

Teacher Retirement System of Texas



Budget Committee FY2015 Budget

June 2014



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

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

AGENDA

**June 5, 2014 – 11:00 a.m.
TRS East Building, 5th Floor, Boardroom**

1. Consider the approval of the June 14, 2013 committee meeting minutes – Nanette Sissney.
2. Discuss and consider recommending to the Board an increase in the current fiscal year budget to provide funding for professional services related to TRS-ActiveCare – Don Green.
3. Discuss a change in the current fiscal year source of funding for external legal fees related to investment deals – Carolina de Onís and Don Green.
4. Receive historical financial data for fiscal years 2010-2014 and receive overview of proposed administrative operations budgets and general provisions for fiscal year 2015 – Don Green.
5. Discuss development of TRS' Legislative Appropriations Request (LAR) for the 2016-2017 biennium – Don Green.

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on Friday, June 14, 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
Christopher Moss

Others present:

David Kelly, TRS Trustee
Eric McDonald, TRS Trustee
Anita Palmer, TRS Trustee
Brian Guthrie, TRS
Ken Welch, TRS
Don Green, TRS
Carolina de Onís, TRS
Marianne Woods Wiley, TRS
Dennis Gold, TRS
Betsey Jones, TRS
Amy Morgan, TRS
Sylvia Bell, TRS
Bob Jordan, TRS
Jamie Michels, TRS
Janie Duarte, TRS
Jim Pinkard, TRS
Roberto Ruiz, TRS

Ellen Small, TRS
Angela Volgeli, TRS
Bob Jordan, TRS
Rich Hall, TRS
Edward Esquivel, TRS
Clarke Howard, TRS
Dan Junell, TRS
Lynn Lau, TRS
Steve Huff, Reinhart Boerner Van Deuren s.c.
Jim Baker, UnitedHere
Claudio Rodriguez, Harrah's Casino and UnitedHere
Cindy Ferrara, Caesars Palace Hotel and UnitedHere
Ollie Stewart, Paris Las Vegas Hotel and Casino
Christina Kline, Culinary Workers Union Local 226
Elmer Portillo, Las Vegas Planet Hollywood Casino
Francisco Rufino, Paris Las Vegas Hotel and Casino

With a quorum of the committee present, the meeting convened at 10:16 a.m.

1. Consider the approval of the April 18, 2013 committee meeting minutes.

On a motion by Mr. Moss, seconded by Mr. Barth, the committee unanimously approved the minutes of the April 18, 2013 committee meeting.

2. Discuss and consider recommending to the Board adoption of:

- 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.**

Ms. Sissney highlighted the new format of the financial reports, which compare budget data by year and division. The new reports, she said, also compare actual expenses versus the budgeted

and projected amounts and their variance. She stated that the new format was intended to make the reporting more helpful to board members, and she welcomed their feedback on the new layout.

Mr. Green presented the proposed administrative operations budgets for fiscal year (FY) 2014. He highlighted an increase of 13% in the total administrative operations budget from FY 2013 and described the budget drivers attributed to the increase, including the 1% across-the-board pay raise, the 12% increase of the employer health insurance contributions and employer retirement contributions, and the cost to implement the pension and healthcare changes pursuant to SB 1458. He also noted the TEAM rider, which would exempt the number of full-time equivalents (FTEs) and contract workers assigned to TEAM from the calculation of FTEs for reporting purposes. Mr. Guthrie stated that the TEAM rider would allow TRS the flexibility to bring in additional employees for the TEAM project. He also noted that the agency FTE cap authorized by the legislature had increased from 475.3 to 503.3 in the FY 2014 budget. He noted a policy change that would allow all agencies with a governing body to exceed their FTE cap by up to 10% without requesting additional authority from the governor's office or legislative leadership. Ms. Sissney noted that the additional board authority of 10% was capped at 50 FTEs. Mr. Kelly commented that a fiduciary finding authorizing additional FTEs would still require TRS to ask for authority to fund the additional FTEs. Ms. Sissney concurred with Mr. Kelly's comment. Mr. Welch noted that TRS retained flexibility in shifting money in the budget from contractors to employees.

Presenting the general provisions for FY 2014, Mr. Green noted a change that would reflect the change from the conventional soft dollar arrangements to the commission recapture arrangements, which he said, had already been put into practice.

Mr. Green presented the proposed budgets by department and expenditure category as well as a detailed budget schedule for the TEAM program by project.

Mr. Green reviewed key points of the TEAM budget, soft dollar budget, TRS health benefit funds (retired and active plans), and the 403(b) plan for FY 2014. Mr. Green noted the additional FTEs for investment operations, which had converted 24 contracted positions to FTEs.

Upon a motion by Mr. Barth, seconded by Mr. Moss, the committee unanimously voted to recommend that the board approve the resolution presented by staff concerning the proposed FY 2014 administrative operations budgets, the proposed general provisions for the recommended FY 2014 administrative operations budgets, and authorizing transfer of pension trust funds to the TRS expense account.

The meeting adjourned at 11:02 a.m.

Request for Fiscal Year 2014 Budget Amendment for TRS-ActiveCare

Pursuant to Section 3.1.3. (b) of the Bylaws of the Board of Trustees of the Teacher Retirement System of Texas as Amended September 15, 2011, which states “The Board shall have a Budget Committee, which shall meet as necessary at the call of its chairman to recommend intra-budget transfer and budget amendments for approval by the Board”, TRS management requests a \$630,000 increase to the TRS-ActiveCare budget for Professional Services for FY 2014 due to the following unanticipated but mission-critical activities:

- The Request for Proposals (RFPs) for TRS-ActiveCare Health Plan Administrator and Pharmacy Benefit Manager were planned, however, due to changes to the health care marketplace, the evaluation processes were more complex, lengthy, and difficult. The contractor vendor engaged to assist in the RFPs, Gabriel, Roeder, Smith & Co. (GRS), was therefore required to perform more work than was initially expected at the time of Fiscal Year 2014 budget development.
- Compounded prescription drugs became a significant cost driver since late last fiscal year. This information came to the TRS Active Care Program’s attention in the first quarter of FY 2014. Since that time, the TRS Active Care Program has engaged GRS and its pharmacy consultants to do extensive analytical/investigative work to identify the issues and model possible solutions. The compounded prescription drug issue was initially identified with TRS-ActiveCare and but it impacts TRS-Care as well.
- It has been a number of years since TRS issued an RFP for TRS-ActiveCare Health Maintenance Organization (HMO) services and following the February 2014 TRS Board meeting, TRS issued a RFP for HMOs to provide services for the 2014-2015 TRS-ActiveCare plan year. This unplanned activity has required extensive professional services from GRS.
- While an update to the TRS-Care Sustainability Study for the Texas Legislature was planned, TRS management determined that a new, separate sustainability study for TRS-ActiveCare should be developed as well. This will entail a significant amount of GRS services in order to model the financial implications of each identified option.

It is respectfully requested that the Budget Committee of the Teacher Retirement System recommend to the Teacher Retirement System Board of Trustees and seek Board approval of an increase to the TRS-ActiveCare budget for Professional Services for FY 2014 by \$630,000 at the June 5-6, 2014 Board Meeting.

Board of Trustees of the Teacher Retirement System of Texas

RESOLUTION

**AMENDING THE FISCAL YEAR 2014 ADMINISTRATIVE OPERATIONS BUDGET FOR THE
TEXAS SCHOOL EMPLOYEES UNIFORM GROUP HEALTH COVERAGE PROGRAM
(TRS-ACTIVECARE)**

June 5-6, 2014

Whereas, Section 1579.303 of the Insurance Code authorizes the Teacher Retirement System of Texas TRS as trustee of the Texas School Employees Uniform Group Health Coverage Program (TRS-ActiveCare) to use amounts in the Texas school employees uniform group coverage trust fund (TRS-ActiveCare fund) to provide health benefits under Chapter 1579 of the Insurance Code and to pay the expenses of administering the program;

Whereas, On June 13, 2013, the TRS Board of Trustees (board) adopted the Fiscal Year (FY) 2014 Administrative Operations Budget and General Provisions for the TRS-ActiveCare program and provided that program operations be funded from the TRS-ActiveCare fund;

Whereas, the FY 2014 TRS-ActiveCare Administrative Operations Budget currently includes an amount budgeted for Professional Fees and Services;

Whereas, Unanticipated but mission-critical activities have resulted in additional operating expenses above those budgeted for Professional Fees and Services in FY 2014, including the performance of additional services for TRS-ActiveCare by TRS' health benefits consultant and actuary, Gabriel, Roeder, Smith & Co.; and

Whereas, TRS management and the Budget Committee of the board recommend that the TRS-ActiveCare Administrative Operations Budget for Professional Fees and Services for FY 2014 be increased by \$630,000; now, therefore, be it

Resolved, That the board hereby amends the FY 2014 TRS-ActiveCare Administrative Operations Budget to increase the amount budgeted for Professional Fees and Services by \$630,000.



External Legal Counsel Expenses for Investment Transactions

Don Green, Chief Financial Officer
Carolina de Onís, General Counsel
June 2014

Summary of Issue

Current Process

- ❖ All external counsel legal expenses are budgeted and paid in TRS Operating Budget.
 - Investment transaction legal expenses are driven by volume and complexity of transactions, market conditions, investment decisions, and changing regulatory environments.
 - Legal expenses have varied year-over-year while trending upward, but have been very difficult to predict in the biennial budgeting process.
 - Legal expenses are not matched to the investments that generate them or netted from performance, reducing transparency.

