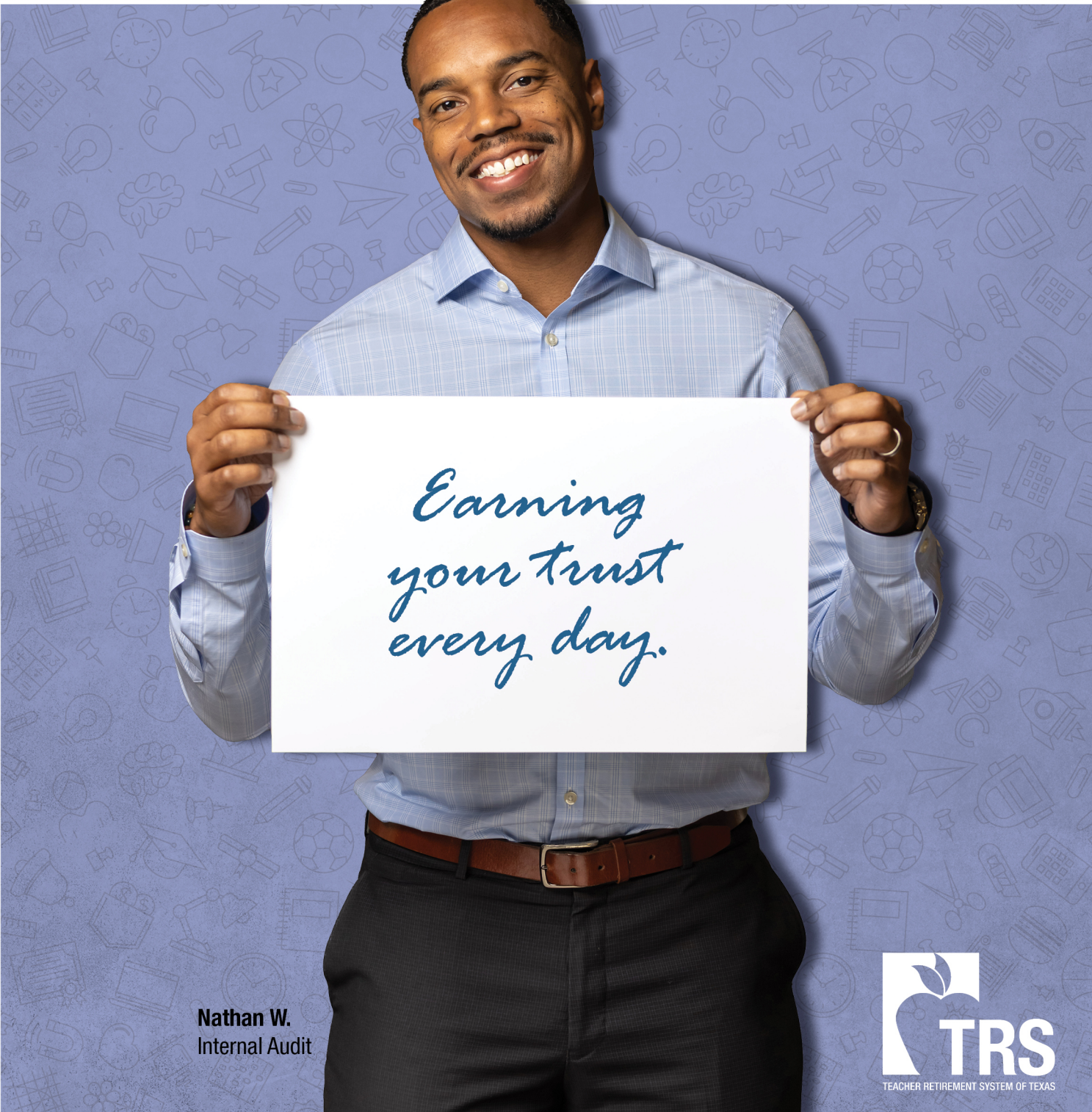


2023 POPULAR ANNUAL FINANCIAL REPORT

A COMPONENT UNIT OF THE STATE OF TEXAS • FISCAL YEAR ENDED AUGUST 31, 2023



*Earning
your trust
every day.*

Nathan W.
Internal Audit



Our Mission

IMPROVING the retirement security
of our members by prudently investing
and managing the trust assets and
delivering benefits that make a **POSITIVE**
DIFFERENCE in their lives.



