



# TRS Board of Trustees Meeting

November 19 - 20, 2015

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

**AGENDA**

**November 19, 2015 – 10:30 a.m.**

**November 20, 2015 – 8:30 a.m.**

**TRS East Building, 5<sup>th</sup> Floor, Boardroom**

*All or part of the November 19-20, 2015 meeting of the TRS Board of Trustees may be held by telephone conference call as authorized under Texas Government Code Section 551.130. The Board intends to have a quorum physically present at the following location: **1000 Red River Austin, Texas 78701 in the TRS East Building, 5<sup>th</sup> Floor, Boardroom.***

*The Board may take up the items posted on its agenda in any order at its meeting on Thursday, November 19, 2015 or during the meeting on the following day beginning at the time and place specified on this agenda.*

*The open portions of the November 19-20, 2015 Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' website at [www.trs.state.tx.us](http://www.trs.state.tx.us).*

1. Call roll of Board members and recognize any newly appointed or reappointed member.
2. Consider the following administrative matters – David Kelly:
  - A. Approval of the proposed October 22, 2015 Board meeting minutes.
  - B. Consider the election of the Board Vice-Chair.
  - C. Consider consenting to the Board Chair's appointment of committee members and receive the Board Chair's public announcement of committee chairs.
  - D. Setting, rescheduling, or canceling future Board meetings.
3. Provide opportunity for public comments – David Kelly.
4. Discuss and consider the following investment matters:
  - A. Discussion on Federal Reserve actions – Michael Feroli, JP Morgan.
  - B. Second Quarter 2015 Performance Review – Steve Voss and Mike Comstock, Aon Hewitt.
  - C. Strategic Partnership Update – Michael Pia.

***NOTE:** The Board meeting likely will recess after the last item above to conduct committee meetings and will resume later in the day upon adjournment of the committee meetings to take up the items listed below.*

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
  - A. Administrative operational matters, including updates on financial, audit, legal, staff services, and board administration activities; special projects; long-term space planning; and strategic planning.
  - B. Board operational matters, including a review of draft agendas for upcoming meetings.
  - C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.
6. Review the report of the Investment Management Committee on its November 19, 2015 meeting – Committee Chair.
7. Review the report of the Risk Management Committee on its November 19, 2015 meeting – Committee Chair.
8. Review the report of the Benefits Committee on its November 19, 2015 meeting and consider the following related matters – Committee Chair:
  - A. Appointments to the Retirees Advisory Committee.
  - B. The contract between TRS and Genworth Life Insurance Company, the carrier authorized by TRS to provide group long-term insurance under Chapter 1576 of the Texas Insurance Code.
9. Review the report of the Policy Committee on its November 19, 2015 meeting and consider the following related matters – Committee Chair:
  - A. Adoption of any amendments to the TRS Mission Statement.
  - B. Adoption of any amendments to the TRS Key Employee Determinations.
  - C. Adoption of proposed amendments to the following TRS rules in Title 34, Part 3 of the Texas Administrative Code:
    - i. Rule § 25.1, relating to Full-time Service;
    - ii. Rule § 25.4, relating to Substitutes;
    - iii. Rule § 25.6, relating to Part-time or Temporary Employment;

- iv. Rule § 25.26, relating to Annual Compensation Creditable for Benefit Calculation;
- v. Rule § 25.46, relating to Determination of Compensation Subject to Deposit and Credit;
- vi. Rule § 25.74, relating to Cost;
- vii. Rule § 25.85, relating to Amount of Out-of-State Service Which Can Be Purchased;
- viii. Rule § 25.121, relating to Employer Verification;
- ix. Rule § 25.131, relating to Required Service;
- x. Rule § 25.133, relating to School Year;
- xi. Rule § 25.181, relating to Minimum Monthly Payment;
- xii. Rule § 25.182, relating to Yearly Increments of Credit;
- xiii. Rule § 27.6, relating to Reinstatement of an Account;
- xiv. Rule § 29.13, relating to Changing Beneficiary for Survivor Benefits;
- xv. Rule § 29.33, relating to Absence from Service;
- xvi. Rule § 31.14, relating to One-half Time Employment;
- xvii. Rule § 31.32, relating to Half-time Employment Up to 90 Days;
- xviii. Rule § 31.34, relating to Employment Up to Three Months on a One-Time Only Trial Basis;
- xix. Rule § 43.16, relating to Notice of Hearing and Other Action;
- xx. Rule § 43.46, relating to Rehearings;
- xxi. Rule § 47.6, relating to Determination That An Order Is Not Qualified Is Final; and
- xxii. Rule § 49.3, relating to Referrals of Delinquent Obligations to Attorney General for Collection.

D. Adoption of any amendments to the TRS Board of Trustees Ethics Policy.

10. Discuss and consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive and the adoption of an executive incentive compensation plan for the Executive Director – David Kelly.

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

11. Provide opportunity for public comments – David Kelly.
12. Review the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2015 – Joseph Newton, Gabriel, Roeder, Smith & Company.
13. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2015 and receive an overview and update on TRS-Care and TRS-ActiveCare – Joseph Newton, Amy Cohen, and William Hickman, Gabriel, Roeder, Smith & Company.
14. Review the Comprehensive Annual Financial Report for fiscal year 2015 – Jamie Pierce and Cindy Haley.
15. Review the reports of the Chief Financial Officer regarding expenditures, current financial review, and other financial matters involving TRS programs – Don Green.
16. Receive an update on the TEAM Program – David Cook and Adam Fambrough; Jay Masci, Provaliant.
17. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
18. Review the report of the Audit Committee on its November 20, 2015 meeting – Committee Chair.
19. Review and discuss the Deputy Director’s report, including matters related to administrative, financial, and staff services operations – Ken Welch.
20. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Carolina de Onís.
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 A

## Minutes of the Board of Trustees

October 22, 2015

The Board of Trustees of the Teacher Retirement System of Texas met on October 22, 2015 in the cafeteria located on the fourth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair  
Nanette Sissney, Vice-Chair  
Todd Barth  
Karen Charleston  
Joe Colonna  
David Corpus  
Christopher Moss  
Anita Palmer  
Dolores Ramirez

### Others present:

Brian Guthrie, TRS	Bill Hickman, Gabriel, Roeder, Smith & Company
Ken Welch, TRS	Amy Cohen, Gabriel, Roeder, Smith & Company
Amy Barrett, TRS	Edward St. Pierre, Gabriel, Roeder, Smith & Company
Katrina Daniel, TRS	Dr. Len Nichols, George Mason University
Carolina de Onís, TRS	Dr. Ken Shine, University of Texas
Howard Goldman, TRS	Charles Richardson, Forth Worth ISD
T. Britton Harris IV, TRS	Max Ates, Forth Worth ISD
Rebecca Merrill, TRS	Noel Candelaria, Texas State Teachers Association
Yimei Zhao, TRS	Bill Barnes, Texas Retired Teachers Association
Ronnie Bounds, TRS	Ann Fickel, Texas Classroom Teachers Association
Edward Esquivel, TRS	Tim Lee, Texas Retired Teachers Association
Clarke Howard, TRS	Ted Melina Raab, Texas American Federation of Teachers
Bob Jordan, TRS	Josh Sanderson, Association of Texas Professional Educator
Dan Junell, TRS	Carole Buchanan, Texas Retired Teachers Association
Lynn Lau, TRS	Paula Stone, Texas Retired Teachers Association
Rebecca Smith, TRS	Larry Yawn, Texas Retired Teachers Association
Steve Huff, Reinhart Boerner Van Deuren	Mary Lou Clayton, Austin Retired Teachers Association
Steve Voss, Aon Hewitt	Lloy Lizcano, Austin Retired Teachers Association
Philip Mullins, Texas Retired Teachers Association	Fran Plemmons, Texas Retired Teachers Association
Dannee Hefner, Texas Retired Teachers Association	Beaman Floyd, Texas Association of School Personnel Administrators
Georgia McGlasson, Texas Retired Teachers Association/Houston Agency Retirement Trust	Leroy DeHaven, Texas Retired Teachers Association
Joel McGlasson, Texas Retired Teachers Association/Houston Agency Retirement Trust	Linda DeHaven, Texas Retired Teachers Association
Sheila D. Sargent, Texas Retired Teachers Association/Austin Retired Teachers Association	Mark Terry, Texas Elementary Principals & Supervisors Association
Hope Osborn Texas Retired Teachers Association	Dr. Verne Fitch, Fayette County Retired Teachers Association
Sally Link, Texas Retired Teachers Association	Karen Fitch, Fayette County Retired Teachers Association
ML Harris, Austin Retired Teachers Association	Greg Linh, Texas Retired Teachers Association
John Grey, Texas State Teachers Association	Adriana Lichtenberger, Austin Retired Teachers Association
Shereen Ahmad, Texas House of Representatives	Elizabeth J. Moby
Clay Robison, Texas State Teachers Association	Levonne Rogers, Austin Retired Teachers Association
Carl King, Aetna	Tom Rogers, Austin Retired Teachers Association
	Barbara Franklin, Texas State Teachers Association

Sally Imig, Aetna  
Becky Chmielewski, Aetna  
Joel Pardue, Aetna  
Marc Reece, Aetna  
Patricia Del Rio, Aetna  
Kiah Collier, Texas Tribune  
Patricia Budak, UT  
Jane Barlow, CUSH  
David Tolliver, Express Scripts  
Mark Wermes, Express Scripts  
Glen Stettin, Express Scripts  
Lindsey Niwsia, Express Scripts  
David Ellis, UHC

Ed Pezella, Aetna  
Maggie Parker, Aetna  
Richard Edwards, CVS Health  
Adriana Garza, Caremark  
Joni Lozano, Caremark  
Diane Galo, Caremark  
Tom Rehkopf, Caremark  
Michael Petryna, Aetna  
Carol Riley, BlueCross BlueShield  
Dr. Dan McCoy, BlueCross BlueShield  
John Bass, United Healthcare  
Jeremy Marzor, Office of Senator Van Taylor  
Cindy Walsh, Humana

Mr. Kelly called the meeting to order at 9:00 a.m.

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

Ms. Lau called the roll. A quorum was present. Mr. Colonna arrived shortly after the roll call.

**2. Consider the following administrative matters:**

**A. Approval of the September 24-25, 2015 Board meeting minutes – David Kelly.**

On a motion by Mr. Kelly, the board unanimously approved the proposed minutes of the September 24-25, 2015 board meeting, as presented.

**B. Excuse Board member absences from the September 24-25, 2015 Board meeting.**

On a motion by Ms. Sissney, seconded by Mr. Corpus, the board unanimously excused the absences of Mr. Barth and Mr. Colonna from the September 25, 2015 meeting.

**C. Consider the election of the Board Vice-Chair.**

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

**E. Setting, rescheduling, or canceling future Board meetings.**

The board did not take up agenda items 2C through 2E.

**3. Provide opportunity for public comments – David Kelly.**

Mr. Ates of Fort Worth ISD addressed concerns regarding recent data transfer and billing issues that arose during the active, open enrollment period for the TRS-ActiveCare program. He stated that some members who changed their level of coverage for this benefit year may experience issues as a result of the systematic errors when they visit health care providers, including incorrect deductibles and coverage level amounts being provided to the health care providers and incorrect

dependent coverage information being printed on insurance identification cards. He stated that Aetna assured the district that new identification cards would be mailed this week and had assigned a coordinator to work with the district to ensure accurate billing. He stated that Fort Worth ISD staff was currently awaiting resolution of issues for employees enrolled in the Scott & White plan. He stated that Fort Worth ISD had not been informed of the root cause of any of the issues. He stated that those issues needed to be resolved and their root cause documented. He noted that there were outstanding issues with split premiums and billing reconciliation. In summary, he said that Fort Worth ISD would like to work with all the entities involved, so that employees and their families could be assured that they were receiving the coverage that they enrolled in and paid for. He stated that he would like to see the reconciliation process initiated, so that overpayments dating back to 2014 could be recouped. Mr. Ates confirmed for Mr. Kelly that TRS staff had been supportive and aware of the issues. Mr. Charles Richardson of Fort Worth ISD also made a brief remark and requested assistance with resolving the data issues.

Mr. Tom Rogers of Texas Retired Teachers Association spoke about the legislative history of TRS retirement contribution rates. He also discussed the growth of TRS-Care premiums and how they affected retirees' annuities. He stated that health care plans should be financially sound, affordable, accessible, and sustainable. He recommended prefunding plans and stated that such an effort would facilitate financial solvency and operation and planning efficiencies, produce revenues, attract quality educators, and expand health care facilities and job opportunities.

**4. Overview of the agenda, including an introduction of issues and instructions for participating in the health care question and answer sessions with morning and afternoon panelists – Brian Guthrie and Katrina Daniel.**

Mr. Guthrie provided an overview of the meeting agenda and instructions for participating in the health care town hall meeting. Mr. Guthrie also noted that the legislature had formed the Joint Select Committee on TRS-Care and TRS-ActiveCare earlier this year.

**5. Panel discussion on the health care environment, including the health care market and the context in which plans such as TRS operate – Ken Shine, MD and Len Nichols, PhD.**

Ms. Daniel introduced Dr. Ken Shine and Dr. Len Nichols and summarized their professional backgrounds and credentials.

Dr. Nichols provided a presentation regarding the background and historical development of health cost growth.

Dr. Shine provided a presentation regarding the concept of value-based purchasing in the health care market for controlling costs, maintaining quality, and obtaining the best outcomes.

Mr. Guthrie asked the panelists for their opinions about offering various tiers of coverage within a health care plan. Dr. Nichols stated that providing one high deductible plan would lower usage, but costs would remain. He suggested providing coverage tailored to individual conditions, which he believed would achieve higher quality care, better outcomes, and lower costs. In response to further questions by Mr. Guthrie, Dr. Nichols stated that a large enrollment size would usually be

an advantage because it provides for a more even distribution of risk and greater bargaining power. Dr. Shine opined that home health care could be effective in controlling costs.

**6. Panel discussion on strategies for cost containment in health care – Carl King, Aetna; David Ellis, MD, United Health Care; Dan McCoy, MD, Blue Cross Blue Shield; Glen Stettin, MD, Express Scripts; and Jane F. Barlow, MD, Caremark.**

Ms. Daniel introduced the panelists. The panelists discussed strategies on medical and pharmaceutical cost containment and public health management. They also discussed the following subtopics: value-based insurance models, the concept of health ownership, medical homes, consumer engagement, drug costs, and specialty drugs.

**7. Question and answer session with morning panelists about the health care environment and strategies for cost containment in health care – Ken Shine, MD; Len Nichols, PhD; Carl King, Aetna; David Ellis, MD, United Health Care; Dan McCoy, MD, Blue Cross Blue Shield; Glen Stettin, MD, Express Scripts; and Jane F. Barlow, MD, Caremark.**

The panelists answered questions from the audience and submitted online or through social media relating to a wide spectrum of topics, including value-based purchasing and its benefits, medical homes, patient health ownership, technology improvement, patient engagement, team-based health care, consumerism in health care, health care systems in other countries, medical tourism, life decisions about high-cost procedures, telemedicine, Minute Clinics, preventative care, wellness programs, and health care in rural areas.

After a recess at 12:45 p.m., the board reconvened at 1:05 p.m.

**8. Panel discussion on TRS-Care, including the program’s history and structure, its financial status, past recommendations for sustainability, and current strategies for cost containment, such as consumer outreach – Carl King, Aetna; Glen Stettin, MD, Express Scripts; Bill Hickman and Amy Cohen, Gabriel, Roeder, Smith and Co; and Katrina Daniel, Edward Esquivel, and Yimei Zhao, TRS.**

Mr. Esquivel discussed the history of the TRS-Care program and changes to its contribution and benefits structure. Ms. Cohen described the program’s current plan designs and benchmarking. She also spoke about the history of program contributions and expenses and current projected fund balances under two different claim assumptions. Ms. Zhao discussed the program’s enrollment history since 2006 and the financial structure of the TRS-Care fund. Mr. Hickman recapped two sustainability studies conducted in 2012 and 2014 and the options that resulted from those studies. Ms. Daniel summarized action taken during the 84<sup>th</sup> legislative session regarding TRS-Care funding. She recapped that \$768 million was appropriated to the TRS-Care fund. Mr. St. Pierre described cost drivers for the plan, the history of plan cost containment and quality initiatives, savings attributable to the implementation of Medicare Advantage and Medicare Part plans, and efforts on establishing best practices for compound drugs. Responding to a question from Mr. Guthrie regarding the effect of the new practice for compound drugs, Mr. Hickman stated that usage had dropped below pre-influx levels. Mr. Jordan noted that compound drug utilization for the standard plan had dropped by 87 percent from 2014 to 2015. Ms. Cohen stated that a lot of

compounding pharmacies were no longer in the network. Ms. Zhao also noted that the amendments approved by the board last October regarding Medicare Part D contracts would save \$157 million over fiscal years 2015 through 2017 and that 79 percent of the savings would be from manufacturer rebates. Mr. St. Pierre concluded the presentation by describing the cost avoidance measures implemented in fiscal year 2014, including clinical advocacy programs, prepayment claim editing, benefits savings subrogation coordination.

The panelists also addressed questions relating to TRS-Care, some of which concerned premium tier design, Medicare Advantage plans, Medicare Part B coverage, and member contributions. Mr. Esquivel confirmed for Ms. Sissney that retirees from the Employee Retirement System do not pay a premium for their health care coverage.

**9. Panel discussion on TRS-ActiveCare, including the program’s history and structure, its financial status, and current strategies for cost containment, such as consumer outreach – Carl King, Aetna; Jane F. Barlow, MD, Caremark; Bill Hickman and Amy Cohen, Gabriel, Roeder, Smith and Co; and Katrina Daniel, Edward Esquivel, and Yimei Zhao, TRS.**

Mr. Esquivel discussed the history of the TRS-ActiveCare program and its current plan structure. Ms. Cohen described the program’s current plan designs and benchmarking. Ms. Zhao spoke about the program’s enrollment history since inception, provided preliminary enrollment information for early 2016, and explained the financial structure of the TRS-ActiveCare fund. She also highlighted that employee contributions under TRS-ActiveCare were much higher than the market average, particularly for employee and family coverage, based on a survey conducted by the Kaiser Foundation. Mr. Hickman recapped the TRS-ActiveCare affordability study conducted in 2014 and options that resulted from the study. Mr. Hickman confirmed for Ms. Sissney that spousal coverage was eliminated because it required heavy subsidy. Ms. Daniel summarized the TRS-ActiveCare interim study completed during the 84<sup>th</sup> Legislature. Mr. St. Pierre described cost drivers for the plan and the history of plan cost containment and quality initiatives. Ms. Zhao also noted that a new medical channel management program had been established which generated significant plan savings by carving out certain specialty drugs.

**11. Question and answer session with afternoon panelists about TRS-Care and TRS-ActiveCare – Carl King, Aetna; Glen Stettin, MD, Express Scripts; Jane F. Barlow, MD, Caremark; Bill Hickman and Amy Cohen, Gabriel, Roeder, Smith and Co; and Katrina Daniel, Edward Esquivel, and Yimei Zhao, TRS.**

The panelists responded to questions from the audience and submitted online or through social media. Responding to the question as to why TRS switched from BlueCross BlueShield to Aetna, Mr. Guthrie stated that Aetna was selected as a result of a competitive bidding process that focused on obtaining the best potential premiums and cost structure. Responding to a question as to whether Kelsey-Seybold had become a preferred provider in the TRS-ActiveCare network, Mr. Jordan stated that Kelsey-Seybold was not willing to accept the reimbursement rates provided for network providers in the Houston area and, therefore, did not become a preferred provider. He noted that the company had submitted a proposal to be an HMO in the Houston area, but was not selected due to findings from an actuarial analysis showing that HMOs participation in the Houston area would result in the rest of the state subsidizing that area. Responding to questions relating to the

recent data errors with TRS-ActiveCare, Mr. Guthrie stated that staff was currently working closely with Aetna and WellSystems to resolve the issue and would provide members with information very soon. Responding to a question regarding adding providers in rural areas, Ms. Chmielewski stated that TRS-ActiveCare plans have protocols in place to ensure that appropriate care can be provided in areas where a provider is not available. She stated that Aetna seeks recruitment opportunities in areas with a deficiency. Responding to a question as to why TRS-ActiveCare premiums and deductibles continued to rise each year, Mr. Guthrie stated that it was because both state and employer contribution rates were fixed. Responding to a question relating to the proposal to move non-Medicare retirees into TRS-ActiveCare, Mr. Guthrie stated that staff had studied the proposal and determined that it would not be the best approach, given the challenges faced by the TRS-ActiveCare program. The panelists also responded to questions relating to cost control, wellness programs, rebates, and mail order prescriptions.

Mr. Guthrie invited Dr. Edmund Pezalla to discuss how Aetna managed drug costs. Dr. Pezalla discussed the process of choosing cost-effective and appropriate options for providing medications.

**10. Receive and discuss invited testimony on healthcare matters from stakeholder associations – Brian Guthrie.**

Mr. Guthrie invited representatives from the following associations to provide testimony to the board: Ann Fickel of Texas Classroom Teachers Association; Josh Sanderson of the Association of Texas Professional Educators; Beaman Floyd of the Texas Association of School Personnel Administrators; Ted Melina Raab of the Texas American Federation of Teachers; Noel Candelaria of the Texas State Teachers Association; and Tim Lee of the Texas Retired Teachers Association. The representatives provided remarks and suggestions concerning various health care issues. They addressed the need for legislative efforts to provide additional funding to employees for health insurance premiums and to involve the Texas Education Agency in the process of budgeting health care costs. They emphasized the negative impact of high health care costs on school education and public school employees' pay checks and lives and the importance of providing high quality and affordable health care for active members and retirees.

**12. Discuss looking forward and next steps regarding health care matters – Brian Guthrie and Katrina Daniel.**

Mr. Guthrie expressed his appreciation to the panelists and audience who contributed to the meeting for their suggestions, ideas, and information. He stated that TRS looked forward to working with the board, member associations, and legislature on issues relating to the TRS-Care and TRS-ActiveCare programs.

**13. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.**

Whereupon, Mr. Kelly announced that the board would go into executive session on agenda item 13 under sections 551.074 and 551.071 of the Government Code to discuss personnel matters concerning the executive director and to seek the advice of legal counsel, as needed. He stated that

the board would convene the executive session in the boardroom.

Whereupon, the open session of the board meeting recessed at 4:04 p.m., so that the board could go into executive session in the boardroom.

At 5:07 p.m., Mr. Kelly announced that the board reconvened in open session in the cafeteria.

- 14. 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.**

The board took up no further business under agenda item 14.

The meeting was adjourned at 5:07 p.m.

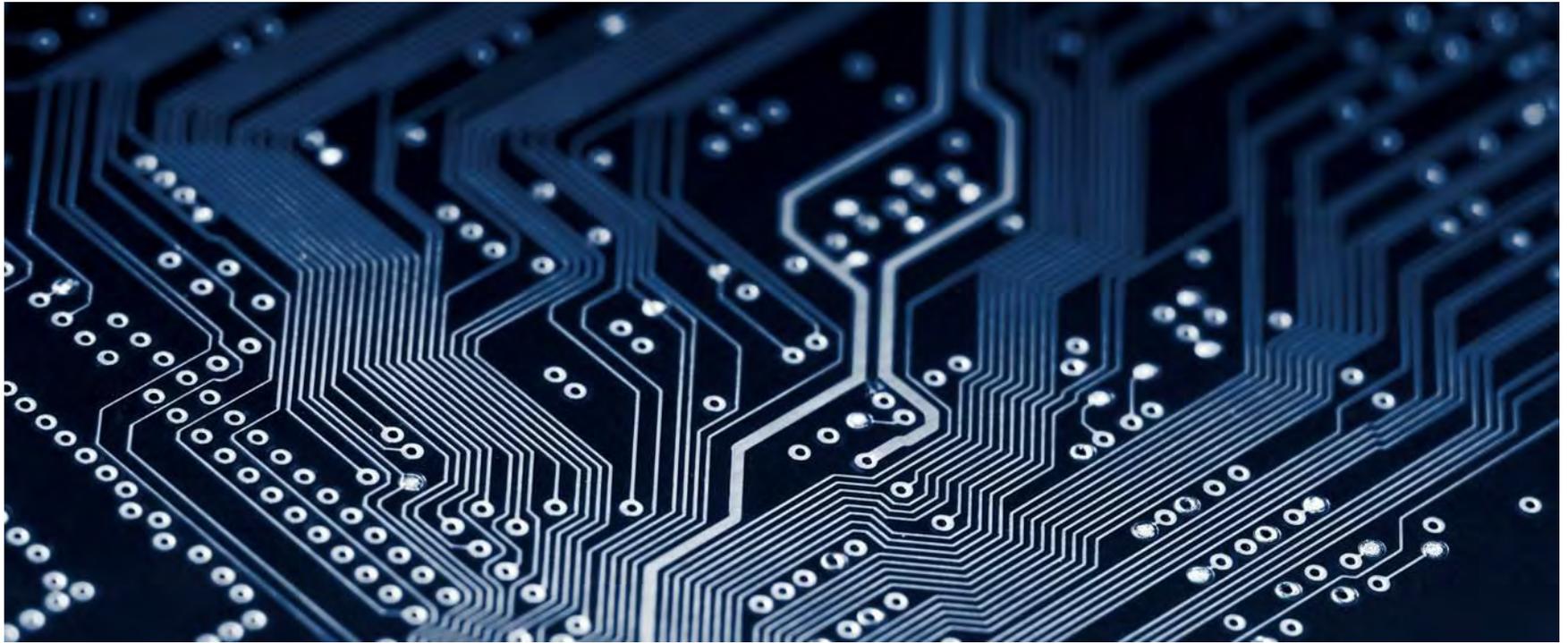
APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 19TH DAY OF NOVEMBER 2015.

ATTESTED BY:

\_\_\_\_\_  
Dan Junell  
Secretary to the TRS Board of Trustees

\_\_\_\_\_  
Date

# Tab 4 B



# Teacher Retirement System of Texas

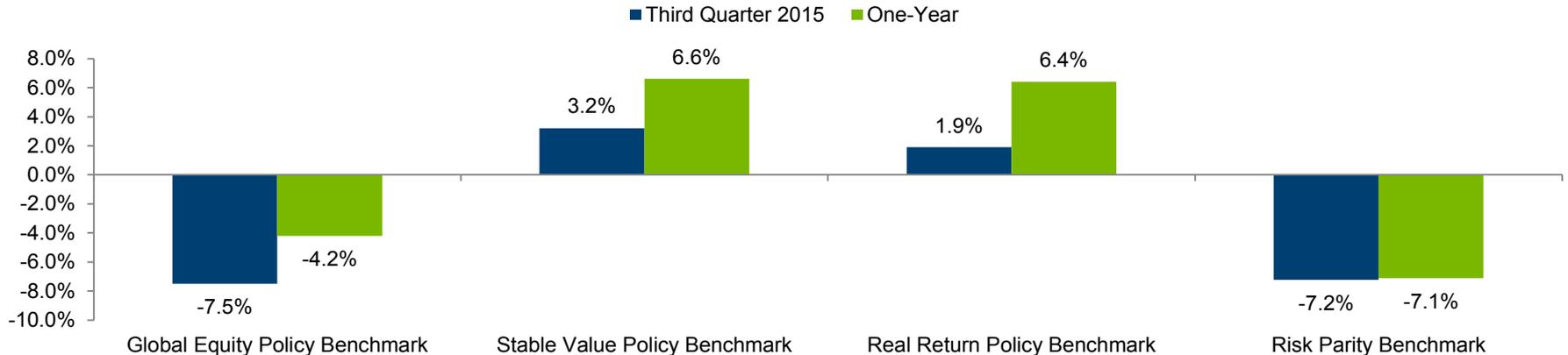
Performance Review: Third Quarter 2015  
November 2015

**Aon Hewitt**  
Retirement and Investment

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.



# Summary



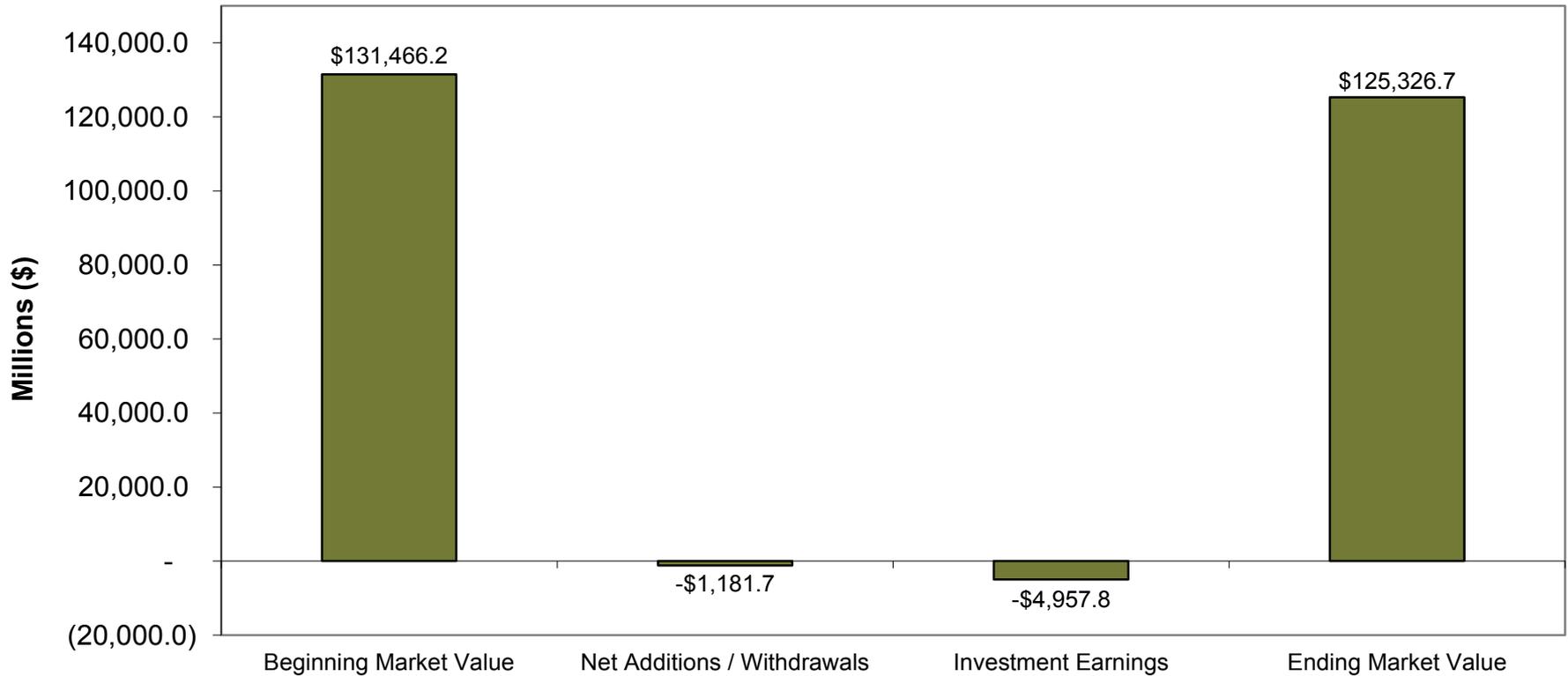
- Global asset markets were generally negative for the third quarter.
- The TRS investment portfolio returned -3.8% for the quarter and outperformed its performance benchmark by 8 basis points.
  - For the trailing twelve months, TRS returned 0.2%, outperforming its performance benchmark by 46 basis points.
- The primary contributor to relative performance for the quarter included outperformance within Non-U.S. Developed Equity component.
- Detractors from relative results included an underweight allocation to Treasuries and underperformance within the U.S. Equity component.

