

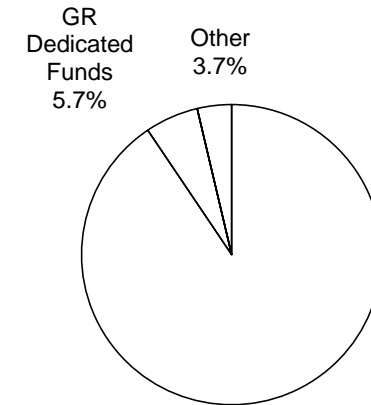
**Teacher Retirement System  
Summary of Recommendations - Senate**

Ronnie Jung, Executive Director  
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Jody Wright, LBB Analyst

<b>Method of Financing</b>	<b>2010-11 Appropriations</b>	<b>2010-11 Base</b>	<b>2012-13 Recommended</b>	<b>Biennial Change</b>	<b>% Change</b>
General Revenue Funds	\$3,688,007,709	\$3,721,648,969	\$3,195,875,457	(\$525,773,512)	(14.1%)
GR Dedicated Funds	\$196,204,337	\$188,794,770	\$202,839,266	\$14,044,496	7.4%
<i>Total GR-Related Funds</i>	<i>\$3,884,212,046</i>	<i>\$3,910,443,739</i>	<i>\$3,398,714,723</i>	<i>(\$511,729,016)</i>	<i>(13.1%)</i>
Federal Funds	\$0	\$0	\$0	\$0	0.0%
Other	\$120,837,946	\$127,702,409	\$130,153,036	\$2,450,627	1.9%
<b>All Funds</b>	<b>\$4,005,049,992</b>	<b>\$4,038,146,148</b>	<b>\$3,528,867,759</b>	<b>(\$509,278,389)</b>	<b>(12.6%)</b>

RECOMMENDED FUNDING  
BY METHOD OF FINANCING



	<b>FY 2011 Appropriations</b>	<b>FY 2011 Budgeted</b>	<b>FY 2013 Recommended</b>	<b>Biennial Change</b>	<b>% Change</b>
<b>FTEs</b>	455.3	475.3	475.3	0.0	0.0%

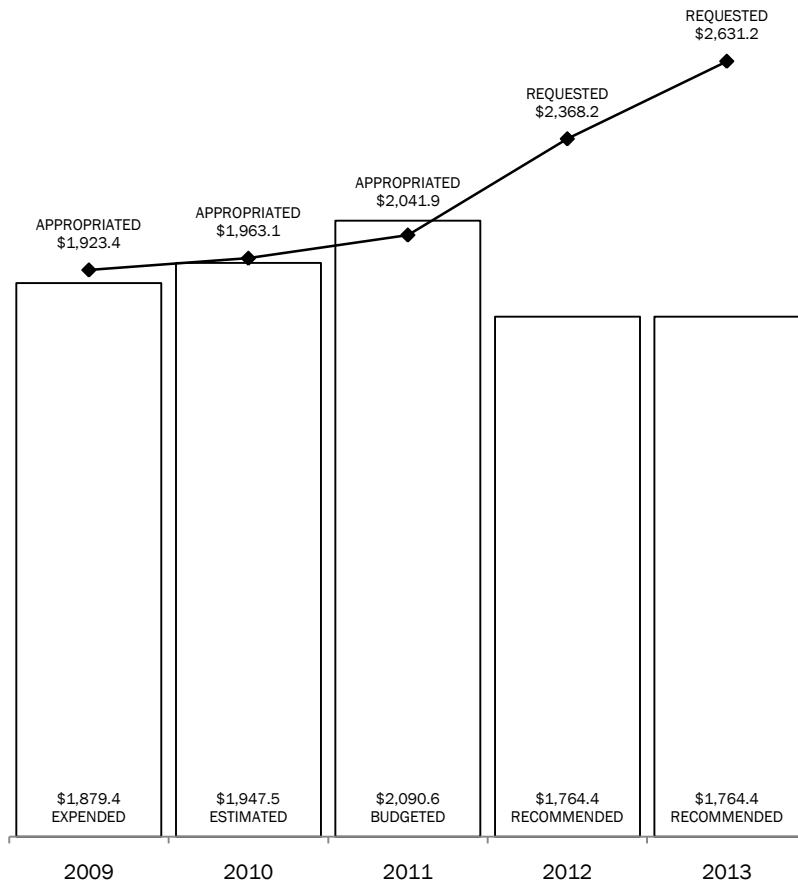
General  
Revenue  
Funds  
90.6%

The bill pattern for this agency (2012-13 Recommended) represents an estimated 2.6% of the agency's estimated total available funds for the 2012-13 biennium.

