

The background of the entire page is a photograph of the Texas State Capitol building in Austin, Texas, taken from a low angle looking up at the dome. The sky is a mix of orange, yellow, and grey, suggesting a sunset or sunrise. The building's dome is the central focus, with its intricate architectural details clearly visible. To the right, a modern skyscraper is partially visible in the background.

# ROOTED IN **TEXAS**



## **ADMINISTRATIVE OPERATING BUDGET REPORT FY 2022**



### **TEACHER RETIREMENT SYSTEM OF TEXAS**

TRS HAS BEEN SERVING THE NEEDS OF TEXAS PUBLIC EDUCATION EMPLOYEES FOR MORE THAN 80 YEARS. IN NOVEMBER 1936, VOTERS APPROVED AN AMENDMENT TO THE CONSTITUTION OF TEXAS CREATING A STATEWIDE TEACHER RETIREMENT SYSTEM. WITH THE PASSAGE OF ENABLING LEGISLATION IN 1937, TRS WAS OFFICIALLY FORMED.

TODAY, TRS IS THE LARGEST PUBLIC RETIREMENT SYSTEM IN TEXAS, IN BOTH MEMBERSHIP AND ASSETS. THE SYSTEM IS RESPONSIBLE FOR INVESTING FUNDS UNDER ITS STEWARDSHIP AND FOR DELIVERING BENEFITS TO MEMBERS AS AUTHORIZED BY THE TEXAS LEGISLATURE. THE TRUST FUND IS SUSTAINED BY FOUR SOURCES – CONTRIBUTIONS BY MEMBERS, EMPLOYERS, THE STATE AND INVESTMENT REVENUES.

MARKER IS THE PROPERTY OF THE STATE OF TEXAS





As a part of this year's  
Administrative Operating  
Budget Report  
— *Rooted in Texas* —  
we're proud to spotlight the  
unique places across our state  
where trailblazing educators  
made their mark in Texas history.







# **Administrative Operating Budget Report Fiscal Year 2022**

Teacher Retirement System of Texas

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# INTRODUCTION



## URSULINE CONVENT AND ACADEMY

AT THE URGING OF BISHOP JEAN-MARIE ODIN AND WITH HELP FROM FATHER CLAUDE DUBUIS, SEVEN FRENCH URSULINE NUNS OPENED SAN ANTONIO'S FIRST SCHOOL FOR GIRLS HERE IN 1851. THE ORIGINAL ACADEMY BUILDING, DESIGNED BY ARCHITECT FRANÇOIS GIRAUD, WAS LATER JOINED BY OTHER BUILDINGS AS THE ACADEMY EXPANDED. CONSTRUCTED BETWEEN 1851 AND 1883, THE HISTORIC STRUCTURES SHOW A COMBINATION OF FRENCH, GOTHIC REVIVAL, AND VERNACULAR INFLUENCES. AFTER URSULINE ACADEMY MOVED FROM THIS SITE IN 1965, THE COMPLEX WAS REHABILITATED FOR USE AS AN ART SCHOOL AND WAS LISTED IN THE NATIONAL REGISTER OF HISTORIC PLACES IN 1969.

RECORDED TEXAS HISTORIC LANDMARK — 1962

SAN ANTONIO, TX





GOVERNMENT FINANCE OFFICERS ASSOCIATION

***Distinguished  
Budget Presentation  
Award***

PRESENTED TO

**Teacher Retirement System of Texas  
Texas**

For the Fiscal Year Beginning

**September 01, 2020**

*Christopher P. Morill*

**Executive Director**





# Message from the CFO

I am proud to present the Teacher Retirement System of Texas (TRS) Fiscal Year (FY) 2022 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 2022 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 be updating systems, sustaining a culture of innovation and efficiencies, and delivering higher levels of service to our members while maintaining fiscal responsibility.

## Administrative Operating Budget

For the FY 2022 Administrative Operating Budget (FY 2022 Budget), we are prioritizing funding for the most mission-critical areas, including continuing efforts to improve customer service and reduce investment fees, identify a solution for TRS' long-term facility needs, and key support function initiatives like deploying new IT infrastructure as a part of the TRS Enterprise Application Modernization (TEAM) program.

The approved FY 2022 Budget represents the FY 2022 portion of the FY 2022-23 biennial legislative appropriations. Overall, the adopted FY 2022 Budget represents a 1% increase from the FY 2021 budget. To achieve a conservative 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 within available resources. We developed the goals and service level priorities through an open process with agency-wide engagement early in the internal budget development process. The Board of Trustees began the goal setting process with a clear understanding of the current financial situation, as well as anticipated future budget constraints for TRS, many outside of our control. TRS remains committed to serving our members and strengthening the trust funds. The funding priorities in this budget reflects those commitments. The total administrative operations budget of TRS for FY 2022 is \$237.3 million across all funds.

The agency's efforts continue to focus on the following funding priorities, which were also emphasized during FY 2021:

- Improving the customer experience by addressing TRS' extraordinary member services challenges, including historic call volumes and excessive hold times.
- Focusing on becoming a best-in-class investment management fund and reducing external manager fees as part of the building the fleet initiative.

- Managing the cost of the health care plans, better serving members and member engagement and communications.
- Long-term considerations include developing a generational solution for TRS facilities that will adequately serve its functions and growing membership.
- Deploying modern IT systems through the TEAM Program. Releasing the TRUST Line of Business (LOB) includes Build and User Acceptance Testing (UAT) for retirement processing, annuity payroll and tax reporting functionalities.

In addition, TRS recently was under review by the Sunset Texas 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.

## Improving the Customer Experience

The FY 2022 Administrative Operating Budget continues to prioritize funding and staff for improving the customer experience. The customer experience is a multi-biennia project addressing extraordinary member service challenges. To return to expected service levels, additional staff were needed to manage the

volume of customer service interactions, to increase capacity for counseling services, and to expand service channel options.

During the FY 2020-21 biennium, Benefits Services worked to recruit and retain skilled counselors and benefit processors. Additionally, to improve staffing continuity, Benefit Services implemented a hiring policy to limit new employees from transferring out of the customer service area until they have been in the department for at least 18 months. 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.

As a result, TRS continues to face ongoing challenges with meeting member demand for customer service. In FY 2021, TRS began seeing a decrease in key performance metrics, such as the percentage of calls answered in three minutes, which averaged 20.5% for the first half of the fiscal year compared to an expectation of 80%. In addition, death claim payments issued within 31 days of receipt of all required paperwork averaged 21.3% for the first half of FY 2021 compared to an expectation of 95%.

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. The FY22 Admin Budget includes funding for a pilot office in El Paso, Texas offering additional options for receiving member services by



phone or in-person outside of Austin, Texas. In January 2020, members were surveyed to determine if additional counseling offices were needed and to understand member preferences for those offices. Overall, 85% of respondents were in favor of expanding member services to various regions in Texas.

## Reducing Investment Fees

The resources requested in this administrative operating budget also continues a multi-biennia initiative approved during the 86<sup>th</sup> 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. However, deploying additional capital in the future will take additional resources. As a result, the investment-focused headcount will need to increase. Doing so will allow TRS to reduce external management fees while preserving risk appropriate returns and sustainably increasing the likelihood of meeting return assumptions.

Preliminary results of the first two years of this initiative indicate TRS is on target to achieve the estimated savings. As of the end of the calendar year 2020, TRS achieved a savings of approximately \$204 million in external manager investment fees.

The FY22 Admin Budget includes 10 new positions to continue reducing investment fees by hiring more investment professionals. To attract and retain top qualified candidates, \$4.5 million was approved to align Investment base salaries with the Board of Trustees Investment compensation philosophy.

## Managing Health Care Plans

The FY 2022 Administrative Operating Budget for Health and Insurance Benefits (HIB) includes funding to implement new mandates of the 87<sup>th</sup> Legislative Session changes to TRS-Care and TRS-ActiveCare and continued support of the health insurance line of business (HILOB) system and customer support.

During the 87<sup>th</sup> Legislative Session, 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 86<sup>th</sup> 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 the FY 2022-23 biennium.

TRS is also responsible for the administration of TRS-ActiveCare, the Active Employees Insurance Program. In FY 2020, TRS estimates that employees paid for 46% of the total premium. Including cost sharing, employees paid for approximately 60% of their annual medical and pharmacy costs. While the FY 2022-23 biennium does not include a request for TRS-ActiveCare, long-term plan affordability for members is an ongoing concern.

### **Long-Term Considerations**

Following stay-at-home orders, on March 19, 2020, TRS closed to the public. Since then, approximately 90% of the TRS workforce transitioned to full-time remote work. To protect essential workers performing key functions onsite, such as security and mail processing, TRS implemented enhanced cleaning protocols, social distancing, and mask policies. 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. Currently, approximately 75% of TRS' staff remains remote. TRS will continue to monitor circumstances and is working toward achieving 50% occupancy as soon as is feasible.

The FY 2022 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 approve TRS' long-term facilities proposal.

TRS will move forward with the approved proposal to obtain new office space for its headquarters, which would combine staff located at the current Red River and Congress campuses back into one facility. Additionally, the sale of the Red River campus and elimination of leased facilities will provide organizational and cost-savings efficiencies. The Board of Trustees has authorized TRS to negotiate purchase and sale agreements with the developer for a price not to exceed \$300 million.

### **TRS Enterprise Application Modernization Program**

The TRS Enterprise Application Modernization (TEAM) Program is a cohesive collection of components designed to meet the business and technology objectives of TRS over the next 15-20 years. The associated projects under the TEAM Program include data management, independent program assessment, the pension administration line of business (LOB) solution, and the health care line of business (HILOB) solution. Due to long-term, significant performance issues, during FY 2020 TRS terminated the contract with the main TEAM vendor and took on the remaining project releases internally using an agile methodology. The FY 2022 administrative operating budget includes a total of \$17.3 million for staff, contractors, and professional services 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, annuity payroll and tax reporting functionalities.

## Support Administration

The FY 2022 administrative operating budget for the pension prioritizes funding to keep pace with the enterprise-wide support needs primarily related to improving the customer experience and strengthening the Pension Trust Fund. These support functions are primarily in the areas of Information Technology, Internal Audit, Legal Services, Organizational Excellence, Financial Services, and Business Administration. Agency priorities align with the recommendations outlined in the Sunset staff report including enhanced procurement governance and training, implementing a parallel records accounting system to provide greater oversight and transparency of investment practices. As fiduciaries, TRS will continue to achieve an appropriate balance of support personnel to frontline service employees.

## Capital Projects

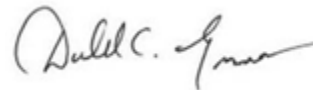
The capital budget includes funding for both physical infrastructure and information systems upgrades. A total of \$3.4 million is included in the FY 2022 administrative operating budget for capital spending, including \$1.6 million for building and security renovations and \$1.8 million for information system upgrades. The agency continues to execute building improvement projects. The agency's focus in FY 2022 is the east parking garage sump station and fire sprinkler replacement, landscaping renovations due to the Texas winter storm in February 2021, east building restroom renovations to comply with the Americans with Disabilities Act (ADA), and the Data Center

emergency power generator relocation. Funding for information systems upgrades includes network infrastructure upgrades, investment systems upgrades, data center upgrades, and a PC workstation refresh program.

## 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 Sept. 1, 2020. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide, and as a communications device. This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to the GFOA to determine its eligibility for another award.

**Don Green,**



**Chief Financial Officer**





# 87<sup>TH</sup> 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 87<sup>th</sup> 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 re-enter 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 reenroll 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 one-time 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 invest 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 87<sup>th</sup> Texas Legislature

**SB 7:** Authorizes a one-time supplemental payment for members who retired on or before 12/31/2020 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.



*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.*

# Board of Trustees



**Jarvis V. Hollingsworth, Chair**  
General Counsel  
Kayne Anderson Capital Advisors, L.P.  
Missouri City  
Direct appointment of the governor  
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



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



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



**Michael Ball**  
Chief Financial Officer  
Fort Worth ISD  
Argyle  
Active public education position  
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



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



**Vacant Position**  
Active public education position  
Fall 2021



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

The nine-member board of trustees acts as a fiduciary of TRS assets. The board members are appointed by the governor of Texas. Three are direct appointments of the governor. Two are appointed by the governor from a list prepared by the State Board of Education. Two are appointed by the governor from the three public school district member candidates who have been nominated for each position by employees of public school districts. One is appointed by the governor from the three retired member candidates who are nominated by retired TRS members. One is appointed by the governor from the three at-large candidates who have been nominated for the position. TRS retirees, members in public school districts, and members in higher education institutions may run for nomination to the at-large trustee position.

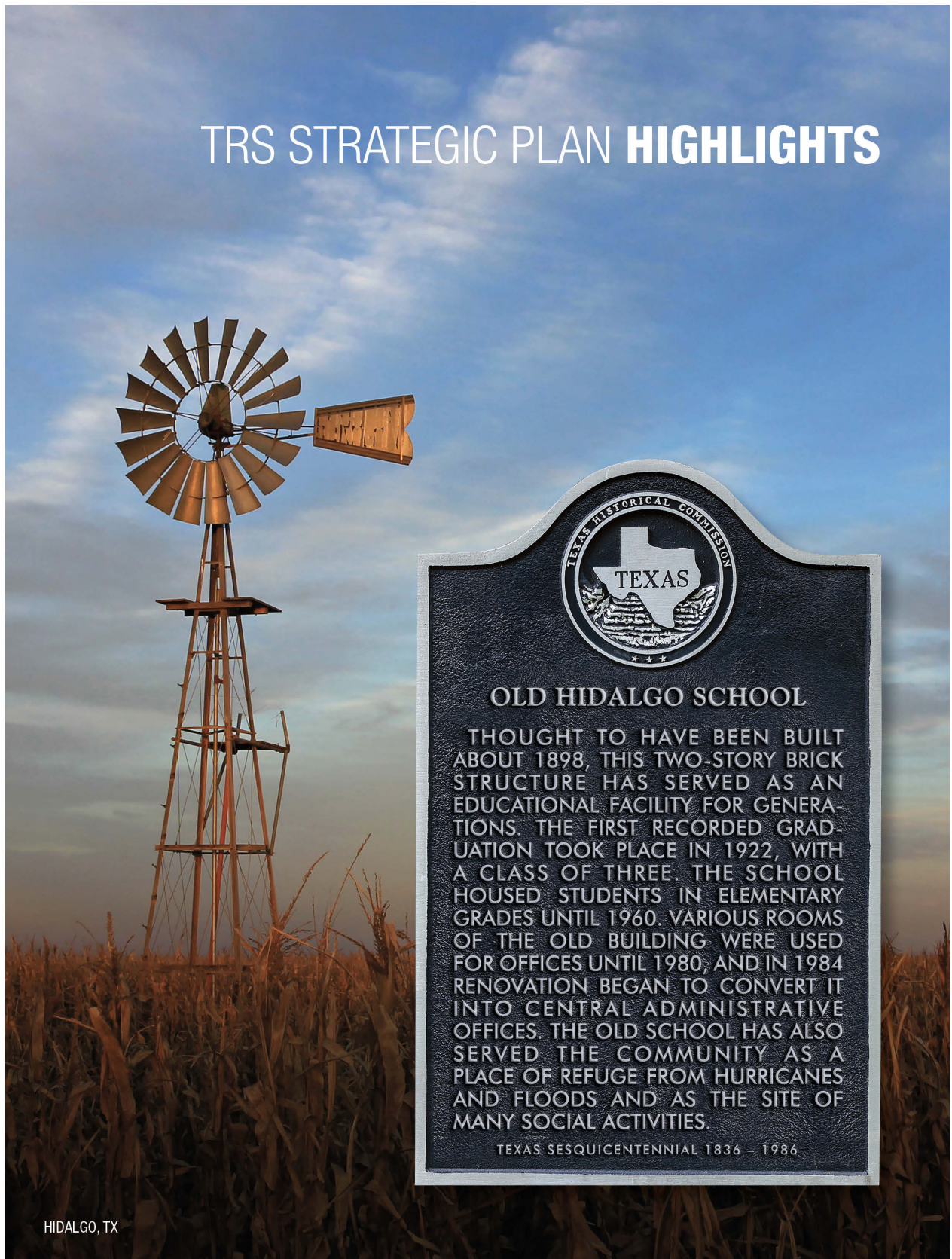
# TRS Organizational Chart







# TRS STRATEGIC PLAN **HIGHLIGHTS**



HIDALGO, TX



# 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 2021-25 Strategic Plan supports the vision, mission, and core values of TRS. It is a five-year view of the agency's objective 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 2021 to 2025 can be found at [https://www.trs.texas.gov/TRS Documents/strategic\\_plan\\_2021\\_2025.pdf](https://www.trs.texas.gov/TRS Documents/strategic_plan_2021_2025.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 20-year 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.

Due to changes in the global economic outlook and expected market conditions, the TRS Board of Trustees lowered the investment return assumption from 8% to 7.25% based on recommendations from the plan's actuary, independent investment advisors and months of public discussion. The lower assumed rate of return caused the unfunded actuarial accrued liability to increase from \$49.5 billion as of August 31, 2019 to \$50.6 billion as of August 31, 2020. If payroll grows as expected, the contributions provided by the current contribution rate pattern are sufficient to amortize the current unfunded actuarial accrued liabilities of the System over a period of 27 years based on the smoothed asset value as of the valuation date. Therefore, the financing objectives of the System are expected to be met (assuming all assumptions are realized).

During the 86<sup>th</sup> 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 member contribution rate is currently 7.7%. The actuarially determined employer contribution rate, including deferred investment losses, is 9.07%.



# 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 policy makers 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 and publicly presenting investment returns quarterly and reporting in the Annual Comprehensive Financial Report (ACFR) how the trust fund performed on 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 ensuring the long-term sustainability of the trust. TRS will continue to seek 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 toward open and transparent communication, TRS continues to webcast all board and committee meetings.

<b>TRS Trust Fund Actuarial Snapshot</b>	<b>8/31/2020</b>	<b>Goal</b>
<i>Funded Ratio</i>	76.8%	≥80%
<i>State Contribution Rate</i>	7.5%	
<i>Non-Social Security School District Contribution Rate</i>	1.5%	
<i>Member Contribution Rate of Payroll</i>	7.7%	
<i>Funding Period (years)</i>	27 years	≤30 years
<i>Actuarially Determined Employer Contribution (ADEC)</i>	9.07%	
<i>Are contributions sufficient to fund future liabilities?</i>	No	Yes

The metrics recorded in the chart above are actual figures from the fund's valuation report for the period ending Aug. 31, 2020.



# 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.

According to the 2020 Member Satisfaction Survey, an average of 60% of members were either satisfied or very satisfied with TRS' services (53% of active members and 75% of retirees). Overall satisfaction with TRS is steady between 2020 and 2019.

However, significantly more respondents report a Very Satisfied level of satisfaction with TRS overall compared to 2019.

Responses regarding overall satisfaction with TRS were obtained after the passage and implementation of legislation that made significant changes to TRS-Care. The majority of both active (53%) and retired (76%) members gave positive feedback (6 or above on a scale of 10) when asked about their willingness to promote TRS as a great organization.

In addition to the 2020 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).

<b>Key Performance Measures</b>	<b>FY 2020 Target</b>	<b>FY 2020 Actual</b>	<b>Explanation</b>
<i>TRS expense per member (Benefit Administration Expenses)</i>	\$31	\$39.9	Actual was higher than target as a result of an increase in employee count and salary increases.
<i>Investment expense per member in basis points (bp)</i>	17bp	13.07bp	The decrease in investing activity expense is primarily due to lower external manager fees paid out of the trust in FY 2020.
<i>Service level percentage of calls answered in specified time interval</i>	79%	45.75%	The decrease in service level is due to membership base growing in size and complexity in addition to stagnant benefit services staffing levels.
<i>Number of benefit claim applications processed annually (service and disability retirements, refunds, and death claims)</i>	72,000	77,668	All applications are processed. Any variance is due to the number of applications received.

## Goal 2: Continuously Improve Our Benefit Delivery

### Action items supporting each Statewide Objective

#### Accountability

As part of continuously improving benefit delivery, TRS remains accountable by publicly presenting quarterly performance measures 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 and efficiency in delivering benefits against peers.

#### Customer Service

TRS is dedicated to professional, accurate, timely and cost-effective delivery of services and benefits to members, annuitants and their beneficiaries. TRS will enhance benefit delivery outside of the TEAM Program by identifying tools and programs that will allow TRS to better interact and educate stakeholders. Expanding TRS' 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 service delivery processes based on those survey findings. Finally, TRS continues to sharpen its communication focus on benefit delivery and fund management and is committed to enhancing its channels of communication to meet the needs of all constituents.

#### 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 posts 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 member and retiree benefit information.

# 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 2020, over \$2.1 billion was provided by multiple funding sources for TRS-Care. State, district and active employee contributions are based on a percentage of active employee payroll rather than by medical trend. Required state contributions totaled almost \$699 million, including proportionality amounts received from the districts elsewhere classified as district contributions.

Over \$2.2 billion was received in FY 2020 from three funding sources for TRS-ActiveCare. Because the level of legislated state and district funding has not changed since inception of the plan, employees shoulder the majority of the costs.

TRS will continue to manage and monitor TRS-Care and TRS-ActiveCare cost trends, assess existing cost containment strategies while exploring new initiatives

and educate health care consumers on the optimal use of TRS health plan benefits. TRS will continue to enhance health data analytics to drive key decision making to support cost management and resource maximization.



LOWER PREMIUMS  
FOR MANY



IMPROVED ACCESS  
TO CARE



NEW PRIMARY CARE  
FOCUSED PLANS

## **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**

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 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 and institutions of higher education and the public so that informed health care decisions can be made. As part of its commitment toward 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 2021, 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 2021, 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.





TRS maintains a competitive edge in recruiting the best talent by maintaining competitive pay, regular opportunities for staff to earn merit pay, and access to quality staff development. FY 22-23 appropriations includes funding for a 5% merit pool for the Investment Management Division (IMD) and a 3% merit pool for Red River staff. Merit allocations continue to be centralized. The Executive Director and Chief Operations and Administration Officer work with managers to determine merit allocations through a departmental analysis. 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.

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 for operating under the highest ethical standards and will continue to support and implement responsibilities as determined by the Texas Comptroller of Public Accounts (CPA).

### FY 2022 TRS HUB Goals



## **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**

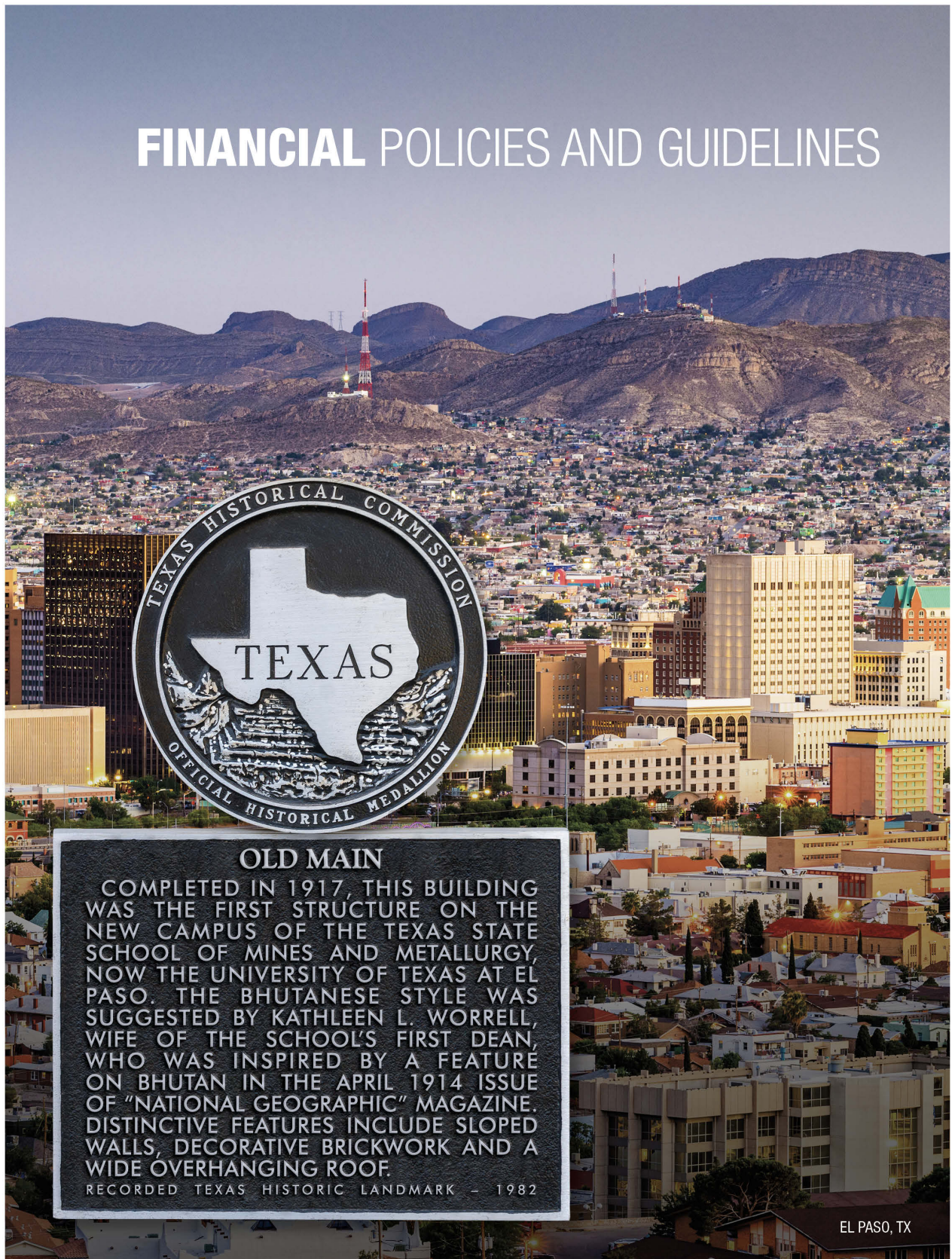
TRS' core functions are delivering retirement benefits, facilitating health care coverage, and managing investments. In our continued pursuit of providing excellent customer service, TRS ensures that the skills of current and future workforce have the required expertise to serve our members. TRS does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

#### **Transparency**

As part of its commitment toward 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.



# FINANCIAL POLICIES AND GUIDELINES



# Financial Policies and Guidelines

The goal of TRS is to develop and submit a balanced budget so that the agency operates in accordance with the guidelines of the General Appropriations Act (GAA) adopted by the 87<sup>th</sup> Texas Legislature. A balanced budget is one in which the total revenues equal total estimated expenditures. The budget for FY 2022 is balanced and prepared in accordance with board policy and guidelines and Generally Accepted Accounting Principles (GAAP).

