



Teacher Retirement System Of Texas

2015 - 2019 Strategic Plan





STRATEGIC PLAN

FY 2015 – FY 2019

Board of Trustees

R. David Kelly (Chair)

Nanette Sissney (Vice Chair)

Todd Barth

T. Karen Charleston

Joe Colonna

David Corpus

Christopher Moss

Anita Smith Palmer

Dolores Ramirez

Term Expires

August 31, 2017

August 31, 2015

August 31, 2015

August 31, 2017

August 31, 2019

August 31, 2019

August 31, 2015

August 31, 2017

August 31, 2019

Hometown

Plano

Whitesboro

Houston

Houston

Dallas

Humble

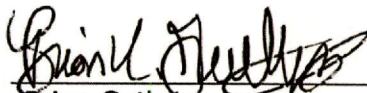
Lufkin

Jacksboro

San Benito

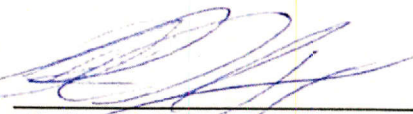
Submitted on July 7, 2014

Signed:



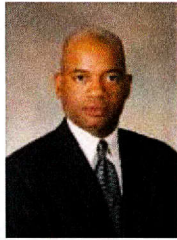
Brian Guthrie
Executive Director

Approved:



R. David Kelly
Chair, Board of Trustees

Board of Trustees



R. David Kelly (Chair)

Managing Partner
Straight Line Realty Partners, Plano
Direct appointment of the governor
Term expires 2017



Karen Charleston

Space Management Assistant
Prairie View A & M University
Houston
Higher education position
Term expires 2017



Christopher Moss

Vice President, The Advanced
Financial Group, Lufkin
Position nominated by the State
Board of Education
Term expires 2015



Nanette Sissney (Vice Chair)

School Counselor
Whitesboro ISD, Whitesboro
Active public education position
Term expires 2015



Joe Colonna

Private Investor
Dallas
Direct appointment of the governor
Term expires 2019



Anita Palmer

Former Texas Public School Teacher,
Administrator and University
Adjunct Professor, Jacksboro
Retiree Position
Term expires 2017



Todd Barth

President
Bowers Properties Inc., Houston
Direct appointment of the governor
Term expires 2015



David Corpus

Senior Vice President, Community-
Bank of Texas, N.A., Humble
Position nominated by the State
Board of Education
Term expires 2019



Dolores Ramirez

Teacher, San Benito
Consolidated ISD, San Benito
Active public education position
Term expires 2019

The TRS Board of Trustees is responsible for administration of the system under provisions of the state constitution and laws. The board is comprised of nine trustees, all of whom are appointed by the governor to staggered six-year terms. Three trustees are direct appointments of the governor. Two trustees are appointed from a list prepared by the State Board of Education. Two trustees are appointed from the three public school district active member candidates who have been nominated for each position by employees of public school districts. One trustee is appointed from the three higher education active member candidates nominated by employees of institutions of higher education. One trustee is appointed from the three retired member candidates who are nominated by TRS retirees. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.

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**STATEWIDE STRATEGIC ELEMENTS
FOR TEXAS STATE GOVERNMENT**

STATE MISSION

Texas state government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high . . . we are not here to achieve inconsequential things!

STATE PHILOSOPHY

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise, we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse and providing efficient and honest government.
- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

STATEWIDE PRIORITY GOALS THAT APPLY TO TRS

The strategic objectives for the Teacher Retirement System of Texas (TRS), developed in accordance with the TRS Board of Trustees' fiduciary duties and presented in this document, support the following priority goals of the state of Texas:

Education – Public Schools

To ensure that all students in the public education system acquire the knowledge and skills to be responsible and independent Texans by:

- Ensuring students graduate from high school and have the skills necessary to pursue any option including attending a university, a two-year institution, or other post-secondary training, serving in the military, or entering the workforce;
- Ensuring students learn English, math, science, and social studies skills at the appropriate grade level through graduation; and
- Demonstrating exemplary performance in foundation subjects.

TRS enhances the well-being of those dedicated to serving in public education by providing retirement and related benefits, which serve as recruitment and retention incentives for Texas public school employees. This directly supports the state's priority goal for education.

Education – Higher Education

To prepare individuals for a changing economy and workforce by:

- Providing an affordable, accessible, and quality system of higher education.
- Furthering the development and application of knowledge through teaching, research, and commercialization.

TRS directly supports the state's priority goal for higher education by providing retirement and related benefits, which serve as recruitment and retention incentives for Texas higher education employees.

Health and Human Services

To promote the health, responsibility, and self-sufficiency of individuals and families by:

- Making public assistance available to those most in need through an efficient and effective system while reducing fraud;
- Restructuring Medicaid funding to optimize investments in health care and reduce the number of uninsured Texans through private insurance coverage;
- Enhancing the infrastructure necessary to improve the quality and value of health care through better care management and performance improvement incentives;
- Continuing to create partnerships with local communities, advocacy groups, and the private and not-for-profit sectors;
- Investing state funds in Texas research initiatives which develop cures for cancer;
- Addressing the root causes of social and human service needs to develop self-sufficiency of the client through contract standards with not-for-profit organizations; and
- Facilitate the seamless exchange for health information among state agencies to support the quality, continuity, and efficiency of health care delivered to clients in multiple state programs.

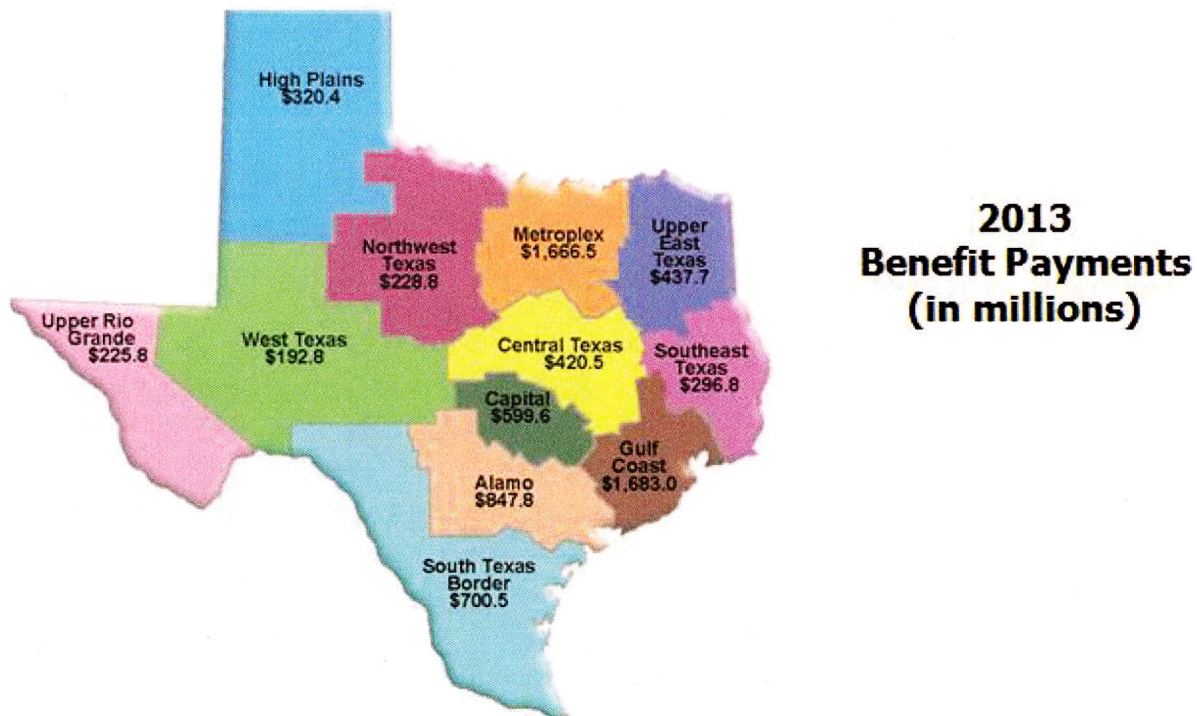
TRS supports the state's priority goal for health and human services by providing income and health benefits for retired Texas public education employees and their families. TRS also administers a health benefit program for eligible Texas public school employees and their eligible dependents.

Economic Development

To provide an attractive economic climate for current and emerging industries and market Texas as a premier business expansion and tourist destination that fosters economic opportunity, job creation, and capital investment by:

- Promoting a favorable business climate and a fair system to fund necessary state services;
- Addressing transportation needs;
- Maintaining economic competitiveness as a key priority in setting state policy; and
- Developing a well-trained, educated, and productive workforce.

TRS supports the state’s priority goal for economic development by contributing to the Texas economy through disbursement of retirement, death and survivor benefits. In 2013, these payments totaled approximately \$8.1 billion. Nearly 95 percent of these payments, over \$7.6 billion, went directly to residents who live and spend these dollars in Texas.



General Government

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations;
- Ensuring the state’s bonds attain the highest possible bond rating; and
- Conservatively managing the state’s debt.

TRS supports the state’s priority goal for general government by operating efficiently, openly, and by focusing on its core competencies. In addition, TRS’ prudent pension trust fund investment provides a foundation for ensuring that retirement programs and pension funds are actuarially sound and well-managed.



TRS VISION, MISSION, PHILOSOPHY AND CORE VALUES

Teacher Retirement System of Texas

Our Vision, Mission, Philosophy, and Core Values

Vision

Earning your trust every day.

Mission

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.

Philosophy

Our core values form the basis for our dedication and professionalism.

Core Values*

Our values represent a mutual understanding about responsibilities, expectations and communication in the way we treat each other and those we serve.

***Customer Satisfaction**

We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations are exceeded.

***Collaboration/Teamwork**

We work together to achieve common goals through a diverse, yet unified team.

***Accountability**

We hold ourselves accountable and take responsibility for our actions, behavior and outcomes.

***Respect**

We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.

***Ethics**

We will be truthful and act with honesty and integrity in everything we do.

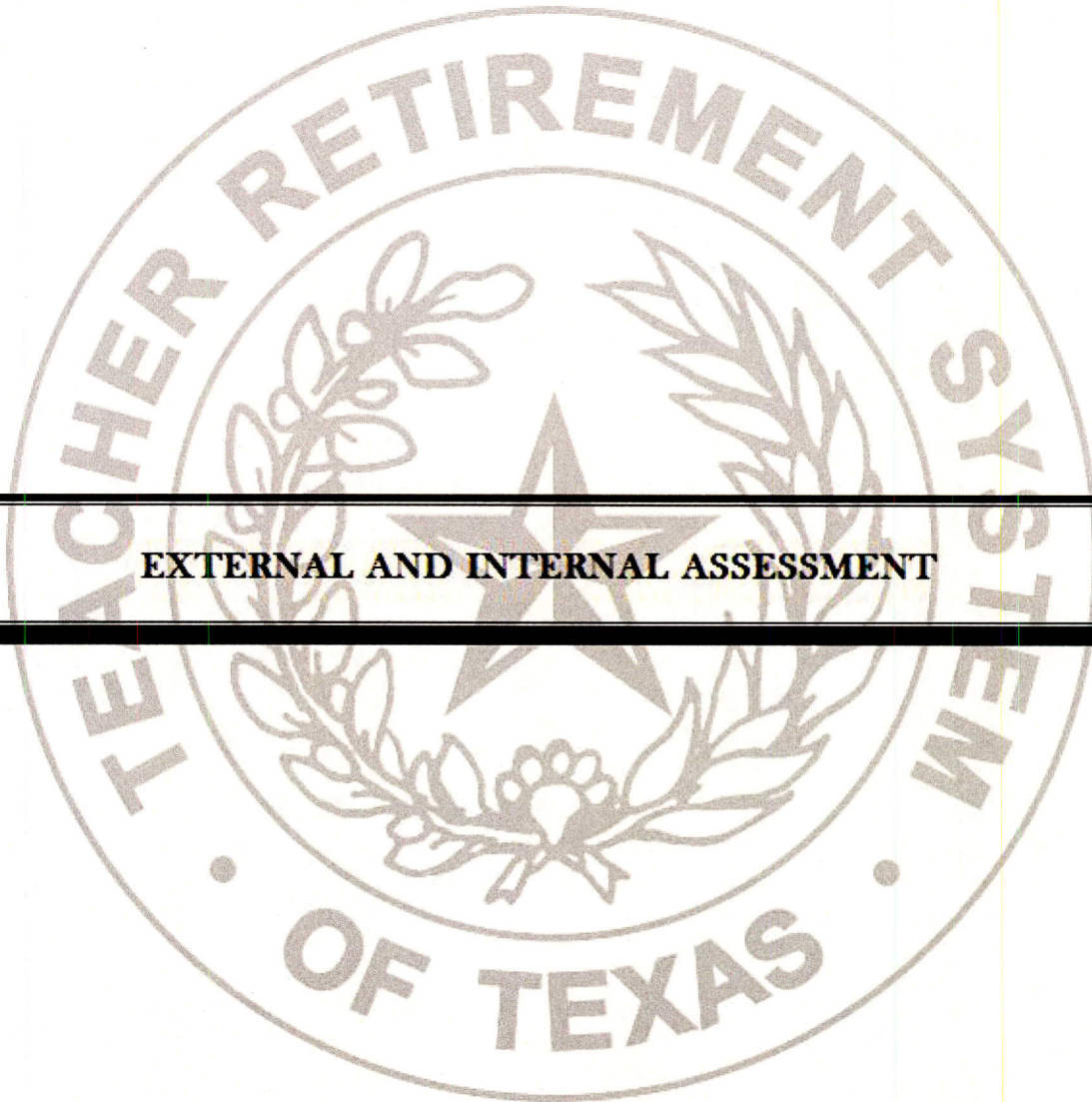
***Excellence**

We commit to demonstrating excellence in our work and look for ways to continuously improve.

***Employee Fulfillment**

We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.





EXTERNAL AND INTERNAL ASSESSMENT

Key issues and major challenges impacting TRS' mission, goals and objectives.

KEY ISSUES

- ✦ Increasing global asset markets in an environment where:
 - Developed markets are undergoing a secular deleveraging;
 - Global economic growth and productivity is slowing;
 - Monetary policies are likely to tighten after several years of extremely loose policy; and
 - Unpredictable geopolitical events.
- ✦ The pension plan has sufficient funds to pay benefits for current retirees as well as for new retirees well into the future.
- ✦ There is heightened interest and awareness in TRS health care plans due to uncertainty created by recent passage of federal health care legislation.
- ✦ Health care costs continue to rise significantly.
- ✦ There will be continued growth in the number of active members and annuitants as well as reporting entities in the pension plan.
- ✦ The number of annuitants will increase at a faster rate than the number of active members.
- ✦ Pension issues, and the value of defined benefit plans as compared to defined contribution plans, are currently the subject of a national policy debate.
- ✦ The complexity of TRS rules and statutes makes business processes complex and time-consuming to execute.
- ✦ The overall aging of the workforce will result in additional pressures on TRS staffing.
- ✦ TRS stakeholders will expect new channels of communications and means of conducting business with TRS through the use of evolving technology.
- ✦ TRS will utilize effective procedures and leading-edge technology to protect confidential member information.

MAJOR CHALLENGES

- ✦ Sustaining investment returns at or above the actuarial assumed rate of return within established prudent risk levels while in a low inflation, low interest rate and relatively high equity asset valuation environment.
- ✦ Securing funding for and controlling costs associated with TRS health benefit plans.
- ✦ Examining funding options for TRS health benefit plans in a study to be released September 2014.
- ✦ Successfully implementing the TRS Enterprise Application Modernization (TEAM) Program.
- ✦ Providing legislatively approved annuity increases to help maintain the purchasing power of our annuitants.

MAJOR CHALLENGES (cont'd)

- ✦ Managing change within TRS.
- ✦ Staying abreast of changes in our regulatory environment and ensuring compliance (i.e., Governmental Accounting Standards Board, IRS, Securities & Exchange Commission, and Texas Legislature).
- ✦ Communicating important information to stakeholders in a clear, timely and convenient fashion.
- ✦ Responding to open records requests in a timely and cost-effective manner through adequate staffing, an effective electronic records management system, and increased public access through the TRS website.
- ✦ Collecting member and retiree email addresses and telephone numbers.
- ✦ Using technology effectively to enhance customer service and manage investments.
- ✦ Implementing strategic technology projects in a timely and effective manner.
- ✦ Ensuring effective workforce continuity planning and knowledge transfer among TRS staff.
- ✦ Attracting and retaining qualified staff.
- ✦ Continuing enhancement of customer service.

SCOPE & FUNCTIONS

Historical Framework

Recognizing that having a sound and reliable retirement benefit would enhance the lives of Texas educators and thus improve educational quality for the children of Texas, voters in 1936 approved an amendment to the state constitution authorizing the creation of the Teacher Retirement System of Texas (TRS). TRS was formed following enabling legislation in 1937 and currently operates under Article XVI, Section 67 of the Constitution of Texas.

While its mission to provide retirement benefits remains essentially unchanged, the breadth of the agency's responsibility has increased considerably. Originally applicable only to teachers and public school administrators, TRS now provides service and disability benefits for employees of public schools, educational service centers, charter schools, community and junior colleges, universities, and medical schools. A number of events and legislative actions have changed TRS since its inception, including the following:

- 1949 – TRS retirement plan membership was expanded to include all employees of public education institutions, including cafeteria workers and bus drivers.
- 1985 – The 69th Texas Legislature established TRS-Care, a health benefit program for public school retirees.
- 1987 – The retirement plan was amended to take advantage of federal tax code provisions to make member contributions tax deferred.
- 1999 – State legislation was enacted authorizing TRS to administer an optional long-term care insurance program for eligible active members and retirees.
- 2001 – State legislation was enacted to create TRS-ActiveCare, a statewide health benefit program for employees of school districts, open enrollment charter schools, regional education service centers and other educational districts whose employees are members of TRS.
- 2005 – Significant state legislation altered several aspects of the plan related to benefit eligibility and determination. The legislative objective was to help assure the plan's long-term viability by influencing future retirement patterns.
- 2007 – The TRS Board of Trustees adopted a new long-term asset allocation that over time is designed to increase TRS holdings in private markets and reduce holdings in public markets. This shift in assets is intended to increase investments diversification and returns without increasing risks to the fund. That same year the Texas Legislature also granted TRS authority to use external investment managers and to use certain investment instruments to help manage risk, enhance returns and promote efficient portfolio management.
- 2009 – State legislation was passed for federal retirement plan qualification, other tax-related matters, and certain health care provisions.
- 2011 – State legislation was enacted to extend authorization for the use of external investment managers and to use certain investment instruments to help manage risk,

enhance returns and promote efficient portfolio management through Sept. 1, 2019. TRS was also authorized to increase its allocation to hedge funds from 5 percent to 10 percent through Sept. 1, 2019. Significant changes were made to the cost of certain kinds of purchased service credit, certain administrative functions and employment after retirement.

- 2013 – State legislation provided an increase in long-term contributions to the pension trust fund, including a new contribution from school districts which do not contribute to Social Security. Changes were made to increase the minimum retirement age for full pension benefits and for eligibility for certain levels of retiree health care.

Primary Functions

TRS serves active and retired public and higher education employees of the state through:

Benefit Delivery - TRS administers an array of benefits, including service and disability retirement benefits, death and survivor benefits, health benefit programs, and long-term care insurance. TRS is committed to delivering these services in an efficient and professional manner. Today, TRS serves just over 1 million active public education employees. Additionally, over 348,000 individuals receive retirement benefits from the plan. Almost 237,000 retirees or their dependents participate in the TRS-Care health benefit program and over 455,000¹ active school employees and their dependents participate in the TRS-ActiveCare program. These programs are expected to continue growing into the foreseeable future.

Investment Management - The Investment Management Division (IMD) of TRS manages a pension trust fund for the benefit of its members. IMD's primary function is to maximize the probability of achieving the trust's long-term actuarially required rate of return within specific and controlled risk parameters through professional management of the trust's investment portfolio. By means of significant people development and clearly defined processes, IMD pursues a global investment strategy comprised of beta and alpha components implemented through a mix of internal and external management of trust assets. The trust fund is presently the sixth largest public pension fund and seventh overall in the nation, based on asset size². The fund is established through contributions from the State of Texas, TRS members, TRS reporting entities (employers), and investment returns. Since the fund's inception, investment returns have provided nearly 62 percent of TRS revenues.

Communication with Stakeholders - Consistent with Texas State government philosophy, TRS recognizes that it is each individual's right and responsibility to make informed retirement decisions. As subject-matter experts for a number of complex programs, TRS staff are responsible for providing accurate information about TRS programs and services to all interested parties, including active and retired members, legislative and governing bodies, school districts and

¹ 2013 Comprehensive Annual Financial Report

² Pensions & Investments, September 30, 2013

institutions of higher education and the public. TRS communicates with stakeholders to enable them to make informed decisions related to TRS programs. This may include funding and benefit design decisions made by the legislature or retirement options selected by members. TRS also provides general educational information regarding pensions and health benefit matters and responds to media and other requests relating to the investments of the system. TRS continues to sharpen its communication focus on benefit delivery and fund management and is committed to enhancing its channels of communication to meet the needs of all constituents.

Workforce Management - In order to provide the level of excellence expected by its stakeholders, TRS must attract, retain and develop a highly competent and diverse workforce.

Public Perception

As one of America's largest public pension funds serving nearly 1.3 million public education employees, TRS is often in the public eye. One in 20 Texans is a member or retiree of TRS. As such, the organization places great importance on meeting the needs of a variety of stakeholders. These stakeholders include TRS members, retirees and their beneficiaries, elected officials, board members, professional associations of public educators, TRS employees, and taxpayers of the State of Texas. TRS strives to be a model public entity that serves the interest of all stakeholders by operating as effectively as possible at the lowest possible cost while providing exemplary customer service.

The economic impact of the system is significant. In 2013, TRS delivered approximately \$8.1 billion in benefit payments to retirees and beneficiaries; nearly 95 percent of these recipients continue to reside in the State of Texas. TRS also provides health benefits for active members and retirees, with the vast majority of payments being made to health care providers in this state.

Survey - TRS' main focus continues to be its primary stakeholders: its members and retirees and their beneficiaries. TRS employees strive to provide the highest quality of service. To ensure success, TRS conducts member satisfaction surveys and adapts its service delivery processes based on those survey findings.

In the spring of 2014, TRS contracted with the University of North Texas to conduct a member satisfaction survey to assess levels of customer satisfaction with:

- TRS benefit counselors,
- The TRS Telephone Counseling Center,
- Responses to written requests for information,
- The automated telephone system,
- Internet services,
- TRS-Care and TRS-ActiveCare,
- Printed materials and other communications,
- Annual statements of account,
- TRS facilities,

- Social media options, and
- Overall TRS services.

The 2014 survey results show very favorable ratings among TRS members and retirees. Overall, 97.3 percent of retirees and 97.0 percent of active members reported that they were either satisfied or very satisfied with TRS member services. Satisfaction ratings for benefit counselors, the TRS Telephone Counseling Center and the TRS website were all very positive with a large majority of respondents reporting that they were satisfied. Courtesy ratings for TRS representatives who work with members and retirees were also very positive. With respect to health benefit services, 96.5 percent of retirees and 83.6 percent of active members were either very satisfied or satisfied with TRS-Care and TRS-ActiveCare services, respectively.

Online and Social Media - *MyTRS*, the secure, online application that helps members and retirees conduct convenient transactions with TRS, continued to gain momentum through active promotion including newsletter articles, social media outreach, and launch of *MyTRS* Rewards discount website. The rewards website offers exclusive discounts on popular products and services to members and retirees who have registered to participate in *MyTRS*.

As part of its commitment toward open and transparent communication, TRS continues to webcast all board meetings. The meetings are streamed live and recorded for playback on demand. Outreach to members was also accomplished through a town hall meeting in early 2014 during which members and retirees discussed the system's health insurance programs with trustees and TRS executives.

Fiscal year 2013 saw TRS produce six "TRS Today" videos featuring interviews with TRS executives. TRS also produced instructional videos and videos to accompany brochures and commemorate events such as TRS' 75th anniversary.

TRS' social media presence on Facebook, YouTube, LinkedIn and Twitter continued to supplement TRS' traditional methods of communication with increased member participation. The social media programs offer members, retirees, beneficiaries and others another way to engage directly with TRS online.

TEAM Program - Staff is continuing efforts to inform and educate employees about the TRS Enterprise Application Modernization (TEAM) Program. The multi-year, agencywide program includes a redesign of the agency's website. Staff will advise on all aspects of the project including procurement, design and mobile considerations.

Benefits - The *TRS Benefits Handbook*, the pension plan's summary description, was updated to reflect the latest member and retiree benefit information and benefit changes enacted by the 83rd Texas Legislature. The handbook, restructured with use of color-coded membership tiers, was distributed electronically and mailed to members and retirees only upon request, saving

publication costs to the retirement system. The *Employment After Retirement* booklet and *Requesting a Refund* brochure were also updated to include recent changes.

Benefit Counseling continued to reach out to members with group presentations to professional associations, to employee and retiree groups, and at regional education service centers. Fiscal year 2014 was the eighth year that one-on-one retirement counseling sessions were offered in field locations throughout Texas.

Other - As public servants, TRS employees have demonstrated their commitment to helping those in need in their community. During the 2013 State Employee Charitable Contribution Campaign, TRS was recognized for the highest per capita donations among similar-sized agencies in both the Capital Area and statewide.

TRS celebrated the retirement system's 75th anniversary in fall 2012. In conjunction with the event, staff developed new agency logos and produced a commemorative anniversary video and a website history museum.

