Teacher Retirement System
Summary of Recommendations - House

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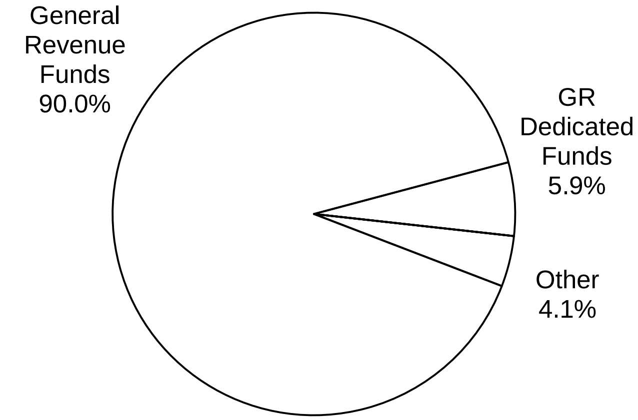
Method of Financing	2012-13 Base	2014-15 Recommended	Biennial Change	% Change
General Revenue Funds	$3,344,523,988	$3,402,005,601	$57,481,613	1.7%
GR Dedicated Funds	$202,811,767	$222,896,013	$20,084,246	9.9%
Total GR-Related Funds	*$3,547,335,755*	*$3,624,901,614*	*$77,565,859*	*2.2%*
Federal Funds	$0	$0	$0	0.0%
Other	$160,036,696	$154,137,030	($5,899,666)	(3.7%)
All Funds	**$3,707,372,451**	**$3,779,038,644**	**$71,666,193**	**1.9%**

	FY 2013 Budgeted	FY 2015 Recommended	Biennial Change	% Change
FTEs	490.3	475.3	(15.0)	(3.1%)

The bill pattern for this agency (2014-15 Recommended) represents an estimated 3.3% of the agency's estimated total available funds for the 2014-15 biennium.

