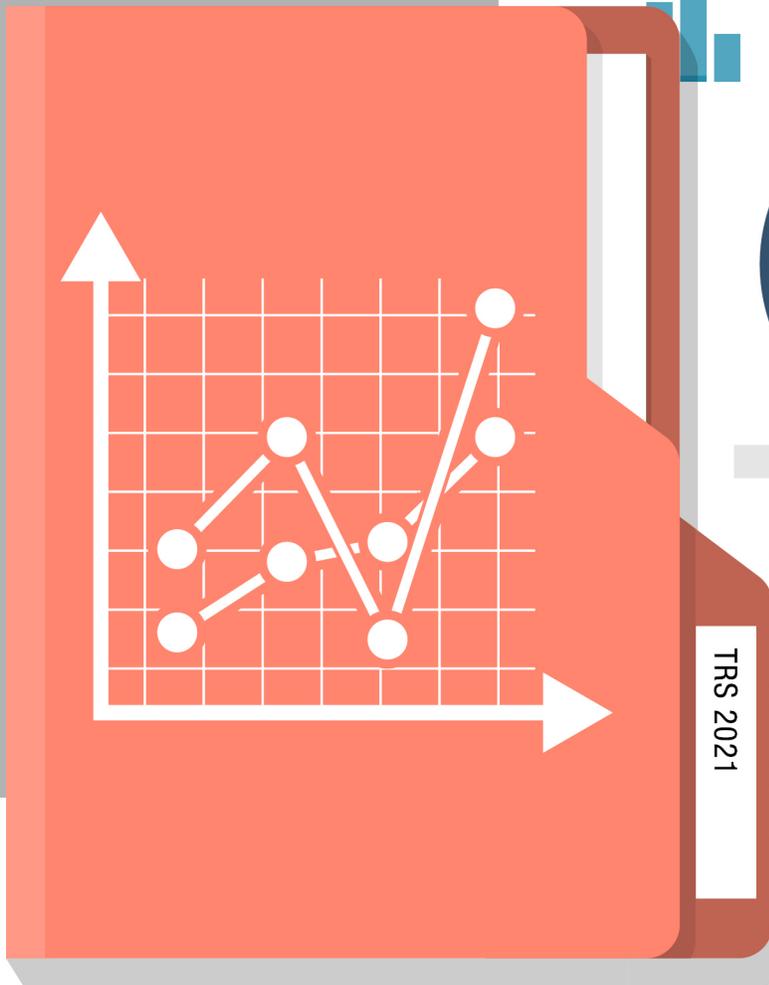
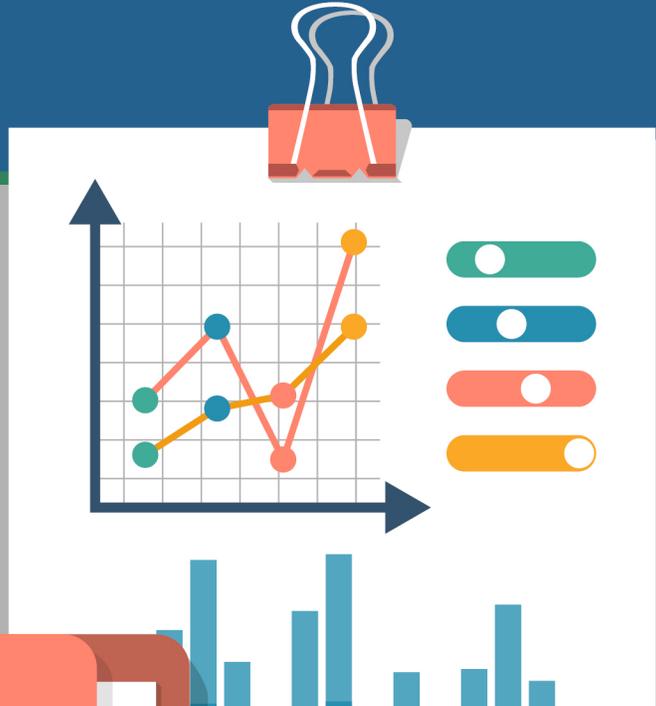
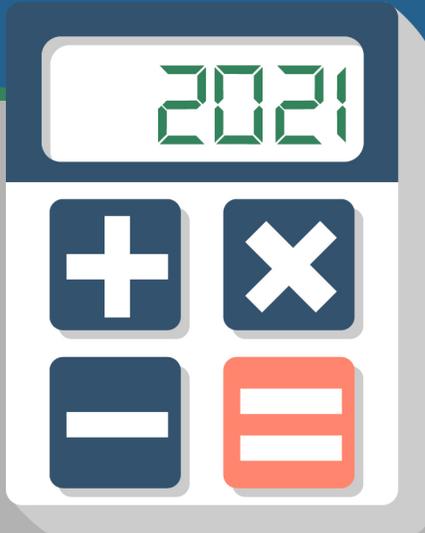


OPERATING BUDGET REPORT

FISCAL YEAR 2021



Operating Budget Report Fiscal Year 2021

Teacher Retirement System of Texas

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished Budget
Presentation Award*

PRESENTED TO

**Teacher Retirement System of Texas
Texas**

For the Fiscal Year Beginning

September 1, 2019

Christopher P. Morill

Executive Director

MESSAGE FROM THE CFO



I am proud to present TRS' Fiscal Year (FY) 2021 Operating Budget Report, which was prepared in accordance with TRS' General Provisions and adopted by the TRS Board of Trustees.

In recognition of our new economic reality during the COVID-19 pandemic, the FY 2021 operating budget is conservative. It includes cost saving measures implemented in FY 2020 and FY 2021 in response to direction received from the Board of Trustees and the Legislature. These measures include a soft hiring freeze through at least December 2020, limiting payroll increases including overtime/compensatory time, and significant cuts to travel and operating expenses. Overall, the adopted FY 2021 budget represents a 9% decrease from the legislatively appropriated FY 2021 budget that would have been considered by the Board had the pandemic not occurred.

To achieve this significant savings, the budget development process included an "everything on the table" approach while utilizing a strategy-based budget. This approach ensured that TRS evaluated all current service levels, prioritized those services based on our strategic goals and objectives, and ultimately budgeted for the top priorities within available resources.

We developed our goals and service level priorities through an open process with agency-wide engagement early in the internal budget development process. The Board of Trustees began the goal setting process with a clear understanding of the current financial situation, as well as anticipated future budget constraints for TRS, many outside of our control.

MESSAGE FROM THE CFO

To help implement this budget, the Board has provided increased operational flexibility to staff by amending the General Provisions. The first amendment increases transfer authority between major expense categories from 12.5% to 25%. The second amendment establishes a contingency account for unanticipated, mission-critical expenses. All unspent amounts will be lapsed at the end of the year and remain within the appropriate trust funds.

TRS remains committed to serving our members and strengthening the trust funds we manage through this challenging time. The funding priorities in this budget reflect those commitments.

The total administrative operations budget for the Teacher Retirement System of Texas (TRS) for FY 2021 is \$211.2 million across all funds. Additionally, the General Provisions establish a contingency account of \$21.7 million across all funds to be used for unexpected, mission-critical expenses, or to be lapsed and remain in the trust funds.

The agency's efforts continue to focus on the following funding priorities, which were also emphasized during FY 2020:

- Improving the customer experience by addressing TRS' extraordinary member services challenges, including historic call volumes and excessive hold times.
- Focusing on becoming a best-in-class investment management fund and reducing external manager fees as part of the building the fleet initiative.
- Managing the cost of the health care plans, better serving members and member engagement and communications.
- Deploying modern IT systems through the TRS Enterprise Application Modernization (TEAM) Program. Releasing the TRUST Line of Business (LOB) includes Build and User Acceptance Testing (UAT) for retirement processing, annuity payroll and tax reporting functionalities.

MESSAGE FROM THE CFO

Benefit Services

Improving the customer experience is a multi-biennia project addressing extraordinary member service challenges. To return to expected service levels, additional staff were needed to manage the volume of customer service interactions, to increase capacity for counseling services and to expand service channel options.

Acting in their fiduciary capacity, the TRS Board of Trustees issued a Fiduciary Finding in FY 2019 that allowed TRS to begin addressing these challenges. In FY 2019, TRS calls increased 6%, while email responses were down 54%. The percentage of calls answered in three minutes averaged 55% compared to an expectation of 80%. The average handle time to service a call was seven minutes while the average speed to answer a call was six minutes. Prior handle times to service a call had grown from 10 to 30 minutes.

During FY 2020, Benefits Services worked to recruit and retain skilled counselors and benefit processors. Additionally, to improve staffing continuity, Benefit Services implemented a hiring policy to limit new employees from transferring out of the customer service area until they have been in the department for at least 18 months.

As a result, TRS began seeing improvement in key performance metrics, such as an increase in the percentage of calls answered in three minutes, which reached 87.2% for the third quarter of FY 2020. However, because it can take up to six months to fully train new staff and high attrition is common in the industry, the effort to provide reliable, high customer service levels will span several fiscal years.

The FY 2021 operating budget continues to prioritize funding and staff for improving the customer experience. The soft hiring freeze through at least December 2020 delays the filling of new customer service positions, however, these positions will be prioritized to fill after the freeze is lifted. In the long term, we expect service traffic to normalize as we continue to onboard critical frontline benefit services staff.

MESSAGE FROM THE CFO

Investment Management

The resources requested in this budget will also allow TRS to become a best-in-class investment management fund and reduce the use of external managers. TRS has an opportunity to save up to \$1.4 billion in fees and carried interest from our investing activities over a five to ten year period. The demand for private market investments from pension and sovereign wealth funds has dramatically increased. As a result, high quality and appropriately risk-adjusted investments are becoming harder to find in scale for the portfolio.

Over the past five years, to maintain our competitive advantage, we have implemented a risk parity approach, launched a co-investment platform and pursued alternative investments including direct investing. However, deploying additional capital in the future will take additional resources. As a result, our investments-focused head count will need to increase. Doing so will allow us to reduce external management fees while preserving risk-appropriate returns and will allow TRS to sustainably increase the likelihood of meeting return assumptions. Although TRS will begin FY 2021 in a soft hiring freeze, investment positions related to this initiative will be prioritized for funding after the freeze is lifted.

Health Care

During the 86th Legislative Session, TRS received \$230.8 million in supplemental funds to maintain TRS-Care benefits and premiums at 2019 levels. The FY 2021 Administrative Budget for Health and Insurance Benefits and Long-Term Care Insurance Program includes increased funding to complete the health insurance line of business (HILOB) project and continued customer support. Additionally, funding was prioritized to fund transition services as both the TRS-Care and TRS-ActiveCare programs move to new plan administrators during FY 2021.

MESSAGE FROM THE CFO

Support Administration

The FY 2021 administrative budget for the pension prioritizes funding to keep pace with the enterprise-wide support needs primarily related to improving the customer experience and strengthening the Pension Trust Fund. These support functions are primarily in the areas of Information Technology, Internal Audit, Legal Services and Financial Services.

New employer reporting rules adopted by the Governmental Accounting Standards Board (GASB) require more accurate and complete data, increasing demand for data and systems security. These changes also highlighted a need for additional employer auditing to ensure that required retirement contributions are being deposited into the Pension Trust Fund. As fiduciaries, TRS will continue to achieve an appropriate balance of support personnel to frontline service employees.

TEAM and CAPPs

The TEAM Program is a cohesive collection of components designed to meet the business and technology objectives of TRS over the next 15-20 years. The associated projects under the TEAM Program include data management, independent program assessment, the pension administration line of business (LOB) solution, and the health care line of business (HILOB) solution. Due to long-term, significant performance issues, during FY 2020 TRS terminated the contract with the main TEAM vendor and took on the remaining project releases internally using an agile methodology. The budget includes a total of \$17.9 million for staff, contractors, and professional services to support the internal development of scheduled releases.

The Centralized Accounting and Payroll/Personnel System (CAPPs) program is a statewide Enterprise Resource Planning (ERP) system created by the state comptroller to replace our financial system. TRS implemented CAPPs Financials in FY 2018 and CAPPs HR/Payroll in FY 2019. The budget includes \$0.8 million for contracted staff to finalize new reporting tools for the system.

MESSAGE FROM THE CFO

Capital Budget

The capital budget includes funding for both physical infrastructure and information systems upgrades. A total of \$3.7 million is included in the budget for capital spending, including \$1.5 million for building and security renovations and \$2.2 million for information system upgrades.

The agency continues to execute building improvement projects. The agency's focus in FY 2021 is the East Building Remodel Project, which is a two-year effort to centralize customer service functions and more efficiently utilize existing space. Funding for information systems upgrades includes network infrastructure upgrades, investment systems upgrades, data center upgrades and a PC workstation refresh program.

Long-Term Considerations

Planning themes include normalizing member service, operationalizing new information technology infrastructure, and transforming the investment management function. We expect member service volumes to normalize in the next year or two while we onboard additional staff and quality assurance capability. Doing so will lead to higher than normal support costs while we recruit and train staff.

The TEAM Program has created millions of dollars' worth of new IT-related infrastructure. Maintaining that infrastructure and providing opportunity for IT to deliver on projects that were previously delayed due to TEAM considerations will require planning in the next few years.

The endeavor to retool the investment management function will be a seven-to-eight year process in which we begin to build internal capabilities previously outsourced. As we do so, we will continue to track and assess resulting investment fee savings. Finally, our ongoing need to invest in physical infrastructure will continue in the foreseeable future. Although the East Building Remodel Project is the current project, during FY 2021 TRS will begin pursuing a generational solution for office space.

MESSAGE FROM THE CFO

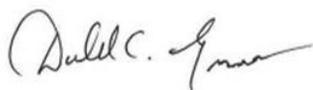
Long-Term Considerations (cont.)

Key components of the budget document include estimated revenue projections for the pension and health care funds, operating budget summaries and information on non-TEAM capital projects. The focus of the TRS FY 2021 operating budget continues to be updating systems, sustaining a culture of innovation and efficiencies and delivering higher levels of service to our members while maintaining fiscal responsibility.

Distinguished Budget Presentation Award

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the Teacher Retirement System of Texas for its annual budget for the fiscal year beginning Sept. 1, 2019. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide and as a communications device. This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to the GFOA to determine its eligibility for another award.

Don Green



Chief Financial Officer

86TH LEGISLATURE 2020-2021

TRS follows a collaborative process in developing the agency's legislative initiatives. Strong working relationships are developed with all stakeholders and maintained in providing cost estimates and impact statement analysis for agency bill assignments. During the 86th Legislative Session, a total of 7,541 bills and joint resolutions were filed in both the House and Senate. Of those, 1,439 passed the legislature and were sent to the governor. Approximately 18% of all bills and joint resolutions filed became law. The following bills represent those of interest to TRS.

HB1 – General Appropriations Act (Appendix C)

- Increases the state's contribution to the pension fund from 6.80% to 7.50%.
- Maintains member contribution at 7.7%.
- Provides supplemental state funding of \$231 million for the TRS- Care fund to maintain plan year 2019 premiums and benefit levels.
- Increases TRS FTE authority allowing for full implementation of agencywide initiatives to align and improve customer service and reduce investment fees.

SB12 – TRS Pension Reform Bill

- Provides for gradual contribution increases from the state, public education employers and active employees to make the pension fund actuarially sound.
- As a result, eligible members who retired on or before Dec. 31, 2018 received a one-time supplemental payment in either the amount of their monthly annuity payment or \$2,000, whichever is less.
- Prior to SB 12, only public education entities that did not contribute to Social Security were required to pay a 1.50% contribution. Starting Sept. 1, 2019 all public education employers began contributing 1.50%.

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Agency Bill
Assignments

New Rider
Authority
provides
exemption to
FTE Limitation
for Board
Fiduciary
Finding.

86TH LEGISLATURE 2020-2021

SB500 – Supplemental Appropriations Bill

- Provides \$524 million to fund the increases for the state's contribution to the pension fund from 6.80% to 7.50% in fiscal years 2020 and 2021.
- Provides \$589 million to fund the supplemental annuity check for 405,538 annuitants or alternate payees. Of those, 193,279 received \$2,000.
- In total, the state is contributing an additional \$1.113 billion for the biennium to TRS for contributions to the pension plan and supplemental payments to retirees.

TRS Specific Bills

HB 1612: Relating to the authority of the TRS to invest in certain hedge funds. Eliminated a sunset date on TRS' ability to invest up to 10% of pension trust assets in hedge funds. Absent the repeal of the sunset date, the hedge fund limit would have reverted to 5% as of Sept. 1, 2019.

HB 2820: Relating to the registration and certification of certain investment products made available to public school employees. TRS will no longer certify 403(b) companies nor will TRS maintain a list of registered 403(b) investment products. Products will continue to be regulated by the Texas Department of Insurance, the Texas State Securities Board and applicable federal agencies.

SB 1682: Relating to the administration of and benefits payable under the Texas public school retired employees group insurance program and the Texas school employees uniform group health coverage program. Requires TRS to establish a contingency reserve fund equal to 60 days of average projected claims and administrative costs for TRS-Care.

86TH LEGISLATURE 2020-2021

TRS Specific Bills (cont.)

HB 2629: Relating to the deadline to appeal administrative decisions of TRS. Requires the TRS Board of Trustees, in adopting rules governing the appeal of a final administrative decision of TRS, to ensure that rules establishing deadlines for the filing of an appeal afford a member or retiree at least the same amount of time to file an appeal as TRS has to issue a TRS decision. The bill applies to appeals made on or after Jan. 1, 2020.

Bills Impacting TRS and other Agencies

SB 619: Relating to the sunset review process and certain governmental entities subject to that process. Subjects TRS to Sunset review in 2019/2020 rather than 2023/2024.

SB 65: Relating to state contracting and procurement. Provides for additional oversight and requirements in state agency contracting and procurement.

SB 1264: Relating to consumer protections against billing and limitations on information reported by consumer reporting agencies. Prevents out-of-network emergency care, facility-based provider, out-of-network laboratory service, or an out-of-network diagnostic imaging service from balance billing patients in TRS- ActiveCare and TRS-Care. The bill instead requires mediation for participants in TRS health care programs on a disputed out-of-network facility claims. For out-of-network physicians' charges, TRS and the physician will either settle claims in an informal teleconference or in arbitration.

86TH LEGISLATURE 2020-2021

Bills Impacting TRS and other Agencies (cont.)

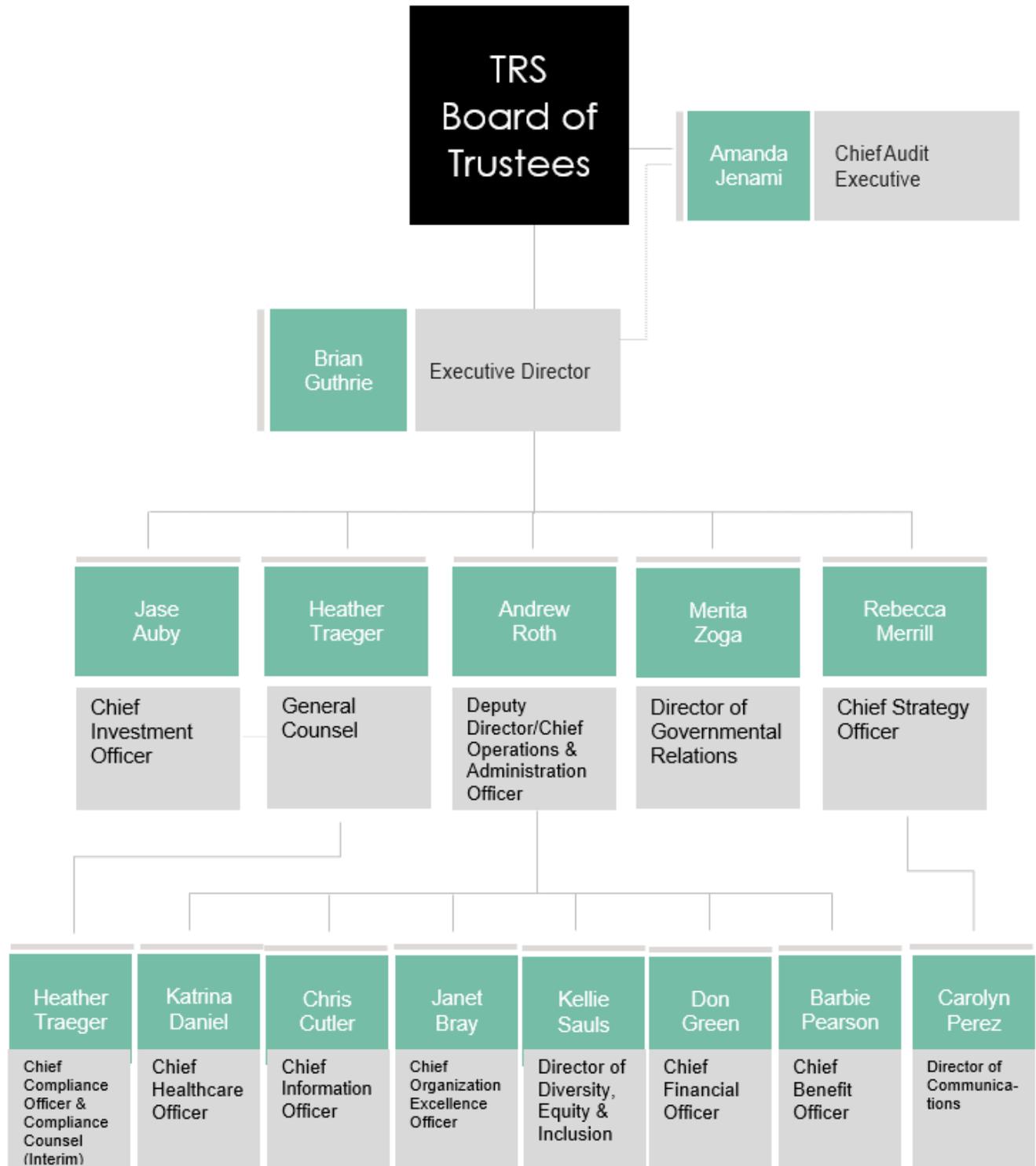
SB 2224: Relating to requiring a public retirement system to adopt a written funding policy. Requires retirement systems to adopt a funding policy. The policy would include a plan to achieve a 100% or more funded ratio.

SB 322: Relating to the evaluation and reporting of investment practices and performance of certain public retirement systems. Requires certain public retirement systems to select an independent firm to evaluate investment practices and performance and make recommendations for improving the retirement systems' investment policies procedures and practices. Public retirement systems are required to include in their annual financial report a listing, by asset class, of all direct and indirect commissions and fees paid by the retirement system for the sale, purchase, or management of its assets and to provide the names of the investment managers engaged by the retirement system.



The Teacher Retirement System of Texas (TRS) was approved in 1936 by an amendment to the Texas Constitution, followed by enabling legislation in 1937 to improve the retirement security of Texas educators. The money in the trust is held exclusively for the benefit of TRS members. The nine-member board of trustees acts as a fiduciary of TRS assets. The board members are appointed by the governor of Texas. Three are direct appointments of the governor. Two are appointed by the governor from a list prepared by the State Board of Education. Two are appointed by the governor from the three public school district member candidates who have been nominated for each position by employees of public school districts. One is appointed by the governor from the three retired member candidates who are nominated by retired TRS members. One is appointed by the governor from the three at-large candidates who have been nominated for the position. TRS retirees, members in public school districts and members in higher education institutions may run for nomination to the at-large trustee position.

TRS ORGANIZATIONAL CHART



TRS STRATEGIC PLAN HIGHLIGHTS

For the period FY 2021-25

The strategic objectives for TRS are developed in accordance with the TRS Board of Trustees' fiduciary duties and support the following statewide objectives of the state of Texas. TRS supports the statewide objectives by effectively serving our members, by operating efficiently and transparently, and by focusing on our mission to make a positive difference in our members' lives.

TRS MISSION

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

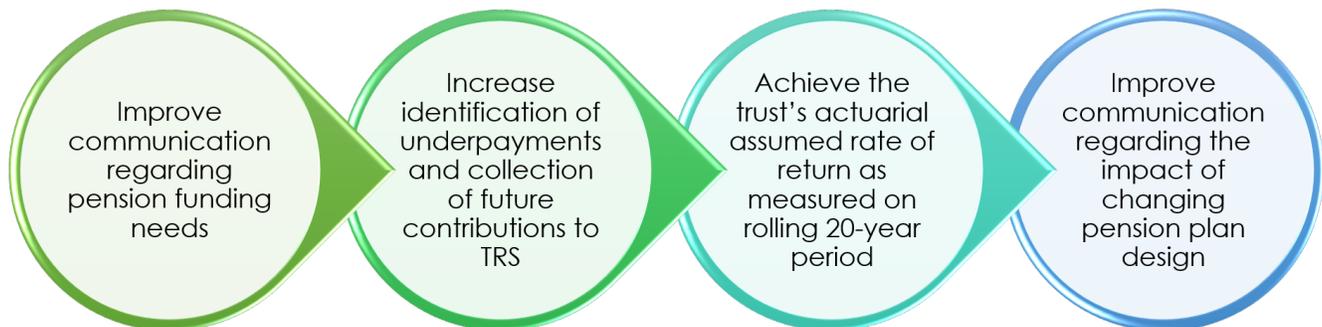
Statewide Objectives:

1. Accountable to tax and fee payers of Texas.
2. Efficient by producing maximum results with no waste of taxpayer funds and by identifying any function or provision considered redundant or not cost-effective.
3. Effective by successfully fulfilling core functions, achieving performance measures and implementing plans to continuously improve.
4. Attentive to providing excellent customer service.
5. Transparent such that agency actions can be understood by any Texan.