Proposed Process

- ❖ **Pay legal investment expenses from investment fund accounts the same as other transaction costs.**

Volatility of External Counsel Legal Expenses

Investment Transactions and Costs By Fiscal Year				
Fiscal Year	No. of Investment Transactions	Aggregate Sums Funded & Committed (in billions)	External Counsel Legal Expenses	Budget (post adjustments)
FY 2009	98	\$45.5	\$3,685,699	\$3,442,968
FY 2010	151	12.6	3,217,619	2,393,618
FY 2011	85	10.0	1,941,109	4,316, 013
FY 2012	92	18.5	4,308,092	4,316,014
FY 2013	53	8.6	4,489,212	4,316,014
YTD FY 2014	85	10.9	2,910,550 ¹	3,416,014

¹ Through April 30. At \$363,813 monthly average expenditures to date for remainder of FY14, total FY14 legal expenditure would exceed budgeted amount by \$949,736.

Sources: TRS Legal Services Logs and General Accounting; YTD FY14 legal expenses are approximate, unaudited, and include invoices received but not yet approved.

Challenges in Forecasting External Counsel Legal Expenses

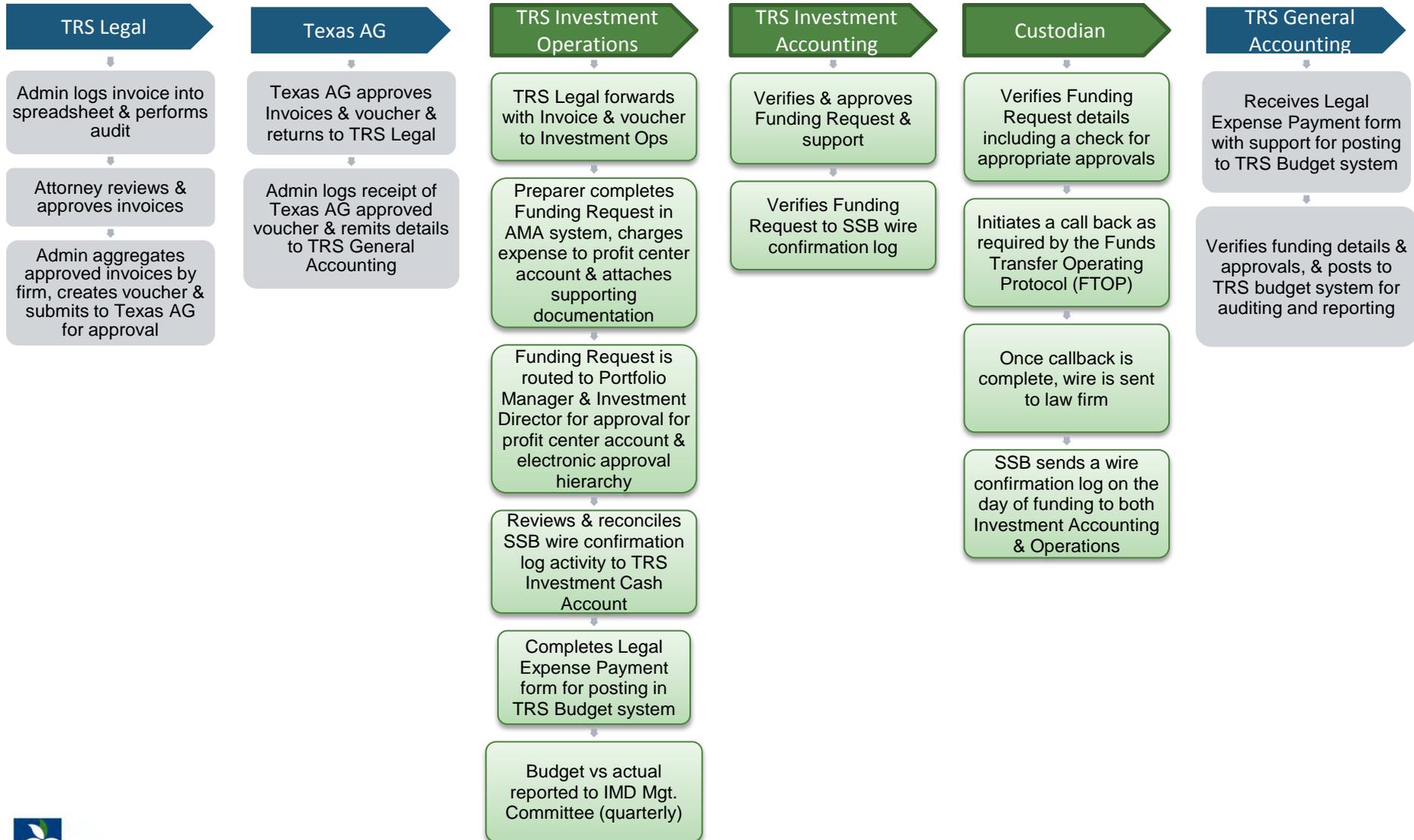
Legal Spending on Strategic Partnerships and Principal Investments			
Investment Transaction	Year	Commitment Amount	External Counsel Legal Expenses (as of April 30, 2014)
SPN Private Markets	FY 2012 – 2013	\$6 billion	\$1,277,827 ¹
Project Fast	FY 2013 – 2014	\$200 million	128,900
Project Champ	FY 2013 – 2014	\$110 million	895,900 [†]
Project Jewel	FY 2014	\$150 million	176,904 [†]
Project Line	FY 2014	\$250 million	106,100 [†]
		Total	\$2,507,804

¹ Comprises \$864,204 for two SPN master funds and \$313,623 for nine underlying investment funds in the SPNs (Apollo & KKR).

[†] Additional expenses pending.