RECOMMENDED FUNDING
BY METHOD OF FINANCING

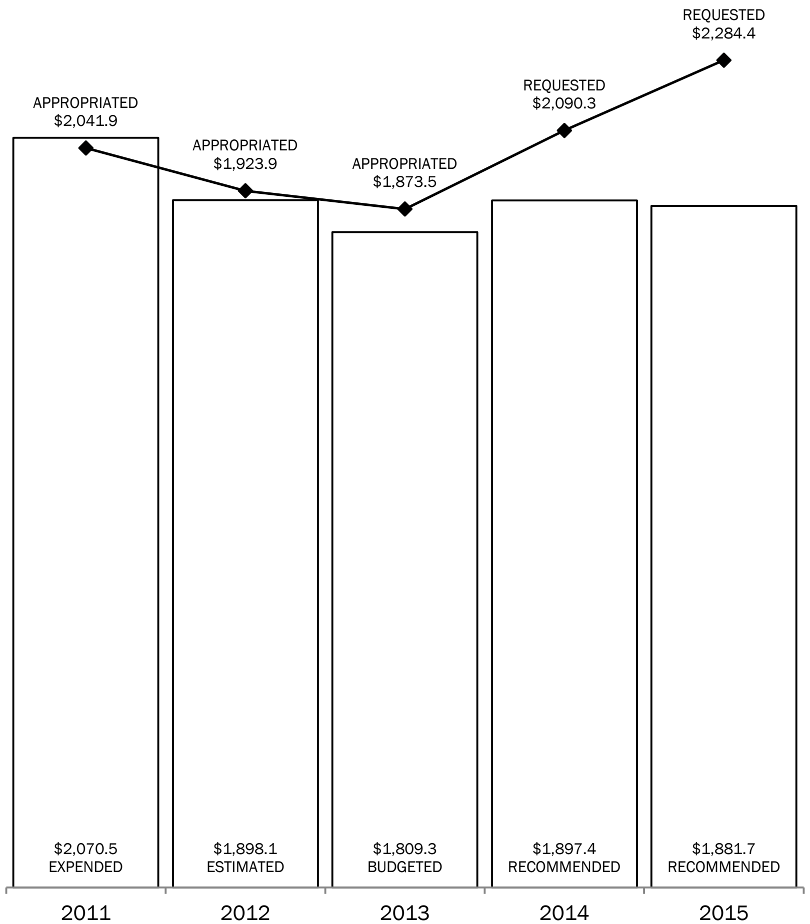


Teacher Retirement System

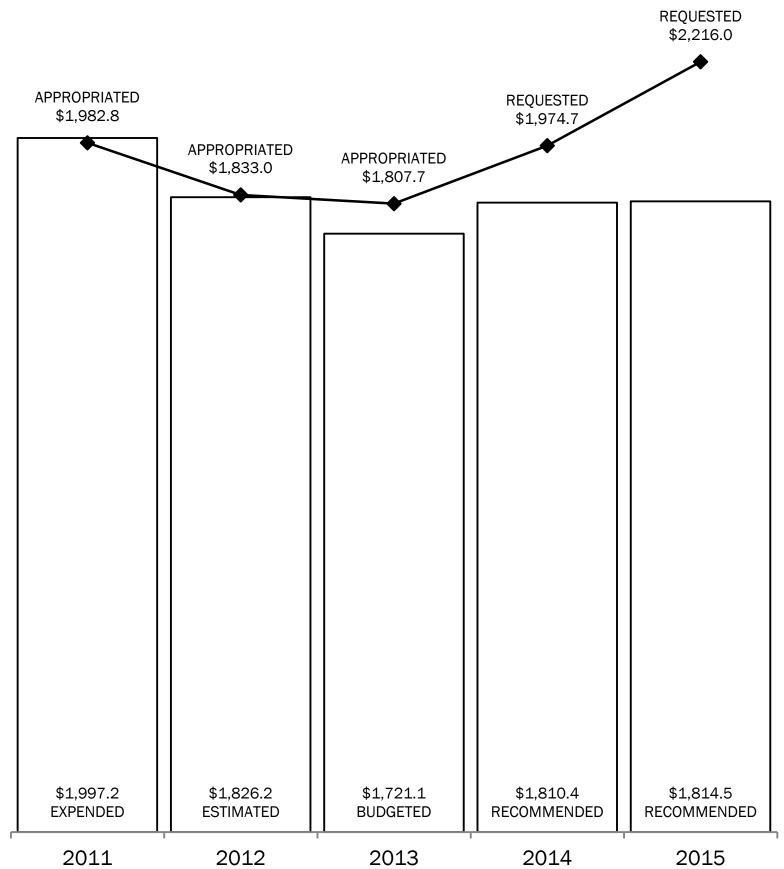
2014-2015 BIENNIUM TOTAL= $3,779.1 MILLION

IN MILLIONS

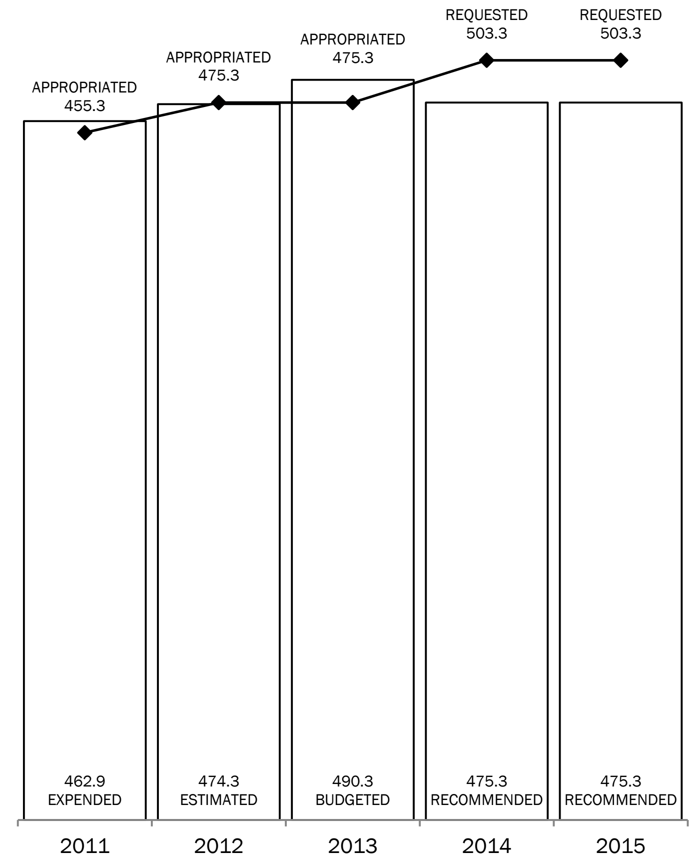
ALL FUNDS



GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS



FULL-TIME-EQUIVALENT POSITIONS



Teacher Retirement System
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2012-13 Base	2014-15 Recommended	Biennial Change	% Change	Comments
TRS - PUBLIC EDUCATION RETIREMENT A.1.1	**$2,563,721,866**	**$2,646,422,572**	**$82,700,706**	**3.2%**	
GENERAL REVENUE FUNDS	$2,563,721,866	$2,646,422,572	$82,700,706	3.2%	The recommendation includes funding sufficient to provide for a 6.4 percent state contribution to the retirement trust fund for public education employees and assumes no annual payroll growth. See Selected Fiscal and Policy Issues, #1 and #2.
GR DEDICATED	$0	$0	$0	0.0%	
FEDERAL FUNDS	$0	$0	$0	0.0%	
OTHER FUNDS	$0	$0	$0	0.0%	
TRS - HIGHER EDUCATION RETIREMENT A.1.2	**$525,954,585**	**$488,582,755**	**($37,371,830)**	**(7.1%)**	
GENERAL REVENUE FUNDS	$318,446,368	$260,520,061	($57,926,307)	(18.2%)	Recommendations reflect a state contribution rate for higher education retirement of 6 percent for fiscal year 2012 increasing to 6.4 percent for fiscal years 2013, 2014 and 2015. Higher education payroll growth is assumed at 2 percent annually for fiscal years 2013, 2014, and 2015. The recommendation reflects a 7.4 percent net increase in General Revenue above the 2012-13 estimated funding levels, or $23.4 million, attributable to an increase in the state matching contributions from 6 percent in fiscal year 2012 to 6.4 percent for fiscal years 2013, 2014 and 2015. The increase is offset by a decrease of $81.4 million in General Revenue for continuing the current policy that limits the GR amount appropriated for state matching retirement contributions for community colleges to the state contribution rate applied to each community college district's unrestricted General Revenue (UGR) appropriations. See Selected Fiscal and Policy Issues, #1 and #3.
GR DEDICATED	$202,811,767	$222,896,013	$20,084,246	9.9%	Recommendations reflect a $20.1 million increase in General Revenue-Dedicated funds above the 2012-13 estimated funding levels attributable to an increase in state matching retirement contributions from 6 percent in fiscal year 2012 to 6.4 percent for fiscal years 2013, 2014 and 2015 and assumes a 2 percent annual payroll growth.
FEDERAL FUNDS	$0	$0	$0	0.0%	
OTHER FUNDS	$4,696,450	$5,166,681	$470,231	10.0%	The recommendation includes funding sufficient to make a state contribution of 6.4 percent of payroll for TRS employee retirement contributions.

