

2011-2015 Strategic Plan

Teacher Retirement System of Texas



TEACHER RETIREMENT SYSTEM of TEXAS

STRATEGIC PLAN

FY 2011 – FY 2015

Board of Trustees

R. David Kelly (Chair)
Linus D. Wright (Vice Chair)
Todd Barth
Charlotte Clifton
Robert P. Gauntt
Eric C. McDonald
Christopher Moss
Philip Mullins
Nanette Sissney

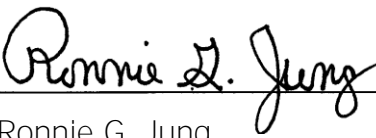
Hometown

Dallas
Dallas
Houston
Snyder
Houston
Lubbock
Lufkin
Austin
Whitesboro

Term Expires

August 31, 2011
August 31, 2011
August 31, 2015
August 31, 2013
August 31, 2013
August 31, 2013
August 31, 2015
August 31, 2011
August 31, 2015

Submitted on July 2, 2010

Signed: 
Ronnie G. Jung
Executive Director

Approved: 
R. David Kelly
Chair, Board of Trustees

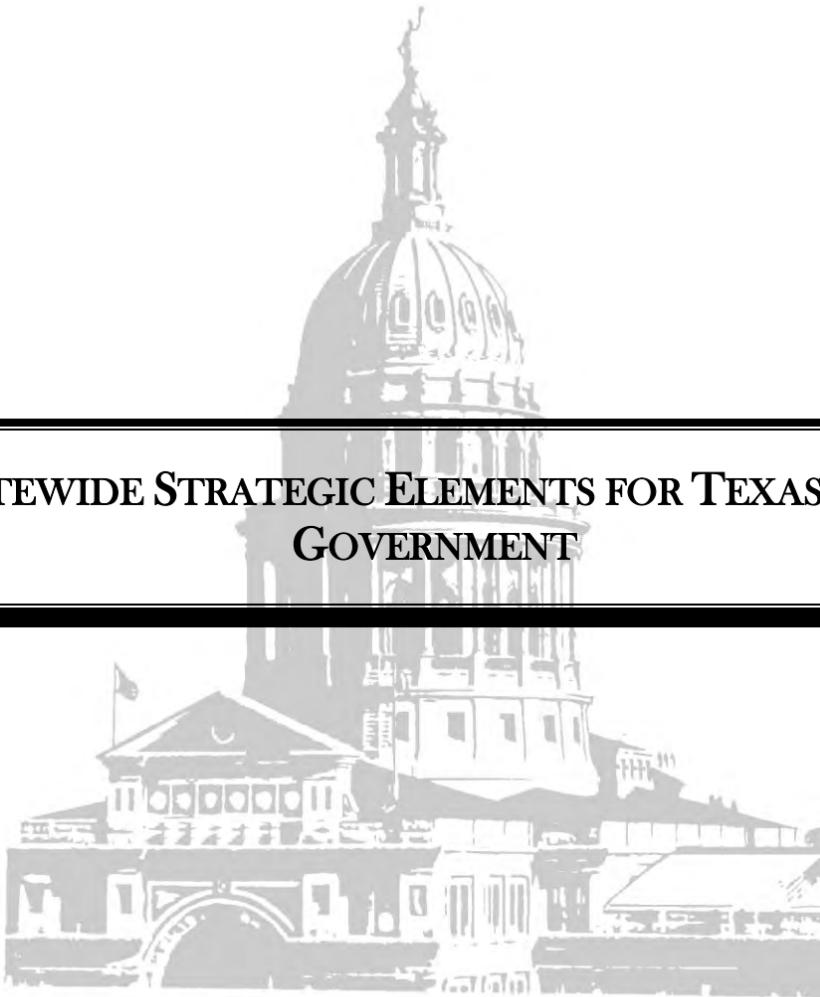


TABLE of CONTENTS

STATEWIDE STRATEGIC ELEMENTS FOR TEXAS STATE GOVERNMENT	1
STATE MISSION	2
STATE PHILOSOPHY	2
STATEWIDE PRIORITY GOALS THAT APPLY TO TRS	3
<i>Education – Public Schools</i>	3
<i>Education – Higher Education</i>	3
<i>Health And Human Services</i>	3
<i>Economic Development</i>	4
<i>General Government</i>	4
TRS MISSION AND PHILOSOPHY	5
TRS MISSION	6
TRS PHILOSOPHY	6
EXTERNAL AND INTERNAL ASSESSMENT	7
SCOPE & FUNCTIONS	9
<i>Historical Framework</i>	9
<i>Primary Functions</i>	10
<i>Public Perception</i>	10
ORGANIZATIONAL ASPECTS	13
<i>Organizational Structure and Governance</i>	13
<i>Workforce Management</i>	15
<i>Utilization of Historically Underutilized Businesses (HUBs)</i>	16
FISCAL ATTRIBUTES	20
<i>TRS Administrative Budget</i>	20
<i>Pension Funding Sources and Uses</i>	22
<i>Funding for Retiree Health Benefit Program</i>	25
<i>Funding for Active Members’ Health Benefit Program</i>	26
<i>Investments</i>	27
<i>Actuarial Condition – Pension Trust Fund</i>	29
<i>Actuarial Condition – Retiree Health Benefit Program</i>	30
<i>Physical Facilities and Capital Improvements</i>	31
SERVICE POPULATION DEMOGRAPHICS	33
<i>Significant Trends</i>	34
TECHNOLOGICAL DEVELOPMENTS	37
<i>TRS, The Next Generation</i>	39
RISK MANAGEMENT	40
<i>Enterprise Risk Management</i>	40
<i>Investment Risk Management</i>	42
<i>Operational Risk Management</i>	43
ECONOMIC VARIABLES	45
IMPACT OF FEDERAL STATUTES AND REGULATIONS	46
OTHER LEGAL ISSUES	50
<i>Potential State Issues</i>	50



<i>Impact of Court Cases</i>	52
TRS CORE COMPETENCIES	53
<i>Benefit Delivery: Retirement and Related Benefits</i>	53
<i>Benefit Delivery: TRS-Care Health Benefit Program</i>	55
<i>Benefit Delivery: TRS-ActiveCare Health Benefit Program</i>	56
<i>Benefit Delivery: Long-Term Care Insurance Program</i>	57
<i>Investments</i>	58
<i>Communication</i>	59
<i>Workforce Contribution</i>	60
GOALS, OBJECTIVES, & STRATEGIES	63
TECHNOLOGY RESOURCE PLANNING	75
TECHNOLOGY ASSESSMENT SUMMARY	76
TECHNOLOGY INITIATIVE ALIGNMENT	81
APPENDICES	85
APPENDIX A – DESCRIPTION OF AGENCY PLANNING PROCESS	86
APPENDIX B – TRS ORGANIZATION CHART	89
APPENDIX C – PROJECTED OUTCOMES: FY 2011 – FY 2015 PLANNING PERIOD	90
APPENDIX D – PERFORMANCE MEASURE DEFINITIONS	92
APPENDIX E – WORKFORCE PLAN	101
I. <i>System Overview</i>	101
II. <i>Current Workforce Profile (Supply Analysis)</i>	107
III. <i>Future Workforce Profile (Demand Analysis)</i>	110
IV. <i>Gap Analysis</i>	111
V. <i>Strategy Development</i>	112
APPENDIX F – SURVEY OF EMPLOYEE ENGAGEMENT RESULTS SUMMARY	116



**STATEWIDE STRATEGIC ELEMENTS FOR TEXAS STATE
GOVERNMENT**

STATE MISSION

Texas State Government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high ...we are not here to achieve inconsequential things!

STATE PHILOSOPHY

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse, and providing efficient and honest government.
- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

STATEWIDE PRIORITY GOALS THAT APPLY TO TRS

The strategic objectives of the Teacher Retirement System of Texas (TRS), developed in accordance with the TRS Board of Trustees' fiduciary duties and presented in this document, support the following priority goals of the State of Texas:

Education – Public Schools

To ensure that all students in the public education system acquire the knowledge and skills to be responsible and independent Texans by:

- Ensuring students graduate from high school and have the skills necessary to pursue any option including attending a university, a two-year institution, other post-secondary training, military or enter the workforce.
- Ensuring students learn English, math, science and social studies skills at the appropriate grade level through graduation.
- Demonstrating exemplary performance in foundation subjects.

TRS enhances the well-being of those dedicated to serving in public education by providing retirement and related benefits, which serve as a recruitment and retention incentive for Texas public school employees. **This directly supports the state's priority goal for education.**

Education – Higher Education

To prepare individuals for a changing economy and workforce by:

- Providing an affordable, accessible, and quality system of higher education.
- Furthering the development and application of knowledge through teaching, research, and commercialization.

TRS directly supports the state's priority goal for higher education by providing retirement and related benefits, which serve as a recruitment and retention incentive for Texas higher education employees.

Health And Human Services

To promote the health, responsibility, and self-sufficiency of individuals and families by:

- Making public assistance available to those most in need through an efficient and effective system while reducing fraud in the system.
- Restructuring Medicaid funding to optimize investments in health care and reduce the number of uninsured Texans through private insurance coverage.
- Enhancing the infrastructure necessary to improve the quality and value of health care through better care management and performance improvement incentives.
- Continuing to create partnerships with local communities, advocacy groups, and the private and not-for-profit sectors.
- Investing state funds in Texas research initiatives which develop cures for cancer.
- Addressing the root causes of social and human service needs to develop self-sufficiency of the client through contract standards with not-for-profit organizations.

- Facilitate the seamless exchange for health information among state agencies to support the quality, continuity, and efficiency of healthcare delivered to clients in multiple state programs.

TRS supports the state's priority goal for health and human services by providing income and health benefits for retired Texas public education employees and their families. TRS also administers a health benefit program for eligible Texas public school employees and their eligible dependents.

Applicable benchmarks:

- The number and rate of uninsured Texans

Economic Development

To provide an attractive economic climate for current and emerging industries that fosters economic opportunity, job creation, capital investment, and infrastructure development by:

- Promoting a favorable and fair system to fund necessary state services.
- Addressing transportation needs.
- Promoting a favorable business climate.
- Developing a well trained, educated, and productive workforce.

TRS supports the state's priority goal for economic development by contributing to the Texas economy through disbursement of retirement, death, and survivor benefits. In 2009 these payments totaled approximately \$6.3 billion. Roughly 95 percent of these payments or nearly \$6 billion went directly to residents who live and spend these dollars in Texas.

General Government

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations.
- Ensuring the state's bonds attain the highest possible bond rating.
- Conservatively managing the state's debt.

TRS supports the state's priority goal for general government by operating efficiently, openly, and by focusing on its core competencies. In addition, prudent pension trust fund investment provides a foundation for ensuring that retirement programs and pension funds are actuarially sound and well-managed.

Applicable benchmarks:

- Number of state services accessible by Internet
- Total savings realized in state spending by making reports/documents/processes available on the Internet and accepting information in electronic format
- Funded ratio of statewide pension funds



TRS MISSION AND PHILOSOPHY



TRS MISSION

1. To deliver retirement and related benefits authorized by law for members and their beneficiaries.
2. To prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.

TRS PHILOSOPHY

- ✦ We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members and annuitants.
- ✦ We are sensitive, caring, and fair to those we serve and to our co-workers.
- ✦ We take pride in the work we perform and strive to continuously improve.
- ✦ We are open, responsive, and ethical in the conduct of business with members, annuitants, government officials, and the public.

The seal of the Teacher Retirement System of Texas is a large, faint circular emblem in the background. It features a five-pointed star in the center, surrounded by a wreath of olive and oak branches. The words "TEACHER RETIREMENT SYSTEM" are arched across the top, and "OF TEXAS" is arched across the bottom, separated by two dots.

EXTERNAL AND INTERNAL ASSESSMENT

Key Issues

- ✦ Financial markets remain highly volatile while presenting an expanding and more complex array of investment alternatives.
- ✦ The pension plan has sufficient funds to pay benefits for current retirees as well as for new retirees well into the future.
- ✦ Pension trust fund investment performance is increasingly tied to the state of the global economy.
- ✦ There is heightened interest and awareness in the TRS health care plans due to uncertainty created by the recent passage of the federal health care legislation.
- ✦ Health care costs continue to rise significantly.
- ✦ There will be continued growth in the number of active members and annuitants in the pension plan.
- ✦ The number of annuitants will increase at a faster rate than the number of active members.
- ✦ Pension related issues are growing in complexity.
- ✦ The complexity of TRS rules and statutes makes business processes complex and time-consuming to execute.
- ✦ The overall aging of the workforce will result in additional pressures on TRS staffing.
- ✦ A growing number of TRS constituents will expect new channels for communication and means of conducting business with the organization.

Major Challenges

- ✦ Sustaining investment returns at or in excess of the eight percent actuarial assumed rate of return for the pension plan while maintaining an appropriate level of risk exposure
- ✦ Achieving and maintaining an actuarially sound funding status
- ✦ Securing funding for and controlling costs associated with TRS health benefit plans
- ✦ Providing future annuity increases
- ✦ Communicating meaningfully with constituents in a clear, timely, and convenient fashion
- ✦ Using technology effectively to enhance customer service and manage investments
- ✦ Managing change within TRS
- ✦ Implementing strategic technology projects in a timely and effective manner
- ✦ Ensuring effective workforce continuity planning and knowledge transfer among TRS staff
- ✦ Attracting and retaining qualified staff
- ✦ Continuing enhancement of customer service

SCOPE & FUNCTIONS

Historical Framework

Recognizing that having a sound and reliable retirement benefit would enhance the lives of Texas educators, and thus improve educational quality for the children of Texas, voters in 1936 approved an amendment to the state constitution authorizing creation of the Teacher Retirement System of Texas. Following enabling legislation in 1937, TRS was formed. Currently, the system is established and operates under Section 67, Article XVI of the Texas Constitution.

While its mission to provide retirement benefits remains essentially unchanged, the breadth of its responsibility has increased considerably. Originally applicable only to teachers and public school administrators, the system now provides service and disability benefits for employees of public schools, educational service centers, charter schools, community and junior colleges, universities, and medical schools. A number of events and legislative actions have affected TRS since its inception, including the following:

- 1949 - TRS retirement plan membership was expanded to include all employees of public education institutions, including cafeteria workers and bus drivers.
- 1985 - The 69th Legislature established TRS-Care, a health benefit program for public school retirees.
- 1987 - The plan was amended to take advantage of federal tax code provisions to make member contributions tax deferred.
- 1999 - Legislation was enacted authorizing TRS to administer an optional long-term care insurance program for eligible active members and retirees.
- 2001 - Legislation was enacted to create TRS-ActiveCare, a statewide health benefit program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS.
- 2005 - Significant legislation was passed altering several aspects of the plan related to benefit eligibility and determination. The legislative objective was to help assure the plan's long-term viability by influencing future retirement patterns.
- 2007 – The TRS Board of Trustees adopted a new long-term asset allocation that over time will increase TRS holdings in private markets and reduce holdings in public markets. This shift in assets is intended to increase investments diversification and returns without increasing risks to the fund. The Legislature also granted TRS authority to use external investment managers and to use certain investment instruments to help manage risk, enhance returns, and promote efficient portfolio management.

Primary Functions

TRS serves active and retired public and higher education employees of the state through its four core competencies.

Benefit Delivery - TRS administers an array of benefits, including service and disability retirement benefits, death and survivor benefits, health benefit programs, and long-term care insurance. TRS is committed to delivering these services in an efficient and professional manner. Today, TRS serves nearly 989,000 active public education employees. Additionally, over 284,000 individuals receive retirement benefits from the plan. Almost 199,000 retirees or their dependents participate in the TRS-Care retired employees health benefit program and over 378,000 active school employees and their dependents participate in the TRS-ActiveCare program. These programs are expected to continue growing into the foreseeable future.

Investment Management - TRS manages a pension trust fund for the benefit of its members. The trust fund is presently the seventh largest public pension fund and eighth overall in the nation, based on asset size¹. The fund is established through contributions from the State of Texas, TRS members, TRS reporting entities (employers), and investment returns. Over the last ten years investment returns have provided nearly 47 percent of TRS revenues.

Communication With Stakeholders - Consistent with Texas state government philosophy, TRS recognizes that it is **each individual's right and responsibility to make informed** retirement decisions. As subject-matter experts for a number of complex programs, TRS staff are responsible for providing accurate information about TRS programs and services to all interested parties, including active and retired members, legislative and governing bodies, school districts and institutions of higher education, and the public. TRS communicates with stakeholders to enable them to make informed decisions related to TRS programs. This may include funding and benefit design decisions made by the legislature or retirement options selected by members. TRS also provides general educational information regarding pensions and health benefit matters, and responds to media and other requests relating to the investments of the system. TRS continues to sharpen its communication focus on benefit delivery and fund management and is committed to enhancing its channels of communication to meet the needs of all constituents.

Workforce Contribution - In order to provide the level of excellence expected by its stakeholders, TRS must attract, develop, and retain an exceptionally qualified and diverse workforce.

Public Perception

As America's seventh largest public pension fund and one of the largest public entities providing retirement and health benefits and related services to nearly 1.3 million public education employees, TRS is often in the public eye. One in 20 Texans is a member or retiree of TRS. As such, the organization places great importance on meeting the needs of a variety of stakeholders. These stakeholders include TRS members; retirees and their beneficiaries; elected officials; board members; professional associations of public educators; TRS employees; and taxpayers of the State of Texas. TRS strives to be a model public entity that serves the interest of all stakeholders by operating as effectively as possible at the lowest possible cost while providing exemplary customer service.

¹ **Pensions & Investments, February 10, 2010**



The economic impact of the system is significant. In 2009, TRS delivered more than \$6.3 billion in benefit payments to retirees and beneficiaries; 95 percent of these recipients continue to reside in the State of Texas. TRS also provides health benefits for active members and retirees, with the vast majority of payments being made to health care providers in this state.

TRS' main focus continues to be its primary stakeholders: its members, retirees and their beneficiaries. TRS employees strive to provide the highest quality of service. To ensure success, TRS conducts member satisfaction surveys and adapts its service delivery processes based on those survey findings.

In the spring of 2010, TRS contracted with the University of North Texas to conduct a member satisfaction survey to assess levels of customer satisfaction with:

- TRS benefit counselors.
- The TRS Telephone Counseling Center.
- Responses to written requests for information.
- The automated telephone system.
- Internet services.
- TRS-Care and TRS-ActiveCare.
- Printed materials and other communications.
- Annual statements of account.
- TRS facilities.
- Social media options.
- Overall TRS services.

The 2010 survey results show very favorable ratings among TRS members and retirees. Overall, 98.7 percent of retirees and 97.4 percent of active members reported that they were either satisfied or very satisfied with TRS member services. Satisfaction ratings for benefit counselors, the TRS Telephone Counseling Center, and the TRS Web site all were very positive with a large majority of respondents reporting that they were satisfied. Courtesy ratings for TRS representatives who work with members and retirees were also strongly positive. With respect to health benefit services, 92.0 percent of retirees and 91.4 percent of active members were either very satisfied or satisfied with TRS-Care and TRS-ActiveCare services respectively.

TRS launched a number of initiatives to provide information and assistance to members, retirees, and the general public. TRS continued to build upon work begun in 2008 resulting from a comprehensive outside communications audit of the agency that recommended ways to improve the effectiveness of agency communications. Using information gained from the audit and a series of market research projects, TRS staff developed an agency-wide communications plan, established new communications related policies, conducted presentation training, undertook eight regional meetings for members and retirees, launched new Web-based programs such as TRSTV, and enhanced two-way TRS communications with members and retirees.

TRS continues to make enhancements to its role-based Web site, enabling members, retirees and beneficiaries, employers, and the general public to find information directly pertaining to them.

TRS added a section to its Web site titled "Investments in Plain English" to help members and retirees better understand investment terms and how the agency manages its pension fund

investments. TRS introduced *TRS-Connect*, a new program that gives members and retirees the ability to receive TRS announcements and various TRS publications electronically when they register their e-mail addresses through the agency Web site. TRS also expanded options for members who do not have a password to be able to request a duplicate retirement packet online. Two new online calculators were created for unreported service and sick leave, and annuitants can now view their health care premium deductions online. The 403(b) product list was also expanded to include platform products (investment products of one company sold by another company), offering more options to members.

In the spring of 2010, TRS launched a pilot project with 10 school districts aimed at encouraging district employees to register their e-mail addresses with TRS. Such employees can then receive TRS-related information quicker than by mail, be notified whenever important TRS developments occur, and help TRS to reduce printing/mailing expenses. Building on the success of this pilot project, TRS will expand its efforts to reach other active members and retirees.

TRS will soon launch *MyTRS* which will help members and retirees obtain easier access to benefit-related information, as well as reset their passwords online and register for group benefit presentations.

In the spring of 2010, TRS established an in-house committee and charged it with proposing a restructuring of the *TRS Benefits Handbook*. The new organization of the handbook will be aligned with recently designated TRS membership tiers, resulting in more customized information pertaining to members within each individual tier. The committee is also identifying ways to simplify handbook language so it can be more easily understood by readers.

Benefit Counseling boosted TRS' outreach to members by increasing the number of appointments available during one-on-one field counseling, and by adding an additional location for the statewide group benefit presentations. The TRS streaming video titled "Steps to Retirement" was updated with current information on requesting an estimate of retirement benefits, forms required for retirement, sources of information to help answer prospective retirees' questions and more.

As public servants, TRS employees have demonstrated their commitment to helping those in need in their community. During the 2009 State Employee Charitable Contribution Campaign, TRS was recognized yet again for the highest percent participation and the highest per capita donations among similar-sized agencies in both the Capital Area and statewide.

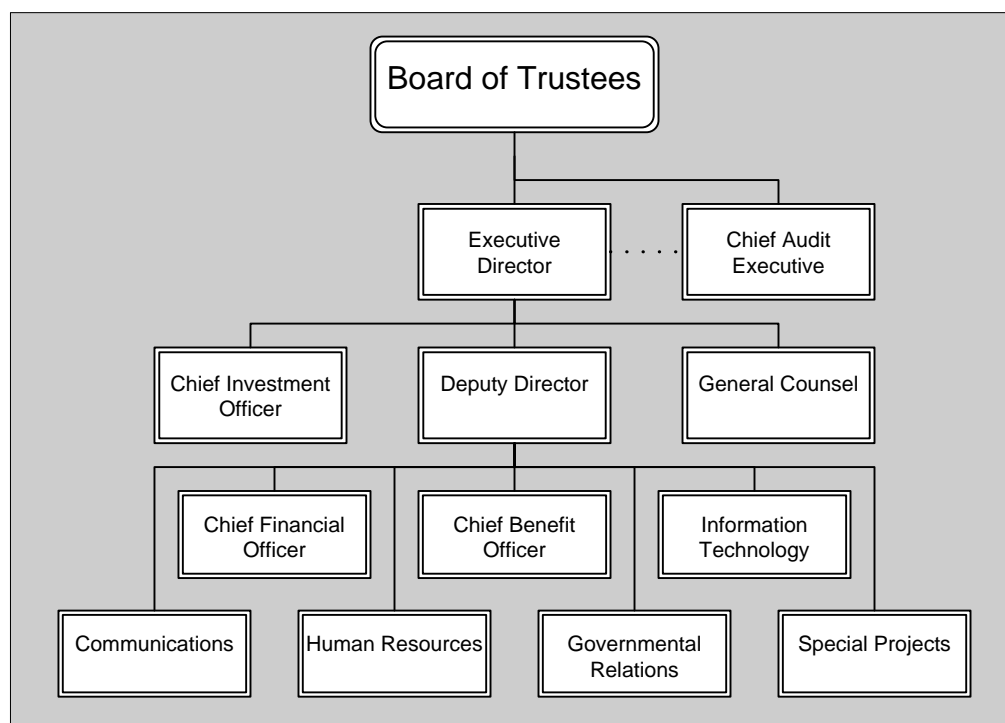
As a public entity, TRS works to create an environment that reflects the diversity of the state. TRS' diversity initiative allows all of its employees to make meaningful contributions to its mission; makes all members feel welcomed and honored as TRS serves them; and actively seeks diversity among external business associates and potential employees, recognizing that these good-faith efforts lead to enhanced organizational effectiveness.

ORGANIZATIONAL ASPECTS

Organizational Structure and Governance

TRS is a public entity governed by a board of trustees appointed by the governor. The executive director, selected by the board of trustees, is the chief executive officer and is responsible for the general administration of the organization. It is headquartered at 1000 Red River Street, Austin, Texas with the Investment Management Division located in a separate facility at 816 Congress Avenue, Austin, Texas.

Organization of TRS



The TRS organizational structure is designed to facilitate fulfillment of its mission by focusing resources in the areas of benefit delivery and investments. TRS has 530 budgeted positions, including 475 assigned to the pension fund, 53 for health benefits functions, and 2 for 403(b) program administration. These positions apply to the period from September 1, 2009 to August 31, 2010. Staffing levels are monitored to ensure that sufficient personnel resources are available to provide quality customer service for TRS constituents.

The nine-member board of trustees administers the programs and invests the funds of the system. Board members are appointed by the governor for six-year, staggered terms and are confirmed by the Senate. The governor designates the board's presiding officer.

The **governor's** board appointments consist of the following:

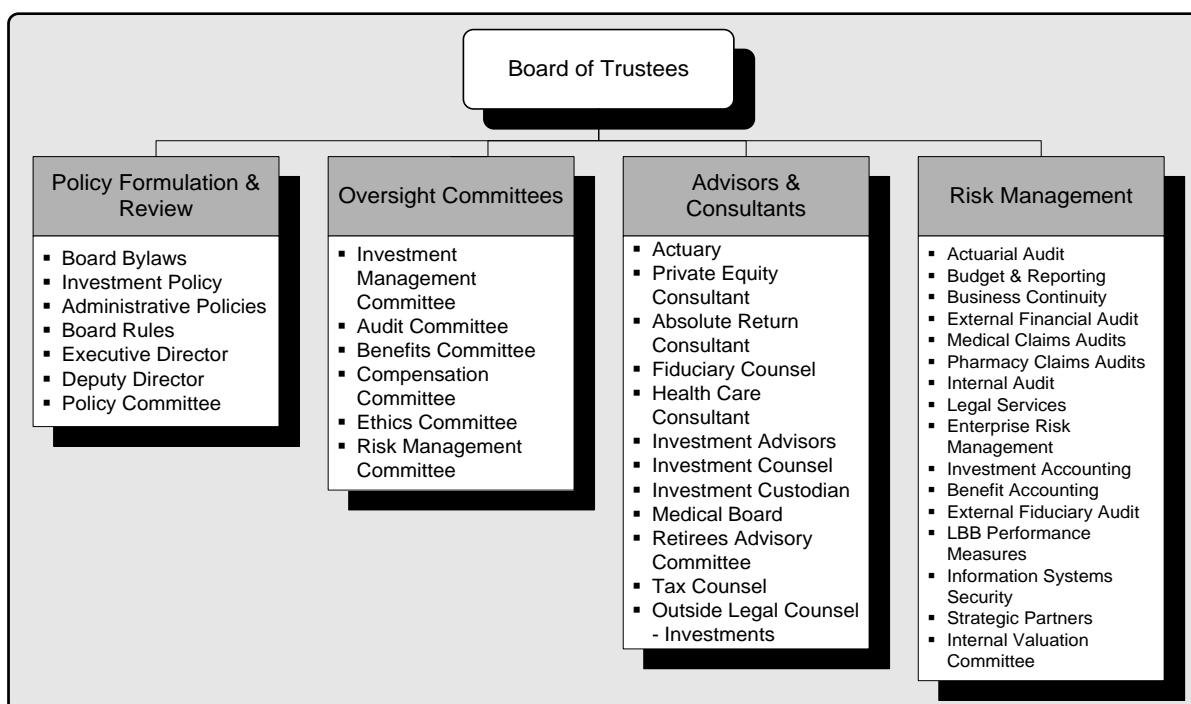
- Three direct appointments of persons who must have demonstrated financial expertise, broad investment experience, and who are not active or retired members of the system.
- Two appointments from a list of candidates offered by the State Board of Education. Nominees must have demonstrated financial expertise, have worked in private business or industry, and have broad investment experience, preferably in investment of pension funds.
- Two appointments of active public school employees, selected from a list of the three top vote-getters in an election among active public school employees.
- One appointment of an active higher education TRS member, selected from a list of the three top vote-getters in an election among active members in higher education.
- One appointment of a retired TRS member, selected from a list of the three top vote-getters in an election among retired members.

The structure of the Board is intended to ensure the proper balance between the investment and benefit delivery components of the TRS mission.

The board of trustees is supported by a governance structure that aids the **board's** decision-making processes. Structural components include policy formulation and review, committees of the board, specialty advisors and consultants, and risk management functions.

The TRS governance process is based on fiduciary principles, including leading practices among public pension funds and other institutional investors. The overall purpose is to better assure accountability and integrity in discharging **the system's** responsibilities to active and retired members, oversight agencies, and the general public.

TRS Governance



The TRS governance process strives to:

- Uphold ethical behavior and values within the organization.
- Ensure effective organizational performance management and accountability.
- Effectively communicate risk and control information to appropriate areas of the organization.
- Effectively coordinate the activities of, and communicate information among, the board, external and internal auditors, and management.

