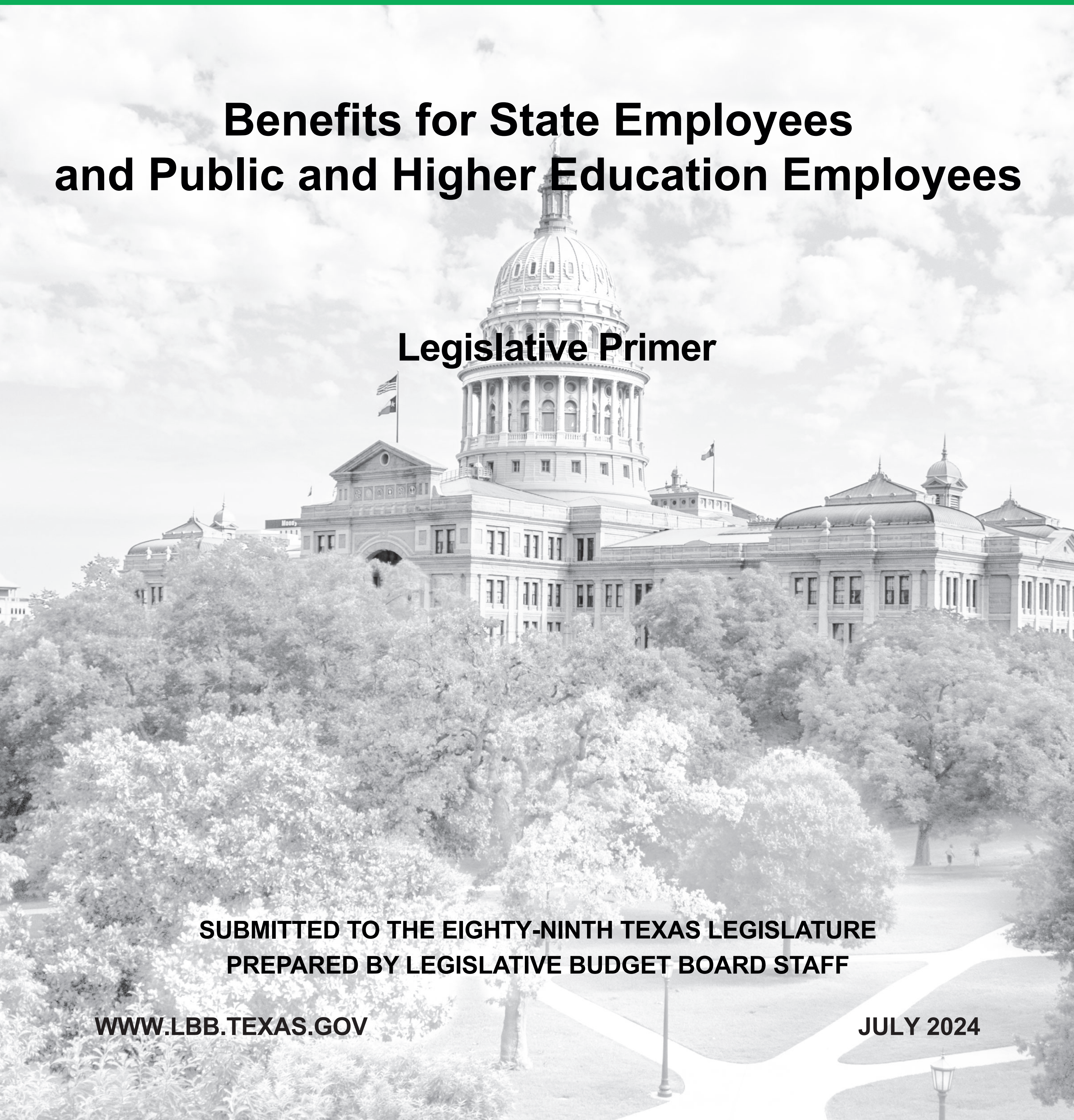
LEGISLATIVE BUDGET BOARD



Benefits for State Employees and Public and Higher Education Employees

Legislative Primer

SUBMITTED TO THE EIGHTY-NINTH TEXAS LEGISLATURE
PREPARED BY LEGISLATIVE BUDGET BOARD STAFF

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JULY 2024

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INTRODUCTION

Various state and local programs provide retirement and healthcare benefits to support Texas public employees. The Texas Constitution establishes two retirement systems to provide benefits to state employees and officers and to employees of public education, including higher education. The Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS) were established by the Legislature more than seven decades ago. Each system is managed by a board of trustees that oversees the administration of benefits delivery and management of trust fund assets. ERS includes four retirement systems: ERS, which provides benefits for officers and employees of the state; Law Enforcement and Custodial Officer Supplement (LECOS), which provides supplemental retirement benefits to certain certified peace officers and custodial officers specified in statute; Judicial Retirement System Plan II (JRS II), which provides retirement benefits for judges sworn into office after August 31, 1985; and Judicial Retirement System Plan I (JRS I), a pay-as-you-go pension plan that provides retirement benefits for judges sworn into office on or before August 31, 1985. ERS, LECOS, and JRS II are pre-funded pension plans.

The three pre-funded retirement systems at ERS reported 429,961 members and retirees combined at the end of fiscal year 2023. This amount represents only the sum of members and retirees for ERS and JRS II, as shown in **Figure 1**, because members of LECOS also are members of ERS. These three systems held $35.9 billion in assets and paid $3.1 billion in retirement benefits for fiscal year 2023. TRS is one of the largest pension systems in the United States, reporting approximately 2.0 million members and retirees and $186.6 billion in assets in fiscal year 2023. TRS paid $12.7 billion to retirees and their beneficiaries for fiscal year 2023.

Actuarial soundness for each retirement system has been discussed during the last decade as investment performance has shown considerable volatility. Actuarial soundness is achieved when contributions are sufficient to fund the normal cost and amortize the unfunded accrued liability of a system within a certain period. According to the Texas Pension Review Board guidelines, "Actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but not to exceed 30 years." (See **Appendix D – Glossary** for definitions of related terms.) As of August 31, 2023, the five-year average investment return was 7.75 percent for ERS and 6.42 percent for TRS, and the 10-year average investment return was 8.04 percent for ERS and 7.62 percent for TRS. In past years, both retirement systems had assumed 8.0 percent investment returns. Anticipating lower returns, ERS changed its return

FIGURE 1
COMPARISON OF EMPLOYEES RETIREMENT SYSTEM OF TEXAS (ERS) TO TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) RETIREMENT SYSTEMS
AUGUST 31, 2023

CATEGORY	ERS	LECOS (1)	JRS II (2)	TRS
Members and Retirees	428,574	83,194	1,387	2,001,974
Market Value of Assets (in millions)	$34,234.7	$1,046.7	$591.1	$186,608.0
Actuarial Funded Ratio	71.3%	101.1%	101.2%	77.5%
Unfunded Actuarial Accrued Liability (in millions)	$13,757.8	($0.1)	($7.8)	$57,879.6
Funding Period (in years)	31.0	N/A	N/A	29.0
Assumed Rate of Return	7.0%	7.0%	7.0%	7.0%
Actual Rate of Return	6.75%	6.75%	6.75%	3.85%
Benefits Paid for Fiscal Year 2023 (in millions)	$2,919.2	$99.5	$40.2	$12,740.4

NOTES:
(1) Members of the Law Enforcement and Custodial Officer Supplement (LECOS) also are members of ERS. As of the actuarial valuation of August 31, 2023, the program is fully funded and, therefore, has no funding period.
(2) ERS administers the Judicial Retirement System Plan II (JRS II). As of the actuarial valuation of August 31, 2023, the program is fully funded and, therefore, has no funding period.
SOURCES: Employees Retirement System of Texas; Teacher Retirement System of Texas.

assumption to 7.5 percent effective in August 2017 and to 7.0 percent in May 2020. TRS changed its return assumption to 7.25 percent in fiscal year 2018 and to 7.0 percent in fiscal year 2022. The actuarial valuations as of August 31, 2023, indicate that the funded ratios are 68.0 percent at ERS and 77.5 percent at TRS. **Figure 1** shows a comparison of the ERS and TRS retirement systems and additional retirement systems at ERS for law enforcement and judicial employees.

The Optional Retirement Program, an alternative to TRS participation for certain higher education employees, was established in 1967 to provide a portable option for retirement accumulations for individuals whose careers might include experience working in other states. In addition, the Proportionate Retirement Program (PRP) enables prospective retirees to combine service among systems to meet eligibility requirements and receive proportionate annuities from two or more systems for which those retirees are eligible. PRP applies to nine public retirement systems in Texas, including ERS and TRS.

ERS and TRS also administer health benefit programs for active employees and retirees. The healthcare program at ERS covered 538,487 participants, including dependents, and paid $4.0 billion in health benefit claims to physicians, hospitals, pharmacies, and other healthcare providers for fiscal year 2023. Two TRS programs for retirees and active members cover healthcare and paid a total of $4.0 billion for fiscal year 2023 for 640,520 participants, including dependents. These amounts do not include the fully insured Medicare Advantage plans. Some eligible public school employers in Texas do not participate in the TRS program for active employees and instead provide local options for healthcare benefits. **Figure 2** shows a comparison of ERS and TRS healthcare benefits.

FIGURE 2
EMPLOYEES RETIREMENT SYSTEM OF TEXAS (ERS) COMPARED TO TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) HEALTH PLANS, FISCAL YEAR 2023

AS OF AUGUST 31, 2023	ERS GROUP BENEFITS PROGRAM	TRS-ACTIVECARE	TRS-CARE
Participants	538,487	424,696	215,824
Payments from health plans to healthcare providers (in billions)	$4.0	$2.2	$1.8

Sources: Employees Retirement System of Texas; Teacher Retirement System of Texas.

Employees and retirees of institutions of higher education have access to health benefit programs provided by ERS, the University of Texas System, or the Texas A&M University System and receive state appropriations through Higher Education Employee Group Insurance (HEGI) contributions. The three systems covered 122,804 members in fiscal year 2022.

Figure 3 shows the public entities responsible for the administration of retirement and healthcare benefits for each category of eligible employees. The **Employees Retirement System of Texas** chapter outlines retirement eligibility, the

FIGURE 3
ADMINISTRATIVE RESPONSIBILITY FOR RETIREMENT AND HEALTHCARE BENEFITS AUGUST 31, 2023

RETIREMENT	ERS	TRS	ORP	SELF-ADMINISTRATION
State Employees	X			
Higher Education Employees		X	X	
Community College Employees		X	X	
Public School Employees		X		
HEALTHCARE	**ERS**	**TRS**	**ORP**	**SELF-ADMINISTRATION**
State Employees (Active Employees and Retirees)	X			
Higher Education Employees	X			UT, TAMU
Community College Employees	X			
Public School Employees				
Active Employees		X		Local ISDs
Retirees		X		

Note: ERS=Employees Retirement System of Texas; TRS=Teacher Retirement System of Texas; ORP=Optional Retirement Program; UT=the University of Texas System; TAMU=the Texas A&M University System; ISD=independent school district.
Source: Legislative Budget Board.

funding structure, benefit plans, and the actuarial condition of the four retirement systems that ERS oversees. The ERS chapter also shows the basic components of the Group Benefits Program, including funding sources and benefit structure. The **Teacher Retirement System of Texas** chapter discusses the important elements of the TRS retirement system and the two healthcare programs that TRS oversees, TRS-Care and TRS-ActiveCare. The **Higher Education Employee Group Insurance** chapter provides an overview of the program and the methodology by which its funding is calculated. Other chapters discuss the **Optional Retirement Program** and **Social Security and Benefit Replacement Pay**. Appendices provide the most recent data available regarding state appropriations and contribution rates, historical information, and a glossary of terms for reference.

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

The Texas Legislature established the Employees Retirement System of Texas in 1947 after voters approved a constitutional amendment to provide retirement programs, disability benefits, and death benefits for public employees and officers. The agency manages four separate retirement plans. The Employees Retirement System of Texas (ERS) serves state employees and elected officials. The Law Enforcement and Custodial Officer Supplement (LECOS) Retirement Fund serves certified peace officers and custodial officers. The Judicial Retirement System (JRS) Plan I and Plan II serve judges, justices, and judicial officers of the state. ERS, LECOS, and JRS II are prefunded plans that enable the state and members to contribute during employees' working years. The governing board of ERS consists of six trustees who act as fiduciaries overseeing the administration of benefits delivery and the management of trust fund assets. At the end of fiscal year 2023, ERS reported 139,958 active members, and the market value of ERS investment assets was $34.2 billion.

GOVERNANCE AND POLICY

ERS's Board of Trustees serve staggered, six-year terms. Pursuant to the Texas Government Code, Chapter 815, three members of the board are appointed with the advice and consent of the Senate: one each by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. The other three members of the board are elected by members and retirees of ERS. Two of the three elected members must be active members of the system, and the third may be an active member or a retiree.

RETIREMENT

MEMBERSHIP

Figure 4 shows membership data for ERS, the LECOS Retirement Fund, JRS I, and JRS II as of the fiscal year 2023 ERS *Annual Comprehensive Financial Report*. From fiscal years 2022 to 2023, the number of active ERS members increased by 6,207, or 4.6 percent. The number of noncontributing members increased by 8,964, or 5.8 percent, and the number of annuitants increased by 1,784, or 1.5 percent. From fiscal years 2022 to 2023, the number of active LECOS members increased by 669, or 2.2 percent.

FIGURE 4
EMPLOYEES RETIREMENT SYSTEM (ERS) OF TEXAS MEMBERSHIP BY PLAN, AUGUST 31, 2023

PLAN	ACTIVE MEMBERS	NONCONTRIBUTING MEMBERS (1)	RETIREES AND BENEFICIARIES (ANNUITANTS)
ERS	139,958	164,112	124,504
LECOS (2)	31,744	35,082	16,368
JRS I (3)	fewer than 10	fewer than 10	246
JRS II (3)	623	185	579

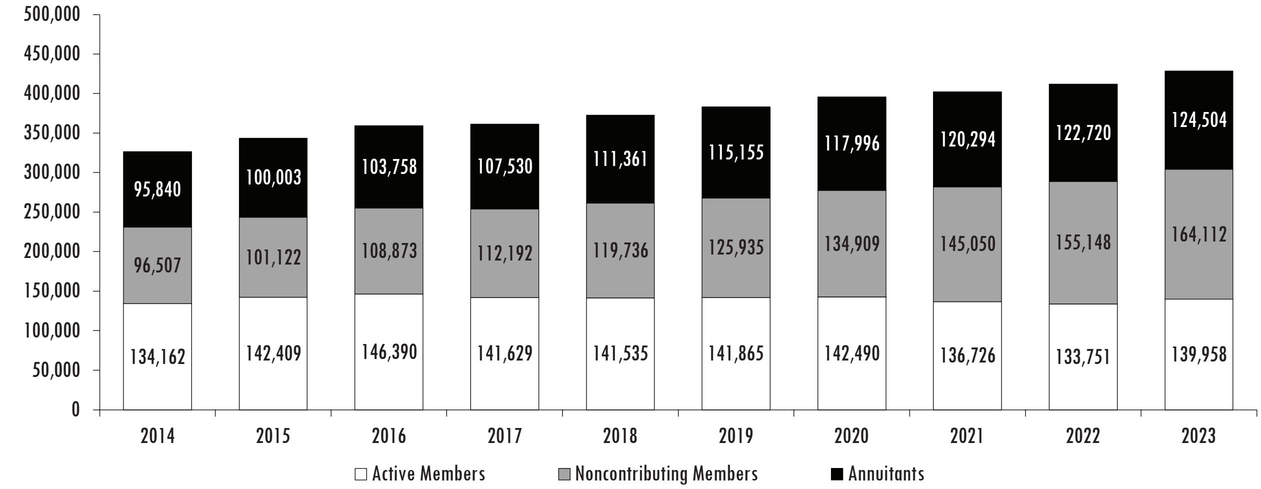
NOTES:
(1) Noncontributing members are former employees who have not withdrawn their retirement funds.
(2) Members of the Law Enforcement and Custodial Officer Supplement (LECOS) Retirement Fund also are members of ERS.
(3) JRS I=Judicial Retirement System Plan I; JRS II=Judicial Retirement System Plan II.
SOURCE: Employees Retirement System of Texas.

The number of noncontributing members increased by 2,711, or 8.4 percent, and the number of LECOS annuitants increased by 445, or 2.8 percent. From fiscal years 2022 to 2023, the number of active JRS II members increased by 40, or 6.9 percent; the number of noncontributing members decreased by seven, or 3.6 percent; and the number of annuitants increased by 43, or 8.0 percent.

ERS has two classes of membership, the employee class and the elected class. The employee class includes employees and appointed officers of every state department, commission, board, agency, or institution except those participating in the Teacher Retirement System of Texas (TRS), the Optional Retirement Program, JRS I, and JRS II. Membership in the employee class is mandatory for all eligible employees and begins on the first day of employment. The elected class includes statewide elected officials, members of the Legislature, and district attorneys and criminal district attorneys that are not enrolled in JRS I and JRS II. Membership in the elected class is optional, and eligible participants apply to enroll with ERS.

Members of LECOS also are members of ERS, and they receive supplemental retirement benefits in addition to those provided to members of ERS. This plan covers employees

FIGURE 5
EMPLOYEES RETIREMENT SYSTEM OF TEXAS MEMBERSHIP, FISCAL YEARS 2014 TO 2023



SOURCE: Employees Retirement System of Texas.

who are licensed law enforcement officers or custodial officers of various state agencies, including the Department of Public Safety, Texas Alcoholic Beverage Commission, Texas Parks and Wildlife Department, Texas Juvenile Justice Department and the Office of Inspector General, and the Texas Department of Criminal Justice, including the Board of Pardons and Paroles.

The JRS I plan was offered for judges, justices, and commissioners of the Supreme Court of Texas, the Court of Criminal Appeals, the courts of appeals, district courts, and members of certain commissions whose service began before September 1, 1985. Those whose service began on or after September 1, 1985, are members of JRS II.

Figure 5 shows ERS membership during the past decade, including contributing members, noncontributing members, and annuitants.

CONTRIBUTIONS

ERS retirement plans are funded by state contributions, member contributions, and investment earnings. The administrative costs to operate these programs are not appropriated out of state funds, but instead are funded by trust fund assets in each of the funds. The Legislature appropriates funds for the state contribution for general state agencies. These estimated appropriations appear at the end of each article of the General Appropriations Act (GAA). The total appropriation for all state agencies is shown as an informational listing in the ERS bill pattern in the GAA.

Benefits are provided to ERS members through the following structure:

Contributions + Investment Earnings =
Benefits + Administrative Expenses

The Texas Constitution, Article 16, Section 67, specifies a state contribution rate ranging from 6.0 percent to 10.0 percent of total employee payroll. The percentage of payroll that the state contributes is determined by the Legislature and identified in a rider in the ERS bill pattern in the GAA. For fiscal years 2024 and 2025, the state contribution rate through direct appropriations is 9.5 percent for ERS Retirement. In addition, the GAA, Article IX, requires state agencies to contribute 0.5 percent of payroll, for a total employer contribution of 10.0 percent for the 2024–25 biennium. Members hired before September 1, 2022, contribute 9.5 percent. ERS members hired on or after September 1, 2022, contribute 6.0 percent. ERS members hired on or after September 1, 2022, who also are LECOS members contribute 6.0 percent to the ERS plan and 2.0 percent to the LECOS supplemental plan.

