



Teacher Retirement System of Texas
Senate Finance Committee
SB 1



February 22, 2021

TRS Mission

Improving the retirement security of our members by prudently investing and managing the trust assets and delivering benefits that make a positive difference in their lives.

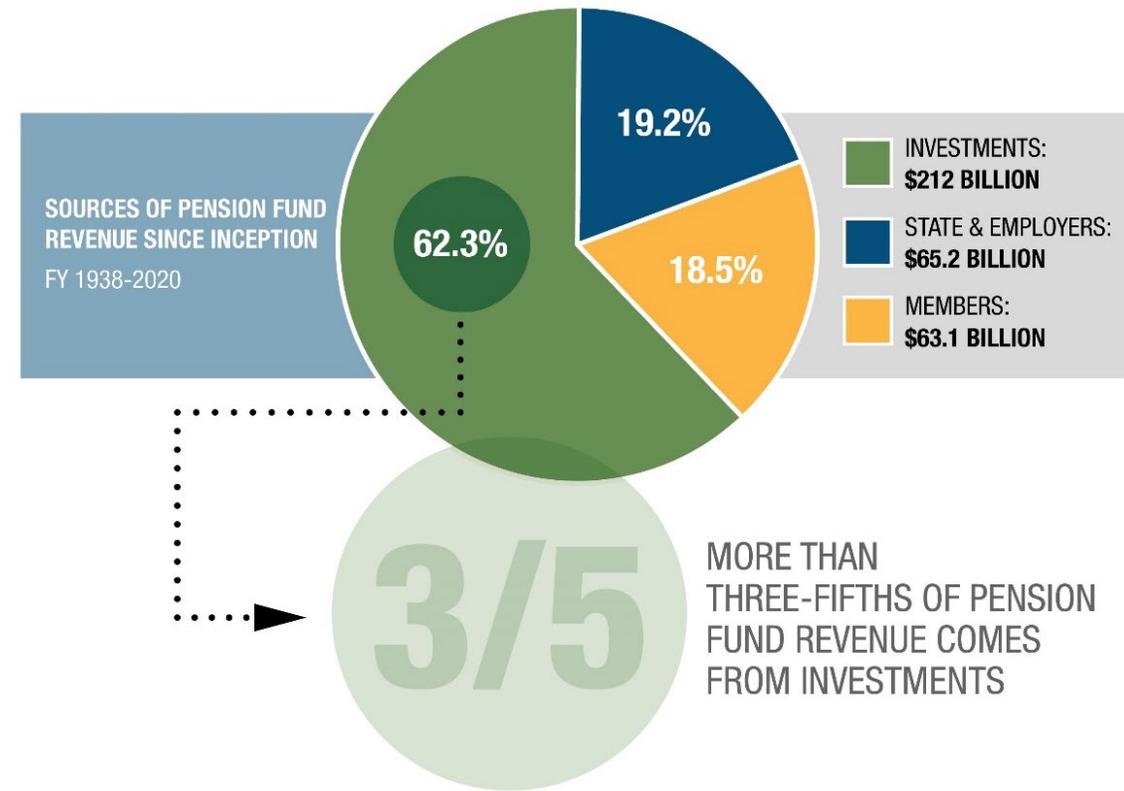
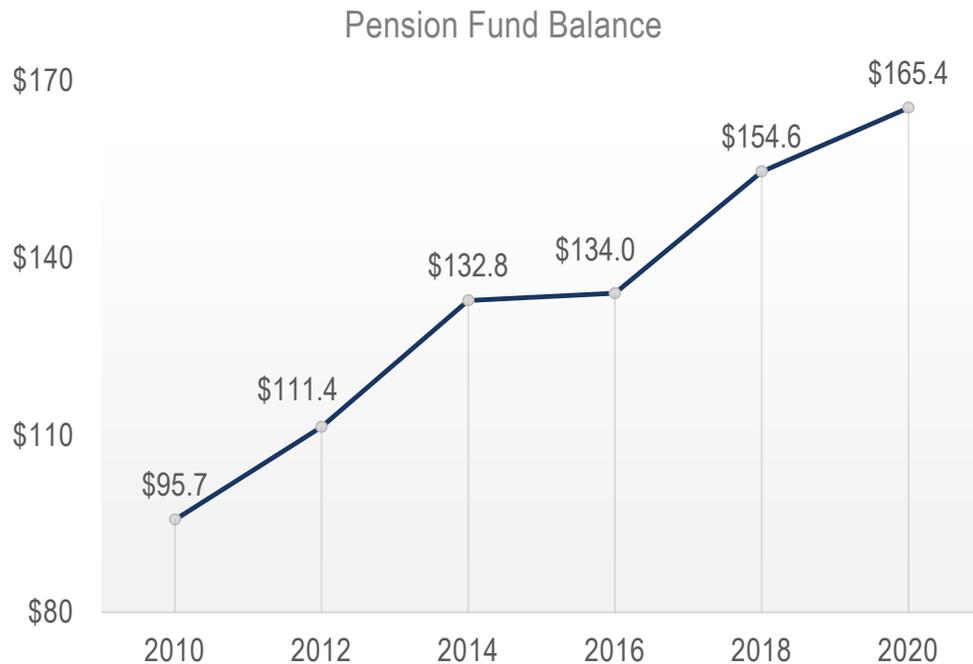
- TRS manages three separate trust funds to provide pension and health care benefits.
 - **Pension Trust Fund** provides current and future retirement benefits for nearly 445,000 annuitants and approximately 1.2 million active employees. Approximately 96% of public educators do not earn Social Security.
 - **TRS-Care** provides retiree health care benefits to approximately 220,000 participants.
 - **TRS-ActiveCare** provides active employee health care benefits to 473,000 participants.
- The Board of Trustees act as fiduciaries. To comply with fiduciary standards, money held in trust must be used exclusively for the benefit of TRS members.