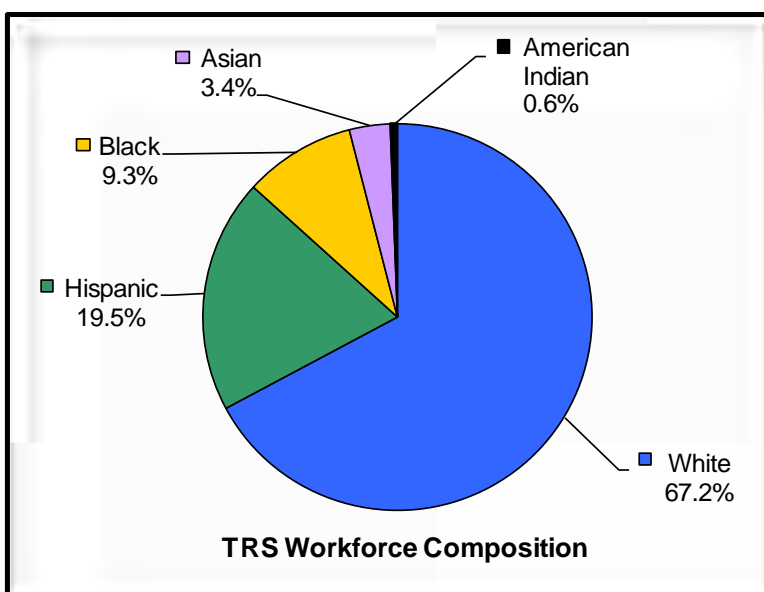
Workforce Management

One of TRS' goals is to develop and retain a high-performing, customer-focused staff that conducts business in an effective and ethical manner. This goal is accomplished, in part, by maintaining effective programs in:

- Compensation and Benefits to ensure that overall employee compensation is externally competitive and internally equitable.
- Performance Management to maintain a systematic approach for providing accurate, timely performance feedback to TRS staff, in support of high quality and productivity.
- Recruitment and Retention to assist managers in recruiting, selecting, and retaining qualified employees.
- Training and Development **to support employee's** contribution to TRS.

Workforce Analysis/Planning: During the strategic planning process, TRS conducted a thorough workforce analysis, which included planning for future staffing needs and retaining institutional knowledge through knowledge management initiatives and continuity planning for key staff (sometimes referred to as succession planning). See Appendix E for detailed information.

Workforce Diversity: TRS' *Workforce Diversity Initiative* outlines the organization's commitment to promoting a fair, inclusive, and respectful work environment, which includes attracting and retaining a diverse workforce. Activities include outreach advertising and recruiting efforts in historically minority-oriented venues, consistently reporting minority representation in various job categories to senior management, and organization-wide events and training efforts to increase diversity awareness and further a culture of fairness, inclusiveness, and respect. They also include ongoing efforts by a Diversity Council, chartered in 2004, which considers and makes



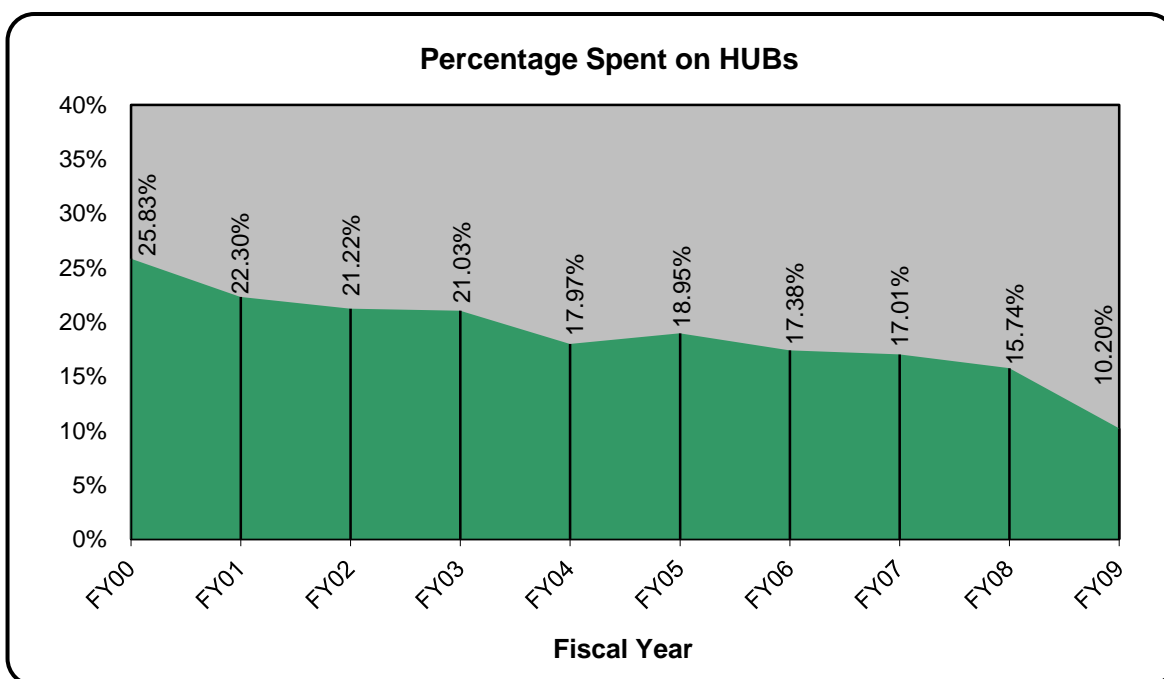
recommendations to leadership on workplace diversity matters.

Utilization of Historically Underutilized Businesses (HUBs)

TRS actively seeks diversity among external business associates, recognizing that such good-faith efforts lead to enhanced organizational effectiveness. To that end, TRS recognizes the importance of directing expenditures toward Historically Underutilized Businesses (HUBs) and continues to pursue initiatives designed to promote HUB opportunities. These initiatives included subcontracting efforts and attending HUB Economic Opportunity Forums throughout the state as well as hosting HUB forums at the TRS facilities. TRS is committed to achieving its goals and continues to make a good faith effort in all areas. As a public entity headquartered in Austin, TRS' purchasing efforts are centralized. However, the HUB coordinator travels to events and forums throughout the state to encourage participation from HUB vendors.

Recognizing that TRS has a limited number of business opportunities for the vast numbers of HUBs competing for those opportunities, TRS is committed to being a resource for HUBs in not only identifying potential opportunities with TRS, but with other State agencies as well. This **extends to assisting HUBs in understanding the State's contracting processes**, even those opportunities not sponsored by TRS, and navigating the HUB certification processes. TRS is pleased to offer assistance to HUBs in any manner possible.

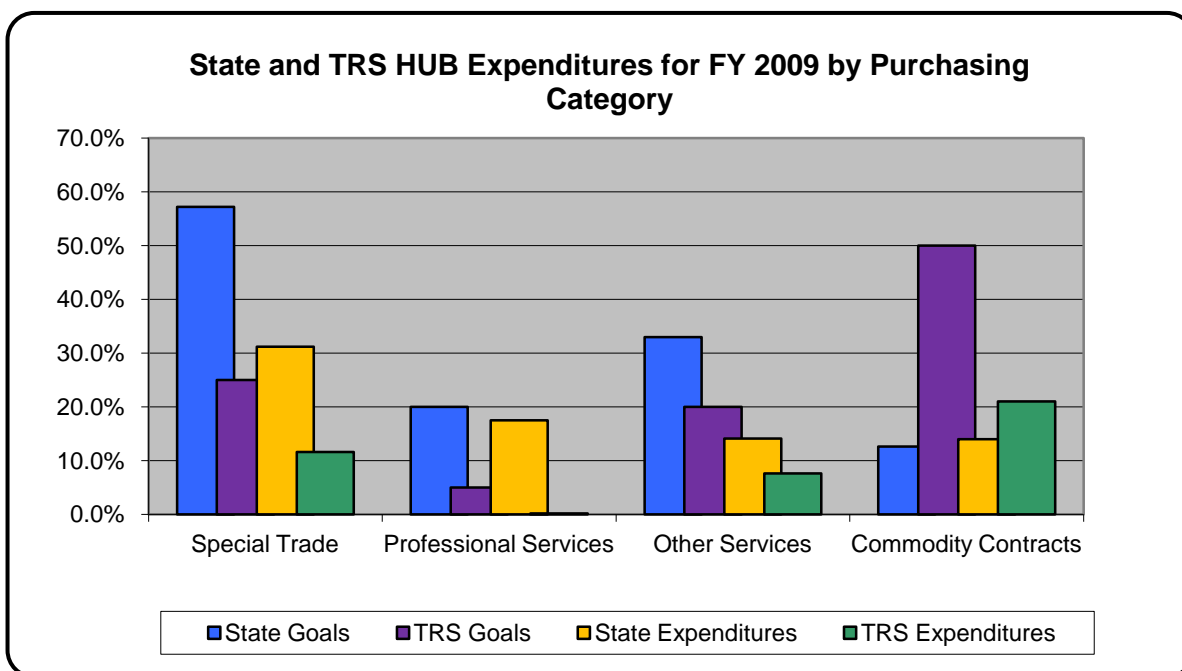
HUB 2009 Expenditures as Percentage of Total Expenditures - Due to TRS' unique needs as a pension fund, TRS expends the majority of funds on a relatively few high-dollar contracts for highly specialized services. TRS has been greatly challenged in obtaining responses from HUBs on these highest dollar contract solicitations that are posted to the Electronic State Business Daily (ESBD). This is evident in the accompanying graph. By contrast, excluding solicitations posted to the ESBD, TRS awarded 37.9% of all purchases (229) and paid 34.5% of all dollars spent (\$2,083,888) to HUBs.



HUB Expenditures Compared to State's HUB Expenditures - TRS expends funds in four of the state's purchasing categories:

- All special trade construction contracts
- Professional services contracts
- All other service contracts
- Commodities contracts

TRS has **no** expenditures in two of the state's categories: "Heavy construction other than building contracts" and "All other building construction including general contractors and operative building contracts."



Completed Initiatives for Increased HUB Utilization

- In 2009, TRS participated in five State-sponsored Economic Opportunity Forums, State Senator Forums, and numerous other minority enterprise development meetings and HUB meetings.
- Continued to staff the role of HUB coordinator who attends various forums and develops and distributes information internally and externally to facilitate and promote HUB participation.
- Conducted 11 on-site meetings with HUB vendors.
- Advised the HUB vendors on possible business opportunities with TRS as well as with other State agencies and how best to address those opportunities.
- TRS Board of Trustees approved and adopted HUB goals.
- HUB information was provided and maintained on the TRS Web site including the addition of a presentation, "Secrets of Selling to the State". The presentation provides detailed information on the state's and TRS' purchasing processes as well as tools and resources

that HUBs can use to identify business opportunities around the state at no cost and with only a small investment of time.

- Identified and assisted HUB vendors with completing certification and recertification documentation.
- Encouraged prime contractors to use HUB subcontractors.
- **Paid \$1,518,954.27 to certified Texas HUB's via subcontracting on contracts with non-reportable expenditure codes.**
- Continued to encourage the use of HUB or minority-owned investment firms in various Requests for Proposal.
- Developed and distributed information to facilitate and promote HUB participation.
- Co-hosted tenth annual HUB forum with Texas Workforce Commission.
- Conducted business with approximately 11 new HUB vendors in 2009 resulting in expenditures of \$141,339.73 and one graduated HUB vendor resulting in expenditures of **\$468,065.00.**

Future Initiatives to Increase HUB Utilization

TRS is committed to reaching its goal for HUB utilization, and will continue to make a good-faith effort to do so. TRS will continue to:

- Support and implement responsibilities as required by **Chapter 2161, Tex. Gov't. Code**, that include:
 - ▶ Supporting the responsibilities of the HUB Coordinator.
 - ▶ Sponsoring HUB Forum programs.
 - ▶ Implementing a mentor/protégé program.
 - ▶ Continuing the usage of HUB subcontracting plans and determining subcontracting opportunities for contracts of \$100,000 or more.
- Encourage prime contractors to use HUB subcontractors.
- Participate in the Economic Opportunity Forums sponsored by the Comptroller of Public Accounts (CPA) and state senators and representatives, as well as other conferences or conventions that provide contract opportunities and training to HUBs and TRS purchasing staff.
- Identify non-certified HUB vendors and educate them on state purchasing rules and regulations.
- Assist non-certified HUB vendors in completing the documentation required to become certified.
- Host HUB Forums with other state agencies.
- Conduct one-on-one meetings with HUB vendors, encourage HUB certification, and assist with identifying business opportunities with TRS and other State agencies.
- Encourage vendor participation in the mentor-protégé program.

Investments Emerging Manager Program

TRS shall make a good-faith effort to invest with qualified emerging managers for the External Managers Portfolio, Private Equity Portfolio, and the Real Assets Portfolio. The Investment



Division is authorized to invest with qualified funds-of-funds managers skilled at identifying small and emerging managers in the private equity, real asset and public equity markets.

Emerging managers can include, but are not limited to, minority-, women-, and disabled veteran-owned organizations. Conversely, not all minority-, women-, and disabled veteran-owned organizations are necessarily considered emerging managers for the purposes of this program.

Whether a management firm is an “emerging manager” depends on all of the facts and circumstances. In general, emerging managers are defined as newer, independent private investment management firms that manage less than \$3 billion, or have a performance track record as a firm shorter than five years, or both.

The Investment Division shall document its efforts to identify and expand its investments with qualified emerging managers for the purpose of board and legislative reporting on the methods and results, including data disaggregated by race, ethnicity, gender, and fund size. All investments under the emerging manager program must be made prudently and in accordance with fiduciary and ethical standards.

FISCAL ATTRIBUTES

Effectively administering the system in the face of changing demographic trends presents significant challenges. Keys to meeting these challenges include:

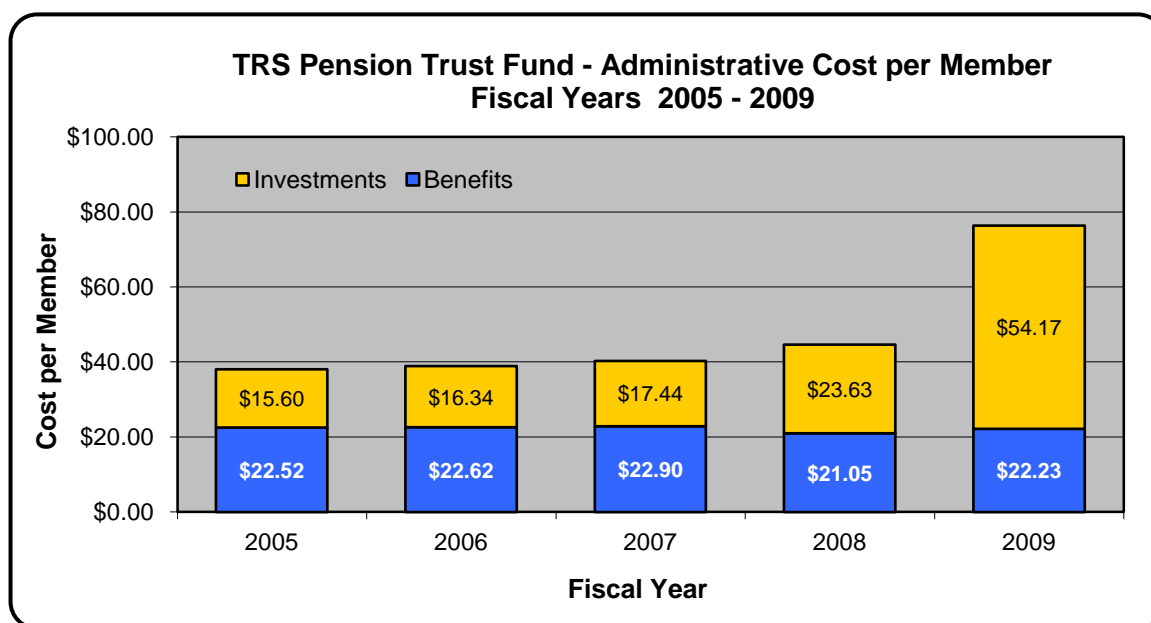
- ◆ *Sound organizational governance.*
 - ◆ *Realistic cost containment.*
 - ◆ *Expanded use of technology.*
 - ◆ *Strong customer focus.*
-

TRS Administrative Budget

The State of Texas appropriated an administrative operations budget for the TRS Pension Trust Fund of \$63,482,415 and \$60,985,267 for fiscal years 2010 and 2011, respectively. Included in each of these amounts is \$3.7 million of funding from General Revenue with the remainder to be funded directly from the Pension Trust Fund. **The LBB and Governor's Office subsequently directed the return of \$3.7 million per year of General Revenue as part of a statewide effort to reduce spending from General Revenue/General Revenue Dedicated funds by 5 percent. To the extent the General Revenue reduction exceeded the 5% target, as per the reduction plan approved by the LBB and Governor's Office, the reduction will be offset with additional funding from the Pension Trust Fund as necessary to maintain current operations.**

Budget Needs - TRS is committed to maintaining efficient and effective administration that is accountable and transparent to its stakeholders. Continued growth in membership and in the size of the pension fund continues to challenge TRS resources, which could potentially affect TRS' **ability to meet members' service needs** within budget constraints.

As a result of the transition to a more diversified investment strategy and enhancing asset management capabilities by increasing the use of certified external managers, investment costs have risen from \$17.4 million to \$69.0 million during the same time period, with external manager costs being reported for the first time in fiscal year 2008. Although the downturn of global financial markets decreased the value of the pension fund from \$93.7 billion in fiscal year 2005 to \$88.7 billion in fiscal year 2009, the pension fund is well positioned to take advantage during the recovery process and has shown continued improvement.



Despite these challenges, TRS continues to maintain a low operating budget to total membership ratio and one of the lowest administrative cost structures of any major public pension fund in the U.S. The pension trust fund total cost per member is currently over \$76 a year, or roughly \$6.34 per month. This is a fraction of the cost experienced by large public retirement plans on average. Although TRS is committed to efficient operations, the organization also understands that this must be balanced against the needs of our customers.

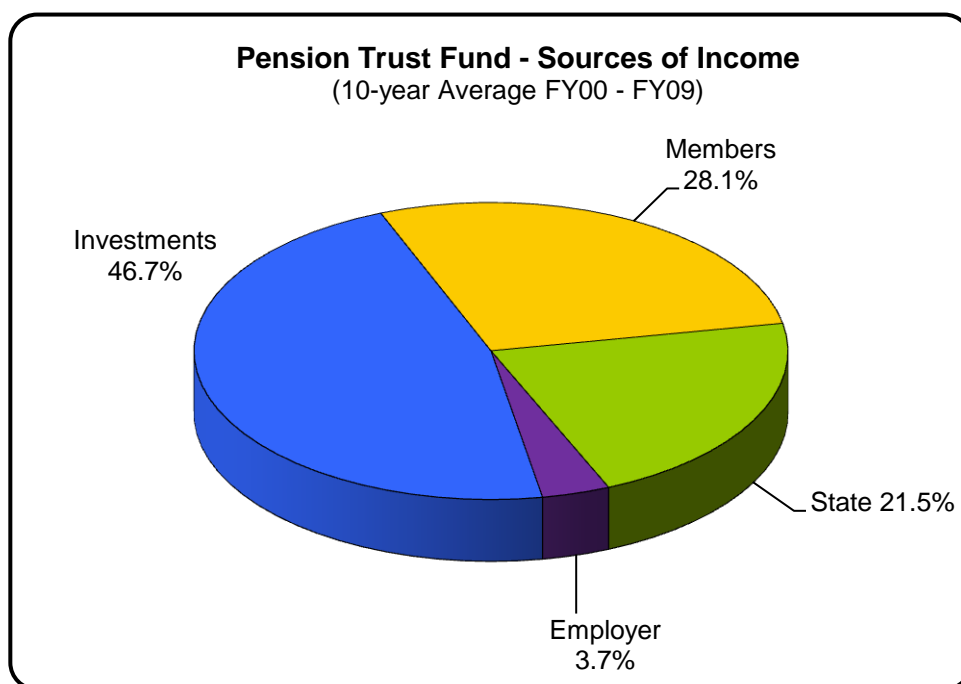
Pension Funding Sources and Uses

Sources of Income - A public pension fund has four basic sources of income:

- ▶ Member contributions
- ▶ State contributions
- ▶ Employer (reporting entities) contributions and reimbursements
- ▶ Earnings on investments

Uses of Funds - There are also four basic uses of funds:

- ▶ Benefit payments
- ▶ Withdrawals of member contributions (refunds)
- ▶ Investments
- ▶ Administrative expenses



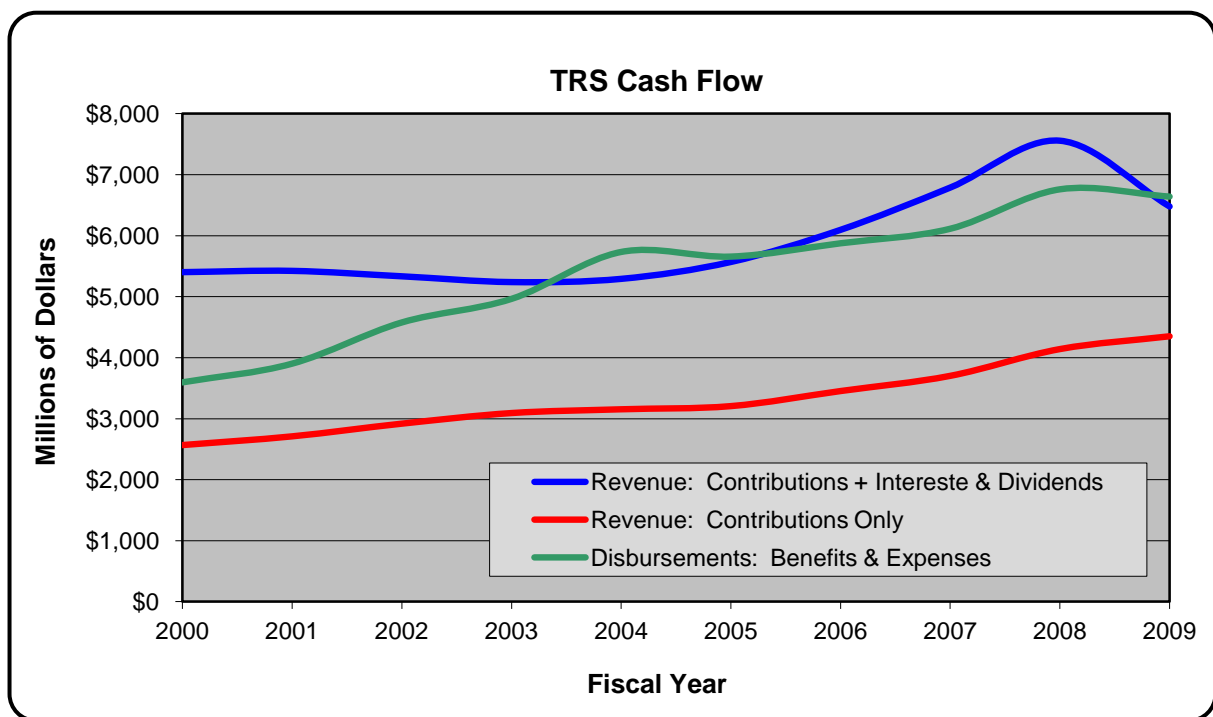
The sources and uses of funds related to investment activities are considered internally generated cash flow. All other sources and uses are external. External cash flow is a measure of a fund's ability to grow without relying on investment income or redemptions to fund current liabilities.



Cash Flow - The sum of member and employer contributions minus the sum of benefit payments, refunds, and administrative expenses equals the external cash flow of the pension fund. When the contributions exceed expenses, the cash flow is positive. Positive external cash flow contributes to the growth of the fund by allowing all investment earnings to be reinvested immediately.

Moving from a positive to a negative external cash flow is a normal occurrence for a maturing pension fund. The primary implication of a negative external cash flow is that when investment earnings are used to pay benefit costs, they cannot be reinvested.

TRS' external cash flow is negative. However, historically cash flow from interest and dividend income is more than sufficient to cover the negative cash flow. It is expected that the cash generating capacity of the pension trust fund, including contributions, interest, and other investment income will continue to be sufficient to fund cash requirements for pension benefit payments.





Distributions - Fiscal year 2009 pension benefit distributions were up 9.2 percent from fiscal year 2007 to \$6.3 billion, due primarily to an increasing number of retirees. Death and survivor benefits also increased somewhat.

Statement of Changes in Net Assets	
Pension Trust Fund	
	FY 2009
Additions:	
Member Contributions	\$ 2,181,600,283
State Contributions	1,758,579,809
Reporting Entity Contributions	412,728,096
Investment Income	(13,971,868,722)
Other	3,899
TOTAL ADDITIONS	\$ (9,618,956,635)
Deductions:	
Benefits	\$ 6,343,563,704
Refunds of Contributions	266,695,076
Administration	28,310,448
TOTAL DEDUCTIONS	\$ 6,638,569,228
NET CHANGE	\$ (16,257,525,863)



Funding for Retiree Health Benefit Program

TRS-Care, the retiree health benefit program, was first offered as a new service to school district retirees in 1986. At that time, projections indicated that funding for the program would last approximately 10 years. Fund longevity exceeded this estimate; however, the net assets of the fund were at a deficit at August 31, 2003, and continuation of the program required supplemental legislative appropriations during fiscal years 2004 and 2005. The program has maintained solvency since that time and has not received any further supplemental legislative appropriations.

Statement of Changes in Net Assets	
Health Benefits Trust Fund - Retired Plan	
	FY 2009
Additions:	
Retiree Premiums	\$ 329,723,191
State Contributions	267,567,228
Active Member Contributions	173,856,344
Reporting Entity Contributions	149,562,613
On Behalf Fringe Benefits - Federal	61,530,735
Investment Income	17,482,143
TOTAL ADDITIONS	\$ 999,722,254
Deductions:	
Health Care Claims	\$ 885,132,865
Health Care Claims Processing	40,364,063
Administration	2,916,259
TOTAL DEDUCTIONS	\$ 928,413,187
NET CHANGE	\$ 71,309,067

The TRS-Care fund for retirees is a self-funded plan that is separate and distinct from the TRS Pension Trust fund. It receives state contributions from General Revenue and is currently appropriated for the 2010 and 2011 fiscal years at \$255,336,675 and \$268,103,509, respectively. Other funding sources for the program include active member and employer contributions, retiree premiums, investment income, and retiree drug subsidy payments. The retiree insurance fund is anticipated to be depleted in the 2014-2015 biennium.

The board approves an annual budget controlling the administrative costs of the program.



Funding for Active Members' Health Benefit Program

The 77th Legislature established a statewide health coverage program for active school employees and their dependents. This health benefit program, TRS-ActiveCare, went into effect September 1, 2002 and provides health coverage to employees of school districts, charter schools, regional education service centers, and other educational districts.

Statement of Changes in Net Assets	
TRS-ActiveCare Enterprise Fund	
	FY 2009
Additions:	
Health Care Premiums	\$ 1,172,011,048
Administrative Fees	187,813
On Behalf Fringe Benefits - State	64,975
ARRA Cobra Reimbursements	170,219
Investment Income	11,597,992
TOTAL ADDITIONS	\$ 1,184,032,047
Deductions:	
Health Care Claims	\$ 1,122,646,958
Health Care Claims Processing	60,934,432
Premium Payments to HMOs	64,820,440
Administration	1,861,949
TOTAL DEDUCTIONS	\$ 1,250,263,779
NET CHANGE	\$ (66,231,732)

TRS-ActiveCare is a self-funded plan that is separate and distinct from the TRS Pension Trust Fund. The monthly cost of the plan must cover the cost of claims and administrative costs with some contingency reserve for unfavorable actual claims experience relative to expectations. The program is funded from several sources:

1. The school districts are required to contribute a minimum of \$150 per month per covered TRS member (school districts may contribute more if they choose).
2. The state contributes \$75 per month per covered TRS member through school finance formulas.
3. **The employee's share for the plan chosen is the amount remaining after employer and state contributions.**

Additional funding sources are investment income and reimbursements related to the American Recovery and Reinvestment Act (AARA for 2009-2012). The board of trustees approves an annual budget controlling the administrative cost of the program.

Investments

Objectives - The investment management function continues to serve the objective of generating returns to support the administration and payment of pension benefits to participants, including payment of cost-of-living increases for retirees when authorized by the legislature and when investment returns (or returns coupled with other sources of revenue) are sufficient to support them. Prudent investment of the pension trust fund provides the foundation for achieving the goal of an actuarially sound fund.