At Your Service

The employees of TRS are
proud to dedicate their time
and hard work to provide
members with the services
they've earned serving Texas.

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Brian K. Guthrie
Executive Director

For fiscal year 2023, TRS made pension benefit payments totaling \$12.7 billion to 489,921 retirees and their beneficiaries.

It is my pleasure to present the Teacher Retirement System of Texas' (TRS) Popular Annual Financial Report (PAFR) for fiscal year 2023, the System's 86th year of operation. The PAFR summarizes our Annual Comprehensive Financial Report (ACFR), providing financial highlights of the past year for those wishing to learn more about TRS developments. The 2023 ACFR can be viewed in the Publications Section of the TRS website: trs.texas.gov.

Pension Trust Fund

During the past fiscal year, the System experienced growth as membership increased by 53,067 individuals, ending the year with 2,001,974 participants. The Pension Trust Fund experienced favorable market performance resulting in positive returns for the fund, ending the 2023 fiscal year with a net position of \$187.2 billion compared to \$184.2 billion at the close of the 2022 fiscal year. TRS investment earnings, combined with contribution increases and benefit changes approved by the 87th Texas Legislature, continue to enable TRS to provide secure benefits for current and future retirees.

For fiscal year 2023, TRS made pension benefit payments totaling \$12.7 billion to 489,921 retirees and their beneficiaries. These benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

Retiree Health Benefits Program

TRS administers TRS-Care, a health benefits program for eligible retired public education employees and their eligible dependents that was established in 1985. The 85th Legislature, in regular and special sessions, passed legislation that restructured TRS-Care and provided additional funding to address the solvency and affordability of TRS-Care. The state contribution rate to TRS-Care is 1.25 percent of public-school payroll and the district contribution is 0.75 percent. Active employee contributions remained unchanged at 0.65 percent.

Active Member Health Benefits Program

TRS-ActiveCare, initiated in 2001, is a self-funded health benefits program that offers plan options that range from catastrophic coverage with reduced premiums to a comprehensive plan at higher premiums. TRS-ActiveCare covers active employees currently employed by public education employers that participate in the program, along with the employees' eligible dependents.

Investments

For the twelve-month period ended August 31, 2023, the total portfolio delivered investment returns of 3.85 percent, which is 1.63 percent above the Pension Trust Funds (Fund) benchmark. As a result, the total investment value of the Fund as of August 31 was \$186.6 billion, or \$3.1 billion more than this time last year, after contributions and benefit payouts. On a three-year annualized basis, the Fund has returned 6.58 percent, which is 0.96 percent above its benchmark. Annual rates of return for the five and ten-year periods ending August 31, 2023, were 6.42 percent and 7.62 percent, respectively. The ten and twenty year average return surpasses the Board's adopted long-term assumed rate of return of 7.00 percent.

Thank You

We are pleased to report on operational results for the year and to acknowledge the substantial support of state leadership, trustees, members, interested associations, and TRS staff.

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



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



Brittney Allred
Principal
Luther King Capital Management
Dallas
Position nominated by the State Board
of Education
Term expires 2027



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



David Corpus
Executive Vice President-Bank President
Stellar Bank (STEL)
Humble
Position nominated by the State Board
of Education
Term expires 2025



John Elliott
Partner
Elliott Stratmann, PLLC
Austin
Direct appointment of the governor
Term expires 2027



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



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



Elvis Williams
Assistant Superintendent of Operations
Edgewood Independent School District
Fair Oaks Ranch
Active public education position
Term expires 2027



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

Teacher Retirement System of Texas

For its Annual Financial Report
For the Fiscal Year Ended

August 31, 2021

Christopher P. Morill

Executive Director/CEO



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
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August 31, 2022

