



TRS Board of Trustees Meeting

October 27, 2016

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

AGENDA

October 27, 2016 – 11:00 a.m.

TRS East Building, 5th Floor, Boardroom

*All or part of the October 27, 2016, meeting of the TRS Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, October 27, 2016.

The open portions of the October 27, 2016, Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided at www.trs.texas.gov.

1. Call roll of Board members.
2. Consider the following administrative items – David Kelly: *[Estimated time 11:00 – 11:15]*
 - A. Approval of the proposed September 22-23, 2016, Board meeting minutes.
 - B. Excusing Board member absences from the September 22-23, 2016, Board meeting.
 - C. Setting, rescheduling, or canceling future Board meetings.
3. Provide opportunity for public comment – David Kelly. *[Estimated time 11:15 – 11:30]*
4. Discuss the Executive Director's report on the following – Brian Guthrie: *[Estimated time 11:30 – 12:00.]*
 - A. Administrative operational matters, including updates on the Executive Director's goals; audit, legal, staff services, investment, board administration, 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.
5. Receive an update on the TEAM Program – Brian Guthrie. *[Estimated time 12:00-12:30.]*
 6. Receive report from CEM on customer service benchmarks - Rogier Slingerland. *[Estimated time 12:30 – 12:45.]*
 7. Consider a resolution increasing the amount of the fiscal year 2017 operating budget for the 403(b) Program – Rebecca Merrill. *[Estimated time 12:45 – 1:00.]*
 8. Discuss and consider personnel matters, the appointment, employment, evaluation, reassignment, duties, discipline, dismissal and other personnel matters involving compensation, of a public officer or employee, including the following: – David Kelly. *[Estimated time 1:00-2:00.]*
 - A. Adoption of a resolution regarding the salary limit for the Deputy Director Investment Officer listed as an exempt position in the 2016-2017 General Appropriations Act – Janet Bray.
 - B. Senior executive staff succession plan – Brian Guthrie.
 9. 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

September 22-23, 2016

The Board of Trustees of the Teacher Retirement System of Texas met on September 22, 2016 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River, Austin, Texas. The following Board members were present:

David Kelly, Chair
Karen Charleston
Joe Colonna
David Corpus
John Elliott
Greg Gibson
Christopher Moss
Anita Palmer
Dolores Ramirez

Others present:

Brian Guthrie, TRS	Leroy DeHaven, TRTA
Ken Welch, TRS	Victor Ferreira, HPE
Don Green, TRS	Ernie Sanders, HPE
Carolina de Onís, TRS	Steve Tolbert, HPE
Katrina Daniel, TRS	Tiffany Calderon, Humana
Britt Harris, TRS	Andrew Clark, Speaker's Office
Jerry Albright, TRS	Maggie Parker, Aetna
Amy Barrett, TRS	Ann Fickel, TCTA
Katherine Farrell, TRS	Ted Melina Raab, Texas AFT
Lane Arnold, TRS	Tom Rogers, TRTA, ARTA
	Philip Mullins, TRTA, Texas State Employee Union
	John Hryhorchuk, OOG
	Jeff Scott, ESI
	John Claise, Albourne
	Michael Johnson, Bridgepoint
	Steve Voss, Aon Hewitt
	Mike Comstock, Aon Hewitt
	Jes Staley, Barclays

Mr. Kelly called the meeting to order at 9:22 a.m.

1. Call roll of Board members.

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

2. Consider the following administrative items – David Kelly:

A. Approval of the proposed July 29, 2016 Board meeting minutes.

On a motion by Ms. Charleston, seconded by Ms. Ramirez, the Board unanimously voted to approve the proposed minutes of the July 29, 2016 Board meeting.

B. Excusing Board member absences from the June 16-17, 2016 Board meeting.

On a motion by Ms. Palmer, seconded by Dr. Gibson, the Board unanimously voted to excuse the absence of Ms. Karen Charleston from the July 29, 2016 Board meeting.

C. Setting, rescheduling, or canceling future Board meetings.

On a motion by Dr. Gibson, seconded by Ms. Ramirez, the Board unanimously voted to approve the proposed schedule for the calendar-year 2017 Board and committee meetings.

On a motion by Mr. Corpus, seconded by Ms. Palmer, the Board unanimously voted to reschedule the October 28, 2016 board meeting to October 27, 2016.

3. Provide opportunity for public comment – David Kelly.

Mr. Leroy DeHaven from Corpus Christi expressed several areas of concern, such as annuity payments and changes to the TRS-Care Program, including the pharmacy benefit management program administered through Express Scripts.

Mr. Ted Melina Raab with Texas AFT addressed the Board about statutory investment restrictions.

Mr. Kelly announced without objection that the Board would next take up Agenda Item 6B to hear a trustee statement from Ms. Charleston.

6. Discuss the Executive Director’s report on the following:

B. Board operational matters, including a review of draft agendas for upcoming meetings

Ms. Charleston announced she was no longer with her former public-university employer and, until a replacement is appointed, she will continue to serve as a holdover trustee on an ongoing basis.

4. Receive an update on the TEAM Program and revised schedule – Brian Guthrie.

Mr. Guthrie described the history, purpose, goals, achievements, and future milestones of the TEAM program, which began in 2009.

Mr. Guthrie described the advantageous features of TEAM, including its user-friendly format, automated workflow processes, and e-signature functionality. Members will be able to interact with TRS online, to have the ability to chat online once the new system is in place. The business rules engine will be centralized, right now all of the business rules are in different places.

Mr. Guthrie provided information about the two phases of TEAM. Phase 1 is outward-facing technology, how TRS interacts with employers and all the school district that send data and money on a monthly basis. Phase 2 is more directed towards internal processing of materials and information about our members that they can access about themselves and interact with TRS. Mr. Guthrie stated Phase 1A is done, implemented earlier this year.

Moving to the new system, Mr. Guthrie reported members will be given a participant ID number to all existing and new members, moving away from using social security numbers. This provides a higher degree of privacy and also security. Mr. Guthrie described the increased functionality staff will have in searching for members and the information will be given in a very accessible format.

Mr. Guthrie then focused on what is already available, having already mentioned the improved technical infrastructure in place. Mr. Guthrie announced the new website would go live on September 26, 2016. Mr. Guthrie described the site as a hub, sort of framework, for members to perform self-service under the new system. Mr. Guthrie noted that a lot of people have worked very hard, many weekends, in cleaning data on members. Additionally, through this process, business rules have been documented sometimes for the first time.

Mr. Guthrie described the six key groups involved in TEAM. The first three are made up of TRS internal staff, the Executive Steering Committee (ESC), the Core Management Team (CMT), and the subject matter experts (SMEs). Mr. Guthrie announced the big change to this is the addition of Chet Henry on top of that structure as a program director.

Mr. Guthrie then turned to the three vendors: HP, Bridgepoint, and Provaliant.

Mr. Guthrie reviewed the project timeline. The timeline experienced a second change. Originally, the project was scheduled to finish May of 2017. He stated 2019 is still within the timeline that was told to the legislature. Mr. Guthrie reported, from a legislative perspective, the project is still on time and on budget.

Mr. Guthrie further addressed the delays experienced in the project. Mr. Guthrie described the GASB new rules for reporting for pension systems as a significant game changer. Mr. Guthrie reported everyone is rolling-up their sleeves and figuring out what GASB meant and how to make it functional moving forward. Mr. Guthrie informed the Board that these are the reasons Phase 1B is not going live this month but a year from now.

Mr. Guthrie noted that even though the timeline has slipped for final implementation, we are still under budget on this contract.

Mr. Guthrie then discussed the new schedule. In reviewing the scope of the project, a couple of deliverables in Phase 2 should be done internally at TRS rather than to ask HP to do them. Mr. Guthrie announced that taking these two deliverables will allow for some compression of the timeline, allowing HP to work on the rest of Phase 2. Mr. Guthrie reminded the Board of the Comptroller's Office denied the request to do our own financial system implementation requiring

TRS to be part of the statewide financial system instead. Mr. Guthrie announced that the Comptroller's Office is going to pay for it.

Mr. Guthrie continued to discuss the new schedule. The development of Phase 2 will start in July of next year and planned to go live August 2019.

Mr. Guthrie stated moving forward he would provide to the Board a report. In response to Mr. Colonna's inquiry as to who would prepare it, Mr. Guthrie said Chet would prepare the report in conjunction with Bridgepoint, Provaliant, and HP. Mr. Guthrie then took the opportunity to thank the Board and a number of people who have been working really hard over the past several months to get us where we are today.

5. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.

Mr. Michael Johnson reported TRS asked Bridgepoint to assist in focusing on three areas in particular regarding TEAM. Mr. Johnson said the first was to identify common metrics. The second request was to get involved with the schedule and really look at it for reasonableness. The third was to provide guidance on the TEAM Transparency Report. To that extent, Mr. Johnson announced bringing on David Roe, Director of Risk and Compliance Practice. Mr. Johnson said that once the Transparency Report, metrics are in place and all understand the common ways to execute, then Bridgepoint remain more in a compliance role.

Mr. Johnson stated with the expanded scope, Bridgepoint has asked for an expansion of their contract to cover four components: the additional advisory consulting; the incremental involvement of Mr. Roe; ongoing activities including involvement in the Transparency Report; and finally the true-up of the IPA budget variance.

Mr. Johnson provided the Budget Variance Report. Mr. Johnson noted the contract ends prior to the current expected end of the TEAM program.

6. Discuss the Executive Director's report on the following – Brian Guthrie:

- A. Administrative operational matters, including updates on the following: Executive Director's goals, financial awareness project, audit, legal, staff services, investments, board administration, special projects, actuarial matters, 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.**

Mr. Guthrie provided the Board with general updates. A joint Public/Private Joint Strategic Partnership Summit was held August 3, in New York City. Mr. Guthrie attended NASRA in Idaho, August 5th through 9th. Mr. Guthrie reported he was re-elected as the Regional Vice-President for NASRA which means he will continue to serve on the Executive Committee for another two years.

Mr. Guthrie listed upcoming events for TRS and the Board.

