



Teacher Retirement System of Texas Self-Evaluation Report

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Teacher Retirement System of Texas

Self-Evaluation Report

I. Agency Contact Information

EXHIBIT 1: AGENCY CONTACTS

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Table 1 Exhibit 1 Agency Contacts

II. Key Functions and Performance

A. Provide an overview of your agency's mission, objectives, and key functions.

The mission of the Teacher Retirement System of Texas (TRS) is to improve the retirement security of our members by prudently investing and managing the Trust assets and delivering benefits that make a positive difference in their lives.

TRS' objectives and key functions are reflected in the organization's top three strategic plan goals which include:

1. **Sustain a financially sound pension system.** Under the Texas Constitution and federal tax law applicable to qualified retirement plans, pension contributions are collected as assets that are held in the Trust for the exclusive benefit of plan participants. TRS manages and invests pension trust assets to provide retirement, death and survivor benefits administered by the System for the benefit of the pension plan participants and their beneficiaries.
2. **Continuously improve our benefit delivery.** TRS is a public entity that has responsibility for the administration of the retirement benefit program for Texas public school employees. Pension Benefits include service and disability retirement benefits and death and survivor benefits. Administration of the program requires collection of member contributions and payment of benefits as provided by law.
3. **Facilitate access to competitive, reliable health care benefits for our members.** TRS' mission of delivering benefits that make a positive difference in members' lives is accomplished by providing high-quality and cost-effective health care and customer service while facilitating access to accurate information for members, the legislature, and other stakeholders. TRS administers three health care programs —TRS-Care Retiree Health Benefit Program (TRS-Care), TRS-ActiveCare Public School Employee Health Benefit Program (TRS-ActiveCare), and the Long-term Care Insurance Program.

TRS-Care is the retiree health benefit program established in 1985 (with an effective date of Sept. 1, 1986) by the 69th Legislature under what is now Insurance Code Chapter 1575.

TRS-ActiveCare is a program established in 2001 (with an effective date of Sept. 1, 2002) under what is now Texas Insurance Code Chapter 1579 to provide health benefits for active employees of Texas school districts, open enrollment charter schools, and other eligible participating entities.

The Long-term Care Insurance Program for public school employees was established in 1999 under Texas Insurance Code Chapter 1576. TRS is authorized by statute to provide voluntary long-term care insurance for eligible active and retired public school employees and their eligible family members.

While not key functions, the following strategic plan goals are core to executing on the key functions and are included below as a convenience.

4. **Ensure that people, processes and technology align to achieve excellence in the delivery of TRS goals.**
5. **Promote purchasing selection practices that foster meaningful and substantive inclusion of Historically Underutilized Businesses.**

B. Do your key functions continue to serve a clear and ongoing objective? Explain why each of these functions is still needed.

As a defined benefit plan, the TRS plan assures a stream of income for members during their retirement years. Additionally, the TRS plan provides disability retirement benefits for eligible employees no longer able to work and it pays death benefits to beneficiaries of active and retired participants.

The creation of TRS 80 years ago, at a time when the federal Social Security program was being developed, still has relevance today for many Texas educators and employers. The TRS retirement plan was approved in 1936 by an amendment to the Texas Constitution, followed by enabling legislation in 1937. The approval of the amendment to establish a retirement system for Texas public education employees came one year after the federal Social Security Act was signed into law. State and local government employees were excluded from Social Security coverage from 1935 (the date of the original Social Security Act) until 1950 due to a legal question regarding the federal government's authority to tax state and local governments.

Beginning in 1951, states were allowed to enter voluntary agreements with the federal government to provide Social Security coverage to public employees. All states, including Texas, now have such agreements with the Social Security Administration. However, because of the voluntary nature of such agreements, the extent of Social Security coverage varies from state to state. The largest proportion of uncovered state and local government employees work at the local level. The majority of uncovered local government public employees are police, firefighters, and teachers. Medicare coverage, however, now is mandatory for state and local government employees hired (or rehired) after Mar. 31, 1986. Mandatory Social Security and Medicare coverage for state and local government employees who are not members of a public retirement system and who are not covered under an agreement with the Social Security Administration (known as a Section 218 agreement) became effective July 2, 1991.

Currently, the majority of school district employees in Texas are covered by Medicare. However, TRS members employed by most of the school districts are not covered by Old-Age, Survivors, and Disability Insurance (OASDI), known as Social Security. In fiscal year 2018, 78 percent of members in TRS did not participate in Social Security. This includes 96 percent of Texas public education employees. For many TRS members, the only source of lifetime income in retirement is their TRS benefit. A lifetime benefit, such as TRS or Social Security, mitigates the risk of a retiree who – due to longevity, market volatility, or failure to invest adequately – outlives his or her savings. Moreover, participation in TRS is more cost effective for employers because the availability of TRS as a qualified replacement plan to Social Security saves Texas public school employers an estimated \$1.65 billion annually.

To support the administration and payment of benefits to members, the investment management function generates investment returns. If the investment function were no longer performed, revenues would decrease and replacement revenue would need to be obtained from the state, members, or employers for payment of benefits already established in law, as well as any new benefit enhancements. Additionally, the failure of a trust fund to invest the funds under its control would call into question whether the fund's board is properly fulfilling its fiduciary duties to the participants of the trust.

A TRS core function is also administering health care programs for active and retired educators. Eliminating health coverage offered by TRS would have an adverse effect on the nearly 1,100 school districts that participate in TRS-ActiveCare and the approximately 450,000 lives who receive health care through TRS-ActiveCare. Ninety-four percent of districts in TRS-ActiveCare have 500 or fewer employees who are eligible for health coverage. Participating in the program allows smaller districts and other participating districts to take advantage of the significant purchasing power and negotiating leverage of TRS in providing health benefits to their employees. In addition, approximately 230,000 retirees and their family members rely on TRS-Care for health care benefits and have access to richer benefits at a lower cost than available in the private insurance market. In addition, some 157,000 TRS annuitants participate in the TRS Medicare Advantage health program. As the second-largest purchaser of health care in the state of Texas after Medicaid, TRS is able to utilize its considerable leverage to deliver quality health care for hundreds of thousands of members, their spouses, and dependents.

C. What, if any, functions does your agency perform that are no longer serving a clear and ongoing purpose? Which agency functions could be eliminated?

TRS programs are focused on our core mission. Therefore, TRS does not recommend eliminating any existing functions.

D. Does your agency's enabling law continue to correctly reflect your mission, objectives, and approach to performing your functions?

Yes. The original mission of TRS is described in the provisions of Article XVI, Section 67 of the Texas Constitution, and Title 8, Subtitle C of the Texas Government Code. These laws established the administration of retirement and related death and disability benefits for public school employees as the mission of TRS, along with investment of TRS assets in support of the retirement program.

Over time, additional statutory responsibilities have been added, including the administration of retiree and active member health benefit programs and administration of long term care insurance for eligible public education employees and retirees. This responsibility is set forth in other Texas statutes, such as the Insurance Code and Revised Civil Statutes.

Until recently, TRS was responsible for administering the 403(b) Certification and Registration Program. House Bill 2820, 86th Legislature, Regular Session removed TRS' authority to certify 403(b) companies and maintain a list of registered 403(b) investment products.

TRS has identified some major policy issues Section IX of this report that could improve TRS' ability to achieve its objectives and perform its functions. These include issues related to employment after retirement, disability administration, investment authority, and health care funding.

E. Have you recommended changes to the Legislature in the past to improve your agency's operations? If so, explain. Were the changes adopted?

Historically, TRS has provided benefits based on an efficiency and cost savings service delivery model. From 2012-2017, satisfaction with the services provided by TRS averaged 95.5 percent for retirees and 91.5 percent for active members; however, satisfaction levels have consistently trended downward.

While TRS' service delivery model served TRS members well for many years, it became increasingly difficult for TRS, with existing resources, to meet its service level performance measure. For example, the last time TRS met its service level of answering 80 percent of calls within three minutes was in fiscal year 2015 when the call center was able to answer 84 percent of calls within three minutes. This is due, in part, to a membership base growing in size and complexity, stagnant benefit services staffing levels, and various external and internal factors such as significant changes to TRS-Care and the provision of services in a 5

At the same time that TRS was experiencing customer service challenges, TRS executive management, along with the TRS Board of Trustees, made a strategic decision to increase internal investment management in order to reduce external manager fees and scale investment management capabilities to meet the growing size of the trust fund. Deploying additional capital in the future will require additional staff to reduce external management fees, preserve risk appropriate returns, and ultimately allow TRS to increase net alpha.

Acting in their fiduciary capacity, the TRS Board of Trustees issued a finding in fiscal year 2018 that allowed TRS to begin addressing these challenges. The fiduciary finding increased TRS' operating budget and authorized the hiring of critical front-line benefit services staff and investment staff.

During the 86th Legislature, Regular Session, TRS worked closely with funding and policy committees to provide resources to address the short- and long-term needs of the agency. As a result, TRS' appropriation request was largely funded, which included an increase in the state contribution rate, additional funding for TRS-Care, and an increase in the number of full-time equivalents (FTEs) authorized. Legislation was also passed that improves the health of the pension fund and authorized a supplemental retirement payment, paid for with state funding. For a review of all legislation enacted in the 86th Regular Legislative Session, see Section VIII.B.

In addition to the actions taken in the most recent legislative session, TRS routinely provides the legislature with options to improve agency functions, enhance administrative efficiency, or make critical changes to comply with federal rules and laws.

85th Legislature, Regular Session (2017)

Senate Bill 1663 (SB 1663) provided for member benefit and administrative changes. Prior to changes, if a person worked in student employment only, the person was not eligible for TRS membership. In limited cases, a person could work in a job eligible for TRS and also work in student employment. Reporting of

these individuals was often incorrect. SB 1663 provided that student employment is not eligible for TRS service credit, regardless if paired with another TRS eligible position.

SB 1663 made a number of clarifications to beneficiaries including if a retiree changes a payment option to retiree only, the beneficiary had to have been the retiree's spouse at the time the original beneficiary designation was made. The change streamlines the review process if a court order is needed. The bill also clarified that if the beneficiary is a trust and the trust beneficiary is an individual, TRS will pay the benefit for the life of the individual rather than for the remaining life expectancy of the individual. The bill also required TRS, in the event of a death of an active member, to make the determination as if the member had retired with an additional five years of service credit on the last day of the month preceding the month in which the member dies in determining whether to reduce the optional retirement annuity amount. Prior to this change, if a TRS member died a short time before retirement, recent eligibility changes for early retirement may have reduced the beneficiary's annuity significantly. Another death benefit in the legislation provided that the designated beneficiary of a disability retiree is eligible to receive the return of excess contributions if the retiree retires on or after a certain date and dies while receiving disability retirement benefits under Section 824.304 (Disability Retirement Benefits), rather than Section 824.304(b) relating to requiring TRS to pay the person a disability retirement annuity of a certain amount if a member has a total of at least 10 years of service credit in TRS.

SB 1663 strengthened employment after retirement laws so that if a retiree worked during the first 12 months following retirement as an independent contractor, volunteer, or simply waived compensation the retiree is considered an employee of the public school or higher education employer.

Administratively, SB 1663 provided that TRS is exempt from Section 651.002 (Benefits of and Restrictions on State Employees Working Out of State), Chapter 660 (Travel Expenses), and Subchapter K (Promotions, Reclassifications, and Other Adjustments to Salary), Chapter 659 (Compensation), to the extent the board determines an exemption is necessary for the performance of fiduciary duties.

The bill also allows the TRS Board to go into executive session to discuss particular investment transactions, strategies, portfolios and other potential transactions related to private investments if the board determines that deliberating or conferring in an open meeting would have a detrimental effect on TRS' negotiations with third parties or place TRS at a competitive disadvantage in the market.

Because of TRS' fiduciary role, its key employees are subject to stricter personal and financial information filings than the state requirements. SB 1663 provided that all personal financial disclosures made by employees of TRS are confidential and excepted from the requirements of Section 552.021 (Availability of Public Information). The bill also allowed TRS to provide its members with required information electronically.

SB 1663 required that the assets of TRS be maintained and reported in a manner that reflects the source of the assets or the purpose for which the assets are held, using appropriate ledgers and subledgers, in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board or its successor.

SB 1663 reduced the number of members to the Retirees Advisory Committee from nine to seven, removing the auxiliary personnel positions as it was difficult to find members who were able to participate and

meetings were canceled due to lack of a quorum. The bill also authorized TRS to charge a late fee if employer reports are filed after the statutory deadline and removed the prohibition on members who do not complete a purchase of service credit using an installment payment method from using the method for the next three years.

Senate Bill 1664 (SB 1664) provided for technical and administrative corrections. It updated statutes for IRS Code compliance, clarifying that TRS use the common law test used by the IRS and its guidance for defining an employee; updating an incorrect cite to the IRS Code; and updating plan terms to allow a direct rollover by TRS to a 401(a) plan.

Administratively, SB 1664 granted additional time for TRS members to purchase service credit and sick/personal leave credit at retirement. Prior to the legislative changes, an effective retirement date may not be changed after it is established. SB 1664 provided for an exception by revocation of retirement under Section 824.005 (Revocation of Retirement), rather than retirement under Section 824.005 and retirement at a later date.

Senate Bill 1665 amended laws to continue the authorization to use derivatives and authority to invest up to 30 percent of the fund with external managers by removing the Sunset dates on those authorities.

Senate Bill 1954 created a correction of error provision between the Optional Retirement Program (ORP) and TRS. The Higher Education Coordinating Board (HECB) administers the ORP, an alternative to the TRS retirement plan. Eligible employees at Texas public institutions of higher education may elect to participate in ORP but have a one-time irrevocable opportunity during their employment at a Texas public institution of higher education to choose between TRS and ORP. Prior to the changes, the ORP decision must be made within 90 days. The bill allows ORP-eligible employees who are not notified properly additional time (up to 150 days) to elect ORP participation. The bill also created a correction of error provision for reporting an ORP employee to TRS when the employee is not eligible for TRS. The person would be restored to ORP participation and member, state, and employer contributions related to the incorrect reporting plus interest is paid to the employee's ORP account.

84th Legislature, Regular Session (2015)

House Bill 2974 (HB 2974) included a number of provisions to clarify administration of the retirement program. The bill defined "annual compensation" as service during a 12-month period determined by TRS rather than the standard school year for service credit. This was done in order to provide the TRS Board of Trustees greater latitude in setting fairly the period for members' retirement calculations using average salaries. The legislation provided that membership eligibility in the retirement system is established through one employer and clarified that a person's membership does not terminate if the person continues to work for a TRS-covered employer in a part-time position that is not eligible for membership. HB 2974 clarified that a person cannot withdraw contributions if the person is employed, has applied for employment, or received a promise of employment for any position with a TRS-covered employer. The bill also provided conforming changes in federal law to limit the amount of out-of-state service credit that may be purchased to five years rather than 15 for an IRS plan qualification requirement.

HB 2974 included provisions relating to the TRS board of trustees to allow board members to attend a summit, conference, convention, workshop, or other event for educational purposes only without posting notice. The board cannot deliberate, vote, or take action on a TRS issue while at the event. The bill also

provided the board with the authority to set one rate for the health benefit surcharge in return-to-work cases instead of the current multiple rates based on type of coverage, the number of dependents, and the years of service. This simplified the rate for employers and employees.

- F. Do any of your agency's functions overlap or duplicate those of another state or federal agency? Explain if, and why, each of your key functions is most appropriately placed within your agency. How do you ensure against duplication with other related agencies?**

Benefit Services

The TRS pension plan functions are comparable to those of the Employees Retirement System of Texas (ERS), which serves state employees. However, the pension administration and investment functions serving public education employees are placed with TRS because of state constitutional requirements and because of the characteristics of the population served. TRS investment and pension administration functions are constitutionally mandated and must be administered by a board of trustees. (See Texas Constitution Article XVI, Section 67)

The constitutional provisions suggest that separate plans and boards were envisioned for the retirement system serving public education employees and the system serving state employees. Certain distinctions between the covered populations support maintaining separate retirement systems. For example, public education employees typically work on a semester or school-year basis rather than a continuous 12-month plan year, as is common for state employees. As a result, the method of crediting service in the two systems is different. TRS ensures against duplication with ERS by serving only the population eligible for membership in TRS and by customizing its services to meet the needs of public education employees and reporting entities (school districts, open enrollment charter schools, and higher education institutions).

Investment Management

No. The TRS investment function is constitutionally mandated and is performed by the TRS Board of Trustees and internal investment staff.

Health and Insurance Benefits

TRS is the sole state agency dedicated to providing health insurance for some 1.6 million public education employees and retirees. TRS' Health and Insurance Benefits Division (HIB) and its vendors have expertise in managing health programs and communications with the large number of schools and independent school districts in Texas, while maintaining low administrative costs. Moreover, TRS leverages its expertise and considerable size to negotiate favorable contracts for plan participants, and is able to absorb risk volatility that would create far greater financial instability and volatility for smaller risk pools. While TRS coordinates with a variety of governmental partners, including both local governments and the U.S. Department of Health and Human Services, no duplication in responsibilities exists.

- G. In general, how do other states carry out similar functions?**

Benefit Services

Public school employee retirement, death, and disability benefits are provided through qualified defined benefit pension plans in many other states. Like Texas, most states have established a separate retirement system for teachers; however, some states have combined retirement systems that include both teachers and other public employees. Plan design and administration varies among the states in several respects, including membership eligibility, state and member contributions, benefit formula, service credit and benefit accrual, retirement eligibility, payment options at retirement, and other features. Texas remains in the lower quadrant of plan expense from both an administrative perspective and from the state, employer, and member contribution rate standpoint.

Investment Management

Other states carry out investment management functions similarly to TRS. It is common for the governance structure of a public pension plan to be distributed among three groups of fiduciaries: governing fiduciaries (board of trustees), managing fiduciaries (Chief Investment Officer), and operating fiduciaries (investment staff and external service providers). Similar to TRS of Texas, the Board of Trustees of other state public pension plans holds the responsibility for establishing the investment policy and asset allocation decisions.

It is also common for state retirement systems to delegate investment management authority either internally or to external investment managers. Generally, the investment divisions of pension systems in other states determine the allocation between internally and externally managed assets based on strategic asset allocation determined by the Board, return objectives, appetite for risk, and the discretion of the Board, CIO, and investment staff.

Health and Insurance Benefits

As it relates to health care, many states have distinct programs and funding strategies for non-state agency employees and retirees. States often include school, municipal, and other non-state members together into a single distinct strategy. In some states school districts may be responsible for or have the option to independently purchase health care services on behalf of their employees and retirees. Many states use a single state agency to purchase health care services for both state and non-state employees—typically with contribution and premiums varied by employee type.

TRS receives approximately half of the median amount of funding per employee from state and local sources for active, employee-only health insurance. For family coverage, TRS receives approximately one-third of the national median for active employees (based on reporting from the U.S. Bureau of Labor Statistics).

H. What key obstacles impair your agency's ability to achieve its objectives?

Benefit Services

TRS is in the 7th year of a multi-year initiative called TEAM (TRS Enterprise Application Modernization). The overall goal of the TEAM Program is to implement a cost-effective, efficient, and sustainable program

of business and technological processes that enables TRS to serve the expanding and ever-changing needs of its members, employers, and annuitants. A major aspect of TEAM is replacing TRS' legacy pension information systems with a new pension line of business (LOB) known as TRUST (TRS Unified System for Technology). The project to replace TRS' legacy LOB and implement TRUST is broken down into the following phases:

Phase 1A Employer Certification – TRS trained all 1,300+ of its employers (also known as reporting entity partners or REPs) on how to use TRUST's Reporting Entity (RE) Portal to submit their reports to TRS. This project was completed in March 2016.

Phase 1B Active Membership – In this phase, the TRUST system transitioned from a test environment to a production environment. Major functionality included RE reporting, member account maintenance, refunds, service credit purchases, benefit estimates, cash receipts, legal orders, contact management, and workflow. This project went live on October 7, 2017.

Phase 2 – In this phase, TRUST will be in full production. All functionality will be implemented. Major functionality will include retirement application processing, death claims processing, annuity payroll, and member online self-service.

The implementation of TRUST, along with new employer reporting rules adopted by the Governmental Accounting Standards Board, requires more accurate and complete data from employers than TRS had gathered when using the legacy system. Prior to October 2017, only TRS-eligible members were reported to TRS. When Phase 1 of TRUST went live in October 2017, the new Employer Reporting Portal required reporting of all employees, not just those that meet membership eligibility.

TRS faces particular challenges in communicating with employers about the new reporting requirements and the increased number of data elements required. Obtaining employer support to improve census data deficiencies and gaining widespread acceptance for reporting data previously not required has proved to be a challenge.

Adding to the difficulty of reporting more data and the complexity of the information, is staff turnover in the payroll reporting divisions of our reporting entity partners. The application of TRS laws and rules to reporting requirements can be difficult for employers to understand and implement. Keeping employers and their payroll staffs up to date and trained on employer reporting is an ongoing challenge, particularly when there is frequent turnover in employer payroll staff. TRS conducted outreach campaigns to educate employers prior to Phase 1 of TRUST LOB implementation and continue to do so.

In addition to the challenges of educating employers on the data requirements of Phase 1, TRS faces challenges with completing the LOB project. Implementing a new pension LOB adds significant risk to Benefit Services. For example, as the project winds to its final stages, many subject matter experts from the business are required to work on multiple extensive testing activities over a period of several months to a year, requiring overtime and risking burn-out. Further, the final phase of the implementation involves complex functionality that must be accurate and timely because it directly impacts retiree annuities. TRS will only go-live with the final product when it has firm confidence in the reliability and accuracy of the new system, which risks schedule extensions. Adding to the complexity is the need for TRS to take over system

maintenance and enhancements from the vendor almost immediately after go-live, which requires months of planning, knowledge transfer, and training activities. All of this can impact TRS' ability to achieve its objectives.

Investment Management

Financial market conditions can dramatically affect the actuarial condition of the pension fund. The risk of global financial market volatility, drawdowns, and slowdowns in economic growth can bring about changing investment risks and, as long-term oriented investors, make our return objectives more challenging to achieve.

Health and Insurance Benefits

TRS faces obstacles that are similar to most purchasers of health care. Efforts to negotiate high-value care on behalf of members are constrained by provider pricing leverage.

In some regions of the state, for example, hospital closures and consolidation have resulted in more limited competition among medical providers. Negotiating lower prices with these providers can be challenging when trying to ensure an adequate network. This can be exacerbated when hospitals acquire physician groups and other providers.

Similarly, limited competition in prescription drug manufacturing drives significant price inflation. High prices are common for new medications that offer break-through treatments while under patent. The high prices of these drugs typically drives large increases in cost for the entire prescription drug benefit, despite the fact that most drugs filled by TRS members are generic.

TRS, like the Employee Retirement System of Texas (ERS), also faces a constrained market of qualified vendors for third-party administration. This is in part due to the size and complexity of TRS programs, but also due to increased national merger and acquisition activity.

TRS also faces additional unique challenges in terms of cost and affordability. State and employer contributions towards TRS health care have fallen well behind the rapid increase in health care prices. Additionally, TRS membership is more rural than average and females comprise a higher percentage of the participant pool than for many other health care purchasers, including ERS. Many smaller districts that participate in TRS-ActiveCare are located in rural parts of the state. Rural areas of the state, on average, typically experience higher health care costs and offer fewer medical providers. These communities do benefit from participation in a larger group offered by TRS. However, implementing innovative plan designs, such as accountable care organization with value-based models of payment, is often more challenging to due to the smaller and more dispersed population of residents in rural areas of the state.

TRS continues to analyze these dynamics to identify solutions that ensure that members have access to the highest-value care within their regions through programs that are affordable and sustainable.

I. Discuss any changes that could impact your agency's key functions in the near future (e.g., changes in federal law or outstanding court cases).

Benefit Services

Any changes to eligibility, employment after retirement, and health care will continue to increase workload within the contact center, employer reporting, and the processing areas. Any changes to key functions would require TRS system changes and most likely changes for reporting entities.

Investment Management

TRS has not identified any changes that could impact the Investment Management Division at this time.

Health and Insurance Benefits

Potential new federal legislation or regulation, such as changes in taxes related to health insurers and Medicare Part D coverage could have a budgetary impact. TRS staff and vendors monitor these potential changes and take them into consideration when developing premium rates.

J. Aside from additional staff or funding, what are your agency's biggest opportunities for improvement in the future? For example, are there other programs or duties the agency could take on to better carry out its mission?

Benefit Services

TRS sees opportunities for improved customer service when TRUST is fully implemented as it will include a more robust web self-service application. With full implementation, TRS expects more streamlined processes and efficiencies. The new TRUST systems lays a modern technology foundation for TRS and future opportunities lie in keeping the technology up to date and executing on maintenance and enhancement efforts.

Another opportunity for TRS is improved stakeholder communication given TRS' size and complexity. First, TRS laws and rules are complex and not always well understood by stakeholders (defined as active members and retirees and their advocates). Second, communication with TRS' membership can be constrained by the scale involved in contacting the entire membership.

In fiscal year 2018, Benefit Services rolled out a series of member education videos intended to provide answers and information to the most commonly asked questions about TRS member pension benefits. The following videos have been published to date:

- Welcome to Membership
- Purchasing Service Credit
- Naming a Beneficiary
- What Tier Am I?
- Working After Service Retirement - Parts 1 & 2
- Selecting a Retirement Benefit Option
- Disability Retirement
- Steps to Retirement

- Need Help? Learn About Our Services (projected release September 2019)

Additional videos are currently in the planning stages and these represent a great opportunity to improve stakeholder understanding of TRS laws and rules on a larger scale. During fiscal year 2020, videos will offer information based on member career phase, contribution refund requests, beneficiary claims, and *MyTRS* enhanced functionality.

Investment Management

As the 13th largest pension fund in the world, TRS is a best-in-class global investment management fund. TRS has slowly diversified part of its portfolio into private equity, real estate and other higher-returning investments, and employed outside managers. TRS investment staff has demonstrated the ability to manage these investments and continue to increase returns above the benchmark. The Investment Management Division (IMD) has also embarked on a multi-year initiative to strengthen TRS' abilities to maintain total returns, reduce fees, and keep a competitive advantage among peer funds. Approved by the board of trustees, the fee reduction plan would allow TRS to hire more investment professionals in-house and reduce the use of external managers. The plan would save \$1.4 billion or more in fees and carried interest in investments made over the next five years.

The estimated savings assume an increased allocation to public markets internal management and increased private markets principal investing. Private markets assume both growth in the current level of principal investing over the coming years and the mitigated erosion of current level of fee savings anticipated to occur if the TRS fee reduction plan is not implemented.

Lastly, TRS has identified additional opportunities that would enhance investment flexibility such as addressing current limitations on directly owning real estate and our ability to access financing by allowing use of debt secured by collateral.

Health and Insurance Benefits

TRS has expanded its in-house capacity to provide enhanced health-related customer service, data analysis, and plan management. TRS uses staff knowledge to improve members' experience when seeking help, expand the use of data to inform decision-making, engage stakeholders, and educate health plan participants. Increased in-house expertise on health care purchasing and data analysis, for example, facilitates the evaluation and use of new network and payment strategies to drive improvements in access to high-quality, lower cost health care. A continued focus on leveraging existing sources of data and newly hired staff will drive improvements in the effectiveness and efficiency of TRS health programs. HIB recently completed the initial phase of a process improvement project to assess its eligibility and enrollment functions. Twenty-two process flow improvements and 70 opportunities for automation were identified. HIB is implementing the improvements over the next two years.

Another TEAM project is the transition to the health insurance line of business (HILOB) database in the coming year to replace the current legacy health insurance platform. The implementation will require significant staff resources but yield improvements in timeliness and accuracy of processing.

K. Overall, how does the agency measure its effectiveness in carrying out its objectives?

Overall, TRS measures its effectiveness in carrying out its objectives through a combination of performance measures, key performance indicators (KPIs), and strategic plan progress. TRS regularly assesses its performance against Legislative Budget Board key and non-key performance measures. Additionally, every quarter, TRS gathers information on KPIs and progress toward TRS Strategic Plan strategies. Division heads report on the status of their KPIs and strategic plan progress at regular results forums. Information from the results forums is then reported to the board on a quarterly rotation so that each part of the TRS Strategic Plan is discussed by the board at least once a year with an annual wrap up each September. The results forum reporting process was put into place in February 2018 when the TRS Board of Trustees created the Strategic Planning Committee of the Board to monitor agency effectiveness and progress on the strategic plan. The third quarter Strategic Planning Committee presentation is included in Attachment 17.

In the following chart, provide information regarding your agency's key performance measures, including outcome, input, efficiency, and explanatory measures. Please provide both performance measures listed in the agency's appropriated bill pattern and other performance indicators tracked by the agency. Please provide information regarding the methodology used to collect and report the data.

EXHIBIT 2: KEY PERFORMANCE MEASURES — FISCAL YEAR 2018

Key Performance Measures	Data Set Reference Number* (if applicable)	Calculation (if applicable)	FY 2018 Target	FY 2018 Actual Performance	FY 2018 % of Annual Target
1.1.1. # of Years-Amortize TRS Retirement. Fund Unfunded Actuarial Liability	Actuarial Valuation Report	Calculated by Actuary	31.10	87	280%
1.1.2. TRS Retirement Fund 5-Yr Average Time-weighted ROI Performance	Investment Financial Data	Calculated by Investment Custodian	8.00%	8.82%	110.25%
1.1.3. TRS Retirement. Fund 20-year Average Time-weighted Rate of ROI Performance	Investment Financial Data	Calculated by Investment Custodian	8.00%	6.99%	87.38%
1.1.4. Investment Performance Relative to Board Approved Benchmark	Investment Financial Data	Total Investment Return of the PTF divided by the Total Fund Index Benchmark	100.00%	111.20%	111.20%
1.1.5. TRS retirement fund annual operating expense per member in dollars (excluding investment expenses) KEY	GLAS/BEVO system, TRUST system CAFR Schedule 2	Retirement fund benefit admin GAAP operating exp (excluding GAAP investment exp) / total active, non-contributing, & retired members	\$29	\$40.78	140.62%
1.1.6. TRS retirement fund investment expense as basis points (bp) of net assets KEY	GLAS/BEVO system, TRUST system CAFR Schedule 2	Retirement fund GAAP investment expenses / net assets held in trust for pension plan benefits	24 bp	14.1 bp	58.75%
1.1.7. Service level % of calls answered in specified time interval KEY	inContact System	Number of calls successfully answered within the service level interval / Total number of calls plus total abandoned calls	80.00%	15.10%	19.36%

Key Performance Measures	Data Set Reference Number* (if applicable)	Calculation (if applicable)	FY 2018 Target	FY 2018 Actual Performance	FY 2018 % of Annual Target
1.1.3.1 Number of TRS benefit applications processed KEY	Payment Voucher Report, AP2026 & DC3162	NA	72,000	68,632	95.32%
1.1.3.2 Number of TRS Retirement Fund Member Accounts Serviced	TRUST System	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	10,553,024	13,200,060	125.08%
1.1.3.3 % of Retirees whose first annuity is paid when it is first due	AP7105	# of first annuity payments made over 31 days divided by total # of first annuity payments made during month	98.00%	90.09%	91.93%
1.2.1.1 Participation Rate in Disease Management Program by Non-Medicare Enrollees	Disease Management Vendor Data	# of enrollees divided by the # of eligible enrollees	10.00%	5.50%	55%
1.2.2.2 Generic Substitution Rate for TRS-Care Prescription Drug Benefits	TRS-Care Pharmacy Benefit Manager Data	# of prescriptions filled with generic equivalent divided by the total # of prescriptions	98.00%	98.00%	100%

Table 2 Exhibit 2 Key Performance Measures

*See Exhibit 3

- L. Please list all key datasets your agency maintains. Why does the agency collect these datasets and what is the data used for? Is the agency required by any other state or federal law to collect or maintain these datasets? Please note any “high-value data” the agency collects as defined by Texas Government Code, Section 2054.1265. In addition, please note whether your agency has posted those high-value datasets on publically available websites as required by statute.**

TRS has datasets for eligibility, enrollment and claims data for TRS-Care and TRS-ActiveCare, as well as active member and annuitant data for the pension fund. Per Texas Government Code, Section 825.103(e), TRS is not subject to Chapter 2054 and thus is not required to post high-value data sets as required by Texas Government Code, Section 2054.1265.

EXHIBIT 3: KEY DATASETS

Dataset Reference Number	Dataset Name	Description of Data	Data Maintained By	Hyperlink (if publicly available)	Legal Prohibition to Disclosure Y/N
N/A	PHI.MEDADV.MERGE.M file, PHI.ACTUARY.EGWP.DATA file, PHI.ACTUARY.NORX.DATA file, PHI.STNDRD.MTHLY file, and PHI.AET.GRS file from HEIN system transmitted to GRS data warehouse	TRS-Care Eligibility, Enrollment and health care claims data	TRS and GRS Consulting (actuary)	N/A	Yes
N/A	Aetna transmits file to GRS data warehouse	TRS-ActiveCare Eligibility, Enrollment and health care claims data	GRS Consulting (actuary)	N/A	Yes
N/A	PAX-FYE-val-data file from TRUST system & transmitted to GRS data warehouse	Active member valuation data	TRS and GRS Consulting (actuary)	N/A	Yes
N/A	PRX.FYE.VAL.DATA.DISK file from mainframe system & transmitted to GRS data warehouse	Annuitant valuation data	TRS and GRS Consulting (actuary)	N/A	Yes

Table 3 Exhibit 3 Key Datasets

III. History and Major Events

- 1936** The Teacher Retirement System of Texas (TRS) was created by an amendment to the Texas Constitution to provide a service retirement program for teachers and administrators of the public school systems of Texas, including the Texas Education Agency and institutions of higher education.
-
- 1937** Enabling legislation for a teacher retirement plan and administration of TRS was signed into law by the 45th Legislature.
-
- 1949** TRS retirement plan membership was expanded to include all employees of public education institutions, including cafeteria workers and bus drivers.
-
- 1967** The legislature established the Optional Retirement Program (ORP) as an alternative to TRS. The program was designed to offer public higher education faculty more portable retirement programs through individual annuities.
-
- 1970** TRS obtained a determination from the U.S. Internal Revenue Service that the TRS pension plan is “qualified” under Section 401(a) of the federal tax code. Plan qualification offers certain tax advantages to the member and plan, and imposes certain responsibilities.
-
- 1985** The 69th Legislature established TRS-Care, a health benefit program for public school retirees. Most school districts did not extend health insurance coverage upon an employee’s retirement. TRS was given statutory responsibility to administer this new program.
-
- 1987** The TRS pension plan was amended to take advantage of the federal tax code “pick up” provision for governmental plans. As amended, the TRS plan provides that compensation earned by TRS members after Dec. 31, 1987 is treated as “picked up” by employers, thus allowing income tax on the member contributions plus interest to be deferred until the time of distribution.
-
- 1989** New state law required Texas public retirement systems, including TRS, to make direct payment of the portion of retirement benefits awarded by a court under a Qualified Domestic Relations Order to former spouses of members and other eligible non-participants.
-
- 1993** State law was amended to establish a new credit transfer program for members of TRS and the Employees Retirement System (ERS), thus improving portability between these two systems.
-

1995 Following Sunset Reviews in 1993 and 1995, the 74th Legislature passed significant legislation affecting TRS, including legislation that clarified the purpose of the retirement system is “to invest and protect the funds of the retirement system and to deliver benefits provided by statute, not to advocate or influence legislative action or inaction or to advocate for higher benefits.”

Legislation also restructured the TRS Board of Trustees, which included changing direct appointees of the State Board of Education (SBOE) to gubernatorial appointees selected from a list of candidates submitted by the SBOE and altered the funding of the TRS operating budget from pension trust funds to General Revenue funds.

1999 Legislation was enacted authorizing TRS to administer an optional long-term care insurance program for eligible active members and retirees (and certain family members).

The TRS administrative budget for the pension fund no longer received appropriated funds as of the 2000-01 biennium. The funding source was shifted back to the pension trust fund by the General Appropriations Act, even though the statute was unchanged.

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. Legislation also established the supplemental compensation program to “pass through” \$1,000 of state funding annually for each eligible public school employee to support health benefit program participation. TRS was designated to administer the payment pass-through.

Other legislation created a TRS-administered certification program for companies offering 403(b) investment products to Texas public school employees through payroll deduction.

2002 TRS-ActiveCare was implemented with smaller districts being required to participate. Since that time, additional districts have opted to participate in TRS-ActiveCare, which now provides health benefit coverage to about 486,000 TRS members and their family members.

2003 The supplemental compensation program provisions were amended and replaced by a new Health Reimbursement Arrangement (“HRA”) program to be administered by TRS. However, it was determined by state leadership that the HRA program had not been funded and the supplemental compensation was to remain in place. Due to the determination regarding lack of funding, the TRS Board of Trustees discontinued efforts to put HRAs in place. Other significant legislative changes included a new 90-day waiting period for TRS membership

during the biennium, changes to TRS-Care eligibility, and reduction of the supplemental compensation amount from \$1,000 to \$500 annually.

2005 Members joining after Aug. 31, 2007 must be at least age 60 and meet the Rule of 80 to retire without benefit reductions.

Omnibus legislation transferred administration of the supplemental compensation program to the Texas Education Agency. Additionally, legislation required public education employers to pay the equivalent of the state contribution during the first 90 days of a new employee's service. Legislation also significantly amended "return to work" laws to require a public education employer that hires a TRS retiree to pay the equivalent of the state and member contribution rate applied to the retiree's salary and to pay the difference between the retiree's contribution for TRS-Care coverage and the actual cost of the coverage.

Investment legislation amended open records law affecting state governmental bodies by clarifying public access to specific investment-related information. Legislation expanded the list of items that must be disclosed; however, provisions were added that deem all other information not listed as confidential and excepted from disclosure.

2006 The Pension Protection Act of 2006 (PPA) was signed into federal law to strengthen pension funding regulation and transparency.

2007 Legislation stipulated that the contribution rate of the state may not be less than that of active members. The state contribution rate increased accordingly.

A pension benefit change rewarded eligible annuitants who retired by Dec. 31, 2006 a one-time supplemental payment in January 2008, up to a maximum of \$2,400. Health benefit plan coverage under TRS-Care and TRS-ActiveCare required to include certain brain injury services and autism spectrum disorder.

Companies offering 403(b) investment products to public school employees required to register the products with TRS.

The opportunity for participation in the proportionate retirement system was expanded to include municipal police officers or firefighter systems for the City of Austin.

Investment legislation authorized the use of instruments to manage risk, enhance returns, and promote efficient portfolio management. TRS authorized to buy or sell futures, forwards, options, options on futures, swaps, and other instruments. Delegation to external investment managers and investment in hedge funds, limited to 30 percent and 5 percent of the portfolio, respectively, was also permitted. A divestment procedure was established for investments by TRS and the ERS in certain entities doing business in Sudan.

The TRS Board of Trustees also adopted a new long-term asset allocation to increase TRS holdings in private markets and reduce holdings in public markets over time. This shift in assets was intended to increase investment diversification and returns without increasing risks to the fund.

2008 The TRS Board of Trustees adopted rules setting an excess compensation limit for disability retirees. Disability retirees who earn more than the limit (the greater of either (1) the highest salary in any school year before retirement or (2) \$40,000) forfeit their annuity.

2009 As established by the General Appropriations Act (GAA), the state contribution rate to the pension trust fund for the 2010-11 biennium decreased from 6.58 percent to 6.4 percent. The legislature appropriated funds to provide a one-time supplemental payment to eligible annuitants contingent upon an Attorney General (AG) opinion. The AG subsequently determined that the language in the GAA made it impossible to confirm that the supplemental payment was constitutionally and statutorily permissible. As a result, the funds that had been appropriated to pay for the supplemental payment were transferred to the pension trust fund increasing the state contribution from 6.4 percent to 6.644 percent for the 2010-11 biennium.

To maintain status as a “qualified” retirement plan and obtain certain favorable tax treatments, TRS must meet specific federal tax law requirements. State legislation was enacted to accommodate additions to such federal requirements, which included provisions of the American Recovery and Reinvestment Act of 2009 (ARRA); the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA); and the Heroes Earnings Assistance and Relief Tax Act of 2008 (“Heroes Act” or HEART).

2011 The state contribution rate to the pension was changed from 6.644 percent to 6.0 percent in the first year of the biennium and 6.4 percent in the second year. The state contribution to TRS-Care was reduced from 1 percent to 0.5 percent in the second year of the biennium.

TRS was authorized to use derivatives in its investment portfolio and to increase its allocation to hedge funds from 5 percent to 10 percent until Sept. 1, 2019.

The higher education trustee position on the TRS Board of Trustees was changed to an at-large seat. The At-Large Trustee is appointed by the Governor from the top three candidates elected by qualifying TRS retirees, members in public school districts, and members in higher education institutions.

During fiscal year 2011, TRS-Care was accepted as an approved plan in the Early Retiree Reinsurance Program (ERRP), established under the Patient Protection and Affordable Care Act (PPACA). Through the ERRP, TRS-Care received approximately \$70 million in federal funds.

Several significant benefit changes included the following:

- Purchase of most types of service credit require payment of actuarial cost. TRS must be notified of unreported service credit within five years of when the service was rendered.
- TRS implemented a 10 percent or \$10,000 (whichever is greater) limit on creditable compensation increases, used to calculate retirement benefits for salary increases occurring in last years before retirement.
- Enacted legislation eliminating exceptions that allowed certain categories of employees to return to work without loss of annuity. Service retirees who retire after Jan. 1, 2011 are permitted to work full time for a TRS covered employer if they had a break in service of 12 full, consecutive calendar months after retirement. Retirees who had not served a full 12-month break in service after retirement could only work as substitutes or one-half time.

2012 A standardized school year of Sept. 1 through Aug. 31 was established for benefit purposes, including settling service and compensation credit.

2013 Legislation increased the state contribution rate for the biennium. The contribution rates for TRS active members also increased, and a new contribution rate from school districts that do not contribute to Social Security for TRS-eligible employees was authorized. Additionally, legislation increased normal-age retirement to age 62 with the Rule of 80 for all members who did not have at least five years of service credit as of Aug. 31, 2014. Changes in contribution rates and retirement eligibility made TRS actuarially sound, affording the distribution of a 3 percent cost-of-living adjustment, capped at \$100 per month, for annuitants who retired on or before Aug. 31, 2004. This adjustment benefited nearly two-thirds of all TRS retirees and was the first such annuity increase in over a decade.

2015 Legislation funded TRS-Care with an additional \$768 million for the next biennium to help provide program solvency. A select legislative committee was created to study the long-term funding issues of TRS-Care and the affordability of plans offered by TRS-ActiveCare. Legislation required that membership eligibility be established through one employer. Legislation also limited the amount of out-of-state service credit that may be purchased from fifteen to five years.

2016 Phase 1A (Employer Reporting Certification) of the new pension administration system (TRUST) went into production in March 2016. TRS opened its first satellite office, Teacher Retirement Investment Company of Texas Ltd., (TRICOT), as a private limited company incorporated in the United Kingdom. TRICOT's primary purpose is to increase the size and number of investment opportunities for the TRS portfolio, especially in private equity and real assets funds.

2017 Legislation increased both the state and school district contributions for TRS-Care. The TRS-Care Standard Plan was created for non-Medicare-eligible participants and the TRS-Care Medicare Advantage Plan was created for Medicare-eligible participants. The statutory requirement for TRS to provide a \$0 premium health care was eliminated. Additional legislation required a TRS member or annuitant to forfeit their annuity when convicted of certain crimes involving a student.

Phase 1B (Active membership) of the new pension administration system (TRUST) went into production in October 2017.

2019 The GAA included the necessary funding to fund TRS-Care through 2021 with no increase to retiree premiums and benefit levels. The legislation also required TRS to incentivize members of the active employee and retiree health care programs to shop for lower cost care within health plans to achieve shared savings.