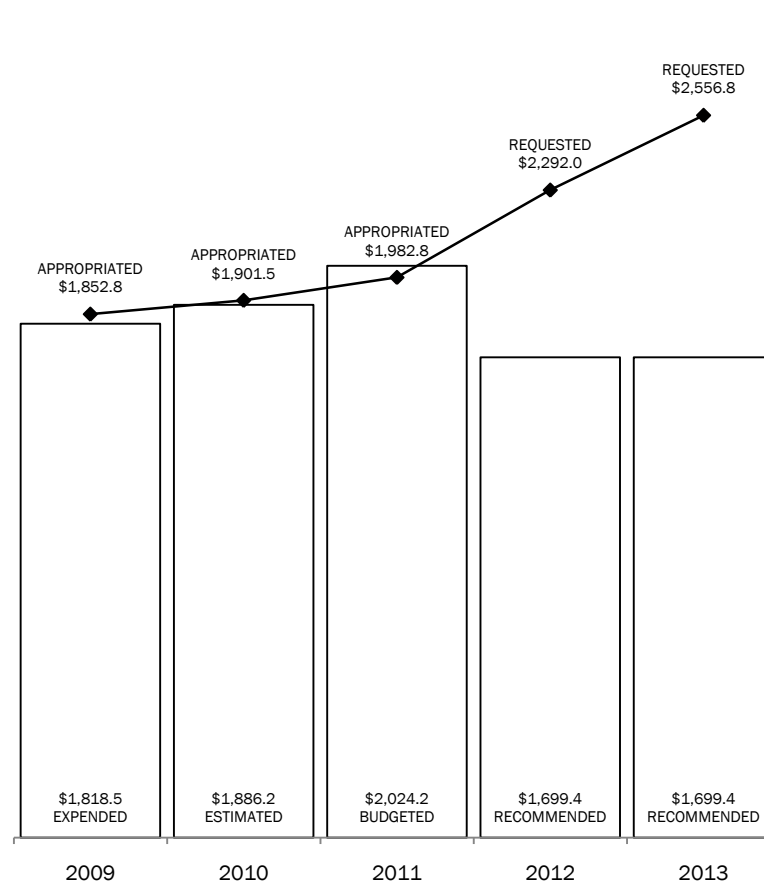
**Teacher Retirement System**  
**2012-2013 BIENNIUM**  
 IN MILLIONS