For LECOS and JRS II, state contributions are 1.75 percent and 19.25 percent, respectively, for the 2024–25 biennium. **Figure 6** shows state, member, and other contribution rates for all three retirement systems. See **Appendix A – Appropriations** for actual appropriation amounts.

Figure 7 shows that ERS contribution rates from the state increased from fiscal years 2015 to 2016 but have remained

FIGURE 6
EMPLOYEES RETIREMENT SYSTEM OF TEXAS RETIREMENT PLANS CONTRIBUTION STRUCTURE
FISCAL YEARS 2024 AND 2025

PLAN	STATE (1)	MEMBER	OTHER	TOTAL
Employees Retirement System of Texas				
Hired before September 1, 2022	9.5%	9.5%	0.5% (1)	19.5%
Hired on or after September 1, 2022	9.5%	6.0%	0.5% (1)	16.0%
Law Enforcement and Custodial Officer Supplement				
Hired before September 1, 2022	1.75%	0.5%	$13.0 million	2.25% + $13.0 million
Hired on or after September 1, 2022	1.75%	2.0%	$13.0 million	3.75% + $13.0 million
Judicial Retirement System Plan II				
Hired before September 1, 2024	19.25%	9.36% (2)	N/A	28.61%
Hired on or after September 1, 2024	19.25%	6.0%	N/A	25.25%

NOTES:
(1) Agencies contribute 0.5 percent of payroll in addition to the state's 9.5 percent contribution.
(2) The Texas Government Code, Section 840.102, specifies a Judicial Retirement System Plan II member contribution rate of 9.5%. The effective member contribution rate shown is 9.36%, because some active members elect to cease contributions. The effective member contribution rate is the rate used in actuarial valuations of the system.
SOURCE: Employees Retirement System of Texas.

stable since then. Pursuant to Senate Bill 321, Eighty-seventh Legislature, Regular Session, 2021, the member contribution rate for members hired on or after September 1, 2022, changed from 9.5 percent to 6.0 percent.

INVESTMENT OF ASSETS

The ERS Board of Trustees oversees the investment of the system's trust fund assets. Initially, ERS was required to invest only in government securities. In 1958, investments were authorized in corporate securities, common stocks, preferred stocks, debentures, bonds, mortgages, and other financial instruments. As shown in **Figure 8**, current investment strategies employ a diversified portfolio, with a combination of active and passive management and an array of management methods. As of the end of fiscal year 2023, approximately 47.0 percent of assets are managed internally, and 53.0 percent are advised externally.

Investment policies of ERS are governed by the Texas Constitution; the Texas Property Code, Title 9; and other applicable federal and state statutes. Trained staff manage fund assets daily. To assist the staff and the board with investment recommendations and decisions, the board employs investment managers and has appointed an Investment Advisory Committee consisting of individuals who have experience managing businesses in which investment decisions are made or who are educators in the

FIGURE 7
EMPLOYEES RETIREMENT SYSTEM OF TEXAS CONTRIBUTION RATES
FISCAL YEARS 2014 TO 2025

YEAR	STATE	MEMBER (1)	AGENCY	TOTAL
2014	7.5%	6.6%	0.5%	14.6%
2015	7.5%	6.9%	0.5%	14.9%
2016	9.5%	9.5%	0.5%	19.5%
2017	9.5%	9.5%	0.5%	19.5%
2018	9.5%	9.5%	0.5%	19.5%
2019	9.5%	9.5%	0.5%	19.5%
2020	9.5%	9.5%	0.5%	19.5%
2021	9.5%	9.5%	0.5%	19.5%
2022	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2023	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2024	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2025	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%

NOTE: Employees Retirement System of Texas members hired on or after September 1, 2022, contribute 6.0 percent.
SOURCE: Employees Retirement System of Texas.

fields of economics or finance. In addition, ERS retains several independent investment consultants to evaluate and analyze investment strategies and results.

Assets earned 6.75 percent for fiscal year 2023, compared to negative 1.55 percent for fiscal year 2022. The gross time-weighted rates of return for the three-year, five-year, and 10-year periods ending August 31, 2023, were 9.67 percent, 7.75 percent, and 8.04 percent, respectively.

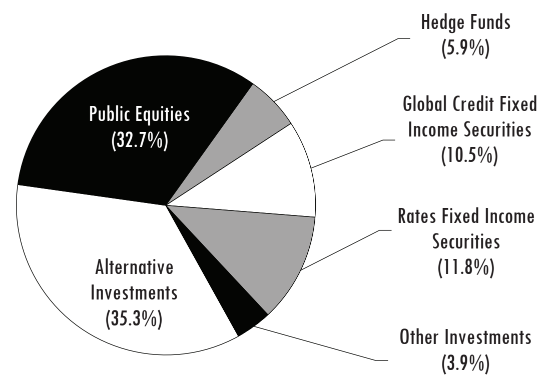
Figure 9 shows the historical market value of the ERS investment assets, which have increased 24.8 percent from $27.4 billion in fiscal year 2019 to $34.2 billion at the end of fiscal year 2023.

The Board of Trustees may change the assumed rate of return. **Figure 10** shows the annual gross rate of return on investment for the retirement trust fund's assets since fiscal year 2014, and the assumed rate of return, which was 8.0 percent until the board changed it to 7.5 percent during fiscal year 2017 and to 7.0 percent in May 2020. A commonly used actuarial technique called smoothing defers part of each year's performance, whether gains or losses. The ERS consulting actuary smooths investment performance when determining the actuarial value of assets to decrease the effect of marketplace volatility on the overall actuarial analysis from year to year.

ACTUARIAL VALUATION

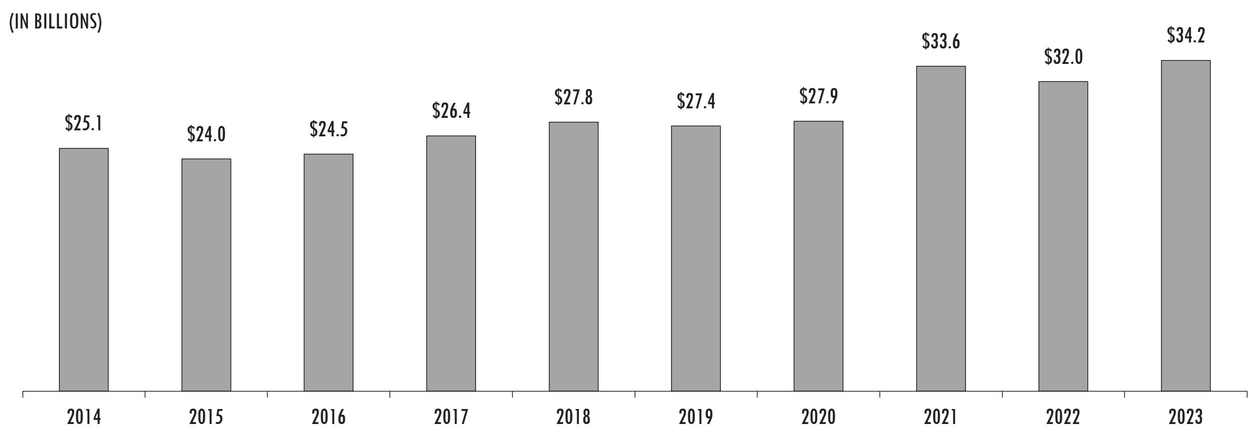
An actuarial valuation report is prepared at the close of each fiscal year by an outside consulting actuary. The valuation analyzes the plan's accrued liability compared to its assets. It considers all aspects of the pension plan, including membership data, benefit structure, assets held in trust, actuarial assumptions, funding methodology, and contribution rates. Technical modeling yields data, including the normal cost rate, unfunded actuarial accrued liability (UAAL), funded ratio, annual required contribution rate, and funding period. These data points serve in guiding daily management and higher-level policy decisions addressed by the ERS Board of Trustees and the Legislature. In addition to the annual actuarial valuation, an actuarial update on the market value of assets only is conducted as of February 28 of

FIGURE 8
EMPLOYEES RETIREMENT SYSTEM TRUST FUND ASSET ALLOCATION
AUGUST 31, 2023



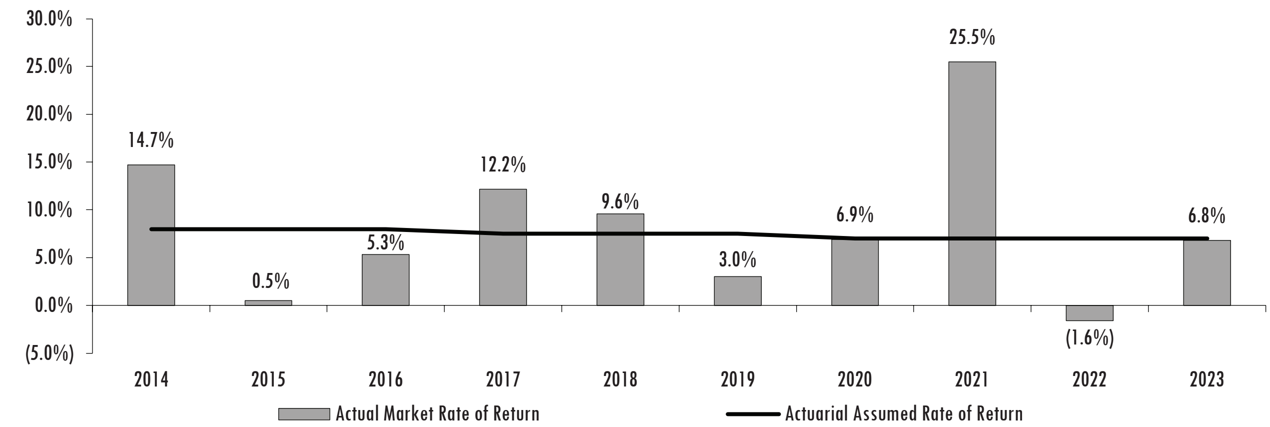
SOURCE: Employees Retirement System of Texas.

FIGURE 9
MARKET VALUE OF EMPLOYEES RETIREMENT SYSTEM OF TEXAS CONSOLIDATED PENSION INVESTMENT FUND ASSETS
FISCAL YEARS 2014 TO 2023



SOURCE: Employees Retirement System of Texas.

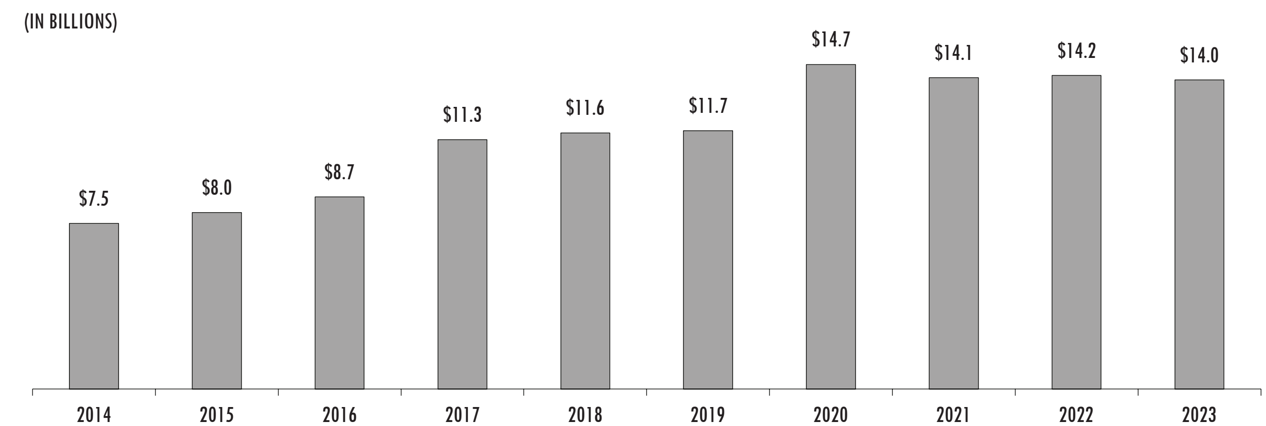
FIGURE 10
EMPLOYEES RETIREMENT SYSTEM OF TEXAS TRUST FUND ASSETS ANNUAL RATES OF RETURN ON INVESTMENT, ACTUAL COMPARED TO ASSUMED
FISCAL YEARS 2014 TO 2023



NOTES:
(1) The five-year average investment return is 7.75 percent, and the 10-year average investment return is 8.04 percent.
(2) The actuarial assumed rate of return was 8.0 percent from fiscal years 2014 to 2016; 7.5 percent from fiscal years 2017 to 2019; and 7.0 percent from fiscal years 2020 to 2023.

SOURCE: Employees Retirement System of Texas.

FIGURE 11
EMPLOYEES RETIREMENT SYSTEM OF TEXAS UNFUNDED ACTUARIAL ACCRUED LIABILITY, FISCAL YEARS 2014 TO 2023

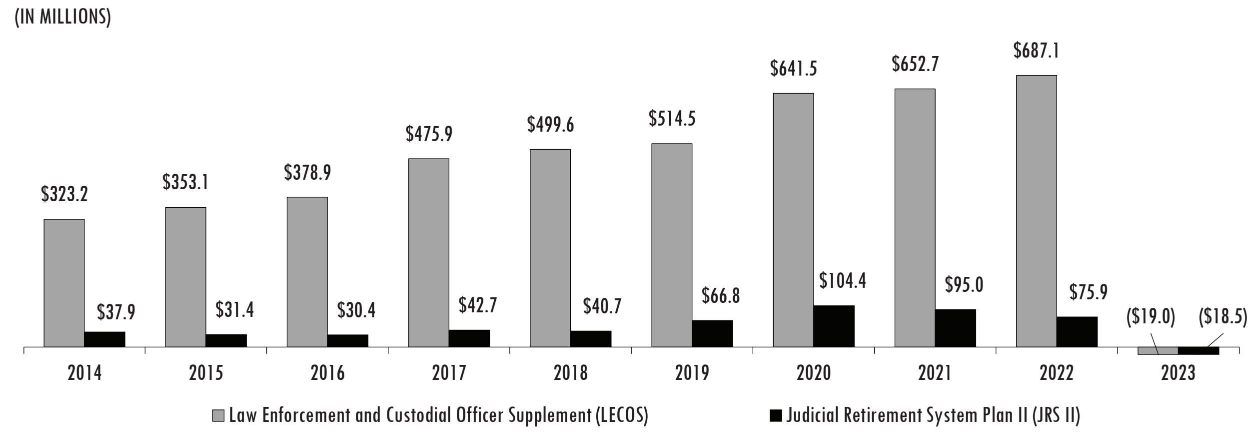


SOURCE: Employees Retirement System of Texas.

each odd-numbered year, which provides the Legislature with updated information during the legislative session.

Investment assumptions and performance are major factors in determining the actuarial condition of a retirement system. The assumed rate of return is what ERS expects its investments to earn each year, on average. This assumption is used to assess the long-term health of the retirement trust and determine whether the system will be able to meet obligations. Actuarial soundness of the pension plan refers to the goal that total contributions are sufficient to fund the normal cost and to amortize the UAAL during a certain period. Guidelines from the Texas Pension Review Board state that actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but not to exceed 30 years. **Figures 11** and **12** show the UAAL for ERS, LECOS, and JRS II from fiscal years 2014 to 2023. The UAAL for ERS almost doubled from fiscal years 2014 to 2020 because contributions and investment earnings were

FIGURE 12
LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENT AND JUDICIAL RETIREMENT SYSTEM PLAN II UNFUNDED ACTUARIAL ACCRUED LIABILITY, FISCAL YEARS 2014 TO 2023



SOURCE: Employees Retirement System of Texas.

not enough to pay for future benefits of retirees. The UAAL decreased 4.8 percent from fiscal years 2020 to 2023 due to increased investment earnings and the enactment of Senate Bill 321 and House Bill 2, Eighty-seventh Legislature, Regular Session, 2021, which provided for additional appropriations in the form of legacy payments to pay off the system's UAAL. The UAAL for both LECOS and JRS II increased substantially from fiscal years 2014 to 2022. However, funding from the Eighty-eighth Legislature, Regular Session, 2023, resulted in the elimination of the UAAL for both plans, which **Figure 12** shows as a negative UAAL—a surplus of funding.

The August 31, 2023, actuarial valuations for the ERS retirement plans can be found at www.ers.texas.gov. The annual valuations form the basis of the ERS requests for funding during each legislative session. JRS I is funded on a pay-as-you-go basis, meaning the funds required for monthly annuity payments and refunds of member contributions are appropriated for each fiscal year in General Revenue Funds.

According to the August 31, 2023, actuarial valuation, the market value of the ERS retirement fund is approximately $34.2 billion, an increase of approximately $2.2 billion, or 7.0 percent, from the previous fiscal year. That report shows a funded ratio—the plan's assets divided by its liabilities—of 70.8 percent as of August 31, 2023, 1.9 percentage points greater than the funded ratio of the previous valuation. Pursuant to the Texas Constitution, the state's contribution for employees' retirement may not exceed 10.0 percent of total payroll except in an emergency determined by the Governor, nor may it be less than 6.0 percent of total payroll. The state's retirement contribution rate established by the Eighty-eighth Legislature, Regular Session, 2023, is 9.5 percent for each fiscal year of the 2024–25 biennium; when combined with the 0.5 percent agency contribution, the total state contribution is 10.0 percent. Members hired before September 1, 2022, contribute an additional 9.5 percent of payroll, and members hired on or after September 1, 2022, contribute 6.0 percent of payroll. According to the 2023 actuarial valuation, the funding period at the end of fiscal year 2023 is 31 years. The previous valuation report reported that the funding period was 32 years. The change in the period is pursuant to Senate Bill 321 and House Bill 2, Eighty-seventh Legislature, Regular Session, 2021. Senate Bill 321 changed the contribution structure of ERS, and House Bill 2 provided for additional appropriations in the form of legacy payments to pay off the system's UAAL.

The August 31, 2023, actuarial valuation for the LECOS fund shows a funded ratio of 101.1 percent, 40.8 percentage points greater than the funding ratio of the August 31, 2022, valuation. The funded ratio is greater than 100.0 percent due to funding from the Eighty-eighth Legislature, Regular Session, 2023, to address the UAAL of LECOS. The combined contribution includes a 1.75 percent state contribution of payroll, a 0.5 percent member contribution for those hired before September 1, 2022, and 2.0 percent member contribution for those hired on or after September 1, 2022. The combined contribution also includes an estimated $13.0 million in court fees for fiscal year 2024.

