"Teaching is the one profession that creates all other professions."

– Unknown

ADMINISTRATIVE OPERATING BUDGET REPORT

FISCAL YEAR 2023



"The function of education is to teach one to think intensively and to think critically. Intelligence plus character - that is the goal of true education."

- Dr. Martin Luther King Jr.





As a part of this year's Administrative Operating Budget Report, we are proud to spotlight some thought-provoking quotes that demonstrate the importance of both education and the dedicated teachers that help make the future brighter.

FY 2023 Administrative Operating Budget Report

Teacher Retirement System of Texas Brian K. Guthrie Executive Director

Prepared by the Finance Division

Don Green, Chief Financial Officer Janie Duarte, Deputy Chief Financial Officer Jessica Brown, Budget Director Erica Munoz, Senior Budget Analyst Jackie Horbovetz, Senior Budget Analyst Joey Fredrick, Senior Budget Analyst Kevin Luu, Associate Budget Analyst

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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 01, 2021

Christophen P. Morrill

Executive Director

Message from the CFO

October 15, 2022

I am proud to present the Teacher Retirement System of Texas (TRS) Fiscal Year (FY) 2023 Administrative Operating Budget Report, which was prepared in accordance with TRS' General Provisions and adopted by the TRS Board of Trustees. Key components of the FY 2023 Administrative Operating Budget report include estimated revenue projections for the pension and health care funds, administrative operating budget summaries, and information on capital projects. The focus of the TRS budget continues to address the customer service needs of our growing membership, continues to enhance competitive advantages for a nearly \$200 billion institutional investor, and improves operational efficiencies for the fiscal year.

Administrative Operating Budget

For the FY 2023 Administrative Operating Budget (FY 2023 Budget), effective September 1, 2022, we are prioritizing funding for the most mission-critical areas, including efforts for the Customer Service Improvement Initiative (CSII), updating business processes and core technologies used to deliver benefits and services to members and annuitants, and key support initiatives for investment management while maintaining fiscal responsibility.

The approved FY 2023 Budget represents the FY 2023 portion of the FY 2022-23 biennial legislative appropriations. For the current biennium, TRS proposed a conservative budget following state leadership cost-saving directives in response to the pandemic and received authority to hire 25 additional positions for the Investment Fee Saving initiative. The FY 2022 annual administrative operating budget represented an overall 1% increase from FY 2021, well below average historical growth, compounding the gap between agency initiatives and available funding. During FY 2022, in response to pressing customer service needs, key agency resources were added with no new funding provided to pay for them. TRS absorbed the cost of new resources with available lapsed funds. In addition to customer service opportunities, TRS faced significant challenges with recruiting and retention and unprecedented inflation.

The FY 2023 Administrative Operating Budget request received from agency management was \$302.5 million, which represents a 27.4% increase to the FY 2022 budget. After prioritizing agency critical needs, the FY 2023 requested budget was reduced to \$276.8 million. To ensure funding levels in FY 2023 are sufficient to support ongoing key agency initiatives, the administrative base operating budget will increase by 16.6% from the FY 2022 Administrative Operating Budget.

To achieve an efficient budget, the budget development process included a strategy-based approach which ensured that TRS evaluated all current service levels, prioritized those services based on the strategic goals and objectives, and ultimately budgeted for the top priorities. The Budget team hosted a Budget Kickoff meeting with agency leadership to develop the goals, resource needs, and service level priorities through open group discussions 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 and anticipated future budget constraints for TRS, many outside of our control. TRS remains committed to serving our members and strengthening the trust funds. The funding priorities in this budget reflect those commitments.

The total FY 2023 Administrative Operating Budget for TRS is \$276.8 million across all funds. Major cost drivers for the FY 2023 Budget include:

- annualizing the cost of 264 new positions and the associated operating costs to continue improving customer service metrics to meet member expectations,
- deploying core business technologies used to deliver benefits and services to members and annuitants, releasing the TRUST Line of Business (LOB) which includes Build and User Acceptance Testing (UAT) for retirement processing, annuity payroll, and tax reporting functionalities.
- funding for budgetary impacts from inflation and increased consumer prices,

- providing additional funding to modernize investment and enterprise data systems resulting in additional capital funding and authority above appropriated levels,
- funding for a new classification system to address unprecedented challenges with recruiting and retention,
- cost-saving opportunities by converting contractors to FTEs, reducing reliance on external contract support,
- managing the cost of the health care plans, better serving members, and member engagement and communications.

In addition, TRS was reviewed by the Texas Sunset Advisory Commission, which is an agency of the Texas legislature that evaluates state agencies and makes recommendations to the legislature on the need for, performance of, and improvements to agencies under review. The Sunset Advisory Commission Staff Report, released in April 2020, further emphasized the importance of TRS' current goals to improve the member experience and strengthen the TRS Pension Trust Fund.

Customer Service Improvement Initiative

Improving customer service is the agency's top priority. TRS is committed to achieving the highest levels of customer satisfaction by delivering services consistent with our mission. While efficiency and a cost savingsoriented service delivery model served TRS and its members well for many years, a growing membership, increased complexity, and evolving member expectations have made it increasingly difficult for TRS to meet its service level performance targets.

The FY 2023 Administrative Operating Budget includes \$27.9 million to prioritize funding and staffing for the Customer Service Improvement Initiative (CSII), a multi-year comprehensive approach to addressing customer service levels. To return to expected service levels, additional resources were needed to manage the volume of customer service interactions, increase counseling services capacity, and expand service channel options.

For FY 2022, telephone counseling calls answered within three minutes were 61% below the target. Benefit processing of death claim payments issued within 31 days of receipt of all required paperwork sat at 58% below the target. Additionally, benefit estimates mailed within 31 days of the request were 60% below the target. The Board of Trustees has acted utilizing Rider 20 from the General Appropriations Act to address customer service challenges by adding front-line staff and critical agency support resources, hiring an

Ombuds, making policy and procedural changes, implementing enterprise-wide process improvements, and prioritizing system enhancements as part of the Customer Service Improvement Initiative (CSII).

These additional resources will allow us to make progress toward meeting our key performance targets. By prioritizing staffing levels and supporting technology solutions, TRS is already beginning to see incremental improvements in certain customer service levels such as refunds, death claims and benefit estimates. TRS is beginning to see incremental improvements in certain customer service levels, such as refunds, death claims, and benefit estimates.

The FY 2023 budget includes funding for critical agency efforts to recruit and retain skilled counselors and benefit processors for Benefits Services. TRS conducted a pilot with filling Benefit Accounting and Benefit Counseling positions to determine if hiring outside the Austin area worked as a solution in finding qualified candidates. El Paso, Texas, drew a larger pool of qualified applicants, and those employees are currently in their on-the-job training. 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. 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 2023 budget includes funding and resources to open a regional pilot office in El Paso, Texas, to offer member services in an underserved part of the state. A key recommendation published in the Sunset staff report included developing a communication and outreach plan to better help members and employers plan for retirement. Through member surveys and current service data, TRS identified unfulfilled demand for inperson office visit appointments among members who live far from the Austin headquarters. Overall, 85% of respondents favored expanding member services to various regions in Texas. The new regional office is expected to open in the fall of 2022.

Investment Management

The FY 2023 budget includes \$89.7 million for investment management operations. The adopted budget includes the final tranche of 15 new positions as part of a multi-biennia initiative approved during the 86th Legislative Session to allow TRS to become a best-in-class investment management fund and reduce external manager fees by up to \$1.4 billion 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, in order to maintain a competitive advantage, we have implemented a risk parity approach, launched a co-investment platform, and pursued alternative investments, including direct investing. To attract and retain top qualified candidates, a new compensation plan was implemented, aligning Investment base salaries with the Board of Trustees' investment compensation philosophy in FY 2022. Deploying additional capital and resources will allow TRS to reduce external management fees while preserving risk-appropriate returns and sustainably increasing the likelihood of meeting return assumptions. Results of this initiative's first four years have saved \$321 million in external manager investment fees. The final performance for the calendar year 2022 will be reported in April 2023.

The FY 2023 budget also includes 25 new positions to transition staff and costs from commission credits to the pension trust fund upon the final terms of the new custodian bank agreement. The net impact to the overall administrative operating budget is zero.

Managing Health Care Plans

The FY 2023 Administrative Operating Budget for Health and Insurance Benefits (HIB) includes \$22.3 million to implement new mandates of the 87th Legislative Session changes to TRS-Care and TRS-ActiveCare and continued support of the health insurance line of business (HILOB) system and customer support.

Funding for TRS-Care, the Retired Employees Group Insurance Program, for the FY 2022-23 biennium totals \$897.6 million in state funding for the statutorily required contributions to TRS-Care. As a result of legislative action during the 86th session and the re-procurement of major health administrator contracts, TRS does not anticipate that additional funding will be needed to maintain TRS-Care benefits at current levels through FY 2023.

TRS is also responsible for administering TRS-ActiveCare, which provides health care coverage for 1,000 public education employers across Texas, representing nearly 450,000 lives. The TRS Board of Trustees sets the gross premiums to ensure adequate funding for benefits, the cost of which TRS benchmarking research shows is 14% below similar benefit plans. Participating districts contribute \$150, and the state contributes \$75 for a combined minimum of \$225 per employee per month toward the total premium. While many districts contribute more, the minimum contribution has not increased since the program was created in 2001. As a result, in the 2021-22 plan year, employees paid for 55% of their medical costs compared to a public sector average of 28%.

In FY 2022, state leadership approved TRS an appropriation of \$721.3 million in federal funds to offset plan COVID-19 costs. TRS-Care received \$83 million which was distributed to eligible participants. TRS-ActiveCare received \$638.3 million, which kept total premiums from increasing in FY 2023. Premiums closely reflect claims cost. While TRS-ActiveCare offers a competitive premium for employers participating in the program, plan affordability for employees and their families is an ongoing concern due to the additional funding being a one-time appropriation.

Shared Services

The FY 2023 Administrative Operating Budget for the pension prioritizes \$126.9 million to keep pace with the enterprise shared services needs primarily related to improving the customer experience and strengthening the Pension Trust Fund. These shared functions are primarily in the areas of Information Technology, Internal Audit, Legal and Compliance, Information Security, Diversity, Equity, and Inclusion, Organizational Excellence, Financial Services, and Business Administration.

Additionally, the adopted budget includes funding to implement a TRS Classification system approved by the Board of Trustees to improve our ability to effectively recruit and retain staff and allow the agency to respond more quickly to highly volatile labor market conditions. For FY 2022, TRS' vacancy rate is 18%.

As the agency continues to prioritize the Customer Service Improvement Initiative, additional support positions are required to align its workforce with the growing membership's needs and consistently meet service level targets. Shared services positions include:

- additional security and facility management with the ongoing construction and maintenance of two new buildings, both of which are substantially larger than the current TRS facilities,
- legal support for handling member calls, processing of claims, refunds, retirement estimates, and retirement payments because the legal orders can affect all TRS benefit payments, including death benefits, retirements, and refunds,
- to expand the learning and staff development capabilities for the agency to reduce reliance on costly external vendors,
- to support the growing technological footprint of the agency by providing audit coverage for cyber security controls, enterprise technological infrastructure, and data analytics,
- to support expanding and enhancing the hybrid remote work environment to attract and retain talent, implement strategic digital transformations across all lines of business to make business processes more efficient, and provide internal customer support to agency staff sustaining business continuity.

As fiduciaries, TRS will ensure people, processes, and technology align to achieve excellence in the delivery of services to members. The agency has implemented a core-to-support ratio of 78.5% to support the administrative functions of operations and achieve an appropriate balance of support personnel to front-line service employees.

TRS Enterprise Application Modernization Program

The TRS Enterprise Application Modernization (TEAM) Program is a cohesive collection of components designed to meet TRS's business and technology objectives 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. In April 2022, MyTRS, a web self-service application, successfully launched to provide members with several enhancements and self-service options to assist with retirement planning or to maintain personal account information. As of July 2022, over 105,000 accounts have been created.

The FY 2023 Administrative Operating Budget includes \$15.1 million to support the internal development of scheduled releases for the TRUST Line of Business (LOB), including Build and User Acceptance Testing (UAT) for retirement processing and annuity payroll and tax reporting functionalities.

Capital Projects

The capital budget includes funding for both physical infrastructure and information systems upgrades. A total of \$1.9 million is included in the FY 2023 administrative operating budget for capital spending, including \$0.1 million for security renovations and \$1.8 million for information system upgrades. The agency's focus in FY 2023 is to maintain the technological infrastructure that supports the agency's ability to ensure continued

safety and security at TRS. Funding for the FY 2023 capital projects includes network infrastructure upgrades, data center upgrades, and a strategy for replacing and upgrading aging equipment and technology, including replacement of compute and storage systems, mobile and workstation devices, utilizing cloud-based alternatives as appropriate, and ongoing improvements of the agency disaster recovery strategy.

TRS has a fiduciary responsibility to protect pension funds and member data. Using artificial intelligence to help detect unusual patterns and activity, TRS is looking to add a new layer to its electronic threat prevention, detection, and investigation toolkit. The FY 2023 budget includes \$2.8 million to implement a new fraud detection and prevention tool.

Additionally, in response to the increased demand for enhanced asset monitoring and a desire to develop a long-term data strategy to modernize our investment data platforms and fiduciary oversight, the FY 2023 adopted budget includes \$5.3 million of funding and resources for Information Technology to implement the Investment Data Modernization Program. The strategic goal of this capital project is to modernize TRS' data management systems with industry-standard solutions that provide reliable data in support of investment decision-making. The project will enhance the ability to reliably perform fiduciary oversight of the Trust asset valuation and performance, addressing the gap in functional and technical capabilities in our current data architectures and systems.

Long-Term Considerations

Following stay-at-home orders, on March 19, 2020, TRS closed to the public, with approximately 90% of the TRS workforce transitioned to full-time remote work. TRS implemented enhanced cleaning protocols, social distancing, and mask policies to protect essential workers performing key onsite functions, such as security and mail processing. With these policies in place, TRS has continued to carry out business without interruption, including the critical processing of annuity payroll and payment of health benefits. In FY 2022, pandemic restrictions were lifted, and TRS opened its doors to the public and implemented a hybrid work environment for agency staff. Approximately 57-58% of TRS' staff work remotely on any given day. The FY 2023 Administrative Operating Budget includes funding for TRS facilities that will adequately serve its functions and growing membership.

In its September 2021 meeting, the Board of Trustees voted to purchase a new headquarters space outside downtown, in the Mueller area of Austin, Texas. The new TRS Headquarters will provide a more efficient and adaptable campus that will combine staff at the current Red River and Congress campuses back into one facility owned by TRS and its members, eliminating the need to lease office space in Austin. The price of the new TRS Headquarters is estimated not to exceed \$300 million, has no impact on the funded ratio or Unfunded Actuarial Accrued Liability (UAAL), and is projected to save up to \$15 million of Pension Trust Funds over a 20-year period. Additionally, selling the Red River campus and eliminating leased facilities will provide organizational and cost-savings efficiencies.

Distinguished Budget Presentation Award

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 September 1, 2021. 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,

(Dulel C. Jour

Chief Financial Officer

TRS

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 which requires TRS to have a Board of Trustees to administer TRS and invest its funds. The assets of the TRS pension fund are required by state and federal law to be held in trust for the exclusive benefit of plan participants and beneficiaries. The Board of Trustees of TRS, the trustee of all plan assets, is responsible for the general administration and operation of TRS, and is authorized by law to adopt rules for the administration of TRS and the transaction of the business of the Board.

TRS Board of Trustees



Jarvis V. Hollingsworth, Chair Vice Chairman and Chief Operating Officer Irradiant Partners, L.P. Missouri City Direct appointment of the governor Term expires 2023



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



Nanette Sissney, Vice Chair Counselor and Former Teacher Whitesboro Independent School District Whitesboro At-Large position Term expires 2023



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



Michael Ball Senior Vice President Hilltop Securities, Inc. Argyle Active public education position Term expires 2025



James Dick Nance Former Texas Public School Teacher Member of Texas Athletic Directors Association Hallettsville Retiree position Term expires 2023



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



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

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.

The Active Public Education Board position is currently vacant.

*A trustee whose term expires shall continue to perform the duties of the office, with few exceptions, until the successor is appointed.

TRS Organizational Chart



Straight line indicates direct report. Dotted line indicates Divisions who report administratively to the Executive Director.



87TH Legislature 2022 - 2023

TRS follows a collaborative process in responding to the needs of the legislature by involving all departments at TRS. Strong working relationships are developed with all stakeholders and maintained in providing cost estimates and impact statement analysis for agency bill assignments. During the 87th Legislative Session, a total of 7,148 bills and joint resolutions were filed. Of those, 1,081 passed the legislature. Approximately 15% of all bills and joint resolutions filed became law. The following list summarizes prominent TRS-related legislation.

SB1 – General Appropriations Act (Appendix C)

Public & Higher Education Retirement

- Funding for public education retirement benefits totals an estimated \$4.5 billion in State General Revenue Funds for the 2022–23 biennium, a 10% increase from the 2020–21 biennial All Funds base.
- Funding recommendations for higher education retirement benefits total an estimated \$533.5 million in All Funds for the 2022–23 biennium, an 8% increase from the 2020–21 biennial base.
- Increased funding for public and higher education retirement is attributed to the increased contribution rates pursuant to Senate Bill 12, Eighty-sixth Legislature, 2019: 7.75% for FY 2022 and 8.00% for FY 2023 and the growth of covered payroll, projected to be 2.5% each year of the 2022–23 biennium for both public and higher education.

Administrative Operations

- Funding recommendations for administrative operations, which are supported by the TRS Pension Trust Fund, total \$293.8 million, an 8% increase from the 2020–21 biennial base. The increase includes approved funding as requested by the TRS Board of Trustees ("Board") for the administrative operating budget, including 25 additional positions to reduce external management fees and operating costs to expand member services by opening a pilot regional office in El Paso to provide additional counseling services in the region.
- Amends the TRS Internship Program to include trade school, community college, law school, graduate school, or post-graduate fellowship recipients without counting against the FTE cap.
- Sustains the following existing riders: no funds may be used for the purpose of hiring an external communications consultant; settle-up dollars are to be directed to TRS-Care; the intent of the legislature is that TRS incentivize members of TRS-Care and TRS-ActiveCare to shop for lower cost care within health plans to achieve shared savings; an exception to the FTE limitation is permitted with a Board fiduciary finding and a report to the Legislative Budget Board (LBB) and the Governor; several agencies, including TRS, are to engage in cross-agency collaboration to compare health care data to identify outliers and improvements for efficiency and quality that can be implemented within each system with a report due to the LBB and the Governor.
- Requires TRS to engage a third-party vendor to examine alternative methods to deliver the current benefits supplied under TRS-ActiveCare and requires TRS to provide a report to certain members of the legislature and the Governor.

Retiree Health - Statutory Funds

- Funding for TRS-Care for the 2022–23 biennium totals \$897.6 million in General Revenue Funds, a decrease of 18% from the 2020–21 biennial base. The biennial funding decrease is due to one-time additional TRS-Care funding of \$236.3 million in State General Revenue Funds in the 2020–21 biennial base, partially offset by an increase of \$39.5 million in General Revenue Funds for payroll growth, projected to be of 2% each year of the 2022–23 biennium.
- Maintains the 1.25% state contribution and the 0.75% district contribution to TRS-Care.

HB 1585 - TRS Sunset Legislation

Major Provisions: Provides that when a retiree exceeds employment after retirement ("EAR") restrictions for the first time, the retiree receives a warning without the loss of annuity. After notice of their first violation, the retiree must pay back the lesser of earnings for the month the violation occurred or their full annuity. After notice of their second violation, the retiree must forfeit their full monthly annuity. Note: This provision does not apply to disability retirees. Disability retirees have different limitations than service retirees. After one full calendar-month break in service, a disability retiree may work up to 90 days per school year (September-August). Changes the Jan. 1, 2011 date to Jan. 1, 2021 to allow service retirees who retired on or before Jan. 1, 2021 to return to work full time without forfeiting their annuities. Creates an ombudsman ("ombuds") position designated by the Board for the purpose of assisting active and retired members by performing member protection and advocacy functions and regularly submitting a report recommending changes to operations that would benefit members and retirees.

Administrative: Establishes 2033 as TRS' next Sunset review date. Add additional training for the Board of Trustees including the scope of and limitations on rulemaking authority and adds a requirement that TRS create a training manual for annual distribution and review by board members. Extends the appeal deadline to afford a member or retiree the same amount of time to file an appeal as TRS had to issue the determination or decision.

Benefits: Requires TRS to provide retirement benefits counseling for individual members in person or by phone, at the election of the member.

Requires TRS to develop and adopt an outreach plan designed to assist each member of the System, and as appropriate the members' employers, in effectively planning for the member's retirement.

Benefits Processing: Requires TRS to certify to the state auditor the name of each employer that is an institution of higher education and has failed to remit all payments for the school year. Requires TRS to develop a policy to locate and notify a member or the member's heirs of their entitlement to a return of contributions, including sending certified letters and manual internet searches.

Health Care: Requires TRS to develop and distribute materials to enrollees of TRS-Care, the retiree health care program, regarding their right to appeal a denial of an adverse determination to an Independent Review Organization (IRO) including the procedures for making the appeal to IRO and what assistance TRS can provide in navigating the procedures for appeal. Changes the reporting period for the TRS-ActiveCare prior authorization savings report from 6 months to 12 months.

TRS Specific Bills

SB 202: Provides that a reporting employer is ultimately responsible for the pension and applicable health care surcharges for retirees returning to work full-time. Provides that the employer is prohibited from directly or indirectly passing the costs to the retiree and provides that the pass-through prohibition begins in the 2021-2022 school year.

SB 288: Includes EAR provisions that are identical to provisions in HB 1585 (87R). Provides that TRS may not withhold benefits for certain retirees returning to work in public education (kindergarten through grade 12) or collect pension or health care surcharges from the employer on behalf of the rehired retiree for positions related to mitigating student learning loss because of COVID-19. The position must be in addition to the normal staffing level at the public educational institution, be funded wholly by federal funds for the purpose of COVID-19 relief and must end on or before Dec. 31, 2024. Note: This provision does not apply to disability retirees. Disability retirees have different limitations than service retirees. After one full calendar-month break in service, a disability retiree may work up to 90 days per school year (September-August).

SB 483: Requires TRS to provide a biennial report that compares the assumed rate of return and the actual rate of return achieved by the System for the most recent 1-year, 5-year, 10-year, and 20-year fiscal periods. For each period, the report must include an estimate of what the market value of the total assets of the fund would have been if the assumed rate of return was met and a comparison of that estimate against the actual market value of total assets in the fund.

SB 1444: Prohibits participating entities (PE) from offering competing health coverage to the TRS-ActiveCare program. Permits a PE to leave TRS-ActiveCare by providing written notice to TRS no later than Dec. 31 of the year preceding the first day of the plan year in which the election will be effective. A PE that elects to leave may not reenter until the fifth anniversary of the effective date. A PE that elects to join shall provide notice by Dec. 31 of the year preceding the year entry is effective and may not leave until the fifth anniversary of the effective date of entry. Requires that education service centers establish a school district health coverage advisory committee to study health benefit options for employees and issue a report by Nov. 1, 2022.