## 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 2021–2025 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.

## Policies

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's 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 provides the basis for which all policies are established and affords 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.*

## Planning

### State Budget Process and Timeline

The state of Texas budget process begins the year preceding the biennial legislative session (spring of even numbered 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 includes 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 FY 2022 Budget which funds TRS internal operations.

## 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 for the next biennium during even numbered years (see diagram on the following page).

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 as to give an idea of their needs that the Support function departments may need additional resources to support.

### Review

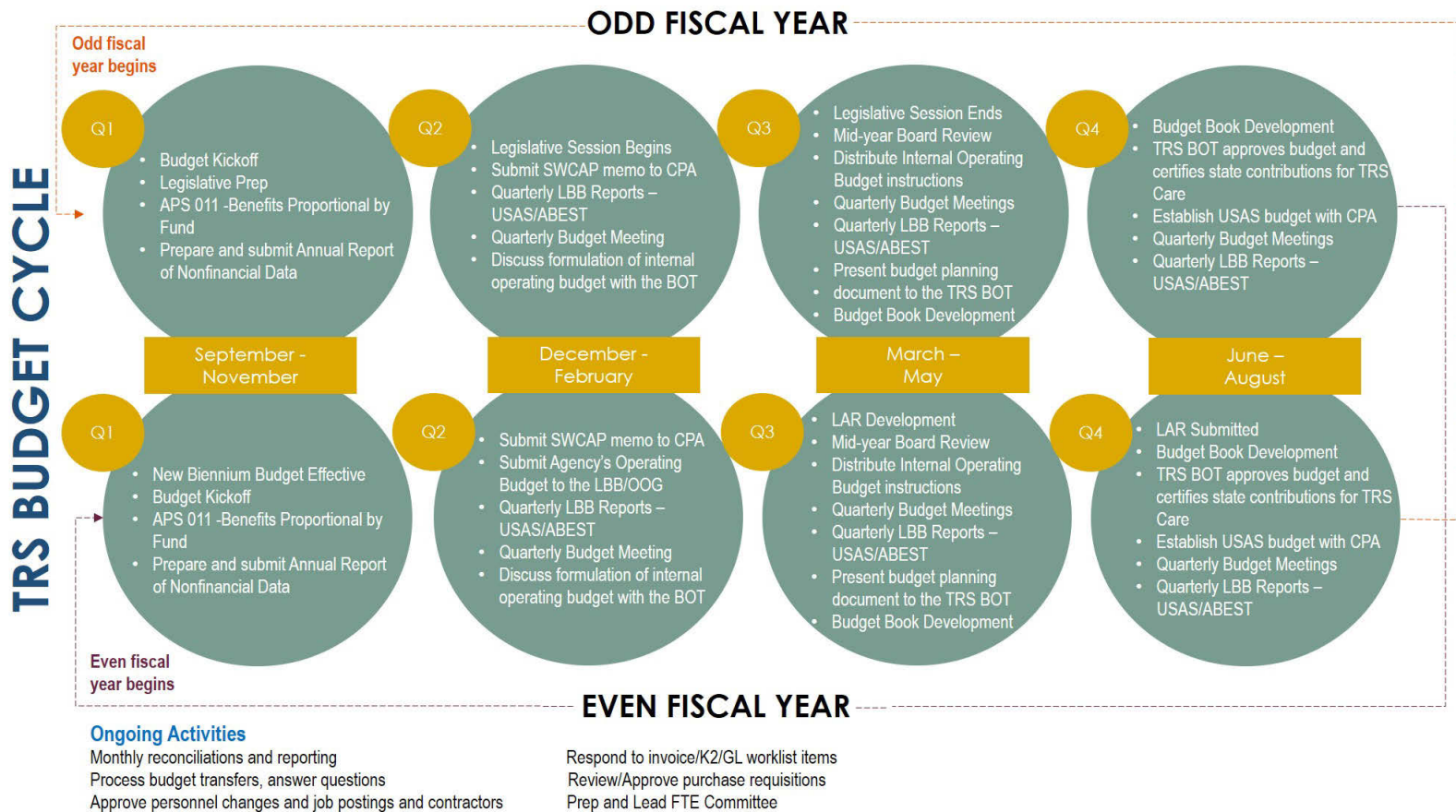
Once all budgets are completed and submitted, the budgets are examined for additional funds requested above the base amount that balances to the GAA for that fiscal year. Any amount of increase requires a justification. Requests for additional funds and staff are evaluated for increasing work demands, changing methods of operations, and delivery of mission critical services.

### Adoption

The final proposed 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 are 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.



## Budget Policy

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.

### **Art. 3 Section 3.1.3 Budget Committee**

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

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

### **Art. 5 Section 5.4 Budgets and Fiscal Year**

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

**The full Bylaws of the TRS Board of Trustees can be found at**

**[https://www.trs.texas.gov/TRS Documents/bot\\_bylaws.pdf](https://www.trs.texas.gov/TRS Documents/bot_bylaws.pdf)**

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.

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

## Budget Controls and Monitoring

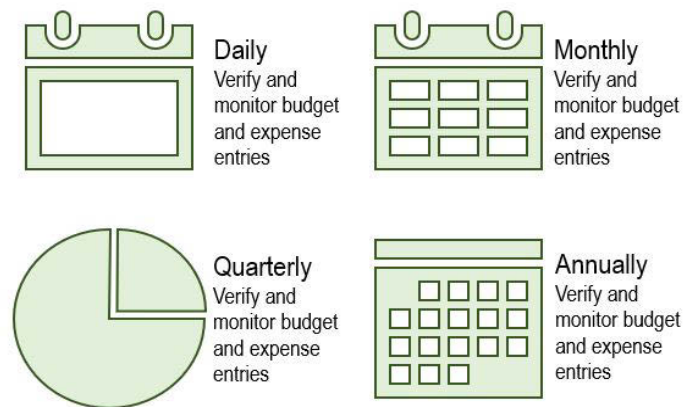
After the biennial budget is passed by the Governor, the legislative leadership continues to play a role in the budget with ongoing monitoring of the implementation of the budget through the LBB. Legislative controls are laid out in the General Appropriations Act, which are used as guidelines for the 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 perform 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.

In 2019, 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. The meetings are held monthly to monitor all types of positions for the purposes of staying below the 768.3 FTE cap. In coordination with Organizational Excellence and Payroll, the Budget team compile the status of vacant positions and present Division's request each month to the FTE Committee. After the FTE committee concludes, newly approved positions are documented in OpenGov. Reporting of FTE levels are submitted to the SAO.

## 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.



External Governing Bodies	Members	Board of Trustees (BOT)
Legislature, Legislative Budget Board, State Auditors Office, Governor's Office, Texas Comptroller's Office	Active and Retirees	The 9 member board of trustees, trustee of all plan assets
<p>Expectations include:</p> <ul style="list-style-type: none"> <li>• Staff will abide by the General Appropriations Act (GAA) and all associated reporting requirements</li> <li>• Staff will uphold TRS' fiduciary duties when preparing and overseeing the agency and departmental budgets</li> <li>• TRS will be transparent with the public regarding its budget</li> </ul>	<p>Expectations include:</p> <ul style="list-style-type: none"> <li>• TRS will be transparent regarding its budget and spending</li> <li>• TRS will be good fiduciaries of the trust funds on their behalf</li> <li>• TRS will ensure expenditures are aligned with the overall mission of the agency</li> </ul>	<p>Expectations include:</p> <ul style="list-style-type: none"> <li>• Staff will abide by the GAA and all transparency requirements</li> <li>• Staff will uphold TRS' fiduciary duties when preparing and overseeing the agency and departmental budgets</li> <li>• BOT will be provided accurate and timely communications regarding expenses, risks, and other budgetary or FTE related issues</li> <li>• Staff will be proactive and timely in identifying budgetary risks</li> <li>• 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</li> </ul>





### Executive Management

Executive Director, Chief Operations and Administrative Officer, and related administrative 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 related issues or concerns



### Internal Partners

Department directors, managers, and budget liaisons

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



### Staff

Budget Staff

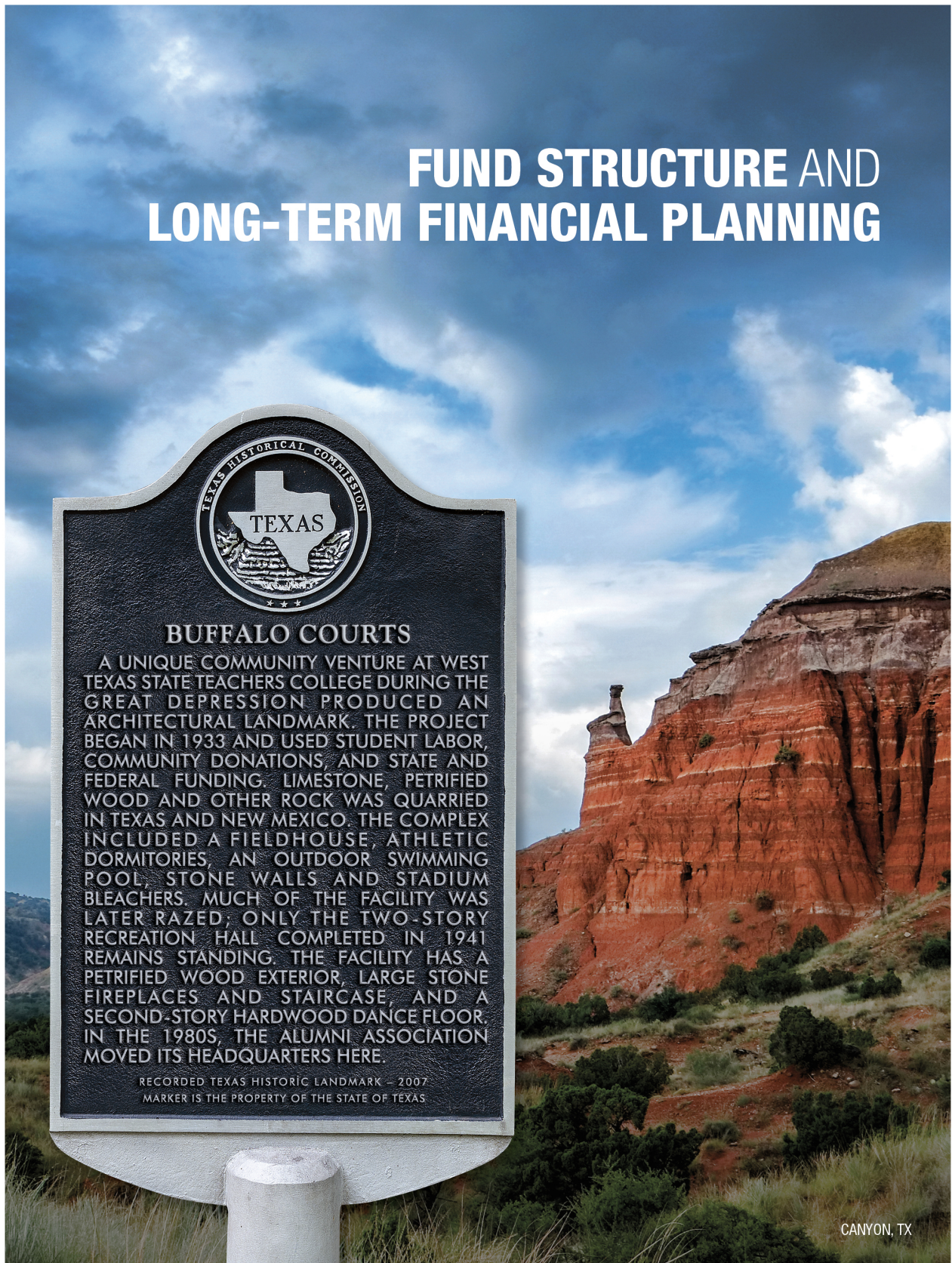
Expectations include:

- 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





# FUND STRUCTURE AND LONG-TERM FINANCIAL PLANNING



## 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 are included as part of the total fund expenses and represents less than 1% of the value of the Pension Trust Fund and TRS-Care. The Administrative Operating Budget for TRS-ActiveCare represents approximately 9% 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 5 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 changes to contributions and/or benefit levels TRS may consider recommending 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 funding policy every four years, to coincide with future experience studies conducted by the TRS actuary. The next Pension Benefit Design Study will take place after August 31, 2021.

## 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 7.70% of eligible compensation and is scheduled to increase to 8.00% beginning in FY 2022. There are over 910,000 actively contributing members in TRS, growing at a rate of approximately 3% per year. The state contribution rate is established in the General Appropriations Act (GAA) and statute. The current contribution rate is 7.50% of eligible compensation and is scheduled to increase to 7.75% beginning in FY 2022. Public education employers currently contribute 1.6% of payroll, and is scheduled to increase to 1.7% in FY 2022. There were 1,340 contributing employer entities for FY 2020.

During the 2019 86<sup>th</sup> 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 as follows:

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

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. For FY 2020 to FY 2025, the current funding policy states that TRS should request funding in its LAR for the statutorily required contribution rates established by Senate Bill 12, 86<sup>th</sup> Legislature, 2019.

Beginning in FY 2026, the current funding policy states that TRS will determine the appropriate contribution rate to request in the LAR. If after the

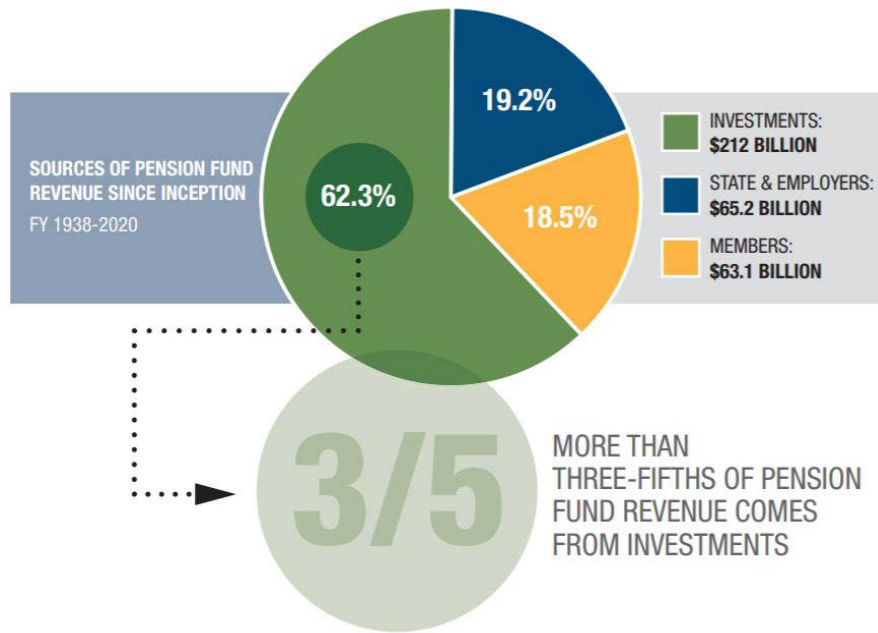
phase-in of all contribution rates, the unfunded liability for the pension fund is not projected to begin to decline by the fifth year following a current valuation, TRS will request contribution rate increases in its LAR sufficient to begin to reduce the unfunded liability of the System during the next biennium following the 2027 legislative session.

The funding policy adopted by the Board provides a strong step towards changing the focus towards reducing the unfunded actuarial accrued liability (UAAL) over time.

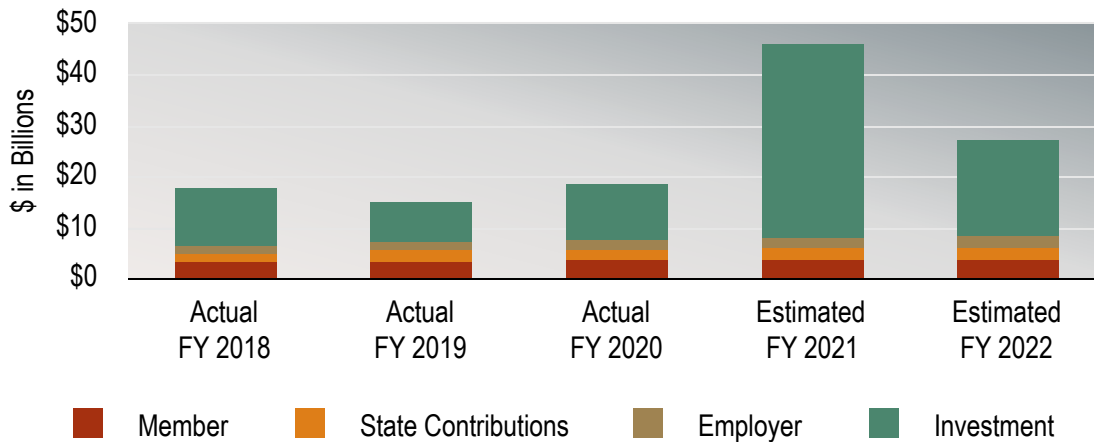
The UAAL represents the difference between the retirement system's assets and the benefits owed to current and future retirees. The plan finances benefits by investing funds seeking to achieve the assumed rate of return. For TRS, the assumed rate of return is 7.25%. The invested assets of the Pension Trust Fund are a major contributor of resources used to pay annuitants. Since the fund's inception in 1938, 62.3% of all trust fund revenue is related to investments.

### Benefits & Expenses

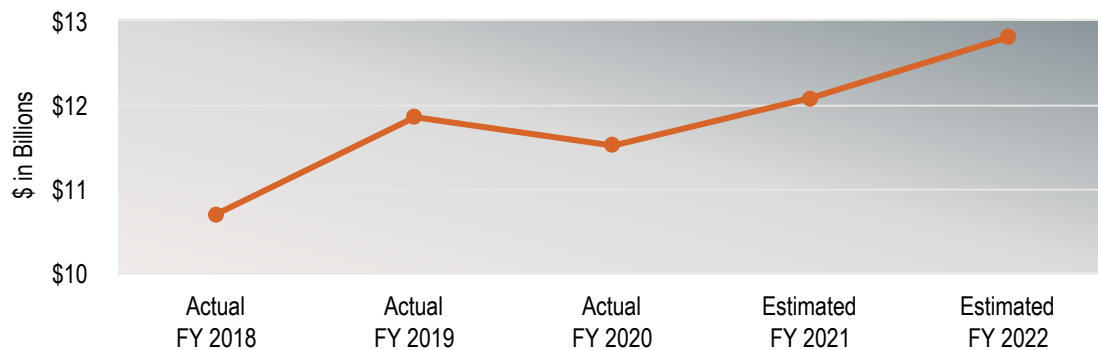
Benefits paid generally grow 6% per year. Administrative expenses for benefit operations are increasing due to an increased focus on customer service and meeting service levels. Investing costs are generally netted against investment returns. Reduced investing costs going forward should support investment returns.



### Pension Trust Fund Revenues



### Benefits Paid



## Pension Trust Fund Projections

Pension Trust Fund	Actual FY 2020	Estimated FY 2021	Estimated FY 2022	Variance FY 2021 to FY 2022
Member Contributions	3,783,150,153	3,893,933,340	4,010,751,340	3%
State Contributions (Appropriated)	2,111,502,439	2,395,024,620	2,466,875,359	3%
Employer Contributions	2,044,089,460	1,943,157,060	2,001,451,772	3%
Investment Income & Other Revenue	11,079,183,088	38,142,685,035	18,884,804,545	(50)%
<b>Total Revenues</b>	<b>19,017,925,140</b>	<b>46,374,800,055</b>	<b>27,363,883,016</b>	<b>(41)%</b>
Benefits Paid	11,512,743,092	12,080,369,821	12,805,192,010	6%
Admin Expenses - Appropriated (excluding investing activity expenses)	67,135,880	80,675,477	85,516,006	6%
<b>Total Expenses</b>	<b>11,579,878,972</b>	<b>12,161,045,298</b>	<b>12,890,708,016</b>	<b>6%</b>
Net Increase (Decrease)	7,438,046,168	34,213,754,757	14,473,175,000	(58)%
Net Position, Beginning of Year	157,978,199,075	165,416,245,243	199,630,000,000	21%
<b>Net Position, End of Year</b>	<b>165,416,245,243</b>	<b>199,630,000,000</b>	<b>214,103,175,000</b>	<b>7%</b>

With an expected 3% annual growth in covered payroll, the member contributions amount should grow in the range of 3 to 6%. The state's share of employer contributions is appropriated to TRS by the Legislature. Employer contributions should follow suit since the basis of payroll, that is covered payroll, is the same as member contributions. Investment earnings are largely dependent on global market conditions and the asset allocation strategy. The annual rate of return on investments for the pension fund for the year ended Aug. 31, 2020 was 7.24%. The FY21 estimated net position balance approximates the fund balance, and the projected net position balance for FY22 reflects the assumed investment rate of return of 7.25%.

	Based on an Annual 4.25% Actual Investment Return on Market		Based on an Annual 7.25% Actual Investment Return on Market		Based on an Annual 10.25% Actual Investment Return on Market	
	Funded Ratio Measured By:					
August 31	Actuarial Value of Assets	Market Value of Assets	Actuarial Value of Assets	Market Value of Assets	Actuarial Value of Assets	Market Value of Assets
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2020	76.8%	75.9%	76.8%	75.9%	76.8%	75.9%
2021	76.4%	74.0%	76.8%	76.2%	77.4%	78.3%
2022	75.7%	72.3%	77.0%	76.7%	78.6%	81.1%
2023	74.7%	70.7%	77.3%	77.2%	80.3%	84.1%
2024	73.5%	69.2%	77.9%	77.9%	82.8%	87.4%
2025	72.0%	67.6%	78.6%	78.6%	85.7%	90.9%

The table above projects the actuarial status of the System as of August 31, 2020 based on varying actual investment returns over the next few years. All other assumptions are assumed to be met, including the continuation of the new statutory member and employer contribution rates.

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

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

Following the enactment of Senate Bill 1682, 86<sup>th</sup> 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. State legislative action provided TRS-Care a one-time payment of supplemental funding in the amount \$231 million to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium.



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.

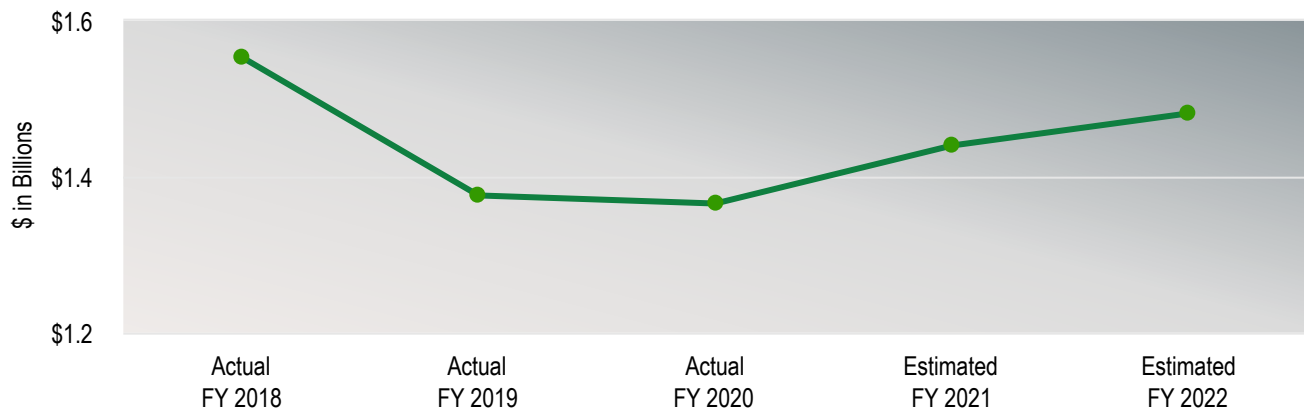
Federal revenue is dependent upon congressional action and continued program funding. Federal funds received are related to Medicare Part D which provide retiree prescription drug subsidy reimbursements on behalf of certain plan participants. Additional subsidies are received under TRS-Care's Employer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

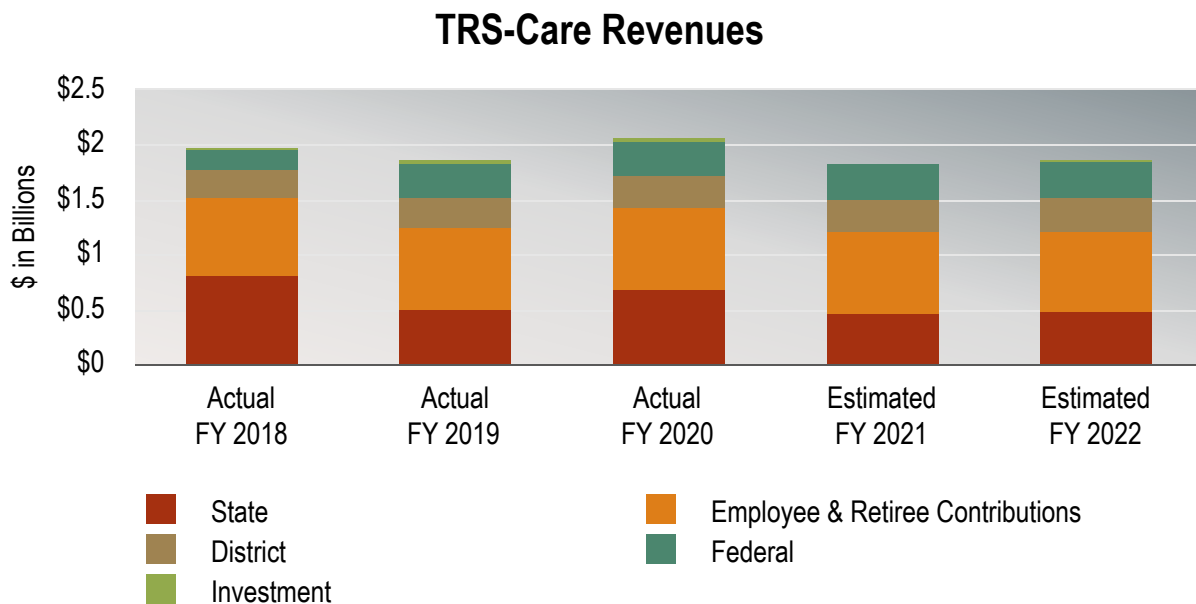
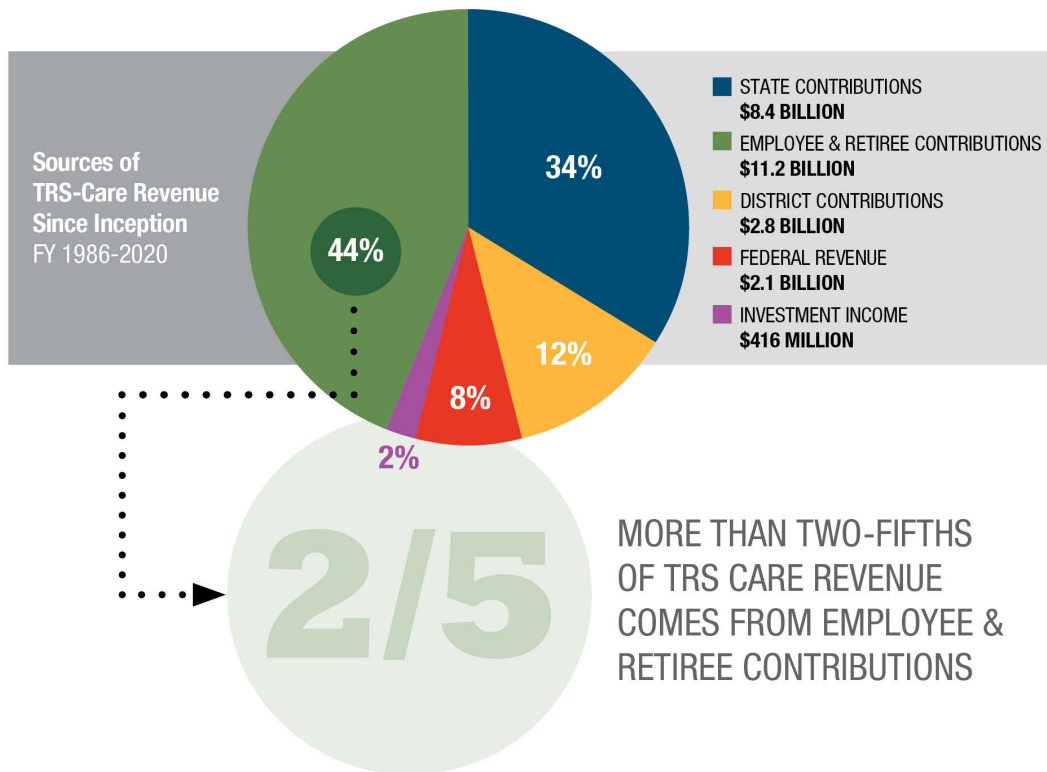
Investment income is earned on the cash balance that is maintained with the State of Texas Treasury.

