

Growing Strong

2020

**POPULAR ANNUAL
FINANCIAL REPORT**

A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2020

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.*

GROWING STRONG

THE CHALLENGES OF TODAY ARE AS VARIED AS THE TEXAS LANDSCAPE. AS TRS PREPARES TO MOVE FORWARD INTO THE FUTURE, WE'RE MORE THAN READY TO MEET THESE CHALLENGES. TOGETHER, WITH AN INFORMED AND INVOLVED MEMBERSHIP AND THE SUPPORT OF TRULY DEDICATED TRUSTEES AND STAFF, TRS IS READY TO KEEP GROWING STRONG.



Board of Trustees



Jarvis V. Hollingsworth, Chair
General Counsel
Kayne Anderson Capital Advisors, L.P.
Missouri City
Direct appointment of the governor
Term expires 2023



Christopher Moss
President
Allendale, Inc.
DBA The Advanced Financial Group
Lufkin
Position nominated by the State Board
of Education
Term expires 2021



Nanette Sissney, Vice Chair
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



Michael Ball
Chief Financial Officer
Fort Worth ISD
Argyle
Active public education position
Term expires 2025



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



David Corpus
Bank Office President
Allegiance Bank
Humble
Position nominated by the State Board
of Education
Term expires 2025



John Elliott
Partner
Elliott Stratmann, PLLC
Austin
Direct appointment of the governor
Term expires 2021

Dr. Greg Gibson resigned from the board in April 2019. This vacancy will be filled after the May 2021 election for the Active Public Education position.

Message from the Executive Director



Brian K. Guthrie
Executive Director

"TRS investment earnings, combined with contribution increases and benefit changes approved by the 86th Texas Legislature, are continuing to enable TRS to provide secure benefits for current and future retirees."

It is my pleasure to present the Teacher Retirement System of Texas' (TRS) Popular Annual Financial Report (PAFR) for fiscal year 2020, the System's 82nd year of operation. The PAFR summarizes our Comprehensive Annual Financial Report (CAFR), providing financial highlights of the past year for those wishing to learn more about TRS developments. The 2020 CAFR can be viewed on the TRS website: www.trs.texas.gov. The CAFR is located on the Publications page in the About TRS section.

Pension Trust Fund

During the past fiscal year, the System experienced growth as membership increased by 53,026, ending the year with 1,682,708 participants. The Pension Trust Fund saw positive returns in the past year, ending the 2020 fiscal year with a net position of \$165.4 billion compared to \$158.0 billion at the close of the 2019 fiscal year. TRS investment earnings, combined with contribution increases and benefit changes approved by the 86th Texas Legislature, are continuing to enable TRS to provide secure benefits for current and future retirees.

For fiscal year 2020, TRS made pension benefit payments totaling \$11.0 billion to 445,274 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 86th Texas Legislature appropriated \$231 million to keep

TRS-Care premiums consistent through fiscal year 2021.

Active Members Health Benefits Program

TRS-ActiveCare, initiated in 2002, 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 ending August 31, 2020, the total portfolio delivered investment returns of 7.24 percent, which is 1.2 percent below the Pension Trust Funds (Fund) benchmark. On a three-year annualized basis, the Fund has returned 6.9 percent, which is 0.3 percent below its benchmark. As a result, the total investment value of the Fund as of August 31 was \$164.6 billion, or \$7.2 billion more than this time last year, after contributions and benefit payouts. Annual rates of return for the five and ten-year periods ending August 31, 2020, were 8.1 percent and 8.8 percent, respectively, exceeding the Board's adopted long-term assumed rate of return of 7.25 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.

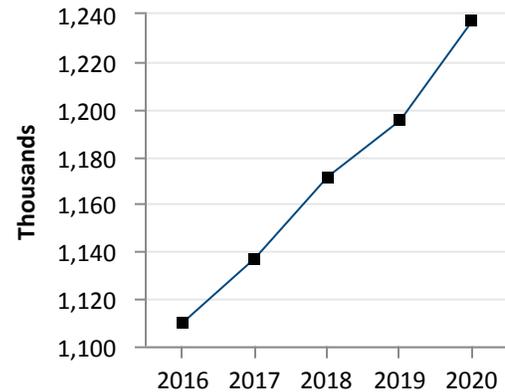
Pension Trust Fund Membership Information

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 data for fiscal year 2020.