Mr. Guthrie noted the successful implementation of a new agency-wide 360 evaluation process. He also noted that most if not all of the EC members have started the Claritas Program. Mr. Guthrie then reviewed the renovations to the boardroom.

Mr. Guthrie turned to providing the Board information on what is happening around the country as it relates to the return assumption. Mr. Guthrie reported that the Pension Review Board (PRB) is looking at this issue right now. The PRB every couple of years release the PRB Guidelines for Actuarial Soundness. Mr. Guthrie stated TRS responded to PRB's questions issued.

Mr. Guthrie then discussed investment return assumptions. NASRA in February put together its annual Issue Brief on Public Pension Plan Investment Return Assumptions. Mr. Guthrie commented it is appropriate for TRS to start the discussion and to take a look at a Plan Management Policy.

Mr. Guthrie announced the viewing of the financial awareness videos put together by Ms. Cassi Lamb and her team. The first video in this series will launch on Monday with the new website. Mr. Guthrie then provided the Board an update on the internal communications that have taken place. Ken and he conduct TEAM Huddles on a routine basis on a departmental level. Mr. Guthrie stated three or four rounds of huddles have been held over a three year period, 67 in total.

Mr. Guthrie then reviewed the proposed items for the next two upcoming Board meetings.

7. Discuss and consider investment matters, including Performance Review: Second Quarter 2016. – Steve Voss and Mike Comstock, Aon Hewitt.

Mr. Mike Comstock presented the trust performance review on a year-to-date basis through June 30th, which included market returns, market value change, asset allocation, and total fund performance. Mr. Comstock summarized the last year has been a very difficult environment for alpha-seeking investors. Mr. Harris noted there has been an increasing trend for money to move from active to passive – moving from an active portfolio to a passive index. Further discussion was had regarding investment philosophy of active managers versus passive indexes and the cyclical aspects of markets. Mr. Comstock noted that 90 percent of active U.S. equity managers have underperformed their benchmark.

A brief recess was taken.

8. Receive an update on Brexit and Global Banking – Jes Staley, CEO of Barclays and Britt Harris

Mr. Britt Harris introduced Mr. Jes Staley, CEO of Barclays, to have a joint discussion on Brexit. Mr. Harris provided a synopsis on how the referendum vote for the UK was a massive miscalculation. Mr. Staley and Mr. Harris discussed how the UK vote affected and may continue to affect global economic integration, the bank systems and monetary policies.

9. Consider opting out of a pending securities class action lawsuit to assert claims directly against the defendants and 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 Onis and Lane Arnold.

At 4:00 p.m. Mr. Kelly announced the Board would recess to enter into executive session to take up the above item and then would continue in recess for the rest of the day in order to take up the noticed committee meetings.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 23, 2016, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Karen Charleston
Joe Colonna
David Corpus
John Elliott
Christopher Moss
Anita Palmer
Dolores Ramirez

Others present:

Brian Guthrie, TRS	Jessica Brown, TRS
Ken Welch, TRS	Youssef Fakhreddine, TRS
Amy Barrett, TRS	Rhonda Price, TRS
Carolina de Onis, TRS	Barbara Forssell, TRS
Barbie Pearson, TRS	Teresa Granger, TRS
Don Green, TRS	Greg Wood, Aetna
Howard Goldman, TRS	Philip Mullins, TRTA
Chris Cutler, TRS	Leroy DeHaven, TRTA
David Cook, TRS	Tom Rogers, ARTA and TRTA
Katherine Farrell, TRS	Trevor Simmons, LBB
Jamie Pierce, TRS	Tiffany Calderon, Humana
Janie Duarte, TRS	Ted Melina Raab, Texas AFT
Jim Pinkard, TRS	Ann Fickel, TCTA
Roberto Ruiz, TRS	

Mr. Kelly called the meeting to order at 10:00 a.m.

1. Call role of Board members.

Ms. Farrell called the roll. A quorum was present. Dr. Gibson was absent.

10. Provide opportunity for public comment – David Kelly.

Tom Rogers addressed the Board regarding his concerns for sustainable TRS health care. Mr. Rogers stated the legislators should be told the details of all the sustainable propositions without prejudice.

11. Receive the report of the Investment Management Committee on its September 22, 2016, meeting. – Joe Colonna.

Mr. Colonna, Committee Chair, provided the following report of the Investment Management Committee:

The Investment Management Committee met on September 22, 2016. The committee approved the proposed minutes of the June 16, 2016 meeting. The first presentation was a review of the Public Strategic Partnership Network given by Mike Pia and J.B. Daumerie. Following, there was a presentation given by Dale West, Susanne Gealy and Brad Gilbert with a review of the External Public Markets Portfolio.

12. Receive the report of the Risk Management Committee on its September 22, 2016, meeting. – Karen Charleston.

Ms. Charleston, Committee Chair, provided the following report of the Risk Management Committee:

The Risk Management Committee met on September 22, 2016. The committee approved the proposed minutes of June 16, 2016 meeting. A presentation was given on the review of the investment risk report which was presented by Jase Auby and James Nield.

13. Receive the report of the Policy Committee on its September 22, 2016, meeting and consider related matters– David Corpus:

- A. Consider proposed amendments to the Investment Policy Statement.**
- B. Consider proposed amendments to the General Authority Resolutions.**
- C. Consider proposed rule amendments to TRS-ActiveCare Rule § 41.36.**

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

The Policy Committee met on September 22, 2016. The committee approved the proposed minutes of the June 16, 2016 meeting. The committee recommended to the Board adoption of proposed amendments to the Investment Policy Statement. The committee recommended to the Board adoption of proposed amendments to the General Authority Resolutions. The committee recommended to the Board adoption of the proposed rule amendments to TRS Active-Care Rule § 41.36, relating to enrollment periods for TRS-ActiveCare.

The committee authorized public comment publication in the *Texas Register* the proposed amended rules in Chapters 23, 25 and 29 of TRS' rules. Those rules will be brought back to the committee at a future meeting for recommendation to the Board and final adoption. Additionally, the committee opened the Rule Review for the Chapter 53, 403(b) rules and authorized publication of the Rule Review notice and timeline. The proposed rule review will be completed in June 2017. Finally, the updated the Policy Review Schedule.

Mr. Corpus then moved and the Board unanimously voted to adopt the proposed amendments to the Investment Policy Statement, as recommended by the committee.

Mr. Corpus then moved and the Board unanimously voted to adopt the proposed amendments to the General Authority Resolutions, as recommended by the committee.

Mr. Corpus then moved and the Board unanimously voted to adopt the proposed rule amendments to TRS Active-Care Rule § 41.36, relating to enrollment periods for TRS-ActiveCare, as recommended by the committee.

14. Receive the report of the Compensation Committee on its September 22, 2016, meeting and consider related matters, including the annual adoption of the Performance Incentive Payment Plan and any proposed amendments. – Dolores Ramirez.

Ms. Ramirez, the Committee Chair, provided the following report of the Compensation Committee:

The Compensation Committee met on September 22, 2016. The committee adopted the proposed minutes of the September 24, 2015 meeting. The committee received a presentation on matters related to the performance incentive pay plan for investment staff from Jerry Albright and Sylvia Bell. The committee recommended continuation and adoption of the performance incentive pay plan and amendments for the performance period beginning October 1, 2016.

Ms. Ramirez then moved and the Board unanimously voted to adopt the continuation of the investment performance incentive pay plan and amendments for the performance period beginning October 1, 2016, as recommended by the committee.

15. Receive the report of the Audit Committee on its September 23, 2016, meeting and consider related matters, including the following – Chris Moss:

A. Proposed revisions to the Internal Audit Charter.

B. Proposed Audit Plan for Fiscal Year 2017.

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

The Audit Committee met at 8:00 a.m. on Friday, September 23, 2016 in the 5th Floor Boardroom. The State Auditor's Office staff presented the plan for the audit of TRS' comprehensive annual of the financial report for fiscal year 2016 and results of the audit of TRS' fiscal year 2015 schedule of employers' proportionate shares. TRS staff provided an

update on the TRS-ActiveCare open enrollment process and the final report of the TRS-ActiveCare open enrollment readiness review. Investment Compliance staff presented information about the new conflicts disclosure forms and routine administrative reports.

Internal Audit staff presented the results of projects, including the quarterly investment compliance testing, second half test results of investment controls, overall opinion on the Investment Management Division internal controls, annual testing of benefit payments, two employer audits, the status of prior audit and consulting recommendations and audit administrative matters.

The committee approved the recommendation to the Board of Trustees to approve the proposed revisions to the Internal Audit Charter and approved the proposed audit plan for fiscal year 2017.

Mr. Moss then moved and the Board unanimously voted to adopt the proposed revisions to the Internal Audit Charter, as recommended by the committee.

Mr. Moss then moved and the Board unanimously voted to approve the proposed audit plan for Fiscal Year 2017, as recommended by the committee.

16. Review the reports of the Chief Financial Officer regarding expenditures, current financial review and other financial matters involving TRS programs. – Don Green.

Mr. Green provided the Board with an update on the year end of Fiscal Year (FY) 2016 which ended on August 31. The cash that was disbursed from the Pension Trust Fund for FY 2016 was \$110.4 million for administrative purposes which was \$7 million more than FY 2015. Mr. Green noted about half of that is TEAM related. The overall budget for FY 2016 was \$159.2 million, 81 percent of that from the Pension Trust Fund, 14 percent from soft dollars and about 5 percent from healthcare. Mr. Green reported that \$130.5 million was expended and encumbered for FY 2016, noting these are unaudited numbers. This was \$28.6 million below what was approved for expenditure. Mr. Green then provided a detailed analysis as to expenses.

Mr. Green took the opportunity to introduce the budget staff and expressed appreciation for their hard work. Mr. Green then mentioned the legislative appropriations request was submitted and can be found on TRS website. Mr. Green, in response to a previous inquiry from Ms. Ramirez and Mr. Corpus, announced that \$65,000 a year is generated from the parking revenues outside the building. Mr. Green noted there are plans to re-strip and resurface the lot and it is to be paid for out of the revenues generated for parking.