FOUR STRATEGIC PLAN GOALS:

Goal 1: Sustain a Financially Sound Pension System



Under the Texas Constitution and federal tax law applicable to qualified retirement plans, pension contributions are collected as assets that are held in the trust for the exclusive benefit of plan participants.

With a pension fund, the challenge is to manage the funded ratio and funding period. The funding ratio is expressed as a percentage, specifically the portion of the unfunded liability that exists today as net available assets. It answers the question, “what percentage of the unfunded liability would the pension fund be able to pay today if the expected future liability existed today?” The expected future liability is the total in today’s dollars of the next 20 years’ worth of annuity payments. The funding period is the number of years the fund would need to pay off the total unfunded liability.

Due to changes in the global economic outlook and expected market conditions, the TRS Board of Trustees lowered the investment return assumption from 8% to 7.25% based on recommendations from the plan’s actuary, independent investment advisors and months of public discussion. The lower assumed rate of return caused the unfunded actuarial accrued liability to increase from \$33.0 billion to \$46.2 billion and the funding period to increase from 33 years to 87 years. A 1.5% to 2% increase in the contribution rate would be required to lower the funding period to a range of 31 to 35 years.

FOUR STRATEGIC PLAN GOALS:

Goal 1: Sustain a Financially Sound Pension System (cont.)

During the 86th Legislative Session, Senate Bill 12 was passed which gradually increases the contributions from the state, public education employers and active employees to make the pension fund actuarially sound. The bill substantially reduced the period of time necessary to amortize the trust's unfunded liability from 87 years to 29 years. Both the funded ratio and funding period are affected by a number of variables including membership, covered payroll growth, longevity and investment returns. In FY 2020, the Board adopted a funding policy that states the funding goals of the system and sets the guidelines for which changes to contributions and/or benefit levels TRS may consider recommending to the Legislature.

The metrics recorded in the chart below are actual figures from the fund's valuation report for the period ending Aug. 31, 2019. We do not provide estimates or projections. The member contribution rate is currently 7.7%. The actuarially determined employer contribution rate, including deferred investment losses, is 9.33%.

| <i>TRS Trust Fund Actuarial Snapshot</i> | 8/31/2019 | Goal |
|---|------------------|-------------|
| <i>Funded Ratio</i> | 76.4% | ≥80% |
| <i>State Contribution Rate</i> | 6.8% | |
| <i>Non-Social Security School District Contribution Rate</i> | 1.5% | |
| <i>Member Contribution Rate of Payroll</i> | 7.7% | |
| <i>Funding Period (years)</i> | 29 years | ≤30 years |
| <i>Actuarially Determined Employer Contribution (ADEC)</i> | 9.3% | |
| <i>Are contributions sufficient to fund future liabilities?</i> | No | Yes |

FOUR STRATEGIC PLAN GOALS:

Goal 2: Continuously Improve Our Benefit Delivery

- ✓ Increase the capacity to serve more members by addressing staffing limitations



According to the 2019 Member Satisfaction Survey, an average of 60% of members were either satisfied or very satisfied with TRS' services (43.4% of active members and 76.6% of retirees). Responses regarding overall satisfaction with TRS were obtained after the passage and implementation of legislation that made significant changes to TRS-Care. Additionally, members may have been less than satisfied with hold times in the Telephone Counseling Center (TCC) or wait times to meet with a benefit counselor. In FY 2020 to date, the average reported overall satisfaction is 77.5%. This slight increase in overall satisfaction could be due in part to shorter hold times during some months.

In addition to the 2019 Member Satisfaction Survey, other ongoing functions to build and maintain strong, customer-focused relationships include reporting key performance measures to the Legislative Budget Board (LBB) and including them in the agency's Biennial Legislative Appropriations Request (LAR).

| Key Performance Measures | FY 2019 Target | FY 2019 Actual | Explanation |
|---|----------------|----------------|--|
| <i>TRS expense per member (Benefit Administration Expenses)</i> | \$30 | \$37.11 | Actual was higher than target as a result of an increase in employee count and salary increases. In addition to TEAM program increased expenses. |
| <i>Investment expense per member in basis points (bp)</i> | 25bp | 13.6bp | The decrease in investing activity expense is primarily due to lower external manager fees paid out of the trust in FY 2019. |
| <i>Service level percentage of calls answered in specified time interval</i> | 80% | 54.6% | The decrease in service level is due to membership base growing in size and complexity in addition to stagnant benefit services staffing levels. |
| <i>Number of benefit claim applications processed annually (service and disability retirements, refunds and death claims)</i> | 72,000 | 93,328 | All applications are processed. Any variance is due to the number of applications received. |

FOUR STRATEGIC PLAN GOALS:

Goal 3: Facilitate Access to Competitive, Reliable Health Care Benefits for Our Members



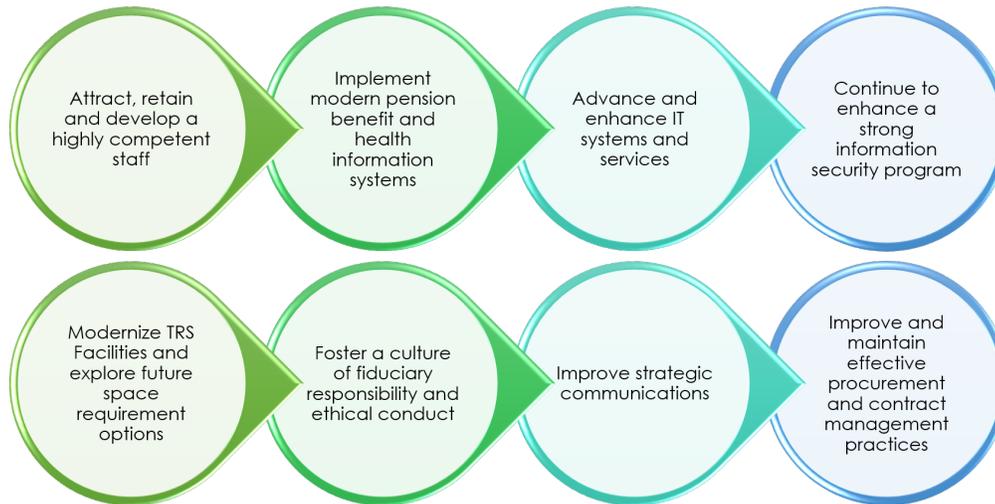
In FY 2019, over \$1.8 billion was provided by multiple funding sources for TRS-Care. State, district and active employee contributions are based on a percentage of active employee payroll rather than by medical trend. Required state contributions totaled almost \$437 million, including proportionality amounts received from the districts elsewhere classified as district contributions.

Over \$2.1 billion was received in FY 2019 from three funding sources for TRS-ActiveCare. Because the level of legislated state and district funding has not changed since inception of the plan, employees shoulder the majority of the costs.

TRS will continue to manage and monitor TRS-Care and TRS-ActiveCare cost trends, assess existing cost containment strategies while exploring new initiatives and educate health care consumers on the optimal use of TRS health plan benefits. TRS will continue to enhance health data analytics to drive key decision making to support cost management and resource maximization.

FOUR STRATEGIC PLAN GOALS:

Goal 4: Ensure That People, Processes and Technology Align to Achieve Excellence in the Delivery of Services to Members



- TRS is often selected as a Top Workplace in Austin as part of the Austin American Statesman's workplace survey. TRS is a preferred employer because of its mission and culture and because it provides employees with the tools needed to succeed. In FY 2020, this includes expanding recruitment efforts, redesigning new employee orientation and creating a six-month onboarding program to help new employees adjust and acclimate to TRS culture.



FOUR STRATEGIC PLAN GOALS:

Goal 4: Ensure that People, Processes and Technology Align to Achieve Excellence in the Delivery of Services to Members (cont.)

- FY 2019-20 appropriations includes funding for a 5% merit pool for IMD and a 3% merit pool for Red River staff. Merit allocations continue to be centralized. The Executive Director and Chief Operations and Administration Officer work with managers to determine merit allocations through a departmental analysis.
- Continue to increase employee in-house learning opportunities and development.
- Maintain a desirable work environment that includes efficient use of space.
- Continue to provide organizational change management support throughout the TEAM Program.
- Encourage, support, and be accountable for diversity at all levels and in all divisions of the organization by executing a multi-faceted approach to improve diversity representation and create an inclusive work environment that fosters creativity and innovation.
- TRS will continue to promote purchasing selection practices that foster meaningful and substantive inclusion of Historically Underutilized Businesses (HUBs). To accomplish this, TRS hosts the annual TRS HUB forum and participate in local and selected statewide HUB, including CPA forums; and conduct one-on-one meetings with HUB vendors and assist with identifying business opportunities with TRS and other state agencies, as well as assist vendors in becoming certified or recertified as a Texas HUB. TRS is committed to adhering to the HUB Program and for operating under the highest ethical standards and will continue to support and implement responsibilities as determined by the Texas Comptroller of Public Accounts (CPA).

FINANCIAL POLICIES AND GUIDELINES

The goal of TRS is to develop and submit a balanced budget so that the agency operates in accordance with the guidelines of the General Appropriations Act (GAA) adopted by the 86th Texas Legislature. A balanced budget is one in which the total revenues equal total estimated expenditures. The budget for FY 2021 is balanced and prepared in accordance with board policy and guidelines and Generally Accepted Accounting Principles (GAAP).



➤ Basis of Budgeting

The TRS budget is managed using the accrual basis of accounting for all funds in accordance with budgetary accounting practices. Under the accrual basis, revenues are recognized when they become available and measurable. Expenditures are recognized when the liability is incurred regardless of related cash flows. The basis of accounting for budget purposes is the same as the basis of accounting used in the audited financial statements.

➤ Policies

Bylaws of the Board of Trustees of the Teacher Retirement System of Texas Art. 3 Section 3.1.3 Budget Committee.

The board shall have a Budget Committee, which shall meet as necessary at the call of its chairman to:

- (a) recommend budgets for approval by the board;
- (b) recommend intra-budget transfers and budget amendments for approval by the board; and
- (c) monitor implementation of the operating budgets of the pension trust and other programs.

Art. 5 Section 5.4 Budgets and Fiscal Year.

The budgets of the pension trust fund and any other trust funds administered by TRS are adopted by the board and may be amended by the board in subsequent meetings. The TRS fiscal year shall begin Sept. 1 and shall end the following Aug. 31.

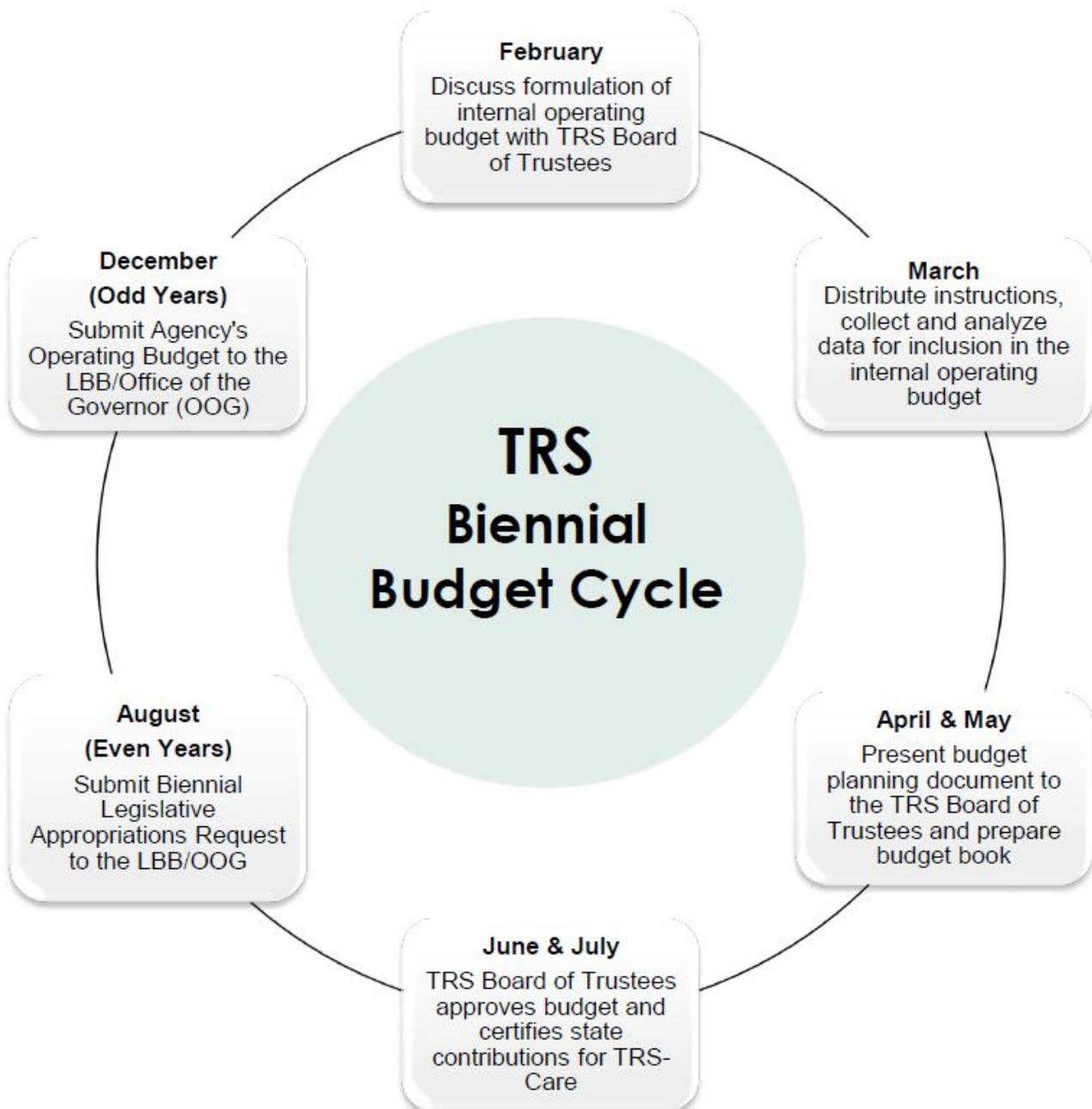
The full Bylaws of the TRS Board of Trustees can be found at
https://www.trs.texas.gov/TRS Documents/bot_bylaws.pdf

➤ Planning

The development of the operating budget is a participatory process that includes a series of meetings with agency management to create the budget. Budget instructions are sent to all department managers to submit requests for operating and capital expenditures for the upcoming fiscal year and for the next biennium during even numbered years (see diagram on the following page). Salaries and other personnel costs are developed by budget staff using assumptions required to fund assumed expenditures. Department managers review the staffing list to ensure accuracy. Department managers are instructed to use a baseline budgeting approach plus needed funding for cost escalators. Requests for additional funds and staff are evaluated for increasing work demands, changing methods of operations and delivery of mission critical services.

➤ Budget Policy

As a part of the state of Texas budget process, TRS prepares a detailed Legislative Appropriations Request (LAR) under the guidelines of the state's Legislative Budget Board (LBB). The appropriations request itemizes the funding TRS needs to operate. The requests include performance measures designed to ensure the money is spent efficiently and effectively.



➤ Budget Policy (cont.)

- A single-year budget will be presented to the TRS Board annually for approval.
- The total approved budget for operating expenses and capital outlay cannot be exceeded without the approval of the TRS Board.
- The budget emphasizes implementing the current strategic plan.
- Capital projects not started or completed in the current fiscal year have Unexpended Balance (UB) authority, which means any remaining funds for those projects in the first year of the biennium can be moved to the next fiscal year within the same biennium.
- The general provisions of the budget authorize the Executive Director, or Deputy Director/Chief Operations and Administration Officer in the absence of the Executive Director, to transfer budgeted funds up to 25% of a major expense category between major expense categories, provided that the total approved budget for operating expenses and capital outlay is not exceeded. This provision applies separately to the TRS Pension Trust Fund and the Retired and Active Health Benefits Funds.
- The general provisions establish a contingency account for fiscal year 2021. Aligning with state leadership direction, TRS will operate within a 91% budget for fiscal year 2021, with the remaining budget held in a contingency account for items vital to the agency's mission. The Executive Director, or Deputy Director/Chief Operations and Administration Officer in the absence of the Executive Director, may approve transfers from the contingency budget.

➤ Long-Term Financial Policy



Pension Trust Fund

Long-term financial planning for the TRS Pension Trust Fund is driven by the funding policy and the strategic plan, which are adopted by the TRS Board of Trustees. The financial health of the pension program is based on the following equation:

$$\text{Contributions} + \text{Investment Income} = \text{Benefits} + \text{Expenses}$$

Unlike other public pension plans, the Legislature controls both the level of benefits received by members and the contributions paid to the pension fund, while the Board has primary control over the investment of trust assets. This structure limits the Board's ability to control the pension's long-term funding drivers. However, the Board adopted a funding policy in FY 2020 that states the funding goals of the system and sets the guidelines for which changes to contributions and/or benefit levels TRS may consider recommending to the Legislature. The Board will review the funding policy every four years, to coincide with future experience studies conducted by the TRS actuary.

Actuarial Valuation and Legislative Appropriations Request

On an annual basis, TRS conducts an actuarial valuation of pension assets and liabilities. In even numbered years, this analysis is combined with the goals included in the funding policy to determine the contribution level TRS should request from the Legislature in its Legislative Appropriations Request (LAR). The funding objective outlined in the current funding policy is to achieve at least 100% funding of benefit costs.

Long-Term Financial Policy (cont.)

For FY 2020 to FY 2025, the current funding policy states that TRS should request funding in its LAR for the statutorily required contribution rates established by Senate Bill 12, 86th Legislature, 2019. These rates are as follows:

| Contribution Rates | | | |
|--------------------|-------|----------------------------|---------|
| Fiscal Year | State | Public Education Employers | Members |
| 2019 | 6.80% | 1.50% | 7.70% |
| 2020 | 7.50% | 1.50% | 7.70% |
| 2021 | 7.50% | 1.60% | 7.70% |
| 2022 | 7.75% | 1.70% | 8.00% |
| 2023 | 8.00% | 1.80% | 8.00% |
| 2024 | 8.25% | 1.90% | 8.25% |
| 2025 | 8.25% | 2.00% | 8.25% |

Beginning in FY 2026, the current funding policy states that TRS will determine the appropriate contribution rate to request in the LAR. If after the phase-in of all contribution rates, the unfunded liability for the pension fund is not projected to begin to decline by the fifth year following a current valuation, TRS will request contribution rate increases in its LAR sufficient to begin to reduce the unfunded liability of the system during the next biennium following the 2027 legislative session.

Long-Term Financial Policy (cont.)

TRS-Care and TRS-ActiveCare Trust Funds

The TRS Board is also the fiduciary for the TRS-Care and TRS-ActiveCare Trust Funds. For these programs, the Board determines both the benefit levels and gross premiums for each program on an annual basis based on its long-term projected fund balance. For TRS-Care, the retiree health program, the Legislature has discretion to determine the level of contributions that will subsidize the cost of gross premiums for members. Contributions are based on a percentage of active public education employee payroll, shown below.

| State | Public Education Employers | Active Public Education Employees |
|-------|----------------------------|-----------------------------------|
| 1.25% | 0.75% | 0.65% |

For TRS-ActiveCare, the active employee health program, the Legislature and public education employers are statutorily required to provide a minimum combined subsidy of \$225 per employee per month. However, many districts choose to contribute additional amounts to offset employee costs. The actual premium cost paid by members after the subsidy ranges from employer to employer. In FY 2020, TRS estimates that employees paid for 46% of the total premium.

In the last year, TRS met with hundreds of school districts to identify improvements they wanted to see in TRS-ActiveCare. Based on the feedback, the Board approved changes that improved the affordability of TRS-ActiveCare for FY 2021 and lowered premiums for many participants, particularly those with children. Long-term affordability remains an issue.

Long-Term Financial Policy (cont.)

Health Plan Premiums and Benefits

The TRS Board adopts changes to gross premiums and benefit levels for each program based on the long-term financial projections for each fund. Prior to adopting rates, TRS staff provide the Board with updated projections of fund balances for each trust fund that typically extend several years ahead. These projections identify the longer-term implications of current benefit and premium levels on the sustainability of each program. If projections reflect a shortfall, the Board may adopt changes to benefits and/ or premiums, or request additional funding from the Legislature through the LAR to balance projected revenues and expenditures.

Projections for the health plans can be difficult to forecast for long periods due to high inflation and volatility in the health care market and the relatively low margins on which the plans have historically operated. The COVID-19 pandemic adds further uncertainty to fund projections, and the full magnitude of COVID-19 costs within TRS programs are unknown at this time. TRS will continue to monitor the impact of the pandemic on the trust funds.

Following the enactment of Senate Bill 1682, 86th Legislature, 2019, TRS has established a contingency reserve for the TRS-Care program with a balance estimated to equal 60 days of program claims and expenses. This contingency will help reduce the impact of short-term volatility on the program.

Strategic Planning

Long-term planning for the administrative operating budget begins with identifying operational goals through the strategic planning process. TRS strategic planning is a long-term and future-oriented process of assessment, goal setting and decision-making. It includes a multiyear view of objectives and strategies for the accomplishment of agency goals in service to the agency's core mission. Clearly defined results provide feedback that leads to program performance that influences future planning, resource allocation and operating decisions.

Long-Term Financial Policy (cont.)

The strategic planning process incorporates and sets direction for all agency operations by the following:

- Prepare a five-year (FY 2021–FY 2025) forecast that supports the agency core areas of providing excellent customer service to TRS participants and reporting entities; and prudently investing and managing trust assets. The forecast will strive to depict a positive operation position.
- Annually evaluate trends from a budget-to-actual perspective and from a historical year-to-year perspective to identify areas where resources have been over or under allocated. This would improve the accuracy of revenue and expenditures forecast by decreasing the impact of recurring historical variances.

➤ Budget Monitoring

Budget staff continuously monitor financial performance relative to the adopted budget, supporting timely decision-making by senior management. On a monthly basis, budget staff perform budget-to-actual or budget-to-projected actual comparisons of expenditures. Staffing levels are also monitored and earned lapse to date is calculated. On a quarterly basis, budget staff meet with department managers to discuss current year expenditure trends and patterns and any issues that may have a fiscal impact. The following diagram depicts the various monitoring time frames:



Daily

Verify and monitor budget and expense entries



Monthly

Analyze, reconcile and report budgetary data



Quarterly

Prepare and report budgetary data to LBB and TRS Board of Trustees



Annually

Fiscal and appropriation year-end budgetary closing and reporting process

EXPLANATION OF REVENUE SOURCES AND CHANGES IN FUND BALANCES

The system's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, revenues, and expenses. The fund balance is defined as the difference between the assets and liabilities of the fund. TRS maintains three major funds in two categories.

Fiduciary Funds

Fiduciary funds, which have an appropriated component, include the pension trust fund and TRS-Care. Fiduciary funds are used to report assets held in a trustee capacity on behalf of others. The reporting focus is on net position and changes in net position. The agency's operating budget is sourced from each fund respectively. Benefits are paid from the pension trust fund. Health care claims are paid from TRS-Care.

Proprietary Fund

The system's proprietary fund, TRS-ActiveCare, does not include any appropriated funds. This fund is used to account for business type activities or those for which a fee is charged to external users for goods and services. The reporting focus is on the determination of operating income, changes in net position, financial position and cash flows. Benefits and operating expenses are paid from TRS-ActiveCare.

Appropriated Funds

Only the fiduciary funds include an appropriated component. For the pension trust fund, administrative expenses and the state's share of the employer contributions are appropriated by the Legislature. The administrative expenses are funded by trust fund assets while the state's employer contributions are general taxpayer revenue. For TRS-Care, the health care program for retired teachers, the state's contributions are appropriated general taxpayer revenue.