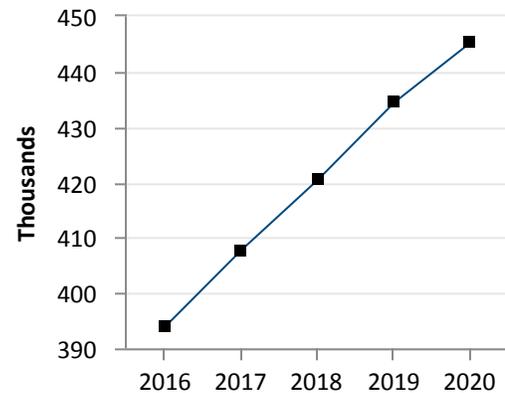
Number of Participating Employers	
Participating Employers	2020
Public School Districts	1,022
Charter Schools	187
Community and Junior Colleges	50
Senior Colleges and Universities	48
Regional Service Centers	20
Medical Schools	9
Other Education Districts	3
State Agencies	1
Total Participating Employers	1,340

Membership Numbers by Category		
Member Categories	As of August 31,	
	2020	2019
Current Members		
Active Contributing	914,752	884,540
Inactive Non-vested	209,956	201,948
Inactive Vested	112,726	108,768
Total Current Members	1,237,434	1,195,256
Retirement Recipients		
Service	415,696	405,236
Disability	11,926	11,994
Survivor	17,652	17,196
Total Retirement Recipients	445,274	434,426
Total Membership	1,682,708	1,629,682

Current Membership by Year
Pension Trust Fund



Retirement Recipients by Year
Pension Trust Fund

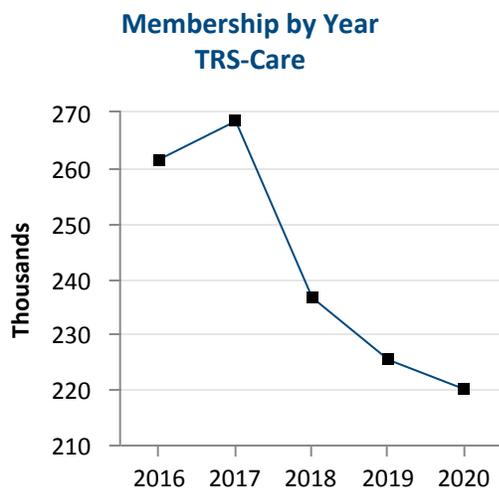


Health Benefit Plans Membership Information

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

Membership in TRS-Care includes eligible retired public education employees and their eligible dependents. There were 1,231 participating employers during fiscal year 2020.

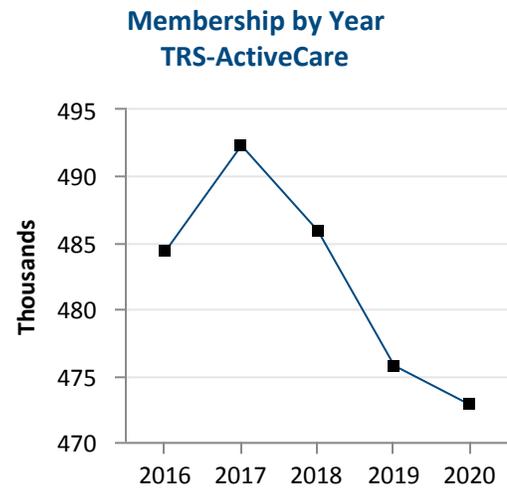
Membership Numbers by Category		
Member Categories	As of August 31,	
	2020	2019
Retirees	178,771	181,409
Surviving Spouses	6,047	6,194
Surviving Children	116	116
Dependent Spouses and Children	35,028	37,578
Total Membership	219,962	225,297



TRS-ActiveCare

Membership in TRS-ActiveCare includes active employees currently employed by public education employers that participate in the program, along with the employees' eligible dependents. There were 1,088 participating employers during fiscal year 2020.

