

July 2023

RETAINING EXCELLENCE

Compensation Committee Meeting



**Teacher Retirement System of
Texas**

1000 Red River Street
Austin, Texas
78701-2698

Gmail
TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES
AND
COMPENSATION COMMITTEE

*(Committee Chair: Dick Nance; Members: Michael Ball, John Elliott, Jarvis V. Hollingsworth
and Elvis Williams)*

*All or part of the July 13, 2023, meeting of the TRS Compensation Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends 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: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

The open portions of the July 13, 2023, 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. A recording of the meeting will be available at www.trs.texas.gov.

AGENDA

July 13, 2023 – 11:00 a.m.

1. Call roll of the Committee members.
2. Consider the approval of the proposed minutes of the April 2023, committee meeting – Chair.
3. Receive an update on staffing and turnover, timeline regarding annual evaluation of Board Direct Reports and TRS Classification Plan – Shunne Powell, Monica Durham and Christine Bailey.
4. Receive an overview of TRS Compensation including determination, evaluation and philosophy for compensation, and an update from Board's Compensation Consultant – Shunne Powell and Josh Wilson, Mercer.

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

Minutes of the Compensation Committee April 27, 2023

The Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas met on April 27, 2023, 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. James D. Nance, Chair
Mr. Michael Ball
Mr. John Elliott
Mr. Jarvis V. Hollingsworth
Mr. Elvis Williams

Other TRS Board Members present:

Ms. Brittney Allred
Ms. Nanette Sissney
Mr. Robert H. Walls, Jr.

Others who participated:

Brian Guthrie, TRS
Andrew Roth, TRS
Heather Traeger, TRS
Don Green, TRS
Jase Auby, TRS
Shunne Powell, TRS
Michelle Gray, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Compensation Committee Chair, Mr. James D. Nance, called the meeting to order at 1:05 p.m.

1. Call roll of Committee members.

Ms. Farrell called the roll. A quorum was present.

2. Consider the approval of the proposed minutes of the December 2022 committee meeting – Chair.

On a motion by Mr. Williams, seconded by Mr. Elliott, the committee unanimously approved the proposed minutes for the December 2022 Compensation Committee meeting as presented.

3. Receive an overview of the Compensation Committee's Calendar Year 2023 Work Plan – Shunne Powell.

Ms. Shunne Powell presented the Compensation Committee's work plan for the calendar year 2023. She noted a common theme was the talent update each time the Committee meets. She also reviewed the timing of when action items were brought before the Committee and full Board.

4. Receive an update on staffing, turnover, and implementation of the TRS Classification Plan– Shunne Powell.

Ms. Michelle Gray reviewed hard-to-fill positions at TRS, noting the industry standard defines those as positions that have been open for an average of six months or more. She reported 10 positions at TRS over the last three fiscal years, meet this definition. She said these positions have common factors: niche positions, positions with multiple responsibilities and looking for mid-career experience to more experienced. She then described the mitigations in place for these hard-to-fill positions. In response to Mr. Hollingsworth's inquiry, Ms. Gray stated in the IT space specifically contractors help fill some of the roles or responsibilities are shifted throughout the departments as well until the positions are filled. She noted with the new classification system in place some of the positions have been subsequently filled.

Ms. Powell concluded with the quarterly talent update. She reported at the end of quarter two, 157 positions were filled and 68 lost for a net gain of 89.

With no further business before the Committee, the meeting adjourned at 3:25 p.m.