Christopher P. Morill

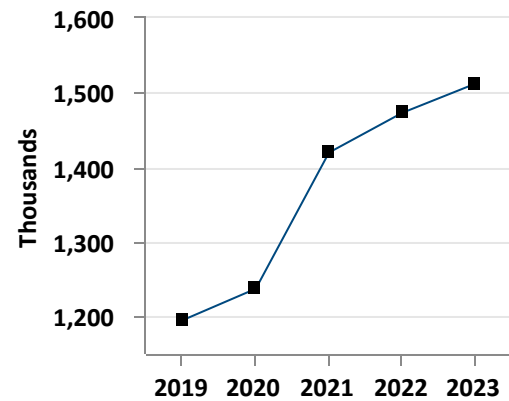
Executive Director/CEO

Both the 2021 and 2022 GFOA Awards for Outstanding Achievement in Popular Annual Financial Reporting were received from GFOA in fiscal year 2023 so are being presented in the 2023 Popular Annual Financial Report.

Membership of the Teacher Retirement System of Texas includes employees and retirees of state-supported educational institutions in Texas. The following tables represent TRS Pension Trust Fund participating employer and membership information for fiscal year 2023.

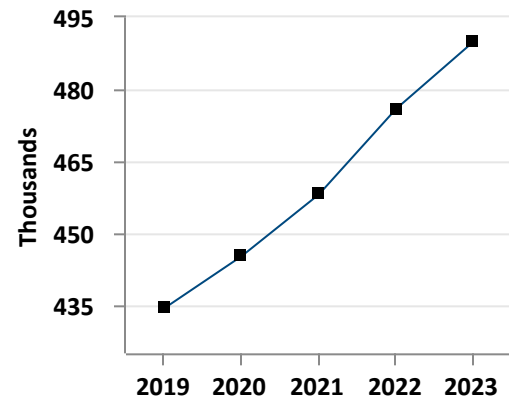
Number of Participating Employers	
Participating Employers	2023
Public School Districts	1,020
Charter Schools	200
Community and Junior Colleges	50
Senior Colleges and Universities	48
Regional Service Centers	20
Medical Schools	9
Other Education Districts	2
State Agencies	1
Total Participating Employers	1,350

Current Membership by Year
Pension Trust Fund



Membership Numbers by Category		
Member Categories	As of August 31,	
	2023	2022
Current Members		
Active Contributing	953,295	928,418
Inactive Non-vested	424,658	419,580
Inactive Vested	134,100	124,957
Total Current Members	1,512,053	1,472,955
Retirement Recipients		
Service	457,779	444,557
Disability	11,933	11,907
Survivor	20,209	19,488
Total Retirement Recipients	489,921	475,952
Total Membership	2,001,974	1,948,907

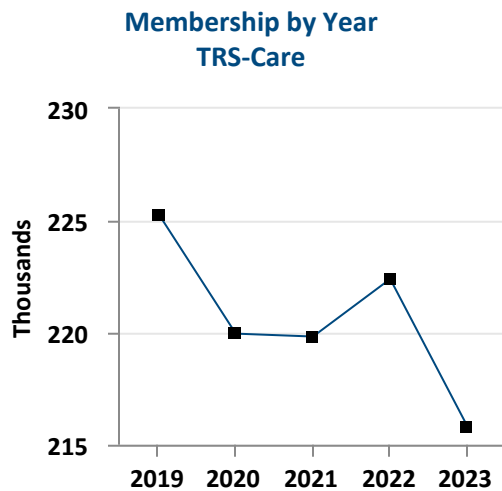
Retirement Recipients by Year
Pension Trust Fund



Texas Public School Retired Employees Group Insurance Program (TRS-Care)

Membership of TRS-Care is eligible to TRS public school retirees. There were 1,241 participating employers during fiscal year 2023.

