

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

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<b>Method of Financing</b>	<b>2018-19 Base</b>	<b>2020-21 Recommended</b>	<b>Biennial Change (\$)</b>	<b>Biennial Change (%)</b>
General Revenue Funds	\$5,077,961,727	\$5,167,891,841	\$89,930,114	1.8%
GR Dedicated Funds	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)
<i>Total GR-Related Funds</i>	<i>\$5,163,513,041</i>	<i>\$5,216,649,470</i>	<i>\$53,136,429</i>	<i>1.0%</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$239,857,788	\$252,077,438	\$12,219,650	5.1%
<b>All Funds</b>	<b>\$5,403,370,829</b>	<b>\$5,468,726,908</b>	<b>\$65,356,079</b>	<b>1.2%</b>

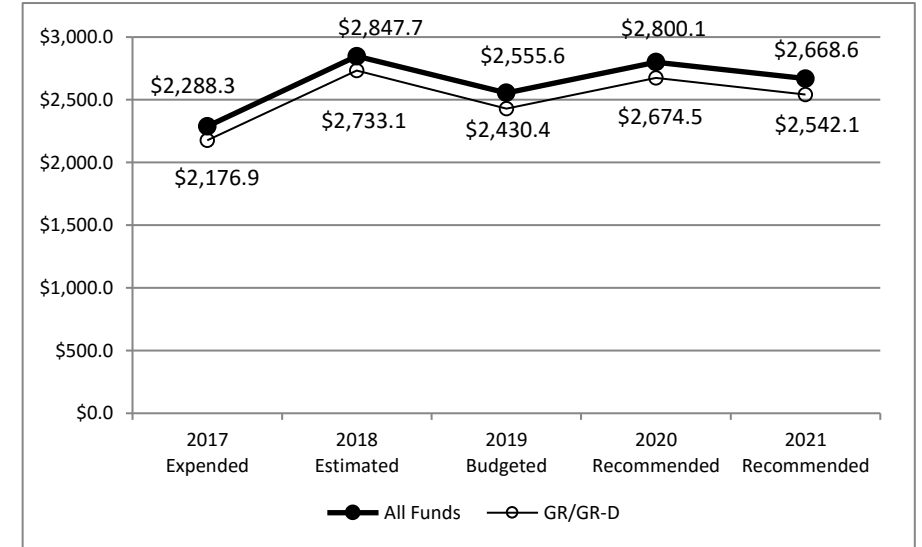
	<b>FY 2019 Budgeted</b>	<b>FY 2021 Recommended</b>	<b>Biennial Change</b>	<b>Percent Change</b>
FTEs	574.3	618.3	44.0	7.7%

**Agency Budget and Policy Issues and/or Highlights**

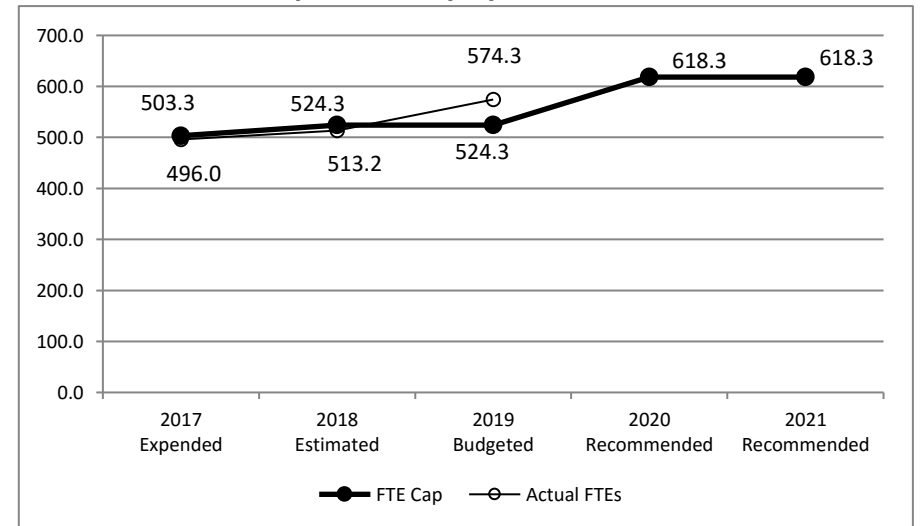
- The Teacher Retirement System is under Strategic Fiscal Review for the Eighty-sixth Legislative Session.
- Biennial General Revenue Related increase is due primarily to \$230.8 million in additional funding above statutorily required amounts for TRS-Care in the 2020-21 biennium and a net increase of \$217.0 million related to anticipated payroll growth, partially offset by a decrease of \$394.6 million in onetime additional TRS-Care funding included in the 2018-19 base.
- Recommendations include \$252.1 million in Pension Trust Funds for pension administration. Administrative costs of healthcare and 403(b) programs are paid using non-appropriated trust funds.

The bill pattern for this agency (2020-21 Recommended) represents an estimated 2.5% of the agency's estimated total available funds for the 2020-21 biennium.

**Historical Funding Levels (Millions)**



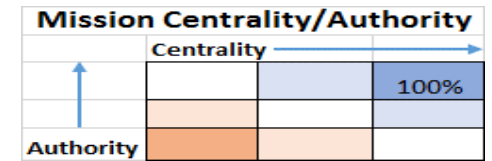
**Historical Full-Time-Equivalent Employees (FTEs)**



**Teacher Retirement System  
Strategic Fiscal Review Program Summary - Senate**

**Teacher Retirement System**

The mission of the Teacher Retirement System of Texas is improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.



					2018-19 Base Funding	2020-21 Recommendations	Percent Change from Base	GR-Related Percentage of Rec. Total	2020-21 Agency Total Request
<b>Total Budget</b>	<b>100%</b>	<b>Budget, Ordered by Mission Centrality and Authority</b>	<b>Strategy</b>	<b>Agency Ranking</b>	<b>\$5,403,370,829</b>	<b>\$5,468,726,908</b>	<b>1%</b>	<b>95%</b>	<b>\$7,429,599,500</b>
		<i>Support Services and Administration</i>	1.1.3 Administrative Operations	9	\$114,480,445	\$96,963,431	-15%	0%	\$125,443,179
	98%	Investment Management Division	1.1.3 Administrative Operations	5	\$90,586,590	\$115,988,077	28%	0%	\$124,388,076
	96%	Benefit Services	1.1.3 Administrative Operations	4	\$26,529,631	\$30,053,382	13%	0%	\$33,673,635
			1.2.1 Retiree Health - Statutory Funds						
	96%	Retiree Health Care Benefits (TRS-Care)	1.3.1 Retiree Health - Supplemental Funds	3	\$1,209,597,636	\$1,110,116,548	-8%	100%	\$1,245,761,673
	75%	Higher Education Retirement	1.1.2 TRS - Higher Education Retirement	2	\$417,952,238	\$368,477,887	-12%	98%	\$891,465,069
	69%	Public Education Retirement	1.1.1 TRS - Public Education Retirement	1	\$3,544,224,289	\$3,747,127,583	6%	100%	\$5,008,867,868

**Note: Indirect administration program names are italicized, and not included in the Mission Centrality / Authority Matrix.**

**Teacher Retirement System**  
**Summary of Funding Changes and Recommendations - Senate**

Funding Changes and Recommendations for the 2020-21 Biennium compared to the 2018-19 Base Spending Level (in millions)	General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A	Detail in SFR Appendix 5
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<b>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A and SFR Appendices, when applicable):</b>
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A)	Decrease due to FY 2018 onetime TRS-Care funding, which consisted of net additional funding of \$182.6 million appropriated in the 85th Regular Session, and an additional \$212.0 million transferred from the Health and Human Services Commission in the 85th First Called Session.	(\$394.6)	\$0.0	\$0.0	\$0.0	(\$394.6)	A.3.1	5.c.
B)	Additional TRS-Care funding above statutorily required amounts to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium.	\$230.8	\$0.0	\$0.0	\$0.0	\$230.8	A.3.1	5.c.
C)	Projected increased cost of the 6.8% Public and Higher Education Retirement state contributions due to payroll growth.	\$189.4	(\$36.8)	\$0.0	\$0.0	\$152.6	A.1.1, A.1.2	5.a, 5.b.
D)	Projected increased cost of the 1.25% TRS-Care state contribution due to payroll growth.	\$64.4	\$0.0	\$0.0	\$0.0	\$64.4	A.2.1	5.c.
E)	Increase to reflect full biennial cost of an additional 94.0 FTEs hired during the 2018-19 biennium.	\$0.0	\$0.0	\$0.0	\$12.2	\$12.2	A.1.2, A.1.3	5.d, 5.e, 5.i.

<b>TOTAL SIGNIFICANT Funding Changes and Recommendations (in millions)</b>	<b>\$90.0</b>	<b>(\$36.8)</b>	<b>\$0.0</b>	<b>\$12.2</b>	<b>\$65.4</b>	As Listed	As Listed
<i>SIGNIFICANT Funding Increases</i>	\$484.6	\$0.0	\$0.0	\$12.2	\$460.0	As Listed	As Listed
<i>SIGNIFICANT Funding Decreases</i>	(\$394.6)	(\$36.8)	\$0.0	\$0.0	(\$394.6)	As Listed	As Listed

NOTE: Totals may not sum due to rounding.

**Teacher Retirement System  
Selected Fiscal and Policy Issues - Senate**

1. **Strategic Fiscal Review Overview.** The Teacher Retirement System (TRS) is under Strategic Fiscal Review (SFR) for the Eighty-sixth Legislative Session. Significant recommendations, observations, and considerations include the following:
  - a) Recommendations total \$5.5 billion in All Funds in the 2020-21 biennium, including GR-Related statutory state contributions to retirement and TRS-Care programs, additional GR funding for TRS-Care, and pension administrative costs paid from the Pension Trust Fund. Combined with \$25.1 million in budgeted administrative expenses for TRS-Care Administration, ActiveCare Administration, and 403(b) Certification not included in the General Appropriations Act (GAA), the agency’s budget totals \$5.5 billion for the 2020-21 biennium. On an annual basis, this funding level represents approximately 19.1 percent of annual expenditures from all TRS trust funds, including benefits payments, refunds, and health care expenditures (based on FY 2018 expenditures).
  - b) TRS has broad constitutional and statutory authority over the management of its trust funds, which may conflict with the historical practice of appropriating Pension Trust Fund assets through the GAA. (See SFR Budget and Policy Option 8 below and Selected Fiscal and Policy Issue 7.)
  - c) In 2018, a TRS internal Vendor Procurement Audit had significant findings that the agency failed to follow Board procurement guidance throughout the contracting process. (See SFR Budget and Policy Option 7 below and Selected Fiscal and Policy Issue 9.)
  - d) TRS’ only program with less than high mission centrality is the 403(b) program, a tax-deferred savings plan. TRS’ role in offering 403(b) plans to public school employees is highly indirect and the agency does not regularly collect data on the program, such as participation levels or member fees. (See SFR Budget and Policy Options 5.a, 5.b, and 6 below.)

Figure 1 includes budget and policy options identified through the SFR process.

<b>Figure 1 SFR Budget and Policy Options (Not Included in Recommendations)</b>		
	<b>Option</b>	<b>Description</b>
1.	Increase TRS-Care affordability and access to care through telemedicine.	<p>Contract with a telemedicine provider to offer virtual visits with no patient copay using a fixed per member per month payment model. TRS estimates a biennial cost of \$368,000 in TRS-Care Trust Funds, based on FY 2018 utilization levels.</p> <p>Note: Option could result in cost savings for the TRS-Care Trust Fund. The Employees Retirement System (ERS) indicates that implementing a \$0 copay virtual visit benefit resulted in approximately \$1.0 million in annual cost savings for the HealthSelect plan. Funding impact to TRS-Care could vary due to differences in plan design, population, and utilization trends.</p>
2.	Reduce GR cost of the TRS-Care statutory contribution.	<p>Require employers to pay the Statutory Minimum and New Member contributions for TRS-Care (currently required for Public Education Retirement contributions only). TRS estimates option would reduce GR required to fund the TRS-Care statutory state contribution by \$159.0 million in the 2020-21 biennium and increase employer costs by a like amount.</p> <p>Option requires statutory amendment.</p>

3.	Compare TRS Board's active investment strategy to passive approach.	Add a new performance measure comparing the performance of TRS' current active management approach to returns achieved through passive index funds. Measure could show the difference between the annual TRS return on the market value of assets and the return of a major U.S. index, such as the S&P 500, over the same period.
4.	Increase ActiveCare high deductible plan affordability through HSA program.	Direct TRS to administer a Health Savings Account (HSA) program allowing ActiveCare 1-HD participants to save pre-tax earnings via payroll deduction to cover future out of pocket healthcare expenses.  LBB assumes biennial cost of \$20.0 to \$24.0 million for the 2020-21 biennium could be funded with member account fees. Option requires statutory amendment to establish the program.
5.a.	Provide data on 403(b) plan fees to members.	Direct TRS to collect and publish data on the actual asset-based fees charged to members for TRS-registered 403(b) products.
5.b.	Assess the current level of 403(b) participation.	Direct TRS to collect data on the level of 403(b) participation by public education members, such as the total number or amount of monthly payroll deductions to 403(b) accounts.
6.	Study the consolidation of 403(b) program to reduce member fees.	Study the feasibility of consolidating the current 403(b) vendor registration program into a single 403(b) supplemental retirement option similar to the TexaSaver program for state employees. Under a consolidated program, TRS would contract with a vendor to administer the program and charge member account fees sufficient to cover ongoing program costs. For example, the TexaSaver program charges account fees from \$0.00 to \$13.62 per month depending on the value of invested assets.  Through the study, TRS would assess legal requirements, plan design options, and any onetime transition costs borne by the state.
7.	Require TRS to follow state procurement policy to ensure best value for members.	Amend Texas Government Code §825.203(d) to make TRS subject to state procurement processes and requirements under Government Code Title 10, Subtitle D.
8.	Align GAA with TRS constitutional and statutory authority by removing trust fund appropriation.	Remove Strategy A.1.3, Administrative Operations, from the TRS bill pattern. This option may be combined with additional reporting requirements, such as Option 3, or removal of statutory exemptions, such as Option 7, to maintain Legislative oversight and control of administration expenditures.

2. **Payroll Growth Assumptions for Statutory State Retirement and TRS-Care Contributions.** Funding recommendations for estimated state retirement contributions total \$4.1 billion All Funds in 2020-21, a \$152.6 million increase from the 2018-19 base. This funding level provides a state contribution to Public and Higher Education retirement equal to 6.8 percent of payroll, the same rate as the 2018-19 biennium. Included in the 6.8 percent contribution are other funding sources from public and higher education employers, such as the Statutory Minimum Contribution, New Member Contribution, and Non-Educational and General Funds, which offset the amount of GR required to fund the state retirement contribution.

Funding recommendations for estimated, statutorily required state contributions to TRS-Care total \$879.4 million in General Revenue in 2020-21, a \$64.4 million increase from the 2018-19 base. This funding level provides a statutory state contribution to TRS-Care equal to 1.25 percent of salaries, the same rate as the 2018-19 biennium. Included in the 1.25 percent contribution are public education employer payments from federal and private grants, which offset the amount of GR required to fund the state TRS-Care contribution. In addition to the statutorily required state contribution, recommendations include an additional \$230.8 million in GR for TRS-Care to maintain plan year 2019 premiums and benefit levels

in the 2020-21 biennium.

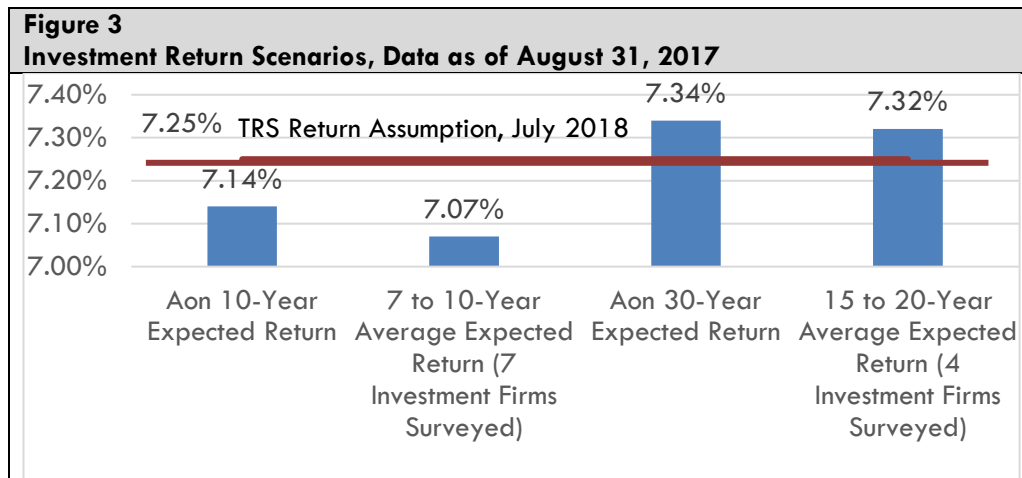
Estimated amounts assume 3.9 percent public education payroll growth across Public Education Retirement and TRS-Care Statutory Contribution strategies and 5.6 percent payroll growth in the Higher Education Retirement strategy. Recommendations are based on public and higher education payroll growth of 4.1 percent and 5.6 percent, respectively, since FY 2013. For public education, retirement recommendations assume 0.2 percent of this payroll growth will be covered by other methods of finance, such as the Statutory Minimum Contribution, which have increased rapidly since FY 2013.

