

Budget Committee Meeting

July 29, 2016

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

*(Ms. Palmer, Committee Chair; Ms. Charleston; Dr. Gibson; Mr. Moss; & Ms. Ramirez,
Committee Members)*

AGENDA

**July 29, 2016 – 11:15 a.m.
TRS East Building, 5th Floor, Boardroom**

*All or part of the July 29, 2016 meeting of the TRS Board of Trustees and Budget Committee may be held by telephone conference call as authorized under Section 551.130 of Texas Government Code. The committee and board intend to have a quorum physically present at the following location: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

1. Consider approval of the June 16, 2016 committee meeting minutes – Anita Palmer.
2. Consider recommending to the Board adoption of – Don Green:
 - A. The proposed fiscal year 2017 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 2017 budget.
 - B. The proposed fiscal year 2017 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. The proposed fiscal year 2017 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.
3. Receive an overview of the proposed Legislative Appropriations Request for fiscal years 2018-2019 – 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 16, 2016

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas met on June 16, 2016 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following committee members were present:

Anita Palmer, Presiding Chair
Dr. Greg Gibson
Karen Charleston
Dolores Ramirez
John Elliott

Others present:

Christopher Moss, TRS Trustee	Don Green, TRS
Jamie Pierce, TRS	Janie Duarte, TRS
Cindy Haley, TRS	Yimei Zhao, TRS
Roberto Ruiz, TRS	James Pinkard, TRS
Kristi Vorce, TRS	

Ms. Palmer called the meeting to order at 3:24 p.m. A quorum was present.

1. Consider the approval of the proposed minutes of the July 24, 2015 committee meeting – Anita Palmer.

On a motion by Ms. Charleston, seconded by Dr. Gibson, the committee unanimously voted to approve the proposed minutes of the July 24, 2015 meeting, as presented.

2. Receive an overview of the administrative operations budget for fiscal year 2016, the Budget History Document, and a draft of the proposed administrative operations budgets and general provisions for fiscal year 2017 – Don Green.

Mr. Green presented an overview of the administrative operations budget for fiscal year 2016 and the proposed administrative operations budget for fiscal year 2017. He also discussed TRS' biennial legislative appropriations request (LAR) for fiscal year 2017. He highlighted notable items in the LAR, which the legislature would have to approve, including continued funding for the TEAM program, capital items designed to protect TRS' investment in TRS facilities, other funding designed to maintain and build TRS' facilities and workforce, and funding of GASB-related costs.

He proceeded to give a detailed breakdown of increases to the proposed budget for fiscal year 2017, focusing on major expenses including wages and benefits, capital projects, incentive compensation, and non-TEAM capital projects, such as telecommunications and mainframe upgrades, building renovations, sump pump upgrades, and a second data center generator. He

projected an increase in investment soft dollars relating to IMD-related expenses. Mr. Green explained the need to add more full time equivalent positions in the Health Insurance Benefits Division for customer service representatives and analytical contract management experts. He anticipates that, by building TRS' in-house expertise in contract management, TRS will reduce expenditures needed for outside consultants and enable TRS to better respond to inquiries from the interim committee of the legislature. He presented a brief explanation of the general provisions for the new board members.

3. Discuss the draft Legislative Appropriations Request (LAR) for fiscal years 2018-2019 – Don Green.

Mr. Green provided an overview of the draft LAR for fiscal years 2018-2019. He projected that funding increases would be requested for the pension program. He highlighted administrative operations, including evaluating the need for additional full time equivalent positions in several divisions, replacement of the HVAC system, eventual replacement of the Red River building roof, and funding for foreign office operations.

The meeting adjourned at 3:56 p.m.

MINUTES APPROVED BY THE **BUDGET COMMITTEE** OF THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 29TH DAY OF JULY, 2016.

ATTESTED BY:

Dan Junell Date
Secretary of the TRS Board of Trustees

Teacher Retirement System of Texas



FY17 Operating Budget & FY18-19 Legislative Appropriations Request

Don Green, Chief Administrative Officer/Chief Financial Officer

Board of Trustees Meeting
July 2016





Overview

- This request represents the FY 2017 portion of the FY16-17 biennial legislative appropriations request for TRS which was approved by the board in July 2014 and received final approval by the Texas Legislature in May 2015.
- Highlights of the approved request include a continuation of funding needed to implement TEAM, capital items designed to maintain our investment in TRS facilities, and certain inflationary-related increases necessary to attract and maintain a competitive workforce, as well as enhance investment services and benefit services for our members.
- The total amount requested for the FY 2017 operating budget from the Pension Trust Fund represents one-tenth of a percent of the value of the fund as of April 30, 2016.



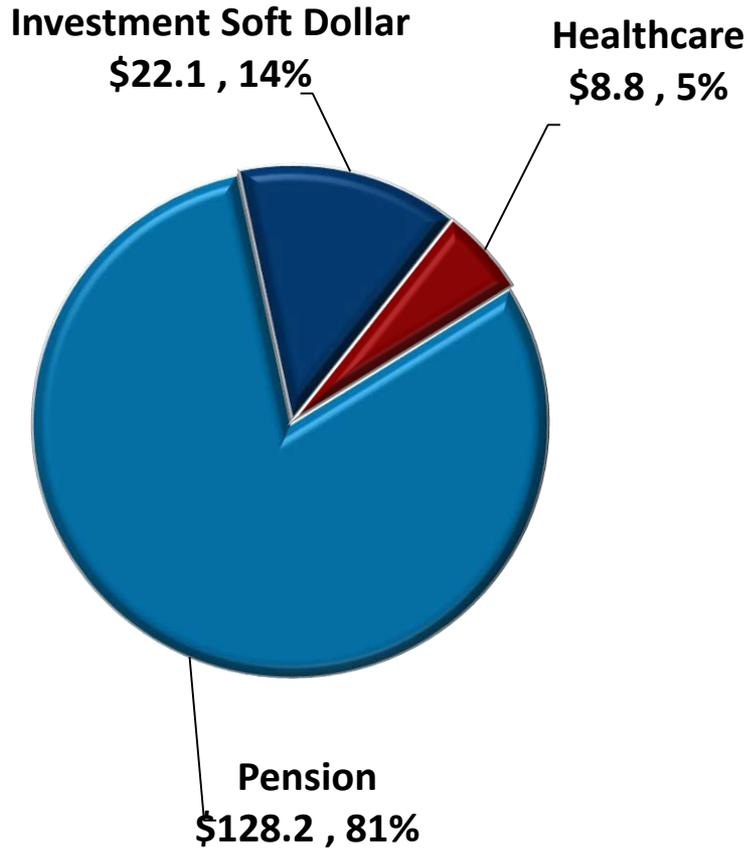
Consideration of Request

- In addition to the specific dollar amounts authorized, the legislature through a rider also authorizes TRS to cover any necessary costs related to employee benefits and performance plan compensation. Those estimates are included in this budget.
- The legislature also authorized the TRS Board to budget any costs necessary to implement any of the provisions of GASB pronouncements with the prior approval of the Legislative Budget Board and the Governor's Office. An amount for this purpose may be requested at a later date during FY2017.

