

July 2025

# ACCOUNTABILITY

## **BUDGET Committee Meeting**



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

*All or part of the July 18, 2025, meeting of the TRS Budget Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 or 551.127 of the Texas Government Code. The Committee and Board intend to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **4655 Mueller Blvd, 2nd Floor, Boardroom.***

*The open portions of the July 18, 2025, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at [www.trs.texas.gov](http://www.trs.texas.gov). A recording of the meeting will be available at [www.trs.texas.gov](http://www.trs.texas.gov).*

**AGENDA  
July 18, 2025 – 9:00 a.m.**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the April 2025 committee meeting – Committee Chair.
3. Consider recommending to the Board adoption of the following – Don Green, Janie Duarte, and Jessica Brown:
  - a. A. Consider the adoption of the proposed fiscal year 2026 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2026 budget;
  - b. Consider the adoption of the proposed fiscal year 2026 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans).
  - c. Receive an update on the Alpha and Bravo construction budget and consider the adoption of the proposed tenant improvement costs for Alpha Building; and
  - d. Consider the adoption of the proposed administrative operations budget for a new Regional Office, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved per Rider 20.
4. Consider recommending to the Board the statutory certification of estimated state contributions to the State Comptroller of Public Accounts to be received by the retired school employees group health benefit fund for the fiscal year ending August 31, 2026 – Don Green.
5. Receive an overview of TRS' fellowship program – Michelle Gray and Alisha Barnebey.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Budget Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

## **Minutes of the Budget Committee**

### **April 11, 2025**

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas met on April 11, 2025, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

#### **Committee members present:**

Mr. John R. Rutherford, Chair  
Ms. Laronda Graf  
Mr. James Dick Nance  
Mr. Robert H. Walls, Jr.

#### **Other TRS Board Members present:**

Ms. Brittny Allred  
Mr. Mike Ball  
Mr. John Elliott  
Mr. Elvis Williams

#### **Others who participated:**

Brian Guthrie, TRS  
Caasi Lamb, TRS  
Don Green, TRS  
Heather Traeger, TRS  
Amanda Jenami, TRS  
Katherine Farrell, TRS  
Suzanne Dugan, Cohen Milstein

Budget Committee Chair, Mr. John R. Rutherford, called the meeting to order at 9:10 a.m.

#### **1. Call roll of Committee members.**

Ms. Farrell called the roll. A quorum was present, Mr. Corpus was absent.

#### **2. Consider the approval of the proposed minutes of the December 2024 committee meeting – Committee Chair.**

On a motion by Mr. Nance, seconded by Mr. Walls, the committee unanimously voted to approve the proposed minutes for the December 2024 Budget Committee meeting as presented.

#### **3. Receive an update on the administrative operations budget for fiscal year 2025 including FTE update– Don Green.**

Mr. Don Green reported the operating budget for the current fiscal year was \$381.6 million. He projected the year will finish with an estimated 6 percent lapse. He reviewed the Alpha/Bravo budget, noting that the Board had previously authorized \$340 million for the construction and build-

out of Alpha/Bravo. He said the current estimate was to be just under budget at \$338.6 million. As to FTEs, he reported there were 1,139 budgeted FTEs with an additional 30 FTEs Interns and Fellows. For health care, he said there were 157 budgeted FTEs. He said there were roughly 70 vacancies.

**4. Receive a preview of fiscal year 2026 administrative operations budget – Don Green.**

Mr. Green reviewed the timeline for the proposed budget being brought to the Board in July for approval. He said the divisions continue to submit budget requests. He said the Legislature, still in session, was discussing the funds related to contributions and ultimately TRS operating budget.

With no further business before the Committee, the meeting adjourned at 3:54 p.m.

Approved by the Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas on July \_\_\_\_\_, 2025.

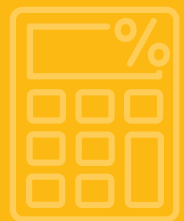
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Katherine H. Farrell  
Secretary of the TRS Board of Trustees

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Date

**TAB 3**



**FY 2026**

**Administrative**

**Operating Budget**

July 18, 2025

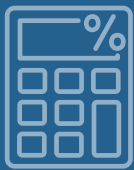
Presented By:

**Don Green, Chief Financial Officer**

**Janie Duarte, Deputy Chief Financial Officer**

**Jessica Brown, Director of Budget & Financial Analysis**





# FY26 Administrative Operating Budget



Administrative Operating Budget	<div>\$</div> FY 2025	<div>\$</div> FY 2026	<div>\$</div> <div>%</div> Difference	
Pension Administrative Operations	303,367,284	308,143,600	4,776,316	1.6%
Performance Pay Plan	39,742,060	39,700,000	(42,060)	-0.1%
Commission Credits	7,510,000	5,510,000	(2,000,000)	-26.6%
Health Administrative Operations	31,553,200	31,981,400	428,200	1.4%
Grand Total Administrative Operating Budget	\$ 382,172,544	\$ 385,335,000	\$ 3,162,456	0.8%
HQ Account, Alpha Tenant Improvements	-	\$ 3,485,565		
Upcoming considerations				
New Regional Office <sup>1</sup>	-	\$3,635,000		

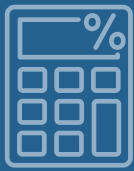
*The total FY26 Administrative Operating Budget presents an increase less than 1% from the previous fiscal year's budget*

*The FY26 Administrative Operating Budget is within the parameters of the FY26-27 General Appropriations Act (GAA)*

*The total amount requested for the FY26 Administrative Operating Budget from the Pension Trust Fund represents approximately 0.18% of the value of the fund*

1. TRS will submit a letter notifying the Legislative Budget Board and the Governor's Office to utilize Rider 20 of the General Appropriations Act to increase the appropriated budget and the FTE cap upon a fiduciary finding of the Board of Trustees. Letter to be submitted within 30 business days.





# 89<sup>th</sup> Legislative Session Highlights

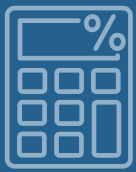


## S.B.1 GENERAL APPROPRIATIONS BILL

	FY26	FY27
<b>Administrative Operations</b>	<b>\$ 291,612,800</b>	<b>\$ 256,873,800</b>
<b>Authorized FTEs</b>	<b>1,139.3</b>	

- FY26-27 includes the FTE Adjustment per the FY25 Fiduciary Finding by the Board to invoke Rider 19.
- SB1 funded administrative operations full request as submitted.
- SB1 fully funded our capital budget request, including \$32.1 million for the final phase of Investment Data Modernization.
- SB1 includes new targets for performance measures
- Includes Rider 20 Contingent Appropriation for Teacher Retirement System (TRS) Additional Regional Office



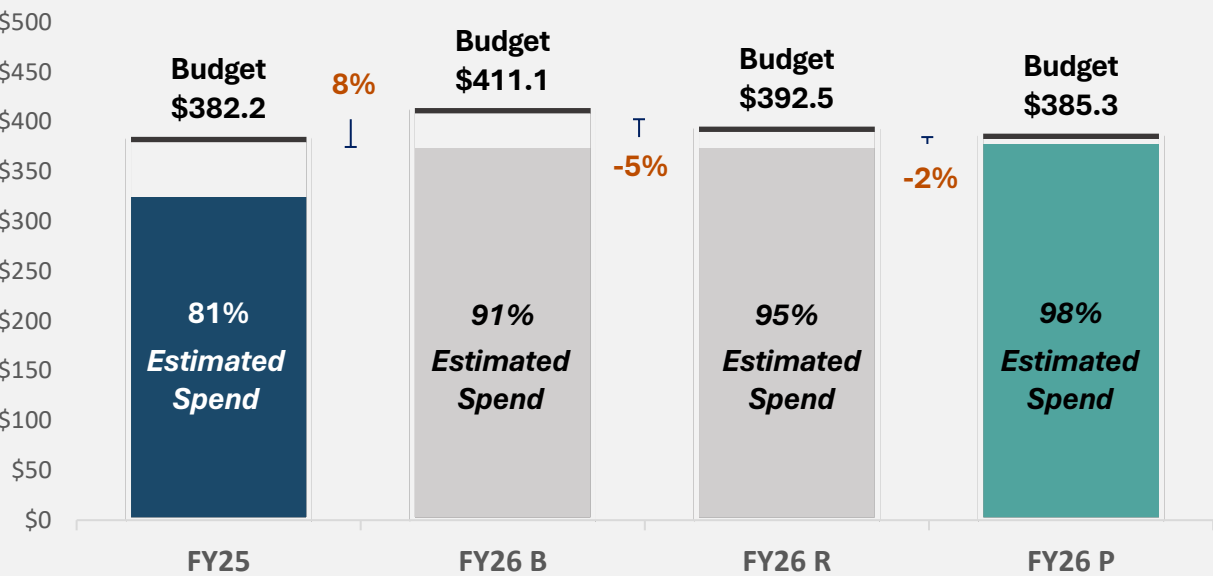


# Budget Evaluation

The FY26 Proposed Budget reduces the previously planned 8% increase in operating levels to less than 1%.

## Administrative Operating Budget Overview

\$ in millions



### Reductions

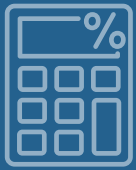
- (\$8.0M) Wages & Benefits
- (\$3.8M) Pro Fees
- (\$0.6M) Travel
- (\$0.7M) Support & Operating
- (\$19.0M) Capital authority to be furthered reviewed for FY27

### Additions

- \$0.9M Funding for 8 new FTEs
- \$2.5M Investment Management equity adjustments
- \$1.7M Fringe benefits

### Contingency Account

- \$6.9M Pension Administrative Operations
- \$1.1M Health Administrative Operations
- \$19.0M Capital authority to be furthered reviewed for FY27



# FY26 Proposed New FTEs



3  
FTEs

To transition participants who completed TRS fellowship program to permanent employment.

*Investment towards succession planning*

Fellow Conversion

1  
FTE

To support critical Pension, Benefits, & Tax accounting services related to annuity payroll and tax processing and researching pension system data for accurate tax reporting. Currently counts against FTE cap.

*Cost savings  
\$14,600*

Contractor Conversion

1  
FTE

To establish onsite IT presence providing proactive maintenance and user support for the El Paso Regional Office.

*Reduce reliance on external technical support*

El Paso IT Support

3  
FTEs

To improve contract monitoring, oversight, and data analytics, ensuring better compliance and operational effectiveness.

*Enhance efficiency and manage increased workloads*

Contract Services

*The addition of 8 new FTEs represents a 1% increase above existing staffing level.*

**FY25  
Budgeted FTEs  
1,296.8**

**FY26  
Proposed FTEs  
1,304.8**

**FY25-26  
FTE Change  
8.0**

**%  
Change  
1%**



# Performance Pay Plan

- Realized potential awards are calculated in October, which is after the close of plan year in September. Assuming the fund is positive as of the end of plan year 2025, the estimated incentive compensation payout is \$39.7 million
  - Over the last 3 years, Investment Management Division (IMD) has delivered \$8.9 billion in excess value over the trust benchmarks**
- Provisional language allows TRS to increase the FY26 budget up to the maximum award allowed

## Summary of Performance Pay Plan Potential Awards and Payout Schedule from Plan Years 2018 to 2025

Amount in millions

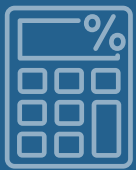
Award Plan Year	Potential Award	Actual Award Payout						FY26 Estimated Payout
		FY20	FY21	FY22	FY23 <sup>1</sup>	FY24	FY25	
2018 Plan Year	\$ 8.7	\$ 4.2						
2019 Plan Year	\$ 13.3	\$ 6.5	\$ 6.0					
2020 Plan Year	\$ 7.1		\$ 3.6	\$ 3.3				
2021 Plan Year	\$ 17.1			\$ 8.8		\$ 7.7		
2022 Plan Year	\$ 16.7					\$ 16.7		
2023 Plan Year <sup>2</sup>	\$ 31.0					\$ 31.0		
2024 Plan Year	\$39.7						\$ 39.7	
2025 Plan Year	\$39.7							\$ 39.7
		\$ 10.7	\$ 9.6	\$ 12.1	-	\$ 55.4	\$39.7	\$ 39.7

**Note 1:** No payout in Fiscal Year 2023 because the Trust Fund return for Plan Year 2022 is negative.

**Note 2:** Performance Pay policy was revised in FY23 to make one single award payment if the fund is positive as of the end of the plan year.