Teacher Retirement System
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2012-13 Base	2014-15 Recommended	Biennial Change	% Change	Comments
ADMINISTRATIVE OPERATIONS A.1.3	**$155,340,246**	**$148,970,349**	**($6,369,897)**	**(4.1%)**	
GENERAL REVENUE FUNDS	$0	$0	$0	0.0%	
GR DEDICATED	$0	$0	$0	0.0%	
FEDERAL FUNDS	$0	$0	$0	0.0%	
OTHER FUNDS	$155,340,246	$148,970,349	($6,369,897)	(4.1%)	Recommendations include funding for administrative operations associated with the Retirement Trust Fund which is related to pension-related services only. The recommendation for the 2014-15 biennium includes a decrease of $6.4 million below the 2012-13 base funding for administrative operations primarily attributable to unfilled FTE positions related to the TRS Enterprise Application Modernization (TEAM) initiative. See Selected Fiscal and Policy Issues, #5 and #6.
RETIREE HEALTH - STATUTORY FUNDS A.2.1	**$371,297,226**	**$495,062,968**	**$123,765,742**	**33.3%**	
GENERAL REVENUE FUNDS	$371,297,226	$495,062,968	$123,765,742	33.3%	Recommendations include sufficient funding to make the statutorily required state contribution to TRS-Care of 1.0 percent of public education payroll.
GR DEDICATED	$0	$0	$0	0.0%	
FEDERAL FUNDS	$0	$0	$0	0.0%	
OTHER FUNDS	$0	$0	$0	0.0%	
RETIREE HEALTH - STATUTORY FUNDS A.2.1	$371,297,226	$495,062,968	$123,765,742	33.3%	
RETIREE HEALTH - SUPPLEMENTAL FUNDS A.3.1	**$91,058,528**	**$0**	**($91,058,528)**	**(100.0%)**	
GENERAL REVENUE FUNDS	$91,058,528	$0	($91,058,528)	(100.0%)	Recommendations reflect reappropriation of funds in excess of the state's actual statutory retirement and retiree health insurance obligation for fiscal year 2012, which were transferred to the TRS-Care Trust Fund pursuant to Rider 18.
GR DEDICATED	$0	$0	$0	0.0%	
FEDERAL FUNDS	$0	$0	$0	0.0%	
OTHER FUNDS	$0	$0	$0	0.0%	
Grand Total, All Agency	**$3,707,372,451**	**$3,779,038,644**	**$71,666,193**	**1.9%**	
GENERAL REVENUE FUNDS	$3,344,523,988	$3,402,005,601	$57,481,613	1.7%	
GR DEDICATED	$202,811,767	$222,896,013	$20,084,246	9.9%	
FEDERAL FUNDS	$0	$0	$0	0.0%	
OTHER FUNDS	$160,036,696	$154,137,030	($5,899,666)	(3.7%)	

Teacher Retirement System
Selected Fiscal and Policy Issues

1. **State Contribution for the Retirement Trust Fund and Payroll Growth Assumptions**. Recommendations include funding sufficient to provide for a 6.4 percent state contribution rate to the retirement trust fund for public education and higher education employees. Retirement contributions for the 2012-13 biennium are based on a 6 percent state contribution rate in fiscal year 2012 and 6.4 percent in fiscal year 2013. The Eightieth Legislature established a provision in statute that prohibits the state contribution rate for retirement from being less than that of active members, which is currently 6.4 percent. However, the Eighty-second Legislature amended law to temporarily suspend the requirement that the state retirement contribution be no less than the contribution rate required by active employees for fiscal year 2012 only. For purposes of estimating payroll-based state contributions to the retirement trust fund, recommendations assume no annual payroll growth for public education employees for the 2014-15 biennium. The historical data trend reflects a 4 percent average annual salary growth for public education that dropped 8 percentage points in fiscal year 2012 (-4%). Higher education payroll growth is assumed at 2 percent annually in fiscal years 2013, 2014 and 2015. The historical data shows a ten-year average annual salary trend of 7 percent for higher education employees that dropped to 2 percent in fiscal year 2012. The recommendation would continue the policy established by TRS Rider 13 in the 2012-13 GAA limiting the General Revenue appropriated for retirement contributions for community college employees to the state contribution rate applied to each community college district's unrestricted General Revenue (UGR) appropriation. See Selected Fiscal and Policy Issue #3.