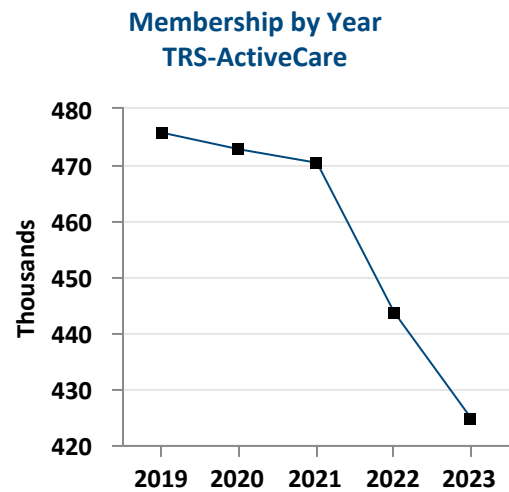
Membership Numbers by Category		
Member Categories	As of August 31,	
	2023	2022
Retirees	178,043	182,607
Surviving Spouses	5,813	5,925
Surviving Children	106	123
Dependent Spouses and Children	31,862	33,747
Total Membership	215,824	222,402



Texas Public School Employees Group Insurance Program (TRS-ActiveCare)

Membership of TRS-ActiveCare includes employees of public school districts, open enrollment charter schools, regional service centers, and other educational districts. There were 982 participating employers during fiscal year 2023.

Membership Numbers by Category		
Member Categories	As of August 31,	
	2023	2022
Employees	273,147	284,388
Dependents	151,549	159,291
Total Membership	424,696	443,679



Pension Trust Fund Overview

The Teacher Retirement System of Texas (TRS or System) is a separate legal entity and considered a discrete component unit of the State of Texas. The System is governed by a nine member board of trustees which has significant independence in the operation and management of the System under the provisions of the state constitution and laws.

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

Funding Status

As of August 31, 2023, the System had a funded ratio of 77.5 percent with an Unfunded Actuarial Accrued Liability (UAAL) of \$57.9 billion. The UAAL increased \$6.2 billion during the year largely due to unfavorable investment performance for fiscal year 2022 and larger than expected salary increases for active TRS members. Even with these events, the UAAL is anticipated to be fully amortized by 2052. The System still meets the statutorily determined actuarial soundness definition by having a funding period of less than 31 years.

SB12 increased contribution rates for the State, employers, and members in a phased approach that concludes in fiscal year 2025. The State's base rate of 7.75 percent in fiscal year 2022 increased to 8.00 percent in fiscal year 2023 and phased-in to 8.25 percent by fiscal year 2024. In addition, all public education employers paid a supplemental contribution rate of 1.70 percent for fiscal year 2022 and will pay 0.10 percent more each year until the rate reaches 2.00 percent in fiscal year 2025. At the end of the phase-in period, these supplemental contributions will equal approximately 1.24 percent of total payroll. Combined, with additional contributions from retirees, these contributions are ultimately assumed to approximate 9.56 percent of total payroll. The member contribution rate of 8.00 percent in fiscal year 2022 will be retained for fiscal year 2023 and will be 8.25 percent in fiscal year 2024 and thereafter.

The contributions provided by the increased contribution rate pattern are sufficient to amortize the current UAAL of the System over a period of 29 years based on the smoothed asset value as of the valuation date. Therefore, the financing objectives of the Statute are expected to be met, assuming all assumptions are realized.

Statement of Fiduciary Net Position
Pension Trust Fund
As of August 31
(Dollars in Thousands)

	2023	2022	Percentage Change
Assets			
Cash and Receivables	\$ 4,310,283	\$ 5,347,981	(19.4)%
Investments	203,296,402	195,157,348	4.2
Invested Securities Lending Collateral	5,675,099	6,957,898	(18.4)
Capital Assets	190,742	158,671	20.2
Total Assets	\$ 213,472,526	\$ 207,621,898	2.8 %
Total Deferred Outflow of Resources	\$ 50,173	\$ 51,449	(2.5)%
Liabilities			
Benefits Payable	\$ 317,818	\$ 273,747	16.1 %
Net Other Post-Employment Benefit Liability	104,207	124,038	(16.0)
Investments Purchased Payable and Other Investment Liabilities	19,841,413	15,921,601	24.6
Collateral Obligations	5,786,409	6,963,789	(16.9)
Accounts Payable and Other	213,067	190,194	12.0
Total Liabilities	\$ 26,262,914	\$ 23,473,369	11.9 %
Total Deferred Inflow of Resources	\$ 89,249	\$ 14,361	521.5 %
Total Net Position	\$ 187,170,536	\$ 184,185,617	1.6 %
Prior Period Adjustment		762	(100.0)
Restated Net Position	\$ 187,170,536	\$ 184,186,379	1.6 %