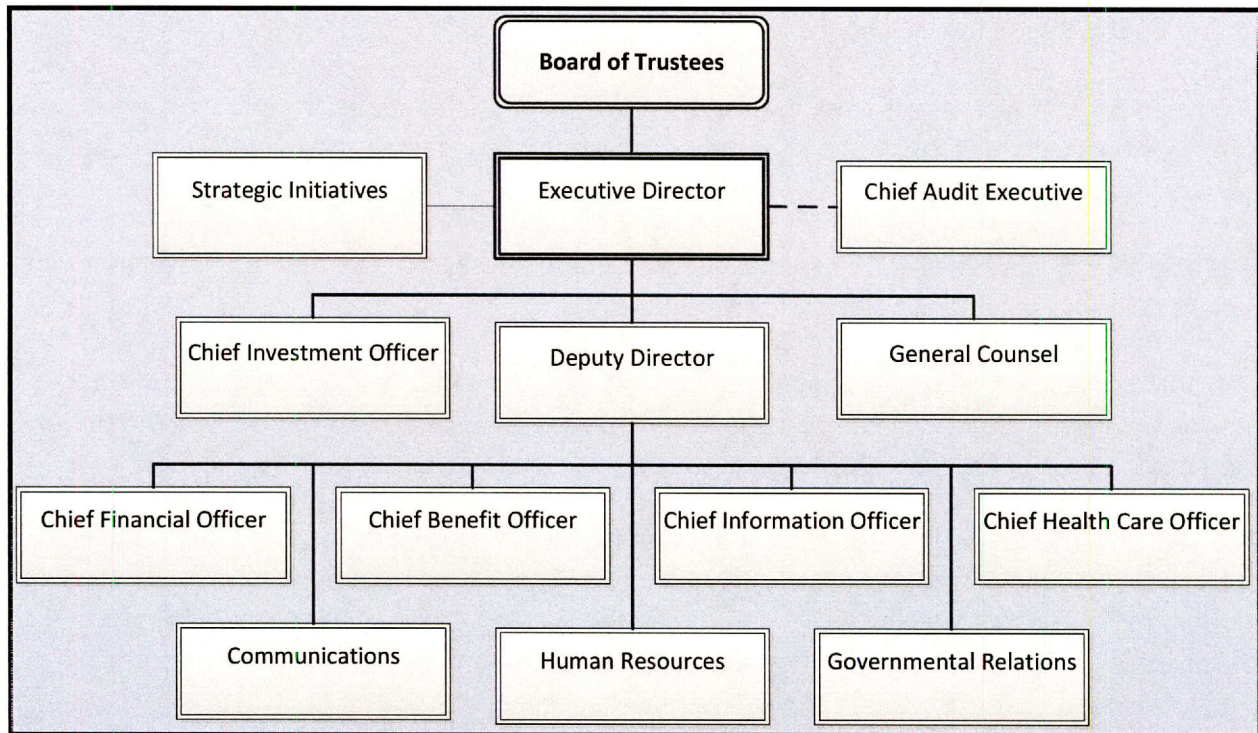
As a public entity, TRS works to create an environment that reflects the diversity of the state. TRS' diversity initiative allows all of its employees to make meaningful contributions to its mission; makes all members feel welcomed and honored as TRS serves them; and actively seeks diversity among external business associates and potential employees, recognizing that these good-faith efforts lead to enhanced organizational effectiveness.

ORGANIZATIONAL ASPECTS

Organizational Structure and Governance

TRS is a public entity governed by a board of trustees appointed by the governor. The executive director, selected by the board of trustees, is the chief executive officer and is responsible for the general administration of the organization. TRS is headquartered at 1000 Red River Street, Austin, Texas, and the Investment Management Division is located in a separate facility at 816 Congress Avenue in Austin, Texas.

Organization of TRS



The TRS organizational structure is designed to facilitate fulfillment of its mission by focusing resources in the areas of benefit delivery and investment management. For fiscal year 2014 (Sept. 1, 2013 to Aug. 31, 2014), TRS had 613.75 budgeted full-time equivalent (FTE) employees, including 503.25 FTEs assigned to the pension fund, 57.0 FTEs for health benefits functions, 0.5 FTEs for 403(b) program administration, and 53.0 FTEs for the TEAM Program. Staffing levels are reviewed on a regular basis to ensure that sufficient resources are available to provide quality customer service for TRS constituents.

The nine-member board of trustees administers the programs and invests the funds of the system. Board members are appointed by the governor of Texas for six-year, staggered terms and are confirmed by the Texas Senate. The governor designates the board’s presiding officer.

The governor's board appointments consist of the following:

- Three direct appointments of persons with demonstrated financial expertise, broad investment experience, and who are not active or retired members of the system;
- Two appointments from a list of candidates offered by the State Board of Education;
- Two appointments of active public school employees, selected from a list of the three top vote-getters in an election among active public school employees;
- One appointment of a retired TRS member, selected from a list of the three top vote-getters in an election among retired members; and
- One appointment of either a TRS retiree, public school district member, or an institution of higher education member. This appointment will be selected from a list of the three top vote-getters in an election.

The three direct appointment nominees must have demonstrated financial expertise, have worked in private business or industry and have broad investment experience, preferably in investment of pension funds.

The structure of the board is intended to ensure the proper balance between the investment and benefit delivery components of the TRS mission.

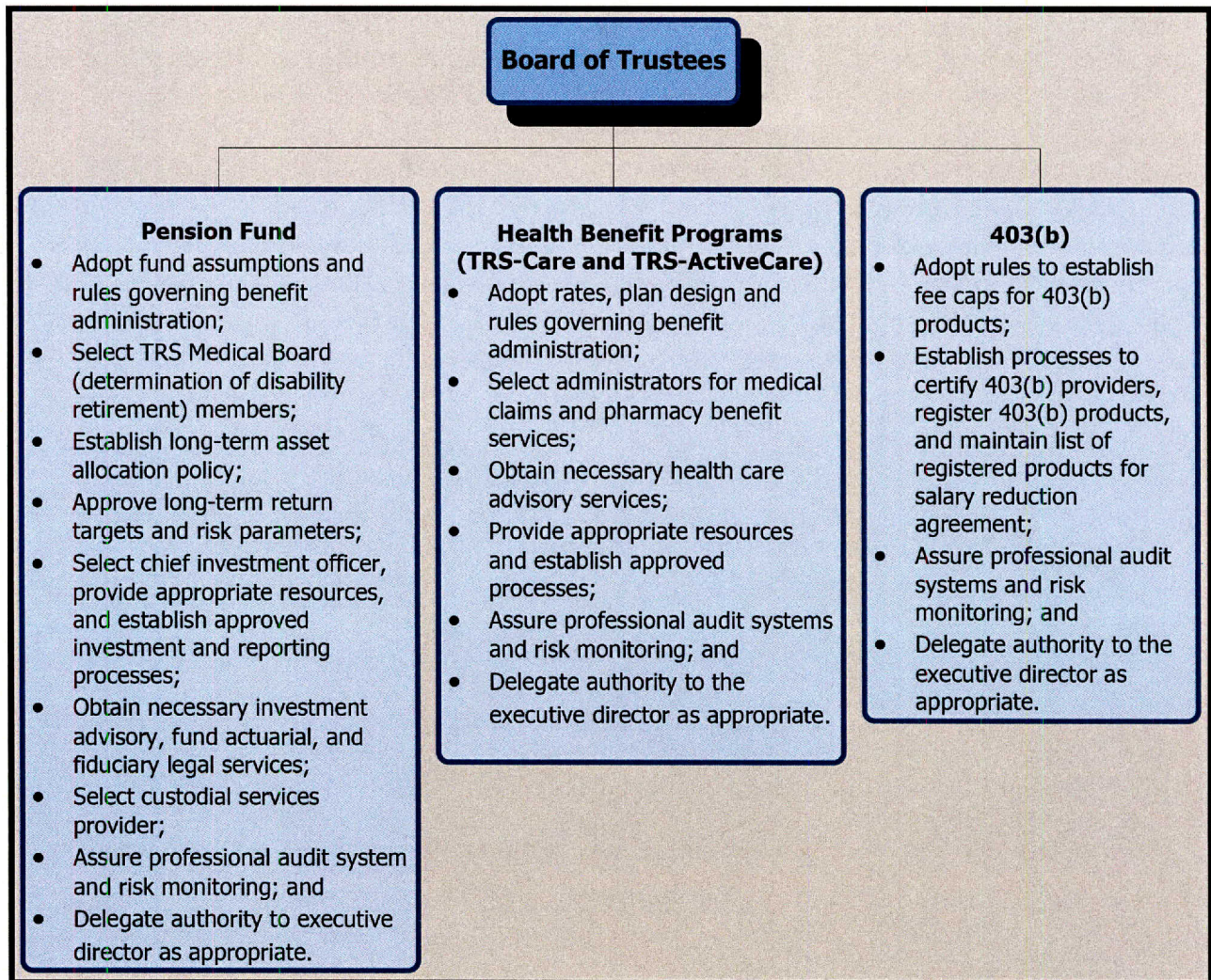
The board of trustees is supported by a governance structure that aids the board's decision-making processes. Structural components include policy formulation and review, committees of the board, specialty advisors and consultants, and risk management functions.

The TRS governance process is based on fiduciary principles, including leading practices among public pension funds and other institutional investors. The overall purpose is to better assure accountability and integrity in discharging the system's responsibilities to active and retired members, oversight agencies, and the public.

TRS Governance

The TRS governance process strives to:

- Achieve the agency mission in a manner consistent with agency core values;
- Ensure effective organizational performance management and accountability;
- Effectively disseminate communication across the agency and manage as necessary; and
- Effectively coordinate the activities of, and communicate information among, the board, external and internal auditors, and management.



Workforce Management

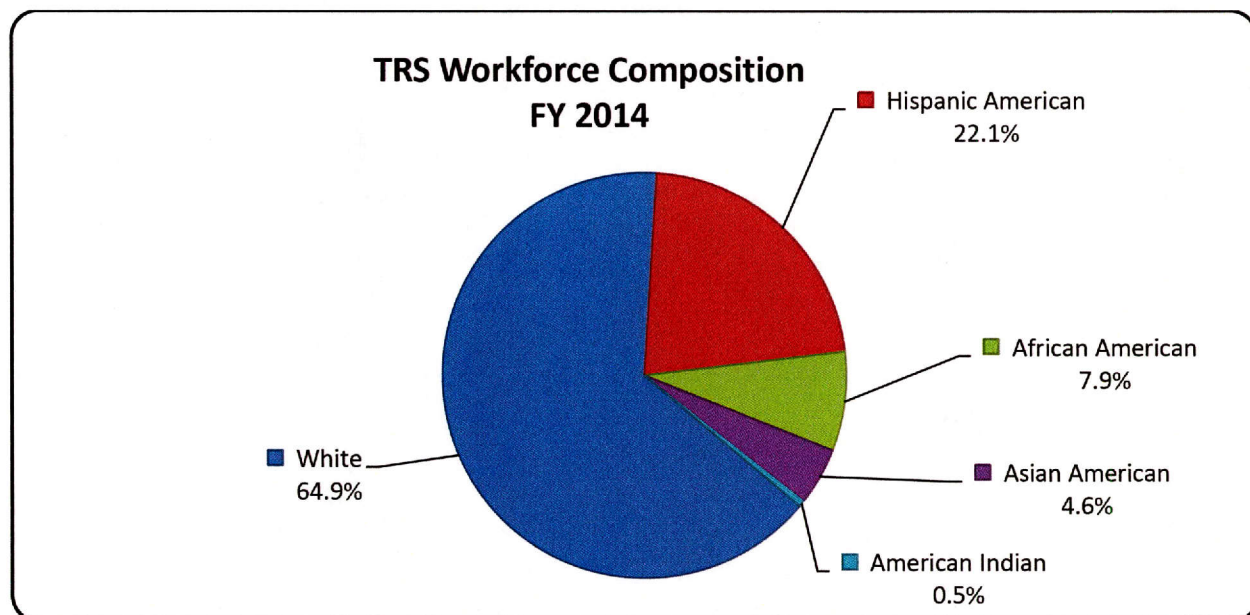
One of TRS' goals is to attract, retain and develop a highly competent staff. This goal is accomplished, in part, by maintaining effective programs in:

- Compensation and Classification to ensure that overall employee compensation is externally competitive and internally equitable;

- Performance Management to maintain a systematic approach for providing accurate, timely performance feedback to TRS staff;
- Recruitment and Retention to assist managers in recruiting, selecting and retaining qualified employees;
- Learning and Development opportunities to support employee's contribution to TRS; and
- Organizational Change Management to enable employees to navigate successfully through agency changes.

Workforce Analysis/Planning: TRS conducts an ongoing analysis of the workforce to determine future staffing needs, develop and promote career opportunities for current employees, research options to retain institutional knowledge and design succession planning programs for critical staff. See Appendix E (Workforce Plan) for additional information.

Workforce Diversity: Workforce diversity is the organization's commitment to promoting a fair, inclusive, and respectful work environment, which includes attracting and retaining a diverse workforce. Activities include outreach advertising and recruiting efforts in historically minority-oriented venues, consistently reporting minority representation in various job categories to senior management, and organization wide events and training efforts to increase diversity awareness and further a culture of fairness, inclusiveness and respect.



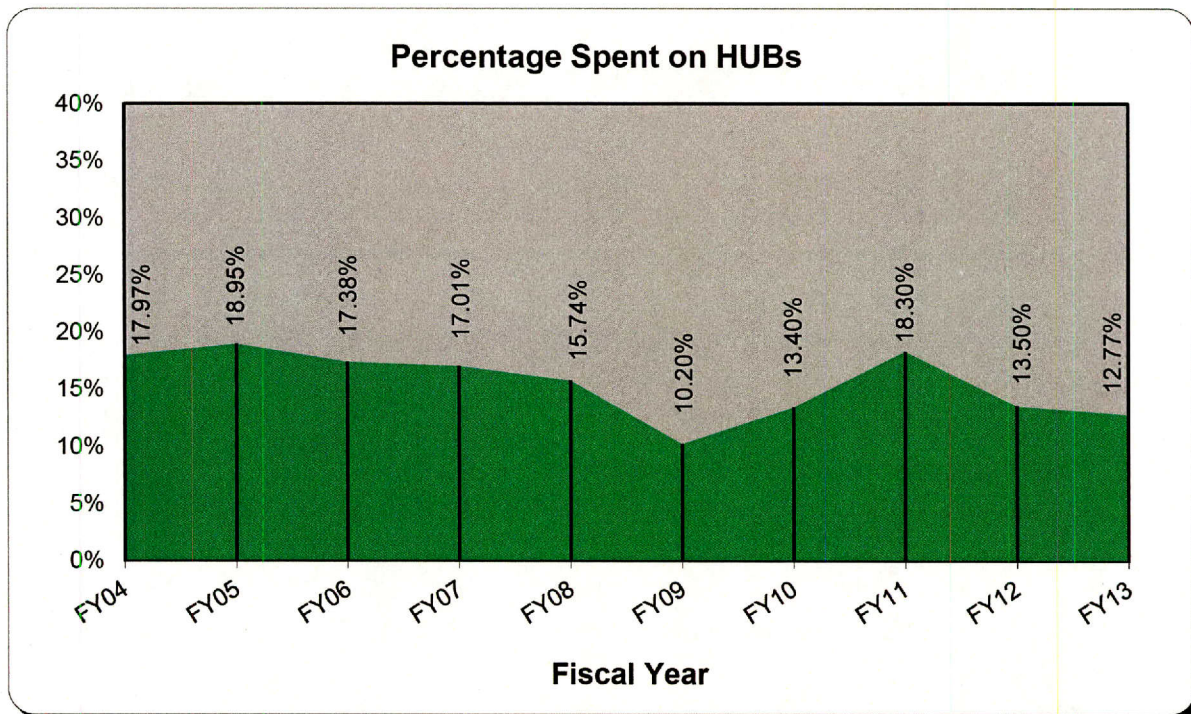
Utilization of Historically Underutilized Businesses (HUBs)

TRS actively seeks diversity among external business associates, recognizing that such good-faith efforts lead to enhanced organizational effectiveness. To that end, TRS recognizes the importance of directing expenditures toward HUBs and continues to pursue initiatives designed to promote HUB opportunities. These initiatives included subcontracting efforts and attending HUB Economic

Opportunity Forums throughout the state as well as hosting HUB forums at TRS facilities. TRS is committed to achieving its goals and continues to make a good faith effort in all areas. As a public entity headquartered in Austin, TRS' purchasing efforts are centralized. TRS' HUB coordinator travels to events and forums to encourage participation from HUB vendors throughout the state.

Recognizing that TRS has a limited number of business opportunities for the vast numbers of HUBs competing for those opportunities, TRS is committed to being a resource for HUBs not only in identifying potential opportunities with TRS, but with other state agencies as well. This commitment extends to assisting HUBs in understanding the State of Texas contracting process and navigating the HUB certification process. TRS is pleased to offer assistance to HUBs in any manner possible - even for opportunities not sponsored by TRS.

HUB 2013 Expenditures as Percentage of Total Expenditures - Due to TRS' unique needs as a pension fund, the agency expends the majority of its funds on a relatively few high-dollar contracts for highly specialized services. TRS has been greatly challenged in obtaining responses from HUBs on these highest dollar contract solicitations.

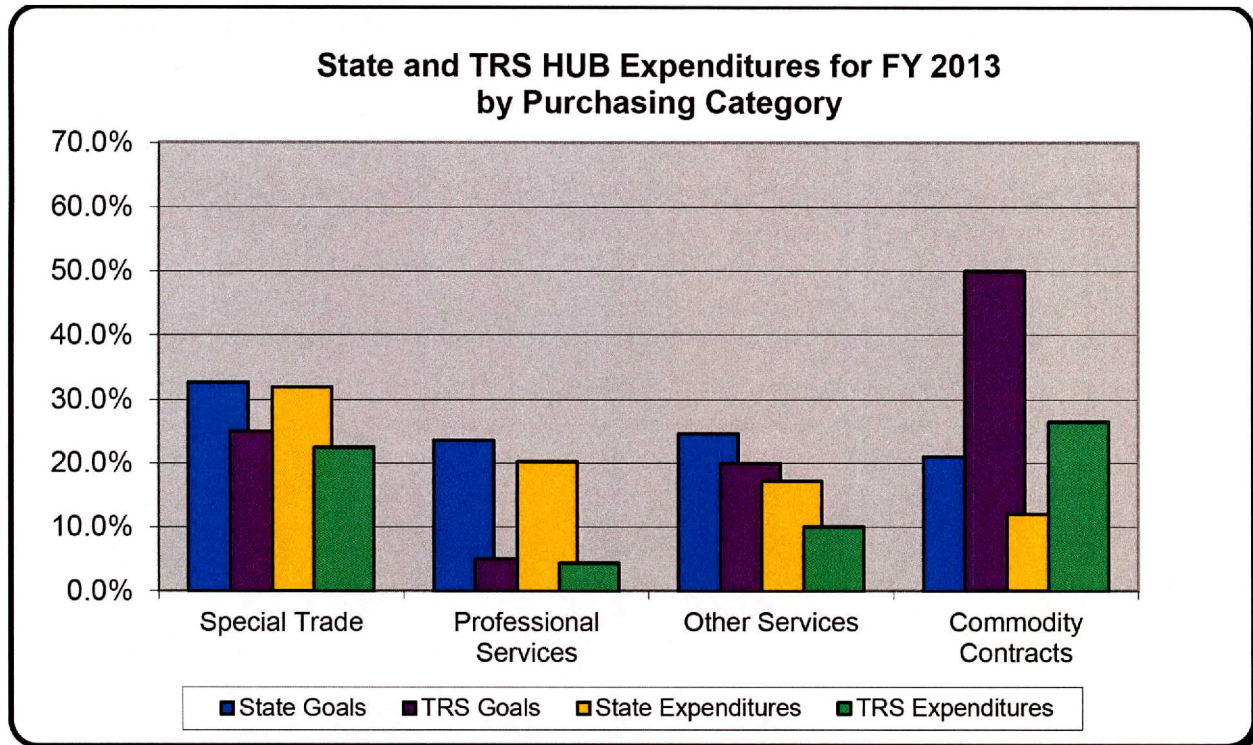


HUB Expenditures Compared to State's HUB Expenditures - TRS expends funds in four of the state's purchasing categories:

- All special trade construction contracts
- Professional services contracts
- All other service contracts

- Commodities contracts

TRS has no expenditures in two of the state's categories: "Heavy construction other than building contracts" and "All other building construction including general contractors and operative building contracts."



TRS Initiatives Completed for Increased HUB Utilization

- Attended eight additional Economic Opportunity Forums, mentored HUB vendors on business opportunities with TRS and finding opportunities with other state agencies and assisted HUBs with certifications and renewals;
- Participated in meetings hosted by the Texas Comptroller of Public Accounts to discuss efforts to increase opportunities for HUBs to provide financial services;
- Continued to staff the role of HUB coordinator who attends various forums and develops and distributes information internally and externally to facilitate and promote HUB participation;
- Conducted 19 onsite meetings with HUB vendors;
- Advised HUB vendors on possible business opportunities with TRS as well as other state agencies and how best to address those opportunities;
- TRS Board of Trustees approved and adopted HUB goals;
- HUB information was provided and maintained on the TRS website including the addition of a presentation, "Secrets of Selling to the State." The presentation provides detailed

information on the state's and TRS' purchasing processes as well as tools and resources that HUBs can use to identify business opportunities around the state at no cost and with only a small investment of time;

- Identified and assisted HUB vendors with completing certification and recertification documentation;
- Encouraged prime contractors to use HUB subcontractors;
- Paid more than \$2.25 million to certified Texas HUBs via subcontracting on contracts with non-reportable expenditure codes;
- Continue to make opportunities available for contractors to participate in mentor-protégé agreements to assist HUB vendors in furthering their business development;
- Continued to encourage the use of HUB or minority-owned investment firms in various requests for proposal;
- Developed and distributed information to facilitate and promote HUB participation; and
- Co-hosted the 12th and 13th annual HUB forums with Texas Workforce Commission.

Future Initiatives to Increase HUB Utilization

TRS is committed to reaching its goals for HUB utilization and will continue to make good-faith efforts to do so. TRS will continue to:

- Support and implement responsibilities defined in Chapter 2161, Tex. Gov't. Code, that include:
 - ▶ Supporting the responsibilities of the HUB Coordinator;
 - ▶ Sponsoring HUB Forum programs;
 - ▶ Implementing a mentor/protégé program; and
 - ▶ Continuing the usage of HUB subcontracting plans and determining subcontracting opportunities for contracts of \$100,000 or more.
- Encourage prime contractors to use HUB subcontractors.
- Participate in the Economic Opportunity Forums sponsored by the Texas Comptroller of Public Accounts and state senators and representatives, as well as other conferences or conventions that provide contract opportunities and training to HUBs and TRS purchasing staff.
- Identify non-certified HUB vendors and educate them on state purchasing rules and regulations.
- Assist non-certified HUB vendors in completing the documentation required to become certified.
- Host HUB forums with other state agencies.
- Conduct one-on-one meetings with HUB vendors, encourage HUB certification, and assist with identifying business opportunities with TRS and other state agencies.
- Encourage vendor participation in the mentor-protégé program.
- Support and enhance the emerging managers program initiated by TRS' Investment Management Division.

FISCAL ATTRIBUTES

Effectively administering the system in the face of changing demographic trends presents significant challenges. Keys to meeting these challenges include:

- ◆ Sound organizational governance;
 - ◆ Realistic cost containment;
 - ◆ Expanded use of technology; and
 - ◆ Strong customer focus.
-

TRS Administrative Budget

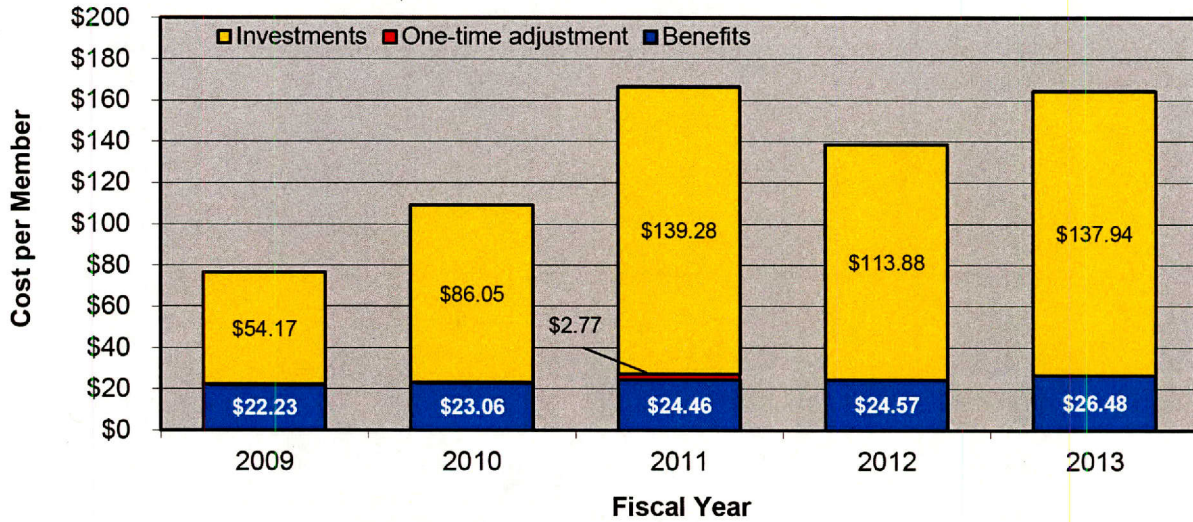
The 83rd Texas Legislature, Regular Session, 2013, appropriated an administrative operations budget for the TRS Pension Trust Fund of \$104,453,579 and \$65,518,258 for fiscal years 2014 and 2015, respectively. Included in the fiscal year 2014 appropriations is \$34.6 million in capital budget authority for the TRS Enterprise Application Modernization (TEAM) Program. The TRS Board of Trustees adopts an annual operating budget from these appropriations and authorizes funding to be provided from the pension trust fund. Currently, TRS does not receive funding from the state for administrative operations.

Budget Needs - TRS is committed to maintaining efficient and effective administration that is accountable and transparent to its stakeholders. Continued growth in total membership and in the size of the pension fund continues to challenge TRS resources, which could potentially affect TRS' ability to meet members' service needs within budget constraints.