TRS Board of Trustees

Fiduciary Funds - Assets held in trust for members
(Includes appropriated funds)

Proprietary Funds -
Business-type activities
(Non-appropriated funds)

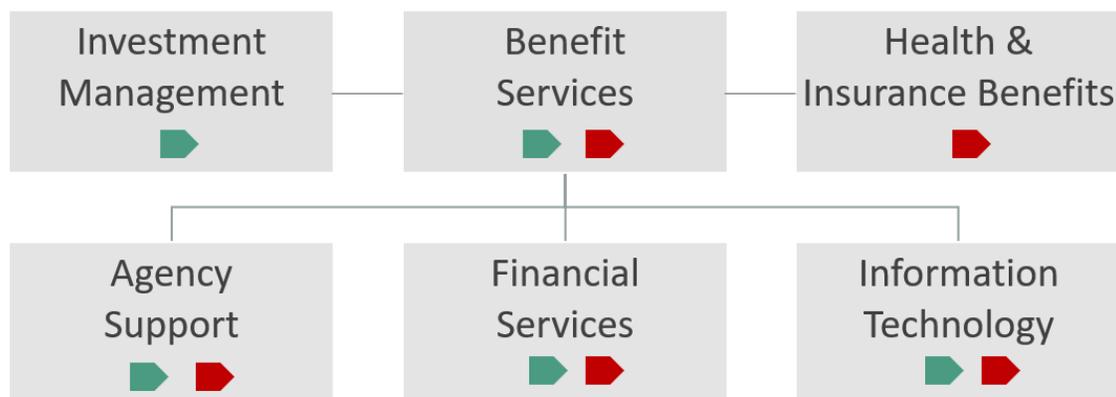
TRS Pension Trust Fund

TRS-Care Fund

TRS-ActiveCare Fund

Fund and Department Structure

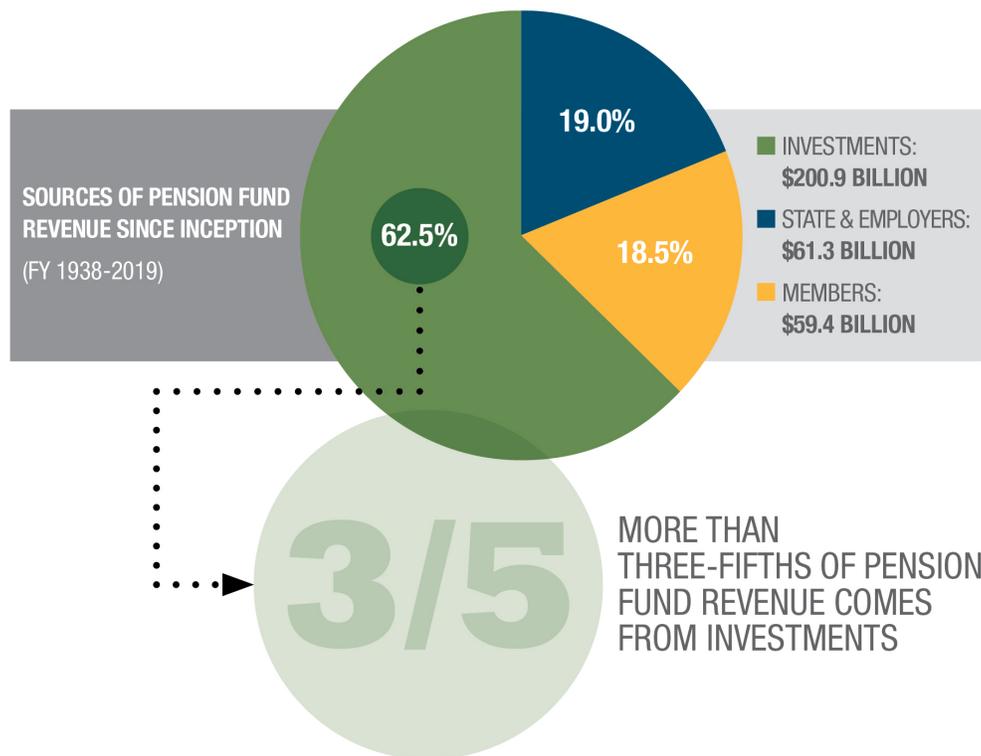
All of the divisions and departments within TRS are funded by the pension trust fund with the exception of the Health Insurance Benefits Division. The Health Insurance Benefits Division is funded with health care funds which includes both TRS-Care and TRS-ActiveCare. A cost allocation process is used to transfer support costs from the other divisions, including the Agency Support, Information Technology (IT), Financial Services and Benefit Services divisions to the health care funds.



 Pension Trust Fund
  TRS-Care and TRS-ActiveCare

TRS PENSION TRUST FUND

Funding for the pension trust fund is derived from four main sources: member contributions, state contributions, employer contributions and investment income. In the defined benefit plan, contributions are invested to generate income from which benefits are paid. The majority of pension fund revenue has historically come from investment returns.



Senate Bill 12, which was passed during the regular session of the 86th Legislature, provides for increasing contribution rates from all sources over the next few years to make the pension fund actuarially sound.

| | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|---------------------------|---------|---------|---------|---------|---------|
| STATE | 7.50% | 7.75% | 8.00% | 8.25% | 8.25% |
| MEMBERS | 7.70% | 8.00% | 8.00% | 8.25% | 8.25% |
| PUBLIC ED EMPLOYER | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% |

*Prior to SB12, only public education entities that did not contribute to Social Security were required to pay a 1.50% contribution.

TRS PENSION TRUST FUND

Member Contributions

Member contributions are established in statute. The current contribution rate is 7.7% of eligible compensation and is scheduled to increase to 8% beginning in FY 2022. There are over 880,000 actively contributing members in TRS, growing at a rate of approximately 2% per year.

State Contributions

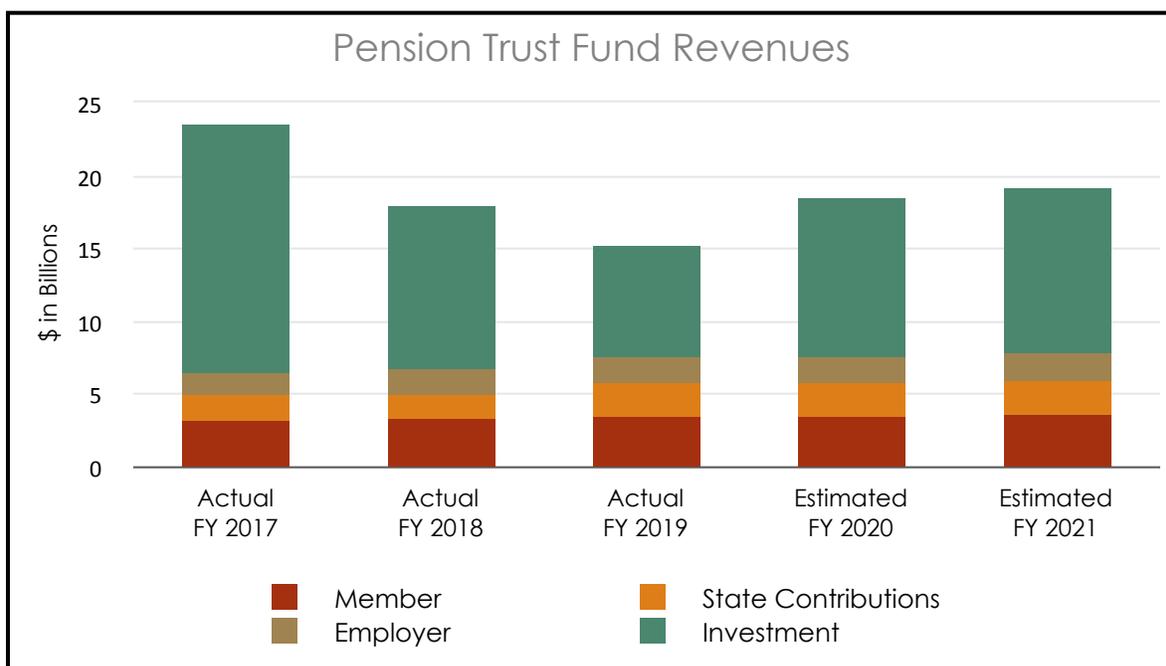
The state contribution rate is established in the General Appropriations Act (GAA) and statute. The current contribution rate is 7.5% of eligible compensation and is scheduled to increase to 7.75% beginning in FY 2022.

Employer Contributions

Public education employers currently contribute 1.6% of payroll, and this contribution is scheduled to increase to 1.7% in FY 2022. There were 1,332 contributing employer entities for FY 2019.

Investment Income

The invested assets of the pension trust fund are a major contributor of resources used to pay annuitants. Since the fund's inception in 1938, 62.5% of all trust fund revenue is related to investments. The current assumed rate of return is 7.25%.



TRS PENSION TRUST FUND

| Pension Trust Fund | Actual FY 2019 | Estimated FY 2020 | Estimated FY 2021 | Variance FY 2020 to FY 2021 |
|---|------------------------|------------------------|------------------------|-----------------------------------|
| Member Contributions | 3,525,074,911 | 3,504,632,698 | 3,623,141,204 | 3% |
| State Contributions (Appropriated) | 2,330,005,975 | 2,316,494,070 | 2,394,825,888 | 3% |
| Employer Contributions | 1,788,286,037 | 1,777,915,613 | 1,838,035,500 | 3% |
| Investment Earnings/Return | 7,672,872,892 | 10,953,419,433 | 11,428,360,982 | 4% |
| Total Revenues | 15,316,239,815 | 18,552,461,814 | 19,284,363,574 | 4% |
| Benefits Paid | 11,850,725,576 | 11,937,429,111 | 12,653,674,858 | 6% |
| Admin Expenses - Appropriated (excluding investing activity expenses) | 60,485,645 | 64,114,784 | 67,961,671 | 6% |
| Total Expenses | 11,911,211,221 | 12,001,543,895 | 12,721,636,529 | 6% |
| Net Increase (Decrease) | 3,405,028,594 | 6,550,917,919 | 6,562,727,045 | 0% |
| Net Position, Beginning of Year* | 154,573,170,481 | 157,978,199,075 | 164,529,116,994 | 4% |
| Net Position, End of Year | 157,978,199,075 | 164,529,116,994 | 171,091,844,039 | 4% |

*The beginning net position balance for Actual FY 2019 includes a prior period adjustment of \$4,268,648.

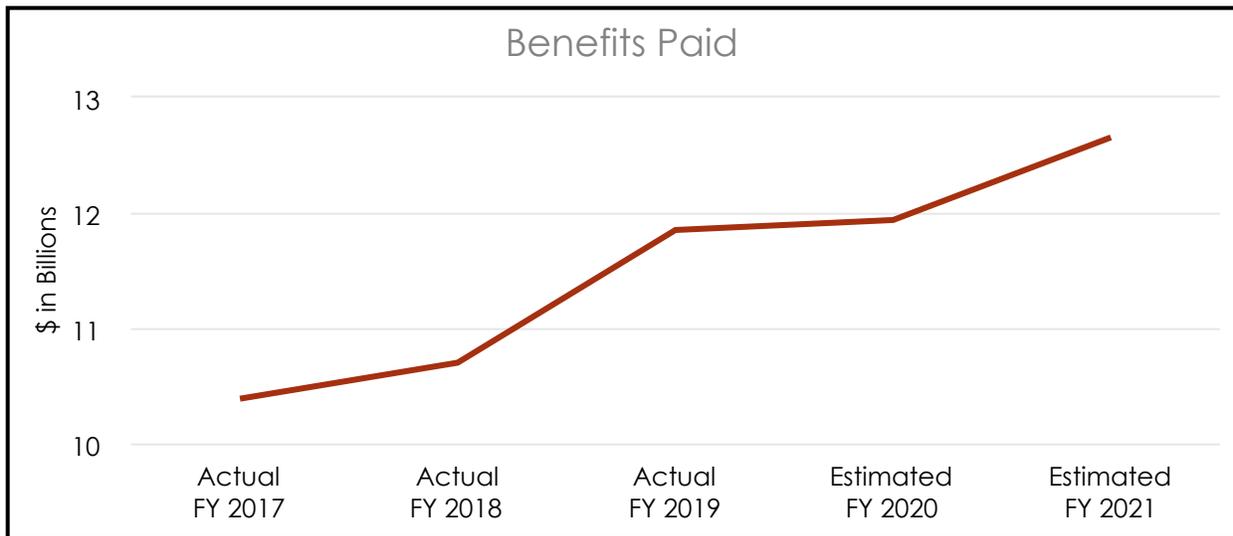
Projections

With an expected 3% annual growth in covered payroll, the member contributions amount should grow in the range of 3 to 6%.

The state's share of employer contributions is appropriated to TRS by the Legislature. Employer contributions should follow suit since the basis of payroll, that is covered payroll, is the same as member contributions.

Investment earnings are largely dependent on global market conditions and the asset allocation strategy. The annual rate of return on investments for the pension fund for the year ended Aug. 31, 2019 was 5.2%. The investment earnings amount projected includes both investment returns and investment earnings.

TRS PENSION TRUST FUND



Benefits paid generally grow 6% per year. Administrative expenses for benefit operations are expected to increase slightly in the near term due to an increased focus on customer service. Investing costs are generally netted against investment returns. Reduced investing costs going forward should support investment returns.

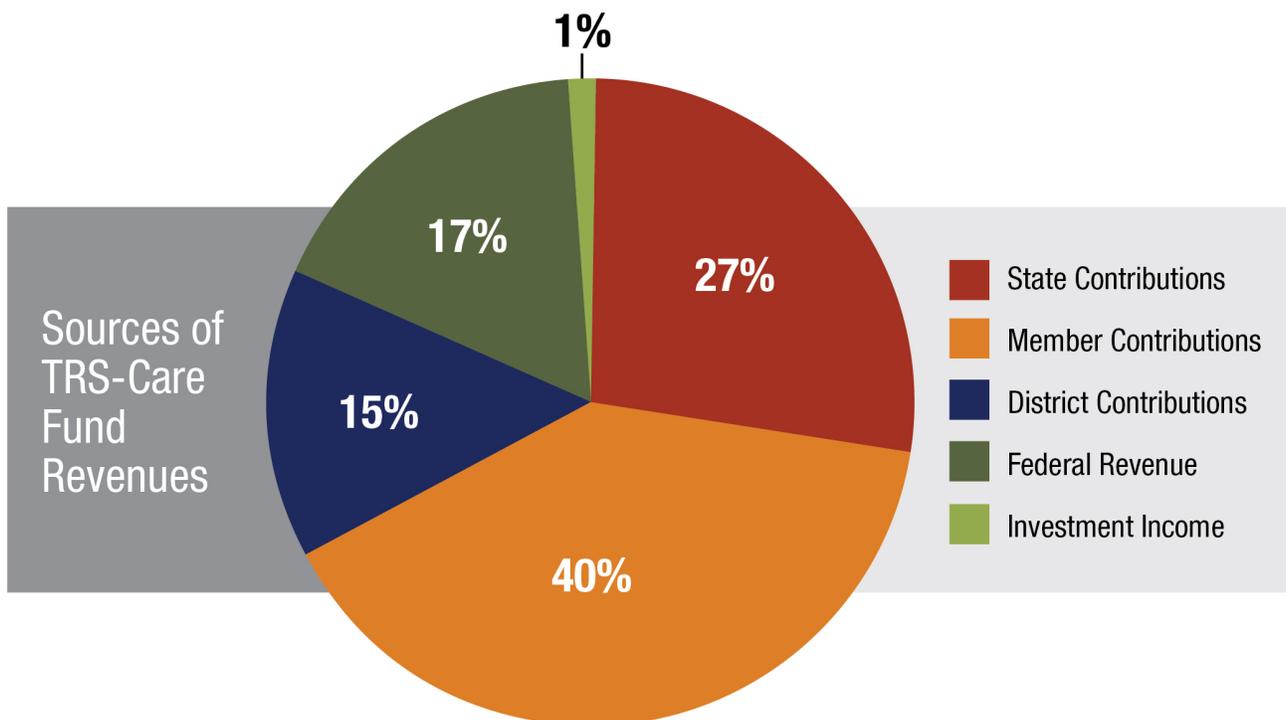
The FY 2020 and FY 2021 budgets contain additional state funding as enacted through the 86th Legislature, Regular Session:

- \$524 million to fund the increases for the state's contribution to the pension fund from 6.8% to 7.5% in fiscal years 2020 and 2021.
- \$589 million to fund the supplemental annuity check for 405,538 annuitants or alternate payees. Of those, 193,279 received \$2,000.
- In total, the state is contributing an additional \$1.113 billion for the biennium to TRS for contributions to the pension plan and supplemental payments to retirees.

TRS-CARE, HEALTH CARE PROGRAM FOR RETIREES

The program is financed on a pay-as-you go basis, and benefits are contingent on funding availability. Revenue for TRS-Care comes from six sources. These include state contributions, active member contributions, district contributions, retiree premiums, federal programs and investment income.

State legislative action provided TRS-Care a one-time payment of supplemental funding in the amount \$231 million to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium. Federal revenue is dependent upon congressional action and continued program funding.



TRS-CARE, HEALTH CARE PROGRAM FOR RETIREES

Annual Contributions

- State contributions, active member contributions and district contributions are generally defined as a percentage of the active employee payroll. The current contribution amount is 1.25% of active payroll for state contributions, 0.65% for active members and 0.75% for district contributions.

Retiree Premiums

- Retiree premiums are tiered by years of service, Medicare status, dependent coverage and plan election.

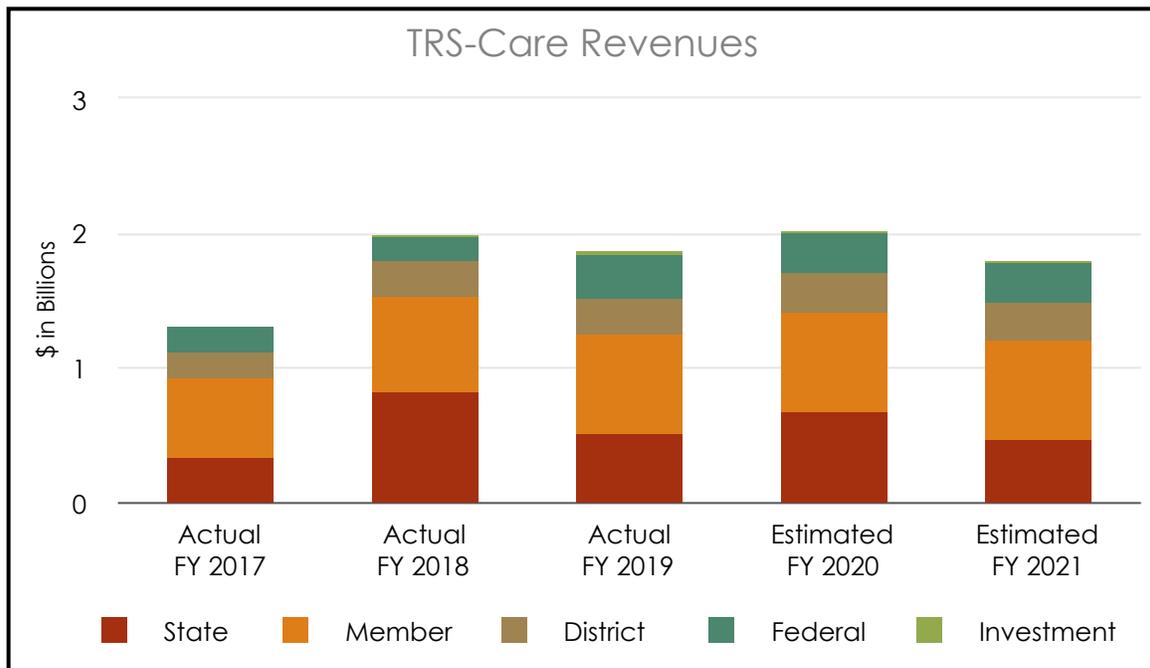
Federal Funds

- Federal funds received are related to Medicare Part D which provide retiree prescription drug subsidy reimbursements on behalf of certain plan participants. Additional subsidies are received under TRS-Care's Employer Group Waiver Plan (EGWP) for direct subsidies, catastrophic reinsurance subsidies and low-income subsidies.

Investment Income

- Investment income is earned on the cash balance that is maintained with the State of Texas Treasury.

TRS-CARE, HEALTH CARE PROGRAM FOR RETIREES



| TRS-Care, Health Care Program for Retirees | Actual FY 2019 | Estimated FY 2020 | Estimated FY 2021 | Variance FY 2020 to FY 2021 |
|--|----------------------|----------------------|----------------------|-----------------------------|
| State Contributions (Appropriated) | 510,830,896 | 685,829,333 | 471,718,012 | -31% |
| Member Contributions | 745,303,487 | 739,857,900 | 732,718,384 | -1% |
| District Contributions | 273,110,251 | 289,168,058 | 293,258,115 | 1% |
| Federal Revenue | 321,106,153 | 290,617,643 | 292,546,054 | 1% |
| Investment Income | 25,046,771 | 25,205,513 | 17,100,466 | -32% |
| Total Revenues | 1,875,397,558 | 2,030,678,447 | 1,807,341,031 | -11% |
| Health Care Claims Paid | 1,375,943,613 | 1,403,209,012 | 1,452,078,973 | 3% |
| Administrative Expenses | 6,006,229 | 11,104,301 | 14,526,998 | 31% |
| Total Expenses | 1,381,949,842 | 1,414,313,313 | 1,466,605,971 | 4% |
| Net Increase (Decrease) | 493,447,716 | 616,365,134 | 340,735,060 | -45% |
| Net Position, Beginning of Year | 798,574,633 | 1,292,022,349 | 1,908,387,483 | 48% |
| Net Position, End of Year | 1,292,022,349 | 1,908,387,483 | 2,249,122,543 | 18% |

TRS-CARE, HEALTH CARE PROGRAM FOR RETIREES

Projections

The change in state contributions from FY 2020 to FY 2021 reflects the one-time supplemental contribution received in FY 2020.

The covered employee payroll that serves as a base for three of the six revenue sources is expected to grow along with the growth of active teachers. Payroll growth is expected to average 5% per year through FY 2020 with a 2% growth thereafter. The state's share of employer contributions is appropriated to TRS by the Legislature. The state's contribution rate remains at 1.25% and the district contribution rate remains at 0.75%.

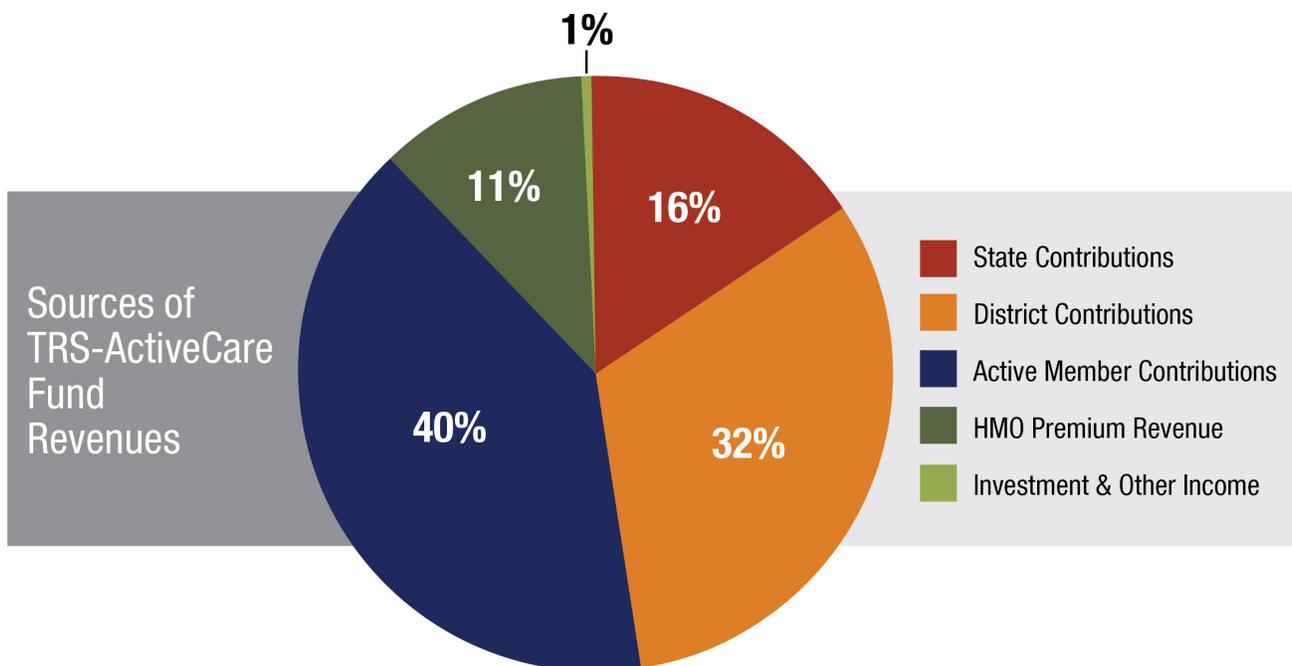
Investment income is anticipated to be lower due to the assumed interest rate falling by nearly half in FY 2021 from the average FY 2020 comptroller rate.

Health care claims expense, including pharmaceutical costs, have been increasing 7 to 9% per year through FY 2020. That trend is expected to decline slightly in the near term. TRS' administrative expenses will go up more than the historical average over the next couple of years due to an increase in staffing and project spending associated with upgrading the technology infrastructure used to serve members as well as the transition to a new plan administrator during FY 2021.

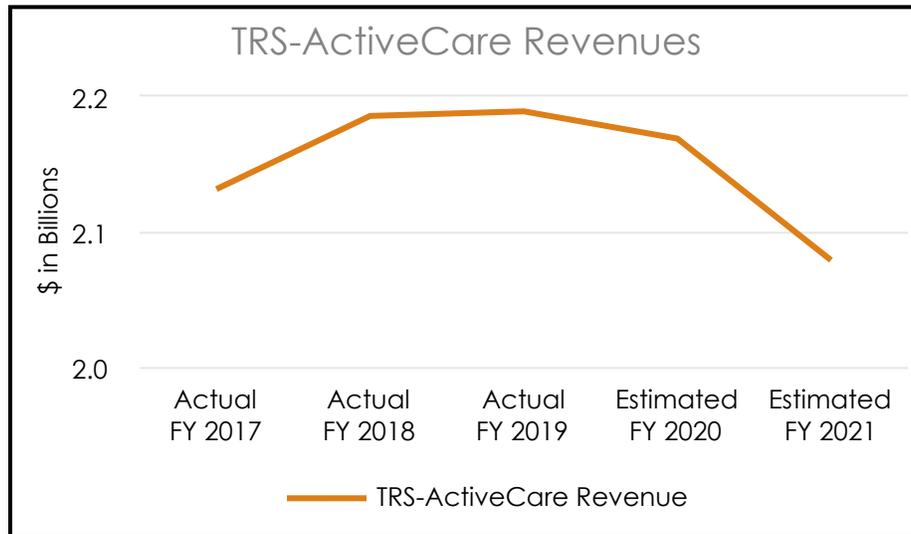
The TRS-Care Fund is expected to remain solvent through FY 2025.

