



TEACHER RETIREMENT SYSTEM OF TEXAS

# **Operating Budget Report**

## **Fiscal Year 2019**

Sept. 1, 2018 – Aug. 31, 2019



# Operating Budget Report

## Fiscal Year 2019

Teacher Retirement System of Texas

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**Teacher Retirement System of Texas  
Texas**

For the Fiscal Year Beginning

**September 1, 2017**

*Christopher P. Morrill*

Executive Director

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## Message from the Chief Financial Officer

*The total administrative operations budget for the Teacher Retirement System (TRS) for Fiscal Year (FY) 2019 is \$202.6 million across all funds which includes the addition of 61 full-time equivalent (FTE) positions to focus on both enhanced member services and an initiative to strategically transform the investment management function. The approved budget represents the FY 2019 portion of the FY 2018-19 biennial legislative appropriations. The budget is built on strategic planning efforts and represents the agency's funding priorities.*

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I am pleased to present TRS' FY 2019 *Operating Budget Report*, which was prepared in accordance with TRS' General Provisions. An important principle in budgeting is to develop a budget consistent with tactics to achieve strategic goals. Budget staff embarked on the budget process by engaging department managers in submitting and justifying current and long-term financial plans within budget guidelines, instructions, and a budget time line.

The agency's efforts continue to focus on the following funding priorities:

- Address immediate member service needs by adding resources to address extraordinary call volume, email traffic, and reduce the average hold time.
- Focus on becoming a best-in-class investment management fund and reduce external manager fees as part of the building the fleet initiative.
- Conclude the TRS Enterprise Application Modernization (TEAM) Program. Trust Phase 2 includes Build and User Acceptance Testing (UAT) for retirement processing, annuity payroll and tax reporting functionalities. The FY 2019 request will be the last for this seven-year, \$130+ million project.
- Support administrative functions by funding increases in operating expenses for leased space, postage, software licenses, and building maintenance and repairs.

### Benefit Services

The past 12 months have seen a host of extraordinary member service and communication challenges. Call volume has increased more than 35 percent while email traffic has increased more than 50 percent. The average hold time has grown to over 23 minutes while the average time it takes to service a call has grown from 10 to 30 minutes. The percentage of calls answered in three minutes has dipped below 25 percent compared to an expectation of 80 percent.

TRS spent an additional \$3 million of agency funds in FY 2018, not originally in the budget, to address these issues and added 43 positions to accommodate increased service traffic. The FY 2019 operating budget includes funding for these additional positions plus 14 more to manage member service expectations. We expect service traffic to normalize later in the fiscal year or in early FY 2020.



## Investment Management

The resources requested in this budget will also allow TRS to become a best-in-class investment management fund and potentially reduce external manager fees by \$1 billion or more over the next five years. 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 our competitive advantage, we have implemented a risk parity approach, launched a co-investment platform, and pursued alternative investments including direct investing.

However, economies of scale are not infinite. Deploying additional capital in the future will take additional resources. As a result, our investments-focused head count will need to increase. Doing so will allow us to reduce external management fees while preserving risk-appropriate returns and will allow TRS to sustainably increase the likelihood of meeting return assumptions. A total of 21 additional investment management positions are included in this budget to address these issues.

## TEAM Program

The TEAM Program is a cohesive collection of components designed to meet the business and technology objectives of TRS over the next 15-20 years. The associated projects under the TEAM Program include data management, financial system replacement, independent program assessment, and the pension administration line of business (LOB) solution.

The budget includes a total of \$21.4 million for TEAM and represents the conclusion of the program. The request includes \$8 million for the LOB solution, \$7.1 million for staff and related benefit costs, \$1.7 million for program management services, and \$4.6 million for contracted development staff and other support costs.

## Capital Budget

The capital budget includes funding for both physical infrastructure and information systems upgrades. A total of \$10.3 million is included in the budget for capital spending including \$3.8 million for building renovations, \$1.4 million for the Telephone Counseling Center upgrade, \$2.4 million for the CAPPS Project, and \$2.7 million for information system upgrades.

The agency continues to execute building improvement projects. The agency's focus in FY 2019 is the East Building Remodel Project which is a two-year effort to centralize customer service functions and more efficiently utilize existing space. Funding for information systems upgrades includes network infrastructure upgrades, investment systems upgrades, data center upgrades, and a PC workstation refresh program.

## Long-term Considerations

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

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


The endeavor to retool the investment management function will be a four to five year process in which we look to build internal capabilities previously outsourced. As we do so, possible external management fee savings will have to be tracked and assessed.

Finally, our ongoing need to invest in physical infrastructure will continue in the foreseeable future. Although the East Building Remodel Project is the current focus, the West Building Remodel is not that far behind. Comprehensive planning should begin in the FY 2020 – 21 time frame.

Key components of the budget document include revenue projections for the pension and health care funds, operating budget summaries, and information on non-TEAM capital projects.

The focus of the TRS 2019 operating budget continues to be updating systems, sustaining a culture of innovation and efficiencies, and delivering higher levels of service to our members while maintaining fiscal responsibility.

Don Green

A handwritten signature in black ink, appearing to read "Don C. Green", written in a cursive style.

Chief Financial Officer

## FY 2018-19 Legislation Impacting TRS

TRS follows a collaborative process in developing the agency's legislative initiatives. Strong working relationships with all stakeholders are developed and maintained. During the 2017 legislative session, more than 6,800 bills/joint resolutions were reviewed and monitored with 460 TRS-related bills analyzed. The following bills represent those of interest to TRS.

### SB 1 – State Appropriations (see Appendix C)

- Maintains state contribution of 6.8 percent toward the pension fund.
- Maintains member contribution to 7.7 percent.
- States the intent of the legislature: Long-term solvency of TRS-Care be a shared responsibility between the state, school districts, employees, and retirees.
- Provides supplemental state funding of \$182.6 million for TRS-Care.

### HB 3976 – Administration and Benefits Payable under the Texas Public School Retired Employees Group Benefits Act

- State contribution increases to 1.25 percent of active employee payroll.
- Establishes a high deductible plan and a Medicare Advantage plan.
- During the 2018-21 plan years, TRS shall not charge a premium to disability retirees who: (1) retired as a disability retiree effective on or before Jan. 1, 2017; (2) are currently receiving disability retirement benefits; and (3) are not eligible to enroll in Medicare.
- Estimates statutory requirement to provide a no-premium health care plan.
- Provides \$0 cost of generic preventive maintenance medications for enrollees in the high deductible plan.
- Provides a statutory opt-in window for pre-65 retirees who choose coverage elsewhere to opt-in to Medicare Advantage plan at age 65.

### SB 1954 – Optional Retirement Program (ORP)

- Allows ORP-eligible employees who are not notified properly additional time to elect ORP participation.
- Creates a correction of error process for reporting an ORP employee to TRS when the employee is not eligible for TRS.

### SB 1663 – TRS Administration of Systems and Programs

- Provides member-friendly benefit and administrative changes.
- Allows TRS Board to go into executive session to discuss particular investment transactions, strategies, portfolios, and other potential transactions related to private investments.
- Provides TRS with the authority to charge late fees on late reports by Reporting Entities (REs).
- Allows TRS to add an additional five years of service credit when determining whether an early-age reduction is applicable and the amount of the reduction, for a 100 percent joint survivor annuity payable at the death of an active member.



- Amends the current law to provide disability retirees with less than 10 years of service credit who choose a \$150 per month annuity for the number of months of membership to now allow if the disability retiree dies before the period ends, the beneficiaries will receive any remaining member contributions as an additional death benefit.
- Establishes TRS sunset review in 2025.

### SB 1664 – TRS Administration of Systems and Programs

- Provides IRS code compliance, statutory corrections and member-friendly benefit changes.
- Provides additional time for TRS members to purchase sick and personal leave service credit at retirement.
- Corrects an error referencing TRS Board rather than Higher Education Coordinating Board to certify state contribution to the ORP.

### SB 1665 – Investment Authority of TRS

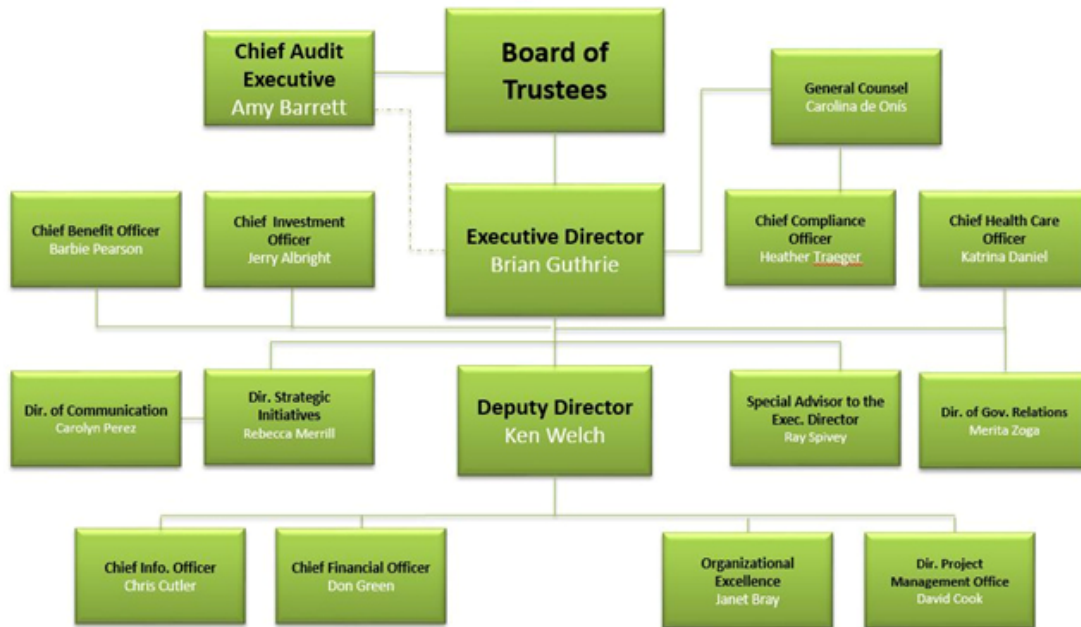
- Continues the use of derivatives and external managers capped at 30 percent of total assets.
- Repeals the sunset dates on the authorities.

## Special Session

### HB 21 – Additional Funding for TRS-Care

- Appropriates additional \$212,000,000 to TRS-Care out of unencumbered appropriations from the Health and Human Services Commission.
- The funds may be used to decrease the premiums and deductibles that would otherwise be paid during the 2018 and 2019 plan years by TRS-Care participants and to reduce costs for an enrolled adult child with a mental disability or a physical incapacity.

## TRS Organizational Chart



*TRS was founded in 1936 to improve the retirement security of Texas educators. The money in the trust is held exclusively for the benefit of TRS members. The nine-member board of trustees acts as a fiduciary of TRS assets. The board members are appointed by the governor of Texas. Five board members must have financial expertise. Four board members must participate in an election for which the governor appoints from the top three vote recipients per election.*

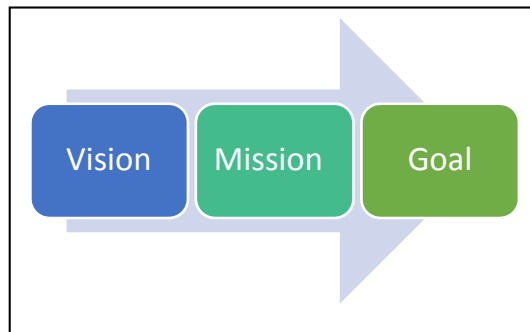
## TRS Strategic Plan Highlights

For the period FY 2019-23

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

### State wide Objectives:

1. Accountable to tax and fee payers of Texas.
2. Efficient such that maximum results are produced with a minimum waste of taxpayer funds, including through the elimination of redundant and non-core functions.
3. Effective in successfully fulfilling core functions, measuring success in achieving performance measures, and implementing plans to continuously improve.
4. Attentive to providing excellent customer service.
5. Transparent such that agency actions can be understood by any Texan.



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### TRS Mission

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

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### Five Strategic Plan Goals:

- Goal 1: Sustain a financially sound pension system.
- Goal 2: Continuously improve our benefit delivery.
- Goal 3: Facilitate access to competitive, reliable health care benefits for our members.
- Goal 4: Ensure that people, processes, and technology align to achieve excellence in the delivery of TRS goals.
- Goal 5: Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized businesses (HUBs).

## Goal 1: Sustain a financially sound pension system

TRS Trust Fund Actuarial Snapshot	8/31/17	Goal
<b>Funded Ratio</b>	80.5%	≥80%
<b>State Contribution Rate</b>	6.8%	
<b>Non-Social Security School District Contribution Rate</b>	1.5%	
<b>Member Contribution Rate of Payroll</b>	7.7%	
<b>Funding Period (years)</b>	32.2 years	≤30 years
<b>Annual Required Contribution (ARC)</b>	7.85%	
<b>Are contributions sufficient to fund future liabilities?</b>	No	Yes

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 30 years’ worth of annuity payments. The funding period is the number of years the fund would need to pay off the total unfunded liability.

The metrics recorded in the chart above are actual figures from the fund’s valuation report for the period ending August 31, 2017. We do not provide estimates or projections. The total contribution rate is currently 7.70 percent. The required contribution rate, including deferred investment losses, is 7.85 percent.

With the passage of legislation in 2013 that increased member contribution rates, the unfunded liability is expected to increase every year until 2029. It is then expected to decline until a payoff occurs around 2049. Both the funded ratio and funding period are affected by a number of variables including membership, covered payroll growth, longevity, and investment returns.

## Goal 2: Continuously improve our benefit delivery

According to the *2017 Member Satisfaction Survey*:

- Retiree satisfaction was particularly high, with an overall approval rating (satisfied or very satisfied) of 88.5 percent.
- Active members also gave TRS a very high overall rating (satisfied or very satisfied) of 82.5 percent.
- In addition to the *2017 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.

Key Performance Measures	FY 2017 Target	FY 2017 Actual	Explanation
TRS expense per member (Benefit Administration Expenses)	\$29	\$28.74	Actual was lower than target as a result of higher than normal capital expenses for TEAM amortized over the lifespan of the asset consistent with standard accounting practice.
Investment expense per member in basis points	23bp	15.72bp	The decrease in investing activity expense is primarily due to lower external manager fees paid out of the trust in FY 2017.
Service level percentage of calls answered in specified time interval	80%	68.60%	During the fiscal year, productivity time was lost due to inadequate staffing levels. This was largely attributed by higher than normal vacancies and a hiring freeze as directed by the Office of the Governor.
Number of benefit claim applications processed annually (service and disability retirements, refunds, and death claims)	72,000	73,608	All applications are processed. Any variance is due to the number of applications received.

### Goal 3: Facilitate access to competitive, reliable health care benefits for our members

In FY 2017, over \$1.1 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 \$328 million, including proportionality amounts received from the districts elsewhere classified as district contributions.

Over \$2.2 billion was received in FY 2017 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 optimal use of TRS health plan benefits. TRS will continue to enhance health data analytics to drive key decision making to support cost management and resource maximization.

Goal 4: Ensure that people, processes, and technology align to achieve excellence in the delivery of TRS goals

- TRS is consistently selected as a Top Workplace in Austin as part of the *Austin American Statesman's* workplace survey. TRS is a preferred employer because of its mission and culture and because it provides employees with the tools needed to succeed. In FY 2018, 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.



- FY 2018-19 appropriations includes funding for a 5 percent merit pool for IMD and a 3 percent merit pool for Red River staff. Merit allocations continue to be centralized. The executive director and deputy director work with managers to determine merit allocations through a departmental analysis.
- Continue to increase employee in-house learning opportunities and development.
- Maintain a desirable work environment that includes efficient use of space.
- Continue to provide organizational change management support throughout the TEAM Program.

Goal 5: Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized businesses (HUBs)

TRS is committed to adhering to the HUB Program and for operating under the highest ethical standards. The agency will continue to:

- Support and implement responsibilities as determined by the Texas comptroller of public accounts (CPA).
- Host the annual TRS HUB forum and participate in local and selected state wide HUB events, including CPA forums.
- Conduct one-on-one meetings with HUB vendors and assist with identifying business opportunities with TRS and other state agencies as well as assist vendors in becoming certified or recertified as a Texas HUB.
- Encourage vendor participation in the Mentor-Protégé Program.
- Support and enhance the Emerging Managers Program initiated by the Investments Division.



## 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 85<sup>th</sup> Texas Legislature. A balanced budget is one in which the total revenues equal total estimated expenditures. The budget for FY 2019 is balanced and prepared in accordance with board policy and guidelines and Generally Accepted Accounting Principles (GAAP).