# 1. Market Summary – Third Quarter 2015

	Third Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years
<b>Global Equity:</b>						
MSCI U.S.A. IMI Index	-7.3%	-5.3%	-0.5%	12.5%	13.3%	7.1%
MSCI EAFE + Canada Index	-10.6	-6.7	-10.1	4.6	3.4	2.9
MSCI Emerging Markets Index	-17.9	-15.5	-19.3	-5.3	-3.6	4.3
HFRI Fund of Funds Composite Index	-3.7	-1.1	-0.1	4.1	2.7	2.4
State Street Private Equity Index (qtr lagged)	4.2	7.5	7.3	13.4	13.5	11.1
Global Equity Policy Benchmark	-7.5	-4.3	-4.2	7.2	7.3	--
<b>Stable Value:</b>						
Barclays Long Treasury Index	5.1%	0.2%	8.8%	2.8%	6.2%	7.0%
HFRI Fund of Funds Conservative Index	-1.8	0.3	0.6	4.2	2.8	2.1
3 Month LIBOR + 2%	0.6	1.7	2.3	2.3	2.3	3.7
90 Day U.S. Treasury Bill	0.0	0.0	0.0	0.1	0.1	1.3
Stable Value Policy Benchmark	3.2	0.3	6.6	3.1	5.5	--
<b>Real Return:</b>						
Barclays U.S. TIPS Index	-1.1%	-0.8%	-0.8%	-1.8%	2.5%	4.0%
NCREIF ODCE (qtr lagged)	3.6	10.1	13.4	12.1	13.3	--
Cambridge Nat. Resources (75) / CPI (qtr lagged) (25)	-1.8	-15.2	-16.3	--	--	--
Goldman Sachs Commodities Index	-19.3	-19.5	-41.7	-19.8	-9.8	-10.0
Real Return Policy Benchmark	1.9	4.6	6.4	7.4	9.5	--
<b>Risk Parity:</b>						
Risk Parity Benchmark	-7.2	-6.2	-7.1	1.6	--	--
TRS Policy Benchmark	-3.9%	-1.8%	-0.3%	6.5%	7.7%	5.7%

## 2. Market Value Change

Change in Market Value ( \$Millions )  
From July 1, 2015 To September 30, 2015



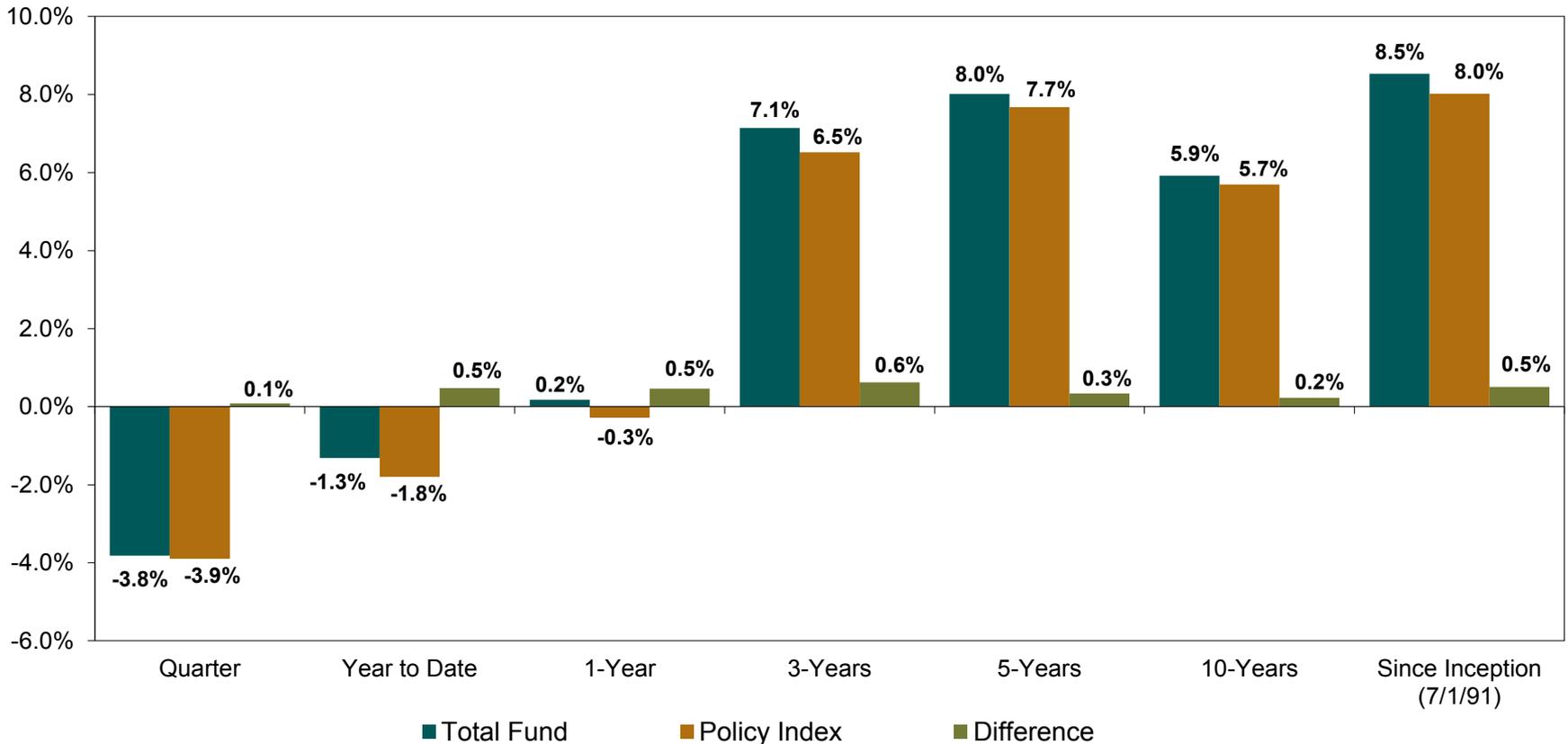
### 3. Asset Allocation Detail

	Market Value (\$ in millions) as of 9/30/2015		Interim Policy Target	Relative Allocation to Interim Policy Target	Long Term Policy Target	Long Term Policy Ranges
	(\$)	(%)				
<b>Total Fund</b>	<b>\$125,327</b>	<b>100%</b>		---	<b>100%</b>	<b>--</b>
Total U.S.A.	\$26,052	20.8%	19.8%	+1.0%	18%	13-23%
Non-U.S. Developed	\$18,465	14.7%	14.8%	-0.1%	13%	8-13%
Emerging Markets	\$11,456	9.1%	10.3%	-1.1%	9%	4-14%
Directional Hedge Funds	\$6,051	4.8%	4.6%	+0.3%	4%	0-10%
Private Equity	\$15,742	12.6%	11.9%	+0.7%	13%	8-18%
<b>Global Equity</b>	<b>\$77,766</b>	<b>62.1%</b>	<b>61.3%</b>	<b>+0.7%</b>	<b>57%</b>	<b>50-64%</b>
Long Treasuries	\$10,558	8.4%	12.8%	-4.4%	11%	0-20%
Stable Value Hedge Funds	\$5,313	4.2%	4.0%	+0.2%	4%	0-10%
Absolute Return (including OAR)	\$3,619	2.9%	0.0%	+2.9%	0%	0-20%
Cash	\$283	0.2%	1.0%	-0.8%	1%	0-5%
<b>Stable Value</b>	<b>\$19,774</b>	<b>15.8%</b>	<b>17.8%</b>	<b>-2.0%</b>	<b>16%</b>	<b>11-21%</b>
TIPS	\$5,527	4.4%	4.8%	-0.4%	3%	0-10%
Real Assets	\$16,429	13.1%	12.3%	+0.9%	16%	7-17%
Energy and Natural Resources	\$2,281	1.8%	1.6%	+0.2%	3%	0-7%
Commodities	\$125	0.1%	0.0%	+0.1%	0%	0-5%
<b>Real Return</b>	<b>\$24,362</b>	<b>19.4%</b>	<b>18.7%</b>	<b>+0.8%</b>	<b>22%</b>	<b>17-27%</b>
Risk Parity	\$3,425	2.7%	2.2%	+0.5%	5%	0-10%
<b>Risk Parity</b>	<b>\$3,425</b>	<b>2.7%</b>	<b>2.2%</b>	<b>+0.5%</b>	<b>5%</b>	<b>0-5%</b>

Note: Actual allocations above are based upon Account Level information

## 4. Total TRS Performance Ending 9/30/2015

### Investment Results As of 9/30/2015

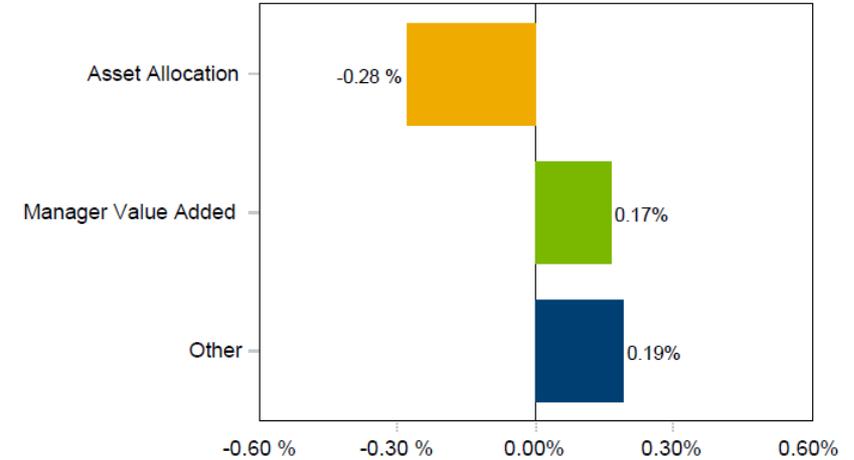
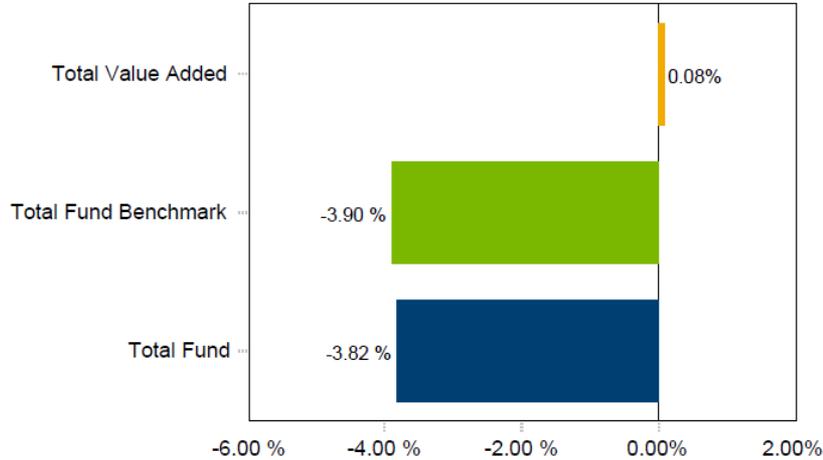


Note: The excess returns shown above may not be a perfect difference between the actual and benchmark returns due entirely to rounding.

# 5. Total Fund Attribution - Quarter Ending 9/30/2015

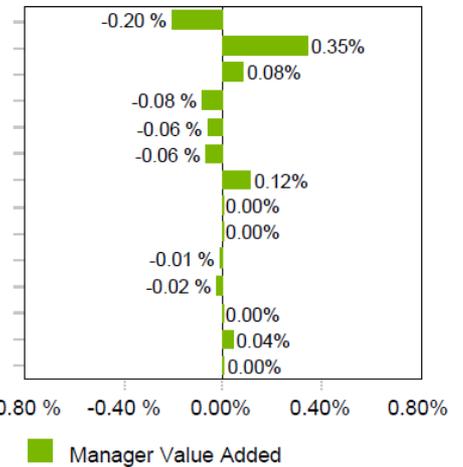
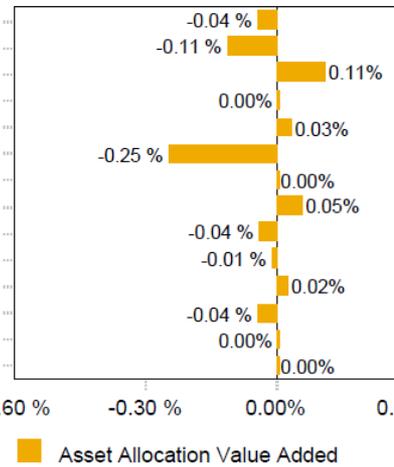
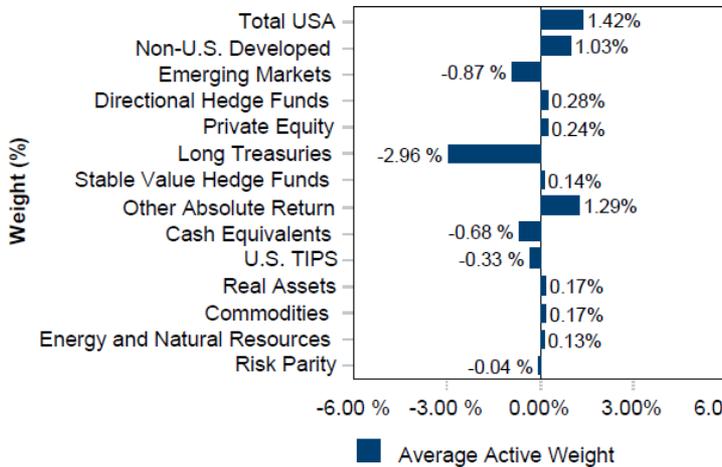
**Total Fund Performance**

**Total Value Added:0.08%**



**Total Asset Allocation:-0.28 %**

**Total Manager Value Added:0.17%**



■ Average Active Weight

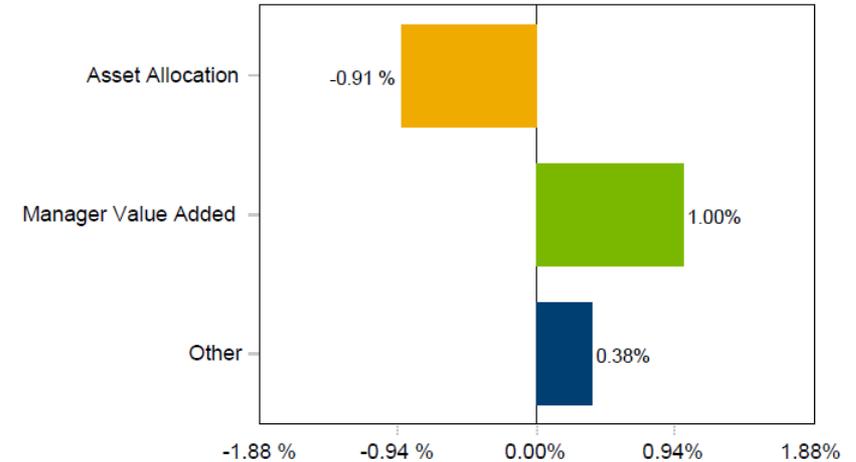
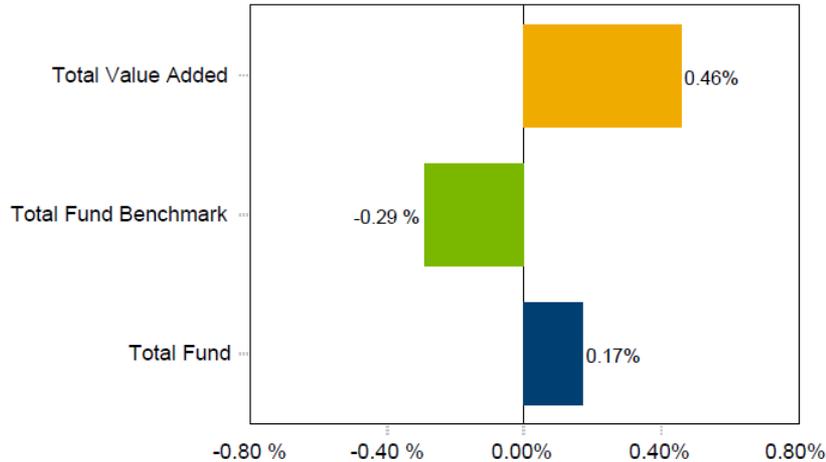
■ Asset Allocation Value Added

■ Manager Value Added

# 5. Total Fund Attribution – Trailing One Year Ending 9/30/2015

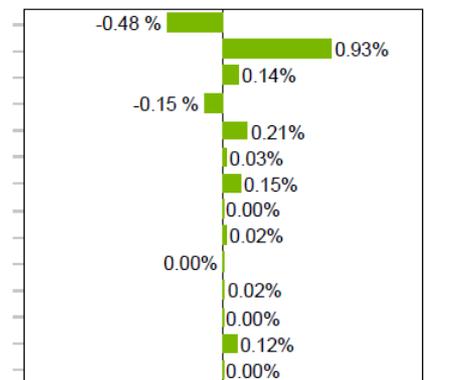
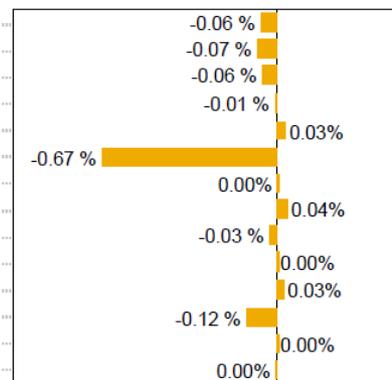
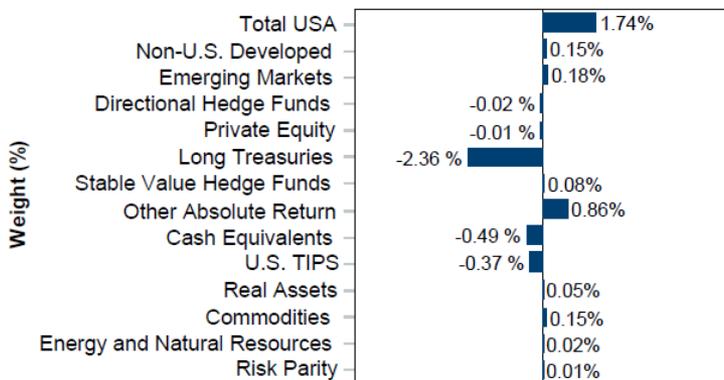
**Total Fund Performance**

**Total Value Added: 0.46%**



**Total Asset Allocation: -0.91 %**

**Total Manager Value Added: 1.00%**



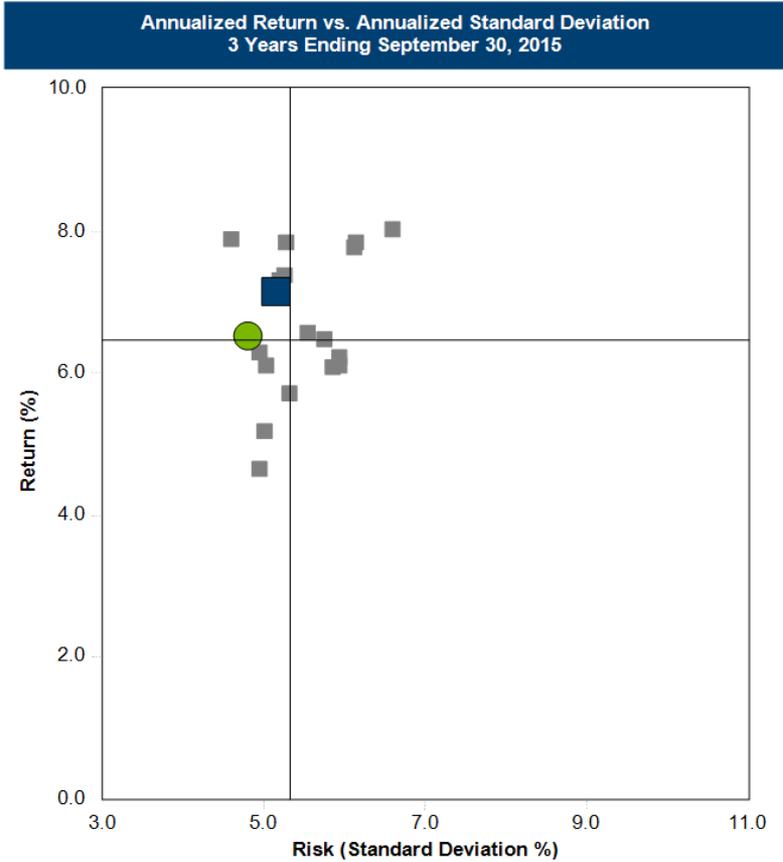
■ Average Active Weight

■ Asset Allocation Value Added

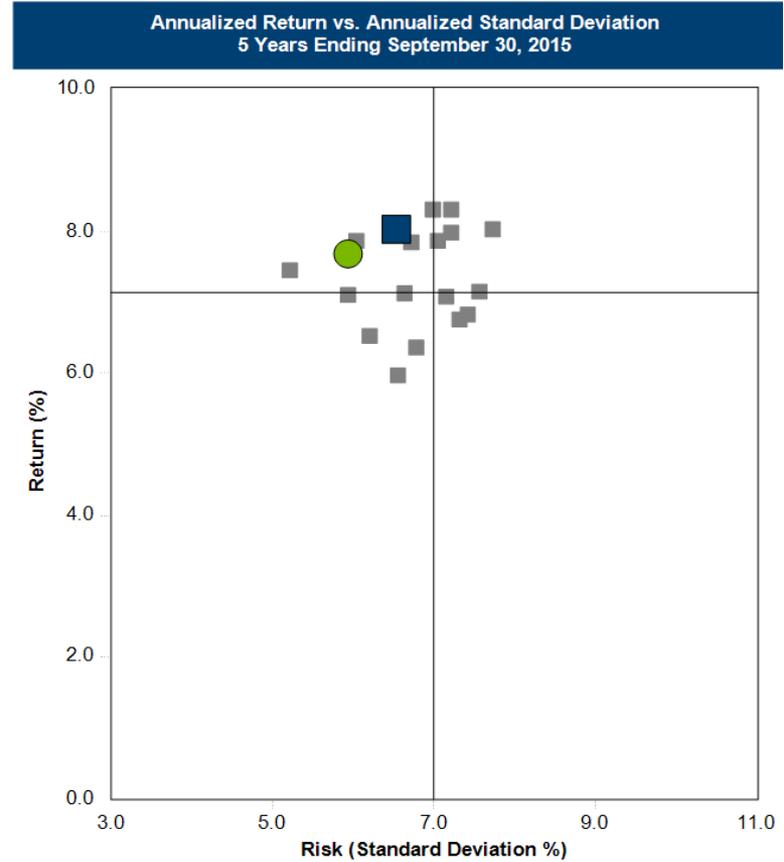
■ Manager Value Added

# 6. Risk Profile: Total Fund Risk-Return vs. Peers

All Public Plans > \$10B-Total Fund



	Return	Standard Deviation
■ Total Fund	7.14	5.17
● Total Fund Benchmark	6.50	4.82
— Median	6.47	5.33

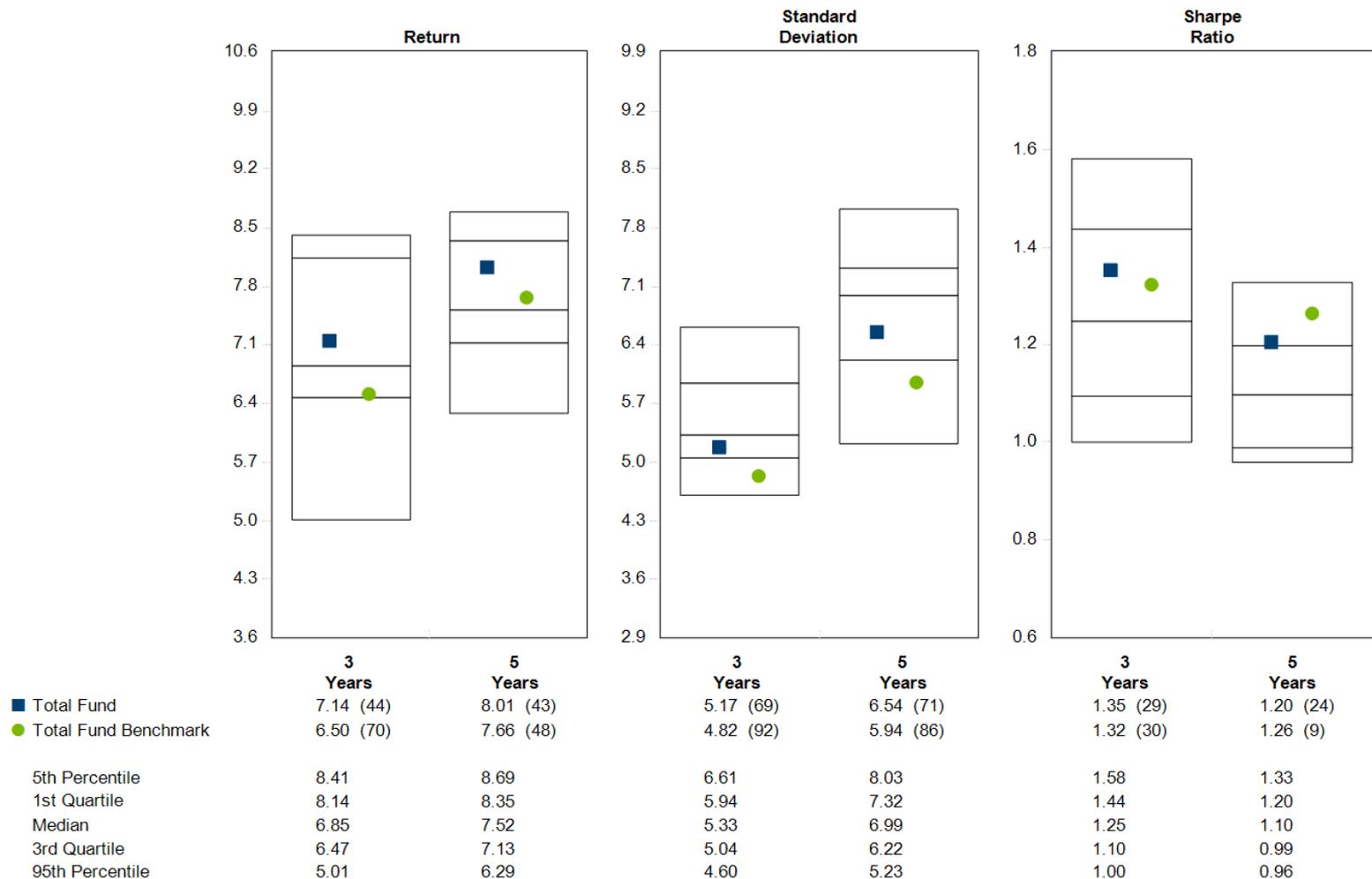


	Return	Standard Deviation
■ Total Fund	8.01	6.54
● Total Fund Benchmark	7.66	5.94
— Median	7.14	6.99

Plan Sponsor Peer Group composed of 22 public funds with total assets in excess of \$10B as of 9/30/2015. An analytic outlining the asset allocation of the peer portfolios has been included in the appendix of this report.

## 6. Risk Profile: Trailing 3-Year and 5-Year Risk Metrics Peer Comparison

All Public Plans > \$10B – Total Fund



Plan Sponsor Peer Group composed of 22 public funds with total assets in excess of \$10B as of 9/30/2015.  
An analytic outlining the asset allocation of the peer portfolios has been included in the appendix of this report.

## 7. Global Equity: Performance Summary Ending 9/30/2015

	Third Quarter	Year to Date	One Year	Three Years	Five Years
<b>Total Global Equity</b>	<b>-7.3%</b>	<b>-3.4%</b>	<b>-3.3%</b>	<b>8.3%</b>	<b>7.8%</b>
Global Equity Benchmark	-7.5	-4.3	-4.2	7.2	7.3
<i>Difference</i>	+0.2	+0.9	+0.9	+1.1	+0.5
<b>Total U.S. Equity</b>	<b>-8.2</b>	<b>-6.1</b>	<b>-2.6</b>	<b>11.2</b>	<b>12.1</b>
Total U.S. Equity Benchmark	-7.3	-5.3	-0.5	12.5	13.3
<i>Difference</i>	-0.9	-0.8	-2.1	-1.3	-1.2
<b>Non-U.S. Equity</b>	<b>-11.9</b>	<b>-7.7</b>	<b>-10.5</b>	<b>2.4</b>	<b>1.6</b>
Non-U.S. Benchmark	-13.6	-10.3	-13.9	0.6	0.7
<i>Difference</i>	+1.7	+2.6	+3.4	+1.8	+0.9
<b>Non-U.S. Developed</b>	<b>-8.5</b>	<b>-2.3</b>	<b>-4.5</b>	<b>7.2</b>	<b>5.3</b>
MSCI EAFE + Canada	-10.6	-6.7	-10.1	4.6	3.4
<i>Difference</i>	+2.1	+4.4	+5.6	+2.6	+1.9
<b>Emerging Markets</b>	<b>-17.1</b>	<b>-15.5</b>	<b>-18.2</b>	<b>-4.0</b>	<b>-2.9</b>
MSCI Emerging Markets	-17.9	-15.5	-19.3	-5.3	-3.6
<i>Difference</i>	+0.8	+0.0	+1.1	+1.3	+0.7

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

## 7. Global Equity: Performance Summary Ending 9/30/2015 (cont'd)

	Third Quarter	Year to Date	One Year	Three Years	Five Years
<b>Directional Hedge Funds</b>	<b>-5.3%</b>	<b>-2.5%</b>	<b>-3.1%</b>	<b>5.0%</b>	<b>--</b>
HFRI Fund of Funds Composite Index	-3.7	-1.1	-0.1	4.1	--
<i>Difference</i>	-1.6	-1.4	-3.0	+0.9	--
<b>Total Public Equity</b>	<b>-9.8</b>	<b>-6.5</b>	<b>-6.4</b>	<b>6.3</b>	<b>6.1</b>
Public Equity Benchmark	-10.2	-7.4	-7.3	5.7	5.9
<i>Difference</i>	+0.4	+0.9	+0.9	+0.6	+0.2
<b>Total Private Equity</b>	<b>3.8</b>	<b>11.3</b>	<b>11.8</b>	<b>17.8</b>	<b>16.0</b>
Private Equity Benchmark	4.1	8.8	9.3	13.3	13.4
<i>Difference</i>	-0.3	+2.5	+2.5	+4.5	+2.6

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

## 8. Stable Value: Performance Summary Ending 9/30/2015

	Third Quarter	Year to Date	One Year	Three Years	Five Years
<b>Total Stable Value</b>	<b>4.4%</b>	<b>0.8%</b>	<b>8.6%</b>	<b>4.4%</b>	<b>6.7%</b>
Total Stable Value Benchmark	3.2	0.3	6.6	3.1	5.5
<i>Difference</i>	+1.2	+0.5	+2.0	+1.3	+1.2
<b>Long Treasuries</b>	<b>4.4</b>	<b>-1.6</b>	<b>9.2</b>	<b>3.3</b>	<b>6.8</b>
Treasury Benchmark	5.1	0.2	8.8	2.8	6.2
<i>Difference</i>	-0.7	-1.8	+0.4	+0.5	+0.6
<b>Stable Value Hedge Funds</b>	<b>1.1</b>	<b>2.8</b>	<b>4.3</b>	<b>4.9</b>	<b>3.4</b>
Hedge Funds Benchmark	-1.8	0.3	0.6	4.2	3.5
<i>Difference</i>	+2.9	+2.5	+3.7	+0.7	-0.1
<b>Other Absolute Return</b>	<b>0.0</b>	<b>-0.5</b>	<b>1.6</b>	<b>10.6</b>	<b>12.6</b>
Other Absolute Return Benchmark	0.6	1.7	2.3	2.3	2.3
<i>Difference</i>	-0.6	-2.2	-0.7	+8.3	+10.3
<b>Cash Equivalents</b>	<b>1.2</b>	<b>2.8</b>	<b>4.6</b>	<b>3.1</b>	<b>2.0</b>
Cash Benchmark	0.0	0.0	0.0	0.1	0.1
<i>Difference</i>	+1.2	+2.8	+4.6	+3.0	+1.9

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

*Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*

## 9. Real Return: Performance Summary Ending 9/30/2015

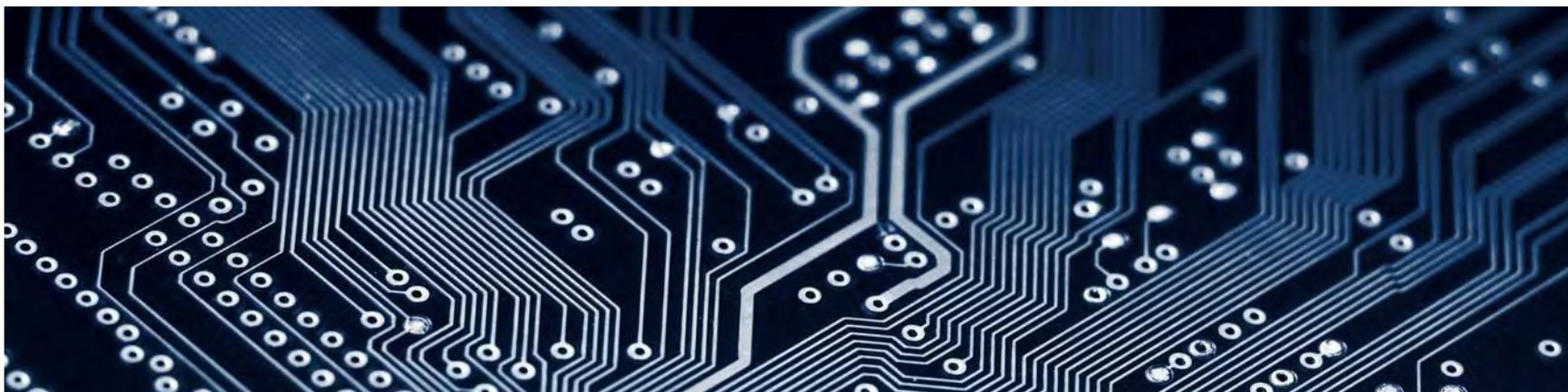
	Third Quarter	Year to Date	One Year	Three Years	Five Years
<b>Total Real Return</b>	<b>1.9%</b>	<b>5.0%</b>	<b>6.8%</b>	<b>6.8%</b>	<b>9.1%</b>
Real Return Benchmark	1.9	4.6	6.4	7.4	9.5
<i>Difference</i>	+0.0	+0.4	+0.4	-0.6	-0.4
<b>TIPS</b>	<b>-1.3</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-1.7</b>	<b>2.7</b>
U.S. TIPS Benchmark	-1.1	-0.8	-0.8	-1.8	2.5
<i>Difference</i>	-0.2	-0.1	-0.1	+0.1	+0.2
<b>Real Assets</b>	<b>3.6</b>	<b>11.1</b>	<b>14.1</b>	<b>12.9</b>	<b>13.7</b>
Real Asset Benchmark	3.6	10.1	13.4	12.1	13.3
<i>Difference</i>	+0.0	+1.0	+0.7	+0.8	+0.4
<b>Energy and Natural Resources</b>	<b>0.7</b>	<b>-11.9</b>	<b>-10.6</b>	--	--
Energy and Natural Resources Benchmark	-1.8	-15.2	-16.3	--	--
<i>Difference</i>	+2.5	+3.3	+5.7	--	--
<b>Commodities</b>	<b>-26.1</b>	<b>-40.4</b>	<b>-59.8</b>	<b>-37.8</b>	<b>-22.2</b>
Commodities Benchmark	-19.3	-19.5	-41.7	-19.8	-9.8
<i>Difference</i>	-6.8	-20.9	-18.1	-18.0	-12.4

*Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*

## 10. Risk Parity: Performance Summary Ending 9/30/2015

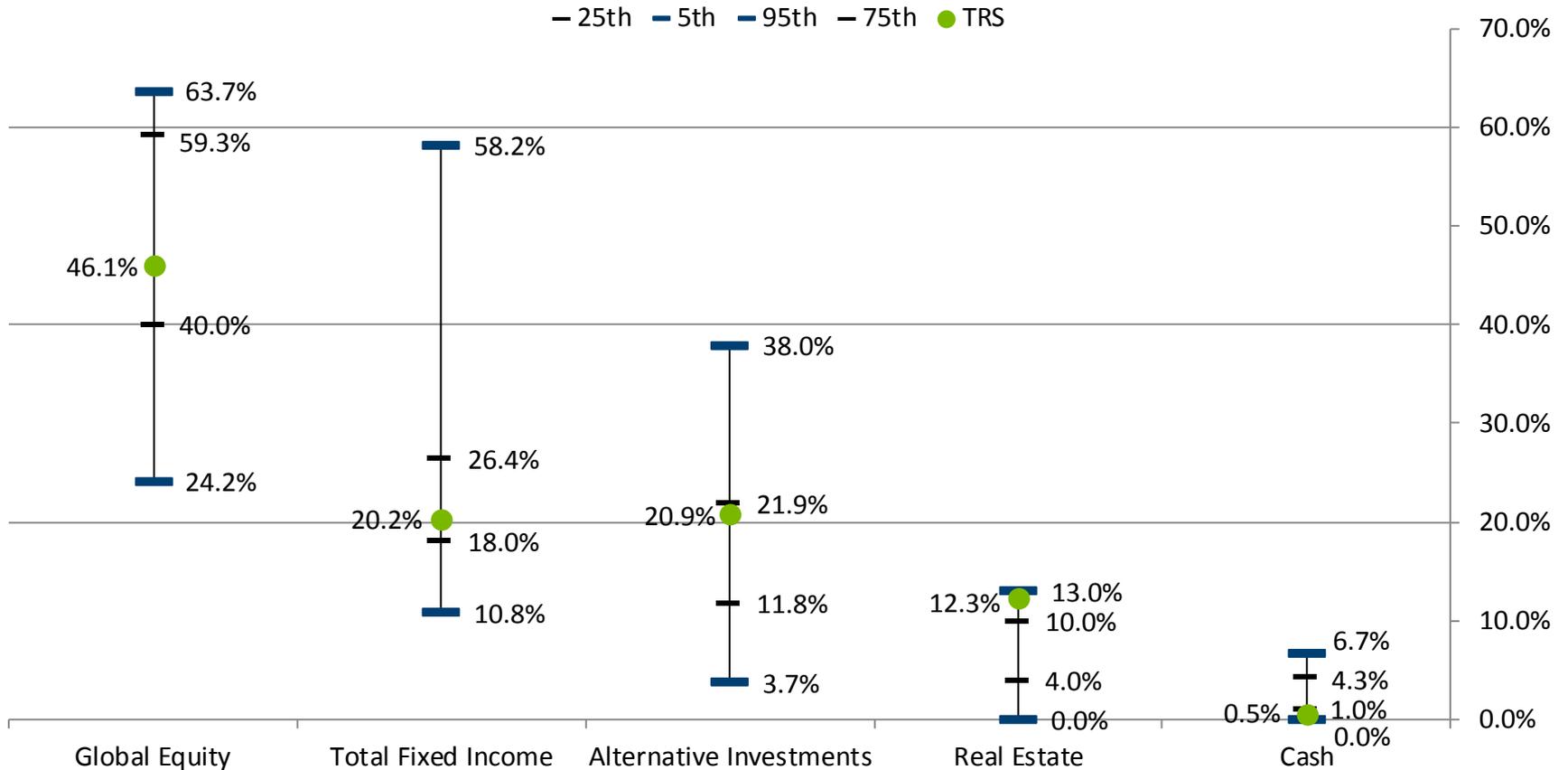
	Third Quarter	Year to Date	One Year	Three Years	Five Years
<b><u>Total Risk Parity</u></b>	<b>-7.0%</b>	<b>-6.0%</b>	<b>-6.6%</b>	<b>0.4%</b>	<b>--</b>
Risk Parity Benchmark	<b>-7.2</b>	<b>-6.2%</b>	<b>-7.1</b>	<b>1.6</b>	<b>--</b>
<i>Difference</i>	<b>+0.2</b>	<b>-5.9</b>	<b>+0.5</b>	<b>-1.2</b>	<b>--</b>

*Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*



## Appendix – Supplemental Reporting

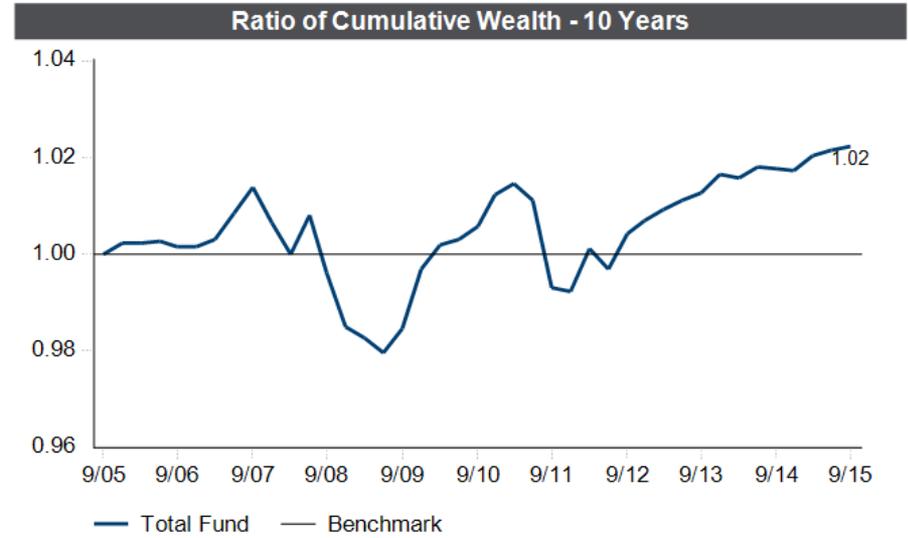
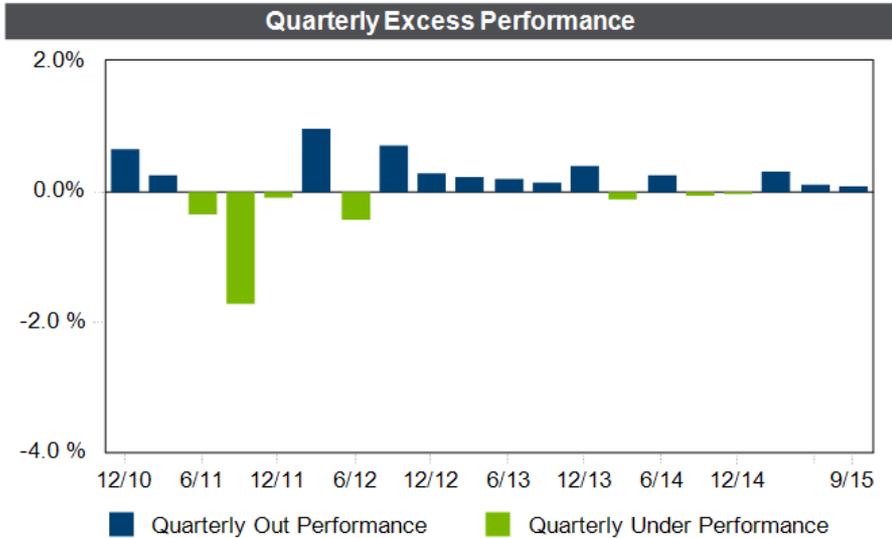
# TRS Commitment Levels vs. Peers (>\$10 Billion)



- The chart above depicts the asset allocation of peer public funds with assets greater than \$10 billion.
  - The ends of each line represent the 95<sup>th</sup> and 5<sup>th</sup> percentile of exposures, the black lines represent the 25<sup>th</sup> and 75<sup>th</sup> percentile of exposures, and the green dot represents TRS exposure.