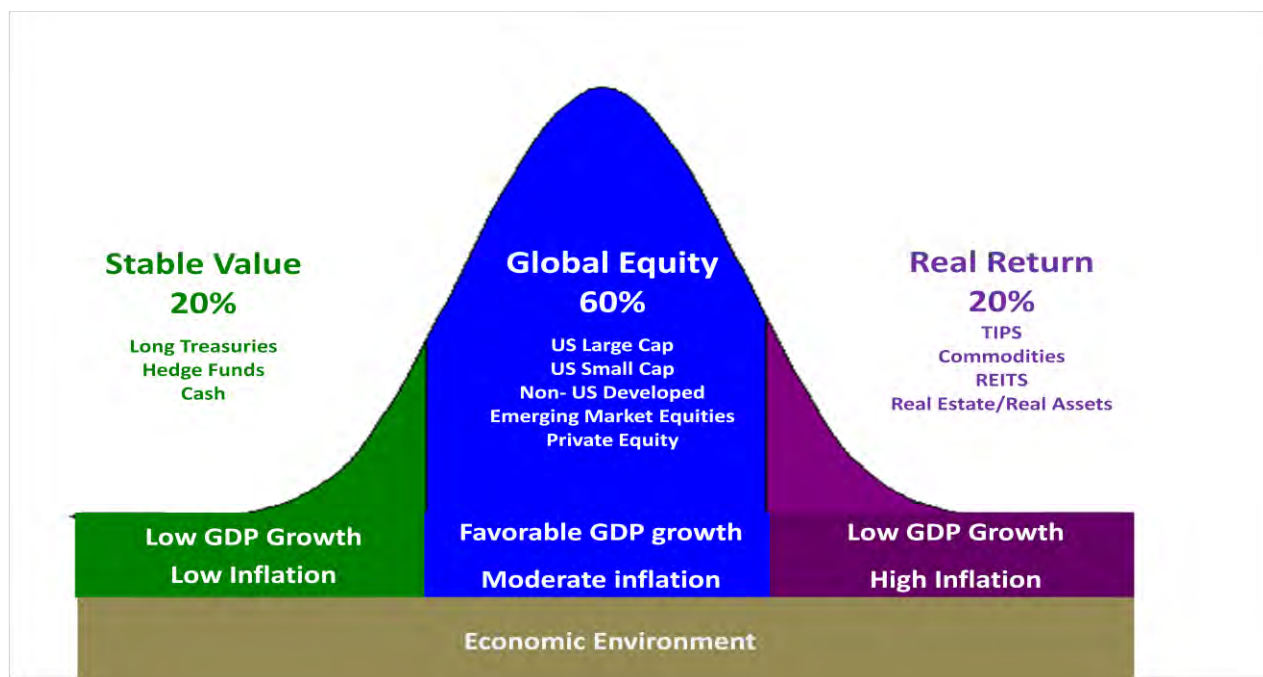
The Investment Division's fundamental strategy is to be broadly diversified, not only with respect to individual securities, but also at the asset class level. As noted in the Board of Trustees' Investment Policy Statement, the total investment portfolio (the "Total Fund") is managed with a long-term perspective. Thus, the Total Fund is structured to:

1. Control risk by diversification of asset classes and by establishing long-term risk-and return expectations.
2. Achieve a long-term rate of return that:
 - a. Exceeds the assumed actuarial rate of return adopted by the board.
 - b. Exceeds the long-term rate of inflation by an annualized 5 percent.
 - c. Exceeds the return of a composite target benchmark comprised of the weighted asset class allocations.

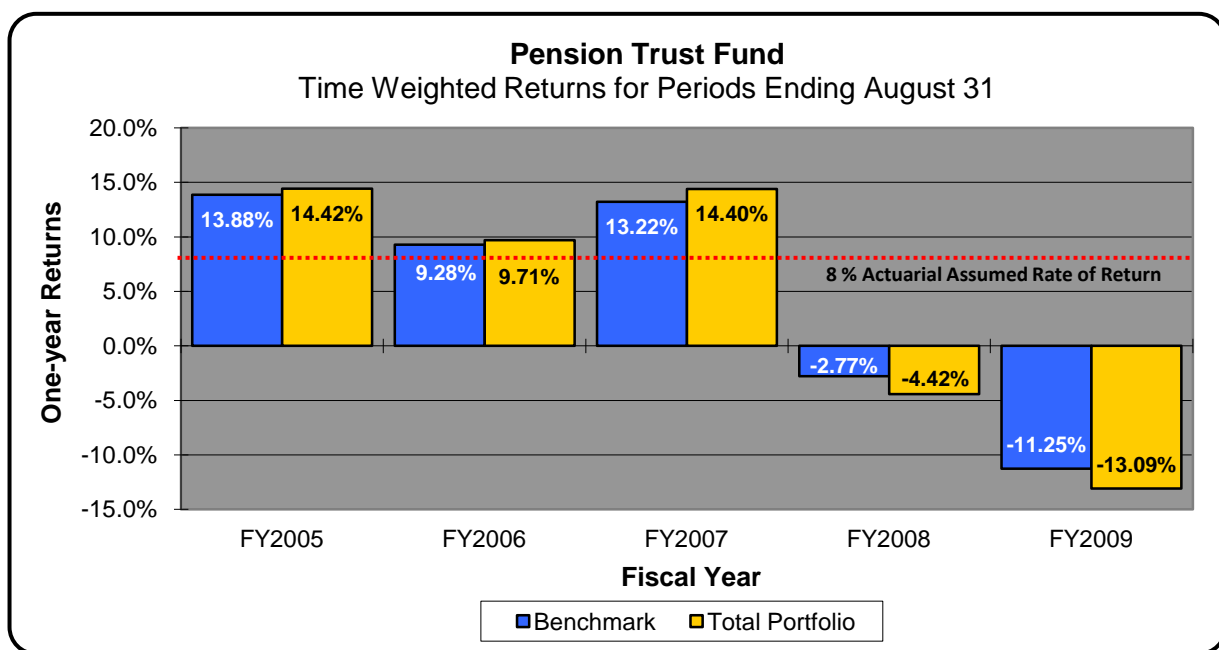
Composition - The TRS investment portfolio is structured to achieve a long-term return that equals or exceeds the assumed actuarial rate of return adopted by the board. Investment risks are diversified over a very broad range of market sectors and securities. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties, and offers opportunity to benefit from future markets.

To determine the appropriate asset classes and the amount of funds that should be allocated to each class, the board has adopted a policy requiring an asset/liability study be conducted at least every five years. The purpose of the study is to develop an asset allocation standard that meets the investment risk tolerances of the board and which is projected to meet the long-term performance objectives of the Total Fund. By establishing specific asset allocation targets, TRS ensures diversification and controls risk.

In 2008, TRS began a transition to a more diversified investment strategy. The transition is on target despite one of the most volatile markets in history. The diversification strategy focuses on three possible economic environments which are depicted in the above figure. The most prevalent economic environment which is one of low to moderate inflation with favorable GDP growth is favorable to Global Equities. The Real Return Portfolio does well in an environment featuring low growth along with high inflation. The Stable Value portfolio does well in the low growth and low inflation/deflation environments. The various assets that form the Global Equity, Real Return and Stable Value portfolios are shown in figure below. The allocation change achieves the goal of portfolio diversification: reducing risk with higher expected returns.



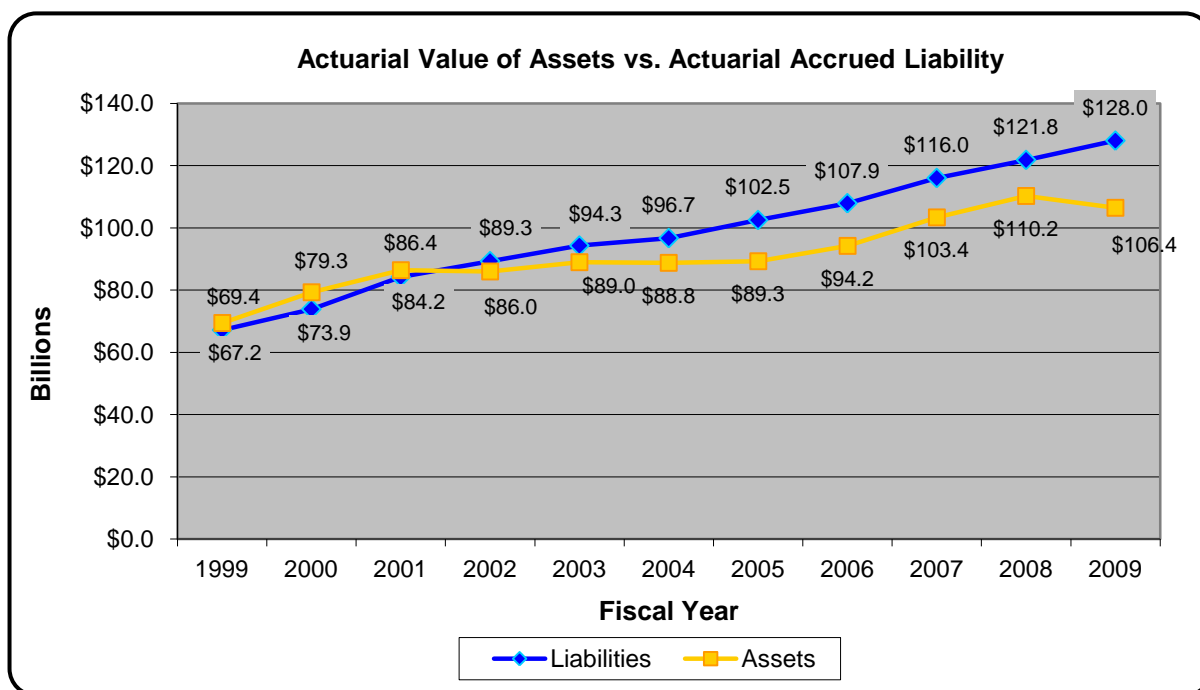
Performance - The TRS investment policy establishes objectives against which the performance of the Total Fund and each of its components will be measured. Investment performance and portfolio characteristics are calculated and compared to benchmarks on a quarterly basis. Benchmarks can be asset-class (or sub-class) indices or peer comparisons. In either case, differences in investment policy, asset allocation strategies, and risk tolerance must be considered.



The total value of the Total Fund on August 31, 2009 was \$87.7 billion. The Total Fund's annual rates of return for the one-, three-, five- and 10-year periods ending August 31, 2009 were -13.06%, -1.68%, 3.6% and 3.39% respectively. The significant market decline that began in late 2008 started to reverse by the second quarter of 2009. The Trust was well positioned for the public market rally and performed strongly in that area, while private markets remained distressed. Looking forward, forecasts across all asset classes are exhibiting signs of a return to "normal" markets.

Actuarial Condition – Pension Trust Fund

Investment results for fiscal year 2009 and the recognition of prior years' deferred investment gains resulted in only a \$3.0 billion gain on the actuarial value of assets from fiscal year 2007 to fiscal year 2009. As a result, the ratio of actuarial assets to actuarial accrued liabilities decreased from 89.2 percent in fiscal year 2007 to 83.1 percent in fiscal year 2009. The pension plan's unfunded actuarial accrued liability (UAAL) increased from \$12.5 billion in fiscal year 2007 to \$21.6 billion in fiscal year 2009. The actuarial value of the pension plan's assets were valued less than the market value of assets, resulting in a \$17.7 billion investment liability that will be recognized in future valuations.

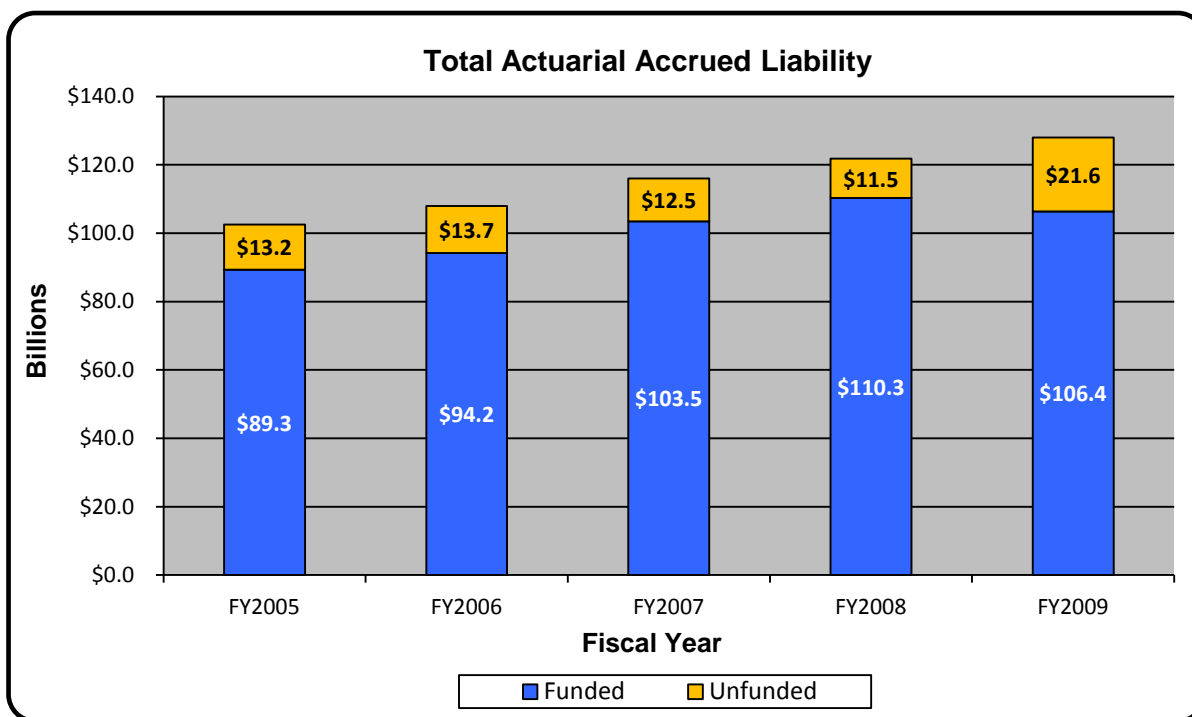


The volatility of investment returns over short and intermediate time horizons can create "noise" in actuarial analysis. Therefore, the system uses a five-year "smoothing process" to reduce the impact of short-term peaks and valleys of annual investment returns when determining annual actuarial returns.

The 81st Legislature, Regular Session, decreased the state contribution rate from 6.58 percent to 6.4 percent of participating payroll effective September 1, 2009 and requires the state contribution rate to be at least equal to the member contribution rate. The contribution rate in

effect at the time of the actuarial valuation of 6.4 percent from the state and 6.4 percent from members provides a total contribution rate of 12.8 percent. Since the pension plan has a normal cost rate of 10.4 percent, 2.4 percent of these contributions are available to amortize the current UAAL of the pension plan. Based on the fiscal year 2009 actuarial valuation, the 2.4 percent of contributions available for amortizing the current UAAL are not sufficient to amortize over a period of 30 years. The state would need to increase its contribution to 7.72 percent in order to amortize the UAAL over the 30 year maximum acceptable amortization period. After the completion of the August 31, 2009 actuarial valuation for the Pension Trust Fund, the State of Texas' Attorney General ruled on the constitutionality of Senate Bill 2567 which resulted in an increase of the state contribution rate from 6.4 percent to 6.644 percent effective January 1, 2010 through August 31, 2011.

Benefit changes and investment losses of 4.5 percent, and 13.1 percent during fiscal years 2008 and 2009 respectively, have affected the actuarial soundness of the pension plan. In the absence of significant actuarial gains in the future, the funded status of the Pension Trust Fund is expected to decline as these deferred investment losses are recognized.



Actuarial Condition – Retiree Health Benefit Program

TRS-Care is a benefit program designed to provide post-retirement medical benefits to certain members of TRS. The program is currently funded on a pay-as-you-go basis and is subject to change based on available funding. As of August 31, 2009, TRS-Care had an unfunded actuarial accrued liability (UAAL) of \$23.6 billion as compared to \$19.1 billion in 2007. Based on current asset levels and expectations that annual revenues will equal annual net benefits and expenses, the program's annual required contribution (ARC) for fiscal year 2009 is \$2.1 billion. The ARC is the employer's required contributions to the plan for the year. The ARC was 7.12 percent of

payroll for the fiscal year ending August 31, 2009. When the contributions to the program are less than the ARC, the UAAL will grow because the amortization schedule will not be met.

Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, local school districts, and the state. The state and active public school employee contribution rates were 1.0 percent and .65 percent of public participating payroll, respectively. School districts contribute a percentage of payroll set at 0.55 percent for fiscal year 2009. Although current contributions are somewhat larger than the current costs, this trend is not expected to continue. It is projected that the balance of the fund will be depleted in the 2014-2015 biennium unless contributions are increased.

A trust exists for the program into which participating employers make contributions that exceed the annual expected net claim payments. This trust has an asset balance of \$800 million as of August 31, 2009. According to the Governmental Accounting Standards Board, an interest discount rate must be used to calculate the present value and costs of other post-employment benefits (OPEB). Based upon demographic, economic and behavioral assumptions, the TRS Board of Trustees has selected an interest discount rate of 5.25 percent for this purpose.

Impact of Health Benefit Plan Design on Funded Status

The first actuarial valuation for TRS-Care was completed for the fiscal year ended August 31, 2007. Because the state determines the funding of benefits for this program and has no continuing obligation to provide benefits beyond each fiscal year, it is impossible to project the future funded status of the plan. If TRS-Care was fully funded with its assets invested in a trust having a longer term investment horizon, a higher interest discount rate could be used, potentially resulting in a lower UAAL.

TRS trustees remain focused on the need to balance revenues and expenses in a fiscally responsible manner and establish premium rates and benefits that best suit retiree needs given the available funding. TRS understands that the TRS-Care program is a valuable benefit to retired public educators, and the agency will continue to work with state lawmakers to address the ongoing funding requirements of the program.

Physical Facilities and Capital Improvements

TRS owns its office facilities located at 1000 Red River Street in Austin. The west building was constructed between 1971-1974 and totals 80,384 square feet. The east building and parking garage were constructed between 1987-1990. The east building has 136,790 square feet and the parking garage has 141,912 square feet. The TRS buildings house all employees of the retiree health benefit program, the active health benefit program, and the pension trust fund except for the Investments Management Division. In March 2009, the Investments Management Division move into 47,034 square feet of leased space at 816 Congress Avenue.

Many of the capital improvements made over recent years to physical facilities have been focused on energy efficiency and conservation including:

- FY 2005: Installed a four ply modified bitumen roof with an R Value of 19 and a reflective membrane to reduce heat transference.
- FY 2006: Replaced sealant around doors, windows and louvers and at all concrete, granite and glass joints to reduce loss of conditioned air.

- FY 2006: Replaced four air handlers to increase efficiency and conserve electricity.
- FY 2007: Replaced T 12 fluorescent fixtures with T 8 fixtures to conserve electricity.
- FY 2008: Installed direct digital controls in the central plant to increase efficiencies and conserve energy.
- FY 2009: Converted air handlers from constant air volume to variable air volume to increase efficiencies and conserve electricity.
- FY 2009: Installed economizer controls on air handlers to increase efficiencies and conserve energy.

Capital improvements to physical facilities projected for this strategic planning period will continue to address energy efficiency and conservation while focusing on providing essential maintenance to physical facilities and enhancing functionality and space utilization for operations and improve staff effectiveness. The planned improvements include the following:

- FY 2010: New irrigation system and landscape to conserve water.
- FY 2011: Upgrade existing chilled/condensing water system to conserve energy.
- FY 2011: Upgrade existing heated water system to conserve energy.
- FY 2012: Replace 75 toilets with 1.5 gallons per flush toilets to conserve water.
- FY 2012: Reduce vehicle fleet from three vehicles to two vehicles.
- FY 2012: Replace two gasoline vehicles with alternative fuel vehicles.
- FY 2012: Convert dual duct mixing boxes with pneumatic controls to digital controls to increase efficiencies and conserve energy.

In addition to capital expenditures for improvements to TRS physical facilities, others are required to keep pace with demands on information technology resources.

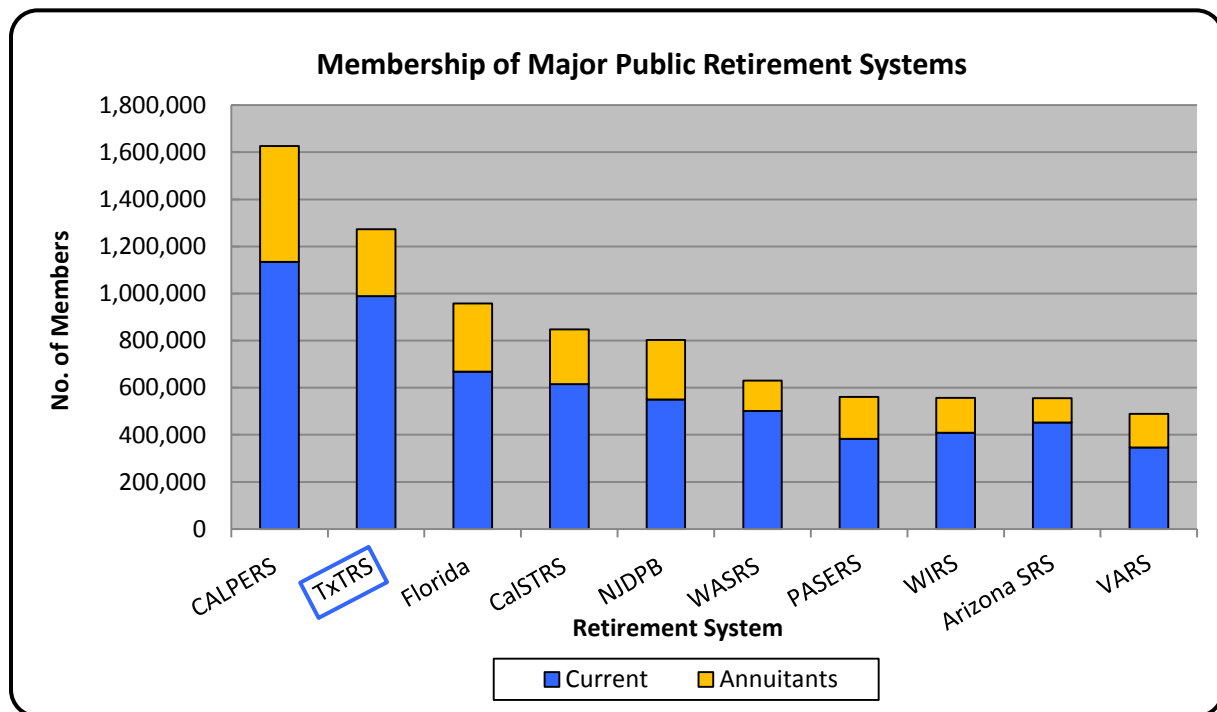
- Install data center power generator.
- Upgrade direct access storage devices (DASD).
- Upgrade the mainframe to the next tier generation.
- Purchase desktop PCs to refresh 1/3 of agency PCs.
- Purchase an Integrated Facility for Linux (IFL) for ISS application development.
- Interactive Voice Response (IVR) system upgrade/redesign.
- Secure email project.

SERVICE POPULATION DEMOGRAPHICS

Average pension plan member profile statistics remain fairly stable:

- ◆ *There are 3.5 contributing active members per annuitant.*
- ◆ *Active members average 44.1 years old with 9.6 years of service.*
- ◆ *On average, members retire at age 59.8 with 24.6 years of service credit.*
- ◆ *The average salary for FY09 retirees was \$48,095.*
- ◆ *The average age for all retirees is 70.0.*

Membership - Originally applicable only to teachers and public school administrators, in 1949 retirement plan membership was expanded to include all employees of public education institutions, including cafeteria workers and bus drivers. At its inception, TRS served just 38,000 members. Membership has continued to grow, and TRS now serves nearly 1.3 million members. The membership includes close to 989,000 active members and over 284,600 annuitants. They reside in every region of Texas, as well as throughout the U.S. and a number of other countries around the world.



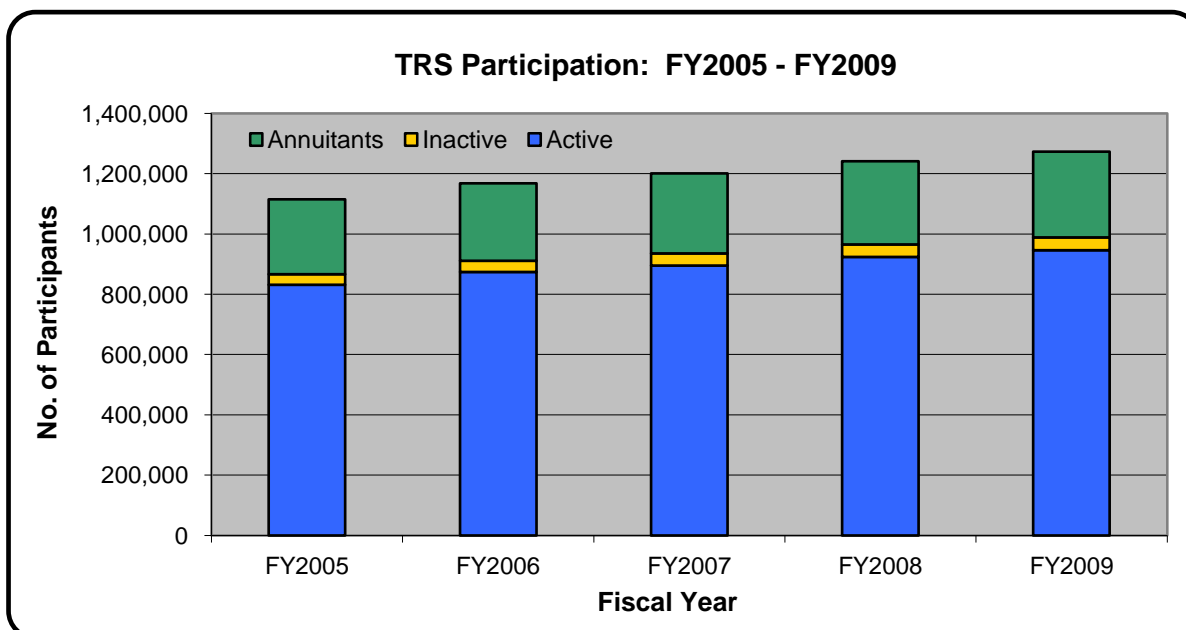


Employers - TRS serves 1,364 separate reporting entities by providing benefits to employees who are employed in the Texas public education system. The total active membership encompasses not only public school teachers, but also school and district administration staff, food service personnel, maintenance staff, transportation employees, college and university faculty and staff, and certain other state agency employees.

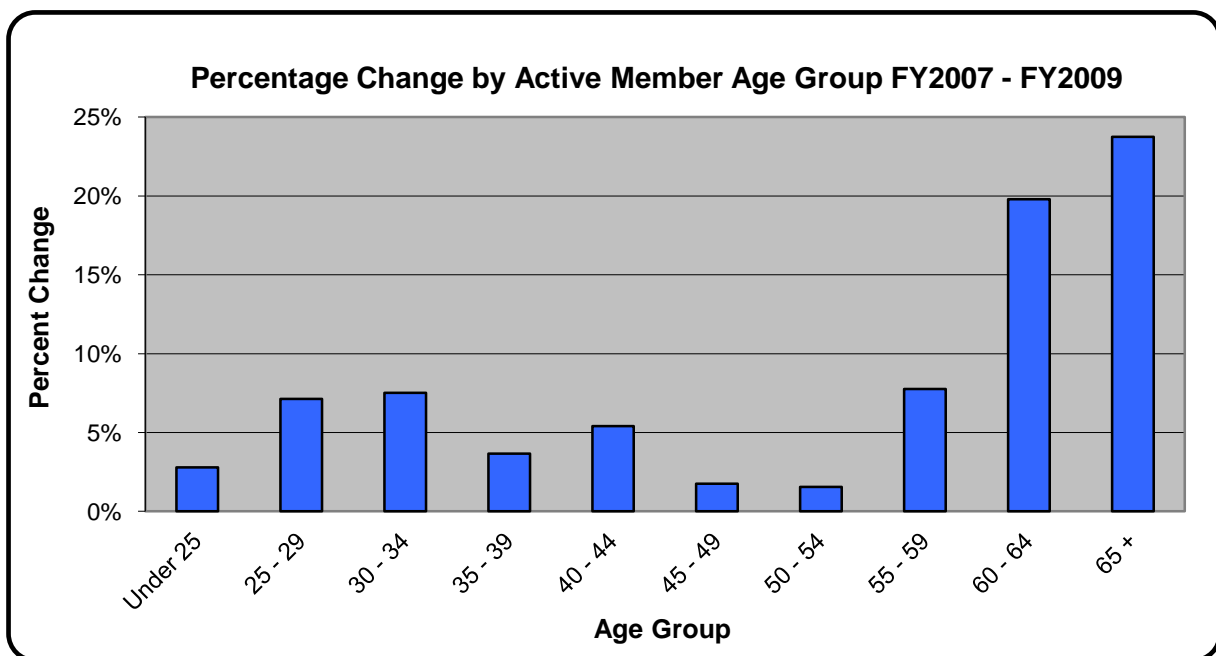
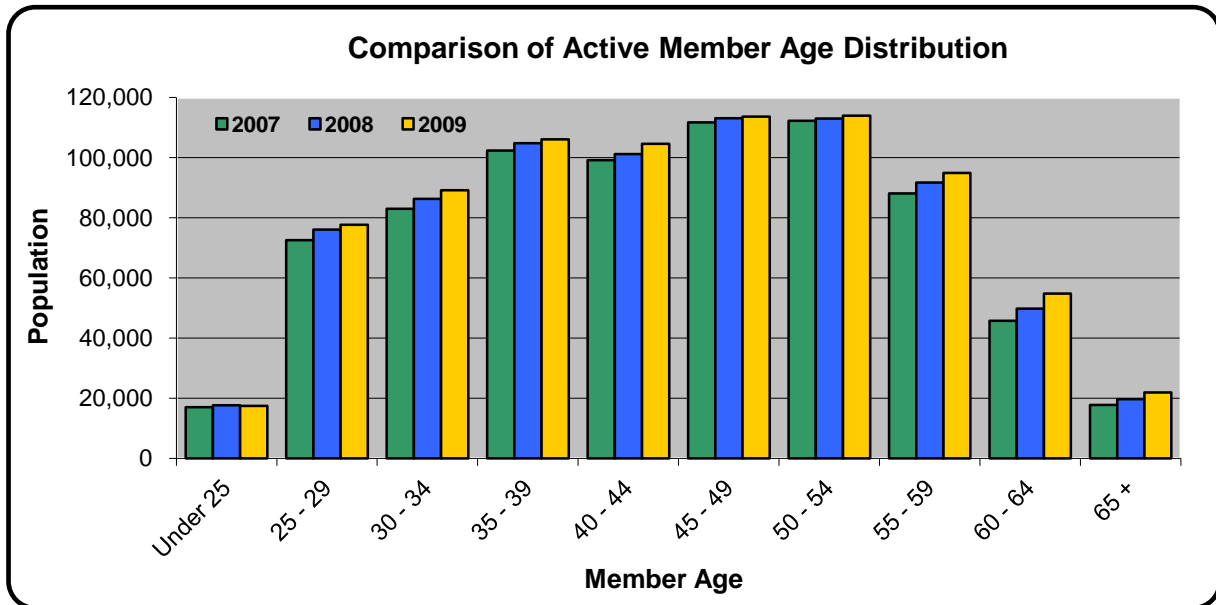
Participating TRS Employers – FY 2009	
Type	Number
Independent School Districts	1,031
Charter Schools	200
Community and Junior Colleges	51
Senior Colleges and Universities	43
Regional Education Service Centers	20
Education Districts	8
Medical and Dental Schools	9
State Agencies	2
Total	1,364

Significant Trends

Membership Growth - The number of public school employees in the state is expected to continue to rise over time with the population growth among school-age children. TRS' membership will reflect a corresponding growth, in both active and retired members.



