

# Teacher Retirement System Summary of Budget Recommendations - Senate

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Method of Financing	2020-21 Base	2022-23 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$5,076,318,357	\$5,858,705,005	\$782,386,648	15.4%
GR Dedicated Funds	\$48,757,629	\$52,362,051	\$3,604,422	7.4%
<i>Total GR-Related Funds</i>	<i>\$5,125,075,986</i>	<i>\$5,911,067,056</i>	<i>\$785,991,070</i>	<i>15.3%</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$805,434,755	\$297,491,135	(\$507,943,620)	(63.1%)
<b>All Funds</b>	<b>\$5,930,510,741</b>	<b>\$6,208,558,191</b>	<b>\$278,047,450</b>	<b>4.7%</b>

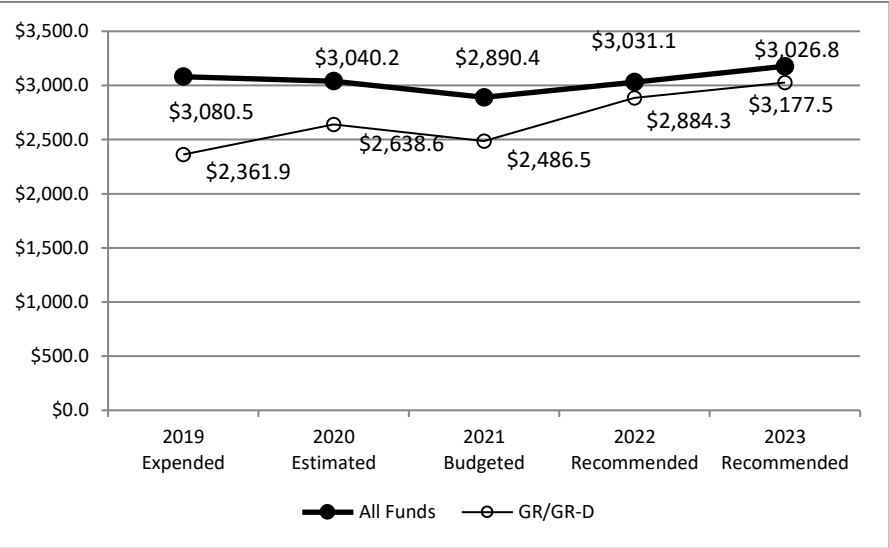
	FY 2021 Budgeted	FY 2023 Recommended	Biennial Change	Percent Change
FTEs	758.3	758.3	0.0	0.0%

## Agency Budget and Policy Issues and/or Highlights

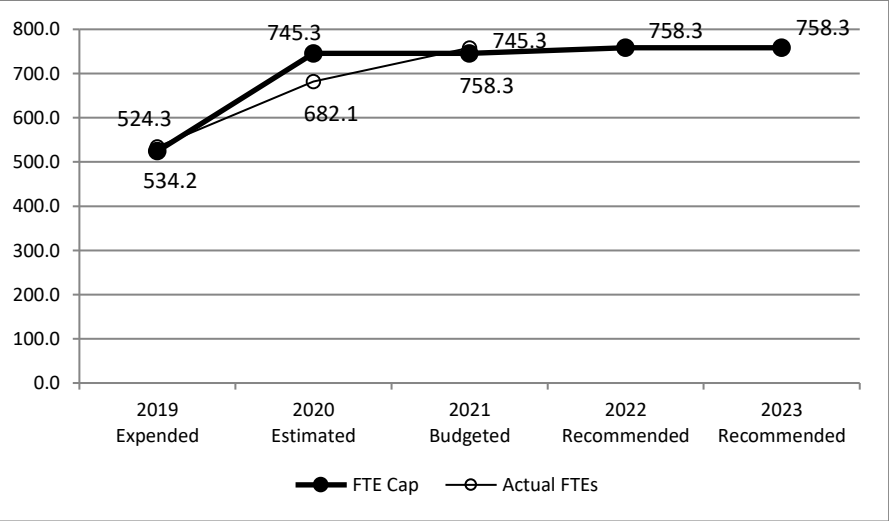
The agency was completely excepted from the 2020-21 reduction exercise and was allowed by the policy letter to incorporate into their GR request anticipated payroll growth and increases in state contributions resulting from SB 12. The GR-R increase is due to the combined impact of SB 12 and anticipated payroll growth, a biennial method of finance change, and the exclusion of certain one-time 2020-21 costs. SB 12 increased the state percentage contribution for retirement from 6.8 percent in 2019 to 7.5 percent in 2020 and 2021, 7.8 percent in 2022 and 8.0 percent in 2023. Recommendations assume 2.5 percent payroll growth for public education retirement and higher education retirement and 2.0 percent for TRS-Care. Additionally, the 86th Legislature provided \$524.0 million in Economic Stabilization Funds in 2020-21 for the SB 12 rate increase from 6.8 percent in 2019 to 7.5 percent; Recommendations pay for these ongoing costs with GR in 2022-23. The GR increase is partially offset by a one-time 2020-21 GR appropriation of \$236.3 million for TRS-Care not expected to be necessary in 2022-23.