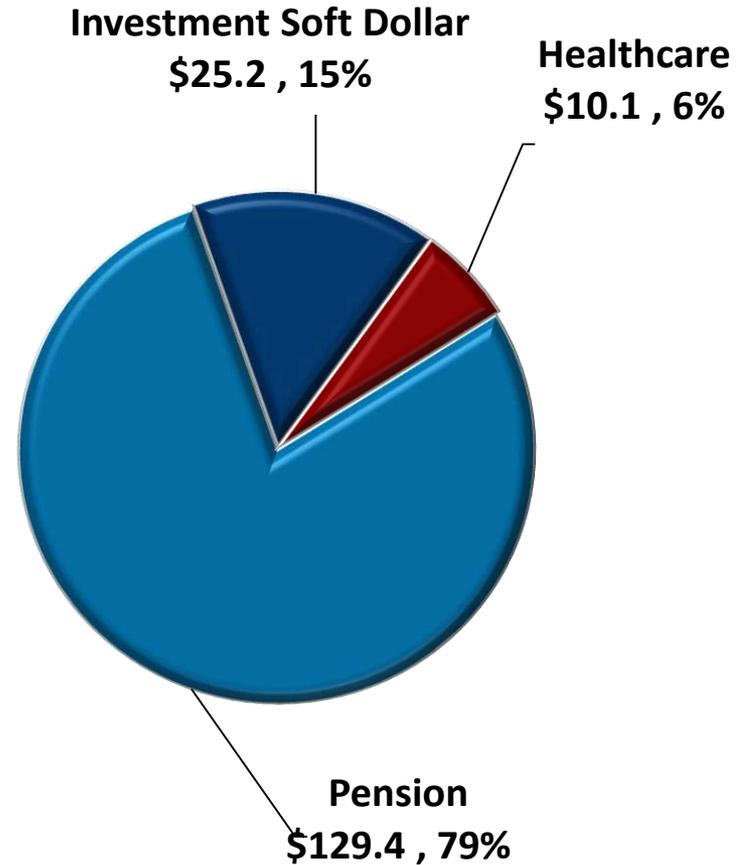


Comparison by Fund

FY 2016
\$159,169,733



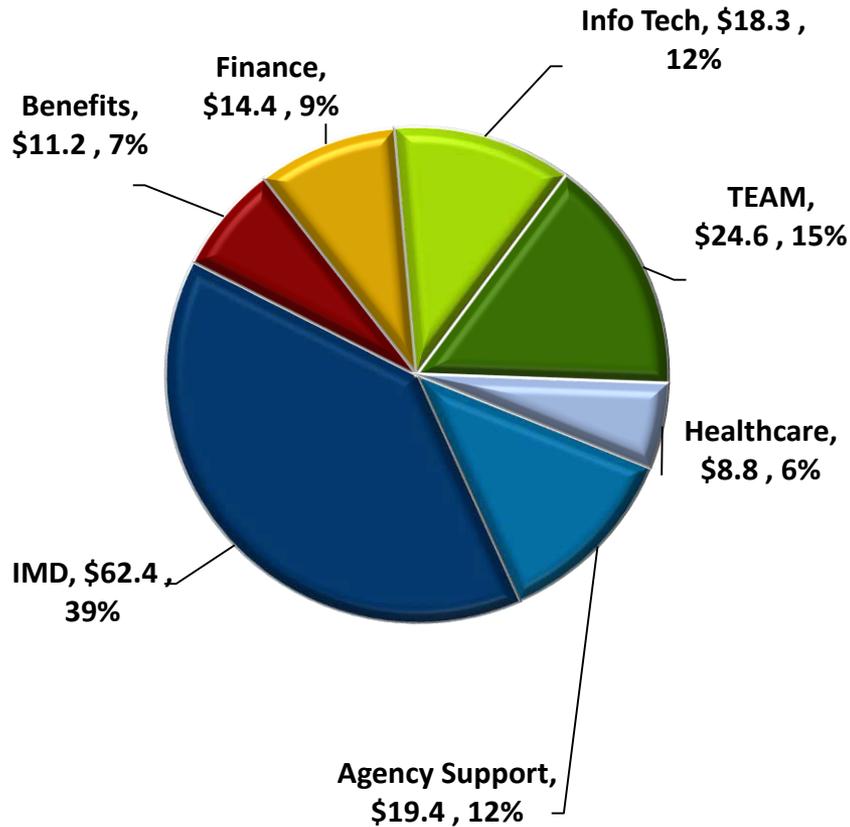
FY 2017
\$164,686,961



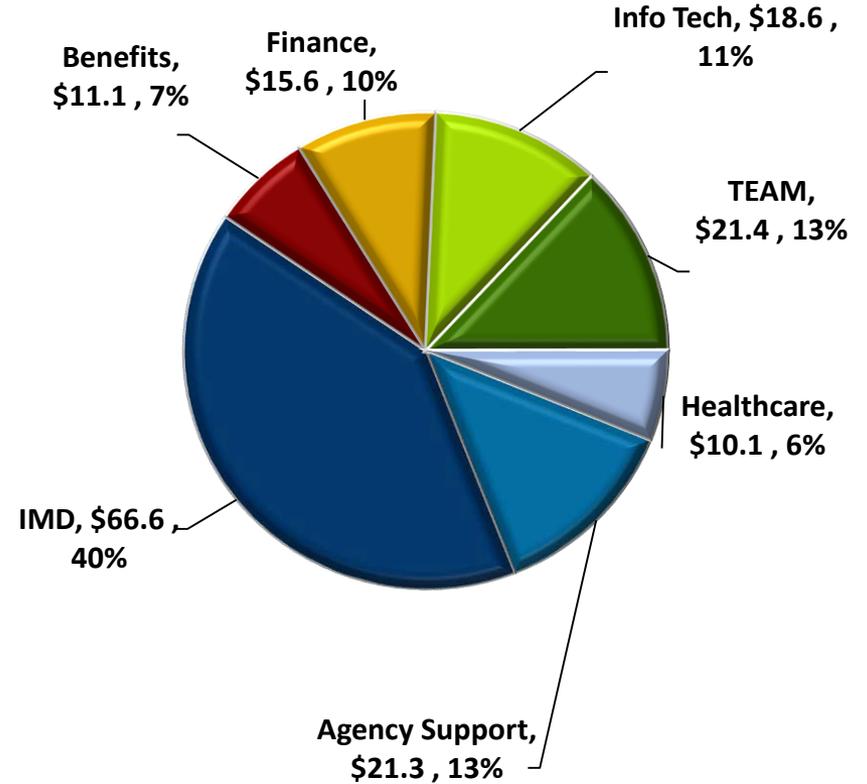


Comparison by Division

FY 2016
\$159,169,733



FY 2017
\$164,686,961

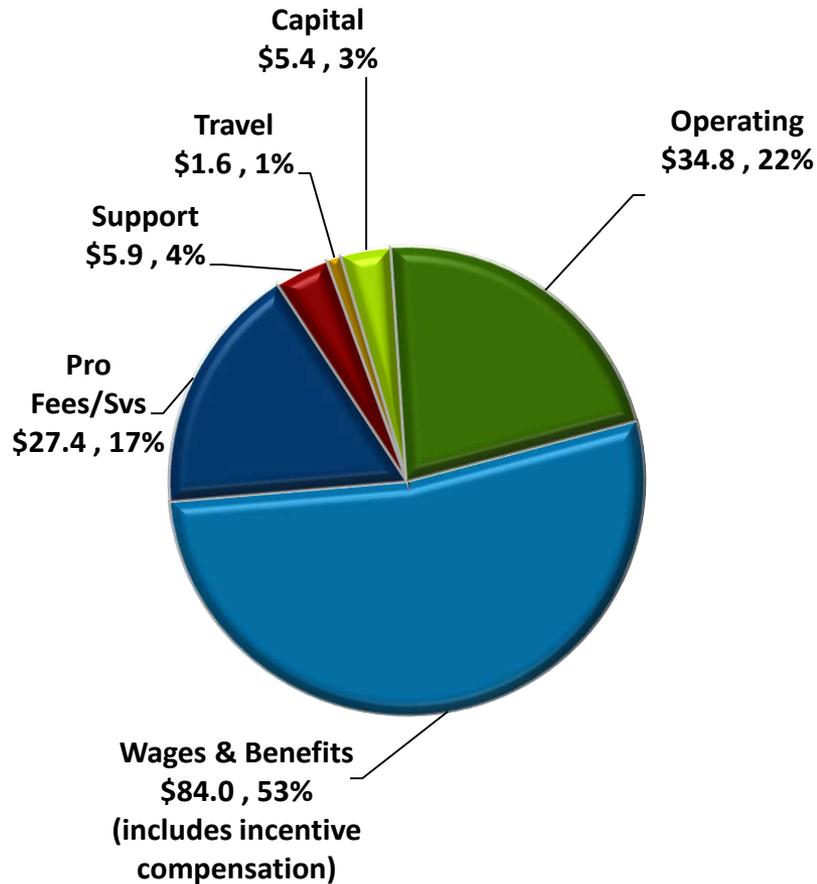




Comparison by Expense Category

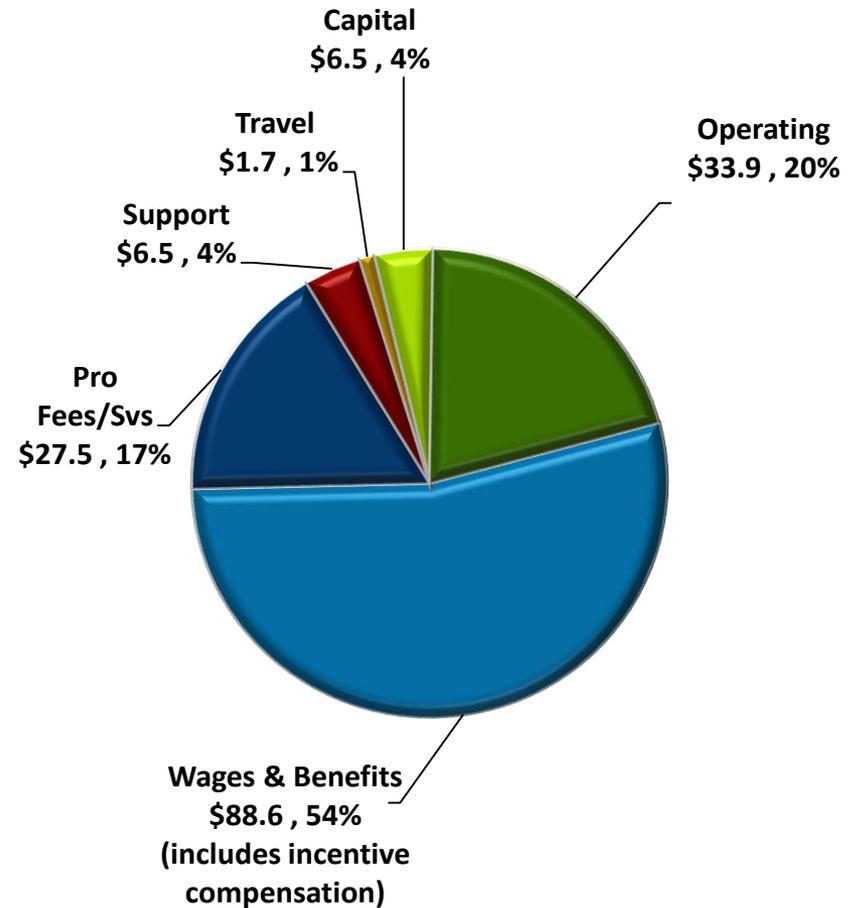
FY 2016

\$159,169,733



FY 2017

\$164,686,961





Administrative Operations FY 2017 Compared to FY 2016

Expense / Fund	FY 2016 Budget	FY 2017 Request	Variance \$	Variance %
Wages & Benefits	83,959,881	88,630,962	4,671,081	5.6%
Professional Fees & Services	27,450,106	27,416,801	(33,305)	(0.1%)
Operating Costs	42,349,746	42,099,519	(205,227)	(0.5%)
Capital Projects	5,410,000	6,539,679	1,129,679	20.9%
Total	159,169,733	164,686,961	5,517,228	3.5%
Pension Trust Fund	103,597,313	107,995,593	4,398,280	4.2%
TEAM	24,636,163	21,445,217	(3,190,946)	(13.0%)
Investment Soft Dollars	22,137,462	25,175,436	3,037,974	13.7%
TRS Care	5,325,902	5,936,696	610,794	11.5%
Active Care	3,387,496	4,004,046	616,550	18.2%
403 (b)	85,397	129,973	44,576	52.2%
Total	159,169,733	164,686,961	5,517,228	3.5%

Administrative Operations

FY 2017

Pension Trust Fund - Excluding TEAM:

- The Fiscal Year 2017 requested budget is 4.2% over the Fiscal Year 2016 budget.
- Regarding Salaries and Other Personnel Costs, the increase over Fiscal Year 2016 includes:
 - As approved by the Board in July 2014, the agency merit pool includes a 3% for Red River (\$956,000), 5% for IMD (\$990,000) and 3% for healthcare (\$122,000).
 - \$1.3 million for benefit net increases related to increases in health care costs, retirement and social security contributions. The employer contribution retirement rate continues at 6.8%.
 - Incentive compensation is estimated at the actual plan year 2015 remaining balance (\$4.3 million) plus an estimated maximum amount for the first half of the plan year 2016 under current provisions (\$7.1 million).
- Other operating expenses decreased \$1.4 million largely due to the shift of subscriptions and reference materials to soft dollars and multi-year license/maintenance purchases made in FY 2016.



IMD Salary Study

- In 2007, the Board approved compensation targets for TRS investment positions to ensure pay competitiveness.
 - Targets were recommended by the CIO based on work completed by McLagan partners
 - Base salary targeted at 75th percentile of large/leading public pension funds
 - Incentive pay targeted at 25th percentile of private sector firms

- In 2014, TRS completed another comprehensive review of IMD positions with the goal of evaluating the market every two years. Salaries were increased to bring staff more in line with pay targets.