**Note 3:** Maximum award allowed for the 2025 plan year is estimated \$57.9 million.

*Actual Award Payout may be less than realized potential award due to attrition.*

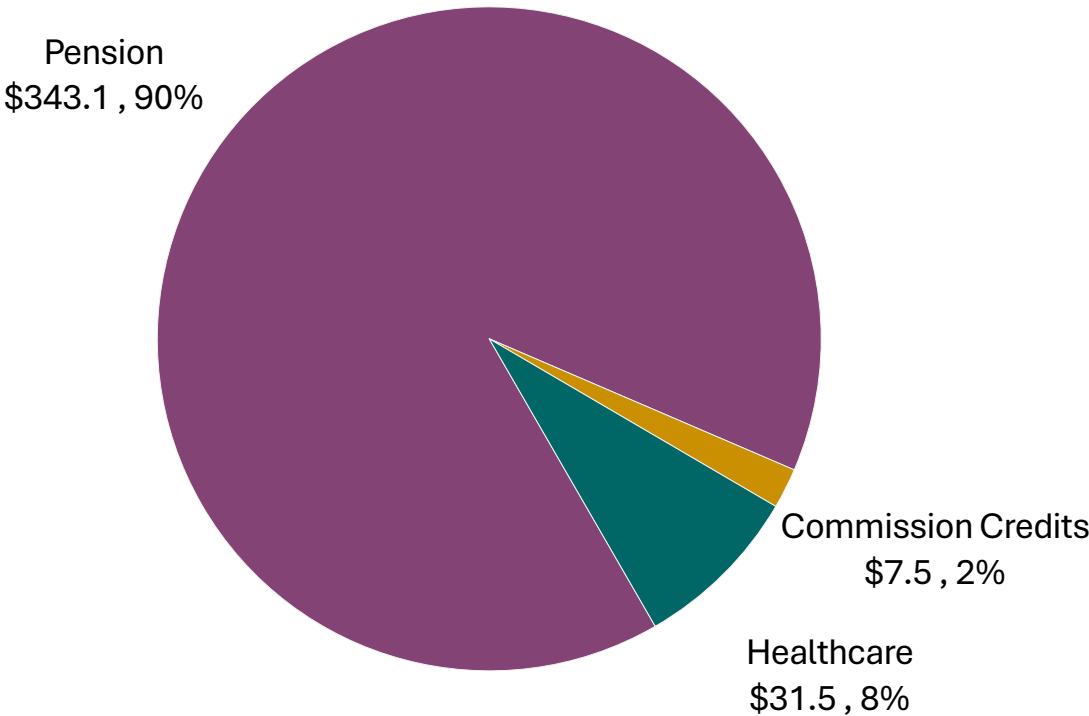


# FY25 vs FY26 Budget by Fund

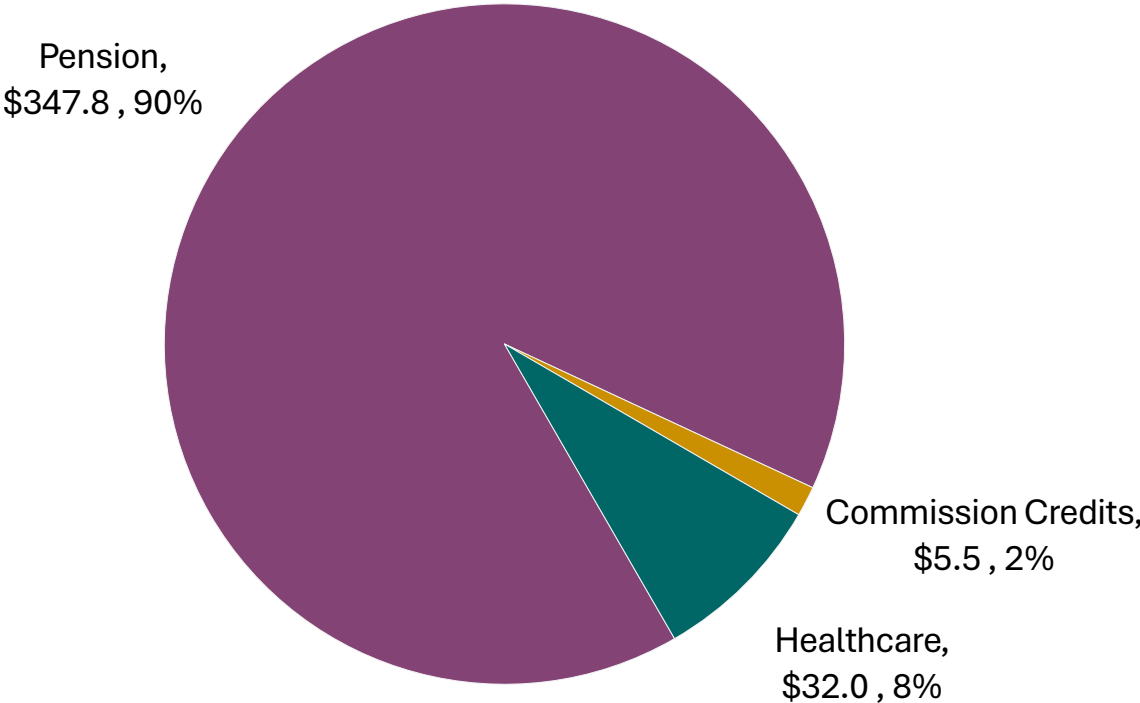
(\$ millions)

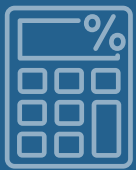


FY 2025 Operating Budget  
\$382,172,544



FY 2026 Operating Budget  
\$385,335,000



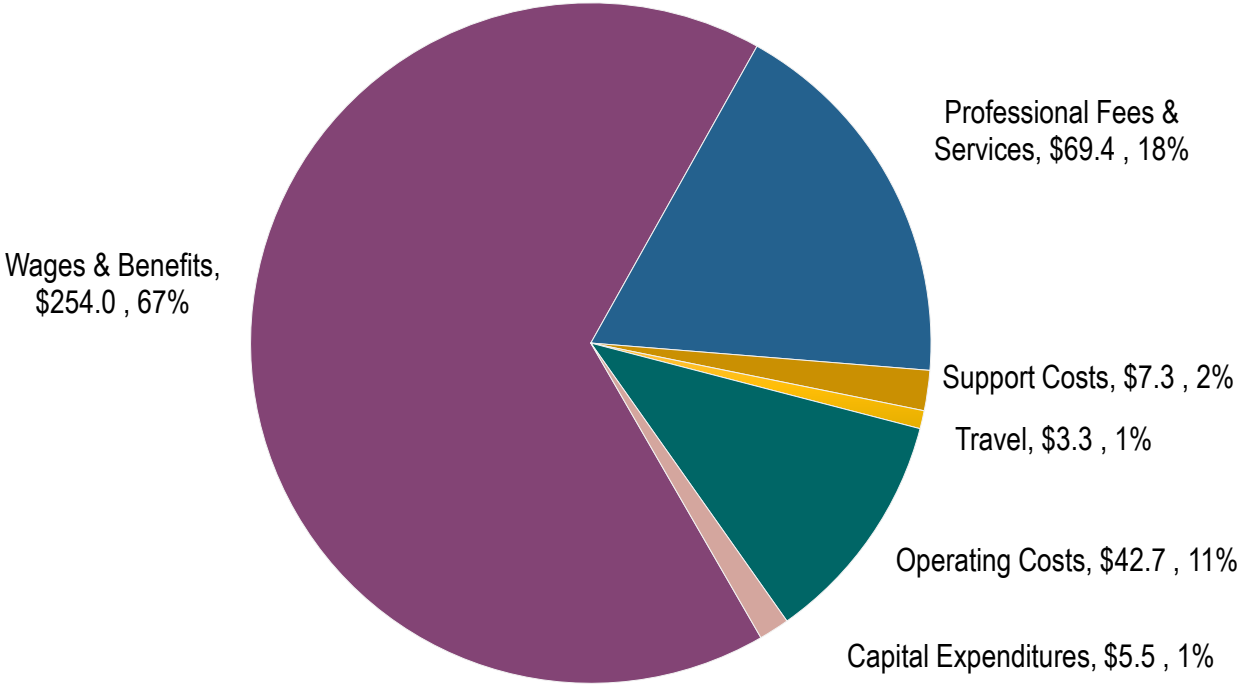


# FY25 vs FY26 Budget by Budget Category

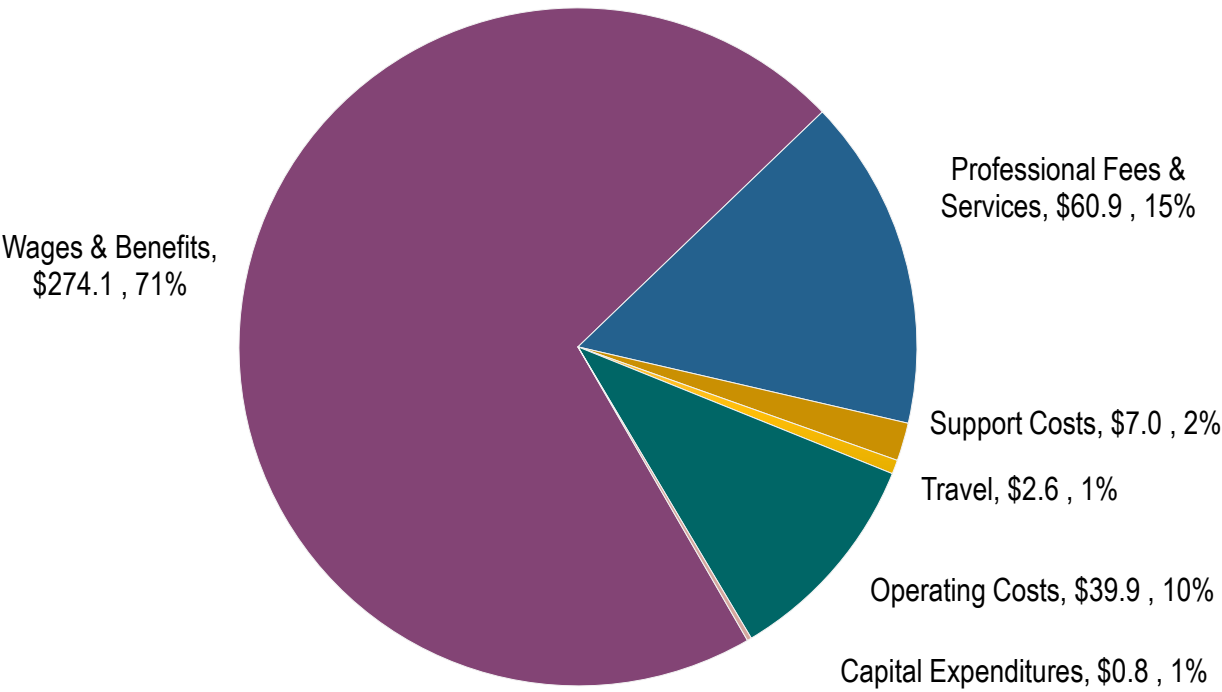
*(\$ millions)*



**FY 2025 Operating Budget**  
**\$382,172,544**



**FY 2026 Operating Budget**  
**\$385,335,000**



*Operating costs: software, hardware, postage, printing, equipment, reference materials*  
*Support costs: rental space, building/equipment maintenance, utilities, supplies*

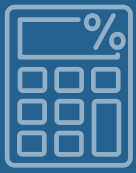


# FY26 Administrative Operating Budget



	PENSION TRUST FUND		HEALTH BENEFITS FUNDS			FY 2026 Administrative Operating Budget
	Administrative Operations	Performance Pay Plan	Commission Credits	TRS-Care (Retired Plan)	TRS-ActiveCare (Active Plan)	
Revenues and Other Sources						
Legislative Appropriations - Administrative Operations	240,161,100					\$240,161,100
Legislative Appropriations – Capital Budget	25,553,100					\$25,553,100
Fringe Benefits Paid by the Pension Fund	42,429,400					\$42,429,400
Performance Pay Plan		39,700,000				\$39,700,000
Commission Credits			5,510,000			\$5,510,000
Health Administrative Operations				26,044,400	\$ 5,937,000	\$31,981,400
Total Revenues and Other Sources	\$ 308,143,600	\$ 39,700,000	\$ 5,510,000	\$ 26,044,400	\$ 5,937,000	\$ 385,335,000
Operating and Capital Expenses						
Wages and Benefits	211,291,700	39,700,000		20,350,900	2,787,900	\$ 274,130,500
Professional Fees and Services	46,835,500		5,500,000	5,497,700	3,070,600	\$ 60,903,800
Support	6,955,500			1,000	1,000	\$ 6,957,500
Travel	2,429,100			95,000	50,000	\$ 2,574,100
Operating	39,831,800		\$10,000	99,800	27,500	\$ 39,969,100
Capital Expenditures	800,000					\$ 800,000
Total Operating and Capital Expenses	\$ 308,143,600	\$ 39,700,000	\$ 5,510,000	\$ 26,044,400	\$ 5,937,000	\$ 385,335,000
FY 2025 Operating Budget	\$ 303,367,284	\$ 39,742,060	\$ 7,510,000	\$ 25,760,100	\$ 5,793,100	\$ 382,172,544
% Change from FY 2025 Budget	1.6%	-0.1%	-26.6%	1.1%	2.5%	0.8%
Contingency Account <sup>1</sup>	\$25,898,600			\$936,000	\$245,000	\$27,079,600

Note 1: Contingency Account for the Pension Trust Fund includes \$19M Capital Budget reserved for FY27.



