

# 2023 POPULAR ANNUAL FINANCIAL REPORT

A COMPONENT UNIT OF THE STATE OF TEXAS • FISCAL YEAR ENDED AUGUST 31, 2023



**Nathan W.**  
Internal Audit



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*Our Mission*

**IMPROVING** the retirement security of our members by prudently investing and managing the trust assets and delivering benefits that make a **POSITIVE DIFFERENCE** in their lives.

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*At Your Service*

The employees of TRS are proud to dedicate their time and hard work to provide members with the services they've earned serving Texas.

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**Brian K. Guthrie**  
Executive Director

**For fiscal year 2023, TRS made pension benefit payments totaling \$12.7 billion to 489,921 retirees and their beneficiaries.**

It is my pleasure to present the Teacher Retirement System of Texas' (TRS) Popular Annual Financial Report (PAFR) for fiscal year 2023, the System's 86<sup>th</sup> year of operation. The PAFR summarizes our Annual Comprehensive Financial Report (ACFR), providing financial highlights of the past year for those wishing to learn more about TRS developments. The 2023 ACFR can be viewed in the Publications Section of the TRS website: [trs.texas.gov](https://trs.texas.gov).

### **Pension Trust Fund**

During the past fiscal year, the System experienced growth as membership increased by 53,067 individuals, ending the year with 2,001,974 participants. The Pension Trust Fund experienced favorable market performance resulting in positive returns for the fund, ending the 2023 fiscal year with a net position of \$187.2 billion compared to \$184.2 billion at the close of the 2022 fiscal year. TRS investment earnings, combined with contribution increases and benefit changes approved by the 87<sup>th</sup> Texas Legislature, continue to enable TRS to provide secure benefits for current and future retirees.

For fiscal year 2023, TRS made pension benefit payments totaling \$12.7 billion to 489,921 retirees and their beneficiaries. These benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

### **Retiree Health Benefits Program**

TRS administers TRS-Care, a health benefits program for eligible retired public education employees and their eligible dependents that was established in 1985. The 85th Legislature, in regular and special sessions, passed legislation that restructured TRS-Care and provided additional funding to address the solvency and affordability of TRS-Care. The state contribution rate to TRS-Care is 1.25 percent of public-school payroll and the district contribution is 0.75 percent. Active employee contributions remained unchanged at 0.65 percent.

### **Active Member Health Benefits Program**

TRS-ActiveCare, initiated in 2001, is a self-funded health benefits program that offers plan options that range from catastrophic coverage with reduced premiums to a comprehensive plan at higher premiums. TRS-ActiveCare covers active employees currently employed by public education employers that participate in the program, along with the employees' eligible dependents.

### **Investments**

For the twelve-month period ended August 31, 2023, the total portfolio delivered investment returns of 3.85 percent, which is 1.63 percent above the Pension Trust Funds (Fund) benchmark. As a result, the total investment value of the Fund as of August 31 was \$186.6 billion, or \$3.1 billion more than this time last year, after contributions and benefit payouts. On a three-year annualized basis, the Fund has returned 6.58 percent, which is 0.96 percent above its benchmark. Annual rates of return for the five and ten-year periods ending August 31, 2023, were 6.42 percent and 7.62 percent, respectively. The ten and twenty year average return surpasses the Board's adopted long-term assumed rate of return of 7.00 percent.

### **Thank You**

We are pleased to report on operational results for the year and to acknowledge the substantial support of state leadership, trustees, members, interested associations, and TRS staff.

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**Jarvis V. Hollingsworth, Chair**  
Vice Chairman  
Irradiant Partners L.P.  
Missouri City  
Direct appointment of the governor  
Term expires 2023



**John Elliott**  
Partner  
Elliott Stratmann, PLLC  
Austin  
Direct appointment of the governor  
Term expires 2027



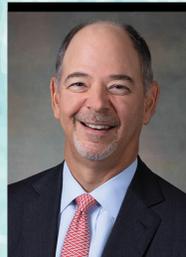
**Nanette Sissney, Vice Chair**  
Retired School Counselor and  
Former Teacher, Whitesboro Independent  
School District  
Whitesboro  
At-Large position  
Term expires 2023