### Benefits & Expenses

Health care claims expense, including pharmaceutical costs, have been declining over the last 5 years by an average of 2% through FY 2021. That trend 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. 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 87<sup>th</sup> Legislative Session and continued support of the health care line of business project and customer service.

### TRS-Care Claims Paid





## TRS-Care Projections

TRS-Care, Health Care Program for Retirees	Actual FY 2020	Estimated FY 2021	Estimated FY 2022	Variance FY 2021 to FY 2022
State Contributions (Appropriated)	699,087,971	483,217,962	487,251,571	1 %
Employee & Retiree Contributions	742,589,981	738,047,147	740,795,675	0 %
District Contributions	292,411,365	298,833,204	305,199,226	2 %
Federal Revenue	317,283,242	316,282,944	327,397,288	4 %
Investment Income	25,554,439	15,520,896	13,779,571	(11)%
<b>Total Revenues</b>	<b>2,076,926,998</b>	<b>1,851,902,153</b>	<b>1,874,423,331</b>	<b>1 %</b>
Health Care Claims Paid	1,365,562,805	1,439,947,490	1,481,243,146	3 %
Administrative Expenses	7,068,610	13,260,730	16,340,000	23 %
<b>Total Expenses</b>	<b>1,372,631,415</b>	<b>1,453,208,220</b>	<b>1,497,583,146</b>	<b>3 %</b>
Net Increase (Decrease)	704,295,583	398,693,933	376,840,185	(5)%
Net Position, Beginning of Year	1,292,022,349	1,996,317,932	2,395,011,865	20 %
<b>Net Position, End of Year</b>	<b>1,996,317,932</b>	<b>2,395,011,865</b>	<b>2,771,852,050</b>	<b>16 %</b>

The change in state contributions from FY 2020 to FY 2021 reflects the one-time supplemental contribution received in FY 2020. TRS does not anticipate that additional funding will be needed to maintain TRS-Care benefits at current levels through the 2022-23 biennium. 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 anticipated to be lower due to the assumed interest rate falling by nearly half in FY 2021 from the average FY 2020 comptroller rate. Increased FY 2022 Administrative Expenses includes full restoration of the contingency budget, additional staff to implement new mandates of the 87th Legislative Session, and continued support for the Healthcare line of business project and customer service.

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, and employee contributions. 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.

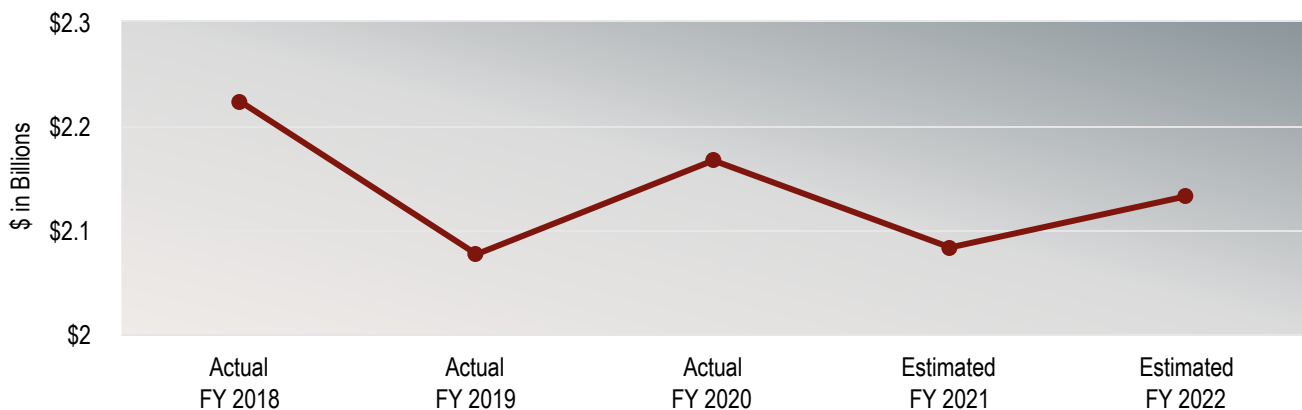
The other revenue category includes applicable federal revenue, payments for COBRA coverage, as well as reimbursements the state of Texas makes for the payment of benefits provided to TRS employees.

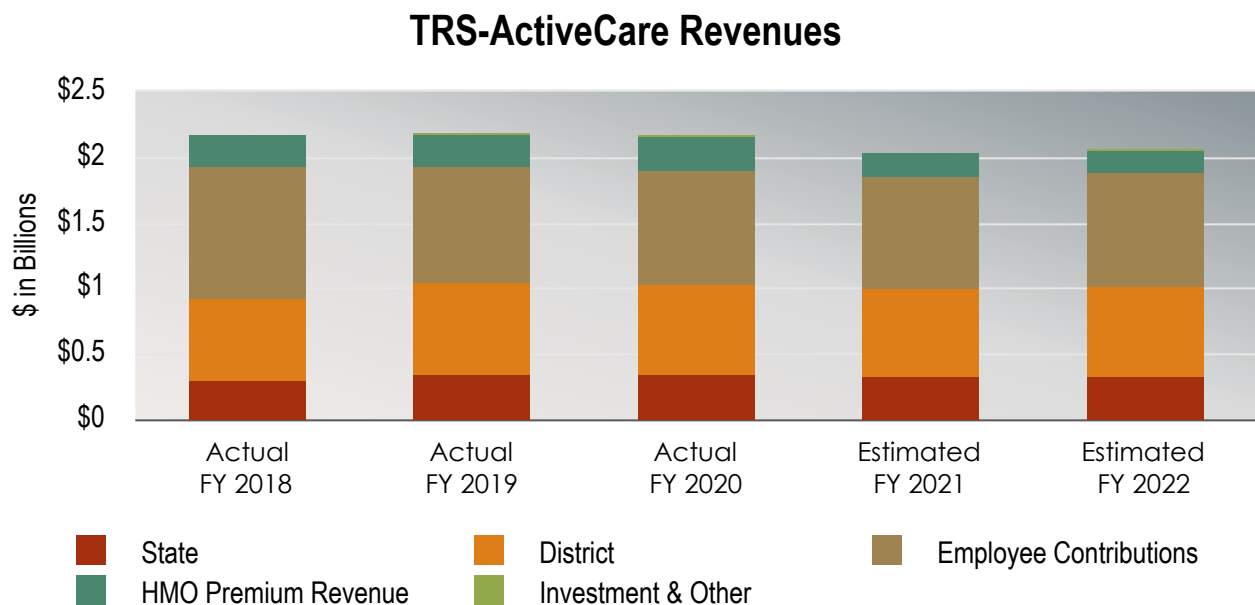
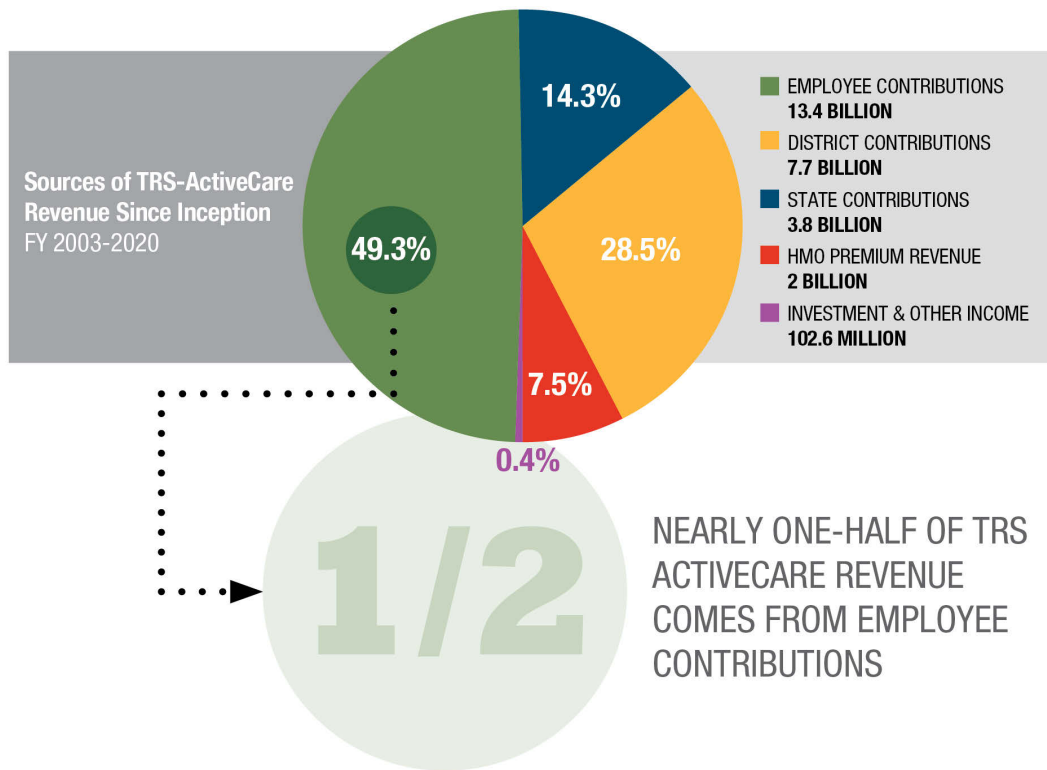
Investment income is earned on the cash balance that is maintained with the State of Texas Treasury. In FY 2020, TRS estimates that employees paid for 45% of the total premium, including cost sharing, employees paid for approximately 56% of their annual medical and pharmacy costs. Based on the school districts feedback on program improvements, the Board of Trustees approved changes that improved the affordability of TRS-ActiveCare for FY 2021 and lowered premiums for many participants, particularly those with children. Long-term affordability remains an issue.

### Benefits & Expenses

Health care claims expense, including pharmaceutical costs, have been declining over the last 5 years by an average of 1% through FY 2021. That trend is expected to increase slightly in the near term. Administrative expenses include an expected increase in actuarial and consulting support costs.

### TRS-ActiveCare Claims Paid







## TRS-ActiveCare Projections

TRS-ActiveCare, Health Care Program for Active Teachers	Actual FY 2020	Estimated FY 2021	Estimated FY 2022	Variance FY 2021 to FY 2022
Premiums*	2,165,714,462	2,041,402,334	2,063,961,499	1%
Investment Income	7,853,806	2,344,594	1,423,455	(39)%
Other Revenue	413,313	413,313	413,313	—%
<b>Total Revenues</b>	<b>2,173,981,581</b>	<b>2,044,160,241</b>	<b>2,065,798,267</b>	<b>1%</b>
Health Care Claims Paid	2,166,889,281	2,083,202,648	2,132,571,813	2%
Administrative Expenses	3,746,187	3,790,818	4,230,000	12%
<b>Total Expenses</b>	<b>2,170,635,468</b>	<b>2,086,993,466</b>	<b>2,136,801,813</b>	<b>2%</b>
Net Increase (Decrease)	3,346,113	(42,833,225)	(71,003,546)	66%
Net Position, Beginning of Year	164,953,231	168,299,344	125,466,119	(25)%
<b>Net Position, End of Year</b>	<b>168,299,344</b>	<b>125,466,119</b>	<b>54,462,573</b>	<b>(57)%</b>

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

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

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 assumed interest rate falling by nearly half in FY 2021 from the average FY 2020 comptroller rate. Increased FY 2022 Administrative Expenses includes full restoration of the contingency budget, actuarial and consulting support costs.

The ActiveCare Fund balance is managed to prevent a deficit through premium and benefit adjustments.

## Administrative Operating Budget Structure

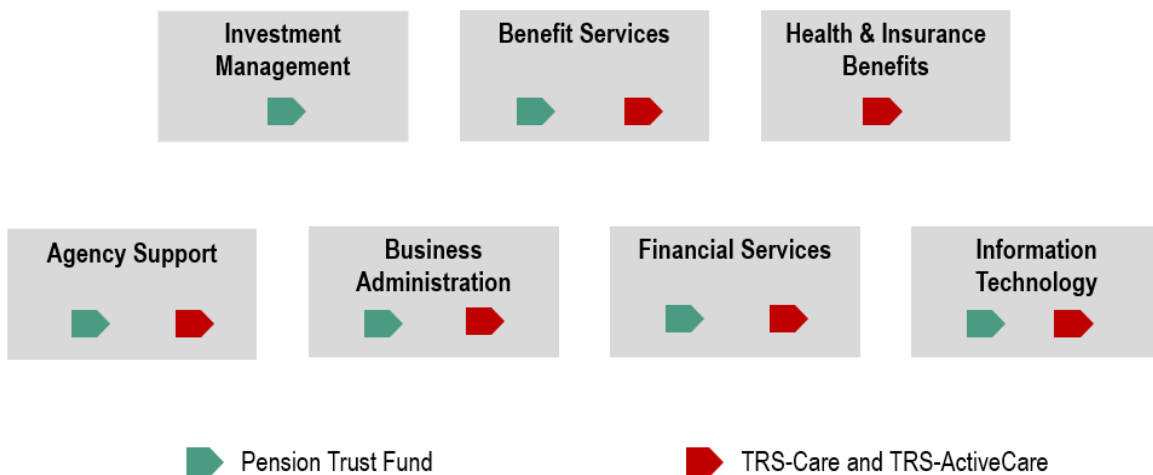
### Budgets and Appropriations

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

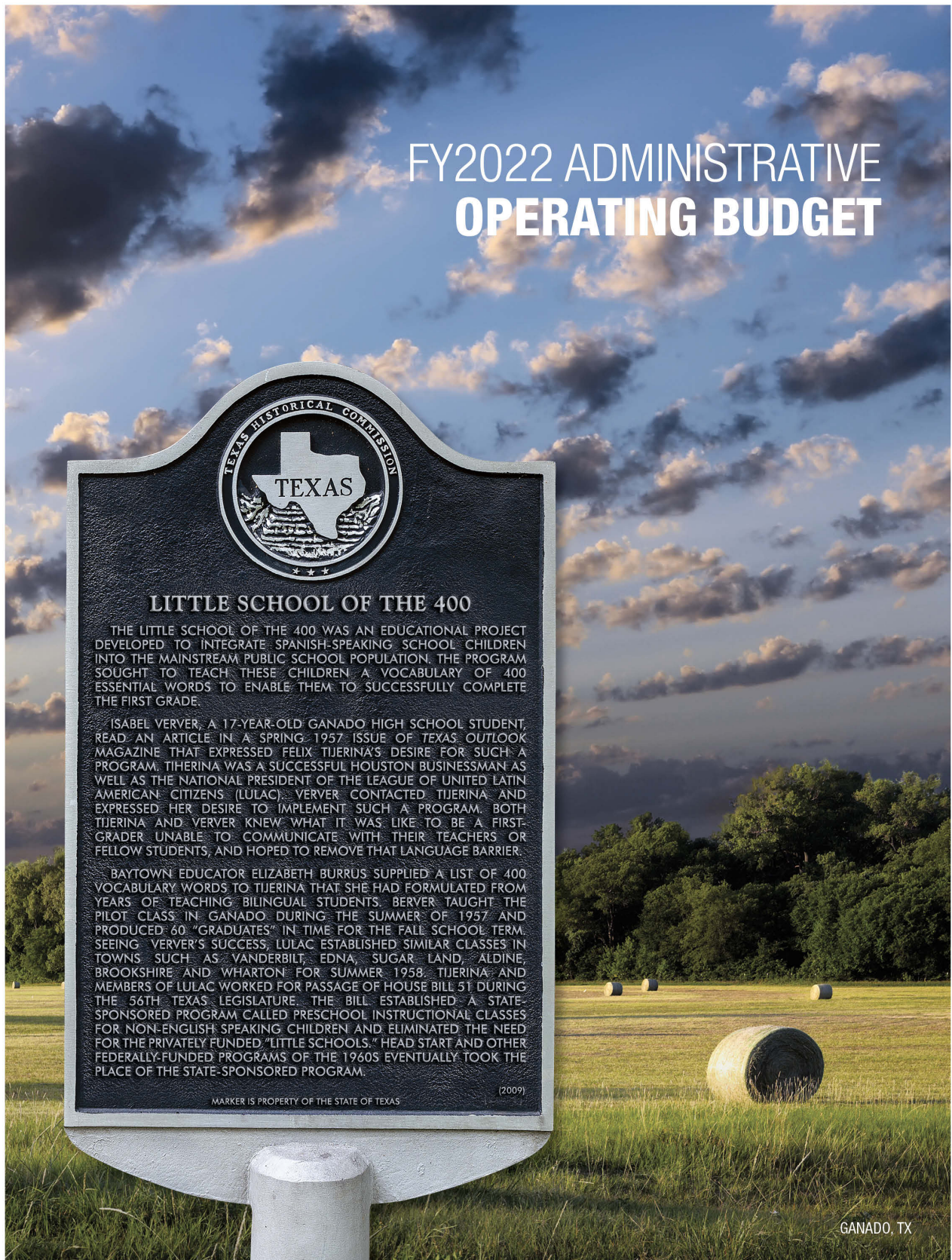
All of the divisions and departments within TRS are funded by the Pension Trust Fund with the exception of the Health Insurance Benefits Division. The Health Insurance Benefits Division is funded with health care funds which includes both TRS-Care and TRS-ActiveCare. A cost allocation process is used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







# FY2022 ADMINISTRATIVE OPERATING BUDGET



## PENSION TRUST FUND AND COMMISSION CREDITS

### Administrative Operations

	Pension Trust Fund	Commission Credits	FY 2022 Budget	FY 2021 Budget
<b>Sources of Funds</b>				
Legislative Appropriations	143,785,462	—	143,785,462	138,233,165
Investment Compensation Plan	4,500,000	—	4,500,000	—
TEAM/CAPPS Unexpended Balances	—	—	—	6,684,436
Fringe Benefits	26,380,138	—	26,380,138	22,706,190
Performance Incentive Compensation	15,000,000	—	15,000,000	21,594,675
Commission Credits	—	27,111,400	27,111,400	26,808,681
<b>Total Sources</b>	<b>189,665,600</b>	<b>27,111,400</b>	<b>216,777,000</b>	<b>216,027,147</b>
<b>Uses of Funds</b>				
Wages and Benefits	116,393,885	—	116,393,885	100,977,419
Performance Incentive Compensation	15,000,000	—	15,000,000	12,594,675
Professional Fees and Services	21,543,863	9,376,300	30,920,163	22,452,739
Support Costs	9,742,100	—	9,742,100	11,288,013
Travel	2,173,400	—	2,173,400	764,107
Operating Costs	24,127,000	17,735,100	41,862,100	38,885,337
Capitalized Equipment	685,352	—	685,352	1,905,880
TEAM/CAPPS Unexpended Balances	—	—	—	6,684,436
Contingency	—	—	—	20,474,541
<b>Total Uses</b>	<b>189,665,600</b>	<b>27,111,400</b>	<b>216,777,000</b>	<b>216,027,147</b>

#### 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 2022 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 2022 Budget	FY 2021 Budget
<b>Sources of Funds</b>				
Reserved for Administrative Operations	16,340,000	4,230,000	20,570,000	18,825,579
<b>Total Sources</b>	<b>16,340,000</b>	<b>4,230,000</b>	<b>20,570,000</b>	<b>18,825,579</b>
<b>Uses of Funds</b>				
Wages and Benefits	11,298,700	1,814,000	13,112,700	10,960,284
Professional Fees and Services	4,482,000	2,320,000	6,802,000	6,082,609
Support Costs	15,000	4,500	19,500	6,550
Travel	204,400	30,500	234,900	34,900
Operating Costs	339,900	61,000	400,900	525,777
Contingency	—	—	—	1,215,459
<b>Total Uses</b>	<b>16,340,000</b>	<b>4,230,000</b>	<b>20,570,000</b>	<b>18,825,579</b>

### Health and Insurance Benefits

TRS is authorized by Chapter 1575, Texas Government Code (TRS-Care); Chapter 1579 (TRS-ActiveCare); and Chapter 1576, Texas Government Code (Long-Term Insurance Program) to provide 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.

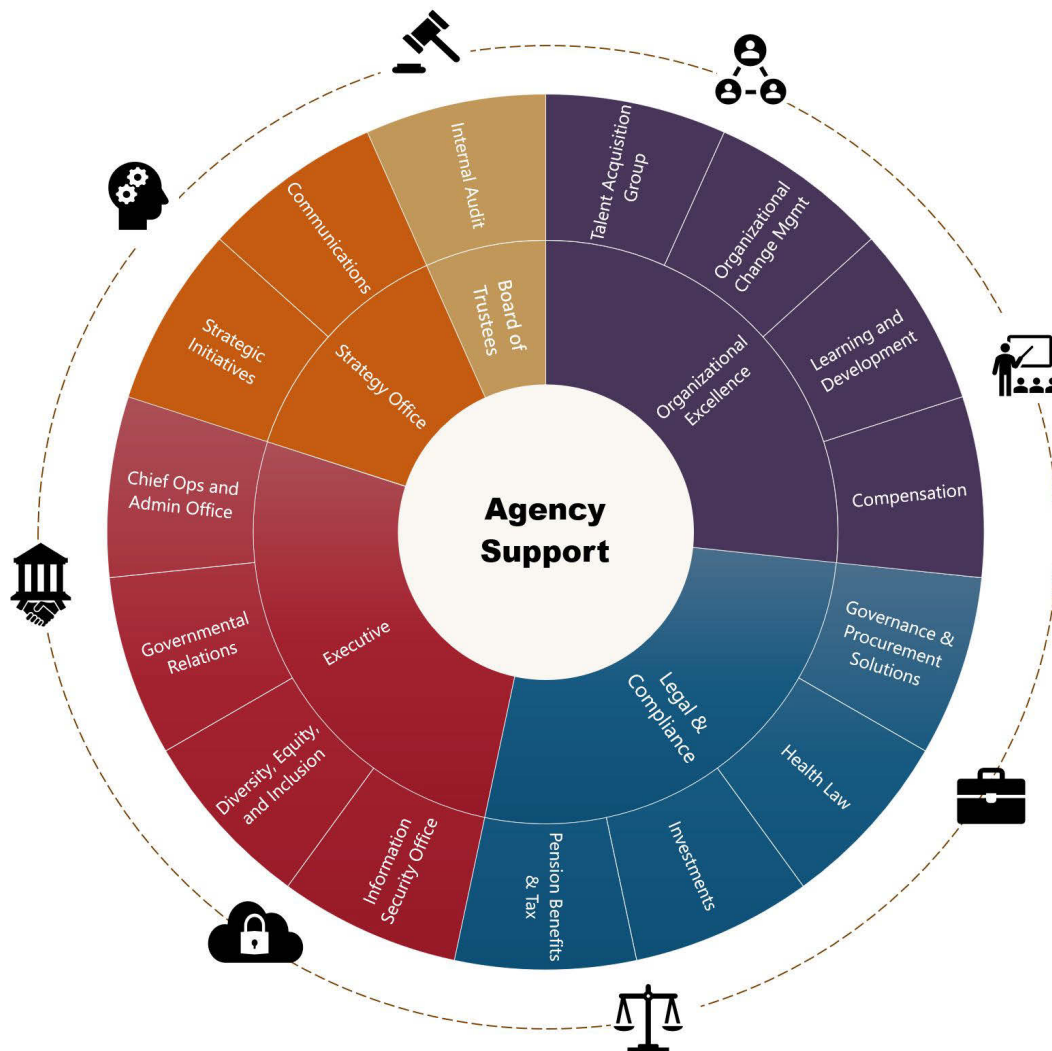
The chart above is a summary of the FY 2022 budget by fund for the Health and Insurance Benefits Program. The health care funds operate on a pay-as-you-go basis; collect revenue from members, employers, and the state; and use that funding to pay for claims and administrative operations. The amounts above are for administrative operations only and do not include claims expenses. Health care administrative budget is not appropriated by the Legislature.

# DIVISION EXPENSES AND GOALS

## Agency Support

### 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. Agency Support provides direction to the agency by developing and implementing strategies and programs to promote effective and responsible operations. Agency Support consists of a variety of oversight departments including the Executive Director, Chief Operations and Administration Officer, Diversity, Equity, and Inclusion, Information Security, Internal Audit, Legal & Compliance, Governmental Relations, Organizational Excellence, and Strategic Initiatives.



