

Senate Finance SB 1

February 10, 2025



TEACHER RETIREMENT SYSTEM OF TEXAS

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.

To comply with fiduciary standards, money held in trust must be used exclusively for the benefit of TRS members. The TRS Board of Trustees act as fiduciaries. TRS manages three separate trust funds to provide pension and health care benefits.

TRS Pension Trust Fund

TRS manages an approximately \$210.5 billion trust fund. The TRS Pension Trust Fund provides current and future retirement benefits for over two million individuals, including over 500,000 annuitants and over 1.5 million active employees with approximately \$15.1 billion paid in retirement benefits in FY 2024.

TRS-Care

TRS-Care is a health care benefits program for eligible retirees and their eligible dependents. At its July 2024 meeting, the TRS Board of Trustees voted to lower premiums in 2025 for Medicare eligible retirees – reducing premiums by 45% per month for most retirees – while protecting the long-term financial soundness of the program. TRS-Care provides retiree health care benefits to 216,000 participants. Jan. 1 2025 is the first year for the new Dental & Vision plans with over 106,000 enrollments, representing 64,000 participants.

TRS-ActiveCare

TRS-ActiveCare is a health care benefits program for active employees currently employed by public education employers that participate in the program and their eligible dependents. TRS-ActiveCare provides health care coverage for nearly 1,000 public education employers across Texas, representing over 420,000 participants.



Sources: 2024 ACFR and TRS Board material.

Note: TRS-Care and TRS-ActiveCare enrollment varies by month - figure represents average for FY 2024.

TRS PENSION TRUST FUND

The TRS Pension Trust Fund is Actuarially Sound

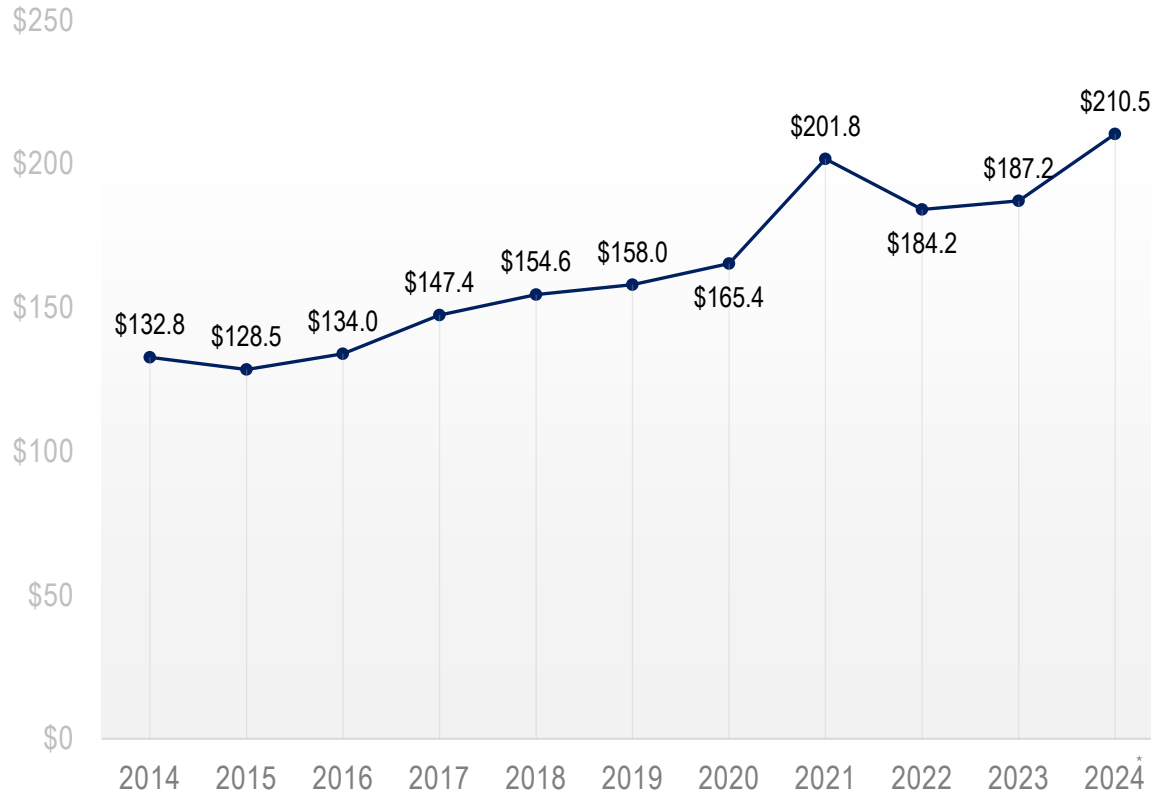
| TRS Pension Trust Fund Valuation | Aug. 31, 2024 |
|---|----------------------|
| Trust Fund Value | \$210.5 Billion |
| Unfunded Actuarial Accrued Liability (UAAL) | \$60.6 Billion |
| Funding Period | 28 Years |
| Investment Return | 12.83% |