**James Dick Nance**  
Former Texas Public School Teacher  
Member of Texas Athletic Directors  
Association  
Hallettsville  
Retiree position  
Term expires 2023



**Brittany Allred**  
Principal  
Luther King Capital Management  
Dallas  
Position nominated by the State Board  
of Education  
Term expires 2027



**Robert H. Walls, Jr.**  
Business and Legal Executive  
Energy, Media and Private Equity Industries  
San Antonio  
Direct appointment of the governor  
Term expires 2025



**Michael Ball**  
Senior Vice President  
Hilltop Securities, Inc.  
Argyle  
Active public education position  
Term expires 2025



**Elvis Williams**  
Assistant Superintendent of Operations  
Edgewood Independent School District  
Fair Oaks Ranch  
Active public education position  
Term expires 2027



**David Corpus**  
Executive Vice President-Bank President  
Stellar Bank (STEL)  
Humble  
Position nominated by the State Board  
of Education  
Term expires 2025



Government Finance Officers Association

**Award for  
Outstanding  
Achievement in  
Popular Annual  
Financial Reporting**

Presented to

**Teacher Retirement System of Texas**

For its Annual Financial Report  
For the Fiscal Year Ended

August 31, 2021

*Christopher P. Morill*

Executive Director/CEO



Government Finance Officers Association

**Award for  
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August 31, 2022

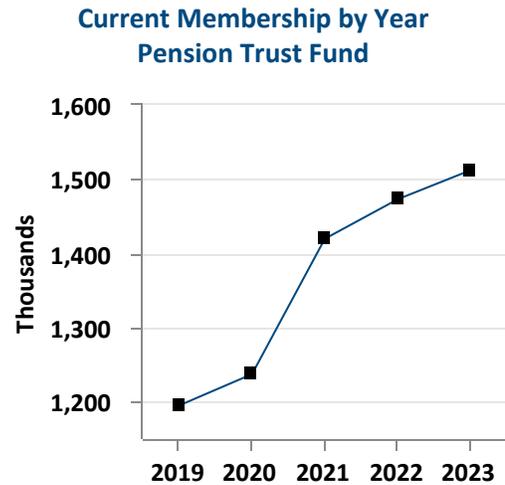
*Christopher P. Morill*

Executive Director/CEO

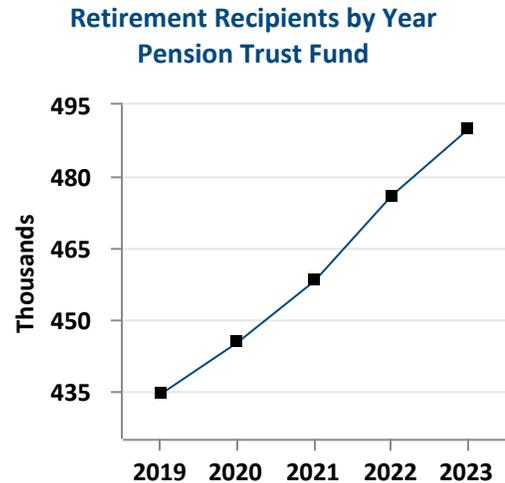
*Both the 2021 and 2022 GFOA Awards for Outstanding Achievement in Popular Annual Financial Reporting were received from GFOA in fiscal year 2023 so are being presented in the 2023 Popular Annual Financial Report.*

Membership of the Teacher Retirement System of Texas includes employees and retirees of state-supported educational institutions in Texas. The following tables represent TRS Pension Trust Fund participating employer and membership information for fiscal year 2023.

Number of Participating Employers	
<b>Participating Employers</b>	<b>2023</b>
Public School Districts	1,020
Charter Schools	200
Community and Junior Colleges	50
Senior Colleges and Universities	48
Regional Service Centers	20
Medical Schools	9
Other Education Districts	2
State Agencies	1
<b>Total Participating Employers</b>	<b>1,350</b>