HB 2022: Allows a one-time opportunity for certain Medicare-eligible retirees to re-enroll in TRS-Care. Requires TRS to allow certain retirees who voluntarily disenrolled from TRS-Care between Jan. 1, 2017 and Dec. 31, 2019 and who opt to reenroll on or before Dec. 31, 2023, a one-time opportunity to come back to TRS-Care. The onetime opportunity would expire on Sept. 1, 2024.

New Laws Impacting TRS and Other State Agencies

SB 13: Prohibits state governmental entities, including TRS, from contracting with or investing in certain financial companies that boycott energy firms (applies to contracts with a value of \$100,000 or more and companies with ten or more FTEs). A state governmental entity is not subject to the investment requirements of the bill if the entity determines that the requirement would be inconsistent with its fiduciary responsibility with respect to the investment of entity assets or other duties imposed by law related to the investment of entity assets, including the duty of care established under Section 67, Article XVI, Texas Constitution. The governmental entity cannot enter a contract with a company for goods and services unless the contract states the company (i) does not boycott energy companies and (ii) will not boycott energy companies during the term of the contract; unless this requirement is inconsistent with certain constitutional or statutory duties related to the issuance, incurrence, or management of debt obligations or the deposit, custody, management, borrowing, or investment of funds.

SB 19: Prohibits state contracts with companies that discriminate against the firearm or ammunition industries (applies to contracts with a value of \$100,000 or more and companies with ten or more FTEs). A governmental entity may not enter a contract with a company for the purchase of goods or services unless the contract contains a written verification from the company that it does not discriminate against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association during the term of the contract. Provides that contracts related to the issuance, sale, or delivery of tax and

revenue anticipation notes are exempted at the comptroller's sole discretion if it meets certain provisions.

SB 1356: Allows a nonprofit teacher organization to facilitate the tutoring of public school students in kindergarten through grade 12 by active or retired certified teachers. Requires TRS to provide each member information electronically about the teacher tutoring program. Provides that these individuals would not be subject to EAR restrictions, but they would be subject to surcharges unless otherwise exempt.

Second Called Special Session of the 87th Texas Legislature

SB 7: Authorizes a one-time supplemental payment for members who retired on or before Dec. 31, 2020 in the amount of their monthly annuity payment or \$2,400, whichever is less.

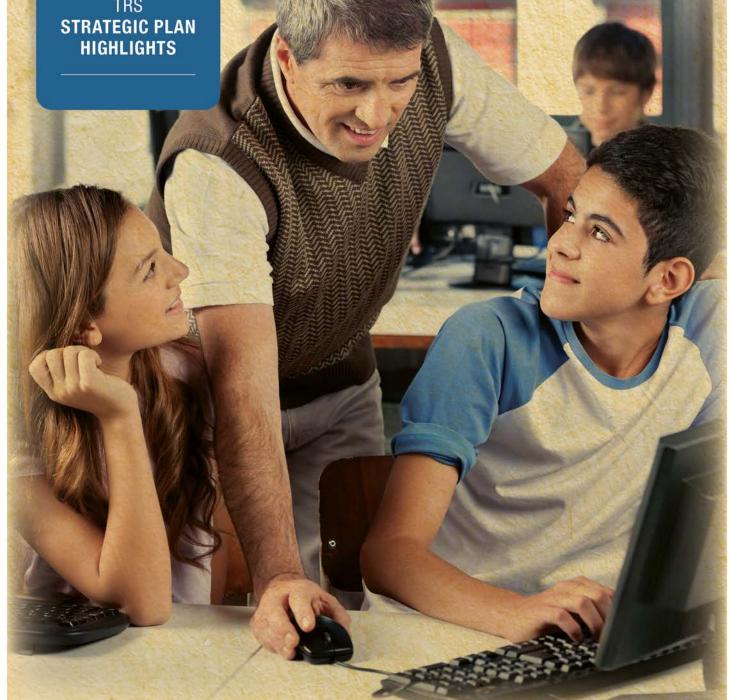
HB 5: Provides \$701 million in direct funding from the state to pay for the one-time supplemental payment.

One-Time Federal Reimbursement:

Additional \$435 million in Coronavirus Relief Funds (CRF) approved from the Office of the Governor to the Teacher Retirement System of Texas (TRS) to be applied to the TRS-ActiveCare Health care plan to offset insurance premium increases.







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TRS Strategic Plan Highlights

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.

VISION

Earning your trust every day.

CORE VALUES

Our values represent a mutual understanding about responsibilities, expectations, and communication in the way TRS employees treat each other and those we serve. The core values include member focused, ethics, accountability, respect, diversity, efficiency, collaboration, and excellence.

The 2023 - 2027 Strategic Plan supports the vision, mission, and core values of TRS. It is a five-year view of the agency's objectives and strategies for the accomplishment of agency goals in service to the agency's core mission. The strategic plan provides feedback that leads to program performance that influences future planning, resource allocation, and operating decisions. Objectives are developed in accordance with the TRS Board of Trustees' fiduciary duties and in support of the statewide objectives of the state of Texas. TRS supports the statewide objectives by effectively serving members, operating efficiently and openly, and focusing on our mission to make a positive difference in members' lives.

Statewide Objectives



Accountable to tax and fee payers of Texas.

Efficient by producing maximum results with no waste of taxpayer funds and by identifying any function or provision considered redundant or not cost-effective.



Effective by successfully fulfilling core functions, achieving performance measures, and implementing plans to continuously improve.



Attentive to providing excellent customer service.



Transparent such that agency actions can be understood by any Texan.

The full TRS Strategic Plan Fiscal Years 2023 to 2027 can be found at https://www.trs.texas.gov/TRS%20Documents/strategic_plan_2023_2027.pdf

FOUR STRATEGIC PLAN GOALS:

Goal 1: Sustain a financially sound pension system

OBJECTIVES

- 1 Improve communication regarding pension funding needs.
- 2 Increase identification of underpayments and collection of future contributions to TRS.
- 3 Achieve the trust's actuarial assumed rate of return as measured on rolling 20year periods.
- 4 Improve communication regarding the impact of changing pension plan design.

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.

In 2022, TRS conducted an experience study which found that while most assumptions have remained accurate, the investment return assumption was at the upper end of the range of expected returns. Due to changes in the global economic outlook and expected market conditions, as well as recommendations from the plan's actuary, in July 2022 the TRS Board of Trustees lowered the investment return assumption from 7.25% to 7.0%. The impact of lowering the rate of return on the funding period is offset by the use of deferred investment gains. The fund is projected to continue to be actuarially sound at the end of fiscal year 2022 with a funding period of 26 years. 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. 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 FY 2023 member and state contribution rate is currently 8.0%. In addition, public education employers will contribute 1.80% of the minimum salary schedule for FY 2023.

Goal 1: Sustain a financially sound pension system

Action items supporting each Statewide Objective

Accountability

TRS' core function tied to this goal is to prudently invest trust assets. Being held accountable to Texas taxpayers, TRS serves as a trusted resource, engaging with policymakers and a nine-member board of trustees that is appointed by the Governor and represents our stakeholders on communicating the Pension Trust Fund's actuarial valuation.



Efficiency

To prudently invest trust fund dollars using an asset allocation designed to achieve an efficient risk-adjusted return. TRS has developed deep strategic relationships with key external partners leveraging the resources and intelligence of the external networks to optimize trading and execution.



Effectiveness

TRS regularly performs asset allocation reviews, publicly presents investment returns quarterly, and reports in the Annual Comprehensive Financial Report (ACFR) how the trust fund performed on a one, three, five, and ten-year bases. TRS also measures itself against peers via the Wilshire Trust Universe Comparison Service on a one, three, and five-year basis.

Customer Service

Given that investment returns currently represent most of the trust's revenues, it stands that investment performance is a key mechanism to ensure the long-term sustainability of the trust. TRS will continue to seek the achievement of the long-term assumed actuarial rate of return within appropriate risk parameters as set by the TRS Board of Trustees.

Transparency



TRS communicates with stakeholders to enable them to make informed decisions related to TRS programs. This may include funding and benefit design decisions made by the legislature or retirement options selected by members. TRS also provides general educational information regarding pensions and health benefit matters and responds to media and other requests relating to the investments of the system. As part of its commitment towards open and transparent communication, TRS continues to webcast all board and committee meetings.

TRS Trust Fund Actuarial Projection	8/31/2022 ¹	Goal
Funded Ratio	79.7%	≥80%
State Contribution Rate	8.0%	
Non-Social Security School District Contribution Rate	1.8%	
Member Contribution Rate of Payroll	8.0%	
Unfunded Actuarial Accrued Liability (UAAL)	\$49.4 Billion	
Funding Period (years)	26 years	≤30 years

¹The funding ratio, funding period, and UAAL in the chart above are projected figures provided by TRS' actuary, GRS, during the July 2022 board presentation. The State, school district, and member contribution rates are reported on the TRS website at: <u>https://www.trs.texas.gov/Pages/re_contribution_rates.aspx</u>

FOUR STRATEGIC PLAN GOALS:

Goal 2: Continuously Improve Our Benefit Delivery

OBJECTIVES

- 1 Improve the customer service experience for members and employers.
- 2 Improve timeliness and accuracy in employer-reported data.

A member satisfaction survey is conducted annually on a random sample of active and retired members to gauge satisfaction with TRS services. According to the 2021 Member Satisfaction Survey, an average of 67% of members were either satisfied or very satisfied with TRS' services (55% of active members and 79% of retirees). Overall satisfaction with TRS increased between 2021 and 2020 and significantly more respondents reported a Very Satisfied level of satisfaction with TRS overall compared to 2020. The majority of both active (60%) and retired (93%) members gave positive feedback (6 or above on a scale of 10) when asked about their willingness to promote TRS as a great organization.

While TRS' efficiency and cost savings-oriented service delivery model served TRS and its members well for many years, it has become increasingly difficult for TRS to meet its service level performance targets. Improving customer service is the agency's top priority. In FY 2022, TRS has taken action to address customer service by adding Benefit Services staff, hiring an Ombuds, implementing process improvements, and prioritizing system enhancements as part of improving the Customer Service Improvement Initiative. Furthermore, while members experience longer hold times, 97.8% of callers to the telephone counseling center were pleased with the overall service they received and 97.2% agreed that they felt valued as a TRS member.

In addition to the 2021 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).

Goal 2: Continuously Improve Our Benefit Delivery

Action items supporting each Statewide Objective



Accountability

TRS remains accountable by publicly presenting quarterly performance measure metrics and annual analytics on benefit delivery to the TRS Board of Trustees. Any rule changes governing benefit administration or TRS operations are adopted publicly at open meetings only after publication in the Texas Register and public comment periods.



Efficiency

TRS continues to make progress on implementing the TRS Enterprise Application Modernization (TEAM) Program which focuses on addressing the changing expectations of a growing membership, providing for the collection and maintenance of accurate and reliable data, expanding the number of automated processes, and incorporating modern technologies.



Effectiveness

TRS measures success in prudent and efficient benefit delivery by regularly utilizing an independent firm to conduct and report on customer satisfaction. Additionally, TRS annually participates in the CEM Pension Administration Benchmarking Study that measures TRS' success/ efficiency in delivering benefits against peers.

Customer Service



TRS is dedicated to a professional, accurate, timely, and cost-effective delivery of services and benefits to members, annuitants, and their beneficiaries. TRS will enhance benefit delivery by identifying tools and programs that will allow TRS to better interact and educate stakeholders, expanding Contact Center Call Distribution software to all of the Benefit Services division to allow for better tracking of calls and cross-functional training and assistance during high call volume, as well as contracting with a vendor to assist with handling overflow calls. TRS routinely conducts member satisfaction surveys and adjusts processes based on survey findings. Finally, TRS continues to sharpen its focus on benefit delivery and is committed to enhancing communication to meet the needs of all constituents.

Transparency

TRS places a high priority on timely, accurate, and meaningful communications to share information, by providing webcasts of all board and committee meetings and posting benefit-related materials on our website. Benefit Counseling staff regularly make group presentations to professional associations, as well as employee and retiree groups at regional education service centers. The TRS Benefits Handbook reflects the latest benefit information.

Key Performance Measures	FY 2021 Target	FY 2021 Actual	Explanation
TRS expense per member (Benefit Administration Expenses)	\$30	\$38	Total administrative expense net of capital project expenditures are trending higher this year compared to last year. Total members also increased 12% due to escheated accounts being reestablished as part of Sunset review.
Investment expense per member in basis points (bp)	19 bp	13.49 bp	Investment expense in basis points decreased 4% due to a 14.65 (\$23 billion) increase in the average value of pension fund assets. While investing activity expenses increased 9.9% (\$22 million), the decrease in basis points is due to reduced administrative expenses in response to the COVID-19 pandemic.
Service level percentage of calls answered in specified time interval	80%	44.2%	TRS was unable to maintain staffing to effectively manage increasing membership numbers due to high turnover and challenges with recruiting qualified candidates in the Austin labor market. As new hires spend several months in training and require additional post-training to gain proficiency and speed, customer service performance levels continue to fall below targets.
Number of benefit claim applications processed annually	71,000	85,268	All applications (service and disability retirements, refunds, and death claims) received were processed efficiently.

FOUR STRATEGIC PLAN GOALS:

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

OBJECTIVES

- 1 Improve communication efforts regarding health care funding needs.
- 2 Increase the value of health care benefits.
- 3 Improve the health of our members.

In FY 2021, over \$1.9 billion was provided by multiple funding sources for TRS-Care. State, district, and active employee contributions are based on 1.25 percentage of active employee payroll rather than by medical trend. Required state contributions totaled almost \$487 million, including proportionality amounts received from the districts elsewhere classified as district contributions.

For FY 2023, TRS does not anticipate premium increases or benefit changes for TRS-Care and will continue to offer no-cost coverage for certain generic preventive drugs. This is a result of the additional \$236.3 million appropriated by the 86th Legislature to TRS-Care above statutorily required amounts and the re-procurement of major health administrator contracts, which is generating an estimated \$754 million in savings across both TRS-Care and TRS-ActiveCare in the next three to five years.

Over \$2.0 billion was received in FY 2021 from three funding sources for TRS-ActiveCare. The TRS Board of Trustees sets the gross premiums to ensure adequate funding for benefits. Participating districts contribute \$150 and the state contributes \$75 for a combined minimum of \$225 per employee per month toward the total premium. Because the level of legislated state and district funding has not changed since the inception of the plan, employees shoulder the majority of the costs. In FY 2022, TRS received an appropriation of \$721.3 million in federal funds to offset plan COVID-19 costs. TRS-Care received \$83 million which was distributed to eligible participants. TRS-ActiveCare received \$638.3 million, which kept total premiums from increasing in FY 2023. Premiums closely reflect claims cost. While TRS-ActiveCare offers a competitive premium for employers participating in the program, plan affordability for employees and their families is an ongoing concern due to the additional funding being a one-time appropriation.

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.

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

Action items supporting each Statewide Objective

Accountability



TRS is accountable to Texas taxpayers in the delivery of health care benefits. Rates and plan design for the TRS health care plans are adopted publicly in an open meeting by the TRS Board of Trustees. Financial statistics related to TRS-Care and TRS-ActiveCare are regularly published in the ACFR and matters relating to the health care funds are regularly communicated with member and retiree associations and the legislature.

Efficiency

A major TRS initiative for the upcoming fiscal year is to serve as a resource for the legislature on matters involving TRS-Care and TRS-ActiveCare. This includes carefully monitoring TRS-Care funding and educating stakeholders about options for sustaining TRS-Care and managing TRS-ActiveCare. As part of this work, TRS has enhanced health data analytics to drive key decision-making in support of cost management and resource maximization.

Effectiveness

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TRS strives to deliver the highest quality health care services to members at the best possible price to ensure funds go as far as possible. To that end, TRS watches health care market trends closely, procuring medical and pharmacy contracts when it is most advantageous for members. Routine market checks and procurement ensure the best value from available funds.

Customer Service



TRS is dedicated to a professional, accurate, timely, and cost-effective delivery of services to plan participants. TRS routinely compares its health care plans with similar plans, including analysis of comparative costs and premiums. Additionally, TRS routinely conducts member satisfaction surveys to ensure continued high-quality service to plan participants and solicits public input. TRS continues to sharpen its communication focus on health care matters and is committed to enhancing its channels of communication to meet the needs of all constituents.

Transparency



TRS is responsible for providing accurate information about TRS programs and services to all interested parties, including active and retired members, legislative and governing bodies, school districts, institutions of higher education, and the public so that informed health care decisions can be made. As part of its commitment towards open and transparent communication, TRS continues to webcast all board and committee meetings and post health care-related materials on our website. Detailed and easy-to-understand health care information can also be found in the TRS Benefits Handbook as well as the TRS Health Benefits Report.

FOUR STRATEGIC PLAN GOALS:

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

OBJECTIVES

- 1 Attract, retain and develop a diverse and highly competent staff.
- 2 Advance and enhance IT systems and services.
- 3 Enhance the information security program.
- 4 Identify appropriate solutions for TRS facilities and space requirements.
- 5 Foster a culture of fiduciary responsibility and ethical conduct.
- 6 Improve and maintain effective procurement and contract management practices.
- 7 Improve strategic communications.
- 8 Evaluate automation and technology solutions to enhance existing processes.

TRS is often selected as a Top Workplace in Austin as part of the Austin American Statesman's workplace survey. In FY 2022, TRS was recognized as a national top workplace in the United States. TRS is a preferred employer because of its mission and culture and because it provides employees with the tools needed to succeed. In FY 2022, 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.



Maintaining a Competitive Edge

TRS maintains a competitive edge in recruiting the best talent by providing competitive pay, a merit program, and quality staff development. Merit allocations for FY 2023 were approved by the Board to increase to 10% for the Investment Management Division and 5% for Red River staff to help retain current employees, keep up with the current job market, and maintain a competitive edge in recruitment. Merit allocations continue to be centralized. The Executive Director and Deputy Director work with managers to determine merit allocations through a departmental analysis. TRS continues to increase employee in-house learning opportunities and development, maintains a desirable physical work environment that includes efficient use of space, and continues to provide organizational change management support. TRS encourages, supports, and maintains accountability 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.

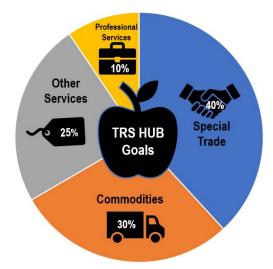
Employee turnover at TRS has consistently been below the statewide average among state agencies, as reported by the State Auditor's Office. In fiscal year 2021, TRS turnover was 14.6%, well below the state average of 22.5% for the same period. Fiscal year 2021 presented the nationwide and local labor markets with challenges that were unanticipated. Named both "the great resignation" and "the great reshuffle," employees' perceptions of work, coupled with burnout and colored by the pandemic, changed. In Austin, TRS had the additional challenge of a labor market flooded with new positions and new employers. TRS anticipates that its turnover rate may continue to fluctuate with the Austin and national economies but hopes mitigations and recruitment efforts will keep overall turnover below the state average.

To address the significant challenges TRS has experienced in hiring and retention, effective Sept. 1, 2022, TRS, with board approval, exercised its statutory exemption to create a compensation structure to more effectively manage these needs. This mitigation and flexibility are hoped to increase the ability to recruit in these unprecedented times and to encourage retention.

TRS will continue to manage (and expand, as needed retaining, and developing highly of the second second second	,
 Recruitment activities and collaborations that market TRS as an employer of choice and have the potential to increase diversity among TRS staff. Internship and fellowship programs to build relationships with universities and develop talent pools. Strategic workforce management to include the use of contingent staffing, redeployment of current staff, variable scheduling to meet business needs, proactive sourcing, remote staff, and other appropriate best practices. 	 Leadership development programs to build the skills of current and prospective leaders. Career development programs to provide professional growth opportunities for employees. Cross-training programs to advance skill levels, enhance productivity and provide back-up for critical functions. Continuity plans for critical staff.

Historically Underutilized Business Plan

TRS believes in promoting full and equal business opportunities for all businesses in Texas. To that end, the TRS Historically Underutilized Business (HUB) Program encourages the use of HUB vendors for the procurement of commodities and services. 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 participates in local and selected statewide HUB, including CPA forums; and conducts one-on-one meetings with HUB vendors and assists with identifying business opportunities with TRS and other state agencies, as well as assists vendors in becoming certified or recertified as a Texas HUB. TRS is committed to adhering to the HUB Program and to operate under the highest ethical standards and will continue to support and implement responsibilities as determined by the Texas Comptroller of Public Accounts (CPA).



TRS recognizes the importance of the HUB Program and continues to develop initiatives to promote and increase HUB opportunities by:

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- Increasing agency awareness of HUB requirements through training and quarterly meetings with departments
- Increasing staff forum attendance from 3 to 9 in FY22
- Enhancing the TRS HUB Forum to include information on the state HUB program, additional resources, and information on how to create a winning proposal
- Purchasing and Contracting staff reaching out to the HUB community to see if they can provide the goods or services for procurements under \$10K and that do not require a solicitation

- Updating the external HUB website to include a solicitation calendar that provides transparency and opportunities for HUB vendors
- Working with the Communications department to advertise solicitations on social media (Facebook, Twitter)
- Providing annual status reports are provided to the Board and include HUB goals in the agency Strategic Plan
- Contacting all eligible HUB vendors to participate in each solicitation

More information related to TRS HUB goals and initiatives can be found at: https://www.trs.texas.gov/Pages/procurement hub.aspx

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

Action items supporting each Statewide Objective

Accountability



TRS is committed to maintaining an efficient and effective administration that is accountable and transparent to its stakeholders. TRS frequently testifies before the legislature when called upon. TRS' budget is submitted to and approved by both the TRS Board of Trustees and the legislature. TRS is developing an agency contract management training program for all TRS contract managers. In addition, individuals that have significant contract management duties will be required to become a Certified Texas Contract Manager.

Efficiency

The TRS Board of Trustees adopts the annual operating budget from the appropriations process and authorizes funding to be provided from the Pension Trust Fund; however, TRS does not receive funding from the state for administrative operations. TRS continues to maintain a relatively low administrative operations budget to total membership ratio compared to other public pension funds.

Effectiveness

TRS conducts ongoing analysis of the workforce to determine current and future staffing needs. TRS also develops and promotes career opportunities through defined career paths for current employees, researches options to retain institutional knowledge, and designs succession planning programs for critical staff. Additionally, TRS conducts ongoing analysis of processes and technology to ensure members' needs are met.



Customer Service

TRS' core functions are delivering retirement benefits, facilitating health care coverage, and managing investments. In our continued pursuit of providing excellent customer service, TRS ensures that the skills of current and future workforce have the required expertise to serve our members. TRS does this by monitoring business processes and full-time employee (FTE) levels and adjusting as necessary.

Transparency

As part of its commitment towards open and transparent communication, TRS continues to webcast all board and committee meetings and post budget-related materials including the biennial Legislative Appropriations Request (LAR) and Operating Budgets on the TRS website. Detailed and easy-to-understand financial information can be found in the ACFR.