TOTAL= \$3,528.9 MILLION

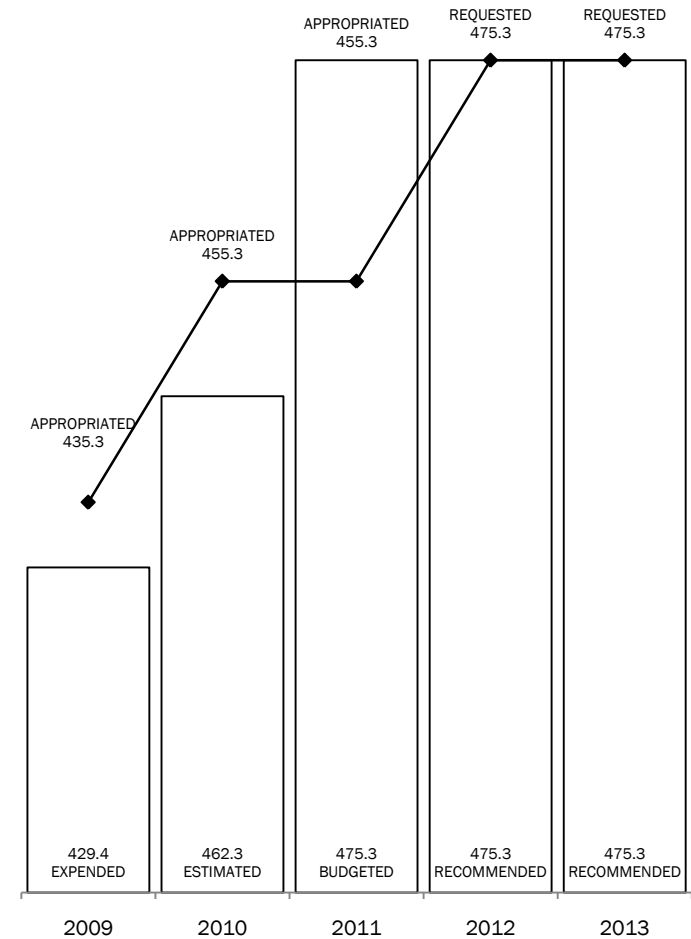
**ALL FUNDS**



**GENERAL REVENUE AND  
 GENERAL REVENUE-DEDICATED FUNDS**



**FULL-TIME-EQUIVALENT POSITIONS**



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

Strategy/Fund Type/Goal	2010-11 Base	2012-13 Recommended	Biennial Change	% Change	Comments
<b>TRS - PUBLIC EDUCATION RETIREMENT A.1.1</b>	<b>\$2,827,450,780</b>	<b>\$2,646,109,569</b>	<b>(\$181,341,211)</b>	<b>(6.4%)</b>	Includes funding sufficient to make a state contribution to the retirement trust fund for public education employees at a rate of 6.0 percent. Assumes no annual payroll growth for public education employees (see Fiscal and Policy Issues #1 and #2).
GENERAL REVENUE FUNDS	\$2,827,450,780	\$2,646,109,569	(\$181,341,211)	(6.4%)	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>TRS - HIGHER EDUCATION RETIREMENT A.1.2</b>	<b>\$563,911,467</b>	<b>\$490,404,169</b>	<b>(\$73,507,298)</b>	<b>(13.0%)</b>	General Revenue includes funding sufficient to make a state contribution to the retirement trust fund for higher education employees at a rate of 6.0 percent. Funding limits the General Revenue appropriations for retirement contributions to 6.0 percent of the unrestricted General Revenue appropriated to each community college district. Assumes no annual payroll growth for higher education employees (see Fiscal and Policy Issues #1, #2 and #3).
GENERAL REVENUE FUNDS	\$370,528,255	\$282,414,903	(\$88,113,352)	(23.8%)	
GR DEDICATED	\$188,794,770	\$202,839,266	\$14,044,496	7.4%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$4,588,442	\$5,150,000	\$561,558	12.2%	
					Includes funding sufficient to make a state contribution of 6.0 percent of payroll for TRS employee retirement.
<b>ADMINISTRATIVE OPERATIONS A.1.3</b>	<b>\$125,714,533</b>	<b>\$125,003,036</b>	<b>(\$711,497)</b>	<b>(0.6%)</b>	
GENERAL REVENUE FUNDS	\$2,600,566	\$0	(\$2,600,566)	(100.0%)	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	