Membership Numbers by Category		
Member Categories	As of August 31,	
	2020	2019
Employees	307,264	306,897
Dependents	165,507	168,842
Total Membership	472,771	475,739



Pension Trust Fund Overview and Funding Status

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, 2020, the System had a funded ratio of 76.8 percent with an Unfunded Actuarial Accrued Liability (UAAL) of \$50.6 billion. The UAAL increased \$1.1 billion during the year largely due to interest on the existing UAAL exceeding contributions toward the UAAL. This occurred partly because contribution rate increases passed by the 86th Legislature are still being phased-in. If contribution rates stay at current levels, the UAAL would be expected to continue to grow, indicating the importance of increasing contribution rates prospectively.

The 86th Legislature increased contribution rates for the State, employers and members in a phase-in approach that concludes in fiscal year 2025. The State's base rate of 7.50 percent in fiscal year 2020 will increase to 8.00 percent in fiscal year 2023 and phase-in to 8.25 percent by fiscal year 2024. In addition, all public education employers will pay a supplemental contribution rate of 1.50 percent for fiscal year 2020 and will increase to 2.00 percent by fiscal year 2025. At the end of the phase-in period, these supplemental contributions will equal approximately 1.25 percent of total payroll. Combined, with additional contributions from retirees, these contributions are ultimately assumed to approximate 9.55 percent of total payroll. The member contribution rate will increase from the current 7.70 percent to 8.00 percent in fiscal year 2022 and ultimately 8.25 percent in fiscal year 2024.

Based on these contribution increases, it is estimated that the UAAL will grow for approximately 7 years before beginning to decline. If payroll grows as expected (3.0 percent per year), the contributions provided by the increased contribution rate pattern are sufficient to amortize the current UAAL of the System over a period of 27 years based on the smoothed asset value as of the valuation date. Therefore the financing objectives of the System are expected to be met, assuming all assumptions are realized.

Pension Trust Fund Financial Highlights

Statement of Fiduciary Net Position			
Pension Trust Fund			
As of August 31			
(Dollars in Thousands)			
Assets	2020	2019	Percentage Change
Cash and Receivables	\$ 3,532,268	\$ 4,014,345	(12.0)%
Investments	173,602,714	158,881,842	9.3
Invested Securities Lending Collateral	7,167,588	18,832,476	(61.9)
Capital Assets	59,301	71,496	(17.1)
Total Assets	\$ 184,361,871	\$ 181,800,159	1.4 %
Total Deferred Outflow of Resources	\$ 42,079	\$ 28,118	49.7 %
Liabilities			
Benefits Payable	\$ 41,244	\$ 109,861	(62.5)%
Net Other Post-Employment Benefit Liability	104,446	85,009	22.9
Investments Purchased Payable and Other Investment Liabilities	11,466,477	3,956,610	189.8
Collateral Obligations	7,288,848	686,423	961.9
Accounts Payable and Other	63,757	18,821,815	(99.7)
Total Liabilities	\$ 18,964,772	\$ 23,659,718	(19.8)%
Total Deferred Inflow of Resources	\$ 22,933	\$ 190,360	(88.0)%
Total Net Position	\$ 165,416,245	\$ 157,978,199	4.7 %

Statement of Changes in Fiduciary Net Position			
Pension Trust Fund			
For the Fiscal Years Ended August 31			
(Dollars in Thousands)			
Additions	2020	2019	Percentage Change
Member Contributions	\$ 3,736,877	\$ 3,482,870	7.3 %
Non-Employer Contributing Entity Contributions	1,844,999	1,737,853	6.2
Employers Contributions	2,016,482	1,761,822	14.5
Other Revenue	350,650	664,666	(47.2)
Investment Income	11,068,917	7,669,029	44.3
Total Additions	\$ 19,017,925	\$ 15,316,240	24.2 %
Deductions			
Retirement Benefits and Other	\$ 11,083,643	\$ 11,359,826	(2.4)%
Refunds of Contributions	421,366	486,461	(13.4)
Other Post-Employment Benefit Expense	7,734	4,438	74.3
Administrative Expenses	67,136	60,486	11.0
Total Deductions	\$ 11,579,879	\$ 11,911,211	(2.8)%
Change in Net Position	\$ 7,438,046	\$ 3,405,029	118.4 %

