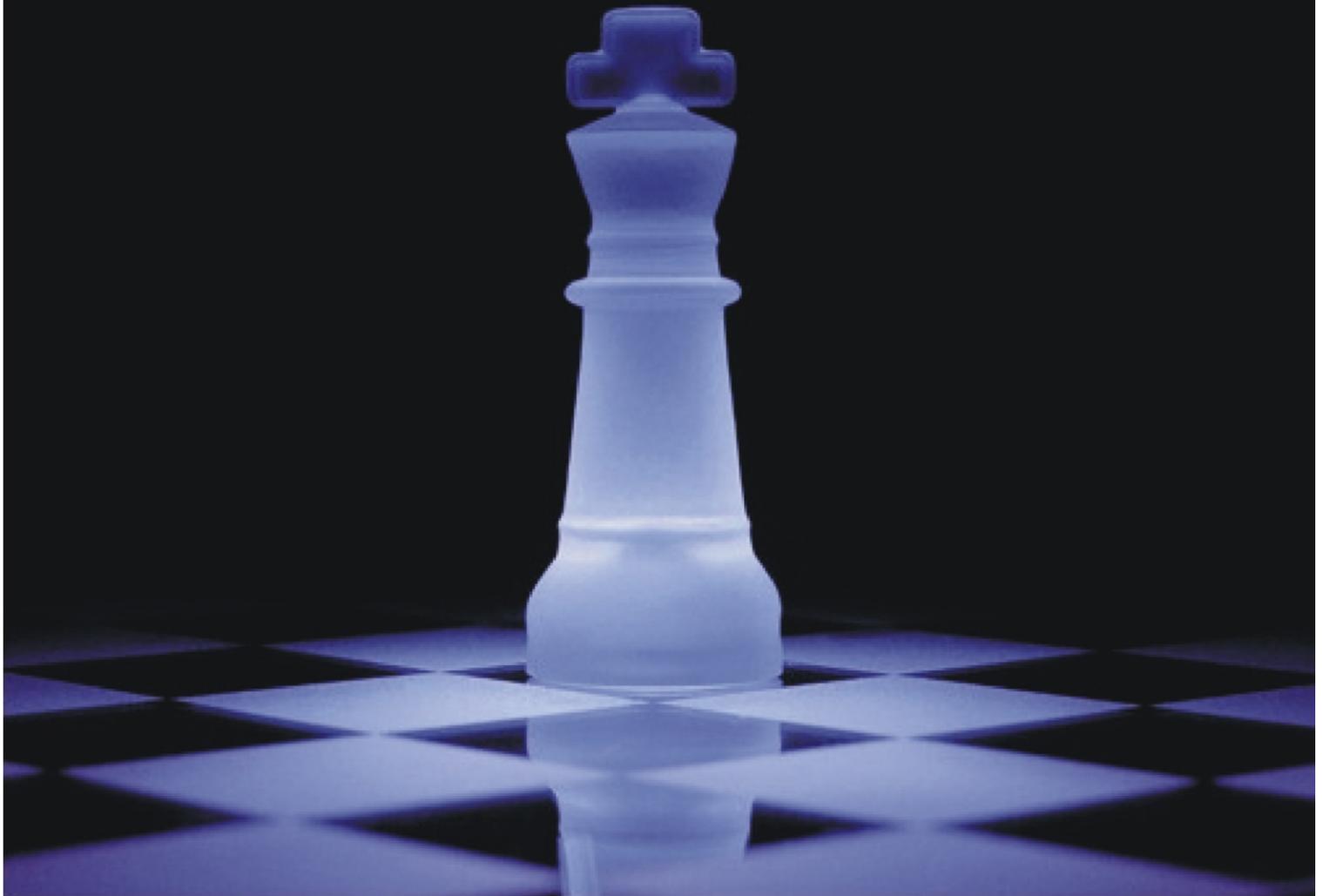




Teacher Retirement System of Texas

STRATEGIC PLAN

2013 - 2017



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STRATEGIC PLAN

FY 2013 – FY 2017

Board of Trustees

R. David Kelly (Chair)

Charlotte Clifton (Vice Chair)

Todd Barth

T. Karen Charleston

Joe Colonna

Eric C. McDonald

Christopher Moss

Anita Smith Palmer

Nanette Sissney

Term Expires

August 31, 2017

August 31, 2013

August 31, 2015

August 31, 2017

August 31, 2013

August 31, 2013

August 31, 2015

August 31, 2017

August 31, 2015

Hometown

Dallas

Snyder

Houston

Houston

Dallas

Lubbock

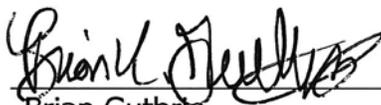
Lufkin

Wichita Falls

Whitesboro

Submitted on July 6, 2012

Signed:



Brian Guthrie
Executive Director

Approved:



R. David Kelly
Chair, Board of Trustees

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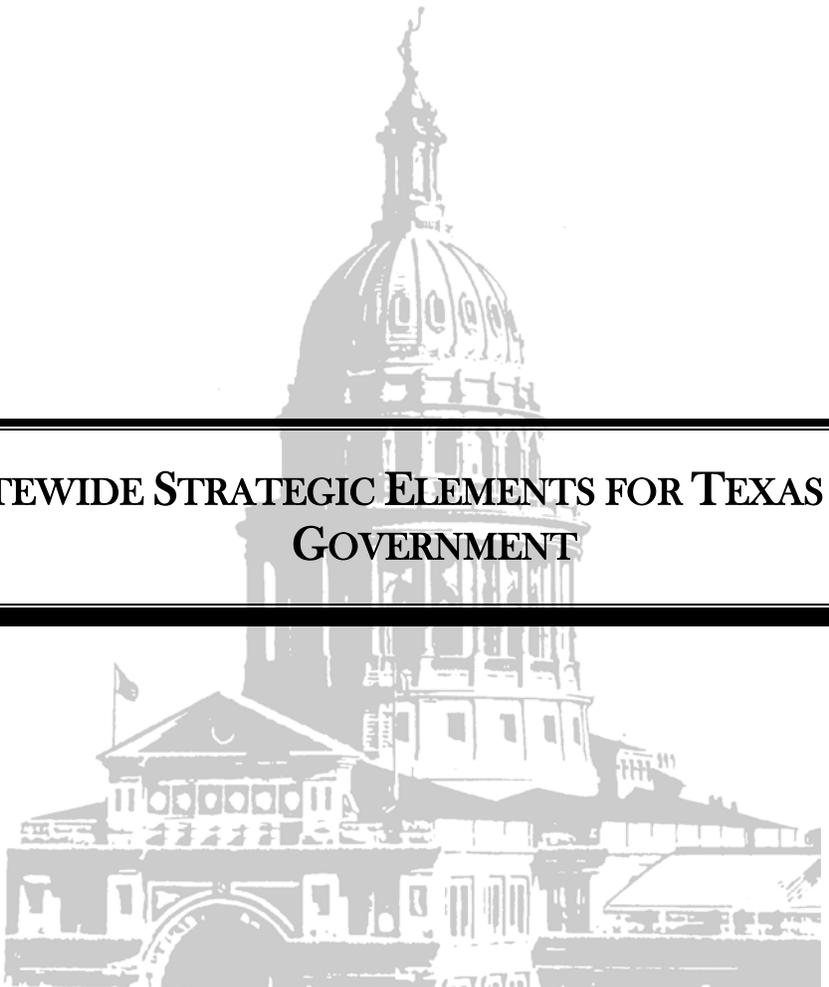


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A faint, grayscale background image of the Texas State Capitol building in Austin, Texas, showing its iconic dome and classical architecture.

**STATEWIDE STRATEGIC ELEMENTS FOR TEXAS STATE
GOVERNMENT**

STATE MISSION

Texas state government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high . . . we are not here to achieve inconsequential things!

STATE PHILOSOPHY

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse, and providing efficient and honest government.
- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

STATEWIDE PRIORITY GOALS THAT APPLY TO TRS

The strategic objectives of the Teacher Retirement System of Texas (TRS), developed in accordance with the TRS Board of Trustees' fiduciary duties and presented in this document, support the following priority goals of the state of Texas:

Education – Public Schools

To ensure that all students in the public education system acquire the knowledge and skills to be responsible and independent Texans by:

- Ensuring students graduate from high school and have the skills necessary to pursue any option including attending a university, a two-year institution, or other post-secondary training, serving in the military, or entering the workforce.
- Ensuring students learn English, math, science, and social studies skills at the appropriate grade level through graduation.
- Demonstrating exemplary performance in foundation subjects.

TRS enhances the well-being of those dedicated to serving in public education by providing retirement and related benefits, which serve as a recruitment and retention incentive for Texas public school employees. This directly supports the state's priority goal for education.

Education – Higher Education

To prepare individuals for a changing economy and workforce by:

- Providing an affordable, accessible, and quality system of higher education.
- Furthering the development and application of knowledge through teaching, research, and commercialization.

TRS directly supports the state's priority goal for higher education by providing retirement and related benefits, which serve as a recruitment and retention incentive for Texas higher education employees.

Health and Human Services

To promote the health, responsibility, and self-sufficiency of individuals and families by:

- Making public assistance available to those most in need through an efficient and effective system while reducing fraud.
- Restructuring Medicaid funding to optimize investments in health care and reduce the number of uninsured Texans through private insurance coverage.
- Enhancing the infrastructure necessary to improve the quality and value of health care through better care management and performance improvement incentives.
- Continuing to create partnerships with local communities, advocacy groups, and the private and not-for-profit sectors.
- Investing state funds in Texas research initiatives which develop cures for cancer.
- Addressing the root causes of social and human service needs to develop self-sufficiency of the client through contract standards with not-for-profit organizations.
- Facilitate the seamless exchange for health information among state agencies to support the quality, continuity, and efficiency of healthcare delivered to clients in multiple state programs.

TRS supports the state's priority goal for health and human services by providing income and health benefits for retired Texas public education employees and their families. TRS also administers a health benefit program for eligible Texas public school employees and their eligible dependents.

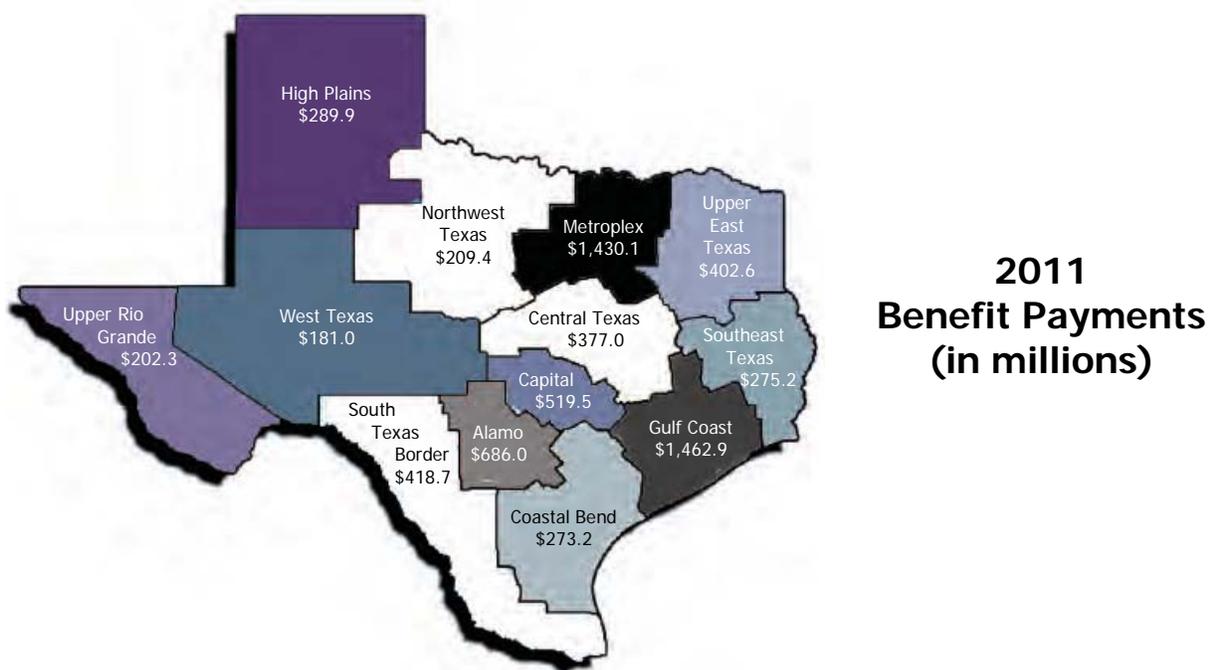
Applicable benchmark: The number and rate of uninsured Texans.

Economic Development

To provide an attractive economic climate for current and emerging industries and market Texas as a premier business expansion and tourist destination that fosters economic opportunity, job creation, and capital investment by:

- Promoting a favorable business climate and a fair system to fund necessary state services.
- Addressing transportation needs.
- Maintaining economic competitiveness as a key priority in setting state policy.
- Developing a well-trained, educated, and productive workforce.

TRS supports the state’s priority goal for economic development by contributing to the Texas economy through disbursement of retirement, death, and survivor benefits. In 2011, these payments totaled approximately \$7.2 billion. Nearly 95 percent of these payments, over \$6.7 billion, went directly to residents who live and spend these dollars in Texas.



General Government

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations.
- Ensuring the state’s bonds attain the highest possible bond rating.
- Conservatively managing the state’s debt.

TRS supports the state’s priority goal for general government by operating efficiently, openly, and by focusing on its core competencies. In addition, prudent pension trust fund investment



provides a foundation for ensuring that retirement programs and pension funds are actuarially sound and well-managed.

Applicable benchmarks:

- Number of state services accessible by Internet.
- Total savings realized in state spending by making reports/documents/processes available on the Internet and accepting information in electronic format.
- Funded ratio of statewide pension funds.



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TRS VISION, MISSION, AND PHILOSOPHY



Teacher Retirement System of Texas

Our Vision, Mission, and Philosophy

Vision

Earning your trust every day.

Mission

Improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.

Philosophy

- We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members and annuitants.
- We are sensitive, caring, and fair to those we serve and to our co-workers.
- We take pride in the work we perform and strive to continuously improve.
- We are open, responsive, and ethical in the conduct of business with members, annuitants, government officials, and the public.



EXTERNAL AND INTERNAL ASSESSMENT

Key issues and major challenges impacting TRS' mission, goals, and objectives.

KEY ISSUES

- ✦ Financial markets remain highly volatile while presenting an expanding and more complex array of investment alternatives.
- ✦ The pension plan has sufficient funds to pay benefits for current retirees as well as for new retirees well into the future.
- ✦ Pension trust fund investment performance is increasingly tied to the state of the global economy.
- ✦ There is heightened interest and awareness in the TRS health care plans due to uncertainty created by recent passage of the federal health care legislation.
- ✦ Health care costs continue to rise significantly.
- ✦ There will be continued growth in the number of active members and annuitants as well as reporting entities in the pension plan.
- ✦ The number of annuitants will increase at a faster rate than the number of active members.
- ✦ Pension issues, and the value of defined benefit plans as compared to defined contribution plans, are currently the subject of a national policy debate.
- ✦ The complexity of TRS rules and statutes makes business processes complex and time-consuming to execute.
- ✦ The overall aging of the workforce will result in additional pressures on TRS staffing.
- ✦ TRS stakeholders will expect new channels of communications and means of conducting business with TRS through the use of evolving technology.
- ✦ TRS will utilize effective procedures and leading-edge technology to protect confidential member information.

MAJOR CHALLENGES

- ✦ Sustaining investment returns at or in excess of the eight percent actuarial assumed rate of return for the pension plan while maintaining an appropriate level of risk exposure.
- ✦ Achieving and maintaining an actuarially sound funding status.
- ✦ Securing funding for and controlling costs associated with TRS health benefit plans.
- ✦ Examining the impacts of potential changes to the pension plan pursuant to the legislatively-directed study due September 1, 2012.
- ✦ Successfully implementing the TRS Enterprise Application Modernization (TEAM) Program.
- ✦ Providing legislatively approved annuity increases to help maintain the purchasing power of our annuitants.
- ✦ Managing change within TRS.
- ✦ Staying abreast of changes in our regulatory environment and ensuring compliance (i.e.,

MAJOR CHALLENGES

(GASB, IRS, SEC, legislative).

- ✦ Communicating important information to stakeholders in a clear, timely, and convenient fashion.
- ✦ Responding to open records requests in a timely and cost-effective manner through adequate staffing, an effective electronic records management system, and increased public access through the TRS website.
- ✦ Collecting member and retiree e-mail addresses and telephone numbers.
- ✦ Using technology effectively to enhance customer service and manage investments.
- ✦ Implementing strategic technology projects in a timely and effective manner.
- ✦ Ensuring effective workforce continuity planning and knowledge transfer among TRS staff.
- ✦ Attracting and retaining qualified staff.
- ✦ Continuing enhancement of customer service.

SCOPE & FUNCTIONS

Historical Framework

Recognizing that having a sound and reliable retirement benefit would enhance the lives of Texas educators, and thus improve educational quality for the children of Texas, voters in 1936 approved an amendment to the state constitution authorizing creation of the Teacher Retirement System of Texas. Following enabling legislation in 1937, TRS was formed. Currently, the system is established and operates under Section 67, Article XVI of the Texas Constitution.

While its mission to provide retirement benefits remains essentially unchanged, the breadth of its responsibility has increased considerably. Originally applicable only to teachers and public school administrators, the system now provides service and disability benefits for employees of public schools, educational service centers, charter schools, community and junior colleges, universities, and medical schools. A number of events and legislative actions have affected TRS since its inception, including the following:

- 1949 - TRS retirement plan membership was expanded to include all employees of public education institutions, including cafeteria workers and bus drivers.
- 1985 - The 69th Legislature established TRS-Care, a health benefit program for public school retirees.
- 1987 - The plan was amended to take advantage of federal tax code provisions to make member contributions tax deferred.
- 1999 - Legislation was enacted authorizing TRS to administer an optional long-term care insurance program for eligible active members and retirees.
- 2001 - Legislation was enacted to create TRS-Active Care, a statewide health benefit program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS.
- 2005 - Significant legislation was passed altering several aspects of the plan related to benefit eligibility and determination. The legislative objective was to help assure the plan's long-term viability by influencing future retirement patterns.
- 2007 - The TRS Board of Trustees adopted a new long-term asset allocation that over time will increase TRS holdings in private markets and reduce holdings in public markets. This shift in assets is intended to increase investments diversification and returns without increasing risks to the fund. The legislature also granted TRS authority to use external investment managers and to use certain investment instruments to help manage risk, enhance returns, and promote efficient portfolio management.
- 2009 - Legislation was passed for federal retirement plan qualification, other tax-related matters, and certain health care provisions.
- 2011 - Legislation was enacted to extend authorization for the use of external investment managers and to use certain investment instruments to help manage risk, enhance returns, and promote efficient portfolio management until September 1, 2019. TRS was



also authorized to increase its allocation to hedge funds from five percent to 10 percent until September 1, 2019. Significant changes were made to the cost of certain kinds of purchased service credit, certain administrative functions, and employment after retirement.

Primary Functions

TRS serves active and retired public and higher education employees of the state through its four core competencies.

Benefit Delivery - TRS administers an array of benefits, including service and disability retirement benefits, death and survivor benefits, health benefit programs, and long-term care insurance. TRS is committed to delivering these services in an efficient and professional manner. Today, TRS serves just over 1 million active public education employees. Additionally, over 312,000 individuals receive retirement benefits from the plan. Almost 207,000 retirees or their dependents participate in the TRS-Care retired employee's health benefit program and over 458,000 active school employees and their dependents participate in the TRS-Active Care program. These programs are expected to continue growing into the foreseeable future.

Investment Management - TRS manages a pension trust fund for the benefit of its members. The trust fund is presently the seventh largest public pension fund and eighth overall in the nation, based on asset size¹. The fund is established through contributions from the state of Texas, TRS members, TRS reporting entities (employers), and investment returns. Over the last 10 years, investment returns have provided nearly 58 percent of TRS revenues.

Communication With Stakeholders - Consistent with Texas State government philosophy, TRS recognizes that it is each individual's right and responsibility to make informed retirement decisions. As subject-matter experts for a number of complex programs, TRS staff are responsible for providing accurate information about TRS programs and services to all interested parties, including active and retired members, legislative and governing bodies, school districts and institutions of higher education, and the public. TRS communicates with stakeholders to enable them to make informed decisions related to TRS programs. This may include funding and benefit design decisions made by the legislature or retirement options selected by members. TRS also provides general educational information regarding pensions and health benefit matters, and responds to media and other requests relating to the investments of the system. TRS continues to sharpen its communication focus on benefit delivery and fund management and is committed to enhancing its channels of communication to meet the needs of all constituents.

Workforce Contribution - In order to provide the level of excellence expected by its stakeholders, TRS must attract, develop, and retain an exceptionally qualified and diverse workforce.

¹ Pensions & Investments, February 6, 2012

Public Perception

As America's seventh largest public pension fund and one of the largest public entities providing retirement and health benefits and related services to nearly 1.3 million public education employees, TRS is often in the public eye. One in 20 Texans is a member or retiree of TRS. As such, the organization places great importance on meeting the needs of a variety of stakeholders. These stakeholders include: TRS members; retirees and their beneficiaries; elected officials; board members; professional associations of public educators; TRS employees; and taxpayers of the state of Texas. TRS strives to be a model public entity that serves the interest of all stakeholders by operating as effectively as possible at the lowest possible cost while providing exemplary customer service.

The economic impact of the system is significant. In 2011, TRS delivered more than \$7.2 billion in benefit payments to retirees and beneficiaries; 95 percent of these recipients continue to reside in the state of Texas. TRS also provides health benefits for active members and retirees, with the vast majority of payments being made to health care providers in this state.

TRS' main focus continues to be its primary stakeholders: its members, retirees, and their beneficiaries. TRS employees strive to provide the highest quality of service. To ensure success, TRS conducts member satisfaction surveys and adapts its service delivery processes based on those survey findings.

In the spring of 2012, TRS contracted with the University of North Texas to conduct a member satisfaction survey to assess levels of customer satisfaction with:

- TRS benefit counselors.
- The TRS Telephone Counseling Center.
- Responses to written requests for information.
- The automated telephone system.
- Internet services.
- TRS-Care and TRS-Active Care.
- Printed materials and other communications.
- Annual statements of account.
- TRS facilities.
- Social media options.
- Overall TRS services.

The 2012 survey results show very favorable ratings among TRS members and retirees. Overall, 98.9 percent of retirees and 97.4 percent of active members reported that they were either satisfied or very satisfied with TRS member services. Satisfaction ratings for benefit counselors, the TRS Telephone Counseling Center, and the TRS website all were very positive with a large majority of respondents reporting that they were satisfied. Courtesy ratings for TRS representatives who work with members and retirees were also very positive. With respect to

health benefit services, 94.9 percent of retirees and 86.7 percent of active members were either very satisfied or satisfied with TRS-Care and TRS-Active Care services respectively.

TRS launched a number of initiatives to provide information and assistance to members, retirees, and the general public. As part of its commitment toward open and transparent communication, TRS began webcasting all board meetings. The meetings are now streamed live so members and others can watch the proceedings as they take place from anywhere in Texas or around the world. Each meeting is also recorded for playback on demand. All TRS board meetings are archived on the TRS website where individual agenda items can be easily accessed.

Fiscal year 2011 saw TRS produce the first in a series of issue-oriented videos called “TRS Today” with featured interviews of TRS executives on topics such as TRS-Care, TRS-Active Care and various communication initiatives. In addition, TRS produced instructional videos such as “Steps to Retirement.” TRS also produced a video to illustrate how TRS adds value to its members, the Texas and local economies, and the state’s education system. A brochure on the topic complements the video.

TRS launched a social media presence on Facebook, LinkedIn, YouTube, Twitter, and Wikipedia to supplement TRS’ traditional methods of communication and offer new ways for active members, retirees, beneficiaries, and others with an interest in the retirement system to engage directly with TRS online.

TRS continued its outreach to members and retirees through several town-hall style Report Card Tour meetings across different areas of Texas. These meetings provide an opportunity for trustees and TRS executives to meet with members and retirees face-to-face not only to provide an update of the fund’s status and other pertinent information, but also to answer any questions they may have.

TRS continues to make enhancements to its role-based website, enabling members, retirees and beneficiaries, employers, and the general public to find information directly pertaining to them. *MyTRS*, an online access section of the TRS website, allows members and retirees to conduct convenient business transactions online and receive important announcements and TRS publications through e-mail, including resetting their passwords and registering for group benefit presentations. TRS also initiated online surveys of members and visitors to the TRS website to improve navigation and accessibility and to research self-service applications. Graphics enhancements to the Web were implemented as well, and staff task forces on website accessibility and readability were established.

TRS expanded the *TRS-Connect* project aimed at encouraging district employees to register their e-mail addresses with TRS. Such employees can now receive TRS-related information quicker than by mail, be notified whenever important TRS developments occur, and help TRS reduce



printing/mailing expenses. Building on the success of *TRS-Connect*, the *MyTRS* online application became the method for members to register their e-mail addresses.

The *TRS Benefits Handbook*, the pension plan's summary description, was updated to reflect the latest member and retiree benefit information. It was organized to align with recently designated TRS membership tiers and includes benefit changes enacted by the 82nd Legislature. The *TRS Service Credit* brochure and the *Employment After Retirement* booklet were also updated to include recent changes.

Benefit Counseling continued to reach out to members with group presentations to professional associations, to employee and retiree groups, and at regional education service centers. Fiscal year 2011 was the fifth year that one-on-one retirement counseling sessions were offered in limited field locations throughout Texas.

As public servants, TRS employees have demonstrated their commitment to helping those in need in their community. During the 2011 State Employee Charitable Contribution Campaign, TRS was recognized yet again for the highest percent participation and the highest per capita donations among similar-sized agencies in both the Capital Area and statewide.

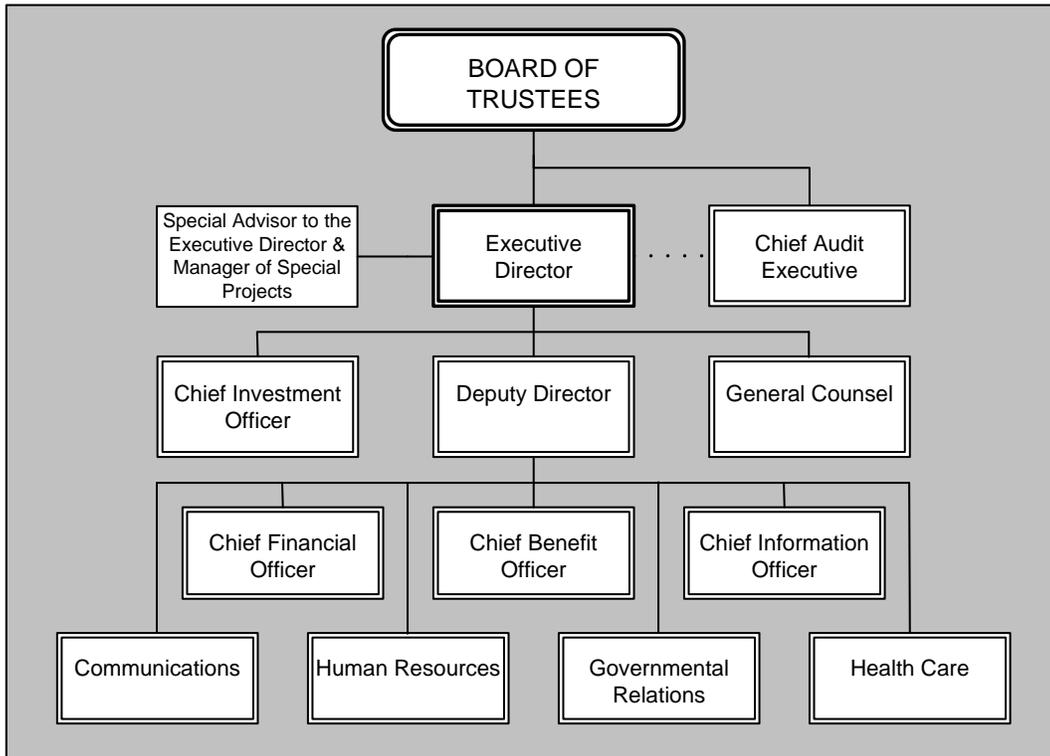
As a public entity, TRS works to create an environment that reflects the diversity of the state. TRS' diversity initiative allows all of its employees to make meaningful contributions to its mission; makes all members feel welcomed and honored as TRS serves them; and actively seeks diversity among external business associates and potential employees, recognizing that these good-faith efforts lead to enhanced organizational effectiveness.

ORGANIZATIONAL ASPECTS

Organizational Structure and Governance

TRS is a public entity governed by a board of trustees appointed by the governor. The executive director, selected by the board of trustees, is the chief executive officer and is responsible for the general administration of the organization. It is headquartered at 1000 Red River Street, Austin, Texas, and the Investment Management Division is located in a separate facility at 816 Congress Avenue.

Organization of TRS



The TRS organizational structure is designed to facilitate fulfillment of its mission by focusing resources in the areas of benefit delivery and investments. TRS has 531.3 budgeted positions, including 475.3 assigned to the pension fund, 55.5 for health benefits functions, and 0.5 for 403(b) program administration. These positions apply to the period from September 1, 2010 to August 31, 2011. Staffing levels are monitored to ensure that sufficient personnel resources are available to provide quality customer service for TRS constituents.

The nine-member board of trustees administers the programs and invests the funds of the system. Board members are appointed by the governor for six-year, staggered terms and are confirmed by the Senate. The governor designates the board’s presiding officer.

The governor's board appointments consist of the following:

- Three direct appointments of persons who must have demonstrated financial expertise, broad investment experience, and who are not active or retired members of the system.
- Two appointments from a list of candidates offered by the State Board of Education.
- Two appointments of active public school employees, selected from a list of the three top vote-getters in an election among active public school employees.
- One appointment of a retired TRS member, selected from a list of the three top vote-getters in an election among retired members.
- One appointment of either a TRS retiree, public school district member, or an institution of higher education member. This appointment will be selected from a list of the three top vote-getters in an election.