# Alpha Tenant Improvements



Leveraging premium office space for external leasing:

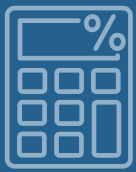
- Creates opportunities to offset operational costs
- Get the most out of space not currently being utilized, would have had to pay eventually
- Generate revenues from lease income

**Staff request the Board authorize a transfer of \$3,485,565 for the buildout of the space in Alpha.**

Location	Rentable Square Feet	Rental Income over the life of the lease	Building Operating Expense Share
Alpha, 2nd Floor	25,819	\$10.1M	12.27%

June 2025	8-year Lease Signed. Deposit & 1 <sup>st</sup> Month Rent Received	\$0.3 million
July 2025	Request Board authorization for build out-related expenses for the leased portion of the Alpha building	\$3,485,565
Spring 2026	Tenant Move-in	





# Headquarters (HQ) Account



## HQ Account Overview

2021		2022	2023		2024			2025
Board Authorized HQ Account	Alpha Purchased	Alpha Interior Improvements Begins	Alpha Interior Improvements Continue and Move-In	Bravo Office/Garage Construction Complete, Interior Improvements Begin	Bravo Purchased	Board Authorized HQ Account Amendment	Alpha/Bravo Interior Improvements Continue	Bravo Move-In, Alpha/Bravo Completion, and Member Center Opens
\$300M	\$(103.1M)	\$(18.5M)	\$(25.3M)	\$(0.5M)	\$(129.7M)	\$40M	\$(32.7M)	\$(27.9M)

***Headquarters Account is on target to come in under budget.  
Projected Lapse: \$2.3 million***

HQ Account, NTE Amount		\$340.0M
HQ Account, Estimated		\$(337.7M)
		99.3 % Expended



# Upcoming Considerations: New Regional Office

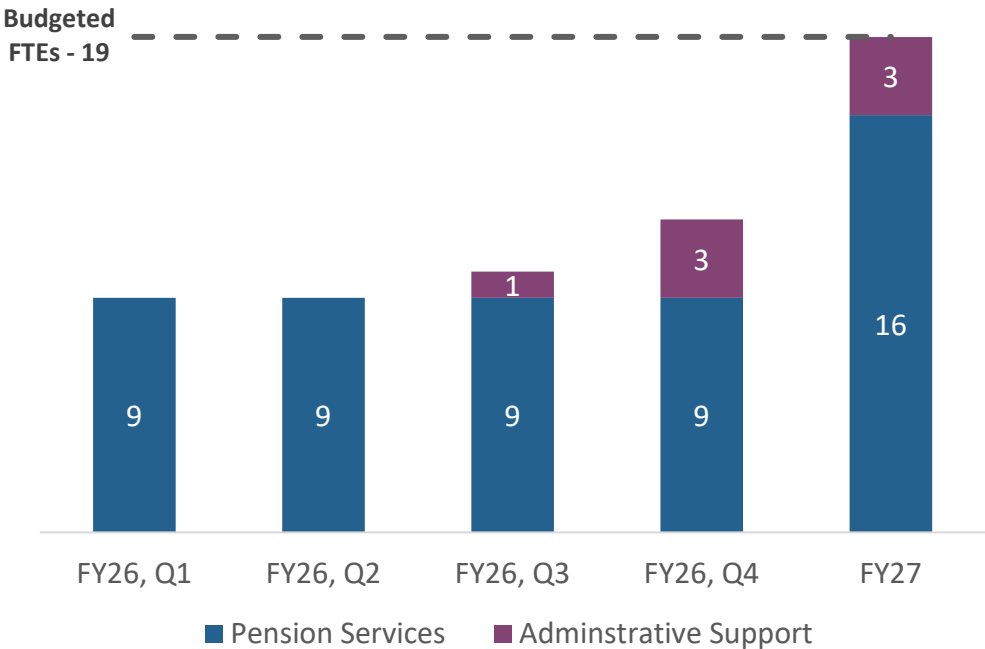


To effectively support the needs of TRS members and staff of the new regional office, staff estimate an initial request of a \$3.6M budget in FY26, an estimated annual operating cost of \$1.5M starting FY27, and 19 positions are being proposed.

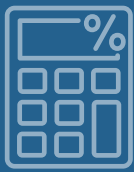
Estimated Budget		
Description	FY 26	FY 27
Salaries & Benefits	\$820,000	\$1,500,000
Travel	\$65,000	
Rent		TBD
Utilities		TBD
Operating		TBD
Tenant Improvement, Furniture, and Equipment	\$2,750,000	
<b>Total</b>	<b>\$3,635,000</b>	<b>\$1,500,000</b>
<b>Total Budgeted FTEs</b>	<b>19.0</b>	

- TRS will submit a letter notifying the Legislative Budget Board and the Governor's Office to utilize Rider 20 of the General Appropriations Act to increase the appropriated budget and the FTE cap upon a fiduciary finding of the Board of Trustees

Budgeted FTEs – Cumulative Hiring Plan



- Pension Services includes 1 director and 15 counselors.
- Administrative support includes an administrative assistant, a support technician, and a security officer.



# FY26 General Provisions

## TEACHER RETIREMENT SYSTEM OF TEXAS GENERAL PROVISIONS

The Teacher Retirement System (TRS) uses as guidelines the provisions of Article IX (General Provisions) of the General Appropriations Act adopted by the 88<sup>th</sup> Texas Legislature (GAA) in administering the system to the extent that the Executive Director or a designee acting in the absence of the Executive Director determines that individual provisions of Article IX are in the best interests of TRS and are not in conflict with applicable TRS laws, fiduciary duties, or policies. In addition, it is the intent of the TRS Board of Trustees (board) that the General Provisions also apply to the TRS-Care Fund, and the TRS-ActiveCare Fund. The following provisions are also subject to this paragraph.

**PENSION TRUST FUND ADMINISTRATIVE OPERATIONS** – In adopting the related Budget Resolution, the board finds that authorizing expenditures from the Pension Trust Fund to pay for TRS' administrative operating expenses for the fiscal year is necessary to perform the fiduciary duties of the board. Further, the Legislature has not appropriated money from the State's general revenue fund for TRS to use in paying operating expenses for the fiscal year.

**PENSION TRUST FUND HEADQUARTERS ACCOUNT** –The board finds that authorizing staff to transfer from the interest account to the expense account an amount necessary to cover build out-related expenses for the leased portion of the Alpha building, not-to-exceed in the amount of \$3,485,565, is necessary for the efficient and effective administration of pension trust fund assets and performance of the board's fiduciary duties.

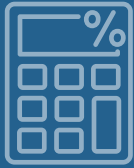
**USE OF COMMISSION CREDITS** – The board finds that the expenditure of commissions and credits, including soft dollars, commission sharing agreements, and cash recapture agreements (together, "Commission Credits") to obtain research, goods, and services supporting the investment function are necessary for the efficient and effective administration of pension trust fund assets and performance of the board's fiduciary duties. Uses of Commission Credits shall be administered in accordance with the board's Commission Credits Policy and applicable law.

**CONTRACTOR PROVIDED RESOURCES** – As part of the contracting process for goods and services (including investment management services), TRS has access to additional resources for operations, including services, credits deducted from payables, temporarily-assigned, non-TRS workers, or allowances, as part of the total contract consideration provided by the vendors or investment managers. Such resources may only be used or expended to the same extent, and for the same purposes, and are subject to the same duty of care and general requirements and policies, as other pension trust fund assets.

**HEALTH BENEFITS FUNDS** – Operations of the Texas Public School Retired Employees Group Benefits Program are funded from the Retired Employees Group Health Insurance Fund (the TRS-Care Fund). Operations of the Texas School Employees Uniform Group Health Coverage Program are funded from the Texas School Employees Uniform Group Coverage Trust Fund (the TRS ActiveCare Fund).

### PERSONNEL SERVICES:

- **Hiring and Personnel Actions** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to hire personnel, to transfer personnel within the agency, and to approve base salaries, salary changes, and other personnel actions, including but not limited to promotions, demotions, re-assignment, merits, and recruitment and retention bonuses. TRS will generally base its salary schedules, position classifications, and salary administration practices on the provisions of Article IX, Chapter 659 of the Government Code, and other relevant legislation to the extent the Executive Director determines a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty or TRS policy. The board will set the salary rate for the Executive Director. The Executive Director is authorized to set the base salaries for other exempt positions within the not-to-exceed amounts listed in the GAA or any amended limits adopted by the board from time to time.
- **Performance Pay Plans** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to implement performance pay plan(s) as approved from time to time by the board, including authorizing payment of the performance pay to the extent funds have been included in the approved board resolution for that purpose or are otherwise made available through the Budget Execution Authority in these General Provisions; in an amount not to exceed \$ ~~54.5~~ 57.9 million.
- **Longevity Pay and Benefit Replacement Pay** – The board authorizes the payment of Longevity Pay and Benefit Replacement Pay in addition to base pay. The payment of Longevity Pay and Benefit Replacement Pay to eligible TRS employees shall be administered in a manner consistent with the provisions of Chapter 659 of the Government Code and other relevant legislation.



# FY26 General Provisions

## TEACHER RETIREMENT SYSTEM OF TEXAS

### GENERAL PROVISIONS

(continued)

**OTHER PERSONNEL COSTS** – Other Personnel Costs, including Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay, as estimated in the GAA, are necessary for efficient TRS operations, and may be revised by the Executive Director, or Deputy Director in the absence of the Executive Director, if needed to pay operating expenses for the fiscal year.

**PROFESSIONAL SERVICES** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to contract for professional services and approve and disburse professional fees to persons or firms who render such professional services to TRS. The board finds that the budget for Professional Services authorized in this document is necessary to the performance of its fiduciary duties.

**COUNSELING SERVICES** – In accordance with Texas Government Code, Chapter 825, Subchapter G, the board authorizes the Executive Director or his designees, to the extent feasible, to make individual retirement benefits counseling sessions available to members in conjunction with informational or educational presentations that TRS provides for groups throughout the state, in order to promote efficiency and minimize the cost of such services. TRS will determine the geographic regions most in need of retirement benefits counseling and will provide retirement benefits counseling services in these regions throughout Texas.

**TRAVEL** – In accordance with TRS policy, the Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to reimburse employee and trustee travel expenses at amounts that are reasonable and necessary to conduct official TRS business, including transportation and other expenditures necessary for employees to attend orientation, training and staff development activities conducted at TRS headquarters. The board finds that such reasonable and necessary expenses are necessary for the performance of fiduciary duties. These expenses may include additional allowances above standard or state law rates for transportation and meals. Travel expense reports requesting reimbursement must be submitted timely, and with proper documentation as set forth in the TRS Travel Guide.

**BUDGET EXECUTION AUTHORITY** – As required for the efficient operation of TRS programs, the Executive Director, or Deputy Director in the

absence of the Executive Director, is authorized to transfer budgeted funds up to 25% of an expense category between different expense accounts and major expense categories, so long as the total approved budget for operating expenses and capital outlay is not exceeded. This provision applies separately to the Pension Trust Fund, the TRS-Care Fund, and the TRS-ActiveCare Fund.

**CONTINGENCY FOR CATASTROPHIC OCCURRENCES** – In the event of a catastrophic occurrence which destroys or incapacitates TRS' physical plant and/or primary operating resources, the Executive Director, Deputy Director, or Chief Financial Officer may exceed the total approved budget to the extent necessary to achieve recovery of operational capabilities. The Executive Director, Deputy Director, or Chief Financial Officer will notify the Budget Committee of the board, as soon as possible, of the extent of the situation and the budgetary impact.

**CONTINGENCY FUNDING** – TRS will operate a contingency account(s) for necessary expenses that includes \$6,871,700 in Pension Administrative Operations, \$19,026,900 in Capital UB, and \$1,181,000 in Health Administrative Operations. The Executive Director will inform the Board of Trustees of any cumulative transfer in excess of 10% of the total contingency budget at the next board meeting. The board finds that such reasonable transfers are necessary in performing its fiduciary duties.



# FY26 Administrative Operations Resolution



## **Resolution Authorizing Expenditure and Transfer of Trust Funds for Pension Trust Fund Administrative Operations**

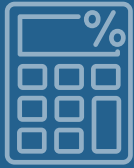
**July 18, 2025**

**Whereas**, Section 825.312 of the Government Code provides that the retirement system shall pay from the expense account of the retirement system account for the pension trust fund all administrative expenses of the retirement system that are required to perform the fiduciary duties of the board;

**Whereas**, Section 825.313(d) of the Government Code provides that the TRS Board of Trustees (board) may authorize transferring from the interest account to the expense account of the retirement system an amount necessary to cover TRS' operating expenses for the fiscal year that are required to perform the fiduciary duties of the board;

**Whereas**, Rider 15, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 89th Legislature provides that upon a finding of fact by the TRS board that additional resources are necessary to implement accounting guidelines related to Governmental Accounting Standards Board statements and pronouncements;





# FY26 Administrative Operations Resolution

***Resolved,*** That the board approves the amendments to the General Provisions for the Pension Trust Fund Administrative Operations, including a change to the performance pay plans maximum award of \$57.9 million.

