



BUDGET COMMITTEE

Planning Meeting

Teacher Retirement System of Texas

April 2013

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES
AND
BUDGET COMMITTEE**

(Ms. Sissney, Committee Chair; Mr. Barth; Ms. Charleston; Ms. Clifton, & Mr. Moss Committee Members)

AGENDA

**April 18, 2013 – 12:00 p.m.
TRS East Building, 5th Floor, Boardroom**

1. Consider the approval of the June 7, 2012 committee meeting minutes – Nanette Sissney.
2. Discuss current status of TRS' budget in the appropriations process – Don Green.
3. Receive a brief update on the administrative operations budgets for fiscal year 2013 and review the Budget History Document as background – Don Green.
4. Receive overview of proposed administrative operations budgets and general provisions for fiscal year 2014 – Don Green.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Budget Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because a quorum of the Board may attend the Committee meeting, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

Minutes of the Budget Committee

June 7, 2012

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on Thursday, June 7, 2012, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Nanette Sissney, Chair
Karen Charleston
Joe Colonna
Chris Moss

A quorum of the committee was present.

Others present:

Todd Barth, TRS Trustee
David Kelly, TRS Trustee
Eric McDonald, TRS Trustee
Anita Palmer, TRS Trustee
Brian Guthrie, TRS
Ken Welch, TRS
Don Green, TRS
Amy Barrett, TRS
Janet Bray, TRS
Conni Brennan, TRS
Howard Goldman, TRS
Betsey Jones, TRS
Amy Morgan, TRS
Jerry Albright, TRS
Patricia Cantú, TRS
Mary Chang, TRS
Cindy Haley, TRS
Bob Jordan, TRS
Lynn Lau, TRS

Jay LeBlanc, TRS
Rebecca Merrill, TRS
Jamie Michels, TRS
Patricia Pratt, TRS
Liz Oliphint, TRS
L. Michele Price, TRS
Charmaine Skillman, TRS
Ellen Small, TRS
William Tompkins, TRS
Angela Vogeli, TRS
Steve Huff, Reinhart Boerner Van Deuren s.c.
Tom Rogers, Austin Retired Teachers Association
Ted Melina Raab, Texas American Federation of Teachers
Eric St. Pierre, Aetna
Jane Funk, UnitedHealthcare
Laura Zeller, UnitedHealthcare
Curt Olson, Texas Budget Source
Gary Leal, Kelsey-Seybold
Sarojany Menon, Accenture

With a quorum of the committee present, the meeting convened at 12:23 p.m.

1. **Consider the approval of the April 19, 2012 committee meeting minutes – Nanette Sissney.**

On a motion by Mr. Moss, seconded by Ms. Charleston, the committee unanimously approved the minutes of the April 19, 2012 committee meeting.

2. **Discuss and consider recommending to the Board adoption of the following items – Don Green:**

A. **Proposed fiscal year 2013 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2013 budget.**

- B. **Proposed fiscal year 2013 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans), including the optional long-term care insurance program.**
- C. **Proposed fiscal year 2013 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.**

Mr. Green presented the proposed administrative operations budgets and general provisions for fiscal year (FY) 2013. He noted an increase of approximately 1 percent above the FY 2012 budget. He provided the key points and funding of the TEAM budget, the TRS health benefit funds (retired and active plans), and the 403(b) plan for the biennium 2012-2013. Mr. Green confirmed for Ms. Sissney and Ms. Palmer that the total revenue from all sources for FY 2013 is about \$145 million. He noted that actual expenditures for FY 2012 were expected to be \$1.6 million less than originally budgeted for the fiscal year.

Mr. Green presented the proposed administrative operating budgets for FY 2013 and the related resolution authorizing the transfer of pension trust funds to the TRS expense account. Presenting the proposed FY 2013 budget, he highlighted an increase of \$757,903 in the total salaries and other personnel costs. He attributed most of the increase to employer matching costs, including the increase in the employer contribution rate from 6 percent to 6.4 percent beginning September 2012. Mr. Green confirmed for Ms. Sissney that staff was asking the board to let about \$7.4 million of unexpended balances budgeted for TEAM in FY 2012 be carried forward to FY 2013. In response to a question from Mr. Kelly concerning state oversight of the TEAM program, Mr. Welch described the oversight body composed of the Department of Information Resources, the State Auditor's Office, and the Legislative Budget Board. He noted that their role was to keep track of long-term projects and report back to the legislature. Ms. Palmer requested and received an explanation of the health care coverage for TRS employees.

Upon a motion by Mr. Colonna, seconded by Mr. Moss, the committee unanimously voted to recommend that the board approve the proposed FY 2013 administrative operations budgets, and resolution authorizing transfer of pension trust funds to the TRS expense account. On a motion, by Mr. Colonna, seconded by Mr. Moss, the committee unanimously voted to recommend that the board approve the proposed general provisions for the recommended FY 2013 administrative operations budgets.

3. **Discuss development of the Legislative Appropriations Request for the 2014-2015 Biennium – Don Green.**

Mr. Green provided the background of the Legislative Appropriations Request (LAR) for the 2014-2015 biennium. He highlighted the full-time equivalent (FTE) requests in each division. The committee discussed the increased hold time at the call center and the high volume of open record requests, and how to mitigate those issues.

Mr. Green presented a summary of the LAR. He told the committee that the LAR instruction and policy letter had recently been issued. Mr. Guthrie explained staff's approach in making a baseline request of 6.4 percent for the state contribution rate along with exceptional

item requests asking that the state increase its contribution to 6.9 percent in 2014 and 7.4 percent in 2015.

The meeting adjourned at 1:45 p.m.

Teacher Retirement System of Texas



Current Status of TRS' Budget

Don Green, Chief Financial Officer

Board of Trustees and Budget Committee

April 18, 2013





Status of 2014-15 Recommendations for TRS

- The committee substitute for Senate Bill 1 for TRS totals \$3.90 billion in all funds and \$3.50 billion in general revenue for FY 2014-15. The House committee substitute for Senate Bill 1 totals \$3.94 billion in all funds and \$3.54 billion in general revenue for the biennium.
- Both versions have funded 503.3 FTES for FY 2014-15.
- State contributions to the pension trust fund are funded at 6.4% in FY 2014 and 6.7% in FY 2015 in the Senate version. The House version funds state contributions to the pension trust fund at 6.6% in both years of the biennium.
- Senate version limits the GR to 50 percent of the state contribution of 6.4% of total covered payroll for community colleges in FY 2014 and 6.7% in FY 2015. House version sets the combined total of TRS and ORP contributions at 6.6% for each year.
- Both versions funded 1.0% state contribution rate for TRS Care for the biennium.