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Financial Policies and Guidelines

The Texas Constitution, Article 16, Section 67, authorizes programs of retirement for Texas public education employees and the administration of such programs in a manner that will assure prompt delivery of benefits and related services to the members and their beneficiaries. Under the constitution, the Teacher Retirement System is established as a trust and requires the administration by trustees. Trustees carry the fiduciary responsibility in the administration of the plan and investment of the plan assets. The constitution requires that the assets of the System not be diverted. This imposes a duty on the TRS Board of Trustees to restrict use of assets to the benefit of the participants of the System. Use of the System assets for the benefit of the public in general, for the benefit of other programs or other program participants, or for the pursuit of other policies are examples of situations that may amount to or can lead to diversion of system assets. Statutory provisions also emphasize the board's role as fiduciary and the trust arrangement for plan assets and administration. The Texas Constitution and statutory provisions provide the basis for which all policies are established and afford the System a level of autonomy from the state administration compared to other state agencies.

Article XVI, Section 67 of the Texas Constitution:

(a) General Provisions.

(1) The legislature may enact general laws establishing systems and programs of retirement and related disability and death benefits for public employees and officers. Financing of benefits must be based on sound actuarial principles. The assets of a system are held in trust for the benefit of members and may not be diverted.

(3) Each statewide benefit system must have a board of trustees to administer the system and to invest the funds of the system in such securities as the board may consider prudent investments. In making investments, a board shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The legislature by law may further restrict the investment discretion of a board.

Under Texas Government Code, Chapter 825, the Board of Trustees are authorized to adopt rules for the administration of TRS and the transaction of the business of the Board. The Board monitors the actions of staff and consultants to ensure compliance with its policies. To aid in its prudent oversight and monitoring the board established an Audit, Compliance, and Ethics (ACE) Committee, Benefits Committee, Budget Committee, Investment Management Committee, Strategic Planning Committee, Policy Committee, and Compensation Committee each of which is a standing committee of the board charged with those responsibilities set forth in the bylaws of the board.

TRS policies guide activities such as development of annual budgets, procurement of goods and services, implementation and oversight of information technology projects, delegations of authority, and out-of-state and international travel.

Budget Policy

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 87th Texas Legislature. A balanced budget is one in which the total revenues equal total estimated expenditures.

Basis of Budgeting

TRS maintains and manages its budget 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.

TRS efficiently and effectively assigns resources to the appropriate areas in the agency to align with the goals and objectives set forth by the Board and executive management in the 2023–2027 Strategic Plan. The budget and expenses are primarily controlled through policies set forth by state of Texas governing entities, the Board of Trustees, and TRS.

Budget Committee Bylaw Citation

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.

Amended July 16, 2021

The full Bylaws of the TRS Board of Trustees can be found at the following link: <u>https://www.trs.texas.gov/TRS Documents/bot bylaws.pdf</u> To comply with the budget policy the following benchmark(s) include, but are not limited to:

- Develop the agency Administrative Operating Budget annually and the Legislative Appropriations Request (LAR) in even-numbered years. The budget for FY 2023 is balanced and prepared in accordance with board policy and guidelines and Generally Accepted Accounting Principles (GAAP). It was presented to the TRS Board in July 2022 and approved. The FY2024-25 LAR was submitted to the Legislative Budget Board (LBB) in August 2022.
- Apply for the GFOA Distinguished Budget Presentation Award. Received the GFOA Distinguished Budget Presentation Award 6 awards since 2015.
- Ensure the total approved budget for operating expenses and capital outlay are not exceeded without the approval of the TRS Board. Follow the General Provisions which authorize the Executive Director, or Deputy Director to approve the transfer of budgeted funds up to 25% of a major expense category between major expense categories. For the FY 2023 capital budgets, the Board approved an additional \$8.1 million, through a Fiduciary Finding and pursuant to Article IX, Section 14.03, 87th General Appropriations Act. The additional budget will be used to increase the scope of the capital projects for the Investment Data Modernization Program and fraud detection and prevention tool.

Procurement Policy

The Purchasing and Contracts department within Business Administration manages the procurement process and provides high-level oversight of TRS' contracts, while the business units provide day-to-day contract oversight and management, and Legal and Compliance provides legal counsel throughout both processes. Pursuant to Section 5.6 (b) of the TRS Board Bylaws and the Board Procurement Policy, TRS shall acquire goods or services by procurement methods approved by the Board of Trustees or the Board's designee.

Excerpt from the Procurement and Contracting Guide:

Exclusive Authority over TRS Trust Funds

Notwithstanding any other law, TRS has exclusive authority under Section 825.103(d) of the Texas Government Code over the purchase of goods and services. Those purchases are statutorily exempt from the requirements of Title 10, Subtitle D, Tex. Gov't Code (Chapters 2151-2176). Further, sections 825.103(e) and (f) of the Texas Government Code exempt TRS from Chapters 2054 (with noted exceptions), 2055, and Subchapter C, Chapter 2260, Tex. Gov't Code.

Adopted September 2021

The complete guide and policy can be found here: <u>https://www.trs.texas.gov/TRS%20Documents/procurement-contracting-guide.pdf</u> <u>https://www.trs.texas.gov/TRS%20Documents/trustee_procurement_policy.pdf</u> To comply with the Board Procurement Policy the following benchmark(s) include, but are not limited to:

• Ensure that all purchases and contracts are developed, awarded, monitored, and evaluated per applicable laws, rules, and best management practices. The Purchasing and Contracts (P&C) department created the Procurement and Contract Management Guide. P&C also facilitated trainings and job aids to assist business units.

Debt Policy

TRS does not issue debt nor does it have a statutory debt limitation.

Investment Policy

TRS Investments focuses on achieving superior long-term returns to secure members' retirement futures and deliver benefits that enrich their lives. The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy. The Board also monitors the actions of the Investment Division to ensure compliance with its policies. The Board and Investment Division are assisted by outside advisors, consultants, and internal and external legal counsel.

All investments must be made prudently and in accordance with fiduciary and ethical standards, without promoting interests unrelated to the portfolio's stated objectives of controlling risk and achieving a long-term rate of return.

All investments made by the Total Fund must be in "securities" as provided by Article XVI, Section 67 (a)(3) of the Texas Constitution and defined in Texas Government Code Section 825.301.

Adopted July 15, 2022, to be effective July 18, 2022

The complete investment policy can be found at the following: https://www.trs.texas.gov/TRS Documents/investment_policy_statement.pdf

To comply with the Investment Policy the following benchmark(s) include, but are not limited to:

• Create a sustainable, competitive advantage for the Fund and the more than one and a half million people we serve. Reports are provided quarterly to the Board and appropriate board committee on the investment performance for the Total Fund and each component portfolio, net of external management fees (if applicable), will be compared with their respective benchmark indices. Fund performance will be judged primarily by comparisons to long-term (3, 5, and 10-year) Policy Benchmark returns.

Pension Funding Policy

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 primary goal of the pension plan is to accumulate sufficient assets and achieve a stated funding objective to pay promised benefits. This funding policy establishes the funding objective as equal to or greater than 100 percent funded and identifies a detailed plan for achieving the funding objectives of Contribution Stability and Predictability, Legislative Appropriations Request of Contribution Rates, and Benefit Enhancements.

Consistent with its charge to protect the funds of the retirement system as required under Tex. Gov't Code § 821.008 and adopt a written funding policy under Tex. Gov't Code § 802.2011, the TRS Board of Trustees supports contribution and benefit policies that will systematically decrease the UAAL over time in order to achieve a funded ratio of the system that is equal to or greater than 100 percent. A declining UAAL over time will evidence that contribution and benefit policies are being implemented consistent with Tex. Gov't Code § 802.2011.

Dated December 13, 2021

The complete funding policy can be found in Appendix D and at the following link: <u>https://www.trs.texas.gov/TRS Documents/pension_funding_policy.pdf</u>.

To comply with the Pension Funding Policy the following benchmark(s) include, but are not limited to:

- Systemically decrease the UAAL (Unfunded Actuarial Accrued Liability) over time in order to achieve a funded ratio of the system that is equal to or greater than 100 percent. In advance of the legislative session, TRS prepared a Legislative Appropriations Request (LAR) with the requested contribution rate. For the six fiscal years in which contribution rates are being increased under Tex. Gov't Code §§ 825.402, 825.4035, and 825.404, TRS will request a contribution rate consistent with Tex. Gov't Code § 825.404
- Review the assumptions and methods at least once every four years in an Experience Study. An experience study was conducted in 2022 and found that while most assumptions have remained accurate, the investment return assumption is at the upper end of the range of expected returns. In July, TRS' Board of Trustees reviewed the results of the study and voted to approve a recommendation to lower the investment return assumption from 7.25% to 7.00%.

Budget Development

State Budget Process and Timeline

The state of Texas budget process begins the year preceding the biennial legislative session (spring of evennumbered years) with the development of the agency Strategic Plan. Soon after submitting the Strategic Plan, agencies begin development of the Legislative Appropriations Request (LAR), which is used to request funding for the following biennium. The Legislative Budget Board (LBB) uses the LAR as a basis to create the general appropriations bill, which contains performance measures, the maximum number of full-time equivalent employment positions (FTEs) allowed, specific enumerated instructions, the amount of funding recommended by the LBB, and the method of financing for each agency's appropriation. When the Texas Legislature convenes in January of odd-numbered years, the general appropriations bill goes through the Senate Committee on Finance and the House Committee on Appropriations and eventually to the floor of each chamber for debate and ultimate approval. The appropriations bill guides spending over the next two years, beginning on September 1 of odd-numbered years. Although the budget is not recorded in Texas statutes or codes, it has the force of law. Agencies are bound by it, and their compliance is monitored by the LBB and the State Auditor's Office (SAO).

As a part of the state of Texas budget process, TRS prepares a detailed LAR under the guidelines of the 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.

The legislature appropriates funding and FTE authorization from the Pension Trust Fund to pay for all Benefit Services operations, Investment Management operations, Support Administration, and Capital Projects. Funding for both fringe benefits and performance incentive compensation payments is appropriated separately. HIB is funded with health care funds which include both TRS-Care and TRS-ActiveCare. Health care funding and staffing resources are not part of the legislative appropriations process. Annually, the board adopts the Administrative Operating Budget which funds TRS' internal operations.





Develop a Legislative Appropriations Request every evennumbered year.

The LBB uses the LAR as a basis to create the general appropriations bill and is presented to the Texas Legislature for approval.



The LBB and SAO monitor compliance with the GAA.

TRS Budget Development Process

Development

The development of the annual Administrative Operating Budget is a participatory process with agency business units. The process begins when instructions are sent to all department managers asking to submit requests for operating and capital expenditures for the upcoming fiscal year and the next biennium during even-numbered years. Department managers are instructed to use a strategy-based approach plus needed funding for cost escalators. Departments are able to make adjustments and request additional resources using TRS' interactive budget software if any are needed. 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. To gain insight into the departments' plans for the upcoming year, the Budget team coordinates two meetings, one with all the Core function departments and the other with the Support departments. In these meetings the two groups present their requests for additional resources, which can include FTE and funding requests. The Core function departments normally present first to give an idea of their needs that the Support function departments may need additional resources to support.

In preparation for the FY 2023 Budget and FY 2024-2025 LAR, the Budget team hosted a Budget Kickoff before the two meetings with the Core and Support departments mentioned above. The Budget Kickoff meeting provided agency leadership an opportunity to develop the goals, resource needs, and service level priorities through open group discussions. The meeting further assisted departments with budget development and the identification of incremental increases in resources needed to advance the strategic plan of the organization. The Budget team also used this opportunity to provide refreshers on the state budgetary process, specifically addressing the LAR process and capital projects.

Review

Once all budgets are completed and submitted, the budgets are examined for additional funds requested above the base amount that balances to the GAA for that fiscal year. Any amount of increase requires a justification. To further facilitate the review process, budget staff examine previous budgets and expenditures, and research economic and financial developments that affect the agency's expenditures. In combination with the agency priorities, these trends and historical data are used to assist the budget staff with forecasting and advocating for departments' requested increases. Requests for additional funds and staff are considered for adoption based on increasing work demands, changing methods of operations, and delivery of mission-critical services.

Adoption

The final proposed annual Administrative Operating Budget is presented to the Budget Committee for recommendation to be adopted by the Board of Trustees during the July board meeting. As the fiscal year progresses if an additional need for resources arise the Budget Staff will first look for available lapse within the existing budget. If no lapse is available to accommodate the request and amending the adopted budget is seen as necessary, an increase to the appropriated budget would need to be presented and approved by the Board of Trustees through a fiduciary finding.

Although the public has no involvement with the development of the annual administrative operating budget, the proposed budget presented during the board meetings is broadcasted publicly. The public's input, along with other factors affecting the agency, are taken into consideration as the budget is developed as TRS strives to be transparent and abide by all policies and guidelines. The public is also invited to provide testimony and comments at the board meetings. Additionally, the representatives of the Texas Legislature are the voices of the public and our members. TRS also publishes the Administrative Operating Budget report on its website.

A detailed calendar of the TRS budget process can be found in Appendix C.



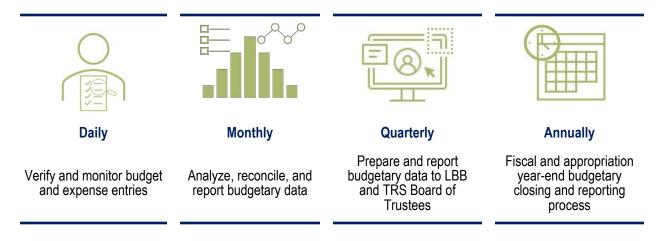
Budget Controls and Monitoring

After the biennial budget is passed by the Governor, the legislative leadership continues to play a role in the budget with ongoing monitoring of the implementation of the budget through the LBB. Legislative controls are laid out in the General Appropriations Act, which is used as guidelines for the agency budget and capital projects. TRS is required to submit quarterly reconciliations of expenditures and performance measure outcomes to the LBB.

After adoption of the internal operating budget, staff continuously monitors financial performance relative to the adopted budget, supporting timely decision-making by senior management. On a monthly basis, budget staff performs budget-to-actual and budget-to-projected actual comparisons of expenditures. The Board Budget Committee is provided mid-year and end-of-year reports as well.

As an internal control measure the budget is loaded into CAPPS (Centralized Accounting Payroll Personnel System) to establish expenditure limits by fund, appropriation, and department. Staff utilize CAPPS to verify and monitor the budget and expense entries on a daily basis.

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. If an additional business need is identified, departments are first directed to use existing budget. If the department's existing budget cannot accommodate their need, another department's lapse could be redirected to these areas. Staffing levels are also monitored and earned lapse to date is calculated to use for additional resource requests. The following diagram depicts the various monitoring time frames:



Position Control

Generally, augmentations to authorized positions follow the standard budget process and are approved by the Legislature. Once established, approved full-time equivalents (FTE) positions are monitored monthly. TRS created an internal planning committee to evaluate and discuss each division's requests in conjunction with all upcoming terminations, retirements, and separations to determine which positions can be posted and filled. Ultimately, the Executive Director has final decision-making authority. TRS monitors business activities and FTE employee levels to efficiently manage staying below the 1,047.3 authorized FTE cap. In coordination with Organizational Excellence and Payroll, the Budget team compiles the status of all positions and present any new request to agency leadership for consideration. To remain transparent with business units, the Budget team updates OpenGov weekly with the position control data. Reporting of FTE levels is submitted to the SAO quarterly.

Stakeholder Expectations

TRS is expected to maintain and manage its budget efficiently and accurately to meet the expectations of various stakeholders. The expectations of each are taken into account and are used as guidelines when developing the budget.

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External Governing Bodies	Members	Board of Trustees (BOT)
Legislature, Legislative Budget Board, State Auditor's Office, Office of the Governor, Texas Comptroller's Office	Active and Retirees	The nine-member Board of Trustees, trustee of all plan assets
Expectations include:	Expectations include:	Expectations include:
Staff will abide by the General Appropriations Act (GAA) and all	 TRS will be transparent regarding its budget and spending 	 Staff will abide by the GAA and all transparency requirements
 associated reporting requirements Staff will uphold TRS' fiduciary duties when preparing and overseeing the agency and departmental budgets TRS will be transparent with the public regarding its budget 	 TRS will be good fiduciaries of the trust funds on their behalf TRS will ensure expenditures are aligned with the overall mission of the agency 	 Staff will uphold TRS' fiduciary duties when preparing and overseeing the agency and departmental budgets BOT will be provided accurate and timely communications regarding expenses, risks, and other budgetary or FTE-related issues Staff will be proactive and timely in identifying budgetary risks
		 BOT will be provided sufficient information and tools to enable them to make prudent decisions in their fiduciary roles regarding the TRS Budget or FTE needs

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Executive Management	Internal Partners	Staff
Executive Director, Deputy Director, and related administrative staff	Department directors, managers, and budget liaisons	Budget Staff
 Expectations include: TRS will abide by all GAA and transparency requirements Staff will uphold TRS' fiduciary duties when preparing and overseeing the agency and departmental budgets Staff can swiftly provide accurate budget and FTE-related information and assist in preparing presentations, legislative responses, etc. as needed Staff will provide guidance and assistance to business units regarding the budget development process Staff will maintain good relationships with BOT, management, and business units Staff will keep management up-to-date and provide accurate information to enable them to knowledgeably communicate budgetary and FTE- 	 Expectations include: Necessary funds are available to meet the needs of business units Staff maintains good relationships with business units and is available, knowledgeable, and responsive to their needs Staff closely monitors budget reports and ensures expenditures are charged to the correct budgets Staff is aware of critical activities that have to be performed at specific times of the year and is able to work with other business units to provide quick turnarounds and information as needed 	 Expectations include: Clear and prompt communication both up and down the chain Manager and other staff are accessible and available to help each other as needed Staff is willing to shift priorities and workloads in order to help each other or to accomplish specific tasks

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"Tell me and I forget, teach me and I may remember, involve me and I learn."

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- Benjamin Franklin

FUND STRUCTURE and LONG-TERM FINANCIAL PLANNING

20

Overview of Fund Structure

TRS administers retirement and related benefits to employees and beneficiaries of employees of public, state-supported, educational institutions of Texas. The System also administers the Texas Public School Retired Employees Group Insurance Program (TRS-Care) as well as the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare).

- The Pension Trust Fund is a multiple-employer, cost-sharing, defined benefit pension plan with a special funding situation that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.
- TRS-Care is considered an employee benefit trust fund and provides health care coverage for certain persons, who retire under TRS, and their dependents. The statutory authority for the program is Texas Insurance Code, Title 8, Subtitle H, Chapter 1575 and Texas Administrative Code, Title 34, Part 3, Chapter 41.
- TRS-ActiveCare provides health care coverage to employees of participating public education entities and their dependents. 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 System's financial records 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, additions/revenues, and deductions/expenses. The administrative operating budgets for the Pension Trust Fund and TRS-Care represent less than 1% of the value of the Pension Trust Fund and TRS-Care represent less than 1% of the value of the Pension Trust Fund and TRS-Care Fund, respectively. The Administrative Operating Budget for TRS-ActiveCare represents approximately 10% of the value of the fund. 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 and Proprietary.

TRS Board of Trustees

Fiduciary Funds - Assets held in trust for members (Includes appropriated funds)		Proprietary Fund - Business-type activities (Non-appropriated funds)
TRS Pension Trust Fund	TRS-Care Fund	TRS-ActiveCare Fund

Fiduciary Funds

Fiduciary funds, which have an appropriated component, include the Pension Trust Fund and TRS-Care (employee benefits trust fund). 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 pension and other post-employment benefit trust funds are used to report resources held in trust for members and beneficiaries of the defined benefit pension plan and other post-employment benefit plan. Benefits are paid from the Pension Trust Fund. Health care claims are paid from TRS-Care. The agency's administrative operating budget is sourced from each fund respectively.

Proprietary Fund

The System's proprietary fund, TRS-ActiveCare which is an enterprise fund, does not include any appropriated funds. TRS-ActiveCare is considered a major fund. 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. Proprietary funds distinguish operating activities from non-operating activities. Operating revenues for the System's proprietary fund are derived from self-insurance premiums. Operating expenses include the costs of claims and related administrative expenses. Non-operating revenues and expenses are those items that do not meet any of the above definitions.

Long-Term Financial Plan

The foundation of TRS' long-term financial planning is to ensure sufficient assets are available to pay promised benefits to members. TRS strategic planning is a long-term and future-oriented process of assessment, goal setting, and decision-making for the next five years.

In keeping with the long-term strategic planning process, the Board adopted a funding policy in FY 2020 that states the funding goals of the System and sets the guidelines for which TRS may recommend changes to contributions and/or benefit levels to the Legislature. 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. The Board will review the TRS Pension Funding Policy every four years, to coincide with future experience studies conducted by the TRS actuary. TRS is required by law to conduct an actuarial experience study at least once every five years. A video explaining how the actuarial valuation defines the health of the TRS Pension Trust Fund and the full results of the 2022 actuarial experience study can be found at the following links:

Video: <u>https://www.youtube.com/watch?v=pe7Y_ilH8uk</u>

Report: https://www.trs.texas.gov/TRS%20Documents/actuarial_experience_study_2022.pdf.pdf

The purpose of the actuarial experience study is to examine the changing patterns of retirement behaviors, plan provisions, and investment returns, and whether adjustments are needed. Based upon findings in the 2022 actuarial experience study and recommendations by TRS' independent actuary, TRS' Board of Trustees voted to approve lowering the investment return assumption from 7.25% to 7.00%.

During the 2019 86th Legislature, Senate Bill 12 was passed providing for increased contribution rates from all sources. The increases would be gradually implemented over the next few years and dramatically improves the projected health of the System. However, the main metrics are not expected to improve for some time. In addition, a mechanism for further adjustment, if deemed necessary, does not exist without legislation. The contribution rates are displayed below.

	FY 2017-19	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State	6.80%	7.50%	7.50%	7.75%	8.00%	8.25%	8.25%
Members	7.70%	7.70%	7.70%	8.00%	8.00%	8.25%	8.25%
Public Education Employer	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%

On an annual basis, TRS' independent consulting actuary 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. 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.

The funding policy adopted by the Board provides a strong step towards focusing on reducing the unfunded actuarial accrued liability (UAAL) over time. The plan finances benefits by investing funds seeking to achieve the assumed rate of return. For TRS, the assumed rate of return is 7.00%.

Pension Trust Fund

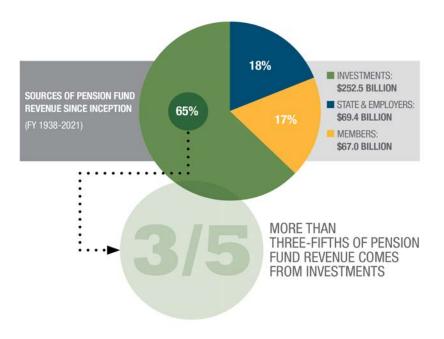
Long-term financial planning for the TRS Pension Trust Fund is driven by the funding policy and the strategic plan, which are both adopted by the TRS Board of Trustees. The financial health of the pension program is based on the following equation:



Revenue Sources

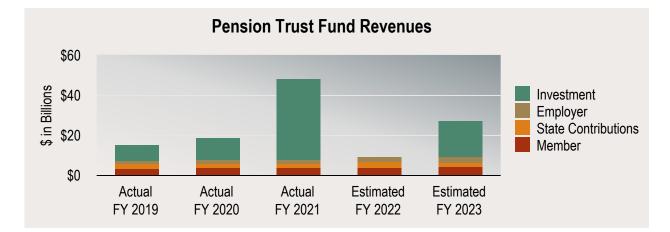
Contributions & Investment Income

In the defined benefit plan, contributions are invested to generate income from which benefits are paid. Contributions are comprised of three sources – Member, State, and Employer. Member contributions are established in statute.