## Division Goals:

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

- Serving as the principle agency liaisons to the Board of Trustees as well as the primary representatives of TRS to the legislature and statewide elected leadership, Agency Support provides strategic direction, enterprise risk management, and operational oversight to all functions of the organization.
- Improving the organizations operations by providing objective assurance and building a systematic approach to evaluate and enhance the governance process. Offering effective solutions for communicating with TRS members and other stakeholders, Agency support provides expert legal advice and consulting services to business areas, enabling sound decision making by TRS trustees and staff, reinforcing Agency Support's role as a trusted business partner and integrating a culture of ethics and compliance that is consistent with TRS Core Values strengthening and protecting the organizational value.
- TRS strives to promote a strong workplace culture, improving diversity representation, creating an inclusive work environment that fosters creativity and innovation, and increasing developmental opportunities.
- Providing a secure computing environment that ensures data privacy and integrity through a strong information security program.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	21,611,545	19,594,200	24,208,424
Professional Fees and Services	2,127,061	4,394,333	4,128,489
Other Operating Expenses	1,934,073	2,107,671	2,576,263
<b>Expense Category Total</b>	<b>25,672,679</b>	<b>26,096,204</b>	<b>30,913,176</b>

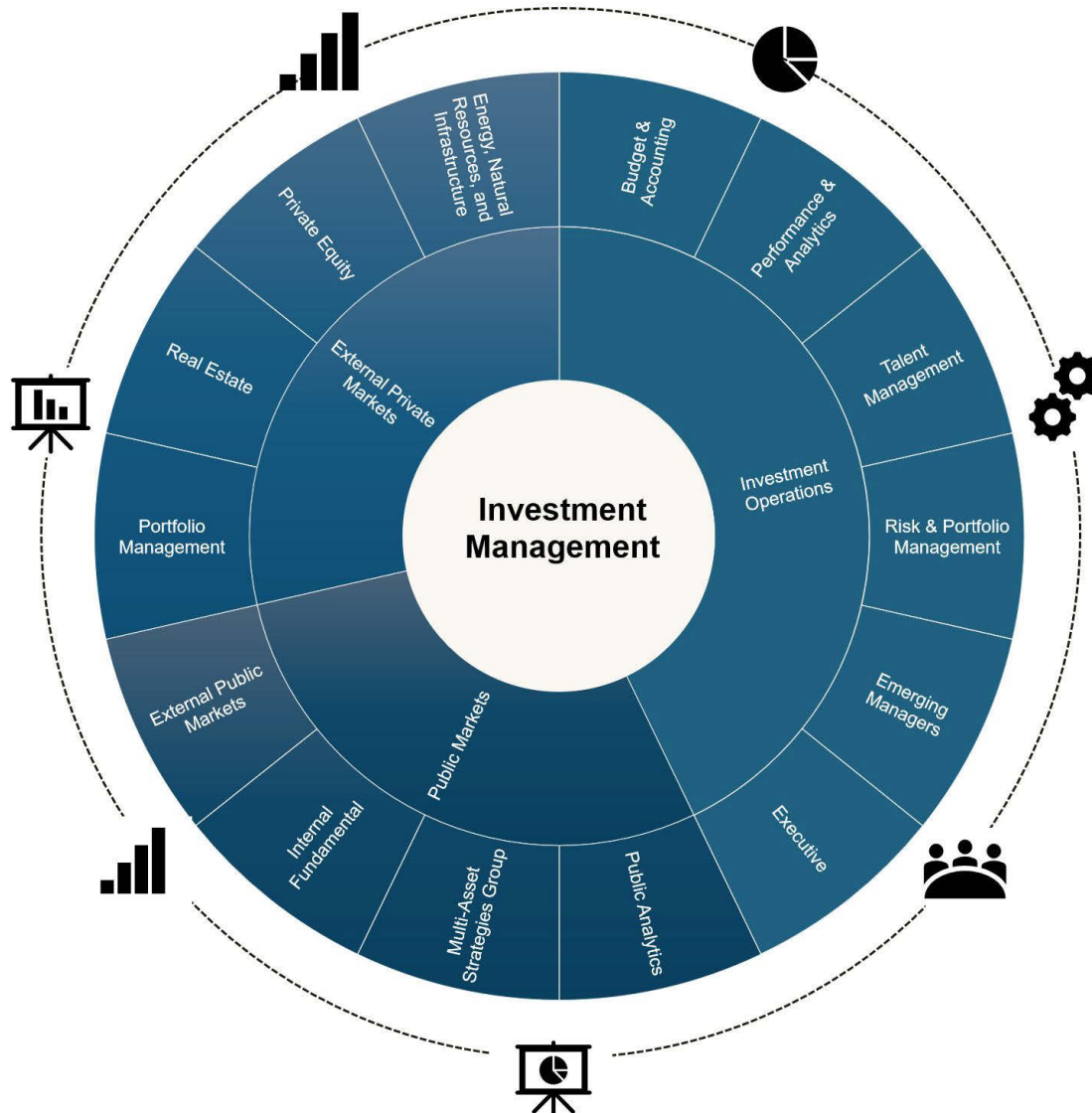
Key Performance Indicators (KPI)	Annual Target
Employee satisfaction index score (Engage/Top Workplaces survey)	4.0 or greater
TRS voluntary turnover rate vs. state turnover rate	50% or less of state avg
Cultural intelligence training (cumulative)	4
Train 100% of staff on ethical standards annually	100%
Maintain current policies and procedures	100%
Respond to 100% of customer inquiries received via social media within 4 hours on business days	100%
Respond to 100% of media inquiries received within 1 business day	100%
Enhance outreach program to increase awareness of cybersecurity best practices	85%
Foster TRS leadership engagement for cybersecurity initiatives	95%

# DIVISION EXPENSES AND GOALS

## Investment Management

### Purpose:

The Investment Management Division (IMD) strives to be a best-in-class global investment management fund. IMD is responsible for implementing investment policies within approved guidelines, maximizing effectiveness of resources provided, delivering transparent reporting and pre-notification of pending external investments, complying with relevant laws, collaborating with audit processes, and implementing board objectives. IMD manages the Fund's assets with the objective to control risk through proper diversification of asset classes and by establishing long-term risk and return expectations.



## Division Goals:

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

- Serving the TRS core function of managing investments by ensuring that current and future workforce have the required skills and expertise to serve members, by monitoring business processes, easing the ability to perform TRS work from anywhere, any time, and across mostly any device.
- Providing advanced data analytics tools and data management practices to gain business intelligence and improve decision-making.
- Developing the technology platform to improve investment decision-making connectivity and collaboration.
- Enhancing investment operations capabilities prioritizing a culture of innovation to support productivity and cost effectiveness.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	41,933,702	47,756,288	59,177,514
Professional Fees and Services	7,531,371	8,843,804	11,599,267
Other Operating Expenses	19,314,226	25,236,991	24,598,119
<b>Expense Category Total</b>	<b>68,779,299</b>	<b>81,837,083</b>	<b>95,374,900</b>

Key Performance Indicators (KPI)	Annual Target
Return in excess of the benchmark return for the Total Trust (Three-Year Rolling)	+100 bp
Return in excess of the benchmark return for Private Markets investments (Three-Year Rolling)	+155 bp
Return in excess of the benchmark return for Active Public Markets investments (Three-Year Rolling)	+100 bp
Percent of portfolio capital plan in principal investments approved (cumulative year-to-date)	42%
Percent of internal public equity allocation	45%
External manager annual net fee savings	\$105M
Total return over three and five years relative to the Board's assumed rate of return	7.25%

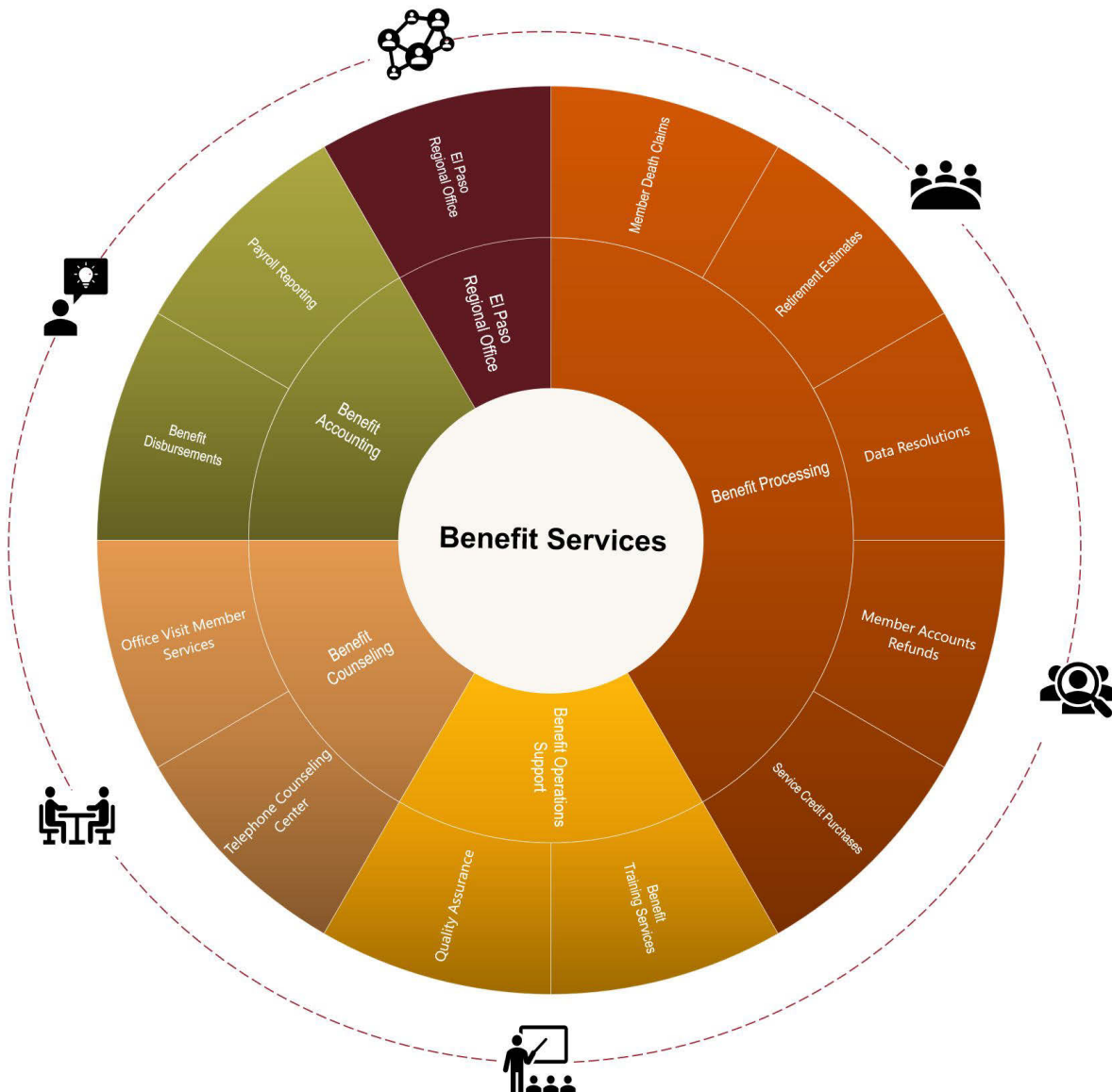


# DIVISION EXPENSES AND GOALS

## 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.



## Division Goals:

Aligning to the TRS Strategic Plan, Benefit Services continues to focus on improving the customer service experience. To ensure goals are met, Benefit Services monitors key benefit services-delivery activities to examine if service-delivery standards are being met, and to allow management to reallocate resources as needed.

- Providing exceptional customer service with a strong staff retention policy by maintaining competitive salaries and rewarding excellent performance. As membership continues to increase developing and maintaining a knowledge-based system is necessary for fostering a superior customer service experience.
- Delivering services that exceed expectations through year-round training and expansion of quality assurance reviews to the back-office processing key activities. TRS pension benefits are complex and training will enhance pension and health care knowledge.
- Continually improving the member and employer experience by understanding information delivery preferences and open more channels of communication, including chat and screen sharing. Members prefer face-to-face and telephone service; written communication and email correspondence. Employers prefer email correspondence, timely responses, and in-person training.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	15,099,732	18,437,859	17,822,202
Professional Fees and Services	539,170	1,342,085	1,814,200
Other Operating Expenses	109,399	171,351	712,998
<b>Expense Category Total</b>	<b>15,748,301</b>	<b>19,951,295</b>	<b>20,349,400</b>

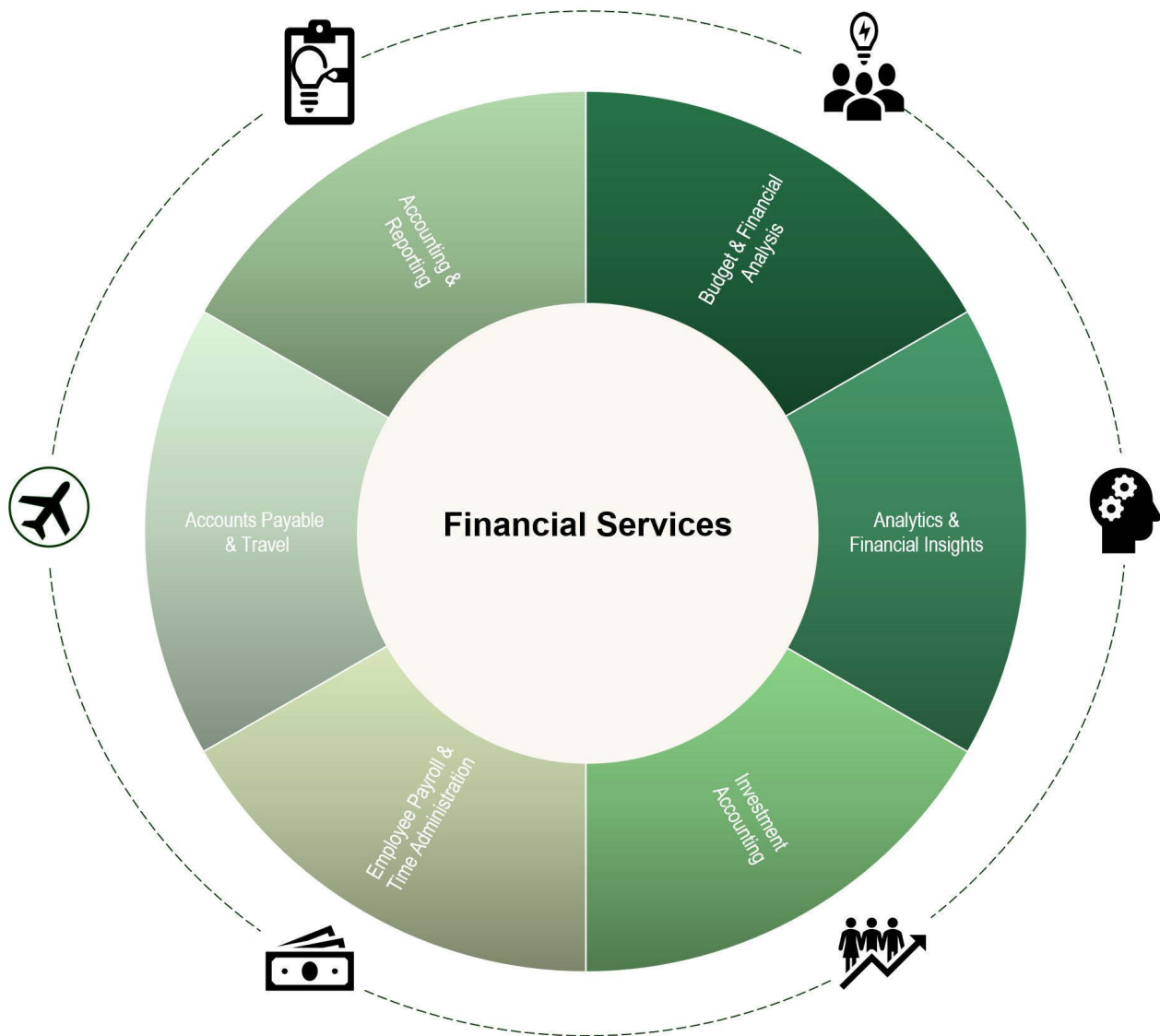
Key Performance Indicators (KPI)	Annual Target
Refunds validated within five business days of receiving final deposit and all paperwork	95%
Benefit estimates mailed within 31 days	90%
Retirees receiving first annuity payment within 31 days of TRS receiving required information or due date, whichever is later	98%
Claims acknowledged within 14 days of receipt of death notification	90%
Claims payments issued within 31 days of receipt of all required paperwork	95%
Calls answered within three minutes	80%
Available benefit counseling office visits (cumulative)	20,000
Regular payroll reports completed by the end of each quarter	90%
Perform quality assurance reviews for telephone counselors trained to take member calls (cumulative)	4,260
Regular Payroll reports completed by the end of each quarter	90%
Reporting entity workarounds	0

# DIVISION EXPENSES AND GOALS

## Financial Services

### Purpose:

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



## Division Goals:

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

- Processing employee compensation payments efficiently and maintain 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.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	2,827,482	3,156,061	3,725,118
Professional Fees and Services	894,306	863,306	649,400
Other Operating Expenses	50,555	22,137	135,082
<b>Expense Category Total</b>	<b>3,772,343</b>	<b>4,041,504</b>	<b>4,509,600</b>

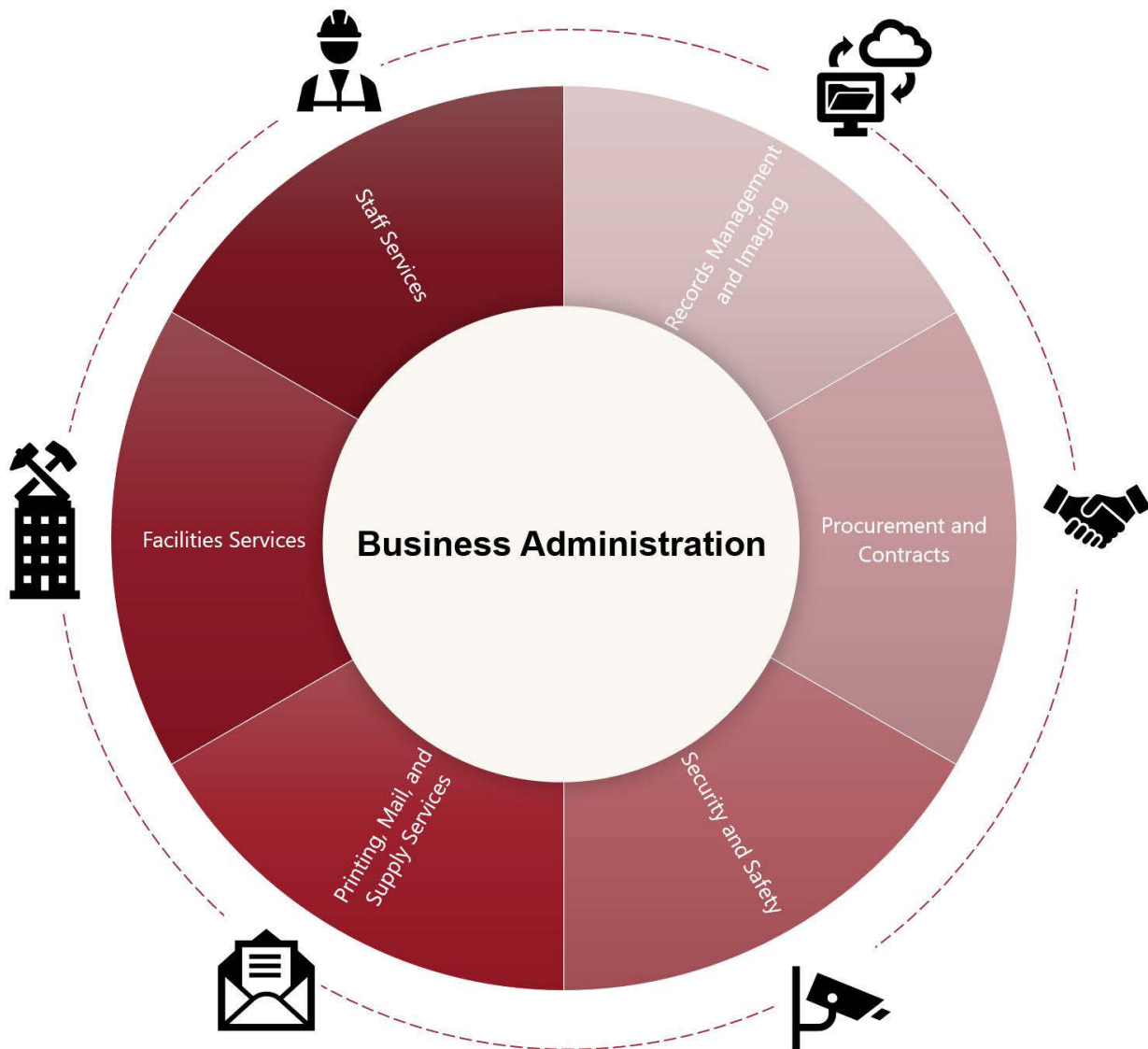
Key Performance Indicators (KPI)	Annual Target
Increase data analytics to identify reporting errors and missing information in TRUST	100%
Increase testing coverage of reporting employers	5

# DIVISION EXPENSES AND GOALS

## Business Administration

### Purpose:

The Business Administration Division is responsible for supporting the mission of TRS through customer-focused business operations that includes 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.





## Division Goals:

Aligning to the TRS Strategic Plan, 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.

- 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 long-term 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.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	4,373,403	5,046,183	5,073,708
Professional Fees and Services	153,399	517,032	1,091,500
Other Operating Expenses	5,509,941	9,700,387	8,321,192
<b>Expense Category Total</b>	<b>10,036,743</b>	<b>15,263,602</b>	<b>14,486,400</b>

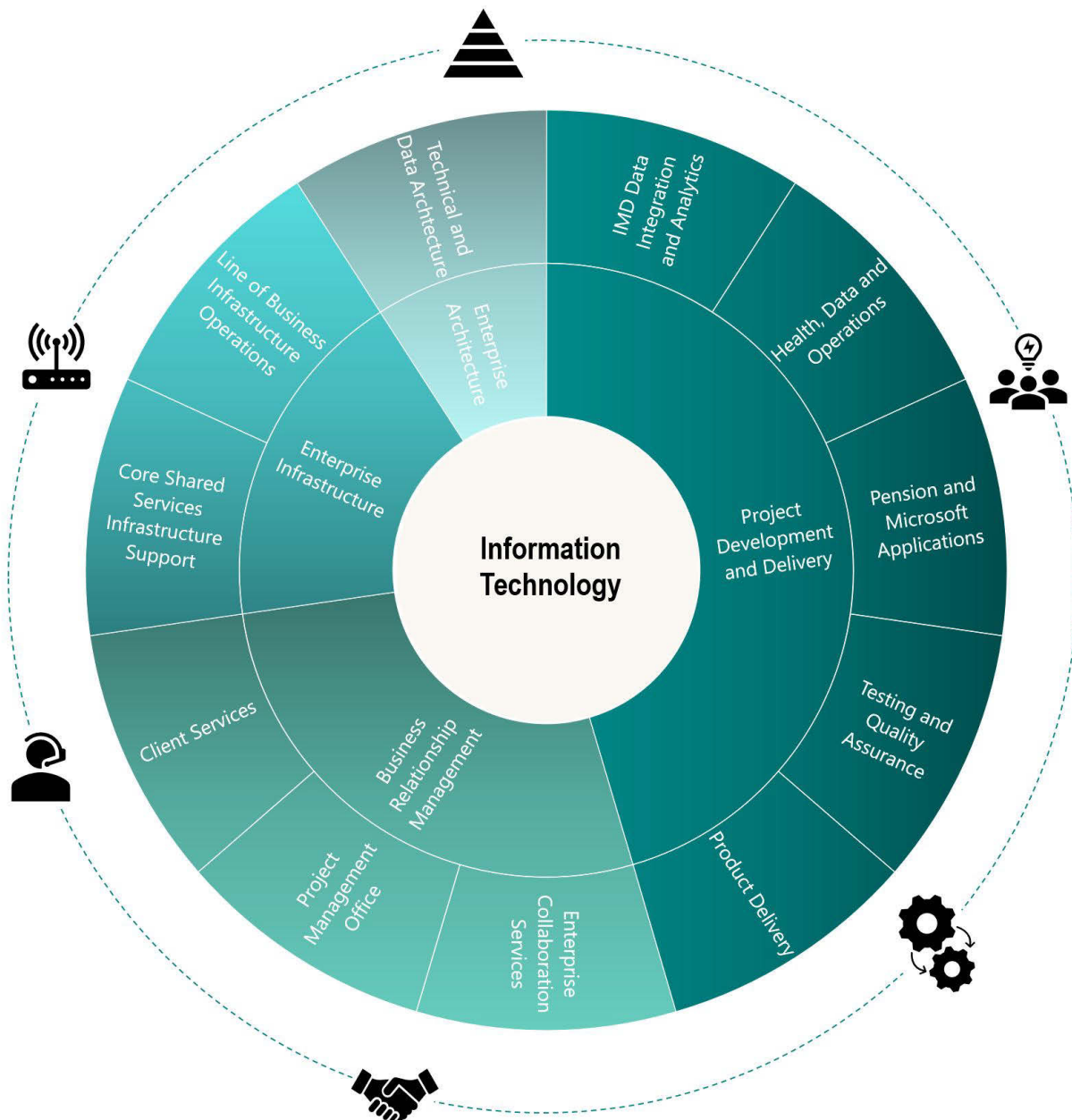
Key Performance Indicators (KPI)	Annual Target
Improve space optimization	TBD
Increase number of HUBs utilized for Commodities	30%
Increase number of HUBs utilized for Other Services	25%
Increase number of HUBs utilized for Professional Services	10%
Increase number of HUBs utilized for Special Trade	40%

# DIVISION EXPENSES AND GOALS

## Information Technology

### Purpose:

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



## Division Goals:

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

- Enterprise Infrastructure ensures TRS applications and services are reliable, available and secure. Supporting and maintaining the server, storage, imaging, networking and telecommunications environments that TRS requires to conduct its business and mission. The team also provides operational support for the TRS Data Center and Co-Location Data Center.
- The goal of Enterprise Architecture is to anticipate and prepare for changes that will be required to support business vision and desired outcomes. Providing management and oversight of the architectural frameworks and technology building blocks used at TRS.
- Product Development and Delivery provides support for the maintenance of current legacy and Line of Business applications as well as providing reporting and data analytics. Frequently serve as subject matter experts and consultants for determining the best solutions for TRS business units. Ensuring proposed changes to the production applications and technical infrastructure meet acceptable performance standards using previously determined performance baselines.
- Business Relationship Management manages Business partner facing activities for IT including promoting engagement, implementing effective governance for core process areas within IT, providing systems support to the TRS user community for complex PC hardware and software related questions and troubleshooting issues. Promoting enterprise process effectiveness and efficiency through innovation, training, collaboration, and supporting technologies concerning business analysis and project management activities.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	9,971,149	11,265,503	12,995,149
Professional Fees and Services	3,671,899	6,563,605	5,607,307
Other Operating Expenses	16,744,558	15,604,800	18,119,298
<b>Expense Category Total</b>	<b>30,387,606</b>	<b>33,433,908</b>	<b>36,721,754</b>