### Basis of Budgeting

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

### Policies

#### Bylaws of the Board of Trustees of the Teacher Retirement System of Texas

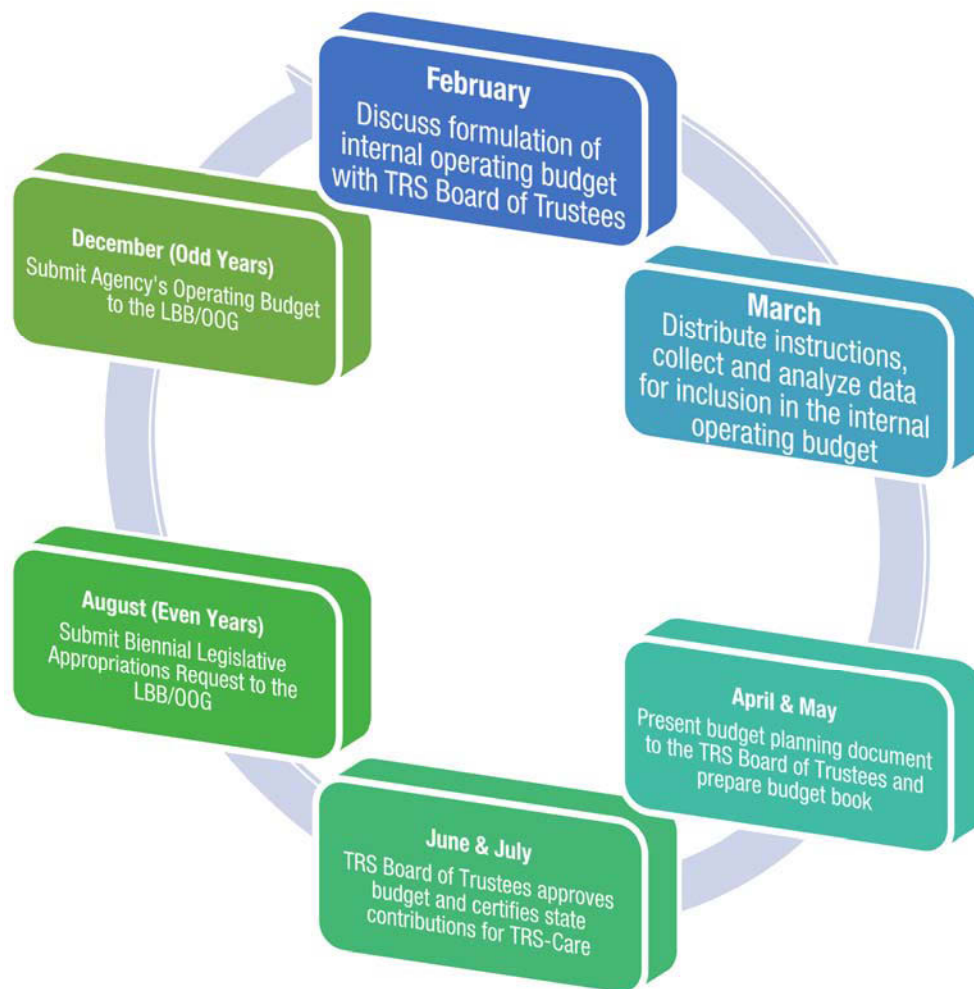
**Art. 3 Section 3.1.3 Budget Committee.** The Board shall have a Budget Committee, which shall meet as necessary at the call of its chairman to:

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

**Art. 5 Section 5.4 Budgets and Fiscal Year.** The budgets of the pension trust fund and any other trust funds administered by TRS are adopted by the Board and may be amended by the Board in subsequent meetings. The TRS fiscal year shall begin September 1 and shall end the following August 31.

### Planning

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

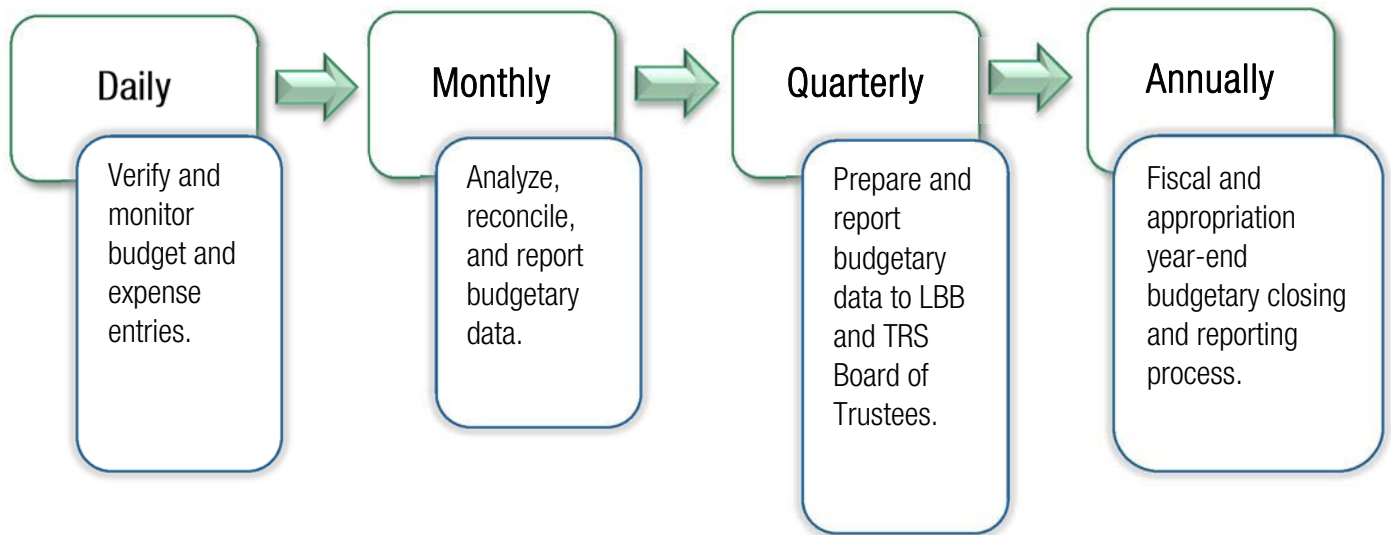


### Budget Policy

- 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 Budget (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 in the absence of the executive director, to transfer budgeted funds up to \$100,000 or 12.50 percent of a major expense category (whichever is greater) 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, the Retired and Active Health Benefits Funds, and the 403(b) Certification Program.

### Budget Monitoring

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



## Explanation of Revenue Sources and Changes in Fund Balances

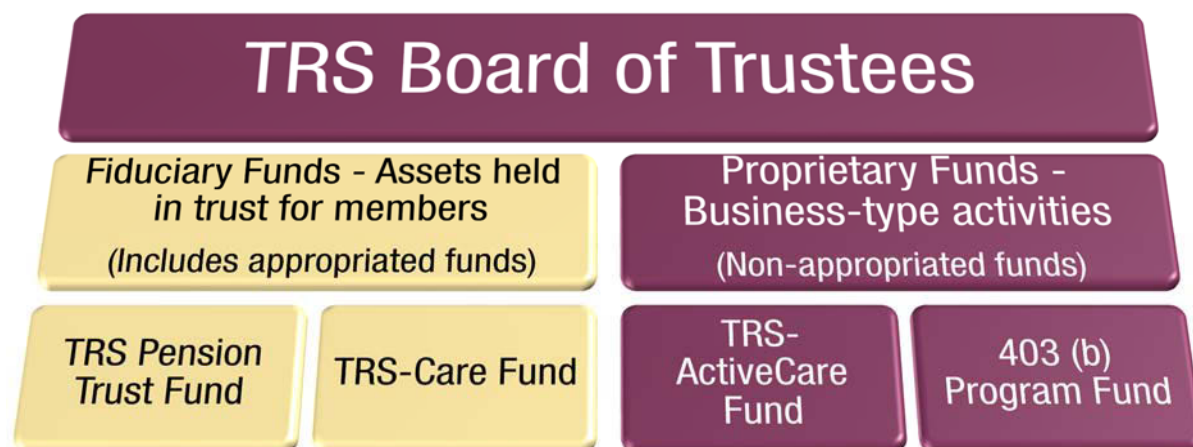
The system's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, revenues, and expenses. The fund balance is defined as the difference between the assets and liabilities of the fund consistent with GASB Statement 54. TRS maintains four major funds in two categories.

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

Proprietary funds, which do not include any appropriated funds, include TRS-ActiveCare and the 403(b) Certification Program. These funds are used to account for business type activities or those for which a fee is charged to external users for good and services. The reporting focus is on the determination of operating income, changes in net position, financial position, and cash flows. Benefits are paid from TRS-ActiveCare. Operating expenses are paid from both funds.

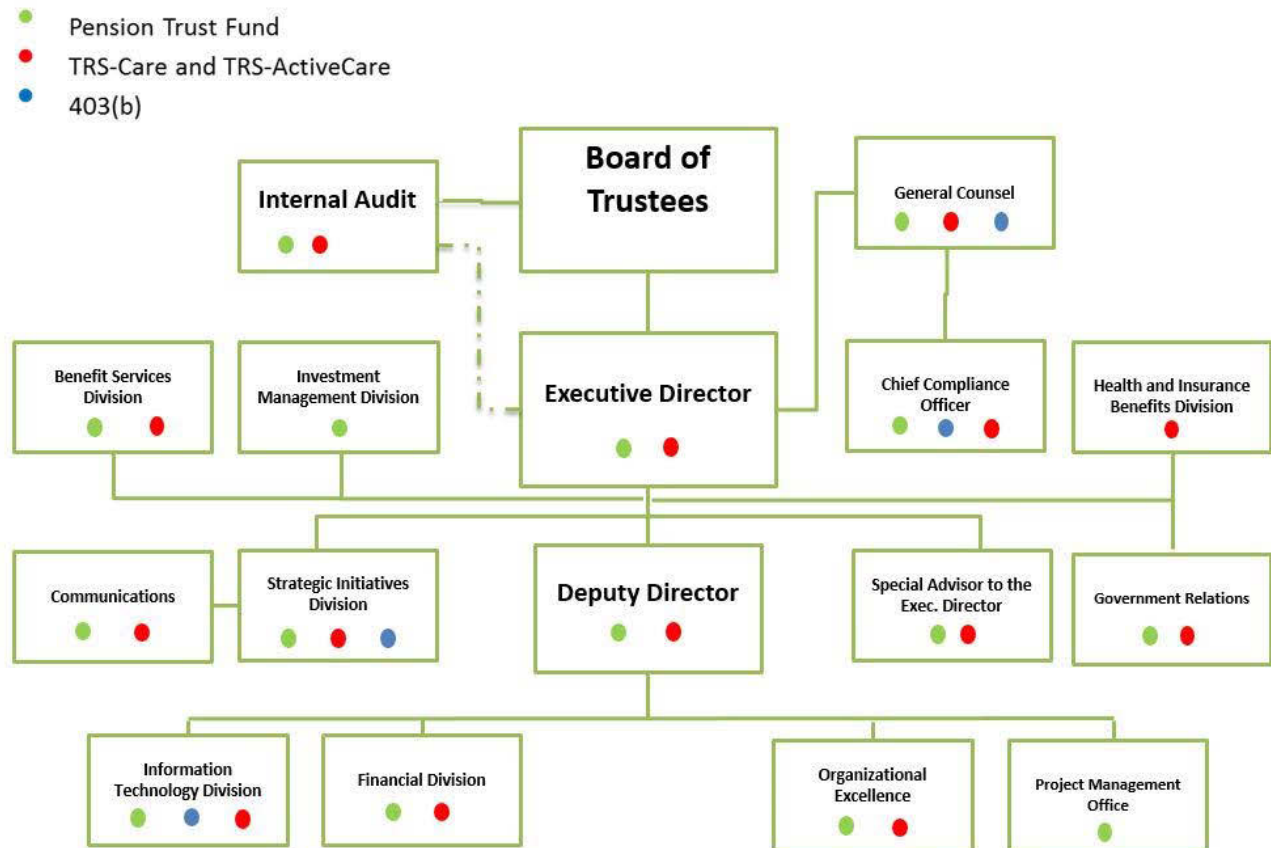
### Appropriated Funds

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



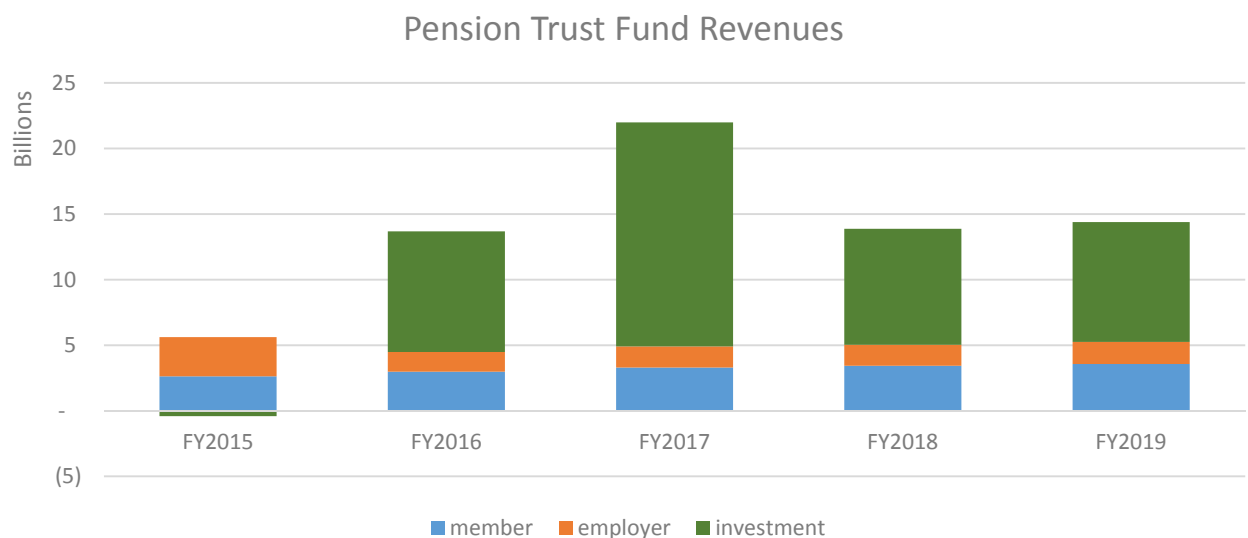
### Fund and Department Structure

All of the divisions and departments within TRS are funded by the pension trust fund with the exception of the Health Insurance Benefits Division. The Health Insurance Benefits Division is funded with health care funds which includes both TRS-Care and TRS-ActiveCare. A cost allocation process is used to transfer support costs from the other divisions, including the Executive Support, Information Technology (IT), Finance, and Benefit Services Divisions, to the health care funds. The Strategic Initiatives Division, which oversees the 403(b) Certification Program, charges some of its operating expense to the 403(b) Trust Fund. A cost allocation process is used to transfer support costs from the general counsel and IT Division to the 403(b) Trust Fund.



## TRS Pension Trust Fund

Funding for the pension trust fund is derived from three main sources: member contributions, employer contributions and investment income.



## Member Contributions

Member contributions are set by statute and are currently 7.7 percent of eligible compensation. There are over 860,000 actively contributing members in TRS, growing at a rate of approximately 2 percent per year.

## Employer Contributions

The same contribution rate is used for all employers and the State of Texas. Employer contributions are often called the state contribution rate and are established in the General Appropriations Act (GAA). That rate is 6.8 percent of eligible compensation through FY 2019. There are 1,335 contributing employer entities as of August 2017. Employer contributions made by the State of Texas, commonly called the state matching, is appropriated to TRS by the state legislature.

## Investment Income

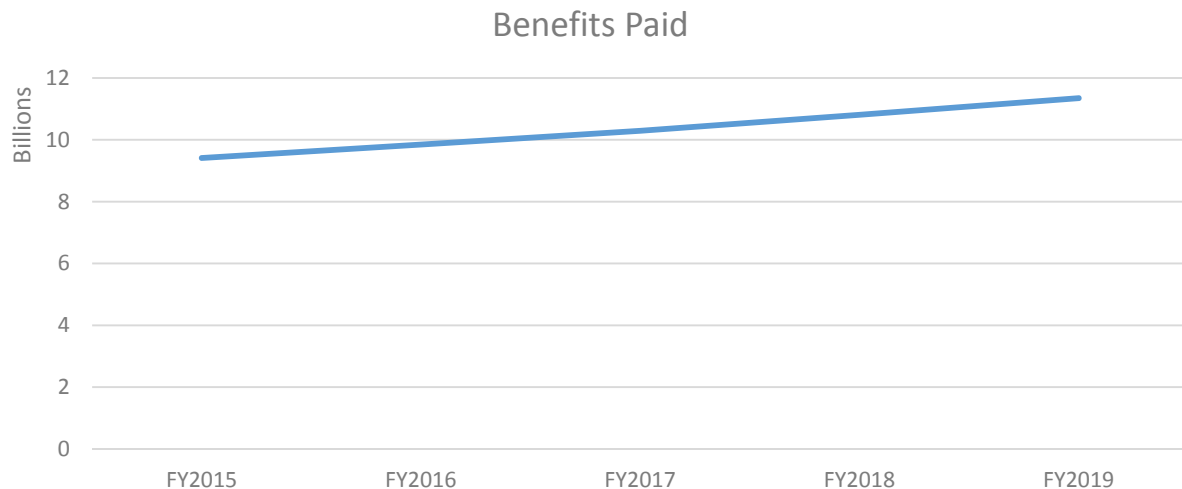
The invested assets of the pension trust fund are a major contributor of resources used to pay annuitants. Since the fund's inception in 1938, 61 percent of all trust fund revenue is related to investments. The assumed rate of return was recently lowered by the TRS Board of Trustees from 8 percent to 7.25 percent.