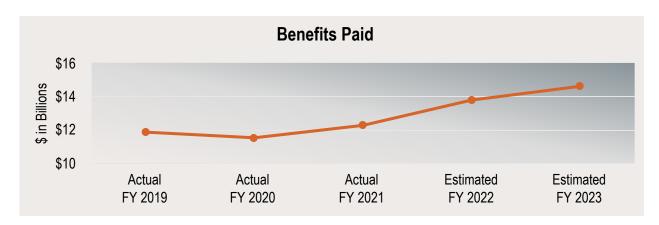
The current contribution rate is 8.00% of eligible compensation and is scheduled to increase to 8.25% beginning in FY 2024. There are over 910,000 actively contributing members in TRS, growing at a rate of approximately 1% per year. The state contribution rate is established in the General Appropriations Act (GAA) and statute. The current contribution rate is 8.00% of eligible compensation and is scheduled to increase to 8.25% beginning in FY 2024. Public education employers currently contribute 1.8% of payroll and are scheduled to increase to 1.9% in FY 2024. There were 1,344 contributing employer entities for FY 2021.

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, 65% of all trust fund revenue is related to investments. Investment earnings are largely dependent on global market conditions and the asset allocation strategy. Investing costs are generally netted against investment returns. Reduced investing costs going forward should support investment returns.



Benefits & Expenses

Benefits paid generally grow 6% per year. Administrative expenses for benefit operations are increasing due to an increased focus on customer service and meeting service levels.



Pension Trust Fund	Actual FY 2021	Estimated FY 2022	Estimated FY 2023	Variance FY 2022 to FY 2023
Member Contributions	3,909,862,435	4,175,313,183	4,300,572,578	3%
State Contributions (Appropriated)	2,144,257,341	2,889,020,615	2,310,708,069	(20)%
Employer Contributions	2,153,428,442	2,564,215,499	2,641,141,964	3%
Investment Income & Other Revenue	40,515,270,033	(14,037,280,302)	18,361,552,083	231%
Total Revenues	48,722,818,251	(4,408,731,005)	27,613,974,694	726%
Benefits Paid	12,260,701,148	13,777,606,619	14,604,263,016	6%
Admin Expenses - Appropriated (excluding investing activity expenses)	71,359,850	122,525,183	164,841,900	35%
Total Expenses	12,332,060,998	13,900,131,802	14,769,104,916	6%
Net Increase (Decrease)	36,390,757,253	(18,308,862,807)	12,844,869,778	170%
Net Position, Beginning of Year	165,416,245,243	201,807,002,496	183,498,139,689	(9)%
Net Position, End of Year	201,807,002,496	183,498,139,689	196,343,009,467	7%

Pension Trust Fund Projections

Member and employer contributions are growing at an anticipated rate of 3%. Contributions are based on the expected rate of covered payroll growth which aligns with long-term demographic trends. The reduction in state contributions from FY 2022 to FY 2023 is the result of \$701 million in direct funding from the state in FY 2022 to fund a one-time supplemental payment for eligible retired members authorized by the Texas Legislature.

The annual rate of return on investments for the pension fund for the year ended Aug. 31, 2021 was a historic 24.98%. In FY 2022, investment earnings were lower than FY 2021 due to market volatility with respect to inflation and global tightening of monetary policy. The projected net position balance for FY 2023 reflects the assumed investment rate of return of 7.00%.

For the FY 2022-23 biennium, TRS proposed a conservative administrative operating budget in accordance with state leadership cost-saving directives in response to the pandemic. The FY22 annual administrative operating budget represents an overall 1% increase from FY21, well below both average historical growth and coming after a year in which the budget remained flat, compounding the gap between agency initiatives and available funding. Overall the FY 2023 administrative expenses reflect an increase of 35% from FY 2022 to ensure funding levels are sufficient to support ongoing key agency initiatives to address customer service and inflationary pressures and higher consumer prices.

Health Care Trust Funds

The TRS Board is also the fiduciary for the TRS-Care and TRS-ActiveCare Trust Funds. For these programs, TRS works with its actuaries to forecast financial trends and estimate funding needs. This process entails significant analysis and coordination to ensure that plan design changes maintain and encourage the use of high-value care, revenues are sufficient to pay claims, Legislative changes and directives have been incorporated, and the board has adequate information to make decisions.

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.

Health Plan Premiums and Benefits

The TRS Board adopts changes to gross premiums and benefit levels for each program based on the longterm 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.

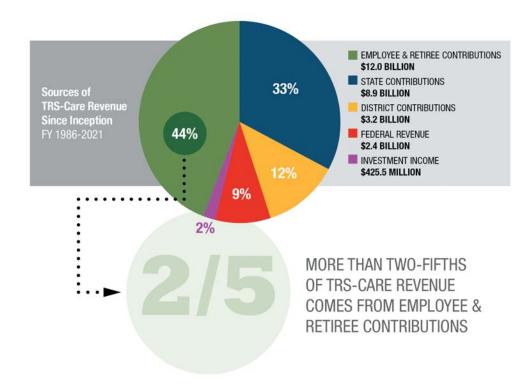
Projections for the health plans can be difficult to forecast for long periods due to high inflation and volatility in the health care market and the relatively low margins on which the plans have historically operated. Because the full magnitude of COVID-19 costs within TRS programs adding further uncertainty, 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 is required to maintain a balance estimated to equal 60 days of program claims and expenses to help reduce the impact of short-term volatility on the program.

TRS-Care Revenue Sources

Contributions & Investment Income

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



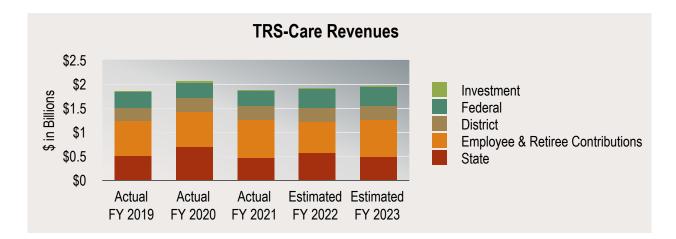
The Legislature has discretion to determine the level of contributions that will subsidize the cost of gross premiums for members. In FY 2022 the Office of the Governor and state legislative leadership provided TRS-Care with a one-time payment from the Coronavirus State Fiscal Recovery Fund under the American Rescue Plan Act in the amount of \$83 million which was distributed to eligible participants.

Employee contributions are based on a percentage of active public education employee payroll, shown in the table below.

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

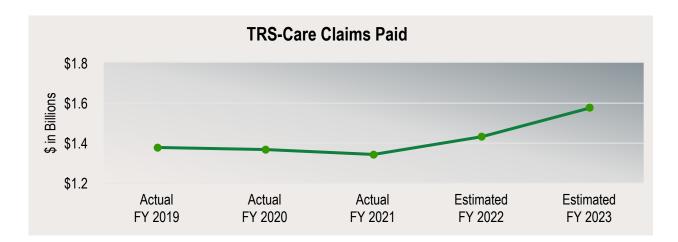
Retiree contributions are tiered by years of service, Medicare status, dependent coverage, and plan election. Federal revenue is dependent upon congressional action and continued program funding. Federal funds received are related to Medicare Part D which provides retiree prescription drug subsidy reimbursements 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 is earned on the cash balance that is maintained with the State of Texas Treasury.



Benefits & Expenses

Health care claims expense, including pharmaceutical costs, is expected to increase slightly in the near term due to the re-procurement of major health administrator contracts which is expected to generate savings across the fund.



TRS-Care, Health Care Program for Retirees	Actual FY 2021	Estimated FY 2022	Estimated FY 2023	Variance FY 2022 to FY 2023
State Contributions (Appropriated)	487,084,905	574,195,853	501,019,770	(13)%
Employee & Retiree Contributions	784,008,921	656,138,864	763,946,399	16 %
District Contributions	299,801,011	294,717,512	300,611,862	2 %
Federal Revenue	311,771,513	388,639,291	396,647,385	2 %
Investment Income	9,226,940	14,308,586	16,429,758	15 %
Total Revenues	1,891,893,290	1,928,000,106	1,978,655,174	3 %
Health Care Claims Paid	1,341,062,367	1,429,742,997	1,573,089,670	10 %
Administrative Expenses	7,906,384	15,752,101	17,927,000	14 %
Total Expenses	1,348,968,751	1,445,495,098	1,591,016,670	10 %
Net Increase (Decrease)	542,924,538	482,505,008	387,638,504	(20)%
Net Position, Beginning of Year	1,996,317,932	2,539,242,470	3,021,747,478	19 %
Net Position, End of Year	2,539,242,470	3,021,747,478	3,409,385,982	13 %

TRS-Care Projections

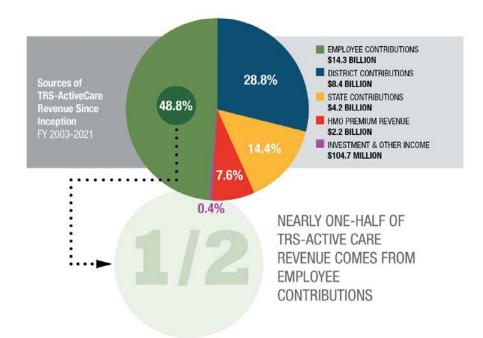
The covered employee payroll that serves as a base for three of the six revenue sources is expected to grow along with the growth of active teachers. Payroll growth is projected to be 2%. The state's share of employer contributions is appropriated to TRS by the Legislature. The state's contribution rate remains at 1.25% and the district contribution rate remains at 0.75%. Investment income is assumed to be at 0.5% for FY 2022 going forward and is increasing as the fund balance increases. Administrative expenses will go up more than the historical average over the next few years due to an increase in staffing to implement new Legislative mandates of the 87th Legislative Session, the implementation of a new classification system, and continued support of the health care line of business project and customer service.

TRS-Care fund remains strong and healthy thanks to diligent management and additional funding from the Legislature. The TRS-Care Fund is expected to remain solvent through FY 2025.

TRS-ActiveCare Revenue Sources

Contributions & Investment Income

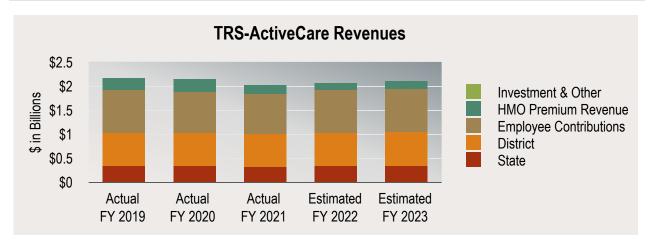
The active employee health program, TRS-ActiveCare, is financed on a pay-as-you go basis. Revenue for the program comes from state contributions, district contributions, employee contributions, investment and other income sources.



The district contribution is a minimum of \$150 per month per employee, but districts may and typically do contribute more. State law (Texas Insurance Code Section 1579.251) requires a minimum contribution by the state of \$75 per employee per month, which is distributed through the Foundation School Program to schools. Employee contributions vary by plan election and coverage selected. The actual premium cost paid by members after the subsidy ranges from employer to employer. In the 2021-2022 plan year, TRS estimates that employees paid for 55% of their annual medical and pharmacy costs.

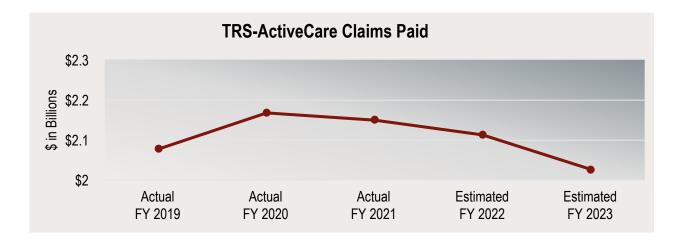
In FY 2022 the Office of the Governor and state legislative leadership provided TRS-ActiveCare with a onetime payment from the Coronavirus State Fiscal Recovery Fund in the amount of \$435 million. An additional \$203 million was authorized for TRS-ActiveCare in Senate Bill 8 during the 3rd Special Session of the 87th Legislature to offset health care costs related to COVID-19. This kept TRS-ActiveCare total premiums from increasing in FY 2023 and reduced employees' share to approximately 48%. However, long-term affordability remains an issue.

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



Benefits & Expenses

Health care claims expense, including pharmaceutical costs, have been declining over the last few years through FY 2022. That trend is expected to increase in the near term. Based on market trends, health care costs grow by approximately 5% each year.



TRS-ActiveCare Projections

TRS-ActiveCare, Health Care Program for Active Teachers	Actual FY 2021	Estimated FY 2022	Estimated FY 2023	Variance FY 2022 to FY 2023
Premiums*	2,038,530,285	2,696,095,768	1,749,872,612	(35)%
Investment Income	2,121,724	940,268	1,696,003	80%
Other Revenue	142,718		_	%
Total Revenues	2,040,794,727	2,697,036,036	1,751,568,615	(35)%
Health care Claims Paid	2,148,760,133	2,111,889,343	2,025,818,210	(4)%
Administrative Expenses	4,090,985	4,114,881	4,369,000	6%
Total Expenses	2,152,851,118	2,116,004,224	2,030,187,210	(4)%
Net Increase (Decrease)	(112,056,391)	581,031,812	(278,618,595)	(148)%
Net Position, Beginning of Year	168,299,344	56,242,953	637,274,765	1033%
Net Position, End of Year	56,242,953	637,274,765	358,656,170	(44)%

*Premiums include State, District and Employee Contributions as well as HMO Premium Revenue

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 2023), that growth is expected to average 2 to 3% per year.

Employee contributions are highly dependent upon the coverage elections selected. More employees are opting out of coverage which might lead to a slowing in the growth of employee contributions overall. The projections chart above includes state contributions, employee contributions, and district contributions in the premiums revenue category. Investment income is anticipated to be lower due to the overall fund balance trending lower in FY 2023. Increased FY 2023 Administrative Expenses supports the implementation of a new classification system for payroll and travel to school districts throughout the state of Texas for health fairs and informational sessions.

The TRS-ActiveCare Fund balance is managed to prevent a deficit through premium and benefit adjustments. While TRS-ActiveCare offers a competitive premium for employers participating in the program, plan affordability for employees and their families is an ongoing concern due to the additional funding being a one-time appropriation.

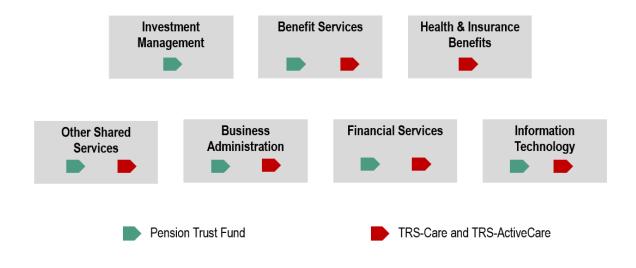
Administrative Operating Budget Structure

Budgets and Appropriations

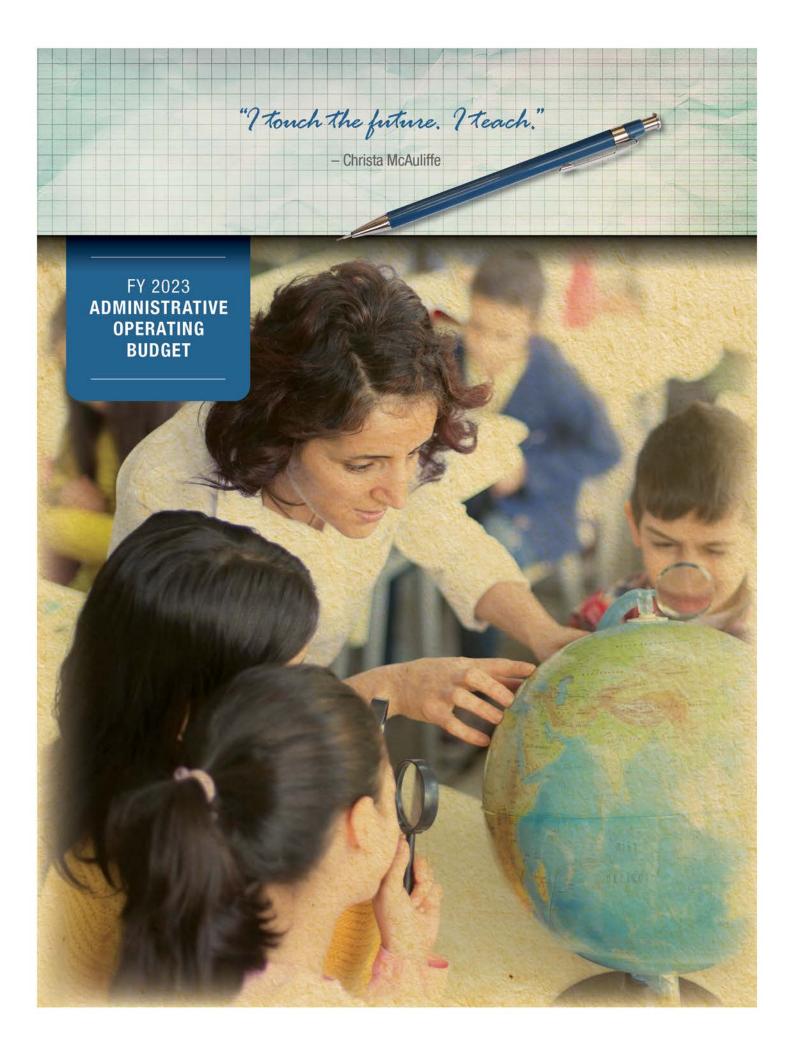
The administrative costs and capital asset outlay for each of the System's funds and programs are controlled by annual budgets approved by the Board of Trustees. Only the fiduciary funds include an appropriated component. The Pension Trust Fund receives state contributions from the Texas Legislature's general revenue appropriations for retirement benefits for active members employed by a participating employer. Although appropriated by the legislature, expenses for the Pension Trust Fund administrative operations and capital expenditures are paid from the Pension Trust Fund and not from the State's General Fund. For TRS-Care, the state's contributions are appropriated from the state's general fund while administrative expenses are paid from the employee benefits trust fund.

Fund and Department

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 include both TRS-Care and TRS-ActiveCare. A cost allocation process is used to transfer support costs from the other divisions, including Other Shared Services, Information Technology, Business Administration, Financial Services, and Benefit Services divisions to the health care funds.



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PENSION TRUST FUND AND COMMISSION CREDITS

Administrative Operations

	Pension Trust Fund	Commission Credits	FY 2023 Budget	FY 2022 Budget
Sources of Funds				
Legislative Appropriations	150,013,045	—	150,013,045	148,285,462
Fiduciary Finding - Administrative Operations	51,278,955	_	51,278,955	_
Fringe Benefits	32,598,000	_	32,598,000	26,380,138
Performance Incentive Compensation		_	_	15,000,000
Commission Credits		20,625,000	20,625,000	27,111,400
Total Sources	233,890,000	20,625,000	254,515,000	216,777,000
Uses of Funds				
Wages and Benefits	154,476,000	_	154,476,000	128,986,737
Professional Fees and Services	37,040,000	2,389,000	39,429,000	31,698,482
Support Costs	9,295,500	_	9,295,500	10,250,686
Travel	2,741,000	_	2,741,000	1,313,195
Operating Costs	29,111,500	18,236,000	47,347,500	43,798,882
Capitalized Equipment	1,226,000	_	1,226,000	729,018
Total Uses	233,890,000	20,625,000	254,515,000	216,777,000

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. The Pension Trust Fund is the main source of funds for TRS operations and is appropriated by the Legislature. When the TRS Board of Trustees adopts the administrative 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.

Commission Credits

The Commission Credits Program is budgeted and balanced in an addendum to the FY 2023 Administrative Operating Budget in accordance with budgetary accounting practices. 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

Administrative Operations

	TRS- Care	TRS- ActiveCare	FY 2023 Budget	FY 2022 Budget
Sources of Funds				
Reserved for Administrative Operations	17,927,000	4,369,000	22,296,000	20,570,000
Total Sources	17,927,000	4,369,000	22,296,000	20,570,000
Uses of Funds				
Wages and Benefits	13,028,000	1,945,000	14,973,000	13,112,700
Professional Fees and Services	4,338,000	2,300,000	6,638,000	6,802,000
Support Costs	15,000	4,500	19,500	19,500
Travel	205,000	60,000	265,000	234,674
Operating Costs	341,000	59,500	400,500	401,126
Total Uses	17,927,000	4,369,000	22,296,000	20,570,000

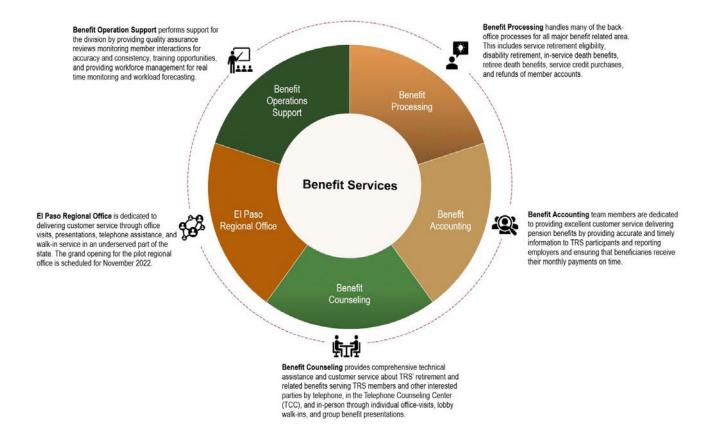
Health and Insurance Benefits

TRS is authorized by Chapter 1575, Texas Government Code (TRS-Care); Chapter 1579 (TRS-ActiveCare) to provide 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 2023 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. The health care administrative budget is not appropriated by the Legislature.

DIVISION EXPENSES AND GOALS Benefit Services

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.



Administrative Budget by Expense Category	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023
Salaries and Benefits	17,363,771	19,457,202	26,154,800
Professional Fees and Services	1,003,815	1,814,200	1,493,000
Other Operating Expenses	45,434	234,177	290,500
Expense Category Total	18,413,019	21,505,579	27,938,300

Aligning to the TRS Strategic Plan (Goal 2), Benefit Services continues to focus on improving the customer service experience. Benefit Services monitors key benefit services-delivery activities and allows management to reallocate resources as needed to ensure that key performance standards are being fulfilled. As membership continues to increase developing and maintaining a knowledge-based system is necessary for fostering a superior customer service experience.

In FY22, the Customer Service Improvement Initiative (CSII) was implemented to address challenges with maintaining customer service levels. The initiative includes a strong staff retention policy to maintain competitive salaries and reward excellent performance. Additionally, improving the delivery of member services to exceed expectations includes year-round training and expansion of quality assurance reviews to the back-office processing key activities.

Future process enhancements include adding chat functionality for members and employers, system adjustments to the automated telephone system, streamlining the menu options, and improving the member authentication process. Additional goals include increasing capacity to serve members, improving response time to reporting employers, enhancing the reporting employer portal, and building the operational support for Benefit Services.

Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
Number of TRS Benefit Applications Processed	85,268	95,800	80,000
Number of TRS Retirement Fund Member Accounts Serviced	14,047,250	14,187,722	14,301,238
Refunds validated within five business days of receiving final deposit and all paperwork	97.3%	96%	95%
Benefit estimates mailed within 31 days	13%	14%	90%
Retirees receiving first annuity payment within 31 days of TRS receiving required information or due date, whichever is later	94.2%	76%	98%
Claims acknowledged within 14 days of receipt of death notification	26%	80%	90%
Claims payments issued within 31 days of receipt of all required paperwork	17%	26%	95%
Calls answered within three minutes	44.2%	21%	80%
Available benefit counseling office visits (cumulative)	14,000	11,145	20,000
Regular payroll reports completed by the end of each quarter	99.2%	99%	90%
Perform quality assurance reviews for telephone counselors trained to take member calls (cumulative)	5,666	4,679	4,260
*Provide pension benefits foundational classroom training for all new hires (cumulative)	N/A	100%	100%

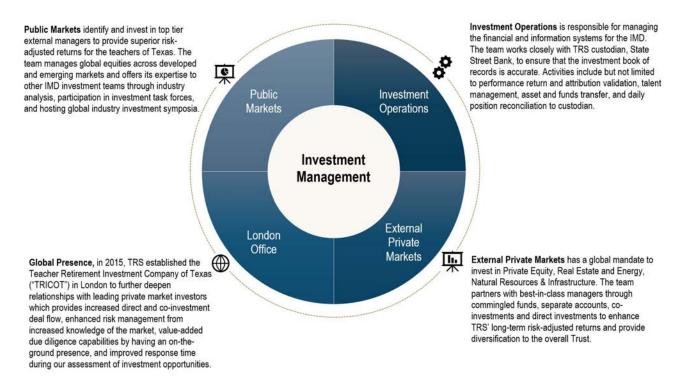
*New key performance indicators were added in FY 2022.

DIVISION EXPENSES AND GOALS

Investment Management

Purpose:

The Investment Management Division (IMD) focuses on achieving superior long-term returns to secure members' retirement futures and deliver benefits that enrich their lives. IMD strives to provide the highest possible risk-adjusted rate of return by using a diversified asset allocation and innovative investment strategies. IMD is responsible for implementing investment policies within approved guidelines, maximizing the 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. As Texas' largest public retirement system, TRS ranks sixth largest in U.S. public pension plans and in the top 25 in the world.



Administrative Budget by Expense Category	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023
Salaries and Benefits	32,272,457	43,040,014	51,813,100
Performance Incentive Compensation	9,544,594	15,000,000	_
Professional Fees and Services	8,690,643	10,063,003	11,921,000
Other Operating Expenses	19,934,148	25,993,283	25,939,000
Expense Category Total	70,441,842	94,096,300	89,673,100

Aligning to the TRS Strategic Plan (Goal 1), 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. Investment Management goals include:

- Maintaining an effective investment governance structure with full transparency to the Board of Trustees.
- Attracting and retaining superior talent.
- Maintaining a culture of innovation.
- Increasing the use of risk management to enhance authority, autonomy, and accountability.
- Implementing Investment Data Modernization Program to improve trust asset monitoring and fiduciary oversight.
- Maintain an effective investment governance structure.
- Enhance current competitive advantages and total returns.
- Manage cost structures to increase net alpha generated.

Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
# of Years-Amortize TRS Retirement Fund Unfunded Actuarial Accrued Liability	23.0	26.0	25.0
TRS Retirement Fund 5-yr Avg Time-weighted Rate of ROI Performance	11.6%	10.5%	7.0%
TRS Retirement Fund 20-yr Avg Time-weighted Rate of ROI Performance	8.8%	7.6%	7.0%
Investment Performance Relative to Board Approved Benchmark	119.2	114.1	100.0
TRS Retirement Fund Investment Expense as Basis Points of Net Assets	13.5	13.6	13.7
Return in excess of the benchmark return for the Total Trust (Three-Year Rolling)	+17 bp	+33bp	+100 bp
Return in excess of the benchmark return for Private Markets investments (Three-Year Rolling)	+ 180 bp	+127 bp	N/A
Return in excess of the benchmark return for Active Public Markets investments (Three-Year Rolling)	-52 bp	-14 bp	N/A
Percent of portfolio capital plan in principal investments approved (cumulative year-to-date)	52%	45%	N/A
Percent of internal public equity allocation	51%	52%	N/A
External manager annual net fee savings	\$117M	\$138M	N/A

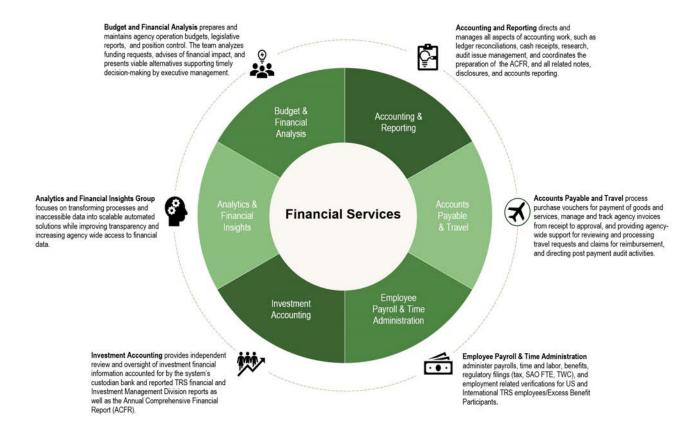
FY 2023 Target KPI's noted as N/A will be concluding in FY 2022.

DIVISION EXPENSES AND GOALS

Financial Services

Purpose:

The Financial Services Division supports the mission of TRS through customer-focused and fiscally responsible financial management that includes a variety of accounting support services. The division accomplishes that by developing and maintaining a sound, professional, and systematic risk management and capital allocation system; while maintaining strong, customer-focused relationships. These activities include investment accounting, accounts payable and travel, accounting and reporting, employee payroll and time administration, budget and financial analysis, and data analytics.



Administrative Budget by Expense Category	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023
Salaries and Benefits	2,921,732	3,792,589	4,528,800
Professional Fees and Services	689,647	675,420	558,000
Other Operating Expenses	13,078	97,701	117,000
Expense Category Total	3,624,458	4,565,710	5,203,800

Aligning to the TRS Strategic Plan (Goal 1), Financial Services continues to support the core services by sustaining a financially sound pension system and achieving excellence in the delivery of TRS goals. Financial Services goals include:

- Processing employee compensation payments efficiently and maintaining employee time records efficiently, accurately, timely, and in compliance with state, federal, and international statutes and requirements.
- Preparing and compiling agency financial reports. Maintaining the integrity of financial data and transactions.
- Providing the timely and accurate expenditure of agency funds in a consistent manner while complying with certain provisions of the constitution, statutes, and rules of Texas related to expenditures.
- Ensuring investment information reported by TRS is complete and free of material misstatements by using a risk-based oversight approach that relies on a combination of independent reconciliations, duplicate record keeping, cash flow oversight, subledger to general ledger reconciliations, and control reviews.
- Ensuring TRS has appropriate budget to provide and sustain resources necessary to successfully carry out TRS' mission, goals, and objectives to serve members.

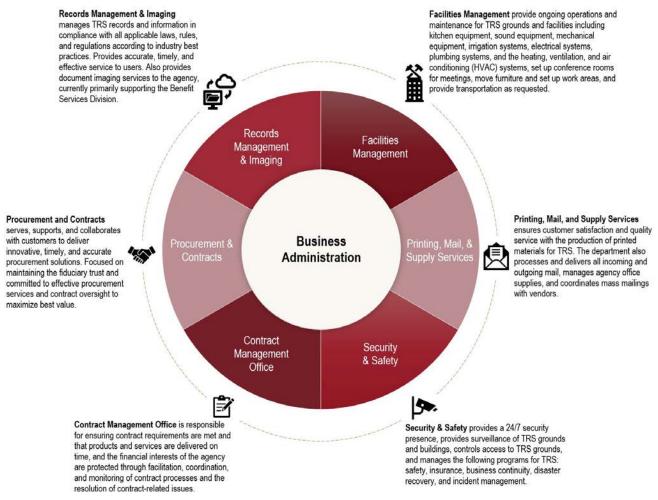
Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
Increase data analytics to identify reporting errors and missing information in TRUST	100%	100%	100%
Increase testing coverage of reporting employers	5	5	5

DIVISION EXPENSES AND GOALS

Business Administration

Purpose:

The Business Administration Division is responsible for supporting the mission of TRS through customerfocused business operations that include a variety of support services. These activities include purchasing and contracting, records management, print and mail services, security, safety and prevention, and facility operations and maintenance.



Administrative Budget by Expense Category	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023
Salaries and Benefits	4,744,672	4,841,606	5,854,700
Professional Fees and Services	201,364	1,208,125	106,000
Other Operating Expenses	8,569,831	9,770,688	9,962,800
Expense Category Total	13,515,866	15,820,419	15,923,500

Aligning to the TRS Strategic Plan (Goal 4), Business Administration continues to support the core services by providing ongoing business operations focusing on a specific set of shared services to achieve excellence in the delivery of TRS goals. Business administrative goals include:

- Improving and maintaining effective procurement and contract management practices with a focus on a three-year strategic improvement process. Delivering innovative, timely, and accurate procurement solutions while maintaining fiduciary trust. Promoting purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized businesses (HUBs).
- Developing and sustaining a comprehensive records and information management program that governs all aspects of the information lifecycle (retention, management, storage, and disposition) built around industry best practices.
- Ensuring customer satisfaction with the production of printed materials for TRS through coordination and communication with business units. Providing the distribution of office supplies and all incoming and outgoing mail efficiently and timely.

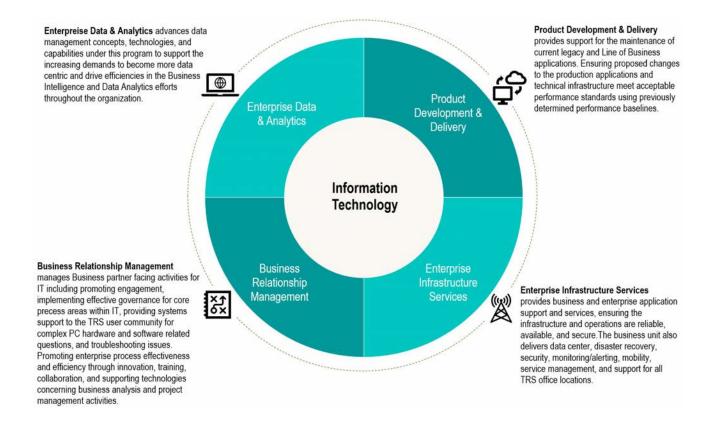
- Providing a clean, comfortable, and safe environment for all TRS personnel and visitors through the ongoing maintenance of TRS grounds and facilities and ensuring a 24/7 security presence is on-site providing surveillance and controlling access to TRS grounds and buildings.
- Advancing the agency's short-term and longterm occupancy strategies for a generational solution for TRS headquarters. Managing and monitoring major and minor improvement projects through all stages of construction and renovation to ensure the adherence to building codes, specifications, safety, and agency standards.
- Ensuring TRS capabilities to operate continuously even under adverse conditions by managing the business continuity planning and disaster recovery programs.

Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
Increase number of HUBs utilized for Commodities	7%	30%	30%
Increase number of HUBs utilized for Other Services	32%	25%	25%
Increase number of HUBs utilized for Professional Services	%	10%	10%
Increase number of HUBs utilized for Special Trade	71%	40%	40%

DIVISION EXPENSES AND GOALS Information Technology

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 benefit delivery and operations. IT focuses on the division's core values of excellence, accountability, and customer service, which complement the overall agency core values.



Administrative Budget by Expense Category	Expended FY 2021		
Salaries and Benefits	10,491,988	12,578,913	17,100,600
Professional Fees and Services	5,711,545	5,697,979	10,947,000
Other Operating Expenses	14,056,988	17,650,246	21,260,000
Expense Category Total	\$ 30,260,520 \$	35,927,138 \$	49,307,600

Aligning to the TRS Strategic Plan (Goal 4), Information Technology ensures that people, processes, and technology align to achieve excellence in the delivery of services to members. Information Technology provides the foundation for business success. Technology, data, and automation are critical for TRS to meet key business objectives. Information Technology goals include:

- Develop, maintain, and enhance IT systems and infrastructure in support of TRS business needs.
- Expand and evolve from an office-centric design to a hybrid remote work environment that provides fluidity, flexibility, and security.
- Provide advanced data analytics tools and data management practices to gain business intelligence and improve decision-making.
- Implement modern information systems across all lines of business with priority on modernization of legacy systems and strategic digital transformation.
- Improve digital operating technology models to enhance continuous business process improvement and provide operational efficiencies.

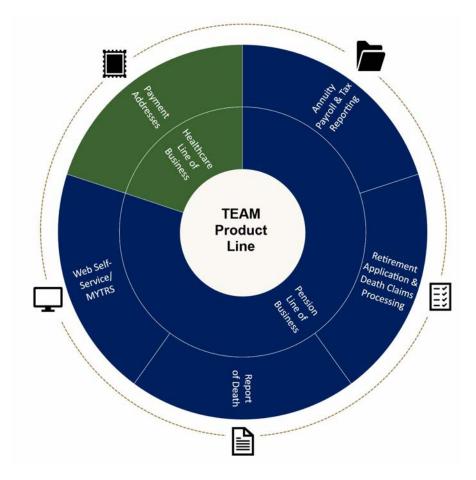
Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
Percent of network/systems uptime	99.8%	99.9%	99.9%
Percent of business-critical application uptime	99.8%	99.5%	99.5%
Percent of available system capacity	56.1%	80.0%	80.0%

DIVISION EXPENSES AND GOALS

TEAM Program

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. TEAM is a cohesive collection of components designed to meet the business and technology objectives of TRS over the next 10-20 years. It focuses on addressing the changing expectations of a growing membership, providing for the collection and maintenance of accurate and reliable data, expanding the number of automated processes, and incorporating modern technologies.



Administrative Budget by Expense Category	Expended FY 2021		
Salaries and Benefits	9,154,305	10,043,536	8,257,600
Professional Fees and Services	6,059,399	7,280,000	6,795,000
Expense Category Total	15,213,704	17,323,536	15,052,600

Aligning to the TRS Strategic Plan (Goal 4), the TEAM Program objective is to implement a modern pension and health care benefit information systems. As part of TEAM, TRS is implementing a new, modern pension administration system called Teacher Retirement Unified System for Technology (TRUST). The first phase of TRUST was implemented in October 2017 and consisted of employer reporting, active account management, refunds, retirement estimates, and customer relationship management (CRM). TRS continues to work toward implementing the remaining functions, which are related to retirement services, death claims, annuity payroll, and new online self-service. In addition, TRS implemented a new health insurance line-of-business system (HILOB) to support HIB in April 2021.

- TEAM will improve TRS' ability to serve members by allowing TRS to be more responsive to member needs, mitigating risks associated with aging legacy systems, and providing greater flexibility to meet future technology and regulatory changes.
- TRS can be more responsive to the needs of a growing membership base by leveraging leading technology services and tools to deliver accurate and timely benefits, enhance external communications, and streamline internal work processes for greater efficiency.
- The TEAM Program will also deliver tools and techniques that offer greater flexibility for TRS to respond to future demands and regulatory changes, such as cost-of-living adjustments or benefit design changes. Building the foundation for future technology needs.
- Upon completion of TEAM, TRS will have upgraded pension and health insurance administration systems running on modern technology reducing agency risk by replacing aging legacy systems and implementing more modern and accurate data and system security.

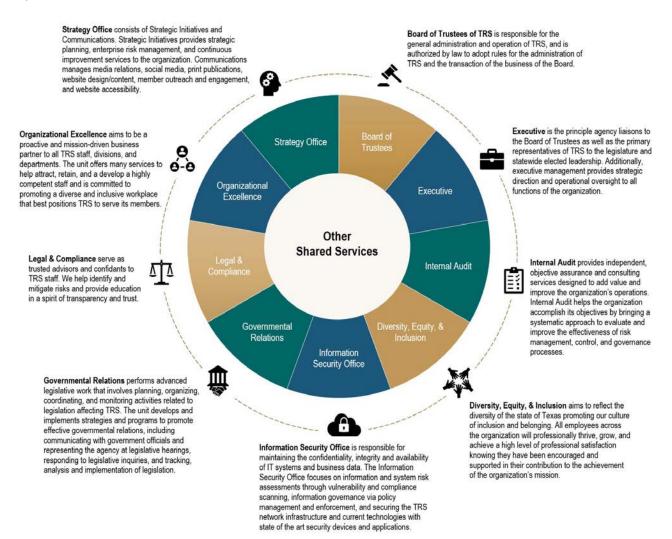
Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
Percent complete - Design, build, and test HILOB system components (initial production release)	100%	—%	%
Percent Complete - Design, build and test Pension LOB Payment Address Release	87.0%	100.0%	100.0%
Percent Complete - Design, build and test Pension LOB Web-Self Service Release	62.0%	90.0%	100.0%
Percent Complete - Design, build and test Pension LOB Retirement Application & Death Claims Processing Release	13.0%	39.0%	65.0%
Percent Complete - Design, build and test Pension LOB Payroll & Tax Release	5.0%	16.0%	35.0%

DIVISION EXPENSES AND GOALS

Other Shared Services

Purpose:

Improving the retirement security of members by prudently investing and managing the Trust assets and delivering benefits that make a positive difference in their lives. Other Shared Services provides direction to the agency by developing and implementing strategies and programs to promote effective and responsible operations.



Administrative Budget by Expense Category	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023
Salaries and Benefits	25,552,731	23,079,677	40,766,400
Professional Fees and Services	2,534,436	6,209,755	7,609,000
Other Operating Expenses	1,525,669	2,345,686	3,040,700
Expense Category Total	29,612,837	31,635,118	51,416,100

Aligning to the TRS Strategic Plan (Goal 4), Other Shared Services ensures that people, processes, and technology align to achieve excellence in the delivery of TRS goals. The objective is to foster a culture of fiduciary responsibility and ethical conduct. Other Shared Services goals include:

- Embed/integrate a culture of ethics and compliance within the business process.
- Enhance visibility of and accessibility to Legal & Compliance throughout TRS.
- Optimize security architecture and operational capabilities to thwart advanced threats and mitigate vulnerabilities.
- Develop a comprehensive governance, risk, and compliance (GRC) program to include security and privacy management, risk/fraud forecasting, and education.

- Attract, retain, and develop a diverse and highly competent staff.
- Improve strategic communications.
- Address manage and/or eliminate bias, harassment, and discrimination in demonstration of our equal opportunity policy and equitable access commitment.
- Build on the legacy of the TRS culture to ensure that the organization remains a welcoming and satisfying place to work for all TRS employees, contractors, and community partners.

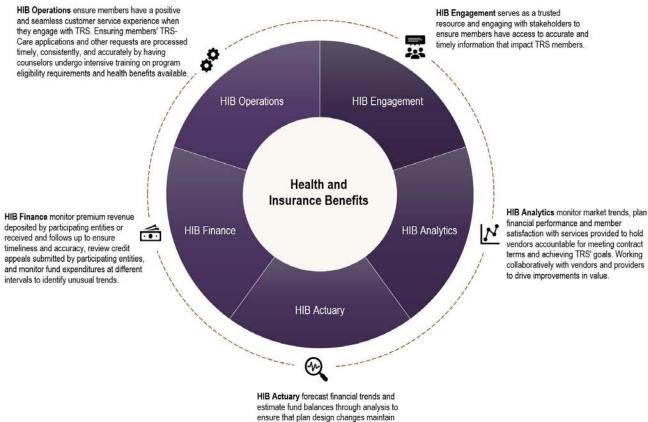
Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
Employee satisfaction index score (Energage/Top Workplaces survey)	Overall engagement score - 4.19	4.0 or greater	4.0 or greater
TRS voluntary turnover rate vs. state turnover rate	TRS voluntary turnover as a % of State rate - 62.6%	50% or less of state average	50% or less of state average
Cultural intelligence training (cumulative)	g (cumulative) 5		4
Train 100% of staff on ethical standards annually	100% provided timely / 98% completed timely	100%	100%
Maintain current policies and procedures	100%	100%	100%
Respond to 100% of customer inquiries received via social media within 4 hours on business days	100%	100%	100%
Respond to 100% of media inquiries received within 1 business day	100%	100%	100%
Enhance outreach program to increase awareness of cybersecurity best practices	Cybersecurity Awareness Month & Phishing Competition/ HB3834 Training & Board presentation	Increasing and Varying Types of Outreach Programs	Increasing and Varying Types of Outreach Programs
Foster TRS leadership engagement for cybersecurity initiatives	Significant Increase in Engagement with EC	More Engagement with Executive Council	More Engagement with Executive Council
Produce all TRS/IMD publications by established deadlines	100%	100%	100%

DIVISION EXPENSES AND GOALS

Health Care Programs

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. The HIB team has a strong customer service interest in supporting TRS members and retirees with their health and insurance benefits needs.



estimate fund balances through analysis to ensure that plan design changes maintain and encourage the use of high-value care and revenues are sufficient to pay claims.

Administrative Budget by Expense Category	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023
Salaries and Benefits	8,029,256	10,265,900	14,973,000
Professional Fees and Services	2,521,594	5,552,000	6,638,000
Other Operating Expenses	88,149	655,300	685,000
Expense Category Total	10,638,998	16,473,200	22,296,000

Aligning to the TRS Strategic Plan (Goal 3), 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 members.

- Serve as a trusted resource and engage with policymakers on health care funding.
- Engage the best health care vendors through competitive procurement to ensure our members have the highest value health care.
- Re-engineer TRS-ActiveCare to better meet employer needs.
- Use data analytics tools to provide assurance on health care claims compliance.

- Ensuring the long-term sustainability and affordability of the health care programs.
- Improve engagement of plan participants with an initial focus on population with high-impact conditions, such as diabetes.
- Optimize disease management for high-risk populations.