IMD Salary Study

- Results of the 2016 study are being finalized. Preliminary results indicate:
 - Adjustments of \$900,000 may be necessary to ensure competitiveness
 - The proposed August 2016 pay actions will address higher priority changes, especially for Private Equity, Real Assets and other direct investing positions
 - The proposed October 2016 actions will address minor changes including promotions, merit increases or routine title changes
- The proposed source of funding is to move the Hewitt EnnisKnupp contract from hard dollars to soft dollars. Revenue in the soft dollar program is projected to be sufficient to accommodate this move.

Administrative Operations

FY 2017



Pension Trust Fund - TEAM:

- Funding for 69 TEAM positions which includes 6 in Agency Support (for change management, legal and oversight) , 13 in the Program Management Office, 22 in the Benefits Division (mostly backfills of existing staff), 7 in the Finance Division (for backfills of existing staff), 20 in the IT Division (including developers and technical support), and 1 in Healthcare.
- The TEAM capital project totals \$40.3 million in the FY 2016-17 biennium. The requested amount for FY2017 is \$21.4 million which includes:
 - \$10.9 million for Pension Line of Business (LOB)
 - \$ 3.0 million for Program Management
 - \$ 6.1 million for Program Wide Costs including software, support and contractors
 - \$ 1.4 million for Support Projects including data management, organizational change management and website redesign



Non-TEAM Capital Projects

Project	FY 2017 Appropriated	FY 2016 Carry-forward	Total Funding
Telecommunications Upgrade	450,000	0	450,000
Investment Systems Upgrade	0	221,499	221,499
Mainframe and Peripherals	420,000	420,000	840,000
PC Workstation Refresh	370,000	158,180	528,180
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Building Renovations	500,000	500,000	1,000,000
Sump Pump System Upgrade	0	1,200,000	1,200,000
Pension Legislation	200,000	0	200,000
Garage Fire Suppression Upgrade	0	1,500,000	1,500,000
Data Center Generator	0	600,000	600,000
TOTALS	1,940,000	4,599,679	6,539,679

Administrative Operations

FY 2017



Investment Soft Dollar:

- All sources of soft dollar revenues are estimated at \$25.2 million. These include commission recapture, commission sharing and the SSB/TRS Partnership Arrangement. Planned expenditures include information resources, investment consultants and software.
- SSB/TRS Partnership Account to remain at \$6 million with expenses for contract staff, advisors, and staff support.