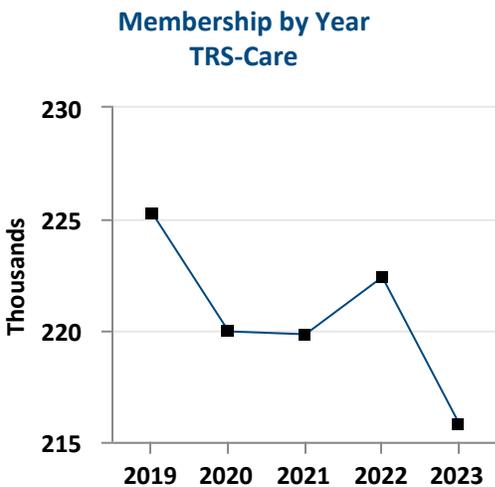
Membership Numbers by Category		
Member Categories	As of August 31,	
	2023	2022
<b>Current Members</b>		
Active Contributing	953,295	928,418
Inactive Non-vested	424,658	419,580
Inactive Vested	134,100	124,957
<b>Total Current Members</b>	<b>1,512,053</b>	<b>1,472,955</b>
<b>Retirement Recipients</b>		
Service	457,779	444,557
Disability	11,933	11,907
Survivor	20,209	19,488
<b>Total Retirement Recipients</b>	<b>489,921</b>	<b>475,952</b>
<b>Total Membership</b>	<b>2,001,974</b>	<b>1,948,907</b>



**Texas Public School Retired Employees Group Insurance Program (TRS-Care)**

Membership of TRS-Care is eligible to TRS public school retirees. There were 1,241 participating employers during fiscal year 2023.

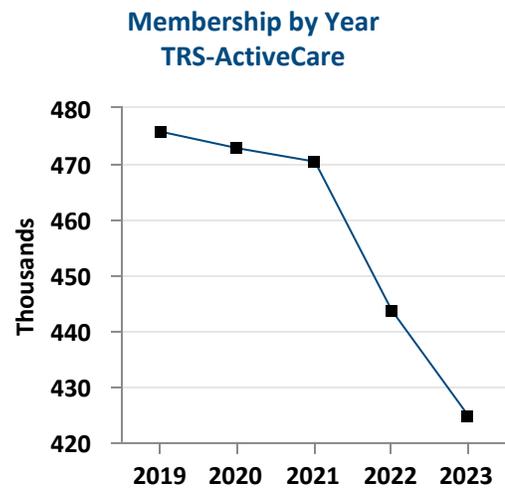
Membership Numbers by Category		
Member Categories	As of August 31,	
	2023	2022
Retirees	178,043	182,607
Surviving Spouses	5,813	5,925
Surviving Children	106	123
Dependent Spouses and Children	31,862	33,747
<b>Total Membership</b>	<b>215,824</b>	<b>222,402</b>



**Texas Public School Employees Group Insurance Program (TRS-ActiveCare)**

Membership of TRS-ActiveCare includes employees of public school districts, open enrollment charter schools, regional service centers, and other educational districts. There were 982 participating employers during fiscal year 2023.

Membership Numbers by Category		
Member Categories	As of August 31,	
	2023	2022
Employees	273,147	284,388
Dependents	151,549	159,291
<b>Total Membership</b>	<b>424,696</b>	<b>443,679</b>



## Pension Trust Fund Overview

The Teacher Retirement System of Texas (TRS or System) is a separate legal entity and considered a discrete component unit of the State of Texas. The System is governed by a nine member board of trustees which has significant independence in the operation and management of the System under the provisions of the state constitution and laws.

TRS administers retirement and related benefits to employees and beneficiaries of employees of public, state-supported, educational institutions of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The Pension Trust Fund is a multiple-employer, cost-sharing, defined benefit pension plan with a special funding situation that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

## Funding Status

As of August 31, 2023, the System had a funded ratio of 77.5 percent with an Unfunded Actuarial Accrued Liability (UAAL) of \$57.9 billion. The UAAL increased \$6.2 billion during the year largely due to unfavorable investment performance for fiscal year 2022 and larger than expected salary increases for active TRS members. Even with these events, the UAAL is anticipated to be fully amortized by 2052. The System still meets the statutorily determined actuarial soundness definition by having a funding period of less than 31 years.