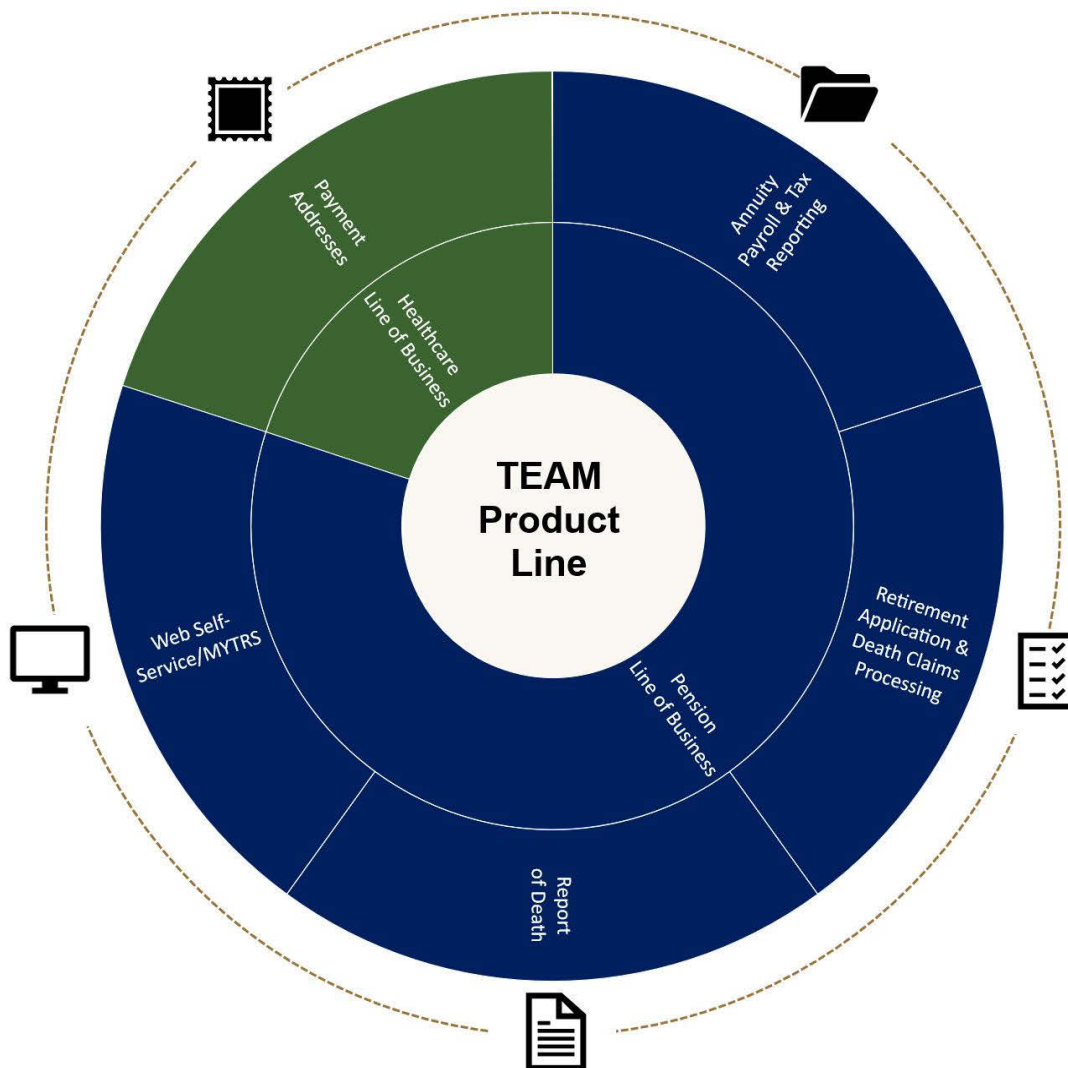
Key Performance Indicators (KPI)	Annual Target
Percent of network/systems uptime	99.9%
Percent of business-critical application uptime	99.5%
Percent of available system capacity	80.0%
Business customer satisfaction in overall system user experience	93.0%
Agency satisfaction rate of new digitalized workplace model	TBD
Time to remediate risks/vulnerabilities identified in penetration and vulnerability scans	30 days

# DIVISION EXPENSES AND GOALS

## TEAM Program

### Purpose:

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



## Division Goals:

Aligning to the TRS Strategic Plan, the TEAM Program objective is to implement a modern pension and healthcare benefit information systems.

- 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.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	7,962,896	10,002,343	10,043,200
Professional Fees and Services	9,143,887	7,848,894	7,280,000
Other Operating Expenses	896	—	—
<b>Expense Category Total</b>	<b>17,107,679</b>	<b>17,851,237</b>	<b>17,323,200</b>

Key Performance Indicators (KPI)	Annual 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%
Percent complete - Design, build, and test Pension LOB Web-Self Service Release	65%
Percent complete - Design, build, and test Pension Retirement Application & Death Claims Processing Release	13%
Percent complete - Design, build, and test Pension LOB Payroll & Tax Release	5%

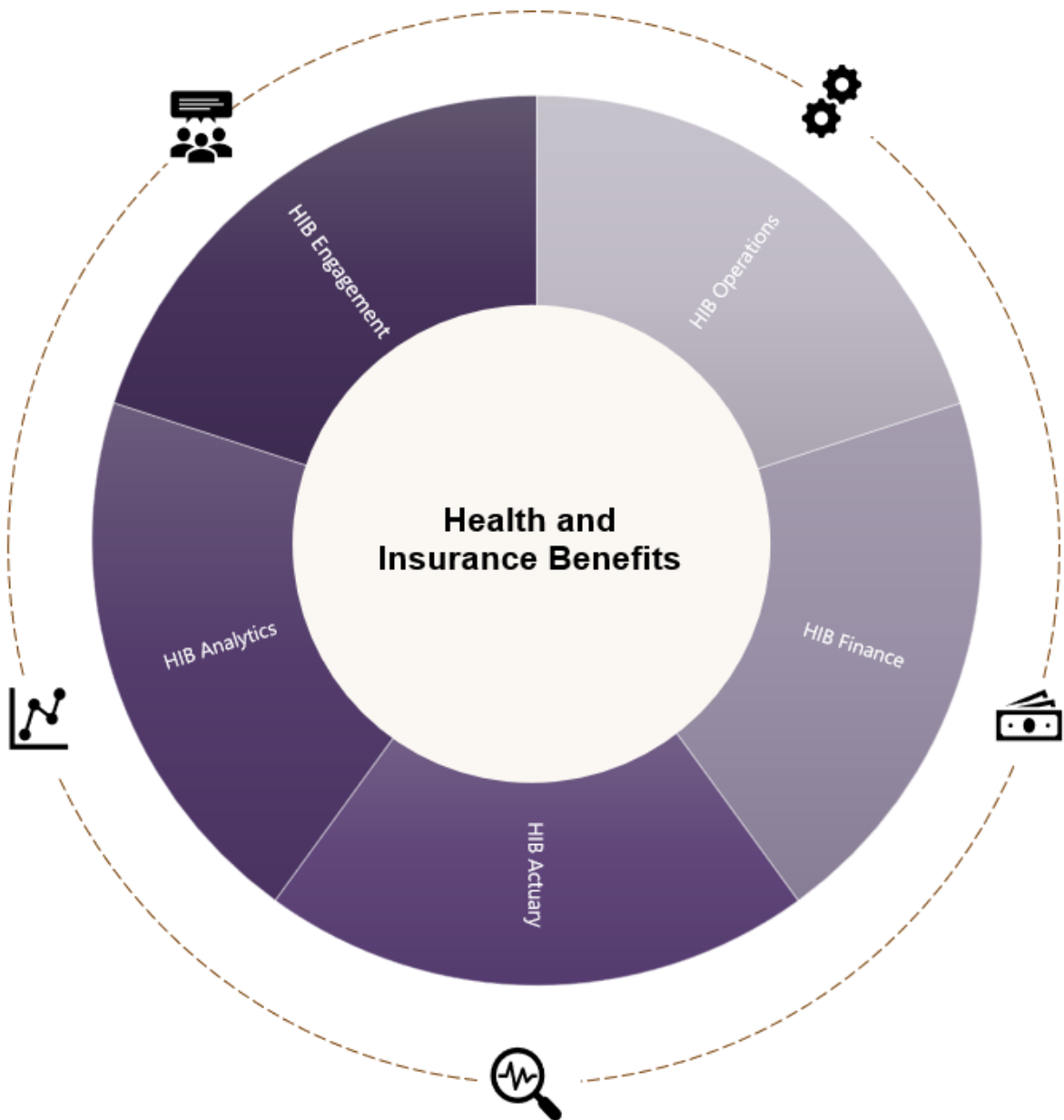


# DIVISION EXPENSES AND GOALS

## 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.



## Division Goals:

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

- Monitoring market trends, plan financial performance and member satisfaction with services provided to hold vendors accountable for meeting contract terms and achieving TRS' goals. Working collaboratively with vendors and providers to drive improvements in value.
- Leveraging access to healthcare data trends to inform decision making in providing better health outcomes to achieve health goals.
- Serving as a trusted resource and engaging with policymakers to ensure members have access to accurate and timely information that impact TRS members.
- Ensuring members have a positive and seamless customer service experience when they engage with TRS. Ensuring members' TRS-Care applications and other requests are processed timely, consistently and accurately by having counselors undergo intensive training on program eligibility requirements and health benefits available.
- Forecasting financial trends and estimating funding needs through analysis and coordination with actuaries to ensure that plan design changes maintain and encourage the use of high-value care, and revenues are sufficient to pay claims.
- Ensuring the long-term sustainability and affordability of the health care programs.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	6,734,852	8,112,648	10,265,900
Professional Fees and Services	2,891,864	4,846,725	5,552,000
Other Operating Expenses	155,567	567,227	655,300
<b>Expense Category Total</b>	<b>9,782,283</b>	<b>13,526,600</b>	<b>16,473,200</b>

Key Performance Indicators (KPI)	Annual Target
Cost savings associated with relying less on external vendors	150,000
Average annual increase in cost of claims experienced by TRS-Care and TRS-ActiveCare compared to S&P trend	<0%
Member engagement metrics as measured by percent of members who open the Pulse email and then click to read articles	23% email 3% articles
Number of TRS-Care participants engaged with a primary care provider	First year will serve as baseline
Number of TRS-ActiveCare participants engaged with a primary care provider	First year will serve as baseline

# DIVISION EXPENSES AND GOALS

## Contingency

### Purpose:

Aligning with state leadership direction, TRS will pursue cost-saving strategies operating within a 91% budget for fiscal year 2021; with the remaining budget held in a contingency account for items vital to the agency's mission, including but not limited to items determined by the Executive Director to be necessary to implement recommendations of the Sunset Advisory Commission, or to be lapsed and remain in the trust funds. The budget held in contingency related primarily to payroll budget savings resulting from a soft hiring freeze through at least December 2020 for positions that are not essential to Texas; COVID-19 response and limiting payroll increases including overtime/compensatory time, as well as a decrease in travel expenses. Additionally, operating expenses for each division were strategically reduced where they would have the smallest impact on agency goals and objectives.

Administrative Budget by Expense Category	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022
Salaries and Benefits	—	14,264,653	—
Professional Fees and Services	—	2,396,187	—
Other Operating Expenses	—	5,029,160	—
<b>Expense Category Total</b>	<b>—</b>	<b>21,690,000</b>	<b>—</b>

## Expenses by Fund

Pension Trust Fund					
	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Variance from FY 2021 to FY 2022	
Salaries and Wages	72,441,877	81,660,098	88,279,614	6,619,516	8 %
Longevity Pay	639,920	738,280	856,023	117,743	16 %
Retirement Contributions	4,926,048	6,079,540	7,118,138	1,038,598	17 %
Social Security Contributions	5,052,444	6,658,330	7,090,000	431,670	6 %
Health Insurance Contributions	8,140,608	9,860,296	12,069,000	2,208,704	22 %
Benefit Replacement Pay	34,480	48,024	43,000	(5,024)	(10)%
Other Employee Benefits	703,194	870,560	938,110	67,550	8 %
Performance Incentive Comp	10,727,566	21,594,675	15,000,000	(6,594,675)	(31)%
<b>Total Salaries and Benefits</b>	<b>102,666,137</b>	<b>127,509,803</b>	<b>131,393,885</b>	<b>3,884,082</b>	<b>3 %</b>
<b>Professional Fees and Services</b>	<b>17,562,972</b>	<b>23,851,444</b>	<b>21,543,863</b>	<b>(2,307,581)</b>	<b>(10)%</b>
Consumable Supplies, Fuels	275,653	467,584	526,749	59,165	13 %
Utilities	903,410	1,355,671	1,897,275	541,604	40 %
Travel	866,761	2,093,057	2,173,400	80,343	4 %
Rentals	3,941,172	5,399,910	5,331,080	(68,830)	(1)%
Dues, Fees, Staff Development	438,622	671,096	883,208	212,112	32 %
Subscriptions and Reference Information	520,855	154,527	131,730	(22,797)	(15)%
Printing and Reproduction	246,738	485,732	485,065	(667)	(0.14)%
Postage, Mailing, Delivery	2,513,668	3,172,152	2,667,500	(504,652)	(16)%
Software Purchases and Service	10,745,030	8,674,232	10,043,759	1,369,527	16 %
Computer Hardware Service	809,525	980,396	1,256,000	275,604	28 %
Miscellaneous Expenses	2,115,034	5,884,303	4,783,420	(1,100,883)	(19)%
Insurance Premiums	730,164	798,800	937,019	138,219	17 %
Furniture and Equipment - Expensed	2,352,246	1,600,881	2,939,299	1,338,418	84 %
Building/Equipment Maintenance	964,103	4,120,498	1,986,996	(2,133,502)	(52)%
<b>Total Operating Expenses</b>	<b>27,422,981</b>	<b>35,858,839</b>	<b>36,042,500</b>	<b>183,661</b>	<b>1 %</b>
<b>Furniture and Equipment - Capitalized</b>	<b>1,397,751</b>	<b>1,998,380</b>	<b>685,352</b>	<b>(1,313,028)</b>	<b>(66)%</b>
<b>Grand Total</b>	<b>149,049,841</b>	<b>189,218,466</b>	<b>189,665,600</b>	<b>447,134</b>	<b>0.24 %</b>

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

The FY 2022 Administrative Operating Budget funded by the Pension Trust Fund includes full restoration of the contingency budget, funding for increasing Investment base compensation rates, expanding member services by opening a pilot regional office in El Paso providing additional counseling services in the region, developing internal technologies and infrastructure, and reducing our reliance on more expensive contract services.

## Expenses by Fund

Commission Credits					
	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Variance from FY 2021 to FY 2022	
Professional Fees and Services	6,104,110	7,177,647	9,376,300	2,198,653	31 %
Rent, Building and Parking	491,704	—	—	—	0 %
Dues, Fees, Staff Development	64,290	68,876	68,800	(76)	(0.11)%
Subscriptions and Reference Information	80,977	1,104,651	106,800	(997,851)	(90)%
Software Purchases and Service	—	1,184,378	1,744,800	560,422	47 %
Miscellaneous Expenses	14,187,548	17,250,937	15,814,700	(1,436,237)	(8)%
Furniture & Equipment	18,354	22,192	—	(22,192)	(100)%
Other Operating Expenses	14,842,873	19,631,034	17,735,100	(1,895,934)	(10)%
<b>Total Expenses</b>	<b>20,946,983</b>	<b>26,808,681</b>	<b>27,111,400</b>	<b>302,719</b>	<b>1 %</b>
Revenue Sources					
State Street Bank Partnership Agreement	7,800,028	6,000,000	6,000,000	—	— %
Commission Sharing	12,913,241	20,429,011	20,911,400	482,389	2 %
Commission Recapture	233,714	379,670	200,000	(179,670)	(47)%
<b>Total Revenue</b>	<b>20,946,983</b>	<b>26,808,681</b>	<b>27,111,400</b>	<b>302,719</b>	<b>1 %</b>

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

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 2022 Administrative Operating Budget funded by Commission Credits includes full restoration of the contingency budget and funding for investment research, data services and reference materials, seminars/conferences, portfolio management services, professional services, and information systems.



## Expenses by Fund

TRS-Care Fund					
	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Variance from FY 2021 to FY 2022	
<b>Salaries and Wages</b>	5,411,367	7,534,787	8,943,000	1,408,213	19 %
<b>Longevity Pay</b>	61,960	74,940	81,500	6,560	9 %
<b>Retirement Contributions</b>	252,839	501,180	661,800	160,620	32 %
<b>Social Security Contributions</b>	398,817	539,250	659,700	120,450	22 %
<b>Health Insurance Contributions</b>	577,717	747,600	854,000	106,400	14 %
<b>Benefit Replacement Pay</b>	3,094	4,129	3,200	(929)	(22)%
<b>Other Employee Benefits</b>	62,477	77,860	95,500	17,640	23 %
<b>Total Salaries and Benefits</b>	<b>6,768,271</b>	<b>9,479,746</b>	<b>11,298,700</b>	<b>1,818,954</b>	<b>19 %</b>
<b>Professional Fees and Services</b>	<b>2,073,248</b>	<b>4,238,758</b>	<b>4,482,000</b>	<b>243,242</b>	<b>6 %</b>
<b>Consumable Supplies</b>	732	7,416	7,500	84	1 %
<b>Utilities</b>	289	7,616	7,500	(116)	(2)%
<b>Travel</b>	28,113	204,352	204,400	48	0.02 %
<b>Rentals</b>	—	1,341	—	(1,341)	(100)%
<b>Dues, Fees, Staff Development</b>	25,852	23,106	31,100	7,994	35 %
<b>Subscriptions and Reference Information</b>	736	8,283	6,300	(1,983)	(24)%
<b>Printing and Reproduction</b>	—	89,417	—	(89,417)	(100)%
<b>Postage, Mailing, Delivery</b>	—	3,987	—	(3,987)	(100)%
<b>Miscellaneous Expenses</b>	59,887	455,095	295,000	(160,095)	(35)%
<b>Furniture and Equipment</b>	494	7,416	7,500	84	1 %
<b>Building/Equipment Maintenance</b>	—	465	—	(465)	(100)%
<b>Total Operating Expenses</b>	<b>116,103</b>	<b>808,494</b>	<b>559,300</b>	<b>(249,194)</b>	<b>(31)%</b>
<b>Grand Total</b>	<b>8,957,622</b>	<b>14,526,998</b>	<b>16,340,000</b>	<b>1,813,002</b>	<b>12 %</b>

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

The FY 2022 Administrative Operating Budget funded by the TRS-Care Fund includes full restoration of the contingency budget and the 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 87<sup>th</sup> Legislative Session, continued support for the HILOB project, and customer service.

## Expenses by Fund

TRS-ActiveCare Fund					
	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Variance from FY 2021 to FY 2022	
Salaries and Wages	1,563,192	1,424,870	1,435,000	10,130	1 %
Longevity Pay	17,880	18,560	19,300	740	4 %
Retirement Contributions	106,297	97,940	103,300	5,360	5 %
Social Security Contributions	111,801	101,400	103,600	2,200	2 %
Health Insurance Contributions	181,232	145,630	133,400	(12,230)	(8)%
Benefit Replacement Pay	1,031	1,032	1,100	68	7 %
Other Employee Benefits	21,183	18,050	18,300	250	1 %
<b>Total Salaries and Benefits</b>	<b>2,002,616</b>	<b>1,807,482</b>	<b>1,814,000</b>	<b>6,518</b>	<b>0.36 %</b>
Professional Fees and Services	1,212,627	2,348,122	2,320,000	(28,122)	(1)%
Consumable Supplies	—	3,193	3,000	(193)	(6)%
Utilities	96	1,545	1,500	(45)	(3)%
Travel	9,641	57,356	30,500	(26,856)	(47)%
Rentals	—	576	—	(576)	(100)%
Dues, Fees, Staff Development	11,615	29,946	30,000	54	0.18 %
Subscriptions and Reference Information	186	1,030	1,000	(30)	(3)%
Printing and Reproduction	211	82	—	(82)	(100)%
Postage, Mailing, Delivery	—	152	—	(152)	(100)%
Miscellaneous Expenses	17,684	42,993	25,000	(17,993)	(42)%
Furniture and Equipment	74	3,941	5,000	1,059	27 %
Building/Equipment Maintenance	—	2,163	—	(2,163)	(100)%
<b>Total Operating Expenses</b>	<b>39,507</b>	<b>142,977</b>	<b>96,000</b>	<b>(46,977)</b>	<b>(33)%</b>
<b>Grand Total</b>	<b>3,254,750</b>	<b>4,298,581</b>	<b>4,230,000</b>	<b>(68,581)</b>	<b>(2)%</b>

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

The FY 2022 Administrative Operating Budget funded by the TRS-ActiveCare Fund includes full restoration of the contingency budget and the administrative expenses supporting the costs associated with the TRS employees who operate TRS-ActiveCare. The overall decrease for the FY 2022 Administrative Budget for the TRS-ActiveCare Fund is primarily attributed to the discontinuation of the Long-Term Care program due to insurance companies discontinuing related services and increasing rates.

## Expenses by Department

Department/Division	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Variance from FY 2021 to FY 2022	
Board of Trustees	146,126	565,900	210,500	(355,400)	(63)%
Executive	553,820	548,922	739,550	190,628	35 %
Chief Operations and Administration Office	268,301	469,532	433,830	(35,702)	(8)%
Diversity, Equity, and Inclusion	189,576	245,276	444,920	199,644	81 %
Internal Audit	1,828,447	3,078,013	3,274,400	196,387	6 %
Legal & Compliance	6,486,906	7,924,434	8,833,000	908,566	11 %
Governmental Relations	400,649	341,074	368,000	26,926	8 %
Strategic Initiatives	1,179,072	1,985,004	1,943,876	(41,128)	(2)%
Risk Management & Strategic Planning	358,644	—	—	—	0 %
Communications	1,225,625	1,522,720	1,933,900	411,180	27 %
Organizational Excellence	3,997,648	4,686,932	4,894,700	207,768	4 %
Information Security Office	922,263	1,161,293	1,195,370	34,077	3 %
Administrative Costs*	9,037,865	4,728,397	7,836,500	3,108,103	66 %
<b>Agency Support</b>	<b>26,594,942</b>	<b>27,257,497</b>	<b>32,108,546</b>	<b>4,851,049</b>	<b>18 %</b>
Investment Operations	45,167,640	53,303,718	64,701,288	11,397,570	21 %
London Office	2,664,676	3,065,118	3,562,212	497,094	16 %
Commission Credits	20,946,983	25,468,247	27,111,400	1,643,153	6 %
<b>Investment Management</b>	<b>68,779,299</b>	<b>81,837,083</b>	<b>95,374,900</b>	<b>13,537,817</b>	<b>17 %</b>
Benefit Services	1,453,230	482,119	519,130	37,011	8 %
Benefit Processing	7,542,548	8,613,274	7,939,547	(673,727)	(8)%
Benefit Counseling	4,885,316	7,805,533	8,087,042	281,509	4 %
Benefit Accounting	1,867,207	2,016,976	2,197,820	180,844	9 %
Benefit Operations Support	—	1,033,393	1,121,240	87,847	9 %
El Paso Regional Office	—	—	484,621	484,621	100 %
<b>Benefit Services</b>	<b>15,748,301</b>	<b>19,951,295</b>	<b>20,349,400</b>	<b>398,105</b>	<b>2 %</b>
Chief Financial Officer	269,122	318,218	354,290	36,072	11 %
Financial Services	2,563,625	2,894,393	3,499,568	605,175	21 %
Accounting and Reporting	8,187	9,132	168,532	159,400	1,746 %
Accounts Payable and Travel	656	1,710	3,900	2,190	128 %
Employee Payroll and Time Administration	17,394	3,980	14,200	10,220	257 %
Investment Accounting	68,414	3,774	10,860	7,086	188 %
Analytics & Financial Insights	13,768	1,135	451,800	450,665	39,706 %
Budget and Financial Analysis	1,470	2,200	6,450	4,250	193 %
CAPPS Project	829,707	806,962	—	(806,962)	(100)%
<b>Financial Services</b>	<b>3,772,343</b>	<b>4,041,504</b>	<b>4,509,600</b>	<b>468,096</b>	<b>12 %</b>

## Expenses By Department

Department/Division	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Variance from FY 2021 to FY 2022	
Business Administration	4,380,524	5,069,078	5,073,708	4,630	0.09 %
Procurement and Contracts	7,774	37,125	57,950	20,825	56 %
Records Management	16,853	19,100	42,450	23,350	122 %
Staff Services	495,220	564,914	891,382	326,468	58 %
Facilities Services	752,630	4,065,371	2,772,400	(1,292,971)	(32)%
Printing, Mail & Supply	3,540,676	4,380,214	4,443,310	63,096	1 %
Security	110,990	319,000	259,200	(59,800)	(19)%
Safety and Prevention	732,076	808,800	946,000	137,200	17 %
<b>Business Administration</b>	<b>10,036,743</b>	<b>15,263,602</b>	<b>14,486,400</b>	<b>(777,202)</b>	<b>(5)%</b>
Information Technology	5,576,719	9,512,906	8,965,142	(547,764)	(6)%
Enterprise Infrastructure Services	18,980,239	17,149,601	19,843,488	2,693,887	16 %
Product Development and Delivery	1,622,560	1,660,867	1,920,344	259,477	16 %
Enterprise Architecture	1,326,995	1,537,341	1,954,260	416,919	27 %
Business Relationship Management	1,522,053	1,909,240	2,170,030	260,790	14 %
Project Management Office	1,359,040	1,663,953	1,868,490	204,537	12 %
<b>Information Technology</b>	<b>30,387,606</b>	<b>33,433,908</b>	<b>36,721,754</b>	<b>3,287,846</b>	<b>10 %</b>
TEAM Project	14,677,590	13,767,717	13,226,400	(541,317)	(4)%
HILOB Project	2,430,089	4,083,520	4,096,800	13,280	0.33 %
TRS-Care Administrative	6,527,533	9,495,898	12,243,200	2,747,302	29 %
TRS-ActiveCare Administrative	3,254,750	4,030,702	4,230,000	199,298	5 %
<b>Contingency</b>	<b>—</b>	<b>21,690,000</b>	<b>—</b>	<b>(21,690,000)</b>	<b>(100)%</b>
<b>Grand Total</b>	<b>182,209,196</b>	<b>234,852,726</b>	<b>237,347,000</b>	<b>2,494,274</b>	<b>1 %</b>

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

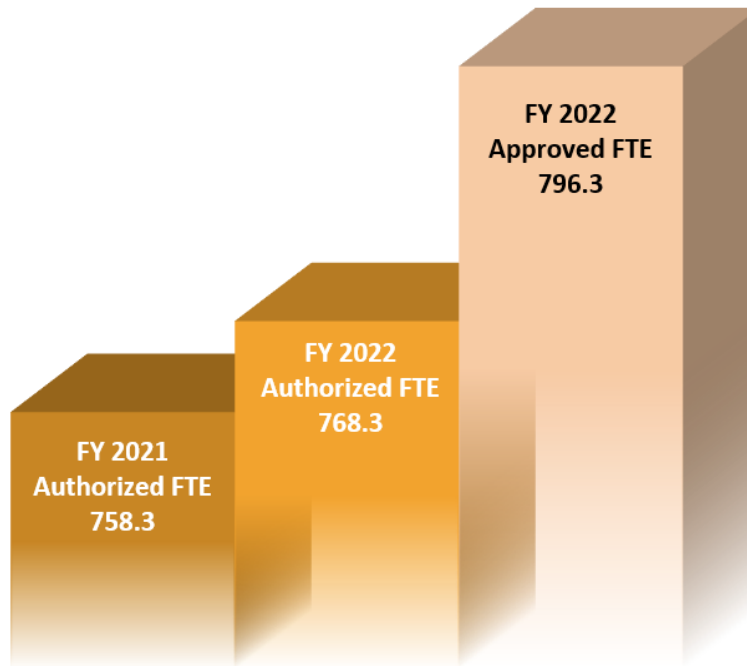
The FY22 Administrative Operating Budget represents an overall 1% increase from the appropriated and fully restored FY21 budget. Changes to the administrative operating budget include the expiration of unexpended balances for the TEAM and CAPPS appropriations, increased payroll costs for the Investment compensation plan, fully restored contingency budget for each division, increased operating costs to reduce investment fees, and to maintain service levels.