2. **Retirement Trust Fund, Contribution Rate and Actuarial Valuation.** As of the August 31, 2012 actuarial valuation, the unfunded actuarial accrued liability for the TRS Retirement Trust Fund totaled $26.1 billion and the annual required contribution rate necessary to achieve the 30-year funding period stipulated in statute was estimated at 8.62 percent. The retirement fund balance is $111.4 billion at the end of fiscal year 2012. The 2014-15 recommendation is based on a 6.4 percent state contribution rate, which matches the active member contribution rate. The agency requested an exceptional item reflecting incremental state matching retirement increases of 0.5 percent in each year of the 2014-15 biennium, 6.9 percent and 7.4 percent respectively.

3. **Limitation of General Revenue Fund Retirement Contributions to Public Community/Junior Colleges.** The Legislature provides state matching retirement contributions on behalf of public community and junior college employees through the TRS retirement program. The requirement that benefits be paid proportional by fund is stipulated in Article IX. 6.08. of the 2012-13 GAA and means that state contributions from General Revenue for employee benefits should only apply to those salaries paid from General Revenue. Although historically public community college districts have been specifically exempted from the Article IX provision, TRS Rider 13 in the 2012-13 GAA applies the principle of proportionality by limiting the General Revenue appropriation to the state contribution rate applied to each public community college district's unrestricted General Revenue (UGR) with the expectation that contributions made on the balance of covered payroll would be paid from other available funds. That policy is continued for 2014-15 in the recommendation.

Public Community and Junior Colleges
2014-15 State Matching Contribution Rate and Payroll Growth Assumption

Recommendation	State Contribution Rate		Payroll Growth Assumption	2014-15 Total of Payroll-Based Contributions	2014-15 TRS Savings Limit GR Appropriations to 6.4 percent of each district's UGR	Net 2014-15 General Revenue Recommendation
	REC 2014	REC 2015				
	6.40%	6.40%	2% Higher Ed	$341,889,877	($81,369,816)	$260,520,061

Update of Status of 2012-13 Payments. In February, 2011 the Texas Association of Community Colleges (TACC) submitted a legal opinion claiming limitation to community colleges' UGR appropriation was unconstitutional because the state retirement contribution is required to be at least 6 percent of aggregate compensation rather than compensation paid only from General Revenue to community colleges. TACC recommended that the districts not remit payments from other revenue sources for the remaining amount of state matching retirement contributions owed for TRS. For the 2012-13 biennium to date, only Dallas County Community College has complied with the provisions of TRS Rider 13. Under the policy established by TRS Rider 13 and the comparable ORP Rider 5, the total GR available for fiscal year 2012 for state retirement contributions for community college employees for the TRS and the ORP combined is $52.5 million. The community colleges opted to make payments associated with ORP contributions from UGR first, leaving $22.9 million available for TRS state matching contributions. After applying the $22.9 million General Revenue balance to TRS retirement contributions, there is a remaining $34.7 million owed for TRS for fiscal year 2012 by the community colleges.

The total UGR available for fiscal year 2013 for state retirement contributions for community college employees for the TRS and the ORP combined is estimated at $54.1 million. The TRS state matching retirement contributions to be remitted by community colleges from the General Revenue appropriations is estimated to be $24.3 million, leaving an estimated $53.4 million to be remitted from other available funds.

Because the exact amount of TRS and ORP covered payroll is unknown at the time of appropriation, the appropriations for the state contributions to the two systems are estimated. This estimated appropriation allows the Comptroller to settle up with the systems at the end of each fiscal year based on actual payroll. For fiscal year 2012, through this settle up process, TRS and ORP have received the full amounts owed for state retirement contributions, including shortfall amounts resulting from the community college districts' non-compliance with the limitation described above. The difference owed by the community college districts for retirement contributions was paid from General Revenue at a state cost.

In addition to the funding recommendation outlined above, the recommendations also include the following:

1) Revision to Article IX, Sec. 6.08. Benefits Paid Proportional by Fund to require public community and junior colleges' compliance with proportionality.

2) Appropriations for each community college district's formula allocation for the 2014-15 biennium is contingent upon each district paying in full the outstanding retirement benefits due the Optional Retirement Program for fiscal years 2012 and 2013 (see Public Community Junior Colleges Rider 21).

In addition to steps taken in the General Appropriations Bill, the Legislature could consider amending Section 825.407 of the Government Code to specifically include public community and junior colleges in provisions related to proportionality.

4. **Administrative Operations.** Recommendations include funding for administrative operations associated with the Retirement Trust Fund. Only pension-related services are funded from the Retirement Trust Fund. Funds supporting administrative operations associated with other agency functions (TRS-Care and TRS ActiveCare) are not appropriated and are funded from the associated trust funds. The recommendation for the 2014-15 biennium includes a decrease of $6.4 million compared to 2012-13 base funding for administrative operations primarily attributable to unfilled FTE positions related to the TRS Enterprise Application Modernization (TEAM) initiative. See Selected Fiscal and Policy Issues, #5.