SB12 increased contribution rates for the State, employers, and members in a phased approach that concludes in fiscal year 2025. The State's base rate of 7.75 percent in fiscal year 2022 increased to 8.00 percent in fiscal year 2023 and phased-in to 8.25 percent by fiscal year 2024. In addition, all public education employers paid a supplemental contribution rate of 1.70 percent for fiscal year 2022 and will pay 0.10 percent more each year until the rate reaches 2.00 percent in fiscal year 2025. At the end of the phase-in period, these supplemental contributions will equal approximately 1.24 percent of total payroll. Combined, with additional contributions from retirees, these contributions are ultimately assumed to approximate 9.56 percent of total payroll. The member contribution rate of 8.00 percent in fiscal year 2022 will be retained for fiscal year 2023 and will be 8.25 percent in fiscal year 2024 and thereafter.

The contributions provided by the increased contribution rate pattern are sufficient to amortize the current UAAL of the System over a period of 29 years based on the smoothed asset value as of the valuation date. Therefore, the financing objectives of the Statute are expected to be met, assuming all assumptions are realized.

<b>Statement of Fiduciary Net Position</b>			
<b>Pension Trust Fund</b>			
As of August 31			
(Dollars in Thousands)			
	2023	2022	Percentage Change
<b>Assets</b>			
Cash and Receivables	\$ 4,310,283	\$ 5,347,981	(19.4)%
Investments	203,296,402	195,157,348	4.2
Invested Securities Lending Collateral	5,675,099	6,957,898	(18.4)
Capital Assets	190,742	158,671	20.2
<b>Total Assets</b>	<b>\$ 213,472,526</b>	<b>\$ 207,621,898</b>	<b>2.8 %</b>
<b>Total Deferred Outflow of Resources</b>	<b>\$ 50,173</b>	<b>\$ 51,449</b>	<b>(2.5)%</b>
<b>Liabilities</b>			
Benefits Payable	\$ 317,818	\$ 273,747	16.1 %
Net Other Post-Employment Benefit Liability	104,207	124,038	(16.0)
Investments Purchased Payable and Other Investment Liabilities	19,841,413	15,921,601	24.6
Collateral Obligations	5,786,409	6,963,789	(16.9)
Accounts Payable and Other	213,067	190,194	12.0
<b>Total Liabilities</b>	<b>\$ 26,262,914</b>	<b>\$ 23,473,369</b>	<b>11.9 %</b>
<b>Total Deferred Inflow of Resources</b>	<b>\$ 89,249</b>	<b>\$ 14,361</b>	<b>521.5 %</b>
<b>Total Net Position</b>	<b>\$ 187,170,536</b>	<b>\$ 184,185,617</b>	<b>1.6 %</b>
Prior Period Adjustment		762	(100.0)
<b>Restated Net Position</b>	<b>\$ 187,170,536</b>	<b>\$ 184,186,379</b>	<b>1.6 %</b>

<b>Statement of Changes in Fiduciary Net Position</b>			
<b>Pension Trust Fund</b>			
For the Fiscal Years Ended August 31			
(Dollars in Thousands)			
	2023	2022	Percentage Change
<b>Additions</b>			
Member Contributions	\$ 4,492,518	\$ 4,213,622	6.6 %
Non-Employer Contributing Entity Contributions	2,279,409	2,153,483	5.8
Employer Contributions	2,859,870	2,504,170	14.2
Supplemental Funding - Appropriations		701,101	(100.0)
Gain on Capital Assets	46,564		
Other Revenue	91,927	93,012	(1.2)
Investment Income	6,885,963	(13,383,751)	(151.5)
<b>Total Additions</b>	<b>\$ 16,656,251</b>	<b>\$ (3,718,363)</b>	<b>(547.9)%</b>
<b>Deductions</b>			
Retirement Benefits and Other	\$ 12,866,847	\$ 13,248,393	(2.9)%
Refunds of Contributions	707,817	579,462	
Other Post-Employment Benefit Expense	12,242	12,595	
Administrative Expenses	85,188	62,053	
<b>Total Deductions</b>	<b>\$ 13,672,094</b>	<b>\$ 13,902,503</b>	<b>(1.7)%</b>
<b>Change in Net Position</b>	<b>\$ 2,984,157</b>	<b>\$ (17,620,866)</b>	<b>(116.9)%</b>
Prior Period Adjustment		762	(100.0)
<b>Restated Change in Net Position</b>	<b>\$ 2,984,157</b>	<b>\$ (17,620,104)</b>	<b>(116.9)%</b>

TRS-Care is considered an employee benefit trust fund and provides health care coverage for certain persons, and their dependents, who retire under TRS. The inception of the plan was fiscal year 1986. The net position of TRS-Care at August 31, 2023 was \$3.9 billion, an increase of \$771.8 million from the \$3.1 billion at August 31, 2022.