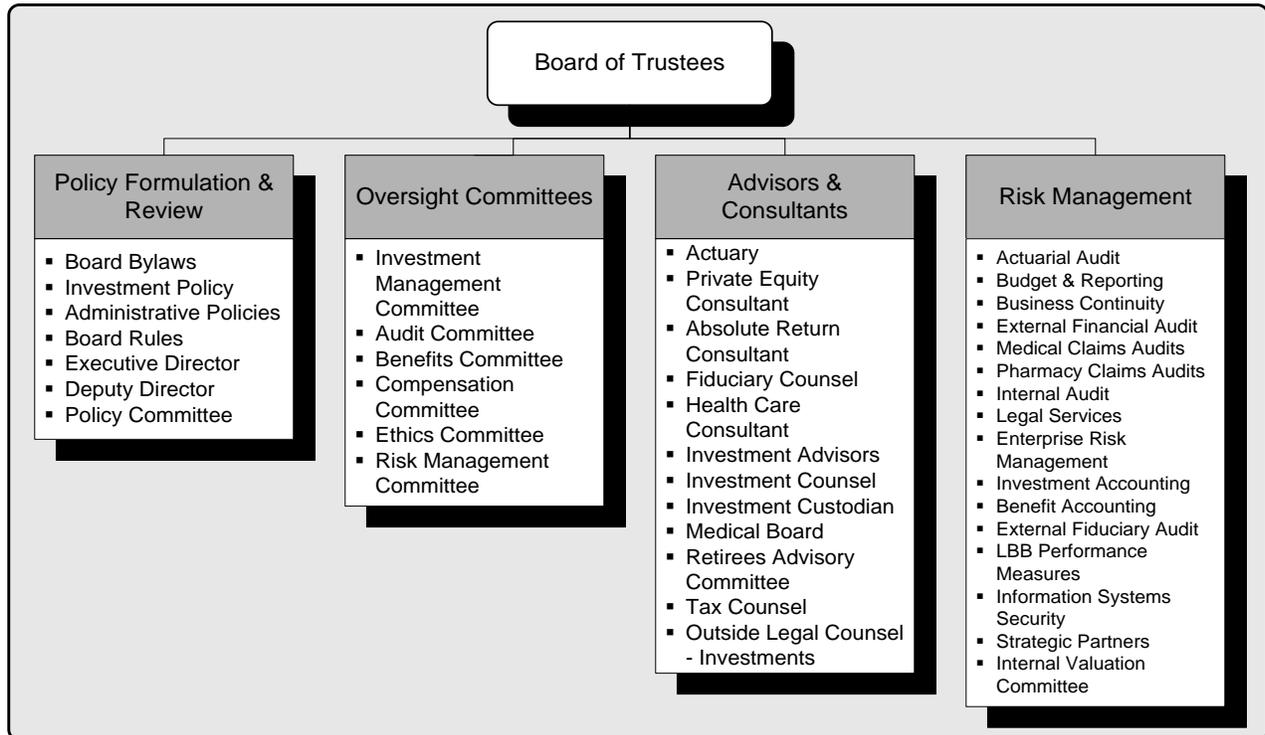
Nominees must have demonstrated financial expertise, have worked in private business or industry, and have broad investment experience, preferably in investment of pension funds.

The structure of the board is intended to ensure the proper balance between the investment and benefit delivery components of TRS' mission.

The board of trustees is supported by a governance structure that aids the board's decision-making processes. Structural components include policy formulation and review, committees of the board, specialty advisors and consultants, and risk management functions.

The TRS governance process is based on fiduciary principles, including leading practices among public pension funds and other institutional investors. The overall purpose is to better assure accountability and integrity in discharging the system's responsibilities to active and retired members, oversight agencies, and the public.

TRS Governance



The TRS governance process strives to:

- Uphold ethical behavior and values within the organization.
- Ensure effective organizational performance management and accountability.
- Effectively communicate risk and control information to appropriate areas of the organization.
- Effectively coordinate the activities of, and communicate information among, the board, external and internal auditors, and management.

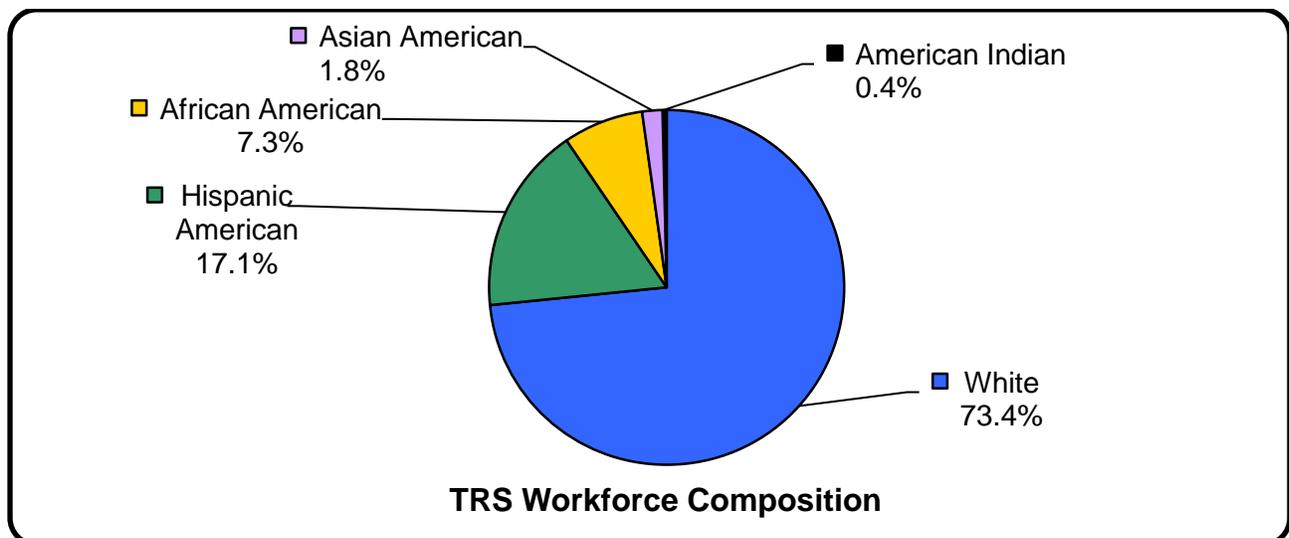
Workforce Management

One of TRS' goals is to develop and retain a high-performing, customer-focused staff that conducts business in an effective and ethical manner. This goal is accomplished, in part, by maintaining effective programs in:

- Compensation and Benefits to ensure that overall employee compensation is externally competitive and internally equitable.
- Performance Management to maintain a systematic approach for providing accurate, timely performance feedback to TRS staff, in support of high quality and productivity.
- Recruitment and Retention to assist managers in recruiting, selecting, and retaining qualified employees.
- Training and Development to support employee's contribution to TRS.

Workforce Analysis/Planning: During the strategic planning process, TRS conducted a thorough workforce analysis, which included planning for future staffing needs and retaining institutional knowledge through knowledge management initiatives and continuity planning for key staff (sometimes referred to as succession planning). See Appendix E for detailed information.

Workforce Diversity: Workforce diversity is the organization’s commitment to promoting a fair, inclusive, and respectful work environment, which includes attracting and retaining a diverse workforce. Activities include outreach advertising and recruiting efforts in historically minority-oriented venues, consistently reporting minority representation in various job categories to senior management, and organization-wide events and training efforts to increase diversity awareness and further a culture of fairness, inclusiveness, and respect.



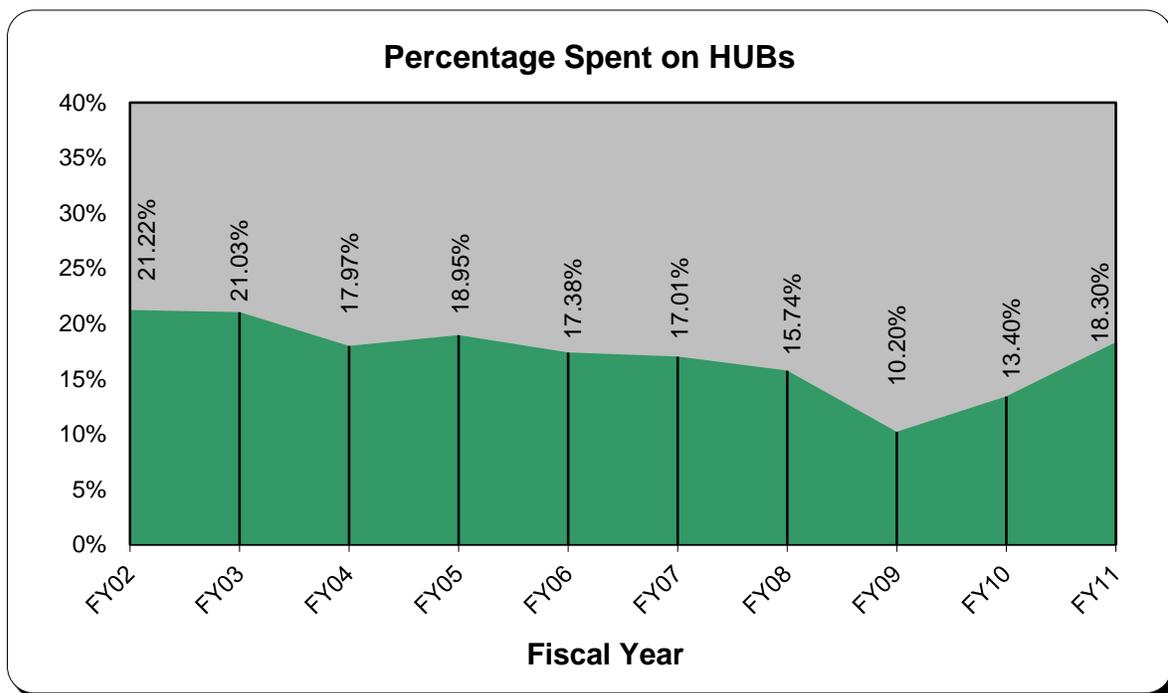
Utilization of Historically Underutilized Businesses (HUBs)

TRS actively seeks diversity among external business associates, recognizing that such good-faith efforts lead to enhanced organizational effectiveness. To that end, TRS recognizes the importance of directing expenditures toward HUBs and continues to pursue initiatives designed to promote HUB opportunities. These initiatives included subcontracting efforts and attending HUB Economic Opportunity Forums throughout the state as well as hosting HUB forums at TRS’ facility. TRS is committed to achieving its goals and continues to make a good faith effort in all areas. As a public entity headquartered in Austin, TRS’ purchasing efforts are centralized. TRS’ HUB coordinator travels to events and forums to encourage participation from HUB vendors throughout the state.

Recognizing that TRS has a limited number of business opportunities for the vast numbers of HUBs competing for those opportunities, TRS is committed to being a resource for HUBs not only in identifying potential opportunities with TRS, but with other state agencies as well. This commitment extends to assisting HUBs in understanding the state of Texas contracting process

and navigating the HUB certification process. TRS is pleased to offer assistance to HUBs in any manner possible - even for opportunities not sponsored by TRS.

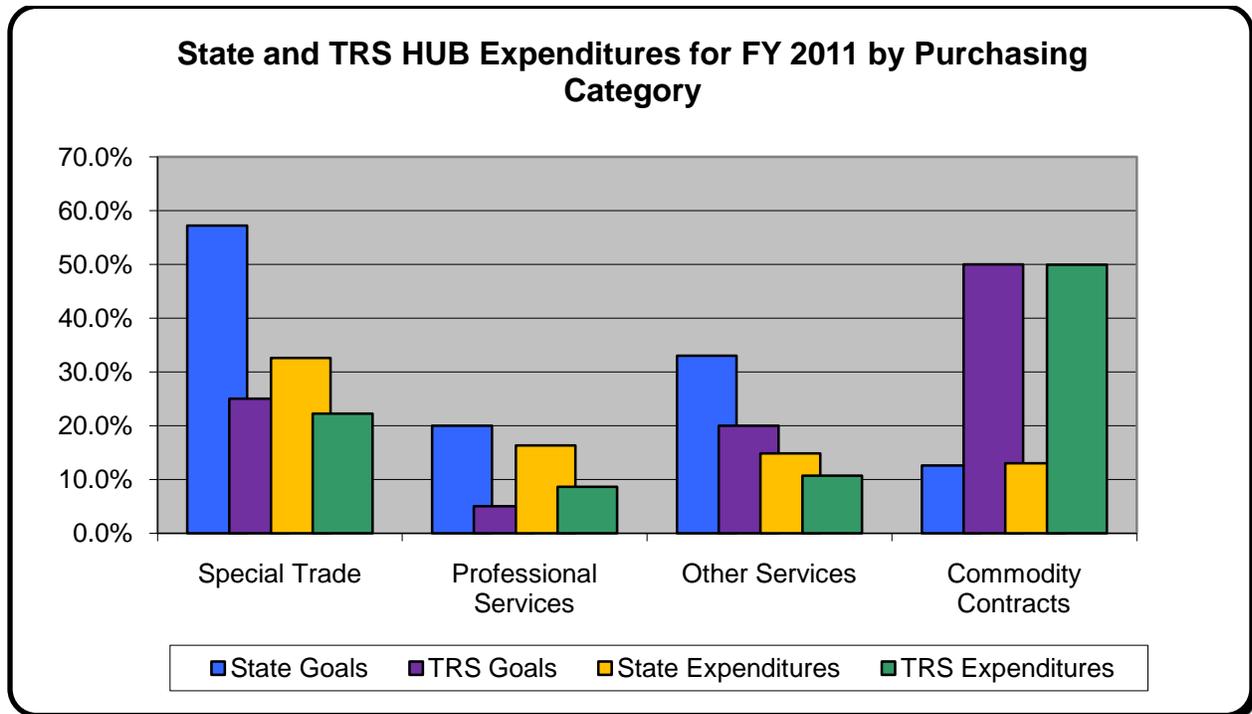
HUB 2011 Expenditures as Percentage of Total Expenditures - Due to TRS' unique needs as a pension fund, TRS expends the majority of funds on a relatively few high-dollar contracts for highly specialized services. TRS has been greatly challenged in obtaining responses from HUBs on these highest dollar contract solicitations that are posted to the Electronic State Business Daily (ESBD). This is evident in the accompanying graph. By contrast, excluding solicitations posted to the ESBD, TRS awarded 32.4 percent (197) of all purchases and paid 26.2 percent (\$1,820,468) of all dollars spent to HUBs.



HUB Expenditures Compared to State's HUB Expenditures - TRS expends funds in four of the state's purchasing categories:

- All special trade construction contracts
- Professional services contracts
- All other service contracts
- Commodities contracts

TRS has no expenditures in two of the state's categories: "Heavy construction other than building contracts" and "All other building construction including general contractors and operative building contracts."



Completed Initiatives for Increased HUB Utilization

- Attended five additional Economic Opportunity Forums, mentored HUB vendors on business opportunities with TRS and finding opportunities with other state agencies, and assisted HUBs with certifications and renewals.
- Participated in meetings hosted by the Texas Comptroller of Public Accounts to discuss efforts to increase opportunities for HUBs to provide financial services.
- Continued to staff the role of HUB coordinator who attends various forums and develops and distributes information internally and externally to facilitate and promote HUB participation.
- Conducted 13 on-site meetings with HUB vendors.
- Advised the HUB vendors on possible business opportunities with TRS as well as other state agencies and how best to address those opportunities.
- TRS Board of Trustees approved and adopted HUB goals.
- HUB information was provided and maintained on the TRS website including the addition of a presentation, "Secrets of Selling to the State." The presentation provides detailed information on the state's and TRS' purchasing processes as well as tools and resources that HUBs can use to identify business opportunities around the state at no cost and with only a small investment of time.
- Identified and assisted HUB vendors with completing certification and recertification documentation.
- Encouraged prime contractors to use HUB subcontractors.

- Paid \$1,455,012 to certified Texas HUBs via subcontracting on contracts with non-reportable expenditure codes.
- Instituted a mentor-protégé agreement to assist a HUB vendor in furthering their business.
- Continued to encourage the use of HUB or minority-owned investment firms in various requests for proposal.
- Developed and distributed information to facilitate and promote HUB participation.
- Co-hosted eleventh annual HUB forum with Texas Workforce Commission.
- Conducted business with seven new HUB vendors in 2011 resulting in expenditures of \$337,292.

Future Initiatives to Increase HUB Utilization

TRS is committed to reaching its goal for HUB utilization, and will continue to make good-faith efforts to do so. TRS will continue to:

- Support and implement responsibilities defined in Chapter 2161, Tex. Gov't. Code, that include:
 - ▶ Supporting the responsibilities of the HUB Coordinator.
 - ▶ Sponsoring HUB Forum programs.
 - ▶ Implementing a mentor/protégé program.
 - ▶ Continuing the usage of HUB subcontracting plans and determining subcontracting opportunities for contracts of \$100,000 or more.
- Encourage prime contractors to use HUB subcontractors.
- Participate in the Economic Opportunity Forums sponsored by the Texas Comptroller of Public Accounts and state senators and representatives, as well as other conferences or conventions that provide contract opportunities and training to HUBs and TRS purchasing staff.
- Identify non-certified HUB vendors and educate them on state purchasing rules and regulations.
- Assist non-certified HUB vendors in completing the documentation required to become certified.
- Host HUB forums with other state agencies.
- Conduct one-on-one meetings with HUB vendors, encourage HUB certification, and assist with identifying business opportunities with TRS and other state agencies.
- Encourage vendor participation in the mentor-protégé program.
- Support and enhance the emerging managers program initiated by TRS' Investment Management Division.

**FISCAL ATTRIBUTES**

Effectively administering the system in the face of changing demographic trends presents significant challenges. Keys to meeting these challenges include:

- ◆ Sound organizational governance.
 - ◆ Realistic cost containment.
 - ◆ Expanded use of technology.
 - ◆ Strong customer focus.
-

TRS Administrative Budget

The state of Texas appropriated an administrative operations budget for the TRS Pension Trust Fund of \$88,251,518 and \$63,251,518 for fiscal years 2012 and 2013, respectively. Included in the fiscal year 2012 appropriations is \$25 million in capital budget authority per TRS Rider 15 for the TRS Enterprise Application Modernization (TEAM) Program. The TRS Board of Trustees adopts an annual operating budget from these appropriations and authorizes funding to be provided from the pension trust fund. Currently, TRS does not receive funding from the state for administrative operations.

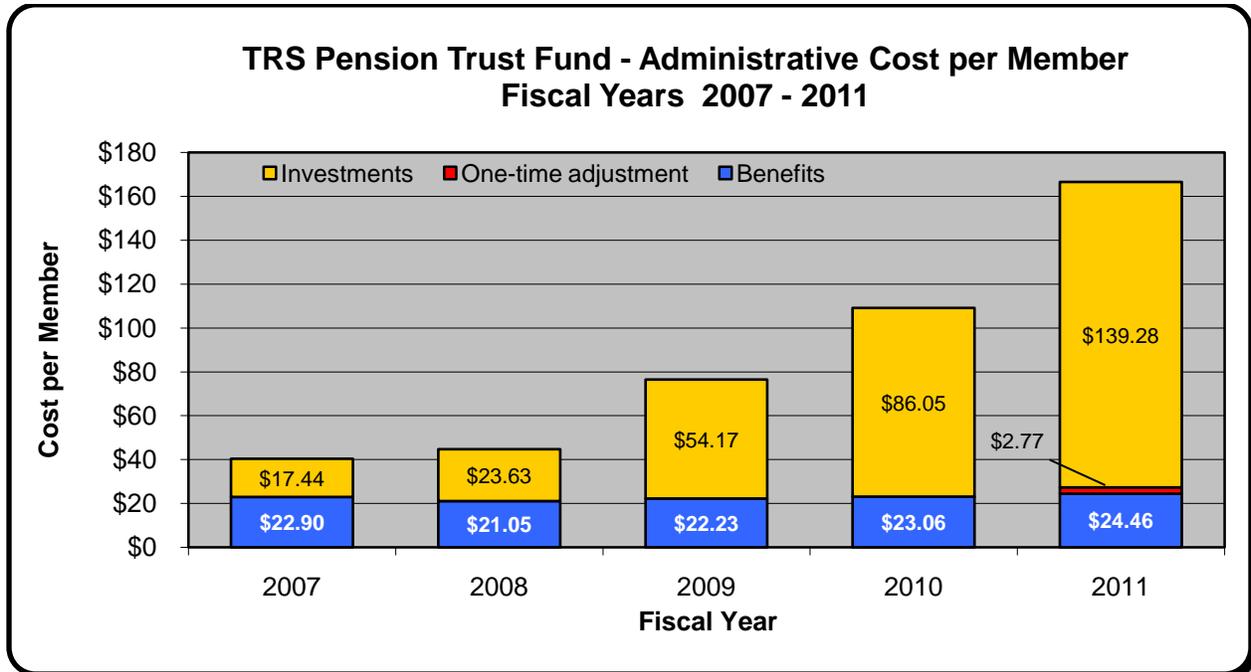
Budget Needs - TRS is committed to maintaining efficient and effective administration that is accountable and transparent to its stakeholders. Continued growth in total membership and in the size of the pension fund continues to challenge TRS resources, which could potentially affect TRS' ability to meet members' service needs within budget constraints.

In 2008, TRS began a transition to a more diversified investment strategy. One of the components of the strategy was the need for additional resources in the Investment Management Division, which have subsequently increased administrative investment expenses from \$20.9 million in fiscal year 2007 to \$45.4 million in fiscal year 2011. The use of certified external managers beginning in fiscal year 2008 was another component of the investment strategy. External manager fees for fiscal years 2008, 2009, 2010, and 2011 were approximately \$1.4 million, \$31.4 million, \$76.6 million, and \$138.0 million, respectively. Although the diversification was completed during fiscal year 2010, maintaining resources to support the investment strategy has been instrumental in the recovery process of the downturn of global financial markets and during periods of market volatility. The investment strategy has yielded favorable results and enabled the pension fund to be well positioned as revealed by the pension fund value rebounding from the lowest point of approximately \$67.0 million in March 2009 to \$107.4 million for the fiscal year ended 2011.

TRS continues to maintain a relatively low administrative operations budget to total membership ratio compared to other public pension funds in the U.S. The pension trust fund total cost per member for fiscal year 2011 was approximately \$164 a year, or roughly \$13.65 per month. The increase in the investments portion of the cost per member calculation is attributable to the use



of certified external managers as well as maintaining resources necessary to support a more diversified investment strategy. The \$27.23 total benefits cost per member for fiscal year 2011 includes a one-time expense adjustment for the remaining net book value of a 2001 technology project in accordance with *Generally Accepted Accounting Principles (GAAP)*. Excluding this one-time adjustment, the benefits cost per member would have been \$24.46 and slightly below the \$24.52 target set by the legislature. Although TRS is committed to efficient operations, the organization also understands that this must be balanced against the needs of our customers.



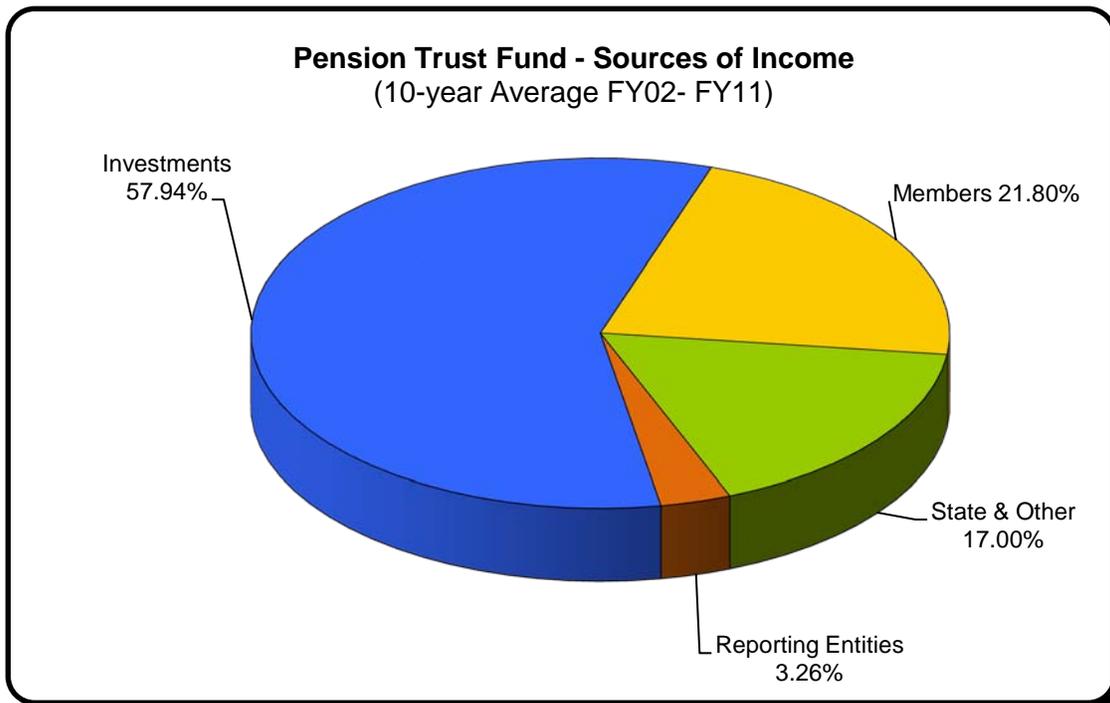
Pension Funding Sources and Uses

Sources of Income - A public pension fund has four basic sources of income:

- ▶ Member contributions
- ▶ State contributions
- ▶ Employer (reporting entities) contributions and reimbursements
- ▶ Earnings on investments

Uses of Funds - There are also four basic uses of funds:

- ▶ Benefit payments
- ▶ Withdrawals of member contributions (refunds)
- ▶ Investments
- ▶ Administrative expenses



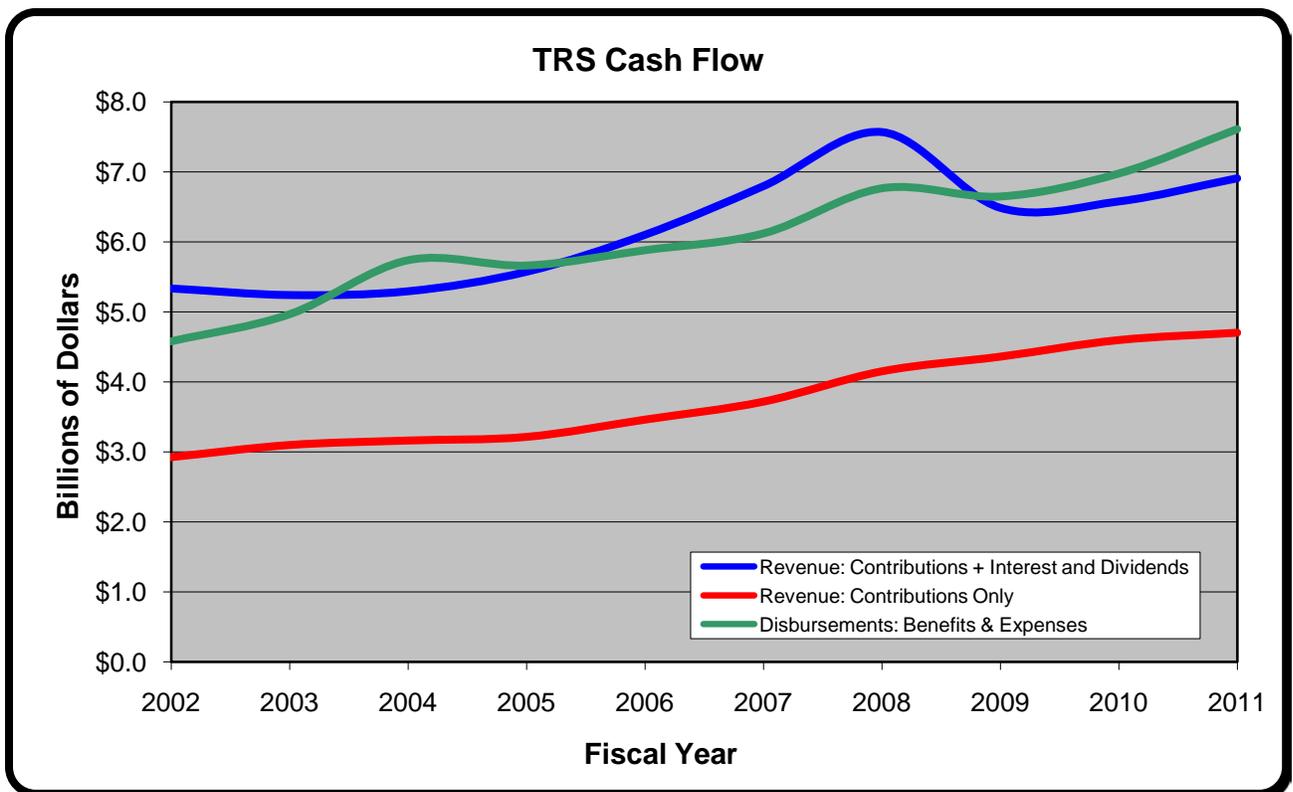
The sources and uses of funds related to investment activities are considered internally generated cash flow. All other sources and uses are external. External cash flow is a measure of a fund's ability to grow without relying on investment income or redemptions to fund current liabilities.



Cash Flow - The sum of member and employer contributions minus the sum of benefit payments, refunds, and administrative expenses equals the external cash flow of the pension fund. When the contributions exceed expenses, the cash flow is positive. Positive external cash flow contributes to the growth of the fund by allowing all investment earnings to be reinvested immediately.

Moving from a positive to a negative external cash flow is a normal occurrence for a maturing pension fund. The primary implication of a negative external cash flow is that when investment earnings are used to pay benefit costs, they cannot be reinvested.

TRS' external cash flow is negative. However, historically, cash flow from interest and dividend income is more than sufficient to cover the negative cash flow. It is expected that the cash generating capacity of the pension trust fund, including contributions, interest, and other investment income will continue to be sufficient to fund cash requirements for pension benefit payments.





Distributions - Fiscal year 2011 pension benefit distributions increased 14.1 percent from fiscal year 2009 to \$7.2 billion, due primarily to an increasing number of retirements. Death and survivor benefit distributions were also elevated and considered another contributing factor.