17. Review the report of the Chief Benefit Officer, and consider the following related matters – Barbie Pearson:

A. Consider approving the list of members qualified for retirement for June through August 2016.

B. Consider approving the minutes of the May and July 2016 Medical Board meetings.

Ms. Pearson presented two items for the Board's approval. The first one is the list of members qualified for benefits for June through August of 2016.

Mr. Corpus moved, Mr. Colonna seconded, and the Board unanimously approved the list of members qualified for benefits for June through August of 2016.

The second item Ms. Pearson presented for approval was the minutes of the May and July 2016 Medical Board meeting minutes.

Ms. Palmer moved, Ms. Ramirez seconded, and the Board unanimously approved the minutes of the May and July 2016 Medical Board meeting minutes.

18. Receive an update on the Website Redesign Project. – Howard Goldman.

Mr. Goldman announced the completion of the website redesign. Mr. Goldman reported this is the first website redesign in the last ten years. Mr. Goldman noted the contractor, Catapult Systems, did good work. Mr. Goldman recognized Michael Kennedy, director of public cloud strategy and David Cook, project manager, for their integral part of the projects success. Mr. Goldman reviewed the notable features of the new website. He then reviewed the communication and promotion of the new site to the TRS' various audiences. Mr. Goldman announced the best of all is the project was completed on time and within budget. Mr. Goldman then introduced and commended the people who worked on the project.

19. Receive the Deputy Director's report, including matters related to administrative, financial and staff services operations – Ken Welch.

Mr. Welch shared for the first time, 100 percent of all reporting entities had their reports in, finalized and made it into the year-end close. Mr. Welch commended Ms. Barbie Pearson and her team, Mr. Don Green and his team and Mr. Chris Cutler and his team in IT. With the year closed, Mr. Welch was able to report that more was done than in the past. There were about 1,700 more retirements, 426 more refunds were processed and unfortunately, 527 more death claims. The only item we did less of was service credit purchase. There were more than 48,554 telephone calls this year. On the TEAM front, there are 485 districts certified.

Mr. Welch noted that staff is exploring Spanish language forms, an idea which was generated during one of the TEAM huddles. Mr. Welch announced that John Cody, a lead developer in our IT Division was honored last month by receiving the Rising Star Award from the Texas Association of State Systems for Computing and Communications.

Mr. Welch discussed various activities occurring around the agency.

20. Consider personnel matters in Executive Session, including the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee as authorized by Section 551.074 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code). – David Kelly.

This item was not taken up.

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.

This item was not taken up.

At 11:02 a.m., Ms. Ramirez moved, Mr. Corpus seconded and the Board unanimously voted to adjourn.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 27TH DAY OF OCTOBER, 2016

ATTESTED BY:

Katherine H. Farrell
Secretary to the TRS Board of Trustees

Date

Tab 4



Executive Director's Report, Brian Guthrie

October 27, 2016



- General Updates
- Potential Omnibus Bill Topics
- New Website Video
- Upcoming Agendas

General Updates

General Updates

- Update on 94th NCTR Annual Conference: Securing the Future – Oct. 8-12, 2016, Providence, Rhode Island.
- House General Investigating and Ethics Committee Hearing – October 12, 2016
- NASRA Executive Committee – October 27-30, Portland, Maine.
- Private/Public SPN Summit – November 2-3, Austin.
- Texas Institutional Investor Forum – November 10, Austin.
- NCTR Fall Executive Committee Meeting – December 9-11, Tucson, Arizona.
- Continue to prepare for the Legislative Session and support the Interim Committees.
- New Automation of the Incentive Comp Payment Process.

Potential Omnibus Bill Topics

Potential Omnibus Bill Topics

- Benefit Administration
 - Clarify statutes relating to certain plan terms, electronic communication with participants, IRS plan qualification & compliance, and reporting deadlines from reporting entities.
 - Correct statutory references from the TRS Board of Trustees to the Higher Education Coordinating Board regarding certifying contributions to Optional Retirement Fund.

Potential Omnibus Bill Topics

- Agency Administration
 - Remove the requirement in the Education Code that the TRS Board of Trustees determine whether a school district offers group health coverage that is comparable to TRS Active-Care.
 - Clarify statute to ensure that additional and enhanced personal financial information required by the TRS Board of Trustees provided by key employees is not subject to public disclosure.
- Investments

New Website Video

New Website Video

Upcoming Agendas

December 1-2, 2016 Major items include (2 Day Quarterly Meeting):

- TEAM Update
- Report on Q3 Earnings.
- Comprehensive Annual Financial Report (CAFR).
- Pension Fund Valuation.
- TRS-Care Valuation (Other Post Employment Benefits – OPEB) Valuation.
- Health Benefits Funds Briefing.
- Budget Report

Committees

- **Investment Management Committee Meeting**
 - Asset Allocation Group Presentation.
 - Risk Group Presentation.
- **Risk Management Committee Meeting**
 - Enterprise Risk Management.
- **Policy Committee Meeting**
 - Reviews of Soft Dollar Policy, Proxy Voting Policy, Securities Lending Policy
 - Proposed Adoption of TRS Rules: 23.7, 23.8, 25.24, 25.31, 25.303
- **Audit Committee Meeting**
 - Report on the CAFR Audit.
 - Report on audit of TRS-Care Service Providers

February 22-24, 2017 Major items include

(Three day education retreat in Austin):

- Team Update
- Departmental Overviews and Collaboration: Overall Philosophy of Audit/Compliance/ERM
- Educational Presentations and Trainings
- Investment Presentation: Active vs. Passive Investments
- Facility Update
 - Building Security – DPS and Fire Marshall reports
 - Innovation Zone – changes to the landscape of the Red River area

Tab 5

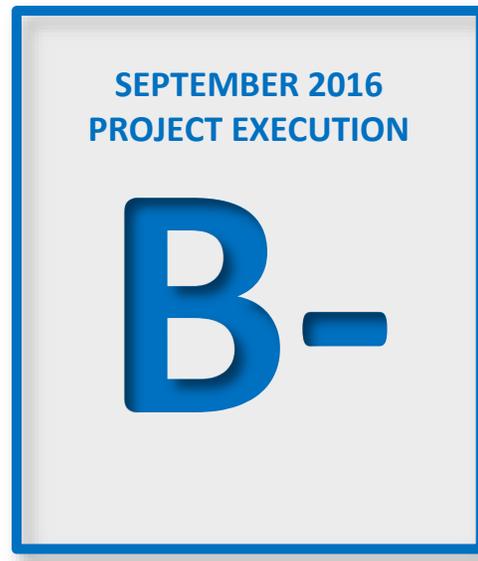
TEAM TRANSPARENCY REPORT

MONTH ENDING SEPTEMBER 2016

EXECUTIVE SUMMARY

Purpose

The **TEAM Program Transparency Report** is a statement prepared as a snapshot of TEAM on a monthly basis to disclose measurements related to TEAM Schedule, Cost, Quality and overall Project Execution. It is generated by TRS staff in cooperation with the Hewlett Packard Enterprise, Bridgepoint and Provaliant teams. Each month this report will serve to update the status of the TEAM program, key issues, risks and plans for the future.



Project Execution Score

Each month, the Project Execution Score will be prepared indicating the overall status including Schedule, Cost adherence and Quality of the phase(s) currently underway. While the majority of the grade will be quantitative, stakeholders from HPE, Provaliant, Bridgepoint and TRS will give input from a subjective perspective.

Trending of the Overall Grade will be used to identify and address issues within the TEAM program leading to ongoing, continuous improvement.

Grading Scale

- A – Excellent
- B – Satisfactory
- C – Needs improvement
- D – Unsatisfactory
- F – Failing

The first baseline of the Project Execution Score put the TEAM Program at a B-.

The score reflects that the original September Phase 1 Go Live critical milestone was missed, which was discussed in the September Board meeting, as well as 4 late high priority action items and 3 late decision items.

Improvement/Remedy: As was discussed in the September Board meeting TRS and HPE are reestablishing a new schedule. The new schedule reflect the new milestone dates, which will be tracked and reported on as part of this Transparency Report. The TEAM

Program is taking steps to produce weekly reports on upcoming late action and decision items to be more proactive.

For more information regarding the components of the Project Execution Score please see the PROJECT EXECUTION SCORE section.

Current TEAM Goals and Progress

Improve and adhere to the delivery of the TEAM Program and Line of Business project.

- Goal: Finish deployment of Phase 1 during the current fiscal year.
Status: On-track
- Goal: HPE is optimizing processes, applying lessons learned and staffing appropriately to meet the Phase 1C and Phase 2 schedule as agreed upon.
Status: On-track - HPE added an experienced testing resource for Phase 1C and Phase 2. TRS have taken all of the lessons learned, which included input from HPE and vetted them so they could be entered as action items that need to be completed for Phase 1C and/or Phase 2.
- Goal: Commencing with Phase 2, TRS and HPE will increase coordination of their project plans. Regular reporting of the schedule status will be provided in this Transparency Report.
Status: Ahead of schedule - TRS is currently establishing a new process to have a single schedule for all of TEAM that will be coordinated with HPE. TRS is striving to have this process in place as part of the Phase 1C schedule coordination.
- Goal: Initiate the Phase 2 Requirements Planning phase in November of 2016.
Status: Ahead of schedule - TRS and HPE have already started some informal joint planning sessions ahead of the November schedule. TRS has started formal Phase 2 preparation/planning sessions involving SMEs as needed.
- Goal: Phase 2 will be deployed before the end of the next biennium and efforts will be made to improve upon that.
Status: On-track
- Goal: Implement continuous process improvement
 - Increase TRS executives “hands on” oversight

Status: On-track - Brian Guthrie is totally engaged in success of the TEAM Program.

- Engage Chet Henry as TEAM Program Director to make improvements and communicate directly with TRS Executives

Status: On-track – Chet Henry is engaged and leading process improvement efforts, escalating items as needed and is providing another communication channel to the TRS Executives on the status of TEAM.

- Increase coordination of TRS, HPE, Provaliant and Bridgepoint

Status: On-track – Chet Henry is engaged and leading process improvement efforts, escalating items as needed and is providing another communication channel to the TRS Executives on the status of TEAM.

