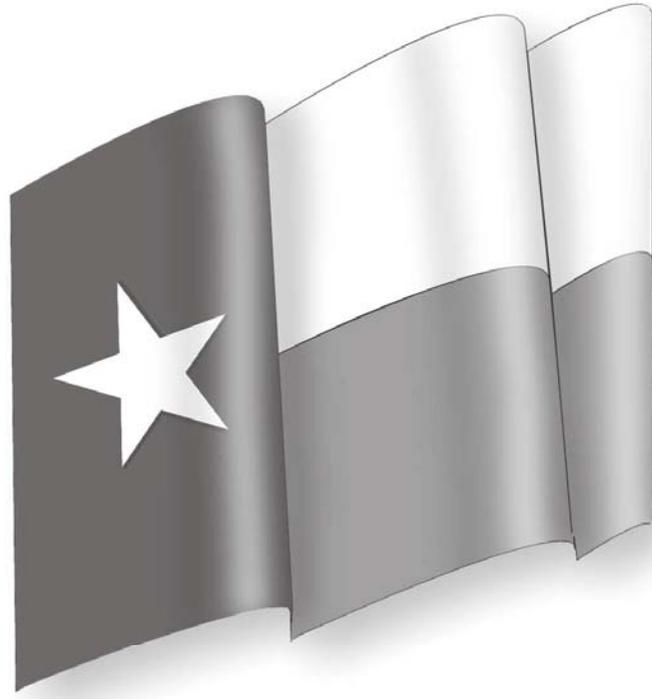


# *Summary of Sunset Commission Recommendations*



**Teacher Retirement System of Texas**

**February 2007**







# Teacher Retirement System of Texas

## Agency at a Glance

The Teacher Retirement System of Texas (TRS) delivers retirement benefits to employees of public schools and state-supported colleges and universities, and manages assets held in trust to provide future benefits for members and their beneficiaries. Following voter passage of a constitutional amendment, the Legislature created the agency in 1937. To accomplish its mission, the Board of Trustees:

- ◆ administers and operates a system to provide retirement, disability, death, and survivor benefits for 1.2 million Texas public and higher education employees, retirees, and beneficiaries;
- ◆ invests and manages the \$100.2 billion Pension Trust Fund;
- ◆ offers health and long-term care insurance to eligible public education employees, retirees, and their dependents; and
- ◆ provides counseling services and information about retirement and health-care benefits and other agency activities.



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*For additional information,  
please contact Steve Hopson  
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## Key Facts

- ◆ **State Funding.** TRS' fiscal year 2006 appropriation totals about \$1.65 billion, including \$1.6 billion from the General Revenue Fund, and \$44.7 million from the TRS Trust Account for administrative expenses.
- ◆ **Staffing.** TRS had 466 employees in fiscal year 2006, all based in Austin. The majority of TRS staff, 427 employees, assisted the agency in investing the Pension Trust Fund (Fund) and delivering retirement benefits, while 39 employees assisted with the administration of health care benefits and other TRS functions.
- ◆ **TRS Membership.** Employees and retirees of 1,363 independent school districts, charter schools, education service centers, and colleges and universities comprise the membership of TRS. At the end of fiscal year 2006, TRS membership totaled 1.2 million persons, which included 911,000 current members and 257,000 annuitants.
- ◆ **Pension Trust Fund.** TRS' Pension Trust Fund is the eighth largest pension fund in the nation<sup>1</sup>, valued at \$100.2 billion. The Fund holds contributions from TRS members, the State, educational employers, and accumulated investment returns. In fiscal year 2006, members contributed \$1.7 billion into the Pension Trust Fund, the State contributed \$1.3 billion, and educational employers contributed \$267 million.
- ◆ **Retirement Program.** TRS administers a defined benefit plan to provide a lifetime stream of income to eligible members during retirement years. In fiscal year 2006, TRS paid 257,000 retirees and their beneficiaries \$5.6 billion, with an average monthly retirement benefit of \$1,796.
- ◆ **Investments.** TRS manages and invests monies in the Pension Trust Fund and other funds it administers. In fiscal year 2006, TRS earned a 9.6 percent return on its

investment portfolio, a gain of \$9 billion. TRS' investment-related administrative costs to achieve that gain totaled \$19.1 million. During the past 10 years, TRS' investment performance has averaged 9.17 percent.

- ◆ **TRS-Care.** TRS offers a health insurance plan to retired public school employees and their dependents. In fiscal year 2006, of the 257,000 eligible TRS retirees, 190,000 participated in TRS-Care. TRS contracts with Aetna to administer the health plan and Caremark for pharmacy benefits.
- ◆ **TRS-ActiveCare.** TRS offers a health insurance plan to active public education employees whose employers have chosen to participate. Of the 1,244 school districts eligible to participate, about 1,042, or 84 percent, have enrolled. Currently, about 299,000 TRS members and dependents receive health insurance from TRS-ActiveCare. TRS contracts with BlueCross BlueShield of Texas to administer the health plan and Medco Health Solutions to administer pharmacy benefits.
- ◆ **Member Services.** TRS provides information to members, retirees, and the general public through publications, the agency's toll-free telephone number and website, one-on-one counseling, and group presentations. In fiscal year 2006, TRS counseled 9,100 members on a one-on-one basis about their retirement benefits, made 155 group presentations, and received 663,000 telephone calls and 1.75 million website visits.