Statement of Changes in Net Assets	
Pension Trust Fund	
	FY 2011
Additions:	
Member Contributions	\$ 2,349,131,829
State Contributions	1,936,492,407
Reporting Entity Contributions	419,968,516
Investment Income	14,636,935,228
<hr/>	
TOTAL ADDITIONS	\$ 19,342,527,980
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Deductions:	
Benefits	\$ 7,173,504,788
Refunds of Contributions	334,268,822
Benefits Paid to ERS	64,975,438
Excess Benefits	1,547,229
Administration	35,849,819
<hr/>	
TOTAL DEDUCTIONS	\$ 7,610,146,096
<hr/>	
NET CHANGE	\$ 11,732,381,884



Funding for TRS-Care

TRS-Care, the retiree health benefit program, was first offered as a new service to school district retirees in 1986. At that time, projections indicated that funding for the program would last approximately 10 years. Fund longevity exceeded this estimate; however, at August 31, 2003, the net assets of the fund were at a deficit and continuation of the program required supplemental legislative appropriations during fiscal years 2004 and 2005. The program has maintained solvency since that time and has not received any further supplemental legislative appropriations.

Statement of Changes in Net Assets	
TRS-Care	
	FY 2011
Additions:	
Retiree Premiums	\$ 345,164,271
State Contributions	257,105,886
Federal/Private Contributions	25,784,985
Active Member Contributions	183,808,580
Reporting Entity Contributions	155,471,641
Employment after Retirement Surcharge	3,252,369
Federal Revenue	136,887,805
Investment Income	8,168,640
TOTAL ADDITIONS	\$ 1,115,644,177
Deductions:	
Health Care Claims	\$ 992,478,380
Health Care Claims Processing	44,115,872
Administration	3,143,922
TOTAL DEDUCTIONS	\$ 1,039,738,174
NET CHANGE	\$ 75,906,003

The TRS-Care fund for retirees is a self-funded plan that is separate and distinct from the TRS Pension Trust Fund. It receives state contributions from General Revenue and is currently appropriated for the 2012 and 2013 fiscal years at \$267,350,984 and \$133,675,493, respectively. These amounts are based on a state contribution rate of 1.0 percent of covered payroll for fiscal year 2012 and 0.5 percent of payroll for fiscal year 2013.

Other funding sources for the program include active member and reporting entity contributions, retiree premiums, investment income, and retiree drug subsidy payments. As a result of the



Federal Affordable Care Act, TRS was eligible and received \$70,629,796 in fiscal year 2011 for participation in the Early Retiree Reinsurance Program (ERRP). It is not anticipated that additional funding will be received from this program. With the assumption that no additional ERRP funding will be received, TRS-Care is projected to be insolvent during the last quarter of fiscal year 2014.

TRS-Care does not receive appropriations from the state for administrative operations. The TRS Board of Trustees approves an annual operating budget controlling the administrative expenses of the program, which are paid directly from the trust fund.



Funding for TRS-Active Care Members’ Health Benefit Program

The 77th Legislature established a statewide health coverage program for active school employees and their dependents. This health benefit program, TRS-Active Care, went into effect September 1, 2002 and provides health coverage to employees of school districts, charter schools, regional education service centers, and other educational districts.

Statement of Changes in Net Assets	
TRS-Active Care	
	FY 2011
Additions:	
Health Care Premiums	\$ 1,549,530,891
Administrative Fees	135,917
On Behalf Fringe Benefits - State	67,373
ARRA Cobra Reimbursements	667,746
Investment Income	3,387,062
TOTAL ADDITIONS	\$ 1,553,788,989
Deductions:	
Health Care Claims	\$ 1,510,090,981
Health Care Claims Processing	76,960,951
Premium Payments to HMOs	76,270,706
Administration	2,207,051
TOTAL DEDUCTIONS	\$ 1,665,529,689
NET CHANGE	\$ (111,740,700)

TRS-Active Care is a self-funded plan that is separate and distinct from the TRS Pension Trust Fund. The monthly cost of the plan must cover the cost of claims and administrative expenses with some contingency reserve for unfavorable actual claims experience relative to expectations. The program is funded from several sources:

1. The school districts are required to contribute a minimum of \$150 per month per covered TRS member (school districts may contribute more if they choose).
2. The state contributes \$75 per month per covered TRS member through school finance formulas.
3. The employee’s share for the plan chosen is the amount remaining after employer and state contributions.

Additional funding sources include investment income and reimbursements related to the American Recovery and Reinvestment Act (ARRA for 2009-2012).



The TRS Board of Trustees approves an annual operating budget controlling the administrative expenses of the program, which are paid directly from the trust fund.

Investments

Objectives - The investment management function continues to serve the objective of generating returns to support the administration and payment of pension benefits to participants, including payment of cost-of-living increases for retirees when authorized by the legislature and when investment returns (or returns coupled with other sources of revenue) are sufficient to support them. Prudent investment of the pension trust fund provides the foundation for achieving the goal of an actuarially sound fund.

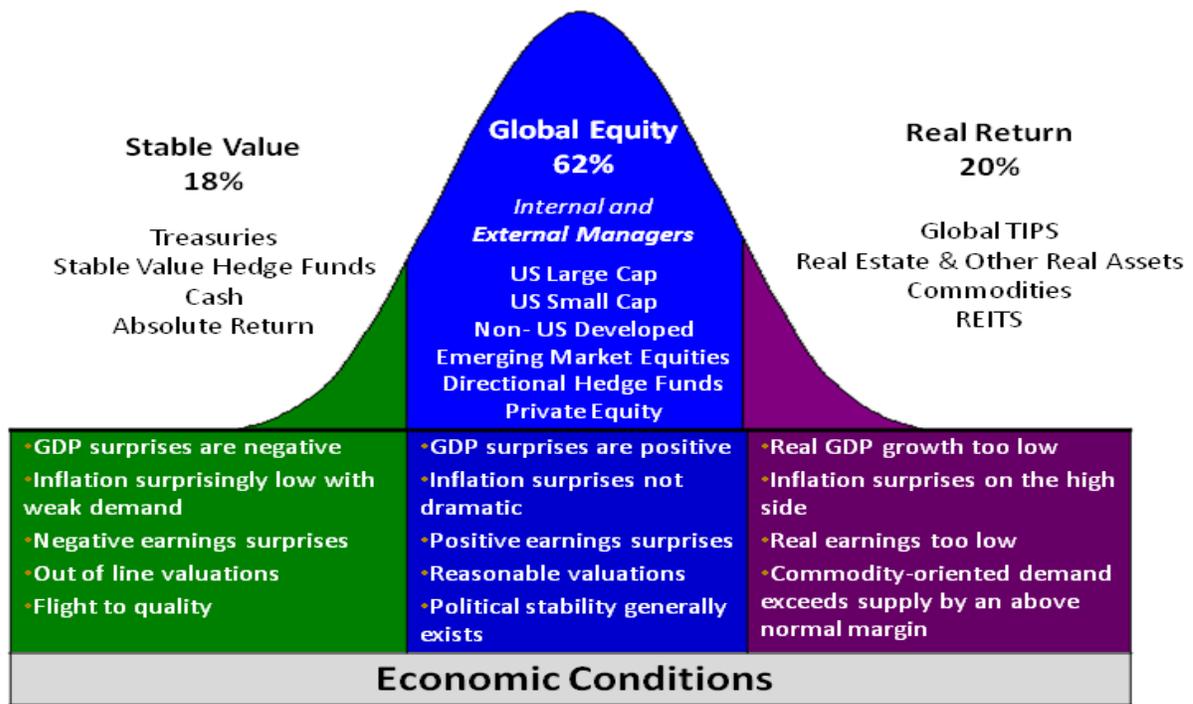
The Investment Management Division's fundamental strategy is to be broadly diversified, not only with respect to individual securities, but also at the asset class level, and more importantly, at the economic regime level. As noted in the Board of Trustees' Investment Policy Statement, the total investment portfolio (the "Total Fund") is managed with a long-term perspective. Thus, the Total Fund is structured to:

1. Control risk by diversification of asset classes and by establishing long-term risk and return expectations.
2. Achieve a long-term rate of return that:
 - Exceeds the assumed actuarial rate of return adopted by the board.
 - Exceeds the long-term rate of inflation by an annualized 5.0 percent.
 - Exceeds the return of a composite target benchmark comprised of the weighted asset class allocations.

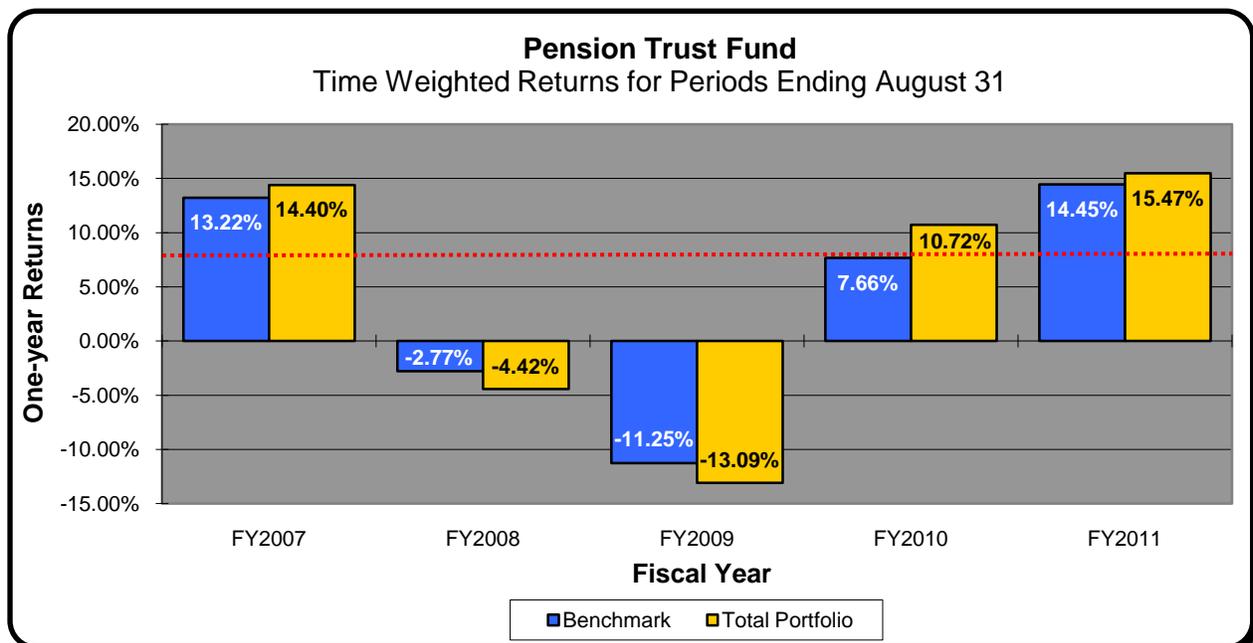
Composition - The TRS investment portfolio is structured to achieve a long-term return that equals or exceeds the assumed actuarial rate of return adopted by the board.

To determine the appropriate asset classes and the amount of funds that should be allocated to each class, the board has adopted a policy requiring an asset/liability study be conducted at least every five years. The purpose of the study is to develop an asset allocation standard that meets the investment risk tolerances of the board and is projected to meet the long-term performance objectives of the Total Fund. By establishing specific asset allocation targets, TRS ensures diversification and controls risk.

In 2008, TRS began a transition to a more diversified investment strategy. The transition has been completed despite one of the most volatile markets in history. The diversification strategy focuses on three possible economic environments which are depicted in the following figure. The most prevalent economic environment is favorable to Global Equities when there is low to moderate inflation with favorable gross domestic product (GDP) growth. The Real Return Portfolio does well in an environment featuring low growth along with high inflation. The Stable Value portfolio does well in the low growth and low inflation (or deflation) environments. The various assets that form the Global Equity, Real Return, and Stable Value portfolios are shown in the following figure.



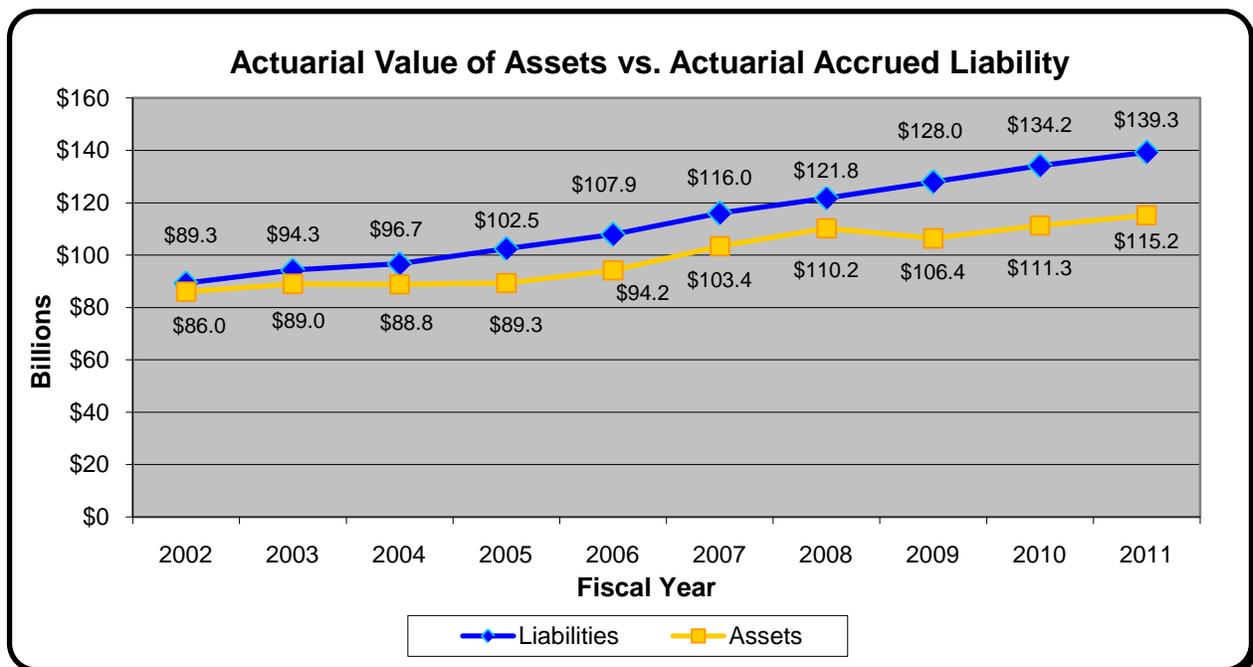
Performance - The TRS investment policy establishes objectives against which the performance of the Total Fund and each of its components will be measured. Investment performance and portfolio characteristics are calculated and compared to benchmarks on a quarterly basis. Benchmarks can be asset-class (or sub-class) indices or peer comparisons. In either case, differences in investment policy, asset allocation strategies, and risk tolerance must be considered.



The total value of the Total Fund on August 31, 2011 was \$107.1 billion. The Total Fund’s annual rates of return for the one-, three-, five-, and 10-year periods ending August 31, 2011 were 15.5 percent, 3.6 percent, 4.0 percent and 5.8 percent, respectively. Despite ongoing volatility, markets have performed strongly since their low point in early 2009. Net of distributions paid, TRS has now fully recovered from losses due to the global financial crisis. Going forward, due to lower interest rates and sovereign debt concerns, the outlook is for muted returns over the next few years.

Actuarial Condition – Pension Trust Fund

While the market return on assets exceeded the 8.0 percent return assumption in fiscal year 2011, the investment losses from fiscal year 2009 continue to impact the outlook of the pension fund. For the fiscal year 2011 actuarial valuation, the pension fund is still deferring net investment losses of \$7.8 billion from the original value of \$17.7 billion for fiscal year 2009. As a result, the ratio of actuarial assets to actuarial accrued liabilities decreased from 83.1 percent in fiscal year 2009 to 82.7 percent in fiscal year 2011. The pension plan’s unfunded actuarial accrued liability (UAAL) increased from \$21.6 billion in fiscal year 2009 to \$24.1 billion in fiscal year 2011.

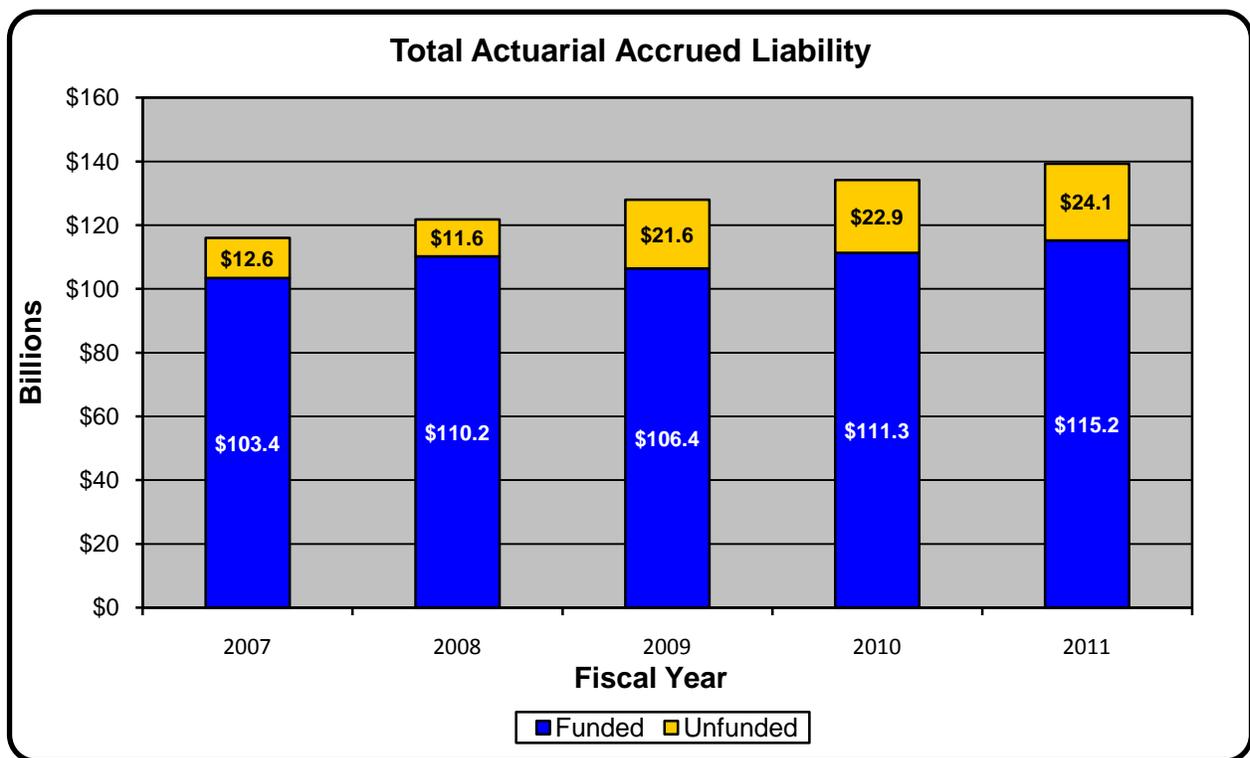


The volatility of investment returns over short and intermediate time horizons can create “noise” in actuarial analysis. Therefore, the system uses a five-year “smoothing process” to reduce the impact of short-term peaks and valleys of annual investment returns when determining annual actuarial returns.



The 82nd Legislature, Regular Session, decreased the state contribution rate from 6.644 percent to 6.0 percent of payroll effective September 1, 2011 and will increase the rate to 6.4 percent effective September 1, 2012. The contribution rate in effect at the time of the actuarial valuation of 6.0 percent from the state and 6.4 percent from members provides a total contribution rate of 12.4 percent. Since the pension plan has a normal cost rate of 10.6 percent, 1.8 percent of these contributions are available to amortize the current UAAL of the pension plan. Based on the fiscal year 2011 actuarial valuation, the 1.8 percent of contributions available for amortizing the current UAAL is not sufficient to amortize over a period of 30 years. The state would need to increase its contribution to 8.13 percent in order to amortize the UAAL over the 30 year maximum acceptable amortization period.

Without significant actuarial gains in the near future, the calculated contribution rate will continue to increase over the next several valuations as the deferred investment losses are realized through the smoothing process. Although the state contribution rate is scheduled to increase to 6.4 percent in fiscal year 2013, if the current assumptions are met, the fund is projected to remain solvent until the year 2075. For the current benefit structure to be sustainable, the contribution levels will need to be increased if all of the current assumptions are met.



Actuarial Condition – Retiree Health Benefit Program

TRS-Care is a benefit program designed to provide post-retirement medical benefits to certain members of TRS. The program is currently funded on a pay-as-you-go basis and is subject to change based on available funding. As of August 31, 2011, TRS-Care had an unfunded actuarial

accrued liability (UAAL) of \$28.9 billion as compared to \$23.6 billion in 2009. Based on current asset levels and expectations that annual revenues will equal annual net benefits and expenses, the program's annual required contribution (ARC) for fiscal year 2012 was calculated at \$2.4 billion, which is 7.93 percent of expected payroll. The ARC is the employer's required contributions to the plan for the year. When contributions to the program are less than the ARC, the UAAL will grow from year-to-year because the amortization schedule will not be met.

Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, local school districts, and the state. The state and active public school employee contribution rates are 1.0 percent and 0.65 percent of public participating payroll, respectively. School districts contribute a percentage of payroll set at 0.55 percent. The state contribution rate will be reduced to 0.5 percent of payroll in fiscal year 2013. Although current contributions are somewhat larger than the current costs, this trend is not expected to continue. The expected pay-as-you-go costs are projected to exceed the employer contributions in fiscal year 2012. The current contribution policy equal to 2.2 percent of payroll cannot sustain the current benefit provisions and reserve levels. It is projected that the balance of the fund will be depleted in the 2014-2015 biennium unless contributions are increased.

A trust exists for the program into which participating employers make contributions that roughly equal the annual expected net claim payments. This trust has an asset balance of \$891 million as of August 31, 2011. These assets are invested in cash and other short-term investments according to current investment policy.

According to the Governmental Accounting Standards Board, an interest discount rate must be used to calculate the present values and costs of other post-employment benefits (OPEB). Based upon demographic, economic, and behavioral assumptions, the TRS Board of Trustees has selected an interest discount rate of 5.25 percent for this purpose.

Impact of Health Benefit Plan Design on Funded Status

The first actuarial valuation for TRS-Care was completed for the fiscal year ended August 31, 2007. Because the state determines the funding of benefits for this program and has no continuing obligation to provide benefits beyond each fiscal year, it is impossible to project the future funded status of the plan. If TRS-Care was fully funded with its assets invested in a trust having a longer term investment horizon, a higher interest discount rate could be used, potentially resulting in a lower UAAL.

TRS trustees remain focused on the need to balance revenues and expenses in a fiscally responsible manner and establish premium rates and benefits that best suit retiree needs given the available funding. TRS understands that the TRS-Care program is a valuable benefit to retired public educators, and the agency will continue to work with state lawmakers to address the ongoing funding requirements of the program.

Physical Facilities and Capital Improvements

TRS owns its office facilities located at 1000 Red River Street in Austin, Texas. The west building was constructed between 1971-1974 and totals 80,384 square feet. The east building and parking garage were constructed between 1987-1990. The east building has 136,790 square feet and the parking garage has 141,912 square feet. The TRS buildings house all employees of the retiree health benefit program, the active health benefit program, and the pension trust fund except for the Investment Management Division (IMD). In March 2009, IMD moved into 47,034 square feet of leased space at 816 Congress Avenue.

Many of the capital improvements made over recent years to physical facilities have been focused on energy efficiency and conservation. They include:

- A four-ply modified bitumen roof with an R Value of 19 and a reflective membrane to reduce heat transference.
- Sealant around doors, windows, and louvers, and at all concrete, granite, and glass joints to reduce loss of conditioned air.
- Energy efficient light fixtures to conserve electricity.
- Energy efficient heating, ventilating, and air conditioning components to conserve natural gas and electricity.
- Drought resistant landscaping and efficient irrigation to conserve water.
- During this strategic planning period TRS will complete a space needs assessment and develop a long range plan to address space needs. Capital improvements to physical facilities projected for this strategic planning period will continue to address energy efficiency and conservation while focusing on providing essential maintenance to physical facilities and enhancing functionality and space utilization for operations and to improve staff effectiveness.

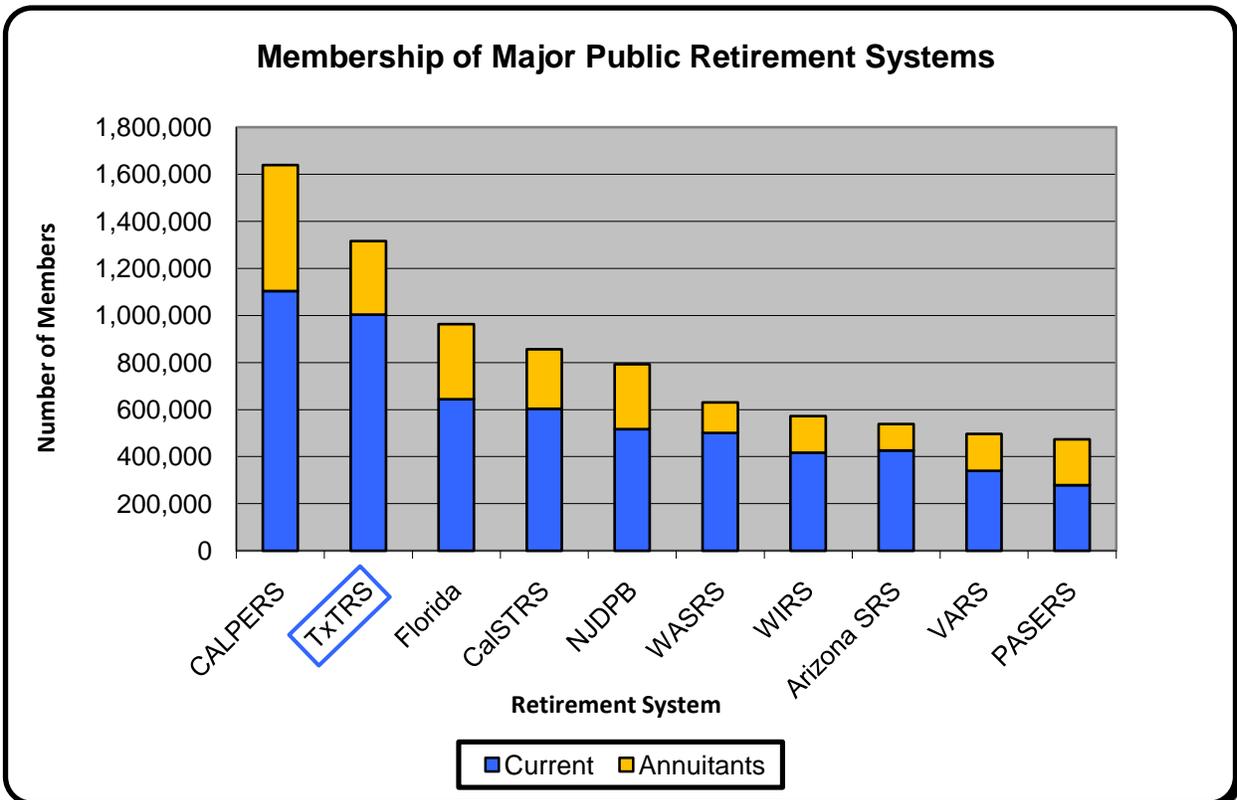


SERVICE POPULATION DEMOGRAPHICS

Average pension plan member profile statistics remain fairly stable:

- ◆ There are 3.2 contributing active members per annuitant.
- ◆ Active members average 44.3 years old with 9.9 years of service.
- ◆ On average, members retire at age 59.8 with 24.6 years of service credit.
- ◆ The average salary for FY11 retirees was \$39,234.
- ◆ The average age for all retirees is 70.2.

Membership - Originally applicable only to teachers and public school administrators, in 1949 retirement plan membership was expanded to include all employees of public education institutions, including cafeteria workers and bus drivers. At its inception, TRS served just 38,000 members. Membership has continued to grow, and TRS now serves nearly 1.3 million members. The membership includes just over 1 million active members and over 312,000 annuitants. They reside in every region of Texas, as well as throughout the U.S. and a number of other countries around the world.



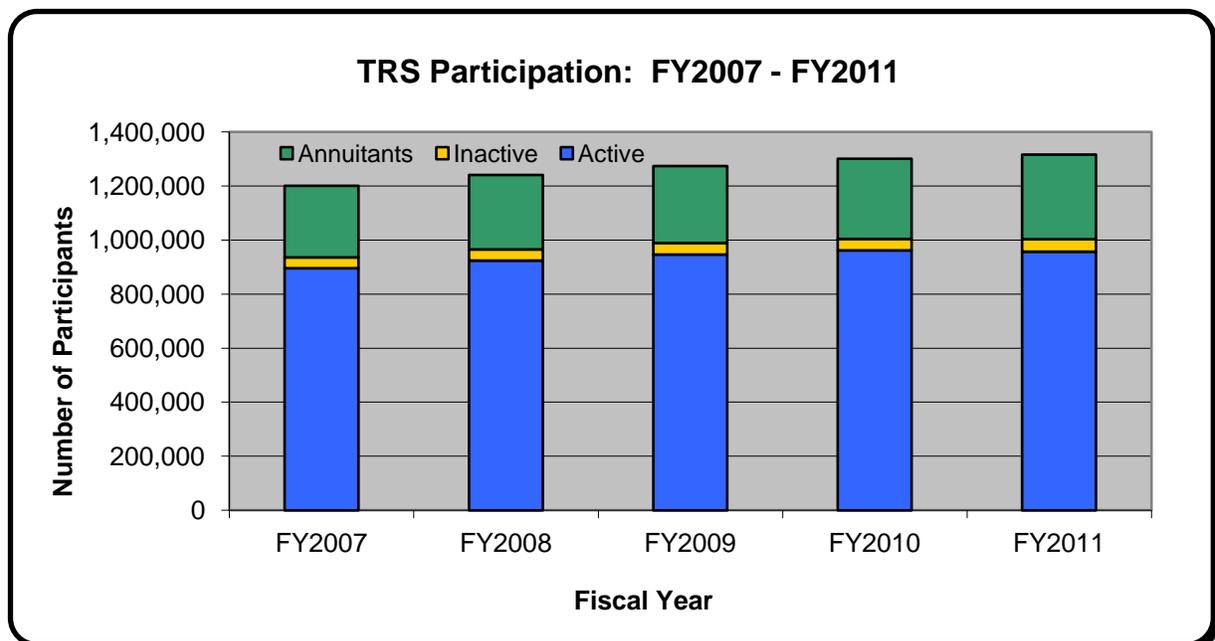
Employers - TRS serves 1,360 separate reporting entities by providing benefits to employees who are employed in the Texas public education system. The total active membership encompasses not only public school teachers, but also school and district administration staff,

food service personnel, maintenance staff, transportation employees, college and university faculty and staff, and certain other state agency employees.