TRS-ACTIVECARE, HEALTH CARE PROGRAM FOR ACTIVE TEACHERS

The program is financed on a pay-as-you go basis. Revenue for TRS-ActiveCare comes from state contributions, district contributions and employee contributions. State funding is \$75 per month per employee, provided through the school finance formulas. The district contribution is a minimum of \$150 per month per employee, but districts may, and typically do, contribute more. Employee contributions vary by plan election and coverage selected. The other revenue category includes applicable federal revenue, payments for COBRA coverage, as well as reimbursements the state of Texas makes for the payment of benefits provided to TRS employees. Claims expense has been increasing about 3% per year. Administrative expenses include an expected increase in actuarial and consulting support costs.



TRS-ACTIVECARE, HEALTH CARE PROGRAM FOR ACTIVE TEACHERS



| TRS-ActiveCare, Health Care Program for Active Teachers | Actual FY 2019 | Estimated FY 2020 | Estimated FY 2021 | Variance FY 2020 to FY 2021 |
|---|----------------------|----------------------|----------------------|-----------------------------|
| Premiums | 2,177,754,801 | 2,161,706,150 | 2,075,776,253 | -4% |
| Investment Income | 10,623,456 | 6,531,659 | 2,534,817 | -61% |
| Other Revenue | 685,623 | 685,623 | 685,623 | 0% |
| Total Revenues | 2,189,063,880 | 2,168,923,432 | 2,078,996,693 | -4% |
| Health Care Claims Paid | 2,076,699,713 | 2,171,861,539 | 2,155,087,556 | -1% |
| Administrative Expenses | 3,703,320 | 3,627,456 | 4,298,581 | 19% |
| Total Expenses | 2,080,403,033 | 2,175,488,995 | 2,159,386,137 | -1% |
| Net Increase (Decrease) | 108,660,847 | -6,565,563 | -80,389,444 | 1,124% |
| Net Position, Beginning of Year | 56,292,384 | 164,953,231 | 158,387,668 | -4% |
| Net Position, End of Year | 164,953,231 | 158,387,668 | 77,998,224 | -51% |

TRS-ACTIVECARE, HEALTH CARE PROGRAM FOR ACTIVE TEACHERS

Projections

Both state contributions and district contributions are affected by the growth in the number of active teachers. Historically, the number of teachers is highly correlated to the state's population. Population growth has averaged 2% per year over the past 30 years. For the next few years (i.e. through FY 2022), that growth is expected to average 2 to 3% per year.

Member contributions are highly dependent upon member elections of coverage. More members are opting out of coverage which might lead to a slowing in the growth of member contributions overall. The chart on the previous page includes state contributions, member contributions and district contributions in the premiums revenue category. Investment income is anticipated to be lower due to the assumed interest rate falling by nearly half in FY 2021 from the average FY 2020 comptroller rate. Health care claims expense, including pharmaceutical costs, have been increasing 6 to 9% per year through FY 2020. That trend is expected to decline slightly in the near term.

403(b) CERTIFICATION PROGRAM

A 403(b) plan is also known as a tax-sheltered annuity (TSA) plan. It is an optional retirement plan for employees of public school districts in Texas. TRS certifies and oversees the registration process and provides guidance to districts and registered providers. Teachers who elect this option interact directly with the third-party provider. TRS does not take custody of the contributions or provide investment oversight.

The revenue associated with this program is based on a fee paid by providers which is \$3,000 per registration. The revenue varies annually based on the number of providers who choose to register. The resulting certification is good for three years after which the provider must recertify.

Projections

House Bill 2820 (86th Legislature, Regular Session) removed TRS' authority to certify 403(b) companies and maintain a list of registered 403(b) investment products as of Sept. 1, 2019. Products will continue to be regulated by the Texas Department of Insurance, the Texas State Securities Board and applicable federal agencies. The remaining balance in the fund was transferred to the State Treasury during FY 2020.

| 403(b) Certification Program | Actual FY 2019 | Estimated FY 2020 | Estimated FY 2021 | Variance FY 2020 to FY 2021 |
|------------------------------------|-------------------|----------------------|----------------------|-----------------------------------|
| Fee Revenue | 30,000 | — | — | 0% |
| Interest Income | 13,703 | — | — | 0% |
| Total Revenues | 43,703 | — | — | 0% |
| Administrative Expenses | 104,992 | — | — | 0% |
| Total Expenses | 104,994 | — | — | 0% |
| Transfers to State Treasury | — | (482,874) | — | 100% |
| Net Increase (Decrease) | (61,289) | (482,874) | — | 100% |
| Net Position, Beginning of Year | 544,163 | 482,874 | — | -100% |
| Net Position, End of Year | 482,874 | 0 | — | 0% |

SUMMARY OF

FY 2021

OPERATING

BUDGET

PENSION TRUST FUND AND COMMISSION CREDITS

Administrative Operations

| | Pension Trust Fund | Commission Credits | FY 2021 Total | FY 2020 Total |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Sources of Funds | | | | |
| Legislative Appropriations | 136,572,439 | — | 136,572,439 | 135,932,451 |
| TEAM/CAPPS Unexpended Balances | 5,279,111 | — | 5,279,111 | 5,499,403 |
| Fringe Benefits | 22,706,190 | — | 22,706,190 | 21,191,800 |
| Performance Incentive Compensation | 23,000,000 | — | 23,000,000 | 11,376,000 |
| Commission Credits | — | 26,808,681 | 26,808,681 | 30,118,400 |
| Total Sources | 187,557,740 | 26,808,681 | 214,366,421 | 204,118,054 |
| Uses of Funds | | | | |
| Wages and Benefits | 106,297,851 | — | 106,297,851 | 102,433,542 |
| Performance Incentive Compensation | 23,000,000 | — | 23,000,000 | 11,376,000 |
| Professional Fees and Services | 17,449,092 | 8,127,647 | 25,576,739 | 25,829,984 |
| Support Costs | 8,435,500 | — | 8,435,500 | 8,591,979 |
| Travel | 2,502,150 | — | 2,502,150 | 2,243,942 |
| Operating Costs | 22,632,036 | 18,681,034 | 41,313,070 | 46,575,935 |
| Capitalized Equipment | 1,962,000 | — | 1,962,000 | 1,567,269 |
| TEAM/CAPPS Unexpended Balances | 5,279,111 | — | 5,279,111 | 5,499,403 |
| Total Uses | 187,557,740 | 26,808,681 | 214,366,421 | 204,118,054 |

- Pension Trust Fund**

Section 825.312 of the Texas 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. Administrative operations include all agency operations for benefit administration, investment management and shared support for the agency. The Legislature appropriates funding from the pension trust fund to pay for operations. Funding for both fringe benefits and performance incentive compensation payments are appropriated separately.

Pension Trust Fund and Commission Credits (cont.)

During the 86th Texas Legislature, TRS received new rider authority allowing the transfer of unexpended balances from the TEAM and CAPPs appropriations into the new biennium for fiscal years 2020 and 2021. The agency is allowed to carry forward capital project funding within a biennium. The TEAM and CAPPs Program is a large, multiyear capital project that involves creating a new IT platform for benefits administration and a single financials and human resources/payroll administration software solution for Texas state agencies.

- **Commission Credits**

The Commission Credits Program is budgeted and balanced in an addendum to the TRS Administrative Annual Budget in accordance with budgetary accounting practices. Any trust funds administered by TRS are adopted by the board and may be amended by the board in subsequent meetings. The TRS fiscal year begins Sept. 1 and ends the following Aug. 31.

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. The revenue generated via Commission Credits is spent exclusively for investment management purposes. Commission Credit revenue is not appropriated by the Legislature.

HEALTH AND INSURANCE BENEFITS AND 403(b) CERTIFICATION PROGRAM

Administrative Operations

| | TRS- Core | TRS- ActiveCare | 403(b) | FY 2021 Total | FY 2020 Total |
|---|-------------------|--------------------|----------|-------------------|-------------------|
| Sources of Funds | | | | | |
| Reserved for Administrative Operations | 14,526,998 | 4,298,581 | — | 18,825,579 | 16,334,234 |
| Total Sources | 14,526,998 | 4,298,581 | — | 18,825,579 | 16,334,234 |
| Uses of Funds | | | | | |
| Wages and Benefits | 8,865,646 | 1,734,682 | — | 10,600,328 | 9,413,171 |
| Professional Fees and Services | 4,713,958 | 2,413,122 | — | 7,127,080 | 5,870,300.00 |
| Support Costs | 76,838 | 26,677 | — | 103,515 | 100,500.00 |
| Travel | 204,352 | 57,356 | — | 261,708 | 229,000.00 |
| Operating Costs | 666,204 | 66,744 | — | 732,948 | 721,263.00 |
| Total Uses | 14,526,998 | 4,298,581 | — | 18,825,579 | 16,334,234 |

- Health and Insurance Benefits**

TRS is authorized by Chapter 1575, Texas Government Code (TRS-Care); Chapter 1579 (TRS-ActiveCare); and Chapter 1576, Texas Government Code (Long-Term Insurance Program) to provide health high-value and cost-effective health care and customer service for retired and active employees of Texas school districts open enrollment charter schools and other eligible participating entities.

The chart above is a summary of the FY 2021 budget by fund for the Health and Insurance Benefits Program. The health care funds operate on a pay-as-you-go basis; collect revenue from members, employers and the state; and use that funding to pay for claims and administrative operations. The amounts above are for administrative operations only and do not include claims expenses. None of the amounts above are appropriated.

- 403(b) Certification Program**

House Bill 2820 (86th Legislature, Regular Session) removed TRS' authority to certify 403(b) companies and maintain a list of registered 403(b) investment products.

EXPENSES BY DEPARTMENT

| Department/Division | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance from FY 2020 to FY 2021 | |
|---|---------------------|---------------------|---------------------|-------------------------------------|-------------|
| Board of Trustees | 310,768 | 218,500 | 165,400 | (53,100) | -24% |
| Executive | 835,950 | 635,971 | 513,182 | (122,789) | -19% |
| Chief Operations and Administration Office | — | 344,561 | 354,710 | 10,149 | 3% |
| Diversity | — | 389,270 | 225,240 | (164,030) | -42% |
| Internal Audit | 2,079,927 | 2,440,921 | 3,005,323 | 564,402 | 23% |
| Legal & Compliance | 5,084,051 | 7,518,324 | 8,252,590 | 734,266 | 10% |
| Governmental Relations | 398,371 | 459,730 | 330,090 | (129,640) | -28% |
| Strategic Initiatives | 1,266,935 | 1,403,203 | 1,979,653 | 576,450 | 41% |
| Risk Management & Strategic Planning | 1,129,502 | 574,439 | — | (574,439) | -100% |
| Communications | 1,283,371 | 1,659,763 | 1,432,760 | (227,003) | -14% |
| Organizational Excellence | 3,290,521 | 4,991,934 | 4,255,273 | (736,661) | -15% |
| Administrative Costs* | 7,225,120 | 11,319,339 | 6,709,627 | (4,609,712) | -41% |
| Agency Support | 22,904,516 | 31,955,955 | 27,223,848 | (4,732,107) | -15% |
| Investment Operations | 42,094,656 | 54,446,979 | 55,442,536 | 995,557 | 2% |
| London Office | 2,698,551 | 3,483,920 | 2,713,181 | (770,739) | -22% |
| Commission Credits | 21,020,505 | 30,118,400 | 25,468,247 | (4,650,153) | -15% |
| Investment Management | 65,813,712 | 88,049,299 | 83,623,964 | (4,425,335) | -5% |
| Benefit Services | 1,281,983 | 2,451,712 | 1,673,192 | (778,520) | -32% |
| Benefit Processing | 6,046,979 | 8,169,248 | 7,612,750 | (556,498) | -7% |
| Benefit Counseling | 4,686,332 | 5,346,079 | 6,357,938 | 1,011,859 | 19% |
| Benefit Accounting | 1,301,344 | 2,059,896 | 2,078,222 | 18,326 | 1% |
| Benefit Services | 13,316,638 | 18,026,935 | 17,733,602 | (293,333) | -2% |
| Financial | 255,575 | 301,353 | 328,210 | 26,857 | 9% |
| Accounting Operations | 1,663,771 | 2,993,738 | 2,927,747 | (65,991) | -2% |
| Administrative Operations | 3,946,738 | 4,873,342 | 4,979,873 | 106,531 | 2% |
| Staff Services | 590,108 | 773,100 | 661,123 | (111,977) | -14% |
| Facilities Services | 1,129,275 | 2,864,100 | 2,688,971 | (175,129) | -6% |
| Printing, Mail & Supply | 3,318,541 | 3,926,600 | 3,926,473 | (127) | 0% |
| Security | 98,216 | 311,100 | 292,000 | (19,100) | -6% |
| Safety and Prevention | — | 903,800 | 918,800 | 15,000 | 2% |
| CAPPS Implementation | 3,177,089 | 963,422 | 778,688 | (184,734) | -19% |
| Financial Services | 14,179,313 | 17,910,555 | 17,501,885 | (408,670) | -2% |

*Administrative costs include retiree health insurance, unemployment compensation, lump-sum payments, space planning consultants, supplies, furniture, contingency amounts for health care, printing and mailing.

EXPENSES BY DEPARTMENT (CONT.)

| Department/Division | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance from FY 2020 to FY 2021 | |
|-------------------------------------|---------------------|---------------------|---------------------|-------------------------------------|--------------|
| Information Technology | 2,198,524 | 5,936,515 | 9,743,869 | 3,807,354 | 64 % |
| Enterprise Infrastructure Services | 15,605,788 | 17,535,648 | 17,220,370 | (315,278) | -2 % |
| Information Systems Green | 1,249,944 | 1,871,556 | 1,402,751 | (468,805) | -25 % |
| Information Systems Gold | 1,607,402 | — | — | — | 0% |
| Delivery & Quality Management | 426,588 | — | — | — | 0% |
| Information Security | — | 1,118,089 | 1,070,930 | (47,159) | -4 % |
| Enterprise Architecture | — | 1,451,481 | 1,589,180 | 137,699 | 9 % |
| Business Relationship Management | 1,040,225 | 1,837,147 | 1,730,092 | (107,055) | -6 % |
| Project Management Office | 26,188 | 1,514,601 | 1,377,300 | (137,301) | -9 % |
| Information Technology | 22,154,659 | 31,265,037 | 34,134,492 | 2,869,455 | 9 % |
| TEAM Program | 14,346,860 | 16,910,273 | 13,674,089 | (3,236,184) | -19 % |
| HILOB Project | 1,498,221 | 3,163,792 | 4,177,148 | 1,013,356 | 32 % |
| TRS-Care Administrative | 6,264,505 | 8,942,142 | 9,402,270 | 460,128 | 5 % |
| TRS-ActiveCare Administrative | 3,735,168 | 4,228,300 | 4,030,702 | (197,598) | -5 % |
| 403(b) Certification Program | 94,554 | — | — | — | 0% |
| Contingency | — | — | 21,690,000 | 21,690,000 | 100 % |
| Agency Total | 164,308,145 | 220,452,288 | 233,192,000 | 12,739,712 | 6 % |

EXPENSES BY DEPARTMENT (CONT.)

During the 86th Texas Legislature, TRS received new rider authority allowing the transfer of unexpended balances from the TEAM and CAPPs appropriations into the new biennium for FY 2020 and FY 2021.

- The TEAM Program is a \$100+ million, multiyear effort to modernize the major IT systems that TRS uses to administer benefits. There are several projects involved, including the line of business (LOB), health care line of business (HILOB), data management, program management, application architecture and website redesign. Due to long-term, significant performance issues, during FY 2020 TRS terminated the contract with the main TEAM vendor, and took on the project internally using an agile methodology. To assist with the internal development, TRS added 8.0 FTE positions and a number of contracted positions. These positions, along with existing TRS staff assigned to the project, are funded through the TEAM departmental budget. Contractors and staff assigned to the HILOB release are funded through a separate department paid for by the TRS-Care trust fund.
- CAPPs is a statewide enterprise resource planning (ERP) system created by the state comptroller. TRS began implementing CAPPs in FY 2018 with a two-year time frame. Although most of the implementation cost will be borne by the state comptroller, TRS will assume the costs associated with linking CAPPs with the TRS IT infrastructure.
- Excluding contingency amounts, the overall decrease in the budget from FY 2020 to FY 2021 is related primarily to payroll budget savings resulting from a soft hiring freeze through at least December 2020 and limiting payroll increases including overtime/compensatory time, as well as a decrease in travel expenses. Additionally, operating expenses for each division have been strategically reduced where they would have the smallest impact on agency goals and objectives.

House Bill 2820 (86th Legislature, Regular Session) removed TRS' authority to certify 403(b) companies and maintain a list of registered 403(b) investment products.

DIVISION EXPENSES AND GOALS

Agency Support

| Expense Category | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 |
|--------------------------------|---------------------|---------------------|---------------------|
| Salaries and Benefits | 18,526,088 | 19,953,572 | 21,729,079 |
| Professional Fees and Services | 2,134,976 | 3,664,605 | 3,650,178 |
| Other Operating Expenses | 2,243,452 | 8,337,778 | 1,844,591 |
| Expense Category Total | 22,904,516 | 31,955,955 | 27,223,848 |

Purpose:

Agency Support consists of a variety of oversight departments including Executive Director staff, Diversity, Equity and Inclusion, Internal Audit, Legal & Compliance, Governmental Relations, Communications, Organizational Excellence, Strategic Initiatives, Risk Management, Intern and Agencywide programs. The division provides direction to the agency in developing and implementing strategies and programs to promote effective and responsible operations.

Division Goals:

Aligning to the TRS Strategic Plan, Agency Support ensures that people, processes and technology align to achieve excellence in the delivery of TRS goals. It is our objective to foster a culture of fiduciary responsibility and ethical conduct.

| Key Performance Indicators (KPI) | Annual Target |
|--|---------------|
| Train 100% of staff on ethical standards annually | 100% |
| Respond to 100% of customer inquiries received via social media within four hours on business days | 100% |
| Perform 100% regular and random quarterly testing and reports | 100% |
| Observe # of reported policy violations, review and respond to trends | Minimal |
| Produce all TRS/IMD publications by established deadlines | 100% |

DIVISION EXPENSES AND GOALS

Investment Management

| Expense Category | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 |
|--------------------------------|---------------------|---------------------|---------------------|
| Salaries and Benefits | 37,464,646 | 49,535,662 | 49,536,319 |
| Professional Fees and Services | 7,441,139 | 10,078,100 | 9,958,008 |
| Other Operating Expenses | 20,907,926 | 28,435,537 | 24,129,637 |
| Expense Category Total | 65,813,712 | 88,049,299 | 83,623,964 |

Purpose:

The Investment Management Division (IMD) is responsible for implementing investment policies within approved guidelines, maximizing effectiveness of resources provided, delivering transparent reporting and pre-notification of pending external investments, complying with relevant laws, collaborating with audit processes and implementing board objectives.

Division Goals:

Aligning to the TRS Strategic Plan, IMD maintains current competitive advantages, long-term sustainability and total investment returns by prudently and transparently investing trust fund dollars using an asset allocation designed to achieve an efficient risk-adjusted return using key external partners and periodically comparing against peers.

| Key Performance Indicators (KPI) | Annual Target |
|---|---------------|
| Return in excess of the benchmark return for the Total Trust (Three-Year Rolling) | +100 bp |
| Return in excess of the benchmark return for Private Markets investments (Three-Year Rolling) | +155 bp |
| Return in excess of the benchmark return for Active Public Markets investments (Rolling Annualized) | +100 bp |
| Percent of portfolio capital plan in principal investments approved (cumulative year-to-date) | 38% |
| Percent of internal public equity allocation | 45% |
| External manager annual fee savings | \$80M |
| Total return over three and five years relative to the Board's assumed rate of return | 7.25% |

DIVISION EXPENSES AND GOALS

Benefit Services

| Expense Category | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 |
|--------------------------------|---------------------|---------------------|---------------------|
| Salaries and Benefits | 12,161,164 | 16,521,426 | 16,776,276 |
| Professional Fees and Services | 979,248 | 1,205,363 | 818,200 |
| Other Operating Expenses | 176,226 | 300,146 | 139,126 |
| Expense Category Total | 13,316,638 | 18,026,935 | 17,733,602 |

Purpose:

The Benefit Services Division assists members, retirees and their beneficiaries by providing accurate and timely processing of benefits and the delivery of comprehensive information to help participants make better financial, retirement and health care decisions. Benefit Services also coordinates and administers online resources for reporting entities to submit reports and to find information on topics such as eligibility, compensation and legislative updates.

Division Goals:

Aligning to the TRS Strategic Plan, Benefit Services continues to focus on improving the customer service experience.

| Key Performance Indicators (KPI) | Annual Target |
|---|---------------|
| Refunds validated within five business days of receiving final deposit and all paperwork | 95% |
| Benefit estimates mailed within 31 days | 90% |
| Retirees receiving first annuity payment within 31 days of TRS receiving required information or due date, whichever is later | 98% |
| Claims acknowledged within 14 days of receipt of death notification | 90% |
| Claims payments issued within 31 days of receipt of all required paperwork | 95% |
| Calls answered within three minutes | 80% |
| Available benefit counseling office visits | 20,000 |

DIVISION EXPENSES AND GOALS

Financial Services

| Expense Category | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 |
|--------------------------------|---------------------|---------------------|---------------------|
| Salaries and Benefits | 6,619,637 | 7,963,749 | 8,101,498 |
| Professional Fees and Services | 2,603,836 | 2,617,874 | 2,362,688 |
| Other Operating Expenses | 4,955,840 | 7,328,932 | 7,037,699 |
| Expense Category Total | 14,179,313 | 17,910,555 | 17,501,885 |

Purpose:

The Financial Services Division is responsible for supporting the mission of TRS through sound, customer-focused fiscal and administrative management that includes a variety of support services while ensuring fiscal responsibility. These activities include accounting services, budget planning and analysis, records management, print and mail services, security and facility safety and maintenance.

Division Goals:

Aligning to the TRS Strategic Plan, Financial Services continues to support the core services by sustaining a financially sound pension system and achieving excellence in the delivery of TRS goals. Two areas of focus for Financial Services are Procurement and Contract's three-year strategic improvement process and the agency's short-term and long-term occupancy strategies.

| Key Performance Indicators (KPI) | Annual Target |
|---|---------------|
| Increase data analytics to identify reporting errors and missing information in TRUST | 100% |
| Improve space optimization | TBD |
| Increase number of HUBs utilized for Commodities | 40% |
| Increase number of HUBs utilized for Other Services | 25% |
| Increase number of HUBs utilized for Professional Services | 10% |
| Increase number of HUBs utilized for Special Trade | 40% |

DIVISION EXPENSES AND GOALS

Information Technology

| Expense Category | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 |
|--------------------------------|---------------------|---------------------|---------------------|
| Salaries and Benefits | 8,642,988 | 12,745,836 | 12,062,263 |
| Professional Fees and Services | 1,911,072 | 3,942,369 | 5,655,478 |
| Other Operating Expenses | 11,600,598 | 14,576,832 | 16,416,751 |
| Expense Category Total | 22,154,659 | 31,265,037 | 34,134,492 |

Purpose:

The IT Division is responsible for all aspects of TRS' IT resources and systems implementation. IT seeks to be business enablers, providing technology and information solutions that enhance the efficiency and effectiveness of TRS and make a positive difference in members' lives. IT focuses on the division's core values of excellence, integrity and customer service, which complement the overall agency core values.

Division Goals:

Aligning to the TRS Strategic Plan, Information Technology ensures that people, processes and technology align to achieve excellence in the delivery of TRS goals.

| Key Performance Indicators (KPI) | Annual Target |
|---|---------------|
| Percent of network/systems uptime | 99.9% |
| Percent of business-critical application uptime | 99.5% |
| Percent of available system capacity | 80% |
| Business customer satisfaction in overall system user experience | 93.0% |
| Agency satisfaction rate of new digitalized workplace model | TBD |
| Time to remediate risks/vulnerabilities identified in penetration and vulnerability scans | 30 days |

DIVISION EXPENSES AND GOALS

TEAM Program

| Expense Category | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 |
|--------------------------------|---------------------|---------------------|---------------------|
| Salaries and Benefits | 7,695,137 | 9,374,723 | 9,944,071 |
| Professional Fees and Services | 8,146,056 | 10,694,136 | 7,907,166 |
| Other Operating Expenses | 3,888 | 5,206 | — |
| Expense Category Total | 15,845,081 | 20,074,065 | 17,851,237 |

Purpose:

TEAM, a multiyear initiative, is the name for the related projects that will modernize TRS technologies and business processes, allowing greater flexibility in providing service to TRS membership and reducing the risks of obsolete technology. The associated projects under the TEAM Program include data management, independent program assessment, the pension administration line of business (LOB) solution, and the health care line of business (HILOB) solution.

Division Goals:

Aligning to the TRS Strategic Plan, the TEAM Program implements a modern pension benefit system increasing identification of underpayments and collection of contributions to TRS.

| Key Performance Indicators (KPI) | Annual Target |
|---|---------------|
| Increase data analytics to identify reporting errors and missing information in the Line of Business (LOB) system | 100% |
| Percent complete - Design, build and test HILOB system components | 87% |
| Percent Complete – Design, build and test pension LOB system components – phase two | 92% |
| Percent Complete – Go live with phase two of the pension LOB system and HILOB system | 50% |

DIVISION EXPENSES AND GOALS

Health Care Programs

| Expense Category | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 |
|--------------------------------|---------------------|---------------------|---------------------|
| Salaries and Benefits | 6,467,195 | 7,127,745 | 7,484,020 |
| Professional Fees and Services | 3,347,774 | 4,995,300 | 5,235,025 |
| Other Operating Expenses | 279,257 | 1,047,397 | 713,927 |
| Expense Category Total | 10,094,226 | 13,170,442 | 13,432,972 |

Purpose:

The Health and Insurance Benefits Division (HIB) works with outside contracted vendors to administer the health care plans offered under the TRS-Care and TRS-ActiveCare plans. HIB also supports the long-term care insurance program for active members and retirees. The HIB team has a strong customer service interest in supporting TRS members and retirees with their health and insurance benefits needs.