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

Strategy/Fund Type/Goal	2010-11 Base	2012-13 Recommended	Biennial Change	% Change	Comments
OTHER FUNDS	\$123,113,967	\$125,003,036	\$1,889,069	1.5%	Includes a previously approved TRS request-to-exceed of \$3.0 million per year for fiscal years 2010 and 2011 and 20.0 additional full-time equivalent (FTE) positions for the Investment Division. Funding for fiscal years 2012 and 2013 reflects increases above fiscal year 2011 base funding by \$10.1 million for administrative operations, including the following items: 1) \$5.0 million to annualize unfilled FTE positions in fiscal years 2012 and 2013 that were not fully budgeted in the previous biennium, 2) \$2.0 million for professional fees that were previously funded by soft dollars, 3) \$0.5 million for incremental increases for travel, utilities, consumable supplies, and printing; 4) \$2.6 million in pension trust funds to replace General Revenue appropriated for exempt salaries. The increases are offset by an \$8.2 million reduction for Capital Budget technology projects.
<b>RETIREE HEALTH - STATUTORY FUNDS A.2.1</b>	<b>\$521,069,368</b>	<b>\$267,350,985</b>	<b>(\$253,718,383)</b>	<b>(48.7%)</b>	
GENERAL REVENUE FUNDS	\$521,069,368	\$267,350,985	(\$253,718,383)	(48.7%)	Includes a state contribution rate of 0.5 percent of payroll and no annual payroll growth in public education. (see Fiscal and Policy Issue #5)
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>Total, Goal A, TEACHER RETIREMENT SYSTEM</b>	<b>\$4,038,146,148</b>	<b>\$3,528,867,759</b>	<b>(\$509,278,389)</b>	<b>(12.6%)</b>	
<b>Grand Total, All Agency</b>	<b>\$4,038,146,148</b>	<b>\$3,528,867,759</b>	<b>(\$509,278,389)</b>	<b>(12.6%)</b>	

## Section 3

### Teacher Retirement System Selected Fiscal and Policy Issues

1. **State Contribution for the Retirement Trust Fund and Payroll Growth Assumptions.** Recommendations include funding sufficient to provide for a 6.0 percent state contribution rate to the retirement trust fund for public education and higher education employees. Retirement contributions for the 2010-11 biennium assumed a 6.4 percent state contribution rate and was later increased to 6.644 percent through an Article IX provision in the General Appropriations Act. Because current law prohibits the state contribution rate for retirement from being less than that of active members (currently 6.4 percent), recommendations assume a statute change (Government Code, Section 825.404). For purposes of estimating payroll-based state contributions to the retirement trust fund, public education payroll growth is assumed at 5 percent in fiscal year 2011 and no payroll growth in fiscal years 2012 and 2013. Higher education payroll growth is assumed at 5 percent in fiscal year 2011 and no payroll growth in fiscal years 2012 and 2013. Reducing the public education state contribution rate from 6.4 percent to 6.0 percent assumes a savings of \$176.4 million in the 2012-13 biennium. Reducing the higher education state contribution rate from 6.4 percent to 6.0 percent assumes a savings of \$27.8 million in the 2012-13 biennium.
2. **Retirement Trust Fund, Contribution Rate and Actuarial Valuation.** As of the August 31, 2010 actuarial valuation, the unfunded actuarial accrued liability (UAAL) for the TRS Retirement Trust Fund totaled \$22.9 billion, and the annually required contribution (ARC) rate necessary to achieve the 30-year funding period stipulated in statute was estimated at 7.77 percent. The funded ratio of assets to liabilities as of August 31, 2010 is 82.9 percent. Results of a partial actuarial valuation will be available in late February, 2011.
3. **Limitation of General Revenue Fund Retirement Contributions to Public Community/Junior Colleges.** The recommendations limit the General Revenue appropriations for retirement contributions to 6.0 percent of the unrestricted General Revenue appropriated to each community college district in each year of the 2012 and 2013 biennium. The limitation assumes an estimated savings of \$61.5 million in the 2012-13 biennium. Community colleges currently draw down state retirement contributions for staff employed in job functions that could legally be paid with General Revenue, if such funding were available. This means a significant portion of community college staff paid from funds other than General Revenue are receiving state General Revenue retirement contributions. The amount of savings will fluctuate based on the unrestricted General Revenue appropriated to each community college district.
4. **Administrative Operations.** Recommendations include funding for administrative operations associated with the Retirement Trust Fund and only pension-related services are funded from the Retirement Trust Fund. Administrative operations associated with other agency functions (TRS-Care and TRS ActiveCare) are not appropriated and are funded from the associated trust funds. On June 16, 2010, the LBB approved an additional \$3.0 million per year from the pension trust fund above the amounts authorized in the 2010-11 General Appropriations Act (GAA) and 20.0 full-time equivalent (FTE) positions for the Investment Division. The recommendation for fiscal years 2012 and 2013 increases fiscal year 2011 base funding by \$10.1 million for administrative operations, including the following items:
  - 1) \$5.0 million to annualize unfilled FTE positions in fiscal years 2012 and 2013 that were not fully budgeted in the previous biennium,
  - 2) \$2.0 million for professional fees that were previously funded by soft dollars,
  - 3) \$0.5 million for incremental increases for travel, utilities, consumable supplies, and printing; and
  - 4) \$2.6 million in pension trust funds to replace General Revenue appropriated for exempt salaries.