5. **TRS Enterprise Application Modernization (TEAM).** Recommendations include $15.4 million in baseline funds for continuation of the TEAM technology initiative. The Eighty-second Legislature appropriated $25 million for the 2012-13 biennium from the TRS Retirement Trust Fund to begin the process of replacing the pension legacy system used to deliver benefits and services to TRS members and annuitants. The original cost estimate reported to the legislature was between $75 to $80 million spread over three biennia. At the end of fiscal year 2013, the agency anticipates expending $15.4 million of the $25 million appropriated and reports a $9.6 million lapse. The agency is requesting another $25 million for the 2014-15 biennium plus the $9.6 million in lapsed funds for FY 2013 for a total 2014-15 TEAM request of $34.6 million. Additionally, in fiscal year 2012 the LBB received a request from TRS to increase the agency's full-time equivalent (FTE) cap by 12 FTEs for fiscal year 2012, from 475.3 to 487.3 and further increase the FTE cap for fiscal year 2013 by an additional three FTEs, from 487.3 to 490.3. The request to exceed (RTE) the agency's FTE cap was for authority only and approval by the LBB stipulated that the FTE cap will return to its current level of 475.3 FTEs for the 2014-15 biennium, which is reflected in the recommendation.

6. **State Contribution for TRS-Care**. The Eighty-second Legislature amended statute to allow a state contribution for retiree health insurance to be less than 1 percent of public education payroll and lowered the rate to 0.5 percent for fiscal year 2013. Recommendations for the 2014-15 biennium include funding sufficient to make the statutorily required state contribution to TRS-Care of 1.0 percent of public education payroll, which is $123.8 million over the 2012-13 base. On January 1, 2013, TRS-Care began offering new medical and prescription benefit options that are linked to the federal Affordable Care Act for Medicare-eligible participants. Solvency of the TRS-Care fund through fiscal year 2015 without a supplemental appropriation is dependent on receiving an 80 percent or higher participation rate. As of January 2013, both programs are on target to exceed the 80 percent participation rate resulting in potential savings of $559.8 million through fiscal year 2015 and leaving a projected fund balance of $106.8 million as of August 31, 2015. Historical cost trends support the agency’s assumptions of an annual 10 percent medical and 9.5 percent prescription drug trend. The agency reported a retiree health insurance fund balance of $741 million as of August 31, 2012.The balance does not include reappropriation of $91 million from General Revenue funds appropriated in fiscal year 2012 in excess of actual state contributions for retirement and retiree insurance to the trust fund for fiscal year 2012 pursuant to TRS Rider 18.

Teacher Retirement System (TRS)
Pension Benefit Design Study

TRS administers the state-supported defined benefit (DB) pension plan for retired public school and higher education employees. The 2012-13 General Appropriations Act, Article IX, Section 18.03 required the agency to conduct a long-term sustainability study that reviewed plan design changes, including changes within the existing defined benefit plan and hybrid plan alternatives. This study is the result of a 2011 GEER report recommendation on pension solvency. The agency reported eight key findings.

Plan Statistics

- Funded ratio (assets to liabilities) was 81.9% as of FY 2012 with $26.1 billion in unfunded liabilities.
  - A funded ratio of 80% is considered the minimum standard for system health.
- Revenue sources to the plan include state contributions, member contributions and investment earnings
  - Approximately 61% of plan assets are from investment earnings, with the remaining assets almost evenly divided between state and member contributions.
- The plan has not consistently received contributions that meet full funding rates for actuarial soundness.

Policy Considerations Discussed in the Study

- Weighing benefit level against costs
- Which party bears the risk, primarily from investment/market volatility and longevity
- Increased contributions to the plan can come from the state, the member, or a combination of the two

Key Findings

1. While the TRS pension fund can pay currently projected benefits through 2075, the state will need to address unfunded liability. Delays will increase costs.
2. The value of the retirement benefit available to TRS members is 36% less than average benefits available to peer system members.
   - TRS provided a comparison of the 17 peer systems, including other states, statewide Texas plans, and Texas local government plans.
   - Ten of the 17 peer systems include a Cost of Living Adjustment (COLA), whereas TRS does not.
3. The DB plan provides current benefits at a lower cost than alternative plans (based on two models and five plan alternatives including hybrid and defined contribution).
   - The Targeted Benefit model, which maintains benefits regardless of plan type, shows alternative plans with a 12% to 138% cost increase to maintain benefits.
   - The Targeted Contribution model, which maintains costs regardless of benefit level, shows alternative plans replace of 28% to 60% of salary (DB replaces 68%).
4. The majority of TRS members will do significantly worse investing on their own in a plan with a defined contribution (DC) component.
   - TRS estimates that 92% of plan members would have a higher benefit under a DB plan than a DC plan.
5. Alternative plan structures carry differing levels of risk for the state and TRS members.
6. Other systems have lowered benefits to achieve savings.
7. Moving new hires to an alternative will not eliminate existing liabilities.
   - Due to increased liquidity needs, if the plan is closed to new members, liabilities could increase by $11.7 billion.
8. Approximately 95% of public school TRS members do not participate in Social Security (or 80% of all TRS membership).
   - Any plan type changes would have to meet safe harbor standards to prevent districts from losing Social Security exempt status.