Division Goals:

Aligning to the TRS Strategic Plan, the HIB Division focuses on improving communication efforts regarding health care funding needs, increasing the value of health care benefits and improving the health of our members.

| Key Performance Indicators (KPI) | Annual Target |
|--|---|
| Cost savings associated with relying less on external vendors | 150,000 |
| Average annual increase in cost of claims experienced by TRS-Care and TRS-ActiveCare compared to S&P trend | <0% |
| Increase number of plan participants in value-based care arrangements (total enrollment) | 24.72% (TRS-ActiveCare) 20.8% (TRS-Care) |
| Member engagement metrics as measured by percent of members who open the Pulse email and then click to read articles | 23% email 3% articles |
| Increase number of TRS-Care participants in diabetes management programs (total enrollment) | 6.64% |
| Increase number of TRS-ActiveCare participants in diabetes management programs (total enrollment, excluding HMOs) | 4.76% |

Expenses by Fund

PENSION TRUST FUND

The pension trust fund is the main source of funds for TRS operations. This funding is appropriated to TRS by the Legislature. When the TRS Board of Trustees adopts the operating budget, the approved funding is transferred from the assets of the pension fund to an administrative fund to pay for operations in that fiscal year.

Excluding contingency amounts, the overall decrease in the budget from FY 2020 to FY 2021 is related primarily to payroll budget savings resulting from a soft hiring freeze through at least December 2020 and limiting payroll increases including overtime/compensatory time, as well as a decrease in travel expenses. Additionally, operating expenses for each division have been strategically reduced where they would have the smallest impact on agency goals and objectives.

TRS Pension Trust Fund

| | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance from FY 2020 to FY 2021 | |
|--|---------------------|---------------------|---------------------|-------------------------------------|------------|
| Salaries and Wages | 63,651,544 | 79,980,800 | 82,042,821 | 2,062,021 | 3% |
| Longevity Pay | 624,360 | 786,700 | 738,280 | (48,420) | -6% |
| Retirement Contributions | 4,328,305 | 5,415,811 | 6,079,540 | 663,729 | 12% |
| Social Security Contributions | 4,435,703 | 6,311,700 | 6,658,330 | 346,630 | 5% |
| Health Insurance Contributions | 7,633,245 | 8,679,700 | 9,860,296 | 1,180,596 | 14% |
| Benefit Replacement Pay | 45,274 | 34,489 | 48,024 | 13,535 | 39% |
| Other Employee Benefits | 620,879 | 1,224,342 | 870,560 | (353,782) | -29% |
| Performance Incentive Comp | 8,667,153 | 11,376,000 | 23,000,000 | 11,624,000 | 102% |
| Total Salaries and Benefits | 90,006,463 | 113,809,542 | 129,297,851 | 15,488,309 | 14% |
| Professional Fees and Services | 16,734,781 | 23,276,347 | 22,728,203 | (548,144) | -2% |
| Consumable Supplies, Fuels | 325,106 | 525,002 | 585,734 | 60,732 | 12% |
| Utilities | 2,277,392 | 1,324,219 | 1,144,723 | (179,496) | -14% |
| Travel | 1,399,032 | 2,243,942 | 2,502,150 | 258,208 | 12% |
| Rentals | 4,474,808 | 4,435,526 | 4,965,981 | 530,455 | 12% |
| Dues, Fees, Staff Development | 546,332 | 892,672 | 857,732 | (34,940) | -4% |
| Subscriptions and Reference Information | 334,351 | 596,995 | 511,606 | (85,389) | -14% |
| Printing and Reproduction | — | 455,805 | 445,892 | (9,913) | -2% |
| Postage, Mailing, Delivery | 2,334,080 | 2,661,518 | 1,955,600 | (705,918) | -27% |
| Software Purchases and Service | 5,677,865 | 8,152,256 | 8,045,000 | (107,256) | -1% |
| Computer Hardware Service | 653,590 | 732,572 | 1,106,000 | 373,428 | 51% |
| Miscellaneous Expenses | 2,387,092 | 6,779,847 | 7,040,728 | 260,881 | 4% |
| Insurance Premiums | 734,446 | 883,800 | 898,800 | 15,000 | 2% |
| Furniture and Equipment - Expensed | 1,586,776 | 3,891,410 | 1,770,678 | (2,120,732) | -54% |
| Building/Equipment Maintenance | 819,709 | 1,770,932 | 1,739,062 | (31,870) | -2% |
| Total Operating Expenses | 23,550,578 | 35,346,496 | 33,569,686 | (1,776,810) | -5% |
| Furniture and Equipment - Capitalized | 1,403,371 | 1,567,269 | 1,962,000 | 394,731 | 25% |
| Total Fund Expenses | 131,695,193 | 173,999,654 | 187,557,740 | 13,558,086 | 8% |

*Amounts above for FY 2021 include \$19,134,107 in the contingency account. Expenditure of these funds requires approval by the Executive Director.

Expenses by Fund

COMMISSION CREDITS

Commission Credits refer to the use of a credited portion of brokerage commissions incurred during trade execution to obtain goods, services or research. Under board policy, Commission Credits are used to pay for research plus goods and services that support the investment decision-making function of TRS. Using Section 28(e) of the Securities and Exchange Act as guidance, trades must not be created solely to generate Commission Credit revenue, and best trade execution must not be sacrificed.

Examples of uses include investment research, data services and reference materials, seminars/conferences, portfolio management services, professional services and information systems.

Commission sharing relates to sharing a portion of the execution costs on internally traded securities while commission recapture relates to recapturing a portion of the execution costs on externally traded securities (i.e. securities traded by our external portfolio managers).

The overall reduction in the budget from FY 2020 to FY 2021 is a result of the change in the custody agreement allowance with State Street Bank and dwindling revenues from commission recapture arrangements.

Commission Credits

| | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance from FY 2020 to FY 2021 | |
|--|---------------------|---------------------|---------------------|-------------------------------------|-------------|
| Professional Fees and Services | 6,086,580 | 8,051,100 | 8,127,647 | 76,547 | 1% |
| Rent, Building and Parking | 476,897 | 536,300 | — | (536,300) | -100% |
| Dues, Fees, Staff Development | 84,895 | 120,000 | 64,876 | (55,124) | -46% |
| Subscriptions and Reference Information | 768,320 | 1,037,500 | 1,657,151 | 619,651 | 60% |
| Software Purchases and Service | 54,250 | 2,038,900 | 1,245,578 | (793,322) | -39% |
| Miscellaneous Expenses | 13,530,241 | 18,314,600 | 15,703,937 | (2,610,663) | -14% |
| Furniture & Equipment | 19,321 | 20,000 | 9,492 | (10,508) | -53% |
| Other Operating Expenses | 14,933,925 | 22,067,300 | 18,681,034 | (3,386,266) | -15% |
| Total Expenses | 21,020,505 | 30,118,400 | 26,808,681 | (3,309,719) | -11% |
| Revenue Sources | | | | | |
| State Street Bank Partnership Agreement | 7,655,063 | 8,457,900 | 6,000,001 | (2,457,899) | -29% |
| Commission Sharing | 13,019,638 | 20,860,500 | 20,429,010 | (431,490) | -2% |
| Commission Recapture | 345,804 | 800,000 | 379,670 | (420,330) | -53% |
| Total Revenue | 21,020,505 | 30,118,400 | 26,808,681 | (3,309,719) | -11% |

*Amounts above for FY 2021 include \$1,340,434 in the contingency account. Expenditure of these funds requires approval by the Executive Director.

Expenses by Fund

TRS-CARE FUND

TRS-Care was created in 1985 to provide health insurance for retired teachers and district employees. There are approximately 225,000 Texans covered by TRS-Care. TRS spends approximately \$1.4 billion per year on health care claims under this program.

All of the claims and administrative expenses are paid out of the TRS-Care Fund. The expenses outlined on the next page are only the administrative expenses and pay for the costs associated with the TRS employees who operate TRS-Care. They are not appropriated by the Legislature.

Increases in salaries and benefits result from adding staff to finalize the health care line of business (HILOB) initiative, scheduled for release during FY 2021. The increase in professional fees and services primarily funds additional consulting services to assist with the transition to a new plan administrator during FY 2021.

TRS-Care Fund

| | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance from FY 2020 to FY 2021 | |
|--|---------------------|---------------------|---------------------|-------------------------------------|------------|
| Salaries and Wages | 3,928,368 | 5,716,556 | 6,927,520 | 1,210,964 | 21% |
| Longevity Pay | 56,720 | 60,660 | 74,240 | 13,580 | 22% |
| Retirement Contributions | 204,340 | 364,300 | 501,180 | 136,880 | 38% |
| Social Security Contributions | 289,171 | 412,509 | 517,050 | 104,541 | 25% |
| Health Insurance Contributions | 456,285 | 565,414 | 765,700 | 200,286 | 35% |
| Benefit Replacement Pay | 4,125 | 3,095 | 3,096 | 1 | 0% |
| Other Employee Benefits | 41,728 | 42,416 | 76,860 | 34,444 | 81% |
| Total Salaries and Benefits | 4,980,736 | 7,164,950 | 8,865,646 | 1,700,696 | 24% |
| Professional Fees and Services | 2,560,225 | 4,012,900 | 4,713,958 | 701,058 | 17% |
| Consumable Supplies | 2,808 | 7,200 | 7,416 | 216 | 3% |
| Utilities | 546 | 7,200 | 7,416 | 216 | 3% |
| Travel | 57,864 | 198,400 | 204,352 | 5,952 | 3% |
| Rentals | 33,200 | 44,700 | 46,041 | 1,341 | 3% |
| Dues, Fees, Staff Development | 12,433 | 30,200 | 31,106 | 906 | 3% |
| Subscriptions and Reference Information | 738 | 6,100 | 6,283 | 183 | 3% |
| Printing and Reproduction | 32,490 | 183,900 | 189,417 | 5,517 | 3% |
| Postage, Mailing, Delivery | 21,178 | 132,900 | 136,887 | 3,987 | 3% |
| Service | — | — | — | — | 0% |
| Miscellaneous Expenses | 60,361 | 294,784 | 295,095 | 311 | 0% |
| Furniture and Equipment | 147 | 7,200 | 7,416 | 216 | 3% |
| Building/Equipment Maintenance | — | 15,500 | 15,965 | 465 | 3% |
| Total Operating Expenses | 221,765 | 928,084 | 947,394 | 19,310 | 2% |
| Total Fund Expenses | 7,762,726 | 12,105,934 | 14,526,998 | 2,421,064 | 20% |

*Amounts above for FY 2021 include \$947,580 in the contingency account.
Expenditure of these funds requires approval by the Executive Director.

Expenses by Fund

TRS-ACTIVECARE FUND

TRS-ActiveCare was created in 2001 to provide health insurance for active teachers and district employees. There are approximately 476,000 Texans covered by TRS-ActiveCare. TRS spends approximately \$2.1 billion per year on health care claims and health maintenance organization (HMO) premiums under this program.

All claims and administrative expenses are paid out of the TRS-ActiveCare Fund. The expenses outlined on the next page are only the administrative expenses and pay for the costs associated with the TRS employees who operate TRS-ActiveCare. They are not appropriated by the Legislature.

Excluding contingency amounts, the overall decrease for the TRS-ActiveCare Fund is primarily attributed to decreases in salaries and wages related to the soft hiring freeze. This decrease is partially offset by increased professional fees to transition to a new plan administrator and changes to the plan structure during FY 2021.

TRS-ActiveCare Fund

| | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance from FY 2020 to FY 2021 | |
|--|---------------------|---------------------|---------------------|-------------------------------------|-------------|
| Salaries and Wages | 1,979,648 | 1,792,581 | 1,353,770 | (438,811) | -24% |
| Longevity Pay | 25,100 | 18,680 | 18,560 | (120) | -1% |
| Retirement Contributions | 134,616 | 112,500 | 97,940 | (14,560) | -13% |
| Social Security Contributions | 144,712 | 126,285 | 101,400 | (24,885) | -20% |
| Health Insurance Contributions | 211,647 | 181,914 | 143,930 | (37,984) | -21% |
| Benefit Replacement Pay | 1,031 | 1,032 | 1,032 | — | 0% |
| Other Employee Benefits | 18,348 | 15,229 | 18,050 | 2,821 | 19% |
| Total Salaries and Benefits | 2,515,103 | 2,248,221 | 1,734,682 | (513,539) | -23% |
| Professional Fees and Services | 1,162,516 | 1,857,400 | 2,413,122 | 555,722 | 30% |
| Consumable Supplies | — | 3,100 | 3,193 | 93 | 3% |
| Utilities | 731 | 1,500 | 1,545 | 45 | 3% |
| Travel | 16,106 | 30,600 | 57,356 | 26,756 | 87% |
| Rentals | 30,642 | 19,200 | 19,776 | 576 | 3% |
| Dues, Fees, Staff Development | 5,714 | 29,300 | 30,179 | 879 | 3% |
| Subscriptions and Reference Information | 89 | 1,000 | 1,030 | 30 | 3% |
| Printing and Reproduction | 53 | 2,700 | 2,807 | 107 | 4% |
| Postage, Mailing, Delivery | 166 | 5,100 | 5,227 | 127 | 2% |
| Miscellaneous Expenses | 3,918 | 24,479 | 23,793 | (686) | -3% |
| Furniture and Equipment | 131 | 3,600 | 3,708 | 108 | 3% |
| Building/Equipment Maintenance | — | 2,100 | 2,163 | 63 | 3% |
| Total Operating Expenses | 57,549 | 122,679 | 150,777 | 28,098 | 23% |
| Total Fund Expenses | 3,735,168 | 4,228,300 | 4,298,581 | 70,281 | 2% |

*Amounts above for FY 2021 include \$267,879 in the contingency account. Expenditure of these funds requires approval by the Executive Director.

Expenses by Fund

403(b) CERTIFICATION PROGRAM

A 403(b) is a tax-sheltered annuity (TSA) plan and can be either an annuity contract or custodial account. These plans are offered as an option to school district employees. Certified companies were previously required to register their 403(b) products with TRS (80th Texas Legislative Session, 2007, HB 2427), and to pay a fee of \$3,000 to do so. TRS was responsible for overseeing and managing the certification and registration process for both companies and products.

House Bill 2820 (86th Legislature, Regular Session) removed TRS' authority to certify 403(b) companies and maintain a list of registered 403(b) investment products as of Sept. 1, 2019. Products will continue to be regulated by the Texas Department of Insurance, the Texas State Securities Board and applicable federal agencies.

403(b) Certification Program

| | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance from FY 2020 to FY 2021 | |
|------------------------------------|---------------------|---------------------|---------------------|-------------------------------------|-----------|
| Salaries and Wages | 57,653 | — | — | — | 0% |
| Longevity Pay | 1,200 | — | — | — | 0% |
| Retirement Contributions | 3,920 | — | — | — | 0% |
| Social Security Contributions | 4,283 | — | — | — | 0% |
| Health Insurance Contributions | 6,938 | — | — | — | 0% |
| Other Employee Benefits | 560 | — | — | — | 0% |
| Total Salaries and Benefits | 74,554 | — | — | — | 0% |
| Professional Fees and Services | 20,000 | — | — | — | 0% |
| Travel | — | — | — | — | 0% |
| Dues, Fees, Staff Development | — | — | — | — | 0% |
| Miscellaneous Expenses | — | — | — | — | 0% |
| Total Operating Expenses | — | — | — | — | 0% |
| Total Fund Expenses | 94,554 | — | — | — | 0% |

FULL-TIME EQUIVALENT EMPLOYEES (FTEs)

| Division | Actual FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Variance FY 2020 to FY 2021 |
|--------------------------------------|-------------------|---------------------|---------------------|-----------------------------------|
| Pension Funded | | | | |
| Benefit Services | 171.8 | 234.0 | 234.0 | — |
| Communications | 6.4 | 7.5 | 7.5 | — |
| Executive | 3.5 | 5.0 | 5.0 | — |
| Financial Services | 61.0 | 87.3 | 87.3 | — |
| CAPPS Implementation | 12.7 | — | — | — |
| Governmental Relations | 2.0 | 2.0 | 2.0 | — |
| Information Technology | 70.4 | 89.0 | 102.0 | 13.0 |
| TEAM Program | 68.8 | 53.0 | 53.0 | — |
| Internal Audit | 10.4 | 14.0 | 14.0 | — |
| Investment Management | 155.3 | 183.0 | 183.0 | — |
| Legal & Compliance | 25.8 | 35.0 | 35.0 | — |
| Organizational Excellence | 21.6 | 26.5 | 26.5 | — |
| Strategic Initiatives | 5.9 | 9.0 | 9.0 | — |
| Total Pension Funded FTEs | 615.7 | 745.3 | 758.3 | 13.0 |
| Health Care Funded | | | | |
| TRS-Care | 21.4 | 41.0 | 37.0 | (4.0) |
| Agency Support to TRS-Care | 22.3 | 28.0 | 24.0 | (4.0) |
| HILOB Project | 10.5 | 25.0 | 26.5 | 1.5 |
| TRS-ActiveCare | 19.4 | 5.0 | 9.0 | 4.0 |
| Agency Support to TRS-ActiveCare | 8.5 | 2.0 | 8.0 | 6.0 |
| Optional Insurance Program | 0.3 | 1.0 | 1.0 | — |
| 403(b) Certification Program | 1.0 | — | — | — |
| Total Health Care Funded FTEs | 83.3 | 102.0 | 105.5 | 3.5 |
| Grand Total | 699.0 | 847.3 | 863.8 | 16.5 |

FULL-TIME EQUIVALENT EMPLOYEES (FTEs)

Explanation of FTE Variances

Increases to TRS FTE authority in the FY 2020 - 2021 biennium is attributed to TRS commitment to achieving the highest levels of customer satisfaction and strengthening the trust funds we manage. Additionally, the completion of CAPPs implementation and the internalization of the TEAM program, transitioned positions to the correlating departments.

Cost Savings through Contractor Conversions

In response to legislative directive to identify cost savings in managing the economic ramifications of COVID-19, TRS has identified approximately one million dollars in savings by converting 13 contract employees to FTE positions in FY 2021. This may cause TRS to exceed the FTE cap by 13 FTEs; however, this increase is authorized by the provisions of the General Appropriations Act, Article IX, Section 6.10, 86th Regular Session.

Health Care Funded Positions

Increase of 3.5 FTEs in the health care funds is due to additional policy staff to work on retiree insurance issues as well as to oversee member communications efforts related to plan changes and to assist with finalizing the health care line of business (HILOB) project, scheduled for release during FY 2021. Also, in preparation for impending changes, FTE positions were shifted from TRS-Care to TRS-ActiveCare.

Long-Term Capital Improvement Plan

The capital projects in the long-term capital improvement plan are selected based upon priorities established by the Board of Trustees via the strategic planning process. The capital budget projects are initiatives that are generally longer term and could impact beyond the upcoming budget year. Once the projects are complete and assets are fully functional, there could be permanent ongoing costs which may include but are not limited to staff augmentation, software and hardware maintenance.

The budget for capital projects is requested through the LAR process and are financed on a pay-as-you-go basis with pension trust fund assets. TRS does not issue debt nor does it have a statutory debt limitation.

A capital budget is defined as an asset with a biennial project cost or unit cost in excess of \$100,000. Without the approval of the governor or LBB, agencies may transfer appropriation amounts not exceeding 25% as defined by Article IX provisions of the GAA.

TRS capital projects are divided in two categories – repair and rehabilitation of buildings and facilities, and acquisition of IT resources.

Repair or Rehabilitation of Buildings and Facilities

Although TRS is a state agency in Texas, TRS owns its facilities and related infrastructure. Repair and rehabilitation of buildings and facilities capital projects are associated with maintaining the agency's four-acre, two building complex comprising 255,000 square feet of assignable space. Building renovation projects in FY 2020 and FY 2021 focus on small scale solutions to create space for additional staff as the agency continues to pursue long-term occupancy strategies. The budget requested in FY 2022 and FY 2023 is to continue a multiyear effort to more efficiently utilize agency space within the scope of the strategic plan. The security renovations capital budget is to update TRS headquarters security equipment to ensure a safe and secure environment for staff, members and visitors.

Long-Term Capital Improvement Plan (cont.)

Acquisition of Information Resource Technologies

The acquisition of IT resources capital projects includes all TRS technology-related initiatives. These include the Network Infrastructure, Data Center Upgrade, Investment Systems Modernization, PC Workstation Refresh, Telephone Counseling Center (TCC) Upgrade, and Pension Legislation projects.

The Network Infrastructure project provides the development, design, implementation and maintenance of the IT infrastructure as it relates to premise-based and cloud-based infrastructure applications and security requirements.

The Data Center Upgrade is to upgrade and expand the data center infrastructure and peripherals to reduce capacity constraints and issues with compatibility and obsolescence.

Investment Systems Modernization project is to define, develop, and implement technical infrastructure to support the Investment Management Division's ability to achieve the TRS trust fund's actuarial rate of return strategy. This includes enhanced trading workflow, data warehouse and business intelligence capability, as well as security infrastructure to ensure that TRS' data is safe.

The PC Workstation Refresh is a project to replace outdated hardware technology, PC and laptop computer systems every two to four years depending on its placement and use requirements in line with the desktop technology refresh policy standards.

The Telephone Counseling Center (TCC) Upgrade capital project upgraded the TCC's technology to include the ability for members to call, email or chat with call center staff for benefit issues and questions. The project was completed in FY 2019.

The Pension Legislation capital budget is an ongoing project to anticipates legislative changes and supports the agency's mission and strategic plans.

Long-Term Capital Improvement Plan (cont.)

CAPPS and TEAM Projects

During the 86th Legislative Session, TRS received appropriation and FTE authority for on-going strategic efforts that require continued staff support to sustain membership growth with new technologies. TRS received rider authority related to unexpended balances of Pension Trust Funds remaining as of Aug. 31, 2019 approved under the provisions of Article III-35, Rider 2, Capital Budget of Senate Bill 1, 85th Legislature, for the TEAM Program and CAPPS Project, are appropriated for the same purposes in FY 2020 and FY 2021. Now entering the final year of the TEAM and CAPPS Program, the agency has transitioned service experts and the related personnel and operating costs to their respective departments in FY 2020.

CAPPS is the official name of the statewide ERP system created by the ProjectONE team. CAPPS provides a single financials and human resource (HR)/payroll administration software solution for Texas state agencies. CAPPS allows aging and inefficient legacy systems to be replaced with an easy-to-use, easy-to-update system that can be scaled to meet the needs of any agency regardless of complexity and size. Reporting is easier and more accurate with CAPPS. Agency functions are recorded in a common data language on an interconnected system that allows financial and HR/payroll departments to exchange information quickly, safely and reliably. TRS began implementing CAPPS in FY 2018 with a two-year time frame. Although most of the implementation cost will be borne by the state comptroller, TRS will assume the costs associated with linking CAPPS with the TRS IT infrastructure.

TEAM is a multiyear initiative that will modernize TRS technologies and business processes, allowing greater flexibility in providing service to TRS membership and reducing the risks of obsolete technology. The associated projects under the TEAM Program include data management, independent program assessment, the pension administration line of business (LOB) solution, and the health care line of business (HILOB) solution.

Long-Term Capital Improvement Plan (cont.)

| Project | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Requested FY 2022 | Requested FY 2023 |
|--|---------------------|---------------------|---------------------|----------------------|----------------------|
| Building Renovations | 320,243 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Security Renovations | — | 100,000 | 100,000 | 100,000 | 100,000 |
| TOTAL | 320,243 | 1,600,000 | 1,600,000 | 1,600,000 | 1,600,000 |
| | | | | | |
| Project | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Requested FY 2022 | Requested FY 2023 |
| Network Infrastructure | 808,407 | 500,000 | 500,000 | 500,000 | 500,000 |
| Data Center Upgrade | 757,794 | 600,000 | 600,000 | 600,000 | 600,000 |
| Investment Systems Modernization | 424,091 | 450,000 | 450,000 | 450,000 | 450,000 |
| PC Workstation Refresh | 447,988 | 500,000 | 500,000 | 500,000 | 500,000 |
| Telephone Counseling Center (TCC) Upgrade | 1,676,057 | — | — | — | — |
| Pension Legislation | — | — | 200,000 | — | 200,000 |
| TOTAL | 4,114,338 | 2,050,000 | 2,250,000 | 2,050,000 | 2,250,000 |
| | | | | | |
| Project | Expended FY 2019 | Budgeted FY 2020 | Budgeted FY 2021 | Requested FY 2022 | Requested FY 2023 |
| CAPPS Project UB | 2,998,449 | 838,627 | 778,688 | — | — |
| TEAM Program UB | 13,338,072 | 4,660,776 | 4,500,423 | — | — |
| TOTAL | 16,336,520 | 5,499,403 | 5,279,111 | — | — |

*Amounts above for FY 2021 include \$192,500 in the contingency account. Expenditure of these funds requires approval by the Executive Director.

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 86th 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.

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.

GENERAL PROVISIONS (CONT.)

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).

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.

PERSONNEL SERVICES:

- **Hiring and Personnel Actions** – The Executive Director, or Deputy Director/Chief Operations and Administration Officer 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.

GENERAL PROVISIONS (CONT.)