The TRS Pension Reform Bill provided for gradual contribution increases from the state; school districts, charter schools, and regional education service centers; and active employees to make the pension fund actuarially sound. Ultimately by Sept. 1, 2024 the state will contribute 8.25 percent of payroll; public education employers will contribute 2.00 percent of payroll; and active employees will contribute 8.25 percent of payroll to the pension fund. The scheduled increases in contribution rates lowered the funding period from 87 years to 29 years, making the pension fund actuarial sound.

Resultant of meeting the statutory definition of actuarial soundness and with funding provided in the supplemental appropriations, most members who retired on or before Dec. 31, 2018 will receive a one-time supplemental payment in either the amount of their monthly annuity payment or \$2,000, whichever is less.

Legislation required retirement systems to adopt a funding policy, including a plan to achieve a 100 percent or more funded ratio, by Jan. 1, 2020.

Investment legislation required certain public retirement systems to select an independent firm to evaluate investment practices and performance and to make recommendations for improving the retirement system's investment policies procedures, and practices. Public retirement systems are required to include in their annual financial report a listing, by asset class, of all direct and indirect commissions and fees paid by the retirement system for the sale, purchase, or management of its assets and to provide the names of the investment managers engaged by the retirement system.

Legislation removed TRS' authority to certify 403(b) companies and maintain a list of registered 403(b) investment products.

TRS was included in contracting legislation that established additional oversight and requirements in state agency contracting and procurement.

The TRS Board of Trustees also adopted a new long-term asset allocation to increase TRS holdings in the Stable Value strategy within its asset diversification framework while concurrently raising allocations to the private markets portfolios, risk parity and net asset allocation leverage.

IV. Policymaking Structure

A. Complete the following chart providing information on your policymaking body members.

EXHIBIT 4: POLICYMAKING BODY

Member Name	Term / Appointment Dates / Appointed by	Qualification	City
Jarvis V. Hollingsworth, Chair	Six-year term (2017-2023); Appointed on Dec. 14, 2017; Direct appointment by the Governor	Demonstrated financial expertise; Worked in private business or industry; Broad investment experience, preferably in investment of pension funds; Not a member or annuitant of the retirement system; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	Missouri City, Texas

Member Name	Term / Appointment Dates / Appointed by	Qualification	City
Dolores Ramirez, Vice Chair	Six-year term (2013-2019); Appointed on Oct. 18, 2013; Appointed by the Governor from three public school district active member candidates nominated by employees of public school districts	One of the top three active member candidates nominated by employees of public school districts; Current employee in the group represented; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	San Benito, Texas
Joe Colonna	Six-year term (2013-2019); Appointed on Oct. 18, 2013; Direct appointment by the Governor	Demonstrated financial expertise; Worked in private business or industry; Broad investment experience, preferably in investment of pension funds; Not a member or annuitant of the retirement system; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	Dallas, Texas

Member Name	Term / Appointment Dates / Appointed by	Qualification	City
David Corpus	Six-year term (2013-2019); Appointed on Oct. 18, 2013; Appointed by the Governor from a list prepared by the State Board of Education	Demonstrated financial expertise; Worked in private business or industry; Broad investment experience; Not a member or annuitant of the retirement system; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	Humble, Texas
John Elliott	Six-year term (2015-2021); Appointed on May 13, 2016; Direct appointment by the Governor	Demonstrated financial expertise; Worked in private business or industry; Not a member or annuitant of the retirement system; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	Austin, Texas
Greg Gibson, Ed.D.	Six-year term (2015-2021); Appointed on May 13, 2016; Appointed by the Governor from three public school district active member candidates nominated by employees of public school districts	One of the top three active member candidates nominated by employees of public school districts; Current employee in the group represented; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	Schertz, Texas
Christopher Moss	Six-year term (2015-2021); Appointed on May 13, 2016; ; Appointed by the Governor from a list prepared by the State Board of Education	Demonstrated financial expertise; Worked in private business or industry; Broad investment experience; Not a member or annuitant of the retirement system; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	Lufkin, Texas

Member Name	Term / Appointment Dates / Appointed by	Qualification	City
James Dick Nance	Six-year term (2017-2023); Appointed on Dec. 14, 2017; Appointed by the Governor from three retired members nominated by retired TRS members	One of top three retired member candidates nominated by retired TRS members; Current retiree in the group represented. Not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office.	Hallettsville, Texas
Nanette Sissney	Six-year term (2017-2023); Appointed on Dec. 14, 2017; Appointed by the Governor from three candidates nominated by TRS retirees and members to the new at-large trustee position	One of the top three at-large candidates; Trustee and spouse not disqualified under § 825.0032, Tex. Gov't. Code; Resides within Texas; Constitutional oath of office	Whitesboro, Texas

Table 4 Exhibit 4 Policymaking Body

B. Describe the primary role and responsibilities of your policymaking body.

The TRS Board of Trustees is the trustee of all TRS assets and is responsible for general administration and operation of TRS. The board is authorized to adopt rules for the administration of TRS and the transaction of business of the board. As trustee of the TRS assets, the board may invest and reinvest those assets in compliance with the Texas Constitutional provision governing such investments. That provision states, "Each statewide benefit system must have a Board of Trustees to administer the system and to invest the funds of the system in such securities as the Board may consider prudent investments. In making investments, a board shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in the regard to speculation, but in regard to the permanent disposition of their funds, considering the probably income therefrom as well as the probable safety of their capital." Texas Constitution Article. XVI, Section 67 (a)(1).

As part of its investment responsibilities, the board may contract with private investment professionals to advise them about investing the assets of the retirement system. The Board employs performance measurement services to evaluate and analyze the investment results of those assets of the retirement system for which reliable and appropriate measurement methodology and procedures exist. The board develops written investment objectives, and these services compare TRS investment results to the stated objectives, as well as with the investment results of other public funds. Additionally, the board develops an investment policy statement and asset allocation strategies. [See generally Texas Government Code Section 825.301]

C. How is the chair selected?

The Governor appoints the chair of the TRS Board of Trustees, pursuant to Section 825.201, Texas Government Code. The Vice Chair is elected by the board, pursuant to Section 1.4, Bylaws of the Board of Trustees.

D. List any special circumstances or unique features about your policymaking body or its responsibilities.

Because the retirement plan is established as a trust under Texas Constitution Article XVI, Section 67, the retirement system is governed by a board of trustees. By designating the TRS Board as one of “trustees” instead of board “members,” the constitution emphasizes that the retirement plan assets are held in trust, and the members of the governing board are required to act as fiduciaries in their administration of the plan and investment of the plan assets. The constitution requires that the assets of the system not be diverted. This imposes a duty on the TRS Board of Trustees to restrict use of assets to the benefit of the participants of the system. Use of the system assets for the benefit of the public in general, for the benefit of other programs or other program participants, or for the pursuit of other policies are examples of situations that may amount to or can lead to diversion of system assets. Statutory provisions also emphasize the board’s role as fiduciary and the trust arrangement for plan assets and administration.

For example, Texas Government Code Section 825.314 recognizes that, when necessary to perform their fiduciary duty, the board of trustees may expend trust funds in excess of the General Revenue funds identified for the pension fund’s administrative operations in the Appropriations Act. This section recognizes that the board of trustees, as fiduciaries, must have sufficient operating budget flexibility to fulfill their duties.

Another example is Section 825.506, which provides that the provisions of subtitle C (that is, those applicable to the retirement plan) are intended to be construed and administered in a manner so that the retirement system’s benefit plan will be considered a qualified plan under Section 401(a) of the Internal Revenue Code of 1986 (26 U.S.C. Section 401). The board is authorized to adopt rules that modify the plan to the extent necessary for the retirement system to be a qualified plan. Under Section 401(a), a trust forming part of a pension plan for the exclusive benefit of employees or their beneficiaries constitutes a qualified trust if:

- Contributions are made to the trust for the purpose of distributing to employees or their beneficiaries the corpus and income of the fund accumulated by the trust in accordance with the plan; and
- If under the trust instrument it is impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be used for, or diverted to, purposes other than for the exclusive benefit of the employees or their beneficiaries.

The “exclusive benefit” requirement of IRC Section 401(a) is met by the provisions of the Texas Constitution requiring that the assets of the plan are held in trust for the benefit of members and may not be diverted. This provision is a key state and federal requirement because it obligates the retirement system to defend

against possible diversion of the trust assets, including for public uses that may only incidentally benefit the beneficiaries of the trust.

E. In general, how often does your policymaking body meet? How many times did it meet in FY 2017? In FY 2018?

With the appointment of the new chair in December 2017, the board adopted a new schedule of meetings for calendar year 2018. The trustees now meet for a total of five meetings, which includes quarterly meetings and an educational meeting in February. For both fiscal year 2017 and fiscal year 2018, the board met seven times. The calendar of meetings for fiscal year 2017 and fiscal year 2018 were set by the previous board chair.

F. Please list or discuss all training members of the agency's policymaking body receive. How often do these members receive training?

The board of trustees receive training both at the start of their tenure and throughout their time as trustees.

A prospective trustee must complete a training program that complies with the statute before assuming board duties. The training course established by Texas Government Code Section 825.0041 requires that the prospective trustee be provided information regarding:

- The enabling legislation that created the retirement system and they system's programs, functions, rules and budget;
- The results of the most recent formal audit of the system;
- The requirements of laws relating to open meetings, public information, administrative procedure, and conflicts of interest; and
- Any applicable ethics policies adopted by the system or the Texas Ethics Commission.

As part of their training, new trustees receive copies of various materials, including:

- Bylaws of the board of trustees;
- TRS Ethics Policy;
- Code of Ethics for Consultants, Agents, Financial Providers and Brokers;
- Trustees Qualifications, Roles and Fiduciary Duties;
- Role of the Executive Director;
- Trustees External Communications Policy;
- Open Meetings Act;
- Public Information Act;
- Handling of confidential information;
- Rulemaking;
- Contested Case Appeal Process;
- Investment Policy Statement;
- Proxy Voting Policy;

-
- Securities Lending Policy;
 - Commission Credit Policy;
 - Procurement Policy;
 - Litigation Policy;
 - Summary of TRS Travel Guidelines;
 - The most recent agency budget;
 - The most recent Strategic Plan;
 - The most recent Comprehensive Annual Financial Report (CAFR); and
 - Information on the agency's obligations under the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

A newly appointed trustee must also complete an approved, one-hour educational course on the Open Meetings Act. This training must be completed within 90 days of taking the oath of office.

A new trustee must complete an approved, one-hour, educational course on the Public Information Act (Open Records) or designate the TRS public information coordinator to complete the open records training for him or her. TRS provides a form to designate the TRS public information coordinator. Within 90 days of the trustee taking the oath of office, the trustee must either complete the training or designate the coordinator to take the training on the trustee's behalf.

As of Jan. 1, 2015, Texas Government Code Section 825.0041 provides trustees must meet the Pension Review Board's Minimum Educational Training (MET) Program requirements. A new trustee must complete seven credit hours of training in all of the seven core content areas (Fiduciary Matters, Governance, Ethics, Investments, Actuarial Matters, Benefits Administration, and Risk Management) within the first year of service. After the first year of service, all trustees shall complete at least four credit hours of continuing education (Compliance, Legal and Regulatory Matters, Pension Accounting, Custodial Issues, Plan administration, Texas Open Meetings Act, and Texas Public Information Act) every two years in either core or non-core content areas. TRS staff ensures that each trustee obtains the required training, reports the training to the PRB and maintains appropriate documentation.

During the educational meeting in February, trustees receive an annual ethics and fiduciary training and a deeper review of TRS operations and programs. Additionally, trustees often receive training by attending conferences or seek individual training to enhance their knowledge of subject matter areas that tie back to their roles as trustees.

G. What information is regularly presented to your policymaking body to keep them informed about the agency's operations and performance?

The TRS Board typically meets five times a year, four quarterly meetings and one educational meeting in February. At these meetings, the board receives a regular overview of agency operations and performance, including presentations or discussions on:

- strategic plan progress and enterprise risk assessments;
- quarterly investment performance, with a special focus on one or two asset classes per meeting;

- board of trustee policies according to the established Policy Review Schedule;
- TEAM Program status, including a presentation from the TEAM Independent Program Assessment Advisor;
- Benefit Services and HIB customer service;
- budgetary matters; and
- audit and compliance reports.

The board annually receives an actuarial valuation on the pension fund and an actuarial valuation for TRS-Care. Every three to five years, the board commissions a pension fund experience study to test the validity of certain actuarial assumptions and conducts an asset-liability study to re-examine the system's asset allocation.

The board also receives regular independent input from its technical advisors, which include the following:

- General investment consultant;
- Consulting actuary;
- Fiduciary counsel;
- Investment advisors;
- Health Care and actuarial consultant; and
- Audit Services.

In combination with measurement and reporting processes designed to comply with state government requirements and provide pertinent data for board oversight functions, TRS uses a number of internal processes to monitor and measure its ongoing performance. The following chart reflects additional key information that is routinely reported to the board:

MEASUREMENT PROCESSES REPORTED TO THE BOARD

Process	Description	How Often Evaluated	How Resulting Information Is Used
Key Financial Information			
Financial Reporting	Comprehensive Annual Financial Report (CAFR)	CAFR prepared and reported to Board annually.	Used to monitor financial condition of TRS.
Actuarial Valuation	Describes the actuarial condition of the TRS pension fund, including the extent to which the System's liabilities are unfunded, as required by Tex. Gov't Code § 825.108.	Annually with a mid-year update in odd-numbered years.	To monitor the actuarial soundness of the fund and to assist with preparation of actuarial impact statements during legislative sessions.
Actuarial Experience Study	Required by Tex. Gov't Code § 825.206, to investigate the mortality, service, and compensation experience of TRS participants.	At least every five years.	To review all actuarial assumptions in light of experience; to modify actuarial tables and rates as necessary. To evaluate the assets and liabilities of the System.
HUB Utilization	Percent of total dollar value of purchasing contracts and subcontracts awarded to HUBs.	Tracked and reported to Board annually.	Used to establish HUB goals set annually by the Board
Administrative Reporting			
Strategic Plan and Enterprise Risk Management Reporting	Presentation on strategic plan progress, the Executive Director's Areas of Focus, KPIs, and risk assessment levels for risk spotlight categories	Quarterly presentation designed to present on all strategic plan strategies and risk categories annually with the Executive Director's Areas of Focus and KPIs updated quarterly.	To track strategic plan progress, drive alignment of resources around strategic plan initiatives, and understand risk assessment levels and identified mitigations.
Survey of Organizational Excellence	Survey (administered by the UT School of Social Work) designed to assess organizational effectiveness and improve the quality of life in the workplace.	Survey conducted every two years with results reported to the Board.	Used for two-way communication with all employees to develop appropriate actions to strengthen organizational effectiveness.
Litigation Report	Provides update on status of litigation in	Reported quarterly to the Board.	Used for Board to monitor TRS litigation;

	which TRS is a party; provides number of securities class action lawsuits in which TRS has filed a claim and the amount recovered.		used for Staff to demonstrate efforts to recover funds owed in securities class action litigation in which TRS is a class member.
TEAM Program Update	Provides status update by the Executive Director monitoring the schedule, risks and execution of TRS Enterprise Application Modernization (TEAM).	Reported quarterly to the Board.	Gives an update to Board and allows opportunity to give direction.
TEAM Independent Program Assessment	Receive an independent assessment of TEAM monitoring on schedule, risk and execution from Bridgepoint Consulting.	Reported quarterly to the Board.	Provides Board an independent assessment of TEAM progress.
Departmental Presentations	Provides key staffing, workload, responsibilities and other information for departments.	Quarterly and at the annual educational meeting in February.	
Health Benefit Processes			
TRS-ActiveCare: Financial Statements	Staff and Health Care consultants make benefit and premium change recommendations.	Annually for each plan year beginning September 1st.	Used to determine benefits and set rates for each plan year.
TRS-Care: Financial Statements	Monitor cash flow and fund balances.	Reported to Board annually.	Used to determine any plan or premium changes.
Actuarial Report	Status update provided by actuarial consultant.	Reported to Board annually.	To monitor actuarial experience and funding status.
Internal Audit Processes			
Audit Plan, as required by professional auditing standards and the Tex. Gov't Code § 2102.008	Planned audit projects for the current fiscal year.	Continually monitored by Internal Audit; reported to the Audit Committee of the Board quarterly and at year-end.	The plan provides guidance in providing and monitoring internal auditing services for each fiscal year.
Annual Internal Audit Report, as required by	Comparison of Internal Audit accomplishments to original Audit Plan.	Reported to Board annually.	Used to determine whether planned audit

Tex. Gov't Code § 2102.009			functions were completed.
Status Report on Implementation of Audit Recommendations	Lists the current status and management action plan for each internal and external audit recommendation.	Reported to Board Audit Committee quarterly.	To monitor all internal and external audit recommendations; to meet professional standards; and to demonstrate good business practices.
Operational Performance Measurement Processes			
<ul style="list-style-type: none"> • Retirement estimates mailed to members; • Retirement applications processed; • Deferred retirement option plan applications processed; • Refund applications processed; • Death claims processed and closed; • New service purchase bills sent to members; • Service purchase installment agreements set up; • Member telephone calls; • Average speed of answer; • Automated telephone system. 	Statistical information on workload measures	Tracked monthly; reported to Board quarterly.	To monitor key benefit service-delivery activities to examine if service-delivery standards are being met; and to allow management to reallocate resources as needed to ensure service delivery goals are met.
Initial pension payments	Detailed list of members and beneficiaries receiving initial payments.	Reported to Benefits Committee and Board quarterly.	To obtain approval / validation of payments.
Disability Retirement	Medical Board minutes	Reported to Benefits Committee and Board quarterly.	Board accepts the minutes.
Customer Satisfaction Survey	Independent survey conducted for TRS.	Conducted and results reported to the Board annually.	To assess and monitor

Social media report	Statistics on website visits, Facebook comments, etc.	Monitored and reported to Board annually.	To keep Board informed of social media activity.
Key Investment Measures			
Performance and Risk Calculation by Asset Type and Total Fund	Investment return information.	Reported internally daily, weekly and monthly; reported to Board Investment Management Committee quarterly.	Evaluated against established benchmarks (weighted based on Board's asset allocation).
Investment Compliance	Portfolios will be reviewed for compliance with requirements set forth in the Investment Policy Statement (IPS).	Chief Compliance Officer or external party ensure ongoing compliance with IPS and reports all known compliance exceptions to the Board Audit, Compliance and Ethics Committee.	Used to assess ongoing compliance with Board's IPS.
Business Continuity			
Business Impact Analysis/ Business Continuity Plan	An analysis of impact on agency if critical functions are unavailable.	Conducted and reported to Board annually.	Used to assess and address areas of potential vulnerability, by means of Business Continuity Plan.

H. How does your policymaking body obtain input from the public regarding issues under the jurisdiction of the agency? How is this input incorporated into the operations of your agency?

The board receives public input in several different ways. Section 2.2 of the Bylaws of the Board of Trustees of the Teacher Retirement System of Texas provides that the board will allow reasonable opportunity for public comment at the board meetings on any issue under the jurisdiction of the board. All TRS board and committee meeting agendas are posted in advance on the TRS website and with the Secretary of State in accordance with state law. In the past, the TRS board during even, non-legislative session, years has convened the February educational board meeting in areas around the state to allow members an opportunity to attend a board meeting. Since 2008, the board has met in the following cities: Dallas, Katy, Lubbock, Corpus Christi, Richardson and Edinburg.

The board also receives public comment on proposed rules, which the board considers as part of its rule-making authority. The board considers all public comment and may respond by making changes to proposed rules before adoption or taking other action as appropriate. Rules generally are considered in a two-step process. First, the Policy Committee of the TRS Board of Trustees considers authorizing publication of a rule. Once the rule is published for the required length of time, it generally returns to the TRS Policy Committee meeting for recommendation to the TRS Board of Trustees regarding adoption. Policy committee meetings are open to the public and are also webcasted. Second, the rule proposal, along with the policy committee's recommendation, is considered by the full TRS Board of Trustees, where public

comments are allowed at the beginning of the meeting prior to any formal action being taken. When warranted, the TRS Board of Trustees has altered its approach or modified proposed rules based on public comment. Proposed rules also are posted for public comment on the Texas Register, in accordance with Texas Government Code Chapter 2001, and any written comments that are submitted are addressed upon rule adoption.

The Retirees' Advisory Committee is established by statute to make recommendations to TRS regarding the TRS-Care program. Committee comments and recommendations are presented to the Board for consideration as part of its deliberations concerning any TRS-Care plan design changes.

TRS conducts member satisfaction surveys every year. The results of those surveys are presented to the board. This year, TRS commissioned a new reporting entity satisfaction survey to gather input and measure satisfaction from the employers who report data to TRS. Additionally, the vendors who administer TRS health benefit programs also conduct customer satisfaction surveys annually, the results of which are presented to the board.

Staff provides information to the board concerning public input that staff receives from a variety of sources. Staff presents statistics concerning Facebook interactions and website and TRS automated phone line usage. TRS also receives direct correspondence electronically or via regular postal service on behalf of the trustees. Staff investigates the issue and responds on behalf of the trustees. During the period when the board was considering the TRS Experience Study, January through July 2018, over 10,000 emails were received on behalf of the trustees. These emails and the postal mail regarding this issue were scanned and provided to the board for its review and consideration. A response was sent to each person who contacted TRS, thanking them for expressing their views and notifying them of when to expect the board to vote on the issue. The board may also receive reports from staff concerning inquiries and input from stakeholder groups on various issues.

- I. If your policymaking body uses subcommittees or advisory committees to carry out its duties, fill in the following chart. For advisory committees, please note the date of creation for the committee, as well as the abolishment date as required by Texas Government Code, Section 2110.008.**

In addition, please attach a copy of any reports filed by your agency under Texas Government Code, Section 2110.007 regarding an assessment of your advisory committees as Attachment 25.

EXHIBIT 5: SUBCOMMITTEES AND ADVISORY COMMITTEES

Name of Subcommittee or Advisory Committee	Size / Composition / How are members appointed?	Purpose / Duties	Legal Basis for Committee (statute or rule citation)	Creation and Abolishment Dates
Retirees Advisory Committee	<p>The Retirees Advisory Committee is composed of the following seven members appointed by the trustee:</p> <ul style="list-style-type: none"> • one member who is an active school administrator; • one member who is a retired school administrator; • two members who are active teachers; and • three members who are retired teachers. 	<p>The committee is tasked by statute with holding public hearings on group coverage, recommending to the trustee minimum standards and features of a plan under the group program that the committee considers appropriate, and recommending to the trustee desirable changes in rules and legislation affecting the group program.</p>	<p>Texas Insurance Code, Sections 1575.402 through 1575.408 Title 34, Chapter 41, Subchapter A, Section 41.3</p>	<p>Created April 6, 1987. Abolishment at the end of the next Sunset review unless continued by the outcome of the Sunset process.</p>
Medical Board	<p>The Medical Board is composed of three members/physicians who are licensed to practice medicine in Texas and are in good standing with the Texas Medical Board and who are not eligible to participate in the retirement system. Members are appointed by the board of trustees.</p>	<p>The medical board: (1) reviews all medical examinations required by the TRS Government Code Subtitle; (2) investigates essential statements and certificates made by or on behalf of a member of the retirement system in connection with an application for disability retirement; and (3) reports in writing to the board of trustees its conclusions and recommendations on all matters referred to it.</p>	<p>Texas Government Code, Sections 825.114 and 825.204</p>	<p>Established Sept. 1, 1981 Abolishment at the end of the next Sunset review unless continued by the outcome of the Sunset process</p>

Table 5 Exhibit 5 Subcommittees and Advisory Committees

V. Funding

A. Provide a brief description of your agency's funding.

Funding for the pension trust fund is derived from four main sources: member contributions, state contributions, employer contributions, and investment income. Member contributions are established in statute and are currently 7.7 percent of eligible compensation. The state contribution rate is established in the General Appropriations Act (GAA) and is scheduled to increase from 6.8 percent of eligible compensation to 7.5 percent beginning in fiscal year 2020. All public education employers contribute 1.5% of payroll. Senate Bill 12, 86th Legislature, Regular Session provides for increasing contribution rates from all sources over the next few years.

The invested assets of the pension trust fund are a major contributor of resources used to pay annuitants. Since the fund's inception in 1938, 62 percent of all trust fund revenue is related to investments. The current assumed rate of return is 7.25 percent.

Funding for the health care benefits is similarly derived from member contributions, employer contributions and state contributions. TRS-Care, the health care program for retirees, is funded by a state matching contribution of 1.25 percent of covered salaries, a member contribution of 0.65 percent of covered salaries, a district contribution of 0.75 percent of covered salaries and retiree premiums. TRS-ActiveCare is funded through district, member and state contributions as well.

The legislature appropriates funding and FTE authorization from the pension trust fund to pay for all Benefit Services operations and a portion of Investment Management operations. Funding for both fringe benefits and performance incentive compensation payments is appropriated separately. HIB is funded with health care funds which includes both TRS-Care and TRS-ActiveCare. Health care funding and staffing resources are not part of the legislative appropriations process. Annually, the board adopts the operating budget which funds TRS operations from a variety of sources.

B. List all riders that significantly impact your agency's budget.

Agency-specific riders are found in Article III of the GAA on pages 34-38 and include the following:

- Rider 2. Capital Budget
- Rider 4. State Contribution to Teacher Retirement Program
- Rider 5. State Contribution to Texas Public School Retired Employees Group Insurance Program
- Rider 7. Transfer of Other Educational and General Income
- Rider 13. Performance Incentive Compensation Payments

- Rider 14. Settle-Up Dollars Directed to TRS-Care

There are numerous riders in Article IX of the 2018-19 GAA that could impact TRS.

- Article IX, Section 6.10 Limitation on State Employment Levels
- Article IX, Section 7.01 Budgeting and Reporting
- Article IX, Section 7.02 Annual Reports and Inventories
- Article IX, Section 7.04 Contract Notification: Amounts Greater than \$50,000
- Article IX, Section 7.05 Reports and References
- Article IX, Section 7.06 Internal Assessments on Utilization of Historically Underutilized Businesses
- Article IX, Section 7.07 Historically Underutilized Business Policy Compliance
- Article IX, Section 7.08 Reporting of Historically Underutilized Business (HUB) Key Measures
- Article IX, Section 7.12 Notification of Certain Purchases or Contract Awards, Amendments, and Extensions
- Article IX, Section 7.14 Emergency Leave Report
- Article IX, Section 8.02 Reimbursements and Payments
- Article IX, Section 9.12 Report on IT Infrastructure
- Article IX, Section 10.06 Analysis of Certain Healthcare Data
- Article IX, Section 10.07 Cross-Agency Collaboration on Value-Based Payment Strategies
- Article IX, Section 11.08 Information for Joint Oversight Committee on Government Facilities
- Article IX, Section 15.03 Contingency Appropriation Reduction
- Article IX, Section 17.09 Reporting Requirement for Funds Held Outside the Treasury
- Article IX, Section 17.14 Identified State Agency Deferred Maintenance Needs.

C. Show your agency's expenditures by strategy.

EXHIBIT 6: EXPENDITURES BY STRATEGY — 2018 (ACTUAL)

Goal / Strategy	Amount Spent	Percent of Total	Contract Expenditures Included in Total Amount
A. Goal: Teacher Retirement System			
A.1.1: TRS-Public Education Retirement	1,698,750,974	73%	0
A.1.2: TRS-Higher Education Retirement	136,045,803	6%	0
A.1.3: Administrative Operations	91,791,819	4%	22,456,492
A.2.1: Retiree Health*	395,588,628	17%	0
GRAND TOTAL:	2,322,177,224	100%	22,456,492

Table 6 Exhibit 6 Expenditures by Strategy

*Excludes one-time supplemental funding of \$394.6 million.

D. Show your agency's sources of revenue. Include all local, state, and federal appropriations, all professional and operating fees, and all other sources of revenue collected by the agency, including taxes and fines.

The system's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, revenues and expenses. TRS maintains two categories of funds.

Fiduciary funds include the pension trust fund and TRS-Care. Fiduciary funds are used to report assets held in a trustee capacity on behalf of others. The reporting focus is on net position and changes in net position. The agency's operating budget is sourced from each fund respectively. Benefits are paid from the pension trust fund. Healthcare claims are paid from TRS-Care.

Proprietary funds include TRS-ActiveCare and the 403(b) program. These funds are used to account for business type activities or those for which a fee is charged to external users for goods and services. The reporting focus is on the determination of operating income, changes in net position, financial position and cash flows. Benefits are paid from TRS-ActiveCare. Operating expenses are paid from both funds.

Federal funds received in the TRS-Care Plan are related to Medicare Part D which provided retiree drug subsidy reimbursements to TRS-Care on behalf of certain plan participants. Additional subsidies were received under TRS-Care's Employer Group Waiver Plan (EGWP) for direct subsidies, catastrophic reinsurance subsidies and low income subsidies.

EXHIBIT 7: SOURCES OF REVENUE — FISCAL YEAR 2018 (ACTUAL)

Source	Amount
Pension Trust Fund:	
Member Contributions	3,360,773,197
State Contribution, Non-employer contributing entity	1,715,784,550
Employer Contributions	1,251,125,883
Surcharges	420,131,420
Other Revenue (purchases of service credit, 415 excess benefit arrangement, etc.)	69,208,673
Net Investment Income	11,242,813,657
Miscellaneous Revenue	8,108,248
TOTAL, Pension Trust Fund	\$18,067,945,628
TRS-Care Retired Plan:	
Member Contributions	221,325,377
State Contribution, Non-employer contributing entity	395,588,628
Employer Contributions	285,834,238
Surcharges	10,264,182
Supplemental Appropriation – Non Employer Contributing Entity	394,600,000
Federal Revenue (Medicare Part D subsidies)	103,402,579
Rebate and Discount Income	284,291,173
Net Investment Income	10,127,259
Miscellaneous Revenue	803,022
TOTAL, TRS-Care Retired Plan	\$1,706,236,458
TRS-ActiveCare Active Plan:	
Healthcare Premiums	2,315,669,026
Administrative Fees	110,089
TOTAL, TRS-ActiveCare Active Plan	\$2,315,779,115
403(b) Administrative Program*:	

Source	Amount
Product Registration and Certification Fees	413,000
TOTAL, 403(b) Administrative Program	\$413,000

Table 7 Exhibit 7 Sources of Revenue

*House Bill 2820, 86th Legislature, Regular Session (2019) removed TRS' authority to administer the 403(b) Program.

E. If you receive funds from multiple federal programs, show the types of federal funding sources.

In fiscal year 2018, TRS received federal funds associated with TRS-Care. This funding was received as reimbursement for certain Medicare Part D claims. The amount of each subsidy is not directly related to the amount of state funding. TRS received a total of \$103,402,579 in fiscal year 2018, including:

- \$67,580,464 in catastrophic reinsurance subsidy. This subsidy reimburses TRS-Care's Medicare Part D plans for a percentage of spending above the Medicare Part D catastrophic threshold for individual drug spending.
- \$6,806,700 in Low Income Cost Subsidy. This subsidy pays for TRS-Care's cost sharing on behalf of enrollees with low incomes and assets.
- \$29,334,576 in Medicare Part D Direct Subsidy. This is an upfront monthly payment based on a set rate.
- In addition, TRS returned \$319,161 to the Retiree Drug Subsidy program, which was an over payment from the program for previous years. Starting fiscal year 2018, TRS no longer has members who are eligible for the Retiree Drug Subsidy program and will cease receiving funding from the program.

TRS receives no federal funding for TRS-ActiveCare.

F. If applicable, provide detailed information on fees collected by your agency.

EXHIBIT 9: FEE REVENUE — FISCAL YEAR 2018

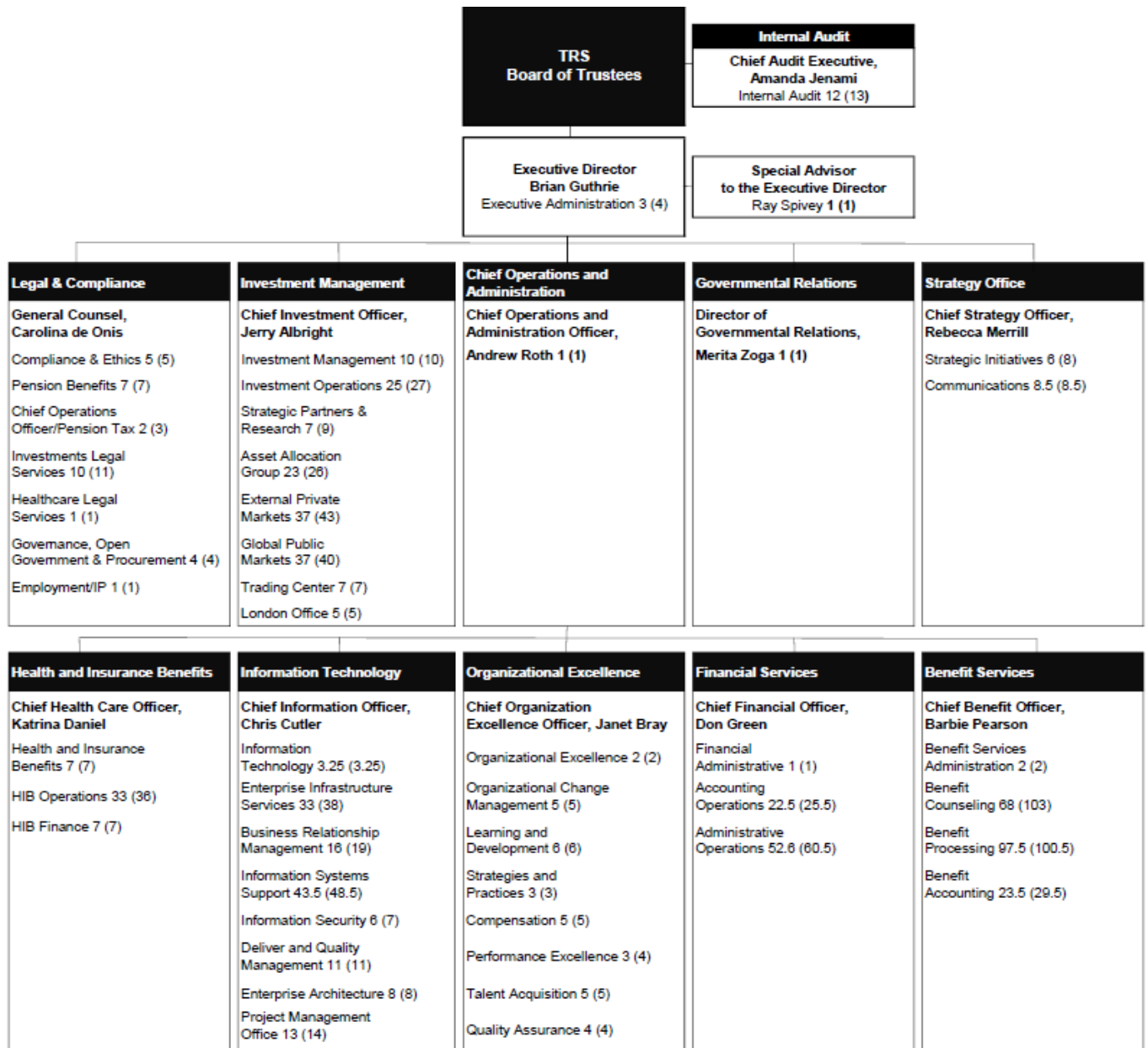
Fee Description/ Program/ Statutory Citation	Current Fee/ Statutory Maximum	Number of Persons or Entities Paying Fee	Fee Revenue	Where Fee Revenue is Deposited
Interest - Delinquent Districts	Calculation = Penalty Interest Rate for the Contribution Type (x% / 360) * Total Cash Days Late * Outstanding Receivable Balance Penalty Interest rates are: 6% for Member TRS-Care, and 10% for RE TRS-Care	1,171	43,780	Pension Trust Fund
OPEB Data Processing for Higher Education	1,000	2	2,000	Pension Trust Fund
Open Records Administrative Fees (credits)	602	5	602	Pension Trust Fund
403(b) Certification Fees	3,000 until 12/12/17 5,000 after 12/12/17	7	32,000	403(b) Administrative Trust
403(b) Product Registration Fees	3,000 until 12/12/17 10,000 after 12/12/17	37	363,000	403(b) Administrative Trust
Member Installment or Payroll Deduction Fees	Per Rule 25,185, the 9% per annum fee required by the Government Code 825.410(g) and is calculated as follows: .0002466 X # of days since last payment X principal balance after last payment	1,355	793,689	Pension Trust Fund
Mailing Address Data Processing for Member Organizations	\$725 or \$1,225 depending on volume	5	5,125	Pension Trust Fund

Fee Description/ Program/ Statutory Citation	Current Fee/ Statutory Maximum	Number of Persons or Entities Paying Fee	Fee Revenue	Where Fee Revenue is Deposited
Member Reinstatement Fees (all types)	Withdrawn service credit – reinstatement fee of 8% compounded annually from the date of withdrawal to the date of redeposit. Military service credit – fee of 8% of the required deposits compounded annually from the end of the school year in which the member is eligible to purchase until payment for the service is received.	1,771	19,566,901	Pension Trust Fund
Long-term Care Administration Fees	1.65 per policy per month	7,400	158,725	TRS Active Fund

Table 9 Exhibit 9 Fee Revenue

VI. Organization

- A. Provide an organizational chart that includes major programs and divisions, and shows the number of FTEs in each program or division. Detail should include, if possible, department heads with subordinates, and actual FTEs with budgeted FTEs in parenthesis.



* FTEs totals do not include interns and FTEs outside the FTE cap.

Fiscal year 2019 FTE totals include the following:

- 2018-19 Biennium FTE total of 524.3 as funded by the Pension Trust Fund (PTF)
- 2018-19 Rider Exempt FTEs for TEAM/CAPPS – 79.0
- 2018-19 Fiduciary Finding of 104.0 (94 – PTF funded, 10 – Healthcare funded) as approved by the board of trustees
- 2018-19 Healthcare funded FTEs exempt from the FTE cap – 83.0

B. If applicable, fill in the chart below listing field or regional offices.

EXHIBIT 10: FTES BY LOCATION — FISCAL YEAR 2019

Headquarters, Region, or Field Office	Location	Co-Location? Yes / No	Number of Budgeted FTEs FY 2019*	Number of Actual FTEs (as of SER submission)
TRS Headquarters	Red River	No	528.3	452.4
Investment Management Division	816 Congress	No	162.0	146.0
TRICOT	London, UK	No	5.0	5.0
Healthcare	Red River	No	95.0	91.0

Table 10 Exhibit 10 FTES by Location

*Excludes interns & FTEs above the FTE cap

C. What are your agency's FTE caps for fiscal years 2017–2020?

FY 2017	FY 2018	FY 2019	FY 2020
503.3	524.3	524.3	745.3

D. How many temporary or contract employees did your agency have in fiscal year 2018? Please provide a short summary of the purpose of each position, the amount of expenditures per contract employee, and the procurement method of each position.

TRS hired approximately 66 contract workers in fiscal year 2018. See attached for the amount of expenditures per contract employee. The purpose for those contracts included working on a temporary project, temporary help due to staffing shortages, and working on the TRUST LOB.

TRS used Texas Government Code Section 825.103(d) for the procurement authority. TRS' procurement practice is to first reach out to Goodwill and Peak Performers for temporary staff and DIR Staff Augmentation Contractors for IT workers. TRS reviews resumes and/or interviews potential candidates and works with the most qualified candidate. If TRS is unable to find a candidate from these sources, TRS will look to other staffing agencies to help fill a needed position.

E. List each of your agency's key programs or functions, along with expenditures and FTEs by program.

EXHIBIT 11: LIST OF PROGRAM FTEs AND EXPENDITURES — FISCAL YEAR 2018

Program/Function	Actual FTEs FY 2018	Budgeted FTEs FY 2019*	Actual Expenditures FY 2018	Budgeted Expenditures FY 2019
Pension Benefits Administration	178.5	204.0	11,686,910	15,289,482
Investment Management Division	150.0	167.0	38,003,039	80,592,591
Health Insurance Benefits	75.0	93.0	11,330,782	14,730,048
Long-term Care Insurance Program	1.0	1.0	47,503	69,893
Executive Support**	54.5	60.5	11,284,884	14,748,978
Shared Services***	235.3	263.8	46,377,502	84,746,556
403(b) Certification and Registration Program	1.0	1.0	147,579	390,533
TOTAL	695.3	790.3	118,878,199	210,568,081

Table 11 Exhibit 11 List of Program FTEs and Expenditures

*Excludes interns and FTEs outside of the FTE cap.

**Executive Support includes the Strategy, Legal & Compliance, Internal Audit, and Governmental Relations.

***Shared Services includes Finance, Organizational Excellence, Information Technology, and Project Management.

VII. Guide to Agency Programs

Section VII of this report provides descriptions of the major divisions and departments of TRS.

1. Benefit Services
2. Investment Management Division
3. Health and Insurance Benefits and Long-term Care Insurance Program
4. Executive Support
 - a. Strategy
 - b. Legal & Compliance
 - c. Internal Audit
 - d. Government Relations
5. Shared Services
 - a. Finance
 - b. Organizational Excellence
 - c. Information Technology
 - d. Project Management

Benefit Services

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Benefit Services

Location/Division: TRS Headquarters, 1000 Red River Street, Austin, Texas

Contact Name: Barbie Pearson, Chief Benefit Officer

Statutory Citation for Program: Chapters 821-825, Texas Government Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

The objective of the TRS retirement program is to provide a fixed level of replacement income during the retirement years for all public education employees and certain higher education employees. The program also provides related death and disability benefits.

The TRS retirement plan is a defined benefit plan, which means that service retirement benefits are determined by a formula based on service credit, final average salary, and a multiplier at the time of retirement. The plan specifies the age at which a member becomes eligible for retirement. The TRS plan pays pension benefits in a fixed sum on a monthly basis for the life of a service retiree.

The major activities of the retirement program include:

Enrollment of a member, collection of member contributions, maintenance of member records for service credit and salary;

Refunds of member contributions;

Retirement benefit payments upon service or disability retirement; and

Death and survivor benefit payments to beneficiary of a member or retiree.

Enrollment

TRS membership eligibility is described in question E. TRS membership is mandatory for all eligible employees. Member contributions also are mandatory for those employed in eligible positions by Texas public education institutions. For active TRS members, 7.7 percent of salary is automatically deducted and contributed to the retirement system. TRS receives monthly reports from reporting entities regarding employee salary and position changes. TRS maintains these member records, updating them when necessary.

The Commissioner of Education and some higher education employees in certain positions specified by law may choose the Optional Retirement Program (ORP) instead of TRS. The ORP, administered by the Texas Higher Education Coordinating Board, is a defined contribution plan. This program was created by the legislature in 1967 to accommodate and attract more mobile college and university faculty members who might not remain employed long enough to be vested in the standard TRS retirement program. Funding for the ORP is provided by state and active member contributions. Election to participate in the ORP must be made within 90 days of first becoming eligible to do so or 31 days after the date the person receives notice of the opportunity to participate. This election is a one-time, irrevocable decision between the two distinct plans. If ORP election is not made at the beginning of the 90-day election period, TRS contributions are deducted until the ORP election is made, and at that time TRS contributions are refunded. If the ORP election is not made within the 90-day election period, the employee remains a TRS member.

Effective Sept. 1, 2017, a person who is eligible to elect ORP but is not notified of the opportunity on the first day of eligibility to elect ORP participation may make the election under the following circumstances: If the person is notified before the 91st day after becoming eligible, he/she must elect to participate in ORP before the later of the 91st day after becoming eligible or the 31st day after being notified of eligibility. If the person is notified after the 91st day after becoming eligible but before the 151st day, he/she must elect before the later of the 151st day after becoming eligible or the 31st day after being notified of the opportunity to participate. If the person is not notified of the opportunity to elect before the 151st day of becoming eligible, he/ she may not elect to participate in ORP and must remain a TRS participant.