The increase in administrative operations is offset by an \$8.2 million reduction for Capital Budget technology projects and minor repairs.

### Section 3

5. **State Contribution for TRS-Care.** Recommendations include a funding level of 0.5 percent of public education payroll, which is a \$253.7 million savings over the 2010-11 base. Because current law provides for a state contribution of one percent of each active employee salary, recommendations assume a statute (Texas Insurance Code, Section 1575.202). Based on an 0.5 percent contribution rate and no payroll growth assumption in fiscal years 2012 and 2013, the projected fund balance at the end of fiscal year 2013 is estimated to be \$66.1 million. Although assumptions include use of the current fund balance and no retiree premium increases for 2012-13, board decisions may direct that a premium increase begin as early as 2012 to avoid larger increases in the out years. The agency's cost trend assumptions reflect an annual 10 percent medical and 9.5 percent prescription drug trend. Based on these assumptions, the agency projects the TRS-Care fund will remain solvent through 2013.

**Section 3**

**Teacher Retirement System  
FTE Highlights**

Full-Time-Equivalent Positions		Expended 2009	Estimated 2010	Budgeted 2011	Recommended 2012	Recommended 2013
Cap		455.3	475.3*	475.3*	475.3	475.3
Actual/Budgeted		429.4	462.3	475.3	NA	NA
<b>Schedule of Exempt Positions (Cap)</b>						
Executive Director**		\$290,000	\$300,000	\$300,000	\$300,000	\$300,000
Chief Investment Officer		\$480,000	\$480,000	\$480,000	\$480,000	\$480,000
Deputy Director Investment Officer		\$294,000	\$294,000	\$294,000	\$294,000	\$294,000
Deputy Administrative Officer		\$231,276	\$231,276	\$231,276	\$231,276	\$231,276
Investment Fund Director		\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Investment Fund Director	Vacant	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Investment Fund Director	Vacant	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Investment Fund Director		\$330,000	\$330,000	\$330,000	\$330,000	\$330,000
Investment Fund Director	Vacant	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Investment Fund Director		\$218,525	\$218,525	\$218,525	\$218,525	\$218,525
Investment Fund Director	Vacant	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000

\*Fiscal years 2010 and 2011 reflect an increase of 20 FTEs over the General Appropriations Act (GAA) cap of 455.3 as approved by the Legislative Budget Board in June, 2010 for additional Investment Division staff.

\*\*TRS Board of Trustees increased the Executive Director salary by \$10,000 per year in July, 2010. Rider 8 authorizes the TRS board to determine salaries for exempt positions without limitation.

**Section 3**

**Teacher Retirement System  
Performance Measure Highlights**

	Expended 2009	Estimated 2010	Estimated 2011	Recommended 2012	Recommended 2013
<ul style="list-style-type: none"> <li> <i>TRS Retirement Fund Benefit Administration Annual Operating Expense Per Total Member and Annuitant in Dollars (Excluding Investment Dollars)*</i> </li> </ul> <p><i>Measure Explanation: This measure reflects the annual cost per member and annuitant to operate the retirement fund benefit administration.</i></p>	\$22.23	\$23.06	\$25.00	\$25.00	\$25.00
<ul style="list-style-type: none"> <li> <i>TRS Retirement Fund Investment Expense as Basis Points of Net Assets*</i> </li> </ul> <p><i>Measure Explanation: This measure provides a method to compare investment operating efficiencies from year-to-year and comparison to other public retirement funds.</i></p>	7.78	11.70	15.00	15.00	15.00