An Aging Workforce – While membership growth is an important factor in the stability of the pension plan, another and equally important characteristic is age distribution among active members and retirees. This factor is an indicator of probable upcoming retirements and expected duration of annuity payments. The current active member age distribution is heavily weighted in the 35-54 year age groups, however the average age is increasing over time. Perhaps even more indicative of aging membership is the fact that the highest percentage increases in the last few years has continued to occur within the 55 - 65+ age groups. These factors are considered in the plan's long-term actuarial studies.



Retirement – While the number of retirees is expected to continue to rise over the next five years, the rate of retirements is expected to remain relatively flat during the period.

It is still too early to determine the extent to which plan changes passed during the 79th Legislature, Regular Session will affect future retirement patterns.

Compensation - Compensation trends have a significant impact on the retirement system. Compensation levels are established by each of the 1,364 **employers served by TRS**. **A member's average salary is a key element of the benefit formula that establishes the amount of annuity to be paid throughout the retiree's lifetime.**

Many factors influence members' decisions on when to retire or whether to withdraw their funds from the plan and terminate membership when they leave Texas public education employment. The state of the economy, family economic needs, and job satisfaction are important considerations. TRS benefit design is an equally important factor. For example, policies relating to employment after retirement can affect retirements. The availability of affordable retiree health benefits can also be a major factor in determining whether the individual will continue working as an active member receiving benefits from the plan for employees, or retire and perhaps be ineligible for TRS-Care benefits or possibly pay more than when covered by an active employee plan.

Although salary levels and contribution rates have considerable impact on the plan, the combination of these and other factors, such as investment performance and benefit architecture, **determines the plan's actuarial soundness.**

TECHNOLOGICAL DEVELOPMENTS

Because the effective use of technology is key to the realization of TRS' mission, the Information Technology (IT) division plays an integral role in organizational planning and management. Its impact is felt in every aspect of operations from benefit delivery and investment management to communications and even the physical environment. TRS strives to stay abreast of emerging technology and continuously seeks opportunities to gain efficiencies through technological enhancements.

TRS and the IT Division face a number of ongoing challenges, including:

- Providing new and innovative benefit delivery systems to active members and annuitants through the Internet.
- Maintaining, enhancing, and modernizing high volume, interactive transaction processing systems that annually support the receipt and processing of more than 8.5 million records.
- Utilizing technology to meet growing service demands at approved staffing levels.
- Supporting an expanded Investments function utilizing new technologies.
- Staying abreast of rapid changes in technology and choosing those that aid TRS in accomplishing its goals in the most efficient manner while providing long-term viability.
- Attracting and retaining qualified technical staff and training present staff in new technologies while maintaining existing applications and infrastructure.
- Managing the impact of retirements by key IT staff and management.

TRS has had some notable technology achievements. Additionally, the system continues to support multiple current endeavors while planning for future initiatives.

Accomplishments

- Information Security
 - ▶ Increased use of biometrics in the Investment Division.
 - ▶ **Eliminated Novell product suite and replaced it with Microsoft's Active Directory** which has more robust security features.
 - ▶ Migrated network servers to latest OS to increase security through improved access management capabilities.
- Governance
 - ▶ Enhanced the process for integrating quality assurance and testing into the software development process.
 - ▶ Improved change control processes within the application development group.
 - ▶ Implemented an IT-wide change management process using an Information Technology Service Management (ITSM) self service portal.
 - ▶ Hired an Information Systems Architect to create standardized procedures for project development and application development software/hardware purchase and direction.
- Infrastructure
 - ▶ Implemented VigilEnt Policy Center for on-line training and policy document management.

- ▶ Designed and implemented the technology infrastructure and support for the Investment Division move to a new remote site. Developed and implemented IT support service level agreements (SLAs).
- ▶ Migrated network drives to Windows 2003 Server/Active Directory environment.
- ▶ Implemented Office 7 agency wide.
- Application Development
 - ▶ Purchased Informatica which is being used to synchronize all data between DB2 databases. This will move TRS closer to converting legacy application systems.
 - ▶ Converted existing applications written in Assembler language to Natural.
 - ▶ Completed the Executive Dashboard for members of the Executive Committee.

Current Initiatives

- Software Architecture – TRS has adopted a new middleware solution to facilitate the creation of new, more flexible and user-friendly interfaces while leveraging staff's institutional knowledge of the Natural programming language. Several projects are currently under way using this new architecture.
- Database Migration – Migration to DB2 RDBMS from VSAM and ADABAS DBMS' continues. This is a complex and long-term endeavor.
- Legacy Modernization – Software development staff is replacing outdated COBOL program code modules. This is just one facet of a larger modernization effort.
- Social Media – TRS is currently researching how TRS might leverage social media networking sites (i.e., Facebook, Tweeter, LinkedIn, etc.) to increase our visibility and communication with our members and business partners.
- Implementing current **"The Next Generation"** (TNG) Project initiatives sponsored by Executive Management and Board of Trustees.
- Infrastructure
 - ▶ Converting current information system images to the new FileNet P8 platform.
 - ▶ Expanding the use of Server Virtualization to reduce data center physical space and energy consumption and provide greater system fault tolerance and server flexibility/manageability.
 - ▶ Creating a network management dashboard to provide network monitoring, reporting, and consolidation of current tools.
 - ▶ Purchased and installing FileNet P8. This hardware/software platform is a more robust document, imaging and management system.
- Application Development
 - ▶ Complete TRS Reporting and Query System (TRAQS) conversion to the new enterprise data model.
- Information Security
 - ▶ Expanding intrusion prevention technology and modifying intrusion detection and firewall security.
 - ▶ Undergoing network penetration testing.

- ▶ Updating access procedures and methodologies to support accepted security practices, including support of new application architectures.
- ▶ Installing LoJack on all TRS laptops.

Future Initiatives

- Infrastructure
 - ▶ Purchase a power generator for computer data center.
 - ▶ Expand the functionality of the FileNet imaging system through implementation of additional functional modules including Content Manager on Demand, Records Manager, and Business Process Manager.
- Information Security
 - ▶ Implement an Enterprise Information Security System.
 - ▶ Expand email and laptop encryption.
 - ▶ Increase use of biometrics throughout the TRS enterprise.
 - ▶ Implement Live Sync with 816 Congress. This project will provide real-time synchronization of critical systems and data protection between our Red River location and 816 Congress.
- Application Development
 - ▶ Continue modernization of legacy applications.
- Internet
 - ▶ Continue to enhance self-service applications provided through the TRS Web site.
 - ▶ Expand online relationship with reporting entities to allow reporting of final salary information.
- Governance
 - ▶ Strengthen the IT governance structure based on Grant Thornton recommendations.
 - ▶ Investigate IT portfolio management solutions.

TRS, The Next Generation

Beginning in July, 2009, senior leadership began a series of meetings to identify **TRS' strategic** business needs that required a technology solution. The focus was primarily on the needs of the benefit services and financial areas. The group was asked to envision TRS and its customers 5 to 10 years hence, and consider how we could begin to position ourselves now to meet anticipated future needs.

Four major themes emerged.

- Improving external communications and service delivery,
- Streamlining internal work processes for greater efficiency,
- Modernizing the technical environment to ensure proper support and needed tools, and
- Staffing of technical positions to ensure the proper skill sets were in place for the future.

Based on these overarching needs, the group tentatively identified some specific technology projects that would move us in the desired direction. Considering the timeframe involved and the

potential future beneficiaries of the projects, the name “TRS, The Next Generation” or “TNG” for short, was adopted as the program designation.

Initially, 7 projects were identified. A preliminary project proposal was developed for each for the purpose of determining whether they appeared to merit further, in-depth research and feasibility study. They include the following:

- Financial Systems Upgrade.
- Unified Member Module.
- eForms and Self-Service.
- Workflow Automation.
- Electronic Records Management.
- Electronic Communications with Reporting Entities.
- Technical Architect, Business Analyst and Process Improvement.

TRS will continue to define these projects more clearly to gain a full understanding of benefits, costs, resource requirements, and risks. Additional information about each project is included in the Technology Resource Planning section of the strategic plan document.

A complementary effort underway that will have significant impact on the success of the aforementioned projects, is the definition of a revised IT governance structure. A solid review and decision making process that involves the proper stakeholders and incorporates the business needs of TRS as the principal deciding factor, will be key to the ongoing ability of TRS to utilize technology to solve problems and exploit opportunities.

RISK MANAGEMENT

Enterprise Risk Management

The purpose of the Enterprise Risk Management (ERM) program is to provide a framework and a process **for use by management to gain reasonable assurance that TRS’ goals and objectives are successfully achieved.** ERM is a process to help identify and manage potential events or circumstances (risks) that may affect the organization. It focuses efforts on the important issues and concerns and can help to identify both unnecessary and needed controls.

Although risk management has always been a part of TRS, Executive Director Ronnie Jung implemented a formal ERM program in September 2008. The comprehensive program formalizes **TRS’ efforts and emphasizes the importance of risk management. It is a shift** from a traditional silo risk management approach to a holistic or enterprise risk management approach. TRS cannot eliminate all risks, but through ERM, it can ensure that existing and emerging risks are identified and managed within acceptable risk tolerances.

TRS has adopted the Committee of Sponsoring Organizations (COSO) ERM Integrated Framework that is made up of several components. One of the components is to assess risks at the entity level in the following objective categories:

- Strategic – high-level goals, aligned with and supporting the mission.
- Operations – effective and efficient use of resources.
- Reporting – reliability of reporting.

- Compliance – compliance with applicable laws and regulations.

The mission of the ERM program is to further the successful achievement of TRS's mission, goals and objectives through effective risk management. This is done by promoting and supporting a culture at TRS which builds risk consciousness into the daily activities of TRS.

The goals of the ERM program are to partner with TRS management and staff to:

- Raise risk awareness throughout the organization.
- Integrate risk management into the culture and strategic decision-making.
- Identify and evaluate risks that are critical to the organization.
- Ensure that critical enterprise-wide risks are being properly managed by the appropriate individuals.
- Ensure that the appropriate mitigation strategies are in place.
- Balance the cost of managing risk with the anticipated benefits.
- Provide ongoing support to executive officers and managers regarding the status of critical enterprise-wide risk.

TRS is committed to providing an environment that ensures risk management is an integral part of all TRS activities. A critical component of the formal ERM program creation was the formation of a Risk Oversight Committee (ROC). ROC members include:

- Executive Director (Chair)
- Deputy Director
- Chief Investment Officer
- Chief Financial Officer
- Chief Benefits Officer
- Director of Information Technology
- Chief Audit Executive (Ex Officio)

The ROC addresses strategic and enterprise-wide risks, helps determine appropriate mitigation strategies and drives the necessary actions and goals to help ensure the risks are addressed appropriately. The ROC oversees the process by which business unit management and staff identifies and assesses risks and determines appropriate responses.

There are two approaches to effective risk management, a bottom-up and top-down approach. During fiscal year 2008 and 2009, TRS primarily utilized the bottom-up approach. This entailed facilitated risk assessments with individual business units. The bottom-up process involved the following steps:

- Started with objectives or activities.
- Identified risks.
- Listed key mitigations.
- Assessed the impact and likelihood.
- Reviewed the heat map.
- Identified the risk owner.
- Determined appropriate risk response.

- Submitted action plans where needed.
- Listed monitoring efforts for key mitigations.

Starting fiscal year 2010, TRS shifted to a top-down approach. This approach allows for the identification of strategic/entity-wide risks. The top-down process involved the following steps:

- Surveyed Executive Management on their top ten entity risks.
- Received approximately 50 risks ideas.
- Consolidated and combined common risks.
- Categorized risks – 22 current categories.
- Identified the Global Owner.
- Global Owner and key players identified key risk drivers and mitigations.
- Reported information to ROC for possible action or risk acceptance.
- At the direction of ROC, ERM team follows up.

As we move forward with ERM, TRS will employ a blend of top-down and bottom-up assessments. Although, the primary focus will be a top-down approach, we will continue the bottom-up assessments where the need is greatest.

ERM and strategic planning should be closely aligned and integrated. Beginning with this strategic plan, we have made significant headway in this direction and expect value to be added to TRS in this regard. With our newly stated goals and objectives, ERM will help ensure that our goals and objectives are reached.

Investment Risk Management

TRS' Investments organization has undergone a significant restructuring since January, 2007.

This restructuring has enabled us to build a dedicated risk management team along with the adoption of more effective approaches and techniques to manage and control investment and operational risk. The developments in the financial markets since January, 2007 have created a need for increased risk management and validated our increased focus in this area.

In the past, TRS has not been able to access the full range of options to manage financial risks in a cost effective manner. Through policy revisions and legislative changes, we have introduced a framework to use derivatives to implement investment strategy and risk management in a controlled, cost-effective manner. In conjunction with this initiative, TRS also established key risk parameters that control the overall exposures of the fund to both cash and derivative markets.

The new policy introduced two new mechanisms for the board to oversee the risk management practices and risk tolerances of the fund. The first is an established risk committee of the board, which is charged with overseeing the overall risk of the portfolio and establishing policies and practices to measure, manage and mitigate those exposures. Secondly, key risk parameters have been introduced that set both minimum and maximum risk exposures for the fund, asset allocation limits, limits on the use of derivatives, and counterparty credit limits. Additionally, the new policy addresses other risks associated with liquidity, operational exposures, settlement and legal contracts.

Operational Risk Management

TRS strives to ensure that potential exposures are assessed and reasonable controls are implemented to minimize risk in all aspects of system operations including information resources, mission-critical functions, and physical security. TRS has had notable successes in its efforts to manage risk and continues to move forward with current initiatives while planning for future risk mitigation activities.

Accomplishments

- Updated our hot site contract to stay current with increased technology requirements.
- Completed the annual hot site exercises resulting in successful achievement of objectives.
 - ▶ All IT Staff supported the recovery remotely (staff was not required to be physically co-located with hot site hardware in New York).
- Completed the disaster recovery/business continuity training sessions for new employees in conjunction with the annual TRS Information Security Awareness Education.
- A Risk Management Program Review completed by the State Office of Risk Management in March 2009 stated that **"Teacher Retirement System of Texas is very proactive with regard to safety. Management has made a commitment to providing a safe working environment for all employees. The overall safety culture at the agency is very strong and this is evidenced by the extremely low workers' compensation injury rate."**
- TRS established a Health and Safety Committee with representatives from all areas of the organization.
- Lost, damaged, and destroyed property for FY 06-09 totaled only 0.017% of assets.

Current Initiatives

- Continuing to provide business continuity and disaster recovery plan training, enabling all teams to maintain their own business continuity and disaster recovery plans.
- Maintaining disaster recovery preparedness through a yearly scheduled hot site exercise and continuing to broaden base of trained individuals by allowing them to play a key role in the exercises.
- Providing disaster recovery/business continuity training twice a year to new employees.
- Monitoring insurance coverage and providing suggested changes as required.
- Monitoring adherence to the *TRS Business Continuity Management Policy* by periodically reviewing the plan and recommend any needed modification.
- Based on a recommendation from the State Office of Risk Management (SORM), continue to evaluate staffing responsibilities *"...so that steps, measures and arrangements that are needed to ensure continuous delivery of critical services are met."*

Future Initiatives

- Monitor the hot site contract to ensure compatibility with technological and business process changes at TRS.
- Increase business unit participation in hot site exercises.



- Maintain and expand risk management efforts by maintaining a proactive business continuity program, continuing to refine existing safety programs and strengthening physical security as required.
- Minimize the risk that any user has more access capabilities than is appropriate for their specific job and to provide supervisor and owner with simple method to review and confirm current access.

ECONOMIC VARIABLES

The core activities of TRS are, and will continue to be, significantly impacted by a broad range of local, national, and global forces. With respect to managing pension fund investments, TRS is clearly exposed to the risks and rewards of global stock markets, interest rates, inflation, and of course, to potential geopolitical risks. Increases in the cost of key commodities such as gasoline and food, have a significant impact on annuitants, resulting in the potential for increased political pressure to provide cost of living adjustments or other financial relief.

With respect to managing pension plan liabilities, **TRS is exposed to more “local” forces such as** the growth in retiree and non-retiree member populations and the potential for legislative changes to plan design elements, such as benefit levels, contribution levels, and eligibility requirements. Many of the forces influencing pension liabilities also affect the management of health benefit program liabilities. Health-related liabilities are also affected by the growth in utilization of medical services and in medical cost inflation. The expectation is that, while medical costs will continue to grow in the future, the rate of growth appears likely to moderate somewhat.

As a public entity, how can TRS respond to its environment? TRS has very limited ability to control the broad array of economic, demographic and political forces that impact its objectives.

Instead, the organization has chosen to focus on the agency’s ability to manage costs and mitigate financial risk where possible. For example, with respect to managing health benefit services, TRS uses established healthcare networks that negotiate with service providers to manage cost and service levels. TRS also strives for operational efficiency and cost containment while remaining very cognizant of the need to sustain superior service levels. In the area of investments, TRS has some ability to manage risks by increasing the diversification of asset classes. TRS is increasing investment in alternative assets, such as real estate and private equity. TRS also engages in a degree of discretionary, tactical asset allocation when the investment staff believes that certain asset classes have become too expensive or cheap given the expectations for risk and reward.

IMPACT OF FEDERAL STATUTES AND REGULATIONS

Although TRS does not receive federal funds and is not regulated by the federal government, several federal laws affect the administration of TRS programs, as summarized below.

Internal Revenue Code - The Internal Revenue Code (IRC) has significant influence on the TRS pension plan because, under the IRC, a plan that is qualified under IRC Section 401(a) enables participants to contribute to the retirement plan in a tax-efficient manner. TRS contributions are deducted from member salaries on a before-tax basis, thus allowing members to defer federal income tax on that portion of their salaries until they receive distributions from TRS. TRS must continuously satisfy IRC to operate as a qualified plan. Though the requirements create certain limitations and restrictions on retirement plan operations, both the pension trust **fund and individual TRS participants benefit as a result of the plan's tax-qualified status.** As a governmental qualified plan, TRS is exempt from many restrictions that apply to private qualified retirement plans, including exemption from participation in the Pension Benefit Guaranty Corporation (PBGC), an entity established under federal law to protect private pensions with funding by insurance premiums paid by the plan sponsors. To retain governmental plan status, the TRS plan must restrict participation to *public* employees.

Qualified plan status permits deferral of taxation of participants' contributions and accrued benefits, deferral of taxation of distributions to participants when those distributions are rolled over to another eligible retirement plan, and tax exemption of the income of the pension trust fund. State law recognizes the importance of remaining tax-qualified. (see Section 825.506, Tex. Gov't. Code).

Major qualification requirements include:

- Pension plan assets must be held in trust, and the plan must be administered for the exclusive benefit of the plan participants. Pension assets must be used for pension purposes only. In accordance with this requirement and with the Texas Constitution, Article 16, Section 67, the assets of the TRS pension plan are held in trust for the benefit of members and are used only for retirement, disability, and death benefits.
- **The amount of a participant's retirement benefit is limited by IRC, Section 415.** This limit affects only a small number of more highly paid members. The TRS excess benefit arrangement under Section 825.517, Tex. Gov't. Code, alleviates the effect of the benefit limits in a manner compatible with the IRC.
- Compensation creditable with TRS for benefit calculation purposes is limited under IRC Section 401(a)(17) and Section 822.201(d), Tex. Gov't. Code. Again, this limit affects only a small number of more highly paid members.
- **A participant's voluntary annual contributions to TRS each year** are limited, which may affect how a participant purchases special service credit.
- A participant who is no longer working in Texas public education must begin to take a distribution by April 1 of the calendar year following the year in which the participant attains age 70 ½, and the plan must comply with other "required distribution" provisions of the IRC.

- A member must terminate employment in order to receive a distribution from TRS, such **as a refund of member contributions, in order to avoid “in service”** distributions inconsistent with the IRC.

A retirement plan may secure the IRS's binding opinion on its status as a qualified plan under the federal tax laws by seeking a determination letter from the Internal Revenue Service (IRS). Under IRC regulations, governmental plans can file for determination letters during a one-year period in a five-year cycle established for such plans. The most recent "Cycle C" filing period for governmental plans occurred from February 1, 2008 through January 31, 2009. TRS filed its application for a new determination letter in September 2008 and is currently awaiting the IRS response.

In recent years, the IRS has stepped up its level of attention to public pension plans. IRS has expressed interest in surveying public plans about their operations; drafting a compliance manual specifically for public plans; and issuing formal guidance on the attributes of a governmental plan. TRS continues to monitor IRS public retirement plan activities and follow significant initiatives with potential repercussions for the TRS plan.

Additionally, as a payer of more than \$6 billion in benefits annually, TRS must comply with federal tax requirements for reporting income to the IRS and to taxpayers. TRS withholds taxes, reports income, and distributes IRS 1099-R tax forms to payees as required by federal law.

Finally, the IRC affects TRS' administration of group health benefit plans and related programs. Over the years, the federal government has been very active in attempting to address the effect of spiraling healthcare costs on employer-provided benefit plans, with a number of tax code changes designed to offer more options on how costs can be shared between employers and employees. The most recent example of such federal legislation is the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, which is discussed more fully below. Through favorable tax treatment of benefits to employees, the federal government has encouraged the development of new types of benefit plans, such as health reimbursement arrangements (HRAs) and health savings accounts (HSAs). These **frequently are referred to as “consumer-driven” health benefit plan features.** TRS continues to monitor federal developments in this dynamic area, since they affect many aspects of the health benefit programs administered by TRS. For example, TRS has structured the TRS-ActiveCare 1-HD plan to meet the federal requirements for a high deductible plan, which makes participants in that plan eligible to establish HSAs.

Social Security - Federal Social Security coverage and benefit policies often affect TRS, its members, and Texas public education employers. Under federal law, state and local government employees hired after April 1, 1986 are required to participate in Medicare, but regardless of hire date such public employees are not required to participate in the Old-Age, Survivors and Disability Insurance (OASDI) aspect of Social Security if they have available an comparable alternative **retirement plan. The OASDI retirement benefits are commonly referred to as the “Social Security benefits.” Federal law establishes comparability standards for plans that serve** as an alternative to OASDI coverage.

Employees of most school districts and of some community colleges in Texas do not participate in Social Security, and TRS serves as the alternative plan. When an employee is not covered by

Social Security, neither the employee nor the employer must make the OASDI contribution of 6.2% each, up to the established wage base limit for the year. Consequently, those employees do not accrue OASDI retirement benefits for that period of work. When a state or local government employer does cover employees in Social Security, the eligibility is established under what is known as a Section 218 agreement between Social Security Administration and the public employer, or it is pursuant federal law that now mandates Social Security coverage of government employees who are not members of a public retirement system and who are not covered under a Section 218 agreement

Not participating in OASDI can intersect with TRS policies in a number of ways. For example, the 78th Texas Legislature, Regular Session, created a 90-day TRS membership waiting period for new public education employees. Employers not participating in Social Security were required to enroll the affected employees in Social Security or another comparable retirement plan until those employees were eligible to enroll in TRS. The 90-day waiting period was subsequently eliminated; however, employers must now pay the state contribution during the first 90 days of employment.

Non-participation in Social Security has other implications for TRS participants. For example, until **2004 many TRS members took advantage of what was referred to as the "last-day loophole" in Social Security law. The "loophole" permitted employees who worked in positions not covered by Social Security to avoid the effect of the government pension offset (GPO) by working their last day before retirement in a position covered by Social Security. Before Congress closed the "loophole" in 2004, some retiring Texas teachers who worked most of their careers in positions not covered by Social Security arranged to work their last day before TRS retirement in one of the few Texas school districts that do participate in Social Security. The last day of employment in a Social Security district exempted the teachers from having their spousal or widow benefits from Social Security offset by two thirds of their TRS benefits. Congress ended the "last-day loophole" effective July 1, 2004. Now, an employee must work at least five years in a Social Security-covered position before retirement in order to be exempt from the GPO**

GPO and the Windfall Elimination Provision (WEP) features in the Social Security program both continue to be of concern to TRS members. The WEP feature reduces the Social Security benefit that a TRS participant may receive when *some of that participant's TRS-creditable service was covered by Social Security but some was not covered*. Both GPO and WEP continue to be the subject of Congressional interest, and TRS follows developments in these areas.

TRS continues to monitor related federal issues, including use of Social Security numbers and proposals for mandatory Social Security coverage regardless of participation in a comparable retirement plan, since these issues have potential for significant impact on TRS programs, TRS-covered employers, and TRS membership.

ERISA - The Employees Retirement Income Security Act of 1974 (ERISA) imposes funding and plan design restrictions on pension plans but exempts governmental plans from those provisions. However, ERISA often provides guidance to state pension plans on funding, benefits, or fiduciary issues. TRS continues to monitor any changes made to ERISA to improve protection of retirement savings and benefits. Additionally, from time to time, legislation is proposed to subject state and local governmental plans to some level of federal oversight, using ERISA as a guide.

Patient Protection and Affordable Care Act – In March 2010, the Patient Protection and Affordable Care Act (the “Patient Protection Act”), as amended by the Health Care and Education Reconciliation Act of 2010 (the “2010 Reconciliation Act”), was signed into law. This legislation is designed to effectuate fundamental reforms to the United States health care system. Even though this legislation is quite lengthy, it only provides a framework; details will be issued in the coming months and years from various governmental agencies in the form of regulations and guidance. A preliminary analysis by TRS of this legislation generally indicates that this legislation will have minimal impact on TRS-Care and TRS-ActiveCare. The retiree reinsurance program contained in this legislation may provide additional funding for TRS-Care. In an effort to comply with this legislation, TRS continues to monitor regulations issued by various governmental agencies, as well as case and statutory law.

Medicare - The TRS-Care health benefit program for eligible retirees is significantly affected by the federal Medicare program. Expansion of Medicare benefits, such as Medicare Part D prescription drug coverage, typically will reduce TRS-Care costs. Medicare Part D went into effect January 1, 2006. For fiscal years 2008 – 2009, TRS collected over \$121 million in prescription drug claim reimbursements. By contrast, if Medicare reduces benefits to participants, the cost of providing coverage could shift to TRS-Care, if the medical service is covered by the TRS-Care plan. For these reasons, TRS closely monitors legislation and regulations to determine the impact of Medicare changes.

HIPAA - The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) require the establishment of national standards for electronic healthcare transactions and national identifiers for providers, health plans, and employers. They also address the security and privacy of protected health information. HIPAA regulations regarding the security and privacy of health data affect how protected health information is collected and maintained by TRS. TRS continues to monitor case and statutory law arising from HIPAA, all in an effort to remain in compliance with its requirements.

HITECH – The Health Information Technology for Economic and Clinical Health Act (HITECH), passed as part of the American Recovery and Reinvestment Act of 2009, expanded current federal privacy and security protections for health information under HIPAA. HITECH accomplished this by, among other requirements, establishing federal notification requirements concerning the release of health information that is not encrypted or otherwise made indecipherable, **if such a release constitutes a “breach” under the law. If a breach occurs, then** the law requires that an individual be notified of the unauthorized disclosure or use of their health information. HITECH also broadens the types of entities that are subject to the privacy and security rules under HIPAA. As with HIPAA, in an effort to comply with the law, TRS continues to monitor case and statutory law arising under HITECH, as well as regulations issued by various governmental agencies.

Miscellaneous Federal Laws or National Issues - TRS also monitors various federal laws, such as the Age Discrimination in Employment Act (ADEA) and the Uniform Services Employment and Reemployment Rights Act of 1994 (USERRA), for any effect on programs or membership. USERRA protection of retirement and other employment-related benefits will be increasingly important as U.S. military personnel return to public education positions in the State of Texas

following deployment in Iraq or Afghanistan. The ADEA can affect the both the pension plan and health benefit programs.