Senate Bill 1954, 85th Legislature, Regular Session established a method to correct errors made by employers in reporting members to TRS who had previously elected ORP and participated for at least one year but had no intervening employment with a public school employer. The bill requires a person to be restored to ORP and allows TRS to make a direct trustee-to-trustee transfer of certain member contributions plus four percent earnings. It also provided for employers to recoup employer contributions made in lieu of state contributions to TRS, and it authorizes the state comptroller to transfer the state's contributions plus four percent earnings to the employer for deposit in the person's ORP account. The bill also provided for the employer to make applicable contributions to the person's ORP account plus a rate of earnings determined by the employer in accordance with IRS guidelines.

A person enrolled in TRS earns a year of membership service credit for a sufficient length of service performed in a school year in accordance with rules established by the TRS Board of Trustees. See Texas Government Code Section 823.002 and 34 Texas Administrative Code Section 25.131. Service credit is important to a member because it is an element of eligibility for service retirement and other benefits. It also is a factor in determining the amount of the retirement benefit that may be paid. Under current law, one year of service credit may result in a retirement benefit in the amount of 2.3 percent of final average salary at the time of TRS retirement.

A member may also establish equivalent service credit for eligible service that is not TRS covered employment. This category of service credit often is referred to as special service credit. Types of special service credit include credit for military service, Uniformed Services Employment and Re-employment Rights Act (USERRA) service, out-of-state service, substitute service, state sick and/or personal leave credit, service credit for work experience by a career or technology teacher, developmental leave service,

and membership waiting period service. Members may also purchase service credit for unreported and withdrawn TRS service.

Refunds

A member may request a refund of member contributions plus the statutory interest, currently at 2 percent, when the member terminates employment in a Texas public or higher education institution. State contributions paid to TRS on behalf of the person's membership to fund retirement benefits are not refundable to the member. The contributions are retained by TRS and serve to fund benefits for the members who remain until retirement.

TOTAL NUMBER OF REFUNDS PROCESSED

	FY 2016	FY 2017	FY 2018	FY 2019 through April
Refunds processed	39,324	42,370	35,497	36,596
Amount paid	\$373 million	\$420 million	\$422 million	

When a member obtains a refund, he/she terminates membership in TRS. Thus, the person is no longer eligible for any other TRS benefits or payments. A person is not required to terminate TRS membership upon termination of employment in a Texas public or higher education institution. A member may allow their accumulated contributions to remain with TRS and thus maintain membership, under the following conditions.

- For a member with at least five years of membership service credit, absence from service does not terminate membership, regardless of the length of the absence. The member will become eligible for a service retirement benefit upon meeting age and service credit requirements.
- For a member with less than five years of service credit, absence from service will terminate TRS membership when the member does not qualify for service credit for five consecutive years, although Texas Government Code Section 822.003 provides some limited exceptions.

Retirement

TRS members may retire at what is called normal age retirement and receive full retirement benefits or at an earlier age and receive reduced benefits. At TRS, normal age retirement is either normal retirement eligibility or early-age retirement eligibility.

Normal Retirement Eligibility

For members whose membership began prior to Sept. 1, 2007, who had at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

- Age 65 with at least five years of credited service, or

-
- The sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service.

For members whose membership began on or after Sept. 1, 2007 but prior to Sept. 1, 2014, who had at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

- Age 65 with at least five years of credited service, or
- Age 60 and the sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service.

For members who did not have at least five years of service credit as of Aug. 31, 2014, who established TRS membership on or after Sept. 1, 2014, or who had at least five years of service credit as of Aug. 31, 2014 but terminated membership in TRS by withdrawal of accumulated contributions and later resumed TRS membership:

- Age 65 with at least five years of credited service, or
- Age 62 and the sum of member's age and years of credited service equals or exceeds 80 with at least five years of credited service.

Early-Age Retirement Eligibility

For members whose membership began prior to Sept. 1, 2007, who had at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

- At least 55 with five or more years of service credit, but the sum of the member's age and years of service credit total less than 80, or
- 30 or more years of service credit, but the sum of the member's age and years of service credit total less than 80.

For members whose membership began on or after Sept. 1, 2007 but prior to Sept. 1, 2014, who had at least five years of service credit as of Aug. 31, 2014, and who maintained membership until retirement:

- At least 55 with five or more years of service credit, but the sum of the member's age and years of service credit total less than 80, or
- 30 or more years of service credit, but the sum of the member's age and years of service credit total less than 80, and the member is less than age 60, or
- The sum of the member's age and years of service credit total at least 80, but the member is less than age 60.

For members who met the requirements to be grandfathered before Sept. 1, 2005, there is no reduction to their benefit based on actuarial tables if they are at least age 55, the sum of their age and years of service

credit total at least 80, and they are below age 60. However, these members are still considered early-age retirees.

For members who did not have at least five years of service credit as of Aug. 31, 2014, who established TRS membership on or after Sept. 1, 2014, or who had at least five years of service credit as of Aug. 31, 2014 but terminated membership in TRS by withdrawal of accumulated contributions and later resumed TRS membership:

- At least 55 with five or more years of service credit, but the sum of the member's age and years of service credit total less than 80, or
- 30 or more years of service credit, but the sum of the member's age and years of service credit total less than 80, and the member is less than age 62, or
- The sum of the member's age and years of service credit total at least 80, but the member is less than age 62.

For members who met the requirements to be grandfathered before Sept. 1, 2005, there is no reduction to their benefit based on actuarial tables if they are at least age 55, have at least 20 years of service credit, the sum of their age and years of service credit total at least 80, and they are below age 62; however, these members are still considered early-age retirees.

The standard annuity amount calculated under the benefit formula (or the minimum benefit, if applicable) and used to determine the amount of any optional retirement annuity is reduced for early-age retirement. The amount of the reduction varies depending on age, years of service credit, and whether a member is grandfathered.

Disability Retirement

Eligibility

Physical or mental disability precludes the member's continued performance of current duties and the disability is probably permanent, as certified by the TRS Medical Board.

Benefit

For disabled members with at least 10 years of credited service, the greater of the standard annuity unreduced for early-age or \$150 per month minimum benefit, less any reduction for the selection of an optional annuity. For disabled members with fewer than 10 years of credited service, \$150 per month. The minimum benefit amounts are subject to reduction for the selection of an optional retirement annuity.

Duration

For retirees with 10 or more years of credited service, payments continue for as long as the disability continues. For those with fewer than 10 years of credited service, payments continue for the life of the retiree, the duration of the disability, or the number of months of credited service, whichever is shorter.

Earnings Limit

Disability retirees who applied and retired after Aug. 31, 2007 are subject to an annual limit on earnings from any employment. The current limit is the greater of the highest annual salary before retirement or \$40,000. Excess earnings will cause benefits to be forfeited until such time as the excess earnings cease or are reduced to an allowable amount.

Annuity Payment Options

All service and eligible disability retirees may select an optional form of payment that reduces the standard annuity by application of actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. Actuarial factors for disability retirees are different from those for service retirees because of different assumptions about life expectancy for the two groups. The available options include 100, 75, and 50 percent joint and survivor annuities, and five- and 10-year guaranteed period annuities. Selection of a 100 or 75 percent joint and survivor annuity and a five- or 10-year guaranteed period annuity may not be allowed in certain situations based on the minimum distribution provisions of federal tax law.

The Pop-Up Provision

If a designated beneficiary under any of the joint and survivor options dies while the retiree is still living, the retiree's future monthly payment increases to the amount of the standard annuity.

Partial Lump Sum Option

Under the Partial Lump Sum Option (PLSO), available for election at the time of retirement, eligible members may elect to receive an actuarially reduced service retirement annuity plus a lump sum distribution.

Members may elect to receive a PLSO if they are eligible for service retirement, meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the Deferred Retirement Option Plan (DROP), and are not retiring with disability retirement benefits. Grandfathered members may elect PLSO at retirement if they are eligible for normal age service retirement under the pre-Sept. 1, 2005 law (age 65 with at least five years of credited service, or the sum of the member's age and years of credited service equals or exceeds 80 with at least five years of credited service), are not participating in DROP, and are not retiring with disability retirement benefits. Members retiring under the proportionate retirement program are not eligible to elect the PLSO.

Partial lump sum distributions equal to 12, 24, or 36 months of a standard service retirement annuity may be selected. When a member selects this option, the monthly annuity is actuarially reduced to reflect the lump sum distribution. Flexible annual distribution options are available, including rollovers to another eligible retirement plan.

Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP), which is closed to new participants, was available for active members who were eligible for normal age service retirement and had at least 25 years of credited service.

Members who elected to participate in DROP (before enrollment was closed effective Dec. 31, 2005) chose to freeze their salary amounts credited by TRS and service credit used to calculate their retirement benefits and to have a portion of the standard annuity amount deposited into a DROP account while continuing to work for a TRS-covered employer. Interest on DROP accounts prior to Sept. 2014 was credited at a rate of five percent. The DROP account is currently credited at the rate of two percent per annum. Members are not considered to be retired while participating in DROP.

Members who elected DROP chose to participate in 12-month increments for up to five years. During DROP participation, the member does not accrue additional service credit, nor is any compensation earned during DROP participation considered in calculating the standard annuity. Also, during DROP participation, the member's statutory contributions to TRS continue; however, contributions are not credited to the member's contribution account and are not subject to refund.

Participation in DROP ends at the earliest of the expiration of the election period, retirement, or death. The accumulated DROP account may be distributed as a single lump sum or in monthly or yearly installments covering five or 10 years. Distributions commence at retirement or in the event the member dies before retiring, at the member's death. Eligible distributions may be rolled over to another eligible retirement plan. Members who participated in DROP but continued working in membership eligible employment after the close of their participation period earn post-DROP retirement benefits based solely on creditable

compensation received and service credit earned after their DROP participation period ended. Post-DROP benefits are distributed with the retirement and DROP benefits.

As of July 31, 2019 there were 18 people that participated in DROP and have not yet retired, and 79 people that have retired and are receiving DROP payments.

Minimum Service Credit Required for Service Retirement Benefits

Under current law, a member who has completed at least five years of credited service has earned a right to service retirement benefits after reaching eligible retirement age, provided that the member's accumulated contributions are not withdrawn from the system. Service credited in another retirement system that participates in the Proportionate Retirement Program may be combined with TRS service credit to determine eligibility for TRS service retirement benefits. Any qualifying USERRA military service, up to a maximum of five years, may also be counted in determining eligibility for TRS service retirement benefits. The USERRA service and/or compensation credit may also be purchased to increase the amount of the retirement benefit or may simply be verified and used to establish eligibility. An eligible member must apply for benefits and meet other requirements, such as termination of Texas public education employment, in order to begin receiving benefits.

Proportionate Retirement and ERS/TRS Service Transfer

Members of both TRS and the Employees Retirement System of Texas (ERS) are eligible at the time of retirement to combine service credits under one system. Additionally, members with active service credit in more than one Texas public statewide retirement system may combine that service in order to satisfy the length of service requirements used to determine eligibility for service retirement. In such cases, the retirement benefit is paid separately from each system, based only on the service the member rendered in that system.

Death and Survivor Benefits

Active Members

The beneficiary of an active member may elect to receive one of the following benefits in the event of the member's death before retirement, if the member dies during a school year in which the member performed service or if the member was absent from service because of sickness, accident or another reason TRS determines is involuntary or in furtherance of the objectives or welfare of the public school system. Active member death benefits are also payable if the member dies when eligible to retire or would have become eligible without further service before the fifth anniversary of the members last day of service as a member or if the member dies while performing qualified military service as defined by applicable federal law. These benefits also are available due to death when the member is absent from service as described by law, such as when the absence is due to sickness, accident, or other involuntary cause or when the member is within five years of being eligible to retire when leaving employment:

A lump sum payment equal to twice the member's annual rate of compensation or \$80,000, whichever is less.

Sixty monthly payments equal to the member's standard annuity without reduction for early-age, provided the member had at least five years of service credit at the time of death.

Lifetime payments equal to a 100 percent joint and survivor annuity, provided the member had at least five years of service credit, and is subject to any reduction applicable for early-age. This benefit is only available when there is a sole beneficiary.

An amount equal to a return of the member's contributions with accumulated interest.

Survivor benefits of \$2,500 lump sum payment plus a monthly benefit to eligible beneficiaries. For example, \$350 per month to a beneficiary spouse with minor children, continuing until the youngest child reaches age 18. When the spouse turns age 65, or when the youngest child reaches age 18, whichever is later, the spouse would begin receiving \$250 per month for life.

In addition to these five options, a lump sum death benefit of \$160,000 is available if the active member is employed in a TRS-covered position and dies as the result of a physical assault during the performance of the employee's regular job duties.

Also, the beneficiary of a DROP participant will receive the accumulated DROP account balance, payable as a lump sum or in periodic installments.

Retirees

In addition to any joint and survivor or guaranteed period annuity that may be payable under an optional form of payment a retiree elected, the beneficiary of a service or disability retiree is entitled to a \$10,000 lump sum payment. Eligible survivors may select alternate payment options in lieu of the lump sum benefit. The alternate payment options include a lump sum payment of \$2,500 plus an applicable monthly survivor benefit.

If total payments made before death to a retiree and, when applicable, to a beneficiary for an optional service retirement annuity, are less than accumulated contributions at retirement, an amount equal to the remainder of the balance of accumulated contributions is paid to the beneficiary or as otherwise provided by law. Should a retiree die prior to receiving all PLSO payments that are due, TRS will pay any remaining PLSO payments in a single lump sum payment to the beneficiary. If the retiree participated in DROP and died before receiving all DROP distributions, any unpaid DROP payments are paid to the beneficiary designated by the retiree.

Grandfathered Provisions

A person who, as a member, met any one of the following criteria on or before Aug. 31, 2005, is grandfathered under plan provisions repealed with respect to non-grandfathered members:

- the member was at least 50 years old,
- the member's age and years of service credit equaled at least 70 ("Rule of 70"), or
- the member had at least 25 years of service credit.

Members who are grandfathered will have their benefits determined in the following manner:

- Final Average Salary at retirement will be determined by the highest three years (instead of five years) of salary.
- Preservation of certain retirement reduction factors means that members age 55 or older with 20 to 24 years of credited service who take early retirement will receive a lesser reduction to their annuities than those members who are not grandfathered.
- Partial Lump Sum Option eligibility will require either age 65 with at least five years of service credit, or a combined age plus years of credited service that equals at least 80 ("Rule of 80") instead of 90.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? In Exhibit 12, provide a list of statistics and performance measures that best convey the effectiveness and efficiency of this program or function. Also, please provide the calculation or methodology behind each statistic or performance measure. Please do not repeat measures listed in Exhibit 2 unless necessary to understand the program or function.

Retirements

TRS serves more than 1.6 million members, retirees, and other annuitants. 99.19 percent of TRS retirees received their first annuity payments within 31 days of the date they were eligible for their first payment.

The goal for retirement processing is to issue 98 percent of first annuity payments when they are due. This is calculated by comparing the date the last required document was received or the first payment was due (whichever is later) to the date that the first payment was actually made.

	FY 2016	FY 2017	FY 2018	FY 2019 through April
Service Level	99.89%	99.76%	90.09%	91.68%

The decrease in service level during fiscal year 2018 and 2019 can be attributed to the deployment of the new TRUST pension administration system. The retirement process uses data from TRUST but the actual retirements are processed from the legacy system. Working out of two systems has contributed to longer processing times; however, improvements have already been seen during fiscal year 2019. Since December 2018, the service level has been at or above 99 percent.

Refunds

The goal for refund processing before fiscal year 2018 was to process 95 percent of refunds within 31 days of receipt of all required paperwork including the final payroll deposit from the employer. Beginning in fiscal year 2018, the goal was changed to validate 95 percent of refunds within five business days of receiving all required paperwork including the final payroll deposit from the employer.

	FY 2016	FY 2017	FY 2018	FY 2019 through April
Refunds processed	39,324	42,370	35,497	36,596
Amount paid	\$373 million	\$420 million	\$422 million	
Service level	99.87%	99.68%	94.95%	90.66%

The decrease in service level during fiscal year 2018 and 2019 can be attributed to defects encountered with refund processing in the new TRUST system. Some refund processing had to be suspended while fixes to issues were developed and deployed to production. Since November 2018, the service level has averaged 95.6 percent

Death Benefit Payments

The goal for death benefit payments is to process 95 percent of payments within 31 days of receipt of all required paperwork.

	FY 2016	FY 2017	FY 2018	FY 2019 through April
Service level	97%	95%	78%	55.7%
Payments issued	18,220	18,263	16,798	11,353

The decrease in service levels during fiscal years 2018 and 2019 can be attributed to challenges with bridging data between TRUST and the legacy system. All beneficiary demographic information must be entered into TRUST and bridged to the legacy system to process the payment. Bridging has proved challenging at times. Staff must work with IT support to get some files to bridge properly to the legacy system. The bridge of data only occurs twice a day at noon and nightly batch. In addition to system challenges, staffing has been challenging on the death claims team. Several team members transferred to other positions within Benefit Processing and TRS during fiscal year 2018. TRS is currently working to get staffing levels back up.

In addition to the benefit services performance measures located in Exhibit 2, the following performance measures are reported to the board quarterly.

EXHIBIT 12: PROGRAM STATISTICS AND PERFORMANCE MEASURES — FISCAL YEAR 2018

Program Statistics or Performance Measures	Dataset Reference Number* (if applicable)	Calculation (if applicable)	FY 2018 Target	FY 2018 Actual Performance	FY 2018 % of Annual Target
Refunds validated within 5 business days of receiving final deposit and all required documents	TRUST	# of days from when workflow activity created to the date completed	95%	95.3%	100.32%
(Benefit Estimates mailed within 31 days	TRUST	# of days from when the workflow activity created to the date completed	90%	77.3%	85.89%
Death Claims acknowledged within 14 days of receipt of death notification	DC 3162 Report from Legacy System	# of days to from the report of death to the date acknowledgement letter is created	90%	95.9%	106.56%
Claims payments issued within 31 days of receipt of all required documents	DC 3162 Report from Legacy System	# of days from date final document is received to date payment issued	95%	78%	82.11%
Available Office Visit appointments	Microsoft Dynamics	Total number of appointments available for schedule	10,000	12,322	123.22%

Program Statistics or Performance Measures	Dataset Reference Number* (if applicable)	Calculation (if applicable)	FY 2018 Target	FY 2018 Actual Performance	FY 2018 % of Annual Target
Percentage of Regular Employer Payroll Reports completed by the end of each quarter (cumulative for FY)	TRUST	Percent of RP reports that are due and completed by end of FY	90%	91.6%	101.78%

Table 12 Exhibit 12 Program Statistics and Performance Measures

*See Exhibit 3

- D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent. If the response to Section III of this report is sufficient, please leave this section blank.**

COLA and 13th Check History 1993 – 2019

- 2019** *SB 12, 86th Legislature, Regular Session*
Members who retired on or before Dec. 31, 2018 received a one-time supplemental payment (13th check) in either the amount of their monthly annuity payment or \$2,000, whichever is less. The supplemental appropriations bill (SB 500, Section 83) provided \$589 million to fund the one-time supplemental payment.
-
- 2013** *SB 1458, 83rd Legislature, Regular Session*
Members who retired prior to Sept. 1, 2004 received a 3 percent cost-of-living adjustment (capped at \$100 per month).
-
- 2007** *SB 1846, 80th Legislature, Regular Session*
The legislature authorized a one-time supplemental payment (13th check), equal to the August 2007 monthly annuity, but capped at \$2,400. It was paid in January 2008.
-
- 2001** *SB 273, 77th Legislature, Regular Session*
The retirement annuity multiplier was increased from 2.2 to 2.3 percent effective Sept. 1, 2001. The multiplier increase was also given to retirees in the form of a cost of living adjustment. Members who retired between Sept. 1, 2000, and Aug. 31, 2001, received a 4.5 percent increase in their annuities, which is equivalent to the multiplier increase.
- Members who retired prior to Sept. 1, 2000, received a 6 percent inflation adjustment plus the 4.5 percent multiplier equivalent.

-
- 1999** *SB 1128, 76th Legislature, Regular Session*
 The retirement annuity multiplier was increased from 2.0 to 2.2 percent effective Sept. 1, 1999. The multiplier increase was also given to retirees in the form of a cost of living adjustment. Members who retired between Sept. 1, 1998 and Aug. 31, 1999 received a 10 percent increase in their annuities, which is equivalent to the multiplier increase.
- Members who retired prior to Sept. 1, 1998 received an inflation adjustment between 2 and 7 percent based upon the member's retirement date and the 10 percent multiplier equivalent.
-
- 1997** *HB 2644, 75th Legislature, Regular Session*
 Members who retired prior to Sept. 1, 1996 received an inflation adjustment ranging from two to 14 percent based upon the member's retirement date.
-
- 1995** *SB 9, 74th Legislature, Regular Session*
 The legislature passed the largest annuity increase in TRS history. Members who retired before Sept. 1, 1993 were paid the greater of two options:
- Current annuity with an inflation adjustment ranging from 2 to 17 percent depending on the member's retirement date; or
 - Recomputation of the annuity using the current minimum annual salary (\$18,500) for a classroom teacher or full-time librarian if the actual average salary was less than the current minimum.

E. List any qualifications or eligibility requirements for persons or entities affected by this program, such as licensees, consumers, landowners, for example. Provide a statistical breakdown of persons or entities affected.

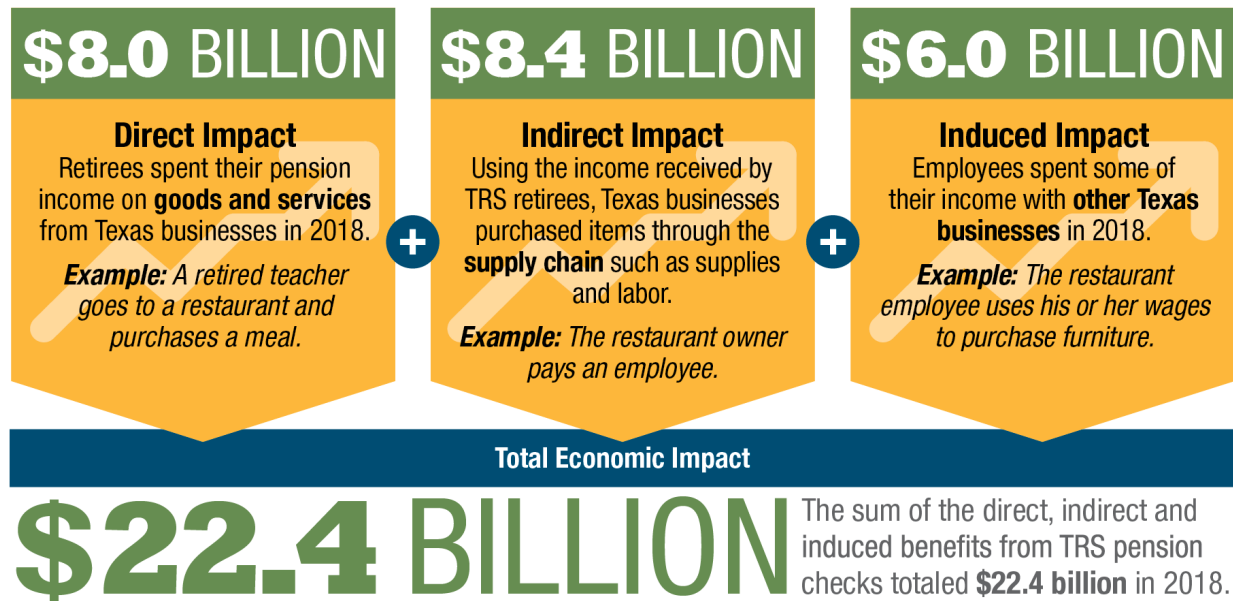
TRS Benefit Services and Investment Management affect nearly 1.6 million active and retired TRS members and numerous capital markets across the globe. TRS is the 6th largest pension fund in the U.S., has a significant impact on the investment security of public education retirees, influences economic activity in the State of Texas, and is a major investor in public markets worldwide.

In 2018, TRS paid more than \$10.1 billion in retirement benefits to more than 420,000 retirees and their beneficiaries. Over 94 percent of these benefit payments, or approximately \$9.6 billion, went directly to retirees and their beneficiaries who live and spend these dollars in Texas. In addition to providing retirement benefits to annuitants, TRS benefit payments generate economic stimulus to communities throughout the state of Texas. The funds provide members with a stable income stream, and the resulting spending contributes to a broad spectrum of industries.

Further, retirees spending their benefits provided a notable economic stimulus to communities throughout the state with the total direct and indirect spending and investment impact to the Texas economy totaling over \$22 billion in 2018:

Pension Annuities in Texas

TRS retirees living in Texas received a total of **\$9.6 billion** in monthly checks in 2018.



Source: "The Impact of Annuity Payments by the Teacher Retirement System on Texas and Local Areas Within the State" (The Perryman Group, January 2019)

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002, are required to be members of TRS.

Membership service credit is earned in one-year increments. Only one year of service may be credited in any one school year. A year of service credit cannot include more than 12 months. For years prior to the 2012-13 school year, a school year starts on Sept. 1 and ends Aug. 31, or it starts on the date of employment under a contract or oral or written work agreement that begins on or after July 1 and ends no more than 12 months later. Starting with the 2012-13 school year, all TRS members receive service credit based on a standardized school year that begins Sept. 1 and ends Aug. 31. The TRS standardized school year may not be the same as the instructional year of the employer.

To earn a year of membership service credit, a member must work in a TRS-eligible position or receive paid leave from a TRS-eligible position at least 90 days during the school year. In the last year of employment before retirement, a member may earn a year of service credit by working and/or receiving paid leave for each day of the full fall semester, even if that semester is less than 90 days. Effective Sept. 1, 2015, members who are regularly scheduled to work fewer than five days per week may earn a year of service credit by working four and one-half months; however, the member must serve at least four full calendar months during which the member works or receives paid leave for at least eight days each month and the member must also work or receive paid leave for an additional five days that cannot be included in the four full calendar months.

A TRS member may not receive a year of service credit before Dec. 31, except in the year of retirement when a member may earn a full year of service credit by working the entire fall semester.

As of Aug. 31, 2018, TRS membership consisted of the following:

Membership	
Active Contributing	872,999
Inactive Non-Vested	193,498
Inactive Vested	105,000
Total Current Members	1,171,497
Service	391,927
Disability	11,914
Survivor	16,617
Total Retirement Recipients	420,458
TOTAL MEMBERSHIP	1,591,955

As of Aug. 31, 2018, the numbers of participating employers were as follows:

Reporting Entities	
Public School Districts	1,024
Charter Schools (open enrollment)	171
Community and Junior Colleges	50
Senior Colleges and Universities	47
Regional Service Centers	20
Medical Schools	9
Educational Districts	4
State Agencies	1
TOTAL	1,326

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

Benefit Services consists of three departments: Benefit Accounting, which includes Benefit Payroll and Employer Reporting; Benefit Processing, which handles many of the back-office processes for all major benefit related areas as listed below; and Benefit Counseling. Key TRS retirement plan processes and objectives are listed below.

Process Enrollments – To add new members to TRS database. When a public education institution employs a person in a position eligible for TRS membership, the employer begins reporting the person to

TRS as a member on a monthly basis. The reporting entity sends TRS the relevant member information and also transmits member contributions deducted from employees' salaries. All TRS reporting entities report electronically through the Reporting Entity Portal (RE Portal).

Benefit Accounting Reporting Entity Coaches work with the entities on a monthly basis to ensure member data is reported accurately. Prior to fiscal year 2018, employers only reported members who met the membership eligibility requirements for TRS. Beginning in fiscal year 2018, employers were required to report all employees regardless of membership eligibility. This increased the complexity of the reports and of working with employers to complete their monthly reports.

Record Beneficiary Designations – To enter new or updated beneficiary information on active and retired member accounts. Member sends TRS form indicating designation. Benefit Processing checks for proper endorsements.

Update Demographic Information – To update member demographic information such as name or address when member sends TRS form or written correspondence requesting update, or to verify age upon receipt of proof of age documents.

Provide Benefit Counseling – To explain member benefits by phone and in person (office visits or presentations) to assist members regarding their TRS benefits. This process normally starts with the member calling or visiting TRS or a TRS presentation statewide.

Process Requests to Purchase Service Credit – To provide members the cost to establish service credit that they are eligible to purchase and to receive payment from the members.

Process Refunds – To refund the amount in a member's account when the member is no longer employed by a public or higher education institution and has requested that the TRS account be paid to him or her.

Process Retirement Estimate Requests – To verify that the member is eligible to retire, determine years of service credit, provide a retirement benefit estimate, determine eligibility for TRS-Care, and provide the member a packet of materials that includes the forms necessary for retirement and information on TRS-Care and the enrollment application.

Process Retirement – To change the status of an individual from member to retiree and to ensure that the correct annuity is paid within 31 days of the date of retirement. The retirement mail process starts when a pertinent form is received from either the member or the reporting entity.

Enter Tax Withholding Elections – To enter withholding election of annuitant. Retired member sends TRS form indicating the amount of taxes to be withheld from annuity payment. This change request is also available to be updated through *MyTRS* as opposed to a form.

Process Direct Deposit Requests – To establish direct deposit or warrant for annuity payment. Member sends TRS form with bank or mailing information. Benefit Processing reviews for proper endorsements and establishes electronic funds transfer (EFT) or check mailing address, per member's instructions.

Process Death Claims – To pay benefits due after a TRS participant’s death to the beneficiary designated by the member.

TRS does not have any field offices. However, benefit counselors do travel across the state to conduct group presentations for members nearing retirement eligibility. In 2009, TRS also began conducting one-on-one counseling appointments in various locations throughout the state.

Beginning in August 2016, TRS piloted live video conference counseling sessions, where members could video conference with a TRS Counselor from their home or another location. The live video office visits came, in part, from members who stated in a survey that they would recommend live video meetings with TRS counselors. In September 2016, live video counseling sessions were offered as a form of an office visit appointment.

The chart below represents the number of office visits and group presentations that were conducted by a TRS counselor locally and across the state. The table also includes the conventions attended by TRS counselors and the number attendees at each event during fiscal years 2017 and 2018.

	FY 2017	FY 2018	FY 2019 thru April
Office Visits (Austin)	7,072	7,691	7,346
Walk-Ins	2,462	3,861	1,793
Live Video Office Visits	129	75	66
Field Office Visits	420	390	418
Field Office Visit Locations	10	10	10
Group Presentations	173	154	84
Group Presentation Attendees	13,275	13,677	8,426
Group Presentation Locations	95	103	78
Conventions	4	4	2
Convention Attendees	15,400	15,300	3,000

In fiscal year 2018, TRS increased the number of office visit appointments that were made available to members for one-on-one counseling sessions in Austin. TRS' goal moving into fiscal year 2019 was to more than double the number of available appointments offered by Sept. 1, 2018, from 42 office visit appointments to 96. This change would allow benefit counselors to better assist members and meet member demand. The increase in available appointments reduced the wait time to visit one-on-one with a counselor from 90 days to seven days. The following chart represents how TRS implemented a progressive increase in appointment availability.

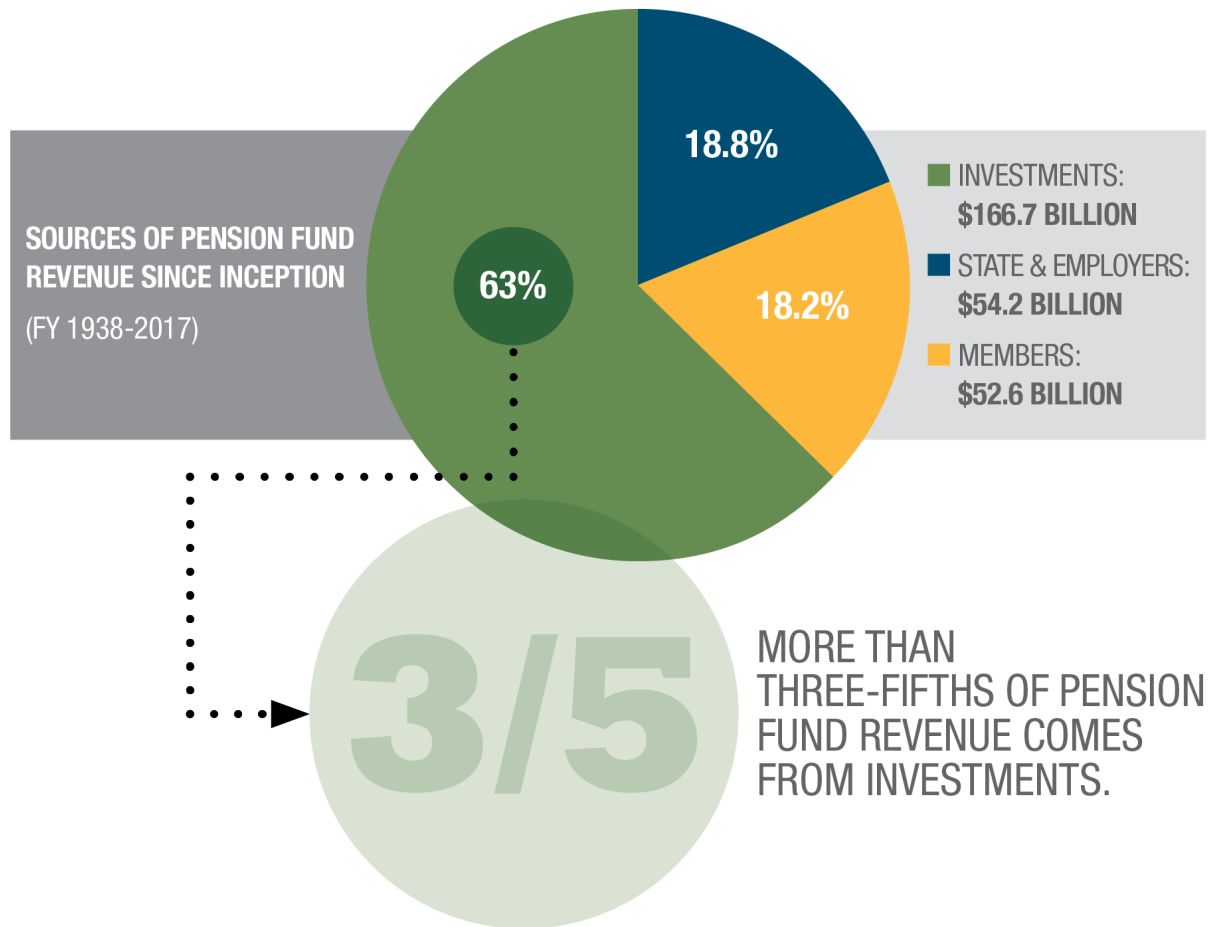
Time	June 2018		July 2018		August 2018		September 2018	
	Current Office Visits	New Office Visits	Current Office Visits	New Office Visits	Current Office Visits	New Office Visits	Current Office Visits	New Office Visits
8:00	6	8	8	10	10	12	12	12
9:00	6	8	8	10	10	12	12	12
10:00	6	8	8	10	10	12	12	12
11:00	3	4	4	6	6	6	6	12
1:00	3	4	4	6	6	6	6	12
2:00	6	8	8	10	10	12	12	12
3:00	6	8	8	10	10	12	12	12
4:00	6	8	8	10	10	12	12	12
TOTAL	42	56	56	72	72	84	84	96

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

Member and state contribution rates are set by law according to the requirements of the Texas Constitution Article XVI, Section 67, which provides that member contributions shall be a minimum of 6 percent of salary, while state contributions shall be within a range of 6 percent to 10 percent. Member contributions are currently 7.7 percent, as required by Texas Government Code Section 825.402, and state contributions are 6.8 percent as established by the General Appropriations Act. Current law specifies that reporting entities shall pay the state contribution on salaries above the statutory minimum.

Public education employers contribute to the pension fund in three different ways. First, beginning in fiscal year 2020, public schools and regional education service centers will contribute 1.5 percent of applicable salary increasing to 2.0 percent by fiscal year 2025. Second, public education employers are required to pay the TRS pension fund the equivalent of the state contribution amount in the first 90 days of employment for new employees. Finally, employers who employ TRS retirees were required to pay the TRS pension fund the equivalent of the member and state contribution rates (currently 14.5 percent) applied to the retirees' salaries. Certain retirees were grandfathered, resulting in employer exemptions from the surcharge.

Member, state, and employer contributions flow into the trust fund and are invested consistent with TRS' asset allocation and investment governance practices (See Section VII. Investment Management). Investment performance is vital to funding pension benefits, and Investment Management focuses on achieving long-term returns to secure our members' retirement futures. The breakout of sources of pension fund revenue since inception of the Trust is outlined below, with more than three-fifths of fund revenue coming from investments



H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

There are some programs external to TRS that provide similar services or functions. Viewed broadly, similar programs include any public employer plan that helps public employees develop opportunities for retirement income. One similar program is the defined benefit plan administered by the Employees Retirement System (ERS) for state employees. Membership eligibility is not available to public education employees. Further, many plan details differ, including:

- Member contribution rates (6.0 percent for ERS, 6.4 percent for TRS).
- Special service credit (TRS offers more service credit options).
- Lump sum early retirement incentives (some ERS members were eligible for this temporary incentive; no similar incentive existed for TRS members).
- Method of crediting service (ERS monthly; TRS annually).

- Final salary averaging (ERS three-year; TRS after Aug. 31, 2005, five-year except for those grandfathered).
- Retirement eligibility (ERS does not offer early retirement options; TRS does).

Other programs similar in objective (though not in plan design) are the 457 and 403(b) plans offered by some school districts or colleges as supplemental plans. These are defined contribution plans with voluntary member participation, which generally offer no contributions by the employer. They function similarly to the better-known private sector 401(k) plans. These programs permit participants to accumulate tax-deferred dollars for withdrawal in their retirement years.

Finally, the ORP program for eligible higher education employees was created as an alternative to the TRS defined benefit plan. ORP is structured as a 403(b) plan under the federal tax code, and thus it is a defined contribution plan. As such, its focus is capital accumulation, not income replacement through a fixed payment at regular intervals. Members select among various investment options, and their final account balance reflects their investment performance. Generally, such plans do not include features such as disability retirement or annuities for survivors upon the death of a member or retiree; only the account balance amount is payable, regardless of circumstances.

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

ERS and ORP are available to state employees and eligible higher education employees respectively, but they are not broadly available to public education employees. As a result, TRS serves a completely different population than ERS. Although TRS serves higher education faculty eligible to join ORP, once such members elect ORP, they are no longer eligible for TRS participation and duplication is avoided.

Locally administered 457 or 403(b) plans are employer-based and are designed only as voluntary, supplementary retirement plans. In most instances, employer contributions are not provided to these plans on behalf of the employees. For these reasons, participation and contributions may be inadequate to support the retirement needs of many public school employees. The TRS defined benefit plan serves as the primary plan for these employees. The employer-sponsored plans are not designed to duplicate TRS functions.

J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.

The retirement plan collects member contributions from the public education employers who employ the members. School districts, open enrollment charter schools, regional education service centers, and higher education institutions deduct member contributions of 7.7 percent from their employees' salaries and

deposit those amounts with TRS on a monthly basis. The employers also report their employees' monthly salary amounts to TRS so that TRS can maintain salary records necessary to determine benefits at retirement, since benefits are a percentage of final average salaries as specified by statute.

TRS also relies on employers to report the employment of TRS retirees. Under Texas Government Code Section 824.601-.602, a TRS retiree who exceeds the allowable amount of employment after retirement with a Texas public educational institution, as defined by statute forfeits the monthly annuity normally due. In order to implement this statutory requirement, TRS must receive employer reports from public and higher education institutions that employ TRS retirees.

Additionally, public education employers are required to make three types of contributions to the TRS pension plan. See question G above for detail. TRS relies upon school districts and other public education employers to accurately calculate and report these contributions on a monthly basis.

Effective fiscal year 2018, TRS implemented TRUST Phase 1, which included additional data requirements for employer reporting. The employers were required to report all employees not just those that meet TRS membership eligibility. Full payroll reporting is a result of GASB requirements which provide that reporting entities are required to report more data on participants on a detail level instead of a summary level.

Legislation in 2017 included late report fees if an employer report is not submitted/completed by the due date. However, due to issues/defects in the employer portal, TRS waived late report fees for fiscal years 2017-18 and implemented a delayed report fee for fiscal year 2018. An employer has two months to submit and complete the Regular Payroll and Employment of Retired members report before a late fee is assessed.

TRS also must work with the United States Internal Revenue Service (IRS) by reporting income paid to members, retirees, and beneficiaries. TRS issues IRS 1099-R forms annually to payees for their use in personal income tax reporting to the IRS.

K. If contracted expenditures are made through this program please provide

- **a short summary of the general purpose of those contracts overall;**

Benefit Services contracts with vendors to help TRS manage member data and keep death files updated; communicate and provide information to members, pay Medical Board appointees; conduct an after-call survey of the telephone counseling center call; and meet overflow call center needs when call volume surpasses a certain threshold.

- **the amount of those expenditures in fiscal year 2018;**

The total spent on contracts for fiscal year 2018 was \$818,091

-
- **the number of contracts accounting for those expenditures;**

19

- **the method used to procure contracts;**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Advanced Call Center Technologies (\$2,840,000) – Overflow call center services for TRS members

Customer Relationship Metrics (\$341,375) –TCC/IVR Survey Application

Print Mail Pro (\$308,034) – Printing and mailing services for TRS membership cards

Dr. Alice D. Cox, MD (\$219,780) – Medical Board appointee

Dr. James Allen Reinartz, MD. (\$109,890) – Medical Board appointee

Dr. Larry Wilson, MD. (\$109,890) – Medical Board appointee

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations.

- **a short description of any current contracting problems.**

Benefit Services has not experienced any material contracting problems or issues.

L. Provide information on any grants awarded by the program.

Benefit Services does not award grants.

M. Are there any barriers or challenges that impede the program's performance, including any outdated or ineffective state laws? Explain.

Please see Section IX. Major Issues.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

Although the TRS plan is largely governed by state law, the federal tax code also affects how TRS operates. Under Texas Government Code Section 825.506, TRS is to operate the pension plan as a qualified plan under 26 U.S.C. Section 401(a). Several plan features and indeed the requirement that assets be held in trust for the benefit of members are grounded in federal tax code requirements for qualified pension plans.

One such plan qualification requirement limits benefits payable in a year to the amount described under Section 415(b) of the Internal Revenue Code. Consequently, the TRS pension benefit of some more highly paid TRS members exceeds the allowable amount. The TRS pension fund may not pay the excess amount to the member at retirement. To address this situation, Government Code Section 825.517 established an excess benefit arrangement, to be administered by TRS outside of the pension trust fund. The purpose is to permit these members to receive the difference between the benefit limitation and what they otherwise would be eligible to receive from the pension fund.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe

- **why the regulation is needed;**
- **the scope of, and procedures for, inspections or audits of regulated entities;**
- **follow-up activities conducted when non-compliance is identified;**
- **sanctions available to the agency to ensure compliance; and**
- **procedures for handling consumer/public complaints against regulated entities.**

No regulatory programs are associated with this Benefit Services.

P. For each regulatory program, if applicable, provide detailed information on complaint investigation and resolution. Please adjust the chart headings as needed to better reflect your agency's particular programs. If necessary to understand the data, please include a brief description of the methodology supporting each measure.

Not applicable. Exhibit 13 deleted.

Investment Management

Complete this section for **each** agency program (or each agency function, activity, or service if more appropriate). Copy and paste questions A through P as many times as needed to discuss each program, activity, or function. Contact Sunset staff with any questions about applying this section to your agency.