During the 2008-09 biennium, TRS implemented a new investment strategy designed to improve long-term investment results, while reducing downside market risk. TRS invests system funds in equities, fixed-income securities, and other investment vehicles. At the end of fiscal year 2013, global equity investments (both public and private equity and directional hedge funds) comprised 60.8 percent of the system's investments, stable value investments (fixed income, short-term securities, and stable value hedge funds) comprised 20.1 percent and real-return investments (inflation-linked bonds, commodities, real estate and other real assets) comprised the remaining 19.1 percent.

TRS continues to maintain a relatively low administrative operations budget to total membership ratio compared to other public pension funds in the U.S. The pension trust fund total cost per member for fiscal year 2013 was approximately \$164.42 a year, or roughly \$13.70 per month. The increase in the investments portion of the cost per member calculation is attributable to the use of certified external managers as well as maintaining resources necessary to support a more diversified investment strategy. The benefits cost per member for fiscal year 2013 was \$26.48 compared to the \$25.00 target set by the legislature. Although TRS is committed to efficient operations, the organization also understands that this must be balanced against the needs of our customers.

**TRS Pension Trust Fund - Administrative Cost per Member
Fiscal Years 2009 - 2013**



Pension Funding Sources and Uses

Sources of Income

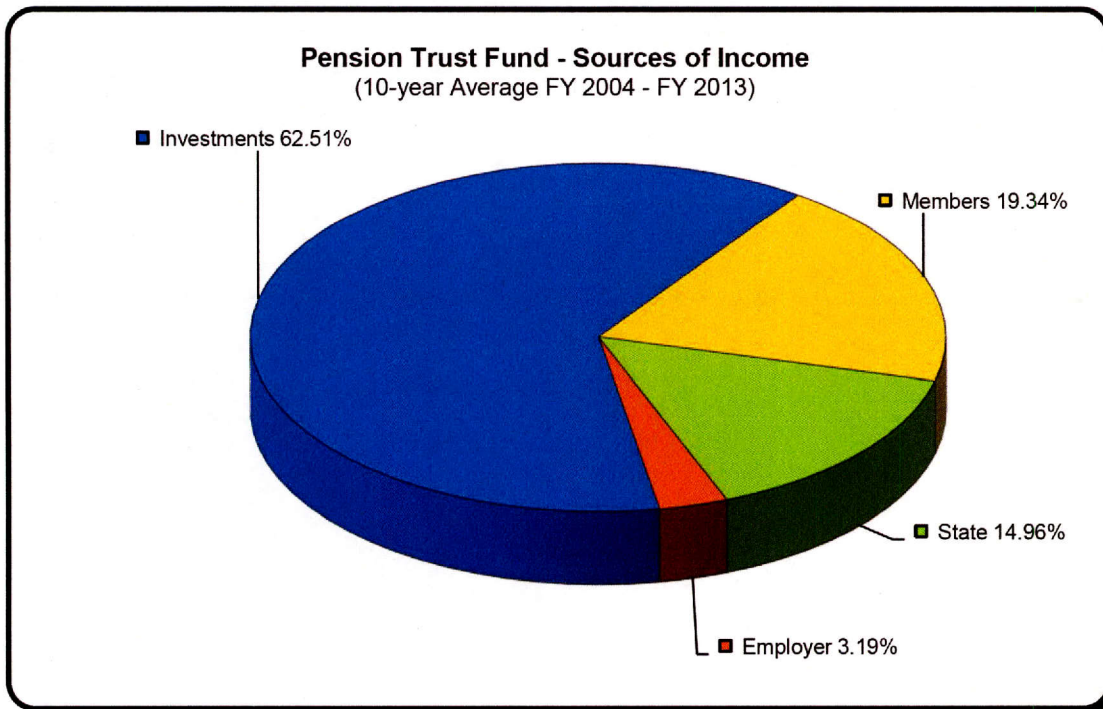
A public pension fund has four basic sources of income:

- ▶ Member contributions;
- ▶ State contributions;
- ▶ Employer (reporting entities) contributions and reimbursements; and
- ▶ Earnings on investments.

Uses of Funds

There are also four basic uses of funds:

- ▶ Benefit payments;
- ▶ Withdrawals of member contributions (refunds);
- ▶ Investments; and
- ▶ Administrative expenses.

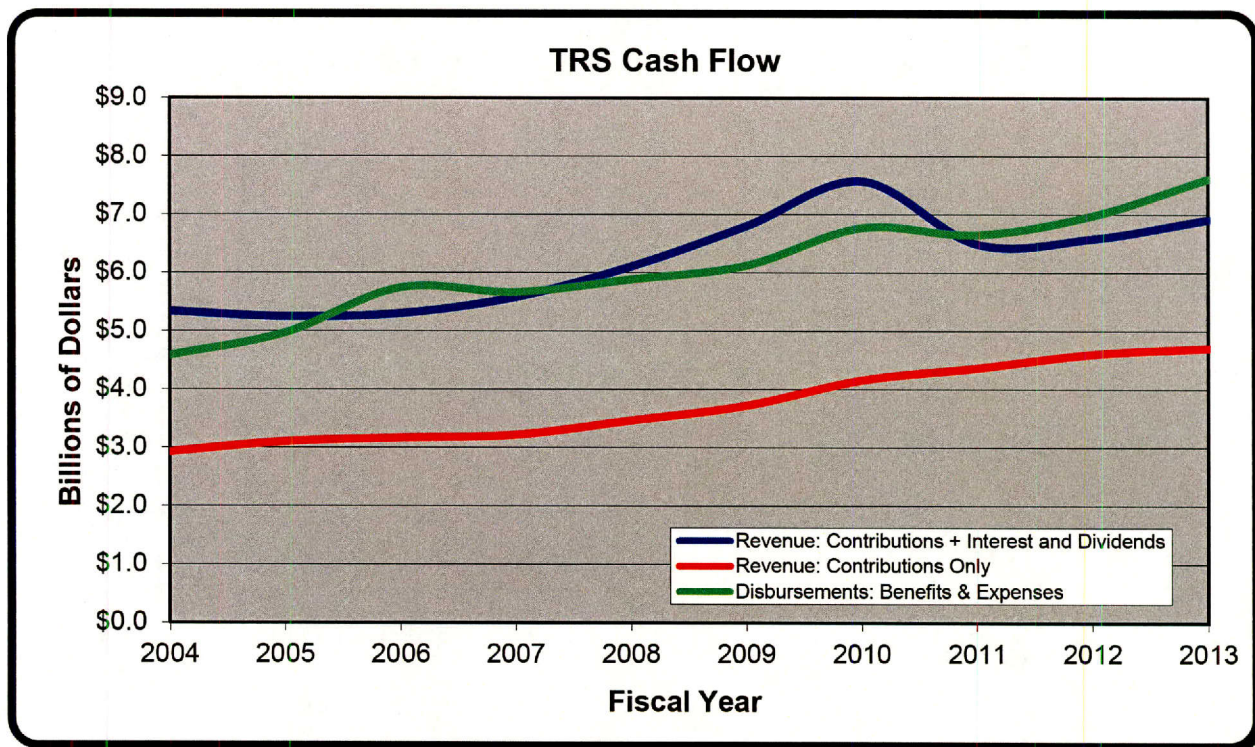


The sources and uses of funds related to investment activities are considered internally generated cash flow. All other sources and uses are external. External cash flow is a measure of a fund's ability to grow without relying on investment income or redemptions to fund current liabilities.

Cash Flow - The sum of member and employer contributions minus the sum of benefit payments, refunds and administrative expenses equals the external cash flow of the pension fund. When the contributions exceed expenses, the cash flow is positive. Positive external cash flow contributes to the growth of the fund by allowing all investment earnings to be reinvested immediately.

Moving from a positive to a negative external cash flow is a normal occurrence for a maturing pension fund. The primary implication of a negative external cash flow is that when investment earnings are used to pay benefit costs, they cannot be reinvested.

TRS' external cash flow is negative. However, historically, cash flow from interest and dividend income is more than sufficient to cover the negative cash flow. It is expected that the cash generating capacity of the pension trust fund, including contributions, interest and other investment income will continue to be sufficient to fund cash requirements for pension benefit payments.



Distributions - Fiscal year 2013 pension benefit distributions increased 12.6 percent from fiscal year 2011 to \$8.1 billion, due primarily to an increasing number of retirements. Death and survivor benefit distributions were also elevated and considered another contributing factor.

Statement of Changes in Net Position	
Pension Trust Fund	
	FY 2013
Additions:	
Member Contributions	\$ 2,400,495,814
State Contributions	1,779,471,569
Reporting Entity Contributions	504,952,371
Investment Income	9,834,136,005
TOTAL ADDITIONS	\$ 14,519,055,759
Deductions:	
Benefits	\$ 8,075,208,484
Refunds of Contributions	391,292,412
Benefits Paid to ERS	75,513,146
Excess Benefits	2,520,830
Administration	36,264,062
TOTAL DEDUCTIONS	\$ 8,580,798,934
NET CHANGE	\$ 5,938,256,825

Funding for TRS-Care

TRS-Care, the retiree health benefit program, was first offered as a new service to school district retirees in 1986. At that time, projections indicated that funding for the program would last approximately 10 years. Fund longevity exceeded this estimate; however, at Aug. 31, 2003, the net assets of the fund were at a deficit and continuation of the program required supplemental legislative appropriations during fiscal years 2004 and 2005. The program has maintained solvency since that time. TRS received supplemental legislative appropriations of \$102,363,704 in fiscal year 2013, which was the excess of the state’s actual statutory obligation that was reappropriated to this fund.

Statement of Changes in Net Position	
TRS-Care	
	FY 2013
Additions:	
Retiree Premiums	\$ 355,685,504
State Contributions	229,916,593
Federal/Private Contributions	11,660,667
Active Member Contributions	180,824,523
Reporting Entity Contributions	152,874,976
Employment after Retirement Surcharge	8,077,420
Federal Revenue	74,511,473
Investment Income	3,041,001
Rebate and Discount Income	82,074,803
TOTAL ADDITIONS	\$ 1,098,666,960
Deductions:	
Health Care Claims	\$ 1,241,656,374
Health Care Claims Processing	43,577,852
Administration	3,398,109
TOTAL DEDUCTIONS	\$ 1,288,632,335
NET CHANGE	\$ (189,965,375)

The TRS-Care fund for retirees is a self-funded plan that is separate and distinct from the TRS Pension Trust Fund. It receives state contributions from General Revenue and is currently appropriated for the 2014 and 2015 fiscal years at \$247,531,484 for each year. These amounts are based on a state contribution rate of 1.0 percent of covered payroll for both fiscal years.



Other funding sources for the program include active member and reporting entity contributions, retiree premiums, investment income, rebate/discount income, and retiree drug subsidy payments. TRS-Care is projected to be insolvent during the last quarter of fiscal year 2014.

TRS-Care does not receive appropriations from the state for administrative operations. The TRS Board of Trustees approves an annual operating budget controlling the administrative expenses of the program, which are paid directly from the trust fund.

Funding for TRS-ActiveCare Members' Health Benefit Program

The 77th Texas Legislature established a statewide health coverage program for active school employees and their dependents. This health benefit program, TRS-ActiveCare, went into effect Sept. 1, 2002 and provides health coverage to employees of school districts, charter schools, regional education service centers, and other educational districts.

Statement of Changes in Net Position	
TRS-ActiveCare	
	FY 2013
Additions:	
Health Care Premiums	\$ 1,808,521,683
Administrative Fees	137,630
On Behalf Fringe Benefits - State	75,664
Investment Income	746,936
TOTAL ADDITIONS	\$ 1,809,481,913
Deductions:	
Health Care Claims	\$ 1,785,069,768
Health Care Claims Processing	84,903,101
Premium Payments to HMOs	100,905,702
Administration	2,351,802
TOTAL DEDUCTIONS	\$ 1,973,230,373
NET CHANGE	\$ (163,748,460)

TRS-ActiveCare is a self-funded plan that is separate and distinct from the TRS Pension Trust Fund. The monthly cost of the plan must cover the cost of claims and administrative expenses with some contingency reserve for unfavorable actual claims experience relative to expectations.

The net position of the plan declined to a deficit net position of (\$118.0) million on an accrual basis as of Aug. 31, 2013, with a cash balance of \$47.2 million. The TRS Board of Trustees authorized premium rate increases for fiscal year 2013; however, these increases were insufficient to absorb higher-than-expected claims costs. As a result, the board has authorized additional rate increases for plan year 2014.

The program is funded from several sources:

1. School districts are required to contribute a minimum of \$150 per month per covered TRS member (school districts may contribute more if they choose).



2. The state contributes \$75 per month per covered TRS member through school finance formulas.
3. The employee's share for the plan chosen is the amount remaining after employer and state contributions.

TRS-ActiveCare does not receive appropriations from the state for administrative operations. The TRS Board of Trustees approves an annual operating budget controlling the administrative expenses of the program, which are paid directly from the trust fund.

Investments

Objectives - Given that investment returns currently represent the majority of the trust's revenues, it stands that investment performance is a key mechanism to ensure the long-term sustainability of the trust. Accordingly, the primary mission of the investment management function is to professionally and prudently invest the trust's assets to achieve that mandate over a long time period, balancing return objectives with risk mitigation. The board of trustees' Investment Policy Statement specifically outlines the investment objectives of the trust as:

- a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and
- b. Applicable to the pension plan, achieve a long-term rate of return that:
 - i. Exceeds the assumed actuarial rate of return adopted by the board;
 - ii. Exceeds the long-term rate of inflation by an annualized 5 percent; and
 - iii. Exceeds the return of a composite benchmark of the respective long-term normal asset mix weighting of the major asset classes.

The Investment Management Division (IMD) has developed three strategic goals to meet these over-arching objectives:

- 1) \$10 billion per year investment gain, essentially an investment return in line with the assumed actuarial rate of return.
- 2) Establish a strong brand as a highly professional, competent, and progressive investment organization in order to attract high-quality investment partners and investment opportunities.
- 3) Ensure satisfied customers along the entire length of IMD's accountability chain to include the board of trustees, legislative stakeholders, and of course the main beneficiaries of IMD's success, the trust's participants.

In order to meet these goals, the trust has several competitive advantages in which to exploit, namely that the plan is large, long-term, highly liquid, and not levered. These are very uncommon characteristics in the investment marketplace, enabling IMD to explore investment opportunities unsuited for other investors. By taking advantage of the trust's long-term investment horizon in combination with the ability to make large investments in a relatively quick timeframe, IMD can provide superior risk adjusted returns for the trust that are highly accretive to achieving the long-term investment objectives of the trust. Other competitive advantages that the trust enjoys that can be translated into advantages from an investment strategy perspective include a healthy active-to-retiree ratio, greater than 80 percent funded status, a financially strong sponsor (the State of Texas), a median pension payment in excess of 20 years into the future (24 years in 2013), and a high-quality investment team.

Composition - IMD's investment strategy and portfolio structure is based upon three strategic concepts in order to ensure long-term success:

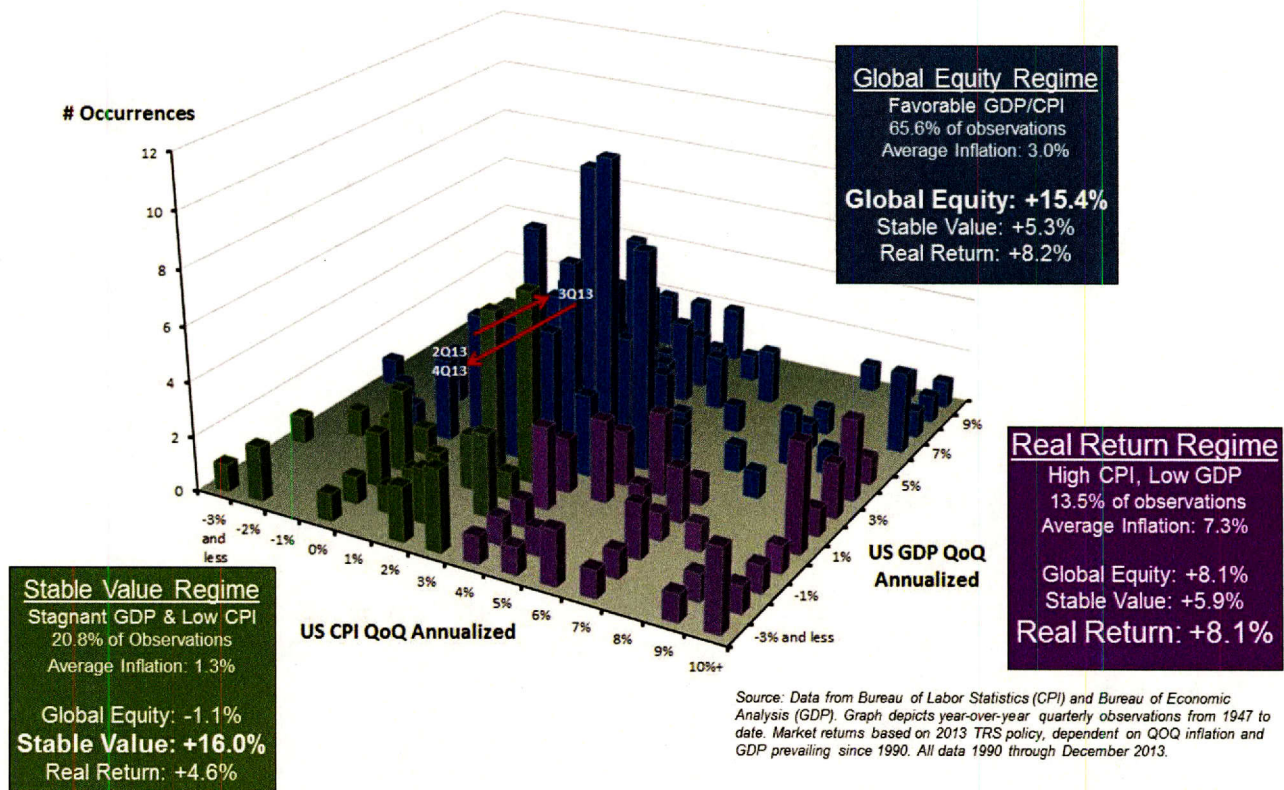
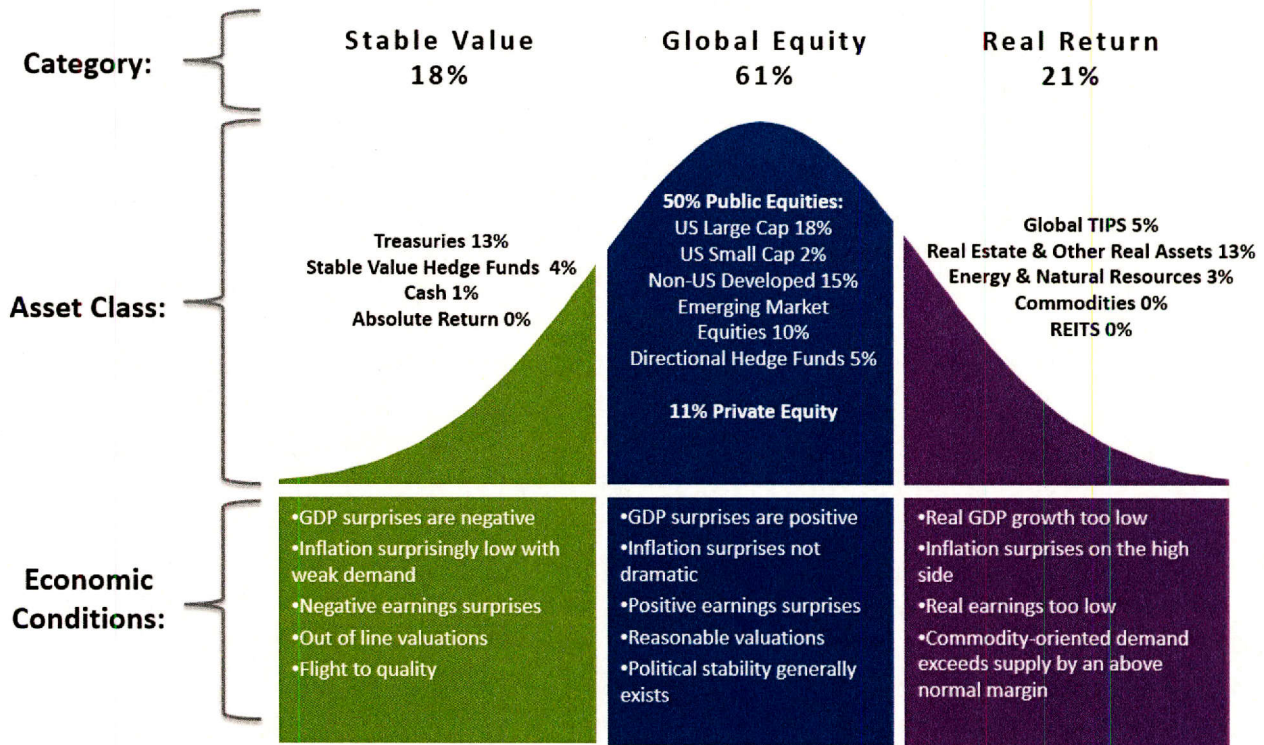
- 1) Right Plan
- 2) Right People
- 3) Right Metrics

Right Plan + Right People + Right Metrics = Long-Term Success

Right Plan: Three basic tenets are the keystones for a plan that provides the greatest probability of achieving the trust's long-term return objectives. The first is an effective governance structure that provides the board of trustees the right level of oversight and transparency but also enables efficient IMD investment decision-making and nimbleness to take advantage of market opportunities and dislocations. TRS is considered one of the most professional and effective public investment teams in the world, but is constantly striving to improve this balance through discussions with board members and the periodic reviews of the board's Investment Policy Statement.

A superior capital allocation scheme is the second keystone supporting the Right Plan. In this case, IMD pursues three distinct strategies designed to produce quality risk adjusted returns, namely: beta strategies, alpha strategies, and risk controls and compliance. IMD's current beta strategies are centered upon a comprehensive Strategic Asset Allocation (SAA) framework based upon economic environments. This diversified framework is depicted in the figures below and highlights three economic regimes in which the trust is expected to encounter over the long-term. The most prevalent environment (occurring approximately 65 percent of the time) is favorable growth in Global Equities (low to moderate inflation combined with favorable gross domestic product (GDP)), and hence the majority of the trust's investments are allocated to assets that perform well in this type of environment. The other two categories are designed to perform better in economic regimes less favorable to equities and provide diversification benefits during times of low growth and high inflation (Real Return) and low growth and low inflation (or deflation) (Stable Value).

The first figure depicts the trust's current allocation to the various asset classes associated with each economic regime. This allocation is reviewed every five years, with the next comprehensive review currently underway in 2014. The second figure shows how often each regime has occurred since 1947 as well as average returns during each regime for the asset classes in the three environmental categories/sleeves. As expected, each of the three portfolios shows superior performance in the regime it is designed for, thus providing diversification to the trust across the spectrum of potential market conditions.



In today's competitive and low returning fixed income environment, alpha generating investment strategies are integral to IMD's ability to meet the trust's return objectives. At a trust level, IMD is striving to produce 100 basis points of alpha beyond what might be achieved through a fully passive allocation. Approximately 80 percent of the trust's assets are within active management strategies, with specific alpha targets that seek to exploit market inefficiencies (especially in private markets) and employing high-quality external management teams incentivized to beat their respective passive benchmarks. Becoming the preferred destination for large attractive investments (taking advantage of TRS' competitive advantages) is another alpha source.

Balancing out return seeking strategies is the risk control and compliance functions undertaken by multiple teams within IMD as well as external monitoring agencies. IMD has built a world-class risk management platform that monitors daily, monthly, and quarterly risk and compliance parameters. It is this risk complex that helps provide a balanced investment approach as well as a higher level of transparency for key decision-makers within IMD, TRS and the board of trustees.

The final leg in the Right Plan stool is an effective cost strategy that covers both investment costs as well as operational costs. In this regard, IMD employs an efficient, "right-sized" local operations organization (augmented by robust external accounting and services), a highly efficient and cost sensitive trading operation, and performance-based and aligned agreements with its external partners as fundamental cost management methods.

Right People: To ensure a motivated and capable team, IMD has developed a well-defined culture based upon the following pillars:

- Creative Construction – openness, candor, meritocracy of ideas, constant improvement/innovation, and the ruthless elimination of bureaucracy;
- Individual Responsibility – passion, energy, and motivation to outperform and to hold oneself to a higher standard to the benefit of IMD's mission and the trust's participants;
- Teamwork – partnership of trust, in the same boat and rowing in the same direction; and
- Personal Fulfillment – developing "personal genius" to balance work and life pursuits in the face of a highly competitive, 24-hour industry.

By developing a team of experienced and fully engaged professionals, working in areas of personal affinity and skill, and who are properly compensated (top quartile base pay for similar public plans, bottom quartile performance incentive pay for the industry); IMD continues to foster a highly collaborative and results-oriented workplace environment enabling effective and efficient execution of the Right Plan.