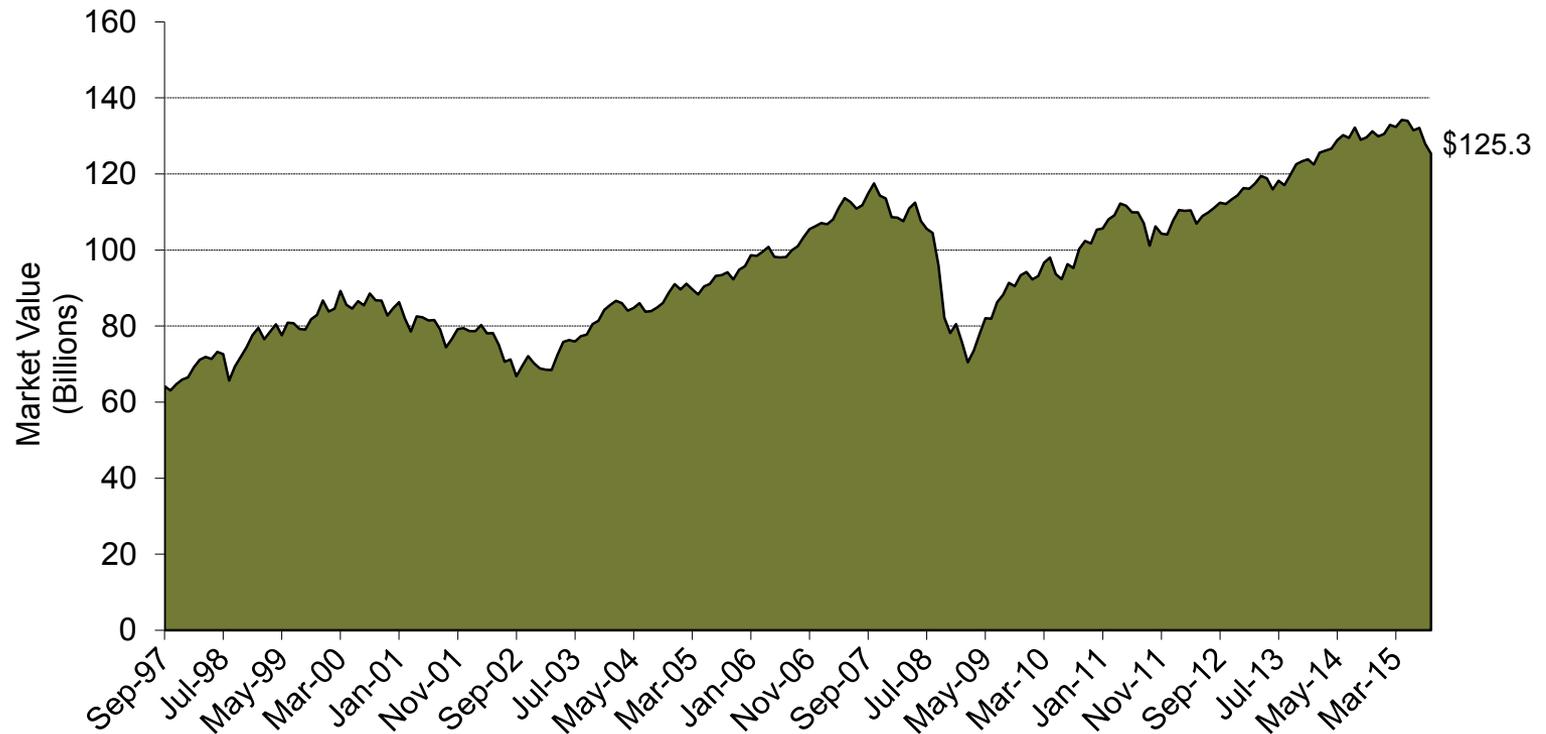
# Historical Excess Performance Ending 9/30/2015

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



# TRS Asset Growth

Total Fund Historical Growth (September 1997 - September 2015)



# External Manager Program: Public Equity Performance as of 9/30/2015

	Allocation (\$ in billions)	Third Quarter	Year to Date	One Year	Three Years
<b>EP Total Global Equity</b>	<b>\$30.3</b>	<b>-10.1%</b>	<b>-6.9%</b>	<b>-7.5%</b>	<b>5.6%</b>
EP Global Equity Benchmark	--	-9.9	-7.3	-7.3	5.1
<i>Difference</i>	--	-0.2	+0.4	-0.2	+0.5
<b>EP U.S.A.</b>	<b>\$7.4</b>	<b>-9.8</b>	<b>-8.0</b>	<b>-4.4</b>	<b>10.4</b>
EP U.S.A. Benchmark	--	-7.3	-5.3	-0.5	<b>12.5</b>
<i>Difference</i>	--	-2.5	-2.7	-3.9	-2.1
<b>EP Non-U.S. Developed</b>	<b>\$5.0</b>	<b>-7.6</b>	<b>0.3</b>	<b>-2.4</b>	<b>7.7</b>
MSCI EAFE + Canada Index	--	-10.6	-6.7	-10.1	4.6
<i>Difference</i>	--	+3.0	+7.0	+7.7	+3.1
<b>EP Emerging Markets</b>	<b>\$6.4</b>	<b>-17.0</b>	<b>-15.5</b>	<b>-19.3</b>	<b>-4.4</b>
MSCI Emerging Markets Index	--	-17.9	-15.5	-19.3	-5.3
<i>Difference</i>	--	+0.9	+0.0	+0.0	+0.9
<b>EP World Equity</b>	<b>\$5.6</b>	<b>-9.3</b>	<b>-5.2</b>	<b>-5.7</b>	<b>8.5</b>
EP World Equity Benchmark	--	-9.4	-6.8	-6.4	7.1
<i>Difference</i>	--	+0.1	+1.6	+0.7	+1.4
<b>EP Directional Hedge Funds</b>	<b>\$6.1</b>	<b>-5.3</b>	<b>-2.5</b>	<b>-3.1</b>	<b>5.8</b>
HFRI Fund of Funds Composite Index	--	-3.7	-1.1	-0.1	4.1
<i>Difference</i>	--	-1.6	-1.4	-3.0	+1.7

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

# External Manager Program: Stable Value/Total Program Performance as of 9/30/2015

	Allocation (\$ in billions)	Third Quarter	Year to Date	One Year	Three Years
<b>EP Total Stable Value</b>	<b>\$5.5</b>	<b>1.1%</b>	<b>3.0%</b>	<b>4.6%</b>	<b>6.1%</b>
EP Stable Value Benchmark	--	-1.8	0.3	0.6	4.1
<i>Difference</i>	--	+2.9	+2.7	+4.0	+2.0
<b>EP Stable Value Hedge Funds</b>	<b>\$5.3</b>	<b>1.1</b>	<b>2.8</b>	<b>4.3</b>	<b>4.9</b>
EP Stable Value Hedge Funds Benchmark	--	-1.8	0.3	0.6	4.2
<i>Difference</i>	--	+2.9	+2.5	+3.7	+0.7
<b>EP Absolute Return</b>	<b>\$0.2</b>	<b>3.1</b>	<b>7.9</b>	<b>14.2</b>	<b>36.7</b>
EP Absolute Return Benchmark	--	0.6	1.7	2.3	2.3
<i>Difference</i>	--	+2.5	+6.2	+11.9	+34.4
<b>Total External Public Program</b>	<b>\$35.8</b>	<b>-8.5</b>	<b>-5.5</b>	<b>-5.8</b>	<b>5.8</b>
EP External Public Benchmark	--	-8.8	-6.2	-6.2	5.0
<i>Difference</i>	--	+0.3	+0.7	+0.4	+0.8

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

## Public Strategic Partnership Program (SPN): Performance Summary as of 9/30/2015

	Allocation (\$ in billions)	Third Quarter	Year to Date	One Year	Three Years
<b>Public Strategic Partnership</b>	<b>\$6.1</b>	<b>-6.8%</b>	<b>-6.2%</b>	<b>-4.6%</b>	<b>5.7%</b>
Public SPN Benchmark	--	-6.3	-5.4	-4.1	4.6
<i>Difference</i>	--	-0.5	-0.8	-0.5	+1.1
<b>Blackrock</b>	<b>\$1.5</b>	<b>-6.0%</b>	<b>-4.3%</b>	<b>-2.5%</b>	<b>6.3%</b>
<b>J.P. Morgan</b>	<b>\$1.6</b>	<b>-5.7%</b>	<b>-5.3%</b>	<b>-2.4%</b>	<b>7.0%</b>
<b>Neuberger Berman</b>	<b>\$1.5</b>	<b>-8.6%</b>	<b>-7.4%</b>	<b>-6.0%</b>	<b>3.8%</b>
<b>Morgan Stanley</b>	<b>\$1.5</b>	<b>-7.0%</b>	<b>-7.8%</b>	<b>-7.4%</b>	<b>5.8%</b>

- The Public SPNs in aggregate underperformed the benchmark during the third quarter while outperforming during the trailing three-year period
  - All managers have 3-year returns above that of the benchmark with the exception of Neuberger Berman

*Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.*

# Benchmarks

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- Total Fund Performance Benchmark – 19.8% MSCI U.S.A. IMI, 10.3% MSCI Emerging Markets, 14.8% MSCI EAFE plus Canada, 4.6% HFRI FoF Composite Index, 11.9% State Street Private Equity (1 qtr lagged), 12.8% BC Long Term Treasury, 4.0% HFRI FoF Conservative Index, 1.0% Citigroup 3 Mo T-Bill, 4.8% BC U.S. TIPS, 12.3% NCREIF ODCE (1 qtr lagged), 1.6% Energy and Natural Resources Benchmark, and 2.2% Risk Parity Benchmark.
- Global Equity Benchmark– 24.3% MSCI EAFE plus Canada, 32.4% MSCI U.S.A. IMI, 16.6% MSCI Emerging markets index, 7.7% HFRI FoF Composite Index, and 19.0% State Street Private Equity (1 qtr lagged)
  - U.S. Equity Benchmark - MSCI U.S.A. IMI Index
  - Emerging Markets Equity Benchmark – MSCI Emerging Markets
  - Non-US Developed Equity Benchmark– MSCI EAFE plus Canada
  - Directional Hedge Funds – HFRI Fund of Funds (FoF) Composite Index
  - Private Equity Benchmark - State Street Private Equity (1 qtr lagged)

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

## Benchmarks (cont'd)

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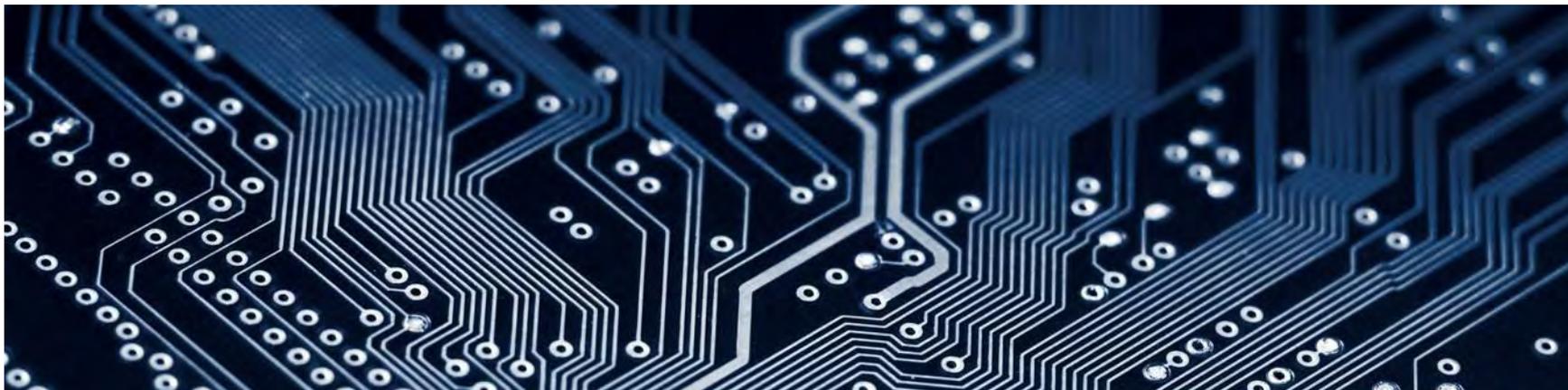
- Stable Value Benchmark – 22.1% HFRI FoF Conservative Index, 72.4% Barclays Long Term Treasury, and 5.5% Citigroup 3 mo T-Bill.
  - US Treasuries Benchmark – Barclays Long Term Treasury
  - Stable Value Hedge Funds – HFRI Fund of Funds (FoF) Conservative Index
  - Other Absolute Return Benchmark - 3 Mo LIBOR + 2%
  - Cash Benchmark - Citigroup 3 Mo T-Bill
- Real Return Benchmark – 27.1% Barclays U.S. TIPS, 62.5% NCREIF ODCE, and 10.5% Energy & Natural Resources Benchmark
  - US TIPS Benchmark – Barclays U.S. TIPS Index
  - Real Assets Benchmark – NCREIF ODCE (1qtr lagged)
  - Energy and Natural Resources – 75% Cambridge Associates Natural Resources (reweighted) / 25% quarterly Seasonally-Adjusted Consumer Price Index (1qtr lagged)
  - Commodities Benchmark – Goldman Sachs Commodity Index

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

## Description of Performance Attribution

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



## Disclaimers and Notes

# Disclaimers and Notes

## As of September 30, 2015

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### Disclaimers:

- Please review this report and notify Aon Hewitt Investment Consulting (AHIC) with any issues or questions you may have with respect to investment performance or any other matter set forth herein.
- The client portfolio data presented in this report have been obtained from the custodian. AHIC has compared this information to the investment managers' reported returns and believes the information to be accurate. AHIC has not conducted additional audits and cannot warrant its accuracy or completeness.
- The mutual fund information found in this report is provided by Lipper Inc. and AHIC cannot warrant its accuracy or timeliness.
- Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

### Notes:

- The rates of return contained in this report are shown on an *after-fees (or before-fees)* basis unless otherwise noted. They are geometric and time weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum up to 100.0%. Additionally, individual fund totals in dollar terms may not sum up to the plan totals.

**Tab 4 C**



# Strategic Partnerships & Research (SPR) Update

Mike Pia

Director

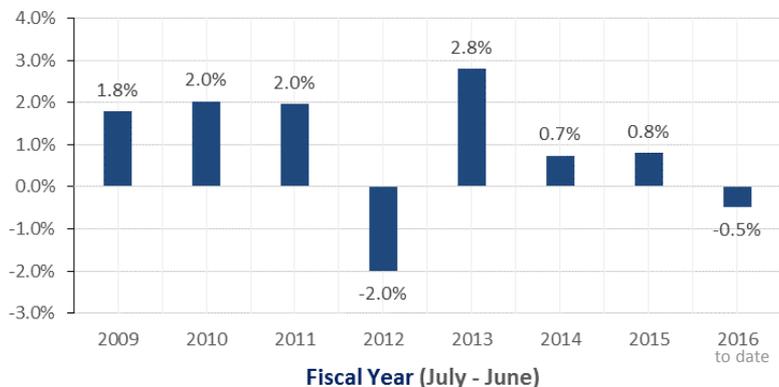
November 2015

# Public Markets SPN Performance

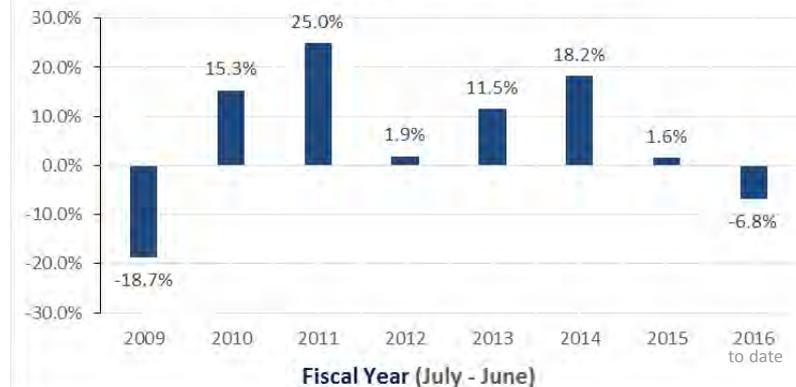
As of September 30, 2015

Program	Assets		Annualized Return %			Annualized Alpha %			Tracking Error %			Information Ratio		
	NAV (\$m)	% of Trust	1-Year	3-Year	Since Incept.	1-Year	3-Year	Since Incept.	1-Year	3-Year	Since Incept.	1-Year	3-Year	Since Incept.
BlackRock	1,522	1.2%	-2.5	6.3	5.7	1.6	1.7	1.0	1.5	2.0	2.0	1.1	0.9	0.5
JP Morgan	1,612	1.3%	-2.4	7.0	6.4	1.7	2.4	1.7	2.2	1.9	2.3	0.7	1.3	0.7
Morgan Stanley	1,502	1.2%	-7.4	5.8	5.5	-3.3	1.1	0.8	2.0	2.6	2.0	-1.7	0.4	0.4
Neuberger Berman	1,479	1.2%	-6.0	3.8	5.1	-2.0	-0.8	0.5	2.5	1.8	2.2	-0.8	-0.4	0.2
<b>Total Public SPN</b>	<b>6,115</b>	<b>4.9%</b>	<b>-4.6</b>	<b>5.7</b>	<b>5.7</b>	<b>-0.5</b>	<b>1.1</b>	<b>1.0</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>-0.3</b>	<b>0.8</b>	<b>0.7</b>

Net Alpha By Public Markets SPN



Net Return By Public Markets SPN



Source: State Street and TRS Investment Operations  
 Note: Fiscal year for the Public Markets SPN runs from July to June due to inception of the structure in July 2008

# Public Markets SPN Positioning

Positioning as of September 30, 2015

## Relative Positioning As of 09/30/2015

Partner	Global Equity				Stable Value				Real Return				
	Total	US		Non-US		Total	US Long	Non \$	Cash	Total	Inflation		
		USA	EAFE	EM	Treasury		Sov Debt	Credit			Linked	Com	REITs
BlackRock	0.6%	-2.4%	4.2%	-1.2%	7.7%	-1.8%	2.6%	6.9%	0.0%	0.0%	0.0%	0.0%	
JP Morgan	0.5%	3.3%	3.2%	-5.9%	12.3%	2.9%	-1.6%	11.0%	0.5%	-1.9%	0.0%	0.0%	
Morgan Stanley	13.1%	-3.6%	12.7%	4.0%	-7.1%	4.7%	-11.8%	0.0%	-4.7%	-2.4%	1.2%	0.0%	
Neuberger Berman	3.0%	4.4%	1.7%	-3.2%	18.6%	0.5%	9.6%	8.6%	-1.7%	-1.6%	0.3%	0.0%	
<b>Total (Average)</b>	<b>4.3%</b>	0.4%	5.5%	-1.6%	<b>7.9%</b>	1.6%	-0.3%	6.6%	-1.5%	<b>-1.1%</b>	-1.5%	0.4%	0.0%

## Change in Relative Positioning Since 06/30/2015

BlackRock	-1.5%	-0.8%	-0.5%	-0.3%	2.1%	14.8%	-12.7%	0.0%	0.0%	-0.1%	0.0%	0.0%	
JP Morgan	-5.1%	-1.7%	-3.4%	0.0%	23.4%	17.2%	0.0%	5.6%	0.6%	-2.1%	0.0%	0.0%	
Morgan Stanley	11.9%	1.9%	5.3%	4.7%	-5.7%	11.3%	-8.6%	9.8%	-18.2%	-6.3%	0.1%	0.0%	
Neuberger Berman	-9.5%	1.5%	-5.5%	-5.5%	8.0%	7.7%	-0.3%	1.0%	-0.4%	-0.7%	0.8%	0.0%	
<b>Total (Average)</b>	<b>-1.1%</b>	0.2%	-1.0%	-0.3%	<b>6.9%</b>	12.7%	-5.4%	4.1%	-4.5%	<b>-2.1%</b>	-2.3%	0.2%	0.0%

## Benchmark and Tactical Ranges as of 09/30/2015

Benchmark	Total	US		Non-US		Total	US Long	Non \$	Cash	Total	Inflation		
		USA	EAFE	EM	Treasury		Sov Debt	Credit			Linked	Com	REITs
<b>Neutral</b>	<b>68%</b>	34%	20%	14%	<b>22%</b>	20%	0%	0%	2%	<b>10%</b>	10%	0%	0%
<b>Minimum</b>	<b>49%</b>	15%	9%	3%	<b>-10%</b>	-10%	-5%	-5%	0%	<b>-5%</b>	-5%	-3%	-5%
<b>Maximum</b>	<b>85%</b>	50%	35%	30%	<b>45%</b>	45%	20%	20%	5%	<b>30%</b>	20%	10%	10%

Source: State Street and TRS Investment Operations  
 Note: Relative positioning (common language) includes impacts of embedded leverage;  
 Compliance ranges are applied to actual positioning, not common language.



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# APPENDIX

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# Tab 5

# Teacher Retirement System of Texas



## *Executive Director's Report*

Brian Guthrie  
November 19, 2015





- Legislative Interim Charges.
- TRS Austin American-Statesman Top Workplace.
- 403(b) In the News.
- General Updates.
- February 2016 Meeting.



# Joint Interim Committee To Study TRS Health Benefit Programs

- Committee Members:
  - Representative Dan Flynn, Co-Chair
  - Senator Joan Huffman, Co-Chair
  - Representative Trent Ashby
  - Senator Craig Estes
  - Senator Jane Nelson
  - Representative Justin Rodriguez
  
- Review the TRS health benefit and propose reforms to address the financial soundness of the plans, cost and affordability of plan coverage, and sufficiency of access to physicians and health care providers.
  
- The committee will submit their report to the legislature by January 15, 2017.



## Other Interim Committee Charges Related To TRS Health Benefit Programs

- House Appropriations Committee - Monitor the implementation of HB 2 (Relating to supplemental appropriations) as it pertains to the short-term funding provided to TRS-Care. Evaluate additional methods to address the health care needs of retired teachers in light of the current health insurance market, including the feasibility and costs associated with retired teachers not eligible for Medicare remaining on a school district's health care plan until Medicare eligible.
- House Committee on Public Health - Study the impact of chronic disease in Texas and identify the major regional chronic health challenges. Review the types of health data collected by the state related to chronic disease and how the data is utilized to improve health care. Study state programs targeting chronic disease. Identify public health interventions for chronic disease and preventative healthcare services that improve health outcomes and reduce cost.
- House Committee on Insurance - Review the implementation of HB 2929 (Relating to health benefit plan coverage for brain injury), and examine the costs incurred by the Employees Retirement System, Teacher Retirement System, and any other affected state health plans as a result of the legislation.



# House Committee On Pension Interim Charges

- Study the impact that fluctuations in global financial markets have had on public pension funds. Analyze assumed rates of return on investments, structures among asset classes, long-term and shorter-term investment goals, and make appropriate recommendations to ensure the investment structure of public pension funds are meeting fiduciary responsibilities.
- Examine Texas pension funds' compliance with Governmental Accounting Standards Board (GASB) Financial Reporting Statements 67 and 68, and identify the effect the reporting requirements are having on the state's pension systems.
- Examine the fiscal and policy impacts of structural reforms that would increase state public pension plans' ability to achieve and maintain actuarial soundness. Evaluate the feasibility, costs, and benefits of utilizing one-time funding increases to reduce or eliminate unfunded liabilities.
- Evaluate the investment performance benchmarks utilized by the state's pension funds and the impact portfolio diversification and short- and long-term market assumptions have had on achieving expected investment returns. Analyze the fee structure and investment strategy for various investment classes to ensure the costs are reasonable and competitive versus other large public and private pension trust funds.



# Other Interim Committee Charges Of Note

- House Select Committee on State & Federal Power & Responsibility - Examine the status of Texas statutes prohibiting or restricting investment in foreign nations. Determine whether and to what extent Texas has the authority to continue or renew its own economic sanctions in light of recent and potential future actions by the federal government.
- House Committee on General Investigating & Ethics - Study the contracting practices at major state agencies to determine if additional reforms are needed to maintain public confidence and trust in the expenditure of state funds.
- Senate State Affairs – Monitor changes made to the Employment Retirement System regarding member contributions and proposed reforms to the Teacher Retirement System of Texas.



## TRS Top Workplace

- The Austin American-Statesman publishes the top workplaces – a list of the best places to work in the Greater Austin area.
- TRS has been named to the list for the fourth year in a row.
- TRS is number 5 on the list for large employers (500 or more employees).
- Associated video.



# 403(b) In the News

- **Purpose:**
  - Fee limits set by TRS rule.
  - Companies certify with TRS that products meet TRS fee specifications.
  - Salary-reduction agreements available only for certified companies with registered products.
- **Recent News:**
  - State law prohibits school districts from requiring or coercing its employees to attend a meeting at which 403(b) products are marketed.
  - Recent news article asserts that school district violated this prohibition.
  - 403(b) company involved is not certified by TRS to offer salary reduction agreements.



# General Updates

- London Office – November 3-4, 2015.
  - Open for business.
  - Public and Private Markets Summit.
  
- Executive Council Strategic Planning Retreat – November 2, 2015.
  - Preparing the Strategic Plan for 2017-2021.
  - Updated plan will be finalized by Summer 2016.
  - Reviewed “Success” measures from all areas.
  
- NASRA Executive Committee Meeting – November 12-14, 2015.
- Panelist for Council of State Governments – December 10, 2015.
- NCTR Executive Committee Meeting – December 12-13, 2015.

- February 24-26, Region 10 Service Center Richardson, TX.
- Presentation topics (thus far):
  - Departmental overviews;
  - Review of stock markets;
  - IEX Presentation;
  - Emerging Manager Review;
  - Environmental, social, and governance investing;
  - Review of state ethics laws;
  - Strategic Plan update;
  - Overview of employer audits; and
  - Required training.
- Theme under development.



# TRS Superhero Art Contest

- Contest for K-5 across Texas. Student submissions show their teacher as superheroes.
- 3,500+ submissions; voting via Facebook.
- Top 11 will appear in this year's CAFR.
- Review the winning entries
- Introduce this year's winner!

**Tab 8 A**

## MEMORANDUM

**Date:** November 19, 2015

**To:** TRS Benefits Committee  
TRS Board of Trustees

**Thru:** Brian Guthrie

**From:** Katrina Daniel, Chief Health Care Officer

**Subject:** TRS-Care Retirees Advisory Committee Nominations and Recommendations

Please consider the attached list of applicants and nominees to the TRS-Care Retirees Advisory Committee (RAC). The Benefits Committee is scheduled to evaluate and discuss these candidates in order to recommend nominees to the Board of Trustees. Subchapter I of Chapter 1575 of the Insurance Code establishes a nine-member RAC appointed by the Board of Trustees. The law specifies that the RAC will be made up of:

- One member who is an active school administrator;
- One member who is a retired school administrator;
- Two members who are active teachers;
- Three members who are retired teachers;
- One member who is an active member of the auxiliary personnel of a school district; and
- One member who is a retired member of the auxiliary personnel of a school district.

The duties of the committee as outlined in Subchapter I of Chapter 1575 are to:

- Hold public hearings on group coverage;
- Recommend to the trustee minimum standards and features of a plan under the group program that the committee considers appropriate; and
- Recommend to the trustee desirable changes in rules and legislation affecting the group program.

The statute also states that the members of the committee shall serve staggered terms of four-year terms. Attached is a list of all current RAC members in addition to a summary of all applications/nominations for your review.

Effective January 31, 2016, four terms will expire on the Retirees Advisory Committee, which include the following:

- Active teacher,
- Active member of the auxiliary personnel of a school district (which includes bus drivers, cafeteria workers, custodians, and administrative staff),
- Retired teacher, and
- Retired school administrator.

In addition, three additional positions have terms expiring on January 31, 2018 and are currently vacant:

- Active teacher,
- Active school administrator, and
- Retired member of the auxiliary personnel of a school district (which includes bus drivers, cafeteria worker, custodians, and administrative staff).

TRS received twenty-four nominations to the RAC, and staff evaluated the applicants based on the following criteria:

- Length of experience as a TRS member and/or retiree
- Participation in education-related volunteer programs
- Professional activities and experience serving on committees, boards, or decision-making organizations, especially related to healthcare benefits or other benefits
- Credentials, awards, or other meritorious recognition
- For retired nominees - participation in the TRS-Care program
- Geographic diversity
- Experience in the field of healthcare benefits or a related field

While the full list of applicants is attached for your consideration, in an effort to assist the committee, staff has endeavored to narrow the applicants to two in each category based on the criteria listed above.

**Active Teacher (two positions to be filled):**

**Dr. Celeste Cardenas** who is a TRS-ActiveCare participant with a Doctorate in Philosophy affiliated with six education associations

**Robert DeGarimore** who is a licensed insurance agent with a Master of Arts in Teaching currently preparing high school students for college-level courses

**Rebecca McKee** who is a TRS-ActiveCare participant currently pursuing her PhD in English and a current published librarian affiliated with five education associations

**Retired Teacher:**

**Marcy Cann** who is a TRS-Care participant nominated by TRTA and a current district president of that association in Houston

**Lamar Lewis**, a TRS-Care participant and licensed insurance agent who is the current regional chairman of PTA in Temple

**Retired School Administrator:**

**Dr. H. John Fuller** who is a TRS-Care participant with a Doctorate in Education Administration nominated by TASA with 41 years education in eight diversely located ISDs

**Dr. Michele Harmon** who is a TRS-Care participant with a Doctorate in Education affiliated with six education association, including TRTA, by whom she was nominated

**Active School Administrator:**

**Dr. Bruce Gearing** who is a TRS-ActiveCare participant with a Doctorate of Education Administration with Honors, currently serving as superintendent of Dripping Springs ISD and was nominated by TRTA

**Scot Clayton** who is a TRS-ActiveCare participant with a Master of Education, currently serving as the superintendent of Henrietta ISD and nominated by TEPSA. He is on the Board of this association

**Retired Auxiliary Personnel (one eligible applicant):**

**Jesus Soto** who is a TRS-Care participant nominated by TRTA with a Master of Education Administration, and retired as Director of Student Transportation for Harlandale ISD

**Active Auxiliary Personnel:** No nominees to recommend.

TRS staff would be happy to assist you with further analysis of the candidates. Thank you for your consideration in this matter.

Enclosures

cc: Brian Guthrie  
Ken Welch

2016 Retiree Advisory Committee Candidate Nomination Summary

TRS Retiree Advisory Committee members  
Names/term dates only\*

**Bill Barnes**  
Retired Teacher

**Term expires: 01/31/2018**

**Marcia McNeil**  
Retired Teacher

**Term expires: 01/31/2018**

**Glenna Purcell**  
Retired Teacher

**Term expires: 01/31/2016**

**Position currently vacant**  
Active Teacher

**Term expires: 01/31/2018**

**Sunday McAdams**  
Active Teacher

**Term expires: 01/31/2016**

**Position currently vacant**  
Active School Administrator

**Term expires: 01/31/2018**

**Donnie Breedlove Ed.D.**  
Retired School Administrator

**Term expires: 01/31/2016**

**Position currently vacant**  
Active Auxiliary Staff

**Term expires: 01/31/2016**

**Position currently vacant**  
Retired Auxiliary Staff

**Term expires: 01/31/2018**

\*Chair and vice-chair seats are currently vacant

**Tab 8 B**

## MEMORANDUM

To: TRS Benefits Committee  
TRS Board of Trustees

Thru: Brian Guthrie

From: Katrina Daniel, Chief Health Care Officer

Date: November 19, 2015

Re: Group Long-Term Care Insurance Program / Benefit Administrative Services / Contract  
Renewal with Genworth Life Insurance Company

---

On December 12, 2008, the Board of Trustees (the "Board") authorized TRS, in its capacity as trustee of the Group Long-Term Care Insurance Program (the "Program"), to enter into a six-year contract (the "Contract") with Genworth Life Insurance Company ("Genworth"), from September 1, 2009 through August 31, 2015. The 2008 resolution submitted to and adopted by the Board should have allowed for extensions of the Contract beyond the above-noted six-year term due to the fact TRS was entering into a fully insured insurance policy that did not have an expiration date. The Contract itself was drafted to include an evergreen clause that, absent an earlier termination<sup>1</sup>, allows the Contract to automatically renew for successive one (1) year terms. This conflict between the 2008 resolution and the use of an evergreen clause was only recently noticed by TRS Staff. Consequently, TRS entered into the seventh (7<sup>th</sup>) year of the Contract on September 1, 2015.

During the past decade, the number of vendors offering products and services in the long-term care market has diminished substantially. Fortunately, Genworth has remained in the long-term care market, providing long-term care benefits and administrative services to eligible TRS participants and their family members enrolled in the Program.

In light of the 2008 resolution adopted by the Board, TRS Staff hereby seeks ratification from the Board of a one year contract extension through August 31, 2016.

Additionally, staff request authorization to work with Genworth to implement a new product plan design that will only be available to new enrollees in the Program. TRS anticipates that the new product plan design will be introduced in the first part of calendar year 2016. The new product plan design will contain a number of new benefit options, including the following:

- Monthly maximum options will include \$3,000, \$4,500, and \$6,000. A \$7,500 monthly maximum will not be available.

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<sup>1</sup> The Contract can be terminated by TRS at any time, without cause, upon thirty (30) days prior written notice to Genworth.

- Benefit duration options will include 2-year, 3-year, and 4-year benefit periods. Benefit duration options of 5 years and 10 years will no longer be available.
- Underwriting for new active employees, age 65 or under, will be subject to Modified Guaranteed Issue, versus the current Guarantee Issue.
- Up to age 75, all other eligible individuals (*i.e.*, active employees age 66 or above, retirees, and dependents) will be required to undergo full underwriting. Retirees under the age of 60 will no longer be offered reduced underwriting.
- Premium payment options will only include monthly EFT or direct billing on a quarterly, semi-annual or annual basis.

Benefits for individuals that are currently enrolled in the Program will remain the same.

Under the TRS Board Procurement Policy, the Board may authorize renewals or extensions of contracts that are nearing their scheduled expiration dates, without requiring a new acquisition process, if the Board first determines that the renewal or extension continues to provide the best overall value to TRS and serves the best interests of TRS.

Staff believes that the requested one-year extension of the Contract provides the best overall value to TRS and serves the best interests of TRS. An extension of one year allows:

- TRS time to evaluate the viability and benefit value of continuing to provide long-term care benefits through TRS; and
- TRS to seek external expertise to assist TRS with considering a new RFP to provide long-term care benefit services to eligible TRS members, retirees and family members.

Staff will return to the Board in the first half of 2016 with a recommendation regarding future plans for the Program.

Staff is eager to respond to any questions or requests concerning this matter from members of the Benefits Committee and the Board.



## Teacher Retirement System of Texas

### **RESOLUTION APPROVING THE EXTENSION OF THE CONTRACT WITH GENWORTH LIFE INSURANCE COMPANY**

November 19 - 20, 2015

**Whereas**, Chapter 1576 of the Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to establish a group long-term care insurance program (the "Program") to provide long-term care insurance coverage for eligible active employees and retirees, and their eligible family members;

**Whereas**, Chapter 1576, Insurance Code, also provides that TRS may contract with a carrier authorized to provide long-term care insurance;

**Whereas**, TRS currently has a contract (the "Contract") with Genworth Life Insurance Company ("Genworth"), a carrier authorized to provide long-term care insurance, to underwrite the Program and, thereby, to offer benefits to participants in this Program;

**Whereas**, TRS staff recommends that the Contract be extended for an additional one (1) year period, effective from September 1, 2015 through August 31, 2016, with changes to the Contract that include, but are not limited to, the terms presented to the TRS Board of Trustees ("Board");

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

**Resolved**, That the Board, pursuant to Chapter 1576 of the Insurance Code, hereby authorizes a one-year extension of the Contract with Genworth, with changes to the Contract that include, but are not limited to, the terms presented to the Board, beginning on September 1, 2015 through August 31, 2016, unless sooner terminated, subject to negotiation and execution of an extension agreement;

**Resolved**, That the Board finds that the requested one-year extension of the Contract continues to provide the best overall value to TRS and serves the best interests of TRS; and

**Resolved**, That the Board hereby authorizes the Executive Director or his designees to negotiate, with the assistance and advice of legal counsel, a one (1) year extension, effective from September 1, 2015 through August 31, 2016, of the Contract with Genworth to underwrite the Program and, thereby, to offer benefits to participants in the Program; 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 one (1) year extension of the Contract with Genworth 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 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 9 B**



Legal Services

## Memorandum

**DATE:** November 19, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Carolina de Onis, General Counsel  
Heather Traeger, Chief Compliance Officer

**COPY:** Board of Trustees  
Steven Huff, Fiduciary Counsel

**RE:** **Proposed Changes to the TRS Key Employee Determinations Resolution**

---

Pursuant to the Policy Review Schedule, the comprehensive review of the resolution for TRS Key Employee Determinations (Key Employee) is due.