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Investment Management

Location/Division: 816 Congress Suite 1300, Austin, Texas & London (TRICOT) / Investment Management Division

Contact Name: Jerry Albright, Chief Investment Officer

Statutory Citation for Program: Chapter 825, Subchapter D. Management of Assets, Texas Government Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

The TRS Mission as set forth in the fiscal year 2017 – 2021 Strategic Plan is “Improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members’ lives.” To this end, the TRS Board of Trustees delegate investment authority to the Investment Management Division (IMD) subject to clear and written policies, transparency requirements and risk constraints as outlined in the Investment Policy Statement (IPS).

The IPS specifies Total Fund Objectives as well as the roles, responsibilities and restrictions on IMD staff. The Fund’s assets are managed with the following objectives found in Section 1.4 of the IPS:

- a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and
- b. As applicable to the pension plan, achieve a long-term rate of return that:
 - i. Exceeds the assumed actuarial rate of return adopted by the board;
 - ii. Exceeds the long-term rate of inflation by an annualized 5 percent; and
 - iii. Exceeds the return of the Fund Policy Benchmark.

The IMD manages the Fund by investing across multiple asset classes and staffs each area based on the size of assets or their level of complexity. The asset classes and associated benchmarks as of Aug. 31, 2018 are reflected in the chart below:

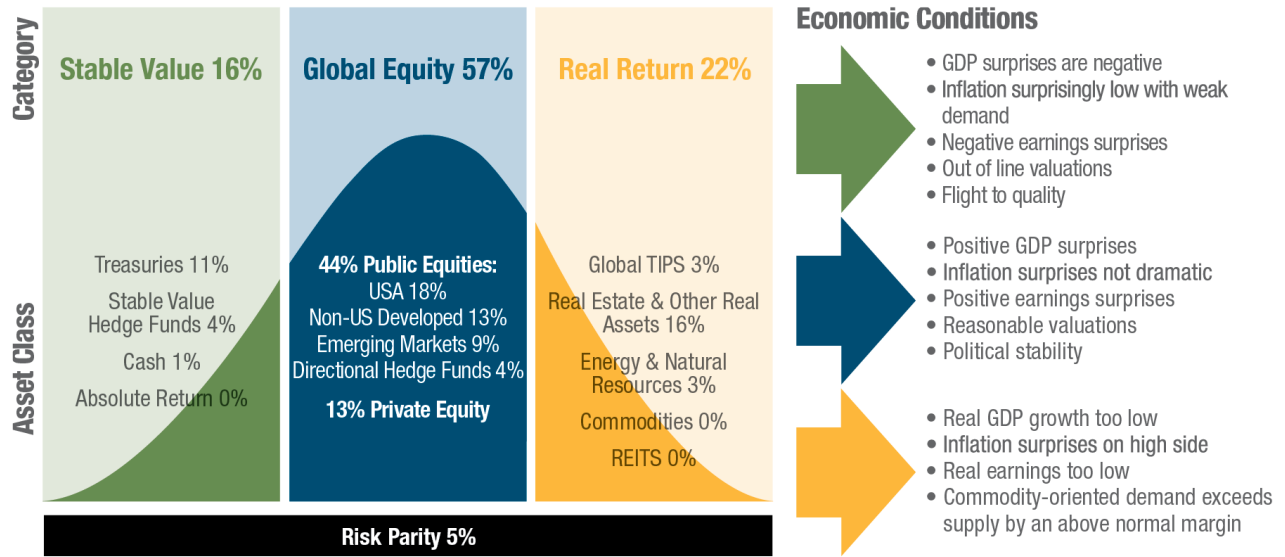
ASSET ALLOCATION AS OF AUGUST 31, 2018

Asset Class	Benchmark	Policy Range			Actual Value	
		Minimum Range	Maximum Range	Target	Market Value	% of Total Fund
Global Equity						
Public Equity						
USA	MSCI USA Investible Market	13%	23%	18%	27,150,890,513	17.6%
Non-US Developed	MSCI EAFE and Canada	8	18	13	20,341,564,939	13.2
Emerging Markets	MSCI EM	4	14	9	13,583,860,348	8.8
Directional Hedge Funds	HFRI Fund of Funds Composite	0	10	4	6,072,996,145	3.9
<i>Total Public Equity</i>	<i>Target-weighted Blend</i>	39	49	44	67,149,311,945	43.6
Private Equity	Customized State Street Private Equity Index – lagged one quarter	8	18	13	21,238,747,565	13.8
Total Global Equity	Target-Weighted Blend	50%	64%	57%	88,388,059,510	57.3%
Stable Value						
U.S. Treasuries						
Absolute Return	Barclays Capital (BarCap) Long Treasury Index	0%	20%	11%	16,334,653,515	10.6%
Stable Value Hedge Funds	3 Month LIBOR + 2%	0	20	0	3,830,033,770	2.5
Cash	HFRI Fund of Funds Conservative	0	10	4	6,501,685,478	4.2
	Citigroup 90-day US Treasury	0	5	1	596,516,786	0.4
Total Stable Value	Target-Weighted Blend	11%	21%	16%	27,262,889,549	17.7%
Global Inflation Linked Bonds	BarCap US Treasury TIPS index	0%	8%	3%	4,774,226,943	3.1%
Real Assets	NCREIF ODCE – lagged one quarter	9	19	14	18,276,966,199	11.9
Energy, Natural Resources, and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/ 20% quarterly Consumer Price Index – lagged one quarter	0	10	5	7,695,966,584	5.0
Commodities	Goldman Sachs Commodity Index	0	5	0	53,421,286	0.0
Total Real Return	Target-Weighted Blend	17%	27%	22%	30,800,581,012	20.0%
Risk Parity	Risk Parity Benchmark	0%	10%	5%	7,675,153,445	5.0%
Total Risk Parity		0%	10%	5%	7,675,153,445	5.0%
Total Fund	Target-Weighted Blend			100%	154,126,683,516	100%

TRs Diversification Framework

The IMD manages its diversification process by constructing three separate portfolios of various sizes. Each portfolio is defined by GDP growth, inflation, earnings growth, productivity, political stability, and valuation. The percentage allocations are based on the likelihood of each scenario occurring, based on historical experience.

The chart below further outlines our diversification framework and defines the economic conditions that underline each of the three separate portfolios:



Source: TRS Value Brochure: "A Great Value for All Texans"

In 2014, the board authorized the addition of the Risk Parity asset class which has a balanced exposure to all three economic scenarios.

Asset Allocation

The IMD assists the board in engaging in a Strategic Asset Allocation (SAA) study for the pension plan at least once every five (5) years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. A key objective of the SAA study is the development through statistical modeling techniques, of a diversified portfolio that specifies ranges of prudent portfolio exposures and a "long-term target" position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the board's actuarial return objectives for the pension plan within the risk tolerances specified in the chart above.

Each asset class allocation percentage has a "long-term target" position within the overall portfolio and a maximum and minimum range around that target allocation. All percentages refer to market value. Each asset class is described by an associated benchmark that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or more complex asset classes the benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio. Those benchmarks, along with the allocation ranges, are identified in the previous table and are referred to as the Policy Benchmarks.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? In Exhibit 12, provide a list of statistics and performance measures that best convey the effectiveness and efficiency of this program or function. Also, please provide the calculation or methodology behind each statistic or performance measure. Please do not repeat measures listed in Exhibit 2 unless necessary to understand the program or function.

As of Sept. 30, investment returns regularly exceeded the assumed actuarial rate of return adopted by the board, the long-term rate of inflation by an annualized 5 percent, and the return of the Fund Policy Benchmark. Total returns for various time periods are shown below:

As of Sept. 30, 2018	Trust Return
1 year	7.4
3 year	9.9
5 year	8.2
10 year	8.0
25 year	8.0

The Fund has outperformed its benchmark by nearly 50bps over the past 10 years. Over the past 10 years, the Fund has realized over \$6.9 billion in dollar value added alpha (return in excess of benchmark).

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by TRS' custodian bank State Street Bank and Trust Company, independently and using industry best practices. The total time-weighted rates of return have been adjusted for cash flows and are calculated net of bank fees, external manager fees, external legal fees, and external custodial fees. Administrative expenses for the IMD are not netted against or included in performance calculations.

The success of achieving high investment returns and trust fund alpha can be attributed to the skills and experience of the investment professionals, operations team, and support staff within the IMD. Within the division, TRS' investment professionals have an average of 15 years' experience within the asset management industry and over 89 combined advanced graduate level degrees from many top-rated universities. Additionally, our professionals hold sought-after industry distinctions, including: 59 Chartered Financial Analysts and Chartered Alternative Investment Analysts, 5 PhDs, 3 Juris Doctorates, and 26 other professional designations.

In lieu of Table 12 Exhibit 12, Program Statistics and Performance Measures, please see Attachment 16.

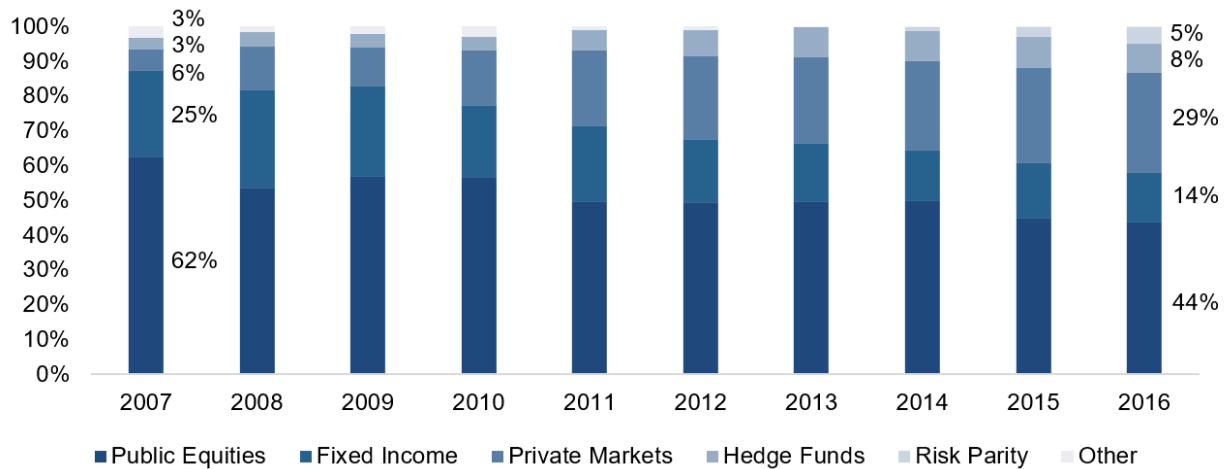
D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent. If the response to Section III of this report is sufficient, please leave this section blank.

The TRS Investment Management Division has evolved significantly over the last 15 years as TRS and the investment management industry has changed due to stronger competition between major funds, growth in assets under management, and more complex investment strategies.

In 2007, the TRS Board of Trustees established a compensation philosophy for the IMD that would allow TRS to attract and retain a high caliber investment organization. By offering both a competitive base salary and performance incentive pay, TRS enhances its ability to fulfill the mission 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 principals.

Additionally, the board of trustees authorized changes in the Strategic Asset Allocation with a goal to increase return and improve diversification of Trust assets. TRS gradually changed its asset allocation by investing in additional asset classes such as private equity, real estate, hedge funds and risk parity as presented in the chart below:

TRS ASSET MIX – 10 YEAR HISTORY

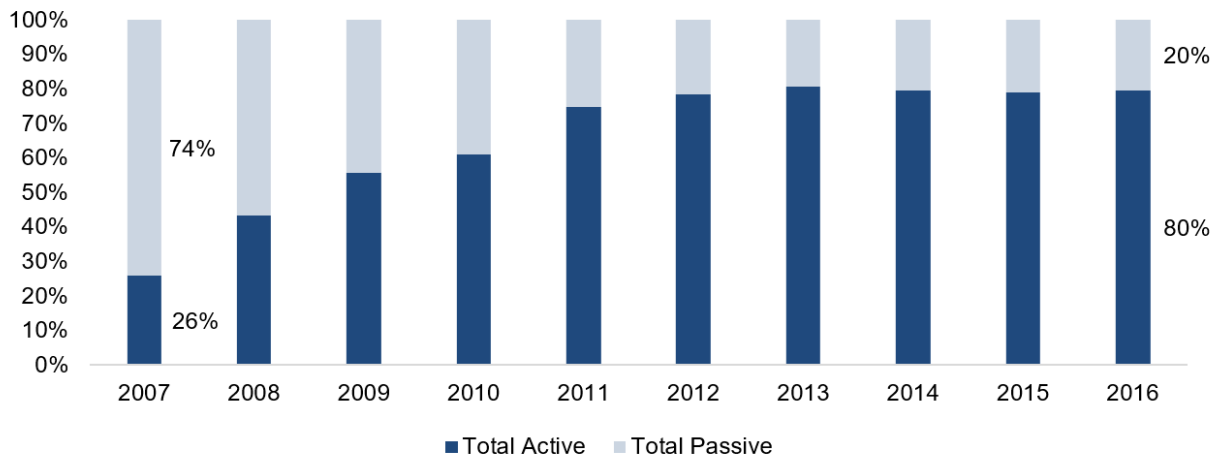


Source: TRS Investment Management Committee board presentation, Feb. 2018

In 2007, the legislature passed Senate Bill 1447, which authorized TRS to buy and sell derivative investments and use external managers to invest fund assets.

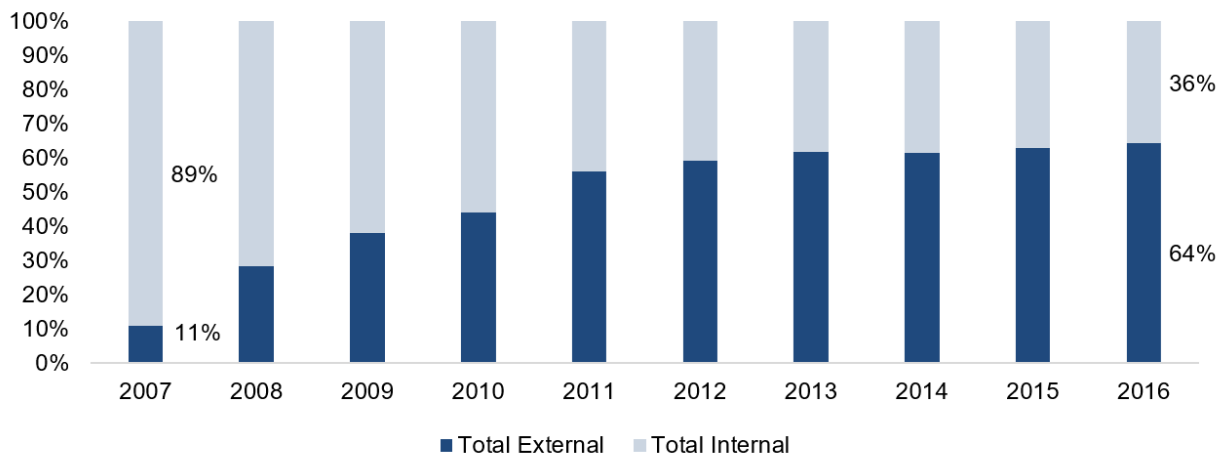
These changes resulted in more actively managed assets and more externally managed assets within the TRS Trust. The charts below outlines the shift in investment style as TRS has moved from a predominately internally managed passive investor to an active investor:

TRS ACTIVE V. PASSIVE – 10 YEAR HISTORY



Source: TRS Investment Management Committee board presentation, Feb. 2018

TRS INTERNAL V. EXTERNAL – 10 YEAR HISTORY



Source: TRS Investment Management Committee board presentation, Feb. 2018

Today, the trend is shifting back to a more internally-managed strategy in the interest of efficiencies and cost savings over time while maintaining an active management style. This shift is possible because investment staff has rapidly gained expertise, combined with best practices from external managers in a variety of investment strategies.

E. List any qualifications or eligibility requirements for persons or entities affected by this program, such as licensees, consumers, landowners, for example. Provide a statistical breakdown of persons or entities affected.

See Section VII.E. for Benefit Services.

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

IMD Governance and Roles

The Teacher Retirement System of Texas administers a pension trust fund for retirees and certain active public education employees under State of Texas constitutional and statutory provisions. TRS is governed by a board of trustees. TRS provides service and disability retirement benefits and death and survivor benefits for Texas public education employees and their beneficiaries. Benefits are funded by state and member contributions and investment returns.

The board has the fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff and legal staff. The board also monitors the actions of staff and consultants to ensure compliance with its policies. To aid in its prudent oversight and monitoring the board established a Policy Committee of the board, an Investment Management Committee of the board, Compensation Committee and an Audit, Compliance and Ethics (ACE) Committee of the board, each of which is a standing committee of the board charged with those responsibilities set forth in the bylaws of the board. The board and the Investment Division are assisted by outside investment consultants and internal and external legal counsel.

The Investment Division has fiduciary responsibilities delegated by the board under applicable law and policies. The Investment Division manages the Fund according to the board's policies, advises and informs the Executive Director and the board about investments, and recommends modifications to the Investment Policy Statement. The Investment Division executes all transactions, performs risk-management functions, and prepares investment reports.

The Investment Division has two primary internal committees to oversee fund governance. The Management Committee (MC) has the primary purpose of advising the CIO and DCIO on management responsibilities and provide a forum for cross-team communication and the Internal Investment Committee (IIC) with the primary role of approving external investments and manager engagements.

The charts below outline the responsibilities between the board, the IMD, and the Management Committee and a high-level summary of an external investment approval process:



Board Responsibilities

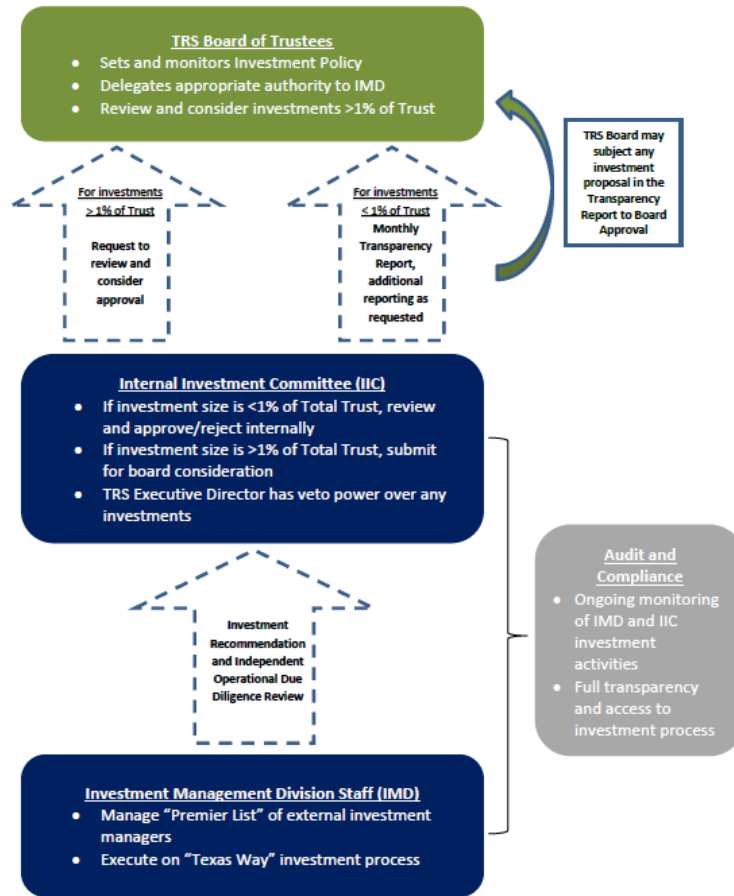
- Establish long-term asset allocation policy
- Approve long-term return targets and risk parameters
- Provide appropriate resources, incentives and establish approved processes
- Establish appropriate reporting standards and metrics
- Comply with relevant laws
- Assure professional audit systems
- Approve budget

IMD Responsibilities

- Implement investment policies within approved guidelines
- Maximize effectiveness of resources provided
- Deliver Transparent Reporting
- Comply with relevant laws
- Collaborate with audit process
- Implement Board objectives

MC Responsibilities

- Advise CIO/DCIO and business group heads on management responsibilities
- Provide a forum for in-person cross-team communication
- Review and attribute monthly performance reporting
- Monitor risk exposures
- Discuss market performance and future expectations
- Track and report Trust and group priorities
- Coordinate professional development priorities and processes



Notes: Limit on IIC Authority for a First-time investment with a manager is 0.5%, Add-on Allocations are 1%.

"Premier List" is a limited set of fully vetted Investment Firms are placed onto a "Premier List" of firms pre-approved for investment, subject to policy limits. The Premier List is highly transparent and prospective Fund investment transactions are highlighted for the Board at least two months in advance.

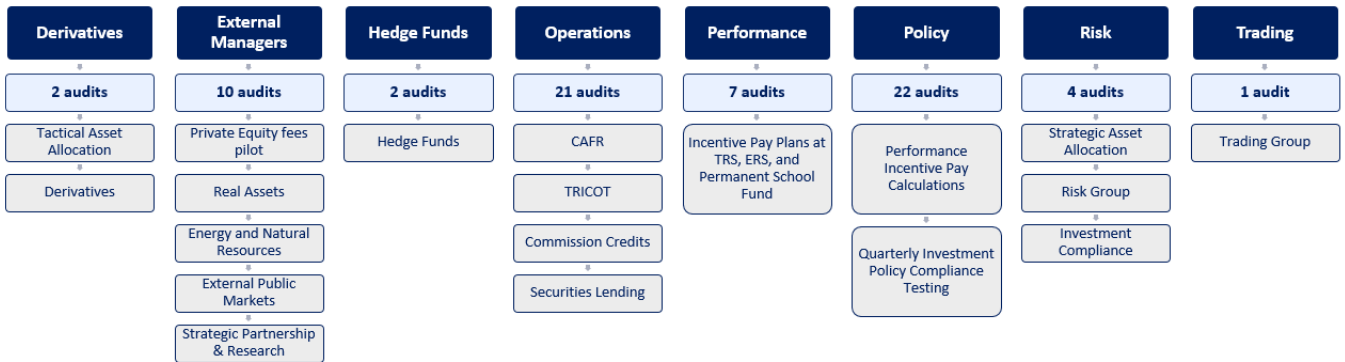
-3-

"Texas Way" is the IMD investment policy that assures all investment analyses are thorough, objective, and regularly audited.

Compliance and Audit

The board and the IMD are assisted in their oversight by the TRS Legal & Compliance and Internal Audit groups (See Section VII. Executive Support).

The IMD has had more than 60 audits and independent reviews conducted over the past 5 years with no major findings. A summary of those reviews is shown below:



Satellite Office

In fiscal year 2016, TRS opened a small satellite office called Teacher Retirement Investment Company of Texas Ltd., (TRICOT), a private limited company incorporated in the United Kingdom.

TRICOT’s primary purpose is to increase the size and number of investment opportunities for the TRS portfolio, especially in private equity funds, real assets funds, and co-investments for either of those investment types. TRICOT helps support the sourcing and portfolio management of TRS’ \$10 billion in exposure to private investments in Europe through 80 investment vehicles and 30 manager relationships.

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

See Section VII.G for Benefit Services.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

Other than the delegated authority of external investment managers to invest and manage TRS Trust assets, there are no programs, internal or external to TRS that provide identical or similar services or functions to the exact target population (employees of Texas public education and higher education systems).

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency’s customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

Because the trust fund exists to serve a specific population, duplication with other investment programs is not an issue.

J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.

Apart from legislative oversight, Investment Management is not coordinated with or linked to other Governmental entities.

K. If contracted expenditures are made through this program please provide

- **a short summary of the general purpose of those contracts overall;**

IMD uses contractual services for office space and related costs, professional consulting for investment services, research/data used to evaluate and monitor investments, software maintenance used to track investments, and performance.

The methods of finance for Investment Management contracts consists of operating expense funds and trust-level funds. Trust-level funds differ from operating expense funds in that they are either directly or indirectly netted against investment performance, which includes commission credits. Contracts paid for with trust-level funds are not paid through the Comptroller of Public Accounts via the Uniform Statewide Accounting System.

- **the amount of those expenditures in fiscal year 2018;**

The total spent in fiscal year 2018 in contracts paid for out of operating expense funds was \$4,424,744.

- **the number of contracts accounting for those expenditures;**

177 contracts

- **the method used to procure contracts;**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Below are the top five contracts paid for with operating expense funds.

Cousins 816 Congress LLC (\$22,032,584) – Lease for 816 Congress to sit the TRS Investment Management Division and some direct support staff such as attorneys, investment accountants, and communications professionals

Cousins 816 Congress LLC (\$2,634,154) – Lease for 14th floor space at 816 Congress

Institutional Shareholder Services (\$314,070) – Proxy Voting Services

Canon USA Inc (\$124,112) – Printer/Copier lease

Canon USA Inc (\$77,042) – Printer/Copier lease

Below are the top five largest contracts approved by the Board of Trustees and paid for with trust-level funds.

State Street Bank and Trust Company (\$110,000,000) – Custody agreement and securities lending

Hamilton Lane Advisors LLC (\$9,133,333) – Private Equity advisory services

Hewitt Ennis Knupp, Inc. (\$9,850,000) – Board advisor on investment matters

The Townsend Group (\$4,800,000) – Real Assets advisory services

Albourne America, LLC (\$3,200,000) – Investment consulting and advisory services

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations.

- **a short description of any current contracting problems.**

IMD has not experienced any material contracting problems or issues.

L. Provide information on any grants awarded by the program.

IMD does not award grants.

M. Are there any barriers or challenges that impede the program's performance, including any outdated or ineffective state laws? Explain.

Please see Section IX. Major Issues.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

In 2016, an external independent review was conducted by an external consultant on behalf of the State Auditor's Office (SAO) to specifically focus on the effectiveness of the Real Assets investment program. See Attachment 19.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe why the regulation is needed;

- the scope of, and procedures for, inspections or audits of regulated entities;
- follow-up activities conducted when non-compliance is identified;
- sanctions available to the agency to ensure compliance; and
- procedures for handling consumer/public complaints against regulated entities.

No regulatory programs are associated with IMD.

P. For each regulatory program, if applicable, provide detailed information on complaint investigation and resolution. Please adjust the chart headings as needed to better reflect your agency's particular programs. If necessary to understand the data, please include a brief description of the methodology supporting each measure.

Not applicable. Exhibit 13 deleted.

Health and Insurance Benefits and Long-term Care Insurance Program

Complete this section for **each** agency program (or each agency function, activity, or service if more appropriate). Copy and paste questions A through P as many times as needed to discuss each program, activity, or function. Contact Sunset staff with any questions about applying this section to your agency.

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Health and Insurance Benefits and Long-term Care Insurance Program (HIB)

Location/Division: TRS Headquarters, 1000 Red River Street, Austin, Texas

Contact Name: Katrina Daniel, Chief Healthcare Officer

Statutory Citation for Program: Chapter 1575, Texas Government Code (TRS-Care); Chapter 1579, Texas Government Code (TRS-ActiveCare); and Chapter 1576, Texas Government Code (Long-term Care Insurance Program)

B. What is the objective of this program or function? Describe the major activities performed under this program.

TRS strives to provide high-value health benefits that help members maintain and improve their quality of life. This includes ensuring access to high-quality providers at the best possible prices and offering programs that help members manage and mitigate chronic health conditions.

TRS offers plans designed to meet the needs of our members. For active employees this includes a high deductible plan as well as coverage that has lower deductibles with a more targeted network of providers through TRS-ActiveCare Select.

OVERVIEW OF TRS HEALTH & LONG-TERM CARE PROGRAMS

Population	Programs	Description	Enrollment
Active Employee Coverage <i>Aug. 31, 2018</i>	TRS-ActiveCare 1-HD	A high deductible health plan (HDHP) that is compliant with Internal Revenue Service rules regarding health savings accounts (HSAs). TRS does not contribute HSA funding but school districts and members have the option.	254,454
	TRS-ActiveCare-Select	An exclusive provider organization (EPO) plan with in-network benefits only. The network of providers available is based on the geographic area of residence. There are currently five accountable care organizations for the Austin, Dallas/Fort Worth, Houston and San Antonio areas. There is one Select Open Access option for the remainder of the state of Texas.	108,193
	TRS-ActiveCare-2	A preferred provider organization (PPO) plan. After Sept 1, 2018, new enrollment closed for this plan.	69,879
	Regional HMOs	Fully insured products offered in certain areas of the state by three different plans. TRS pays the HMO premiums instead of directly paying for claims out of the fund.	53,371
Retiree Health Coverage <i>Dec. 31, 2018</i>	TRS-Care-Standard	A high-deductible medical and drug coverage plan for participants without Medicare.	68,090
	TRS-Care Medicare Advantage and TRS-Care Medicare Rx	Medical and prescription drug coverage for participants with Medicare.	161,481
	Care-Alternative	A plan for certain retirees and their dependents who are eligible but not enrolled in Medicare.	3,763
TRS Members and Dependents <i>Aug. 31, 2018</i>	Long-term Care Insurance	Provides long-term care insurance for individuals when individuals are unable to care for themselves.	7,402 policies in-force.

The major activities associated with these programs include:

Competitive Procurement

TRS monitors market trends, plan financial performance, and member satisfaction with services provided. TRS uses this information to hold its vendors accountable for meeting contract terms and obtaining TRS goals. TRS, for example, audits 100 percent of claims using a third-party claim auditor to ensure that payments are made only for eligible expenses. When indicators suggest that the TRS could obtain better terms, TRS renegotiates and amends its contracts or places them out for bid. In 2019, for example, TRS initiated a re-procurement of its pharmacy benefit services contract and realized \$450 million in savings over the first two years of the contract.

TRS also works collaboratively with its vendors and providers to drive improvements in value. In four of Texas' largest metro areas, TRS offers members the ability to enroll in accountable care organizations (ACOs). By selecting this option, members enroll in a plan with a lower deductible and lower cost sharing for office visits. The ACOs offer smaller, more targeted networks that are coordinated through primary care physicians. TRS is evaluating the experience of these ACOs to make decisions about how to best provide care to other regions of the state.

Better Health Outcomes

Across activities, TRS leverages its access to large data sets to inform decision making. TRS, for example, has identified high-cost drugs that offer minimal improvements in effectiveness. To ensure that members have access to the best-value care, TRS has worked with its vendors to implement clinical criteria to manage these pharmacy costs. TRS, for example, implemented a program to review prescription patterns for the opportunity to improve care at a lower cost. The program reviews claims to identify situations where pharmacist can assist prescribers in selecting the most appropriate medications. In fiscal year 2018, TRS generated an estimated \$10.5 million in net savings for the TRS-ActiveCare program and \$5.1 million in savings for members in reduced pharmacy costs. A majority of savings came from identifying duplication of prescriptions within the same therapeutic class. TRS also recently identified higher than average utilization of a free-standing emergency room. A lack of in-network urgent care clinics in some areas of the state contributed to this problem. TRS worked with its vendors to expand in-network options—improving access and lowering the costs for after-hours and emergency care visits to both members and the plan.

TRS also uses health care data to inform benefit design for high-risk populations. TRS' vendors all have disease management programs that assist participants in managing complex and chronic conditions and achieve health goals. Certain generic medications are available at no cost share to participants in TRS' high deductible health plans to eliminate financial barriers that may exist for patients, which can prevent the onset or worsening of health conditions.

Customer Service Delivery

Ensuring our members have a positive and seamless customer service experience when they engage with TRS is a primary goal. The Health and Insurance Department has worked closely with the Benefit Services Department to train counselors to handle common health benefit questions. Health benefit counselors in the Health and Insurance Benefit Department handle more complex questions related to health care and enroll eligible TRS retirees in TRS-Care coverage. TRS relies on its third-party administrators (TPAs) to process claims, contract with providers, fight fraud and requires its TPAs to meet performance metrics.

TRS' TPA also performs eligibility and enrollment functions for active employees who receive coverage through TRS-ActiveCare and handles the vast majority of member inquiries for that program.

To ensure members' TRS-Care applications and other requests are processed timely and that they receive consistent, accurate information, all counselors undergo intensive training on TRS-Care eligibility requirements and health benefits available under the program. Before taking member calls and processing member requests on their own, new counselors shadow senior counselors for two to three weeks. Counselors also receive refresher trainings on a routine and ad hoc basis, and management holds regular staff briefings to share information about trends in member questions and operational developments. TRS monitors data on the volume of applications, phone calls, and escalated inquiries it receives and assesses key metrics such as turnaround time and abandonment rates for telephone calls.

TRS also provides comprehensive information to its members about the health benefits available to members. TRS updates its plan guides, coverage summaries, and benefit booklets each year and makes them available online and sends them to members enrolling TRS-Care upon retirement. Each year, TRS works to inform active employees of their plan options and any changes to their benefits before they leave for summer. TRS provide benefit administrators (BAs) materials they can adapt and use at schools in their districts including posters with space for them to add their annual enrollment dates, plan highlights with blanks for their specific premiums, digital toolkits for employee intranet websites, an employee benefits presentation and many other tools. In addition, TRS sends information out each month via email about active employee and retiree health benefits through *The Pulse*.

TRS also solicits input from retirees and integrates input from stakeholders to strategically manage the program, specifically in how it communicates about health benefits to members.

TRS seeks feedback from the TRS-Care Retiree Advisory Committee through formal meeting held twice a year, and outside of meetings, seeks input from the committee on its member communications. The committee is composed of seven members, including active and retired teachers and administrators.

TRS includes questions about health benefits in its member satisfaction survey, and TRS surveyed TRS-ActiveCare districts in 2015 and 2016 to assess program operations and collect information about district contributions to TRS-ActiveCare premiums, and in 2018, TRS, through its TPA, implemented a new enrollment platform to collect contribution data. Benefit Administrators (BAs) at school districts serve as liaisons to active employees, and each year, TRS surveys BAs to assess the training TRS provides and gather information about their needs. TRS' vendors also carry out surveys to measure customer service performance and are required to meet contractual customer service metrics.

Through annual in-person meetings each fall, retirees provide TRS with important feedback and insight into their perceptions of their health benefits and their level of health literacy. TRS drafts articles to address the top questions from the meetings, and monitors other channels such as social media, email, and phone calls on an ongoing basis to identify health care-related knowledge gaps and address them in the information provided to retirees.

Rates and Plan Design

TRS works with its actuaries to forecast financial trends and estimate funding needs. This process entails significant analysis and coordination to ensure that plan design changes maintain and encourage the use of high-value care, revenues are sufficient to pay claims, Legislative changes and directives have been incorporated, and the board has adequate information to make decisions.

Engaging Policymakers

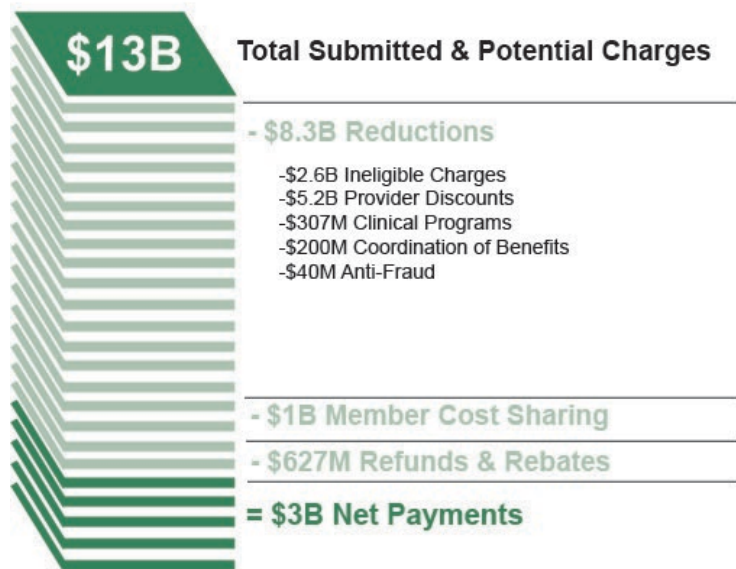
Each legislative session and throughout the interim, TRS works to serve as a trusted resource for the legislature to ensure that members have access to accurate and timely information when making decisions that impact TRS members. TRS provides reports on options associated with the sustainability and affordability of TRS health care programs to the legislature. These reports have outlined fiscal issues along with potential changes to contributions and plan designs to address challenges.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? In Exhibit 12, provide a list of statistics and performance measures that best convey the effectiveness and efficiency of this program or function. Also, please provide the calculation or methodology behind each statistic or performance measure. Please do not repeat measures listed in Exhibit 2 unless necessary to understand the program or function.

TRS provides health insurance coverage to 719,231 people, including 308,259 public education employees and 192,517 retirees. This large size empowers TRS to offer self-insured plans and avoid higher levels of administrative costs. In fiscal year 2018, only 3.55 percent of health-related expenses at TRS were for administrative costs. This cost savings is passed onto employees and school districts, ensuring that more than 96 percent of expenses go towards providing medical care.

The size and statewide financing provided by TRS also improves the financial stability and ability of employees and retirees to have more equitable access to care across the state. TRS-ActiveCare was created by the legislature in 2001 due, in large part, to concerns about inequitable access to health care across school districts. The use of statewide rate setting and financing spreads the risk of catastrophic claims across districts. As a result, school districts have greater predictability and stability in costs, even when their costs exceed contributions in a given year. In fiscal year 2018, more than 90 percent of school districts participated in TRS-ActiveCare.

The size of TRS' membership also enables TRS to negotiate larger discounts with providers. In fiscal year 2018, providers submitted \$12.5 billion in charges. TRS reduced the cost of care by \$5.2 billion by negotiating lower prices with providers through its third-party administrators.

TRS reduced plan costs by \$10 billion in FY18

As employees approach retirement, TRS works with members to help them understand their coverage options and transition into plans that fit their needs. This education and counseling is coordinated with pension and retirement counseling—providing for an easier member experience. Many retirees first enroll in TRS-Care Standard, a program for retirees who have not yet reached Medicare retirement age. When members are later eligible for Medicare, TRS helps them enroll. TRS' Medicare Advantage plan provides enhanced coverage that protects members against gaps typically present in other Medicare plans. This long-term relationship, spanning from employment to retirement, provides a unique opportunity to drive improvements in care. Investments in members' health today will impact their quality of life and the financial health of both members and the TRS trust funds in the future.

Initiatives focused on long-term health, such as member education, wellness benefits, and quality initiatives can all be implemented and tracked over the long run. This reduces implementation costs and improves the effectiveness of interventions. Initiatives that require member education, for example, are more effective due to the strong relationship TRS has with its members. Data analysis is also more cost-effective on a larger scale and benefits from the size and rich historical data set maintained by TRS.

Funding constraints do create challenges for the agency and its members. As the cost of health care has outpaced state contributions, member cost sharing has increased. In school districts that make the statutory minimum contribution towards premiums for active employees enrolled in TRS-ActiveCare, the employee share of premiums has more than doubled since 2003. Many districts do opt to pay more than the minimum contribution per employee, however the statutory minimum and state contribution has not changed since the program was implemented in 2003. As a result, the TRS Board of Trustees has had to make plan changes and premium increases to sustain the program.

TRS-Care has also experienced funding constraints. TRS-Care funding is linked to active public school and charter school employee payrolls and not to actual health care costs. Contribution rates remained the same from 2005 to 2017. As a result, funding failed to keep pace with health care expenses. A November 2016 report by the Joint Interim Committee to Study TRS Health Benefit Plans projected that TRS-Care would incur a \$1.3 to \$1.5 billion shortfall for the 2018-19 biennium and a \$4 to \$6 billion shortfall for the 2020-21 biennium.

Based on the recommendations of the Interim Committee, the legislature made significant changes to TRS-Care plans and funding in order to keep TRS-Care solvent. State and Districts contributions both increased, as shown in the following table.

FORMULA FUNDING SOURCE CHANGES FOR TRS-CARE

	Fiscal Year 2017	Fiscal Year 2018
Active Employee	0.65%	0.65%
School District	0.55%	0.75%
State	1.00%	1.25%

Contributions are shown as a percentage of public education employee payroll.

Costs for retirees also increased. The 2017 legislation directed TRS to eliminate the basic, \$0 member premium coverage under TRS-Care (except for certain disability retirees enrolled during Plan Years 2018 through 2021). After the changes, members were required to contribute at least \$200 per month toward their health insurance premiums. On average, per retiree contribution rates to TRS-Care increased by 47 percent. Additionally, plan benefits were reduced for the majority of plan participants with increased deductibles, copays and maximum out-of-pocket limits. The legislation also created a Medicare Advantage plan and Medicare prescription drug plan for enrollees eligible for Medicare.

This transition generated challenges for members and TRS. TRS worked proactively to inform members about the changes before they occurred to empower effective decision making. As a result of investments in outreach, TRS made an average of 16 communications per member during the plan changes. TRS experienced increases in call volumes in advance of enrollment deadlines, facilitating proactive member assistance and decision making.

Similarly, TRS communicates rate changes for TRS-ActiveCare in April before September rate changes. This gives districts time to make decisions about employee subsidies during their budget process. TRS also works to communicate changes, as well as health information, directly to members. TRS launched a mobile application for school district employees in April 2019 and manages an email distribution list for members and interested parties in either program. More than 190,000 thousand people receive TRS' monthly health care e-newsletter, The Pulse. The level of engagement with these TRS communications exceed industry averages. Approximately 28 percent of recipients open The Pulse compared to 26 percent for government agencies and 21 percent for the insurance industry.

During the transition period, TRS augmented staff capacity with external call center staff. Despite these additions, the high-volumes of calls created a challenge for the agency. Hold-times and call abandonment rates increased in excess of TRS targets. After the plan changes, call volumes have decreased as have wait times and abandonment rates. TRS is also making investments in customer service. This includes hiring additional staff to handle calls, redesigning business processes, and modernizing its software tools.

In addition to requiring members to transition into new plans, recent benefit changes have increased member cost sharing. In 2019, Texas A&M surveyed members on behalf of TRS. When asked what would improve TRS-Care and TRS-ActiveCare, the most common responses were lower deductibles, out-of-pocket expenditures, and lower premiums. Consistent with national surveys of employees enrolled in high deductible plans that lack of first-dollar coverage, many active employees expressed concerns about the value of their coverage.

Yet even in the midst of these challenges, most members who interacted directly with TRS reported they were generally satisfied with the interaction. Retirees enrolled in TRS-Care overwhelmingly see its value. Seventy-nine percent of retirees enrolled in TRS-Care found their benefits valuable, with 29 percent describing them as very valuable. Both retirees and active plan members who visited the TRS website or read The Pulse described the resources as helpful.

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent. If the response to Section III of this report is sufficient, please leave this section blank.

Prior to the creation of TRS-ActiveCare, comparability studies conducted by TRS on behalf of the Texas Legislature indicated many Texas public school employees did not have affordable health coverage that was comparable to the coverage offered to state employees. Seventeen school districts offered no health insurance to their employees and 46 percent did not offer comparable coverage. TRS-ActiveCare was designed to provide comparable and additional coverage choices to all eligible employees of participating school districts.

Consistent with this goal, statute required TRS to make a benefit plan similar to the Uniform Group Insurance Program (UGIP) for state employees available to public education employees. As originally enacted, TRS was required to offer a basic plan as well as a more comprehensive plan similar to the UGIP. The basic plan was funded at an amount within \$25 per member of the UGIP. Public education employees also received a \$1,000 per month raise so that they could afford the more comprehensive plan, elect coverage outside of TRS, or use the funding for other purposes. Because funding per member has subsequently lagged behind funding for the UGIP, the TRS option comparable to UGIP became unaffordable to many TRS members. The requirement was eliminated in 2013 (HB 3357, 83rd Legislature, Regular Session).

Although comparability with the UGIP has decreased, participation since inception has increased. When TRS-ActiveCare was created, participation was mandatory for districts with fewer than 500 employees. The program later expanded to include larger districts. Currently, once an entity elects to participate, they cannot

opt out. This provision improves the affordability of premiums by preventing the program from covering a disproportionate share of school districts with higher than average costs.