Key Performance Indicators (KPI)	2021 Actual	2022 Estimated	2023 Target
Cost savings associated with relying less on external vendors	2,547,600	150,000	150,000
Average annual increase in cost of claims experienced by TRS-Care and TRS-ActiveCare compared to S&P trend	(9)%	<0%	<0%
Member engagement metrics as measured by percent of members who open the Pulse email and then click to read articles	29% email 4% articles	23% email 3% articles	23% email 3% articles
Number of TRS-Care participants engaged with a primary care provider	30%	76%	76%
Number of TRS-ActiveCare participants engaged with a primary care provider	26%	71%	71%
Calls answered internally vs. externally	39%	50%	50%
Participation Rate in Disease Management Program by Non- Medicare Enrollees	33%	30%	5%
Generic Substitution Rate for TRS-Care Prescription Drug Benefits	98%	98%	98%

Pension Trust Fund						
	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Variance fr FY 2022 to F		
Salaries and Wages	77,568,450	85,988,916	119,802,600	33,813,684	39.3 %	
Longevity Pay	689,600	756,573	900,800	144,227	19.1 %	
Retirement Contributions	6,617,315	7,078,138	9,182,200	2,104,062	29.7 %	
Social Security Contributions	5,479,493	7,090,000	8,864,800	1,774,800	25.0 %	
Health Insurance Contributions	8,742,452	12,069,000	14,454,100	2,385,100	19.8 %	
Benefit Replacement Pay	28,470	43,000	36,900	(6,100)	(14.2)%	
Other Employee Benefits	757,258	961,110	1,234,600	273,490	28.5 %	
Performance Incentive Comp	9,544,594	15,000,000	_	(15,000,000)	(100.0)%	
Total Salaries and Benefits	109,427,631	128,986,737	154,476,000	25,489,263	19.8 %	
Professional Fees and Services	18,041,742	23,858,446	37,040,000	13,181,554	55.2 %	
Consumable Supplies, Fuels	195,667	608,756	658,800	50,044	8.2 %	
Utilities	1,003,454	1,400,532	1,766,500	365,968	26.1 %	
Travel	130,199	1,313,195	2,741,000	1,427,805	108.7 %	
Rentals	4,920,778	6,142,970	5,284,500	(858,470)	(14.0)%	
Dues, Fees, Staff Development	301,353	740,383	962,000	221,617	29.9 %	
Subscriptions and Reference Information	72,817	135,356	188,100	52,744	39.0 %	
Printing and Reproduction	345,793	598,883	390,000	(208,883)	(34.9)%	
Postage, Mailing, Delivery	3,063,594	3,832,927	4,270,000	437,073	11.4 %	
Software Purchases and Service	9,059,817	9,440,872	12,879,500	3,438,628	36.4 %	
Computer Hardware Service	911,095	1,346,572	1,157,000	(189,572)	(14.1)%	
Miscellaneous Expenses	2,990,164	5,659,180	5,619,800	(39,380)	(0.7)%	
Insurance Premiums	770,613	937,019	1,029,000	91,981	9.8 %	
Furniture and Equipment - Expensed	953,630	1,836,326	2,616,100	779,774	42.5 %	
Building/Equipment Maintenance	3,582,821	2,098,428	1,585,700	(512,728)	(24.4)%	
Total Operating Expenses	28,301,794	36,091,399	41,148,000	5,056,601	14.0 %	
Furniture and Equipment - Capitalized	857,205	729,018	1,226,000	496,982	68.2 %	
Grand Total	156,628,372	189,665,600	233,890,000	44,224,400	23.3 %	

The FY 2023 Administrative Operating Budget funded by the Pension Trust Fund consists of a 23.3% increase. This budget aims to improve customer service for TRS members, recruit and retain staff, develop internal technologies and infrastructure, reduce our reliance on more expensive contract services, and address unprecedented inflation.

Salaries and Benefits have increased 19.8% going into the new fiscal year in order to the annualization of payroll for 264 new FTEs. These new positions were created to improve customer service, network and data infrastructure, increase pension fund returns, and provide support to critical agency initiatives, including the Investment Modernization Program, a new fraud detection and prevention tool, and the new Headquarters. During the February 2022 Board of Trustees meeting, TRS was approved to implement a new classification system unique to TRS to address recruiting and retention challenges. Performance Incentive Compensation has moved to the general provisions and increased to the maximum allowable payment, which is an amount not to exceed \$27.0 million. This new budget also includes the rate for retirement contribution and benefit increases.

Professional Fees and Services are increasing 55% in light of inflation costs, to support new projects, specifically the Investment Modernization Program and the fraud detection and prevention tool, as well as new initiatives such as the Customer Service Improvement Initiative and local hiring for the IMD London Office. Upon the final terms of the new custodian agreement with State Street Bank, activities including contractors, consulting, and other financial services will transition to the Pension Trust Fund from Commission Credits.

Operating Expenses have increased by 14% to support costs related to inflation and increased consumer prices, enhanced recruiting efforts, staff development, and postage and mailing as recommended by the Sunset Commission to expand member outreach. With the first building of the new headquarters estimated to be completed in 2023, the lease at 816 Congress will expire, reducing rental costs but increasing utilities costs. Largest increase in costs in this category consists of software costs related to IMD Data Modernization, the fraud detection and prevention tool, Customer Service Improvement Initiative, and software licenses for new FTEs. Travel costs increased to support high levels of inflation and support activity to pre-pandemic levels. A majority of travel is from Investment Management for the purpose of conducting due diligence and maintaining relationships. Other divisions travel to attend trainings, seminars, and conferences.

Furniture and Equipment Capitalized has increased 68% in relation to the ongoing improvements of the Agency Disaster Recovery Strategy and the required technology infrastructure to support mission-critical applications and service.

Commission Credits						
	ExpendedBudgetedBudgetedVariance fromFY 2021FY 2022FY 2023FY 2022 to FY 2023					
Professional Fees and Services	6,228,088	7,840,036	2,389,000	(5,451,036)	(69.5)%	
Dues, Fees, Staff Development	68,074	60,800	20,000	(40,800)	(67.1)%	
Subscriptions and Reference Information	101,808	172,500	175,000	2,500	1.4 %	
Software Purchases and Service	50,250	1,744,800	783,700	(961,100)	(55.1)%	
Miscellaneous Expenses	14,739,168	17,276,314	17,257,300	(19,014)	(0.1)%	
Furniture and Equipment	26,848	16,950	—	(16,950)	(100.0)%	
Total Operating Expenses	14,986,148	19,271,364	18,236,000	(1,035,364)	(5.4)%	
Total Expenses	21,214,236	27,111,400	20,625,000	(6,486,400)	(23.9)%	
Revenue Sources						
State Street Bank Partnership Agreement	5,957,004	6,000,000	_	(6,000,000)	(100.0)%	
Commission Sharing	15,010,108	20,911,400	20,595,000	(316,400)	(1.5)%	
Commission Recapture	247,124	200,000	30,000	(170,000)	(85.0)%	
Total Revenue	21,214,236	27,111,400	20,625,000	(6,486,400)	(23.9)%	

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.

The FY 2023 Administrative Operating Budget funded by Commission Credits includes funding for investment research, data services and reference materials, seminars/conferences, portfolio management services, professional services, and information systems. Upon the final terms of the new custodian agreement with State Street Bank, activities including contractors, consulting, and other financial services will transition to the Pension Trust Fund from Commission Credits, resulting in a 23.9% decrease in this fund.

TRS-Care Fund						
	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Variance fr FY 2022 to FY		
Salaries and Wages	7,114,001	8,943,000	10,197,300	1,254,300	14.0 %	
Longevity Pay	72,960	81,500	91,600	10,100	12.4 %	
Retirement Contributions	528,156	661,800	815,000	153,200	23.1 %	
Social Security Contributions	527,187	659,700	787,100	127,400	19.3 %	
Health Insurance Contributions	723,174	854,000	1,017,300	163,300	19.1 %	
Benefit Replacement Pay	4,125	3,200	2,200	(1,000)	(31.3)%	
Other Employee Benefits	68,250	95,500	117,500	22,000	23.0 %	
Total Salaries and Benefits	9,037,853	11,298,700	13,028,000	1,729,300	15.3 %	
Professional Fees and Services	2,504,827	4,482,000	4,338,000	(144,000)	(3.2)%	
Consumable Supplies, Fuels	41	7,500	7,500	-	— %	
Utilities	835	7,500	7,500	_	— %	
Travel	_	204,287	205,000	713	0.3 %	
Dues, Fees, Staff Development	9,202	31,100	32,000	900	2.9 %	
Subscriptions and Reference Information	1,253	6,300	6,500	200	3.2 %	
Software Purchases and Service	_	113	_	(113)	(100.0)%	
Miscellaneous Expenses	66,783	295,000	295,000	_	— %	
Furniture and Equipment	354	7,500	7,500	_	— %	
Total Operating Expenses	78,468	559,300	561,000	1,700	0.3 %	
Grand Total	11,621,147	16,340,000	17,927,000	1,587,000	9.7 %	

The FY 2023 Administrative Operating Budget funded by the TRS-Care Fund includes administrative expenses supporting the costs associated with the TRS employees who operate TRS-Care. Increases in Salaries and Benefits result from adding staff to implement new mandates of the 87th Legislative Session, the implementation of a new classification system, continued support for the HILOB system and customer service.

TRS-ActiveCare Fund						
	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Variance fr FY 2022 to F		
Salaries and Wages	1,260,710	1,435,000	1,535,100	100,100	7.0 %	
Longevity Pay	17,760	19,300	20,600	1,300	6.7 %	
Retirement Contributions	96,229	103,300	114,600	11,300	10.9 %	
Social Security Contributions	84,144	103,600	110,800	7,200	6.9 %	
Health Insurance Contributions	138,268	133,400	142,700	9,300	7.0 %	
Benefit Replacement Pay	1,031	1,100	1,100	—	— %	
Other Employee Benefits	11,879	18,300	20,100	1,800	9.8 %	
Total Salaries and Benefits	1,610,022	1,814,000	1,945,000	131,000	7.2 %	
Professional Fees and Services	637,786	2,320,000	2,300,000	(20,000)	(0.9)%	
Consumable Supplies	_	3,000	3,000	_	— %	
Utilities	272	1,500	1,500	—	— %	
Travel	—	30,387	60,000	29,613	97.5 %	
Dues, Fees, Staff Development	3,654	30,000	30,000	—	— %	
Subscriptions and Reference Information	289	1,000	1,000	_	— %	
Software Purchases and Service	_	113	—	(113)	(100.0)%	
Miscellaneous Expenses	5,113	25,000	25,000	_	— %	
Furniture and Equipment	354	5,000	3,500	(1,500)	(30.0)%	
Total Operating Expenses	9,681	96,000	124,000	28,000	29.2 %	
Grand Total	2,257,489	4,230,000	4,369,000	139,000	3.3 %	

The FY 2023 Administrative Operating Budget funded by the TRS-ActiveCare Fund includes the administrative expenses supporting the costs associated with the TRS employees who operate TRS-ActiveCare. The FY 2023 budget supports the implementation of a new classification system and increased travel to host summits and training sessions for Texas school districts for annual enrollment.

Expenses by Department

Department/Division	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Variance FY 2022 to I	
Board of Trustees	451,185	210,500	600,000	389,500	185.0 %
Executive	510,490	869,150	1,037,500	168,350	19.4 %
Deputy Director	381,509	141,130	109,400	(31,730)	(22.5)%
Diversity, Equity, and Inclusion	196,288	526,020	446,600	(79,420)	(15.1)%
Internal Audit	2,537,097	3,481,300	3,992,600	511,300	14.7 %
Legal & Compliance	6,661,750	9,650,300	11,780,600	2,130,300	22.1 %
Governmental Relations	311,093	398,200	414,500	16,300	4.1 %
Strategic Initiatives	1,737,428	2,099,416	2,168,700	69,284	3.3 %
Communications	1,376,500	1,758,360	1,838,300	79,940	4.5 %
Organizational Excellence	4,165,170	5,422,131	7,270,500	1,848,369	34.1 %
Information Security Office	1,106,862	1,692,650	2,596,900	904,250	53.4 %
Administrative Costs	10,177,464	5,385,961	19,160,500	13,774,539	255.7 %
Other Shared Services	29,612,837	31,635,118	51,416,100	19,780,982	62.5 %
Investment Operations	37,469,421	47,400,993	63,086,300	15,685,307	33.1 %
London Office	2,213,591	4,583,907	5,961,800	1,377,893	30.1 %
Commission Credits	21,214,236	27,111,400	20,625,000	(6,486,400)	(23.9)%
Incentive Compensation	9,544,594	15,000,000	—	(15,000,000)	(100.0)%
Investment Management	70,441,842	94,096,300	89,673,100	(4,423,200)	(4.7)%
Benefit Services	451,151	524,680	632,100	107,420	20.5 %
Benefit Processing	8,186,072	9,371,497	9,941,400	569,903	6.1 %
Benefit Counseling	6,897,841	7,997,142	11,404,000	3,406,858	42.6 %
Benefit Accounting	1,902,273	2,099,081	3,639,700	1,540,619	73.4 %
Benefit Operations Support	975,682	1,118,540	1,735,000	616,460	55.1 %
El Paso Regional Office	_	394,639	586,100	191,461	48.5 %
Benefit Services	18,413,019	21,505,579	27,938,300	6,432,721	29.9 %
Chief Financial Officer	266,213	318,290	372,700	54,410	17.1 %
Financial Services	3,342,276	3,510,578	4,243,100	732,522	20.9 %
Accounting and Reporting	4,556	160,032	180,500	20,468	12.8 %
Accounts Payable and Travel	1,547	3,900	4,000	100	2.6 %
Employee Payroll and Time Administration	4,505	14,200	15,000	800	5.6 %
Investment Accounting	2,645	110,860	111,300	440	0.4 %
Analytics & Financial Insights	1,550	441,400	271,000	(170,400)	(38.6)%
Budget and Financial Analysis	1,166	6,450	6,200	(250)	(3.9)%
Financial Services	3,624,458	4,565,710	5,203,800	638,090	14.0 %

Expenses By Department

Department/Division	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Variance FY 2022 to I	
Business Administration	4,745,078	5,674,106	5,869,000	194,894	3.4 %
Procurement and Contracts	26,844	57,950	52,500	(5,450)	(9.4)%
Records Management	17,595	42,450	44,000	1,550	3.7 %
Staff Services	428,621	826,747	1,056,000	229,253	27.7 %
Facilities Services	3,528,260	1,752,400	1,403,000	(349,400)	(19.9)%
Printing, Mail & Supply	3,952,246	6,245,863	6,185,000	(60,863)	(1.0)%
Security	46,609	270,403	263,000	(7,403)	(2.7)%
Safety and Prevention	770,613	950,500	1,051,000	100,500	10.6 %
Business Administration	13,515,866	15,820,419	15,923,500	103,081	0.7 %
Information Technology	7,978,996	9,439,240	11,387,900	1,948,660	20.6 %
Enterprise Infrastructure Services	15,902,653	18,688,610	22,635,500	3,946,890	21.1 %
Product Development and Delivery	1,574,688	2,075,344	2,460,700	385,356	18.6 %
Enterprise Architecture	1,432,581	1,604,260	3,412,800	1,808,540	112.7 %
Business Relationship Management	1,785,402	2,171,194	3,210,300	1,039,106	47.9 %
Project Management Office	1,586,201	1,948,490	2,700,400	751,910	38.6 %
Investment Data Modernization Program	_	_	3,500,000	3,500,000	0%
Information Technology	30,260,520	35,927,138	49,307,600	13,380,462	37.2 %
TEAM Program	11,974,066	13,226,736	15,052,600	1,825,864	13.8 %
HILOB Maintenance & Enhancements	3,239,638	4,096,800	_	(4,096,800)	(100.0)%
TRS-Care Administrative	8,381,509	12,243,200	17,927,000	5,683,800	46.4 %
TRS-ActiveCare Administrative	2,257,489	4,230,000	4,369,000	139,000	3.3 %
Grand Total	191,721,245	237,347,000	276,811,000	39,464,000	16.6 %

The FY23 Administrative Operating Budget represents an overall 16.6% increase from the FY22 budget. A common factor across all divisions is increased funding for the annualized cost of additional positions approved by the Board, and the new classification system. The operating budget includes additional funding to address unprecedented inflation, high consumer prices, and increased rates for professional services.

- Other Shared Services has an overall increase of 62.5% which includes funding for new positions and associated operating in support of the Customer Service Improvement Initiative, increased fees with contracted services, the upcoming Board elections, the expansion of the learning and staff development capabilities for the agency to reduce reliance on costly external vendors, and support for the growing technological footprint of the agency by providing audit coverage for cyber security controls and data analytics. Administrative costs include increased funding for the new classification system, increased merit allocation (from 3% to 5% for Benefits, Health care, and Other Shared Services staff and from 5% to 10% for Investment staff) to address unprecedented challenges with recruiting and retention, retiree health insurance, unemployment compensation, lump-sum payments for employees who retire, space planning consultants, supplies, furniture, contingency amounts for health care, printing, and mailing.
- **Investment Management** budget includes funding for 15 new positions to support the investment fee-saving initiative and the transition of staff and costs from commission credits to the pension trust fund upon the final terms of the new custodian bank agreement. Beginning in FY23, incentive compensation moved to the general provisions and increased to the maximum allowable payment.
- Benefit Services has an increase of 29.9% which includes funding for new positions and associated operating costs to continue improving customer service metrics and member expectations through process and system enhancements. Additional funding and resources are also included for the opening of a regional office in El Paso, Texas.
- **Financial Services** has an increase of 14% which includes funding for new positions approved in support of the Customer Service Improvement Initiative and associated operating costs.
- Information Technology has an increase of 37.2% which includes funding for new positions and associated operating costs to support expanding and enhancing the hybrid remote work environment to attract and retain talent, implement strategic digital transformations across all lines of business to make business processes more efficient, and provide internal customer support to agency staff sustaining business continuity. Also included is additional funding for the new Investment Data Modernization Program and the fraud detection and prevention tool.
- Health and Insurance Benefits includes funding for the continued support of the health care line of business project and customer service.

Full-Time Equivalent Positions

Division	Actual FY 2021	Budgeted FY 2022	Budgeted FY 2023	Variance FY 2022 to FY 2023
Pension Funded				
Benefit Services	226.5	253.0	352.0	99.0
Business Administration	57.0	53.3	74.8	21.5
Executive	5.0	15.0	18.0	3.0
Financial Services	30.0	27.0	35.0	8.0
Governmental Relations	2.0	2.0	2.0	_
Information Technology	93.0	95.0	135.0	40.0
Internal Audit	13.0	14.0	16.0	2.0
Investment Management	178.0	211.0	251.0	40.0
Legal & Compliance	34.0	34.0	44.0	10.0
Organizational Excellence	28.0	26.0	36.0	10.0
Strategic Initiatives	16.0	14.0	17.5	3.5
TEAM Program	51.0	52.0	56.0	4.0
Total Pension Funded FTEs	733.5	796.3	1,037.3	241.0
Health Care Funded				
TRS-Care Administrative	36.8	46.0	51.0	5.0
Agency Support to TRS-Care	28.0	46.0	46.0	_
HILOB Maintenance & Enhancements	25.0	27.5	27.5	_
TRS-ActiveCare Administrative	8.0	9.0	9.0	_
Agency Support to TRS-ActiveCare	7.4	8.0	8.0	_
Optional Insurance Program	1.0	_	_	_
Total Health Care Funded FTEs	106.2	136.5	141.5	5.0
Fellows and Interns				
Fellows	_	3.0	4.0	1.0
Interns	7.4	7.0	2.0	(5.0)
Total Fellows and Interns	7.4	10.0	6.0	(4.0)
Grand Total	847.1	942.8	1,184.8	242.0

Authorized Full-Time Equivalent Positions



Authorized Full-Time Equivalent (FTE) Positions are funded by the Pension Trust Fund and appropriated by the Legislature. Article IX provisions of the 2022-23 General Appropriations Act authorizes an additional 50 FTEs to the authorized FTE limitation of 1037.3 for FY23. The Board approved increasing the budgeted FTEs to 1037.3 with the remaining 10 FTEs to be allocated at a later time. Increased authority in FY23 is attributed to TRS' commitment to achieving the highest levels of customer satisfaction, implementing Legislative intent and Board mandates, and strengthening the trust funds.

Customer Service Improvement Initiative

Additional resources approved for Benefit Services, Information Technology, and Other Shared Services to sustain increasing workload volumes with the implementation of new legislative recommendations, improving response and processing times to meet member expectations and service levels as well as expanding the learning and staff development capabilities for the agency to reduce reliance on costly external vendors. Additionally, new positions to support expanding and enhancing the hybrid remote work environment to attract and retain talent, implement strategic digital transformations across all lines of business to make business processes more efficient, and provide internal customer support to agency staff sustaining business continuity.

Investment Management

Additional resources aim to reduce investment fees by hiring more investment professionals in-house and reducing the use of external managers.

New Headquarters

Additional resources required to provide additional security and facility management with the ongoing construction and maintenance of two new buildings, both of which are substantially larger than the current TRS facilities.

New Projects

Additional resources required to implement the new Investment Data Modernization Program and the fraud detection and prevention tool, support the growing technological footprint of the agency by providing audit coverage for cyber security controls, enterprise technological infrastructure, and data analytics.

Exempted Full-Time Equivalent Positions



Exempted Full-Time Equivalent (FTE) Positions are funded by the Health Care Trust Funds and are not appropriated by the Legislature. The Board of Trustees approve the FTE levels for each Fiscal Year through the budget development process. New positions were approved in FY 2023 to support the increase in workload, quality assurance by performing real-time claim monitoring, and processing more complex requests with health care analytics. Achieving health care customer service level targets are reliant on this support.

Capital Projects

Definition

Capital projects include expenditures for assets with a biennial project cost or unit cost in excess of \$100,000. These projects are selected based upon priorities established by the Board of Trustees via the strategic planning process and are generally long-term projects with fiscal impact beyond the upcoming budget year. Each project is subject to internal review and approval by a core management team and an executive project oversight committee. Once the projects are complete and assets are fully functional, there may be ongoing costs including staff augmentation, software and hardware maintenance.

The budget for capital projects is requested through the Legislative Appropriation Request (LAR) process and financed on a pay-as-you-go basis with Pension Trust Fund assets. Pursuant to Article IX, Section 14.03 of the 87th General Appropriations Act (GAA), TRS may carry forward any unexpended balances for each project within a biennium. Additionally, without the approval from the Office 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.

Capital Budget by Projects

Repair or Rehabilitation of Buildings and Facilities						
	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Projected FY 2024	Projected FY 2025	
Building Renovations	2,962,897	1,500,000	1,500,000	3,200,000		
Security Renovations	_	100,000	100,000	200,000	_	
TOTAL	2,962,897	1,600,000	1,600,000	3,400,000	_	

Acquisition of Information Resource Technologies						
	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Projected FY 2024	Projected FY 2025	
Network Infrastructure	299,829	564,000	500,000	4,300,000	_	
Data Center Upgrade	418,848	390,352	336,048	1,000,000	_	
Investment System Modernization	311,175	395,000	450,000	26,773,000	_	
PC Workstation Refresh	503,554	436,000	500,000	1,000,000	_	
Pension Legislation			200,000		_	
TOTAL	1,533,406	1,785,352	1,785,352	33,073,000	_	

Unexpended Balances:	TEAM Program and CAPPS Projects				
	Expended FY 2021	Budgeted FY 2022	Budgeted FY 2023	Projected FY 2024	Projected FY 2025
CAPPS Project UB	686,089	_	_	_	_
TEAM Program UB	4,765,912	_	_	_	_
TOTAL	5,452,001	—	_	—	—

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 fouracre, two-building complex comprising 217,976 square feet of assignable space. The budget in FY 2022 and FY 2023 is to continue a multiyear effort to utilize agency space more efficiently within the scope of the strategic plan.

Security Renovations

TRS must be prepared to replace aging security equipment due to useful life issues which are resulting in equipment failure. This project anticipates useful life issues and supports the agency's overall mission ensuring a safe and secure environment at TRS. The TRS Security Division is responsible for safety and security at TRS and requires surveillance and access management systems to assist in this responsibility. This system is comprised of cameras and badge access readers located throughout TRS. The objective of this project is to maintain the technological infrastructure that supports the Security Division's ability to ensure continued safety and security at TRS. This project is strategic and will be ongoing.

Building Renovations

TRS owns, operates, and maintains its headquarters facilities. This project provides funds for refreshing and updating facilities to provide a physical work environment that is safe and enhances productivity and to achieve more effective utilization of space.