Statement of Changes in Fiduciary Net Position
Pension Trust Fund
For the Fiscal Years Ended August 31
(Dollars in Thousands)

	2023	2022	Percentage Change
Additions			
Member Contributions	\$ 4,492,518	\$ 4,213,622	6.6 %
Non-Employer Contributing Entity Contributions	2,279,409	2,153,483	5.8
Employer Contributions	2,859,870	2,504,170	14.2
Supplemental Funding - Appropriations		701,101	(100.0)
Gain on Capital Assets	46,564		
Other Revenue	91,927	93,012	(1.2)
Investment Income	6,885,963	(13,383,751)	(151.5)
Total Additions	\$ 16,656,251	\$ (3,718,363)	(547.9)%
Deductions			
Retirement Benefits and Other	\$ 12,866,847	\$ 13,248,393	(2.9)%
Refunds of Contributions	707,817	579,462	
Other Post-Employment Benefit Expense	12,242	12,595	
Administrative Expenses	85,188	62,053	
Total Deductions	\$ 13,672,094	\$ 13,902,503	(1.7)%
Change in Net Position	\$ 2,984,157	\$ (17,620,866)	(116.9)%
Prior Period Adjustment		762	(100.0)
Restated Change in Net Position	\$ 2,984,157	\$ (17,620,104)	(116.9)%

TRS-Care is considered an employee benefit trust fund and provides health care coverage for certain persons, and their dependents, who retire under TRS. The inception of the plan was fiscal year 1986. The net position of TRS-Care at August 31, 2023 was \$3.9 billion, an increase of \$771.8 million from the \$3.1 billion at August 31, 2022.

Financial highlights for fiscal year 2023 with prior year comparisons are presented in the tables below.

Statement of Fiduciary Net Position				
TRS-Care				
As of August 31				
(Dollars in Thousands)				
	2023	2022	Percentage Change	
Assets				
Cash and Receivables	\$ 4,094,274	\$ 3,298,185	24.1 %	
Capital Assets	7,600	10,206	(25.5)	
Total Assets	\$ 4,101,874	\$ 3,308,391	24.0 %	
Liabilities				
Accounts Payables and Other	\$ 25,529	\$ 9,912	157.6 %	
Health Care Fees Payable	8,123	8,119		
Health Care Claims Payables	178,457	172,423	3.5	
Total Liabilities	\$ 212,109	\$ 190,454	11.4 %	
Net Position	\$ 3,889,765	\$ 3,117,937	24.8 %	

Statement of Changes in Fiduciary Net Position				
TRS-Care				
For the Fiscal Years Ended August 31				
(Dollars in Thousands)				
	2023	2022	Percentage Change	
Additions				
Member Contributions	\$ 277,468	\$ 263,328	5.4 %	
Non-Employer Contributing Entity Contributions	474,357	451,341	5.1	
Participating Employers Contributions	393,951	370,736	6.3	
Rebates and Discount Income	578,020	508,932	13.6	
Federal Revenue	188,173	141,003	33.5	
Supplemental Funding - Appropriations	21,285	83,000	(74.4)	
Other Revenue	40,306	28,360	42.1	
Investment Income	130,070	13,538	860.8 %	
Total Additions	\$ 2,103,630	\$ 1,860,238	13.1 %	
Deductions				
Health Care Claims	\$ 1,781,336	\$ 1,635,850	8.9 %	
Less: Health Care Premiums Paid by Retirees	(502,154)	(399,788)	25.6	
Health Care Claims Processing	29,615	26,848	10.3	
Insurance Premium Payments	5	6	(16.7)	
Health Care Fees	201	162	24.1	
Administrative Expenses	22,799	18,465	23.5	
Total Deductions	\$ 1,331,802	\$ 1,281,543	3.9 %	
Change in Net Position	\$ 771,828	\$ 578,695	33.4 %	

TRS-ActiveCare provides health care coverage to eligible employees (and their dependents) of participating public education entities. The plan began operations on September 1, 2002. The net position was \$283.8 million at August 31, 2023, a decrease of \$263.7 million from \$547.5 million the previous fiscal year.

