

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

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

AGENDA

**June 7, 2012 – 11:00 a.m.
TRS East Building – Boardroom**

1. Consider the approval of the April 19, 2012 committee meeting minutes – Nanette Sissney.
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.
3. Discuss development of the Legislative Appropriations Request for the 2014-2015 Biennium – 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
April 19, 2012

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on Thursday, April 19, 2012, in Room E 345 of the East Building of TRS offices located at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Committee members present:

Nanette Sissney, Chair
Karen Charleston
Charlotte Clifton
Chris Moss

Other Board members present:

Todd Barth
David Kelly
Anita Palmer

TRS executive and other staff present:

Brian Guthrie, Executive Director
Ken Welch, Deputy Director
Don Green, Chief Financial Officer
Amy Barrett, Chief Audit Executive
Conni Brennan, General Counsel
Betsey Jones, Director of Health Care Policy and Administration
Amy Morgan, Director of Information Technology
Jerry Albright, Deputy Chief Investment Officer
Don Ballard, Assistant General Counsel
Patricia Cantú, Director of Investment Business Management
Mary Chang, Assistant General Counsel
Vicki Garcia, Team Leader of Investment Accounting
Tom Guerin, Manager of Benefit Counseling
Dan Junell, Assistant General Counsel and Secretary to the Board
Lynn Lau, Program Specialist and Assistant Secretary to the Board
Jay LeBlanc, Director of Risk Management & Strategic Planning
Scot Leith, Manager of Investment Accounting
Jamie Michels, Manager of General Accounting
Hugh Ohn, Director of Investment Audit and Compliance
Liz Oliphint, Manager of Benefit Processing
L. Michele Price, Team Leader of Budgeting
Mike Rehling, Assistant Manager of Benefit Processing
Charmaine Skillman, Assistant General Counsel
Ellen Small, Budget Analyst
Angela Vogeli, Assistant General Counsel

Outside counsel, consultants, contractors, representatives of associations and organizations, or members of the public present:

Steve Huff, Reinhart Boerner Van Deuren s.c., Fiduciary Counsel
Ann Fickel, Texas Classroom Teachers Association
Ted Melina Raab, Texas American Federation of Teachers

With a quorum of the committee present, the meeting convened at 2:34 p.m.

1. Consider the approval of the June 16, 2011 committee meeting minutes – Nanette Sissney.

On a motion by Ms. Clifton, seconded by Mr. Moss, the committee unanimously approved the minutes of the June 16, 2011 committee meeting.

2. Review the Budget History Document providing historic budget information for fiscal years 2007–2011 as background – Don Green.

Mr. Green presented historical budget information for FY 2007 through FY 2011. Mr. Green stated that TRS' benefit cost had stayed under \$25 per member over the five-year period, except in FY 2011 because of a one-time adjustment of a technology project made in 2011.

Mr. Green reviewed expense detail for benefit operations for FY 2007 through FY 2011. He stated that the expenses had stayed fairly steady over the five-year period and that any variation had usually been attributable to a capital project. Ms. Palmer commented that employee salaries had increased by \$5 million during the period, which was hard for her to justify to retired teachers who had not had a benefit increase in 11 years. Mr. Green stated that there were a few factors that affected salaries, such as employees being promoted and growth in the average salary; but that he would explain further later at the meeting.

Responding to a comment by Ms. Palmer regarding the decrease in the utility cost during this period, Mr. Green stated that it may be attributable to the fact that the investment staff was moved to the leased space and investment operations had picked up some utility costs. Mr. Welch stated that some of the decreased utility expenses resulted from lower water costs from the Red River buildings being re-landscaped, lower electricity costs from a project involving the replacement of the air handlers and installation of electronic controls in the air conditioning system, and a decrease in the price of natural gas, which is used for heating. Mr. Green stated that a planned heating, ventilation, and air conditioning project in the summer may increase energy efficiency by 10 percent to 15 percent.

Mr. Green reviewed expense detail for investment operations for FY 2007 through FY 2011. He stated that most of the increases in expenses were directly related to the increase in staff, the cost of the leased space, and the performance incentive compensation of approximately \$10 million that was paid in FY 2011.

Mr. Green briefly reviewed expense detail for professional fees, subscriptions, research and contracted services paid out of the Soft Dollars program and the State Street account.

Mr. Green reviewed the FTE chart that he referred to earlier in his presentation. He stated

that the number of authorized FTEs had increased from 427 to 475 during the period covering FY 2007 through FY 2011. He stated that the chart also provides a breakdown of FTEs in the benefits area and the investments area, with the main increase in authorized FTEs being in the investments area from 65 to 119. Mr. Guthrie clarified that the chart does not provide a complete snapshot of the FTEs that TRS has because it does not include the FTEs for TRS' health care programs, since the health care programs are not subject to the FTE cap. Mr. Green stated that the number of actual FTEs had stayed below the number of authorized FTEs in each year during FY 2007 through FY 2011, and that TRS has been utilizing personnel efficiently.

Mr. Green stated that the expenses for the TRS-Care, TRS-ActiveCare and 403(b) programs for FY 2007 through FY 2011 had been fairly consistent from year to year. Ms. Palmer commented that the cost for salaries for the TRS-Care program had doubled in five years, but the number of retirees did not double. Mr. Welch stated that the biggest increase in FTEs for TRS-Care and TRS-ActiveCare occurred between 2007 and 2008, which was attributable to staff reassignments from the benefits side to the health care programs. He stated that the reassignments were made based on an analysis of staff workloads, which determined that more staff time was being spent on the health care programs than anticipated, and based on the decision that it was not appropriate to subsidize the health care program with pension dollars. Mr. Guthrie stated that a review was conducted between 2007 and 2008 to assess which programs staff was spending their time on, and a cost allocation was done. Responding to a question from Ms. Sissney as to whether these numbers reflected the amount of time a person in a position spent on different programs, Mr. Welch replied affirmatively and stated that the allocation was done to determine which programs should be charged based on the utilization of staff time. Mr. Welch stated that an analysis of how staff time is spent is done annually to ensure the programs are being charged appropriately. Mr. Green stated that the chart that shows the number of retirees and active members might help in analyzing staff workloads, as the number of retirees had increased by about 17.8 percent from about 265,000 to about 312,000 during the five-year period, whereas the number of active members had increased by about 7.3 percent from about 935,000 to about 1,000,000 during the same period.

Mr. Green stated that the net assets held in the trust fund had gone from \$112 billion in FY 2007 to \$89 billion in FY 2009 and back up to \$107 billion in FY 2011.

Mr. Green reviewed a chart that shows the number of refunds, retirements and claims processed from FY 2007 through FY 2011. He pointed out that retirements had increased by about 50 percent from about 13,000 to about 21,000. Ms. Sissney noted some unusual circumstances in FY 2011 that resulted in increased retirements.

3. Receive a brief update on the administrative operations budgets for fiscal year 2012 – Don Green.

Mr. Green briefly reviewed the administrative operations budget for FY 2012, which included budgets for administrative operations, the TEAM project, Soft Dollars, the healthcare programs and the 403(b) program. He stated that since TRS was below the number of authorized FTEs for FY 2012 and about half-way through the year with 55 percent of the budget left, TRS was in good financial position. Mr. Green stated that there were some workload issues that may possibly push some spending in the second half of the year, such as accumulation of overtime related to retiree, counseling, and benefits issues, the pension and healthcare benefits studies, the

increased number of retirees, TRS employees' retirements, and the amount of time staff spent on open records requests, so he would quantify some of those costs at the June meeting. He also stated that a planned capital project relating to heating, ventilation, and air conditioning scheduled for this summer and the TEAM project may attribute to an increase in spending in the second half of FY 2012 than in the first half. Responding to a question from Ms. Sissney concerning the fact that out-of-state mission critical travel was no longer applied towards the agency travel cap, Mr. Green stated that he would include a definition of "mission critical travel" in the FY 2013 budget that would be brought to the board for approval.

Mr. Green reviewed year-to-date expenditures and encumbrances and expenditures for Soft Dollars and the State Street account. He also reviewed the budget and expenses for the TEAM project, and stated that very little was spent on the TEAM project during the first half of FY 2012 and that staff for the TEAM project was up to 6 FTEs and should reach the authorized 12 FTEs by the end of the year. Responding to a question from Ms. Sissney, Mr. Green confirmed that the TEAM project likely would reach 12 FTEs. Mr. Green confirmed for Ms. Sissney that TRS would need to ask for authority to roll over unspent funds from FY 2013 to the next biennium and they would be included in the upcoming appropriations request. Mr. Green stated that staff would be requesting additional funds for the TEAM project in FY 2014 and FY 2015 because it is a multi-year project. Mr. Moss stated that the 12 FTEs that were previously requested for the TEAM project were required to be technology-oriented individuals and that the requirements should be expanded for future FTE requests. Mr. Guthrie and Mr. Welch stated that there were non-technology individuals currently working on the TEAM project, so any future FTE requests for the TEAM project should include non-technology individuals. In responding to a question from Ms. Sissney concerning how long the 12 FTEs would be working for TRS, Mr. Guthrie replied that they would be with TRS for the life of the project, which was at least 6 years, and then TRS could re-evaluate whether all 12 FTEs needed to continue to work on TEAM-related maintenance or if some of them could be reassigned to other areas of TRS. Mr. Kelly stated that some of the 12 FTEs could fill positions as other TRS employees retire and Mr. Guthrie agreed. Responding to a question from Mr. Kelly as to whether TRS had the ability to engage contract employees if additional resources were needed for the TEAM project, Mr. Guthrie replied that TRS could do so, but that the contract employees would start to count against the FTE count if they were engaged for an extended period of time. Mr. Welch discussed the difference between a contract worker whom TRS directs and a deliverable-based contract where TRS is purchasing an end-product, and how these arrangements might impact the FTE count. Mr. Guthrie stated that he and Mr. Welch had spent time identifying contract workers who had been with TRS for an extended period and had asked some of them to become TRS employees. Mr. Guthrie also said that TRS was working with Provaliant to identify the staffing plan for the life of the TEAM project and that TRS had tried with the 12 FTEs to make sure they were performing functions that were more long-term roles. Responding to a question from Ms. Clifton as to whether a reduction in staff would be anticipated once the TEAM project was fully implemented since some functions that were currently being performed manually would become automated, Mr. Guthrie replied that some jobs would change and employees may transition into new roles and learn new skills as job requirements evolved and that there would be some natural attrition of employees as well.

Mr. Green briefly reviewed the administrative budgets for TRS-Care, TRS-ActiveCare and the 403(b) program. He stated that those budgets had anywhere from 55 percent to 62 percent remaining for the rest of the year.

4. Receive overview of proposed administrative operations budgets and general provisions for fiscal year 2013 – Don Green.

Mr. Green reviewed the preliminary proposed administrative operations budget for FY 2013 and stated that staff would be bringing the FY 2013 budget to the board for approval in June. He stated that the FY 2013 budget was virtually the same as the FY 2012 budget, with the following differences: the TEAM project had three additional FTEs that had already been authorized, so the number of authorized FTEs for the TEAM project would increase from 12 to 15, and the performance incentive compensation budget would increase by about \$3 million but this would be paid out over two years. Mr. Green also explained that if any amounts that were budgeted for the TEAM project in FY 2012 were not spent in FY 2012 and were rolled over into FY 2013, then the FY 2012 budget would decrease and the FY 2013 budget would increase to reflect the rolled-over amount. Mr. Green confirmed for Ms. Sissney that the proposed administrative operations budget that Mr. Green discussed included both the administrative budget and the TEAM project budget.

Mr. Green stated that the FY 2013 budgets for TRS-Care, TRS-ActiveCare, and the 403(b) program would be roughly the same as in FY 2012.

Mr. Green stated that the general provisions concerning TRS administration for FY 2013 were exactly the same as they were in FY 2012, except that the addition of a provision regarding the use of Soft Dollars and CSA was proposed in order to make it clear that the board authorized staff to make those expenditures. Responding to a question from Ms. Sissney as to whether this would also be included in policy, Mr. Green replied that some changes in policy would be made. Mr. Barth stated that the changes in policy would be brought to the next board meeting. Responding to a question from Mr. Moss, Mr. Green replied that the Soft Dollars and CSA budgets would be staying at the current levels.