*A “Key Employee” is an employee who has been determined by the Board as one who exercises significant decision-making or fiduciary authority by virtue of the position he or she holds with TRS. A Key Employee is subject to special requirements under the Employee Ethics Policy and TRS Trading Policy for Employees and Certain Contractors.*

Attached please find a red-lined version of proposed changes to the Key Employee resolution (Exhibit A) and a clean copy of the resolution with proposed revisions (Exhibit B). The proposed revisions memorialize authorized practices with respect to Key Employee determinations and clarify the interaction between the General Authority Resolution and the Key Employee resolution. The proposed changes do not add, remove or alter existing authority under the Key Employee resolution.

Legal Services worked with fiduciary counsel in preparing the proposed revisions to the Trustee Ethics Policy. Internal Audit was provided drafts of the revisions and the opportunity to comment upon them.

Staff asks the Committee to recommend to the Board that it adopt the proposed revisions to the Key Employee resolution as presented by Staff.



**November 19, 2015**~~May 1, 2015~~

**Teacher Retirement System of Texas**

**Board of Trustees**

**Resolution Adopting Revised TRS Key Employee Determinations**

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

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

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

<b>Title</b>
Executive Director
Deputy Director
Chief Investment Officer
Deputy Chief Investment Officer
Chief Benefit Officer
Chief Financial Officer
General Counsel
Chief Audit Executive
Chief Information Officer
Deputy Chief Information Officer
Chief Healthcare Officer
Director of Strategic Initiatives
Director of General Accounting & Budget
Director of Investment Accounting

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

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

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

**Further resolved,** That all employees who hold authority during a reporting period under the Board's General Authority Resolution, ~~either~~ through direct delegation from the Board, by designation of the Executive Director under the General Authority Resolution, or otherwise, are hereby determined to be key employees and subject to all applicable requirements for key employees;

**Further resolved,** That, in addition to the authority granted under the Board's General Authority Resolution, the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations; and

**Further resolved,** That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, are effective for the 2014 reporting year and shall remain effective until modified by the Board.



**November 19, 2015**

**Teacher Retirement System of Texas**

**Board of Trustees**

**Resolution Adopting Revised TRS Key Employee Determinations**

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

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

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

<b>Title</b>
Executive Director
Deputy Director
Chief Investment Officer
Deputy Chief Investment Officer
Chief Benefit Officer
Chief Financial Officer
General Counsel
Chief Audit Executive
Chief Information Officer
Deputy Chief Information Officer
Chief Healthcare Officer
Director of Strategic Initiatives
Director of General Accounting & Budget
Director of Investment Accounting

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

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

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

**Further resolved,** That all employees who hold authority during a reporting period under the Board's General Authority Resolution, through direct delegation from the Board, by designation of the Executive Director under the General Authority Resolution, or otherwise, are hereby determined to be key employees and subject to all applicable requirements for key employees;

**Further resolved,** That, in addition to the authority granted under the Board's General Authority Resolution, the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations; and

**Further resolved,** That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, are effective for the 2014 reporting year and shall remain effective until modified by the Board.

**Tab 9 C**



Legal Services

## Memorandum

**DATE:** November 9, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Rebecca M. Smith, Assistant General Counsel

**COPY:** Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Carolina de Onís, General Counsel

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

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### REQUESTED ACTION

At its September 24, 2015 meeting, the Policy Committee authorized public comment publication of the proposed amendments to 12 rules in Chapter 25, relating to Membership Credit. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board consider their adoption. The proposed amendments that were published addressed the following rules: §25.1, relating to Full-time Service (40 TexReg 7182); §25.4, relating to Substitutes (40 TexReg 7182); §25.6, relating to Part-time or Temporary Employment (40 TexReg 7182); §25.26, relating to Annual Compensation Creditable for Benefit Calculation (40 TexReg 7185); §25.46, relating to Determination of Compensation Subject to Deposit and Credit (40 TexReg 7186); §25.74, relating to Cost (40 TexReg 7187); §25.85, relating to Amount of Out-of-State Service Which Can be Purchased (40 TexReg 7188); §25.121, relating to Employer Verification (40 TexReg 7189); §25.131, relating to Required Service (40 TexReg 7189); §25.133, relating to School Year (40 TexReg 7189); §25.181, relating to Minimum Monthly Payment (40 TexReg 7191); and §25.182, relating to Yearly Increments of Credit (40 TexReg 7191).

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the November meeting.

### BACKGROUND OF THE REQUESTED ACTION

The proposed changes to the rules in Chapter 25 address statutory changes in the plan's terms adopted during the most recent legislative session and issues identified in TEAM while developing requirements for the new system.

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Section 25.1, relating to Full-time Service. The proposed changes to this rule reflect statutory changes adopted in HB 2974 that require membership to be established through employment with a single employer and to clarify how to determine membership eligibility for employment in institutions of higher education (including community and junior colleges) of an instructor of classes that are taken to prepare the student for college level work but the class is not eligible for college credit.

Section 25.4, relating to Substitutes. The proposed changes to this rule clarify that employment as a substitute is not eligible for membership but service credit may be purchased for 90 days of employment as a substitute in a school year and membership in TRS established by purchasing the service credit. The proposed changes also correct the reference to the former requirement that the member make the contributions on compensation received as a substitute in order to purchase the service credit and reflect the current requirement that the cost to establish the service credit is the actuarial cost.

Section 25.6, relating to Part-time or Temporary Employment. The proposed changes to this rule reflect statutory changes adopted in HB 2974 that require membership to be established through employment with a single employer and clarify that once membership is established through one employer, any other employment is also eligible employment.

Section 25.26, relating to Annual Compensation Creditable for Benefit Calculation. The proposed changes address the authority provided to the Board in HB 2974 to establish the 12 month period used in determining a member's annual compensation. The proposed changes address the issues raised to the Board in public comment regarding the reduced compensation used by TRS in determining the compensation in the final year of retirement due to the standard school year (September 1- August 31). The proposed changes maintain the standard school year but provide an alternate method for determining the annual compensation in the year of retirement. The proposed changes also clarify the amount of salary TRS will attribute to the 2014-2015 school year if a member loses a month of compensation due to the recent rule change that required employers to report compensation in the month that the compensation is paid rather than the month in which the compensation is earned.

Section 25.46, relating to Determination of Compensation Subject to Deposit and Credit. The proposed changes clarify that corrections to compensation due to an underpayment by the employer in the prior school year(s) will be credited by TRS in the school year in which the corrective payment is made and member contributions must be made in a lump sum based on the current contribution rate.

Section 25.74, relating to Cost. The proposed changes address issues identified in TEAM while developing requirements for the new system regarding the lack of authority of TRS to charge installment fees for the purchase of USERRA service credit and the required programming for the new system to charge installment fees for the purchase of other types of service credit but not for the purchase of USERRA service credit.

Section 25.85, relating to Amount of Out-of-State Service Which Can be Purchased. The proposed changes reflect statutory changes adopted in HB 2974 that clarify the amount of out-of-state service credit that may be purchased is limited to 5 years if the member is eligible to receive a benefit from another retirement system for the same service.

Section 25.121, relating to Employer Verification. The proposed change addresses a change identified in TEAM while developing requirements for the new system that will allow a reporting entity to make certain verifications and certifications electronically via the TRS Reporting Entity Portal rather than on a paper form.

Section 25.131, relating to Required Service. The proposed changes address issues identified in TEAM while developing requirements for the new system regarding the alternate method of establishing service

credit for members who are regularly scheduled to work fewer than 5 days per week. Members who are regularly scheduled to work fewer than 5 days per week may earn service credit by working 4 ½ months rather than 90 days. The four and one-half month period must include four full calendar months in which the member works or receives paid leave for at least 8 days and an additional 5 days of service rendered in another month or months.

Section 25.133, relating to School Year. The proposed changes to this rule reference the changes in §25.26 regarding how TRS will determine annual compensation in the school year in which the member retires.

Section 25.181, relating to Minimum Monthly Payment. The proposed changes address issues identified in TEAM while developing requirements for the new system regarding the lack of authority of TRS to charge installment fees for the purchase of USERRA service credit and the required programming for the new system to charge installment fees for the purchase of other types of service credit but not for the purchase of USERRA service credit.

Section 25.182, relating to Yearly Increments of Credit. The proposed changes address issues identified in TEAM while developing requirements for the new system regarding the lack of authority of TRS to charge installment fees for the purchase of USERRA service credit and the required programming for the new system to charge installment fees for the purchase of other types of service credit but not for the purchase of USERRA service credit.

## **RECOMMENDATION**

Staff recommends adoption of the proposed amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

(a) Employment of a person by a single 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 with a single employer 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 than one full semester or continues for more than one full semester in the same school year. 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) as an instructor of classes taken by students for college credit or classes that are taken to prepare students for college level work, that ~~are~~ 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. Employment as an instructor of an on-line class taken by students for college credit that is 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 counted as a minimum of two clock hours for each course hour or semester hour. Employment as an instructor of continuing education, adult education, and/or classes offered to employers or businesses for employee training, that is not measured or expressed in terms of the number of courses; semester or course hours/credits; or instructional units or other units of time rather than clock hours and for which the students/participants do not receive college credit must be considered for membership based on the number of clock hours worked.

(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. Effective with the beginning of the 2015-2016 school year, the minimum number of hours per week that will qualify an adjunct faculty position as eligible for membership in TRS must be served with a single employer or must meet the requirements of §25.6 of this title (relating to Part-time or Temporary Employment). 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 in a class taken by students for college credit or taken to prepare students for college level work. If a person combines work as an adjunct faculty instructor and any other type of employment, the minimum number of hours worked per week that will qualify the person for membership is 20.

(k) A person employed by an open enrollment charter school authorized under Subchapter D, Chapter 12, Education Code, or the open enrollment charter holder is eligible for membership in TRS if the person is performing services on behalf of the Texas open enrollment charter school and the employment otherwise meets the requirements of this section. A person employed by a management company or other entity retained by the charter school or charter holder to provide management or other services on behalf of the open enrollment charter school is not eligible for membership in TRS.

(l) A person employed by a Texas public school district and performing services on behalf of a campus or program charter school authorized under Subchapter C, Chapter 12, Education Code, is eligible for membership in TRS if the employment otherwise meets the requirements of this section. An employee of an open enrollment charter holder that is contracted to provide services to a campus or program charter school is eligible for membership in TRS if the person is performing services on behalf of the campus or program charter school and the employment otherwise meets the requirements of this section. An employee of a management company or other entity retained to provide management or other services on behalf of the campus or program charter school is not eligible for membership in TRS.

(m) Beginning on September 1, 2015, if an employee is employed in two or more part-time positions with a single employer, the minimum number of hours the employee must work in all positions in order to establish eligibility for membership in TRS must equal or exceed one-half

of the hours required for the full-time equivalent position requiring the greater number of hours per week.

RULE §25.4      Substitutes

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- (a) Persons who serve as substitutes in positions otherwise eligible for membership may qualify for membership provided that they serve for at least 90 days in one school year and purchase the service credit.
- (b) For purposes of this title, a substitute is a person who serves on a temporary basis in the place of a current employee. A substitute may be paid no more than the daily rate of pay set by the employer.
- (c) Membership may be established and credit received by verifying the number of days worked as a substitute and salary earned and paying the actuarial cost making the required deposits under §25.43 of this title (relating to Cost Fee on Deposits for Unreported Service or Compensation). Verification must be made in on a form prescribed by the retirement system.
- (d) In no event shall verification of substitute service be accepted after a member has retired from the system and his or her first monthly annuity payment has been issued or after the effective date of a member's participation in the Deferred Retirement Option Plan (DROP).
- (e) Required actuarial costsdeposits and fees must be paid before any benefits based on the verified substitute service are paid by TRS on behalf of the member or before the verified service is used to determine eligibility for benefits. Members claiming credit for such service will be assessed a fee for delinquent deposits, if applicable, as provided in §25.43 of this title.
- (f) Payment for substitute service required in subsection (e) of this section will be accepted and credit granted only as permissible under the Internal Revenue Code.
- (g) Substitute service purchased as provided in this section shall be included in the school year in which it was rendered in counting the amount of service provided in order to receive a year of service credit under §25.131 of this title (relating to Required Service).

- (a) Part-time (employment that is less than one-half the standard work load), irregular, seasonal, or temporary employment (employment for a definite period of less than four and 1/2 months or, for employment with an institution of higher education, the employment is for no more than one semester in a school year) is eligible only if such employment, when combined with other employment in Texas public educational institutions during the same school year, qualifies as service eligible for membership or if such other employment in itself qualifies as service eligible for membership.
- (b) Beginning with the 2015-2016 school year, part-time (employment that is less than one-half the standard work load), irregular, seasonal, or temporary employment (employment for a definite period of less than four and 1/2 months or, for employment with an institution of higher education, the employment is for no more than one semester in a school year) is eligible only if combined with other employment with the same employer so that the combined employment qualifies as service eligible for membership, or if other employment with the same or another TRS-covered employer in itself qualifies as service eligible for membership.

(a) Except as provided in subsections (b), (g) and (h) of this section, for the purpose of computing the amount of a retirement benefit or a death benefit under §824.402, Government Code, annual compensation means creditable compensation for service paid to a member of the retirement system during a 12-month period beginning September 1 and ending August 31 of the next calendar year for service rendered during no more than a 12-month period. ~~For the school year in which the member retires and except as provided in §25.24(e) of this title (relating to Performance Pay), creditable annual compensation earned by the date of retirement but not yet paid at the date of retirement shall be included in the annual compensation for that year. If due to an error of the employer, compensation earned by the retiree in the final school year before retirement is not paid and/or not reported before the first annuity payment is issued, upon notice to TRS and the submission of all required corrected reports and member and employer contributions on the compensation, TRS shall adjust its records. If the additional compensation results in increased benefits payable on behalf of the retiree, the adjusted benefit shall be paid beginning in the month TRS receives the additional contributions and the corrected reports. In no event may an error be corrected under this subsection after the end of the school year following the school year in which the member retired.~~

(b) For the purpose of computing the amount of a retirement benefit or a death benefit under §824.402, Government Code, for retirements or deaths before April 1, 2015, annual compensation paid prior to September 1, 2012 is the greater of:

(1) the amount of creditable compensation for service paid to a member of the retirement system during a 12-month school year as defined in §25.133(a) of this title (relating to School Year); or

(2) the amount of creditable compensation paid to the member during a 12-month period beginning September 1 and ending August 31 of the next calendar year.

(c) Unless otherwise provided by law or this chapter, a member shall receive credit only for annual compensation actually received.

(d) Compensation from which deductions for an Optional Retirement Program annuity were made shall not be included in annual compensation for benefit calculation purposes.

(e) If as a result of the requirement in §25.28(c) of this title (relating to Payroll Report Dates) to report compensation in the month that it is paid rather than the month it is earned a member has only 11 months of salary credited by TRS in the 2014-2015 school year and that year of compensation would have been one of the years of compensation used in calculating the member's highest average salary for benefit calculation purposes, TRS will attribute an additional month of salary in the 2014-2015 school year for purposes of benefit calculation. The amount that TRS will attribute for the additional month of salary is the amount of compensation that would have been reported for the missing month if the requirement in §25.28(c) of this title to report compensation in the month that it is paid was not in place and instead the employer reported the compensation earned in the missing month.

(f) For the purpose of computing the amount of retirement benefit or a death benefit under §824.402, Government Code, for retirements or deaths after March 31, 2015, annual compensation shall be calculated as follows:

(1) for the 2013-2014 school year and thereafter, annual compensation is the amount of creditable compensation for service paid to a member of the retirement system during a 12-month period beginning September 1 and ending August 31 of the next calendar year;

(2) for the 2012-2013 school year, annual compensation is the greater of:

(A) the amount of creditable compensation for service paid to a member of the retirement system during the 12-month school year as defined in §25.133(a) of this title (relating to School Year); or

(B) the amount of creditable compensation paid to the member during a 12-month period beginning September 1, 2012 and ending August 31, 2013.

(3) for school years prior to the 2012-2013 school year annual compensation shall be the amount of creditable compensation for service paid to a member of the retirement system during the 12-month school year as defined in §25.133(a) of this title (relating to School Year).

(g) Effective with the 2015-2016 school year, annual compensation for the school year in which the member retires is the highest total of compensation received during a 12 consecutive month period that occurs during a 14 consecutive month period provided:

(1) the member completes the full contract period for the final year;

(2) the 14 consecutive month period includes the months of September through August of the school year in which the member retires;

(3) the 14 consecutive month period does not include months prior to the month in which the member's contract for the final year began;

(4) the annual compensation under this subsection does not include compensation earned after retirement, except that as provided in §25.24(e) of this title (relating to Performance Pay), creditable annual compensation earned by the date of retirement but not yet paid at the date of retirement is included in the annual compensation for that year;

(5) the annual compensation under this subsection does not include performance pay credited by TRS as annual compensation in a prior school year;

(6) the annual compensation for the school year in which the member retires is subject to all applicable Internal Revenue Code limits for that school year;

(7) the member does not receive credit for more than 12 months of compensation in the annual compensation for the final school year; and

(8) the member's compensation in the final year before retirement is not paid out in fewer than 12 months.

(h) If due to an error of the employer, compensation earned by the retiree in the final school year before retirement is not paid and/or not reported before the first annuity payment is issued, upon notice to TRS and the submission of all required corrected reports and member and employer contributions on the compensation, TRS shall adjust its records. If the additional compensation results in increased benefits payable on behalf of the retiree, the adjusted benefit shall be paid beginning in the month TRS receives the additional contributions and the corrected reports. In no event may an error be corrected under this subsection after the end of the school year following the school year in which the member retired.

- (a) The amount of deposits due for unreported service rendered or compensation paid in the current school year or for unreported service rendered or compensation paid in the immediately preceding school year and corrected as provided in §25.28(g) of this title (relating to Payroll Report Dates) will be calculated at the member contribution rate in effect for the year in which the service was rendered or compensation was paid but for which no deposits or insufficient deposits were made. Contributions will be based on creditable compensation as determined under the laws and rules applicable at the time of the service.
- ~~(a)~~(b) Beginning with the 2015-2016 school year, compensation paid to a member by an employer to correct an error of underpayment occurring in a prior school year or school years will be credited by TRS in the school year in which the compensation is paid. The amount of contributions owed on creditable compensation is determined under the laws and rules applicable at the time of the corrective payment and must be paid in a lump sum pursuant to Government Code, §825.409 from any compensation due to the employee.

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(a) To obtain service credit for active military duty under the Uniformed Services Employment and Re-Employment Rights Act (USERRA) and §25.71 of this title (relating to Service Credit for Eligible Active Duty under the Uniformed Services Employment and Re-Employment Rights Act), the member must deposit with the retirement system for each school year of service claimed an amount equal to member contributions based on the following:

(1) the percentage of the applicable full annual compensation rate equal to that in effect for deductions from member salaries for the school year in which the military duty was rendered; and

(2) the full annual compensation rate for each school year of membership service in which the member was on active military duty eligible under the USERRA and §25.71 of this title. Membership service does not include service as a substitute. For purposes of determining the full annual compensation rate under this section, the Teacher Retirement System (TRS) will use the amount of wages and salary the member would have received had he continued to be employed in his former TRS covered position from which he left for active military duty. The member must submit a certification by the employer whose employ he left to enter into active military duty of the wages and salary he would have received had he remained in the TRS covered position.

(b) To obtain credit for member compensation for active military duty under the USERRA and §25.71 of this title, the member must deposit with the retirement system for each school year of salary credit claimed an amount equal to member contributions based on the following:

(1) the percentage of the applicable full annual compensation rate equal to that in effect for deductions from member salaries for the school year in which the military duty was rendered; and

(2) the full annual compensation rate for each school year of membership service in which the member was on active military duty eligible under the USERRA and §25.71 of this title. Membership service does not include service as a substitute. For purposes of determining the full annual compensation rate under this section, TRS will use the amount of wages and salary the member would have received had he continued to be employed in his former TRS covered position from which he left for active military duty. The member must submit a certification by the employer whose employ he left to enter into active military duty of the wages and salary he would have received had he remained in the TRS covered position.

(c) Credit for member compensation may be established for any school year of active military duty eligible under the USERRA and §25.71 of this title, even if service credit has already been granted for the school year for service in the public schools of Texas.

(d) Establishment of compensation credit does not entitle a member to service credit for a school year unless no service credit has been granted for the school year through sufficient service in the public schools of Texas.

(e) A member is first eligible to establish credit under §25.71 of this title on the date of application for reemployment in a TRS covered position or on November 12, 1991, whichever is later.

(f) Service credit purchased under this section shall be purchased in the order in which the service was rendered, with the earliest years of military service being purchased first.

(g) The amount required to establish service credit under subsection (a) of this section and the amount required to establish compensation credit under subsection (b) of this section must be submitted in a lump sum equal to the cost to purchase at least one year of service or compensation credit and may not be submitted using the installment method of payment.

(a) Credit is limited to one year of out-of-state service for each year in Texas.

(b) No out-of-state service can be used to compute any benefit for any person with less than 5 years service in Texas.

(c) Not more than 15 years out-of-state service can be purchased in accordance with Government Code, §823.401, provided that if any of the years of out-of-state service is considered nonqualified service, no more than five years of nonqualified service credit can be purchased. For purposes of this section, nonqualified service means the member's out-of-state service is currently maintained in another public retirement system from which the member has a right to receive a distribution, including a refund of contributions and any purchase is subject to applicable plan qualification requirements, including applicable plan limitations on member contributions.

(d) Any purchase is subject to applicable plan qualification requirements, including applicable plan limitations on member contributions.

RULE §25.121 Employer Verification

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Verification of service or compensation that was not reported to TRS or that was reported but requires further documentation in order to be creditable must be made by the employer ~~on~~ in a form prescribed by TRS. At the request of TRS, employers shall provide copies of any records or information regarding service or compensation, including but not limited to contracts, work agreements, salary schedules or addenda, board minutes, payroll records, employment records, or other materials that will assist TRS in making a determination. TRS may rely upon employer verifications of service or compensation or may conduct an investigation to determine whether verified service or compensation is eligible.

RULE §25.131 Required Service

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

(1) Except as provided in paragraph (3) of this subsection, a member must work in a TRS eligible position and be paid or receive paid leave from a TRS eligible position at least 90 days during the school year to receive a year of service credit.

(2) A substitute as defined in §25.4 of this title (relating to Substitutes) will be qualified for membership and granted a full year of service credit by working 90 or more days as a substitute in a school year, receiving pay for that work, and verifying the work as provided in §25.121 of this title (relating to Employer Verification) and paying ~~deposits and fees~~ the actuarial cost for the work as provided in §25.43 of this title (relating to ~~Cost Fee on Deposits~~ for Unreported Service or Compensation).

(3) In the last school year of service before retirement, a member serving in an eligible position who worked and was paid for that work or received paid leave for less than 90 days in the school year but worked and was paid for that work or received paid leave for a full fall semester in accordance with the employer's calendar will receive a year of service credit. If the employer's calendar does not provide for semesters, a member must work and be paid for work in an eligible position or receive paid leave from an eligible position for at least 90 days in order to receive a year of service credit for the school year before retirement.

(4) Days that the employer is scheduled to be closed for business are not included in the 90 days of work required to receive a year of service credit unless the day(s) are paid holidays by the employer or the employee was charged with paid leave during the closing. Holidays that are not included in the required number of work days for an employee are not counted as paid holidays or days of paid leave.

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

(1) Except as provided in paragraph (2), (3), or (4) of this subsection, a member must serve at least 4 1/2 months in an eligible position during the school year to receive credit for a year of service.

(2) A member who served less than four and one-half months in a school year but served a full semester of more than four calendar months will receive credit for a year of service.

(3) A substitute as defined in §25.4 of this title will be qualified for membership and granted a full year of service credit by rendering 90 or more days of service as a substitute in a school year and verifying the service as provided in §25.121 of this title and paying deposits and fees for the service as provided in §25.43 of this title.

(4) An employee who enters into an employment contract or oral or written work agreement for a period which would qualify the employee for a year of service credit under the other provisions of this section but who actually renders only the amount of service specified in §25.4 of this title will receive credit for a year of service credit.

(c) Beginning on the first day of the 2015-2016 school year and thereafter, in lieu of the requirements in subsection (a) of this section, a member who is serving in a membership eligible position and who is regularly scheduled to work fewer than 5 days per week, may establish a year of service credit by working and receiving pay for that work or using paid leave, for four and one-half months. The four and one-half month period must include four full calendar months in which the member renders service and is paid or the member uses paid leave, for at least 8 days and an additional five days of service rendered and for which the member is paid or paid leave used in

another calendar month or months but not to include ~~that precede and/or follow~~ the four full calendar months.

(d) Except as provided in subsection (a) of this section, for service credit granted in the school year in which the member retires, in no event may a member receive a year of service credit earlier than December 31.

RULE §25.133 School Year

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(a) For the purpose of granting creditable time toward retirement and determining a member's annual compensation, for school years prior to the 2012-2013 school year a "school year" shall be one of the following:

(1) a period extending from the beginning of the school term (but not earlier than August 23) through August 31 of the following calendar year for service rendered prior to the 1970-1971 school year;

(2) a period extending from the beginning of the school term (but not earlier than August 2) through August 31 of the following calendar year for service rendered for the 1970-1971 school year and thereafter; or

(3) a period not to include more than 12 months, extending from the beginning date of a "qualified contract" or an oral or written work agreement year through August 31 of the following calendar year or to the beginning date of a subsequent qualified contract or oral or written work agreement year, whichever is earlier. Use of this "qualified contract year" is optional for school years 1970-1971 through 1974-1975 but shall be mandatory for all persons under a qualified contract after the 1974-1975 school year. Use of a written or oral work agreement that is not a qualified contract is optional for school years 1970-1971 through 1994-1995, but shall be mandatory for all persons employed under a written or oral work agreement after the 1994-1995 school year. A "qualified contract" or "work agreement" is any employment agreement in which service each year under the agreement is to begin on or after July 1 and is to extend past August 31 of the same calendar year. A "qualified contract" further imposes upon the employing school district a legal obligation to employ and compensate the employee for the entire duration of the agreed employment period.

(b) Except as provided in §25.26(g) of this title (relating to Annual Compensation Creditable for Benefit Calculation) regarding determining a member's annual compensation in the year of retirement, for ~~For~~ the purpose of granting creditable time toward retirement and determining a member's annual compensation, beginning with the 2012-2013 school year and thereafter a "school year" shall be a 12 month period beginning September 1 and ending August 31 of the next calendar year.

RULE §25.181 Minimum Monthly Payment

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Installment payments to establish special service credit, except USERRA service credit which may not be purchased using installment payments, including payments by cash, check, or similar methods, payments by bank draft, or payments by payroll deduction shall be no less than \$25 per month.

RULE §25.182      Yearly Increments of Credit

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(a) For out-of-state service credit, military service credit, work experience service credit purchased under Government Code §823.404, USERRA service credit, developmental leave service credit, and unreported service credit, a member may choose to purchase fewer years of service credit than the total years of service credit which the member is eligible to purchase. The years of credit shall be purchased and credited in the order in which they appear on the TRS bill for the purchase.

(b) For military service, ~~and~~ work experience service credit purchased under Government Code §823.404, ~~and USERRA service~~, the member must complete payment for the number of years of credit that the member has chosen to purchase before purchasing additional years of the same kind of service credit by either lump sum payment or by additional installment payments. A member purchasing USERRA service credit must purchase the service credit by paying the cost of the additional year(s) in a lump sum payment and may not purchase the service credit using the installment payment method. Until August 31, 2013, a member purchasing out-of-state service credit, developmental leave service credit, or unreported service credit under an installment purchase agreement may enter into a second installment purchase agreement for the same type of service credit or may pay the lump sum cost of the additional service credit before completing the purchase of the same type of service credit under the initial installment purchase agreement.

(c) A member must purchase all withdrawn service credit and may not choose to purchase this type of service credit in yearly increments. A member will not receive any credit for withdrawn service until the entire balance due and all fees have been paid



## Legal Services

# Memorandum

**DATE:** November 9, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Rebecca M. Smith, Assistant General Counsel

**COPY:** Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Carolina de Onís, General Counsel

**RE:** Proposed Amendments to Chapter 27, relating to Termination of Membership and Refunds

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### REQUESTED ACTION

At its September 24, 2015 meeting, the Policy Committee authorized public comment publication of proposed amendments to one rule in Chapter 27, relating to Termination of Membership and Refunds. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board consider their adoption. The proposed amendments were published at 40 TexReg 7192 and address changes to §27.6, relating to Reinstatement of an Account.

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the November meeting.

### BACKGROUND OF THE REQUESTED ACTION

The proposed changes to the rule in Chapter 27 address an issue identified in TEAM while developing requirements for the new system.

Section 27.6, relating to Reinstatement of an Account. The proposed changes to this rule clarify that service credit terminated by an election to participate in the Optional Retirement Program (ORP) may not be reinstated for the purpose of establishing eligibility for benefits under the Proportionate Retirement Program except by terminating all employment with institutions of higher education and returning to employment with a public school employer as described in §25.172(a).

### RECOMMENDATION

Staff recommends adoption of the proposed amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

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(a) Except as provided in subsection (e) of this section, any ~~Any~~ member who has withdrawn an account resulting in the cancellation of service credit may reinstate this account and receive credit for the canceled service by meeting the following requirements:

(1) resume membership service in the retirement system or establish eligibility under Government Code, Chapter 803 or 805;

(2) redeposit the amount withdrawn for the years during which the membership was terminated;

(3) except as provided by subsections (b) and (c) of this section, pay a reinstatement fee of 8 percent compounded annually in whole year increments from August 31st of the plan year in which the withdrawal occurred to the date of redeposit;

(4) reinstate all withdrawn accounts which resulted in the cancellation of service credit. A withdrawn account representing less than a creditable year of service must be reinstated only when it is necessary to combine the canceled service in the account with all other canceled service or with other eligible membership service or equivalent membership service performed in the same year to constitute a creditable year of service.

(b) A member may establish withdrawn service credit by paying the deposits and fees required in subsection (c) of this section if:

(1) the member otherwise meets all eligibility requirements under §823.501, Government Code, as amended;

(2) all of the service for which credit is sought to be established was rendered before September 1, 2011, and TRS received an application to withdraw the credit on or before August 31, 2011; and

(3) the member makes payment for the withdrawn service credit, or enters into an installment agreement for payment, not later than August 31, 2013.

(c) To reinstate withdrawn service credit under subsection (b) of this section, the member shall redeposit the amount withdrawn for the years during which the membership was terminated and shall pay a reinstatement fee of 6 percent compounded annually in whole year increments from August 31 of the plan year in which the withdrawal occurred to the date of redeposit.

(d) Membership service credit and the accumulated contributions associated with the membership terminated by not qualifying for service credit for five consecutive years as provided in §822.003(a)(4), Government Code, may be restored by TRS when the person returns to TRS covered employment provided the accumulated contributions in the member account have not been withdrawn. If the accumulated contributions have been withdrawn, the member may reinstate the withdrawn account as provided in this section.

(e) A person who terminated membership in TRS by electing participation in the Optional Retirement Program (ORP) may not reinstate the years of terminated service credit in TRS for the purpose of establishing eligibility for retirement benefits under the Proportionate Retirement Program except as provided in §25.172(a) of this title (relating to ORP and TRS).



Legal Services

## Memorandum

**DATE:** November 9, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Rebecca M. Smith, Assistant General Counsel

**COPY:** Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Carolina de Onís, General Counsel

**RE:** Proposed Amendments to Chapter 29, relating to Benefits

---

### REQUESTED ACTION

At its September 24, 2015 meeting, the Policy Committee authorized public comment publication of the proposed amendments to two rules in Chapter 29, relating to Benefits. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board consider their adoption. Specifically, staff proposed amendments to §29.13, relating to Changing Beneficiary for Survivor Benefits which were published at 40 TexReg 7193 and §29.33, relating to Absence from Service which were published at 40 TexReg 7194.

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the November meeting.

### BACKGROUND OF THE REQUESTED ACTION

The proposed changes to the rules in Chapter 29 address statutory changes in the plan's terms adopted during the most recent legislative session and changes needed to comply with the law as clarified by the Supreme Court in the recent *Obergefell v. Hodges* decision.

Section 29.13, relating to Changing Beneficiary for Survivor Benefits. The proposed changes to this rule address an issue identified by staff after the Supreme Court ruling in *Obergefell* regarding same sex marriages. The proposed changes will allow a retiree receiving a standard annuity who was not permitted to designate a same sex spouse as the beneficiary of an optional retirement annuity at retirement because of the Internal Revenue Code restriction on the adjusted minimum age difference between the retiree and the beneficiary or who married a same sex spouse after retirement but before the ruling in *Obergefell*, a two-year window of opportunity to change the standard annuity to an optional annuity and name the spouse as beneficiary. Staff also proposes changing the title of the rule to reflect the opportunity to change retirement plans.

Section 29.33, relating to Absence from Service. The proposed changes to this rule address an issue that may arise as a result of statutory changes adopted in HB 2974 that precludes termination of membership if the member is employed with a TRS-covered employer but in a position that is less than one-half time and for that reason the position is not eligible for membership. The TRS plan terms have not specifically addressed what is meant by absence from service for purposes of establishing eligibility for active member death benefits. The proposed changes clarify what absence from service means regarding the death benefits payable by TRS.

#### **RECOMMENDATION**

Staff recommends adoption of the proposed amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

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(a) A retiree may change the designation of beneficiary for survivor benefits at any time.

(b) A retiree who retired before June 26, 2015 and is receiving a standard service or disability retirement annuity under Government Code, Section 824.203 or 824.304(b), who was not permitted to name a same-sex spouse as the beneficiary of an optional annuity at retirement because of the Internal Revenue Code restriction on adjusted minimum age difference between the retiree and the beneficiary, or who married after retirement but before June 26, 2015 and was not permitted to name the retiree's same-sex spouse as the beneficiary of an optional annuity under Government Code, Section 824.1011, may no later than December 31, 2017 replace the standard annuity under Section 824.1011 and select an optional annuity under Government Code, Section 824.204(c)(1), (c)(2), or (c)(5), or under Government Code, Section 824.308(c)(1), (c)(2), or (c)(5), on a form prescribed by TRS and designate the retiree's spouse as the beneficiary as if the retiree had married after retirement. The selection of the optional annuity and the designation of the beneficiary of the optional annuity do not take effect until the first annuity payment that becomes due two years after the date the selection and designation are received by TRS.

RULE §29.33      Absence from Service

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(a) If a member is absent from service at the time of death and the absence does not meet the description in §824.403 of the Government Code, the beneficiary is eligible to receive only the accumulated deposits of the member. For this purpose, absence from service begins September 1 following the last eligible reported membership service.

(b) Eligibility for receipt of death benefits authorized by Government Code §824.402 shall be determined by TRS staff.

(c) For purposes of this section, absent from service means that the member was not an employee of a TRS-covered employer during the school year in which the member died.



Legal Services

## Memorandum

**DATE:** November 9, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Rebecca M. Smith, Assistant General Counsel

**COPY:** Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Carolina de Onís, General Counsel

**RE:** Proposed Amendments to Chapter 31, relating to Employment After Retirement

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### REQUESTED ACTION

At its September 24, 2015 meeting, the Policy Committee authorized public comment publication of proposed amendments to three rules in Chapter 31, relating to Employment After Retirement. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board consider their adoption. Specifically, staff proposed amendments to §31.14, relating to One-half Time Employment which were published at 40 TexReg 7194; §31.32, relating to Half-time Employment Up to 90 Days which were published at 40 TexReg 7196; and §31.34, relating to Employment Up to Three Months on a One-Time Only Trial Basis which were published at 40 TexReg 7196.

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the November meeting.

### BACKGROUND OF THE REQUESTED ACTION

The proposed changes to the rules in Chapter 31 address issues identified in TEAM while developing requirements for the new system and issues identified by staff administering the employment after retirement program. One issue regards the limits on employment after retirement for service and disability retirees employed as faculty by institutions of higher education. The proposed changes also clarify how the plan's limit on the amount of time a disability retiree may work full-time without forfeiting any monthly annuities is administered by TRS.