In the investments arena, TRS also watches congressional and regulatory developments on issues such as corporate governance, class-action lawsuits, investments in companies or countries with ties to terrorism, and conflicts of interest in the financial services industry. Heightened federal activity and media attention on such issues may directly or indirectly affect TRS investments or investment services, including consideration of the degree to which social or economic development issues should be part of the investment process. TRS continues to monitor federal developments relating to globalization, foreign relations, and divestment of securities issued by companies doing business in countries such as Sudan and Iran.

Finally, in administering the certification program for annuity and mutual fund companies that offer their investment products to Texas public education employees, TRS monitors federal regulations relating to Section 403(b) plans. These voluntary, supplemental savings plans, established under Section 403(b) of the IRC by public education employers, allow employees to save for retirement in a tax efficient way. In July 2007, the IRS issued final regulations to update and consolidate guidance on 403(b) plans, including a new requirement to have a written plan.

IRS's prototype written plan suggests a list of vendors offering investments to employees be incorporated into the plan. Under Texas law, companies offering 403(b) investments through salary reduction agreements to employees of school districts and open enrollment charter schools must certify to TRS that they comply with applicable requirements. Employees may make investments through any of these companies, unless the employer has determined that a **company does not comply with the employer's administrative requirements. Effective** January 1, 2008, the companies must register all products offered to Texas public school employees. New federal regulations, generally effective January 1, 2009, created some changes in the 403(b) product industry. During the 81st Legislature, state law responded by allowing more flexibility for platform companies (*i.e., those that sell other companies' products but do not issue investment* products of their own) to certify to TRS and by addressing issues relating to third party administrators for 403(b) plans.

OTHER LEGAL ISSUES

Potential State Issues

The 81st Texas Legislature, Regular Session, met in 2009 and enacted new laws affecting TRS. Although the changes were less extensive compared to those made in recent sessions, new laws addressed:

- the employment of outside legal counsel,
- updated plan provisions relating to rollovers and other matters to stay current with federal qualification requirements,
- adding certain requirements for third party administrators of 403(b) plans,
- allowed a TRS retiree to select TRS-Care coverage during the first 90 days after retirement, and
- required TRS to make a good faith effort to use emerging managers in its investment program.

As TRS approaches the start of the next legislative session, future funding of the TRS-Care health benefit program for retirees continues to be a major challenge. The group health benefit trust fund faces the ongoing mismatch between established revenue sources and the growing increase in health care costs. However, the 81st Legislature did provide requested funding for TRS-Care, eliminating the need for premium increases.

Another issue that retirees are concerned about is a cost of living adjustment or a supplemental payment. Though the 81st Legislature authorized payment of a supplemental payment, it was conditioned on issuance of an Attorney General opinion finding the one-time payment is constitutionally and statutorily permissible. The Attorney General issued Opinion No. GA-0746 (November 23, 2009) finding that it was impossible to conclusively opine that such payments are constitutionally and statutorily permissible. Retirees continue to watch the actuarial health of the pension trust fund to assess whether the fund is likely to be able to provide any additional benefit to soften the effects of inflation.

Employment after retirement also presents policy, funding, and administrative issues. Though employment after retirement is one way for school districts to keep experienced teachers in the classroom and for retirees to supplement their retirement benefits, unrestricted employment after retirement may encourage retirement at an earlier date than a member would otherwise choose. Both early-age retirement and normal age retirement at first eligibility (instead of at a later date), typically increase actuarial liabilities for a pension plan. Additionally, because state law provides for a retiree to forfeit the monthly annuity in a month in which the retiree works in Texas public education but the law also provides numerous exceptions, TRS is increasingly burdened by the administration of multiple exceptions and the enforcement of the statutory provisions against retirees who creatively test the limits.

With an emphasis on holding administrative costs low while providing satisfactory service to its participants, TRS is assessing ways to simplify plan provisions relating to creditable compensation, service required for credit, and the definition of school year, as well as employment after retirement restrictions. TRS believes that in order to maximize the use of technology in plan administration and thus restrain costs, including FTE growth, plan provisions must be simplified to avoid complex arrangements, multiple exceptions, and manual processing that are incompatible with a more automated approach. TRS staff and board intend to identify how certain plan features could be streamlined to allow the fund to serve its participants efficiently, even as it continues to experience growth in the number of participants served.

With regard to TRS's investment responsibilities, legislation enacted by the 80th Legislature authorized the use of instruments to manage risk, enhance returns, and promote efficient portfolio management. TRS is authorized to buy or sell futures, swaps, forwards, options, options on futures, swaps, and other instruments. An analysis by the TRS Internal Audit Department concluded that implementation of this new authority had saved TRS approximately \$208 million. The new law also permitted, for the first time, delegation of investment discretion to external investment managers, limited to 30 percent of the portfolio. TRS has engaged a significant number of external managers after extensive due diligence. Unless re-authorized by the legislature, the new investment authority expires on September 1, 2012. The legislation also limits investments in hedge funds to 5 percent of the portfolio. TRS expects to discuss this authority during the next session, along with the investment authority that will sunset unless re-authorized. Finally, under a rider in the General Appropriations Act, TRS and ERS are to make a

good-faith effort to use emerging managers for investments and report to the 82nd Legislature on their efforts.

Impact of Court Cases

TRS monitors litigation across the country that could establish important precedents concerning plan design, benefits, investments, or fiduciary conduct. TRS also monitors legal developments in significant class action litigation affecting TRS investments and routinely files claims for settlement proceeds to which the system is entitled. TRS evaluates the litigation to determine whether to remain in the class or pursue its own action. In the health benefits arena, cases addressing denial of coverage, age discrimination, privacy, and other issues are monitored for impact on TRS-Care and TRS-ActiveCare.

Although TRS was not a party to the following open government litigation, the two cases are noteworthy for their actual or potential impact on TRS. The decision of the Texas Supreme Court in *City of Dallas v. Abbott*, 53 Tex. Sup. Ct. J. 349, 2010 WL 571972 at *3 (Tex. Feb. 19, 2010) has given TRS additional time to determine if all or part of a TRS record responsive to a public information request should be submitted to the Texas Attorney General for a ruling about whether it should be disclosed. In *City of Dallas*, the court held that, when a governmental entity, acting in good faith, requests clarification or narrowing of an unclear or overbroad request for public information, the ten-day period to request an attorney general opinion is reset from the date the request is finally clarified or narrowed. That decision overruled the attorney general's opinion that the ten-day time period would stop running until the request was clarified or narrowed, when it would start running again, leaving TRS staff whatever time remained of the period to determine if any of the responsive information as clarified or narrowed should be sent to the attorney general for consideration. In *Rangra v. Brown*, No. P-05-CV-075, 2006 WL 3327634, *dism'd as moot*, No. 06-51587 (5th Cir. Sep. 10, 2009), a federal district court in Texas determined that the U.S. Constitution did not bar the prosecution of two city council members under the Open Meetings Act for holding an illegal closed meeting by deliberating city business through e-mails that passed among a quorum of the council. The Fifth Circuit Court of Appeals dismissed the appeal challenging the district court judgment based on mootness, leaving intact the lower court ruling.

TRS CORE COMPETENCIES

TRS views the following competencies as core to the successful achievement of its mission:

- ◆ *Benefit Delivery*
 - ◆ *Investment Management*
 - ◆ *Communication with Stakeholders*
 - ◆ *Workforce Contribution*
-

In the following pages, TRS reviews its accomplishments and commitments for each core competency. Commitments represent ongoing practices undertaken **in support of TRS' core competencies and are central to the system's strategic plan.** Beginning with this planning cycle, TRS has adopted an expanded set of strategic goals, objectives, and strategies. Ultimately, the commitments noted here will be integrated into those. In the case of Investments Management and Workforce Contribution, this has already been accomplished, thus no commitments appear in this section for that core area.

Benefit Delivery: Retirement and Related Benefits

TRS serves a diverse population of over 1.2 million active and retired members, which includes personnel employed in 1,364 reporting entities throughout the state.

We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members, annuitants, and their beneficiaries.

Accomplishments

- In fiscal year 2009, TRS processed retirements for 14,722 members. During the same fiscal year, our office produced 8,006 bills for the purchase of special service which includes, but is not limited to, reinstatement of refunded accounts, purchase of unreported or substitute service, military service and out-of-state service. In addition, the number of death claims for those members who died prior to retirement totaled 1,130, and the number for those who died after their retirement totaled 5,972. Finally, the number of withdrawing members from TRS totaled 37,473. During this same timeframe, the active membership in TRS increased by 22,925.
- TRS implemented new legislation, including that passed by the 81st Texas Legislature, as follows:
 - ▶ **Differential pay (the difference between a member's regular pay and military pay) paid** to a TRS member by a TRS-covered employer while the member is on active duty is now defined as creditable compensation.
 - ▶ The beneficiary of a TRS member who dies while performing qualified military service will receive TRS death benefits as if the member had resumed employment.
 - ▶ The deadline for new retirees to enroll in TRS-Care was extended from 31 days to 90 days following retirement.

- ▶ Non-spouse beneficiaries permitted to rollover eligible distributions to an Individual Retirement Account, as provided under federal law and rollovers into Roth IRAs.
- ▶ An increase in the state contribution rate from 6.4% to 6.644% following issuance of Attorney General Opinion No. GA-0746 relating to the General Appropriations Act provision concerning a one-time supplemental payment for retirees.
- ▶ Authorization for retired public safety officers participating in the University of Texas and Texas A&M University retiree health programs to deduct their qualified health insurance premiums from their TRS retirement annuities in order to take advantage of a federal tax law provision allowing an exclusion of deducted premiums from gross income.
- Through its toll-free telephone counseling center, TRS answered 429,171 calls from members and retirees in fiscal year 2009.
- The TRS interactive voice-response system handled 205,414 calls during fiscal year 2009.
- Face-to-face meetings in TRS offices were held with 9,123 members during fiscal year 2009. In addition, 149 group presentations were held with 13,584 members in attendance and TRS participated in 7 conventions with 32,700 attendees. One-on-one retirement counseling sessions were implemented successfully in ten cities with 375 available appointments and 366 members served.

Commitments

We will:

- Continue to utilize performance standards and an effective performance measurement program to enhance the consistent and timely delivery of quality service to our membership.
- Continue to provide and enhance a telephone survey to our members and retirees for feedback about their telephone experience with TRS benefit counselors.
- Continue to evaluate, enhance and expand the Benefit Counseling Quality Assurance Program in Benefit Counseling
- Continue to maximize the available appointments for one on one counseling sessions in field locations across Texas.
- Continue to use technology and communication tools to enhance our delivery system capacity in order to meet the increased demands of a growing and diverse membership.
- Continue to offer cost-effective technology tools to educate our members about their retirement options and increase their access to information about their benefits.
- Continue to expand opportunities for our membership to conduct TRS business through Web access.
- Continue our commitment to excellence and flexibility in delivering retirement and death benefits, and strive to continuously improve our service.
- Continue to survey similar benefit providers in both the public and private sectors to identify practices that offer potential improvements for TRS.
- Continue to provide superior training to our employees, equipping them to efficiently serve our members and meet the increasing demands of the growing membership.

- Continue to monitor eligibility of participants for TRS-Care and retirement to identify the interaction of the different eligibility requirements.
- Continue to conduct customer service surveys to ensure continued high-quality service to our members.
- Continue to provide performance reporting to ensure that stakeholders are informed of program operation and results.
- Continue to allocate resources to their most productive, mission-oriented uses.
- Continue to effectively implement benefit changes approved by the legislature.

Benefit Delivery: TRS-Care Health Benefit Program

TRS administers TRS-Care, which provides medical and pharmacy benefits for retired public school employees and their dependents. As of August 31, 2009, there were 193,001 participants in the plan.

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- Conducted a competitive bid process (RFP) to select a Pharmacy Benefit Manager (PBM) effective September 1, 2010. The TRS board selected Caremark for a two-year term with the option to renew annually for up to four additional years. This contract was written and executed in compliance with Senate Bill 704 (81R) and in consideration of SAO recommendations. It is estimated that this contract will save about \$100 Million over the next biennium.
- Conducted a competitive bid process (RFP) to select a Health Plan Administrator (HPA) effective September 1, 2010. The TRS board selected Aetna for a two-year term with the option to renew annually for up to four additional years.
- Implemented House Bill 1191 (81R) allowing eligible new public school retirees up to three months (but not less than 90 days) from their retirement date to enroll in TRS-Care.
- The TRS board approved the addition of an annual routine physical benefit for all three TRS-Care plans effective September 1, 2010, while maintaining copayments, coinsurance levels, and deductibles unchanged.
- Premiums have remained unchanged since September 1, 2004.
- The board of trustees appointed one new member and reappointed four existing members to the Retiree Advisory Committee (RAC) to terms expiring January 31, 2014.
- Collected over \$121 Million in prescription drug claim reimbursements under the Medicare Part D Subsidy program during the fiscal years 2008 – 2009 biennium.
- Revised the TRS-Care plan booklet to update the information provided for plan participants.

Commitments

We will:

- Continue to effectively oversee the administration of the retiree health benefit program to ensure that quality benefits are provided at a competitive cost.
- Continue to compare TRS-Care plans with similar plans, including analyses of comparative costs and premiums.
- Continue to conduct member satisfaction surveys to ensure continued high-quality service to plan participants.
- Identify specific areas where performance may be improved through changes in plan design and program administration.
- Provide performance reporting to ensure that stakeholders are informed of program operations and results.
- Continue to educate plan participants, in collaboration with the claims administrator and pharmacy benefit manager, to optimize benefit participation and network utilization.
- Continue to work with the legislature in the effort to resolve funding requirements of TRS-Care.
- Continue to coordinate the filing of subsidy reimbursement claims under Medicare Part D.

Benefit Delivery: TRS-ActiveCare Health Benefit Program

TRS Active-Care is a statewide health benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS. Participants can choose from three preferred provider organization plans, and participants in certain areas also have the option of choosing coverage under a health maintenance organization.

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- As of September, 2009, more than 1,098 entities were participating in TRS-ActiveCare. 224,694 employees plus 153,684 dependents - over 378,000 individuals - were covered **under the program, making it one of the nation's largest health benefit programs for public employees.**
- The TRS-ActiveCare program continues to increase membership through additions of new participating entities that choose to join the program.
- TRS-ActiveCare continues to provide multiple plan choices to employees by offering four state-wide preferred plan options (PPOs), plus three Health Maintenance Organizations (HMOs) in certain service areas.
- Premiums increased by 4.5 percent effective September, 2009.
- Two enrollment periods were offered for School Year 2009-2010.
- TRS provided training for benefit administrators of entities participating in TRS-ActiveCare. The training took place in the 20 education service centers throughout the state.

Commitments

We will:

- Continue to effectively oversee the administration of the active employee health benefit program to ensure that quality benefits are provided at a competitive cost.
- Continue to compare TRS-ActiveCare plans with similar plans, including analyses of comparative costs and premiums.
- Continue to conduct customer service surveys to ensure continued high-quality service to plan participants.
- Continue to engage independent audits bi-annually for both medical and pharmacy claims processed during the immediately preceding two-year period.
- Continue to seek and identify specific areas where performance can be improved through changes in plan design and program administration.
- Continue to provide performance reporting to ensure that stakeholders are informed of program operations and results.
- Continue to provide education to plan participants in collaboration with the claims administrator and pharmacy benefit manager to optimize benefit participation and utilization.

Benefit Delivery: Long-Term Care Insurance Program

We are dedicated to offering quality long-term care insurance at affordable rates for members and retirees who wish to obtain this coverage.

Accomplishments

- Maintained the long-term care insurance Web site to provide members and retirees with immediate, up-to-date information about the TRS-sponsored group long-term care insurance program and important long-term care information.
- Successfully transitioned from the previous carrier to Genworth Life Insurance Company following a competitive bidding process for the group long-term care insurance program through August 31, 2013.
- Participation in the group long-term care insurance program through Genworth Life now exceeds 7,000 enrollees and dozens of people have had long-term care expenses paid by this coverage.

Commitments

We will:

- Continue to evaluate the TRS group long-term care insurance plan, including analysis of comparative benefit features and premiums.
- Continue to communicate information about the TRS group long term care insurance plan to retirees and members through multiple media methods in cooperation with Genworth Life.

- Continue to conduct customer service surveys to ensure continued high-quality service to plan participants.
- Continue to educate plan participants to optimize benefit participation.
- Continue to monitor federal and state legislation that may impact long-term care insurance plans.

Investments

We are dedicated to the prudent management of assets held in trust for our members and their beneficiaries, seeking a long-term investment return that exceeds the established actuarial rate of return.

Accomplishments

- The year 2009 was one of significant progress for the TRS pension fund. The Trust has been going through a transition in one of the most volatile market periods in history.
- TRS as a pension fund won numerous awards including Public Pension Fund of the Year by a division of Institutional Investor.
- **Membership on the President's Working Group on Financial Markets.**
- The Strategic Partnership Network was successfully launched. For the one year ending **9/30/2009, the SPN's had beat their benchmarks by nearly 5%. In addition, the** partnership has completed numerous research projects and is a valuable resource for plan asset allocation.
- A robust Risk Management Infrastructure has been set up and has been providing information and research for the management of the fund.
- TRS certification process of new external managers has been fully developed and is one of the most rigorous processes in the investment industry.
- While the Private Investment Markets struggled through the recent recession, the fund is very liquid and was able to make significant investments in the real estate portfolio.
- During the credit crisis, TRS created a cross-organizational team to rapidly evaluate credit markets, proposals and managers to launch a \$5B investment into the dislocated credit markets.
- Completed a division-wide mapping of critical process to focus resources on improving efficiency and productivity.
- Added 48 new investment professionals to the staff.
- As of August 31, 2009, the Investments staff has obtained 38 Chartered Financial Analyst (CFA) designations with more in progress. The completed CFA charters represent approximately 75 percent of the staff who make active decisions about security selection within the traditional asset classes.
- As of August 31, 2009, four staff members of the External Private Markets group have obtained the Chartered Alternative Investment Analyst (CAIA) designation.

Communication

Communicating effectively with key stakeholders is one of TRS' four core competencies. Clear communication is important as TRS membership grows, demographics change, and different population segments gain varying familiarity with and access to evolving technology. TRS places a high priority on timely, accurate, and meaningful communications to share information, seek feedback, improve decision making, and build an ever-stronger commitment to achieving our mission.

Accomplishments

- TRS launched *TRS-Connect*, a new program that gives members and retirees the ability to receive TRS announcements and various TRS publications electronically when they register their e-mail addresses through the agency Web site. Those who register can receive information through e-mail more quickly than they could by waiting for it to arrive in the mail. *TRS-Connect* also helps reduce printing and postage expenses, thereby lowering agency operating costs. *TRS-Connect* e-mail subscription service will be expanded to include 1099-Rs and Annual Statements.
- A pilot project was launched in the spring of 2010 with 10 school districts aimed at encouraging district employees to register their e-mail addresses with TRS. Such employees can then receive TRS-related information quicker than by mail, be notified whenever important TRS developments occur and help TRS to reduce printing/mailing expenses. Building on the success of this pilot project, TRS will expand its efforts to reach other active members and retirees.
- **TRS added a section to its Web site titled "Investments in Plain English" to help members and retirees better understand investment terms and how the agency manages its pension fund investments.**
- A number of improvements were introduced to expand online options for members and retirees visiting the TRS Web site. Members who do not have a password are now able to request a duplicate retirement packet online. Two new online calculators were created for unreported service and sick leave, and annuitants can now view their health care premium deductions online. Changes were made to the look and feel of several member applications, such as online access, Group Benefit Presentation registration, and *TRS-Connect*, making it easier for members to navigate on the Web site.
- TRS maintains a Web-based 403(b) Product Registration System that allows 403(b) companies to submit products for registration. The 403(b) product list was expanded to offer more investment options to members.
- TRS plans are underway to launch *MyTRS*, an online application that will help members and retirees obtain easier access to benefit-related information, as well as reset their passwords online and register for group benefit presentations.
- The *TRS Benefits Handbook*, the pension plan's summary description, was updated to reflect the latest member and retiree benefit information, including benefit changes enacted by the 81st Legislature.
- The TRS *Comprehensive Annual Financial Report* has continued to earn a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) each year for the past 17 years.

- In 2010, TRS commissioned the University of North Texas to conduct a satisfaction survey of TRS members and annuitants. Survey results will assist the system in improving service to its constituents.
- Following the 81st Texas Legislature, TRS provided its members and retirees with explanations of recent changes in the law. The TRS Web site was updated, including all calculators; and two *TRS News* issues containing legislative summaries were mailed to all members and retirees.
- Benefit Counseling increased the number of appointments available during one-on-one field counseling by adding another location. Increasing the locations from nine cities to 10 cities helped to boost the number of available appointments from 350 to 375. A total of 370 members were seen in field locations.
- Outreach to members was increased with the addition of another location for Group Benefit Presentations. In those 31 locations across the state, TRS staff reviewed the full array of TRS benefits available to TRS active members and also covered issues for members considering retirement.
- **The TRS streaming video titled “Steps to Retirement” was updated with current information on requesting an estimate of retirement benefits, forms required for retirement, sources of information to help answer prospective retirees’ questions, and more.**

Commitments

We will:

- Strive to improve relations and communication with our internal and external stakeholders.
- Assess and adjust communication efforts to ensure that they anticipate and address stakeholder information needs.
- Position the agency to collaborate with state leadership in fulfilling our mission by providing prompt, accurate information for successful planning and decision-making.
- Form effective partnerships with key state agencies to better serve our respective constituencies.

Workforce Contribution

We support the employees of TRS and recognize that TRS achieves its mission through both their individual success and their efforts as a team.

Accomplishments

TRS Human Resources management works to ensure a strategic focus and effective partnership with senior management. This focus guided the direction that led to the following accomplishments:

- TRS continued its *Workplace Diversity Initiative*, by supporting the Diversity Council and the diversity philosophy statement. The council maintains four priorities: communication, training and development, community outreach, and measurement and tracking. TRS leadership has supported initiatives in all four areas. **The celebration of “Appreciate Diversity Month,” held each year in July, is well received.** The 2009 celebration

encouraged employees to participate in the “TRS Family Faire.” In addition to the “TRS Family Faire,” The Diversity Council initiated and co-sponsored the TRS Fall Picnic with the Wellness Committee.

- TRS continued to enhance efforts to attract and retain a diverse, well-qualified workforce by maintaining effective compensation, performance, recruitment, and staff development programs.
- Results of the fiscal year 2010 *Survey of Employee Engagement* reflect that TRS employees continue to remain engaged in the workplace and have a strong customer-service orientation. (Additional information about the fiscal year 2010 survey is provided in Appendix F.)
- TRS maintains a Compensation Philosophy that guides salary administration decision-making, and a compensation strategy that ensures the allocation of appropriate resources necessary for an effective compensation program.
- TRS Human Resources provided ongoing sessions designed to enhance teamwork and productivity to work groups upon request.
- TRS provided several leadership development opportunities to managers and team leaders during the past biennium.
- TRS offers job-specific training (including computer skills training) to employees on a regular basis to enhance productivity.
- All employees periodically participate in workshops covering such topics as Equal Employment Opportunity and Information Security to ensure that members of the workforce are familiar with the principles of fairness and integrity expected at TRS.
- TRS uses alternative learning strategies, including Web-based training and a library of self-study resources.



THIS PAGE INTENTIONALLY LEFT BLANK



GOALS, OBJECTIVES, & STRATEGIES

These strategic goals have been developed to help focus the efforts of TRS on accomplishment of its mission and in response to a thorough and on-going evaluation of internal and external factors that influence the organization and its stakeholders. TRS believes that in striving to achieve these goals, we challenge ourselves to continuously improve performance and customer service.

Beginning with this planning cycle, TRS has chosen to decouple its strategic goals, objectives, and strategies as stated within the strategic plan document from those included as part of the budgetary bill pattern. This allows us to develop a set of goals, objectives, and strategies that will help functional areas from across the organization focus their energies even more effectively towards achievement of the TRS mission. They have been crafted to compliment rather than replace those currently captured in the appropriations request.

We believe that an important factor in our continued success and improvement will be a clear understanding by each member of the staff of our goals and objectives, and an appreciation of the part they play in reaching them; to personalize them as their own. TRS considers this a vital first step towards a strategic planning process that ties budgetary, operational, and enterprise risk management considerations together to create not just a more meaningful strategic plan, but a strategic approach to management that will truly become a key element in guiding and improving business processes over the long term.

If a specific date is not included for an objective, it is assumed that the objective applies to the entire FY11 – FY15 timeframe. When a target fiscal year is identified, unless otherwise indicated, it is assumed that the objective will be achieved no later than the end of the fiscal year. Statutory citations are not all-inclusive. Other statutes may have bearing on the authority for the stated goal.

GOAL 1: To assure the financial soundness of the pension system. *(Texas Constitution, Article 16, Section 67)*

Objective G1.01: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years.

Outcome Measures:

- G1.01.OC1: Number of years to amortize the unfunded actuarial accrued liability (UAAL).
- G1.01.OC2: Percentage change in UAAL.

Strategies:

- G1.01.S1: Evaluate long-term funding solutions to reduce unfunded liability and improve funding period of the pension trust.
- G1.01.S2: Engage in thorough periodic review of plan design and actuarial assumptions to ensure that they remain valid and support the long-term viability of the system.
- G1.01.S3: Conduct regularly scheduled meetings of the TRS Valuation Committee to review material accuracy of investment valuations.
- G1.01.S4: Ensure that discrepancies between reported Partnership valuations and TRS calculated valuations are less than +/- 0.5% for each partner.

Objective G1.02: Generate a ten-year average investment return of at least eight percent.

Outcome Measures:

- G1.02.OC1: Ten-year average, time-weighted rate of return
- G1.02.OC2: Investment Performance Relative to Board Approved Benchmark
- G1.02.OC3: Investment expense as basis points of net assets.

Strategies:

- G1.02.S1: Outperform investment benchmarks through professional asset allocation, risk management and execution.
- G1.02.S2: **Create a culture of professionalism that enhances the investment division's stability and ability to generate long term improvements.**
- G1.02.S3: Develop deep and proprietary long-term **relationships with the world's most effective investment organizations.**
- G1.02.S4: Develop, procure, and support technology systems that enable sound but rapid investment decisions in a dynamic environment.

GOAL 2: To facilitate the financial soundness of the retiree health benefit program and offer a program that is responsive to and valued by enrollees. *(Sections 1575.051 and 1575.052, Texas Insurance Code)*

Objective G2.01: Maintain a fund balance to sustain solvency through no less than a two-year period.

Outcome Measures:

- G2.01.OC1: Contingency balance as a percentage of projected expenditures.

Strategies:

- G2.01.S1: Evaluate long-term funding solutions to ensure ongoing solvency.
- G2.01.S2: Establish appropriate premiums and plan design.
- G2.01.S3: Achieve favorable pricing through competitive bidding.
- G2.01.S4: Administer successful cost savings programs.
- G2.01.S5: Provide accurate and timely information to facilitate projections.
- G2.01.S6: Provide accurate and timely information to legislature.
- G2.01.S7: Contract with external audit firm and conduct audit.

Objective G2.02: Provide TRS-Care enrollment, claims, and customer services such that at least 85% of eligible retirees will consider them satisfactory or better.

Outcome Measures:

- G2.02.OC1: Percentage of TRS-Care eligible retiree customers satisfied with enrollment, claims, and customer services.

Strategies:

- G2.02.S1: Include relevant contractual performance measures and related financial penalties in the health plan administrator contract.

G2.O2.S2: Monitor performance reports from plan administrator and take appropriate corrective action as needed.

G2.O2.S3: Conduct periodic customer satisfaction surveys, and make appropriate adjustments as needed to address deficiencies.

Objective G2.O3: Provide health claim services such that at least 95% of claims are adjudicated within 14 days of receipt.

Outcome Measures:

G2.O3.OC1: Percentage of TRS-Care health claims adjudicated within 14 days of receipt.

Strategies:

G2.O3.S1: Include relevant contractual performance measures and related financial penalties in the health plan administrator contract.

G2.O3.S2: Monitor performance reports from plan administrator and take appropriate corrective action as needed.

GOAL 3: To administer a sustainable public education employee health benefit program that is responsive to and valued by enrollees. *(Sections 1579.051 and 1579.052, Texas Insurance Code)*

Objective G3.O1: Maintain a fund balance to sustain solvency through no less than a one-year period.

Outcome Measures:

G3.O1.OC1: Contingency balance as a percentage of projected expenditures.

Strategies:

G3.O1.S1: Establish appropriate premiums and plan design.

G3.O1.S2: Achieve favorable pricing through competitive bidding.

G3.O1.S3: Administer successful cost savings programs.

G3.O1.S4: Provide accurate and timely information to facilitate projections.

Objective G3.O2: Maintain a customer satisfaction rate of at least 85% for medical benefits delivered through the TRS-ActiveCare self-funded Preferred Provider Plans (PPO).

Outcome Measures:

G3.O2.OC1: Percentage of TRS-ActiveCare customers satisfied with medical benefits delivered through the Preferred Provider Plans.

Strategies:

G3.O2.S1: Include relevant contractual performance measures and related financial penalties in the health plan administrator and pharmacy benefit manager contracts, and monitor results.

G3.O2.S2: Conduct periodic customer satisfaction surveys, and make appropriate adjustments as needed to address deficiencies.

Objective G3.03: Maintain a customer satisfaction rate of at least 90% for prescription drug benefits delivered through the TRS-ActiveCare self-funded Preferred Provider Plans (PPO).