Right Metrics: Ascribing to the adage that results are driven by what is measured, IMD has developed a comprehensive customer-focused set of metrics in which to measure performance in the following areas:

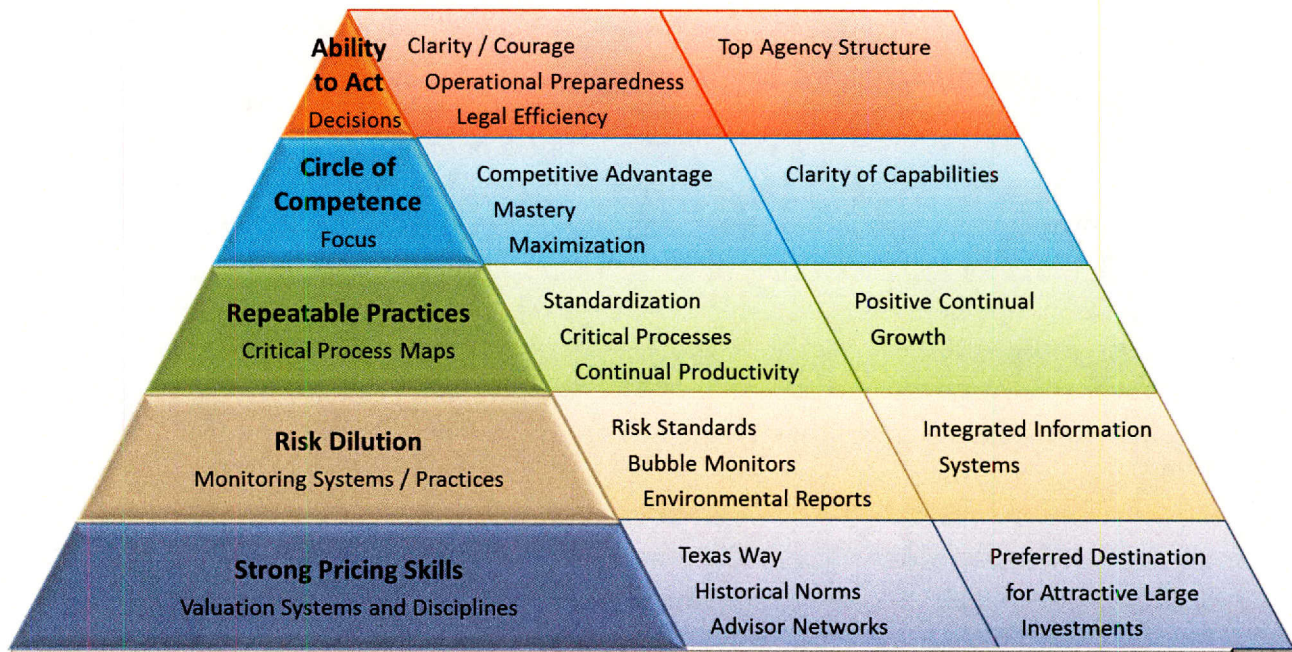
- Beta versus alpha
- Critical process productivity

- Individual contributor and aggregate team contributions

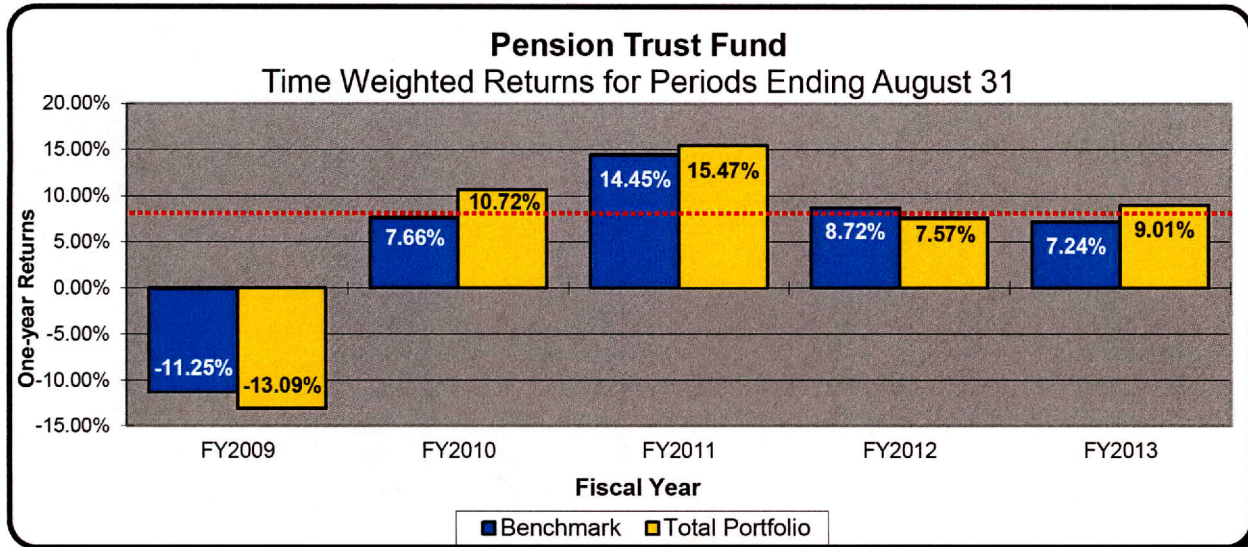
In the context of these three broad philosophies, IMD has developed five medium-term strategic priorities designed to advance its capabilities in that regard and thus measurably increase its chances for long-term success:

- Strong Pricing Skills
- Risk Dilution
- Repeatable Practices
- Circle of Competence
- Ability to Act

The diagram below highlights these five priorities and provides a framework for the underlying focus for each. IMD uses these medium-term priorities to develop shorter-term goals and projects to further IMD capabilities in those areas. In light of lower forecast market returns, a recent thoughtful exploration of these concepts produced several near-term strategic projects/opportunities that are heavily alpha-generation focused. These opportunities cross multiple asset classes and are designed to enhance TRS’ competitive positioning within the marketplace but are more resource intensive both from an investment perspective as well as operationally. This same thought exploration also produced several productivity initiatives designed to reduce time spent on noncritical activities, effectively transferring that time to more critical tasks more directly tied to IMD’s performance.



Performance – The TRS investment policy establishes objectives against which the performance of the total fund and each of its components will be measured. Investment performance and portfolio characteristics are calculated and compared to benchmarks on a regular basis. Benchmarks can be asset-class (or sub-class) indices or peer comparisons. In either case, differences in investment policy, asset allocation strategies, and risk tolerance must be considered.

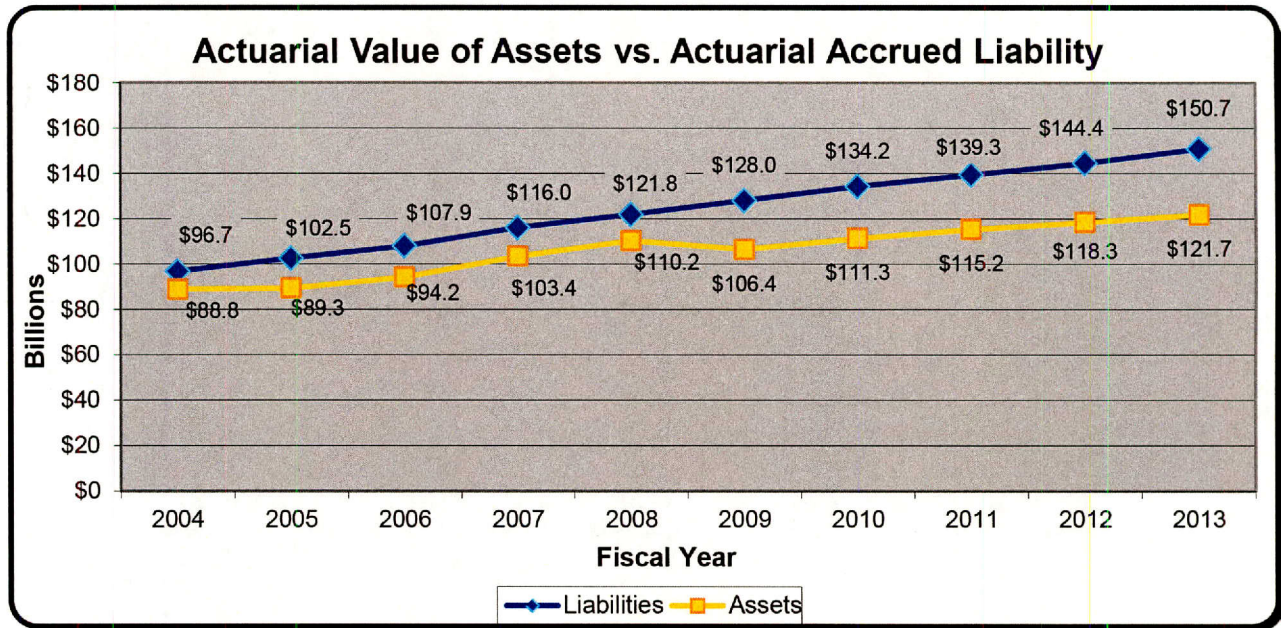


The total value of the total fund on Aug. 31, 2013 was \$117.0 billion. The total fund’s annual rates of return for the one-, three-, five-, and 10-year periods ending Aug. 31, 2013 were 9.0 percent, 10.6 percent, 5.4 percent and 7.2 percent, respectively. Over the past five years, the trust was able to generate \$2.5 billion value added relative to its benchmark, and on a 10-year basis the dollar value add over the benchmark was \$3.2 billion. Despite expectations of muted returns over the past couple of years, the trust’s investment performance has been in line with the assumed actuarial rate of return. Lower returns are again expected going forward, at least for the short/medium term, mainly due to higher asset values today combined with a likely rising interest rate environment and slowing global growth. For the longer-term, asset returns are expected to return to long-term averages, supporting the trust’s ability to achieve its assumed actuarial rate of return.

Actuarial Condition – Pension Trust Fund

Due to fiscal year 2013 investment returns above the 8.0 percent assumption and changes made to benefits and contributions in the 83rd Texas Legislature, Regular Session, the TRS pension fund was actuarially sound as of its Aug. 31, 2013 valuation. The Plan was 80.8 percent funded with a 28-year funding period and an unfunded actuarial accrued liability (UAAL) of \$28.9 billion. It is important to note, however, that the fund is currently deferring approximately \$4.3 billion in deferred investment losses from the 2009 market downturn. As the fund recognizes these deferred losses, the funding period will increase and the fund will not be actuarially sound for a

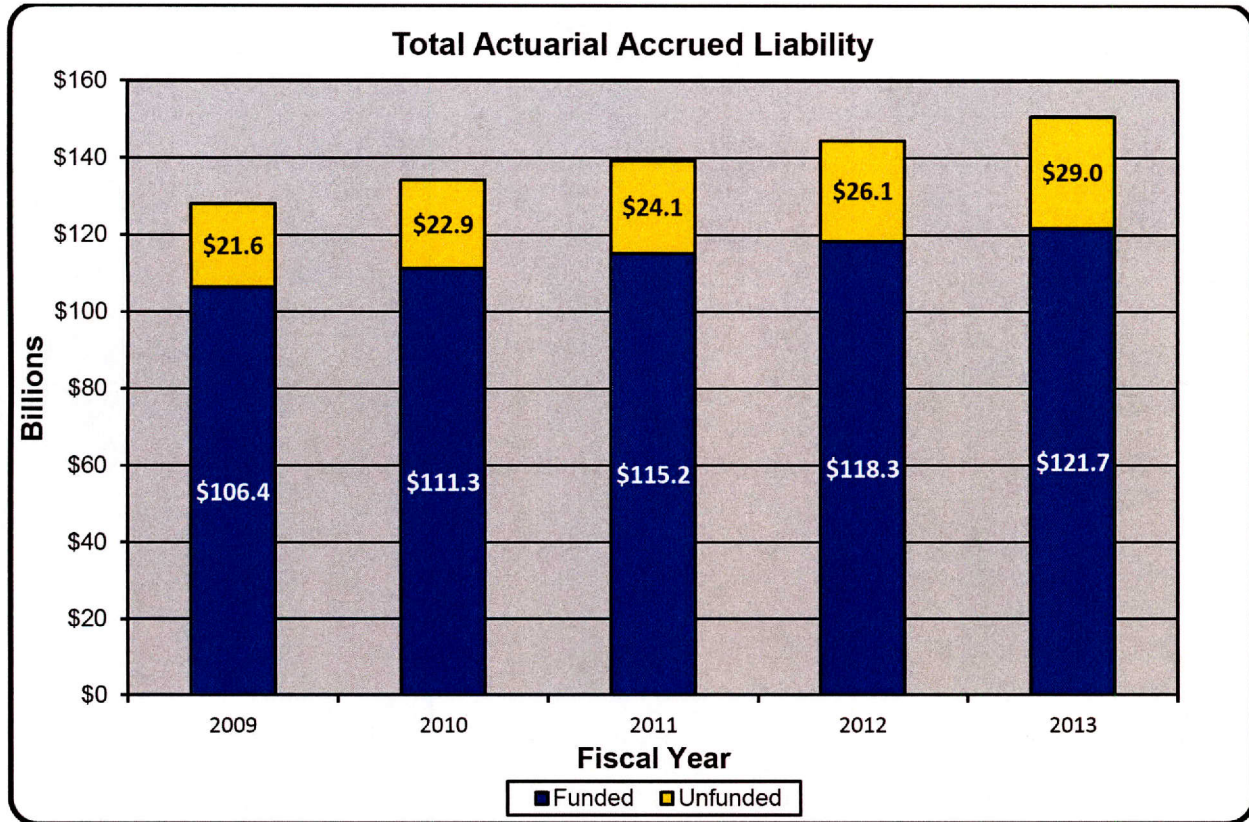
period of time. Then, once the losses are fully recognized, the funding period will once again begin to decline and move towards full funding.



The volatility of investment returns over short and intermediate time horizons can create “noise” in actuarial analysis. Therefore, the system uses a five-year “smoothing process” to reduce the impact of short-term peaks and valleys of annual investment returns when determining annual actuarial returns.

The 83rd Texas Legislature, Regular Session, set the state contribution rate to 6.80 percent for fiscal year 2014. In addition, covered employers whose employees are not participating in Social Security will begin contributing 1.50 percent of the minimum salary schedule beginning in fiscal year 2015. Combined it is expected that these contributions will be approximately 7.76 percent of total payroll. The member contribution rate will begin increasing in fiscal year 2015 to 6.70 percent of pay and will continue to increase to 7.20 percent of pay in fiscal year 2016 and 7.70 percent of pay in fiscal year 2017. Thereafter, once the contribution rates have all ramped up, the system is expected to receive a total contribution rate of 15.46 percent of pay.

Beginning in fiscal year 2017, there is expected to be 5.15 percent of pay available to amortize the UAAL. If payroll grows as expected, the contributions provided by this portion of the contribution rate are sufficient to amortize the current unfunded actuarial accrued liabilities over a period of 28 years based on the smoothed asset value as the valuation date. Therefore, the financing objectives are being met.



Actuarial Condition – Retiree Health Benefit Program

TRS-Care is a benefit program designed to provide post-retirement medical benefits to certain members of TRS. The program is currently funded on a pay-as-you-go basis and is subject to change based on available funding. As of Aug. 31, 2013, TRS-Care had an unfunded actuarial accrued liability of \$29.3 billion as compared to \$28.9 billion in 2011. Based on current asset levels and expectations that annual revenues will equal annual net benefits and expenses, the program’s annual required contribution (ARC) for fiscal year 2014 was calculated at \$2.3 billion, which is 7.73 percent of expected payroll. The ARC is the employer’s required contributions to the plan for the year. When contributions to the program are less than the ARC, the UAAL will grow from year-to-year because the amortization schedule will not be met.

Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, local school districts, and the state. The state and active public school employee contribution rates are 1.0 percent and 0.65 percent of public participating payroll, respectively. School districts contribute a percentage of payroll set at 0.55 percent. Although current contributions are somewhat larger than the current costs, this trend is not expected to continue. The expected pay-as-you-go costs are projected to exceed the employer contributions in fiscal year 2014. The current contribution policy equal to 2.2 percent of payroll cannot sustain the current benefit provisions and reserve levels. It is projected that the balance of the fund will be depleted in the 2014-15 biennium unless contributions are increased.

A trust exists for the program into which participating employers make contributions that roughly equal the annual expected net claim payments. This trust has an asset balance of \$551 million as of Aug. 31, 2013. These assets are invested in cash and other short-term investments according to current investment policy.

According to the Governmental Accounting Standards Board, an interest discount rate must be used to calculate the present values and costs of other post-employment benefits (OPEB). Based upon demographic, economic, and behavioral assumptions, the TRS Board of Trustees has selected an interest discount rate of 5.25 percent for this purpose.

Impact of Health Benefit Plan Design on Funded Status

The first actuarial valuation for TRS-Care was completed for the fiscal year ended Aug. 31, 2007. Because the state determines the funding of benefits for this program and has no continuing obligation to provide benefits beyond each fiscal year, it is impossible to project the future funded status of the plan. If TRS-Care was fully funded with its assets invested in a trust having a longer-term investment horizon, a higher interest discount rate could be used, potentially resulting in a lower UAAL.

TRS trustees remain focused on the need to balance revenues and expenses in a fiscally responsible manner and establish premium rates and benefits that best suit retiree needs given the available funding. TRS understands that the TRS-Care program is a valuable benefit to retired public educators, and the agency will continue to work with state lawmakers to address the ongoing funding requirements of the program.

Physical Facilities and Capital Improvements

TRS owns its office facilities located at 1000 Red River Street in Austin, Texas. The west building was constructed between 1971 and 1974 and the east building and parking garage were constructed between 1987 and 1990. The west building totals 80,384 square feet; the east building has 137,592 square feet; and the parking garage has 141,912 square feet for a total of 359,888 square feet. The TRS buildings house all employees of the retiree health benefit program, the active health benefit program, and the pension trust fund except for the Investment Management Division (IMD). In March 2009, IMD moved into 47,034 square feet of leased space at 816 Congress Avenue in Austin, Texas.

Many of the capital improvements made over recent years to physical facilities have been focused on energy efficiency and conservation. Capital improvements to physical facilities projected for this strategic planning period will continue to address energy efficiency and conservation while focusing on providing essential maintenance to physical facilities and enhancing functionality and space utilization for operations and to improve staff effectiveness.

During this strategic planning period, TRS will complete a space needs assessment and develop a long-range plan to address space needs. The major goals of the assessment are to:

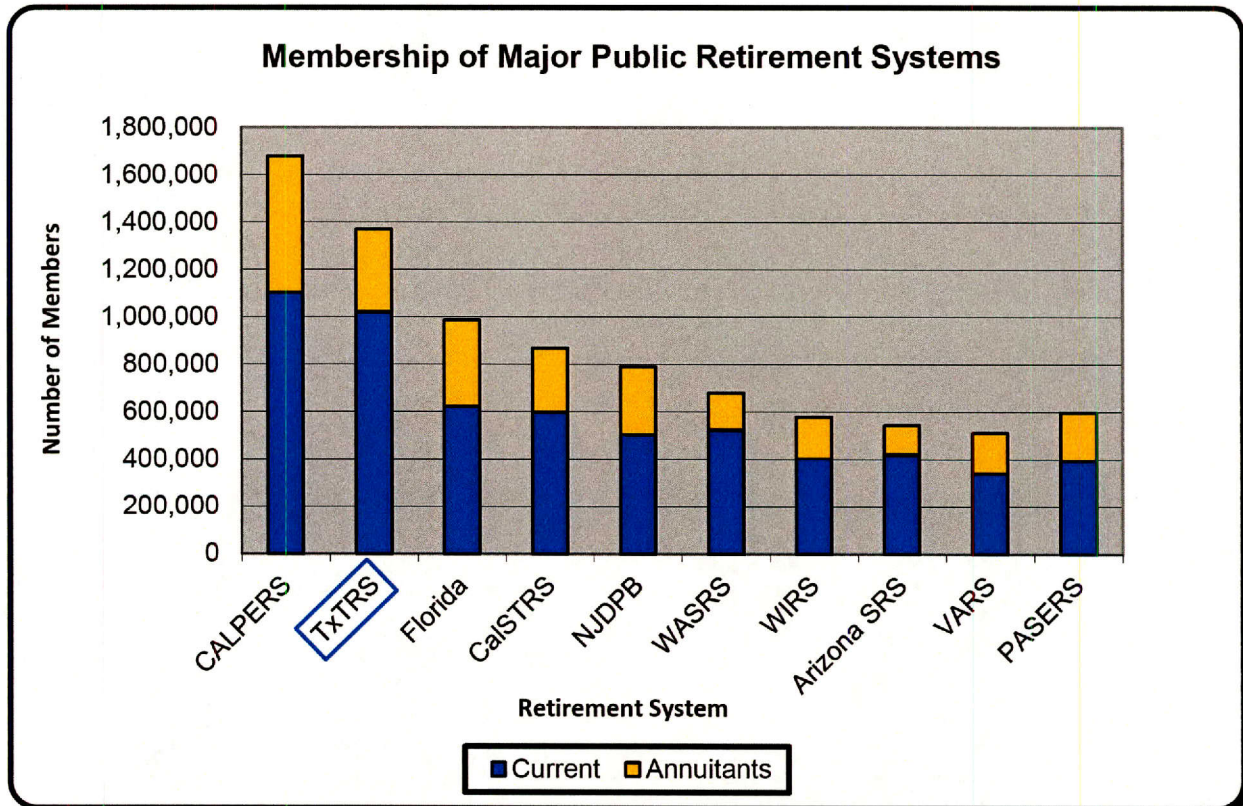
- Understand the values and constraints with existing facilities;
- Identify areas of opportunity for operational improvement;
- Create a plan that addresses issues;
- Understand comparative occupancy costs for different scenarios;
- Understand schedule and risk issues;
- Identify market dynamics that will impact selected scenarios; and
- Create a "go forward" strategy.

SERVICE POPULATION DEMOGRAPHICS

Average pension plan member profile statistics remain fairly stable:

- ◆ There are 2.9 contributing active members per annuitant.
- ◆ Active members average 44.4 years old with 10 years of service.
- ◆ On average, members retire at age 59.9 with 24.5 years of service credit.
- ◆ The average salary for FY13 retirees was \$41,385.
- ◆ The average age for all retirees is 70.4³.

Membership – Originally applicable only to teachers and public school administrators, in 1949 retirement plan membership was expanded to include all employees of public education institutions, including cafeteria workers and bus drivers. At its inception, TRS served just 38,000 members. Membership has continued to grow, and TRS now serves nearly 1.3 million members. The membership includes just over 1 million active members and over 348,000 annuitants. They reside in every region of Texas, as well as throughout the U.S. and a number of other countries around the world.



Employers – TRS serves 1,365 separate reporting entities by providing benefits to employees who are employed in the Texas public education system. The total active membership

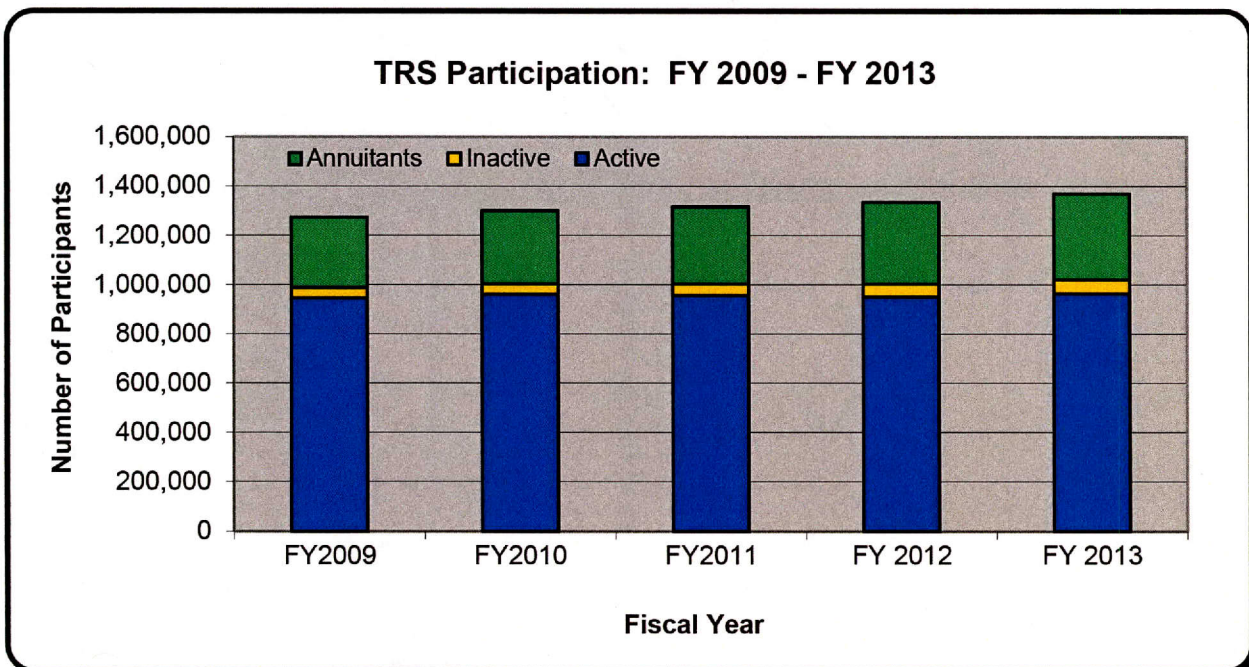
³ 2013 Comprehensive Annual Financial Report

encompasses not only public school teachers, but also school and district administration staff, food service personnel, maintenance staff, transportation employees, college and university faculty and staff, and certain other state agency employees.