TRS and the 87th Legislature

- Senate Bill 1 as filed:
 - 86R SB 12 contribution rates included
 - No supplemental funding needed for TRS-Care
 - Exceptional Item and amended rider recommendation not included in SB 1
- 87th Legislature:
 - TRS under Sunset Advisory Commission review
 - TRS-ActiveCare and District of Innovation exemption to offer competing coverage

TRS Pension Trust Fund

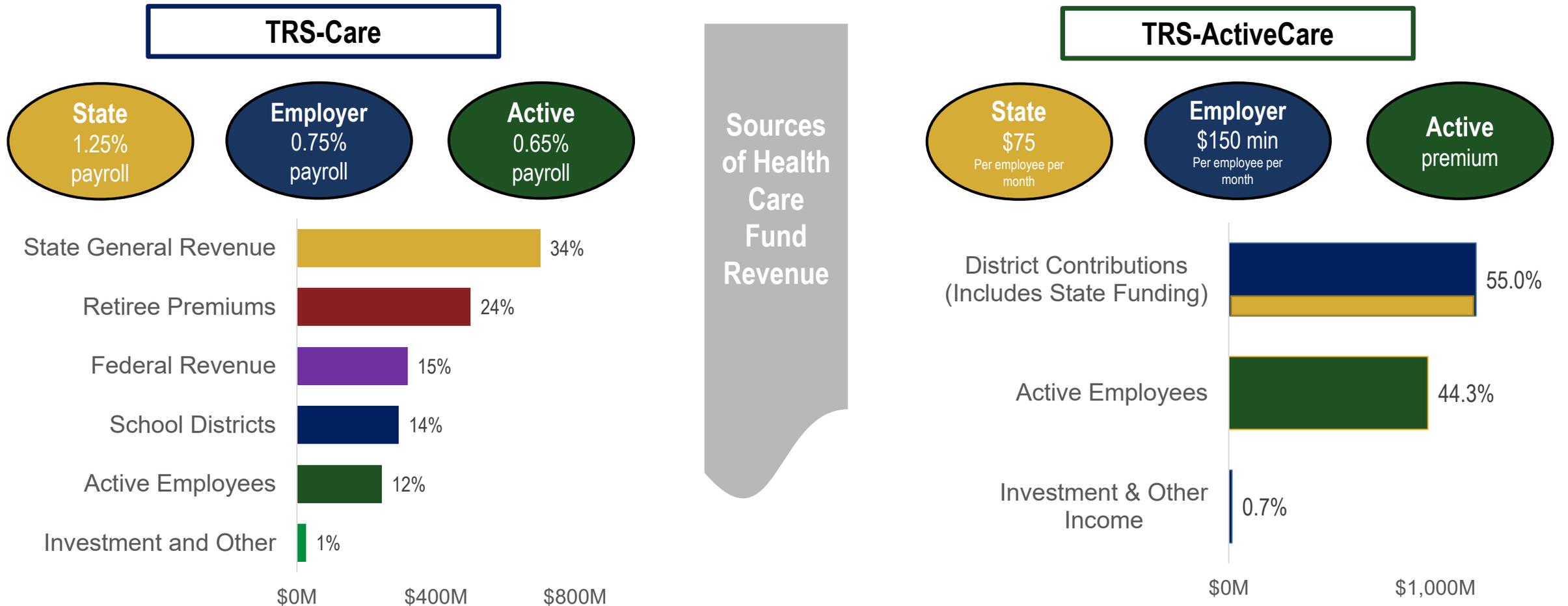
- The majority of pension fund revenue has historically come from investment returns. Retirement benefits are funded by contributions and investment earnings. FY2020 puts the market value of the fund at \$165.4 billion.