FIGURE 13
EMPLOYEES RETIREMENT SYSTEM OF TEXAS RETIREMENT ELIGIBILITY, FISCAL YEAR 2023

EMPLOYEE CATEGORY		RETIREMENT ELIGIBILITY (1) (2)	ANNUITY REDUCTION
Group 1	Hired before September 1, 2009	5.0 years of service and age 60; or Rule of 80 with at least 5.0 years of service credit; or age 55 with at least 10.0 years of service credit as a certified peace officer or custodial officer	None
Group 2	Hired on or after September 1, 2009, and before September 1, 2013	10.0 years of service and age 65; or Rule of 80 with at least 10.0 years of service credit at age 60; or age 55 with at least 10.0 years of service credit as a certified peace officer or custodial officer	5.0% for each year retired before age 60 (25.0% maximum)
Group 3	Hired on or after September 1, 2013	10.0 years of service and age 65; or Rule of 80 with at least 10.0 years of service credit at age 62; or age 57 with at least 10.0 years of service credit as a certified peace officer or custodial officer	5.0% for each year retired before age 62 (no maximum)
Group 4	Hired on or after September 1, 2022, and was not a member on the date of hire	Regular Retirement: 5.0 years of service and age 65; or Rule of 80 with at least 5.0 years of service credit. Law Enforcement and Custodial Officer Supplement Retirement: 20.0 years of service as a certified peace officer or custodial officer	Not applicable
JRS II	Hired on or after September 1, 1985, and before September 1, 2024	10.0 years of service and age 65 and currently holding a judicial office; 12.0 years of service and age 65, whether or not currently holding a judicial office; 20.0 years of service at any age, whether or not currently holding a judicial office; 12.0 years of service on an appellate court at any age and Rule of 70, whether or not currently holding a judicial office	Reductions apply for those retiring before age 65
JRS II	Hired on or after September 1, 2024	8.0 years of service and age 60, whether or not currently holding a judicial office; 12.0 years of service and age 50, whether or not currently holding a judicial office	Not applicable

NOTES:
(1) The Rule of 80 is met when the sum of the retiree's age and years of service credit in the Employees Retirement System of Texas equals or exceeds 80.0 at the time of retirement.
(2) A Law Enforcement and Custodial Officer Supplement (LECOS) member can retire at any age with at least 20.0 years of LECOS service to receive the supplemental LECOS benefit.
SOURCE: Employees Retirement System of Texas.

According to the 2023 actuarial valuation, the market value of the LECOS fund is approximately $1.1 billion, an increase of approximately $4.4 million from the previous fiscal year.

The August 31, 2023, actuarial valuation for the JRS II fund shows a funded ratio of the actuarial value of assets to the actuarial accrued liability of 102.8 percent, 14.6 percentage points greater than the funding ratio in the previous valuation. As with LECOS, the funded ratio is greater than 100.0 percent due to funding from the Eighty-eighth Legislature, Regular Session, 2023, to address the UAAL of this program. The state contribution rate is 19.25 percent, and the effective member contribution rate is 9.36 percent for those hired before September 1, 2024, for a total contribution rate of 28.61 percent. For those hired on or after September 1, 2024, the member contribution rate is 6.0 percent, for a total contribution rate of 25.25 percent. According to the August 31, 2023, actuarial valuation, the market value of the JRS II fund is approximately $591.1 million, an increase of $24.7 million from the previous fiscal year.

RETIREMENT ELIGIBILITY

Members of ERS become eligible to receive their retirement benefits, or vested, when they have accrued 5.0 years or 10.0 years of creditable service, depending upon the dates they began their state employment. Service credit refers to the length of time worked in which all required contributions have been made, and it also may include purchased active-duty military time, months of unused sick and annual leave, and other eligible service. The purchase of additional service credit is available to enable certain qualified individuals to retire earlier and to increase the amounts of their annuity payments. **Figure 13** shows eligibility requirements for employee categories, based on when the employee was hired.

The LECOS retirement plan and the two judicial plans, JRS I and JRS II, have provisions that authorize early service retirement with decreased benefits for those hired before September 1, 2022, for LECOS, and for those hired before September 1, 2024, for JRS II. The amount of the decrease is calculated based on the member's age at the time of retirement. Additional information related to retirement eligibility requirements is available at www.ers.texas.gov. **Figure 14** shows the annuitant profile for fiscal years 2022 and 2023.

Figure 15 shows annual ERS retirement totals from fiscal years 2014 to 2023 and the percentage change each year.

RETIREMENT BENEFITS

The ERS retirement system is a qualified, defined benefit plan pursuant to the U.S. Internal Revenue Code, Section 401(a). A defined benefit plan uses employer and employee contributions during the employee's working years to prefund the employee's pension benefits primarily through long-term investment earnings. During fiscal year 2023, ERS paid pension benefit payments and refunds totaling $2.9 billion. This amount is an increase from the $2.8 billion paid in fiscal year 2022. **Figure 16** shows the benefits and refunds paid since fiscal year 2014. Benefits and refunds increased 49.0 percent from fiscal years 2014 to 2023.

For the general employee plan, the standard annuity pays 2.3 percent, referred to as the multiplier, of the employee's final average salary for each year of service credit. The final average salary is based on the greatest salary for 36.0 months for employees hired before September 1, 2009, or who had an account balance with ERS on August 31, 2009. For employees hired on or after September 1, 2009, the final average salary is based on the greatest salary during a period of 48.0 months. For employees hired on or after September 1, 2013, but before September 1, 2022, the final average is based on the greatest salary during a period of 60.0 months.

Example calculations:

($3,000 average monthly salary)
X (20.0 years of service credit)
X (2.3 percent multiplier)
=$1,380 monthly standard annuity

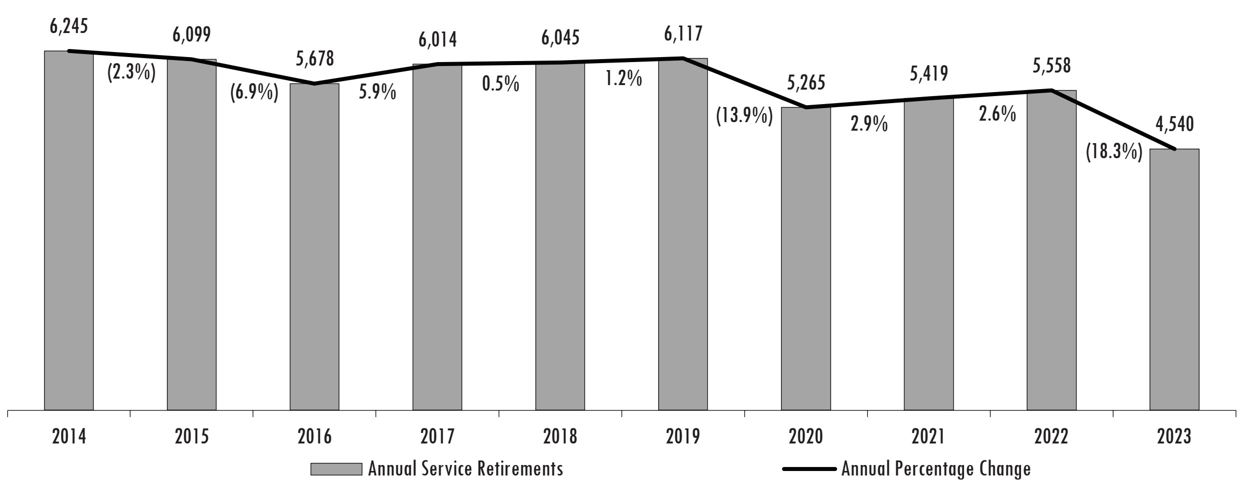
For employees hired on or after September 1, 2022, the calculation for the annuity is based on the total account

FIGURE 14
EMPLOYEES RETIREMENT SYSTEM ANNUITANT PROFILE
FISCAL YEARS 2022 AND 2023

ANNUITANT PROFILE	2022	2023
Service and Disability Retirements (1)	5,543	4,490
Average Age at Retirement	58.4	58.4
Average Years of Service	22.1	22.1
Ratio of Current Members to Retirees	1.09 to 1	1.12 to 1

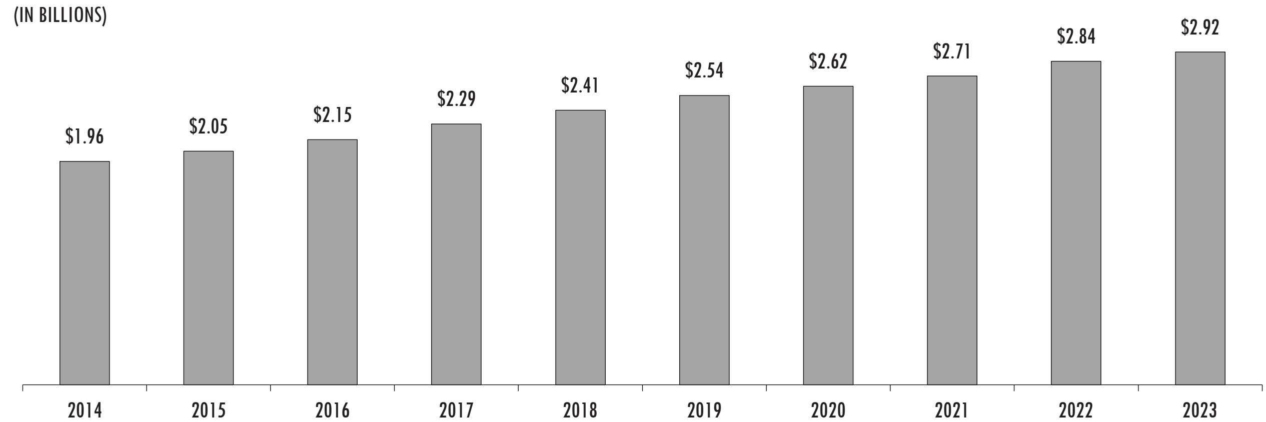
NOTE: (1) Data shown do not include retirements for Judicial Retirement System Plan II.
SOURCE: Employees Retirement System of Texas.

FIGURE 15
EMPLOYEES RETIREMENT SYSTEM OF TEXAS AND JUDICIAL RETIREMENT SYSTEM PLAN II ANNUAL RETIREMENTS AND ANNUAL PERCENTAGE CHANGE, FISCAL YEARS 2014 TO 2023



NOTE: Data include retirements for Employees Retirement System of Texas (ERS) and Judicial Retirement System Plan II. Law Enforcement and Custodial Officer Supplement retirements are included in ERS retirements.
SOURCE: Employees Retirement System of Texas.

FIGURE 16
EMPLOYEES RETIREMENT SYSTEM OF TEXAS BENEFIT PAYMENTS AND REFUNDS, FISCAL YEARS 2014 TO 2023



SOURCE: Employees Retirement System of Texas.

balance at retirement, which will include the employee's contribution during their years of service, 4.0 percent annual interest earned, any gain sharing earned, and a 150.0 percent match by the state. Gain-sharing enables members hired on or after September 1, 2022, to receive up to an additional 3.0 percent increase in their accounts when the average investment return for the previous five fiscal years is more than 4.0 percent (i.e., up to a total of 7.0 percent annual return). Each retirement program that ERS administers has optional benefits to provide a continuing annuity for a participant's designated surviving beneficiary. If the member chooses one of the available survivor benefit options, the member's monthly annuity is decreased depending on the option chosen. If the beneficiary dies before the retired member, the annuity paid to the member is increased to the standard annuity.

Members have five alternatives for annuity payments in lieu of a standard annuity. The retiree may select one of three joint and survivor options, or one of two guaranteed-period annuities that provide a lifetime benefit to the retiree and a guaranteed benefit of either 60.0 months or 120.0 months payable to the beneficiary if the retiree dies before the period ends. The alternative payments may be decreased by actuarial factors, based on the ages of the member and beneficiary.

The service percentage for a member of the LECOS retirement program is calculated based on 2.8 percent for each year of service. The base service retirement annuity for members of the judicial retirement programs is 50.0 percent of the state salary for a judge of a court of the same classification as the court on which the judge last served. Monthly retirement annuities are adjusted automatically each time judicial salaries change.

ERS and LECOS retirees also may choose a partial lump-sum option at retirement. This option provides a lump-sum payment equal to up to 36.0 months of the standard annuity, with a permanent actuarial decrease of the monthly annuity. This option is not available to members who accept a disability retirement or an early age retirement, or those who retire through the Proportionate Retirement Program. See the **Proportionate Retirement** section.

The formula for calculating benefits is the same for all elected-class groups, regardless of when they began serving; however, eligibility and benefits differ from those of state employees. The primary difference is the calculation of the final average salary. For the elected class, this calculation is based on the current base annual salary of a district judge, currently $140,000. The monthly standard annuity for a retiring elected-class member may not exceed 100.0 percent of the state salary of a district judge.

DISABILITY RETIREMENT BENEFITS

Two types of disability retirement benefits are available to members of ERS: occupational and nonoccupational. ERS defines an occupational disability as "a sudden and unexpected injury or disease that results solely from a specific act or occurrence determinable by a definite time and place and solely from an extremely dangerous risk of severe physical or mental trauma or disease that is not common to the public at large and that is peculiar to and inherent in a dangerous duty that arises from the nature and in the course of a person's state employment." An example would include a state trooper shot in the line of duty who suffered an injury resulting in a permanent and disabling condition. If all requirements are met, a benefit may be paid with at least one month of membership service credit.

A nonoccupational disability need not be related to the work being performed; this type of benefit is available only to employees with 10.0 years of membership service credit. An example of a qualifying nonoccupational disability retirement would include an employee diagnosed with a terminal illness who is unable to continue working.

Members must meet the conditions for one of these types of disability and must be certified by the ERS Medical Board to receive the retirement annuity and insurance benefits.

PROPORTIONATE RETIREMENT

State law also provides the Proportionate Retirement Program, which enables members to combine service credit from two or more retirement systems within the program to meet retirement eligibility. Annuity calculations are unaffected and continue to represent only the amount of service credit in each system. A member of any of the retirement systems that participate in the program may purchase withdrawn ERS service without being reemployed by the state. Members may also purchase canceled service from any of the participating retirement systems. The following retirement systems participate in the program:

- ERS;
- TRS;
- JRS I and JRS II;
- Texas Municipal Retirement System;
- Texas County and District Retirement System;
- City of Austin Employees Retirement System;
- El Paso City Employees' Pension Fund;
- El Paso Firemen and Policemen's Pension Fund; and
- City of Austin Police Retirement System.

DEATH BENEFITS

In addition to the survivor benefits previously mentioned, ERS pays a $5,000 lump-sum death benefit to designated beneficiaries of retirees. This benefit is referred to as Retiree Death Benefits in ERS's bill pattern in the GAA. ERS also provides basic life insurance coverage for active employees and retirees ($5,000 and $2,500, respectively), and members may purchase additional life insurance.

ERS also is responsible for administering the Public Safety Death Benefits program. Through this program, the state provides a lump-sum payment to survivors and financial assistance for certain surviving children of a law enforcement officer, firefighter, or other eligible state or local public safety employee who is killed in the line of duty. The Texas Government Code, Section 615.022, requires the ERS board to adjust this amount each year to the percentage change in the Consumer Price Index for All Urban Consumers for the previous calendar year. The amount distributed to survivors for fiscal year 2023 was $554,967, and the amount for fiscal year 2024 is $591,040.

SIGNIFICANT LEGISLATION

The Eighty-eighth Legislature, Regular Session, 2023, passed the following legislation affecting ERS retirement and death benefits.

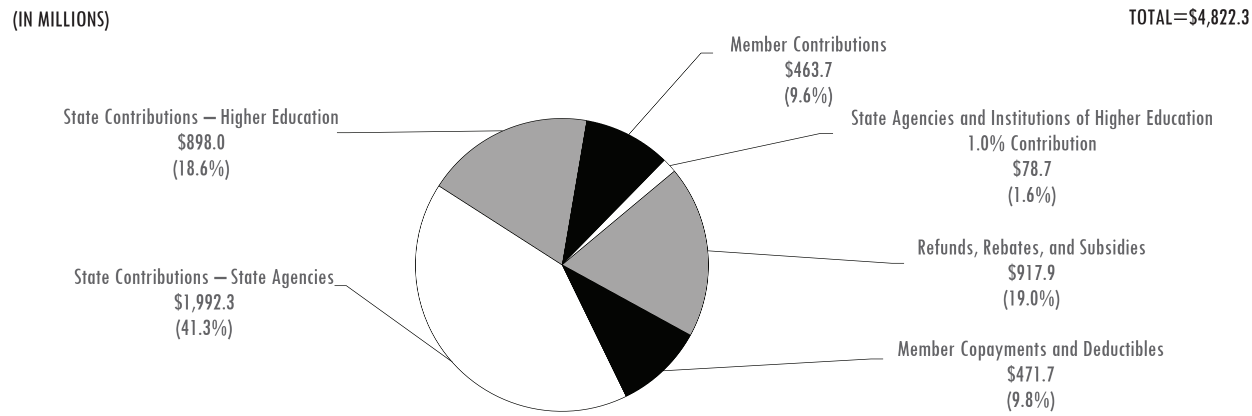
House Bill 90 – Public safety death benefits for members of the Texas Military. The legislation adds survivors of a member of the Texas military forces on state active duty who died in the line of duty to the current list of those eligible to receive certain survivor benefits pursuant to the Texas Government Code, Chapter 615.

Senate Bill 1245 – JRS II cash balance tier. The legislation establishes a cash balance tier for JRS II members who join the system on or after September 1, 2024. The tier includes a guaranteed 4.0 percent annual interest and gain-sharing interest of up to 3.0 percent on member accounts, lump-sum and survivor's benefit retirement options, and a 6.0 percent member contribution rate.

The state will match 150.0 percent of the member's account balance. Senate Bill 1245 also specifies state contributions for military service. Each year, member accounts and retirement annuities receive a gain-sharing adjustment if the trust earns more than 4.0 percent. A member is eligible to receive a cash balance annuity upon retirement if the member has met one of the following thresholds for combined age and length of service:

- at least age 60 with at least 8.0 years of service credit; or
- at least age 50 with at least 12.0 years of service credit.

FIGURE 17
EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PROGRAM FUNDING SOURCES, FISCAL YEAR 2023



SOURCE: Employees Retirement System of Texas.

The legislation establishes a separate, nonqualified, unfunded excess benefit arrangement outside the JRS trust fund. The arrangement will pay annuitants of JRS II benefits that they would have received, but that exceed Internal Revenue Code limitations.

The legislation also establishes a partial-lump-sum cash balance option, which is available alongside either the standard or optional cash balance annuity and specifies how the lump-sum option would be administered. Senate Bill 1245 temporarily authorizes certain retirees who resume full-time judicial service after at least a six-month lapse to elect to rejoin the system. The legislation specifies the method for recomputing benefits for these members. An individual may elect to rejoin once.