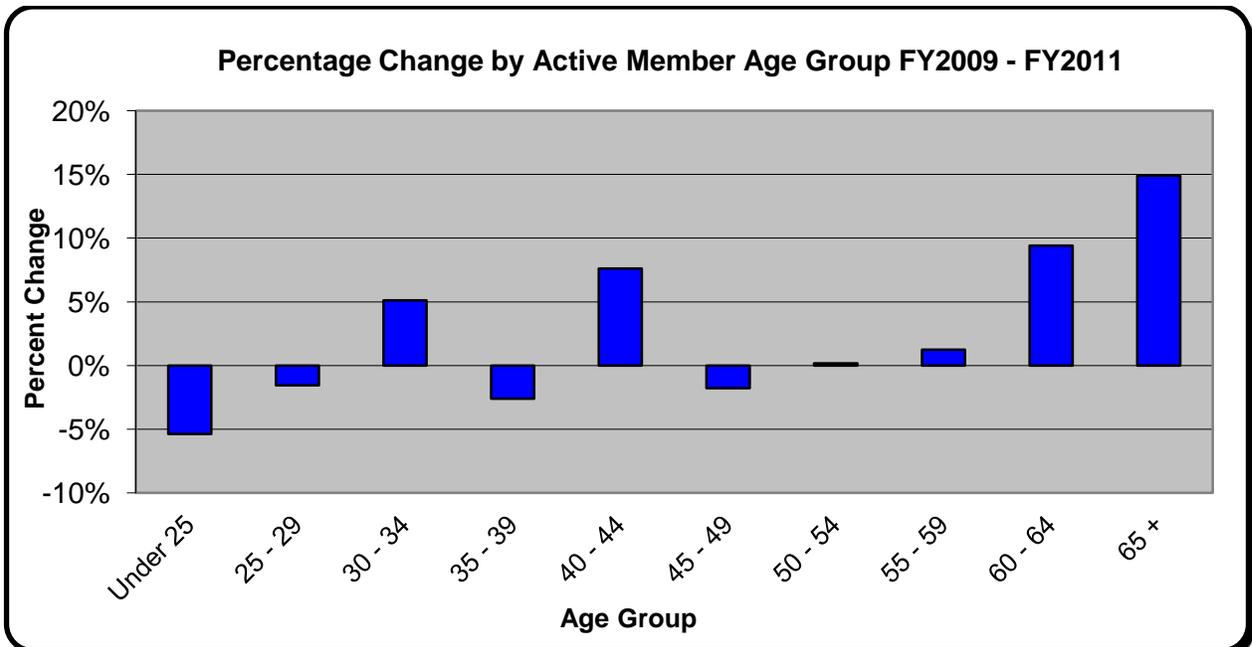
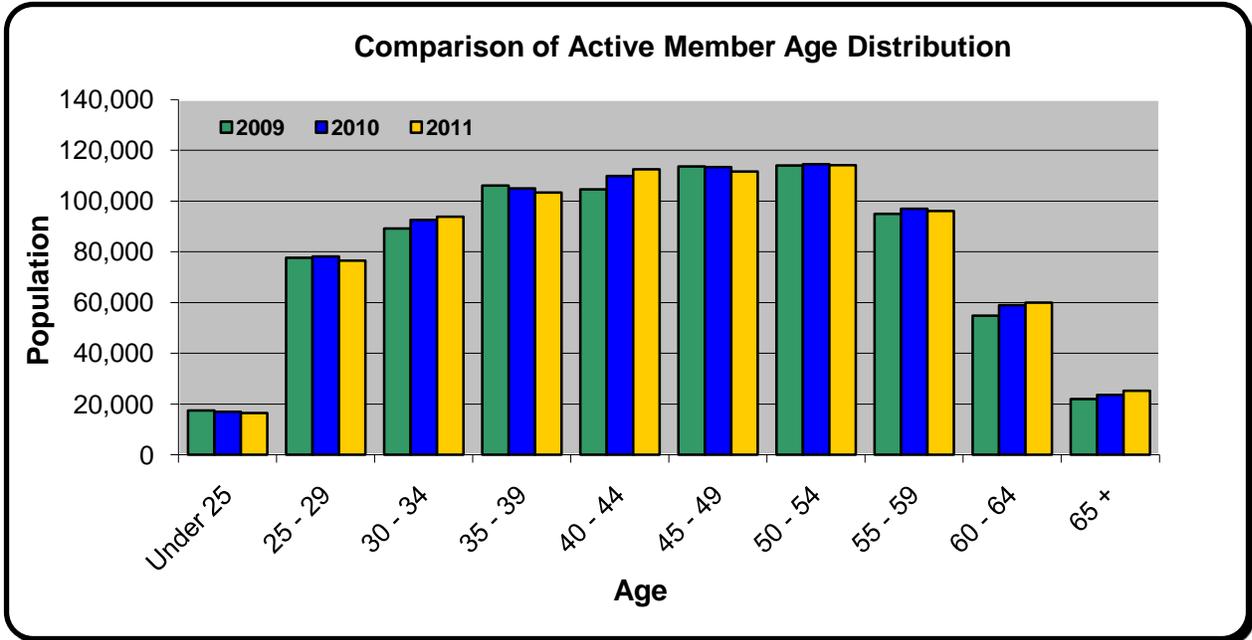
Participating TRS Employers – FY 2011	
Type	Number
Independent School Districts	1,030
Charter Schools	197
Community and Junior Colleges	51
Senior Colleges and Universities	46
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	2
Total	1,360

Significant Trends

Membership Growth - The number of public school employees in the state is expected to continue to rise over time with the population growth among school-age children. TRS' membership will reflect a corresponding growth, in both active and retired members.



An Aging Workforce – While membership growth is an important factor in the stability of the pension plan, another equally important characteristic is age distribution among active members and retirees. This factor is an indicator of probable upcoming retirements and expected duration of annuity payments. The current active member age distribution is heavily weighted in the 35-54 year age groups; however, the average age is increasing over time. Perhaps even more indicative of aging membership is the fact that the highest percentage increases in the last few years have continued to occur within the 60 - 65+ age groups. These factors are considered in the plan’s long-term actuarial studies.



Retirement – While the number of retirees is expected to continue to rise over the next five years, the rate of retirements is expected to remain relatively flat during the period. It is still too early to determine the extent to which plan changes passed during the 79th Legislature, Regular Session, will affect future retirement patterns.

Compensation - Compensation trends have a significant impact on the retirement system. Compensation levels are established by each of the 1,360 employers served by TRS. A member's average salary is a key element of the benefit formula that establishes the amount of annuity to be paid throughout the retiree's lifetime.

Many factors influence members' decisions on when to retire or whether to withdraw their funds from the plan and terminate membership when they leave Texas public education employment. The state of the economy, family economic needs, and job satisfaction are important considerations. TRS benefit design is an equally important factor. For example, policies relating to employment after retirement can affect retirements. The availability of affordable retiree health benefits can also be a major factor in determining whether the individual will continue working as an active member receiving benefits from the plan for employees, or retire and perhaps be ineligible for TRS-Care benefits or possibly pay more than when covered by an active employee plan.

Although salary levels and contribution rates have considerable impact on the plan, the combination of these and other factors, such as investment performance and benefit architecture, determines the plan's actuarial soundness.

TECHNOLOGICAL DEVELOPMENTS

Because the effective use of technology is key to the realization of TRS' mission, the Information Technology (IT) Division plays an integral role in organizational planning and management. Its impact is felt in every aspect of operations from benefit delivery and investment management to communications and even the physical environment. TRS strives to stay abreast of emerging technology and continuously seeks opportunities to gain efficiencies through technological enhancements.

TRS and the IT Division face a number of ongoing challenges, including:

- Providing new and innovative benefit delivery systems to active members and annuitants through the Internet.
- Maintaining, enhancing, and modernizing high volume, interactive transaction processing systems that annually support the receipt and processing of more than 8.5 million records.
- Utilizing technology to meet growing service demands at approved staffing levels.
- Supporting an expanded Investments function utilizing new technologies.
- Staying abreast of rapid changes in technology and choosing those that aid TRS in accomplishing its goals in the most efficient manner while providing long-term viability.
- Attracting and retaining qualified technical staff and training present staff in new technologies while maintaining existing applications and infrastructure.
- Managing the impact of retirements by key IT staff and management.

TRS has had some notable technology achievements. Additionally, the system continues to support multiple current endeavors while planning for future initiatives.

Accomplishments

Information Security

- Underwent successful network penetration tests.
- Installed LoJack on all TRS laptops.
- Expanded email and laptop encryption.
- Implemented Live Sync at remote site to provide real-time synchronization of critical systems and data protection.
- Enhanced application security testing guidelines.

Governance

- Recommended and received approval for new strengthened IT governance structure.
- Assessed, categorized, and prioritized current service requests for IT resources.
- Established ongoing prioritization process for new service requests.
- Developed reporting dashboard for the IT project portfolio.

Infrastructure

- Upgraded TRS network for greater flexibility, capacity, and performance.
- Installed new network switch for high-speed, high availability network capacity.
- Installed new Hitachi Virtual Storage Platform SAN Storage.
- Improved maintenance, support, reliability, and security of data transfers by migrating all Texas Comptroller of Public Accounts FTPs to secured VPN and all other FTPs to SFTP server.
- Implemented new blade server infrastructure and virtualized over 120 servers.
- Migrated TRS intranet to SharePoint.
- Upgraded Interactive Voice Response system.
- Implemented new IT Service Management software solution to improve centralized tracking and reporting of IT incidents, service requests, problems, and system changes.
- Implemented new version of the FileNet imaging system in a test/development environment.
- Extracted, converted, and imported 36 million document images from the existing FileNet imaging system into the new imaging system in a test environment.
- Installed and configured new capture and scan software in a test environment.
- Installed second Uninterruptable Power Supply (UPS) in the Data Center.
- Installed and configured Content Manager on Demand to integrate with the imaging system in a test environment.

Application Development

- Established presence for TRS on Facebook, Twitter, LinkedIn, Wikipedia, and YouTube.
- Expanded use of server virtualization to reduce data center physical space and energy consumption and provide greater system fault tolerance and server flexibility and management.
- Enhanced application change management procedures in accordance with the enhanced governance document.
- Implemented new legislation for district reporting, Special Services Buy Back, Return to Teaching, and Employment after Retirement systems.
- Implemented first electronic forms using Adobe LiveCycle.
- Completed proof-of-concept project using the Enterprise Service Bus.
- Completed upgrade to .Net platform.
- Implemented additional self-service features via MyTRS online website.
- Created secure DB/2 environment to access confidential, sensitive, and public disclosure information of TRS employees.

TRS Enterprise Application Modernization (TEAM) Program

- Defined goals and components of the TEAM Program.
- Participated in public pension fund tour – visited 11 public pension funds across the United States and gathered over 200 lessons learned based on their recent information system replacement efforts.

- Participated in conference calls with public funds, private companies who administer benefits, and consulting firms.
- Held numerous vendor presentations on the following:
 - ▶ How to replace legacy systems
 - ▶ Data conditioning and migration
 - ▶ Financial software packages
 - ▶ Pension line of business frameworks
 - ▶ Architectural solutions
- Created roadmap as an initial guideline which developed into requirements for the TEAM Program.
- Created internal management teams to guide the direction of the program.
- Developed TEAM Program Communication Plan.
- Implemented repository for TEAM artifacts using SharePoint.
- Received approval from Legislative Budget Board for an increase in FTEs by 12 in FY2012 and 3 in FY2013; developed staffing plan.
- Established positions for Technical Architect and Business Analysts; filled positions.
- Developed request for offer (RFO) for TEAM Program Management and selected vendor to assist with program and project implementation.
- Established program and project management documents and templates.
- Documented existing application architecture and developed a future view.
- Mapped 75 percent of current business processes.

Current Initiatives

Information Security

- Expand intrusion prevention technology and modify intrusion detection and firewall security.
- Update access procedures and methodologies to support accepted security practices, including support of new application architectures.

Infrastructure

- Implement new imaging platform in production with updated views and reporting capabilities.
- Perform application re-writes and Kofax Capture customization.
- Create network management dashboard to provide network monitoring, reporting, and consolidation of current tools.
- Implement policy and procedures for Bring Your Own Device (BYOD) to facilitate accessing Outlook remotely.
- Implement secure VPN.
- Expand the use of desktop virtualization.
- Install a computer center generator for fail-over support.
- Install a backup server for fail-over/test environment for the imaging system.
- Upgrade the mainframe to a z/114 Enterprise Server with zIIP Processor.

- Integrate FileNet P8, Content Manager on Demand, and eLiveCycle software repositories through one common user interface.
- Upgrade to DB2 version 10 in test/development/QA/production environments.
- Migrate all enterprise PC desktops to Windows 7.
- Upgrade to Exchange 2010.
- Upgrade core network infrastructure to new Cisco Nexus platform.
- Implement new Web Application Firewall.
- Upgrade to SharePoint 2010 and Project Server 2010.
- Conduct an internal security assessment and penetration test.
- Implement proof-of-concept for co-location and real-time data center replication.

Application Development

- Implement new process of electronic communication and certification for Refunds with reporting entities.
- Prepare for implementation of the 90-day requirement legislation rule change for the TRS Reporting and Query System (TRAQS).
- Prepare for implementation of the legislative changes to standardize the school year.
- Prepare Health Insurance application for the switch from Caremark to Medco.
- Continue with the implementation of additional LiveCycle forms.

TRS Enterprise Application Modernization (TEAM) Program

- Map remaining business processes.
- Develop statement of work for the data assessment project.
- Plan vendor demonstrations for Financial/HR software packages.
- Finalize business requirements for the Financial/HR systems.
- Hold commitment gathering sessions that will be input into the pension administration line of business system RFO.
- Develop requirements for an Independent Project Assessment RFO.
- Expand online relationship with reporting entities to allow reporting of final salary information.

Future Initiatives

Information Security

- Implement Enterprise Information Security System.
- Expand use of personal mobile devices.
- Increase use of biometrics throughout the TRS enterprise.
- Continue to expand and improve data classification and records retention automation.

Governance

- Investigate IT portfolio management solutions.

Infrastructure

- Purchase second computer power generator for data center fail-over support.
- Expand functionality of the FileNet imaging system with the use of other platform modules.

- Recommend data center co-location solution.

Application Development

- Continue to enhance self-service applications provided through the TRS website.

TRS Enterprise Application Modernization (TEAM) Program

- Implement commercial off-the-shelf software package for financial and human resources system.
- Implement data management project.
- Hire a firm for Independent Project Assessment for the pension administration line of business system.
- Implement pension administration line of business system.

TRS Enterprise Application Modernization (TEAM) Program

Beginning in July, 2009, senior leadership began a series of meetings to identify TRS' strategic business needs that required a technology solution. The focus was primarily on the needs of the benefit services and financial areas. The group was asked to envision TRS and its customers 5 to 10 years hence, and consider how we could begin to position ourselves now to meet anticipated future needs.

Four major themes emerged:

- Improving external communications and service delivery.
- Streamlining internal work processes for greater efficiency.
- Modernizing the technical environment to ensure proper support and needed tools.
- Staffing of technical positions to ensure the proper skill sets were in place for the future.

Based on these overarching needs, the group tentatively identified some specific technology projects that would move us in the desired direction. Considering the timeframe involved and the potential future beneficiaries of the projects, the name "TRS, The Next Generation" or "TNG" for short, was adopted as the program designation.

Several separate and distinct projects were identified and a preliminary project proposal was developed for each. As TRS continued to define these projects more clearly to gain a full understanding of benefits, costs, resource requirements, and risks, it became apparent that TRS needed to step back and draw a bigger picture for its future.

In evaluating the TNG projects and then considering the needs of TRS as an enterprise, the TEAM Program was established. The overall goal of the TEAM Program is to implement a cost-effective, efficient, and sustainable program of business and technological processes that enables TRS to serve the expanding and ever changing needs of its members, employers, and annuitants. TRS will pursue this goal through a collection of initiatives under a common organizing umbrella, the TEAM Program.

The TEAM Program is a cohesive collection of components designed to meet the business and technology objectives of TRS over the next 10-20 years. The TEAM Program also focuses on addressing the changing expectations of a growing membership, providing for the collection and maintenance of accurate and reliable data, expanding the number of automated processes, and incorporating modern technologies. The TEAM Program is not just about technology, it will demand re-engineered business processes, revised policies, and new ways of working together. The TEAM Program will also deliver tools and techniques that will position TRS to have flexibility in updating our systems in response to growing member demands and future technological and regulatory changes.

To continue to maintain a high-level of service, TRS must modernize its pension administration system, which has core applications that are over 25 years old. These systems are becoming increasingly difficult to maintain and rely on technological knowledge that is growing more difficult to find. Legacy systems, and the knowledge to maintain them, represent a risk to TRS and its members. Moreover, growing membership numbers and increasing demands for online self-service among these members will continue to place new demands on our technologies for further automation.

When the TEAM Program is complete, TRS will have upgraded financial, human resources, and pension administration systems running on modern technology. In addition, TRS will deliver more self-service options to members and annuitants and improve internal business processes to better meet growing demands.

RISK MANAGEMENT

Enterprise Risk Management

The Enterprise Risk Management (ERM) program provides a framework and a process for management to gain reasonable assurance that TRS' goals and objectives are successfully achieved. ERM is a process to help identify and manage potential events or circumstances (risks) that may affect the organization. It focuses efforts on important issues and concerns and can help to identify both unnecessary and needed controls.

The ERM program became formalized in September 2008. The comprehensive program outlines TRS' efforts and emphasizes the importance of risk management. It is a shift from a traditional silo risk management approach to a holistic or enterprise risk management approach. TRS cannot eliminate all risks, but through ERM, it can ensure that existing and emerging risks are identified and managed within acceptable risk tolerances.

The mission of the ERM program is to further the successful achievement of TRS' mission, goals and objectives through effective risk management. This is done by promoting and supporting a culture at TRS which builds risk consciousness into the daily activities of TRS.

The goals of the ERM program are to partner with TRS management and staff to:

- Raise risk awareness throughout the organization.
- Integrate risk management into the culture and strategic decision-making.
- Identify and evaluate risks that are critical to the organization.
- Ensure that critical enterprise-wide risks are being properly managed by the appropriate individuals.
- Ensure that the appropriate mitigation strategies are in place.
- Balance the cost of managing risk with the anticipated benefits.
- Provide ongoing support to executive officers and managers regarding the status of critical enterprise-wide risk.

TRS is committed to providing an environment that ensures risk management is an integral part of all TRS activities. A critical component of the formal ERM program was the formation of the Risk Oversight Committee (ROC). The ROC addresses strategic and enterprise-wide risks, helps determine appropriate mitigation strategies and drives the necessary actions and goals to help ensure the risks are addressed appropriately. The ROC oversees the process by which business unit management and staff identifies and assesses risks and determines appropriate responses.

ERM and strategic planning should be closely aligned and integrated. Beginning with the FY2011-FY2015 strategic plan, we made significant headway in this direction and expect value to be added to TRS in this regard. With our newly stated goals and objectives, ERM will help ensure that our goals and objectives are reached.

Investment Risk Management

TRS' Investment Management Division maintains a dedicated investment risk management team focused on effective approaches and techniques to manage and control investment risk. The developments in the financial markets over the past several years have created a need for increased risk management and validated our increased focus in this area.

Investment Risk Management performs independent risk certifications for new external manager commitments, monitors manager performance and monitors each portfolio monthly. In addition, we maintain a framework for the use of derivatives to implement investment strategy and risk management in a controlled, cost-effective manner. In conjunction with this initiative, TRS also maintains key risk parameters that control the overall exposures of the fund to both cash and derivative markets.

The risk policy includes two mechanisms for the board to oversee the risk management practices and risk tolerances of the fund. The first is an established Risk Management Committee of the Board of Trustees, which is charged with overseeing the overall risk of the portfolio and establishing policies and practices to measure, manage, and mitigate those exposures. Secondly, key risk parameters have been introduced that set both minimum and maximum risk exposures for the fund, asset allocation limits, limits on the use of derivatives, and counterparty credit limits. Additionally, the policy addresses other risks associated with liquidity, operational exposures, settlement, and legal contracts.

Operational Risk Management

TRS strives to ensure that potential exposures are assessed and reasonable mitigations are implemented to minimize risk in all aspects of system operations including information resources, mission-critical functions, and physical security. TRS has had notable successes in its efforts to manage risk and continues to move forward with current initiatives while planning for future risk mitigation activities.

The Risk Management & Strategic Planning department ("Risk Management") was established to manage operational risks and mitigation activities, and it includes the following programs and functions: enterprise risk management, strategic planning, business continuity, health and safety (wellness and ergonomics), and insurance.

To increase health and safety preparedness, Risk Management collaborated with Human Resources to develop an online presentation to bring awareness to active shooter situations and other dangerous emergencies. An awareness video was included as part of the online presentation distributed to all TRS employees and contractors. The TRS Emergency Notification System was also implemented to quickly notify employees of emergency issues using multiple communication methods such as text message, e-mail, and phone calls. CPR, AED, and first aid training was also provided to 51 TRS employees.

As part of the business continuity process, Risk Management coordinated the annual disaster recovery and proof-of-concept co-location testing. Planned testing objectives were successfully completed by participants. Disaster recovery and business continuity training sessions for new employees were also completed during new employee orientation.

To prepare management for disaster recovery situations, Risk Management developed and conducted an incident management team tabletop exercise, with facilitation assistance from the Travis County Office of Emergency Management. In addition, we coordinated, conducted, and led a shelter-in-place drill at the Red River campus.

In May 2012, the State Office of Risk Management completed a Risk Management Program Review and stated some noteworthy observations:

- “Teacher Retirement System of Texas is very proactive with regard to safety. A safety culture exists throughout the agency, which reflects positively on management’s commitment to providing a safe working environment for all employees.”
- TRS “has 45 Department Health & Safety Officers (DHSOs) whose specific duties and safety responsibilities have been well defined. They all meet on a regular basis and have received appropriate training.”
- “Employee safety training is a priority at the agency. TRS does a good job training all employees in safety”
- The “Incident Management Team Plan is . . . well written and comprehensive” and the “Risk Management Handbook and Health, Safety and Security Handbook are both comprehensive and promote a safe, healthy, and hazard-free work environment.”

Current business continuity activities include maintaining disaster recovery preparedness through annual hot-site exercises and continuing to broaden the base of trained individuals by transferring knowledge through cross-training and participation. In addition, Information Technology staff is continuing to test disaster recovery using a co-location site and collaborating with Risk Management to research alternative disaster recovery solutions/vendors. We continue to monitor the hot-site contract to ensure compatibility with technological and business process changes at TRS as well as annually reviewing business impact analysis and business continuity plans and communicating changes to the disaster recovery teams. Risk Management participates in the Continuity of Operations Planners (COOP) and the Association of Contingency Planners (ACP) meetings to discuss and collaborate on trends and issues with other business continuity and disaster recovery professionals.

An ongoing initiative to ensure awareness and preparedness is providing health, safety, physical security, and disaster recovery/business continuity training to new employees and managers. In addition, annually reviewing the Incident Management Team plan and exercising the plan is a key component to ensure TRS is ready for an incident that could impact our operations and prevent us from achieving our objectives.



We plan to increase business unit participation in hotsite exercise scenarios as a future business continuity initiative. In addition, we will expand risk management efforts by maintaining a proactive business continuity program, continuing to refine existing safety programs, and strengthening physical security as required. This expansion includes developing online business continuity awareness training and rolling it out to all employees and contractors.

Another important initiative is to research and develop an ergonomic assessment program to ensure workstations are positioned to increase productivity and comfort and prevent accidents and injuries.

To communicate important information, initiatives, and services regarding health and safety, business continuity, emergency response, enterprise risk management, and strategic planning, Risk Management is expanding and enhancing the Risk Management & Strategic Planning departmental website. Most importantly, an ongoing initiative is to continue developing procedures for departmental programs and functions.

ECONOMIC VARIABLES

The core activities of TRS are, and will continue to be, significantly impacted by a broad range of local, national, and global forces. With respect to managing pension fund investments, TRS is clearly exposed to the risks and rewards of global stock markets, interest rates, inflation, and of course, to potential geopolitical risks. Increases in the cost of key commodities such as gasoline and food, have a significant impact on annuitants, resulting in the potential for increased political pressure to provide cost of living adjustments or other financial relief.

With respect to managing pension plan liabilities, TRS is exposed to more “local” forces such as the growth in retiree and non-retiree member populations and the potential for legislative changes to plan design elements, such as benefit levels, contribution levels, and eligibility requirements. Many of the forces influencing pension liabilities also affect the management of health benefit program liabilities. Health-related liabilities are also affected by the growth in utilization of medical services and in medical cost inflation. The expectation is that, while medical costs will continue to grow in the future, the rate of growth appears likely to moderate somewhat.

As a public entity, how can TRS respond to its environment? TRS has very limited ability to control the broad array of economic, demographic, and political forces that impact its objectives. Instead, the organization has chosen to focus on the agency’s ability to manage costs and mitigate financial risk where possible. For example, with respect to managing health benefit services, TRS uses established healthcare networks that negotiate with service providers to manage cost and service levels. TRS also strives for operational efficiency and cost containment while remaining very cognizant of the need to sustain superior service levels. In the area of investments, TRS minimizes the impact of economic risks by following a diversified investment strategy designed to perform in varying economic regimes. In addition, the Investment Management Division maintains a dedicated Risk Management team to monitor risk levels of the Trust and its portfolios. Through an advanced suite of tools and reports, including a newly developed bubble monitor, the team is alerted that certain asset classes may be over or undervalued, and can adjust the Trust’s level of exposure as appropriate.

IMPACT OF FEDERAL STATUTES AND REGULATIONS

A limited number of federal laws affect the administration of TRS programs, as summarized below.

Internal Revenue Code - The Internal Revenue Code (IRC) has significant influence on the TRS pension plan. Under the IRC, a retirement plan that meets applicable requirements set out under Section 401(a) is considered to be a “qualified” plan. Qualified status enables participants to save for retirement in a tax-efficient manner. For example, TRS member contributions are deducted from member salaries on a pre-tax basis, thus allowing members to defer federal income tax on that portion of their salaries until they receive distributions from TRS. To remain a qualified retirement plan, TRS must continuously satisfy the applicable tax code requirements. As a *governmental* qualified plan, TRS is exempt from many complex federal requirements that apply to *private* qualified retirement plans. To retain *governmental* qualified plan status, the TRS plan must restrict participation to *public* employees.

Qualified plan status permits deferral of taxation of participants’ contributions and accrued benefits, deferral of taxation of distributions to participants when those distributions are rolled over to another eligible retirement plan, and tax exemption of the income of the pension trust fund. Texas law recognizes the importance of remaining tax-qualified (*See* §825.506, TEX. GOV’T CODE).

Major qualification requirements applicable to TRS include:

- Pension plan assets must be held in trust, and the plan must be administered for the exclusive benefit of the plan participants. Pension assets must be used for pension plan purposes only. In accordance with this requirement and with the Texas Constitution, Article 16, Section 67, the assets of the TRS pension plan are held in trust for the benefit of members and are used only for retirement, disability, and death benefits and for the administration of the retirement plan.
- The amount of a participant’s annual retirement benefit payable by the pension trust fund is limited by IRC Section 415. This limit affects only a small number of more highly paid members. The TRS excess benefit arrangement under §825.517, TEX. GOV’T CODE, alleviates the effect of the benefit limits in a manner compatible with the IRC.
- Compensation creditable with TRS for benefit calculation purposes is limited under IRC Section 401(a)(17) and §822.201(d), TEX. GOV’T CODE. Again, this limit affects only a small number of more highly paid members.
- A participant’s voluntary annual contributions to TRS each year are limited, which may affect how a participant purchases special service credit.
- A participant who is no longer working in Texas public education must begin to take a distribution from the plan by April 1 of the calendar year following the year in which the participant attains age 70½. The plan must comply with other “required distribution” provisions of the IRC.

- In order to receive a distribution from TRS, such as a refund of member contributions or a retirement benefit, a member must completely terminate employment with all Texas public education employers in order to avoid “in service” distributions that are not compatible with the tax code requirements for a qualified plan.

A retirement plan may secure a binding opinion on its status as a qualified plan under the federal tax laws by seeking a determination letter from the Internal Revenue Service (IRS). Under IRC regulations, governmental plans may file for determination letters during a one-year period in a five-year cycle established for such plans. The most recent “Cycle C” filing period for governmental plans occurred from February 1, 2008 through January 31, 2009. TRS filed its Cycle C application for a new determination letter in September 2008 and is currently awaiting the IRS response.

In recent years, the IRS has stepped up its level of attention to governmental pension plans. For example, IRS has expressed interest in surveying such plans about their operations and is in the process of finalizing a compliance manual specifically for governmental plans. In November 2011, the IRS issued preliminary proposed guidance on requirements for a qualified plan to be considered a *governmental* retirement plan. The guidance has raised concerns in the charter school community that their employees may no longer be permitted to participate in a governmental retirement plan like TRS. Because it is important for TRS to maintain both its qualified plan status and its governmental plan status and because of the potential impact on TRS participants, TRS will closely monitor the progress of the proposed guidance.

Additionally, as a payer of more than \$6 billion in benefits annually, TRS operations include compliance with federal tax law requirements for reporting income to the IRS and to taxpayers. TRS withholds taxes, reports income, and distributes IRS 1099-R tax forms to payees as required by federal law.

Finally, the IRC affects TRS' administration of group health benefit plans and related programs. Over the years, the federal government has been active in attempting to address the effect of spiraling healthcare costs on employer-provided benefit plans, with a number of tax code changes designed to offer more options for cost sharing between employers and employees. The most recent example of such federal legislation is the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, which is discussed more fully below. Through favorable tax treatment of benefits to employees, the federal government has encouraged the development of new types of benefit plans, such as health reimbursement arrangements (HRAs) and health savings accounts (HSAs). These frequently are referred to as “consumer-driven” health benefit plan features. TRS continues to monitor federal developments in this dynamic area since they affect many aspects of the health benefit programs administered by TRS. For example, TRS has structured the TRS-Active Care 1-HD plan to meet the federal requirements for a high deductible plan, which makes participants in that plan eligible to establish HSAs.

Social Security - Federal Social Security coverage and benefit policies often affect TRS, its members, and Texas public education employers. Under federal law, state and local government employees hired after April 1, 1986 are required to participate in Medicare, but state and local government employees are not required to participate in the Old-Age, Survivors and Disability Insurance (OASDI) aspect of Social Security, regardless of hire date, if they have available an acceptable replacement retirement plan. The OASDI retirement benefits are commonly referred to as the “Social Security benefits.” Federal law establishes minimum standards for replacement retirement plans. If a state or local government retirement plan does not meet the minimum standards, employees and employers must make OASDI contributions of 6.2 percent each, up to the established wage base limit for the year.

