

April 2023

# GUIDING PRINCIPLES

## Policy Committee Meeting



**Teacher Retirement System of  
Texas**

1000 Red River Street  
Austin, Texas  
78701-2698

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING  
BOARD OF TRUSTEES  
AND  
POLICY COMMITTEE**

*(Committee Chair and Members: Mr. Elliott, Chair;  
Ms. Allred, Mr. Hollingsworth, Mr. Nance, Mr. Walls)*

*All or part of the April 27, 2023, meeting of the TRS Policy Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5<sup>th</sup> Floor, Boardroom.***

*The open portions of the April 27, 2023, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at [www.trs.texas.gov](http://www.trs.texas.gov). A recording of the meeting will be available at [www.trs.texas.gov](http://www.trs.texas.gov).*

**AGENDA**

**April 27, 2023 – 3:00 p.m.**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the December 2022 committee meeting – Chair John Elliott.
3. Receive an overview of the Policy Committee’s Calendar Year 2023 Work Plan – Heather Traeger.
4. Consider recommending to the Board adoption of amendments to the Code of Ethics for Contractors and associated forms: Conflict of Interest Disclosure and Request for Determination (“Disclosure Statement”), Annual Ethics Compliance Statement, Disclosure Statement for Financial Services Providers, and Expenditure Reporting Form for Contractors. – Heather Traeger
5. Consider adoption of the proposed amendments to the following TRS rules in Chapter 25 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger, Nick Gonzalez and Adam Fambrough:
  - A. §25.4. Substitutes
  - B. §25.6. Part-time or Temporary Employment
  - C. §25.25. Required Deposits
  - D. §25.31 Percentage Limits on Compensation Increases

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Policy Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Policy Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

- E. §25.35 Employer Payments for New Members
  - F. §25.36 Employer Payments for Members Not Covered under the Federal Old-Age, Survivors, and Disability Insurance Program
  - G. §25.113 Transfer of Credit between TRS and ERS.
  - H. §25.123 Certification
  - I. §25.131 Required Service
  - J. §25.152 Eligibility, Cost, and Payment for Developmental Leave Credit
  - K. §25.172 Optional Retirement Program and TRS
6. Consider authorizing for publication in the Texas Register notice of the following proposed amendments to the TRS rules in Chapters 25, 29, and 47 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger, Adam Fambrough, and Nick Gonzalez:
- A. § 25.162. State Personal or Sick Leave Credit;
  - B. § 25.302, relating to Calculation of Actuarial Costs of Service Credit;
  - C. § 25.303, relating to Calculation of Actuarial Cost for Purchase of Compensation Credit;
  - D. § 29.11, relating to Actuarial Tables;
  - E. § 29.21, relating to Beneficiary Tables;
  - F. § 29.71, relating to Tables;
  - G. § 47.17, relating to Calculation for Alternate Payee Benefits Before a Member's Benefit Begins
7. Consider authorizing for publication in the Texas Register notice of proposed repeal of the TRS rules in Chapter 41 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger and Roberto Cortés-Moreno:
- A. §41.15 Requirements to Bid on Group Long-Term Care Insurance Under Chapter 1576 of the Insurance Code
  - B. §41.16 Coverage Offered Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
  - C. §41.17 Definitions
  - D. §41.18 Eligibility for the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
  - E. §41.19 Initial Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
  - F. §41.20 Effective Date of Coverage Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program

**TAB 2**

**Minutes of the Policy Committee  
December 7, 2021**

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on Thursday, December 7, 2021, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

**Committee members present:**

Mr. John Elliott, Chair  
Mr. David Corpus  
Mr. James D. Nance  
Mr. Robert H. Walls, Jr.

**Committee members attending via videoconference:**

Jarvis V. Hollingsworth

**Other TRS Board Members present:**

Mr. Michael Ball  
Mr. Christopher Moss  
Ms. Nanette Sissney

**Others present:**

Brian Guthrie, TRS  
Andrew Roth, TRS  
Heather Traeger, TRS  
Jase Auby, TRS  
Amanda Jenami, TRS  
Don Green, TRS  
Barbie Pearson, TRS  
Katrina Daniel, TRS  
Nick Gonzalez, TRS  
Kevin Wakley, TRS  
Roberto Cortes Mareno, TRS  
Katherine Farrell, TRS  
Luke Bierman, Cohen Milstein

Policy Committee Chair, Mr. John Elliott, called the meeting to order at 10:15 a.m.

**1. Call roll of Committee members.**

Ms. Farrell called the roll. A quorum was present.

**2. Consider the approval of the proposed minutes of the September 2021, Policy Committee meeting – Chair John Elliott.**

On a motion by Mr. Corpus, seconded by Mr. Nance, the committee approved the proposed minutes for the September 2021 Policy Committee meeting as presented.

**3. Consider recommending to the Board adoption of the proposed Inactive Accounts Policy – Barbie Pearson.**

Ms. Barbie Pearson stated in September the Inactive Accounts Policy was previewed in the Benefits Committee. She noted that House Bill 1585 requires the Board to adopt the Inactive Accounts Policy. She said the policy requires TRS to make all reasonable efforts to locate and notify members or members' heirs of their entitlement to their accumulated contributions for inactive accounts.

On a motion by Mr. Nance, seconded by Mr. Corpus, the Committee unanimously voted to recommend to the Board the approval of the proposed Inactive Accounts Policy, as presented by staff.

**4. Review and consider recommending to the Board proposed amendments to the Trustee Ethics Policy, Employee Ethics Policy, Conflict of Interest Disclosure Statement, Disciplinary Action Disclosure Statement, and Ethics Compliance Statement for Employees and Certain Contractors – Heather Traeger.**

Ms. Heather Traeger stated staff recommended only minor changes to both the Trustee Ethics Policy as well as the Employee Ethics Policy. She said there were some clean-up edits as well as having the Employee Ethics Policy reflect the practice currently engaged in at TRS. She specified that the employees should report conflicts of interest to the Chief Compliance Officer instead of the Executive Director. She noted as the organization grows it is best practice that those documents be provided to the Compliance department who then would discuss those items with the Executive Director. She said the Executive Director retains the same authority that he currently has with respect to any waivers of conflicts of interests. Ms. Traeger then noted the recommended change in the Trustee Ethics Policy as a minor note of guidance. She said the policy currently lists circumstances in which trustees might want to reach out to counsel and to the ED if they have a potential conflict of interest. She said staff is recommending adding service on a corporate board would be a good time to reach out to TRS to review any possible conflicts. Mr. Luke Bierman commented that staff's recommended changes are in line with best practices across peers and others of like size and complexity.

Ms. Traeger concluded by noting clean-up edits were being recommended by staff for within the forms reflecting either the changes proposed today or clean-up that needed to be corrected.

On a motion by Mr. Corpus, seconded by Mr. Walls, the committee unanimously voted to recommend to the Board the proposed amendments to the Trustee Ethics Policy, Employee Ethics Policy, Conflict of Interest Disclosure Statement, Disciplinary Action Disclosure Statement, and Ethics Compliance Statement for Employees and Certain Contractors, as presented by staff.

**5. Consider recommending to the Board adoption of the proposed new TRS Rule 41.13, relating to One-Time Reenrollment Opportunity, Subchapter A of Chapter 41 of Title**

**34, Part 3 of the Texas Administrative Code – Heather Traeger, Roberto Cortex Moreno and Katrina Daniel.**

Ms. Traeger noted the Committee had previously recommended this rule language to the Board for adoption but that the previous rule was misnumbered as 41.16 and it needed to be 41.13. She noted the rule with its new numbering was published under the Executive Director’s authority and is at the point to be recommended for adoption.

On a motion by Mr. Corpus, seconded by Mr. Hollingsworth, the Committee voted unanimously to recommend to the Board adoption of the proposed new TRS Rule 41.13 of Title 34, Part 3 of the Texas Administrative Code, as presented by staff.

**6. Consider authorizing for publication in the Texas Register notice of proposed amendments to TRS Rule 25.21, relating to Compensation Subject to Deposit and Credit, in Subchapter B of Chapter 25 in Title 34, Part 3 of the Texas Administrative Code – Heather Traeger, Kevin Wakley and Barbie Pearson.**

Mr. Nick Gonzalez reviewed the purpose of the original rule dating back to 2019. He said that through a Local Designation System, teachers can achieve one of three kinds of recognized status and the district then becomes entitled to a certain amount of funds to set up a compensation plan through the Teacher Incentive Allotment (TIA). He noted teachers under these compensation plans may get very large increases to their salaries, but it also means every district is setting up their own compensation plan. TRS must review on a case-by-case basis to make sure that the increases are creditable in our system. Mr. Gonzalez stated as part of House Bill 1525 that raises paid with TIA funds are going to be creditable for TRS purposes and there is no longer a need for a case-by-case review of these compensation plans. He said the proposed rule simply restates what is in statute resulting in a very basic rule and a positive change for the teachers.

On a motion by Mr. Corpus, seconded by Mr. Hollingsworth, the Committee unanimously voted to authorize for publication in the Texas register notice of these proposed amendments to TRS 25.21, relating to compensation subject to deposit and credit in Subchapter B of Chapter 25 in Title 34, Part 3 of the Texas Administrative Code, as presented by staff.

There being no more business before the Policy Committee, the committee adjourned at 12:14 p.m.

Approved by the Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas on April \_\_, 2022.

\_\_\_\_\_  
Katherine H. Farrell  
Secretary to the Board of Trustees  
Teacher Retirement Systems of Texas

\_\_\_\_\_  
Date

**TAB 3**

## Committee Workplan

Informative (Receive)

Pre-Action (Review)

Action (Consider)

\*Approved by committee only

February

April

May

July

September

December

N/A

Consider recommending to the Board amendments to the Contractor Annual Ethics Compliance Statement

Consider recommending to the Board amendments to the Code of Ethics for Contractors

Consider recommending to the Board amendments to the Expenditure Reporting Form for Contractors

Consider recommending to the Board amendments to the Disclosure Statement for Financial Services Providers

Consider recommending to the Board amendments to the Conflict of Interest Disclosure and Request for Determination

Consider recommending to the Board adoption of proposed amendments to TRS rules in Chapter 25, Title 3, Part 3 of TAC

\*Consider authorizing for publication proposed amendments to TRS rules in Chapter 25, 29, and 47, Title 3, Part 3 of TAC

\*Consider authorizing for publication proposed repeal of TRS rules in Chapter 41, Title 3, Part 3 of TAC

N/A

Consider recommending to the Board amendments to the Policy on Negotiated Rulemaking and Alternative Dispute Resolution

Consider recommending to the Board amendments to the Retiree Advisory Committee Procedures

Consider recommending to the Board amendments to the Investment Policy Statement

Consider recommending to the Board amendments to the At-Will Employment Policy

Consider recommending to the Board amendments to the Medical Board Policy

Consider recommending to the Board amendments to the Designation of Key Employees Policy

Note: Rulemaking projects and policy amendments may be placed on the agenda, as needed.

*Schedule as of March 2023.  
Note: all committee schedules are subject to change*

**TAB 4**



Legal & Compliance

## Memorandum

**DATE:** April 27, 2023

**TO:** Policy Committee of the Board of Trustees

**FROM:** Heather Traeger, General Counsel & Chief Compliance Officer

**COPY:** Board of Trustees

**RE:** **Revisions to the TRS Code of Ethics for Contractors**

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Pursuant to the Policy Review Schedule, the comprehensive review of the Code of Ethics for Contractors, Contractor Annual Ethics Compliance Statement, Expenditure Reporting Form for Contractors, Conflict of Interest Disclosure and Request for Determination, and Disclosure Statement for Financial Services Providers is due.

The Code of Ethics for Contractors ("Code") sets forth the ethical responsibilities and requirements of Contractors in performing services for TRS.

Legal & Compliance is not proposing any substantive changes to the Code or associated forms – Contractor Annual Ethics Compliance Statement, Expenditure Reporting Form for Contractors, Conflict of Interest Disclosure and Request for Determination, or Disclosure Statement for Financial Services Providers. TRS is proposing 2 types of non-substantive changes. The first are changes to reflect current practices regarding the conflict disclosures by Contractors to the Executive Director and Chief Compliance Officer. The second type of changes are minor “clean-up” edits.



**Teacher Retirement System of Texas**  
**Code of Ethics for Contractors**

**Adopted: September 9, 1994**

**Revised: Effective as of April ~~2725~~, 2023-19**

I, the undersigned, acknowledge that I have read this Code and am familiar with, and agree to be bound by, the standards that govern the conduct of Contractors.

I, the undersigned, am responsible for compliance and administration of the Code, including any ethics matters that may arise thereunder. If those obligations reside with another representative of the Contractor, I have included the contact information for that person below.

If the undersigned is executing this Code on behalf of an entity engaged by TRS as a Contractor, I further acknowledge that I have distributed this Code to those persons who work for or represent the Contractor on TRS matters. They have read this Code and are familiar with, and agree to be bound by, the standards that govern the conduct of Contractors.

Further, the Contractor shall distribute this Code (i) immediately to any other person with the Contractor who begins working on or representing the Contractor on TRS matters and (ii) once a year to all persons with the Contractor who work on or represent the Contractor on TRS matters.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Contractor Entity Name

\_\_\_\_\_  
Date

Contact for Code administration: \_\_\_\_\_

Phone number: \_\_\_\_\_

Email address: \_\_\_\_\_

**Contract Number Associated with this Code:** \_\_\_\_\_

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## Code of Ethics for Contractors

The Teacher Retirement System of Texas (“TRS”) is charged by the Texas Constitution and state law with the administration and investment of pension assets held in trust for the exclusive benefit of active or retired TRS members and their beneficiaries; assets may not be diverted for other purposes. The TRS Board of Trustees is the trustee of all plan assets, responsible for the general administration and operation of TRS and authorized by law to adopt rules for TRS administration and Board business. The Board has similar responsibilities for the health benefits programs under the Texas Public School Retired Employees Group Benefits Act, the Texas School Employees Uniform Group Health Coverage Act, and other trusts or programs authorized by law to be administered by TRS. The Code of Ethics for Contractors (“Code”) sets forth the ethical responsibilities and requirements of Contractors, as that term is defined in the Code, in performing services for TRS.

### Section I. Conflicts of Interest

#### A. Conflicts of Interest Defined.

A conflict of interest exists for a Contractor when the Contractor has:

1. A relationship with any party to a transaction with TRS, or with an Employee, or Trustee, other than a relationship necessary to the services that the Contractor performs for TRS, if a reasonable person could expect the relationship to diminish the Contractor’s independence of judgment in the performance of the Contractor’s responsibilities; or
2. A direct or indirect pecuniary interest in any party to a transaction with TRS if the transaction is connected with services the Contractor provides to TRS or to the Trustees in connection with the management or investment of TRS assets.

A person's independence of judgment reasonably could be diminished when he or she is in a position to take action or not take action with respect to TRS or its business and a reasonable person could expect that such action or inaction on behalf of TRS is influenced by considerations of gain, loss avoidance, or benefit to the Contractor or a third party, rather than motivated by the best interests of TRS.

A conflict of interest will not exist under this Code if any benefit is merely incidental to the Contractor’s membership in a large class sharing a common interest, such as the class of TRS members. Further, a conflict of interest will not be deemed to exist solely because a Contractor is or has a relative who is a TRS member, retiree, annuitant or beneficiary who is not also an Employee.

#### B. Disclosure of Potential and Actual Conflicts of Interest.

If a Contractor either:

1. Has determined that it has a potential or actual conflict of interest; or
2. Is uncertain whether it has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur,

the Contractor should promptly disclose the underlying circumstances to the ~~General Counsel or~~ Chief Compliance Officer in writing by submitting a completed Conflict of Interest Disclosure and Request for Determination (the “Code Conflict Disclosure Statement”, Form TRS 541C) (See Appendix B) ~~to the Chief Compliance Officer~~. In completing the Code Conflict Disclosure Statement, a Contractor must

provide full disclosure of all relevant facts and circumstances related to the potential or actual conflict.

A contractor who files a Code Conflict Disclosure Statement must refrain from giving advice or making decisions about any matters affected by the potential or actual conflict of interest until the Contractor cures the conflict or obtains guidance to proceed from the TRS Chief Compliance Officer.

If a Contractor with a duty to disclose conflicts reasonably believes that disclosure to the ~~General Counsel~~ Chief Compliance Officer would be ineffective, the Contractor shall disclose the potential or actual conflict of interest to the Executive Director.

Teacher Retirement System of Texas  
Executive Director  
1000 Red River Street Austin, Texas  
78701- 2698

Whether disclosure is made to the ~~General Counsel~~, Chief Compliance Officer, or to the Executive Director, a Contractor shall provide a copy of the Code Conflict Disclosure Statement to the Employee assigned to monitor or manage the performance of the Contractor.

### **C. Conflict Determination.**

The process for determining whether a conflict of interest exists or may exist under the circumstances described in the Code Conflict Disclosure Statement will be based on the type of Contractor: (i) Financial Services Provider or (ii) all other Contractors.

#### **1. Financial Services Provider.**

Upon receipt of a Code Conflict Disclosure Statement, the Executive Director, in consultation with the ~~General Counsel and~~ Chief Compliance Officer, will determine whether a potential or actual conflict of interest exists or would arise under the circumstances disclosed.

If the Executive Director determines that a conflict does not exist, the Contractor will be notified of such determination in writing by the Chief Compliance Officer. The Chief Compliance Officer will record the determination on the Code Conflict Disclosure Statement and the Code Conflict Disclosure Statement will be retained in the Legal & Compliance department.

If the Executive Director determines that either (i) a conflict does not exist presently but would exist upon the occurrence of future events or circumstances identified by the Contractor in the Code Conflict Disclosure Statement or otherwise, or (ii) a conflict exists, the Chief Compliance Officer will notify the Contractor of the Executive Director's determination in writing, and resolution of the conflict will be addressed as provided in Section I.D.

When a Code Conflict Disclosure Statement has been provided directly to the Executive Director, the Executive Director may consult with the Chief Compliance Officer and/or another member of the Legal & Compliance or Investment Management staff, as appropriate, for guidance in making a determination regarding the existence of and resolution of a conflict. In such cases, the Code Conflict Disclosure Statement will be updated and retained as provided in this Section I.C. and in Section I.D.

#### **2. All Other Contractors.**

Upon receipt of a Code Conflict Disclosure Statement, the ~~General Counsel~~ Chief Compliance Officer will determine whether a potential or actual conflict of interest exists or would arise under the circumstances disclosed.

If the ~~General Counsel~~ Chief Compliance Officer determines that a conflict does not exist, the Contractor will be notified of such determination in writing by the Chief Compliance Officer. The Chief Compliance Officer will record the determination on the Code Conflict Disclosure Statement and the Code Conflict Disclosure Statement will be retained in the Legal & Compliance department.

If the ~~General Counsel~~ Chief Compliance Officer determines that either (i) a conflict does not exist presently but would exist upon the occurrence of future events or circumstances identified by the Contractor in the Code Conflict Disclosure Statement or otherwise, or (ii) a conflict exists, the Chief Compliance Officer will notify the Contractor of the determination in writing, and resolution of the conflict will be addressed as provided in Section I.D.

#### **D. Conflict Resolution.**

A Contractor with a conflict of interest must disclose the conflict and cure it. A conflict may be cured by mitigating, controlling or eliminating the conflict. For each determination that a conflict exists, the cure, or the absence of a cure, will be documented by the Chief Compliance Officer on the Code Conflict Disclosure Statement submitted by the Contractor. The documentation will summarize the reasons supporting the decision, including any conditions required as part of the cure. The Code Conflict Disclosure Statement will be retained in the Legal & Compliance department, with a copy to be provided to the Contractor.

The process for evaluating whether a conflict of interest has been cured will be based on the type of Contractor: (i) Financial Services Provider or (ii) all other Contractors.

##### **1. Financial Services Provider.**

Upon receipt of a Code Conflict Disclosure Statement, the Executive Director, in consultation with the ~~General Counsel and~~ Chief Compliance Officer, and as appropriate, the Chief Investment Officer, will make any determinations regarding whether a conflict of interest has been cured under this Section I.D.1 in his-their sole discretion.

- a. When evaluating whether a conflict has been or can be cured, the Executive Director may consider, among others, the following factors relating to the Contractor's disclosures and steps to mitigate, control, or eliminate the conflict:
  - i. Whether the Contractor is a fiduciary;
  - ii. The nature and extent of the Contractor's disclosed pecuniary interests and relationships;
  - iii. Whether, applying the reasonable person standard, the Contractor's exercise of judgment on behalf of TRS in performing such services is, or is likely to be, affected by the Contractor's interests and/or relationships;
  - iv. Whether the information disclosed regarding the conflict is contrary to or materially inconsistent with the known facts underlying the conflict;
  - v. Whether the Contractor's interests are in fact substantially aligned with TRS' best interests (or the degree to which they are not harmful or opposed to TRS' interests) in the transaction;
  - vi. Whether TRS' best interests will be best served by proceeding with the Contractor's services even though the Contractor also has an interest;
  - vii. A cost-benefit analysis, including a review of pricing and fee structures, that

demonstrates that TRS will not suffer any economic or other disadvantages or can reasonably expect cost-savings or pecuniary benefits (including loss avoidance) if TRS consents to the services;

- viii. The nature and extent of transparency and reporting that the Contractor will be required to deliver with respect to its own interests and relationships in connection with its services, and, if applicable, whether the Contractor's contract for services with TRS will, or should be amended to, require such transparency and reporting;
  - ix. Whether the Contractor proposes to create information barriers between business units, lines of business, relationship contacts, personnel, and affiliates with respect to confidential TRS or transaction information and due diligence matters;
  - x. The Contractor's qualifications, reputation, and experience in the industry for the services to be provided for the relevant transaction;
  - xi. Whether an RFP or Trustee approval was part of the engagement process for the Contractor;
  - xii. The prior experience with and quality of the Contractor's services in previous TRS transactions; and
  - xiii. Whether, in relation to the provision of analysis or research from a Financial Services Provider that is a Broker or independent research provider, the disclosures provided by the Contractor are sufficient under the circumstances to cure the conflict by informing TRS of the nature and extent of any bias, and to form a judgment about the credibility or value of the Contractor's services, particularly if the services are of a limited nature – such as research.
- b. When evaluating whether a conflict has been or can be cured, the Executive Director may also consider the type of services underlying the conflict of interest and the value such services provide within the different segments of TRS' business. For example, whether the Contractor proposes, in addition to providing the financial services it provides to TRS under an existing or proposed agreement, to:
- i. Act as a principal or counterparty (including as an agent for a disclosed or undisclosed third party principal) opposed to TRS in a financial or investment transaction or series of transactions;
  - ii. Offer inconsistent or, alternatively, numerous services by different areas of the Contractor's organization;
  - iii. Engage an affiliate to perform services for TRS that may or may not provide an indirect or direct benefit to the Contractor;
  - iv. Recapture commissions for certain services it provides; or
  - v. Provide investment advice to TRS in connection with a TRS investment and the Contractor has a conflict or holds or intends to hold or acquire a direct or indirect pecuniary interest in the same portfolio investment or transaction as TRS whether for itself as a principal or as an agent on behalf of disclosed or undisclosed third parties.
- c. The Executive Director may consider whether a Contractor has or can cure a potential or actual conflict if the Contractor or the Contractor's Employee or affiliate prudently refrains or withdraws from taking action on a particular TRS matter provided that:

- i. The person, persons, or Contractor may be, is or are effectively separated from influencing the action taken;
  - ii. The action may properly and prudently be taken by others without undue risk to the interests of TRS; and
  - iii. The nature of the conflict is not such that the person, persons, or Contractor must regularly and consistently withdraw from decisions that are normally ~~his or her, their, or its~~their responsibility with respect to the services provided to TRS.
- d. The Executive Director may elect to impose conditions as part of a determination that a conflict has been or can be cured. Such conditions will be tailored to the particular facts and circumstances. They may include, among others, requirements to:
- i. Further disclose the Contractor’s interests and relationships in any written advice, prudence letter, or recommendation provided to TRS for the transaction or series of transactions to which the determination relates;
  - ii. Revisit the “disclosure and cure” determination upon the occurrence of certain facts or circumstances;
  - iii. Agree to contractual amendments;
  - iv. Conduct ongoing monitoring and reporting; or
  - v. Acknowledge possible reconsideration of the Contractor’s disclosures at any time.

In each instance where the Executive Director has determined that a potential or actual conflict of interest has been cured, a Contractor may only proceed with the actions giving rise to the conflict upon written notice from the Chief Compliance Officer, ~~General Counsel~~ or Executive Director. In the event the Executive Director determines that the conflict has not been cured, the Contractor may not proceed with the services and must terminate its relationship with TRS, as described in Section I.E.

## 2. All Other Contractors.

The ~~General Counsel~~Chief Compliance Officer, ~~in consultation with the Chief Compliance Officer,~~ will make any determinations regarding whether a Contractor’s conflict of interest has been cured under this Section I.D.2. In reviewing the Code Conflict Disclosure Statement, the ~~General Counsel~~Chief Compliance Officer may consider the same factors identified in Section I.D.1, as applicable.

Following the same process, the Executive Director may undertake a conflicts determination for those conflicts where the Code Conflict Disclosure Statement was filed directly with the Executive Director.

## E. Termination.

A Contractor who cannot or does not want to cure a conflict of interest must terminate ~~his, her or its~~ their relationship with TRS as promptly as responsibly and legally possible. The decision to terminate, and a summary of the analysis related to that decision, will be documented by the Chief Compliance Officer on the Code Conflict Disclosure Statement submitted by the Contractor. The Code Conflict Disclosure Statement will be retained in the Legal & Compliance department, with a copy to be provided to the Contractor.

## F. Reporting.

The Chief Compliance Officer shall regularly provide a report to the Executive Director, ~~General Counsel~~, the Chief Audit Executive and the Audit, Compliance, and Ethics Committee of the Board regarding all Code Conflict Disclosure Statements evidencing a conflict of interest and violations of the conflicts provisions.

## **Section II. Standards of Conduct**

### **A. Professional Standards and Laws.**

Contractors must comply with all applicable state, federal and non-U.S. professional standards and laws, including, without limitation, the following:

1. Section 36.02. Bribery. Texas Penal Code.
2. Section 36.09. Offering Gift to Public Servant. Texas Penal Code.
3. Section 572.054. Representation by Former Officer or Employee of Regulatory Agency Restricted; Criminal Offense. Texas Government Code.
4. Section 825.212. Retirement System Ethics Policy. Texas Government Code.
5. Section 2252.908. Disclosure of Interested Parties. Texas Government Code.
6. Chapter 2263. Ethics and Disclosure Requirements for Outside Financial Advisors and Service Providers. Texas Government Code.
7. All applicable securities and commodities laws.

### **B. Benefits.**

Contractors must avoid offering, conferring, soliciting, or accepting any benefit to or from Trustees, Employees, or Covered Contractors, except as otherwise allowed in Trustee and Employee ~~e~~ Ethics ~~P~~olicies, incorporated herein by reference and available at <http://www.trs.texas.gov>. For example, a Contractor may not provide a special discount on services to a TRS Trustee or Employee if the discount is based ~~on~~ the Contractor's relationship with TRS.

### **C. Individual Advisor.**

Irrespective of compensation, a Contractor may not be a representative of or be engaged by an individual Trustee if, in either case, the Contractor's role with respect to the Trustee is to provide advice that could reasonably be expected to form the basis for a significant TRS decision made by the Trustee.

### **D. Personal Business Relationship.**

A personal business relationship exists when a Contractor and a Trustee or Employee own or operate a business together or co-invest in a business, other than through publicly traded securities. Contractors may not have a personal business relationship with a Trustee or Employee unless the Executive Director consents to the continuation of TRS' relationship with the Contractor after full disclosure. If a personal business relationship exists, a Contractor must promptly disclose the personal business relationship to the Executive Director by filing a Code Conflict Disclosure Statement with the ~~the~~ Chief Compliance Officer. The Executive Director, after consultation with the ~~General Counsel and~~ Chief Compliance Officer, will then determine whether to approve the continuation of TRS' relationship with the Contractor while the Trustee or Employee continues in ~~his or her~~ their respective role for TRS. Alternatively, the Executive Director may require the Contractor, Trustee and/or Employee to be screened from TRS matters in which the personal business relationship may reasonably be expected to diminish the Contractor's independence of judgment in the performance of duties for TRS.

#### **E. Employment of Former Trustee or Executive Director.**

Contractors may not employ a former Trustee or a former Executive Director for two years after termination of such former Trustee's TRS board service or such Executive Director's Employee relationship with TRS unless the former Trustee or Executive Director will not provide services to TRS or work on or have any involvement in TRS-related business of the Contractor. Further, Contractors may not employ any former Trustee or Employee, including the former Executive Director, at any time if the person's services to TRS, work, and involvement in TRS-related business of the Contractor would violate Government Code Section 572.054(b) of the Texas "Revolving Door" statute. To the extent that it does not violate statutory law or that it would be in the best interest of TRS, the Executive Director may waive the application of this prohibition in a specific situation.

TRS cannot enter into a contract with a former or current Executive Director or with a Contractor which employs a former Executive Director without Board approval in an open meeting.

#### **F. Use or Disclosure of TRS Information.**

A Contractor may not use or disclose any information acquired as a result of the relationship with TRS except as needed to provide the services required by the contract for TRS business purposes. A Contractor receiving or having access to sensitive or confidential TRS information must use its best efforts to protect such TRS information from unauthorized access, use or disclosure.