Section 31.14, relating to One-half Time Employment. The proposed changes clarify how to determine the number of hours worked by a service retiree employed by an institution of higher education (including community and junior colleges) as an instructor of classes that are taken to prepare the student for college level work but are not taken for college credit as the current rule describes.

Section 31.32, relating to Half-time Employment Up to 90 Days. The proposed changes clarify how to determine the number of hours worked by a disability retiree employed by an institution of higher education (including community and junior colleges) as an instructor of classes that are taken to prepare students for college-level work but are not taken for college credit as the current rule describes.

Section 31.34, relating to Employment Up to Three Months on a One-Time Only Trial Basis. The proposed changes clarify an issue identified in TEAM while developing requirements for the new system regarding the opportunity for a disability retiree to work full-time on a three-month trial basis for each period of disability.

#### **RECOMMENDATION**

Staff recommends adoption of the proposed rule amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

RULE §31.14 One-half Time Employment

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(a) A person who is receiving a service retirement annuity who retired after January 1, 2011 may be employed on as much as a one-half time basis without forfeiting annuity payments for the months of employment. In this section, one-half time basis means the equivalent of four clock hours for each work day in that calendar month. The total number of hours allowed for that month may be worked in any arrangement or schedule.

(b) Employment by a third party entity is considered employment by a Texas public educational institution unless the retiree does not perform duties or provide services on behalf of or for the benefit of the institution or the retiree was first employed by the third party entity before May 24, 2003.

(c) Paid time-off, including sick leave, vacation leave, administrative leave, and compensatory time for overtime worked, is employment for purposes of this section and must be included in determining the total amount of time worked in a calendar month and reported to TRS as employment for the calendar month in which it is taken.

(d) For the purpose of this section, actual course or lab instruction with an institution of higher education (including community and junior colleges) in classes taken by students for college credit or classes that are taken to prepare students for college level work, and that are expressed in terms of number of courses; course or semester hours/credits; instructional units; or other units of time representing class or instructional time shall be 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 established standard will be used to determine the number of courses or labs a retiree may teach under the exception to loss of annuity provided by this section. The equivalent clock hours computed under this subsection may not be greater than the number of work hours authorized in subsection (a) of this section. Employment as an instructor of an on-line class taken by students for college credit that is 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 counted as a minimum of two clock hours for each course or semester hour. Employment as an instructor of continuing education, adult education, and/or classes offered to employers or businesses for employee training, that is not measured or expressed in terms of the number of courses; semester or course hours/credits; or instructional units or other units of time rather than clock hours and for which the students/participants do not receive college credit, must be counted based on the number of clock hours worked.

(e) This exception and the exception for substitute service may be used during the same calendar month without forfeiting the annuity only if the total amount of time that the retiree works in those positions in that month does not exceed the amount of time per month for work on a one-half time basis. Beginning September 1, 2011 and thereafter, the exception for one-half time employment under this section and the exception for substitute service under §31.13 of this title (relating to Substitute Service) may be used during the same calendar month without forfeiting the annuity only if the total number of days that the retiree works in those positions in that month does not exceed one-half the number of days available for that month for work. If the calendar month has an odd number of work days available for work, the retiree is limited to working only the number of whole days available and may not work any amount of additional time in the one-

half day remaining when dividing the total number of work days in the month by 2 without forfeiting the annuity for that month.

(f) A person working under the exception described in this section is not separated from service with all Texas public educational institutions for the purpose of the required 12 full consecutive month break described in §31.15 of this title (relating to Full-time Employment after 12 Consecutive Month Break in Service).

(g) The exception described in this section does not apply for the first month after the person's effective date of retirement (or the first two months if the person's retirement date has been set on May 31 under §29.14 of this title (relating to Eligibility for Retirement at the End of May)).

RULE §31.32 Half-time Employment Up to 90 Days

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(a) Any person receiving a disability retirement annuity may, without affecting payment of the annuity, be employed for a period not to exceed 90 days during any school year by a public educational institution covered by TRS on as much as a one-half time basis. In this section, one-half time basis means the equivalent of four clock hours for each work day in that calendar month. The total number of hours allowed for that month may be worked in any arrangement or schedule; working any part of a day counts as one day towards the 90 day annual limit established in this section. This exception does not apply for the first month after the retiree's effective date of retirement (or the first two months if the person's retirement date has been set on May 31 under §29.14 of this title (relating to Eligibility for Retirement at the End of May)).

(b) Employment by a third party entity is considered employment by a Texas public educational institution unless the retiree does not perform duties or provide services on behalf of or for the benefit of the institution or the retiree was first employed by the third party entity before May 24, 2003.

(c) Total substitute service under §31.33 of this title (relating to Substitute Service Up to 90 Days) and half-time employment may not exceed 90 days during any school year. Substitute service under §31.33 of this title (relating to Substitute Service Up to 90 Days) and half-time employment may be combined in the same calendar month only if the total number of days that the disability retiree works in those positions in that month does not exceed one-half the number of days available that month for work. Working any part of a day as a substitute or half-time counts as working one day. If the calendar month has an odd number of work days available for work, the retiree is limited to working only the number of whole days available and may not work any amount of additional time in the one-half day remaining when dividing the total number of work days in the month by 2 without forfeiting the annuity for that month.

(d) Paid time off, including sick leave, vacation leave, administrative leave, and compensatory time for overtime worked, is employment for purposes of this section and must be included in determining the total amount of time worked in a calendar month and reported to TRS as employment for the calendar month in which it is taken.

(e) For the purpose of this section, actual course instruction in state-supported colleges (including junior colleges), and universities of classes taken by students for college credit or classes that are taken to prepare students for college level work, and that are measured in course or semester hours shall be counted as a minimum of two clock hours per one course or semester hour in order to reflect instructional time as well as preparation and other time typically associated with one course hour of instruction. If the employer has established a greater amount of preparation time for each course or semester hour, the employer's established standard will be used to determine the number of course or semester hours a retiree may teach under the exception to loss of annuity provided by this section. The equivalent clock hours computed under this subsection may not be greater than the number of work hours authorized in subsection (a) of this section. Employment as an instructor of an on-line class taken by students for college credit that is 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 counted as a minimum of two clock hours for each course or semester hour. Employment as an instructor of continuing education, adult education, and/or classes offered to employers or businesses for employee training, that is not measured or expressed in terms of the number of courses; semester or course hours/credits; or instructional units or other units of time rather than clock hours and for which

the students/participants do not receive college credit must be counted based on the number of clock hours worked.

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(a) Any person receiving a disability retirement annuity may, without forfeiting payment of the annuity, be employed on a one-time only trial basis on as much as full time for a period of no more than three consecutive months if the work meets the requirements in subsection (b) of this section and the person complies with the requirements of subsection (c) of this section. Employment by a third party entity is considered employment by a Texas public educational institution unless the retiree does not perform duties or provide services on behalf of or for the benefit of the institution or the retiree was first employed by the third party entity before May 24, 2003.

(b) The work must occur:

(1) in a period, designated by the employee, of no more than three consecutive months; and

(2) in a school year that begins after the retiree's effective date of retirement or no earlier than October 1 if the effective date of retirement is August 31.

(c) TRS must receive written notice of the retiree's election to take advantage of the exception described by this section. The notice must be made on a form prescribed by TRS and filed with TRS prior to the end of the three month trial period.

(d) Working any portion of a month counts as working a full month for purposes of this section.

(e) The three month exception permitted under this section is in addition to the 90 days of work allowed in §31.33 of this chapter (relating to Substitute Service up to 90 Days) or §31.32 of this chapter (relating to Half-time Employment Up to 90 Days) for a disability retiree.

(f) The trial work period may occur in one school year or may occur in more than one school year provided the total amount of time in the trial period does not exceed three months and the months are consecutive.

(g) A disability retiree may elect to work on a one-time only trial basis for as much as full time for a period of no more than three consecutive months for each period of disability retirement subject to the requirements of this section.



Legal Services

## Memorandum

**DATE:** November 9, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Rebecca M. Smith, Assistant General Counsel

**COPY:** Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Carolina de Onís, General Counsel

**RE:** Proposed Amendments to Chapter 43, relating to Contested Cases

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### REQUESTED ACTION

At its September 24, 2015 meeting, the Policy Committee authorized public comment publication of proposed amendments to two rules in Chapter 43, relating to Contested Cases. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board consider their adoption. Specifically, staff proposed amendments to §43.16, relating to Notice of Hearing and Other Action which were published at 40 TexReg 7197 and §43.46, relating to Rehearings which were published at 40 TexReg 7197.

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the November meeting.

### BACKGROUND OF THE REQUESTED ACTION

The proposed changes to the rules in Chapter 43 address statutory changes regarding contested case matters adopted during the most recent legislative session.

Section 43.16, relating to Notice of Hearing and Other Action. The proposed changes to this rule reflect statutory changes adopted in SB 1267 that address changes to notice requirements and the deadlines for providing a more definite and detailed statement of the factual matters at issue in contested case hearings. The statutory changes require TRS to include a short, plain statement of the “factual matters” at issue within 7 days of the date set for the hearing.

Section 43.46, relating to Rehearings. The proposed changes to this rule reflect statutory changes adopted in SB 1267 that address statutory changes to deadlines to submit, respond, and take action on motions for rehearing in contested cases.

**RECOMMENDATION**

Staff recommends adoption of the proposed rule amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

RULE §43.16 Notice of Hearing and Other Action

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(a) Notices of hearing, proposals for decision, and all other rulings, orders, and actions by SOAH, TRS, or an administrative law judge, as applicable, shall be served upon all parties or their attorneys of record in person or at their last known address by mail. Service by mail is complete upon deposit in the mail, properly addressed, with postage prepaid if it is received by TRS within a timely manner under Texas Rule of Civil Procedure 5 and the sender provides adequate proof of the mailing date. Service may also be accomplished by electronic mail or facsimile transmission if all parties agree. In that case, the sender shall retain the original of the document and file it upon request with the administrative law judge or the executive director, as applicable. Upon request, the sender has the burden of proving the date and time of receipt of the document served by facsimile transmission or electronic mail. Electronic mail may not be used with documents produced pursuant to a discovery request. On motion by any party or on its own motion, TRS may serve notice of a hearing on any person whose interest in the subject matter will be directly affected by the final decision in the case.

(b) All initial hearing notices shall include the following:

- (1) a statement of time, place, and nature of the hearing;
- (2) a statement of the legal authority and jurisdiction under which the hearing is to be held;
- (3) a reference to the particular sections of the statutes and rules involved;
- (4) a short, plain statement of the **actual** matters asserted. If TRS or a party is unable to state the matters in detail at the time the notice is served, the initial notice may be limited to a statement of the issues involved. Thereafter, upon written application filed not less than ten days before the date set for hearing, a more definite and detailed statement must be furnished not less than **seven [three]** days prior to the date set for the hearing; and
- (5) a statement that failure to appear at the prehearing conference or any scheduled hearing may result in the following: the facts alleged by TRS may be admitted as true; the relief requested by TRS may be granted; petitioner's appeal may be denied; or petitioner's appeal may be dismissed with prejudice for failure to prosecute the claim; or any or all of the foregoing actions.

(c) After service of the initial notice, any party wishing to raise issues or matters not set forth in the initial notice must do so by filing a motion which sets forth such issues or matters not less than 30 days before the date set for hearing. If the motion is granted, the administrative law judge shall give notice, not less than 20 days before the date of hearing, of the additional issues and matters to be decided in the contested case.

(d) All other notices in a contested case shall set forth only the additional issues and matters to be decided.

RULE §43.46 Rehearings

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(a) A decision of the executive director is the final decision of TRS when, under applicable law or rule, the decision is not subject to appeal to the board and when the circumstances described in Government Code, §2001.144, are met.

(b) A decision by the board of trustees in a contested case is the final decision of TRS when the circumstances described in Government Code, §2001.144, are met.

(c) A party adversely affected by a decision that may be the final decision of TRS may file a motion for rehearing with TRS, not later than the 25th [20th] day after the date on which the ~~[party or party's attorney of record is notified of the]~~ decision or order that is the subject of the motion is signed, unless the time for filing the motion has been extended under Government Code § 2001.142, by an agreement under Government Code § 2001.147, or by written order of the executive director under subsection (g) of this section [may become final under Government Code, §2001.144 A party or attorney of record notified by mail is presumed to have been notified on the third day after the date on which the notice is mailed. Any motion for rehearing shall be directed to the attention of the executive director and served on all parties]. A timely motion for rehearing is a prerequisite to an appeal in a contested case under Government Code, §2001.145, if an appeal is otherwise permitted by law.

(d) A reply to the motion for rehearing must be filed with TRS not later than the 40th [30th] day after the date on which the ~~[party or party's attorney of record is notified of]~~ the decision or order that is the subject of the motion is signed, or not later than the 10th day after the date a motion for rehearing is filed if the time for filing the motion for rehearing has been extended by an agreement under Government Code § 2001.147 or by a written order of the executive director under subsection (g) of this section [that may become final under Government Code, §2001.144].

(e) The board of trustees, or the executive director if the motion for rehearing concerns a decision of the executive director that may not be appealed to the board, shall act on a motion for rehearing not later than the 55th [45th] day after the date on which the ~~[party or party's attorney of record is notified of the]~~ decision or order that is the subject of the motion is signed [may become final]. If the motion is not acted on within the time specified, the motion is overruled by operation of law.

(f) The board of trustees may rule on a motion for rehearing in the manner provided for in Government Code, §2001.146. A subsequent motion for rehearing is not required after the board of trustees rules on a motion for rehearing unless a motion is required under Government Code § 2001.146(h).

(g) The executive director may by written order extend the time for filing a motion or reply or for TRS to take action on a motion for rehearing, in accordance with Government Code, §2001.146.

(h) A motion for rehearing under this section must identify with particularity findings of fact or conclusions of law that are the subject of the complaint and any evidentiary or legal ruling claimed to be erroneous. The motion must also state the legal and factual basis for the claimed error.



Legal Services

## Memorandum

**DATE:** November 9, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Rebecca M. Smith, Assistant General Counsel

**COPY:** Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Carolina de Onís, General Counsel

**RE:** Proposed Amendments to Chapter 47, relating to Qualified Domestic Relations Orders

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### REQUESTED ACTION

At its September 24, 2015 meeting, the Policy Committee authorized public comment publication of the proposed amendments to one rule in Chapter 47, relating to Qualified Domestic Relations Orders. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board considers their adoption. Specifically, staff proposed amendments to §47.6, relating to Determination That An Order Is Not Qualified Is Final which were published at 40 TexReg 7199.

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the November meeting.

### BACKGROUND OF THE REQUESTED ACTION

The proposed changes to the rule in Chapter 47 address statutory changes regarding contested case matters adopted during the most recent legislative session.

Section 47.6, relating to Determination That An Order Is Not Qualified Is Final. The proposed change to this rule reflects statutory changes adopted in SB 1267 and conforms the TRS rule regarding the number of days a petitioner has to file a motion for reconsideration on a determination that a domestic relations order is not a qualified order with the statutory timeline for filing a motion for rehearing on a contested case matter.

### RECOMMENDATION

Staff recommends adoption of the proposed rule amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

A determination by the executive director or the executive director's designee that an order is not a QDRO is a final decision by TRS. No appeal to the board of trustees of TRS is authorized. However, a party adversely affected by a determination of the executive director or the designee must file a motion for reconsideration with the executive director no later than ~~20~~25 days after the date such determination is rendered if the party wishes to contest the determination.



## Legal Services

# Memorandum

**DATE:** November 9, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Rebecca M. Smith, Assistant General Counsel

**COPY:** Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Carolina de Onís, General Counsel

**RE:** Proposed Amendments to Chapter 49, relating to Collection of Delinquent Obligations

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### REQUESTED ACTION

At its September 24, 2015 meeting, the Policy Committee authorized public comment publication of proposed amendments to one rule in Chapter 49, relating to Collection of Delinquent Obligations. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board consider their adoption. The proposed amendments were published at 40 TexReg 7199 and address changes to §49.6, relating to Referrals of Delinquent.

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the November meeting.

### BACKGROUND OF THE REQUESTED ACTION

The proposed changes to the rule in Chapter 49 address rule changes made by the Attorney General regarding the referral of delinquent obligations to the Attorney General for collection action.

Section 49.3, relating to Referrals of Delinquent Obligations to Attorney General for Collection. The proposed changes to this rule reflect changes adopted by the Attorney General regarding the timeline for referring a delinquent obligation to the Attorney General for collection and conform the TRS rule regarding the number of days to refer a matter to the Attorney General with the timeline set by the Attorney General.

### RECOMMENDATION

Staff recommends adoption of the proposed amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

- (a) If a department determines that a delinquent obligation may be collectible or if TRS procedures otherwise require, the department shall refer the obligation to the Legal Services Department for recommendation of whether TRS should refer the obligation to the attorney general for collection.
- (b) The executive director or his designee shall decide whether to refer a matter to the attorney general for collection. This decision and any referral to the attorney general should be made no later than ~~90~~120 days after the determination that an obligation owed to TRS is delinquent.
- (c) Except as noted in this chapter, TRS will not refer for collection delinquent obligations in which the amount to be recovered would be less than the total sum of expense to TRS and the attorney general for travel, employee time, court costs, and other relevant expenses.
- (d) The executive director or his designee may for policy reasons, actuarial reasons, or other good cause refer a delinquent obligation to the attorney general for collection even if the size of the obligation or other considerations generally would cause TRS not to refer the obligation.
- (e) In making a determination of whether to refer a delinquent obligation to the attorney general, the executive director or his designee shall consider:
- (1) expense of further collection procedures;
  - (2) the size of the delinquent obligation;
  - (3) the existence of any security;
  - (4) the possibility of collection or satisfaction of the delinquent obligation through other means;
  - (5) the likelihood of collection; and
  - (6) any other relevant factors established by TRS collections procedures.
- (f) When referring a delinquent obligation to the attorney general, TRS shall provide:
- (1) the obligor's verified address and telephone number;
  - (2) a statement that the obligation is not uncollectible;
  - (3) proof of no more than two demand letters to the obligor at the obligor's verified address; and
  - (4) other relevant information relating to the delinquent obligations and TRS's collection efforts.

**Tab 9 D**



Legal Services

## Memorandum

**DATE:** November 19, 2015

**TO:** Policy Committee of the Board of Trustees

**FROM:** Carolina de Onis, General Counsel  
Heather Traeger, Chief Compliance Officer

**COPY:** Board of Trustees  
Steven Huff, Fiduciary Counsel

**RE:** **Proposed Changes to the Board of Trustees Ethics Policy**

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An unnecessary limitation has been identified in the Board of Trustees Ethics Policy (“Ethics Policy”) with respect to permissible personal holdings by Trustees. In anticipation of onboarding new Trustees and for use by existing Trustees, language is being proposed to permit Trustees to hold securities of TRS contractors in a blind trust or managed account, subject to state law limitations and certain conditions.

Attached please find a red-lined version of proposed changes to the Ethics Policy (Exhibit A), a clean copy of the Ethics Policy with proposed revisions (Exhibit B), and a copy of the proposed TRS certification for managed accounts (Exhibit C).

### BACKGROUND

The Common-Law Conflict of Interest doctrine provides that a contract is void if a Trustee has a direct or indirect personal pecuniary interest in the contract, regardless of whether the Trustee exercised any influence and acted with sincere purpose. The 2013 Omnibus Bill modified the doctrine to eliminate the automatic voiding element and, instead, permits TRS to adopt policies and procedures to cure violations of the Common-Law Conflict of Interest doctrine.

In response to the Omnibus Bill, in December 2013 TRS modified the Ethics Policy to permit a Trustee to retain an ownership interest in a contractor obtained prior to becoming a Trustee or

prior to the entity becoming a TRS contractor. Such ownership is conditioned, however, on the Trustee disclosing the interest and recusing from (1) any discussions and decisions involving contracts, or potential contracts, with contractors in which the Trustee holds an interest and (2) discussions and decisions involving delegations to, or selections of, staff assigned to award or negotiate contracts, or potential contracts, with the contractor.

The proposed revision would allow more flexibility to Trustees by expanding this provision of the Ethics Policy to allow a Trustee to invest in a contractor at any time, provided the investment was made through a blind trust or a managed account consistent with regulatory guidance.

*Proposed language:*

*This provision does not apply to mutual funds, exchange traded funds, and other similar funds, or to blind trusts and managed accounts consistent with regulatory guidance (“managed accounts”). A Trustee who holds in a managed account direct ownership interests in entities that contract with TRS may have to disclose his or her interests in accordance with the procedure set forth in Section 9.*

The proposed revision also would acknowledge and remind Trustees that there may be statutory disclosure and recusal requirements notwithstanding this change to the Ethics Policy that would permit ownership of a contractor. For example, Texas Gov't Code s. 572.058 requires recusal where a Trustee has a personal or private interest in a measure, proposal or decision pending before the Board.

As support for TRS' position in adopting the proposed revision, TRS would rely on regulatory guidance from federal regulators on personal securities holdings and conflicts of interest. TRS would require Trustees relying on this provision, and their account manager, to provide periodic certification that the Trustee has “no direct or indirect influence or control” over the relevant managed accounts. TRS would provide a certification form for Trustees and account managers or accept a letter from the account manager provided it is reasonably similar in substantive content to the TRS form. TRS also would continue its practice of reviewing for conflicts Trustees' annual Personal Financial Statements filed with the Texas Ethics Commission. Finally, TRS would continue its practice of informing Trustees of upcoming Board votes so the Trustees could determine whether there are holdings in the managed account that could result in a conflict had the Trustee made the investment directly, thereby requiring recusal under state statutes.

Legal Services worked closely with fiduciary counsel in preparing the proposed revisions to the Trustee Ethics Policy. Internal Audit was provided drafts of the revisions and the opportunity to comment.

**RECOMMENDATION**

Staff asks the committee to recommend that the board adopt the proposed amendments to the Trustee Ethics Policy, as recommended by staff.

Suggested Motion Language:

"I move that the committee recommend that the board adopt the proposed amendments to the Trustee Ethics Policy, as recommended by staff."

# Teacher Retirement System of Texas

## Board of Trustees

### Ethics Policy

Adopted December 8, 2011; Revised November 19, 2015~~December 12, 2013~~

The Board of Trustees of the Teacher Retirement System of Texas (TRS) has adopted this Ethics Policy so that high ethical standards are followed by the TRS Board of Trustees. This Policy is based upon the duty of loyalty that all Trustees, as fiduciaries, owe to the members and retirees of TRS. This Policy also affirms the Board's commitment to fairness, openness, and transparency in its operations. It is important to the Board that it preserves the confidence of the membership, the employers, government officials, and the general public by avoiding even the appearance of impropriety.

Every Trustee has not only the obligation to follow the provisions of the Texas State Constitution, Texas statutes, and federal law applicable to TRS but also has the obligation to adhere to and promote high ethical principles, including those set forth below.

- Act solely in the best interest of the fund and the TRS members, retirees, and beneficiaries.
- Act with prudence, competence, independence, and objectivity.
- Adhere to laws, rules, regulations, bylaws, and policies adopted by the Board in overseeing investments, pension and healthcare benefits administration, and general operations of TRS.
- Act in a transparent manner in Board and Committee meetings when deliberations of official business take place.
- Maintain confidentiality when required to do so by law or by contract.
- Cooperate fully if questioned about an ethical matter related to TRS.

This Ethics Policy is a guide, not a complete statement of all fiduciary responsibilities; therefore, compliance with this Policy does not necessarily ensure compliance with all legal requirements. The provisions below are to aid Trustees in identifying conflicts of interest, avoiding them, disclosing them in a proper way, and managing them if they cannot be avoided. A "conflict of interest" is where a Trustee has, or reasonably could be perceived to have, an incentive to decide a matter or provide a recommendation for a reason that would be inconsistent with acting solely in the interest of TRS, or that would provide a financial benefit to the Trustee. It also includes a personal or business relationship or interest that could reasonably be expected to diminish the Trustee's independence of judgment in the performance of the Trustee's responsibilities to TRS. The provisions are also meant to assist Trustees in identifying prohibited conduct and circumstances that cannot be managed through disclosure or recusal from voting on issues.

This Policy applies only to the Board, and the TRS staff has a separate ethics policy applicable to them.

#### **1. PERSONAL ADVANTAGE**

Trustees shall not use their position on the Board for financial gain, obtaining privileges, avoiding the consequences of illegal acts, or for obtaining more favorable terms on loans, investments, or TRS benefits that are not available to others. This prohibition applies whether the Trustees seek a personal advantage or gain for themselves or for a third party.

#### **2. GIFTS**

A Trustee shall not solicit or accept any gifts (*e.g.*, objects, services, favors, entertainment, preferential treatment, vacations, or property) from any donor, except as provided below. Such gifts cannot be accepted by Trustees for themselves or for their families or business partners. While this standard may be stricter than what is required by law, the Board has decided it is best practice to place limitations on gifts.

The following are allowed under this Policy as long as the Trustee is not influenced by the gift or does not have knowledge that it was offered with intent to influence the Trustee in the discharge of the Trustee's official duties to TRS:

- Gifts conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Trustee;
- Gifts having a value of less than \$50 (but in no event cash, negotiable instruments, or cash equivalents such as gift cards), including the following examples:
  - Tokens of nominal value that are distributed to all attendees at conferences, seminars, meetings, and receptions;
  - Meals, transportation, lodging, or entertainment, regardless of whether the donor is present;
  - Modest food items and other perishable items given on a holiday or other infrequent occasions;
- Transportation valued at \$50 or more if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception;
- Meals valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception, and the donor is present;
- Lodging valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception.
- Gifts given on special occasions between Trustees or between Trustees and TRS employees;
- Food and entertainment included in the conference or seminar fee;
- Travel expenses paid for by another governmental entity or a non-profit organization related to the public retirement industry, provided there are no prohibitive circumstances as determined after consultation pursuant to Section 11.

To avoid not only improper conduct but also the appearance of impropriety, Trustees should consider whether the circumstances associated with an expense payment or a courtesy by another would draw unfavorable public criticism. If this appears to be the case, Trustees should modify their behavior even if their acceptance of an expense payment, a courtesy, or gift is otherwise allowed.

### **3. USE OF TRS RESOURCES**

Trustees shall not use TRS facilities, equipment, or staff for their personal benefit or for any commercial or political purposes. Trustees may use TRS resources that are reasonably necessary to support them in their role on the Board or that facilitate their attendance at Board meetings, if the use of TRS resources involves only an insignificant cost, does not impede TRS business, and does not create an appearance of impropriety.

### **4. PERSONAL INVESTMENTS**

Trustees shall take care that their personal investments do not create a conflict of interest that impacts their loyalty to TRS and their ability to function as a Trustee. While serving on the TRS Board, Trustees, their spouses, and dependents shall not make personal investments ("co-invest"), directly or indirectly, in private investment funds in which TRS has invested. However, a Trustee, a Trustee's spouse or dependent may continue to hold an investment in a private investment fund if the investment was held prior to TRS' investment or prior to the date the individual became a Trustee. If a Trustee becomes aware that any co-investment, or potential co-investment, exists, the Trustee shall disclose the investment and date of purchase in accordance with the procedure set forth in Section 9. The Trustee shall not receive any non-public or confidential information from TRS related to the co-investment unless the Board provides a waiver as set forth in Section 9. A Trustee shall not make a new personal investment in a private investment fund if TRS has informed the Trustee that TRS is considering investing in the fund.

Trustees, their spouses, and dependents may hold direct ownership interests (e.g., stock or partnership interests) in entities that contract with TRS, provided that the ownership interest arose prior to the

individual becoming a Trustee or prior to the entity becoming a TRS contractor. A Trustee who holds the foregoing preexisting investments must disclose his or her interest in accordance with the procedure set forth in Section 9. In addition, a Trustee who holds the foregoing preexisting investments must disclose and recuse him- or herself from (1) discussions and decisions involving contracts or potential contracts with contractors in which the Trustee holds such interests and (2) discussions and decisions involving delegations to, or selection of, staff assigned to award or negotiate contracts or potential contracts with contractors in which the Trustee holds such interests. The Trustee shall not receive any non-public or confidential information from TRS related to the contract or potential contract unless the Board provides a waiver as set forth in Section 9. Notwithstanding the above, a Trustee is ineligible, and must resign, if the Trustee or the Trustee's spouse owns or controls, directly or indirectly, more than a 10% interest in a business entity or other organization receiving funds from TRS. TRS will furnish to the Trustees a list of its contractors from time to time. ~~Mutual funds, exchange traded funds and other similar funds are not affected by this provision. This provision does not apply to mutual funds, exchange traded funds, and other similar funds, or to blind trusts and managed accounts consistent with regulatory guidance ("managed accounts"). A Trustee who holds in a managed account direct ownership interests in entities that contract with TRS may have to disclose his or her interests in accordance with the procedure set forth in Section 9.~~

Although the Board has largely delegated the selection of investment managers and securities to the staff, Trustees should not use their personal knowledge of upcoming TRS investments or material developments regarding TRS investments, about which the general public is not aware, for the financial gain of themselves or their family, business associates, or friends.

#### **5. REFERRALS**

If approached by persons seeking to do business with TRS, Trustees shall make a referral and any follow up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concerns.

#### **6. BLACKOUT PERIODS**

Decisions made by the Board are to be free from improper or undisclosed influence. From time to time, in the ordinary course of business, TRS will issue requests for proposals, information or qualifications (RFPs, RFIs, and RFQs) for goods and services. If the request is one that involves a decision by the Board or a recommendation of a Board Committee, Trustees shall not privately communicate or meet with potential vendors on the subject of the request during the procurement period. Similarly, if the Board is considering an investment in a private investment fund, Trustees shall not privately communicate or meet with representatives of the investment opportunity on the subject of the investment during the decision-making period. Obvious exceptions to this are communications and meetings the Board or a Committee participates in as part of due diligence in the selection process. Notice will be provided by the Executive Director to Trustees regarding the applicable procurement period or the decision-making period in accordance with procedures developed by the Executive Director.

#### **7. HONESTY**

In their role on the TRS Board, Trustees shall conduct themselves with utmost honesty and not intentionally provide false or misleading information or intentionally conceal information that should be disclosed.

#### **8. DISCLOSURES**

Before the Board or a Board Committee discusses a matter where a Trustee has, or is likely to have, a conflict of interest, the Trustee is to disclose any conflict of interest or potential conflict to the Executive Director. Potential conflicts could arise from such things as a Trustee's, spouse's, or dependent's:

- Business relationships or interests;
- Campaign contributions or solicitations;
- Ownership or financial interests;

- Family relationships;
- Close personal friendships;
- Employment by a TRS business vendor.

The Executive Director, in consultation with legal counsel, will assist the Trustee in determining whether a conflict exists and whether further disclosure is required.

Trustees are also to disclose to the Executive Director the financial information as required by state law, any legal proceedings they are involved with that affects or could impact their ability to serve on the Board, and matters relating to co-fiduciary responsibility.

#### **9. CURING CONFLICTS OF INTEREST**

Trustees should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest. If a conflict cannot be avoided, a Trustee should attempt to cure the conflict. If a conflict cannot be cured, a Trustee with a conflict of interest shall comply with one of the following procedures.

##### Standard Procedure

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, disclose the conflict at an open meeting and recuse him- or herself from discussing or voting on the matter.

##### Optional Waiver Request

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, request the Board of Trustees to waive the conflict at an open meeting. In determining whether to waive the conflict, the non-conflicted Trustees shall consider at a minimum the following factors, as applicable:
  - The number of Trustees with the conflict;
  - The nature of the conflict;
  - The materiality of the conflict; and
  - Whether the Trustee has a personal or private interest, as defined in Texas Government Code section 572.058, in the measure, proposal or decision pending before the Board.

If the non-conflicted Trustees determine the Trustee has a personal or private interest, the conflict may not be waived and the conflicted Trustee must recuse him- or herself according to the Standard Procedure.

Upon a Trustee's disclosure of a conflict of interest, the conflicted Trustee shall not receive any non-public or confidential information from TRS on that matter that gave rise to the conflict, unless the non-conflicted Trustees have voted to waive the conflict for that individual.

In some instances, however, recusal or waiver is not sufficient to avoid violations of law. For example, recusal or waiver does not cure a violation of Texas conflict of interest law that results from (1) a gift, (2) employment or compensation, or (3) a personal investment that might reasonably be expected to affect the Trustee's independence of judgment in the performance of TRS duties. Similarly, recusal or waiver does not cure a violation of Texas conflict of interest law that results from having accepted employment that a Trustee might reasonably expect would require or induce the Trustee to disclose TRS' confidential information. Trustees may ask the Executive Director or General Counsel for guidance on these matters.

#### **10. ADVICE ABOUT THE ETHICS POLICY**

The Board recognizes that, at times, ethical issues might fall into a "gray" area where the acceptable ethical conduct is not obvious. In such circumstances, Trustees are to seek advice from the Executive

Director, General Counsel or fiduciary counsel and, based on this advice, use their best judgment to uphold the highest ethical standards of behavior.

**11. EVENTS THAT MAY MERIT LEGAL CONSULTATION**

This Policy reflects general ethical principles and does not attempt to cover every conceivable situation where a Trustee may face an ethical dilemma or violate a law that could result in civil damages or criminal prosecution (see, e.g., Texas Government Code Chapters 572, 825, and 2203; and Texas Penal Code Chapters 36 and 39). Therefore, in addition to the specific circumstances that are covered in other sections of this Policy, the following checklist sets forth common events that might merit consultation with the TRS General Counsel or outside fiduciary counsel.

- Change in employment of yourself or spouse.
- Change in your marital status.
- Children become employed by someone doing business or likely to do business with TRS.
- A family member is considering employment at TRS.
- Sale of all or a part of your business.
- Start of a new business.
- Being asked to serve in another governmental office.
- Being contacted about litigation involving TRS.
- Information about an alleged violation of law or ethics.
- Request from third parties for favors, accommodations, or disclosure of information.
- A benefit or gift from a TRS vendor, potential vendor, or member.
- An invitation to speak on behalf of TRS at a conference, meeting, or seminar.
- Someone offers to pay or waive your expenses in connection with a conference or meeting.

**12. CO-FIDUCIARY RESPONSIBILITY**

If a Trustee is aware of illegal activity, a breach of fiduciary duty by another Trustee or by someone else serving as a fiduciary to TRS, or a violation of this Policy, the Trustee shall promptly disclose such activity or breach to the Executive Director and the Chair of the Ethics Committee of the Board. No retaliatory action will be taken toward any individual who, in good faith, makes a report or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.

**13. TRAINING AND ANNUAL ACKNOWLEDGEMENT**

Annually, every Trustee shall attend ethics training provided by TRS and acknowledge in writing that he or she understands the Ethics Policy, has abided by it, and will abide by it. New Trustees are to make this written acknowledgment when they take office.

**14. CONSEQUENCES FOR VIOLATIONS**

For Trustees who violate this Ethics Policy, the Board may impose sanctions including public reprimand, removal from service on Committees, censure, requests for resignation from the Board, or other appropriate parliamentary measures.

# Teacher Retirement System of Texas Board of Trustees Ethics Policy

Adopted December 8, 2011; Revised November 19, 2015

The Board of Trustees of the Teacher Retirement System of Texas (TRS) has adopted this Ethics Policy so that high ethical standards are followed by the TRS Board of Trustees. This Policy is based upon the duty of loyalty that all Trustees, as fiduciaries, owe to the members and retirees of TRS. This Policy also affirms the Board's commitment to fairness, openness, and transparency in its operations. It is important to the Board that it preserves the confidence of the membership, the employers, government officials, and the general public by avoiding even the appearance of impropriety.

Every Trustee has not only the obligation to follow the provisions of the Texas State Constitution, Texas statutes, and federal law applicable to TRS but also has the obligation to adhere to and promote high ethical principles, including those set forth below.

- Act solely in the best interest of the fund and the TRS members, retirees, and beneficiaries.
- Act with prudence, competence, independence, and objectivity.
- Adhere to laws, rules, regulations, bylaws, and policies adopted by the Board in overseeing investments, pension and healthcare benefits administration, and general operations of TRS.
- Act in a transparent manner in Board and Committee meetings when deliberations of official business take place.
- Maintain confidentiality when required to do so by law or by contract.
- Cooperate fully if questioned about an ethical matter related to TRS.

This Ethics Policy is a guide, not a complete statement of all fiduciary responsibilities; therefore, compliance with this Policy does not necessarily ensure compliance with all legal requirements. The provisions below are to aid Trustees in identifying conflicts of interest, avoiding them, disclosing them in a proper way, and managing them if they cannot be avoided. A "conflict of interest" is where a Trustee has, or reasonably could be perceived to have, an incentive to decide a matter or provide a recommendation for a reason that would be inconsistent with acting solely in the interest of TRS, or that would provide a financial benefit to the Trustee. It also includes a personal or business relationship or interest that could reasonably be expected to diminish the Trustee's independence of judgment in the performance of the Trustee's responsibilities to TRS. The provisions are also meant to assist Trustees in identifying prohibited conduct and circumstances that cannot be managed through disclosure or recusal from voting on issues.

This Policy applies only to the Board, and the TRS staff has a separate ethics policy applicable to them.