GROUP BENEFITS PROGRAM

STATE FUNDING AND APPROPRIATIONS

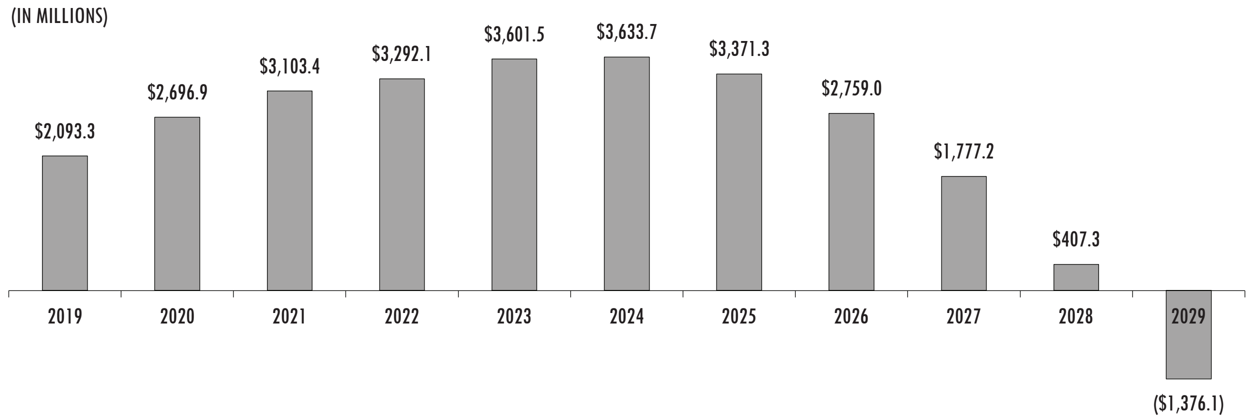
Group Benefits Program (GBP) premiums are funded by a combination of sources: state contributions, member contributions, employer contributions, local funds from participating entities, and investment earnings. Unlike the prefunded retirement plans, GBP is funded on a pay-as-you-go basis. **Figure 17** shows the revenue allocation of the program's six major funding sources, which totaled $4.8 billion for fiscal year 2023. Funding from all sources is deposited into the Employees Life, Accident, Health Insurance, and Benefits Trust Account, also known as the GBP Trust Fund or Contingency Reserve Fund, from which all claims are paid. The fund had a balance of $3.6 billion at the end of fiscal year 2023; this balance is affected by revenues, expenditures, plan experience, rebates, subsidies, and related contract agreements. **Figure 18** shows the fund balance from fiscal years 2019 to 2023 and ERS projections from fiscal years 2024 to 2029. ERS projects that the fund balance will be depleted by fiscal year 2029, mostly due to an expected increase in pharmacy costs.

The state pays 100.0 percent of the premium for full-time employees and 50.0 percent of dependent coverage, with members paying the remaining 50.0 percent. For part-time employees and graduate teaching assistants, the state and the participants each contribute 50.0 percent of the premium. For those participants' dependents, the state contributes 25.0 percent.

In addition to the state contribution, the GAA requires all general state agencies and institutions of higher education that participate in GBP to contribute 1.0 percent of base payroll for group health insurance. The Eighty-eighth Legislature, GAA, 2024–25 Biennium, also instructs ERS to continue assessing a monthly $30 premium differential to GBP participants who use tobacco. ERS began covering prescription drugs for tobacco cessation in calendar year 2012.

The Legislature appropriates funds for the state contribution for general state agencies. These estimated appropriations appear at the end of each article of the GAA. The total appropriation for all state agencies is shown as an informational listing in the ERS bill pattern in the GAA. Higher education institutions receive separate sum-certain appropriations for insurance and must supplement any shortages with local funds. (See the **Higher Education Employees Group Insurance** chapter and **Appendix A – Appropriations** for actual appropriation amounts.)

FIGURE 18
CONTINGENCY RESERVE FUND BALANCE FOR THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PLAN
FISCAL YEARS 2019 TO 2029



NOTE: Amounts shown for fiscal years 2024 to 2029 are Employees Retirement System of Texas projections.
SOURCE: Employees Retirement System of Texas.

ELIGIBILITY AND MEMBERSHIP

All state employees and their dependents are eligible for the GBP. Retirees must have at least 10.0 years of ERS service credit, which may include up to 5.0 years of military service credit but may not include any other special or equivalent service credit purchased. Additionally, the participant must meet one of the following requirements:

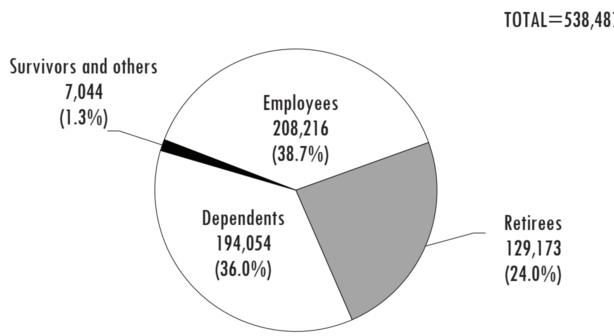
- the sum of the retiree's age and years of service credit in ERS must equal or exceed 80.0 at the time of retirement, regardless of whether the retiree had a decrease in the retirement annuity for early age (years of service credit can include all purchased service); or
- the retiree must be age 65 or older.

Disability retirees are eligible for the GBP regardless of the number of years of service credit.

Pursuant to Senate Bill 1459, Eighty-third Legislature, Regular Session, 2013, ERS implemented tiered insurance for retirees, which applied to all employees who had less than 5.0 years of service as of September 1, 2014. Employees who retire with more than 15.0 years but less than 20.0 years of service receive 75.0 percent of the full state contribution for insurance. Employees who retire with more than 10.0 years but less than 15.0 years of service receive 50.0 percent of the full state contribution for insurance upon retirement.

For fiscal year 2023, the total membership in the GBP was 538,487, which is 1.9 percent higher than the membership of 528,569 for fiscal year 2022. **Figure 19** shows participation in the GBP by membership group. The average member age was 55 years, and the average length of service was 15.0 years.

FIGURE 19
EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PROGRAM PARTICIPATION
FISCAL YEAR 2023



SOURCE: Employees Retirement System of Texas.

Medicare-eligible retirees are enrolled automatically in the HealthSelect Medicare Advantage plan, administered by UnitedHealthcare, but they may opt out. According to ERS, HealthSelect Medicare Advantage provides health insurance with lower member contribution rates for dependent coverage and no medical deductible. As of August 31, 2023, a total of 101,954 participants were enrolled in the plan. This amount is greater than the 92,366 participants at the end of fiscal year 2021 and the 98,612 participants at the end of fiscal year 2022.

PROGRAM STRUCTURE

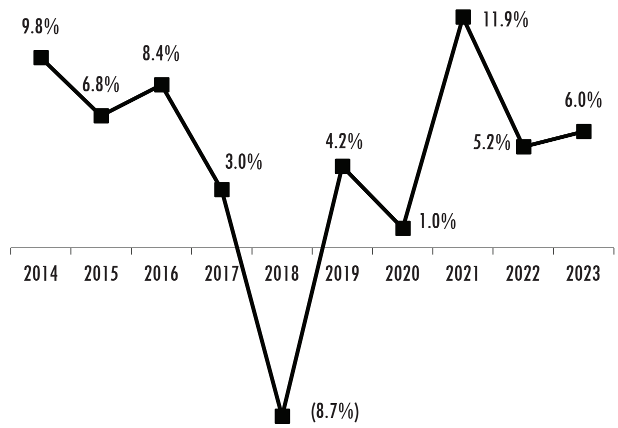
Health and other insurance benefits are subject to change based on available state funding. The ERS board plans the structure and contracts for the insurance options offered in the GBP based upon anticipated contributions, experience, and other factors such as cost-savings measures. The GBP offers a health insurance plan called HealthSelect, which is a self-funded plan introduced in 1992. Blue Cross and Blue Shield of Texas administers HealthSelect, and Express Scripts manages pharmacy benefits.

In fiscal year 2023, the GBP paid 6.7 million medical claims and expended $3.5 billion in payments to doctors, hospitals, pharmacies, and other healthcare providers. The number of medical claims in fiscal year 2023 was the same as in fiscal year 2022, but the amount of payments in fiscal year 2023 was 7.7 percent higher than the $3.25 billion paid in fiscal year 2022.

House Bill 966, Eighty-fourth Legislature, 2015, directed ERS to establish a voluntary, consumer-directed health plan, which includes a high-deductible health plan and a health savings account, as an option for GBP participants. The legislation also requires the state to contribute to a health savings account the difference, if any, between the full state contribution to HealthSelect and the coverage cost of the high-deductible plan. At the end of fiscal year 2023, 6,589 participants were enrolled in Consumer Directed HealthSelect. This enrollment is substantially greater than the 4,418 participants at the end of fiscal year 2021, and the 5,432 participants at the end of fiscal year 2022.

According to ERS, the projected trend for HealthSelect of Texas combined medical and pharmacy plan costs for plan year 2023 is 6.0 percent, which includes 3.0 percent for medical benefits and 12.8 percent for prescription drug benefits. **Figure 20** shows HealthSelect cost trends from fiscal years 2014 to 2023. According to ERS, the main contributors to increased pharmaceutical costs are two medications that are prescribed to treat diabetes and that also result in significant weight loss. These drugs are Ozempic and Mounjaro, otherwise known as GLP-1 agonist medications. According to ERS, those two medications are extremely popular, highly effective, and extremely costly, at approximately $700 per month net of rebates. The medications also must be used continuously, like maintenance medication, which adds to their cost. According to ERS's Group Benefits Program Annual Report for fiscal year 2023, these medications accounted for 42.0 percent of the $218.3 million increase in plan year 2023 spent on all drugs.

FIGURE 20
HEALTHSELECT COST TRENDS
FISCAL YEARS 2014 TO 2023



SOURCE: Employees Retirement System of Texas.

OPTIONAL COVERAGE

In addition to health insurance and the accompanying prescription drug program, the following optional coverage programs are offered to state employees: dental, vision, optional term life, dependent term life insurance, voluntary accidental death and dismemberment, and short-term and long-term disability insurance. The Legislature introduced a flexible spending account, now known as a healthcare reimbursement account called TexFlex, for state employees in fiscal year 1988. TexFlex provides employees with the opportunity to fund accounts for themselves and their dependents with payroll deductions that reduce federal income and Social Security taxes. State employees may contribute up to $2,850 per year. TexFlex reimburses medical, dental, and vision expenses such as copayments, deductibles, coinsurance, and other costs that exceed the health plan benefit. The program operates on participant fees.

ERS has two dental plans available to employees and retirees: the State of Texas Dental Choice Plan administered by Delta Dental, and the DeltaCare USA Dental HMO. The vision insurance plan, called State of Texas Vision, is available to employees, retirees, and eligible dependents. According to ERS's Group Benefits Program Annual Report for fiscal year 2023, the plan has benefits for eye exams, eyewear, and additional discounts for some services such as LASIK surgery. As of fiscal year 2024, the plan administrator is EyeMed Vision Care LLC.

Basic term life insurance coverage is included with GBP health coverage. An employee receives a $5,000 policy, and a retiree receives a $2,500 policy. Employees also may enroll in optional term life insurance coverage in an amount equal to or double their annual salaries without evidence of insurability. With evidence of insurability, employees may enroll in optional term life insurance coverage worth three times or four times their annual salaries.

Dependent term life insurance coverage provides coverage for each enrolled family member and requires a monthly premium. An employee's dependent is eligible for a $5,000 policy, and a retiree's dependent is eligible for a $2,500 policy.

Voluntary accidental death and dismemberment (AD&D) coverage provides benefits in the event of an accident or certain accidental injuries. This coverage is in addition to AD&D benefits provided with basic and optional term life for active employees, and it requires a monthly premium.

The Texas Income Protection Plan provides optional insurance coverage for short-term and long-term disability. The plan pays a percentage of an employee's paycheck if the employee becomes disabled and cannot work. For short-term disability, the employee's cost for coverage is $0.26 per $100 of the insured monthly salary, and the payments from this plan are 66.0 percent of the insured monthly salary, up to $10,000. Payments may continue for a maximum of five months. For long-term disability, the employee's cost for coverage is $0.63 per $100 of their insured monthly salary, and the payments are 60.0 percent of the insured monthly salary, up to $10,000.

SIGNIFICANT LEGISLATION

The Eighty-eighth Legislature, Regular Session, 2023, passed the following legislation affecting ERS group insurance and the Group Benefits Program.

House Bill 755 – Limitation on prior authorizations for certain autoimmune diseases. The legislation prohibits a health benefit plan from requiring an enrollee to obtain more than one prior authorization annually for a drug prescribed to treat an autoimmune disorder or certain blood disorders.

House Bill 4990 – Texas Pharmaceutical Initiative. The legislation establishes the Texas Pharmaceutical Initiative to provide cost-effective access to prescription drugs and other medical supplies for employees, dependents, and retirees of public higher education systems and institutions, TRS members, ERS members, individuals housed by the Texas Department of Criminal Justice or the Texas Juvenile Justice Department, and individuals served by a program operated or administered by the state's health and human services system. House Bill 4990 establishes a governing board for the initiative that is administratively attached to the Health and Human Services Commission.

Senate Bill 989 – Coverage for Biomarker Testing. The legislation requires certain health benefit plans, including ERS and TRS, to provide coverage for biomarker testing of patients with cancer and other rare diseases.

TEACHER RETIREMENT SYSTEM OF TEXAS

The Teacher Retirement System of Texas (TRS) was established by an amendment to the Texas Constitution in 1936 and by acts of the Legislature in 1937 to provide a statewide teacher retirement system to public and higher education employees. TRS's two main objectives are: (1) to deliver retirement benefits, group insurance, and death, survivor, and disability benefits to employees of public schools, colleges, and universities; and (2) manage the trust funds that finance member benefits. The agency manages retirement benefit programs for public education and higher education retirees and two healthcare benefit programs: retiree health benefits, known as TRS-Care, which offers health insurance coverage to eligible public education retirees and their dependents; and active employees health benefits, known as TRS-ActiveCare, which offers statewide, group health insurance program for public education employees and their eligible dependents. The board consists of nine trustees who act as fiduciaries overseeing the administration of benefits delivery and the management of trust fund assets. At the end of fiscal year 2023, TRS reported 2,001,974 active members, and the market value of TRS investment assets was $186.6 billion.

RETIREMENT

GOVERNANCE AND POLICY

The TRS Board of Trustees administers retirement and related benefits for employees of public, state-supported, educational institutions in Texas. Statute grants the board significant independence in the operation and management of retirement fund investments. The board consists of nine trustees who are appointed by the Governor, with the approval of the Texas Senate, and serve staggered, six-year terms. The Governor directly appoints three trustees who have demonstrated financial expertise, have broad investment experience, and are not active or retired members of the system. The State Board of Education compiles a list of candidates, and the Governor appoints two of these candidates as trustees. These trustees also must have demonstrated financial experience and broad investment expertise. The remaining four trustee appointments are selected from the candidates who receive the most votes in elections among active and retired public and higher education employees. As fiduciaries of the trust fund, the trustees are responsible for the prudent management of assets held in the trust, seeking long-term investment returns that meet or exceed the established actuarially assumed rate of return.

MEMBERSHIP

Membership in TRS is a condition of employment for all employees of public, state-supported educational institutions who work at least 20.0 hours per week and at least 4.5 months during one school year. Public education employees in membership-eligible positions are required to participate in TRS and are enrolled automatically in TRS on the first day of employment. Unless excluded from membership by law, participation in TRS cannot be waived by public education employees. Certain eligible employees of institutions of higher education are offered a onetime, irrevocable option to elect the Optional Retirement Program as an alternative to TRS. (See the **Optional Retirement Program** chapter.)

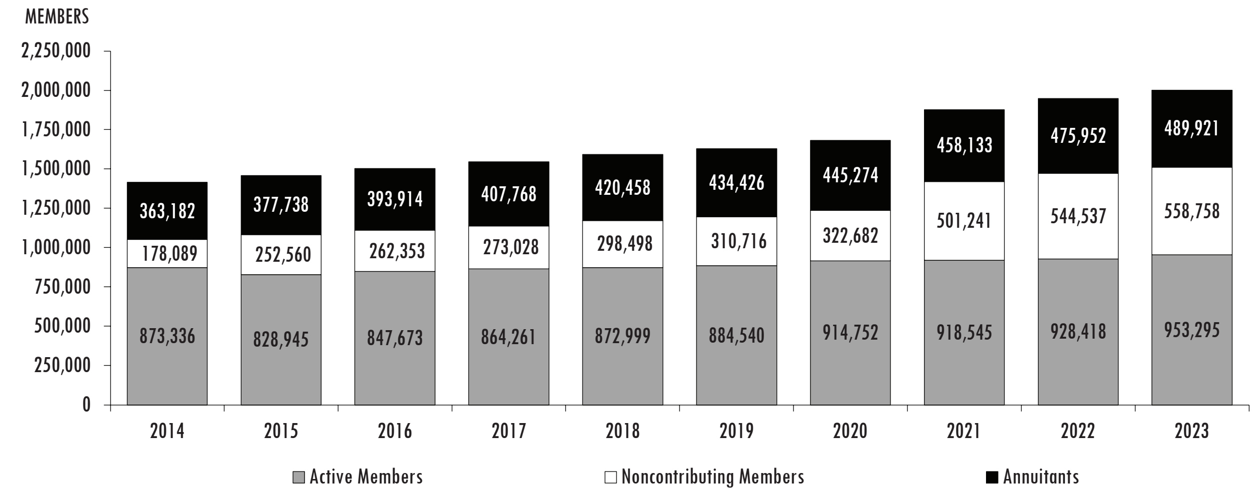
For fiscal year 2023, TRS reported approximately 2.0 million members, including 953,295 active members, 489,921 retirement recipients, and 558,758 inactive vested and nonvested members. **Figure 21** shows TRS membership, active and retired, from fiscal years 2014 to 2023.

CONTRIBUTIONS

The TRS pension plan is a cost-sharing plan funded by member, state, and employer contributions to the trust fund and by investment earnings of pension trust fund assets. Senate Bill 12, Eighty-sixth Legislature, 2019, increased statutorily required state, member, and employer contributions for fiscal years 2020 to 2025 to make the pension fund actuarially sound. The required state contribution rate and the active employee rate increased to 8.25 percent each for each year of the 2024–25 biennium. Statute also requires all public education employers to contribute an additional percentage of either actual employee pay or the statutorily required minimum salary for employees subject to the Minimum Salary Schedule, pursuant to the Texas Education Code, Section 21.402. This contribution rate was 1.7 percent for fiscal year 2022, increasing to 1.8 percent for fiscal year 2023 and to 2.0 percent by fiscal year 2025.

The Texas Constitution, Article XVI, Section 67, establishes that the state contribution rate must range from 6.0 percent to

FIGURE 21
TEACHER RETIREMENT SYSTEM MEMBERSHIP, FISCAL YEARS 2014 TO 2023



SOURCE: Teacher Retirement System of Texas.

10.0 percent of total TRS-related payroll, except during an emergency declared by the Governor. The General Appropriations Act (GAA) sets the state contribution rate for each biennium within that range. **Figure 22** shows contribution rates for fiscal years 2016 to 2025, pursuant to Senate Bill 12.

Statute further limits state retirement contributions to TRS for public community and junior colleges to 50.0 percent of the creditable compensation of members whose duties are instructional or administrative. An additional limit to state retirement contributions applies for each community and junior college based on the growth of each college's staff size in proportion to changes in student enrollment. Additionally, statute connects the state contribution rate to the member and district contribution rates. Any decrease of the state contribution rate to less than the rates required pursuant to Senate Bill 12 will result in equal and corresponding decreases of the member and district contribution rates to less than the corresponding rates for those entities.

An additional rule known as proportionality limits the share of the state contribution that may be funded by General Revenue Funds for most TRS members. (See **Appendix D – Glossary**.) For TRS retirement, this rule applies to funds appropriated in the GAA and certain federal and local funds held by employers outside the state Treasury. Employers transfer these funds directly to TRS without appropriation. This rule applies to all TRS members except for community college employees, whose benefits may be paid from any source of funds, regardless of whether the salaries are paid from appropriated funds.