Most school district employees and some community college employees in Texas do not participate in Social Security OASDI, and the TRS retirement plan serves as the replacement plan. Consequently, those employees do not accrue OASDI retirement benefits for the period of work not covered by Social Security.

When a state or local government employer *does* cover employees in Social Security OASDI, the coverage is voluntarily established under what is known as a Section 218 agreement between the Social Security Administration and the public employer, or the coverage is pursuant to federal law that now mandates Social Security OASDI coverage of state and local government employees who are *not* covered under a Section 218 agreement and who are *not* participants in an acceptable replacement plan.

Other aspects of the federal Social Security program important to TRS participants are the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) features. Under the GPO feature, if a TRS retiree receives a pension based on work where the person did not pay Social Security taxes, the retiree’s Social Security spouse’s or widow’s or widower’s benefits may be reduced. Under the WEP feature, if a TRS member worked for an employer who did not withhold Social Security OASDI taxes, the resulting TRS pension based on that work may cause a reduction to the retiree’s Social Security benefit. The WEP provision affects how the amount of a Social Security retirement or disability benefit is calculated; under WEP, a modified formula is used to calculate the Social Security amount, resulting in a lower Social Security benefit than the person would otherwise receive.

TRS continues to monitor related federal issues, including use of Social Security numbers and proposals for mandatory Social Security OASDI coverage regardless of participation in a replacement retirement plan, since these issues have the potential to significantly impact TRS programs, TRS-covered employers, and TRS membership.

ERISA - The Employees Retirement Income Security Act of 1974 (ERISA) imposes funding and plan design restrictions on private defined benefit and other retirement plans but exempts governmental plans from those provisions. Though the retirement plan provisions of ERISA are

not applicable to governmental plans, they nevertheless often provide guidance to governmental plans on funding, benefit design, or fiduciary issues. TRS continues to monitor interpretations of ERISA provisions designed to protect retirement savings and benefits. Additionally, from time to time, legislation is proposed to subject state and local governmental plans to some level of federal oversight, using ERISA as a guide.

Patient Protection and Affordable Care Act - In March 2010, the Patient Protection and Affordable Care Act (the “Patient Protection Act”), as amended by the Health Care and Education Reconciliation Act of 2010 (the “2010 Reconciliation Act”), was signed into law. This legislation is designed to effectuate fundamental reforms to the United States health care system. Even though this legislation is quite lengthy, it only provides a framework; various governmental agencies continue to issue implementation details in the form of regulations and guidance. The impact of this legislation on TRS-Active Care, and to a lesser extent, on TRS-Care, has grown over the past year. The retiree reinsurance program contained in this legislation has provided additional funding for TRS-Care, but the funding for this program has now expired. In order to comply with this legislation, TRS continues to monitor regulations issued by various governmental agencies. The Supreme Court of the United States held hearings in late March 2012 regarding challenges to the constitutionality of various aspects of the Patient Protection Act (*e.g.*, the so-called “individual mandate”). A ruling by the Supreme Court is expected in June 2012.

Medicare - The TRS-Care health benefit program for eligible retirees is significantly affected by the federal Medicare program. Expansion of Medicare benefits, such as Medicare Part D prescription drug coverage, typically will reduce TRS-Care costs. Medicare Part D went into effect January 1, 2006. From inception through fiscal year 2011, TRS-Care has collected over \$345 million in prescription drug claim reimbursements. By contrast, if Medicare reduces benefits to participants, the cost of providing coverage could shift to TRS-Care, if the medical service is covered by the TRS-Care plan. For these reasons, TRS closely monitors legislation and regulations to determine the impact of Medicare changes. Additionally, for Medicare-eligible participants, TRS-Care will be offering an indirect Employer Group Waiver Plan plus Wrap (pharmaceutical coverage) effective January 1, 2013. TRS-Care is considering the implementation of a fully insured Medicare Advantage Plan (medical coverage) for Medicare-eligible participants, which may also become effective January 1, 2013.

HIPAA - The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) require the establishment of national standards for electronic healthcare transactions and national identifiers for providers, health plans, and employers. They also address the security and privacy of protected health information. HIPAA regulations regarding the security and privacy of health data affect how protected health information is collected and maintained by TRS. TRS continues to monitor case and statutory law arising from HIPAA, in order to remain in compliance with its requirements.

HITECH – The Health Information Technology for Economic and Clinical Health Act (HITECH), passed as part of the American Recovery and Reinvestment Act of 2009, expanded current federal privacy and security protections for health information under HIPAA. HITECH accomplished this by, among other requirements, establishing federal notification requirements concerning the release of health information that is not encrypted or otherwise made indecipherable, if such a release constitutes a “breach” under the law. If a breach occurs, then the law requires that an individual be notified of the unauthorized disclosure or use of their health information; notice is also given to the U.S. Department of Health and Human Services. HITECH also broadens the types of entities that are subject to the privacy and security rules under HIPAA. As with HIPAA, TRS continues to monitor cases and statutory laws arising under HITECH, as well as regulations issued by various governmental agencies.

Miscellaneous Federal Laws or National Issues - TRS also monitors various federal laws, such as the Age Discrimination in Employment Act (ADEA) and the Uniform Services Employment and Reemployment Rights Act of 1994 (USERRA), for any effect on programs or membership. The ADEA can affect both the retirement plan and the health benefit programs. USERRA protection of retirement and other employment-related benefits is increasingly important as U.S. military personnel return to public education positions in the state of Texas following their uniformed service during the conflicts in Iraq or Afghanistan.

In the investments arena, TRS also follows congressional and regulatory developments on issues such as financial institution reform, corporate governance, class-action lawsuits, restrictions on investments in companies or countries with ties to terrorism, and conflicts of interest in the financial services industry. Heightened federal activity and media attention on such issues may directly or indirectly affect TRS investments or investment services obtained from the private sector. TRS continues to monitor federal developments relating to globalization, foreign relations, and divestment of securities issued by companies doing business in countries such as Sudan and Iran.

In *Morrison v. National Australia Bank, Ltd.* (Decided June 24, 2010), the United States Supreme Court held that U.S. courts do not have jurisdiction over securities fraud claims based on transactions occurring outside the United States. This development has disrupted and fragmented the securities class actions process and is increasing workloads in Legal Services.

Finally, in administering the certification program for annuity and mutual fund companies that offer their investment products to Texas public education employees, TRS monitors federal regulations relating to Section 403(b) plans. These voluntary, supplemental savings plans, established under Section 403(b) of the IRC by public education employers, allow employees to save for retirement in a tax efficient way. Under Texas law, companies offering 403(b) investments through salary reduction agreements to employees of school districts and open enrollment charter schools must certify to TRS that they comply with applicable requirements. Employees may make investments through certified companies, unless the employer has

determined that a company does not comply with the employer's administrative requirements. Effective January 1, 2008, certified companies must register their investment products offered to Texas public school employees. Information on certified companies and registered products is available to employees on the TRS website.

In addition to tracking changes in federal law for impact on TRS programs, TRS also monitors the national discussion of benefit-related issues in other forums. For example, the Governmental Accounting Standards Board (GASB) recently issued Exposure Drafts regarding proposed changes to pension accounting and financial reporting standards for state and local governments. This draft follows standards issued a few years ago concerning "other post-employment benefits" or "OPEBs" – specifically, employer-provided retiree health benefits. GASB standards are important to the public discussion of the benefit-based fiscal obligations of governmental entities.

OTHER LEGAL ISSUES

Potential State Issues

The 82nd Texas Legislature, Regular Session, met in 2011 and enacted new laws affecting TRS. The new laws addressed:

- New standards for employment after retirement.
- Increasing the cost for the purchase of service credit.
- Standardizing the school year for service credit and creditable compensation.
- Designating the current higher education position on the TRS Board of Trustees as an open seat.
- Authorizing TRS to use derivatives in its investment portfolio and to use external managers to invest up to 30 percent of the TRS fund until September 1, 2019.
- Authorizing TRS to increase its allocation to hedge funds from 5 percent to 10 percent until September 1, 2019.
- Lowering the state contribution rate for the pension fund from 6.644 percent to 6.0 percent.
- Lowering the state contribution rate for TRS-Care to 0.5 percent for fiscal year 2013 (it remained at 1 percent for fiscal year 2012).

As TRS approaches the start of the next legislative session, future funding of the TRS-Care health benefit program for retirees continues to be a major challenge. The group health benefit trust fund faces the ongoing mismatch between established revenue sources and continued increases in health care costs. The 82nd Legislature expressed its intent that TRS not increase retiree health insurance premiums for the 2012-13 biennium.

Another issue that retirees are concerned about is a cost of living adjustment or a supplemental payment. Retirees continue to watch the actuarial health of the pension trust fund to assess whether the fund is likely to be able to provide any additional benefit to soften the effects of inflation.

With regard to TRS' investment responsibilities, legislation enacted by the 80th Legislature authorized the use of instruments to manage risk, enhance returns, and promote efficient portfolio management. TRS is authorized to buy or sell futures, swaps, forwards, options, options on futures, swaps, and other instruments. An analysis by the TRS Internal Audit Department concluded that implementation of this new authority had saved TRS approximately \$208 million. The new law also permitted, for the first time, delegation of investment discretion to external investment managers, limited to 30 percent of the portfolio. TRS has engaged a significant number of external managers after extensive due diligence. The 82nd Legislature extended TRS' derivatives and external manager authority to September 1, 2019. TRS has made significant progress in expanding its emerging managers program, which is nearly fully-invested.

Impact of Court Cases

TRS monitors litigation across the country that could establish important precedents concerning plan design, benefits, investments, or fiduciary conduct. TRS also monitors legal developments in significant class action litigation affecting TRS investments and routinely files claims for settlement proceeds to which the system is entitled. TRS evaluates the litigation to determine whether to remain in the class or pursue its own action. In the health benefits arena, cases addressing the constitutionality of various sections of the 2010 Affordable Care Act, denial of coverage, age discrimination, privacy, and other issues are monitored for impact on TRS-Care and TRS-Active Care. As noted above, the Supreme Court of the United States held hearings in late March 2012 regarding challenges to the constitutionality of various aspects of the Patient Protection Act and is expected to issue a ruling in June 2012.

TRS CORE COMPETENCIES

TRS views the following competencies as core to the successful achievement of its mission:

- ◆ Benefit Delivery
 - ◆ Investment Management
 - ◆ Communication with Stakeholders
 - ◆ Workforce Contribution
-

In the following pages, TRS reviews its accomplishments and commitments for each core competency. Commitments represent ongoing practices undertaken in support of TRS' core competencies and are central to the system's strategic plan. These commitments also provide a high-level overview of the strategic goals, objectives, and strategies.

Benefit Delivery: Retirement and Related Benefits

TRS serves a diverse population of over 1.3 million active and retired members, which includes personnel employed in 1,360 reporting entities throughout the state.

We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members, annuitants, and their beneficiaries.

Accomplishments

- In fiscal year 2011, TRS processed retirements for 21,154 members. During the same fiscal year, our office produced 10,882 bills for the purchase of special service which includes, but is not limited to, reinstatement of refunded accounts, purchase of unreported or substitute service, military service, and out-of-state service. In addition, the number of death claims for those members who died prior to retirement totaled 1,266, and the number for those who died after their retirement totaled 6,753. Finally, the number of withdrawing members from TRS totaled 40,402. During this same timeframe, the active membership in TRS increased by 16,189.
- TRS implemented new legislation, including legislation passed by the 82nd Texas Legislature, as follows:
 - ▶ Significant changes made to the cost of certain kinds of purchased service credit, including out-of-state, developmental leave, unreported service or compensation (including substitute service), and withdrawn.
 - ▶ A person with unreported service or compensation (including substitute service) to verify the service within five years of when it was rendered in order for it to be creditable. Service prior to the effective date of the law must be verified within five years for it to be creditable. Removed the mandatory requirement to purchase verified unreported service prior to receiving benefits.



- ▶ A member with military service that qualifies as USERRA service (Uniformed Services Employment and Reemployment Rights Act of 1994) may count service toward length of service requirements for benefit eligibility even if this service is not purchased.
- ▶ All members will use a standardized school year of September 1 through August 31 for benefit purposes starting in the 2012-2013 school year. This means service credit and creditable compensation will be determined on a September 1 through August 31 basis.
- ▶ A member must notify TRS in writing if eligible membership service is not shown as service credit on a member's annual statement within five years of when the service was rendered. A member who seeks to establish credit for service rendered prior to the effective date of the law must notify TRS within five years.
- ▶ TRS may deduct money owed to the retirement system from a benefit payment due to a TRS retiree, beneficiary, or other participant.
- ▶ Benefits payable on the death of a member or annuitant are not payable to the person who is found not guilty of causing the death by reason of insanity or who is found incompetent to stand trial.
- ▶ A retiree who designates a trust as beneficiary for Option 1, 2, or 5 benefits and later changes the beneficiary designation from the trust to the individual named as the trust beneficiary, the new TRS beneficiary can be paid for life, instead of life expectancy.
- Through its toll-free telephone counseling center, TRS answered 496,210 calls from members and retirees in fiscal year 2011.
- The TRS interactive voice-response system handled 273,132 calls during fiscal year 2011.
- Face-to-face meetings in TRS offices were held with 9,645 members during fiscal year 2011. In addition, 212 group presentations were held with 15,921 members in attendance and TRS participated in 9 conventions with 34,900 attendees. One-on-one retirement counseling sessions were implemented successfully in 10 cities with 450 available appointments and 433 members served.

Commitments

We will:

- Continue to utilize performance standards and an effective performance measurement program to enhance the consistent and timely delivery of quality service to our membership.
- Continue to provide and enhance a telephone survey to our members and retirees for feedback about their telephone experience with TRS benefit counselors.
- Continue to evaluate, enhance, and expand the Benefit Counseling Quality Assurance Program in Benefit Counseling.
- Continue to maximize the available appointments for one-on-one counseling sessions in field locations across Texas.
- Continue to use technology and communication tools to enhance our delivery system capacity in order to meet the increased demands of a growing and diverse membership.

- Continue to offer cost-effective technology tools to educate our members about their retirement options and increase their access to information about their benefits.
- Continue to expand opportunities for our membership to conduct TRS business through Web access.
- Continue our commitment to excellence and flexibility in delivering retirement and death benefits, and strive to continuously improve our service.
- Continue to survey similar benefit providers in both the public and private sectors to identify practices that offer potential improvements for TRS.
- Continue to provide superior training to our employees, equipping them to efficiently serve our members and meet the increasing demands of the growing membership.
- Continue to monitor eligibility of participants for TRS-Care and retirement to identify the interaction of the different eligibility requirements.
- Continue to conduct customer service surveys to ensure continued high-quality service to our members.
- Continue to provide performance reporting to ensure that stakeholders are informed of program operation and results.
- Continue to allocate resources to their most productive, mission-oriented uses.
- Continue to effectively implement benefit changes approved by the legislature.

Benefit Delivery: TRS-Care Health Benefit Program

TRS administers TRS-Care, which provides medical and pharmacy benefits for retired public school employees and their dependents. As of January 1, 2012, there were 222,722 participants in the plan.

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- Premiums have remained unchanged since September 1, 2004.
- The board of trustees appointed four new members to the Retiree Advisory Committee (RAC) to terms expiring January 31, 2016.
- Collected over \$135 million in prescription drug claim reimbursements under the Medicare Part D Subsidy program during fiscal years 2010–2011 biennium.
- Collected over \$47 million in Early Retiree Reinsurance Program reimbursements during fiscal year 2011.
- Revised the TRS-Care plan booklet to update the information provided for plan participants.
- Issued Requests for Proposals for new effective, cost-saving approaches to the delivery of prescription drug and medical benefits for Medicare-eligible enrollees.
- Initiated studies, as required by the Legislature, of alternative reimbursement methodologies for healthcare providers.

- Consolidated the TRS-Care and TRS-Active Care departments at TRS to improve customer service and achieve cost savings through personnel cross-training and resource allocation.

Commitments

We will:

- Continue to effectively oversee the administration of the retiree health benefit program to ensure that quality benefits are provided at a competitive cost.
- Continue to compare TRS-Care plans with similar plans, including analyses of comparative costs and premiums.
- Continue to conduct member satisfaction surveys to ensure continued high-quality service to plan participants.
- Identify specific areas where performance may be improved through changes in plan design and program administration.
- Provide performance reporting to ensure that stakeholders are informed of program operations and results.
- Continue to engage independent audits bi-annually for both medical and pharmacy claims processed during the immediately preceding two-year period.
- Continue to educate plan participants, in collaboration with the claims administrator and pharmacy benefit manager, to optimize benefit participation and network utilization.
- Continue to work with the legislature in the effort to resolve funding requirements of TRS-Care.
- Continue to coordinate the filing of subsidy reimbursement claims under Medicare Part D and the Early Retiree Reinsurance Program.

Benefit Delivery: TRS-Active Care Health Benefit Program

TRS-Active Care is a statewide health benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS. Participants can choose from three preferred provider organization plans, and participants in certain areas also have the option of choosing coverage under a health maintenance organization.

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- As of January, 2012, more than 1,123 entities were participating in TRS-Active Care; 281,371 employees plus 196,817 dependents - over 478,000 individuals - were covered under the program, making it one of the nation's largest health benefit programs for public employees.
- The TRS-Active Care program continues to increase membership through additions of new participating entities that choose to join the program.



- TRS-Active Care continues to provide multiple plan choices to employees by offering four statewide preferred plan options (PPOs), plus three Health Maintenance Organizations (HMOs) in certain service areas.
- Premiums increased by 9.5 percent effective September 2011.
- Two enrollment periods were offered for School Year 2011-2012.
- TRS provided training for benefit administrators of entities participating in TRS-Active Care. The training took place in the 20 education service centers throughout the state.
- Completed the first independent audit of pharmaceutical manufacturer rebates credited to the plan by the pharmacy benefits manager for fiscal years 2009 and 2010.
- Consolidated the TRS-Care and TRS-Active Care departments at TRS to improve customer service and achieve cost savings through personnel cross-training and resource allocation.

Commitments

We will:

- Continue to effectively oversee the administration of the active employee health benefit program to ensure that quality benefits are provided at a competitive cost.
- Continue to compare TRS-Active Care plans with similar plans, including analyses of comparative costs and premiums.
- Continue to conduct customer service surveys to ensure continued high-quality service to plan participants.
- Continue to engage independent audits bi-annually for both medical and pharmacy claims processed during the immediately preceding two-year period.
- Continue to seek and identify specific areas where performance can be improved through changes in plan design and program administration.
- Continue to provide performance reporting to ensure that stakeholders are informed of program operations and results.
- Continue to provide education to plan participants in collaboration with the claims administrator and pharmacy benefit manager to optimize benefit participation and utilization.

Benefit Delivery: Long-Term Care Insurance Program

We are dedicated to offering quality long-term care insurance at affordable rates for members and retirees who wish to obtain this coverage.

Accomplishments

- Maintained the long-term care insurance website to provide members and retirees with immediate, up-to-date information about the TRS-sponsored group long-term care insurance program and important long-term care information.
- Participation in the group long-term care insurance program through Genworth Life now exceeds 7,000 enrollees and dozens of people have had long-term care expenses paid by this coverage.

Commitments

We will:

- Continue to evaluate the TRS group long-term care insurance plan, including analyses of comparative benefit features and premiums.
- Continue to communicate information about the TRS group long-term care insurance plan to retirees and members through multiple media methods in cooperation with Genworth Life.
- Continue to conduct customer service surveys to ensure continued high-quality service to plan participants.
- Continue to educate plan participants to optimize benefit participation.
- Continue to monitor federal and state legislation that may impact long-term care insurance plans.

Investments

We are dedicated to the prudent management of assets held in trust for our members and their beneficiaries, seeking a long-term investment return that exceeds the established actuarial rate of return.

Accomplishments

- TRS as a pension fund won numerous awards including North American Limited Partner of the Year in both Private Equity (2011) and Real Assets (2010, 2011) from Private Equity International.
- TRS continued its membership on the President's Working Group on Financial Markets.
- A robust risk management effort continued providing information and research for the management of the fund.
- The Investment Management Division (IMD) underwent 37 external and internal audits over the past three years and passed each with no significant findings.
- As of March 2012, investment professionals include 50 MBAs, 22 other Masters degrees, 5 PhDs and 3 JDs, as well as 30 Chartered Financial Analyst (CFA) charterholders and 6 Chartered Alternative Investment Analyst (CAIA) certificate holders.
- The Strategic Partnership Network reached its three-year anniversary. For the three years ending August 31, 2011, the strategic partners had returned 5.2 percent annually and beat their benchmarks by nearly 2 percent. In addition, the partnership completed numerous research projects and is a valuable resource for plan asset allocation.
- The Strategic Partnership Network was expanded to include two partners in private markets. These partnerships are the first of their kind in the investment industry.
- TRS' certification process of new external managers has been fully developed and is one of the most rigorous processes in the investment industry.
- The External Portfolio has been built out to near completion.
- In 2011, the 82nd Legislature approved an increased allocation to hedge funds. The TRS Hedge Fund Portfolio is in the process of expansion to efficiently and effectively take advantage of the increased allocation.

- The TRS Emerging Manager Program continued to expand and was recognized in the publication, *Emerging Manager Monthly*.
- During the credit crisis, TRS created a cross-organizational team to rapidly evaluate credit markets, proposals, and managers to launch a \$5 billion investment into the dislocated credit markets. As of August 31, 2011, the portfolio had returned 12.3 percent on an annualized basis since inception, and is winding down as credit markets have begun to normalize.
- In 2009, the IMD launched an internal gold fund to provide protection in times of uncertainty. For the one-year period ending August 31, 2011, the gold fund produced a return of 41.9 percent.

Commitments

We will:

- Continue to seek the long-term target rate of return as set by the TRS Board of Trustees within appropriate risk parameters.
- Continue to seek excess returns over appropriate and approved passive benchmarks.
- Continue to maintain a talented and experienced staff of investment professionals that operate at the highest level of ethical and fiduciary integrity.

Communication

Communicating effectively with key stakeholders is one of TRS' four core competencies. Clear communication is important as TRS membership grows, demographics change, and different population segments gain varying familiarity with and access to evolving technology. TRS places a high priority on timely, accurate, and meaningful communications to share information, seek feedback, improve decision-making, and build an ever-stronger commitment to achieving our mission.

Accomplishments

- TRS launched a social media presence on Facebook, LinkedIn, YouTube, Twitter, and Wikipedia. By joining TRS on one of the sites, members can stay up-to-date on the latest developments relating to TRS and participate in general discussions on their pension plan and health benefit programs, as well as agency administration and operations.
- TRS expanded its efforts to encourage district employees to register their e-mail addresses with TRS through *TRS-Connect*. Registered employees can now receive TRS-related information quicker than by mail, be notified whenever important TRS developments occur, and help TRS to reduce printing and postage expenses, thereby lowering agency operating costs.
- TRS launched *MyTRS*, a secure, online application that helps members and retirees conduct convenient business transactions online and receive important announcements and TRS publications through e-mail. Options previously offered to members through *TRS-Connect* and more are now available through *MyTRS*, including obtaining retirement

estimates, resetting passwords online, changing addresses, and registering for group benefit presentations.

- Fiscal year 2011 saw TRS produce the first in a series of issue-oriented videos called “TRS Today.” The videos are available online and feature TRS executives on topics such as TRS-Care, TRS-Active Care, new legislation, actuarial valuations, and various communication initiatives. Instructional videos such as “Steps to Retirement” are also available. TRS also produced a video to illustrate how TRS adds value to its members, the Texas and local economies, and the state’s educational system. A brochure on the value of TRS is also available to complement the video.
- As part of its commitment toward open and transparent communication, TRS began webcasting all board meetings. Meetings are streamed live so that members and others can watch proceedings from anywhere in Texas or around the world. Meetings are also recorded for playback and archived on the TRS website where board agenda items can be easily accessed.
- TRS continued its outreach to members and retirees through several town-hall style Report Card Tour meetings throughout the state. One meeting was webcast live and recorded for on-demand viewing. These meetings provide an opportunity for trustees and TRS executives to meet with members and retirees face-to-face to provide updates on the fund’s status and to answer questions. Legislators or their representatives from the area typically attend the meetings as do members of the news media.
- The *TRS Benefits Handbook*, the pension plan’s summary description, was updated to reflect the latest member and retiree benefit information, including benefit changes enacted by the 82nd Legislature. The *TRS Service Credit* brochure and the *Employment After Retirement* booklet were also updated to include detailed information reflecting recently enacted laws as well as rules adopted by the TRS Board of Trustees.
- In 2012, TRS commissioned the University of North Texas to conduct a satisfaction survey of TRS members and annuitants. Survey results will assist the system in improving service to its constituents.
- Following the 82nd Legislature, TRS provided its members and retirees with explanations of recent changes in the law. The TRS website was updated, including all calculators; and two *TRS News* issues containing legislative summaries and important deadlines were mailed to all members and retirees.
- TRS initiated online surveys of members and visitors to the TRS website to improve navigation and accessibility and to research self-service applications. Implementation of new applications has occurred and some planned improvements will be implemented in conjunction with the TRS Enterprise Application Modernization (TEAM) Program, a major new initiative to improve external communications, modernize agency technical capabilities and streamline internal work processes. This research and initiative will also help TRS with the future redesign of the agency website, as will the establishment of staff task forces on website accessibility and readability.

- During fiscal year 2011, Benefit Counseling made a number of group presentations to professional associations, to employee and retiree groups, and at regional education service centers. Presentations focused on retirement options, health care benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 15,921 people attended 212 group presentations, and 34,900 people attended nine conventions where TRS was represented. In addition, 10,088 people visited individually with a TRS counselor – 9,645 in Austin and 433 in field office visit locations.
- Benefit Counseling boosted TRS' outreach to members with one-on-one retirement counseling sessions. Fiscal year 2011 was the fifth year that one-on-one retirement counseling sessions were offered in limited field locations throughout Texas (450 available appointments in 10 cities).
- TRS maintains a Web-based 403(b) Product Registration System that allows 403(b) companies to submit products for registration. The 403(b) product list continued to grow offering more investment options to members.
- The *TRS Comprehensive Annual Financial Report* has continued to earn a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) each year for the past 21 years.

Commitments

We will:

- Strive to improve relations and communication with our internal and external stakeholders.
- Assess and adjust communication efforts to ensure that they anticipate and address stakeholder information needs.
- Position the agency to collaborate with state leadership in fulfilling our mission by providing prompt, accurate information for successful planning and decision-making.
- Form effective partnerships with key state agencies to better serve our respective constituencies.

Workforce Contribution

We support the employees of TRS and recognize that TRS achieves its mission through both their individual success and their efforts as a team.

Accomplishments

TRS Human Resources management works to ensure a strategic focus and effective partnership with senior management. This focus guided the direction that led to the following accomplishments:

- TRS continued to enhance efforts to attract and retain a diverse, well-qualified workforce by maintaining effective compensation, performance, recruitment, and staff development programs.

- Results of the fiscal year 2010 *Survey of Employee Engagement* reflect that TRS employees continue to remain engaged in the workplace and have a strong customer-service orientation (additional information about the fiscal year 2010 survey is provided in Appendix F). TRS employees participated in the 2012 *Survey of Employee Engagement* but the results are not yet available.
- TRS maintains a salary administration process and compensation strategy that ensures the allocation of appropriate resources necessary for an effective compensation program.
- TRS Human Resources provided ongoing sessions designed to enhance teamwork and productivity to work groups upon request.
- TRS offered new management and leadership opportunities to employees. HR implemented a two-day Managers' Training as well as Positive Performance © Management training. With executive sponsorship, HR also started a 9 month-long Leadership Development Program to build leadership skills among 15 to 20 employees annually.
- TRS offers job-specific training (including computer skills training) to employees on a regular basis to enhance productivity.
- All employees periodically participate in compliance training which is mandated by law, regulation or TRS policy. Examples of such training include, among others, Equal Employment Opportunity and Sexual Harassment, Workplace Safety, Ethics, HIPAA, and Confidentiality.
- Human Resources streamlined and updated the Employee Recognition Program to recognize employees as they reach their service milestones. TRS shifted the focus of the annual employee recognition program to achievement awards.
- Criminal history checks are a vital tool for managing workplace risk, safety, and security. During the 82nd Legislative Session, SB1667 was passed, authorizing TRS to conduct criminal history information checks. Policy was developed and implemented in 2012 for TRS to conduct criminal history checks.
- TRS implemented Positive Performance © Management to replace the former Progressive Corrective Action Policy. Positive Performance Management provides a means of communicating job performance expectations to an employee in a non-threatening manner while promoting self-respect and individual ownership for maintaining performance standards.
- The TRS Internship Program has proven to be a valuable resource since its implementation in the summer of 2010. In 2012, the program was expanded to include interns for the fall and spring in addition to the normal summer sessions.
- To minimize workplace disruption when new employees are hired, Human Resources revised the new employee orientation process to a one-day program supplemented by web-based compliance training to be completed at the workstation within the first 30 or 60 days of employment, depending on legal or policy requirements.
- TRS uses alternative learning strategies, including Web-based training and a library of self-study resources.



GOALS, OBJECTIVES, & STRATEGIES



Goals, Objectives, & Strategies

These strategic goals have been developed to help focus the efforts of TRS to accomplish its mission and in response to a thorough and on-going evaluation of internal and external factors that influence the organization and its stakeholders. In this FY2013 – FY2017 Strategic Plan, we continue expanding upon and updating these goals from the previous plan to support TRS' new vision, mission, and goals. TRS believes that in striving to achieve these goals, we challenge ourselves to continuously improve performance and customer service.

Beginning with the FY2011 – FY2015 Strategic Plan, TRS chose to decouple its strategic goals, objectives, and strategies as stated within the strategic plan document from those included as part of the budgetary bill pattern. This allowed us to develop a set of goals, objectives, and strategies that will help functional areas from across the organization focus their energies even more effectively toward achievement of the TRS mission. They have been crafted to complement rather than replace those currently captured in the appropriations request.

We believe that an important factor in our continued success and improvement will be a clear understanding by each staff member of our goals and objectives, and an appreciation of the part they play in reaching them; to personalize them as their own. TRS considers this a vital step toward a strategic planning process that ties budgetary, operational, and enterprise risk management considerations together to create not just a more meaningful strategic plan, but a strategic approach to management that will truly become a key element in guiding and improving business processes over the long-term.