5. Discuss TRS' proposed Legislative Appropriations Request for the 2014-2015 biennium – Don Green.

Mr. Green reviewed the preliminary legislative appropriations request (LAR) for the FY 2014 and FY 2015 biennium. He stated that a calendar was provided estimating when certain tasks relating to the LAR would be performed, but TRS had not yet received any budget instructions from the Legislative Budget Board and the Governor's Office yet. Mr. Green stated that the goal was to first prepare the LAR for review by Mr. Guthrie and Mr. Welch and then provide a copy of the LAR first to Ms. Sissney, and then to the remaining trustees by May 30. He stated that the board would adopt the LAR at the June board meeting, which would be submitted around the first week in August.

Mr. Green reviewed some of the assumptions that would be made for the LAR. He stated that the statutory state contribution rate of 6.4 percent would be assumed. Ms. Sissney stated that the state may not actually contribute 6.4 percent in the upcoming biennium since it was only contributing 6 percent in FY 2012, and commented that perhaps the TRS should request more than 6.4 percent in the LAR from a fiduciary standpoint. Mr. Guthrie stated that the starting point for the request concerning the state contribution rate would be 6.4 percent because that was the level that the current biennium would end on and that the legislature specifically said in the hearing regarding the current biennium that they were making their decision the way they did so

that TRS could come back in the next biennium with a starting point of 6.4 percent. Mr. Guthrie said that the requests for exceptional items included in the LAR would be prioritized, with the exceptional item for TRS-Care prioritized ahead of the exceptional item for the pension fund. He stated that the amount that would be needed for the pension fund to reach actuarial soundness would be identified, with a stair-step approach proposed whereby the state contribution would increase incrementally by 0.5 percent each year. Responding to a question from Ms. Sissney as to whether a request for a state contribution rate other than 6.4 percent would be made in the LAR, Mr. Guthrie replied affirmatively. Mr. Green stated that the last actuarial valuation indicated that the state contribution rate should be 8.13 percent in order for the plan to be actuarially sound and Mr. Guthrie stated that the valuation also indicated that state contribution rate would be 7.7 percent if the member contribution were also increased. Mr. Green stated that a decision would need to be made regarding what state contribution rate should be requested. Ms. Sissney stated that a request for more than 6.4 percent should be made so that it would get the pension fund closer to being actuarially sound. Mr. Green stated that the state contribution rate could fluctuate depending on salary growth in public education and higher education. He stated that there had been about a 2 percent growth in higher education salaries, so that would be a factor for the legislature to consider in determining how much an incremental increase in the state contribution rate would cost.

Ms. Sissney asked Mr. Green to discuss the proposed state contribution rate for TRS-Care to be included in the LAR. Mr. Green stated that the FY 2012 state contribution rate for TRS-Care was 1 percent and the FY 2013 rate was 0.5 percent, but that the legislature said in the hearing for the current biennium that the rate would be 1 percent for FY 2014 and FY 2015. Mr. Guthrie said that Texas law provides that the state will contribute no less than 1 percent to TRS-Care, although the legislature made an exception for FY 2013, but that the statute provides a basis for using 1 percent as the starting point. Mr. Guthrie stated that the amount that would be needed to keep TRS-Care solvent on a pay-as-you-go basis through the biennium would be identified in the LAR and that the results of the healthcare study would come into play on this matter. Mr. Green stated that TRS-Care would run out of money in the last quarter of FY 2014 if changes in funding were not made, so what was requested in the LAR would most likely fill the gap for the rest of FY 2014 and FY 2015. Responding to a question from Mr. Kelly as to whether asking for a catch-up in funding would solve the problem, Mr. Green replied that it would, and Mr. Welch said it would solve the problem only for a period of time. Mr. Kelly stated that a request could be made to the legislature to fund the statutory rate plus the amount (of the statutory rate) that was not fully funded in FY 2013.

In conclusion, Mr. Green stated that a request would be included in the LAR for the administrative budget, perhaps for additional FTEs, but it was not clear at that time exactly what would be needed. He said that all the divisions were assessing workloads and overtime pay to see if requests for additional FTEs were justified. Mr. Green stated that capital projects, IT projects, building projects may be recommended, since there were seven or eight capital projects requested during the last biennium but only two or three were funded. He stated that staff would also try to assess what would be needed for FY 2013, FY 2014, and FY 2015, and that a request would likely be made to carry forward any balances from the FY 2012-2013 biennium into the FY 2014-2015 biennium along with a request for some additional funds.

The meeting adjourned at 3:26 p.m.

**TEACHER RETIREMENT SYSTEM OF TEXAS
FISCAL YEAR 2013 BUDGET**

TABLE OF CONTENTS

General Provisions and Overview of Proposed Administrative Operations Budgets	Tab 2
Resolution and Summary of Administrative Operations Budget – Pension Trust Fund	Tab 2 A
1. Administrative Operations	
2. TEAM	
3. Soft Dollar	
Summary of Administrative Operations Budget – Health Benefits Funds	Tab 2 B
1. TRS-Care (Retired Plan)	
2. TRS-ActiveCare (Active Plan)	
Summary of Administrative Operations Budget – 403(b) Certification Program	Tab 2 C
Development of the Legislative Appropriations Request for 2014 – 2015 Biennium	Tab 3

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 AND COMMISSION SHARING ARRANGEMENTS (CSAs), INCLUDING SECTION 28(e) EXPENDITURES – The board finds that the expenditure of funds provided by CSAs 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 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 compensation to the extent funds have been included in the

TEACHER RETIREMENT SYSTEM OF TEXAS

GENERAL PROVISIONS

(continued)

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.

TEACHER RETIREMENT SYSTEM OF TEXAS
SUMMARY OF ADMINISTRATIVE OPERATIONS BUDGETS
Fiscal Year 2013 Requested Budget

	PENSION TRUST FUND			HEALTH BENEFITS FUNDS		403(b) Certification Program	TOTAL
	Administrative Operations	TEAM	Investment Soft Dollar	TRS-Care	TRS-ActiveCare		
REVENUES AND OTHER SOURCES							
Legislative Appropriations - Administrative Operations	\$ 63,251,518						\$ 63,251,518
Appropriation Balance Available for FY 2013*		\$ 13,323,430					13,323,430
Estimated Carry Forward of Unexpended FY 2012 Budget		7,438,810					7,438,810
Employee Benefits Paid by the Pension Trust Fund**	10,189,446	280,984					10,470,430
Performance Incentive Compensation	9,106,939						9,106,939
Section 28 (e) Arrangements/Contractor Provided Allowances			\$ 34,825,885				34,825,885
Reserved for Administrative Expenses				\$ 3,788,313	\$ 2,764,369	\$ 58,816	6,611,498
TOTAL REVENUES AND OTHER SOURCES	\$ 82,547,903	\$ 21,043,224	\$ 34,825,885	\$ 3,788,313	\$ 2,764,369	\$ 58,816	\$ 145,028,510
OPERATING AND CAPITAL EXPENSES							
Salaries and Other Personnel Costs	\$ 49,572,147	\$ 1,524,384		\$ 2,434,844	\$ 1,712,924	\$ 58,816	\$ 55,303,115
Professional Fees and Services	8,073,564	15,698,840	\$ 3,382,000	1,074,500	950,750		29,179,654
Consumable Supplies	463,210			5,200	3,000		471,410
Utilities	1,105,355			2,031	1,500		1,108,886
Travel	1,174,503	25,000		11,955	8,350		1,219,808
Rentals	2,235,627		30,000	82,511	62,245		2,410,383
Other Operating Expenses	9,819,893	2,920,000	31,413,885	177,272	25,600		44,356,650
Capital Expenses	996,665	875,000					1,871,665
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 73,440,964	\$ 21,043,224	\$ 34,825,885	\$ 3,788,313	\$ 2,764,369	\$ 58,816	\$ 135,921,571
PERFORMANCE INCENTIVE COMPENSATION	\$ 9,106,939	\$	\$	\$	\$	\$	\$ 9,106,939
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 82,547,903	\$ 21,043,224	\$ 34,825,885	\$ 3,788,313	\$ 2,764,369	\$ 58,816	\$ 145,028,510
PERCENTAGE INCREASE/(DECREASE) FROM FY 2012 BUDGET	1.02%	76.95%	5.62%	-5.23%	9.94%	0.62%	8.92%

* Legislative appropriations for the biennium equal \$25 million. The board adopted a FY 2012 budget of approximately \$11.7 million June 2011.

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

**Consideration of a recommendation that the Board adopt the proposed
FY 2013 Pension Trust Fund administrative operations budget,
general provisions, and resolution authorizing transfer of
Pension Trust Funds to the TRS Expense Account**

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

June 7, 2012

Whereas, Section 825.404(d) of the Government Code says the Legislature shall appropriate from the general revenue fund a specified amount of money to be used to pay operating expenses of the Teacher Retirement System of Texas (retirement system or TRS) for each fiscal year;

Whereas, No funds from the general revenue fund were appropriated to pay operating expenses of the retirement system for fiscal year 2013; and

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 exceed the amounts appropriated under Section 824.404(d) and 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 exceed the amount of operating expenses appropriated under Section 825.404(d) and that are required to perform the fiduciary duties of the board; now, therefore, be it

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in fiscal year 2013 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$86,764,394 plus the unexpended balance from the FY 2012 TEAM capital budget and any expense reimbursements or expense recoveries received, as approved today in the Fiscal Year 2013 Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amount as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in fiscal year 2013, if any; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and

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 2013, but not to exceed the amount of \$86,764,394 plus the unexpended balance from the FY 2012 TEAM capital budget, any expense reimbursements or expense recoveries received, any additional amounts necessary to pay performance incentive compensation payable in fiscal year 2013 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.

TEACHER RETIREMENT SYSTEM OF TEXAS
Pension Trust Fund Administrative Operations
FY 2013 Budget - Key Points

The total operating and capital expenses budget including performance incentive compensation for FY 2013 is \$82.5 million, and does not include the TEAM program. This is an increase of approximately \$0.8 million, or 1.0%, above the FY 2012 budget of \$81.7 million.

- **Salaries and Other Personnel Costs** remain basically constant from the FY 2012 budget amount. There are some slight increases in benefit amounts anticipated in employer health insurance contributions and employer retirement contributions. Health insurance contributions are projected to increase as a result of changes in employee elections and filling vacancies during the year. The employer contribution rate increases from 6.0% to 6.4% beginning September 2012.
- **Professional Fees and Services** are projected to increase \$134,000, or 1.7%, above the current budgeted level. Increases can be attributed to expenses for board election management which occurs every other year and the necessity for additional temporary workers based on staffing needs.
- **Other Operating Expenses** are projected to decrease approximately \$170,000, or 1.1%, under the current level. The primary driver for the decrease is the printing and postage costs associated with the TRS Benefit Handbooks which is produced and mailed to members during the first year of each biennium. While the overall other operating expenses are expected to decline, some notable increases within this expense category include additional out-of-state travel costs for mission critical due diligence trips and advisory board trips, electronic reference subscriptions, and replacements needed for office furniture and equipment as well as expensed computer hardware.
- **Capital Expenses** are estimated to be \$997,000 and include the following major projects: Building Renovations, eForms and Self Service Applications, Mainframe and Peripheral Upgrades, PC Workstation Upgrades, Telecommunications Upgrade and Imaging System Upgrade. TEAM requested budget will be tracked and reported separately.
- **Performance Incentive Compensation** is anticipated to increase only minimally above the FY 2012 budget. Amounts are included in the FY 2013 budget at the current maximum payment amount of approximately \$9.1 million. This amount is based on current employees using current base salary amounts. The maximum payment amount could fluctuate if base salaries are increased, vacancies are filled at higher salary rates, or employees terminate.