## **Board Members (9)**

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Terence "Terry" Ellis (New Ulm)  
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Greg Poole, Ed.D. (Conroe)  
Dory A. Wiley (Dallas)

## **Agency Head**

Ronnie Jung, Executive Director  
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## **Recommendations**

1. Require TRS to provide equal access to retirement counseling services across the state.
2. Restructure TRS' disability retirement benefit program to ensure protection of Pension Trust Fund assets.
3. Grant TRS a greater range of oversight tools to adequately protect investments made by public education employees in 403(b) products.
4. Repeal the statutory requirement for TRS to conduct the Public School Employees' Health Coverage Comparability Study.

# Issue 1

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## **TRS Does Not Provide Equal Access to Counseling Services to Members Across the State.**

### **Key Findings**

- ◆ Counseling members about their retirement options is a critical function for TRS.
- ◆ Members who need in-person, individual counseling on their retirement options must travel to Austin, a hardship for some members.
- ◆ Other major retirement systems conduct counseling sessions in ways that are more convenient to members.

Before retiring, TRS members make a multitude of decisions that affect their lifetime annuities. While TRS has taken great strides to provide in-person, individual counseling services, these services are only offered at TRS' headquarters in Austin – requiring members living outside the capital to travel to access the services. In addition, TRS has not taken other steps to reduce the hardship on members working outside Austin, such as offering in-person counseling sessions after business hours, and allowing members to schedule telephone counseling sessions.

### **Recommendations**

#### **Change in Statute**

##### **1.1 Require TRS to conduct in-person, individual member counseling in locations other than Austin.**

This recommendation would allow members who live outside of Austin to access the in-person, individual counseling services now offered by TRS only at its headquarters. To enable the most effective delivery of these services, TRS should adopt policies regarding availability, timing, and scheduling. The agency should identify the geographic areas most in need of the counseling services and focus efforts on those areas. TRS should also make these individual counseling services available in conjunction with scheduled group sessions.

#### **Management Action**

##### **1.2 TRS should improve the convenience of counseling services for its members.**

This recommendation would ease the hardship on members who live outside of central Texas and wish to access TRS' in-person counseling services. TRS should offer in-person counseling sessions after normal working hours on one or two days a week. TRS should also allow members to schedule telephone counseling sessions to speak with counselors familiar with their retirement details. TRS should improve the capability of its website to allow members to access and complete forms online, increasing the usefulness of TRS' website.

## Issue 2

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### **TRS' Disability Retirement Benefit Program Is Not Properly Structured to Ensure Protection of Pension Trust Fund Assets.**

#### **Key Findings**

- ◆ TRS cannot adequately protect the Pension Trust Fund from potential abuses in the disability retirement program.
- ◆ Disability retirees earning high incomes inappropriately increase TRS-Care costs.
- ◆ TRS' lack of limitations on earnings by disability retirees is inconsistent with other retirement systems.
- ◆ Other state retirement systems provide greater oversight of disability retirement programs through reporting and reviewing functions.

Since 1937, TRS has offered disability benefits to members unable to work until normal service retirement due to injury or illness. While disability benefits provide needed replacement income for persons unable to work, TRS has no way of knowing if disability retirees are able to work, and no mechanism to adjust disability benefits for individuals who earn a significant amount of money. In this regard, TRS is the only major retirement program that does not limit earnings by disability retirees.

#### **Recommendations**

##### **Change in Statute**

##### **2.1 Require TRS to adjust benefits for disability retirees who earn significant incomes.**

This recommendation would make clear that disability retirement is meant as hardship relief and not as a supplemental income program. Under this recommendation, TRS should adopt rules to reduce or limit benefits, and provide for benefits to be reinstated when appropriate. The TRS rules should limit disability retirees' earnings to the amount less than or equal to their previous position's salary. This approach would prevent misuse of Pension Trust Fund assets as a bonus for disability retirees that also work for significant pay. To avoid loss of health insurance, the statute would allow disability retirees, with at least 10 years of service credit, who lose benefits under this recommendation, to continue enrollment in TRS-Care by paying the appropriate premium.

##### **2.2 Grant TRS authority to require income reports from disability retirees who earn incomes in excess of limits set by TRS.**

This recommendation would require disability retirees, who earn significant incomes as defined by TRS, to report earned income. By only requiring disability retirees with incomes over a certain level to report to TRS, this process would not burden the majority of disability retirees. The agency would adjust or cancel benefits after investigating cases in which earnings exceed limitations.

## Management Action

### **2.3 Direct TRS to access Texas Workforce Commission records on disability retirees for the purpose of reviewing earnings.**

This recommendation would direct TRS to enter into an inter-agency contract with the Texas Workforce Commission to verify income reports of disability retirees. TRS would use this information, along with the self-reporting required above, to ensure that disability retirees receive the income benefits they deserve, and no more.

