

Teacher Retirement System of Texas



Budget Committee FY2014 Budget

June 2013



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

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

AGENDA

**June 14, 2013 – 10:00 a.m.
TRS East Building, 5th Floor, Boardroom**

1. Consider the approval of the April 18, 2013 committee meeting minutes – Nanette Sissney.
2. Discuss and consider recommending to the Board adoption of – Don Green:
 - A. The proposed fiscal year 2014 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 2014 budget.
 - B. The proposed fiscal year 2014 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 2014 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.

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 18, 2013

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on Thursday, April 18, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Nanette Sissney, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Chris Moss

A quorum of the committee was present.

Others present:

Joe Colonna, TRS Trustee
David Kelly, TRS Trustee
Eric McDonald, TRS Trustee
Anita Palmer, TRS Trustee
Brian Guthrie, TRS
Ken Welch, TRS
Don Green, TRS
Chi Chai, TRS
Dennis Gold, TRS
Clarke Howard, TRS
Tim Weil, TRS
Betsey Jones, TRS
Amy Morgan, TRS
Jerry Albright, TRS
Mike Rehling, TRS
Tom Guerin, TRS

Kirsten Morgan, TRS
Susan Wade, TRS
Sylvia Bell, TRS
Bob Jordan, TRS
Sharon Toalson, TRS
Jamie Michels, TRS
Janie Duarte, TRS
Jim Pinkard, TRS
David Veal, TRS
Tommy Albright, TRS
Rebecca Smith, TRS
Dan Junell, TRS
Lynn Lau, TRS
Steve Huff, Reinhart Boerner Van Deuren s.c.
Tathata Lohachitkul, Albourne America
Philip Mullins, Texas Retired Teachers Association and
Texas State Employees Union

With a quorum of the committee present, the meeting convened at 1:00 p.m.

1. Consider the approval of the June 7, 2012 committee meeting minutes.

On a motion by Ms. Clifton, seconded by Mr. Moss, the committee unanimously approved the minutes of the June 7, 2012 committee meeting.

2. Discuss current status of TRS' budget in the appropriations process.

Mr. Green provided an update and highlights on the status of the state budget recommendations for TRS for fiscal years 2014 and 2015. He confirmed for Ms. Sissney that the TEAM Program funding of \$34.6 million was for both fiscal years 2014 and 2015.

3. Receive a brief update on the administrative operations budgets for fiscal year 2013 and review the Budget History Document as background.

Mr. Green presented the historical budget drivers: full-time equivalents (FTEs), membership growth trends, trust fund balance, and workload drivers.

Mr. Green introduced a new layout for the quarterly financial report based on Ms. Sissney's suggestions. He stated that the new layout would include added sections comparing budget information by year and division as well as actual expenses versus the budgeted amounts. He said that the June report would use the new layout.

4. Receive overview of proposed administrative operations budgets and general provisions for fiscal year 2014.

Mr. Green presented the proposed administrative operations budgets and general provisions for FY 2014. He attributed the major increase in the operating budget to a proposed 3% across the board pay raise for all state employees and the increase in salaries and other personnel costs associated with the 13 FTEs requested primarily for the TEAM program. He noted other major areas contributing to the increase, including capital expenses not related to TEAM, the increased TEAM budget and the performance incentive compensation. Mr. Green presented the proposed general provisions. He noted that Legal suggested showing commission recapture as a resource supporting the investment function. Mr. Gold stated that the addition would reflect a shift from the conventional soft dollar arrangements to the commission recapture arrangements and would bring the provisions into line with the current contracts.

Mr. Green concluded that staff would present the final version of the budget documents in June.

The meeting adjourned at 1:25 p.m.

TEACHER RETIREMENT SYSTEM OF TEXAS FY 2014 Budget – Significant Changes

- Agency appropriations for the FY 14-15 biennium increased approximately \$107.3 million or 2.8% above FY 12-13 appropriated levels.
- Salaries reflect an across the board a 1% pay raise. Agency FTE cap increased to 503.3 from the 475.3.
- Employer health insurance contributions and employer retirement contributions are projected to increase by 12%. The employer contribution rate will increase from 6.4% to 6.8% beginning September 2013.
- Senate Bill 1458. Upon passage and enactment of bill, any settle up amount from FY 2013 will be applied to the state matching percentage for FY 2014 to increase the state matching percentage in FY 2014 to 6.8%. Any excess amount over 6.8% would be transferred to TRS Care. Should the bill fail to pass, any settle up amount would be transferred to TRS Care. Furthermore, contingent on the passage and enactment of SB 1458, TRS is appropriated additional funds and FTEs as approved by the TRS Board to implement modifications to the benefit structure. The FY 2014 budget includes an estimated \$400k and 5 FTEs for this purpose.
- Team Rider. TRS may expend TEAM funds for salaries and wages for FTEs and contract workers assigned to the TEAM program. The number of FTEs and contract workers assigned to TEAM are exempt from the calculation of FTEs for reporting purposes.
- Realigned administrative operations budget to include:
 - Program Management Office and Special Projects Office.
 - Agencywide related funding for furniture, supplies, some personnel related expenses moved from General Accounting budget to Agencywide budget.
- Commission Sharing Arrangement (CSA) amounts added to the FY 2014 budget. Soft dollars have been revised to reflect reduced trading revenue.
- Converted IMD contract workers to TRS employees.