Investment Returns as of 8/31					
1-Year	3-Year	5-Year	10-Year	15-Year	20-Year
7.24%	6.87%	8.10%	8.83%	6.83%	5.93%

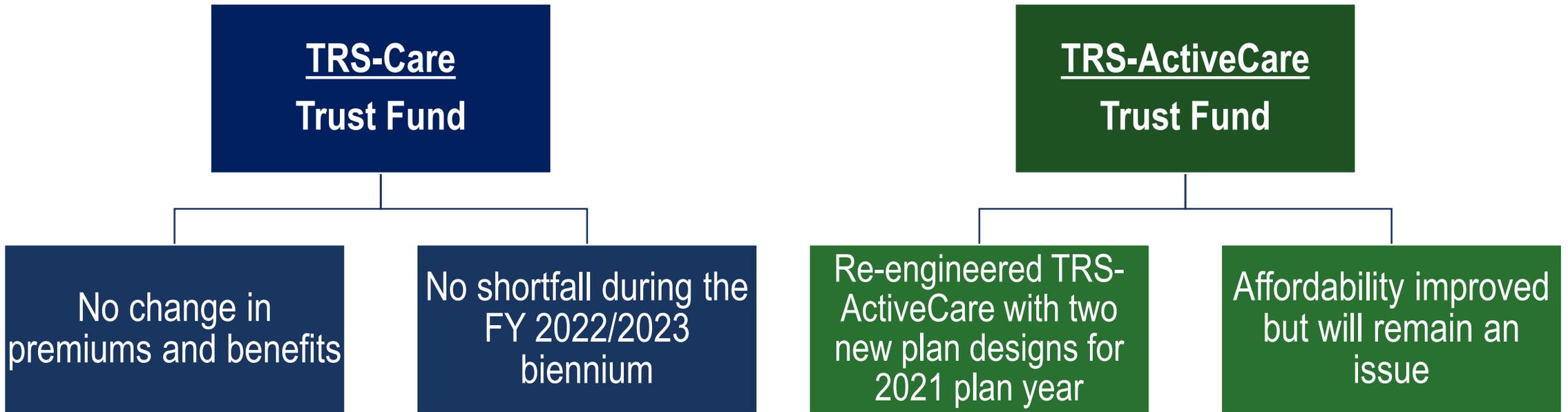
TRS Health Care Funds

Funding for the health care benefits is derived from state, employer, and active member contributions rather than based on actual health care costs.