Financial highlights for fiscal year 2023 with prior year comparisons are presented in the tables below.

<b>Statement of Fiduciary Net Position</b>					
<b>TRS-Care</b>					
As of August 31					
(Dollars in Thousands)					
	<b>2023</b>		<b>2022</b>		<b>Percentage Change</b>
<b>Assets</b>					
Cash and Receivables	\$	4,094,274	\$	3,298,185	24.1 %
Capital Assets		7,600		10,206	(25.5)
<b>Total Assets</b>	<b>\$</b>	<b>4,101,874</b>	<b>\$</b>	<b>3,308,391</b>	<b>24.0 %</b>
<b>Liabilities</b>					
Accounts Payables and Other	\$	25,529	\$	9,912	157.6 %
Health Care Fees Payable		8,123		8,119	
Health Care Claims Payables		178,457		172,423	3.5
<b>Total Liabilities</b>	<b>\$</b>	<b>212,109</b>	<b>\$</b>	<b>190,454</b>	<b>11.4 %</b>
<b>Net Position</b>	<b>\$</b>	<b>3,889,765</b>	<b>\$</b>	<b>3,117,937</b>	<b>24.8 %</b>

<b>Statement of Changes in Fiduciary Net Position</b>					
<b>TRS-Care</b>					
For the Fiscal Years Ended August 31					
(Dollars in Thousands)					
	<b>2023</b>		<b>2022</b>		<b>Percentage Change</b>
<b>Additions</b>					
Member Contributions	\$	277,468	\$	263,328	5.4 %
Non-Employer Contributing Entity Contributions		474,357		451,341	5.1
Participating Employers Contributions		393,951		370,736	6.3
Rebates and Discount Income		578,020		508,932	13.6
Federal Revenue		188,173		141,003	33.5
Supplemental Funding - Appropriations		21,285		83,000	(74.4)
Other Revenue		40,306		28,360	42.1
Investment Income		130,070		13,538	860.8 %
<b>Total Additions</b>	<b>\$</b>	<b>2,103,630</b>	<b>\$</b>	<b>1,860,238</b>	<b>13.1 %</b>
<b>Deductions</b>					
Health Care Claims	\$	1,781,336	\$	1,635,850	8.9 %
Less: Health Care Premiums Paid by Retirees		(502,154)		(399,788)	25.6
Health Care Claims Processing		29,615		26,848	10.3
Insurance Premium Payments		5		6	(16.7)
Health Care Fees		201		162	24.1
Administrative Expenses		22,799		18,465	23.5
<b>Total Deductions</b>	<b>\$</b>	<b>1,331,802</b>	<b>\$</b>	<b>1,281,543</b>	<b>3.9 %</b>
<b>Change in Net Position</b>	<b>\$</b>	<b>771,828</b>	<b>\$</b>	<b>578,695</b>	<b>33.4 %</b>

TRS-ActiveCare provides health care coverage to eligible employees (and their dependents) of participating public education entities. The plan began operations on September 1, 2002. The net position was \$283.8 million at August 31, 2023, a decrease of \$263.7 million from \$547.5 million the previous fiscal year.

Financial highlights for fiscal year 2023 with prior year comparisons are presented in the tables below.

<b>Statement of Net Position</b>			
<b>TRS-ActiveCare</b>			
As of August 31			
(Dollars in Thousands)			
	2023	2022	Percentage Change
<b>Assets</b>			
Cash	\$ 474,317	\$ 744,871	(36.3)%
Receivables	125,714	85,444	47.1
<b>Total Assets</b>	<b>\$ 600,031</b>	<b>\$ 830,315</b>	<b>(27.7)%</b>
<b>Liabilities</b>			
Accounts Payable and Other	\$ 1,378	\$ 734	87.7 %
Premiums and Fees Payable	1,211	1,125	7.6
Health Care Claims Payable	313,323	280,408	11.7
<b>Total Liabilities</b>	<b>\$ 315,912</b>	<b>\$ 282,267</b>	<b>11.9 %</b>
<b>Total Deferred Inflow of Resources</b>	<b>\$ 282</b>	<b>\$ 508</b>	<b>(44.5)%</b>
<b>Total Net Position</b>	<b>\$ 283,837</b>	<b>\$ 547,540</b>	<b>(48.2)%</b>