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

TRS-Care is the source of health benefits coverage upon which a substantial portion of retired public education employees rely. Funding is provided by premium payments from retiree participants and contributions from the state, public schools, and active public education employees. TRS-Care also receives additional revenue from the Medicare Part D subsidy program. Financial highlights for fiscal year 2020 with prior year comparisons are presented in the tables below.

Statement of Fiduciary Net Position			
TRS-Care			
As of August 31			
(Dollars in Thousands)			
Assets	2020	2019	Percentage Change
Cash, Receivables and Capital Assets	\$ 2,146,681	\$ 1,475,509	45.5 %
Total Assets	\$ 2,146,681	\$ 1,475,509	45.5 %
Liabilities			
Accounts Payables and Other	\$ 3,740	\$ 9,984	(62.5)%
Health Care Fees Payable	30,657	—	—
Health Care Claims Payables	115,966	154,660	(25.0)
Total Liabilities	\$ 150,363	\$ 164,644	(8.7)%
Total Deferred Inflow of Resources	\$ —	\$ 18,843	(100.0)%
Total Net Position	\$ 1,996,318	\$ 1,292,022	54.5 %

Statement of Changes in Fiduciary Net Position			
TRS-Care			
For the Fiscal Years Ended August 31			
(Dollars in Thousands)			
Additions	2020	2019	Percentage Change
Member Contributions	\$ 243,532	\$ 227,338	7.1 %
Non-Employer Contributing Entity Contributions	435,769	404,937	7.6
Participating Employers Contributions	324,973	305,362	6.4
Rebates and Discount Income	423,426	356,440	18.8
Federal Revenue	186,169	220,784	(15.7)
Other Revenue	18	—	—
Investment Income	25,537	25,047	2.0
Supplemental Appropriation from State's General Fund - Non-Employer Contributing Entity	230,757	73,642	213.3
Total Additions	\$ 1,870,181	\$ 1,613,550	15.9 %
Deductions			
Health Care Claims	\$ 1,538,212	\$ 1,515,398	1.5 %
Less: Health Care Premiums Paid by Retirees	(499,058)	(517,965)	(3.7)
Health Care Claims Processing	37,420	38,982	(4.0)
Insurance Premium Payments	51,410	71,795	(28.4)
Health Care Fees	30,833	5,887	423.7
Administrative Expenses	7,068	6,005	17.7
Total Deductions	\$ 1,165,885	\$ 1,120,102	4.1 %
Change in Net Position	\$ 704,296	\$ 493,448	42.7 %

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

Financial Highlights

TRS-ActiveCare is funded by State, employer, and active employee contributions. Each plan year, the TRS Board of Trustees has made plan changes and increased premiums to sustain the program. Financial highlights for fiscal year 2020 with prior year comparisons are presented in the tables below.

Statement of Net Position			
TRS-ActiveCare			
As of August 31			
(Dollars in Thousands)			
Assets	2020	2019	Percentage Change
Cash and Receivables	\$ 430,506	\$ 414,096	4.0 %
Total Assets	\$ 430,506	\$ 414,096	4.0 %
Liabilities			
Accounts Payable and Other	\$ 31,636	\$ 9,933	218.5 %
Premiums and Fees Payable	953	20,932	(95.4)
Health Care Claims Payable	228,723	216,387	5.7
Total Liabilities	\$ 261,312	\$ 247,252	5.7 %
Total Deferred Inflow of Resources	\$ 895	\$ 1,891	(52.7)%
Total Net Position	\$ 168,299	\$ 164,953	2.0 %