FIGURE 22
TEACHER RETIREMENT SYSTEM OF TEXAS RETIREMENT CONTRIBUTION RATES, FISCAL YEARS 2016 TO 2025

YEAR	STATE CONTRIBUTION	LOCAL CONTRIBUTION (1)	EMPLOYEE CONTRIBUTION
2016	6.8%	1.5%	7.2%
2017	6.8%	1.5%	7.7%
2018	6.8%	1.5%	7.7%
2019	6.8%	1.5%	7.7%
2020	7.5%	1.5%	7.7%
2021	7.5%	1.6%	7.7%
2022	7.75%	1.7%	8.0%
2023	8.0%	1.8%	8.0%
2024	8.25%	1.9%	8.25%
2025	8.25%	2.0%	8.25%

NOTE: (1) As of fiscal year 2020, the local contribution includes all public education employers. Before fiscal year 2020, only public education employers that did not participate in Social Security were required to make the local contribution.
SOURCE: Teacher Retirement System of Texas.

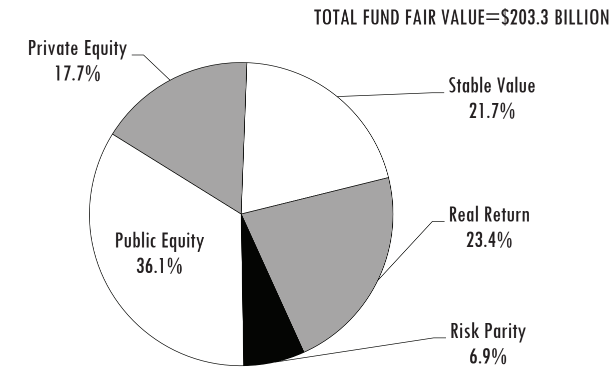
INVESTMENT OF ASSETS

The TRS Board of Trustees oversees the investment of the system's trust fund assets. Professional investment staff manage these assets. To assist the staff and the board with investment recommendations and decisions, the board employs independent investment consultants to evaluate and analyze investment strategies and outcomes.

TRS investment risks are diversified throughout market sectors and securities. The investment strategy is intended to improve long-term investment results while decreasing market risk. At the end of fiscal year 2023, global equity investments (public and private equity) constituted approximately 53.8 percent of the system's investments. Other investments included 21.7 percent allocated to a stable value portfolio (fixed, short-term, and hedge funds); 23.4 percent allocated to real return investments (bonds, commodities, natural resources and infrastructure, real estate, and other real assets); 6.9 percent allocated to risk parity; and a net asset allocation leverage of negative 5.7 percent. **Figure 23** shows TRS asset allocation as of August 31, 2023.

The Eighty-second Legislature, Regular Session, 2011, passed legislation to broaden authority on investment products such as futures contracts, options, swaps, and other investment tools. The legislation continued board authority to delegate up to 30.0 percent of the portfolio to external investment managers and raised the threshold limiting investments in hedge funds from 5.0 percent to 10.0 percent of the portfolio. The Eighty-fifth Legislature, Regular Session, 2017, continued the first provision, and the Eighty-sixth Legislature, 2019, removed the expiration date on the second provision. The Eighty-eighth Legislature, Regular Session, 2023, removed the 10.0 percent cap on the total value of TRS's portfolio that may be invested in hedge funds and instead authorizes the board to set the limit. TRS has expanded the role of alternative investments in its overall strategy to improve effective diversification, risk management, and long-term performance.

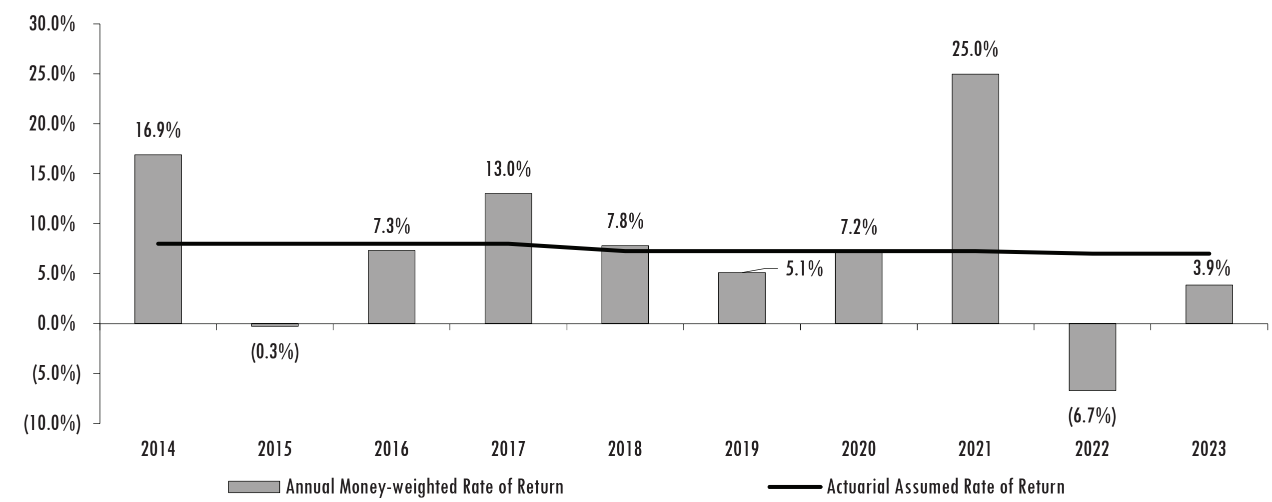
FIGURE 23
TEACHER RETIREMENT SYSTEM OF TEXAS ASSET ALLOCATION, FISCAL YEAR 2023



SOURCE: Teacher Retirement System of Texas.

The actual return on investment for fiscal year 2023 was 3.85 percent. The three-year, five-year, and 10-year average annual returns as of August 31, 2023, were 6.58 percent, 6.42 percent, and 7.62 percent, respectively. **Figure 24** shows the annual rate of return on investment for the retirement trust

FIGURE 24
TEACHER RETIREMENT SYSTEM TRUST FUND ASSETS ANNUAL RATES OF RETURN ON INVESTMENT FISCAL YEARS 2014 TO 2023



NOTES:
(1) The five-year average annual return is 7.0 percent, and the 10-year average annual return is 7.8 percent.
(2) The actuarial assumed rate of return was 8.0 percent from fiscal years 2014 to 2017; 7.25 percent from fiscal years 2018 to 2021; and 7.0 percent for fiscal years 2022 and 2023.

SOURCE: Teacher Retirement System of Texas.

fund's assets from fiscal years 2014 to 2023. However, the system's actuary uses a five-year smoothing of investment performance when conducting the actuarial valuation. The actuary recognizes 20.0 percent of the annual gains or losses for the year of performance; the remainder is smoothed at 20.0 percent per year during the next four years. (See **Appendix D – Glossary**.) As of the August 31, 2023, actuarial valuation, the fund has $12.5 billion in deferred losses to recognize in future valuations, compared to $9.7 billion in deferred losses as of the August 31, 2022, valuation.

ACTUARIAL VALUATION

An outside consulting actuary conducts an actuarial valuation annually based on data as of August 31, the last day of the system's fiscal year. Valuations determine the adequacy of the total contribution rate for addressing system solvency by comparing the value of the pension trust fund's assets against its liabilities. Actuarial valuations account for current and projected assets and liabilities. Valuations also consider various other factors, including demographic trends and longevity, projected retirement system membership and salaries, and trends in members' retirement behavior. The TRS retirement trust fund is considered actuarially sound if its funding and investment income are sufficient to cover its normal cost and pay off any unfunded liabilities during as brief a period as possible, but not to exceed 30.0 years (see **Appendix D – Glossary**). The TRS actuarial valuation report is available at www.trs.texas.gov.

In addition to the annual actuarial valuation, an actuarial update on the market value of assets only is conducted by February 28 each odd-numbered year, which provides the Legislature with updated information during the legislative session.

As of August 31, 2023, the actuarial value of the TRS pension trust fund's assets is $186.6 billion, a 1.7 percent increase from $183.5 billion at the end of fiscal year 2022. The system's unfunded actuarially accrued liability based on the actuarial value of assets is $57.9 billion, an increase of $6.2 billion from the previous fiscal year. The fund has a funded ratio of 77.5 percent. Based on membership, benefit obligations, and other actuarial assumptions, the funding period is 29.0 years. (See **Appendix D – Glossary** for definitions of related terms.)

Investment assumptions and performance are major factors in determining the actuarial condition of a retirement system. The assumed rate of return is what TRS expects its investments to earn each year, on average. This assumption is used to assess the long-term stability of the retirement trust and determine whether the system will be able to meet its obligations. Before fiscal year 2018, TRS actuarial valuations included an investment return assumption of 8.0 percent. In July 2018, the TRS Board of Trustees decreased the return assumption to 7.25 percent to provide a more reasonable forecast of current and future financial conditions. In fiscal year 2022, the TRS Board of Trustees decreased the return assumption to 7.0 percent. This lower return assumption increased the projected contributions and funding period needed to pay off the unfunded actuarial accrued liability. Senate Bill 12, Eighty-sixth Legislature, 2019, provided for these additional contributions and lowered the projected funding period to 29.0 years as of August 31, 2019. Benefit enhancements provided by Senate Bill 10, Eighty-eighth Legislature, 2023, did not increase the unfunded actuarial accrued liability or the funding period because the funding was appropriated to fully cover the cost of these benefit increases.

RETIREMENT ELIGIBILITY

Changes to the retirement plan have resulted in six membership categories, or tiers, each with its own retirement eligibility requirements, as shown in **Figure 25**. Members' tiers are determined by the dates they entered TRS membership; exemption criteria; the amount of service credit established as of August 31, 2014; and whether TRS membership has been terminated by a refund payment. Since school year 2012–13, all TRS members receive service credit based on a standardized school year that begins September 1 and ends August 31. When membership is terminated, any subsequent membership is considered as first employment, even if previously withdrawn service is paid and reinstated.

RETIREMENT BENEFITS

Benefit calculations are determined by statute and are based on an employee's salary, age, and years of creditable service. Calculations of normal-age service retirement annuity are based on the standard annuity, which provides the retiree a maximum amount of benefit each month, compared to optional service retirements for survivor benefits, and ends upon the retiree's death. The annual standard annuity equals 2.3 percent multiplied by the average of the five greatest annual creditable salaries multiplied by years of creditable service. For members who meet the exemption criteria, the three greatest annual salaries are used.

Members have five options for annuity payments in lieu of a standard annuity. Optional annuities decrease the monthly annuity payable during the retiree's life but provide for a beneficiary to receive a monthly benefit after the retiree's

FIGURE 25
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) RETIREMENT ELIGIBILITY, FISCAL YEAR 2023

EMPLOYEE CATEGORY EFFECTIVE SEPTEMBER 1, 2014		NORMAL-AGE RETIREMENT ELIGIBILITY	EARLY-AGE RETIREMENT ANNUITY REDUCTION (3)
Tier 1	Current TRS membership began before September 1, 2007; had at least 5.0 years of service credit as of August 31, 2014; and met exemption criteria (1)	Age 65 with 5.0 years of service credit or Rule of 80 (2) with 5.0 years of service credit	Younger than age 65, 2.0% for each year that the combined age and years of service is less than the Rule of 80 (2)
Tier 2	Current TRS membership began before September 1, 2007; had at least 5.0 years of service credit as of August 31, 2014; and did not meet exemption criteria (1)	Age 65 with 5.0 years of service credit or Rule of 80 (2) with 5.0 years of service credit	Younger than age 65, 2.0% for each year that the combined age and years of service is less than the Rule of 80 (2)
Tier 3	Current membership began on or after September 1, 2007, and before September 1, 2014; had at least 5.0 years of service credit as of August 31, 2014; and did not meet exemption criteria (1)	Age 65 with 5.0 years of service credit or age 60 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 60
Tier 4	Current membership began on or after September 1, 2007, and before September 1, 2014; had at least 5.0 years of service credit as of August 31, 2014; and met exemption criteria (1)	Age 65 with 5.0 years of service credit or age 60 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 60, with certain exceptions
Tier 5	Did not meet exemption criteria (1) and: (a) current membership began on or after September 1, 2014, or (b) less than 5.0 years of service credit as of August 31, 2014	Age 65 with 5.0 years of service credit or age 62 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 62
Tier 6	Met exemption criteria (1) and: (a) current membership began on or after September 1, 2014, or (b) less than 5.0 years of service credit as of August 31, 2014	Age 65 with 5.0 years of service credit or age 62 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 62, with certain exceptions

NOTES:
(1) Exemption criteria include that a member must meet at least one of these requirements on or before August 31, 2005: (a) at least age 50; or (b) age and years of service equal at least 70.0; or (c) have at least 25.0 years of service credit.
(2) The Rule of 80 is met when the retiree's age and years of service credit in TRS equals or exceeds 80.0 years at the time of retirement.
(3) The early-age retirement annuity reduction excludes decreases for the partial-lump-sum option. The member must meet additional eligibility criteria based on age, tier, and years of service to qualify for early-age retirement. See www.trs.texas.gov for more information.
SOURCE: Teacher Retirement System of Texas.

death, either for life or for a guaranteed period. The retiree may select one of three joint and survivor optional forms of payment that provide for lifetime payments to a beneficiary after the retiree's death. These options decrease the standard annuity based on age-related actuarial reduction factors. The two remaining optional forms of annuity are guaranteed-period annuities, which guarantee a benefit to the beneficiary during the first 60.0 months or 120.0 months after the retirement date if the retiree's death occurs during that period. If the beneficiary dies before the retired member, the retiree's annuity is increased to the standard annuity.

A retiree also may choose a partial-lump-sum option at retirement equal to up to 36.0 months of the standard monthly annuity, resulting in a permanent actuarial decrease of the monthly annuity. This option is not available to members who accept a disability retirement or an early-age retirement, or who retire through the Proportionate Retirement Program. A summary of the TRS retirement benefits is available at www.trs.texas.gov. According to TRS, 23,056 members retired during fiscal year 2023, and TRS paid pension benefits totaling $12.7 billion that year. The average age of members retiring during fiscal year 2023 was

63.0 years, an increase from the average of age 62.3 years during fiscal year 2022. **Figure 26** shows the annuitant profile for retirees in fiscal years 2022 and 2023.

Figure 27 shows annual TRS service and disability retirements from fiscal years 2014 to 2023.

FIGURE 26
TEACHER RETIREMENT SYSTEM ANNUITANT PROFILE FISCAL YEARS 2022 AND 2023

ANNUITANT PROFILE	2022 RETIREES	2023 RETIREES
Service and Disability Retirements	26,341	23,056
Average Age at Retirement	62.3	63.0
Average Years of Service	22.8	22.1
Ratio of Current Members to Retirees	3.1 to 1	3.1 to 1

SOURCE: Teacher Retirement System of Texas.

DISABILITY RETIREMENT BENEFITS

A member, regardless of age or years of service credit, may receive a disability retirement if the member is disabled mentally or physically, and if the TRS Medical Board certifies that the member's disability likely is permanent.

A member who qualifies for disability retirement and has at least 10.0 years of service credit may receive a monthly annuity that is not decreased due to early age. Similarly to standard retirement options, the member may select a standard annuity or one of five optional annuities. If the member selects an optional annuity plan, the member's monthly annuity will be decreased using disability retirement actuarial factors to include the additional liability for payment to the member's beneficiary.

A member who qualifies for disability retirement but has less than 10.0 years of service credit may receive a monthly disability benefit of $150 that is paid for the lesser of the following periods: (1) the number of months the member has been covered by TRS; (2) the duration of the member's disability; or (3) the duration of the member's life. Disability retirees must file an annual compensation statement with TRS, and they may forfeit their disability annuity or be required to pay an increased amount for TRS-Care coverage if earned compensation exceeds the limits set by the TRS Board of Trustees. The requirement does not apply to members who applied for disability or whose effective date of disability retirement is before September 1, 2007.

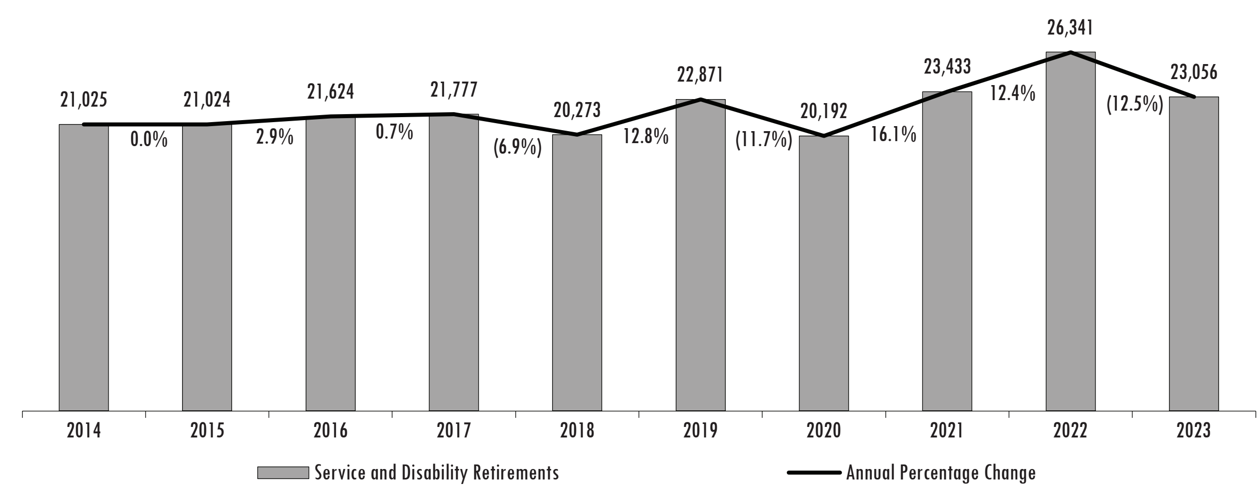
PROPORTIONATE RETIREMENT

Participants who have active membership credit in more than one Texas public retirement system, as described in the section on **Proportionate Retirement** in the **Employees Retirement System of Texas** chapter, may be eligible to combine all their service credit to satisfy TRS eligibility requirements for retirement.

DEATH BENEFITS FOR ACTIVE EMPLOYEES

An active member's primary beneficiary may choose one of five options for payment of the member's death benefits.

FIGURE 27
TEACHER RETIREMENT SYSTEM ANNUAL SERVICE AND DISABILITY RETIREMENTS AND ANNUAL PERCENTAGE CHANGE FISCAL YEARS 2014 TO 2023



SOURCE: Teacher Retirement System of Texas.

The benefits are available if the member dies during a school year in which the member has performed TRS-covered service, or if the member dies while performing qualified military service as defined by applicable federal law. The benefits also are available when a member's absence from service is due to sickness or accident, or other work absences described by law. Benefits with certain restrictions include the following payment options: (1) a lump-sum payment; (2) 60.0 monthly payments equal to the member's standard annuity without a decrease for early age; (3) lifetime payments; (4) an amount equal to a return on the member's contributions with accumulated interest; or (5) survivor benefits of a $2,500 lump-sum payment plus a monthly benefit.

DEATH BENEFITS FOR RETIREES

The designated beneficiary of a service or disability retiree may receive a lump-sum death and survivor benefit payment of $10,000. This payment is in addition to any joint-and-survivor or guaranteed-period annuity that may be payable through an optional plan chosen by the retiree at retirement, unless the retiree has received all monthly payments before death. In lieu of the $10,000 death and survivor benefit, survivors may select alternative payment options, which include a lump-sum payment of $2,500 and an applicable monthly survivor benefit payment.