Administrative Operations FY 2017

TRS-Care and TRS-ActiveCare:

- Since 2010, TRS healthcare membership has grown by 35% while the number of healthcare employees has grown by 15%.
- Increase of approximately 10% in each fund largely due to the addition of 8 FTEs costing \$600,000 to provide additional member support service, accommodate additional member level accounting work, and to both streamline and more efficiently monitor healthcare procurement. An additional internal auditor for benefits is included as well.
- In anticipation of additional workload related to the legislative session, an increase of approximately \$339,000 is included for actuarial support services and additional auditing services.

403 (b) Certification Program:

- Request includes salary and related benefits funding for 1 FTE to support plan providers. Contingency funding for outside expertise to ensure potential legislative questions are addressed properly.



Additional FTEs Recommended

Position	# of FTEs	Description
Benefits Specialists	4	Frontline customer service representatives to handle additional support volume
Operations Manager	1	Operations manager needed to better support leadership team with increase in FTEs and a reorganization of functional roles
Accounting Manager	1	Assist with member level accounting work, enhance CAFR support and coordination, and supervise the accounting team
Health Care Analyst	1	Enhance oversight of third party vendors, streamline procurement, and increase HIB's internal strength for data mining, reporting and presentation
Internal Auditor	1	To audit healthcare plan performance and assist with employer auditing function
Total	8	



General Provisions – No Changes

General Provisions

The Teacher Retirement System (TRS) uses as guidelines the provisions of Article IX (General Provisions) of the General Appropriations Act adopted by the 84th Texas Legislature (GAA) in administering the system to the extent that the Executive Director or a designee acting in the absence of the Executive Director determines that individual provisions of Article IX are in the best interests of TRS and are not in conflict with applicable TRS laws, fiduciary duties, or policies. The following provisions are subject to this paragraph.

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 pay for TRS' administrative operating expenses for the fiscal year because such operating expenses are required to perform the fiduciary duties of the board. Further, 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 DOLLAR CREDITS, COMMISSION RECAPTURE BALANCES, AND COMMISSION SHARING ARRANGEMENTS (CSAs) – The board finds that the expenditure of funds provided by soft dollar credits, commission recapture balances, and CSA balances to obtain research, 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. Uses of soft dollar credits, commission recapture balances, and CSA balances 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, credits deducted from payables, temporarily-assigned, non-TRS workers, 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 are funded from the Retired Employees Group Health Insurance Fund (the TRS-Care Fund). Operations of the Texas School Employees Uniform Group Health Coverage Program are funded from the Texas School Employees Uniform Group Coverage Trust Fund (the TRS ActiveCare Fund).

SECTION 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 base salaries, salary changes, and other personnel actions including but not limited to promotions, demotions, merits, and recruitment and retention bonuses. TRS will generally 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 base salaries 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

General Provisions (cont)



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 the extent feasible, to make individual retirement benefits counseling sessions available to members in conjunction with informational or educational programs presentations that TRS provides for groups throughout the state, in order to promote efficiency and minimize 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 operation of TRS programs, 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 TRS-Care Fund, the TRS-ActiveCare Fund, and the 403(b) Administrative Trust Fund.

CONTINGENCY FOR CATASTROPHIC OCCURRENCES – In the event of a catastrophic occurrence which destroys or incapacitates 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.

Resolution
Authorizing Expenditure and Transfer of Trust Funds
For Pension Trust Fund Administrative Operations

July 29, 2016

Whereas, Section 825.312 of the Government Code provides that the retirement system shall pay from the expense account of the retirement system account for the pension trust fund all administrative expenses of the retirement system that are required to perform the fiduciary duties of the board;

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

Whereas, Rider 18, “Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation,” of the TRS bill pattern in the State General Appropriations Act, 84th Legislature provides that upon a finding of fact by the TRS board that additional resources are necessary to implement accounting guidelines related to Governmental Accounting Standards Board statements and pronouncements, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2017; now, therefore be it;

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2017 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$118,080,810, as approved today in the Fiscal Year 2017 Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amounts as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in Fiscal Year 2017, if any; and
- To pay expenses incurred for the TEAM Program in Fiscal Year 2017 any unexpended TEAM Program capital budget funds that have been reappropriated in accordance with Section 14.03(i) of Article IX of the General Appropriations Act for the 2016-2017; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and to implement GASB statements; and

Resolved, That the staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the expenses of the retirement system under the approved budget for Fiscal Year 2017, but not to exceed the amount of \$118,080,810 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2017 and, as applicable, to achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by the General Provisions adopted by the board.



FY2018-19 Legislative Appropriations Request



LAR Logistics

- Policy letter came out June 30, 2016 from Gov Abbott, Lt Gov Patrick and Speaker Straus with instructions from the LBB staff and Governor's Office
- The letter indicated most agencies should submit a 4% reduction from their base appropriations level; state matching contributions are exempt
- LAR is due on Friday, August 12th
- No formal action is required by the Board prior to submission to the Legislative Budget Board and the Governor's office



LAR Logistics

- The LAR submission is required to be signed by the Board Chair and the Executive Director
- An Administrator's Statement is required from each Agency's executive director to explain the request
- The TRS joint budget hearing with the LBB and Governor's Office staff is tentatively scheduled for Tuesday, September 27



State Matching

- Pension will remain at expected 6.8% contribution with assumed payroll growth of 3.5% in public education and 2.5% in higher education
- TRS Care is expected to remain at 1% of payroll with a 3.5% expected growth in covered payroll
- Solvency funding for TRS Care expected to be \$1.3 - 1.5 billion through the end of FY2019

Strategy	FY2016-17	FY2018-19	Var \$	Var %
Public Education	3,133,557,074	3,492,866,334	359,309,260	11.5%
Higher Education (GR only)	353,651,001	353,905,598	254,597	0.1%
TRS Care	562,175,749	646,356,603	84,180,854	15.0%
TOTAL	4,049,383,824	4,493,128,535	443,744,711	10.9%



TEAM Request

- Continued funding for 69 TEAM positions through FY2019
- The TEAM capital project totals \$29.9 million in the FY 2018-19 biennium which includes:
 - \$13.9 million for Pension Line of Business (LOB)
 - \$ 3.3 million for Program Management
 - \$ 7.7 million for Program Wide Costs including software, support and contractors
 - \$ 5.0 million for Support Projects including data management, organizational change management and website redesign
- Revise the TEAM rider to include transition activities as an acceptable activity within the framework of excluding TEAM FTEs from the agency's cap



