

Board of Trustees, Teacher Retirement System of Texas

Pension Funding Policy

Date: December 13, 2019

Interpretation Contact: Executive Director

Purpose

To formalize a funding policy, including a detailed plan that will systemically decrease the UAAL (Unfunded Actuarial Accrued Liability) over time in order to achieve a funded ratio of the system that is equal to or greater than 100 percent.

References

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

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

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

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

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

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

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

Policy

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

***Funding Policy
Measurements***

Actuarial Valuation

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

Mid-Year Valuation

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

Unfunded Actuarial Accrued Liability (UAAL)

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

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

The primary goal of the pension plan is to accumulate sufficient assets and achieve a stated funding objective to pay promised benefits. This funding policy establishes the funding objective as equal to or greater than 100 percent funded and identifies the following detailed plan for achieving the funding objective:

- Contribution Stability and Predictability – The contribution rates and scheduled increases, as described in Tex. Gov't Code §§ 825.402, 825.4035, and 825.404, are expected to eliminate the UAAL over a period of 29 years.
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Eliminating the UAAL is predicated on the contribution increases being funded as set forth in statute. Therefore, the Board does not support legislative action that would reduce or fail to fund the statutory contribution rates.

- Legislative Appropriation Request of Contribution Rates – In advance of the legislative session, TRS prepares a legislative appropriation request (LAR) with the requested contribution rate. For the six fiscal years in which contribution rates are being increased under Tex. Gov't Code §§ 825.402, 825.4035, and 825.404, TRS will request a contribution rate consistent with Tex. Gov't Code § 825.404.

After the phase-in of all scheduled contribution rate increases, the Executive Director, in consultation with the TRS Board of Trustees and based on a current annual actuarial valuation, will determine the appropriate contribution rate to request in the LAR, except that if, after the phase-in of all contribution rates, the annual valuation projects that the UAAL will not begin to decline by the fifth year following the valuation, then TRS will request contribution rate increases sufficient to begin to reduce the UAAL in the even-numbered fiscal year following the legislative session.

- Benefit Enhancements – The Board recognizes that there may be alternative methods of financing benefit enhancements and will evaluate any proposal for consistency with the goal of a declining UAAL and pursuant to Tex. Gov't Code § 821.006.

***Actuarial
Assumptions and
Methods***

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