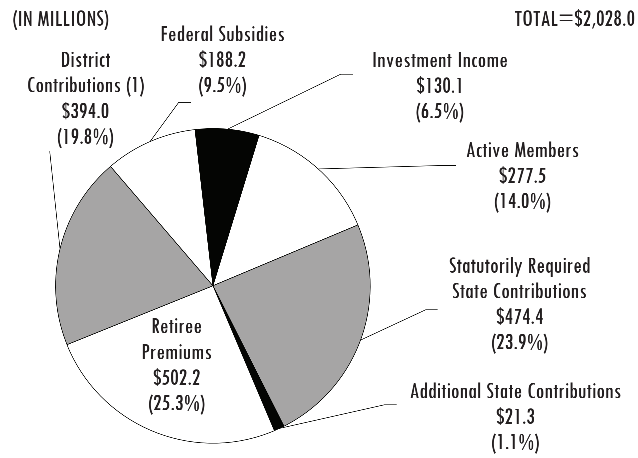
SIGNIFICANT LEGISLATION

The Eighty-eighth Legislature, Regular Session, 2023, passed the following legislation that affects TRS retirement.

Senate Bill 10 and House Joint Resolution 2 – Additional annuity and onetime supplemental payment for certain TRS retirees. Senate Bill 10 provides onetime supplemental payments of $2,400 to $7,500 to eligible annuitants age 70 or older. As authorized by voter approval of House Joint Resolution 2 at the November 2023 election, Senate Bill 10 provides cost-of-living adjustments to retirees ranging from 2.0 percent to 6.0 percent depending on retirement date.

Senate Bill 1246 – Revising TRS investment practices. The legislation removes the 10.0 percent cap on the total value of TRS's portfolio that may be invested in hedge funds and authorizes the board to set the limit. Senate Bill 1246 authorizes TRS to establish a title-holding entity to be used for investing the system's assets in real property and establishes various requirements for such investments, including confidentiality of certain records.

FIGURE 28
TRS-CARE CONTRIBUTIONS BY FUNDING SOURCE
FISCAL YEAR 2023



NOTE: (1) District contributions include the 0.75 percent employer contribution, amounts paid by districts from federal funding and private grants to fund the 1.25 percent state contribution as required by statute, and district payments to the Teacher Retirement System of Texas (TRS) for a surcharge owed on return-to-work employees.
SOURCE: Teacher Retirement System of Texas.

HEALTH BENEFIT PLANS

RETIREE HEALTH BENEFITS (TRS-CARE)

FUNDING

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. Unlike the prefunded retirement plan, TRS-Care is funded on a pay-as-you go basis. Payroll contributions to TRS-Care are fixed percentages of school district employee salaries set by statute and the GAA, including 1.25 percent from the state, 0.75 percent from school districts, and 0.65 percent from active employees. Periodically, the Legislature has appropriated onetime funding to the program.

Figure 28 shows the program's major funding sources for fiscal year 2023. TRS deposits funding from all sources into the TRS-Care Trust Fund, from which it pays claims for the Standard Plan, premiums for the Medicare Advantage Plan, and program administrative costs.

Before fiscal year 2018, TRS-Care reported a structural funding shortfall due to two contributors: a recurring funding difference between revenues generated by statutorily required contributions and health benefits costs, and additional legislative restrictions on member premiums. The GAA previously directed TRS not to increase retiree premiums, and statute directed TRS to provide a basic health plan at no cost to the retiree. These provisions, intended to keep retiree healthcare affordable while developing a long-term solution, hindered the program's capacity to generate the level of revenue required to fully fund benefits. House Bill 3976, Eighty-fifth Legislature, Regular Session, 2017, and the GAA, 2018–19 Biennium, eliminated the structural shortfall by repealing the restriction on premiums and the requirement that TRS must offer a basic plan at no cost to retirees. The legislation further decreased the difference between revenues and costs by modifying plan structure and benefits significantly and by providing onetime additional funding of $394.6 million in General Revenue Funds. Following these changes, the average premium per member increased by 47.0 percent in plan year 2018.

ELIGIBILITY

Health benefits are provided for public school retirees who are not eligible to participate in the state higher education or state employee plans. (See the **Premiums and Coverage** section.)

To be eligible for TRS-Care, retirees must have at least 10.0 years of TRS service credit, which may include up to 5.0 years of military service credit but may not include any other special or equivalent purchased service credit. Additionally, the member must meet one of these requirements:

- the sum of the retiree's age and years of service credit in TRS equals or exceeds 80.0 years at the time of retirement, regardless of whether the retiree had a decrease in the retirement annuity for early age (years of service credit can include all purchased service); or
- the retiree has 30.0 or more years of service credit in TRS at the time of retirement (years of service credit can include all 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.

Figure 29 shows total participation in TRS-Care.

Figure 30 shows TRS-Care cost trends since fiscal year 2015, projected through fiscal year 2025. TRS reports that cost trends began to increase during fiscal year 2023 after two years of negative trends that were due to vendor changes, regulatory conditions, and effects of the COVID-19 pandemic.

FIGURE 29
TRS-CARE PARTICIPATION AS OF AUGUST 31, 2023

CATEGORY	PARTICIPANTS
Retirees	178,043
Surviving Spouses and Surviving Children	5,919
Dependents	31,862
Total Participants	**215,824**

SOURCE: Teacher Retirement System of Texas.

PREMIUMS AND COVERAGE

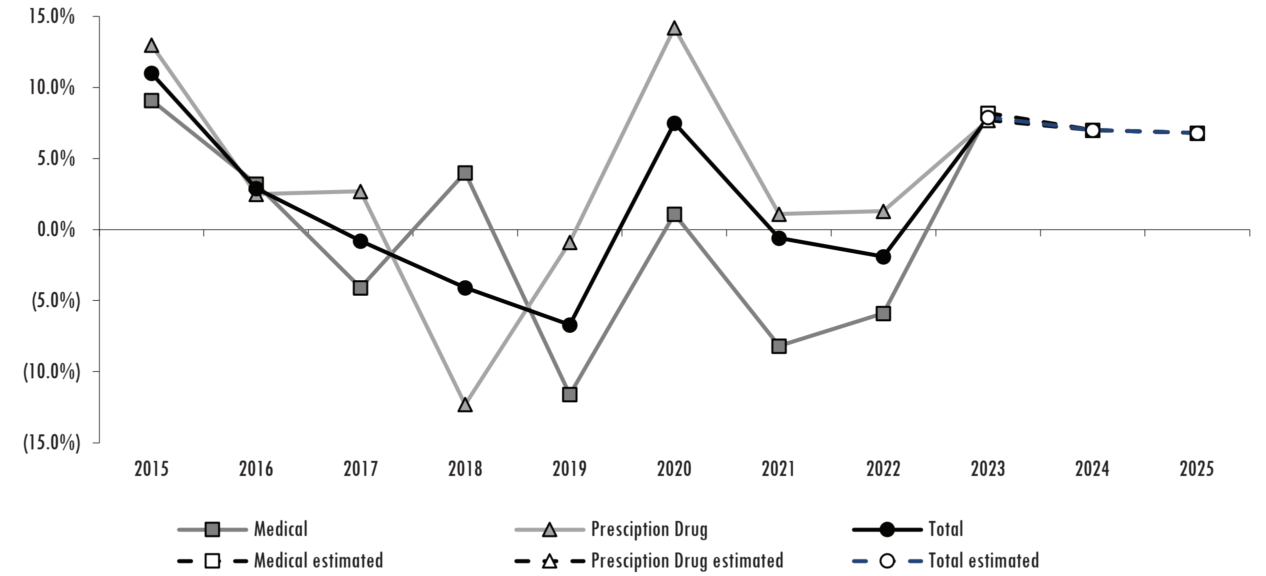
TRS-Care offers a Medicare Advantage plan and a Medicare prescription drug plan to participants eligible to enroll in Medicare, and the Standard Plan, including medical and pharmacy benefits, for participants not eligible to enroll in Medicare. TRS is permitted but not required to provide another health benefit plan to Medicare-eligible members.

Although each member's enrollment in the Standard Plan or Medicare Advantage is based on their Medicare eligibility, premium rates are determined by the Medicare eligibility of the retiree or surviving spouse and the family size. For plan year 2024, retiree-only coverage in the Standard Plan and Medicare Advantage Plan cost $200 and $135 per month, respectively. Retirees in both plans pay additional premiums for dependent coverage.

TRS-Care plans offer comprehensive healthcare through statewide and nationwide networks of hospitals, physicians, and other healthcare providers and pharmacies. Blue Cross Blue Shield administers TRS-Care Standard Plan medical benefits, and Express Scripts administers pharmacy benefits for Medicare and non-Medicare participants. The Medicare Advantage plan is insured and administered by UnitedHealthcare.

The Standard Plan covers participants who use in-network providers at 80.0 percent of eligible expenses after they pay an individual or family deductible each plan year. Certain preventive-care services, such as vaccinations and well checks, are covered at 100.0 percent of eligible expenses before meeting the deductible. After members spend a maximum out-of-pocket amount for each individual or for all family members on the Standard Plan, the plan covers all additional costs at 100.0 percent for the remainder of the plan year. Services provided outside of the network are reimbursed at a lower rate and carry higher deductibles and maximum out-of-pocket costs.

FIGURE 30
TRS-CARE COST TRENDS, FISCAL YEARS 2015 TO 2025



YEAR	MEDICAL	PRESCRIPTION DRUG	TOTAL
2015	9.1%	13.0%	11.0%
2016	3.2%	2.5%	2.9%
2017	(4.1%)	2.7%	(0.8%)
2018	4.0%	(12.3%)	(4.1%)
2019	(11.6%)	(0.9%)	(6.7%)
2020	1.1%	14.2%	7.5%
2021	(8.2%)	1.1%	(0.6%)
2022	(5.9%)	1.3%	(1.9%)
2023	8.2%	7.7%	7.9%
2024	7.0%	7.0%	7.0%
2025	6.8%	6.8%	6.8%

NOTE: Percentages shown for fiscal years 2024 and 2025 are estimated.
SOURCE: Teacher Retirement System of Texas.

Medicare Advantage covers participants at 95.0 percent of eligible expenses after they pay an individual deductible each plan year for combined in-network and out-of-network costs. The Medicare Advantage plan also covers certain preventive-care services at 100.0 percent of eligible expenses and fully covers costs after each member meets the annual out-of-pocket maximum. Beginning with plan year 2020, the deductible also does not apply to sick visits to primary care physicians; members pay a $5 copayment for those services. Additionally, in the Medicare Part D Prescription Drug Plan, participants pay copayments of at least $5 for a one-month supply of generic medications, with reduced copayments for 90-day supplies of certain brand drugs.

A summary of the retiree health insurance plans is available at www.trs.texas.gov.

ACTIVE EMPLOYEES HEALTH BENEFITS (TRS-ACTIVECARE)

FUNDING

In conjunction with the legislation establishing TRS-ActiveCare, the Legislature provided an increase in the Foundation School Program school finance formulas to deliver additional state aid equivalent to at least

$75 per employee per month to help fund district costs. The state has no statutory obligation to appropriate additional funding to the program beyond this contribution. In addition, districts are required to contribute a minimum of $150 per employee per month, for a total of $225 toward the cost of coverage. Employees are responsible for any remaining monthly premium costs. Premiums are paid into a separate trust fund from which health claims are paid.

Minimum state and employer contributions have not changed since the program was established. According to TRS, most districts contribute slightly more than the required minimum. Significant cost growth in the program without additional state contributions has hindered the affordability of ActiveCare plans. According to TRS, increasing costs for prescription drugs, including specialty drugs, and other medical cost increases contribute significantly to plan costs. To balance costs and revenues, TRS has raised premiums and made several structural benefit changes since the program began.

During the COVID-19 pandemic, TRS received federal funding to prevent member premium increases or benefit design changes resulting from pandemic-related claims. For the 2022–23 biennium, appropriations to TRS-ActiveCare included $638.3 million in Federal Funds to cover the costs associated with the pandemic and to prevent an increase in member premiums. As a result, no increases in the total premiums were charged at any rate or tier, and many rates decreased for plan year 2023. With the removal of Federal Funds intended to mitigate the effects of the pandemic, TRS-ActiveCare was appropriated $588.5 million for the 2024–25 biennium to offset the decrease in Federal Funds partially. The appropriation also is intended to maintain the average annual premium increase at less than 10.0 percent while balancing the difference between current premiums and expected costs.

ELIGIBILITY

To be eligible for TRS-ActiveCare, an individual must be employed by a participating district or entity, and either be an active contributing TRS member or be employed 10.0 or more regularly scheduled hours each week. As shown in **Figure 31**, 424,696 employees and dependents from 982 entities have elected to participate as of August 31, 2023. Many local school districts, particularly larger employers, provide local programs for employee healthcare benefits.

FIGURE 31
TRS-ACTIVECARE PARTICIPATION AS OF AUGUST 31, 2023

CATEGORY	PARTICIPANTS
Participating Entities	982
Participants	
Employees	273,147
Dependents	151,549
Total Participants	**424,696**

SOURCE: Teacher Retirement System of Texas.

COVERAGE

For fiscal year 2024, Blue Cross Blue Shield administers TRS-ActiveCare medical benefits, and Express Scripts manages the prescription drug benefits. TRS-ActiveCare offers a choice of three preferred provider organization plans statewide, TRS-ActiveCare Primary, TRS-ActiveCare Primary Plus, and TRS-ActiveCare HD.

SIGNIFICANT LEGISLATION

The Eighty-eighth Legislature, Regular Session, 2023, passed the following legislation that affects the TRS healthcare programs.

Senate Bill 1854 – TRS-Care optional benefits. The legislation requires TRS to provide eligible retirees with an optional benefits program for vision and dental care within the existing TRS-Care insurance program.

OPTIONAL RETIREMENT PROGRAM

GOVERNANCE AND POLICY

The Optional Retirement Program (ORP) is a separate retirement mechanism that is not administered by the Teacher Retirement System of Texas (TRS) or the Employees Retirement System of Texas. The Texas Higher Education Coordinating Board oversees the program's rules; the Comptroller of Public Accounts and the participating institutions are responsible for accounting; and each institution's governing board administers its respective ORP and selects qualified vendors of investment products for its employees.

MEMBERSHIP

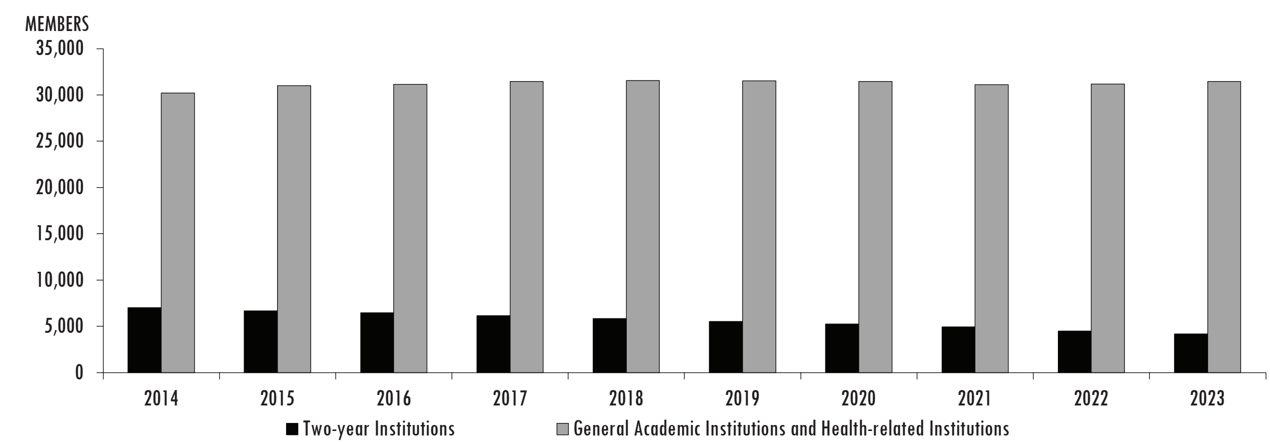
New public higher education employees who are employed in an ORP-eligible position have 90 days from the first date of eligibility to make a onetime, irrevocable choice between participation in ORP or TRS membership. **Figure 32** shows the past 10 years of ORP membership for two-year institutions compared to four-year general academic institutions and health-related institutions. Employees who elect ORP in lieu of TRS membership must continue to participate in ORP for the remainder of their careers in Texas public higher education. Participation in the program is limited to full-time faculty and certain administrators employed by Texas public institutions of higher education, including public community and technical colleges; the commissioners of education and higher education; and certain positions designated by law.

CONTRIBUTIONS

The Legislature establishes ORP member and state contribution rates each biennium. These rates may fluctuate. The ORP state contribution rate for the 2024–25 biennium is 6.6 percent, as established in the General Appropriations Act. Institutions of higher education may provide supplements to the state rate up to 8.5 percent of payroll. Member contribution amounts are based on a percentage of the employee's salary, set in statute at 6.65 percent. Members invest their accounts through the purchase of individual investment contracts. A rule known as proportionality limits the share of the state contribution that may be funded by General Revenue Funds. (See **Appendix D – Glossary**.) This rule is applicable for all ORP members except for community college employees, whose benefits may be paid from any source of funds regardless of whether the salaries are paid from appropriated funds.

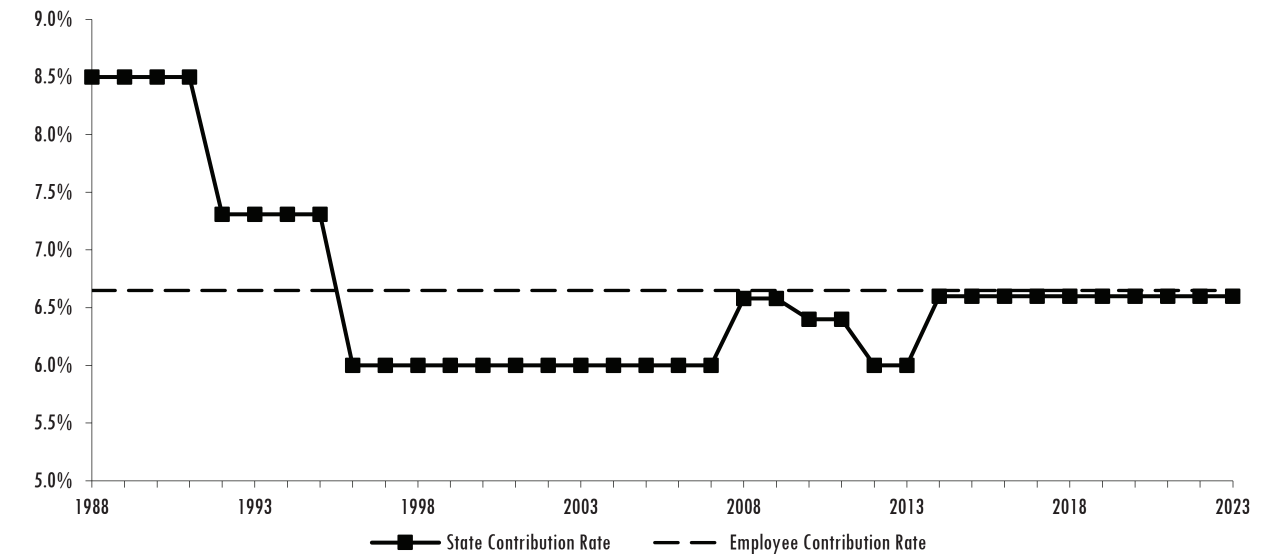
Statute further limits state retirement contributions to ORP for public community and junior colleges to 50.0 percent of the creditable compensation of members whose duties are instructional or administrative. An additional limit to state

FIGURE 32
OPTIONAL RETIREMENT PROGRAM MEMBERSHIP FOR TWO-YEAR INSTITUTIONS COMPARED TO GENERAL ACADEMIC INSTITUTIONS AND HEALTH-RELATED INSTITUTIONS, FISCAL YEARS 2014 TO 2023



SOURCE: Texas Higher Education Coordinating Board.