Status of 2014-15 Recommendations for TRS – Cont'd

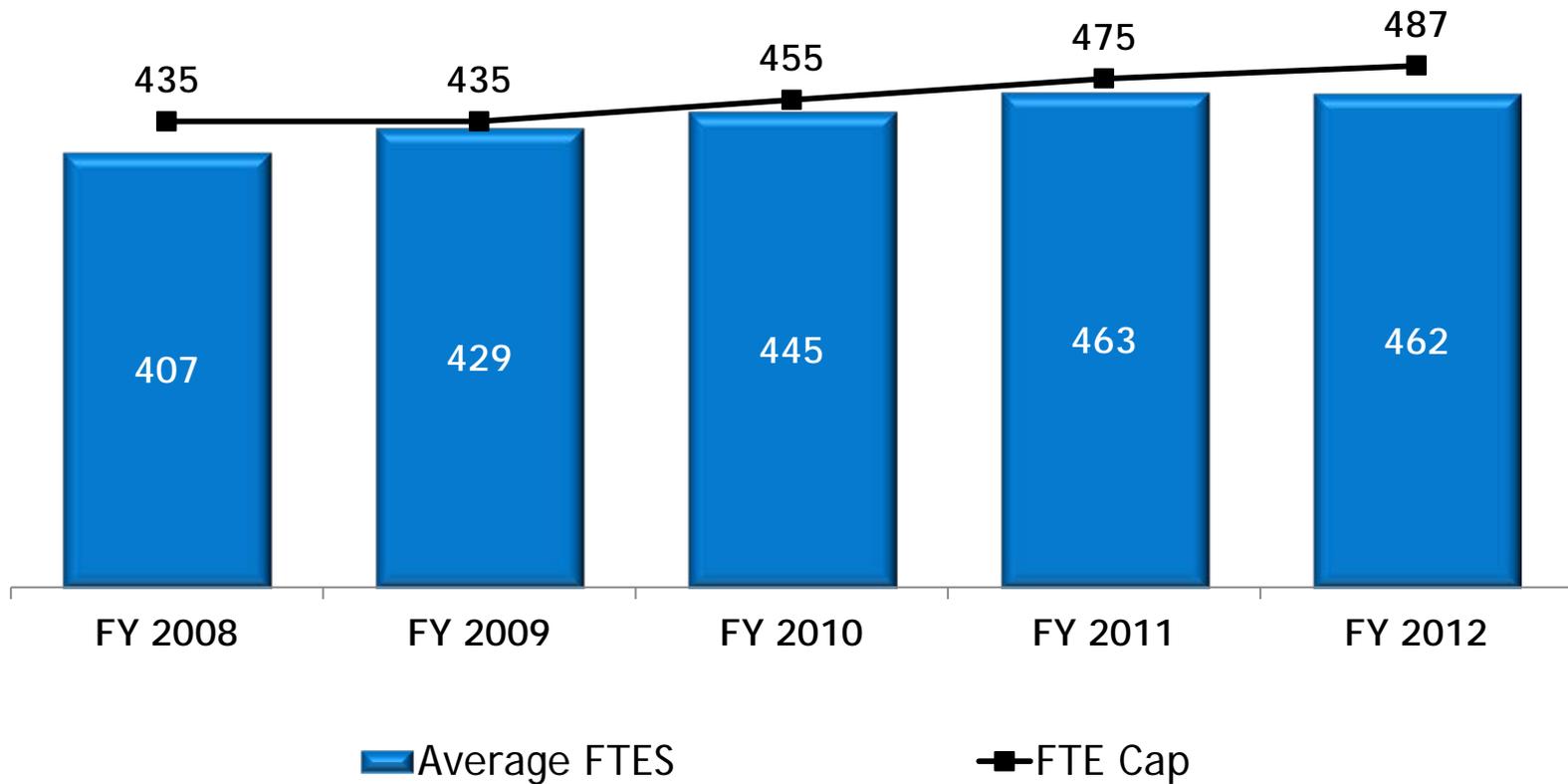
- Both versions include \$6.8 million for capital projects to address safety issues, postponed building repairs and renovations, and business needs.
- Both Senate and the House funded the TEAM Program at \$34.6 million.
- The Senate did not include the requested TEAM rider.
- House Proposed Rider for TEAM: **Enterprise Application Modernization FTE Exemption.** Notwithstanding the limitations of Article IX, Section 6.10, Limitation on State Employment Levels, for the Teacher Retirement System, it is the intent of the Legislature that the calculation of the number of full-time equivalent employees (FTEs) and contract workers assigned to the TRS Enterprise Application Modernization (TEAM) initiative for reporting purposes be exempt from the calculation. It is the intent of the Legislature that once the TEAM initiative is implemented, the Article IX. Sec. 6.10 limitation will apply to all agency FTE employees and contract workers (estimated to be fiscal year 2018).



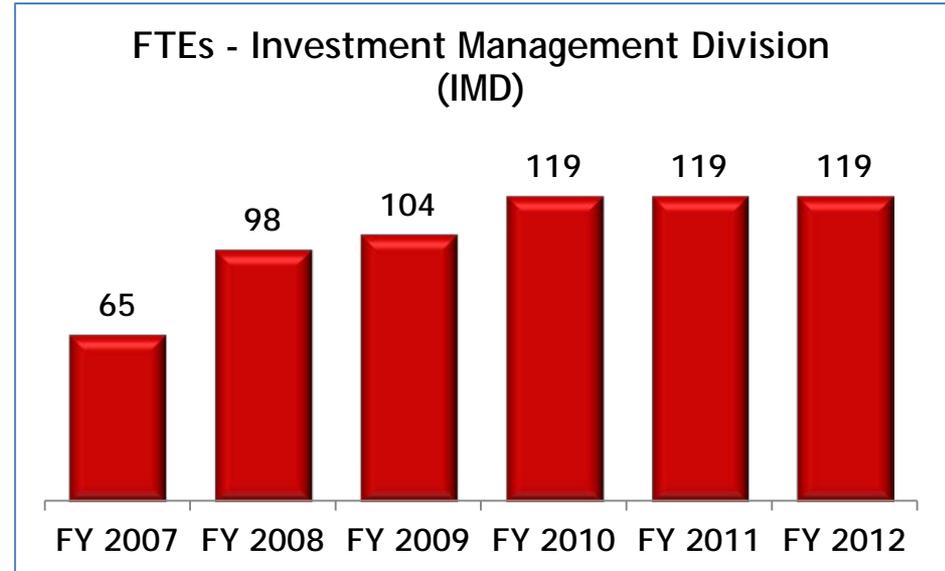
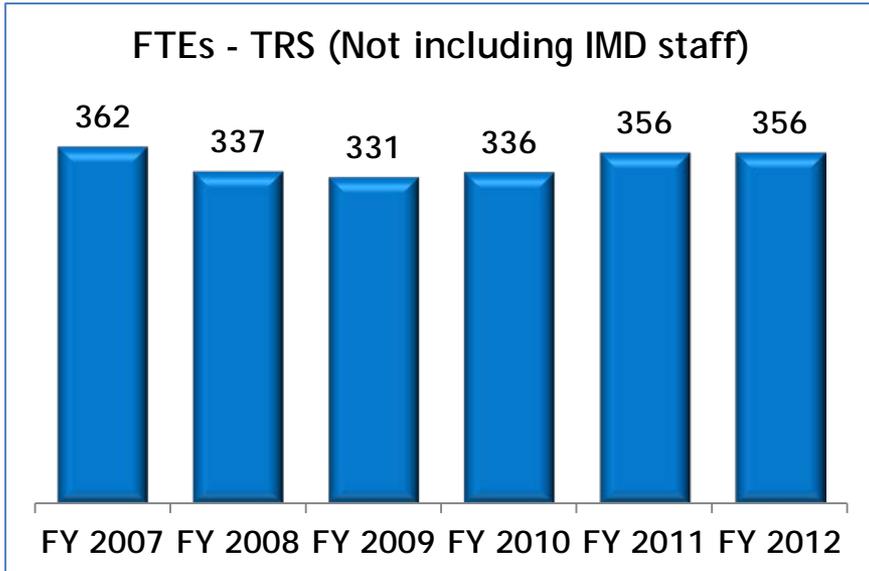
Historical Budget Information