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~~83rd Texas Legislature (Article IX) as guidelines in administering the system to the extent that the Executive Director or a designee acting in the absence of the Executive Director determines a particular provision of Article IX is in the best interests of the system and not in conflict with applicable law, fiduciary duty, or TRS policy.

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

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

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

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

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

PERSONNEL SERVICES:

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

TEACHER RETIREMENT SYSTEM OF TEXAS

GENERAL PROVISIONS

(continued)

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

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

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

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

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

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

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

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

SUMMARY OF FY2014 REQUEST BY FUND

	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	\$ 70,198,974						\$ 70,198,974
Appropriation Balance Available for FY 2014*		\$ 21,413,786					21,413,786
Employee Benefits Paid by the Pension Trust Fund**	14,073,942						14,073,942
Performance Incentive Compensation	9,350,000						9,350,000
Section 28 (e) Arrangements/Contractor Provided Allowances			\$ 33,085,494				33,085,494
Reserved for Administrative Expenses				\$ 4,042,982	\$ 2,453,308	\$ 66,748	6,563,038
TOTAL REVENUES AND OTHER SOURCES	\$ 93,622,916	\$ 21,413,786	\$ 33,085,494	\$ 4,042,982	\$ 2,453,308	\$ 66,748	\$ 154,685,234
OPERATING AND CAPITAL EXPENSES							
Salaries and Other Personnel Costs	\$ 54,613,098	\$ 2,661,786		\$ 2,693,721	\$ 1,580,313	\$ 66,748	\$ 61,615,666
Professional Fees and Services	7,126,714	13,302,000	\$ 4,008,863	1,061,750	773,000		26,272,327
Consumable Supplies	513,210			5,200	3,000		521,410
Utilities	1,074,955			5,200	1,500		1,081,655
Travel	1,405,028	25,000		11,955	8,350		1,450,333
Rentals	2,380,031		42,000	82,511	62,245		2,566,787
Other Operating Expenses	11,035,896	4,550,000	29,034,631	182,645	24,900		44,828,072
Capital Expenses	6,123,984	875,000					6,998,984
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 84,272,916	\$ 21,413,786	\$ 33,085,494	\$ 4,042,982	\$ 2,453,308	\$ 66,748	\$ 145,335,234
PERFORMANCE INCENTIVE COMPENSATION	\$ 9,350,000	\$	\$	\$	\$	\$	\$ 9,350,000
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 93,622,916	\$ 21,413,786	\$ 33,085,494	\$ 4,042,982	\$ 2,453,308	\$ 66,748	\$ 154,685,234
PERCENTAGE CHANGE FROM FY 2013 BUDGET	13.42%	1.76%	-3.89%	6.72%	-11.25%	13.49%	6.66%

* Legislative appropriations for the biennium equal \$34.6 million with \$21.4 million allocated to FY2014.

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

Budget Drivers

Increase from last year	\$ 11,075,013	
1% pay raise	\$ 485,977	
SB 1458 implementation	\$ 400,000	
New positions	\$ 2,247,142	
Benefits; Healthcare and Retirement	\$ 1,682,832	
Capital Projects	\$ 3,957,990	
Subtotal	\$ 8,773,941	
Operating Increase	\$ 2,301,072	2.8%