## Projections

With an expected 3 percent annual growth in covered payroll, the member contributions amount should grow in the range of 2 to 4 percent. Employer contributions should follow suit since the basis of payroll, that is covered payroll, is the same as member contributions. Annual growth of 3 to 5 percent is expected going forward. The state's share of employer contributions is appropriated to TRS by the state legislature.



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 August 31, 2017 was 12.6 percent. The investment earnings amount projected below includes both investment returns and investment earnings.



Benefits paid generally grow 5 percent per year. Administrative expenses for benefit operations are expected to increase slightly in the near term due to an increased focus on customer service along with inflationary increases. Investing costs are generally netted against investment returns. Reduced investing costs going forward should support investment returns.

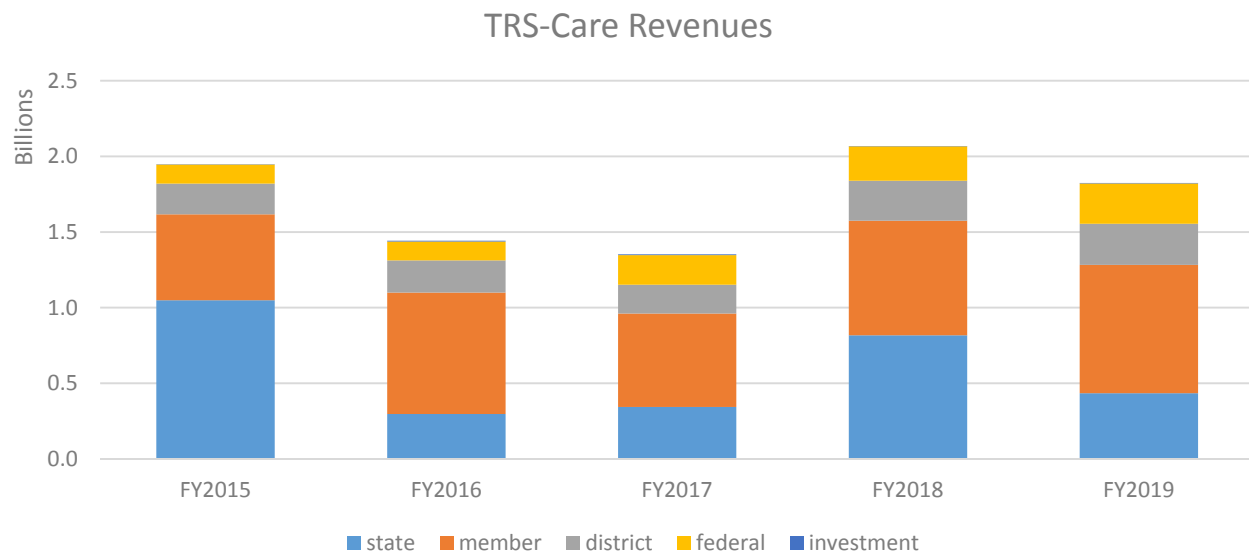
Pension Trust Fund	Actual FY 2017	Estimated FY 2018	Estimated FY 2019	Variance FY 2018 to FY 2019
Member Contributions	3,297,649,002	3,429,554,962	3,566,737,160	4%
State Contributions (Appropriated)	1,700,893,007	1,902,897,140	1,965,466,951	3%

Employer Contributions	1,610,353,274	1,606,328,910	1,686,645,356	5%
Investment	17,081,106,631	8,841,715,327	9,137,358,434	3%
<b>Total Revenues</b>	<b>23,690,001,914</b>	<b>15,780,496,339</b>	<b>16,356,207,901</b>	<b>4%</b>
Benefits Paid	10,292,527,269	10,807,153,632	11,347,511,314	5%
Admin Expenses - Appropriated (excluding investing activity expenses)	44,189,998	45,957,598	51,792,582	13%
<b>Total Expenses</b>	<b>10,336,717,267</b>	<b>10,853,111,230</b>	<b>11,399,303,896</b>	<b>5%</b>
Net Increase (Decrease)	13,353,284,647	4,927,385,109	4,956,904,005	
Net Position, Beginning of Year	134,008,637,473	147,361,922,120	152,289,307,229	
<b>Net Position, End of Year</b>	<b>147,361,922,120</b>	<b>152,289,307,229</b>	<b>157,246,211,234</b>	<b>3%</b>

### TRS-Care, Health Care Program for Retired Teachers

Revenue for TRS-Care comes from six sources. These include state contributions, active member contributions, district contributions, retiree premiums, federal programs, and investment income. Significant changes occurred as a result of legislative action during the 85<sup>th</sup> regular session that concluded in May 2017.

- State contributions, active member contributions, and district contributions are generally defined as a percentage of the active employee payroll. The current contribution amount is 1.25 percent of active payroll for state contributions, 0.65 percent for active members and 0.75 percent for district contributions.
- Retiree premiums are tiered by years of service, Medicare status, dependent coverage, and plan election.
- Federal program revenue is generated from Part D of Medicare for prescription drug subsidies.
- Investment income is earned on whatever cash balance is maintained with the State of Texas Treasury.



### Projections

The covered employee payroll that serves as a base for three of the six revenue sources is expected to grow along with the growth of active teachers. For the next few years (i.e. through FY 2019), payroll growth is expected to average 3 percent per year. The state's share of employer contributions is appropriated to TRS by the state legislature. The legislature increased the state's contribution rate from 1 percent to 1.25 percent and the district contribution rate from 0.55 percent to 0.75 percent. For FY2019, the increased state contribution rate added an estimated \$84.5 million while the increased district contribution rate added an estimated \$74.6 million.

State legislative action allowed for increased retiree premiums. The TRS Board of Trustees raised premiums in the fall of 2017 for the 2018 plan year and will consider the 2019 plan year premiums in the fall of 2018.

Federal revenue is dependent upon congressional action and continued program funding.

Health care claims expense, including pharmaceutical costs, have been increasing 7 to 8 percent per year for the last decade. That trend is expected to continue in the near term. TRS' administrative expenses will go up more than the historical average over the next couple years due to an increase in staffing and project spending associated with upgrading the technology infrastructure used to serve members.

Although expected claims expense will continue to outpace revenue growth, the TRS-Care Fund is expected to remain solvent through FY 2019.

TRS-Care, Health Care Program for Retired Teachers	Actual FY 2017	Estimated FY 2018	Estimated FY 2019	Variance FY 2018 to FY 2019
State Contributions (Appropriated)	343,622,904	816,981,566	435,053,013	-47%
Member Contributions	617,268,889	757,921,849	847,611,925	12%
District Contributions	191,057,800	264,070,900	271,673,768	3%
Federal Revenue	195,396,219	226,932,368	266,790,678	18%
Investment Income	5,225,993	2,468,748	2,552,944	3%
<b>Total Revenues</b>	<b>1,352,571,805</b>	<b>2,068,375,431</b>	<b>1,823,682,328</b>	<b>-12%</b>
Health Care Claims Paid	1,588,224,468	1,822,809,434	2,040,255,492	12%
Administrative Expenses	6,297,505	9,561,207	9,481,956	-1%
<b>Total Expenses</b>	<b>1,594,521,973</b>	<b>1,832,370,641</b>	<b>2,049,737,448</b>	<b>12%</b>
Net Increase (Decrease)	(241,950,168)	236,004,790	(226,055,120)	
Net Position, Beginning of Year	641,486,153	399,535,985	635,540,775	
<b>Net Position, End of Year</b>	<b>399,535,985</b>	<b>635,540,775</b>	<b>409,485,655</b>	<b>-36%</b>

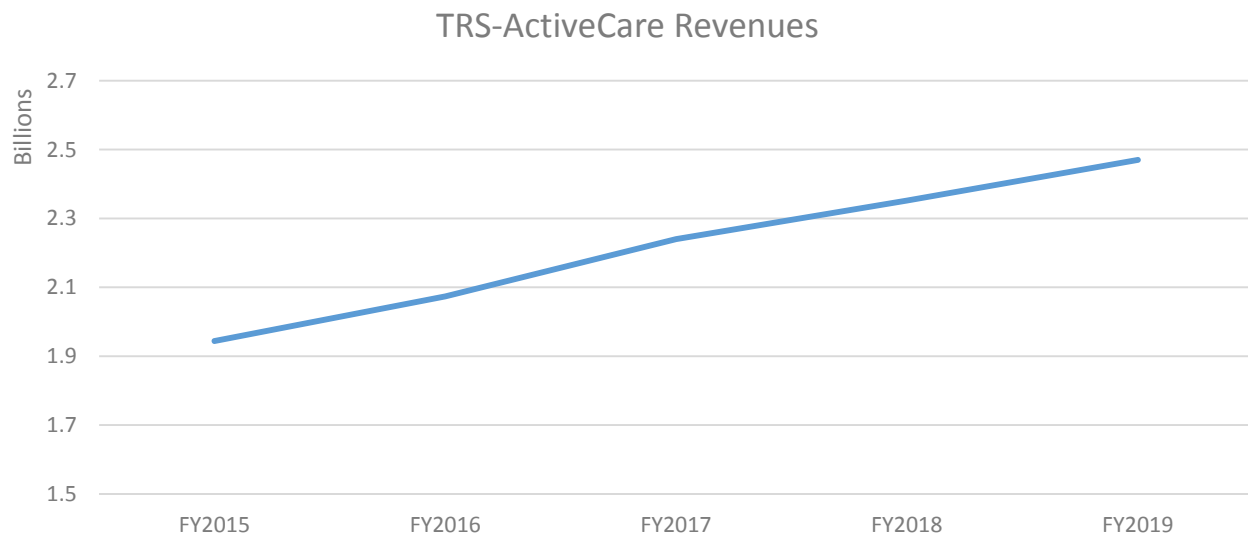
### TRS-ActiveCare, Health Care Program for Active Teachers

Revenue for TRS-ActiveCare comes from state contributions, district contributions, and employee contributions. State funding is \$75 per month per employee, provided through the school finance formulas. The district contribution is a minimum of \$150 per month per employee, but districts may (and typically do) contribute more. Employee contributions vary by plan election and coverage selected.

### Projections

Both state contributions and district contributions are affected by the growth in the number of active teachers. Historically, the number of teachers is highly correlated to the state's population. Population growth has averaged 1.8 percent per year over the past 30 years. For the next few years (i.e. through FY 2019), that growth is expected to average 2 to 3 percent per year.

Member contributions are highly dependent upon member elections of coverage. More members are opting out of coverage which might lead to a slowing in the growth of member contributions overall. The chart below includes state contributions, member contributions, and district contributions in the premiums revenue category. Premiums have been increasing roughly 5 percent per year.



The other revenue category in the chart below includes applicable federal revenue, payments for COBRA coverage, as well as reimbursements the State of Texas makes for the payment of benefits provided to TRS employees. Claims expense has been increasing about 3 percent per year. Administrative expenses include an expected increase in actuarial and consulting support costs.

TRS-ActiveCare, Health Care Program for Active Teachers	Actual FY 2017	Estimated FY 2018	Estimated FY 2019	Variance FY 2018 to FY 2019
Premiums	2,240,154,323	2,352,162,039	2,469,770,141	5%
Investment Income	4,668,888	3,000,000	3,000,000	-
Other Revenue	175,238	175,000	175,000	-
<b>Total Revenues</b>	<b>2,244,998,449</b>	<b>2,355,337,039</b>	<b>2,472,945,141</b>	<b>5%</b>
Health Care Claims Paid	2,197,399,072	2,263,321,044	2,331,220,675	3%
Administrative Expenses	3,345,442	4,158,335	4,517,985	9%
<b>Total Expenses</b>	<b>2,200,744,514</b>	<b>2,267,479,379</b>	<b>2,335,738,660</b>	<b>3%</b>
Net Increase (Decrease)	44,253,935	87,857,660	137,206,481	
Net Position, Beginning of Year	53,550,894	97,804,829	185,662,489	
<b>Net Position, End of Year</b>	<b>97,804,829</b>	<b>185,662,489</b>	<b>322,868,970</b>	<b>74%</b>

#### 403(b)

A 403(b) plan is also known as a tax sheltered annuity (TSA) plan. It is an optional retirement plan for employees of public school districts in Texas. Companies who want to offer 403(b) products in Texas school districts must register

with, and be certified by, TRS. TRS oversees the registration process and provides guidance to districts and registered providers. Teachers who elect this option interact directly with the third party provider. TRS does not take custody of the contributions or provide investment oversight.

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

### Projections

Since registrations are good for a three-year period, not all companies will pay to register every year. A total of five certifications and five registrations are expected during FY 2019.

Administrative expenses include staff costs related to overseeing the certification process. The product registration system, an online system companies use to register products, will be overhauled during FY 2019 leading to slightly higher spending than in the past.

403(b) Certification Program	Actual FY 2017	Estimated FY 2018	Estimated FY 2019	Variance FY 2018 to FY 2019
Fee Revenue	168,000	600,000	75,000	-88%
Interest Income	2,784	1,500	1,500	-
<b>Total Revenues</b>	<b>170,784</b>	<b>601,500</b>	<b>76,500</b>	<b>-87%</b>
Administrative Expenses	183,745	392,200	390,533	-0.4%
<b>Total Expenses</b>	<b>183,745</b>	<b>392,200</b>	<b>390,533</b>	<b>-0.4%</b>
Net Increase (Decrease)	(12,961)	209,300	(314,033)	
Net Position, Beginning of Year	267,554	254,593	463,893	
<b>Net Position, End of Year</b>	<b>254,593</b>	<b>463,893</b>	<b>149,860</b>	<b>-67.7%</b>



## Summary of FY 2019 Operating Budget

### Pension Trust Fund and Commission Credits

	Pension Trust Fund				
	Administrative Operations	TEAM Program	Commission Credits	FY 2019 TOTAL	FY 2018 TOTAL
<b>Sources of Funds</b>					
Legislative Appropriations	108,116,649	19,888,766	-	128,005,415	110,759,891
Balance Forward	-	-	-	-	-
Fringe Benefits	18,716,354	1,442,067	-	20,158,421	17,783,295
Performance Incentive Compensation	11,360,000	-	-	11,360,000	11,360,000
Commission Credits	-	-	28,699,996	28,699,996	26,605,698
<b>Total Sources</b>	<b>138,193,003</b>	<b>21,330,833</b>	<b>28,699,996</b>	<b>188,223,832</b>	<b>166,508,884</b>
<b>Uses of Funds</b>					
Wages and Benefits	85,029,227	6,993,833	-	92,023,060	78,814,374
Performance Incentive Compensation	11,360,000	-	-	11,360,000	11,360,000
Professional Fees and Services	6,170,205	14,190,000	6,440,000	26,800,205	27,203,562
Support Costs	7,525,169	15,000	495,720	8,035,889	6,698,574
Travel	1,815,860	30,000	-	1,845,860	1,619,060
Capital Projects	7,904,438	-	-	7,904,438	5,222,000
Operating Costs	18,388,104	102,000	21,764,276	40,254,380	35,591,314
<b>Total Uses</b>	<b>138,193,003</b>	<b>21,330,833</b>	<b>28,699,996</b>	<b>188,223,832</b>	<b>166,508,884</b>

Administrative operations are funded by the pension trust fund and include all agency operations for benefit administration and investment management. The state legislature appropriates funding from the pension trust fund to pay for operations. The agency is allowed to carry forward capital project funding within a biennium. Funding for both fringe benefits and performance incentive compensation payments is appropriated separately.

The TEAM Program is a large, multi-year capital project that involves creating a new IT platform for benefits administration. The funding and spending for that project is being tracked separately. The Commission Credits Program is tracked separately as well. The revenue generated via Commission Credits is spent exclusively for investment management purposes. Commission Credit revenue is not appropriated.