#### **G. Bids.**

A Contractor may not be awarded a contract that is funded in whole or in part by appropriations from the general revenue fund of the State of Texas if (i) TRS paid the Contractor to participate in preparing the specifications for, or request for proposals related to, the contract, or (ii) the Contractor assisted TRS in the selection process to award the contract.

#### **H. Controls**

Contractors must observe the accounting and operating controls established by law and TRS policies, including restrictions and prohibitions on the use of TRS property for non-TRS purposes, including personal purposes.

#### **I. Foreseeable Conflicts of Interest.**

Contractors may not take action personally or on behalf of TRS that would reasonably be likely to result in a foreseeable conflict of interest. If a Contractor believes that taking a particular action would be in the best interest of TRS but such action would foreseeably result in a conflict of interest for the Contractor, the Contractor must proceed under the conflict of interest provisions of Section I.

#### **J. Foreseeable Violation of Standards of Conduct.**

If a Contractor anticipates that future conduct by the Contractor itself, its employees or its affiliates could or is likely to violate the Standards of Conduct, but such conduct may not itself, without more, be a potential or actual conflict of interest, the Contractor may seek to "cure" that anticipated violation by following the process outlined in Section I.B. through I.D. for disclosing and curing potential and actual conflicts of interest by mitigating, controlling, or eliminating the violation.

As in Section I., the Executive Director will review Code Conflict Disclosure Statements for Financial Services Providers and the ~~General Counsel~~ Chief Compliance Officer will review Code Conflict Disclosure Statements for all other Contractors. Any use of this sub-section will be reported on a regular basis by the Chief Compliance Office to the Executive Director, the Chief Audit Executive, and the Audit, Compliance, and Ethics Committee of the Board.

### **K. Signed Acknowledgement.**

On the commencement of business with TRS (including but not limited to entering into a contract with TRS or being named as a Broker to the TRS ~~Contractors Approved~~ Broker List) and at any time this Code is revised by TRS, each Contractor must sign, date, and return to TRS a copy of this Code. The process for acknowledgment may be through electronic means.

### **L. Reporting.**

Contractors shall complete all reporting requirements in accordance with TRS prescribed systems or processes, including any electronic reporting system implemented by TRS.

### **M. Covered Contractor Ethics.**

Covered Contractors are subject to the Employee Ethics Policy, incorporated herein by reference and available at <http://www.trs.texas.gov> and, as applicable, any warranties and representations made in TRS questionnaires related to political contributions, improper influence, placement agents and finders.

## **Section III. Periodic Disclosures**

### **A. Annual Compliance Statement.**

On the commencement of business with TRS (including but not limited to entering into a contract with TRS or being named as a Broker to the TRS ~~Contractors Approved~~ Broker List), the Contractor will have signed this Code in acknowledgement of the responsibilities and obligations thereunder and the consequences for non-compliance with the Code.

At least once every twelve-month period, each Contractor must read and review ~~any~~ all applicable policies and sign and date a Contractor Annual Ethics Compliance Statement (Form TRS 550, Appendix C) and any other forms as required by TRS.

### **B. Disclosure Statement for Financial Services Providers.**

In addition to the Annual Compliance Statement filed pursuant to the paragraph immediately above, all Financial Services Providers shall also file annually a Disclosure Statement for Financial Services Providers (Form TRS 630, Appendix D) with the Executive Director and the State Auditor's Office. Also, all Financial Services Providers must promptly file a new or amended Disclosure Statement for Financial Services Providers with the Executive Director and the State Auditor's Office whenever there is new information to report. In filing this statement, a Financial Services Provider will disclose in writing the following:

- (i) Any relationship (without regard to whether the relationship is direct, indirect, personal, private, commercial, or business) the Financial Services Provider has with any party to a transaction with TRS, other than a relationship necessary to the advice or services that the Financial Services Provider performs for TRS, if a reasonable person could expect the relationship to diminish the Financial Services Provider's independence of judgment in the performance of its responsibilities to TRS; and
- (ii) Any direct or indirect pecuniary interests in any party to a transaction with TRS if the transaction is connected with services the Contractor provides to TRS or to the Trustees in connection with the management or investment of TRS assets.

If no relationship or pecuniary interest described in (i) or (ii) immediately above existed during the disclosure period, then the Contractor must affirmatively state that fact. The Disclosure Statement for

Financial Services Providers must be filed annually, not later than April 1 with TRS and not later than April 15 with the State Auditor's Office, and ~~must will~~ cover the previous calendar year (the reporting period).

### **C. Expenditure Report.**

Each Contractor must file annually an Expenditure Reporting Form for Contractors (Form TRS 543, Appendix E), including itemized, reasonably detailed lists of expenditures of more than \$50 per day made by or on behalf of the Contractor with respect to or for the benefit of each Trustee or Employee. The Expenditure Reporting Form for Contractors must be filed not later than April 1 and will cover expenditures for the previous calendar year.

### **D. Ongoing Report.**

Each Contractor has an ongoing obligation to determine whether it must file Code Conflict Disclosure Statements or update its Annual Compliance Statement to reflect new information related to potential or actual conflicts of interest or the standards of conduct discussed in this Code.

## **Section IV. Compliance and Enforcement**

### **A. Enforcement.**

The Executive Director is responsible for implementation and enforcement of this Code. The Executive Director will inform the Board of any significant enforcement action taken by TRS concerning a violation of this Code. The Executive Director may authorize and approve a system or process through which Contractors may electronically submit to TRS the forms, disclosures, and statements required by this Code. Any such system must, to the Executive Director's satisfaction, require Contractors to submit all information required by this Code with sufficient guarantees of reliability, accuracy, and authenticity. Implementation of any such system in no way alters or waives any requirement of submitting any form, disclosure, or other information. The Executive Director also may authorize any updates and revisions to TRS forms used for compliance with this Code so long as the changes are not inconsistent with the Code.

The Executive Director or ~~General Counsel~~ Chief Compliance Officer may, in unique and limited circumstances, grant exceptions to the policies proscribed in the Code. Any such exceptions must be reported to the Audit, Compliance, and Ethics Committee of the Board and the Chief Audit Executive.

~~The General Counsel may delegate certain of its responsibilities under the Code to the Chief Compliance Officer.~~

### **B. Contracts; Violations.**

This Code must be incorporated into and form part of each contract with a Contractor.

#### **1. Termination.**

Violations of this Code by any Contractor are grounds for terminating the contract or relationship, and may constitute a material breach of contract with no penalty to TRS for terminating the contract or relationship. Any Contractor whose contract or business relationship with TRS is terminated by TRS because of a violation of this Code may not receive a contract award from TRS for up to ten years, as determined by the Executive Director or ~~their his or her~~ designee, commencing from the date of the termination. The Executive Director will maintain and serve as custodian for a list of the Contractors whose contract or relationship with TRS has been terminated because they were found to be in violation of this Code. This listing shall include information regarding the length of time during which the Contractor may not receive another contract award with TRS.

## **2. Notice and Cure.**

Notwithstanding the foregoing, to the extent that a violation of the Code (i) is disclosed to the ~~General Counsel or~~ Chief Compliance Officer within seven days of the discovery of the occurrence of such violation and (ii) such violation can be cured within 30 days of proper and complete disclosure based on the procedures in Section I.B. and Section I.D., such violation may be resolved, and such contract may remain in effect. The disclosure noted in clause (i) of this paragraph must be made through a Code Conflict Disclosure Statement and must describe in detail the violation and the action proposed to cure such violation. The determination of whether such violation has been appropriately cured will be made by the Executive Director. All violations of this Code, whether cured or not, will be reported to the Audit, Compliance, and Ethics Committee of the Board.

### **C. Fiduciary Duties.**

Contractors who are Fiduciaries shall take appropriate action as co-fiduciaries in the event a violation of this Code involves a breach of fiduciary duties. Such Contractors should be mindful that a decision by the Executive Director that a conflict has been properly disclosed and cured does not lessen a Contractor's duty of care to TRS or continuing duty of loyalty under the Contractor's fiduciary duty.

### **D. Report Violations.**

Contractors with knowledge of a violation of this Code, by themselves or others, must report promptly such violation to the Executive Director, ~~General Counsel~~ or Chief Compliance Officer.

### **E. Internal Reporting and Enforcement.**

A Contractor shall be responsible for compliance with this Code by the Contractor and each of its employees and affiliates working on TRS matters. Any disclosure or report required by this Code must be submitted to TRS by the Contractor entity rather than by individual employees and affiliates. A Contractor is responsible for making a diligent inquiry of each of the Contractor's employees and affiliates working on TRS matters before each submission and from time to time during engagement as a Contractor to determine if further submissions are required. The Contractor's inquiry shall include any employee or affiliates who worked on TRS matters during the reporting period, regardless of whether the employee or affiliate works on TRS matters at the reporting time, ceased working on TRS matters during that time or has since left employment with the Contractor. This inquiry obligation may be satisfied by an inquiry made near or at the time of a former employee's departure from a Contractor's employment. A Contractor must ensure that any Code Conflict Disclosure Statement required by this Code contains all relevant and material facts and circumstances necessary for TRS to fully understand the details of the potential or actual conflict of interest and, if applicable, the factors supporting a proposed cure for the conflict. This may involve updating a Code Conflict Disclosure Statement prior to TRS making a conflict or cure determination.

## Appendix A – Definitions

In this Code the following definitions apply unless the context requires otherwise:

**“Affiliate.”** Entities (units, divisions, parents, subsidiaries, etc.) and individual agents, representatives, contractors, and employees of the Contractor organization.

**“Agent.”** An entity or person, engaged as an independent contractor, performing material or significant duties on behalf of TRS as its representative. An Agent would include an unpaid intern or volunteer. For purposes of this Code, the term “Agent” does not include a Financial Services Provider. However, if an Agent also falls within the definition of a Consultant, the entity or person is considered a Consultant under this Code. If an Agent also falls within the definition of Financial Services Provider, the entity or person is considered a Financial Services Provider for all purposes. If questions exist regarding who constitutes an Agent, the Executive

Director or ~~their his or her~~ designee shall make that determination after consultation with the ~~General Counsel or~~ Chief Compliance Officer.

Notwithstanding the above, there may be certain entities or persons engaged by TRS, performing material or significant duties on behalf of TRS as its representative, that will be considered outside the scope of this Code. Any such determinations will be made on a case by case basis in the best interest of TRS, and a record of such determination will be maintained by the Legal & Compliance department.

**“Board.”** The Board of Trustees of TRS.

**“Broker.”** See Financial Services Provider.

**“Consultant.”** An entity or person, other than an Employee or Trustee, (i) who provides advice to TRS intended to affect or form a basis for significant TRS decisions, including but not limited to an actuary or insurance and health care plan advisor or (ii) who provides advice to TRS and may reasonably be expected to receive for ~~their his, her, or its~~ services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31). Consultant does not include a Financial Services Provider. However, if a Consultant also falls within the definition of a Financial Services Provider, the entity or person is considered a Financial Services Provider, respectively, for all purposes. If questions exist regarding who constitutes a Consultant, the Executive Director or ~~their his~~ designee shall make that determination after consultation with the ~~General Counsel or~~ Chief Compliance Officer.

**“Contractors.”** A collective term used to signify inclusion of all groups. For example, Agents, Consultants, and Financial Services Providers, as each separate term is defined herein.

**“Covered Contractor.”** A Contractor who works on location at TRS or a worker assigned by or paid, directly or indirectly, by the Contractor to work at TRS. A secondee to TRS from a Financial Services Provider would be a Covered Contractor.

**“Employee.”** A person who works for TRS in an employer-employee relationship (including a paid intern) and not in an independent contractor capacity, and includes the Executive Director and Chief Investment Officer of TRS.

**“Executive Director.”** The individual appointed as the executive director pursuant to Section of the Texas Government Code.

**“Fiduciary.”** For purposes of this Code, a Contractor identified or appointed by contract or otherwise designated by TRS as a TRS fiduciary. If questions exist regarding who constitutes a Fiduciary for purposes of this Code, the Executive Director or ~~his their~~ designee shall make that determination after consultation with the ~~General Counsel or the~~ Chief Compliance Officer.

**“Financial Advisor.”** See Financial Services Provider.

**“Financial Services Provider.”** A person or entity, other than an Employee or Trustee, who provides: (i) financial management or advice to TRS or to the Board that is a basis for significant financial, investment, or fund management decisions or actions by or on behalf of TRS, and whose primary role is to provide such management or advice; (ii) financial services to TRS or advice in connection with the management or investment of TRS trust funds and who may reasonably expect to receive for ~~his, her, or its~~ their services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31); or (iii) assistance to TRS in the buying or selling of stocks, bonds, commodities, options, and other securities, including related analysis or research (for example, on a security, company, industry, or sector) and who is named from time to time on the TRS ~~Approved-Contractors~~ Broker List. A Financial Services Provider would include but is not limited to (i) financial advisors, (ii) financial consultants, (iii) investment counselors, (iv) money or investment managers, (v) custodian banks and security lending agents, (vi) Strategic Partners, (vii) external managers retained pursuant to agency agreements and (viii) brokers. For purposes of reporting compliance, the term “Financial Services Provider” includes an entity or person who appeared on the TRS ~~Contractors Approved~~ Broker List or the TRS Restricted Contractors List during any portion of the period of time covered by a particular report, even if that entity or person is no longer named on the TRS ~~Contractors Approved~~ Broker List or TRS Restricted Contractors List.

If questions exist regarding who constitutes a Financial Services Provider, the Executive Director or ~~his~~ their designee shall make that determination after consultation with the ~~General Counsel or the~~ Chief Compliance Officer.

Notwithstanding the above, the following persons or entities are not considered Financial Services Providers: (i) attorneys and law firms, (ii) companies that provide actuarial services that impact investment strategies, (iii) companies that only provide financial information, research or advice that is not created for TRS’ exclusive use, or software by subscription or license agreement, (iv) companies that provide software and services to transmit data between or among TRS operating systems, (v) the medical board, and (vi) health care consultants.

~~**“General Counsel.”** The Employee of TRS serving in the position of chief legal advisor for TRS.~~

**“Strategic Partner.”** The institutions that are advisors that provide services under relationships designated by TRS as Strategic Partners.

**“TRS.”** The Teacher Retirement System of Texas.

**“Trustee.”** A member of the Board of TRS.

Appendix B – Conflict of Interest Disclosure and Request for Determination (“Code Conflict Disclosure Statement”)

Form TRS 541C

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## CONFLICT OF INTEREST DISCLOSURE and REQUEST FOR DETERMINATION

**Contractor's Complete Name:** \_\_\_\_\_

Under Section I.B. of the TRS Code of Ethics for Contractors ("Code"), a Contractor should promptly inform the ~~General Counsel or~~ Chief Compliance Officer by use of this TRS Form 541C if the Contractor either:

- has determined that it has a potential or actual conflict of interest; or
- is uncertain whether it has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur.<sup>1</sup>

A signed copy of this form may be emailed to the TRS Chief Compliance Officer or such other address as may be specified by TRS. If you have reason to believe that disclosure to the ~~General Counsel~~Chief Compliance Officer would be ineffective, your TRS Form 541C should be sent directly to the Executive Director.

Teacher Retirement System of Texas  
Executive Director  
1000 Red River Street Austin, Texas  
78701- 2698

You must include all relevant ~~and material~~ facts and circumstances necessary for TRS to fully understand the details surrounding the ~~possible~~, potential or actual conflict of interest. If any information you provide below requires updating or amending, immediately inform the ~~General Counsel or~~ Chief Compliance Officer (or Executive Director, as applicable) and promptly provide the updated or amended information.

### **I. Conflict Determination**

Describe fully the facts and circumstances that create the possible, potential or actual conflict of interest. Specify the interest or relationship that creates the conflict. Name all relevant parties. If there are non-confidential documents or related materials, attach those materials to your submission or provide website links to where those materials may be found.

As a reminder, Section I.A. of the Code provides that a conflict of interest exists when a Contractor has:

1. A relationship with any party to a transaction with TRS, or with an Employee or Trustee, other than a relationship necessary to the services that the Contractor performs for TRS, if a reasonable person could expect the relationship to diminish the Contractor's independence of judgment in the performance of the Contractor's responsibilities; or
2. A direct or indirect pecuniary interest in any party to a transaction with TRS if the transaction is connected with services the Contractor provides to TRS or to the Trustees in connection with the management or investment of TRS assets.

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<sup>1</sup> Contractors should complete TRS Form 541C in the same manner proscribed for addressing conflicts of interest when (1) reporting potential or actual violations of the Standards of Conduct in the Code, pursuant to Section II.J., or (2) using the Notice and Cure provisions in Section IV.B.2.

---

*Enter a complete, reasonably detailed description of the facts and circumstances here.*

Provide your preliminary analysis of why you believe the situation may or may not be a conflict of interest under the definition of conflict in Section I.A. of the Code. Please address each element of the definition of conflict of interest as set forth in items 1. or 2. above, as applicable to your circumstances.

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*Enter your preliminary analysis here, explaining why there is or is not ~~a possible~~, potential or actual conflict of interest.*

~~For TRS:~~     ~~No Conflict~~  
                   ~~Conflict~~  
                   ~~Conflict Upon Occurrence of Future Events~~

## II. Cure Determination

Provide your preliminary analysis of why you believe the conflict of interest has or may be cured. Use the factors outlined in Section II.D. of the Code, among others that you may consider relevant, to describe how and whether the conflict has been mitigated, controlled, or eliminated. In addition to the factors, your analysis should discuss, as applicable, the type of service underlying the conflict, the value of the service, any cost-benefit analysis that has been performed related to the service, and any restrictions on persons or activities in relation to the service or relationship underlying the conflict. If there are non-confidential documents or related materials, attach those materials to your submission or provide website links to where those materials may be found.

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*Enter your preliminary analysis here, explaining whether and how the conflict has or may be cured.*

~~For TRS:~~     ~~Conflict Not Cured or Incurable~~  
                   ~~Conflict Cured~~  
                   ~~Conflict Cured with Conditions (see below)~~

~~For TRS:~~    ~~Conditions Required as Part of Cure Determination:~~

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~~Identify conditions required as part of the cure determination pursuant to Section~~

I have withdrawn from participation in this matter pending further notification from TRS.

I believe that I can effectively withdraw from participation in this matter.

Why or why not? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

### III. Reporting Obligations

#### A. Self-reporting by Covered Contractor

I have provided a copy of this disclosure statement to my supervisor, team leader or manager, or monitoring personnel. If "no," why not?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Please provide requested explanation, if applicable.*

#### B. Reporting of Others

I believe another individual or entity has a conflict of interest, as defined in the Code.

I have knowledge that the other individual or entity has withdrawn from participation in the matters affected by the conflict of interest pending further notification from TRS.

I have provided a copy of this TRS Form 541C to the TRS personnel who supervise or monitor the individual or entity that is the subject of this disclosure statement.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Please provide additional explanation regarding the known facts surrounding a potential conflict of interest by another individual or entity.*

As, or on behalf of, the Contractor listed below, I certify that all of the information provided in this TRS Form 541C is accurate and complete.

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Contractor

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Signature

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Printed Name

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Title or Position of Individual Named Immediately Above

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Phone Number and Email Address

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Date

**IV. Conflict Determination & Resolution (for TRS use only)**

- No Conflict
- Conflict
- Conflict Upon Occurrence of Future Events

- Conflict Not Cured or Incurable
- Conflict Cured
- Conflict Cured with Conditions (see below)

~~For TRS:~~ Conditions Required as Part of Cure Determination:

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
*Identify conditions required as part of the cure determination pursuant to Section*

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- ~~For TRS:~~  Contract Continued  
 Contract Terminated

Contract Termination Date \_\_\_\_\_ Date

Reviewer Name: \_\_\_\_\_

Date: \_\_\_\_\_

Appendix C – Annual Ethics Compliance Statement Form TRS 550



## CONTRACTOR ANNUAL ETHICS COMPLIANCE STATEMENT

Consistent with Section IV. E. of the Code of Ethics for Contractors (the “Code”), an entity engaged by TRS as a Contractor shall be responsible for compliance with the Code by each of its employees and representatives and the authorized representative completing and executing this Statement does so on behalf of the entity itself and all of its employees. In this regard, any response, disclosure, or report required by this Code must be submitted to TRS by such entity rather than by individual employees and representatives, and such entity is responsible for making a diligent inquiry before each submission and from time to time during its engagement as a Contractor to determine if further submissions are required.

**CAPITALIZED WORDS APPEARING HEREIN HAVE THE SAME MEANING ASSIGNED TO THEM IN THE CODE.**

### FOR ALL CONTRACTORS

- ◆ After diligent inquiry, Contractor represents that the Code has been read by those persons who work or represent the Contractor on TRS matters and that these individuals are familiar with the standards that govern the conduct of TRS Contractors.
- ◆ Contactor agrees to comply with both the letter and spirit of the Code (including prohibitions upon offering or conferring any gifts, entertainment, or other economic benefits to Trustees and Employees, found in Section II.B of the Code) and the Expenditure Reporting Form and Memorandum. Contractor understands that a violation of the Code is grounds for termination of the contract or relationship with TRS, and constitute a material breach of contract with no penalty to TRS for terminating the contract or relationship. **Contractor further understands that termination of a contract or relationship because of a violation of the Code can preclude another contract or relationship with TRS as provided in the Code.**
- ◆ Contractor agrees to report in writing to the ~~General Counsel or to the Chief Compliance Officer or to the~~ Executive Director as required in the Code if Contractor:
  - 1) has determined that it has a potential or actual conflict of interest as defined in the Code, or
  - 2) is uncertain whether it has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur, or
  - 3) has knowledge that a Trustee, Employee, or Contractor has violated the Code, or
  - 4) has violated the Code or has an interest or relationship which violates the Code.

Such written report should be made on the TRS Form 541C, Conflict of Interest Disclosure and Request for Determination.

- ◆ Contractor agrees to provide a copy of any such disclosure to the Employee who monitors or manages the Contractor’s work.
- ◆ Contractor agrees to not take action personally or on behalf of TRS which is reasonably likely to result in a foreseeable conflict of interest unless permitted under Section II.I or II.J. of the Code or pursuant to Section I.D. of the Code.
- ◆ To the best of the knowledge and belief of Contractor, Contractor does not have a conflict of interest, nor has Contractor engaged in any activity that constitutes a conflict of interest, as defined in the Code, except as indicated below.

---

*(Write "None" if there is nothing to report. If there is something to report that requires additional space, please use and attach an additional sheet to this form.)*

- ◆ To the best of the knowledge and belief of Contractor, Contractor has no personal business relationship with a Trustee or Employee, except as indicated below.

---

*(Write "None" if there is nothing to report.)*

- ◆ To the best of the knowledge and belief of Contractor, Contractor has not violated the Code, except as indicated below.

---

*(Write "None" if there is nothing to report.)*

- ◆ To the best of the knowledge and belief of Contractor, Contractor is unaware of any violations of:
  - 1) the TRS policy prohibiting the offering or accepting of gifts, entertainment, or other economic benefits involving any Trustee, Employee, or Contractor.
  - 2) the Code by any other Contractor, except as indicated below.

---

*(Write "None" if there is nothing to report.)*

- ◆ Contractor agrees that if any change in circumstances occurs which should be reported in accordance with the Code, Contractor will promptly report this change to the ~~General Counsel~~Chief Compliance Officer or to the Executive Director.
- ◆ If Contractor was a Contractor during the prior calendar year, Contractor hereby certifies and represents that Contractor filed the Expenditure Reporting Form for Contractors that was due by April 1 of this calendar year. Contractor agrees to file by April 1 of the next calendar year an Expenditure Reporting Form for Contractors addressing expenditures made in this calendar year.
- ◆ Contractor is in compliance with all professional standards and laws that apply to Contractor.

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Signature

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Name of Contractor

---

Printed Name and Position

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Date

Appendix D – Disclosure Statement for Financial Services Providers

Form TRS 630



**DISCLOSURE STATEMENT  
FOR FINANCIAL SERVICES PROVIDERS**

**DUE ANNUALLY  
OR WHENEVER THERE IS NEW INFORMATION TO REPORT**

**INSTRUCTIONS:**

- 1) The reporting period covered by this statement consists of the preceding calendar year.
- 2) This statement must be filed annually.
- 3) A new or amended statement must be promptly filed with the parties listed in step 5 of these instructions whenever there is new information to report under Texas government code, section 2263.005 (a) or Section III.B of the TRS Code of Ethics for Contractors.
- 4) This statement must be submitted even if you answer “no” to questions 1 and 2 in part 2.
- 5) Submit a copy of this statement to **each of** the following:
  - a. The Executive Director of the Teacher Retirement System of Texas (“TRS”) (mail to 1000 Red River Street, Austin, TX, 78701-2698), no later than April 1.
  - b. The State Auditor (mail to P.O. Box 12067, Austin, TX, 78711-2067 Attn: Disclosure Statement), no later than April 15.
- 6) The term “Financial Services Provider” has the meaning given to it by the TRS Code of Ethics for Contractors.

**PART 1: GENERAL INFORMATION**

FILING TYPE (check one):     ANNUAL DISCLOSURE FOR YEAR ENDING DECEMBER 31, 20\_\_\_\_     UPDATED DISCLOSURE

FILER (check one):     INDIVIDUAL     BUSINESS ENTITY (on behalf of itself and all of its employees or representatives who provided advice or services to TRS)

NAME OF INDIVIDUAL \_\_\_\_\_ JOB TITLE \_\_\_\_\_

NAME OF BUSINESS ENTITY (if any) \_\_\_\_\_

TYPE OF FINANCIAL ADVICE OR SERVICE PROVIDED \_\_\_\_\_

ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_ PHONE \_\_\_\_\_

IF YOU ARE PROVIDING FINANCIAL ADVICE OR FINANCIAL SERVICES **CONCERNING TRS MATTERS** TO A TRS TRUSTEE BUT **NOT** TO TRS ITSELF, PLEASE PROVIDE THE NAME(S) OF THE TRUSTEE(S):

**If there are none, please answer “NONE”:** Note: A current listing of trustees can be found at the TRS website – [www.trs.texas.gov](http://www.trs.texas.gov).

**PART 2: DISCLOSURES**

**DISCLOSURE REQUIREMENTS FOR FINANCIAL SERVICES PROVIDERS**

Financial Services Providers must disclose information regarding certain relationships and interests to the TRS Executive Director and the Texas State Auditor pursuant to Texas Government Code Section 2263.005.

- 1) Do you or your business entity have or did you or your business entity have any relationship with any party to a transaction with TRS (other than a relationship necessary to the services that you or your business entity will perform, are performing, or performed for TRS) that a reasonable person could expect to diminish your or your business entity’s independence of judgment in the performance of your or your business entity’s responsibilities to TRS?
 

Yes                       No

If yes, please explain in detail the nature of such relationships. (Attach additional sheets as needed.)

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- 2) Do you or your business entity have or did you or your business entity have any direct or indirect pecuniary interests in any party to a transaction with TRS where the transaction is or was connected with any financial advice or service that you or your business entity provide to or provided to TRS or to a TRS trustee concerning TRS matters?

Yes  No

If yes, please explain in detail the nature of such pecuniary interests. (Attach additional sheets as needed.)

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### PART 3: SIGNATURE AND DATE

#### TO BE COMPLETED BY AN ENTITY ENGAGED BY TRS

**Pursuant to Section IV. E. of the Code of Ethics for Contractors (the “Code”), an entity engaged by TRS as a Financial Services Provider shall be responsible for compliance with the Code by each of its employees and representatives. This Disclosure Statement must be submitted to TRS by such entity rather than by individual employees and representatives, and such entity is responsible for making a diligent inquiry before each submission and from time to time during its engagement as a Financial Services Provider to determine if further submissions are required.**

Consistent with Section IV. E. of the Code, I hereby attest that I am authorized to file this Disclosure Statement on behalf of the business entity named above and that all information provided above is complete and accurate with respect to the business entity and all of its employees and representatives that provide financial advice or services to TRS. I further attest that a diligent inquiry of such employees and representatives was made by the business entity before each submission and periodically during the time that the business entity provides financial advice or services to TRS. Through the signature of the authorized individual below, the business entity hereby acknowledges its responsibility to submit promptly a new or amended Disclosure Statement to the parties listed in step 5 of the above instructions if any of the above information changes.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name and Position \_\_\_\_\_

#### TO BE COMPLETED BY AN INDIVIDUAL ENGAGED BY TRS

I hereby attest that all information provided above is complete and accurate. I hereby acknowledge my responsibility to submit promptly a new or amended Disclosure Statement to the parties listed in step 5 of the above instructions if any of the above information changes.

Signature \_\_\_\_\_ Date \_\_\_\_\_ Printed \_\_\_\_\_

Name \_\_\_\_\_

Appendix E – Expenditure Reporting Form for Contractors

Form TRS 543



## EXPENDITURE REPORTING FORM FOR CONTRACTORS

Required for: Expenditures of more than \$50 per day made on behalf of any one Trustee or TRS Employee by a TRS Contractor (as defined in the TRS Code of Ethics for Contractors; not including any other provider of goods or services)

Return to: Chief Compliance Officer, Teacher Retirement System of Texas

Due by: April 1, following the calendar year covered by the report

---

**PLEASE CHECK THE APPROPRIATE BLANKBOX:**

- Contractor made no reportable expenditures during the calendar year covered by this report. If this blank-box is checked, please sign and provide the information requested in the signature block located at the end of this form.
- Contractor made reportable expenditures during the calendar year covered by this report. If this blank box is checked, please complete the rest of this form, AND-sign and provide the information requested in the signature block located at the end of this form.