Figure 2 2020-21 TRS State Contribution Rates		
	Public and Higher Education Retirement	TRS-Care
State	6.8%	1.25%
Active Employees	7.7%	0.65%
Public Education Employers*	1.5%	0.75%

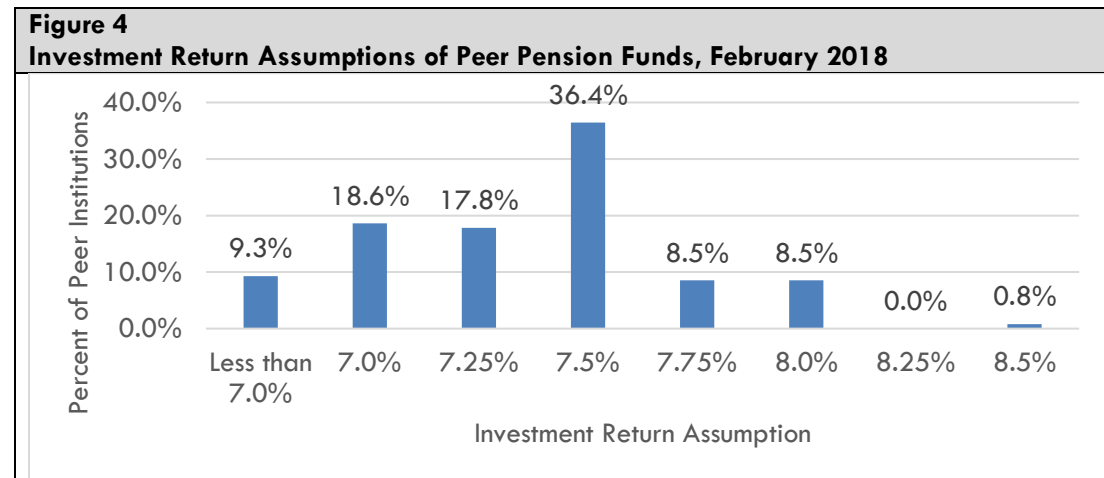
Note: For Retirement, only public education employers that do not participate in Social Security are required to contribute 1.5 percent of payroll. For TRS-Care, all public education employers contribute 0.75 percent of eligible salaries.

- Investment Rate of Return.** On July 27, 2018, the TRS Board reduced its investment return assumption from 8.0 percent to 7.25 percent based on data and recommendations from its consulting actuary, Gabriel Roeder Smith (GRS). In February 2018, the TRS Board received the results of the pension Actuarial Experience Study, conducted as of August 31, 2017. GRS reviewed long-range capital market projections from Aon, TRS' investment consultant, and other independent firms. Figure 3 shows these projected rates of return. Based on this analysis, GRS recommended reducing the inflation assumption from 2.5 percent to 2.3 percent and reducing the overall investment return assumption from 8.0 percent to no more than 7.25 percent.

GRS also presented the current investment return assumptions of peer institutions (large, U.S. state and local public pensions). As shown in Figure 4, 45.7 percent of the 129 surveyed funds have an investment return assumption of 7.25 percent or lower, the range recommended by GRS. Only 8.5 percent assume returns of 8.0 percent, the previous return assumption.



Source: Teacher Retirement System.



Source: National Association of State Retirement Administrators.

4. **Pension Trust Fund Actuarial Soundness.** Recommendations do not include changes to retirement contribution rates to address actuarial soundness. Options for Legislative consideration are listed below in Figure 5.

The agency’s first exceptional item requests an aggregate 1.82 percentage point increase in state, employer, and/or employee contribution rates to reduce the funding period from the current 87 years to an actuarially sound 31 years. TRS estimates the total cost of this increase to be \$1.7 billion in the 2020-21 biennium.

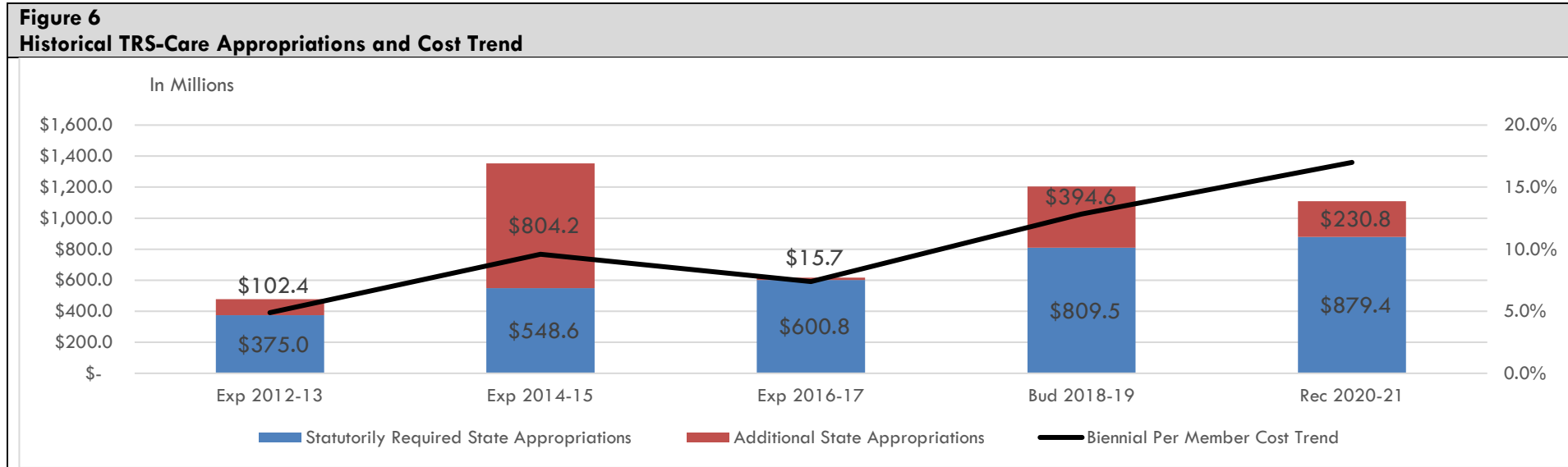
TRS’ previous Actuarial Valuation as of August 31, 2017 indicated an Unfunded Actuarially Accrued Liability (UAAL) of \$35.5 billion and a funding period of 32.2 years for the Pension Trust Fund. Due to the TRS Board’s subsequent decision to lower the investment return assumption to 7.25 percent, the most recent Actuarial Valuation as of August 31, 2018 reflected a UAAL of \$46.2 billion, a \$10.7 billion increase, and a funding period of 87 years.

<b>Figure 5 Options to Achieve Actuarially Sound Contribution, TRS Retirement 2020-21 Biennial Cost, in Millions</b>					
	<b>Option</b>	<b>Employee Cost</b>	<b>Employer Cost</b>	<b>GR/GR-D State Cost</b>	<b>2020-21 Total Cost</b>
1.	Increase state contribution rate from 6.8% to 8.56%.	\$0.0	\$304.4	\$1,408.6	\$1,713.0
2.a.	Increase each contribution rate <u>equally</u> : <sup>1</sup> - Increase employee contribution rate from 7.7% to 8.37% - Increase public education employer contribution from 1.5% to 2.18% - Increase state contribution from 6.8% to 7.48%	\$658.0	\$517.1	\$541.9	\$1,717.0
2.b.	Increase each contribution rate <u>proportionally</u> : <sup>2</sup> - Increase employee contribution rate from 7.7% to 8.61% - Increase public education employer contribution from 1.5% to 1.68% - Increase state contribution from 6.8% to 7.6%	\$856.0	\$236.4	\$617.6	\$1,710.0
3.	Phase in contribution increase over two biennia: - Increase state contribution rate from 6.8% to 8.56% gradually over four years. <sup>3</sup>	\$0.0	\$125.9	\$583.1	\$709.0

Notes: 1. Option 2.a. assumes 0.7 percentage point increase to the state, employer, and employee contributions. As only public education employers that do not participate in Social Security pay the employer contribution, raising this contribution by 0.7 percentage points generates additional revenue equal to 0.42 percent of the total public and higher education covered payroll.  
 2. Option 2.b. assumes the 1.82 percentage point increase is divided in proportion to each group’s current share of the total combined contributions from employees, employers, and the state.  
 3. Option 3. assumes 0.5 percentage point increase in fiscal years 2020-22 and a 0.32 percentage point increase in fiscal year 2023. This option would achieve a funding period of 30 years in FY 2020 assuming future contribution rate increases are statutorily required. Only 2020-21 biennial costs are shown in the table.  
 4. Figure reflects TRS estimates of the total cost of each state, employer, and employee contribution rate increase and LBB estimates of the GR-Related cost of each state contribution rate increase.

- 5. **TRS-Care Funding, Cost Growth, and Affordability.** Recommendations include \$230.8 million in additional GR for TRS-Care above amounts estimated to be statutorily required to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium. Additional GR funding will cover program cost growth, which continues to outpace the growth of payroll-based statutory contributions.

Historical statutory and additional appropriations to TRS-Care and biennial per member cost trends are shown in Figure 6.



Notes: 1. Cost trend includes combined per member per biennium medical and pharmacy costs.  
 2. Additional state appropriations include sum-certain additional funding and funding provided through Rider 14, Settle-up Dollars Directed to TRS-Care.  
 Source: Teacher Retirement System.

To prevent program insolvency, the Eighty-fifth Legislature enacted significant reforms to TRS-Care through H.B. 3976 (Regular Session), appropriated a net \$182.6 million in onetime additional GR funding during the Eighty-fifth Regular Session, and transferred an additional \$212.0 million from the Health and Human Services Commission to TRS-Care in the Eighty-fifth First Called Session. The Legislature also provided additional ongoing funding by raising TRS-Care employer and state contribution rates, as shown in Figure 7.

**Figure 7**  
**TRS-Care Contribution Rates, 2016-17 and 2018-19 Biennia**

	2016-17	2018-19
Active Employee	0.65%	0.65%
Employer	0.55%	0.75%
State	1.0%	1.25%

H.B. 3976 restructured TRS-Care to provide two primary plans instead of the previous five, including eliminating the zero premium plan. Under the new structure, non-Medicare eligible members are enrolled in the Standard Plan, a high deductible health plan, and Medicare-eligible members are enrolled in a Medicare Advantage plan. To implement the bill, TRS



raised premiums by an average of 47% per retiree for plan year 2018 and significantly increased out of pocket costs for some members, including members with enrolled spouses and dependents. As a result of plan changes, membership in TRS-Care decreased by 30,614 participants or 11.4 percent in FY 2018. Most members leaving the plan were eligible for Medicare.

- 6. **TRS Enterprise Application Modernization (TEAM) Project.** Recommendations do not include additional funding for TEAM in the 2020-21 biennium, which TRS expects to complete the final phase of in October 2019. TEAM replaces all major legacy data systems for pension administration, including member records, employer reporting, and financial systems. When TEAM began in FY 2012 it was projected to take five and a half years and cost \$94.6 million. Current estimates project the final budget to reach \$128.0 million and a timeline of almost eight years. Increases in cost and time were due to early changes in project scope and budget estimates, additional design changes due to new legislative requirements, and delays to address problems with Phase 1 implementation related to the new employer payroll reporting system.

Project delays and Phase I implementation issues resulted in customer service issues including delays processing member refunds and increases in call center handle times.

- 7. **TRS Fiduciary Authority and GAA Oversight.** Recommendations maintain funding and FTE cap authority for 94.0 FTEs added by a fiduciary finding of the TRS Board in FY 2019. Recommendations do not include agency requests of \$10.5 million in Pension Trust Funds for 30.0 FTEs related to investment management, \$16.0 million in Pension Trust Funds for 97.0 additional FTEs for benefits services and administrative support, or a new rider granting the TRS Board authority to increase FTE levels during the biennium. Additionally, recommendations do not include \$8.0 million in Pension Trust Funds requested for building renovation.

Article 16, Section 67 of the Texas Constitution directs the Legislature to establish the Teacher Retirement System for public and higher education employees and establishes that the TRS board must administer the system and prudently invest assets. Texas Government Code §825.101 further grants TRS exclusive control over all assets held in trust by the retirement system and all operations funded by trust assets, including TRS administrative operations, which are paid completely by trust funds. This control includes exemptions from capital budget requirements for projects funded with trust funds. Additionally, citations shown in Figure 8 specify TRS authority and exemptions from other state policies.

Despite this broad statutory authority, since FY 2000 the Legislature has appropriated TRS Pension Trust Fund 960 in TRS' bill pattern to manage the TRS pension administrative operations budget, including pension and administrative FTE levels, executive and other staff salaries, and capital projects. This practice contrasts with the bill pattern of a similar agency, the Employees Retirement System (ERS), which does not include an appropriation of pension trust funds. For the 2020-21 biennium, TRS has requested that this trust fund appropriation be removed from its bill pattern.

<b>Figure 8 TRS Statutory Authority and Exemptions</b>		
<b>Category</b>	<b>Citation</b>	<b>Description</b>
<i>General Authority</i>	Government Code §825.101	Exclusive control over all assets held in trust by the retirement system and all operations funded by trust assets.
	Government Code §825.313	Board authority to transfer from the interest account to the expense account any funds necessary to perform the board's fiduciary duties.
<i>Staff Compensation</i>	Government Code §825.208	Exclusive authority over setting the rate of compensation of employees paid with trust funds.
<i>Contracting and Procurement</i>	Government Code §2155.089	Exemption from general purchasing requirements (except for benefits plan contracts).

	Government Code §2254.102	Exemption from oversight of legal contingent fee contracts.
	Government Code §2261.251	Exemption from ethics, reporting, and approval of contracts requirements (except for benefits plan contracts).
	Government Code §825.103(d)	Exclusive authority over purchase of goods and services paid for with trust funds.
	Government Code §825.103(e)	Exclusive authority over information technology (Government Code, Chapters 2054 & 2055).
	Government Code §825.103(g)	Exemption from contract management standards and oversight (Government Code, Chapters 2261 & 2262).
Other Exemptions	Government Code §825.103(c)	Exemption from participating in workers' compensation (Labor Code, Chapter 412).
	Government Code §825.103(f)	Exemption from laws governing the resolution of contract claims against the state (Government Code, Chapter 2260).

On July 27, 2018, the TRS Board adopted a fiduciary finding pursuant to Texas Government Code §825.313 increasing its FY 2019 operating budget by an additional \$11.3 million above the amount appropriated in the GAA for the TEAM project and other administrative expenses. This included funding for an additional 94.0 FTEs above the agency's FTEs limitation. TRS requests to increase its FTE limit by an additional 127.0 FTEs in the 2020-21 biennium, including 30.0 FTEs related to investment management and 97.0 related to benefits services and administrative support. TRS also requests a new rider granting the agency explicit authority to increase FTE levels during the biennium through a fiduciary finding of the Board, with reporting requirements to the Governor and LBB.

Additionally, TRS requests \$8.0 million in Pension Trust Funds in the 2020-21 biennium for the renovation of its headquarters.

8. **Incentive Compensation.** Recommendations for the 2020-21 biennium maintain current Rider 13 language allowing TRS to grant performance incentive compensation to Investment Management Division (IMD) staff. Recommendations do not include the agency's request to amend rider language to allow performance payments to all TRS staff. TRS states that the request would amend Rider 13 to include incentive compensation currently provided to the Executive Director through other Board authority. The agency further states that it does not intend to expand performance compensation to any new divisions beyond IMD.

Rider 13 allows TRS to pay performance incentive compensation to IMD staff based on standards adopted by the Board. Under current Board policy, IMD staff earn incentive compensation for meeting investment benchmarks (50%), performance of peer groups (30%), and qualitative skills such as candor, curiosity, accountability, teamwork, leadership, and constructive work environment (20%). Qualitative benchmarks only apply if the employee has met the required threshold for the investment performance component. The maximum potential award may not exceed a percentage of the base salary determined by the Board, which currently varies by position from 5.0 percent to 175.0 percent. In 2017, TRS paid \$9.1 million in incentive compensation to 134 IMD staff.

9. **Vendor Procurement Audit.** In June 2018, TRS published an internal audit of its vendor procurement policies with significant findings. To further address the audit findings, the Legislature may consider amending Texas Government Code §825.203(d) to make TRS subject to state procurement policy under Government Code Title 10, Subtitle D.

TRS reviewed procurements for the Health and Insurance Benefits Division and Investment Management Division and found that Board-issued procurement guidance is not consistently followed throughout the contracting process. For example, TRS failed to document how vendors were evaluated, how many bids the agency had received, and justifications for non-competitively bid contracts with no term limits or not-to-exceed amounts. The audit also found that departments failed to include TRS' Procurements and Contracts (P&C) department in their procurement processes because they believed that doing so would take too long.

Additionally, the audit found 15 contract workers had access to protected health information, but their employers did not have Business Associate Agreements (BAAs) with TRS. This is a violation of the federal Health Insurance Portability and Accountability Act (HIPAA). All major health care contracts were in compliance with BAA requirements.

The report makes the following recommendations to address audit findings:

- 1) P&C should coordinate with business units to develop procurement plans, timelines, and detailed procedures.
- 2) P&C should implement a formal process to evaluate whether or not a contract requires a BAA.

TRS indicates it has taken preliminary steps to implement the first recommendation, including developing a new exemption justification policy with additional oversight from the P&C director and increasing communication between P&C and other divisions through quarterly meetings and the TRS intranet page. Additionally, TRS plans to develop a procurement training program by March 2019 and additional reference guides and user manuals by September 2019.

To address the HIPAA violation, TRS has implemented the additional required BAAs and developed a questionnaire to ensure all current TRS contracts have a BAA, if required. For future contracts, TRS has developed a risk assessment questionnaire to determine if a BAA is required prior to the procurement. The agency also plans create additional guidance and procedures for implementing a BAA by September 2019.

10. **Update on ActiveCare Affordability.** ActiveCare is a health care benefits program for certain public school district employees enacted by the Seventy-seventh Legislature in 2001. Smaller districts with fewer than 500 employees (as of 2001) are required to participate in ActiveCare, while larger districts may voluntarily join. To prevent adverse selection, member districts are statutorily prohibited from leaving the program. There are approximately 439,690 participants in TRS-ActiveCare as of April 2018, representing approximately 43.0 percent of public education employees.

State law requires a minimum contribution by the state of \$75 per employee per month, which is distributed through the Foundation School Program. Districts are required to contribute a minimum of \$150 per employee per month toward the premiums of participating members. Minimum state and employer contributions have not changed since the program began. According to TRS, about two-thirds of districts contribute more than the minimum; however, a majority of districts contribute a total of \$200 or less.

Significant cost growth in the program without additional state subsidy has reduced the affordability of ActiveCare plans. According to TRS, rising prescription drug costs, including specialty drugs, and other medical cost increases contribute significantly to plan costs. To balance costs and revenues, TRS has significantly raised premiums and made benefit design changes since the program began. For example, previous plan option TRS-ActiveCare 3, which offered comparable benefits to the plan offered to State of Texas employees, was closed to new enrollees in FY 2014 and eliminated in FY 2015. In FY 2017 and FY 2018 the Board approved increases in premiums and plan design changes, and in FY 2019 the Board eliminated TRS-ActiveCare 2, the richest benefit package plan, as an option for new enrollees. For FY 2019, remaining statewide plan options include ActiveCare 1-HD, a high deductible health plan, and ActiveCare Select, an exclusive provider organization with no out of network coverage.