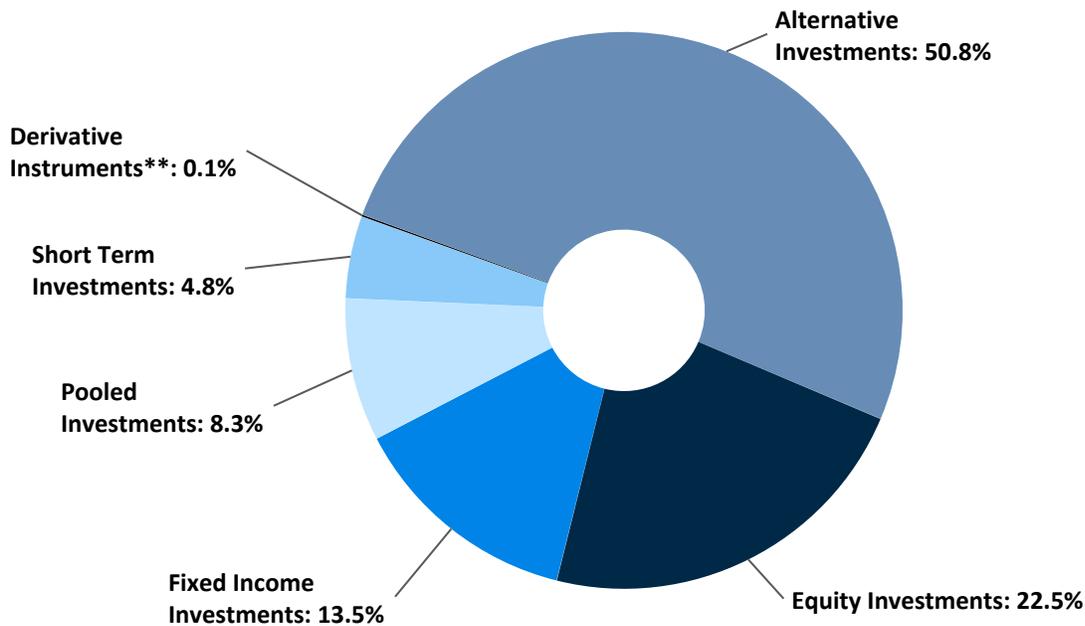
<b>Statement of Revenues, Expenses, and Changes in Net Position</b>			
<b>TRS-ActiveCare</b>			
For the Fiscal Years Ended August 31			
(Dollars in Thousands)			
	2023	2022	Percentage Change
<b>Revenues (Operating and Non-Operating)</b>			
Health Care Premiums	\$ 1,830,920	\$ 2,044,856	(10.5)%
Rebate and Discount Income	227,884	174,729	30.4
Supplemental Funding - Appropriations		638,338	(100.0)
Investment Income	27,740	1,656	1575.1
<b>Total Revenue</b>	<b>\$ 2,086,544</b>	<b>\$ 2,859,579</b>	<b>(27.0)%</b>
<b>Operating Expenses</b>			
Health Care Claims	\$ 2,192,775	\$ 2,151,584	1.9 %
Health Care Claims Processing	67,402	64,914	3.8
Health Care Fees	1,112	1,043	6.6
Premium Payments to HMOs	83,783	146,752	(42.9)
Administrative Expenses	5,175	3,989	29.7
<b>Total Expenses</b>	<b>\$ 2,350,247</b>	<b>\$ 2,368,282</b>	<b>(0.8)%</b>
<b>Change in Net Position</b>	<b>\$ (263,703)</b>	<b>\$ 491,297</b>	<b>(153.7)%</b>