Approved by the Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas on July ___, 2023.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

TAB 3



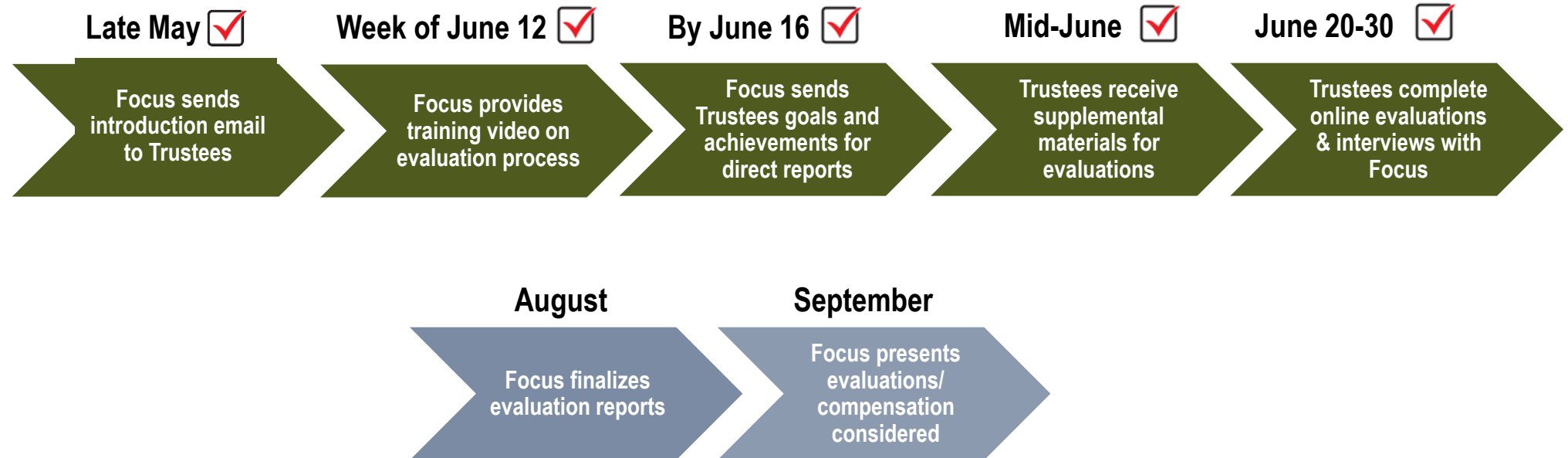
Organizational Excellence Talent Update

Shunne Powell, Chief Organizational Excellence
Officer
Monica Durham, Talent Manager
Chris Bailey, Director of Compensation and
Workforce Analytics