Note: As of FY 2020

TRS Health Care Funds



- The TRS Board of Trustees voted in February of 2020 on one of the largest health care procurements in TRS history. TRS estimates this decision puts all of the TRS health care funds in a better position with an **estimated \$754 million in savings across all our health care plans in the next 3-5 years.**
- TRS-ActiveCare provides employee health care benefits to 1,100 districts. In 2021, more than 100 districts used a District of Innovation exemption to offer competing coverage, increasing risk in TRS-ActiveCare. Absent a legislative solution, TRS-ActiveCare may become a high-risk pool, resulting in higher premiums and fewer benefits for members remaining in the plan.

SB 1: Exceptional Item Request

- TRS administrative operations do not receive general revenue funding. Administrative operations are funded with pension assets.
- The TRS Board of Trustees, as fiduciaries, is responsible for the administration of the system under provisions of the state constitution and laws.
- The 86th Legislature provided TRS with the flexibility to successfully accomplish critical multi-year initiatives adopted by the TRS Board of Trustees to reduce investment fees and improve member services.
- The exceptional item request is to continue to reduce external management fees with an additional 25 FTEs while preserving risk appropriate returns and to sustainably increase the likelihood of meeting return assumptions.



Reduce Investment Fees

As of 12/31/2020, TRS hired 42 FTEs and saved approximately \$190M.



Improve Member Services

As of 12/31/2020, TRS hired 43 direct support FTEs and 23 support staff FTEs to meet the demands of a growing membership base and an increased regulatory environment. The additional direct support FTEs allowed TRS to increase office visit appointments for members from 10,000 to 20,000 available per fiscal year.