Proposed Legal Expense Payment Process

New process enhances tracking and accountability

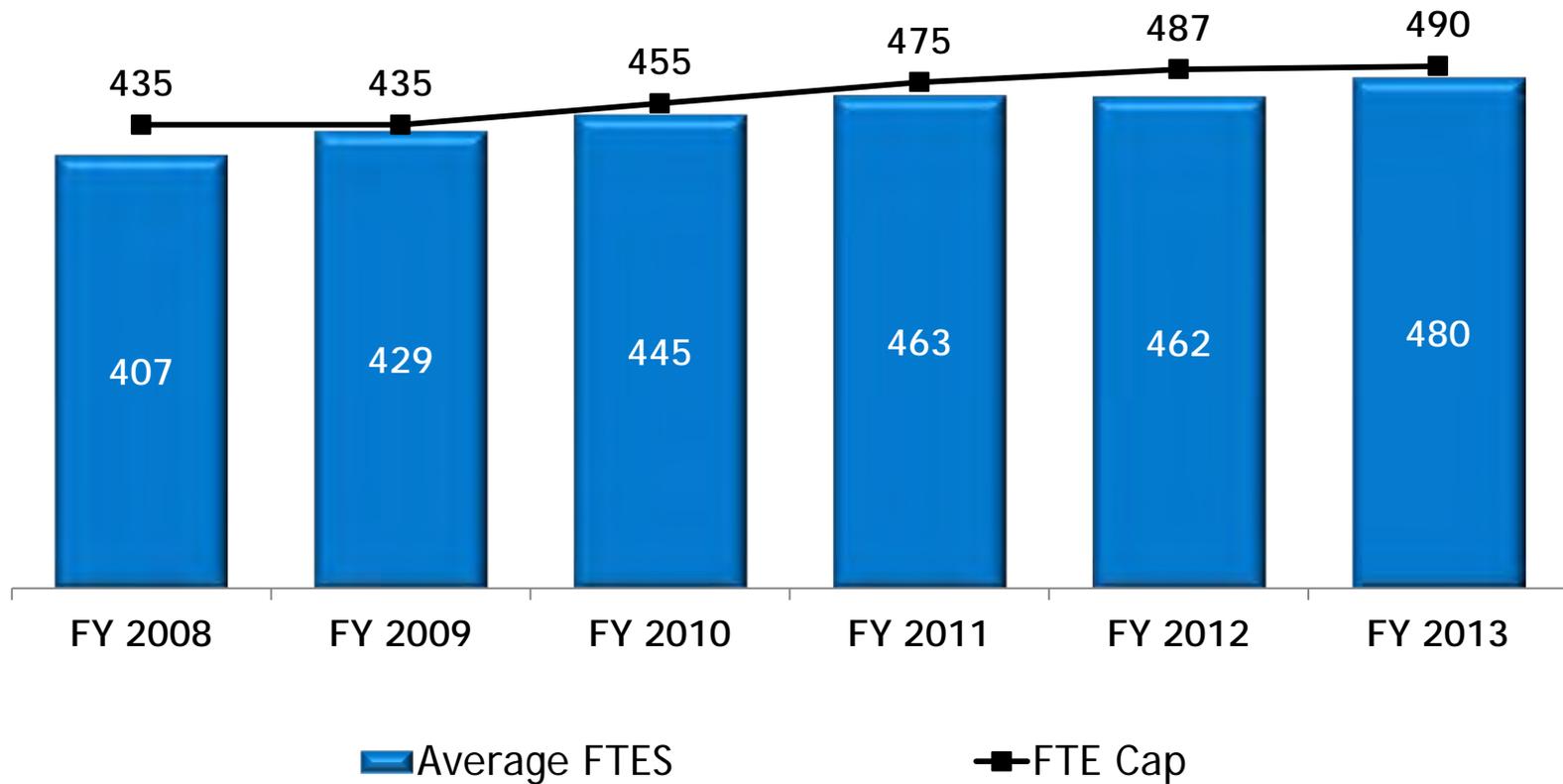


Benefits Of Charging Legal Expenses to Investment Trust Accounts

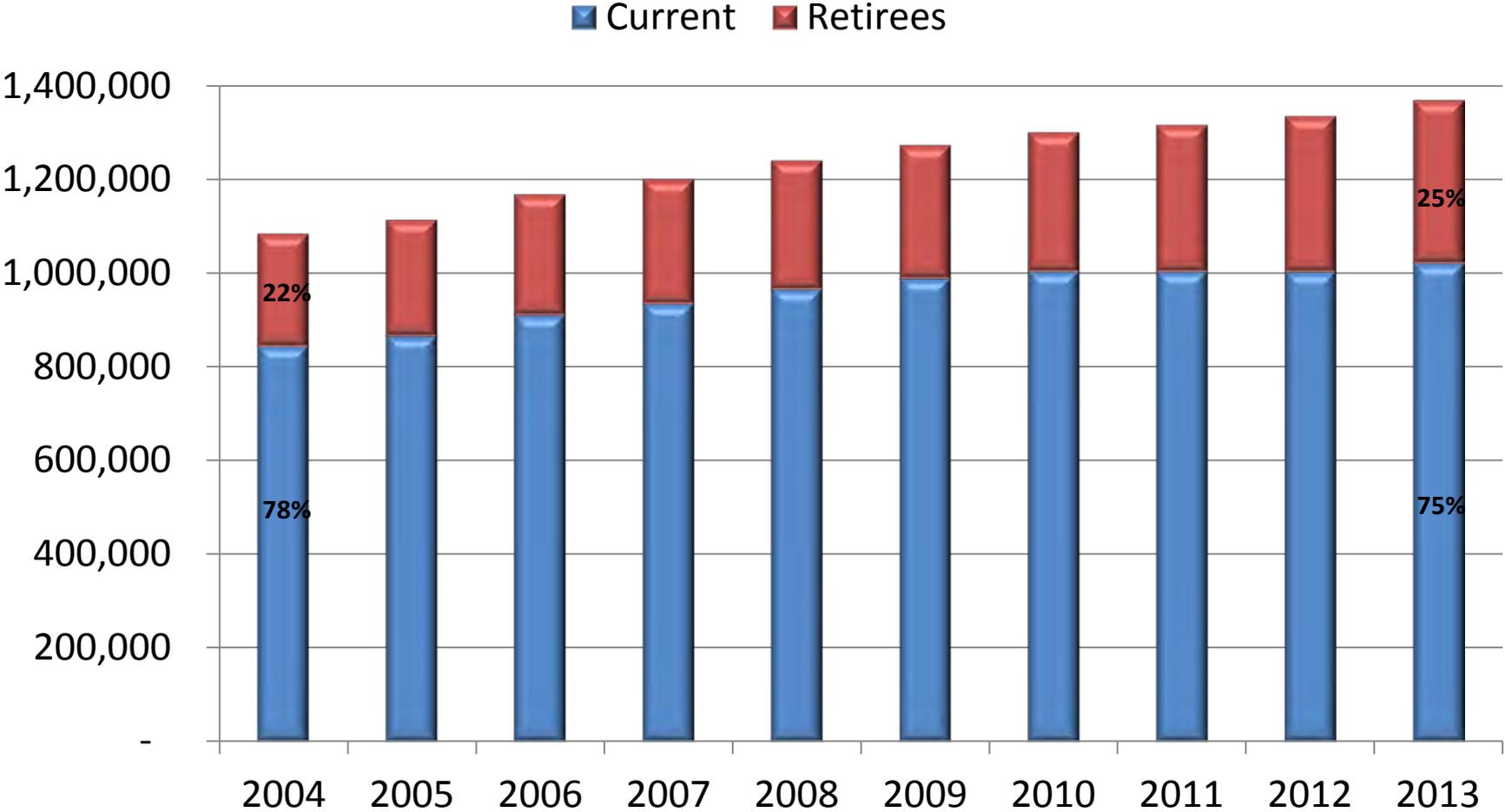
- Results in more accurate portfolio return and incentive compensation results.
- Creates incentives for portfolio managers to optimize legal spending.
- Eliminates artificial constraints that could interfere with the exercise of fiduciary discretion in making investment decisions.
- Increases flexibility to allocate legal budget dollars where and when needed.
- Increases transparency of legal expenditures.
- Creates clearer tracking and oversight of legal expenditures.