- Full Time Equivalents
- Membership Growth
- Trust Fund Balance
- Workload drivers

Full-Time Equivalent (FTE) Employees

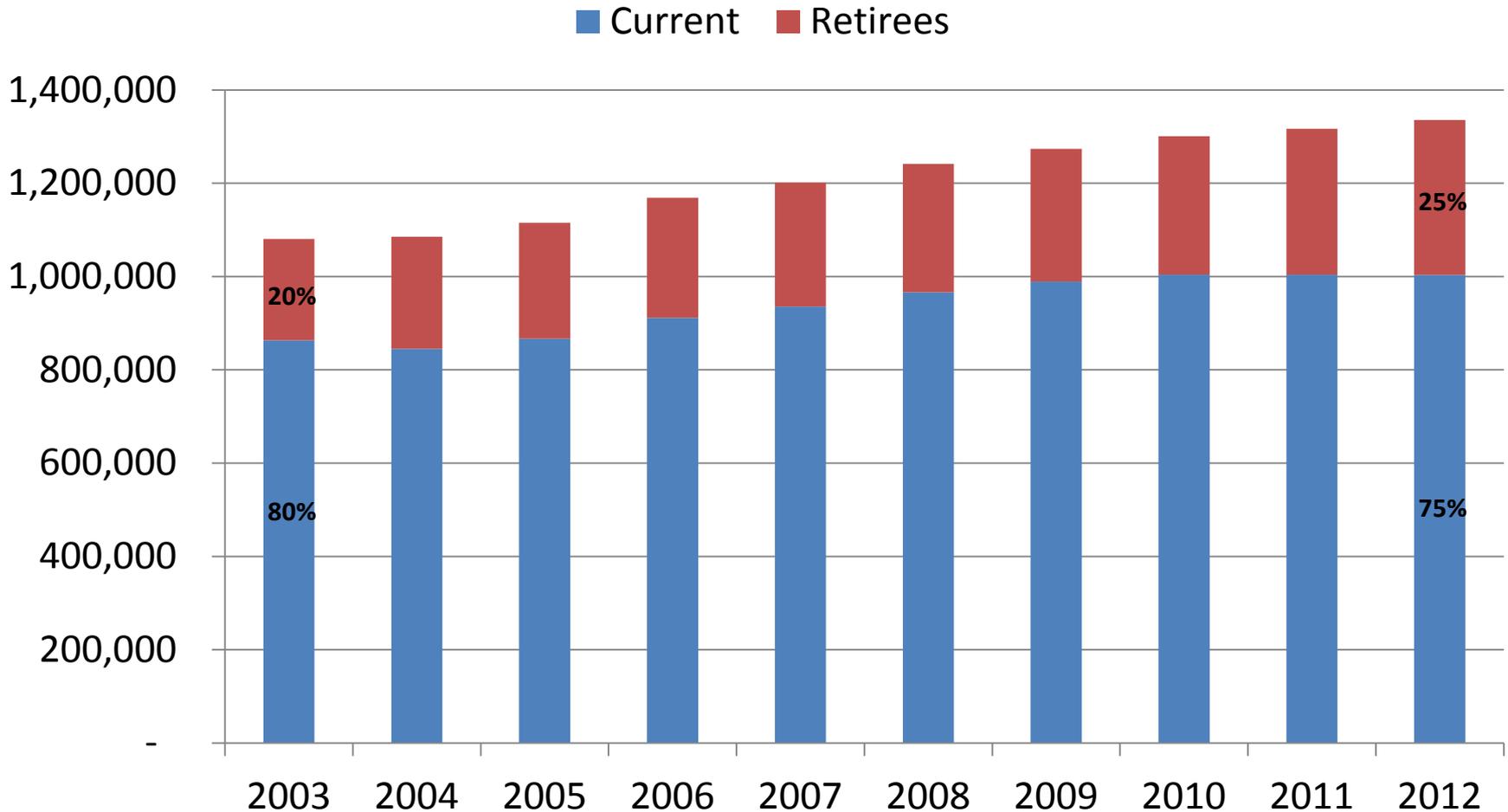


Agency FTE Comparison



- Since fiscal year 2007, the agency has seen an overall growth of 48 FTES (11.2 %)
- During that same time frame, the Investment Management Division (IMD) has added an additional 54 FTES (83.1 %).
- Excluding FTES assigned to IMD, the agency has seen a decrease of 6 FTES or (-1.7 %) during that time.