***Resolved,*** That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2026 including the changes listed below are required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$308,143,600, as approved today in the Fiscal Year 2026 Budget and General Provisions for the Pension Trust Fund Administrative Operations, as amended, plus such additional amounts as may be necessary for the following expenditures and changes to the General Provisions:

- To pay the actual amount of performance incentive compensation payable up to \$57.9 million in Fiscal Year 2026, if any;
- To reimburse reasonable and necessary employee transportation and other expenditures necessary for employees to attend orientation, training and staff development activities conducted at TRS headquarters; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and to implement GASB statements; and

***Resolved,*** That the staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the expenses of the retirement system under the approved budget for Fiscal Year 2026, but not to exceed the amount of \$308,143,600 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2026 and, as applicable, to achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by the General Provisions adopted by the board.



# Appendix

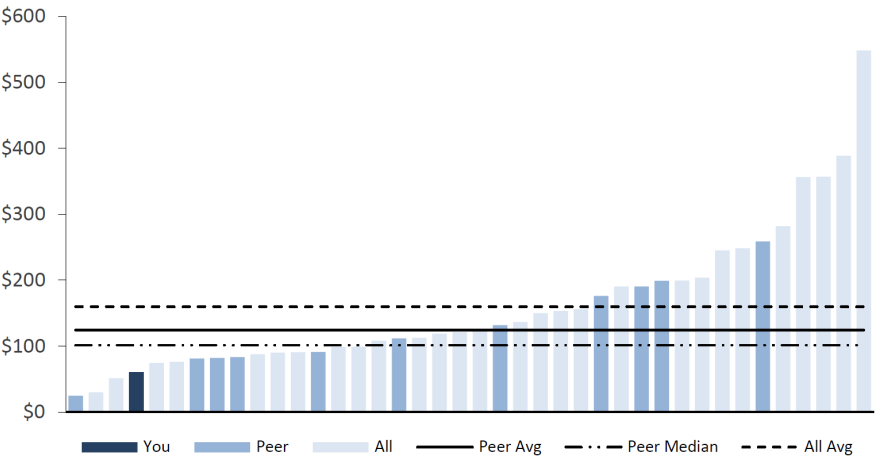




# Market Insights

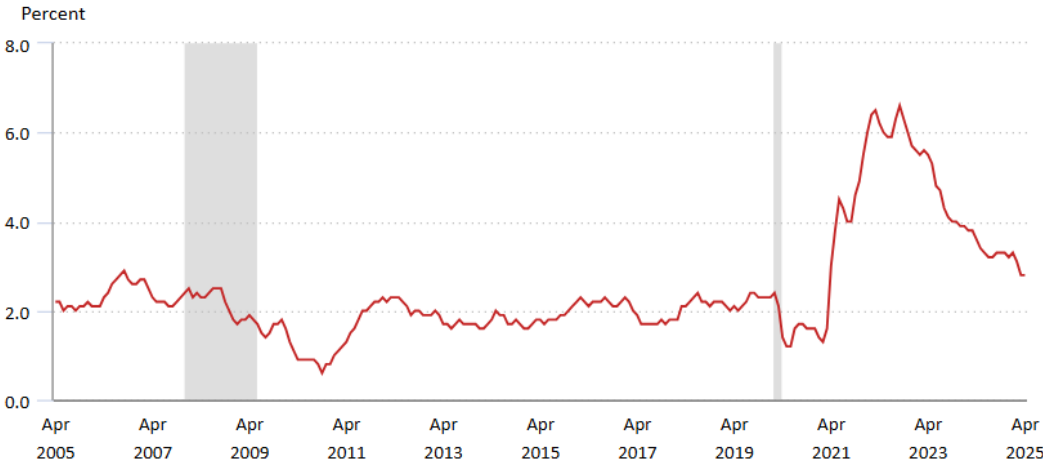
Pension Administration Cost Per Active Member and Annuitant

Source: 2024 CEM Survey

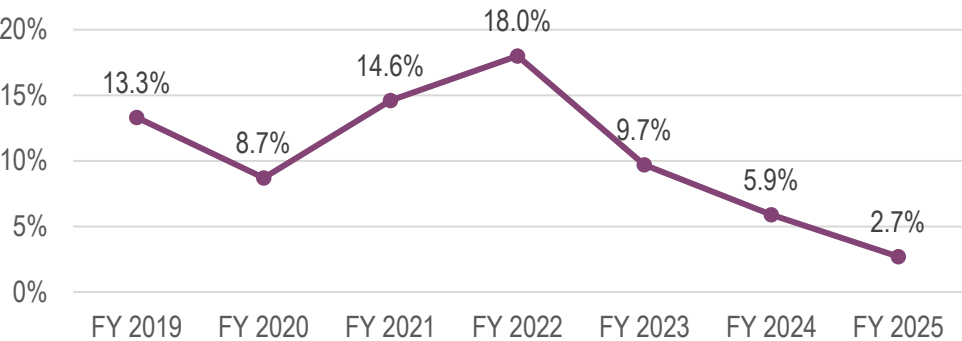


U.S. Annual Inflation Rate

Source: US Bureau of Labor Statistics, All items less food and energy



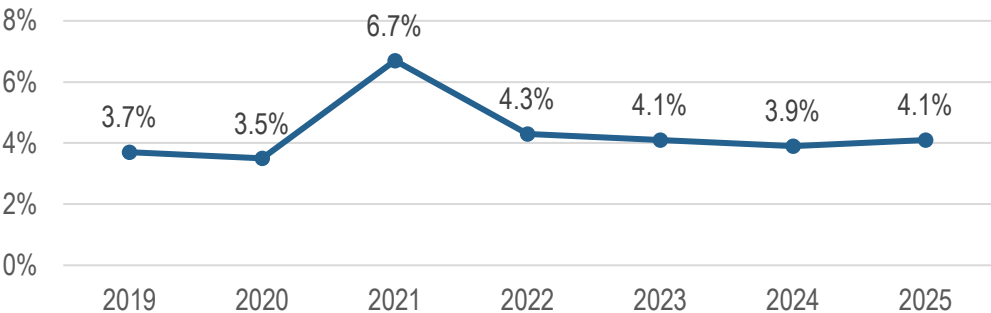
TRS Turnover Rate



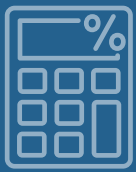
TRs turnover rate continues to trend down since FY22

Texas Unemployment Rate

Source: US Bureau of Labor Statistics



Unemployment has been trending down since 2021



# Efficient Allocation of Resources



**In the process of developing the FY26 Administrative Operating Budget  
divisions collaborated with budget staff to thoroughly reassess the allocation of resources**

- FTEs will be held constant, need to utilize available authority and prioritize staffing needs.
- As projects wrap up and fellowship recipients' terms come to an end, the ability to add new FTEs will be limited.
- Review staff augmentation and temporary employment services to determine cost effectiveness.
- Examine consulting services for efficiency by identifying potential contract overlaps, redundancies and opportunities for consolidation.
- Identify potential savings via contract renegotiation when renewals are due.
- Identify cost savings with furniture and equipment, technology hardware and software, and other operating costs.
- Assess the build-out and move-in activities for the new TRS headquarters buildings.
- Prioritize essential conference attendance, take advantage of virtual seminars, and reduce number of travelers when possible.
- Eliminate memberships and subscriptions no longer needed.

**Salaries &  
Wages**

**Professional  
Fees & Services**

**Operating**

**Support  
Costs**

**Staff  
Development  
& Travel**

**Subscriptions  
&  
Memberships**



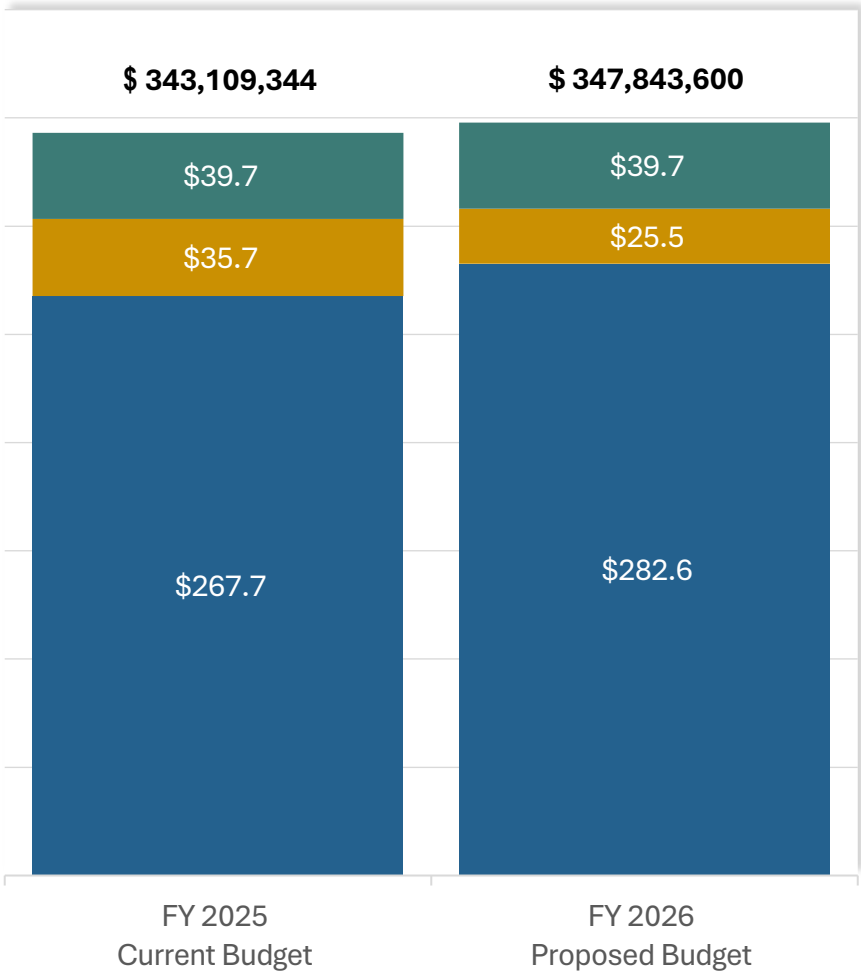
# FY26 Administrative Operations Pension Trust Fund



## Administrative Operating Budget

\$ in millions

■ Performance Pay Plan ■ Capital Budget ■ Base Admin Operations



### Explanation of Differences from Prior Year

#### Performance Pay Plan

Should the Pension fund obtain a positive return, the one plan year estimated award for FY26 \$39.7M.

#### Capital Budget

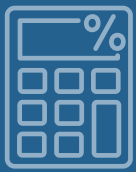
Includes \$25.5M for capital projects in the first year of the biennium.

#### Operating

Includes \$4M to operationalize Alpha & Bravo Headquarters

#### Wages & Benefits

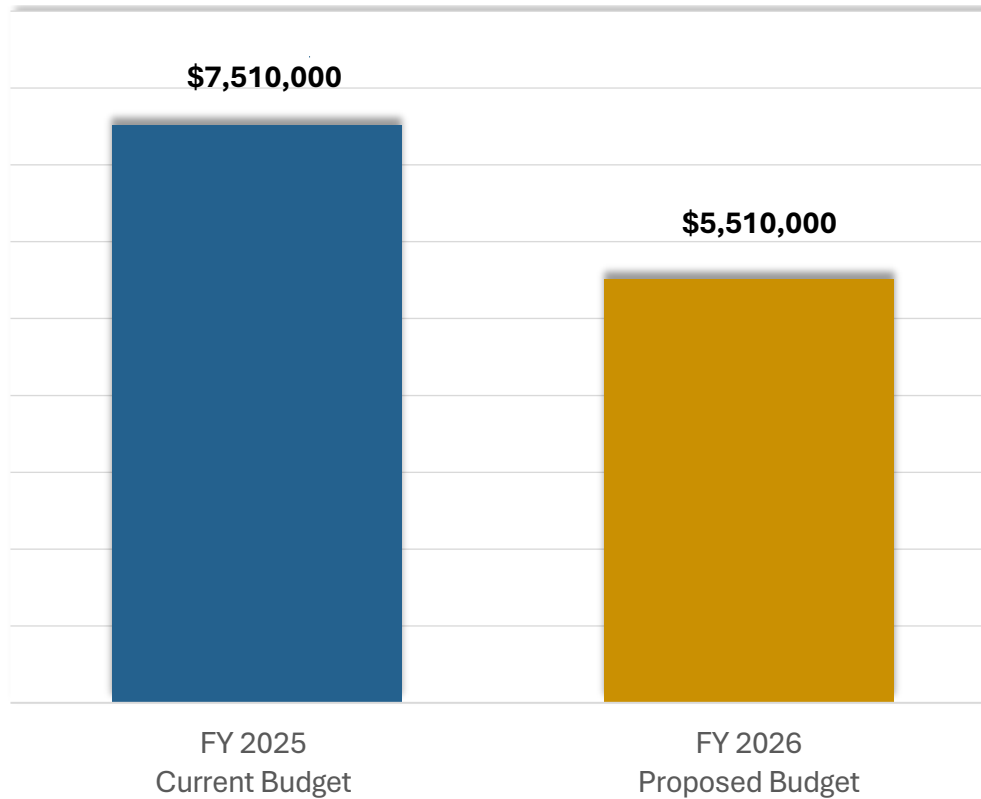
Includes \$2.5M for IMD equity adjustments, \$0.9M for 8 new FTEs, \$1.7M for fringe benefits, and \$5.8M for the FY26 merit program to award eligible staff.