NOTE: If daily expenditures ~~which total in excess of~~ exceeding \$50 fall within two or more categories noted in Item 1 of the TRS Expenditure Reporting Memorandum, then a separate form for each Trustee or Employee and for each category may be filed with TRS.

~~Recipient~~ \_\_\_\_\_ ~~Trustee's~~ \_\_\_\_\_ ~~or~~ \_\_\_\_\_ ~~Employee's~~ \_\_\_\_\_ ~~Name(s):~~ \_\_\_\_\_

~~Were spouses/other guests in attendance?~~ YES \_\_\_\_\_ NO \_\_\_\_\_

~~Have you reported expenditures on spouses/guests of TRS recipients as expenditures on behalf of the TRS recipients?~~ YES \_\_\_\_\_ NO \_\_\_\_\_

~~Category of Expenditure:~~ \_\_\_\_\_

---

*(For example, food and beverages. Refer to Item 1 of the Expenditure Reporting Memorandum for other categories.)*

~~Description of Expenditure:~~ \_\_\_\_\_

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*(Be very specific in your description.)*

**Vendor/Provider**

Name:-

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---

Street \_\_\_\_\_ Address:

---

---

City, \_\_\_\_\_ State:

**Location Served/Held (if different from address immediately above):**

Name:-

---

---

Street \_\_\_\_\_ Address:

---

---

City, \_\_\_\_\_ State:

Amount of Expenditure per day per Trustee or Employee:

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Date of Expenditure: \_\_\_\_\_  
(For consumption, use, purchase, receipt.)

Date of Receipt: \_\_\_\_\_  
(If different from date of expenditure.)

<u>Expenditure Date</u>	<u>Value / Amount per Day per Trustee/ Employee</u>	<u>Expenditure Category</u>	<u>Vendor / Provider</u>	<u>Address / Location</u>	<u>Recipient name(s): Trustee / Employee</u>	<u>Were spouses/ other guests in attendance?</u>

BY MY SIGNATURE, I HEREBY CERTIFY AND REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Title

---

Name of Contractor

---

Contractor's Address

---

Date of Signature

---

Calendar Year Covered by This Report



**Teacher Retirement System of Texas**  
**Code of Ethics for Contractors**

**Adopted: September 9, 1994**

**Revised: Effective as of April 27, 2023**

I, the undersigned, acknowledge that I have read this Code and am familiar with, and agree to be bound by, the standards that govern the conduct of Contractors.

I, the undersigned, am responsible for compliance and administration of the Code, including any ethics matters that may arise thereunder. If those obligations reside with another representative of the Contractor, I have included the contact information for that person below.

If the undersigned is executing this Code on behalf of an entity engaged by TRS as a Contractor, I further acknowledge that I have distributed this Code to those persons who work for or represent the Contractor on TRS matters. They have read this Code and are familiar with, and agree to be bound by, the standards that govern the conduct of Contractors.

Further, the Contractor shall distribute this Code (i) immediately to any other person with the Contractor who begins working on or representing the Contractor on TRS matters and (ii) once a year to all persons with the Contractor who work on or represent the Contractor on TRS matters.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Contractor Entity Name

\_\_\_\_\_  
Date

Contact for Code administration: \_\_\_\_\_

Phone number: \_\_\_\_\_

Email address: \_\_\_\_\_

Contract Number Associated with this Code: \_\_\_\_\_

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## **Code of Ethics for Contractors**

The Teacher Retirement System of Texas (“TRS”) is charged by the Texas Constitution and state law with the administration and investment of pension assets held in trust for the exclusive benefit of active or retired TRS members and their beneficiaries; assets may not be diverted for other purposes. The TRS Board of Trustees is the trustee of all plan assets, responsible for the general administration and operation of TRS and authorized by law to adopt rules for TRS administration and Board business. The Board has similar responsibilities for the health benefits programs under the Texas Public School Retired Employees Group Benefits Act, the Texas School Employees Uniform Group Health Coverage Act, and other trusts or programs authorized by law to be administered by TRS. The Code of Ethics for Contractors (“Code”) sets forth the ethical responsibilities and requirements of Contractors, as that term is defined in the Code, in performing services for TRS.

### **Section I. Conflicts of Interest**

#### **A. Conflicts of Interest Defined.**

A conflict of interest exists for a Contractor when the Contractor has:

1. A relationship with any party to a transaction with TRS, or with an Employee, or Trustee, other than a relationship necessary to the services that the Contractor performs for TRS, if a reasonable person could expect the relationship to diminish the Contractor’s independence of judgment in the performance of the Contractor’s responsibilities; or
2. A direct or indirect pecuniary interest in any party to a transaction with TRS if the transaction is connected with services the Contractor provides to TRS or to the Trustees in connection with the management or investment of TRS assets.

A person's independence of judgment reasonably could be diminished when he or she is in a position to take action or not take action with respect to TRS or its business and a reasonable person could expect that such action or inaction on behalf of TRS is influenced by considerations of gain, loss avoidance, or benefit to the Contractor or a third party, rather than motivated by the best interests of TRS.

A conflict of interest will not exist under this Code if any benefit is merely incidental to the Contractor’s membership in a large class sharing a common interest, such as the class of TRS members. Further, a conflict of interest will not be deemed to exist solely because a Contractor is or has a relative who is a TRS member, retiree, annuitant or beneficiary who is not also an Employee.

#### **B. Disclosure of Potential and Actual Conflicts of Interest.**

If a Contractor either:

1. Has determined that it has a potential or actual conflict of interest; or
2. Is uncertain whether it has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur,

the Contractor should promptly disclose the underlying circumstances to the Chief Compliance Officer in writing by submitting a completed Conflict of Interest Disclosure and Request for Determination (the “Code Conflict Disclosure Statement”, Form TRS 541C) (See Appendix B). In completing the Code Conflict Disclosure Statement, a Contractor must provide full disclosure of all relevant facts and

circumstances related to the potential or actual conflict.

A contractor who files a Code Conflict Disclosure Statement must refrain from giving advice or making decisions about any matters affected by the potential or actual conflict of interest until the Contractor cures the conflict or obtains guidance to proceed from the TRS Chief Compliance Officer.

If a Contractor with a duty to disclose conflicts reasonably believes that disclosure to the Chief Compliance Officer would be ineffective, the Contractor shall disclose the potential or actual conflict of interest to the Executive Director.

Teacher Retirement System of Texas  
Executive Director  
1000 Red River Street Austin, Texas  
78701- 2698

Whether disclosure is made to the Chief Compliance Officer or to the Executive Director, a Contractor shall provide a copy of the Code Conflict Disclosure Statement to the Employee assigned to monitor or manage the performance of the Contractor.

### **C. Conflict Determination.**

The process for determining whether a conflict of interest exists or may exist under the circumstances described in the Code Conflict Disclosure Statement will be based on the type of Contractor: (i) Financial Services Provider or (ii) all other Contractors.

#### **1. Financial Services Provider.**

Upon receipt of a Code Conflict Disclosure Statement, the Executive Director, in consultation with the Chief Compliance Officer, will determine whether a potential or actual conflict of interest exists or would arise under the circumstances disclosed.

If the Executive Director determines that a conflict does not exist, the Contractor will be notified of such determination in writing by the Chief Compliance Officer. The Chief Compliance Officer will record the determination on the Code Conflict Disclosure Statement and the Code Conflict Disclosure Statement will be retained in the Legal & Compliance department.

If the Executive Director determines that either (i) a conflict does not exist presently but would exist upon the occurrence of future events or circumstances identified by the Contractor in the Code Conflict Disclosure Statement or otherwise, or (ii) a conflict exists, the Chief Compliance Officer will notify the Contractor of the Executive Director's determination in writing, and resolution of the conflict will be addressed as provided in Section I.D.

When a Code Conflict Disclosure Statement has been provided directly to the Executive Director, the Executive Director may consult with the Chief Compliance Officer and/or another member of the Legal & Compliance or Investment Management staff, as appropriate, for guidance in making a determination regarding the existence of and resolution of a conflict. In such cases, the Code Conflict Disclosure Statement will be updated and retained as provided in this Section I.C. and in Section I.D.

#### **2. All Other Contractors.**

Upon receipt of a Code Conflict Disclosure Statement, the Chief Compliance Officer will determine whether a potential or actual conflict of interest exists or would arise under the circumstances disclosed.

If the Chief Compliance Officer determines that a conflict does not exist, the Contractor will be notified of such determination in writing by the Chief Compliance Officer. The Chief Compliance Officer will record the determination on the Code Conflict Disclosure Statement and the Code Conflict Disclosure Statement will be retained in the Legal & Compliance department.

If the Chief Compliance Officer determines that either (i) a conflict does not exist presently but would exist upon the occurrence of future events or circumstances identified by the Contractor in the Code Conflict Disclosure Statement or otherwise, or (ii) a conflict exists, the Chief Compliance Officer will notify the Contractor of the determination in writing, and resolution of the conflict will be addressed as provided in Section I.D.

#### **D. Conflict Resolution.**

A Contractor with a conflict of interest must disclose the conflict and cure it. A conflict may be cured by mitigating, controlling or eliminating the conflict. For each determination that a conflict exists, the cure, or the absence of a cure, will be documented by the Chief Compliance Officer on the Code Conflict Disclosure Statement submitted by the Contractor. The documentation will summarize the reasons supporting the decision, including any conditions required as part of the cure. The Code Conflict Disclosure Statement will be retained in the Legal & Compliance department, with a copy to be provided to the Contractor.

The process for evaluating whether a conflict of interest has been cured will be based on the type of Contractor: (i) Financial Services Provider or (ii) all other Contractors.

##### **1. Financial Services Provider.**

Upon receipt of a Code Conflict Disclosure Statement, the Executive Director, in consultation with the Chief Compliance Officer, and as appropriate, the Chief Investment Officer, will make any determinations regarding whether a conflict of interest has been cured under this Section I.D.1 in their sole discretion.

- a. When evaluating whether a conflict has been or can be cured, the Executive Director may consider, among others, the following factors relating to the Contractor's disclosures and steps to mitigate, control, or eliminate the conflict:
  - i. Whether the Contractor is a fiduciary;
  - ii. The nature and extent of the Contractor's disclosed pecuniary interests and relationships;
  - iii. Whether, applying the reasonable person standard, the Contractor's exercise of judgment on behalf of TRS in performing such services is, or is likely to be, affected by the Contractor's interests and/or relationships;
  - iv. Whether the information disclosed regarding the conflict is contrary to or materially inconsistent with the known facts underlying the conflict;
  - v. Whether the Contractor's interests are in fact substantially aligned with TRS' best interests (or the degree to which they are not harmful or opposed to TRS' interests) in the transaction;
  - vi. Whether TRS' best interests will be best served by proceeding with the Contractor's services even though the Contractor also has an interest;
  - vii. A cost-benefit analysis, including a review of pricing and fee structures, that

demonstrates that TRS will not suffer any economic or other disadvantages or can reasonably expect cost-savings or pecuniary benefits (including loss avoidance) if TRS consents to the services;

- viii. The nature and extent of transparency and reporting that the Contractor will be required to deliver with respect to its own interests and relationships in connection with its services, and, if applicable, whether the Contractor's contract for services with TRS will, or should be amended to, require such transparency and reporting;
  - ix. Whether the Contractor proposes to create information barriers between business units, lines of business, relationship contacts, personnel, and affiliates with respect to confidential TRS or transaction information and due diligence matters;
  - x. The Contractor's qualifications, reputation, and experience in the industry for the services to be provided for the relevant transaction;
  - xi. Whether an RFP or Trustee approval was part of the engagement process for the Contractor;
  - xii. The prior experience with and quality of the Contractor's services in previous TRS transactions; and
  - xiii. Whether, in relation to the provision of analysis or research from a Financial Services Provider that is a Broker or independent research provider, the disclosures provided by the Contractor are sufficient under the circumstances to cure the conflict by informing TRS of the nature and extent of any bias, and to form a judgment about the credibility or value of the Contractor's services, particularly if the services are of a limited nature – such as research.
- b. When evaluating whether a conflict has been or can be cured, the Executive Director may also consider the type of services underlying the conflict of interest and the value such services provide within the different segments of TRS' business. For example, whether the Contractor proposes, in addition to providing the financial services it provides to TRS under an existing or proposed agreement, to:
- i. Act as a principal or counterparty (including as an agent for a disclosed or undisclosed third party principal) opposed to TRS in a financial or investment transaction or series of transactions;
  - ii. Offer inconsistent or, alternatively, numerous services by different areas of the Contractor's organization;
  - iii. Engage an affiliate to perform services for TRS that may or may not provide an indirect or direct benefit to the Contractor;
  - iv. Recapture commissions for certain services it provides; or
  - v. Provide investment advice to TRS in connection with a TRS investment and the Contractor has a conflict or holds or intends to hold or acquire a direct or indirect pecuniary interest in the same portfolio investment or transaction as TRS whether for itself as a principal or as an agent on behalf of disclosed or undisclosed third parties.
- c. The Executive Director may consider whether a Contractor has or can cure a potential or actual conflict if the Contractor or the Contractor's Employee or affiliate prudently refrains or withdraws from taking action on a particular TRS matter provided that:

- i. The person, persons, or Contractor may be, is or are effectively separated from influencing the action taken;
  - ii. The action may properly and prudently be taken by others without undue risk to the interests of TRS; and
  - iii. The nature of the conflict is not such that the person, persons, or Contractor must regularly and consistently withdraw from decisions that are normally their responsibility with respect to the services provided to TRS.
- d. The Executive Director may elect to impose conditions as part of a determination that a conflict has been or can be cured. Such conditions will be tailored to the particular facts and circumstances. They may include, among others, requirements to:
- i. Further disclose the Contractor’s interests and relationships in any written advice, prudence letter, or recommendation provided to TRS for the transaction or series of transactions to which the determination relates;
  - ii. Revisit the “disclosure and cure” determination upon the occurrence of certain facts or circumstances;
  - iii. Agree to contractual amendments;
  - iv. Conduct ongoing monitoring and reporting; or
  - v. Acknowledge possible reconsideration of the Contractor’s disclosures at any time.

In each instance where the Executive Director has determined that a potential or actual conflict of interest has been cured, a Contractor may only proceed with the actions giving rise to the conflict upon written notice from the Chief Compliance Officer or Executive Director. In the event the Executive Director determines that the conflict has not been cured, the Contractor may not proceed with the services and must terminate its relationship with TRS, as described in Section I.E.

**2. All Other Contractors.**

The Chief Compliance Officer will make any determinations regarding whether a Contractor’s conflict of interest has been cured under this Section I.D.2. In reviewing the Code Conflict Disclosure Statement, the Chief Compliance Officer may consider the same factors identified in Section I.D.1, as applicable.

Following the same process, the Executive Director may undertake a conflicts determination for those conflicts where the Code Conflict Disclosure Statement was filed directly with the Executive Director.

**E. Termination.**

A Contractor who cannot or does not want to cure a conflict of interest must terminate their relationship with TRS as promptly as responsibly and legally possible. The decision to terminate, and a summary of the analysis related to that decision, will be documented by the Chief Compliance Officer on the Code Conflict Disclosure Statement submitted by the Contractor. The Code Conflict Disclosure Statement will be retained in the Legal & Compliance department, with a copy to be provided to the Contractor.

**F. Reporting.**

The Chief Compliance Officer shall regularly provide a report to the Executive Director, the Chief Audit Executive and the Audit, Compliance, and Ethics Committee of the Board regarding all Code Conflict

Disclosure Statements evidencing a conflict of interest and violations of the conflicts provisions.

## **Section II. Standards of Conduct**

### **A. Professional Standards and Laws.**

Contractors must comply with all applicable state, federal and non-U.S. professional standards and laws, including, without limitation, the following:

1. Section 36.02. Bribery. Texas Penal Code.
2. Section 36.09. Offering Gift to Public Servant. Texas Penal Code.
3. Section 572.054. Representation by Former Officer or Employee of Regulatory Agency Restricted; Criminal Offense. Texas Government Code.
4. Section 825.212. Retirement System Ethics Policy. Texas Government Code.
5. Section 2252.908. Disclosure of Interested Parties. Texas Government Code.
6. Chapter 2263. Ethics and Disclosure Requirements for Outside Financial Advisors and Service Providers. Texas Government Code.
7. All applicable securities and commodities laws.

### **B. Benefits.**

Contractors must avoid offering, conferring, soliciting, or accepting any benefit to or from Trustees, Employees, or Covered Contractors, except as otherwise allowed in Trustee and Employee Ethics Policies, incorporated herein by reference and available at <http://www.trs.texas.gov>. For example, a Contractor may not provide a special discount on services to a TRS Trustee or Employee if the discount is based on the Contractor's relationship with TRS.

### **C. Individual Advisor.**

Irrespective of compensation, a Contractor may not be a representative of or be engaged by an individual Trustee if, in either case, the Contractor's role with respect to the Trustee is to provide advice that could reasonably be expected to form the basis for a significant TRS decision made by the Trustee.

### **D. Personal Business Relationship.**

A personal business relationship exists when a Contractor and a Trustee or Employee own or operate a business together or co-invest in a business, other than through publicly traded securities. Contractors may not have a personal business relationship with a Trustee or Employee unless the Executive Director consents to the continuation of TRS' relationship with the Contractor after full disclosure. If a personal business relationship exists, a Contractor must promptly disclose the personal business relationship to the Executive Director by filing a Code Conflict Disclosure Statement with the Chief Compliance Officer. The Executive Director, after consultation with the Chief Compliance Officer, will then determine whether to approve the continuation of TRS' relationship with the Contractor while the Trustee or Employee continues in their respective role for TRS. Alternatively, the Executive Director may require the Contractor, Trustee and/or Employee to be screened from TRS matters in which the personal business relationship may reasonably be expected to diminish the Contractor's independence of judgment in the performance of duties for TRS.

### **E. Employment of Former Trustee or Executive Director.**

Contractors may not employ a former Trustee or a former Executive Director for two years after

termination of such former Trustee's TRS board service or such Executive Director's Employee relationship with TRS unless the former Trustee or Executive Director will not provide services to TRS or work on or have any involvement in TRS-related business of the Contractor. Further, Contractors may not employ any former Trustee or Employee, including the former Executive Director, at any time if the person's services to TRS, work, and involvement in TRS-related business of the Contractor would violate Government Code Section 572.054(b) of the Texas "Revolving Door" statute. To the extent that it does not violate statutory law or that it would be in the best interest of TRS, the Executive Director may waive the application of this prohibition in a specific situation.

TRS cannot enter into a contract with a former or current Executive Director or with a Contractor which employs a former Executive Director without Board approval in an open meeting.

**F. Use or Disclosure of TRS Information.**

A Contractor may not use or disclose any information acquired as a result of the relationship with TRS except as needed to provide the services required by the contract for TRS business purposes. A Contractor receiving or having access to sensitive or confidential TRS information must use its best efforts to protect such TRS information from unauthorized access, use or disclosure.

**G. Bids.**

A Contractor may not be awarded a contract that is funded in whole or in part by appropriations from the general revenue fund of the State of Texas if (i) TRS paid the Contractor to participate in preparing the specifications for, or request for proposals related to, the contract, or (ii) the Contractor assisted TRS in the selection process to award the contract.

**H. Controls**

Contractors must observe the accounting and operating controls established by law and TRS policies, including restrictions and prohibitions on the use of TRS property for non-TRS purposes, including personal purposes.

**I. Foreseeable Conflicts of Interest.**

Contractors may not take action personally or on behalf of TRS that would reasonably be likely to result in a foreseeable conflict of interest. If a Contractor believes that taking a particular action would be in the best interest of TRS but such action would foreseeably result in a conflict of interest for the Contractor, the Contractor must proceed under the conflict of interest provisions of Section I.

**J. Foreseeable Violation of Standards of Conduct.**

If a Contractor anticipates that future conduct by the Contractor itself, its employees or its affiliates could or is likely to violate the Standards of Conduct, but such conduct may not itself, without more, be a potential or actual conflict of interest, the Contractor may seek to "cure" that anticipated violation by following the process outlined in Section I.B. through I.D. for disclosing and curing potential and actual conflicts of interest by mitigating, controlling, or eliminating the violation.

As in Section I., the Executive Director will review Code Conflict Disclosure Statements for Financial Services Providers and the Chief Compliance Officer will review Code Conflict Disclosure Statements for all other Contractors. Any use of this sub-section will be reported on a regular basis by the Chief Compliance Office to the Executive Director, the Chief Audit Executive, and the Audit, Compliance, and Ethics Committee of the Board.

**K. Signed Acknowledgement.**

On the commencement of business with TRS (including but not limited to entering into a contract with

TRS or being named as a Broker to the TRS Contractors Broker List) and at any time this Code is revised by TRS, each Contractor must sign, date, and return to TRS a copy of this Code. The process for acknowledgment may be through electronic means.

**L. Reporting.**

Contractors shall complete all reporting requirements in accordance with TRS prescribed systems or processes, including any electronic reporting system implemented by TRS.

**M. Covered Contractor Ethics.**

Covered Contractors are subject to the Employee Ethics Policy, incorporated herein by reference and available at <http://www.trs.texas.gov> and, as applicable, any warranties and representations made in TRS questionnaires related to political contributions, improper influence, placement agents and finders.

**Section III. Periodic Disclosures**

**A. Annual Compliance Statement.**

On the commencement of business with TRS (including but not limited to entering into a contract with TRS or being named as a Broker to the TRS Contractors Broker List), the Contractor will have signed this Code in acknowledgement of the responsibilities and obligations thereunder and the consequences for non-compliance with the Code.

At least once every twelve-month period, each Contractor must read and review all applicable policies and sign and date a Contractor Annual Ethics Compliance Statement (Form TRS 550, Appendix C) and any other forms as required by TRS.

**B. Disclosure Statement for Financial Services Providers.**

In addition to the Annual Compliance Statement filed pursuant to the paragraph immediately above, all Financial Services Providers shall also file annually a Disclosure Statement for Financial Services Providers (Form TRS 630, Appendix D) with the Executive Director and the State Auditor's Office. Also, all Financial Services Providers must promptly file a new or amended Disclosure Statement for Financial Services Providers with the Executive Director and the State Auditor's Office whenever there is new information to report. In filing this statement, a Financial Services Provider will disclose in writing the following:

- (i) Any relationship (without regard to whether the relationship is direct, indirect, personal, private, commercial, or business) the Financial Services Provider has with any party to a transaction with TRS, other than a relationship necessary to the advice or services that the Financial Services Provider performs for TRS, if a reasonable person could expect the relationship to diminish the Financial Services Provider's independence of judgment in the performance of its responsibilities to TRS; and
- (ii) Any direct or indirect pecuniary interests in any party to a transaction with TRS if the transaction is connected with services the Contractor provides to TRS or to the Trustees in connection with the management or investment of TRS assets.

If no relationship or pecuniary interest described in (i) or (ii) immediately above existed during the disclosure period, then the Contractor must affirmatively state that fact. The Disclosure Statement for Financial Services Providers must be filed annually, not later than April 1 with TRS and not later than April 15 with the State Auditor's Office and must cover the previous calendar year (the reporting period).

### **C. Expenditure Report.**

Each Contractor must file annually an Expenditure Reporting Form for Contractors (Form TRS 543, Appendix E), including itemized, reasonably detailed lists of expenditures of more than \$50 per day made by or on behalf of the Contractor with respect to or for the benefit of each Trustee or Employee. The Expenditure Reporting Form for Contractors must be filed not later than April 1 and will cover expenditures for the previous calendar year.

### **D. Ongoing Report.**

Each Contractor has an ongoing obligation to determine whether it must file Code Conflict Disclosure Statements or update its Annual Compliance Statement to reflect new information related to potential or actual conflicts of interest or the standards of conduct discussed in this Code.

## **Section IV. Compliance and Enforcement**

### **A. Enforcement.**

The Executive Director is responsible for implementation and enforcement of this Code. The Executive Director will inform the Board of any significant enforcement action taken by TRS concerning a violation of this Code. The Executive Director may authorize and approve a system or process through which Contractors may electronically submit to TRS the forms, disclosures, and statements required by this Code. Any such system must, to the Executive Director's satisfaction, require Contractors to submit all information required by this Code with sufficient guarantees of reliability, accuracy, and authenticity. Implementation of any such system in no way alters or waives any requirement of submitting any form, disclosure, or other information. The Executive Director also may authorize any updates and revisions to TRS forms used for compliance with this Code so long as the changes are not inconsistent with the Code.

The Executive Director or Chief Compliance Officer may, in unique and limited circumstances, grant exceptions to the policies proscribed in the Code. Any such exceptions must be reported to the Audit, Compliance, and Ethics Committee of the Board and the Chief Audit Executive.

### **B. Contracts; Violations.**

This Code must be incorporated into and form part of each contract with a Contractor.

#### **1. Termination.**

Violations of this Code by any Contractor are grounds for terminating the contract or relationship, and may constitute a material breach of contract with no penalty to TRS for terminating the contract or relationship. Any Contractor whose contract or business relationship with TRS is terminated by TRS because of a violation of this Code may not receive a contract award from TRS for up to ten years, as determined by the Executive Director or their designee, commencing from the date of the termination. The Executive Director will maintain and serve as custodian for a list of the Contractors whose contract or relationship with TRS has been terminated because they were found to be in violation of this Code. This listing shall include information regarding the length of time during which the Contractor may not receive another contract award with TRS.

#### **2. Notice and Cure.**

Notwithstanding the foregoing, to the extent that a violation of the Code (i) is disclosed to the Chief Compliance Officer within seven days of the discovery of the occurrence of such violation and (ii) such violation can be cured within 30 days of proper and complete disclosure based on the procedures in Section I.B. and Section I.D., such violation may be resolved, and such contract may

remain in effect. The disclosure noted in clause (i) of this paragraph must be made through a Code Conflict Disclosure Statement and must describe in detail the violation and the action proposed to cure such violation. The determination of whether such violation has been appropriately cured will be made by the Executive Director. All violations of this Code, whether cured or not, will be reported to the Audit, Compliance, and Ethics Committee of the Board.

**C. Fiduciary Duties.**

Contractors who are Fiduciaries shall take appropriate action as co-fiduciaries in the event a violation of this Code involves a breach of fiduciary duties. Such Contractors should be mindful that a decision by the Executive Director that a conflict has been properly disclosed and cured does not lessen a Contractor's duty of care to TRS or continuing duty of loyalty under the Contractor's fiduciary duty.

**D. Report Violations.**

Contractors with knowledge of a violation of this Code, by themselves or others, must report promptly such violation to the Executive Director or Chief Compliance Officer.

**E. Internal Reporting and Enforcement.**

A Contractor shall be responsible for compliance with this Code by the Contractor and each of its employees and affiliates working on TRS matters. Any disclosure or report required by this Code must be submitted to TRS by the Contractor entity rather than by individual employees and affiliates. A Contractor is responsible for making a diligent inquiry of each of the Contractor's employees and affiliates working on TRS matters before each submission and from time to time during engagement as a Contractor to determine if further submissions are required. The Contractor's inquiry shall include any employee or affiliates who worked on TRS matters during the reporting period, regardless of whether the employee or affiliate works on TRS matters at the reporting time, ceased working on TRS matters during that time or has since left employment with the Contractor. This inquiry obligation may be satisfied by an inquiry made near or at the time of a former employee's departure from a Contractor's employment. A Contractor must ensure that any Code Conflict Disclosure Statement required by this Code contains all relevant and material facts and circumstances necessary for TRS to fully understand the details of the potential or actual conflict of interest and, if applicable, the factors supporting a proposed cure for the conflict. This may involve updating a Code Conflict Disclosure Statement prior to TRS making a conflict or cure determination.

## Appendix A – Definitions

In this Code the following definitions apply unless the context requires otherwise:

**“Affiliate.”** Entities (units, divisions, parents, subsidiaries, etc.) and individual agents, representatives, contractors, and employees of the Contractor organization.

**“Agent.”** An entity or person, engaged as an independent contractor, performing material or significant duties on behalf of TRS as its representative. An Agent would include an unpaid intern or volunteer. For purposes of this Code, the term “Agent” does not include a Financial Services Provider. However, if an Agent also falls within the definition of a Consultant, the entity or person is considered a Consultant under this Code. If an Agent also falls within the definition of Financial Services Provider, the entity or person is considered a Financial Services Provider for all purposes. If questions exist regarding who constitutes an Agent, the Executive

Director or their designee shall make that determination after consultation with the Chief Compliance Officer.

Notwithstanding the above, there may be certain entities or persons engaged by TRS, performing material or significant duties on behalf of TRS as its representative, that will be considered outside the scope of this Code. Any such determinations will be made on a case by case basis in the best interest of TRS, and a record of such determination will be maintained by the Legal & Compliance department.

**“Board.”** The Board of Trustees of TRS.

**“Broker.”** See Financial Services Provider.

**“Consultant.”** An entity or person, other than an Employee or Trustee, (i) who provides advice to TRS intended to affect or form a basis for significant TRS decisions, including but not limited to an actuary or insurance and health care plan advisor or (ii) who provides advice to TRS and may reasonably be expected to receive for their services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31). Consultant does not include a Financial Services Provider. However, if a Consultant also falls within the definition of a Financial Services Provider, the entity or person is considered a Financial Services Provider, respectively, for all purposes. If questions exist regarding who constitutes a Consultant, the Executive Director or their designee shall make that determination after consultation with the Chief Compliance Officer.