## Summary of FY 2019 Operating Budget

### Health Benefits Administration and 403(b) Certification Program

	TRS-Care	TRS-ActiveCare	403(b)	FY 2019 TOTAL	FY 2018 TOTAL
<b>Sources of Funds</b>					
Reserved for Administrative Operations	9,481,956	4,517,985	390,533	14,390,474	14,111,742
<b>Total Sources</b>	<b>9,481,956</b>	<b>4,517,985</b>	<b>390,533</b>	<b>14,390,474</b>	<b>14,111,742</b>
<b>Uses of Funds</b>					
Wages and Benefits	4,764,956	2,691,645	129,932	7,586,533	6,912,380
Professional Fees and Services	3,963,000	1,763,500	246,501	5,973,001	6,570,195
Support Costs	58,000	28,300	-	86,300	73,200
Travel	212,000	10,200	3,000	225,200	103,200
Operating Costs	484,000	24,340	11,100	519,440	452,767
<b>Total Uses</b>	<b>9,481,956</b>	<b>4,517,985</b>	<b>390,533</b>	<b>14,390,474</b>	<b>14,111,742</b>

The chart above is a summary of the FY 2019 budget by fund for the health care funds and the 403(b) Certification Program. The health care funds operate on a pay-as-you-go basis; collect revenue from members, employers and the state; and use that funding to pay for claims and administrative operations. The amounts above are for administrative operations only and do not include claims expenses. None of the amounts above are appropriated.

## Expenses by Department

Department/Division	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019	
Board	152,636	200,697	319,000	118,303	59%
Executive	1,037,063	1,130,407	1,018,965	(111,442)	-10%
Internal Audit	2,487,906	2,341,856	2,391,117	49,261	2%
Legal	4,512,381	5,213,389	6,270,296	1,056,907	20%
Governmental Relations	414,433	417,820	427,978	10,158	2%
Communications	1,467,901	1,475,875	1,430,444	(45,431)	-3%
Organizational Excellence	2,357,183	2,378,354	3,592,595	1,214,241	51%
Project Management Office	8,450	50,000	50,000	-	0%
Strategic Initiatives	773,083	749,096	1,257,741	508,645	68%
Risk Management	1,078,636	1,339,879	1,364,229	24,350	2%
Administrative Costs*	3,711,258	5,653,598	7,792,953	2,139,355	38%
<b>Agency Support</b>	<b>18,000,930</b>	<b>20,950,971</b>	<b>25,915,318</b>	<b>4,964,347</b>	<b>24%</b>
Investment Operations	35,551,335	44,792,085	49,070,501	4,278,416	10%
London Office	1,893,601	2,435,672	3,047,114	611,442	25%
Commission Credits	18,355,301	25,865,698	27,809,996	1,944,298	8%
<b>Investment Management</b>	<b>55,800,237</b>	<b>73,093,455</b>	<b>79,927,611</b>	<b>6,834,156</b>	<b>9%</b>
Chief Benefit Officer	412,815	677,562	595,876	(81,686)	-12%
Benefit Processing	4,765,813	5,425,852	5,834,003	408,151	8%
Benefit Counseling	4,057,889	5,109,214	6,502,526	1,393,312	27%
Benefit Payments	546,904	620,837	663,125	42,288	7%
Benefit Reporting	489,792	749,800	1,021,265	271,465	36%
<b>Benefit Services</b>	<b>10,273,213</b>	<b>12,583,265</b>	<b>14,616,795</b>	<b>2,033,530</b>	<b>16%</b>
Financial	299,448	301,522	277,984	(23,538)	-8%
Accounting Operations	2,470,872	2,115,559	2,323,094	207,535	10%
Administrative Operations	2,002,566	4,850,642	4,243,441	(607,201)	-13%
Staff Services	2,038,239	773,123	773,123	-	0%
Facilities Services	5,316,778	3,152,971	4,983,971	1,831,000	58%
Printing, Mail & Supply	3,019,510	4,037,723	3,846,473	(191,250)	-5%
Security	-	88,500	178,100	89,600	101%
<b>Financial</b>	<b>15,147,413</b>	<b>15,320,040</b>	<b>16,626,186</b>	<b>1,306,146</b>	<b>9%</b>

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

## Expenses by Department (cont.)

Department/Division	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019	
Information Technology	2,029,292	3,513,320	3,629,514	116,194	3%
Enterprise Infrastructure	8,930,703	14,916,029	17,649,152	2,733,123	18%
Systems - Green Team	1,858,488	1,993,563	2,236,578	243,015	12%
Client Services	579,967	638,724	606,095	(32,629)	-5%
Systems - Gold Team	1,724,162	1,813,102	2,255,654	442,552	24%
Delivery and Quality Mgt	586,450	598,885	803,184	204,299	34%
<b>Information Technology</b>	<b>15,709,062</b>	<b>23,473,623</b>	<b>27,180,177</b>	<b>3,706,554</b>	<b>16%</b>
TEAM Program	25,842,911	18,611,930	21,330,833	2,718,903	15%
HILOB Project	500,882	1,093,630	1,308,395	214,765	20%
CAPPS Implementation	-	2,475,600	2,626,912	151,312	6%
TRS Care Administrative	5,796,623	8,467,577	8,173,561	(294,016)	-3%
Active Care Administrative	3,354,892	4,158,335	4,517,985	359,650	9%
403(b) Certification Program	187,133	392,200	390,533	(1,667)	0%
<b>Agency Total</b>	<b>150,613,296</b>	<b>180,620,626</b>	<b>202,614,306</b>	<b>21,993,680</b>	<b>12%</b>

The TEAM Program is a \$100+ million, multi-year effort to modernize the major IT systems that TRS uses to administer benefits. There are several projects involved including the LOB, data management, program management, application architecture, and website redesign.

The Health Insurance Line of Business (HILOB) project was originally part of the TEAM Program LOB project, but has since been separated out. An internal business decision was made in late FY 2016 to pursue HILOB outside the scope of the original LOB project so as to better focus on the health care complexities and unique needs of those members.

The CAPPS is a state wide ERP system created by the state comptroller. TRS began implementing CAPPS in FY 2018 with a two year time frame. Although most of the implementation cost will be borne by the state comptroller, TRS will assume the costs associated with linking CAPPS with the TRS IT infrastructure.

The overall increase in the budget from year to year is related to additional FTEs added to focus on enhanced member services and an initiative to strategically transform the investment management division potentially saving \$1.4 billion in investing fees over the next five years. The added positions create increases across all of the divisions with the exception of health care.

## Division Expenses and Goals – Agency Support

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	12,918,946	14,750,615	19,487,693
Professional Fees and Services	2,174,533	2,302,500	2,719,700
Other Operating Expenses	2,907,451	3,897,856	3,707,925
<b>Total</b>	<b>18,000,930</b>	<b>20,950,971</b>	<b>25,915,318</b>

**Description:** Agency Support consists of a variety of oversight departments including Executive Director staff, Internal Audit, Legal & Compliance, Governmental Relations, Communications, Organizational Excellence, Project Management Office, Strategic Initiatives, Risk Management, Interns, and agencywide programs. The division provides direction to the agency in developing and implementing strategies and programs to promote effective and responsible operations.

**Division Goals:**

- Enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight
- Advance TEAM Program and ensure employee readiness
- Develop effective working relationships with TRS stakeholders
- Respond to legislative and constituent inquiries in a timely manner
- Attract, retain, and develop a highly competent staff
- Maintain and increase TRS national profile
- Sustain a financially sound pension trust fund
- Provide independent, objective assurance, and consulting services designed to add value and improve the agency's operations
- Define and maintain standards for project management and execution as well as business analysis and design within the organization
- Provide legal and compliance advice and services to support TRS mission (administration, investments, benefits, and insurance) following a cultural realignment of client focus, appropriation risk mitigation, and client education
- Revise the *TRS Strategic Plan* to improve plan alignment and better identify key performance indicators
- Enhance capabilities to report on *TRS Strategic Plan* execution
- Examine, and as needed, improve the efficacy of TRS' enterprise risk mitigation strategies
- Update the *2012 TRS Pension Benefit Design Study*

## Division Expenses and Goals – Investment Management

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	32,652,661	39,014,796	43,167,210
Professional Fees and Services	225,000	9,727,933	7,550,444
Other Operating Expenses	22,922,576	24,350,726	29,209,957
<b>Total</b>	<b>55,800,237</b>	<b>73,093,455</b>	<b>79,927,611</b>

**Description:** IMD is responsible for implementing investment policies within approved guidelines, maximizing effectiveness of resources provided, delivering transparent reporting, complying with relevant laws, collaborating with audit processes, and implementing board objectives.

**Division Goals:** Delivery of exceptional long-term performance (7.25 percent total return and 1 percent alpha). Perpetual commitment to:

- The IMD culture of continuous improvement via best-practice learning, innovation, and research
- Personal high character, integrity, and professionalism
- Professional accountability, transparency, and constant collaboration
- World-class communicators, providing responsive information and proactive global outreach
- Diversity, inclusion, and respect
- Recruitment, retention, and recognition of top talent who embrace and exceed these requirements



## Division Expenses and Goals – Benefit Services

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	10,029,943	11,720,208	14,052,628
Professional Fees and Services	109,890	643,090	334,200
Other Operating Expenses	133,380	219,967	229,967
<b>Total</b>	<b>10,273,213</b>	<b>12,583,265</b>	<b>14,616,795</b>

**Description:** The Benefit Services Division assists members, retirees and their beneficiaries by providing the 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 REs to submit reports and to find information on topics such as eligibility, compensation, and legislative updates.

**Division Goals:**

- Collaborate refresher trainings for benefit counselors on health care to enhance the service provided to members related to retirement
- Update performance measures and reallocate resources to ensure member service needs are being met
- Assist REs with accurate and timely completion of monthly reports through year-end close
- Provide targeted training throughout the year for reporting entity (RE) partners on the new reporting system, reporting requirements, and TRS Laws and Rules
- Increase the number of office visits scheduled per day
- Successfully implement call center modernization software to enhance user and member experience
- Provide remote work option to improve employee work/life balance with implementation of new call center software
- Increase offers of live video benefit presentations as an option for less than 50 participants
- Cross train staff in the different service areas to allow for additional assistance when needed
- Develop career path documents for all positions in the division
- Publish production standards for all service areas

## Division Expenses and Goals – Financial Services

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	5,372,922	5,938,223	6,468,409
Professional Fees and Services	853,532	1,332,955	467,000
Other Operating Expenses	5,082,396	6,048,862	5,890,777
Capital Projects	3,838,563	2,000,000	3,800,000
<b>Total</b>	<b>15,147,413</b>	<b>15,320,040</b>	<b>16,626,186</b>

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

**Division Goals:**

- Prepare and administer agency operations budgets
- Prepare the *Comprehensive Annual Financial Report*
- Review and monitor TRS investment valuations
- Provide a 24/7 security presence and surveillance of TRS grounds and buildings, control access to TRS grounds and buildings, and assign and monitor parking
- Support the Benefit Services Division by scanning member and RE documents into the imaging system
- Streamline and improve procurement and contract processes
- Transition to sustainability of E-Records infrastructure, which is aimed to create a more centralized process to help improve efficiency of recordkeeping and reduce costs
- Coordinate building renovations to provide a physical work environment that is safe and enhances productivity and effective utilization of space to better serve our members

## Division Expenses and Goals – Information Technology

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	8,409,615	9,667,309	11,886,375
Professional Fees and Services	266,132	718,861	438,861
Other Operating Expenses	5,404,417	9,977,453	10,750,503
Capital Projects	1,628,898	3,110,000	4,104,438
<b>Total</b>	<b>15,709,062</b>	<b>23,473,623</b>	<b>27,180,177</b>

**Description:** 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 does this through six teams focused on the division's core values of excellence, integrity, and customer service, which complement the overall agency core values.

**Division Goals:**

- People: Attract, retain, and develop a highly competent IT staff
- Infrastructure: Build, maintain, and enhance a robust, highly available IT environment in support of applications and services
- Build/Innovate: Extend and transform services and customer responsiveness through web-based delivery systems
- Project Management: Effectively manage projects and application portfolios with a business-value driven roadmap
- External Partnerships: Develop collaborative relationships with external partners
- Internal Partnerships: Ensure strong partnerships with the agency divisions to understand direction, needs, and optimize business value of IT services

## Division Expenses and Goals – TEAM Program

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	6,455,726	7,331,552	6,993,833
Professional Fees and Services	10,279,477	11,034,378	14,190,000
Other Operating Expenses	9,107,708	246,000	147,000
<b>Total</b>	<b>25,842,911</b>	<b>18,611,930</b>	<b>21,330,833</b>

**Description:** TEAM, a multi-year 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.

**Division Goals:** New functionality that TEAM will provide includes:

- More web self-service functionality for members
- Automated workflows to help TRS processing
- Improved TRS website
- Enhanced Customer Relationship Management providing a 360 degree view of member interactions with TRS
- More complete and robust wage and contribution reporting from REs, including stricter data integrity
- Ability to offer direct deposit of member refunds and more frequent payment processing

## Division Expenses and Goals – CAPPS Program

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	-	866,300	1,226,912
Professional Fees and Services	-	1,609,050	1,200,000
Other Operating Expenses	-	250	200,000
<b>Total</b>	-	<b>18,611,930</b>	<b>2,626,912</b>

**Description:** The Centralized Accounting and Payroll/Personnel System of CAPPS is the official name of the state wide Enterprise Resource Planning (ERP) system created by the ProjectONE team.

**Division Goals:**

- CAPPS provides a single financials and human resource (HR)/payroll administration software solution for Texas state agencies
- CAPPS allows aging and inefficient legacy systems to be replaced with an easy-to-use, easy-to-update system that can be scaled to meet the needs of any agency regardless of complexity and size
- Reporting is easier and more accurate with CAPPS. Agency functions are recorded in a common data language on an interconnected system that allows financial and HR/payroll departments to exchange information quickly, safely, and reliably.

## Division Expenses and Goals – Health Care Programs

Type of Expenditures	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019
Salaries and Benefits	5,249,163	6,912,380	7,586,533
Professional Fees and Services	3,083,151	6,362,445	5,973,001
Other Operating Expenses	1,507,216	836,917	830,940
<b>Total</b>	<b>9,839,530</b>	<b>14,111,742</b>	<b>14,390,474</b>

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

**Division Goals:**

- Develop and implement a revised organizational structure within the HIB area that supports higher customer service benchmarks and bandwidth
- Develop and enhance communication strategies that assist with engaging stakeholders and maintaining ongoing awareness of health care issues and information
- Enhance HIB data analytics to drive key decision-making to support cost management and resource maximization
- Solicit, evaluate, and apply new health care delivery methodologies through the medical plan administration and pharmacy benefit services Request for Proposals (RFPs) as needed and as statutorily allowed

## Expenses by Fund – TRS Pension Trust Fund

	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY2019	
Salaries and Wages	47,924,818	54,219,420	65,256,853	11,037,433	20%
Longevity Pay	585,960	647,780	656,020	8,240	1%
Retirement Contributions	3,218,192	3,689,171	4,403,922	714,751	19%
Social Security Contributions	3,336,469	3,840,644	4,546,655	706,011	18%
Health Insurance Contributions	6,803,441	8,530,807	9,615,977	1,085,170	13%
Benefit Replacement Pay	66,201	77,800	72,600	(5,200)	-7%
Other Employee Benefits	664,784	477,200	477,200	-	0%
Performance Incentive Comp	6,799,222	11,360,000	11,360,000	-	0%
<b>Total Salaries and Benefits</b>	<b>69,399,087</b>	<b>82,842,822</b>	<b>96,389,227</b>	<b>13,546,405</b>	<b>16%</b>
<b>Professional Fees and Services</b>	<b>4,295,540</b>	<b>9,165,851</b>	<b>6,170,205</b>	<b>(2,995,646)</b>	<b>-33%</b>
Consumable Supplies, Fuels	447,242	590,677	584,267	(6,410)	-1%
Utilities	650,347	1,220,423	1,219,685	(738)	0%
Travel	878,125	1,589,060	1,815,860	226,800	14%
Rentals	3,156,550	3,274,773	4,242,366	967,593	30%
Dues, Fees, Staff Development	534,498	786,061	890,516	104,455	13%
Subscriptions and Reference Information	676,090	928,505	1,020,005	91,500	10%
Printing and Reproduction	388,408	351,650	367,500	15,850	5%
Postage, Mailing, Delivery	2,408,269	2,940,261	2,980,261	40,000	1%
Software Purchases and Service	2,456,951	5,198,440	5,790,840	592,400	11%
Computer Hardware Service	568,156	1,163,525	1,137,525	(26,000)	-2%
Miscellaneous Expenses	1,427,949	1,939,557	3,193,257	1,253,700	65%
Insurance Premiums	654,826	855,800	883,800	28,000	3%
Furniture and Equipment	849,474	2,001,150	1,962,400	(38,750)	-2%
Building/Equipment Maintenance	867,005	1,220,701	1,478,851	258,150	21%
<b>Total Operating Expenses</b>	<b>15,963,890</b>	<b>24,060,583</b>	<b>27,567,133</b>	<b>3,506,550</b>	<b>15%</b>
Furniture and Equipment	31,148	112,000	162,000	50,000	45%
Capital Projects	6,379,246	5,110,000	7,904,438	2,794,438	55%
<b>Total Capital Expenses</b>	<b>6,410,394</b>	<b>5,222,000</b>	<b>8,066,438</b>	<b>2,844,438</b>	<b>54%</b>
<b>Total Fund Expenses</b>	<b>96,068,911</b>	<b>121,291,256</b>	<b>138,193,003</b>	<b>16,901,747</b>	<b>14%</b>

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

The overall increase in the budget from year to year is related to additional FTEs added to focus on enhanced member services and an initiative to strategically transform the Investment Management Division, potentially saving \$1.4 billion in investing fees over the next five years.