Budget History Document Fiscal Years 2008 – 2014

Full-Time Equivalent (FTE) Employees



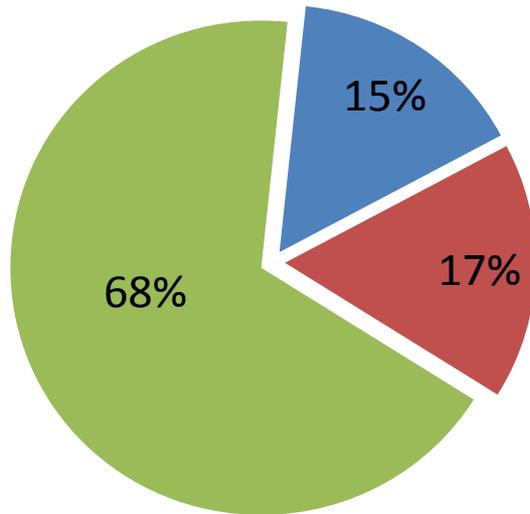
Membership Growth, 10 Year Trend



Active members – 21% growth
Retired members – 45% growth

Trust Fund, FY2013

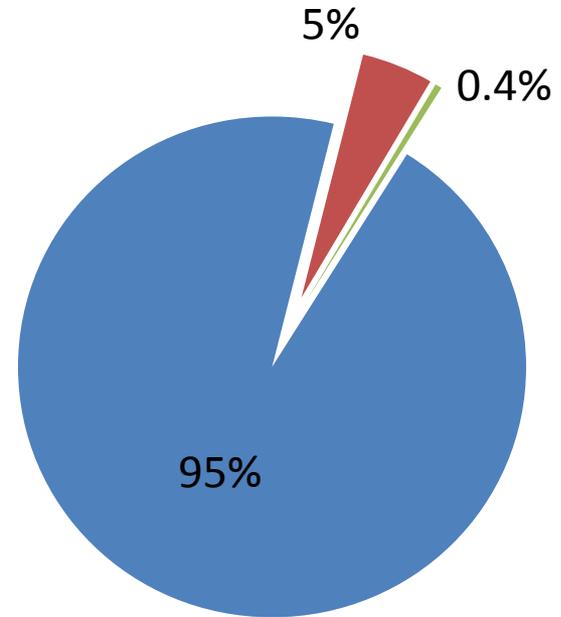
Additions



- Member
- Employer & State Match
- Investment

\$14.5 billion

Deductions



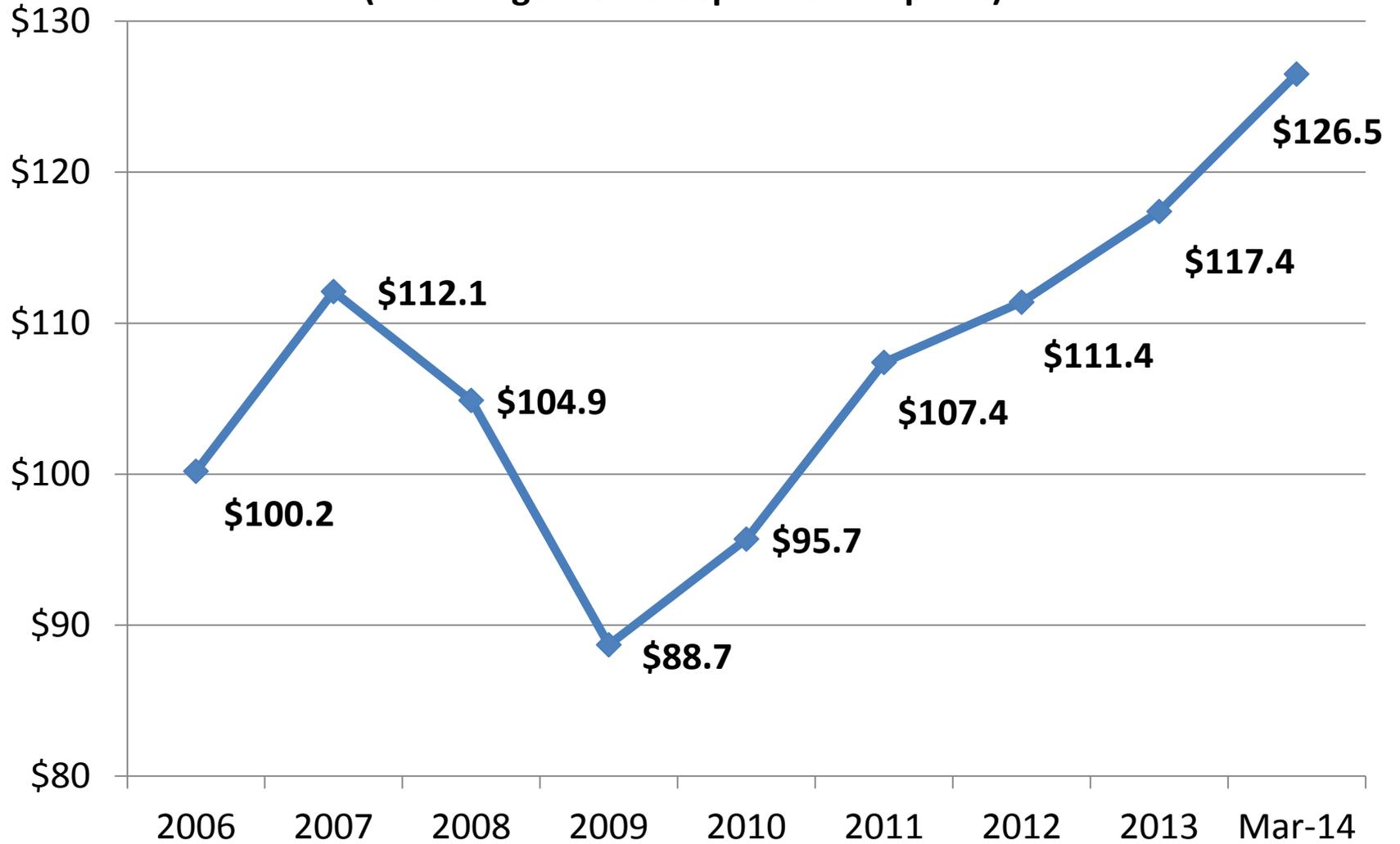
- Benefits
- Refunds
- Admin

\$8.6 billion

\$5.9 billion addition to net assets

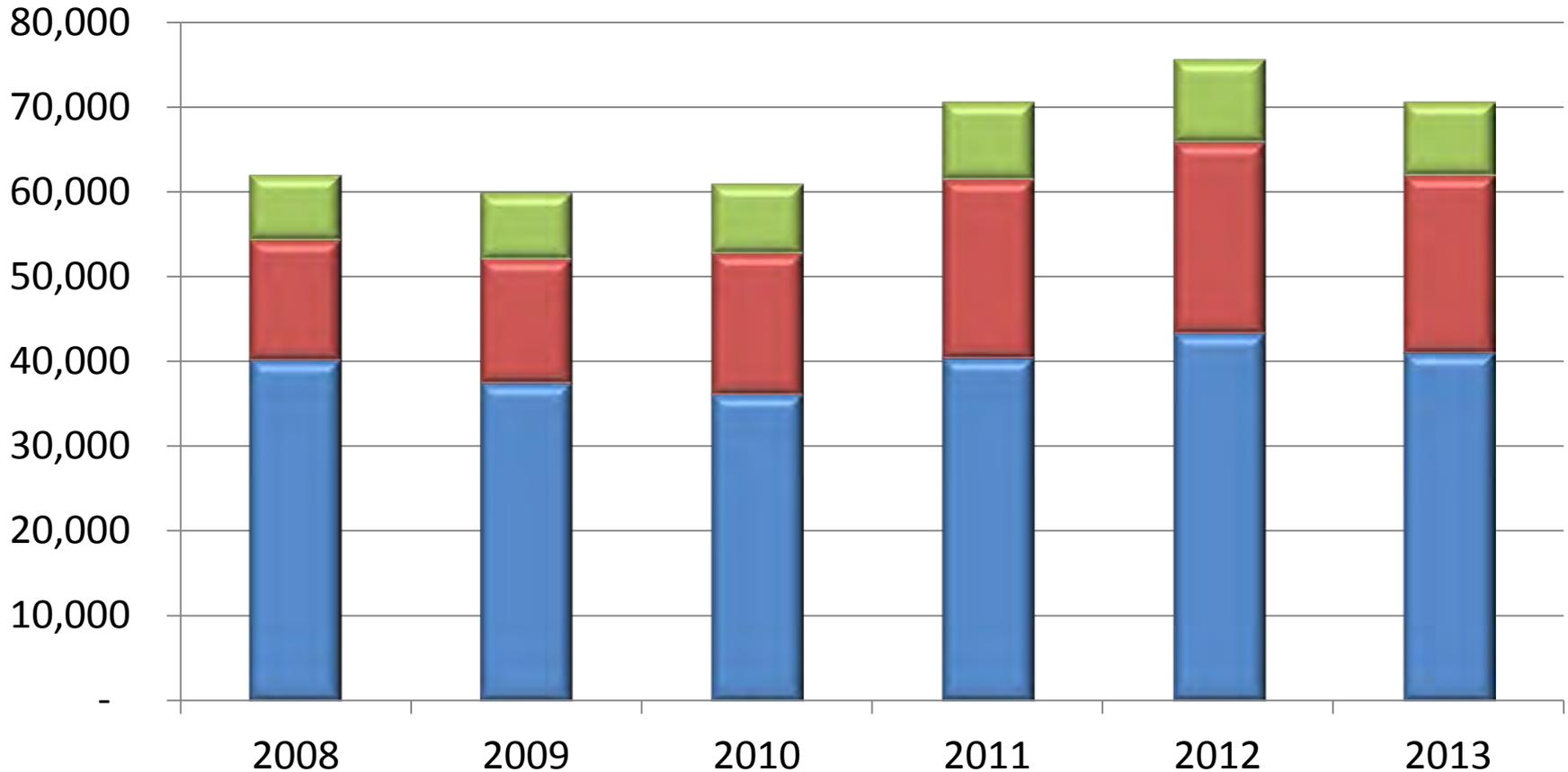
Pension Fund Balance

From 2006 – 2014 in Billions \$
(As of August 31 except last data point)