BY DEPARTMENT, ALL FUNDS

Department	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
Board	79,040	70,718	76,000	74,878	170,000
Executive	1,895,112	1,405,707	1,998,936	1,245,356	5,181,639
Internal Audit	1,621,296	1,526,670	1,819,550	1,777,042	1,768,186
Legal	7,713,786	7,392,810	7,818,625	7,810,197	6,907,546
Govt Relations	178,172	173,713	273,347	261,756	285,734
Communications	1,491,832	1,413,651	1,312,978	1,263,108	1,400,599
Human Resources	1,158,573	1,024,939	1,187,829	1,158,920	1,203,560
Risk Management	994,576	966,443	1,021,158	972,497	1,076,473
Executive	\$ 15,132,387	\$ 13,974,651	\$ 15,508,423	\$ 14,563,754	\$ 17,993,737
Investment Mgt	27,532,420	\$ 26,621,522	\$ 28,637,753	\$ 28,344,859	\$ 33,814,281
Soft Dollars	32,972,058	\$ 27,980,002	\$ 34,425,885	\$ 31,773,127	\$ 33,085,494
Benefit Services	396,072	380,366	462,911	462,848	506,235
Benefit Processing	4,510,258	4,158,899	4,381,991	4,312,641	4,775,526
Benefit Counseling	3,410,072	3,348,089	3,348,357	3,479,834	3,797,340
Member Data Services	1,259,629	1,248,880	1,274,210	1,275,114	1,350,525
Benefit Services	\$ 9,576,030	\$ 9,136,234	\$ 9,597,469	\$ 9,530,437	\$ 10,429,626
Financial	480,672	421,810	508,232	506,707	262,312
General Accounting	3,376,287	3,122,019	3,698,959	3,496,499	2,117,398
Benefit Accounting	1,528,118	1,445,744	1,442,885	1,410,284	1,570,904
Investment Accounting	523,421	500,945	533,871	530,778	561,101
Staff Services	1,891,479	1,765,052	1,933,114	2,016,058	1,976,354
Facilities Services	1,156,804	916,884	1,283,893	1,233,893	5,131,183
Printing, Mail & Supply	3,190,900	3,079,805	2,782,900	2,844,782	3,190,900
Financial	\$ 12,147,682	\$ 11,252,259	\$ 12,183,854	\$ 12,039,001	\$ 14,810,152
Information Tech	1,468,505	1,175,561	1,504,415	1,483,715	2,038,064
Network Support	5,598,795	4,599,686	5,975,850	5,962,750	6,288,033
Systems - Green Team	1,392,645	1,312,232	1,521,578	1,408,962	1,534,111
Technical Support	3,644,482	3,410,670	3,812,379	3,764,979	4,796,369
Systems - Gold Team	1,328,183	1,258,126	1,325,623	1,331,074	1,274,994
System Architecture	776,339	752,597	607,524	778,714	426,549
Info Tech	\$ 14,208,949	\$ 12,508,872	\$ 14,747,368	\$ 14,730,194	\$ 16,358,120
TEAM Program	11,892,520	\$ 2,091,179	\$ 21,043,224	\$ 8,954,470	\$ 21,413,786
Interns	193,572	167,821	203,530	203,530	217,000
TRS Care	2,503,320	2,340,212	2,299,702	2,029,354	2,554,746
TRS Care, Agency	1,494,010	1,366,342	1,488,611	1,415,559	1,488,236
TRS ActiveCare	1,551,640	1,205,912	1,798,498	1,662,368	1,585,346
TRS ActiveCare, Agency	869,965	780,954	874,607	759,862	786,104
Optional Insurance	92,857	54,166	91,264	68,415	81,858
403(b) Certification	58,452	52,492	58,816	57,793	66,748
Totals	\$ 130,225,861	\$ 109,532,616	\$ 142,959,004	\$ 126,132,723	\$ 154,685,234

Full Time Equivalent Positions

605.8

*As of 4/30/2013

BY EXPENDITURE CATEGORY, ALL FUNDS

Category	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014	% of Total
Salaries and Wages	\$ 42,334,175	\$ 39,351,141	\$ 42,652,825	\$ 42,497,003	\$ 46,391,472	30%
Incentive Compensation	6,080,798	6,080,798	6,899,843	6,899,843	9,350,000	6%
Health Insurance Contributions	4,754,969	4,640,211	5,291,909	4,847,025	6,708,429	4%
Social Security	3,020,971	2,866,324	3,138,207	2,934,235	3,888,783	3%
Employer Retirement Contribution	2,507,014	2,347,884	2,729,781	2,703,244	3,103,011	2%
Longevity Pay	722,455	670,260	740,215	719,875	773,940	1%
Lump Sum Payments	500,000	368,545	500,000	263,161	500,000	0%
Benefit Replacement Pay	152,637	140,430	149,433	144,417	140,436	0%
Other	83,078	42,875	100,745	76,789	109,595	0%
Wages and Benefits	\$ 60,156,097	\$ 56,508,469	\$ 62,202,958	\$ 61,085,592	\$ 70,965,666	46%
Professional Fees & Services	\$ 20,182,977	\$ 12,673,230	\$ 28,492,654	\$ 17,632,337	\$ 26,272,327	17%
Fuels and Lubricants	2,995	4,110	2,960	2,960	2,960	0%
Consumable Supplies	461,040	367,546	458,450	452,853	518,450	0%
Utilities	1,076,215	869,669	1,112,386	1,153,136	1,081,655	1%
Rent - Building	1,862,247	1,793,960	2,075,833	2,033,767	2,115,687	1%
Rent - Machine and Other	496,816	443,525	338,070	309,671	451,100	0%
Operating Costs	\$ 3,899,314	\$ 3,478,810	\$ 3,987,699	\$ 3,952,387	\$ 4,169,852	3%
Travel - In State	281,911	214,325	281,558	262,386	316,083	0%
Travel - Out of State	682,532	602,348	259,250	235,230	312,250	0%
Mission Critical Travel	-	-	681,500	722,114	822,000	1%
Travel	\$ 964,443	\$ 816,672	\$ 1,222,308	\$ 1,219,730	\$ 1,450,333	1%
CSA - contracted services	15,000,000	12,265,430	19,600,000	13,200,000	13,815,000	9%
Subscriptions and Reference	12,976,370	10,835,679	8,977,674	12,338,228	12,357,213	8%
Software Purchases & Maint.	5,451,826	3,008,569	5,785,106	3,420,147	7,653,430	5%
SSB account - contracted services	1,846,910	1,843,922	2,044,100	2,658,832	2,295,493	1%
Postage, Mailing, Delivery Services	2,837,027	2,726,431	2,417,416	2,426,005	2,787,875	2%
Furniture & Equipment - Capital	1,014,556	438,359	1,621,665	1,750,639	1,045,994	1%
Capital Projects	900,000	362,410	1,437,590	1,437,590	5,652,990	4%
Other Operating Expenses	1,108,266	749,886	1,249,270	1,141,585	1,492,500	1%
Maintenance - Bldg and Equip	953,222	804,521	952,433	948,372	940,933	1%
Dues, Fees & Staff Development	632,296	502,644	820,406	911,939	1,127,696	1%
Insurance Premiums	665,000	660,872	693,100	661,931	728,055	0%
Computer Hardware Maintenance	465,317	393,914	465,000	493,765	487,102	0%
Furniture & Equipment - Exp.	405,092	262,252	465,550	458,176	799,200	1%
Printing and Reproduction	767,150	684,879	524,075	395,468	643,575	0%
Other Operating Expenses	\$ 45,023,032	\$ 35,539,768	\$ 47,053,385	\$ 42,242,677	\$ 51,827,056	34%
Total Agency Expenses	\$ 130,225,863	\$ 109,016,948	\$ 142,959,004	\$ 126,132,723	\$ 154,685,234	100%