The bill pattern for this agency (2022-23 Recommended) represents an estimated 2.8% of the agency's estimated total available funds for the 2022-23 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



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

**Section 2**

Funding Changes and Recommendations for the 2022-23 Biennium compared to the 2020-21 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<b><i>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):</i></b>							
A)	SB 12 and Payroll Growth: The combined impact of the rate increases required by SB 12 and of anticipated payroll growth result in an estimated biennial increase of \$498.3 million in General Revenue-Related Funds.	\$494.7	\$3.6	\$0.0	\$0.0	\$498.3	A.1.1, A.1.2, and A.2.1
(B)	One-time use of Other Funds: Economic Stabilization Funds used in the 2020-21 biennium to pay for the SB 12 rate increases and achieve actuarial soundness.	\$0.0	\$0.0	\$0.0	(\$524.0)	(\$524.0)	A.1.1 and A.1.2
(C)	General Revenue Replacing Economic Stabilization Funds for Ongoing Costs: The costs discussed in Item (B) above continue continue in the 2022-23 biennium and recommendations use General Revenue to pay for them.	\$524.0	\$0.0	\$0.0	\$0.0	\$524.0	A.1.1 and A.1.2
(D)	One-Time TRS-Care General Revenue Appropriation in 2020-21: The 86th Legislature appropriated \$236.3 million of supplemental General Revenue in the 2020-21 biennium to allow TRS to maintain plan year 2019 TRS-Care premium and benefit levels. TRS reports that they can maintain plan year 2019 TRS-Care premium and benefit levels in 2022-23 without a supplemental appropriation.	(\$236.3)	\$0.0	\$0.0	\$0.0	(\$236.3)	A.3.1
(E)	Increases in Other Funds (Pension Trust Fund) in the agency's administrative strategy relating to several initiatives designed to continue meeting customer demand.	\$0.0	\$0.0	\$0.0	\$16.0	\$16.0	A.3.1
<b>TOTAL SIGNIFICANT Funding Changes and Recommendations (in millions)</b>		<b>\$782.4</b>	<b>\$3.6</b>	<b>\$0.0</b>	<b>(\$508.0)</b>	<b>\$278.0</b>	As Listed

NOTE: Totals may not sum due to rounding.

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

1. **SB 12 State Contribution Rate Increases for Retirement and Payroll Growth Assumptions for Retirement and TRS-Care.** Recommendations include estimated state retirement contributions totaling \$5.0 billion in GR/GR-D in 2022-23, a \$458.8 million increase from the 2020-21 current estimated total. The increase is attributable to the combined impact of anticipated payroll growth and SB 12, 86<sup>th</sup> Regular Session, which raised the state contribution rate from 6.8 percent in 2019 to 7.5 percent in 2020, 7.8 percent in 2022 and 8 percent in 2023 (see item 2 below).

Estimated, statutorily required state contributions to TRS-Care total \$897.6 million in General Revenue in 2022-23, a \$39.5 million increase from the 2020-21 base, attributable to anticipated payroll growth. This funding level provides a state contribution to TRS-Care equal to 1.25 percent of salaries, the same rate as the 2020-21 biennium.

Recommendations assume 2.5 percent annual growth in Public and Higher Education Retirement and 2.0 percent payroll growth for TRS-Care.