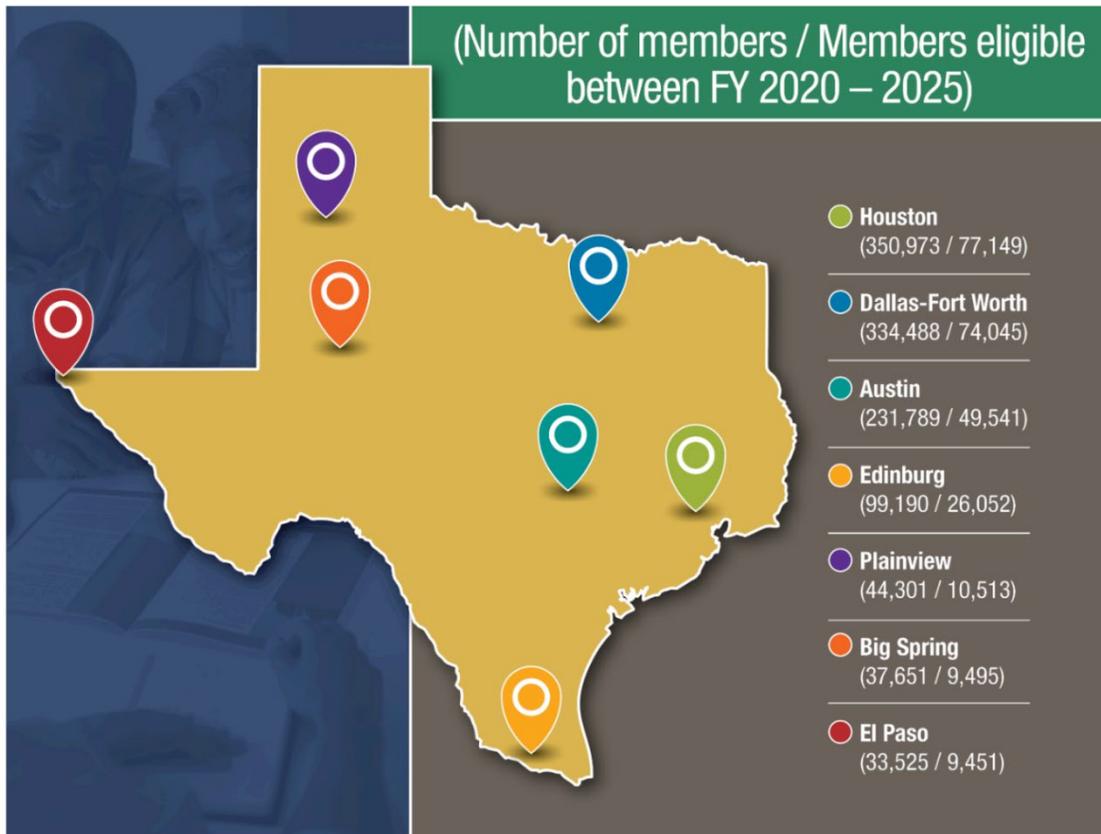
SB 1: Amended Rider Recommendation

Amend Full-Time Equivalent Positions Intern Exemption Recommendation

Removes restriction of an undergraduate or graduate student. The proposed change would allow TRS to broaden the definition to include students enrolled in Associates or Trade Schools and post-graduate fellowship programs. Mirrors the definition of intern at other state agencies.

SB 1 Administrative Operations: Pilot Office Included

Sunset Staff 1.1 Recommendation: Offer additional options for receiving counseling by phone or in-person at different locations outside of Austin. SB 1 includes \$3 million for a pilot office in El Paso, Texas. TRS administrative operations, including the pilot office, do not receive general revenue funding. Administrative operations are funded with pension assets.



Phase I – Exploratory

In January 2020, members were surveyed to determine if additional counseling offices were needed and to understand member preferences for those offices. Overall, 85% of respondents were in favor.

Phase II – Stand-up Pilot Office

El Paso targeted as pilot office. Will need legislative approval.

Phase III – Evaluation

Report on success of pilot; consider recommendation for additional locations.

COVID-19 Financial Impact

	FY20 Expended	FY21 Projected
Expense Type		
Net Payroll Cost	847,324	836,032
Supplies and Equipment	28,416	56,000
Health Fund Claims	92,795,814	201,509,578
Total	93,671,554	202,401,610
Fund		
960 – Pension Trust Fund	807,297	808,810
989 – TRS-Care	24,736,237	59,341,110
855 – TRS-ActiveCare	68,128,020	142,251,690
Total	93,671,554	202,401,610

APPENDIX

TRS Board of Trustees



Jarvis V. Hollingsworth, Chairman

Missouri City, term ends 2023
Direct appointment



David Corpus

Humble, term ends 2025
SBOE nominated
Reappointed Oct. 2019



Dick Nance

Hallettsville, term ends 2023
Retiree nominated



Nanette Sissney, Vice-Chair

Whitesboro, term ends 2023
At-Large nominated



John Elliott

Austin, term ends 2021
Direct appointment



Robert H. Walls, Jr.

San Antonio, term ends 2025,
Direct appointment
Appointed Oct. 2019



Michael Ball

Argyle, term ends 2025,
Active member nominated
Appointed Oct. 2019



Christopher Moss

Lufkin, term ends 2021
SBOE nominated

Election is underway for the public school district trustee position.

Three trustees are direct appointments of the Governor.

Two trustees are appointed by the Governor from a list prepared by the State Board of Education.

Two trustees are appointed by the Governor from the three public school district active member candidates who have been nominated by employees of public school districts.

One trustee is appointed by the Governor from the three at-large member candidates nominated by retired TRS members, employees of public school districts and higher education institutions.

One trustee is appointed by the Governor from the three retired member candidates who are nominated by retired TRS members.