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations FY 2012 and FY 2013 - Comparison by Expense Category
Pension Trust Fund

	FY 2012 BUDGET	FY 2012 PROJ. (OVER)/UNDER BUDGET	FY 2012 PROJECTED EXPENSES	FY 2013 REQ. \$ INCR / (DECR) FY 2012 BUDGET	FY 2013 REQUESTED BUDGET	FY 2013 REQ. % INCR / (DECR) FY 2012 BUDGET
SALARIES AND OTHER PERSONNEL COSTS						
Salaries and Wages -----	\$ 38,268,281	\$ 1,500,000	\$ 36,768,281	\$ 16,700	\$ 38,284,981	0.04%
Longevity Pay -----	626,240	43,478	582,762	10,480	636,720	1.67%
Employer Retirement Contributions -----	2,285,972	130,102	2,155,870	164,267	2,450,239	7.19%
Employer FICA Contributions -----	2,750,392	95,594	2,654,798	53,675	2,804,067	1.95%
Employer Health Insurance Contributions/Enrollment Fees -----	4,290,351	-	4,290,351	514,953	4,805,304	12.00%
Benefit Replacement Pay -----	132,008	5,406	126,602	(2,172)	129,836	-1.65%
Other Employee Benefits -----	461,000	36,422	424,578	-	461,000	0.00%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 48,814,244	\$ 1,811,002	\$ 47,003,242	\$ 757,903	\$ 49,572,147	1.55%
PROFESSIONAL FEES AND SERVICES	\$ 7,939,724	\$ -	\$ 7,939,724	\$ 133,840	\$ 8,073,564	1.69%
OTHER OPERATING EXPENSES						
Consumable Supplies and Fuels -----	\$ 471,610	\$ 13,427	\$ 458,183	\$ (8,400)	\$ 463,210	-1.78%
Utilities -----	1,072,684	2,061	1,070,623	32,671	1,105,355	3.05%
Travel -----	922,958	-	922,958	251,545	1,174,503	27.25%
Rentals -----	2,180,687	54,624	2,126,063	54,940	2,235,627	2.52%
Dues, Fees and Staff Development -----	405,826	41,550	364,276	(7,325)	398,501	-1.80%
Subscriptions and Reference Information -----	254,012	6,679	247,333	26,407	280,419	10.40%
Printing and Reproduction Services -----	715,750	-	715,750	(218,100)	497,650	-30.47%
Postage, Mailing and Delivery Services -----	2,727,600	-	2,727,600	(450,236)	2,277,364	-16.51%
Software Purchases and Maintenance -----	2,713,106	-	2,713,106	20,000	2,733,106	0.74%
Computer Hardware Maintenance -----	465,317	317	465,000	(317)	465,000	-0.07%
Miscellaneous Expenses -----	1,095,470	17,766	1,077,704	-	1,095,470	0.00%
Insurance Premiums -----	665,000	2,960	662,040	28,100	693,100	4.23%
Furniture and Equipment - Expensed -----	341,193	-	341,193	92,657	433,850	27.16%
Maintenance - Buildings and Equipment -----	937,104	-	937,104	8,329	945,433	0.89%
TOTAL OTHER OPERATING EXPENSES	\$ 14,968,317	\$ 139,384	\$ 14,828,933	\$ (169,729)	\$ 14,798,588	-1.13%
TOTAL OPERATING EXPENSES	\$ 71,722,285	\$ 1,950,386	\$ 69,771,899	\$ 722,014	\$ 72,444,299	1.01%
CAPITAL EXPENSES						
Furniture and Equipment -----	\$ 87,956	\$ 10,000	\$ 77,956	\$ 8,709	\$ 96,665	9.90%
Capital Budget Items -----	900,000	-	900,000	-	900,000	0.00%
TOTAL CAPITAL EXPENSES	\$ 987,956	\$ 10,000	\$ 977,956	\$ 8,709	\$ 996,665	0.88%
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 72,710,241	\$ 1,960,386	\$ 70,749,855	\$ 730,723	\$ 73,440,964	1.00%

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations FY 2012 and FY 2013 - Comparison by Expense Category
Pension Trust Fund

(continued)

	FY 2012 BUDGET	FY 2012 PROJ. (OVER)/UNDER BUDGET	FY 2012 PROJECTED EXPENSES	FY 2013 REQ. \$ INCR / (DECR) FY 2012 BUDGET	FY 2013 REQUESTED BUDGET	FY 2013 REQ. % INCR / (DECR) FY 2012 BUDGET
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 72,710,241	\$ 1,960,386	\$ 70,749,855	\$ 730,723	\$ 73,440,964	1.00%
Performance Incentive Compensation	9,003,770		6,080,798	103,169	9,106,939	1.15%
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 81,714,011	\$ 1,960,386	\$ 76,830,653	\$ 833,892	\$ 82,547,903	1.02%
RECONCILIATION TO APPROPRIATIONS						
LESS EXPENSES NOT PAID FROM ADMINISTRATIVE OPERATIONS APPROPRIATION						
Employer Retirement Contributions -----	(2,285,972)		(2,155,870)		(2,450,239)	
Employer FICA Contributions -----	(2,750,392)		(2,654,798)		(2,804,067)	
Employer Health Insurance Contributions -----	(4,290,351)		(4,290,351)		(4,805,304)	
Benefit Replacement Pay -----	(132,008)		(126,602)		(129,836)	
ADJUSTMENTS TO FUNDING						
Performance Incentive Compensation -----	(9,003,770)		(6,080,798)		(9,106,939)	
TOTAL OPERATING AND CAPITAL EXPENSES (LESS ADJUSTING ITEMS)	\$ 63,251,518		\$ 61,522,234		\$ 63,251,518	
APPROPRIATIONS						
Administrative Operations -----	\$ 63,251,518		\$ 63,251,518		\$ 63,251,518	
CASH OUTLAY AMOUNT UNDER APPROPRIATIONS	\$ -		\$ 1,729,284		\$ -	

Full Time Equivalent Employees - Actual/Budgeted

475

475

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations FY 2012 and FY 2013 - Comparison by Expense Category
Allocation by Administration and Benefit Divisions and Investment Management Division

	FY 2012 ADMIN & BEN BUDGET	FY 2013 ADMIN & BEN REQUESTED BUDGET	FY 2013 REQ. ADMIN & BEN % INCR / (DECR) FY 2012 BUDGET	FY 2012 IMD BUDGET	FY 2013 IMD REQUESTED BUDGET	FY 2013 REQ. IMD % INCR / (DECR) FY 2012 BUDGET
SALARIES AND OTHER PERSONNEL COSTS						
Salaries and Wages -----	\$ 23,526,049	\$ 23,542,749	0.07%	\$ 14,742,232	\$ 14,742,232	0.00%
Longevity Pay -----	528,120	538,600	1.98%	98,120	98,120	0.00%
Employer Retirement Contributions -----	1,414,366	1,506,736	6.53%	871,606	943,503	8.25%
Employer FICA Contributions -----	1,721,152	1,729,067	0.46%	1,029,240	1,075,000	4.45%
Employer Health Insurance Contributions -----	3,449,741	3,880,633	12.49%	840,610	924,671	10.00%
Benefit Replacement Pay -----	116,797	116,411	-0.33%	15,211	13,425	-11.74%
Other Employee Benefits -----	461,000	461,000	0.00%			
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 31,217,225	\$ 31,775,196	1.79%	\$ 17,597,019	\$ 17,796,951	1.14%
PROFESSIONAL FEES AND SERVICES	\$ 2,288,710	\$ 2,713,800	18.57%	\$ 5,651,014	\$ 5,359,764	-5.15%
OTHER OPERATING EXPENSES						
Consumable Supplies and Fuels -----	\$ 464,610	\$ 456,210	-1.81%	\$ 7,000	\$ 7,000	0.00%
Utilities -----	976,104	1,008,775	3.35%	96,580	96,580	0.00%
Travel -----	333,953	369,503	10.65%	589,005	805,000	36.67%
Rentals -----	260,687	269,627	3.43%	1,920,000	1,966,000	2.40%
Dues, Fees and Staff Development -----	358,076	350,496	-2.12%	47,750	48,005	0.53%
Subscriptions and Reference Information -----	220,452	226,859	2.91%	33,560	53,560	59.59%
Printing and Reproduction Services -----	715,750	497,650	-30.47%			
Postage, Mailing and Delivery Services -----	2,727,600	2,277,364	-16.51%			
Software Purchases and Maintenance -----	2,498,106	2,518,106	0.80%	215,000	215,000	0.00%
Computer Hardware Maintenance -----	465,317	465,000	-0.07%			
Miscellaneous Expenses -----	887,470	887,470	0.00%	208,000	208,000	0.00%
Insurance Premiums -----	665,000	693,100	4.23%			
Furniture and Equipment - Expensed -----	339,923	413,850	21.75%	1,270	20,000	1474.80%
Maintenance - Buildings and Equipment -----	937,104	906,933	-3.22%		38,500	100.00%
TOTAL OTHER OPERATING EXPENSES	\$ 11,850,152	\$ 11,340,943	-4.30%	\$ 3,118,165	\$ 3,457,645	10.89%
TOTAL OPERATING EXPENSES	\$ 45,356,087	\$ 45,829,939	1.04%	\$ 26,366,198	\$ 26,614,360	0.94%
CAPITAL EXPENSES						
Furniture and Equipment -----	\$ 87,956	\$ 96,665	9.90%	\$	\$	
Capital Budget Items -----	900,000	900,000	0.00%			
TOTAL CAPITAL EXPENSES	\$ 987,956	\$ 996,665	0.88%	\$ -	\$ -	
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 46,344,043	\$ 46,826,604	1.04%	\$ 26,366,198	\$ 26,614,360	0.94%
Performance Incentive Compensation	\$	\$		\$ 9,003,770	\$ 9,106,939	1.15%
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 46,344,043	\$ 46,826,604	1.04%	\$ 35,369,968	\$ 35,721,299	0.99%

Full Time Equivalent Employees - Actual/Budgeted

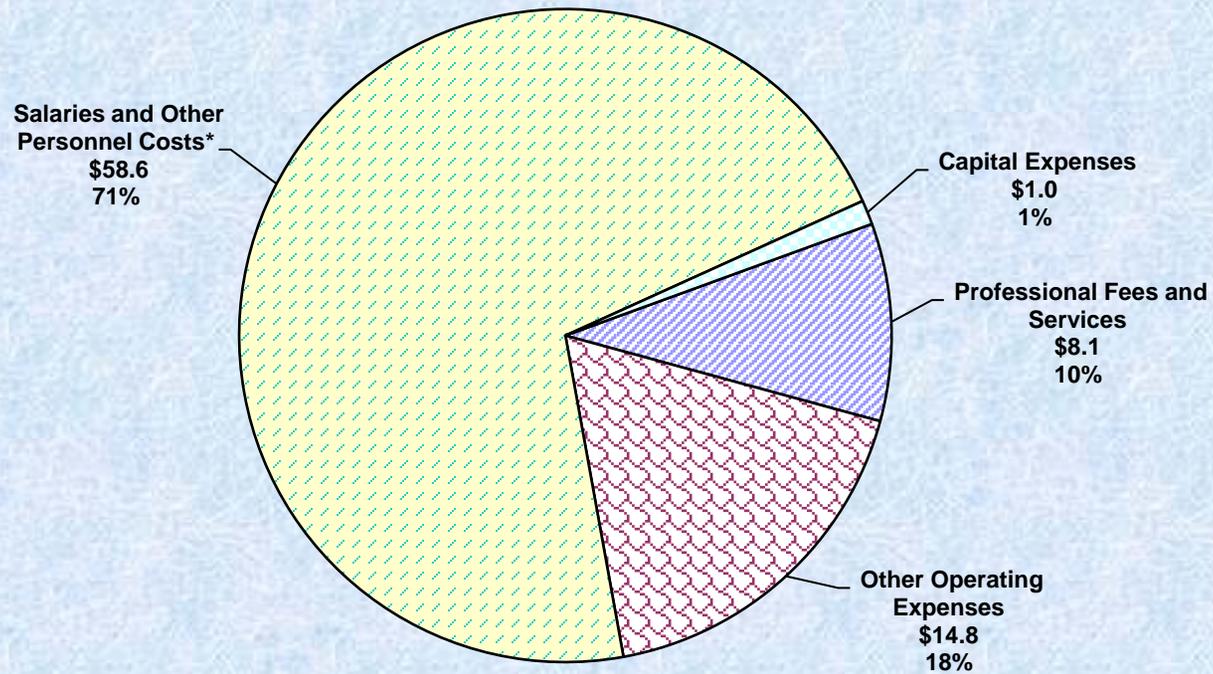
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119

119

PENSION TRUST FUND ADMINISTRATIVE OPERATIONS
Fiscal Year 2013 Requested Budget
Allocation by Major Expense Category
(graph in millions)



*Includes Performance Incentive Compensation

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS Enterprise Application Modernization - TEAM
FY 2013 Budget - Key Points and Funding

Key Points

The total operating and capital expenses budget for FY 2013 is approximately \$21.0 million compared to \$11.9 million for FY 2012, or an increase of 76.9%.