## **1. PERSONAL ADVANTAGE**

Trustees shall not use their position on the Board for financial gain, obtaining privileges, avoiding the consequences of illegal acts, or for obtaining more favorable terms on loans, investments, or TRS benefits that are not available to others. This prohibition applies whether the Trustees seek a personal advantage or gain for themselves or for a third party.

## **2. GIFTS**

A Trustee shall not solicit or accept any gifts (*e.g.*, objects, services, favors, entertainment, preferential treatment, vacations, or property) from any donor, except as provided below. Such gifts cannot be accepted by Trustees for themselves or for their families or business partners. While this standard may be stricter than what is required by law, the Board has decided it is best practice to place limitations on gifts.

The following are allowed under this Policy as long as the Trustee is not influenced by the gift or does not have knowledge that it was offered with intent to influence the Trustee in the discharge of the Trustee's official duties to TRS:

- Gifts conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Trustee;
- Gifts having a value of less than \$50 (but in no event cash, negotiable instruments, or cash equivalents such as gift cards), including the following examples:
  - Tokens of nominal value that are distributed to all attendees at conferences, seminars, meetings, and receptions;
  - Meals, transportation, lodging, or entertainment, regardless of whether the donor is present;
  - Modest food items and other perishable items given on a holiday or other infrequent occasions;
- Transportation valued at \$50 or more if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception;
- Meals valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception, and the donor is present;
- Lodging valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception.
- Gifts given on special occasions between Trustees or between Trustees and TRS employees;
- Food and entertainment included in the conference or seminar fee;
- Travel expenses paid for by another governmental entity or a non-profit organization related to the public retirement industry, provided there are no prohibitive circumstances as determined after consultation pursuant to Section 11.

To avoid not only improper conduct but also the appearance of impropriety, Trustees should consider whether the circumstances associated with an expense payment or a courtesy by another would draw unfavorable public criticism. If this appears to be the case, Trustees should modify their behavior even if their acceptance of an expense payment, a courtesy, or gift is otherwise allowed.

### **3. USE OF TRS RESOURCES**

Trustees shall not use TRS facilities, equipment, or staff for their personal benefit or for any commercial or political purposes. Trustees may use TRS resources that are reasonably necessary to support them in their role on the Board or that facilitate their attendance at Board meetings, if the use of TRS resources involves only an insignificant cost, does not impede TRS business, and does not create an appearance of impropriety.

### **4. PERSONAL INVESTMENTS**

Trustees shall take care that their personal investments do not create a conflict of interest that impacts their loyalty to TRS and their ability to function as a Trustee. While serving on the TRS Board, Trustees, their spouses, and dependents shall not make personal investments ("co-invest"), directly or indirectly, in private investment funds in which TRS has invested. However, a Trustee, a Trustee's spouse or dependent may continue to hold an investment in a private investment fund if the investment was held prior to TRS' investment or prior to the date the individual became a Trustee. If a Trustee becomes aware that any co-investment, or potential co-investment, exists, the Trustee shall disclose the investment and date of purchase in accordance with the procedure set forth in Section 9. The Trustee shall not receive any non-public or confidential information from TRS related to the co-investment unless the Board provides a waiver as set forth in Section 9. A Trustee shall not make a new personal investment in a private investment fund if TRS has informed the Trustee that TRS is considering investing in the fund.

Trustees, their spouses, and dependents may hold direct ownership interests (e.g., stock or partnership interests) in entities that contract with TRS, provided that the ownership interest arose prior to the

individual becoming a Trustee or prior to the entity becoming a TRS contractor. A Trustee who holds the foregoing preexisting investments must disclose his or her interest in accordance with the procedure set forth in Section 9. In addition, a Trustee who holds the foregoing preexisting investments must disclose and recuse him- or herself from (1) discussions and decisions involving contracts or potential contracts with contractors in which the Trustee holds such interests and (2) discussions and decisions involving delegations to, or selection of, staff assigned to award or negotiate contracts or potential contracts with contractors in which the Trustee holds such interests. The Trustee shall not receive any non-public or confidential information from TRS related to the contract or potential contract unless the Board provides a waiver as set forth in Section 9. Notwithstanding the above, a Trustee is ineligible, and must resign, if the Trustee or the Trustee's spouse owns or controls, directly or indirectly, more than a 10% interest in a business entity or other organization receiving funds from TRS. TRS will furnish to the Trustees a list of its contractors from time to time. This provision does not apply to mutual funds, exchange traded funds, and other similar funds, or to blind trusts and managed accounts consistent with regulatory guidance ("managed accounts"). A Trustee who holds in a managed account direct ownership interests in entities that contract with TRS may have to disclose his or her interests in accordance with the procedure set forth in Section 9.

Although the Board has largely delegated the selection of investment managers and securities to the staff, Trustees should not use their personal knowledge of upcoming TRS investments or material developments regarding TRS investments, about which the general public is not aware, for the financial gain of themselves or their family, business associates, or friends.

#### **5. REFERRALS**

If approached by persons seeking to do business with TRS, Trustees shall make a referral and any follow up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concerns.

#### **6. BLACKOUT PERIODS**

Decisions made by the Board are to be free from improper or undisclosed influence. From time to time, in the ordinary course of business, TRS will issue requests for proposals, information or qualifications (RFPs, RFIs, and RFQs) for goods and services. If the request is one that involves a decision by the Board or a recommendation of a Board Committee, Trustees shall not privately communicate or meet with potential vendors on the subject of the request during the procurement period. Similarly, if the Board is considering an investment in a private investment fund, Trustees shall not privately communicate or meet with representatives of the investment opportunity on the subject of the investment during the decision-making period. Obvious exceptions to this are communications and meetings the Board or a Committee participates in as part of due diligence in the selection process. Notice will be provided by the Executive Director to Trustees regarding the applicable procurement period or the decision-making period in accordance with procedures developed by the Executive Director.

#### **7. HONESTY**

In their role on the TRS Board, Trustees shall conduct themselves with utmost honesty and not intentionally provide false or misleading information or intentionally conceal information that should be disclosed.

#### **8. DISCLOSURES**

Before the Board or a Board Committee discusses a matter where a Trustee has, or is likely to have, a conflict of interest, the Trustee is to disclose any conflict of interest or potential conflict to the Executive Director. Potential conflicts could arise from such things as a Trustee's, spouse's, or dependent's:

- Business relationships or interests;
- Campaign contributions or solicitations;
- Ownership or financial interests;
- Family relationships;

- Close personal friendships;
- Employment by a TRS business vendor.

The Executive Director, in consultation with legal counsel, will assist the Trustee in determining whether a conflict exists and whether further disclosure is required.

Trustees are also to disclose to the Executive Director the financial information as required by state law, any legal proceedings they are involved with that affects or could impact their ability to serve on the Board, and matters relating to co-fiduciary responsibility.

#### **9. CURING CONFLICTS OF INTEREST**

Trustees should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest. If a conflict cannot be avoided, a Trustee should attempt to cure the conflict. If a conflict cannot be cured, a Trustee with a conflict of interest shall comply with one of the following procedures.

##### Standard Procedure

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, disclose the conflict at an open meeting and recuse him- or herself from discussing or voting on the matter.

##### Optional Waiver Request

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, request the Board of Trustees to waive the conflict at an open meeting. In determining whether to waive the conflict, the non-conflicted Trustees shall consider at a minimum the following factors, as applicable:
  - The number of Trustees with the conflict;
  - The nature of the conflict;
  - The materiality of the conflict; and
  - Whether the Trustee has a personal or private interest, as defined in Texas Government Code section 572.058, in the measure, proposal or decision pending before the Board.

If the non-conflicted Trustees determine the Trustee has a personal or private interest, the conflict may not be waived and the conflicted Trustee must recuse him- or herself according to the Standard Procedure.

Upon a Trustee's disclosure of a conflict of interest, the conflicted Trustee shall not receive any non-public or confidential information from TRS on that matter that gave rise to the conflict, unless the non-conflicted Trustees have voted to waive the conflict for that individual.

In some instances, however, recusal or waiver is not sufficient to avoid violations of law. For example, recusal or waiver does not cure a violation of Texas conflict of interest law that results from (1) a gift, (2) employment or compensation, or (3) a personal investment that might reasonably be expected to affect the Trustee's independence of judgment in the performance of TRS duties. Similarly, recusal or waiver does not cure a violation of Texas conflict of interest law that results from having accepted employment that a Trustee might reasonably expect would require or induce the Trustee to disclose TRS' confidential information. Trustees may ask the Executive Director or General Counsel for guidance on these matters.

#### **10. ADVICE ABOUT THE ETHICS POLICY**

The Board recognizes that, at times, ethical issues might fall into a "gray" area where the acceptable ethical conduct is not obvious. In such circumstances, Trustees are to seek advice from the Executive Director, General Counsel or fiduciary counsel and, based on this advice, use their best judgment to uphold the highest ethical standards of behavior.

**11. EVENTS THAT MAY MERIT LEGAL CONSULTATION**

This Policy reflects general ethical principles and does not attempt to cover every conceivable situation where a Trustee may face an ethical dilemma or violate a law that could result in civil damages or criminal prosecution (see, e.g., Texas Government Code Chapters 572, 825, and 2203; and Texas Penal Code Chapters 36 and 39). Therefore, in addition to the specific circumstances that are covered in other sections of this Policy, the following checklist sets forth common events that might merit consultation with the TRS General Counsel or outside fiduciary counsel.

- Change in employment of yourself or spouse.
- Change in your marital status.
- Children become employed by someone doing business or likely to do business with TRS.
- A family member is considering employment at TRS.
- Sale of all or a part of your business.
- Start of a new business.
- Being asked to serve in another governmental office.
- Being contacted about litigation involving TRS.
- Information about an alleged violation of law or ethics.
- Request from third parties for favors, accommodations, or disclosure of information.
- A benefit or gift from a TRS vendor, potential vendor, or member.
- An invitation to speak on behalf of TRS at a conference, meeting, or seminar.
- Someone offers to pay or waive your expenses in connection with a conference or meeting.

**12. CO-FIDUCIARY RESPONSIBILITY**

If a Trustee is aware of illegal activity, a breach of fiduciary duty by another Trustee or by someone else serving as a fiduciary to TRS, or a violation of this Policy, the Trustee shall promptly disclose such activity or breach to the Executive Director and the Chair of the Ethics Committee of the Board. No retaliatory action will be taken toward any individual who, in good faith, makes a report or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.

**13. TRAINING AND ANNUAL ACKNOWLEDGEMENT**

Annually, every Trustee shall attend ethics training provided by TRS and acknowledge in writing that he or she understands the Ethics Policy, has abided by it, and will abide by it. New Trustees are to make this written acknowledgment when they take office.

**14. CONSEQUENCES FOR VIOLATIONS**

For Trustees who violate this Ethics Policy, the Board may impose sanctions including public reprimand, removal from service on Committees, censure, requests for resignation from the Board, or other appropriate parliamentary measures.

**Managed Account Certification**

**(Account Manager)**

The TRS Board of Trustees Ethics Policy permits TRS Trustees to hold direct ownership interests (*e.g.*, stock) in entities that contract with TRS provided that the ownership interest is held in a managed account consistent with regulatory guidance (“managed account”). Regulatory guidance requires that a TRS Trustee have no direct or indirect influence or control over the managed account. This certification serves to establish that a TRS Trustee/Account Holder does not have such influence or control.

Managed Account Number: \_\_\_\_\_ Account Manager: \_\_\_\_\_

TRS Trustee/Account Holder: \_\_\_\_\_

All Persons with Authority on Account: \_\_\_\_\_

**To be completed by the Account Manager by providing a yes or no response:**

\_\_\_ Confirm that Account Manager has sole discretionary authority over purchases or sales of securities in the managed account, and that neither the Trustee/Account Holder nor any of the Trustee/Account Holder’s designees have discretionary authority regarding account holdings.

\_\_\_ Confirm that TRS Trustee/Account Holder neither suggested nor directed that you make any particular purchases or sales of securities for the managed account during the past six months.

\_\_\_ Confirm that TRS Trustee/Account Holder did not consult with you as to the particular allocation of investments to be made in the managed account during the past six months.

Please use this space to provide additional information related to the responses above, as needed:

\_\_\_\_\_

\_\_\_\_\_

Check the box that describes the Account Manager’s relationship to the TRS Trustee/Account Holder:

- Independent professional
- Friend or relative
- Other (please describe): \_\_\_\_\_

Check the box that describes the relationship between the Account Manager’s firm and the TRS Trustee/Account Holder:

- Unaffiliated firm
- Affiliated firm (please describe affiliation): \_\_\_\_\_

\_\_\_\_\_

Account Manager

\_\_\_\_\_

Date

**Managed Account Certification**

**(TRS Trustee/Account Holder)**

The TRS Board of Trustees Ethics Policy permits TRS Trustees to hold direct ownership interests (*e.g.*, stock) in entities that contract with TRS provided that the ownership interest is held in a managed account consistent with regulatory guidance (“managed account”). Regulatory guidance requires that a TRS Trustee have no direct or indirect influence or control over the managed account. This certification serves to establish that a TRS Trustee/Account Holder does not have such influence or control.

Managed Account Number: \_\_\_\_\_ Account Manager: \_\_\_\_\_

TRS Trustee/Account Holder: \_\_\_\_\_

All Persons with Authority on Account: \_\_\_\_\_

**To be completed by the TRS Trustee/Account Holder by providing a yes or no response:**

\_\_\_ Confirm that Account Manager has sole discretionary authority over purchases or sales of securities in the managed account, and that neither you nor any of your designees have discretionary authority regarding account holdings.

\_\_\_ Did you suggest or direct that the Account Manager make any particular purchases or sales of securities for the managed account during the past six months?

\_\_\_ Did you consult with the Account Manager as to the particular allocation of investments to be made in the managed account during the past six months?

Please use this space to provide additional information related to the responses above, as needed:

\_\_\_\_\_

\_\_\_\_\_

Check the box that describes the Account Manager’s relationship to the TRS Trustee/Account Holder:

- Independent professional
- Friend or relative
- Other (please describe): \_\_\_\_\_

Check the box that describes the relationship between the Account Manager's firm and the TRS Trustee/Account Holder:

- Unaffiliated firm
- Affiliated firm (please describe affiliation): \_\_\_\_\_

\_\_\_\_\_  
 TRS Trustee/Account  
 Holder

\_\_\_\_\_  
 Date

**Tab 12**



# Teacher Retirement System of Texas

Actuarial Valuation as of  
August 31, 2015



**Gabriel Roeder Smith & Company**  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)



# Agenda

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- ◆ 2015 Valuation Results
  - ▶ New Assumptions approved by the Board in September
  - ▶ Impact on the “Plan”
  - ▶ Historical Metrics
  - ▶ Sensitivity to Investment Returns
- ◆ Potential impact of deferred investment losses
- ◆ Summary



# Actuarial Valuation

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- ◆ Prepared as of August 31, 2015 using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods as of that date
- ◆ Purposes:
  - Measure the actuarial liabilities
  - Determine adequacy of current statutory contributions
  - Provide other information for reporting
    - CAFR
    - Accounting results provided under separate report
  - Explain changes in actuarial condition of TRS
  - Track changes over time
  - Warn about possible future problems and issues



# Actuarial Valuation

## – Key Changes and Issues

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- ◆ Forecast took a step back from previous valuation:
  - ▶ Market assets returns -0.3%, net of investment expenses
  - ▶ Return was low enough to eliminate previous deferred gains and now the System is in a position of deferred investment losses
  - ▶ New assumptions lowered revenue forecasts and increased longevity assumptions
  - ▶ Better detail on the additional funding source from the non-OASDI employers
- ◆ Funding period of 33 years based on smoothed assets
  - ▶ Assumes all current statutory contribution levels continue and no further benefit enhancements
- ◆ Projections have an expectation of an increasing funded status over a 5+ year period
  - ▶ Although current deferred losses will decrease funded status over the short term if not offset by gains



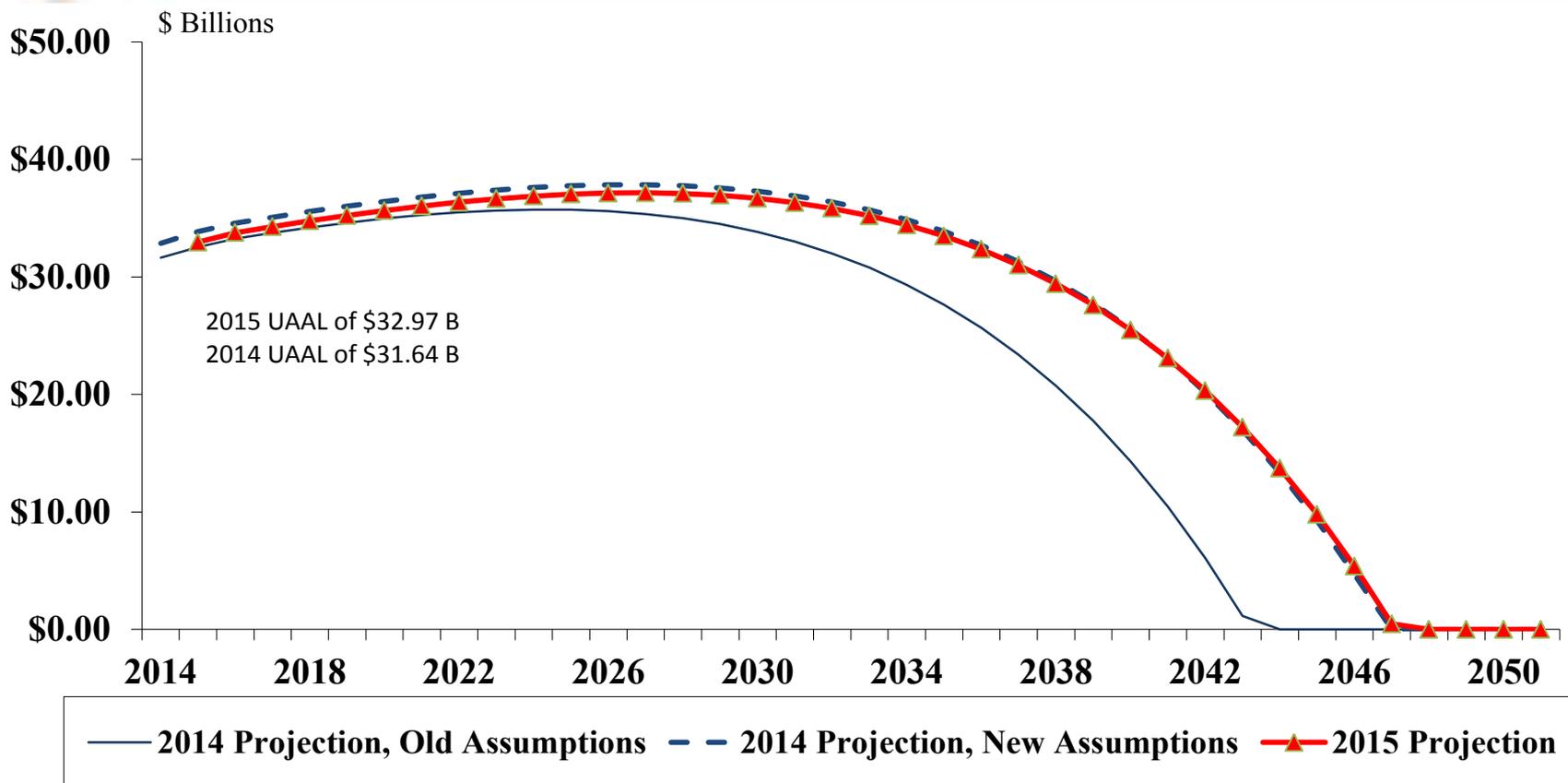
# 2015 Valuation Results

	2015 Valuation	2014 Valuation	2013 Valuation
<b>Based on Smoothed Asset Value</b>			
<b>UAAL (\$ Billions)</b>	\$32.97	\$31.64	\$28.94
<b>Actuarial Funded Ratio</b>	80.2%	80.2%	80.8%
<b>Funding Period in years*</b>	33.3	29.8	28.0
<b>Increase in Contribution Rate needed to have 30 year funding period</b>	0.23%	NA	NA
<b>Based on Market Value</b>			
<b>Actuarial Funded Ratio</b>	77.2%	83.0%	77.9%
<b>Funding Period in years*</b>	56.4	22.8	37.4
<b>Increase in Contribution Rate needed to have 30 year funding period</b>	1.06%	NA	0.56%

\*Assumes current statutory contribution rates continue indefinitely

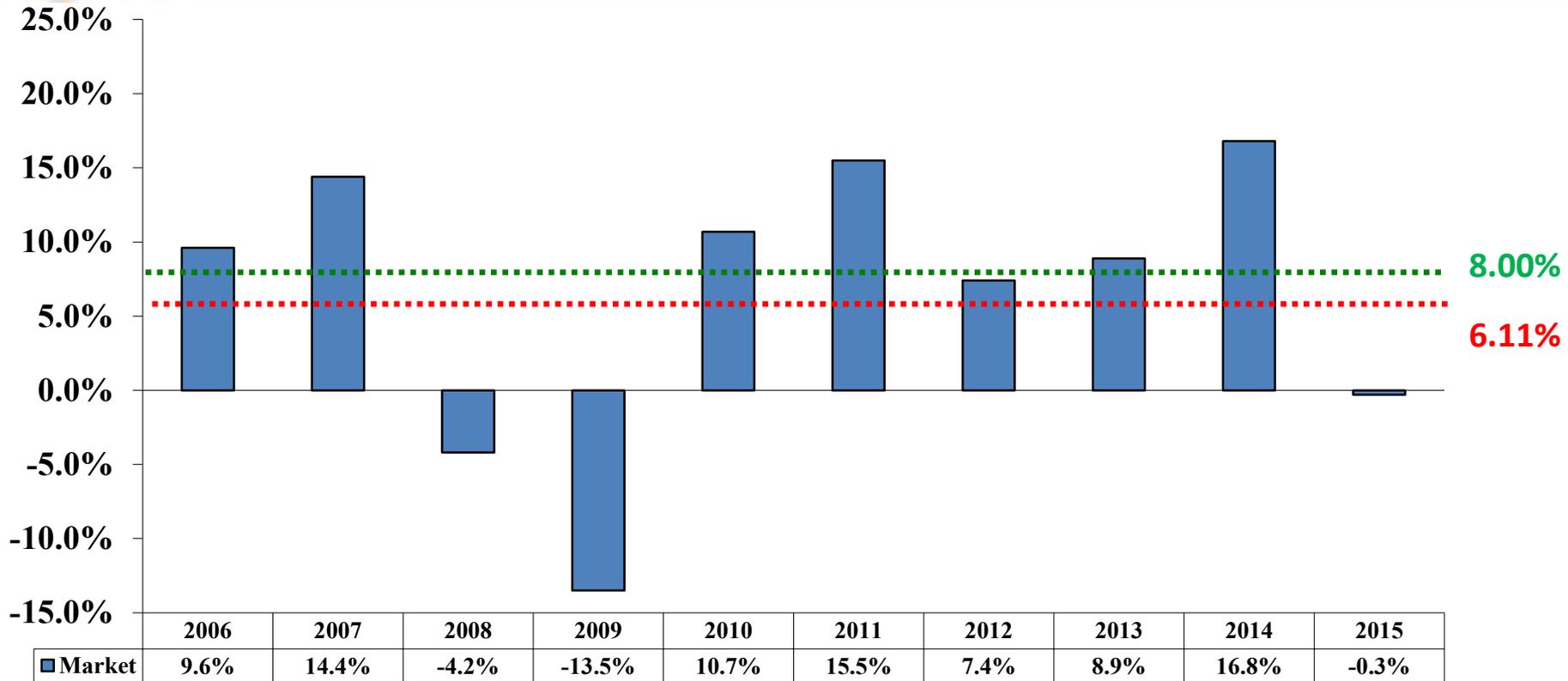


# Projection of UAAL (Based on Smoothed Assets)



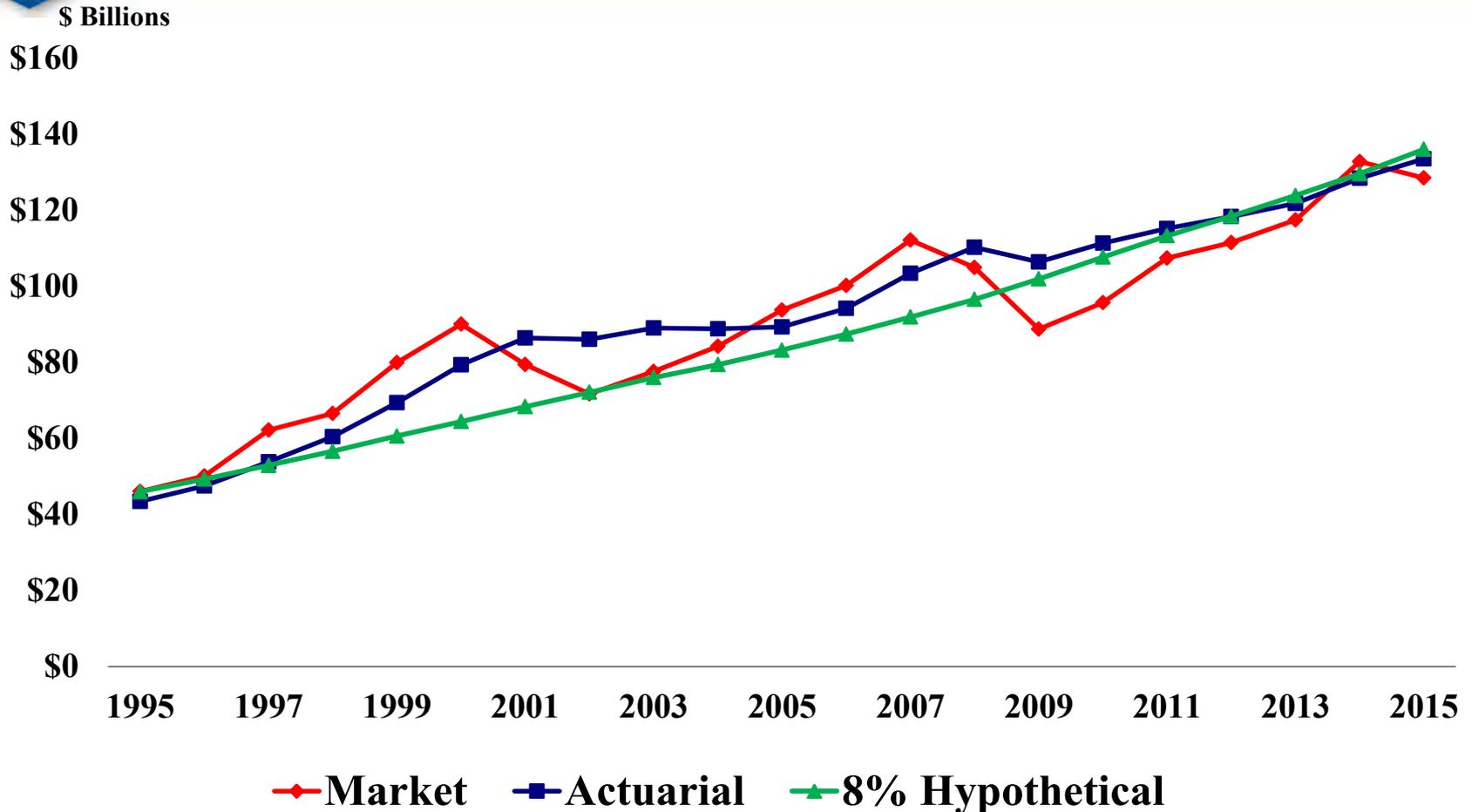
The above assumes all assumptions exactly met, including 8% annual investment returns  
Assumes no changes to benefit policy  
Assumes current statutory contribution policy remains throughout period

# Estimated Yields Based on Market Value of Assets



6.11% average compound return (on market value) over last 10 years. 7.64% over last 20 years.  
8.84% since 1989

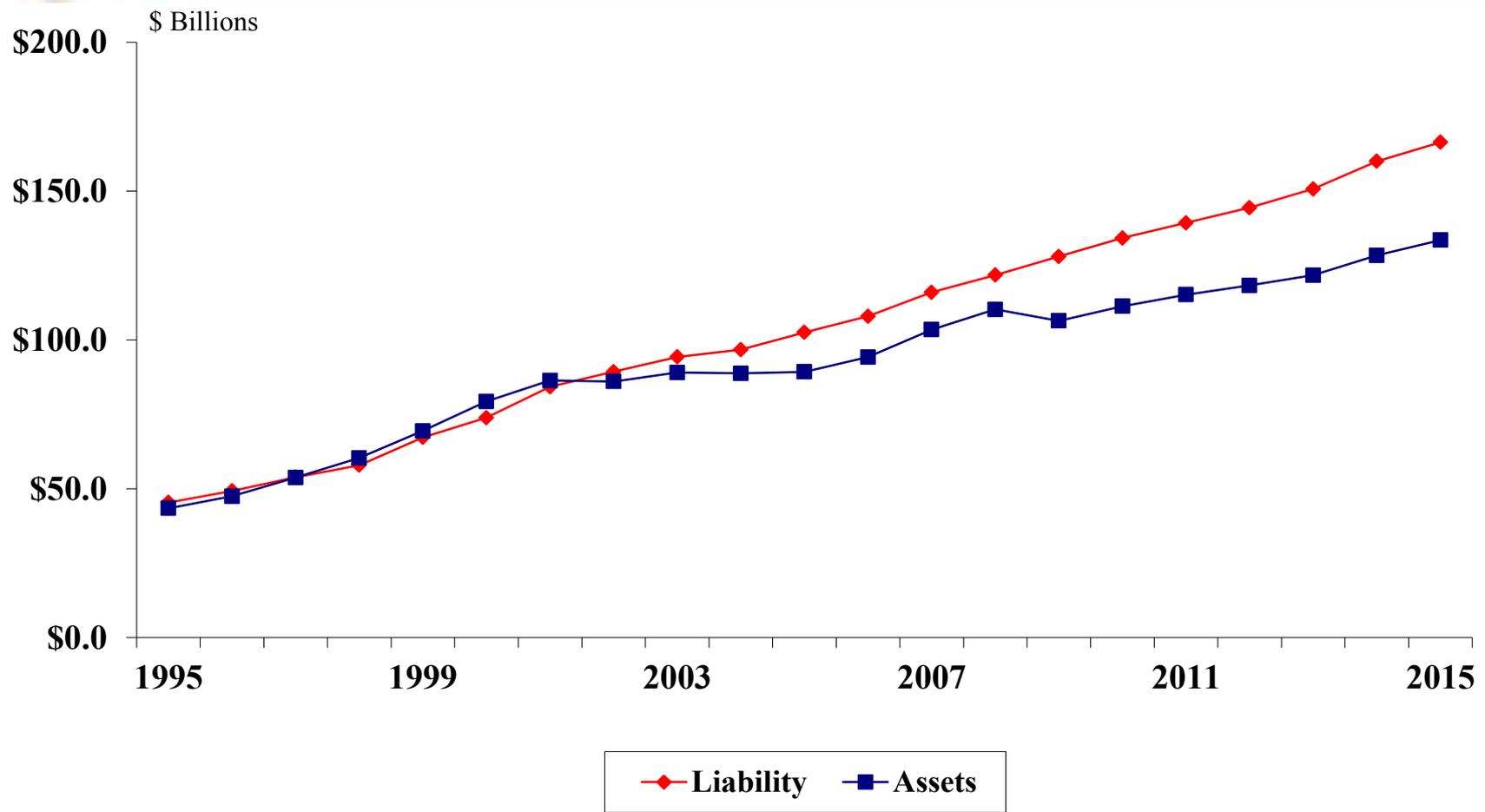
# Market and Actuarial Values of Assets



8% Hypothetical assumes 8% had been earned on market every year since 1995, all cash flows unchanged  
7.64% average compound return (on market value) over last 20 years.