July 13, 2023



2023 Evaluation Timeline for Board Direct Reports

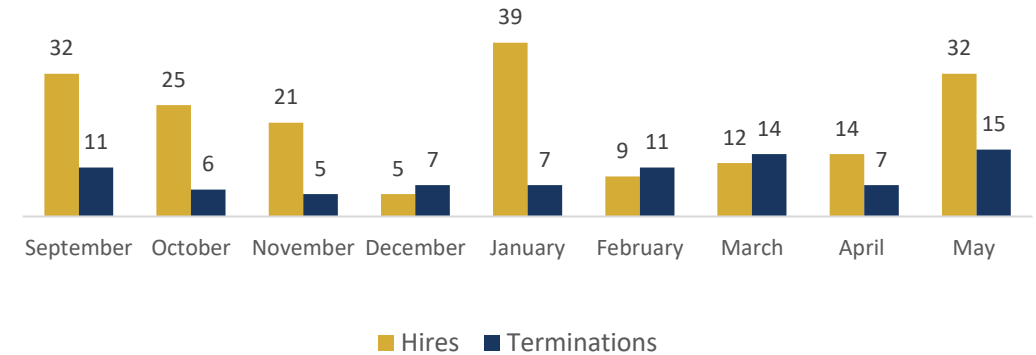


TRS Staffing and Turnover

Hiring: recruitment continues to improve

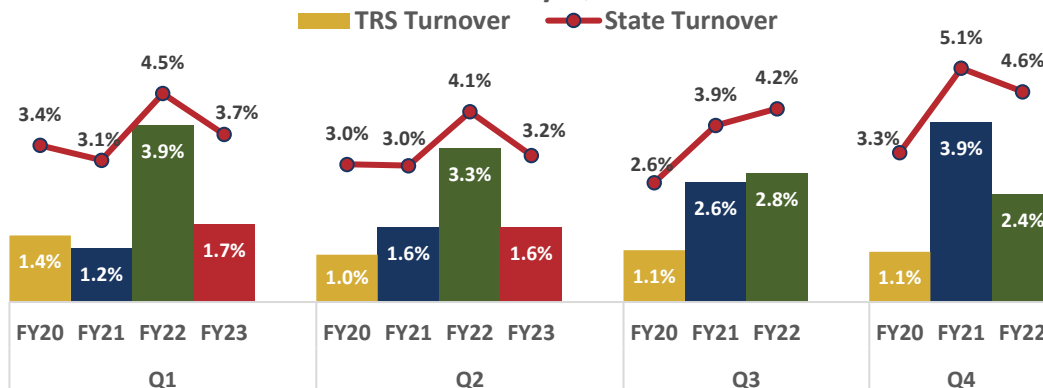
- The number of applicants continues to maintain high levels with 11,771 received in FY23 to date.
- In FY22, we received 5,706 applications, and in FY21 we received 6,283 applications.
- Q3 recruiting indicates strong success, with fully remote positions having a 20% increase in applications.

FY23 - Staffing by Month

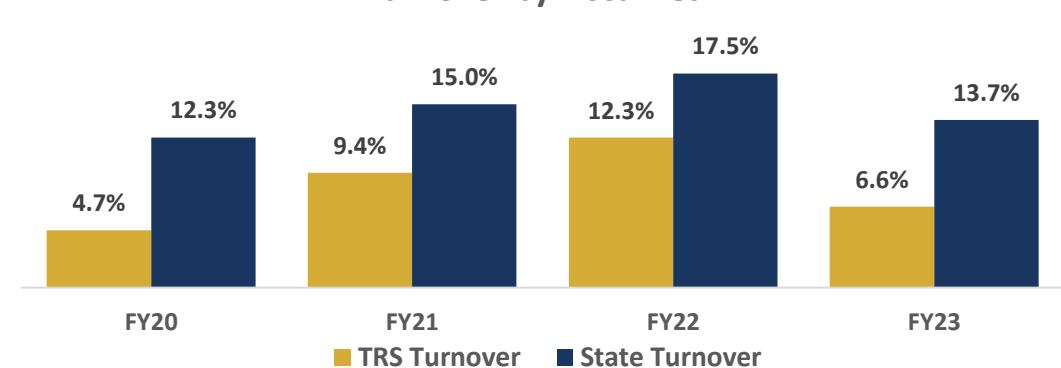


Turnover: Continues to trend lower than FY 2022

Turnover by Quarter



Turnover by Fiscal Year



TRS Internship and Fellowship Program Highlights

Summer Internship Program

- June 2023 program launched with 39 interns
- Positions ranged from roles in Contract Management, Information Security, and Investment Management