**“Contractors.”** A collective term used to signify inclusion of all groups. For example, Agents, Consultants, and Financial Services Providers, as each separate term is defined herein.

**“Covered Contractor.”** A Contractor who works on location at TRS or a worker assigned by or paid, directly or indirectly, by the Contractor to work at TRS. A secondee to TRS from a Financial Services Provider would be a Covered Contractor.

**“Employee.”** A person who works for TRS in an employer-employee relationship (including a paid intern) and not in an independent contractor capacity, and includes the Executive Director and Chief Investment Officer of TRS.

**“Executive Director.”** The individual appointed as the executive director pursuant to Section of the Texas Government Code.

**“Fiduciary.”** For purposes of this Code, a Contractor identified or appointed by contract or otherwise designated by TRS as a TRS fiduciary. If questions exist regarding who constitutes a Fiduciary for purposes of this Code, the Executive Director or their designee shall make that determination after consultation with the Chief Compliance Officer.

**“Financial Advisor.”** See Financial Services Provider.

**“Financial Services Provider.”** A person or entity, other than an Employee or Trustee, who provides: (i) financial management or advice to TRS or to the Board that is a basis for significant financial, investment, or fund management decisions or actions by or on behalf of TRS, and whose primary role is to provide such management or advice; (ii) financial services to TRS or advice in connection with the management or investment of TRS trust funds and who may reasonably expect to receive for their services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31); or (iii) assistance to TRS in the buying or selling of stocks, bonds, commodities, options, and other securities, including related analysis or research (for example, on a security, company, industry, or sector) and who is named from time to time on the TRS Contractors Broker List. A Financial Services Provider would include but is not limited to (i) financial advisors, (ii) financial consultants, (iii) investment counselors, (iv) money or investment managers, (v) custodian banks and security lending agents, (vi) Strategic Partners, (vii) external managers retained pursuant to agency agreements and (viii) brokers. For purposes of reporting compliance, the term “Financial Services Provider” includes an entity or person who appeared on the TRS Contractors Broker List or the TRS Restricted Contractors List during any portion of the period of time covered by a particular report, even if that entity or person is no longer named on the TRS Contractors Broker List or TRS Restricted Contractors List.

If questions exist regarding who constitutes a Financial Services Provider, the Executive Director or their designee shall make that determination after consultation with the Chief Compliance Officer.

Notwithstanding the above, the following persons or entities are not considered Financial Services Providers: (i) attorneys and law firms, (ii) companies that provide actuarial services that impact investment strategies, (iii) companies that only provide financial information, research or advice that is not created for TRS’ exclusive use, or software by subscription or license agreement, (iv) companies that provide software and services to transmit data between or among TRS operating systems, (v) the medical board, and (vi) health care consultants.

**“Strategic Partner.”** The institutions that are advisors that provide services under relationships designated by TRS as Strategic Partners.

**“TRS.”** The Teacher Retirement System of Texas.

**“Trustee.”** A member of the Board of TRS.

Appendix B – Conflict of Interest Disclosure and Request for Determination (“Code Conflict Disclosure Statement”)

Form TRS 541C



**CONFLICT OF INTEREST DISCLOSURE and REQUEST FOR DETERMINATION**

**Contractor’s Complete Name:** \_\_\_\_\_

Under Section I.B. of the TRS Code of Ethics for Contractors (“Code”), a Contractor should promptly inform the Chief Compliance Officer by use of this TRS Form 541C if the Contractor either:

- has determined that it has a potential or actual conflict of interest; or
- is uncertain whether it has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur.<sup>1</sup>

A signed copy of this form may be emailed to the TRS Chief Compliance Officer or such other address as may be specified by TRS. If you have reason to believe that disclosure to the Chief Compliance Officer would be ineffective, your TRS Form 541C should be sent directly to the Executive Director.

Teacher Retirement System of Texas  
 Executive Director  
 1000 Red River Street Austin, Texas  
 78701- 2698

You must include all relevant facts and circumstances necessary for TRS to fully understand the details surrounding the potential or actual conflict of interest. If any information you provide below requires updating or amending, immediately inform the Chief Compliance Officer (or Executive Director, as applicable) and promptly provide the updated or amended information.

**I. Conflict Determination**

Describe fully the facts and circumstances that create the possible, potential or actual conflict of interest. Specify the interest or relationship that creates the conflict. Name all relevant parties. If there are non-confidential documents or related materials, attach those materials to your submission or provide website links to where those materials may be found.

As a reminder, Section I.A. of the Code provides that a conflict of interest exists when a Contractor has:

1. A relationship with any party to a transaction with TRS, or with an Employee or Trustee, other than a relationship necessary to the services that the Contractor performs for TRS, if a reasonable person could expect the relationship to diminish the Contractor’s independence of judgment in the performance of the Contractor’s responsibilities; or
2. A direct or indirect pecuniary interest in any party to a transaction with TRS if the transaction is connected with services the Contractor provides to TRS or to the Trustees in connection with the management or investment of TRS assets.

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*Enter a complete, reasonably detailed description of the facts and circumstances here.*

<sup>1</sup> Contractors should complete TRS Form 541C in the same manner proscribed for addressing conflicts of interest when (1) reporting potential or actual violations of the Standards of Conduct in the Code, pursuant to Section II.J., or (2) using the Notice and Cure provisions in Section IV.B.2.

Provide your preliminary analysis of why you believe the situation may or may not be a conflict of interest under the definition of conflict in Section I.A. of the Code. Please address each element of the definition of conflict of interest as set forth in items 1. or 2. above, as applicable to your circumstances.

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*Enter your preliminary analysis here, explaining why there is or is not potential or actual conflict of interest.*

## **II. Cure Determination**

Provide your preliminary analysis of why you believe the conflict of interest has or may be cured. Use the factors outlined in Section II.D. of the Code, among others that you may consider relevant, to describe how and whether the conflict has been mitigated, controlled, or eliminated. In addition to the factors, your analysis should discuss, as applicable, the type of service underlying the conflict, the value of the service, any cost-benefit analysis that has been performed related to the service, and any restrictions on persons or activities in relation to the service or relationship underlying the conflict. If there are non-confidential documents or related materials, attach those materials to your submission or provide website links to where those materials may be found.

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*Enter your preliminary analysis here, explaining whether and how the conflict has or may be cured.*

- I have withdrawn from participation in this matter pending further notification from TRS.
- I believe that I can effectively withdraw from participation in this matter.

Why or why not? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## **III. Reporting Obligations**

### **A. Self-reporting by Covered Contractor**

I have provided a copy of this disclosure statement to my supervisor, team leader or manager, or monitoring personnel. If "no," why not?

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*Please provide requested explanation, if applicable.*

**B. Reporting of Others**

- I believe another individual or entity has a conflict of interest, as defined in the Code.
- I have knowledge that the other individual or entity has withdrawn from participation in the matters affected by the conflict of interest pending further notification from TRS.
- I have provided a copy of this TRS Form 541C to the TRS personnel who supervise or monitor the individual or entity that is the subject of this disclosure statement.

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*Please provide additional explanation regarding the known facts surrounding a potential conflict of interest by another individual or entity.*

As, or on behalf of, the Contractor listed below, I certify that all of the information provided in this TRS Form 541C is accurate and complete.

---

Contractor

---

Signature

---

Printed Name

---

Title or Position of Individual Named Immediately Above

---

Phone Number and Email Address

---

Date

**IV. Conflict Determination & Resolution (for TRS use only)**

<input type="checkbox"/> No Conflict <input type="checkbox"/> Conflict <input type="checkbox"/> Conflict Upon Occurrence of Future Events
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- Conflict Not Cured or Incurable
- Conflict Cured
- Conflict Cured with Conditions (see below)

Conditions Required as Part of Cure Determination:

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*Identify conditions required as part of the cure determination pursuant to Section*

- Contract Continued
  - Contract Terminated
- Contract Termination Date \_\_\_\_\_

Reviewer Name: \_\_\_\_\_

Date: \_\_\_\_\_

Appendix C – Annual Ethics Compliance Statement Form TRS 550



## CONTRACTOR ANNUAL ETHICS COMPLIANCE STATEMENT

**Consistent with Section IV. E. of the Code of Ethics for Contractors (the “Code”), an entity engaged by TRS as a Contractor shall be responsible for compliance with the Code by each of its employees and representatives and the authorized representative completing and executing this Statement does so on behalf of the entity itself and all of its employees. In this regard, any response, disclosure, or report required by this Code must be submitted to TRS by such entity rather than by individual employees and representatives, and such entity is responsible for making a diligent inquiry before each submission and from time to time during its engagement as a Contractor to determine if further submissions are required.**

**CAPITALIZED WORDS APPEARING HEREIN HAVE THE SAME MEANING ASSIGNED TO THEM IN THE CODE.**

### FOR ALL CONTRACTORS

- ◆ After diligent inquiry, Contractor represents that the Code has been read by those persons who work or represent the Contractor on TRS matters and that these individuals are familiar with the standards that govern the conduct of TRS Contractors.
- ◆ Contactor agrees to comply with both the letter and spirit of the Code (including prohibitions upon offering or conferring any gifts, entertainment, or other economic benefits to Trustees and Employees, found in Section II.B of the Code) and the Expenditure Reporting Form and Memorandum. Contractor understands that a violation of the Code is grounds for termination of the contract or relationship with TRS, and constitute a material breach of contract with no penalty to TRS for terminating the contract or relationship. **Contractor further understands that termination of a contract or relationship because of a violation of the Code can preclude another contract or relationship with TRS as provided in the Code.**
- ◆ Contractor agrees to report in writing to the Chief Compliance Officer or to the Executive Director as required in the Code if Contractor:
  - 1) has determined that it has a potential or actual conflict of interest as defined in the Code, or
  - 2) is uncertain whether it has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur, or
  - 3) has knowledge that a Trustee, Employee, or Contractor has violated the Code, or
  - 4) has violated the Code or has an interest or relationship which violates the Code.

Such written report should be made on the TRS Form 541C, Conflict of Interest Disclosure and Request for Determination.

- ◆ Contractor agrees to provide a copy of any such disclosure to the Employee who monitors or manages the Contractor’s work.
- ◆ Contractor agrees to not take action personally or on behalf of TRS which is reasonably likely to result in a foreseeable conflict of interest unless permitted under Section II.I or II.J. of the Code or pursuant to Section I.D. of the Code.
- ◆ To the best of the knowledge and belief of Contractor, Contractor does not have a conflict of interest, nor has Contractor engaged in any activity that constitutes a conflict of interest, as defined in the Code, except as indicated below.

---

*(Write "None" if there is nothing to report. If there is something to report that requires additional space, please use and attach an additional sheet to this form.)*

- ◆ To the best of the knowledge and belief of Contractor, Contractor has no personal business relationship with a Trustee or Employee, except as indicated below.

---

*(Write "None" if there is nothing to report.)*

- ◆ To the best of the knowledge and belief of Contractor, Contractor has not violated the Code, except as indicated below.

---

*(Write "None" if there is nothing to report.)*

- ◆ To the best of the knowledge and belief of Contractor, Contractor is unaware of any violations of:
  - 1) the TRS policy prohibiting the offering or accepting of gifts, entertainment, or other economic benefits involving any Trustee, Employee, or Contractor.
  - 2) the Code by any other Contractor, except as indicated below.

---

*(Write "None" if there is nothing to report.)*

- ◆ Contractor agrees that if any change in circumstances occurs which should be reported in accordance with the Code, Contractor will promptly report this change to the Chief Compliance Officer or to the Executive Director.
- ◆ If Contractor was a Contractor during the prior calendar year, Contractor hereby certifies and represents that Contractor filed the Expenditure Reporting Form for Contractors that was due by April 1 of this calendar year. Contractor agrees to file by April 1 of the next calendar year an Expenditure Reporting Form for Contractors addressing expenditures made in this calendar year.
- ◆ Contractor is in compliance with all professional standards and laws that apply to Contractor.

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Signature

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Name of Contractor

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Printed Name and Position

---

Date

Appendix D – Disclosure Statement for Financial Services Providers

Form TRS 630



**DISCLOSURE STATEMENT  
FOR FINANCIAL SERVICES PROVIDERS**

**DUE ANNUALLY  
OR WHENEVER THERE IS NEW INFORMATION TO REPORT**

**INSTRUCTIONS:**

- 1) The reporting period covered by this statement consists of the preceding calendar year.
- 2) This statement must be filed annually.
- 3) A new or amended statement must be promptly filed with the parties listed in step 5 of these instructions whenever there is new information to report under Texas government code, section 2263.005 (a) or Section III.B of the TRS Code of Ethics for Contractors.
- 4) This statement must be submitted even if you answer “no” to questions 1 and 2 in part 2.
- 5) Submit a copy of this statement to each of the following:
  - a. The Executive Director of the Teacher Retirement System of Texas (“TRS”) (mail to 1000 Red River Street, Austin, TX, 78701-2698), no later than April 1.
  - b. The State Auditor (mail to P.O. Box 12067, Austin, TX, 78711-2067 Attn: Disclosure Statement), no later than April 15.
- 6) The term “Financial Services Provider” has the meaning given to it by the TRS Code of Ethics for Contractors.

**PART 1: GENERAL INFORMATION**

FILING TYPE (check one):     ANNUAL DISCLOSURE FOR YEAR ENDING DECEMBER 31, 20\_\_\_\_     UPDATED DISCLOSURE

FILER (check one):     INDIVIDUAL     BUSINESS ENTITY (on behalf of itself and all of its employees or representatives who provided advice or services to TRS)

NAME OF INDIVIDUAL \_\_\_\_\_ JOB TITLE \_\_\_\_\_

NAME OF BUSINESS ENTITY (if any) \_\_\_\_\_

TYPE OF FINANCIAL ADVICE OR SERVICE PROVIDED \_\_\_\_\_

ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_ PHONE \_\_\_\_\_

IF YOU ARE PROVIDING FINANCIAL ADVICE OR FINANCIAL SERVICES **CONCERNING TRS MATTERS** TO A TRS TRUSTEE BUT **NOT** TO TRS ITSELF, PLEASE PROVIDE THE NAME(S) OF THE TRUSTEE(S):

**If there are none, please answer “NONE”.** Note: A current listing of trustees can be found at the TRS website – [www.trs.texas.gov](http://www.trs.texas.gov).

**PART 2: DISCLOSURES**

**DISCLOSURE REQUIREMENTS FOR FINANCIAL SERVICES PROVIDERS**

Financial Services Providers must disclose information regarding certain relationships and interests to the TRS Executive Director and the Texas State Auditor pursuant to Texas Government Code Section 2263.005.

- 1) Do you or your business entity have or did you or your business entity have any relationship with any party to a transaction with TRS (other than a relationship necessary to the services that you or your business entity will perform, are performing, or performed for TRS) that a reasonable person could expect to diminish your or your business entity’s independence of judgment in the performance of your or your business entity’s responsibilities to TRS?
 

Yes                       No

If yes, please explain in detail the nature of such relationships. (Attach additional sheets as needed.)

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- 2) Do you or your business entity have or did you or your business entity have any direct or indirect pecuniary interests in any party to a transaction with TRS where the transaction is or was connected with any financial advice or service that you or your business entity provide to or provided to TRS or to a TRS trustee concerning TRS matters?

Yes                       No

If yes, please explain in detail the nature of such pecuniary interests. (Attach additional sheets as needed.)

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**PART 3: SIGNATURE AND DATE**

**TO BE COMPLETED BY AN ENTITY ENGAGED BY TRS**

**Pursuant to Section IV. E. of the Code of Ethics for Contractors (the “Code”), an entity engaged by TRS as a Financial Services Provider shall be responsible for compliance with the Code by each of its employees and representatives. This Disclosure Statement must be submitted to TRS by such entity rather than by individual employees and representatives, and such entity is responsible for making a diligent inquiry before each submission and from time to time during its engagement as a Financial Services Provider to determine if further submissions are required.**

Consistent with Section IV. E. of the Code, I hereby attest that I am authorized to file this Disclosure Statement on behalf of the business entity named above and that all information provided above is complete and accurate with respect to the business entity and all of its employees and representatives that provide financial advice or services to TRS. I further attest that a diligent inquiry of such employees and representatives was made by the business entity before each submission and periodically during the time that the business entity provides financial advice or services to TRS. Through the signature of the authorized individual below, the business entity hereby acknowledges its responsibility to submit promptly a new or amended Disclosure Statement to the parties listed in step 5 of the above instructions if any of the above information changes.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name and Position \_\_\_\_\_

**TO BE COMPLETED BY AN INDIVIDUAL  
ENGAGED BY TRS**

I hereby attest that all information provided above is complete and accurate. I hereby acknowledge my responsibility to submit promptly a new or amended Disclosure Statement to the parties listed in step 5 of the above instructions if any of the above information changes.

Signature \_\_\_\_\_ Date \_\_\_\_\_ Printed \_\_\_\_\_

Name \_\_\_\_\_

Appendix E – Expenditure Reporting Form for Contractors

Form TRS 543



## EXPENDITURE REPORTING FORM FOR CONTRACTORS

Required for: Expenditures of more than \$50 per day made on behalf of any one Trustee or TRS Employee by a TRS Contractor (as defined in the TRS Code of Ethics for Contractors; not including any other provider of goods or services)

Return to: Chief Compliance Officer, Teacher Retirement System of Texas

Due by: April 1, following the calendar year covered by the report

**PLEASE CHECK THE APPROPRIATE BOX:**

- Contractor made no reportable expenditures during the calendar year covered by this report. If this box is checked, please sign and provide the information requested in the signature block located at the end of this form.
- Contractor made reportable expenditures during the calendar year covered by this report. If this box is checked, please complete the rest of this form, sign and provide the information requested in the signature block located at the end of this form.

NOTE: If daily expenditures exceeding \$50 fall within two or more categories noted in Item 1 of the TRS Expenditure Reporting Memorandum, then a separate form for each Trustee or Employee and for each category may be filed with TRS.

Expenditure Date	Value / Amount per Day per Trustee/ Employee	Expenditure Category	Vendor / Provider	Address / Location	Recipient name(s): Trustee / Employee	Were spouses/ other guests in attendance?

BY MY SIGNATURE, I HEREBY CERTIFY AND REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT.

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Signature

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Printed Name

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Title

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Name of Contractor

---

Contractor's Address

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Date of Signature

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Calendar Year Covered by This Report

**TAB 5**



# Legal & Compliance

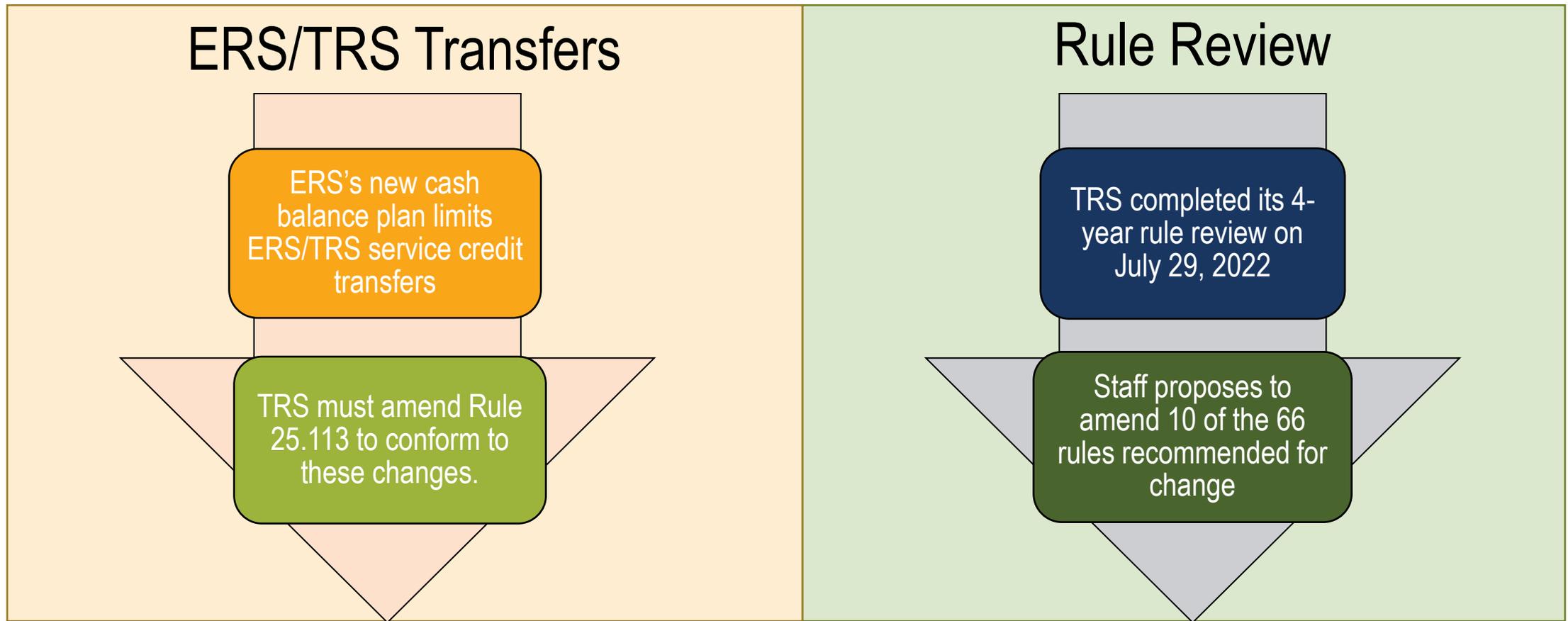
Chapter 25 Amendments: ERS/TRS  
Service Credit Transfers and Rule  
Review Implementation

**Heather Traeger, General Counsel**  
**Nick Gonzalez, Senior Pension  
Counsel**

April 27, 2023



Staff recommends adoption of amendments to 11 rules from Chapter 25 of TRS rules.



## Senate Bill 321 and Proposed Amended Rule 25.21

Senate Bill 321 (2021) created a new cash balance benefit plan for individuals' whose ERS membership begins on or after 09/01/2022:

### INELIGIBLE FOR ERS/TRS TRANSFERS

Members of the ERS cash balance plan are not eligible to transfer ERS service credit to TRS or TRS service credit to ERS.

### INELIGIBLE TO REINSTATE ERS SERVICE CREDIT

TRS members who have not maintained ERS membership that began prior to 09/01/2022 can no longer reinstate withdrawn service credit for transfer purposes.

### PROPOSED AMENDED 25.113

TRS staff recommends adopting the amendments to TRS Rule 25.113 to conform with these changes made to the ERS/TRS transfer process by SB 321.

## Rule Review Implementation: 10 Rules for Amendment

**TRS staff recommends adoption of amendments to 10 of the 66 rules TRS determined required change or repeal in the rule review process.**

Rule	Description of Amendment	Rule	Description of Amendment
§ 25.4	Clarifies that the deadlines for verifying substitute service are the same as the deadlines to verify unreported service.	§ 25.36	Changes the rule's title as this contribution type now applies to all public schools, not only schools that do not participate in the federal OASDI program.
§ 25.6	Deletes the former standard for part-time and temporary employment, in particular how part-time employment can be combined to qualify as eligible TRS employment.	§ 25.123	Deletes the notarization requirement from this certification in anticipation of moving this functionality to the TRUST system and updates a reference to a TEA rule.
§ 25.25	Updates the member contribution rates in listed in the rule.	§ 25.131	Updates the reference to the process for verifying substitute service to conform with the proposed clarifying changes to TRS Rule § 25.4 as described above.
§ 25.31	Deletes outdated provisions regarding pay increases prior to retirement that no longer apply to current school years.	§ 25.152	Deletes reference to the process of purchasing developmental leave credit at the prior cost before actuarial cost was implemented in 2011.
§ 25.35	Updates the reference to the deadline under Government Code § 830.102 for electing to participate in the Optional Retirement Program.	§ 25.172	Updates terminology relating to certain optional retirement program requirements.

# Recommend that the Board of Trustees Adopt the Chapter 25 Rules without Changes

## Formal Proposal

TRS published the proposed rules in the March 10, 2023 issue of the *Texas Register*

No public comments were received.



## Adopt without Changes

Staff asks the Policy Committee to recommend that the Board adopt the Chapter 25 rules without changes to the proposed text.



## Next Steps

If adopted, the rules will be submitted to the *Texas Register* for publication and become effective 20 days after filing with the Secretary of State.



## Legal & Compliance

# Memorandum

**DATE:** April 27, 2023

**TO:** Policy Committee of the TRS Board of Trustees (“Policy Committee”)

**FROM:** Heather Traeger, General Counsel & Chief Compliance Officer

**THROUGH:** Brian Guthrie, Executive Director

**RE:** Proposed Amendments for Adoption: TRS Rules §§ 25.4, 25.6, 25.25, 25.31, 25.35, 25.36, 25.113, 25.123, 25.131, 25.152, and 25.172

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### **Requested Action**

TRS Staff asks the Policy Committee to recommend that the Board of Trustees (“Board”) adopt amendments to the following rules without changes to the proposed text:

- § 25.4. Substitutes
- § 25.6. Part-time or Temporary Employment
- § 25.25. Required Deposits
- § 25.31. Percentage Limits on Compensation Increases
- § 25.35. Employer Payments for New Members
- § 25.36. Employer Payments for Members Not Covered under the Federal Old-Age, Survivors, and Disability Insurance Program
- § 25.113. Transfer of Credit between TRS and ERS
- § 25.123. Certification
- § 25.131. Required Service
- § 25.152. Eligibility, Cost, and Payment for Developmental Leave Credit
- § 25.172. ORP and TRS

## **Background**

At the December 8, 2022 Policy Committee meeting, TRS Staff asked the Policy Committee to authorize publication in the *Texas Register* of proposed amendments to the rules listed above. The Policy Committee authorized publication and the proposed rules were published in the *Texas Register* on March 10, 2023 (48 *TexReg* 1429). TRS did not receive any public comments on the proposals.

If the Board adopts the proposed amended rules, the adopted rules will be published in the *Texas Register* and become effective 20 days after the adopted rules are filed with the Secretary of State.

## **Description of Amended Rules**

TRS Staff recommends adopting the proposed amendments to the above-listed rules without changes for several reasons. First, TRS Staff recommends amending TRS Rule 25.113 in order to ensure the rule conforms with recent legislative changes to the plan terms of the Employees Retirement System of Texas retirement plan that impact TRS members. Specifically, Senate Bill 321, which was passed last year during the 87<sup>th</sup> legislative session, created a mandatory cash-balance plan for ERS members who begin their membership on or after September 1, 2022.

Importantly, ERS members who participate in this cash balance plan are no longer eligible to transfer their ERS service to TRS or their TRS service to ERS. In addition, TRS members who have not maintained an ERS membership established prior to September 1, 2022 will no longer be able to reinstate withdrawn service for the purpose of transfer to TRS. TRS Staff proposes the amend TRS Rule 25.113, which governs transfers of service credit between the TRS and ERS retirement plans, so that these limits on the ability of ERS cash-balance members to transfer credit to TRS or to ERS and to reinstate ERS service credit are clear.

In addition to this proposed change, TRS Staff also recommends adopting the proposed amendments to ten other rules, which were all recommended for amendment during TRS's recently completed rule review process. The amendments to these rules are primarily minor and/or nonsubstantive, and a rule-by-rule description of the proposed amendments is provided below.

- **§ 25.4. Substitutes** – TRS Staff recommends adopting the proposed amendments to this rule in order to clarify that the deadlines for verifying substitute service are the same as the deadlines to verify unreported service.
- **§ 25.6. Part-time or Temporary Employment** – TRS Staff recommends adopting the proposed amendments to this rule in order to delete the former standard for part-time and temporary employment, in particular how part-time employment can be combined to qualify as eligible TRS employment. This standard changed in 2015, and the former standard no longer needs to be in the rule.
- **§ 25.25. Required Deposits** – TRS Staff recommends adopting the proposed amendments to this rule in order to update the member contribution rates in listed in the rule.

- § 25.31. Percentage Limits on Compensation Increases – TRS Staff recommends adopting the proposed amendments to this rule in order to remove outdated provisions regarding pay increases prior to retirement that no longer apply to current school years.
- § 25.35. Employer Payments for New Members – TRS Staff recommends adopting the proposed amendments to this rule in order to update the reference to the deadline under Government Code § 830.102 for electing to participate in the Optional Retirement Program.
- § 25.36. Employer Payments for Members Not Covered under the Federal Old-Age, Survivors, and Disability Insurance Program – TRS Staff recommends adopting the proposed amendments to this rule in order to change its title as this contribution type now applies to all public schools, except institutions of higher education, and regional education service centers, not only employers that do not participate in the federal OASDI program.
- § 25.123. Certification – TRS Staff recommends adopting the proposed amendments to this rule in order to remove the notarization requirement from this certification in anticipation of moving this functionality to the TRUST system. In addition, TRS Staff proposes to update a reference to a Texas Education Agency rule.
- § 25.131. Required Service – TRS Staff recommends adopting the proposed amendments to this rule in order to update the reference to the process for verifying substitute service to conform with the clarifying changes proposed to be made to TRS Rule § 25.4 as described above.
- § 25.152. Eligibility, Cost, and Payment for Developmental Leave Credit – TRS Staff recommends adopting the proposed amendments to this rule in order to remove reference to the process of purchasing developmental leave credit at the prior cost before actuarial cost was implemented in 2011.
- § 25.172. ORP and TRS – TRS Staff recommends adopting the proposed amendments to this section in order to update terminology relating to certain optional retirement program (ORP) requirements, including when an individual who has elected to participate in ORP must return to membership in TRS or may remain in ORP.