Global financial markets and asset values generally performed better than expected throughout this fiscal year, driven by lowered inflationary pressures, resilient economic data in the face of restrictive monetary policy, and stronger than expected corporate earnings. After a dismal 2022 which saw the S&P 500 index enter a bear market and at one point decline to more than (20.0%) since its previous high, US markets rebounded sharply in fiscal year 2023 with a 15.94% gain for the 1-year period ended August 31, 2023. While economic and market results have exceeded expectations, the year still experienced disruptive headwinds as the world’s major reserve banks continued to raise interest rates at the fastest pace in history, the US regional banking sector was hit with a liquidity crisis, and geopolitical tensions between key economies resurfaced. Despite the hurdles, consumer spending and economic growth remained steady, while a breakthrough development in artificial intelligence and its potential impact on the economy helped propel public equity markets higher.

Overall, investment returns for the fiscal year ended August 31, 2023 were positive as the pension trust fund returned 3.85% for the 1-year period and closed the year with a total of \$186.6 billion in assets under management, a \$3.1 billion increase over last year, net of benefit payments. The annualized rate of return for the 5-year period ended August 31, 2023 was 6.42%, while the longer-term 10-year return was 7.62% and continues to remain in excess of the pension trust fund’s long-term investment return assumption of 7.00%.

The chart below presents net investments of the System (excluding securities lending collateral and obligations) allocated based on investment classifications within the Statement of Fiduciary Net Position as of August 31, 2023.

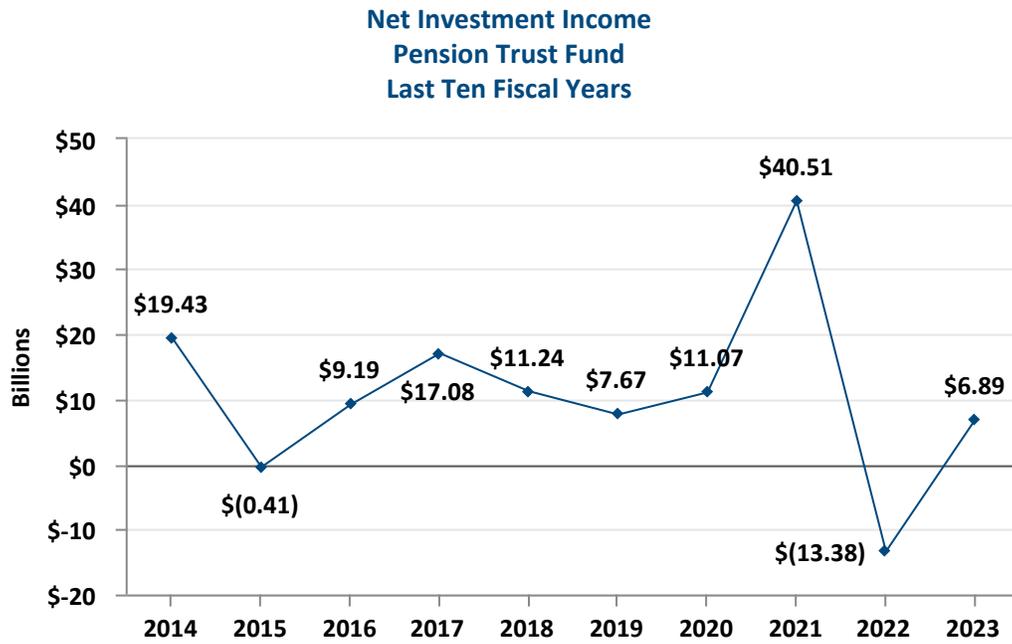
**Asset Allocation of Investments based on the Statement of Fiduciary Net Position\***



\*An overview of each investment type is provided in Note 3.C. of the Notes to the Financial Statements, including the fair value of each component.

\*\*Derivative instruments are reported on a net basis in the chart above. Please refer to Note 3.D. of the Notes to the Financial Statements for more information.

The chart below presents net investment income for the last ten fiscal years.



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We believe that the importance of teachers to the future of Texas cannot be understated. Providing value that goes beyond the purely economic and reaches a much more important goal – the education of Texas children.

That's why, for the past 86 years, the Teacher Retirement System of Texas has been learning from the past and preparing for the future. Keeping our promise to teachers and to Texas.

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Teacher Retirement System of Texas

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[www.trs.texas.gov](http://www.trs.texas.gov)