- **Salaries and Other Personnel Costs** total approximately \$1.5 million and are projected to increase by nearly \$370,000, or 32.0%. The increase includes funding for the 12 authorized positions at full capacity during FY 2013 as well as the addition of 3 new positions in accordance with LBB approval granted November 2011.
- **Professional Fees and Services** are projected to increase substantially over the FY 2012 budgeted level. The increase is primarily attributable to the carrying forward of funding into FY 2013. The carry forward includes amounts for the pension administration system implementation, the financial system upgrade, and the independent project assessment. Additional items of interest include funding for program management/administration and data conditioning and assessment.
- **Other Operating Expenses** total approximately \$2.9 million, an increase of \$175,000, or 6.3% above the FY 2012 budgeted level. The increase includes additional funding for training and staff development and the carry forward of the financial system software purchase.

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS Enterprise Application Modernization - TEAM
FY 2013 Budget - Key Points and Funding (continued)

Funding

Funding is to be provided from pension trust funds as authorized by HB 1, 82nd Legislature, Regular Session, Article III, Rider 15. Appropriations for the biennium were authorized at \$25.0 million and are included as part of the administrative operations strategy. In June 2011, the board approved from the authorized \$25.0 million appropriation a FY 2012 administrative operations budget just below \$12.0 million, resulting in an available FY 2013 appropriation balance of approximately \$13.0 million. It is projected that approximately \$4.2 million will be expended during FY 2012 which will create an estimated \$7.4 million carry forward. The total available appropriation for TEAM in FY 2013 is approximately \$20.7 million.

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations FY 2012 and FY 2013 - Comparison by Expense Category
TRS Enterprise Application Modernization - TEAM

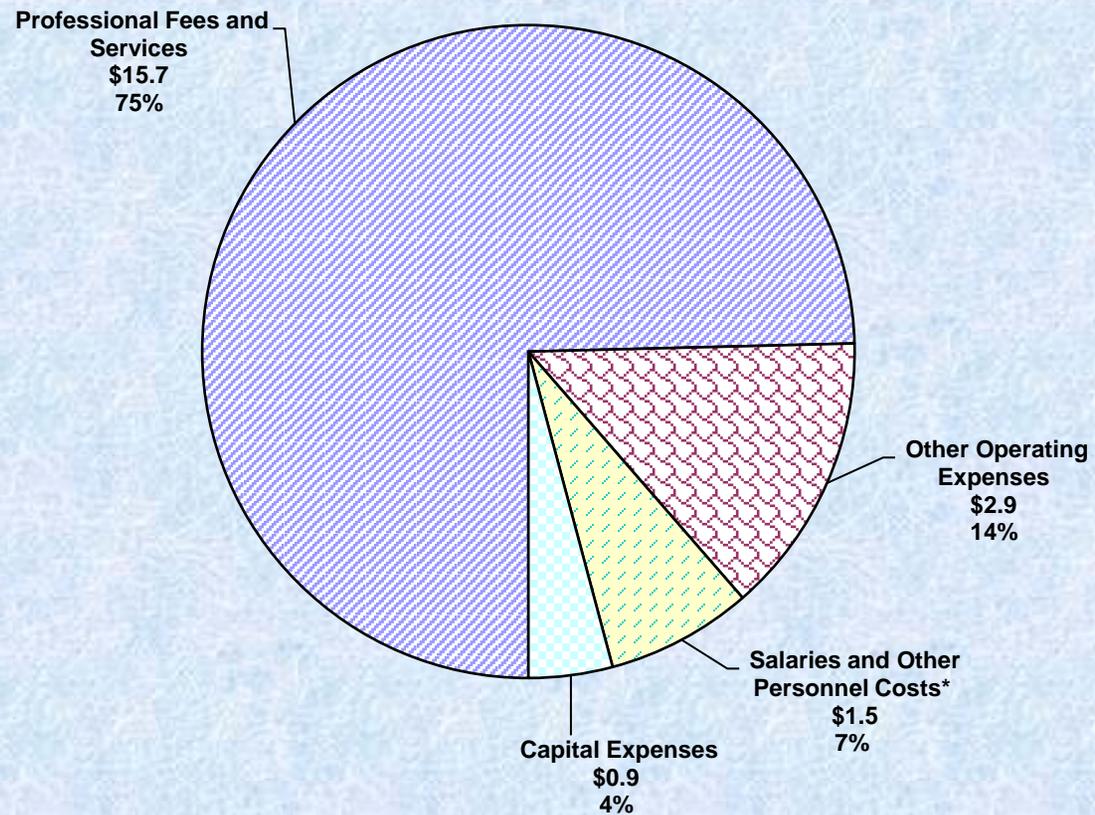
	FY 2012 BUDGET	FY 2012 PROJ. (OVER)/UNDER BUDGET	FY 2012 PROJECTED EXPENSES	FY 2013 REQ. \$ INCR / (DECR) FY 2012 BUDGET	FY 2013 REQUESTED BUDGET	FY 2013 REQ. % INCR / (DECR) FY 2012 BUDGET
SALARIES AND OTHER PERSONNEL COSTS						
Salaries and Wages -----	\$ 909,000	\$ 655,360	\$ 253,640	\$ 301,950	\$ 1,210,950	33.22%
Longevity Pay -----	14,475	13,355	1,120	2,880	17,355	19.90%
Employer Retirement Contributions -----	57,600	42,382	15,218	19,901	77,501	34.55%
Employer FICA Contributions -----	68,850	49,446	19,404	23,788	92,638	34.55%
Employer Health Insurance Contributions -----	85,375	79,430	5,945	21,345	106,720	25.00%
Benefit Replacement Pay -----	4,125	4,125	-	-	4,125	0.00%
Other Employee Benefits -----	15,095	15,095	-	-	15,095	0.00%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,154,520	\$ 859,193	\$ 295,327	\$ 369,864	\$ 1,524,384	32.04%
PROFESSIONAL FEES AND SERVICES	\$ 7,058,000	\$ 4,600,000	\$ 2,458,000	\$ 8,640,840	\$ 15,698,840	122.43%
OTHER OPERATING EXPENSES						
Travel -----	\$ 20,000	\$ 5,000	\$ 15,000	\$ 5,000	\$ 25,000	25.00%
Dues, Fees and Staff Development -----	1,225	-	1,225	48,775	50,000	3981.63%
Software Purchases and Maintenance -----	2,739,720	2,150,000	589,720	130,280	2,870,000	4.76%
Furniture and Equipment - Expensed -----	9,055	-	9,055	(9,055)	-	-100.00%
TOTAL OTHER OPERATING EXPENSES	\$ 2,770,000	\$ 2,155,000	\$ 615,000	\$ 175,000	\$ 2,945,000	6.32%
TOTAL OPERATING EXPENSES	\$ 10,982,520	\$ 7,614,193	\$ 3,368,327	\$ 9,185,704	\$ 20,168,224	83.64%
CAPITAL EXPENSES						
Furniture and Equipment -----	\$ 910,000	\$ -	\$ 910,000	\$ (35,000)	\$ 875,000	-3.85%
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 11,892,520	\$ 7,614,193	\$ 4,278,327	\$ 9,150,704	\$ 21,043,224	76.95%
LESS EXPENSES NOT PAID FROM TEAM APPROPRIATION						
Employer Retirement Contributions -----	(57,600)	-	(15,218)	-	(77,501)	
Employer FICA Contributions -----	(68,850)	-	(19,404)	-	(92,638)	
Employer Health Insurance Contributions -----	(85,375)	-	(5,945)	-	(106,720)	
Benefit Replacement Pay -----	(4,125)	-	-	-	(4,125)	
TOTAL OPERATING AND CAPITAL EXPENSES (LESS ADJUSTING ITEMS)	\$ 11,676,570		\$ 4,237,760		\$ 20,762,240	
TEAM APPROPRIATION						
Board Approved FY 2012 Administrative Operations -----	\$ 11,676,570		\$ 11,676,570		\$ -	
Appropriation Balance Available for FY 2013 -----	13,323,430		-		13,323,430	
Estimated Carry Forward of Unexpended FY 2012 Budget -----	-		(7,438,810)		7,438,810	
TOTAL APPROPRIATIONS INCLUDING CARRY FORWARD	\$ 25,000,000		\$ 4,237,760		\$ 20,762,240	

Full Time Equivalent Employees - Actual/Budgeted

12

15

**TRS Enterprise Application Modernization (TEAM)
Administrative Operations
Fiscal Year 2013 Requested Budget
Allocation by Major Expense Category
(graph in millions)**



TEACHER RETIREMENT SYSTEM OF TEXAS
Soft Dollar
FY 2013
Budget - Key Points and Funding

Key Points

The total Soft Dollar budget for FY 2013 is approximately \$34.8 million, an increase of 5.6% above the budgeted level for FY 2012.

- **Professional Fees and Services** reflect an increase of \$0.5 million due to the necessity for increased investment consulting, analysis and benchmarking services.
- **Other Operating Expenses** are projected to increase by approximately \$1.3 million above the current level. The primary drivers are increased cost and usage of subscriptions and reference materials and the increased need for contracted services to address workload needs, including open record requests and financial analysis. A secondary cause is attributable to the purchase of investment software needed for portfolio order management.

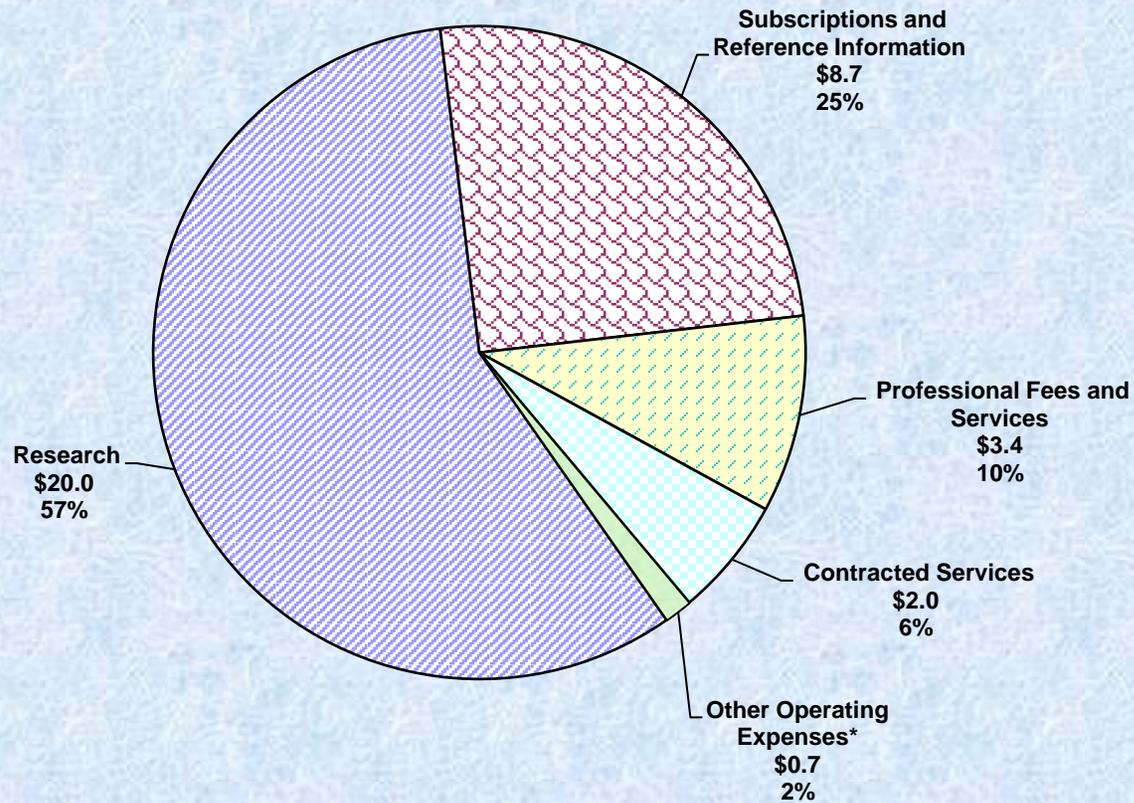
Funding

- Contractor Provided Allowances
 - \$6.0 million TRS/State Street Bank Partnership Account
 - \$0.4 million Strategic Partner Account
- Section 28(e) Arrangements
 - \$20.0 million Commission Sharing Agreement (CSA)
 - \$8.4 million Soft Dollar