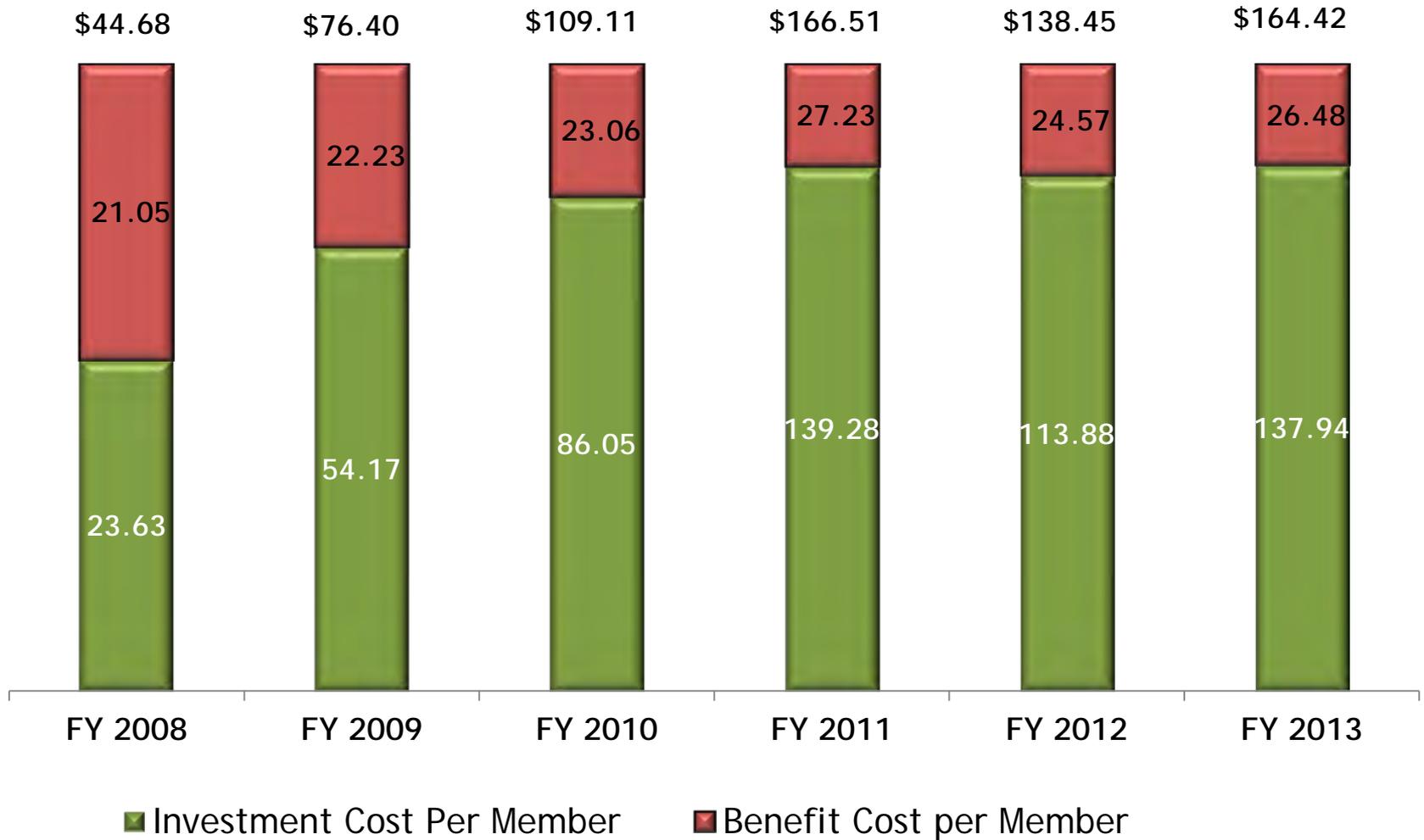
Benefits Processing, FY2008-13

Refunds Retirements Beneficiary Claims



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

Cost Per Member

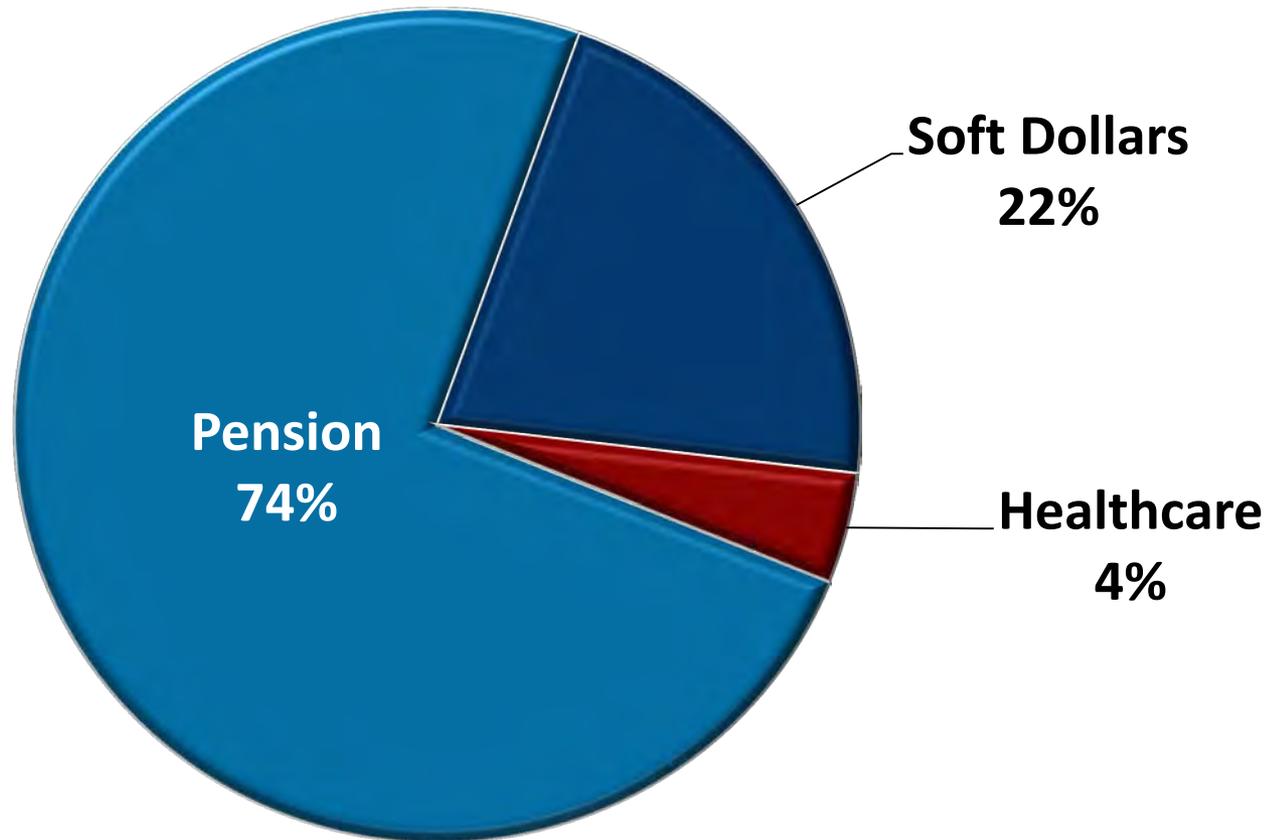


FY 2011 included one time cost of expensed technology project.



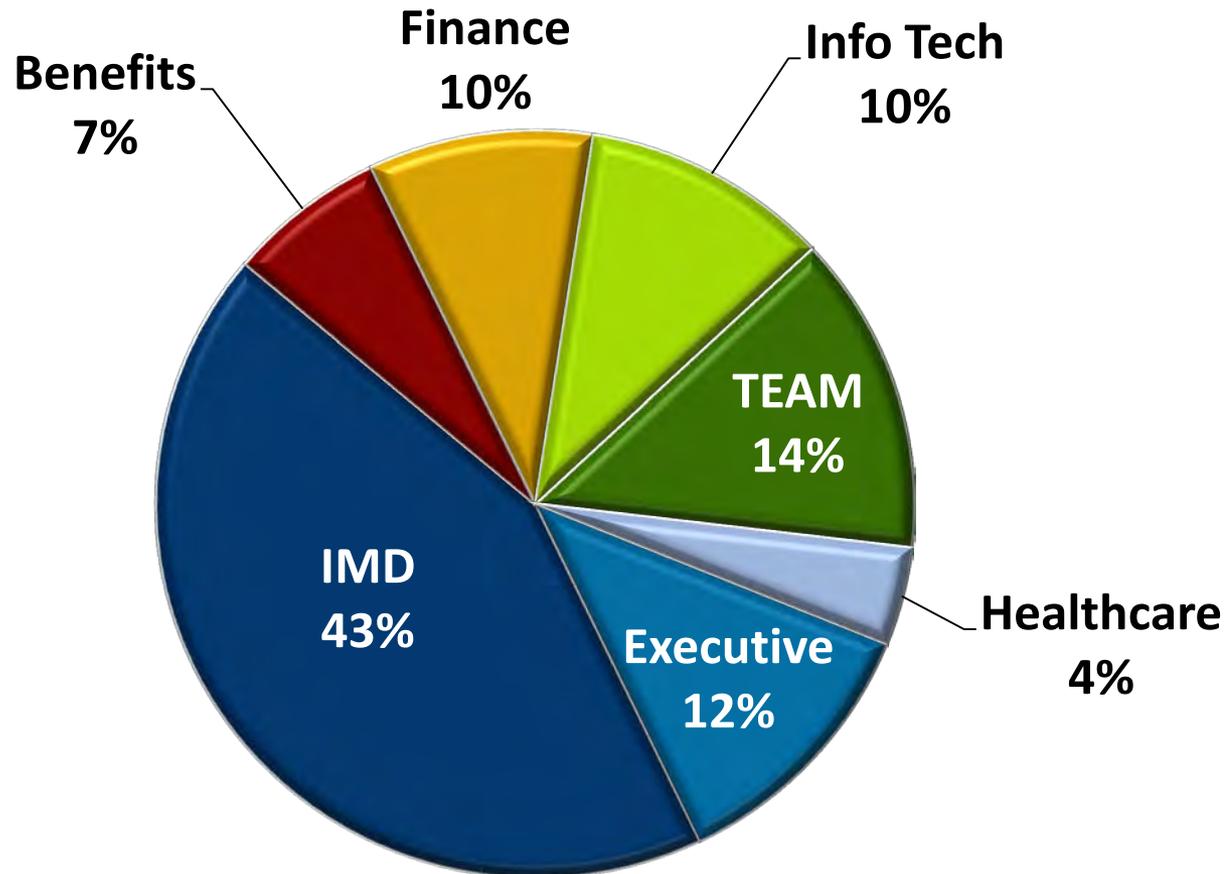
Recap of FY2014 Budget by Fund

The total operating budget is \$154,685,234 across all funds.

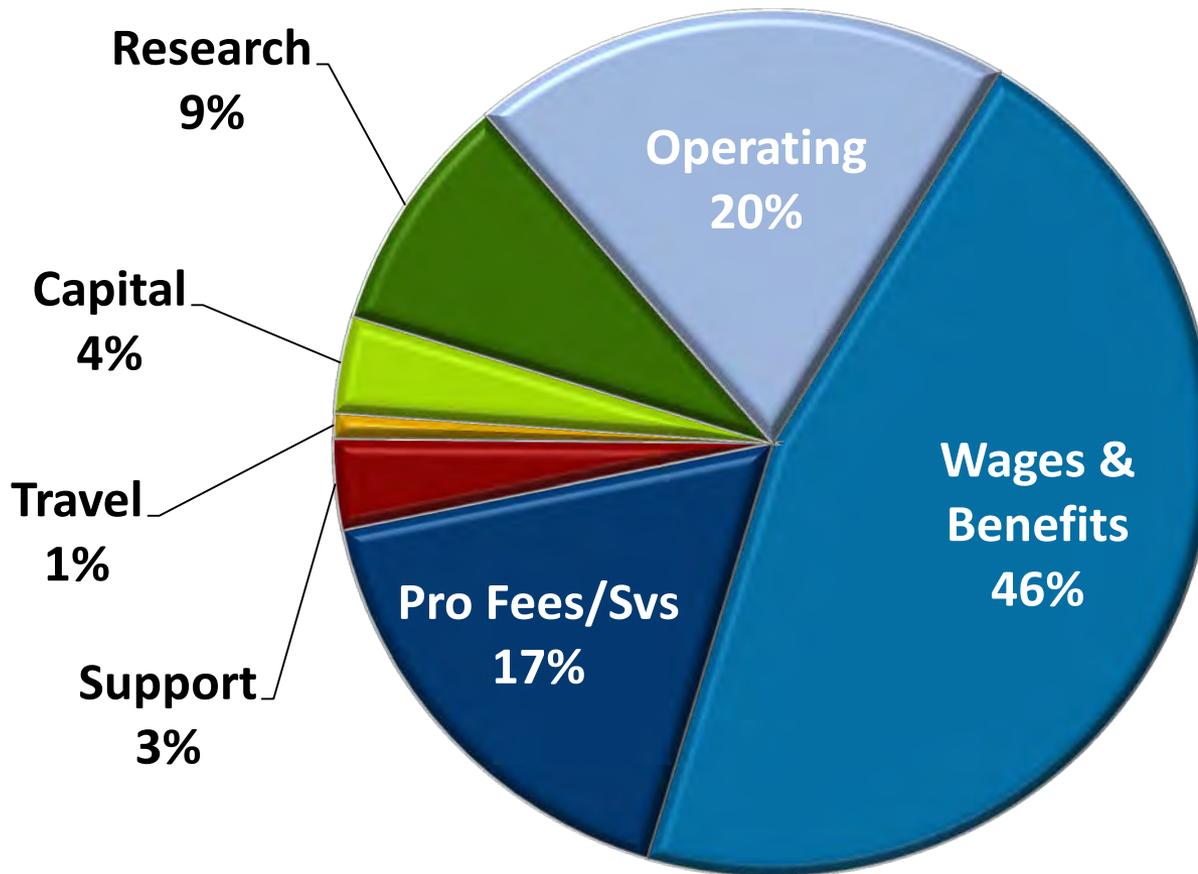


Recap of FY2014 Budget by Division

The Executive Division includes executive, human resources, communications, internal audit, strategic initiatives, risk management and legal.