2. **Economic Stabilization Fund (ESF) Swap for GR.** SB 500, 86<sup>th</sup> Legislature, provided \$524.0 million in ESF funds to raise the state contribution rate from 6.8 percent to 7.5 percent in the 2020-21 biennium, pursuant to SB 12. However, due to the ongoing nature of these costs, recommendations include GR for these costs in 2022-23.
3. **Strategic Fiscal Review Overview.** The agency is currently under Sunset review, and as a result is subject to the Strategic Fiscal Review process outlined in Senate Bill 68, Eighty-sixth Legislature, 2019. Historical program and financial information was collected and analyzed to inform the budget process. Significant findings are outlined in the report. Summary below.
  - a) TRS has broad constitutional and statutory authority over the management of its trust funds and operations.
  - b) TRS' only program with less than high mission centrality was the 403(b) program, a tax-deferred savings plan. TRS' role in offering 403(b) plans to public school employees was removed as a result of the 2019 Strategic Fiscal Review process.
4. **Sunset Review.** The Sunset Advisory Commission recommendations include the following recommendations for TRS:
  - Require TRS to develop a communication and outreach plan to better help members and employers plan for retirement.
  - Require TRS to make improved efforts to return contributions to inactive members before funds are forfeited.
  - Direct TRS to adopt a member engagement policy to increase transparency on key decisions.
  - Direct TRS to fully centralize contracting functions and clarify roles and responsibilities between central contracts department staff and division staff managing contracts.
  - Direct TRS to enhance its contract monitoring process and require staff who procure or manage contracts to complete the comptroller's contract training.
  - Direct TRS to include standard remedies in contracts and consistently apply enforcement tools.
  - Update the standard across-the-board requirement related to board member training.
  - Direct TRS to develop and maintain an agency-wide system for receiving and responding to complaints.

**Teacher Retirement System  
Rider Highlights - Senate**

**Modification of Existing Riders**

Recommendations do not include any substantive modifications to existing riders. Recommendations modify existing riders to update fiscal years, biennia, rates and projected balances.

**New Riders**

Recommendations do not include any new riders.

**Deleted Riders**

19. **Additional Funding for TRS Care.** Recommendations delete this rider as TRS has not requested any supplemental TRS Care funding in 2022-23.
22. **Unexpended Balances: TEAM and CAPPs Projects.** Recommendations delete this rider as both projects are expected to be completed by the end of fiscal year 2021.

Teacher Retirement System  
Items Not Included in Recommendations - Senate

	2022-23 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2024-25
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items Not Included (in agency priority order)

1)	Saving Investment Fees - The agency is requesting additional funding to continue their multi-year program to implement investment programs aimed at reducing external manager fees. This has also been referred to as their "Build the Fleet" initiative.	\$0	\$5,746,000	25.0	No	No	\$8,086,000
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TOTAL Items Not Included in Recommendations	\$0	\$5,746,000	25.0				\$8,086,000
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Agency Rider Edit Requests Not Included

- 13)

**Performance Pay Plan** ~~Incentive Compensation Payments~~. The Teacher Retirement System Board of Trustees may make performance pay plan ~~incentive compensation~~ payments to ~~the staff of the~~ Investment Management Division employees based on investment performance standards adopted by the Board prior to the beginning of the period for which any additional compensation is paid. Such amounts as may be necessary to make performance ~~incentive~~ payments under the plan approved by the Board are hereby appropriated from the Teacher Retirement System Pension Trust Fund Account Fund No. 960. The Teacher Retirement System Board of Trustees shall notify the Legislative Budget Board and the Governor at least 45 days prior to the execution of any performance ~~incentive~~ payments based on ~~the Retirement Trust Fund's investment performance~~ approved standards. Funds shall be appropriated pursuant to this rider for performance incentive payments only in a fiscal year following a year in which the Retirement Trust Fund experiences a positive return.

Teacher Retirement System  
Items Not Included in Recommendations - Senate

	2022-23 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2024-25
	GR & GR-D	All Funds	FTEs			

- Settle-Up Dollars Directed to TRS-Care.** Any settle-up payments made ~~in the fiscal year ending August 31, 2021,~~ from the Teacher Retirement System of Texas pension fund or from the TRS-Care program are appropriated to the TRS-Care program. Settle-up funds are all estimated General Revenue appropriations ~~for fiscal year 2020~~ in excess of the state's actual statutory obligations
- 14) for retirement and retiree insurance contributions, and those funds are reappropriated to the TRS-Care program, for deposit to the Texas Public School Retired Employees Group Insurance Trust Fund. For the purposes of this section, settle-up payments from the pension fund include any net payments made in excess of the state's total obligation to both Public Education Retirement and Higher Education Retirement.