TRS-Care was required, through legislative directives, to offer a premium-free plan option and hold retiree premiums constant. The requirement to hold premiums constant was in place between 2005 and 2017. During the 85th Legislature, the legislature enacted HB 3976, requiring TRS to eliminate the premium-free option (except for certain individuals receiving disability retirement) and allowing TRS to increase premiums.

E. List any qualifications or eligibility requirements for persons or entities affected by this program, such as licensees, consumers, landowners, for example. Provide a statistical breakdown of persons or entities affected.

TRS-ActiveCare includes eligible full-time and part-time employees of participating districts, open enrollment charter schools, regional education service centers, and other educational districts. Teachers, administrative personnel, substitutes, bus drivers, librarians, crossing guards, cafeteria workers, and high school or college students are all eligible for coverage if they are employees of the participating entity, not volunteers, and are either active contributing TRS members or are employed by a participating entity for 10 or more regularly scheduled hours each week. Independent contractors, and volunteers are not employees and are therefore not eligible for TRS-ActiveCare coverage.

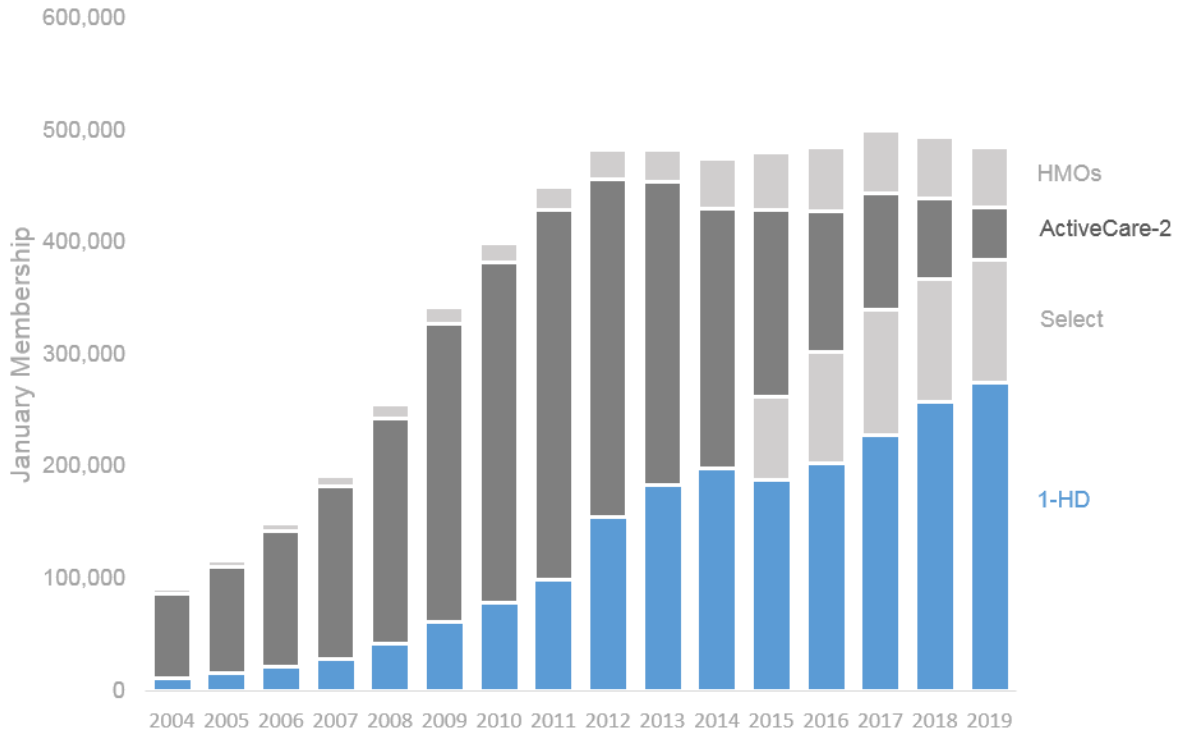
TRS-ActiveCare offers a choice of three plan options: 1) TRS-ActiveCare 1-HD, a high deductible health plan (HDHP) that is health savings account (HSA) compliant; 2) TRS-ActiveCare 2, a preferred provider organization (PPO) plan; and 3) TRS-ActiveCare Select, an exclusive provider option (EPO) plan with in-network benefits only. The network of providers available with the TRS-ActiveCare Select plan is based upon the geographic area of residence. There are currently a total of networks for the Austin, Dallas/Fort Worth, Houston and San Antonio areas; and one Select Open Access option for the remainder of the state of Texas. Also, alternative coverage under health maintenance organizations (HMOs) is available in certain service areas of Texas to eligible TRS-ActiveCare participants.

TRS-ActiveCare Enrollment Aug. 31, 2018

	1 HD	Select	TRS ActiveCare 2	HMOs
Employees	175,745	64,706	40,578	27,230
Dependents	78,709	43,487	29,301	26,141
Total	254,454	108,193	69,879	53,371

Total enrollment increased substantially between 2004 and 2012. Enrollment has also migrated towards the high deductible plan.

Enrollment by Plan and Year



Note: Prior to 2015, the ActiveCare-2 category above also includes a prior plan known as ActiveCare-3.

To be eligible for TRS-Care, a retiree cannot be eligible for Employees Retirement System (ERS), University of Texas System (UT System), or Texas A&M System health care coverage. Additionally, a service retiree must have at least 10 years of service credit in TRS at the time of retirement. This service credit may include up to five years of military service credit; but it may not include any other purchased special or equivalent service credit. In addition, retirees must meet one of the following requirements at retirement:

- the sum of age and years of service credit in TRS equals or exceeds 80 (with at least 10 years of service credit), regardless of whether the member had a reduction in the retirement annuity for early-age (years of service credit can include all purchased service); Or,
- have 30 or more years of service credit in TRS (including purchased service).

Disability retirees are eligible initially for TRS-Care at any age. TRS-Care coverage for disability retirees who have less than 10.0 years of TRS service credit ends when the disability retirement benefit ends.

In most situations, retirees and surviving spouses cannot re-enroll in TRS-Care after declining coverage. However, retirees and surviving spouses may re-enroll in TRS-Care when they turn 65 or if they have a special enrollment event, which are rare. There are two types or areas of special enrollment: 1) an individual becomes a new dependent; and 2) an involuntary loss of comprehensive coverage. These eligibility rules are intended to prevent adverse selection—a situation in which individuals with above average costs disproportionately select TRS coverage.

The alternative medical plan is for individuals who are eligible for TRS-Care and Medicare but do not have reasonable access to a particular provider, or do not have Medicare Part B and the individual's ability to obtain Medicare Part B is cost prohibitive, as determined by TRS (34 Texas Administrative Code Section 41.12). Participants cannot elect to enroll in the TRS-Care Alternative plan. Instead, TRS will directly contact participants who meet the eligibility criteria and will be enrolled in the TRS-Care Alternative plan. This plan includes certain individuals with end stage renal disease (ESRD).

TRS-CARE ENROLLMENT DEC. 31, 2018

	TRS-Care Standard	TRS-Care Alt Medical	TRS-Medicare Advantage
Retirees	50,354	3,475	138,688
Dependents	17,736	288	22,793
TOTAL	68,090	3,763	161,481

TRS also offers long-term care insurance. The plan pays benefits if:

- 1) The participant becomes unable to perform at least two activities of daily living without substantial assistance from another person; Or,
- 2) The participant experiences a severe cognitive impairment that requires supervision or verbal direction from another person in order to protect the member or others from serious injury.

Employees in their first TRS-covered position have 90 days beginning on their employment date to apply for long-term care coverage with reduced medical underwriting, depending on their age. Current, active TRS members and their spouses may apply for coverage with full medical underwriting at any time. Retired TRS members and their spouses under age 76 may apply for this coverage at any time with full medical underwriting. Other eligible family members may also apply for this coverage with full medical underwriting. As of Aug. 31, 2018, there were approximately 7,402 policies in-force. In the recent years, the number of carriers offering long-term care insurance has decreased significantly. Long-term care policies have seen a significant increase in rates and decrease benefits. As a result, there is a limited ability for TRS to negotiate more favorable coverage than individuals can purchase in the broader market.

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

In TRS-ActiveCare, annual enrollment takes place in the summer. The board approves upcoming plan year benefits at their spring meeting. After that, TRS and medical, prescription and enrollment vendors conduct training at each Education Service Center Region. In between the board decision and annual enrollment, TRS works with the medical benefit vendor to produce enrollment materials such as employee presentations, guides, handouts, videos, and decision-making tools. Each district determines their enrollment process and dates within guidelines set by TRS. All districts use a third-party administrator for their enrollment platform and for administering non-health benefits. Once an employee enrolls, the enrollment data goes back to the enrollment vendor, who then sends it to TRS.

The TRS board approves rate and benefit changes to TRS-Care each summer for the upcoming plan year, which starts in January. However, TRS-Care does not have an annual enrollment. Most participants enroll when they retire. At retirement, if TRS staff identifies a retiree as eligible for TRS-Care, TRS sends the member a form to enroll. If the individual declines coverage, they can enroll later if they experience a special enrollment event.

If the participant is eligible for Medicare, or becomes eligible while enrolled in TRS-Care, they must sign up for Medicare Parts A and B. If they are not eligible for premium-free Part A, they only need to purchase and maintain Part B. Once they enroll in Part B, they must send TRS their Medicare number.

After members are enrolled in self-insured products, medical and pharmacy vendors process and pay claims and submit monthly invoices to TRS. For fully-insured products, TRS remits premium payments to the vendors who pay claims and develop rate proposals independent of TRS.

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

TRS-Care

The program is financed on a pay-as-you go basis, benefits are contingent on funding availability. The TRS-Care program is funded by participant premiums, federal subsidies earned from Retiree Drug Subsidy payments and Medicare Part D subsidy payments, investment income, and regular payroll contributions from the state, active employees, and school districts. Payroll contributions to TRS-Care are fixed percentages of school district employee salaries set by statute and the General Appropriations Act, including at least 1.25 percent from the state, 0.75 percent from school districts, and 0.65 percent from active employees (Texas Insurance Code Sections 1575.202-1757.204).

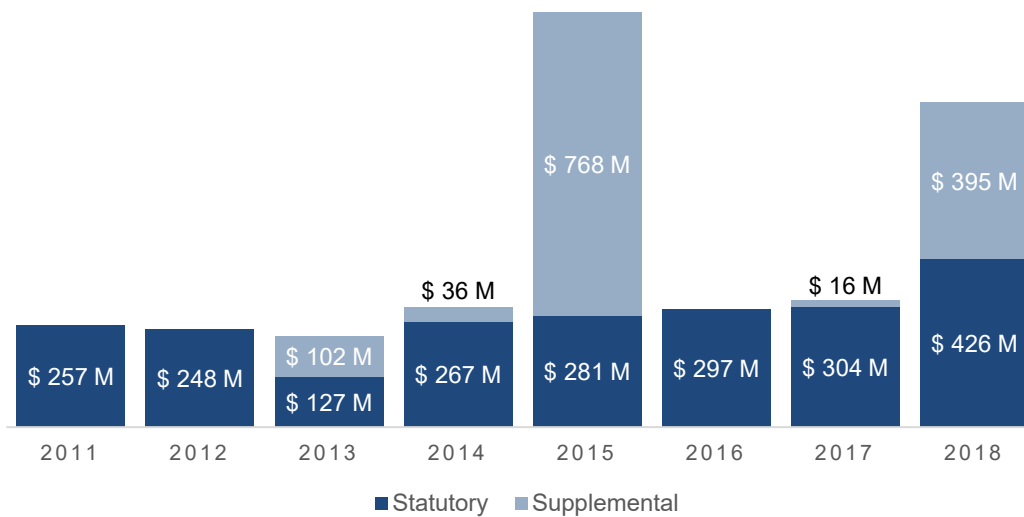
TRS-CARE CONTRIBUTIONS, FISCAL 2018

Source	Amount
Retirees	\$488,069,004
State Statutory Contribution (Includes General Revenue)	\$425,625,726
State Supplemental (General Revenue)	\$394,600,000
Local Districts	\$266,061,322
Active Employees	\$221,325,377
Rebates/Part D & ERRP Subsidies	\$183,159,406
Investment Income	\$10,930,281

Source: GRS Fund Balance History

Because health care expenses have outpaced public school employee payroll, TRS has requested and received supplemental appropriations of state general revenues to meet funding shortfalls.

STATE CONTRIBUTIONS FOR TRS-CARE, FISCAL 2011-2018



Source: GRS Fund Balance History

TRS-ActiveCare

TRS-ACTIVECARE CONTRIBUTIONS, FISCAL 2018

Source	Amount
Active Employees	\$1,169,880,330
Local Districts	\$511,952,491
State	\$255,976,246
HMO Premium Revenue	\$240,682,840
Investment & Other Income	\$7,143,289

Source: GRS Fund Balance History. Local district contribution is based on an assumption of \$150 per person.

The program is financed on a pay-as-you go basis. State law (Texas Insurance Code Section 1579.251) requires a minimum contribution by the state of \$75 per employee per month, which is distributed through the Foundation School Program to schools. Districts are required to contribute a minimum of \$150 per employee per month toward the premiums of participating members and remit at least the \$150 contribution with the \$75 state contribution to TRS. The combined minimum contributions of \$225 has not changed since the program began in 2002. Districts that participate in TRS-ActiveCare can contribute more than the minimum to reduce employee premiums.

Long-term Care Insurance

Section 1576.005(b) of the Texas Insurance Code prohibits any state contribution towards the premiums for this program. As such, the plan is available on an enrollee-pay-all basis.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

TRS Health Insurance Benefits is the sole state agency and TRS-Division responsible for providing health insurance to TRS retirees and active employees at participating school districts.

There are some entities within Texas that offer similar health coverage for non-eligible employees. Some large schools districts that do not participate in TRS-ActiveCare provide health benefits to their employees through alternative products.

Given the changes in the long-term care market, the benefit of offering group long-term care insurance has eroded and individuals may be able buy products comparable outside TRS.

- I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Some health plan participants covered by TRS have additional health insurance through Medicare, employers, TriCare, and other entities. TRS utilizes industry standard practices to determine appropriate payment of claims when multiple sources of coverage exist.

- J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

TRS works with nearly 1,100 local school districts to manage enrollment, process premium contributions, engage members, and provide information as needed. TRS also works in coordination with the Centers for Medicare and Medicaid Services (CMS) in offering Medicare Advantage coverage to retirees.

- K. If contracted expenditures are made through this program please provide**

- **a short summary of the general purpose of those contracts overall;**

The majority of contract expenditures for health benefit services are related to administrative services of health and pharmacy benefits. Vendors process claims and develop provider networks on behalf of TRS. In addition, TRS remits payments to certain vendors for fully-insured products, such as health maintenance organizations (HMOs) in TRS-ActiveCare and Medicare Advantage in TRS-Care.

- **the amount of those expenditures in fiscal year 2018;**

The total spent on contracts for fiscal year 2018 was \$166,771,296.

- **the number of contracts accounting for those expenditures;**

22

- **the method used to procure contracts;**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Aetna Inc. (\$447,000,000) – TRS-ActiveCare Health Plan Administration fees.

Aetna, Inc. (\$69,000,000) – TRS-Care Health Plan Administration fees.

Silverscript Insurance Company (\$21,000,000) – TRS-Care Pharmacy Benefit Manager administrative fees.

Caremark, Inc. (\$9,800,000) – TRS-ActiveCare Pharmacy Benefit Manager administrative fees.

Caremark, Inc. (\$3,270,000) – TRS-Care Pharmacy Benefit Manager administrative fees.

The fiscal year 2018 contract expenditure amounts and the above contracts exclude claims and premiums.

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations.

- **a short description of any current contracting problems.**

Additional staff resources with adequate industry knowledge may enhance contract terms that favor TRS and monitoring of contract terms to ensure delivery of all contracted services.

L. Provide information on any grants awarded by the program.

HIB does not award grants.

M. Are there any barriers or challenges that impede the program's performance, including any outdated or ineffective state laws? Explain.

Please see Section IX. Major Issues.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

In accordance with Texas Insurance Code Sections 1579.254 and 1575.301, funding for TRS-ActiveCare and TRS-Care is held within and managed through two separate trust funds. The TRS Board of Trustees is bound by common law of fiduciary duty. This includes a duty of loyalty and care. Trustees must act solely

in the best interest of the fund and the TRS members, retirees, and beneficiaries. Trustees must also use reasonable efforts and diligence in serving the beneficiary.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe

- **why the regulation is needed;**
- **the scope of, and procedures for, inspections or audits of regulated entities;**
- **follow-up activities conducted when non-compliance is identified;**
- **sanctions available to the agency to ensure compliance; and**
- **procedures for handling consumer/public complaints against regulated entities.**

No regulatory programs are associated with HIB.

P. For each regulatory program, if applicable, provide detailed information on complaint investigation and resolution. Please adjust the chart headings as needed to better reflect your agency's particular programs. If necessary to understand the data, please include a brief description of the methodology supporting each measure.

Not applicable. Exhibit 13 deleted.

Executive Support

Internal Audit, Strategy, Legal & Compliance, and Government Relations

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Executive Support

Location/Division: TRS Headquarters, 1000 Red River Street, Austin, Texas

Contact Name: Brian Guthrie, Executive Director

Statutory Citation for Program: Chapters 825, Subchapter B. Powers and Duties of Board of Trustees, Texas Government Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

TRS executive management consists of the Executive Director, the Chief Operations and Administrative Officer, and related administrative staff. Executive management are the principle agency liaisons to the board of trustees as well as the primary representatives of TRS to the legislature and statewide elected leadership. Additionally, executive management provides strategic direction and operational oversight to all functions of the organization. Reporting directly to the Executive Director are the Chief Audit Executive (reports administratively to the Executive Director and also reports to the Audit, Compliance, and Ethics Committee of the board and the board of trustees), the Chief Strategy Officer, General Counsel, and Director of Governmental Relations. Executive Support consists of a variety of oversight functions such as Internal Audit, Strategy, Legal & Compliance, and Governmental Relations.

Internal Audit

Internal Audit provides independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit's core service functions include the following:

- Assurance services – Internal Audit conducts independent and objective risk-based audits that provide assurance to the Audit, Compliance, and Ethics Committee and executive management in the areas of governance, risk management, and controls.
- Consulting services – In collaboration with management, Internal Audit conducts formal assessments and makes recommendations on ways to add value and improve the organization's governance, risk management, and control processes.

- Advisory services – Internal Audit serves in an advisory role in committees, policy design, and surveying to assist management and provide insight on risk management, governance, and control processes.

Strategy

Strategy consists of Communications and Strategic Initiatives (SI). Communications offers full service, innovative and effective solutions for communicating with TRS members and other stakeholders. Communications manages media relations, social media, print publications, website design/content, member outreach and engagement, and website accessibility. Specific Communications functions include the following:

- Media Relations – Issuing press releases, responding to media inquiries, coordinating editorial board visits, arranging media interviews, and writing Op-Ed pieces as needed.
- Member and Stakeholder Communications – Developing and executing on a messaging calendar using different mediums to ensure TRS is communicating regularly and comprehensively with members and other stakeholders. Coordinating the publication and distribution of TRS member and retiree newsletters (*TRS News*) and reporting entity newsletters (*TRS Update*).
- Social Media Management – Developing and updating the TRS Social Media Policy, coordinating activities of the agency’s Social Media Advisory Committee, posting information to TRS’ social media sites and responding to comments as needed.
- Publications – Writing, publishing and distributing the TRS Benefits Handbook, as well as all pension-related brochures, booklets and other publications. Assisting in the design, editing, publishing, and distribution of the TRS Comprehensive Annual Financial Report (and Annual Report Summary) for TRS Finance.
- Board Communications – Providing trustee training on external communications. Develop, update, and train trustees on the Board of Trustees External Communications Policy. Oversee production and webcasting of all TRS Board meetings.

SI provides strategic planning, enterprise risk management, and continuous improvement services to the organization. Specific functions in SI include the following:

- Enterprise-wide Strategic Planning – Facilitating enterprise-wide strategic planning to include environmental scanning for threats and opportunities; developing strategic goals, objectives, and strategies along with key performance indicators (KPIs); working to align resources and departments around strategic initiatives; and conducting “results forums,” which are executive and board level forums to monitor strategy execution and performance metrics.
- Department-level Strategic Planning – Offering strategic planning consulting services to TRS departments to guide in the development of strategic initiatives that cascade off the enterprise-wide plan. Facilitating the identification, development, and monitoring of KPIs which are critical measures of progress toward an intended result.

- Risk Assessment & Mitigation Planning – Coordinating cross-functional assessment sessions to identify strategic, operational, compliance, and financial risks and mitigations. Evaluating and assisting management and staff with strengthening existing mitigations and/or developing action plans for new mitigations. Providing completed risk reports to business units for ongoing monitoring and discussion in the Risk Oversight Committee (ROC), an executive level forum for discussing and reporting of risk and mitigation strategies.
- Continuous Improvement – Using an integrated Theory of Constraints and Lean Six Sigma methodology to map out current state business processes and quickly identify constraints and inefficiencies within business units. The approach allows staff to maximize the capacity of business processes by identifying opportunities for improvement and hidden inefficiencies.

Legal & Compliance

Legal & Compliance (L&C) acts as trusted legal advisors to TRS' trustees and staff. L&C provides legal services to other TRS divisions and departments, including executive management and operational business units. The General Counsel, Chief Compliance Officer, and outside Fiduciary Counsel also provide legal services to the board of trustees.

L&C's objective is to consistently provide dependable, comprehensive legal advice and counsel that enables sound decision making by TRS trustees and staff, and that reinforces L&C's role as a trusted business partner. L&C staff performs the following major activities:

- Pension Benefits and Administrative Hearings – Working directly with TRS members when responding to requests for member account information or processing legal orders, such as Qualified Domestic Relations Orders (“QDROs”); representing the pension plan in administrative hearings on member appeals at the State Office of Administrative Hearings (SOAH) and assisting the Office of the Attorney General with state and federal court litigation that involves the pension plan; researching, interpreting, and advising on legal matters related to pension plan administration.
- Investment Counsel – Preparing and negotiating investment transaction documents; providing advice and representation in investment-related litigation, including monitoring, reviewing, and managing investment-related litigation matters, such as securities class action cases and direct “opt-out” litigation;
- Health Care Counsel – Assisting with program design, publications, and forms for TRS-Care and TRS-ActiveCare; assisting with TRS-ActiveCare eligibility hearings; researching, interpreting, and advising on legal matters related to health care plan administration.
- Employment Law Counsel – Advising Organizational Excellence and executive management on employment and immigration law related issues arising under state, federal, and international laws; advising on tax issues affecting TRS as an employer.
- Administrative Legal Counsel – Providing general legal counsel and representation to the operational business units and executive management, and processing and responding to public information requests; drafting and advising on proposed legislation and agency rules.

- Tax Counsel - Providing research, advice, an opinions on plan qualification and tax matters.
- General Legal Counsel – Providing assistance to the Procurement and Contracts division by providing legal review of contracts and procurement-related documentation, and assistance with contract negotiations; advising TRS business units on intellectual property issues such as copyright and trademark, reviewing copyright license agreements, and applying for state and federal trademark protections; providing research, advice, an opinions on a variety of topics associated with TRS business, as requested.
- Board of Trustee Legal Services – Researching and advising on fiduciary matters; providing opinions on open meetings and related governance issues; and providing quarterly litigation reports to the board of trustees.

In addition to the above activities, L&C also implements and administers the TRS Compliance program (Compliance). The objective of Compliance is to foster ethical culture and behavior at TRS consistent with TRS Core Values and to strengthen and protect organizational value by (1) advising, educating and training on regulations, laws and policies and (2) preventing, detecting and correcting policy violations. Compliance performs the following major activities:

- Oversees IMD's compliance with the board of trustees-adopted investments-related policies, including Investment Policy Statement, Securities Lending Policy, Soft Dollar Policy and Proxy Voting Policy.
- Oversees IMD compliance with global compliance regimes related to TRS' global trading activities in public markets, exchange-traded and over-the-counter derivatives, and other instruments.
- Oversees daily, weekly, and monthly investment compliance reports provided by TRS custodian, including monitoring of corrective action(s) taken by IMD to resolve compliance violations.
- Works closely with IMD to identify compliance needs and develop and implement solutions, and to ensure the custodian's compliance systems are monitoring the provisions of the investment related policies and that the systems are updated as required by policy changes.
- Manages and oversees information barriers within TRS. Provides advice related to federal securities laws' prohibitions on insider trading.
- Implements and oversees compliance with the TRS Personal Trading Policy, including administering and maintaining TRS' automated trade pre-clearance and surveillance software to aid in the prevention and detection of illegal or improper trading, including insider trading and front-running. Develops and provides training for TRS staff on the TRS Personal Trading Policy, other investment policies, and legal and regulatory requirements related to investments.
- Analyzes investment operations and monitors the work of investment professionals; advises and informs the IMD and other TRS management and staff regarding investment processes.

- Provides input into the development or revision of investment and ethics-related policies and procedures, as requested by TRS management and presents proposed revisions for appropriate bodies for approval.
- Prepares and presents written and oral reports to the TRS Trustees and management on compliance issues.
- Coordinates with Internal Audit to make recommendations for improving internal controls relating to compliance with investment, HIPAA, ethics, and certain other enterprise policies. Oversees compliance with TRS ethics policies, including investigating potential violations, administering annual disclosure requirements, and advising on ethics matters.
- Develops HIPAA compliance program by centralizing and, as possible, automating existing HIPAA compliance-related functions in coordination with Information Security, Benefits and Health Insurance Benefits departments.

Governmental Relations

Governmental Relations (GR) performs advanced legislative work that involves planning, organizing, coordinating, and monitoring activities related to legislation affecting TRS. GR develops and implements strategies and programs to promote effective governmental relations, including communicating with government officials and representing the agency at legislative hearings; responding to legislative inquiries; and tracking, analysis and implementation of legislation. GR duties includes the following:

- Establishing and maintaining positive working relationships with federal and state legislators and their staffs, the governor's office, and other government agencies and officials.
- Establishing and maintaining positive working relationships with active and retiree associations and other policy organizations interested in TRS matters.
- Coordinating the development of the agency's legislative agenda across departments.
- Representing the agency at legislative meetings and hearings and coordinating TRS testimony, including preparing testimony for others and personally presenting testimony as needed.
- Responding or directing the agency response to telephone and written inquiries regarding TRS laws, rules, operations and member account status received from legislative offices or other government officials.
- Tracking legislative and government agency actions of interest to TRS, including reviewing paper and electronic reports and monitoring automated services; monitoring and reporting on committee hearings and floor action; coordinating the analysis and reporting on the impact of proposed legislation.

- Assisting with the agency's response to requests for statutorily required reports on legislation, including the submission of fiscal notes and other information directly to the Legislative Budget Board (LBB) and Pension Review Board (PRB).
- Assisting with training and advising to the board of trustees, executive management and agency staff on the legislative process, status of pending legislation and other governmental relations and legislative issues.
- Assisting in preparation of the compilation and analysis of data, and the preparation and presentation of periodic and ad hoc reports, surveys, forms, tables, and charts.
- Presenting to stakeholder groups and associations on educational information on agency updates or legislative impacts at meetings and events.
- Providing ombudsman services for constituent concerns originating from stakeholder groups, elected officials and direct member requests.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? In Exhibit 12, provide a list of statistics and performance measures that best convey the effectiveness and efficiency of this program or function. Also, please provide the calculation or methodology behind each statistic or performance measure. Please do not repeat measures listed in Exhibit 2 unless necessary to understand the program or function.

Internal Audit

Internal Audit maintains KPIs to track Internal Audit performance against key goals. A report on these KPIs is provided to the Audit, Compliance and Ethics Committee on a periodic basis. Note that the KPIs cover both operational effectiveness and efficiency measures.

Internal Audit was an early developer of a detailed, formal Internal Audit Divisional Strategic Plan. The current TRS Internal Audit Strategic Plan for Fiscal Years 2015 – 2019 includes four strategic goals. The four goals were developed to ensure that Internal Audit supports the changing needs of TRS' stakeholders in achieving business goals and objectives.

Each of the following three goals include objectives and related strategies and tactics, and represents strategies for enhancing Internal Audit's contribution to the TEAM Program, supporting effective Audit, Compliance and Ethics Committee governance processes, improving Internal Audit business expertise, and integrating TRS' core values into Internal Audit processes:

See Attachment 17 for Internal Audit Goals and Performance Measures as reported to the Audit, Compliance, and Ethics Committee for the third quarter of fiscal year 2019.

Strategy

Strategy tracks effectiveness for all areas of the organization using a mix of KPIs and a “results forum” process where TRS Strategic Plan progress is gathered and reported quarterly to the internal Risk Oversight Committee and the Strategic Planning Committee of the board.

See Attachment 17 for Strategic Plan Key Performance Indicators as reported to the Strategic Planning Committee of the board for the third quarter of fiscal year 2019 along with the results forum schedule that delineates the regular reporting of strategic plan progress to the Strategic Planning Committee of the board.

Legal & Compliance

L&C maintains and reports information regarding the number of matters and projects assigned and completed, as well as the number of administrative appeals and other litigation matters. In particular, during fiscal years 2017 and 2018, L&C staff:

- reviewed and analyzed 4,443 legal orders, including Qualified Domestic Relations Orders, IRS Levies, and 3,912 other requests for review from Benefit Services;
- proposed and adopted 23 rules as well as completed rule review for 256 rules;
- provided legal services and representation relating to private investments totaling approximately \$34 billion;
- advised on approximately 730 investment matters, including 249 investment transactions;
- recovered approximately \$11.6 million on its investment-related litigation claims; and
- pursued subrogation recovery on behalf of TRS-Care and TRS-ActiveCare, recovering over the past year or so approximately \$1,097,959 in insurance subrogation claims, for TRS-Care and approximately \$3,604,061 in insurance subrogation claims for TRS-ActiveCare.

In fiscal year 2018, L&C processed 104 open-records requests and submitted 12 requests to the attorney general for rulings.

In regard to Compliance, L&C has implemented a number of procedures consistent with industry best practices that are designed to create a robust compliance program at TRS by emphasizing a compliance culture throughout the organization and incorporating technology and automation where appropriate to reduce the risk of regulatory, policy and contractual compliance violations. These steps have enhanced the effectiveness and efficiency of the compliance program by allowing for additional monitoring and testing and also resulting in fewer compliance-related violations.

For example, Compliance automated its material, non-public information (MNPI) barrier process to provide a consistent and streamlined process, a centralized location for data, and a greater ability to monitor activity with and access to material, non-public information (MNPI). In fiscal year 2018, the number of information barriers increased to 109 from 37 in 2015 and the number of information barriers closed was 94 compared to 29 in fiscal year 2015. The increase in both activities can be attributed to increased training on MNPI, the

TRS Personal Trading Policy, and implementing the information barrier workflow, as well as changes to TRS deal flow that may include MNPI. For personal trading, yearly mandatory training, increased automation, and revisions to the Personal Trading Policy, have resulted in few policy violations. There are a total of 844 employees who are subject to the Personal Trading Policy, and 282 of those employees are Covered Persons (subject to pre-clearance requirements). In FY 2018 there were 19 violations from 14 Covered Persons.

Compliance also enhanced identification and monitoring of conflicts of interest through creation of on-line outside business activity (OBA) forms and an ethics reporting log. The initial year of OBA reporting produced 131 reports for conflicts review, followed by 90 and 65, respectively. In addition, Compliance has steadily increased completion rates and response times for annual and quarterly ethics-related certifications by instituting in-person compliance training for all new hires to set TRS ethics and compliance expectations and by implementing regular management and board reporting, targeting “tone at the top” efforts, and automating through software solutions. This moved rates from several months for completion to, most recently in 2018, 98.2 percent timely completion. Similarly efforts have increased completion rates and response times for both (a) annual ethics-related training, moving from several months for completion to 96.2 percent timely completion, and 100 percent completion within 4 days of the deadline in 2018; and (b) Code of Ethics for Contractors annual compliance certifications, moving from several months to 100 percent by the April 15 deadline.

Compliance also monitors the Ethics Hotline and reviews complaints sent to TRS via the SAO. The oversight and investigative function for complaints includes working closely with Legal and Compliance, Internal Audit, Benefit Services and Organizational Excellence to resolve complaints. In fiscal year 2018 there were a total of 30 complaints, 2 of which were ethics related. A total of 18 incidents were resolved under fifteen days while 12 were resolved in greater than twenty days. The longer resolutions resulted from TRS waiting on due diligence information from the complainant or third parties. In addition, the majority of the complaints related to the health care benefit change and the TRS system upgrade that occurred during fiscal year 2018.

For investments, Compliance in coordination with IMD Operations has increased the type, complexity and frequency of monitoring and testing related to the investment function and the Investment Policy Statement. Working with its custodian of record, State Street Bank, TRS Compliance reviews 11 daily reports that include warnings and alerts covering 100s of data points for its internal and external investment activities. Compliance also uses several third-party vendors for additional daily compliance monitoring and testing, including FundApps, Bloomberg, and AlphaPipe. In fiscal year 2018, there were 4 IPS violations.

Governmental Relations

GR does not maintain or report on specific outcome measures. The department uses an external service, Telicon, that provides legislative tracking and statistics on the number of bills GR follows. Staff time is dedicated to activities related to legislative interactions. GR presents to active and retiree groups and is requested to return and present yearly at various events.

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent. If the response to Section III of this report is sufficient, please leave this section blank.

Internal Audit

As Internal Audit has grown alongside TRS, it has moved from employing a team of generalist auditors to three dedicated audit teams aligned to the core functions within TRS:

- Investments.
- Benefits, which includes Pension, Employer Reporting (e.g., ISD's, Charter Schools, Colleges and Universities), and Healthcare teams.
- Technology.

Strategy

Strategic Planning

The Strategic Planning function has evolved over the years as the goals, objectives and strategies continue to be interwoven with enterprise risk management. The goals, objectives and strategies are linked to the risk areas of TRS' Stoplight Report.

Enterprise Risk Management

ERM is a comprehensive process to identify and manage risks utilizing cross-functional skills and expertise. Its purpose is to:

- Promote a risk culture at TRS that builds risk consciousness into our daily activities.
- Ensure that risk identification, assessment and prevention are incorporated into management oversight and governing processes.
- Assist in identifying priorities set forth in the TRS strategic plan.

The TRS ERM program formally began in 2008. Both bottom-up and top-down risk assessment approaches were accomplished. Facilitated risk assessments (Stoplight Report categories or ad-hoc) consist of cross-functional work teams who assess the risks to meeting the goal, objective, or activity. The assessment utilizes the bow-tie analysis framework and participants anonymously vote on impact, likelihood, assurance, and velocity. Risk assessment results are reported to the internal Risk Committee and the Strategic Planning Committee of the board of trustees on a quarterly basis.

At the direction of the Chief Audit Executive, TRS hired a consultant to bring awareness about ERM and to facilitate limited assessments. Then TRS dedicated one FTE to ERM implementation. Next the ERM Program Manager submitted a formal ERM program implementation/action plan to the Executive Director. The Executive Director then authorized the creation of a formal ERM Program, which included the formation of the internal Risk Oversight Committee, the ERM Working Group, and an ERM Charter.

The ERM program at TRS has evolved from the bottom-up and top-down risk assessment approaches. In 2017, the ERM program introduced the bow-tie analysis framework for identifying and responding to operational risks. Facilitated risk assessments now include the identification of risk events along with the causes, consequences, and mitigations to prepare, prevent, or minimize the damage of those risk events. In April 2018, the Risk Management Committee of the board of trustees was repurposed and renamed the Strategic Planning Committee. Strategic plan and ERM operational risk information is now reported to the Strategic Planning Committee. Investment risk management is reported to the Investment Management Committee of the board of trustees

Legal & Compliance

TRS hired its first General Counsel (GC) in 1975, and gradually added attorneys and legal support staff as the state and the TRS pension fund grew and laws changed. In 2013, TRS' current GC was hired. The L&C department currently includes 32 people, of which 17 are attorneys.

L&C has seen growth, both in size and scope, over the past several years as the Investment Management division has worked to expand and modernize TRS' investment function and the Benefit Services and Health Insurance teams have seen a growth in TRS membership. In particular, in 2013, the GC created the Chief Compliance Officer (CCO) position within the Legal & Compliance department, and hired its current CCO in 2014 to assume primary responsibility for implementing and expanding procedures and practices for policy, regulatory, and ethics compliance training, policy-making, and reporting.

Governmental Relations

With the 2017 legislative session, GR assumed the development of legislative fiscal notes from Strategic Initiatives.

E. List any qualifications or eligibility requirements for persons or entities affected by this program, such as licensees, consumers, landowners, for example. Provide a statistical breakdown of persons or entities affected.

Internal Audit

Internal Audit provides assurance services to management and the TRS Board of Trustees. These services include audits of demographic data and transaction information reported by all reporting entities to TRS each month.

Strategy

Strategy provides communications services to both internal and external customers, and SI serves an internal customer base. Communications provides services that directly affect our members and retirees by managing a variety of communication channels (publications, website, social media, email database, press releases, etc.) to inform and educate TRS participants regarding benefit-related information. Communications provides services to internal customers through a creative services request form that TRS departments use to request the development of videos, graphic design services, photography services, and other general communications needs.

SI serves the board of trustees and other TRS departments by providing the board, on a quarterly basis, with Enterprise Risk Management assessments and strategic plan progress. SI provides services to fellow departments by offering departmental strategic plan development that cascades off the enterprise plan and by offering continuous improvement consulting based on a process that uses a combined theory of Lean, Six Sigma and Theory of Constraints.

Legal and Compliance

L&C provides legal services to other TRS divisions and departments, including executive management and operational business units. The General Counsel, Chief Compliance Officer, and outside Fiduciary Counsel also provide legal services to the board of trustees. L&C directly interacts with TRS members and retirees regarding complaints, various legal orders, such as QDROs, and requests for member account information. L&C also interacts with vendors occasionally in large or complex contract negotiations and to ensure vendor compliance with the TRS Code of Ethics for Contractors.

Governmental Relations

Governmental Relation's work primarily targets elected officials and their staffs, state and federal oversight entities, external stakeholders, and associations. The results of Governmental Relations activities impact the full TRS membership through interactions with the legislature and state executive leadership on statutory changes.

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

Internal Audit

The Chief Audit Executive (CAE) reports directly to the board of trustees and the TRS Audit, Compliance, and Ethics Committee and reports administratively to the Executive Director. The CAE is appointed by the board of trustees.

Strategy

Communications services are administered primarily through Communications Specialists. In a collaborative effort with the organization, Communications developed a comprehensive messaging plan that delineates what communications content will be delivered when and by what medium. Communications manages the website and social media content using the content calendar, and provides services to customer departments using the creative services request form process.

SI services are administered by Strategy Analysts who focus either on Strategic Planning and Enterprise Risk Management or Continuous Improvement. Strategic Planning Analysts work with departments to develop objectives and strategies that are then incorporated into the TRS Strategic Plan and are tracked and reported to the Strategic Planning Committee of the board. They also facilitate Enterprise Risk Management assessments and develop ERM materials for reporting to the internal Risk Oversight Committee and the Strategic Planning Committee of the TRS Board of Trustees. Continuous Improvement

services are provided when requested by division or department directors or the ED or COAO. This means continuous improvement services are provided on an “asked in” or “sent in” basis.

Legal & Compliance

L&C delivers legal services through teams, most of which comprise attorneys and paralegals. Team members have specialized professional skills related to the legal services they provide to the business units. The business units normally request legal services through the General Counsel or directly from the team with the requisite expertise. The General Counsel manages the legal services provided by each team.

Teams in L&C also coordinate with external stakeholders to deliver all necessary legal services to or on behalf of TRS. For instance, team members work closely with outside legal counsel engaged on TRS matters, and with the Office of the Attorney General on litigation or open records requests. In addition, team members work with TRS participants directly when processing requests for information or legal orders that impact member benefits.

Governmental Relations

Governmental Relations consists of two full time employees. During peak work periods such as a legislative session, the department may hire an intern to assist and ensure the needs of the agency and legislature are met at the leanest resource cost possible.

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

Executive Support services are primarily funded through the fiduciary funds consisting of the pension fund and TRS-Care. Prior to fiscal year 2020, one FTE in Strategy was funded by the 403(b) proprietary fund. Legislation from 2019 eliminated the requirement that 403(b) vendors operating in Texas certify and register products with TRS. This eliminated TRS’ role in the 403(b) market. See Section V. for a discussion of TRS funding sources.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

Internal Audit

The State Auditor’s Office (SAO) is similar in function to TRS Internal Audit in that both provide assurance services related to TRS. Internal Audit’s role typically relates to validation of internal controls across key risks within TRS to facilitate management’s strategic, operating, financial and compliance goals. Work is based on an audit plan approved the TRS Board of Trustees. The SAO conducts the independent audit of the Comprehensive Annual Financial Report (which cannot be undertaken by internal audit due to independence limitations) and other program-specific audits as approved by the Legislative Audit Committee as part of the statewide audit plan.

Legal & Compliance

TRS supplements the legal services provided by L&C with outside counsel engaged for specific practice areas or matters, with outside fiduciary counsel engaged to provide legal services to the board of trustees, and with attorneys from the Office of the Attorney General (OAG). TRS oversight areas can be viewed as lines of defense that are interwoven but not overlapping or duplicative. Depending on the particular matter or function, Legal & Compliance serves in the traditional “first line” and “second line” defense roles protecting TRS by providing legal and compliance risk management and controls.

Strategy

When communicating with TRS members regarding health care, HIB must be cognizant and abide by federal requirements. Therefore, the specialized nature of the communications support dedicated HIB Communications Specialists who coordinate activities with TRS Communications.

Both SI and TRS Internal Audit conduct risk assessments, but the scopes are different. TRS Internal Audit provides risk assessments during audit projects. However, these assessments are very specific to the scope of an audit project whereas Strategic Initiatives provides risk assessments at an enterprise and operational level.

Governmental Relations

Governmental Relations does not provide similar services to the target population of elected officials and staff and stakeholders as any internal department or external entity to the agency. Governmental Relations works with internal departments to provide assistance to the target population. External parties lobby on behalf of its members and TRS is prohibited by law from lobbying. The department strictly provides factual information at the request of legislative offices or other entities.

- I. **Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency’s customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Internal Audit

Internal Audit supports and coordinates the SAO’s audit activities at TRS to add efficiencies to the SAO audit process and avoid duplication of effort. Internal Audit’s annual audit planning takes into consideration the audit work provided by the SAO (to the extent that it is known) so that Internal Audit’s resources can provide audit coverage in other areas within TRS. Conversely, the SAO relies on some of the work performed by Internal Audit to avoid duplication of audit coverage.

Strategy

TRS Communications and HIB coordinate on the delivery of health care specific information to ensure that all agency communications speak with one consistent voice. All health care-related content on social media, the website and agency wide publications are reviewed and approved by Communications. For communications that target health care program participants exclusively, Communications provides

assistance in proofing, editing, etc. Also, all HIB outreach efforts are included in TRS' annual Communications Plan.

To coordinate on risk assessments, Internal Audit staff contacts SI to obtain risk assessment information based on the functional area they are auditing. SI shares risk information on the internal Risk Committee website and upon request.

Legal & Compliance

With regard to TRS' outside counsel, internal counsel manages the work of their outside counsel to avoid duplication of work. Internal counsel is responsible for review of external counsel invoices that relate to his or her assigned legal matters. Similarly, the General Counsel and Chief Compliance Officer coordinate with outside fiduciary counsel as legal needs arise. TRS refers litigation matters to the OAG as needed and provides support to the assigned assistant attorney general as requested. TRS follows the OAG's Outside Counsel Contract Rates and Templates memorandum and has a letter agreement with the OAG relating to TRS' authority to retain external investment counsel.

J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.