Financial highlights for fiscal year 2023 with prior year comparisons are presented in the tables below.

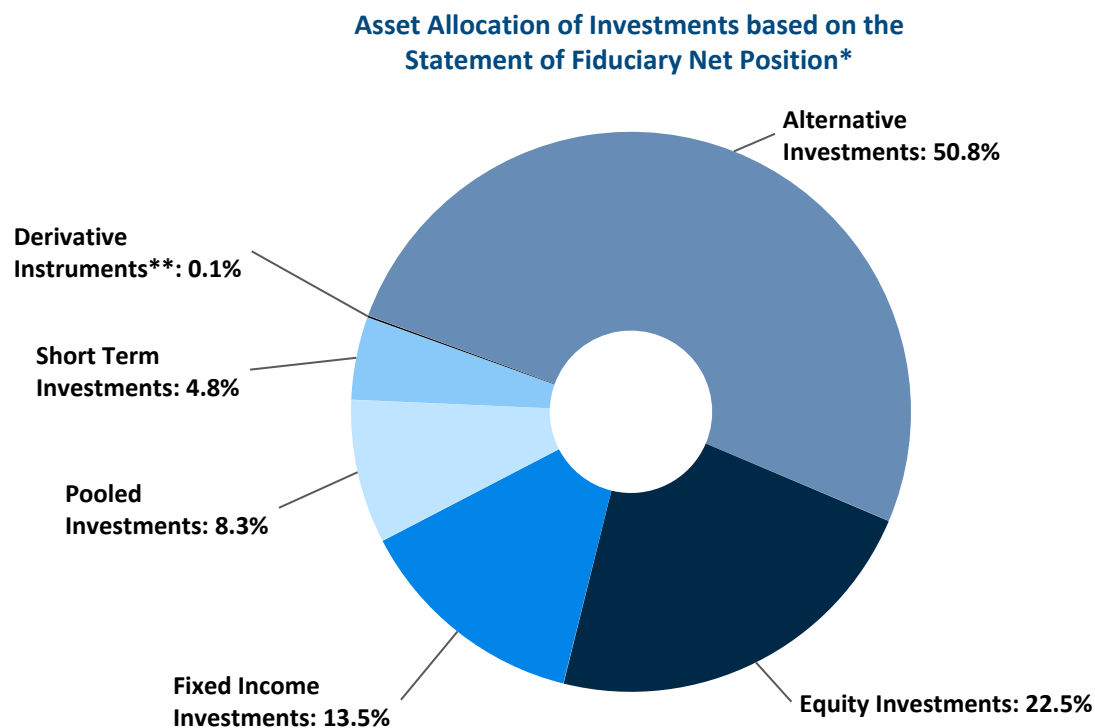
Statement of Net Position				
TRS-ActiveCare				
As of August 31				
(Dollars in Thousands)				
	2023		2022	
			Percentage Change	
Assets				
Cash	\$	474,317	\$	744,871
Receivables		125,714		85,444
Total Assets	\$	600,031	\$	830,315
				(27.7)%
Liabilities				
Accounts Payable and Other	\$	1,378	\$	734
Premiums and Fees Payable		1,211		1,125
Health Care Claims Payable		313,323		280,408
Total Liabilities	\$	315,912	\$	282,267
Total Deferred Inflow of Resources	\$	282	\$	508
Total Net Position	\$	283,837	\$	547,540
				(48.2)%

Statement of Revenues, Expenses, and Changes in Net Position				
TRS-ActiveCare				
For the Fiscal Years Ended August 31				
(Dollars in Thousands)				
	2023		2022	
			Percentage Change	
Revenues (Operating and Non-Operating)				
Health Care Premiums	\$	1,830,920	\$	2,044,856
Rebate and Discount Income		227,884		174,729
Supplemental Funding - Appropriations				638,338
Investment Income		27,740		1,656
Total Revenue	\$	2,086,544	\$	2,859,579
				(27.0)%
Operating Expenses				
Health Care Claims	\$	2,192,775	\$	2,151,584
Health Care Claims Processing		67,402		64,914
Health Care Fees		1,112		1,043
Premium Payments to HMOs		83,783		146,752
Administrative Expenses		5,175		3,989
Total Expenses	\$	2,350,247	\$	2,368,282
Change in Net Position	\$	(263,703)	\$	491,297
				(153.7)%