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations FY 2012 through FY 2013 - Comparison by Expense Category
Soft Dollar

	FY 2012 BUDGET	FY 2012 PROJ. (OVER)/UNDER BUDGET	FY 2012 PROJECTED EXPENSES	FY 2013 REQ. \$ INCR / (DECR) FY 2012 BUDGET	FY 2013 REQUESTED BUDGET	FY 2013 REQ. % INCR / (DECR) FY 2012 BUDGET
PROFESSIONAL FEES AND SERVICES	\$ 2,875,000	\$ 195,073	\$ 2,679,927	\$ 507,000	\$ 3,382,000	17.63%
OTHER OPERATING EXPENSES						
Rentals -----	\$ 40,000	\$ 9,500	\$ 30,500	\$ (10,000)	\$ 30,000	-25.00%
Dues, Fees and Staff Development -----	310,000	46,300	263,700	53,000	363,000	17.10%
Subscriptions and Reference Information -----	8,068,641	43,585	8,025,056	620,144	8,688,785	7.69%
Software Purchases and Maintenance -----				182,000	182,000	100.00%
Miscellaneous Expenses -----	136,000	5,500	130,500		136,000	0.00%
Contracted Services -----	1,542,417	(233,280)	1,775,697	501,683	2,044,100	32.53%
Research-----	20,000,000	3,900,000	16,100,000		20,000,000	0.00%
TOTAL OTHER OPERATING EXPENSES	\$ 30,097,058	\$ 3,771,605	\$ 26,325,453	\$ 1,346,827	\$ 31,443,885	4.47%
TOTAL OPERATING EXPENSES	\$ 32,972,058	\$ 3,966,678	\$ 29,005,380	\$ 1,853,827	\$ 34,825,885	5.62%
SOFT DOLLAR RESOURCES						
Contractor Provided Allowances -----	\$ 6,000,000	\$ -	\$ 6,000,000	\$ 400,000	\$ 6,400,000	0.00%
Section 28(e) Arrangements-----	26,972,058	3,966,678	23,005,380	1,453,827	28,425,885	5.39%
TOTAL	\$ 32,972,058	\$ 3,966,678	\$ 29,005,380	\$ 1,853,827	\$ 34,825,885	5.62%

SOFT DOLLAR ADMINISTRATIVE OPERATIONS
Fiscal Year 2013 Requested Budget
Allocation by Expense Category
(graph in millions)



*Includes Rentals, Dues, Fees and Staff Development, Software Purchases and Maintenance, and Miscellaneous Expenses.

**Consideration of a recommendation that the Board adopt the proposed
FY 2013 administrative operations budgets and general provisions for
the TRS Health Benefits Funds (Retired and Active Plans), including
the Long-Term Care Insurance Program**

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS-Care (Retired Plan) Administrative Operations
FY 2013 Budget - Key Points

The total operating budget for FY 2013 is approximately \$3.8 million compared to \$4.0 million for FY 2012, or a decrease of 5.2%.

- **Salaries and Other Personnel Costs** are projected to increase by approximately \$83,000, or 3.5% above the current level. The increase is solely in benefit amounts and will adjust the FY 2013 budget to the FY 2012 projected expense level, include a rate increase to 6.4% for employer retirement contributions, and provide funding for anticipated increases in employer health insurance contributions resulting from changes in employee elections.
- **Professional Fees and Services** are expected to decrease \$270,000, or 20.0%, under the current level. The decrease is attributable to the completion of the external claims and rebate audit performed during the first year of the biennium. It is anticipated under the contract terms that minimal audit services will be performed during FY 2013, with the next complete audit to be conducted during FY 2014.
- **Other Operating Expenses** are projected to decrease by approximately \$22,000, or 7.4%, below the current level. The decrease is primarily due to reallocation of rented office space. The square footage rented decreased from 3,969 square feet to 3,311 during FY 2012. Space savings occurred by relocating health care finance staff to the program area, repurposing cubicles, and reconfiguring office space, all with minimal cost to the program.

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations FY 2012 and FY 2013 - Comparison by Expense Category
TRS-Care (Retired Plan)

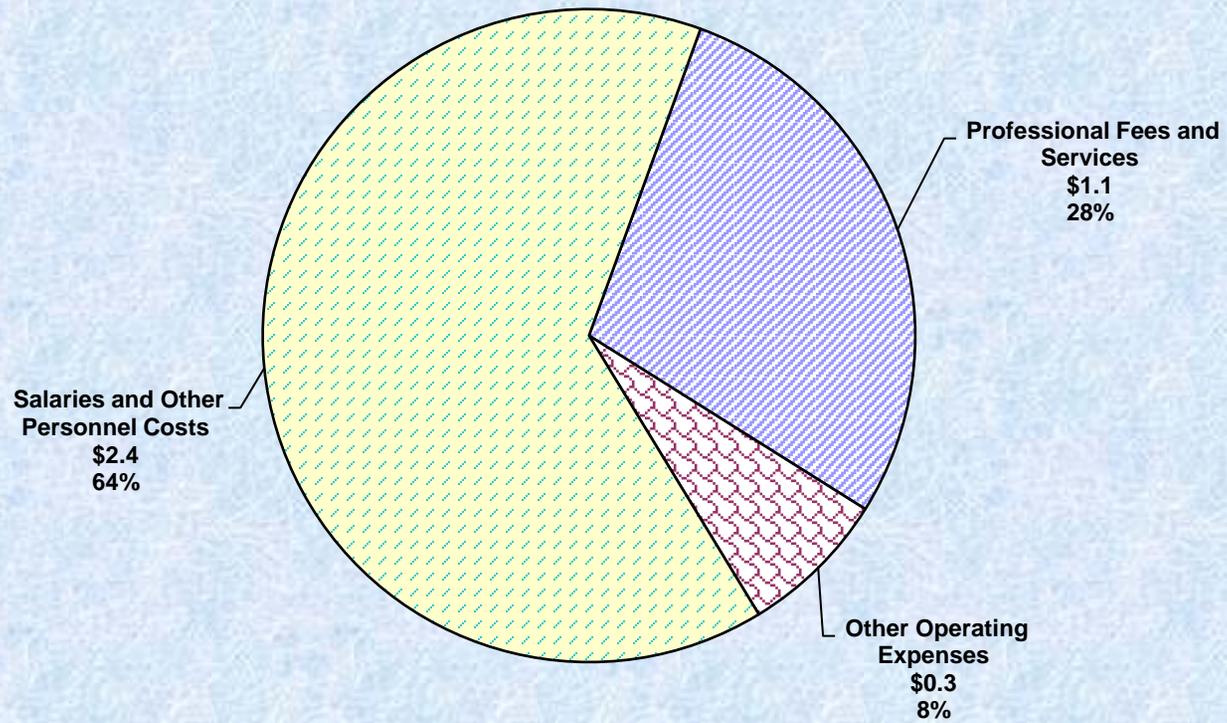
	FY 2012 BUDGET	FY 2012 PROJ. (OVER)/UNDER BUDGET	FY 2012 PROJECTED EXPENSES	FY 2013 REQ. \$ INCR / (DECR) FY 2012 BUDGET	FY 2013 REQUESTED BUDGET	FY 2013 REQ. % INCR / (DECR) FY 2012 BUDGET
SALARIES AND OTHER PERSONNEL COSTS						
Salaries and Wages -----	\$ 1,815,673	\$ 48,687	\$ 1,766,986	\$ -	\$ 1,815,673	0.00%
Longevity Pay -----	48,040	(1,180)	49,220	6,060	54,100	12.61%
Employer Retirement Contributions -----	96,847	(9,173)	106,020	19,356	116,203	19.99%
Employer FICA Contributions -----	126,285	(7,829)	134,114	12,614	138,899	9.99%
Employer Health Insurance Contributions -----	189,271	(10,281)	199,552	44,171	233,442	23.34%
Benefit Replacement Pay -----	11,345	(1,032)	12,377	1,032	12,377	9.10%
Other Employee Benefits -----	64,150	36,150	28,000	-	64,150	0.00%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 2,351,611	\$ 55,342	\$ 2,296,269	\$ 83,233	\$ 2,434,844	3.54%
PROFESSIONAL FEES AND SERVICES	\$ 1,344,500	\$ -	\$ 1,344,500	\$ (270,000)	\$ 1,074,500	-20.08%
OTHER OPERATING EXPENSES						
Consumable Supplies -----	\$ 5,200	\$ -	\$ 5,200	\$ -	\$ 5,200	0.00%
Utilities -----	2,031	424	1,607	-	2,031	0.00%
Travel -----	10,355	20	10,335	1,600	11,955	15.45%
Rentals -----	107,416	6,959	100,457	(24,905)	82,511	-23.19%
Dues, Fees and Staff Development -----	2,270	114	2,156	1,055	3,325	46.48%
Subscriptions and Reference Information -----	570	70	500	-	570	0.00%
Printing and Reproduction Services -----	15,000	-	15,000	-	15,000	0.00%
Postage, Mailing and Delivery Services -----	135,277	-	135,277	-	135,277	0.00%
Miscellaneous Expenses -----	14,600	2,975	11,625	-	14,600	0.00%
Furniture and Equipment - Expensed -----	6,500	-	6,500	-	6,500	0.00%
Maintenance - Buildings and Equipment -----	2,000	-	2,000	-	2,000	0.00%
TOTAL OTHER OPERATING EXPENSES	\$ 301,219	\$ 10,562	\$ 290,657	\$ (22,250)	\$ 278,969	-7.39%
TOTAL OPERATING EXPENSES	\$ 3,997,330	\$ 65,904	\$ 3,931,426	\$ (209,017)	\$ 3,788,313	-5.23%
Less: Employer Retirement Contributions paid on behalf of Employees-----	(96,847)	9,173	(106,020)	(19,356)	(116,203)	19.99%
TOTAL CASH OUTLAY FOR OPERATING EXPENSES	\$ 3,900,483	\$ 75,077	\$ 3,825,406	\$ (228,373)	\$ 3,672,110	-5.85%

Full Time Equivalent Employees - Actual/Budgeted

34

34

**TRS-Care (Retired Plan)
Fiscal Year 2013 Requested Budget
Allocation by Major Expense Category**
(graph in millions)

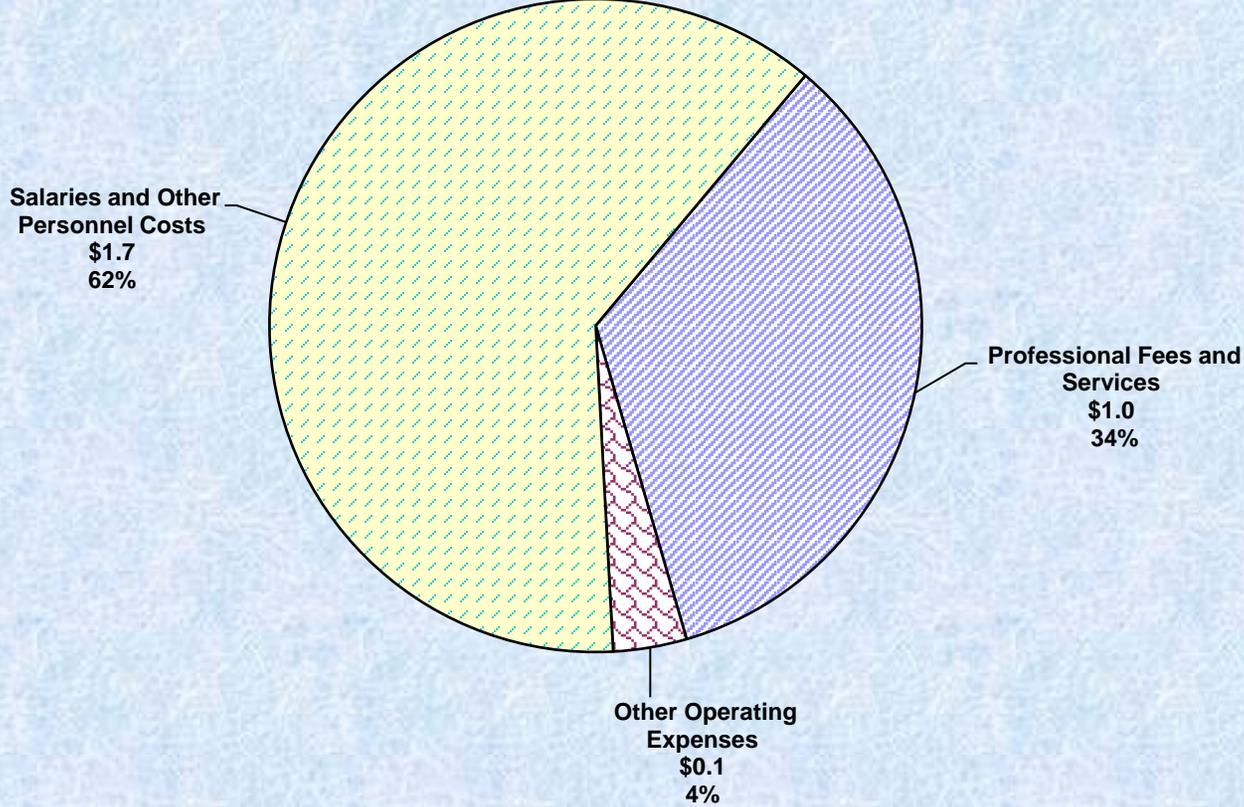


TEACHER RETIREMENT SYSTEM OF TEXAS
TRS-ActiveCare (Active Plan) Administrative Operations
FY 2013 Budget - Key Points