## Full-Time Equivalent Positions

Division	Actual FY 2020	Budgeted FY 2021	Budgeted FY 2022	Variance FY 2021 to FY 2022
<b>Pension Funded</b>				
Benefit Services	196.2	241.0	264.0	23.0
Business Administration	—	60.3	63.3	3.0
Executive	4.3	5.0	7.0	2.0
Financial Services	82.0	27.0	27.0	—
Governmental Relations	2.0	2.0	2.0	—
Information Technology	90.8	93.0	93.0	—
Internal Audit	11.4	13.0	13.0	—
Investment Management	168.2	188.0	198.0	10.0
Legal & Compliance	32.0	36.0	36.0	—
Organizational Excellence	25.3	26.5	26.5	—
Strategic Initiatives	14.6	14.5	14.5	—
TEAM Project	47.3	52.0	52.0	—
<b>Total Pension Funded FTEs</b>	<b>674.1</b>	<b>758.3</b>	<b>796.3</b>	<b>38.0</b>
<b>Health Care Funded</b>				
TRS-Care Administrative	29.0	39.0	44.0	5.0
Agency Support to TRS-Care	24.6	36.0	46.0	10.0
HILOB Project	22.0	27.0	27.0	—
TRS-ActiveCare Administrative	7.0	9.0	10.0	1.0
Agency Support to TRS-ActiveCare	6.8	8.0	8.0	—
Optional Insurance Program	1.0	1.0	—	(1.0)
<b>Total Health Care Funded FTEs</b>	<b>90.4</b>	<b>120.0</b>	<b>135.0</b>	<b>15.0</b>
<b>Grand Total</b>	<b>764.5</b>	<b>878.3</b>	<b>931.3</b>	<b>53.0</b>



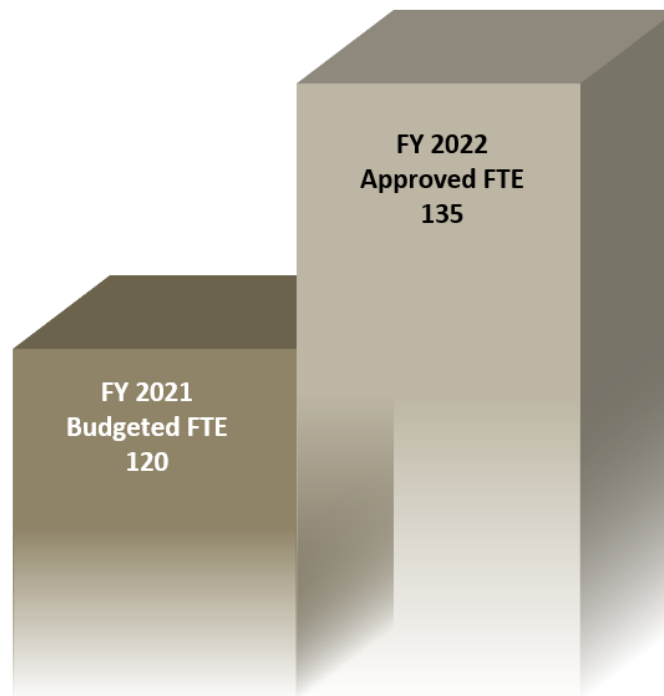
## Authorized Full-Time Equivalent Positions



**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 768.3 for FY 2022. Increases to TRS FTE authority in FY 2022 is attributed to TRS commitment to achieving the highest levels of customer satisfaction, implementing Legislative intent and Board mandates, and strengthening the trust funds.

- Additional resources for FY 2022 include positions for reducing investment fees by hiring more investment professionals in-house and reducing the use of external managers, positions for cybersecurity support to protect TRS data, which include member data and ensure compliance with cybersecurity laws and regulations. During the 87<sup>th</sup> Legislative Session, HB 1585 was passed requiring TRS to hire an ombuds position to monitor the agency's interactions with members.
- Additional resources for Benefit Services include expanding member services by opening a pilot regional office in El Paso, Texas, improving response and processing times to meet member expectations and service levels, and develop training programs to continue education and on-the-job training roadmaps for the department.
- Per recent audit recommendations, additional resources were approved to improve operational effectiveness and efficiencies with procurement and contract monitoring and vendor performance requirements. Additionally, a new position was approved to enhance the mail room department to implement new mail certification requirements for notifying a member's heir of their entitlement to a return of contributions.

## 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. FY 2022 increases include additional resources to implement new mandates of the 87<sup>th</sup> Legislative Session, which includes a lock-out period for exiting districts, requirements to provide claims data at no cost to districts, and the development of an enrollment opportunity for medicare-eligible retirees. Additional resources to support reducing reliance on external vendors generating considerable savings by hiring in house expertise that would have been performed by external consultants. Due to insurance companies discontinuing services and increasing rates, TRS concluded it was in the best interest of members to discontinue Long-Term Optional Insurance Program on August 31, 2021.

## Capital Projects

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

The budget for capital projects is requested through the LAR process and are financed on a pay-as-you-go basis with Pension Trust Fund assets. TRS does not issue debt nor does it have a statutory debt limitation. A capital budget is defined as an asset with a biennial project cost or unit cost in excess of \$100,000. Without the approval of the governor or LBB, agencies may transfer appropriation amounts not exceeding 25% as defined by Article IX provisions of the GAA.

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

### Repair or Rehabilitation of Buildings and Facilities

Although TRS is a state agency in Texas, TRS owns its facilities and related infrastructure. Repair and rehabilitation of buildings and facilities capital projects are associated with maintaining the agency's four-acre, two building complex comprising 255,000 square feet of assignable space. The budget in FY 2022 and FY 2023 is to continue a multiyear effort to more efficiently utilize agency space within the scope of the strategic plan. The security renovations capital budget is to update TRS headquarters security equipment to ensure a safe and secure environment for staff, members, and visitors.



## Acquisition of Information Resource Technologies

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



- The Network Infrastructure project provides the development, design, implementation, and maintenance of the IT infrastructure as it relates to premise-based and cloud-based infrastructure applications and security requirements.
- The Data Center Upgrade is to upgrade and expand the data center infrastructure and peripherals to reduce capacity constraints and issues with compatibility and obsolescence.
- The Pension Legislation capital budget is an ongoing project to anticipate legislative changes and supports the agency's mission and strategic plans.
- Investment Systems Modernization project is to define, develop, and implement technical infrastructure to support the Investment Management Division's ability to achieve the TRS trust fund's actuarial rate of return strategy. This includes enhanced trading workflow, data warehouse and business intelligence capability, as well as security infrastructure to ensure that TRS' data is safe.
- The PC Workstation Refresh is a project to replace outdated hardware technology, PC, and laptop computer systems every two to four years depending on its placement and use requirements in line with the desktop technology refresh policy standards.

## Unexpended Balances (UB): TEAM and CAPPs Projects

During the 86<sup>th</sup> Legislative Session, TRS received appropriation and FTE authority for on-going strategic efforts that require continued staff support to sustain membership growth with new technologies. TRS received rider authority related to unexpended balances of Pension Trust Funds remaining as of Aug. 31, 2019 approved under the provisions of Article III-35, Rider 2, Capital Budget of Senate Bill 1, 85<sup>th</sup> Legislature, for the TEAM Program and CAPPs Project, are appropriated for the same purposes in FY 2020 and FY 2021.

# Capital Projects

Repair or Rehabilitation of Buildings and Facilities				
	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Budgeted FY 2023
Building Renovations	29,700	3,339,550	1,500,000	1,500,000
Security Renovations	—	200,000	100,000	100,000
<b>TOTAL</b>	<b>29,700</b>	<b>3,539,550</b>	<b>1,600,000</b>	<b>1,600,000</b>

Acquisition of Information Resource Technologies				
	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Budgeted FY 2023
Network Infrastructure	486,104	513,893	500,000	500,000
Data Center Upgrade	589,075	610,924	335,352	336,048
Investment Systems Modernization	412,302	487,698	450,000	450,000
PC Workstation Refresh	466,339	533,661	500,000	500,000
Pension Legislation	—	200,000	—	200,000
<b>TOTAL</b>	<b>1,953,820</b>	<b>2,346,176</b>	<b>1,785,352</b>	<b>1,986,048</b>

Unexpended Balances: TEAM and CAPPS Projects				
	Expended FY 2020	Budgeted FY 2021	Budgeted FY 2022	Budgeted FY 2023
CAPPS Project UB	707,217	726,962	—	—
TEAM Program UB	3,893,305	5,957,474	—	—
<b>TOTAL</b>	<b>4,600,522</b>	<b>6,684,436</b>	<b>—</b>	<b>—</b>

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



## 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.

CONTRACT	DESCRIPTION	START DATE	END DATE	CONTRACT AMOUNT
SCOTT & WHITE HEALTH PLAN	HMO - CENTRAL TX	9/1/2020	8/31/2022	260,000,000
HEALTH CARE SERVICES CORPORATION	HMO - SOUTH AND WEST TX	9/1/2020	8/31/2022	255,000,000
STATE STREET BANK AND TRUST COMPANY	SSB MASTER CUSTODIAN CONTRACT	8/1/2015	7/31/2022	154,000,000
CAREMARK INC	PHARMACY BENEFIT MGR SERVICES	9/1/2017	8/31/2021	120,000,000
TC AUSTIN BLOCK 71 LLC	NEW BLOCK 71 LEASE FOR IMD	2/14/2019	10/31/2031	62,468,411
HEALTH CARE SERVICES CORPORATION	TRS-ACTIVECARE	9/1/2020	8/31/2022	60,000,000
FACTSET RESEARCH SYSTEMS INC	FINANCIAL MODELING	2/1/2005	1/31/2022	33,242,497
COUSINS 816 CONGRESS LLC	BUILDING LEASE FOR IMD	10/28/2008	3/31/2023	32,355,259
BLOOMBERG L P	BLOOMBERG ANYWHERE	9/1/2005	9/1/2021	22,754,811
SILVERSCRIPT INSURANCE COMPANY	PHARM. BENEFIT MGR EGWP	1/1/2018	12/31/2021	21,000,000
HEALTH CARE SERVICES CORPORATION	TRS-CARE	1/1/2021	12/31/2022	20,000,000
BSWIFT LLC	HEALTH CARE ENROLLMENT ADMIN	9/1/2020	8/31/2022	16,000,000
CBRE INC	BROKER SERVICES	3/14/2019	3/13/2022	13,736,500
COBOS DESIGN & CONSTRUCTION INC	CONSTRUCTION SERVICES	10/12/2015	8/31/2022	10,663,421
DAVID E. HARVEY BUILDERS, INC	GENERAL CONTRACTOR FOR BLOCK 71	12/12/2019	12/31/2021	10,500,000
THOMSON REUTERS	DATASTREAM, EIKON, TASS, QA	8/1/2012	8/31/2021	8,407,699
GABRIEL ROEDER SMITH & COMPANY	HEALTH CARE ACTUARIAL SERVICES	9/1/2017	8/31/2021	6,000,000
ERNST & YOUNG LLP	FOREIGN TAX AGENT	5/1/2018	4/30/2022	6,000,000
ALBOURNE AMERICA LLC	INVESTMENT ADVISORY SERVICES	9/1/2018	8/31/2023	6,000,000
GLOBALSCOPE COMMUNICATIONS CORPORATION	CALL CENTER MODERNIZATION	1/1/2018	12/31/2021	5,516,433
MSCI BARRA LLC	DATA LICENSE AGMT	3/19/2009	3/18/2022	5,157,708

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

CONTRACT	DESCRIPTION	START DATE	END DATE	CONTRACT AMOUNT
COMPUTER TECHNOLOGIES USA LLC	MAINFRAME OFFSITE SOLICITATION	5/25/2020	5/24/2023	4,666,726
AON HEWITT	INVESTMENT ADVISORY SERVICES	9/1/2018	8/31/2023	4,595,000
EFRONT FINANCIAL SOLUTIONS INC	FRONTINVEST ANALYTICS	8/25/2011	8/25/2022	4,383,418
AXIOMA	AXIOMA SOFTWARE SERVICES	2/11/2013	2/10/2023	4,114,935
CUSHMAN & WAKEFIELD US INC	BROKER SERVICES FOR SUBLEASE	6/15/2020	8/31/2021	4,000,000
KPMG LLP	CONTRACT MANAGEMENT SOLUTIONS	8/1/2020	7/31/2024	3,911,600
SOFTWARE ONE INC	MICROSOFT ENTERPRISE AGREEMENT	1/1/2020	12/31/2022	3,284,339
CAREMARK INC	PHARMACY BENEFIT MGR SERVICES	9/1/2017	8/31/2021	3,270,000
CHICAGO CLEARING CORP	INVESTMENT-RELATED LITIGATION	3/2/2018	3/1/2022	3,150,000
FINANCIAL RECOVERY TECHNOLOGIES LLC	INVESTMENT-RELATED LITIGATION	3/29/2018	3/28/2022	3,150,000
COUSINS 816 CONGRESS LLC	14TH FLOOR ADDED 816 CONGRESS	8/1/2018	3/31/2023	3,110,512
BLOOMBERG L P	BLOOMBERG EXCHANGES	9/1/2005	9/1/2021	3,061,475
PETROSYS SOLUTIONS INC DBA PSITECHNOLOGY	DATA CENTER SERVICES	6/1/2020	8/31/2024	3,058,155
JACKSON WALKER LLP	INVESTMENT COUNSEL	9/1/2019	8/31/2021	3,000,000
TELEPERFORMANCE USA CORP	CALL CENTER OVERFLOW - BENEFITS	3/3/2020	8/31/2021	2,900,000
BLOOMBERG L P	PORTFOLIO ORDER MANAGEMENT	3/2/2015	3/2/2022	2,846,325
S&P GLOBAL MARKET INTELLIGENCE	S&P CLARIFI BUNDLE	11/30/2016	11/29/2021	2,703,775
NORTON ROSE FULBRIGHT US LLP	INVESTMENT COUNSEL	9/1/2019	8/31/2021	2,625,000
SEGAL COMPANY (SOUTHEAST) INC	HEALTH CARE CONSULTING	10/7/2019	8/31/2021	2,500,000
SALTHOLDINGS CORP	MEDICARE ENROLLMENT & DISCOVER	9/1/2017	8/31/2021	2,500,000
ADVENT SOFTWARE, INC.	TAMALE DATA EXTRACT	8/28/2007	8/27/2022	2,326,272
ALBOURNE AMERICA LLC	PM FEE MONITORING SERVICES	10/22/2020	10/31/2023	2,300,000
SEYFARTH SHAW LLP	INVESTMENT COUNSEL	9/1/2019	8/31/2021	2,300,000
MSCI BARRA LLC	PORTFOLIO RISK MANAGEMENT	5/1/2019	4/30/2022	2,284,646
ERNST & YOUNG LLP	IPA SERVICES	1/29/2021	12/31/2024	2,223,515

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

CONTRACT	DESCRIPTION	START DATE	END DATE	CONTRACT AMOUNT
CATAPULT SYSTEMS LLC	CATAPULT MICROSOFT SERVICES	10/22/2018	8/31/2021	2,000,000
MILLIMAN INC	HEALTH CARE CONSULTING	12/21/2020	8/31/2023	1,925,000
SQUARE ONE CONSULTANTS INC	OWNER'S REPRESENTATION	11/8/2019	8/31/2021	1,856,000
FUNDAPPS	RAPPTR SOFTWARE LICENSES	10/15/2014	10/14/2021	1,782,906
ACCENTURE	DATA ANALYTICS SOLICITATION	1/24/2020	8/31/2021	1,745,000
TEXAS DEPT OF INFORMATION RESOURCES	DIR VOICE AND DATA SERVICES	9/1/2013	8/31/2021	1,584,760
RISKVAL FINANCIAL SOLUTIONS LLC	RISK VALUATION SERVICES	9/1/2012	8/31/2022	1,531,875
MORGAN LEWIS & BOCKIUS LLP	INVESTMENT COUNSEL	9/1/2019	8/31/2021	1,500,000
BLACKROCK SOLUTIONS	ALADDIN RISK SERVICES	8/6/2018	8/5/2022	1,500,000
MCCOY-ROCKFORD INC	FURNITURE AGENCY-WIDE	8/27/2018	8/31/2021	1,464,000
DLA PIPER LLP US	INVESTMENT COUNSEL	9/1/2019	8/31/2021	1,450,000
UNITED STATES POSTAL SERVICE CAPS SERVICE	POSTAGE	9/1/2020	8/31/2021	1,398,100
AUDIO VISUAL INNOVATIONS INC	TRS ENTERPRISE AV CONTRACT	8/1/2019	8/31/2021	1,389,103
TALEND INC	ETL DATA PIPELINE SOFTWARE	3/29/2019	3/28/2022	1,369,594
S&P GLOBAL MARKET INTELLIGENCE	MASTER AGREEMENT	9/1/2004	8/31/2021	1,286,356
DEALCLOUD INC	DEALCLOUD LICENSE SUBSCRIPTION	8/1/2018	7/31/2024	1,281,717
AMERICAN FACILITY SERVICES INC	JANITORIAL SERVICES	3/1/2014	8/31/2021	1,236,224
SOAL TECHNOLOGIES LLC	STAFF AUGMENTATION	6/28/2017	8/31/2021	1,209,130
TEXAS DEPT OF INFORMATION RESOURCES	DIR PRINTING & MAILING	9/1/2017	8/31/2021	1,193,715
ALLIED CONSULTANTS	STAFF AUGMENTATION	7/17/2014	8/31/2021	1,187,600
TEKSYSTEMS INC	STAFF AUGMENTATION	6/18/2018	8/31/2022	1,175,596
PRESIDIO NETWORKED SOLUTIONS GROUP LLC	CO-LOCATION AND DISASTER RECOVERY WORKSPACE	2/1/2018	8/31/2021	1,174,259
ALLIED CONSULTANTS	STAFF AUGMENTATION	3/1/2016	8/31/2021	1,173,898
EVESTMENT	DATA FEEDS AND ANALYTICS	11/1/2008	10/31/2021	1,156,525
UNITED HEALTHCARE	TRS-CARE MEDICARE ADVANTAGE	9/1/1998	12/31/2021	1,140,000

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

CONTRACT	DESCRIPTION	START DATE	END DATE	CONTRACT AMOUNT
TEKSYSTEMS INC	STAFF AUGMENTATION	11/6/2017	8/31/2022	1,104,192
MSCI BARRA LLC	RISK METRICS	1/28/2016	1/27/2022	1,102,207
FOSTER GARVEY PC	INVESTMENT COUNSEL	10/1/2019	8/31/2021	1,100,000
LPS USA INC	PARKING FOR COUSINS LEASE	8/1/2018	3/31/2023	1,087,216
TEKSYSTEMS INC	STAFF AUGMENTATION	11/6/2017	8/31/2022	1,080,210
ADVANCED CALL CENTER TECHNOLOGIES LLC	CALL CENTER OVERFLOW - HIB	1/1/2020	8/31/2021	1,000,000
ERNST & YOUNG LLP	AUDITING SERVICES	4/21/2020	8/31/2022	1,000,000
KPMG LLP	AUDITING SERVICES	12/17/2020	8/31/2022	1,000,000

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

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

**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).



## General Provisions (cont.)

### PERSONNEL SERVICES:

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

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

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

## General Provisions (cont.)

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

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

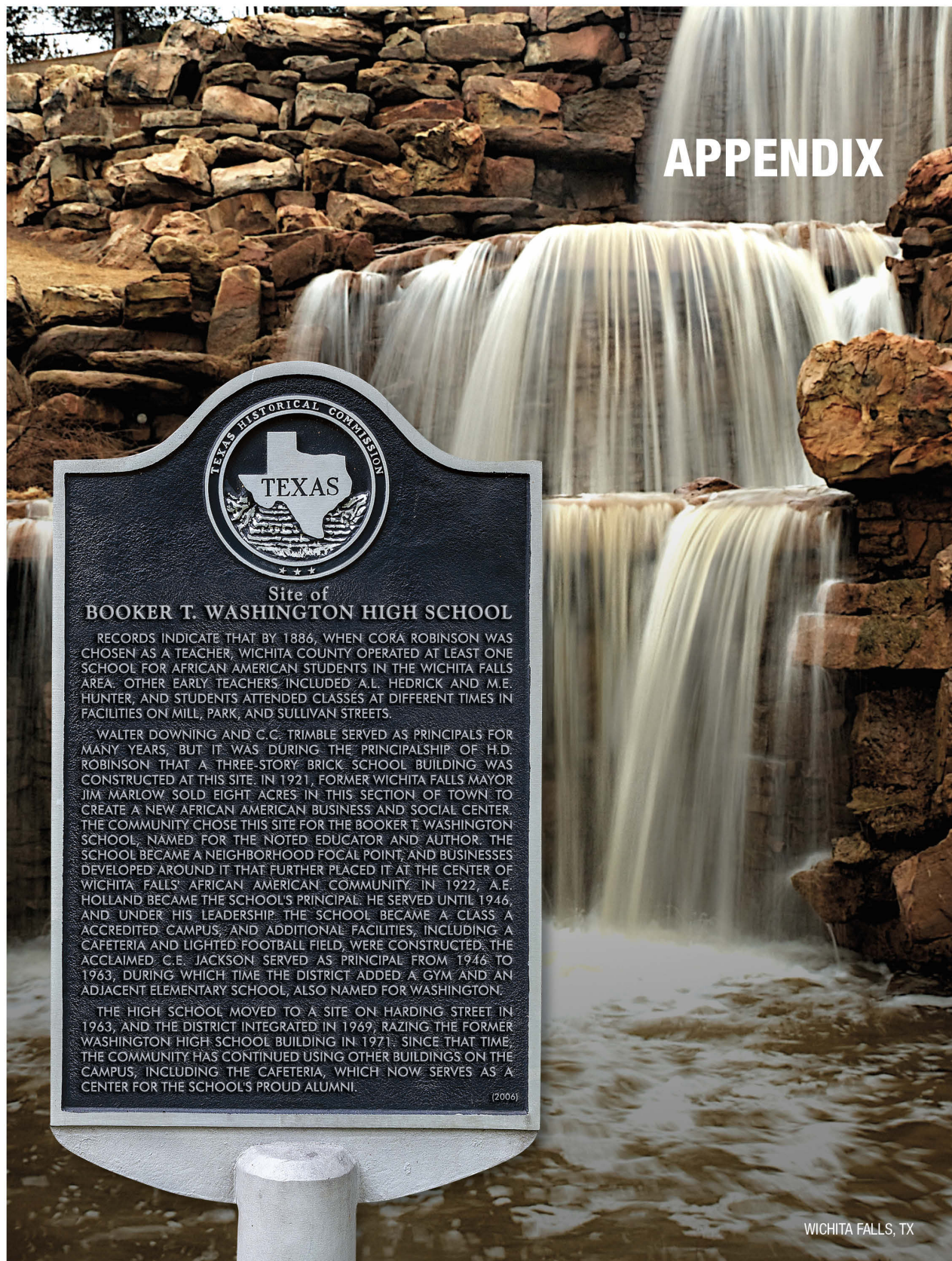
**BUDGET EXECUTION AUTHORITY** – As required for the efficient operation of TRS programs, the Executive Director, or Deputy Director/Chief Operations and Administration Officer in the absence of the Executive Director, is authorized to transfer budgeted funds up to 25% of an expense category between 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/Chief Operations and Administration Officer, or Chief Financial Officer may exceed the total approved budget to the extent necessary to achieve recovery of operational capabilities. The Executive Director, Deputy Director/Chief Operations and Administration Officer, or Chief Financial Officer will notify the Budget Committee of the board, as soon as possible, of the extent of the situation and the budgetary impact.