If a specific date is not included for an objective, it is assumed that the objective applies to the entire FY2013 – FY2017 timeframe. When a target fiscal year is identified, unless otherwise indicated, it is assumed that the objective will be achieved no later than the end of the fiscal year. Statutory citations are not all-inclusive. Other statutes may have bearing on the authority for the stated goal.

GOAL 1: Sustain a financially sound pension trust fund. *(Texas Constitution, Article 16, Section 67)*

Objective G1.01: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years.

Outcome Measures:

- G1.01.OC1: Number of years to amortize the unfunded actuarial accrued liability (UAAL).
- G1.01.OC2: Percentage change in UAAL.

Strategies:

- G1.01.S1: Evaluate long-term funding solutions to reduce unfunded liability and improve the funding period of the pension trust.
- G1.01.S2: Engage in thorough periodic review of plan design and actuarial assumptions to ensure that they remain valid and support the long-term viability of the system.
- G1.01.S3: Provide the legislature with clear and complete projections of the actuarial impact to enable sound decisions related to plan design.
- G1.01.S4: Maximize investment returns within acceptable risk parameters.
- G1.01.S5: Ensure material accuracy of investment valuations.

Objective G1.02: Develop and implement an investment policy and alpha capability capable of achieving a rolling target 20-year annual rate of return of 8 percent.

Outcome Measures:

- G1.02.OC1: 20-year average, time-weighted rate of return.

Strategies:

- G1.02.S1: Seek to achieve the long-term target return within an agreed risk policy, generally subject to the starting market conditions (risk-free interest rate structure, inflation, risk premiums, and correlations).
- G1.02.S2: Recommend appropriate long-term investment policies to the TRS Board of Trustees as required.
- G1.02.S3: Develop and implement professional investment processes designed to standardize investment approaches and optimize methods.

Objective G1.03: Develop and maintain a sound, professional, and systematic risk management and capital allocation system.

Outcome Measures:

- G1.03.OC1: Investment performance relative to appropriate and approved passive benchmarks over three-, five-, and ten-year periods.
- G1.03.OC2: Investment performance relative to comparable pension investment funds over three-, five-, and ten-year periods, as reported by Wilshire Trust Universe Comparison Services (TUCS).

Strategies:

- G1.03.S1: Employ dedicated risk-focused investment professionals.
- G1.03.S2: Develop and maintain sound long-term capital allocation processes.

Objective G1.04: Create and maintain a highly capable and diversified external network of global investment, trading, and consulting relationships.

Outcome Measures:

- G1.04.OC1: Performance of External Network versus passive benchmarks over five- to ten-year periods.
- G1.04.OC2: Trade execution costs versus peer median trading desk.



Strategies:

G1.04.S1: Select and effectively manage an appropriate and effective network of global investment relationships that either complement the Investment Management Division's (IMD) internal capabilities and/or allow TRS to implement strategies in areas where adequate internal resources do not exist.

G1.04.S2: Select and effectively utilize and manage an appropriate network of trading relationships in all global markets and all required trading vehicles.

G1.04.S3: Utilize and collaborate with expert and independent consultants wherever required and appropriate.

Objective G1.05: Replace legacy financial and human resources information systems and manual processes with a commercial off-the-shelf package by FY14, 2nd quarter.

Outcome Measures:

G1.05.OC1: Percent of finance and human resources transactions processed using new system.

Strategies:

G1.05.S1: Procure Financial and Human Resources software package by FY13, 1st quarter.

G1.05.S2: Select Vendor for Systems Integration of the procured software package by FY13, 1st quarter.

GOAL 2: Provide competitive, reliable benefits for the retirement security of our members. *(Sections 1575.051 and 1575.052, Texas Insurance Code)*

Objective G2.01: Manage the revenues, expenses, and benefits of TRS-Care and TRS-Active Care in a way that contributes to their long-term sustainability.

Outcome Measures:

G2.01.OC1: End each fiscal year with a positive fund balance.

Strategies:

G2.01.S1: Engage experienced actuaries and healthcare consultants to assist TRS staff in monitoring the plans' claims experience and revenues in order to provide accurate projections for the TRS Board of Trustees.

G2.01.S2: Prepare accurate financial models and recommendations for use by the TRS Board of Trustees when they establish the plans' rates and benefits annually.

Objective G2.02: Provide health care benefits in compliance with the statutory requirements for TRS-Care and TRS-Active Care while providing coverage that is comparable to other Texas governmental health plans.

Outcome Measures:

G2.02.OC1: Benefit replacement ratio in comparison to Health Select.

Strategies:

G2.02.S1: Coordinate with TRS Legal Services and outside counsel to assure that TRS-Care and TRS-Active Care remain in full compliance with state and federal laws and regulations.



G2.O2.S2: Monitor the benefits offered by other Texas governmental health plans, especially the Employees Retirement System, to provide similar levels of coverage to the TRS-Care and TRS-Active Care plan participants.

GOAL 3: Build and maintain strong, customer-focused business relationships. (Section 825.113 (c), (f) and (g), Texas Government Code)

Objective G3.O1: By 2015, increase the percentage of reporting entity payroll reports completed by the second business day after the due date by 10 percent.

Outcome Measures:

G3.O1.OC1: Percentage increase in number of payroll reports completed by second business day.

Strategies:

G3.O1.S1: Increase training opportunities for reporting entity staff through webinars.

G3.O1.S2: Require all reporting entities to report through TRAQS.

Output Measure:

G3.O1.OP1: Number of reporting entity personnel trained via webinars.

Explanatory/Input Measure:

G3.O1.EX1: Number of reporting entities reporting via TRAQS.

Objective G3.O2: Answer all calls with an average speed of answer (ASA) of 2 minutes or less.

Outcome Measure:

G3.O2.OC1: Monthly, quarterly, and annual average speed of answer.

Strategies:

G3.O2.S1: Promote and advertise member self-serve options (IVR, Web) in order to minimize call volumes.

G3.O2.S2: Maintain a flexible staffing schedule in order to have adequate staff available during peak call volumes.

G3.O2.S3: Provide quality initial and ongoing staff training.

Objective G3.O3: Process 98 percent of initial annuity payments to TRS retirees when first due.

Outcome Measure:

G3.O3.OC1: Percentage of annuity payments processed within 31 days of receipt of all required documents.

Strategies:

G3.O3.S1: Provide quality initial and ongoing staff training.

G3.O3.S2: Cross-train staff members to provide assistance during peak periods.

G3.O3.S3: Improve existing automated systems used in the delivery of benefits.

G3.O3.S4: Implement approved statute and rule changes to simplify business processes.

G3.O3.S5: Conduct periodic review of TRS laws and rules to streamline and simplify.



Output Measure:

G3.O3.OP1: Number of retirements.

Objective G3.O4: Implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by August 2016.

Outcome Measures:

G3.O4.OC1: Percent of system implementation completed.

G3.O4.OC2: Percent reduction of manual processes.

G3.O4.OC3: Percent reduction in information technology application development time.

Strategies:

G3.O4.S1: Develop an Information Technology Plan that supports TRS' application strategy solution by FY12, 3rd quarter.

G3.O4.S2: Release a Statement of Work for Data Profiling by FY12, 4th quarter.

G3.O4.S3: Select data profiling vendor and complete data profiling project by FY13, 1st quarter.

G3.O4.S4: Release Data Management RFO by FY13, 1st quarter.

G3.O4.S5: Select Data Management vendor by FY13, 2nd quarter.

G3.O4.S6: Data Management project complete by FY16, 4th quarter.

G3.O4.S7: Release RFO and select the Independent Application Assessment vendor for the Pension Line of Business (LOB) FY13, 2nd quarter.

G3.O4.S8: Release RFO for the Pension LOB by FY13, 2nd quarter.

G3.O4.S9: Select Pension LOB vendor by FY13, 4th quarter.

G3.O4.S10: Implement three major pension benefit information systems by FY15, 4th quarter.

G3.O4.S11: Implement remaining pension benefit information systems by FY16, 4th quarter.

G3.O4.S12: Develop the capability for members to conduct major business transactions via the TRS website by FY15, 4th quarter.

G3.O4.S13: Implement multiple avenues for communication with membership by August 2016.

Output Measures:

G3.O4.OP1: Number of pension benefit information systems implemented.

G3.O4.OP2: Number of business transactions available via the TRS website.

G3.O4.OP3: Number of communication channels in use.

Efficiency Measures:

G3.O4.EF1: Schedule variance.

G3.O4.EF2: Budget variance.



GOAL 4: Effectively communicate valued information to our diverse stakeholders.
(Section 825.113 (c), (f) and (g), Texas Government Code)

Objective G4.01: Maintain a Benefit Counseling Department quality average score at the “successful” rating.

Outcome Measure:

G4.01.OC1: Monthly average quality scores.

Strategies:

G4.01.S1: Monitor and score calls using the Quality Assurance Program Guidelines and provide coaching as needed.

G4.01.S2: Conduct regular calibration sessions.

G4.01.S3: Provide quality initial and ongoing staff training.

Objective G4.02: Professionally and effectively collaborate with the TRS Board of Trustees, TRS members, and the Texas Legislature.

Outcome Measures:

G4.02.OC1: Presentation of each major area of IMD once a year to the board or appropriate board committee, including a semi-annual risk presentation.

G4.02.OC2: Compliance with Investment Policy Statement as determined by quarterly independent Internal Audit assessment.

G4.02.OC3: Publication of member-oriented communication materials designed to share the allocation, objectives, and results of Trust investments and share meaningful research, as applicable, at least twice per year for distribution to TRS members.

G4.02.OC4: IMD portion of TRS website redesigned to ease access to informational materials for members and other interested parties.

G4.02.OC5: Compliance with all state of Texas laws and regulations as promulgated by the Texas Legislature.

Strategies:

G4.02.S1: Effectively implement, within risk policies and within reasonable and appropriate budgetary guidelines, all Trust policies approved by the board.

G4.02.S2: Protect TRS competitive insights and other advantages.

G4.02.S3: Report professionally and systematically to the TRS Board of Trustees and, as appropriate, to TRS members and the Texas Legislature.

Objective G4.03: Redesign and launch a new TRS website featuring a modern appearance, improved functionality and accessibility, easier navigation, and state-of-the art content management by 2014.

Outcome Measures:

G4.03.OC1: Percent of website redesign completed.

G4.03.OC2: Percent of members/retirees satisfied with website improvements.

G4.03.OC3: Percent increase in self-service application usage.



Strategies:

- G4.03.S1: Identify potential enhancements suggested by TRS staff.
- G4.03.S2: Identify potential enhancements suggested by TRS members and retirees.
- G4.03.S3: Evaluate best-in-class websites and incorporate lessons learned.
- G4.03.S4: Issue a request for proposal to hire an outside contractor for the purpose of developing a new website.
- G4.03.S5: Develop test site, make needed adjustments, and launch the site.

Objective G4.04: Achieve a very satisfied/satisfied rating from at least 85 percent of all major stakeholders when asked to assess their satisfaction with TRS services.

Outcome Measures:

- G4.04.OC1: Percent of retirees' satisfaction.
- G4.04.OC2: Percent of active members' satisfaction.

Strategies:

- G4.04.S1: Identify TRS-related information that is considered most valuable by each major TRS stakeholder group.
- G4.04.S2: Identify communication channels that are considered most effective by each major stakeholder group.
- G4.04.S3: Develop annual outreach plans that identify how TRS should most effectively communicate valued information to stakeholders.
- G4.04.S4: Develop annual plans for each major stakeholder group that specify what types of information to communicate and when through the TRS website, printed materials, social media, e-mail, video, in-person meetings, telephone, external publications, and other means.
- G4.04.S5: Survey members through the *Member Satisfaction Survey* in February 2012 and February 2014.
- G4.04.S6: Apply what we learn from TRS surveys to ensure that the information we disseminate is clear, useful, and relevant to our stakeholders.

Output Measure:

- G4.04.OP1: Number of members responding to survey.

GOAL 5: Develop and retain a high-performing customer-focused staff that conducts business in an effective and ethical manner. (*Sections 825.208 and 825.213, 825.211 and 825.212, Texas Government Code*)

Objective G5.01: Continue to use the organization-wide TRS *Survey of Employee Engagement* Summary Construct as a basis for improving TRS as an employer and use the data to identify areas of improvement and areas of success to implement changes for the organization.

Outcome Measure:

- G5.01.OC1: Percentage change in construct scores.

Strategy:

- G5.01.S1: Perform an analysis of lower scoring constructs/departments and develop management plans as appropriate.

Output Measure:

G5.01.OP1: Raw construct scores.

Explanatory/Input Measure:

G5.01.EX1: Number of employees participating in survey.

Objective G5.02: To increase talent development as a business imperative in recruiting and retaining high performing employees, as evidenced by maintaining or increasing the number of training and development opportunities completed by staff during FY 2013 – FY 2017 as benchmarked against FY 2012.

Outcome Measure:

G5.02.OC1: The number of instructor-led and Web-based training and development opportunities completed by staff.

Strategy:

G5.02.S1: To make sufficient resources available to provide training and development opportunities to staff and to monitor the number of training and development activities completed by staff.

Objective G5.03: Through 2017, monitor and update one- and five-year division specific workforce continuity plans to mitigate risks associated with loss of institutional knowledge and critical expertise.

Outcome Measure:

G5.03.OC1: Percentage of workforce continuity plans reviewed and updated annually.

Strategy:

G5.03.S1: Review and update workforce continuity plans annually.

Objective G5.04: By 2013, implement an automated ethics training and compliance reporting system.

Outcome Measure:

G5.04.OC1: Percentage of ethics training and compliance reporting system completed.

Strategy:

G5.04.S1: Automate the annual compliance process to allow employees to fill out forms and take annual ethics training online, and search for answers to commonly asked questions or guidance for common situations.

Objective G5.05: Attract, retain, and develop talented and experienced investment professionals well-suited to manage one of the world's largest investment funds.

Outcome Measures:

G5.05.OC1: Education and professional designations of IMD investment professionals.

G5.05.OC2: Progress of IMD investment professionals through CPA, CFA, CAIA, FRM, and other investment-related professional designation programs.



G5.05.OC3: Percentage of IMD investment professionals who have completed annual 50 hour training in ethics, economics, general investment, financial analysis, and job-specific skills.

G5.05.OC4: Retention of investment professionals.

Strategies:

G5.05.S1: Develop, implement, and maintain a competitive compensation practice, utilizing performance metrics that are well-aligned with TRS members.

G5.05.S2: Maintain a well-articulated and implemented long-term investment culture.

G5.05.S3: Assure that IMD employees have a well-developed and articulated investment career track, including long-term succession planning.

G5.05.S4: Implement targeted and effective training programs and engage with external partners and associates to provide unique learning opportunities.

Objective G5.O6: Assure that the IMD investment systems and personnel operate at the highest levels of fiduciary integrity.

Outcome Measures:

G5.06.OC1: Successful completion of regular internal and external audits.

G5.06.OC2: Compliance with TRS *Employee Ethics Policy*.

G5.06.OC3: Compliance with TRS *Trading Policy*.

Strategies:

G5.06.S1: Employ high character investment professionals.

G5.06.S2: Operate in a highly professional investment culture of openness and meritocracy.

G5.06.S3: Adequately audit all critical IMD functions over rolling three-year periods.

G5.06.S4: Appropriately apply corrective action to unethical and/or unprofessional behaviors.

GOAL 6: Promote purchasing and emerging manager selection practices that foster meaningful and substantive inclusion of historically underutilized businesses. (Section 825.514 and Chapter 2161, Texas Government Code)

Objective G6.O1: Include historically underutilized businesses (HUBs) in at least 20 percent or greater of the total value of all contracts and subcontracts awarded annually by the agency in purchasing contracts.

Outcome Measure:

G6.01.OC1: Percentage of total dollar value of purchasing contracts and subcontracts awarded to HUBs.

Strategy:

G6.01.S1: Develop and implement a plan for increasing the use of HUBs through purchasing contracts and subcontracts.

Output Measure:

G6.01.OP1: Number of competitive bids submitted to HUBs.



Explanatory/Input Measure:

G6.01.EX1: Number of HUBs responding to solicitations.

Objective G6.02: Include historically underutilized businesses (HUBs) in at least 40 percent or greater of the total value of contracts awarded annually by the agency in purchasing contracts that do not require posting to the Electronic State Business Daily. This includes all contracts under \$25,000 and contracts awarded via existing statewide contracts (e.g. DIR, TXMAS, etc).

Outcome Measure:

G6.02.OC1: Percentage of total dollar value of purchasing contracts not requiring posting to the Electronic State Business Daily awarded to HUBs.

Strategy:

G6.02.S1: Develop and implement a plan for increasing the use of HUBs through purchasing contracts.

Output Measure:

G6.02.OP1: Number of competitive bids submitted to HUBs.

Explanatory/Input Measure:

G6.02.EX1: Number of HUBs responding to solicitations.

Objective G6.03: To include qualified businesses in the emerging manager program to the greatest extent possible.

Outcome Measure:

G6.03.OC1: Percentage of businesses participating in the emerging manager program who meet qualification standards.

Strategy:

G6.03.S1: Develop and implement a plan for increasing the use of qualified businesses in the emerging manager program.



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TECHNOLOGY RESOURCE PLANNING



Sec. 825.101 and Sec.825.103 (e) of the Texas Government Code exempts TRS from the directives of the Department of Information Resources (DIR) and stipulations put forth in the state strategic plan. TRS does, however, carefully consider the objectives set forth in the plan, voluntarily pursuing them to the extent possible when feasible and beneficial from an organizational perspective. The responses provided here describe TRS' efforts at voluntary compliance where applicable.

TECHNOLOGY INITIATIVE ASSESSMENT AND ALIGNMENT

Technology Initiative Assessment and Alignment describes how technology will be deployed within TRS to address its organizational objectives. For the purpose of this section, a technology initiative is defined as a current or planned activity that will improve, expand, or significantly change the way information technology (hardware, software, services) is used to support one or more of TRS' objectives.

1. Initiative Name: TRS Enterprise Application Modernization (TEAM) Program

1.1. Initiative Description:

The TEAM Program is a cohesive collection of components designed to meet the business and technology objectives of TRS over the next 10-20 years. The TEAM Program focuses on addressing the changing expectations of a growing membership, providing for the collection and maintenance of accurate and reliable data, expanding the number of automated processes, and incorporating modern technologies. The TEAM Program will demand re-engineered business processes, revised policies, and provide new ways of working together. The TEAM Program will also deliver tools and techniques that will position TRS to have flexibility in updating our systems in response to growing member demands and future technological and regulatory changes.

1.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
Data Management Project	Statement of Work (SOW) development in progress
Financial & HR Systems Upgrade	SOW development in progress
Independent Project Assessment	Request For Offer (RFO) development in progress
Pension Administration Line of Business Solution	RFO development in progress

1.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.



This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by improving external communications and service delivery, streamlining internal work processes for greater efficiency, modernizing the technical environment to ensure proper support and needed tools, and staffing technical positions to ensure the proper skill sets are in place for the future. It also supports replacing the legacy financial and human resources information systems and manual processes with a commercial off-the-shelf package.

1.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- P1 – Cloud
- P2 – Data Management
- P3 – Data Sharing
- P4 – Infrastructure
- P5 – Legacy Applications

- P6 – Mobility
- P7 – Network
- P8 – Open Data
- P9 – Security and Privacy
- P10 – Social Media

- P1 – Cloud
- P2 – Data Management
- P3 – Data Sharing
- P4 – Infrastructure
- P5 – Legacy Applications

- P6 – Mobility
- P7 – Network
- P8 – Open Data
- P9 – Security and Privacy

1.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The TEAM Program will replace aging legacy systems and provide flexible systems that allow TRS staff to be more effective in servicing TRS members and annuitants. It will improve internal business processes to better meet increasing demands of a growing membership and leverage leading technology services and tools. It will also address increasing membership demands for online self-service. TRS will maintain trust and member confidence through this initiative which supports the agency's strategic plan of timely delivery of benefit services to our membership.

1.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

TRS will provide member and annuitant satisfaction through better service delivery, quality, and processing speed. When the program is complete, TRS will have upgraded financial, human resources, and pension administration systems running on modern technology. Agency risk will



be reduced by replacing aging legacy systems and implementing better data and system security through modern technologies. System flexibility will allow more effective compliance with state and federal regulations. This initiative will build the technology foundation to better implement operational improvements necessary to be more responsive to our membership.

The TEAM Program will deliver tools and techniques that will position TRS to have flexibility in updating our systems in response to growing member demands and future technological and regulatory changes.

1.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.

Capabilities: TRS is doing its due diligence in effectively planning the TEAM Program and maintaining its scope. The agency currently has executive sponsorship and TRS Board of Trustee approval to successfully implement this technology initiative.

Barriers: Lack of initiative support and funding, the inappropriate number of staff with the needed skill set, and competing priorities would be barriers to successfully implementing this initiative.

2. Initiative Name: Imaging System Upgrade

2.1. Initiative Description:

This project will convert the existing FileNet Imaging System to the new P8 platform. This project will also convert the existing images from the outdated format to the new IBM FileNet format which will be accessible to FileNet P8. This upgrade will require a rewrite of several in-house user applications with an emphasis on minimal changes to the user interface. FileNet P8 provides expanded search capabilities, improved performance, and the ability to develop new applications using more modern programming interfaces. TRS will also implement Content Manager on Demand (CMOD). CMOD will complement the FileNet upgrade by replacing a very labor-intensive and cumbersome mission critical auto-imaging solution. CMOD will enable TRS to auto-image large volume printed reports and letters reliably with a 95 percent compression ratio and provide document retention controls.

2.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
Upgrade Imaging System to P8	In progress through FY2013
Content Manager on Demand (CMOD) Solution	In progress through FY2013
FileNet IS Capture to Kofax Capture Project	In progress through FY2013

2.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by streamlining internal work processes for greater efficiency and modernizing the technical environment to ensure proper support and needed tools.

2.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|--|--|
| <ul style="list-style-type: none"> • P1 – Cloud • P2 – Data Management • P3 – Data Sharing • P4 – Infrastructure • P5 – Legacy Applications | <ul style="list-style-type: none"> • P6 – Mobility • P7 – Network • P8 – Open Data • P9 – Security and Privacy • P10 – Social Media |
|--|--|

P2 – Data Management P3 – Data Sharing P4 – Infrastructure

2.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The Imaging System Upgrade will replace the agency’s current imaging system which is at end-of-life and will not be vendor supported. The new FileNet P8 Imaging System will provide more robust search capabilities and improved performance allowing TRS staff to process and manage imaged documents quicker and more effectively. TRS will be able to leverage current technology reducing its risk due to system obsolescence. This upgrade will provide TRS membership with better service delivery.

2.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

The Imaging System Upgrade expects to provide better service delivery to TRS membership, increased TRS staff productivity, and more robust system functionality and support.

2.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency’s ability to successfully implement the technology initiative.

Barrier: Determining the correct balance between customization for easier acceptance and the need for new user interface and processes education would be a barrier to successfully implementing this initiative.



3. Initiative Name: Electronic Records Management (ERM)

3.1. Initiative Description:

This initiative proposes the use of FileNet P8 Records Manager to house the agency's record retention schedule. The Records Manager will be used to manage the repositories of electronic records, automatically applying retention and disposition rules to records stored in them.

3.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
ERM Proof-of-Concept solution	Planned to start FY2013 through FY2014
ERM Agency-wide implementation	Planned to start FY2015 through FY2016

3.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by reducing the volume of electronic records stored on file shares and network drives, streamlining internal work processes for greater efficiency, modernizing the technical environment to ensure proper support and needed tools, and increasing the volume of electronic records purged annually in accordance with the agency retention schedule.

3.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|--|--|
| <ul style="list-style-type: none"> • P1 – Cloud • P2 – Data Management • P3 – Data Sharing • P4 – Infrastructure • P5 – Legacy Applications | <ul style="list-style-type: none"> • P6 – Mobility • P7 – Network • P8 – Open Data • P9 – Security and Privacy • P10 – Social Media |
|--|--|

P2 – Data Management

3.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The Electronic Records Management initiative will enhance TRS' ability to provide increased trust to its membership and the citizens of Texas by ensuring that record data is properly managed



and disposed of according to agency retention schedules and that record data is complete and available for public information requests.

3.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

TRS seeks to better its operational efficiency by reducing the volume of electronic records stored on file repositories, reducing costs and increasing productivity, streamlining internal work processes for greater efficiency, improving compliance with requirements to manage electronic records in accordance with the agency retention schedule, improving management and control over electronic records, and improving the efficiency and completeness of responses to public information requests.

3.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.

Barriers: Staff availability and limited staff knowledge of FileNet P8 and electronic records management software; license costs for the number of seats required for agency-wide implementation and potential user resistance to developing standardized file plans and taxonomies would all be barriers to successfully implementing this initiative.

4. Initiative Name: Interactive Voice Response (IVR) Upgrade

4.1. Initiative Description:

The IVR was upgraded to the Siemens OpenScape Voice Portal platform in 2012. The Siemens OpenScape Voice Portal platform is based on the Genesys Voice Platform and incorporates the latest VoiceXML and SIP standards. As part of that upgrade, TRS added callback functionality that will improve member satisfaction by allowing us to call the member back when a benefit counselor is available rather than waiting on hold. As part of our IVR strategy, we need to upgrade our application to align with our TEAM Program. This will offer our members the same functionality regardless of how they choose to interact with TRS - via the telephone or the Web. We are considering many different aspects of the upgrade including intelligent self-service and the use of caller profiles to align callers' habits with their needs; biometric or voice print technology for increased security; enhanced reporting capability to provide better insight into member needs and chat/e-mail interactions.

4.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.



Name	Status
IVR Upgrade	Planned to start FY2016 through FY2017
4.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
<p>This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.</p>	
4.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
<ul style="list-style-type: none"> • P1 – Cloud • P2 – Data Management • P3 – Data Sharing • P4 – Infrastructure • P5 – Legacy Applications 	<ul style="list-style-type: none"> • P6 – Mobility • P7 – Network • P8 – Open Data • P9 – Security and Privacy • P10 – Social Media
<p>P4 – Infrastructure</p>	
4.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles: <ul style="list-style-type: none"> • Connect – expanding citizen access to services • Innovate – leveraging technology services and solutions across agencies • Trust – providing a clear and transparent accounting of government services and data • Deliver – promoting a connected and agile workforce 	
<p>The IVR Upgrade will provide increased member satisfaction by aligning our member experiences across telephone and Web platforms.</p>	
4.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include: <ul style="list-style-type: none"> • Operational efficiencies (time, cost, productivity) • Citizen/customer satisfaction (service delivery quality, cycle time) • Security improvements • Foundation for future operational improvements • Compliance (required by state/federal laws or regulations) 	
<p>The IVR Upgrade is expected to provide continued service delivery and increased functionality for our membership.</p>	
4.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
<p><u>Barrier:</u> Lack of in-house IVR application programmer/analyst support would be a barrier to successfully implementing this initiative.</p>	



5. Initiative Name: External TRS Website Enhancement

5.1. Initiative Description:

The website was last updated in December 2006. Usability changes are required to make finding information on the TRS website easier and quicker and to provide self-service delivery to TRS membership. TRS’ social media presence on [Facebook](#), [LinkedIn](#), [YouTube](#), [Twitter](#), and [Wikipedia](#) requires that the website be updated to use enhancements those tools provide. The website also needs the flexibility to incorporate other tools and technologies that will benefit our membership.

5.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency’s Information Technology Detail.

Name	Status
Website Redesign Project	FY2014

5.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency’s objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.

5.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|--|--|
| <ul style="list-style-type: none"> • P1 – Cloud • P2 – Data Management • P3 – Data Sharing • P4 – Infrastructure • P5 – Legacy Applications | <ul style="list-style-type: none"> • P6 – Mobility • P7 – Network • P8 – Open Data • P9 – Security and Privacy • P10 – Social Media |
|--|--|

P4 – Infrastructure P8 – Open Data P10 – Social Media

5.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The External TRS Website Enhancement will expand citizen access to self-service delivery and will provide a clear and transparent accounting of government services and data.

5.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:



- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

The External TRS Website Enhancement will provide increased citizen/customer satisfaction through service delivery and quality. It will also provide website security improvements, keep the agency in compliance with state and federal laws and regulations, and allow for future operational improvements.

5.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.

Barriers: Competition for TRS staff resources that are being used on the TEAM Program will be a barrier to successfully implementing this initiative.

6. Initiative Name: PC Workstation Upgrade

6.1. Initiative Description:

The PC Workstation Upgrade is an on-going initiative focused on upgrading outdated hardware technology. TRS has a Desktop Refresh policy that sets standards for replacing PC and laptop computer systems every two to four years depending on its placement and user requirements. This effort supports increased functionality, performance, and reliability of the desktop computing environment.

6.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
PC Workstation Upgrade	In progress through FY2017

6.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.

6.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|--|---|
| <ul style="list-style-type: none"> • P1 – Cloud • P2 – Data Management | <ul style="list-style-type: none"> • P6 – Mobility • P7 – Network |
|--|---|



<ul style="list-style-type: none"> • P3 – Data Sharing • P4 – Infrastructure • P5 – Legacy Applications 	<ul style="list-style-type: none"> • P8 – Open Data • P9 – Security and Privacy • P10 – Social Media
P4 – Infrastructure	P6 – Mobility
<p>6.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:</p> <ul style="list-style-type: none"> • Connect – expanding citizen access to services • Innovate – leveraging technology services and solutions across agencies • Trust – providing a clear and transparent accounting of government services and data • Deliver – promoting a connected and agile workforce 	
<p>The PC Workstation Upgrade ensures that TRS has an adequate desktop computing environment needed to perform and run the required applications that support the timely delivery of benefit services to our membership and our investment responsibilities.</p>	
<p>6.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:</p> <ul style="list-style-type: none"> • Operational efficiencies (time, cost, productivity) • Citizen/customer satisfaction (service delivery quality, cycle time) • Security improvements • Foundation for future operational improvements • Compliance (required by state/federal laws or regulations) 	
<p>The PC Workstation Upgrade expects to provide member customer satisfaction through service delivery and quality and allows for future operational improvements.</p>	
<p>6.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency’s ability to successfully implement the technology initiative.</p>	
<p>None identified at this time.</p>	



7. Initiative Name: Telecommunications Upgrade

7.1. Initiative Description:

The Telecommunications Upgrade is an on-going initiative composed of the following two parts: Part A - Telecommunications Infrastructure Upgrade - supports the upgrade, development, and maintenance of the TRS Telecommunications Infrastructure including the PBX/CBX, Integrated Voice Response (IVR) systems, virtual queuing, quality monitoring, advanced skills-based routing, and unified messaging systems. This project supports the development and implementation of voice-over-IP such as soft phone technology and new telephone devices to support Investments and member benefits functions. It also expands the use of mobile devices throughout the enterprise. This project supports the agency's strategic plan to deliver timely benefit services to our membership and to perform its investment responsibilities.