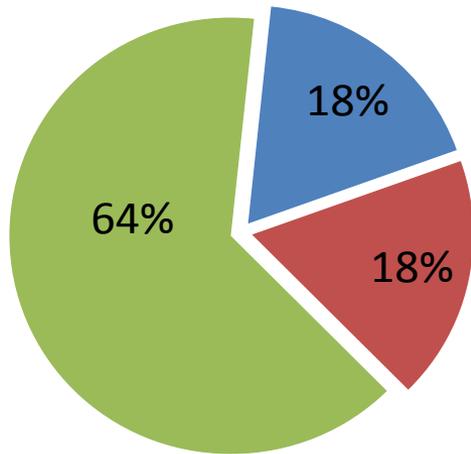
Membership Growth, 10 Year Trend



Active members – 16.2% growth
Retired members – 52.5% growth

Trust Fund, FY2012

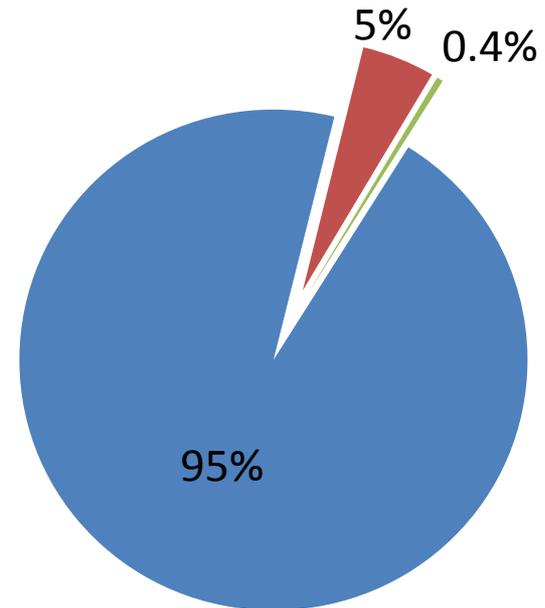
Additions



- Member
- Employer & State Match
- Investment

\$12.2 billion

Deductions



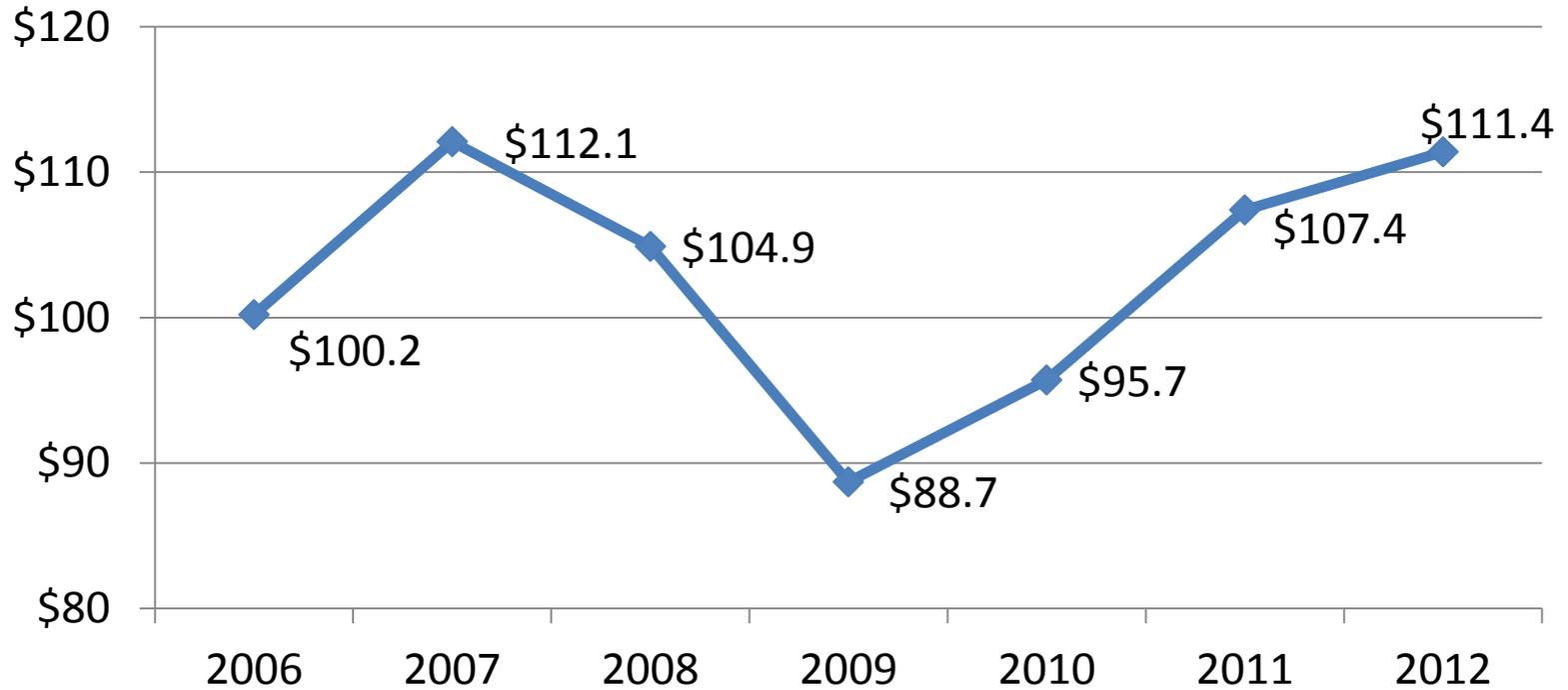
- Benefits
- Refunds
- Admin

\$8.2 billion

\$4.0 billion addition to net assets