TEACHER RETIREMENT SYSTEM OF TEXAS
Pension Trust Fund Administrative Operations
FY 2014 Budget - Key Points

Key Points

The total operating and capital expenses budget including performance incentive compensation for FY 2014 is \$93.6 million, and does not include the TEAM program. This is an increase of approximately \$11.1 million, or 13.4%, above the FY 2013 budget of \$82.5 million.

- **Salaries and Other Personnel Costs** reflect an increase of \$6.2 million, or 11.9%, over FY 2013 budget amount. This increase includes full operational capacity of all 503.3 FTEs, a 1% legislative pay raise, and a 12% increase in employer health insurance contributions and employer retirement contributions. The employer contribution rate increases from 6.4% to 6.8% beginning September 2013. Also included is 5 FTEs to implement modifications to the benefit structure as authorized by Rider 15 of the agency's bill pattern.
- **Professional Fees and Services** are projected to decrease by \$0.1 million, or 11.6%, under the current budgeted level. The decrease is mainly attributed to a reduction in outside legal counsel for investments.
- **Other Operating Expenses** are projected to increase approximately \$2.3 million, or 8.5%, over the current budgeted level. The primary drivers for the increase are additional out-of-state travel costs for mission critical due diligence trips and advisory board trips, printing and postage costs associated with the TRS Benefit Handbooks, and computer maintenance and software cost increases.
- **Capital Expenses** are projected at approximately \$6.1 million and include the following major projects: Building Renovations, Air Handler Replacement, Pressurization of Stairwells, Mainframe and Peripheral Upgrades, Telecommunication Upgrades, Investment Systems Modernization, and PC Workstation Refresh.
- **Performance Incentive Compensation** is anticipated to increase only minimally above the FY 2013 budget. Amounts are included in the FY 2014 budget at the current maximum payment amount of \$9.3 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.