- Implement regular AGILE type standup meetings including joint HPE/TRS staff where appropriate to increase focus on defect resolution

Status: Completed – Meetings implemented are on-going.

- Develop agreed upon common metrics to manage, monitor and report on the TEAM program

Status: Completed – First set of metrics for the Transparency report and the underlying process to gather the metrics.

- Establish a new Phase 1 and 2 schedule taking into account Phase 1 Lessons Learned with finalization dependent on the requirement update work effort and contract negotiations

Status: Behind – The high-level dates for Phase 1 and Phase 2 have been established and presented to the Board. However, the detailed schedule and dates are awaiting the results of the contract negotiations, which are taking longer than expected.

- Develop a joint Business Function Testing process between HPE and TRS, including co-development of test cases to foster delivery of a higher quality product

Status: On-track – Discussions are occurring, but nothing formal has been set-up yet.

Key Issues

Key Issues are those being escalated to CMT/ESC to be resolved.

- Need to have an approved reestablished schedule from HPE and TRS in order for TRS to complete their schedule for Phase 1 and Phase.

Disposition: Awaiting a Phase 1 and 2 re-established schedule. The high-level dates for Phase 1 and Phase 2 have been established and presented to the Board. The remaining Phase 1 schedule has been agreed to. However, the detailed schedule and dates for Phase 2 are awaiting the results of the contract negotiations, which are taking longer than expected.

- Contract negotiations are taking much longer than expected and are affecting planning efforts for Phase 2.

Disposition: TRS Executives have met several times with HPE staff to identify and resolve contract issues. We have reached consensus on several items and continue to work on those remaining. Weekly meetings will continue until the negotiations are successfully concluded.

Key Risks

TRS is currently refreshing the TEAM Risk Assessment. Upon completion the Enterprise Risk Management (ERM) Report will be added as an attachment in the Key Risks Details section of this Transparency Report

TRS successfully executed a risk mitigation for the Reporting Entity (RE) reporting. TRS was concerned that several REs were currently undergoing a system refresh of their own and would be submitting their reports in the new TRUST format before the Phase 1 go live. Through the risk assessment project TRS ranked this as a key risk and put into place a mitigation plan to develop in-house a conversion program that would take the new TRUST format and convert it back into the legacy (TRAQS) format. TRS successfully implemented the conversion program and Houston ISD was the first RE to utilize it.

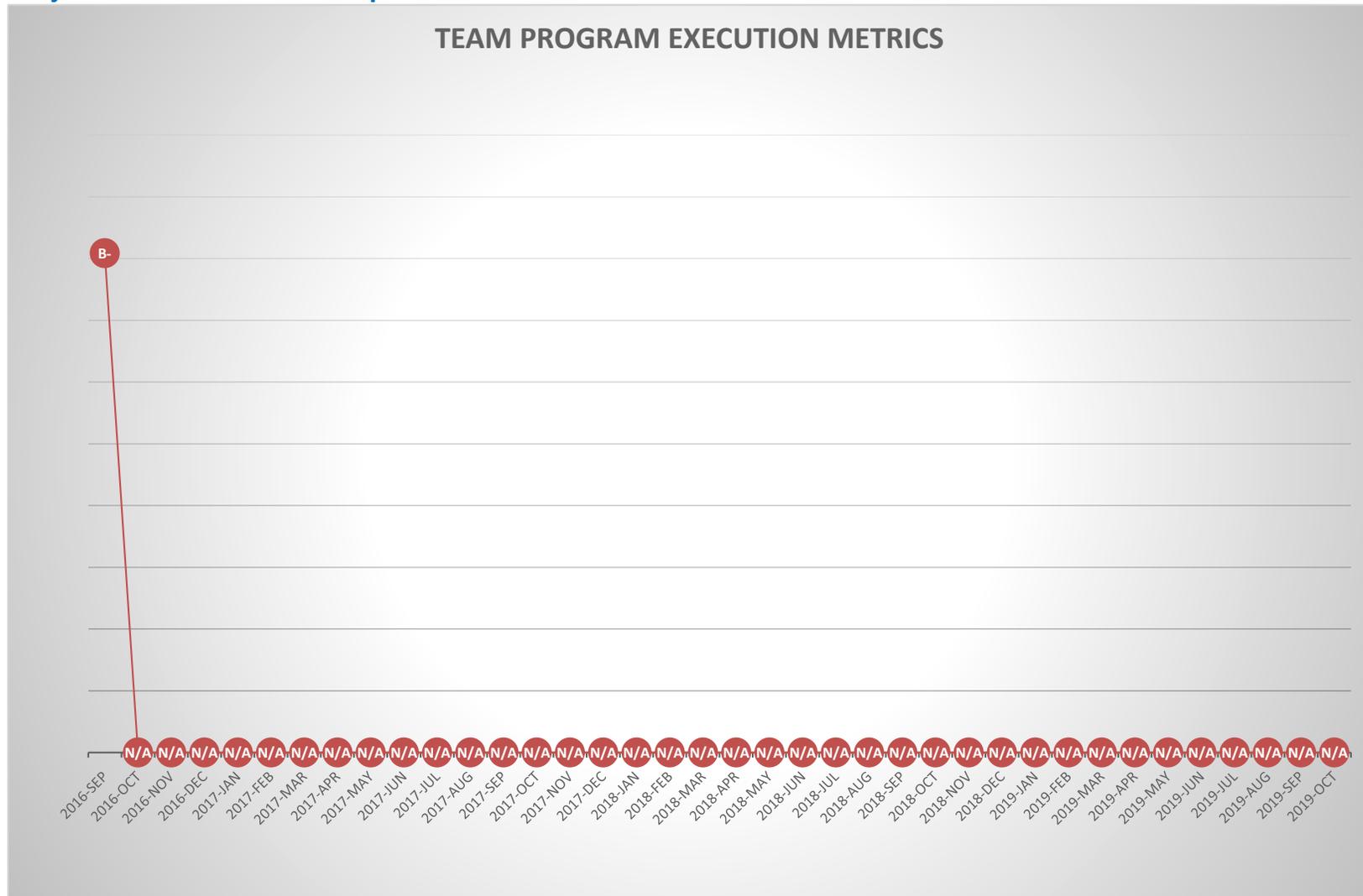
Other Items of Importance

Major Accomplishment

The Data Conditioning project - If TRS had gone live with Phase 1 in September 2016 there would have been 3,049,387 people and 10,068 estates, trusts, etc. migrated to

TRUST. There would have been 350 people (.01 percent) that would have not been included in the migration to TRUST. The .01 percent includes anomalies such as invalid SSNs, no account balance, etc., that once researched may not have required these people to be migrated the others could have been processed manually.

Project Execution Trend Graph



PROJECT EXECUTION SCORE CARD



= Overall TEAM Project Execution, which is comprised of the following:



= Schedule. The Schedule Grade is a composite of several factors including, Late Action Items, Late Decision Items and Missed Milestones during the period. The more missed items, the lower the score. During this period, TRS had:

- 4 Late Action Items
- 3 Late Decision Items
- 1 Missed Critical Milestone

The overall Schedule grade represents 30% of the Overall TEAM Project Execution grade.



= Cost. The Cost Grade is calculated based on a percentage change in the overall Cost of the program. Costs within 10% of the baseline estimate are calculated as an A; 11 – 20% are calculated as a B and so on.

The overall Cost Grade represents 30% of the Overall TEAM Project Execution grade.



= Quality. The Quality Grade will use different measurements depending on the Phase of the project. For example, during requirements gathering the Quality grade will measure the effectiveness of the requirements gathering process. During Testing, the Quality Grade is calculated based on the number of defects found.

The overall Quality Grade represents 30% of the Overall TEAM Project Execution grade.



= Individual Assessment. The Individual Assessment Grade represents a qualitative letter grade score (the Schedule, Cost and Quality scores above are based on largely quantitative data) of key

project stakeholders including Project Sponsors, Bridgepoint, Provaliant, TRS Project Execution Team, and Subject Matter experts. Ten individuals grade the overall program execution for the previous month and those grades are averaged to determine the Individual Assessment score.

This Individual Assessment Grade comprises 10% of the overall Project Execution score.

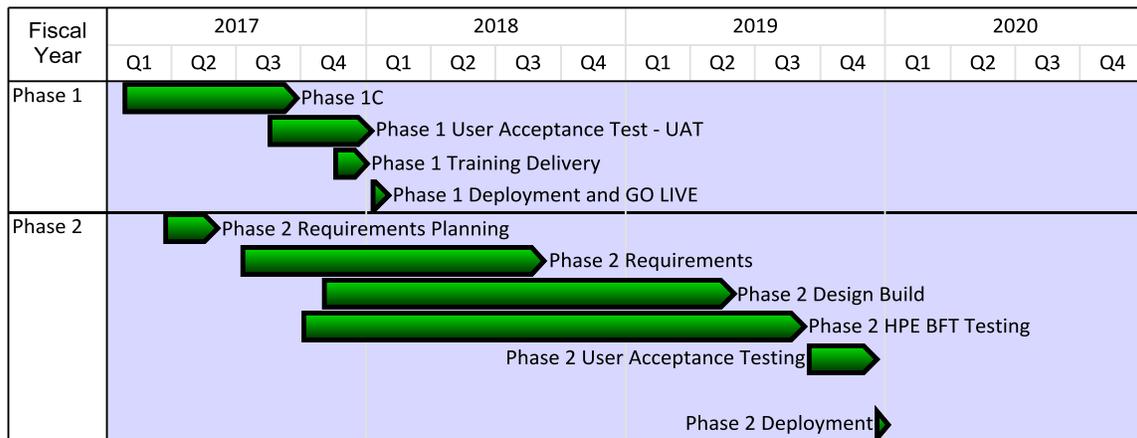
SCHEDULE DETAILS

Each month, the Transparency Report will include two timelines to reflect the schedule and where we are.

This first graphic illustrates the major milestones remaining in the project and when they are scheduled to occur by quarter in each fiscal year. This is the same timeline that the Executive Director presented to the Board in the September 2016 Board meeting.

The detail of the schedule through the end of Phase 2 are still being planned. TRS and HP have agreed on a high level schedule that delivers Phase 1 Go-Live in September 2017 and Phase 2 go Live by August 2019 as depicted in the following timeline graph.