As shown in Table 1 (next page), benefit reductions for new hires only do not affect unfunded liability, but they do impact benefit accrual costs and therefore the needed rate to meet full funding. Benefit reductions for all active employees impact benefit costs and unfunded liability.

Table 1. Estimated Impact of Benefit Reductions to Current Plan if Maintaining DB Plan Structure*

Plan Feature	Current	Potential Change	Benefit Accrual Cost (Normal Cost)	Unfunded Liability (in billions)	Funding Period (in years)	State Contribution Rate Needed for Actuarial Soundness	Salary Replacement Rate
Current Plan Costs and Liability			10.60%	$24.1	Never	8.13%	67.8%
APPLIES TO NEW HIRES ONLY							
Retirement Eligibility	Rule of 80, Minimum Age 60	Rule of 80, Minimum Age 62	10.39%	$24.1	Never	8.02%	67.8%
Average Salary Period	5 years	7 years	10.27%	$24.1	Never	7.97%	65.2%
Benefit Multiplier	2.3%	2.0%	9.51%	$24.1	Never	7.60%	59.0%
Member Contribution Rate	6.4%	7.4%	10.90%	$24.1	Never	7.79%	67.8%
APPLIES TO ALL CURRENT ACTIVES							
Retirement Eligibility	Rule of 80 Minimum Age 60	Rule of 80 Minimum Age 62	10.39%	$14.7	30	6.39%	67.8%
Average Salary Period	5 years	7 years	10.27%	$20.4	70	7.20%	65.2%
Benefit Multiplier	2.3%	2.0%	9.51%	$21.9	36	6.69%	59.0%
Member Contribution Rate	6.4%	7.4%	10.90%	$23.4	69	7.31%	67.8%

Note*: Actuarial impacts from the study are based on the fiscal year 2011 actuarial valuation, which was the most recent valuation available at the time TRS completed the study.
Source: *Pension Benefit Design Study, Teacher Retirement System, 2012* - Charts A and B

As shown in Table 2, unfunded liability is not impacted except in the two DC plans alternatives. The results in Table 2 are based on the “Targeted Benefits” and “Targeted Contribution” (Cost) modeling the agency used in the study.

Table 2. Estimated Impact from Switching to Alternative Plan Models*

Plan	Same Benefits as Current Plan			Same Cost as Current Plan			Unfunded Liability (in billions)	Risk
	State Contribution Rate	Member Contribution Rate	Salary Replacement Rate (Age 62)	State Contribution Rate	Member Contribution Rate	Salary Replacement Rate (Age 62)		
Current DB	4.20%	6.40%	67.8%	4.20%	6.40%	67.8%	$24.1	State
Side by Side Hybrid	9.40%	6.40%	68.2%	4.20%	6.40%	55.1%	$24.1	Shared
Capped Hybrid	9.40%	6.40%	68.2%	4.20%	6.40%	55.1%	$24.1	Shared
Cash Balance	5.42%	6.40%	67.5%	4.20%	6.40%	59.7%	$24.1	Shared
Pooled DC	10.90%	6.40%	67.8%	4.20%	6.40%	40.9%	$35.8	Member
Self-Directed DC	18.89%	6.40%	67.6%	4.20%	6.40%	27.7%	$35.8	Member

Note*: Actuarial impacts from the study are based on the fiscal year 2011 actuarial valuation, which was the most recent valuation available at the time TRS completed the study.
Source: *Pension Benefit Design Study, Teacher Retirement System, 2012* - Chart C, Figure 5.1 and Figure 5.3

Teacher Retirement System (TRS)
TRS-Care Sustainability Study

TRS-Care is the healthcare plan for retired public school employees. The 2012-13 General Appropriations Act, TRS bill pattern, Rider 16 required the agency to conduct a long-term sustainability study that reviewed plan design and other changes. TRS-Care includes three plan options, catastrophic care (TRS-Care1) and comprehensive care with varying deductibles and copays (TRS-Care 2 and 3). The agency developed nine options, grouped into three categories:

- Benefits and eligibility;
- Retiree premiums; and
- Other contributions (state, school district, active employee, federal).

Highlights:

- With fiscal year 2013 initiatives, TRS projects that TRS-Care will be solvent through the 2014-15 biennium but will have a shortfall in the 2016-17 biennium.
- Some options to ensure the long-term sustainability of the program can be combined; some are mutually exclusive.
- The non-Medicare retiree population costs the plan six times as much as the Medicare retiree population.