## Expenses by Fund – TEAM Program

	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019	
Salaries and Wages	5,016,074	5,657,679	5,456,346	(201,333)	-4%
Longevity Pay	70,120	81,200	70,420	(10,780)	-13%
Retirement Contributions	338,874	357,062	353,624	(3,438)	-1%
Social Security Contributions	365,164	397,378	391,734	(5,644)	-1%
Health Insurance Contributions	624,302	782,333	674,909	(107,424)	-14%
Benefit Replacement Pay	7,249	16,900	7,800	(9,100)	-54%
Other Employee Benefits	33,944	39,000	39,000	-	0%
<b>Total Salaries and Benefits</b>	<b>6,455,727</b>	<b>7,331,552</b>	<b>6,993,833</b>	<b>(337,719)</b>	<b>-5%</b>
<b>Professional Fees and Services</b>	<b>18,800,871</b>	<b>11,034,378</b>	<b>14,190,000</b>	<b>3,155,622</b>	<b>29%</b>
Consumable Supplies	205	10,000	15,000	5,000	50%
Travel	473	30,000	30,000	-	0%
Dues, Fees, Staff Development	63,685	149,000	100,000	(49,000)	-33%
Software Purchases and Service	522,488	50,000	-	(50,000)	-100%
Miscellaneous Expenses	-	2,000	2,000	-	
Furniture and Equipment	(538)	-	-	-	-
Building/Equipment Maintenance	-	5,000	-	(5,000)	
<b>Total Operating Expenses</b>	<b>586,313</b>	<b>246,000</b>	<b>147,000</b>	<b>(99,000)</b>	<b>-40%</b>
<b>Total Fund Expenses</b>	<b>25,842,911</b>	<b>18,611,930</b>	<b>21,330,833</b>	<b>2,718,903</b>	<b>15%</b>

The TEAM Program is a \$100+ million, multi-year effort to modernize the major IT systems that TRS uses to administer benefits. There are several projects involved including the LOB, data management, program management, application architecture, and website redesign.

Now entering the final year of the program, the wages and benefits costs are decreasing for the full-time staff working on the TEAM Program. The budget for professional fees and services has increased because contractors will be utilized to add reporting requirement changes, and other programmatic changes, to the member services platform.



## Expenses by Fund – Commission Credits

	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019	
<b>Professional Fees and Services</b>	<b>3,767,660</b>	<b>7,003,333</b>	<b>6,440,000</b>	<b>(563,333)</b>	<b>-8%</b>
Rent, Building, and Parking	332,168	377,000	495,720	\$118,720	31%
Dues, Fees, Staff Development	206,491	388,000	342,500	(45,500)	-12%
Subscriptions and Reference Information	12,032,168	14,526,065	16,540,901	2,014,836	14%
Software Purchases and Service	406,528	1,298,800	1,804,221	505,421	39%
Miscellaneous Expenses	60,480	77,500	226,154	148,654	192%
Contracted Services	2,056,449	2,935,000	2,850,500	(84,500)	-3%
<b>Other Operating Expenses</b>	<b>15,094,284</b>	<b>19,602,365</b>	<b>22,259,996</b>	<b>2,657,631</b>	<b>14%</b>
<b>Total Expenses</b>	<b>18,861,944</b>	<b>26,605,698</b>	<b>28,699,996</b>	<b>2,094,298</b>	<b>8%</b>
<b>Revenue Sources</b>					
State Street Bank Partnership Agreement	4,481,618	7,933,333	7,933,334	1	0%
Commission Sharing	13,966,261	17,872,365	19,966,662	2,094,297	12%
Commission Recapture	414,065	800,000	800,000	-	0%
<b>Total Revenue</b>	<b>18,861,944</b>	<b>26,605,698</b>	<b>28,699,996</b>	<b>2,094,298</b>	<b>8%</b>

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

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

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

IT services costs, as reflected in the subscriptions and reference information category, will continue to rise with higher charges for Bloomberg and FactSet licenses along with expected development costs related to internally created software platforms.

## Expenses by Fund – TRS-Care Fund

	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019	
Salaries and Wages	2,653,896	3,184,400	3,612,810	428,410	13%
Longevity Pay	61,260	77,480	62,180	(15,300)	-20%
Retirement Contributions	184,631	209,900	233,840	23,940	11%
Social Security Contributions	201,376	235,800	261,221	25,421	11%
Health Insurance Contributions	366,457	467,000	514,605	47,605	10%
Benefit Replacement Pay	8,250	10,400	7,800	(2,600)	-25%
Other Employee Benefits	53,644	72,500	72,500	-	0%
<b>Total Salaries and Benefits</b>	<b>3,529,514</b>	<b>4,257,480</b>	<b>4,764,956</b>	<b>507,476</b>	<b>12%</b>
<b>Professional Fees and Services</b>	<b>2,451,031</b>	<b>4,746,900</b>	<b>3,963,000</b>	<b>(783,900)</b>	<b>-17%</b>
Consumable Supplies	1,572	7,000	7,000	-	0%
Utilities	1,568	7,000	7,000	-	0%
Travel	24,562	88,000	212,000	124,000	141%
Rentals	24,900	30,000	29,000	(1,000)	-3%
Dues, Fees, Staff Development	4,523	5,900	8,900	3,000	51%
Subscriptions and Reference Information	98	6,600	6,000	(600)	-9%
Printing and Reproduction	106,896	174,355	180,500	6,145	4%
Postage, Mailing, Delivery	116,945	98,377	129,000	30,623	31%
Miscellaneous Expenses	35,245	139,595	153,600	14,005	10%
Furniture and Equipment	651	-	6,000	6,000	100%
Building/Equipment Maintenance	-	-	15,000	15,000	100%
<b>Other Operating Expenses</b>	<b>316,960</b>	<b>556,827</b>	<b>754,000</b>	<b>197,173</b>	<b>35%</b>
<b>Total Fund Expenses</b>	<b>6,297,505</b>	<b>9,561,207</b>	<b>9,481,956</b>	<b>(79,251)</b>	<b>-1%</b>

TRS-Care was created in 1985 to provide health insurance for retired teachers and district employees. There are approximately 253,000 Texans covered by TRS-Care. TRS spends approximately \$1.4 billion per year on health care claims under this program.

All of the claims expense and administrative expense is paid out of the TRS-Care Fund. The expenses outlined above are only the administrative expenses and pay for the costs associated with the TRS employees who operate TRS-Care. They are not appropriated by the state legislature.

Increases in salaries and benefits result from adding staff to enhance health data analytics capabilities to support cost-management and resource maximization. The decrease in professional fees and services is related to the reduced reliance on the use of a third party call center contractor to handle additional call volume.

## Expenses by Fund – TRS-ActiveCare Fund

	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019	
Salaries and Wages	1,517,081	1,744,000	2,028,394	284,394	16%
Longevity Pay	21,920	30,200	24,380	(5,820)	-19%
Retirement Contributions	104,652	116,500	129,974	13,474	12%
Social Security Contributions	112,427	130,400	142,019	11,619	9%
Health Insurance Contributions	186,756	254,000	290,578	36,578	14%
Benefit Replacement Pay	1,031	2,600	1,300	(1,300)	-50%
Other Employee Benefits	3,630	75,000	75,000	-	0%
<b>Total Salaries and Benefits</b>	<b>1,947,497</b>	<b>2,352,700</b>	<b>2,691,645</b>	<b>338,945</b>	<b>14%</b>
<b>Professional Fees and Services</b>	<b>1,365,370</b>	<b>1,736,895</b>	<b>1,763,500</b>	<b>26,605</b>	<b>2%</b>
Consumable Supplies	1,127	3,000	3,000	-	0%
Utilities	79	1,500	1,500	-	0%
Travel	8,766	15,200	10,200	(5,000)	-33%
Rentals	22,982	22,700	21,800	(900)	-4%
Dues, Fees, Staff Development	3,797	9,000	9,000	-	0%
Subscriptions and Reference Information	290	1,000	1,000	-	0%
Printing and Reproduction	-	2,625	2,625	-	0%
Postage, Mailing, Delivery	1,809	4,915	4,915	-	0%
Miscellaneous Expenses	3,175	3,300	3,300	-	0%
Furniture and Equipment	-	3,500	3,500	-	0%
Building/Equipment Maintenance	-	2,000	2,000	-	0%
<b>Other Operating Expenses</b>	<b>42,025</b>	<b>68,740</b>	<b>62,840</b>	<b>(5,900)</b>	<b>-9%</b>
<b>Total Fund Expenses</b>	<b>3,354,892</b>	<b>4,158,335</b>	<b>4,517,985</b>	<b>359,650</b>	<b>9%</b>

TRS-ActiveCare was created in 2001 to provide health insurance for active teachers and district employees. There are approximately 478,000 Texans covered by TRS-ActiveCare. TRS spends approximately \$1.9 billion per year on health care claims under this program.

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

Increased salaries and benefits costs for the TRS-ActiveCare Fund are related to additional staff to handle customer service volume and the increased complexity of service interactions.

## Expenses by Fund – 403(b) Certification Program

	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019	
Salaries and Wages	54,504	262,800	96,020	(166,780)	-63%
Longevity Pay	960	1,200	1,200	-	0%
Retirement Contributions	3,772	7,600	6,189	(1,411)	-19%
Social Security Contributions	4,028	8,600	6,963	(1,637)	-19%
Health Insurance Contributions	7,408	21,000	17,560	(3,440)	-16%
Other Employee Benefits	-	1,000	2,000	1,000	100%
<b>Total Salaries and Benefits</b>	<b>70,672</b>	<b>302,200</b>	<b>129,932</b>	<b>(172,268)</b>	<b>-57%</b>
<b>Professional Fees and Services</b>	<b>112,630</b>	<b>86,400</b>	<b>246,501</b>	<b>160,101</b>	<b>185%</b>
Travel	-	-	3,000	3,000	100%
<b>Dues, Fees, Staff Development</b>	<b>2,995</b>	<b>3,500</b>	<b>11,000</b>	<b>7,500</b>	<b>100%</b>
Other Operating Expense	836	100	100	-	0%
<b>Other Operating Expenses</b>	<b>116,461</b>	<b>90,000</b>	<b>260,601</b>	<b>170,601</b>	<b>190%</b>
<b>Total Fund Expenses</b>	<b>187,133</b>	<b>392,200</b>	<b>390,533</b>	<b>(1,667)</b>	<b>0%</b>

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

The FY 2019 request includes the wages and benefits of one full-time equivalent position to support plan providers. The Product Registration System (PRS), used by vendors to register products, is being overhauled with an expected conclusion in FY 2019. Additional contractor expense is involved to develop the system which is offset by the reduction in the IT staff cost as was planned in the previous year.

## Full-Time Equivalent Employees (FTEs) by Division/Department

Division/Department	Actual FY 2017	Budgeted FY 2018	Budgeted FY 2019	Variance from FY 2018 to FY 2019
Administration	4.5	4.00	4.00	-
Internal Audit	10.33	11.00	11.00	-
Legal Services	22.67	26.00	29.00	3.0
Governmental Relations	2.00	2.00	2.00	-
Communications	5.50	6.50	6.50	-
Organizational Excellence	16.1	20.00	26.00	6.0
Strategic Initiatives	3.00	4.00	4.00	-
Risk Management	3.00	3.00	3.00	-
<b>EXECUTIVE</b>	<b>67.08</b>	<b>76.50</b>	<b>85.50</b>	<b>9.0</b>
<b>INVESTMENT MANAGEMENT</b>	<b>141.67</b>	<b>147.00</b>	<b>168.00</b>	<b>21.0</b>
Administration	2.00	2.00	2.00	-
Benefit Processing	72.20	83.00	83.00	-
Benefit Counseling	65.94	89.50	97.50	8.0
Benefit Payments	7.33	7.00	9.00	2.0
Benefit Reporting	6.42	9.00	13.00	4.0
<b>BENEFIT SERVICES</b>	<b>153.90</b>	<b>190.50</b>	<b>204.50</b>	<b>14.0</b>
Financial	1.00	1.00	1.00	-
<b>Accounting Operations</b>	<b>18.58</b>	<b>19.00</b>	<b>20.00</b>	<b>1.0</b>
<b>Administrative Operations</b>	<b>8.17</b>	<b>9.00</b>	<b>10.00</b>	<b>1.0</b>
Records Management	11.50	12.00	12.00	-
Staff Services	23.98	24.30	24.30	-
<b>FINANCIAL</b>	<b>63.23</b>	<b>65.30</b>	<b>67.30</b>	<b>2.0</b>
Information Technology	3.00	4.00	7.00	3.0
Enterprise Infrastructure Services	23.33	23.00	29.00	6.0
ISS – Green Team	14.38	15.00	17.00	2.0
Client Services	7.5	7.00	7.00	-
ISS – Gold Team	14.00	16.00	18.00	2.0
System Architecture	4.92	9.00	11.00	2.0
Information Security	2.75	4.00	4.00	-
<b>INFORMATION TECHNOLOGY</b>	<b>69.88</b>	<b>78.00</b>	<b>93.00</b>	<b>15.0</b>
<b>TEAM PROGRAM</b>	<b>70.17</b>	<b>69.00</b>	<b>69.00</b>	<b>-</b>
<b>CAPPS PROJECT</b>	<b>-</b>	<b>10.00</b>	<b>10.00</b>	<b>-</b>
<b>PENSION FUND TOTAL</b>	<b>565.93</b>	<b>636.30</b>	<b>697.30</b>	<b>61.0</b>

## Full-Time Equivalent Employees (FTEs) by Division/Department (cont.)

Division/Department	Actual	Budgeted	Budgeted	Variance from FY 2018 to FY 2019
TRS-Care and Agency Support to TRS-Care	42.25	56.00	56.00	-
Health Insurance Line of Business (HILOB)	1.71	4.00	4.00	-
TRS-ActiveCare and Agency Support TRS-ActiveCare	23.58	36.00	36.00	-
Optional Insurance	1.00	1.00	1.00	-
403(b) Certification Program	1.00	1.00	1.00	-
<b>OTHER FUNDS</b>	<b>69.54</b>	<b>98.00</b>	<b>98.00</b>	<b>-</b>
<b>AGENCY TOTAL</b>	<b>635.47</b>	<b>734.30</b>	<b>795.30</b>	<b>61.0</b>

## Explanation of FTE Variances

The difference between the budgeted level for FY 2019 and the budgeted level for FY 2018 is the addition of 61 FTEs as approved by the TRS Board of Trustees to focus on both enhanced member services and an initiative to strategically transform investment management.

- Three FTE positions added in Legal and Compliance to support the investment management division and to provide additional support for procurement services
- Six FTE positions added in Organizational Excellence to provide training and quality assurance support for benefit services
- 21 FTE positions added to strategically transform the Investment Management Division by insourcing certain investing processes potential saving external management fees
- 14 FTE positions added in Benefit Services to address call center issues, to handle additional processing volume, and to increase employer reporting support
- Two FTE positions added in Financial Services to handle additional contracting volume
- 15 FTE positions added in Information Technology to provide more robust data security, support investment management, support new technologies including a VOIP call center platform and provide enhanced testing and quality management

The growth in FTE positions in the health care funds since FY 2017 is due to additional:

- Policy staff to work on retiree insurance issues as well as to oversee member communications efforts related to plan changes
- Finance staff to better track cost savings, provide enhanced contractual oversight, and provide additional analytical support for actuarial analysis
- Customer service staff to handle additional call volume

### Capital Projects Comparison

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 percent as defined by Article IX Provisions of the GAA. Priorities are established by the board of trustees via the strategic planning process.

There are two categories of capital projects in the budget. Repair and rehabilitation of buildings and facilities includes projects associated with maintaining the agency's four acre, two building complex comprising 255,000 square feet of assignable space. Acquisition of IT resources includes all of our technology-related infrastructure, including mainframe computers, desktop computers, software platforms, teleconferencing equipment, and phone switching equipment.