Part B – Network Infrastructure Upgrade - supports the development and maintenance of the TRS client/server environment which includes upgrading existing servers for investment and benefit applications; expanding and improving enterprise messaging; enhancing information security; building redundant systems; eliminating single points of failure; expanding network storage to meet business demand; upgrading network routing and switches for improved functionality, performance and stability, and improving reliability and management of the client server environment. This project supports the agency's strategic plan in the timely delivery of benefit services to our membership and to perform its investment responsibilities.

7.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
Telecommunications Infrastructure Upgrade	In progress through FY2017
Network Infrastructure Upgrade	In progress through FY2017

7.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.

7.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|--|--|
| <ul style="list-style-type: none"> • P1 – Cloud • P2 – Data Management • P3 – Data Sharing • P4 – Infrastructure • P5 – Legacy Applications | <ul style="list-style-type: none"> • P6 – Mobility • P7 – Network • P8 – Open Data • P9 – Security and Privacy • P10 – Social Media |
|--|--|



P1 – Cloud
P3 – Data Sharing
P6 – Mobility
P9 – Security and Privacy

P2 – Data Management
P4 – Infrastructure
P7 – Network

7.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The Telecommunications Upgrade ensures that TRS has the required voice and data infrastructure to support core applications and services needed to provide timely delivery of benefit services to our membership and to perform our investment responsibilities.

7.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

The Telecommunications Upgrade expects to provide member customer satisfaction through service delivery and enhanced quality. Security will be improved and this initiative will allow for future operational improvements.

7.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.

None identified at this time.

8. Initiative Name: Mainframe & Peripheral Upgrade

8.1. Initiative Description:

This is an on-going initiative that supports upgrading and expanding the TRS enterprise server and peripherals to reduce capacity constraints and issues with compatibility and obsolescence.

8.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
Mainframe & Peripheral Upgrade	In progress through FY2017



8.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.

8.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|--|--|
| <ul style="list-style-type: none"> • P1 – Cloud • P2 – Data Management • P3 – Data Sharing • P4 – Infrastructure • P5 – Legacy Applications | <ul style="list-style-type: none"> • P6 – Mobility • P7 – Network • P8 – Open Data • P9 – Security and Privacy • P10 – Social Media |
|--|--|

P2 – Data Management P4 – Infrastructure P9 – Security and Privacy

8.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The Mainframe and Peripheral Upgrade ensures that TRS has an adequate mainframe computing environment needed to perform and run the required applications that support the timely delivery of benefit services to our membership.

8.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

The Mainframe and Peripheral Upgrade expects to provide member customer satisfaction through service delivery and enhanced quality. It also allows for future operational improvements.

8.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.

None identified at this time.



APPENDICES

APPENDIX A – DESCRIPTION OF AGENCY PLANNING PROCESS

TRS generally follows a fairly standardized methodology for preparing its Strategic Plan. As noted in the 'Goals, Objectives, and Strategies' section, during this planning cycle, TRS took additional steps toward a more extensive planning approach that involved expanding TRS goals, objectives, and strategies beyond those associated solely with the legislative appropriations process to include others that will help functional areas from across the organization focus their energies even more effectively toward achievement of the TRS mission.

The goals continue to be expanded and updated from the previous plan to support TRS' new vision, mission, and goals. They were crafted to complement rather than replace those currently captured in the appropriations request. The TRS strategic planning process follows the standard methodology for preparing the deliverable document as reflected in the below action items:

1. Assign responsibility for sections of the strategic plan based on expertise in that subject matter.
2. Review pertinent internal documentation. This may include the following:
 - Current and past strategic plans.
 - Comprehensive Annual Financial Report(s) (CAFR).
 - Actuarial Valuation Report(s).
 - Legislative appropriation request.
 - Current operational budget.
 - Any specially prepared reports from the prior biennium.
 - Archived project materials from previous strategic planning projects.
3. Review pertinent external documentation. This may include the following:
 - Instructions for Preparing and Submitting Agency Strategic Plans.
 - Budget preparation instructions.
 - State strategic plan for information resources.
 - Other agency strategic plans.
 - State economic and population projections.
4. Review other external information sources related to pensions and investment, education, labor markets, etc.
5. Solicit input from members of the TRS Board of Trustees and external stakeholders including key elected officials, agency heads, and educational associations.
6. Review findings of the *Survey of Employee Engagement (SEE)* – The *SEE* is a formal survey of TRS staff, which provides valuable insights into their perceptions of numerous aspects of TRS operations from an internal perspective.
7. Review findings of the biennial *Member Satisfaction Survey* – The *Member Satisfaction Survey* is a formal survey distributed to a representative sample of active members and retirees soliciting their responses to questions relating to multiple facets of TRS' organizational effectiveness and customer service.

8. Prepare ancillary documents – In conjunction with preparation of the main body of the strategic plan, information that is included as an extract or in the appendices are prepared by those areas directly responsible (e.g., Workforce Plan – Human Resources Department).
9. Prepare initial draft for executive review – An initial draft of the strategic plan is submitted to the TRS Executive Council (EC) for review and comment.
10. Incorporate EC modifications and prepare final draft. The final draft is distributed to the executive director and deputy director for final review.
11. Final approval – Any additional changes proposed by the executive director and/or deputy director are incorporated followed by sign-off by the board chair and executive director.
12. Print and distribute the strategic plan – Copies of the plan are printed and distributed in accordance with the instructions. The plan is also posted to the TRS website.



Strategic Planning Steering Committee / Executive Council

Brian Guthrie	Executive Director
Ken Welch	Deputy Director
Amy Barrett	Chief Audit Executive
Conni Brennan	General Counsel
Annette Dominguez*	Director of Human Resources
Howard Goldman	Director of Communications
Don Green	Chief Financial Officer
Britt Harris	Chief Investment Officer
Betsey Jones	Director of Health Care Policy & Administration
Rebecca Merrill	Special Advisor to the Executive Director & Manager of Special Projects
Amy Morgan	Chief Information Officer
Ray Spivey	Director of Governmental Relations
Marianne Woods Wiley	Chief Benefit Officer

*Effective May 1, 2012, Janet Bray was hired as the new Director of Human Resources to replace Annette Dominguez who retired.

Strategic Planning Core Team

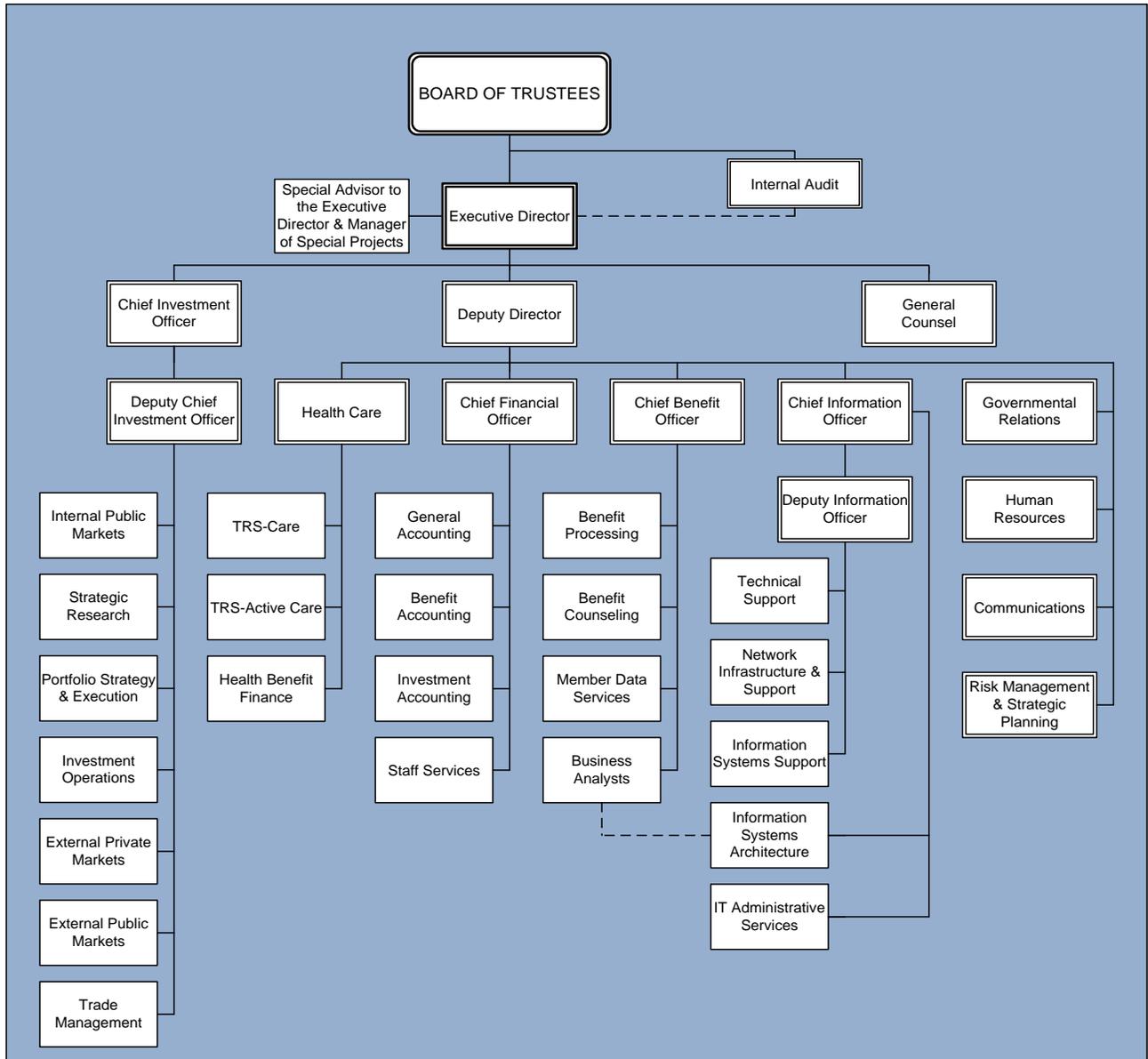
Thomas Albright	Juliana Fernandez Helton	Michelle Pagán
Ashley Baum	Bob Jordan	Michele Price
Lyle Boyea, Project Co-Leader	Roy Larsen	Jim Smith
Will Burgess	Jay LeBlanc, Project Leader	Brian Zunker
Tina Carnes		

Strategic Planning Support

The following individuals provided valuable support to the strategic planning effort through direct contribution or consultation during the development process.

Michelle Bertram	Dan Herron	Rhonda Price
David Bryant	Christi Holman	Garry Sitz
Chris Cutler	Clarke Howard	Charmaine Skillman
John Dobrich	Dan Junell	Ellen Small
Charles Duke	Billy Lowe	William Tompkins
Edward Esquivel	Jamie Michels	Yimei Zhao
Lisa Fierro	T.A. Miller	Ann Zigmund
Dennis Gold	Patricia Moraw	
Tom Guerin	Liz Oliphint	
Tommy Haydon	Patty Pratt	

APPENDIX B – TRS ORGANIZATION CHART





APPENDIX C – PROJECTED OUTCOMES: FY 2013 – FY 2017 PLANNING PERIOD

Performance Measure	Projections				
	2013	2014	2015	2016	2017
<p><i>Objective: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years and generates a 5-year average investment return of at least 8 percent.</i></p>					
<p><i>OUTCOME MEASURES</i></p>					
▶ Number of years to amortize the TRS retirement fund unfunded actuarial accrued liability	<31 years	<31 years	<31 years	<31 years	<31 years
▶ TRS retirement fund 5-year average, time-weighted rate of return on investment performance	8%	8%	8%	8%	8%
▶ Investment Performance Relative to Board Approved Benchmark	100%	100%	100%	100%	100%
▶ TRS retirement fund benefit administration annual operating expense per member and annuitant in dollars	\$25	\$27	\$28	\$28	\$28
▶ TRS retirement fund investment expense as basis points (bp) of net assets	15bp	22bp	23bp	25bp	26bp
▶ Average customer hold time for calls received on toll-free line (in minutes)	2:00	2:00	2:00	2:00	2:00
<p><i>OUTPUT MEASURES</i></p>					
▶ Number of TRS benefit applications processed	65,000	65,000	65,000	65,000	65,000
▶ Number of TRS retirement fund member accounts serviced	10,141,321	10,141,321	10,141,321	10,242,734	10,345,162
▶ Percent of TRS retirees whose first annuity is paid when it is first due	98%	98%	98%	98%	98%



<i>Performance Measure</i>	Projections				
	2013	2014	2015	2016	2017
<i>Objective: To administer a health care program for public education retirees.</i>					
<i>EFFICIENCY MEASURE</i>					
▶ Percent of TRS-Care medical claims adjudicated within 14 days of receipt	95%	95%	95%	95%	95%
<i>Objective: To administer a health care program for public education employees.</i>					
<i>EFFICIENCY MEASURE</i>					
▶ Percent of TRS-Active Care medical claims adjudicated within 14 days of receipt	95%	95%	95%	95%	95%



APPENDIX D – PERFORMANCE MEASURE DEFINITIONS

The performance measure definitions presented below are those associated with the TRS legislative appropriations request and the General Appropriations Act. They are separate and distinct from the performance measures included in the 'Goals, Objectives, and Strategies' section of this strategic plan document.

Agency:	Teacher Retirement System
Goal:	To administer the system as an Employee Benefit Trust.

Objective: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years and generates a 5-year average investment return of at least 8 percent.

Outcome Measure: Number of Years to Amortize the TRS Retirement Fund Unfunded Actuarial Accrued Liability

Definition:	This measure reflects the number of future years required to pay off or eliminate the retirement fund unfunded actuarial accrued liability (UAAL) based on the actuarial assumptions and assuming no future actuarial gains or losses.
Purpose/Importance:	This measure is important because it determines when the UAAL can reasonably be expected to be funded or amortized over a determinable number of years. This funding or amortization can only be accomplished when there is excess of total contributions over the normal cost of expected benefits.
Source/Collection of Data:	The source is the actuarial valuation report issued by the consulting actuary after the end of the fiscal year. Data is collected from the retirement fund membership data records and the financial data at fiscal year end.
Method of Calculation:	Required data is forwarded to the consulting actuary who conducts an actuarial valuation by performing an analysis of the data and subjecting it to board approved actuarial assumptions.
Data Limitations:	The actuarial valuation is completed at the end of every fiscal year. Membership data is collected at fiscal year-end only. Financial data is calculated and audited at fiscal year-end only.
Calculation Type:	Non-cumulative
New Measure:	No
Target Attainment:	Lower than target.



Outcome Measure: TRS Retirement Fund 5-Year Average Time-Weighted Rate of Return on Investment Performance

Definition:	This measure shows investment returns calculated on a time-weighted basis for all retirement fund investments and reflects income and realized/unrealized price changes.
Purpose/Importance:	The investment rate of return is an important factor in determining the ability of the retirement fund to meet its funding obligations.
Source/Collection of Data:	Investment financial data is from the retirement fund fiscal year-end accounting records.
Method of Calculation:	Reported investment returns are calculated by the investment custodian based on data provided from the fiscal year-end retirement fund accounting records.
Data Limitations:	The data is dependent on investment market fluctuations, specifically at fiscal year-end.
Calculation Type:	Non-cumulative
New Measure:	No
Target Attainment:	Higher than target.

Outcome Measure: Investment Performance Relative to Board Approved Benchmark

Definition:	This measure would report actual investment performance, net of fees, compared to the annual board-adopted performance benchmark.
Purpose/Importance:	This measure reflects the value added by the Investment Management Division's investment strategy.
Source/Collection of Data:	Investment financial data collected from the retirement fund custodian for the period ended June 30.
Method of Calculation:	The total investment return of the Pension Trust Fund (as expressed by a percentage) divided by the Total Fund Index benchmark (as expressed by a percentage) and adopted by the TRS Board of Trustees and reported in the <i>Comprehensive Annual Financial Report</i> (CAFR).
Data Limitations:	The data is dependent on the timing of valuations and index availability.
Calculation Type:	Non-cumulative
New Measure:	No
Target Attainment:	Higher than target.



Outcome Measure: TRS Retirement Fund Benefit Administration Annual Operating Expense Per Member and Annuitant in Dollars

Definition:	This measure reflects the annual cost per member and annuitant to operate the retirement fund benefit administration.
Purpose/Importance:	This measure provides a method to compare operating efficiencies from year-to-year and comparison to other public retirement funds.
Source/Collection of Data:	The source is the fiscal year-end financial data, member data, and annuitant data. The retirement fund fiscal year-end accounting data for the operating expenses is based on generally accepted accounting principles (GAAP), GAAP investment expenses, and total members and annuitants.
Method of Calculation:	This measure is calculated by dividing the retirement fund benefit administration generally accepted accounting principle basis operating expenses, excluding GAAP investment expenses, by the total members and annuitants.
Data Limitations:	The fiscal year-end financial and membership data required to calculate the final cost per member are not available in time to meet the deadline for submitting this measure. Preliminary data must be used and the final data provided by December following the close of the fiscal year.
Calculation Type:	Non-cumulative
New Measure:	No
Target Attainment:	Lower than target.

Outcome Measure: TRS Retirement Fund Investment Expense as Basis Points of Net Assets

Definition:	This measure shows the annual retirement fund investment expenses as a percent of net assets.
Purpose/Importance:	This calculation provides a method to compare investment operating efficiencies from year-to-year and comparison to other public retirement funds.
Source/Collection of Data:	This measure uses the retirement fund fiscal year-end financial data.
Method of Calculation:	This measure is calculated by dividing retirement fund generally accepted accounting principle basis investment expenses as reported in the TRS CAFR Schedule of Investing Activity Expenses, by the Net Assets Held in Trust for Pension Plan Benefits. A basis point is one one-hundredth of one percent or 0.01 percent.
Data Limitations:	The financial data required to calculate the final basis points is not available in time to meet the deadline for submitting this measure. A preliminary basis point must be used and the final basis point provided by December following the close of the fiscal year.



Calculation Type: Non-cumulative
New Measure: No
Target Attainment: Lower than target.

Outcome Measure: Average Customer Hold Time for Calls Received on Toll-free Line (In Minutes)

Definition: This measure provides the average time (in minutes) it takes for a telephone call received through the toll-free telephone line to be answered by a TRS Benefits Counselor after the call is released from the automated telephone system.

Purpose/Importance: This measure provides the average time (in minutes) a member calling on the toll-free line waits in a hold status until they are answered by a TRS Benefits Counselor.

Source/Collection of Data: The source of the data is the OpenScape Contact Center Manager – Report Center application, a real-time Contact Center Management System utilizing skills-based routing. The data is collected by this application from the Siemens Hipath 4000 Telephone System utilizing CTI (Computer Telephone Integration) and the ACD capabilities of the telephone switch. The measure is obtained through the OpenScape Contact Center Manager – Report Center application.

Method of Calculation: The measure is calculated using the OpenScape Contact Center Manager Report Center application. The Queue Summary report is scheduled to automatically run each month. On this report, the Average Wait Time is shown for all call queues. A call queue is a logical holding area for calls waiting to be routed to a Benefit Counselor after being transferred from the Automated Telephone System. The Average Wait Time is the average time that a call spends in queue before being answered by a Benefit Counselor. It is the total wait time divided by the total number of calls received, and the total number of calls received includes answered and abandoned calls. The Average Wait Time is the same as either the Average Customer Hold Time or the Average Speed of Answer.

Data Limitations: The data is limited by the number of telephone calls that can be received on the toll-free line during the telephone center business operating hours.

Calculation Type: Non-cumulative
New Measure: No
Target Attainment: Lower than target.



Strategy: Provide services to members, manage investments, and administer TRS retirement fund.

Output Measure: Number of TRS Benefit Applications Processed

Definition:	This measure provides the number of benefit claim applications for service and disability retirement, refunds, and death claims processed by TRS.
Purpose/Importance:	This measure provides a year-to-year comparison of growth in applications processed by TRS.
Source/Collection of Data:	Information is collected through TRS computer applications and taken from various reports referenced in TRS procedures specific to this measure.
Method of Calculation:	To calculate the number of TRS benefit applications processed, the number of refunds processed, the number of death claims closed during the month, and the number of files added to payroll during a month, all taken from reports referenced in procedures related to this measure, are added together to determine the total number of benefit applications processed.
Data Limitations:	Benefit applications received must have all required documentation properly executed prior to processing the benefit payment requested. Reporting entities must have remitted a member's final retirement contribution to TRS prior to processing the benefit payment.
Calculation Type:	Non-cumulative
New Measure:	No
Target Attainment:	Not applicable.

Output Measure: Number of TRS Retirement Fund Member Accounts Serviced

Definition:	This measure shows the number of member retirement deposits applied to individual member accounts each fiscal year.
Purpose/Importance:	This measure provides a year-to-year comparison of the growth in transaction activity.
Source/Collection of Data:	The source is the member records accounting system report. The transaction numbers are accumulated from the application of salary and contribution as submitted by the reporting entity on a monthly basis.
Method of Calculation:	Each posting to a member's account is considered a transaction in the month the contribution is applied to a member's account regardless of the received date.
Data Limitations:	Over 1300 reporting entities must report each member's monthly payroll salary and retirement contribution. A member can have more than one posting per month if employed by multiple reporting entities.
Calculation Type:	Cumulative.



New Measure: No
Target Attainment: Not applicable.

Output Measure: Percent of TRS Retirees Whose First Annuity is Paid When it is First Due

Definition: Annuitants paid timely means that an annuitant is considered to be paid when first due if the warrant was issued: on the first working day of the second month following the retirement date; on or before the first working day of the month following the final report date; within 31 days of when a special service purchase bill was paid; or within 31 days of when a retirement document was received.

Purpose/Importance: This measure determines if TRS is delivering benefits in a timely manner based on all properly completed and required documentation and data elements for retirement.

Source/Collection of Data: Information is taken from TRS systems referenced in procedures to generate reports that list, respectively, warrants that met or did not meet the criteria in the definition.

Method of Calculation: Review source data to determine whether warrants were issued in a timely manner based on the criteria in the definition. To determine the percentage of warrants issued in a timely manner, the denominator is the total number of warrants issued during the month of interest. The numerator is the total number of warrants issued minus the warrants that are considered not issued in a timely manner.

Data Limitations: Only files added to payroll during the month of interest that result in a warrant being issued are considered to determine if paid in a timely manner.

Calculation Type: Non-cumulative.

New Measure: No
Target Attainment: Higher than target.

Objective: To administer a health care program for public education retirees.

Strategy: Administer group health care benefits to public education retirees through the TRS-Care program by monitoring the performance of contracted benefit providers, communicating health care plan features, and resolving benefit disputes. Estimated.

Efficiency Measure: Percent of TRS-Care Medical Claims Adjudicated within 14 Days of Receipt

Definition: This measure reflects the percent of TRS-Care medical claims settled within 14 days of receipt.

Purpose/Importance: This measure reflects the efficiency of medical claims settlement.



Source/Collection of Data:	Data is provided by the program's medical claims administrator, through reports referenced in procedures related to this measure.
Method of Calculation:	The percent of data for the period reported will consist of the total number of medical claims adjudicated within 14 days of receipt by the medical claims administrator, divided by the total number of medical claims adjudicated.
Data Limitations:	Receipt by the medical claims administrator shall be the date the complete and necessary claim documents are physically received by the medical claims administrator. Complete eligibility information must be provided by TRS to the medical claims administrator to be included as an eligible claim. Incomplete claims or claims requiring documentation will not be included as an eligible claim until all documentation is received. "Adjudicated" means the date of the manual or computerized transaction that results in the generation of an Explanation of Benefits (EOB). The "date adjudicated" shall be the date on the EOB.
Calculation Type:	Non-cumulative
New Measure:	No
Target Attainment:	Higher than target.

Objective: To administer a health care program for public education employees.

Strategy: Administer group health care benefits to public education employees through the TRS-Active Care program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes.

Efficiency Measure: Percent of TRS-Active Care Medical Claims Adjudicated within 14 Days of Receipt

Definition:	This measure reflects the efficiency of complete medical claims settled within 14 days of receipt.
Purpose/Importance:	This measure reflects the efficiency of medical claims settlement.
Source/Collection of Data:	Data is provided by the program's medical claims administrator and verified by periodic independent audits.
Method of Calculation:	The number of medical claims adjudicated within 14 days of receipt is divided by the total number of complete medical claims received in a particular period.
Data Limitations:	Complete eligibility information must be provided by participating entities to the medical claims administrator to be included as an eligible medical claim.
Calculation Type:	Non-cumulative
New Measure:	No
Target Attainment:	Higher than target.

APPENDIX E – WORKFORCE PLAN

I. System Overview

The Teacher Retirement System of Texas (TRS) was formed by constitutional amendment and enabling legislation in 1937. The original responsibility of the system was to provide service and disability retirement benefits to teachers and administrators of the public school systems of Texas, including institutions of higher education. Over the years, legislation has:

- Expanded TRS pension plan membership eligibility to all public school employees (1949).
- Assigned TRS to administer a health benefit program for public school retirees (1985).
- Created the basis for TRS to provide long-term care insurance (1999).
- Assigned TRS to administer a health benefit program for active public school employees (2001).

The TRS pension plan had about 38,000 members in its first year of operation. Today, TRS is the largest public retirement system in Texas, in both membership and assets. The agency serves 1,316,566 participants – 1,003,886 are public and higher education members, and 312,680 are retirement recipients. As of September 30, 2011, system net assets totaled approximately \$101 billion. The TRS pension plan operates under Section 67, Article XVI of the Texas Constitution to provide retirement and related benefits for those employed by public schools, colleges, and universities supported by the state of Texas. The system is responsible for investing funds under its stewardship and for delivering benefits to members as authorized by the Texas Legislature. TRS is a defined benefit plan, with retirement benefits determined by a pre-established formula. The trust fund is sustained principally by three sources—contributions by members during their working careers, contributions by the state, and investment revenues.

TRS operates out of two adjoining buildings at 1000 Red River Street in downtown Austin, Texas as well as 47,034 square feet of leased space at 816 Congress Avenue that houses the TRS Investments Management Division. The business of the system involves two broad functions: administering benefits and managing investments. The financial, information technology, and administration areas provide essential services to the system's mission-critical divisions (see the organization chart in Appendix B). To serve members throughout the state, benefit counseling employees travel on a regular basis to make group presentations and provide one-on-one counseling sessions. TRS also uses Web-based services, a sophisticated telephone counseling center, and an interactive voice response system to provide convenient service to those outside of the Austin area.

Health benefit programs are funded separately from the pension plan administered by TRS. The budgeted full-time equivalent (FTE) positions allocated to each function are shown in the following chart.



TRS Budgeted FTEs

Fiscal Year	Pension Fund	TRS-Care	TRS-Active Care	403 (b) Program	TRS Total
2012	475.3	32	23	0.5	530.8
2010	475	32	21	2	530
2008	435	30	21	—	486

Staffing pressures have been a result of continued growth in membership and assets of the pension fund, as well as additional responsibilities authorized by the legislature. While growth in membership and fund size is projected to continue, TRS will continue to assess its staffing requirements carefully and address them conservatively. Traditionally, TRS has contained its staffing needs to the greatest extent possible through enhancements in technology and the judicious use of outsourcing.

The pension trust fund administrative expenses, including staffing, are controlled by an annual budget approved by the TRS Board of Trustees. The state of Texas appropriated an administrative operations budget for the TRS Pension Trust Fund of \$88,251,518 and \$63,251,518 for fiscal years 2012 and 2013, respectively. Administrative expenses, excluding investing activities expense, on a cost per member basis were \$27.23 for fiscal year 2011 as compared to \$23.06 in fiscal year 2010. During fiscal year 2011, in accordance with *Generally Accepted Accounting Principles (GAAP)*, a one-time expense adjustment or impairment for the remaining net book value of a 2001 technology project was made. Excluding this one-time adjustment, the cost per member would be \$24.46. TRS administrative costs for the pension fund remain among the lowest in the nation, and are significantly less than costs among the system's peer groups (based on membership size).

A. Organization Mission

The mission of the Teacher Retirement System of Texas is:

Improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.

B. Strategic Goals and Objectives

TRS has the following goals:

GOAL 1: Sustain a financially sound pension trust fund.	
Objective	To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years.
Strategies	<ul style="list-style-type: none"> Evaluate long-term funding solutions to reduce unfunded liability and



	<p>improve funding period of the pension trust.</p> <ul style="list-style-type: none">• Engage in thorough periodic review of plan design and actuarial assumptions to ensure that they remain valid and support the long-term viability of the system.• Provide the legislature with clear and complete projections of the actuarial impact to enable sound decisions related to plan design.• Maximize investment returns within acceptable risk parameters.• Ensure material accuracy of Investment valuations.
Objective	Develop and implement an investment policy and alpha capability capable of achieving a rolling target 20-year annual rate of return of 8 percent.
Strategies	<ul style="list-style-type: none">• Seek to achieve the long-term target return within an agreed risk policy, generally subject to the starting market conditions (risk-free interest rate structure, inflation, risk premiums, and correlations).• Recommend appropriate long-term investment policies to the TRS Board of Trustees as required.• Develop and implement professional investment processes designed to standardize investment approaches and optimize methods.
Objective	Develop and maintain a sound, professional, and systematic risk management and capital allocation system.
Strategies	<ul style="list-style-type: none">• Employ dedicated risk-focused investment professionals.• Develop and maintain sound long-term capital allocation processes.
Objective	Create and maintain a highly capable and diversified external network of global investment, trading, and consulting relationships.
Strategies	<ul style="list-style-type: none">• Select and effectively manage an appropriate and effective network of global investment relationships that either complement the Investment Management Division's (IMD) internal capabilities and/or allow TRS to implement strategies in areas where adequate internal resources do not exist.• Select and effectively utilize and manage an appropriate network of trading relationships in all global markets and all required trading vehicles.• Utilize and collaborate with expert and independent consultants wherever required and appropriate.
Objective	Replace legacy financial and human resources information systems and manual processes with a commercial off-the-shelf package by FY14, 2nd quarter.
Strategies	<ul style="list-style-type: none">• Procure Financial and Human Resources software package by FY13, 1st quarter.• Select Vendor for Systems Integration of the procured software package by FY13, 1st quarter.