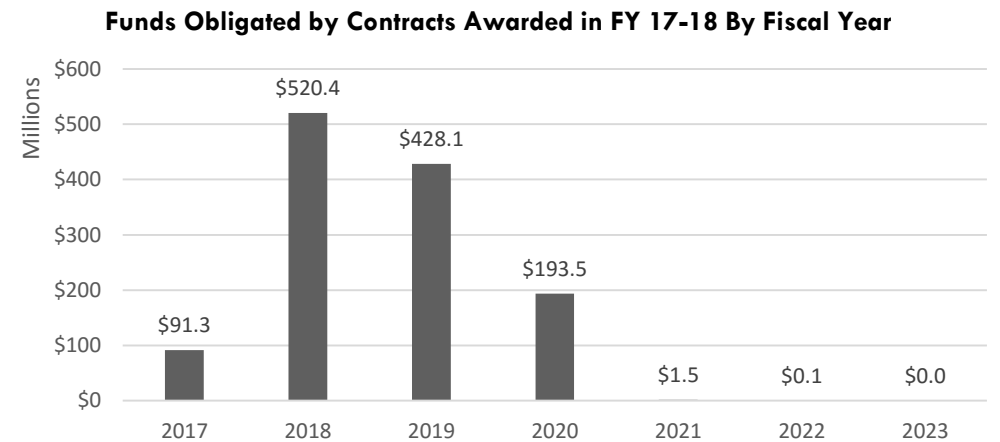
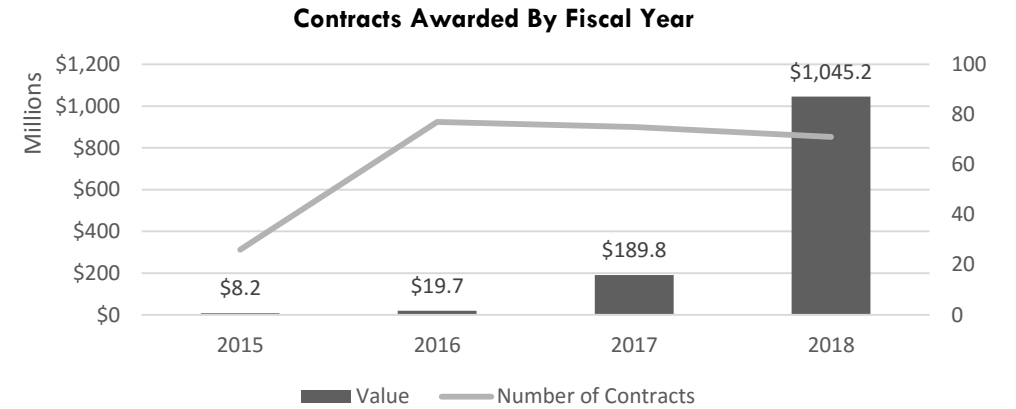
### Teacher Retirement System Contracting Highlights

As of 8/31/2018, the Teacher Retirement System had 151 active procurement contracts valued at \$1.3 billion and no revenue generating contracts.

#### Summary of Contracts Awarded in Fiscal Years 2017-2018 and Reported to LBB Contracts Database<sup>1</sup>

(Dollar values rounded to the nearest tenth of a million)

	Number	Total Value	Average Value	% of total
<b>Procurement Contracts</b>	146	\$ 1,235	\$ 8.5	100%
<b>Award Method</b>				
Total Competitive Contracts	46	\$ 1,206	\$ 26.2	97.7%
Total Non-Competitive	100	\$ 28.5	\$ 0.3	2.3%
Sole Source	96	\$ 24.2	\$ 0.3	2.0%
Interagency Agreement	4	\$ 4.3	\$ 1.1	0.3%
<b>Procurement Category</b>				
Other Services	76	\$ 1,216	\$ 16.0	98.5%
Information Technology	57	\$ 11.4	\$ 0.2	0.9%
Construction	2	\$ 3.8	\$ 1.9	0.3%
Goods	5	\$ 1.9	\$ 0.4	0.2%
Lease/Rental	3	\$ 1.3	\$ 0.4	0.1%
Consulting	2	\$ 0.4	\$ 0.2	0.0%
Professional Services	1	\$ 0.0	\$ 0.0	0.0%
<b>Revenue Generating Contracts</b>	0	\$ -	\$ -	-



<sup>1</sup>These figures reflect the total value of reported contracts awarded in FY 17-18 and reported to the LBB contracts database. Values can include planned expenditures for subsequent years and represent the amounts contracted which may include funds from non-appropriated trust funds.

**Teacher Retirement System**  
Contracting Highlights

(Dollar values rounded to the nearest tenth of a million)

<b>Largest Active Contracts from Previous Fiscal Years</b>	<b>Award Method</b>	<b>Total Value</b>	<b>% Change*</b>	<b>Award Date</b>	<b>Length</b>	<b>Renewals</b>	<b>Vendor</b>
1 Health Maintenance Organization Services (HMO)	Competitive	\$ 90.7	50.0%	08/13/14	6 years	0	Health Care Services Corp.
2 Office Lease	Sole Source	\$ 22.0	0.0%	04/01/09	12 years	0	Cousins 816 Congress LLC
3 Project Management	Sole Source	\$ 8.5	0.0%	11/16/11	7 years	0	Provaliant Holdings LLC
4 Commercial Remodel and Renovation Services	Competitive	\$ 1.7	750.0%	10/09/15	4 years	4	Cobos Design & Construction
5 Independent Program Assessment	Competitive	\$ 1.6	26.3%	01/03/13	5 years	1	Bridgepoint Consulting LLC

**Largest Competitive Contracts Awarded in FY 17-18**

1 Enrollment Prescription Drug Plans	Competitive	\$ 575.0	0.0%	01/01/18	2 years	0	Silverscript Insurance Co.
2 CARE Pharmacy Benefit Services	Competitive	\$ 390.0	0.0%	09/01/17	2 years	0	Caremark
3 Medicare Advantage Services	Competitive	\$ 94.8	0.0%	01/01/17	6 years	0	Humana Insurance Company
4 Health Plan Administrative Services	Competitive	\$ 75.0	0.0%	09/01/16	2 years	0	Aetna Life Insurance Company
5 ActiveCare Pharmacy Benefit Services	Competitive	\$ 60.0	0.0%	09/01/17	2 years	0	Caremark

**Largest Non-Competitive Contracts Awarded in FY 17-18**

1 Construction Services	Interagency	\$ 3.2	0.0%	06/16/17	4 years	1	Texas Facilities Commission
2 Overflow Call Center Services	Sole Source	\$ 2.8	68.8%	03/06/17	2 years	1	Advanced Callcenter Tech.
3 SSDC Medicare Enrollment	Sole Source	\$ 2.2	9.5%	09/01/17	2 years	1	SSDC Services Corp.
4 Agency wide Furniture	Sole Source	\$ 1.5	0.0%	08/27/18	2 years	1	Rockford Business Interiors
5 CoLocation & Workplace Services	Sole Source	\$ 1.1	2.8%	01/30/18	3 years	1	Presidio Net. Solutions

\*Note: The percent change is the difference in contract value between the initial award amount and the current contract value. This calculation includes contract amendments and renewals.

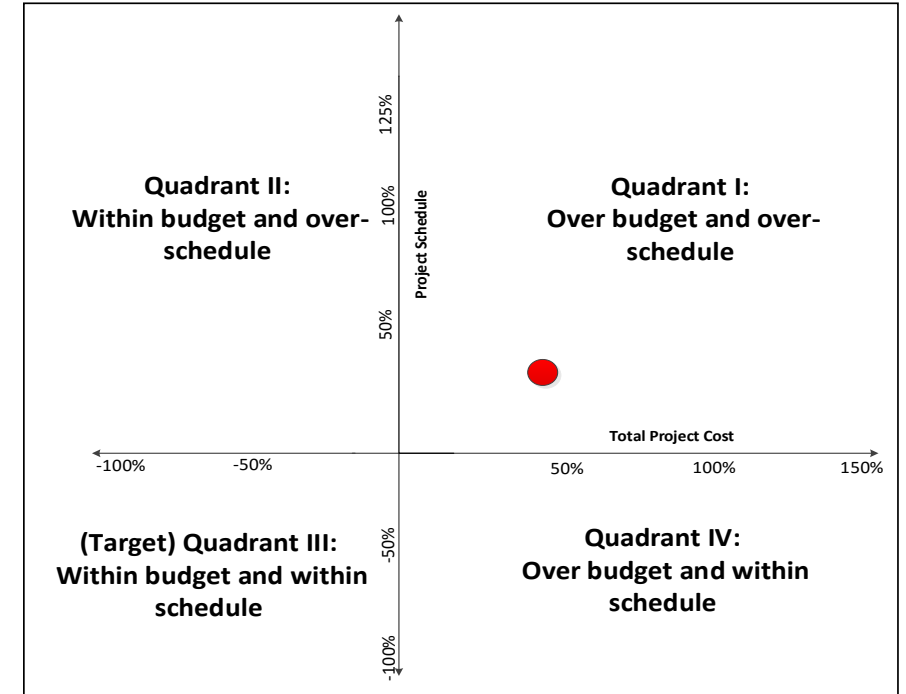
**Teacher Retirement System  
Quality Assurance Team Highlights**

TRS has one major information resource project monitored by the Quality Assurance Team. The project is behind schedule and over budget. Details on this project are listed below.

**Summary of Total Costs (in millions) and Time Frames reported to the Quality Assurance Team\***

Project Name	Original Projected Costs	Current Projected Costs	Under / (Over) Initial Project Cost	Expenditures to Date	Original Timeline in Months	Current Timeline in Months	Months Ahead / (Behind) Schedule	% Complete
<sup>1</sup> TRS Enterprise Application Modernization (TEAM)	\$94.6	\$128.0	(\$33.4)	\$124.0	66	95	(29)	84%
<b>Project Totals</b>	\$94.6	\$128.0	(\$33.4)	\$116.0				

**Major Information Resources Projects**



**Legend**

- Project which exceeds budget OR schedule
- Project which is over budget and behind schedule

\*Note: These figures reflect all project costs (Capital and Informational) and timelines from self-reported monitoring reports that are sent to the Quality Assurance Team (QAT) for review. QAT includes representatives from the Comptroller of Public Accounts, Department of Information Resources, Legislative Budget Board and the State Auditor's Office (Advisory Only).

**Teacher Retirement System  
Quality Assurance Team Highlights**

**Significant Project Highlights**

**1 TRS Enterprise Application Modernization (TEAM)**

This project began in fiscal year 2012 for a duration of 66 months with initial estimated project costs of \$94.6 million.

The overall goal of the Teacher Retirement System (TRS) Enterprise Application Modernization (TEAM) Program is to implement a cost effective, efficient, and sustainable program to enable TRS to serve the expanding needs of its members, employers, and annuitants.

When the project was initiated, milestones quickly began to slip because the agency did not provide enough time in the initial Request For Offer (RFO) for the Line of Business (LOB) Solution. In August 2012, the agency submitted their Project Plan to the QAT which identified an increase of costs of more than 10 percent. This increase required the agency to re-submit their project tool set to the QAT. In September 2012, QAT reviewed their new baseline documents and noted that many cost estimates for system modules were low. This delayed the estimated completion date to August 2018 with project costs increased to \$114.9 million.

In June 2016, the agency increased the estimated project costs to \$122.5 million due to project changes resulting from legislative actions. In November 2016, the finish date for the project was further extended to August 2019. The agency identified additional critical functionality that was needed before Phase 1 could be completed. Some of this functionality is a result of missed requirements by the vendor, while others are a result of the agency increasing reporting requirements and system changes.

In May 2018, the agency increased project costs to \$128.0 million due to Phase 1 Stabilization, including correction of coding defects, installation of a new operating system and the addition of system testing. This also extended the schedule to October 2019. Thus far, the project is over budget by 33 percent and is over schedule by 46 percent.

To help complete Phase 1, TRS is utilizing approximately 70 TRS staff as subject matter experts for acceptance testing purposes. Phase 2 is now being initiated for the Pension services area of the project. The customer service impact of project delays and Phase I implementation issues have included delays processing member refunds and increases in call center handle times.

**QAT Budget Highlights (in millions)**

Project Name	2018-19 Base	2020-21 Requested	2020-21 Recommended
TEAM	\$29.7	\$0.0	\$0.0
<b>Total</b>	<b>\$29.7</b>	<b>\$0.0</b>	<b>\$0.0</b>

\* Note: Requested amounts for 2020-21 include all baseline and exceptional item funding requested by the agency.

**Teacher Retirement System  
Rider Highlights - Senate**

**Modification of Existing Riders**

14. **Settle-Up Dollars to TRS-Care.** Recommendations revise rider to clarify legislative intent that only net settle-up payments from both Public Education and Higher Education Retirement state contribution payments are reappropriated to TRS-Care.

**New Riders**

19. **Additional Funding for TRS-Care.** Recommendations add rider directing the expenditure of \$230.8 million in GR for TRS-Care to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium.

**Deleted Riders**

15. **Enterprise Application Modernization FTE Exemption.** Recommendations delete rider due to the end of the TEAM project. Staff previously exempt from the FTE limitation under this rider are subject to the limitation for the 2020-21 biennium.
19. **Contingency for House Bill 3976 – Appropriation to TRS-Care.** Recommendations delete rider, which appropriates additional statutory (\$167.4 million) and supplemental (\$208.8 million) GR funding to TRS-Care, contingent upon the passage of TRS-Care reform legislation. Rider is no longer necessary, as recommendations maintain the additional statutory contributions in the agency's MOF table and do not include supplemental funding for the 2020-21 biennium.
20. **TRS-Care Health Care Cost Containment Initiatives.** Recommendations delete rider, which reduced supplemental appropriations to TRS-Care under Rider 19 by \$26.2 million for cost containment measures. Rider is no longer necessary, as recommendations do not include any supplemental TRS-Care funding.



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

	2020-21 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2022-23
	GR & GR-D	All Funds	FTEs			

**Agency Exceptional Items Not Included (in agency priority order)**

1)	Retirement Contribution Rate Increase- Funding to provide a 1.82 percent contribution rate increase in the 2020-21 biennium to make the Pension Trust Fund actuarially sound. (Note: \$1.1 billion request reflects TRS' estimate of the GR cost of the requested state contribution rate increase. See Section 3, Selected Fiscal and Policy Issue 4, for LBB analysis.)	\$1,088,967,411	\$1,088,967,411	0.0	No	No	\$0
2)	Investment Management Staff- \$10.5 million in Pension Trust Funds for 30.0 additional FTEs related to investment management.	\$0	\$10,500,000	30.0	No	No	\$0
3)	Customer Service and Administrative Support Staff and Building Renovation- \$16.0 million in Pension Trust Funds for 97.0 additional FTEs related to benefits services and administrative support and \$8.0 million in Pension Trust Funds for building renovation.	\$0	\$24,000,000	97.0	No	Yes	\$0
4)	<b>Rider Request:</b> New Rider, Augmenting Customer Service Delivery and Investment Trust Performance. TRS requests a new rider authorizing the agency to increase its FTE count above the GAA limitation by fiduciary finding of the TRS Board. Rider would require TRS to provide justification for FTEs and annual progress reports to LBB and the Governor.	\$0	\$0	0.0	No	No	\$0
5)	<b>Rider Request:</b> New Rider, Appropriation: Unexpended Balances of TEAM Program FY 2018/2019 and CAPPs - Enterprise Resource Planning (ERP). Agency requests new rider granting UB authority of Pension Trust Funds remaining as of August 31, 2018 for capital budget projects funded in the 2018-19 GAA.	\$0	\$0	0.0	No	No	\$0

**TOTAL Items Not Included in Recommendations**

**\$1,088,967,411**

**\$1,123,467,411**

**127.0**

**\$0**

**Teacher Retirement System  
Strategic Fiscal Review Appendices - Senate**

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**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 1 Program Listing -- Services and Administration - Senate**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Mission Centrality/Authority**



Agency Submission		LBB Staff Review and Analysis								
Agency Ranking	Program Name	Year Implemented	State Authority	Federal Authority	Authority	Mission Centrality	State Service	Service Area	Significant Audit and/or Report Findings	Contracts for Outsourced Services
1	Public Education Retirement	1936	Constitution, Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	N/A
2	Higher Education Retirement	1936	Constitution, Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	N/A
3	Retiree Health Care Benefits (TRS-Care)	1986	Statute	No Federal Requirement	Strong	Strong	Employee Benefits Services	Statewide	No	N/A
4	Benefit Services	1936	Admin Code, Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	Partial
5	Investment Management Division	1936	Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	Partial
6	TRS Care Administration	1986	Admin Code, Statute	No Federal Requirement	Strong	Strong		Statewide	No	Partial
7	ActiveCare Administration	2002	Admin Code, Statute	No Federal Requirement	Strong	Strong		Statewide	No	Partial
8	403(b)	2002	Admin Code, Statute	No Federal Requirement	Strong	Moderate		Statewide	No	No
<b>Indirect Administration Programs</b>										
9	Support Services and Administration	1936	Admin Code, Statute	No Federal Requirement	N/A	N/A	State Government Administration & Support	Statewide	Yes	No

**Note:** **Significant Audit and/or Report Findings.** Qualified indicates that there may be issues relating to agency operations that have not been documented in formal audits, reviews or reports, or LBB Staff cannot verify whether recommendations have been implemented.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 2: Program Listing -- Fiscal - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Agency Submission				LBB Staff Review and Analysis							
Agency Ranking	Program Name	2014-15 Expended	2016-17 Expended	2018-19 Est / Budg	2019 FTEs Budg	2020-21 Recommended	2021 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported?	Appropriate Use of Constitutional and GR-Dedicated Funds?
1	Public Education Retirement*	\$ 3,038,386,452	\$ 3,272,918,409	\$ 3,544,224,289	0.0	\$ 3,747,127,583	0.0	5.7%	0.0	Yes	N/A
2	Higher Education Retirement*	\$ 369,488,552	\$ 412,826,664	\$ 417,952,238	0.0	\$ 368,477,887	0.0	-11.8%	0.0	Yes	N/A
3	Retiree Health Care Benefits (TRS-Care)*	\$ 1,352,755,169	\$ 616,483,063	\$ 1,209,597,636	0.0	\$ 1,110,116,548	0.0	-8.2%	0.0	Yes	N/A
4	Benefit Services	\$ 19,765,789	\$ 20,458,183	\$ 26,529,631	175.5	\$ 30,053,382	204.5	13.3%	29.0	No	Compliant
5	Investment Management Division	\$ 60,248,765	\$ 73,188,222	\$ 90,586,590	167.0	\$ 115,988,077	168.0	28.0%	1.0	No	Compliant
6	TRS Care Administration *	\$ 7,642,080	\$ 11,132,982	\$ 18,265,255	54.5	\$ 15,389,235	64.5	-15.7%	10.0	No	Compliant
7	ActiveCare Administration *	\$ 4,994,658	\$ 6,181,031	\$ 8,153,492	27.0	\$ 9,283,597	32.0	13.9%	5.0	Yes	Compliant
8	403(b) *	\$ 144,055	\$ 235,241	\$ 525,991	1.0	\$ 435,944	1.0	-17.1%	0.0	Yes	Compliant
<b>Indirect Administration Programs</b>											
9	Support Services and Administration	\$ 98,397,944	\$ 103,629,327	\$ 114,480,445	231.8	\$ 96,963,431	245.8	-15.3%	14.0	No	Compliant
<b>Total</b>		<b>\$ 4,951,823,464</b>	<b>\$ 4,517,053,122</b>	<b>\$ 5,430,315,567</b>	<b>656.8</b>	<b>\$ 5,493,835,684</b>	<b>715.8</b>	<b>1.2%</b>	<b>59.0</b>		

	2018-19 Est/Budg	2020-21 Recommended
Appropriated Funds	\$ 5,403,370,829	\$ 5,468,726,908
Non-Appropriated Funds	\$ 26,944,738	\$ 25,108,776
<b>Total</b>	<b>\$ 5,430,315,567</b>	<b>\$ 5,493,835,684</b>

\* Program has Non-Appropriated Funds

**Notes:** Significant funding changes from 2018-19 to 2020-21 for Investment Management Division, Benefits Services, and Support Services and Administration include funding decreases related to the completion of the TEAM project and increases to reflect the full biennial cost of additional FTEs hired in the 2018-19 biennium. Changes to TRS Care Administration, ActiveCare Administration, and 403(b) reflect TRS management of programs based on demand for services and available revenues for each program.