Recap of FY2014 Budget by Expense



Operating costs:

- Software
- Hardware
- Postage
- Printing
- Equipment
- Reference materials

Professional fees and services:

- Contractors
- Consultants
- Contractual services

Support:

- Rent
- Utilities
- Supplies

Administrative Operations Budget Fiscal Year 2015

	FY 2014 Budget	FY 2015 Preliminary	Inc/(Dec)
Salaries and Other Personnel Costs	\$ 58,934,380	\$ 62,075,294	\$ 3,140,914 *
Professional Fees and Services	13,594,327	10,454,550	(3,139,777)
Other Operating Expenses	45,739,751	46,876,093	1,136,342
Capital Budget	5,652,990	5,405,291	(247,699)
Subtotal Excluding TEAM	\$ 123,921,448	\$ 124,811,228	\$ 889,780
Capital Budget - TEAM	21,413,786	19,180,175	(2,233,611)
Performance Incentive Compensation	9,350,000	9,350,000	-
Total	\$ 154,685,234	\$ 153,341,403	\$ (1,343,831)

Administrative Operations	\$ 93,622,916	\$ 93,253,169	\$ (369,747)
TEAM	21,413,786	19,180,175	(2,233,611)
Investment Soft Dollar	33,085,494	32,902,256	(183,238)
TRS-Care	4,042,982	4,466,338	423,356
TRS-ActiveCare	2,453,308	3,331,937	878,629
403(b) Certification Program	66,748	207,528	140,780
Total	\$ 154,685,234	\$ 153,341,403	\$ (1,343,831)

FTEs - Pension Trust Fund/Health/403(b)	567.0	570.0	3.0
FTEs - TEAM	53.0	53.0	-
Total FTEs	620.0	623.0	3.0

* Regarding Salaries and Other Personnel Costs, the increase over Fiscal Year 2014 includes:

\$1.07M for legislatively mandated across the board salary increase and 3 additional FTES

\$2.07M for merits and career ladder promotions, as well as benefit increases for an estimated 10% increase in health care costs and a 6.8% employer contribution retirement rate.

Numbers (and FTE count) as presented do not include issues discussed during the compensation committee meeting which could amount to approximately \$2.8 million.

Administrative Operations Budget Fiscal Year 2015

Pension Trust Fund:

- The Fiscal Year 2015 requested budget is substantially the same as the Fiscal Year 2014 budget. Some expenditure categories have been reprioritized to stay within budget authority.
- Funding will be 100% from Pension Trust Fund – no General Revenue.
- Regarding Salaries and Other Personnel Costs, the increase over Fiscal Year 2014 includes:
 - \$830,000 for legislatively mandated across the board salary increase.
 - \$640,000 for a 1.5% merit pool.
 - \$1.4 million for career ladder promotions.
 - \$165,000 for benefit net increases primarily related to increases in health care costs and a 6.8% employer contribution retirement rate.
- Incentive compensation is estimated at the actual plan year 2013 remaining balance (\$2.7 million) plus maximum allowable for the first half of the plan year 2014 under current provisions (\$6.6 million).

Administrative Operations Budget Fiscal Year 2015

IMD Compensation:

- Approximately \$2.8 million requested for equity adjustments and an additional seven FTEs. The amounts to be authorized will be added to the IMD hard dollar operating budget.
- Options to fund include:
 - Reprioritize soft dollar budget – would require shifting contractor related expenses to commission sharing arrangements with an offsetting reduction in research. The Board would approve this action in the normal course of approving the FY2015 operating budget.
 - Utilize agency wide lapsed salary and operating budget dollars in addition to reprioritizing soft dollars – additional board action would be needed to adopt a lapse utilization plan.
 - Fiduciary finding – board action required.

Administrative Operations Budget Fiscal Year 2015

TEAM:

- Funding for 53 TEAM positions.
- The TEAM capital project totals \$34.6 million in the FY 2014-15 biennium. The requested amount represents the current estimated remaining appropriation authority. Unexpended Fiscal Year 2014 capital balance of \$18 million will be carried forward to FY 2015. In addition, any estimated FY 2014 operating lapses will be transferred to the TEAM capital project and carried forward to FY 2015.

Soft Dollar Program and State Street Allowance Account:

- Commission sharing FY 2015 earnings and expenditures are estimated to be \$27 million.
- SSB/TRS Partnership Account to remain at the Fiscal Year 2014 level of \$6 million with expenses mostly for contracted services.

Administrative Operations Budget

Fiscal Year 2015

TRS-Care and TRS-ActiveCare:

- Increase of approximately \$265K for budgeted salaries as compared to Fiscal Year 2014 primarily due to two additional Benefits Specialists FTEs and the mandated legislative salary increase.
- Increase of approximately \$900K for budgeted Professional Fees and Services as compared to Fiscal Year 2014, primarily for several health care planning and operational items including Health Plan Administrator and Pharmacy Benefit Manager management; an investigation and cost containment of compound drugs; and additional professional services assistance on healthcare issues during the upcoming legislative session.

403 (b) Certification Program:

- Both certification and registration renewals are on five-year cycles. Two-thirds of the certifications and renewals occurred in Fiscal Years 2012 and 2013.
- Most of the remaining certified companies are expected to renew as their certifications or registrations near expiration.
- Fiscal Year 2015 requested budget includes an increase for salaries and benefits, as compared to Fiscal Year 2014, primarily due to the addition of one FTE to cross train and eventually replace a retiring half-time FTE; as well as the mandated legislative salary increase.

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 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.

TEACHER RETIREMENT SYSTEM OF TEXAS
Administrative Operations Budget and Legislative Appropriations Request (LAR) Preparation

MONTH	DATE	DAY	TASK
March	3	Monday	Administrative Operations Budget instructions for FY 2015-17 distributed to agency management
	17	Monday	2nd Quarter FY 14 Budget Meetings and FY 15-17 Budget Preparation Discussions with agency management
	24	Monday	Agency management submits administrative operations budget requests for FY 2015-17 to Budgeting
	28	Friday	FY 14 Mid-Year Board of Trustees Review
	28	Wednesday	Budgeting distributes first draft of FY 2013-15 administrative operations budget requests to Chief Financial Officer
	29	Thursday	Working sessions conducted with agency management (thru Friday, April 13)
April	17	Friday	Meet with Executive to Prioritize Requests and Determine Funding Sources
	21	Monday	Submit Budget Structure Changes to Legislative Budget Board and Governor's Office of Budget, Planning and Policy
	22	Tuesday	Begin Base Reconciliation preparation
May	9	Friday	Draft FY 2015-17 budget summaries presented to Executive Director, Deputy Director, and Chief Financial Officer for review and approval
	15	Thursday	Proposed FY 2015 Operations Budget and FY 2016-17 LAR submission presented to Executive Director, Deputy Director, and Chief Financial Officer for review and approval
June	5	Thursday	Budget Committee meets to review proposed FY 2015 Administrative Operations Budget and 2016-17 LAR
	6	Friday	Board of Trustees reviews FY 2015 budget and 2015-17 LAR submission Board of Trustees reviews certification of state contributions for Pension Trust Fund and TRS-Care
	12	Thursday	3rd Quarter FY 14 Budget Meetings and FY 15-17 Budget Discussions with agency management
	16	Monday	Submit Base Reconciliation to Legislative Budget Board
July	11	Friday	Board of Trustees approves FY 2015 budget and 2016-17 LAR submission Board of Trustees approves certification of state contributions for Pension Trust Fund and TRS-Care Finalize LAR submission
	11	Monday	Submit FY 2016-17 LAR to LBB and GOBPP

Note: Dates are approximated and will be revised as necessary. This schedule assumes the Board will approve the FY 2015 budget at the July 2014 meeting.

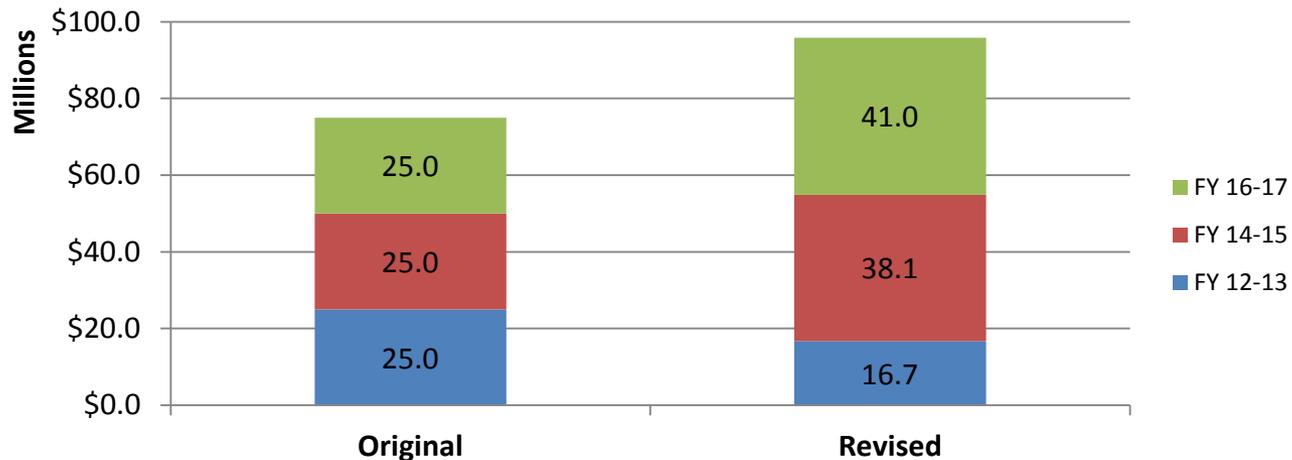
Legislative Appropriations Request 2016-2017 Biennium

- Request for Pension Fund State Contribution
 - 2% salary growth for Public Education
 - 4% salary growth for Higher Education
 - Continue 6.8% statutory state matching contribution rate
- Request for TRS-Care State Contribution
 - Continue 1% statutory state matching contribution rate.
 - Seek funding to sustain program to the end of biennium.
- Request for Administrative Operations
 - Request additional staff for both IMD and TEAM to bolster ability to meet long term investing goals and provide necessary resources to effectively accomplish TEAM program objectives.
 - TRS staff compensation including a hard dollar request for IMD equity adjustments.