Global financial markets and asset values generally performed better than expected throughout this fiscal year, driven by lowered inflationary pressures, resilient economic data in the face of restrictive monetary policy, and stronger than expected corporate earnings. After a dismal 2022 which saw the S&P 500 index enter a bear market and at one point decline to more than (20.0%) since its previous high, US markets rebounded sharply in fiscal year 2023 with a 15.94% gain for the 1-year period ended August 31, 2023. While economic and market results have exceeded expectations, the year still experienced disruptive headwinds as the world's major reserve banks continued to raise interest rates at the fastest pace in history, the US regional banking sector was hit with a liquidity crisis, and geopolitical tensions between key economies resurfaced. Despite the hurdles, consumer spending and economic growth remained steady, while a breakthrough development in artificial intelligence and its potential impact on the economy helped propel public equity markets higher.

Overall, investment returns for the fiscal year ended August 31, 2023 were positive as the pension trust fund returned 3.85% for the 1-year period and closed the year with a total of \$186.6 billion in assets under management, a \$3.1 billion increase over last year, net of benefit payments. The annualized rate of return for the 5-year period ended August 31, 2023 was 6.42%, while the longer-term 10-year return was 7.62% and continues to remain in excess of the pension trust fund's long-term investment return assumption of 7.00%.

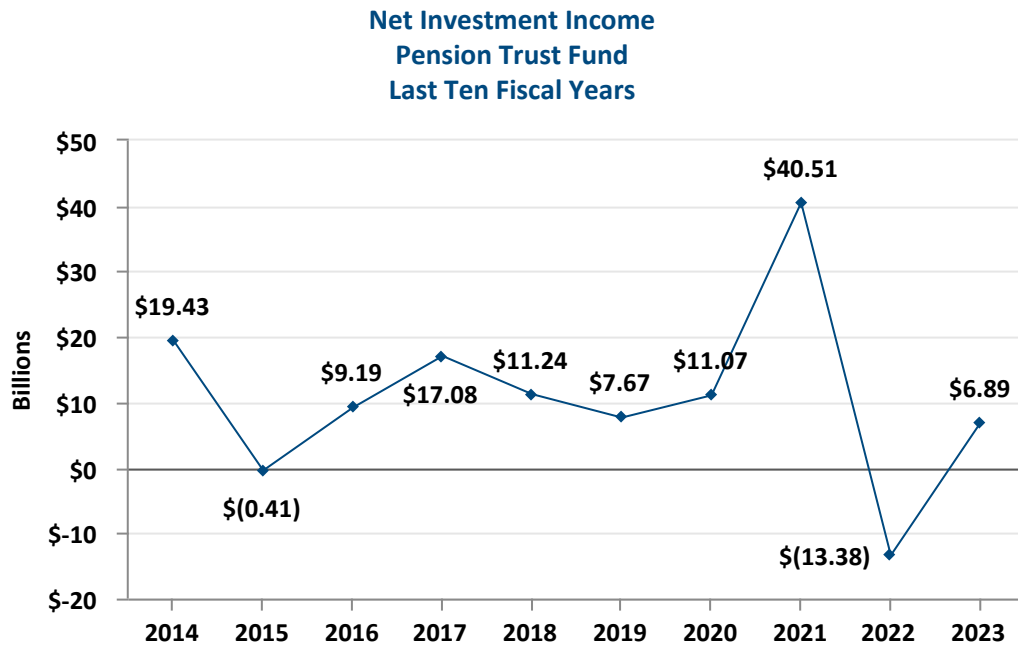
The chart below presents net investments of the System (excluding securities lending collateral and obligations) allocated based on investment classifications within the Statement of Fiduciary Net Position as of August 31, 2023.