FIGURE 33
OPTIONAL RETIREMENT PROGRAM STATE AND EMPLOYEE CONTRIBUTION RATES, FISCAL YEARS 1988 TO 2023



SOURCE: Texas Higher Education Coordinating Board.

retirement contributions applies for each community and junior college based on the growth of each college's staff size in proportion to changes in student enrollment.

Figure 33 shows the state and member contribution rates since fiscal year 1988.

RETIREMENT PROGRAM

The retirement benefit provided in ORP is based on the accumulated contributions and rate of return earned during the employee's career. The ORP features one-year vesting and is a portable benefit that enables participants to maintain their retirement savings after separation from employment in Texas public higher education. Employees may withdraw contributions, including state contributions, after the one-year vesting period. ORP participants who terminate state employment before meeting the vesting requirement forfeit employer contributions made during that period of employment.

The ORP participant's benefit amount depends directly on the actual amounts contributed. The defined contribution plan enables participants to manage their own personal investment accounts; therefore, no state provisions improve benefits after termination, such as providing a cost-of-living adjustment. Program participants purchase individual investment contracts pursuant to the U.S. Internal Revenue Code, Section 403(b), from insurance and investment companies. Vendor selection must be made from the employer's authorized list when ORP is elected. ORP participants assume full responsibility for monitoring their selected companies and investments and have at least two opportunities each year to change their selected companies. Contributions and interest earnings are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity. Funds in the ORP accounts are available at termination of participation, including the employee and employer contributions if the participant has at least one year of service. Termination of participation occurs upon retirement, death, or termination of employment in all Texas public institutions of higher education.

HIGHER EDUCATION EMPLOYEES GROUP INSURANCE

STRUCTURE AND ENROLLMENT

State contributions for health insurance premiums for higher education employees and retirees in the Employees Retirement System of Texas (ERS) Group Benefits Program, the University of Texas (UT) System, and the Texas A&M University (TAMU) System are appropriated through Higher Education Employees Group Insurance (HEGI). **Figure 34** shows the number of state-funded higher education enrollees, excluding dependents, in each system for fiscal years 2008 to 2022.

FUNDING AND PROPORTIONALITY

Legislative appropriations for HEGI for the 2024–25 biennium total $1,595.4 million in All Funds, an increase of $166.7 million from the 2022–23 biennium. The increase in funding is due mainly to the provision of $165.0 million in General Revenue Funds and General Revenue–Dedicated Funds, along with other funding to the institutions, to address higher education affordability. General Revenue Funds constitute $1,589.2 million of appropriations for HEGI; the remaining $6.2 million is appropriated to the Texas A&M Forest Service from the General Revenue–Dedicated Account No. 36, Texas Department of Insurance Operating Fund. **Figure 35** shows HEGI appropriations by system for the 2024–25 biennium.

The 2024–25 biennial appropriations for HEGI are calculated by multiplying the number of eligible enrollees by premium contribution rates and applying an annual growth rate to the total. HEGI premium contribution rates vary by insuring system and type of institution. The 2024–25 biennial premium contributions are funded at 100.0 percent of the ERS premium rates for general state employees covered by ERS, 88.6 percent for employees of higher education institutions, and 50.0 percent for employees of community colleges. **Figure 36** shows proration rates for the various systems.

Appropriations to institutions other than community colleges provide state contributions to health insurance premiums in a manner prescribed by proportional cost-sharing requirements. As such, institutions are required to cover all health benefit costs for employees whose salaries are paid from sources other than General Revenue Funds.

The number of employees at an institution enrolled in each health insurance program as of December 1, 2022, determines the institution's 2024–25 biennial appropriation from General Revenue Funds. State contributions are capped at the institution's sum-certain, line-item appropriation (see **Appendix D – Glossary**). The institution must pay for any additional costs using other appropriated or local funds. However, the General Appropriations Act (GAA) authorizes ERS, the UT System, and the TAMU System to transfer HEGI appropriations among institutions within their group insurance programs to address each institution's needs.

State contributions to group health insurance for community colleges cover costs associated with instructional or administrative employees whose salaries may be paid fully from funds appropriated in the GAA, regardless of whether such salaries are paid from appropriated funds. The number of employees eligible to receive HEGI

FIGURE 34
STATE-FUNDED HIGHER EDUCATION ENROLLEES IN HIGHER EDUCATION EMPLOYEES GROUP INSURANCE
FISCAL YEARS 2008 TO 2022

SYSTEM	2008	2010	2012	2014	2016	2018	2020	2022
Employees Retirement System of Texas	60,714	64,271	63,033	62,589	63,902	66,446	68,055	70,152
University of Texas System	34,296	35,325	31,503	32,129	33,663	32,776	32,207	34,792
Texas A&M University System	16,064	16,980	15,219	16,354	17,184	17,619	17,632	17,989
Total	**111,074**	**116,576**	**109,755**	**111,072**	**114,749**	**116,841**	**117,894**	**122,933**

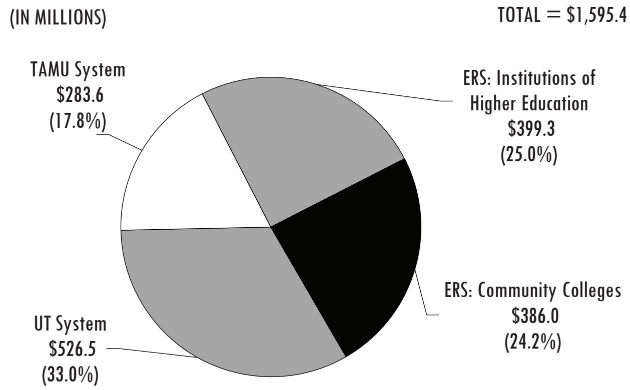
SOURCE: Legislative Budget Board.

contributions may not be adjusted in a proportion greater than the change in student enrollment. However, an institution whose student enrollment has decreased may petition the Legislative Budget Board to maintain the number of eligible employees up to 98.0 percent of those during the previous biennium. Employee hold-harmless levels are based on the decrease in enrollment, represented by contact hours, at each institution; levels of this hold harmless amount are shown in **Figure 37**.

PLAN BENEFITS

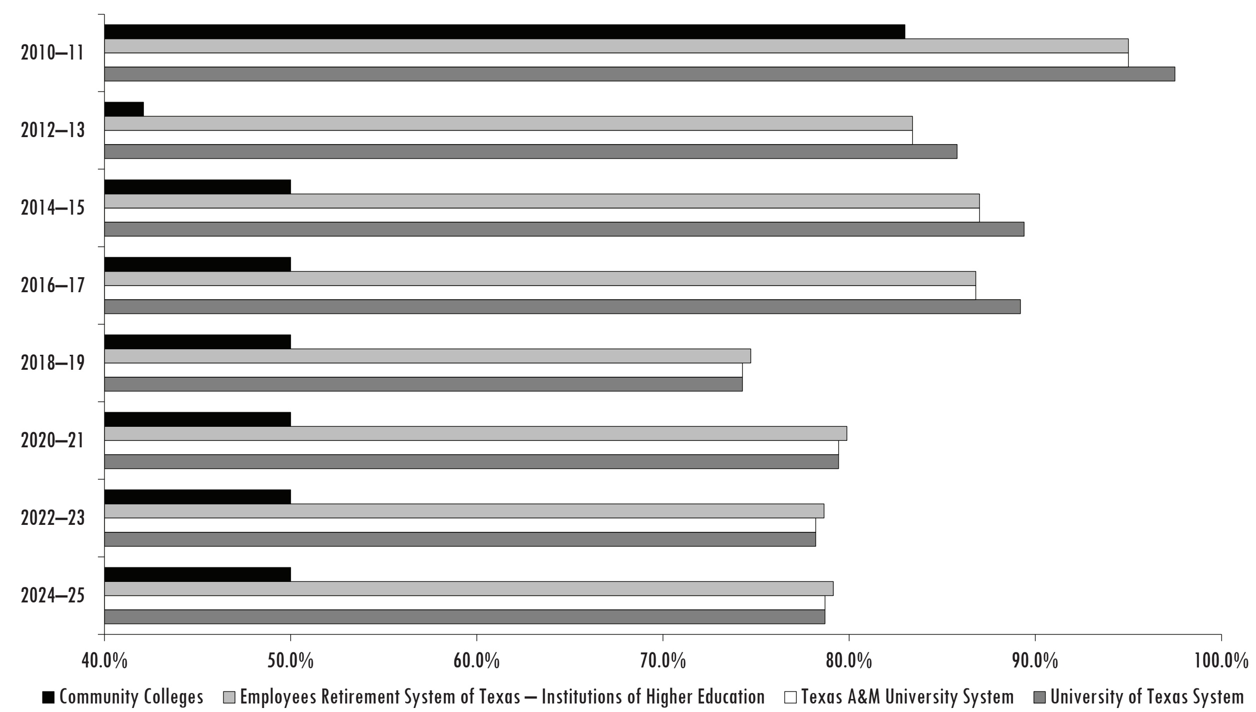
The type of benefits and overall premium amounts covered are the same for higher education institutions as those for general state employees. However, the state does not cover the full premium for employees at higher education institutions. For full-time employees at all higher education

FIGURE 35
HIGHER EDUCATION EMPLOYEES GROUP INSURANCE APPROPRIATIONS BY SYSTEM, 2024–25 BIENNIUM



SOURCE: Legislative Budget Board.

FIGURE 36
PRORATION RATES FOR PREMIUM CONTRIBUTIONS FOR HIGHER EDUCATION EMPLOYEES 2010–11 TO 2024–25 BIENNIA



SOURCE: Legislative Budget Board.

institutions, the state and the institution pay the full employee-only premium and half the difference between the employee-only premium and the premium for dependent coverage.

FIGURE 37
PUBLIC COMMUNITY COLLEGES STEPPED EMPLOYEE HOLD-HARMLESS LEVELS 2024–25 BIENNIUM

PERCENTAGE DECREASE IN CONTACT HOURS	HOLD-HARMLESS LEVEL
2.0% to 5.0%	98.0% (2.0% decrease)
More than 5.0% to 10.0%	95.0% (5.0% decrease)
More than 10.0% to 15.0%	90.0% (10.0% decrease)
More than 15.0%	85.0% (15.0% decrease)

SOURCE: Legislative Budget Board.

SOCIAL SECURITY AND BENEFIT REPLACEMENT PAY

POLICY

Federal income taxes required by the Federal Insurance Contributions Act include old-age, survivors, and disability insurance taxes, also known as Social Security, and hospital insurance taxes, also known as Medicare. The U.S. Internal Revenue Code, Sections 3101 and 3111, sets the rates for employer and employee contributions, which are 6.2 percent each for the Social Security program and 1.45 percent each for Medicare for a total of 15.3 percent of payroll. The Comptroller of Public Accounts (CPA) is responsible for the payment of these taxes to the federal government on behalf of the state and employees. The Texas Legislature appropriates the employer portion of payroll tax contributions for Social Security and Medicare to the CPA in the General Appropriations Act (GAA), where they are combined as Social Security appropriations. The Social Security wage base, which is the amount of wages subject to the 6.2 percent tax, increased by 5.2 percent from $160,200 in calendar year 2023, to $168,600 for calendar year 2024. This wage base, or taxable maximum, has increased at an average annual rate of 3.2 percent since calendar year 2004, roughly tracking national average wage growth. Medicare taxable earnings have no limit, but the contribution decreases to 0.9 percent on wages greater than $200,000 and are paid only by the employee with no employer match.

Appropriations to the CPA for Social Security benefits include Benefit Replacement Pay (BRP) contributions for certain state employees hired before September 1, 1995. Before fiscal year 1996, the state paid for a portion of employees' Social Security obligations. The Seventy-fourth Legislature, 1995, replaced that portion with BRP, a benefit supplement to ensure that employees' net pay was not reduced. Employees retain BRP if they do not have a break in service from the state for 30 days. Employees hired after August 31, 1995, are not eligible to receive the benefit supplement or the additional state-paid Social Security.

A retiree may begin to collect Social Security benefits at the age of 62. The monthly amount individuals receive if they retire in the month they reach their full retirement age (FRA) is based on the average indexed monthly earnings (AIME), or the monthly average of the highest 35.0 years of earnings adjusted for inflation. This amount is divided into three tiers based on bend points determined by the national average wage index for the year an individual turns age 62. The tiers are multiplied by specific percentages fixed by law (90.0 percent, 32.0 percent, and 15.0 percent), and then summed to equal the primary insurance amount (PIA), which is the starting point for monthly benefit payments. The PIA is then adjusted up by 0.667 percent per month that an individual retires after their FRA. The PIA is adjusted down by 0.556 percent per month for the 36.0-month period if an individual retires before FRA and down another 0.417 percent per month for each month that exceeds 36.0 months.

STATE FUNDING

As with Employees Retirement System of Texas state contributions, the Legislature appropriates funds for the state contribution to Social Security at the end of each article of the GAA as an estimated appropriation. The total appropriation is shown as an informational listing in CPA's bill pattern in the GAA.

Increases in Social Security appropriations are related primarily to payroll growth and full-time-equivalent position changes at certain state agencies and institutions of higher education. Decreased appropriations for BRP contributions represent the attrition of state employees hired before September 1, 1995. See **Appendix A – Appropriations** for actual appropriations amounts.

APPENDIX A – APPROPRIATIONS

State contributions to retirement benefits for the Teacher Retirement System of Texas (TRS) and the Optional Retirement Program (ORP) are estimated appropriations. State contributions to retirement and death benefits for the Employees Retirement System of Texas (ERS) also are estimated appropriations, with the exception of Legacy Payments to amortize ERS's unfunded actuarial liability, which are sum-certain appropriations. Each agency has the authority to increase the appropriation as needed within the parameters of the General Appropriations Act.

Funded amounts are based on set contribution rates but vary due to the fluctuating number of employees and the actual amount of monthly payroll. TRS reconciles amounts with the state at the end of the fiscal year to balance retirement contribution levels based on actual payroll amounts. ERS and ORP receive varying amounts each month based on the contribution rates and active payroll.

State contributions for health benefits to TRS-Care and the ERS Group Benefits Program for state employees and community supervision and corrections department employees also are estimated. ERS-funded amounts and expenditures vary based on membership in the Group Benefits Program. TRS reconciles amounts with the state at the end of the year for TRS-Care to balance contribution levels based on actual payroll amounts. State contributions to Higher Education Employees Group Insurance are sum-certain appropriations. State contributions for TRS-ActiveCare are appropriated to the Texas Education Agency and distributed to participating employers through the Foundation School Program formula structure, then remitted by employers to TRS based on actual payroll amounts. The Legislature also may appropriate supplemental sum-certain amounts to TRS for both the TRS-Care and TRS-ActiveCare programs.

State contributions to Social Security and benefit replacement pay also are estimated appropriations. Expended amounts vary based on the actual amount of payroll and the number of employees eligible for benefit replacement pay.

Figure A–1 shows the appropriation history for each type of employee benefit.

FIGURE A–1
EMPLOYEE BENEFITS APPROPRIATIONS FROM ALL FUNDS, 2016–17 TO 2024–25 BIENNIA

(IN MILLIONS)

BENEFIT	2016–17	2018–19	PERCENTAGE CHANGE	2020–21	PERCENTAGE CHANGE	2022–23	PERCENTAGE CHANGE	2024–25	PERCENTAGE CHANGE
Retirement									
ERS	$1,225.8	$1,314.3	7.2%	$1,346.1	2.4%	$1,390.8	3.3%	$1,709.1	22.9%
ERS Legacy Payments (3)						$1,902.2		$1,020.0	(46.4%)
LECOS (4)	$17.4	$18.3	4.9%	$17.4	(5.0%)	$19.4	11.6%	$846.7	4,264.6%
JRS I	$53.1	$49.8	(6.2%)	$42.6	(14.4%)	$38.9	(8.6%)	$33.3	(14.4%)
JRS II (4)	$24.3	$24.8	1.9%	$28.4	14.4%	$28.5	0.5%	$135.5	375.5%
TRS – Public Education	$3,133.6	$3,544.2	13.1%	$4,192.5	18.3%	$4,489.4	7.1%	$5,215.6	16.2%
TRS – Higher Education	$454.7	$429.9	(5.5%)	$447.1	4.0%	$533.5	19.3%	$661.4	24.0%
TRS – Additional Payment						$701.1		$5,000.0	613.2%
ORP	$326.3	$344.6	5.6%	$296.8	(13.9%)	$371.1	25.0%	$295.0	(20.5%)
Retirement Subtotal	**$5,235.1**	**$5,725.8**	**9.4%**	**$6,370.9**	**11.3%**	**$9,475.0**	**48.7%**	**$14,916.6**	**57.4%**

FIGURE A–1 (CONTINUED)
EMPLOYEE BENEFITS APPROPRIATIONS FROM ALL FUNDS, 2016–17 TO 2024–25 BIENNIA

(IN MILLIONS)

BENEFIT	2016–17	2018–19	PERCENTAGE CHANGE	2020–21	PERCENTAGE CHANGE	2022–23	PERCENTAGE CHANGE	2024–25	PERCENTAGE CHANGE
ERS Death Benefits									
Public Safety Death Benefits	$20.6	$22.6	9.4%	$27.6	22.2%	$27.6	0.0%	$108.6	293.8%
Retiree Death Benefits	$19.5	$20.2	3.2%	$27.5	36.4%	$27.5	0.0%	$27.5	0.0%
Death Benefits Subtotal	**$40.2**	**$42.7**	**6.4%**	**$55.1**	**28.9%**	**$55.1**	**0.0%**	**$136.1**	**147.1%**
Health Insurance									
ERS – Health – State Employees	$3,667.0	$3,987.0	8.7%	$4,023.4	0.9%	$4,083.2	1.5%	$4,105.9	0.6%
ERS – Health –CSCD		$129.5		$143.5	10.8%	$144.5	0.7%	$144.5	0.0%
HEGI – ERS	$679.4	$721.1	6.1%	$722.1	0.1%	$738.2	2.2%	$785.3	6.4%
HEGI – UT System	$459.5	$453.7	(1.3%)	$447.0	(1.5%)	$443.5	(0.8%)	$526.5	18.7%
HEGI – TAMU System	$239.0	$237.5	(0.6%)	$248.7	4.7%	$246.9	(0.7%)	$283.6	14.9%
TRS – Care	$562.2	$1,209.6	115.2%	$879.4	(27.3%)	$897.6	2.1%	$960.2	7.0%
TRS – Retiree Health Supplemental				$236.3		$286.3	21.2%		
TRS – Active Employee Health Supplemental								$588.5	
Health Insurance Subtotal	**$5.607.1**	**$6,738.4**	**20.2%**	**$6,700.4**	**(0.6%)**	**$6,840.2**	**2.1%**	**$7,394.6**	**8.1%**
Social Security/Benefit Replacement Pay (SS/BRP)									
Social Security	$1,612.8	$1,771.5	9.8%	$1,838.1	3.8%	$1,890.0	2.8%	$2,318.5	22.7%
Benefit Replacement Pay	$38.3	$27.9	(27.2%)	$16.8	(39.8%)	$10.0	(40.7%)	$5.6	(43.9%)
SS/BRP Subtotal	$1,651.1	$1,799.4	9.0%	$1,854.9	3.1%	$1,899.9	2.4%	$2,324.0	22.3%
Total	**$12,533.5**	**$14,306.3**	**14.1%**	**$14,981.2**	**4.7%**	**$18,270.2**	**22.0%**	**$24,771.3**	**35.6%**

NOTES:
(1) Totals may not sum due to rounding.
(2) ERS=Employees Retirement System of Texas; LECOS=Law Enforcement and Custodial Officer Supplemental Retirement Program; JRS I= Judicial Retirement System Plan I; JRS II= Judicial Retirement System Plan II; TRS=Teacher Retirement System of Texas; ORP=Optional Retirement Program; CSCD=community supervision and corrections departments; HEGI=Higher Education Employees Group Insurance; UT=the University of Texas; TAMU=Texas A&M University.
(3) Senate Bill 30, Eighty-eighth Legislature, Regular Session, 2023, provided supplemental appropriations of $1.1 billion to ERS for fiscal year 2023, which resulted in a decrease in funding for ERS Legacy Payments in fiscal years 2024 and 2025.
(4) The increase in funding for LECOS and JRS II in fiscal years 2024 and 2025 compared to fiscal years 2022 and 2023 is attributed to appropriations for the 2024–25 biennium of $825.7 million to address the unfunded liabilities and cover the normal cost of LECOS and $105.5 million to address the unfunded liabilities and cover the normal cost of JRS II.
(5) Appropriations to the Texas Education Agency for state contributions to TRS-ActiveCare are included in Foundation School Program funding formulas and are not shown.