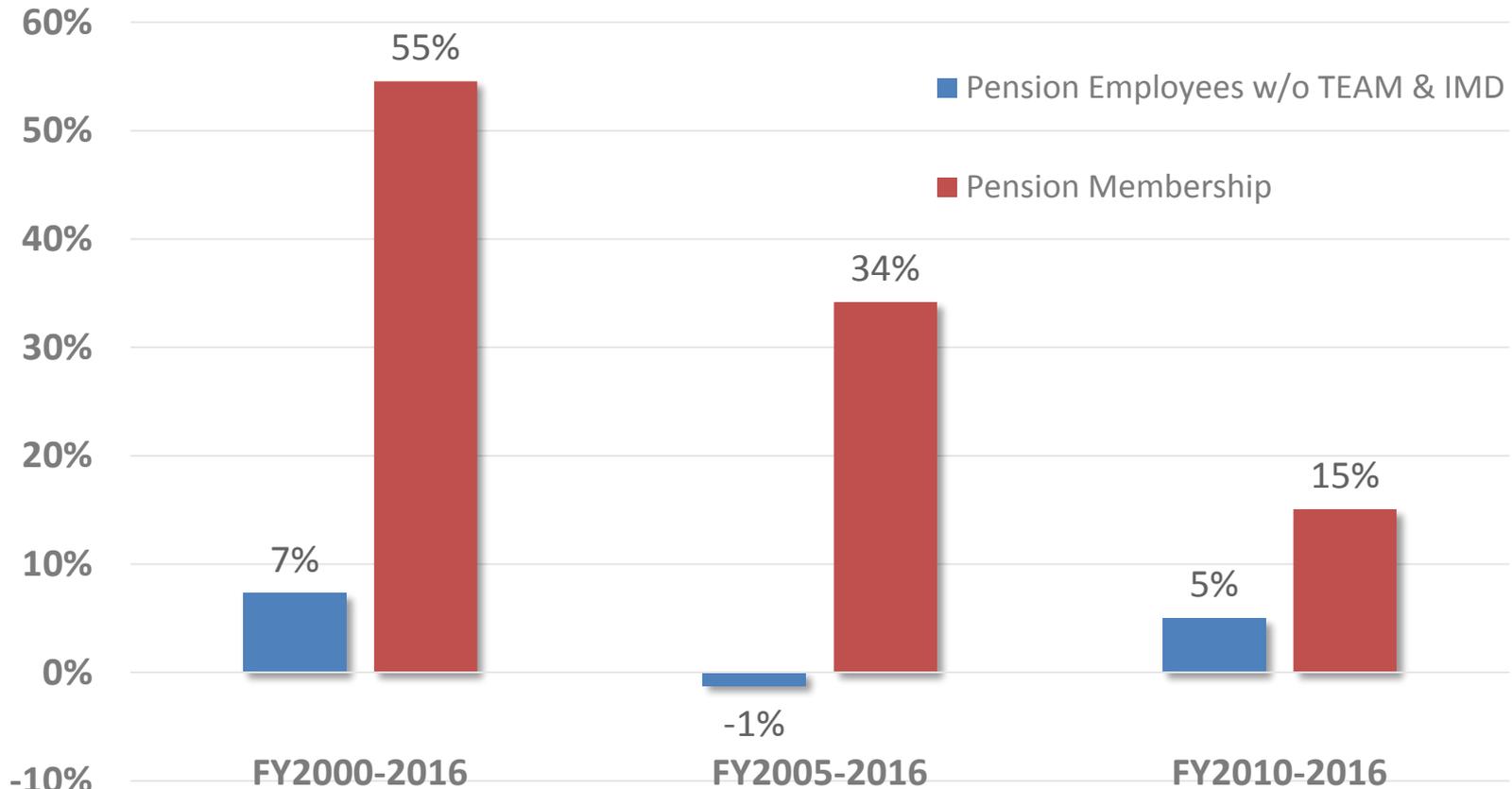
Non-TEAM Capital Projects

Project	FY2018-19	Project Description
Network Infrastructure	900,000	Supports the development and maintenance of the client/server environment
Investment Systems Upgrade	740,000	Define, develop and implement a Business Intelligence strategy and program, and to migrate existing investment accounting data
PC Workstation Refresh	740,000	To fund the agency's desktop technology refresh policy
Data Center Upgrade	840,000	Supports the development and maintenance of the data center
Telephone Counseling Center System Upgrade	2,000,000	Supports the TRS call center assessment, phone switch upgrade and call center software upgrades
Pension Legislation	200,000	Anticipates legislative changes and supports the agency's mission and strategic plans
Building Renovations	4,000,000	To support building renovation work related to potential customer service relocation
TOTALS	9,420,000	



Setting the Stage

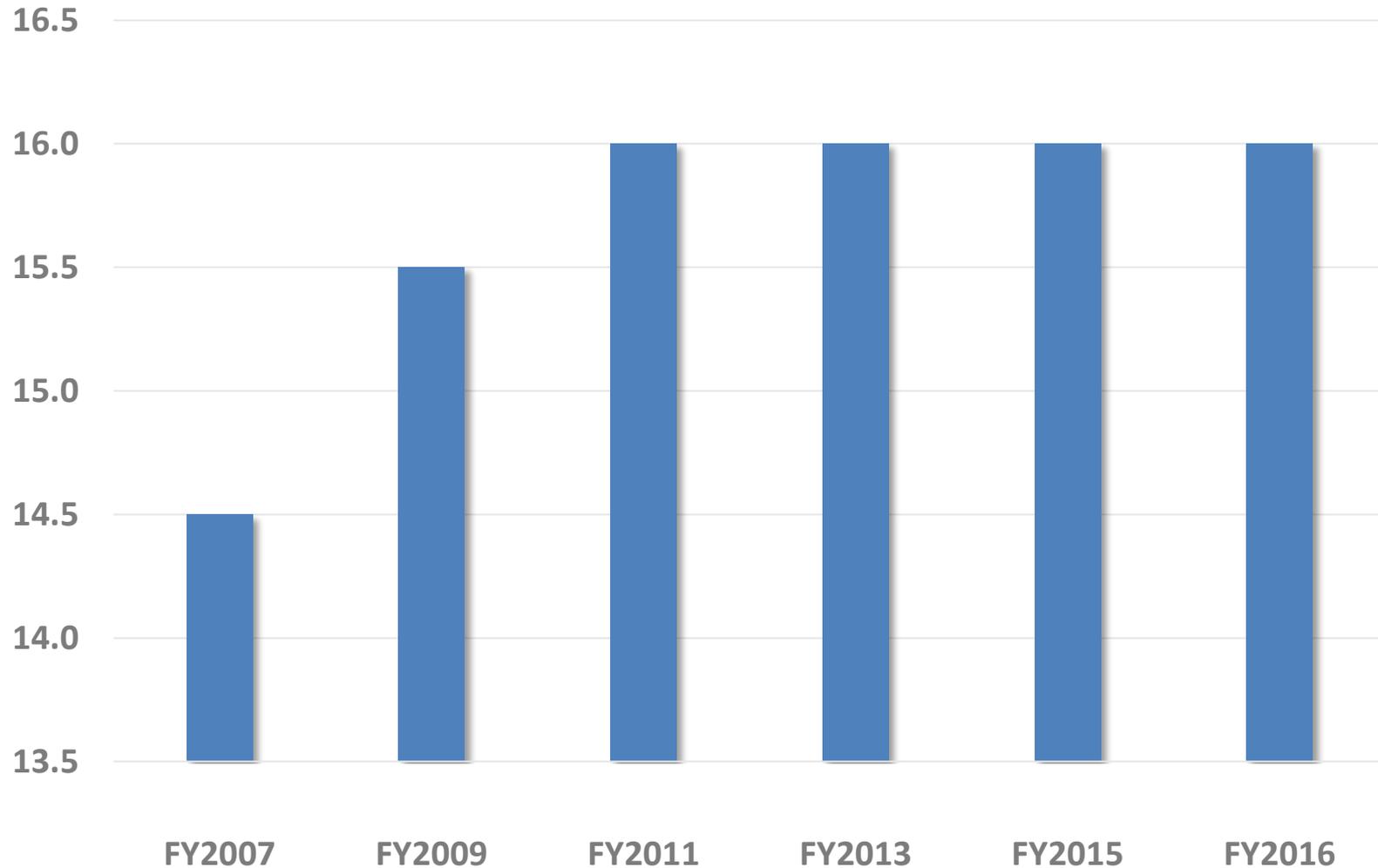
Since the year 2000, TRS membership has grown 55% while the number of agency FTEs excluding TEAM and IMD has risen 7%