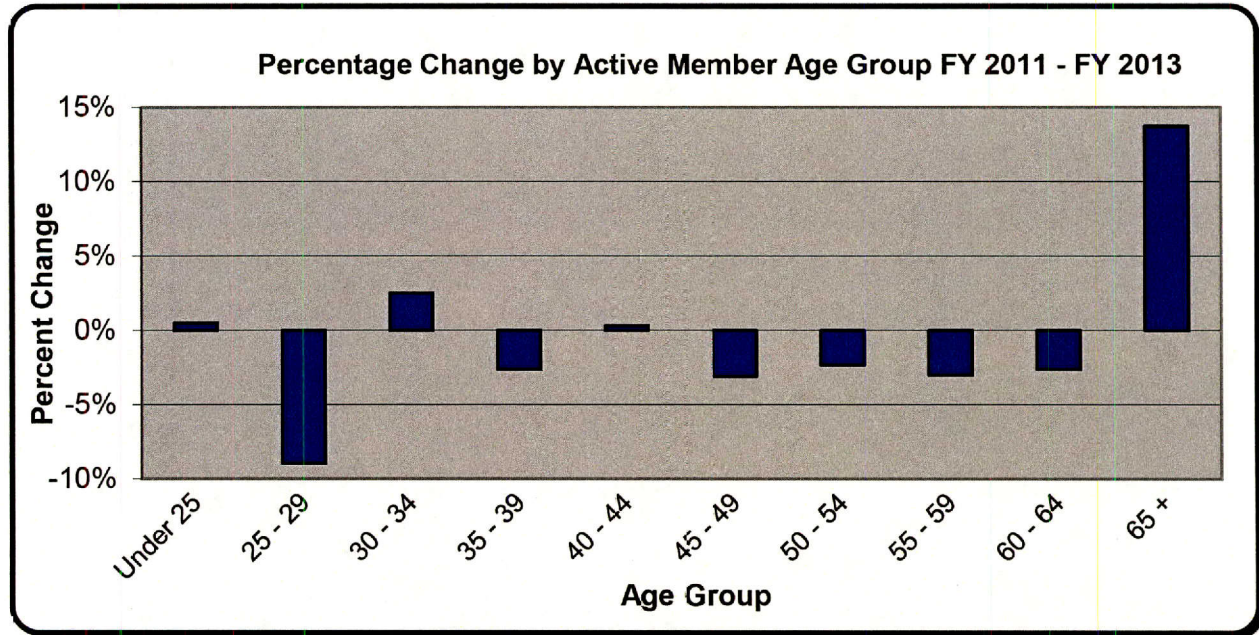
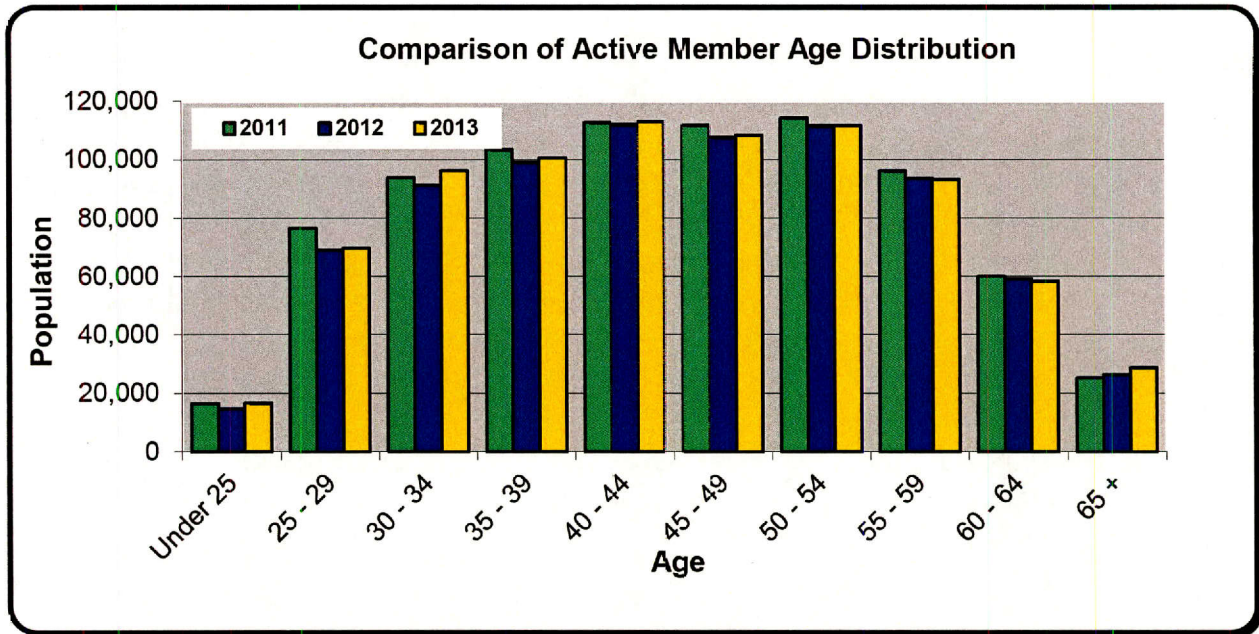
Participating TRS Employers – FY 2013	
Type	Number
Independent School Districts	1,028
Charter Schools	203
Community and Junior Colleges	51
Senior Colleges and Universities	47
Regional Education Service Centers	20
Education Districts	5
Medical and Dental Schools	9
State Agencies	2
Total	1,365

Significant Trends

Membership Growth – The number of public school employees in the state is expected to continue to rise over time with the population growth among school-age children. TRS' membership will reflect a corresponding growth, in both active and retired members.



An Aging Workforce – While membership growth is an important factor in the stability of the pension plan, another equally important characteristic is age distribution among active members and retirees. This factor is an indicator of probable upcoming retirements and expected duration of annuity payments. The current active member age distribution is heavily weighted in the 35-54 year age groups; however, the average age is increasing over time. Perhaps even more indicative of aging membership is the fact that the highest percentage increases in the last few years have continued to occur within the 60 - 65+ age groups. These factors are considered in the plan’s long-term actuarial studies.



Retirement – While the number of retirees is expected to continue to rise over the next five years, the rate of retirements is expected to remain relatively flat during the period. Major plan changes were enacted during the 79th and 83rd Texas Legislative, Regular Sessions, but it is still too early to determine how the changes will affect future retirement patterns.

Compensation – Compensation trends have a significant impact on the retirement system. Compensation levels are established by each of the 1,365 employers served by TRS. A member's average salary is a key element of the benefit formula that establishes the amount of annuity to be paid throughout the retiree's lifetime.

Many factors influence members' decisions on when to retire or whether to withdraw their funds from the plan and terminate membership when they leave Texas public education employment. The state of the economy, family economic needs and job satisfaction are important considerations. TRS benefit design is an equally important factor. For example, policies relating to employment after retirement can affect retirements. The availability of affordable retiree health benefits can also be a major factor in determining whether the individual will continue working as an active member receiving benefits from the plan for employees, or retire and perhaps be ineligible for TRS-Care benefits or possibly pay more than when covered by an active employee plan.

Although salary levels and contribution rates have considerable impact on the plan, the combination of these and other factors, such as investment performance and benefit architecture, determines the plan's actuarial soundness.

TECHNOLOGICAL DEVELOPMENTS

Because the effective use of technology is key to the realization of TRS' mission, the Information Technology (IT) division plays an integral role in organizational planning and management. Its impact is felt in every aspect of operations from benefit delivery and investment management to communications and even the physical environment. TRS strives to stay abreast of emerging technology and continuously seeks opportunities to gain efficiencies through technological enhancements.

TRS and the IT Division face a number of ongoing challenges, including:

- Providing new and innovative benefit delivery systems to active members and annuitants through the Internet.
- Maintaining, enhancing, and modernizing high volume, interactive transaction processing systems that annually support the receipt and processing of more than 8.5 million records.
- Utilizing technology to meet growing service demands at approved staffing levels.
- Supporting an expanded investments function utilizing new technologies.
- Staying abreast of rapid changes in technology and choosing those that aid TRS in accomplishing its goals in the most efficient manner while providing long-term viability.
- Attracting and retaining qualified technical staff and training present staff in new technologies while maintaining existing applications and infrastructure.
- Managing the impact of retirements by key IT staff and management.

TRS has had some notable technology achievements. Additionally, the system continues to support multiple current endeavors while planning for future initiatives.

Accomplishments

Information Security

- Expanded data classification reporting to include network application and data access. Reporting includes physical and logical location of applications and data.
- Contracted with Alert Logic, a managed security service provider, to enhance threat monitoring, response and reporting.
- Successfully completed an internal security assessment and penetration test.
- Increased security of the virtual Demilitarized Zone (DMZ) for outside services.
- Expanded TRS computer incident response plan and related processes which completed compliance with HIPAA updates based on the 2013 Omnibus Rule (HIPAA Final Rule).
- Conducted tabletop exercise of TRS computer incident response plan that included participation of all agency division response teams.

Governance

- Conducted annual review of IT Governance document and updated document.
- Developed RACI (Responsible, Accountable, Consulted and Informed) chart to assist with defining roles and responsibilities.
- Migrated IT service request management to MS Project Server.

Infrastructure

- Expanded Cisco's Unified Computing System (UCS) server environment to support TEAM LOB project-increasing 248 CPUs and 3.4 terabytes of RAM to the new UCS core.
- Expanded NetApp Storage Area Network (SAN) storage by 300 terabytes.
- Optimized enterprise backup infrastructure which increased TRS backup speed from an average of 90 gigabytes per hour to over 420 gigabytes per hour and reduced the number of tapes required for backup and recovery.
- Implemented OPNET for more advanced network and application performance monitoring and troubleshooting.
- Implemented F5 load balancers for internal and external web applications support.
- Implemented Alert Logic, a managed security services provider (MSSP), to provide 24x7 security monitoring and response.
- Upgraded to SharePoint 2010 and performed a major TRS intranet redesign.
- Upgraded the Interactive Voice Response System (IVR) and added member callback functionality.
- Implemented Data Loss Prevention (DLP) to enterprise messaging systems.
- Implemented Content Manager on Demand (CMOD) and converted file shares to CMOD.
- Implemented Informatica products to convert data for the TRS Enterprise Application Modernization (TEAM) Data Assessment project.

Application Development

- Implemented new process of electronic communication and certification for Refunds with reporting entities.
- Implemented the 90-day requirement legislation rule change for the TRS Reporting and Query System (TRAQS).
- Implemented one time 3 percent Cost of Living Adjustment (COLA).
- Implemented the legislative changes to standardize the school year.
- Implemented the change of health care providers for TRS-Care and TRS-ActiveCare.
- Implemented the TRS-Care Medicare Advantage/Medicare D plans for TRS retirees.
- Implemented and supported TRS-Care Enrollment Opportunity 2014 which allowed TRS retirees to make health care related changes via open enrollment.
- Implemented Employee Payroll 415(b) changes which were extremely complicated calculations for limitations on benefits and contributions for retirement purposes.

- Implemented ability to determine 12-month break in service for May 31st/June 15th retirees.
- Automated ERS to TRS billing processes.
- Implemented new USPS Intelligent Mail Barcode requirements for TRS mass mailings.
- Converted the existing email processes to use Lyris to send the *TRS Newsletter*.
- Implemented the first half of the new Comptroller of Public Accounts (CPA) Texas Information Network (TINS) number by modifying TRS systems to function with a new format of payee number.
- Completed FileNet P8 Upgrade and updated all the business applications to use it; updated all the supporting batch processes to leverage FileNet P8.
- Added/Integrated the OPNET tools to trace Web activity for individuals to proactively resolve issues and improve response times in the Web applications.
- Implemented LiveCycle solution for the Investments Capital Call process.
- Developed Derivatives Trade Automation Project (DTAP) to add automation and controls to the derivatives trading function.

TRS Enterprise Application Modernization (TEAM) Program

- Developed initial baseline Project Interdependency schedule for the TEAM Program.
- Awarded contract and began work with Data Assessment vendor.
- Developed a data cycle process to pull TRS legacy data into a staging database to support data assessment.
- Established TRS Data Conditioning teams and held kick-off meetings.
- Completed data assessment for phase 1/levels 1, 2 and 3.
- Began conditioning data identified by contractor in phase 1/levels 1 and 2.
- Issued request for offer (RFO) for Pension Administration Line of Business (LOB) project, held Pre-Offer Conference, finalized contract, and began work on the project.
- Completed phase 0, the planning phase for the LOB project.
- Awarded contract for Independent Program Assessment vendor who reports to the TRS board of trustees and the executive director.
- Launched website for Reporting Entity Outreach and provided draft version of new data elements to the Reporting Entities.
- Completed the Business Rules Project.
- Formed advisory groups for Organizational Change Management (OCM) activities.
- Held an all-hands meeting on the TEAM Program.
- Implemented new TEAM employee website.
- Completed TEAM Huddles; the executive director and deputy director met with groups of TRS employees in a small team setting to address questions or concerns about the TEAM Program.
- Started development of the RFO for website redesign project that includes work for design, development and implementation.

- Awarded contract for requirements gathering for the Financial System Replacement (FSR) and completed the project.
- Created a project charter for the Business Procedures and Training (BPT) project.

Current Initiatives

Information Security

- Expand and improve two-factor authentication.
- Implement encryption of all removable media devices: USB drives, secure digital (SD) cards and CD/DVD burners.
- Replace and upgrade perimeter security firewalls to add redundancy and improve performance, monitoring and reporting.
- Apply port security to all user data ports throughout the enterprise.

Infrastructure

- Design and implement a co-located data center to expand enterprise disaster recovery and business continuity strategy.
- Build out a new lightweight directory access protocol (LDAP) infrastructure for external application authentication.
- Implement new JBoss Java Application and Enterprise Service Bus architecture that supports the LOB project.
- Upgrade the TRS data center legacy fiber channel switches and increase port speed to 8 to 16 gigabytes per second.
- Purchase and implement Solid State Disks (SSD) to improve production systems performance.
- Implement Microsoft Lync to provide improved internal communications.
- Expand and strengthen external internet communications to increase bandwidth and redundancy.
- Enhance desktop imaging automation.
- Move from file transfer protocol (FTP) to secure file transfer protocol (SFTP), including encryption at rest and in-flight, to secure TRS data exiting the agency.
- Convert all print reports currently not mailed to Content Manager on Demand (CMOD).
- Standardize TRS reporting on Structured Query Language (SQL) Server Reporting Services technology.

Application Development

- Implement new legislation for district reporting, Special Services Buy Back, retirement benefits (new tiers), and Deferred Retirement Option Plan.
- Implement TRS-Care automatic enrollment into Medicare Advantage/Medicare D plans for participant that turns age 65 (age-in), is eligible, and does not opt-out.

- Support the change to new health care vendors for TRS-ActiveCare.
- Convert Cognos Reports to SQL Server Reporting Services (SSRS) reports for Human Resources and Investment Management Divisions.
- Implement the second phase of the new Comptroller of Public Accounts (CPA) Texas Information Network (TINS) number by modifying TRS systems to function with a new format of payee number.
- Implement imaging capabilities for reporting entities.
- Implement integration between self-service application and Telephone Counseling Center Dashboards for scheduling appointments.
- Implement needed changes in *MyTRS* to support new user authentication via the new LDAP infrastructure.
- Engage in Statement of Work (SOW) with Red Hat to learn JBoss ESB and JBoss Fuse in preparation for upcoming LOB initiatives.
- Evaluate applications to determine strategy for decommissioning and bridging to support LOB phased implementation.

TRS Enterprise Application Modernization (TEAM) Program

- Complete phase 1/level 4 data assessment.
- Continue work on conditioning data identified by contractor in phase 1/levels 1 and 2.
- Validate commitments in the LOB RFO and complete high-level requirements definition for LOB phase 1.
- Define detailed requirements and use cases for the LOB Phase 1.
- Define and document Enterprise Service Bus (ESB) diagram examples.
- Refine strategy for meeting with key interfacing organizations about their role in the LOB.
- Obtain software provider contact information for all reporting entities.
- Analyze the gap in skills for IT and business users directly impacted by the TEAM Program and develop focused training plans.
- Continue research to narrow the Content Management System (CMS) choices for the website redesign project.
- Make go/no-go decisions for the financial system replacement (FSR) solution modules.
- Continue contract negotiations for the next phase of the FSR and award contract.
- Hold a project kickoff meeting for the BPT project.
- Finalize the charter for the Decommissioning of Legacy Systems (DLS) project, which includes data bridging between the legacy systems and the new LOB solution.
- Refine the project plan for the DLS project.

Future Initiatives

Information Security

- Automate role-based user provisioning in all technology platforms.
- Complete full implementation of two-factor authentication.

- Continue to enhance data classification and records retention automation.

Governance

- Explore improvements for IT service request workflow and prioritization.

Infrastructure

- Continue to enhance the server, storage and networking infrastructures that support the TEAM Program.
- Expand external networking capacity and redundancy to address the growing bandwidth demands of the TEAM LOB, FSR and co-location projects.
- Conduct extensive disaster recovery and business continuity test at the new co-location facility.
- Expand voice over Internet protocol (VoIP) technology.
- Expand VMware View and virtual desktop infrastructure (VDI) technologies to improve operational efficiencies and support remote teleworking.
- Consider new mobile device and smart phone strategy that includes expanding TRS' Bring Your Own Device (BYOD) policy.
- Expand Solid State Disk use where appropriate.
- Support the LOB and the FSR projects as they become operational.
- Provide truly remote access to operational systems in support of disaster recovery and a distributed workforce.

Application Development

- Implement new legislation as required.
- Maintain existing applications while converting to the new LOB and FSR.
- Support the change to new health care vendors for TRS-ActiveCare.
- Continue to enhance self-service applications provided through the TRS website.

TRS Enterprise Application Modernization (TEAM) Program

- Issue RFO, evaluate vendor responses and award contract for the website redesign project in FY 2015.
- Go live with new website redesign in FY 2016.
- Complete the Financial System Replacement project by FY 2016.
- Assess TRS data to determine readiness for migration to the LOB system.
- Complete Data Assessment project by FY 2016, 4th quarter.
- Design, build, and test LOB system components for phase 1.
- Implement bridges to and from the legacy systems and the LOB solution.
- Ensure that business users are properly trained on phase 1 functionality of the new LOB system.

- Go live with phase 1 of the LOB system in September 2015.
- Validate commitments in LOB RFO and define high-level requirements for LOB phase 2.
- Define detailed requirements and use cases for the LOB phase 2.
- Design, build and test LOB system components for phase 2.
- Ensure that business users are properly trained on phase 2 functionality of the LOB system.
- Ensure that IT staff is properly trained to support and maintain the LOB system.
- Go live with phase 2 of the LOB system.
- Decommission legacy applications and associated hardware and software.

RISK MANAGEMENT

Enterprise Risk Management

TRS is committed to providing an environment that ensures risk management is an integral part of all TRS activities. Enterprise Risk Management (ERM) is a comprehensive process to help identify and manage risks utilizing cross-functional skills and expertise. TRS cannot seek to eliminate all risks, but through ERM, it can ensure that existing and emerging risks are identified and managed within acceptable risk tolerances.

The purpose of the ERM function is to promote a risk culture at TRS that builds risk consciousness into its daily activities, ensure that risk identification, assessment and prevention are incorporated into management oversight and governing processes and assist in identifying priorities set forth in the *TRS Strategic Plan*.

The management of risk enables an organization to:

- Raise risk awareness throughout the organization;
- Integrate risk management into the culture and strategic decision-making;
- Identify and evaluate risks that are critical to the organization;
- Ensure that critical enterprise-wide risks are being properly managed by the appropriate individuals;
- Ensure that the appropriate mitigation strategies are in place;
- Provide ongoing support to executive officers and managers regarding the status of critical enterprise-wide risk;
- Increase the likelihood of achieving goals and objectives;
- Balance the cost of managing risk with the anticipated benefits; and
- Enhance health and safety practices.

A critical component of the ERM function is the Risk Oversight Committee (ROC). The ROC oversees the process by which business unit management and staff identifies and assesses risks and determines appropriate responses. It reviews strategic and enterprise-wide risks, helps determine appropriate mitigation strategies, and drives the necessary actions and monitoring activities to help ensure the risks are addressed appropriately.

ERM and strategic planning should be closely aligned and integrated. We continue to make significant headway in this direction and expect value to be added to TRS in this regard. With the strategic plan's newly stated goals and objectives, ERM will help ensure that strategic plan initiatives are achieved.

Investment Risk Management

TRS' Investment Management Division maintains a dedicated investment risk management group focused on effective approaches and techniques to manage and budget investment risk. The

developments in the financial markets over the past several years have created a need for increased risk management and validated our increased focus in this area.

The risk group focuses upon market, leverage, liquidity, concentration, currency, counterparty, derivatives and other risks. The group monitors the risk budget of the trust, performs independent risk certifications for new external manager commitments, reviews new investment strategies, monitors portfolio performance and assists the asset allocation group in formulating strategic asset allocation. In addition, the risk group researches and implements risk signals, which are integrated into the tactical asset allocation management process.

The risk policy for the trust includes two mechanisms for the board to oversee the risk management practices and risk tolerances of the fund. The first is the Risk Management Committee of the Board, which is charged with overseeing the overall risk of the portfolio and establishing policies and practices to measure, manage, and mitigate those exposures. The second mechanism is a set of key risk parameters which establish minimum and maximum risk exposures for the fund, asset allocation limits, derivatives usage limits, and counterparty credit limits. Additionally, the risk policy addresses other risks associated with liquidity, leverage, operational exposures, settlement, and legal contracts.

Operational Risk Management

Under the ERM & Strategic Planning framework, Operational Risk Management (ORM) assists in creating sustainability and resiliency for TRS core competencies by providing a process that considers risk decision making as part of the whole business operation. To provide value through sustainability, TRS must be able to recognize, manage and respond to both opportunities and the risks that are created by all business activities. This is achieved by integrating operational risk management into mission planning, preparation and execution of business activities that support ERM and Strategic Planning initiatives.

The ORM process is an "all hazards" approach to risk of loss resulting from inadequate or failed procedures, people, or support systems generated by both internal and external hazards. ORM is used to proactively manage risks inherent to operating and maintaining assets by developing and incorporating sustainable, safe processes and procedures at the operational level. It is also used to systematically target risk barriers in order to expand operational capabilities.

Components of ORM are multi-dimensional and comprised of:

- Risk Awareness, Risk Assessment and Risk Financing;
- Business Continuity and Disaster Recovery; and
- Workplace Safety.

ORM will continue supporting the enterprise wide development of TRS' risk culture by instilling employees with the tools to recognize, manage and mitigate risk. TRS employees are encouraged to identify and report hazards without fear of repercussions, understanding that the goal is not to

solely eliminate risk but to control it. Comprehensive communication and education campaigns are currently underway and will increase and maintain employee awareness across the entire system.

Individual business unit presentations and assessments will continue to help staff develop proficiency in applying the methodology so that risk management becomes an automatic part of the decision-making process for all operations. Employee participation is expected to increase with improved understanding of ORM concepts as well as overall work quality and productivity that is associated with a competent and engaged workforce.

Through the risk assessment process, ORM identifies insurable risks and secures coverage when appropriate. One ongoing initiative is to explore alternative options to financing designated risk. Mitigation measures, risk financing criteria and insurance agreements will be further evaluated. Recommendations and market negotiations will be aimed at securing terms, which will provide exceptional protection on behalf of TRS while conserving financial resources.

Collaboration efforts are also being made to utilize external resources such as the City of Austin Police Department, State Office of Risk Management, and Texas Department of Emergency Management to enhance workforce safety and security, asset protection, incident management and business continuity planning. These enhancements will assist in the development of additional mitigation strategies and operational procedures to better address existing and emerging risks that may threaten the mission of TRS.

IMPACT OF FEDERAL STATUTES AND REGULATIONS

A limited number of federal laws affect the administration of TRS programs, as summarized below.

Internal Revenue Code - The Internal Revenue Code (IRC) has significant influence on the TRS pension plan. To remain a qualified retirement plan, TRS must continuously satisfy the applicable tax code requirements. Under the IRC, a retirement plan that meets the requirements of Section 401(a) is considered to be a "qualified" plan. Qualified status enables participants to save for retirement in a tax-efficient manner. For example, TRS member contributions are deducted from member salaries on a pre-tax basis, thus allowing members to defer federal income tax on that portion of their salaries until they receive distributions from TRS. As a *governmental* qualified plan, TRS is exempt from many complex federal requirements that apply to *private* qualified retirement plans. To retain *governmental* qualified plan status, the TRS plan must restrict participation to *public* employees.

Qualified plan status permits deferral of taxation of participants' contributions and accrued benefits, deferral of taxation of eligible rollover distributions to participants when those distributions are rolled over to another eligible retirement plan, and tax exemption of the income of the pension trust fund. Texas law recognizes the importance of remaining tax-qualified (See §825.506, TEX. GOV'T CODE).

Major qualification requirements applicable to TRS include:

- Pension plan assets must be held in trust, and the plan must be administered for the exclusive benefit of the plan participants. Pension assets must be used for pension plan purposes only. In accordance with this requirement and with Article 16, Section 67, Texas Constitution, the assets of the TRS pension plan are held in trust for the benefit of members and may be used only for retirement, disability, and death benefits and for the administration of the retirement plan.
- The amount of a participant's annual retirement benefit payable by the pension trust fund is limited by IRC Section 415. This limit affects only a small number of highly paid members. The TRS excess benefit arrangement under Section 825.517, TEX. GOV'T CODE, alleviates the effect of the benefit limits in a manner compatible with the IRC.
- Compensation creditable with TRS for benefit calculation purposes is limited under IRC Section 401(a)(17) and Section 822.201(d), TEX. GOV'T CODE. Again, this limit affects only a small number of more highly paid members.
- A participant's voluntary annual contributions to TRS each year are limited, which may affect how a participant purchases special service credit.
- A participant who is no longer working in Texas public education must begin to take a distribution from the plan by April 1 of the calendar year following the year in which the participant attains age 70½. The plan must comply with other "required distribution" provisions of the IRC.

- In order to receive a distribution from TRS, such as a refund of member contributions or a retirement benefit, a member must completely terminate employment with all Texas public education employers in order to avoid "in service" distributions that are not compatible with the tax code requirements for a qualified plan.

A retirement plan may secure a binding opinion on its status as a qualified plan under the federal tax laws by seeking a determination letter from the Internal Revenue Service (IRS). The most recent determination letter affirming TRS' qualified status was issued by the IRS on Sept. 20, 2012. Under IRC regulations, governmental plans may file for determination letters during a one-year period in a five-year cycle, Cycle C, established for such plans. The most recent Cycle C filing period for governmental plans occurred from Feb. 1, 2013 through Jan. 31, 2014. TRS filed its Cycle C application for a new determination letter in January 2014 and is currently awaiting the IRS' response.

The IRS is increasing its focus on governmental pension plans, including expressing an interest in surveying such plans about their operations. The IRS is also finalizing a compliance manual for governmental plans. In November 2011, the IRS issued preliminary guidance on requirements for a qualified plan to be considered a *governmental* retirement plan. The preliminary guidance defines a *governmental plan* as "a plan established and maintained for its employees by the Government of the United States, by the government of any state or political subdivision thereof, or by any agency or instrumentality of the foregoing." The preliminary guidance appears to require Texas public educational institutions to qualify as an agency or instrumentality of a state in order for their employees to participate in TRS without jeopardizing TRS' governmental plan status. In addition, the preliminary guidance could be interpreted to require a governmental plan to cover only employees of the governmental entity that established and maintains the plan. The guidance raised concerns in the charter school community that their employees may no longer be permitted to participate in a governmental retirement plan like TRS. To date, the IRS has not issued additional guidance to address plan concerns. TRS will continue to monitor developments.