Sources: TRS actuary, GRS' 2024 Actuarial Valuation (AV) Report and TRS 2024 ACFR.

Note: Actuarial valuations are prepared annually, data as of Aug. 31 of each year. During legislative years, a Feb. 28th valuation update is provided.

TRS PENSION TRUST FUND: SUMMARY

Pension Fund Balance
as of 8/31



- As of August 31, 2024, the fund had a market value of \$210.5 billion.
- Consistently, investment earnings have provided approximately 62% of pension fund revenue.

| Returns as of Aug. 31, 2024 | 1-Year | 5-Year | 10-Year | 20-Year |
|-----------------------------|--------|--------|---------|---------|
| | 12.83% | 7.94% | 7.24% | 7.45% |

SB 1 AS FILED

State Contributions for Pension

The State's contribution for the biennium as filed will be \$6.4 billion while TRS will pay out in excess of \$31 billion to more than 500,000 annuitants. This includes the contributions to the TRS Pension Trust Fund according to the contribution increase rate structure established under state law. The final phase of SB 12 (86R) was implemented in FY 2025.

State Contributions for TRS-Care

The State's contribution for the biennium as filed will be \$1.2 billion. The appropriation maintains the state's contribution rate to TRS-Care set at 1.25% of active employee salary.

Final State Contribution for TRS-ActiveCare

The State's contribution for the biennium as filed will be \$450 million. The Legislature provided \$588.5 million for TRS-ActiveCare during the 88R session to help participating public education employees have more affordable health coverage. This first appropriation was part of a four-year phase-in plan to limit premium increases to an average of no more than 10% through FY 2027 for over 420,000 participants. The second appropriation related to this plan is included in SB 1. TRS estimates that \$450 million* will be needed for the FY 2026-27 biennium to maintain average premium increases below 10% in each year of the biennium, and to return premiums to match claims expenses after FY 2028.

The total appropriated general revenue and general revenue-related funding for the FY 2026-27 biennium is over \$8 billion.

APPENDIX



TRS BOARD OF TRUSTEES



| Robert H. Walls, Jr. | Brittney Allred | Michael Ball | David Corpus | John Elliott | Laronda Graf | Dick Nance | John R. Rutherford | Elvis Williams |
|----------------------------|----------------------|-------------------------|----------------|--------------------|--------------------------|-------------------|------------------------------------|------------------------------------|
| San Antonio | Dallas | Argyle | Humble | Austin | Atlanta | Hallettsville | Houston | Fair Oaks Ranch |
| Business & Legal Executive | Investment Executive | Retired ISD CFO | Bank President | Law Firm Partner | Human Resources Director | Retired Teacher | Retired Energy & Finance Executive | Asst. Superintendent of Operations |
| Direct Appointment | SBOE Nominated | Active Member Nominated | SBOE Nominated | Direct Appointment | At-Large Nominated | Retiree Nominated | Direct Appointment | Active Member Nominated |

The Board of Trustees is responsible for the administration of the system under provisions of the state constitution and laws. The Board is composed of nine trustees serving staggered terms of six years.

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.