The total operating budget for FY 2013 is approximately \$2.8 million compared to \$2.5 million for FY 2012, or an increase of 9.9%. The FY 2013 budget by program is as follows:

- **TRS-ActiveCare Plan** – total operating budget of almost \$2.7 million, an increase of 10.3% above the FY 2012 budget.
 - **Salaries and Other Personnel Costs** are projected to increase by approximately \$27,000, or 1.6% over the current level. The increase is solely in benefit amounts and will adjust the FY 2013 budget to the FY 2012 projected expense level, include a rate increase to 6.4% for employer retirement contributions, and provide funding for anticipated increases in employer health insurance contributions resulting from changes in employee elections.
 - **Professional Fees and Services** are projected to increase approximately \$224,000, or 30.9%, above the current level. The increase is due to the external claims and rebate audit being performed in the last year of the biennium and the inclusion of additional consulting funds anticipated to be used in the upcoming legislative session.
 - **Other Operating Expenses** are projected to decrease minimally below the current level. The decrease is primarily due to reallocation of rented office space. The square footage rented decreased from 2,525 square feet to 2,265 during FY 2012. Space savings occurred by relocating health care finance staff to the program area, repurposing cubicles, and reconfiguring office space, all with minimal cost to the program.
- **Long-Term Care Insurance** – total operating budget of \$90,000, an increase of 0.2% above the FY 2012 budget. The increase is primarily attributable to the inclusion of additional consulting funds anticipated to be used in the upcoming legislative session. Salaries and Other Personnel Costs are \$51,000, Professional Fees and Services are \$33,000, and Other Operating Costs are \$6,000.

**TRS-ActiveCare (Active Plan)
Fiscal Year 2013 Requested Budget
Allocation by Major Expense Category
(graph in millions)**



**Consideration of a recommendation that the Board adopt the proposed
FY 2013 administrative operations budget and general provisions for
the 403(b) Program**

TEACHER RETIREMENT SYSTEM OF TEXAS
403(b) Program Administrative Operations
FY 2013 Budget – Key Points

The total operating budget for FY 2013 is \$58,816 compared to \$58,452 for FY 2012, or an increase of 0.6%. The new cycle for certification and product registration begins in FY 2013 and it is assumed most companies will re-certify and re-register. It is anticipated that administrative services necessary to operate the 403 (b) Program will not be affected by changes in participation levels.

- **Salaries and Other Personnel Costs** – for one half-time budgeted position is \$58,816. The increase is primarily attributable to the state retirement contribution rate increasing to 6.4%.

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations FY 2012 and FY 2013 - Comparison by Expense Category
403(b) Certification Program

	FY 2012 BUDGET	FY 2012 PROJ. (OVER)/UNDER BUDGET	FY 2012 PROJECTED EXPENSES	FY 2013 REQ. \$ INCR / (DECR) FY 2012 BUDGET	FY 2013 REQUESTED BUDGET	FY 2013 REQ. % INCR / (DECR) FY 2012 BUDGET
SALARIES AND OTHER PERSONNEL COSTS						
Salaries and Wages -----	\$ 45,386	\$ -	\$ 45,386	\$ -	\$ 45,386	0.00%
Employer Retirement Contributions -----	2,739	-	2,739	166	2,905	6.06%
Employer FICA Contributions -----	3,274	(242)	3,516	198	3,472	6.05%
Employer Health Insurance Contributions -----	5,021	-	5,021	-	5,021	0.00%
Benefit Replacement Pay -----	1,032	-	1,032	-	1,032	0.00%
Other Employee Benefits -----	1,000	1,000	-	-	1,000	0.00%
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 58,452	\$ 758	\$ 57,694	\$ 364	\$ 58,816	0.62%
TOTAL OPERATING EXPENSES	\$ 58,452	\$ 758	\$ 57,694	\$ 364	\$ 58,816	0.62%
Less: Employer Retirement Contributions paid on behalf of Employees -----	(2,739)	-	(2,739)	(166)	(2,905)	6.06%
Total Cash Outlay For Operating Expenses	\$ 55,713	\$ 758	\$ 54,955	\$ 198	\$ 55,911	0.36%

Full Time Equivalent Employees - Actual/Budgeted

0.5

0.5

TEACHER RETIREMENT SYSTEM OF TEXAS
Analysis of Staffing and Workforce Requests FY 2012 - FY 2015

Division	Requested By Division					Included in Administrative Budget Or 2014-2015 LAR Request				
	FY 2012	FY 2013	FY 2014	FY 2015	Total	FY 2012	FY 2013	FY 2014	FY 2015	Total
Legal ^(A)	1		1		2			1		1
IMD ^(B)		9			9			1		1
Benefits ^(C)		30			30			6		6
Finance ^(D)		4			4			1		1
IT ^(E)		7	7		14			4		4
Risk Management ^(F)			2		2					0
Internal Audit ^(G)		1	1	1	3					0
Total FTEs	1	51	11	1	64	0	0	13	0	13
Financial Impact Current Year (does not include Other Personnel Costs):										
Salaries and Wages	\$ 98,206	\$ 2,861,151	\$ 887,566	\$ 69,552	\$ 3,916,475	\$	\$	\$ 867,467	\$	\$ 867,467
Hiring, Training & Travel	4,125	20,177	16,525	6,200	47,027			7,225		7,225
Furniture & Equipment	9,825	363,875	96,075	9,825	479,600			102,750		102,750
Total	\$ 112,156	\$ 3,245,203	\$ 1,000,166	\$ 85,577	\$ 4,443,102	\$ -	\$ -	\$ 977,442	\$ -	\$ 977,442
Financial Impact Future Years (does not include Other Personnel Costs):										
Salaries and Wages	\$ 98,206	\$ 2,937,587	\$ 887,566	\$ 69,552	\$ 3,992,911			\$ 886,779		\$ 886,779
Training & Travel	3,925	8,005	14,325	6,000	32,255			4,495		4,495
Total	\$ 102,131	\$ 2,945,592	\$ 901,891	\$ 75,552	\$ 4,025,166	\$ -	\$ -	\$ 891,274	\$ -	\$ 891,274

(A) Legal request resulted from workload drivers and includes 1 Open Records Attorney in FY 2012 and 1 Investment Attorney in FY 2014. LAR request includes an Open Records Attorney.

(B) IMD request resulted from workload drivers and includes 4 Portfolio Managers, 2 Program Specialists, and 3 Financial Analysts. LAR request includes an Energy Portfolio Manager.

(C) Benefit request resulted from workload drivers and TEAM Program, positions include 17 Benefit Processors, 6 Telephone Counselors, and 7 Member Data Specialists. Of these 30 positions requested, 4 resulted from workload drivers and 26 from the TEAM Program. LAR request includes 4 Benefit Processors and 2 Telephone Counselors.

(D) Financial request resulted from workload drivers and included 2 Accountants, 1 Budget Analyst, and 1 Purchaser. LAR request includes 1 Accountant.

(E) IT request resulted from TEAM Program and included 2 Systems Analysts, 3 Network Specialists, 1 Director, 1 Programmer in FY 2013 and 4 Systems Analysts and 3 Network Specialists in FY 2014. LAR request includes 2 Systems Analysts and 2 Network Specialists.

(F) Risk Management request resulted from anticipated growth expansion of divisional functions and includes 1 Planning Director and 1 ERM Program Manager. LAR request does not include any staff for this division.

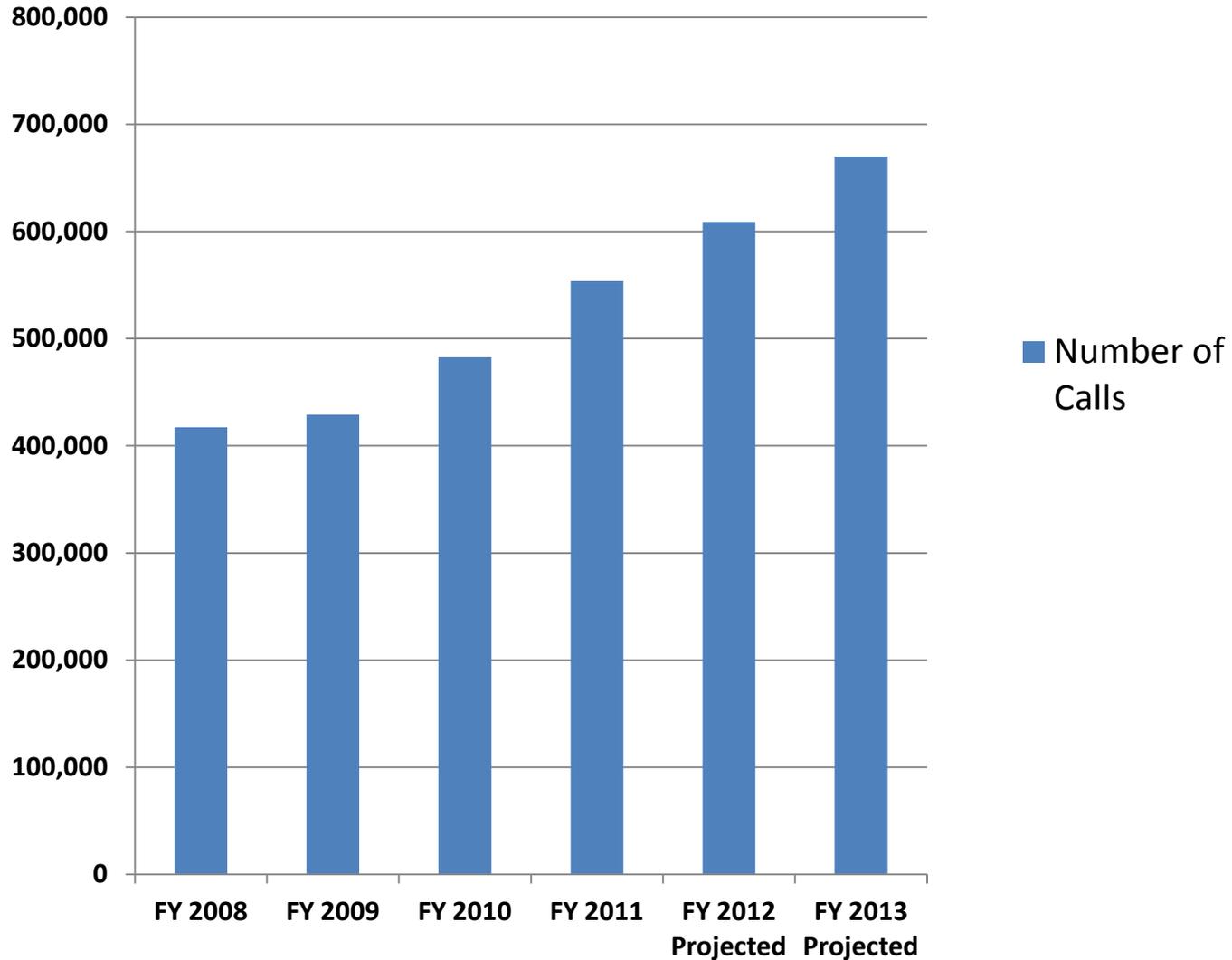
(G) Internal Audit request resulted from pilot program on employer audits and includes the addition of 1 Auditor per year for FY 2013, FY 2014, and FY 2015. LAR request does not include any staff for this division.