TRS Governance Structure

Governor of Texas

- Appoints Board of Trustees
- Appoints Chairman of the Board
- Issues executive orders and directives impacting TRS as needed

Texas Legislature

- Enacts laws related to TRS including retirement and health benefits
- Sets contribution rates of State, employers, and active employees
- Confirms all trustee appointments (Senate)

TRS Board of Trustees

- Oversees administration of TRS and investment of the funds
- Adopts rules, policies, and budget for benefits and investments
- Sets premium and plan designs for two health care programs
- Delegates responsibilities to Executive Director and staff as appropriate

Executive Director and Staff

- Implements daily operations based on board directions, including delivering pension and health care benefits, investing funds, and managing system operations
- Recommends policy and rule changes to the board

Role of Board and Investment Management Division

TRS Board of Trustees

- Sets and monitors Investment Policy
- Delegates appropriate authority to IMD
- Review investments <1% of trust fund prior to IIC action
- Review and consider investments >1% of Trust

TRS Board may subject any investment proposal in the Transparency Report to Board approval

Internal Investment Committee (IIC)

- If investment size is <1% of total trust fund, review and approve/reject internally
- If investment size is >1% of total trust fund, submit for board consideration
- TRS Executive Director has veto power over any investments

Audit and Compliance

- Ongoing monitoring of IMD and IIC investment activities
- Full transparency and access to investment process

Investment Management Division Staff (IMD)

- Manage “Premier List” of external investment managers
- Execute on “Texas Way” investment process

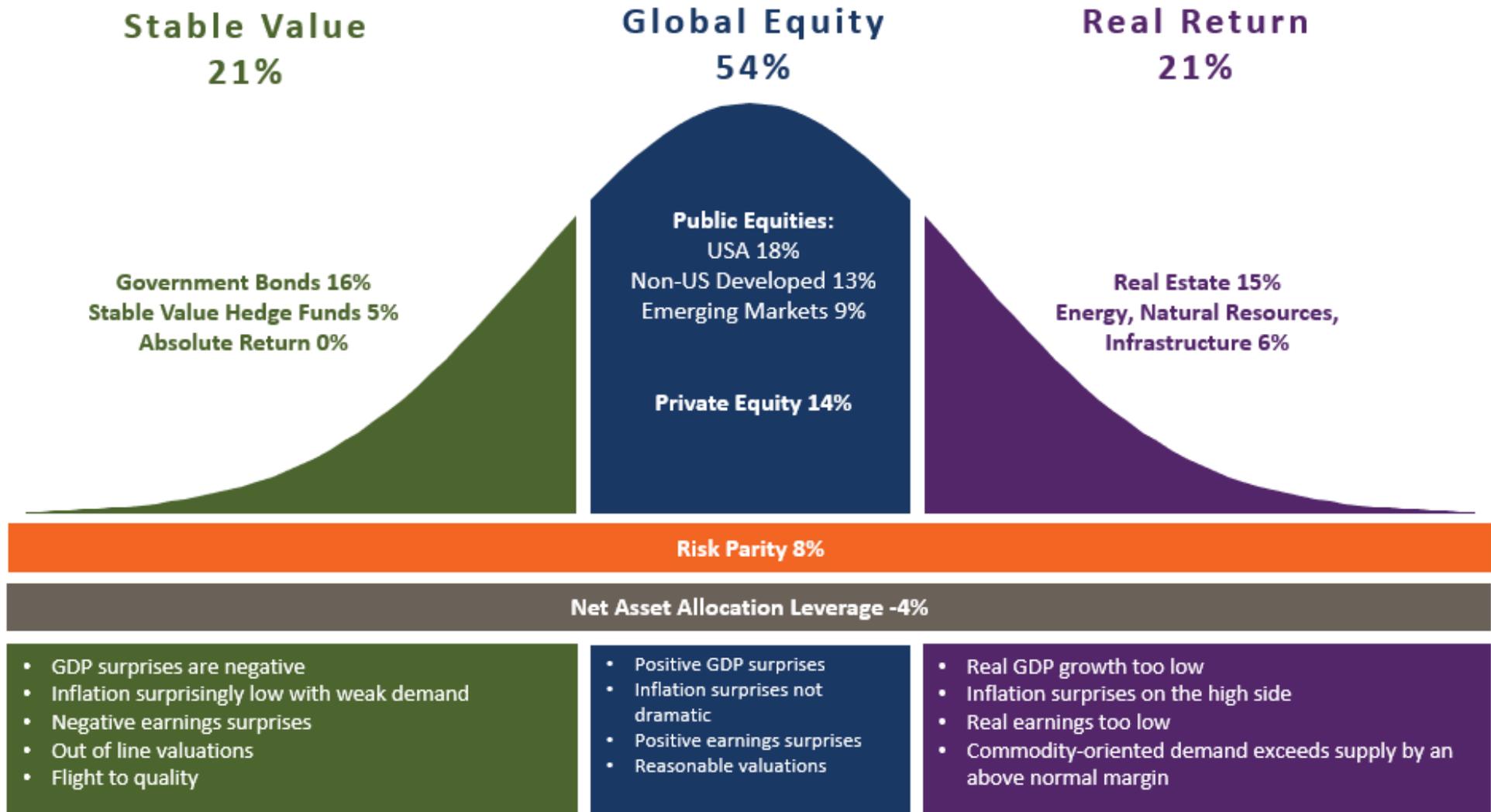
For investments < 1% of trust fund
Monthly Transparency Report, additional reporting as requested