PENSION FUND - BENEFIT OPERATIONS

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014	Variance
SALARIES AND OTHER PERSONNEL COSTS						
Salaries and Wages	\$ 24,577,675	\$ 22,550,639	\$ 24,753,699	\$ 24,703,491	\$ 26,934,990	9%
Longevity Pay	546,215	504,320	556,255	544,015	584,660	7%
Employer Retirement Contributions	1,478,666	1,349,346	1,593,502	1,570,018	1,818,799	16%
Employer FICA Contributions	1,786,847	1,648,689	1,839,639	1,843,303	2,131,847	16%
Employer Health Insurance Contributions	3,579,912	3,471,393	4,008,510	3,657,522	5,063,023	38%
Benefit Replacement Pay	120,957	111,556	120,536	118,339	112,403	-5%
Other Employee Benefits	76,095	42,875	76,095	65,689	85,095	30%
Lump Sum Payments	305,961	247,842	400,000	243,161	400,000	65%
TOTAL PERSONNEL COSTS	\$ 32,472,327	\$ 29,926,661	\$ 33,348,236	\$ 32,745,538	\$ 37,130,817	13%
PROFESSIONAL FEES AND SERVICES	\$ 13,632,914	\$ 6,579,877	\$ 22,044,569	\$ 11,834,991	\$ 19,103,714	61%
OTHER OPERATING EXPENSES						
Consumable Supplies and Fuels	\$ 448,836	\$ 361,882	\$ 446,210	\$ 442,972	\$ 508,210	15%
Utilities	1,070,184	866,871	1,082,855	1,144,585	1,072,455	-6%
Travel	355,983	258,606	397,003	359,571	483,028	34%
Rentals	260,687	245,391	293,197	272,977	411,927	51%
Dues, Fees and Staff Development	357,336	244,363	397,326	393,816	601,771	53%
Subscriptions and Reference Information	223,393	207,570	234,144	212,438	212,845	0%
Printing and Reproduction Services	715,750	634,982	477,650	383,788	627,650	64%
Postage, Mailing and Delivery Services	2,727,600	2,673,206	2,277,364	2,308,282	2,647,300	15%
Software Purchases and Maintenance	5,451,826	3,008,569	5,583,106	3,176,396	7,399,930	133%
Computer Hardware Maintenance	465,317	393,914	465,000	493,765	487,102	-1%
Other Operating Expenses	1,083,348	737,302	1,090,370	1,061,560	1,406,000	32%
Insurance Premiums	665,000	660,872	693,100	661,931	728,055	10%
Furniture and Equipment - Expensed	368,979	231,493	434,550	431,176	780,700	81%
Maintenance - Buildings and Equipment	937,104	788,421	909,933	909,372	921,933	1%
TOTAL OTHER OPERATING EXPENSES	\$ 15,131,343	\$ 11,313,442	\$ 14,781,808	\$ 12,252,629	\$ 18,288,906	49%
CAPITAL EXPENSES						
Furniture and Equipment	\$ 1,014,556	\$ 438,359	\$ 1,671,665	\$ 1,750,639	\$ 1,045,994	-40%
Capital Budget Items	900,000	362,410	1,437,590	1,437,590	5,652,990	293%
TOTAL CAPITAL EXPENSES	\$ 1,914,556	\$ 800,768	\$ 3,109,255	\$ 3,188,229	\$ 6,698,984	110%
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 63,151,140	\$ 48,620,748	\$ 73,283,868	\$ 60,021,387	\$ 81,222,421	35%
FULL TIME EQUIVALENT POSITIONS					404.3	

*As of 4/30/2013

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS Enterprise Application and Modernization - TEAM
FY 2014 Budget – Key Points and Funding

Key Points

The total operating and capital expenses budget for FY 2014 is approximately 21.4 million compared to \$21.0 million for FY 2013, or an increase of 1.8%.

- **Salaries and Other Personnel Costs** reflect an increase of \$1.1 million, or 77.2%, over FY 2013 budget amount. The increase includes funding for the 12 newly authorized positions at full capacity during FY 2014.
- **Professional Fees and Services** are projected to decrease \$1.7 million or 11.5% under the current budgeted level. The decrease in budget is attributed to revised project estimates.
- **Other Operating Expenses and Capital Expenses** are projected to increase approximately \$1.0 million, or 21.7%, over the FY 2013 budgeted level. It is anticipated the financial system replacement and pension administrative line of business will incur greater costs in FY 2014 compared to FY 2013. The increase also includes additional funding for software purchases and maintenance along with furniture and equipment needed for additional FTEs and related contractors.

Funding

Funding is to be provided from pension trust funds as authorized by SB 1, 83rd Legislature, regular session, Article III, Capital Rider. In addition, pursuant to Rider 14, funds appropriated in the TEAM capital budget may be expended for salaries and wages of FTEs and contract workers assigned to the TEAM Program. Furthermore, the number of FTEs and contract workers assigned to TEAM are exempt from the FTE calculation for reporting purposes.

TEAM PROGRAM

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
Program Wide Costs					
Salaries and Wages	909,000	190,069	1,210,950	1,210,950	2,151,141
Benefits	245,520	43,090	313,434	318,793	510,645
Professional Fees and Services	9,697,945	1,482,302	17,774,540	5,157,102	350,000
Travel	20,000	1,125	25,000	25,000	25,000
Dues, Fees, Staff Development	1,945	1,945	50,000	50,000	150,000
Software Purchase and Maint	98,775	-	120,000	528,251	150,000
Furniture	10,055	9,865	24,000	24,000	300,000
Capital Equipment	910,000	382,072	1,525,000	1,640,373	875,000
Subtotals	\$ 11,893,240	\$ 2,110,467	\$ 21,042,924	\$ 8,954,469	\$ 4,511,786
Project Specific Costs					
Financial System Replacement					\$ 3,750,000
Data Management					500,000
Pension Admin Line of Business					8,000,000
Independent Program Assessment					240,000
Organizational Change Management					300,000
Program Management					1,212,000
Application Architecture Assessment					2,850,000
Website Redesign					50,000
Subtotals					\$ 16,902,000
Totals					\$ 21,413,786
FULL TIME EQUIVALENT POSITIONS					34.0

