Suggested GASB 68 Pension Footnotes for Employers Financial Statements for the Fiscal Year Ended August 31, 2020

(Some instructions are provided below in parenthesis and should not be included in your note disclosures)

Summary of Significant Accounting Policies

Pensions. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X. Defined Benefit Pension Plans

A. Plan Description

The [employer] participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

B. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://trs.texas.gov/TRS%20Documents/cafr2019.pdf , selecting *About TRS* then *Publications* then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

C. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

In May, 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or $2,000, whichever was less.

D. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025. *Contribution Rates can be found in the TRS 2019 CAFR, Note 12, on page 76.*

Contribution Rates

	2019	**2020**
Member	**x.xx%**	**x.xx%**
Non-Employer Contributing Entity (State)	**x.xx%**	**x.xx%**
Employers	**x.xx%**	**x.xx%**

Employer # XXXX - 2019 Employer Contributions	**$xxx,xxx,xxx**
Employer # XXXX - 2019 Member Contributions	**$xxx,xxx,xxx**
Employer # XXXX - 2019 NECE On-behalf Contributions	**$xxx,xxx,xxx**

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate called the Public Education Employer Contribution will replace the Non(OASDI) surcharge that was in effect in fiscal year 2019.

In addition to the employer contributions listed above, there is an additional surcharge an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

E. Actuarial Assumptions

The total pension liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions: *Actuarial Assumptions can be found in the 2019 TRS CAFR, Note 11, page 77.*

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	xxxx
Asset Valuation Method	xxxx
Single Discount Rate	x.xx%
Long-term expected Investment Rate of Return	x.xx%
Municipal Bond Rate as of August 2019	x.xx%
Inflation	x.x%
Salary Increases including inflation	x.x% to x.x%
Benefit Changes during the year	xxxx
Ad hoc post-employment benefit changes	xxxx

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

F. Discount Rate

A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 (see page 52 of the TRS CAFR) are summarized below:

Asset Class	FY 2019 Target Allocation[1] %	New Target Allocation[2] %	Long-Term Expected Geometric Real Rate of Return[3]
Global Equity			
USA	18.0%	18.0%	6.4%
Non-U.S. Developed	13.0%	13.0%	6.3%
Emerging Markets	9.0%	9.0%	7.3%
Directional Hedge Funds	4.0%	-	-
Private Equity	13.0%	14.0%	8.4%
Stable Value			
U.S. Treasuries[4]	11.0%	16.0%	3.1%
Stable Value Hedge Funds	4.0%	5.0%	4.5%
Absolute Return	0.0%	0.0%	0.0%
Real Return			
Global Inflation Linked Bonds[4]	3.0%	-	-
Real Estate	14.0%	15.0%	8.5%
Energy, Natural Resources and Infrastructure	5.0%	6.0%	7.3%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	8.0%	5.8%/6.5%[5]
Leverage			
Cash	1.0%	2.0%	2.50%
Asset Allocation Leverage	-	-6.0%	2.70%
Expected Return	**100.00%**	**100.00%**	**7.23%**

[1] Target allocations are based on the Strategic Asset Allocation as of FY2019

[2] New allocations are based on the Strategic Asset Allocation to be implemented FY2020

[3] 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

[4] New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds

[5] 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (x%) in measuring the Net Pension Liability. *The discount rate can be found in the 2019 TRS CAFR, Note 12, page 78.*

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
[Entity's] proportionate share of the net pension liability:	$xx,xxx	$xx,xxx	$xx,xxx

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2019, the [employer] reported a liability of $_______ for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the [employer]. The amount recognized by the [employer] as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the [employer] were as follows:

[Employer's] Proportionate share of the collective net pension liability	$XXX,XXX
State's proportionate share that is associated with [employer]	$XXX,XXX
Total	$XXX,XXX

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was xx.x% which was an increase (decrease) of x.xxxxx% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a $2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or $,000, whichever is less.

For the year ended August 31, 2019, the [employer] recognized pension expense of $_____ and revenue of $_____ for support provided by the State. (Refer to the 2019 Schedule of On-Behalf Contributions for this information posted on the TRS website under GASB Statements 67 & 68.)

At August 31, 2019, the [employer] reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers from the current and prior years combined.) *Current year amounts can be found on the Schedule of Deferrals, rows 8,15,22 and 29 in column H and I.*

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$x,xxx	$x,xxx

Changes in actuarial assumptions	$x,xxx	$x,xxx
Difference between projected and actual investment earnings	$x,xxx	$x,xxx
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	$x,xxx	$x,xxx
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	$x,xxx	
Total	$xxx,xxx	$xxx,xxx

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Msmt year ended Aug 31:	Pension Expense Amount
2020	$x,xxx
2021	$x,xxx
2022	$x,xxx
2023	$x,xxx
2024	$x,xxx
Thereafter	$x,xxx