Outcome Measures:

G3.03.OC1: Percentage of TRS-ActiveCare customers satisfied with prescription drug benefits delivered through the Preferred Provider Plans.

Strategies:

G3.03.S1: Include relevant contractual performance measures and related financial penalties in the health plan administrator and pharmacy benefit manager contracts, and monitor results.

G3.03.S2: Conduct periodic customer satisfaction surveys, and make appropriate adjustments as needed to address deficiencies.

Objective G3.04: Provide health claims service such that at least 97% of complete medical claims are adjudicated within 14 calendar days.

Outcome Measures:

G3.04.OC1: Percentage of TRS-ActiveCare complete medical claims adjudicated within 14 calendar days.

Strategies:

G3.04.S1: Include relevant contractual performance measures and related financial penalties in the health plan administrator and pharmacy benefit manager contracts, and monitor results.

GOAL 4: To deliver superior customer service by providing accurate, timely and relevant information to all TRS stakeholders using both traditional and innovative delivery methods. *(Section 825.113 (c), (f) and (g), Texas Government Code)*

Objective G4.01: Process 98% of initial annuity payments to TRS retirees when first due.

Outcome Measures:

G4.01.OC1: Percentage of annuity payments processed within 31 days of receipt of all required documents.

Strategies:

G4.01.S1: Provide quality initial and ongoing staff training.

G4.01.S2: Cross-train staff members to provide assistance during peak periods.

G4.01.S3: Improve existing automated systems used in the delivery of benefits.

G4.01.S4: Implement approved statute and rule changes to simplify business processes.

G4.01.S5: Conduct periodic review of TRS laws and rules to streamline and simplify.

Output Measures:

G4.01.OP1: Number of retirements.

Objective G4.02: Process 95% of death benefit payments within 31 days of receipt of all required documents.

Outcome Measures:

G4.02.OC1: Percentage of death benefit payments processed within 31 days of receipt of all required documents.

Strategies:

G4.02.S1: Provide quality initial and ongoing staff training.

G4.02.S2: Cross-train staff members to provide assistance during peak periods.

G4.02.S3: Improve existing automated systems used in the delivery of benefits.

G4.02.S4: Implement approved statute and rule changes to simplify business processes.

G4.02.S5: Conduct periodic review of TRS laws and rules to streamline and simplify.

Output Measures:

G4.02.OP1: Number of reported deaths.

Objective G4.03: Answer all calls with an average speed of answer (ASA) of 2 minutes or less.

Outcome Measures:

G4.03.OC1: Monthly, quarterly, and annual average speed of answer.

Strategies:

G4.03.S1: Promote and advertise member self-serve options (IVR, WEB) in order to minimize call volumes.

G4.03.S2: Maintain a flexible staffing schedule in order to have adequate staff available during peak call volumes.

G4.03.S3: Provide quality initial and ongoing staff training.

Objective G4.04: Maintain a Benefit Counseling Department Quality Average Score at the "Successful Rating."

Outcome Measures:

G4.04.OC1: Monthly average quality scores.

Strategies:

G4.04.S1: Monitor and score calls using the Quality Assurance Program Guidelines and take corrective action as indicated.

G4.04.S2: Maintain a flexible staffing schedule in order to have adequate staff available during peak call volumes.

G4.04.S3: Provide quality initial and ongoing staff training.

Objective G4.05: By 2013, complete a detailed feasibility study for modernization of legacy information systems.

Outcome Measures:

G4.05.OC1: Percentage of detailed feasibility study completed by deadline.

Strategies:

G4.O5.S1: Contract with external consultants to conduct a detailed feasibility study and provide recommendations for moving forward with a legacy modernization effort.

Objective G4.O6: By 2012, receive 100% of "Reports of Final Deposit" electronically.

Outcome Measures:

G4.O6.OC1: Percentage of "Reports of Final Deposit" received electronically.

Strategies:

G4.O6.S1: Implement the 'Electronic Communications with Reporting Entities' project.

Output Measures:

G4.O6.OP1: Total number of "Reports of Final Deposit" requested annually.

Objective G4.O7: By 2012, increase the number of members registered with user IDs and passwords by 300%.

Outcome Measures:

G4.O7.OC1: Percentage increase in number of registered members.

Strategies:

G4.O7.S1: Provide new and enhanced services on the TRS Web site to attract and retain active users.

G4.O7.S2: Issue online passwords to all TRS members and annuitants.

Output Measures:

G4.O7.OP1: Number of registered members at the end of each year beginning with 2010 fiscal year.

Objective G4.O8: By 2015, develop the capability for members to conduct 6 major business transactions via the TRS web site.

Outcome Measures:

G4.O8.OC1: Percentage of the 6 major business transactions conducted using Web applications.

Strategies:

G4.O8.S1: Complete the 'eForms and Self-Service Applications' project.

Output Measures:

G4.O8.OP1: Total number of transactions for the 6 identified major business transactions.

Objective G4.O9: By 2015, increase the percentage of reporting entity payroll reports completed by the second business day after the due date by 10%.

Outcome Measures:

G4.O9.OC1: Percentage increase in number of payroll reports completed by second business day.

Strategies:

- G4.O9.S1: Increase training opportunities for reporting entity staff through Webinars.
- G4.O9.S2: Require all reporting entities to report through TRAQS

Output Measures:

- G4.O9.OP1: Number of reporting entity personnel trained via Webinars.

Explanatory/Input Measures:

- G4.O9.EX1: Number of reporting entities reporting via TRAQS

Objective G4.10: By 2013, implement annual technology assessments for the top five critical business-driven processes.

Outcome Measures:

- G4.O10.OC1: Percentage of technology assessments completed.

Strategies:

- G4.O10.S1: Identify the 5 most critical business-driven processes and determine the optimization level for those processes.
- G4.O10.S2: Identify the criteria for determining when the optimization level needs improvement.
- G4.O10.S3: Redefine the IT governance structure and re-purpose the Information Resources Steering Committee (IRSC).

GOAL 5: To develop and retain a high performing, customer focused staff that conducts business in an effective and ethical manner. *(Sections 825.208 and 825.213, 825.211 and 825.212, Texas Government Code)*

Objective G5.01: Demonstrate continued effective staffing, compensation, development, and workforce management processes by:

- Maintaining a rate of no less than 95% of newly hired or rehired employees successfully completing their initial 6-month probationary period.
- Maintaining an overall TRS turnover rate no greater than 75% of the statewide agency average turnover rate.
- Maintaining an involuntary separation rate no higher than 3% of the total TRS workforce.

Outcome Measures:

- G5.O1.OC1: Percentage of newly hired or rehired employees successfully completing their initial 6-month probationary period.
- G5.O1.OC2: Percentage of overall TRS turnover rate relative to the statewide agency average turnover rate.
- G5.O1.OC3: Percentage of total TRS workforce separated involuntarily.

Strategies:

- G5.O1.S1: Provide feedback, systems, and consulting services to support TRS leaders in their staffing, compensation, development, and workforce management efforts.

Objective G5.02: To maintain an organizational culture to attract, develop and retain a high performing workforce, as evidenced by maintaining or increasing the organization-wide TRS Survey of Employee Engagement (SEE) Summary Construct Scores each year from 2011 to 2015 as benchmarked against the 2009/2010 SEE scores.

Outcome Measures:

G5.02.OC1: Percentage change in construct scores?

Strategies:

G5.02.S1: Perform an analysis of lower scoring constructs/departments and develop active management plans to address all construct items.

Output Measures:

G5.02.OP1: Raw construct scores.

Explanatory/Input Measures:

G5.02.EX1: Number of employees participating in survey.

Objective G5.03: To increase talent development as a business imperative in recruiting and retaining high performing employees, as evidenced by a 5% increase in the number of training and development opportunities available to staff during FY 2011 – FY 2015 as benchmarked against FY 2010.

Outcome Measures:

G5.03.OC1: Percentage increase in the number of training and development opportunities available.

Strategies:

G5.03.S1: Develop and implement a measurement system to monitor the number and effectiveness of completed training and development activities with an evaluation at an appropriate time afterward to determine whether the anticipated benefits were accrued.

Output Measures:

G5.03.OP1: Total number of training and development opportunities available.

Objective G5.04: By 2015, transition to a new financial accounting system.

Outcome Measures:

G5.04.OC1: Percentage of transition to a new financial accounting system completed.

Strategies:

G5.04.S1: Complete a feasibility study and preliminary requirements specification to aid in the selection of the most effective approach to system replacement.

G5.04.S2: Acquire necessary resources to implement new financial accounting systems within schedule constraints.

Objective G5.05: By 2011, complete one, five, and 10 year division area-specific continuity plans to mitigate risks associated with loss of institutional knowledge and critical expertise.



Outcome Measures:

G5.O5.OC1: Percentage of continuity plans completed.

Strategies:

G5.O5.S1: Review and update continuity plans annually.

Objective G5.06: By 2012, achieve a 90% training completion rate for investment management and risk control practices among Investment Management Division staff.

Outcome Measures:

G5.O6.OC1: Percentage of Investment Management Division staff who have completed training.

Strategies:

G5.O6.S1: Implement a robust training system, TRS University, in 2010.

Objective G5.07: By 3Q, 2012 develop an ethics training curriculum tailored to different job roles and responsibilities.

Outcome Measures:

G5.O7.OC1: Percentage of training curriculum completed.

Strategies:

G5.O7.S1: Using advice of fiduciary counsel and other available resources, develop meaningful training for all staff, with scenarios and examples related to specific job duties where applicable.

Objective G5.08: By 2013, implement an automated ethics training and compliance reporting system.

Outcome Measures:

G5.O8.OC1: Percentage of ethics training and compliance reporting system completed.

Strategies:

G5.O8.S1: Automate the annual compliance process to allow employees to fill out forms and take annual ethics training on-line, and search for answers to commonly asked questions or guidance for common situations.

GOAL 6: To promote purchasing and emerging manager selection practices that foster meaningful and substantive inclusion of historically underutilized businesses.
(Section 825.514 and Chapter 2161, Texas Government Code)

Objective G6.01: Include historically underutilized businesses (HUBs) in at least 20 percent or greater of the total value of all contracts and subcontracts awarded annually by the agency in purchasing contracts.

Outcome Measures:

G6.O1.OC1: Percentage of total dollar value of purchasing contracts and subcontracts awarded to HUBs.

Strategies:

G6.O1.S1: Develop and implement a plan for increasing the use of historically underutilized businesses through purchasing contracts and subcontracts.

Output Measures:

G6.O1.OP1: Number of competitive bids submitted to historically underutilized businesses.

Explanatory/Input Measures:

G6.O1.EX1: Number of HUBs responding to solicitations.

Objective G6.02: Include historically underutilized businesses (HUBs) in at least 40 percent or greater of the total value of contracts awarded annually by the agency in purchasing contracts that do not require posting to the Electronic State Business Daily. This includes all contracts under \$25,000 and contracts awarded via existing statewide contracts (e.g. DIR, TXMAS, etc).

Outcome Measures:

G6.O2.OC1: Percentage of total dollar value of purchasing contracts not requiring posting to the Electronic State Business Daily awarded to HUBs.

Strategies:

G6.O2.S1: Develop and implement a plan for increasing the use of historically underutilized businesses through purchasing contracts.

Output Measures:

G6.O2.OP1: Number of competitive bids submitted to historically underutilized businesses.

Explanatory/Input Measures:

G6.O2.EX1: Number of HUBs responding to solicitations.

Objective G6.03: To include qualified businesses in the emerging manager program to the greatest extent possible.

Outcome Measures:

G6.O3.OC1: Percentage of businesses participating in the emerging manager program who meet qualification standards.

Strategies:

G6.O3.S1: Develop and implement a plan for increasing the use of qualified businesses in the emerging manager program.



THIS PAGE INTENTIONALLY LEFT BLANK



TECHNOLOGY RESOURCE PLANNING

Sec. 825.101 and Sec.825.103 (e) of the Texas Government Code exempts TRS from the directives of the Department of Information Resources (DIR) and stipulations put forth in the state strategic plan. TRS does however, carefully consider the objectives set forth in the plan, voluntarily pursuing them to the extent possible when feasible and beneficial from an organizational perspective. The responses provided here describe TRS' efforts at voluntary compliance where applicable.

TECHNOLOGY ASSESSMENT SUMMARY

The following is a summary of key factors that will influence its technology decisions over the next five years.

Provide a brief description of the planned technology solutions that respond to the key factors that will affect the agency. Consider how those solutions align with the statewide technology goals reflected in the State Strategic Plan for Information Resources (*Advancing Texas Technology*).

TRS is planning to implement seven strategic projects classified as The Next Generation (TNG) projects. Each of these projects align with the statewide technology goals reflected in the State Strategic Plan and are expected to provide improved efficiency, cost reduction, and better communication and benefits to TRS membership. They are briefly described as follows:

- **Financial Systems Upgrade** – this project assesses TRS's financial and budgeting systems to determine whether the needed requirements can be met by the Statewide ERP System or whether an alternative solution will be pursued to upgrade these systems to provide better functionality and reporting.
- **Unified Member Module** – this project modernizes TRS legacy systems to newer technologies that remove obsolescence and improve functionality, communication, and service to TRS staff and membership.
- **eForms and Self-Service** – this project expands the use of electronic forms and self-service applications to better serve TRS staff and membership.
- **Workflow Automation** - this project will reduce the manual benefits workflow processing function and increase communication between the TRS imaging system and current pension administration systems by automating those processes and systems.

Three TNG projects are expected to provide "Quick Win" benefits to TRS this biennium.

- **Electronic Records Management** – this project will allow TRS to better structure and manage the disposition and retention of TRS information. **The 'quick win' will be** completion of a proof of concept using components of the FileNet P8 system. If successful, a feasibility study will be performed to determine whether to implement the functionality across the enterprise.
- **Technical Architect, Business Analyst and Process Improvement** – This project incorporates business area analysts to better coordinate service requests with the Information Technology (IT) division. As part of this initiative, TRS has hired a **Technical Architect to evaluate TRS's current business and technical** environment and to develop and implement a strategy to improve business processes. Although captured as part of

the TNG initiative, this is ancillary to the other projects and represents preliminary actions that will help ensure success of the other TNG projects.

- **Electronic Communications with Reporting Entities** – this project provides faster and more accurate reporting responses from TRS reporting entities.

It should be noted that most of these projects are still early in the project management life cycle, and are undergoing further clarification and definition. If it is determined that the anticipated benefits cannot be achieved in a cost-effective manner the proposed projects are subject to modification, replacement, or cancellation.

Statewide Technology Goal 1

Strengthen and Expand the Use of Enterprise Services and Infrastructure

1.1 Enhance Capabilities of the Shared Infrastructure

- **Data Center Infrastructure**
- **Communications Technology Infrastructure**
- **Statewide Portal Infrastructure**

1.2 Leverage Shared Applications

- **Enterprise Resource Planning (ERP)**
- **Email Messaging**

1.3 Leverage the State's Purchasing Power

- **Product and Services Portfolio Expansion**

1.a Describe agency plans to strengthen and/or expand its capabilities through the initiatives described in Statewide Technology Goal 1.

TRS utilizes the TEX-AN contract for purchasing telecommunication services. TRS currently does not have any applications that require the use of the Texas Online portal, but will consider its use if the need arises. There are currently no plans to strengthen and/or expand either of these initiatives.

1.b Describe agency plans to strengthen and/or expand its capabilities through other initiatives that leverage enterprise or multi-agency services and infrastructure, including managed services, shared applications, internal consolidation efforts, and procurement strategies.

TRS's TNG Financial Systems Upgrade project will assess the General Ledger Accounting System (GLAS) and Budget, Expense and Vouchering System (BEVO). Both of these financial and accounting systems report to the Uniform Statewide Accounting System (USAS), are 18 years old, and lack desirable functionality. This assessment will determine whether the needed requirements can be met by the Statewide ERP System or if an exemption request would need to be filed with the Comptroller and an alternative solution pursued.

TRS has increased its use of the ICT Cooperative Contracts program to purchase its goods and services and is committed to using the program unless there is a justified benefit for TRS to do otherwise.

Statewide Technology Goal 2

Secure and Safeguard Technology Assets and Information

2.1 Align the State's Approach to Enterprise Security with other State and National Strategies

- State Enterprise Security Plan
- Vulnerability to Cyber Attacks
- Response and Recovery Capabilities

2.2 Integrate Identity Management, Credentialing, and Access Privileges

- Identity Management Services

2.a Provide an update on the agency's progress in implementing strategies to align with the State Enterprise Security Plan.

TRS incorporates the following strategies to align with the State Enterprise Security Plan:

1. Incorporate cyber-security leading practices.
2. Perform regular monitoring of computer activity, logging activity and reporting.
3. Perform annual penetration test on TRS network environment to secure and identify potential hardware/software and system vulnerabilities.
4. Provide routine awareness training to all employees regarding cyber-security threats and the **agency's vulnerability to such threats.**
5. Provide monthly security reports to DIR.
6. Provide immediate reports to Texas Department of Public Safety and DIR of intrusions or attempted intrusions that may potentially have adverse impact on other state agencies or state operations.
7. Provide technical computer-related training to technical support staff.
8. Send employees to training and/or sponsor in-agency training for attainment and /or maintenance of computer related certifications.
9. Require every employee to have a unique identification (User ID) for assignment of computer access capabilities, and limit computer access to only that which is necessary to perform their individual business functions.

2.b Describe the agency's identity management strategies in place or planned.

TRS handles identity management through Windows Active Directory. A user's credentials and access privileges are controlled through group policy and memberships.

TRS is planning a proof-of-concept initiative with its mobile devices to determine the viability of incorporating biometrics technology.

Statewide Technology Goal 3

Serve Citizens Anytime, Anywhere

3.1 Expand and Enhance Access to Agency Services

- Multi-Channel Access
- Rural Broadband Expansion

3.2 Facilitate Open and Transparent Government

- Best Practices for Information Assets

3.a Describe the agency's plans to expand or enhance access to its services and promote citizen engagement through online services and emerging technologies.

TRS seeks to engage in and improve communication with TRS membership, internal business units, reporting entities, and other business partners by expanding wireless networking throughout TRS facilities and increasing web presence through member self-service systems. The planned TNG eForms and Self-service Applications project will expand the use of eForms and self-service applications to serve members, annuitants and internal agency staff through more timely account updates, reduced postage and overnight shipping costs, more efficiency through automatic data field population and the reduced number of forms TRS internal staff must process manually.

TRS is also researching the use of social media to communicate effectively with its membership.

As TRS moves forward with modernization of legacy systems, it will consider the accommodation of multiple modes and channels of access that may be used by its customers to access services and information, incorporating these into system design when deemed beneficial and cost effective.

3.b Describe initiatives planned or in process that will facilitate access to agency information and public data.

TRS is planning to implement an Investment Web Portal that will automate several existing workflows for the Investment Division. This project will allow the trading group to send, track, and file compliance and performance documents from multiple brokers more efficiently. Brokers who wish to work and do business with TRS will also be able to register and process questionnaires online.

TRS's self-service projects and initiatives will help meet the goal of facilitating access to agency information and public data. Efforts are underway to promote increased use of online services by simplifying the process of signing up for secure access to personalized information. Additionally, TRS is working to build its database of email addresses to provide an alternative means of communicating with our members, annuitant, and beneficiaries.

Statewide Technology Goal 4

Pursue Excellence and Foster Innovation across the Enterprise

4.1 Link Technology Solutions to Workplace Innovations

- **Workplace Productivity and Collaboration**

4.2 Pursue Leading-Edge Strategies for Application Deployment

- **Cloud Computing**
- **Specifications, Toolkits, and the Application Marketplace**
- **Legacy Systems Modernization**

4.3 Optimize Information Asset Management

- **Best Practices for Managing Digital Information**

4.4 Promote the Use and Sharing of Information

- **Health Information Exchange**
- **Statewide Communications Interoperability**
- **Justice Information System Integration**
- **Enterprise Geospatial Services**

4.a Describe agency plans to implement or enhance workplace productivity and to leverage collaboration tools.

To foster a business environment that attracts, retains, and engages employees from every generation in the labor force, TRS is researching the use of social media (Facebook, Twitter, MySpace etc.) as a means of outreach to technology savvy generations. As a part of business continuity and transition planning, as baby-boomers become eligible to retire, TRS is researching the implementation of a proof-of-concept repository that incorporates **the use of “wiki” pages to capture valuable institutional knowledge.**

To enhance workplace productivity, TRS is planning to implement an electronic communications system with its reporting entities. The TNG Electronic Communications with Reporting Entities will provide faster, more accurate final reporting responses from reporting entities, remove the **member/beneficiary as a “middle man”**, and decrease the overall refund and retirement distribution processes by an average of 2-5 days. Additionally, direct cost savings in postage, staff time, data entry and phone calls are anticipated.

Current ADABAS database systems are being converted to a common DB/2 platform to reduce development time and maintenance.

Microsoft SharePoint Services (SharePoint) is used to create a searchable TRS rules repository which allows TRS business units to collaborate on the creation of and decisions about current and future TRS rules. SharePoint is also used as a collaboration tool in the Investment Management Division to share Investment documents and schedules.

4.b Describe agency strategies to develop and deploy applications more efficiently (i.e., through Cloud Computing, Software as a Service, Application Toolkits, Legacy System Modernization).



TRS is researching the viability of Cloud Computing in its enterprise.

TRS has purchased and installed the FileNet P8 platform which contains a content management module and application toolsets that allow for better information usability, accessibility, and rapid deployment of new applications.

The TNG Unified Member Module project addresses TRS's strategic plan to modernize its legacy system to newer technologies to allow better efficiency and service to its membership. This is expected to be a long term project.

4.c Describe agency strategies to enhance information asset management practices.

TRS is in the process of implementing an Electronics Records Management system to convert the **agency's retention schedule and associated reports and logs from its current MS Access database** to the more robust FileNet P8 Records Manager. This process will better manage the disposition and retention of both digital and paper information, automate existing reports and disposition logs and serve as a repository to collect and assemble electronic records. It is expected to reduce the record retention burden on agency staff.

4.d Describe agency practices or plans to enhance the use and sharing of information with agency business partners.

TRS collaborates with the State Comptroller's Office of Public Accounts (SCOPA) in sharing encrypted data and mailing address requirements. TRS also collaborates with the Texas Department of Human Services, the Employee Retirement System of Texas, Texas Municipal Retirement System, Texas County and District Retirement System, City of Austin Employees Retirement System, El Paso City Employees' Pension Fund, El Paso Firemen's and Policemen's Pension Fund, Austin Police Retirement System, Texas School Districts and Higher Education in the sharing of member record, death, and employment information. TRS collaborates with the Texas Building and Procurement Commission on all facility projects.

The TRS Reporting and Query System (TRAQS) is a well established and highly successful online system used by reporting entities to submit monthly payroll and member data reports. It has revolutionized the reporting process trimming the time required immensely. In addition to TRAQS, the Electronic Communications System with Reporting Entities and the Investment Web Portal projects previously mentioned are intended to further enhance the use and sharing of information with agency business partners. As legacy systems are updated or replaced, consideration will be given to ways that TRS can facilitate enhanced integration between TRS and its business partners.

TECHNOLOGY INITIATIVE ALIGNMENT

As noted in the *Guide to Strategic Plan Development* published by the Governor's Office of Budget, Planning, and Policy, and the Legislative Budget Board, **"Technology Initiative Alignment"** is the strategic alignment of technology initiatives with agency business needs and priorities. This **alignment promotes collaboration between the agency's business and IT leaders, and promotes innovative technology solutions that enable the agency to achieve its objectives."**

The following table provides a mapping of key Information Technology (IT) initiatives, both current and planned, with TRS business objectives for the fiscal year 2011 through fiscal year



2015 planning period. These initiatives are approved and periodically reviewed to ensure that projects undertaken by the IT division provide sound, cost-effective solutions to business needs and to prioritize those initiatives appropriately to achieve organizational goals and objectives.

In the table, DIR SSP is Department of Information Resources State Strategic Plan.

Technology Initiative	Related Agency Objective	Related SSP Strategy	Status	Anticipated Benefit(S)	Innovation, Best Practice, Benchmarking
1. Modernize the Financial and Budget systems	G5.O4 - By 2015, transition to a new financial accounting system.	1.2, 1.3, 4.2	Planned	Allows General Accounting to fully integrate the TRS procurement function and eliminate the need to manually reconcile the payable and general ledgers.	
2. Upgrade enterprise disk storage for additional capacity and functionality.	All Objectives	4.3	Planned	Faster benefit processing and data retrieval and storage.	
3. Enhance existing imaging system by upgrading to FileNet P8 Document, Imaging, and Management system	All Objectives	4.1, 4.2, 4.3	Current	Faster image retrieval, better document and content management.	Innovation: Potential to use data capture and other techniques to fully integrate unstructured data into applications and business processes.
4. Continue to conduct annual PC workstation and network server refresh policy.	All Objectives	4.3	Current	Allows for better Investment and Benefit processing. Reduces TRS risk due to hardware obsolescence. Provides TRS staff the tools necessary to provide optimal service to TRS membership.	Best Practice: Refresh PC, laptop, and server hardware every 3-4 years.
5. Develop and implement a data-centered migration strategy to move existing TRS data structures into the TRS Enterprise Database using a phased approach.	All Objectives	3.2, 4.1, 4.3, 4.4	Current	Puts all TRS data structures on a common database architecture using a common set of standards and procedures. Makes application development and database management easier and more uniformed.	Best Practice: Single 'version of the truth' help ensure data accuracy and integrity.



Technology Initiative	Related Agency Objective	Related SSP Strategy	Status	Anticipated Benefit(S)	Innovation, Best Practice, Benchmarking
6. Upgrade the Investment department's hardware, software and systems to support new portfolio direction.	G1.01 - To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years. G1.02 - Generate a ten year average investment return of at least eight percent.	4.1, 4.2, 4.3, 4.4	Current	Allows the Investment department to quickly reallocate its portfolio classifications to better diversify TRS assets to gain better market returns.	
7. Modernize legacy systems to newer technologies.	All Objectives	3.1, 3.2, 4.1, 4.2, 4.4	Current	Reduce TRS risk due to obsolescence and allow faster and more efficient application development. Allow TRS greater flexibility in providing services to its constituents.	Best Practice: Create modular, loosely coupled applications that allow rapid and flexible reconfiguration or updating.
8. Enhance external TRS website functionality.	All customer service objectives, but primarily: G4.07 - By 2012, increase the number of members registered with user IDs and passwords by 300%. G4.08 - By 2015, develop the capability for members to conduct 6 major business transactions via the TRS web site.	3.1, 3.2, 4.1, 4.2	Current	Allow improved communication and access to member information by constituents; provide capability to offer expanded array of online services.	
9. Enhance electronic communication with TRS reporting entities.	G4.06 – By 2012, receive 100% of "Reports of Final Deposit" electronically. Applies indirectly to all customer service objectives.	4.1, 4.4	Current	Provide faster, more accurate final reporting responses from reporting entities by removing the member/beneficiary as a "middle man". This will decrease the overall refund and retirement distribution processes by an average of 2-5 days.	
10. Upgrade/ Redesign IVR	All Objectives	3.1, 4.3, 4.4	Current	Replace current IVR programming language that is approaching end-of-life and will no longer be supported by the vendor. Possible upgrades to the IVR to provide new functionality.	



Technology Initiative	Related Agency Objective	Related SSP Strategy	Status	Anticipated Benefit(S)	Innovation, Best Practice, Benchmarking
11. Enhance email security	All Objectives	3.1, 4.3, 4.4	Current	Incorporate stronger email policies, procedures and infrastructure to provide tighter email control.	



APPENDICES

APPENDIX A – DESCRIPTION OF AGENCY PLANNING PROCESS

TRS generally follows a fairly standardized methodology for preparing its Strategic Plan. The following list describes elements of TRS strategic planning process.

As noted in the 'Goals, Objectives, and Strategies' section, during this planning cycle, TRS took the first steps towards a more extensive planning approach that involved expanding TRS goals, objectives, and strategies beyond those associated solely with the legislative appropriations process to include others that will help functional areas from across the organization focus their energies even more effectively towards achievement of the TRS mission. Beginning in late 2009, the Executive Council began a concerted effort to identify and develop these revised goals, objectives, and strategies. They were crafted to compliment rather than replace those currently captured in the appropriations request. Once this milestone was achieved, the planning process continued following the standard methodology for preparing the deliverable document as reflected below.

1. Assign responsibility for sections of the plan document based on expertise in that subject matter.
2. Review pertinent internal documentation. This may include the following:
 - a. Current and past strategic plans.
 - b. Comprehensive Annual Financial Report(s) (CAFR).
 - c. Actuarial Valuation Report(s).
 - d. Legislative appropriation request.
 - e. Current operational budget.
 - f. Any specially prepared reports from the prior biennium.
 - g. Archived project materials from previous strategic planning projects.
3. Review pertinent external documentation. This may include the following:
 - a. Instructions for Preparing and Submitting Agency Strategic Plans.
 - b. Budget preparation instructions.
 - c. State strategic plan for information resources.
 - d. Other agency strategic plans.
 - e. State economic and population projections.
4. Review other external information sources related to pensions and investment, education, labor markets, etc.
5. Solicit input from members of the board of trustees and external stakeholders including key elected officials, agency heads, and educational associations.
6. Review findings of the *Survey of Employee Engagement (SEE)* – The *SEE* is a formal survey of TRS staff, which provides valuable insights into their perceptions of numerous aspects of TRS operations from an internal perspective.
7. Review findings of the biennial *Member Satisfaction Survey* – The *Member Satisfaction Survey* is a formal survey distributed to a representative sample of active members and retirees soliciting their responses to questions relating to multiple facets of TRS organizational effectiveness and customer service.