The amended rules also make several nonsubstantive, conforming changes. The draft language of all 11 proposed amended rules is attached as Appendix A, and redlined versions of the proposed amendments are attached as Appendix B.

### **Conclusion**

If the Policy Committee recommends adoption of the proposed amended rules and the Board adopts the proposed amended rules, the adopted rules will be published in the *Texas Register* and become effective 20 days after the adopted rules are filed with the Secretary of State.

## **APPENDIX A**

### **SUBCHAPTER A. SERVICE ELIGIBLE FOR MEMBERSHIP**

#### **§25.4 Substitutes**

(a) Persons who serve as substitutes in positions otherwise eligible for membership may qualify for membership provided that they serve for at least 90 days in one school year and purchase the service credit.

(b) For purposes of this title, a substitute is a person who serves on a temporary basis in the place of a current employee. A substitute may be paid no more than the daily rate of pay set by the employer.

(c) Membership may be established and credit received by verifying the number of days worked as a substitute and salary earned and paying the actuarial cost required under §25.43 of this title (relating to Cost for Unreported Service or Compensation). Verification must be made in a form prescribed by the retirement system and is subject to the deadlines for verification of unreported service under §25.47 of this title (relating to Deadline for Verification).

(d) In no event shall verification of substitute service be accepted after a member has retired from the system and his or her first monthly annuity payment has been issued or after the effective date of a member's participation in the Deferred Retirement Option Plan (DROP).

(e) Required actuarial costs must be paid before any benefits based on the verified substitute service are paid by TRS on behalf of the member or before the verified service is used to determine eligibility for benefits. Members claiming credit for such service will be assessed a fee for delinquent deposits, if applicable, as provided in §25.43 of this title.

(f) Payment for substitute service required in subsection (e) of this section will be accepted and credit granted only as permissible under the Internal Revenue Code.

(g) Substitute service purchased as provided in this section shall be included in the school year in which it was rendered in counting the amount of service provided in order to receive a year of service credit under §25.131 of this title (relating to Required Service).

#### **§25.6 Part-time or Temporary Employment**

Part-time (employment that is less than one-half the standard work load), irregular, seasonal, or temporary employment (employment for a definite period of less than four and 1/2 months or, for employment with an institution of higher education, the employment is for no more than one semester in a school year) is eligible only if combined with other employment with the same employer so that the combined employment qualifies as service eligible for membership, or if other employment with the same or another TRS-covered employer in itself qualifies as service eligible for membership.

### **SUBCHAPTER B. COMPENSATION**

#### **§25.25 Required Deposits**

(a) Members shall deposit with the Teacher Retirement System of Texas the applicable

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percentage under §825.402, Government Code of their compensation received each pay period, including compensation received for part-time, irregular, seasonal, or temporary employment in a school year in which the member rendered service eligible for membership and the part-time, irregular, seasonal, or temporary employment is concurrent with other employment or rendered in a school year in which the member has already rendered sufficient service in an eligible position or combination of positions to earn a year of service credit.

(b) Deposits due for a pay period must be deducted by the employer from the member's salary for that pay period.

(c) The employer must submit the deposits with each regular payroll report to TRS.

(d) A member employed in an eligible position or in a combination of positions that together qualifies as service eligible for membership, as defined in TRS laws and rules, must make contributions on all eligible compensation received from all TRS-covered employers.

### **§25.31 Percentage Limits on Compensation Increases**

(a) For members who on or before August 31, 2005 had attained the age of 50, had at least 25 years of service credit, or whose combined age and service credit equals 70 or greater, the amount of compensation credited by TRS in each of the last three school years prior to retirement may not exceed the amount of compensation allowed for the preceding school year by more than 10% or \$10,000, whichever is greater.

(b) For members who on or before August 31, 2005 did not meet requirements of subsection (a) of this section, the amount of compensation credited by TRS in each of the last five school years prior to retirement may not exceed the amount of compensation allowed for the preceding school year by more than 10% or \$10,000, whichever is greater.

(c) For members meeting the requirements of subsection (a) of this section, the base line amount used to determine the amount of allowable compensation in the third school year prior to retirement is the greater of either the amount of compensation for the fourth school year prior to retirement or the amount of compensation for the fifth school year prior to retirement, provided the member received service credit in the base year. If the member did not receive service credit in either the fourth or fifth school year prior to retirement, the base amount is the earliest salary credited in the three school years prior to retirement, provided the member received service credit in the base year. If the member does not have service credit in at least three school years during the last five school years prior to retirement, the limit in subsection (a) of this section does not apply.

(d) For members who do not meet the requirements of subsection (a) of this section and who are subject to the restriction in subsection (b) of this section, the base line amount used to determine the amount of allowable compensation in the fifth school year prior to retirement is the greater of either the amount of compensation for the sixth school year prior to retirement or the amount of compensation for the seventh school year prior to retirement, provided the member received service credit in the base year. If the member did not receive service credit in either the sixth or seventh school year prior to retirement, the base amount is the earliest salary credited in the five school years prior to retirement, provided the member received service credit in the base year. If the member does not have service credit in at least five school years during the last seven school years prior to retirement, the limit in subsection (b) of this section does not apply.

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(e) The amount of allowable compensation is the greater of 110% of the base line amount or the amount of compensation in the base year plus \$10,000. The amount of allowable compensation for each subsequent year is the greater of 110% of the allowable amount for the previous year or the allowable amount for the previous year plus \$10,000.

(f) Beginning on the first day of the 2011-2012 school year and thereafter, all increases in compensation without regard to the reason for the increase, are subject to the limits in subsections (a) and (b) of this section.

(g) TRS will adjust a member's annual compensation at the time of retirement to comply with the limit on creditable compensation in subsections (a) or (b) of this section and refund the member contributions on the amount that exceeds the limits described in this section. The refund will be made after the date on which TRS makes the first annuity payment.

(h) No adjustment in compensation will be made if the limit on compensation increases would not affect the calculation of the member's retirement benefit.

(i) Upon the request of TRS, the employer shall provide documents or records evidencing the amount and nature of the increased compensation reported to TRS.

### **§25.35 Employer Payments for New Members**

(a) The employer of a new member as defined by §825.4041, Government Code, shall pay the retirement system the required amount during the first 90 days of employment of the new member. When used in this section, "employer" has the meaning given it in §821.001(7), Government Code.

(b) In determining the period of employment subject to employer payments, the following provisions apply:

(1) An employer shall count the date of employment of a new member as the first day of the 90-day payment period.

(2) An employer shall count calendar days of an employment period on or after September 1, 2005, towards the payment period, regardless of whether the days are in different school years.

(3) An employer shall count calendar days on or after September 1, 2005, during which an individual previously served as an employee with another TRS reporting entity towards the payment period.

(4) An employer shall not count any calendar days between periods of employment towards the payment period.

(5) Service provided by an employee on one calendar day to more than one employer that is a TRS reporting entity shall count as only one calendar day in the payment period. Each employer shall include such an employee's compensation in the aggregate compensation on which employer payment is required.

(6) A person who was hired before September 1, 2005, and who did not complete the 90-

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day waiting period before that date becomes eligible to participate in the retirement system starting September 1, 2005. The employer shall treat the member as a new member for the purpose of employer payments during the remainder of the 90-day period.

(c) For the purpose of administering this section, the date of employment means the date on which an employee begins to perform service for an employer that is a TRS reporting entity and the service is of a type that would otherwise qualify the employee for membership in the TRS pension plan, as provided under Subchapter A of this chapter (relating to Service Eligible for Membership). If the date of employment is a holiday or another type of day on which the employer does not normally require actual service to be performed by an employee, the employer may nevertheless count the day as the date of employment if the employer considers the individual to be an employee on that day.

(d) An employer shall submit employer payments and member and other required contributions to TRS on compensation paid to an employee for the entire pay period that contains the first date of the employee's eligibility for membership. An employer also shall submit such payments to TRS on compensation paid to an employee for the entire pay period that contains the 90th day of employment. For the purpose of this section, a pay period is the normal, established period of employment for which the employer regularly pays compensation to the employee, regardless of the date on which the employer actually pays the compensation. Effective September 1, 2015, an employer shall submit employer payments under this section beginning with the entire report month that contains the first date of the employee's eligibility for membership and continuing through the entire report month that contains the 90th day of employment.

(e) An employer required by law to pay the state contribution from certain funds for its employees who are TRS members is not required to make additional payment to TRS under this section during the first 90 days of employment of a new member.

(f) An employer shall submit reports in a form required by TRS. Upon request by TRS, an employer or an employee shall provide copies of, or otherwise make available, any records that TRS determines are necessary to administer this section.

(g) An employer shall notify TRS immediately if it has failed to report an employee who was eligible for TRS membership and shall begin to report the employee as a member no later than the month immediately following the month in which the employer discovered the error. The employer shall correct any previous reports filed with TRS and make payments as required by this title.

(h) An election to participate in ORP must be made before the deadlines provided by §830.102, Government Code, but may not be made before the date on which an employee is eligible for TRS membership.

### **§25.36 Employer Payments for Certain Employed Members**

(a) An employer required to make contributions under §825.4035, Government Code, shall submit the contributions and reports related to the contributions in a form required by TRS along with the regular payroll report required monthly by TRS. Upon request by TRS, an employer or an employee shall provide copies of, or otherwise make available, any records that TRS determines are necessary to administer this section.

(b) Employer contributions required under §825.4035, Government Code, shall be made based

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on compensation paid by the employer that is reportable to TRS.

### SUBCHAPTER H. JOINT SERVICE WITH EMPLOYEES RETIREMENT SYSTEM

#### §25.113 Transfer of Credit between TRS and ERS

(a) Purpose. These rules are intended to implement the provisions of the Government Code, Chapter 805, concerning the transfer of credit between the Teachers Retirement System of Texas and the Employees Retirement System of Texas and to provide a systematic method of funding the actuarial value of the annuity resulting from transferred service.

(b) Definitions. The following words and terms, when used in this section, shall have the following meanings, unless the context clearly indicates otherwise.

(1) Receiving system--The system which will pay benefits based upon service credit transferred from the other system.

(2) Transferring system--The system from which service credit is transferred for the purpose of obtaining additional benefits from the other system.

(3) TRS--The Teacher Retirement System of Texas.

(4) ERS--The Employees Retirement System of Texas.

(5) Crediting system--means the system in which service credit is established prior to any transfer.

(6) ORP--The Optional Retirement Program described in Government Code, Chapter 830.

(7) Cash Balance Group Member – a member of ERS receiving or eligible to receive a retirement benefit under Government Code, Chapter 820.

(c) Cash Balance Group Members. Cash balance group members are not eligible to transfer TRS service credit to ERS nor ERS service credit to TRS.

(d) Forms.

(1) Applicants for transfer must use forms prescribed by the receiving system.

(2) Applicants for the establishment of any service credit must use the forms prescribed by the crediting system.

(3) The systems will cooperate in adopting forms necessary to facilitate the exchange of information between the systems.

(e) Notice.

(1) A person electing to transfer service credit pursuant to this section must file the appropriate form with the receiving system not later than the person's intended effective date of

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retirement or the last day of the month in which their retirement application is filed, whichever is later.

(2) A beneficiary eligible to transfer service to the receiving system for the payment of death benefits shall make the election on an application form not later than 90 days after the date of death of the member, unless both systems agree to extend the deadline for an election, but in any event the beneficiary shall make the election before either system has paid the death benefit.

(3) The receiving system will notify the transferring system of the pending transfer not later than 30 days following date of receipt of an application form.

(f) Manner of Transfer.

(1) Service credit and funds will be transferred through electronic and hard copy documentation pursuant to this section, and the receiving system will maintain records of such transfers permanently.

(2) The transferring system shall provide documentation of years of credit, periods of service, military service credit, average salary, method of calculation of service credit and average salary, information necessary to comply with all federal tax regulations, interest credited, fees and interest paid, and any other dollar amount which will be a part of the transfer.

(g) Transfer of funds. The ERS and the TRS agree on the following method of transferring funds. Each system shall certify on a monthly basis the total dollar amount of annuities paid by the system which are based on service credit transferred pursuant to Government Code, Chapter 805. The amount certified shall exclude any portion of annuities paid consisting of post-retirement increases. Each system shall remit to the other system the amount certified within thirty days of receipt of such certification. It is recognized that adjustments will be made from month-to-month as a result of such things as administrative errors, the death of the annuitant or a beneficiary, return-to-work, and recovery from disability by an annuitant. The systems will jointly agree on the administrative and accounting procedures to be established in order to ensure the transfer of funds pursuant to this section.

(h) Reinstatement of withdrawn service credit.

(1) An ERS member with at least 36 months service credit in ERS may reinstate service credit in TRS that was canceled by the person's withdrawal of a TRS membership account.

(2) Such reinstatement of TRS credit shall be in the amounts and rates applicable to TRS members eligible to repurchase such credit.

(3) A TRS member with three years' service credit may reinstate, through ERS, service credit canceled by withdrawal of an ERS membership account if the TRS member is also current member of ERS but is not a cash balance group member.

(4) No service credit may be transferred based in whole or in part upon reinstated credit under this section unless the applicant meets all conditions for membership, amount of service credit, and payments required for the reinstatement of the credit.

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(5) Any TRS membership service credit reinstated under this subsection may be applied toward the service credit requirements of TRS laws and rules for the purchase of out-of-state, military or other special service credit.

(i) Termination of membership. The transfer of TRS service credit to ERS will terminate TRS membership and cancel all rights to benefits from TRS based on that service.

(j) Service in the month following retirement. Both TRS and ERS laws require a separation from employment with any employer covered by the respective system for a period following a member's effective retirement date as a condition for retirement with a benefit from the respective system. A member retiring under TRS whose last place of employment is with an ERS-covered employer shall provide a certification of termination of employment to TRS in the manner directed by the retirement system, specifying the last date of employment. With respect to a service or disability retirement by persons using credit transferred between the systems, the following provisions apply:

(1) An ERS retiree whose last place of employment is with a TRS-covered employer must be off the payroll of any TRS-covered employer for the first full calendar month following retirement under ERS, or the ERS retirement will be canceled. A TRS retiree whose last place of employment is with an ERS-covered employer must be off the payroll of any ERS-covered employer for the first full calendar month following retirement under the TRS, or the TRS retirement will be canceled.

(2) An ERS retiree whose last place of employment is with an ERS-covered employer may begin work for a TRS-covered employer after retirement under ERS without a one month break in service. A retiree from the TRS whose last place of employment is with a TRS-covered employer may begin work for an ERS-covered employer after retirement under TRS without a one month break in service.

(k) Average salary.

(1) In determining average salary used in computing benefits available to a person transferring credit under this section, the receiving system will use the higher of the average salary derived solely from the service originally established in each system respectively. In comparing average salaries and determining benefits payable, the receiving system shall accept the transferring system's determination of its average salary, applying all laws and policies of the transferring system in the calculation of that system's average salary.

(2) Each system will be responsible for determining its respective average salary. The transferring system will certify its average salary to the receiving system.

(3) If there is less service than is required in the applicable formula to compute the average salary in TRS under the laws and rules applicable to that system, the average salary will be computed using salaries for the service for which credit was established. This average salary shall be used in the comparison of average salaries to determine which system's average salary is higher.

(l) Transfer of Certain State Employees to ERS.

(1) Certain state employees have been transferred to ERS membership as a result of

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legislation enacted by the 73rd Texas Legislature, Regular Session. Among these are employees of the Texas Education Agency, employees of the Texas Surplus Property Agency transferred to the General Services Commission, some employees of the Texas Rehabilitation Commission, the Texas School for the Deaf, the Texas School for the Blind, the Higher Education Coordinating Board, and the Texas Youth Commission. Such employees are eligible to transfer TRS credit to ERS for benefit purposes under the Government Code, Chapter 805 subject to the modifications contained in this section.

(2) Employees whose agencies have been transferred to ERS coverage, including the Texas Education Agency and the Texas Rehabilitation Commission, the Texas School for the Deaf, the Texas School for the Blind, the Higher Education Coordinating Board, and the Texas Youth Commission, may not retire under TRS after the effective date of the transfer, unless they again become TRS members based on other employment and subsequently obtain TRS service credit qualifying them for TRS retirement, except as provided for in Government Code, §805.002(a).

(3) Employees described in paragraph (1) of this subsection are not eligible for TRS death benefits other than a return of accumulated contributions.

(4) Notwithstanding subsection (k) of this section, the average compensation of employees described in paragraph (1) of this subsection qualifying for ERS benefits may be determined by combining monthly rates of pay while a TRS member with ERS credited monthly salary to obtain the highest 36 months of pay.

(m) Death benefits. Service credit of a person may not be transferred between systems if:

(1) one of the systems has paid or begun to pay death benefits based on the person's account; or

(2) the beneficiaries for death benefits in each system are not identical. However, when only reinstated service is being transferred and no beneficiary designation was made at or after the time of reinstatement, a transfer will be allowed.

(n) Service credit.

(1) TRS will make and accept transfers of service credit in whole plan year increments based upon TRS rules for crediting service. No partial years will be transferred.

(2) TRS and ERS service in a plan year will not be combined to obtain a year of TRS service credit.

(3) A person who transfers credit to TRS or ERS may not receive more than a total of five years of service credit for military service. The retirement system from which credit is transferred may refund contributions made for military service, other than any amount that represents a fee, that exceeds the maximum amount creditable. A person who retires under Government Code, Chapter 805, who returns to work under TRS or ERS may not purchase additional military service credit if the purchase would cause the total of all military service credit to exceed five years.

(4) A person who purchased out of state service credit before retirement under

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Government Code, Chapter 805, may not purchase additional out of state service credit upon return to work under TRS if the purchase would cause the total of all out of state service credit to exceed fifteen years.

(o) ORP participants. A person who has elected to participate in ORP but who is an ERS member may repurchase TRS service credit canceled by the election of ORP for purpose of transferring it to ERS under the Government Code, Chapter 805, provided TRS will not transfer or pay benefits for such service credit if the member actively participates in ORP between the date the TRS service credit is purchased and the date of the member's retirement or death. TRS will refund without interest any amounts deposited for such credit in the event the person returns to active ORP participation. The person must agree to refund the amount of any benefits erroneously paid to the person as a result of any such return to ORP.

(p) Return to TRS covered employment.

(1) A person who transferred service to ERS and retired under Government Code, Chapter 805, and who returns to employment in a position eligible for TRS membership continues to be governed by the provisions of state law as described under §51.12(a) of this title (relating to Applicability of Certain Laws in Effect Before September 1, 2005) upon resumption of TRS membership, if, while a member of TRS, the person met at least one of the requirements of §51.12(a) of this title by August 31, 2005.

(2) Regardless of status under paragraph (1) of this subsection, a person who transferred service to ERS and retired under Government Code, Chapter 805, and who returns to employment in a position eligible for TRS membership after August 31, 2007, is subject to the provisions of Government Code §824.202(a-1) and (d-1) and §29.1(a) of this title (relating to Eligibility for Service Retirement) for eligibility for retirement under TRS.

(3) A person who has at least five years of TRS service credit on August 31, 2014 and transfers that service credit to ERS, retires from ERS under Government Code, Chapter 805, and returns after September 1, 2014 to employment in a position eligible for TRS membership is subject to the provisions of Government Code §824.202(a-2), (b-2), and (d-2) and §29.1(e) of this title (relating to Eligibility for Service Retirement).

### **SUBCHAPTER I. VERIFICATION OF SERVICE OR COMPENSATION**

#### **§25.123 Certification**

The correctness of this affidavit must be certified by an official of the employer where the service was rendered. This can be done by the superintendent, business manager, certified reporting official, secretary of the school board, or treasurer of the school board at the time the certification is made. The certification must be based upon the existing records maintained by the employer and must be in the form prescribed by TRS for this purpose. TRS shall determine whether the verified service or compensation is eligible for TRS purposes. For a charter holder or charter school that is no longer in operation, verification shall be made by the Texas Commissioner of Education or the custodian designated under 19 TAC §100.1203(b) (relating to Records Management).

### **SUBCHAPTER J. CREDITABLE TIME AND SCHOOL YEAR**

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### §25.131 Required Service

(a) Beginning on the first day of the 2011-2012 school year and thereafter:

(1) Except as provided in paragraph (3) of this subsection, a member must work in a TRS eligible position and be paid or receive paid leave from a TRS eligible position at least 90 days during the school year to receive a year of service credit.

(2) A substitute as defined in §25.4 of this title (relating to Substitutes) will be qualified for membership and granted a full year of service credit by working 90 or more days as a substitute in a school year, receiving pay for that work, and verifying the work as provided in §25.121 of this title (relating to Employer Verification) and §25.47 of this title (relating to Deadline for Verification) and paying the actuarial cost for the work as provided in §25.43 of this title (relating to Cost for Unreported Service or Compensation).

(3) In the last school year of service before retirement, a member serving in an eligible position who worked and was paid for that work or received paid leave for less than 90 days in the school year but worked and was paid for that work or received paid leave for a full fall semester in accordance with the employer's calendar will receive a year of service credit. If the employer's calendar does not provide for semesters, a member must work and be paid for work in an eligible position or receive paid leave from an eligible position for at least 90 days in order to receive a year of service credit for the school year before retirement.

(4) Days that the employer is scheduled to be closed for business are not included in the 90 days of work required to receive a year of service credit unless the day(s) are paid holidays by the employer or the employee was charged with paid leave during the closing. Holidays that are not included in the required number of work days for an employee are not counted as paid holidays or days of paid leave.

(b) For school years prior to the 2011-2012 school year:

(1) Except as provided in paragraph (2), (3), or (4) of this subsection, a member must serve at least 4 1/2 months in an eligible position during the school year to receive credit for a year of service.

(2) A member who served less than four and one-half months in a school year but served a full semester of more than four calendar months will receive credit for a year of service.

(3) A substitute as defined in §25.4 of this title will be qualified for membership and granted a full year of service credit by rendering 90 or more days of service as a substitute in a school year and verifying the service as provided in §25.121 of this title and §25.47 of this title and paying deposits and fees for the service as provided in §25.43 of this title.

(4) An employee who enters into an employment contract or oral or written work agreement for a period which would qualify the employee for a year of service credit under the other provisions of this section but who actually renders only the amount of service specified in §25.4 of this title will receive credit for a year of service credit.

(c) Beginning on the first day of the 2015-2016 school year and thereafter, in lieu of the

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requirements in subsection (a) of this section, a member who is serving in a membership eligible position and who is regularly scheduled to work fewer than 5 days per week, may establish a year of service credit by working and receiving pay for that work or using paid leave, for four and one-half months. The four and one-half month period must include four full calendar months in which the member renders service and is paid or the member uses paid leave, for at least 8 days and an additional five days of service rendered and for which the member is paid or paid leave used in another calendar month or months but not to include the four full calendar months.

(d) Except as provided in subsection (a) of this section, for service credit granted in the school year in which the member retires, in no event may a member receive a year of service credit earlier than December 31.

### SUBCHAPTER K. DEVELOPMENTAL LEAVE

#### §25.152 Eligibility, Cost, and Payment for Developmental Leave Credit

(a) A cost statement for developmental leave may be obtained from the retirement system on request by an eligible member after completion of the leave.

(b) To be eligible to establish developmental leave credit, a member must:

(1) have at least five years of service credited in the retirement system before the developmental leave occurs;

(2) have, at the time the required deposits for credit are paid, at least one year of membership service credit in the retirement system following the developmental leave; and

(3) have at least five years of service credited in the retirement system at the time the required deposits for the credit are paid.

(c) Credit will be granted to the member upon receipt of the full amount of the required deposits.

(d) The cost of establishing developmental service credit is the actuarial cost, as determined by TRS, of the additional standard annuity retirement benefits that would be attributable to the developmental leave service credit purchased under this section.

(e) To calculate the actuarial cost, TRS will use the cost factors and method described in §25.302 of this title (relating to Calculation of Actuarial Cost).

(f) The purchase cost described in this section assumes a lump-sum deposit will be made. If deposits are made under an installment agreement, a non-refundable installment fee of 9% applies.

(g) If a member has membership service and contributions in the same school year as the year in which the developmental leave was taken, TRS shall adjust the actuarial cost as calculated under subsection (e) of this section proportionately by applying a ratio, the numerator of which is the number of TRS-covered service days rendered by the member and the denominator of which is 90 days of service required for a year of membership service credit.

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### SUBCHAPTER M. OPTIONAL RETIREMENT PROGRAM

#### §25.172 ORP and TRS

(a) Except as provided in subsection (c) of this section, a person who has elected ORP participation must become a member of TRS if the person later becomes an employee of any Texas public educational institution other than in a ORP-eligible position with an institution of higher education. The following persons are generally required to become TRS members under this subsection:

(1) ORP participants who become employed in a public school in a position eligible for TRS membership; and

(2) ORP participants with less than one year's participation in ORP who become employed in a TRS-eligible position in an institution of higher education that is not ORP-eligible.

(b) A person who has elected ORP participation but who is later required to become a member of TRS under subsection (a) of this section is ineligible for further active ORP participation even if that person again becomes employed in an ORP-eligible position with a Texas public institution of higher education.

(c) Subsection (a) of this section does not apply when:

(1) an ORP participant is simultaneously employed both in an ORP-eligible position with a Texas public institution of higher education and in a position in a Texas public educational institution otherwise eligible only for TRS membership;

(2) a person, after a valid ORP election, becomes employed in an institution of higher education in a position that is not ORP-eligible if the person:

(A) participated in ORP for one year in an ORP-eligible position with a Texas public institution of higher education; and

(B) had no intervening employment that required TRS membership; or

(3) a person, after a valid ORP election, becomes employed in a state agency that is not a TRS-covered employer and later becomes employed in an institution of higher education.

(d) A person, including a person described in subsection (c) of this section, will not be eligible for TRS membership or credit for any employment that occurred while the person was an ORP participant, even if the person later returns to TRS membership as required by subsection (a) of this section. A person described in subsection (c)(1) of this section is not eligible for state ORP retirement contributions for simultaneous employment in institutions covered by TRS that are not institutions of higher education.

(e) A person who elects ORP participation chooses ORP in lieu of TRS membership and benefits. Upon election of ORP, a member of TRS loses all benefit rights in TRS other than a right to the return of annual contributions, even if the member has five or more years of creditable service under TRS. However, a member who returns to TRS membership under the provisions of law is

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entitled to any TRS benefits which may accrue thereafter in addition to any ORP benefits to which he may have become entitled. ORP participants returning to TRS membership may establish service credit, under applicable rules governing reinstatement of accounts, for all years of service in public educational institutions except for those years when the person participated in ORP.

(f) A person who fails to elect ORP participation during the statutory election eligibility period may not subsequently elect participation.

## APPENDIX B

### SUBCHAPTER A. SERVICE ELIGIBLE FOR MEMBERSHIP

#### §25.4 Substitutes

(a) Persons who serve as substitutes in positions otherwise eligible for membership may qualify for membership provided that they serve for at least 90 days in one school year and purchase the service credit.

(b) For purposes of this title, a substitute is a person who serves on a temporary basis in the place of a current employee. A substitute may be paid no more than the daily rate of pay set by the employer.

(c) Membership may be established and credit received by verifying the number of days worked as a substitute and salary earned and paying the actuarial cost required under §25.43 of this title (relating to Cost for Unreported Service or Compensation). Verification must be made in a form prescribed by the retirement system and is subject to the deadlines for verification of unreported service under §25.47 of this title (relating to Deadline for Verification).

(d) In no event shall verification of substitute service be accepted after a member has retired from the system and his or her first monthly annuity payment has been issued or after the effective date of a member's participation in the Deferred Retirement Option Plan (DROP).

(e) Required actuarial costs must be paid before any benefits based on the verified substitute service are paid by TRS on behalf of the member or before the verified service is used to determine eligibility for benefits. Members claiming credit for such service will be assessed a fee for delinquent deposits, if applicable, as provided in §25.43 of this title.

(f) Payment for substitute service required in subsection (e) of this section will be accepted and credit granted only as permissible under the Internal Revenue Code.

(g) Substitute service purchased as provided in this section shall be included in the school year in which it was rendered in counting the amount of service provided in order to receive a year of service credit under §25.131 of this title (relating to Required Service).

#### §25.6 Part-time or Temporary Employment

~~[(a) Part-time (employment that is less than one-half the standard work load), irregular, seasonal, or temporary employment (employment for a definite period of less than four and 1/2 months or, for employment with an institution of higher education, the employment is for no more than one semester in a school year) is eligible only if such employment, when combined with other employment in Texas public educational institutions during the same school year, qualifies as service eligible for membership or if such other employment in itself qualifies as service eligible for membership.~~

~~(b) Beginning with the 2015-2016 school year,] Part-time [part-time] (employment that is less than one-half the standard work load), irregular, seasonal, or temporary employment (employment for a definite period of less than four and 1/2 months or, for employment with an institution of higher education, the employment is for no more than one semester in a school year) is eligible only if combined with other employment with the same employer so that the combined employment~~

## APPENDIX B

qualifies as service eligible for membership, or if other employment with the same or another TRS-covered employer in itself qualifies as service eligible for membership.