*As of 4/30/2013

PENSION FUND - INVESTMENT OPERATIONS

	Budgeted FY2012	Actual FY2012	Budgeted FY2013	Projected* FY2013	Requested FY2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 14,599,606	\$ 13,874,241	\$ 14,742,232	\$ 14,742,232	\$ 16,241,284
Longevity Pay	94,500	86,640	98,120	98,120	101,500
Employer Retirement Contributions	844,906	819,997	934,238	934,238	1,062,758
Employer FICA Contributions	1,009,895	996,683	1,057,066	862,066	1,506,074
Employer Health Insurance Contributions	838,314	838,272	903,514	830,514	1,220,076
Benefit Replacement Pay	15,176	13,403	13,425	13,425	12,375
Lump Sum Payments	94,039	94,039	-	-	-
TOTAL PERSONNEL COSTS	\$ 17,496,437	\$ 16,723,276	\$ 17,748,595	\$ 17,480,595	\$ 20,144,067
PROFESSIONAL FEES AND SERVICES	\$ 1,335,000	\$ 1,331,800	\$ 1,074,544	\$ 1,074,544	\$ 1,325,000
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 7,000	\$ 5,530	\$ 7,000	\$ 7,000	\$ 5,000
Utilities	2,500	508	2,500	2,500	2,500
Travel	589,005	546,085	805,000	840,004	947,000
Rentals	1,888,120	1,811,961	1,936,000	1,885,706	1,968,104
Dues, Fees and Staff Development	47,750	40,910	47,211	40,976	26,000
Subscriptions and Reference Materials	41,560	38,359	53,560	53,346	19,610
Other Operating Expenses	5,000	3,081	5,000	1,845	2,000
Furniture and Equipment - Expensed	25,149	25,132	28,297	20,000	10,000
Maintenance - Buildings and Equipment	14,100	14,082	30,203	38,500	15,000
TOTAL OTHER OPERATING EXPENSES	\$ 2,620,184	\$ 2,485,648	\$ 2,914,771	\$ 2,889,877	\$ 2,995,214
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 21,451,621	\$ 20,540,724	\$ 21,737,910	\$ 21,445,016	\$ 24,464,281
PERFORMANCE INCENTIVE COMPENSATION	\$ 6,080,798	\$ 6,080,798	\$ 6,899,843	\$ 6,899,843	\$ 9,350,000
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 27,532,419	\$ 26,621,522	\$ 28,637,753	\$ 28,344,859	\$ 33,814,281
FULL TIME EQUIVALENT POSITIONS					143.0

*As of 4/30/2013

TEACHER RETIREMENT SYSTEM OF TEXAS
Soft Dollar
FY 2014 Budget – Key Points and Funding

Key Points

The total Soft Dollar budget for FY 2014 is approximately \$33.1 million, a decrease of 5.0% below the budgeted level for FY 2013. This decrease is largely attributed to reduced trading revenue.

- **Professional Fees and Services** reflect a slight increase of \$0.2 million for increased investment and tax advisors.
- **Other Operating Expenses** are projected to decrease by approximately \$1.9 million, or 6.3%, from the FY 2013 budgeted level. The decrease is primarily due to converting 24 contractors to FTEs and the realigning of investment services with projected trading revenue.

Funding

- Contractor Provided Allowances
 - \$6.0 million TRS/State Street Bank Partnership Account
- Section 28(e) Arrangements
 - \$18.3 million Commission Sharing Agreement (CSA)
 - \$8.8 million Soft Dollar

INVESTMENT SOFT DOLLARS

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
PROFESSIONAL FEES AND SERVICES	\$ 414,063	\$ 414,063	\$ 500,000	\$ 500,000	\$ 1,601,863
OTHER OPERATING EXPENSES					
Dues, Fees and Staff Development	116,508	116,273	150,000	402,058	416,750
Subscriptions and Reference Materials	6,296,996	6,012,842	7,396,135	6,841,499	6,473,860
Software Purchases and Maintenance			243,750	243,751	253,500
Contracted Services	144,493	144,493	136,000	58,187	60,600
TOTAL OTHER OPERATING EXPENSES	\$ 6,557,996	\$ 6,273,608	\$ 7,925,885	\$ 7,545,495	\$ 7,204,710
TOTAL OPERATING EXPENSES	\$ 6,972,058	\$ 6,687,670	\$ 8,425,885	\$ 8,045,495	\$ 8,806,573

STATE STREET BANK PARTNERSHIP ACCOUNT

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
PROFESSIONAL FEES AND SERVICES	\$ 2,745,000	\$ 2,629,063	\$ 2,536,525	\$ 2,536,525	\$ 2,407,000
OTHER OPERATING EXPENSES					
Rent, Building and Parking	40,000	27,755	40,000	40,000	42,000
Dues, Fees and Staff Development	99,732	94,571	123,475	62,799	70,000
Subscriptions and Reference Materials	1,412,851	1,412,627	631,900	672,740	1,185,507
Software Purchases and Maintenance					
Other Operating Expense					
Contracted Services	1,702,417	1,699,429	2,668,100	2,658,832	2,295,493
TOTAL OTHER OPERATING EXPENSES	\$ 3,255,000	\$ 3,234,382	\$ 3,463,475	\$ 3,434,371	\$ 3,593,000
TOTAL OPERATING EXPENSES	\$ 6,000,000	\$ 5,863,445	\$ 6,000,000	\$ 5,970,896	\$ 6,000,000