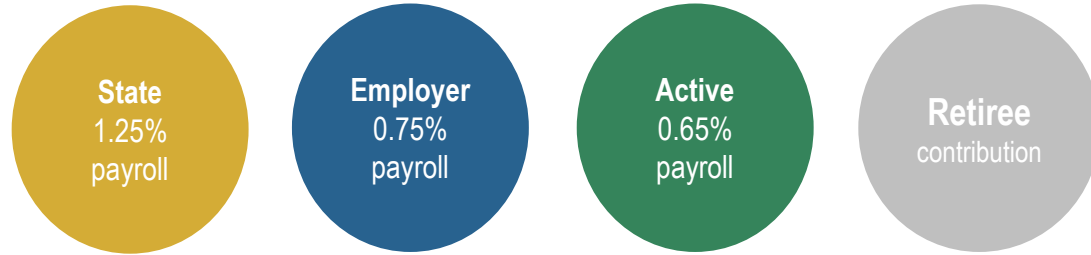
SB 1 AS FILED

| | FY 2026-2027 |
|--|------------------------|
| 1.1.1 Public Education Retirement | \$5,542,425,873 |
| 1.1.2 Higher Education Retirement | \$851,712,521 |
| 1.1.3 Administrative Operations* | \$548,486,600 |
| 1.2.1 Retiree Health** | \$1,179,786,180 |
| 1.3.1 Active Employee Health*** | \$450,000,000 |
| Total | \$8,572,411,174 |

Note: *100% of funding for TRS administrative operations comes from the pension trust fund and not general revenue. **Strategy 1.2.1 refers to TRS-Care, the TRS health plan for TRS retirees and their dependents. ***Strategy 1.3.1 refers to TRS-ActiveCare, the health program for active public education employees.

STATE HEALTH CARE CONTRIBUTIONS

TRS-Care (retiree health care)



- State Contribution Rate: SB 1 includes contributions from the state and public education employers. The active employee contribution for TRS-Care is set in state law. The state's contribution rate to TRS-Care is set at 1.25% with the employer contribution at 0.75%.

TRS-ActiveCare (active employee health care)