Legislative Appropriations Request 2016-2017 Biennium (continued)

- TRS Building
 - Request a new rider allowing for the sale of land and building and the purchase/lease/construction of a new facility.
- Request for TEAM
 - Sustain program funding and FTEs as set forth in the project management plan.

Original vs Revised Authority Amounts by Session



Appendix

Fiscal Years 2010 – 2014

Expenses by Department and Division

	Expended FY 2010	Expended FY 2011	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
Board	43,419	48,178	70,718	70,756	165,000
Executive	469,344	1,082,472	1,089,533	1,020,901	720,921
Internal Audit	1,654,949	1,898,187	1,526,670	1,750,161	1,563,386
Legal	5,956,009	4,793,725	7,392,810	7,601,656	7,157,346
Govt Relations	239,631	208,431	173,713	271,390	305,734
Communications	1,114,046	1,112,356	1,413,651	1,104,696	1,300,599
Human Resources	1,069,539	1,077,802	1,024,939	1,095,390	1,221,760
Program Mgt Office	-	-	-	-	30,000
Strategic Initiatives	-	75,714	-	-	695,720
Risk Management	-	957,414	966,443	986,372	1,142,973
Administrative Costs*	-	-	316,174	365,506	3,860,015
Agency Support	\$ 10,546,936	\$ 11,254,279	\$ 13,974,651	\$ 14,266,829	\$ 18,163,454
Investment Mgt Div	\$ 20,633,267	\$ 31,019,218	\$ 26,621,522	\$ 27,998,647	\$ 33,648,281
Soft Dollars	\$ 29,472,458	\$ 27,692,707	\$ 27,155,777	\$ 27,394,819	\$ 33,085,494
Benefit Services	112,708	270,941	380,366	293,367	500,235
Benefit Processing	3,996,987	4,156,151	4,158,899	4,424,487	4,775,526
Benefit Counseling	3,137,251	3,283,602	3,348,089	3,481,195	3,797,340
Member Data Services	1,181,374	1,235,051	1,248,880	1,326,703	1,350,525
Benefit Services	\$ 8,428,320	\$ 8,945,746	\$ 9,136,234	\$ 9,525,752	\$ 10,423,626
Financial	478,377	472,559	421,810	501,793	228,812
General Accounting	2,826,674	2,949,049	3,122,019	3,587,669	2,138,856
Benefit Accounting	1,390,201	1,447,058	1,445,744	1,379,417	1,511,904
Investment Accounting	178,066	514,637	500,945	521,928	584,601
Staff Services	2,780,118	1,774,800	1,765,052	1,793,568	1,973,854
Facilities Services	2,499,816	4,732,672	916,884	1,350,787	5,133,643
Printing, Mail & Supply	2,710,367	2,493,200	3,079,805	2,591,293	3,190,940
Financial	\$ 12,863,619	\$ 14,383,976	\$ 11,252,259	\$ 11,726,455	\$ 14,762,610

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

Expenses by Department and Division

	Expended FY 2010	Expended FY 2011	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
Information Tech	1,239,904	2,144,983	1,175,561	1,228,190	1,734,603
Network Support	4,905,250	5,922,685	4,599,686	4,793,514	6,358,733
Systems - Green Team	2,200,717	2,320,467	1,312,232	1,513,780	1,574,236
Technical Support	3,849,692	4,213,460	3,410,670	3,642,796	4,929,830
Systems - Gold Team	-	-	1,258,126	1,180,785	1,276,494
System Architecture	345,385	644,272	752,597	463,335	534,049
Information Tech	\$ 12,540,947	\$ 15,245,867	\$ 12,508,872	\$ 12,822,400	\$ 16,407,945
TEAM Program	\$ -	\$ -	\$ 2,091,179	\$ 14,625,644	\$ 21,413,786
Interns	80,611	124,941	167,821	165,978	217,000
TRS Care	1,934,861	1,949,092	2,340,212	2,030,585	2,554,746
TRS ActiveCare	1,255,477	1,588,015	1,205,912	1,596,155	1,585,346
TRS Care, Agency	1,086,014	1,190,777	1,366,342	1,444,352	1,488,236
Optional Insurance	56,347	56,680	54,166	53,981	81,858
403(b) Certification	155,610	152,480	52,492	52,094	66,748
TRS ActiveCare, Agency	624,356	692,589	780,954	749,657	786,104
Totals	\$ 99,678,822	\$ 114,296,366	\$ 108,708,392	\$ 124,453,348	\$ 154,685,234

**PENSION TRUST FUND
ADMINISTRATIVE EXPENSES**

	Expended FY 2010	Expended FY 2011	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 33,466,609	\$ 36,014,519	\$ 36,234,811	\$ 36,697,591	\$ 41,005,133
Longevity Pay	567,000	590,580	588,480	604,980	660,240
Employer Retirement Contributions	2,174,417	2,354,167	2,157,895	2,320,575	2,732,644
Employer FICA Contributions	2,280,418	2,683,568	2,630,811	2,705,183	3,471,120
Employer Health Insurance Contributions	3,566,817	3,959,468	4,295,064	4,686,574	6,133,308
Benefit Replacement Pay	144,534	138,039	124,960	113,349	120,653
Other Employee Benefits	27,799	33,609	318,666	375,412	470,500
Performance Incentive Compensation	-	10,183,285	6,080,798	6,899,843	9,350,000
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 42,227,594	\$ 55,957,235	\$ 52,431,485	\$ 54,403,506	\$ 63,943,598
PROFESSIONAL FEES AND SERVICES	\$ 7,243,760	\$ 4,777,632	\$ 4,812,861	\$ 7,765,423	\$ 6,967,914
OTHER OPERATING EXPENSES					
Consumable Supplies and Fuels	\$ 418,784	\$ 385,329	\$ 342,419	\$ 387,664	\$ 521,210
Utilities	958,511	783,043	730,476	885,643	1,074,955
Travel	700,436	715,481	804,691	841,022	1,430,628
Rentals	2,046,237	2,066,383	2,033,695	2,127,921	2,203,531
Dues, Fees and Staff Development	286,488	290,099	265,403	284,314	459,101
Subscriptions and Reference Information	208,648	198,030	230,649	198,568	318,015
Printing and Reproduction Services	548,187	335,663	592,157	322,342	454,450
Postage, Mailing and Delivery Services	2,307,842	2,065,564	2,525,638	2,171,123	2,621,300
Software Purchases and Maintenance	2,185,595	2,604,797	2,500,680	2,438,856	3,299,930
Computer Hardware Maintenance	349,866	347,454	382,636	462,074	487,102
Miscellaneous Expenses	664,139	812,077	652,058	735,702	1,395,500
Insurance Premiums	727,826	668,723	660,872	660,685	727,555
Furniture and Equipment - Expensed	320,043	366,014	218,318	409,140	952,200
Maintenance - Buildings and Equipment	807,745	817,646	582,005	901,566	986,433
TOTAL OTHER OPERATING EXPENSES	\$ 12,530,347	\$ 12,456,303	\$ 12,521,697	\$ 12,826,619	\$ 16,931,910
CAPITAL EXPENSES					
Furniture and Equipment	\$ 59,041	\$ 844,327	\$ 54,784	\$ 210,662	\$ 126,504
Capital Budget Items	3,115,188	5,636,896	242,360	860,410	5,652,990
TOTAL CAPITAL EXPENSES	\$ 3,174,229	\$ 6,481,223	\$ 297,144	\$ 1,071,072	\$ 5,779,494
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 65,175,930	\$ 79,672,393	\$ 70,063,187	\$ 76,066,619	\$ 93,622,916