### Repair or Rehabilitation of Buildings and Facilities

Project	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Description
Building Renovations	688,563	2,000,000	3,800,000	Provides funding to continue a multi-year effort to more efficiently utilize agency space within the scope of our strategic plan.
Sump Pump System Upgrade	900,000	-	-	Replace components of the sump pump system that have exceeded expected useful life with new components that are more efficient.
Garage Fire Suppression Upgrade	1,800,000	-	-	Replace unprotected steel piping with corrosion resistant fire suppression system piping.
Data Center Generator	450,000	-	-	Upgrade the backup generator system that provides power to the data center during emergencies and power outages.
<b>TOTAL</b>	<b>\$3,838,563</b>	<b>\$2,000,000</b>	<b>\$3,800,000</b>	

Since state agencies retain the ability to transfer remaining funding from one year to the next within the same biennium, \$1.8 million of the \$2.0 million budgeted in FY 2018 for building renovations will be carried over in to FY 2019 as part of the East Building Remodel Project. The East Building Remodel Project is a two year effort to centralize customer service functions, more efficiently utilize existing space and upgrade the security posture in the public lobby. No significant impact on future operating budgets is expected.

## Acquisition of Information Resource Technologies

Project	Expended FY 2017	Budgeted FY 2018	Budgeted FY 2019	Description
Network Infrastructure	-	450,000	768,096	Provides the development, implementation, and maintenance of the IT infrastructure as relates to premise-based and cloud-based infrastructure application and security requirements.
Telephone Counseling Center Upgrade	-	1,500,000	1,361,351	Upgrade the TCC's technology to include the ability for members to call, email, or chat with call center staff for benefit issues and questions.
Data Center Upgrade	-	420,000	588,871	Upgrading and expanding the Data Center infrastructure and peripherals to reduce capacity constraints and issues with compatibility and obsolescence.
Mainframe and Peripheral Upgrades	732,684	-	-	Supports upgrading and expanding the TRS enterprise server peripherals to reduce capacity constraints and issues with compatibility and obsolescence.
Telecom Upgrade	487,870	450,000	-	Supports the upgrade, development, and maintenance of the telecommunications infrastructure.
Investment Systems Upgrade	1,928	370,000	709,023	Define, develop, and implement a business intelligence strategy and program, and to migrate existing investment accounting data.
Pension Legislation	-	-	200,000	Anticipates legislative changes and supports the agency's mission and strategic plans.
PC Workstation Refresh	406,416	370,000	477,097	Project focused on upgrading outdated hardware technology.
CAPPS	-	2,325,300	2,400,000	
<b>TOTAL</b>	<b>1,628,898</b>	<b>5,885,300</b>	<b>6,504,438</b>	



### Discussion of Debt and Debt Limitations

TRS does not issue debt nor does it have a statutory debt limitation. Capital projects are financed on a pay-as-you-go basis with pension trust fund assets. Although TRS is a state agency in Texas, TRS owns its facilities and related infrastructure.

### Impact on Operating Budget

Most of the capital budget projects undertaken relate to repair and maintenance activity with no discernable impact on the operating budget outside the cost of the project itself. However, certain building improvements, including the Air Handler Replacement Project and the Building Automation Project, have resulted in an average 20 percent reduction in utility cost. The TCC Upgrade Project will replace the switching equipment with more reliable and efficient switching, which may reduce the cost of telecommunications services in the future years.

Building renovation projects in FY 2019 will create a more usable and efficient footprint for our customer-facing staff, allowing more staff per floor. Doing so will allow for more staff to be housed on the first three floors of the East Building. Additional counseling staff is expected in FY 2019 and will lead to additional salaries, benefits, and operating costs in the budget. However, hiring additional counseling staff was envisioned in the strategic plan before the building renovation project was initiated.

## General Provisions

TRS uses the provisions of Article IX (General Provisions) of the GAA adopted by the 85<sup>th</sup> Texas Legislature 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 that the General Provisions also apply to the TRS-Care Fund, the TRS-ActiveCare Fund, and the 403(b) Trust 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).

**SECTION 403(b) CERTIFICATION PROGRAM** – Operations of the 403(b) Certification Program are funded from the 403(b) Administrative Trust Fund.

## PERSONNEL SERVICES

**Hiring and Personnel Actions** – The executive director, or deputy director in the absence of the executive director, is authorized to hire personnel; to transfer personnel within the agency; and to approve base salaries, salary changes, and other personnel actions including but not limited to promotions, demotions, reassignment, 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 Plan** – The executive director, or deputy director in the absence of the executive director, is authorized to implement performance pay plan(s) as approved from time to time by the board, including authorizing payment of the performance pay to the extent funds have been included in the approved 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 in the absence of the executive director, is authorized to contract for professional services and approve and disburse professional fees to persons or firms who render such professional services to TRS. The board finds that the budget for Professional Services, authorized in this document, is necessary to the performance of its fiduciary duties.

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

**BUDGET EXECUTION AUTHORITY** – As required for the efficient operation of TRS programs, the executive director, or deputy director in the absence of the executive director, is authorized to transfer budgeted funds up to \$100,000 or 12.50 percent of an expense category, whichever is greater, between different expense accounts and major expense categories, so long as the total approved budget for operating expenses and capital outlay is not exceeded. This provision applies separately to the TRS Pension Trust Fund, the TRS-Care Fund, the TRS-ActiveCare Fund, and the 403(b) Administrative Trust Fund.

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

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

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

Contractor	Description	Start Date	End Date	Contract Amount
SILVERSCRIPT INSURANCE COMPANY	PHARM. BENEFIT MGR EGWP MEDICARE PART D	Jan 1, 2018	Dec 31, 2019	\$575,000,000
CAREMARK INC	PHARMACY BENEFIT MGR SERVCS - CARE	Sep 1, 2017	Aug 31, 2019	\$390,000,000
HUMANA INSURANCE COMPANY	TRS-CARE MEDICARE ADVANTAGE PLAN	Jan 1, 2017	Dec 31, 2018	\$93,000,000
CAREMARK INC	PHARMACY BENEFIT MGR SERVCS ACTIVE CARE	Sep 1, 2017	Aug 31, 2019	\$60,000,000
COUSINS 816 CONGRESS LLC	RENT/UTILITIES/PARKING 816 CONGRESS	Apr 1, 2009	Mar 31, 2021	\$22,032,584
STATE STREET BANK AND TRUST COMPANY	SOFT DOLLAR - FACTSET SERVICES	Feb 1, 2005	Feb 4, 2019	\$9,297,765
PROVALIANT HOLDINGS LLC	TEAM PROGRAM MANAGEMENT SERVICES	Nov 15, 2011	Nov 15, 2018	\$8,749,200
TRICOT LTD	TRICOT INTERCOMPANY AGREEMENT	Sep 1, 2015	Dec 31, 2018	\$6,239,240
GLOBALSCOPE COMMUNICATIONS CORPORATION	CALL CENTER MODERNIZATION	Jan 1, 2018	Dec 31, 2021	\$5,500,000
GABRIEL ROEDER SMITH & CO HEALTH &	HEALTH CARE CONSULTING & ACTUARIAL SERV.	Sep 1, 2017	Aug 31, 2019	\$4,000,000
BLOOMBERG L.P.	BLOOMBERG ORDER MANAGEMENT SYSTEM	Mar 14, 2005	Nov 30, 2020	\$3,499,524
CHICAGO CLEARING CORP	INVESTMENT-RELATED_LITIGATION CLAIMS SRV	Mar 2, 2018	Mar 1, 2020	\$3,150,000
FINANCIAL RECOVERY TECHNOLOGIES LLC	INVESTMENT-RELATED LITIGATION CLAIMS SRV	Mar 29, 2018	Mar 28, 2020	\$3,150,000
TEXAS FACILITIES COMMISSION	CONSTRUCTION SVCS UPGRADE	Jun 16, 2017	Aug 31, 2021	\$3,150,000
JACKSON WALKER LLP	INVESTMENTS-OUTSIDE COUNSEL-DERIVATIVES	Sep 1, 2017	Aug 31, 2019	\$3,000,000
ADVANCED CALL CENTER TECHNOLOGIES	OVERFLOW CALL CENTER SERVICES	Mar 6, 2017	Mar 5, 2019	\$2,840,000
PART D ADVISORS INC	RDS AUDIT SERVICES-CONTINGENT FEE	Apr 30, 2014	Apr 29, 2019	\$2,700,000
SEYFARTH SHAW LLP	OUTSIDE LEGAL COUNSEL - INVESTMENTS	Sep 1, 2017	Aug 31, 2019	\$2,300,000
SALTHOLDINGS CORP DBA SSDC SERVICES	MEDICARE ENROLLMENT & DISCOVERY SERVICES	Sep 1, 2017	Aug 31, 2019	\$2,190,000
BRIDGEPOINT CONSULTING LLC	TEAM INDEPENDENT PROGRAM ASSESSMENT SVCS	Jan 3, 2013	Dec 31, 2018	\$1,635,000
SHI GOVERNMENT SOLUTIONS	SW MAINT RENEWAL: MICROSOFT ENTERPRISE AG	Jan 1, 2017	Dec 31, 2019	\$1,497,757
GREEN STREET ADVISORS	GREEN STREET ADVISORY SERVICES_GSA ACCT.	Apr 5, 2011	Mar 31, 2019	\$1,335,000
UNITED HEALTHCARE INSURANCE CO	HEALTH MAINTENANCE ORGANIZATION	Sep 1, 1998	Dec 31, 2018	\$1,140,000
PRESIDIO NETWORKED SOLUTIONS GROUP	CO-LOCATION AND DR WORKSPACE SERVICES	Feb 1, 2018	Feb 28, 2021	\$1,122,159
ALTERNATIVESOFT	ALTERNATIVESOFT SW LICENSURE	Jan 1, 2010	Dec 31, 2020	\$1,113,468
ERNST & YOUNG LLP	EY AUDIT SERVICES INTERNAL AUDIT MASTER	Jan 1, 2016	Dec 31, 2018	\$1,004,894

# Appendix Section

## Appendix A: Cost Drivers, Statistical, and Supplemental Data

Membership Facts and Figures

Membership		
Number of	August 31, 2017	August 31, 2016
<b>Current Members:</b>		
Active Contributing	864,233	847,631
Deferred Retirement Option	28	42
Inactive Non-vested	174,918	167,275
Inactive Vested	98,110	95,078
Total Current Members	1,137,289	1,110,026
<b>Retirement Recipients:</b>		
Service	379,765	370,761
Disability	11,802	9,650
Survivor	16,201	13,503
Total Retirement Recipients	407,768	393,914
<b>TOTAL MEMBERSHIP</b>	<b>1,545,057</b>	<b>1,503,940</b>

Members Retiring

Number Retiring	21,777
Average Age at Retirement	60.2
Average Service Credit	24.3
<b>Average Monthly Annuities:</b>	
Life Annuities	\$2,060
Disability Annuities	\$1,178
Annuities Certain	\$1,125

TRS Pension Funding Status

	2017	2016
<b>Statutory Contribution Rates</b>		
State	6.80%	6.80%
Member	7.70%	7.20%
<b>Actuarial Information</b>		
Covered Payroll	\$42.111 billion	\$40.743 billion
Normal Cost %	9.94%	9.93%
Unfunded Actuarial Accrued Liability (UAAL)	\$35.471 billion	\$35.453 billion
UAAL as % of Pay	82.20%	83.70%
Funded Ratio	80.50%	79.70%

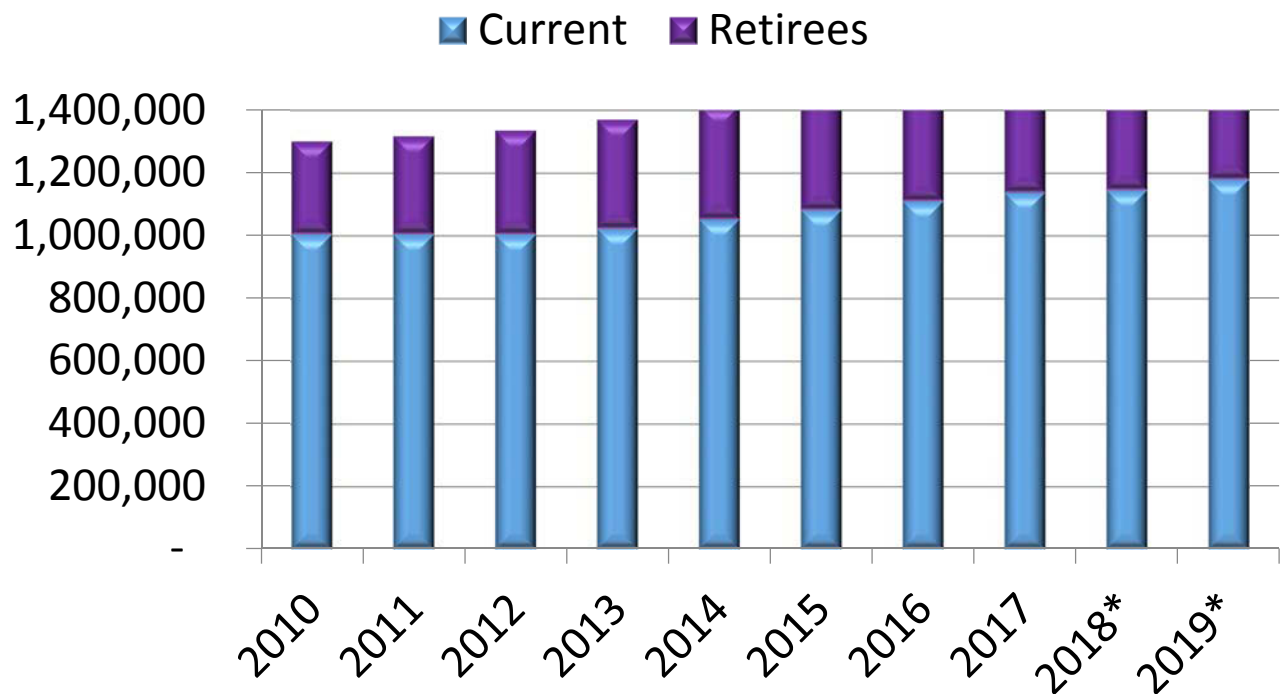
Investments (as of 8/31)

	Value (in Billions)	Annual Rate of Return
2008	104.075	-4.5
2009	87.713	-13.06
2010	94.925	10.72
2011	106.048	15.5
2012	109.993	7.6
2013	116.705	9.0
2014	131.595	16.9
2015	127.042	-0.3
2016	132.762	7.4
2017	145.916	12.6

Pension Fiduciary Net Assets (as of 8/31)

	2017 (billions)	2016 (billions)
<b>Net Position</b>	\$147.40	\$134.00
<b>Member Contributions</b>	3.2	2.9
<b>State Contributions – General Fund</b>	1.7	1.8
<b>Pension Payments to Retirees &amp; Beneficiaries</b>	9.9	9.4

Pension Membership Growth

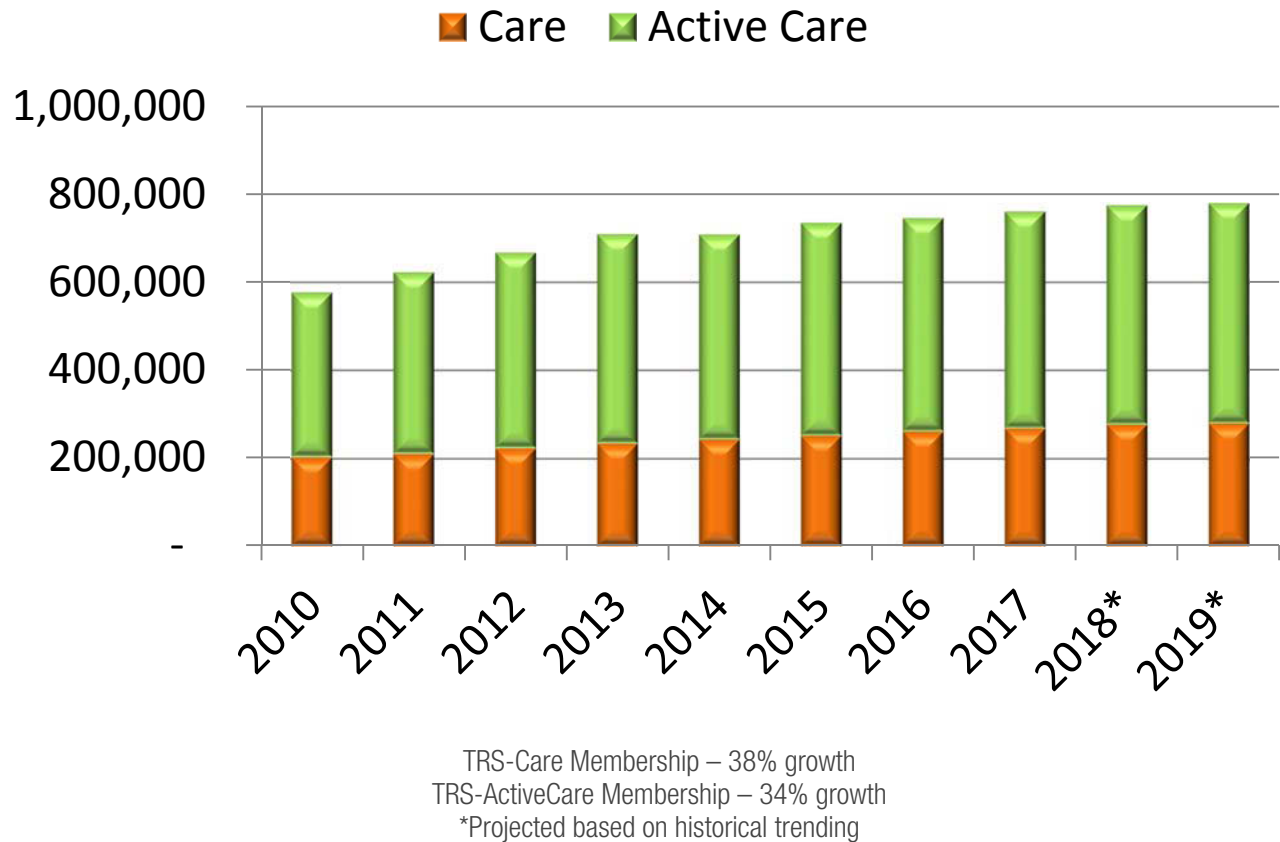


Active members – 17% growth  
 Retired members – 49% growth  
 \*Projected based on historical trending

This chart shows the trend in the number of TRS members over time for both active members and retired members. The rate of growth for retirees is triple that of active members. The growth of active members has traditionally been correlated to state population growth, which is expected to grow an average of 1.2 percent 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 retirement.