Fellowship Program

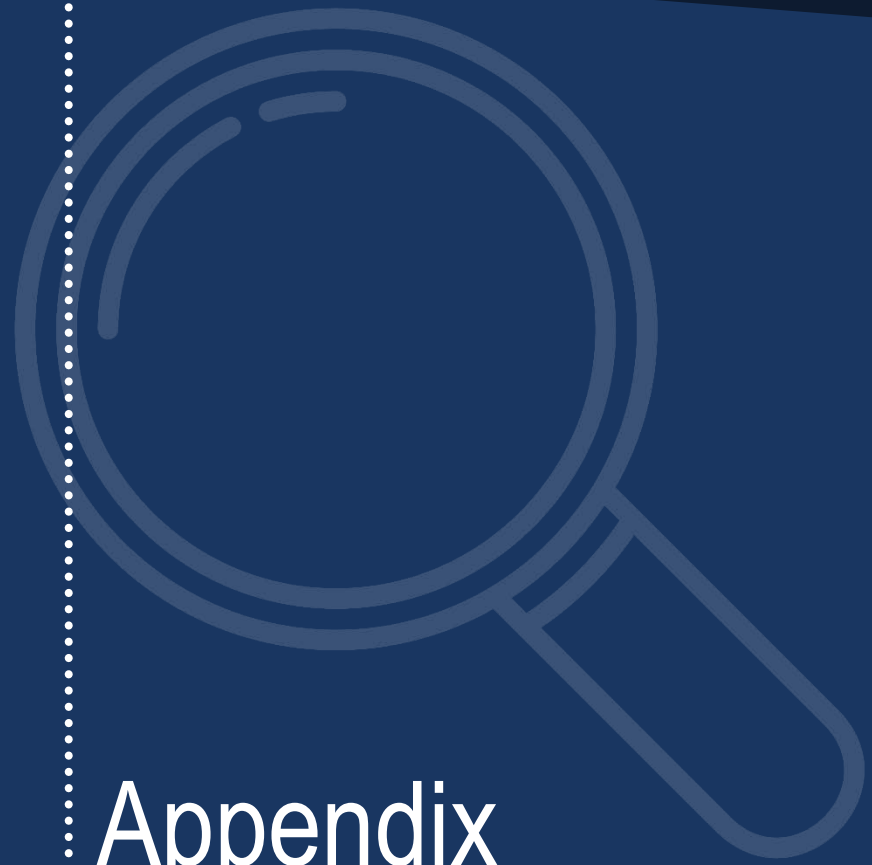
- Developed in 2021 to provide career opportunities for recent college graduates with limited or no full-time work experience
- June 2023, 4 former interns converted to Fellowship positions
- Currently TRS has 11 Fellows
- September 2023, anticipating to convert 2 of the inaugural Fellows to regular FTEs



TRS Classification Plan (TCP) Update

- Legislative Pay Increase
 - 5% or minimum \$3,000 pay increase (whichever is greater) for all employees effective July 1, 2023
 - Additional increase for September 1, 2024
 - All TRS employees (excluding ED and CIO) are eligible
- Impact on TCP Competitiveness
 - With the implementation of TCP, TRS has been able to adjust salaries to compete with changes in the market
 - Even with an across-the-board (ATB) increase and adjustments to state ranges, pay for state employees still lags current market by 26%

| Example of Employee Pay Compared to Market: Java Developer/Programmer | | | | |
|--|----------------|------------------|----------------|------------------|
| | State Agencies | | TRS | |
| Level | Current Salary | With 5% Increase | Current Salary | With 5% Increase |
| Entry | -25.3% | -21.2% | 3.0% | 8.0% |
| Intermediate | -16.3% | -11.8% | -8.0% | -3.0% |
| Senior | -13.1% | -8.8% | -7.0% | -2.0% |
| Lead | -2.0% | 2.9% | -2.0% | 3.0% |
| Overall | -14.2% | -9.7% | -3.0% | 1.0% |



Appendix

Texas Legislative Annual Increase FAQ



When will the across-the-board salary increase for state employees go into effect?

State employees will receive a 5% increase, or a minimum of \$3,000 if their salaries are less than \$60,000/year.

Fiscal Year 2023 increases will be effective July 1, 2023, and reflected on the August 2023, paycheck.

Fiscal Year 2025 increases will be effective September 1, 2024, and reflected on the paycheck employees receive in October 2024.

Examples:

| Employee A | | | |
|-----------------------|-------------|----------------------|------------|
| Current Annual Salary | 5% Increase | \$3,000 minimum met? | New Salary |
| \$58,000 | \$2,900 | No | \$61,000 |

| Employee B | | | |
|-----------------------|-------------|----------------------|------------|
| Current Annual Salary | 5% Increase | \$3,000 minimum met? | New Salary |
| \$68,000 | \$3,400 | Yes | \$71,400 |

TAB 4



TRS Compensation Overview

Shunne Powell, Chief Organizational Excellence Officer
Christine Bailey, Director of Compensation and Workforce Analytics

July 2023



Agenda

- A. Compensation Roles and Responsibilities
- B. Compensation Components
 - 1. Compensation Philosophy
 - 2. Job Architecture
 - 3. Pay Range Development
 - 4. Salary Administration
 - 5. Variable Pay
 - 6. Performance Management
- C. Process Timeline
- D. Appendices
 - 1. Career Path Example
 - 2. Sources for Compensation Market Data
 - 3. Best Practice Comparison