PERSONNEL SERVICES:

- **Performance Pay Plans** – The Executive Director, or Deputy Director/Chief Operations and Administration Officer 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 budget for that purpose or are otherwise made available through the Budget Execution Authority in these General Provisions.
- **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.

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/Chief Operations and Administration Officer 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.

GENERAL PROVISIONS (CONT.)

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/Chief Operations and Administration Officer 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. 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/Chief Operations and Administration Officer in the absence of the Executive Director, is authorized to transfer budgeted funds up to 25% of an expense category, whichever is greater, 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.

GENERAL PROVISIONS (CONT.)

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/Chief Operations and Administration Officer, 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/Chief Operations and Administration Officer, 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 – Aligning with state leadership direction, TRS will operate within a 91% budget for fiscal year 2021; with the remaining budget to be held in a contingency account for items vital to the agency's mission, including but not limited to items determined by the Executive Director to be necessary to implement recommendations of the Sunset Advisory Commission, or to be lapsed and remain in the trust funds. The Executive Director, or Deputy Director/Chief Operations and Administration Officer in the absence of the Executive Director, is authorized to approve transfers from the contingency budget. The board finds that such reasonable and necessary transfers are necessary in performing its fiduciary duties. The Executive Director, Deputy Director/Chief Operations and Administration Officer, or Chief Financial Officer will notify the Budget Committee of the board of such transfers at the next board meeting.

Contracts that Exceed \$1,000,000 in Value

The Procurement and Contracts Department is responsible for acquiring goods and services, including developing and advertising solicitations, evaluating responses, awarding purchase orders, contract negotiations, tracking and reviewing contracts and reporting. The Contract Administration Policy is administered consistent with applicable federal and state laws and TRS policies and procedures, as well as with TRS' fiduciary responsibilities.

| CONTRACTOR | DESCRIPTION | START DATE | END DATE | CONTRACT AMOUNT |
|-------------------------------------|----------------------------------|------------|------------|-----------------|
| AETNA U S HEALTHCARE | TRS-ACTIVE CARE HPA | 9/1/2014 | 8/31/2020 | 558,333,334 |
| SCOTT & WHITE HEALTH PLAN | TRS-ACTIVE CARE HMO | 9/1/2014 | 8/31/2020 | 471,666,665 |
| SHA LLC | TRS-ACTIVE CARE HMO | 9/1/2014 | 8/31/2020 | 398,666,667 |
| CAREMARK INC | PHARMACY BENEFIT MGR SERVICES | 9/1/2017 | 8/31/2021 | 120,000,000 |
| HEALTH CARE SERVICES CORPORATION | TRS-ACTIVE CARE HMO | 9/1/2014 | 8/31/2020 | 113,333,334 |
| AETNA U S HEALTHCARE | TRS-CARE HPA | 9/1/2016 | 12/31/2020 | 99,000,000 |
| HUMANA | TRS-CARE MEDICARE ADVANTAGE PLAN | 1/1/2017 | 12/31/2020 | 93,000,000 |
| TC AUSTIN BLOCK 71 LLC | NEW BUILDING LEASE FOR IMD | 2/14/2019 | 10/31/2031 | 64,469,155 |
| STATE STREET BANK AND TRUST COMPANY | SSB MASTER CUSTODIAN CONTRACT | 8/1/2015 | 7/31/2022 | 44,000,000 |
| COUSINS 816 CONGRESS LLC | CURRENT BUILDING LEASE FOR IMD | 10/28/2008 | 3/31/2021 | 29,068,812 |
| FACTSET RESEARCH SYSTEMS INC | FINANCIAL MODELING | 2/1/2005 | 2/1/2021 | 25,317,043 |
| SILVERSCRIPT INSURANCE COMPANY | PHARM. BENEFIT MGR EGWP | 1/1/2018 | 12/31/2020 | 21,000,000 |
| BLOOMBERG L P | BLOOMBERG ANYWHERE | 9/1/2005 | 9/1/2020 | 18,729,969 |
| CBRE INC | BROKER SERVICES | 3/14/2019 | 3/13/2022 | 13,594,000 |
| PROVALIANT HOLDINGS LLC | TEAM PROGRAM MANAGEMENT SERVICES | 11/15/2011 | 11/15/2020 | 10,920,000 |
| COBOS DESIGN & CONSTRUCTION INC | CONSTRUCTION SERVICES | 10/12/2015 | 8/31/2021 | 10,663,421 |
| DAVID E. HARVEY BUILDERS INC | GENERAL CONTRACTOR FOR BLOCK 71 | 12/12/2019 | 12/31/2021 | 10,500,000 |
| ALBOURNE AMERICA LLC | INVESTMENT ADVISORY SERVICES | 9/1/2018 | 8/31/2023 | 10,000,000 |
| COUSINS 816 CONGRESS LLC | CAM 14TH FLOOR 816 CONGRESS | 8/1/2018 | 3/31/2021 | 9,773,130 |
| GABRIEL ROEDER SMITH & COMPANY | HEALTH CARE ACTUARIAL SERVICES | 9/1/2017 | 8/31/2021 | 6,000,000 |

Contracts that Exceed \$1,000,000 in Value (cont.)

| CONTRACTOR | DESCRIPTION | START DATE | END DATE | CONTRACT AMOUNT |
|---|--|------------|------------|-----------------|
| GLOBALSCOPE COMMUNICATIONS CORPORATION | CALL CENTER MODERNIZATION | 1/1/2018 | 12/31/2021 | 5,507,200 |
| THOMSON REUTERS | DATASTREAM, EIKON, TASS, QA | 9/1/2014 | 8/31/2020 | 4,944,420 |
| COMPUTER TECHNOLOGIES USA LLC | MAINFRAME OFFSITE | 5/25/2020 | 5/24/2023 | 4,666,726 |
| AON HEWITT | INVESTMENT ADVISORY SERVICES | 9/1/2018 | 8/31/2023 | 4,545,000 |
| ERNST & YOUNG LLP | FOREIGN TAX AGENT | 5/1/2018 | 4/30/2021 | 4,500,000 |
| EFRONT FINANCIAL SOLUTIONS INC | EFRONT SOFTWARE | 8/25/2011 | 8/25/2021 | 3,912,373 |
| MSCI BARRA LLC | PORTFOLIO RISK MANAGEMENT | 5/1/2019 | 4/30/2021 | 3,697,060 |
| BLOOMBERG FINANCE LP | BLOOMBERG SOFTWARE LICENSE | 5/11/2006 | 3/1/2021 | 3,499,524 |
| S&P GLOBAL MARKET INTELLIGENCE | S&P CLARIFI PORTFOLIO MANAGEMENT | 11/30/2016 | 11/29/2021 | 3,443,221 |
| CAREMARK INC | PHARMACY BENEFIT MGR SERVICES | 9/1/2017 | 8/31/2021 | 3,270,000 |
| SOFTWARE ONE INC | MICROSOFT ENTERPRISE AGREEMENT | 1/1/2020 | 12/31/2022 | 3,210,513 |
| CHICAGO CLEARING CORP | INVESTMENT-RELATED LITIGATION | 3/2/2018 | 3/1/2021 | 3,150,000 |
| FINANCIAL RECOVERY TECHNOLOGIES LLC | INVESTMENT-RELATED LITIGATION | 3/29/2018 | 3/28/2021 | 3,150,000 |
| JACKSON WALKER LLP | INVESTMENT COUNSEL | 9/1/2019 | 8/31/2021 | 3,000,000 |
| TELEPERFORMANCE USA CORP | OVERFLOW CALL CENTER SERVICES-BENEFIT SERVICES | 3/3/2020 | 8/31/2021 | 2,900,000 |
| NORTON ROSE FULBRIGHT US LLP | INVESTMENT COUNSEL | 9/1/2019 | 8/31/2021 | 2,625,000 |
| SEGAL COMPANY (SOUTHEAST) INC | HEALTH CARE CONSULTING | 10/7/2019 | 8/31/2021 | 2,500,000 |
| SALTHOLDINGS CORP | MEDICARE ENROLLMENT | 9/1/2017 | 8/31/2020 | 2,500,000 |
| BLOOMBERG L P | BLOOMBERG EXCHANGES | 9/1/2005 | 9/1/2020 | 2,495,660 |
| ADDISON PROFESSIONAL FINANCIAL SEARCH LLC | TEAM PROGRAM ASSESSMENT SERVICES | 1/3/2013 | 12/31/2020 | 2,359,000 |
| AXIOMA | AXIOMA SOFTWARE SERVICES | 2/11/2013 | 2/10/2021 | 2,312,238 |
| SEYFARTH SHAW LLP | INVESTMENT COUNSEL | 9/1/2019 | 8/31/2021 | 2,300,000 |
| BLOOMBERG L P | PORTFOLIO ORDER MANAGEMENT | 3/2/2015 | 3/2/2021 | 2,230,625 |
| COUSINS 816 CONGRESS LLC | 14TH FLOOR ADDED 816 CONGRESS | 8/1/2018 | 3/31/2021 | 2,001,071 |
| CATAPULT SYSTEMS LLC | CATAPULT MICROSOFT SERVICES | 10/22/2018 | 8/31/2021 | 2,000,000 |
| SQUARE ONE CONSULTANTS INC | OWNER'S REPRESENTATION | 11/8/2019 | 8/31/2021 | 1,856,000 |

Contracts that Exceed \$1,000,000 in Value (cont.)

| CONTRACTOR | DESCRIPTION | START DATE | END DATE | CONTRACT AMOUNT |
|--|---|------------|------------|-----------------|
| MSCI BARRA LLC | RISK METRICS | 1/28/2016 | 1/27/2021 | 1,730,886 |
| TEKSYSTEMS GLOBAL SERVICES LLC | SERVICENOW LICENSE & SERVICES | 8/21/2020 | 2/20/2022 | 1,680,419 |
| TEXAS DEPT OF INFORMATION RESOURCES | DIR VOICE AND DATA SERVICES | 9/1/2013 | 8/31/2020 | 1,584,760 |
| FundApps | RAPPTR SOFTWARE LICENSES | 10/15/2014 | 1/15/2021 | 1,497,506 |
| MSCI BARRA LLC | STANDARD MODULE OVER UNLIMITED | 3/1/2019 | 2/28/2021 | 1,496,500 |
| GREEN STREET TOPCO LLC | IMD GSA RESEARCH SUBSCRIPTION | 4/6/2011 | 3/31/2021 | 1,492,500 |
| MCCOY-ROCKFORD INC | FURNITURE AGENCYWIDE | 8/27/2018 | 8/31/2021 | 1,464,000 |
| COMMUNICATION SPECIALIST INC | PRINTING AND MAILING SERVICES | 5/28/2015 | 11/27/2020 | 1,458,899 |
| DLA PIPER LLP US | INVESTMENT COUNSEL | 9/1/2019 | 8/31/2021 | 1,450,000 |
| RISKVAL FINANCIAL SOLUTIONS LLC | RISK VALUATION SERVICES | 9/1/2012 | 8/31/2021 | 1,441,875 |
| AUDIO VISUAL INNOVATIONS INC | TRS ENTERPRISE AV CONTRACT | 8/1/2019 | 8/31/2021 | 1,389,103 |
| DEALCLOUD INC | DEALCLOUD LICENSE SUBSCRIPTION | 8/1/2018 | 7/31/2024 | 1,281,717 |
| AMERICAN FACILITY SERVICES INC | JANITORIAL SERVICES | 3/1/2014 | 8/31/2021 | 1,236,224 |
| ALLIED CONSULTANTS | STAFF AUGMENTATION | 7/17/2014 | 8/31/2021 | 1,187,600 |
| ALLIED CONSULTANTS | STAFF AUGMENTATION | 3/1/2016 | 8/31/2021 | 1,173,898 |
| UNITED HEALTHCARE | TRS-CARE MEDICARE ADVANTAGE | 9/1/1998 | 12/31/2020 | 1,140,000 |
| PRESIDIO NETWORKED SOLUTIONS GROUP LLC | CO-LOCATION AND DISASTER RECOVERY WORKSPACE | 2/1/2018 | 5/31/2021 | 1,123,459 |
| ACCENTURE | DATA ANALYTICS SERVICES | 1/24/2020 | 8/31/2021 | 1,100,000 |
| FOSTER PEPPER PLLC | INVESTMENT COUNSEL SERVICES | 9/1/2019 | 8/31/2021 | 1,100,000 |
| FOSTER GARVEY PC | INVESTMENT COUNSEL SERVICES | 10/1/2019 | 8/31/2021 | 1,100,000 |
| ALTERNATIVESOFT | PORTFOLIO CONSTRUCTION AND ASSESSMENT | 1/1/2010 | 12/31/2020 | 1,072,905 |
| ADVANCED CALL CENTER TECHNOLOGIES LLC | OVERFLOW CALL CENTER SERVICES-HIB | 1/1/2020 | 8/31/2021 | 1,000,000 |
| CARAHSOFT TECHNOLOGY CORPORATION | SERVICENOW SOFTWARE AND MAINTENANCE | 9/1/2020 | 8/31/2023 | 1,000,000 |

Appendix Section

APPENDIX A:

COST DRIVERS, STATISTICAL AND SUPPLEMENTAL DATA

Membership

Membership Facts and Figures

| Membership | | |
|------------------------------------|------------------|------------------|
| Number of | August 31, 2019 | August 31, 2018 |
| Current Members | | |
| Active Contributing | 884,540 | 872,999 |
| Inactive Non-vested | 201,948 | 193,498 |
| Inactive Vested | 108,768 | 105,000 |
| Total Current Members | 1,195,256 | 1,171,497 |
| Retirement Recipients: | | |
| Service | 405,236 | 391,927 |
| Disability | 11,994 | 11,914 |
| Survivor | 17,196 | 16,617 |
| Total Retirement Recipients | 434,426 | 420,458 |
| Total Membership | 1,629,682 | 1,591,955 |

Members Retiring Fiscal Year Ended 8/31/19

Members Retiring

| | |
|----------------------------------|---------|
| Number Retiring | 22,871 |
| Average Age at Retirement | 60.3 |
| Average Service Credit | 24 |
| Average Monthly Annuities | |
| Life Annuities | \$2,096 |
| Disability Annuities | \$1,200 |
| Annuities Certain | \$1,142 |

Pension Fiduciary Net Assets

Pension Fiduciary Net Assets (as of 8/31)

| | 2019 (billions) | 2018 (billions) |
|---|--------------------|--------------------|
| Net Position | \$157.978 | \$154.573 |
| Member Contributions | 3.483 | 3.361 |
| State Contributions - General Fund | 1.738 | 1.716 |
| Pension Payments to Retirees & Beneficiaries | 11.357 | 10.270 |

Funding Status

TRS Pension Funding Status

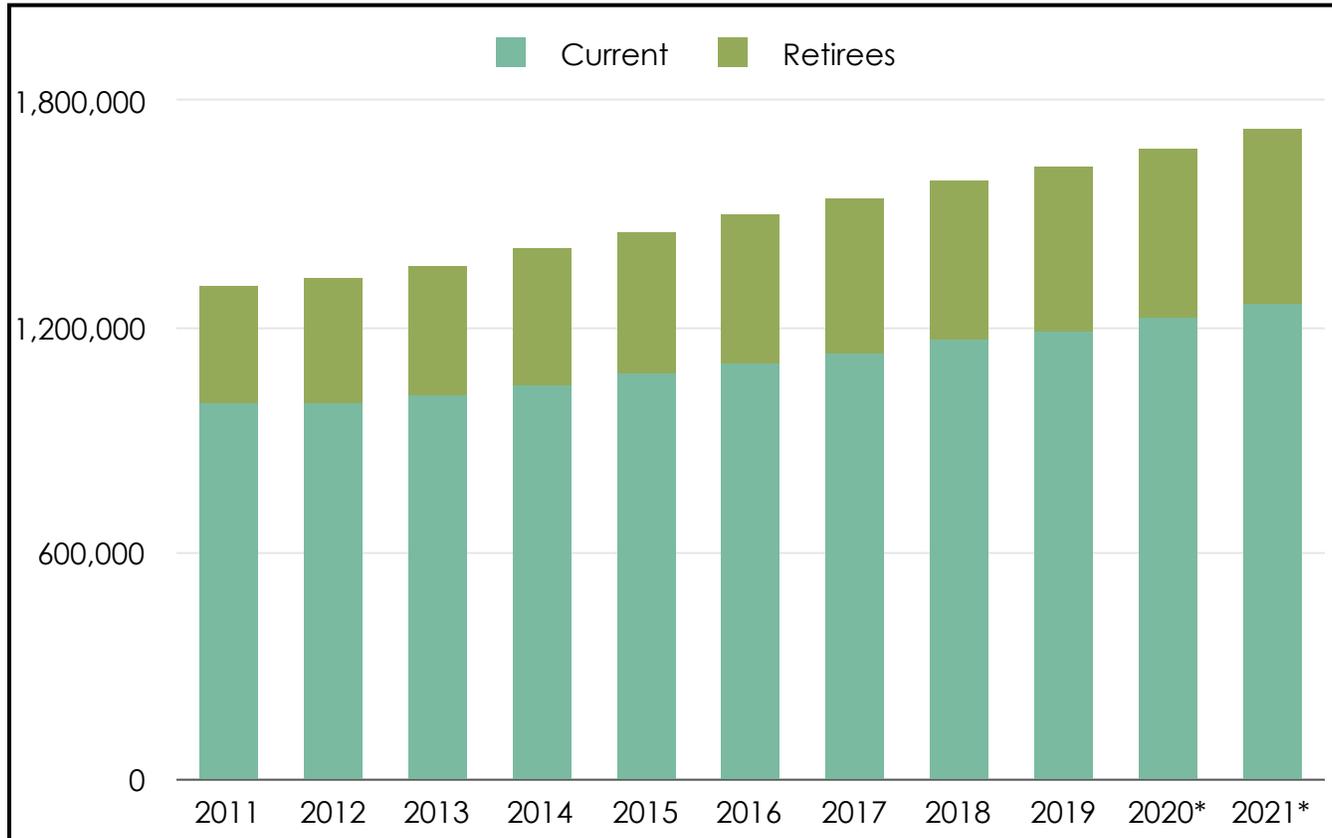
| | 2019 | 2018 |
|--|------------------|------------------|
| Statutory Contribution Rates | | |
| State | 6.80% | 6.80% |
| Member | 7.70% | 7.70% |
| Actuarial Information | | |
| Covered Payroll | \$47.414 billion | \$44.956 billion |
| Normal Cost % | 11.7% | 11.6% |
| Unfunded Actuarial Accrued Liability (UAAL) | \$49.486 billion | \$46.165 billion |
| UAAL as % of Pay | 104.37% | 102.70% |
| Funded Ratio | 76.40% | 76.90% |

Investments

Investments (as of 8/31)

| | Value (in Billions) | Annual Rate of Return |
|-------------|------------------------|--------------------------|
| 2010 | 94.925 | 10.72 |
| 2011 | 106.048 | 15.5 |
| 2012 | 109.993 | 7.6 |
| 2013 | 116.705 | 9.0 |
| 2014 | 131.595 | 16.9 |
| 2015 | 127.042 | -0.3 |
| 2016 | 132.762 | 7.4 |
| 2017 | 145.916 | 12.6 |
| 2018 | 154.700 | 8.2 |
| 2019 | 157.433 | 5.2 |

PENSION MEMBERSHIP GROWTH

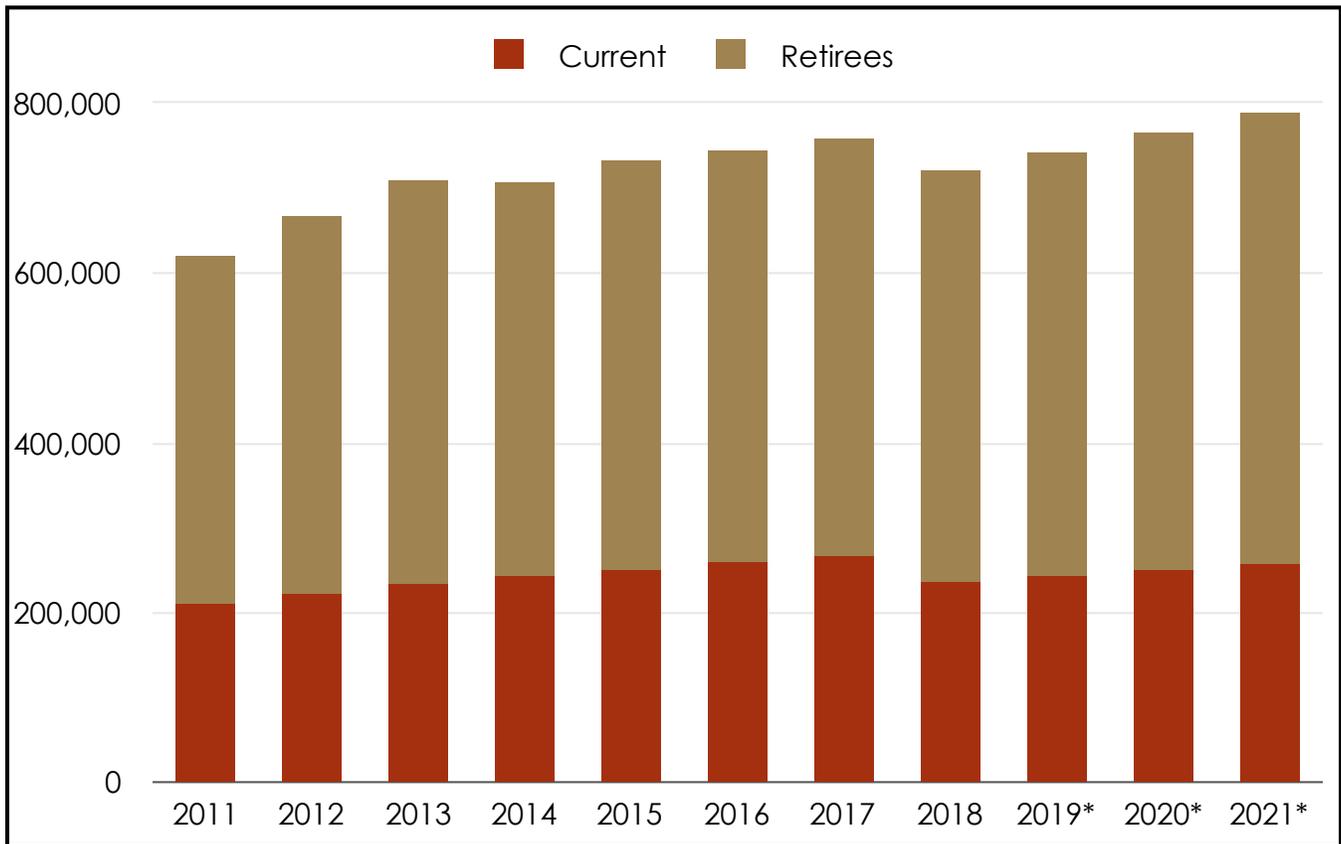


Active members – 19% growth
 Retired members – 39% growth
 *Projected based on historical trending

This chart shows the trend in the number of TRS members over time for both active members and retired members. The rate of growth for retirees is double that of active members. The growth of active members has traditionally been correlated to state population growth, which is expected to grow an average of 1.8% per year through 2050 according to the Texas State Demographer.

The growth in retired members depends on a number of factors and can be influenced by the number of teachers reaching retirement age, the change in benefits design, the change in state funding provided to local districts and general economic conditions. The number of teachers reaching retirement age is expected to increase with the baby boomer population aging into retirement and will plateau as that generation fully engages in retirement.

HEALTH CARE MEMBERSHIP GROWTH

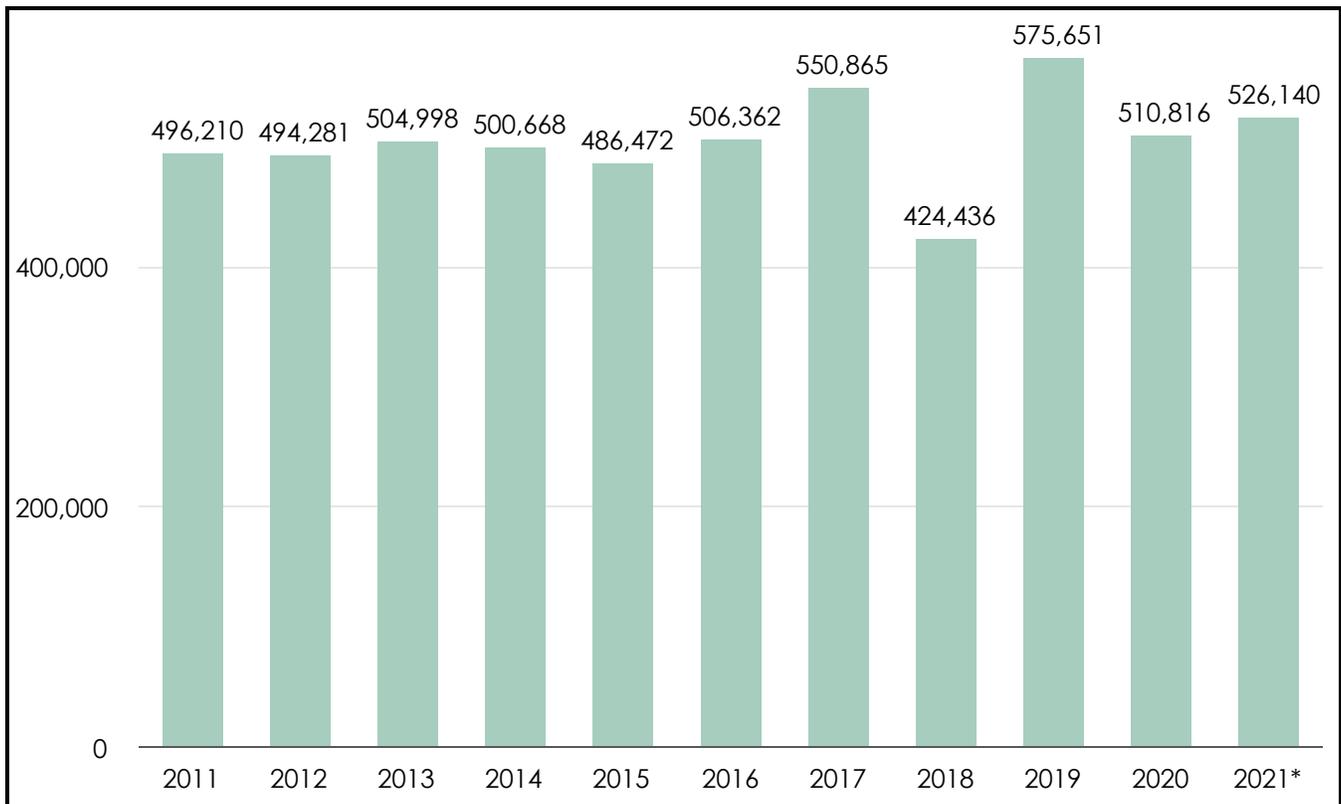


TRS-Care Membership – 16% growth
 TRS-ActiveCare Membership – 21% growth
 *Projected based on historical trending

This chart shows the historical growth in the membership of our health care programs. The growth in TRS-Care, the health care plan for retirees, is largely dependent upon the growth in our number of retired members.