Plan Option	Annual Increase in State Appropriations FY 2014 to 2017 (in millions)	Additional Detail for Impacted Parties	Impacted Parties[1]
1. Pre-fund the long-term liability	$352.7	Increases current contribution rate of 2.20% to 5.34%; retirees' share of cost would need to keep pace with trend.[2]	S, D, AE, NMR, MR
2. Fund on a pay-as-you-go basis for the biennium[3]			
2a. State contribution increase *State contribution rate is 1.00%*	$264.0 to $533.3	If implemented in 2014, the state rate would be 2.07% through 2017. If implemented in 2016, the state rate would be 3.16% for the 2016-17 biennium.	S
2b. Proportional contribution increase for state, district and active employee, but no retiree premium increase *District contribution rate is 0.55%* *Active employee contribution rate is 0.65%*	$120.0 to $242.4	If implemented in 2014, all rates would increase by almost 50% from current levels. If implemented in 2016, rates for all entities would almost double from current levels.	S, D, AE
2c. Proportional contribution increase for state, district and active employee, with retiree premium increase	$72.5 to $145.3	If implemented in 2014, rates and retiree premiums would increase by 29%. If implemented in 2016, rates and retiree premiums would increase by 59%. For a non-Medicare retiree enrolled in TRS-Care 3, the retiree premium impact is about $87 per month if implemented in 2014 and $173 per month if implemented in 2016.	S, D, AE, NMR, MR
3. Require retiree to pay the full cost for optional coverage	$0	In 2014 the TRS-Care 3 premium for a non-Medicare retiree would increase by $321 per month. The non-Medicare retiree and spouse premium would increase by $1,055 per month.	NMR, MR

4. Require Medicare eligible enrollees to purchase Medicare Part B 4a. Require those retiring on or after 9/1/13 to purchase Part B or be enrolled in TRS-Care 1. Those retired prior to 9/1/13 are grandfathered. 4b. Require those retiring on or after 9/1/13 to purchase Part B or be enrolled in TRS-Care 1. Those retired prior to 9/1/13 are grandfathered only if penalty to retiree exceeds projected savings.	$0	The standard Medicare Part B premium was $100 per month for 2012. Higher income retirees pay an additional premium and there is a 10% penalty for each 12-month delay that a person was eligible but did not purchase Part B. Almost 99% of retirees eligible enroll in Part B. Options 4a and 4b would not have a significant impact on the fund balance, but the agency included it so that the plan can maximize federal subsidies and programs.	MR
5. Provide opt out consequences for participants eligible for the Medicare Advantage and Medicare Part D plans	$0	The agency assumes the new Medicare Advantage and Medicare Part D plans will have 80% enrollment for FY 2013, but there is no consequence for enrollment. This option would require any Medicare eligible retiree who opts out to be enrolled in TRS Care-1.	MR
6. Tighten eligibility requirements by adding minimum age requirements	$0		AE
6a. Minimum retirement age of 60 or 62 for new retirees to enroll in TRS-Care for those <u>retiring</u> after August 31, 2013.		Age 60 requirement - $252 million in savings for FY 2014 to 2017. Age 62 requirement - $365 million in savings for FY 2014 to 2017.	
6b. Minimum retirement age of 60 or 62 for new retirees to enroll in TRS-Care for those <u>eligible to retire</u> after August 31, 2013		Age 60 requirement - $124 million in savings for FY 2014 to 2017. Age 62 requirement - $155 million in savings for FY 2014 to 2017.	
7. Limit non-Medicare retirees to TRS-Care 1[4]	$0	The premiums, deductible and coinsurance would increase for retirees and dependents. Retirees would be allowed to upgrade coverage once they reach 65 years of age.	NMR
8. Provide a defined contribution for non-Medicare retirees to shop in the private market[4]	$0	Retirees would shop private market for coverage. The study indicates a typical policy for a 60 year-old includes at least a $1,000 deductible and a more than $850 monthly premium cost.	NMR
9. Move non-Medicare retirees to TRS-Active Care[4]	$0	NMR would no longer have access to free retiree only coverage and the premiums for TRS-Active Care would increase.	S, D, AE

Note[1]: Impacted Parties: S=State; D=District; AE=Active Employees; NMR=Non-Medicare Retirees; MR=Medicare Retirees.
Note[2]: Assumes 80% of eligible retirees and dependents will participate in the Medicare Part D and Medicare Advantage Plans. Current rate of 2.20% is shared between state, school districts and active employees. State law requires retirees are required to pay at least 30% of plan costs.
Note[3]: Cost range for options 2a, 2b and 2c depend upon if contribution and premium increases begin in fiscal year 2014 or 2016. The earlier the contribution increase begins starts, the lower the amount needed to prevent a negative fund balance.
Note[4]: Options 7, 8 and 9 assume retiree receives monthly stipend of $266 to put towards cost of coverage.

Teacher Retirement System
FTE Highlights

Full-Time-Equivalent Positions	Expended 2011	Estimated 2012	Budgeted 2013	Recommended 2014	Recommended 2015
Cap	475.3	487.3*	490.3*	475.3	475.3
Actual/Budgeted	462.9	474.3	490.3	NA	NA
Schedule of Exempt Positions (Cap)					
Executive Director**	$290,000	$270,000	$270,000	$270,000	$270,000
Chief Investment Officer	$480,000	$480,000	$480,000	$480,000	$480,000
Deputy Director Investment Officer	$294,000	$294,000	$294,000	$294,000	$294,000
Deputy Administrative Officer	$231,276	$231,276	$231,276	$231,276	$231,276
Investment Fund Director	$360,000	$360,000	$360,000	$360,000	$360,000
Investment Fund Director	$360,000	$360,000	$360,000	$360,000	$360,000
Investment Fund Director	$350,000	$350,000	$350,000	$350,000	$350,000
Investment Fund Director	$330,000	$330,000	$330,000	$330,000	$330,000
Investment Fund Director	$300,000	$300,000	$300,000	$300,000	$300,000
Investment Fund Director	$218,525	$218,525	$218,525	$218,525	$218,525
Investment Fund Director	$200,000	$200,000	$200,000	$200,000	$200,000

*Fiscal year 2012 reflects an increase of 12 FTEs over the FTE cap authorized in the General Appropriations Act (GAA), from 475.3 to 487.3 FTEs and an additional three FTEs in 2013 over the 2012 cap from 487.3 to 490.3 FTEs for the TEAM technology project. The TRS request-to-exceed (RTE) was approved by the LBB with the stipulation that the FTE cap will return to the original FY 2012 appropriated level of 475.3 FTEs for the 2014-15 biennium.