A. Compensation Roles and Responsibilities

| Role | Responsibility |
|---|--|
| Board of Trustees | <ul style="list-style-type: none">• Performance evaluation and compensation for Board Direct Reports;• Ensure establishment of an equitable and effective system for compensation of employees;• Delegate to Executive Director performance evaluation, promotion and compensation for all TRS personnel except for Board Direct Reports; and• Approve annual operating budgets |
| Board Compensation Consultant | <ul style="list-style-type: none">• Serves as independent consultant for the Board• Reviews annual compensation for Board direct reports• Provides advisory and ad hoc services as requested by the Board |
| Executive Leadership | <ul style="list-style-type: none">• Provides strategic direction and oversight for all programs, including compensation |
| Organizational Excellence - Compensation Team | <ul style="list-style-type: none">• Manages system of record for all compensation and employee actions• Compensation Team is tasked with provided skilled and knowledgeable staff to technically execute on compensation programs and manage compliance and risk in these areas for the agency |
| Salary Survey Vendors | <ul style="list-style-type: none">• Salary survey vendors provide third party, valid and reliable data to use for benchmarking purposes• McLagan is used specifically to benchmark investment management positions |

B. Components of Compensation Systems



Compensation Philosophy

- Describes the agency's strategic direction as it relates to pay
- Explains the "why" behind employee pay and creates a consistent framework for decisions



Job Architecture

- Determines how the agency structures positions and jobs
- Serves as the infrastructure, hierarchy and framework of jobs within the organization



Pay Range Development

- Determines how a company will set salary rates
- Designed to make consistent and transparent decisions about the value of a job in the labor market



Salary Administration

- Includes practices and procedures for adjusting employee pay and managing the structure
- Components include annual merits and promotions in addition to system maintenance



Variable Pay

- Includes pay that is added to an employee's base salary
- May be related to incentive pay, merit pay, or longevity awards



Performance Management

- Ongoing process of clarifying and communicating priorities, job responsibilities, and performance expectations
- Includes annual reviews and 360 evaluations

B.1. Compensation Philosophy



TRS Compensation Philosophy

- Established in 2019 as part of the initial plans for a TRS specific compensation structure
- Balances the ability to compete across relevant markets

IMD Compensation Philosophy

- Adopted in 2007 as a tool to recruit and retain investment management staff

Board Direct Reports

- Determined by the Board

TRS HQ Employees

- Target – 50th percentile (median) of relevant labor market

IMD Employees

- Base pay target – 75th percentile, large public pension funds
- Incentive pay target – 25th percentile, private funds

B.2. Job Architecture



In September 2022, TRS moved to an agency-specific compensation/classification structure. This move:

- Provided TRS with an agile structure to allow TRS to adapt more quickly to changes in the market
- Gave TRS the ability to create much-needed unique job classifications tailored to the pension industry and TRS-specific business needs
- Improved the ability to recruit and retain talent with clearly defined job titles, levels, and career paths

Classification Structure includes:

- Standardized job descriptions outlining key accountabilities, qualifications, and workforce expectations
- Designed to adapt to organizational changes at TRS

Board Direct Reports

- Positions tied to TRS By-Laws

TRS HQ Employees

- TRS Classification Plan
- Grounded in TRS job descriptions
- Outlines levels and career paths for positions

IMD Employees

- Grounded in TRS job descriptions
- Focused on incentive titles

B.3. Pay Range Development



Market Pricing

- TRS utilizes a market-based pricing approach
- Process used to determine the cost of labor or compensation for a position which is used to establish pay ranges
- Driven by compensation philosophy and answers the question of “how” pay is determined
- Market analysis is a methodical and data-driven process grounded in established methodology and best practices
- Focus on “apples to apples” comparisons of positions/roles to benchmark jobs in the labor market