**Revenue Supported** includes fees, tuition set asides and donations.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 3: Assessment of Mission Centrality and Authority - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

**Mission centrality** is a judgment of how directly connected a program is to the core mission and goals of the agency, as identified in statute, agency strategic plans, or other documents.  
**Authority** is an assessment of how strong and explicit the legal basis is for the existence of the program and the way in which the agency is administering it.

		<b>MISSION CENTRALITY</b>		
		Weak	Moderate	Strong
<b>A U T H O R I T Y</b>	<b>Strong</b>		403(b) (8)	Public Education Retirement (1) Higher Education Retirement (2) Retiree Health Care Benefits (TRS-Care) (3) Benefit Services (4) Investment Management Division (5) TRS Care Administration (6) ActiveCare Administration (7)
	<b>Moderate</b>			
	<b>Weak</b>			

**Notes:** Agency program rankings included after the program name. The matrix does not include Indirect Administration programs.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

1	<b>Account No:</b> 960	<b>Account Type:</b> OTHER FUNDS (Outside the Treasury - Appropriated)
	<b>Account Name:</b> TRS Trust Account	
	<b>Legal Cite(s):</b> Article 16, Section 67, Texas Government Code, Chapter 825	
	<b>Authorized Use:</b> To record receipt of all money made to Teacher Retirement System from whatever source derived and to record payments made for administrative expenses and for benefit granted under the Teacher Retirement System.	
	<b>Revenue Source:</b> Investment earnings; member, employer and state contributions.	

Ranking:	Program Name	2018-19 Est/Budg	2020-21 Recommended	In Compliance with Authorized Use?
4	Benefit Services	\$ 26,529,631	\$ 30,053,382	Yes
5	Investment Management Division	\$ 90,586,590	\$ 115,988,077	Yes
9	Support Services and Administration	\$ 114,480,445	\$ 96,963,431	Yes
<b>Total</b>		<b>\$ 231,596,666</b>	<b>\$ 243,004,890</b>	

<b>Notes/Comments:</b>	Amounts included are Pension Trust Fund administrative expenses. General Revenue and General Revenue-Dedicated appropriations for the state contribution to TRS Public Education Retirement and Higher Education Retirement are revenue sources of the fund and not included above.
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2	<b>Account No:</b> 989	<b>Account Type:</b> Outside the Treasury - Not Appropriated
	<b>Account Name:</b> Retired School Employees Group Insurance Trust Fund	
	<b>Legal Cite(s):</b> Title 34, Part 3, Chapter 41, Subchapter A, Texas Insurance Code, Section 1575.301	

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

<b>Authorized Use:</b>	To record receipt of all revenue related to TRS Care program from whatever source derived and to record payments made for administrative expenses and for benefits granted by statute.
<b>Revenue Source:</b>	Member, employer, and state contributions; premiums; other appropriations for the implementation of the program; and investment income.

Ranking:	Program Name	2018-19 Est/Budg	2020-21 Recommended	In Compliance with Authorized Use?
6	TRS Care Administration	\$ 18,265,255	\$ 15,389,235	Yes
<b>Total</b>		<b>\$ 18,265,255</b>	<b>\$ 15,389,235</b>	

<b>Notes/Comments:</b>	Amounts shown are TRS-Care administrative expenses. General Revenue appropriations for the state contribution to TRS-Care are a revenue source of the fund and not included above.
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3	<b>Account No:</b> 855	<b>Account Type:</b> Outside the Treasury - Not Appropriated
	<b>Account Name:</b> Texas School Employee Uniform Group Coverage Trust Fund	
	<b>Legal Cite(s):</b> Title 34, Part 3, Chapter 41, Subchapter C, Texas Insurance Code, Section 1579.301	
	<b>Authorized Use:</b> To record receipt of all revenue related to TRS Active Care program from whatever source derived and to record payments made for administrative expenses and for benefits granted by statute.	
	<b>Revenue Source:</b> Member, employer and state contributions including premiums.	

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Ranking:	Program Name	2018-19 Est/Budg	2020-21 Recommended	In Compliance with Authorized Use?
7	ActiveCare Administration	\$ 8,153,492	\$ 9,283,597	Yes
<b>Total</b>		<b>\$ 8,153,492</b>	<b>\$ 9,283,597</b>	

**Notes/Comments:** State contributions to the ActiveCare Trust Fund total \$75 per member per month, distributed through the Foundation School Program. Districts are required to contribute a minimum of \$150 per member per month. State and employer payments subsidize monthly member premiums.

4	<b>Account No:</b> 864	<b>Account Type:</b> Outside the Treasury - Not Appropriated
	<b>Account Name:</b> 403B Administrative Trust Fund, TRS	
	<b>Legal Cite(s):</b> Title 34, Part 3, Chapter 53, Vernon's Civil Statutes, Title 109, Article 6228a-5, Section 7	
	<b>Authorized Use:</b> To register and provide oversight of vendor 403(b) products.	
	<b>Revenue Source:</b> Vendor certification and product registration fees, not to exceed administrative costs to the system or \$5,000. Vendors are currently charged a flat rate of \$5,000 for each certification and each product registration.	

Ranking:	Program Name	2018-19 Est/Budg	2020-21 Recommended	In Compliance with Authorized Use?
8	403(b)	\$ 525,991	\$ 435,944	Yes
<b>Total</b>		<b>\$ 525,991</b>	<b>\$ 435,944</b>	



**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 4: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury - Senate**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

	<b>2018-19 Est/Budg</b>	<b>2020-21 Recommended</b>
Outside the Treasury - Appropriated Funds	\$ 231,596,666	\$ 243,004,890
Outside the Treasury - Non-Appropriated Funds	\$ 26,944,738	\$ 25,108,776
<b>Total</b>	<b>\$ 258,541,404</b>	<b>\$ 268,113,666</b>

Note: Significant funding changes from 2018-19 to 2020-21 for Appropriated Funds include funding decreases related to the completion of the TEAM project and increases to reflect the full biennial cost of additional FTEs hired in the 2018-19 biennium. Changes for Non-Appropriated Funds reflect TRS management of programs based on demand for services and available revenues for each program.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5a: Program Summary - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	→	
			X
Authority			

**Program: Public Education Retirement**

Agency  
Ranking

1 out of 9

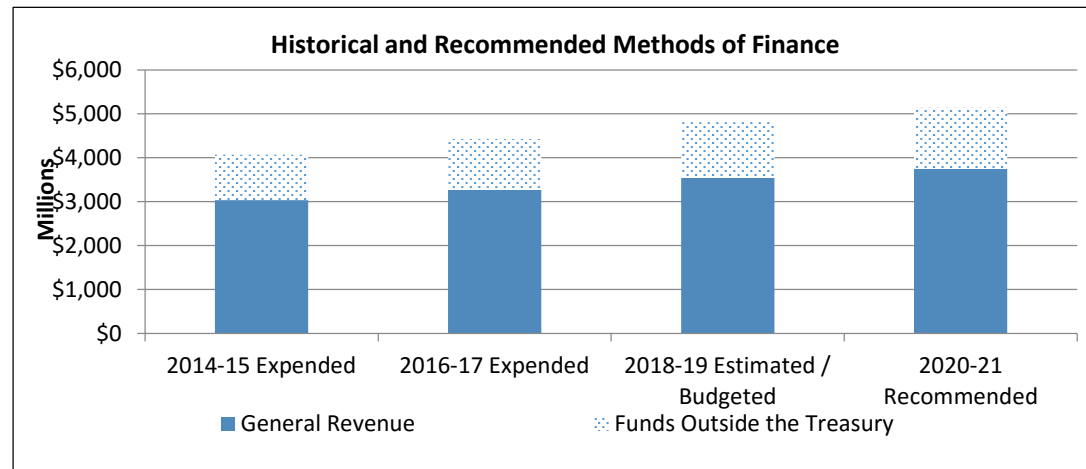
State matching contribution for public education employees.

**Legal Authority:** Texas Constitution, Art. 16, Sec. 67; Texas Government Code, Section 825.404

<b>Year Implemented</b>	1936	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	N/A	<b>General Revenue-Dedicated Funds</b>	N/A
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Employee Benefits Services		

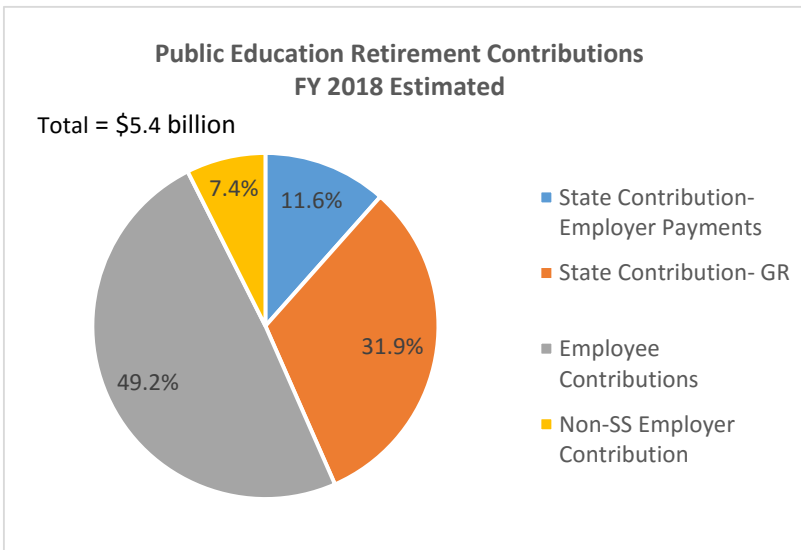
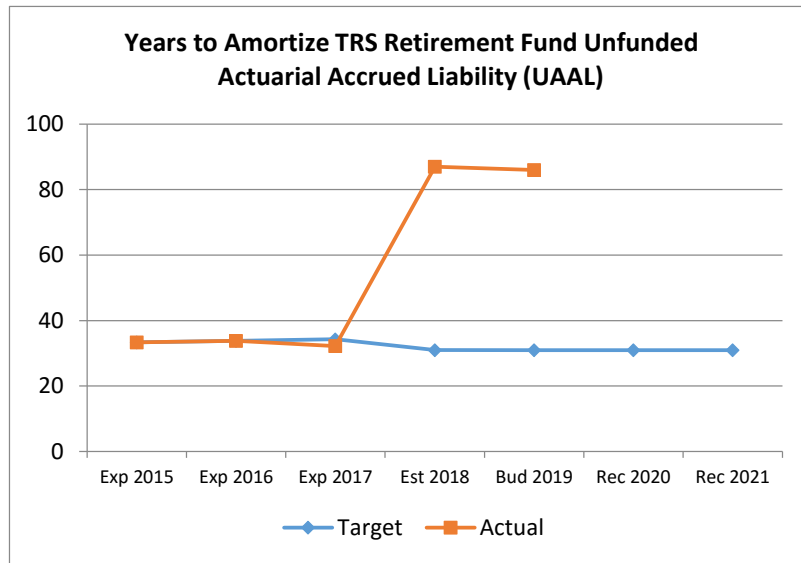
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
<b>Personnel Costs</b>	\$ 3,544,224,289	\$ 3,747,127,583	100.0%
<b>Total</b>	\$ 3,544,224,289	\$ 3,747,127,583	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 3,747,127,583	72.8%
Funds Outside the State Treasury	\$ 1,396,580,781	27.2%
<b>Total</b>	<b>\$ 5,143,708,364</b>	<b>100.0%</b>



**Full-Time Equivalent Positions (FTEs)**

Agency has no Full-Time-Equivalent Positions (FTEs) inside or outside the Treasury for this program. This program is only a revenue stream for the Pension Trust Fund.



**Summary of Recommendations and Fiscal and Policy Issues**

- 1 Recommendations include an estimated \$3.7 billion in General Revenue in the 2020-21 biennium for the state contribution to Public Education Retirement. Combined with a projected \$1.4 billion in payments from public education employers as required by statute, recommendations provide a total state contribution equal to 6.8 percent of covered public education payroll for the 2020-21 biennium. Recommendations assume 3.9 percent payroll growth across Public Education Retirement and TRS-Care state contributions.
- 2 In FY 2018, the TRS Board lowered its investment return assumption for the pension trust fund, increasing the amortization period to 87 years. (Actuarial soundness is defined in statute as less than 31 years.) In the 2020-21 biennium, TRS requests a 1.82 percentage point increase in the combined state, public education employer, and active employee contributions to make the pension fund actuarially sound. Current contribution rates total 6.8 percent for the state, 1.5 percent for public education employers not participating in Social Security, and 7.7 percent for employees. TRS estimates the cost of this increase in the 2020-21 biennium to be \$1.7 billion from all funding sources.

**Recommended Statutory Changes for Program Improvement**

- 1 None.

**Challenges and Enhancement Opportunities**

- 1 Provide a total 1.82 percentage point increase in the state, employer, and/or employee contributions to TRS Retirement. See Section 3, Selected Fiscal and Policy Issue 4.

**Alternative Funding Options**

- 1 Provide a defined contribution retirement program instead of the current defined benefit program. TRS estimates it would cost approximately 90.0 percent more than the current program to provide the same benefit level to retirees under an optimized defined contribution plan (investing in only target date funds) and 124.0 percent more than the current program to under a self-directed defined contribution plan. If the Legislature chose to maintain current contribution rates under an optimized or self-directed defined contribution plan, TRS estimates the plans would replace 35.4 percent and 29.9 percent, respectively, of a career employee's pre-retirement income, compared to an estimated 69.4 percent under the current program.

TRS also anticipates closing the current defined benefit plan to new members would increase the current unfunded actuarially accrued liability by \$15.5 billion or 33.5 percent.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5b: Program Summary - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality		
			X
Authority			

**Program: Higher Education Retirement**

Agency  
Ranking

2 out of 9

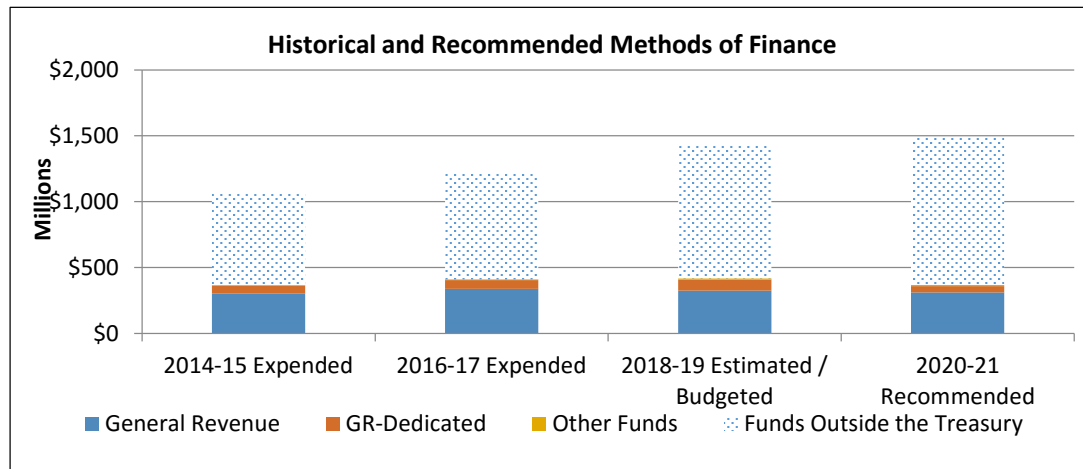
State matching contribution for higher education employees.