Legal & Compliance

Legal & Compliance obtains approval for the engagement of external counsel with the Office of the Attorney General. In litigation matters for which TRS does not engage external counsel, TRS is represented by the Attorney General. L&C may interact as liaison for TRS with state and federal securities, commodities and HIPAA regulators on an ad hoc basis to respond to inquiries or make required reports. L&C may interact as liaison for TRS with non-U.S. securities regulators (e.g., to report certain holdings information).

Additionally, the provision of health law services has moderate interaction with local, regional and/or federal units of government. Such interaction is undertaken as needed or as part of routine operations. Routine interactions are necessary when, for example, there are legal questions about the impact of federal requirements upon the operation of medical and drug plans under Medicare, offered in association with TRS-Care. On occasion, L&C personnel need to interact with legal counsel for participating entities in TRS-ActiveCare concerning legal issues of mutual interest. The Office of the Attorney General is contacted with regard to litigation involving TRS-Care, TRS-ActiveCare, and the Long-term Care Insurance programs. Finally, the OAG is contacted with regard to the negotiation and finalization of large health benefit contracts, such as those involving the health plan administrator and the pharmacy benefit manager of TRS-Care and TRS-ActiveCare.

Governmental Relations

Governmental Relations directly interacts with state elected offices and state agencies. The department stands ready and able to provide information to local, regional, or federal units of government.

K. If contracted expenditures are made through this program please provide

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in fiscal year 2018;
- the number of contracts accounting for those expenditures;
- the method used to procure contracts;
- top five contracts by dollar amount, including contractor and purpose;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

Internal Audit

- a short summary of the general purpose of those contracts overall;

Internal Audit contracts with external service providers to obtain expertise in certain specialty areas within investments, healthcare and information technology. When the contracts are executed, the vendors are not guaranteed a specific audit engagement. As the need arises, Internal Audit executes an Engagement Release Order (ERO) with the contractor, which specifies the scope of work, duration, and amount. The sum and duration of EROs may not exceed those specified in the master contract.

- the amount of those expenditures in fiscal year 2018;

The total spent on contracts for fiscal year 2018 was \$1,030,335.

- the number of contracts accounting for those expenditure

10

- the method used to procure contracts;

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **the top five contracts including dollar amounts, contractor and purpose:**

Bridgepoint Consulting LLC (\$1,635,000) – TEAM Independent Program Assessment services

Ernst & Young, LLP (\$1,004,894) – EY served as subject matter expert on assurance and consulting engagements for the benefits and health insurance areas

Price Waterhouse Cooper Public Sector LLP (\$568,252) – PwC served as subject matter expert on the assurance engagements in the investment area.

State Auditor's Office (\$263,000) – SAO 2017 CAFR Audit

Protiviti Inc (\$220,570) – fiscal year 2017 co-sourced HIPPA Security and Privacy Audit

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations.

- **a short description of any current contracting problem.**

Internal Audit has not experienced any material contracting problems or issues.

Strategy

- **a short summary of the general purpose of those contracts overall;**

Strategy uses contracts to help Communications and SI execute on the work of the agency. Communications' contracts fall into four categories: print and mail services for TRS newsletters, TRS Board of Trustee and Committee meeting web casting, news monitoring services, and stock footage services. SI contracts fall into three categories: contracts to provide necessary board services, such as actuarial and investment consulting services; contracts to procure insurance as part of the enterprise risk management functionality; and contracts to support strategic planning and execution.

- **the amount of those expenditures in fiscal year 2018;**

The amount spent in fiscal year 2018 in contracts was \$1,526,712.

- **the number of contracts accounting for those expenditures;**

42

- **the method used to procure contracts;**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Communication Specialists, Inc. (\$883,399) – Printing and mailing of TRS Newsletter

Catapult (\$718,272) – Website redesign project services.

Arthur J Gallagher Risk Management Services (\$593,704) – Directors and Officers Insurance

Gabriel, Roeder, Smith & Company (\$526,000) – Actuarial valuation and pension consulting services

Keith Brown (\$400,000) – Investment consulting services to the board of trustees

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations

- **a short description of any current contracting problems.**

The Strategy Office has not experienced any material contracting problems or issues.

Legal & Compliance

- **a short summary of the general purpose of those contracts overall;**

Legal & Compliance uses contracts for engagement of external counsel and for the provision of a variety of legal services to assist in-house counsel with investment, tax, pension plan qualification, fiduciary, health care and open records matters as needed. The contracts with external counsel cover a variety of TRS matters including investment related items regarding private or public markets transactions, derivatives, investment management agreements, litigation, and regulatory issues; tax, plan qualification and pension benefit matters; and fiduciary matters. Other contracted services that L&C uses include subscriptions for resources such as LexisNexis and Practising Law Institute.

- **the amount of those expenditures in fiscal year 2018;**

The total spent on contracts for fiscal year 2018 was \$771,369.

- **the number of contracts accounting for those expenditures;**

47

- **the method used to procure contracts;**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Jackson Walker, LLP (\$3,000,000) – Outside counsel for investment derivatives

Norton Rose Fulbright LLP (\$2,625,000) – Outside counsel for investment derivatives

Seyfarth Shaw, LLC (\$2,300,000) – Outside counsel for investment derivatives Squire

Squire Patton Boggs, LLP (\$1,000,000) – Outside counsel for investment derivatives

Katten Muchin Rosenman, LLC (\$750,000) – Outside counsel for investment derivatives

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations

- **a short description of any current contracting problems.**

Legal and Compliance has not experienced any material contracting problems or issues.

Governmental Relations

- **a short summary of the general purpose of those contracts overall;**

Governmental Relations contracts with Texas Legislative Service for legislation monitoring service.

- **the amount of those expenditures in fiscal year 2018;**

\$6,045

- **the number of contracts accounting for those expenditures;**

1

- **the method used to procure contracts;**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Texas Legislative Service (\$6,045) – Legislative monitoring subscription service

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations

- **a short description of any current contracting problems.**

Governmental Relations has not experienced any material contracting problems or issues.

L. Provide information on any grants awarded by the program.

Executive Support does not award grants.

M. Are there any barriers or challenges that impede the program's performance, including any outdated or ineffective state laws? Explain.

None.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

No further information is provided to describe this function.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe

- **why the regulation is needed;**
- **the scope of, and procedures for, inspections or audits of regulated entities;**
- **follow-up activities conducted when non-compliance is identified;**
- **sanctions available to the agency to ensure compliance; and**
- **procedures for handling consumer/public complaints against regulated entities.**

No regulatory programs are associated with Executive Support.

P. For each regulatory program, if applicable, provide detailed information on complaint investigation and resolution. Please adjust the chart headings as needed to better reflect your agency's particular programs. If necessary to understand the data, please include a brief description of the methodology supporting each measure.

Not applicable. Exhibit 13 deleted.

Shared Services

Finance, Organizational Excellence, Information Technology, and Project Management

A. Provide the following information at the beginning of each program description.

Name of Program or Function: Shared Services — Finance, Organizational Excellence, Information Technology, and Project Management

Location/Division: TRS Headquarters, 1000 Red River Street, Austin, Texas

Contact Name: Andrew Roth, Chief Operations and Administration Officer

Statutory Citation for Program: Chapters 825, Subchapter B. Powers and Duties of Board of Trustees, Texas Government Code

B. What is the objective of this program or function? Describe the major activities performed under this program.

TRS Shared Services aligns people, processes, and technology to accomplish the TRS mission. Shared Services consists of the following divisions and departments that provide essential services for the operation and management of TRS: Finance, Organizational Excellence, Information Technology, and Project Management. The work of Shared Services enables the day to day operation of TRS and the execution of strategic projects.

Finance

The objective of TRS Finance is to support the mission of TRS through customer focused and fiscally responsible financial and administrative management that includes variety of financial support services. The Finance Division works diligently to sustain a financially sound pension trust fund. It focuses on managing an actuarially sound retirement system that maintains an amortization period of less than 31 years. The division accomplishes that by developing and maintaining a sound, professional and systematic risk management and capital allocation system; while maintaining strong, customer-focused relationships. The division is composed of the Accounting Services and Administrative Operations departments; which oversee the following activities:

Investment Accounting

The Investment Accounting team provides independent review and oversight of investment financial information accounted for by the system's custodian bank and reported TRS financial and Investment Management Division reports as well as the Comprehensive Annual Financial Report (CAFR). The team uses a risk-based oversight approach that relies on a combination of independent reconciliations, duplicate

record keeping, cash flow oversight, subledger to general ledger tie-outs, and control reviews to ensure investment information reported by TRS is complete and free of material misstatements. The Investment Accounting team prepares all investment related CAFR notes and ensures all investment related information is presented in accordance with Governmental Accounting Standards Board (GASB) and Governmental Fiscal Officers Association (GFOA) standards and requirements. The team supports the Accounting Operation group, the Investment Management Division, and TRS Executive Management.

Accounting and Reporting

The Accounting and Reporting team compiles the Comprehensive Annual Financial Report (CAFR) and Annual Financial Report for TRICOT, maintains the general ledger system (CAPPS), prepares GASB reporting, coordinates audits with State Auditor's Office (SAO), prepares reconciliations between systems, board reports, and provides or assists with data requests from other departments. The Cashier function is under Accounting and Reporting and process cash receipts for member and vendor payments, reconcile checks being mailed, research member payments and issues with departments, prepares requisitions, and provides support to team when needed.

Employee Payroll and Benefits Team

The Employee Payroll and Benefits Team administers all aspects of the TRS employee payrolls (Salaried, Hourly, and International) and Excess Benefit Participant payroll, the Employee Time and Labor program, and the Employees Retirement System (ERS) Benefits program. The team is responsible for processing and auditing payroll, leave, and benefit transactions in the CAPPS HR/Payroll, reconciling payroll expenditures in the CAPPS General Ledger, and preparing and submitting external and internal reports including mandated state, federal, and international payroll, benefits, leave, and tax reports. The team's primary focus is to provide customer service support to TRS employees, the Executive Leadership Team, Agency Departments, and Oversight agencies on payroll, benefit, and leave related questions or processes in accordance with agency policies, procedures, and state, federal, and international statutes and regulations.

Accounts Payable and Travel Team

The Accounts Payable and Travel team tracks invoices and their approvals from contract sponsors, enters purchase vouchers into CAPPS and USAS for payment of goods and services, audits and approves Concur employee travel requests and claims for reimbursement, reconciles CAPPS AP module (IN browser) with USAS (HX browser), and provides assistance and training on accounts payable and travel procedures.

Analytics and Financial Insights Group

The Analytics and Financial Insights Group focuses on transforming processes and inaccessible data into scalable automated solutions while improving transparency and increasing agency wide access to financial data. Solutions development includes the financial and benefits data warehouses requirements planning and testing, automated reconciliations development, dashboard design and governance, and Comprehensive Annual Financial Report (CAFR) data preparation and formatting implementations in Wdesk.

Budget and Financial Analysis

The Budget and Financial Analysis team prepares agency operation budgets; maintains budgetary reports: budget transfers, reconciliations, position control, and board reports; prepares the Legislative Appropriations Request (LAR) and Operating Budget reports. They routinely report to the Legislative Budget Board, the Governor's Office of Budget and Policy Division, and other legislative and regulatory branches. The team analyzes funding requests, advises of financial impact, and presents viable alternatives supporting timely decision-making by executive management. Budget and Financial Analysis provides technical advice and assistance to departmental staff.

Procurement and Contracts (P&C)

The Procurement and Contracts (P&C) team serves, supports and collaborates with internal and external customers to deliver innovative, timely, and accurate procurement solutions. They are focused on maintaining TRS' fiduciary trust and committed to effective procurement services and contract oversight to maximize best value. TRS is currently enhancing its procurement program. In order to meet the initiative, Procurement and Contracts is currently looking to increase its staff to meet the needs of the agency while maintaining the integrity of the procurement program.

Security and Facilities Management

Security and Facilities Management works to provide a clean, comfortable and safe environment for all TRS personnel and visitors. The teams are responsible for: physical security, safety and parking at TRS; print services, mail services and supplies; modernization, renovation and maintenance of TRS facilities; and other property management functions.

Facilities Operations and Maintenance provides ongoing operations and maintenance for TRS grounds and facilities including kitchen equipment, sound equipment, mechanical equipment, irrigation systems, electrical systems, plumbing systems, and the heating, ventilation and air conditioning (HVAC) systems; sets up conference rooms for meetings; moves furniture and set up work areas; and provides transportation as requested. Facilities Security provides a 24/7 security presence, provides surveillance of TRS grounds and buildings, controls access to TRS grounds and buildings, and assigns and monitors parking. Printing, Mail Room and Supply Services - prints business cards, letterheads, envelopes, forms, pamphlets, and brochures; copies, collates, punches, binds, and delivers documents; processes and delivers all incoming and outgoing mail; purchases, receives, stocks, and distributes office supplies; and coordinates mass mailings with vendors. Safety and Prevention encompasses daily operational risk, insurance, business continuity, incident management, and disaster recovery.

Records and Information Management

The Records and Information Management team administers the agency records management program according to best practices to meet state and federal records and information management requirements, including the Texas State Library and Historical Commission (TSLAC) guidelines on management state

records and electronic information. It also provides document imaging services to the agency, currently primarily supporting the Benefit Services Division.

Organizational Excellence

Organizational Excellence (OE) serves the mission of TRS by building dynamic, strategic partnerships to attract, develop, and retain highly competent staff. The team manages multiple priorities and is focused on coordinating learning and development, recruitment and staffing, performance management, employee relations, compensation, workplace accommodations, workforce planning, and organizational change management. Partnering with managers and developing creative solutions for complex work problems helps OE shape, maintain and enhance the TRS culture and employee experience. The team consists of the following areas to develop and implement HR strategies in support of agency goals.

Compensation

The Compensation team manages all aspects of employee compensation and job classification. Major functions include conducting ongoing market reviews to ensure competitiveness of salaries, tracking and analyzing workforce statistics related to FTEs, turnover, and employee demographics. The team is also responsible for compiling and preparing internal and external HR reports and projections, including mandated veterans and EEOC reporting, and administering the agency's merit planning process and incentive compensation plans.

Talent Acquisition

The Talent Acquisition team manages all aspects of the recruitment and hiring process by partnering with business units to create recruitment plans and branding materials and strategies. The team administers the job application and selection process, monitors compliance with state and federal law related to hiring and selection, coordinates the agency's internship program, and manages the employee onboarding and exiting process. Talent Acquisition also manages the agency non-TRS worker program to ensure compliance with state, federal and agency policies and procedures.

Performance Excellence

The Performance Excellence team provides oversight, support, tools and resources to employees and management. The team is responsible for developing and implementing the agency-wide performance appraisal program, partnering with TRS management and staff to develop department specific competencies, career paths, and individual development plans, developing and managing the 360 feedback process for business units and partnering with divisions to ensure alignment with performance expectations and outcomes. The team partners with Compensation on the merit planning process and administers agency succession planning and knowledge transfer processes. Additionally, the team coordinates employee and team recognitions for outstanding performance, longevity, and embodying TRS core values.

Learning and Development

The Learning and Development team provides support in a variety of ways such as administering mandatory compliance training according to applicable laws, regulations and policies. They develop and deliver classroom curricula, create customized e-learning training, administer the agency's educational assistance program, coordinate and oversee training provided by external vendors, and facilitate the agency's leadership development program. The team is responsible for maintaining and administering the agency's learning management system, sponsoring and administering the continuing professional education (CPE) certification program and administering vendor contracts related to training.

Organizational Change Management

The Organizational Change Management (OCM) team serves an important function for TRS by helping employees transition through major change initiatives. The OCM was initially created to support the TRS' Enterprise Application Modernization (TEAM) Program. While TEAM is still its primary focus, the OCM team also provides support related to other agency initiatives. OCM supports change initiatives through activities such as conducting stakeholder interviews and readiness assessments with employees, facilitating focus-group meetings, facilitating employee advisory groups, providing internal communication to employees, coordinating celebrations or agency-wide events to mark major milestones and identifying and tracking change-readiness metrics.

Workplace Accommodations

Workplace Accommodations administers the Family Medical Leave Act (FMLA) program, coordinates Workers Compensation claims, administers and monitors the Remote Work program, administers the workplace accommodation program and serves as the Employee Assistance Liaison. The Workplace Accommodation Coordinator also manages special leave requests for emergency leave, foster parent leave, jury duty leave, leave without pay, military leave, parental leave, sick leave and extended sick leave pools.

Employee Relations

The Employee Relations team is a resource for employees who need assistance with workplace concerns and for managers making determinations about employee performance or misconduct issues. The team conducts activities such as providing guidance to management regarding corrective actions including involuntary separations, coaching for employees and management, facilitating conversations between staff, consulting with management regarding department-specific policy and procedure changes, responding to formal and informal complaints, conducting investigations as appropriate, and managing the dispute resolution process. The team responds to external parties, including governmental entities, regarding employment claims or concerns and works closely with Legal & Compliance to avoid litigation and other potential losses related to EEO, ADA, FMLA and other federal and state employment regulations.

Information Technology

Information Technology (IT) develops, secures, implements, supports and maintains TRS' electronic information systems. IT offers services and information that supports the business of TRS and develops and implements technology solutions for the accomplishment of the agency's mission, goals, and

objectives. IT serves as the custodian of the agency's system of record and ensures that information is secure and available for business use.

IT is composed of the following teams that provide support to TRS investment and business operations:

Enterprise Architecture

Enterprise Architecture (EA) provides management and oversight of the architectural frameworks and technology building blocks used at TRS. EA has two major focus areas Technical Architecture and Data Architecture and is responsible for supporting TRS business goals and objectives by overseeing the development of the strategies that cut across the spectrum of technologies and innovations. An EA program goal is to anticipate and prepare TRS' architecture for changes that will be required to support the business vision and desired outcomes.

The Director of Enterprise Architecture chairs the Enterprise Architecture Council, a team of multidiscipline technical experts from across IT. The Enterprise Architecture Council is designed to provide recommendations and guidance to optimize the technology landscape and minimize duplications in infrastructure and software stacks.

Product Development and Delivery

Product Development and Delivery is comprised of two main teams:

Information Systems Support and Delivery (ISSD) is responsible for the research, design, testing and delivery of applications and business solutions for TRS. This team supports and maintains a large number of internally written and off the shelf applications. This team frequently serves as subject matter experts (SME's) and consultants for determining the best solutions for TRS business units.

The ISSD department is composed into two core groups - the Gold Team and the Green Team. The Gold Team is responsible and focused on distributed computing development technologies such as Java, Microsoft .NET, HTML and SharePoint. The Green Team is responsible for the maintenance and support of our current legacy and Line of Business applications as well as providing reporting and data analytics to the business.

Delivery and Quality Management provides oversight and management for the testing of TRS business applications and their underlying infrastructure components. This includes overseeing how applications and components are moved from development and test environments into production.

Delivery and Quality Management is composed to two teams:

The objectives of Delivery Management are to adhere to TRS Release Policies, collaborate with external partners and internal customers on the production and release of software, ensure that releases are appropriately tested following implementation, and optimize the integrity of software releases by overseeing the delineation of development, implementation, and testing roles and responsibilities.

The Quality Management (QA) team is responsible for planning, testing and maintaining documentation for testing TRS software applications. This includes a broad spectrum of work relating to testing and managing maintenance. The team also conducts load and stress testing of both development and infrastructure projects before releases to production. The team ensures proposed changes to the production applications and technical infrastructure meet acceptable performance standards using previously determined performance baselines.

Enterprise Infrastructure Services

Enterprise Infrastructure Services (EIS) ensures TRS applications and services are reliable, available and secure. This team is responsible for the back office operations of the TRS enterprise. They support and maintain the server, storage, imaging, networking and telecommunications environments that TRS requires to conduct its business and mission. The EIS team also provides operational support for the TRS Data Center and Co-Location Data Center.

Information Security

The Information Security department is responsible for cybersecurity, security governance, risk, compliance, and enterprise access management. The department ensures that enterprise security policies and procedures are implemented and followed to protect TRS systems and membership information. This department provides security awareness training and keeps TRS executive management aware potential information security threats and new security technologies and initiatives that benefit TRS. The Information Security Officer (ISO) ensures that the agency meets and complies with data security regulations and serves as the primary point of contact for information security incidents.

Business Relationship Management

Business Relationship Management promotes collaboration across IT delivery teams to provide first class IT services to TRS. This group manages Business Partner facing activities for IT including promoting engagement, developing relationships, understanding business direction and needs, driving formulation of solutions and roadmaps, proactively communicating, managing service level agreements, reporting, and overseeing service improvement initiatives.

BRM is comprised of three teams including Client Services, IT Planning and Engagement, and Enterprise Collaboration Services.

Client Services

Client Services is the Agency “HelpDesk” and provides first-level & second-level application and systems support to the TRS user community for complex PC hardware and software related questions and troubleshooting issues. The Client Services team is also responsible for implementation and administration of the desktop user experience and package delivery of software.

IT Planning and Engagement

The IT Planning and Engagement Team oversees the IT Project Portfolio and manages IT-driven initiatives, facilitates IT budget and contracting activities, coordinates IT strategic planning, and implements effective governance for core process areas within IT.

Enterprise Collaboration Services

The Enterprise Collaboration Services Team focuses on SharePoint and K2 design, development and support. These technologies support our external websites as well as our Enterprise intranet sites and internal workflows for automation of processes.

Data Management Program

The Data Architecture team is advancing data management concepts, technologies and capabilities under this program to support the increasing demands to become more data centric and drive efficiencies in the Business Intelligence and Data Analytics efforts throughout the organization. The Data Management program include:

- Financial and Benefits Analytic Data stores: integrated data models for core business data.
- Data Fabric Architecture: a common data integration platform that adopts a metadata driven approach to data acquisition and delivery and enables data catalog, lineage, glossary and quality capabilities.
- Big Data/Data Lake: integrates the Data Fabric with analytical data stores from semi and unstructured data.

TRS Enterprise Application Modernization (TEAM) Program

The TEAM Program is a collection of projects designed to meet the business and technology objectives of TRS over the next 10-20 years. TEAM is a combined effort of Benefit Services, HIB, and Shared Services. While IT is the TEAM Program sponsor, it is a leading program in the agency with an almost enterprise-wide impact.

TEAM embodies the agency's objective to implement modern pension and health care benefit information systems. When fully implemented, TEAM will improve TRS' ability to serve members by allowing TRS to be more responsive to member needs, mitigating risks associated with aging legacy systems, and providing greater flexibility to meet future technology and regulatory changes.

With TEAM, TRS can be more responsive to the needs of a growing membership base by leveraging leading technology services and tools to deliver accurate and timely benefits, enhance external communications, and streamline internal work processes for greater efficiency. For example, TEAM will allow TRS to respond to increasing membership demands for online self-service. When fully implemented,

it will improve active member and annuitant satisfaction through better service delivery, quality, and processing speed.

Upon completion of TEAM, TRS will have upgraded pension and health insurance administration systems running on modern technology. This reduces agency risk by replacing aging legacy systems and implementing more modern and accurate data and system security. Also, by modernizing TRS' technical environment, the agency is better able to recruit and retain IT positions to ensure the proper skill sets are in place for the future.

The TEAM Program will also deliver tools and techniques that offer greater flexibility for TRS to respond to future demands and regulatory changes, such as cost-of-living adjustments or benefit design changes. The TEAM Program builds the foundation for the future technology needs of the organization.

The first phase of the pension administration system went into production in October 2017 and the second, final phase is scheduled to be released in May 2020. The health insurance administration system is scheduled to be released in conjunction with the second phase of the benefit administration system in spring 2020.

This initiative aligns with the statewide technology priorities: Security and Privacy, Cloud Services, Legacy Modernization, Business Continuity, Enterprise Planning and Collaboration, Virtualization, Data Management, Mobility and Network.

Associated projects that support this technology initiative are:

Name	Status
Data Management Project	Completed FY 2016
Independent Project Assessment	In progress through Spring 2020
Pension Administration Line of Business Solution	In progress through Spring 2020
Decommissioning of Legacy Systems	In progress through FY 2020
Business Procedures and Training	In progress through FY 2020
Website Redesign Project	Completed in FY 2016
Health Insurance Line of Business Solution	In progress through Spring 2020

Project Management

Project Management (Project Management Office or PMO) defines and maintains guidelines concerning business analysis and project management activities. The PMO promotes enterprise process effectiveness and efficiency through innovation, flexibility, training, communication, collaboration, and supporting technologies.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? In Exhibit 12, provide a list of statistics and performance measures that best convey the effectiveness and efficiency of this program or function. Also, please provide the calculation or methodology behind each statistic or performance measure. Please do not repeat measures listed in Exhibit 2 unless necessary to understand the program or function.

Finance

During fiscal year 2018, Finance completed the following transactions and statistics:

- 4,776 vouchers processed;
- 604 purchase orders/credit card purchases issued;
- 190 contracts over \$100K managed totaling \$2.7B;
- 14,400 employee payroll transactions;
- 93,500 leave accounting transactions processed/audited;
- 1.4 million pieces of mail processed;
- 1,500 work orders completed;
- 5.3 million records imaged (1.9 million scanned from paper and 3.3 million auto committed); and
- 214 boxes of paper records and 822 GB of e-records purged (all time high).

Finance received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for the 3rd year; which reflects TRS' commitment in meeting the highest principals of governmental budgeting. The division also received the GFOA Certificate of Achievement for the Comprehensive Annual Financial Report (CAFR) for 28th year receiving an unqualified opinion by State Auditor's Office for 2018 CAFR.

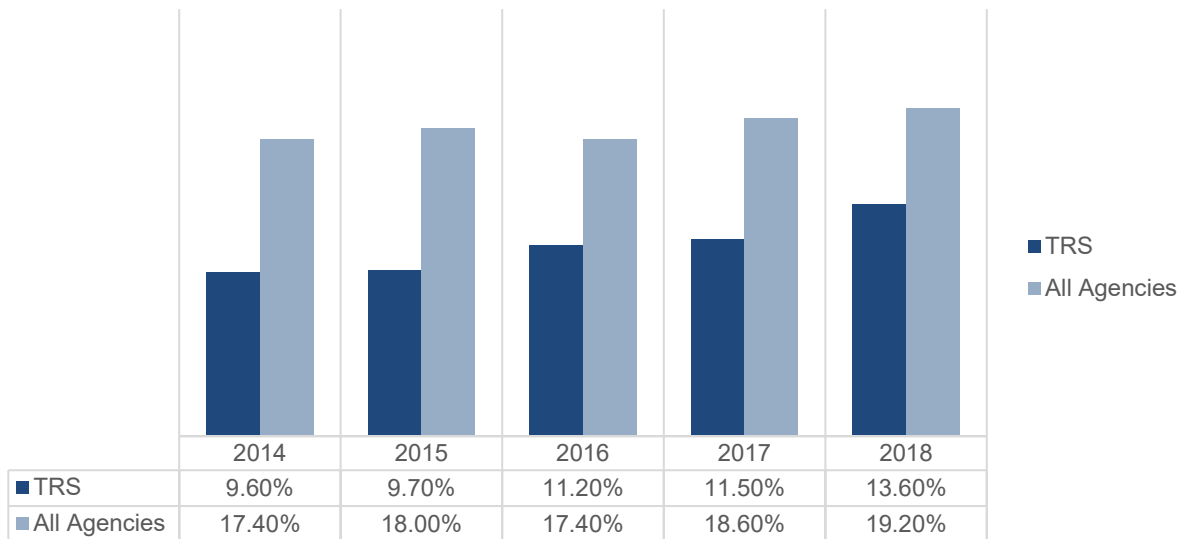
TRS is committed to the Texas Historically Underutilized Business (HUB) program and has improved our performance. TRS was one of the top 25 agencies spending more than \$5 million with the largest spent on HUBs. TRS continues to find ways to increase the amount of outreach to the HUB community for increased awareness.

Organizational Excellence

TRS has a highly competent, dedicated workforce and is the largest public retirement system in Texas, in both membership and assets. The workforce is comprised of 55.77 percent females and 44.23 percent males. The average TRS tenure for employees is 10.34 years. Approximately 10.85 percent of TRS employees are eligible to retire based on the rule of 80.

As reflected in the following chart, employee turnover at TRS has historically been below the statewide average among state agencies. Most recently, in fiscal year 2018, TRS turnover was 13.60 percent, well below the state average of 19.20 percent for the same period. TRS anticipates that its turnover rate may fluctuate with the Austin economy but expects overall turnover rates to remain below the state average.

EMPLOYEE TURNOVER



Every other year, TRS participates in the Survey of Employee Engagement (SEE). The SEE is an organizational climate assessment that gauges employee job satisfaction and identifies areas of opportunity to enhance employee engagement and satisfaction. The report focuses on key employee engagement drivers needed to achieve the vision and mission of TRS. One of the values of participating in multiple iterations of the survey is the opportunity to measure organizational change over time.

The overall survey score is a broad indicator for comparison with other entities. For comparison purposes, overall scores typically range from 325 to 375. The TRS overall survey score in 2018 was 390. Out of the 664 employees invited to take the survey, 72.1 percent responded.

In addition to the SEE, TRS participates in an employee survey administered by Energage in conjunction with the Austin American-Statesman. For six of the last seven years, TRS has been recognized as an Austin Top Workplace. TRS elected not to participate in the survey in 2011.

Overall, results from both surveys show that TRS employees have a vested interest in the mission of the organization. Where appropriate, executive leadership ensures that each department collaborates with Organizational Excellence to discuss responses and develop action plans addressing improvement opportunities.

Information Technology

In order to measure IT's operational effectiveness and efficiency, management reviews monthly customer satisfaction and IT incident and service requests reports. The Client Services department generates those report metrics using EasyVista service desk software. EasyVista produces monthly reports listing the projects completed, pending or currently in progress. In addition, incident and service requests for TRS are also produced and reviewed monthly to determine how well IT is performing. Every time an EasyVista ticket

is closed a customer satisfaction survey is produced which enables IT to respond proactively and adjust if necessary.

Information Systems Support and Development (ISSD) team uses Project Server to input and track application development service requests. This ensures that service requests are reviewed, prioritized and completed in a timely efficient manner.

IT reviews budget reports it receives monthly from TRS Finance. During this review, division department budget expenditures are examined. This process helps IT remain fiscally responsible and promotes more efficient strategic planning.

Project Management

Key quantitative statistics that demonstrate the effectiveness and efficiency of the PMO revolve around delivery of projects on time and within budget. By that measure, the PMO has been successful in managing several projects within the TEAM Program, including the creation of Business Rules, upgrading of the TRS website, the Data Management and Assessment Project, and Reporting Entity Outreach. The pension LOB project schedule has undergone revisions and will continue to be assessed as TRS prepares for Phase 2 LOB implementation.

A second qualitative measure of the effectiveness of PMO is if it meets the needs of internal customers. By this measure, the PMO has been successful:

- Demand for PMO services has increased as the team has demonstrated its value to the organization.
- The PMO was recognized with the Executive Director's Shining Example Award for Outstanding Customer Service in 2016.

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent. If the response to Section III of this report is sufficient, please leave this section blank.

The PMO was created in 2013 to centralize business analysis and project management services support for the TEAM Program. Since that time, the PMO has been primarily focused on TEAM implementation. In addition, the PMO supports the project governance processes other key TRS initiatives including the e-Records project, Remote Counseling, 415(b) retirement calculations, business processing mapping to improve technology usage, and other efforts.

E. List any qualifications or eligibility requirements for persons or entities affected by this program, such as licensees, consumers, landowners, for example. Provide a statistical breakdown of persons or entities affected.

Shared Services provides service to TRS' internal customers.

F. Describe how your program or function is administered, including a description of the processes involved in the program or function. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. Indicate how field/regional services are used, if applicable.

Finance

The goal of the Teacher Retirement System is to develop and submit a balanced budget so that the agency operates in accordance with the guidelines of the General Appropriations. Finance produces a balanced budget, one in which the total revenues equal total estimated expenditures. The TRS annual operating budget is balanced and prepared in accordance with board policy and guidelines and Generally Accepted Accounting Principles (GAAP).

The TRS budget is managed using the accrual basis of accounting in accordance with budgetary accounting practices. In accrual basis, revenues are recognized when they become available and measurable. Expenditures are recognized when the liability is incurred.

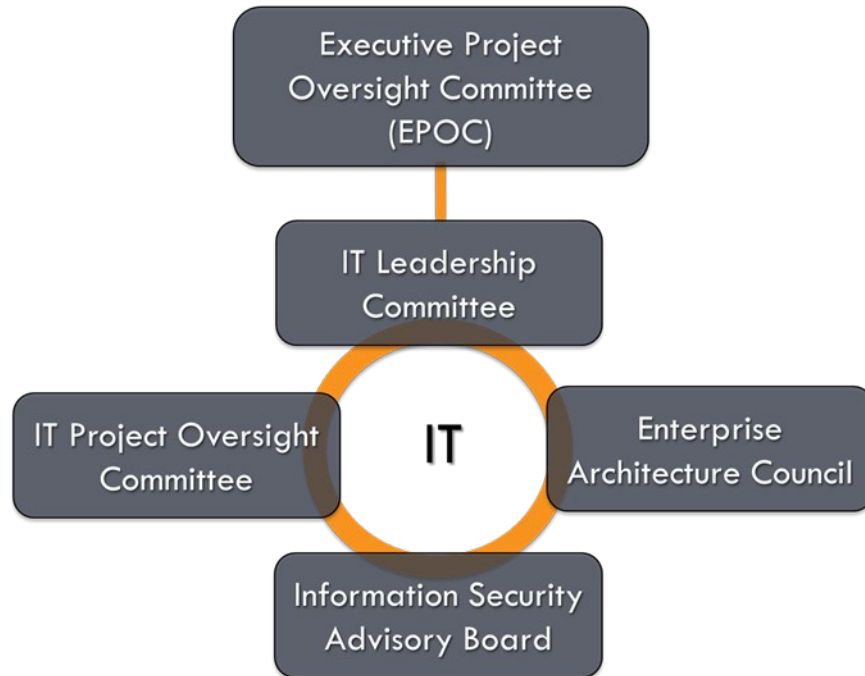
Finance services, including procurement and contracts, budget planning and analysis, records management, print and mail services, security, and facility safety and maintenance are administered daily onsite from the central headquarters building by full-time TRS employees. Finance is staffed by employees who maintain defined operational responsibilities – with all activities overseen by the Chief Financial Officer.

Organizational Excellence

Organizational Excellence programs are administered daily, or as needed, onsite from the central headquarters building by full-time TRS employees. OE is staffed by employees who maintain responsibility for all OE functions, including talent acquisition, performance management, learning and development, organizational change management, compensation, and workforce analysis. All activities are overseen by the Chief Organizational Excellence Officer, and work is driven by agency operational needs, strategic goals, and requests for divisional support.

Information Technology

TRS IT projects and key initiatives are governed by an IT governance framework. The purpose of this governance framework is to ensure that major projects are aligned with business goals, prioritized according to the needs of the entire enterprise, and properly defined and documented. It also establishes reporting structures to communicate project status and estimated costs to all internal customers. Moreover, the governance framework implements a review, evaluation, and prioritization process for approved IT projects and service requests to ensure IT resources are used to provide the most value to the agency. Information about requests that are not approved in the evaluation process will be captured in the request history. Finally, the governance framework ensure that technology and architecture choices are well communicated and documented. The IT Governance Framework relies on five teams that work together to ensure proper business alignment, project prioritization, resource planning, security and execution of TRS IT project initiatives. Each of these teams are summarized below (see chart below):



The Executive Project Oversight Committee (EPOC) provides oversight and prioritization for all TRS enterprise-wide projects. Key objectives for this committee include:

- Reviewing, approve and prioritizing enterprise/strategic projects and proposals that are referred from Project Sponsors or submitted through the IT governance process.
- Setting reporting cycles (e.g. weekly, monthly, and quarterly) for projects that are approved as enterprise projects.
- Ensuring that the overall portfolio of enterprise projects aligns to the strategic goals of TRS and providing the best overall investment of resources to mitigate risk, while effectively managing operations.
- Providing leadership and direction for enterprise projects through strategic objectives and activities.
- Resolving resource allocation issues based on project prioritization.
- Reviewing and approving policy recommendations related to enterprise projects.
- Ensuring open communication among all functional units impacted by enterprise projects to promote collaborative planning.
- Serving on project teams to develop the statement of work (SOW) or request for offers (RFO) and remaining involved throughout the development of the procurement document.

The IT Leadership Committee provides oversight and strategic direction for the IT Division. Key objectives for this committee include:

- Reviewing and monitoring key activities in each department to ensure proper alignment with business priorities.
- Identifying barriers and outstanding needs and assisting customers by working through them.
- Keeping updated on personnel activities, issues, and role changes.
- Reviewing risks and security concerns and ensuring they are being addressed.

The IT Project Oversight Committee directs and manages IT workload and resources to ensure IT projects and initiatives are aligned with EPOC priorities and Business goals. Key objectives for this committee include:

- Reviewing key projects and ensuring all aspects of a project are considered and communicated.
- Ensuring resources are aligned behind IT priorities, including developing recommendations regarding staffing and resource needs.
- Managing scheduling needs and adjustments for IT projects.
- Ensuring proper training and support is available for new services.

The Enterprise Architecture Council provides technology and architecture direction that supports current and future TRS business needs and direction guided by the EPOC. Key objectives for this committee include:

- Providing technology and architecture leadership and direction for all of TRS.
- Planning, reviewing, prioritizing and making decisions on enterprise-wide solution needs.
- Guiding enterprise IT project initiatives relating to technology, data, and integration.
- Providing strategic direction and visioning for use of technology.
- Providing suggestions for improving effectiveness and efficiency of TRS Business activities through technology solutions.

The Information Security Advisory Team oversees and provides direction related to IT Security policies and practices.

The PMO provides different levels of service engagement depending on the needs and scope of business requests. PMO recognizes that various enterprise, divisional, and departmental requests may require significant rigor when applying guidelines and practices of analysis, planning, execution, and reporting. While other business unit requests can be successful with a less rigorous approach.

The PMO works with executive sponsorship and other stakeholders to determine the appropriate engagement level, and how formal guidelines will be applied. By utilizing guidelines, the PMO provides consistent and disciplined approaches to:

- Ideation Services – The PMO serves as a facilitator in the collection and analysis of ideas and or requests, and communicating the findings with agency management. This enables the assignment and priority alignment of requests to a proper service pipeline.
- Business Process Analysis & Management Services – The PMO manages and improves the use of technology in business processes and collaborates with project stakeholders to manage daily activities and resources. It also provides process analysis, requirements management, and creates and validates user acceptance testing
- Portfolio, Program & Project Management Services – The PMO manages the project portfolio, according to defined guidelines, and as directed by the agency's management, including coordinating vendor activities on large projects. The PMO participates in the assignment of PMs and project team members and is a clearinghouse of information to support planning and scheduling of projects based upon existing resource commitments.

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

Shared Services are primarily funded through the fiduciary funds consisting of the pension fund and TRS-Care. See Section V. for a discussion of TRS funding sources.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions to the target population. Describe the similarities and differences.

Organizational Excellence

IMD has a Talent Management Team that oversees performance management, career paths, learning and development, and internship programs for IMD employees. The nature of the investment industry necessitates IMD-specific talent management to focus on recruitment, development, and retention of exceptional investment professionals in a fast-paced and competitive recruiting environment.

Project Management

Information Technology and the Project Management Office can, at times, provide similar services but on differing scales. For example, the, the IT Division has many projects to enhance or scale technology services that they undertake and most of them are managed by technical or management staff within the IT Division while the PMO oversees and manages multi-divisional or enterprise-wide projects that may, or may not, have a technology focus.

Business analysis services are also offered by Internal Audit, staff within IT and in the various business areas. As in project management services, the PMO collaborates with business units upon request to determine the right level of engagement.

- I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.**

Organizational Excellence

IMD's Talent Management Team coordinates with OE on all agency-wide programs, including talent acquisition, compensation, employee relations, and workplace accommodations.

Project Management

PMO does not have MOUs with internal or external departments. However, the PMO does have a charter that outlines the services it provides and what internal TRS departments can and should expect from the PMO.

- J. If the program or function works with local, regional, or federal units of government, include a brief description of these entities and their relationship to the agency.**

Project Management

The PMO provides regular reports to the State Quality Assurance Team and interacts with the Department of Information Resources. On specific projects, the PMO may interact with school districts, universities, other retirement systems, and the Comptroller's Office. This interaction is a function of the projects that that the PMO is managing at any given point in time.

- K. If contracted expenditures are made through this program please provide**

- a short summary of the general purpose of those contracts overall;
- the amount of those expenditures in fiscal year 2018;
- the number of contracts accounting for those expenditures;

- **the method used to procure contracts;**
- **top five contracts by dollar amount, including contractor and purpose;**
- **the methods used to ensure accountability for funding and performance; and**
- **a short description of any current contracting problems.**

Finance

- **a short summary of the general purpose of those contracts overall;**

The general purpose for the contracts for Finance is to provide support and tools to fulfill the mission and support to the agency.

- **the amount of those expenditures in fiscal year 2018;**

The total spent on contracts for fiscal year 2018 was \$4,556,139.

- **the number of contracts accounting for those expenditures;**

84

- **the method used to procure contracts;**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Texas Facilities Commission (\$3,150,000) – Construction services for building upgrades

Access Sciences Corporation (\$1,736,992) – Modernization of agency's records management

McCoy Rockford, Inc. (\$1,464,000) – Office furniture

Cobos Design and Construction, Inc. (\$1,200,000) – Architectural services for remodel

American Facility Services, Inc. (\$832,324) – Janitorial services

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations.

- **a short description of any current contracting problems.**

Finance has not experienced any material contracting problems or issues. However, TRS is working to enhance its procurement program.

TRS' Procurement Enhancement Initiative

In recent years, there has been an increased emphasis on state contracting by the legislature, Legislative Budget Board (LBB), and Texas Comptroller of Public Accounts (CPA). In addition, the CPA requires that all state agencies move to the Comptroller's Centralized Accounting and Payroll/Personnel System (CAPPS). TRS started the implementation process for CAPPS in September 2018.

In advance of the implementation, and to ensure TRS was aligned with established state contracting best practices, TRS' Internal Audit conducted an audit of TRS' vendor procurement business objectives as they are related to TRS' Procurement and Contracts (P&C) department in late June 2018.

As a result of the internal audit, a significant audit finding was contract sponsors failing to appropriately engage P&C in initiating and executing a contract and failure to follow TRS' procurement guide.

In response to the internal audit, TRS engaged Ernst and Young (EY) to assist in the development of a three year plan for overall transformation of TRS' procurement program. This plan includes developing a:

- governance program that outlines detailed procurement policies and procedures that are aligned with the state best practices and provide TRS with flexibility to meet TRS' unique procurement needs;
- communications and training program for the agency;
- monitoring plan to ensure that changes to the program are working and providing the desired results; and
- strategic sourcing program that incorporates strategic cost savings methodologies.

TRS has completed and implemented the following:

- increased communications and training for TRS contract sponsors to enhance contract monitoring;
- increased communication and collaboration with internal customers to streamline processes;
- increased governance by implementing a non-compliance and oversight program;
- developed tools for increased visibility of contracts for monitoring contract performance;
- developed an annual procurement plan;
- enhanced internal processes for P&C; and

- successfully implemented CAPPs.

As TRS was working to evolve its contracting processes, the 86th Legislature passed Senate Bill 65 (SB 65) which repealed Texas Government Code Section 825.103(g). Changes to TRS' procurement process due to SB 65 include the following:

- Contracts totaling \$5 million or more over the life of the contract (including renewals) are required to be reviewed by the state's Contract Advisory Team and reported to TRS' executive management and the board of trustees for potential contract risks;
- Vendor performances are required to be reported to the State's Vendor Performance Tracking System for contracts and purchase orders (PO) that are \$25,000 or more for the life of the contract;
- Enhanced contract monitoring and risk assessments are required;
- All contracts and POs that are \$15,000 or more are to be posted to TRS' external website;
- TRS may not contract with a vendor or contractor if trustees, executive management, or the Director of Procurement and Contracts has a conflict of interest to the second degree of consanguinity.