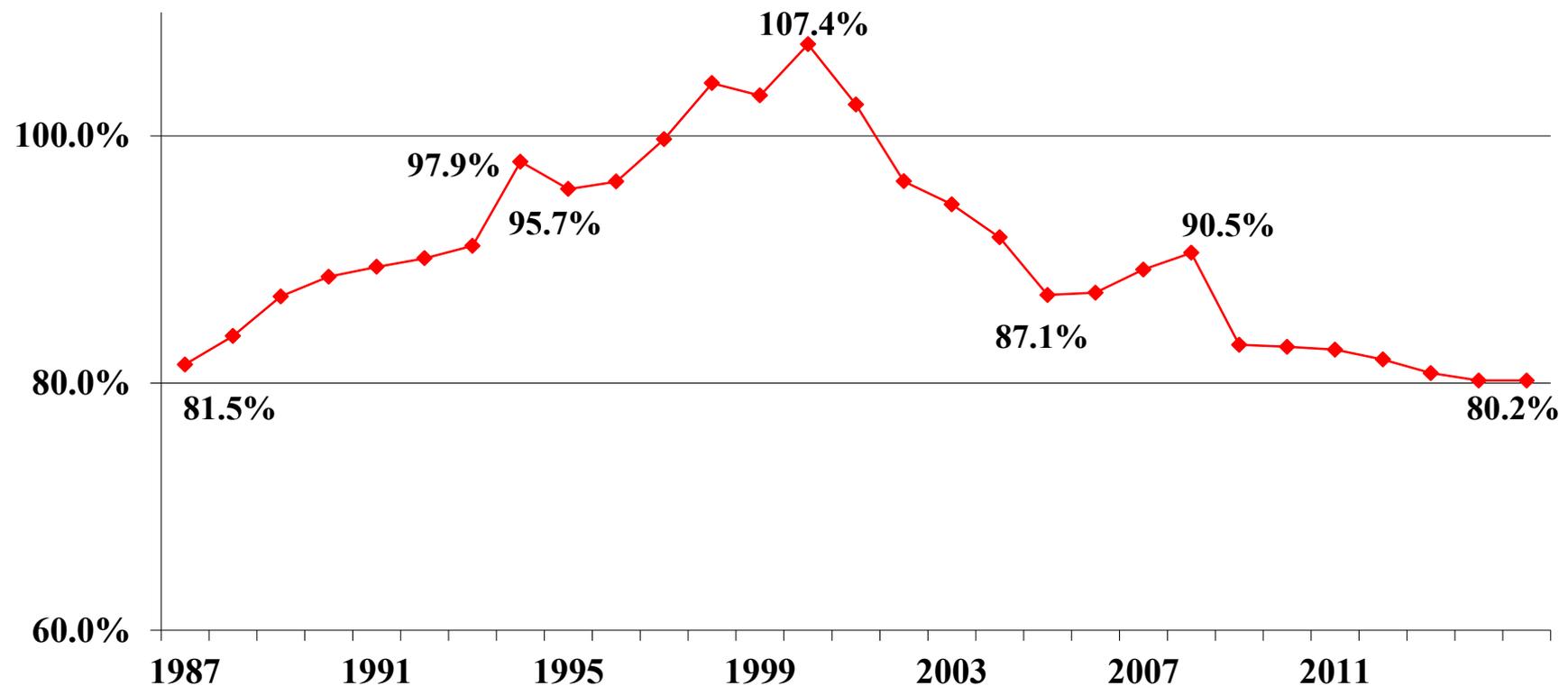
# Actuarial Values of Assets vs. Actuarial Accrued Liability



Average Annual Growth 1995-2015: Assets 5.8%, Liabilities 6.7%  
Projected Average Annual Growth 2015-2035 Assets 4.2%, Liabilities 3.6%

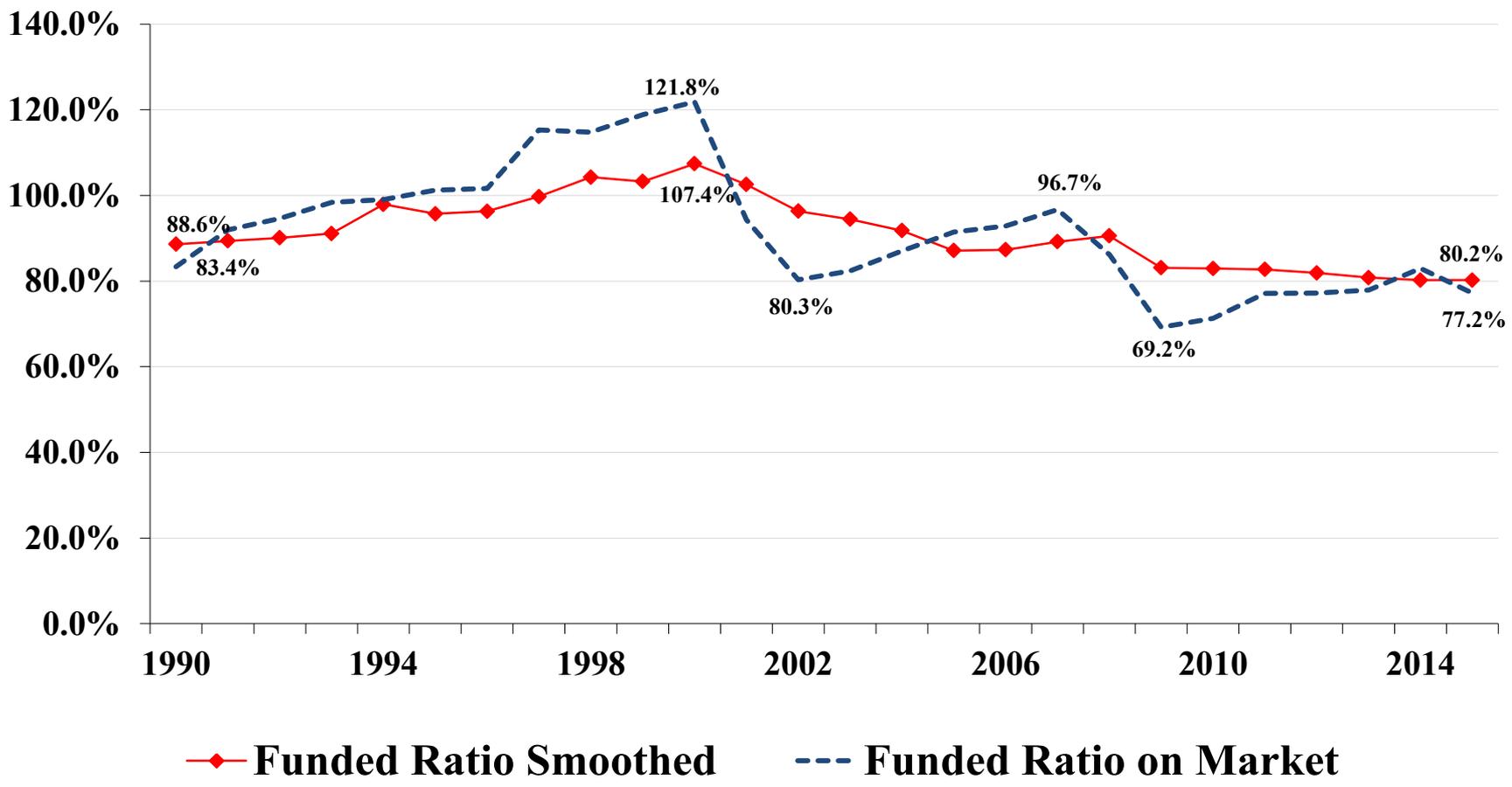


# Funded Ratio





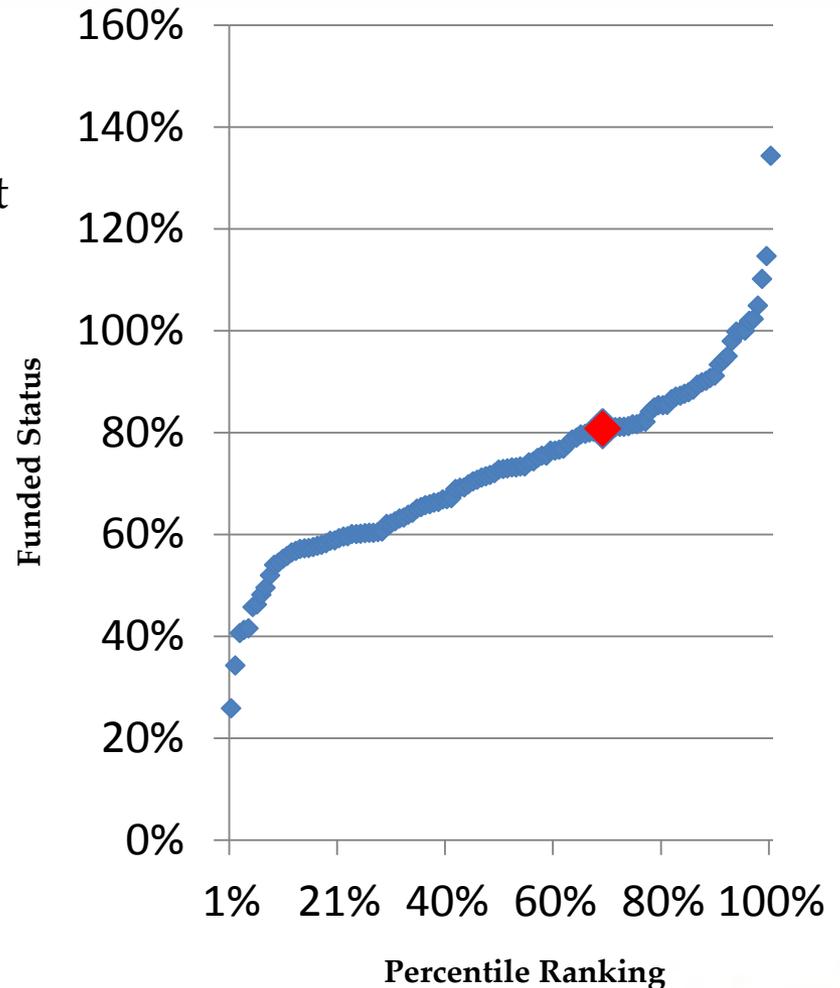
# Funded Ratio: Smoothed vs Market



# Benchmarking - Funded Ratio

- ◆ The funded ratio of TRS ranks in the 68th percentile of a comparison with other large public employee retirement systems

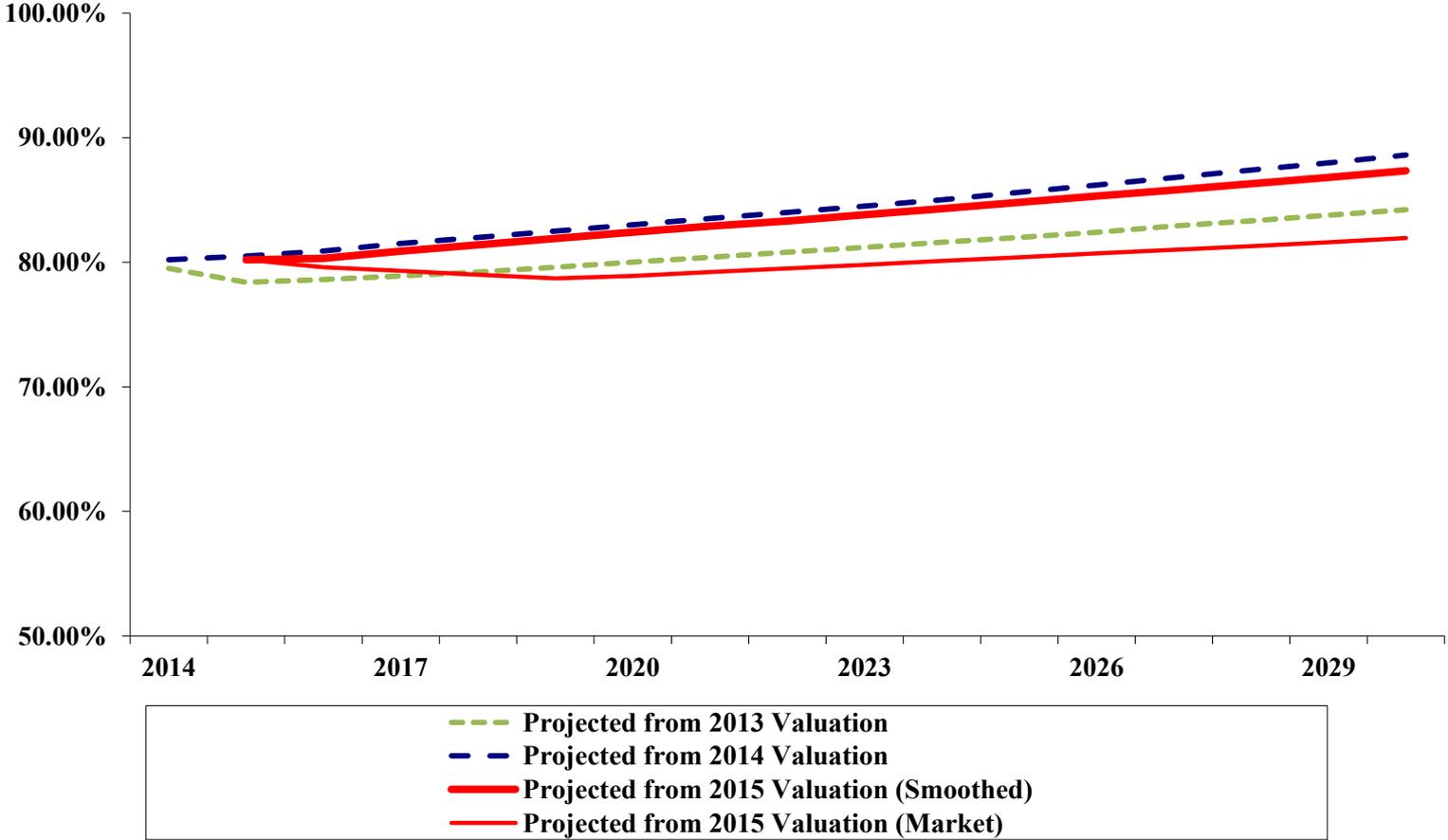
- ▶ TRS – 80.2%
- ▶ 75<sup>th</sup> percentile – 81.6%
- ▶ 50<sup>th</sup> percentile – 72.7%
- ▶ 25<sup>th</sup> percentile – 60.2%



Source: Public Funds Survey



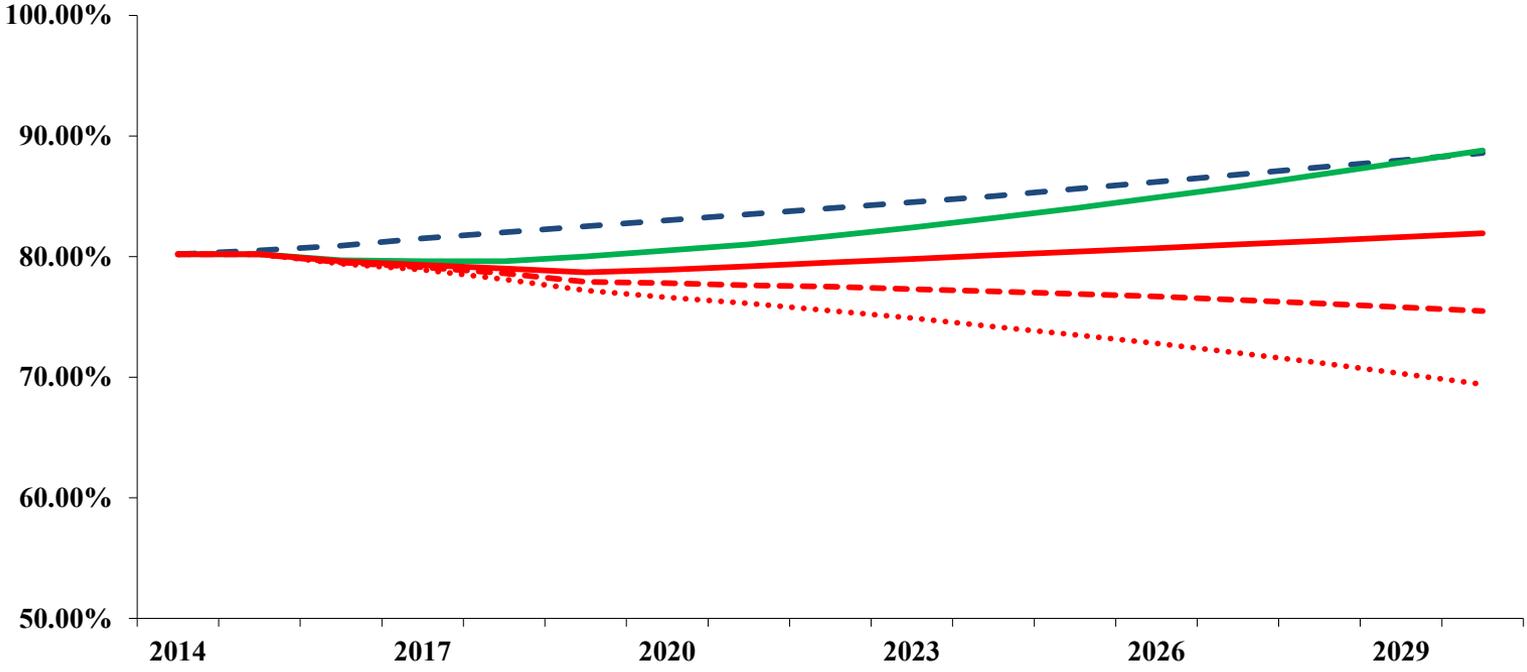
# Projection of Funded Ratio



All projections assume contribution policy outlined in statute continues indefinitely and no future changes to benefits



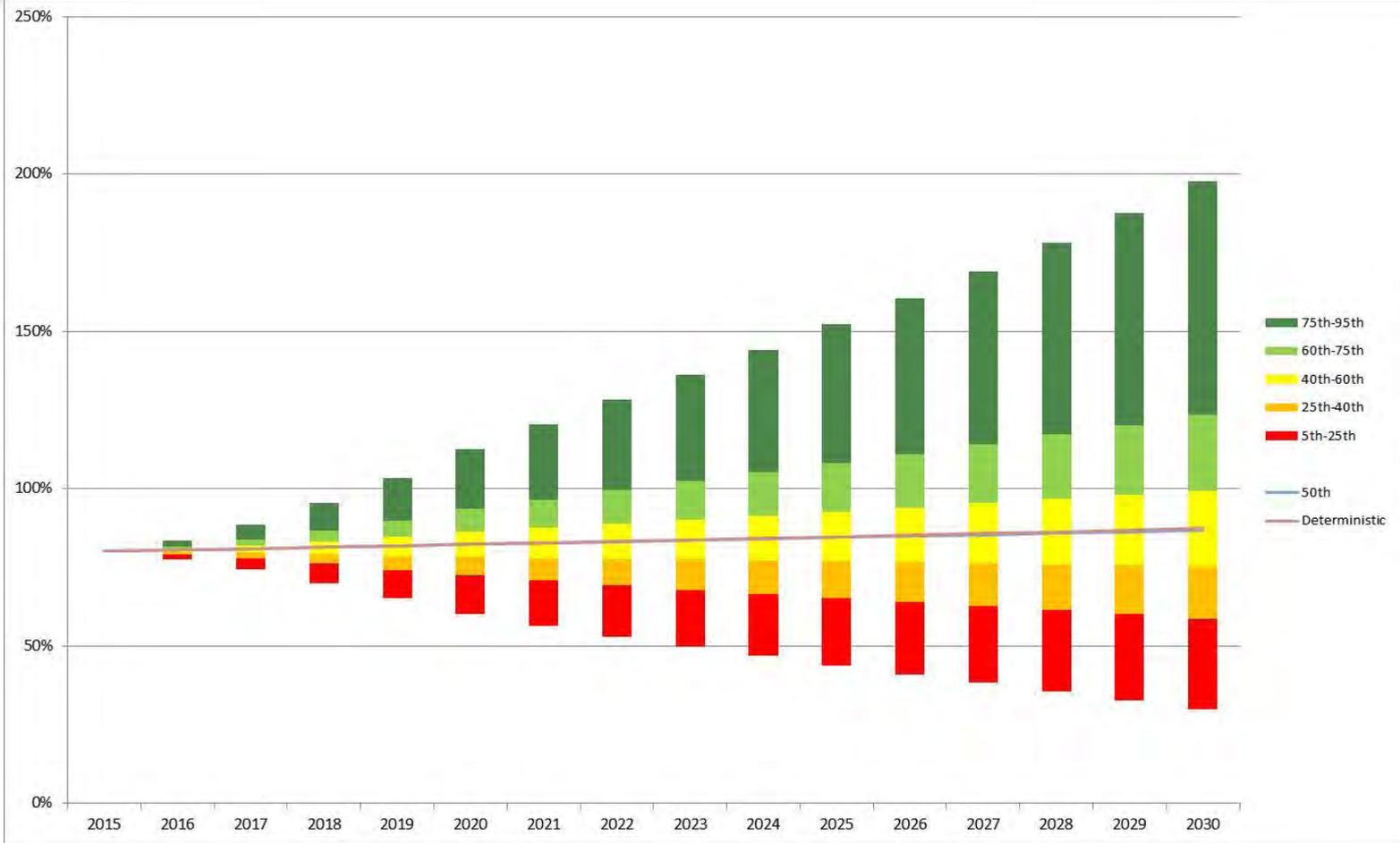
# Projection of Funded Ratio Investment Return Sensitivity



- — Projected from 2014 Valuation
- 2015 Valuation, 8.50% Future Returns
- Projected from 2015 Valuation (market)
- - - 2015 Valuation, 7.50% Future Returns
- ..... 2015 Valuation, 7.00% Future Returns



# Projected Funded Ratio



- Assumes new contribution policy, projected from as of August 31, 2015
- Assumes constant active population and payroll grows at assumed 2.50% per year
- Distributions created using expected returns and standard deviation from 2014 Asset Allocation Study



# Next Year Projections

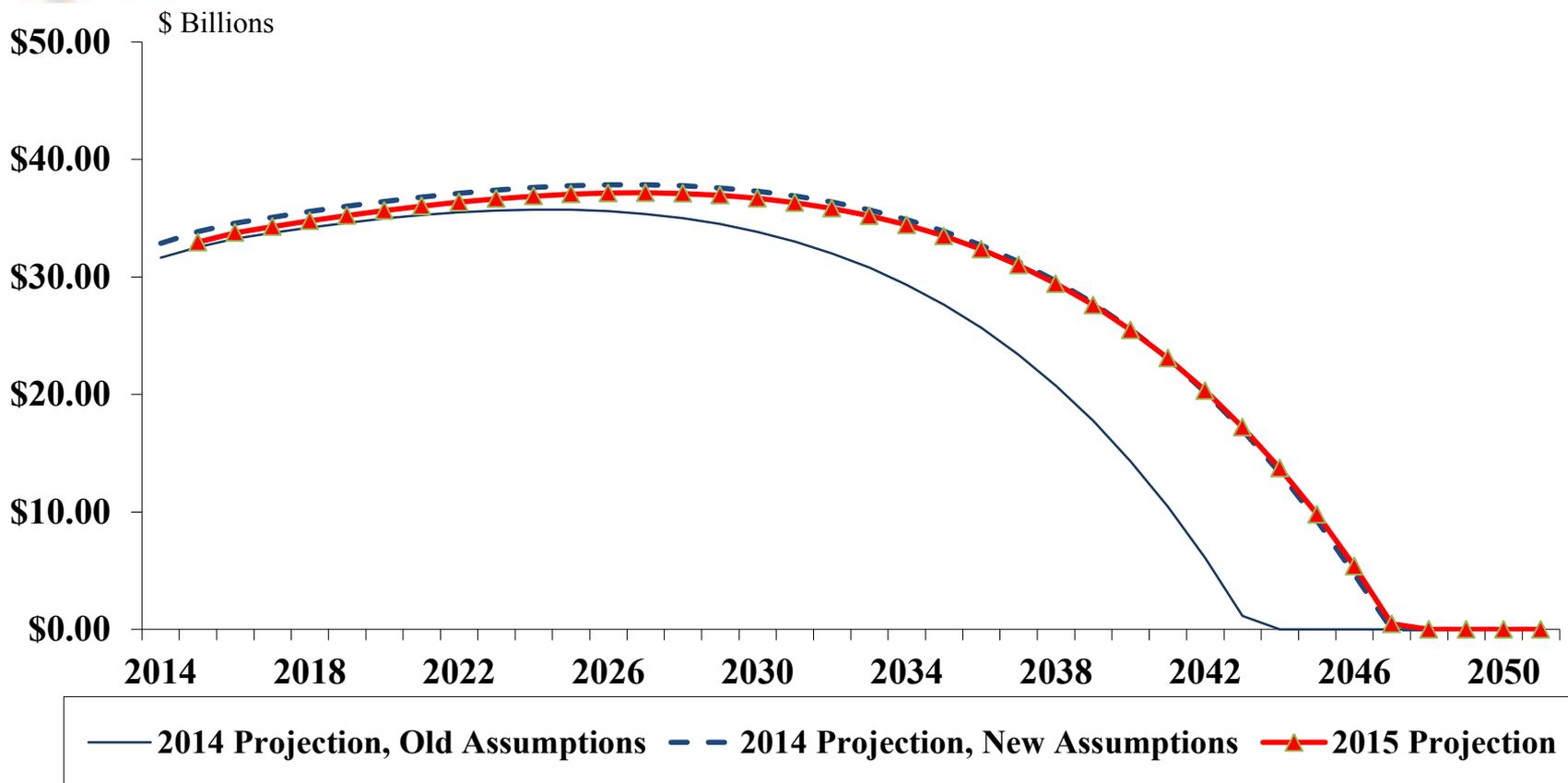
	Market Return for 12 month period ending August 31, 2016					
	16%	12%	8%	4%	0%	-4%
UAAL	\$32.9	\$33.9	\$35.1	\$36.1	\$37.1	\$38.1
Funded Ratio	80.9%	80.3%	79.6%	79.0%	78.4%	77.8%
Funding Period based on new contribution policy						
Smoothed Assets	30.0	32.4	35.7	38.9	42.8	47.7
Market Assets	23.2	33.1	55.4	Never	Never	Never

Current values: UAAL of \$32.97 billion, funded ratio of 80.2%, Funding period of 33.3 on smoothed assets and 56.4 on market

A 12% return on MVA is necessary to completely offset current deferred losses

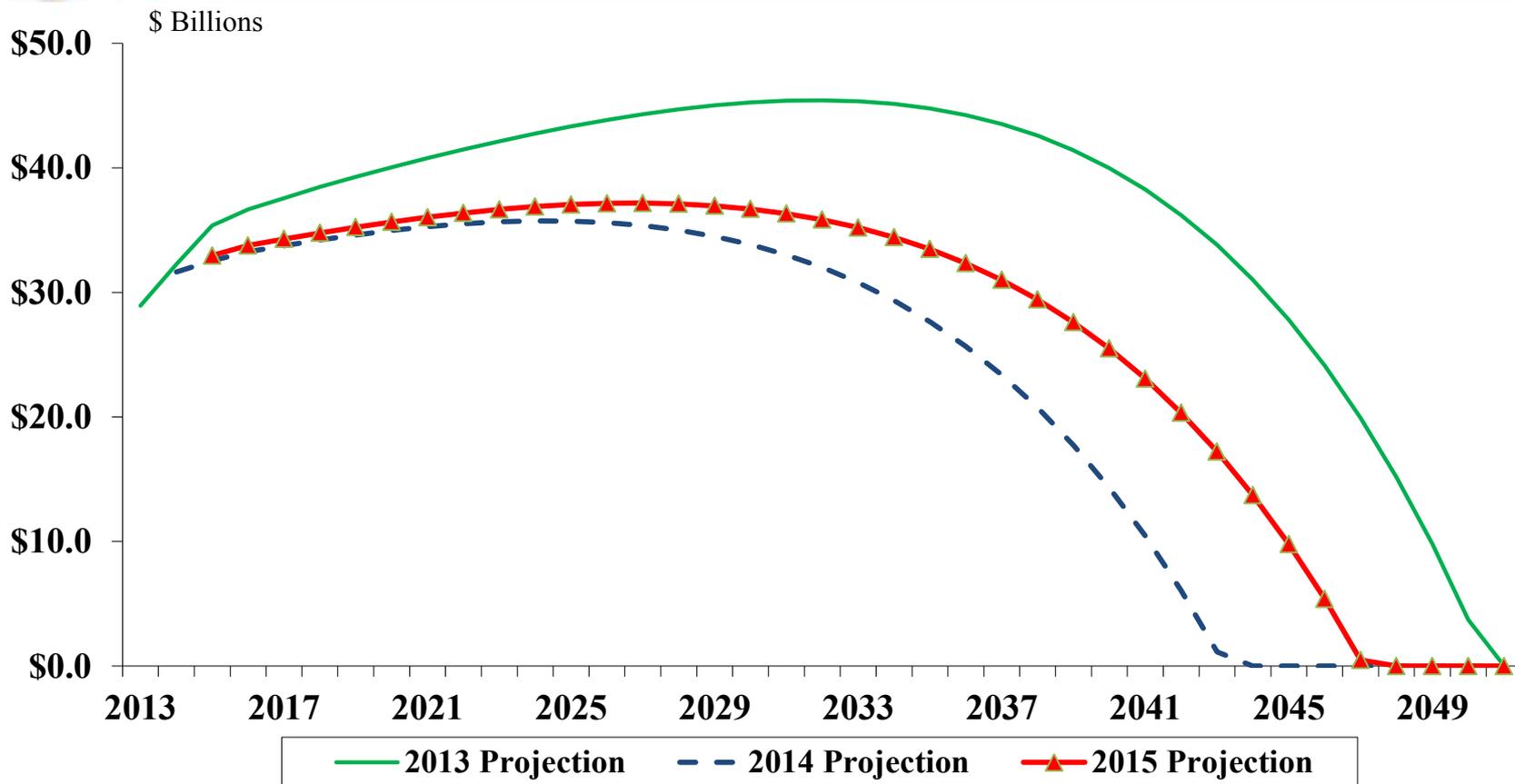


# Projection of UAAL (Based on Smoothed Assets)



The above assumes all assumptions exactly met, including 8% annual investment returns  
Assumes no changes to benefit policy  
Assumes current statutory contribution policy remains throughout period

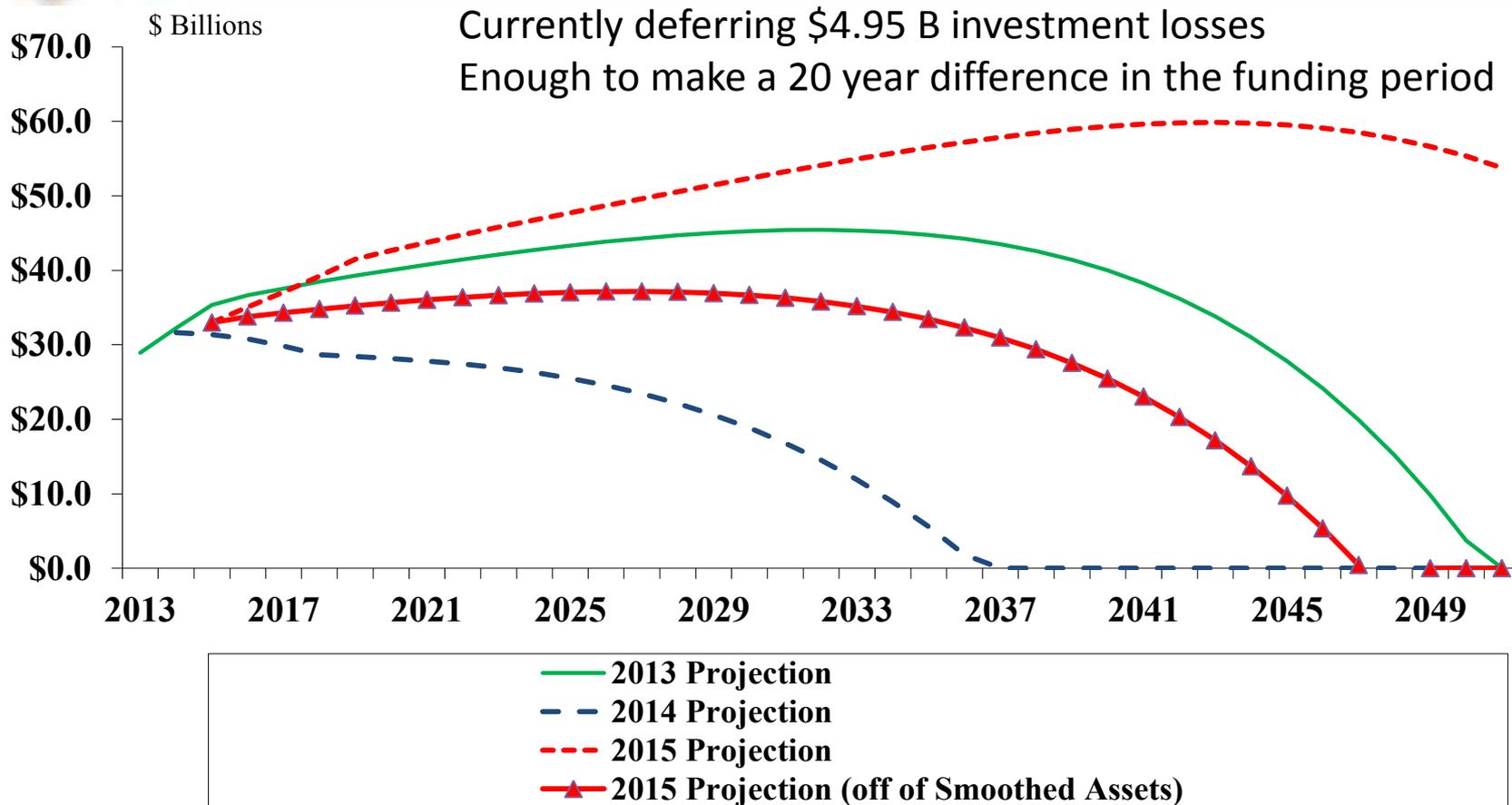
# Projection of UAAL based on Smoothed Asset Values on each Valuation Date (2013, 2014, 2015)



The above assumes all assumptions exactly met, including 8% annual investment returns on current smoothed assets  
 Assumes no changes to benefit policy

Assumes current statutory contribution policy remains throughout period

# Projection of UAAL based on Market Asset Values on each Valuation Date (2013, 2014, 2015)



The above assumes all assumptions exactly met, including 8% annual investment returns on current market assets

Assumes no changes to benefit policy

Assumes current statutory contribution policy remains throughout period



# Maximum UAAL

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- ◆ How large can the UAAL be given a specific contribution rate and still produce a 30 year funding period
  - ▶  $5.37\% * \$39.6 \text{ B Payroll (estimated FY2016)} * 14.96 \text{ (30 year amortization factor)} = \$31.8 \text{ B}$
- ◆ How large can the UAAL be given a specific contribution rate and still produce a measureable funding period
  - ▶  $5.37\% * \$39.6 \text{ B Payroll (estimated FY2016)} * 18.80 \text{ (100 year amortization factor)} = \$40.0 \text{ B}$



# Summary

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- ◆ Based on Smoothed Assets, the funding period is 33 years
  
- ◆ However, there are currently deferred investment losses, and it will take either
  - ▶ better than anticipated investment experience
  - ▶ better than anticipated demographic experience
  - ▶ increased contributions
  - ▶ time
  - ▶ or a combination thereof

to attain a funding period at or below 30 years based on the current benefit package
  
- ◆ Projections expect the UAAL to increase in nominal dollars over the next 15-25 years before beginning to decrease
  - ▶ But the ride is likely to be volatile
  
- ◆ Any future benefit enhancements need to be supported by a representative increase in revenue

# Tab 13



# TRS-Care OPEB

## GASB 43 & 45 2015 Actuarial Valuation



**Gabriel Roeder Smith & Company**  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)



# Current Funding Policy

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



# Drivers behind UAAL growth

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- ◆ \$3.4 billion experience loss due primarily to claims/premiums experience
  - ▶ Underlying claims estimates, especially for Rx benefits, increased faster than expected.
  - ▶ Partially offset by favorable MA premium increase.
  - ▶ Retiree contributions remained level.
- ◆ \$4.1 billion loss due to new trend assumption
  - ▶ Projecting higher Rx costs
  - ▶ Assuming retiree premiums remain level in FYE17
- ◆ \$2.1 billion loss due to new demographic assumptions
  - ▶ Mostly due to new mortality and withdrawal assumptions



# 2015 Results

## Current Funding Policy (\$millions)

	2015	2014	2013
	(1)	(2)	(3)
Discount Rate	5.25%	5.25%	5.25%
Unfunded Actuarial Accrued Liability (in Millions)	\$43,230	\$33,261	\$29,284
Normal Cost (in Millions)	\$1,842	\$1,266	\$1,094
Annual Required Contribution (in Millions)	\$3,956	\$2,701	\$2,358
ARC per active member (\$)	\$5,778	\$3,862	\$3,480
Total ARC as a % of Payroll	12.66%	8.38%	7.73%
Employer ARC as a % of Payroll (Net of Active Member Contributions)			
Contributions: 2013 2014 2015	12.01%	7.73%	7.08%
State 0.50% 1.00% 1.00%			
District <u>0.55%</u> <u>0.55%</u> <u>0.55%</u>			
Total 1.05% 1.55% 1.55%			



# Results by Scenario

## Advanced Funding Policy (\$millions)

	2015	2014	2013
	(1)	(2)	(3)
Discount Rate	8.00%	8.00%	8.00%
Unfunded Actuarial Accrued Liability (in Millions)	\$28,141	\$22,215	\$19,664
Normal Cost (in Millions)	\$979	\$736	\$606
Annual Required Contribution (in Millions)	\$2,861	\$2,070	\$1,787
ARC per active member (\$)	\$4,179	\$2,960	\$2,637
Total ARC as a % of Payroll	9.15%	6.42%	5.86%
Employer ARC as a % of Payroll (Net of Active Member Contributions)			
Current Contributions: State 1.00%	8.50%	5.77%	5.21%
District <u>0.55%</u>			
Total 1.55%			



# Cash Estimates for FY2016

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- ◆ The current projected contributions are \$688 million (2.20% of payroll)
- ◆ The current expected net claims are \$1,078 million (\$390 million more than projected contributions)
- ◆ To increase to advance funding, the contribution requirement is 9.15% of payroll (increase of \$2,173 million above the current \$688 million)

**Tab 14**

# Teacher Retirement System of Texas



## Comprehensive Annual Financial Report Fiscal Year 2015

- Jamie Pierce
- Cindy Haley





Government Finance Officers Association

**Certificate of  
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**Teacher Retirement System  
of Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2014**

Executive Director/CEO

# Comprehensive Annual Financial Report FY 2015

## Teacher Retirement System of Texas Highlights

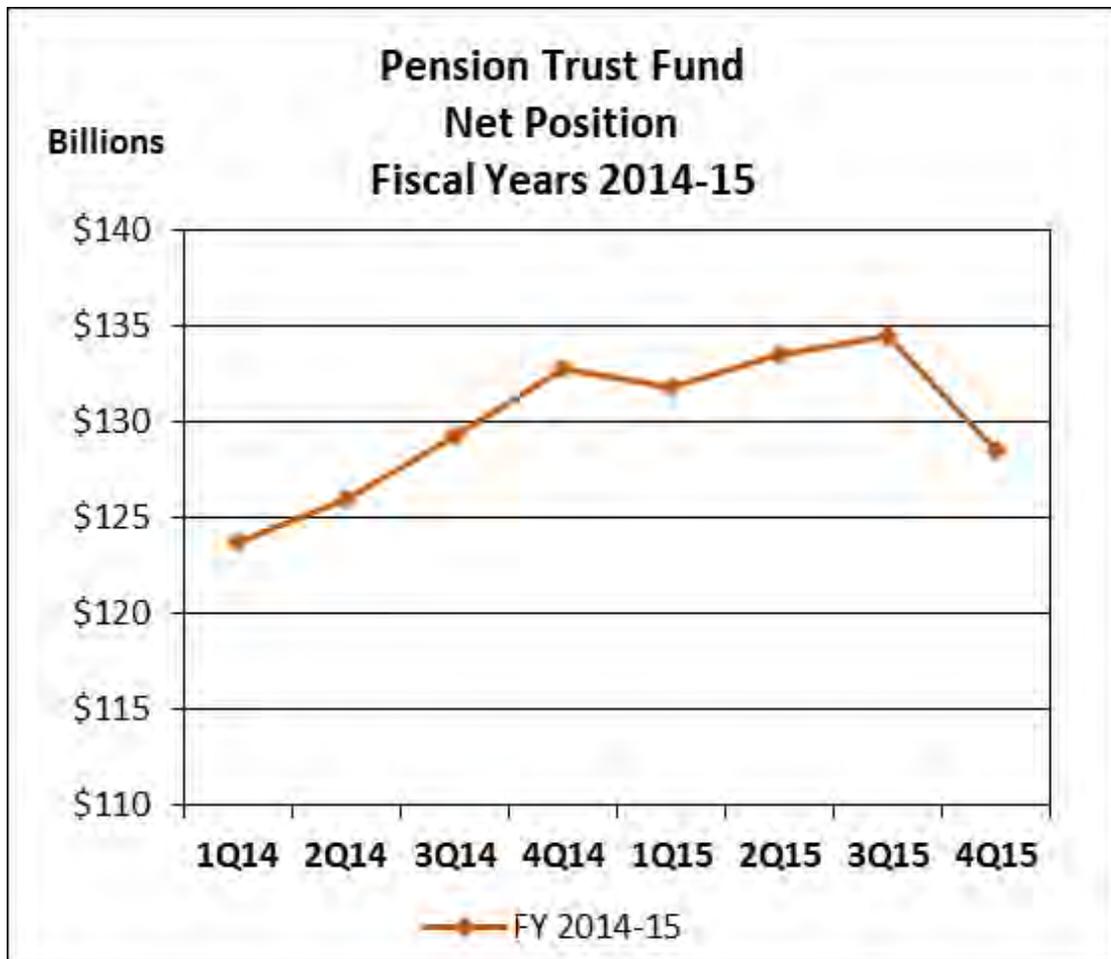
### PENSION TRUST FUND

(billions)