**Legal Authority:** Texas Constitution, Art. 16, Sec. 67; Texas Government Code, Section 825.404

<b>Year Implemented</b>	1936	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	N/A	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Employee Benefits Services		

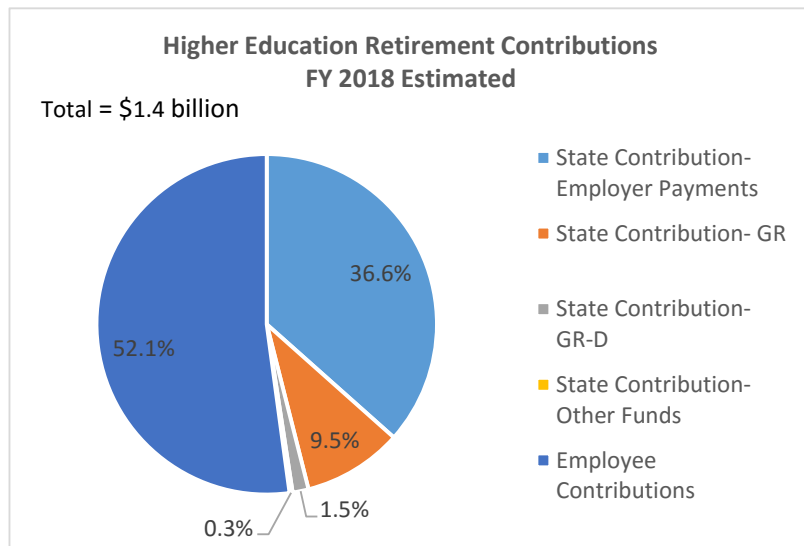
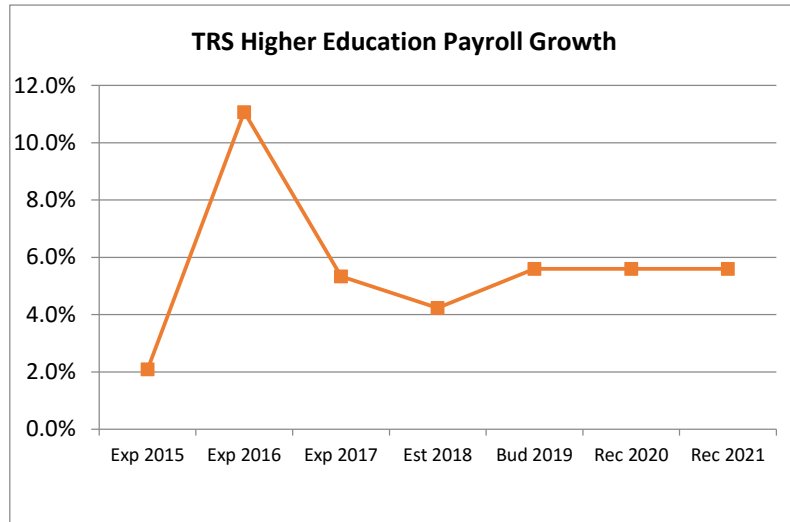
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
<b>Personnel Costs</b>	\$ 417,952,238	\$ 368,477,887	100.0%
<b>Total</b>	\$ 417,952,238	\$ 368,477,887	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 368,477,887	24.8%
Funds Outside the State Treasury	\$ 1,119,869,473	75.2%
<b>Total</b>	<b>\$ 1,488,347,360</b>	<b>100.0%</b>



**Full-Time Equivalent Positions (FTEs)**

Agency has no Full-Time-Equivalent Positions (FTEs) inside or outside the Treasury for this program. This program is only a revenue stream for the Pension Trust Fund.



**Summary of Recommendations and Fiscal and Policy Issues**

- 1 Recommendations include an estimated \$368.5 million in All Funds in the 2020-21 biennium for the state contribution to Higher Education Retirement, consisting of \$310.6 million in GR, \$48.8 million in GR-D, and \$9.1 million in Other Funds. Combined with a projected \$1.1 billion in payments from higher education employers as required by statute, recommendations provide a total state contribution equal to 6.8 percent of covered higher education payroll for the 2020-21 biennium. Recommendations assume 5.6 percent payroll growth in the Higher Education Retirement state contribution.
- 2 In FY 2018, the TRS Board lowered its investment return assumption for the pension trust fund, increasing the amortization period to 87 years. (Actuarial soundness is defined in statute as less than 31 years.) In the 2020-21 biennium, TRS requests a 1.82 percentage point increase in the combined state, public education employer, and active employee contributions to make the pension fund actuarially sound. Current contribution rates total 6.8 percent for the state, 1.5 percent for public education employers not participating in Social Security, and 7.7 percent for employees. TRS estimates the cost of this increase in the 2020-21 biennium to be \$1.7 billion from all funding sources.

**Recommended Statutory Changes for Program Improvement**

- 1 None.

**Challenges and Enhancement Opportunities**

- 1 Provide a total 1.82 percentage point increase in the state, employer, and/or employee contributions to TRS Retirement. See Section 3, Selected Fiscal and Policy Issue 4.

**Alternative Funding Options**

- 1 Provide a defined contribution retirement program instead of the current defined benefit program. TRS estimates it would cost approximately 90.0 percent more than the current program to provide the same benefit level to retirees under an optimized defined contribution plan (investing in only target date funds) and 124.0 percent more than the current program to under a self-directed defined contribution plan. If the Legislature chose to maintain current contribution rates under an optimized or self-directed defined contribution plan, TRS estimates the plans would replace 35.4 percent and 29.9 percent, respectively, of a career employee's pre-retirement income, compared to an estimated 69.4 percent under the current program.

TRS also anticipates closing the current defined benefit plan to new members would increase the current unfunded actuarially accrued liability by \$15.5 billion or 33.5 percent.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5c: Program Summary - Senate**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Mission Centrality/Authority			
	Centrality	→	
			X
Authority			

**Program: Retiree Health Care Benefits (TRS-Care)**

Agency Ranking 3 out of 9

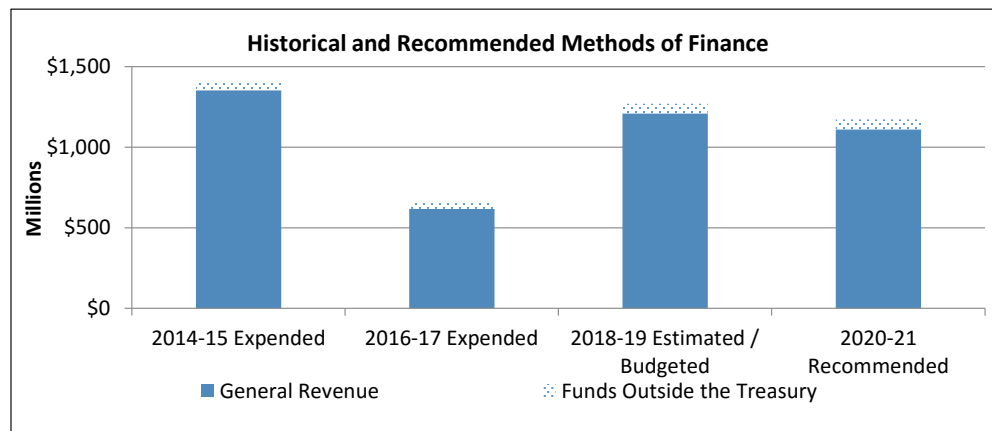
An employee benefit trust fund that provides health care coverage to eligible retirees of participating entities (i.e., school districts, open enrollment charter schools, regional education service centers, or other educational districts) who retire under TRS and their eligible dependents.

**Legal Authority:** Texas Insurance Code, Section 1575.202

<b>Year Implemented</b>	1986	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issue</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	N/A	<b>General Revenue-Dedicated Funds</b>	N/A
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Employee Benefits Services		

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
<b>Personnel Costs</b>	\$ 1,209,597,636	\$ 1,110,116,548	100.0%
<b>Total</b>	\$ 1,209,597,636	\$ 1,110,116,548	100.0%

	2020-21 Recommended	% of Total
Funds Inside the State Treasury	\$ 1,110,116,548	94.7%
Funds Outside the State Treasury	\$ 62,036,390	5.3%
<b>Total</b>	\$ 1,172,152,938	100.0%



Note: General Revenue amounts above include supplemental GR funding for TRS-Care totaling \$804.2 million in 2014-15, \$15.7 million in 2016-17, \$394.6 million in 2018-19, and \$230.8 million in 2020-21.

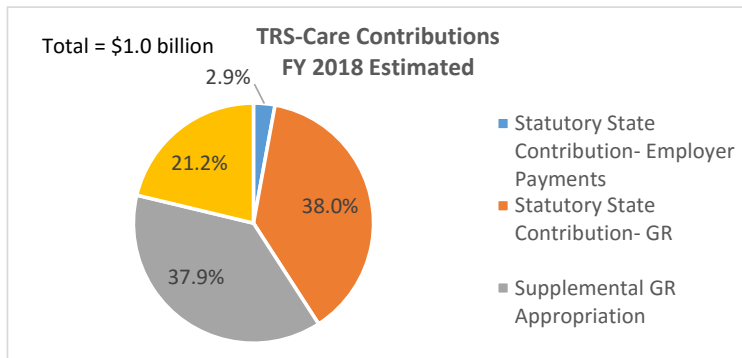
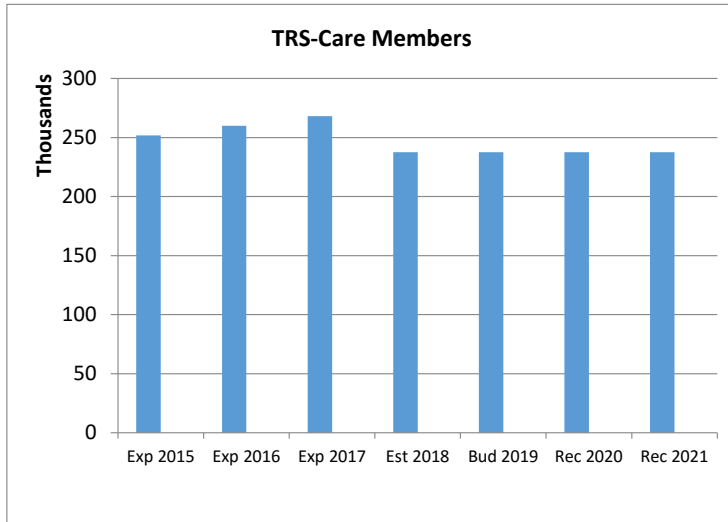
**Full-Time Equivalent Positions (FTEs)**

Agency has no Full-Time-Equivalent Positions (FTEs) inside or outside the Treasury for this program. This program is only a revenue stream for the Retired School Employees Group Insurance (TRS-Care) Trust Fund.

**Program: Retiree Health Care Benefits (TRS-Care)**

Agency  
Ranking

3 out of 9



**Summary of Recommendations and Fiscal and Policy Issues**

- 1 Recommendations include an estimated \$879.4 million in General Revenue in the 2020-21 biennium for the statutory state contribution to TRS-Care. Combined with a projected \$62.0 million in payments from public education employers as required by statute, recommendations provide a total state contribution equal to 1.25 percent of public education salaries for the 2020-21 biennium. Recommendations assume 3.9 percent payroll growth across the Public Education Retirement and TRS-Care state contributions.
- 2 Recommendations include \$230.8 million in GR above statutorily required amounts to maintain TRS-Care plan year 2019 premiums and benefit levels in the 2020-21 biennium.

The Eighty-fifth Legislature enacted significant reforms to the TRS-Care program, increased the state and employer contributions to 1.25 percent and 0.75 percent, respectively, and provided \$394.6 million in additional supplemental funding to TRS-Care in the 2018-19 biennium. TRS implemented the new plan structure in FY 2018, which resulted in premium and out of pocket cost increases for most members. As a result of the changes, approximately 11.4% of TRS-Care members left the program in FY 2018.

**Recommended Statutory Changes for Program Improvement**

- 1 None.

**Challenges and Enhancement Opportunities**

- 1 None.

**Alternative Funding Options**

- 1 Require employers to pay the Statutory Minimum and New Member contributions for TRS-Care. Currently these payments are only required for Public Education Retirement contributions. Based on FY 2017 New Member and Statutory Minimum contributions for Public Education Retirement, TRS assumes the New Member contribution for TRS-Care would save the state \$7.6 million per year and the Statutory Minimum contribution for TRS-Care would save \$71.9 million per year, for a total of \$159.0 million in GR savings for the 2020-21 biennium.
- 2 Pre-fund TRS-Care benefits. Currently, TRS-Care is funded on a pay as you go basis, with current year contributions expended immediately on retiree health benefits. If the Legislature chose to pre-fund TRS-Care's long term obligations, assuming a 30-year amortization period and current employee and employer contributions remaining at the current 0.65 percent and 0.75 percent of payroll, respectively, the state contribution rate would need to increase from 1.25 percent to 5.35 percent. TRS estimates the cost of this increase to be \$2.7 billion in the 2020-21 biennium and \$74.1 billion over 30 years. Contributions would exceed the current year cost of benefits until the unfunded liability was fully paid; however, investment returns (assumed to be 7.25 percent per year) would exceed the cost of current year benefits and result in long-term savings to the state.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5d: Program Summary - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality		
			X
Authority			

**Program: Benefit Services**

**Agency Ranking**

**4 out of 9**

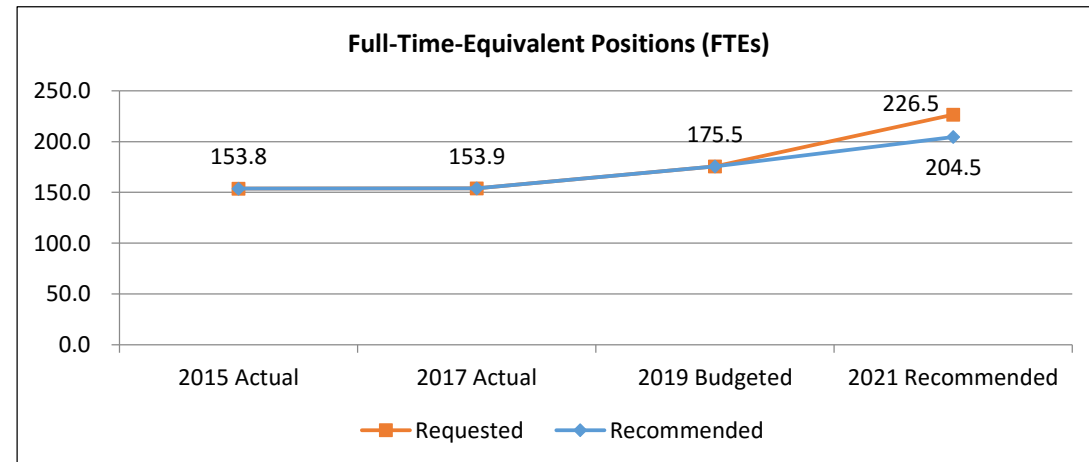
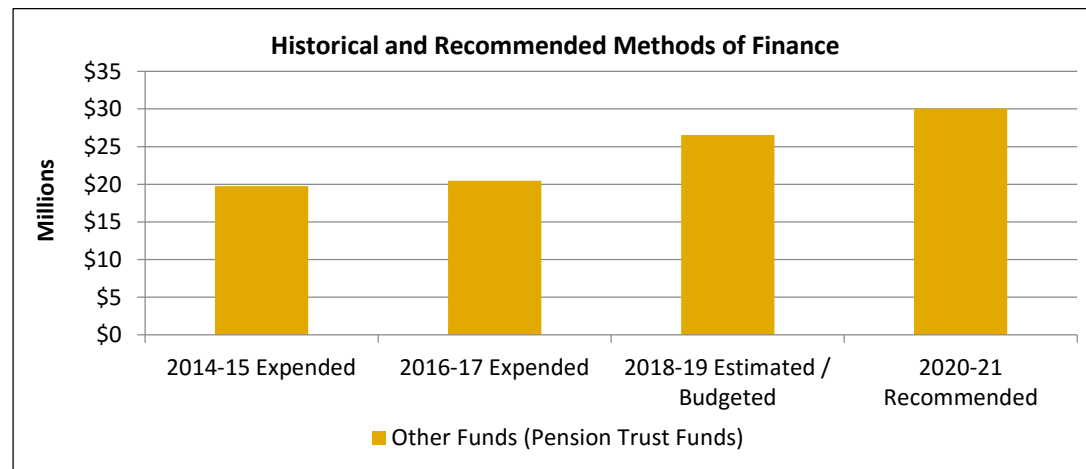
Benefit Services processes benefit payments and provides customer service and information to active members, retirees, and beneficiaries.

**Legal Authority:** Texas Constitution, Article 16, Section 67(b)(1); Texas Government Code, Sections 825.101 and 825.102; Texas Administrative Code, Title 34, Part 3, Chapter 29

<b>Year Implemented</b>	1936	<b>Performance and/or</b>		<b>Revenue Supported</b>	No
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

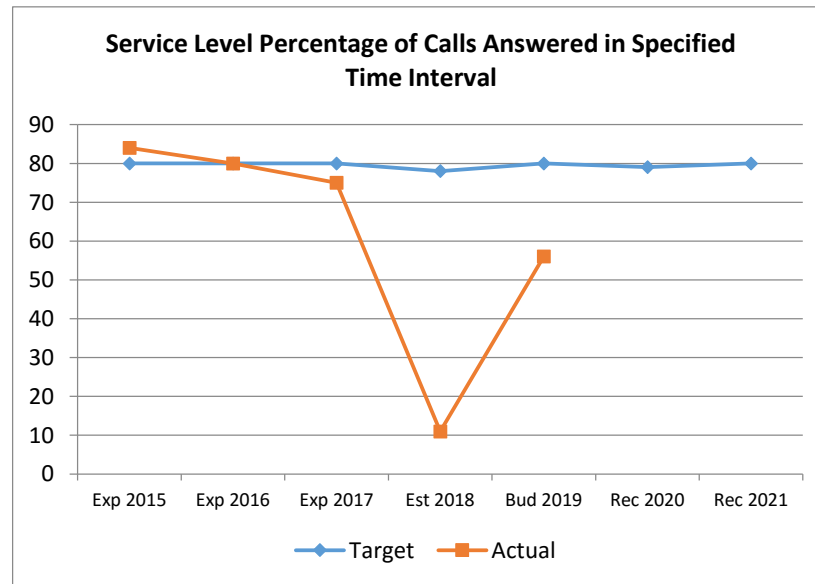
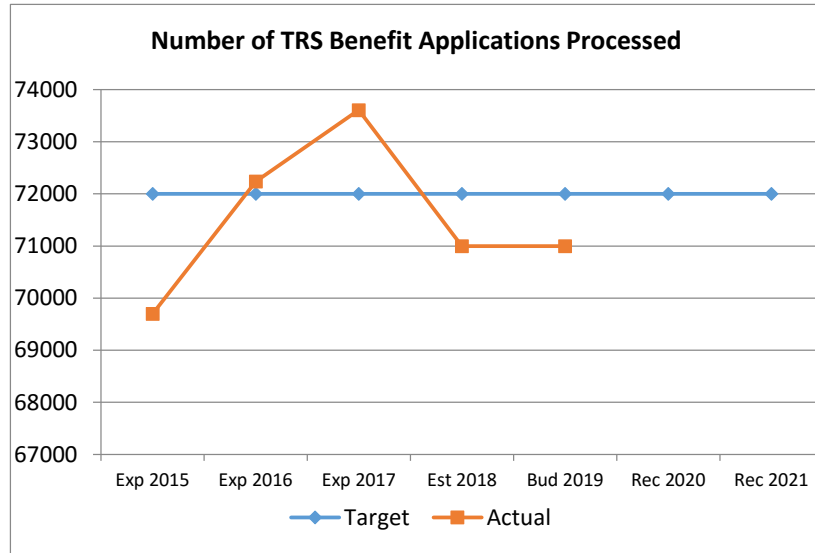
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
<b>Personnel Costs</b>	\$ 25,709,733	\$ 29,012,699	96.5%
<b>Operating Costs</b>	\$ 819,898	\$ 1,040,683	3.5%
<b>Total</b>	\$ 26,529,631	\$ 30,053,382	100.0%

	2020-21 Recommended	% of Total
Appropriated Funds	\$ 30,053,382	100.0%
Non-Appropriated Funds	\$ -	0.0%
<b>Total</b>	<b>\$ 30,053,382</b>	<b>100.0%</b>



Note: All program FTEs are included in the agency's bill pattern.