Section 4

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

Reports & Recommendations	GEER Report Page	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Is included in the Introduced Bill	Action Required During Session
<b>Maintin the Pension Solvency of the Employees Retirement System and the Teacher Retirement System</b>	97					
<p>1. Take steps towards maintaining pension solvency via three options:                      Option 1: Fully fund ERS and TRS at actuarial sound rates.                      Option 2: Maintain existing defined benefit plan structure but revise some of the plan design features to contain costs from annual contributions.                      Option 3: Create a hybrid retirement plan, as a cash balance plan or two-part hybrid plan that includes a defined benefit component and a defined contribution component.</p> <p>2. Include a rider requiring ERS and TRS to assess the impact of possible changes to the plan design of the state retirement systems.</p>		Depends on option selected			Article IX, Rider Sec 18.03, page IX-78	Depends on option selected

## Section 5

### Teacher Retirement System Rider Highlights

11. (old) **Use of General Revenue Appropriations to Fund Teacher Retirement System (TRS) Exempt Staff Salaries.** Delete rider. TRS exempt salaries are no longer funded with General Revenue Funds.
13. (new) **Limitation on General Revenue Fund Retirement Contributions to Public Community/Junior Colleges.** For each public community/junior college district, the combined annual General Revenue Fund contributions to the Teacher Retirement System shall not exceed 6.0 percent of each district's unrestricted General Revenue in fiscal year 2012 and fiscal year 2013.
14. (old) **Emerging Fund Managers.** Delete rider. The rider is only relevant for reporting to the Eighty-second Legislature and not future Legislatures.
14. (new) **Performance Incentive Compensation Payments.** The Teacher Retirement System Board of Trustees may make performance incentive compensation payments to the staff of the Investment Management Division based on investment performance standards adopted by the Board prior to the beginning of the period for which any additional compensation is paid. Such amounts as may be necessary to make performance incentive payment under the plan approved by the Board are hereby appropriated from the Teacher Retirement System Trust Account Fund No. 960.

The Teacher Retirement System Board of Trustees shall notify the Legislative Budget Board and the Governor at least 45 days prior to the execution of any performance incentive payment based on the Retirement Trust Fund's investment performance. Funds shall be appropriated pursuant to this rider for performance incentive payments only in a fiscal year following a year in which the Retirement Trust Fund experiences a positive return.

**Section 6**

**Teacher Retirement System  
Items not Included in Recommendations - Senate**

	<u>2012-13 Biennial Total</u>	
	<u>GR &amp; GR- Dedicated</u>	<u>All Funds</u>
Agency Priorities for Requested Items:		
1. TRS-Care Retiree Insurance Trust Fund state matching insurance contribution sufficient to increase rate from 0.5 percent to 1.0 percent, assuming LBB payroll growth assumptions.	\$ 299,860,866	\$ 299,860,866
2. Pension Trust Fund Public and Higher Education state matching retirement contributions sufficient to increase rate from 6.0 percent to 6.4 percent, assuming LBB payroll growth assumptions.	\$ 204,217,517	\$ 204,217,517
3. Pension Trust Fund Public and Higher Education state matching retirement contributions sufficient to increase rate from 6.4 percent to 6.644 percent, assuming LBB payroll growth assumption.	\$ 121,593,807	\$ 121,593,807
4. TRS administrative operations' request from the Pension Trust Fund:		
a. <b>Capital Budget Authority:</b> \$1.5 million for hardware and software to maintain current applications operational during the 2012-13 biennium:	\$ -	\$ 1,500,000
--Mainframe - \$130,000		
--Personal Computers - \$200,000		
--Telecommunications - \$310,000		
--Imaging - \$360,000		
--E-Forms - \$500,000		
b. <b>Project TEAM:</b> New rider to authorize the TRS Enterprise Application Modernization (TEAM) expansion of business and technological processes. Cost to the pension trust fund is yet to be determined.	\$ -	\$ -
<b>Total, Items Not Included in the Recommendations</b>	<b>\$ 625,672,190</b>	<b>\$ 627,172,190</b>