TEAM Program Through Phase 2



HPE TRS LOB RePlan Model Schedule 2016-08-31 (003).mpp

Snapshot Date: 9/1/2016

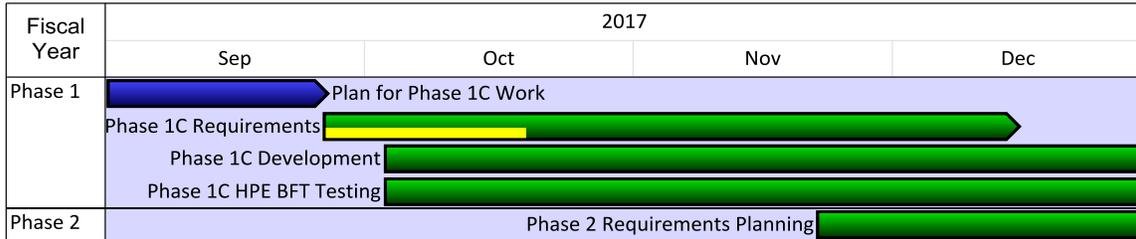
Created in OnePager® Pro

As of 9/30/16

In addition to the high-level picture above, the report will also include a snapshot of what the next 3 – 4 months of work looks like for the project. As the figure below illustrates, between now and December 2016, TRS will Plan Phase 1C work (this bar is in blue because this task was completed on schedule) and gather requirements for Phase 1C. Shortly after we begin requirements, HP will begin the development and testing of Phase 1C. TEAM is

on schedule compared to baselines for this time period snapshot of September 2016 – December 2016.

TEAM Program - Sep. 2016 thru Dec. 2016



D:\C_Phase1_Phase2_Frankenstern.mpp

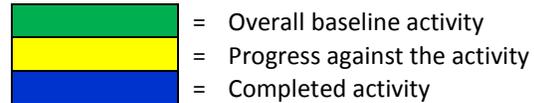
Snapshot Date: 9/1/2016

Created in OnePager® Pro

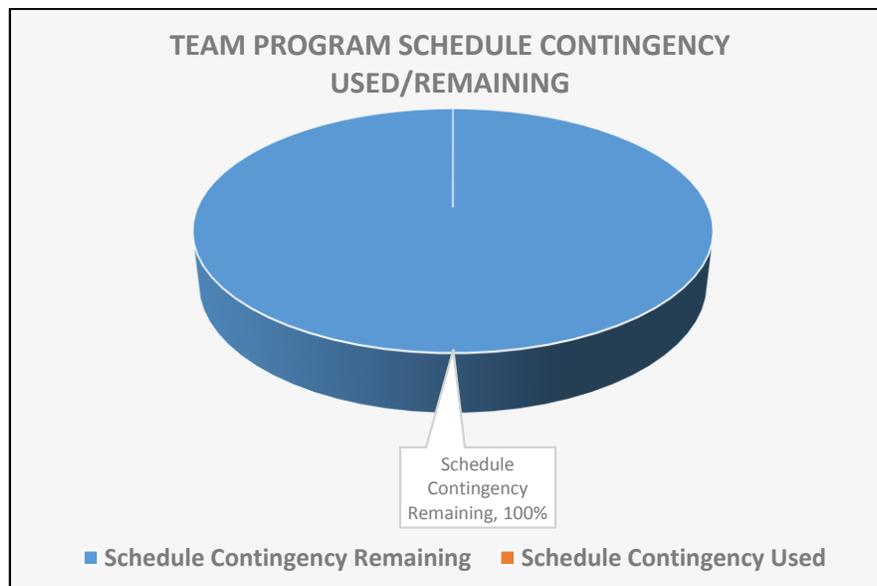
As of 9/30/16

Finally, HP and TRS will also begin the planning process for Phase 2 in November of 2016. It is critical that we invest time in getting the requirements correct in Phase 2. That’s why 2 months have been scheduled in order to plan and implement the important lessons learned from Phase 1.

Schedule Graph Legend



TEAM Schedule Contingency



As of 9/30/16

The TEAM Program Schedule Contingency Used/Remaining chart provides additional insight into possible TEAM schedule overrun. As more contingency gets used there is less time available to absorb the unplanned “unknowns”. A governance process will be implemented for authorizing contingency usage going forward.

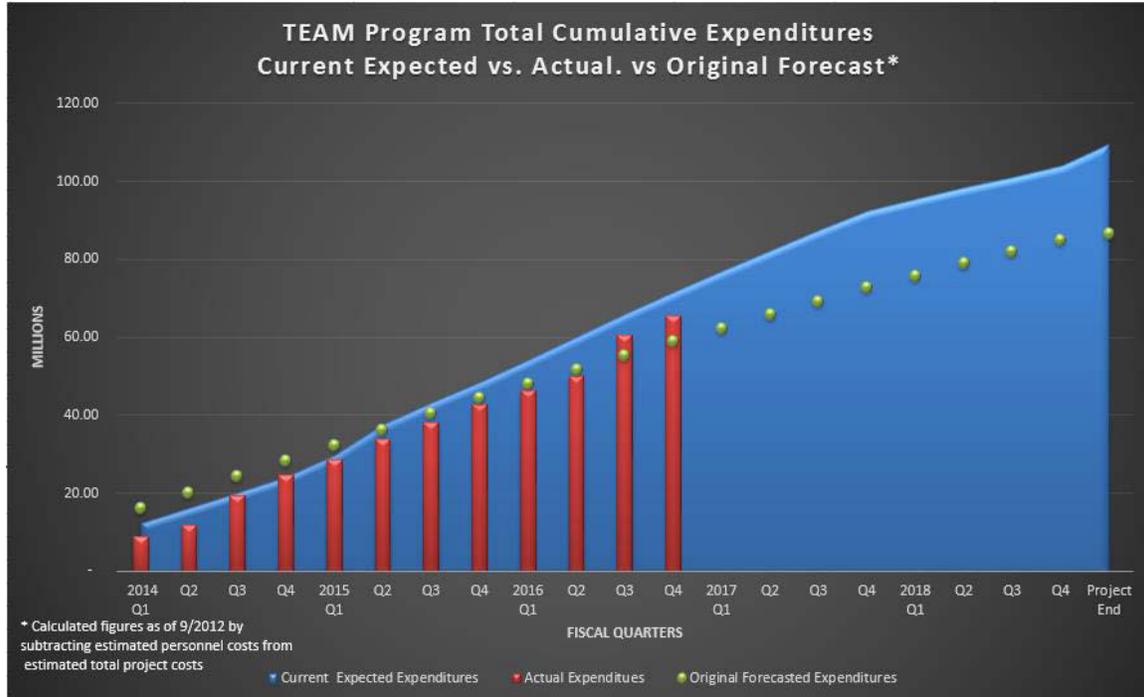
COST DETAILS

Below are two graphs that illustrate where we are on budget with the entire TEAM Program and the HP Contract for the Line of Business (LOB) project.

Overall, the LOB Contract and the TEAM Program are running closer to the originally planned budget than they are to the originally planned schedule.

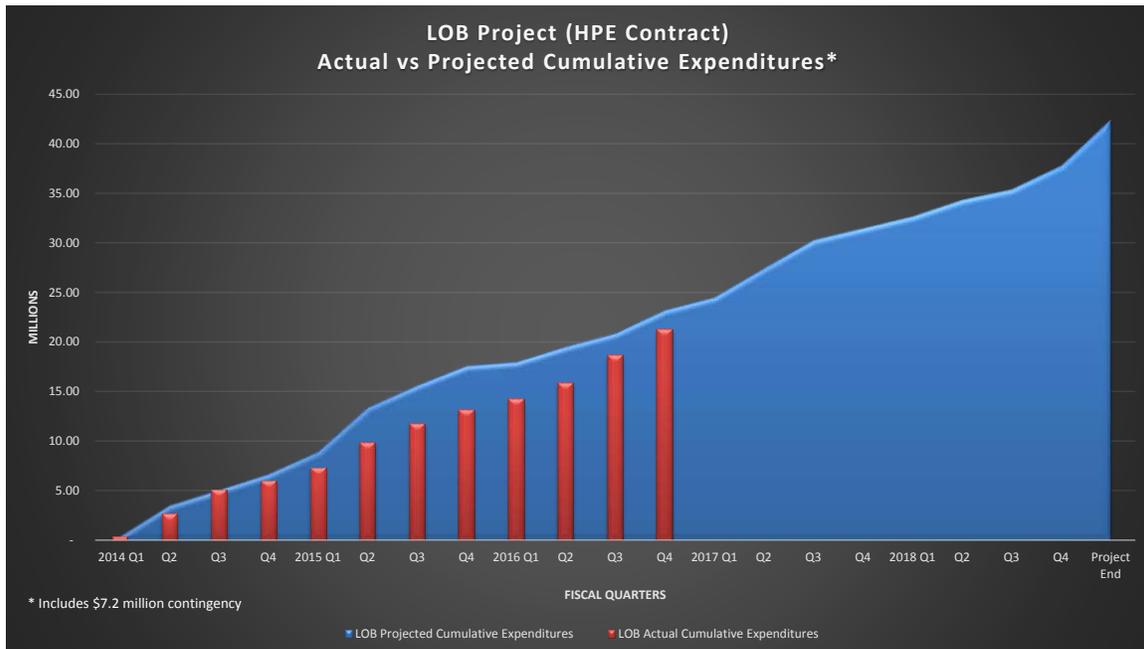
The first graph shows the total TEAM Expenditures to date in Red Bars. The Green Dots represent the originally forecast TEAM Budget in 2011. The Blue Shaded region represents the current forecasted expenditures.

These cost figures do not yet include estimates for additional contractor costs that may occur as a result of an extension of the schedule. Once those costs are determined the graphs below will be updated in a future Transparency Report.



As of 8/31/16

The next chart shows the expected expenditures (the Blue Region) and the actual expenditures for the HP Contract on the TEAM Line of Business project. Note that the LOB project still does include contingency that was added to the contract. As of 9/30/2016 there was \$2.5 million in contingency left in the LOB Contract and an additional \$1.9 million in optional software that TRS has decided not to purchase from HP. We have already acquired this software through TRS' IT Division.



