general law, provides that notwithstanding the compensation amounts set in the GAA, the board may determine the salaries of the positions listed in the Schedule of Exempt Positions without limitation;

Whereas, The board wishes to amend the limits by adopting a percentage increase in the not-to-exceed amounts provided in the GAA for the positions, other than the Executive Director position, listed in the Schedule of Exempt Positions for the purpose of allowing the Executive Director to exercise his discretion in setting salaries under subsection 4.1.2(c) of the bylaws and under the General Provisions of the TRS Budget for FY 2014; now, therefore be it

Resolved, That effective September 1, 2013, the board hereby increases the not-to-exceed amounts shown in the GAA for TRS exempt positions as follows:

Chief Investment Officer (incumbent Thomas B. (Britt) Harris) increase the monthly salary amount listed in the GAA by ________%

Deputy Director Investment Officer (incumbent Jerry G. Albright) increase the monthly salary amount listed in the GAA by ________%

Deputy Administrative Officer (incumbent Ken Welch) increase the monthly salary amount listed in the GAA by ________%

Investment Fund Director (incumbent Chi K. Chai) increase the monthly salary amount listed in the GAA by ________%
Resolved. That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including any employee holding a position in the Schedule of Exempt Positions.