Investment Recommendation, Due Diligence Support, Consultant Report & Risk Impact

TRS Pension Trust Fund: Asset Allocation

TRS' strategic asset allocation and diversified portfolio is designed to weather market drawdowns.

TRS has access to a full breadth of market opportunities and is liquid with cash, government bonds, and public equities to meet its obligations.



TRS Pension Trust Fund: Actuarial Valuation

2020 Actuarial Valuation Results

	2020 Valuation	2019 Valuation
Based on Smoothed Asset Value		
UAAL (\$ Billions)	\$50.6	\$49.5
Actuarial Funded Ratio	76.8%	76.4%
UAAL/Payroll	101.2%	104.4%
Funding Period in Years*	27	29
Based on Market Value		
Actuarial Funded Ratio	75.9%	75.3%
Funding Period in Years*	29	32

**Assumes current scheduled statutory contribution rates continue indefinitely*

86th Legislative Session: SB 12 and SB 500

	Previous	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
STATE	6.80%	7.50%	7.50%	7.75%	8.00%	8.25%	8.25%
MEMBERS	7.70%	7.70%	7.70%	8.00%	8.00%	8.25%	8.25%
PUBLIC ED EMPLOYER	1.50%*	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%

**Prior to SB 12, only public education entities that did not contribute to Social Security were required to pay the 1.50% contribution. Beginning 9/1/2019 all public education employers started contributing.*

- Statute includes protections that proportionately reduce public education employer and active employee contribution rates if the state rate is reduced from the rates included in SB 12. **A reduction in planned contribution rates will negatively impact the fund's amortization period.**
- As a result of SB 12 making the Pension Trust Fund actuarially sound, eligible members who retired on or before 12/31/2018 received a one-time supplemental payment in either the amount of their monthly annuity payment or \$2,000, whichever is less.
- SB 500 provided \$524 million to fund the increases for the state's contribution to the pension fund from 6.80% to 7.50% in fiscal years 2020 and 2021. SB 500 also provided \$589 million to fund the supplemental annuity check for approximately 405,538 annuitants or alternate payees. Of those approximately 193,279 received \$2,000.

The Sunset Staff Report identified four issues that TRS has already begun to act on.

TRS Needs to Repair its Relationship With Its Members by Focusing on Their Needs.

TRS Needs More Effective Contract Management and Oversight.

TRS Would Benefit From Additional Oversight and Greater Transparency of Its Investment Practices.

TRS' Statutes Do Not Reflect Some Standard Elements of Sunset Reviews.

TRS Action Since Sunset Staff Report

Issue 1

- Adopted Benefit Counseling Policy at the 2020 September Board meeting.
- Adopted Member Engagement Policy at the 2020 December Board meeting.
- Implementing a plain language initiative, an employer TRS resource toolkit, and a communication and outreach plan.

Issue 2

- Developed the draft Procurement and Contract Management Guide.
- Hired two contract support specialists (CSS) for pilot program. CSS have been assigned to IT and Pension Benefit Services.
- Implemented vendor performance tracking and implemented a process to track liquidated damages.