### SUBCHAPTER B. COMPENSATION

#### §25.25 Required Deposits

(a) Members shall deposit with the Teacher Retirement System of Texas the applicable percentage under §825.402, Government Code [6.4%] of their [the] compensation received each pay period, including compensation received for part-time, irregular, seasonal, or temporary employment in a school year in which the member rendered service eligible for membership and the part-time, irregular, seasonal, or temporary employment is concurrent with other employment or rendered in a school year in which the member has already rendered sufficient service in an eligible position or combination of positions to earn a year of service credit.

(b) Deposits due for a pay period must be deducted by the employer from the member's salary for that pay period.

(c) The employer must submit the deposits with each regular payroll report to TRS.

(d) A member employed in an eligible position or in a combination of positions that together qualifies as service eligible for membership, as defined in TRS laws and rules, must make contributions on all eligible compensation received from all TRS-covered employers.

~~[(e) Beginning September 1, 2014, the rate of contribution for each member that must be deposited under this section is 6.7 percent of the member's annual compensation for service rendered after August 31, 2014 and before September 1, 2015; 7.2 percent of the member's annual compensation for service rendered after August 31, 2015 and before September 1, 2016; and 7.7 percent of the member's annual compensation for service rendered after August 31, 2016 and before September 1, 2017. For service rendered on or after September 1, 2017, the rate of contribution for each member shall be the lesser of 7.7 percent of the member's annual compensation or a percentage of the member's annual compensation equal to 7.7 percent reduced by one-tenth of one percent for each one-tenth of one percent that the state contribution rate for the fiscal year to which the service relates is less than the state contribution rate established for the 2014-2015 school year.]~~

#### §25.31 Percentage Limits on Compensation Increases

(a) For members who on or before August 31, 2005 had attained the age of 50, had at least 25 years of service credit, or whose combined age and service credit equals 70 or greater, the amount of compensation credited by TRS in each of the last three school years prior to retirement may not exceed the amount of compensation allowed for the preceding school year by more than 10% or \$10,000, whichever is greater.

(b) For members who on or before August 31, 2005 did not meet requirements of subsection (a) of this section, the amount of compensation credited by TRS in each of the last five school years prior to retirement may not exceed the amount of compensation allowed for the preceding school year by more than 10% or \$10,000, whichever is greater.

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(c) For members meeting the requirements of subsection (a) of this section, the base line amount used to determine the amount of allowable compensation in the third school year prior to retirement is the greater of either the amount of compensation for the fourth school year prior to retirement or the amount of compensation for the fifth school year prior to retirement, provided the member received service credit in the base year. If the member did not receive service credit in either the fourth or fifth school year prior to retirement, the base amount is the earliest salary credited in the three school years prior to retirement, provided the member received service credit in the base year. If the member does not have service credit in at least three school years during the last five school years prior to retirement, the limit in subsection (a) of this section does not apply.

(d) For members who do not meet the requirements of subsection (a) of this section and who are subject to the restriction in subsection (b) of this section, the base line amount used to determine the amount of allowable compensation in the fifth school year prior to retirement is the greater of either the amount of compensation for the sixth school year prior to retirement or the amount of compensation for the seventh school year prior to retirement, provided the member received service credit in the base year. If the member did not receive service credit in either the sixth or seventh school year prior to retirement, the base amount is the earliest salary credited in the five school years prior to retirement, provided the member received service credit in the base year. If the member does not have service credit in at least five school years during the last seven school years prior to retirement, the limit in subsection (b) of this section does not apply.

(e) The amount of allowable compensation is the greater of 110% of the base line amount or the amount of compensation in the base year plus \$10,000. The amount of allowable compensation for each subsequent year is the greater of 110% of the allowable amount for the previous year or the allowable amount for the previous year plus \$10,000.

~~[(f) For school years prior to the 2011-2012 school year, increases in compensation due to a change in employers, a change in duties, additional duties or work, legislation, or federal or state law are not subject to the limits in subsections (a) and (b) of this section and the allowable amount of compensation for the remaining years prior to retirement is calculated using the increased amount.]~~

~~[(f)]~~ [(g)] Beginning on the first day of the 2011-2012 school year and thereafter, all increases in compensation without regard to the reason for the increase, are subject to the limits in subsections (a) and (b) of this section.

~~[(h) Only compensation earned after the 2005-2006 school or contract year will be subject to the limit on increases described in this section. Salaries earned during the 2005-2006 school year and after will be used in the calculation of the base amount.]~~

~~[(g)]~~ [(i)] TRS will adjust a member's annual compensation at the time of retirement to comply with the limit on creditable compensation in subsections (a) or (b) of this section and refund the member contributions on the amount that exceeds the limits described in this section. The refund will be made after the date on which TRS makes the first annuity payment.

~~[(h)]~~ [(j)] No adjustment in compensation will be made if the limit on compensation increases would not affect the calculation of the member's retirement benefit.

~~[(k) If compensation is adjusted under this section, the member may provide additional information~~

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~~in the form of written documentation to demonstrate that the compensation should be allowed. TRS makes the final determination regarding whether compensation is allowed in the member's benefit calculation.]~~

~~(i)(4)~~ Upon the request of TRS, the employer shall provide documents or records evidencing the amount and nature of the increased compensation reported to TRS.

### **§25.35 Employer Payments for New Members**

(a) The employer of a new member as defined by §825.4041, Government Code, shall pay the retirement system the required amount during the first 90 days of employment of the new member. When used in this section, "employer" has the meaning given it in §821.001(7), Government Code.

(b) In determining the period of employment subject to employer payments, the following provisions apply:

(1) An employer shall count the date of employment of a new member as the first day of the 90-day payment period.

(2) An employer shall count calendar days of an employment period on or after September 1, 2005, towards the payment period, regardless of whether the days are in different school years.

(3) An employer shall count calendar days on or after September 1, 2005, during which an individual previously served as an employee with another TRS reporting entity towards the payment period.

(4) An employer shall not count any calendar days between periods of employment towards the payment period.

(5) Service provided by an employee on one calendar day to more than one employer that is a TRS reporting entity shall count as only one calendar day in the payment period. Each employer shall include such an employee's compensation in the aggregate compensation on which employer payment is required.

(6) A person who was hired before September 1, 2005, and who did not complete the 90-day waiting period before that date becomes eligible to participate in the retirement system starting September 1, 2005. The employer shall treat the member as a new member for the purpose of employer payments during the remainder of the 90-day period.

(c) For the purpose of administering this section, the date of employment means the date on which an employee begins to perform service for an employer that is a TRS reporting entity and the service is of a type that would otherwise qualify the employee for membership in the TRS pension plan, as provided under Subchapter A of this chapter (relating to Service Eligible for Membership). If the date of employment is a holiday or another type of day on which the employer does not normally require actual service to be performed by an employee, the employer may nevertheless count the day as the date of employment if the employer considers the individual to be an employee on that day.

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(d) An employer shall submit employer payments and member and other required contributions to TRS on compensation paid to an employee for the entire pay period that contains the first date of the employee's eligibility for membership. An employer also shall submit such payments to TRS on compensation paid to an employee for the entire pay period that contains the 90th day of employment. For the purpose of this section, a pay period is the normal, established period of employment for which the employer regularly pays compensation to the employee, regardless of the date on which the employer actually pays the compensation. Effective September 1, 2015, an employer shall submit employer payments under this section beginning with the entire report month that contains the first date of the employee's eligibility for membership and continuing through the entire report month that contains the 90th day of employment.

(e) An employer required by law to pay the state contribution from certain funds for its employees who are TRS members is not required to make additional payment to TRS under this section during the first 90 days of employment of a new member.

(f) An employer shall submit reports in a form required by TRS. Upon request by TRS, an employer or an employee shall provide copies of, or otherwise make available, any records that TRS determines are necessary to administer this section.

(g) An employer shall notify TRS immediately if it has failed to report an employee who was eligible for TRS membership and shall begin to report the employee as a member no later than the month immediately following the month in which the employer discovered the error. The employer shall correct any previous reports filed with TRS and make payments as required by this title.

(h) An election to participate in ORP must be made before the deadlines provided ~~[91st day after becoming eligible to make the election, as required]~~ by §830.102, Government Code, but may not be made before the date on which an employee is eligible for TRS membership.

### **§25.36 Employer Payments for Certain Employed Members ~~[Not Covered under the Federal Old-Age, Survivors, and Disability Insurance Program]~~**

(a) An employer required to make contributions under §825.4035, Government Code, shall submit the contributions and reports related to the contributions in a form required by TRS along with the regular payroll report required monthly by TRS. Upon request by TRS, an employer or an employee shall provide copies of, or otherwise make available, any records that TRS determines are necessary to administer this section.

(b) Employer contributions required under §825.4035, Government Code, shall be made based on compensation paid by the employer that is reportable to TRS.

## **SUBCHAPTER H. JOINT SERVICE WITH EMPLOYEES RETIREMENT SYSTEM**

### **§25.113 Transfer of Credit between TRS and ERS**

(a) Purpose. These rules are intended to implement the provisions of the Government Code, Chapter 805, concerning the transfer of credit between the Teachers Retirement System of Texas and the Employees Retirement System of Texas and to provide a systematic method of funding the actuarial value of the annuity resulting from transferred service.

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(b) Definitions. The following words and terms, when used in this section, shall have the following meanings, unless the context clearly indicates otherwise.

(1) Receiving system--The system which will pay benefits based upon service credit transferred from the other system.

(2) Transferring system--The system from which service credit is transferred for the purpose of obtaining additional benefits from the other system.

(3) TRS--The Teacher Retirement System of Texas.

(4) ERS--The Employees Retirement System of Texas.

(5) Crediting system--means the system in which service credit is established prior to any transfer.

(6) ORP--The Optional Retirement Program described in Government Code, Chapter 830.

(7) Cash Balance Group Member – a member of ERS receiving or eligible to receive a retirement benefit under Government Code, Chapter 820.

(c) Cash Balance Group Members. Cash balance group members are not eligible to transfer TRS service credit to ERS nor ERS service credit to TRS.

(d)~~(e)~~ Forms.

(1) Applicants for transfer must use forms prescribed by the receiving system.

(2) Applicants for the establishment of any service credit must use the forms prescribed by the crediting system.

(3) The systems will cooperate in adopting forms necessary to facilitate the exchange of information between the systems.

(e)~~(d)~~ Notice.

(1) A person electing to transfer service credit pursuant to this section must file the appropriate form with the receiving system not later than the person's intended effective date of retirement or the last day of the month in which their retirement application is filed, whichever is later.

(2) A beneficiary eligible to transfer service to the receiving system for the payment of death benefits shall make the election on an application form not later than 90 days after the date of death of the member, unless both systems agree to extend the deadline for an election, but in any event the beneficiary shall make the election before either system has paid the death benefit.

(3) The receiving system will notify the transferring system of the pending transfer not later than 30 days following date of receipt of an application form.

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### ~~(f)~~~~(e)~~ Manner of Transfer.

(1) Service credit and funds will be transferred through electronic and hard copy documentation pursuant to this section, and the receiving system will maintain records of such transfers permanently.

(2) The transferring system shall provide documentation of years of credit, periods of service, military service credit, average salary, method of calculation of service credit and average salary, information necessary to comply with all federal tax regulations, interest credited, fees and interest paid, and any other dollar amount which will be a part of the transfer.

~~(g)~~~~(f)~~ Transfer of funds. The ERS and the TRS agree on the following method of transferring funds. Each system shall certify on a monthly basis the total dollar amount of annuities paid by the system which are based on service credit transferred pursuant to Government Code, Chapter 805. The amount certified shall exclude any portion of annuities paid consisting of post-retirement increases. Each system shall remit to the other system the amount certified within thirty days of receipt of such certification. It is recognized that adjustments will be made from month-to-month as a result of such things as administrative errors, the death of the annuitant or a beneficiary, return-to-work, and recovery from disability by an annuitant. The systems will jointly agree on the administrative and accounting procedures to be established in order to ensure the transfer of funds pursuant to this section.

### ~~(h)~~~~(g)~~ Reinstatement of withdrawn service credit.

(1) An ERS member with at least 36 months service credit in ERS may reinstate service credit in TRS that was canceled by the person's withdrawal of a TRS membership account.

(2) Such reinstatement of TRS credit shall be in the amounts and rates applicable to TRS members eligible to repurchase such credit.

(3) A TRS member with three years' service credit may reinstate, through ERS, service credit canceled by withdrawal of an ERS membership account if the TRS member is also current member of ERS but is not a cash balance group member.

(4) No service credit may be transferred based in whole or in part upon reinstated credit under this section unless the applicant meets all conditions for membership, amount of service credit, and payments required for the reinstatement of the credit.

(5) Any TRS membership service credit reinstated under this subsection may be applied toward the service credit requirements of TRS laws and rules for the purchase of out-of-state, military or other special service credit.

~~(i)~~~~(h)~~ Termination of membership. The transfer of TRS service credit to ERS will terminate TRS membership and cancel all rights to benefits from TRS based on that service.

~~(j)~~~~(i)~~ Service in the month following retirement. Both TRS and ERS laws require a separation from employment with any employer covered by the respective system for a period following a member's effective retirement date as a condition for retirement with a benefit from the respective system. A member retiring under TRS whose last place of employment is with an ERS-covered

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employer shall provide a certification of termination of employment to TRS in the manner directed by the retirement system, specifying the last date of employment. With respect to a service or disability retirement by persons using credit transferred between the systems, the following provisions apply:

(1) An ERS retiree whose last place of employment is with a TRS-covered employer must be off the payroll of any TRS-covered employer for the first full calendar month following retirement under ERS, or the ERS retirement will be canceled. A TRS retiree whose last place of employment is with an ERS-covered employer must be off the payroll of any ERS-covered employer for the first full calendar month following retirement under the TRS, or the TRS retirement will be canceled.

(2) An ERS retiree whose last place of employment is with an ERS-covered employer may begin work for a TRS-covered employer after retirement under ERS without a one month break in service. A retiree from the TRS whose last place of employment is with a TRS-covered employer may begin work for an ERS-covered employer after retirement under TRS without a one month break in service.

~~(k)(4)~~ Average salary.

(1) In determining average salary used in computing benefits available to a person transferring credit under this section, the receiving system will use the higher of the average salary derived solely from the service originally established in each system respectively. In comparing average salaries and determining benefits payable, the receiving system shall accept the transferring system's determination of its average salary, applying all laws and policies of the transferring system in the calculation of that system's average salary.

(2) Each system will be responsible for determining its respective average salary. The transferring system will certify its average salary to the receiving system.

(3) If there is less service than is required in the applicable formula to compute the average salary in TRS under the laws and rules applicable to that system, the average salary will be computed using salaries for the service for which credit was established. This average salary shall be used in the comparison of average salaries to determine which system's average salary is higher.

~~(l)(4)~~ Transfer of Certain State Employees to ERS.

(1) Certain state employees have been transferred to ERS membership as a result of legislation enacted by the 73rd Texas Legislature, Regular Session. Among these are employees of the Texas Education Agency, employees of the Texas Surplus Property Agency transferred to the General Services Commission, some employees of the Texas Rehabilitation Commission, the Texas School for the Deaf, the Texas School for the Blind, the Higher Education Coordinating Board, and the Texas Youth Commission. Such employees are eligible to transfer TRS credit to ERS for benefit purposes under the Government Code, Chapter 805 subject to the modifications contained in this section.

(2) Employees whose agencies have been transferred to ERS coverage, including the Texas Education Agency and the Texas Rehabilitation Commission, the Texas School for the Deaf, the Texas School for the Blind, the Higher Education Coordinating Board, and the Texas

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Youth Commission, may not retire under TRS after the effective date of the transfer, unless they again become TRS members based on other employment and subsequently obtain TRS service credit qualifying them for TRS retirement, except as provided for in Government Code, §805.002(a).

(3) Employees described in paragraph (1) of this subsection are not eligible for TRS death benefits other than a return of accumulated contributions.

(4) Notwithstanding subsection ~~(k)~~ ~~(4)~~ of this section, the average compensation of employees described in paragraph (1) of this subsection qualifying for ERS benefits may be determined by combining monthly rates of pay while a TRS member with ERS credited monthly salary to obtain the highest 36 months of pay.

~~(m)~~ ~~(4)~~ Death benefits. Service credit of a person may not be transferred between systems if:

(1) one of the systems has paid or begun to pay death benefits based on the person's account; or

(2) the beneficiaries for death benefits in each system are not identical. However, when only reinstated service is being transferred and no beneficiary designation was made at or after the time of reinstatement, a transfer will be allowed.

~~(n)~~ ~~(4)~~ Service credit.

(1) TRS will make and accept transfers of service credit in whole plan year increments based upon TRS rules for crediting service. No partial years will be transferred.

(2) TRS and ERS service in a plan year will not be combined to obtain a year of TRS service credit.

(3) A person who transfers credit to TRS or ERS may not receive more than a total of five years of service credit for military service. The retirement system from which credit is transferred may refund contributions made for military service, other than any amount that represents a fee, that exceeds the maximum amount creditable. A person who retires under Government Code, Chapter 805, who returns to work under TRS or ERS may not purchase additional military service credit if the purchase would cause the total of all military service credit to exceed five years.

(4) A person who purchased out of state service credit before retirement under Government Code, Chapter 805, may not purchase additional out of state service credit upon return to work under TRS if the purchase would cause the total of all out of state service credit to exceed fifteen years.

~~(o)~~ ~~(4)~~ ORP participants. A person who has elected to participate in ORP but who is an ERS member may repurchase TRS service credit canceled by the election of ORP for purpose of transferring it to ERS under the Government Code, Chapter 805, provided TRS will not transfer or pay benefits for such service credit if the member actively participates in ORP between the date the TRS service credit is purchased and the date of the member's retirement or death. TRS will refund without interest any amounts deposited for such credit in the event the person returns to active ORP participation. The person must agree to refund the amount of any benefits

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erroneously paid to the person as a result of any such return to ORP.

~~(p)(e)~~ Return to TRS covered employment.

(1) A person who transferred service to ERS and retired under Government Code, Chapter 805, and who returns to employment in a position eligible for TRS membership continues to be governed by the provisions of state law as described under §51.12(a) of this title (relating to Applicability of Certain Laws in Effect Before September 1, 2005) upon resumption of TRS membership, if, while a member of TRS, the person met at least one of the requirements of §51.12(a) of this title by August 31, 2005.

(2) Regardless of status under paragraph (1) of this subsection, a person who transferred service to ERS and retired under Government Code, Chapter 805, and who returns to employment in a position eligible for TRS membership after August 31, 2007, is subject to the provisions of Government Code §824.202(a-1) and (d-1) and §29.1(a) of this title (relating to Eligibility for Service Retirement) for eligibility for retirement under TRS.

(3) A person who has at least five years of TRS service credit on August 31, 2014 and transfers that service credit to ERS, retires from ERS under Government Code, Chapter 805, and returns after September 1, 2014 to employment in a position eligible for TRS membership is subject to the provisions of Government Code §824.202(a-2), (b-2), and (d-2) and §29.1(e) of this title (relating to Eligibility for Service Retirement).

### SUBCHAPTER I. VERIFICATION OF SERVICE OR COMPENSATION

#### §25.123 Certification

The correctness of this affidavit must be certified by an official of the employer where the service was rendered. This can be done by the superintendent, business manager, certified reporting official, secretary of the school board, or treasurer of the school board at the time the certification is made. The certification must be based upon the existing records maintained by the employer and must be in the form prescribed by TRS for this purpose [notarized]. TRS shall determine whether the verified service or compensation is eligible for TRS purposes. For a ~~[public school employer that is no longer in operation, including a]~~ charter holder or charter school that is no longer in operation, verification shall be made by the Texas Commissioner of Education or the custodian designated under 19 TAC §100.1203(b) (relating to Records Management).

### SUBCHAPTER J. CREDITABLE TIME AND SCHOOL YEAR

#### §25.131 Required Service

(a) Beginning on the first day of the 2011-2012 school year and thereafter:

(1) Except as provided in paragraph (3) of this subsection, a member must work in a TRS eligible position and be paid or receive paid leave from a TRS eligible position at least 90 days during the school year to receive a year of service credit.

(2) A substitute as defined in §25.4 of this title (relating to Substitutes) will be qualified for membership and granted a full year of service credit by working 90 or more days as a substitute

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in a school year, receiving pay for that work, and verifying the work as provided in §25.121 of this title (relating to Employer Verification) [and §25.47 of this title \(relating to Deadline for Verification\)](#) and paying the actuarial cost for the work as provided in §25.43 of this title (relating to Cost for Unreported Service or Compensation).

(3) In the last school year of service before retirement, a member serving in an eligible position who worked and was paid for that work or received paid leave for less than 90 days in the school year but worked and was paid for that work or received paid leave for a full fall semester in accordance with the employer's calendar will receive a year of service credit. If the employer's calendar does not provide for semesters, a member must work and be paid for work in an eligible position or receive paid leave from an eligible position for at least 90 days in order to receive a year of service credit for the school year before retirement.

(4) Days that the employer is scheduled to be closed for business are not included in the 90 days of work required to receive a year of service credit unless the day(s) are paid holidays by the employer or the employee was charged with paid leave during the closing. Holidays that are not included in the required number of work days for an employee are not counted as paid holidays or days of paid leave.

(b) For school years prior to the 2011-2012 school year:

(1) Except as provided in paragraph (2), (3), or (4) of this subsection, a member must serve at least 4 1/2 months in an eligible position during the school year to receive credit for a year of service.

(2) A member who served less than four and one-half months in a school year but served a full semester of more than four calendar months will receive credit for a year of service.

(3) A substitute as defined in §25.4 of this title will be qualified for membership and granted a full year of service credit by rendering 90 or more days of service as a substitute in a school year and verifying the service as provided in §25.121 of this title [and §25.47 of this title](#) and paying deposits and fees for the service as provided in §25.43 of this title.

(4) An employee who enters into an employment contract or oral or written work agreement for a period which would qualify the employee for a year of service credit under the other provisions of this section but who actually renders only the amount of service specified in §25.4 of this title will receive credit for a year of service credit.

(c) Beginning on the first day of the 2015-2016 school year and thereafter, in lieu of the requirements in subsection (a) of this section, a member who is serving in a membership eligible position and who is regularly scheduled to work fewer than 5 days per week, may establish a year of service credit by working and receiving pay for that work or using paid leave, for four and one-half months. The four and one-half month period must include four full calendar months in which the member renders service and is paid or the member uses paid leave, for at least 8 days and an additional five days of service rendered and for which the member is paid or paid leave used in another calendar month or months but not to include the four full calendar months.

(d) Except as provided in subsection (a) of this section, for service credit granted in the school year in which the member retires, in no event may a member receive a year of service credit earlier than December 31.

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### SUBCHAPTER K. DEVELOPMENTAL LEAVE

#### §25.152 Eligibility, Cost, and Payment for Developmental Leave Credit

(a) A cost statement for developmental leave may be obtained from the retirement system on request by an eligible member after completion of the leave.

(b) To be eligible to establish developmental leave credit, a member must:

(1) have at least five years of service credited in the retirement system before the developmental leave occurs;

(2) have, at the time the required deposits for credit are paid, at least one year of membership service credit in the retirement system following the developmental leave; and

(3) have at least five years of service credited in the retirement system at the time the required deposits for the credit are paid.

(c) Credit will be granted to the member upon receipt of the full amount of the required deposits.

(d) ~~The [Except as provided by subsections (h) and (i) of this section, the]~~ cost of establishing developmental service credit is the actuarial cost, as determined by TRS, of the additional standard annuity retirement benefits that would be attributable to the developmental leave service credit purchased under this section.

(e) To calculate the actuarial cost, TRS will use the cost factors and method described in §25.302 of this title (relating to Calculation of Actuarial Cost).

(f) The purchase cost described in this section assumes a lump-sum deposit will be made. If deposits are made under an installment agreement, a non-refundable installment fee of 9% applies.

(g) If a member has membership service and contributions in the same school year as the year in which the developmental leave was taken, TRS shall adjust the actuarial cost as calculated under subsection (e) of this section proportionately by applying a ratio, the numerator of which is the number of TRS-covered service days rendered by the member and the denominator of which is 90 days of service required for a year of membership service credit.

~~[(h) A member may establish developmental leave service credit by paying the deposits and fees required in subsection (i) of this section if:~~

~~(1) the member otherwise meets all eligibility requirements under Government Code, §823.402, as amended;~~

~~(2) the developmental leave for which credit is sought to be established ended before August 31, 2011; and~~

~~(3) the member makes payment for the developmental leave service credit, or enters into an installment agreement for payment, not later than August 31, 2013.~~

## APPENDIX B

~~(i) The cost of establishing developmental leave credit under subsection (h) of this section is an amount equal to the current member and state contributions based on the member's full-time annual compensation rate during the last school year of creditable service that preceded the developmental leave.]~~

### SUBCHAPTER M. OPTIONAL RETIREMENT PROGRAM

#### §25.172 ORP and TRS

(a) Except as provided in subsection (c) of this section, a person who has elected ORP participation must become a member of TRS if the person later becomes an employee of any Texas public educational institution other than in a ORP-eligible position [a faculty member of] with an institution of higher education. The following persons are generally required to become TRS members under this subsection:

(1) ORP participants who become employed in a public school in a position eligible for TRS membership; and

(2) ORP participants with less than one year's participation in ORP who become employed in a TRS-eligible [nonfaculty] position in an institution of higher education that is not ORP-eligible.

(b) A person who has elected ORP participation but who is later required to become a member of TRS under subsection (a) of this section is ineligible for further active ORP participation even if that person again becomes employed in an ORP-eligible position with [as a faculty member in] a Texas public institution of higher education.

(c) Subsection (a) of this section does not apply when:

(1) an ORP participant is simultaneously employed both in an ORP-eligible position with [as a faculty member of] a Texas public institution of higher education and in a position in a Texas public educational institution otherwise eligible only for TRS membership;

(2) a person, after a valid ORP election, becomes employed in an institution of higher education in a [nonfaculty] position that is not ORP-eligible if the person:

(A) participated in ORP for one year in an ORP-eligible position with [as a faculty member of] a Texas public institution of higher education; and

(B) had no intervening employment that required TRS membership; or

(3) a person, after a valid ORP election, becomes employed in a state agency that is not a TRS-covered employer and later becomes employed in an institution of higher education.

(d) A person, including a person described in subsection (c) of this section, will not be eligible for TRS membership or credit for any employment that occurred while the person was an ORP participant, even if the person later returns to TRS membership as required by subsection (a) of this section. A person described in subsection (c)(1) of this section is not eligible for state ORP retirement contributions for simultaneous employment in institutions covered by TRS that are not institutions of higher education.

## APPENDIX B

(e) A person who elects ORP participation chooses ORP in lieu of TRS membership and benefits. Upon election of ORP, a member of TRS loses all benefit rights in TRS other than a right to the return of annual contributions, even if the member has five or more years of creditable service under TRS. However, a member who returns to TRS membership under the provisions of law is entitled to any TRS benefits which may accrue thereafter in addition to any ORP benefits to which he may have become entitled. ORP participants returning to TRS membership may establish service credit, under applicable rules governing reinstatement of accounts, for all years of service in public educational institutions except for those years when the person participated in ORP.

(f) A person who fails to elect ORP participation during the statutory election eligibility period may not subsequently elect participation.

~~[(g) In this section:~~

~~(1) employee means a person whose employment in one or more Texas institutions of public education is, disregarding any ORP election, sufficient to qualify for TRS membership coverage;~~

~~(2) faculty member means a person, including a professional librarian, who is employed by an institution of higher education on a full-time basis (at least one-half time) as a member of the faculty or staff and whose duties include teaching, research, administration, or the performance of professional services, but does not mean a person employed in a position in the institution's classified personnel system or a person employed in a similar type position if the institution does not have a classified personnel system;~~

~~(3) nonfaculty position means employment in a Texas institution of higher education that does not qualify the employee as a faculty member as defined in this subsection and includes a position that would otherwise be considered faculty but for the fact that it is less than one-half time and therefore is not eligible for membership;~~

~~(4) ORP participant means a person who has elected ORP pursuant to law, without regard to whether the person is currently employed and making deposits to ORP, and who has not been required to return to TRS membership;~~

~~(5) participation in ORP for one year or one year's participation in ORP means active ORP participation for a sufficient period to give the person vested ORP benefits;~~

~~(6) active ORP participation means participation in ORP by having required ORP deductions and contributions made;~~

~~(7) public school means an educational institution covered by TRS membership other than an institution of higher education;~~

~~(8) institution of higher education means an institution of higher education as defined in the Texas Education Code, §61.003 whose faculty members are eligible to elect ORP.]~~

**TAB 6**



# Legal & Compliance

Proposed Chapter 25, 29, and 47  
Amendments: Actuarial Table Update

Heather Traeger, General Counsel  
Adam Fambrough, Senior Director of  
Benefit Processing  
Nick Gonzalez, Senior Pension  
Counsel

April 27, 2023



# Actuarial Table Update: New Actuarial Assumptions and Tables

Board of Trustees reviews all TRS actuarial tables and assumptions based on the recommendations of TRS Actuary of Record, GRS:

## BOARD ADOPTED NEW ACTUARIAL ASSUMPTIONS

The Board of Trustees adopted new actuarial assumptions, including a new investment return assumption, last year based on GRS recommendations

## GRS PREPARED NEW ACTUARIAL TABLES

Based on the newly adopted assumptions, GRS prepared new actuarial tables impacting TRS retirement calculations and service credit purchases.