**TEAM PROGRAM
ADMINISTRATIVE EXPENSES**

	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
SALARIES AND OTHER PERSONNEL COSTS			
Salaries and Wages	\$ 190,069	\$ 1,246,347	\$ 2,449,141
Longevity Pay	2,480	19,220	25,920
Employer Retirement Contributions	11,448	80,627	162,413
Employer FICA Contributions	14,561	96,235	181,801
Employer Health Insurance Contributions	14,601	104,473	149,791
Benefit Replacement Pay	-	2,234	4,125
Other Employee Benefits	-	-	15,095
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 233,159	\$ 1,549,137	\$ 2,988,286
PROFESSIONAL FEES AND SERVICES	\$ 1,046,592	\$ 9,734,745	\$ 12,842,500
OTHER OPERATING EXPENSES			
Consumable Supplies and Fuels		\$ -	\$ 3,000
Utilities		-	-
Travel	1,116	3,928	25,000
Rentals		-	-
Dues, Fees and Staff Development	1,945	21,642	150,000
Subscriptions and Reference Information		-	-
Printing and Reproduction Services		-	-
Postage, Mailing and Delivery Services		-	-
Software Purchases and Maintenance	416,430	934,535	4,210,000
Computer Hardware Maintenance		-	-
Miscellaneous Expenses		-	-
Insurance Premiums		-	-
Furniture and Equipment - Expensed	9,865	37,985	300,000
Maintenance - Buildings and Equipment		75,965	20,000
TOTAL OTHER OPERATING EXPENSES	\$ 429,355	\$ 1,074,056	\$ 4,708,000
CAPITAL EXPENSES			
Furniture and Equipment	\$ 382,072	\$ 2,267,707	\$ 875,000
Capital Budget Items		-	-
TOTAL CAPITAL EXPENSES	\$ 382,072	\$ 2,267,707	\$ 875,000
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 2,091,179	\$ 14,625,644	\$ 21,413,786

INVESTMENT SOFT DOLLARS

	Expended FY 2010	Expended FY 2011	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
PROFESSIONAL FEES AND SERVICES	\$ 1,656,248	\$ -	\$ 2,629,063	\$ 375,000	\$ 1,601,863
OTHER OPERATING EXPENSES					
Dues, Fees and Staff Development	143,071	105,699	94,571	46,573	416,750
Subscriptions and Reference Materials	4,722,264	5,919,614	1,412,627	3,217,287	6,473,860
Software Purchases and Maintenance	-	-	-	182,813	253,500
Miscellaneous Expenses	130,500	130,500	27,755	32,860	60,600
Contracted Services	-	-	1,699,429	-	-
TOTAL OTHER OPERATING EXPENSES	\$ 4,995,835	\$ 6,155,813	\$ 3,234,382	\$ 3,479,533	\$ 7,204,710
TOTAL OPERATING EXPENSES	\$ 6,652,083	\$ 6,155,813	\$ 5,863,445	\$ 3,854,533	\$ 8,806,573

STATE STREET BANK PARTNERSHIP ACCOUNT

PROFESSIONAL FEES AND SERVICES	\$ 1,205,335	\$ 2,959,725	\$ 2,629,063	\$ 2,182,921	\$ 3,077,000
OTHER OPERATING EXPENSES					
Rent, Building and Parking	45,157	33,055	27,755	40,650	224,000
Dues, Fees and Staff Development	73,732	175,778	94,571	66,113	70,000
Subscriptions and Reference Materials	1,609,387	2,135,051	1,412,627	916,516	886,342
Software Purchases and Maintenance	-	99,532	-	-	-
Miscellaneous Expenses	22,764	12,036	-	-	-
Contracted Services	1,820,273	1,370,169	1,699,429	2,746,580	1,742,658
TOTAL OTHER OPERATING EXPENSES	\$ 3,571,312	\$ 3,825,622	\$ 3,234,382	\$ 3,769,859	\$ 2,923,000
TOTAL OPERATING EXPENSES	\$ 4,776,647	\$ 6,785,347	\$ 5,863,445	\$ 5,952,780	\$ 6,000,000

COMMISSION SHARING ARRANGEMENT

PROFESSIONAL FEES AND SERVICES	\$ -	\$ -	\$ -	\$ 1,028,450	\$ -
OTHER OPERATING EXPENSES					
Dues, Fees and Staff Development	-	-	-	135,860	-
Subscriptions and Reference Materials	-	-	3,163,457	5,794,811	4,463,921
Software Purchases and Maintenance	-	-	-	48,750	-
Miscellaneous Expenses	-	-	-	29,340	-
Investment Research Activities	18,043,728	14,751,546	12,265,430	10,550,295	13,815,000
TOTAL OTHER OPERATING EXPENSES	\$ 18,043,728	\$ 14,751,546	\$ 15,428,887	\$ 16,559,056	\$ 18,278,921
TOTAL OPERATING EXPENSES	\$ 18,043,728	\$ 14,751,546	\$ 15,428,887	\$ 17,587,506	\$ 18,278,921

**TRS-CARE
ADMINISTRATIVE EXPENSES**

	Expended FY 2010	Expended FY 2011	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 1,502,926	\$ 1,614,819	\$ 1,690,742	\$ 1,868,935	\$ 2,009,436
Longevity Pay	43,060	45,100	49,640	52,100	56,480
Employer Retirement Contributions	101,511	108,440	103,676	117,770	135,921
Employer FICA Contributions	113,846	121,526	127,394	142,821	152,912
Employer Health Insurance Contributions	153,669	172,048	199,551	222,361	262,409
Benefit Replacement Pay	13,239	12,633	12,375	12,337	12,563
Other Employee Benefits			35,867	28,384	64,000
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,928,251	\$ 2,074,566	\$ 2,219,245	\$ 2,444,709	\$ 2,693,721
PROFESSIONAL FEES AND SERVICES	\$ 887,603	\$ 799,865	\$ 1,286,128	\$ 792,894	\$ 1,007,750
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 2,046	\$ 2,749	\$ 3,274	\$ 3,951	\$ 5,200
Utilities	1,643	1,466	1,618	5,460	5,200
Travel	4,220	4,486	6,022	6,406	16,955
Rentals	120,867	116,564	91,174	82,511	32,511
Dues, Fees and Staff Development	1,068	3,270	1,102	2,134	4,175
Subscriptions and Reference Information	270	242	-	-	570
Printing and Reproduction Services	11,963	14,276	49,574	33,549	35,500
Postage, Mailing and Delivery Services	57,969	117,101	46,500	74,986	185,800
Miscellaneous Expenses	4,975	5,240	5,253	27,805	20,600
Furniture and Equipment - Expensed		45	2,110	429	5,000
Maintenance - Buildings and Equipment			2,018	-	30,000
TOTAL OTHER OPERATING EXPENSES	\$ 205,021	\$ 265,438	\$ 208,645	\$ 237,231	\$ 341,511
TOTAL OPERATING EXPENSES	\$ 3,020,875	\$ 3,139,869	\$ 3,714,018	\$ 3,474,835	\$ 4,042,982

**TRS-ACTIVECARE
ADMINISTRATIVE EXPENSES**

	Expended FY 2010	Expended FY 2011	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 1,047,562	\$ 1,103,421	\$ 1,217,027	\$ 1,189,664	\$ 1,181,026
Longevity Pay	26,600	27,820	29,660	26,380	31,720
Employer Retirement Contributions	64,328	67,373	72,093	75,664	82,133
Employer FICA Contributions	79,399	82,758	90,025	88,767	93,450
Employer Health Insurance Contributions	99,078	107,501	130,995	127,672	155,421
Benefit Replacement Pay	2,320	1,805	2,063	1,031	10,463
Other Employee Benefits			1,685	6,750	51,100
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,319,287	\$ 1,390,678	\$ 1,543,548	\$ 1,515,928	\$ 1,605,313
PROFESSIONAL FEES AND SERVICES	\$ 533,081	\$ 866,115	\$ 546,681	\$ 806,137	\$ 748,000
OTHER OPERATING EXPENSES					
Consumable Supplies	\$ 2,231	\$ 1,152	\$ 728	\$ 788	\$ 3,000
Utilities	1,021	883	1,604	567	1,500
Travel	3,363	2,221	5,959	2,782	8,350
Rentals	65,745	65,140	61,204	62,245	62,245
Dues, Fees and Staff Development	1,568	5,255	6,400	4,509	9,000
Subscriptions and Reference Information	1,294	689	824	848	900
Printing and Reproduction Services	209	885	323	1,187	1,425
Postage, Mailing and Delivery Services	4,372	2,883	3,218	2,692	4,775
Miscellaneous Expenses	1,424	1,251	2,604	1,180	3,300
Furniture and Equipment - Expensed	2,584	132	3,517	858	3,500
Maintenance - Buildings and Equipment					2,000
TOTAL OTHER OPERATING EXPENSES	\$ 83,811	\$ 80,491	\$ 86,381	\$ 77,656	\$ 99,995
TOTAL OPERATING EXPENSES	\$ 1,936,179	\$ 2,337,284	\$ 2,176,610	\$ 2,399,721	\$ 2,453,308

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

	Expended FY 2010	Expended FY 2011	Expended FY 2012	Expended FY 2013	Budgeted FY 2014
SALARIES AND OTHER PERSONNEL COSTS					
Salaries and Wages	\$ 120,298	\$ 116,830	\$ 45,156	\$ 44,846	\$ 49,059
Longevity Pay	2,100	2,220	-	-	-
Employer Retirement Contributions	8,034	7,898	2,771	2,890	3,400
Employer FICA Contributions	8,712	8,434	3,534	3,499	4,500
Employer Health Insurance Contributions	16,307	17,099	-	-	7,500
Benefit Replacement Pay			1,031	859	1,289
Employee Compensable Absences			(1,289)	-	1,000
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 155,451	\$ 152,480	\$ 51,203	\$ 52,094	\$ 66,748
PROFESSIONAL FEES AND SERVICES	\$	\$	\$ -	\$ -	\$ -
OTHER OPERATING EXPENSES			\$ -	\$ -	\$ -
TOTAL OPERATING EXPENSES	\$ 155,610	\$ 152,480	\$ 51,203	\$ 52,094	\$ 66,748