Board Direct Reports

- Market data provided by Compensation Consultant for Board review

TRS HQ Employees

- Data provided by third party salary survey providers
- Matches reviewed by OE Compensation Team
- With the addition of a Board Compensation Consultant, an independent review may be added

IMD Employees

- Data provided by McLagan
- Reviews of matches and comparisons completed by staff
- With the addition of a Board Compensation Consultant, an independent review may be added

B.4. Salary Administration



Employee Compensation

- Employee pay can change at TRS through promotions, reclassifications, or equity adjustments
- Internal controls include a review of all salary action requests by the Compensation Team and further review and approval by senior leadership

TRS Classification Plan Updates

- Positions may be added, updated or deleted during the year based on business need
- On an annual basis, a market review of key positions is conducted to ensure jobs are appropriately placed in market competitive ranges
- Compensation Team annually reviews the Plan to ensure positions and ranges are appropriately competitive

Board Direct Reports

- Annual merit or other pay decisions considered by TRS Board in September

TRS HQ Employees

- Annual merit process or other pay decisions considered in January
- Promotions and other actions may occur as needed throughout the year

IMD Employees

- Annual merit process or other pay decisions considered in September
- Promotions and other actions may occur as needed throughout the year

B.5. Variable Pay



- Organizations use a variety of options to compensation employees beyond base pay
- One-time merits or spot/project bonuses are awarded for exceptional performance
- In limited circumstances, TRS utilizes recruitment or sign-on bonuses and retention bonuses
- Implementing the TRS Classification Plan improves flexibility and options for attracting and retaining high-quality staff

Board Direct Reports

- Options for variable pay are determined by the Board
- Incentive Plan for Executive Director
- Investment Incentive Plan for CIO

TRS HQ Employees

- Eligible for merit pay, project bonuses, and recognition awards
- Receive state mandated awards including Longevity Pay
- Reviewed by OE Compensation Team and Executive Leadership

IMD Employees

- Participate in Investment Incentive Plan
- Receive state mandated awards including Longevity Pay

B.6. Performance Management



- All TRS employees participate in a performance management process to evaluate progress towards organizational goals
 - Process may include 360 evaluations, peer reviews, and manager feedback
- Timing varies depending upon employee groups
 - Board Direct reports – process coincides with established Board meeting dates
 - TRS HQ employees – process begins after fiscal year close
 - IMD employees – process coincides with timing for incentive plan

Board Direct Reports

- Evaluation process begins in June and reviews are conducted in September
- Includes 360 reviews

TRS HQ Employees

- Evaluation process begins in September and reviews are conducted in November
- Includes 360 reviews, Individual Development Plans and feedback from managers

IMD Employees

- Evaluation process begins in June and reviews are completed by September
- 360 process tied to incentive plan