Office Counseling FTEs

Since 2007, TRS membership has grown 25% while the number of office counseling FTEs has grown 10%





More Performance Data

- According to CEM data, we cost much less than our peers and are much more productive
 - Cost per member is \$29 for TRS but \$92 on average for our peers
 - Salaries and benefits per FTE are 13% below our peers
 - Productivity per FTE is 97% higher than our peers
 - Calls and e-mails per FTE is 16,700 while at our peers its 8,100
- Based on member satisfaction survey data, 96% of our active member reported being very satisfied or satisfied with TRS services in 2000; that number is now 89%



Additional FTEs Requested

- In the FY16-17 GAA agencies are authorized to exceed the FTE cap by 10% which would represent 50 FTEs for TRS; however, it is unknown if that authority will continue for FY18-19
- Managers requested a total of 58.5 additional FTEs through FY2019 including:
 - 22 Investment Management staff to mitigate risk and ensure efficient use of funds due to increased size and complexity of pension fund
 - 11 Internal Auditors: 8 for employer audits, 1 for investments, 1 for benefits employer and 1 for IT to obtain greater coverage and staff continuity
 - 11 Information Technology staff for JAVA support of healthcare applications, CRM and to support TRUST applications
 - 8 Benefits Services staff based on an internal workload review
 - 6.5 for Agency Support (including 2 for Legal, 2.5 for HR, 1 for Communications and 1 for Strategic Initiatives)

Recommendation

Organization	# of FTEs	Description
Benefits Counseling	10	Reduce the amount of time a member has to wait for an appointment by offering more available appointments
IT Division	7	Developers for TRUST, healthcare, IMD and web self-service
IMD	2	Investment operations analyst and IT analyst
Human Resources	2	Agency training curriculum developers, internal and external
Internal Audit	1	Senior IT audit manager is highest priority; insource position to reduce reliance on outside resources for support
Communications	1	Web content specialist to support redesign project
Legal	1	Investments attorney to support allocation to private markets
Strategic Initiatives	1	Board support including agendas, resolutions, oversight of board materials and special projects
Total	25	

An increase in the 4.9% range would be appropriate based on workload demand. That would be 25 additional FTEs through FY2019.





Biennial Comparison

	FY2016-17	FY2018-19	Var \$	Var %
Legislative Appropriations Request	196,350,987	213,481,083	17,130,096	8.7%
Soft Dollar Program	68,922,204	52,643,266	(16,278,938)	(23.6%)
Incentive Compensation	19,078,119	22,720,000	3,641,881	19.1%
Benefits	31,742,328	36,425,036	4,682,708	14.8%
TRS Care	9,255,512	12,278,207	3,022,695	32.7%
TRS ActiveCare	5,425,921	8,226,100	2,800,179	51.6%
403(b)	260,732	150,628	(110,104)	(42.2%)
TOTAL	331,035,803	345,924,320	14,888,517	4.5%

The legislative appropriations request line item includes TRICOT, TEAM, and capital budget funds that come out of the pension trust fund.



Summary of Request

	FY2016-17	FY2018-19	Var \$	Var %
Public Education Retirement	3,133,557,074	3,492,866,334	359,309,260	11.5%
Higher Education Retirement (GR only)	353,651,001	353,905,598	254,597	0.1%
Retiree Health - Statutory	562,175,749	646,356,603	84,180,854	15.0%
Administrative Operations	196,350,987	213,481,083	17,130,096	8.7%
Subtotal	4,245,734,811	4,706,609,618	460,874,807	10.8%
Exceptional Item – TRS Care Solvency	874,761,667	1,350,000,000	475,238,333	54.3%
TOTAL	5,120,496,478	6,056,609,618	936,113,140	18.3%



Rider Recommendations

- Modification of the TEAM Rider that would allow for the transition of FTEs from TEAM to the operating budget during a post-TEAM phase; these FTEs would not count against the agency FTE cap
- A new rider authorizing funding for an additional foreign office currently intended for the Asia Pacific region which authorizes up to 5 additional FTEs and operating expenses for IMD



Appendix

Operating Budget Detail

FY 2017

Summary of FY 2017 Budget

	PENSION TRUST FUND		Investment Soft Dollar	HEALTH BENEFITS FUNDS		403(b) Certification Program	TOTAL
	Administrative Operations	TEAM		TRS-Care (Retired Plan)	TRS-ActiveCare (Active Plan)		
REVENUES AND OTHER SOURCES							
Legislative Appropriations - Administrative Operations	\$ 77,162,229						\$ 77,162,229
Appropriation Balance Available from FY2016*	4,599,679	\$ 20,107,736					24,707,415
Fringe Benefits Paid by the Pension Fund**	14,873,685	1,337,481					16,211,166
Performance Incentive Compensation Rider	11,360,000						11,360,000
Investment Soft Dollar			\$ 25,175,436				25,175,436
Reserved for Administrative Expenses				\$ 5,936,696	\$ 4,004,046	\$ 129,973	10,070,715
TOTAL REVENUES AND OTHER SOURCES	\$ 107,995,593	\$ 21,445,217	\$ 25,175,436	\$ 5,936,696	\$ 4,004,046	\$ 129,973	\$ 164,686,961
OPERATING AND CAPITAL EXPENSES							
Wages and Benefits	\$ 65,208,457	\$ 6,383,299	\$ -	\$ 3,592,419	\$ 2,016,814	\$ 69,973	\$ 77,270,962
Professional Fees and Services	4,238,930	13,631,371	5,663,000	1,917,750	1,915,750	50,000	27,416,801
Support Costs	6,049,497	20,000	334,720	62,200	37,142	-	6,503,559
Travel	1,666,460	40,000	-	27,500	10,000	10,000	1,753,960
Research	-	-	-	-	-	-	-
Capital Projects	6,539,679	-	-	-	-	-	6,539,679
Operating Costs	12,932,570	1,370,547	19,177,716	336,827	24,340	-	33,842,000
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 96,635,593	\$ 21,445,217	\$ 25,175,436	\$ 5,936,696	\$ 4,004,046	\$ 129,973	\$ 153,326,961
Performance Incentive Compensation	\$ 11,360,000						\$ 11,360,000
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 107,995,593	\$ 21,445,217	\$ 25,175,436	\$ 5,936,696	\$ 4,004,046	\$ 129,973	\$ 164,686,961
Percentage Increase/(Decrease) from FY 2016 Budget	4.25%	-12.95%	13.72%	11.47%	18.20%	52.20%	3.47%

* Includes capital projects of \$4.17 million. Total TEAM appropriation for the biennium is \$40.3 million.