As of 8/31/16

QUALITY DETAILS

The Quality Details section of the Transparency report will vary depending on what stage we are in with the TEAM Program. For example, during the Line of Business (LOB) requirements gathering, TRS and HP will assess the quality of the requirements gathering process. Similarly, during the testing phases, quality will focus on the number of defects detected as well as their level of severity.

At this point in the project we are in a transition period between heavy testing for Phase 1B, documenting Requirements for Phase 1C, and planning the Requirements for Phase 2.

The Quality Metric that was used for this transparency report was User Business Testing conducted during the last week of September. During this period, TRS attempted 81 of 83 test scenarios. Of those scenarios, TRS was unable to complete 23% of the scenarios and reported a total of 39 defects. This defect rate was much improved over Phase 1A User Acceptance Testing, but can be improved further.

TRS will conduct another round of User Business Testing in mid-December to prepare us for formal Phase 1 User Acceptance Testing in the spring.

As of October 12, 2016 there were 0 open Severity 1 defects and 108 open Severity 2 defects. This number is not alarming and is not uncommon on projects of this size. TRS and HP are working together to tackle these defects in two week periods known as Sprints. We jointly identify the most important defects to fix during a two-week period; HP developers fix the defects; and TRS testers verify that they are fixed. The first two week Sprint of this type is being conducted from October 3 – October 14 where TRS and HP hope to fix and close 30 defects.

We feel this defect-fix process is currently working well and at this point we feel very positive about User Acceptance Testing (UAT).

KEY RISKS DETAILS

TRS is currently refreshing the TEAM Risk Assessment. Upon completion the ERM Report will be added to this section.

Tab 6

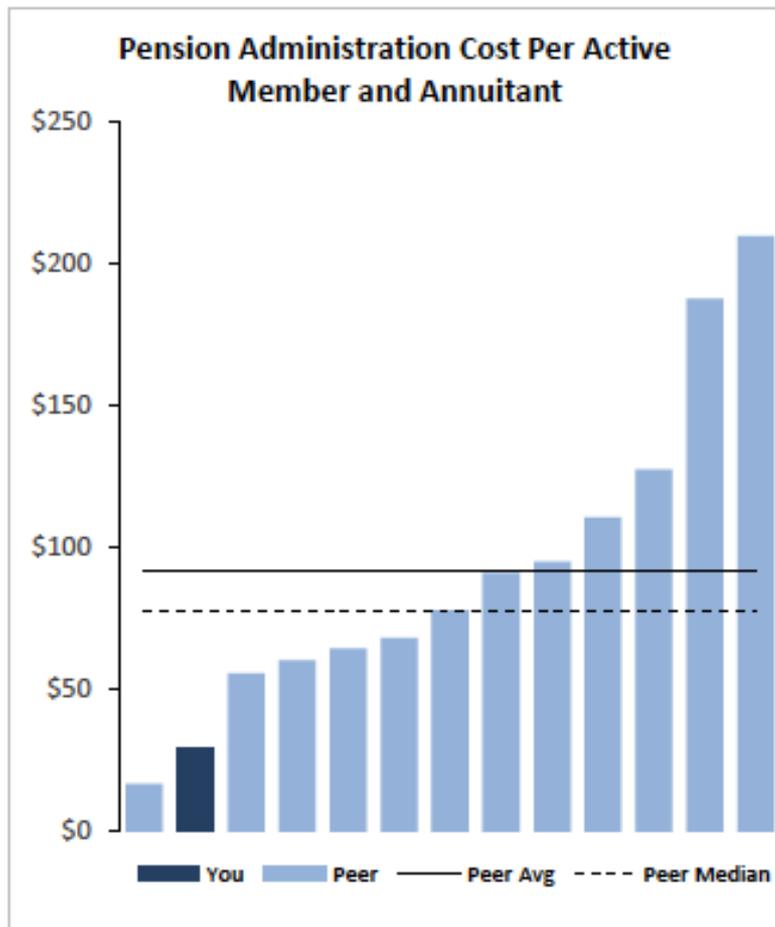
Teacher Retirement System of Texas

Pension Administration Benchmarking Report 2015

TRS of Texas is compared to a group of 13 US peers:

Custom Peer Group for TRS of Texas			
Peers (sorted by size)	<u>Membership (in 000's)</u>		
	Active		
	Members	Annuitants	Total
CalPERS	832	613	1,445
TRS of Texas	829	378	1,207
Florida RS	622	412	1,034
NYSLRS	523	430	953
CALSTRS	429	281	711
Ohio PERS	346	201	547
Virginia RS	341	185	525
Michigan ORS	233	255	488
Pennsylvania PSERS	256	220	476
Washington State DRS	301	165	466
Wisconsin DETF	257	186	443
Indiana PRS	257	138	395
Oregon PERS	165	135	299
Peer Median	341	220	525
Peer Average	415	277	691

Your Total Pension Administration Cost was \$29 per active member and annuitant.



Category	\$ per Active Member and Annuitant		\$000s
	You	Peer Avg	You
Member Transactions	2	12	2,706
Member Communication	5	14	6,040
Collections and Data Maintenance	0	7	543
Governance and Financial Control	3	6	3,257
Major Projects	5	8	6,131
Information Technology	6	25	7,323
Support Services and Other	8	19	9,557
Total Pension Administration	29	92	35,557

- This was \$62 below the peer average of \$92.
- Your total pension administration cost was \$35.56 million.
- Investment related costs and optional benefit costs are excluded.
- We reconciled the reported cost to your FY2015 CAFR.

CEM uses this cost model to explain differences in total costs:

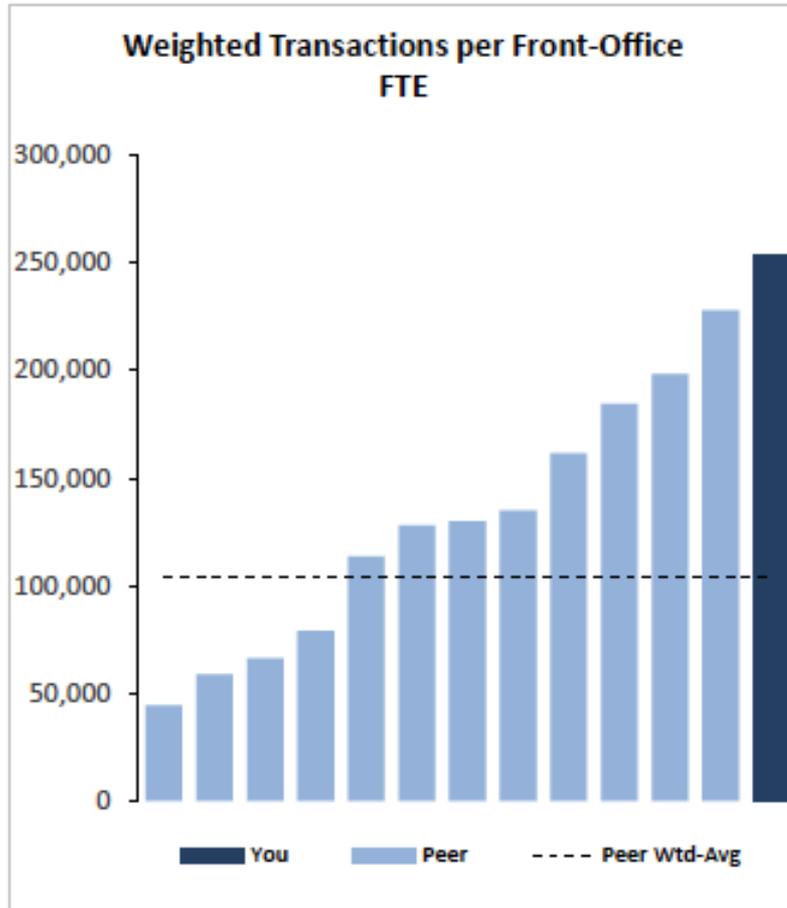
Reason	Impact
1. Paying more/-less for back-office activities:	
- Governance and Financial Control	-\$4.79
- Major Projects	-\$2.37
- IT Strategy, Database, Applications (excl. major projects)	-\$17.39
- Actuarial, Legal, Audit, Other Support Services	-\$7.62
2. Higher transactions per FTE (productivity)	-\$16.80
3. Lower costs per FTE for: salaries and benefits, building and utilities, HR and IT desktop	-\$4.64
4. Economies of scale advantage	-\$4.04
5. Lower third-party and other costs in front-office activities	-\$3.39
6. Lower transactions per member (workloads)	-\$1.35
Total	-\$62.38

You paid less for back-office activities.