The growth in TRS-ActiveCare, the health care program for active TRS members, is dependent on a host of factors including the growth in active TRS members and the number of districts that choose to participate in the program. We have seen an acceleration of district participation in ActiveCare over the past decade accounting for the substantial growth in TRS-ActiveCare enrollment.

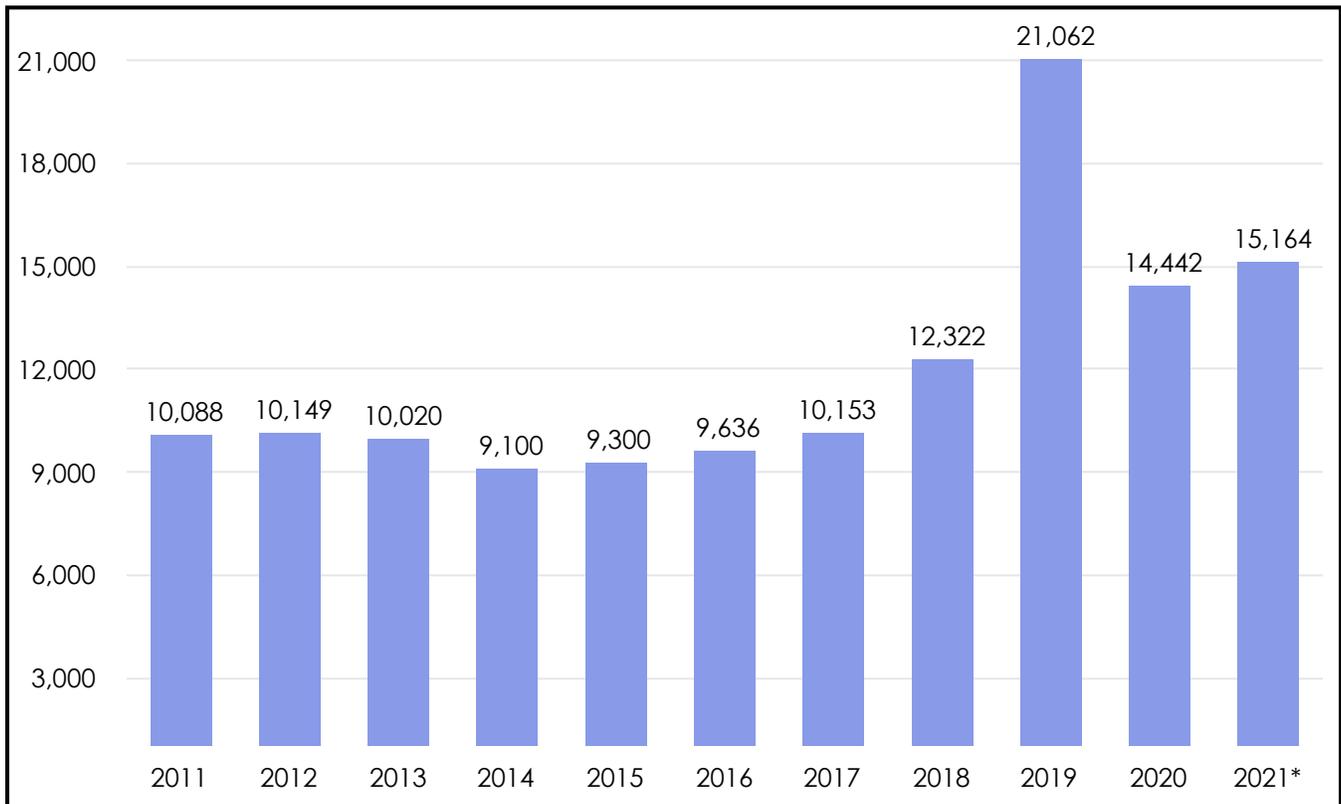
PHONE CALLS ANSWERED



*Projected based on historical trending

This chart displays the call volume handled by the TRS' TCC over time. The call volume is dependent upon membership growth as well as the number of members choosing to retire in a given year. In future years, as web-based, self-service features are added to the TRS website, call volume may decrease. Call volume has a trickle-down effect on other areas of the benefits division in that calls can create processing actions which consume additional staff time.

OFFICE COUNSELING VISITS

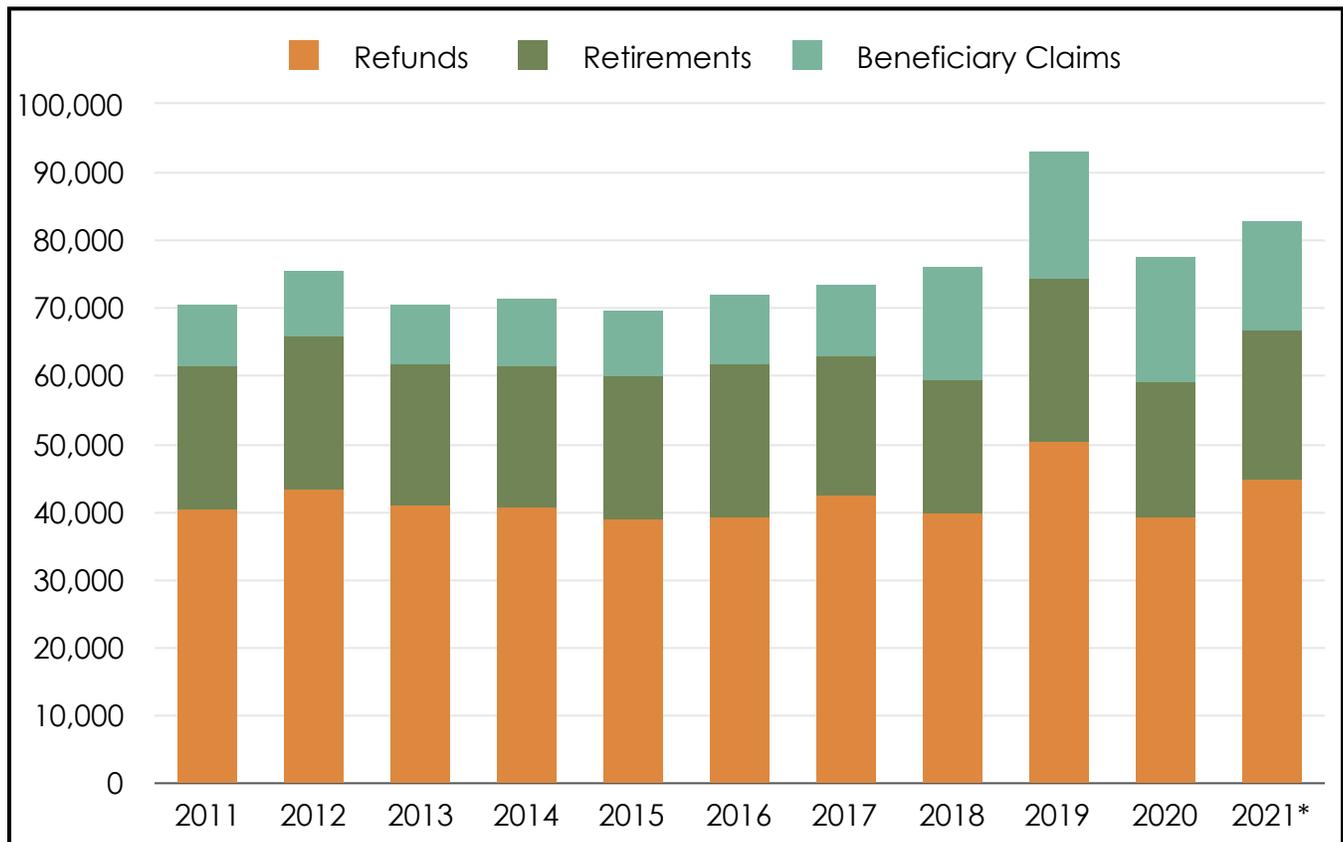


*Projected based on historical trending

This chart shows the office counseling visit volume over time. The office visit volume is dependent upon membership growth as well as the number of members choosing to retire in a given year. In future years, as web-based, self-service features are added to the TRS website, office visit volume may decrease.

For the near future, we are expecting an increase in the number of office visits as the number of retirement age active members increases. This may be a trend for the next five-to-seven years or longer before the office visit volume plateaus and potentially declines as younger generations of members increasingly interact with web-based tools.

BENEFIT PROCESSING ACTIVITY



*Projected based on historical trending

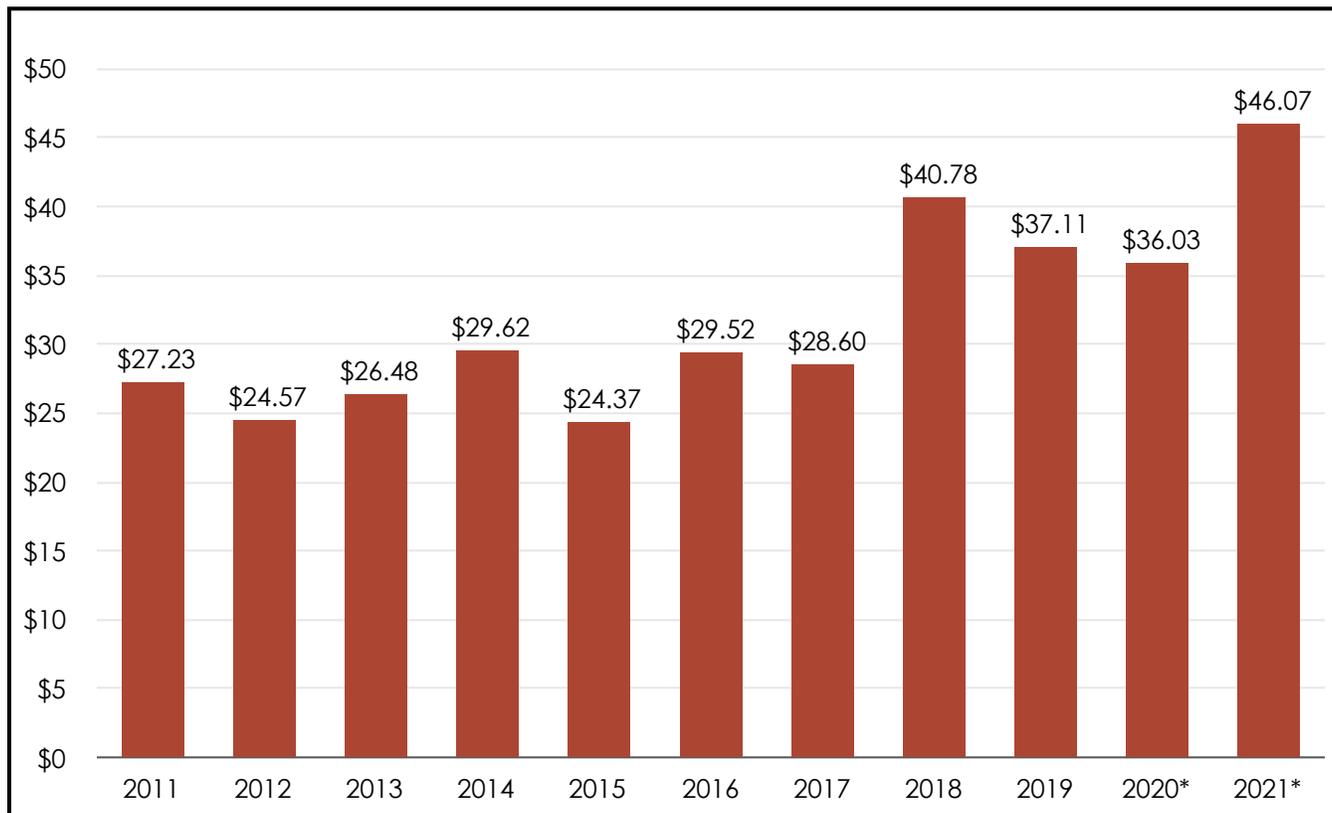
Overall 10% Growth

Refunds – (2%) Retirements – (7%) Beneficiary Claims – 102%

This chart shows the pension benefit processing volume over time for the main beneficiary activities. The processing volume is dependent upon membership growth as well as the number of members choosing to retire in a given year. In future years, as web-based, self-service features are added to the TRS website, processing volume may decrease.

For the near future, TRS expects an increase in volume as the number of retirement age active members increases. This may be a trend for the next five-to-seven years or longer before the volume plateaus and potentially declines as younger generations of members increasingly interact with web-based tools.

BENEFIT COST PER MEMBER

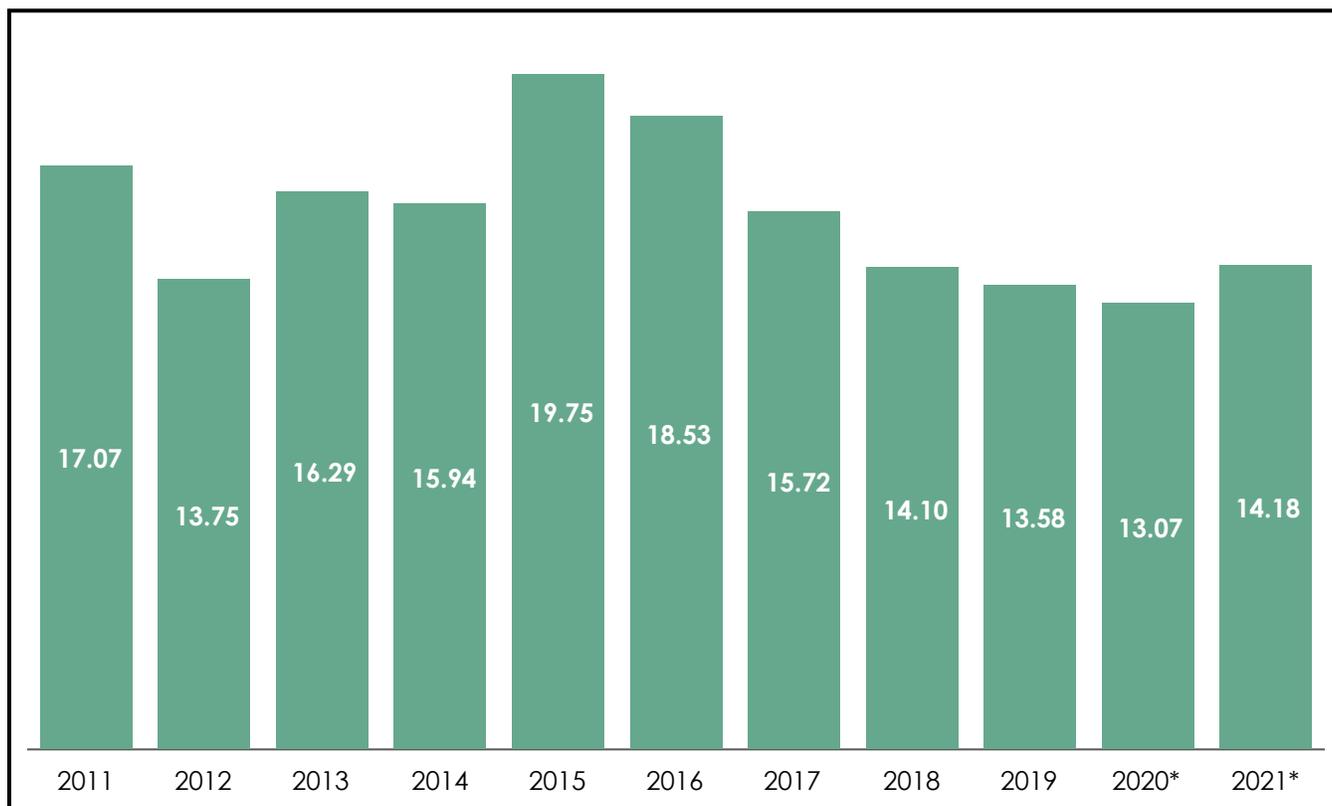


FY 2011 included one-time cost of expensed technology project
 *Projected based on historical trending

The benefit cost per member is defined by the total benefit cost divided by the number of members. This data is collected and calculated by a company called CEM Benchmarking Incorporated, a consulting company that specializes in performance data for large, public pensions. TRS is then compared to 13 peer pension plans for the purposes of measuring performance.

The cost per member number is exclusive of investment costs and includes all administrative expenses related to running the pension plan. Costs related to running the health care programs are excluded as well. The expectation going forward is that costs will continue to increase due to inflationary pressure on normal operating costs as well as inflationary pressure in the local job market. Austin is fast becoming a relatively expensive job market for employers. TRS is no different.

INVESTMENT EXPENSES AS BASIS POINTS OF NET ASSETS



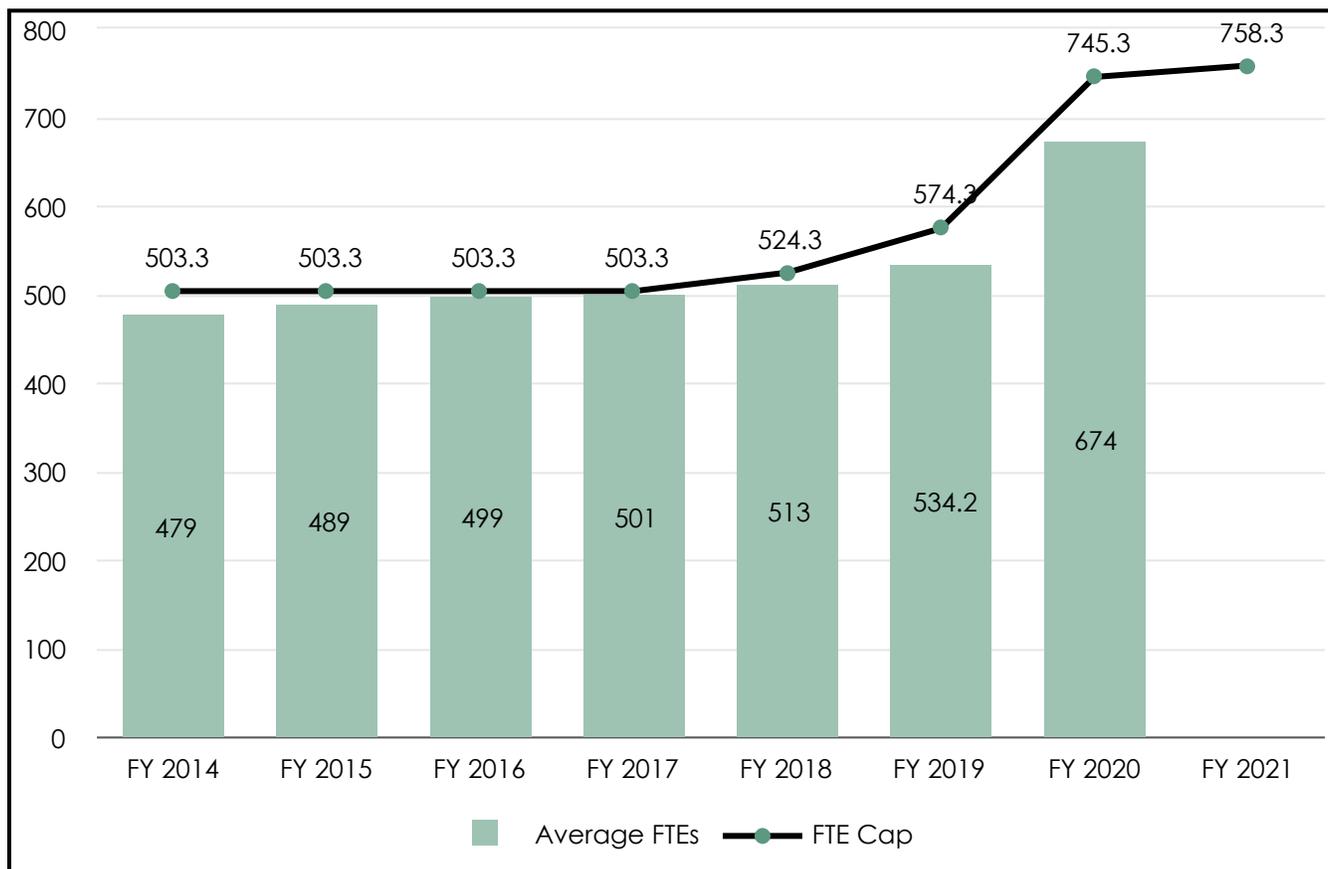
FY 2011 included one-time cost of expensed technology project

*Projected based on historical trending

This investment expense table measures how much TRS spends to generate investment gains. This measure is defined in terms of basis points relative to the net pension assets. A basis point is one hundredth of a percentage point.

This data is used to measure the performance of the investment management function. Measuring performance in terms of basis points is a standard investment industry metric. TRS costs have increased over time as investment returns are increasingly harder to come by due to current economic and stock market conditions. IMD has increased staffing to more effectively position the pension fund for growth and to effectively mitigate risk.

FULL-TIME EQUIVALENT (FTE) EMPLOYEES

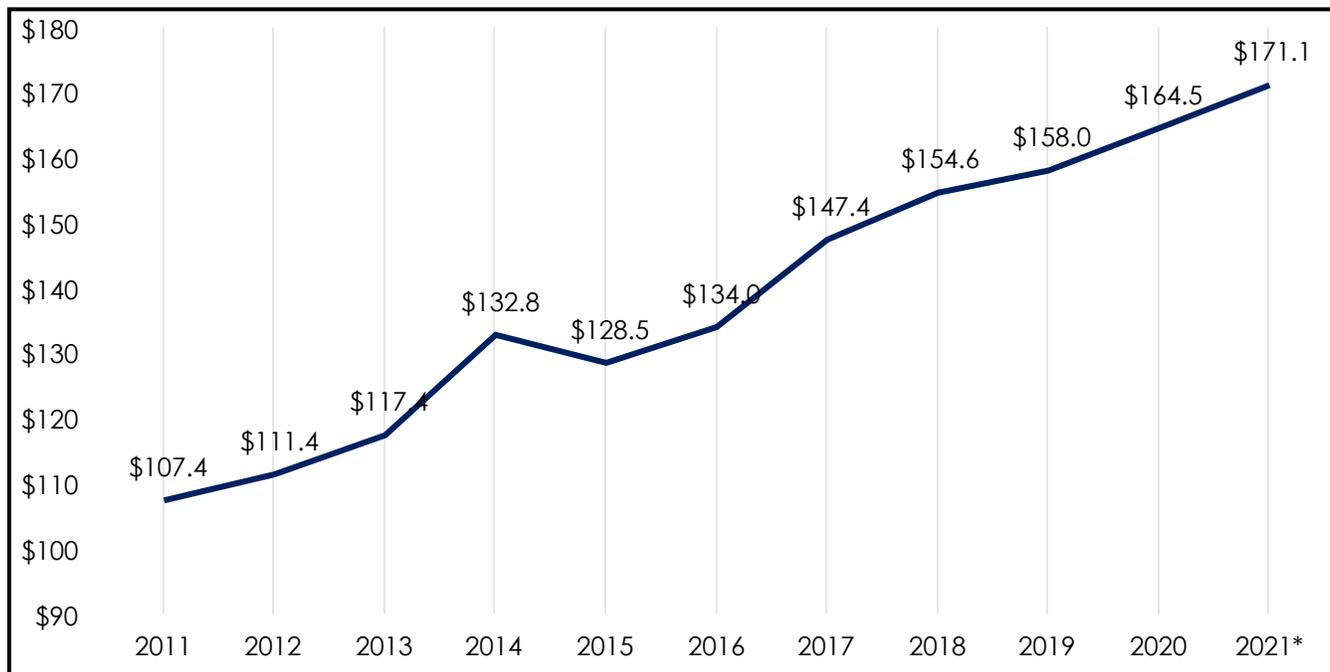


TRS participates in the biennial legislative appropriations process in requesting funds for administrative operations. In the GAA, the Legislature establishes state employment levels on FTEs. The agency reports quarterly to the SAO the actual FTEs relative to the cap. Through legislative intent, TRS is exempt from including healthcare and intern FTEs in the calculation. The average FTE calculation also includes certain long-term contractors in accordance with instructions provided by the State Auditor's Office (SAO).