Analysis of Workload Drivers for Benefit Services

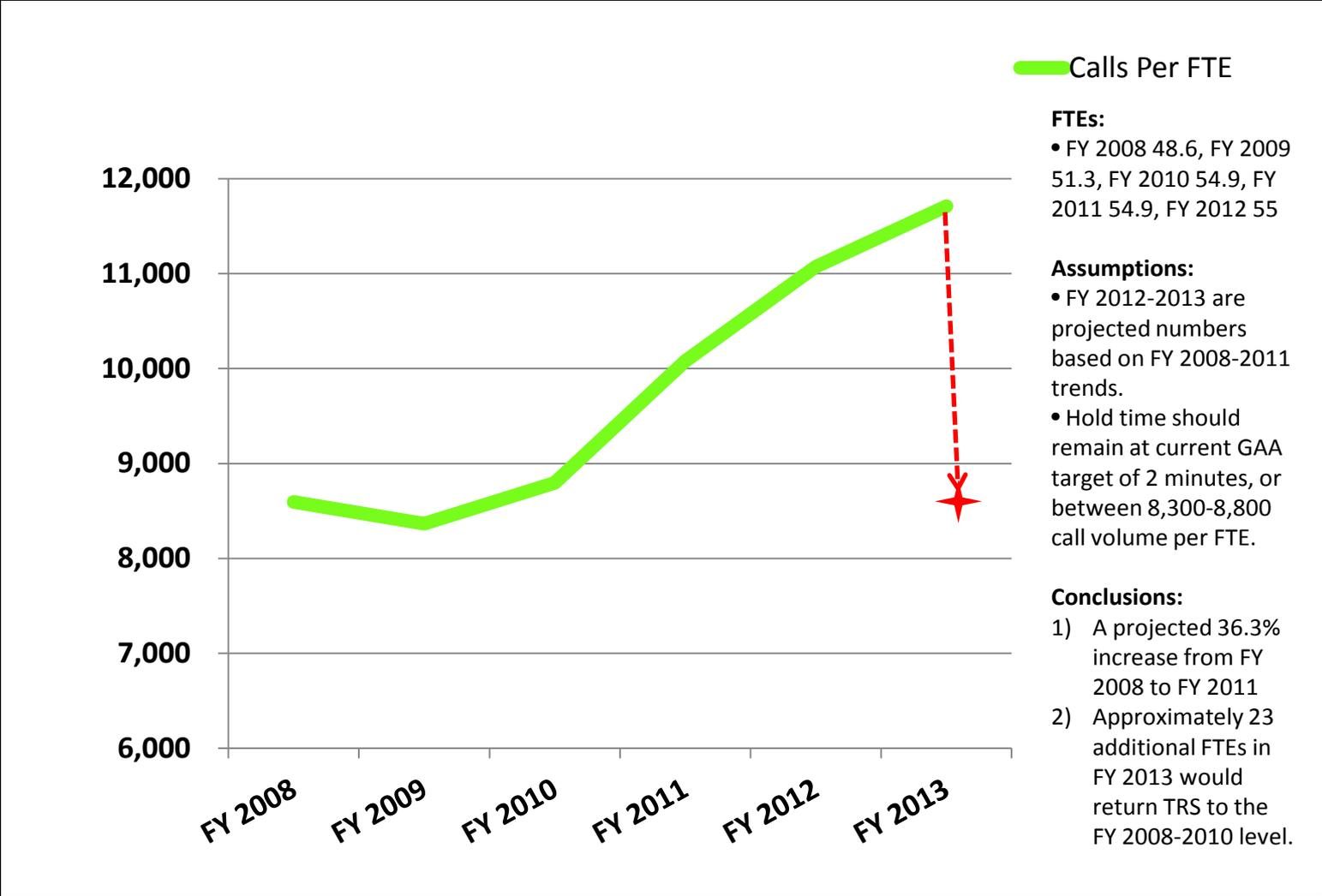
CEM Benchmarking

- TRS employees are 16% more productive than the peer average.
- The total service score is 70, compared to the peer average of 75.
- CEM defines service from the member's perspective:
 - Faster turnaround times
 - More availability
 - More choice
 - Higher quality

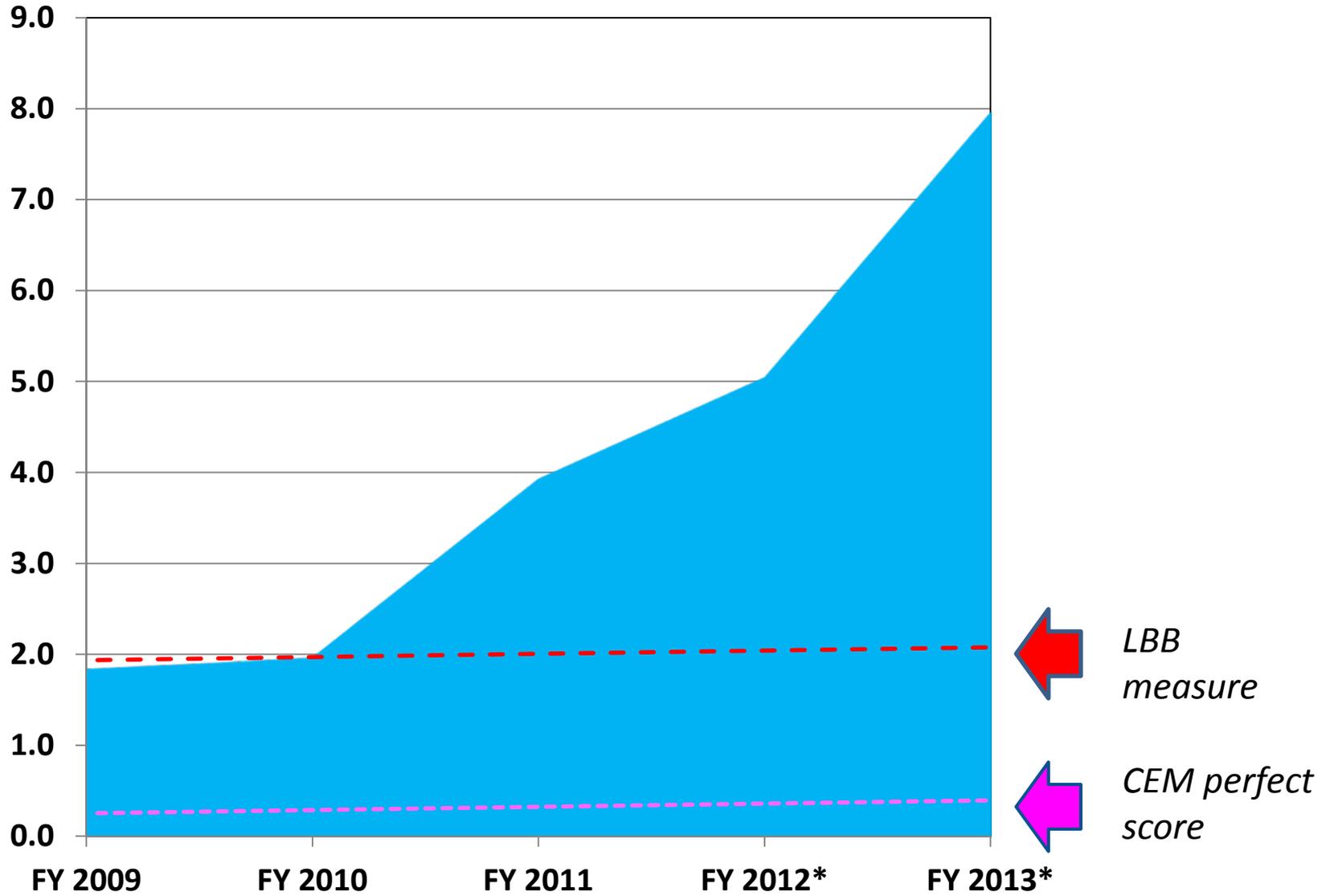
Number of Calls



Call Volume Per FTE



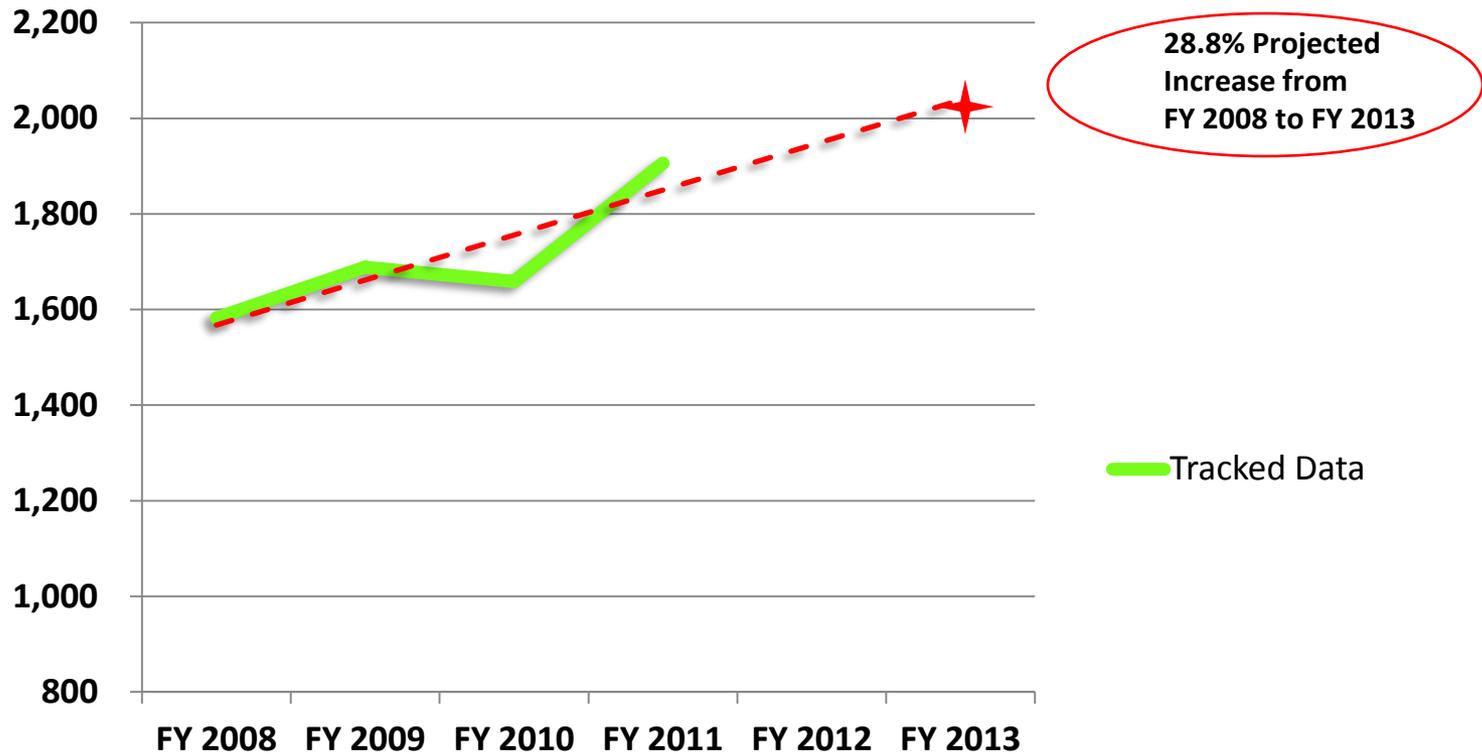
Customer Hold Time (Min)