COMMISSION SHARING ARRANGEMENT

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
Subscriptions and Reference Materials	\$ 5,000,000	\$ 3,163,457	\$ 5,000,000	\$ 4,556,736	\$ 4,463,921
Investment Research Activities	15,000,000	12,265,430	15,000,000	13,200,000	13,815,000
TOTAL OPERATING EXPENSES	\$ 20,000,000	\$ 15,428,887	\$ 20,000,000	\$ 17,756,736	\$ 18,278,921

*As of 4/30/2013

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS-Care (Retired Plan) Administrative Operations
FY 2014 Budget – Key Points

The total operating budget for FY 2014 is approximately \$4.0 million compared to \$3.8 million for FY 2013, or an increase of 6.7%.

- **Salaries and Other Personnel Costs** reflect an increase of \$258,000, or 10.6%, over FY 2013 budget amount. This increase includes funding for 4 additional FTEs. Also included is a rate increase to 6.8% for employer retirement contributions.
- **Professional Fees and Services** are expected to slightly decrease \$9,000 or 0.9% below the current level. The decrease is attributable to the decreased administrative services provided by the pension fund.
- **Other Operating Expenses** are projected to remain relatively unchanged with only a minor increase for TEXANN services.

TRS-CARE

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 1,815,673	\$ 1,688,570	\$ 1,815,673	\$ 1,864,125	\$ 2,009,436
Longevity Pay	49,700	49,640	54,100	51,400	56,480
Employer Retirement Contributions	103,797	103,676	116,203	121,136	135,921
Employer FICA Contributions	127,435	127,394	138,899	140,107	152,912
Employer Health Insurance Contributions	199,771	199,551	233,442	237,363	262,409
Benefit Replacement Pay	12,377	12,375	12,377	11,022	12,563
Other Employee Benefits	3,458	-	14,150	10,000	14,000
Lump Sum Payments	50,000	2,172	50,000	8,100	50,000
TOTAL PERSONNEL COSTS	\$ 2,362,211	\$ 2,183,377	\$ 2,434,844	\$ 2,443,253	\$ 2,693,721
PROFESSIONAL FEES AND SERVICES	\$ 1,329,500	\$ 1,310,086	\$ 1,071,000	\$ 810,435	\$ 1,061,750
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 5,200	\$ 3,274	\$ 5,200	\$ 4,254	\$ 5,200
Utilities	2,031	1,618	5,531	5,145	5,200
Travel	10,355	6,022	11,955	11,685	11,955
Rentals	107,416	91,174	82,511	88,311	82,511
Dues, Fees and Staff Development	2,270	1,103	3,325	3,306	4,175
Subscriptions and Reference Information	570	-	570	570	570
Printing and Reproduction Services	50,000	49,574	15,000	10,481	14,500
Postage, Mailing and Delivery Services	104,677	49,808	135,277	113,556	135,800
Other Operating Expense	14,600	5,780	14,600	18,333	20,600
Furniture and Equipment - Expensed	6,482	2,110	6,500	4,000	5,000
Maintenance - Buildings and Equipment	2,018	2,018	2,000	-	2,000
TOTAL OTHER OPERATING EXPENSES	\$ 305,619	\$ 212,481	\$ 282,469	\$ 259,641	\$ 287,511
TOTAL OPERATING EXPENSES	\$ 3,997,330	\$ 3,705,944	\$ 3,788,313	\$ 3,513,329	\$ 4,042,982
FULL TIME EQUIVALENT POSITIONS					39.0

*As of 4/30/2013

TEACHER RETIREMENT SYSTEM OF TEXAS
TRS-ActiveCare (Active Plan) Administrative Operations
FY 2014 Budget – Key Points

The total operating budget for FY 2014 is approximately \$2.5 million compared to \$2.8 million for FY 2013, or a decrease of 11.3%. The FY 2014 budget by program is as follows:

- **TRS-ActiveCare Plan** – total operating budget of almost \$2.4 million, an decrease of 11.3% below the FY 2013 budget.
 - **Salaries and Other Personnel Costs** reflect a decrease of \$132,000, or 7.7%, under FY 2013 budget amount. The decrease is primarily due to realigning the FY 2014 budgeted salaries with FY 2013 projected levels. The decrease in salaries is netted against an increase to 6.8% for employer retirement contributions.
 - **Professional Fees and Services** are projected to decrease by approximately \$178,000 or 18.7% below the current level. The decrease is attributable to minimal audit services to be performed during FY 2014.
 - **Other Operating Expenses** are projected to remain relatively the same.
- **Long-Term Care Insurance** - total operating budget of \$82,000 reflects a decrease of 10.3% below the FY 2013 budget. The decrease is primarily attributable to a decrease in consulting services.