## PROPOSED AMENDMENTS TO CHAPTERS 25, 29 & 47

TRS staff proposes to amend seven rules in Chapters 25, 29, and 47 of TRS to incorporate new actuarial tables.

**TRS Staff propose to amend the following rules to incorporate the tables and make other minor clarifying and conforming changes.**

Table Types	Proposed Amended Rules	Specific Tables Affected
Service Credit Purchases	25.162, 25.302 and 25.303	Relating to service credit purchases, compensation credit purchases, and state sick and personal leave service credit purchases.
Retirement Benefits	29.11, 29.21 and 29.71	Relating to early retirement, optional retirement, reserve transfer factors, beneficiary life expectancy, and partial lump sum options.
Alternate Payee Payments	47.17	Relating to payments to an alternate payee under Section 804.005

## Factor Change Comparison

### RETIREE ASSUMPTIONS

Age = 62 | Years of Service = 23 | Average Salary = \$57,254

Current Factors		Proposed Factors
\$2,523.95	Standard Annuity	\$2,523.95
\$2,295.03	Option One	\$2,293.01 (↓ \$2.02)
\$2,093.98	Option One with 12 Month PLSO	\$2,096.95 (↑ \$2.97)

### SERVICE CREDIT PURCHASE ASSUMPTIONS

Age = 45 | Years of Service = 11 | Average Salary = \$55,639 | Tier 5

Current Factors		Proposed Factors
\$7,344.35	Cost to purchase one year of service	\$7,729.93 (↑\$385.58)

## Next Steps

May 22,  
2023

- TRS submits the proposed rules to the *Texas Register*

July 13-  
14, 2023

- Policy Committee and Board consider proposed rules for adoption

September  
1, 2023

- Adopted rules become effective for the 2023-2024 school year



## Legal & Compliance

# Memorandum

**DATE:** April 27, 2023

**TO:** Policy Committee of the Board of Trustees (“Policy Committee”)

**FROM:** Heather Traeger, General Counsel & Chief Compliance Officer

**COPY:** Brian Guthrie, Executive Director

**RE:** Proposed Amended Rules: TRS Rules §§ 25.162, 25.302, 25.303, 29.11, 29.21, 29.71, and 47.17

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### **Requested Action**

TRS Staff asks the Policy Committee to authorize publication in the *Texas Register* of the following proposed amended TRS Rules:

- § 25.162 (relating to State Personal or Sick Leave Credit)
- § 25.302 (relating to Calculation of Actuarial Costs of Service Credit)
- § 25.303 (relating to Calculation of Actuarial Cost for Purchase of Compensation Credit)
- § 29.11 (relating to Actuarial Tables)
- § 29.21 (relating to Beneficiary Tables)
- § 29.71 (relating to Tables)
- § 47.17 (relating to Calculation for Alternate Payee Benefits Before a Member's Benefit Begins)

### **Background and Reasons for Proposed Amended Rules**

The proposed amendments are needed to ensure that TRS administers the retirement plan according to the latest actuarial assumptions adopted by the board. The TRS actuary of record, Gabriel, Roeder, Smith & Company, prepared the new actuarial tables based on the board's most recently approved actuarial assumptions, including new mortality assumptions and the new investment return assumption of 7.0%. Each of the proposed amended rules incorporates at least one actuarial table that impacts the payment of a TRS benefit or the purchase of TRS service credit. TRS staff proposes to amend each of these rules by updating the actuarial tables incorporated in the rules and making conforming changes necessary to implement the new tables.

TRS proposes no other changes to the rules. The proposed amended rules and updated tables are intended to be effective for the 2023-2024 school year.

Clean versions of all seven proposed amended rules are attached as Appendix A and redline versions are attached as Appendix B. Note, for some rules, the only change being proposed is the incorporation of a new actuarial table. The complete actuarial tables are also available upon request.

### **Conclusion**

If the Policy Committee authorizes publication, the proposed amended rules will be published in the *Texas Register* for public comment for at least 30 days before presentation to the Policy Committee and Board of Trustees for final adoption.

## APPENDIX A

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 25	BENEFITS
SUBCHAPTER I	OTHER SPECIAL SERVICE CREDIT
RULE §25.162	State Personal or Sick Leave Credit

---

(a) An eligible member may purchase one year of service credit in the Teacher Retirement System of Texas ("TRS") for accumulated state personal or sick leave in accordance with Government Code §823.403 and subject to approval of TRS.

(b) A member is eligible to purchase one year of service credit if the member has at least ten years of TRS service credit for actual service with one or more employers defined by Government Code §821.001(7), retires from such an employer, and has at least 50 days or 400 hours of accumulated state personal or sick leave on the last day of employment before retirement. Not more than an aggregate of five days of unused state personal or sick leave may be accumulated per year. State personal and sick leave may be combined, if needed, for the purpose of calculating the necessary 50 days or 400 hours. No more than one year of service credit may be purchased even if more time has been accumulated.

(c) Credit purchased under this section may be used only for the purpose of calculating the amount of a retirement plan benefits but may not be used to determine eligibility for retirement plan benefits.

(d) To establish service credit under this section, an eligible member must submit an employer certification in the form and manner prescribed by TRS. Additionally, the eligible member must deposit with TRS, in the manner prescribed by TRS, the actuarial present value of the additional standard retirement annuity benefits that would be attributable to the conversion of the unused state personal or sick leave into the service credit, as described in subsection (e) of this section.

(e) To compute these amounts, TRS will use the State Personal or Sick Leave Conversion Factor Tables furnished by the TRS actuary of record. Specifically, TRS will select the applicable conversion factor from the table based on the age of the member in full years and months at the effective date of retirement. To obtain the cost of the service credit, the conversion factor will be multiplied by the increase in the monthly standard retirement annuity resulting from the conversion of state personal or sick leave to an additional one year of service credit. The increase in the annuity will be determined using the standard retirement annuity without an adjustment for an optional service retirement annuity plan selected by the member because any optional plan selected by the member is required by Government Code §824.204(b) to be the actuarial equivalent of the member's standard retirement annuity.

Attached Graphic

## APPENDIX A

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 25	MEMBERSHIP CREDIT
SUBCHAPTER P	CALCULATION OF FEES AND COSTS
RULE §25.302	Calculation of Actuarial Costs of Service Credit

---

(a) When a member is purchasing TRS service credit for which the law requires that the actuarial cost or actuarial present value be deposited and for which the method in this section is referenced by another section of this title, TRS will calculate the cost using the cost factors obtained from the Actuarial Cost Tables adopted and method described in this section. For purposes of this section, TRS will use the age of the member and the service credit established by the member on September 1 of the school year in which the cost of the purchase is established.

(b) The factors for individuals whose membership was established before September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, are shown in the tables adopted as part of this subsection. Within each set of tables, the number of years of service credit to be purchased will determine which specific table will be used. Each of the tables cross-references the member's age in rows with years of credited service (before purchase) in columns. The intersection of the participant's age and service is the cost per \$1,000 of salary. The cost factor for a participant with more years of service credit than shown on the table is the same as the factor shown for the highest number of years of service credit on the table for the participant. TRS will calculate the cost to purchase service credit under this section by dividing the participant's salary by 1000 and multiplying the resulting quotient by the appropriate cost factor obtained from the table. The tables set forth the cost, per \$1,000 of salary, to purchase from one year to fifteen years of service credit. The number of years of service credit available for purchase is determined by the laws and rules applicable to the type of service credit to be purchased. For the purpose of calculating the required amount for a member who is not grandfathered to use a three-year salary average under §51.12 of this title (relating to Applicability of Certain Laws in Effect Before September 1, 2005), the term "salary" is defined as follows:

(1) For the upper region of the table (where the factors appear above the line), salary is the greater of the annual salary for the last year of credited service or the average of the member's highest years of compensation calculated on September 1 of the school year in which the cost of the service credit is established. The fewer of five years of compensation or all of the member's years of compensation shall be used for the average; or

(2) For the lower region of the table (where the factors appear below the line), salary is the average of the member's highest five years of compensation calculated on September 1 of the school year in which the cost of the service credit is established. A member's highest five years of compensation shall be calculated as if the member were retiring at the time the service credit is purchased. The lower region of the table (where the factors appear below the line) reflects those age and service combinations where the purchase of service credit results in immediate eligibility of the member for unreduced retirement benefits.

## APPENDIX A

### Attached Graphic

(c) For the purpose of calculation of actuarial cost for service credit for a member described in subsection (b) of this section who is grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section except that a three-year salary average shall be used instead of a five-year salary average. Additionally, the cost shall be 103.5 percent of the cost as calculated under subsection (b) of this section.

(d) For individuals whose membership was established on or after September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, the methodology described in subsection (b) of this section shall be used to determine cost of additional service credit, but TRS shall use the factors in the tables adopted as part of this subsection. If the member is not grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section.

### Attached Graphic

(e) If an individual established membership on or after September 1, 2007 and has five years of service credit on August 31, 2014, and maintains membership in TRS until the time of purchase, but is grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section except that a three-year salary average shall be used instead of a five-year salary average. The cost of establishing additional service credit for a grandfathered member described in this subsection, shall be 1.035 times the cost as calculated under subsection (d) of this section.

(f) An individual who first was a member of TRS before September 1, 2007, but who terminated membership through withdrawal of accumulated contributions and then again joined TRS on or after September 1, 2007, and has five years of service credit on August 31, 2014 and maintains membership in TRS until the time of purchase, is subject to the calculation of cost for additional service credit under subsections (d) and (e) of this section.

(g) For members who do not have five years of service credit on August 31, 2014 or whose current membership began after August 31, 2014, the methodology described in subsections (b) and (c) of this section shall be used to determine the cost of additional service credit, but TRS shall use the factors in the tables adopted as a part of this subsection.

### Attached Graphic

(h) For the purpose of calculation of actuarial cost for service credit for a member described in subsection (g) of this section who is not grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section.

(i) If the individual did not have five years of service credit on August 31, 2014 or whose current membership began after August 31, 2014, but is grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section except that a three-year salary average shall be used instead of a five-year salary average. The cost of

## **APPENDIX A**

establishing additional service credit for a grandfathered member described in this subsection shall be 1.035 times the cost as calculated under subsection (g) of this section.

(j) The tables adopted in this section shall be used when the service credit cost is paid on or after September 1, 2023, or an installment agreement is entered into on or after September 1, 2023.

## APPENDIX A

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 25	MEMBERSHIP CREDIT
SUBCHAPTER P	CALCULATION OF FEES AND COSTS
RULE §25.303	Calculation of Actuarial Cost for Purchase of Compensation Credit

---

(a) When a member is purchasing TRS compensation credit for which the law requires that the actuarial cost or actuarial present value be deposited and for which the method in this section is referenced by another section of this title, TRS will calculate the cost using the cost factors obtained from the Actuarial Cost Tables adopted and the method described in this section. TRS will use the age of the member and the service credit established by the member on September 1 of the school year in which the cost of the purchase is established.

(b) Each of the tables cross-references the member's age in rows with years of credited service in columns. The intersection of the participant's age and service is the cost factor that shall be applied in determining the cost to purchase compensation credit. TRS will calculate the cost to purchase compensation credit under this section by dividing the difference between participant's final average salary before and after the purchase by 1,000 and multiplying the quotient by the appropriate cost factor obtained from the table. The eligibility of additional compensation credit available for purchase is determined by the laws and rules applicable to the type of compensation sought to be credited.

(c) For individuals whose membership was established before September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, the methodology described in subsection (b) of this section shall be used to determine cost of additional compensation credit, but TRS shall use the factors in the tables adopted as part of this subsection.

### Attached Graphic

(d) For individuals whose membership was established on or after September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, the methodology described in subsection (b) of this section shall be used to determine cost of additional compensation credit, but TRS shall use the factors in the tables adopted as part of this subsection.

### Attached Graphic

(e) For members who do not have five years of service credit on August 31, 2014 or whose current membership began after August 31, 2014, the methodology described in subsection (b) of this section shall be used to determine the cost of additional compensation credit, but TRS shall use the factors in the tables adopted as a part of this subsection.

### Attached Graphic

## APPENDIX A

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 29	BENEFITS
SUBCHAPTER A	RETIREMENT
RULE §29.21	Beneficiary Tables

---

Tables for Unisex Joint Beneficiary Life furnished by the TRS actuary of record (actuary) will be used in calculating a life expectancy under §824.1013 of the Government Code. A fraction of a year shall be converted to whole months with any partial month being rounded upward to a full month. Life expectancy shall be determined as of the date of the retirement in question and the age of the original beneficiary at that time. The Teacher Retirement System of Texas adopts the actuary's Tables for Unisex Joint Beneficiary Life.

Attached Graphic

## APPENDIX A

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 29	BENEFITS
SUBCHAPTER A	RETIREMENT
RULE §29.11	Actuarial Tables

---

(a) Actuarial tables furnished by the TRS actuary of record will be used for computation of benefits. Factors for ages or types of annuities not included in the tables will be computed from the same data by the same general formulas.

(b) The Teacher Retirement System adopts the actuary's early age reduction factors. The factor tables are as follows:

Attached Graphic

(c) The Teacher Retirement System adopts the actuary's factors for service retirement options. The factor tables are as follows:

Attached Graphic

(d) The Teacher Retirement System adopts the actuary's factors for disabled member retirement options. The factor tables are as follows:

Attached Graphic

(e) The Teacher Retirement System adopts the actuary's reserve transfer factors. The reserve transfer factor tables are as follows:

Attached Graphic

(f) The board of trustees may change the tables or adopt new tables from time to time by amending this section; provided, however, that any such change does not result in any retiree or member eligible for service retirement with an unreduced annuity as of the date of the change receiving a smaller benefit than the benefit computed immediately before the change.

## APPENDIX A

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 29	BENEFITS
SUBCHAPTER F	PARTIAL LUMP-SUM PAYMENT
RULE §29.71	Tables

---

(a) Any eligible retiree who selects a partial lump-sum option will receive an actuarially reduced annuity to reflect the selection of the lump-sum option. TRS will use Factor Tables for Partial Lump-Sum Option Payments furnished by the TRS actuary of record.

### Attached Graphic

(b) The member's age in whole years will be used from column one and the percentage of standard annuity factor from column three, four, or five depending on the number of months of lump-sum selected, will be used to determine the percentage of standard annuity that will be paid to a person who elects to participate in the partial lump-sum option plan.

## APPENDIX A

TITLE 34  
PART 3  
CHAPTER 47  
RULE §47.17

PUBLIC FINANCE  
TEACHER RETIREMENT SYSTEM OF TEXAS  
QUALIFIED DOMESTIC RELATIONS ORDERS  
Calculation for Alternate Payee Benefits Before a Member's  
Benefit Begins

---

(a) An alternate payee of a TRS member is eligible to receive the benefits described by Government Code §804.005 if:

- (1) the alternate payee has a qualified domestic relations order ("QDRO") approved by TRS;
- (2) the alternate payee submits a written request to TRS to receive these benefits; and
- (3) the member meets the requirements of subsection (b) of this section.

(b) The alternate payee of a TRS member may only elect to receive benefits under this section if the member:

- (1) has not retired;
- (2) has attained the greater of either the age of 62 and is eligible to retire without reduction for early age retirement, or normal retirement age and service requirements for service retirement; and
- (3) retains credit and contributions in TRS attributable to that service.

(c) If an alternate payee elects to receive benefits under this section, the benefits will become payable once TRS receives a written request for the benefits and a certified copy of the domestic relations order determined to be a QDRO.

(d) In figuring these benefits for the alternate payee and the adjusted standard annuity of the member's benefit as set forth in this section, TRS shall consider the member's benefit as a normal age standard service retirement annuity without regard to any optional annuity chosen or beneficiary designated by the member.

(e) The beginning of monthly payments under this section terminates any interest that the alternate payee who receives the payment might otherwise have in benefits that accrue to the account of the member after the date the initial payment to the alternate payee is made.

(f) An alternate payee who elects this method of payment has only a right to receive an annuity for life as calculated in this section and does not have the right to pass on any portion of his/her benefit upon his/her death. There is no reversion of the alternate payee's benefit to the member upon the alternate payee's death, irrespective of whether the death occurs before or after the member's benefit commencement.

## APPENDIX A

(g) TRS will use Tables for Life Annuity Factors furnished by the TRS actuary of record to calculate the actuarially equivalent portion of the member's accrued benefit payable to an alternate payee under this section.

### Attached Graphic

(h) Except as otherwise provided by this section, TRS shall calculate the alternate payee's actuarial equivalent benefit in the following manner:

(1) Determine the member's accrued monthly benefit as of the alternate payee's benefit commencement date.

(2) Determine the member's age and the alternate payee's age as of the alternate payee's benefit commencement date.

(3) Determine the appropriate percent of the member's accrued benefit payable to the alternate payee under the terms of the QDRO.

(4) Multiply the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent. Then, divide that figure by the life annuity factor at alternate payee's age.

(i) Except as otherwise provided by this section, TRS shall calculate a member's adjusted standard annuity by reducing the member's standard annuity monthly benefit at the time of retirement by an amount equal to the percent of the member's benefit payable to the alternate payee under the QDRO multiplied by the member's accrued monthly benefit as of the alternate payee's benefit commencement date.

(j) If the member dies before retiring:

(1) the member's adjusted standard annuity must be used for any benefit due after death if a standard annuity is used to calculate that benefit;

(2) the balance of the accumulated contributions in the member savings account payable to a beneficiary must be adjusted to reflect the payment to the alternate payee by reducing the accumulated contributions in the member savings account by the QDRO percentage described in subsection (h)(3) of this section; and

(3) a benefit payable under Government Code §824.402(a)(1) and (2) or a lump sum payment of \$2,500.00 plus an applicable monthly benefit as described in Government Code §824.404 is not reduced by payments made to the alternate payee under this section.

(k) If the member dies after retiring:

(1) the \$10,000.00 lump sum survivor benefits or the \$2,500.00 lump sum payment plus an applicable monthly benefit payable to a beneficiary under Government Code §824.501 and §824.404, are not reduced as a result of payments to an alternate payee under this section; and

## APPENDIX A

(2) any payments paid pursuant to Government Code §824.407 must be reduced by first reducing the account balance at the time of retirement by the QDRO percentage described in subsection (h)(3) of this section.

(l) If the member elects to terminate membership in TRS before retirement, the accumulated contributions in the member account before a refund is processed must be reduced by the QDRO percentage described in subsection (h)(3) of this section.

(m) When new law provides for an increase in the benefit payable to the member after the commencement of the payment of an annuity to the member, the increase will be distributed by increasing the member's and the alternate payee's benefit as provided by the law for an increase to the member's benefit so long as there is no additional actuarial cost to TRS or unless provided otherwise by the legislature.

(n) To reinstate withdrawn service reduced under subsection (l) of this section, a person must deposit the amount withdrawn or refunded and the fees required by law. Benefits payable based wholly or in part on the terminated service will be reduced as described in this section as if the service had not been terminated.

(o) When a member who has an alternate payee receiving benefits under this section elects a partial lump-sum option, TRS will use the member's adjusted standard annuity in the calculation for the member's partial lump-sum payment.

(p) If the total distribution amount awarded to the alternate payee in a QDRO is limited to a specific dollar amount, TRS shall calculate the alternate payee's actuarial equivalent benefit as follows:

(1) Determine the alternate payee's age as of the alternate payee's benefit commencement date.

(2) Calculate the alternate payee's actuarial equivalent monthly benefit by multiplying the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent. Compare the product to the specific dollar limit amount. If the specific dollar limit amount is the smaller amount, divide the specific dollar limit amount awarded to the alternate payee by the life annuity factor at alternate payee's age to determine the alternate payee's monthly benefit. If the specific dollar limit amount is larger than the product of the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent, divide the product by life annuity factor at alternate payee's age to determine the alternate payee's monthly benefit.

(q) When a member who is participating in the deferred retirement option plan ("DROP") has an alternate payee begin a distribution under this section, TRS will calculate the alternate payee's actuarial equivalent benefit by multiplying the member's accrued benefit times the life annuity factor at member's age plus the balance of the DROP times the alternate payee's percent. That figure shall then be divided by the life annuity factor at alternate payee's age.

(r) When a member who is participating in DROP has an alternate payee begin a distribution under this section, TRS will reduce the DROP account by applying the percentage of the member's accrued benefit payable to the alternate payee under the terms of the qualified domestic relations order beginning with the initial month that a distribution is payable to the alternate payee.

## APPENDIX A

(s) If the amount of monthly retirement benefit awarded to the alternate payee in the QDRO is a stated monthly amount rather than a percentage, TRS shall determine the alternate payee's actuarial equivalent benefit by multiplying the stated monthly amount times the life annuity factor at the member's age and then dividing the product by the life annuity factor at the alternate payee's age.

(t) If the amount of monthly retirement benefit awarded to the alternate payee in the QDRO is a percentage of the benefit but limited to no more than a stated monthly amount, TRS shall determine the alternate payee's actuarial equivalent benefit by multiplying the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent, then dividing that product by the life annuity factor at alternate payee's age. If the amount derived from this calculation is smaller than the stated monthly amount, the amount calculated is the alternate payee's actuarial equivalent benefit. If the amount derived from this calculation is larger than the stated monthly amount, the alternate payee's actuarial equivalent benefit is calculated by dividing the stated monthly amount by the life annuity factor at the alternate payee's age.

(u) If the amount of the monthly retirement benefit awarded to the alternate payee in the QDRO is a percentage of the benefit but limited to no more than a stated monthly amount, TRS shall determine the member's adjusted standard annuity by reducing the member's standard annuity monthly benefit at the time of retirement by the lesser of the stated monthly amount and the amount of the reduction calculated under subsection (i) of this section.

## APPENDIX B

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 25	BENEFITS
SUBCHAPTER I	OTHER SPECIAL SERVICE CREDIT
RULE §25.162	State Personal or Sick Leave Credit

---

(a) An eligible member may purchase one year of service credit in the Teacher Retirement System of Texas ("TRS") for accumulated state personal or sick leave in accordance with Government Code §823.403 and subject to approval of TRS.

(b) A member is eligible to purchase one year of service credit if the member has at least ten years of TRS service credit for actual service with one or more employers defined by Government Code §821.001(7), retires from such an employer, and has at least 50 days or 400 hours of accumulated state personal or sick leave on the last day of employment before retirement. Not more than an aggregate of five days of unused state personal or sick leave may be accumulated per year. State personal and sick leave may be combined, if needed, for the purpose of calculating the necessary 50 days or 400 hours. No more than one year of service credit may be purchased even if more time has been accumulated.

(c) Credit purchased under this section may be used only for the purpose of calculating the amount of a retirement plan benefits but may not be used to determine eligibility for retirement plan benefits.

(d) To establish service credit under this section, an eligible member must submit an employer certification in the form and manner prescribed by TRS. Additionally, the eligible member must deposit with TRS, in the manner prescribed by TRS, the actuarial present value of the additional standard retirement annuity benefits that would be attributable to the conversion of the unused state personal or sick leave into the service credit, as described in subsection (e) of this section.

(e) To compute these amounts, TRS will use the State Personal or Sick Leave Conversion Factor Tables furnished by the TRS actuary of record. Specifically, TRS will select the applicable conversion factor from the table based on the age of the member in full years and months at the effective date of retirement. To obtain the cost of the service credit, the conversion factor will be multiplied by the increase in the monthly standard retirement annuity resulting from the conversion of state personal or sick leave to an additional one year of service credit. The increase in the annuity will be determined using the standard retirement annuity without an adjustment for an optional service retirement annuity plan selected by the member because any optional plan selected by the member is required by Government Code §824.204(b) to be the actuarial equivalent of the member's standard retirement annuity.

[Attached Graphic](#)

## APPENDIX B

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 25	MEMBERSHIP CREDIT
SUBCHAPTER P	CALCULATION OF FEES AND COSTS
RULE §25.302	Calculation of Actuarial Costs of Service Credit

---

(a) When a member is purchasing TRS service credit for which the law requires that the actuarial cost or actuarial present value be deposited and for which the method in this section is referenced by another section of this title, TRS will calculate the cost using the cost factors obtained from the Actuarial Cost Tables adopted and method described in this section. ~~For [Effective September 1, 2015, for]~~ purposes of this section, TRS will use the age of the member and the service credit established by the member on September 1 of the school year in which the cost of the purchase is established.

(b) The factors for individuals whose membership was established before September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, are shown in the tables adopted as part of this subsection ~~[, which shall be used when the service credit cost is paid on or after September 1, 2019, or an installment agreement is entered into on or after September 1, 2019]~~. Within each set of tables, the number of years of service credit to be purchased will determine which specific table will be used. Each of the tables cross-references the member's age in rows with years of credited service (before purchase) in columns. The intersection of the participant's age and service is the cost per \$1,000 of salary. The cost factor for a participant with more years of service credit than shown on the table is the same as the factor shown for the highest number of years of service credit on the table for the participant. TRS will calculate the cost to purchase service credit under this section by dividing the participant's salary by 1000 and multiplying the resulting quotient by the appropriate cost factor obtained from the table. The tables set forth the cost, per \$1,000 of salary, to purchase from one year to fifteen years of service credit. The number of years of service credit available for purchase is determined by the laws and rules applicable to the type of service credit to be purchased. For the purpose of calculating the required amount for a member who is not grandfathered to use a three-year salary average under §51.12 of this title (relating to Applicability of Certain Laws in Effect Before September 1, 2005), the term "salary" is defined as follows:

(1) For the upper region of the table (where the factors appear above the line), salary is the greater of the annual salary for the last year of credited service or the average of the member's highest years of compensation calculated on September 1 of the school year in which the cost of the service credit is established. The fewer of five years of compensation or all of the member's years of compensation shall be used for the average; or

(2) For the lower region of the table (where the factors appear below the line), salary is the average of the member's highest five years of compensation calculated on September 1 of the school year in which the cost of the service credit is established. A member's highest five years of compensation shall be calculated as if the member were retiring at the time the service credit is purchased. The lower region of the table (where the factors appear below the line) reflects those

## APPENDIX B

age and service combinations where the purchase of service credit results in immediate eligibility of the member for unreduced retirement benefits.

### Attached Graphic

(c) For the purpose of calculation of actuarial cost for service credit for a member described in subsection (b) of this section who is grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section except that a three-year salary average shall be used instead of a five-year salary average. Additionally, the cost shall be 103.5 percent of the cost as calculated under subsection (b) of this section.

(d) For individuals whose membership was established on or after September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, the methodology described in subsection (b) of this section shall be used to determine cost of additional service credit, but TRS shall use the factors in the tables adopted as part of this subsection [~~, which shall be used when the service credit cost is paid on or after September 1, 2019, or an installment agreement is entered into on or after September 1, 2019~~]. If the member is not grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section.

### Attached Graphic

(e) If an individual established membership on or after September 1, 2007 and has five years of service credit on August 31, 2014, and maintains membership in TRS until the time of purchase, but is grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section except that a three-year salary average shall be used instead of a five-year salary average. The cost of establishing additional service credit for a grandfathered member described in this subsection, shall be 1.035 times the cost as calculated under subsection (d) of this section.

(f) An individual who first was a member of TRS before September 1, 2007, but who terminated membership through withdrawal of accumulated contributions and then again joined TRS on or after September 1, 2007, and has five years of service credit on August 31, 2014 and maintains membership in TRS until the time of purchase, is subject to the calculation of cost for additional service credit under subsections (d) and (e) of this section.

(g) For members who do not have five years of service credit on August 31, 2014 or whose current membership began after August 31, 2014, the methodology described in subsections (b) and (c) of this section shall be used to determine the cost of additional service credit, but TRS shall use the factors in the tables adopted as a part of this subsection.

### Attached Graphic

(h) For the purpose of calculation of actuarial cost for service credit for a member described in subsection (g) of this section who is not grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section.

## APPENDIX B

(i) If the individual did not have five years of service credit on August 31, 2014 or whose current membership began after August 31, 2014, but is grandfathered to use a three-year salary average, the term "salary" shall have the same meaning as in subsection (b) of this section except that a three-year salary average shall be used instead of a five-year salary average. The cost of establishing additional service credit for a grandfathered member described in this subsection shall be 1.035 times the cost as calculated under subsection (g) of this section.

(j) The tables adopted in this section shall be used when the service credit cost is paid on or after September 1, 2023, or an installment agreement is entered into on or after September 1, 2023.

## APPENDIX B

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 25	MEMBERSHIP CREDIT
SUBCHAPTER P	CALCULATION OF FEES AND COSTS
RULE §25.303	Calculation of Actuarial Cost for Purchase of Compensation Credit

---

(a) When a member is purchasing TRS compensation credit for which the law requires that the actuarial cost or actuarial present value be deposited and for which the method in this section is referenced by another section of this title, TRS will calculate the cost using the cost factors obtained from the Actuarial Cost Tables adopted and the method described in this section. ~~For purchases in which the cost is established and the purchase is initiated in the 2016-17 school year or after,~~ TRS will use the age of the member and the service credit established by the member on September 1 of the school year in which the cost of the purchase is established.

(b) Each of the tables cross-references the member's age in rows with years of credited service in columns. The intersection of the participant's age and service is the cost factor that shall be applied in determining the cost to purchase compensation credit. TRS will calculate the cost to purchase compensation credit under this section by dividing the difference between participant's final average salary before and after the purchase by 1,000 and multiplying the quotient by the appropriate cost factor obtained from the table. The eligibility of additional compensation credit available for purchase is determined by the laws and rules applicable to the type of compensation sought to be credited.