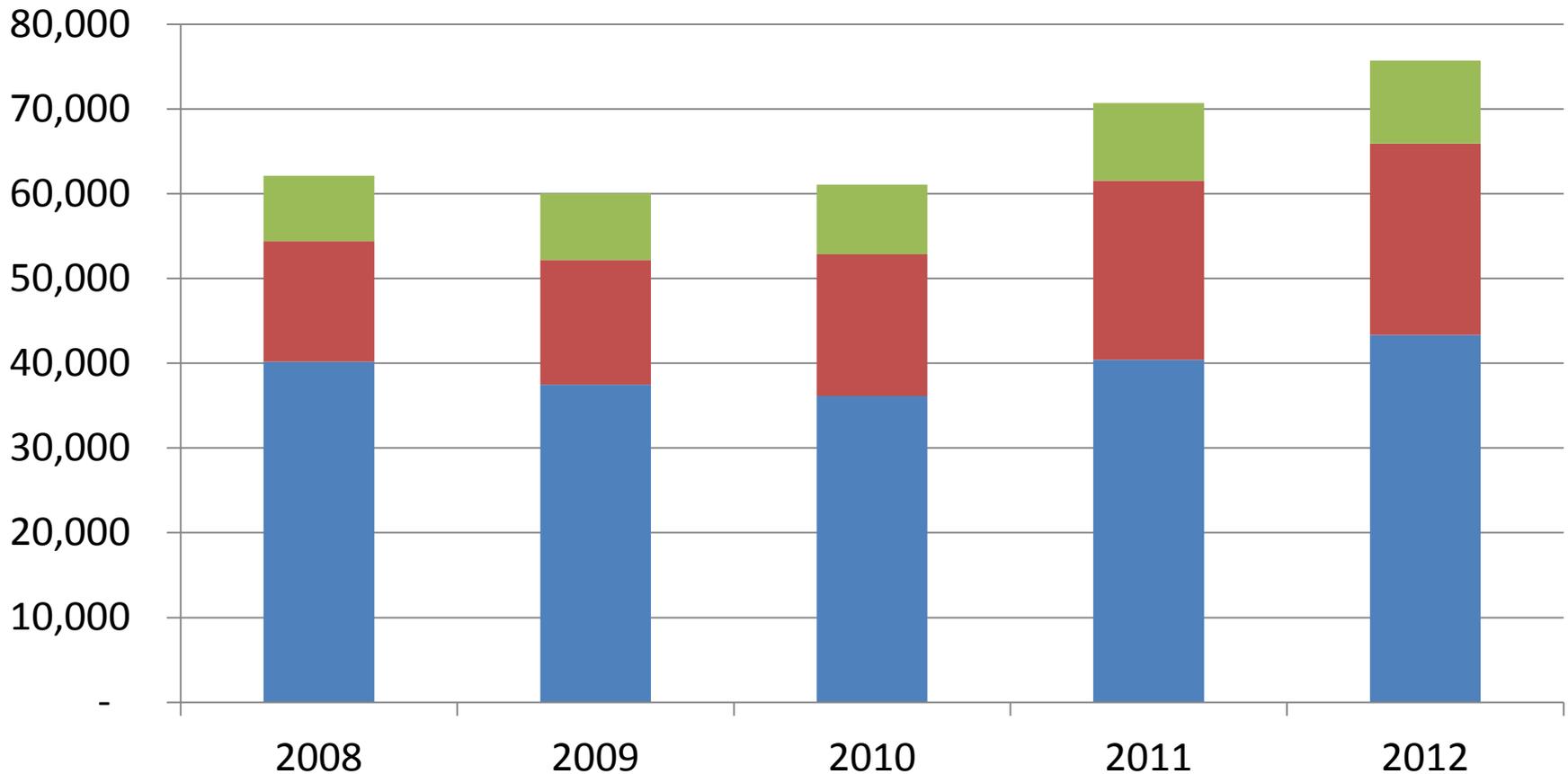
Pension Fund Balance

From 2006 – 2012 (as of August 31)
in Billions \$



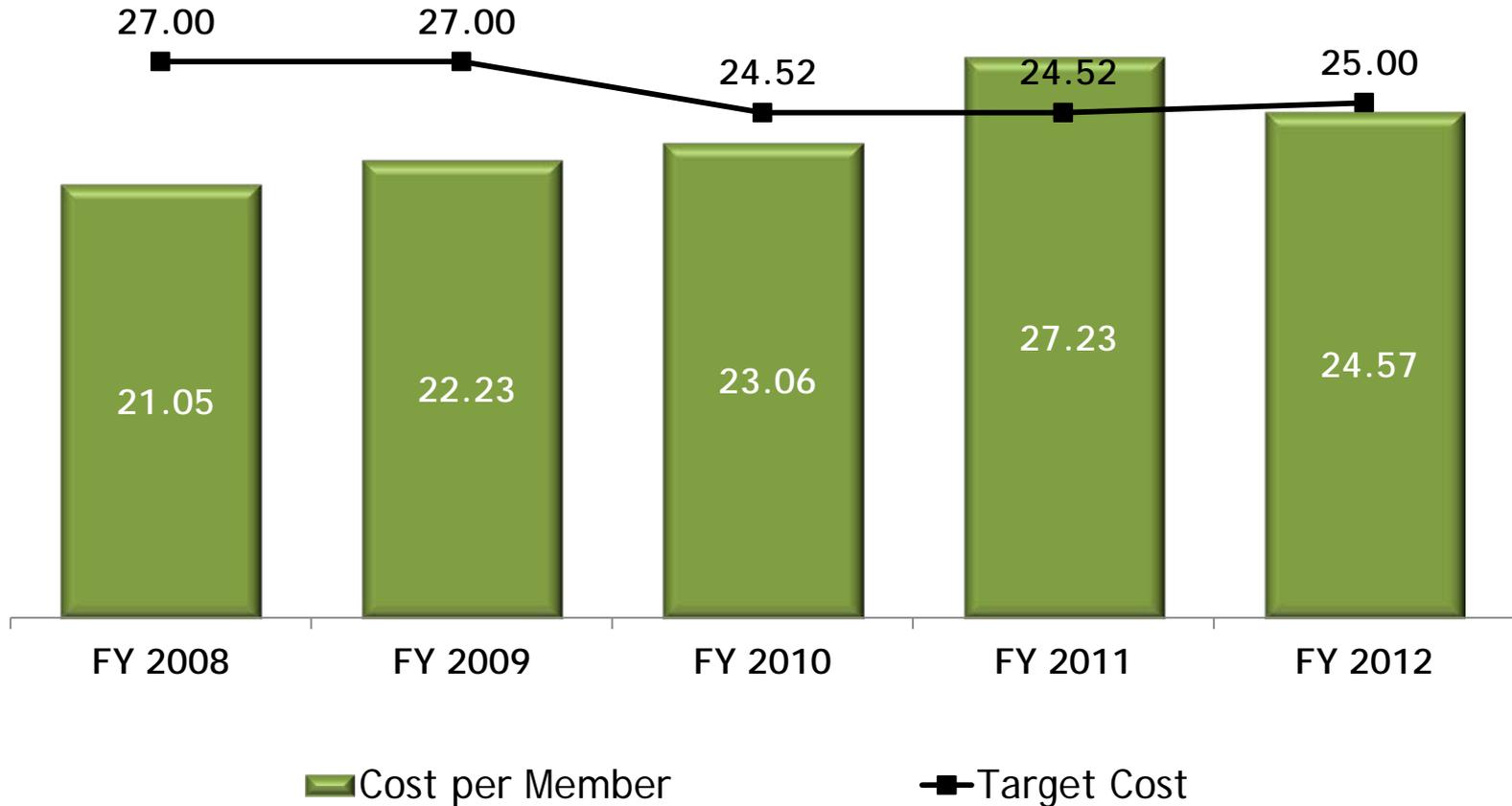
Benefits Processing, FY2008-12

■ Refunds ■ Retirements ■ Beneficiary Claims



Overall 22% growth {
Refunds – 8%
Retirements – 59%
Beneficiary Claims – 27%

Benefit Cost Per Member



FY 2011 included one time cost of expensed technology project.