To incorporate the changes from SB 65 and provide contract sponsor training, the timeline for the publication of TRS' Procurement and Contracting Guide has been changed and stands as follows:

- Sept. 2019 – P&C completes a draft procurement guide with quick start guides and job aids;
- Sept. to Dec. 2019 – Internal stakeholders, such as L&C and executive management review the guide;
- Jan. 2020 – P&C publishes guide.
- Beginning January 2020 – P&C conducts training on the guide, quick start guides, and job aids.

Organizational Excellence

- **a short summary of the general purpose of those contracts overall;**

The general purpose for the contracts Organizational Excellence (OE) is to provide support and tools to fulfill the mission of OE.

- **the amount of those expenditures in fiscal year 2018;**

The total spent on contracts for fiscal year 2018 was \$767,284.

- **the number of contracts accounting for those expenditures;**

28

- **the method used to procure contracts**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Cornerstone On Demand, Inc. (\$680,984) – Human resources and training software

Focus Consulting Group (\$324,000) – Executive coaching and assessment services

Coaching by Cornerstone (\$144,400) – Management continuity and executive accelerator program

LinkedIn Corporation (\$137,759) – Career and recruiter services

SHI Government Solutions (\$136,850) – Neogov Software and maintenance

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations.

- **a short description of any current contracting problems.**

Organizational Excellence has not experienced any material contracting problems or issues.

Information Technology

- **a short summary of the general purpose of those contracts overall;**

The general purpose for the contracts of Information Technology (IT) is to provide support and tools to fulfill the mission of IT.

- **the amount of those expenditures in fiscal year 2018;**

The total spent on contracts for fiscal year 2018 was \$13,037,704.

- **the number of contracts accounting for those expenditures;**

296

- **the method used to procure contracts**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Enterprise Services, LLC (Perspecta) (\$44,087,539) – TRUST line of business contract

Provaliant Holdings, LLC (\$8,749,200) – TEAM Program management services

Global Scope Communications Corp. (\$5,500,000) – Call center modernization

SHI Government Solutions (\$1,497,757) – Microsoft enterprise maintenance services

Department of Information Resources (\$1,256,760) – Voice and data services

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations.

- **a short description of any current contracting problems.**

IT has not experienced any material contracting problems or issues. See Section II.H regarding key challenges in completing the pension LOB.

Project Management

- **a short summary of the general purpose of those contracts overall;**

The PMO contracts with external vendors primarily in support of the TEAM program for product development or staffing solutions.

- **the amount of those expenditures in fiscal year 2018;**

The total spent on contracts for fiscal year 2018 was \$739,513.

- **the number of contracts accounting for those expenditures;**

12

- **the method used to procure contracts**

The procurement methods ranged from competitive solicitations, interagency agreements, sole source, statewide contracts, and other methods pursuant to TRS' procurement authority under Texas Government Code Section 825.103(d).

- **top five contracts by dollar amount, including contractor and purpose;**

Allied Consultants, Inc. (\$355,205) – Staff augmentation for a business analyst

Neos Consulting Group, LLC (\$355,205) – Staff augmentation for a business analyst

Narda J. Fisher dba NF Consulting Services (\$242,250) – Staff augmentation for a business analyst

TekSystems (\$223,704) – Staff augmentation for a business analyst

Neos Consulting Group, LLC (\$190,350) - Staff augmentation for a business analyst

- **the methods used to ensure accountability for funding and performance; and**

TRS assigns contract sponsors who monitor contractor performance, validate invoices, and oversee contract obligations. Additionally, these contracts are each managed by a designated Project Manager who is responsible for reviewing and approving deliverables and authorizing the payment of invoices associated with those deliverables.

- **a short description of any current contracting problems.**

IT has not experienced any material contracting problems or issues.

L. Provide information on any grants awarded by the program.

Shared Services does not award grants.

M. Are there any barriers or challenges that impede the program's performance, including any outdated or ineffective state laws? Explain.

The current State Classification Plan does not provide sufficient titles, levels, and salary ranges to allow TRS to recruit and retain specialized positions, especially with IMD, L&C, and IT positions.

N. Provide any additional information needed to gain a preliminary understanding of the program or function.

No further information is provided.

O. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe

- **why the regulation is needed;**
- **the scope of, and procedures for, inspections or audits of regulated entities;**
- **follow-up activities conducted when non-compliance is identified;**
- **sanctions available to the agency to ensure compliance; and**
- **procedures for handling consumer/public complaints against regulated entities.**

No regulatory programs are associated with Shared Services.

P. For each regulatory program, if applicable, provide detailed information on complaint investigation and resolution. Please adjust the chart headings as needed to better reflect your agency's particular programs. If necessary to understand the data, please include a brief description of the methodology supporting each measure.

Not applicable. Exhibit 13 deleted.

VIII. Statutory Authority and Recent Legislation

- A. Fill in the following charts, listing citations for all state and federal statutes that grant authority to or otherwise significantly impact your agency. Do not include general state statutes that apply to all agencies, such as the Public Information Act, the Open Meetings Act, or the Administrative Procedure Act. Provide information on Attorney General opinions from FY 2013–2018, or earlier significant Attorney General opinions, that affect your agency’s operations.

EXHIBIT 14: CONSTITUTIONAL AUTHORITY / STATUTES / ATTORNEY GENERAL OPINIONS

Statutes

Citation / Title	Authority / Impact on Agency
CONSTITUTIONAL AUTHORITY	
Texas Constitution, Article XVI, Section 67	Authorizes programs of retirement for Texas public education employees and provides for the administration of such programs; establishes minimum state and member contributions to retirement programs. Requires retirement plan assets to be held in trust for the benefit of participants. Establishes TRS plan as a trust and requires administration by trustees, thus triggering fiduciary responsibilities; establishes authority and restrictions on investment authority of the TRS Board.
STATE LAWS	
Chapter 802, Tex. Gov’t. Code	Administrative requirements for Texas public retirement systems. TRS is excluded from many sections. Impact relates mainly to reporting requirements and information to membership.
Ch. 803, Tex. Gov’t. Code	Proportionate Retirement Program for members with service in more than one participating Texas public retirement system. Provides TRS and other plan members greater portability of benefits.

Citation / Title	Authority / Impact on Agency
Ch. 804, Tex. Gov't. Code	Domestic Relations Orders and Spousal Consent – Authorizes payment to former spouse or other alternate payee pursuant to a qualified domestic relations order (QDRO); authorizes a public pension system to require spousal consent for a form of retirement payment other than joint and survivor annuity or for selection of beneficiary other than spouse for death benefits. Impact is primarily administrative, to review orders and divide payments between member and non-member spouse when authorized.
Ch. 805, Tex. Gov't. Code	Credit Transfer Between ERS and TRS – Authorizes transfer of credit between two systems by a member with credit in both. Statute provides greater portability of benefits between these two systems.
Ch. 808, Tex. Gov't. Code	Establishes prohibitions on investment in companies that boycott Israel.
<i>Texas Government Code, Title 8, Subtitle C (Chapters 821-825)/ Teacher Retirement System of Texas</i>	Establishes the program of retirement benefits, authorizes rules for membership in and the management and operation of TRS. These are the key statutory provisions for the administration of the pension plan, defining the benefits available, eligibility, computation of benefits, service credit available, allowable employment after retirement without loss of benefits, and other necessary details. Other key statutory provisions define the scope of TRS' investment authority and related matters, such as custody of pension assets and securities lending.
Chapter 830, Tex. Gov't. Code	Authorizes eligible employees of Texas public education higher education institutions and the Commissioner of Education to elect to participate in the Optional Retirement Program (ORP) instead of TRS. ORP is administered by the employing higher education institution with oversight by the Texas Higher Education Coordination Board. Chapter 830 also provides a statutory correction procedure for employees who elected to participate in ORP but were erroneously reported to TRS.
Tex. Gov't. Code § 411.0971	Permits TRS to access criminal history records.

Citation / Title	Authority / Impact on Agency
Tex. Gov't. Code § 551.130	Permitting the TRS Board of Trustees to hold an open or closed meeting by telephone conference call if a quorum of the board is physically present at one location of the meeting.
Tex. Gov't. Code § 552.0038	Exempting certain records of a public retirement system from the Public Information Act
Tex. Gov't. Code § 552.154	Exempting the name of an applicant for the position of executive director, chief investment officer, or chief audit executive of TRS from Tex. Gov't. Code § 552.021, except that the board of trustees must give public notice of the names of three finalists being considered for one of those positions at least 21 days before the date of the meeting at which the final action or vote is to be taken on choosing a finalist for employment.
Chapter 2270, Tex. Gov't. Code (SB 253, 85 th Leg.)	Establishes prohibitions on investments relating to Iran, Sudan, and designated foreign terrorist organizations.
Chapter 2270, Tex. Gov't Code (HB 89, 85 th Leg.)	Prohibits contracts with companies boycotting Israel.
Tex. Educ. Code §§ 12.012, 12.055, 12.057, 12.105-12.1057, and 12.1164	Address the eligibility of certain charter school employees for participation in the TRS retirement program
Tex. Educ. Code § 19.009	Establishing TRS-eligibility for Windham School District employees.
Tex. Educ. Code § 21.4021	Providing that a furlough under Chapter 21, Tex. Educ. Code does not constitute a break in service for the purposes of TRS.
Tex. Educ. Code § 21.452	Providing that an employee on developmental leave continues to be a member of TRS.
Tex. Educ. Code § 22.004(i)	A school district participating in TRS-ActiveCare may not make group health coverage available to its employees after the date on which TRS-ActiveCare coverage is offered to the school district's employees.
Tex. Educ. Code § 22.007	Prohibiting a school district from offering or providing a financial or other incentive to an employee to encourage the employee to retire from TRS.
Tex. Educ. Code § 37.011	Providing that a certified educator employed by a juvenile board in a juvenile justice alternative education program is eligible for participating in TRS in accordance with TRS rules.

Citation / Title	Authority / Impact on Agency
Texas Insurance Code, generally	Various rights and coverage mandates are found throughout the Texas Insurance Code (such as in Chapters 1204 and 1207) that apply to TRS-Care and TRS-ActiveCare and are reflected in the plan benefits offered under these two programs.
<i>Texas Insurance Code, Chapter 1575 / Texas Public School Retired Employees Group Benefits Act</i>	Enabling statutes for establishment and administration of TRS-Care, of which TRS is the trustee
<i>Texas Insurance Code, Chapter 1576 / Group Long-term Care Insurance for Public School Employees</i>	Enabling statutes for establishment and administration of the Group Long-term Care Insurance program, of which TRS is the trustee
<i>Texas Insurance Code, Chapter 1579 / Texas School Employees Uniform Group Health Coverage Act</i>	Enabling statutes for establishment and administration of TRS-ActiveCare, of which TRS is the trustee
Tex. Rev. Civ. Stat. Ann. art. 4413(34e)	Requires TRS to file reports regarding its pension trust fund.

FEDERAL LAWS

26 USC § 401(a), Internal Revenue Code (IRC) of 1986, related sections, and associated regulations	<p>Establishes plan qualification requirements for governmental and private retirement plans that wish to operate as qualified plans. Section 825.506, Tex. Gov't. Code, establishes intent for TRS to operate as a qualified plan under IRC Section 401(a). Qualification requirements include:</p> <ul style="list-style-type: none"> • Administering the plan as a trust for the exclusive benefit of participants and their beneficiaries. See IRC Section 401(a)(2). • Meeting minimum vesting standards of IRC Section 411. For governmental plans, IRC Section 411 requires satisfaction of pre-ERISA vesting standards. See IRC Section 401(a)(7). • Complying with required minimum distribution rules. See IRC Section 401(a)(9). • Complying with certain limitations such as on the amount of benefits payable from the trust. See IRC §§ 401(a)(16) and (17). • Allowing rollovers from the plan to another eligible retirement plan. See IRC §401(a)(31). <p>For purposes other than benefit accruals, treating a participant who dies while performing qualified military</p>
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Citation / Title	Authority / Impact on Agency
	service as if the participant had resumed employment and then terminated employment on account of death. See IRC § 401(a)(37) (as added by Heroes Earnings Assistance and Relief Tax (HEART)).
26 USC § 414(d)	IRC defines a "governmental plan" as "a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing." Such plans are exempt from Titles I and IV of ERISA (Employee Retirement Income Security Act of 1974) and from some tax code plan qualification provisions made applicable by ERISA to retirement plans. Impact: To maintain TRS' status as a governmental plan, state must restrict participation to public education employees.
26 USC § 414(h)	IRC provision allowing employer to treat certain employee contributions as employer contributions ("picked-up" by the employer) if certain requirements are met. Allows members to contribute to TRS on a tax-deferred basis. See <i>also</i> Tex. Gov't Code § 825.409. Impact: Saves tax dollars for members during their working years; member pays when benefits are distributed, normally when tax bracket is lower.
26 USC § 414(p)	IRC provision providing that a distribution from a governmental plan made pursuant to a domestic relations order will be treated as a "qualified" domestic relations order (QDRO) if that order creates or recognizes the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a portion of the benefits payable with respect to a participant under a plan. A governmental plan is not required to accept QDROs. However, if a plan makes distributions under domestic relations orders that satisfy the QDRO rules, the appropriate tax consequences are determined by federal law.

Citation / Title	Authority / Impact on Agency
26 USC § 414(u) (Uniformed Services Employment and Reemployment Rights Act)	The Uniformed Services Employment and Reemployment Rights Act (USERRA) 38 USC § 4301 et seq. amended the IRC to provide expanded retirement benefit rights for veterans. IRC provision protects employment rights and benefits of personnel called to military duty, including retirement and health care benefit rights. USERRA service credit available under Tex. Gov't. Code § 823.304.
26 USC §§415(b) and 415(m)	IRC limits the amount of benefits payable by a qualified plan to a retiree on an annual basis. Any excess benefit amount may not be paid from the TRS trust fund. State law establishes an "excess benefit arrangement" (Tex. Gov't. Code § 825. 517) to permit such recipients to receive the excess amount from the State of Texas in the form of excess benefits payable under the excess benefit arrangement rather than from the pension plan.
26 USC §§ 72, 402, 3405, 6321, 6331 & 6652(i)	Provisions of the IRC that establish requirements for TRS as a payor, such as withholding of taxes, reporting retirement benefit income to the IRS, and compliance with IRS liens and levies. Section 72 imposes a 10% penalty on plan participants for early withdrawal of retirement plan savings or benefits. Section 402 requires TRS to provide a "Special Tax Notice" to recipients prior to making an eligible rollover distribution.
26 USC § 503(b)	IRC provision addressing prohibited transactions. While a governmental plan is not subject to an excise tax under IRC § 4975, violations of the exclusive benefit rule can give rise to a prohibited transaction under IRC § 503(b).
Age Discrimination in Employment Act of 1967 (ADEA) Pub. L. No. 90-202 (29 USC § 621 et seq.)	Prohibits limiting or reducing benefit accruals or prohibiting plan participation on account of age.
Title VII of the Civil Rights Act of 1964 Pub. L. 88-352 (42 U.S.C. § 2000d et seq.)	Prohibits discrimination in contributions or benefits on the basis of sex, race, color, national origin, or religion
Employee Retirement Income Security Act of 1974 (ERISA) 29 USC §§ 1001-1461	Establishes plan design and administrative requirements for retirement plans in order to protect participants. As noted above, governmental plans are exempt from Titles I and IV of ERISA. Regulatory and court rulings under ERISA often address issues of interest for governmental plans, even when those rulings are not binding on such plans.

Citation / Title	Authority / Impact on Agency
Securities Act of 1933, 15 U.S.C. 77a – 77mm;	The Act and regulations issued under the Act may require that TRS file certain investment-related reports; regulates securities offerings, issuers, and transfers, and, by reference, in § 825.301, Tex. Gov't. Code, describes securities eligible for TRS investment
Securities Exchange Act of 1934, 15 U.S.C. 78a-78mm; Insider Trading Sanctions Act of 1984, 15 U.S.C. 78a note.	May require that TRS file certain investment-related reports; describes securities in which TRS may invest. The Act's anti-fraud provisions prohibit insider trading and apply to TRS and its employees. The Act provides for regulation of exchanges, public company reporting, required company insider filings, and broker-dealers doing business with TRS.
Investment Advisors Act of 1940, 15 U.S.C. 80b-1 – 80b-2.	Imposes fiduciary duties on managers covered by the Act and regulates external investment managers with whom TRS contracts for investment of TRS assets. Regulates advisers engaged by private investment funds to manage fund assets. Imposes SEC filing requirements for the protection of the investing public.
Dodd–Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203.	A 2010 law that amended 11 federal laws to increase regulation and oversight of the financial industry. The law's primary effects have been stricter risk controls on larger financial institutions, regulation of derivatives transactions, and restrictions on proprietary trading by banks that sponsor investment funds in which TRS invests.
Consolidated Omnibus Budget and Reconciliation Act of 1985 (COBRA) 42 USC §§ 300bb-1 to 300bb-8	Establishes rights of health plan participants to continue participation in group health benefit programs under certain conditions.
Health Insurance Portability and Accountability Act of 1996 (HIPAA) Pub. L. 104-191; Health Information Technology for Economic and Clinical Health (HITECH) Act 2009; HIPAA Omnibus Rules 2013	Requires procedures to protect privacy of protected health information (PHI) related to TRS and its business associates. Also requires special enrollment periods for certain life events and loss of group health plan coverage and prohibits discrimination in health plans based on health status.
Child Support Performance and Incentive Act (CSPIA) Pub. L. No. 105-200	Subjects health plans to National Medical Support Notices which are standardized medical child support orders used by state child support enforcement agencies to obtain group health plan coverage for children.

Citation / Title	Authority / Impact on Agency
Mental Health Parity and Addictions Equity Act (MHPAEA) Pub. L. No. 110-343	Requires health plans to provide parity between medical/surgical benefits and mental health/substance abuse disorder benefits.
Women's Health and Cancer Rights Act (WHCRA) Pub. L. No. 105-277	Requires health plans that provide medical and surgical benefits for mastectomy to provide benefits for reconstructive surgery.
Newborns' and Mothers' Health Protection Act (NMHPA) Pub. L. No. 104-204	Prohibits health plans from restricting benefits for any hospital stay in connection with childbirth for the mother or newborn child to less than 48 hours following a vaginal delivery or 96 hours for a cesarean section.
Genetic Information Nondiscrimination Act (GINA) Pub. L. No. 110-233	Prevents health plans from adjusting premium amounts based on genetic information; requesting or requiring an individual or an individual's family members to undergo genetic testing; and requesting, requiring, or purchasing genetic information for underwriting purposes.
Americans With Disabilities Act (ADA) Pub. L. No. 101-336	Among other things, prevents health plans from discriminating against disabled individuals in terms of eligibility and benefits.
Patient Protection and Affordable Care Act (PPACA) Pub. L. No. 111-148 and Health Care and Education Reconciliation Act (HCERA) Pub. L. No. 111-152	<p>Imposes a wide variety of requirements on health plans maintained by TRS such as:</p> <ul style="list-style-type: none"> • Prohibiting lifetime and annual limits on essential health benefits; • Prohibiting preexisting condition limitations, waiting periods beyond 90 days, and rescissions; • Requiring coverage for children up to age 26; • Requiring patient protections, preventive health services at no cost, and participation in clinical trials; • Requiring specified claims and appeals procedures for denied medical claims; • Requiring an independent external review of denied claims appeals; • Requiring distribution of a summary of benefits and coverage describing plan benefits; • Requiring reporting to the Internal Revenue Service regarding offers of health coverage and enrollment in health plans; • Prohibiting discrimination in health plans; • Requiring payment of Patient Centered Outcomes Research Institute Fees; and

Citation / Title	Authority / Impact on Agency
	<ul style="list-style-type: none"> Requiring payment of Transitional Reinsurance Fees.
Social Security OASDI 42 USC 410	State and local governmental employees covered by an acceptable alternative retirement plan such as TRS are exempt from otherwise mandatory Social Security OASDI coverage. (Note, however, that if an employee's position is covered by a Section 218 agreement, he/she must be covered by Social Security regardless of the level of retirement benefit earned by the employee in such position.) While some districts in Texas participate in Social Security, the vast majority do not. Non-participation may trigger GPO and WEP effects described below.
Social Security Government Pension Offset (GPO) 42 USC § 402(k) (5) (A)	GPO reduces spousal Social Security benefits based on TRS benefits when the employee's employment prior to retirement was not covered by Social Security. Amendments to the GPO in 2004, which tightened the applicability of GPO, affected TRS 2004 retirement patterns, causing some members to retire early before the GPO changes took effect.
Social Security Windfall Elimination Provision (WEP) 42 U.S.C. § 415(a)(7)	WEP reduces Social Security benefits of persons employed in positions not covered by Social Security. WEP affects TRS retirees who are eligible to receive Social Security but who also worked in districts not covered by Social Security.
Social Security "Section 419" notice Pub. L. No. 108-203, § 419 (42 USC 1320b13(a)(2))	Employers are required to give their employees "Section 419" notice (Form SSA-1945) concerning the GPO and WEP resulting from work not covered by Social Security. Employers must send a copy of the notice to TRS.

Citation / Title	Authority / Impact on Agency
Medicare Social Security Act of 1965, Pub.L. 89-97 (42 USC § 1395 et. seq.)	Medicare provides health benefit coverage to retired employees age 65 or older. Medicare coverage reduces costs to TRS-Care for TRS-Care participants who are Medicare-eligible. Medicare also imposes requirements to ensure that certain group health plans pay primary before Medicare pays claims (Medicare secondary payer rules).
Medicare Part D Prescription Drug Improvement, Medicare and Modernization Act of 2003, Pub.L. 108-173	Allows TRS to maintain an employer group waiver program to provide Medicare Part D prescription drug benefits to eligible retirees. Also requires health plans to issue Certificates of Creditable Coverage to Medicare-eligible members and dependents

Table 14 Exhibit 14 Statutes

Attorney General Opinions

Attorney General Opinion No.	Impact on Agency
Tex. Att'y Gen. ORD – 593 (1991)	Ruling allowed TRS to withhold from public disclosure certain information about a real estate investment; this ORD and subsequent similar rulings were relied upon for a number of years with respect to alternative assets investments, including real estate and private equity.
Op. Tex. Att'y. Gen. No. LO94-093 (1994)	Determining that a salary increase awarded five months after a contract has been completed and performed in whole is retroactive and in violation of section 44 of article III of the Texas Constitution and TRS may exclude such compensation from a member's salary and wages when computing benefits.

Attorney General Opinion No.	Impact on Agency
Op. Tex. Att’y Gen. No. JC-0043 (1999)	Holding that TRS should rely on Article 8 of the Uniform Commercial Code for the definition of “security” for TRS constitutional purposes, and determining that the TRS Board lacked statutory authority to delegate discretionary authority over TRS investments to private investment managers. The 1999 Legislature responded to this opinion by amending § 825.301 to define “securities” by reference to the federal and state securities laws, effectively overruling the AG’s opinion, and also expressly authorizing TRS to engage external managers and delegate investment discretion.
Op. Tex. Att’y Gen. No. GA-0018 (2003)	Former teachers who accept temporary employment with third-party contractors that provide educational services to school districts do not forfeit retirement benefits as a matter of law
Op. Tex. Att’y Gen. No. GA-0019 (2003)	Information held by the Interagency Council on Pharmaceuticals Bulk Purchasing, of which TRS is a member, is confidential by law; members may not share confidential information with their employing agency.
Op. Tex. Att’y Gen. No. GA-0075 (2003)	Determined that TRS is not required to pay a share of the state employees workers’ compensation pooled claims but instead may pay actual claims incurred. The pooling mechanism would have required TRS to use trust funds to subsidize other state agencies’ workers’ compensation claims.
Tex. Att’y Gen. Memorandum Opinion (Oct. 16, 2003)	Concludes that TRS is exempt from § 2165.007, Tex. Gov’t. Code, because TRS property was purchased with TRS trust funds, thereby impressing the property with the character of a trust and making that property part of the trust assets.
Tex. Att’y Gen. Memorandum Opinion (Sept. 16, 2004) and subsequent correspondence from Lieutenant Governor and Speaker of the House	Advised state leadership on issues relating to the Health Reimbursement Arrangement (HRA) program. Additional communications followed from state leadership to TRS. The TRS Board ultimately halted HRA program development and continued the supplemental compensation program due to absence of funding for HRAs.

Attorney General Opinion No.	Impact on Agency
Op. Tex. Att'y Gen. No. GA-0300 (2005)	Payment for accumulated vacation time, paid as salary under an employment contract, is not creditable compensation for the purpose of determining TRS benefits. This confirmed TRS' administration of creditable compensation laws to prevent large lump sum payments for unused leave from being treated as salary and thus significantly increasing a member's benefit computation in the last few years before retirement, which imposes actuarial costs on the pension plan.
Op. Tex. Att'y. Gen. No. KP-220 (2018)	Determining whether TRS may invest its assets in an indexed universal life insurance product depends on whether the product (1) constitutes a "security"; and (2) meets the standards for prudence and overall strategy set forth in article XVI, § 67(a)(3) of the Texas Constitution and § 825.301(a).

Table 15 Exhibit 14 Attorney General Opinions

- B. Provide a summary of significant legislation regarding your agency by filling in the charts below or attaching information already available in an agency-developed format. Briefly summarize the key provisions. For bills that did not pass but were significant, briefly explain the key provisions and issues that resulted in failure of the bill to pass (e.g., opposition to a new fee, or high cost of implementation). Place an asterisk next to bills that could have a major impact on the agency.**

EXHIBIT 15: 86TH LEGISLATIVE SESSION***Legislation Enacted***

Bill Number	Author	Summary of Key Provisions
HB 1	Zerwas	Pension State Contribution continues 6.8% statutory state contribution rate. TRS-Care Contribution continues 1.25% statutory state contribution rate. Includes \$231M one-time appropriation to TRS-Care to maintain benefits through 2021.
SB 500	Nelson	Appropriates additional dollars to fund pension contribution increase and supplemental payment. Provides \$524 million to fund the increases for the state's contribution to the pension fund from 6.80% to 7.50% in fiscal years 2020 and 2021. Provides \$589 million to fund the supplemental annuity check.
SB 12	Huffman	Provides for gradual increases from the state, school districts and regional education service centers, and active employees to make the pension fund actuarially sound. Provides members who retired on or before Dec. 31, 2018 a one-time supplemental payment in either the amount of their monthly annuity payment or \$2,000, whichever is less.
HB 1612	Murphy	Repeals the Sept. 1, 2019 sunset date on authority to invest in hedge funds. The bill maintains the 10% cap on that authority.
HB 2820	Flynn	Removes the certification process for 403(b) companies and products by TRS.
SB 1682	Huffman	Requires TRS to establish a contingency reserve fund equal to sixty days of average projected claims and administrative costs for TRS-Care.
HB 2629	Flynn	Requires the TRS Board of Trustees, in adopting rules governing the appeal of a final administrative decision of TRS, to ensure that rules establishing deadlines for the filing of an appeal afford a member or retiree at least the same amount of time to file an appeal as TRS has to issue a decision.
SB 65	Nelson	Provides for additional oversight and requirements in state agency contracting and procurement.
SB 1264	Hancock	Prevents out-of-network emergency care, facility-based provider, out-of-network laboratory service, or an out-of-network diagnostic imaging service from balance billing patients in TRS-ActiveCare and TRS-Care. Requires mediation for participants in TRS health care programs on a disputed out-of-network facility claims. For out-of-network physicians' charges, TRS and the physician will either settle claims in an informal teleconference or in arbitration.
SB 2224	Huffman	Requires retirement systems to adopt a written funding policy. The policy would include a plan to achieve a 100% or more funded ratio.

Bill Number	Author	Summary of Key Provisions
SB 322	Huffman	Requires certain public retirement systems to select an independent firm to evaluate investment practices and performance and make recommendations for improving the retirement systems' investment policies procedures, and practices. Public retirement systems are required to include in their annual financial report a listing, by asset class, of all direct and indirect commissions and fees paid by the retirement system for the sale, purchase, or management of its assets and to provide the names of the investment managers engaged by the retirement system.

Table 16 Exhibit 15 Legislation Enacted 86th Leg

Legislation Not Passed

Bill Number	Author	Summary of Key Provisions / Reason Bill Did Not Pass
SB 94* HB 2295*	Menendez Canales	Provides that the state shall contribute at least seven percent but not more than ten percent of annual compensation to TRS. Would have increased the constitutional minimum from six percent to seven percent.
SJR 4*	Menendez	Proposes a constitutional amendment to improve the actuarial soundness of the Employees Retirement System of Texas and the Teacher Retirement System of Texas by authorizing an increase in the minimum amount of the state's annual contribution to the Employees Retirement System of Texas and the Teacher Retirement System of Texas from six to seven percent of the total compensation paid to individuals participating in the system.
HB 56* HB 398* HB 594*	Martinez Hernandez Munoz	Provides for a cost-of-living increase for retirees every year. During last 7 days of October, TRS Board required to set COLA rate equal to CPI-W beginning January of next year. Fund must be actuarially sound and have money available to pay increase. If amount of money is not sufficient to pay full adjustment, board required to compute largest rate possible for monies available. Would have provided an automatic COLA every year if actuarially sound.
HB 426*	Allen	Provides for an initial 10% cost-of-living increase for retirees and a 4% annual adjustment thereafter. Would have provided an automatic COLA every year regardless if actuarially sound.
SB 92*	Menendez	Provides for a one-time supplemental payment to an annuitant if the amortization period for the unfunded actuarial liabilities does not exceed 31 years after payment. The supplemental payment is capped at \$2,400.
SB 93*	Menendez	Provides for a cost-of-living increase of 3% capped at \$100 to an annuitant that retired on or after Aug. 31, 2004 and on or before Aug. 31, 2015. Would have provided a COLA regardless if actuarially sound.

Bill Number	Author	Summary of Key Provisions / Reason Bill Did Not Pass
HB 183*	Stephenson	<p>Creates a “pension revenue enhancement plan” to provide a life insurance benefit to TRS members as well as an additional revenue source for funding TRS. The bill would create a separate trust fund for this new plan. The substitute to HB 183 creates a joint interim committee on a pension revenue enhancement plan for TRS with the members of the Pensions, Investments & Financial Services and State Affairs committees. The joint committee will review the cost-effectiveness and feasibility of implementing a pension revenue enhancement plan to create an additional source of funding for TRS.</p> <p>The bill states that general revenue may not be appropriated for the pension revenue enhancement plan trust fund. Instead it provides that TRS must provide administrative support to administer the insurance program, but does not provide any mechanism for reimbursing the trust funds for the money expended. This would violate the exclusive benefit rule. No trust fund dollars could be used to pay premiums for the life insurance, as this would violate the incidental benefit rule (and possibly exclusive benefit, since TRS would be a beneficiary). Art XVI, Sec 67 of the Texas Constitution specifically states TRS assets “are held in trust for the benefit of members and may not be diverted.</p>
HB 2469*	Gutierrez	<p>Provides for enhanced benefits for members classified as peace officers. Current law prohibits the establishment of a new benefit payable from TRS unless the amortization period required to pay off the fund's actuarially accrued unfunded liability would be less than 31 years after the creation of the benefit. Fiscal impact to employers.</p>
HB 2227*	Wu	<p>Bills vary slightly. Provides that employment after retirement (EAR) limitations do not apply to a retiree who retired on or before Aug. 31, 2018. A retiree’s annuity isn’t revoked if the retiree is working one-half time and the retiree exceeds the limitation because of an “exigent event beyond the retiree’s control”, including weather-related event or “minor violation”.</p>
HB 2542*	Meza	
HB 2777*	Lozano	
HB 3886*	Capriglione	
HB 4491*	Herrero	
SB 2291	Hughes	<p>Exempting retirees with an effective date of retirement on or before Aug. 31, 2018 from EAR would have an unclear fiscal impact on TRS. Would set the precedence to revoke EAR limitations every session. Under federal law, a member should at all times be able to determine definitively what benefits they are entitled to receive. An exception arising out of “an exigent event that is beyond the retiree’s control” is ambiguous, and a member would not know from the face of the bill what circumstance is sufficiently “beyond their control” to permit exceeding employment after retirement restrictions.</p>
HB 3066*	Ashby	<p>Removes the employer surcharge for EAR retirees serving in an acute shortage area or bus driver. The 82nd legislature removed exceptions including acute shortage and bus driver. Concerns over how the employer redefines acute shortage.</p>

Bill Number	Author	Summary of Key Provisions / Reason Bill Did Not Pass
SB 1559*	Lucio	Permits a school district to contract with a retired classroom teacher or a retired education professional to provide mentoring to teachers in the district. The impact on TRS is unclear. The amendments are silent on TRS' EAR restrictions and applicable surcharges.
SB 2029	Hughes	Allows a retiree to return to work up to three-fifths time. [Changes from one-half time basis to three-fifths time]. Administrative burden for agency, reporting entities and EAR retirees.
HB 593	Munoz	Provides that the TRS Board shall adopt by rule a method or formula for increasing the percentage factor used in the computation of the standard service retirement annuity for annuitants enrolled in TRS-Care in order to mitigate the impact of increases in actual and projected out-of-pocket costs that occur under TRS-Care. Fiscal impact.
HB 594	Munoz	Provides grandfathering clause for individuals enrolled in TRS-Care during the "2017 plan year." The bill directs TRS to continue to offer and administer the health benefit plan options (i.e., standard TRS-Care 1, 2, and 3 plans) offered under TRS-Care, as those options existed immediately before Sept. 1, 2017, for individuals enrolled in TRS-Care during the 2017 plan year, notwithstanding the legislation passed during the 2017 legislative session. The bill provides that changes made during by HB 3976 would apply to individuals who enroll into TRS-Care beginning with the 2020 plan year. Fiscal impact to state.
HB 1219	Gutierrez	Requires that TRS offer TRS-ActiveCare coverage comparable in scope and, to the greatest extent possible, in cost to the basic health coverage provided under Chapter 1551 -- the ERS health coverage provided to state employees. Fiscal impact to state.
HB 1384 HB 2033	Lozano Zwiener	Requires the TRS Board of Trustees to provide by rule, one opportunity to reenroll into TRS-Care if the retiree terminated on or after Jan. 1, 2018 and on or before Jan. 1, 2020 and is eligible to enroll in Medicare. The retiree must opt to reenroll on or before Dec. 31, 2023. Fiscal impact to state and retirees.
HB 1441	Tinderholt	Requires the TRS Board of Trustees to provide by rule, one opportunity to reenroll into TRS-Care if the retiree terminated on or after Jan. 1, 2017 and on or before Jan. 1, 2020 and is eligible to enroll in Medicare. The retiree must opt to reenroll on or before Dec. 31, 2023. Fiscal impact to state and retirees.
HB 2567	Capriglione	Allows the re-enrollment into TRS-Care of Medicare-eligible retirees who voluntarily opted-out of the program between Sept. 1, 2017 and Dec. 31, 2018. Fiscal impact to state and retirees.

Bill Number	Author	Summary of Key Provisions / Reason Bill Did Not Pass
HB 2097*	Krause	Allows Arlington ISD to withdraw from TRS-ActiveCare no later than Aug. 31, 2020. Every Dec. 31 of the first three years after withdrawal, the school district must report baseline data relating to the health coverage obtained for district employees to TRS and the legislature. The school district may not resume participation into TRS-ActiveCare until after the 10th anniversary of the effective date of the withdrawal. Bill alone as drafted not to have a significant impact on TRS-ActiveCare costs. However, the unintended consequence of beginning to allow districts to withdraw from TRS-ActiveCare would be detrimental to TRS-ActiveCare. Based on actuarial projections, if districts were allowed to leave, TRS-ActiveCare would enter a decline attributable to adverse selection that would result in an increase in premiums in each subsequent year ranging from 15 percent to as much as 75 percent until the program is unsustainable.
HB 4222*	Reynolds	Provides that a municipal school district may either elect to participate in TRS-ActiveCare or notwithstanding any previous election or requirement to participate in TRS-ActiveCare. Bill alone as drafted not to have a significant impact on TRS-ActiveCare costs. However, the unintended consequence of beginning to allow districts to withdraw from TRS-ActiveCare would be detrimental to TRS-ActiveCare. Based on actuarial projections, if districts were allowed to leave, TRS-ActiveCare would enter a decline attributable to adverse selection that would result in an increase in premiums in each subsequent year ranging from 15 percent to as much as 75 percent until the program is unsustainable.
HJR 143* HB 4452*	Bonnen Bonnen	Constitutional amendment and enabling legislation to authorize the legislature to vest the power to invest and manage certain public funds in public officers, boards composed of public officers, or entities governed by appointees of public officers. Would override current provisions of the Texas Constitution that are fundamental to the prudent investment of assets and administration of TRS.

Table 17 Exhibit 15 Legislation Not Passed 86th Leg

IX. Major Issues

Employment After Retirement

A. Brief Description of Issue:

Employment After Retirement (EAR) laws and rules are challenging for retirees and employers to navigate and TRS to administer. After the implementation of full-payroll reporting in October 2017, TRS has identified an increasing number of EAR violations as compared to previous years. Symptomatic of the larger issue, complex laws and rules leave retirees vulnerable to violations that result in the loss of annuity payments.

B. Discussion

EAR laws and rules are revisited by the legislature during each session. In 2011, the legislature enacted changes to the law in an effort to balance the needs of all stakeholders. Employers, retirees, and associations continue to express significant concerns involving EAR limits. Employers profess a need to hire recent retirees because retirees are an effective way to address acute staffing shortages. Retirees often seek employment after retirement because they have a need to supplement their income and would prefer to work in a familiar setting. Additionally, retirees return to work in order to be responsive to the needs of their former employers. Compounding the issue, retirees rely on employers to inform them on EAR limits because understanding the limits is difficult and requires a sophisticated understanding of the employment practices of reporting entities. TRS regularly provides training to school districts on all TRS laws and rules related to employer reporting and EAR. However, the payroll reporting positions at school districts have high turnover, which makes them often ill-equipped to advise retirees on EAR limitations. Increasing confusion on this issue, is the definition of a substitute, it varies between TRS, the payroll of a school district and the campus employing the retiree. All of this adds to retiree confusion on EAR.

TRS is responsible for monitoring EAR payroll reports and taking appropriate action when a retiree exceeds the limits for EAR. Prior to the implementation of the new pension administration system (TRUST LOB), employers were only required to provide limited information based on employment type about the days or hours worked. Therefore, TRS was limited to only identifying retirees that exceeded the limits based on full-time employment status or multiple employment. Additionally, employers did not need to report retirees with a retirement date prior to Jan. 1, 2011. This created limitations on TRS' ability to verify that the employer applied EAR limits appropriately.

Full payroll reporting provided by the TRUST LOB system allows TRS to better hold employers and retirees accountable based on information submitted which includes hours, days worked and gross compensation for all employment types. This increased visibility has resulted in an uptick in violations identified and collections. As a result, TRS has received increasingly vocal stakeholder concern regarding EAR. During the 86th Legislative Session, legislation was introduced that considered allowing TRS discretion when a retiree "accidentally" exceeded limits to forgo collection actions. Retirees that submitted administrative appeals have cited the proposed legislation when contesting the collection.

C. Possible Solutions and Impact

Simplifying TRS EAR laws and rules (for example, with a “dollar for dollar” reduction once a retiree exceeds the return to work limitations) may solve issues experienced by retirees and employers alike. It would also improve TRS’ ability to manage compliance without adversely affecting the pension fund. Changing EAR limits to require all retirees to complete a break in service for a specific period of time prior to returning to work in Texas public education on a full-time basis in any capacity. In addition, for a retiree who does not have the specified break in service in order to work in a full time capacity, a dollar for dollar reduction in benefits instead of a full annuity payment forfeiture would create a clear, easy-to-understand limitation. There would still be situations where a retiree would exceed limits, but new legislation could minimize the impact on the retiree.

Note that stakeholders do not favor a 12-month break in service, including member associations, as it limits employers’ ability to hire a retiree as a substitute or in a half-time position after the required one-month break in service. Conversely, the TRS actuary believes that allowing all retirees to return to work fulltime with anything less than a 12 month break in service could have a detrimental impact on the actuarial status of the pension fund.

Disability Retirement Requirements

A. Brief Description of Issue

TRS has identified three policy issues concerning eligibility and administration of disability benefits that could be improved with legislation.

The first issue is medical case management when a member applies for disability. While TRS administers disability retirement annuity payments, TRS lacks the level of knowledge and skill needed to efficiently oversee the medical case management processes. TRS would like the authority to contract with a third-party administrator for medical case management and determination in lieu of internal medical case management and medical board determination.

Second, individuals who become disabled after employment in Texas public education are eligible for a lifetime disability benefit, which may not be in the best interest of the fund. An improvement would be requiring anyone who applies for disability after separating from covered employment to prove that they left public education due to the disability that is the basis of the application.

Finally, TRS experienced a small net loss due to the annual income verification requirements for disability annuitants. Statute provides earned income limitations for disability recipients. Therefore, TRS is required to annually confirm the amount of income from all sources earned by those receiving a disability annuity. The process is administratively inefficient given how little TRS has collected. TRS proposes to eliminate the earned income limitations for disability annuitants.

B. Discussion

TRS provides disability retirement benefits under Texas Government Code 824 Subchapter D. Disability retirees account for less than 3 percent of the total number of annuitants. Under Texas Government Code Section 825.204, the board of trustees shall appoint a medical board composed of three physicians. The board is responsible for reviewing medical documentation submitted in support of disability retirement claims. The board reviews approximately 700 files per year. Texas Government Code Section 824.301 provides a broad definition of what meets the requirements for disability. This means applicants often have to submit complex medical information from various doctors and sources as part of their application. At a minimum, TRS requires two things for a disability application: 1-a statement from the member regarding their disability and 2-a statement from an attending physician attesting to the disability. Without medical backgrounds, however, it is difficult for TRS employees to know exactly what additional documentation the medical board needs or when a file is complete and ready for medical board review. Moreover, the back and forth with an applicant on the items needed for their medical file can be time consuming and an administrative challenge. Additionally, as a HIPAA covered entity and due to the sensitive nature of the documentation provided in relation to disability retirement, TRS must constantly evaluate and change security protocols used to interact with the TRS Medical Board as the medical board appointees turnover. TRS could outsource the medical file case management and utilize a third-party to both manage and make disability determinations. This would improve the administrative and security difficulties of TRS internal medical case management and determination.

A second issue with disability determinations is when members who are separated from TRS-covered employment apply for and receive a disability annuity. Statute provides that members with 10 years of TRS service credit vest in disability benefits and are eligible for a disability annuity thereafter, even if the member becomes disabled in another position years after leaving covered employment. Currently, there is no time limit on when a member may apply for disability retirement. This is also true regardless of the cause of the disability. The statute can result in former public education employees being approved for disability over a decade after leaving Texas public education employment. For example, a recent disability applicant had last worked in Texas public education in 2007 and was eligible for early-age retirement benefits. However, the individual applied and was approved for a disability annuity, which was higher than the early-age retirement benefit. Disability retirement is meant as income replacement and to lessen the financial hardships faced by a member who can no longer serve in public education. Therefore, it makes sense to position the benefit as such by adding requirements or limitations regarding when an applicant who is no longer in covered employment may receive a disability annuity.

The final issue is the requirement for TRS to annually confirm that disability annuitants have not exceeded earned income limits. Texas Government Code Section 824.310 and TRS Rule 31.35 place limits on the amount of compensation certain disability retirees may earn while receiving disability benefits from TRS. TRS has an annual process that involves contracting with the Texas Workforce Commission, to obtain compensation information from disability retirees; however, in recent years only 2-3 retirees were impacted by the limit. In fact, in calendar year 2019, 5,648 notification letters were mailed to disability retirees. TRS received responses from 1,584 retirees. Only two of the 1,584 exceeded the earnings limit. Based on postage cost, staff time, and the contract with the Texas Workforce Commission, TRS spent approximately \$9,955.33 dollars on enforcing the disability earnings limit. TRS suspended the annuity payments of one member totaling \$8,193. The cost-benefit analysis indicates that the program may not be advantageous. Eliminating the limits on earned income would allow staff to focus on other pressing needs and improve administration.