C. Compensation Process: Overall Timing

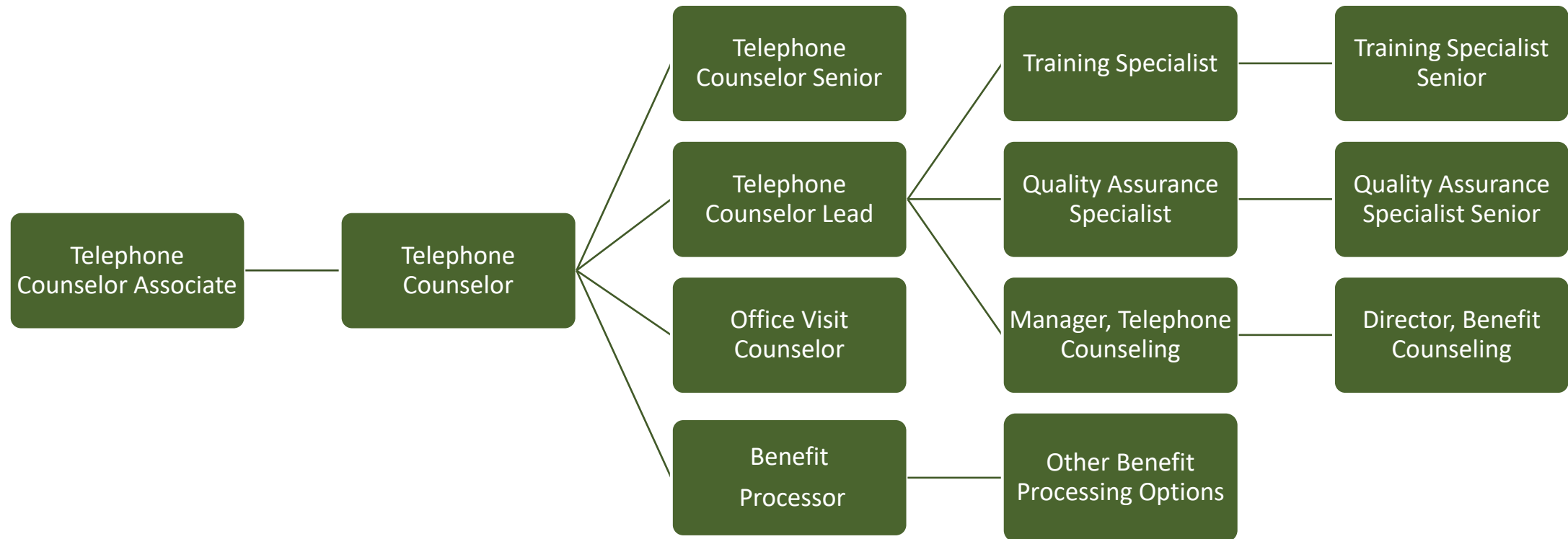
| | | | | | Fiscal Year | | | | | | | | | |
|---------------------------------|--|------------------------|---------------------------------------|-----------------------------|----------------|---------------------|-----|----------------|-----|-----|-----|-----|--|--|
| | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr | | |
| Board Direct Reports | 360 Evaluation Process: Led by Focus Consulting | | | | | | | | | | | | | |
| | | | Compensation Review: Led by Mercer | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| TRS HQ Evaluation | | | | Employee Evaluation Process | | | | | | | | | | |
| | | | | | | | | Merit Planning | | | | | | |
| | | | | | | | | | | | | | | |
| | | | | | | Incentive Plan Year | | | | | | | | |
| | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr | | |
| Incentive Plans (ED and IMD) | Review of Incentive Plans | | | | | | | | | | | | | |
| | | | | | Board Approval | | | | | | | | | |
| | | | | | | | | | | | | | | |
| IMD Evaluation | | 360 Evaluation Process | | | | | | | | | | | | |
| | | | | Merit Planning | | | | | | | | | | |

Note: Items highlighted in gold are Board-related activities



D. Appendices

D.1. Career Path Example



D.2. Sources for Compensation Market Data

The agency utilizes a variety of reliable data surveys to conduct market analysis. These surveys utilize a methodology for collecting pay information that results in reliable and accurate data for organizations to use.

- Mercer
 - Salary surveys focus on both industry-specific and general industry data. The surveys have over 3,000 participating organizations surveying nearly 10,000 different jobs and publishing nearly 6,000 of those.
- Towers Watson
 - Surveys include both industry-specific and general industry data. The database encompasses information from nearly 2,000 organizations with over 5.1 million reported incumbents.
- PayFactors (PayScale)
 - With more than 10,000 organizations utilizing PayScale, survey data is available in two forms – HR-reported data that is validated by the experienced PayScale team and real-time peer data reported by organizations that utilize PayScale for market benchmarking.
- McLagan
 - Survey data is focused on financial service companies, with more than 750 asset management firms and institutions, including over 100 pension funds.
- Public Pension Surveys
 - TRS survey
 - Other funds
- Targeted surveys for select industries

D.3. How Does TRS Compensation Structure Compare to Best Practices?