ADMINISTRATIVE EXPENSES BY DEPARTMENT

	Department	Expended FY 2012	Budgeted FY 2013
1B00	Executive	1,405,707	2,650,646
1C00	Internal Audit	1,526,670	1,815,620
1D00	Legal	7,392,810	7,799,815
1E00	Govt Relations	18,654	260,747
1F00	Communications	1,413,651	1,308,048
1G00	Human Resources	1,024,939	1,179,589
Executive		\$ 12,782,431	\$ 15,014,465
2A10	Investment Mgt Div	\$ 26,621,522	\$ 28,369,753
3A00	Benefit Services	380,366	463,311
3B00	Benefit Processing	4,158,899	4,312,591
3L00	Benefit Counseling	3,348,089	3,461,857
3U00	Member Data Services	1,248,880	1,267,210
Benefit Services		\$ 9,136,234	\$ 9,504,969
5A00	Financial	421,810	505,832
5C00	General Accounting	3,122,019	3,556,959
5J00	Benefit Accounting	1,445,744	1,444,365
5T00	Investment Accounting	500,945	528,871
5Y00	Risk Management	966,443	1,007,278
7J00	Staff Services	1,765,052	1,930,714
7L00	Facilities Services	916,884	1,233,893
7M00	Printing, Mail & Supply	3,079,805	2,730,600
7P00	Security	-	52,300
Financial		\$ 12,218,702	\$ 12,990,812
6A00	Information Tech	1,175,561	1,483,715
6B00	Network Support	4,599,686	5,962,750
6C00	Systems Support	1,312,232	1,403,678
6D00	Technical Support	3,410,670	3,764,979
6E00	Systems - Gold Team	1,258,126	1,326,623
6F00	System Architecture	752,597	777,124
Info Tech		\$ 12,508,872	\$ 14,718,868
6A10	TEAM Program	\$ 2,091,179	\$ 21,043,224

ADMINISTRATIVE EXPENSES BY DEPARTMENT

	Department	Expended FY 2012	Budgeted FY 2013
8Q00	Interns	167,821	203,530
9B00	TRS Care	2,340,212	2,299,702
9F00	TRS ActiveCare	1,205,912	1,798,498
9H00	TRS Care, Agency	1,366,342	1,488,611
9J00	Optional Insurance	54,166	91,264
9P00	403(b) Certification	52,492	58,816
9V00	TRS ActiveCare, Agency	780,954	874,607
Totals		\$ 81,326,838	\$ 108,457,119

**BENEFIT OPERATIONS
ADMINISTRATIVE EXPENSES**

	Expended FY 2012	Budgeted FY 2013
SALARIES AND OTHER PERSONNEL COSTS		
Salaries and Wages	\$ 22,360,570	\$ 23,542,749
Longevity Pay	501,840	538,600
Employer Retirement Contributions	1,337,898	1,516,001
Employer FICA Contributions	1,634,128	1,942,001
Employer Health Insurance Contributions	3,456,792	3,974,790
Benefit Replacement Pay	111,556	116,411
Other Employee Benefits	224,627	461,000
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 29,627,412	\$ 32,091,552
PROFESSIONAL FEES AND SERVICES	\$ 3,481,061	\$ 7,020,314
OTHER OPERATING EXPENSES		
Consumable Supplies and Fuels	\$ 336,889	\$ 446,210
Utilities	730,176	1,102,855
Travel	258,606	372,003
Rentals	227,215	273,147
Dues, Fees and Staff Development	233,381	347,376
Subscriptions and Reference Information	192,864	233,859
Printing and Reproduction Services	592,157	502,650
Postage, Mailing and Delivery Services	2,525,638	2,277,364
Software Purchases and Maintenance	2,500,680	2,733,106
Computer Hardware Maintenance	382,636	465,000
Miscellaneous Expenses*	648,976	1,095,370
Insurance Premiums	660,872	693,100
Furniture and Equipment - Expensed	217,066	410,550
Maintenance - Buildings and Equipment	582,005	948,433
TOTAL OTHER OPERATING EXPENSES	\$ 10,089,161	\$ 11,901,023
CAPITAL EXPENSES		
Furniture and Equipment	\$ 54,784	\$ 96,665
Capital Budget Items	242,360	1,437,590
TOTAL CAPITAL EXPENSES	\$ 297,144	\$ 1,534,255
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 43,494,778	\$ 52,547,144

* Miscellaneous expenses include telecommunication services and disaster recovery planning expenses.

**INVESTMENT OPERATIONS
ADMINISTRATIVE EXPENSES**

	Expended FY 2012	Budgeted FY 2013
SALARIES AND OTHER PERSONNEL COSTS		
Salaries and Wages	\$ 13,874,241	\$ 14,742,232
Longevity Pay	86,640	98,120
Employer Retirement Contributions	819,997	934,238
Employer FICA Contributions	996,683	862,066
Employer Health Insurance Contributions	838,272	830,514
Benefit Replacement Pay	13,403	13,425
Other Employee Benefits	94,039	-
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 16,723,276	\$ 17,480,595
PROFESSIONAL FEES AND SERVICES	\$ 1,331,800	\$ 1,043,750
OTHER OPERATING EXPENSES		
Consumable Supplies	\$ 5,530	\$ 7,000
Utilities	300	2,500
Travel	546,085	805,000
Rentals	1,806,480	1,966,000
Dues, Fees and Staff Development	32,021	48,005
Subscriptions and Reference Materials	37,784	53,560
Printing and Reproduction Services	-	-
Software Purchases and Maintenance	-	-
Computer Hardware Maintenance	-	-
Miscellaneous Expenses *	3,051	-
Insurance Premiums	-	-
Furniture and Equipment - Expensed	1,252	20,000
Maintenance - Buildings and Equipment		
TOTAL OTHER OPERATING EXPENSES	\$ 2,432,504	\$ 2,907,065
CAPITAL EXPENSES		
Capital Budget Items	\$ -	\$ -
TOTAL CAPITAL EXPENSES	\$ -	\$ -
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 20,487,579	\$ 21,431,410
PERFORMANCE INCENTIVE COMPENSATION	\$ 6,080,798	\$ 6,899,843
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 26,568,378	\$ 28,331,253

* Miscellaneous Expenses include investment data lines and telecommunication services.