## *Issue 3*

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### ***TRS Lacks Sufficient Authority in Its 403(b) Certification Program to Adequately Protect Public Education Employees.***

#### **Key Findings**

- ◆ TRS lacks authority necessary to protect investors from excessive fees and adequately address violations by 403(b) companies.
- ◆ Other agencies have developed 403(b) oversight systems that provide more information and protection to investors.
- ◆ TRS could better assist public education employees by providing basic, unbiased information on 403(b) investment options.
- ◆ Other state agencies have more authority to better protect consumers.

The Internal Revenue Code allows public education employees to supplement their retirement by making tax-deferred contributions to a 403(b) plan, similar to private-sector 401(k) plans. In response to abuses in the 403(b) market beginning in the 1990s, the Legislature created a 403(b) certification program at TRS, and gave TRS authority to set limits on fees that can be charged in such plans. However, TRS lacks sufficient authority to effectively administer the 403(b) certification program and protect public education employees from excessive fees in investments.

## **Recommendations**

### **Change in Statute**

#### **3.1 Require certified 403(b) companies to register individual products offered for sale to Texas educators.**

This recommendation would retain the basic structure of the 403(b) certification program and add a requirement for companies to register all individual 403(b) products with TRS before being marketed to public education employees in Texas. Adding product registration to TRS' 403(b) certification would allow the agency to know exactly which products companies represent as meeting the fee limitations and the actual fees charged. School districts currently ensure that a 403(b) company is on TRS' list of certified companies before processing a salary reduction agreement. Under this recommendation, school districts should ensure that a selected investment product is registered with TRS, before processing a salary reduction, by checking TRS' website.

### **3.2 Require TRS to list all registered 403(b) products and their fees on the TRS website.**

This recommendation would require TRS to list all registered 403(b) products on its website as well as information on the fees in each category and other relevant information collected during registration. This change would greatly increase public education employees' access to comprehensive, unbiased information on 403(b) products.

### **3.3 Grant TRS a greater range of oversight tools including suspension and administrative penalty authority.**

The recommendation would grant TRS a range of oversight tools to better protect public education employees in the 403(b) market. Specifically, TRS would have authority to conduct complaint-based or self-generated investigations of certified companies and registered products to determine compliance. Additionally, TRS would have authority to suspend certification and levy administrative penalties up to \$1,000 per violation. TRS should adopt a penalty matrix in rule that specifies the fine amounts for various offenses by severity. This recommendation will give TRS the ability to detect registered 403(b) products that violate TRS' fee limitations, and the flexibility to work with a 403(b) company that has reported a violation to come back into compliance.

## *Issue 4*

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### **State Law Requires TRS to Produce a Costly Study That Is No Longer Useful.**

#### **Key Findings**

- ◆ State law requires TRS to conduct a study comparing health insurance coverage offered by public schools.
- ◆ The Health Coverage Comparability Study is no longer necessary.
- ◆ The Legislature has shown interest in removing agency reporting requirements that are no longer useful or necessary.

Since 1997, statute has required TRS to study the health insurance coverage offered by local school districts, charter schools, and education service centers and compare that coverage to the basic coverage provided to state employees. The Legislature established this study before the introduction of TRS-ActiveCare, which makes health coverage comparable to the basic state employees' plan accessible to all public education entities. However, the study no longer produces sufficient valuable information to justify biennial appropriations of \$250,000 in General Revenue Funds.

#### **Recommendation**

##### **Change in Statute**

#### **4.1 Repeal the statutory requirement for TRS to conduct the Public School Employees' Health Coverage Comparability Study.**

This recommendation would eliminate an out-of-date statutory provision that requires TRS to analyze health coverage data submitted by public education entities, certify coverage that is comparable, and produce the Comparability Study every other year. Eliminating this requirement will save staff time at TRS in producing the reports and in school districts responding to TRS' information requests.

# *Fiscal Implication Summary*

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When fully implemented, the recommendations would result in annual savings of \$125,000 to the General Revenue Fund. The specific fiscal impact of these recommendations is summarized below.

*Issue 2* – Removing disability retirees, who are gainfully employed, from TRS-Care would have a positive fiscal impact to the State. Because the number of disability retirees who earn excessive incomes is unknown, the exact fiscal impact is difficult to estimate. Assuming that 5 percent of TRS disability retirees would be affected, the recommendation would save \$256,000 in General Revenue. Reducing the pensions of gainfully employed disability retirees would also have a positive fiscal impact to the Pension Trust Fund. TRS would reduce annuity payments from the Fund by \$6.45 million for disability retirees who are earning high incomes in other positions. These savings are not reflected in the five-year fiscal impact table or the total above due to their estimated nature.

*Issue 4* – Eliminating the unnecessary health coverage comparability study would result in a positive fiscal impact of \$125,000 per year to the State.

<b>Fiscal Year</b>	<b>Savings to the General Revenue Fund</b>
2008	\$125,000
2009	\$125,000
2010	\$125,000
2011	\$125,000
2012	\$125,000

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<sup>1</sup> Pensions & Investments Online, *The top 200 pension funds/sponsors*, ranked by total assets, in U.S. millions (January 24, 2005).