Prior to FY 2020, TRS was also exempt from counting TEAM FTEs towards the cap. In FY 2020, the Legislature required TRS to begin including these FTEs in the calculation and increased the FTE cap to incorporate the previously excluded positions. The chart above displays the average number of FTEs by fiscal year measured against the FTE cap.

PENSION TRUST FUND BALANCE

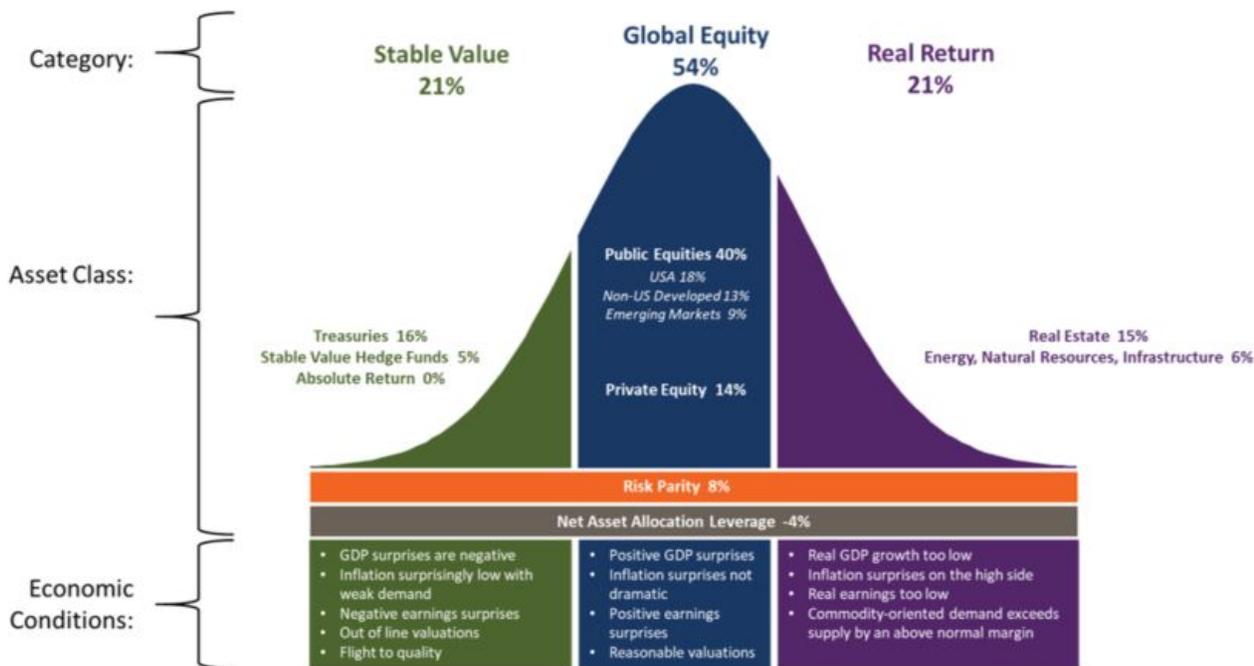
(In Billions)



*Projected based on Actuarial Assumption of 7.25% growth

The annual rate of return on investments for the pension fund for the year ended Aug. 31st, 2019 was 5.2%.

Trust is allocated across the following groups:



APPENDIX B:

GLOSSARY

Appropriated – Refers to the dollars or associated full-time equivalent positions authorized for specific fiscal years and to the provisions for spending authority.

Annual Operating Budget – A detailed, one-year financial plan supporting the agency's business operations. The one-year period is from Sept. 1 through Aug. 31. The agency's operating budget communicates resource needs and allocates those resources to the appropriate functional parties charged with executing the strategic vision of the agency.

Appropriation Year (AY) – Refers to the specific fiscal year for which an appropriation is made. The appropriation year dictates the year to which the expenditure is authorized/charged.

Base Request – The base request represents the basis for the agency's biennial budget. The base request cannot exceed the appropriated amount established by the Legislature through the prior biennial GAA, adjusted for Article IX appropriation reductions.

Biennium – Two-year funding cycle for legislative appropriations.

Budgeted – Refers to the planned level of expenditures, performance, or number of full-time equivalent positions for a particular fiscal year.

Capital Budget – The portion of an agency's appropriation that is restricted to expenditures for designated capital construction projects or capital acquisitions.

GLOSSARY (cont.)

Commission credits - Include soft dollars, commission sharing agreements, and cash recapture agreements (together known as "Commission Credits"). "Soft dollars" refer 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"), commission recapture arrangements ("CRAs") refer to an institutional brokerage discount resulting from a negotiated rebate of commissions; and "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.

Expended – Refers to the actual dollars or positions used by an agency or institution during a completed fiscal year; a goal or strategy; an object of expense; or an amount from a particular method of finance.

General Appropriations Act (GAA) – The law that appropriates biennial funding to state agencies for specific fiscal years and sets provisions for spending authority.

Fiscal Year (FY) – Sept. 1 through Aug. 31 and specified by the calendar year in which the fiscal year end, e.g. FY 2021 runs from Sept. 1, 2020 through Aug. 31, 2021.

Full-Time Equivalents (FTEs) – Units of measure that represent the monthly average number of state personnel working 40 hours per week.

Fund Balance – The difference between assets and liabilities in a governmental fund. TRS follows the guidelines as outlined in GASB 54.

GLOSSARY (cont.)

Key performance indicators “KPI” - A quantifiable measurement used to evaluate the success of an organization or of a particular activity in which it engages.

Key Performance Measure – A measure that indicates the extent to which an agency is achieving its goals or objectives and that is identified in the GAA, along with targeted performance objectives for each year of the biennium. These can be outcome, output, efficiency, or input/explanatory measures.

Lapsed Funds – The unobligated balance in an item of appropriation that has not been encumbered at the end of a fiscal year or at the end of the biennium. Appropriations expire if they are not (1) obligated by Aug. 31 of the appropriation year in which they were made, or (2) expended within two years following the last day of the annual year.

Legislative Appropriations Request (LAR) – A formal request for funding made by each state agency and institution. This request is in accordance with instructions developed by the Legislative Budget Board and Governor’s Office of Budget and Policy. The agency request is prepared according to the approved strategic planning and budget structure for that agency.

Legislative Budget Board (LBB) – A legislative agency consisting of the lieutenant governor, speaker of the house, and eight members of the Legislature who initiate state budget policy and who have specific charges to direct the expenditure and appropriation of state funds.

Measure – An indicator of agency effort and accomplishments. Measures indicate agency accomplishments already achieved, planned, or required by legislative directive.

GLOSSARY (cont.)

Method of Finance – This term usually appears as a heading for a table that lists the sources and amounts authorized for financing certain expenditures or appropriations made in the GAA. A source is either a “fund” or “account” established by the comptroller, or a category of revenues or receipts (e.g. federal funds).

Office of the Texas Governor (OOG) – Governmental appointment consisting of state officials and members of state boards, commissions and councils that carry out the laws and direct the policies of state government activities.

Pension Trust Fund (960) – TRS administers retirement and related benefits to employees and beneficiaries of employees of the public, state-supported, educational institutions of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a defined benefit retirement plan that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

Programs – The FY 2021 Operating Budget request covers funding for each division. Amounts identified in the approved budget estimates reflect the most appropriate strategy for core activities and continuing programs.

TRS-ActiveCare Fund (855) – Provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance, which are provided to active members and retirees, are also accounted for in the fund. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on Sept. 1, 2002.

GLOSSARY (cont.)

TRS-Care Fund (989) – An employee benefit trust fund that provides health care coverage for certain persons (and their dependents) who retire under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575 and Texas Administrative Code, Title 34, Part 3, Chapter 41. The inception of the plan was in fiscal year 1986.

Unexpended Balance (UB) or Carry-Forward – The unobligated amount left in an item of appropriation at the end of an appropriation period. The term also refers to the amount of an appropriation, a fund or a category of revenue which is brought forward (appropriated) to the subsequent fiscal year. Agencies must have legislative authority to move funds from one year to the next and/or from one biennium to the next biennium.

APPENDIX C:

GENERAL APPROPRIATIONS ACT FY 2020-21 TEACHER RETIREMENT SYSTEM

| | For the Years Ending | |
|---|------------------------|------------------------|
| | August 31, 2020 | August 31, 2021 |
| Method of Financing: | | |
| General Revenue Fund | \$2,650,811,540 | \$2,517,080,301 |
| GR Dedicated – Estimated Other Educational and General Income Account No. 770 | \$23,714,800 | \$25,042,829 |
| Teacher Retirement System Trust Account Fund No. 960 | \$140,358,084 | \$141,219,354 |
| Total, Method of Financing | \$2,814,884,424 | \$2,683,342,484 |
| This bill pattern represents an estimated 2.5% of this agency's estimated total available funds for the biennium. | | |
| Number of Full-Time-Equivalents (FTE): | 745.3 | 745.3 |
| Schedule of Exempt Positions: | | |
| Executive Director | \$337,266 | \$337,266 |
| Deputy Director Investment Officer | 357,000 | 357,000 |
| Chief Investment Officer | 551,250 | 551,250 |
| Investment Fund Director | 360,000 | 360,000 |
| Investment Fund Director | 360,000 | 360,000 |
| Investment Fund Director | 350,000 | 350,000 |
| Investment Fund Director | 330,000 | 330,000 |
| Investment Fund Director | 300,000 | 300,000 |
| Items of Appropriation: | | |
| A. Goal: TEACHER RETIREMENT SYSTEM To Administer the System as an Employee Benefit Trust. | | |
| A.1.1. Strategy: TRS - PUBLIC EDUCATION RETIREMENT Retirement Contributions for Public Education Employees. Estimated | \$1,838,552,963 | \$1,908,574,620 |
| A.1.2. Strategy: TRS - HIGHER EDUCATION RETIREMENT Retirement Contributions for Higher Education Employees. Estimated. | 179,233,677 | 189,244,210 |
| A.1.3. Strategy: ADMINISTRATIVE OPERATIONS | 135,932,451 | 136,572,439 |
| A.2.1. Strategy: RETIREE HEALTH – STATUTORY FUNDS Healthcare for Public Ed Retirees Funded by Statute. Estimated. | 430,408,362 | 448,951,215 |
| A.3.1. Strategy: RETIREE HEALTH – SUPPLEMENTAL FUNDS Healthcare for Public Ed Retirees Funded by Supplemental State Funds. | 230,756,971 | 0 |
| Total, Goal A: TEACHER RETIREMENT SYSTEM | \$2,814,884,424 | \$2,683,342,484 |
| Grand Total, TEACHER RETIREMENT SYSTEM | \$2,814,884,424 | \$2,683,342,484 |
| Object-of-Expense Informational Listing: | | |
| Salaries and Wages | \$82,807,184 | \$82,807,185 |
| Other Personnel Costs | 2,680,148,975 | 2,548,004,521 |
| Professional Fees and Services | 13,314,936 | 13,114,680 |
| Fuels and Lubricants | 3,453 | 3,453 |
| Consumable Supplies | 596,133 | 596,484 |
| Utilities | 1,245,231 | 1,245,282 |
| Travel | 1,997,569 | 2,234,874 |
| Rent - Building | 3,796,962 | 4,942,155 |
| Rent - Machine and Other | 676,115 | 685,795 |
| Other Operating Expense | 26,535,866 | 25,746,055 |
| Capital Expenditures | 3,762,000 | 3,962,000 |
| Total, Object-of-Expense Informational Listing | \$2,814,884,424 | \$2,683,342,484 |

TEACHER RETIREMENT SYSTEM
(Continued)

**Estimated Allocations for Employee Benefits and Debt Service
Appropriations Made Elsewhere in this Act:**

| | | |
|--|----------------------------|----------------------------|
| <u>Employee Benefits</u> | | |
| Social Security | \$ 4,698,994 | \$ 4,722,489 |
| Benefits Replacement | <u>44,240</u> | <u>37,604</u> |
| Total, Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act | <u>\$ 4,743,234</u> | <u>\$ 4,760,093</u> |

1. Performance Measure Targets. The following is a listing of the key performance target levels for the Teacher Retirement System. It is the intent of the Legislature that appropriations made by this Act be utilized in the most efficient and effective manner possible to achieve the intended mission of the Teacher Retirement System. In order to achieve the objectives and service standards established by this Act, the Teacher Retirement System shall make every effort to attain the following designated key performance target levels associated with each item of appropriation.

| | | |
|---|-------------|-------------|
| A. Goal: TEACHER RETIREMENT SYSTEM | <u>2020</u> | <u>2021</u> |
| Outcome (Results/Impact): | | |
| TRS Retirement Fund Annual Operating Expense Per Member in Dollars (Excluding Investment Expenses) | 31 | 30 |
| TRS Retirement Fund Investment Expense as Basis Points of Net Assets | 17 | 19 |
| Service Level Percentage of Calls Answered in Specified Time Interval | | |
| A.1.3. Strategy: ADMINISTRATIVE OPERATIONS Output (Volume): | 79% | 80% |
| Number of TRS Benefit Applications Processed | 72,000 | 72,000 |

2. Capital Budget. None of the funds appropriated above for Strategy A.1.3, Administrative Operations, may be expended for capital budget items except as listed below. The amounts shown below shall be expended only for the purposes shown and are not available for expenditure for other purposes.

| | | |
|--|---------------------|---------------------|
| | <u>2020</u> | <u>2021</u> |
| a. Repair or Rehabilitation of Buildings and activities | | |
| (1) Building Renovations | \$ 1,500,000 | \$ 1,500,000 |
| (2) Security Renovations | <u>100,000</u> | <u>100,000</u> |
| Total, Repair or Rehabilitation of Buildings and Facilities | \$ 1,600,000 | \$ 1,600,000 |
| b. Acquisition of Information Resource Technologies | | |
| (1) TEAM Program FY2018/2019 | UB | UB |
| (2) Data Center Upgrade | 600,000 | 600,000 |
| (3) Network Infrastructure | 500,000 | 500,000 |
| (4) PC Workstation Refresh | 500,000 | 500,000 |
| (5) Investment System Modernization | 450,000 | 450,000 |
| (6) Pension Legislation | <u>0</u> | <u>200,000</u> |
| Total, Acquisition of Information Resource Technologies | \$ 2,050,000 | \$ 2,250,000 |
| c. Centralized Accounting and Payroll/Personnel System (CAPPS) | | |
| (1) Centralized Accounting and Payroll/ Personnel System (CAPPS) - Enterprise Resource Planning (ERP) Project. | UB | UB |
| Total, Capital Budget | <u>\$ 3,650,000</u> | <u>\$ 850,000</u> |
| Method of Financing (Capital Budget): | | |
| Teacher Retirement System Trust Account Fund No. 960 | <u>\$ 3,650,000</u> | <u>\$ 3,850,000</u> |
| Total, Method of Financing | <u>\$ 3,650,000</u> | <u>\$ 3,850,000</u> |

TEACHER RETIREMENT SYSTEM

(Continued)

3. Updated Actuarial Valuation. The Teacher Retirement System shall contract with an actuary to perform a limited actuarial valuation of the assets and liabilities of the Teacher Retirement System as of February 28 in those years when the Legislature meets in regular session. The purpose of the valuation shall be to determine the effect of investment, salary, and payroll experience on the unfunded liability, the amortization period, and the state contribution rate which results in a 30- year amortization period of the retirement system.
4. State Contribution to Teacher Retirement Program. The amounts specified above in Strategy A.1.1, TRS- Public Education Retirement, \$1,838,552,963 in fiscal year 2020 and \$1,908,574,620 in fiscal year 2021, and A.1.2, TRS- Higher Education Retirement, \$179,233,677 in fiscal year 2020 and \$189,244,210 in fiscal year 2021 are based on a state contribution of 6.8 percent of payroll in each year of the 2020-21 biennium, estimated.
5. State Contribution to Texas Public School Retired Employees Group Insurance Program. The amounts specified above in Strategy A.2.1, Retiree Health-Statutory Funds, \$430,408,362 in fiscal year 2020 and \$448,951,215 in fiscal year 2021 are based on a state contribution of 1.25 percent of payroll for each fiscal year, estimated.

The retirement system shall notify the Legislative Budget Board, the Governor, and its membership prior to establishing premiums, regarding the impact such premiums will have on retiree costs for TRS-Care insurance.

It is the intent of the Legislature that the Teacher Retirement System control the cost of the retiree insurance program by not providing rate increases to health care providers and pharmacy providers during the 2020-21 biennium without providing 60 days' notice to the Legislative Budget Board.

6. Excess Benefit Arrangement Account. There is hereby appropriated to the Teacher Retirement System all funds transferred or deposited into the Excess Benefit Arrangement Account established in the General Revenue Fund for the purpose of paying benefits as authorized by Government Code §825.517.
7. Transfer of Other Educational and General Income. The Comptroller of Public Accounts is hereby authorized to transfer the necessary appropriations made above in Strategy A.1.2, TRS- Higher Education Retirement from Other Educational and General Income to institutions of higher education to meet their obligations and comply with the proportionality policy as expressed in the Article IX provision entitled Benefits Paid Proportional by Method of Finance.
8. Exempt Positions. Notwithstanding the limitations contained in the Article IX provision entitled Scheduled Exempt Positions, the TRS Board of Trustees may determine the salaries of the positions listed above in the Schedule of Exempt Positions without limitation.
9. Annual School District Contribution Rate to TRS-Care. The annual contribution rate for school districts for fiscal years 2020 and 2021 shall be 0.75 percent of total payroll.
10. Full-Time Equivalent Positions Intern Exemption. The number of Full-Time Equivalent (FTE) positions held by undergraduate and graduate students in the Intern Program of the Teacher Retirement System (TRS) shall be exempt from Article IX, Sec. 6.10. Limitation on State Employment Levels. This provision will not change the cap on the Number of Full-Time
 Equivalent (FTE) for TRS listed elsewhere in this Act. TRS shall provide to the Legislative Budget Board, the Governor, the Comptroller of Public Accounts, and the State Auditor's Office a report of the number of FTEs associated with the Intern Program each fiscal year.
11. Limitation on Funds Appropriated to the Teacher Retirement System (TRS). It is the intent of the Legislature that none of the funds appropriated by this Act or from Teacher Retirement System Pension Trust Fund Account No. 960 may be used for the purpose of hiring an external communications consultant.
12. Limitation on Retirement Contributions to Public Community/Junior Colleges. General Revenue related funds appropriated above in Strategy A.1.2, TRS - Higher Education Retirement, for retirement contributions for Public Community/Junior Colleges are limited to 50 percent of the state contribution of 6.8 percent in fiscal year 2020 and 6.8 percent in fiscal year 2021 of the total covered payroll for Public Community and Junior Colleges, in accordance with Government Code Section 825.4071.

TEACHER RETIREMENT SYSTEM

(Continued)

13. Performance Incentive Compensation Payments. The Teacher Retirement System Board of Trustees may make performance incentive compensation payments to the staff of the Investment Management Division based on investment performance standards adopted by the Board prior to the beginning of the period for which any additional compensation is paid. Such amounts as may be necessary to make performance incentive payment under the plan approved by the Board are hereby appropriated from the Teacher Retirement System Pension Trust Fund Account Fund No. 960.

The Teacher Retirement System Board of Trustees shall notify the Legislative Budget Board and the Governor at least 45 days prior to the execution of any performance incentive payment based on the Retirement Trust Fund's investment performance. Funds shall be appropriated pursuant to this rider for performance incentive payments only in a fiscal year following a year in which the Retirement Trust Fund experiences a positive return.

14. Settle-Up Dollars Directed to TRS-Care. Any settle-up payments made in the fiscal year ending August 31, 2021, from the Teacher Retirement System of Texas pension fund or from the TRS- Care program are appropriated to the TRS- Care program. Settle-up funds are all estimated General Revenue appropriations for fiscal year 2020 in excess of the state's actual statutory obligations for retirement and retiree insurance contributions, and those funds are re- appropriated to the TRS- Care program, for deposit to the Texas Public School Retired Employees Group Insurance Trust Fund. For the purposes of this section, settle-up payments from the pension fund include any net payments made in excess of the state's total obligation to both Public Education Retirement and Higher Education Retirement.
15. Appropriation Transfers between Fiscal Years for TRS-Care. In addition to the transfer authority provided elsewhere in this Act and in order to provide for benefits through the Texas Public School Retired Employees Group Benefits Program (TRS-Care), the Teacher Retirement System is authorized to transfer General Revenue funds appropriated to Strategy A.2.1, Retiree Health - Statutory Funds, in fiscal year 2021 to fiscal year 2020 and such funds are appropriated for fiscal year 2020. Such transfers may only be made subject to the following:
 - a. Transfers under this section may be requested only upon a finding by the TRS Board of Trustees that the fiscal year 2020 costs associated with providing retiree health benefits will exceed the funds appropriated for these services for fiscal year 2020.
 - b. A transfer is not authorized by this section unless it receives the prior written approval of the Governor and the Legislative Budget Board.
 - c. The Comptroller of Public Accounts shall cooperate as necessary to assist the completion of a transfer and spending made under this section.
16. Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation. Upon a finding of fact by the Teacher Retirement System Board of Trustees that additional resources are necessary to implement accounting guidelines related to Governmental Accounting Standards Board statements and pronouncements, the Teacher Retirement System is appropriated such additional funds as approved by the Board from the Teacher Retirement System Pension Trust Fund Account No. 960 to communicate such guidelines to affected members and employers, and to acquire additional audit and actuarial services as needed for implementation.

Within thirty days of such a finding, the Teacher Retirement System Board of Trustees shall provide written notification to the Legislative Budget Board and the Governor of the amounts anticipated to be necessary to achieve these purposes.
17. TRS-Care Shortfall. It is the intent of the Legislature that resolving the long-term solvency of TRS-Care be a shared fiscal responsibility between the state, school districts, employees, and retirees.
18. Medicare Enrollment for Eligible Members of TRS-Care. Out of funds appropriated above, TRS shall identify members of TRS-Care who are eligible for Social Security Disability or Medicare benefits, and provide information and assistance necessary for eligible members to enroll in the programs to help ensure the solvency of the TRS- Care fund.
19. Additional Funding for TRS-Care. Funds appropriated above in Strategy A.3.1, Retiree Health Supplemental Funds include \$230,756,971 in General Revenue Funds in fiscal year 2020 for the TRS-Care program to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium. These funds are in addition to the \$879,359,577 in General Revenue Funds appropriated above in Strategy A.2.1, Retiree Health-Statutory Funds, estimated to be necessary to fulfill the state's statutory contribution to TRS-Care.

TEACHER RETIREMENT SYSTEM
(Continued)

20. Right to Shop Incentive. It is the intent of the Legislature that the Teacher Retirement System incentivize members of TRS-Care and TRS-ActiveCare to shop for lower cost care within the health plans in order to achieve shared savings. Pursuant to the provisions of Insurance Code §1575.109, §579.052, and Article IX, Sec. 7.12, Notification of Certain Purchases or Contract Awards, Amendments, and Extensions, the agency may contract with a third-party vendor for this purpose.
21. Exception to FTE Limitation for Board Fiduciary Finding.
- (a) In addition to the funding and "Number of Full-Time Equivalents (FTE)" appropriated above, the Teacher Retirement System (TRS) is authorized to employ additional FTEs and contract workers under a Fiduciary Finding of the TRS Board of Trustees (the Board) if the Board determines the additional staff are necessary to perform the fiduciary duties of the Board, pursuant to Government Code §825.313.
 - (b) It is the intent of the Legislature that the Board approve a statement of justifications and objectives for adopting the additional FTEs, contract workers, and any additional funding related to those staff. No later than 30 business days following the adoption of a Fiduciary Finding pursuant to subsection (a), TRS shall submit to the Legislative Budget Board (LBB) and the Governor:
 - (1) A statement of the justifications and objectives for the additional funding and staff;
 - (2) The current operating budget, as approved by the Board, for each fiscal year of the 2020-21 biennium that is amended by the Fiduciary Finding described in subsection (a);
 - (3) Performance metrics proposed by TRS to evaluate the impact of additional staff on the Board's objectives in approving the additional staff; and
 - (4) Any additional information requested by the LBB or the Governor regarding the Fiduciary Finding described in subsection (a).
 - (c) No later than October 31 following a fiscal year for which the TRS Board has adopted a Fiduciary Finding described in subsection (a), TRS shall provide a report to the LBB and the Governor on:
 - (1) The actual number of additional FTEs and contract workers hired during the preceding fiscal year pursuant to subsection (a);
 - (2) The actual total expenditures for the preceding fiscal year related to additional FTEs and contract workers described in subsection (c) (1); and
 - (3) A report on the agency's actual performance on metrics described in subsection (b)(3) for the preceding fiscal year.
22. Unexpended Balances: TEAM and CAPPs Projects. In addition to amounts appropriated above, any unexpended balances of Pension Trust Funds remaining as of August 31, 2019 approved under the provisions of Article III-35, Rider 2, Capital Budget of Senate Bill 1, Eighty-fifth Legislature, Regular Session, 2017, for the TRS Enterprise Application Modernization (TEAM) Program FY2018/19 (estimated to be \$4,800,000); and for the Centralized Accounting and Payroll/Personnel System (CAPPs) Enterprise Resource Planning (ERP) Project (estimated to be \$500,000), are appropriated for the same purposes in Strategy A.1.3, Administrative Operations, for the fiscal year beginning September 1, 2019.

Any unexpended balances of these funds remaining as of August 31, 2020, are appropriated to the Teacher Retirement System for the fiscal year beginning September 1, 2020, for the same purposes.



Teacher Retirement System of Texas

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