# APPENDIX



WICHITA FALLS, TX





# APPENDIX A:

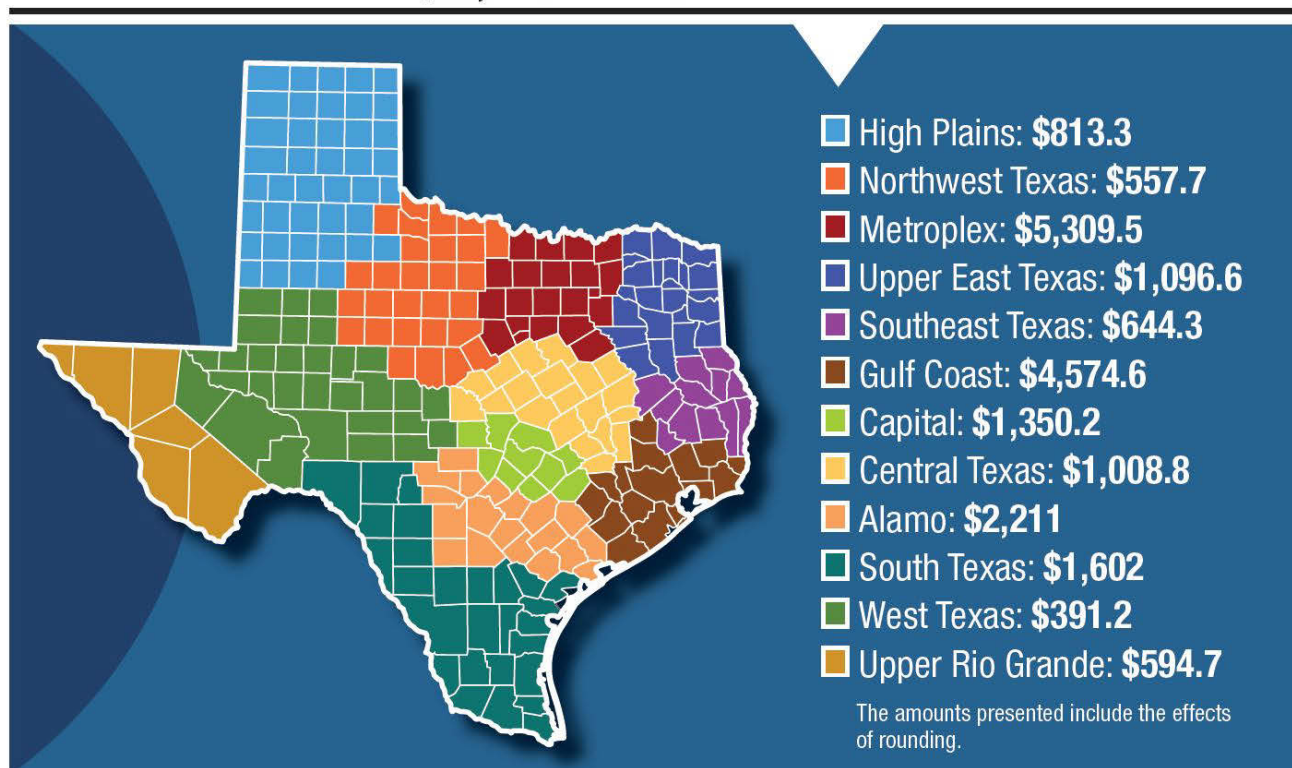
## COST DRIVERS, STATISTICAL AND SUPPLEMENTAL DATA

### 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)

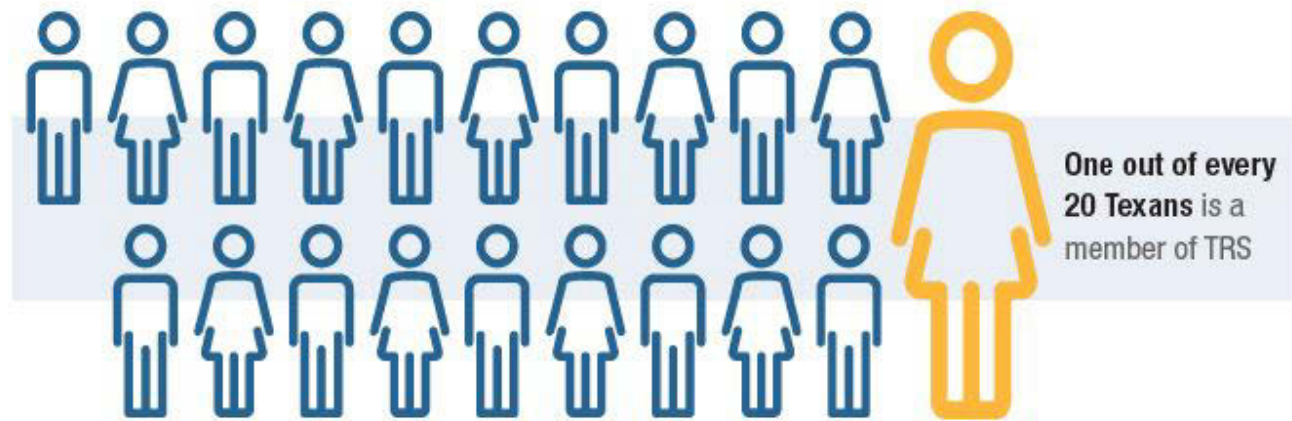
### TRS Spending Stays in Texas and Stimulates the Economy

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.



74.7% of annuitants are female

338 annuitants are age 100 or older



### GROWTH

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



## Membership

Membership Facts and Figures

Number of	August 31, 2020	August 31, 2019
<b>Current Members:</b>		
Active Contributing	914,752	884,540
Inactive Non-vested	209,956	201,948
Inactive Vested	112,726	108,768
Total Current Members	1,237,434	1,195,256
<b>Retirement Recipients:</b>		
Service	415,696	405,236
Disability	11,926	11,994
Survivor	17,652	17,196
Total Retirement Recipients	445,274	434,426
Total Membership	1,682,708	1,629,682

## Members Retiring Fiscal Year Ended 8/31/2020

Members Retiring

Number Retiring	20,192
Average Age at Retirement	60.4
Average Service Credit	24.1
<b>Average Monthly Annuities:</b>	
Life Annuities	\$ 2,118
Disability Annuities	1,214
Annuities Certain	1,157

## Pension Fiduciary Net Assets

Pension Fiduciary Net Assets (as of 8/31)

	2020 (in Billions)	2019 (in Billions)
Net Position	\$ 165.416	\$ 157.978
Member Contributions	3.737	3.483
State Contributions – General Fund	1.845	1.738
Pension Payments to Retirees & Beneficiaries	11.080	11.357

## Funding Status

TRS Pension Funding Status

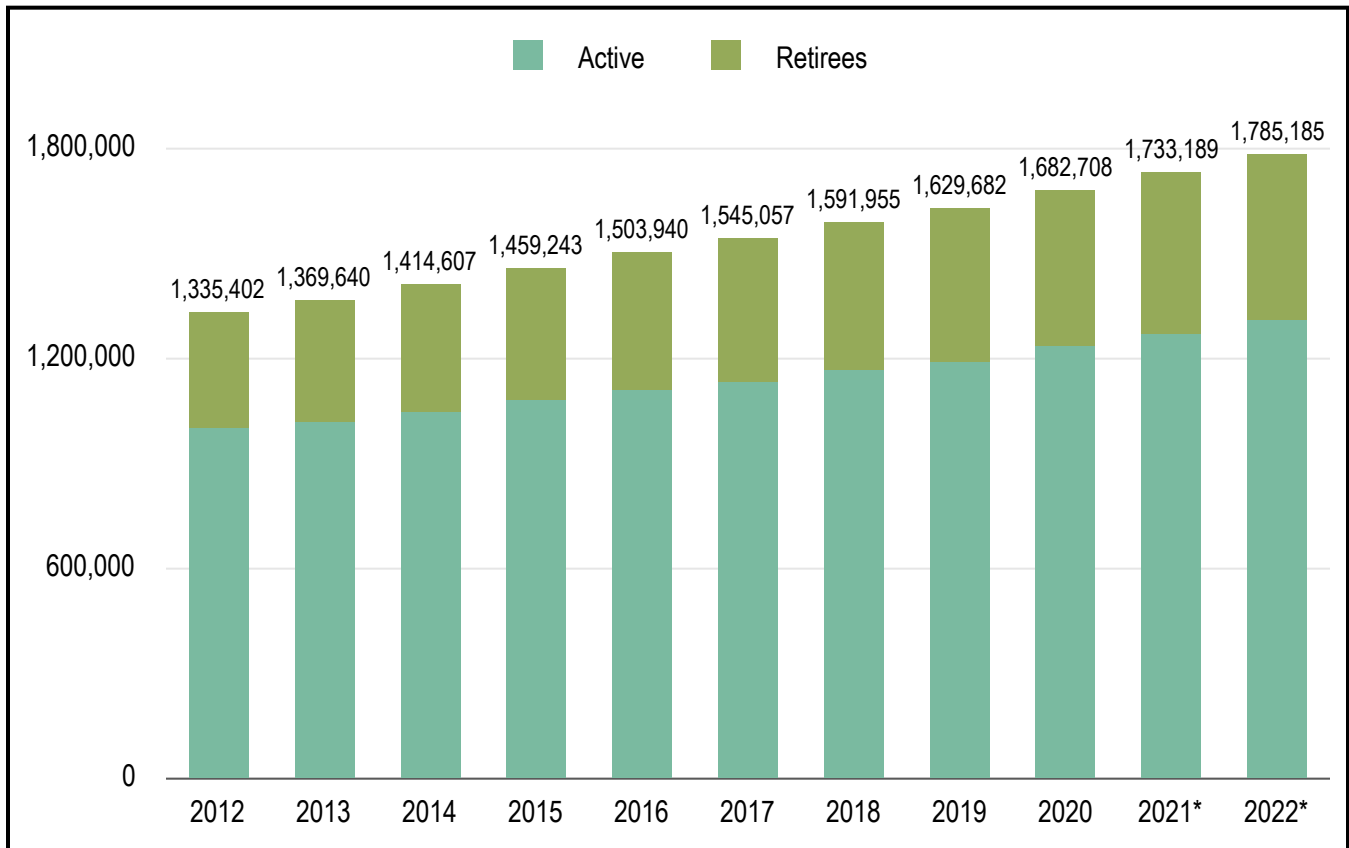
	2020	2019
<b>Statutory Contribution Rates</b>		
State	7.50 %	6.80 %
Member	7.70 %	7.70 %
<b>Actuarial Information</b>		
Covered Payroll	\$49.987 billion	\$47.414 billion
Normal Cost %	11.60 %	11.70 %
Unfunded Actuarial Accrued Liability (UAAL)	\$50.605 billion	\$49.486 billion
UAAL as % of Pay	101.20 %	104.40 %
Funded Ratio	76.80 %	76.40 %

## Investments

Investments (as of 8/31)

	Value (in Billions)	Annual Rate of Return
2011	\$ 106.05	15.5 %
2012	109.99	7.6 %
2013	116.71	9.0 %
2014	131.60	16.9 %
2015	127.04	(3.0)%
2016	132.76	7.4 %
2017	145.92	12.6 %
2018	154.70	8.2 %
2019	157.43	5.2 %
2020	164.64	7.2 %

## PENSION MEMBERSHIP GROWTH

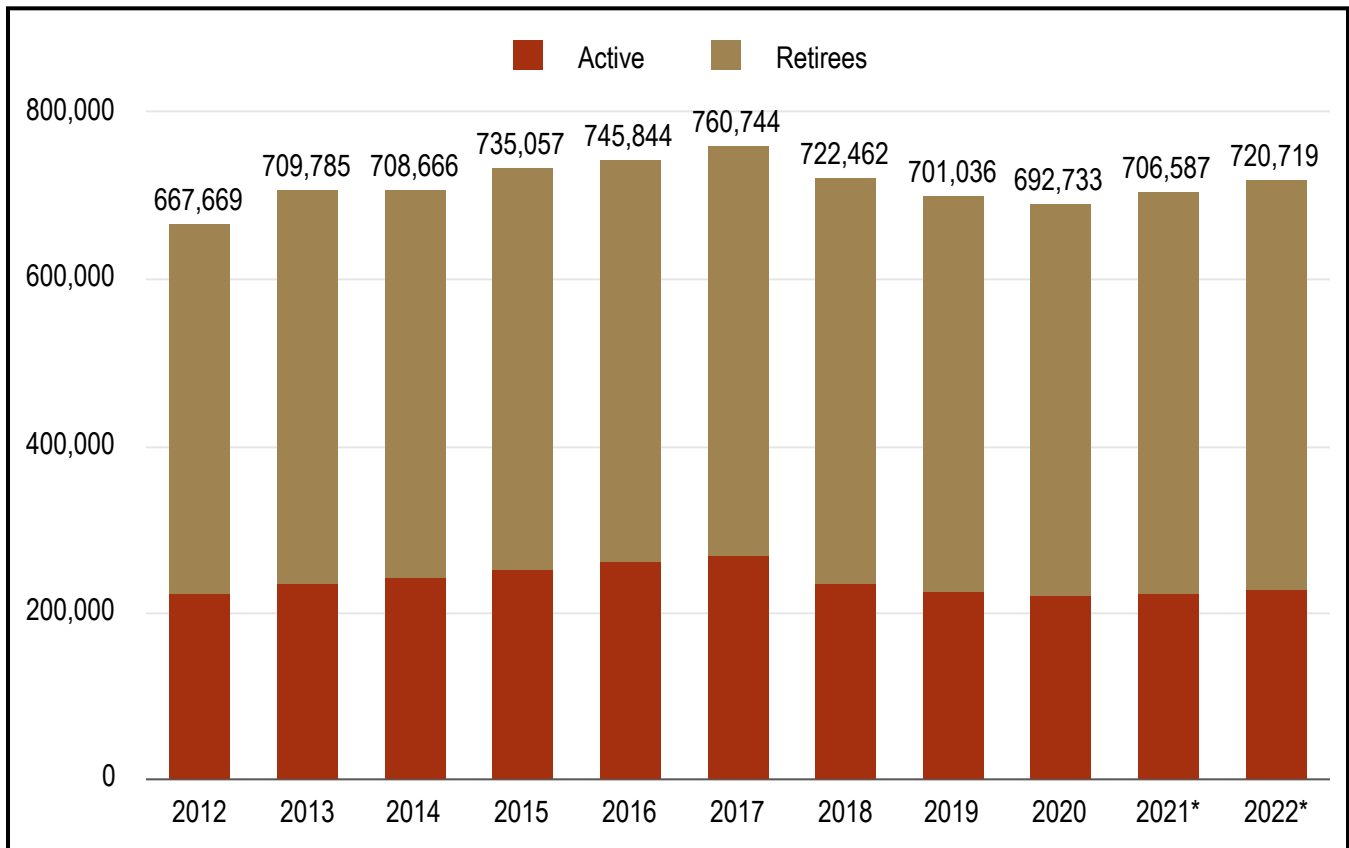


\*Projected based on historical trending

**Active members – 31% growth | Retired members – 42% 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 1.8% per year through 2050 according to the Texas State Demographer. The growth in retired members depends on a number of factors and can be influenced by the number of teachers reaching retirement age, the change in benefits design, the change in state funding provided to local districts, and general economic conditions. The number of teachers reaching retirement age is expected to increase with the baby boomer population aging into retirement and will plateau as that generation fully engages in retirement.

## HEALTH CARE MEMBERSHIP GROWTH

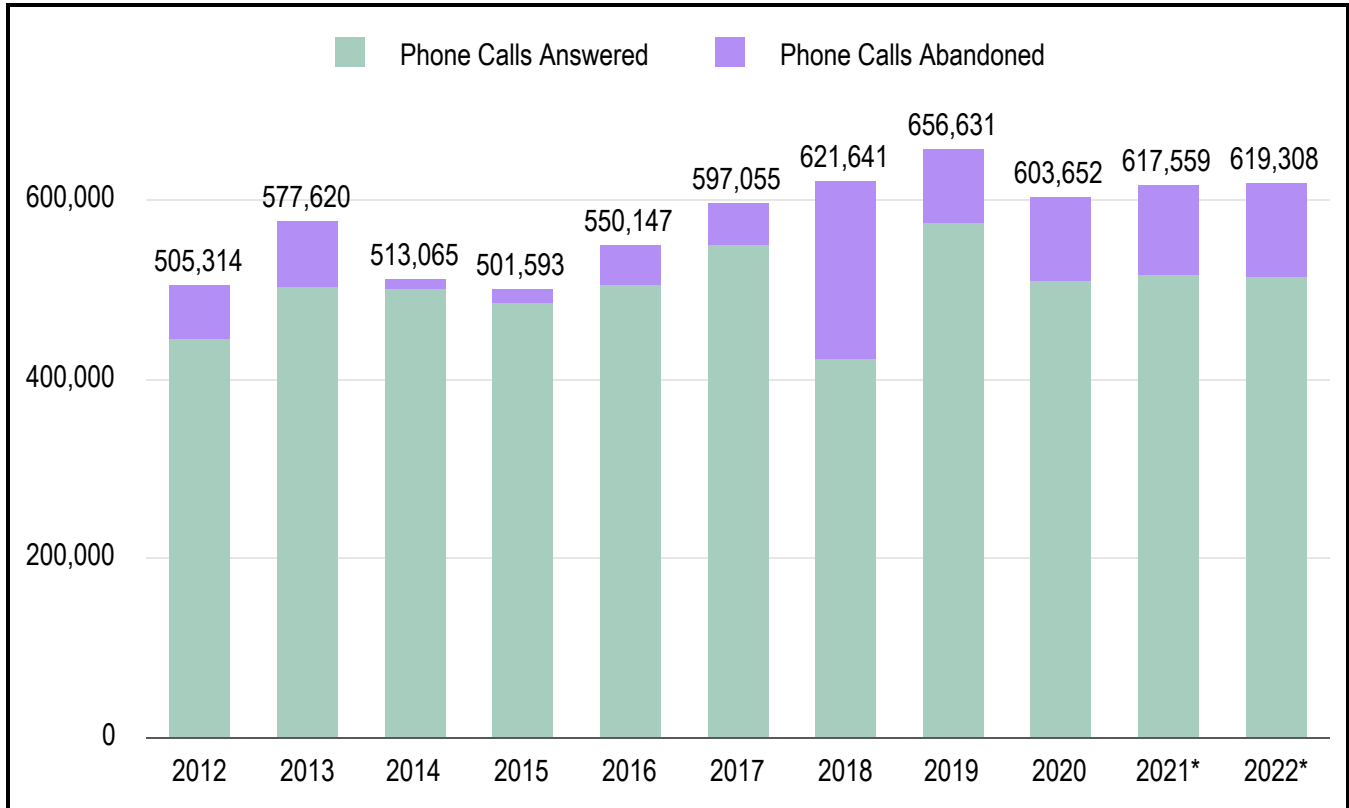


\*Projected based on historical trending

**TRS-Care Membership – 11% 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

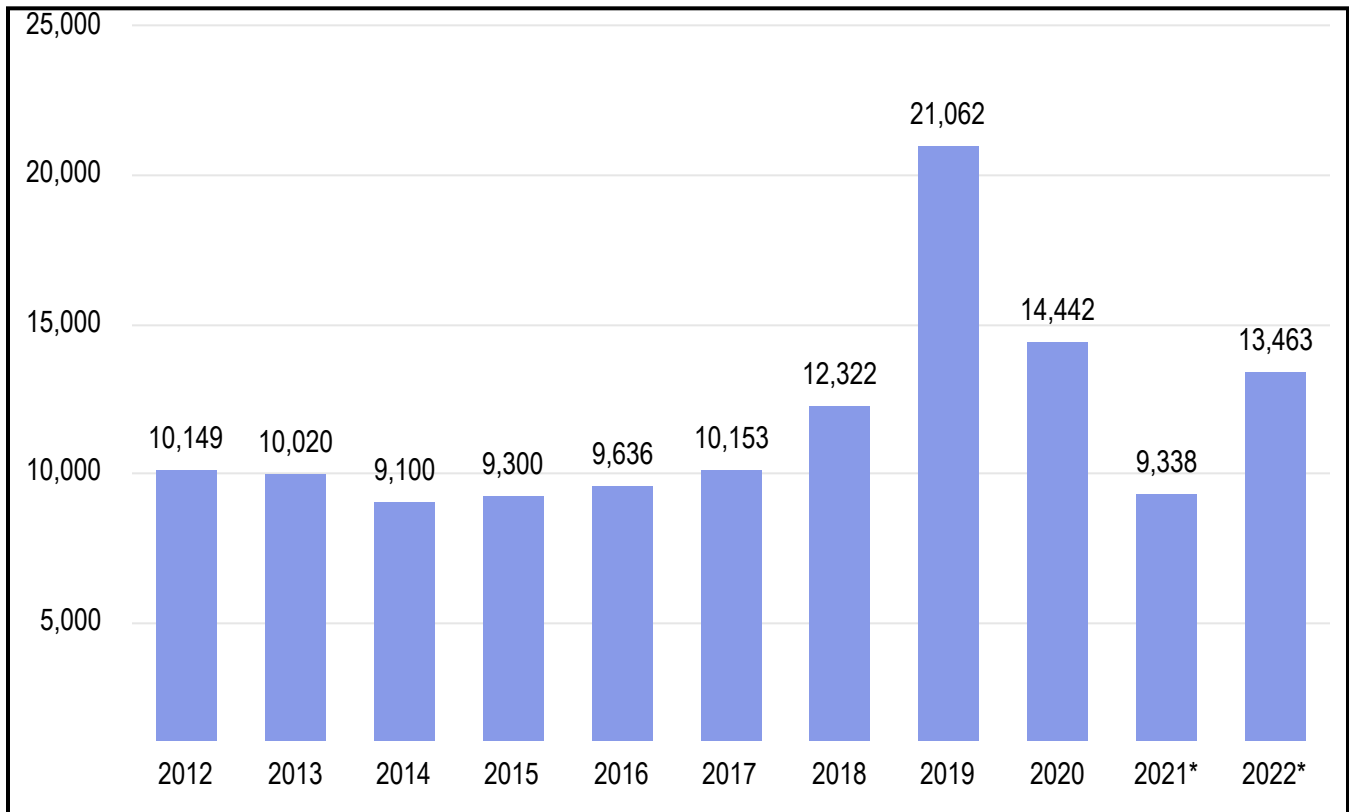


\*Projected based on historical trending

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

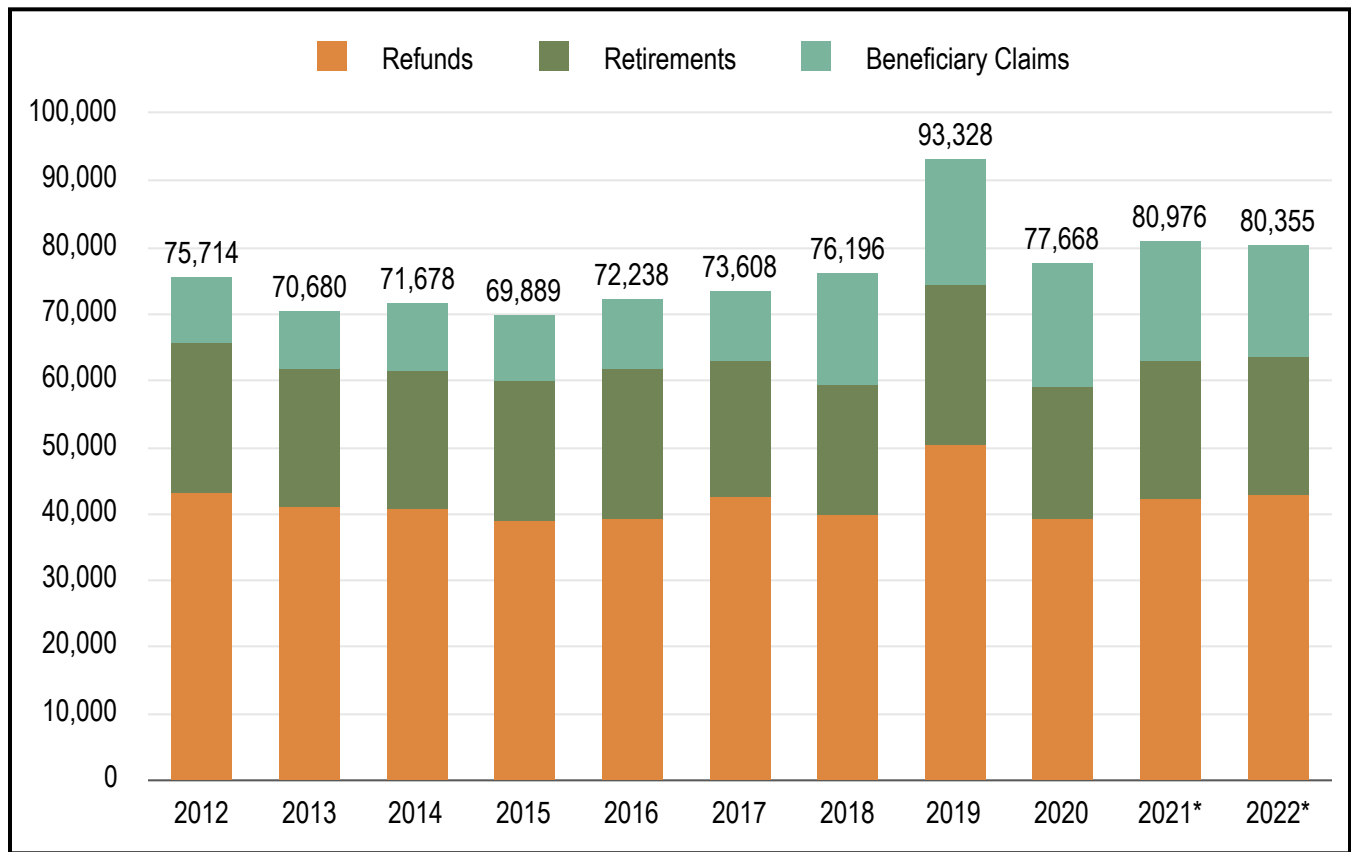


\*Projected based on historical trending

This chart shows the office counseling visit volume over time. The office visit volume is dependent upon membership growth as well as the number of members choosing to retire in a given year. In future years, as web-based, self-service features are added to the TRS website, office visit volume may 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 35% decrease in demand during FY21. For the near future, 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.