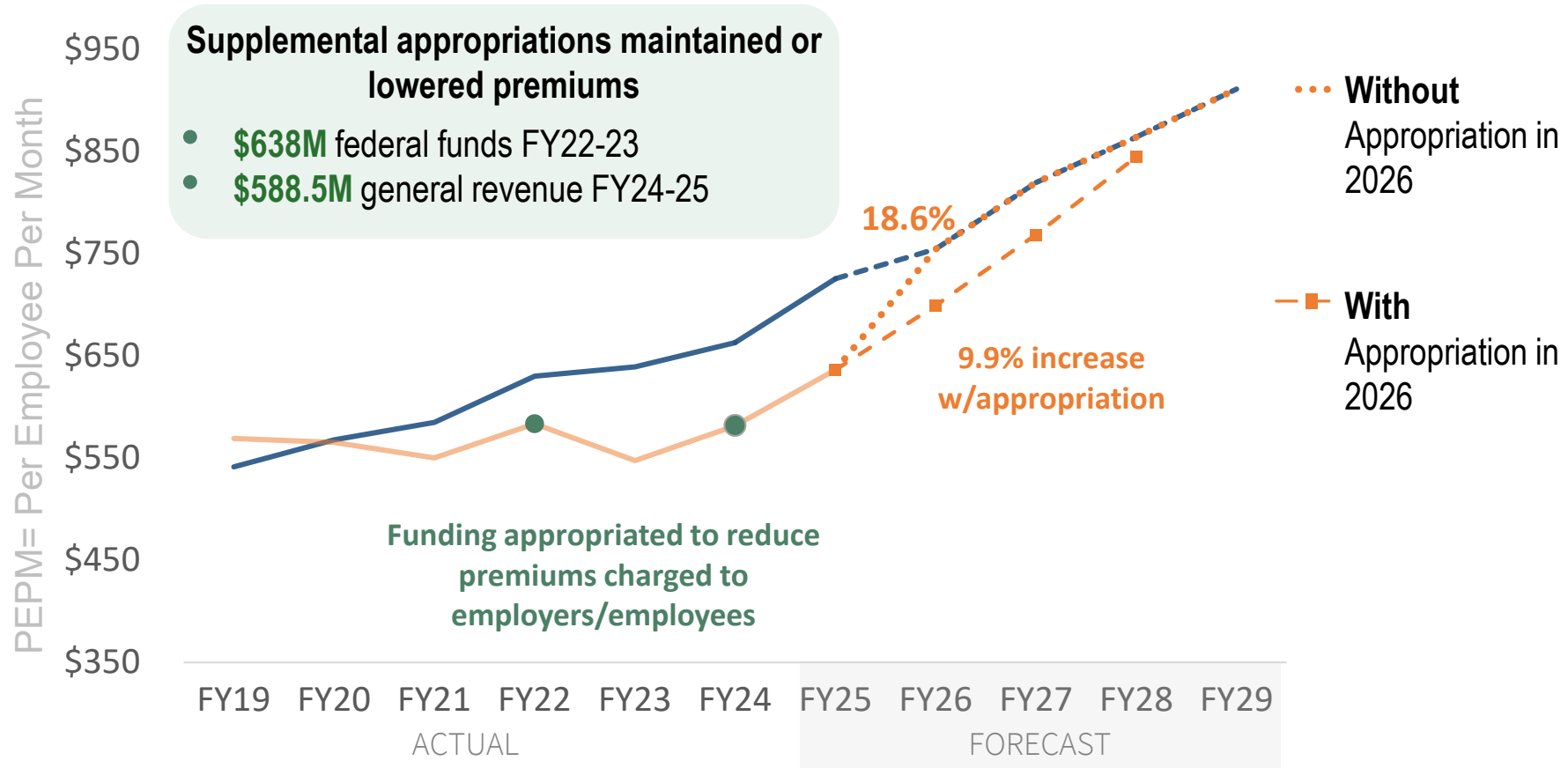


- TRS estimates that \$450 million* will be needed for the 2026-27 biennium to maintain average premium increases below 10% in each year of the biennium.
- Since SB 1444 (86R) allowed districts to opt-in and opt-out of TRS-ActiveCare, 134 employers exited the plan and 17 employers have elected to join, with more joining than leaving in FY 2025.
- State and employer contributions are based on fixed amounts developed in 2001 and are funded directly through the school finance formula.

*Funding amount may need to increase depending on actual costs. Assumes 20,000 new lives in FY26 at a higher average cost and return of eligible districts. Data and estimates as of Jan. 2025.

WITHOUT FUNDING: POTENTIAL TRS-ACTIVECARE PREMIUM INCREASE

Expenses vs Premium Revenues With and Without 2026-27 Funding



**Without Funding
FY26 Gross Premiums Increase by Nearly 20%**



| Fiscal Year | Average Monthly Premium Increase |
|-------------|----------------------------------|
| FY26 | \$118 |
| FY27 | \$65 |