Acquisition of Information Resource Technologies

The acquisition of Information resource technologies capital projects includes all TRS technologyrelated initiatives. These include the Network Infrastructure, Data Center Upgrade, Investment Systems Modernization, PC Workstation Refresh, and Pension Legislation projects. These projects provide the development, design, implementation, and maintenance of the IT infrastructure as relates to premise-based and cloud-based infrastructure application and security requirements. As TRS facilitates a hybrid work environment, these activities will enable TRS to continue to be flexible in supporting our Digital Business Transformation and work from anywhere approach.

Capital Projects List - Summary of Information Resources 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.



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



The **Investment System Modernization** is a project to modernize TRS' data management systems with industry-standard solutions that provide reliable data in support of investment decision-making.



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.

FY 2023 New Programs

For the FY23 budget, the Board approved an additional \$8.1 million, pursuant to Article IX, Section 14.03 of the 87th General Appropriations Act, to increase the scope of the following capital projects to align the required capital budget authority to implement the Investment Data Modernization Program and a fraud detection and prevention tool.

- Investment System Modernization increased scope includes \$5.3 million in FY23 for the Investment Data Modernization Program. The strategic goal of this new program is to modernize TRS' data management systems with industry-standard solutions that provide reliable data in support of investment decision-making. The project will enhance the ability to reliably perform fiduciary oversight of the trust asset valuation and performance, addressing the gap in functional and technical capabilities in our current data architectures and systems. The project is focused on five key capabilities that include data management, an investment book of record, a parallel accounting book, intelligent document processing, and centralized secure access to investment data. In addition, using data from those investment systems as well as from the market, our custodian, and other counterparties, the platform will help TRS staff make better investment decisions. Overall, total cost is projected to be \$66.5 million for the 5-year program.
- Network Infrastructure increased scope includes \$2.8 million in FY23 for a fraud detection and prevention tool. TRS has a fiduciary responsibility to protect pension funds and member data. Using artificial intelligence to help detect unusual patterns and activity, TRS is looking to add a new layer to its electronic threat prevention, detection, and investigation toolkit. A purpose-built anomaly detection and investigation application with the ability to process all the various activity logs and member data generating alerts and reports for analysis will provide a more formalized electronic investigative management process. The strategic goal of the new tool is to improve the member experience, reduce TRS reputational and financial risk exposure, and empower investigators, management, and administration. Overall, total cost is projected to be \$12 million for the 5-year program.

Headquarters Relocation

As an agency with a growing membership base and growing staff, TRS began formal discussions for a long-term facilities solution in 2014. In September of 2021, the Board proposed resolutions authorizing TRS to negotiate purchase and sale agreements with a developer, selection of a custodian bank, and transfer of trust funds necessary to purchase property for a new headquarters location. The proposal, known as One TRS: Moving Forward Together, is the result of a multi-year discussion and financial stewardship to identify a long-term facility solution for the agency. The discussion included consideration of many options, including staying at the current Red River location.

As part of its due diligence process, TRS reviewed more than 20 developer proposals over a 3-year period. The agency also consulted with an actuary who determined that proceeding with the new proposal would not negatively impact the funded status of the trust fund and would not interfere with a benefit enhancement if authorized by the legislature in the future. The cost of the new facility (projected not to exceed \$300 million) will be offset by the sale of the Red River property (conservatively estimated to be worth \$80 to \$100 million), the avoidance of deferred maintenance at Red River (estimated to be \$120 to \$140 million), and the need to lease facilities (\$120 to \$140 million over 20 years).



Headquarters Account					
Alpha Building					
Purchase Price	\$	103,137,946			
Furniture, Fixtures, and Equipment and Tenant Improvement Escrow	\$	18,513,605			
Other Charges and Fees	\$	92,177			
Bravo Building					
Deposit	\$	33,518,434			
Estimated remaining cost	\$	144,737,838			
Grand Total	\$	300,000,000			

Unexpended Balances (UB): TEAM and CAPPS Projects

During the 86th Legislative Session, TRS received appropriation and FTE authority for ongoing 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, were appropriated for the same purposes through FY 2021.

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.

VENDOR	DESCRIPTION	START DATE	END DATE	CONTRACT AMOUNT
STATE STREET BANK AND TRUST COMPANY	SSB MASTER CUSTODIAN CONTRACT	8/1/2015	12/31/2023	188,000,000
HEALTH CARE SERVICES CORPORATION	TRS-ACTIVECARE	9/1/2020	8/31/2023	180,000,000
FACTSET RESEARCH SYSTEMS INC.	FINANCIAL MODELING	2/1/2005	1/31/2023	35,315,560
HEALTH CARE SERVICES CORPORATION	TRS-CARE	1/1/2021	12/31/2023	30,000,000
JEFFERIES LLC	SECONDARY MARKET/ AGENT SERVICES	5/23/2022	5/24/2027	25,000,000
BSWIFT LLC	HEALTH CARE ENROLLMENT ADMIN	9/1/2020	8/31/2023	24,000,000
BLOOMBERG L P	BLOOMBERG NEW TERMINAL LICENSE	9/1/2005	8/30/2023	23,500,000
SILVERSCRIPT INSURANCE COMPANY	PHARM. BENEFIT MGR EGWP MEDICAL	1/1/2018	12/31/2022	21,000,000
ERNST & YOUNG LLP	FOREIGN TAX AGENT	5/1/2018	4/30/2023	7,500,000
MSCI BARRA LLC	DATA LICENSE AGMT	12/1/2015	12/7/2022	6,574,222
ALBOURNE AMERICA, LLC	INVESTMENT ADVISORY SERVICES	9/1/2018	8/31/2023	6,000,000
SEGAL COMPANY (SOUTHEAST) INC	HEALTH CARE CONSULTING	10/7/2019	8/31/2023	5,700,000
GLOBALSCOPE COMMUNICATIONS CORPORATION	CALL CENTER MODERNIZATION	12/28/2017	12/31/2022	5,520,633
KPMG LLP	CONTRACT MANAGEMENT SOLUTION (PAVES)	8/1/2020	8/31/2024	4,784,000
COMPUTER TECHNOLOGIES USA LLC	MAINFRAME OFFSITE SERVICES	5/25/2020	5/24/2023	4,666,726
AON INVESTMENT USA INC	INVESTMENT ADVISORY SERVICES	9/1/2018	8/31/2023	4,595,000
AXIOMA	ENTERPRISE RISK MANAGEMENT, PORTFOLIO MANAGEMENT, AND REGULATORY REPORTING SOLUTIONS	2/1/2013	2/10/2023	4,127,435

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

VENDOR	DESCRIPTION	START DATE	END DATE	CONTRACT AMOUNT
SOFTWARE ONE, INC.	MICROSOFT ENTERPRISE AGREEMENT	1/1/2020	12/31/2022	3,845,808
BLOOMBERG L P	BLOOMBERG EXCHANGES	9/1/2005	9/1/2022	3,699,809
CAREMARK INC	PHARMACY BENEFIT MGR SERVICES	9/1/2017	12/31/2022	3,270,000
FINANCIAL RECOVERY TECHNOLOGIES LLC	INVESTMENT-RELATED LITIGATION	3/29/2018	3/28/2023	3,150,000
816 CONGRESS INVESTMENT LLC	14TH FLOOR ADDED_816 CONGRESS	8/1/2018	3/31/2023	3,110,512
PETROSYS SOLUTIONS INC DBA PSITECHNOLOGY	DATA CENTER SERVICES	6/1/2020	8/31/2024	3,058,155
JACKSON WALKER LLP	INVESTMENT COUNSEL	9/1/2021	8/31/2023	3,000,000
NORTON ROSE FULBRIGHT US LLP	INVESTMENT COUNSEL	9/1/2021	8/31/2023	2,625,000
MSCI BARRA LLC	RISK METRICS	1/28/2016	1/27/2023	2,397,455
ALBOURNE AMERICA, LLC	PM FEE MONITORING SERVICES	10/22/2020	10/31/2023	2,300,000
SEYFARTH SHAW LLP	INVESTMENT COUNSEL	9/1/2021	8/31/2023	2,300,000
TEXAS DEPT OF INFORMATION RESOURCES	DATA CENTER SERVICES	9/1/2017		2,254,507
ERNST & YOUNG LLP	IPA SERVICES	1/29/2021	12/31/2024	2,223,515
FUNDAPPS	RAPPTR SOFTWARE LICENSES	10/15/2014	10/14/2022	2,078,906
ADVANCED CALL CENTER TECHNOLOGIES LLC	CALL CENTER OVERFLOW - HIB	1/1/2020	8/31/2023	2,000,000
MILLIMAN INC	HEALTH CARE CONSULTING	12/21/2020	8/31/2023	1,925,000
TALEND INC	ETL SOFTWARE SERVICES	3/29/2019	3/28/2023	1,783,993
RISKVAL FINANCIAL SOLUTIONS, LLC	RISK VALUATION SERVICES	9/1/2012		1,531,875
GABRIEL ROEDER SMITH AND COMPANY	ACTUARIAL SERVICES	1/1/2022	12/31/2025	1,500,000
FOSTER GARVEY PC	INVESTMENT COUNSEL	9/1/2021	8/31/2023	1,450,000
DLA PIPER LLP US	INVESTMENT COUNSEL	9/1/2021	8/31/2023	1,450,000

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

VENDOR	DESCRIPTION	START DATE	END DATE	CONTRACT AMOUNT
CHASESOURCE LP	TEMP-TO-HIRE SERVICES - HIB	6/14/2019	8/31/2023	1,400,000
PHARMACEUTICAL STRATEGIES GROUP, LLC	HEALTH CARE AND PHARMACY CONSULTING	2/16/2022	8/31/2023	1,400,000
AQUILA COMMERCIAL LLC	LEASING BROKER	3/3/2022	9/2/2023	1,365,000
EVESTMENT	DATA FEEDS AND ANALYTICS	11/1/2008	10/31/2022	1,326,525
MORGAN LEWIS & BOCKIUS LLP	INVESTMENT COUNSEL	9/1/2021	8/31/2023	1,250,000
CARAHSOFT TECHNOLGY CORPORATION	SERVICENOW SOFTWARE AND MAINTENANCE	8/31/2020	8/30/2023	1,147,224
UNITED HEALTHCARE	MEDICARE ADVANTAGE WITH PRESCRIPTION DRUG BENEFIT GROUP AGREEMENT	9/1/1998	12/31/2022	1,140,000
LPS USA INC	PARKING FOR COUSINS LEASE	8/1/2018	3/31/2023	1,094,266

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 87th 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.

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

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

PERSONNEL SERVICES:

- Hiring and Personnel Actions The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to hire personnel, to transfer personnel within the agency, and to approve base salaries, salary changes, and other personnel actions, including but not limited to promotions, demotions, re-assignment, merits, and recruitment and retention bonuses. TRS will generally base its salary schedules, position classifications, and salary administration practices on the provisions of Article IX, Chapter 659 of the Government Code, and other relevant legislation to the extent the Executive Director determines a particular provision is in the best interest of the System and not in conflict with applicable law, fiduciary duty or TRS policy. The board will set the salary rate for the Executive Director. The Executive Director is authorized to set the base salaries for other exempt positions within the not-to-exceed amounts listed in the GAA or any amended limits adopted by the board from time to time.
- Performance Pay Plans The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to implement performance pay plan(s) as approved from time to time by the board, including authorizing payment of the performance pay to the extent funds have been included in the approved board resolution for that purpose or are otherwise made available through the Budget Execution Authority in these General Provisions; in an amount not to exceed \$27.0 million.
- Longevity Pay and Benefit Replacement Pay The board authorizes the payment of Longevity Pay and Benefit Replacement Pay in addition to base pay. The payment of Longevity Pay and Benefit Replacement Pay to eligible TRS employees shall be administered in a manner consistent with the provisions of Chapter 659 of the Government Code and other relevant legislation.

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

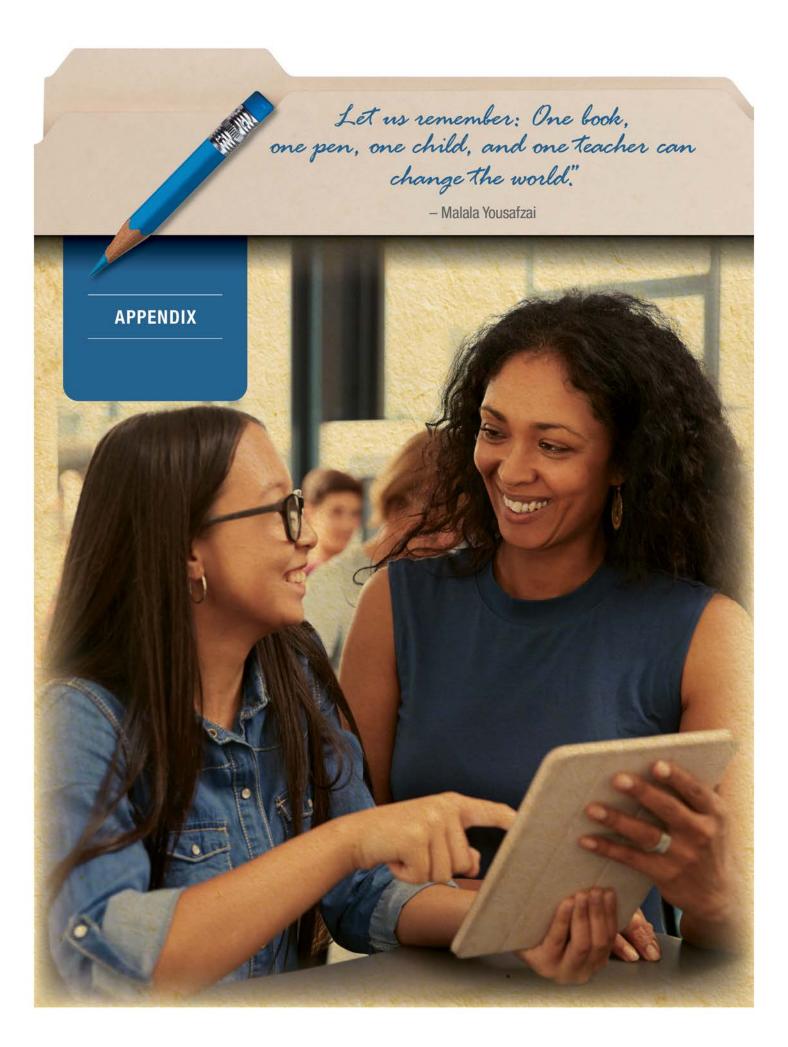
PROFESSIONAL SERVICES – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to contract for professional services and approve and disburse professional fees to persons or firms who render such professional services to TRS. The board finds that the budget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

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

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

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

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



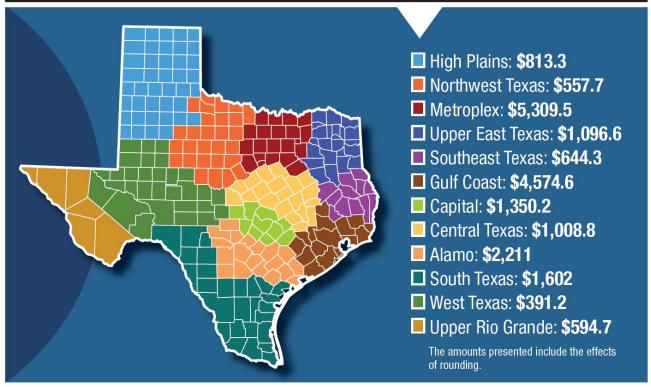
APPENDIX A:

COST DRIVERS, STATISTICAL, AND SUPPLEMENTAL DATA

Economic Benefits of TRS Programs by Region

(2020 gross product in millions of dollars)

This map of Texas shows the total gross product of both the retirement benefits paid by TRS and TRS health care spending, along with the division of the funds in the 12 regions of the state. Gross product is the production of goods and services generated within an area.



TOTAL GROSS PRODUCT: \$20,153.8 BILLION

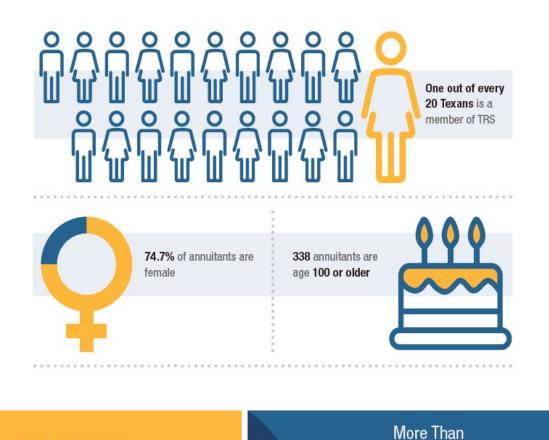
Source: "The Impact of Annuity Payments by the Teacher Retirement System on Texas and Local Areas Within the State" (The Perryman Group, December 2020) and "The Impact of the TRS-ActiveCare and TRS-Care Health Insurance Programs Maintained by the Teacher Retirement System on Texas and Local Areas Within the State" (The Perryman Group, December 2020)

TRS Spending Stays in Texas and Stimulates the Economy

In addition to providing retirement benefits and health care plans to both active and retired public education employees, spending from these programs generates economic stimulus to Texas communities. Annuity payments provide TRS members with stable income to expend and the billions of dollars paid into medical and prescription services by TRS health care programs supports Texas' growing economy. The total impact of these programs is significant.

Value to Education

TRS provides financial security to members and their families. TRS serves a vital role to more than 1.6 million active and retired members working in education.





TRS has grown dramatically since its inception in 1937, from 38,000 members to more than 1.6 million participants.

Participants

38,000 Members

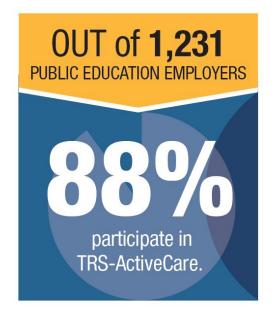
Source: TRS Value Brochure https://www.trs.texas.gov/TRS%20Documents/trs_value_brochure.pdf

TRS Health Care Keeps Public Education Sector Jobs Competitive

Health benefits are crucial for public education employers' ability to attract and retain quality employees. The overall educational system in Texas is positively impacted by such educators, leading to better outcomes for students.

Out of 1,231 public education employers, 88% participate in TRS-ActiveCare. This scale leads to more stable cost sharing. For example, a high-deductible plan in a non-participating district would cost \$93 more per month than a TRS-ActiveCare HD plan*.

TRS' large scale also keeps long-term volatility down. Since 2013, Texas employers with similar funding models for health insurance had a 24% increase in health care costs while TRS only saw a 7% increase. Source: "Teacher Pensions vs. 401(k)s in Six States: Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas" (National Institute on Retirement Security, January 2019)



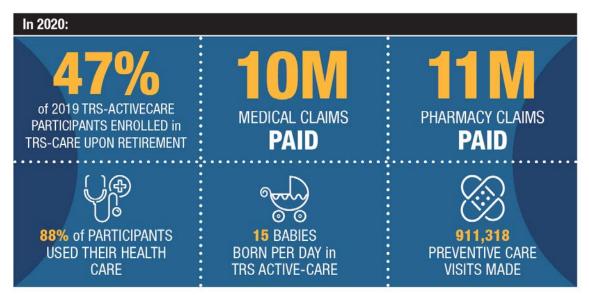
*After employee premiums, employer contributions, and employee cost sharing.

Source: "TRS Health Benefits Report 2020" (Teacher Retirement System of Texas, January 2021), and "The Impact of the TRS-ActiveCare and TRS-Care Health Insurance Programs Maintained by the Teacher Retirement System on Texas and Local Areas Within the State" (The Perryman Group, December 2020)

VALUE FROM HEALTH CARE PLANS

TRS Provides High-Value Health Care to Public Education Employees

TRS health plans use every health care dollar they receive to bring high-quality care to over 700,000 participants. As the second largest purchaser of health care in Texas behind Medicaid, TRS is uniquely positioned to negotiate rates with providers. This leads to high utilization rates and positive outcomes.