(c) For individuals whose membership was established before September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, the methodology described in subsection (b) of this section shall be used to determine cost of additional compensation credit, but TRS shall use the factors in the tables adopted as part of this subsection.

[Attached Graphic](#)

(d) For individuals whose membership was established on or after September 1, 2007 and who have five years of service credit on August 31, 2014, and maintain membership in TRS until the time of purchase, the methodology described in subsection (b) of this section shall be used to determine cost of additional compensation credit, but TRS shall use the factors in the tables adopted as part of this subsection.

[Attached Graphic](#)

(e) For members who do not have five years of service credit on August 31, 2014 or whose current membership began after August 31, 2014, the methodology described in subsection (b) of this section shall be used to determine the cost of additional compensation credit, but TRS shall use the factors in the tables adopted as a part of this subsection.

[Attached Graphic](#)

## APPENDIX B

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 29	BENEFITS
SUBCHAPTER A	RETIREMENT
RULE §29.21	Beneficiary Tables

---

Tables for Unisex Joint Beneficiary Life furnished by the TRS actuary of record (actuary) will be used in calculating a life expectancy under §824.1013 of the Government Code. A fraction of a year shall be converted to whole months with any partial month being rounded upward to a full month. Life expectancy shall be determined as of the date of the retirement in question and the age of the original beneficiary at that time. The Teacher Retirement System of Texas adopts the actuary's Tables for Unisex Joint Beneficiary Life.

[Attached Graphic](#)

## APPENDIX B

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 29	BENEFITS
SUBCHAPTER A	RETIREMENT
RULE §29.11	Actuarial Tables

---

(a) Actuarial tables furnished by the TRS actuary of record will be used for computation of benefits. Factors for ages or types of annuities not included in the tables will be computed from the same data by the same general formulas.

(b) The Teacher Retirement System adopts the actuary's early age reduction factors. The factor tables are as follows:

[Attached Graphic](#)

(c) The Teacher Retirement System adopts the actuary's factors for service retirement options. The factor tables are as follows:

[Attached Graphic](#)

(d) The Teacher Retirement System adopts the actuary's factors for disabled member retirement options. The factor tables are as follows:

[Attached Graphic](#)

(e) The Teacher Retirement System adopts the actuary's reserve transfer factors. The reserve transfer factor tables are as follows:

[Attached Graphic](#)

(f) The board of trustees may change the tables or adopt new tables from time to time by amending this section; provided, however, that any such change does not result in any retiree or member eligible for service retirement with an unreduced annuity as of the date of the change receiving a smaller benefit than the benefit computed immediately before the change. ~~[If such a change would result in a smaller benefit, then TRS will use the tables in effect immediately prior to the change to calculate the benefits for any retiree or member eligible for service retirement with an unreduced annuity as of the date of the change.]~~

## APPENDIX B

TITLE 34	PUBLIC FINANCE
PART 3	TEACHER RETIREMENT SYSTEM OF TEXAS
CHAPTER 29	BENEFITS
SUBCHAPTER F	PARTIAL LUMP-SUM PAYMENT
RULE §29.71	Tables

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(a) Any eligible retiree who selects a partial lump-sum option will receive an actuarially reduced annuity to reflect the selection of the lump-sum option. TRS will use Factor Tables for Partial Lump-Sum Option Payments furnished by the TRS actuary of record.

[Attached Graphic](#)

(b) The member's age in whole years will be used from column one and the percentage of standard annuity factor from column three, four, or five depending on the number of months of lump-sum selected, will be used to determine the percentage of standard annuity that will be paid to a person who elects to participate in the partial lump-sum option plan.

## APPENDIX B

TITLE 34  
PART 3  
CHAPTER 47  
RULE §47.17

PUBLIC FINANCE  
TEACHER RETIREMENT SYSTEM OF TEXAS  
QUALIFIED DOMESTIC RELATIONS ORDERS  
Calculation for Alternate Payee Benefits Before a Member's  
Benefit Begins

---

(a) An alternate payee of a TRS member is eligible to receive the benefits described by Government Code §804.005 if:

- (1) the alternate payee has a qualified domestic relations order ("QDRO") approved by TRS;
- (2) the alternate payee submits a written request to TRS to receive these benefits; and
- (3) the member meets the requirements of subsection (b) of this section.

(b) The alternate payee of a TRS member may only elect to receive benefits under this section if the member:

- (1) has not retired;
- (2) has attained the greater of either the age of 62 and is eligible to retire without reduction for early age retirement, or normal retirement age and service requirements for service retirement; and
- (3) retains credit and contributions in TRS attributable to that service.

(c) If an alternate payee elects to receive benefits under this section, the benefits will become payable once TRS receives a written request for the benefits and a certified copy of the domestic relations order determined to be a QDRO.

(d) In figuring these benefits for the alternate payee and the adjusted standard annuity of the member's benefit as set forth in this section, TRS shall consider the member's benefit as a normal age standard service retirement annuity without regard to any optional annuity chosen or beneficiary designated by the member.

(e) The beginning of monthly payments under this section terminates any interest that the alternate payee who receives the payment might otherwise have in benefits that accrue to the account of the member after the date the initial payment to the alternate payee is made.

(f) An alternate payee who elects this method of payment has only a right to receive an annuity for life as calculated in this section and does not have the right to pass on any portion of his/her benefit upon his/her death. There is no reversion of the alternate payee's benefit to the member upon the alternate payee's death, irrespective of whether the death occurs before or after the member's benefit commencement.

## APPENDIX B

(g) TRS will use Tables for Life Annuity Factors furnished by the TRS actuary of record to calculate the actuarially equivalent portion of the member's accrued benefit payable to an alternate payee under this section.

### Attached Graphic

(h) Except as otherwise provided by this section, TRS shall calculate the alternate payee's actuarial equivalent benefit in the following manner:

(1) Determine the member's accrued monthly benefit as of the alternate payee's benefit commencement date.

(2) Determine the member's age and the alternate payee's age as of the alternate payee's benefit commencement date.

(3) Determine the appropriate percent of the member's accrued benefit payable to the alternate payee under the terms of the QDRO.

(4) Multiply the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent. Then, divide that figure by the life annuity factor at alternate payee's age.

(i) Except as otherwise provided by this section, TRS shall calculate a member's adjusted standard annuity by reducing the member's standard annuity monthly benefit at the time of retirement by an amount equal to the percent of the member's benefit payable to the alternate payee under the QDRO multiplied by the member's accrued monthly benefit as of the alternate payee's benefit commencement date.

(j) If the member dies before retiring:

(1) the member's adjusted standard annuity must be used for any benefit due after death if a standard annuity is used to calculate that benefit;

(2) the balance of the accumulated contributions in the member savings account payable to a beneficiary must be adjusted to reflect the payment to the alternate payee by reducing the accumulated contributions in the member savings account by the QDRO percentage described in subsection (h)(3) of this section; and

(3) a benefit payable under Government Code §824.402(a)(1) and (2) or a lump sum payment of \$2,500.00 plus an applicable monthly benefit as described in Government Code §824.404 is not reduced by payments made to the alternate payee under this section.

(k) If the member dies after retiring:

(1) the \$10,000.00 lump sum survivor benefits or the \$2,500.00 lump sum payment plus an applicable monthly benefit payable to a beneficiary under Government Code §824.501 and §824.404, are not reduced as a result of payments to an alternate payee under this section; and

## APPENDIX B

(2) any payments paid pursuant to Government Code §824.407 must be reduced by first reducing the account balance at the time of retirement by the QDRO percentage described in subsection (h)(3) of this section.

(l) If the member elects to terminate membership in TRS before retirement, the accumulated contributions in the member account before a refund is processed must be reduced by the QDRO percentage described in subsection (h)(3) of this section.

(m) When new law provides for an increase in the benefit payable to the member after the commencement of the payment of an annuity to the member, the increase will be distributed by increasing the member's and the alternate payee's benefit as provided by the law for an increase to the member's benefit so long as there is no additional actuarial cost to TRS or unless provided otherwise by the legislature.

(n) To reinstate withdrawn service reduced under subsection (l) of this section, a person must deposit the amount withdrawn or refunded and the fees required by law. Benefits payable based wholly or in part on the terminated service will be reduced as described in this section as if the service had not been terminated.

(o) When a member who has an alternate payee receiving benefits under this section elects a partial lump-sum option, TRS will use the member's adjusted standard annuity in the calculation for the member's partial lump-sum payment.

(p) If the total distribution amount awarded to the alternate payee in a QDRO is limited to a specific dollar amount, TRS shall calculate the alternate payee's actuarial equivalent benefit as follows:

(1) Determine the alternate payee's age as of the alternate payee's benefit commencement date.

(2) Calculate the alternate payee's actuarial equivalent monthly benefit by multiplying the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent. Compare the product to the specific dollar limit amount. If the specific dollar limit amount is the smaller amount, divide the specific dollar limit amount awarded to the alternate payee by the life annuity factor at alternate payee's age to determine the alternate payee's monthly benefit. If the specific dollar limit amount is larger than the product of the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent, divide the product by life annuity factor at alternate payee's age to determine the alternate payee's monthly benefit.

(q) When a member who is participating in the deferred retirement option plan ("DROP") has an alternate payee begin a distribution under this section, TRS will calculate the alternate payee's actuarial equivalent benefit by multiplying the member's accrued benefit times the life annuity factor at member's age plus the balance of the DROP times the alternate payee's percent. That figure shall then be divided by the life annuity factor at alternate payee's age.

(r) When a member who is participating in DROP has an alternate payee begin a distribution under this section, TRS will reduce the DROP account by applying the percentage of the member's accrued benefit payable to the alternate payee under the terms of the qualified domestic relations order beginning with the initial month that a distribution is payable to the alternate payee.

## APPENDIX B

(s) If the amount of monthly retirement benefit awarded to the alternate payee in the QDRO is a stated monthly amount rather than a percentage, TRS shall determine the alternate payee's actuarial equivalent benefit by multiplying the stated monthly amount times the life annuity factor at the member's age and then dividing the product by the life annuity factor at the alternate payee's age.

(t) If the amount of monthly retirement benefit awarded to the alternate payee in the QDRO is a percentage of the benefit but limited to no more than a stated monthly amount, TRS shall determine the alternate payee's actuarial equivalent benefit by multiplying the member's accrued benefit times the life annuity factor at member's age times the alternate payee's percent, then dividing that product by the life annuity factor at alternate payee's age. If the amount derived from this calculation is smaller than the stated monthly amount, the amount calculated is the alternate payee's actuarial equivalent benefit. If the amount derived from this calculation is larger than the stated monthly amount, the alternate payee's actuarial equivalent benefit is calculated by dividing the stated monthly amount by the life annuity factor at the alternate payee's age.

(u) If the amount of the monthly retirement benefit awarded to the alternate payee in the QDRO is a percentage of the benefit but limited to no more than a stated monthly amount, TRS shall determine the member's adjusted standard annuity by reducing the member's standard annuity monthly benefit at the time of retirement by the lesser of the stated monthly amount and the amount of the reduction calculated under subsection (i) of this section.

**TAB 7**



# Legal & Compliance

## HIB Rules Repeal



**Heather Traeger, General Counsel**  
**Roberto Cortes-Moreno, Assistant**  
**General Counsel, Sandy Mitchell,**  
**Assistant General Counsel**

April 28, 2023



## Proposed Rule Repeal

- Repealing Subchapter B: rules §41.15, §41.16, §41.17, §41.18, §41.19, and §41.20 all of which relate to Long-Term Care, Disability, and Life Insurance.
- Repealing these rules would have no effect on any TRS health plans or TRS members, because Subchapter B is no longer in use.
- Repealing these rules will streamline and clarify Chapter 41 of the T.A.C. by eliminating stale rules.
- In addition, repealing these rules would create additional space for rules to be added to Subchapter A, relating to TRS-Care, without renumbering Subchapter C.

## Summary of Subchapter B

Rule	Subject Matter
34 T.A.C. §41.15	Requirements to Bid on Group Long-Term Care Insurance Under Chapter 1576 of the Insurance Code
34 T.A.C. §41.16	Coverage Offered Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
34 T.A.C. §41.17	Definitions
34 T.A.C. §41.18	Eligibility for the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
34 T.A.C. §41.19	Initial Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
34 T.A.C. §41.20	Effective Date of Coverage Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program

### Next steps

- Submit proposed rule amendment to Texas Register, for 30-day publication period.



Legal & Compliance

## Memorandum

**DATE:** April 27, 2023  
**TO:** Policy Committee of the Board of Trustees (“Policy Committee”)  
**FROM:** Heather Traeger, General Counsel and Chief Compliance Officer  
**COPY:** Brian Guthrie, Executive Director  
**RE:** Proposed Repeal of TRS Chapter 41, Subchapter B

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### **Requested Action**

TRS Staff asks the Policy Committee to authorize publication in the Texas Register of the proposed repeal of Subchapter B of Chapter 41 in Part 3 of Title 34 of the Texas Administrative Code, which is comprised of:

- §41.15 Requirements to Bid on Group Long-Term Care Insurance Under Chapter 1576 of the Insurance Code
- §41.16 Coverage Offered Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
- §41.17 Definitions
- §41.18 Eligibility for the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
- §41.19 Initial Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
- §41.20 Effective Date of Coverage Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program

### **Background and Reasons for Proposed Repeal**

TRS is proposing to repeal Subchapter B of Chapter 41 of the Texas Administrative Code, Rules §41.15, §41.16, §41.17, §41.18, §41.19, and §41.20, which concern Long-Term Care, Disability, and Life Insurance. None of Subchapter B is currently in use.

The Insurance Code permits, but does not require, TRS to establish a group long-term care insurance program for TRS members. TRS may not implement a group long-term care insurance program unless the cost or burden of administration of the program is incidental. (Section 1576.002, Insurance Code).

TRS proposes to repeal all six rules under Subchapter B in Chapter 41, regarding the implementation of a group long-term care insurance program, in order to streamline and clarify Chapter 41 by eliminating stale or obsolete administrative rules. As of August 31, 2021, when TRS terminated its contract with Genworth Financial, TRS no longer administers a group long-term care insurance program. TRS allowed the contract with Genworth to expire, because premiums were increasing disproportionately for new enrollees and the carrier’s solvency became uncertain. Therefore, the group long-term care insurance program no longer

offered TRS members any additional value. Genworth was the only contractor willing to provide long-term care coverage to TRS, so TRS has been unable to provide long-term care coverage since Genworth's contract expired. Repealing Subchapter B will increase clarity of Chapter 41 for TRS members by eliminating rules that are not currently in use, and give TRS more flexibility in placement of rules that may be adopted in the future regarding TRS-Care in Subchapter A.

The redlined draft of the proposed repealed rule is attached as Attachment 1 and the full text of the proposed repealed rule is attached as Attachment 2.

### **Conclusion**

If the Policy Committee authorizes publication, the proposed repeal of Subchapter B of Chapter 41 will be published in the *Texas Register* for public comment for at least 30 days before presentation to the Policy Committee and Board of Trustees for final repeal.

## ATTACHMENT 1

TITLE 34 PUBLIC FINANCE

PART 3 TEACHER RETIREMENT SYSTEM OF TEXAS

CHAPTER 41 HEALTH CARE AND INSURANCE PROGRAMS

~~SUBCHAPTER B LONG-TERM CARE, DISABILITY AND LIFE INSURANCE~~

---

~~§41.15 Requirements to Bid on Group Long-Term Care Insurance Under Chapter 1576 of the Insurance Code~~

~~(a) All contractors contracting and providing coverage under Chapter 1576, Insurance Code, must:~~

~~(1) administer enrollment;~~

~~(2) adjudicate all claims related to the coverage, except for eligibility of participants under the statute, which remains the responsibility of TRS as trustee;~~

~~(3) coordinate services under the insurance coverages provided under Chapter 1576, Insurance Code; and~~

~~(4) account for any premiums collected and disbursed under the coverages.~~

~~(b) To be eligible to bid on providing group long-term care insurance, a carrier must comply with the minimum qualification standards contained in the applicable solicitation from TRS.~~

~~(c) All bids to provide group long-term care insurance must be submitted in compliance with the bid requirements provided by TRS.~~

~~(d) The bid opening shall take place at a date and time set by TRS.~~

~~(e) In determining the quality of the bids, TRS may consider such factors and criteria as it deems relevant and appropriate under the circumstances.~~

~~(f) TRS shall not provide compensation to bidders for any expenses incurred by the bidder for bids preparation or for any demonstrations that may be made. Bidders submit bids at their own risk and expense.~~

~~§41.16 Coverage Offered Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program~~

~~Under the authority granted by Chapter 1576, Insurance Code, the TRS Board of Trustees may select or reject any and all coverage options relating to the program, including but not limited to:~~

~~(1) Inflation protection options, including with limitation inflation protection options based on compound or simple interest assumptions; and~~

~~(2) Nonforfeiture benefit options, including without limitation reduced paid-up, extended term, shortened benefit period, and return of premium at death.~~

~~§41.17 Definitions~~

~~The following words and terms when used in subchapter B have the following meanings, unless the context clearly indicates otherwise.~~

~~(1) Carrier or Insurer—Any entity authorized by the Texas Department of Insurance to provide any of the insurance coverage, benefits, or services described by Chapter 1576, Insurance Code, under the insurance laws of this state.~~

~~(2) Effective date of employment—The first day on which an employee is both on active duty in the employee's first TRS-covered position in a Texas public school and is a participating member.~~

~~(3) Eligible family members—Family members described in §41.18(a) and (b) of this title (relating to Eligibility for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program).~~

~~(4) Newly hired—Eligible employees who begin employment in their first TRS-covered position in a Texas public school during or after the initial enrollment period as set out in §41.19 of this title (relating to Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program).~~

~~(5) Participating member—A person defined by Government Code §§822.001 and 822.002 whose membership has not terminated as described by Government Code §§822.003—822.006.~~

~~(6) Program—The Texas Public School Employees and Retirees Group Long-Term Care Insurance Program set out in Chapter 1576, Insurance Code.~~

~~(7) Trustee or TRS—The Teacher Retirement System of Texas.~~

### ~~§41.18 Eligibility for the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program~~

~~(a) Participating members who are not participating in a group program under the Texas Employees Group Benefits Act or the State University Employees Uniform Insurance Benefits Act, their spouses, surviving spouses, parents, grandparents, parents of their spouses, and parents of their surviving spouses are eligible to participate in the program.~~

~~(b) Texas public school retirees, as defined by §1575.004, Insurance Code, who are not participating in a group program under the Texas Employees Group Benefits Act or the State University Employees Uniform Insurance Benefits Act, their spouses, surviving spouses, parents, grandparents, parents of their spouses, and parents of their surviving spouses are eligible to participate in the program.~~

~~(c) With the exception of newly hired employees who enroll during their initial enrollment period or unless authorized by resolution adopted by the Board of Trustees, eligibility to participate in the program is subject to the carrier granting underwriting approval for the applicant.~~

### ~~§41.19 Initial Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program~~

~~(a) In accordance with Chapter 1576, Insurance Code, TRS as trustee has the authority to declare periodic open enrollment and the rules and conditions for such open enrollment periods for the program.~~

~~(b) The initial enrollment period for newly hired eligible participating members and their eligible family members will begin on the effective date of employment and end at 11:59 p.m. Austin Time on the 90th day after the effective date of employment.~~

~~(c) The initial enrollment period for eligible current Texas public school employees who are covered under their employer-sponsored group long-term care plan but whose employer is terminating the group long-term care plan and their eligible family members will begin on the date such plan is terminated by their employer and end at 11:59 p.m. Austin Time on the 30th day after the termination date of such plan.~~

~~(d) The initial enrollment period for eligible service retirees under age 60 and their eligible family members is the same as their initial enrollment period under the TRS Care program set out in §41.1 (relating to Enrollment Periods for the Texas Public School Retired Employees Group Benefits Program).~~

~~(e) The initial enrollment period for surviving spouses of eligible participating members and surviving spouses of eligible retirees will begin on the first day after the eligible employee or retiree dies and end at 11:59 p.m. Austin Time on the 30th day after the end of the month in which the eligible participating member or retiree dies.~~

~~(f) The initial enrollment period for new spouses and parents of new spouses will begin on the date of the eligible participating member's or retiree's marriage and end at 11:59 p.m. Austin Time on the 30th day after the marriage date.~~

~~(g) Eligible individuals may apply to enroll in the program after their initial enrollment period. Eligible individuals who do not have a prescribed initial enrollment period may apply at any time. However, in either instance, eligible individuals may be required to submit additional medical information, as determined by the carrier.~~

~~(h) If an eligible individual described in subsections (b), (c), (d), (e), or (f) of this section is permitted to enroll under two or more of the provisions of this section, the individual may enroll during the timeframe of either enrollment period.~~

~~(i) An individual's status as an eligible retiree, eligible participating member or eligible family member is determined as of the date a complete enrollment application is received by the carrier.~~

#### **~~§41.20 Effective Date of Coverage Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program~~**

~~(a) Coverage for newly hired eligible participating members who enroll during their initial enrollment period will be effective on the first day of the month following the carrier's receipt of complete enrollment materials.~~

~~(b) Coverage for eligible family members of newly hired eligible participating members who enroll during their initial enrollment period and who satisfy underwriting guidelines will be effective on the first day of the month after the date the carrier grants underwriting approval.~~

~~(c) Coverage for eligible current Texas public school employees who are covered under their employer-sponsored group long-term care plan but whose employer is terminating the group long-term care plan and their eligible family members who enroll during their initial enrollment period will be effective on the first day of the month following the carrier's receipt of complete enrollment materials.~~

~~(d) Coverage for eligible retirees who enroll during their initial enrollment period will be effective on the first day of the month after the date the carrier grants underwriting approval.~~

~~(e) Coverage for eligible family members of retirees who enroll during their initial enrollment period and who satisfy underwriting guidelines shall will be effective on the first day of the month after the date the carrier grants underwriting approval.~~

~~(f) Coverage for surviving spouses of eligible participating members and surviving spouses of eligible retirees who enroll during their initial enrollment period will be effective on the first day of the month after the carrier grants underwriting approval.~~

~~(g) Coverage for new spouses and parents of new spouses who enroll during their initial enrollment period will be effective on the first day of the month after the carrier grants underwriting approval.~~

~~(h) Coverage for eligible participating members and retirees of TRS who enroll during open enrollment periods established by TRS as trustee and who satisfy underwriting guidelines will be effective on the date established by the trustee.~~

## ATTACHMENT 2

TITLE 34 PUBLIC FINANCE

PART 3 TEACHER RETIREMENT SYSTEM OF TEXAS

CHAPTER 41 HEALTH CARE AND INSURANCE PROGRAMS

SUBCHAPTER B LONG-TERM CARE, DISABILITY AND LIFE INSURANCE

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**§41.15 Requirements to Bid on Group Long-Term Care Insurance Under Chapter 1576 of the Insurance Code**

(a) All contractors contracting and providing coverage under Chapter 1576, Insurance Code, must:

- (1) administer enrollment;
- (2) adjudicate all claims related to the coverage, except for eligibility of participants under the statute, which remains the responsibility of TRS as trustee;
- (3) coordinate services under the insurance coverages provided under Chapter 1576, Insurance Code; and
- (4) account for any premiums collected and disbursed under the coverages.

(b) To be eligible to bid on providing group long-term care insurance, a carrier must comply with the minimum qualification standards contained in the applicable solicitation from TRS.

(c) All bids to provide group long-term care insurance must be submitted in compliance with the bid requirements provided by TRS.

(d) The bid opening shall take place at a date and time set by TRS.

(e) In determining the quality of the bids, TRS may consider such factors and criteria as it deems relevant and appropriate under the circumstances.

(f) TRS shall not provide compensation to bidders for any expenses incurred by the bidder for bids preparation or for any demonstrations that may be made. Bidders submit bids at their own risk and expense.

**§41.16 Coverage Offered Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program**

Under the authority granted by Chapter 1576, Insurance Code, the TRS Board of Trustees may select or reject any and all coverage options relating to the program, including but not limited to:

- (1) Inflation protection options, including with limitation inflation protection options based on compound or simple interest assumptions; and
- (2) Nonforfeiture benefit options, including without limitation reduced paid-up, extended term, shortened benefit period, and return-of-premium at death.

**§41.17 Definitions**

The following words and terms when used in subchapter B have the following meanings, unless the context clearly indicates otherwise.

- (1) Carrier or Insurer--Any entity authorized by the Texas Department of Insurance to provide any of the insurance coverage, benefits, or services described by Chapter 1576, Insurance Code, under the insurance laws of this state.
- (2) Effective date of employment--The first day on which an employee is both on active duty in the employee's first TRS-covered position in a Texas public school and is a participating member.
- (3) Eligible family members--Family members described in §41.18(a) and (b) of this title (relating to Eligibility for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program).
- (4) Newly hired--Eligible employees who begin employment in their first TRS-covered position in a Texas public school during or after the initial enrollment period as set out in §41.19 of this title (relating to Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program).
- (5) Participating member--A person defined by Government Code §§822.001 and 822.002 whose membership has not terminated as described by Government Code §§822.003 - 822.006.
- (6) Program--The Texas Public School Employees and Retirees Group Long-Term Care Insurance Program set out in Chapter 1576, Insurance Code.
- (7) Trustee or TRS--The Teacher Retirement System of Texas.

#### **§41.18 Eligibility for the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program**

- (a) Participating members who are not participating in a group program under the Texas Employees Group Benefits Act or the State University Employees Uniform Insurance Benefits Act, their spouses, surviving spouses, parents, grandparents, parents of their spouses, and parents of their surviving spouses are eligible to participate in the program.
- (b) Texas public school retirees, as defined by §1575.004, Insurance Code, who are not participating in a group program under the Texas Employees Group Benefits Act or the State University Employees Uniform Insurance Benefits Act, their spouses, surviving spouses, parents, grandparents, parents of their spouses, and parents of their surviving spouses are eligible to participate in the program.
- (c) With the exception of newly hired employees who enroll during their initial enrollment period or unless authorized by resolution adopted by the Board of Trustees, eligibility to participate in the program is subject to the carrier granting underwriting approval for the applicant.

#### **§41.19 Initial Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program**

- (a) In accordance with Chapter 1576, Insurance Code, TRS as trustee has the authority to declare periodic open enrollment and the rules and conditions for such open enrollment periods for the program.
- (b) The initial enrollment period for newly hired eligible participating members and their eligible family members will begin on the effective date of employment and end at 11:59 p.m. Austin Time on the 90th day after the effective date of employment.
- (c) The initial enrollment period for eligible current Texas public school employees who are covered under their employer-sponsored group long-term care plan but whose employer is terminating the group long-term

care plan and their eligible family members will begin on the date such plan is terminated by their employer and end at 11:59 p.m. Austin Time on the 30th day after the termination date of such plan.

(d) The initial enrollment period for eligible service retirees under age 60 and their eligible family members is the same as their initial enrollment period under the TRS-Care program set out in §41.1 (relating to Enrollment Periods for the Texas Public School Retired Employees Group Benefits Program).

(e) The initial enrollment period for surviving spouses of eligible participating members and surviving spouses of eligible retirees will begin on the first day after the eligible employee or retiree dies and end at 11:59 p.m. Austin Time on the 30th day after the end of the month in which the eligible participating member or retiree dies.

(f) The initial enrollment period for new spouses and parents of new spouses will begin on the date of the eligible participating member's or retiree's marriage and end at 11:59 p.m. Austin Time on the 30th day after the marriage date.

(g) Eligible individuals may apply to enroll in the program after their initial enrollment period. Eligible individuals who do not have a prescribed initial enrollment period may apply at any time. However, in either instance, eligible individuals may be required to submit additional medical information, as determined by the carrier.

(h) If an eligible individual described in subsections (b), (c), (d), (e), or (f) of this section is permitted to enroll under two or more of the provisions of this section, the individual may enroll during the timeframe of either enrollment period.

(i) An individual's status as an eligible retiree, eligible participating member or eligible family member is determined as of the date a complete enrollment application is received by the carrier.

#### **§41.20 Effective Date of Coverage Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program**

(a) Coverage for newly hired eligible participating members who enroll during their initial enrollment period will be effective on the first day of the month following the carrier's receipt of complete enrollment materials.

(b) Coverage for eligible family members of newly hired eligible participating members who enroll during their initial enrollment period and who satisfy underwriting guidelines will be effective on the first day of the month after the date the carrier grants underwriting approval.

(c) Coverage for eligible current Texas public school employees who are covered under their employer-sponsored group long-term care plan but whose employer is terminating the group long-term care plan and their eligible family members who enroll during their initial enrollment period will be effective on the first day of the month following the carrier's receipt of complete enrollment materials.

(d) Coverage for eligible retirees who enroll during their initial enrollment period will be effective on the first day of the month after the date the carrier grants underwriting approval.

(e) Coverage for eligible family members of retirees who enroll during their initial enrollment period and who satisfy underwriting guidelines shall will be effective on the first day of the month after the date the carrier grants underwriting approval.

(f) Coverage for surviving spouses of eligible participating members and surviving spouses of eligible retirees who enroll during their initial enrollment period will be effective on the first day of the month after

the carrier grants underwriting approval.

(g) Coverage for new spouses and parents of new spouses who enroll during their initial enrollment period will be effective on the first day of the month after the carrier grants underwriting approval.

(h) Coverage for eligible participating members and retirees of TRS who enroll during open enrollment periods established by TRS as trustee and who satisfy underwriting guidelines will be effective on the date established by the trustee.