Back-Office Activities - Adjusted Cost per Member			
Back Office Activities	You	Peer Avg	More/ -less
Governance and Financial Control	\$3.39	\$8.18	-\$4.79
Major Projects	\$6.01	\$8.38	-\$2.37
IT Strategy, Database, Applications	\$3.07	\$20.45	-\$17.39
Actuarial, Legal, Audit, Other	\$4.63	\$12.25	-\$7.62
Total	\$17.10	\$49.27	-\$32.17

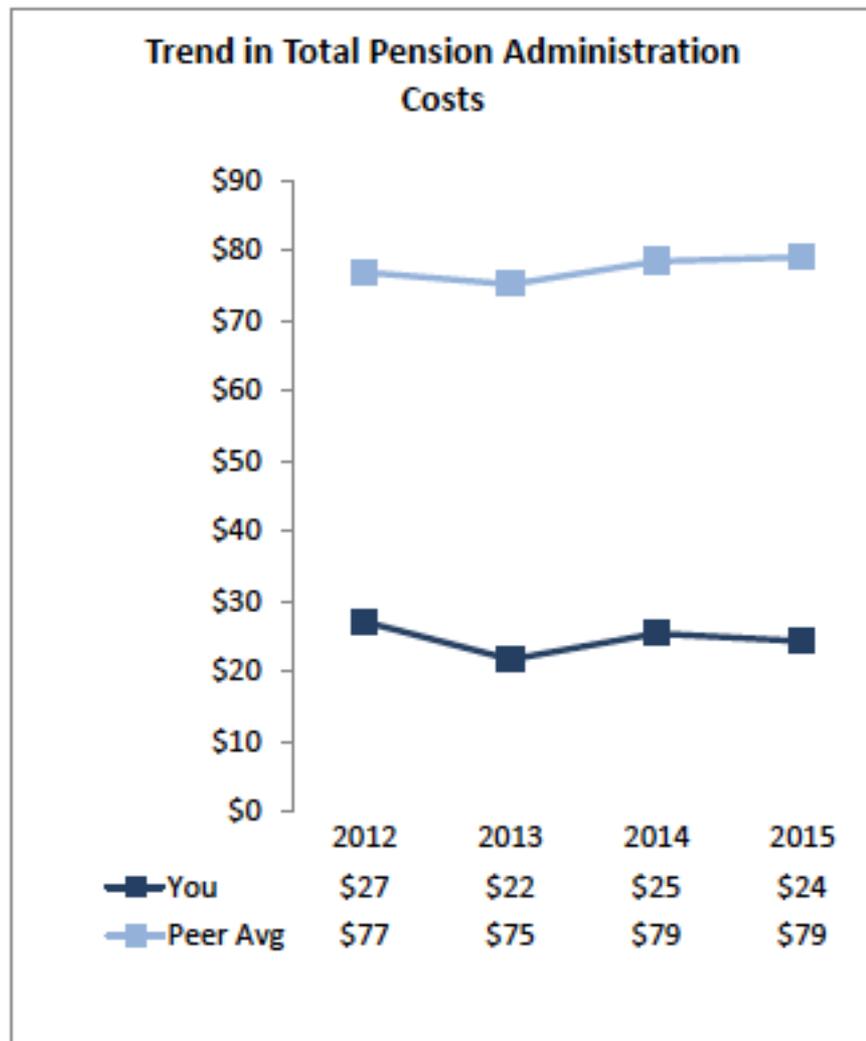
- Your adjusted cost of \$17.10 per member were below the peer average of \$49.27.
- Differences in cost can reflect differences in:
 - Activities: for example, some invest heavily in disaster recovery.
 - IT capabilities
 - IT investment cycle

You had the highest total productivity of your peer group, expressed as transaction volumes per FTE.



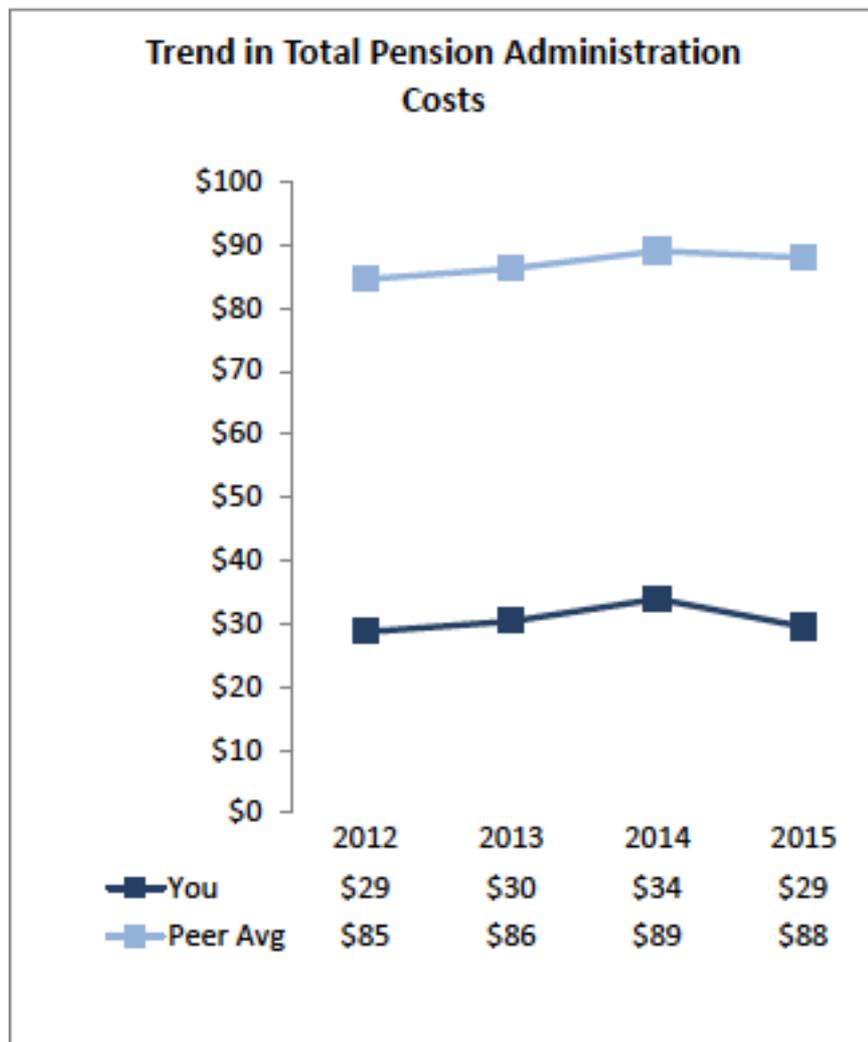
- Your transactions per front office FTE were 144% above the peer average.
- Your higher volumes decreased your cost per member by \$16.80 relative to the peers.

Cost trends – excluding major projects:



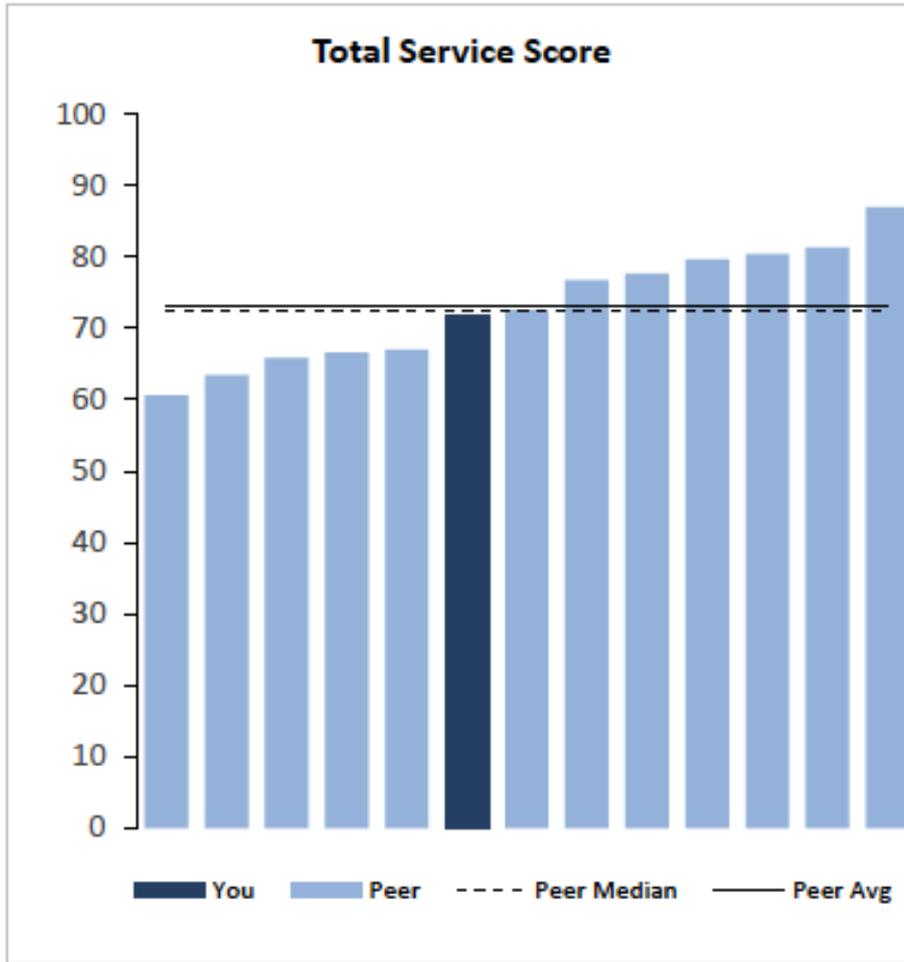
- Your total pension administration cost per member, excluding major projects, decreased by 3.5%.
- Costs for your peers, also excluding major projects, increased by 0.9% per annum.
- Your 4-year average was \$25 per member.
- Your decline in costs is slightly offset by the drop in total number of active members and annuitants due to definition changes.

Cost trends – including major projects:



- Your major projects spending increased from \$1.51 in 2012 to \$5 per active member and annuitant in 2015. Compared to 2014 however, your major project costs decreased from \$8 to \$5.
- You are in the process of modernizing your legacy computer systems with the TRS Enterprise Application Modernization (TEAM) program.

Your Total Service Score was 72 out of 100. This was close to the peer median of 73.