**Summary of Recommendations and Fiscal and Policy Issues**

1 Recommendations include \$30.1 million in Pension Trust Funds for the 2020-21 biennium, including maintaining funding for an additional 43.0 FTEs hired in the 2018-19 biennium related to increased customer service demands. Recommendations do not include approximately \$3.6 million in Pension Trust Funds for 22.0 FTEs that TRS requests to add to its FTE cap for the 2020-21 biennium.

**Recommended Statutory Changes for Program Improvement**

1 None.

**Challenges and Enhancement Opportunities**

1 During spring 2018, TRS experienced historic customer call volumes and handle times in the Telephone Counseling Center (TCC) due to the implementation of the TEAM project, the changes to the TRS-Care program, and other statutory requirements and deadlines. As a result, in FY 2018 TRS was only able to answer 15.1 percent of calls within three minutes, well below its performance standard of 80.0 percent.

TRS has implemented new call center software to better manage calls and emails and projects it will be able to achieve the 80.0 percent target again by FY 2021.

**Alternative Funding Options**

1 To provide a customer service level of 80.0 percent of calls answered within two minutes rather than three minutes, TRS estimates it would require an additional 32.0 FTEs and \$1.4 million in Pension Trust Funds above TRS' 2020-21 base request.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5e: Program Summary - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	→	
			X
Authority			

**Program: Investment Management Division**

**Agency Ranking**

**5 out of 9**

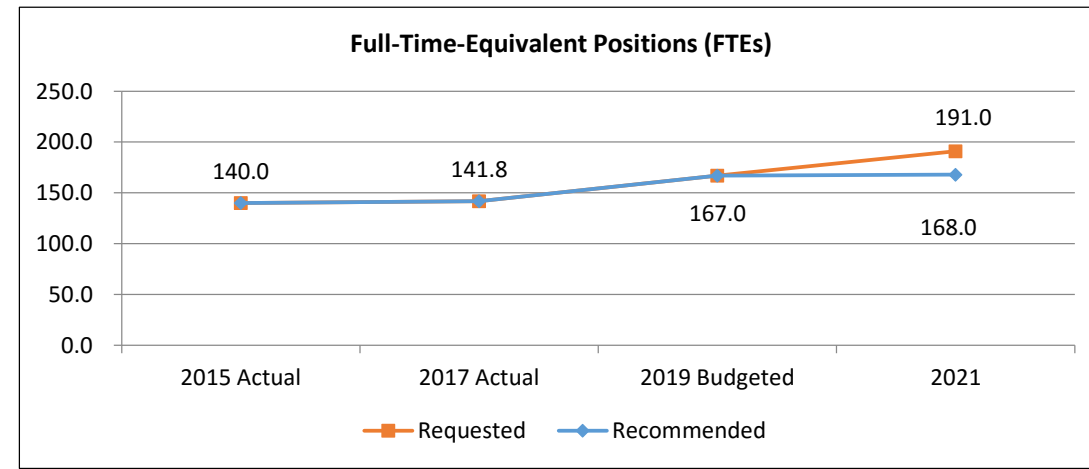
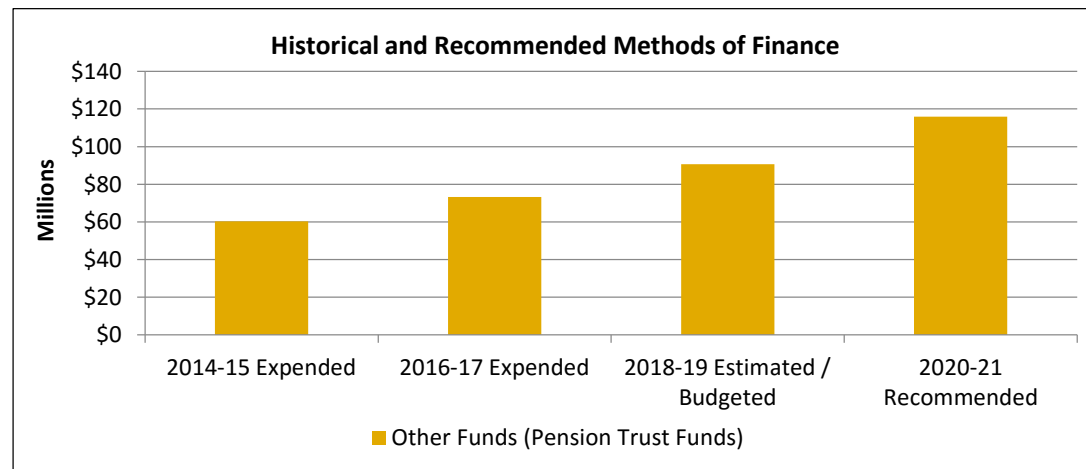
The Investment Management Division implements investment policies as directed by the TRS board, emphasizing long-term performance and maximizing investment returns.

**Legal Authority:** Texas Constitution, Article 16, Section 67(a)(3); Texas Government Code, Sections 825.103 and 825.301

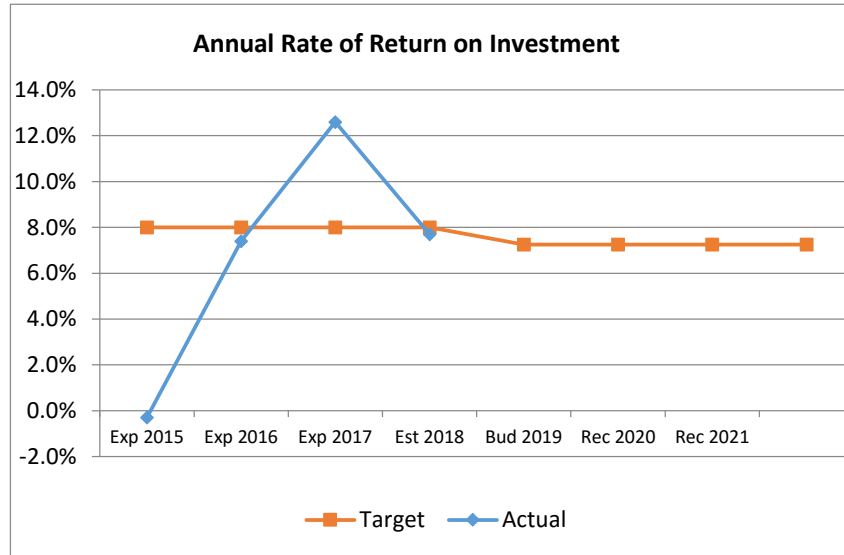
<b>Year Implemented</b>	1936	<b>Performance and/or</b>		<b>Revenue Supported</b>	No
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs	\$ 75,562,574	\$ 94,347,037	81.3%
Operating Costs	\$ 15,024,016	\$ 21,641,040	18.7%
<b>Total</b>	<b>\$ 90,586,590</b>	<b>\$ 115,988,077</b>	<b>100.0%</b>

	2020-21 Recommended	% of Total
Appropriated Funds	\$ 115,988,077	100.0%
Non-Appropriated Funds	\$ -	0.0%
<b>Total</b>	<b>\$ 115,988,077</b>	<b>100.0%</b>



Note: All program FTEs are included in the agency's bill pattern.

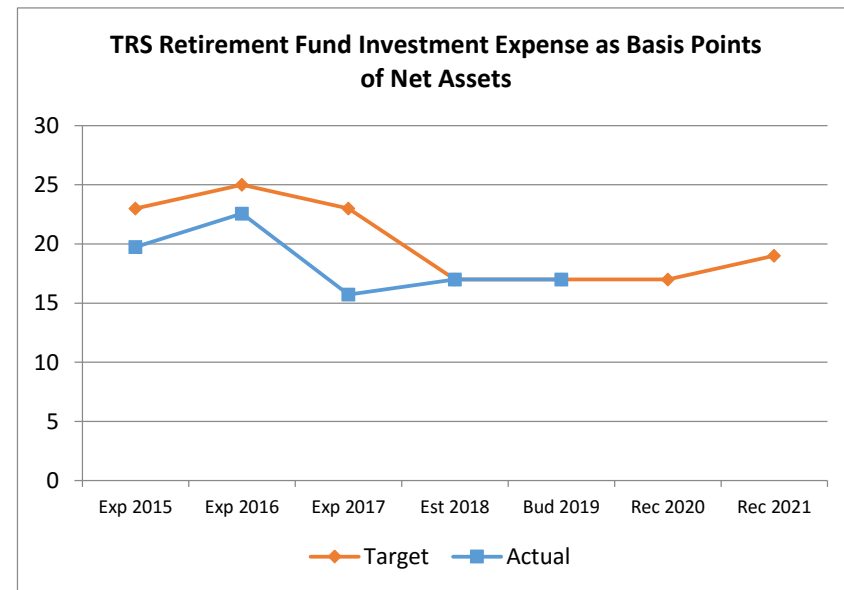


**Summary of Recommendations and Fiscal and Policy Issues**

- 1 Recommendations include \$116.0 million in Pension Trust Funds for the 2020-21 biennium, including maintaining funding for an additional 22.0 FTEs hired in the 2018-19 biennium. Recommendations do not include approximately \$8.4 million in Pension Trust Funds for 23.0 additional IMD FTEs in the 2020-21 biennium.
- 2 In FY 2018 the TRS Board reduced its investment return assumption from 8.0 percent to 7.25 percent based on recommendations from its consulting actuary.
- 3 TRS currently pays incentive compensation to IMD staff based on benchmarks set by the TRS Board. In 2017, TRS paid \$9.1 million in incentive compensation to 134 IMD staff.

**Recommended Statutory Changes for Program Improvement**

- 1 None.



**Challenges and Enhancement Opportunities**

- 1 TRS requests an additional 23.0 FTEs for IMD totaling \$8.4 million in the 2020-21 biennium. TRS estimates that hiring these additional staff will save \$197.0 million in management fees through FY 2021. Additional staff will result in an increased allocation to public markets internal management and increased private markets principal investing.

**Alternative Funding Options**

- 1 To track the TRS Board's management of Pension Trust Fund assets, add a new performance measure comparing the performance of TRS' current active management approach to returns achieved through passive index funds. Measure could show the difference between the annual TRS return on the market value of assets and the return of a major U.S. index, such as the S&P 500, over the same period.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5f: Program Summary- Senate**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Mission Centrality/Authority			
	Centrality	→	
			X
Authority			

**Program: TRS Care Administration**

**Agency Ranking**

**6 out of 9**

Administration of health care benefits for retired public school employees and their dependents. Program is funded entirely from the TRS-Care trust fund.

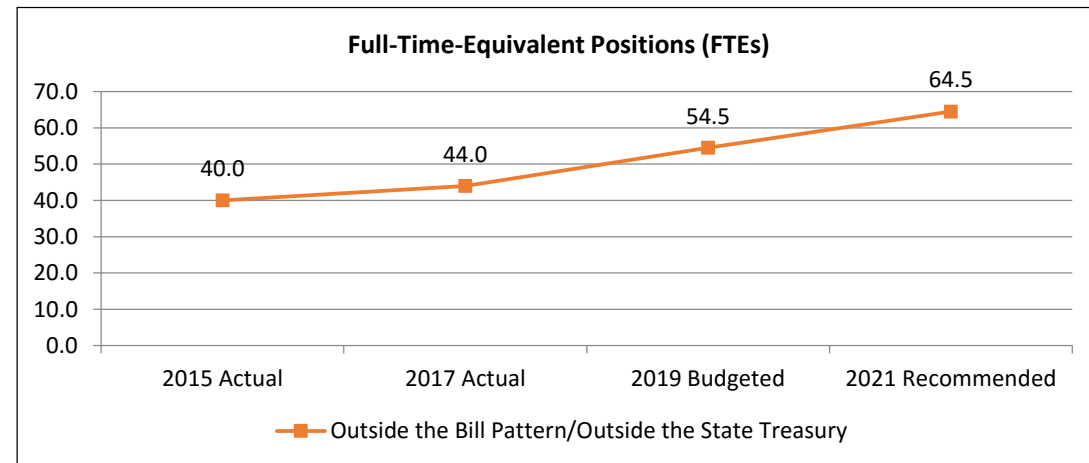
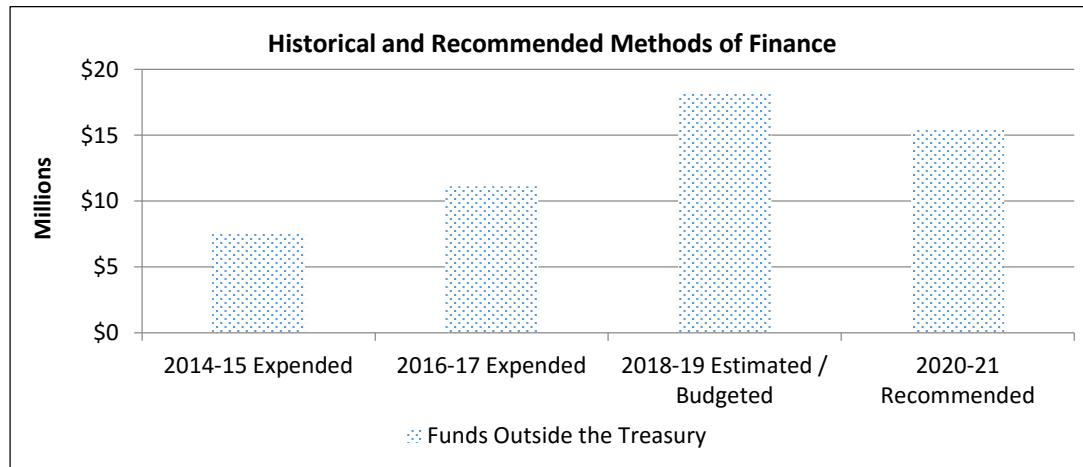
**Legal Authority:** Texas Insurance Code, Sections 1575.051 and 1575.052; Texas Administrative Code, Title 34, Part 3, Chapter 41, Subchapter A

<b>Year Implemented</b>	1986	<b>Performance and/or</b>		<b>Revenue Supported</b>	No
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>			

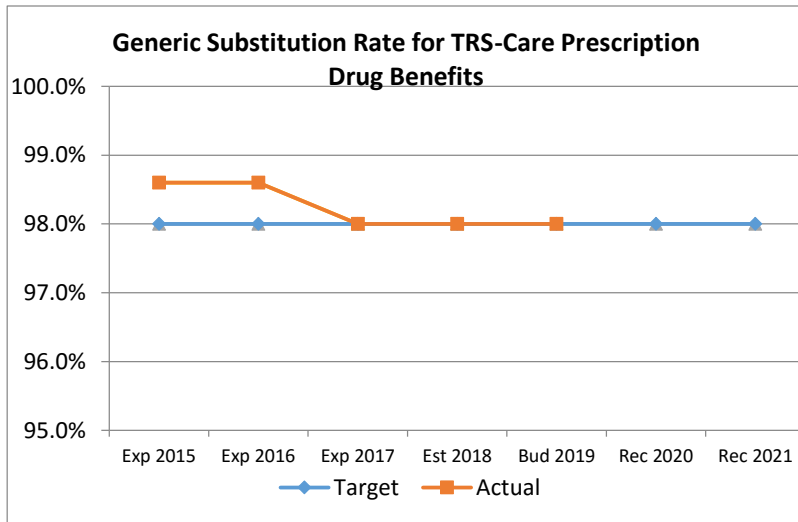
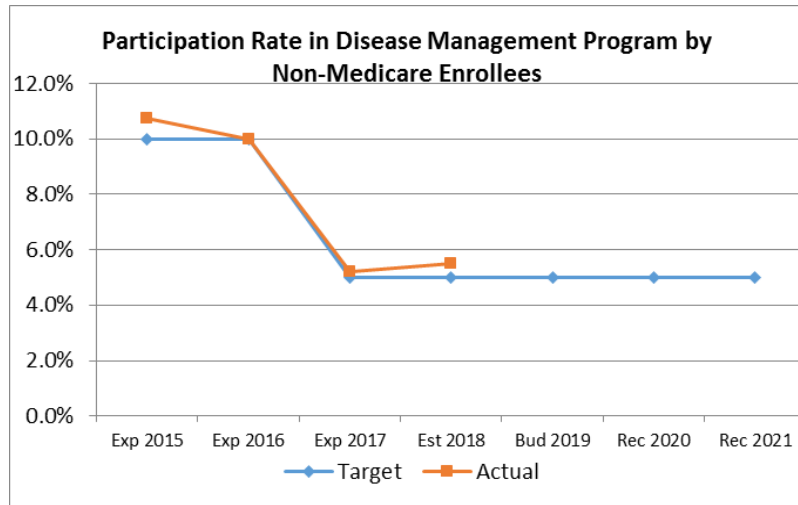
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs-Outside*	\$ 7,715,766	\$ 8,714,924	56.6%
Operating Costs-Outside*	\$ 10,549,489	\$ 6,674,311	43.4%
<b>Total</b>	<b>\$ 18,265,255</b>	<b>\$ 15,389,235</b>	<b>100.0%</b>

	2020-21 Recommended	% of Total
Appropriated Funds	\$ -	0.0%
Non-Appropriated Funds	\$ 15,389,235	100.0%
<b>Total</b>	<b>\$ 15,389,235</b>	<b>100.0%</b>

\*Indicates Outside the Bill Pattern/Outside the State Treasury.



Note: None of the program FTEs are included in the agency's bill pattern.



**Summary of Recommendations and Fiscal and Policy Issues**

1 TRS-Care Administration is funded entirely using non-appropriated TRS-Care Trust Funds. Recommendations do not include any appropriated amounts for this program in the 2020-21 biennium.