** Includes estimated Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay.

FY 2017 Budget by Department

	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
Board	\$ 84,273	\$ 186,000	\$ 186,000	\$ -	0%
Executive	1,000,805	1,035,883	1,105,954	70,071	7%
Internal Audit	1,440,727	1,966,609	2,379,814	413,205	21%
Legal	4,280,632	4,865,255	5,163,849	298,594	6%
Govt Relations	328,944	334,230	354,444	20,214	6%
Communications	1,123,403	1,348,873	1,458,540	109,667	8%
Human Resources	1,433,663	1,692,864	2,197,043	504,179	30%
Program Mgt Office	17,904	40,000	40,000	-	0%
Strategic Initiatives	458,402	623,262	712,880	89,618	14%
Risk Management	1,009,118	1,253,832	1,284,258	30,426	2%
Administrative Costs*	2,209,131	5,803,621	5,885,345	81,724	1%
Agency Support	\$ 13,387,002	\$ 19,150,429	\$ 20,768,127	\$ 1,617,698	8%
Investment Management	\$ 31,062,063	\$ 38,883,873	\$ 40,125,510	\$ 1,241,637	3%
London Office	-	1,360,311	2,207,895	847,584	62%
Soft Dollars	26,508,713	21,967,462	24,408,296	2,440,834	11%
Benefit Services	\$ 269,057	\$ 418,682	\$ 391,407	\$ (27,275)	-7%
Benefit Processing	4,582,636	5,318,189	5,309,676	(8,513)	0%
Benefit Counseling	3,865,464	4,099,246	4,058,347	(40,899)	-1%
Benefit Payments	734,652	641,396	661,482	20,086	3%
Benefit Reporting	489,768	621,793	636,812	15,019	2%
Benefit Services	\$ 9,941,577	\$ 11,099,306	\$ 11,057,724	\$ (41,582)	0%

*Administrative costs include retiree health insurance, unemployment compensation, lump sum payments, space planning consultants, supplies, furniture and contingency amounts for health care, printing and mailing.



FY 2017 Budget by Department

	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
Financial	\$ 231,226	\$ 273,291	\$ 285,784	\$ 12,493	5%
General Accounting	2,219,942	2,338,532	2,514,413	175,881	8%
Records Management	1,265,250	767,768	889,212	121,444	16%
Investment Accounting	494,432	490,871	506,300	15,429	3%
Staff Services	1,810,712	2,105,240	2,294,024	188,784	9%
Facilities Services	6,524,605	4,923,205	5,493,734	570,529	12%
Printing, Mail & Supply	2,821,616	3,554,701	3,579,305	24,604	1%
Financial	\$ 15,367,783	\$ 14,453,608	\$ 15,562,772	\$ 1,109,164	8%
Information Tech	\$ 1,368,096	\$ 1,822,022	\$ 2,391,882	\$ 569,860	31%
Network Support	4,696,724	6,587,677	11,411,763	4,824,086	73%
Systems - Green Team	1,598,753	1,704,681	1,661,213	(43,468)	-3%
Technical Support	4,507,281	6,018,609	868,380	(5,150,229)	-86%
Systems - Gold Team	1,486,145	1,630,074	1,682,802	52,728	3%
System Architecture	528,942	650,523	615,665	(34,858)	-5%
Information Tech	\$ 14,185,941	\$ 18,413,586	\$ 18,631,705	\$ 218,119	1%
TEAM Program	\$ 14,376,672	\$ 24,636,163	\$ 21,445,217	\$ (3,190,946)	-13%
Interns	\$ 176,308	\$ 406,200	\$ 409,000	\$ 2,800	1%
TRS Care	4,023,862	5,325,902	5,936,696	610,794	11%
TRS ActiveCare	2,262,805	3,387,496	4,004,046	616,550	18%
403(b) Certification	91,351	85,397	129,973	44,576	52%
Totals	\$ 131,384,077	\$ 159,169,733	\$ 164,686,961	\$ 5,517,228	3%



FY 2017 Pension Trust Fund

	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 43,745,474	\$ 47,412,754	\$ 49,267,712	\$ 1,854,958	4%
Longevity Pay	599,380	673,640	667,060	(6,580)	-1%
Employer Retirement Contributions	2,935,387	3,138,435	3,371,343	232,908	7%
Employer FICA Contributions	3,119,072	3,270,149	3,531,792	261,643	8%
Employer Health Insurance Contributions	5,665,325	6,968,964	7,806,650	837,686	12%
Benefit Replacement Pay	87,058	109,275	93,400	(15,875)	-15%
Other Employee Benefits	314,276	470,500	470,500	-	0%
Performance Incentive Compensation	6,274,101	11,200,000	11,360,000	160,000	1%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 62,740,073	\$ 73,243,717	\$ 76,568,457	\$ 3,324,740	5%
PROFESSIONAL FEES AND SERVICES	\$ 1,160,699	\$ 2,805,869	\$ 4,238,930	\$ 1,433,061	51%
OTHER OPERATING EXPENSES					
Consumable Supplies and Fuels	\$ 394,469	\$ 576,208	\$ 596,122	\$ 19,914	3%
Utilities	729,543	1,135,751	1,022,739	(113,012)	-10%
Travel	996,700	1,612,598	1,666,460	53,862	3%
Rentals	2,304,106	2,943,871	3,174,086	230,215	8%
Dues, Fees and Staff Development	409,261	711,776	761,984	50,208	7%
Subscriptions and Reference Information	239,456	1,756,123	1,051,945	(704,178)	-40%
Printing and Reproduction Services	277,643	363,687	326,650	(37,037)	-10%
Postage, Mailing and Delivery Services	2,330,276	2,939,751	2,914,997	(24,754)	-1%
Software Purchases and Maintenance	2,568,360	4,131,291	3,580,530	(550,761)	-13%
Computer Hardware Maintenance	597,868	899,425	793,425	(106,000)	-12%
Miscellaneous Expenses	915,773	1,748,881	1,550,661	(198,220)	-11%
Insurance Premiums	648,640	832,165	842,300	10,135	1%
Furniture and Equipment - Expensed	486,778	1,282,975	1,029,203	(253,772)	-20%
Maintenance - Buildings and Equipment	1,245,690	1,122,350	1,256,550	134,200	12%
TOTAL OTHER OPERATING EXPENSES	\$ 14,144,563	\$ 22,056,852	\$ 20,567,652	\$ (1,489,200)	-7%
CAPITAL EXPENSES					
Furniture and Equipment	\$ 68,308	\$ 80,875	\$ 80,875	\$ -	0%
Capital Budget Items	6,007,031	5,410,000	6,539,679	1,129,679	21%
TOTAL CAPITAL EXPENSES	\$ 6,075,339	\$ 5,490,875	\$ 6,620,554	\$ 1,129,679	21%
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 84,120,673	\$ 103,597,313	\$ 107,995,593	\$ 4,398,280	4%