**The fiscal year 2011 executive director salary cap reflects the previous director's annual salary.

Amounts provided in the schedule of exempt positions are informational only and reflect actual salary amounts through fiscal year 2013.

Teacher Retirement System
Performance Measure Highlights

	Expended 2011	Estimated 2012	Budgeted 2013	Recommended 2014	Recommended 2015
• *TRS Retirement Fund Benefit Administration Annual Operating Expense Per Total Member and Annuitant in Dollars (Excluding Investment Dollars)**	$27.23	$22.22	$25.00	$27.00	$28.00
Measure Explanation: This measure reflects the annual cost per member and annuitant to operate the retirement fund benefit administration.					
• *TRS Retirement Fund Investment Expense as Basis Points of Net Assets**	$17.07	$24.04	$15.00	$22.00	$23.00
Measure Explanation: This measure provides a method to compare investment operating efficiencies from year-to-year and comparison to other public retirement funds.					

*Fiscal year 2012 peformance is based on actual performance data. Fiscal years 2013, 2014 and 2015 are based on agency projections.

Teacher Retirement System (TRS)
Performance Review and Policy Report Highlights

Reports & Recommendations	Report Page	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session

NO RELATED RECOMMENDATIONS

Teacher Retirement System
Rider Highlights

#9. **Travel Expenditures.** Delete rider. Based on revisions in the 2012-13 GAA regarding travel expenditures, the rider is not longer necessary.

#13. **Limitation on General Revenue Fund Retirement Contributions to Public Community/Junior Colleges.** Revised rider language for the 2014-15 biennium to provide additional clarity to the intent of the rider to continue the current policy that limits the appropriation for state matching retirement contributions to 6.4 percent of each community college district's unrestricted General Revenue.

#15. **Enterprise Application Modernization.** Delete rider. The TRS Enterprise Application Modernization (TEAM) multi-year initiative was approved by the Eighty-second Legislature, and the rider is no longer necessary because baseline funding is included in the 2014-15 recommendation.

#16. **Texas Public School Retirement Employees Group Insurance Study.** Delete rider because the study is completed.

#17. **Contingency Appropriation: Funding for the Teacher Retirement System for Public Education and Higher Education Retirement.** Delete rider. The rider was included to reflect amended statute regarding fiscal year 2012 retirement contributions for the 2012-13 biennium and is no longer necessary because the recommendation is within the required state contribution range.

#18. **Contingency Appropriation: Funding for the Texas Public School Retirement Employees Group Insurance Program.** Delete rider. The rider was included to reflect amended statute regarding fiscal year 2013 retiree insurance contributions for the 2012-13 biennium and is no longer necessary because the recommendation reflects the required one percent state contribution amount.

#19. **Legislative Intent Relating to Retiree Health Insurance Premiums.** Delete rider. The rider was included to provide guidance to the Teacher Retirement System regarding the 2012-13 state contributions for the retiree health insurance program and is no longer necessary.

Teacher Retirement System
Items not Included in Recommendations - House

Agency Priority Order	2014-15 Biennial Total: GR & GR-Dedicated	2014-15 Biennial Total: All Funds
1. State Retirement Contributions- Incremental state matching retirement increases to 6.9 percent in FY 2014 and 7.4 percent in 2015 per the recommendation of the TRS actuary.	$ 374,113,160	$ 374,718,720
2. TRS Enterprise Application Modernization (TEAM) - Increase fiscal year 2014 funding for the TEAM technology initiative.		$ 19,247,242
3. FTE positions - Increase 2014-15 funding for TEAM and administrative operations to include FTE positions dedicated to TEAM related activities, open records requests, and transparency demands. (13 FTEs)		$ 1,754,246
Total, Items Not Included in the Recommendations	**$ 374,113,160**	**$ 395,720,208**

Non-funding Items Not Included in the Recommendations	FY 2014	FY 2015
4. Full-time equivalent (FTE) Reduction - Recommendation reduces the FTE cap for fiscal years 2014 and 2015 to the FY 2012 appropriated level of FTEs prior to the one-time increase of the cap for FY 2012 by 13 FTEs, from 475.3 to 487.3 FTEs and further increase the cap in fiscal year 2013 by an additional 3 FTEs, from 487.3 to 490.3 FTEs approved through an agency request-to-exceed.	(13.0)	(15.0)
5. New FTE rider: Exempt all FTEs associated with TEAM related activities from the Article IX, Sec.6.10. Limitation on State Employment Levels and include funding for TEAM related FTEs in the capital budget authority.		