GOAL 2: Provide competitive, reliable benefits for the retirement security of our members.	
Objective	Manage the revenues, expenses, and benefits of TRS-Care and TRS-Active Care in a way that contributes to their long-term sustainability.
Strategies	<ul style="list-style-type: none">• Engage experienced actuaries and healthcare consultants to assist TRS staff in monitoring the plans' claims experience and revenues in order to provide accurate projections for the TRS Board of Trustees.• Prepare accurate financial models and recommendations for use by the TRS Board of Trustees when they establish the plans' rates and benefits annually.
Objective	Provide health care benefits in compliance with the statutory requirements for TRS-Care and TRS-Active Care while providing coverage that is comparable to other Texas governmental health plans.
Strategies	<ul style="list-style-type: none">• Coordinate with TRS Legal Services and outside counsel to assure that TRS-Care and TRS-Active Care remain in full compliance with state and federal laws and regulations.• Monitor the benefits offered by other Texas governmental health plans, especially the Employees Retirement System, to provide similar levels of coverage to the TRS-Care and TRS-Active Care plan participants.
GOAL 3: Build and maintain strong, customer-focused business relationships.	
Objective	By 2015, increase the percentage of reporting entity payroll reports completed by the second business day after the due date by 10 percent.
Strategies	<ul style="list-style-type: none">• Increase training opportunities for reporting entity staff through Webinars.• Require all reporting entities to report through TRAQS.
Objective	Answer all calls with an average speed of answer (ASA) of 2 minutes or less.
Strategies	<ul style="list-style-type: none">• Promote and advertise member self-serve options (IVR, Web) in order to minimize call volumes.• Maintain a flexible staffing schedule in order to have adequate staff available during peak call volumes.• Provide quality initial and ongoing staff training.
Objective	Process 98 percent of initial annuity payments to TRS retirees when first due.
Strategies	<ul style="list-style-type: none">• Provide quality initial and ongoing staff training.• Cross-train staff members to provide assistance during peak periods.• Improve existing automated systems used in the delivery of benefits.• Implement approved statute and rule changes to simplify business processes.• Conduct periodic review of TRS laws and rules to streamline and simplify.
Objective	Implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by August 2016.

Strategies	<ul style="list-style-type: none"> • Develop an Information Technology Plan that supports TRS' application strategy solution by FY12, 3rd quarter. • Release a Statement of Work for Data Profiling by FY12, 4th quarter. • Select data profiling vendor and complete data profiling project by FY13, 1st quarter. • Release Data Management RFO by FY13, 1st quarter. • Select Data Management vendor by FY13, 2nd quarter. • Data Management project complete by FY16, 4th quarter. • Release RFO and select the Independent Application Assessment vendor for the Pension Line of Business (LOB) FY13, 2nd quarter. • Release RFO for the Pension LOB by FY13, 2nd quarter. • Select Pension LOB vendor by FY13, 4th quarter. • Implement three major pension benefit information systems by FY15, 4th quarter. • Implement remaining pension benefit information systems by FY16, 4th quarter. • Develop the capability for members to conduct major business transactions via the TRS website by FY15, 4th quarter. • Implement multiple avenues for communication with membership by August 2016.
GOAL 4: Effectively communicate valued information to our diverse stakeholders.	
Objective	Maintain a Benefit Counseling Department quality average score at the "successful" rating.
Strategies	<ul style="list-style-type: none"> • Monitor and score calls using the Quality Assurance Program Guidelines and provide coaching as needed. • Conduct regular calibration sessions. • Provide quality initial and ongoing staff training.
Objective	Professionally and effectively collaborate with the TRS Board of Trustees, TRS members, and the Texas Legislature.
Strategies	<ul style="list-style-type: none"> • Effectively implement, within risk policies and within reasonable and appropriate budgetary guidelines, all Trust policies approved by the board. • Protect TRS competitive insights and other advantages. • Report professionally and systematically to the TRS Board of Trustees and, as appropriate, to TRS members and the Texas Legislature.
Objective	Redesign and launch a new TRS website featuring a modern appearance, improved functionality and accessibility, easier navigation, and state-of-the art content management by 2014.



Strategies	<ul style="list-style-type: none"> Identify potential enhancements suggested by TRS staff. Identify potential enhancements suggested by TRS members and retirees. Evaluate best-in-class websites and incorporate lessons learned. Issue a request for proposal to hire an outside contractor for the purpose of developing a new website. Develop test site, make needed adjustments, and launch the site.
Objective	Achieve a very satisfied/satisfied rating from at least 85 percent of all major stakeholders when asked to assess their satisfaction with TRS services.
Strategies	<ul style="list-style-type: none"> Identify TRS-related information that is considered most valuable by each major TRS stakeholder group. Identify communication channels that are considered most effective by each major stakeholder group. Develop annual outreach plans that identify how TRS should most effectively communicate valued information to stakeholders. Develop annual plans for each major stakeholder group that specify what types of information to communicate and when through the TRS website, printed materials, social media, e-mail, video, in-person meetings, telephone, external publications, and other means. Survey members through the <i>Member Satisfaction Survey</i> in February 2012 and February 2014. Apply what we learn from TRS surveys to ensure that the information we disseminate is clear, useful, and relevant to our stakeholders.
GOAL 5: Develop and retain a high-performing customer-focused staff that conducts business in an effective and ethical manner.	
Objective	Continue to use the organization-wide TRS <i>Survey of Employee Engagement</i> Summary Construct as a basis for improving TRS as an employer and use the data to identify areas of improvement and areas of success to implement changes for the organization.
Strategies	<ul style="list-style-type: none"> Perform an analysis of lower scoring constructs/departments and develop management plans as appropriate.
Objective	To increase talent development as a business imperative in recruiting and retaining high performing employees, as evidenced by maintaining or increasing the number of training and development opportunities completed by staff during FY 2013 – FY 2017 as benchmarked against FY 2012.
Strategies	<ul style="list-style-type: none"> To make sufficient resources available to provide training and development opportunities to staff and to monitor the number of training and development activities completed by staff.
Objective	Through 2017, monitor and update one- and five-year division specific workforce continuity plans to mitigate risks associated with loss of institutional knowledge and critical expertise.
Strategies	<ul style="list-style-type: none"> Review and update workforce continuity plans annually.



Objective	By 2013, implement an automated ethics training and compliance reporting system.
Strategies	<ul style="list-style-type: none">Automate the annual compliance process to allow employees to fill out forms and take annual ethics training online, and search for answers to commonly asked questions or guidance for common situations.
Objective	Attract, retain, and develop talented and experienced investment professionals well-suited to manage one of the world's largest investment funds.
Strategies	<ul style="list-style-type: none">Develop, implement, and maintain a competitive compensation practice, utilizing performance metrics that are well-aligned with TRS members.Maintain a well-articulated and implemented long-term investment culture.Assure that IMD employees have a well-developed and articulated investment career track, including long-term succession planning.Implement targeted and effective training programs and engage with external partners and associates to provide unique learning opportunities.
Objective	Assure that the IMD investment systems and personnel operate at the highest levels of fiduciary integrity.
Strategies	<ul style="list-style-type: none">Employ high character investment professionals.Operate in a highly professional investment culture of openness and meritocracy.Adequately audit all critical IMD functions over rolling three-year periods.Appropriately apply corrective action for unethical and/or unprofessional behaviors.
GOAL 6: Promote purchasing and emerging manager selection practices that foster meaningful and substantive inclusion of historically underutilized businesses.	
Objective	Include historically underutilized businesses (HUBs) in at least 20 percent or greater of the total value of all contracts and subcontracts awarded annually by the agency in purchasing contracts.
Strategies	<ul style="list-style-type: none">Develop and implement a plan for increasing the use of HUBs through purchasing contracts and subcontracts.
Objective	Include historically underutilized businesses (HUBs) in at least 40 percent or greater of the total value of contracts awarded annually by the agency in purchasing contracts that do not require posting to the Electronic State Business Daily. This includes all contracts under \$25,000 and contracts awarded via existing statewide contracts (e.g. DIR, TXMAS, etc).
Strategies	<ul style="list-style-type: none">Develop and implement a plan for increasing the use of HUBs through purchasing contracts.
Objective	To include qualified businesses in the emerging manager program to the greatest extent possible.
Strategies	<ul style="list-style-type: none">Develop and implement a plan for increasing the use of qualified businesses in the emerging manager program.

C. Anticipated Changes in Mission, Strategies, and Goals

TRS does not anticipate fundamental changes in the nature of its business. It does however, recognize the need to adapt readily to any changes required by the legislature.

Environmental factors that are projected to affect TRS operations include:

- ▶ Membership in the pension plan will continue to grow, and members will increasingly expect faster service provided through multiple channels.
- ▶ An aging workforce creates a growing potential for loss of institutional knowledge.
- ▶ Effective management of a restructured, diversified investment portfolio will become more complex.
- ▶ Achieving the rate of return on investments required to satisfy actuarial assumptions will present a greater challenge.

II. Current Workforce Profile (Supply Analysis)

A. Critical Workforce Skills

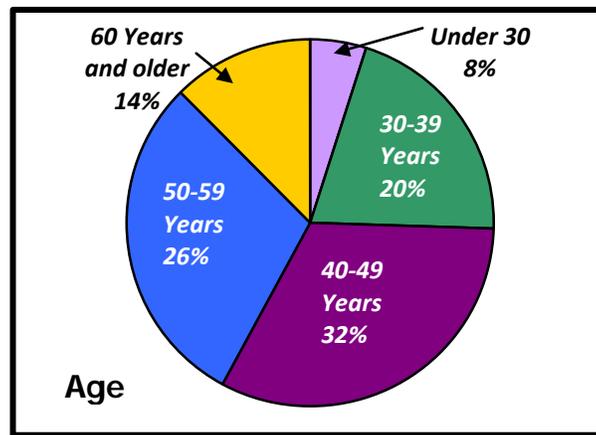
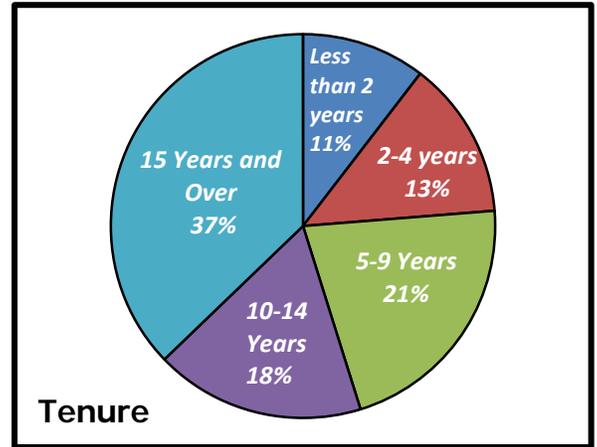
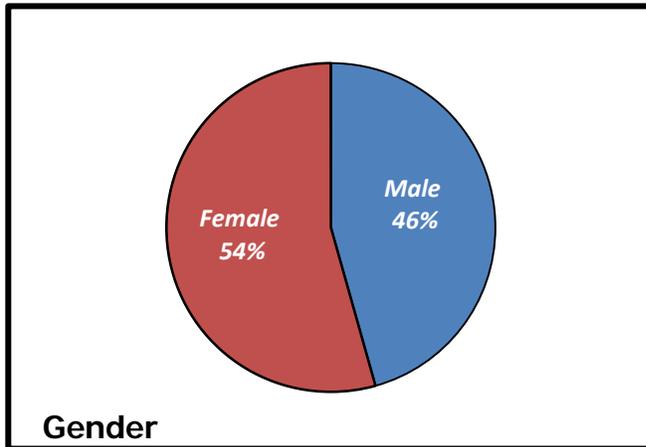
The skill sets that are currently most critical to TRS operations include:

- ▶ Business process analysis and design skills.
- ▶ Investment expertise, including diversified portfolio management skills.
- ▶ Customer service.
- ▶ Communication.
- ▶ Pension administration.
- ▶ Information technology, including telecommunications, imaging, Web application design and implementation, and systems design and implementation.
- ▶ Health benefit plan management.
- ▶ Other specialized skills (including accounting and purchasing, auditing, human resources, and legal).

TRS has been successful in attracting and developing staff with these skills to meet current and projected critical business needs. See *Future Workforce Profile* for further analysis.

B. Workforce Demographics

The following charts profile the system's workforce as of August 31, 2011 and include all regular full-time and part-time employees. The TRS workforce is comprised of 54 percent females and 46 percent males. Approximately 24 percent of employees have been with TRS less than five years. Approximately 40 percent are 50 years of age or older.



The following table compares the ethnic and gender composition of the TRS workforce (as of August 31, 2011) to the statewide civilian workforce as reported by the Texas Workforce Commission—Civil Rights Division (CRD). Categories in which TRS representation is lower than the CRD goal are shaded on the chart. TRS actively monitors this information, and customizes its recruitment strategies to address areas of under-representation.

Job Category	African American		Hispanic American		Female	
	TRS %	CRD %	TRS %	CRD %	TRS %	CRD %
Administrative Support	28.6%	12.7%	42.9%	31.9%	42.9%	67.1%
Official/Administrator	2.6%	7.5%	10.5%	21.1%	34.2%	37.5%
Professional	5.8%	9.7%	16.6%	18.8%	48.9%	53.3%
Service/Maint/Para-Professional	15.4%	14.1%	29.4%	49.9%	73.4%	39.1%
Technical	15.4%	13.9%	30.8%	27.1%	46.2%	53.9%



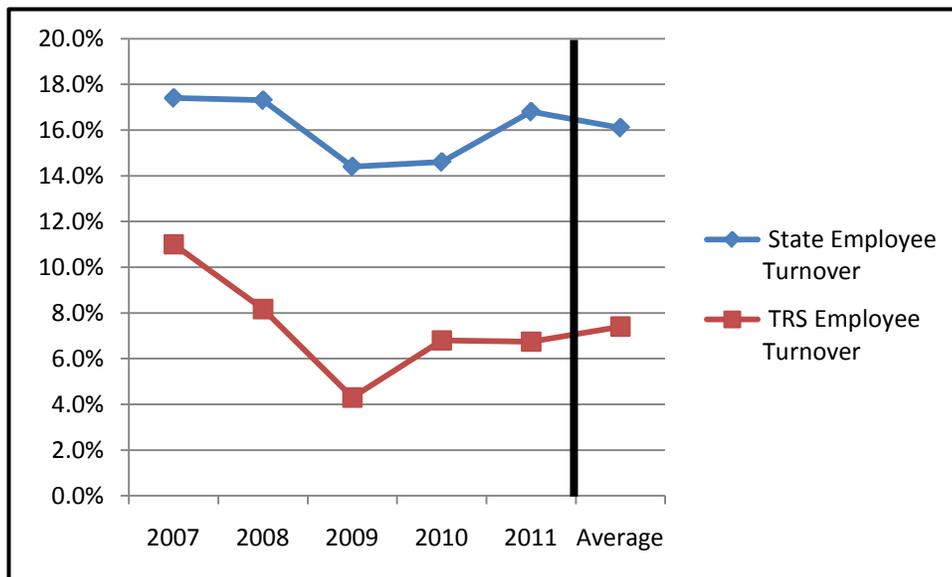
The organization's strategies for improving the diversity of its workforce include targeted advertising of vacancies, ongoing participation in diversity job fairs, and diversity/cultural awareness training. The employment policies and practices of TRS have been certified as in compliance with CRD standards, in accordance with Chapter 21 of the Texas Labor Code (most recently in March 2008).

Because TRS is based solely in Austin, it also compares its representation of minorities and females to that of the available workforce in the Austin/San Marcos Metropolitan Statistical Area (MSA). Information from this source is not available by Equal Employment Opportunity Job Category. However, the overall representation of minorities and females at TRS exceeds that of the civilian labor force reported for the Austin/San Marcos MSA, as shown in the following chart.

	African American	Hispanic American	Female
Total TRS Representation	8.7%	20.3%	54.4%
Austin/San Marcos MSA civilian labor force (2000 Census Data is latest Available)	7.9%	18.5%	46.2%

C. Employee Turnover

As reflected in the following chart, employee turnover at TRS has historically been below the statewide average among state agencies, as reported by the State Auditor's Classification Office. In fiscal year 2011, TRS turnover was 6.7 percent, well below the state average of 16.8 percent for the same period. TRS anticipates that its turnover rate will continue to fluctuate with the Austin economy and that the agency may experience a corresponding increased turnover.





The response rate for TRS employees completing the State Auditor’s online exit survey in fiscal year 2011 was approximately 37 percent. This rate is more than double the average response rate for all state agencies. The top two reasons departing employees gave for leaving were: “retirement” (50 percent) and “better pay and benefits” (30 percent). Eighty percent of responding employees indicate that they want to work for TRS again in the future. TRS routinely assesses turnover by work area and other factors, such as employee tenure, so management can identify trends and take any necessary action.

Eligible	Now As of 12/31/11	In 1 year As of 12/31/12	In 2 years As of 12/31/13	In 3 years As of 12/31/14	In 4 years As of 12/31/15	In 5 years As of 12/31/16	In 10 years As of 12/31/21
Number of Employees	91	19	22	16	18	7	87
Percent of Workforce	17.27%	3.61%	4.17%	3.04%	3.42%	1.33%	16.51%
Cumulative Number	91	110	132	148	166	173	260
Cumulative Percentage	17.27%	20.87%	25.05%	28.08%	31.50%	32.83%	49.34%

III. Future Workforce Profile (Demand Analysis)

A. Expected Workforce Changes

The size of the population served by TRS and their customer service expectations continue to expand. As they do, so will the demand for increased efficiency while maintaining excellent customer service. Workloads are rising in response to changes in the membership, legislative changes, and budget cuts at the school district level. TRS will continue to use technology advancements to achieve gains in productivity to offset the increase in workloads. As a result, TRS has managed increased workloads without a significant increase in full-time equivalent (FTE) employee allocation. The continued growth in the size and complexity of the TRS lines of business also drive the need for additional technology professionals, business analysts, and program managers to navigate the way to the agency’s full technology upgrade. In addition, the legislature has tasked the agency to research alternatives to our traditional defined benefit plan. If the existing benefit plan changes, resources will have to be allocated to revise the systems required for the new benefit plan or plan alternatives to function for the members.

The critical functions of TRS are:

- Delivery of benefits.
- Management of investment assets.
- Management of the TRS infrastructure including technology upgrades for the pension system and financial system.

As mentioned above, the agency has major initiatives underway to review statutory provisions, streamline certain benefit administration processes, and deploy enhanced technology solutions related to critical needs. TRS continues to experience new challenges as a result of increasing levels of complexity and specialization in its critical functions. Continued growth in the number of members and the complexity of the health benefit plan require strategies for acquiring specialized expertise. As a result, staff with specialized skill sets are needed. TRS continues to develop the skills of the current workforce, recruit new staff with the required expertise, and contract with outside parties, when feasible and cost-effective, to supplement the staff's expertise in highly technical or specialized areas.

B. Future Workforce Skills Needed

- Business process analysis and design skills
- Communication and Interpersonal skills
- Contract negotiation and administration (for monitoring outsourced functions, such as health benefit programs)
- Customer service skills
- Information technology
 - ▶ Telecommunications
 - ▶ Imaging
 - ▶ Web application design, implementation, and maintenance
 - ▶ Systems design, implementation, and maintenance
- Investment management
 - ▶ Alternative asset management
 - ▶ Portfolio risk management
 - ▶ Selection and management of external managers
- Leadership and management skills
 - ▶ Coaching skills
 - ▶ Skills for managing a diverse workforce
 - ▶ Creative problem-solving
 - ▶ Building and maintaining cohesive and effective work teams
- Research, process analysis, and project management
- Continuity (succession) planning/knowledge management
 - ▶ Executive leadership
 - ▶ Portfolio management
 - ▶ Health benefit plan management
- Other specialized skills
 - ▶ Accounting and purchasing
 - ▶ Auditing
 - ▶ Human resources/organizational development
 - ▶ Legal

IV. Gap Analysis

Our projected future needs indicate that increasing emphasis must be placed on further developing workforce skills related to:

- Business process analysis and design.
- Contract negotiation and administration (for monitoring contracted functions, such as health benefit programs).
- Constituency communication strategy and infrastructure.
- Leadership and management skills.
- Research and project management.

Ensuring that TRS is positioned to effectively address emerging and future workforce challenges requires systematic and ongoing review of economic and other environmental factors. TRS is proactive in addressing prospective gaps in staffing needs, and its actions include conducting:

- Annual environmental scans and reviews of the workforce plan.
- Regular human resource needs assessments.
- Frequent labor market analyses.
- Broad reviews of other workforce trends and issues.

TRS then designs initiatives to address its human resource needs based on these analyses.

Anticipated Surplus or Shortage of Workers or Skills

1. TRS finds no appreciable gaps in worker or skill needs during the five-year planning period. Some reasons for its strong position in this area include:
 - Proactive initiatives to address reasonably competitive compensation of investment professionals.
 - The TRS internship program, which has provided a good source of qualified entry-level professionals in the investments and administration areas.
 - The organization's systematic approach to training and development (including regular needs assessments and effective training delivery methods), which has minimized skill gaps among current staff. Employees remain current in their computer and job-specific skills.
 - Consistent efforts to enhance the organization's effectiveness (as reflected in positive ratings in the *Survey of Employee Engagement*), which have resulted in employees viewing TRS as a good place to work.
 - The implementation of a Leadership Development Program to better prepare current staff to compete for leadership positions that may become vacant due to retirements or unanticipated departures of leadership staff.
 - The ongoing monitoring of Divisional and Departmental Workforce Continuity Plans.

2. Potential gaps in worker or skill needs could develop during this period as a result of:
 - Loss of institutional knowledge and critical expertise due to retirement of experienced staff.
 - Legislation assigning new or significantly expanded responsibilities to the agency.
 - Increased competition for experienced staff in certain fields, such as call center representatives, investment specialists, and technology professionals.
 - The departure of critical staff.

V. Strategy Development

As indicated in the “Gap Analysis” section, it is a priority for TRS to address the loss of critical institutional knowledge due to the departure of key staff. The issue of knowledge management as a part of ensuring workforce continuity presents a significant challenge to the organization. To address this issue, individual business units (with assistance, support, and consultation from Human Resources, Information Technology, and Enterprise Risk Management) have:

- Participated in self-assessments of risk levels through the Enterprise Risk Management approach. Self-assessments focused on the impact and likelihood of risk drivers related to workforce continuity and knowledge management.
- Developed and will continue to update customized action plans to address specific high risk workforce continuity and knowledge management needs of the respective business units.

The business units have the responsibility to self-monitor action plans to assure these initiatives successfully preserve institutional knowledge and address critical continuity needs.

The application of these knowledge management strategies will benefit TRS workforce continuity efforts. TRS will also continue to manage (and expand, as needed) its effective programs and practices for attracting, developing, and retaining a qualified and diverse staff. Such practices include:

- **Recruitment programs** that market TRS as an employer of choice. TRS systematically promotes employment opportunities to attract a qualified and diverse workforce. Monetary recruitment bonuses may be used in specialized instances.
- **Expanded internship programs** enterprise-wide, which entail maintaining a relationship with leading Texas universities. These programs offer a method of expanding the pool of qualified, diverse professional staff and developing deeper talent pools for filling vacancies that occur.
- **Strategic workforce management**, including the use of contingent staffing to supplement the regular workforce, redeployment of current staff, variable scheduling to meet business needs, and other appropriate best practices.

- **Leadership development** through the implementation of a formal Leadership Development Program to build the skills of 10 to 20 current and prospective leaders each year.
- **Retention programs** that stress opportunity and skill-set development as attractive incentives. Monetary retention bonuses may be used in specialized instances.
- **Career ladders** approved for most positions within the agency to provide professional growth opportunities for employees within their current assignments.
- **Cross-training programs** in each division, which deepen skill levels, enhance productivity, and provide back-up for important functions. Particular emphasis is placed on cross-training in areas where employees are eligible for retirement, so that the organization retains institutional knowledge.
- **Continuity plans** for critical staff, particularly those soon eligible to retire. Managers are expected to develop a talent pool of employees prepared to assume key staff responsibilities for a transitional period, until a formal recruitment process has been successfully completed. Department-level assessments based on Enterprise Risk Management methodology have been conducted to identify the risk associated with and the likelihood of knowledge and talent loss. HR will continue to work with department management to facilitate the development of area-specific plans to mitigate identified risks.
- **Incentive Compensation Plan** for Investments Division staff, which provides the opportunity to earn monetary bonuses if TRS exceeds certain investment performance benchmarks.

Where significant challenges arise in developing or attracting staff with the expertise required for specialized functions, TRS explores the feasibility of outsourcing all or a portion of those functions. Such decisions are made in accordance with the organization's *Contract Administration* and *Contract Workforce* policies.

<i>Potential Gap:</i>	Loss of institutional knowledge and critical expertise due to retirement of experienced staff.
Goal	Deploy knowledge management and critical expertise continuity best practices to address risks associated with retirement of experienced staff.
Rationale	Continuity of institutional knowledge and critical expertise ensures smooth transitions of essential functions as staff retire.
Action Steps	<ul style="list-style-type: none"> • Monitor and update area-specific plans to mitigate identified risks, to include such best practices as business process reviews, knowledge capture, documented desk audits, and the development of customized job aids. • Use the Leadership Development Program to prepare staff to better compete for leadership positions as they become vacant.



Potential Gap:	Legislation assigning new or significantly expanded responsibilities to the agency.
Goal	Acquire necessary expertise to fulfill assigned responsibilities.
Rationale	TRS must maintain a state of readiness to implement any assignment of responsibility by the legislature.
Action Steps	<ul style="list-style-type: none">• Conduct research to identify issues affecting other public pension funds that may potentially affect TRS.• Maintain awareness of prospective legislative changes to allow adequate planning for new skill-set requirements.• Request a reasonable implementation period for major initiatives.• As new requirements are identified, explore options for developing skills within the current workforce, attracting new staff with the required experience, or outsourcing certain functions.

Potential Gap:	Increased competition for experienced staff in certain fields.
Goal	Create a work environment that, combined with initiatives to maintain reasonably competitive compensation packages, supports retention of high-demand staff.
Rationale	Retention of staff, when feasible, is both more cost-effective and efficient than recruiting and training replacement staff.
Action Steps	<ul style="list-style-type: none">• Continue effective training and development programs that provide opportunities for staff to maintain or develop mission-critical professional skills.• Conduct environmental scans and labor market analyses to maintain a current perspective and enable proactive retention efforts.• Implement effective compensation, recognition, and other initiatives as appropriate to support retention of staff, with special attention to areas in which skills are in high demand.• Continue organizational development efforts aimed at enhancing ongoing communication and effective working relationships between management and staff.• Encourage staff involvement in organizational activities.



<i>Potential Gap:</i>	The departure of critical staff for any reason.
Goal	Provide a smooth transition of responsibilities when critical staff members leave the agency.
Rationale	TRS must ensure that critical functions are maintained despite turnover.
Action Steps	<ul style="list-style-type: none">▶ Managers are expected to build bench strength for critical functions by use of appropriate cross-training efforts, knowledge management strategies, delegation, and oversight.▶ Transition plans will be implemented as needed to ensure continuity of service during any period of extended absence or turnover among critical staff.▶ Maintain effective recruitment practices and strategies (such as use of contingent staff, internships, and employer branding) to attract or develop qualified replacement staff.▶ Use the Leadership Development Program to prepare staff to better compete for leadership positions as they become vacant.

APPENDIX F – SURVEY OF EMPLOYEE ENGAGEMENT RESULTS SUMMARY

TRS has continued to participate in the biennial *Survey of Employee Engagement* administered by the UT School of Social Work. The fiscal year 2012 survey is the ninth time that TRS has surveyed its employees using this process.

During the fiscal year 2012 survey, 74 percent of TRS employees responded to the survey. As a general rule, rates higher than 50 percent indicate soundness, showing that employees demonstrate an investment in the organization, a commitment to seeing the organization improve, and generally have a sense of responsibility to the organization.

The overall survey score for TRS in 2012 was 391. The overall survey score is a broad indicator for comparison with other entities. The overall score is an average of all survey items and represents the overall score for the organization. For comparison purposes, overall scores typically range from 325 to 375. TRS employees clearly viewed the following categories as the most positive elements of working at TRS. All three received scores over 400, in a scale with 500 as the highest possible score:

- Physical Environment – 425 (safe and positive work atmosphere)
- Strategic – 413 (vision, services provided)
- External Communication – 409 (information flow into and out of the organization)

In addition to monitoring the general well-being of the agency, TRS gathered employees' insights on other matters of interest. These matters included: the impact of diversity initiatives at TRS, the value placed on non-monetary rewards TRS offers to employees, and the level of employee awareness of ethics and information security practices. The responses to the customized questions indicate that:

- Employees have a positive perception of TRS as a respectful, diverse workplace.
- Non-monetary rewards provided by TRS are highly valued, and are therefore effective tools in TRS' recruitment and retention efforts.
- Employees are familiar with ethics and information security practices, and expressed confidence in how such matters are handled at TRS.

The highest scoring constructs are areas of strength while the lowest scoring constructs are areas of concern. Scores above 350 suggest that employees perceive the issue more positively than negatively, and scores of 375 indicate areas of substantial strength. Conversely, scores below 350 are viewed less positively by employees, and scores below 325 should be a significant source of concern for the organization and should receive immediate attention. All but two constructs scored above 375 at TRS. "Internal Communication" (366) falls below 375 but is well above 350

and therefore seen by employees more positively than negatively. “Pay” is the only construct falling below 325.

“Pay” is a continuing trend from preceding surveys. The score in this category showed a 22 point decline from the 2010 survey. In addition to “Pay,” five other categories showed decreases ranging from 1 to 13 points. Seven categories reflected increases in the scores from the previous survey ranging from 1 to 16 points. One category showed no change.

While TRS continues to see overwhelmingly positive ratings from employees, the organization places a priority on improving its effectiveness. TRS routinely shares survey results with all employees, asks for their feedback on how to make TRS a better place to work, and encourages managers to make appropriate changes within their individual departments. The organization-wide focus is to continue to improve on areas of concern within TRS’ control and to consider ways to build on areas of strong performance. Actions taken as a result of survey feedback are communicated to all employees in order to reinforce that their input is valued and that participating in the survey is worthwhile.

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