SOURCE: Legislative Budget Board.

APPENDIX B – CONTRIBUTION RATES

FIGURE B–1
CONTRIBUTION RATES AND LEGAL AUTHORITY, 2024–25 BIENNIUM

	CONTRIBUTION RATE (BASED ON PERCENTAGE OF ACTIVE MEMBER PAYROLL, OR SET AMOUNT AS NOTED)			AUTHORITY		
SYSTEM	STATE/ EMPLOYER	ACTIVE EMPLOYEES	OTHER	CONSTITUTION (1)	STATUTE	GAA
Retirement						
ERS, hired before Sept. 1, 2022	9.5%	9.5%	Agency contribution, 0.5% of payroll	Article XVI, §67(b)(3)	The Texas Government Code: State – §815.403 Employee – §815.402 Agency – §815.4035	Article I, ERS, Rider 4; Article IX, §17.06
ERS, hired on or after Sept. 1, 2022	9.5%	6.0%	Agency contribution, 0.5% of payroll	Article XVI, §67(b)(3)	The Texas Government Code: State – §815.403 Employee – §820.101 Agency – §815.4035	Article IX, §17.06
LECOS, hired before Sept. 1, 2022	1.75%	0.5%	Court fees totaling $13.0 million	N/A	The Texas Government Code: State – §815.403 Employee – §815.402 Court fees – §815.317	Article I, ERS, Rider 5
LECOS, hired on or after Sept. 1, 2022	1.75%	2.0%	Court fees totaling $13.0 million	N/A	The Texas Government Code: State – §815.403 Employee – §820.101 Court fees – §815.317	Article I, ERS, Rider 5
JRS I	Pay-as-you-go	9.5%	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §835.102 Employee – §835.101	N/A
JRS II hired before Sept. 1, 2024	19.25%	9.36% (2)	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §840.103 Employee – §840.102	Article I, ERS, Rider 6
JRS II hired on or after Sept. 1, 2024	19.25%	6.0%	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §840.103 Employee – §840A.101	Article I, ERS, Rider 6
TRS	8.25% (3)	8.25%	Additional 1.9% for fiscal year 2024 and 2.0% for fiscal year 2025	Article XVI, §67(b)(3)	The Texas Government Code: State – §825.404(a) Employee – §825.402 District – §825.4035	Article III, TRS, Rider 4
ORP (4)	6.6%	6.65%	Employer, optional addition up to 1.9%	N/A	The Texas Government Code, §830.201	Article III, ORP, Riders 2 and 3

FIGURE B–1 (CONTINUED)
CONTRIBUTION RATES AND LEGAL AUTHORITY, 2024–25 BIENNIUM

	CONTRIBUTION RATE (BASED ON PERCENTAGE OF ACTIVE MEMBER PAYROLL, OR SET AMOUNT AS NOTED)			AUTHORITY		
SYSTEM	STATE/ EMPLOYER	ACTIVE EMPLOYEES	OTHER	CONSTITUTION (1)	STATUTE	GAA
Health Insurance						
ERS – State Employees	Full premium rate for employees and retirees; 50.0% of dependent premium	50.0% of dependent premium	Agency contribution, 1.0% of payroll	N/A	The Texas Insurance Code, §1551.301	Article I, ERS, Rider 7; Article IX, §17.03
ERS – community supervision and corrections departments	Full premium rate for employees and retirees and 50.0% of dependent premium	50.0% of dependent premium	N/A	N/A	The Texas Insurance Code, §1551.114	N/A
Higher Education Employees Group Insurance (HEGI) – ERS (5)	Full premium rate for employees and retirees and 50.0% of dependent premium	50.0% of dependent premium	Institution contribution, 1.0% of payroll	N/A	The Texas Insurance Code: Institutions – §1551.301 Community Colleges – §1551.3111	Article III, HEGI Contributions, Rider 1; Article IX, §17.03
HEGI – UT and TAMU Systems Institutions (6)	Full premium rate for employees and retirees and 50.0% of dependent premium	50.0% of dependent premium	N/A	N/A	The Texas Insurance Code, §1601.207	UT – Article III, HEGI Contributions, Rider 2; TAMU – Article III, HEGI Contributions, Rider 3
TRS-Care	1.25%	0.65%	Public education employers, 0.75%	N/A	The Texas Insurance Code: State – §1575.202 Employer – §1575.204 Employee – §1575.203	Article III, TRS, Riders 5 and 9
TRS-ActiveCare	$900 per employee per year, through Foundation School Program formula structure	Costs not covered by state or employer	Public education employers, at least $1,800 per employee per year	N/A	The Texas Insurance Code: State – §1579.251 Employer – §1581.052 Employee – §1579.253	N/A

NOTES:
(1) The Texas Constitution requires a state contribution ranging from 6.0 percent to 10.0 percent for participants in the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), and an employee contribution of at least 6.0 percent.
(2) The Texas Government Code, Section 840.102, specifies a Judicial Retirement System Plan II (JRS II) member contribution rate of 9.5 percent. The effective member contribution rate represented is 9.36 percent, as some active members elect to cease contributions. The effective member contribution rate is the rate used in actuarial valuations of the system.
(3) State contributions to TRS and Optional Retirement Program (ORP) retirement for public community and junior colleges are limited to 50.0 percent of the creditable compensation of members whose duties are instructional or administrative. Contributions are limited further based on the growth of each college's staff size in proportion to changes in student enrollment.
(4) State law requires a state contribution to ORP of 8.5 percent. The General Appropriations Act sets the state rate at 6.6 percent, with an option for institutions or agencies to use local funds or other sources to supplement up to 1.9 percent.
(5) For the 2024–25 biennium, institutions of higher education, excluding institutions in the University of Texas (UT) and Texas A&M University (TAMU) systems and community colleges, receive state funding at 78.6 percent of ERS premium rates. Community college districts receive state funding at 50.0 percent of ERS premium rates.
(6) For the 2024–25 biennium, UT System and TAMU System institutions receive state funding at 78.2 percent of ERS premium rates.
SOURCE: Legislative Budget Board.

APPENDIX C – HISTORICAL INFORMATION

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

The Fiftieth Legislature, 1947, established the Employees Retirement System of Texas (ERS) after voters approved a constitutional amendment to provide retirement programs, disability, and death benefits for public employees and officers. The Texas Constitution requires ERS to provide benefits for officers and employees of the state, including state-compensated officers and employees of appellate courts and judicial districts. The ERS retirement plan is a traditional defined benefit plan, and it is a qualified pension trust, pursuant to the U.S. Internal Revenue Code, Section 401(a). The pension plan operates pursuant to the Texas Constitution, Article XVI, Section 67, and applicable federal and state governing statutes.

RETIREMENT

Legislation enacted in 1954 transferred the administration of the Judicial Retirement System of Texas to ERS. In 1963, legislation expanded ERS membership to include elected state officials, including legislators. District attorneys were included in 1967. The Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Fund was established in 1979 to provide an increased retirement benefit for certified peace officers and custodial officers. In 1985, the Judicial Retirement System Plan II (JRS II) was authorized to phase out the Judicial Retirement System Plan I (JRS I). JRS I was established in 1940 and structured as a pay-as-you-go plan, which required the state to appropriate funds to pay the benefits owed to annuitants each year following their retirements. JRS II is a prefunded plan like ERS and LECOS, which enables the state and members to contribute during employees' working years. These contributions are invested to generate revenue for the long-term funding of retirement benefits, which enables the state to save money by utilizing investment returns to pay benefits.

DEATH BENEFITS

The Sixtieth Legislature, Regular Session, 1967, established the Public Safety Death Benefit program. The program was initially referred to as the Law Enforcement Survivors Assistance Act and provided payment of $10,000 to the surviving spouses of certain law enforcement officers, firemen, and custodial personnel of the Texas Department of Corrections who suffered violent death while performing their duties. The legislation also provided certain monthly payments for surviving minor children. The Sixty-fourth Legislature, 1975, established the Retiree Death Benefit program.

GROUP BENEFITS PROGRAM

The Sixty-fourth Legislature, 1975, also established the Texas Employees Uniform Group Insurance Program to provide health insurance and other optional coverage for employees, retirees, and their eligible dependents. The program started as an indemnity health plan defined and administered by the Texas Insurance Code, Chapter 1551, the Texas Employees Group Benefits Act. Health maintenance organizations (HMO) at that time provided health services to participants. The Group Benefits Program (GBP) now offers health insurance coverage to state employees and employees of most state-funded institutions of higher education, except the University of Texas and Texas A&M University systems, which administer their own programs. The Texas Municipal Retirement System, the Texas County and District Retirement System, local community supervision and corrections departments, and other nonstate entities also participate in the GBP.

TEACHER RETIREMENT SYSTEM OF TEXAS

RETIREMENT

The Teacher Retirement System of Texas (TRS) was established by an amendment to the Texas Constitution in 1936 and by acts of the Forty-fifth Legislature in 1937 to provide a statewide teacher retirement system to public and higher education employees. TRS administers a traditional, defined-benefit retirement plan that provides service and disability retirement, death benefits, and survivor benefits to eligible Texas public and higher education employees and their beneficiaries. The pension plan operates pursuant to the Texas Constitution, Article XVI, Section 67, and applicable federal and state governing statutes, and it is a qualified pension trust pursuant to the U.S. Internal Revenue Code, Section 401(a).

The agency has two core responsibilities: (1) to deliver retirement benefits, group insurance, and death, survivor, and disability benefits to employees of public schools, colleges, and universities as authorized by the Texas Legislature; and (2) to manage the trust funds that finance member benefits.

RETIREE HEALTH BENEFITS (TRS-CARE)

The Sixty-ninth Legislature, Regular Session, 1985, stablished the Texas Public School Retired Employees Group Benefits program, now called TRS-Care, and designated TRS as the administering agency. TRS-Care offers health insurance coverage to eligible public education retirees and their dependents through two plans: the Standard Plan, a self-insured plan for non-Medicare-eligible members, and TRS-Care Medicare Advantage, a fully insured plan for Medicare-eligible members.

ACTIVE EMPLOYEES HEALTH BENEFITS (TRS-ACTIVECARE)

TRS-ActiveCare, established by the Seventy-seventh Legislature, 2001, is a self-funded, statewide, group health insurance program for public education employees and their eligible dependents. Members include employees of school districts, open-enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS.

OPTIONAL RETIREMENT PROGRAM

The Optional Retirement Program (ORP) is a defined contribution plan established in 1967 as an alternative to the defined benefit retirement plan provided by TRS. The plan serves as a recruitment tool to attract higher education faculty, librarians, professionals, and administrators who require interstate mobility during their careers. ORP is funded by tax-deferred contributions made by the state and the employee.

HIGHER EDUCATION EMPLOYEES GROUP INSURANCE

Since the early 1990s, higher education institutions have had the option of providing health insurance benefits to employees through the ERS Uniform Group Insurance Program, now called the Group Benefits Program. All institutions of higher education opted to join ERS, except those in the University of Texas and Texas A&M University systems, which opted to continue separate health insurance programs.

SOCIAL SECURITY AND BENEFIT REPLACEMENT PAY

The federal Social Security Act, 1935, provided a retirement program in which benefits were paid as a lump sum. In 1939, new legislation eliminated lump-sum payments in favor of monthly payments and added survivors benefits and benefits for a retiree's spouse and children to the program. In 1965, the U.S. Congress passed Medicare legislation that added both hospital insurance and medical insurance for individuals age 65 and older. The legislation also established the Medicaid program, which provided health coverage for certain low-income people.

Before fiscal year 1996, Texas paid a portion of state employees' Social Security taxes. The Seventy-fourth Legislature, 1995, eliminated this payment and supplemented it with Benefit Replacement Pay (BRP) to maintain employees' total compensation. Only Employees hired before September 1, 1995, are eligible for BRP.

APPENDIX D – GLOSSARY

ACTUARIAL ACCRUED LIABILITIES

The portion, as determined by a particular actuarial cost method, of the actuarial present value of the plan benefits and expenses that is not accounted for by future normal costs.

ACTUARIAL SOUNDNESS

A public retirement system is considered actuarially sound if an actuary determines that the fund has adequate contributions to pay ongoing normal costs and amortize the unfunded actuarial accrued liability (UAAL) during a reasonable period, called the funding period. Texas Pension Review Board guidelines recommend that the funding period should be as brief as possible, not to exceed 30.0 years. The Texas Government Code provides additional direction for the Employees Retirement System of Texas and Teacher Retirement System of Texas and prohibits certain changes in the benefit plans and funding of each retirement system if the change would cause the period necessary to amortize the UAAL to exceed 30.0 years.

ANNUALLY REQUIRED CONTRIBUTION

A calculated contribution for a defined-benefit pension plan for the reporting period, most often determined based on the plan's funding policy. Typically, the calculated contribution has a normal cost payment and an amortization payment. This rate often is referred to as the actuarially sound contribution rate.

AVERAGE INDEXED MONTHLY EARNINGS (AIME)

An average of a lifetime of earnings used to calculate the primary insurance amount, which is used to determine an individual's monthly Social Security benefits. The calculation uses the highest 35 years of earnings, applies an index to factor in wage growth, and averages the total to produce a monthly figure.

BEND POINTS

Dollar amounts used in the formula to calculate monthly Social Security benefits. These amounts are set by the federal government annually and represent a division among three tiers of income at which a retiree will receive a lower percentage of the average indexed monthly earnings (AIME) as part of the primary insurance amount (PIA). Bend points obtain their name from the shape of the graph generated when monthly benefits amounts are plotted against AIME. The bend points for calendar year 2024 are $1,174 and $7,078. These amounts mean that a retiree turning age 62 in federal fiscal year 2024 would receive the sum of 90.0 percent of the first $1,174 of AIME, 32.0 percent of AIME from $1,174 to $7,078, and 15.0 percent of AIME greater than $7,078. The sum of these three totals would equal the retiree's PIA.

CASH BALANCE BENEFIT

A cash balance plan is a defined-benefit plan that defines the benefit in terms of a stated account balance.

DEFINED BENEFITS

Retirement benefits that are defined by a formula applied to a specific member compensation or years of service. The amount of the benefit is not a function of contributions or actual earnings on those contributions.

DEFINED CONTRIBUTIONS

A system providing pension benefits equal to the combined employer and employee contributions, plus interest and minus administrative expenses.

FULL RETIREMENT AGE

The age at which a retiree becomes eligible to receive the full primary insurance amount (PIA) as a monthly Social Security benefit. PIA is adjusted up by 0.667 percent per month that an individual retires after reaching full retirement age. PIA is adjusted down by 0.556 percent per month during the 36.0-month period in which an individual retires before full retirement age, and down by another 0.417 percent per month for each month that exceeds 36.0 months before full retirement age.

FUNDED RATIO

The funded ratio of a pension plan refers to the proportion of assets to liabilities and is expressed as a percentage. It is calculated by dividing the actuarial value of assets by the actuarial accrued liabilities. The actuarial value of assets often is used for this calculation, although some plans may calculate a market-funded ratio using the market value of assets.

FUNDING PERIOD
The length of time required for contributions and other revenues, including investment earnings, to pay all normal costs and amortize any unfunded liabilities. If a contribution rate will never amortize the unfunded liability, the funding period is referred to as never or infinite. This period also is referred to as an amortization period.

NORMAL COST
The annual cost assigned, using the actuarial funding method, to service performed in the current plan year and subsequent plan years. It is expressed as a percentage of pay and is equal to the present value at hire of all possible benefits of the system, divided by the present value of anticipated future compensation to be received by the new member. The normal cost is separate from the contribution amount required to amortize the unfunded liability.

OCCUPATIONAL DISABILITY
A sudden and unexpected injury or disease that results from a specific act or occurrence determinable by a definite time, place, and dangerous risk of severe physical or mental trauma or disease that is not common to the public and that is peculiar to and inherent in a dangerous duty in an individual's state employment.

PLAN YEAR
A plan year is the 12.0-month period when benefits are provided.

PRIMARY INSURANCE AMOUNT (PIA)
The amount of monthly Social Security benefits a retiree receives if the retiree elects to begin receiving benefits at full retirement age. This amount is adjusted up or down depending on whether an individual retires before or after full retirement age. PIA is calculated as the sum of three percentages of average indexed monthly earnings.

PROPORTIONALITY
A funding rule, specified by General Appropriations Act (GAA), Article IX, Section 6.08, Benefits Paid Proportional by Method of Finance, that requires a member's benefit costs to be paid by the same methods of finance and in the same proportions as overall agency or institution appropriations in the GAA, excluding any funds that may not be expended on salaries and wages.

SMOOTHING
The smoothed value of assets phases in investment gains and losses during a period to decrease the effects of short-term marketplace volatility on the calculation of the unfunded actuarial accrued liability. Smoothing serves to stabilize employer contribution rates. Contributions and funding periods are calculated using the smoothed asset values, not the market values of assets. The smoothed value may be subject to a corridor around the market value, such as plus or minus 20.0 percent of the market value of assets, to limit the amount of deferred gains and losses included in the actuarial value of assets.

SOCIAL SECURITY WAGE BASE
The maximum amount of a person's wages that are subject to Social Security tax. For earnings in 2024, this amount is $168,600.

SUM-CERTAIN FUNDING
A funding mechanism setting the state's contribution for Higher Education Employees Group Insurance at a certain, nonestimated appropriation. Institutions must pay for any incurred costs greater than these amounts.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)
The difference between the actuarial accrued liability and valuation of assets. The unfunded actuarial accrued liability sometimes is referred to as unfunded accrued liability.