<b>Net Position - September 1, 2014</b>	<b>\$ 132.8</b>
Additions:	
Member Contributions	2.5
State Contributions	2.9
(As Non-employer Contributor \$1.6B; as Employer \$1.3B)	
Investment Income	(0.4)
Other	0.1
Deductions:	
Retirement Benefits and Other	(9.0)
Refunds of Contributions and Admin. Exps.	(0.4)
<b>Net Position - August 31, 2015</b>	<b>\$ <u>128.5</u></b>
Administrative Cost per Member	\$24.37
Investment Cost per Member (in basis points 20.0)	\$177.63
<b>Membership</b>	
Current Members (Average Age 44.6)	1,081,505
Retirees and Beneficiaries	<u>377,738</u>
Total Membership	<u>1,459,243</u>
<b>Participating Employers</b>	1,347



# Comprehensive Annual Financial Report FY 2015



# Comprehensive Annual Financial Report FY 2015



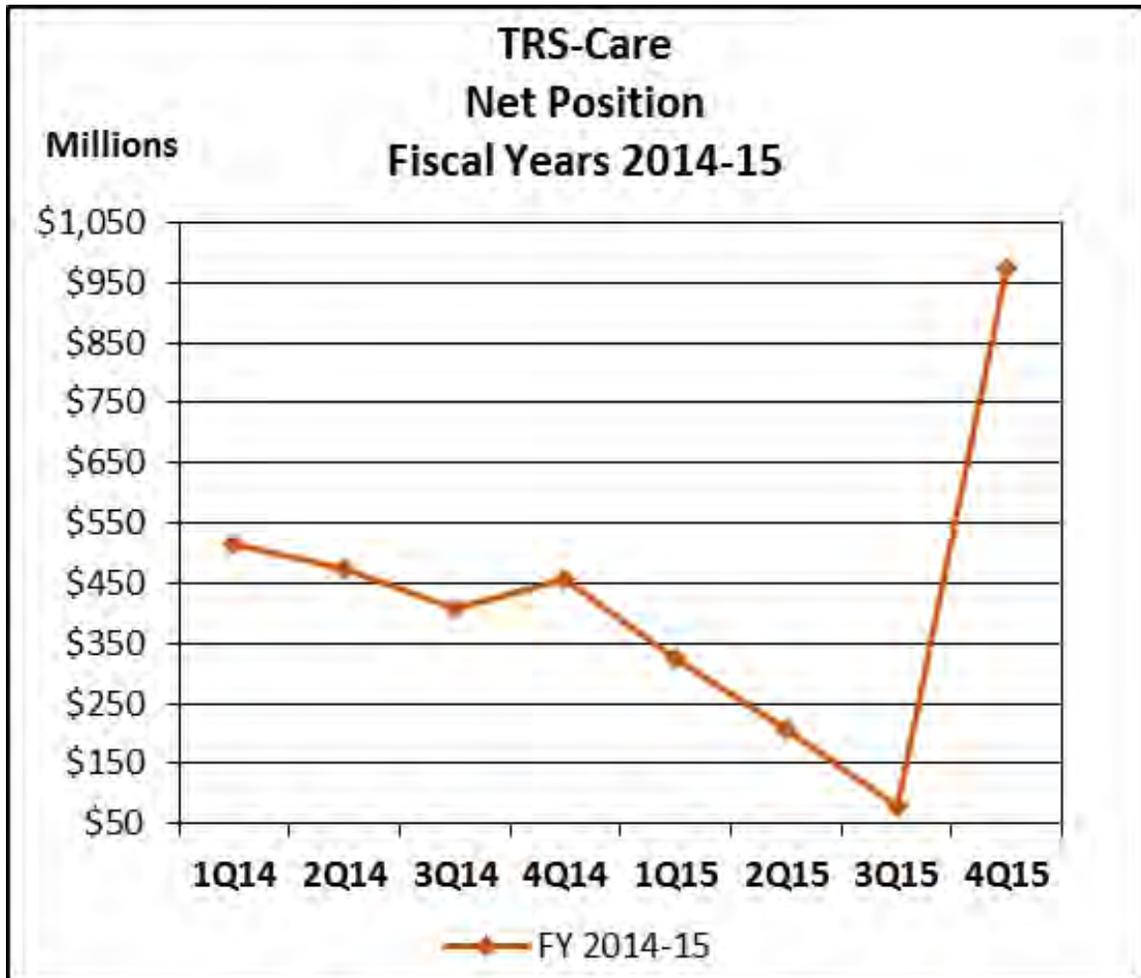
## Teacher Retirement System of Texas Highlights

### HEALTH BENEFIT PROGRAMS

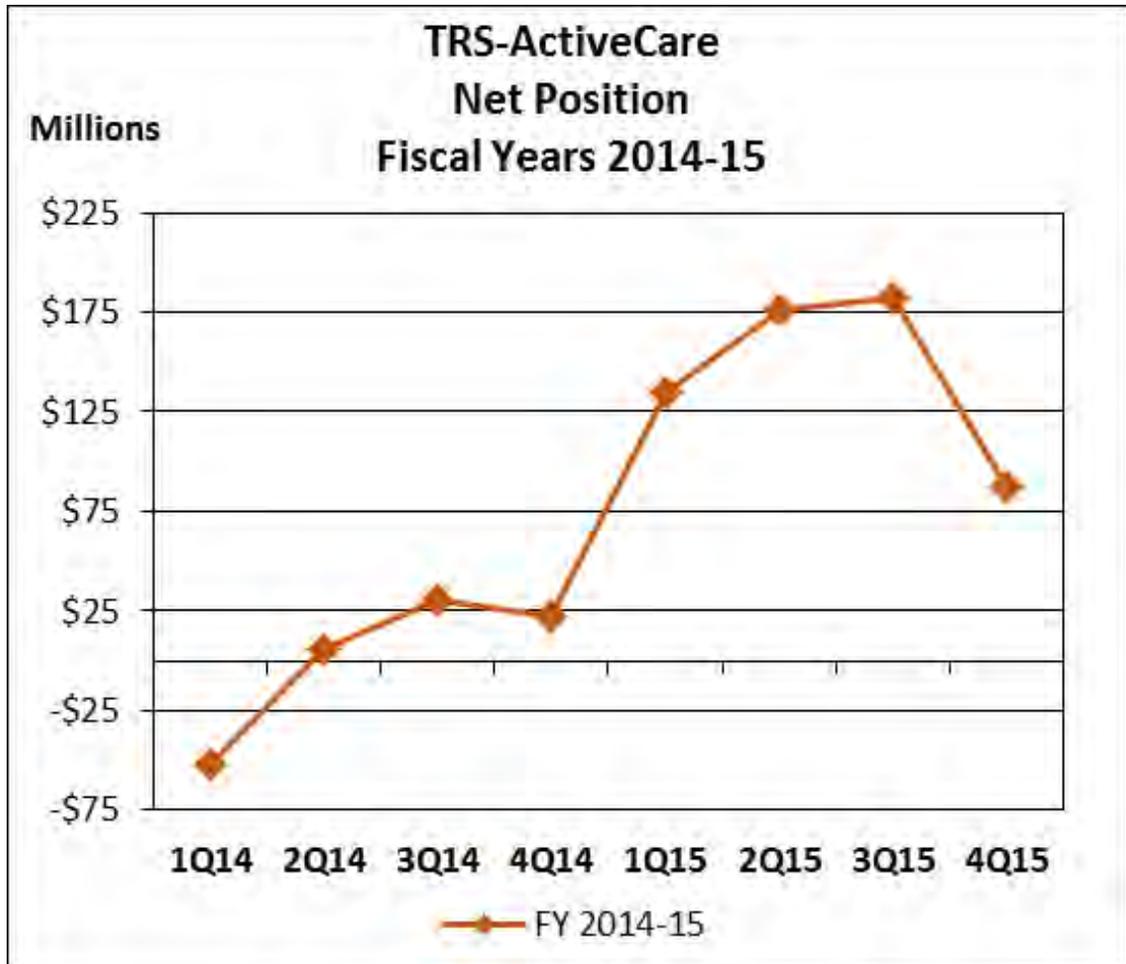
(millions)

	<u>Retired</u>	<u>Active</u>
<b>Net Position - September 1, 2014</b>	\$ <b>457.9</b>	\$ <b>22.8</b>
Additions:		
Health Care Premiums	369.1	1,943.9
State Contributions	281.1	
Member Contributions	198.2	
Participating Employers and Other Contributions	203.0	
Rebates and Discount Income	231.6	
Federal Revenue	126.8	
Investment Income/Other	1.5	1.8
Supplemental Appropriation from State	768.1	
Deductions:		
Medical and Rx Claims	(1,613.2)	(1,743.4)
Claims Processing, Fees and Admin. Expenses	<u>(51.2)</u>	<u>(137.3)</u>
<b>Net Position - August 31, 2015</b>	<b>\$ <u>972.9</u></b>	<b>\$ <u>87.8</u></b>
<b>Membership (and dependents)</b>	<b><u>253,031</u></b>	<b><u>478,241</u></b>

# Comprehensive Annual Financial Report FY 2015



# Comprehensive Annual Financial Report FY 2015



# Tab 15

# Teacher Retirement System of Texas



## Cash Disbursements October 2015

Don Green, Chief Financial Officer

Board of Trustees Meeting

November 20, 2015





# Pension Trust Fund Cash Disbursements

	<b>FY 2015</b>	<b>FY 2016</b>	<b>Variance</b>
September	\$8,329,726	\$8,735,650	\$405,924
October	8,291,727	7,623,816	(\$667,911)
<b>Total</b>	<b>\$16,621,453</b>	<b>\$16,359,466</b>	<b>(\$261,987)</b>

# Tab 16

# Teacher Retirement System of Texas



## TEAM Program Management Update

David Cook, Adam Fambrough, Jay Masci (Provaliant)

November 20, 2015

## Update Items

- TEAM Program Progress
- TEAM Program Budget Summary
- TEAM Project Milestones
- Line of Business (LOB) Project Update



# TEAM Program

## TEAM Program Update Jay Masci (Provaliant)



# TEAM Program

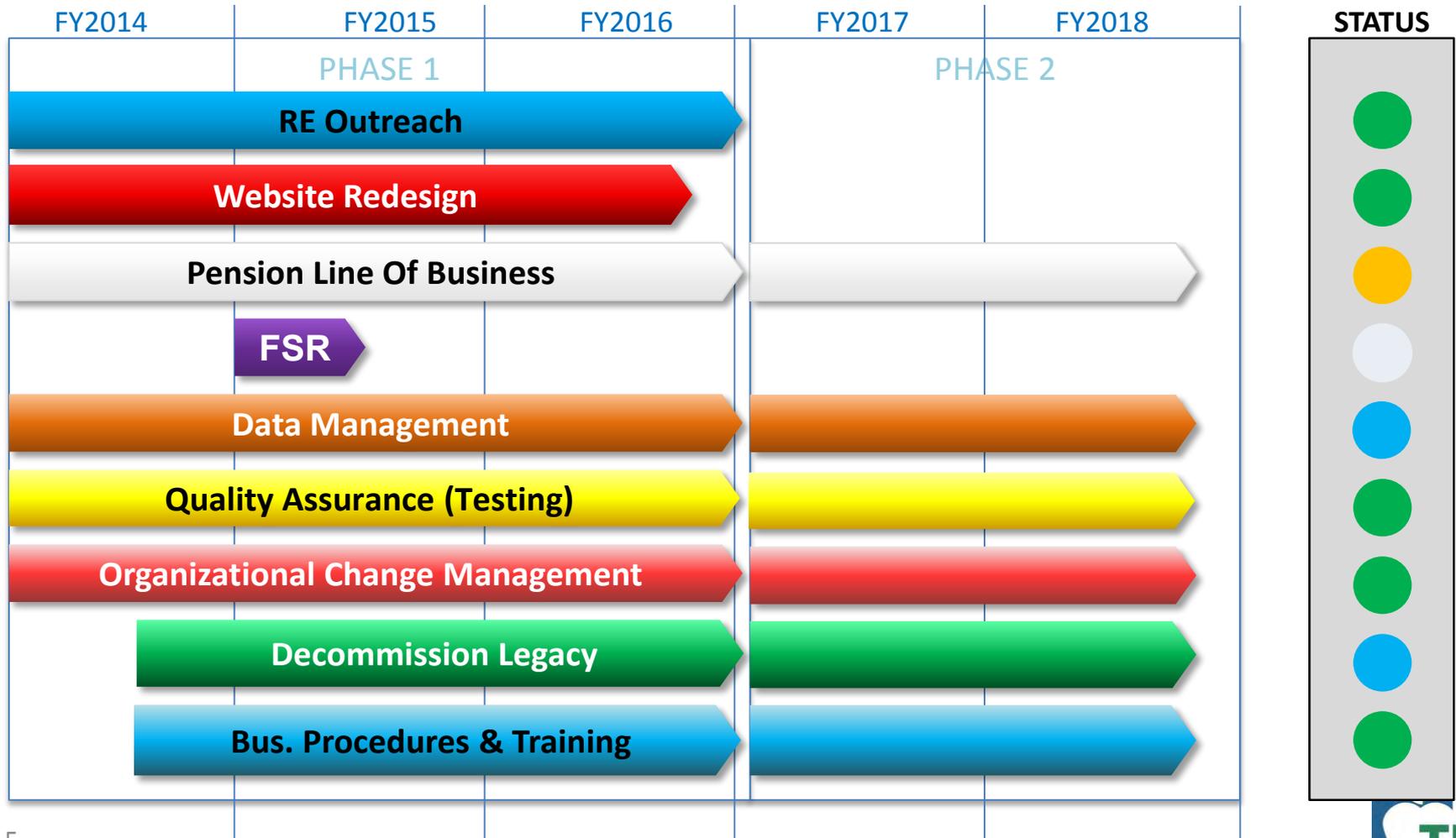
## TEAM Progress as of September 17, 2015





# TEAM Program

## TEAM Progress as of November 9, 2015



# TEAM Program

## Pension Line of Business (LOB) Status Trend

05/2014 08/2014 11/2014 01/2015 03/2015 05/2015 09/2015 11/09/2015



= Future trend see the severity level (status) increasing



= Future trend see the severity level (status) remaining constant



= Future trend see the severity level (status) decreasing



# TEAM Program

## **TEAM Program Budget Update**

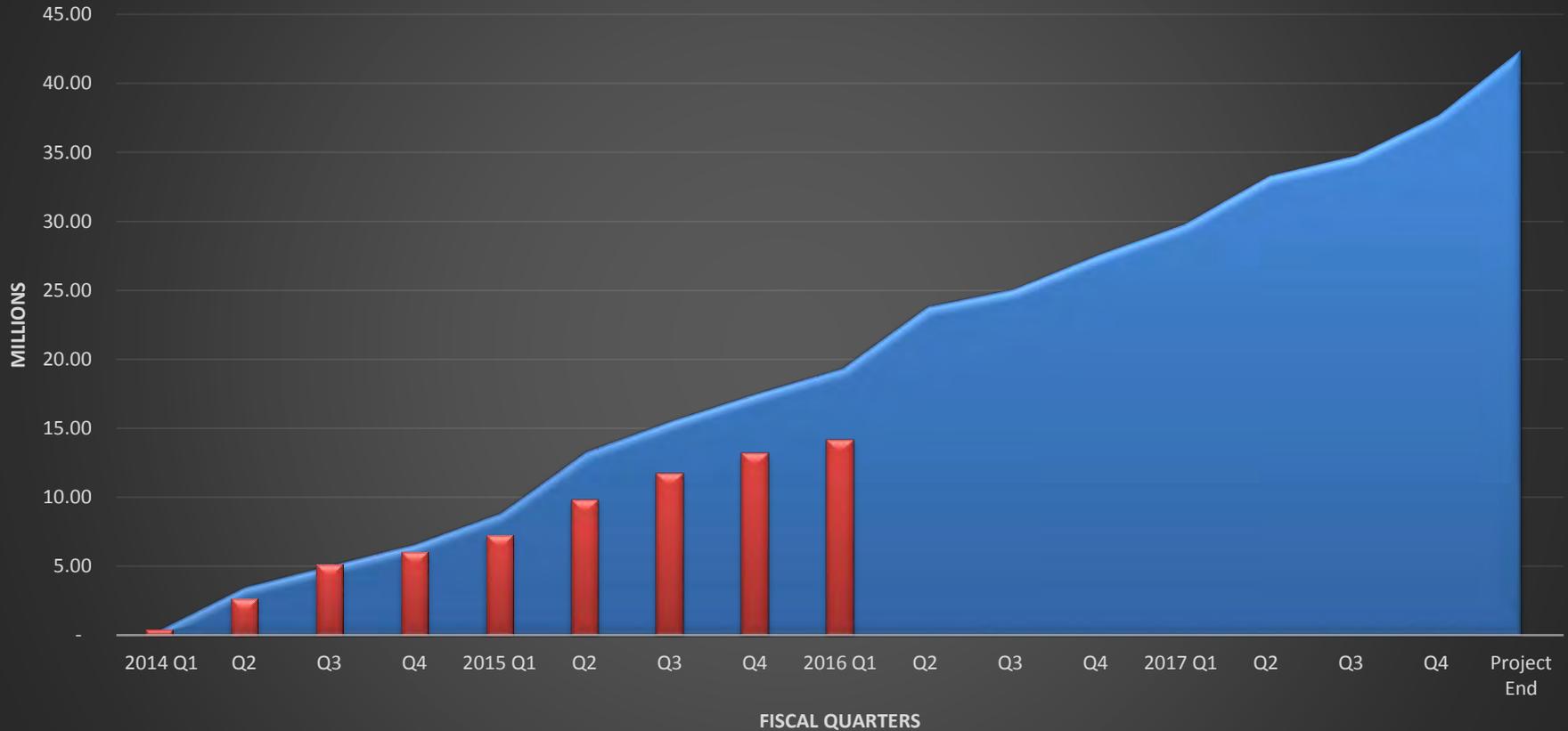
## **TEAM Resources**

### **David Cook**



# TEAM Program

## LOB Project Actual vs Projected Cumulative Expenditures\*



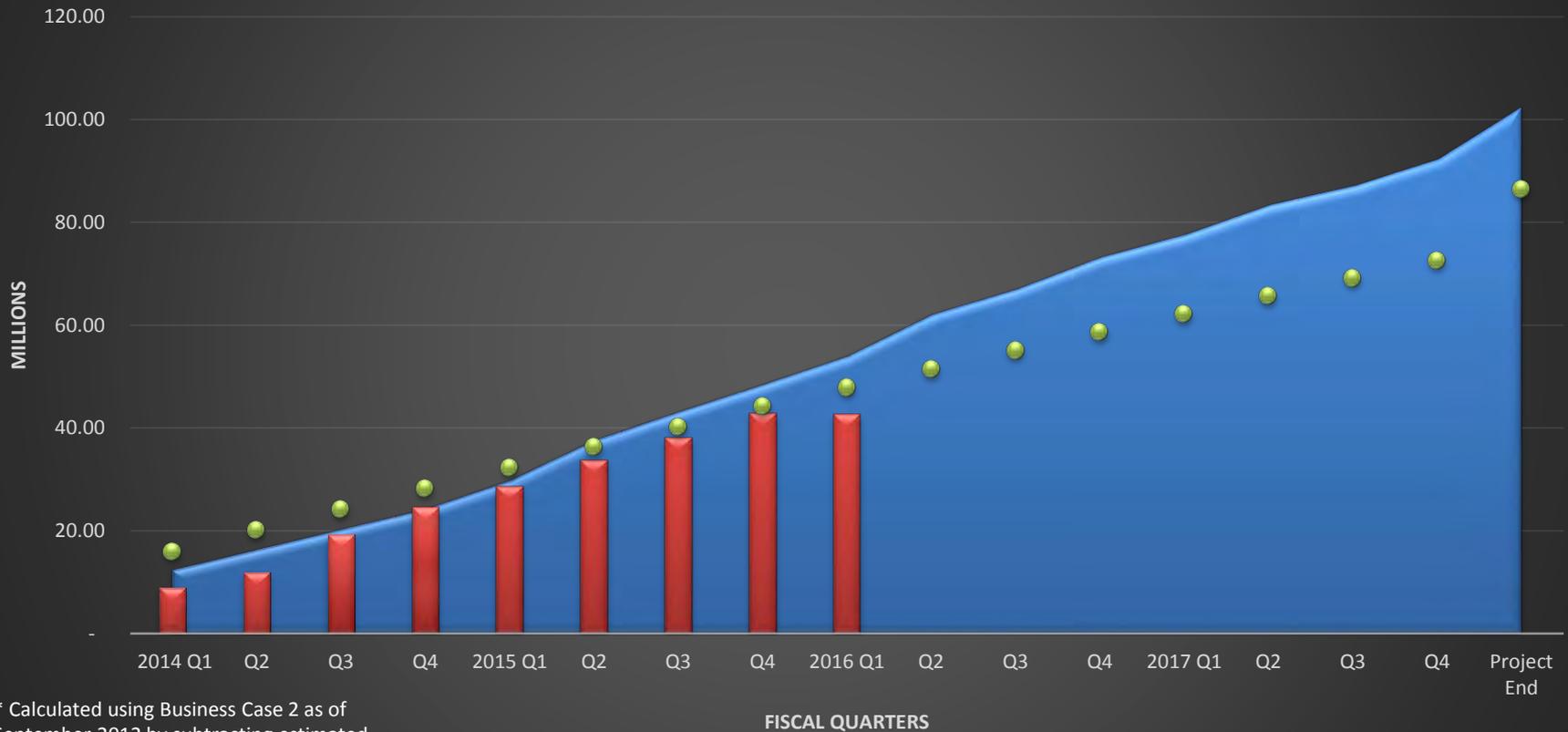
\* Includes \$7.2 million contingency

■ LOB Projected Cumulative Expenditures ■ LOB Actual Cumulative Expenditures



# TEAM Program

**TEAM Program Total Cumulative Expenditures  
Current Expected vs. Actual. vs Original Forecast\***



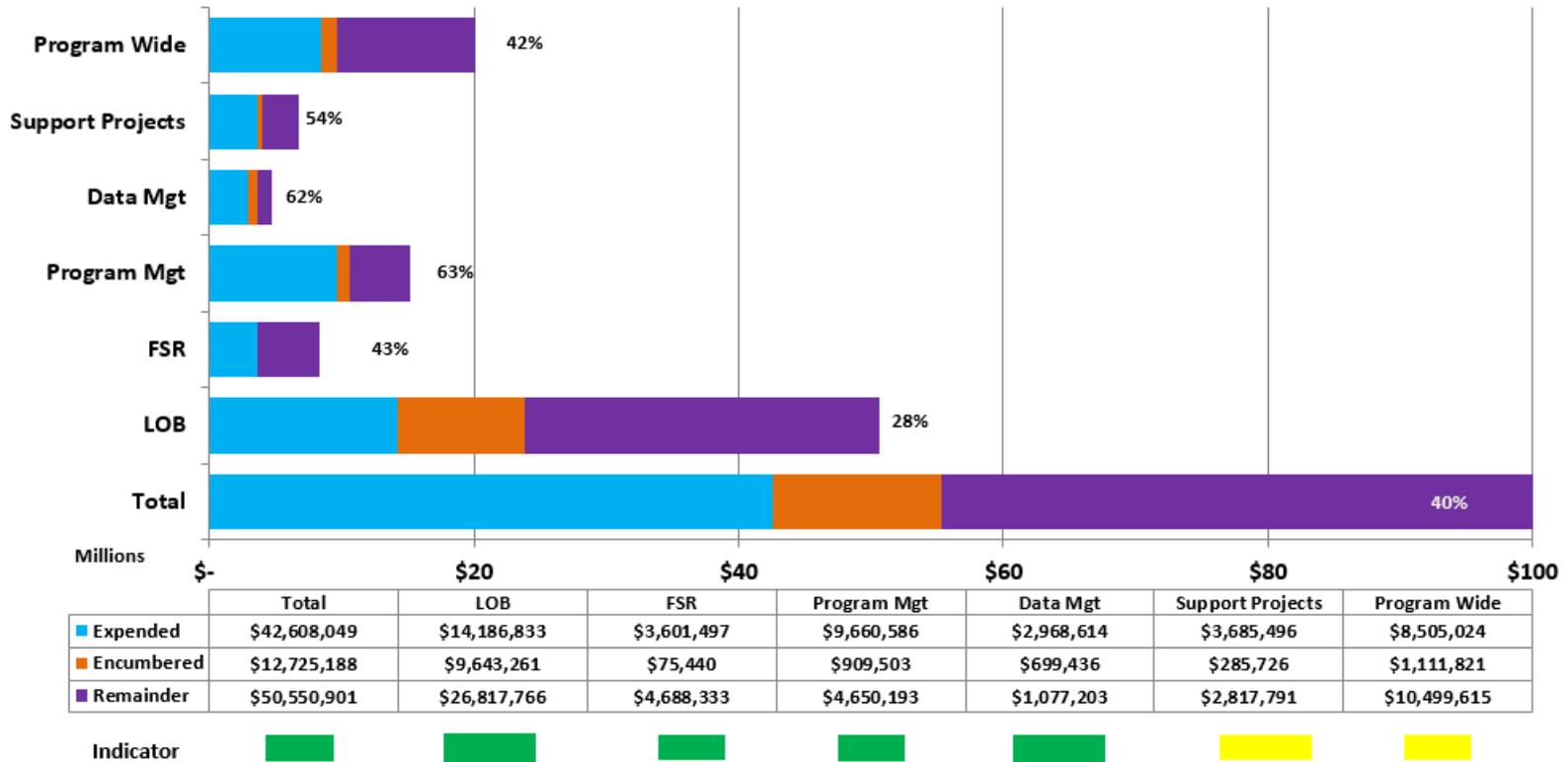
\* Calculated using Business Case 2 as of September 2012 by subtracting estimated agency personnel costs from estimated total project costs including contingency

■ Current Expected Expenditures   
 ■ Actual Expenditures   
 ● Original Forecasted Expenditures



# TEAM Program

## Program Budget by Project (% spent indicated)



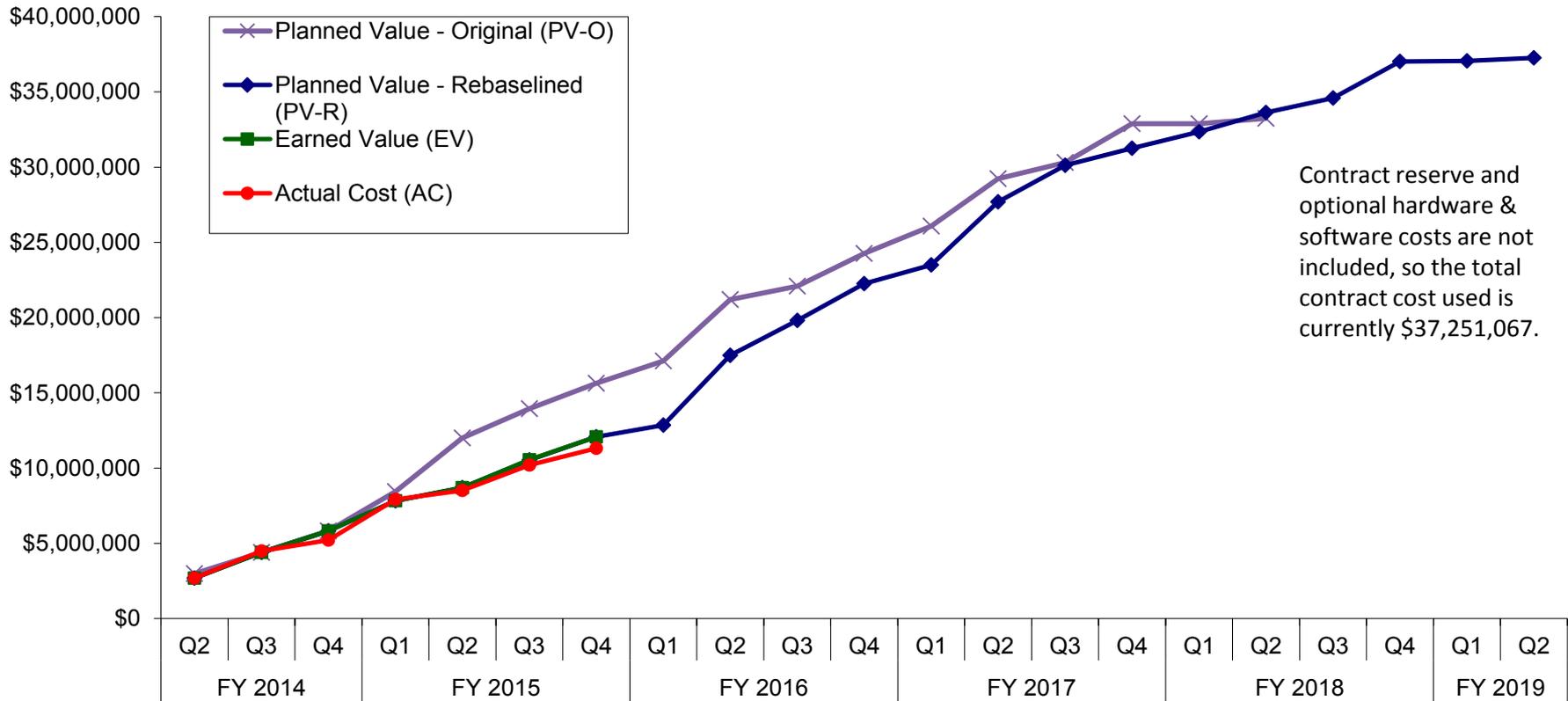
Millions	Total	LOB	FSR	Program Mgt	Data Mgt	Support Projects	Program Wide
Expended	\$42,608,049	\$14,186,833	\$3,601,497	\$9,660,586	\$2,968,614	\$3,685,496	\$8,505,024
Encumbered	\$12,725,188	\$9,643,261	\$75,440	\$909,503	\$699,436	\$285,726	\$1,111,821
Remainder	\$50,550,901	\$26,817,766	\$4,688,333	\$4,650,193	\$1,077,203	\$2,817,791	\$10,499,615

Indicator ■ ■



# TEAM Program

## Line of Business Contract Earned Value Report





# TEAM Program

## **TEAM Milestones** **Jay Masci (Provaliant)**

# TEAM Program

## Previous Milestones

Upcoming Milestones (next fiscal quarter: Sept - Nov)	Previous Planned Date	Current Planned Date	Status
LOB - Workflow Refunds		07/21/15	Completed - Late
LOB - Workflow Benefit Estimates		08/31/15	Completed - Late
LOB - Phase 1A – Design and Build		09/28/15	Completed
LOB - Phase 1 - Detail Level Requirements	10/07/15	10/14/15	Completed – Late
WEB - Procurement		10/16/15	Completed - Late
QAP - Phase 1A – Testware		11/13/15	On Schedule

LOB – Line of Business Project  
QAP – Quality Assurance Project  
WEB – Website Redesign Project

# TEAM Program

## Upcoming Milestones

Upcoming Milestones (next fiscal quarter: Dec - Feb)	Previous Planned Date	Current Planned Date	Status
QAP - Phase 1A – Pre-UAT Execution		12/18/15	On Schedule
BPT - Phase 1A – End-use Training		02/03/16	On Schedule
QAP - Phase 1A – UAT All increments		02/16/16	On Schedule

BPT – Business Procedures and Training Project

QAP – Quality Assurance Project

## **Line of Business (LOB) Project Update** **Adam Fambrough**

## Line of Business (LOB) Project Update

- All detailed level requirements including workflow specifications for Phase 1 have been signed off on
- HP and TRS are concentrating on resolving defects in Phase 1A code in preparation for the certification process with Reporting Entities
- Test scenarios are being defined for use with User Acceptance Testing including the creation of data files
- Preparing to publish the training schedule for Reporting Entities in December with the training to begin in February
- Documenting lessons learned related to Phase 1 in preparation for Phase 2



# TEAM Program

## Detailed Level Requirements Celebration October 7, 2015





# TEAM Program

## Detailed Level Requirements Celebration October 7, 2015



# TEAM Program

## Detailed Level Requirements Celebration October 7, 2015



# TEAM Program

## Detailed Level Requirements Celebration October 7, 2015



# TEAM Program



**Tab 17**



# Independent Program Assessment

TEAM Program Board Update  
November 2015



# Objectives

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## Independent Program Assessment (IPA)

Provide independent reporting and oversight to the TRS Board and Executive Director, or designee, regarding critical risks related to the TRS Enterprise Application Modernization (TEAM) Program to enable informed decision making

### *Critical Risks Focus:*

- Failure to meet TEAM program objectives
- Lack of user acceptance
- Program substantially delayed
- Program substantially over budget

# IPA Overall Scorecard

<b>TEAM Program Governance</b>	<b>Prior Score</b>	<b>Current Score</b>	<b>Observations</b>
1. Program/Project Management	4	4	4,5, 16, 21, 24, 28
2. Risk Management	2	2	23
3. Issues Management and Tracking	2	2	19
4. Program Communication	1	1	
5. Change Management/ Quality Control	3	3	18 ,22
6. Staffing and Organization	3	3	4, 13 – 15, 20
7. Budget Tracking	2	2	Cost overrun
<b>TEAM Projects</b>			
1. Line of Business Implementation	4	4	13 18, 21-27, 29-30
2. Financial System Implementation	On Hold	On Hold	9
3. Data Management	2	2	16
4. Reporting Entity Outreach	1	1	23,24
5. Organizational Change Management	1	1	24
6. Business Procedures and Training	2	2	20 , 23, 24
7. Decommissioning Legacy Systems	1	1	24
8. External Website Enhancement	1	1	

**Legend**

1= LOW

2= GUARDED

3= CAUTION

4= ELEVATED

5= SEVERE

N/A= Project not started, rating is not applicable at this time



# Execution Risk Areas

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1. Tracking to the baseline project plan
2. Quality and acceptance of deliverables
3. Line of Business Phase 1 implementation testing
4. Application security controls design, configuration, testing and implementation plan
5. Line of Business data conversion, user documentation, user training and cutover planning

# Line of Business Major Milestones

Phases and Key Major Milestones	Baseline Start	Baseline Finish	Revised Start	Revised Finish
Phase 1A – Reporting Entity Certification Code Freeze			11/13/15	11/13/15
Phase 1A – User Acceptance Testing Execution	11/30/15	1/19/16	1/5/16	2/15/16
Phase 1A – GO LIVE	1/26/16	2/1/16	2/24/16	2/29/16
Phase 1B – Active Membership - User Acceptance Testing	5/5/16	7/25/16	6/8/16	8/10/16
Phase 1B – GO LIVE	7/19/16	9/19/16	9/19/16	9/19/16
Phase 2 – Benefits - GO LIVE	4/25/18	4/25/18	5/18/18	5/18/18

# Observations – Strengths

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- Security Team established and project manager assigned to manage all TEAM security-related activities
- User Acceptance Test planning progressing well with Cognizant's leadership and methodology
- TRS Business Functional Testing is underway; issues tracked in Hewlett Packard Enterprise tool

# IPA Focus – Monitoring Execution Risks

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## Managing Scope

- 902 total potential Requirements Update Log (RUL) items
- 565 of the total items are associated with a change order or approved deliverable updates
- Per Hewlett Packard Enterprise, the Phase 1 functionality is approximately allocated as follows:
  - 20% - Phase 1A functionality
  - 80% - Phase 1B functionality

# IPA Focus – Monitoring Execution Risks

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## Code quality and defect tracking

- Significant number of defects identified by Hewlett Packard Enterprise related to Internal Release 1, 2 and 3
- Defects appear to be trending down as of Release 3
- Significant number of additional issues identified during TRS testing of Internal Release 1, 2 and 3

# IPA Focus – Monitoring Execution Risks

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## TRS testing strategy and execution

- Testing Plan Development is in progress
- Quality Gate Checklist Development is in progress

# Activities Completed – Current Period

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1. Attended TEAM Core Management Team weekly status meetings and other relevant project meetings
2. Reviewed and evaluated current project schedules and progress against schedule
3. Reviewed samples of approved deliverables and TRS acceptance documentation
4. Reviewed updated User Acceptance Test Strategy and related documentation
5. Reviewed preliminary Performance Test Plan document and related project schedule
6. Reviewed updated requirements traceability reports to compare systems functions to TRS business needs
7. Reviewed and analyzed current Line of Business Application Security Controls related planning documentation and project schedule
8. Reviewed and analyzed weekly functional testing and defect tracking documentation

# Activities for Next Period

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1. Continue to attend and observe weekly Executive Steering Committee and Core Management Team meetings
2. Continue to evaluate updated TEAM Line of Business project schedule and all other dependent TEAM projects
3. Review the current Line of Business functional test schedule and progress
4. Review the updated system performance, system integration, interfaces and bridging test plans
5. Review updated Data migration/Validation, Application Security and End User Training and Documentation related plans
6. Review Line of Business Phase1A Cutover Plan and project schedule
7. Continue to monitor TRS risk mitigation activities related to execution risks

# IPA Budget Status

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IPA Financial summary status through October 15, 2015

Total hours incurred	3,694
Total calculated cost incurred	\$697,300
Total billings for deliverables	\$650,000
<hr/>	
Variance	\$47,300