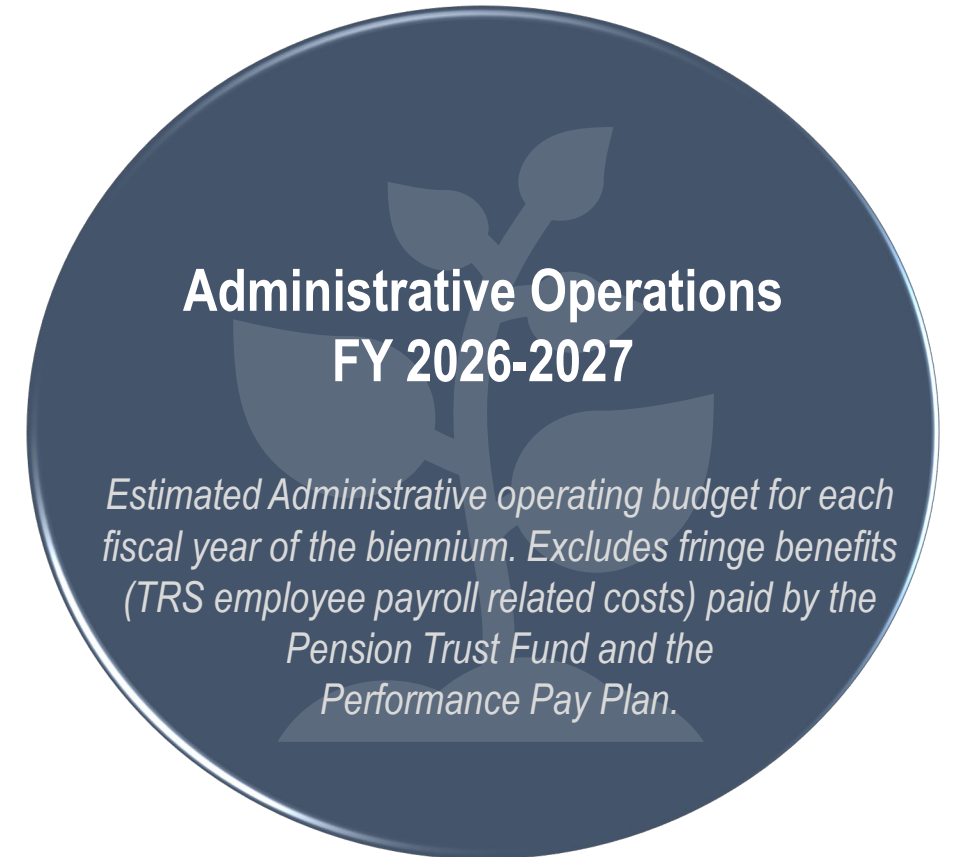
Note: Average premium increase based on per employee per month (PEPM) expenses across all plans and tiers. Based on medical trend indicators, health care costs expected to grow 5.4% each year; premiums/funding amounts may need to increase depending on actual costs. Assumes 20,000 new lives in FY26 at a higher average cost and return of eligible districts. Data and estimates as of Jan. 2025. Actual amounts will change as more data is received. Increase in public educator contributions assumes no increases in employer contributions.

TRS ADMINISTRATIVE OPERATIONS

- 100% of funding for TRS administrative operations comes from the pension trust fund and not general revenue.
- Administrative operations account for less than 0.2% of the total pension trust fund balance. TRS administrative costs remain in the bottom percent quartile compared to peer systems.

FY 2026-27

- To adequately serve members and prudently manage pension fund assets, the TRS Board previously utilized its flexibility pursuant to the Rider 19 Exception to FTE Limitation for Board Fiduciary Finding of the FY25 Budget for additional resources. Specifically for customer service to keep pace with membership growth, the implementation of pension and investment data modernization systems, and key initiatives for emerging technologies, related to data management systems, artificial intelligence, and cybersecurity capabilities that protect all categories of TRS data. As TRS continues to advance our service capabilities, our technical needs are also advancing to provide the high-quality customer service our members deserve.



| | FY 26 | FY 27 |
|----------------------------------|---------------|---------------|
| Administrative Operations | \$291,612,800 | \$256,873,800 |
| Authorized FTE Cap | 1,139.3 | 1,139.3 |

SB 10 & HJR 2 (88R): TRS RETIREE BENEFIT ENHANCEMENTS

Stipends

One-time \$7,500 stipend to eligible annuitants who are 75 years of age and older.

One-time \$2,400 stipend to eligible annuitants ages 70 to 74.

Paid to eligible annuitants in Sept. 2023 per SB 10.

Cost-of-Living Adjustments

2% COLA for eligible retirees who retired between 9/1/13 through 8/31/20.

4% COLA for eligible retirees who retired between 9/1/01 through 8/31/13.

6% COLA for eligible retirees who retired on or before 8/31/01.