CEM defines service from the member's perspective:

- More channels
- Faster turnaround times
- More availability
- More choice
- Better content
- Higher quality

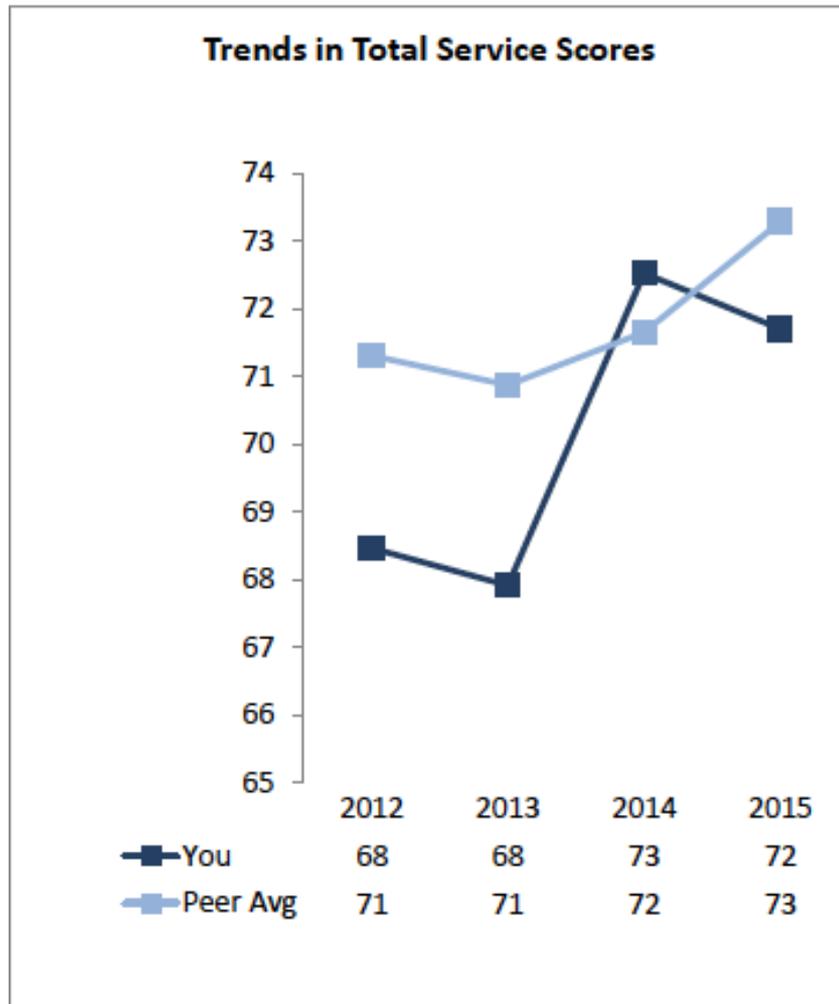
Examples of key service measures:

Select Key Service Metrics	You	Peer Avg
<u>Member Contacts</u>		
• % of calls resulting in undesired outcomes (busy signals, messages, hang-ups)	8%	21%
• Average total wait time including time negotiating auto attendants, etc.	135 secs	233 secs
<u>Website</u>		
• Can members access their own data in a secure environment?	Yes	92% Yes
• Do you have an online calculator linked to member data?	Yes	77% Yes
• # of other website tools offered such as changing address information, registering for counseling sessions and/or workshops, viewing or printing tax receipts, etc.	12	12
<u>1-on-1 Counseling and Member Presentations</u>		
• % of your active membership that attended a 1-on-1 counseling session	1.1%	3.2%
• % of your active membership that attended a presentation	1.4%	4.8%
<u>Pension Inceptions</u>		
• What % of annuity pension inceptions are paid without an interruption of cash flow greater than 1 month between the final pay check and the first pension check?	99.9%	86.7%
<u>Member Statements</u>		
• How current is an active member's data in the statements that the member receives?	2.0 mos	2.7 mos
• Do statements provide an estimate of the future pension entitlement?	Yes	69% Yes

Service scores by activity :

Service Scores by Activity			
Activity	Weight	You	Peer Median
1. Member Transactions			
a. Pension Payments	19.7%	100	100
b. Pension Inceptions	7.4%	89	87
c. Withdrawals and Transfers-out	1.3%	90	90
d. Purchases and Transfers-in	3.1%	68	79
e. Disability	3.8%	90	82
2. Member Communication			
a. Call Center	21.2%	54	52
c. 1-on-1 Counseling	7.4%	75	75
d. Member Presentations	6.5%	45	82
e. Written Pension Estimates	4.7%	68	69
f. Mass Communication			
• Website	11.3%	67	75
• News and targeted communication	2.8%	58	77
• Member statements	4.7%	88	84
3. Other			
Satisfaction Surveying	5.0%	28	36
Disaster Recovery	1.0%	90	84
Weighted Total Service Score	100.0%	72	73

Your service score has increased from 68 in 2012 to 72 in 2015.



Improvements in the contact center had the largest impact on your improved service score:

- Call outcomes: Undesired call outcomes (such as busy signals,, abandoned calls, etc.) decreased from 24.5% to 7.6%.
- Call wait times: Your total call wait time improved from 311 seconds to 135 seconds.

Global trends:

1. Improved cost effectiveness
 - Improving processes. (Lean. Six Sigma. One and done.)
 - Straight through processing
 - Maximizing online transactions
 - Eliminating paper
2. Competition in Australia and the Netherlands. Operating more like competitive businesses in the rest of the world.
 - Better communication
 - Branding, member engagement, customer satisfaction
3. Better communication
 - Customer experience focused versus transaction focused
 - More targeted messaging
 - More segmentation
 - Personas
 - Data mining
 - More channels: Web, Apps, YouTube, Facebook, Twitter, Linked In, etc.

Global trends:

4. Belief that online is the highest service channel if done correctly.
 - Reduced emphasis on counseling and presentations (less true for systems with health care)
5. Pension envy and poor funded status
 - Dutch plans had to reduce payments to retirees when funded status went below 95%.
 - Political advocacy using members
6. System upgrades
 - Lots of failures, but few are characterized that way.
 - Processes and data need to be optimized first.
 - One driver is the need for better online real-time capability.



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Tab 7

October 17, 2016

MEMORANDUM

TO: Board of Trustees
Brian Guthrie, Executive Director

FROM: Rebecca Merrill

At its September meeting, the Policy Committee of the TRS Board of Trustees authorized commencing the rule review of TRS' 403(b) rules found in Chapter 53 of the Texas Administrative Code. As part of the rule review, staff would like to utilize an outside advisor to consult on issues related to fee caps and market structure. State law gives the TRS Board of Trustees ("Board") limited authority over 403(b) vendors selling products in Texas public schools. Part of the Board's authority is to adopt fee caps for the administration and management of 403(b) accounts. The current fee caps were adopted by the Board in 2001, and staff intends to examine the current fee caps as part of the rule review. Additionally, growing complexities in the 403(b) market necessitate that staff gain a better understanding of the market's participants and their working relationships. Therefore, staff believes that using outside expertise to navigate these multifaceted issues will result in a more robust rule review process and improved final rule amendments.

In July 2017, the Board authorized \$50,000 in the Professional Fees and Services Budget for the 403(b) budget for Fiscal Year 2017. Given the scope of work involved in the rule review and some recent legal questions that have required outside counsel input, staff is requesting a \$70,000 increase for a total 403(b) Professional Fees and Services Budget of \$120,000.

As a reminder, the 403(b) Budget is funded from certification and registration fees paid by certified companies. State law authorizes the Board to charge an administrative fee to recover the cost of administering the program. There are sufficient funds in the 403(b) account to meet the requested budget increase.

Attached to this memorandum, is a proposed resolution authorizing the budget increase for consideration at the October Board meeting.

Resolution Approving Request for Fiscal Year 2017 Budget Amendment for the 403(b) Program

Whereas, The Teacher Retirement System Board of Trustees ("TRS Board") is authorized by law to charge a reasonable administrative fee as necessary to recover the cost of administering the 403(b) company certification and investment product registration program ("TRS 403(b) Program") and such administrative fees serve as the sole funding source for the annual administrative operations budget for the TRS 403(b) Program ("403(b) Annual Operating Budget");

Whereas, On July 29, 2016, the TRS Board approved \$50,000 in the 403(b) Annual Operating Budget for Professional Fees and Services for Fiscal Year 2017;

Whereas, On September 22, 2016, the Policy Committee of the TRS Board authorized commencement of the four-year comprehensive statutory rule review of Chapter 53 of the TRS Rules as required to administer the 403(b) Program; and

Whereas, TRS management requests a \$70,000 increase to the 403(b) budget for Professional Services for Fiscal Year 2017 due to greater than expected costs associated with the required comprehensive rule review process; now, therefore, be it

Resolved, That the TRS Board hereby amends the Fiscal Year 2017 403(b) Annual Operating Budget to increase the object of expense for Professional Fees and Services by \$70,000.

Tab 8



Brian Guthrie
October 27, TRS Board Meeting

Succession Planning at TRS

Succession Planning

Succession planning is the process of identifying high-potential employees, evaluating and honing their skills and abilities, and preparing them for advancement into critical positions which are key to the success of business operations and objectives.

Initial TRS Projections

Critical Position (66)

A position that if left vacant for an extended period of time could create a significant level of risk and/or hardship for the organization.

High Potential (77)

An employee identified as having the potential, ability and aspiration for successive leadership positions within the organization.

Next Steps

- Develop more formal assessment processes to confirm identification of critical positions and high potential employees
- Partner with divisions to establish baseline development plans
- Track and monitor progress towards completion of plans at an agency level
- Continue to monitor workforce trends and predictors such as retirement eligibility

TRS Retirement Eligibility Projections

Department	Retirement Eligibility Projections Percent of TRS Employees Eligible to Retire as of:					
	January 2016		January 2019		January 2022	
	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible
Executive Division	26	26.0%	33	32.4%	34	33.3%
Investment Management	6	4.2%	7	4.8%	8	5.4%
Benefit Services	24	13.0%	34	18.4%	42	22.7%
Finance	18	20.7%	24	28.9%	29	34.9%
Information Technology	23	22.3%	30	30.9%	39	40.2%
Health & Insurance Benefits	4	12.9%	4	12.9%	5	16.1%
Total	101	15.6%	132	20.5%	157	24.3%
Executive Council Members	4	30.8%	6	46.2%	6	46.2%

*Estimates are based on the rule of 80 using active employees as of 10/1/2016 and include return-to-work retirees.

Executive Council – Retirement Eligibility Trends

Percent of TRS Employees Eligible to Retire as of:						
February 2013 Board Meeting	January 2013		January 2016		January 2018	
	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible
Executive Council Members	6	46.2%	8	61.5%	8	61.5%

Percent of TRS Employees Eligible to Retire as of:						
October 2016 Board Meeting	January 2016		January 2019		January 2022	
	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible
Executive Council Members	4	30.8%	6	46.2%	6	46.2%

Salary Changes for Exempt Positions

Title	Name	Current NTE Rate	Last Salary Action	Current Salary	Remaining Authority	Proposed Change
Deputy Director Investment Officer	Jerry Albright	\$340,000	3% increase – effective 10/1/2015	\$340,000	0%	Increase NTE by 5% to \$357,000

*Increases to the not to exceed rate require a resolution from the Board