8. Prepare ancillary documents – In conjunction with preparation of the main body of the strategic plan, information that is included as an extract or in plan appendices are prepared by those areas directly responsible (e.g., Workforce Plan – Human Resources Department).
9. Prepare initial draft for executive review – An initial draft of the strategic plan is submitted to the TRS Executive Council (EC) for review and comment.
10. Incorporate EC modifications and prepare final draft. The final draft is distributed to the TRS Board of Trustees and the EC for final review.
11. Final approval – Any additional changes proposed by the board of trustees are incorporated followed by sign-off by the board chair and TRS Executive Director.
12. Print and distribute the plan – Copies of the plan are printed and distributed in accordance with instructions. The plan is also posted to the TRS Web site.

Strategic Planning Steering Committee / Executive Council

Ronnie Jung	Executive Director
Brian Guthrie	Deputy Director
Britt Harris	Chief Investment Officer
Conni Brennan	General Counsel
Amy Barrett	Chief Audit Executive
Ken Welch	Chief Financial Officer
Marianne Woods Wiley	Chief Benefit Officer
Annette Dominguez	Director of Human Resources
Howard Goldman	Director of Communications
Betsey Jones	Director of Special Projects
Amy Morgan	Director of Information Technology
Ray Spivey	Director of Governmental Relations

Strategic Planning Core Team

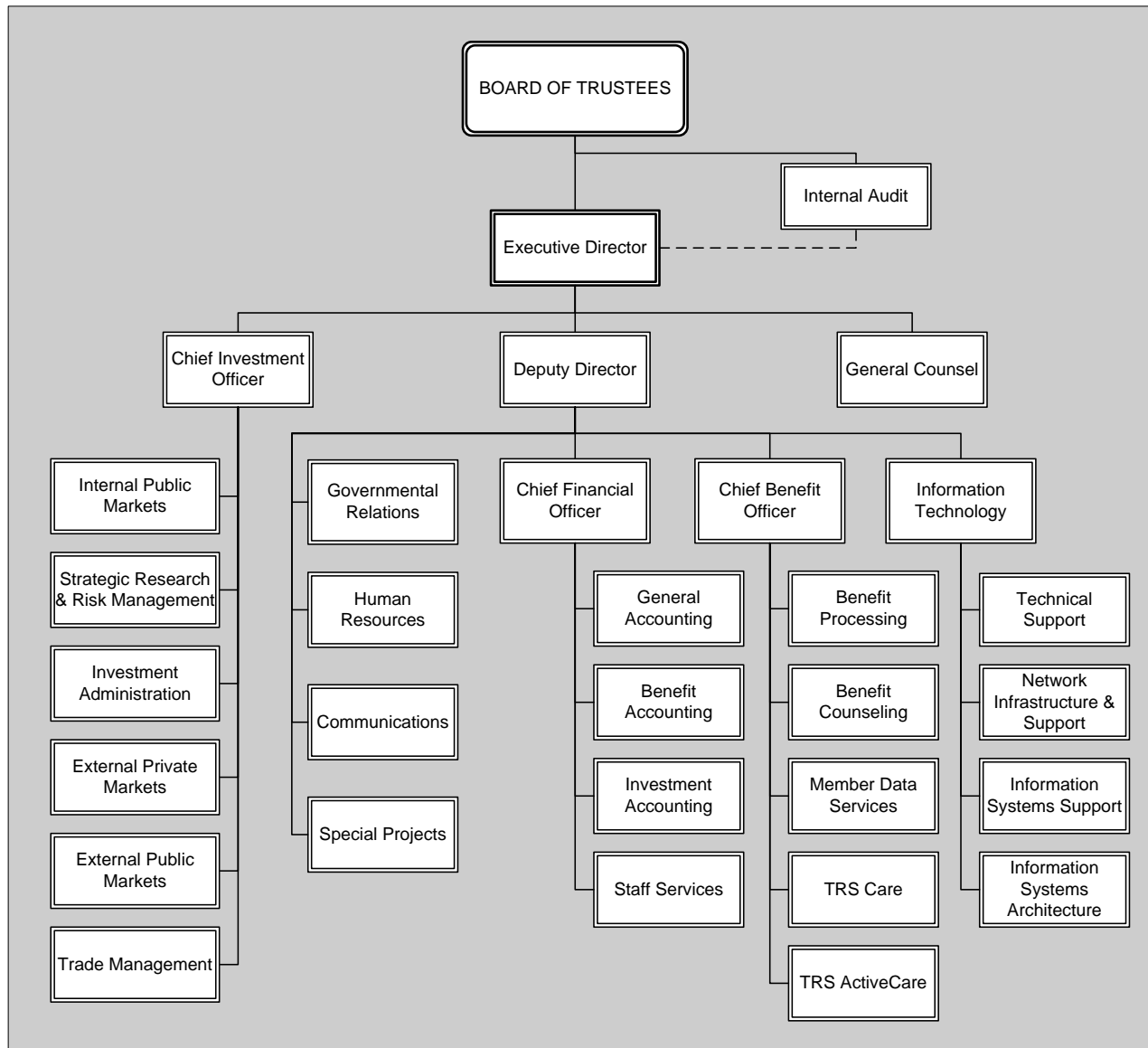
Lyle Boyea, Project Leader
Jay LeBlanc, Project Co-leader

Strategic Planning Support

The following individuals provided valuable support to the strategic planning effort through direct contribution or consultation during the development process.

Mohan Balachandran	Scot Leith
Stuart Bernstein	Jamie Michels
Will Burgess	Liz Oliphint
David Cox	Michele Price
Mike Debbs	Jim Savage
Mario DeLeon	Charmaine Skillman
Frank DiLorenzo	William Tompkins
Julianna Fernandez-Helton	Gene Vitale
Margaret Garcia	Susan Wade
Tom Guerin	Tom Word
Ernie Jones	Vicki Young
Bob Jordan	Ann Zigmond
Mike Labinski	

APPENDIX B – TRS ORGANIZATION CHART



**APPENDIX C – PROJECTED OUTCOMES: FY 2011 – FY 2015 PLANNING PERIOD**

Performance Measure	Projections				
	2011	2012	2013	2014	2015
Objective: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years and generates a five-year average investment return of at least eight percent.					
OUTCOME MEASURES					
▶ Number of years to amortize the TRS retirement fund unfunded actuarial accrued liability	<31 years	<31 years	<31 years	<31 years	<31 years
▶ TRS retirement fund five-year average, time-weighted rate of return on investment performance	8%	8%	8%	8%	8%
▶ Investment Performance Relative to Board Approved Benchmark	100%	100%	100%	100%	100%
▶ TRS retirement fund benefit administration annual operating expense per total member and annuitant in dollars (excludes investment expenses)	\$25	\$26	\$26	\$27	\$27
▶ TRS retirement fund investment expense as basis points (bp) of net assets	15bp	19bp	19bp	19bp	19bp
▶ Average customer hold time for calls received on toll-free line (in minutes)	2:00	2:00	2:00	2:00	2:00
▶ Percent of TRS retirees rating TRS member services as satisfactory or better	95%	95%	95%	95%	95%
▶ Percent of TRS active members rating TRS member services as satisfactory or better	95%	95%	95%	95%	95%
OUTPUT MEASURES					
▶ Number of TRS benefit applications processed	60,000	60,000	60,000	60,000	60,000
▶ Number of TRS retirement fund member accounts serviced	10,389,731	10,701,423	11,022,465	11,353,139	11,693,733



Performance Measure	Projections				
	2011	2012	2013	2014	2015
▶ Percent of TRS retirees whose first annuity is paid when it is first due	98%	98%	98%	98%	98%
Objective: <i>To administer a health care program for public education retirees.</i>					
OUTCOME MEASURE					
▶ Percent of TRS-Care participants rating TRS-Care services as satisfactory or better	90%	90%	90%	90%	90%
EFFICIENCY MEASURE					
▶ Percent of TRS-Care medical claims adjudicated within 14 days of receipt	95%	95%	95%	95%	95%
Objective: <i>To administer a health care program for public education employees.</i>					
OUTCOME MEASURE					
▶ Percent of TRS-ActiveCare participants rating TRS-ActiveCare services as satisfactory or better	90%	90%	90%	90%	90%
EFFICIENCY MEASURE					
▶ Percent of TRS-ActiveCare medical claims adjudicated within 14 days of receipt	97%	97%	97%	97%	97%

APPENDIX D – PERFORMANCE MEASURE DEFINITIONS

The performance measure definitions presented in appendix D are those associated with the TRS legislative appropriations request and the General Appropriations Act. They are separate and **distinct from the performance measures included in the 'Strategic Goals, Objective, and Strategies' section of this strategic plan document.**

Objective: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years and generates a five-year average investment return of at least eight percent.

Outcome Measure: Number of Years to Amortize the TRS Retirement Fund Unfunded Actuarial Accrued Liability

Definition:	This measure reflects the number of future years required to pay off or eliminate the retirement fund unfunded actuarial accrued liability (UAAL) based on the actuarial assumptions and assuming no future actuarial gains or losses.
Purpose/Importance:	This measure is important because it determines when the UAAL can reasonably be expected to be funded or amortized over a determinable number of years. This funding or amortization can only be accomplished when there is excess of total contributions over the normal cost of expected benefits.
Source/Collection of Data:	The source is the actuarial valuation report issued by the consulting actuary after the end of the fiscal year. Data is collected from the retirement fund membership data records and the financial data at fiscal year end.
Method of Calculation:	Required data is forwarded to the consulting actuary who conducts an actuarial valuation by performing an analysis of the data and subjecting it to TRS Board approved actuarial assumptions.
Data Limitations:	The actuarial valuation is completed at the end of every fiscal year. Membership data is collected at fiscal yearend only. Financial data is calculated and audited at fiscal yearend only.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Lower than target.

Outcome Measure: TRS Retirement Fund Five-Year Average Time-Weighted Rate of Return on Investment Performance

Definition:	This measure shows investment returns calculated on a time-weighted basis for all retirement fund investments and reflects income and realized/unrealized price changes.
-------------	--

Purpose/Importance:	The investment rate of return is an important factor in determining the ability of the retirement fund to meet its funding obligations.
Source/Collection of Data:	Investment financial data is from the retirement fund fiscal year end accounting records.
Method of Calculation:	Reported investment returns are calculated by the investment custodian based on data provided from the fiscal year end retirement fund accounting records.
Data Limitations:	The data is dependent on investment market fluctuations, specifically at fiscal year end.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.

Outcome Measure: Investment Performance Relative to Board Approved Benchmark

Definition:	This measure would report actual investment performance, net of fees, compared to the annual Board adopted performance benchmark.
Purpose/Importance:	This measure reflects the value added by the Investment Management Division's investment strategy.
Source/Collection of Data:	Investment financial data collected from the retirement fund custodian for the period ended June 30th.
Method of Calculation:	The total investment return of the Pension Trust Fund (as expressed by a percentage) divided by the Total Fund Index benchmark (as expressed by a percentage) and adopted by the Board of Trustees and reported in the CAFR.
Data Limitations:	The data is dependent on the timing of valuations and index availability.
Calculation Type:	Non-cumulative.
New Measure:	Yes.
Desired Performance:	Higher than target.

Outcome Measure: TRS Retirement Fund Benefit Administration Annual Operating Expense Per Member and Annuitant in Dollars (Excluding Investment Expenses)

Definition:	This measure reflects the annual cost (excluding investment expenses) per member and annuitant to operate the retirement fund benefit administration.
Purpose/Importance:	This measure provides a method to compare operating efficiencies from year-to-year and comparison to other public retirement funds.



Source/Collection of Data:	The source is the fiscal year end financial data, the member data and annuitant data. The retirement fund fiscal year-end accounting data for the operating expenses based on generally accepted accounting principles (GAAP), the GAAP investment expenses, and the total members and annuitants.
Method of Calculation:	This measure is calculated by dividing the retirement fund benefit administration generally accepted accounting principle basis operating expenses, excluding GAAP investment expenses, by the total members and annuitants.
Data Limitations:	The fiscal year end financial and membership data required to calculate the final cost per member are not available in time to meet the deadline for submitting this measure. Preliminary data must be used and the final data provided by December following the close of the fiscal year.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Lower than target.

Outcome Measure: TRS Retirement Fund Investment Expense as Basis Points of Net Assets

Definition:	This measure shows the annual retirement fund investment expenses as a percent of net assets.
Purpose/Importance:	This calculation provides a method to compare investment operating efficiencies from year-to-year and comparison to other public retirement funds.
Source/Collection of Data:	This measure uses the retirement fund fiscal yearend financial data.
Method of Calculation:	This measure is calculated by dividing retirement fund generally accepted accounting principle basis Investment expenses as reported in the TRS CAFR Schedule of Investing Activity Expenses, by the Net Assets Held in Trust for Pension Plan Benefits. A basis point is one one-hundredth of one percent or .01 percent.
Data Limitations:	The financial data required to calculate the final basis points is not available in time to meet the deadline for submitting this measure. A preliminary basis point must be used and the final basis point provided by December following the close of the fiscal year.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Lower than target.

Outcome Measure: Average Customer Hold Time for Calls Received on Toll-free Line (In Minutes)

Definition:	This measure provides the average time (in minutes) it takes for a telephone call received through the toll-free telephone line to be answered by a TRS Benefits Counselor after the call is released from the automated telephone system.
Purpose/Importance:	This measure provides the average time (in minutes) a member calling on the toll-free line waits in a hold status until they are answered by a TRS benefits counselor.
Source/Collection of Data:	The source of data is the Siemens Hipath Procenter Application Suite, a real-time Contact Center Management System utilizing skills-based routing. The data is collected by this application from the Siemens Hipath 4000 Telephone System utilizing CTI (Computer Telephone Integration) and the ACD capabilities of the telephone switch. The measure is obtained through the Report Center of the Hipath Procenter Manager application.
Method of Calculation:	The measure is calculated using the Report Center of the Siemens Hipath Procenter Manager application. The Queue Summary report is scheduled to automatically run each month. On this report, the Average Wait Time is shown for all call queues. A call queue is a logical holding area for calls waiting to be routed to a Benefit Counselor after being transferred from the Automated Telephone System. The Average Wait Time is the average time that a call spends in queue before being answered by a Benefit Counselor. It is the total wait time divided by the total number of calls received, and the total number of calls received includes answered and abandoned calls. The Average Wait Time is the same as either the Average Customer Hold Time or the Average Speed of Answer.
Data Limitations:	The data is limited by the number of telephone calls that can be received on the toll-free line during the telephone center business operating hours.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Lower than target.

Outcome Measure: Percent of TRS Retirees Rating TRS Member Services as Satisfactory or Better

Definition:	This measure shows the level of satisfaction with retirement system services provided by TRS to retirees.
Purpose/Importance:	This measure determines the quality of service provided by TRS to retirees.
Source/Collection of Data:	The data for this measure is gathered from satisfaction surveys of a



	statistical sample of retirees and results are based on responses to these surveys.
Method of Calculation:	An outside firm is contracted to conduct a survey to retirees which measures customer satisfaction.
Data Limitations:	The survey is conducted each even numbered fiscal year. TRS cannot control the number of responses to these surveys.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.

Outcome Measure: Percent of TRS Active Members Rating TRS Member Services as Satisfactory or Better

Definition:	This measure shows the level of satisfaction with retirement system services provided by TRS to active public education and active higher education members.
Purpose/Importance:	This measure determines the quality of service provided by TRS to active members.
Source/Collection of Data:	The data for this measure is gathered from satisfaction surveys of a statistical sample of active members and results are based on responses to these surveys.
Method of Calculation:	An outside firm is contracted to conduct a survey to active members, which measures customer satisfaction.
Data Limitations:	The survey is conducted each even-numbered fiscal year. TRS cannot control the number of responses to these surveys.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.

Strategy: Provide services to members, manage investments, and administer TRS retirement fund.

Output Measure: Number of TRS Benefit Applications Processed

Definition:	This measure provides the number of benefit claim applications for service and disability retirement, refunds, and death claims processed by TRS.
Purpose/Importance:	This measure provides a year-to-year comparison of growth in applications processed by TRS.
Source/Collection of Data:	Information is collected through TRS computer applications and taken from various reports referenced in TRS procedures specific to this measure.



Method of Calculation:	To calculate the number of TRS benefit applications processed, the number of refunds processed, the number of death claims closed during the month, and the number of files added to payroll during a month, all taken from reports referenced in procedures related to this measure, are added together to determine the total number of benefit applications processed.
Data Limitations:	Benefit applications received must have all required documentation properly executed prior to processing the benefit payment requested. Reporting entities must have remitted a member's final retirement contribution to TRS prior to processing the benefit payment.
Calculation Type:	Cumulative.
New Measure:	No.
Desired Performance:	Not applicable.

Output Measure: Number of TRS Retirement Fund Member Accounts Serviced

Definition:	This measure shows the number of member retirement deposits applied to individual member accounts each fiscal year.
Purpose/Importance:	This measure provides a year-to-year comparison of the growth in transaction activity.
Source/Collection of Data:	The source is the member records accounting system report. The transaction numbers are accumulated from the application of salary and contribution as submitted by the reporting entity on a monthly basis.
Method of Calculation:	Each posting to a member's account is considered a transaction in the month the contribution is applied to a member's account regardless of the received date.
Data Limitations:	Over 1300 reporting entities must report each member's monthly payroll salary and retirement contribution. A member can have more than one posting per month if employed by multiple reporting entities.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Not applicable.

**Output Measure:** Percent of TRS Retirees Whose First Annuity is Paid When it is First Due

Definition:	Annuitants paid timely means that an annuitant is considered to be paid when first due if the warrant was issued: on the first working day of the second month following the retirement date; on or before the first working day of the month following the final report date; within 31 days of when a special service purchase bill was paid; or within 31 days of when a retirement document was received.
Purpose/Importance:	This measure determines if TRS is delivering benefits in a timely manner based on all properly completed and required documentation and data elements for retirement.
Source/Collection of Data:	Information is taken from TRS systems referenced in procedures to generate reports that list, respectively, warrants that met or did not meet the criteria in the definition.
Method of Calculation:	Review source data to determine whether warrants were issued in a timely manner based on the criteria in the definition. To determine the percentage of warrants issued in a timely manner, the denominator is the total number of warrants issued during the month of interest. The numerator is the total number of warrants issued minus the warrants that are considered not issued in a timely manner.
Data Limitations:	Only files added to payroll during the month of interest that result in a warrant being issued are considered to determine if paid in a timely manner.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.

Objective: To administer a health care program for public education retirees.**Outcome Measure:** Percent of TRS-Care Participants Rating TRS-Care Services as Satisfactory or Better

Definition:	This measure indicates the combined medical and pharmacy claims satisfaction survey results among TRS-Care participants.
Purpose/Importance:	This measure determines the quality of service provided by TRS-Care and its vendors to participants.
Source/Collection of Data:	Information for this measure is gathered from satisfaction surveys provided by the medical claims administrator and the pharmacy benefit manager.

Method of Calculation:	The medical claims administrator and the pharmacy benefit manager will separately calculate their overall satisfaction rate (percentage) by dividing the total number of surveys showing an overall result of satisfied (or better), by the total number of surveys returned. Since TRS-Care medical and pharmacy claims utilization is approximately equal, the results of the two surveys will be equally rated on a 50/50 basis, and the two percentages will be averaged.
Data Limitations:	TRS, the medical claims administrator, and the pharmacy benefit manager cannot control the number of responses to these surveys.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.

Strategy: Administer group health care benefits to public education retirees through the TRS-Care program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes. Estimated.

Efficiency Measure: Percent of TRS-Care Medical Claims Adjudicated within 14 Days of Receipt

Definition:	This measure reflects the percent of TRS-Care medical claims settled within 14 days of receipt.
Purpose/Importance:	This measure reflects the efficiency of medical claims settlement.
Source/Collection of Data:	Data is provided by the program's medical claims administrator, through reports referenced in procedures related to this measure.
Method of Calculation:	The percent data for the period reported will consist of the total number of medical claims adjudicated within 14 days of receipt by the medical claims administrator, divided by the total number of medical claims adjudicated.
Data Limitations:	Receipt by the medical claims administrator shall be the date the complete and necessary claim documents are physically received by the medical claims administrator. Complete eligibility information must be provided by TRS to the medical claims administrator to be included as an eligible claim. Incomplete claims or claims requiring documentation will not be included as an eligible claim until all documentation is received. "Adjudicated" means the date of the manual or computerized transaction that results in the generation of an Explanation of Benefits (EOB). The "date adjudicated" shall be the date on the EOB.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.



Objective: To administer a health care program for public education employees.

Outcome Measure: Percent of TRS-ActiveCare Participants Rating TRS-ActiveCare Services as Satisfactory or Better

Definition:	This measure indicates the level of satisfaction with TRS-ActiveCare services.
Purpose/Importance:	This measure determines the quality of service provided by TRS-ActiveCare to participants.
Source/Collection of Data:	Information for this measure is gathered from satisfaction surveys provided by the health care administrator.
Method of Calculation:	This rating is determined by members responding to a satisfaction survey.
Data Limitations:	TRS cannot control the number of responses to these surveys.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.

Strategy: Administer group health care benefits to public education employees through the TRS-ActiveCare program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes.

Efficiency Measure: Percent of TRS-ActiveCare Medical Claims Adjudicated within 14 Days of Receipt

Definition:	This measure reflects the efficiency of complete medical claims settled within 14 days of receipt.
Purpose/Importance:	This measure reflects the efficiency of medical claims settlement.
Source/Collection of Data:	Data is provided by the program's medical claims administrator and verified by periodic independent audits.
Method of Calculation:	The number of medical claims adjudicated within 14 days of receipt is divided by the total number of complete medical claims received in a particular period.
Data Limitations:	Complete eligibility information must be provided by participating entities to the medical claims administrator to be included as an eligible medical claim.
Calculation Type:	Non-cumulative.
New Measure:	No.
Desired Performance:	Higher than target.

APPENDIX E– WORKFORCE PLAN

I. System Overview

The Teacher Retirement System of Texas (TRS) was formed by constitutional amendment and enabling legislation in 1937. The original responsibility of the system was to provide service and disability retirement benefits to teachers and administrators of the public school systems of Texas, including institutions of higher education. Over the years, legislation has:

- Expanded TRS pension plan membership eligibility to all public school employees (1949).
- Assigned TRS to administer a health benefit program for public school retirees (1985).
- Created the basis for TRS to provide long-term care insurance (1999).
- Assigned TRS to administer a health benefit program for active public school employees (2001).

The TRS pension plan had about 38,000 members in its first year of operation. Today, the plan serves more than 989,000 active members and more than 284,000 retired members and **beneficiaries. The plan's net assets have grown to \$88.7 billion** at the end of fiscal year 2009. The TRS pension plan operates under Section 67, Article XVI of the Texas Constitution to provide retirement and related benefits for those employed by the public schools, colleges, and universities supported by the State of Texas.

TRS operates out of two adjoining buildings at 1000 Red River Street in downtown Austin, Texas as well as 47,034 square feet of leased space at 816 Congress Avenue that houses the TRS Investments Management Division. The business of the system involves two broad functions: administering benefits and managing investments. The financial, information technology, and **administration areas provide essential services to the system's mission**-critical divisions (see the organization chart on the following page). To serve members throughout the state, benefit counseling employees travel on a regular basis to make group presentations and provide one-on-one counseling sessions. TRS also uses Web-based services, a sophisticated telephone counseling center, and an interactive voice response system to provide convenient service to those outside the Austin area.

Health benefit programs are funded separately from the pension plan administered by TRS. The budgeted Full-Time Equivalent (FTE) positions allocated to each function are shown in the following chart.

Fiscal Year	Pension Fund	TRS-Care	TRS-ActiveCare	403 (b) Program	TRS Total
2010	475	32	21	2	530
2008	435	30	21	—	486
2006	427	22	17	—	466

Staffing pressures have been a result of continued growth in membership and assets of the pension fund, as well as additional responsibilities authorized by the legislature. While growth in membership and fund size is projected to continue, TRS will continue to assess its staffing requirements carefully and address them conservatively. Traditionally, TRS has contained its staffing needs to the greatest extent possible through enhancements in technology and the judicious use of outsourcing.

The Pension Trust Fund administrative expenses, including staffing, are controlled by an annual budget approved by the board of trustees. The State of Texas appropriated an administrative operations budget for the TRS Pension Trust Fund of \$63,482,415 and \$60,985,267 for fiscal years 2010 and 2011, respectively. Included in each of these amounts is \$3.7 million of funding from General Revenue with the remainder to be funded directly from the Pension Trust Fund.

The LBB and Governor’s Office subsequently directed the return of \$3.7 million per year of General Revenue as part of a statewide effort to reduce spending from General Revenue/General Revenue Dedicated funds by 5 percent. To the extent the General Revenue reduction exceeded the 5% target, as per the reduction plan approved by the LBB and Governor’s Office, the reduction will be offset with additional funding from the Pension Trust Fund as necessary to maintain current operations. For the 10 year period from 2000 through 2009, funding sources of the TRS Pension Trust Fund have averaged as follows:

- Employer contributions—3.7 percent.
- State contributions—21.5 percent.
- Member contributions—28.1 percent.
- Investment income—46.7 percent.

TRS administrative costs for the pension fund remain among the lowest in the nation, and are significantly **less than costs among the system’s peer groups (based on membership size).**

A. Organization Mission

The mission of the Teacher Retirement System of Texas is:

1. To deliver retirement and related benefits authorized by law for members and their beneficiaries.
2. To prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.

B. Strategic Goals and Objectives

TRS has the following goals:

GOAL 1: To assure the financial soundness of the pension system.	
Objective	To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years.
Strategies	<ul style="list-style-type: none"> ◆ Evaluate long-term funding solutions to reduce unfunded liability and improve funding period of the pension trust. ◆ Engage in thorough periodic review of plan design and actuarial assumptions to ensure that they remain valid and support the long-term viability of the system. ◆ Conduct regularly scheduled meetings of the TRS Valuation Committee to review material accuracy of investment valuations. ◆ Ensure that discrepancies between reported Partnership valuations and TRS calculated valuations are less than +/- 0.5% for each partner.
Objective	Generate a ten-year average investment return of at least eight percent.
Strategies	<ul style="list-style-type: none"> ◆ Outperform investment benchmarks through professional asset allocation,

	<p>risk management and execution.</p> <ul style="list-style-type: none"> ◆ Create a culture of professionalism that enhances the investment division's stability and ability to generate long term improvements. ◆ Develop deep and proprietary long-term relationships with the world's most effective investment organizations. ◆ Develop, procure, and support technology systems that enable sound but rapid investment decisions in a dynamic environment.
GOAL 2: To facilitate the financial soundness of the retiree health benefit program and offer a program that is responsive to and valued by enrollees.	
Objective	Maintain a fund balance to sustain solvency through no less than a two-year period.
Strategies	<ul style="list-style-type: none"> ◆ Evaluate long-term funding solutions to ensure ongoing solvency. ◆ Establish appropriate premiums and plan design. ◆ Achieve favorable pricing through competitive bidding. ◆ Administer successful cost savings programs. ◆ Provide accurate and timely information to facilitate projections. ◆ Provide accurate and timely information to legislature. ◆ Contract with external audit firm and conduct audit.
Objective	Provide TRS-Care enrollment, claims, and customer services such that at least 85% of eligible retirees will consider them satisfactory or better.
Strategies	<ul style="list-style-type: none"> ◆ Include relevant contractual performance measures and related financial penalties in the health plan administrator contract. ◆ Monitor performance reports from plan administrator and take appropriate corrective action as needed. ◆ Conduct periodic customer satisfaction surveys, and make appropriate adjustments as needed to address deficiencies.
Objective	Provide health claim services such that at least 95% of claims are adjudicated within 14 days of receipt.
Strategies	<ul style="list-style-type: none"> ◆ Include relevant contractual performance measures and related financial penalties in the health plan administrator contract. ◆ Monitor performance reports from plan administrator and take appropriate corrective action as needed.

GOAL 3: To administer a sustainable public education employee health benefit program that is responsive to and valued by enrollees.

Objective	Maintain a fund balance to sustain solvency through no less than a one-year period.
Strategies	<ul style="list-style-type: none"> ◆ Establish appropriate premiums and plan design. ◆ Achieve favorable pricing through competitive bidding. ◆ Administer successful cost savings programs. ◆ Provide accurate and timely information to facilitate projections.
Objective	Maintain a customer satisfaction rate of at least 85% for medical benefits delivered through the TRS-ActiveCare self-funded Preferred Provider Plans (PPO).
Strategies	<ul style="list-style-type: none"> ◆ Include relevant contractual performance measures and related financial penalties in the health plan administrator and pharmacy benefit manager contracts, and monitor results. ◆ Conduct periodic customer satisfaction surveys, and make appropriate adjustments as needed to address deficiencies.
Objective	Maintain a customer satisfaction rate of at least 90% for prescription drug benefits delivered through the TRS-ActiveCare self-funded Preferred Provider Plans (PPO).
Strategies	<ul style="list-style-type: none"> ◆ Include relevant contractual performance measures and related financial penalties in the health plan administrator and pharmacy benefit manager contracts, and monitor results. ◆ Conduct periodic customer satisfaction surveys, and make appropriate adjustments as needed to address deficiencies.
Objective	Provide health claims service such that at least 97% of complete medical claims are adjudicated within 14 calendar days.
Strategies	<ul style="list-style-type: none"> ◆ Include relevant contractual performance measures and related financial penalties in the health plan administrator and pharmacy benefit manager contracts, and monitor results.