FY 2017 TEAM Program



	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 3,229,863	\$ 4,441,378	\$ 4,981,538	\$ 540,160	12%
Longevity Pay	36,460	40,320	64,280	23,960	59%
Employer Retirement Contributions	214,935	295,020	321,692	26,672	9%
Employer FICA Contributions	239,294	331,126	360,571	29,445	9%
Employer Health Insurance Contributions	380,808	592,491	634,718	42,227	7%
Benefit Replacement Pay	2,578	8,600	6,500	(2,100)	-24%
Other Employee Benefits	-	14,000	14,000	-	0%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 4,103,938	\$ 5,722,935	\$ 6,383,299	\$ 660,364	12%
PROFESSIONAL FEES AND SERVICES	\$ 7,890,515	\$ 15,424,526	\$ 13,631,371	\$ (1,793,155)	-12%
OTHER OPERATING EXPENSES					
Consumable Supplies and Fuels	\$ 1,379	\$ 15,000	\$ 20,000	\$ 5,000	33%
Travel	7,085	30,000	40,000	10,000	33%
Dues, Fees and Staff Development	68,347	150,000	150,000	-	0%
Software Purchases and Maintenance	805,091	1,433,702	705,547	(728,155)	-51%
Furniture and Equipment - Expensed	50,862	100,000	10,000	(90,000)	-90%
Maintenance - Buildings and Equipment	(44,439)	5,000	5,000	-	
TOTAL OTHER OPERATING EXPENSES	\$ 888,323	\$ 1,733,702	\$ 930,547	\$ (803,155)	-46%
CAPITAL EXPENSES					
Furniture and Equipment	\$ 1,493,896	\$ 1,755,000	\$ 500,000	\$ (1,255,000)	-72%
TOTAL CAPITAL EXPENSES	\$ 1,493,896	\$ 1,755,000	\$ 500,000	\$ (1,255,000)	-72%
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 14,376,672	\$ 24,636,163	\$ 21,445,217	\$ (3,190,946)	-13%



FY 2017 Soft Dollar Program

	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
PROFESSIONAL FEES AND SERVICES	\$ 4,569,738	\$ 5,447,600	\$ 5,663,000	\$ 215,400	4%
OTHER OPERATING EXPENSES					
Rent, Building and Parking	254,258	315,200	334,720	\$ 19,520	6%
Dues, Fees and Staff Development	193,264	430,000	369,000	(61,000)	-14%
Subscriptions and Reference Materials	11,038,060	12,337,337	14,912,081	2,574,744	21%
Software Purchases and Maintenance	327,403	491,525	724,515	232,990	47%
Miscellaneous Expenses	58,680	371,600	309,980	(61,620)	-17%
Contracted Services	1,783,780	2,744,200	2,862,140	117,940	4%
Investment Research Activities	8,283,530	-	-	-	
TOTAL OTHER OPERATING EXPENSES	\$ 21,938,975	\$ 16,689,862	\$ 19,512,436	\$ 2,822,574	17%
TOTAL OPERATING EXPENSES	\$ 26,508,713	\$ 22,137,462	\$ 25,175,436	\$ 3,037,974	14%
SOFT DOLLAR RESOURCES					
Soft Dollar Revenue Reserved for London Office	\$ -	\$ -	\$ 767,140	\$ 767,140	100%
State Street Bank Partnership Agreement	5,036,536	6,000,000	6,000,000	-	
Commission Sharing Arrangements	21,278,159	15,337,462	17,608,296	2,270,834	15%
Commission Recapture Revenue	194,018	800,000	800,000	-	
TOTAL SOFT DOLLAR RESOURCES	\$ 26,508,713	\$ 22,137,462	\$ 25,175,436	\$ 3,037,974	14%

FY 2017 TRS Care

	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 2,339,977	\$ 2,416,820	\$ 2,674,192	\$ 257,372	11%
Longevity Pay	58,800	62,400	66,420	4,020	6%
Employer Retirement Contributions	159,634	158,250	175,228	16,978	11%
Employer FICA Contributions	175,867	176,812	196,109	19,297	11%
Employer Health Insurance Contributions	310,962	357,178	392,270	35,092	10%
Benefit Replacement Pay	9,539	11,700	11,700	-	0%
Other Employee Benefits	2,336	76,500	76,500	-	0%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 3,057,114	\$ 3,259,660	\$ 3,592,419	\$ 332,759	10%
PROFESSIONAL FEES AND SERVICES	\$ 786,707	\$ 1,578,000	\$ 1,917,750	\$ 339,750	22%
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 1,357	\$ 6,000	\$ 7,000	\$ 1,000	17%
Utilities	2,295	6,000	7,000	1,000	17%
Travel	8,010	20,500	27,500	7,000	34%
Rentals	75,119	112,972	33,200	(79,772)	-71%
Dues, Fees and Staff Development	1,192	5,300	5,900	600	11%
Subscriptions and Reference Information	500	575	600	25	4%
Printing and Reproduction Services	19,228	110,500	110,500	-	0%
Postage, Mailing and Delivery Services	55,251	185,800	193,232	7,432	4%
Miscellaneous Expenses	16,572	20,595	20,595	-	0%
Furniture and Equipment - Expensed	516	5,000	6,000	1,000	20%
Maintenance - Buildings and Equipment	-	15,000	15,000	-	0%
TOTAL OTHER OPERATING EXPENSES	\$ 180,041	\$ 488,242	\$ 426,527	\$ (61,715)	-13%
TOTAL OPERATING EXPENSES	\$ 4,023,862	\$ 5,325,902	\$ 5,936,696	\$ 610,794	11%



FY 2017 Active Care

	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 1,093,484	\$ 1,216,965	\$ 1,503,363	\$ 286,398	24%
Longevity Pay	22,540	26,820	22,280	(4,540)	-17%
Employer Retirement Contributions	73,584	80,343	98,965	18,622	23%
Employer FICA Contributions	83,035	85,490	108,545	23,055	27%
Employer Health Insurance Contributions	129,278	163,454	209,861	46,407	28%
Benefit Replacement Pay	1,134	2,600	1,300	(1,300)	-50%
Other Employee Benefits	56,627	72,500	72,500	-	0%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,459,681	\$ 1,648,172	\$ 2,016,814	\$ 368,642	22%
PROFESSIONAL FEES AND SERVICES	\$ 732,272	\$ 1,615,750	\$ 1,915,750	\$ 300,000	19%
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 340	\$ 3,000	\$ 3,000	\$ -	0%
Utilities	1,056	1,500	1,500	-	0%
Travel	7,363	8,950	10,000	1,050	12%
Rentals	56,668	85,224	30,642	(54,582)	-64%
Dues, Fees and Staff Development	1,535	9,000	9,000	-	0%
Subscriptions and Reference Information	1,263	900	1,000	100	11%
Printing and Reproduction Services	-	1,425	2,625	1,200	84%
Postage, Mailing and Delivery Services	781	4,775	4,915	140	3%
Miscellaneous Expenses	1,078	3,300	3,300	-	0%
Furniture and Equipment - Expensed	769	3,500	3,500	-	0%
Maintenance - Buildings and Equipment	-	2,000	2,000	-	0%
TOTAL OTHER OPERATING EXPENSES	\$ 70,851	\$ 123,574	\$ 71,482	\$ (52,092)	-42%
TOTAL OPERATING EXPENSES	\$ 2,262,805	\$ 3,387,496	\$ 4,004,046	\$ 616,550	18%

FY 2017 403 (b)

	Expended FY 2015	Budgeted FY 2016	Proposed FY 2017	Variance FY16 - FY17	
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 79,090	\$ 64,861	\$ 44,290	\$ (20,571)	-32%
Longevity Pay	-	120	960	840	700%
Employer Retirement Contributions	5,108	4,290	2,924	(1,366)	-32%
Employer FICA Contributions	6,122	4,826	3,289	(1,537)	-32%
Employer Health Insurance Contributions	-	9,000	17,510	8,510	95%
Benefit Replacement Pay	1,031	1,300	-	(1,300)	-100%
Other Employee Benefits	-	1,000	1,000	-	0%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 91,351	\$ 85,397	\$ 69,973	\$(15,424)	-18%
Professional Fees and Services	\$ -	\$ -	50,000	\$ 50,000	100%
Travel	\$ -	\$ -	10,000	\$ 10,000	100%
TOTAL OTHER OPERATING EXPENSES	\$ -	\$ -	\$ 60,000	\$ 60,000	100%
TOTAL OPERATING EXPENSES	\$ 91,351	\$ 85,397	\$ 129,973	\$ 44,576	52%