TRS-ACTIVECARE

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 1,295,835	\$ 1,192,535	\$ 1,295,835	\$ 1,133,414	\$ 1,156,446
Longevity Pay	32,040	29,660	32,040	26,340	31,300
Employer Retirement Contributions	76,856	72,094	82,933	76,245	82,133
Employer FICA Contributions	93,220	90,025	99,131	86,828	93,450
Employer Health Insurance Contributions	132,301	130,995	141,422	121,625	155,421
Benefit Replacement Pay	3,095	2,063	2,063	1,116	2,063
Other Employee Benefits	2,525	-	59,500	3,000	9,500
Lump Sum Payments	50,000	24,492		10,000	50,000
TOTAL PERSONNEL COSTS	\$ 1,685,872	\$ 1,541,864	\$ 1,712,924	\$ 1,458,568	\$ 1,580,313
PROFESSIONAL FEES AND SERVICES	\$ 726,500	\$ 408,341	\$ 950,750	\$ 875,843	\$ 773,000
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 3,000	\$ 970	\$ 3,000	\$ 1,587	\$ 3,000
Utilities	1,500	672	1,500	907	1,500
Travel	9,100	5,959	8,350	8,470	8,350
Rentals	62,840	61,204	62,245	56,444	62,245
Dues, Fees and Staff Development	8,700	5,424	8,700	8,984	9,000
Subscriptions and Reference Information	1,000	824	900	899	900
Printing and Reproduction Services	1,400	323	1,425	1,200	1,425
Postage, Mailing and Delivery Services	4,750	3,417	4,775	4,168	4,775
Other Operating Expense	5,318	3,723	5,300	2,160	5,300
Furniture and Equipment - Expensed	4,482	3,517	4,500	3,000	3,500
TOTAL OTHER OPERATING EXPENSES	\$ 102,090	\$ 86,033	\$ 100,695	\$ 87,819	\$ 99,995
TOTAL OPERATING EXPENSES	\$ 2,514,462	\$ 2,036,238	\$ 2,764,369	\$ 2,422,230	\$ 2,453,308
FULL TIME EQUIVALENT POSITIONS					19.0

*As of 4/30/2013

TEACHER RETIREMENT SYSTEM OF TEXAS
403(b) Program Administrative Operations
FY 2014 Budget – Key Points

The total operating budget for FY 2014 is \$66,748 compared to \$58,816 for FY 2013, or an increase of 13.5%. Both certification and registration renewals are on five-year cycles. Most of the certifications and renewals occurred in FY 2012; with the remaining in FY 2013. Most of the remaining certified companies are expected to renew as their certifications or registrations near expiration.

- **Salaries and Other Personnel Costs** for one half-time budgeted position is \$66,748. The increase is primarily attributable to the state retirement contribution rate increasing to 6.8%.

403 (b) CERTIFICATION PROGRAM

	Budgeted FY 2012	Actual FY 2012	Budgeted FY 2013	Projected* FY 2013	Requested FY 2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 45,386	\$ 45,156	\$ 45,386	\$ 53,740	\$ 49,316
Longevity Pay					
Employer Retirement Contributions	2,789	2,771	2,905	1,606	3,400
Employer FICA Contributions	3,574	3,533	3,472	1,931	4,500
Employer Health Insurance Contributions	4,671		5,021		7,500
Benefit Replacement Pay	1,032	1,031	1,032	516	1,032
Other Employee Benefits	1,000		1,000		1,000
TOTAL PERSONNEL COSTS	\$ 58,452	\$ 52,492	\$ 58,816	\$ 57,793	\$ 66,748
TOTAL OPERATING EXPENSES	\$ 58,452	\$ 52,492	\$ 58,816	\$ 57,793	\$ 66,748
FULL TIME EQUIVALENT POSITIONS					0.5

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

June 13, 2013

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 (the “TRS board” or “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 15, “Contingency for Senate Bill 1458,” of the TRS bill pattern in the State General Appropriations Act, 83rd Legislature, R.S., provides that, upon a finding of fact by the TRS board that additional resources are necessary to implement SB 1458, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2014 and authorized additional full-time equivalent employees (FTEs) to be added to the FTE cap for fiscal year 2014 for SB 1458 implementation now, therefore, be it

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in fiscal year 2014 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$105,686,702, as approved today in the Fiscal Year 2014 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 2014, 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 to implement Senate Bill 1458, contingent on its final passage, under this finding of fact by the board that additional resources are necessary for implementation; 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 2014, but not to exceed the amount of \$105,686,702, plus any additional amounts necessary to pay performance incentive compensation payable in fiscal year 2014 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.