In April 2012, the IRS and the U.S. Treasury Department published its intent to issue guidance (Notice 2012-29) for governmental plans regarding pension distributions upon attainment of "normal-retirement age" (NRA). The guidance is expected to extend the date by which governmental plans must comply with the final regulations and clarify that a governmental plan that does not allow "in-service" distributions before age 62 is not required to define NRA. The IRS and the U.S. Treasury Department are also expected to expand the rule deeming age 50 or later to be NRA for qualified public safety employees to apply regardless of whether those employees are covered by a separate plan. The revised final regulations are anticipated to be effective for TRS on Sept. 1, 2015. TRS will continue to monitor the issuance of applicable federal guidance and changes in regulations.

As a payer of more than \$8 billion in benefits annually, TRS, in compliance with federal laws, withholds taxes, reports income to the IRS, and distributes IRS 1099-R tax forms to payees. In

January 2013, President Obama signed the American Taxpayer Relief Act of 2012 (“ATRA,” Public Law 112-240). ATRA made permanent the lower income tax rates for individuals in the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA,” Public Law 107-106) and in the Jobs and Growth Tax Relief Reconciliation Tax Act of 2003 (“JGTRRA,” Public Law 108-27), and set a tax rate of 39.6 percent on income above certain levels. The new tax withholding tables are used by TRS to determine the amount of federal income taxes to be withheld when making monthly annuity benefit payments.

The IRC also affects TRS’ administration of group health benefit plans and related programs. Over the years, the federal government has been active in attempting to address the effect of spiraling health care costs on employer-provided benefit plans, with a number of tax code changes designed to offer more options for cost sharing between employers and employees. The most recent example of such federal legislation is the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, which is discussed more fully below. Through favorable tax treatment of benefits to employees, the federal government has encouraged the development of new types of benefit plans, such as health reimbursement arrangements (HRAs) and health savings accounts (HSAs). These frequently are referred to as “consumer-driven” health benefit plan features. TRS continues to monitor federal developments in this dynamic area since they affect many aspects of the health benefit programs administered by TRS. For example, TRS has structured the TRS-ActiveCare 1-HD plan to meet the federal requirements for a high deductible plan, which makes participants in that plan eligible to establish HSAs.

Social Security – Federal Social Security coverage and benefit policies often affect TRS members and Texas public education employers and at times, TRS. Under federal law, state and local government employees hired after April 1, 1986 are required to participate in Medicare, but state and local governmental employers are not required to participate in the Old-Age, Survivors and Disability Insurance (OASDI) aspect of Social Security, regardless of hire date, if they provide an acceptable replacement retirement plan. The OASDI retirement benefits are commonly referred to as the “Social Security benefits.” Federal law establishes minimum standards for replacement retirement plans. If a state or local government retirement plan does not meet the minimum standards, employees and employers must make OASDI contributions of 6.2 percent each, up to the established wage base limit for the year. The contribution and benefit base limit (wage limit) for 2014 is \$117,000.

Most school district employees and some community college employees in Texas do not participate in Social Security OASDI, and the TRS retirement plan serves as the replacement plan. Consequently, those employees do not accrue OASDI retirement benefits for the period of work not covered by Social Security, although many may be eligible to receive a spousal benefit in respect of their covered spouse. The spousal benefit may be reduced by the governmental pension offset in federal law.

When a state or local government employer *does* cover employees in Social Security OASDI, the coverage is voluntarily established under what is known as a Section 218 agreement between the Social Security Administration and the public employer, or the coverage is pursuant to federal law that now mandates Social Security OASDI coverage of state and local government employees who are *not* covered under a Section 218 agreement and who are *not* participants in an acceptable replacement plan.

Other aspects of the federal Social Security program important to TRS participants are the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) features. Under the GPO, if a TRS retiree receives a TRS pension based on work where the retiree did not pay Social Security taxes, the retiree's Social Security spousal benefits as the spouse of a person who was eligible to receive Social Security benefits may be reduced. Under the WEP feature, if a TRS member worked for a TRS-covered employer who did not withhold Social Security OASDI taxes and also worked for an employer who did withhold Social Security taxes, the retiree's Social Security benefit may be reduced due to the pension received from TRS that is based on work not covered by Social Security. In other words, the WEP provision affects how the amount of a Social Security retirement or disability benefit is calculated; under WEP, a modified formula is used to calculate the Social Security amount, resulting in a lower Social Security benefit than the person would otherwise receive.

TRS continues to monitor related federal issues, including use of Social Security numbers and proposals for mandatory Social Security OASDI coverage regardless of participation in a replacement retirement plan, since these issues have the potential to significantly impact TRS programs, TRS-covered employers, and TRS membership.

ERISA – The Employees Retirement Income Security Act of 1974 (ERISA) imposes funding and plan design restrictions on private defined benefit and other retirement plans but exempts governmental plans from those provisions. Though the retirement plan provisions of ERISA are not applicable to governmental plans, they nevertheless often provide guidance to governmental plans on funding, benefit design, or fiduciary issues. TRS continues to monitor interpretations of ERISA provisions designed to protect retirement savings and benefits. Additionally, from time to time, legislation is proposed to subject state and local governmental plans to some level of federal oversight, using ERISA as a guide.

Defense of Marriage Act – This federal law was enacted on Sept. 21, 1996 and allows states to decline to recognize same-sex marriages granted under the laws of other states. On June 26, 2013, the U.S. Supreme Court ruled in *U.S. v. Windsor* that Section 3 of the Defense of Marriage Act ("DOMA," Public Law 104-199) is unconstitutional. This ruling did not affect the TRS plan terms that address eligibility of spouses for certain plan-provided benefits. However, the IRS issued Revenue Ruling 2013-17 providing that for federal tax law purposes, the IRS would recognize marriages between same-sex individuals who are lawfully married in a domestic or

foreign jurisdiction. To the extent certain federal tax benefits, such as eligibility to roll over some types of distributions are offered to spouses, TRS must comply. TRS continues to monitor case law and IRS regulations promulgated regarding Supreme Court rulings related to the administration of the pension plan and health benefit plans.

Patient Protection and Affordable Care Act – In March 2010, the Patient Protection and Affordable Care Act (the “Patient Protection Act”), as amended by the Health Care and Education Reconciliation Act of 2010 (the “2010 Reconciliation Act”), was signed into law. This legislation is designed to effectuate fundamental reforms to the United States health care system. Even though this legislation is quite lengthy, it only provides a framework; various governmental agencies continue to issue implementation details in the form of regulations and guidance. The impact of this legislation on TRS-ActiveCare, and to a lesser extent, on TRS-Care, has grown over the past several years. In order to comply with this legislation, TRS continues to monitor regulations and guidance issued by various governmental agencies. The courts continue to address challenges to the constitutionality of various aspects of the Patient Protection Act. TRS continues to monitor these cases.

MEDICARE – The standard plans offered under the TRS-Care health benefit program for eligible retirees are significantly affected by the federal Medicare program. Expansion of Medicare benefits, such as Medicare Part D prescription drug coverage, typically will reduce TRS-Care costs under the standard plans. Medicare Part D went into effect Jan. 1, 2006. From inception through fiscal year 2014, TRS-Care has collected over \$512 million in federal prescription drug claim reimbursements. By contrast, if Medicare reduces benefits to participants, the cost of providing coverage under the standard plans of TRS-Care could increase, if the medical service is covered by a standard plan under TRS-Care. For these reasons, TRS closely monitors legislation and regulations to determine the impact of Medicare changes.

Additionally, beginning Jan. 1, 2012, for Medicare-eligible participants, TRS-Care began offering two fully insured Medicare Advantage plans (medical coverage) and two Medicare Prescription Drug plans (pharmaceutical coverage). Using these Medicare plans, TRS estimates with 80 percent participation, savings through the biennium ending Aug. 31, 2015 to be over \$507 million. Current participation rates for the Medicare Advantage plans and Medicare Prescription Drug plans are 70 percent and 83 percent, respectively.

HIPAA – The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) require the establishment of national standards for electronic health care transactions and national identifiers for providers, health plans, and employers. They also address the security and privacy of protected health information. HIPAA regulations regarding the security and privacy of health data affect how protected health information is collected and maintained by TRS. TRS continues to monitor case and statutory law arising from

HIPAA, as well as regulations issued by various governmental agencies, in order to remain in compliance with its requirements.

HITECH – The Health Information Technology for Economic and Clinical Health Act (HITECH), passed as part of the American Recovery and Reinvestment Act of 2009, expanded current federal privacy and security protections for health information under HIPAA. HITECH accomplished this by, among other requirements, establishing federal notification requirements concerning the release of health information that is not encrypted or otherwise made indecipherable, if such a release constitutes a “breach” under the law. If a breach occurs, then the law requires that an individual be notified of the unauthorized disclosure or use of their health information; notice is also given to the U.S. Department of Health and Human Services. HITECH also broadens the types of entities that are subject to the privacy and security rules under HIPAA. As with HIPAA, TRS continues to monitor cases and statutory laws arising under HITECH, as well as regulations issued by various governmental agencies.

Miscellaneous Federal Laws or National Issues – TRS also monitors various federal laws, such as the Age Discrimination in Employment Act (ADEA) and the Uniform Services Employment and Reemployment Rights Act of 1994 (USERRA), for any effect on programs or membership. The ADEA can affect both the retirement plan and the health benefit programs. USERRA protection of retirement and other employment-related benefits is increasingly important as U.S. military personnel return to public education positions in the state following their uniformed service during the conflicts in Iraq or Afghanistan.

In addition to tracking changes in federal law for impact on TRS programs, TRS also monitors the national discussion of benefit-related issues in other forums. For example, the Governmental Accounting Standards Board (GASB) recently issued Exposure Drafts regarding proposed changes to pension accounting and financial reporting standards for state and local governments. This draft follows standards issued a few years ago concerning “other post-employment benefits” or “OPEBs;” specifically, employer-provided retiree health benefits. GASB standards are important to the public discussion of the benefit-based fiscal obligations of governmental entities.

In the investments arena, TRS also follows congressional and regulatory developments on issues such as financial institution reform, taxation, corporate governance, class-action lawsuits, restrictions on investments in companies or countries with ties to terrorism, and conflicts of interest in the financial services industry. Heightened federal activity and media attention on these issues may directly or indirectly affect TRS investments or investment services obtained from the private sector. TRS also continues to monitor federal developments relating to globalization, foreign relations and divestment of securities issued by companies doing business in countries such as Sudan and Iran.

The diversification strategy pursued by the Investment Division has increased the workload of the Legal Division and created a need to expand internal and external legal resources. This expansion has also resulted in space planning challenges for TRS.

In *Morrison v. National Australia Bank, Ltd.* (Decided June 24, 2010), the United States Supreme Court held that U.S. courts do not have jurisdiction over securities fraud claims based on transactions occurring outside the United States. This development has disrupted and fragmented the securities class actions process and is increasing workloads in Legal Services.

TRS also administers a Section 403(b) certification process required by state law. In administering the certification program for annuity and mutual fund companies that offer their investment products to Texas public education employees, TRS monitors federal regulations relating to Section 403(b) plans. These voluntary, supplemental savings plans, established under Section 403(b) of the IRC by public education employers, allow employees to save for retirement in a tax efficient way. Under Texas law, companies offering 403(b) investments through salary reduction agreements to employees of school districts and open enrollment charter schools must certify to TRS that they comply with applicable requirements. Employees may make investments through certified companies, unless the employer has determined that a company does not comply with the employer's administrative requirements. Effective Jan. 1, 2008, certified companies must register their investment products offered to Texas public school employees. Information on certified companies and registered products is available to employees on the TRS website.

OTHER LEGAL ISSUES

Changes in State Law and Potential State Issues

The 83rd Texas Legislature, Regular Session, met in 2013 and enacted new laws affecting TRS. These new laws include:

- New requirements for normal-age retirement eligibility and early-age retirement reduction.
- Incremental increases in the member contribution rate from 6.4 percent to 7.7 percent over the next three fiscal years.
- Increasing the state contribution rate to 6.8 percent for FY 2014 and FY 2015.
- New employer contribution (1.5 percent) on compensation paid to members for whom the employer does not contribute to OASDI (Social Security), applicable only to employers who are not institutions of higher education and payable only on compensation up to the statutory minimum for those positions for which there is a statutory minimum and 100% of compensation on all others. The new law did not impact the requirement for the employer to pay the state's contribution on amounts paid above the statutory minimum.
- Clarifying that employees of regional education service centers and charter school employees may nominate, be nominated, and vote for the public school district member of the TRS Board of Trustees.

- Establishing an age 62 eligibility requirement for the TRS-Care 2 and TRS-Care 3 levels of coverage for certain individuals.
- Under the changes in contribution rates and retirement eligibility established in Senate Bill 1458, TRS becomes "actuarially sound" and can provide a 3 percent Cost-of-Living Adjustment (COLA), capped at no more than \$100 per month, for annuitants who retired on or before Aug. 31, 2004 or whose benefits are based on the death of a retiree or member who died on or before Aug. 31, 2004. The COLA began with the annuity payable for September 2013, which was paid in October of 2013. The annuitant must have been living on Sept. 1, 2013 to be eligible to receive the COLA.
- Reducing the rate of interest paid to member and DROP accounts from 5 percent to 2 percent, prospectively, beginning Sept. 1, 2014.
- Providing protections for records and information about records of employees of TRS-covered employers who are not eligible for membership but are collected by TRS for the purpose of administering the terms of the plan, including for audit or investigative purpose.
- Repealing the statutory requirement that TRS-ActiveCare must provide an ERS health care plan equivalent.
- Reestablishing the state contribution rate for TRS-Care at 1 percent for FY 2014 and FY 2015.

As TRS approaches the start of the next legislative session, the future funding of both health benefit programs, TRS-Care for retirees and TRS-ActiveCare for eligible employees of TRS-covered employers participating in that program, will be a major focus. The group health benefit trust funds face the ongoing mismatch between established revenue sources and continued increases in health care costs.

Impact of Court Cases

TRS monitors litigation across the country that could establish important precedents concerning plan design, benefits, investments, or fiduciary conduct. TRS also monitors legal developments in significant class action litigation affecting TRS investments and routinely files claims for settlement proceeds to which the system is entitled. TRS evaluates the litigation to determine whether to remain in the class or pursue its own action.

In the first quarter of 2014, the U.S. Supreme Court heard oral arguments in *Halliburton v. Erica P. John Fund* (No. 13-317). The court's opinion could affect the viability of securities class actions to the extent that the court adopts a new rule for cases using "fraud on the market" as a substitute for reliance evidence, as set forth in the leading case, *Basic v. Levinson*. If so, TRS may be required to commence litigation in more cases in order to recover fiduciary assets lost to securities fraud. This could require additional internal and external legal resources. A ruling is expected by June 2014.

Patient Protection and Affordable Care Act (ACA) – TRS continues to monitor the health benefits arena and cases addressing the constitutionality of various sections of the 2010 Affordable Care Act including denial of coverage (including the recognition of same-sex marriages), age discrimination, privacy and other issues are monitored for impact on TRS-Care and TRS-ActiveCare.

TRS CORE COMPETENCIES

TRS views the following competencies as core to the successful achievement of its mission:

- ◆ Benefit Delivery
 - ◆ Investment Management
 - ◆ Communication with Stakeholders
 - ◆ Workforce Management
-

In the following pages, TRS reviews its accomplishments and commitments for each core competency. Commitments represent ongoing practices undertaken in support of TRS' core competencies and are central to the system's strategic plan. These commitments also provide a high-level overview of the strategic goals, objectives, and strategies.

Benefit Delivery: Retirement and Related Benefits

TRS serves a diverse population of over 1.3 million active and retired members, which includes personnel employed in 1,365 reporting entities throughout the state.

TRS is dedicated to professional, accurate, timely and cost-effective delivery of services and benefits to members, annuitants and their beneficiaries.

Accomplishments

- In fiscal year 2013, TRS processed retirements for 22,045 members. During the same fiscal year, TRS produced 15,878 bills for the purchase of special service which includes, reinstatement of refunded accounts, purchase of unreported or substitute service, military service, out-of-state service, waiting period, developmental leave, Uniformed Service Employment & Re-employment Rights Act (USERRA), work experience and state sick and/or personal leave. In addition, the number of death claims for those members who died prior to retirement totaled 1,243, and the number for those who died after their retirement totaled 7,437. Finally, the number of withdrawing members from TRS totaled 41,615. During this same timeframe, the active membership in TRS increased by 16,481.
- TRS implemented new legislation, including legislation passed by the 83rd Texas Legislature, as follows:
 - ▶ State contribution rate increased from 6.4 percent to 6.8 percent for FY 2014 and FY 2015.
 - ▶ Beginning in fiscal year 2015, school districts and charter schools that do not contribute to Social Security for TRS-eligible employees will contribute to TRS 1.5% of the statutory minimum salary for employees whose positions are subject to the state statutory minimum salary schedule in addition to the state contribution amount on compensation paid in excess of the state minimum amount. For employees whose positions are not subject to the state statutory minimum salary schedule, the employer will contribute 1.5 percent on the employees' total salary.

- ▶ For all members who are not vested as of Aug. 31, 2014 or who are new members after Sept. 1, 2014, the normal age retirement eligibility will increase to age 62 with the Rule of 80.
- ▶ A 3 percent cost-of-living adjustment (COLA), capped at no more than \$100 per month was provided to those annuitants who retired on or before Aug. 31, 2004 or whose benefits are based on the death of a retiree or member who died on or before Aug. 31, 2004. The COLA began with the September 2013 annuity payment which was paid on October 2013.
- ▶ Members who take a service retirement on or after Sept. 1, 2014, must be at least 62 to be eligible for TRS-Care 2 and 3. A service retiree is not subject to the new age requirements if the sum of the person's age and years of service credit is 70 or greater on or before Aug. 31, 2014; or if the person has at least 25 years of service credit on or before Aug. 31, 2014.
- ▶ Beginning Sept. 1, 2014, the rate of interest paid to member and DROP accounts was reduced from 5 percent to 2 percent.
- ▶ A retiree who has selected an optional annuity payment plan may increase to the standard annuity payment plan without regard to the relationship of the retiree to the beneficiary of the optional annuity. The bill did not change the plan term that requires the beneficiary's consent if a spouse or former spouse is the beneficiary or a court order from a court with authority over the marriage that orders or authorizes the retiree to make the change.
- ▶ The statutory requirement that TRS-ActiveCare must provide an ERS health care plan equivalent was repealed.
- ▶ Clarification that regional education service centers and charter school employees can serve as trustees and vote in the election of TRS trustees.
- ▶ State contributions to the pension plan for junior colleges and junior college districts are limited to 50 percent of the creditable compensation of members whose duties are instructional or administrative and whose salaries may be fully paid from funds appropriated under the General Appropriations Act, whether the salaries are actually paid from appropriated funds.
- ▶ For TRS pension benefits, junior colleges and junior college districts must pay the state contribution amount on the remaining 50 percent of creditable compensation for instructional or administrative employees as well as 100 percent of the state contributions amount on all other TRS members employed by these entities.
- ▶ The number of instructional and administrative employees for which the state must make contributions on creditable compensation may not be increased at a greater rate than the percentage growth in student enrollment.
- Through its toll-free telephone counseling center, TRS answered 504,728 calls from members and retirees in fiscal year 2013.
- The TRS interactive voice-response system handled 251,299 calls during fiscal year 2013.

- Face-to-face meetings in TRS offices were held with 9,597 members during fiscal year 2013. In addition, 181 group presentations were held with 12,825 members in attendance and TRS participated in six conventions with 28,900 attendees. One-on-one retirement counseling sessions were implemented successfully in 10 cities with 450 available appointments and 423 members served.

Commitments

TRS will:

- Continue to use performance standards and an effective performance measurement program to enhance the consistent and timely delivery of quality service to its membership;
- Continue to provide and enhance a telephone survey to its members and retirees for feedback about their telephone experience with TRS benefit counselors;
- Continue to evaluate, enhance and expand the Benefit Counseling Quality Assurance Program in Benefit Counseling;
- Continue to maximize the available appointments for one-on-one counseling sessions in field locations across Texas;
- Continue to use technology and communication tools to enhance our delivery system capacity in order to meet the increased demands of a growing and diverse membership;
- Continue to offer cost-effective technology tools to educate members about their retirement options and increase their access to information about their benefits;
- Continue to expand opportunities for membership to conduct TRS business through Web access;
- Continue its commitment to excellence and flexibility in delivering retirement and death benefits, and strive to continuously improve service;
- Continue to survey similar benefit providers in both the public and private sectors to identify practices that offer potential improvements for TRS;
- Continue to provide superior training to employees, equipping them to efficiently serve our members and meet the increasing demands of the growing membership;
- Continue to monitor eligibility of participants for TRS-Care and retirement to identify the interaction of the different eligibility requirements;
- Continue to conduct customer service surveys to ensure continued high-quality service to members;
- Continue to provide performance reporting to ensure that stakeholders are informed of program operation and results;
- Continue to allocate resources to the most productive, mission-oriented uses; and
- Continue to effectively implement benefit changes approved by the Texas Legislature.

Benefit Delivery: TRS-Care Health Benefit Program

TRS administers TRS-Care, which provides medical and pharmacy benefits for retired public school employees and their dependents. As of Jan. 1, 2014, there were 243,003 participants in the plan.

TRS is dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- On Jan. 1, 2013, TRS implemented new Medicare Advantage and Medicare Part D plans for eligible participants, resulting in continued plan savings.
- Participants in the Medicare Advantage plans saw reductions in their required premiums.
- Premiums have remained unchanged for the traditional (non-Medicare) plans since Sept. 1, 2004.
- The board of trustees appointed four new members to the Retiree Advisory Committee (RAC) to terms expiring Jan. 31, 2018.
- Collected over \$31.2 million in prescription drug claim reimbursements under the Medicare Retiree Drug Subsidy program during fiscal years 2012–14 biennium.
- Collected over \$90.7 million in prescription drug subsidies generated by Medicare Part D participants.
- Converted the TRS-Care plan booklet to an online version which updated the information provided for plan participants.
- Initiated a pilot program to incentivize non-Medicare participants with chronic medical conditions to participate in Aetna's disease management program.
- Conducted town hall meetings to provide the public with opportunities to comment on TRS-Care and to offer suggestions for improvements.

Commitments

TRS will:

- Continue to effectively oversee the administration of the retiree health benefit program to ensure that quality benefits are provided at a competitive cost;
- Continue to compare TRS-Care plans with similar plans, including analyses of comparative costs and premiums;
- Continue to conduct member satisfaction surveys to ensure continued high-quality service to plan participants and solicit public input;
- Identify specific areas where performance may be improved through changes in plan design and program administration;
- Provide performance reporting to ensure that stakeholders are informed of program operations and results;
- Continue to engage independent audits bi-annually for both medical and pharmacy claims processed during the immediately preceding two-year period;
- Continue to educate plan participants, in collaboration with the claims administrator and pharmacy benefit manager, to optimize benefit participation and network utilization;
- Continue to work with the legislature in the effort to resolve funding requirements of TRS-Care by updating the TRS-Care Sustainability Study in advance of the 84th Texas Legislative session; and

- Continue to coordinate the filing of subsidy reimbursement claims under the Medicare Retiree Drug Subsidy Program.

Benefit Delivery: TRS-ActiveCare Health Benefit Program

TRS-ActiveCare is a statewide health benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS. Participants can choose from three preferred provider organization plans, and participants in certain areas also have the option of choosing coverage under a health maintenance organization.

TRS is dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- As of Jan. 1, 2014, 1,128 entities were participating in TRS-ActiveCare; 284,016 employees plus 182,818 dependents, and 466,834 individuals were covered under the program, making it one of the nation's largest health benefit programs for public employees.
- The TRS-ActiveCare program continues to add new participating entities that choose to join the program.
- TRS-ActiveCare continues to provide multiple plan choices to employees by offering three statewide Preferred Plan Options (PPOs) plus three Health Maintenance Organizations (HMOs) in certain service areas.
- TRS-ActiveCare Plan 1 was discontinued with the majority of its participants choosing Plan 1-HD, a federally qualified high deductible health plan that may be used with Medical Savings Accounts.
- Premiums increased for all plans effective September 2013.
- Two enrollment periods were offered for school year 2013-2014.
- TRS provided training for benefit administrators of entities participating in TRS-ActiveCare in the 20 education service centers throughout the state.
- Completed an independent audit of medical and drug claims for fiscal years 2011 and 2012.
- Conducted a town hall forum in conjunction with a TRS Board of Trustees meeting to solicit input regarding the financial position of the plan.

Commitments

TRS will:

- Continue to effectively oversee the administration of the active employee health benefit program to ensure that quality benefits are provided at a competitive cost;
- Continue to compare TRS-ActiveCare plans with similar plans, including analyses of comparative costs and premiums;

- Continue to conduct customer service surveys to ensure continued high-quality service to plan participants;
- Continue to engage independent audits biannually for both medical and pharmacy claims processed during the preceding two-year period;
- Continue to seek and identify specific areas where performance can be improved through changes in plan design and program administration;
- Continue to provide performance reporting to ensure that stakeholders are informed of program operations and results;
- Work with the legislature in the effort to resolve funding requirements of TRS-ActiveCare by developing a TRS-ActiveCare Sustainability Study in advance of the 84th Texas Legislative session; and
- Continue to provide education to plan participants in collaboration with the claims administrator and pharmacy benefit manager to optimize benefit participation and utilization.

Benefit Delivery: Long-Term Care Insurance Program

TRS is dedicated to offering quality long-term care insurance at affordable rates for members and retirees who wish to obtain this coverage.

Accomplishments

- Maintained the long-term care insurance website to provide members and retirees with immediate, up-to-date information about the TRS-sponsored group long-term care insurance program and important long-term care information.
- Participation in the group long-term care insurance program through Genworth Life now exceeds 7,000 enrollees and dozens of people have had long-term care expenses paid by this coverage.