| Component | Survey Says | TRS Practice |
|--|--|--|
| Do organizations use job architecture for positions? | <ul style="list-style-type: none"> 59% have an enterprise-wide approach, 14% have no program, and the remaining have architecture specific to functions or geographies ^a | <ul style="list-style-type: none"> Enterprise-wide job architecture program |
| What type of structure is used? | <ul style="list-style-type: none"> Market-based surveys are the most predominant (55%) with traditional structures as the next prevalent (24%) ^c | <ul style="list-style-type: none"> Market based pay ranges |
| How wide are salary ranges? | <ul style="list-style-type: none"> Range spread of 30% to 80% with midpoint progressions of 10% to 15% ^c | <ul style="list-style-type: none"> Range spreads of 40% to 60% with midpoint progressions of 8% to 18% |
| What methods are used to evaluate market? | <ul style="list-style-type: none"> 75% use market pricing to benchmark positions and use an organization-wide methodology ^a Majority of companies use 2-4 distinct data sources to triangulate pricing ^b | <ul style="list-style-type: none"> Market pricing uses valid, reliable third-party sources Goal is a minimum of 3 valid survey sources |
| How often is the structure assessed/adjusted? | <ul style="list-style-type: none"> 82% of organizations adjust ranges on a consistent basis, of which 75% adjust annually ^c | <ul style="list-style-type: none"> Annual review |
| Where do companies target compensation? | <ul style="list-style-type: none"> 90% of companies tie midpoints to the 50th percentile ^c | <ul style="list-style-type: none"> 50th percentile or median of relevant labor market |
| How do organizations use job descriptions? | <ul style="list-style-type: none"> 84% use a standardized job description template ^a | <ul style="list-style-type: none"> Standardized template and format for all positions |

Sources:

^a The 2023 Deloitte and Empsight International Global Job Architecture Practices Survey Report

^b 2023 Compensation Best Practices Report, PayScale

^c WorldatWork 2019 Survey of Salary Structure Policies and Practices

Teachers Retirement System of Texas (TRS) Compensation Advisors





Kickoff Meeting

July 13, 2023

Susan Lemke
Josh Wilson

A business of Marsh McLennan

Mercer Team

| | Project Role | Mercer Team | Project Responsibilities |
|--|--|--------------|---|
|  | Relationship Manager and Project Lead | Josh Wilson | <ul style="list-style-type: none">• Responsible for ensuring client satisfaction with Mercer team and deliverables, project billing/budget and contractual arrangements• Attend Board Meetings and project meetings• Provide overall project direction and guidance |
|  | Strategic Advisor | Susan Lemke | <ul style="list-style-type: none">• Provide guidance, strategic advise, assist with interviews and design• Provide expertise on proprietary Mercer surveys related to the investment management compensation |
|  | Project Manager | Aimee Kudela | <ul style="list-style-type: none">• Serve as project manager, coordinating all project activities for TRS and Mercer project team members• Lead market pricing and other projects• Accountable for all deliverables |
|  | Investment Advisor | Kelly Henson | <ul style="list-style-type: none">• Focus on performance component of incentive plan design• Ensure performance goals, thresholds and maximums are appropriately set given asset allocation and investment parameters |

Scope of Work

Based on the RFP, Mercer's scope of work includes:



Provide independent evaluation and advice to the Board and others on labor market benchmarks, results of salary and incentive studies and other compensation related matters



Assist with benchmarking process for four direct reports to the Board (Executive Director, CIO, Chief Audit Executive and Ombudsman) on an annual basis and present findings and recommendations to the Board



Assess the competitiveness and design of TRS Incentive plans



Provide advice as requested by the Board for compensation and other human capital issues



Provide ad-hoc services as requested

Mercer's Approach to Benchmarking



Philosophy

- Who are we comparing TRS against?
- Is it the same for each role/area?
- Lead/lag policy
- Are we comparing to the median of the market?
- Are we looking at salary, total cash, total direct compensation, and/or total remuneration?



Comparisons

- Custom Survey
- Published surveys- industry, geographic
- Differences between TRS and survey jobs – Premiums and Discounts
- Alignment with broader benchmarking conducted by the organization?



Analysis and Recommendations

- Gap analysis of current vs market
- Mercer's expectations of future market movement
- Assessment of performance and potential from TRS perspective
- Recommendations