C. Possible Solutions and Impact

An emerging trend with other public pension systems is the outsourcing of disability determinations. However, TRS does not have this authority and is limited by the requirements of Texas Government Code Section 825.204. Outsourcing the review and determination process would allow TRS to use best-in-class processes that are established by the third-party vendor. When an application is submitted, TRS would alert the vendor who would then assign a case manager to the application. The case manager would contact the applicant and work with the applicant to fully develop the file. Case managers are not physicians but they are medical professionals who would understand better than TRS staff the complex medical information necessary to complete a case file. Once complete, the case file would be forwarded to a physician working with the vendor. The physician would then make the determination about the applicant's disability status. TRS expects that while it will cost additional funds to use a third-party, TRS would have access to specialists that have experience in the medical areas related to the member's specific medical diagnosis. Under current statute, TRS does have the authority to contract with specialists in addition to the three-member Medical Board. However, contracting with specialists on a case by case basis, would not achieve the benefits of full outsourcing, such as enhanced medical case management, and due to contracting timeframes, costs, and recruitment efforts, would delay disability determinations for members.

To address the issue of members applying for disability when they do not work for a covered employer, legislation could require that anyone who applies while in non-covered employment must prove that they left public education due to the disability that is the basis of the application. This is an approach taken by other pension systems and seems to better tie the purpose to the payment of disability annuities. It is important to note that a member with 10 years of service credit in covered employment will also have vested in the defined benefit plan (defined benefit vesting occurs at 5 years of service credit). So, if that member cannot establish that the disability occurred during the course of employment, the member does not lose their service retirement. The member can either take an early-age service retirement with a reduced benefit once eligible or wait to receive a full service annuity upon normal-age retirement.

Finally, TRS proposes eliminating the earned income limitations for disability annuitants. As previously mentioned, TRS incurred a net loss to enforce the limitations in 2019. However, eliminating the limits would not eliminate all post-approval verification of disability. If disability status is approved, it is granted either permanently or with annual certification. TRS would continue to verify that disability status is appropriate for all disability annuitants who are certified with annual verification. So, TRS would continue to have annual contact with those disability annuitants most likely to return to full employment and would begin the process of returning someone to active membership if the annuitant was no longer eligible for a disability annuity.

Enhance Investment Flexibility: Real Estate Provisions

A. Brief Description of Issue

TRS investment and pension administration functions are constitutionally mandated and must be administered by a board of trustees. Texas Constitution Article XVI, Section 67 states: Each statewide benefit system must have a board of trustees to administer the system and to invest the funds of the system in such securities as the board may consider prudent investments. (Emphasis added). Pursuant to Section 825.301(a), Texas Government Code, TRS refers to securities law as the primary source to interpret what investments are eligible “securities.” Because real estate is not itself a “security,” TRS is prohibited from investing “directly” in real estate, unlike many other public pension funds and institutional investors. The legislature can define a share or equity interest issued to TRS by a closely held corporation, such as a real estate title holding company, to be a “security” for TRS purposes. This clarification is useful as court and judicial rulings have not been consistent with respect to closely-held entities, depending on the varying facts and circumstances of each case.

B. Discussion

In 1999, the legislature amended Texas Government Code Section 825.301(a) to state that “securities” has the meaning defined in state and federal securities laws, and that a limited partnership interest is a security without regard to the number of investors, or the control, access to information or rights granted to or retained by the retirement system. In 2004, TRS added real estate to its asset mix, and began investing in real estate through private investment funds (limited partnerships). The real estate program was expanded in 2007 and currently the Trust has a 14 percent target allocation, which represents approximately \$11 billion. The Investment Management Division (IMD) employs approximately 20 FTEs and invests through 40 private fund sponsors to manage the real estate portfolio. Although net performance has been strong and real estate funds and co-investments have generated significant excess returns over benchmarks, the Trust has paid more than \$250 million in management fees and carried interest to fund general partners and investment advisors in the year ending June 30, 2018.

C. Possible Solutions and Impact

Clarify TRS investment authority by defining securities for TRS purposes to include stock in wholly-owned real estate title-holding corporations controlled by TRS. By having authority to make controlled investments in real estate through title holding subsidiaries pursuant to the authority granted in section 825.304, Texas Government Code. TRS believes that there is an opportunity to improve Trust returns by reducing fees paid to fund general partners and managers. The use of title holding corporations would enable TRS to reduce reliance on limited partnership investment vehicles sponsored by a general partner who charges fees and carried interest and also requires capital contributions to cover fund operating expenses, such as property management and maintenance. By assuming the operating costs directly, but reducing or eliminating fees, TRS believes that positive net benefits will likely accrue directly to TRS.

TRS-Care and TRS-ActiveCare Affordability and Viability

A. Brief Description of Issue

Due to statutory funding guidelines, TRS is limited in its ability to both provide affordable coverage to members and ensure that the relevant trust funds are viable in the long-term. As premiums become increasingly unaffordable, members and school districts seek coverage outside of TRS, impairing the viability of the programs.

- TRS health programs are funded on a pay-as-you-go basis, however the statutory funding structures do not support the ongoing costs of a health care program. As a result, the programs require annual or biennial intervention, additional funds, or premium increases by the legislature and the board of trustees to accommodate routine cost growth in health care markets.
- While TRS-Care has an ongoing source of revenue that increases slightly annually, this funding stream is inadequate to meet the growing cost of health care. Moreover, in TRS-Care, the legislative history and intent expressed to the TRS Board of Trustees prevents adjustments to member contributions and benefits that could help manage solvency. As a result, the legislature has frequently provided exceptional item funding to ensure solvency.
- Similarly, TRS-ActiveCare funding has not kept pace with health care cost increases and plan participants primarily bear these additional expenses. Consistent increases to premiums have led districts to express interest in leaving TRS-ActiveCare to find alternative coverage, further risking the affordability of the plan.

B. Discussion

TRS' mission addresses improving the retirement security of members by delivering benefits that make a positive difference. However, significant changes in the health care industry, as well as funding and structural policies that support the health plans, have created a situation where funding must be routinely addressed, along with benefits and member contributions. While this situation is well recognized among employer benefits administrators, expectations among TRS stakeholders are not aligned with the current funding structure. As a result, confusion over benefit and cost, along with aggressive insurance sales tactics, have led some retirees to exit TRS-Care and some districts have sought to exit TRS-ActiveCare all together or offer competing coverage alongside the TRS plans.

TRS-Care—Due to funding levels and legislative directives, the TRS Board of Trustees has faced competing constraints relating to the management of TRS-Care. The trustees have a fiduciary duty to prudently manage the TRS-Care trust fund. This includes maintaining an adequate fund balance to pay anticipated claims. The legislature has also directed TRS to avoid premium increases.

The 84th Legislature created a Joint Interim Committee to Study TRS Health Benefit Plans. The November 2016 Committee report noted that, “[t]his freeze in premiums for over a decade is highly unusual for any health care plan and has contributed to the financial woes of TRS-Care.”

During the 85th Legislature, HB 3976 was enacted which eliminated the premium-free option (except for certain individuals receiving disability retirement). Specifically, Section 1575.212 of the Texas Insurance Code was amended and now states that the “trustee *shall* establish and collect payments for the share of total costs allocated under Section 1575.211 to retirees, surviving spouses, and surviving dependent children” (emphasis added). TRS Rider 15 from the 2016-17 General Appropriations Act was also removed in the 2018-19 General Appropriations Act. The rider had stated that it was “the intent of the Legislature that the Teacher Retirement System Board of Trustees shall not increase retiree health insurance premiums for the 2016-17 biennium.”

Beginning in 2018, members were required to contribute at least \$200 per month toward their health insurance premiums. On average, per retiree contribution rates to TRS-Care increased by 47 percent. Plan benefits were reduced for most plan participants with increased deductibles, copays and maximum out-of-pocket limits. The Legislation also increased contribution rates from school districts and the State. The changes in benefits and rates have led to affordability issues in TRS-Care. Participants in both TRS-ActiveCare and TRS-Care cite the cost coverage as their primary concern. More than 70 percent of respondents in a 2019 survey cited lower out-of-pocket costs as their highest priority for improving health benefits.

After these changes, the TRS Board of Trustees considered adopting additional premium increase to reduce a projected \$410 million deficit in fiscal year 2021. Although legislative intent regarding premium increases was absent from the General Appropriations Act, after the TRS Board deliberated on premium increases in 2018, TRS received legislative direction to avoid premium increases. The 86th Legislature, Regular Session then appropriated additional funds to reduce the need for retiree premium increases.

While this appropriation enabled TRS to avoid additional premium increases, the changes that took effect in 2018 have precipitated decreases in enrollment. Because the statutory contribution rates are tied to public education payroll, rather than health care costs, the TRS Board of Trustees is constrained in its ability to ensure that premiums are affordable while ensuring the long-term viability of the program. The program is not currently expected to experience a deficit in the immediate future. However, faster-than-projected cost growth could precipitate a shortfall. Unfortunately, because of the 2018 changes in benefits and premiums, many members have left the plan, purchasing less comprehensive coverage and may be disadvantaged if they experience any major health events.

TRS-ActiveCare — The state contribution towards active employee premiums is appropriated indirectly to TRS through school districts. This appropriation is first made through a broader appropriation to the Texas Education Agency, limiting TRS’ involvement in the budget process for state funds related to active employee health care.

Texas Insurance Code Section 1579.251 lists a fixed dollar amount per eligible public education employee for the state’s contribution. The amount per person can be increased through an appropriation through the General Appropriations Act. However, the Insurance Code states that the state contribution “shall be distributed through the school finance formulas...” The Legislature appropriates funding for the Foundation School Program and related school finance formulas through the Texas Education Agency. This process limits the participation of TRS in the budget process relating to state funding for public education employee health care costs. TRS has historically not made a budget request to increase the per-person amounts.

In the Legislative interim before TRS-ActiveCare was created and funded, the Texas House convened a House Select Committee on Teacher Health Insurance. The Select Committee noted that in 1991 the legislature had previously attempted to create health insurance for active public education employees. The 1991 Legislation required that each district certify that their employees had access to coverage comparable to the coverage offered by the Employee Retirement System (ERS) through the Uniform Group Insurance Program (UGIP). According to the Select Committee report:

Each district was required to certify the comparability of its plan annually to ERS. A school district had the option of providing group health insurance for its employees, either on its own or by participating in a statewide insurance program administered by ERS. If the district participated in the program administered by ERS, it would be required to pay the cost of employee-only coverage plus an administrative fee. According to ERS, allowing districts the option of participating in the plan would likely drive up the costs of administering the program. This factor, combined with the lack of a contingency reserve fund, prevented the establishment of a health insurance program for public school employees.

The Select Committee recommended in their 2000 report the creation of what became known as TRS-ActiveCare. To avoid the problems identified by ERS:

The Committee recommend[ed] that the plan be structured in such a way to avoid adverse selection by the school districts. In this case, adverse selection is defined as the tendency of a school district to recognize their ability to negotiate rates on their own and then to select the most cost effective option. This tends to leave only the school districts with high utilization and bad experience in the pool, which drives up rates.

The Legislation enacted in 2001 (HB 3343, 77th Legislature, Regular Session) mandated participation for districts with fewer than 500 employees and permitted larger districts to op-in.

C. Possible Solutions and Impact

While TRS recognizes that the Sunset Advisory Commission does not generally address funding issues, Sunset could consider the statutory funding structure supporting both TRS-Care and TRS-ActiveCare and evaluate whether a change in mechanism might offer a more stable structure moving forward. While TRS-Care and TRS-Active care have different mechanism for funding, neither plan's funding is tied to health care costs. Considering a funding mechanism that has a link to health care cost growth could be beneficial to both programs.

The legislature could amend Texas Insurance Code Section 1579.251 to make a direct appropriation to TRS for the state contribution to TRS-ActiveCare. This would provide a clear process for TRS to make funding requests to the legislature for TRS-ActiveCare. It may also improve budget transparency. Many entities are confused about how much the state contributes towards active public education employee health care costs.

In addition, as articulated in the House Select Committee report, the legislature can address adverse selection and school district preferences through several strategies, including:

- “Provide a significant financial incentive for school districts to participate in the plan.” This could include increased contributions by the state to address concerns about employee premiums. Discussions on the affordability of care have increased as the state’s contribution towards premiums has stagnated during rising health care costs.
- Establish a “freeze-out provision to discourage districts from opting in and out of the plan each year.” This would allow districts to opt-out but would limit their ability to cycle in and out based on single-year claims experiences.
- Retaining mandated participation in the program.

Some school districts that are statutorily required to participate in TRS-ActiveCare have sought legislation allowing them to opt-out of participation.

X. Other Contacts

A. Fill in the following charts with updated information on people with an interest in your agency, and be sure to include the most recent email address.

EXHIBIT 16: CONTACTS

Interest Groups

Group or Association Name/ Contact Person	Address	Telephone	Email Address
Association of Texas Professional Educators <i>Monty Exter</i>	305 E Huntland Dr. Ste. 300 Austin, TX 78752	512/467-0071	mexter@atpe.org
Texas American Federation of Teachers <i>Patty Quinzi</i>	3000 I-35 #175 Austin, TX 78704	512/448-0130	pquinzi@texasaft.org
Texas Association of School Administrators <i>Amy Beneski Beaman Floyd</i>	406 East 11th Street Austin, TX 78701	512/477-6361	abeneski@tasenet.org beamanfloyd@earthlink.net
Texas Association of School Business Officials <i>Tracy Ginsburg</i>	5920 W William Cannon Dr., Bldg. 1, Ste. 200 Austin, TX 78749	512/462-1711	tracyg@tasbo.org
Texas Classroom Teachers Association <i>Ann Fickel</i>	700 Guadalupe St. Austin, TX 78701	512/477-9415	afickel@tcta.org
Texas Retired Teachers Association <i>Tim Lee</i>	313 E 12th St. #200 Austin, TX 78701	512/476-1622	tim@trta.org
The Texas School Alliance <i>John Grey</i>	901 S. MoPac Expressway Building III, Ste. 310 Austin, TX 78746	512/485-7878	jgrey@moakcasey.com
Texas State Teachers Association <i>Portia Bosse</i>	8716 N Mopac Austin, TX 78759	512/476-5355	Portiab@tsta.org

Table 18 Exhibit 16 Interest Groups

Interagency, State, or National Associations

Group or Association Name/ Contact Person	Address	Telephone	Email Address
National Association of State Retirement Administrators <i>Dana K. Bilyeu</i> <i>Executive Director</i>	444 N. Capitol Street, NW Ste. 548 Washington, DC 20001	202/624-8462	dana@nasra.org
National Conference on Public Employee Retirement Systems <i>Hank H. Kim</i> <i>Executive Director and Counsel</i>	444 N. Capitol St., NW Ste. 630 Washington, D.C. 20001	202/624-1458	hank@ncpers.org
National Council on Teacher Retirement <i>Maureen Westgard</i> <i>Executive Director</i>	9245 Laguna Springs Dr. Ste. 200 Elk Grove, CA 95758	225/354-6173	mwestgard@nctr.org
National Institute on Retirement Security <i>Dan Doonan</i> <i>Executive Director</i>	1612 K Street, NW, Ste. 500 Washington, DC 20006	202/457-8190	dan@nirsonline.org

Table 19 Exhibit 16 Interagency, State, and National Association

Liaisons at Other State Agencies

Agency Name / Relationship / Contact Person	Address	Telephone	Email Address
Legislative Budget Board <i>Avery Saxe</i> <i>LBB Analyst</i>	105 W 15th St., Austin, TX 78701	512/463-1180	Avery.Saxe@lbb.texas.gov
Office of the Attorney General <i>Darren L. McCarty</i> <i>Deputy Attorney General for Civil Litigation</i>	300 West 15 th St., 6 th Floor Austin, TX 78701	512/463-2191	agency_req_rep@oag.texas.gov (general email used for Requests for Representation)

Agency Name / Relationship / Contact Person	Address	Telephone	Email Address
Office of the Attorney General <i>Joshua R. Godbey</i> Division Chief for the Financial Litigation and Charitable Trusts Division	300 West 15 th St., 6 th Floor Austin, Texas 78701	512/475-4209	FLDcontracts@oag.texas.gov (general email used for outside counsel contracting questions) OCCInvoice@oag.texas.gov (general email used for outside counsel invoicing questions) Joshua.godbey@oag.texas.gov
Permanent School Fund – TEA / Similar Agency Consultation <i>John C. Wright</i>	400 West 15 th St., 11 th Floor Austin, TX 78701	512/475-3610	John.Wright@tea.texas.gov
Texas Treasury Safekeeping Trust Company / Similar Agency Consultation <i>Whitney M. Blanton</i>	208 E. 10th St, 4 th Floor Austin, TX 78701	512/463-7363	Whitney.Blanton@ttstc.texas.gov
Texas Municipal Retirement System / Similar Agency Consultation <i>Nick O'Keefe</i>	1200 North Interstate 35 Austin, TX 78701	512/225-3827	NOkeefe@TMRS.com
Texas Municipal Retirement System / Similar Agency Consultation <i>Christine Sweeney</i>	1200 North Interstate 35 Austin, TX 78701	512/225-3710	csweeney@tmrs.com

Table 20 Exhibit 16 Liaisons at Other State Agencies

XI. Additional Information

A. Texas Government Code, Section 325.0075 requires agencies under review to submit a report about their reporting requirements to Sunset with the same due date as the SER. Include a list of each agency-specific report that the agency is required by statute to prepare and an evaluation of the need for each report based on whether factors or conditions have changed since the statutory requirement was put in place. Please do not include general reporting requirements applicable to all agencies, reports that have an expiration date, routine notifications or notices, posting requirements, federally mandated reports, or reports required by G.A.A. rider. If the list is longer than one page, please include it as an attachment.

See Appendix B.

B. Does the agency's statute use "person-first respectful language" as required by Texas Government Code, Section 325.0123? Please explain and include any statutory provisions that prohibit these changes.

Generally, the statutes governing TRS comply with Texas Government Code Chapter 392. However, some TRS statutes relating to disability retirement benefits under Texas Government Code, Subchapter D, Chapter 824 use the term "disabled," which is a term to be avoided under Chapter 392. Removing the term from Chapter 824 may be difficult, however, as it is part of the legal standard for determining whether a TRS member is eligible for disability retirement and any change may appear to substantively modify that standard.

C. Please describe how your agency receives and investigates complaints made against the agency.

TRS receives a variety of complaints on topics ranging from service and administration of benefits to concerns about health care premiums and frustration about the lack of automatic cost-of-living adjustments. TRS takes all complaints and member interactions seriously, and the nature of the complaint determines if the issue is something within TRS' direct control. Those complaints not relating to TRS' service and administration typically fall outside of TRS' control as often they relate to benefit design or legislative funding of pension and health care benefits.

In 2018, at the direction of the board, TRS began working to mature its processes for taking in, tracking, and responding to complaints. As discussed below, the improvement initiative began with refreshing TRS' Compact with Texans web page and the processes used to manage complaints received through the page. More recently, TRS has begun discussing the use of an enterprise-wide application to manage complaints. The challenge, however, is determining the criteria and entry point for submitting a complaint into an enterprise-wide system. Given that TRS receives complaints about matters outside of the organization's control, any process and application would need to ensure TRS is responding consistently to members and

stakeholders who reaches out but not count as a complaint something unrelated to TRS' service and administration.

TRS has several intake points for potential complaints. These intake points consist of: 1-the TRS telephone counseling centers (Benefit Services and Health Insurance Benefits have separate telephone counselors); 2-the Compact with Texans web page; 3-the TRS Fraud and Ethics hotline; and 4-the State Auditor's Office. TRS also receives potential complaints through emails, letters, or calls directly to the TRS Board of Trustees or TRS executives. This includes a dedicated "TRS Comments" email address where anyone can submit questions and general comments. Finally, TRS receives constituent cases from legislative offices that are investigated and managed by TRS Governmental Relations.

The methodology to investigate and respond to a complaint varies depending on the intake point. Benefit Services and HIB initially treat as complaints any interaction that is "escalated" even if the issue may ultimately fall outside of TRS' control. An escalation means the issue was not resolved at the first point of contact with TRS. For example, members who call the Benefit Services Telephone Counseling Center and do not have their issue resolved may use the after-call survey to indicate their dissatisfaction. When this occurs, Benefit Counseling receives an alert and an email is sent to the Benefit Counseling leadership team for escalation. These items are treated as complaints and are followed through to resolution, as appropriate. HIB escalates as complaints those items that are not, initially, resolved to the member's satisfaction or that are funneled through the TRS Board of Trustees, the TRS Executive Director, or the TRS Chief Health Care Officer. The types of complaints HIB receives often deal with topics such as telephone center wait times, improper enrollment of a member in a plan, counselors providing incorrect information, or poor customer service from a vendor. Complaints outside of TRS' control include premium increases and benefit changes. For fiscal year 2017, Benefit Services had 117 escalations and HIB had 300. For fiscal year 2018, Benefit Services had 215 escalations and HIB had 2,140. The 2,140 escalations for HIB were, largely, a result of the major benefit changes made to retiree health care during the 2017 legislative session. Both Benefit Services and HIB endeavor to respond to escalations within one day of receipt of an escalation.

To improve how TRS handles complaints through Compact with Texans, the web page was refreshed, a new dedicated email address was developed: customer.relations@trs.texas.gov, and a fillable form was placed on the Compact with Texans page so that a person may directly and immediately share their experience without leaving the TRS website. TRS shared the updates and enhancements with members and retirees through its various publications. TRS continues to send information and reminders to its members and retirees regarding the TRS Compact for Texans page and TRS' commitment to customer service. Based upon these efforts, TRS has seen an increase in communications.

Once TRS receives a customer communication through Compact with Texans, which include complaints, concerns, and general inquiries, the TRS Executive Director's Office coordinates, assists with and follows up on resolution within the agency. In 2018, TRS made the commitment to respond to all TRS Compact with Texans communications within five business days of receipt. For fiscal year 2018, TRS' Compact with Texans average response time was two days. TRS' response and resolution of the customer's communication is a top priority at TRS.

TRS Compliance also receives complaints in various forms such as a phone call, letter or email, the State Auditor's Office, or through the TRS Fraud and Ethics hotline. Complaints received by the TRS Chief

Compliance Officer typically are addressed consistent with the procedures in the Fraud, Waste and Abuse Policy. This involves a triage team led by the chief compliance officer, which may be composed of the chief operations officer, general counsel, chief organizational excellence officer, and chief audit executive or their designees. The triage team receives and investigates the report. Depending on the outcome of the investigation, remedial action may be taken consistent with TRS policies. The TRS Executive Director is informed of investigation results. Certain investigations may proceed directly upon receipt of the complaint by the Legal & Compliance department in coordination with the relevant department.

Benefit Services reviews and responds to communications received through the TRS Comments email. The majority of TRS Comment emails deal with questions or complaints related to pension benefits and include topics such as benefit levels and contribution amounts established by law. Benefit Services either directly manages the email response or loops in another TRS division to help address the issue, as needed.

TRS Governmental Relations (GR) serves as a resource to legislative offices regarding their constituent concerns with matters regarding TRS such as health care premiums and benefits, employment after retirement laws, the lack of cost-of-living adjustments, and other retirement related issues. To resolve these constituent cases, GR typically works with Benefit Services or HIB. Fiscal year 2017 generated over 318 emails on constituent casework and fiscal year 2018 generated over 496 emails on constituent casework.

Exhibit 18 below reflects TRS' estimation of the number of interactions that were complaints regarding TRS' service and administration. For Benefit Services and HIB, TRS counted only those interactions that were considered "escalations" as discussed above and then, based on sampling, estimated that roughly 5% of the escalations were true complaints regarding TRS' service or administration. The table below includes all complaints received through the TRS Compact with Texans web page and by TRS Compliance.

EXHIBIT 18: COMPLAINTS AGAINST THE AGENCY — FISCAL YEARS 2017 AND 2018*

	Fiscal Year 2017	Fiscal Year 2018
Number of complaints received	24	176
Number of complaints resolved	24	176
Number of complaints dropped / found to be without merit	*	*
Number of complaints pending from prior years	0	5
Average time period for resolution of a complaint	**	**

Table 22 Exhibit 18 Complaints Against the Agency

*Aside from estimating that 5% of the escalations in Benefit Services and HIB are true complaints, TRS does not have a mature way to filter and log which emails, phone calls, and letters relate to TRS' service and administration as opposed to dissatisfaction with retirement and health benefits and funding.

**Given that complaints are responded to from a variety of programs across the enterprise, TRS cannot accurately estimate an enterprise-wide average time period for resolution of a complaint.

D. Fill in the following charts detailing your agency's Historically Underutilized Business (HUB) purchases. Sunset is required by law to review and report this information to the Legislature.

EXHIBIT 19: PURCHASES FROM HUBS

Fiscal Year 2016

Category	Total \$ Spent	Total HUB \$ Spent	Percent	Agency Specific Goal*	Statewide Goal
Heavy Construction	-	-	-	-	11.2%
Building Construction	-	-	-	-	21.1%
Special Trade	\$709,937	\$96,806	13.64%	40%	32.9%
Professional Services	\$2,608,279	\$0	0%	5%	23.7%
Other Services	\$24,818,348	\$2,815,319	11.34%	15%	26.0%
Commodities	\$3,810,211	\$1,040,117	27.30%	40%	21.1%
TOTAL	\$31,946,775	\$3,952,242	12.37%		

Table 23 Exhibit 19 HUB Purchases for FY 2016

* If your goals are agency specific-goals and not statewide goals, please provide the goal percentages and describe the method used to determine those goals. (TAC Title 34, Part 1, Chapter 20, Rule 20.284)

TRS has agency specific-goals that are developed based on prior TRS HUB usage and CPA posted data regarding statewide HUB usage. The goals are adopted annually by the TRS Board of Trustees.

Fiscal Year 2017

Category	Total \$ Spent	Total HUB \$ Spent	Percent	Agency Specific Goal*	Statewide Goal
Heavy Construction	-	-	-	-	11.2%
Building Construction	-	-	-	-	21.1%
Special Trade	\$485,560	\$236,777	48.76%	40%	32.9%
Professional Services	\$3,353,800	\$84,562	2.52%	5.0%	23.7%
Other Services	\$22,736,372	\$3,511,262	15.44%	15.0%	26.0%
Commodities	\$4,278,776	\$1,613,540	37.71%	40.0%	21.1%
TOTAL	\$30,854,508	\$5,446,141	17.65%		

Table 24 Exhibit 19 HUB Purchases for FY 2017

Fiscal Year 2018

Category	Total \$ Spent	Total HUB \$ Spent	Percent	Agency Specific Goal*	Statewide Goal
Heavy Construction	-	-	-	-	11.2%
Building Construction	-	-	-	-	21.1%
Special Trade	\$1,070,936	\$646,112	60.33%	40.0%	32.9%
Professional Services	\$3,439,002	\$245,179	7.14%	5.0%	23.7%
Other Services	\$25,577,311	\$5,502,070	21.51%	15.0%	26.0%
Commodities	\$4,945,136	\$1,267,700	25.64%	40.0%	21.1%
TOTAL	\$35,032,385	\$7,661,061	21.87%		

Table 25 Exhibit 19 HUB Purchases for FY 2018

E. Does your agency have a HUB policy? How does your agency address performance shortfalls related to the policy? (Texas Government Code, Section 2161.003; TAC Title 34, Part 1, Rule 20.286c)

Yes, TRS has a HUB Policy published on the TRS website.

The HUB Coordinator presents an annual report to the board of trustees to review the progress of the prior fiscal year and to discuss future initiatives.

F. For agencies with contracts valued at \$100,000 or more: Does your agency follow a HUB subcontracting plan to solicit bids, proposals, offers, or other applicable expressions of interest for subcontracting opportunities available for contracts of \$100,000 or more? (Texas Government Code, Section 2161.252; TAC Title 34, Part 1, Rule 20.285)

Yes, the purchaser, with assistance of the HUB Coordinator and TRS department's contract sponsor, determines if subcontracting is probable for each contract of \$100,000 or more. This determination is documented with an internal form which is signed by the purchaser, contract sponsors, and HUB Coordinator.

G. For agencies with biennial appropriations exceeding \$10 million, answer the following HUB questions.

1. Do you have a HUB coordinator? If yes, provide name and contact information. (Texas Government Code, Section 2161.062; TAC Title 34, Part 1, Rule 20.296)

Yes. LaTresa Stroud, Director of Procurement and Contracts and HUB Coordinator, 512/542-6307. In addition to a HUB Coordinator, TRS also has an Assistant HUB Coordinator; Aidet Cooper, 512/542-6229.

2. Has your agency designed a program of HUB forums in which businesses are invited to deliver presentations that demonstrate their capability to do business with your agency? (Texas Government Code, Section 2161.066; TAC Title 34, Part 1, Rule 20.297)

The HUB Coordinator, purchasers, and agency staff conduct on-site meetings with HUB vendors to learn of new product/service information. In addition, TRS sponsors an annual forum. Fiscal year 2017 was the 16th year for the forum.

3. Has your agency developed a mentor-protégé program to foster long-term relationships between prime contractors and HUBs and to increase the ability of HUBs to contract with the state or to receive subcontracts under a state contract? (Texas Government Code, Section 2161.065; TAC Title 34, Part 1, Rule 20.298)

TRS encourages networking for HUBs through pre-proposal conferences and HUB forums. TRS does not currently have any sponsored mentor-protégé relationships.

H. Fill in the charts below detailing your agency's Equal Employment Opportunity (EEO) statistics. Sunset is required by law to review and report this information to the Legislature. Please use only the categories provided below. For example, some agencies use the classification "paraprofessionals," which is not tracked by the state civilian workforce. Please reclassify all employees within the appropriate categories below.

EXHIBIT 20: EQUAL EMPLOYMENT OPPORTUNITY STATISTICS**1. Officials / Administration**

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2016	38	2.63%	7.4%	13.16%	22.1%	36.84%	37.4%
2017	43	2.33%	7.4%	11.63%	22.1%	37.21%	37.4%
2018	50	6.0%	7.4%	16.0%	22.1%	44.0%	37.4%

Table 26 Exhibit 20 EEO Statistics for Officials/Administration

2. Professional

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2016	357	4.76%	10.4%	13.73	19.3%	46.2%	55.3%
2017	358	5.59%	10.4%	15.64%	19.3%	44.69%	55.3%
2018	411	7.06%	10.4%	16.30%	19.3%	46.96%	55.3%

Table 27 Exhibit 20 EEO Statistics for Professionals

3. Technical

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2016	13	7.69%	14.4%	38.46%	27.2%	46.2%	55.3%
2017	10	10.0%	14.4%	40.0%	27.2%	60.0%	55.3%
2018	5	0.0%	14.4%	40.0%	27.2%	60.0%	55.3%

Table 28 Exhibit 20 EEO Statistics for Technical

4. Administrative Support

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2016	24	12.50%	14.8%	50.0%	34.8%	62.5%	72.1%
2017	33	15.15%	14.8%	30.30%	34.8%	54.55%	72.1%
2018	26	23.08%	14.8%	42.31	34.8%	61.54%	72.1%

Table 29 Exhibit 20 EEO Statistics for Administrative Support

5. Service / Maintenance

Year	Total Number of Positions	Percent African-American	Statewide Civilian Workforce Percent	Percent Hispanic	Statewide Civilian Workforce Percent	Percent Female	Statewide Civilian Workforce Percent
2016	19	5.26%	13.0%	36.84%	54.1%	5.26%	51.0%
2017	17	5.88%	13.0%	35.29%	54.1%	5.88%	51.0%
2018	17	11.76%	13.0%	35.29%	54.1%	0.0%	51.0%

Table 30 Exhibit 20 EEO Statistics for Service and Maintenance

6. Skilled Craft

TRS does not have any employees in the Skilled Craft category.

I. Does your agency have an equal employment opportunity policy? How does your agency address performance shortfalls related to the policy?

Yes, TRS has an equal employment opportunity (EEO) policy. TRS has partnered with local community groups including chambers of commerce, is building partnerships with multiple universities, and participating in diversity recruiting events to further diversify applicant pools. OE continues to explore opportunities for diversity recruitment and TRS is currently hiring a Director of Diversity and Inclusion.

XII. Agency Comments

Provide any additional information needed to gain a preliminary understanding of your agency.

TRS headquarters has been located in its current location at 1000 Red River Street for over 40 years. Over the last year, the TRS Board of Trustees and executive management have begun discussing a long-term facilities plan. This includes exploring either renovating the current space to maximize efficiency and increase parking capacity or identifying an alternative location where TRS could build to suit.

Based on the success of TRS' investment presence in London with TRICOT, TRS is exploring establishing a presence in Asia.

Appendix A – Evaluation of Agency Reporting Requirements

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Comprehensive Annual Financial Report: Financial Transactions, Accumulated Cash and Securities, and Rate of Return on Cash and Securities Investment.	825.108(a)	Dec. 15; Annual	Published in Texas Register; provided to governor, lieutenant governor, speaker of the house of representatives, State Pension Review Board, and legislative audit committee.	Report containing the following information: (1) the retirement system's fiscal transactions for the preceding fiscal year; (2) the amount of the system's accumulated cash and securities; and the rate of return on investment of the system's cash and securities during the preceding fiscal year	Yes. Financial information regarding TRS should be filed annually with representatives of the system's plan sponsor.
Comprehensive Annual Financial Report: Balance Sheet and Actuarial Valuation.	825.108(b)	March 1; Annual	Published in Texas Register; provided to governor, lieutenant governor, speaker of the house of representatives, State Pension Review Board, State Library, State Auditor, Legislative Reference Library, LBB, and legislative audit committee.	Report containing the balance sheet of the retirement system as of Aug. 31 of the preceding fiscal year, including an actuarial valuation of the system's assets and liabilities, including the extent to which the liabilities are unfunded.	Yes. Financial information regarding TRS should be filed annually with representatives of the system's plan sponsor.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Comprehensive Annual Financial Report	825.108(e)	Annual	Published in Texas Register; provided to governor, lieutenant governor, speaker of the house of representatives, State Pension Review Board, and legislative audit committee.	Detailed written report accounting for all funds received and disbursed by the retirement system during the preceding fiscal year. The report must meet the reporting requirements applicable to financial reporting provided in the General Appropriations Act.	Yes. Financial information regarding TRS should be filed annually with representatives of the system's plan sponsor.
Biennial Report on the Use of Appropriated Funds	825.108(f)	Annually	Committees of the Senate and the House of representatives having jurisdiction over appropriations, with the committees of the Senate and the House of Representatives having principal jurisdiction over legislation governing the retirement system, and with the Legislative Budget Board at the time the retirement system submits its budget request for the next state fiscal biennium.	Detailed written report describing and explaining the use of any appropriated amounts, retirement system assets, or other resources for governmental relations, member counseling, or official publications.	Yes. Financial information regarding TRS should be filed annually with representatives of the system's plan sponsor.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Actuarial Experience Study	825.206(b)	At least once every five years	TRS Board of Trustees	At least once every five years, on authorization of the board of trustees, the TRS actuary shall: (1) investigate the mortality, service, and compensation experience of the members and beneficiaries of the retirement system; (2) on the basis of the investigation made under Subdivision (1), recommend to the board of trustees tables and rates that are required; and (3) on the basis of tables and rates adopted by the board of trustees under Section 825.105, evaluate the assets and liabilities of the retirement system.	Yes. Based on fiduciary duty, TRS must regularly measure the assumption set against actual experience to determine if the assumption set is appropriate.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Actuarial Audit	825.206(f)	In conjunction with actuarial experience study or at least once every five years.	TRS Board of Trustees	The audit must include: (1) an analysis of the appropriateness of the actuarial assumptions; (2) a review of the assumptions and methodology for compliance with the funding standards; (3) verification of demographic data; and (4) confirmation of the valuation results, including a determination of actuarial accrued liability, normal cost, expected employee contributions, and the effects of any recent legislation.	Yes. Based on fiduciary duty, TRS must regularly examine the accuracy and appropriateness of the system's actuarial methodologies and valuation results.
Restricted Securities Report	2270.0252	Dec. 31, annual	Presiding office of each house of the legislature and the Attorney General, and the United States presidential special envoy to Sudan.	Report must: (1) identify all investments sold, redeemed, divested, or withdrawn in compliance with Section 2270.0206; (2) identifies all prohibited investments under 2270.0209; and summarizes any changes made under Section 2270.0207. Additionally, the report to the United States special envoy to Sudan must identify investments in Sudan as required by law and summarize any changes made related to those investments.	Yes. TRS is required to file this report along with ERS, the Comptroller, and any entity subject to the Public Funds Investment Act.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Restricted Securities Report	808.101	Jan. 5, annual	Presiding officer of each house of the legislature and Attorney General	Report must: (1) identify all securities sold, redeemed, divested, or withdrawn in compliance with Section 808.054; (2) identify all prohibited investments under Section 808.057; and (3) summarize any changes made under Section 808.055.	Yes. TRS is required to file this report along with ERS, TMRS, TCDRS, TESRS, and the permanent school fund.
Investment Practices Report	825.512(c)	Not later than Dec. 1 of each even-numbered year	Legislative Audit Committee	The new report required under SB 322 satisfies the 825.512(c) statutory requirement	No. Replaced by Tex. Gov't. Code, Section 802.109.
Investment Performance Report	825.512(e)	Not later than the 45 th day after the end of each fiscal year	Governor, Lieutenant Governor, the Speaker of the House of Representatives, the Executive Director of the State Pension Review Board, the Legislative Audit Committee, the committees of the Senate and the House of Representatives having jurisdiction over appropriations, the committees of the Senate and the House of Representatives having principal jurisdiction over legislation governing the retirement system, and the Legislative Budget Board.	Annual investment performance report, including a listing of all commissions and fees paid by the system during the reporting period of the sale, purchase, or management of system assets.	No. Replaced by Tex. Gov't. Code, Section 802.109.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Medical Board Report	825.204		TRS Board of Trustees	The medical board must report in writing to the board of trustees its conclusions and recommendations on all matters referred to it.	The Medical Board currently determines eligibility for disability benefits. If TRS outsourced this function (See Major Issues), the new provider would need to report disability determinations to the board.
Unclaimed Property	821.010	Not later than June 1 of every fifth year	Texas Comptroller of Public Accounts	The name, address, social security number, and date of birth of each member, retiree, and beneficiary from the retirement system's records.	Yes. To assist the Comptroller in performing its duties regarding unclaimed property.
Funding Policy	802.2011	Jan. 1, 2020	TRS Board of Trustees	TRS must adopt a written funding policy that details the governing body's plan for achieving a funded ration of the system that is equal to or greater than 100 percent.	Yes. New requirement pursuant to SB 2224 (86 th Legislature, Regular Session (2019)).

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Investment Practices and Performance Reports	802.109	To the TRS board by May 1, every three years, and to state leaders by the 31 st day after receipt by the TRS board.	Governor, lieutenant governor, the speaker of the house of Representatives, and the legislative committees having principal jurisdiction over legislation governing public retirement systems	An independent firm report must evaluate and make recommendations for improving the retirement systems' investment policies, strategic plans, procedures, and practices. The report must include a detailed review of TRS' investment allocations, risk and expected returns, cash flow and liquidity needs, system governance, appropriateness of investment fees and commissions, and manager selection and monitoring. A report under 802.109 satisfies the requirements of 825.512.	Yes. New requirement pursuant to SB 322 (86 th R.S., 2019). Pursuant to SB 322, this report satisfies the reporting requirements found in Government Code, Section 825.512.
Written policy statement to assume implementation of equal employment opportunity	825.213	Annually	Commission on Human Rights; governor	In accordance with Section 825.213(d) of the Texas Government Code, TRS prepares an Equal Employment Opportunity (EEO) Policy statement annually to submit to Texas Workforce Commission (TWC), Civil Rights Division for review and approval.	Yes. TRS is required to submit an EEO policy statement to TWC for approval annually and it is filed with the Governor's office.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
State contribution bi-annual certification	825.404(b)	Bi-annual	In coordination with the Legislative Budget Board certified to the comptroller of public accounts	TRS must certify the estimated amounts necessary to pay the state's contributions from General Revenue to the retirement system for the biennium based on the appropriated contribution rate of the aggregate annual compensation of all members.	Yes. To inform representatives of the plan sponsor the estimated contributions.
Certification regarding late employer payments under 825.4041	825.4041	Annually	Commissioner of Education & state auditor	The purpose of this statute was to gain assistance from these state agencies to direct TXCPA to withhold delinquent deposits to send to TRS.	No longer needed. Currently using the Texas CPA warrant hold process to collect delinquent fines.
Certification regarding late employer payments under 825.405	825.405	Annually	Commissioner of Education & State Auditor	The purpose of this statute was to gain assistance from these state agencies to direct the CPA to withhold delinquent deposits to send to TRS.	No longer needed. Currently using the CPA warrant hold process to collect.
Report regarding delinquent contributions under 825.407	825.407	Annually	Comptroller of Public Accounts	Report regarding delinquent contributions from general academic teaching institutions and medical and dental schools.	Yes. To help ensure receipt of required contributions.
Certification regarding late payments under 825.4071	825.4071	Annually	Comptroller of Public Accounts	Report regarding delinquent contributions from junior colleges.	Yes. To help ensure receipt of required contributions.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Member annual statements	825.501	Annually	TRS active membership	<p>No later than Dec. 1 of each year, the board of trustees shall furnish to each member a statement of the amount credited to the member's individual account as of Aug. 31 of the preceding fiscal year.</p> <p>The annual statement includes information about service credit, tier, account balance, high salaries, and a projected retirement estimate. In addition, TRS includes important information about benefits and certain deadlines on the statement.</p>	Yes. This is a primary means of annual communication with TRS members.
Actuarial studies and other report submission requirements	802.101(c)	As reported	Pension Review Board	Actuarial studies and separate reports must be filed with the PRB.	This provision is generally applicable to all public retirement systems.
Notice of significant changes	802.106(b)	Within 271 days of change	TRS active members and retirees	TRS shall distribute to each active member and retiree a summary of any significant change made in statute that affects contributions, benefits, or eligibility.	Yes, but clarify that TRS may distribute the information electronically.
Report of investment returns and assumptions	802.108	Annually (with 211 days of fiscal year end)	Pension Review Board	Report of investment returns and assumptions must be filed with the PRB.	This provision is generally applicable to all public retirement systems.

Report Title	Legal Authority	Due Date and Frequency	Recipient	Description	Is the Report Still Needed? Why?
Vendor performance reporting	2155.089	Annually and at each key contract milestone	Comptroller of Public Accounts; Not a TRS specific report but a new report to TRS as a result of SB 65, 86 th Legislature, Regular Session	TRS documented vendor performance internally through a contract closeout process. However, starting 9/1/19, TRS will be submitting vendor performance evaluations to the CPA Vendor Performance Tracking System for contract renewals and closeout per SB 65 and TGC 2262.055.	This is a new TRS requirement pursuant to SB 65, 86 th Legislature, Regular Session (2019).
Annual TRS-Care Report	1575.452	Annually (180 days after fiscal year ended)	Department of Insurance	Not later than the 180th day after the last day of each state fiscal year, the trustees shall submit a written report to the department concerning the group coverages provided to and the benefits and services being received by individuals covered under this chapter.	Yes. TRS uses this report to provide the legislature with an update on TRS-Care before session.
TRS-Care Operation and Administration report	1575.453	Biannually	Legislature	A report each regular session detailing financing, benefits available to participants, and the projected cost of coverage.	No
TRS ActiveCare Drug Formulary Report	1579.106	Every six months	LBB and Comptroller of Public Accounts	A report detailing cost savings achieved in the program through implementation of certain types of prior authorizations.	No.