# FY26 Administrative Operations Commission Credits

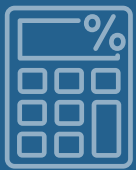


## Commission Credits



### Explanation of Differences from Prior Year

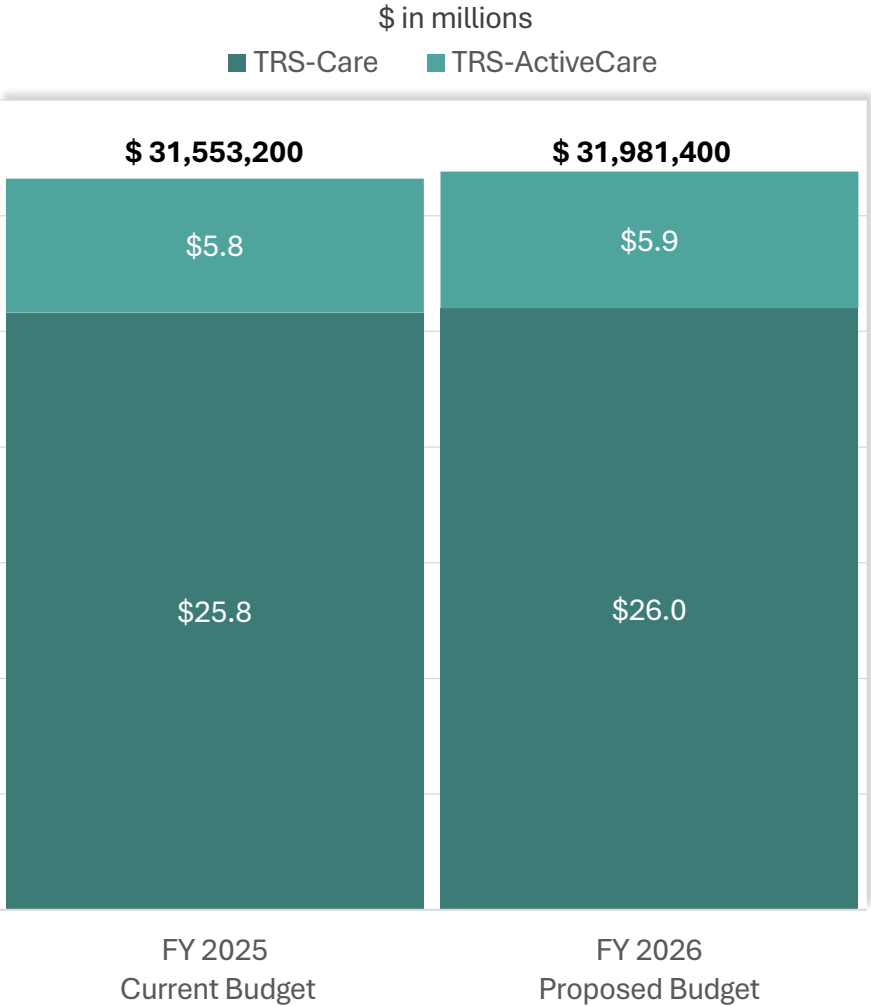
- Commission Sharing Agreements reduced to scale down programs based on current commission credit estimates.



# FY26 Administrative Operations Health Trust Funds

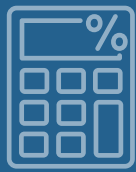


## Administrative Operating Budget



### Explanation of Differences from Prior Year

Wages & Benefits	Includes \$0.7M for the FY26 merit program to award eligible staff.
FY25 New FTEs Cost Savings	



# FY26 Pension Trust Fund

	FY24 Expended	FY25 Budgeted	FY26 Proposed	FY25-26 Change	% Change
<b>Salaries and other personnel expenses</b>					
Salaries and wages	129,795,260	151,590,500	165,995,700	14,405,200	10%
Longevity pay	861,180	1,140,700	1,223,200	82,500	7%
Benefit replacement pay	18,002	20,000	17,600	(2,400)	-12%
Other employee benefits	1,278,075	1,547,500	1,703,400	155,900	10%
Employer FICA contributions	9,744,060	10,601,600	11,643,200	1,041,600	10%
Employer health insurance contributions	11,067,154	15,692,700	17,262,000	1,569,300	10%
Employer retirement contributions	10,347,194	12,241,700	13,446,600	1,204,900	10%
<b>Salaries and other personnel expenses Total</b>	<b>163,110,925</b>	<b>192,834,700</b>	<b>211,291,700</b>	<b>18,457,000</b>	<b>10%</b>
<b>Professional fees and services</b>	<b>28,352,432</b>	<b>52,454,313</b>	<b>46,835,500</b>	<b>(5,618,813)</b>	<b>-11%</b>
<b>Other operating expenses</b>					
Consumable supplies and fuels	517,261	721,073	646,500	(74,573)	-10%
Travel	1,404,341	3,008,800	2,429,100	(579,700)	-19%
Rentals	1,214,382	1,454,900	1,456,500	0	0%
Utilities	1,124,338	1,758,194	1,546,700	(211,494)	-12%
Building and equipment maintenance	1,843,779	3,305,800	3,305,800	0	0%
Insurance premiums	951,457	1,185,000	1,185,000	0	0%
Dues, fees, and staff development	839,705	1,205,140	2,221,900	1,016,760	84%
Subscriptions & reference information	52,995	166,564	138,200	(28,364)	-17%
Printing and reproduction services	13,948	162,000	100,000	(62,000)	-38%
Postage, mailing, and delivery	3,173,208	3,450,000	3,250,000	(200,000)	-6%
Hardware maintenance	374,430	2,060,585	406,000	(1,654,585)	-80%
Other operating	1,974,776	10,931,016	8,125,400	(2,805,616)	-26%
Software purchases and maintenance	13,316,639	19,424,877	20,681,300	1,256,423	6%
Furniture and equipment	1,686,375	3,724,000	3,724,000	0	0%
<b>Other operating expenses Total</b>	<b>28,487,634</b>	<b>52,557,949</b>	<b>49,216,400</b>	<b>(3,341,549)</b>	<b>-6%</b>
<b>Capitalized expenses</b>	<b>394,303</b>	<b>5,520,322</b>	<b>800,000</b>	<b>(4,720,322)</b>	<b>-86%</b>
<b>Performance Pay Plan</b>	<b>55,427,651</b>	<b>39,742,060</b>	<b>39,700,000</b>	<b>(42,060)</b>	<b>0%</b>
<b>Grand Total</b>	<b>\$ 275,772,945</b>	<b>\$ 343,109,344</b>	<b>\$ 347,843,600</b>	<b>\$ 4,734,256</b>	<b>1%</b>

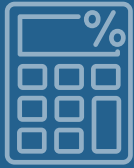


# FY26 Capital Projects



Capital Projects	FY24 Budget	FY25 Budget	FY26 Budget	Year to Year Budget Change
<b>Building Renovations</b> <i>Funds facility needs to create a secure, productive, and space-efficient workplace.</i>	2,749,999	1,000,000	2,000,000	1,000,000
<b>Security Renovations</b> <i>Maintains TRS Security Division's technology infrastructure to assure safety and security.</i>	68,700	181,300	-	(181,300)
<b>IT Infrastructure Upgrades</b> <i>Funds to develop and maintain premise-based and cloud-based IT infrastructure applications, equipment, technologies, implement the fraud prevention tool and security needs.</i>	1,015,864	8,084,135	3,000,000	(5,084,135)
<b>Investment Data Modernization</b> <i>Improves fiduciary oversight of Trust asset valuation and performance by filling functional and technological gaps within current data structures and systems.</i>	2,720,090	25,267,728	19,460,100	(5,807,628)
<b>Data Center Services</b> <i>Funds the consumption of print/mail services and continued managed security vulnerability services through the Texas Department of Information Resources (DIR) Shared Technology Services (STS) program.</i>	1,166,578	1,175,021	1,093,000	(82,021)
<b>Total Capital Projects</b>	<b>\$ 7,721,231</b>	<b>\$ 35,708,184</b>	<b>\$ 25,553,100</b>	<b>\$ (10,155,084)</b>





# FY26 Commission Credits Program

	FY24 Expended	FY25 Budgeted	FY26 Proposed	FY25-26 Change	% Change
<b>Professional fees and services</b>	<b>3,170,427</b>	<b>7,400,000</b>	<b>5,500,000</b>	<b>(1,900,000)</b>	<b>-26%</b>
<b>Other operating expenses</b>					
Dues, fees, and staff development	-	7,000	7,000	-	0%
Other operating	3,772,874	103,000	3,000	(100,000)	-97%
<b>Other Operating Expenses Total</b>	<b>3,772,874</b>	<b>110,000</b>	<b>10,000</b>	<b>(100,000)</b>	<b>-91%</b>
<b>Grand Total</b>	<b>\$ 6,943,301</b>	<b>\$ 7,510,000</b>	<b>\$ 5,510,000</b>	<b>\$ (2,000,000)</b>	<b>-27%</b>
<b>Funding Source</b>					
Investment Commission Recapture	-	10,000	10,000	-	0%
Investment Commission Sharing	6,943,301	7,500,000	5,500,000	(2,000,000)	-27%
<b>Grand Total</b>	<b>\$ 6,943,301</b>	<b>\$ 7,510,000</b>	<b>\$ 5,510,000</b>	<b>\$ (2,000,000)</b>	<b>-27%</b>



# FY26 TRS-Care

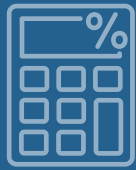
	FY24 Expended	FY25 Budgeted	FY26 Proposed	FY25-26 Change	% Change
<b>Salaries and other personnel expenses</b>					
Salaries and wages	12,709,697	15,349,200	16,115,300	766,100	5%
Longevity pay	93,900	88,000	108,700	20,700	24%
Benefit replacement pay	1,203	-	-	-	0%
Other employee benefits	125,445	161,400	169,500	8,100	5%
Employer FICA contributions	927,300	1,114,200	1,170,000	55,800	5%
Employer health insurance contributions	939,348	1,453,500	1,526,300	72,800	5%
Employer retirement contributions	1,040,377	1,201,000	1,261,100	60,100	5%
<b>Salaries and other personnel expenses Total</b>	<b>15,837,270</b>	<b>19,367,300</b>	<b>20,350,900</b>	<b>983,600</b>	<b>5%</b>
<b>Professional fees and services</b>	<b>4,112,825</b>	<b>5,974,000</b>	<b>5,497,700</b>	<b>(476,300)</b>	<b>-8%</b>
<b>Other operating expenses</b>					
Consumable supplies and fuels	-	6,300	1,000	(5,300)	-84%
Travel	55,448	205,000	95,000	(110,000)	-54%
Utilities	-	7,500	-	(7,500)	-100%
Dues, fees, and staff development	11,986	32,500	17,500	(15,000)	-46%
Subscriptions & reference information	1,047	6,500	1,500	(5,000)	-77%
Printing and reproduction services	970	1,000	-	(1,000)	-100%
Postage, mailing, and delivery	154	200	-	(200)	-100%
Other operating	14,880	129,800	79,800	(50,000)	-39%
Software purchases and maintenance	-	25,000	-	(25,000)	-100%
Furniture and equipment	213	5,000	1,000	(4,000)	-80%
<b>Other operating expenses Total</b>	<b>84,698</b>	<b>418,800</b>	<b>195,800</b>	<b>(223,000)</b>	<b>-53%</b>
<b>Grand Total</b>	<b>\$ 20,034,793</b>	<b>\$ 25,760,100</b>	<b>\$ 26,044,400</b>	<b>\$ 284,300</b>	<b>1%</b>



# FY26 TRS-ActiveCare

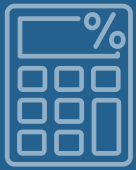


	FY24 Expended	New FY25 Budgeted	FY26 Proposed	FY25-26 Change	% Change
<b>Salaries and other personnel expenses</b>					
Salaries and wages	1,818,417	2,098,300	2,202,700	104,400	5%
Longevity pay	17,060	15,940	19,000	3,060	19%
Benefit replacement pay	0	0	0	0	0%
Other employee benefits	23,320	32,500	34,100	1,600	5%
Employer FICA contributions	123,937	150,300	157,200	6,900	5%
Employer health insurance contributions	148,991	195,500	205,300	9,800	5%
Employer retirement contributions	146,763	161,560	169,600	8,040	5%
<b>Salaries and other personnel expenses Total</b>	<b>2,278,488</b>	<b>2,654,100</b>	<b>2,787,900</b>	<b>133,800</b>	<b>5%</b>
<b>Professional fees and services</b>	<b>250,023</b>	<b>2,990,000</b>	<b>3,070,600</b>	<b>80,600</b>	<b>3%</b>
<b>Other operating expenses</b>					
Consumable supplies and fuels	0	3,000	1,000	(2,000)	-67%
Utilities	0	1,500	0	(1,500)	-100%
Travel	49,996	60,000	50,000	(10,000)	-17%
Rentals	565	0	0	0	0%
Dues, fees, and staff development	12,125	30,000	20,000	(10,000)	-33%
Other operating	16,349	25,000	5,000	(20,000)	-80%
Subscriptions & reference information	102	1,000	500	(500)	-50%
Furniture and equipment	134	3,500	2,000	(1,500)	-43%
Software purchases and maintenance	0	25,000	0	(25,000)	-100%
<b>Other operating expenses Total</b>	<b>79,271</b>	<b>149,000</b>	<b>78,500</b>	<b>(70,500)</b>	<b>-47%</b>
<b>Grand Total</b>	<b>\$ 2,607,782</b>	<b>\$ 5,793,100</b>	<b>\$ 5,937,000</b>	<b>\$ 143,900</b>	<b>2%</b>