Commitments

TRS will:

- Continue to evaluate the TRS group long-term care insurance plan, including analyses of comparative benefit features and premiums;
- Solicit proposals for a new contract effective Sept. 1, 2015, through a Request for Proposals to be posted in the fall of 2014;
- Continue to communicate information about the TRS group long-term care insurance plan to retirees and members through multiple media methods in cooperation with Genworth Life.
- Continue to conduct customer service surveys to ensure continued high-quality service to plan participants.
- Continue to educate plan participants to optimize benefit participation.
- Continue to monitor federal and state legislation that may impact long-term care insurance plans.

Investment Management

TRS is dedicated to the professional and prudent management of assets held in trust for our members and their beneficiaries, seeking a long-term investment return that meets or exceeds the established assumed actuarial rate of return within specified risk parameters.

Accomplishments

- TRS won several awards including Institutional Investor's Large Public Plan Manager of the Year (2013), PERE's North American Limited Partner of the Year (Real Assets, 2012) and aiCIO awarded a lifetime achievement award to TRS' chief investment officer in 2013.
- The Investment Management Division (IMD) underwent 34 external and internal audits over the past three years and passed each with no significant findings.
- As of December 2013, investment professionals include 51 MBAs, 30 other Masters degrees, 4 PhDs and 4 JDs, as well as 37 Chartered Financial Analyst (CFA) charter holders and 9 Chartered Alternative Investment Analyst (CAIA) charter holders.
- The public Strategic Partnership Network (SPN) reached its five-year anniversary. For the five years ending Aug. 31, 2013, the public strategic partners had grown to over \$6 billion in assets, returning 7.2 percent annually, and beating their benchmarks by 2.2 percent. The private Strategic Partnership Network expanded significantly in its first two years, with approximately \$4 billion in new commitments and over \$800 million in net asset value invested since the private SPN was first conceived.
- The Private Equity portfolio returned over 18 percent annually for the past 10 years, the top percentile fund in the Trust Universe Comparison Service (TUCS) universe of similar pension funds.
- The internally managed Global Best Ideas Flagship fund exceeded its benchmark for the last six years, a feat managed by less than 5 percent of global funds in any time period.
- Following an increase in its hedge fund allocation approved by the 82nd Texas Legislature in 2011, the external public team successfully built out the hedge fund program and is now fully allocated.

Commitments

TRS will:

- Continue to seek to achieve the long-term assumed actuarial rate of return within appropriate risk parameters as set by the TRS Board of Trustees;
- Continue to seek excess returns over passive benchmarks;
- Continue to maintain a talented and experienced staff of investment professionals that operate at the highest level of ethical and fiduciary integrity; and
- Continue to maximize TRS' competitive positioning within the investment marketplace, setting industry excellence standards and constantly improving investment processes and procedures in terms of both quality and efficiency.

Communication with Stakeholders

Communicating effectively with key stakeholders is one of TRS' four core competencies. Clear communication is important as TRS membership grows, demographics change and different population segments gain varying familiarity with and access to evolving technology. TRS places a high priority on timely, accurate and meaningful communications to share information, seek feedback, improve decision-making and build an ever-stronger commitment to achieving our mission.

Accomplishments

- In early 2014, TRS continued its outreach to members and retirees through a town hall style meeting webcast live as part of the board of trustees meeting. The public forum provided an opportunity for trustees and TRS executives to meet with members and retirees face-to-face to discuss the TRS-Care and TRS-ActiveCare health insurance programs. Legislators or their representatives from the area attended the meeting as did members of the news media. The meeting was recorded for on-demand viewing later.
- *MyTRS*, the secure online access section of the TRS website, was actively promoted through email messages sent to TRS-covered employers, articles placed in member newsletters, information featured on the agency website and through social media outreach. At year end, more than 350,000 members and retirees had registered to participate in *MyTRS*, taking advantage of secure online access to obtain retirement estimates, reset passwords, change addresses, register for group benefit presentations and more.
- In 2014, TRS commissioned the University of North Texas to conduct a satisfaction survey of TRS members and annuitants. Survey results will assist the system in improving service to its constituents.
- In fall 2013, TRS launched *MyTRS Rewards*, a discount website for members and retirees who have registered to participate in *MyTRS*. The easy-to-use *MyTRS Rewards* website offers exclusive discounts on popular products and services. The discount program is among several promotional efforts resulting in increased member use of the *MyTRS* secure website portal.
- The *MyTRS* Email Subscription Service continued to provide members an opportunity to receive instant email delivery of publications and announcements, including meetings, webcasts, presentations and other events.
- The *TRS Benefits Handbook*, the pension plan's summary description, was updated to reflect the latest member and retiree benefit information, including benefit changes enacted by the 83rd Texas Legislature. The handbook was restructured to simplify use by members and retirees, featuring color-coded tiers and a tier placement map to help members identify retirement eligibility requirements that pertain to them. Due to the high cost of printing and mailing more than one million handbooks, the 2013 publication was distributed electronically and mailed to members and retirees only upon request. Members and retirees are also able to view and print a copy of the handbook by visiting the TRS website.

- The *TRS Comprehensive Annual Financial Report* was completed in 2013. The report has continued to earn a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) each year for the past 23 years.
- Following the 83rd Texas Legislature, TRS provided its members and retirees with explanations of recent changes in the law. The TRS website was updated, including all calculators; and two *TRS News* issues containing legislative summaries and important deadlines were mailed to all members and retirees.
- During 2013, TRS began work on a project to redesign the agency's website through the TRS Enterprise Application Modernization (TEAM) Program. That work, including the issuance of a request-for-offers, continues in 2014. Launch of the new website is expected in late 2015.
- The Communications department worked closely with the Information Technology department and other TRS departments to establish a Website Accessibility Committee and an agency website accessibility coordinator. The group tracked and provided updates on new developments in the areas of website accessibility. Working closely with the state accessibility coordinator, TRS enrolled in the DIR Accessibility Scanning Program and introduced Web scanning and monitoring services. As TRS seeks to redesign its website, these efforts ensure that TRS will remain compliant with the most current accessibility guidelines.
- In 2013, TRS completed its first full year as an active participant in social media. TRS engaged a growing number of members, retirees and others through agency social media channels. At year-end, TRS had nearly 4,000 Facebook fans, more than 1,000 followers on LinkedIn, and nearly 500 followers on Twitter. In addition, TRS videos were viewed on YouTube nearly 21,500 times.
- During fiscal year 2013, TRS produced six "TRS Today" videos, featuring interviews with TRS executives on communication initiatives, the pension design study, new health care benefits, new legislation, and TRS investments. TRS also produced videos relating to the agency's 75th anniversary, the purchase of special service credit, steps to retirement, how to apply for a refund, and a video companion piece to the brochure titled *TRS: A Great Value for all Texans*.
- As part of its commitment toward open and transparent communication, TRS continued to webcast board meetings. Meetings are streamed live so that members and others can watch proceedings from anywhere in Texas or around the world. Meetings are also recorded for playback and archived on the TRS website where board agenda items can be easily accessed.
- During fiscal year 2013, the Benefit Counseling department made a number of group presentations to professional associations, to employee and retiree groups and at regional education service centers. Presentations focused on retirement options, health care benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 12,825 people attended 181 group presentations and 28,900 people attended six conventions where TRS was represented. In

addition, 10,020 people visited individually with a TRS counselor – 9,597 in Austin and 423 in field office visit locations.

- Benefit Counseling boosted TRS' outreach to members with one-on-one retirement counseling sessions. Fiscal year 2013 was the seventh year that one-on-one retirement counseling sessions were offered in limited field locations throughout Texas (450 available appointments in 10 cities).
- TRS maintains a web-based 403(b) product registration system that allows 403(b) companies to submit products for registration. The 403(b) product list continued to grow offering more investment options to members.
- During fall 2012, TRS celebrated the retirement system's 75th anniversary. Activities included production of a commemorative anniversary video and creation of a website history museum. In conjunction with the anniversary, staff developed a series of graphic design changes including new agency logos, letterhead, business cards, electronic templates and a graphic style guide.

Commitments

TRS will:

- Strive to improve relations and communication with its internal and external stakeholders;
- Assess and adjust communication efforts to ensure that they anticipate and address stakeholder information needs;
- Position the agency to collaborate with state leadership in fulfilling our mission by providing prompt, accurate information for successful planning and decision-making; and
- Form effective partnerships with key state agencies to better serve respective constituencies.

Workforce Management

TRS Human Resources provides efficient and effective services that are strategic, innovative, legally compliant and supportive of TRS' mission and goals. The Human Resources department supports the employees of TRS and recognizes that TRS achieves its mission through both their individual success and their efforts as a team.

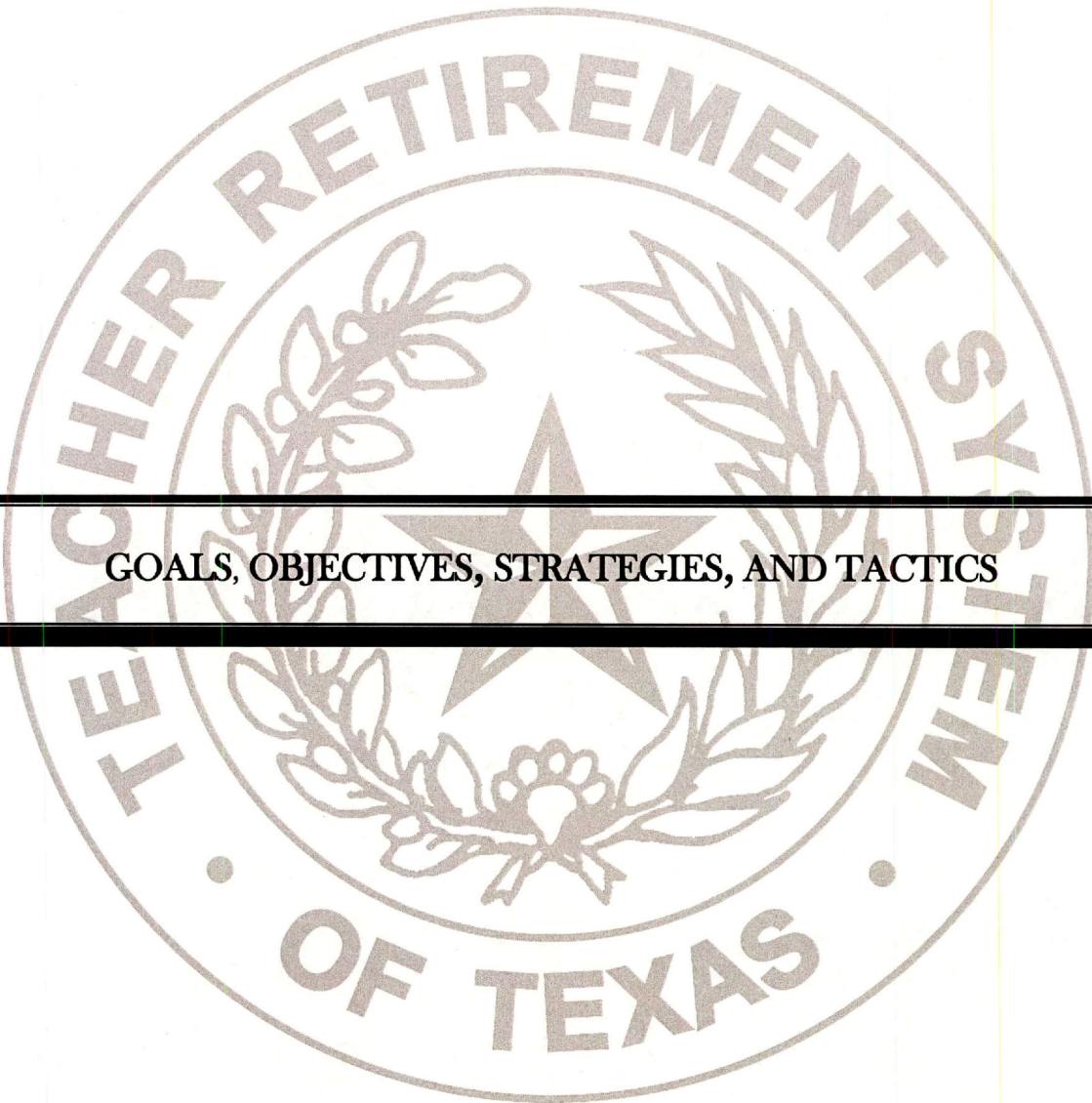
Accomplishments

During fiscal years 2013-2014, Human Resources made a conscious effort to move from an administrative role into an energetic, active and strategic partner for TRS staff and management. In doing so, the team rebranded themselves by creating a mission, vision and identity statements and made many accomplishments along the way. TRS also continues to enhance efforts to attract and retain a diverse, well-qualified workforce by maintaining effective compensation, performance, recruitment, and staff development programs. Accomplishments include:

- Results of the fiscal year 2014 Survey of Employee Engagement reflect that TRS employees provided positive feedback regarding their working conditions, employee and supervisor relationships, and career development opportunities. TRS also participated in the Austin

American-Statesman's Top Workplaces survey. Based on employee participation and responses, TRS was named as one of the top 10 workplaces for 2012 and 2013.

- Nominated for the Shining Example Award, which recognizes teams across TRS that made outstanding contributions to customer service in the past year.
- Coordinated and participated in agencywide initiatives such as the agency core values, the performance evaluation process for c-suite executives like the executive director, chief investment officer and chief audit executive, Speed of Trust training for the Executive Steering Committee and Core Management Team, and the Executive Council retreat.
- Successfully passed rigorous external compliance audits. The audits included:
 - *An Audit Report on Incentive Compensation at the Teacher Retirement System, the Permanent School Fund and the Employees Retirement System* (conducted by State Auditor's Office);
 - *Post Payment Audit of the Teacher Retirement System* (conducted by Comptroller of Public Accounts); and
 - Texas Workforce Commission (TWC) Policy Review (conducted by the TWC Civil Rights Division).
- Organized, developed and successfully completed organizational change management (OCM) programs and activities to include:
 - OCM charter for the TEAM Program;
 - TEAM Advisory Groups;
 - Executive Director and Deputy Director TEAM Huddles with employees;
 - Vendor Meet and Greet and that included a TEAM story board; and
 - Launch of TEAM Connect (OCM intranet site).
- Administered the annual Employee Awards Ceremony to recognize employee service milestones and achievements.
- Automated employee policy distribution and acknowledgments.
- Reviewed and revised key policies related to overtime/compensatory time, criminal background checks, business casual dress, workplace accommodations, family and medical leave act (FMLA), equal employment opportunity, workers' compensation, return to work, and severe weather conditions.
- Provided compliance training mandated by law, regulation or TRS policy to managers and staff.
- Initiated an agencywide compensation and classification review project to review compliance with the agency's compensation program, participated in compensation surveys and presented a review of the Incentive Compensation Plan to the board of trustees.
- Successfully completed the first Leadership Development Program (LDP) and launched the second LDP to enhance the skills of current TRS leaders and develop the skills of potential future TRS leaders.
- Launched NEOGOV, a new online hiring system that has provided efficiencies in the hiring process.



GOALS, OBJECTIVES, STRATEGIES, AND TACTICS

Goals, Objectives, Strategies, and Tactics (GOST)

Over the past several years, TRS has worked to develop a strategic vision and culture that supports the agency's mission and goals. This entails placing a greater emphasis on strategic planning and better utilizing the strategic plan as an agency guiding document. Consistent with this approach, the executive director created the Division of Strategic Initiatives in 2013 to help develop and implement the agency's strategic vision. The goals, objectives, strategies, and tactics (GOST) in this plan represent TRS' continuing effort to decouple its strategic initiatives stated within the strategic plan document from those included as part of the budgetary bill pattern. This decoupling allows TRS to develop a GOST that will help functional areas across the organization focus their energies even more effectively toward achievement of the TRS strategic vision and mission. The GOST has been crafted by the Division of Strategic Initiatives and the business units to complement, rather than replace, the measures currently captured in the appropriations request.

If a specific date is not included for an objective, it is assumed that the objective applies to the entire fiscal year 2015-2019 timeframe. When a target fiscal year is identified, unless otherwise indicated, it is assumed that the objective will be achieved no later than the end of the fiscal year. Statutory citations are not all-inclusive. Other statutes may have bearing on the authority for the stated goal.

GOAL 1: Sustain a financially sound pension trust fund. (*Texas Constitution, Article 16, Section 67*)

Objective G1.01: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years.

Strategy:

G1.01.S1: Monitor trust funding status.

Tactics:

G1.01.S1.T1: Ensure material accuracy of investment valuations quarterly.

G1.01.S1.T2: Ensure ongoing material accuracy of total member, reporting entity and state contributions and benefit distributions.

G1.01.S1.T3: Monitor key actuarial assumptions to include trends in membership growth, salary growth, retirement age, years of service, life expectancy, etc., annually.

G1.01.S1.T4: Develop, establish and maintain a semi-annual risk monitoring process that includes setting thresholds and tolerance levels that require additional reporting and/or monitoring.

Strategy:

G1.01.S2: Foster and maintain an effective working relationship with legislative stakeholders on trust sustainability issues.

Tactics:

G1.01.S2.T1: Develop a comprehensive annual (unless dynamics of underlying assumptions dictate a higher frequency report) trust level report/dashboard designed to educate and inform legislative stakeholders on the following: actuarial evaluation, plan design and the rate of return assumptions with an assessment of the expected return near term relative to current market conditions.

G1.01.S2.T2: Request actuarial required contribution in Legislative Appropriations Request biannually and before each legislative session.

G1.01.S2.T3: Review statutory provisions that enable or impact TRS and agency rules biennially prior to legislative session to identify opportunities to make desired changes.

Strategy:

G1.01.S3: Develop/improve the communication strategy for employer and participant stakeholders with respect to the sustainability of the trust.

Tactics:

G1.01.S3.T1: Develop publications/materials/website content to educate employers and participants and update them annually.

G1.01.S3.T2: Conduct annual briefings/webcasts/town halls to discuss any plan changes and developments to include legislative changes, actuarial changes, TRS organization and strategy, and investment performance impacts.

Objective G1.02: Create a process to develop and implement an investment policy capable of achieving the trust's actuarial assumed rate of return as measured on rolling 20-year periods.

Strategy:

G1.02.S1: Establish and implement an effective investment governance structure.

Tactics:

G1.02.S1.T1: Engage a professional investment management division with clearly delineated roles and obligations on an ongoing basis.

G1.02.S1.T2: Maintain on an ongoing basis board of trustees oversight and delegated authority.

G1.02.S1.T3: Perform regular reporting and review.

G1.02.S1.T4: Perform regular audit and compliance activities.

Strategy:

G1.02.S2: Establish a world-class investment policy statement.

Tactics:

G1.02.S2.T1: Collaborate with board consultants and industry experts in developing investment policy that is reviewed and updated at least every three years, ensuring it is in line with current fiduciary standards.

- G1.02.S2.T2: Communicate policy with relevant stakeholders at least annually.
- G1.02.S2.T3: Explore and characterize the definition of investable securities to enable the largest, potential investible universe and allow for new asset classes that may enhance returns, add diversification value or lower costs by the end of first quarter (Q1) FY 2015.

Objective G1.03: Develop and maintain a sound, professional and systematic risk management and capital allocation system.

Strategy:

G1.03.S1: Establish the trust's asset allocation to meet the return and risk goals as determined by the Investment Policy.

Tactics:

- G1.03.S1.T1: Implement and maintain on an ongoing basis long-term neutral allocation exposures through the purchase of appropriate securities.
- G1.03.S1.T2: Conduct periodic strategic asset allocation studies to reassess the appropriate asset class allocations at least every five years.
- G1.03.S1.T3: Tactically adjust asset class exposures as dictated by current market conditions in order to create additional investment return or reduce the risk exposure(s) on an ongoing basis.

Strategy:

G1.03.S2: Where appropriate, pursue added investment returns through individual security selection.

Tactics:

- G1.03.S2.T1: Determine asset classes where active management will be beneficial to trust returns annually.
- G1.03.S2.T2: In these areas, continue to use and review on an ongoing basis quantitative and qualitative methods to construct portfolios with the goal of producing returns in excess of passive benchmarks.

Strategy:

G1.03.S3: Employ a dedicated investment risk management function to help maintain appropriate risk exposures.

Tactics:

- G1.03.S3.T1: Maintain on an ongoing basis quantitative risk signals monitoring that alerts investment personnel when portfolio adjustments may be needed.
- G1.03.S3.T2: Monitor trust exposures to ensure compliance with risk metrics as set out in Investment Policy.
- G1.03.S3.T3: Review the risk profile of individual investments and investment management firms before any allocation of capital.

Strategy:

G1.03.S4: Ensure investment decisions are properly executed and tracked by maintaining an effective investment operations unit.

Tactics:

G1.03.S4.T1: Conduct monthly performance tracking and reporting to maintain transparency around the pursuit of the investment objectives.

G1.03.S4.T2: Maintain on an ongoing basis process(es) to execute transactions smoothly and in a cost-effective manner.

G1.03.S4.T3: Identify and implement technology resources across the investment division to enhance productivity and decision-making abilities.

G1.03.S4.T4: Review custodian bank relationship at least every six years and actively manage the roles and responsibilities between the trust and the custodian bank to maximize operational efficiencies on an ongoing basis.

Objective G1.04: Create and maintain a highly capable and diversified external network of global investment, trading and consulting relationships.

Strategy:

G1.04.S1: Establish a repeatable certification process for the selection of external investment managers.

Tactics:

G1.04.S1.T1: Maintain a premier list of top tier investment management firms across various asset classes.

G1.04.S1.T2: Follow a comprehensive due diligence process using both quantitative and qualitative metrics and review process on an ongoing basis.

G1.04.S1.T3: Build diversified alpha-seeking portfolios in multiple asset classes (including public equity, private equity, real assets, hedge funds, and energy and natural resources) with high quality managers, inclusive of emerging managers, in attractive investment strategies and opportunities.

Strategy:

G1.04.S2: Develop deep strategic relationships with key external partners.

Tactics:

G1.04.S2.T1: Leverage TRS' competitive advantages to gain preferential access, terms and the alignment of interests on an ongoing basis.

G1.04.S2.T2: Develop customized investment mandates, including those involving multiple products or asset classes.

Strategy:

G1.04.S3: Leverage the resources and intelligence of the external network to complement internal capabilities.

Tactics:

G1.04.S3.T1: Gain access to proprietary research and investment knowledge.

G1.04.S3.T2: Assign customized research projects and conduct surveys of external partners as necessary.

G1.04.S3.T3: Utilize investment consultants for market intelligence and collaboration on manager sourcing, due diligence and investment decisions on an ongoing basis.

Strategy:

G1.04.S4: Use external network to optimize trading and execution.

Tactics:

G1.04.S4.T1: Develop and maintain on an ongoing basis broker relationships to improve market access and optimize transaction costs and research capabilities.

G1.04.S4.T2: Monitor broker trading performance and order implementation on an ongoing basis.

G1.04.S4.T3: Monitor and manage counterparty risks.

GOAL 2: Build and maintain strong, customer-focused relationships. (Section 825.113 (c), (f) and (g), Texas Government Code)

Objective G2.01: Implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by August 2017.

Strategy:

G2.01.S1: Prepare planning documents for pension line of business (LOB) implementation.

Tactics:

G2.01.S1:T1: Develop project schedule. (completed)

G2.01.S1:T2: Develop environment design. (completed)

G2.01.S1:T3: Develop configuration/release management plan. (completed)

G2.01.S1:T4: Develop quality plan. (completed)

Strategy:

G2.01.S2: Validate commitments in LOB RFO and define high-level requirements for phase 1.

Tactics:

G2.01.S2:T1: Conduct internal TRS commitment review sessions. (completed)

G2.01.S2:T2: Conduct high-level requirements sessions. (completed)

G2.01.S2:T3: Develop high-level use cases. (functional organization documents) (completed)

Strategy:

G2.01.S3: Define detailed requirements and use cases for the LOB phase 1.

Tactics:

G2.01.S3:T1: Conduct detail requirement sessions by September 2014.

G2.01.S3:T2: Develop business rule specifications by September 2014.

G2.01.S3:T3: Develop detailed use cases by September 2014.

Strategy:

G2.01.S4: Design, build and test LOB system components for phase 1.

Tactics:

- G2.01.S4:T1: Design modules for employer reporting by December 2014.
- G2.01.S4:T2: Build modules for employer reporting by December 2014.
- G2.01.S4:T3: Test employer reporting modules by January 2015.
- G2.01.S4:T4: Design modules for active membership functionality by June 2015.
- G2.01.S4:T5: Build modules for active membership functionality by June 2015.
- G2.01.S4:T6: Test modules for active membership functionality by August 2015.

Strategy:

G2.01.S5: Ensure that staff and users are properly trained on phase 1 functionality of the new LOB system.

Tactics:

- G2.01.S5:T1: Train internal TRS technical staff on support of LOB application by August 2015.
- G2.01.S5:T2: Train internal TRS business staff on use of LOB application by August 2015.
- G2.01.S5:T3: Train external reporting entities on use of LOB application by August 2015.

Strategy:

G2.01.S6: Go live with phase 1 of the pension LOB system.

Tactics:

- G2.01.S6:T1: Deploy the LOB code to production by September 2015.
- G2.01.S6:T2: Support the LOB application. (ongoing)

Strategy:

G2.01.S7: Validate commitments in LOB RFO and define high-level requirements for phase 2.

Tactics:

- G2.01.S7:T1: Conduct internal TRS commitment review sessions by February 2016.
- G2.01.S7:T2: Conduct high-level requirements sessions by February 2016.
- G2.01.S7:T3: Develop high-level use cases (functional organization documents) by February 2016.

Strategy:

G2.01.S8: Define detailed requirements and use cases for the LOB phase 2.

Tactics:

- G2.01.S8:T1: Conduct detail requirement sessions by June 2016.
- G2.01.S8:T2: Develop business rule specifications by June 2016.
- G2.01.S8:T3: Develop detailed use cases by June 2016.

Strategy:

G2.01.S9: Design, build and test LOB system components for phase 2.