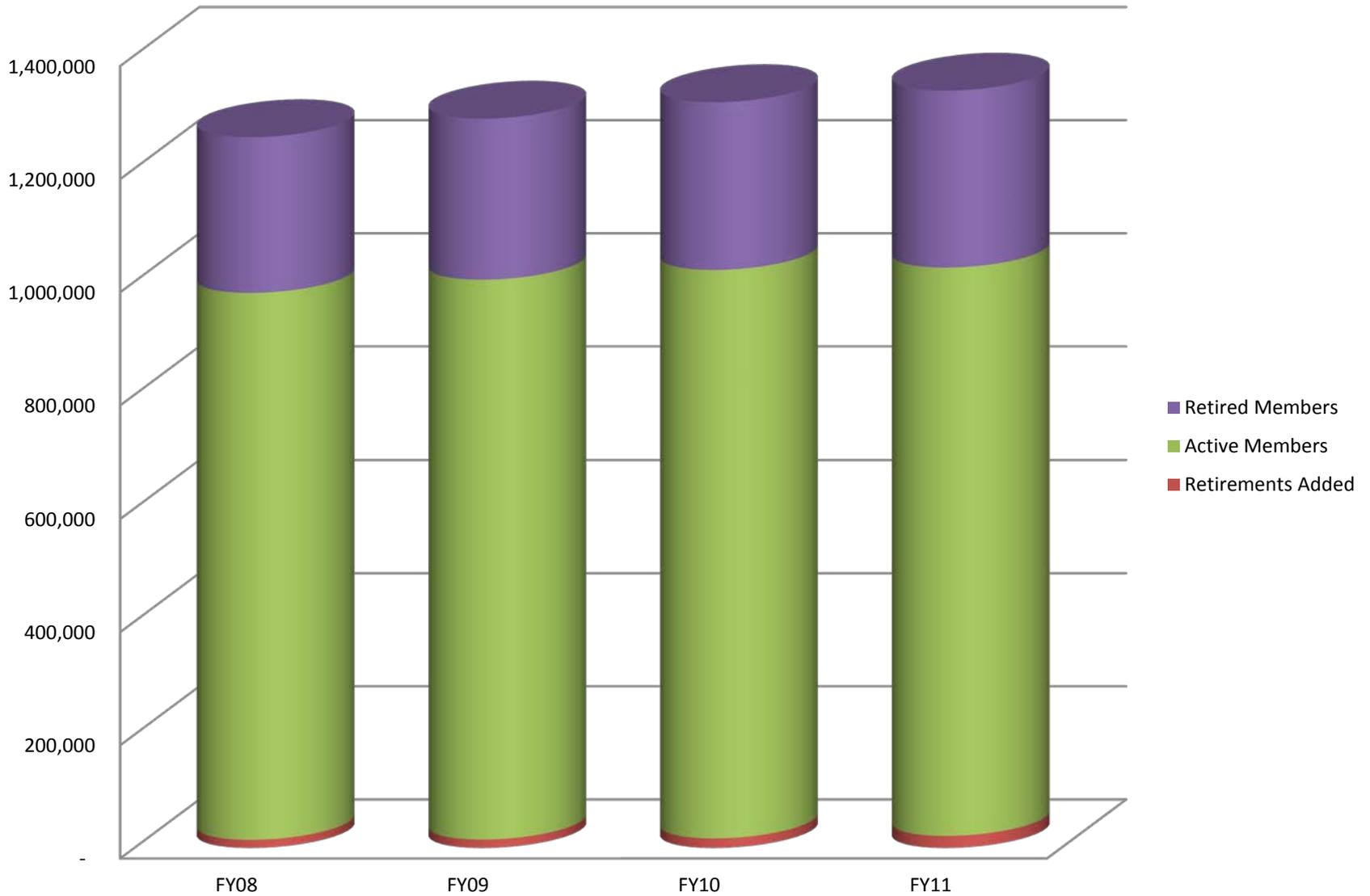
*Projected Data

Benefit Processing Transactions Per FTE

Tracked Data Transactions (Per FTE) with FY 2012-2013 Projections



TRS Retirements and Active and Retired Members, FY 2008-2011



**TEACHER RETIREMENT SYSTEM OF TEXAS
2014 – 2015 Legislative Appropriations Request (LAR) Update**

- **LAR instructions and policy letter have not been issued as of the date of the board material mailing.**
- **Pension fund salary growth assumptions remain at 0% for public education and 2% for higher education, as discussed in April.**
- **TRS' baseline request for pension funding is 6.4% of payroll with exceptional items requesting state matching increases to 6.9% in 2014 and 7.4% in 2015.**
- **Retired plan salary growth assumptions remain at 0%, as discussed in April.**
- **TRS' baseline request for TRS-Care is the statutorily required 1% of payroll.**
- **The more notable administrative budget increases include staffing, travel, and capital projects.**
 - **The addition of 13 FTEs is being requested. Staffing and workforce assessments necessitate the addition of FTEs in order to effectively carry out benefit and investment administration while maintaining current service levels. Primary workload drivers include legislation, increased retirements, open record requests, complexities of investment transactions, and the implementation of the TEAM program.**
 - **Mission critical trips responding to Risk Alarms and advisory board trips are the primary drivers for the requested increase in travel.**
 - **Maintaining current capital project authority and restoring projects reduced during the 2012-2013 legislative session are the primary drivers increasing capital expenditures.**
- **\$25 million is being requested for the TEAM program as well as the authority to transfer into the 2014 – 2015 biennium any unused funding from the 2012 – 2013 biennium.**
- **Staff will notify the TRS Board when instructions are available.**
- **TRS will continue to work with staff from the LBB, Governor's Office, and the Legislature on the development of the baseline request and formal LAR document.**

TEACHER RETIREMENT SYSTEM OF TEXAS
FY 2014 and FY 2015 Legislative Appropriations Request
Administrative Operations Biennial Comparison - Pension Trust Fund and TEAM Project

Object of Expense	FY 14 Requested	FY 15 Requested	Total 14/15 Biennium	FY 12 / FY 13 Base*	\$ Increase	% Increase	Explanation
1001 Salaries and Wages	\$ 40,346,698	\$ 40,382,710	\$ 80,729,408	\$ 76,517,852	\$ 4,211,556	5.5%	The biennial request includes sustaining funding level for 490 authorized FTEs and an additional 13 FTEs. Staffing and workforce assessments necessitate the addition of FTEs in order to effectively carry out benefit and investment administration while maintaining current service levels. Primary workload drivers include legislation, increased retirements, open record requests, complexities of investment transactions, and the TEAM program.
1002 Other Personnel Costs**	1,142,710	1,156,290	2,299,000	2,138,630	160,370	7.5%	Increase includes Longevity estimates based on current employees' years of service, funding for additional FTEs noted above, and contingency for higher unemployment payments.
2001 Professional Fees and Services	16,286,862	17,765,860	34,052,722	34,170,128	(117,406)	-0.3%	While overall Professional Fees and Services are decreasing slightly as anticipated by the TEAM project plan, the following areas are anticipated to require additional funds above the base: internal audit services based on board-approved audit plan, outside legal counsel for fiduciary and tax, investment counsel due to anticipated increase in volume and complexity of investment deals, increased actuarial fees due to changes in Pension Accounting per GASB, and TEAM project.
2002 Fuels and Lubricants	3,100	3,100	6,200	5,920	280	4.7%	
2003 Consumable Supplies	474,300	477,300	951,600	915,473	36,127	3.9%	
2004 Utilities	1,129,475	1,153,600	2,283,075	2,175,978	107,097	4.9%	
2005 Travel	1,217,018	1,204,618	2,421,636	2,137,461	284,175	13.3%	Approximately 10.8% increase is for mission critical due diligence trips and are in response to Risk Alarms in the external portfolios. The remaining increase is for advisory board trips.
2006 Rent-Building	1,945,827	2,047,327	3,993,154	3,698,330	294,824	8.0%	Increase in contractual obligation for leased space and common area maintenance charges.
2007 Rent-Machine and Other	348,900	348,800	697,700	663,360	34,340	5.2%	
2009 Other Operating Expense	12,312,353	12,039,603	24,351,956	23,590,999	760,957	3.2%	Increases in the following areas: Electronic reference subscriptions, computer hardware and software costs/usage, disaster recovery hot site/planning, fiduciary and Directors/Officers liability insurance contingency, and building maintenance.
5000 Capital Expenditures	5,431,365	1,831,880	7,263,245	3,759,621	3,503,624	93.2%	Maintain current capital budget authority and restore authority reduced during FY 2012-13 biennium. Increases include projects related to safety and postponed building renovations and repairs. Specific projects are as follows: PC Workstation Refresh, Telecommunications Upgrade, Mainframe & Peripheral Upgrade, Investment Systems, Building Renovations, Vehicle Replacement, Air Handler Replacement, and Stairwell Pressurization.
Request Total	\$ 80,638,608	\$ 78,411,088	\$ 159,049,696	\$ 149,773,752	\$ 9,275,944	6.2%	

*Sum of projected expenses for FY 2012 and budgeted amounts for FY 2013.

** Excludes Employer Retirement Contributions, Employer FICA Contributions, Benefit Replacement Pay, and Employer Health Insurance Contributions

TEACHER RETIREMENT SYSTEM OF TEXAS
Summary of Legislative Appropriations Request (LAR) for FY 2014 & 2015

BASE REQUEST								
APPROPRIATION	2014	2015	(A) 2014-2015 Biennium	(B) 2012-2013 Baseline	Base Request Net Incr (Decr)	(C) Exceptional Items Request 2014	(D) Exceptional Items Request 2015	Grand Total Requested
Pension Trust Fund								
Public Education - 6.4% State Contribution	\$ 1,307,101,424	1,307,101,424	2,614,202,848	2,543,773,634	70,429,214	102,117,299	204,234,598	2,920,554,744
Higher Education - 6.4% State Contribution	182,287,109	185,882,984	368,170,094	337,958,449	30,211,644	14,241,180	29,044,216	411,455,490
Higher Education - General Revenue Dedicated	110,344,561	112,551,452	222,896,013	204,252,500	18,643,513	8,620,669	17,586,164	249,102,846
Administrative Operations*	80,638,608	78,411,088	159,049,696	149,773,752	9,275,944	n/a	n/a	159,049,696
Total Pension Trust Fund	\$ 1,680,371,702	1,683,946,948	3,364,318,651	3,235,758,335	128,560,315	124,979,148	250,864,978	3,740,162,776
Retiree Health Benefits Program (TRS-Care)								
State Contribution Rate at 1.0%	\$ 247,120,173	247,120,173	494,240,346	370,612,235	123,628,110	-	-	494,240,346
GRAND TOTAL APPROPRIATIONS	\$ 1,927,491,875	1,931,067,121	3,858,558,996	3,606,370,571	252,188,426	124,979,148	250,864,978	4,234,403,122
METHOD OF FINANCING								
General Revenue Fund	\$ 1,733,923,779	1,737,517,823	3,471,441,602	3,247,645,491	223,796,112	116,156,532	232,874,633	3,820,472,767
General Revenue Dedicated -								
Other Educational & General	110,344,561	112,551,452	222,896,013	204,252,500	18,643,513	8,620,669	17,586,164	249,102,846
Sub-Total GR & GR Dedicated	\$ 1,844,268,340	1,850,069,275	3,694,337,615	3,451,897,991	242,439,625	124,777,201	250,460,797	4,069,575,613
Pension Trust Fund - Employee Retirement	\$ 2,584,927	2,586,758	5,171,685	4,698,828	472,857	201,947	404,181	5,777,813
Pension Trust Fund -Administration	80,638,608	78,411,088	159,049,696	149,773,752	9,275,944	n/a	n/a	159,049,696
GRAND TOTAL FUNDING	\$ 1,927,491,875	1,931,067,121	3,858,558,996	3,606,370,571	252,188,426	124,979,148	250,864,978	4,234,403,122
FTEs - Requested/Authorized	503	503		490				

NOTES:

- (A) Baseline request for pension fund state contribution is 6.4%. Payroll growth assumptions are at 0% for Public Education and 2% for Higher Education.
- (B) State contribution rate is 6.0% for FY 2012 and 6.4% for FY 2013.
- (C) Exceptional Items Request based on state matching percentage of 6.9%.
- (D) Exceptional Items Request based on state matching percentage of 7.4%.

* Administrative Operations Strategy includes \$25 million for the TEAM program: \$12.1 million for FY 2014 and \$12.9 million for FY 2015.