**Recommended Statutory Changes for Program Improvement**

1 None.

**Challenges and Enhancement Opportunities**

1 TRS-Care experiences rising health care prices due to a combination of factors including increased utilization, the impact of chronic conditions, and increases in drug costs. Like other plans, a small portion of TRS' plan participants account for a disproportionate amount of health care spending. For example, participants with chronic diseases such as diabetes have a much higher rate of emergency room visits than the non-diabetic population, more inpatient admissions, longer hospital stays and higher readmission rates. TRS and its health plan administrators will continue to identify and enhance programs that help contain costs while managing populations with chronic and complex health conditions.

**Alternative Funding Options**

1 Contract with a telemedicine provider to offer virtual visits with no patient copay using a fixed per member per month payment model. Currently TRS covers virtual visits for TRS-Care Standard Plan members for \$40 per visit. Based on FY 2018 utilization data indicating approximately 4,600 virtual visits per year and on an assumed fair market value cost of \$40 per visit, this option is estimated to cost \$368,000 in TRS-Care Trust Funds in the 2020-21 biennium.

This option could result in cost savings for the TRS-Care Trust Fund in the 2020-21 biennium depending on how virtual visits impact overall utilization trends. The Employees Retirement System (ERS) indicates that implementing a \$0 copay virtual visit benefit in FY 2018 resulted in approximately \$1.0 million in annual cost savings for the HealthSelect plan. However, the funding impact to TRS-Care may vary due to differences in plan design, population, and utilization trends.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5g: Program Summary - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality		
			X
Authority			

**Program: ActiveCare Administration**

**Agency Ranking**  
7 out of 9

TRS-ActiveCare is a self-funded health care program that provides coverage to employees and dependents of participating public education entities.

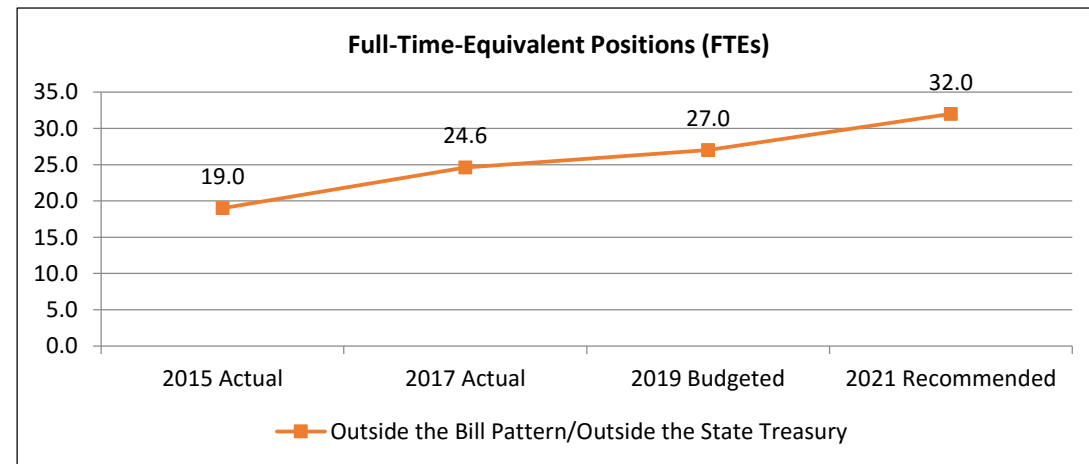
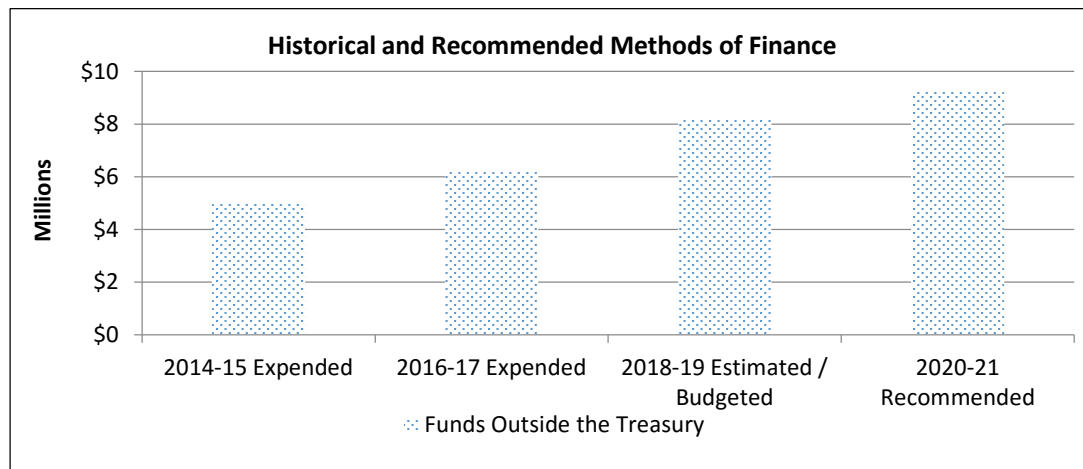
**Legal Authority:** Texas Insurance Code, Sections 1579.051 and 1575.052; Texas Administrative Code, Title 34, Part 3, Chapter 41, Subchapter C

<b>Year Implemented</b>	2002	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>			

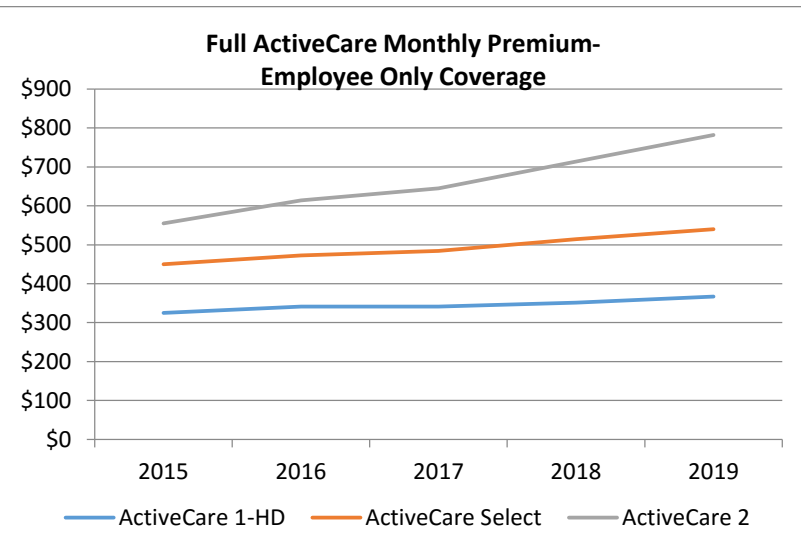
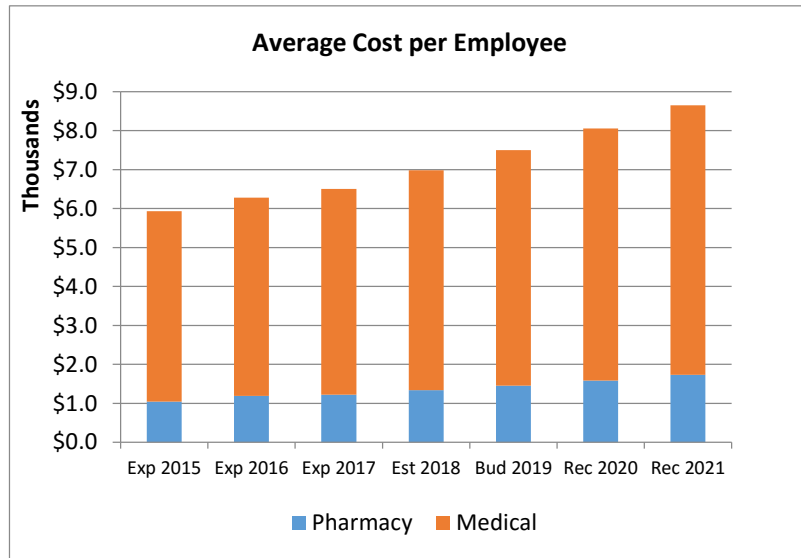
Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
Personnel Costs-Outside*	\$ 4,234,806	\$ 5,109,666	55.0%
Operating Costs-Outside*	\$ 3,918,686	\$ 4,173,931	45.0%
<b>Total</b>	\$ 8,153,492	\$ 9,283,597	100.0%

	2020-21 Recommended	% of Total
Appropriated Funds	\$ -	0.0%
Non-Appropriated Funds	\$ 9,283,597	100.0%
<b>Total</b>	\$ 9,283,597	100.0%

\*Indicates Outside the Bill Pattern/Outside the State Treasury.



Note: None of the program FTEs are included in the agency's bill pattern.



**Summary of Recommendations and Fiscal and Policy Issues**

- 1 TRS Active-Care Administration is funded entirely using non-appropriated TRS ActiveCare Trust Funds. Recommendations do not include any appropriated amounts for this program in the 2020-21 biennium.
- 2 Significant cost growth in the ActiveCare program without additional state subsidy has reduced the program affordability for members. In FY 2017 and FY 2018 the Board approved premium increases and plan design changes for ActiveCare. Additionally, in FY 2019 the Board eliminated TRS-ActiveCare 2, the richest benefit package plan, as an option for new enrollees beginning Sept. 1, 2018.

**Recommended Statutory Changes for Program Improvement**

- 1 None.

**Challenges and Enhancement Opportunities**

- 1 TRS indicated a need for member education about the benefits and resources available to support participants in maintaining and improving their health, particularly for those on a high deductible health plan.

**Alternative Funding Options**

- 1 Direct TRS to administer a Health Savings Account (HSA) program allowing ActiveCare HD-1 participants to save pre-tax earnings via payroll deduction to pay future out of pocket healthcare costs. Participation would result in federal income tax savings for members, which could partially subsidize out of pocket costs and increase plan affordability.

TRS indicates costs to administer an HSA would be approximately \$2.50-\$4.50 per month per account, resulting in an administrative cost of approximately \$20.0 million to \$24.0 million for the 2020-21 biennium. This cost could be paid for with member account fees. This option would require statutory amendment to establish the program.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5h: Program Summary - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality		
		X	
Authority			

**Program: 403(b)**

**Agency Ranking**

**8 out of 9**

Administrative operations associated with the certification and registration of 403(b) companies and products. Registered 403(b) products are tax-deferred retirement savings accounts offered to TRS public education members. The state does not contribute to member 403(b) accounts and no funds are appropriated by the Legislature for program administration.

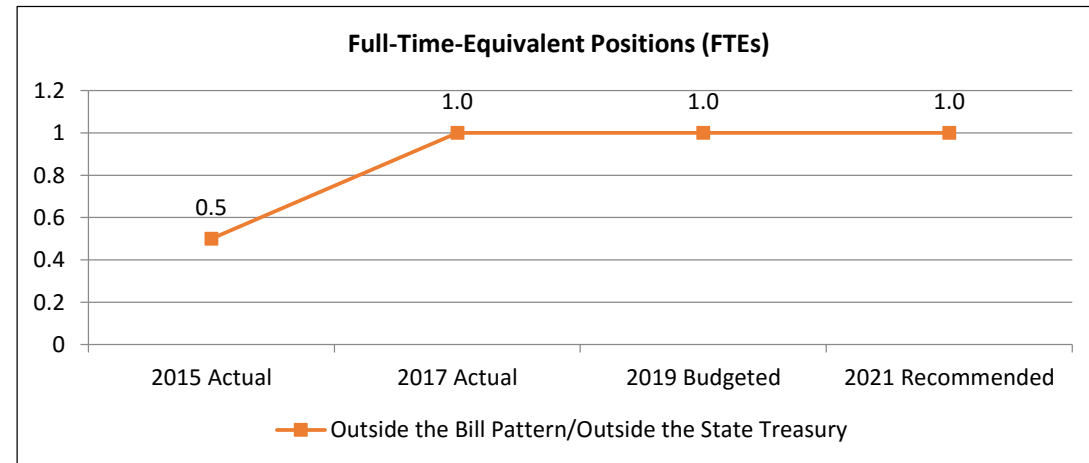
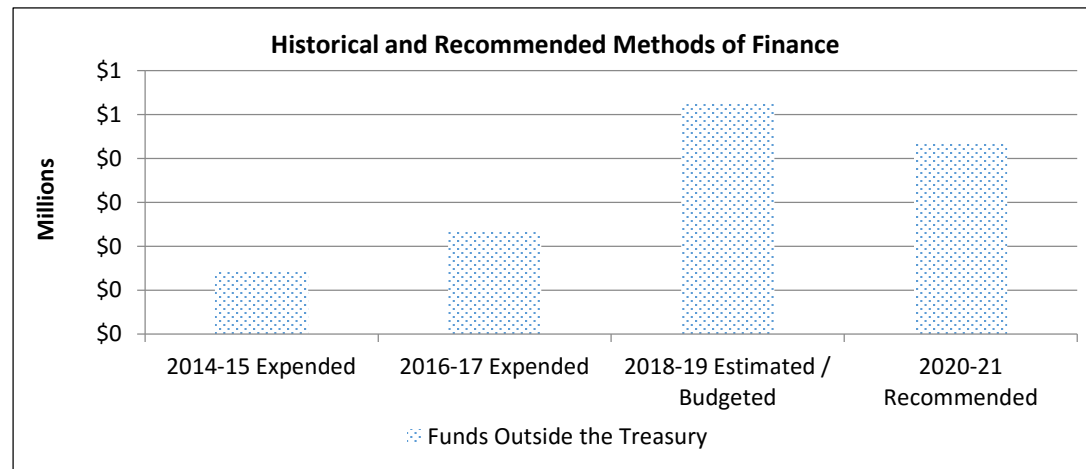
**Legal Authority:** Vernon's Civil Statutes, Article 6228a-5; Texas Administrative Code, Title 34, Chapter 53

<b>Year Implemented</b>	2002	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Moderate	<b>Outsourced Services</b>	N/A	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>			

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
<b>Personnel Costs-Outside*</b>	\$ 172,985	\$ 231,997	53.2%
<b>Operating Costs-Outside*</b>	\$ 353,006	\$ 203,947	46.8%
<b>Total</b>	\$ 525,991	\$ 435,944	100.0%

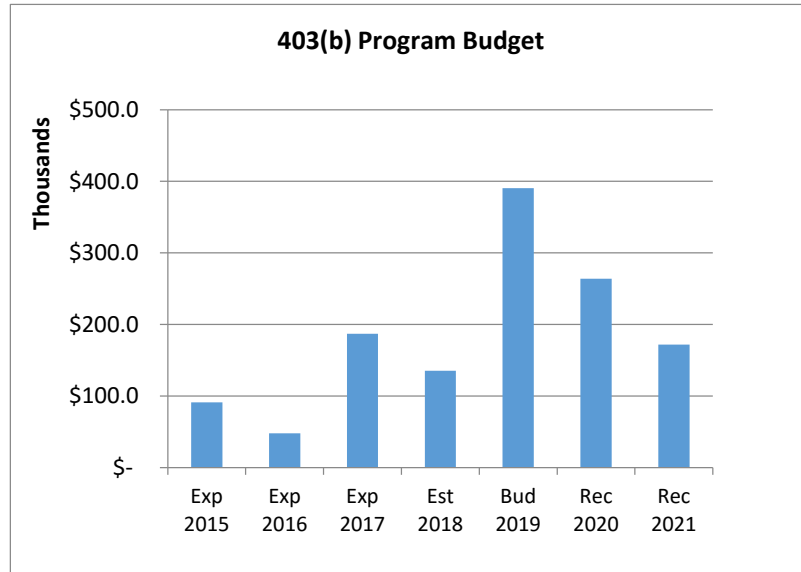
	2020-21 Recommended	% of Total
Appropriated Funds	\$ -	0.0%
Non-Appropriated Funds	\$ 435,944	100.0%
<b>Total</b>	<b>\$ 435,944</b>	<b>100.0%</b>

\*Indicates Outside the Bill Pattern/Outside the State Treasury.





Note: None of the program FTEs are included in the agency's bill pattern.



**Summary of Recommendations and Fiscal and Policy Issues**

1 Recommendations do not include any appropriated amounts for this program in the 2020-21 biennium. The 403(b) program is funded entirely using non-appropriated TRS 403(b) Trust Funds. Program revenues include 403(b) company and product certification fees.

**Recommended Statutory Changes for Program Improvement**

1 Require TRS to collect data on actual asset-based fees charged to members who participate in each registered 403(b) product.

**Challenges and Enhancement Opportunities**

1 TRS does not collect data on the average asset-based fees charged to members by 403(b) vendors. TRS could collect and publish this information to help members evaluate 403(b) product options.

2 TRS does not regularly collect information on member participation in TRS-registered 403(b) plans, such as the number of participants, current payroll deduction rates, or the value of assets held in those plans. TRS could collect participation information from employers to assess program utilization and opportunities to increase supplemental retirement saving among TRS members.

**Alternative Funding Options**

1 Study the feasibility of consolidating the current 403(b) vendor registration program into a single 403(b) supplemental retirement option similar to the TexaSaver program for state employees. Currently, TRS-certified 403(b) products may charge up to 2.75% in asset-based fees. This is significantly higher than current TexaSaver account fees, which range from \$0.00 to \$13.62 per month depending on the value of invested assets. Under a consolidated program, TRS would contract with a vendor to administer the program and charge low member account fees sufficient to cover ongoing program costs.