### Health Care Membership Growth

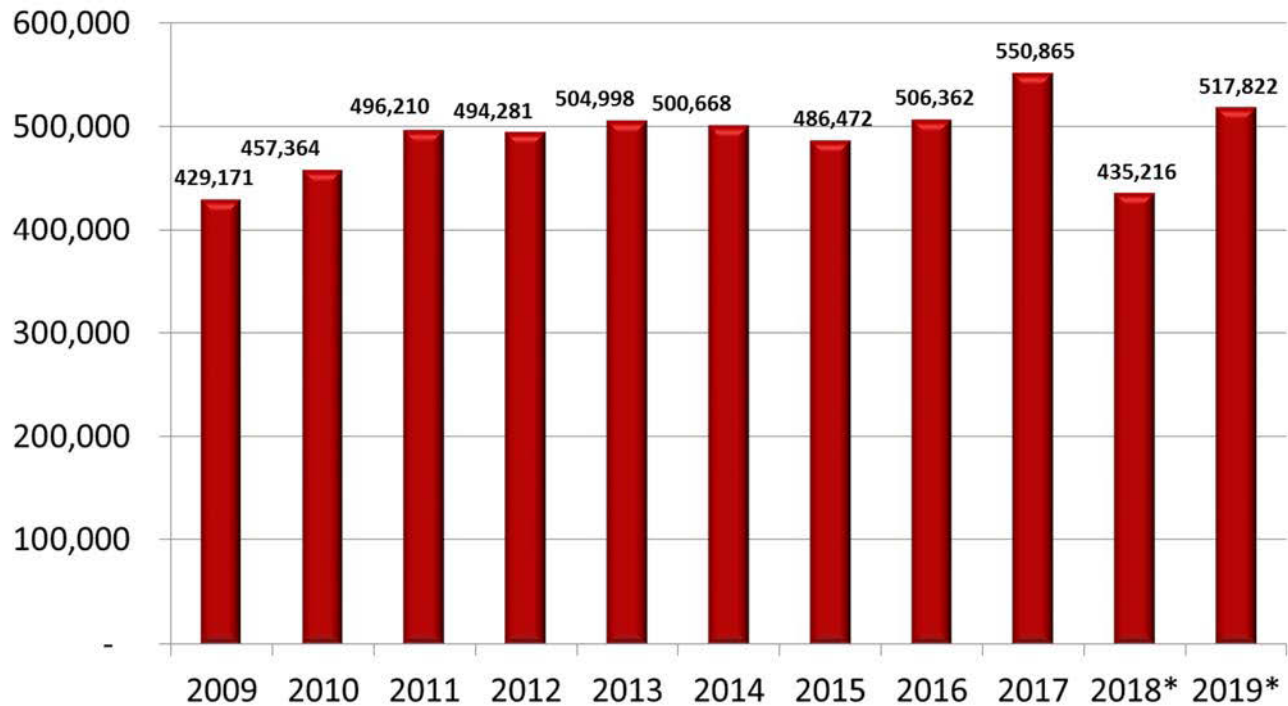


This chart shows the historical growth in the membership of our health care programs. The growth in TRS-Care, the health care plan for retirees, is largely dependent upon the growth in our number of retired members.

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



## Phone Calls Answered

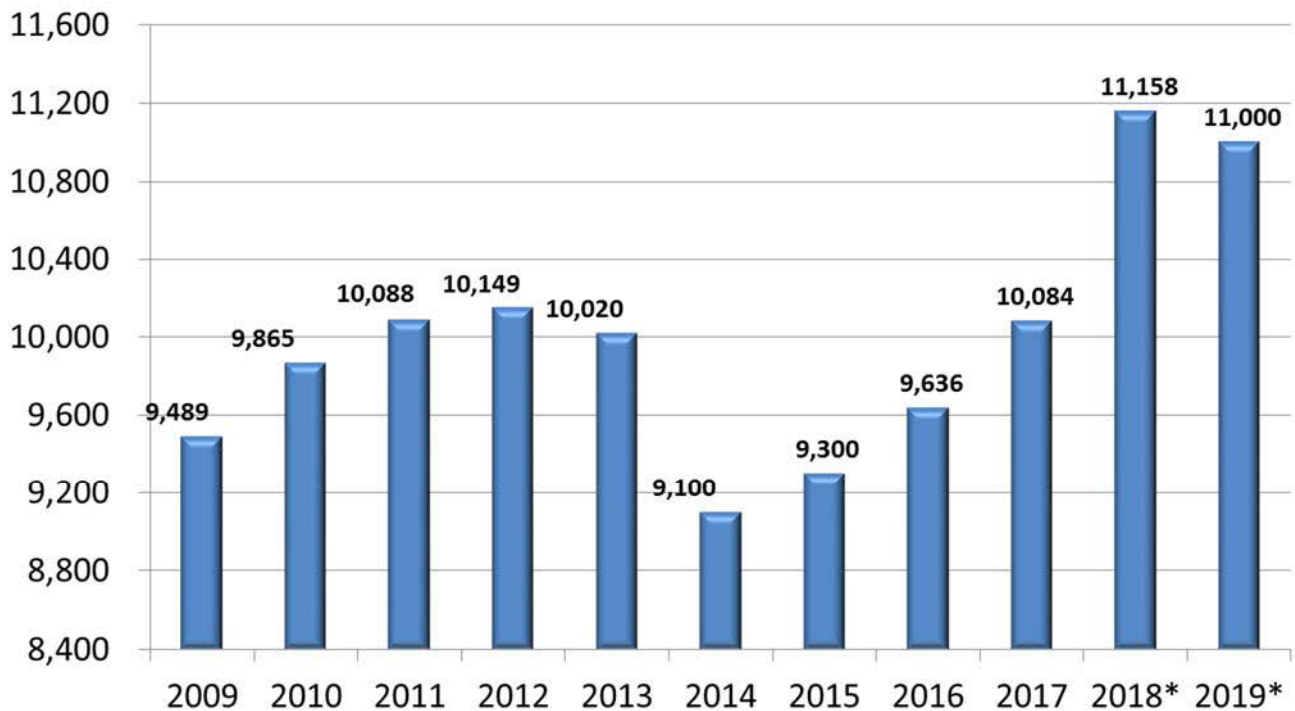


\*Projected based on historical trending

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



## Office Counseling Visits

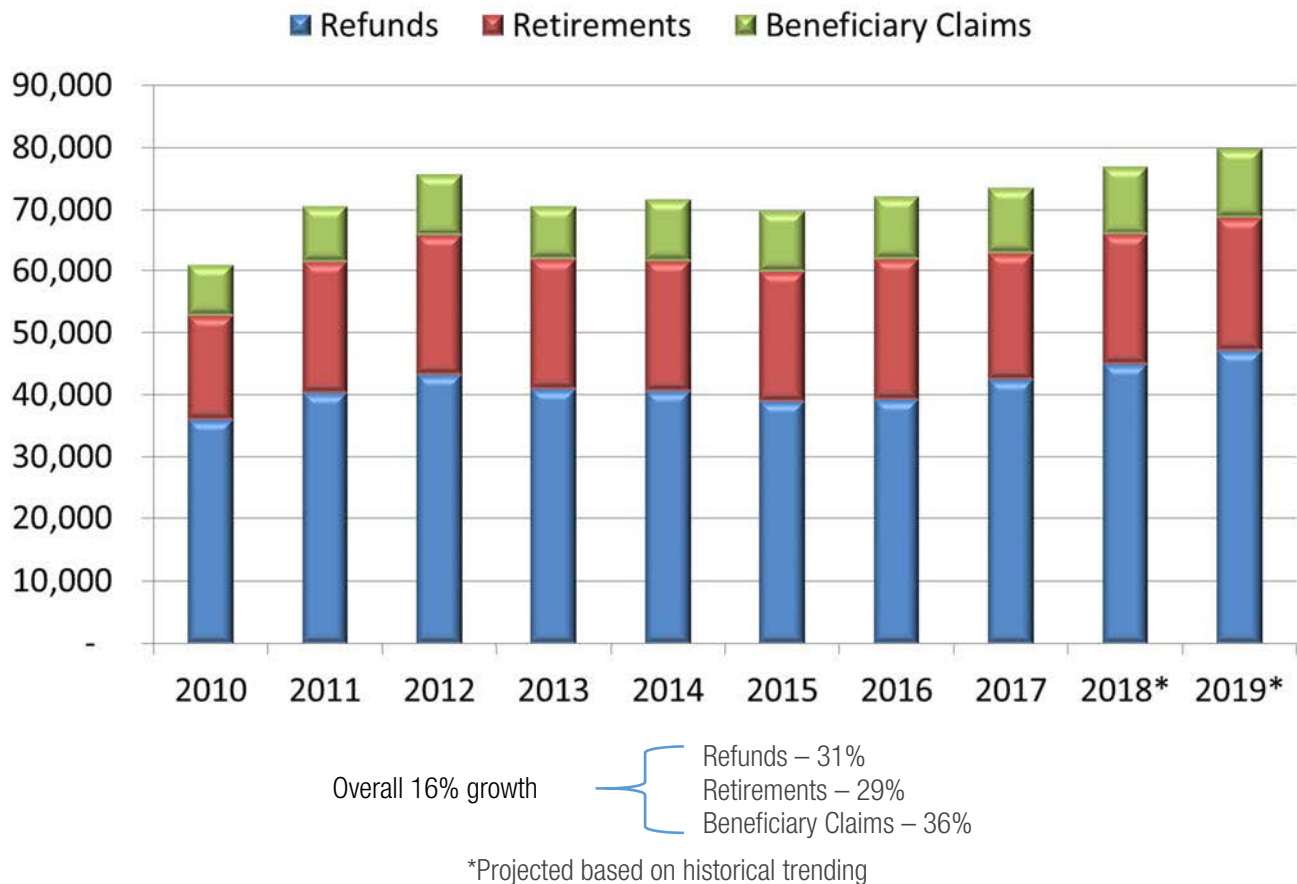


\*Projected based on historical trending

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

For the near future, we are expecting an increase in the number of office visits as the number of retirement age active members increases. This may be a trend for the next 5 to 7 years or longer before the office visit volume plateaus and potentially declines as younger generations of members increasingly interact with web-based tools.

## Benefit Processing Activity



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 5 to 7 years or longer before the volume plateaus and potentially declines as younger generations of members increasingly interact with web based tools.

## Benefit Cost per Member



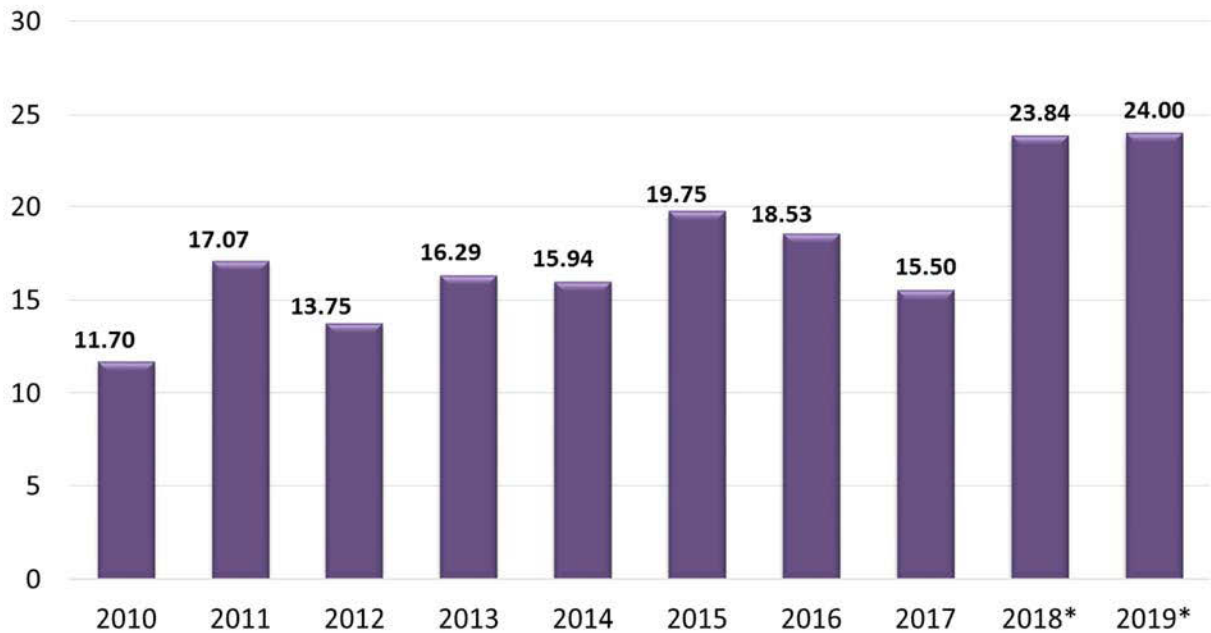
FY 2011 included one-time cost of expensed technology project

\*Projected based on historical trending

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

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

## Investment Expense as Basis Points of Net Assets



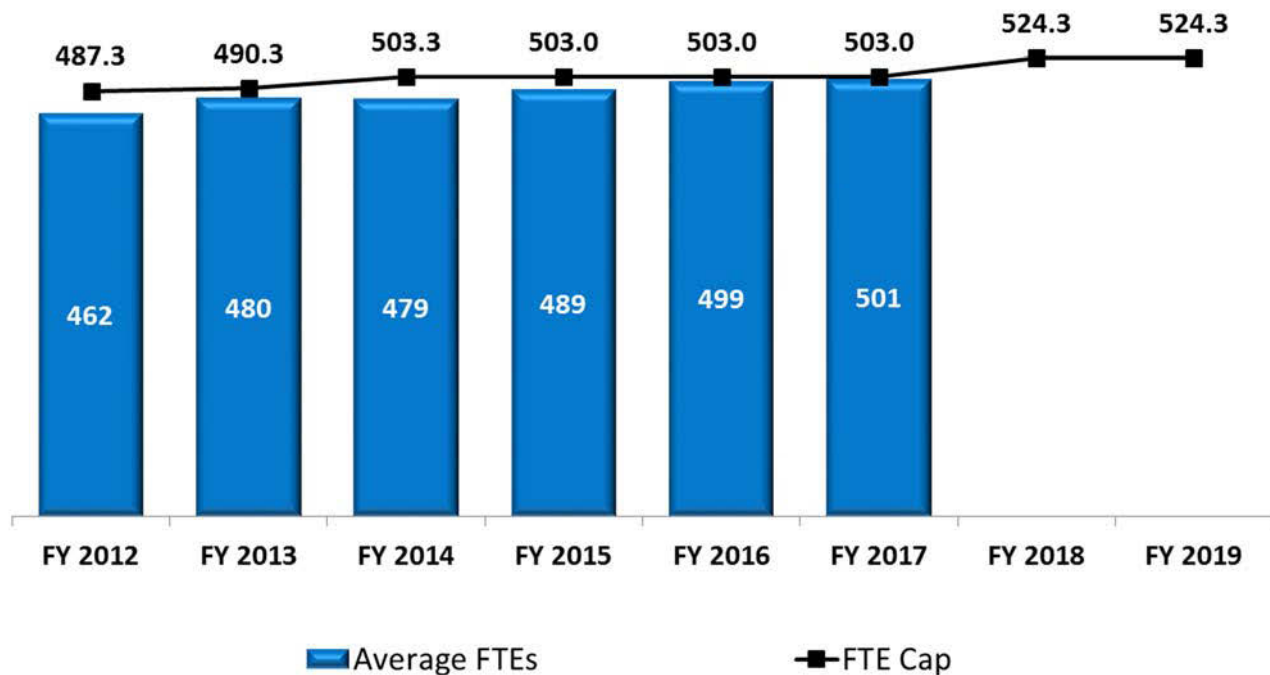
FY 2011 included one-time cost of expensed technology project