Issue 3

- Selected a vendor to provide cost-benefit analysis of a parallel accounting system. Vendor recommendation is to enhance current investment accounting solution using vendor solutions and custom development.
- Updated the Investment Policy Statement at the 2020 September Board meeting to require the IIC to review all new internally managed investments above a certain threshold.
- Developed and included easily understandable information about alternative investments in the 2020 CAFR.

Issue 4

- Created a central repository to track and manage various complaints, comments, and inquiries. Will present to the BOT at the 2021 February Board meeting.
- Repository will be managed by Compliance with workflows and responses executed by the appropriate divisions.

Sunset Decision Hearing: Additional Items Adopted

Issue 1: TRS Needs to Repair Its Relationship With Its Members by Focusing on Their Needs

- Extend HB 2629 that passed last session to all levels of appeal.
- Create materials to communicate current option to request external review of denied health care appeals and TRS' ability to help members navigate the appeals process.
- Develop a process to submit inactive member information to the Comptroller's office upon request.
- Create an ombudsman position.
- Review TRS-Care RAC and make changes to more effectively receive feedback on TRS-Care.

Issue 4: TRS' Statutes Do Not Reflect Some Standard Elements of Sunset Reviews

- Provide more comprehensive information on TRS-Care health care costs, including out-of-pocket costs for retirees.
- Provide information on incentive payments in the CAFR.

New Recommendation

- Implement a dollar-for-dollar reduction or a monthly annuity forfeiture, whichever is less, for EAR violations.

TRS-Care: 2021 Premiums

Monthly Premiums for Most Retirees without Medicare in 2021

Retiree only	\$200
Retiree + spouse	\$689
Retiree + child(ren)	\$408
Retiree + family	\$999

Monthly Premiums for Most Retirees with Medicare in 2021

Retiree only	\$135
Retiree + spouse	\$529
Retiree + child(ren)	\$468
Retiree + family	\$1,020

- Premiums are determined by the retiree's Medicare status, regardless of their dependents' Medicare status.
- Premiums for **retirees without Medicare** who retired due to a disability before Jan. 1, 2017 are reduced by \$200.
- New benefit for current TRS-Care participants who turn 65 in 2021 will pay \$0 deductible in the TRS-Care Medicare Advantage plan through Dec. 31, 2021. The \$500 deductible will start on Jan. 1, 2022.
- Premiums for **retirees with Medicare** who have disabled children (regardless of the disabled child's age) are reduced by \$200 in tiers with covered children.

TRS-ActiveCare: 2021 Premiums

TRS-ActiveCare Primary: Copays are \$30 for a primary care physician, \$70 for specialist, \$30 for therapy, \$15 generic drug.

TRS-ActiveCare Primary+: Replaces the TRS-ActiveCare Select plan which only allowed access to providers within a particular region. New plan offers a statewide network. Decreases the maximum out of pocket by \$1,000 for the individual and \$2,000 for families. Premiums lower across all tiers for this plan.

TRS-ActiveCare HD: The deductible calculation is improving so that individuals only need to hit the individual deductible, rather than the family deductible. This means that an employee that enrolls their entire family in this plan will have the plan pay the co-insurance after the individual meets a \$2,800 individual deductible, rather than having to wait for the \$5,600 family deductible. Reduced premiums for all tiers with children.

TRS-ActiveCare 2: No changes in benefits. Please note this plan has been closed to new participants since the 2018 plan year.

Gross Monthly Premiums Before State and District Contributions

Coverage Tier	ActiveCare-Primary (new)	ActiveCare-HD (formerly 1- HD)	ActiveCare-Primary + (formerly Select)	ActiveCare-2
Employee Only	\$386	\$397	\$514	\$937
Employee and Spouse	\$1089	\$1120	\$1,264	\$2,222
Employee and Child(ren)	\$695	\$715	\$834	\$1,393
Employee and Family	\$1301	\$1338	\$1,588	\$2,627

**Per state law, the minimum state contribution is \$75 and the minimum employer contribution is \$150. This has not changed since the program was created in 2001.*