# FY26 Budget by Division

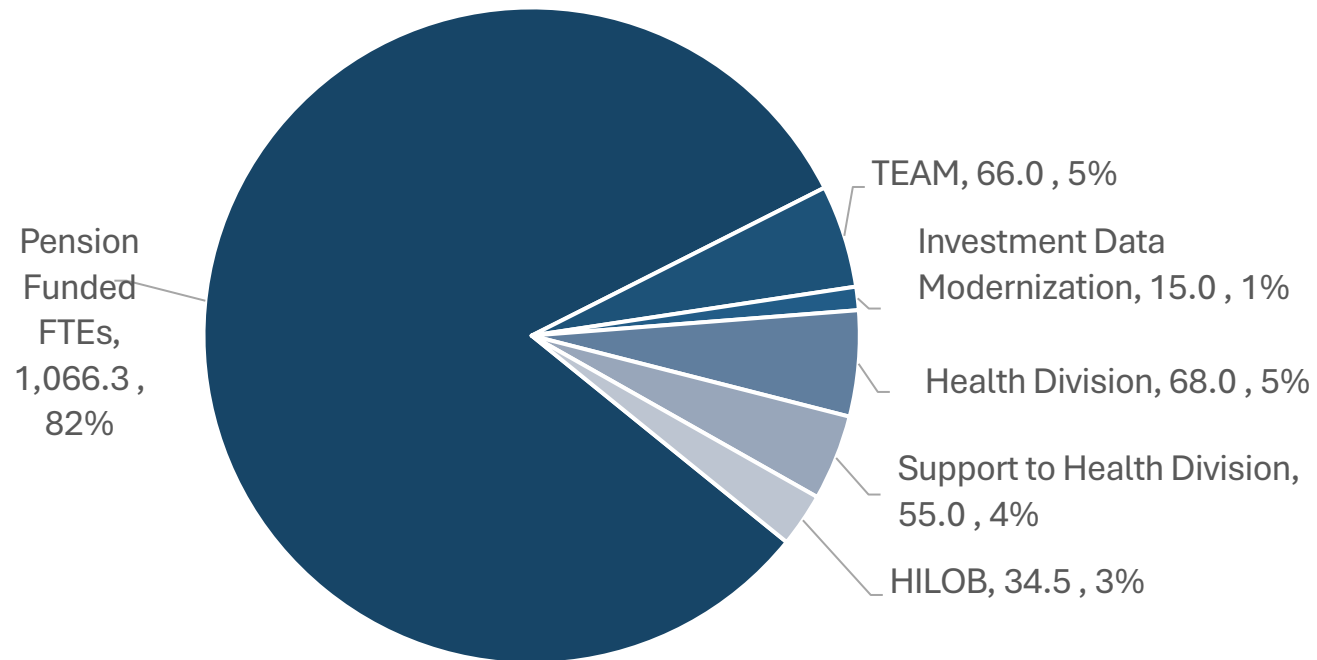
	FY24 Expended	FY25 Budgeted	FY26 Proposed	FY25-26 Change	% Change
<b>Core Services</b>					
Investment Management	70,062,873	81,960,261	83,436,100	1,475,839	2%
Pension Services	34,065,894	38,971,893	39,535,400	563,507	1%
Health	22,642,576	31,221,664	31,118,600	(103,064)	0%
<b>Shared Services</b>					
Administrative Services	17,273,250	22,919,541	22,952,100	32,559	0%
Contract Services	2,873,083	3,323,640	3,839,100	515,460	16%
Executive	4,682,147	7,262,612	5,399,700	(1,862,912)	-26%
Financial Services	7,077,977	9,127,762	9,207,700	79,938	1%
Information Security Office	2,795,640	4,421,992	4,458,600	36,608	1%
Information Technology	42,905,469	62,442,977	62,529,700	86,723	0%
Internal Audit	3,845,761	5,283,821	4,719,400	(564,421)	-11%
Legal & Compliance	11,253,278	13,902,962	13,791,200	(111,762)	-1%
Organizational Excellence	9,047,572	12,300,982	12,430,900	129,918	1%
Agencywide	3,527,309	5,163,279	13,016,700	7,853,421	152%
<b>TEAM</b>					
Investment Data Modernization	14,667,182	17,243,370	17,298,300	54,930	0%
	3,211,161	26,883,728	21,901,500	(4,982,228)	-19%
Performance Pay Plan	55,427,651	39,742,060	39,700,000	(42,060)	-0.1%
<b>Grand Total</b>	<b>\$ 305,358,822</b>	<b>\$ 382,172,544</b>	<b>\$ 385,335,000</b>	<b>\$ 3,162,456</b>	<b>1%</b>



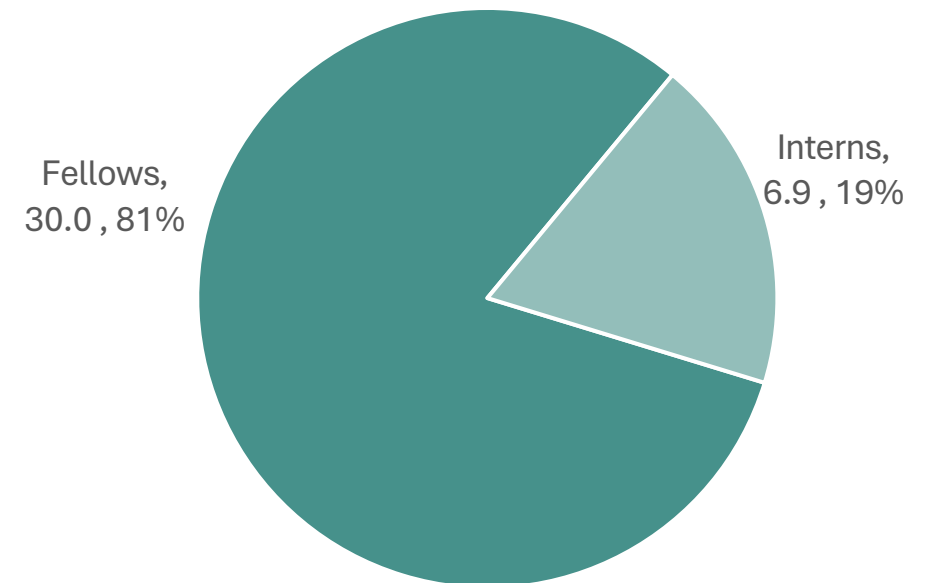
# FY26 Budgeted FTEs

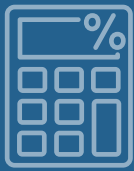


**FY26 Budgeted FTEs**  
**1,304.8**



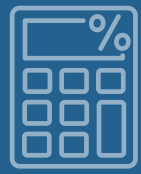
**Interns and Fellows**  
**36.9**





# FY26 Budgeted FTEs

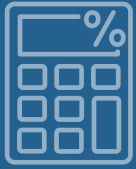
	FY24 Actual	FY25 Budgeted	FY26 Proposed	FY25-26 Change	% Change
<b>Funding Source</b>					
Pension Funded FTEs	963.4	1,058.3	1,066.3	8.0	1%
TEAM	56.3	66.0	66.0	-	0%
Investment Data Modernization	5.4	15.0	15.0	-	0%
Health Division	56.2	68.0	68.0	-	0%
Support to Health Division	52.0	55.0	55.0	-	0%
HILOB	30.0	34.5	34.5	-	0%
<b>Funding Source Total</b>	<b>1,163.3</b>	<b>1,296.8</b>	<b>1,304.8</b>	<b>8.0</b>	<b>1%</b>
<b>Division</b>					
Administrative Operations	64.3	74.8	75.8	1.0	1%
Pension Services	387.0	412.5	412.5	-	0%
Contract Services	21.0	25.0	28.0	3.0	11%
Executive	21.0	21.0	21.0	-	0%
Financial Services	46.0	53.0	54.0	1.0	2%
Health Division	64.0	76.0	76.0	-	0%
Information Security Office	16.0	21.0	21.0	-	0%
Information Technology	201.0	240.5	241.5	1.0	1%
Internal Audit	17.0	19.0	19.0	-	0%
Investment Management	232.0	257.0	257.0	-	0%
Legal & Compliance	51.0	51.0	53.0	2.0	4%
Organizational Excellence	43.0	46.0	46.0	-	0%
<b>Division Total</b>	<b>1,163.3</b>	<b>1,296.8</b>	<b>1,304.8</b>	<b>8.0</b>	<b>1%</b>
<b>Interns</b>	<b>9.4</b>	<b>6.9</b>	<b>6.9</b>	<b>-</b>	<b>0%</b>
<b>Fellows</b>	<b>18.9</b>	<b>28.0</b>	<b>30.0</b>	<b>2.0</b>	<b>7%</b>



# 6 – Year FTE Historical Trend



Work Division	FY20 Actuals	FY21 Actuals	FY22 Actuals	FY23 Actuals	FY24 Actuals	FY25 Actuals (as of 7.8.25)	Vacant Positions				Interns (2025 Summer Cohort) & Fellows
							FY25 Budgeted FTEs	FTEs in the Hiring Process	FTEs Reserved for Contract Conversions	Open FTEs	
Pension Services	211.3	239.0	262.0	345.0	387.0	394.5	412.5	15.0		3.0	2.0
Investment Management	168.0	177.0	187.0	207.0	232.0	234.8	257.0	10.0	5.0	7.2	6.0
Health Division	55.5	52.0	52.5	57.0	64.0	72.0	76.0			4.0	4.0
Administrative Operations	44.5	49.7	50.4	58.1	64.3	72.5	73.8			1.3	8.0
Contract Services	16.0	20.0	17.0	19.0	21.0	26.0	27.0			1.0	2.0
Executive	6.0	7.0	7.0	7.0	21.0	19.5	20.0			0.5	2.0
Financial Services	30.0	33.0	36.0	38.0	46.0	50.0	53.0	1.0		2.0	2.0
Information Security Office	8.0	9.0	10.0	13.0	16.0	19.0	21.0	2.0			2.0
Information Technology	134.0	151.0	152.5	170.0	201.0	224.0	240.5	7.0	3.0	6.5	5.0
Internal Audit	13.0	16.0	14.0	13.0	17.0	18.0	19.0	1.0			
Legal & Compliance	34.0	37.0	41.0	47.0	51.0	51.0	51.0				8.0
Organizational Excellence	29.0	31.0	33.0	37.0	43.0	43.0	46.0	2.0		1.0	10.0
Strategy Office	16.0	18.0	17.0	19.0	-	-	-				
Agency Total	765.3	839.7	879.5	1,030.1	1,163.3	1,224.3	1,296.8	38.0	8.0	26.5	51.00



# 9-Year Historical Trend Administrative Operating Budget

(\$ in millions)

	FY17 Budget	FY18 Budget	FY19 Budget	FY20 Budget	FY21 Budget	FY22 Budget	FY23 Budget	FY24 Budget	FY25 Budget
<b>Pension Trust Fund</b>	135.0	139.9	157.7	172.4	170.1	187.7	235.9	293.4	343.1
<b>Commission Credit</b>	25.2	24.7	28.7	30.1	25.5	27.1	20.6	11.0	7.5
<b>Healthcare</b>	10.0	12.7	15.2	16.3	17.6	20.5	22.3	27.5	31.6
<b>Contingency<sup>1</sup></b>					21.6				
<b>Total</b>	<b>\$ 170.2</b>	<b>\$ 177.3</b>	<b>\$ 201.6</b>	<b>\$ 218.8</b>	<b>\$ 234.9</b>	<b>\$ 235.3</b>	<b>\$ 278.8</b>	<b>\$ 331.9</b>	<b>\$382.2</b>
<b>% Year to Year Change</b>		<b>4%</b>	<b>14%</b>	<b>9%</b>	<b>7%</b>	<b>0.2%</b>	<b>18%</b>	<b>19%</b>	<b>15%</b>
<b>Budgeted FTEs</b>	<b>491.3</b>	<b>734.9</b>	<b>816.5</b>	<b>847.3</b>	<b>863.8</b>	<b>932.8</b>	<b>1,188.8</b>	<b>1,248.8</b>	<b>1,296.8</b>

<sup>1</sup>Contingency Account in FY21 reflects TRS' efforts to reduce costs across all funds in response to the sharp economic downturn associated with COVID-19