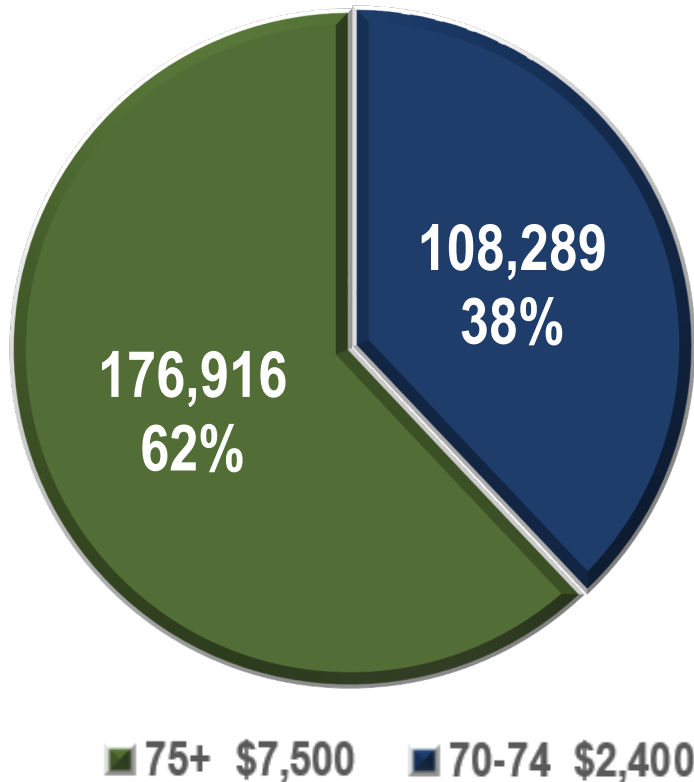
Paid to eligible annuitants in Jan. 2024 per SB 10 and HJR 2 (88R).

\$1.6 billion for a one-time stipend for eligible TRS annuitants and \$3.4 billion to provide a cost-of-living adjustment to eligible TRS annuitants.

SB 10 & HJR 2 (88R): TRS RETIREE BENEFIT ENHANCEMENTS

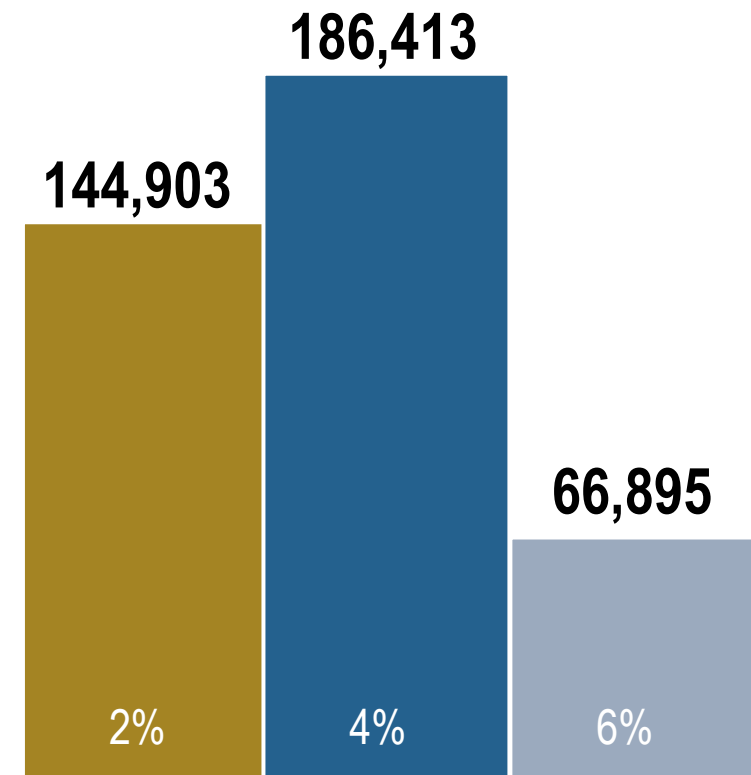
STIPEND

Number of Annuity Payments
by Age



COLA

Number of Annuity Payments
by Percent Increase



TRS-CARE MEDICARE ADVANTAGE: 2025 PREMIUM REDUCTION

Monthly Premium Reduction for TRS-Care Medicare Advantage

| | 2024 | 2025 | <i>Participant Monthly Savings</i> | <i>Participant Annual Savings</i> |
|----------------------|---------|-------|--|---------------------------------------|
| Retiree Only | \$135 | \$75 | -\$60 | -\$720 |
| Retiree + Spouse | \$529 | \$280 | -\$249 | -\$2,988 |
| Retiree + Child(ren) | \$468 | \$408 | -\$60 | -\$720 |
| Retiree + Family | \$1,020 | \$613 | -\$407 | -\$4,884 |

Participants will save between \$720 - \$4,884 annually.