Agency New Rider Requests Not Included

- Contingent Appropriation of Pension Trust Funds to Implement Recommendations of the Sunset Advisory Commission.** Upon a finding of fact by the Teacher Retirement System Board of Trustees that additional resources are necessary to implement recommendations of the Sunset Advisory Commission, the Teacher Retirement System is appropriated such additional funds and FTEs, including capital appropriations as approved by the Board from the Teacher Retirement System Pension Trust Fund Account No. 960. Within thirty days of such a finding, the Teacher Retirement System Board of Trustees shall provide written notification to the Legislative Budget Board and the Governor of the amounts anticipated to be necessary to achieve these purposes. This rider would allow the agency flexibility to spend additional pension trust funds above the base request for Sunset items once the costs of certain key recommendations are known.
- 23)

**Optional Retirement Program  
Appendices - Senate**

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

**Teacher Retirement System**  
**Funding Changes and Recommendations by Strategy - Senate -- ALL FUNDS**

Strategy/Goal	2020-21 Base	2022-23 Recommended	Biennial Change	% Change	Comments
TRS - PUBLIC EDUCATION RETIREMENT A.1.1	\$4,069,648,472	\$4,489,428,149	\$419,779,677	10.3%	The All Funds increase is primarily due to an increase in GR-related funds resulting from SB 12, 86th legislative session, which increased the state contribution to public education and higher education retirement from 6.8 percent in 2019 to 7.5 percent in 2020 and 2021, 7.8 percent in 2022 and 8 percent in 2023. The biennial increase also reflects any assumption of 2.5 percent payroll growth for public education retirement.
TRS - HIGHER EDUCATION RETIREMENT A.1.2	\$494,021,631	\$533,506,057	\$39,484,426	8.0%	As discussed above, the all funds increase is due to the combined impact of SB 12 and anticipated payroll growth, assumed to be 2.5 percent annually.
ADMINISTRATIVE OPERATIONS A.1.3	\$272,494,976	\$288,052,507	\$15,557,531	5.7%	This strategy is completely funded with other funds (pension trust fund) and the increase is attributable to the net impact of multiple initiatives relating to TRS efforts to meet member demands for service
RETIREE HEALTH - STATUTORY FUNDS A.2.1	\$858,068,348	\$897,571,478	\$39,503,130	4.6%	The all funds increase is due to an increase in GR resulting from anticipated payroll growth of 2.0 percent.
RETIREE HEALTH - SUPPLEMENTAL FUNDS 1.3.1	\$236,277,314	\$0	(\$236,277,314)	(100.0%)	TRS reports that they will be able to maintain plan year 2019 premium and benefit levels without a supplemental appropriation in 2022-23.
<b>Total, Goal 1, TEACHER RETIREMENT SYSTEM</b>	<b>\$5,930,510,741</b>	<b>\$6,208,558,191</b>	<b>\$278,047,450</b>	<b>4.7%</b>	
<b>Grand Total, All Strategies</b>	<b>\$5,930,510,741</b>	<b>\$6,208,558,191</b>	<b>\$278,047,450</b>	<b>4.7%</b>	

Teacher Retirement System  
FTE Highlights - Senate

Full-Time-Equivalent Positions	Expended 2019	Estimated 2020	Budgeted 2021	Recommended 2022	Recommended 2023
Cap	524.3	745.3	745.3	758.3	758.3
Actual/Budgeted	534.2	682.1	758.3	758.3	758.3

Schedule of Exempt Positions (Cap)

Executive Director	\$355,000	\$355,000	\$355,000	\$355,000	\$355,000
Chief Investment Officer	\$551,250	\$551,250	\$551,250	\$551,250	\$551,250
Deputy Chief Investment Officer	\$357,000	\$357,000	\$357,000	\$410,000	\$410,000

Notes:

a) The Administrator's Statement of the LAR requests that the 2022-23 GAA reflect the current not to exceed salary rates adopted by the TRS board for three positions:

Executive Director: \$355,000. Increase of \$17,734 from the current GAA number of \$337,266

Chief Investment Officer \$551,250 annually. Increase of \$0 from the current GAA number of \$551,250

Deputy Chief Investment Officer \$410,000 annually. Increase of \$53,000 from the current GAA number of \$357,000.

The agency also requests the remaining exempt salary positions be removed from the GAA as the positions are no longer in use by the agency. This would remove five investment fund director positions currently capped at \$360,000, \$360,000, \$350,000, \$330,000 and \$300,000 annually.

The remaining positions listed in the 2020-21 GAA are no longer in use by the agency. TRS recommends removal of these positions from the 2022-23 GAA.