INVESTMENT SOFT DOLLARS

	FY 2012	FY 2013
PROFESSIONAL FEES AND SERVICES	\$ 2,629,063	\$ 500,000
OTHER OPERATING EXPENSES		
Dues, Fees and Staff Development	\$ 94,571	\$ 150,000
Subscriptions and Reference Materials	1,412,627	7,457,885
Software Purchases and Maintenance		182,000
Miscellaneous Expenses	27,755	136,000
Contracted Services	1,699,429	
TOTAL OTHER OPERATING EXPENSES	\$ 3,234,382	\$ 7,925,885
TOTAL OPERATING EXPENSES	\$ 5,863,445	\$ 8,425,885

STATE STREET BANK PARTNERSHIP ACCOUNT

	FY 2012	FY 2013
PROFESSIONAL FEES AND SERVICES	\$ 2,629,063	\$ 2,482,000
OTHER OPERATING EXPENSES		
Rent, Building and Parking	\$ 27,755	\$ 30,000
Dues, Fees and Staff Development	\$ 94,571	\$ 213,000
Subscriptions and Reference Materials	1,412,627	1,230,900
Software Purchases and Maintenance		
Miscellaneous Expenses		
Contracted Services	1,699,429	2,044,100
TOTAL OTHER OPERATING EXPENSES	\$ 3,234,382	\$ 3,518,000
TOTAL OPERATING EXPENSES	\$ 5,863,445	\$ 6,000,000

COMMISSION SHARING ARRANGEMENT

	FY 2012	FY 2013
Subscriptions and Reference Materials	\$ 3,163,457	\$ 5,000,000
Investment Research Activities	\$ 12,265,430	\$ 15,000,000
TOTAL OPERATING EXPENSES	\$ 15,428,887	\$ 20,000,000

**TRS-ACTIVECARE
ADMINISTRATIVE EXPENSES**

	Expended FY 2012	Budgeted FY 2013
SALARIES AND OTHER PERSONNEL COSTS		
Salaries and Wages	\$ 1,217,027	\$ 1,295,835
Longevity Pay	29,660	32,040
Employer Retirement Contributions	72,093	82,933
Employer FICA Contributions	90,025	99,131
Employer Health Insurance Contributions	130,995	141,422
Benefit Replacement Pay	2,063	2,063
Other Employee Benefits	1,685	59,500
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,543,548	\$ 1,712,924
PROFESSIONAL FEES AND SERVICES	\$ 546,681	\$ 950,750
OTHER OPERATING EXPENSES		
Consumable Supplies	\$ 728	\$ 3,000
Utilities	1,604	1,500
Travel	5,959	8,350
Rentals	61,204	62,245
Dues, Fees and Staff Development	6,400	8,700
Subscriptions and Reference Information	824	900
Printing and Reproduction Services	323	1,425
Postage, Mailing and Delivery Services	3,218	4,775
Miscellaneous Expenses	2,604	5,300
Furniture and Equipment - Expensed	3,517	4,500
TOTAL OTHER OPERATING EXPENSES	\$ 86,381	\$ 100,695
TOTAL OPERATING EXPENSES	\$ 2,176,610	\$ 2,764,369

* Miscellaneous expenses include telecommunication services.

**TRS-CARE
ADMINISTRATIVE EXPENSES**

	Expended FY 2012	Budgeted FY 2013
SALARIES AND OTHER PERSONNEL COSTS		
Salaries and Wages	\$ 1,690,742	\$ 1,815,673
Longevity Pay	49,640	54,100
Employer Retirement Contributions	103,676	116,203
Employer FICA Contributions	127,394	138,899
Employer Health Insurance Contributions	199,551	233,442
Benefit Replacement Pay	12,375	12,377
Other Employee Benefits	35,867	64,150
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 2,219,245	\$ 2,434,844
PROFESSIONAL FEES AND SERVICES	\$ 1,286,128	\$ 1,071,000
OTHER OPERATING EXPENSES		
Consumable Supplies	\$ 3,274	\$ 5,200
Utilities	1,618	5,531
Travel	6,022	11,955
Rentals	91,174	82,511
Dues, Fees and Staff Development	1,102	3,325
Subscriptions and Reference Information		570
Printing and Reproduction Services	49,574	15,000
Postage, Mailing and Delivery Services	46,500	135,277
Miscellaneous Expenses	5,253	14,600
Furniture and Equipment - Expensed	2,110	6,500
Maintenance - Buildings and Equipment	2,018	2,000
TOTAL OTHER OPERATING EXPENSES	\$ 208,645	\$ 282,469
TOTAL OPERATING EXPENSES	\$ 3,714,018	\$ 3,788,313

* Miscellaneous expenses include telecommunication services.

**403 (b) CERTIFICATION PROGRAM
ADMINISTRATIVE EXPENSES**

	Expended FY 2012	Budgeted FY 2013
SALARIES AND OTHER PERSONNEL COSTS		
Salaries and Wages	\$ 45,156	\$ 45,386
Longevity Pay		
Employer Retirement Contributions	2,771	2,905
Employer FICA Contributions	3,534	3,472
Employer Health Insurance Contributions		5,021
Benefit Replacement Pay	1,031	1,032
Employee Compensable Absences	(1,289)	1,000
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 51,203	\$ 58,816
PROFESSIONAL FEES AND SERVICES*	\$	\$
OTHER OPERATING EXPENSES		
Subscriptions and Reference Information	\$	\$
TOTAL OTHER OPERATING EXPENSES	\$ -	\$ -
TOTAL OPERATING EXPENSES	\$ 51,203	\$ 58,816

*Professional Fees and Services include Administrative Services Provided by the Pension Fund.

Administrative Operations Budget FY2014

Administrative Operations Budget

Fiscal Year 2014

Pension Trust Fund:

	FY 2013	FY 2014
	Budget	Preliminary
Salaries and Other Personnel Costs	\$ 49,568,697	\$ 52,581,026
Professional Fees and Services	8,064,064	8,636,050
Other Operating Expenses	14,808,088	15,587,263
Capital Budget	1,534,255	5,652,990
Subtotal Excluding TEAM	\$ 73,975,104	\$ 82,457,329
Capital Budget - TEAM	21,043,224	34,623,621
Performance Incentive Compensation	9,106,939	9,800,000
Total	\$ 104,125,267	\$ 126,880,950
FTEs - Pension Trust Fund	475.3	475.3
FTEs - TEAM	15.0	28.0
Total FTEs	490.3	503.3

Administrative Operations Budget

Fiscal Year 2014 (continued)

- Funding will be 100% from Pension Trust Fund – no General Revenue.
- Regarding Salaries and Other Personnel Costs, the increase over Fiscal Year 2013 includes:
 - \$1.2 million for a 3% across the board salary increase
 - \$1.8 million additional resources and benefit increases
- An additional \$4.0 million for building repairs including funding for air handler replacement and pressurization of stairwells.
- Incentive compensation is estimated at the actual plan year 2013 remaining balance (\$4.2 million) plus maximum allowable for the first half of plan year 2014 under current provisions (\$5.6 million).

TEAM

- Increased funding for 13 additional TEAM positions.
- A total of \$34.6 million for the TEAM capital project. Unexpended Fiscal Year 2014 capital budget balances will be carried forward to FY 2015.

Administrative Operations Budget

Fiscal Year 2014 (continued)

Section 28(e) Expenditures and Contractor Provided Allowances:

- The agency has implemented a commission sharing arrangement for futures trading. TRS expects to earn approximately \$3 million from this arrangement. The soft dollar program has been reviewed and TRS believes it can save approximately 20% on purchases if those purchases are moved from Soft Dollar to Commission Sharing. The estimated combined FY 2014 budget for the program is \$23 million.
- SSB/TRS Partnership Account to remain at Fiscal Year 2013 level of \$6 million with budgeted amount allocated primarily for professional fees for investment consultants and contracted services.