9-year average  
budget growth is 11%

On average 81% of  
Budget is funded by  
Pension Trust Fund Assets

Pension Admin Operating Budget  
represents 0.18% of the  
value of the Pension Trust fund





# 8-Year Lapse History

(\$ in millions)



\$ in millions	2017	2018	2019	2020	2021*	2022	2023	2024
Salaries & Benefits	8.00	7.90	\$ 9.50	10.20	25.60	15.20	27.90	16.90
Pro Fees	1.50	3.30	\$ 2.70	5.20	7.30	5.30	8.00	4.50
Travel	0.10	0.40	\$ 0.60	1.50	2.00	1.50	1.60	1.40
Support	0.60	0.70	\$ 0.60	2.20	1.60	1.40	1.10	0.70
Operating Costs	2.70	5.10	\$ 3.00	4.90	5.20	2.90	6.10	2.40
Commission Credits	5.50	3.20	\$ 8.20	8.80	5.50	3.70	0.70	4.00
TEAM Project	0.70	2.40	\$ 3.90	3.10	2.20	2.30	2.30	1.30
IDM Project	-	-	-	-	-	-	2.20	0.10
<b>Total</b>	<b>\$ 19.10</b>	<b>\$ 23.00</b>	<b>\$ 28.50</b>	<b>\$ 35.90</b>	<b>\$ 49.40</b>	<b>\$ 32.30</b>	<b>\$ 49.90</b>	<b>\$ 31.30</b>
<b>% Lapsed</b>	<b>13%</b>	<b>16%</b>	<b>23%</b>	<b>17%</b>	<b>21%</b>	<b>13%</b>	<b>18%</b>	<b>11%</b>

8-year average  
Lapsed budget is 17%

Salaries/Benefits generates  
the most lapse from vacant  
positions

TEAM has lapsed on average  
\$2 million over the last 8 years



# Commission Credit Policy



## COMMISSION CREDITS POLICY

(rev. effective January 1, 2023)

### 1. Introduction

The Board hereby approves the expenditure of commissions and credits (including soft dollars, commission sharing agreements, and cash recapture agreements (together “Commission Credits”) based on this Policy.

For purposes of this Policy, (a) “soft dollars” refers to the use of a credited portion of brokerage commissions incurred for securities or futures trade execution to obtain goods, services, or research through a securities or futures broker or futures commission merchant (each, a “broker”), (b) commission recapture arrangements (“CRAs”) refer to an institutional brokerage discount resulting from a negotiated rebate of commissions and (c) “commission sharing arrangements” (“CSAs”) are a category of soft dollars that refers to the use of a cash account administered by a TRS custodian or broker which is funded from a portion of its brokerage commissions so that such custodian or broker may obtain, at TRS’ instruction, investment research services from such broker or custodian, an executing broker or other third parties.

Fiduciary prudence requires that TRS employees, when deciding whether to use Commission Credits, must determine in good faith that the commissions that will be incurred are reasonable in light of the value of the goods, services, and research (as applicable) that will be received under the arrangement and that TRS will realize their benefits. The generation of any Commission Credits shall be incidental to the brokerage transactions originating such credits.

### 2. General Principles

**2.1. Background.** Section 28(e) of the Securities Exchange Act of 1934 (“Section 28(e)”) provides a “safe harbor” for investment advisers who incur higher commissions for discretionary client accounts they manage in order to receive brokerage and research services that may or may not benefit those clients. Since Section 28(e) is a safe harbor, it cannot be violated. Although TRS invests only for its own account and does not manage accounts for others, it must still take care to receive best value and execution when trading securities and futures. Thus, Section 28(e) and SEC releases and publications under Section 28(e) provide useful guidance (see also Section 3.1(b)).

**2.2. General Principles.** Purchases using Commission Credits must support the investment decision-making function of TRS. Section 28(e) guidance provides examples of “brokerage and research services” that may qualify for the safe harbor. Under Section 28(e)(3), brokerage and research services generally include (see also Section 3.2):

- a. Analysis and advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in or purchasing or selling securities, or the availability of securities or purchasers or sellers of securities;
- b. Analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; or
- c. Services affecting securities transactions and performing functions pertaining to securities transactions (such as clearance, settlement and custody) or required in connection with securities transactions by rules of the SEC or a self-regulatory organization such as a stock exchange.



# Commission Credit Policy

## 3. COMMISSION CREDITS GUIDELINES

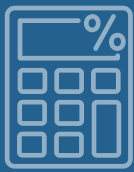
### 3.1. Requirements

- a. Commission Credits acquisitions must be budgeted in separate items in an addendum to the TRS annual budget or in a budget amendment adopted by the Board of Trustees, unless the Board provides otherwise by resolution.
- b. In determining what purchases may be made using Commission Credits, the investment staff shall be mindful of SEC guidance under Section 28(e). Legal Services will assist in analyzing specific questions regarding eligibility under SEC guidance. Departures from the SEC guidance with respect to Commission Credits from securities transactions are permitted only when they are consistent with fiduciary requirements and the best interests of TRS, applicable law, and TRS policies and procedures. In addition, TRS will apply Section 28(e) guidance to futures transactions, with any appropriate adjustments.
- c. Trades may not be created solely to generate Commission Credits and best trade execution must not be sacrificed with respect to Commission Credits. Employees must use their best efforts to ensure that all TRS transactions are executed in such a manner that the total cost or proceeds (including market impact costs and the value of any research to be acquired) in each transaction is the most favorable under the circumstances and benefits TRS. When selecting brokers, employees must take into account trade characteristics, the full range and quality of the broker's services, including but not limited to the broker's execution capabilities, the value of the research, services, or goods to be acquired (if any), commission rates, financial responsibility, and the broker's responsiveness to TRS.
- e. Commission Credit arrangements will be documented and approved in accordance with policies, guidelines and procedures approved by the Executive Director or his designee. Commission Credits allocations and disbursements shall be made in accordance with internal guidelines and procedures approved by the Chief Financial Officer (or, in the absence of the CFO, the Executive Director or his designee). The Investment Division shall provide copies of the internal guidelines and procedures for Commission Credits to the Board as part of TRS's annual budget process.
- f. Whenever possible, any acquisition using Commission Credits for which TRS normally employs competitive procedures will be handled using the procedures that will ensure that TRS will obtain the best value, taking all factors into account, including trade execution.
- g. All Commission Credits expenditures shall be documented in written agreements consistent with contracting guidelines.

### 3.2. Examples of Eligible Research, Goods and Services

Notwithstanding any other provision of this Policy, Commission Credits may be expended for any eligible research, goods, or services under this Policy, including the following:

- a. **Investment Research:** furnished either directly by a broker's investment research department, through subscription-based publications, or by an independent research or advisory firm. Investment research includes advice as to the value of securities or futures; the advisability of investing in, purchasing or selling securities or futures; the availability of securities or futures or purchasers or sellers of securities or futures; and analyses and reports concerning issuers, industries, securities, futures, economic factors and trends, portfolio strategy, and portfolio performance.
- b. **Data Services, Magazines, Journals, Reference Materials:** subscriptions to electronic data feeds, exchanges, data services, databases, magazines (including popular magazines relevant to securities analysis), professional journals and reference materials.
- c. **Seminars/Conferences:** fee-paid attendance at investment seminars or conferences and other fees or study materials for investment staff, provided, that soft dollars may not be used for travel and lodging.
- d. **Portfolio Management Assistance, Professional Services, and Institutional Memberships:** third-party services or institutional memberships that support TRS investment processes and portfolio management by providing TRS with direct advice, assistance, or support, including without limitation pricing or valuation services and performance measurement services.
- e. **Information Systems:** communications equipment or access (including high bandwidth services) that supports the investment decision-making process or portfolio management, including trading and investment accounting systems.
- f. Any other items useful in aiding in the investment decision-making process.



# Commission Credit Policy

## 3.3. Annual Commission Credits Budget

- a. **Annual Budget:** An annual Commission Credits budget will be developed and presented to the Board for approval with the TRS annual budget. Soft dollar, CRA and CSA uses shall each be stated separately in the annual budget. The CSA and CRA budget line items may aggregate the total estimated amount to be expended for research during the applicable fiscal year.
- b. **Commission Credits Balances:** Credit balances may be used as needed in accordance with the annual Commission Credits budget. Only one CSA and one CRA account may be established to hold Commission Credits and to expend funds for eligible research, goods, or services authorized in accordance with this Policy. No other funds may be commingled with the CSA or CRA funds in the CSA or CRA account, nor may such funds be used for any other purpose.
- c. **Expenditure Internal Accounting & Control:** Commission Credit expenditures will be made under the same general internal controls as operating budget expenditures. The broker or account administrator must forward copies of invoices for the goods and services acquired and a monthly statement of account including commissions received, expenditures made, and the commission allocations balance to the Investment Division.
- d. **Reporting and Disclosure:** The custodian or administrator of the CSA or CRA account or an authorized TRS broker shall deliver monthly and annual statements to the Investment Division and the Investment Accounting group indicating the account balance, deposits and disbursements since the last statement, and an aging report of past-due deposits. A report of expenditures will be included with all financial and budget information presented to the Board. The Comprehensive Annual Financial Report will disclose fiscal year Commission Credits expenditures.

## Definitions of Commission Credits Types

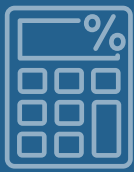
### Commission Sharing Arrangements and Commission Recapture Arrangements

Commission Sharing Arrangements (CSAs) are a category of soft dollars that refers to the use of a cash account administered by a TRS custodian or broker which is funded from a portion of its brokerage commissions so that such custodian or broker may obtain, at TRS' instruction, investment research services from such broker or custodian, an executing broker or other third parties. Commission Credits from CSAs are generated through internal trading.

Commission Recapture Arrangements (CRAs) refer to an institutional brokerage discount resulting from a negotiated rebate of commissions, which are negotiated with external managers who agree to participate in the program. Commission Credits from CRAs are generated by broker payments on eligible externally traded equities and futures.

Collectively, all expenditures using Commission Credits must support the investment decision-making function of TRS to be eligible under the Policy. Legal & Compliance should be consulted whenever it is unclear that an expenditure is permissible under the Policy.





# Commission Credit Policy

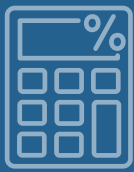
## Overview of Commission Credits Sources and Uses

	Commission Sharing	Commission Recapture
<b>FY 2025-2026 Annual Budget</b>	\$75.5 million	\$10 thousand
<b>Budget Development Process</b>	TRS Budget Process, including submission of annual Procurement Plan	TRS Budget Process, including submission of annual Procurement Plan
<b>Primary Designated Uses</b>	Investment Research, Software, Data Services, Portfolio Management Assistance, Professional Services, Information Systems	Software, Data Services, Reference Materials, Seminars / Conferences, Institutional Memberships
<b>Limitations and Controls</b>	Generated by internal trading; subject to Commission Credits Policy	Generated by external manager trading on behalf of TRS; subject to Commission Credits Policy
<b>Other Factors</b>	Administered by bank custodian; eligible expenditures require multi-level approvals; monthly reconciliations between custodian, IMD, and TRS	

## Preliminary Designations of Uses of Each Budget

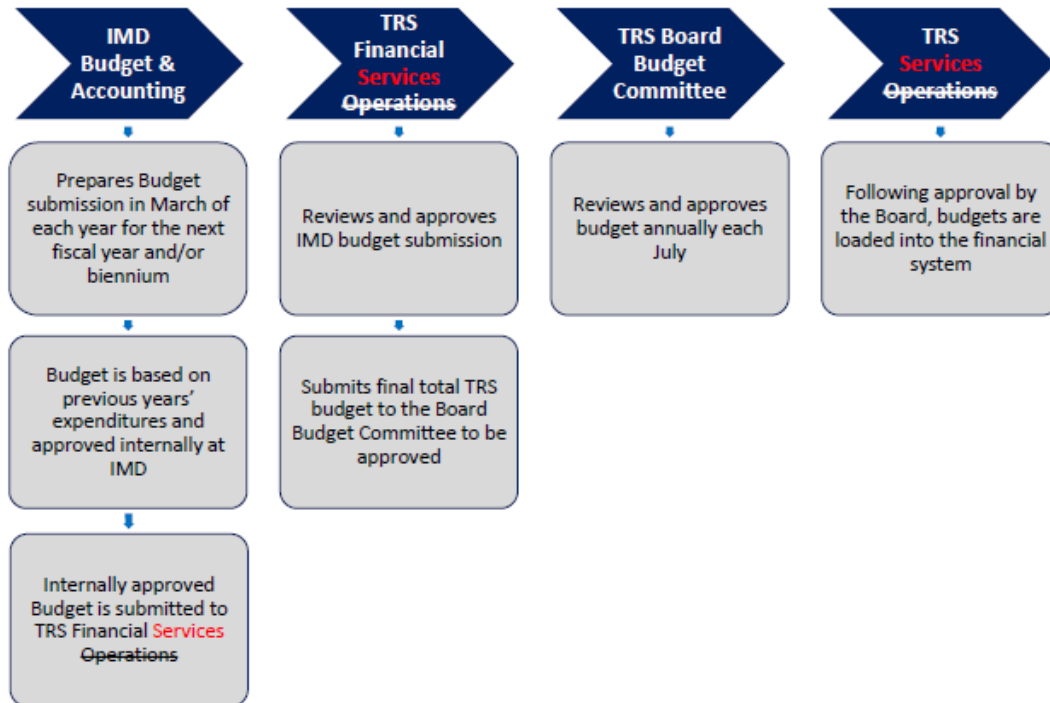
Note: these listings are preliminary and aspirational. Confirmation that the expenditures are eligible under the Commission Credits Policy, other policies, and state law is required. These listings do not affect otherwise applicable purchasing and procurement requirements. Items marked "Not Eligible" cannot be paid by the indicated budget under current law or policy. Items left blank are generally not paid through that budget. Consult Legal & Compliance to determine whether specific uses within these categories could be permissible.