## BENEFIT PROCESSING ACTIVITY



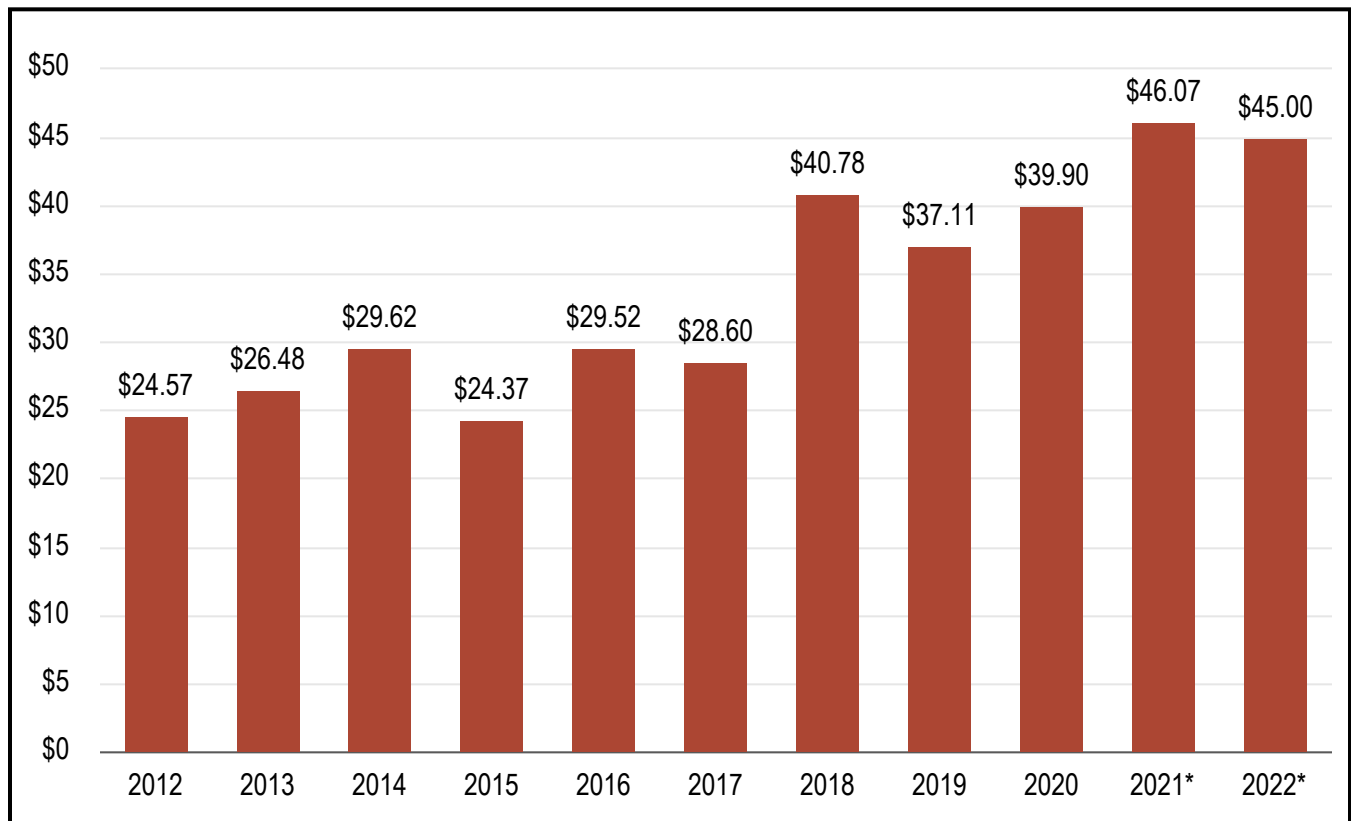
\*Projected based on historical trending

**Overall 6% Growth**  
**Refunds – (1%) | Retirements – (8%) | Beneficiary Claims – 69%**

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

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

## BENEFIT COST PER MEMBER

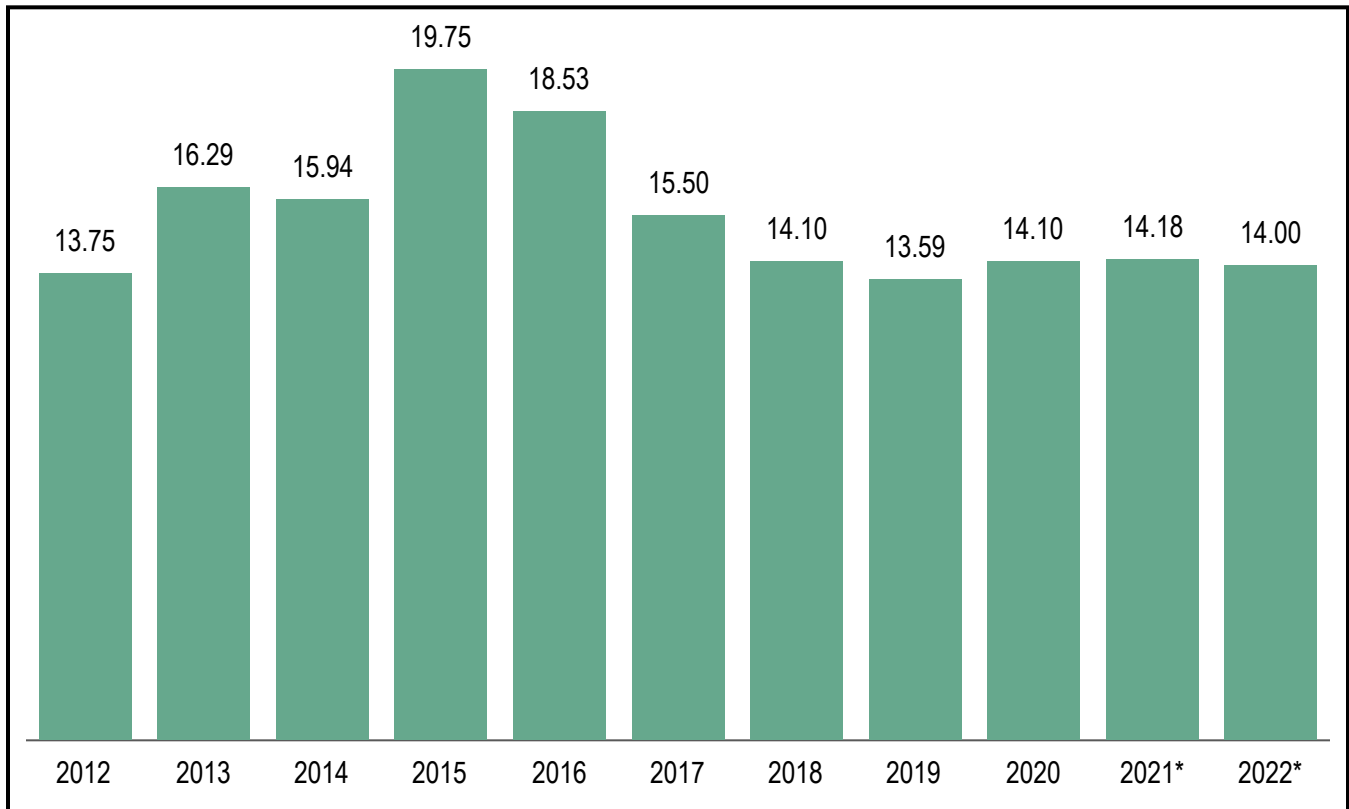


\*Projected based on estimated growth trends

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

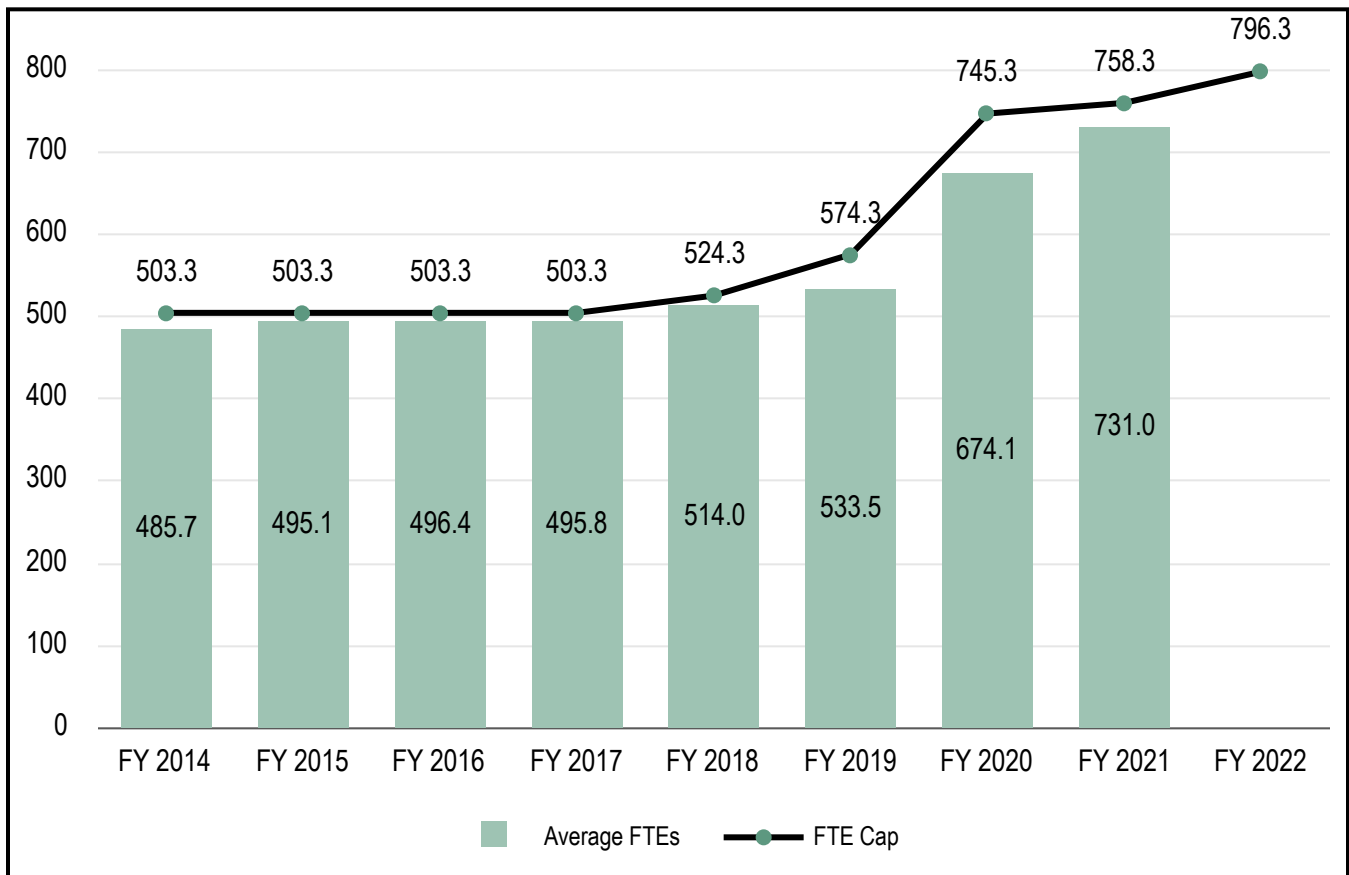


\*Projected based on historical trending

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

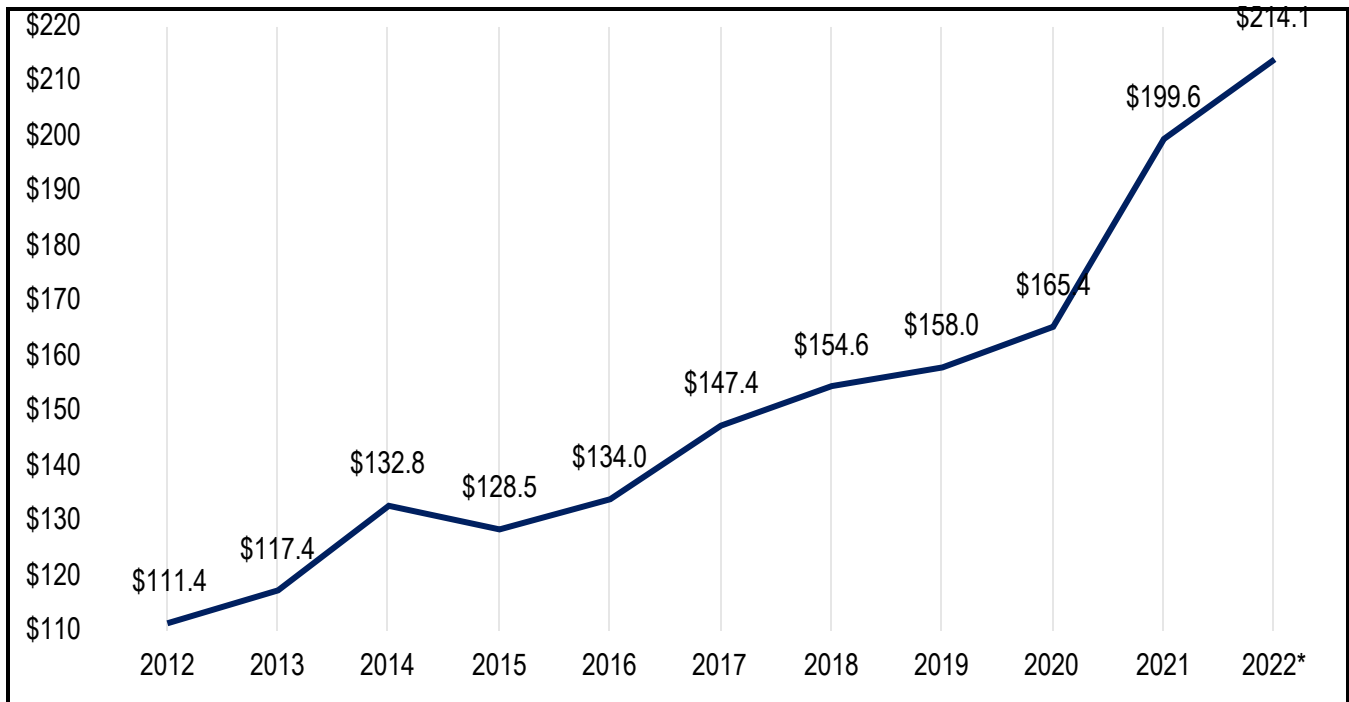


TRS participates in the biennial legislative appropriations process in requesting funds for administrative operations. In the General Appropriations Act (GAA), the Legislature establishes state employment levels on FTEs. The agency reports quarterly to the State Auditor's Office (SAO) the actual FTEs. 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. In the 87<sup>th</sup> Legislative Session, TRS was approved additional resources to continue a multi-biennia project to become a best-in-class investment management fund. Due to TRS experiencing extraordinary member service challenges, the Board of Trustees have approved additional resources to be phased in over the next few years. Article IX provisions of the 2022-23 General Appropriations Act authorizes additional 50 FTEs to the authorized FTE limitation of 768.3 for FY 2022.

# PENSION TRUST FUND BALANCE

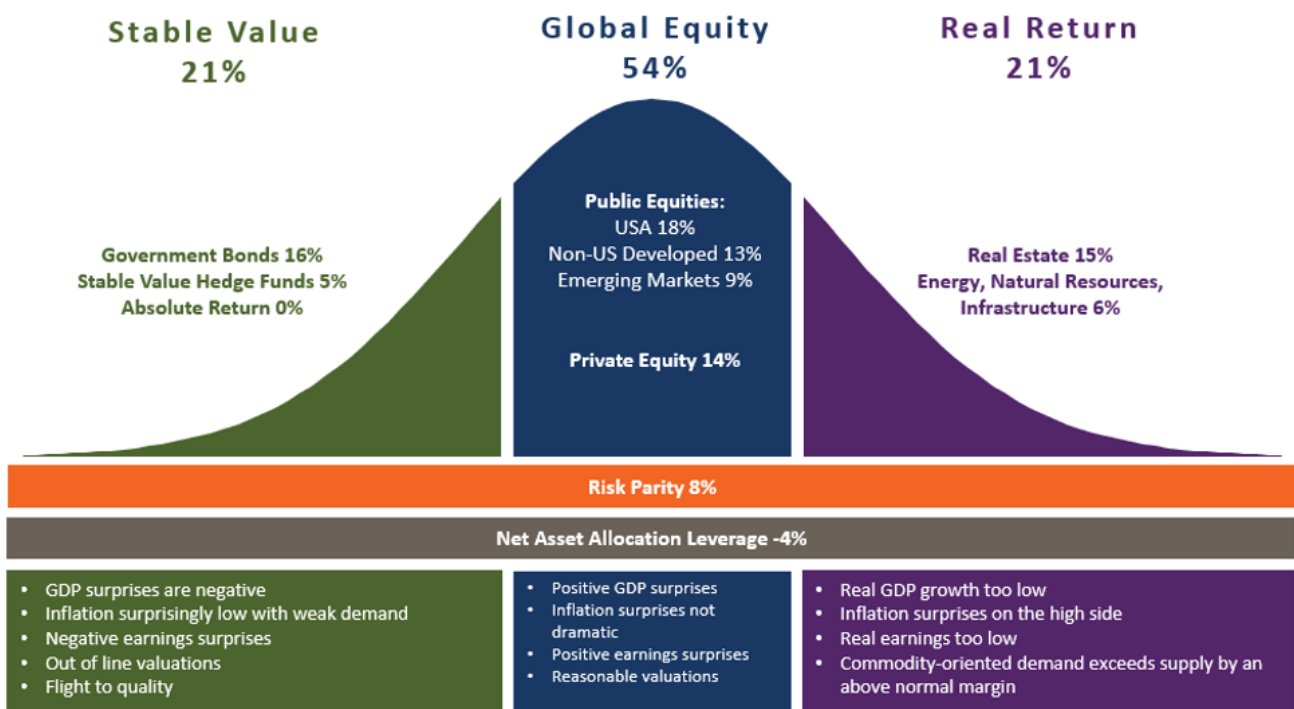
(In Billions)



\*Projected based on assumed rate of return of 7.25%

The annual rate of return on investments for the pension fund for the year ended Aug. 31<sup>st</sup>, 2020 was 7.2%.

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.

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

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

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

**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.

**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.

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

**Biennium** – Two-year funding cycle for legislative appropriations.

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

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

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

## GLOSSARY (cont.)

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

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

**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).

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

**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)** – Part of the TEAM initiative, project to create and maintain software intended to support the administration of TRS-Care.

**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 2022 runs from Sept. 1, 2021 through Aug. 31, 2022.

## GLOSSARY (cont.)

**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.

**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 Governor's Office of Budget and Policy. The agency request is prepared according to the approved strategic planning and budget structure for that agency.

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

**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.

## GLOSSARY (cont.)

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

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

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

**Programs** – The FY 2022 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 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.

**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.

## GLOSSARY (cont.)

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





# APPENDIX C:

## GENERAL APPROPRIATIONS ACT AY 2022-23 TEACHER RETIREMENT SYSTEM

	For the Years Ending	
	August 31, 2022	August 31, 2023
<b>Method of Financing:</b>		
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
<b>Total, Method of Financing</b>	<b>\$3,032,733,488</b>	<b>\$3,181,570,703</b>
<b>This bill pattern represents an estimated 2.8% of this agency's estimated total available funds for the biennium.</b>		
<b>Number of Full-Time-Equivalents (FTE):</b>	768.3	783.3
<b>Schedule of Exempt Positions:</b>		
Executive Director	\$355,000	\$355,000
Chief Investment Officer	551,250	551,250
Deputy Chief Investment Officer	410,000	410,000
<b>Items of Appropriation:</b>		
<b>A. Goal: TEACHER RETIREMENT SYSTEM</b> To Administer the System as an Employee Benefit Trust.		
<b>A.1.1.</b> Strategy: TRS - PUBLIC EDUCATION RETIREMENT Retirement Contributions for Public Education Employees. Estimated	\$2,183,320,080	\$2,306,108,069
<b>A.1.2.</b> Strategy: TRS - HIGHER EDUCATION RETIREMENT Retirement Contributions for Higher Education Employees. Estimated.	261,285,630	272,220,427
<b>A.1.3.</b> Strategy: ADMINISTRATIVE OPERATIONS	143,785,462	150,013,045
<b>A.2.1.</b> 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.		
<b>Total, Goal A: TEACHER RETIREMENT SYSTEM</b>	<b>\$3,032,733,488</b>	<b>\$3,181,570,703</b>
<b>Grand Total, TEACHER RETIREMENT SYSTEM</b>	<b>\$3,032,733,488</b>	<b>\$3,181,570,703</b>
<b>Object-of-Expense Informational Listing:</b>		
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
Travel	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
<b>Total, Object-of-Expense Informational Listing</b>	<b>\$3,032,733,488</b>	<b>\$3,181,570,703</b>

TEACHER RETIREMENT SYSTEM  
(Continued)

**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

<b>Total, Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act</b>	<b>\$ 5,124,008</b>	<b>\$ 5,145,444</b>
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1. **Performance Measure Targets.** The following is a listing of the key performance target levels for the Teacher Retirement System. It is the intent of the Legislature that appropriations made by this Act be utilized in the most efficient and effective manner possible to achieve the intended mission of the Teacher Retirement System. In order to achieve the objectives and service standards established by this Act, the Teacher Retirement System shall make every effort to attain the following designated key performance target levels associated with each item of appropriation.

A. Goal: TEACHER RETIREMENT SYSTEM	<u>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%
<b>A.1.3. Strategy: ADMINISTRATIVE OPERATIONS Output (Volume):</b>		
<b>Number of TRs Benefit Applications Processed</b>	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.

	<u>2022</u>	<u>2023</u>
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	<u>\$ 3,385,352</u>	<u>\$ 3,586,048</u>
Method of Financing (Capital Budget):		
Teacher Retirement System Trust Account Fund No. 960	\$ 3,385,352	\$ 3,586,048
Total, Method of Financing	<u>\$ 3,385,352</u>	<u>\$ 3,586,048</u>

## TEACHER RETIREMENT SYSTEM

(Continued)

3. **Updated Actuarial Valuation.** The Teacher Retirement System shall contract with an actuary to perform a limited actuarial valuation of the assets and liabilities of the Teacher Retirement System as of February 28 in those years when the Legislature meets in regular session. The purpose of the valuation shall be to determine the effect of investment, salary, and payroll experience on the unfunded liability, the amortization period, and the state contribution rate which results in a 30- year amortization period of the retirement system.
4. **State Contribution to Teacher Retirement Program.** The amounts specified above in Strategy A.1.1, TRS-Public Education Retirement, \$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.
5. **State Contribution to Texas Public School Retired Employees Group Insurance Program.** The amounts specified above in Strategy A.2.1, Retiree Health-Statutory Funds, \$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.
6. **Excess Benefit Arrangement Account.** There is hereby appropriated to the Teacher Retirement System all funds transferred or deposited into the Excess Benefit Arrangement Account established in the General Revenue Fund for the purpose of paying benefits as authorized by Government Code §825.517.
7. **Transfer of Other Educational and General Income.** The Comptroller of Public Accounts is hereby authorized to transfer the necessary appropriations made above in Strategy A.1.2, TRS- Higher Education Retirement from Other Educational and General Income to institutions of higher education to meet their obligations and comply with the proportionality policy as expressed in the Article IX provision entitled Benefits Paid Proportional by Method of Finance.
8. **Exempt Positions.** Notwithstanding the limitations contained in the Article IX provision entitled Scheduled Exempt Positions, the TRS Board of Trustees may determine the salaries of the positions listed above in the Schedule of Exempt Positions without limitation.
9. **Annual School District Contribution Rate to TRS-Care.** The annual contribution rate for school districts for fiscal years 2020 and 2021 shall be 0.75 percent of total payroll.
10. **Full-Time Equivalent Positions Intern Exemption.** The number of Full-Time Equivalent (FTE) positions held by undergraduate and graduate students in the Intern Program of the Teacher Retirement System (TRS) shall be exempt from Article IX, Sec. 6.10. Limitation on State Employment Levels. This provision will not change the cap on the Number of Full-Time 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.

## TEACHER RETIREMENT SYSTEM

(Continued)

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

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

14. **Settle-Up Dollars Directed to TRS-Care.** Any settle-up payments made in the fiscal year ending August 31, 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.

TEACHER RETIREMENT SYSTEM  
(Continued)

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.





# APPENDIX D:

Board of Trustees, Teacher Retirement System of Texas

## Pension Funding Policy

Date: December 13, 2019

Interpretation Contact: Executive Director

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### **Purpose**

To formalize a funding policy, including a detailed plan that will 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.

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### **References**

- Tex. Gov't Code § 821.001 [Definitions]
  - Tex. Gov't Code § 821.006, [Action Increasing Amortization Period]
  - Tex. Gov't Code § 821.008 [Purpose of Retirement System]
  - Tex. Gov't Code § 825.108 [Reports]
  - Tex. Gov't Code § 825.206 [Actuary]
  - Tex. Gov't Code § 802.2011 [Funding Policy]
  - Tex. Gov't Code § 825.402 [Rate of Member Contributions]
  - Tex. Gov't Code § 825.4035 [Employer Contributions for Certain Employed Members]
  - Tex. Gov't Code § 825.404 [Collection of State Contributions]
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### **Definitions**

**Actuarial Value of Assets:** A smoothed value of the System's fair market assets on the valuation date, used for long term decision making.

**Actuarial Liability:** The target value of assets that would be needed in the trust as of the valuation date to be able to fully fund benefits based on past service.

**Unfunded Actuarial Accrued Liability (UAAL):** Any amount of the Actuarial Liability not covered by the Actuarial Value of Assets (positive difference between the two numbers).

**Funded Ratio:** The ratio of the Actuarial Liability currently covered by the Actuarial Value of Assets.

**Benefit Enhancement:** A monetary benefit as described in Tex. Gov't Code § 821.006 that is provided to retirees, such as a cost-of-living adjustment (COLA) or one-time supplemental payment.

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**Board of Trustees** means the Board of Trustees of the Teacher Retirement System of Texas as defined by Tex. Gov't Code § 821.001(5).

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**Policy**

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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.

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**Funding Policy  
Measurements****Actuarial Valuation**

The Board of Trustees will conduct and publish an actuarial valuation of the System's asset and liabilities as of August 31 of each year.

**Mid-Year Valuation**

The Board of Trustees will conduct and make public a limited actuarial valuation of the assets and liabilities of the retirement system as of February 28 in those years when the Texas Legislature meets in regular session;

**Unfunded Actuarial Accrued Liability (UAAL)**

Both the actuarial valuation and the mid-year valuation will include a calculation of the extent to which the system's liabilities are unfunded as provided in Tex. Gov't Code § 825.108(b). The Board will annually assess the trend of the UAAL as part of every valuation.

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***Achieving the Stated  
Funding Objective of  
at Least 100% Funded***

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 the following detailed plan for achieving the funding objective: Contribution Stability and Predictability – The contribution rates and scheduled increases, as described in Tex. Gov’t Code §§ 825.402, 825.4035, and 825.404, are expected to eliminate the UAAL over a period of 29 years. Eliminating the UAAL is predicated on the contribution increases being funded as set forth in statute. Therefore, the Board does not support legislative action that would reduce or fail to fund the statutory contribution rates. Legislative Appropriation Request of Contribution Rates – In advance of the legislative session, TRS prepares a legislative appropriation 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. After the phase-in of all scheduled contribution rate increases, the Executive Director, in consultation with the TRS Board of Trustees and based on a current annual actuarial valuation, will determine the appropriate contribution rate to request in the LAR, except that if, after the phase-in of all contribution rates, the annual valuation projects that the UAAL will not begin to decline by the fifth year following the valuation, then TRS will request contribution rate increases sufficient to begin to reduce the UAAL in the even-numbered fiscal year following the legislative session. Benefit Enhancements – The Board recognizes that there may be alternative methods of financing benefit enhancements and will evaluate any proposal for consistency with the goal of a declining UAAL and pursuant to Tex. Gov’t Code § 821.006.

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***Actuarial Assumptions  
and Methods***

- The actuary of the System will use the assumptions and methods approved by the Board in making the annual calculation of the UAAL, including the smoothed value of assets as of the valuation date.
  - The assumptions and methods will be reviewed at least once every four years in an Experience Study, with the next one scheduled to follow the August 31, 2021 actuarial valuation.
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Thank  
you  
to all  
of our  
members.



## OUR MISSION

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**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**

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