To determine feasibility, TRS would review legal requirements, plan design options, and any onetime transition costs borne by the state.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 5i: Program Summary - Senate**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission Centrality/Authority			
	Centrality	→	
		X	
Authority			

**Program: Support Services and Administration**

**Agency Ranking**

**9 out of 9**

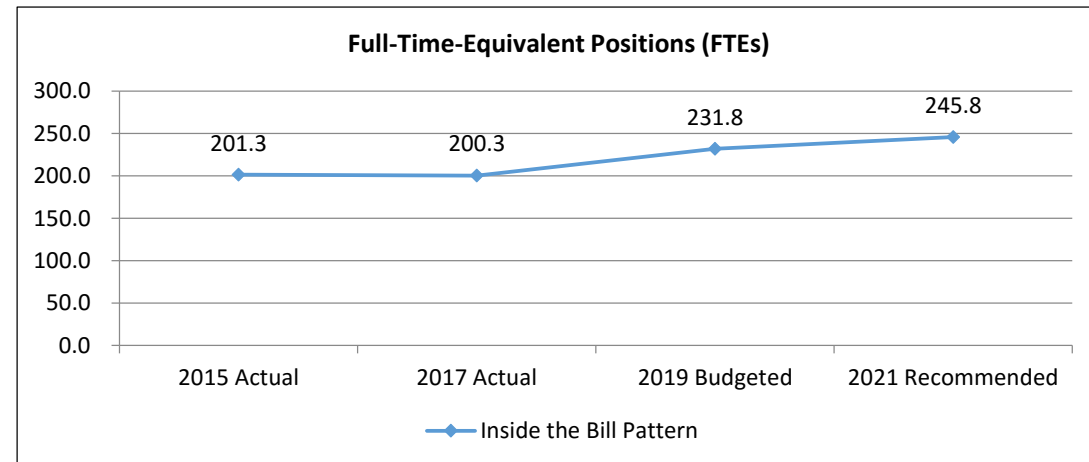
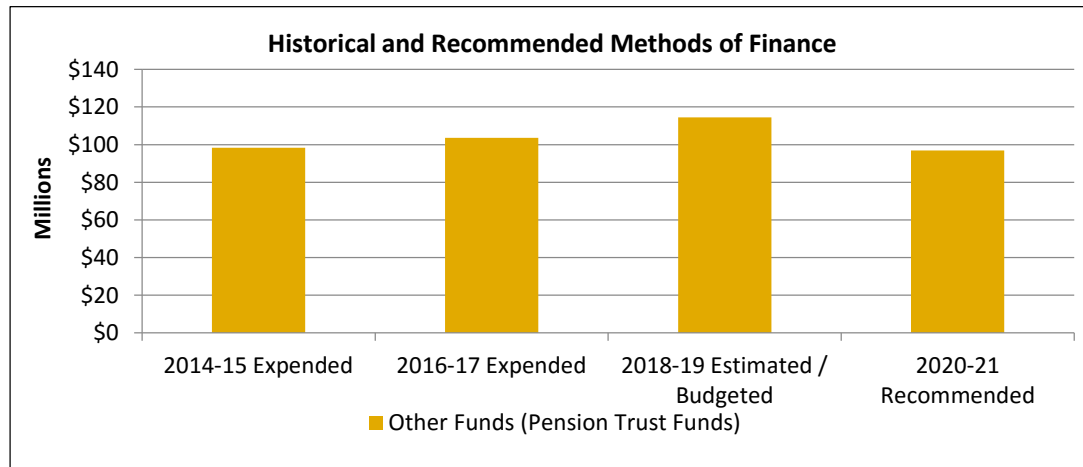
Administrative operations associated with the delivery of retirement benefits and the management of assets. Internal divisions within TRS including the finance division, IT division, HR, Legal, Communications, Audit and others.

**Legal Authority:** Texas Government Code, Sections 825.101 and 825.102; Texas Administrative Code, Title 34, Part 3, Chapter 51

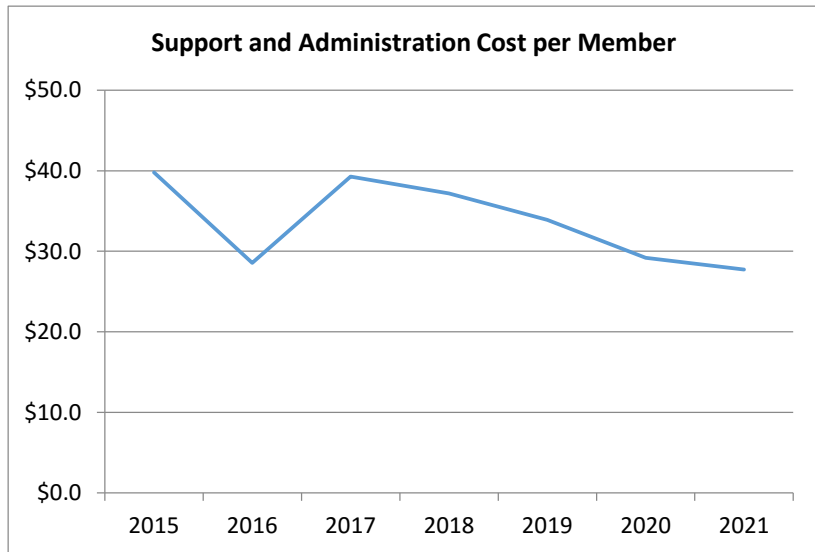
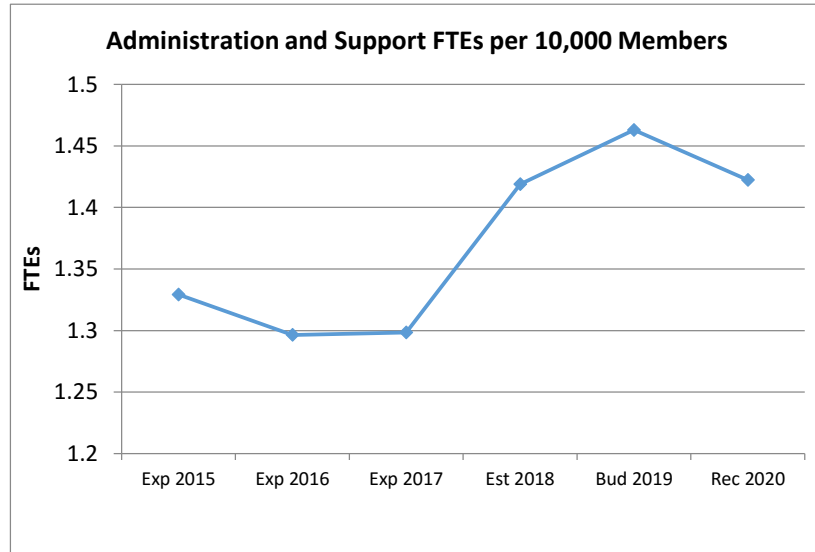
<b>Year Implemented</b>	1936	<b>Performance and/or</b>		<b>Revenue Supported</b>	No
<b>Authority</b>	Strong	<b>Operational Issues</b>	Yes	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Moderate	<b>Outsourced Services</b>	No	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

Objects of Expense	2018-19 Estimated / Budgeted	2020-21 Recommended	% of Total Rec. Funding
<b>Operating Costs</b>	\$ 67,166,117	\$ 74,053,320	76.4%
<b>Personnel Costs</b>	\$ 34,075,890	\$ 18,186,111	18.8%
<b>Capital Costs</b>	\$ 13,238,438	\$ 4,724,000	4.9%
<b>Total</b>	\$ 114,480,445	\$ 96,963,431	100.0%

	2020-21 Recommended	% of Total
Appropriated Funds	\$ 96,963,431	100.0%
Non-Appropriated Funds	\$ -	0.0%
<b>Total</b>	<b>\$ 96,963,431</b>	<b>100.0%</b>



Note: All program FTEs are included in the agency's bill pattern.



**Summary of Recommendations and Fiscal and Policy Issues**

**1** Recommendations include \$97.0 million in Pension Trust Funds for the 2020-21 biennium, including maintaining funding for an additional 29.0 FTEs hired in the 2018-19 biennium. Recommendations do not include approximately \$14.5 million in Pension Trust Funds requested for 82.0 additional Administrative Support FTEs in the 2020-21 biennium.

Recommendations also do not include \$8.0 million in Pension Trust Funds requested for renovation of the TRS headquarters building.

**2** Texas Government Code §825.101 grants TRS exclusive control over all assets held in trust by the retirement system and all operations funded by trust assets. This includes exemptions from capital budget requirements for projects funded with trust funds. TRS has additional statutory authority and exemptions from other state policies regarding procurement, staff compensation, and information technology. Despite this authority, since FY 2000 the Legislature has appropriated TRS Pension Trust Fund 960 in TRS' bill pattern to manage the TRS pension administrative operations budget, including FTE levels, executive and other staff salaries, and capital projects. In the 2020-21 biennium, TRS requests that this trust fund appropriation be removed from its bill pattern.

**3** A 2018 internal audit reviewed procurements for the Health and Insurance Benefits Division and Investment Management Division and found that Board procurement guidance is not consistently followed throughout the contracting process. For example, TRS failed to document how vendors were evaluated, how many bids the agency had received, and justifications for non-competitively bid contracts with no term limits or not-to-exceed amounts. The audit also found that TRS did not have Business Associate Agreements in place with employers of fifteen TRS contract workers, a federal HIPAA violation.

The report recommends that the Procurements and Contracts division (P&C) coordinate with business units to develop procurement plans, timelines, and detailed procedures, and implement a formal process to evaluate whether or not a contract requires a BAA. TRS has indicated it has taken preliminary steps to implement the recommendations and will develop additional trainings, policies, and procedures by September 1, 2019.

**4** TRS is currently completing the TRS Enterprise Application Modernization (TEAM) Project, which will replace all major legacy data systems for pension administration, including member records, employer reporting, and financial systems. The final project budget is expected to total \$128.0 million in Pension Trust Funds with a timeline of almost eight years.

**Recommended Statutory Changes for Program Improvement**

**1** The Legislature may consider amending Government Code Section 825.103(d) to remove TRS' statutory exemption from state procurement policy under Government Code Title 10, Subtitle D.

**Challenges and Enhancement Opportunities**

- 1 TRS should implement additional processes and procedures outlined by management in the Vendor Procurement Audit to ensure efficient management of trust fund assets.

**Alternative Funding Options**

- 1 TRS requests an additional \$14.5 million in Pension Trust Funds for 82.0 new support staff to help manage the growing complexity of agency operations and serve a growing member population. Requested positions include 41.0 FTEs for IT, 14.0 for Project Management, 10.0 for Finance, 6.0 for HR, 5.0 for Legal, 3.0 for Internal Audit, 1.0 for Communications, 1.0 for Strategic Initiatives, and 1.0 for Executive Management.

**Teacher Retirement System**  
**Strategic Fiscal Review Appendix 6: Program and Strategies Crosswalk - Senate**

<b>Agency Ranking</b>	<b>Program</b>	<b>Strategy</b>
1	Public Education Retirement	1.1.1 TRS - Public Education Retirement
2	Higher Education Retirement	1.1.2 TRS - Higher Education Retirement
3	Retiree Health Care Benefits (TRS-Care)	1.2.1 Retiree Health - Statutory Funds
4	Benefit Services	1.3.1 Retiree Health - Supplemental Funds
5	Investment Management Division	1.1.3 Administrative Operations
9	<i>Support Services and Administration</i>	1.1.3 Administrative Operations

**Note: Indirect administration program names are italicized.**

**Teacher Retirement System  
Appendices - Senate**

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<b>B</b>	Summary of Federal Funds	*
<b>C</b>	FTE Highlights	51
<b>D</b>	Performance Measure Highlights	53
<b>E</b>	Summary of Ten Percent Biennial Base Reduction Options	*

\* Appendix is not included - no significant information to report

**Teacher Retirement System  
Funding Changes and Recommendations - Senate, by Strategy -- Supplemental**

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
<b>TRS - PUBLIC EDUCATION RETIREMENT A.1.1</b>	<b>\$3,544,224,289</b>	<b>\$3,747,127,583</b>	<b>\$202,903,294</b>	<b>5.7%</b>	Recommendations provide a state contribution of 6.8 percent of payroll and assume 3.9 percent average annual public education payroll growth in the 2020-21 biennium.
GENERAL REVENUE FUNDS	\$3,544,224,289	\$3,747,127,583	\$202,903,294	5.7%	
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>\$417,952,238</b>	<b>\$368,477,887</b>	<b>(\$49,474,351)</b>	<b>(11.8%)</b>	Recommendations provide a state contribution of 6.8 percent of payroll and assume 5.6 percent annual higher education payroll growth in the 2020-21 biennium. Biennial decrease due to early projections indicating significantly lower actual FY 2018 GR/GR-D than reflected in the 2018-19 base. Base amounts have not been updated because FY 2018 GR/GR-D appropriations are not yet final.
GENERAL REVENUE FUNDS	\$324,139,802	\$310,647,710	(\$13,492,092)	(4.2%)	
GR DEDICATED	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$8,261,122	\$9,072,548	\$811,426	9.8%	Recommendations reflect the full biennial benefits costs of 94.0 additional FTEs authorized by the TRS Board but partially unfilled during the 2018-19 biennium. FY 2020-21 levels assume full staffing for these positions.
<b>ADMINISTRATIVE OPERATIONS A.1.3</b>	<b>\$231,596,666</b>	<b>\$243,004,890</b>	<b>\$11,408,224</b>	<b>4.9%</b>	Recommendations reflect the full biennial salary costs of 94.0 additional FTEs authorized by the TRS Board but partially unfilled during the 2018-19 biennium. FY 2020-21 levels assume full staffing for these positions.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	

**Teacher Retirement System  
Funding Changes and Recommendations - Senate, by Strategy -- Supplemental**

Strategy/Fund Type/Goal	2018-19 Base	2020-21 Recommended	Biennial Change	% Change	Comments
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$231,596,666	\$243,004,890	\$11,408,224	4.9%	
<b>RETIREE HEALTH - STATUTORY FUNDS A.2.1</b>	<b>\$814,997,636</b>	<b>\$879,359,577</b>	<b>\$64,361,941</b>	<b>7.9%</b>	Recommendations provide a state contribution of 1.25 percent of payroll and assume 3.9 percent average annual public education payroll growth.
GENERAL REVENUE FUNDS	\$814,997,636	\$879,359,577	\$64,361,941	7.9%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
<b>RETIREE HEALTH - SUPPLEMENTAL FUNDS A.3.1</b>	<b>\$394,600,000</b>	<b>\$230,756,971</b>	<b>(\$163,843,029)</b>	<b>(41.5%)</b>	The Eighty-fifth Legislature provided a total of \$394.6 million in additional GR funding for TRS-Care above statutorily required contributions. Recommendations for the 2020-21 biennium include \$230.8 million in GR above statutorily required contributions for TRS-Care to maintain plan year 2019 premiums and benefit levels in the 2020-21 biennium.
					Note: Strategy is not shown in 2018-19 GAA, but reflects sum-certain supplemental funding appropriated and transferred to the TRS-Care program. Statutory state contributions equal to 1.25 percent of payroll are reflected separately in Strategy A.2.1.
GENERAL REVENUE FUNDS	\$394,600,000	\$230,756,971	(\$163,843,029)	(41.5%)	
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>\$5,403,370,829</b>	<b>\$5,468,726,908</b>	<b>\$65,356,079</b>	<b>1.2%</b>	



**Teacher Retirement System  
Funding Changes and Recommendations - Senate, by Strategy -- Supplemental**

<b>Strategy/Fund Type/Goal</b>	<b>2018-19 Base</b>	<b>2020-21 Recommended</b>	<b>Biennial Change</b>	<b>% Change</b>	Comments
GENERAL REVENUE FUNDS	\$5,077,961,727	\$5,167,891,841	\$89,930,114	1.8%	
GR DEDICATED	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$239,857,788	\$252,077,438	\$12,219,650	5.1%	
<b>Grand Total, All Agency</b>	<b>\$5,403,370,829</b>	<b>\$5,468,726,908</b>	<b>\$65,356,079</b>	<b>1.2%</b>	
GENERAL REVENUE FUNDS	\$5,077,961,727	\$5,167,891,841	\$89,930,114	1.8%	
GR DEDICATED	\$85,551,314	\$48,757,629	(\$36,793,685)	(43.0%)	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$239,857,788	\$252,077,438	\$12,219,650	5.1%	

**Teacher Retirement System  
FTE Highlights - Senate**

<b>Full-Time-Equivalent Positions</b>	<b>Expended 2017</b>	<b>Estimated 2018</b>	<b>Budgeted 2019</b>	<b>Recommended 2020</b>	<b>Recommended 2021</b>
Cap	503.3	524.3	524.3	618.3	618.3
Actual/Budgeted	496.0	513.2	574.3	NA	NA

<b>Schedule of Exempt Positions (Cap)</b>					
Executive Director	\$327,443	\$337,266	\$337,266	\$337,266	\$337,266
Deputy Director Investment Officer	\$340,000	\$357,000	\$357,000	\$357,000	\$357,000
Chief Investment Officer	\$551,250	\$551,250	\$551,250	\$551,250	\$551,250
Investment Fund Director	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Investment Fund Director	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Investment Fund Director	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Investment Fund Director	\$330,000	\$330,000	\$330,000	\$330,000	\$330,000
Investment Fund Director	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000

Notes:

a) Recommendations for the 2020-21 biennium include 94.0 additional FTEs approved by fiduciary finding of the TRS board in the 2018-19 biennium. Recommendations do not include funding or authority for 127.0 additional FTEs TRS requests in 2020-21.

b) Government Code §825.208 and Rider 8 of the TRS bill pattern authorize the Board to set the salaries of exempt positions without limitation. The State Auditor's Office Report, Executive Compensation at State Agencies (Report 18-705, August 2018), indicates a market average salary of \$308,196 for the Executive Director position.

**Teacher Retirement System  
FTE Highlights - Senate**

c) Rider 15 in the 2018-19 General Appropriations Act (GAA), "Enterprise Application Modernization FTE Exemption," allows FTEs assigned to the TEAM project to be exempt for reporting purposes from the FTE cap established in Article IX, §6.10, and specifies Legislative intent that the limit will apply to all FTEs and contractors once TEAM is implemented. Recommendations delete this rider for the 2020-21 biennium.

d) In FY 2019, TRS adopted an internal operating budget including 94.0 additional FTEs above the GAA limitation. The 50.0 FTE increase shown reflects ongoing hiring of those positions throughout FY 2019.

e) TRS requests a new rider in the 2020-21 biennium granting the agency explicit authority to increase FTE levels during the biennium through a fiduciary finding of the Board, with reporting requirements to the Governor and LBB.

**Teacher Retirement System  
Performance Measure Highlights - Senate**

	Expended 2017	Estimated 2018	Budgeted 2019	Recommended 2020	Recommended 2021
<ul style="list-style-type: none"> <li>Number of Years to Amortize TRS Retirement Fund Unfunded Actuarially Accrued Liability</li> </ul> <p><i>Measure Explanation: Measure shows the time required for contributions and other revenues, including investment earnings, to pay off the unfunded actuarially accrued liability. Actuarially sound is statutorily defined as an amortization period of less than 31 years.</i></p>	32.2	87.0	86.0	31.0	31.0
<ul style="list-style-type: none"> <li>Service Level Percentage of Calls Answered in Specified Time Interval</li> </ul> <p><i>Measure Explanation: Measure shows percentage of calls answered within three minutes. High call volume in FY 2018 following changes to the TRS-Care program significantly increased call hold and handle times. TRS Board approved 43.0 additional Benefits Services staff above the GAA FTE limitation for the 2018-19 biennium to reduce call wait times.</i></p>	69.0%	11.0%	56.0%	79.0%	80.0%