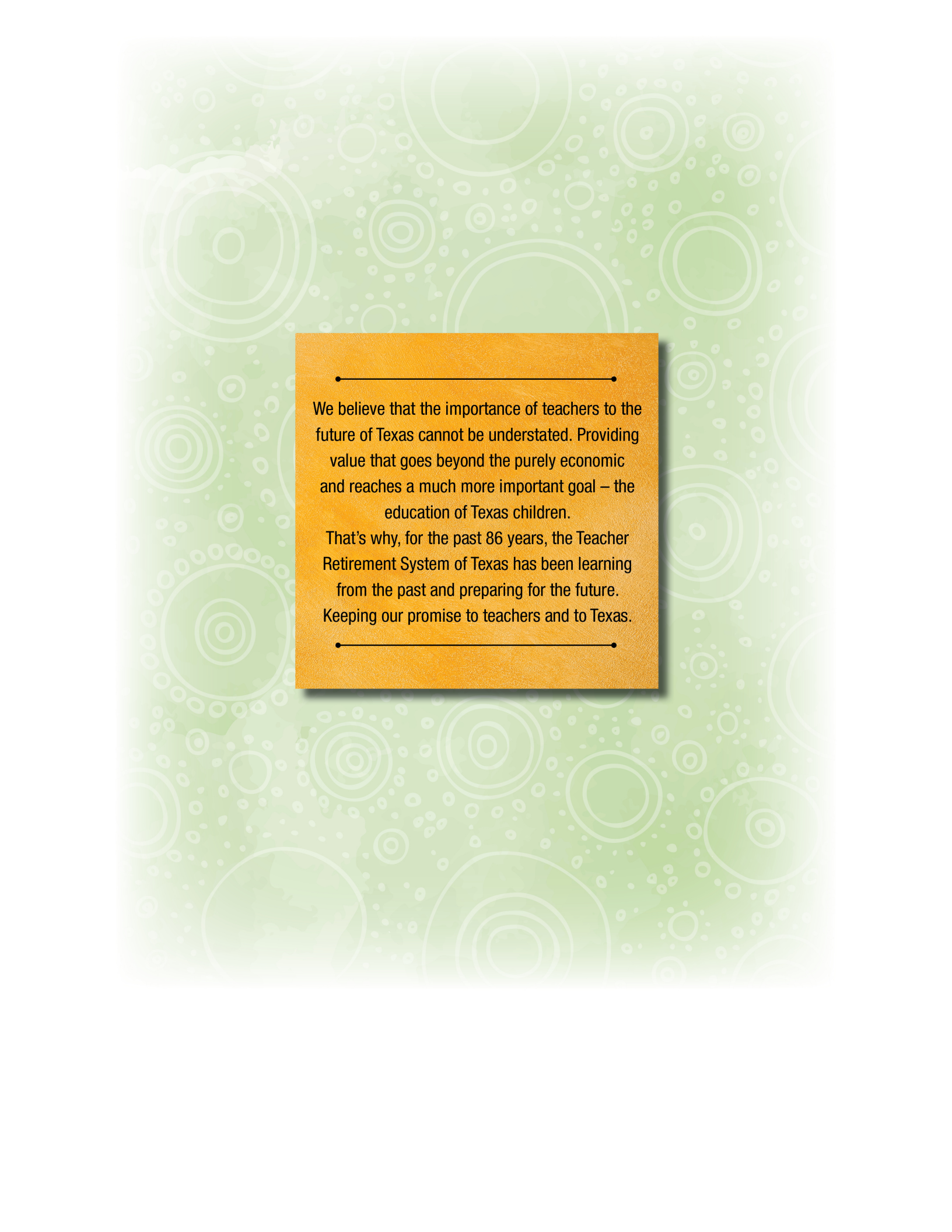
*An overview of each investment type is provided in Note 3.C. of the Notes to the Financial Statements, including the fair value of each component.

**Derivative instruments are reported on a net basis in the chart above. Please refer to Note 3.D. of the Notes to the Financial Statements for more information.

The chart below presents net investment income for the last ten fiscal years.



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We believe that the importance of teachers to the future of Texas cannot be understated. Providing value that goes beyond the purely economic and reaches a much more important goal – the education of Texas children.

That's why, for the past 86 years, the Teacher Retirement System of Texas has been learning from the past and preparing for the future. Keeping our promise to teachers and to Texas.



Teacher Retirement System of Texas

1000 Red River Street

Austin, Texas

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www.trs.texas.gov