Statement of Revenues, Expenses, and Changes in Net Position			
TRS-ActiveCare			
For the Fiscal Years Ended August 31			
(Dollars in Thousands)			
Revenues (Operating and Non-Operating)	2020	2019	Percentage Change
Health Care Premiums	2,304,205	\$ 2,327,440	(1.0)%
Investment Income	7,854	\$ 10,623	(26.1)
Other Revenue	413	\$ 686	(39.8)
Total Revenues	\$ 2,312,472	\$ 2,338,749	(1.1)%
Operating Expenses			
Health Care Claims	\$ 1,932,461	\$ 1,863,374	3.7 %
Health Care Claims Processing	\$ 115,227	\$ 118,883	(3.1)
Health Care Fees	841	929	(9.5)
Premium Payments to HMO's	256,851	243,199	5.6
Administrative Expenses	3,746	3,703	1.2
Total Expenses	\$ 2,309,126	\$ 2,230,088	3.5 %
Change in Net Position	\$ 3,346	\$ 108,661	(96.9)%

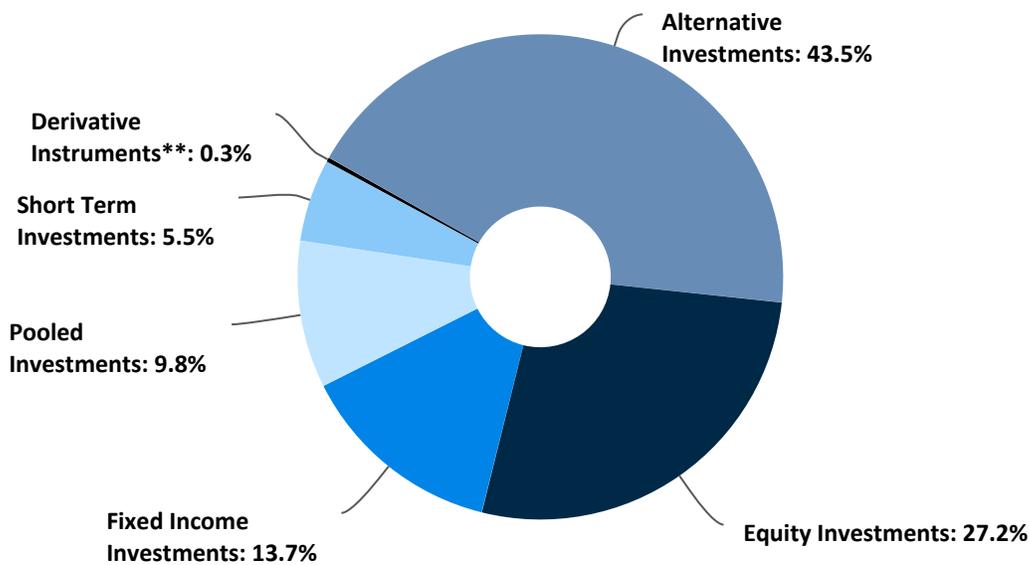
Investment Highlights

Fiscal Year 2020 presented the TRS Pension Fund (Trust) with unprecedented challenges due to the global COVID-19 pandemic. The first quarter of 2020 was a period of historically high volatility in the markets that resulted in a drawdown for the S&P 500 and the Trust. At the end of the first quarter, March 31, 2020, the S&P 500 was down -19.6% while the TRS Pension Fund only dropped -8.3%, a direct result of TRS' diversified portfolio. Despite an adverse impact to the economy and recessionary conditions, global markets staged a historic recovery throughout the final months of FY2020, and the Trust returned 7.24% for year ended August 31, 2020, on target with the 7.25% investment return assumption. As a

result, the total investment value of the fund as of August 31, 2020 stood at \$164.6 billion, a \$7.2 billion increase over last year, net of benefit payments.

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 June 30, 2020.

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



*An overview of each investment type is provided in TRS' 2020 Comprehensive Annual Financial Report 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 TRS' 2020 Comprehensive Annual Financial Report Note 3.D. of the Notes to the Financial Statements for more information.

THANK YOU

***WE ARE EXTREMELY GRATEFUL TO ALL
OF OUR MEMBERS WHO ALLOW US THE
PRIVILEGE OF EARNING THEIR TRUST
EVERY DAY.***



Teacher Retirement System of Texas

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