	Commission Sharing	Commission Recapture
Consumable Office Supplies	Not eligible	Not eligible
Contract Worker Services	Not eligible	Not eligible
Dues, Fees, & Staff Development		
Conference Fees	Not eligible	X
License Fees, Membership Dues	Not eligible	X
Professional Development	Not eligible	X
Training Courses	Not eligible	X
Furniture & Equipment	Not eligible	Not eligible
Maintenance-Building & Equipment	Not eligible	Not eligible
Other Operating Expenses (e.g., Bloomberg Equipment & Connectivity)	Not eligible	Not eligible
Professional Fees		
Investment Consultants	X	X
Outside Counsel Legal Fees	Not eligible	Not eligible
Tax Advisor Services	Not eligible	Not eligible
Professional Fees-Other	X	X
Rent – authorized office lease	Not eligible	Not eligible
Rent - Machine & Other	Not eligible	Not eligible
Research consistent with 28(e) guidance	X	X
Salaries and Wages (other than contract workers paid by custodian and its vendor)	Not eligible	Not eligible
Software and Maintenance	X	X
Subscriptions & Reference Information		
Data & Systems eligible under 28(e) guidance	X	X
Publications & Periodicals	Not eligible	X
Reference Materials	Not eligible	X
Travel	Not eligible	Not eligible
Utilities	Not eligible	Not eligible

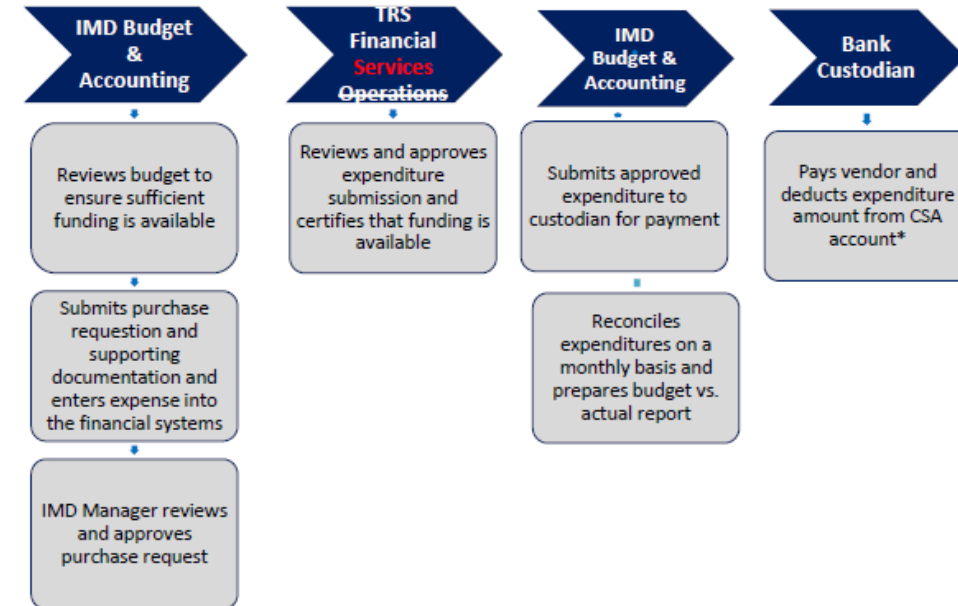


# Commission Credit Policy

## Commission Credits Budget Process



## Commission Credits Expenditure Process\*



\*All requests to expend Commission Credits are subject to confirmation of eligibility under TRS policies and applicable law. In addition, all requests for expenditures from the CSA budget are reviewed for eligibility by the custodian. In the event the custodian rejects an expenditure request, the IMD may request guidance from TRS Legal & Compliance. If TRS concludes that the expenditure should be eligible, Compliance provides a written justification in support of the expenditure for submission to the custodian. If the custodian finally declines the expenditure, it is directed to another funding source for payment.

**TAB 4**



## Memorandum

**DATE:** July 18, 2025

**TO:**           **TRS Board of Trustees**  
**Brian K. Guthrie, Executive Director**  
**Caasi Lamb, Deputy Director**

**FROM:**       **Don Green, Chief Financial Officer**

**RE:** Annual Certification for Retiree Health Benefits Plan (TRS-Care)

---

The attached certification is required under Section 1575.209 of the Insurance Code. This annual certification provides that before August 31 of each year the Board must certify to the Comptroller of Public Accounts the estimated amount of state contributions due to the Texas Public School Retired Employees Group Insurance Program for the upcoming fiscal year under the appropriations authorized by law.

The certification amount totals \$575,987,630 to meet the statutorily required state contribution rate of 1.25% of public education payroll.

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**STATE OF TEXAS**

§

**COUNTY OF TRAVIS**

§

§

At its meeting on July 18, 2025, the Board of Trustees of the Teacher Retirement System voted to certify \$575,987,630 as the estimated amount of state contributions to be received by the retired school employees group insurance fund (TRS-Care) for the 2026 fiscal year under the appropriations authorized by Chapter 1575 of the Insurance Code, the Texas Public School Retired Employees Group Benefits Program. This estimate of state contributions is required by Section 1575.209 of the Insurance Code.

SIGNED: \_\_\_\_\_  
Robert H. Walls, Jr.  
Chairman, Board of Trustees  
July 18, 2025

SIGNED: \_\_\_\_\_  
Brian K. Guthrie  
Executive Director  
July 18, 2025

**TAB 5**



# Organizational Excellence

July 18, 2025

Presented By:

Michelle Gray, Deputy Chief Organizational Excellence Officer  
Alisha Barnebey, Learning and Development Manager





# Early Career Programs at TRS



## Internship

- Must be currently enrolled in post-secondary education
- Typically, one summer with potential for extension
- Salary is standard depending on education level
- Focus is on experiential learning and summer-based projects

## Rotational Analyst

- Launched in Summer 2022 for IMD
- College graduates within 12 months of graduation
- Limited-term assignment, up to three years
- Work for 6-15 months across groups:
  - Internal Fundamental Management
  - External Public Markets
  - Quantitative Equities
  - Special Opportunities
- Focus is on gaining investment generalist training and the opportunity to determine area of expertise



# Early Career Programs at TRS



## Fellowship

- College graduates within 12 months of graduation
- Limited-term assignment, up to three years
- Salary is based on position and job classification
- Focus on experiential learning, supplemented with professional development and learning curriculum







# Fellowship Program Purpose

- Provides participants with an understanding of employment within a state agency by working closely with TRS staff
- Enhances the participants' appreciation for public service
- Provides participants with experience in a fast-paced, collaborative, mission-focused office environment
- Allows fellows the opportunity to participate in on-the-job training and professional development opportunities
- Creates internal talent pipelines





## Fellowship Program Background



The Fellowship program started in 2021



The program lasts up to three years as a Fellow



Fellows convert to FTEs or transition outside of TRS for other career opportunities.



# Curriculum



PROFESSIONAL  
NETWORKING



BASELINE LEARNING  
OPPORTUNITIES



SHORT-TERM  
SHADOWING



QUARTERLY CHECK-  
INS FOR FEEDBACK



LEADERSHIP  
TRAINING



CAREER  
MANAGEMENT

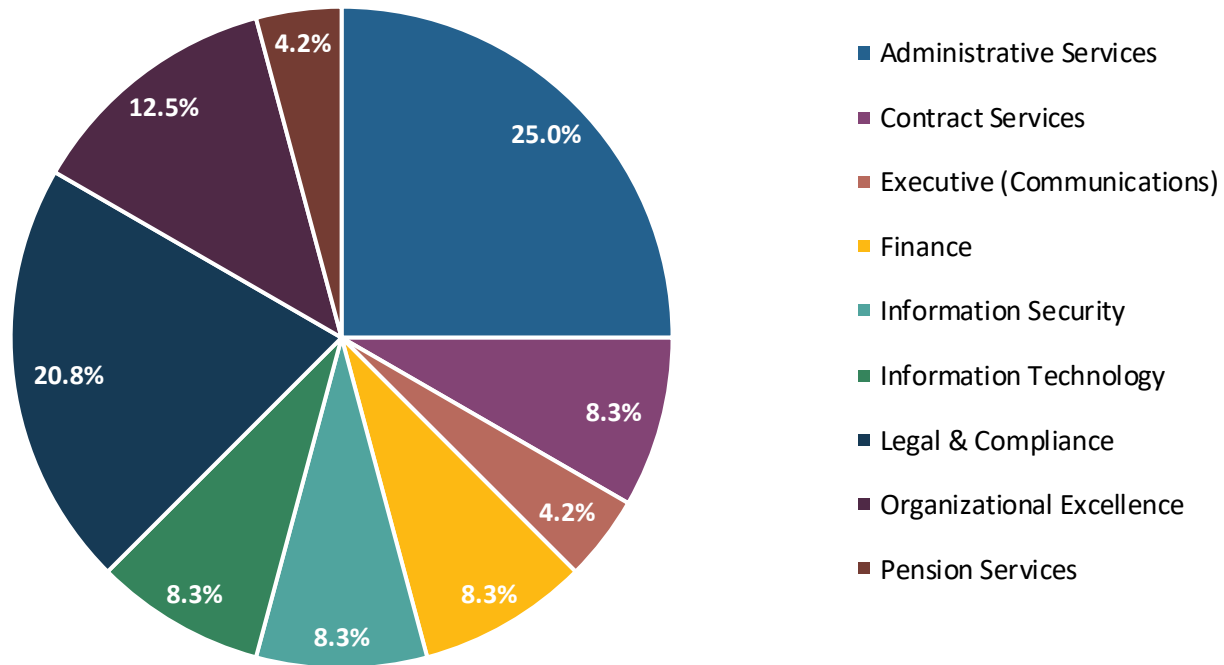




# Statistics

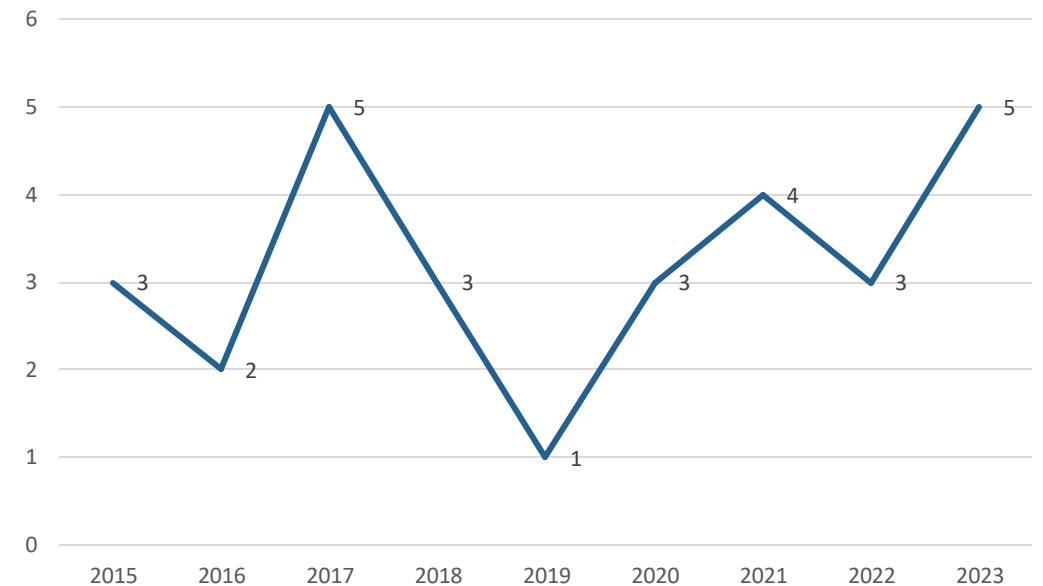


## Fellows by Division



As of June 1, 2025, there are 24 total fellows.

## Intern and Fellow Conversion to FTEs



Conversions are based on FTE availability, participant performance, and choice.



# Program Conclusion (Year Three)



- Fellowship program conclusion dates are confirmed at that time for transparency
- Departures prior to program conclusion
  - 75% due to relocation
  - 25% due to fit
- Fellows who are in the program at the end of their tenure are offered a variety of resources
- Support for end of program departures
  - Resume review
  - Career coaching
  - Interview coaching
  - Job search coaching
  - Coaching on networking and using resources



# Early Career Program Video



## TRS EARLY CAREER PROGRAMS