Administrative Operations Budget

Fiscal Year 2014 (continued)

TRS-Care and TRS-ActiveCare:

- Funding assumes a statutorily-required state contribution rate of 1.0 percent of active public education employee payroll in each year of the 2014-15 biennium.
- Appropriations reflect a \$123.8 million increase above 2012-13 biennium and assumes no annual payroll growth.
- As charges paid from the pension fund get reimbursed from the healthcare trust fund, use of pension fund resources will be monitored and adjustments made as necessary.

403 (b) Certification Program:

- Both certification and registration renewals are on five-year cycles. Most of the certifications and renewals occurred in Fiscal Year 2012; with the remaining in Fiscal Year 2013.
- Most of the remaining certified companies are expected to renew as their certifications or registrations near expiration.
- Administrative expenses necessary to operate the certification program will not be affected and are expected to be maintained at the Fiscal Year 2013 level.

TEACHER RETIREMENT SYSTEM OF TEXAS

GENERAL PROVISIONS

The Teacher Retirement System (TRS) uses the provisions of Article IX of the General Appropriations Act (GAA) adopted by the 82nd Texas Legislature (Article IX) as guidelines in administering the system to the extent that the Executive Director or a designee acting in the absence of the Executive Director determines a particular provision of Article IX is in the best interests of the system and not in conflict with applicable law, fiduciary duty, or TRS policy.

PENSION TRUST FUND ADMINISTRATIVE OPERATIONS – In adopting the related Budget Resolution, the TRS Board of Trustees (board) has made a fiduciary finding authorizing expenditures from the Pension Trust Fund to cover all of TRS' administrative operating expenses for the fiscal year because such operating expenses are required to perform the fiduciary duties of the board and the legislature has not appropriated money from the State's general revenue fund for TRS to use in paying operating expenses for the fiscal year.

USE OF SOFT DOLLARS, [COMMISSION RECAPTURE](#), AND COMMISSION SHARING ARRANGEMENTS (CSAs), INCLUDING SECTION 28(e) EXPENDITURES – The board finds that the expenditure of funds provided by CSAs, [commission recapture](#), and soft dollars commission credits to obtain goods and services supporting the investment function are necessary for the efficient and effective administration of pension trust fund assets and performance of the board's fiduciary duties. CSAs, [commission recapture](#), and soft dollars shall be administered in accordance with the board's Soft Dollar Policy and applicable law.

CONTRACTOR PROVIDED RESOURCES – As part of the contracting process for goods and services (including investment management services), TRS has access to additional resources for operations, including services, temporarily-assigned staff, or allowances, as part of the total contract consideration provided by the vendors or investment managers. Such resources may only be used or expended to the same extent, and for the same purposes, and are subject to the same duty of care and general requirements and policies, as other pension trust fund assets.

HEALTH BENEFITS FUNDS – Operations of the Texas Public School Retired Employees Group Benefits Program (TRS-Care - Retired Plan) are funded from the Texas Public School Employees Group Insurance Fund. Operations of the Texas School Employees Uniform Group Health Coverage Program (TRS-ActiveCare - Active Plan) are funded from the Texas School Employees Uniform Group Health Coverage Fund.

403(b) CERTIFICATION PROGRAM – Operations of the 403(b) Certification Program are funded from the 403(b) Administrative Trust Fund.

PERSONNEL SERVICES:

- **Hiring and Personnel Actions** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to hire personnel, to transfer personnel within the agency, and to approve hiring salaries, salary changes, and other personnel actions including but not limited to, promotions, demotions, merits, and recruitment and retention bonuses. TRS will base its salary schedules, position classifications, and salary administration practices on the provisions of Article IX, Chapter 659 of the Government Code, and other relevant legislation to the extent the Executive Director determines a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty or TRS policy. The board will set the salary rate for the Executive Director. The Executive Director is authorized to set the annual base salary rate for all other exempt positions within the not-to-exceed amounts listed in the GAA or any amended limits adopted by the board from time to time.
- **Performance Incentive Compensation** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to implement the performance incentive compensation plan(s) as approved from time to time by the board including authorizing payment of the performance incentive

TEACHER RETIREMENT SYSTEM OF TEXAS

GENERAL PROVISIONS

(continued)

compensation to the extent funds have been included in the approved budget for that purpose or are otherwise made available through the Budget Execution Authority in these General Provisions.

- **Longevity Pay and Benefit Replacement Pay** – The board authorizes the payment of Longevity Pay and Benefit Replacement Pay in addition to base pay. The payment of Longevity Pay and Benefit Replacement Pay to eligible TRS employees shall be administered in a manner consistent with the provisions of Chapter 659 of the Government Code and other relevant legislation.

OTHER PERSONNEL COSTS – As required for the efficient operations of the TRS, Other Personnel Costs, including Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay, are provided as estimated amounts as authorized in the GAA and may be revised by the Executive Director, or Deputy Director in the absence of the Executive Director, if needed to pay operating expenses for the fiscal year.

PROFESSIONAL SERVICES – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to contract for professional services and approve and disburse professional fees to persons or firms who render such professional services to TRS. The board finds that the budget for Professional Services authorized in this document is necessary to the performance of its fiduciary duties.

COUNSELING SERVICES – In accordance with Texas Government Code, Chapter 825, Subchapter G, the board authorizes the Executive Director or his designees to make individual retirement benefits counseling sessions available to members normally in

conjunction with group retirement benefits presentations, thereby creating efficiencies and minimizing the cost of such services. TRS will determine the geographic regions most in need of retirement benefits counseling and will provide retirement benefits counseling services in these regions throughout Texas.

BUDGET EXECUTION AUTHORITY – As required for the efficient operations of the TRS, the Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to transfer budgeted funds up to \$100,000 or 12 1/2% of an expense category, whichever is greater, between different expense accounts and major expense categories, so long as the total approved budget for operating expenses and capital outlay is not exceeded. This provision applies separately to the Pension Trust Fund, the Retired Health Benefits Fund, the Active Health Benefits Fund, and the 403(b) Administrative Trust Fund.

CONTINGENCY FOR CATASTROPHIC OCCURRENCES – In the event of a catastrophic occurrence which destroys or incapacitates the TRS' physical plant and/or primary operating resources, the Executive Director, Deputy Director, or Chief Financial Officer may exceed the total approved budget to the extent necessary to achieve recovery of operational capabilities. The Executive Director, Deputy Director, or Chief Financial Officer will notify the Budget Committee of the board, as soon as possible, of the extent of the situation and the budgetary impact.