GOAL 4: To deliver superior customer service by providing accurate, timely and relevant information to all TRS stakeholders using both traditional and innovative delivery methods.

Objective	Process 98% of initial annuity payments to TRS retirees when first due.
Strategies	<ul style="list-style-type: none"> ◆ Provide quality initial and ongoing staff training. ◆ Cross-train staff members to provide assistance during peak periods. ◆ Work with IT to continue improving existing automated systems used in the delivery of benefits. ◆ Implement approved statute and rule changes to simplify business processes. ◆ Conduct periodic review of TRS laws and rules to streamline and simplify.



Objective	Process 95% of death benefit payments within 31 days of receipt of all required documents.
Strategies	<ul style="list-style-type: none">◆ Provide quality initial and ongoing staff training.◆ Cross-train staff members to provide assistance during peak periods.◆ Work with IT to continue improving existing automated systems used in the delivery of benefits.◆ Implement approved statute and rule changes to simplify business processes.◆ Conduct periodic review of TRS laws and rules to streamline and simplify.
Objective	Answer all calls with an average speed of answer (ASA) of 2 minutes or less.
Strategies	<ul style="list-style-type: none">◆ Promote and advertise member self-serve options (IVR, WEB) in order to minimize call volumes.◆ Maintain a flexible staffing schedule in order to have adequate staff available during peak call volumes.◆ Provide quality initial and ongoing staff training.
Objective	Maintain a Benefit Counseling Department Quality Average Score at the "Successful Rating."
Strategies	<ul style="list-style-type: none">◆ Monitor and score calls using the Quality Assurance Program Guidelines and take corrective action as indicated.◆ Maintain a flexible staffing schedule in order to have adequate staff available during peak call volumes.◆ Provide quality initial and ongoing staff training.
Objective	By 2013, complete a detailed feasibility study for modernization of legacy information systems.
Strategies	<ul style="list-style-type: none">◆ Contract with external consultants to conduct a detailed feasibility study and provide recommendations for moving forward with a legacy modernization effort.
Objective	By 2012, receive 100% of "Reports of Final Deposit" electronically.
Strategies	<ul style="list-style-type: none">◆ Implement the 'Electronic Communications with Reporting Entities' project.
Objective	By 2012, increase the number of members registered with user IDs and passwords by 300%
Strategies	<ul style="list-style-type: none">◆ Provide new and enhanced services on the TRS Web site to attract and retain active users.◆ Issue online passwords to all TRS members and annuitants.
Objective	By 2015, develop the capability for members to conduct 6 major business transactions via the TRS web site
Strategies	<ul style="list-style-type: none">◆ Complete the 'eForms and Self-Service Applications' project.
Objective	By 2015, increase the percentage of reporting entity payroll reports completed by the second business day after the due date by 10%.

Strategies	<ul style="list-style-type: none"> ◆ Increase training opportunities for reporting entity staff through Webinars. ◆ Require all reporting entities to report through TRAQS.
Objective	By 2013, implement annual technology assessments for the top five critical business-driven processes.
Strategies	<ul style="list-style-type: none"> ◆ Identify the 5 most critical business-driven processes and determine the optimization level for those processes. ◆ Identify the criteria for determining when the optimization level needs improvement. ◆ Redefine the IT governance structure and re-purpose the Information Resources Steering Committee (IRSC).
GOAL 5: To develop and retain a high performing, customer focused staff that conducts business in an effective and ethical manner.	
Objective	<p>Demonstrate continued effective staffing, compensation, development, and workforce management processes by:</p> <ul style="list-style-type: none"> ◆ Maintaining a rate of no less than 95% of newly hired or rehired employees successfully completing their initial 6-month probationary period. ◆ Maintaining an overall TRS turnover rate no greater than 75% of the statewide agency average turnover rate. ◆ Maintaining an involuntary separation rate no higher than 3% of the total TRS workforce.
Strategies	<ul style="list-style-type: none"> ◆ Provide feedback, systems, and consulting services to support TRS leaders in their staffing, compensation, development, and workforce management efforts.
Objective	To maintain an organizational culture to attract, develop and retain a high performing workforce, as evidenced by maintaining or increasing the organization-wide TRS Survey of Employee Engagement (SEE) Summary Construct Scores each year from 2011 to 2015 as benchmarked against the 2009/2010 SEE scores.
Strategies	<ul style="list-style-type: none"> ◆ Perform an analysis of lower scoring constructs/departments and develop active management plans to address all construct items.
Objective	To increase talent development as a business imperative in recruiting and retaining high performing employees, as evidenced by a 5% increase in the number of training and development opportunities available to staff during FY 2011 – FY 2015 as benchmarked against FY 2010.
Strategies	<ul style="list-style-type: none"> ◆ Develop and implement a measurement system to monitor the number and effectiveness of completed training and development activities with an evaluation at an appropriate time afterward to determine whether the anticipated benefits were accrued.
Objective	By 2015, transition to a new financial accounting system.

Strategies	<ul style="list-style-type: none"> ◆ Complete a feasibility study and preliminary requirements specification to aid in the selection of the most effective approach to system replacement. ◆ Acquire necessary resources to implement new financial accounting systems within schedule constraints.
Objective	By 2011, complete one, five, and 10 year division area-specific continuity plans to mitigate risks associated with loss of institutional knowledge and critical expertise.
Strategies	<ul style="list-style-type: none"> ◆ Review and update continuity plans annually.

C. Anticipated Changes in Mission, Strategies, and Goals

TRS does not anticipate fundamental changes in the nature of its business. It does however, recognize the need to adapt readily to any changes required by the legislature.

Environmental factors that are projected to affect TRS operations include:

- ▶ Participation in the TRS-ActiveCare health benefit program will continue to grow over the next several years.
- ▶ Membership in the pension plan will continue to grow, and members will increasingly expect faster service provided through multiple channels.
- ▶ An aging workforce creates a growing potential for loss of institutional knowledge.
- ▶ Effective management of a restructured, diversified investment portfolio will become more complex.
- ▶ Achieving the rate of return on investments required to satisfy actuarial assumptions will present a greater challenge.

II. Current Workforce Profile (Supply Analysis)

A. Critical Workforce Skills

The skill sets that are currently most critical to TRS operations include:

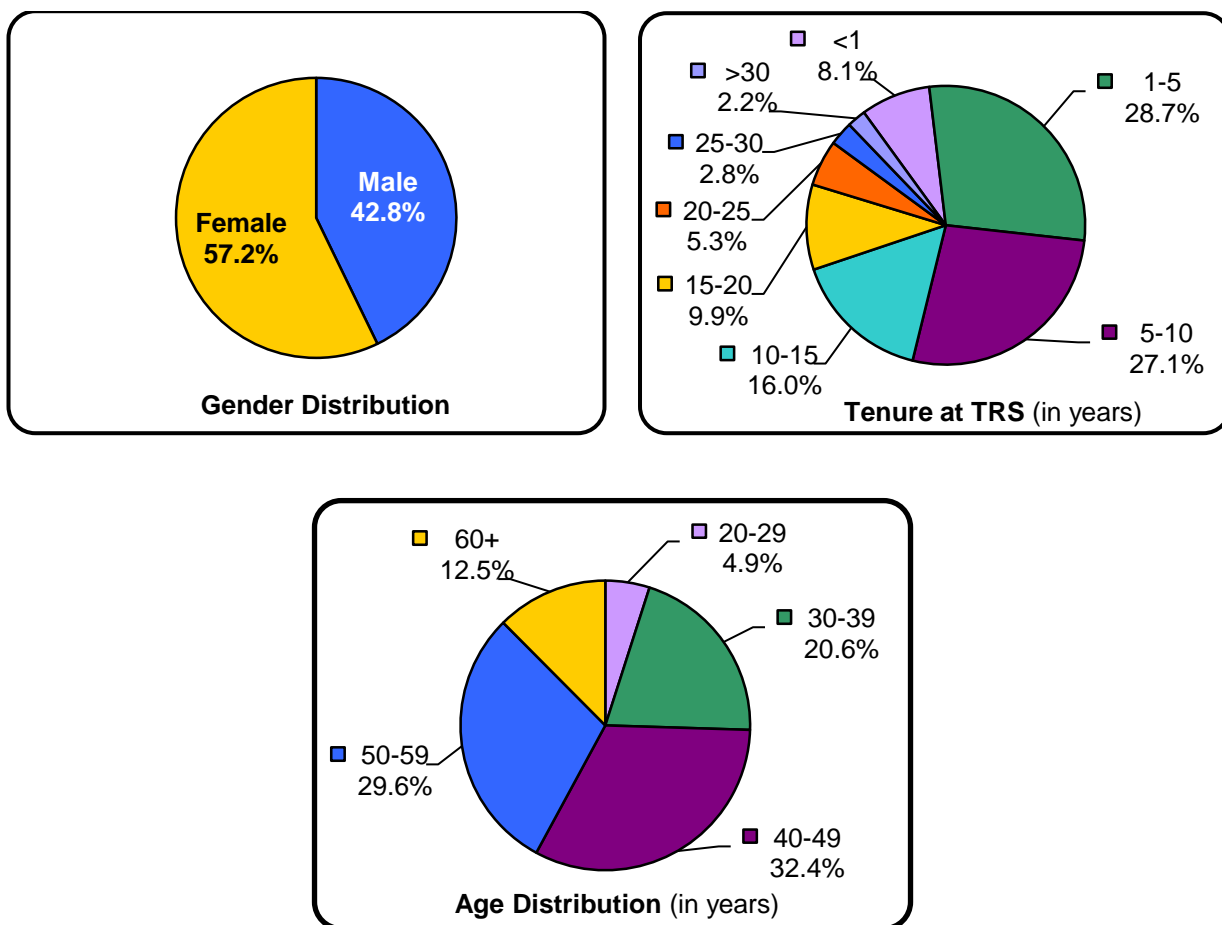
- ▶ Business process analysis and design skills.
- ▶ Investment expertise, including diversified portfolio management skills.
- ▶ Customer service.
- ▶ Communication.
- ▶ Information technology, including telecommunications, imaging, Web application design and implementation, and systems design and implementation.
- ▶ Health benefit plan management.
- ▶ Other specialized skills (including accounting and purchasing, auditing, human resources, and legal).

TRS has been successful in attracting and developing staff with these skills to meet current and projected critical business needs. See *Future Workforce Profile* for further analysis.

B. Workforce Demographics

The following charts **profile the system's workforce as of December 31, 2009** and include all regular full-time and part-time employees. The TRS workforce is comprised of 57 percent

females and 43 percent males. Approximately 37 percent of employees have been with TRS less than five years. Approximately 42 percent are 50 years of age or older.



The following table compares the ethnic and gender composition of the TRS workforce (as of 8/31/2009) to the statewide civilian workforce as reported by the Texas Workforce Commission—Civil Rights Division (CRD). Categories in which TRS representation is appreciably lower (> 4.0%) than the CRD goal are shaded on the chart. TRS actively monitors this information, and customizes its recruitment strategies to address areas of under-representation.

Job Category	African American		Hispanic American		Female	
	TRS %	CRD %	TRS %	CRD %	TRS %	CRD %
Administrative Support	33.3%	13.2%	44.4%	31.9%	55.6%	66.2%
Official/Administrator	3.0%	9.0%	6.1%	23.9%	33.3%	38.8%
Professional	5.1%	11.7%	17.3%	19.9%	52.0%	54.5%
Service/Maint/Para Professional	17.8%	12.8%	24.7%	44.8%	74.0%	39.7%
Technical	9.1%	17.0%	27.3%	27.0%	45.5%	55.6%

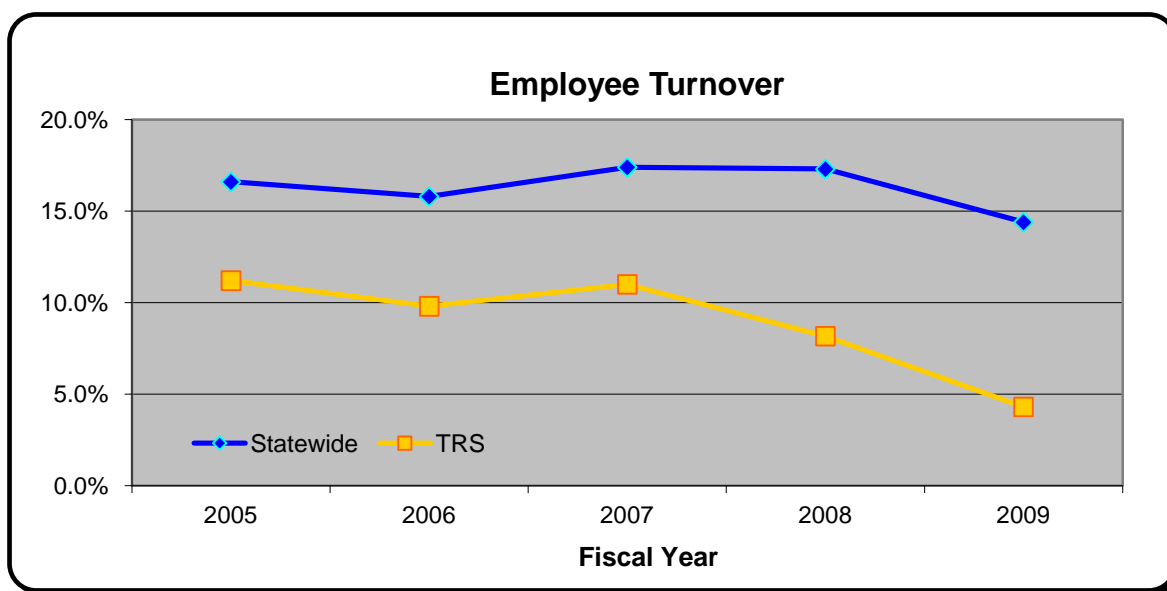
The organization's workforce diversity initiatives outline strategies for improving the diversity of its workforce, which include targeted advertising of vacancies, ongoing participation in diversity job fairs, and diversity/cultural awareness training. The employment policies and practices of TRS have been certified as in compliance with CRD standards, in accordance with Chapter 21 of the Texas Labor Code (most recently in March 2008).

Because TRS is based solely in Austin, it also compares its representation of minorities and females to that of the available workforce in the Austin/San Marcos Metropolitan Statistical Area (MSA). Information from this source is not available by EEO Job Category. However, the overall representation of minorities and females at TRS exceeds that of the civilian labor force reported for the Austin/San Marcos MSA, as shown in the following chart.

	African American	Hispanic American	Female
Total TRS Representation	9.3%	19.5%	57.2%
Austin/San Marcos MSA civilian labor force	7.9%	18.5%	46.2%

C. Employee Turnover

As reflected in the following chart, employee turnover at TRS has historically been below the **statewide average among state agencies, as reported by the State Auditor's Classification Office**. In fiscal year 2009, TRS turnover was 4.3 percent, well below the state average of 14.4 percent for the same period. TRS anticipates that its turnover rate will continue to fluctuate with the Austin economy and that the agency may experience a corresponding increased turnover and difficulty in replacing workers who leave. However, TRS has a goal to maintain a turnover rate no greater than 75% of the statewide average among state agencies for each of the next five years.



The response rate for TRS employees completing the State Auditor's online exit survey in fiscal year 2009 was approximately 37 percent. This rate is more than double the average response

rate for all state agencies. The top three reasons departing employees gave for leaving were: “retirement,” “better pay and benefits,” and “no or little career advancement opportunities” (40 percent, 20 percent, and 20 percent, respectively). Eighty-seven percent of exiting employees indicate that they want to work for TRS again in the future. TRS routinely assesses turnover by work area and other factors, such as employee tenure, so management can identify trends and take any necessary action.

Eligible	Now As of 12/31/07	In 1 year As of 12/31/08	In 2 years As of 12/31/09	In 3 years As of 12/31/10	In 4 years As of 12/31/11	In 5 years As of 12/31/12	In 10 years As of 12/31/17
Number of Employees	68	12	14	17	26	19	81
Percent of Workforce	14.1%	2.5%	2.9%	3.5%	5.4%	3.9%	16.8%
Cumulative Number	68	80	94	111	137	156	237
Cumulative Percent	14.1%	16.6%	19.5%	23.0%	28.4%	32.3%	49.1%

III. Future Workforce Profile (Demand Analysis)

A. Expected Workforce Changes

The size of the population served by TRS continues to expand. As it does, so will the demand for higher levels of efficiency that maintain excellent customer service. Although workloads are likely to rise in proportion to the population served, TRS continues to apply technology to achieve gains in productivity that offset the increase in workloads. As a result, TRS has managed its increased workload without significant increases in its Full-Time Equivalent (FTE) employee allocation. However, the continued growth in size and complexity of the TRS trust fund may drive the need for additional investment staff, with a corresponding need for additional professional, technical, and administrative staff to support investment operations (such as information technology, accounting, human resources, and legal functions). In the event that new responsibilities are assigned to the system as a result of legislation, additional staff may also be needed to accomplish the assigned functions.

The critical functions of TRS are:

- Delivery of benefits.
- Management of investment assets.
- Management of the TRS infrastructure.

No fundamental changes are anticipated in the business functions or major processes of the organization. However, the agency has major initiatives underway to review statutory provisions, streamline certain benefit administration processes, and deploy enhanced technology solutions related to critical needs. As a result, staff with specialized skill sets related to these initiatives may be needed. TRS continues to experience new challenges as a result of increasing levels of complexity and specialization in its critical functions. In the investments area, diversification of pension fund assets (designed to enhance the stability of investment returns over time) requires specialized skill sets that are in high demand. Similarly, continued growth in the health benefit plan for active members requires strategies for acquiring specialized expertise. TRS continues to

develop skills within the current workforce, attract new staff with the required experience, and contract with outside parties, when feasible and cost effective, to supplement the staff's expertise in highly technical or specialized areas.

B. Future Workforce Skills Needed

- Business process analysis and design skills
- Communication and Interpersonal Skills
- Contract negotiation and administration (for monitoring outsourced functions, such as health benefit programs)
- Customer service skills
- Information technology
 - ▶ Telecommunications
 - ▶ Imaging
 - ▶ Web application design, implementation, and maintenance
 - ▶ Systems design, implementation and maintenance
- Investment management
 - ▶ Alternative asset management
 - ▶ Portfolio risk management
 - ▶ Selection and management of external managers
- Leadership and management skills
 - ▶ Coaching skills
 - ▶ Skills for managing a diverse workforce
 - ▶ Creative problem-solving
 - ▶ Building and maintaining cohesive and effective work teams
- Research, process analysis, and project management
- Continuity (succession) planning/knowledge management
 - ▶ Executive leadership
 - ▶ Portfolio management
 - ▶ Health benefit plan management
- Other Specialized Skills
 - ▶ Accounting and purchasing
 - ▶ Auditing
 - ▶ Human resources/organizational development
 - ▶ Legal

IV. Gap Analysis

Our projected future needs indicate that increasing emphasis must be placed on further developing workforce skills related to:

- Business process analysis and design.
- Contract negotiation and administration (for monitoring contracted functions, such as health benefit programs).

- Constituency communication strategy and infrastructure.
- Leadership and management skills (including coaching skills, planning and problem-solving skills, and skills related to managing a diverse workforce).
- Research and project management.

Ensuring that TRS is positioned to effectively address emerging and future workforce challenges requires systematic and ongoing review of economic and other environmental factors. TRS is proactive in addressing prospective gaps in staffing needs, and its actions include conducting:

- Annual environmental scans and reviews of the workforce plan.
- Regular human resource needs assessments.
- Frequent labor market analyses.
- Broad reviews of other workforce trends and issues.

TRS then designs initiatives to address its human resource needs based on these analyses.

Anticipated Surplus or Shortage of Workers or Skills

1. TRS finds no appreciable gaps in worker or skill needs during the five-year planning period. Some reasons for its strong position in this area include:
 - ▶ Proactive initiatives to address reasonably competitive compensation of investment professionals.
 - ▶ The TRS internship program, which has provided a good source of qualified entry-level professionals in the investments and administration areas.
 - ▶ **The organization's systematic approach to training and development (including regular needs assessments and effective training delivery methods)**, which has minimized skill gaps among current staff. Employees remain current in their computer and job-specific skills.
 - ▶ **Consistent efforts to enhance the organization's effectiveness (as reflected in positive ratings in the *Survey of Employee Engagement*)**, which have resulted in employees viewing TRS as a good place to work.
2. Potential gaps in worker or skill needs could develop during this period as a result of:
 - ▶ Loss of institutional knowledge and critical expertise due to retirement of experienced staff.
 - ▶ Legislation assigning new or significantly expanded responsibilities to the agency.
 - ▶ Increased competition for experienced staff in certain fields, such as call center representatives, investment specialists, and technology professionals.
 - ▶ The departure of critical staff.

V. Strategy Development

As indicated in the "Gap Analysis" section, it is a priority for TRS to address the loss of critical institutional knowledge due to the departure of key staff. The issue of knowledge management as a part of ensuring workforce continuity presents a significant challenge to the organization. To address this issue, individual business units (with assistance, support, and consultation from Human Resources, Information Technology, and Internal Audit/Enterprise Risk Management) will:

- Participate in self-assessments of risk levels through the Enterprise Risk Management approach. Self-assessments will focus on the impact and likelihood of risk drivers related to workforce continuity and knowledge management.
- Develop customized action plans to address specific high-risk workforce continuity and knowledge management needs of the respective business units.
- Self-monitor action plans to assure these initiatives successfully preserve institutional knowledge and address critical continuity needs.

The application of these knowledge management strategies will benefit TRS workforce continuity efforts. TRS will also continue to manage (and expand, as needed) its effective programs and practices for attracting, developing, and retaining a qualified and diverse staff. Such practices include:

- **Recruitment programs** that market TRS as an employer of choice. TRS systematically promotes employment opportunities to attract a qualified and diverse workforce. Monetary recruitment bonuses may be used in specialized instances.
- **Expanded Internship programs** enterprise-wide, which entail maintaining a relationship with leading Texas universities. These programs offer a method of expanding the pool of qualified, diverse professional staff and developing deeper talent pools for filling vacancies that occur.
- **Strategic workforce management**, including the use of contingent staffing to supplement the regular workforce, redeployment of current staff, variable scheduling to meet business needs, and other appropriate best practices.
- **Leadership development** efforts to build the skills of current and prospective leaders.
- **Retention programs** that stress opportunity and skill-set development as attractive incentives. Monetary retention bonuses may be used in specialized instances.
- **Career ladders** approved for most positions within the agency to provide professional growth opportunities for employees within their current assignments.
- **Cross-training programs** in each division, which deepen skill levels, enhance productivity, and provide back-up for important functions. Particular emphasis is placed on cross-training in areas where employees are eligible for retirement, so that the organization retains institutional knowledge.
- **Continuity plans** for critical staff, particularly those soon eligible to retire. Managers are expected to develop a talent pool of employees prepared to assume key staff responsibilities for a transitional period, until a formal recruitment process has been successfully completed. Department-level assessments based on Enterprise Risk Management methodology will be conducted to identify the risk associated with and the likelihood of knowledge and talent loss. HR will work with department management to facilitate the development of area-specific plans to mitigate identified risks.
- **Incentive Compensation Plan** for Investments Division staff, which provides the opportunity to earn monetary bonuses if TRS exceeds certain investment performance benchmarks.

Where significant challenges arise in developing or attracting staff with the expertise required for specialized functions, TRS explores the feasibility of outsourcing all or a portion of those functions. Such decisions are made in accordance with the organization's *Contract Administration* and *Contract Workforce* policies.

<i>Potential Gap:</i>	Loss of institutional knowledge and critical expertise due to retirement of experienced staff.
<i>Goal</i>	Deploy knowledge management and critical expertise continuity best practices to address risks associated with retirement of experienced staff.
<i>Rationale</i>	Continuity of institutional knowledge and critical expertise ensures smooth transitions of essential functions as staff retire.
<i>Action Steps</i>	<ul style="list-style-type: none"> ▶ Conduct department-level assessments based on Enterprise Risk Management methodology. ▶ Develop area-specific plans to mitigate identified risks, to include such best practices as business process reviews, knowledge capture, documented desk audits, and the development of customized job aids.

<i>Potential Gap:</i>	Legislation assigning new or significantly expanded responsibilities to the agency
<i>Goal</i>	Acquire necessary expertise to fulfill assigned responsibilities.
<i>Rationale</i>	TRS must maintain a state of readiness to implement any assignment of responsibility by the legislature.
<i>Action Steps</i>	<ul style="list-style-type: none"> ▶ Conduct research to identify issues affecting other public pension funds that may potentially affect TRS. ▶ Maintain awareness of prospective legislative changes to allow adequate planning for new skill-set requirements. ▶ Request a reasonable implementation period for major initiatives. ▶ As new requirements are identified, explore options for developing skills within the current workforce, attracting new staff with the required experience, or outsourcing certain functions.

Potential Gap:	Increased competition for experienced staff in certain fields.
<i>Goal</i>	Create a work environment that, combined with initiatives to maintain reasonably competitive compensation packages, supports retention of high-demand staff.
<i>Rationale</i>	Retention of staff, when feasible, is both more cost-effective and efficient than recruiting and training replacement staff.
<i>Action Steps</i>	<ul style="list-style-type: none"> ▶ Continue effective training and development programs that provide opportunities for staff to maintain or develop mission-critical professional skills. ▶ Conduct environmental scans and labor market analyses to maintain a current perspective and enable proactive retention efforts. ▶ Implement effective compensation, recognition, and other initiatives as appropriate to support retention of staff, with special attention to areas in which skills are in high demand. ▶ Continue organizational development efforts aimed at enhancing ongoing communication and effective working relationships between management and staff. ▶ Encourage staff involvement in organizational activities.

Potential Gap:	The departure of critical staff for any reason.
<i>Goal</i>	Provide a smooth transition of responsibilities when critical staff members leave the agency.
<i>Rationale</i>	TRS must ensure that critical functions are maintained despite turnover.
<i>Action Steps</i>	<ul style="list-style-type: none"> ▶ Managers are expected to build bench strength for critical functions by use of appropriate cross-training efforts, knowledge management strategies, delegation, and oversight. ▶ Transition plans will be implemented as needed to ensure continuity of service during any period of extended absence or turnover among critical staff. ▶ Maintain effective recruitment practices and strategies (such as use of contingent staff, internships, and employer branding) to attract or develop qualified replacement staff.

APPENDIX F – SURVEY OF EMPLOYEE ENGAGEMENT RESULTS SUMMARY

TRS has continued to participate in the biennial *Survey of Employee Engagement* administered by the UT School of Social Work. The fiscal year 2010 survey is the eighth time that TRS has surveyed its employees using this process.

During the fiscal year 2010 survey, 82 percent of TRS employees responded to the survey - the highest overall participation rate since TRS began its involvement. As a general rule, rates higher than 50 percent indicate soundness, showing that employees demonstrate an investment in the organization, a commitment to seeing the organization improve, and generally have a sense of responsibility to the organization.

In addition to monitoring the general well-being of the agency, TRS gathered employees' insights on other matters of interest. These matters included: the impact of diversity initiatives at TRS, the value placed on non-monetary rewards TRS offers to employees, and the level of employee awareness of ethics and information security practices. The responses to the customized questions indicate that:

- Employees have a positive perception of TRS as a respectful, diverse workplace.
- Non-monetary rewards provided by TRS are highly valued, and are therefore effective tools in TRS' recruitment and retention efforts.
- Employees are familiar with ethics and information security practices, and expressed confidence in how such matters are handled at TRS.

The key area of concern expressed by employees in the fiscal year 2010 survey was "Pay," a continuing trend from preceding surveys. However, the score in this category has shown a 34 point improvement since the last survey and a cumulative 47 point improvement since fiscal year 2004. Ten other categories reflected increases in the scores from the previous survey. (One category, **Employee Engagement," is a new category and was not included** in the previous survey.)

Eleven of the 13 continuing categories received higher scores than in fiscal year 2008. The decline in two categories (*Quality* and *Strategic*, by 20 points and 7 points, respectively) is not considered statistically significant. However, TRS considers these matters that warrant additional management attention. Overall, TRS continues to see survey results above the midpoint in all constructs, which reflect generally positive staff perceptions of the agency. Benchmark data from peer agencies is not yet available for comparison purposes.

TRS employees clearly viewed the following categories as the most positive elements of working at TRS. All three received scores of 400 or better, in a scale with 500 as the highest possible score:

- Physical Environment (safe and positive work atmosphere)
- Job Satisfaction (overall work situation, the opportunity to make a meaningful contribution)
- Strategic (vision, services provided)



While TRS continues to see mainly positive ratings from employees, the organization places a priority on improving its effectiveness. TRS routinely shares survey results with all employees, asks for their feedback on how to make TRS a better place to work, and encourages managers to make appropriate changes within their individual departments. The organization-wide focus for this biennium is to continue to improve on areas of concern within TRS control and to consider ways to build on areas of strong performance. Actions taken as a result of survey feedback are communicated to all employees in order to reinforce that their input is valued and that participating in the survey is worthwhile.



TEACHER RETIREMENT SYSTEM OF TEXAS

1000 Red River Street, Austin, Texas 78701-2698
(512) 542-6400 or 1-800-223-8778
www.trs.state.tx.us