Source: TRS Value Brochure https://www.trs.texas.gov/TRS%20Documents/trs_value_brochure.pdf

Membership Overview and Funding Status

Membership

Membership Facts and Figures

Number of	August 31, 2021	August 31, 2020				
Current Members						
Active Contributing	918,545	914,752				
Inactive Non- vested	384,340	209,956				
Inactive Vested	116,901	112,726				
Total Current Members	1,419,786	1,237,434				
Retirement Recipients						
Service	427,995	415,696				
Disability	11,892	11,926				
Survivor	18,246	17,652				
Total Retirement Recipients	458,133	445,274				
Total Membership	1,877,919	1,682,708				

Members Retiring Fiscal Year Ended 8/31/2021

Members Retiring

Number Retiring		23,433		
Average Age at Retirement		60.4		
Average Service Credit		24.1		
Average Monthly Annuities				
Life Annuities	\$	2,145		
Disability Annuities	\$	1,235		
Annuities Certain	\$	1,148		

Pension Fiduciary Net Assets

Pension Fiduciary Net Assets (as of 8/31)

	(i	2021 n Billions)	2020 (in Billions)	
Net Position	\$	201.807	\$	165.416
Member Contributions	\$	3.839	\$	3.737
State Contributions – General Fund	\$	1.880	\$	1.845
Pension Payments to Retirees & Beneficiaries	\$	11.799	\$	11.080

Funding Status

TRS Pension Funding Status

	2021	2020			
Statutory Contribution Rates					
State	7.50% 7.50%				
Member	7.70%	7.70%			
Actuarial Information					
Covered Payroll	\$51.4 billion \$50.0 billion				
Normal Cost %	11.57%	11.60%			
Unfunded Actuarial Accrued Liability (UAAL)	\$47.6 billion	\$50.6 billion			
UAAL as % of Pay	92.80%	101.20%			
Funded Ratio	79.10%	76.80%			

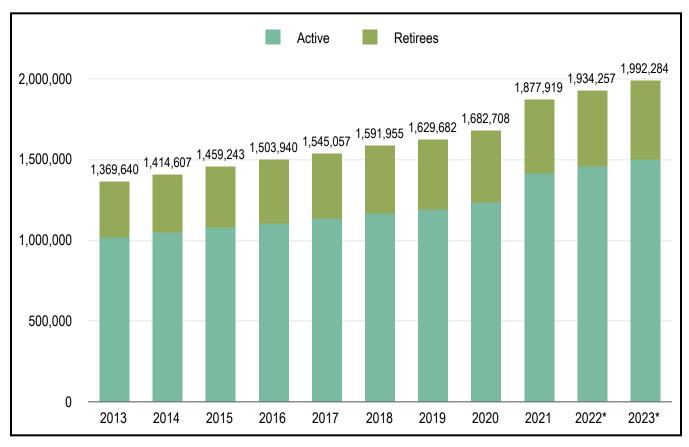
Investments

Investments (as of 8/31)

	Value (in Billions)	Annual Rate of Return		
2012	\$109.993	7.60 %		
2013	\$116.705	9.00 %		
2014	\$131.595	16.90 %		
2015	\$127.042	(0.30)%		
2016	\$132.762	7.40 %		
2017	\$145.916	12.60 %		
2018	\$154.700	8.20 %		
2019	\$157.433	5.20 %		
2020	\$164.642	7.24%		
2021	\$201.163	24.98%		

Source: 2021 Annual Comprehensive Financial Report https://www.trs.texas.gov/TRS%20Documents/acfr-2021.pdf

PENSION MEMBERSHIP GROWTH

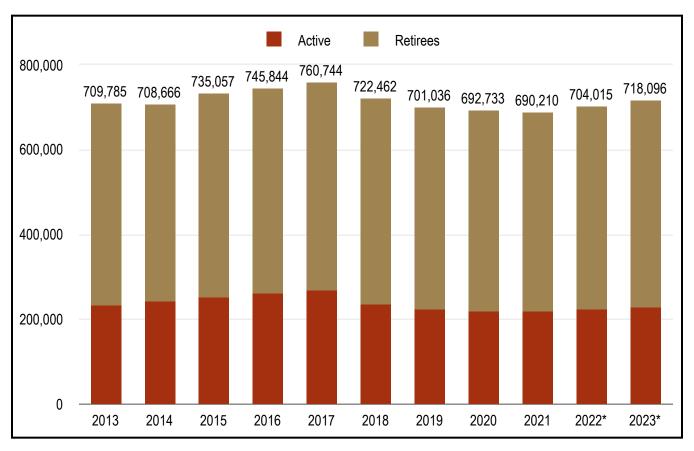


^{*}Projected based on historical trending

Active members – 47% growth | Retired members – 40% growth

This chart shows the trend in the number of TRS members over time for both active members and retired members. The growth of active members has traditionally been correlated to state population growth, which is expected to grow an average of 1.6% 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

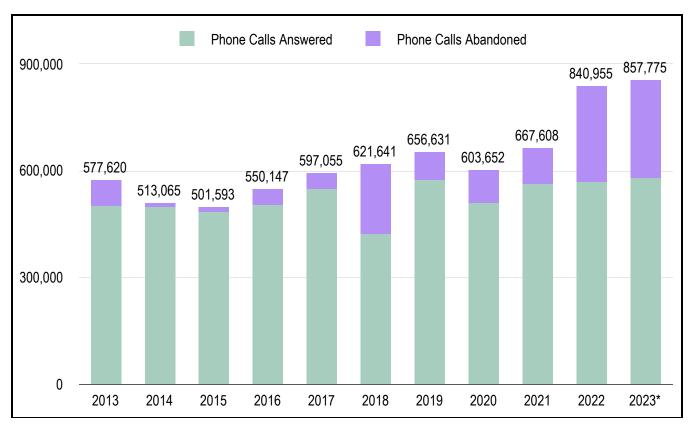


^{*}Projected based on historical trending

TRS-Care Membership – 3% growth | TRS-ActiveCare Membership – (2%) growth

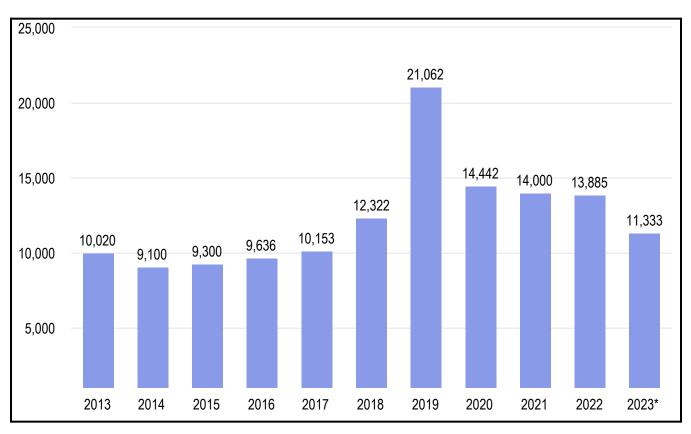
This chart shows the historical growth in the membership of the health care programs. The growth in TRS-Care, the health care plan for retirees, is largely dependent upon the growth in the number of retired members. The growth in TRS-ActiveCare, the health care program for active TRS members, is dependent on a host of factors including the growth in active TRS members and the number of districts that choose to participate in the program.

TELEPHONE COUNSELING CENTER CALL VOLUME



*Projected based on historical trending

This chart displays the call volume handled by the TRS' Telephone Counseling Center (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.



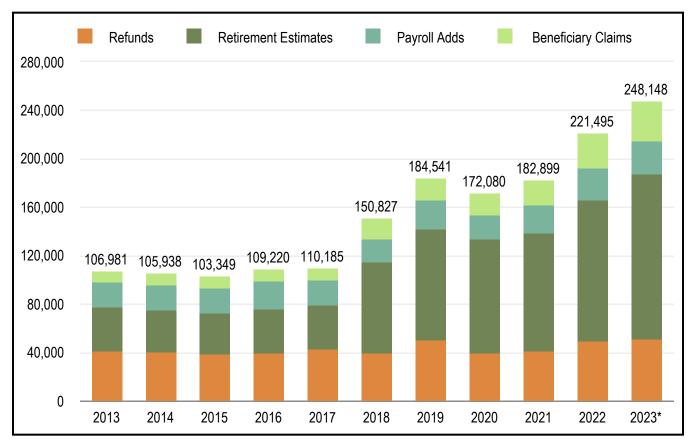
OFFICE COUNSELING VISITS

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 plateau and potentially decline as younger generations of members increasingly interact with web-based tools.

Due to the stay-at-home orders during the pandemic, office counseling visits experienced a decrease in demand during FY22. TRS is now fully open and accepting in-person appointments. TRS expects an increase in the number of office visits as the number of retirement-age active members increases and in-person appointments are offered again.

^{*}Projected based on historical trending

BENEFIT PROCESSING ACTIVITY



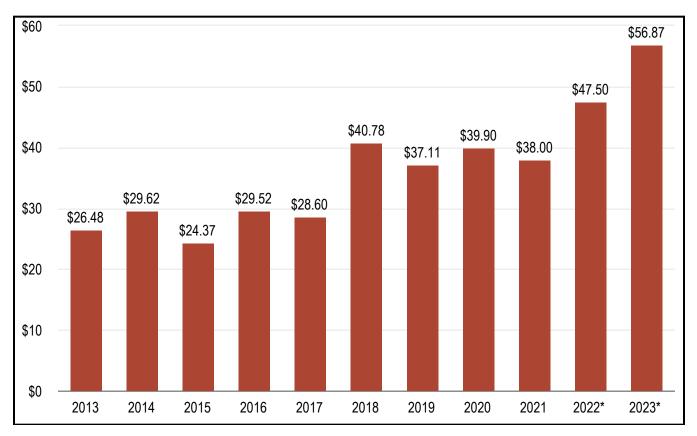
*Projected based on historical trending

Overall 10% Growth Refunds – (3%) | Retirements – (17%) | Payroll Adds - (3%) | Beneficiary Claims – 16%

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 increase. 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

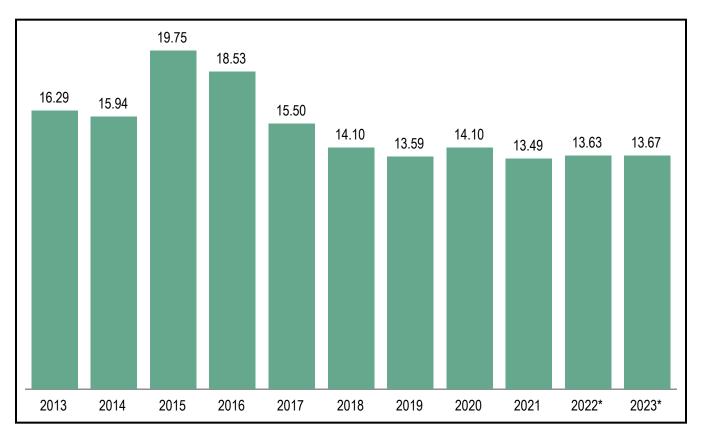


^{*}Projected based on estimated growth trends

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. TRS anticipates that its talent pool may fluctuate with the Austin economy.

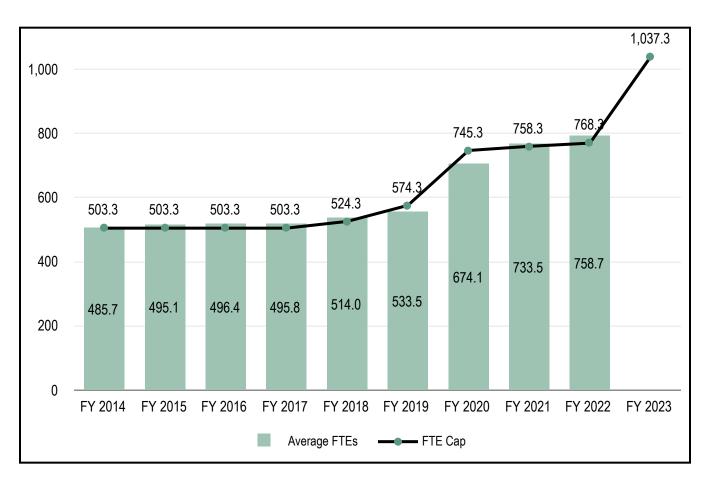
INVESTMENT EXPENSES AS BASIS POINTS OF NET ASSETS



*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. Investment Management has increased staffing to more effectively position the pension fund for growth and to mitigate risk.



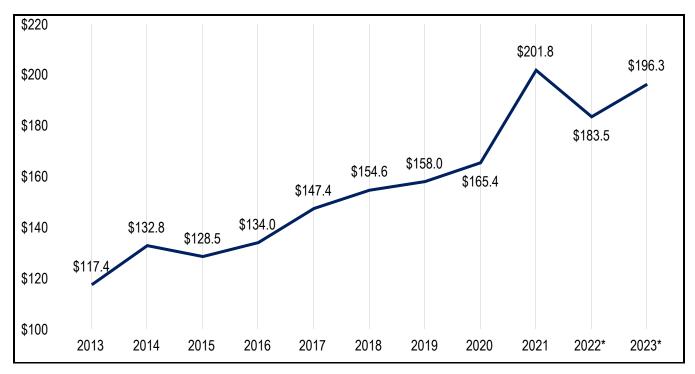
FULL-TIME EQUIVALENT (FTE) EMPLOYEES

TRS participates in the biennial legislative appropriations process in requesting funds for administrative operations. In the General Appropriations Act (GAA), the Legislature establishes state employment levels for FTEs. The agency reports quarterly to the State Auditor's Office (SAO) the actual FTEs. Through legislative intent, TRS is exempt from including health care and intern FTEs in the calculation relative to the authorized FTE cap.

The chart above displays the average number of FTEs by fiscal year measured against the FTE cap. Pursuant to Rider 20 Exception to FTE Limitation for Board Fiduciary Finding of the TRS bill pattern in the GAA, the Board found that additional resources are required to address the customer service needs of our growing membership, continue to enhance competitive advantages for a nearly \$200 billion institutional investor, and improve operational efficiencies for the current biennium.

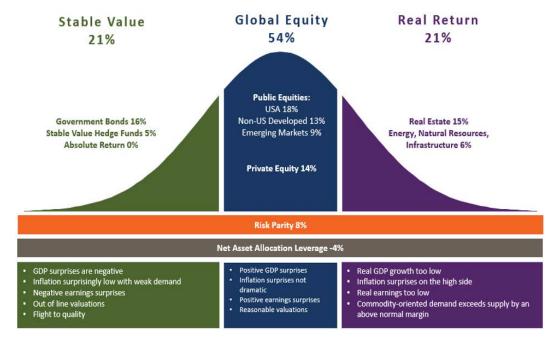
PENSION TRUST FUND BALANCE

(In Billions)



*Projected based on a rate of return of (6.7)% for FY 2022 and 7% for FY 2023.

The annual rate of return on investments for the pension fund for the year ended Aug. 31st, 2021 was 24.98%.



Trust is allocated across the following groups:

APPENDIX B:

GLOSSARY

Accrual basis – 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.

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.

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

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.

Audit – An unbiased examination and evaluation of an organization's financial statements to ensure that these records are a fair, accurate, and transparent representation of the transactions that these records claim to present.

Balanced Budget – A balanced budget is one in which the total revenues equal total estimated expenditures.

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.

Board of Trustee (BOT) – The trustee of all plan assets, is responsible for the general administration and operation of TRS, and is authorized by law to adopt rules for the administration of TRS and the transaction of the business of the Board.

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.

Centralized Accounting and Payroll/Personnel System (CAPPS) – The state of Texas' Enterprise Resource Planning (ERP) solution.

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.

Coronavirus Relief Funds (CRF) – The CARES Act provides payments to State, Local, and Tribal governments navigating the impact of the COVID-19 outbreak.

Coronavirus State Fiscal Recovery Fund – A Program, part of the American Rescue Plan, delivers \$350 billion to state, local, and Tribal governments across the country to support their response to and recovery from the COVID-19 public health emergency

Coronavirus disease (COVID-19) - An infectious disease caused by the SARS-CoV-2 virus.

Customer Service Improvement Initiative (CSII) – A comprehensive approach to addressing customer service levels that involves multiple business units from across TRS including Information Technology, Finance, Legal & Compliance, and Organizational Excellence in addition to Benefit Services. The CSII includes policy and procedure changes, process improvements, system enhancements, and enhanced staffing as key areas of opportunity.

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.

Fiduciary Fund – contains resources held by a government, but belonging to individuals or entities other than the government. A prime example is a trust fund for a public employee pension plan.

Fiscal Year (FY) – Sept. 1 through Aug. 31 and specified by the calendar year in which the fiscal year end, e.g. FY 2023 runs from Sept. 1, 2022 through Aug. 31, 2023.

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.

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

Generally Accepted Accounting Principles (GAAP) – A broad collection of rules, standards, and concepts for financial reporting and accounting standards adopted by the U.S. Securities and Exchange Commission (SEC).

Government Finance Officers Association (GFOA) – An association founded in 1906 that represents public finance officials throughout the United States and Canada with more than 20,000 members working in federal, state/provincial, and local governmental operations. GFOA's mission is to advance excellence in public finance.

Governmental Accounting Standards Board (GASB) – An independent, private-sector organization that establishes the accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Standards (GAAP).

Health Insurance Line of Business (HILOB) – Originally part of the TEAM program to create and maintain software intended to support the administration of TRS-Care. HILOB is now operational and has transitioned into the maintenance and enhancement phase.

Investment return assumption – Represents expected return after payment of investment expenses and is one of the principal assumptions used in an actuarial valuation of a retirement plan.

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 Office of the Governor, Budget and Policy Division. 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.

Line of Business (LOB) – A set of related products that serve a particular customer transaction or business need.

Major Fund – A fund whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds.

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

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).

MyTRS – An online resource available to eligible TRS members and annuitants. MyTRS offers a number of enhancements and self-service options to assist with planning for retirement or keeping track of your respective personal account.

Office of the 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.

OpenGov – A government technology company that offers cloud software for public sector accounting, planning, budgeting, citizen services, and procurement.

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.

Position Control – A process to monitor headcount by carefully reviewing all proposals to temporarily or permanently fill an FTE, track hiring, monitor costs to ensure TRS operates efficiently, and to ensure our resources align to achieve excellence in the delivery of services to members.

Programs – The FY 2023 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.

Proprietary Fund – Proprietary funds are employed to report on activities financed primarily by revenues generated by the activities themselves, such as a municipal utility.

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.

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.

TRS Enterprise Application Modernization (TEAM) – A multiyear initiative that seeks to modernize TRS technologies and business processes, giving the agency greater flexibility in providing services to TRS members and reducing the risks associated with obsolete technology.

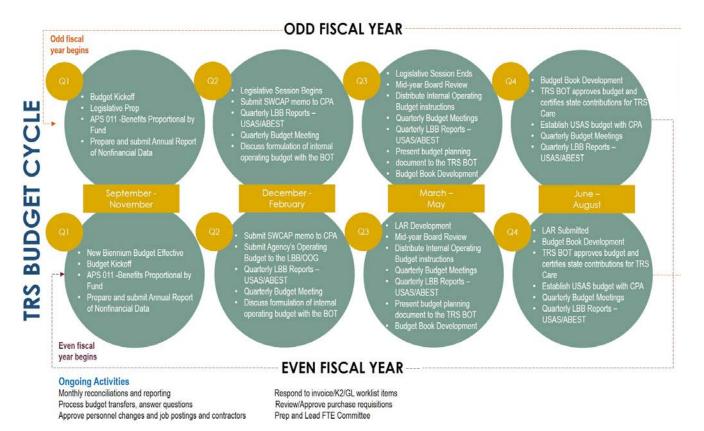
Unexpended Balance (UB) or Carry-Forward – The unobligated amount left in an item of appropriation at the end of an appropriation period. The term also refers to the amount of an appropriation, a fund, or a category of revenue which is brought forward (appropriated) to the subsequent fiscal year. Agencies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

Unfunded Actuarial Accrued Liability (UAAL) – The UAAL represents the difference between the retirement system's assets and the benefits owed to current and future retirees.

User acceptance testing (UAT) – The last phase of the software testing process that verifies whether a product or software is fit for the purpose it was built for.

APPENDIX C:





APPENDIX D:

GENERAL APPROPRIATIONS ACT FY 2022-23 TEACHER RETIREMENT SYSTEM

	For the Years Ending		
	August 31, 2022	August 31, 2023	
Method of Financing:			
General Revenue Fund	\$2,858,504,342	\$3,000,200,663	
GR Dedicated – Estimated Other Educational and General Income Account No. 770	\$25,794,114	\$26,567,937	
Teacher Retirement System Trust Account Fund No. 960	\$148,435,032	\$154,802,103	
Total, Method of Financing	\$3,032,733,488	\$3,181,570,703	
This bill pattern represents an estimated 2.8% of this agency's estimated total available funds for the biennium.			
Number of Full-Time-Equivalents (FTE):	768.3	783.3	
Schedule of Exempt Positions:			
Executive Director	\$355,000	\$355,000	
Chief Investment Officer	551,250	551,250	
Deputy Chief Investment Officer	410,000	410,000	
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	\$2,183,320,080	\$2,306,108,069	
A.1.2. Strategy: TRS - HIGHER EDUCATION RETIREMENT Retirement Contributions for Higher Education Employees. Estimated.	261,285,630	272,220,427	
A.1.3. Strategy: ADMINISTRATIVE OPERATIONS	143,785,462	150,013,045	
A.2.1. Strategy: RETIREE HEALTH – STATUTORY FUNDS Healthcare for Public Ed Retirees Funded by Statute. Estimated.	444,342,316	453,229,162	
Healthcare for Public Ed Retirees Funded by Supplemental State Funds.			
Total, Goal A: TEACHER RETIREMENT SYSTEM	\$3,032,733,488	\$3,181,570,703	
Grand Total, TEACHER RETIREMENT SYSTEM	\$3,032,733,488	\$3,181,570,703	
Object-of-Expense Informational Listing:	\$20.045 750	* *** * **	
Salaries and Wages	\$83,815,750	\$89,152,500	
Other Personnel Costs	2,890,261,126	3,032,903,258	
Professional Fees and Services	20,817,142	21,022,043	
Fuels and Lubricants	3,500	3,500	
Consumable Supplies	537,700	537,900	
Utilities	1,344,082	1,326,406	
	2,462,492	2,734,300	
Rent - Building	4,289,462	4,597,875	
Rent - Machine and Other	765,110	801,357	
Other Operating Expense	26,967,124	26,821,564	
Capital Expenditures	1,470,000	1,670,000	
Total, Object-of-Expense Informational Listing	\$3,032,733,488	\$3,181,570,703	

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

Employee Benefits				
Social Security	\$	5,100,368	\$	5,125,870
Benefits Replacement		23,640		19,574
Total, Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act	\$	5,124,008	\$	5,145,444
 Performance Measure Targets. The following is a listing of th Retirement System. It is the intent of the Legislature that appro efficient and effective manner possible to achieve the intended to achieve the objectives and service standards established by make every effort to attain the following designated key perform appropriation. 	priation mission this Act	s made by this Act I of the Teacher Re t, the Teacher Retin	be utilized tirement Sys	in the most ystem. In order tem shall
A. Goal: TEACHER RETIREMENT SYSTEM		<u>2022</u>		<u>2023</u>
Outcome (Results/Impact):				
TRS Retirement Fund Annual Operating Expense Per Member in Dollars (Excluding Investment Expenses)		45		45
TRS Retirement Fund Investment Expense as Basis Points of Net Assets		14		14
Service Level Percentage of Calls Answered in Specified Time Interval		80%		80%
A.1.3. Strategy: ADMINISTRATIVE OPERATIONS Output (Volume):				
Number of TRS Benefit Applications Processed		77,500		80,000

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.

	2022		2023	
a. Repair or Rehabilitation of Buildings and Facilities				
(1) Building Renovations	\$	1,500,000	\$	1,500,000
(2) Security Renovations		100,000		100,000
Total, Repair or Rehabilitation of Buildings and Facilities	\$	1,600,000	\$	1,600,000
b. Acquisition of Information Resource Technologies				
(1) Network Infrastructure		500,000		500,000
(2) Investment System Modernization		450,000		450,000
(3) PC Workstation Refresh		500,000		500,000
(4) Pension Legislation		0		200,000
Total, Acquisition of Information Resource Technologies	\$	1,450,000	\$	1,650,000
c. Data Center Consolidation				
(1) Data Center Upgrade		\$335,352		\$336,048
Total, Capital Budget	\$	3,385,352	\$	3,586,048
Method of Financing (Capital Budget):				
Teacher Retirement System Trust Account Fund No. 960	\$	3,385,352	\$	3,586,048
Total, Method of Financing	\$	3,385,352	\$	3,586,048

- 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, \$2,183,320,080 in fiscal year 2022 and \$2,306,108,069 in fiscal year 2023, and A.1.2, TRS- Higher Education Retirement, \$261,285,630 in fiscal year 2022 and \$272,220,427 in fiscal year 2023 are based on a state contribution of 7.75 percent of payroll in year 2022 and 8 percent in year 2023 of the biennium, estimated.
- State Contribution to Texas Public School Retired Employees Group Insurance Program. The amounts specified above in Strategy A.2.1, Retiree Health-Statutory Funds, \$444,342,316 in fiscal year 2022 and \$453,229,162 in fiscal year 2023 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 2022-23 biennium without providing 60 days notice to the Legislative Budget Board.

- 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 Equivalents (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 7.75 percent in fiscal year 2022 and 8.0 percent in fiscal year 2023 of the total covered payroll for Public Community and Junior Colleges, in accordance with Government Code Section 825.4071.

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, 2023, 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 2022 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 2023 to fiscal year 2022 and such funds are appropriated for fiscal year 2022. 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 2022 costs associated with providing retiree health benefits will exceed the funds appropriated for these services for fiscal year 2022.
 - 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. 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.

20. 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 2022-23 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.
- 21. Right to Shop Incentive. It is the intent of the legislature that the Teacher Retirement System (TRS) engage a third party vendor to examine alternative methods to deliver the current benefits supplied under TRS-ActiveCare and that TRS provide a report to the chairs of the Senate Finance, Education, and Higher Education committees, the chairs of the House Appropriations, Public Education, and Higher Education committees, and the Governor on the findings of the third party vendor no later than August 31, 2022.

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Thank you to all our members.



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.



Teacher Retirement System of Texas 1000 Red River Street Austin, Texas 78701-2698 • 1-800-223-8778 www.trs.texas.gov