\*Projected based on historical trending

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

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

## Full-Time Equivalent (FTE) Employees

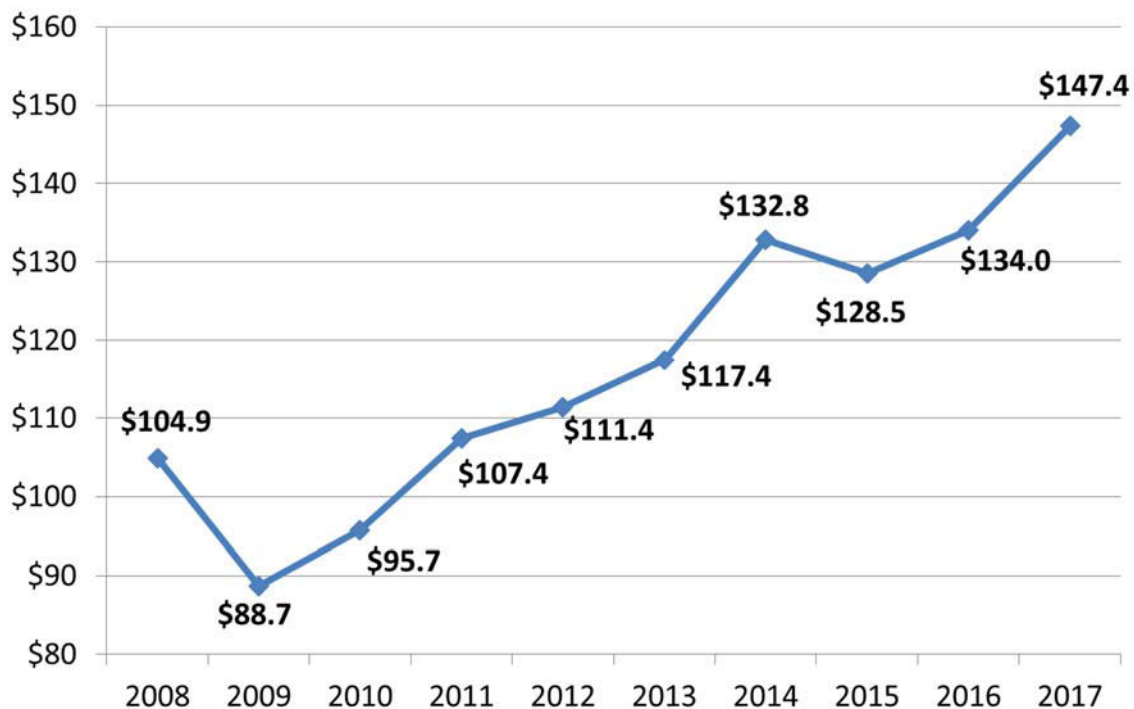


Excludes TEAM, interns and healthcare.

The Average FTE numbers above exclude FTEs related to TEAM, health care, and interns. They also include certain long-term contractors in accordance with instructions provided by the State Auditor's Office (SAO).

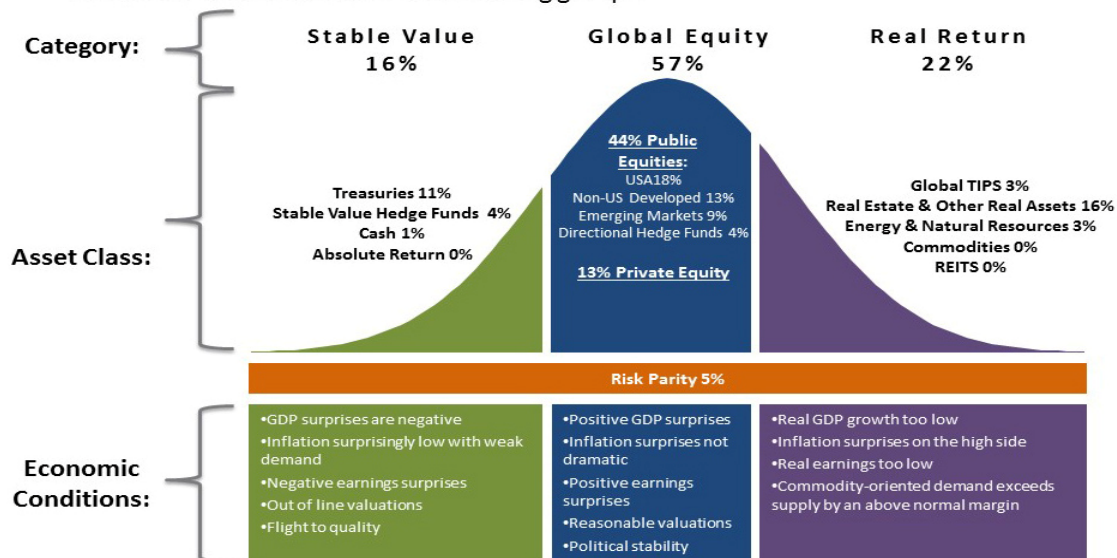
TRS participates in the biennial legislative appropriations process in requesting funds for Administrative Operations. In the GAA, the legislature establishes state employment levels on Full-time Equivalents (FTEs). The agency reports quarterly to the SAO the actual FTEs relative to the cap. Through legislative intent, TRS is exempt from including the TEAM and interns FTEs in the calculation. The chart above displays the average number of FTEs by fiscal year measured against the FTE cap.

Pension Trust Fund Balance (in Billions)



The annual rate of return on investments for the pension fund for the year ended August 31, 2017 was 12.6 percent. That rate of return for fiscal year 2016 was 7.4 percent.

The Trust is allocated across the following groups:



## Appendix B: Glossary

**403(b) Administrative Program Fund (864)** – Certification program in which companies must be certified by TRS to offer qualified investment products to public education employees through payroll deductions in accordance with Internal Revenue Code, Section 403(b). Authority for the program can be found in Vernon's Civil Statutes, Title 109, Article 6228a-5, Sections 4-8A and in the Texas Administrative Code, Title 34, Part 3, Chapter 53. The program began operations on Sept. 1, 2001.

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

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

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

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

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

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

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

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

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

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

**Fiscal Year (FY)** – Sept. 1 through Aug. 31 and specified by the calendar year in which the fiscal year end, e.g. FY 2018 runs from Sept. 1, 2017 through Aug. 31, 2018.

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

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

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

**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).

**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 2018 Operating Budget request covers funding for each division. Amounts identified in the approved budget estimates reflect the most appropriate strategy for core activities and continuing programs.

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

**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 fiscal year 1986.

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



## Appendix C: General Appropriations Act FY 2018-19

**TEACHER RETIREMENT SYSTEM**

	For the Years Ending	
	August 31, 2018	August 31, 2019
<b>Method of Financing:</b>		
General Revenue Fund	\$ 2,486,626,937	\$ 2,379,334,790
GR Dedicated - Estimated Other Educational and General Income Account No. 770	46,405,388	51,045,926
Teacher Retirement System Trust Account Fund No. 960	<u>123,526,473</u>	<u>99,408,776</u>
<b>Total, Method of Financing</b>	<b><u>\$ 2,656,558,798</u></b>	<b><u>\$ 2,529,789,492</u></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>	524.3	524.3
<b>Schedule of Exempt Positions:</b>		
Executive Director	\$327,443	\$327,443
Deputy Director Investment Officer	357,000	357,000
Chief Investment Officer	551,250	551,250
Investment Fund Director	360,000	360,000
Investment Fund Director	360,000	360,000
Investment Fund Director	350,000	350,000
Investment Fund Director	330,000	330,000
Investment Fund Director	300,000	300,000
<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. Strategy: TRS - PUBLIC EDUCATION RETIREMENT</b>	<b>\$ 1,741,633,557</b>	<b>\$ 1,802,590,732</b>
Retirement Contributions for Public Education Employees. Estimated.		
<b>A.1.2. Strategy: TRS - HIGHER EDUCATION RETIREMENT</b>	<b>\$ 211,736,248</b>	<b>\$ 218,137,034</b>
Retirement Contributions for Higher Education Employees. Estimated.		
<b>A.1.3. Strategy: ADMINISTRATIVE OPERATIONS</b>	<b>\$ 119,459,196</b>	<b>\$ 95,193,887</b>
<b>A.2.1. Strategy: RETIREE HEALTH - STATUTORY FUNDS</b>	<b><u>\$ 583,729,797</u></b>	<b><u>\$ 413,867,839</u></b>
Healthcare for Public Ed Retirees Funded by Statute. Estimated.		
<b>Total, Goal A: TEACHER RETIREMENT SYSTEM</b>	<b><u>\$ 2,656,558,798</u></b>	<b><u>\$ 2,529,789,492</u></b>
<b>Grand Total, TEACHER RETIREMENT SYSTEM</b>	<b><u>\$ 2,656,558,798</u></b>	<b><u>\$ 2,529,789,492</u></b>

**Object-of-Expense Informational Listing:**

Salaries and Wages	\$ 62,688,293	\$ 57,381,962
Other Personnel Costs	2,538,396,939	2,435,827,281
Professional Fees and Services	23,819,334	6,503,868
Fuels and Lubricants	3,453	3,556
Consumable Supplies	610,704	610,236
Utilities	1,211,723	1,231,163
Travel	1,720,585	1,716,835
Rent - Building	2,726,034	2,854,895
Rent - Machine and Other	689,565	695,315
Other Operating Expense	19,501,293	18,573,506
Capital Expenditures	<u>5,190,875</u>	<u>4,390,875</u>

**Total, Object-of-Expense Informational Listing** \$ 2,656,558,798 \$ 2,529,789,492

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

Retirement	\$ 4,067,277	\$ 4,214,889
Group Insurance	8,477,414	8,977,758
Social Security	3,679,762	3,679,762
Benefits Replacement	<u>61,102</u>	<u>52,548</u>

Subtotal, Employee Benefits \$ 16,285,555 \$ 16,924,957

**Total, Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act** \$ 16,285,555 \$ 16,924,957

- 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.

	<u>2018</u>	<u>2019</u>
<b>A. Goal: TEACHER RETIREMENT SYSTEM</b>		
<b>Outcome (Results/Impact):</b>		
TRS Retirement Fund Annual Operating Expense Per Total Member in Dollars (Excluding Investment Expenses)	29	30
TRS Retirement Fund Investment Expense as Basis Points of Net Assets	24	25
Service Level Percentage of Calls Answered in Specified Time Interval	78%	80%
<b>A.1.3. Strategy: ADMINISTRATIVE OPERATIONS</b>		
<b>Output (Volume):</b>		
Number of TRS Benefit Applications Processed	72,000	72,000

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

	<u>2018</u>	<u>2019</u>
a. Repair or Rehabilitation of Buildings and Facilities		
(1) Building Renovations FY2018/2019	\$ 2,000,000	\$ 2,000,000
b. Acquisition of Information Resource Technologies		
(1) Network Infrastructure Upgrade FY2018/2019	450,000	450,000
(2) Telephone Counseling Center Upgrade FY2018/2019	1,500,000	500,000
(3) Investment Systems Modernization FY2018/2019	370,000	370,000
(4) Pension Legislation FY2019	0	200,000
(5) PC Workstation Refresh FY2018/2019	370,000	370,000
(6) TEAM Program FY2018/2019	25,168,862	0
(7) Data Center Upgrade FY2018/2019	420,000	420,000
(8) Centralized Accounting and Payroll/Personnel System (CAPPS) – Enterprise Resource Planning (ERP) Project	<u>\$ 2,400,000</u>	<u>\$ 2,400,000</u>
Total, Acquisition of Information Resource Technologies	<u>\$ 30,678,862</u>	<u>\$ 4,710,000</u>
Total, Capital Budget	<u><u>\$ 32,678,862</u></u>	<u><u>\$ 6,710,000</u></u>
Method of Financing (Capital Budget):		
Teacher Retirement System Trust Account Fund No. 960	\$ 32,678,862	\$ 6,710,000
Total, Method of Financing	<u><u>\$ 32,678,862</u></u>	<u><u>\$ 6,710,000</u></u>

3. **Updated Actuarial Valuation.** The Teacher Retirement System shall contract with an actuary to perform a limited actuarial valuation of the assets and liabilities of the Teacher Retirement System as of February 28 in those years when the Legislature meets in regular session. The purpose of the valuation shall be to determine the effect of investment, salary, and payroll experience on the unfunded liability, the amortization period, and the state contribution rate which results in a 30-year amortization period of the retirement system.
4. **State Contribution to Teacher Retirement Program.** The amounts specified above in Strategy A.1.1, TRS-Public Education Retirement, \$1,741,633,557 in fiscal year 2018 and \$1,802,590,732 in fiscal year 2019, and A.1.2, TRS-Higher Education Retirement, \$211,736,248 in fiscal year 2018 and \$218,137,034 in fiscal year 2019 are based on a state contribution of 6.8 percent of payroll in each year of the 2018-19 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, \$583,729,797 in fiscal year 2018 and \$413,867,839 in fiscal year 2019 are based on a state contribution of 1.0 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 2018-19 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 2018 and 2019 shall be 0.55 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.** The limitation on General Revenue related funds appropriated above in Strategy A.1.2, TRS - Higher Education Retirement, for retirement contributions for Public Community/Junior Colleges are limited to 50 percent of the state contribution of 6.8 percent in fiscal year 2018 and 6.8 percent in fiscal year 2019 of the total covered payroll for Public Community and Junior Colleges, in accordance with Government Code Section 825.4071.



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

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

14. **Settle-Up Dollars Directed to TRS-Care.** Any settle-up payments made in the fiscal year ending August 31, 2019, 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 2018 in excess of the state's actual statutory obligations for retirement and retiree insurance contributions, and those funds are re-appropriated to Retiree Health-Statutory Funds, for deposit to the Texas Public School Retired Employees Group Insurance Trust Fund.
15. **Enterprise Application Modernization FTE Exemption.** Funds appropriated in the capital budget for the TRS Enterprise Application Modernization (TEAM) initiative may be expended for salaries and wages of Full-Time Equivalents (FTEs) and contract workers assigned to the TEAM initiative. Notwithstanding the limitations of Article IX, Sec. 6.10 Limitation on State Employment Levels, for the Teacher Retirement System, it is the intent of the Legislature that the calculation of the number of FTEs and contract workers assigned to the TEAM initiative for reporting purposes be exempt from the calculation. It is the intent of the Legislature that once the TEAM initiative is implemented, the Article IX, Sec. 6.10 limitation will apply to all agency FTE employees and contract workers (estimated to be in fiscal year 2018).
16. **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 2019 to fiscal year 2018 and such funds are appropriated for fiscal year 2018. 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 2018 costs associated with providing retiree health benefits will exceed the funds appropriated for these services for fiscal year 2018.
  - 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.

17. **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.

18. **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.
19. **Contingency for House Bill 3976 — Appropriation to TRS-Care.** Amounts appropriated above in Strategy A.2.1., Retiree Health - Statutory Funds include \$376,200,000 in General Revenue for the 2018-19 biennium, contingent on enactment of House Bill 3976, or similar legislation relating to TRS Retiree Health, which increases the state contribution rate to TRS-Care from 1.0 percent to 1.25 percent of active employee payroll, by the Eighty-fifth Legislature, Regular Session. Should House Bill 3976, or similar legislation, fail to be enacted, funds appropriated above in Strategy A.2.1., Retiree Health - Statutory Funds, will be reduced by \$376,200,000 in the 2018-19 biennium.

Also contingent on enactment of House Bill 3976, or similar legislation relating to TRS Retiree Health, by the Eighty-fifth Legislature, Regular Session, the state contribution rate specified in Rider 5, State Contribution to Texas Public School Retired Employees Group Insurance Program, shall be increased from 1.0 percent to 1.25 percent of active employee payroll, and the annual contribution rate for school districts in fiscal years 2018 and 2019, as specified in Rider 9, Annual School District Contribution Rate to TRS-Care, shall be increased from 0.55 percent to 0.75 percent of active employee payroll.

20. **TRS-Care Health Care Cost Containment Initiatives.** Reflected in General Revenue appropriations made above in Strategy A.2.1., Retiree Health — Statutory Funds, is a reduction of \$26,200,000 in the 2018-19 biennium for savings resulting from the following cost containment initiatives: (1) ensuring full enrollment of all eligible TRS-Care members into the Social Security Disability and Medicare Programs, for an estimated savings of \$24,000,000; and (2) implementation of value-based payment strategies, for an estimated savings of \$2,200,000.
21. **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 of Texas**

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