Tactics:

- G2.01.S9:T1: Design the benefits module of the LOB by October 2016.
- G2.01.S9:T2: Build the benefits module of the LOB by October 2016.
- G2.01.S9:T3: Test the benefits module of the LOB by October 2016.
- G2.01.S9:T4: Design the member self-service modules of the LOB by February 2017.
- G2.01.S9:T5: Build the member self-service modules of the LOB by February 2017.
- G2.01.S9:T6: Test the member self-service modules of the LOB by February 2017.

Strategy:

G2.01.S10: Ensure that staff and users are properly trained on phase 2 functionality of the new LOB system.

Tactics:

- G2.01.S10:T1: Train internal TRS technical staff on support of LOB application phase 2 by April 2017.
- G2.01.S10:T2: Train internal TRS business staff on use of LOB application phase 2 by April 2017.
- G2.01.S10:T3: Provide documentation, videos and help for members on LOB web-self-service functionality by April 2017.

Strategy:

G2.01.S11: Go live with phase 2 of the pension LOB system.

Tactics:

- G2.01.S11:T1: Deploy phase 2 code to production by May 2017.
- G2.01.S11:T2: Support the LOB application. (ongoing)

Strategy:

G2.01.S12: Prepare TRS data for migration to the new pension LOB system.

Tactics:

- G2.01.S12:T1: Assess data (ongoing) to determine readiness for migration by April 2017.
- G2.01.S12:T2: Condition data (ongoing) prior to migration by April 2017.

Strategy:

G2.01.S13: Develop detailed requirements and envision functionality for the new financial system.

Tactics:

- G2.01.S13:T1: Receive training on new application. (completed)
- G2.01.S13:T2: Prototype system. (completed)
- G2.01.S13:T3: Prepare implementation analysis documents. (completed)

Strategy:

G2.01.S14: Design, build and test the new financial system.

Tactics:

- G2.01.S14:T1: Design system by Q2 2015.
- G2.01.S14:T2: Build system by Q2 2015.

G2.O1.S14:T3: Test system by Q3 2015.

G2.O1.S14:T4: Training on new system by Q3 2015.

G2.O1.S14:T5: Implement new system by September 2015 (financials) and January 2016 (human resources).

Objective G2.02: Continuously improve quality of work and customer service levels for our participants.

Strategy:

G2.O2.S1: Explore, review and consider relevant industry benchmarks that encourage service excellence.

Tactics:

G2.O2.S1:T1: Research and develop draft report on potential customer service metrics and benchmarks, including metrics captured as part of the TEAM Program goals, by the end of Q1 FY 2015.

G2.O2.S1:T2: Gather divisional management responses to identified metrics within eight weeks from delivery of draft report.

G2.O2.S1:T3: Present final report to Executive Council by the end of Q2 FY 2015 for determination of next steps as appropriate.

Strategy:

G2.O2.S2: Provide and maintain accurate, timely and consistent information to participants, reporting entities and other stakeholders in line with customer service benchmarks.

Tactics:

G2.O2.S2:T1: Provide and document quality training programs.

G2.O2.S2:T2: Provide quality resources and tools.

G2.O2.S2:T3: Provide targeted communications on a regular basis.

G2.O2.S2:T4: Conduct and publish independent review and audits in accordance with best practices.

Objective G2.03: Develop and maintain ongoing stakeholder information and education to support the mission of TRS and provide excellence in our response.

Strategy:

G2.O3.S1: Provide (TRS) mission-centric and broader communication to stakeholders.

Tactics:

G2.O3.S1:T1: Document and update an agencywide communication plan annually.

G2.O3.S1:T2: Establish a cross section of relevant departments to develop and implement a strategy to improve stakeholder communication, including personal financial education.

Strategy:

G2.O3.S2: Continue to improve inquiry responsiveness to help participants make better financial, retirement and health care decisions.

Tactics:

G2.03.S2:T1: Authorize and train employees to expand their responsiveness to address broader or unasked questions from participants.

G2.03.S2:T2: Identify and review FAQs on at least a semi-annual basis and develop responsive informational/educational materials as needed.

G2.03.S2:T3: Identify all mediums used to submit questions to TRS, from participants and stakeholders.

Strategy:

G2.03.S3: Leverage technological advances to assist with communication of information.

Tactics:

G2.03.S3:T1: Offer Web links to supplemental information updated at least quarterly.

G2.03.S3:T2: Review the use of social media semi-annually to improve communications.

G2.03.S3:T3: Review and update or develop if necessary, Web-based education programs as needed but no later than annually.

G2.03.S3:T4: Conduct semi-annual review of emerging technology.

GOAL 3: Facilitate access to competitive, reliable health care benefits for our members. *(Sections 1575.051 and 1575.052, Texas Insurance Code)*

Objective G3.01: Manage the revenues and expenses of TRS-Care and TRS-ActiveCare.

Strategy:

G3.01.S1: Improve revenue to TRS-Care and TRS-ActiveCare.

Tactics:

G3.01.S1:T1: Develop and deliver education to the legislature prior to the start of each legislative session.

G3.01.S1:T2: Monitor and pursue available revenue streams on an ongoing basis.

G3.01.S1:T3: Request funding through an exceptional item in the Legislative Appropriations Request prior to the start of each legislative session.

Strategy:

G3.01.S2: Manage the expenses of TRS-Care and TRS-ActiveCare.

Tactics:

G3.01.S2:T1: Engage actuaries and monitor fund balances monthly on both a cash and incurred basis.

G3.01.S2:T2: Monitor claims billing and payment disbursements on an ongoing basis.

G3.01.S2:T3: Identify and deliver proactive health care approaches which will help lower expenses on an ongoing basis.

Objective G3.02: Research and communicate the merits of varied solutions that contribute to the long-term sustainability of access to health care for our participants.

Strategy:

G3.02.S1: Communicate and promote the TRS-Care and TRS-ActiveCare sustainability study.

Tactics:

G3.02.S1:T1: Engage with our stakeholders (e.g., legislature, relevant entities, participants and Retiree Advisory Committee) prior to Jan. 1, 2015.

G3.02.S1:T2: Prepare legislative materials prior to the start of each legislative session.

Strategy:

G3.02.S2: Implement any legislative changes related to the access to health care.

Tactics:

G3.02.S2:T1: Adopt necessary agency rules after each legislative session.

G3.02.S2:T2: Provide notice and informational materials to participants and interested parties regarding legislative changes within six months of the effective date.

GOAL 4: Attract, retain and develop a highly competent staff. (Sections 825.208 , 825.211, 825.212, and 825.213, Texas Government Code)

Objective G4.01: Develop and maintain a desirable work environment.

Strategy:

G4.01.S1: Promote a strong workplace culture that exemplifies TRS' core values and emphasizes TRS' mission.

Tactics:

G4.01.S1:T1: Communicate and promote core values through the quarterly recognition program and annual Golden Apple Awards.

G4.01.S1:T2: Perform annual reviews of performance evaluations and 360 assessments (where applicable) and take appropriate action to ensure alignment with core values and TRS mission and update job descriptions as necessary.

G4.01.S1:T3: Solicit employee feedback to assess employee satisfaction/engagement, quality of internal customer service and quality of management at least annually.

G4.01.S1:T4: Review feedback from employee surveys and identify opportunities for improvement at least annually.

Strategy:

G4.01.S2: Provide a physical work environment that is safe and enhances productivity.

Tactics:

G4.01.S2:T1: Refresh and update TRS facilities as needed and explore options for providing personal space for employees (e.g. creating lactation rooms or wellness areas, exploring phone booths for personal calls, etc.) by the end of FY 2016.

G4.01.S2:T2: Determine and provide an optimal level of technology and resources that is reviewed annually to allow TRS to enhance productivity.

G4.01.S2:T3: Explore and decide on options for alternate work arrangement program (e.g. working from home or teleworking, job sharing, etc.) by the end of FY 2015.

G4.01.S2:T4: Research and decide on options regarding effective space utilization.

G4.01.S2:T5: Review and evaluate safety measures and implement additional measures as needed. (ongoing)

Objective G4.02: Develop an effective recruitment/retention strategy and a competitive total rewards package.

Strategy:

G4.02.S1: Develop and execute the workforce plan.

Tactics:

G4.02.S1:T1: Conduct gap analysis every two years.

G4.02.S1:T2: Conduct an ongoing review of job descriptions and postings to reflect needs identified in the workforce plan.

G4.02.S1:T3: Develop targeted recruiting to address gaps as needed.

G4.02.S1:T4: Create and implement a succession planning program by the end of FY 2016.

Strategy:

G4.02.S2: Expand recruitment efforts.

Tactics:

G4.02.S2:T1: Use Web resources to expand social media channels by the end of FY 2015.

G4.02.S2:T2: Explore options for an employee referral process by the end of FY 2016.

G4.02.S2:T3: Enhance marketing strategies that highlight TRS' strengths as an employer on an ongoing basis.

G4.02.S2:T4: Expand and enhance the internship program to attract quality candidates annually.

G4.02.S2:T5: Explore the use of external search firms to enhance the ability to attract and retain high-quality candidates.

Strategy:

G4.02.S3: Identify and implement successful strategies to retain and promote top-performing employees and managers.

Tactics:

G4.02.S3:T1: Research top employee rated retention strategies by the end of FY 2017.

G4.02.S3:T2: Evaluate and implement retention strategies based on career stage by the end of FY 2017.

Strategy:

G4.02.S4: Provide employee development opportunities.

Tactics:

G4.02.S4:T1: Establish and communicate career advancement opportunities quarterly.

G4.02.S4:T2: Enhance leadership development program on an ongoing basis.

G4.02.S4:T3: Design and implement a mentorship program by the end of FY 2016.

G4.02.S4:T4: Continue to provide education and/or training opportunities and resources and track annually (e.g., tuition reimbursement, certification courses, etc.).

Strategy:

G4.02.S5: Review, update and enhance TRS' compensation and total rewards package.

Tactics:

G4.02.S5:T1: Conduct a gap analysis on TRS' total rewards package by the end of FY 2016 and review biennially thereafter.

G4.02.S5:T2: Execute a structured process to develop a compensation strategy that includes input from executive leadership, management and Human Resources by the end of FY 2016.

G4.02.S5:T3: Continue to conduct reviews of positions to determine the market competitiveness with similar positions in the private and public sector, using TRS' compensation strategy as a guideline and review as needed.

G4.02.S5:T4: Develop and implement a communications plan to promote TRS' total rewards package by the end of the sixth month following adoption of the plan.

G4.02.S5:T5: Implement approved changes to the rewards package. (ongoing)

GOAL 5: Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized businesses (HUBs). *(Section 825.514 and Chapter 2161, Texas Government Code)*

Objective G5.01: Provide contracting opportunities for HUBs that result in TRS' overall total value of purchasing contracts expended with HUBs exceeding the aggregate State of Texas HUB expenditure performance.

Strategy:

G5.01.S1: Develop and implement a plan for increasing the use of HUBs through purchasing contracts and subcontracts.

Tactics:

G5.01.S1:T1: Follow CPA guidelines on soliciting HUBs. (over \$5,000 - contact at least one minority-owned and one woman-owned HUB and over \$25,000 - contact all CMBL vendors [including HUBs] for class, item, and geographic region)

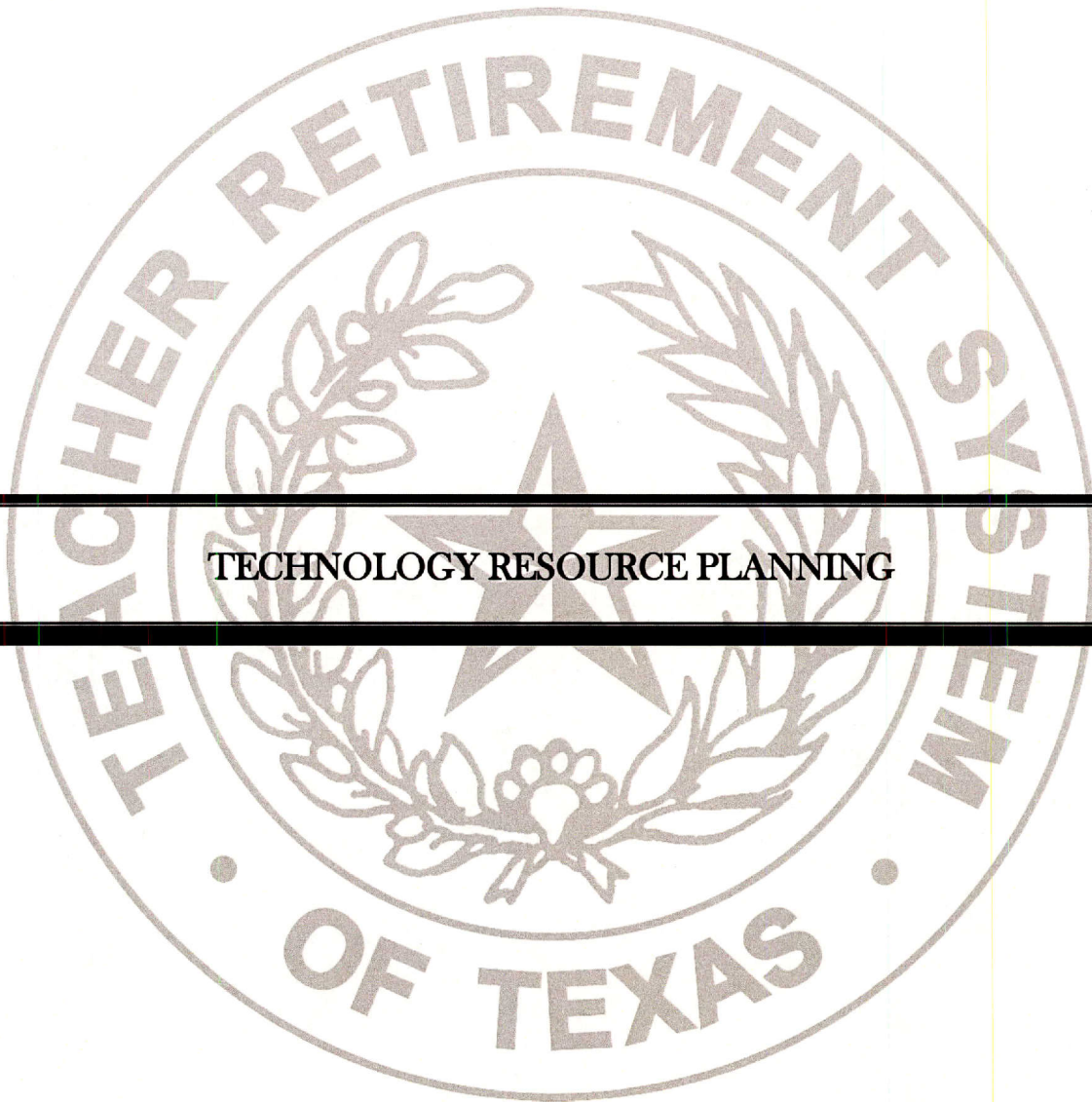
G5.01.S1:T2: Require HUB subcontracting plans for purchases over \$100,000 whenever possible.

G5.01.S1:T3: Solicit HUBs from existing statewide contracts when possible.

G5.01.S1:T4: Attend HUB forums.

G5.O1.S1:T5: Conduct an annual HUB forum.

G5.O1.S1:T6: Assist HUBs when inquiring on how to do business with TRS. (Provide *12 Tips* and *How to Do Business with the State* presentations)



TECHNOLOGY RESOURCE PLANNING

Sec. 825.101 and Sec. 825.103 (e) of the Texas Government Code exempts TRS from the directives of the Department of Information Resources (DIR) and stipulations put forth in the state strategic plan. TRS does, however, carefully consider the objectives set forth in the plan, voluntarily pursuing them to the extent possible when feasible and beneficial from an organizational perspective. The responses provided here describe TRS' efforts at voluntary compliance where applicable.

TECHNOLOGY INITIATIVE ASSESSMENT AND ALIGNMENT

Technology Initiative Assessment and Alignment describes how technology will be deployed within TRS to address its organizational objectives. For the purpose of this section, a technology initiative is defined as a current or planned activity that will improve, expand, or significantly change the way information technology (hardware, software, and services) is used to support one or more of TRS' objectives.

1. Initiative Name: TRS Enterprise Application Modernization (TEAM) Program

1.1. Initiative Description: Brief description of the technology initiative.

The TEAM Program is a cohesive collection of components designed to meet the business and technology objectives of TRS over the next 10-20 years. The TEAM Program focuses on addressing the changing expectations of a growing membership, providing for the collection and maintenance of accurate and reliable data, expanding the number of automated processes and incorporating modern technologies. The TEAM Program will re-engineer business processes, reduce manual processes, revise policies and provide new ways of working together. The TEAM Program will also deliver tools and techniques that will position TRS to have flexibility in updating its systems in response to growing member demands and future technological and regulatory changes.

1.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
Data Management Project	In progress through FY 2016
Financial Systems Replacement	In progress through FY 2016
Independent Project Assessment	In progress through FY 2017
Pension Administration Line of Business Solution	In progress through FY 2017



Decommissioning of Legacy Systems	In progress through FY 2017
Business Procedures and Training	In progress through FY 2017
Website Redesign Project	In progress through FY 2016

1.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by improving external communications and service delivery, streamlining internal work processes for greater efficiency, modernizing the technical environment to ensure proper support and needed tools and staffing technical positions to ensure the proper skill sets are in place for the future. It also supports replacing the legacy financial and human resources information systems and manual processes with a commercial off-the-shelf package.

1.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|---|--|
| <ul style="list-style-type: none"> • P1 – Security and Privacy • P2 – Cloud Services • P3 – Legacy Modernization • P4 – Business Continuity • P5 – Enterprise Planning and Collaboration | <ul style="list-style-type: none"> • P6 – IT Workforce • P7 – Virtualization • P8 – Data Management • P9 – Mobility • P10 – Network |
|---|--|

- | | |
|---|---|
| <ul style="list-style-type: none"> P1 – Security and Privacy P2 – Cloud Services P3 – Legacy Modernization P4 – Business Continuity P5 – Enterprise Planning and Collaboration | <ul style="list-style-type: none"> P7 – Virtualization P8 – Data Management P9 – Mobility P10 – Network |
|---|---|

1.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The TEAM Program will replace legacy information systems and provide flexible systems that allow TRS staff to be more effective in servicing TRS members and annuitants. It will improve internal business processes to better meet increasing demands of a growing membership and leverage leading technology services and tools. TEAM will address increasing membership demands for online self-service. TRS will maintain trust and member confidence through this initiative which supports the agency's strategic plan of timely delivery of benefit services to its membership.

1.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

TRS will provide member and annuitant satisfaction through better service delivery, quality, and processing speed. When the project is complete, TRS will have upgraded financial, human resources, and pension administration systems running on modern technology. Agency risk will be reduced by replacing aging legacy systems and implementing accurate data and system security through modern technologies. System flexibility will allow more effective compliance with state and federal regulations. This initiative will build the technology foundation to better implement operational improvements necessary to be more responsive to our membership. The TEAM Program will deliver tools and techniques that will position TRS to have flexibility in updating our systems in response to growing member demands and future technological and regulatory changes.

1.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency’s ability to successfully implement the technology initiative.

Capabilities: TRS is doing its due diligence in effectively planning the TEAM Program and maintaining its scope. The agency currently has executive sponsorship and TRS Board of Trustees approval to implement this technology initiative.

Barriers: Lack of skill sets for new technologies.

2. Initiative Name: PC Workstation Refresh

2.1. Initiative Description: Brief description of the technology initiative.

The PC Workstation Refresh is an ongoing initiative focused on upgrading outdated hardware technology. TRS has a Desktop Refresh policy that sets standards for replacing PC and laptop computer systems every two to four years depending on its placement and user requirements. TRS employees that require increased mobility will be transitioned, during the refresh, from desktop PCs to laptop docking stations. This effort supports increased functionality, performance, and reliability of the desktop computing environment.

2.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency’s Information Technology Detail.

Name	Status
PC Workstation Refresh	In progress through FY 2019

2.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.

2.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|---|--|
| <ul style="list-style-type: none"> • P1 – Security and Privacy • P2 – Cloud Services • P3 – Legacy Modernization • P4 – Business Continuity • P5 – Enterprise Planning and Collaboration | <ul style="list-style-type: none"> • P6 – IT Workforce • P7 – Virtualization • P8 – Data Management • P9 – Mobility • P10 – Network |
|---|--|

P9 - Mobility

2.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The PC Workstation Refresh insures that TRS has an adequate desktop computing environment needed to perform and run the required applications that support the timely delivery of benefit services to our membership and the agency’s investment responsibilities.

2.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

The PC Workstation Refresh expects to provide member customer satisfaction through service delivery and quality and allows for future operational improvements.

2.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency’s ability to successfully implement the technology initiative.

None identified at this time.

3. Initiative Name: Telecommunications Upgrade

3.1. Initiative Description: Brief description of the technology initiative.

The Telecommunications Upgrade is an ongoing initiative composed of the following two parts:
Part A - Telecommunications Infrastructure Upgrade - supports the upgrade, development and maintenance of the TRS Telecommunications Infrastructure including the PBX/CBX, Integrated Voice Response (IVR) systems, virtual queuing, quality monitoring, advanced skills-based routing and unified messaging systems. This project supports the development and implementation of voice over Internet protocol (VoIP) such as soft phone technology and new telephone devices to support investments and member benefits functions. It also expands the use of mobile devices throughout the enterprise. This project supports the agency's strategic plan to deliver timely benefit services to our membership and to perform its investment responsibilities.

Part B – Network Infrastructure Upgrade - supports the development and maintenance of the TRS client/server environment which includes: upgrading existing servers for investment and benefit applications; expanding and improving enterprise messaging; enhancing information security; building redundant systems eliminating single points of failure; expanding network storage to meet business demand; upgrading network routing and switches for improved functionality, performance and stability, and improving reliability and management of the client server environment. This project supports the agency's strategic plan in the timely delivery of benefit services to our membership and to perform its investment responsibilities.

3.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.

Name	Status
Telecommunications Infrastructure Upgrade	In progress through FY 2019
Network Infrastructure Upgrade	In progress through FY 2019

3.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.

3.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|---|--|
| <ul style="list-style-type: none"> • P1 – Security and Privacy • P2 – Cloud Services • P3 – Legacy Modernization • P4 – Business Continuity • P5 – Enterprise Planning and Collaboration | <ul style="list-style-type: none"> • P6 – IT Workforce • P7 – Virtualization • P8 – Data Management • P9 – Mobility • P10 – Network |
|---|--|

P1 – Security and Privacy
 P2 – Cloud Services
 P4 – Business Continuity
 P7 – Virtualization

P8 – Data Management
 P9 – Mobility
 P10 - Network

3.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The telecommunications upgrade insures that TRS has the required voice and data infrastructure to support core applications and services needed to provide timely delivery of benefit services to our membership and to perform the agency’s investment responsibilities.

3.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

The telecommunications upgrade expects to provide member satisfaction through service delivery and enhanced quality. Security will be improved and this initiative will allow for future operational improvements.

3.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency’s ability to successfully implement the technology initiative.

None identified at this time.

4. Initiative Name: Mainframe & Peripheral Upgrades

4.1. Initiative Description: Brief description of the technology initiative.

This is an ongoing initiative that supports upgrading and expanding the TRS enterprise server and peripherals to reduce capacity constraints and issues with compatibility and obsolescence.

4.2. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency’s Information Technology Detail.

Name	Status
Mainframe & Peripheral Upgrade	In progress through FY 2019

4.3. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.

This initiative supports the agency's objective to implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by modernizing the technical environment to ensure proper support and needed tools.

4.4. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.

- | | |
|---|--|
| <ul style="list-style-type: none"> • P1 – Security and Privacy • P2 – Cloud Services • P3 – Legacy Modernization • P4 – Business Continuity • P5 – Enterprise Planning and Collaboration | <ul style="list-style-type: none"> • P6 – IT Workforce • P7 – Virtualization • P8 – Data Management • P9 – Mobility • P10 – Network |
|---|--|

P1 – Security and Privacy
P3 – Legacy Modernization

P4 – Business Continuity
P8 – Data Management

4.5. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:

- Connect – expanding citizen access to services
- Innovate – leveraging technology services and solutions across agencies
- Trust – providing a clear and transparent accounting of government services and data
- Deliver – promoting a connected and agile workforce

The mainframe and peripheral upgrade insures that TRS has an adequate mainframe computing environment needed to perform and run the required applications that support the timely delivery of benefit services to our membership.

4.6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include:

- Operational efficiencies (time, cost, productivity)
- Citizen/customer satisfaction (service delivery quality, cycle time)
- Security improvements
- Foundation for future operational improvements
- Compliance (required by state/federal laws or regulations)

The mainframe and peripheral upgrade expects to provide member satisfaction through service delivery and enhanced quality. It also allows for future operational improvements.

4.7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.

None identified at this time.



APPENDICES

APPENDIX A – DESCRIPTION OF AGENCY PLANNING PROCESS

TRS follows a standardized methodology for preparing its Strategic Plan as set forth by the Governor's Office of Budget, Planning and Policy and the Legislative Budget Board. During this strategic planning cycle however, TRS took additional steps toward a more extensive planning approach that involved expanding TRS goals and objectives, and developing meaningful strategies and tactics, which are specific approaches to achieve the goals and objectives. This effort goes well beyond the requirements associated solely with the legislative appropriations process. The additional steps taken will help ensure that functional areas from across the organization focus their energies even more effectively toward achievement of the TRS mission.

The TRS strategic planning process is reflected in the below action items:

1. Review and modify goals and objectives by the Executive Council at the annual planning retreat.
2. Assemble a cross functional team from all divisions to discuss and formulate strategies and tactics in support of the goals and objectives.
3. Seek input and approval from the executive council for the newly articulated strategies and tactics.
4. Assign responsibility for updating sections of the strategic plan based on expertise in that subject matter.
5. Review pertinent internal documentation. This may include the following:
 - Current and past strategic plans;
 - *Comprehensive Annual Financial Report(s)* (CAFR);
 - *Actuarial Valuation Report(s)*;
 - Legislative appropriations request;
 - Current operational budget;
 - Any specially prepared reports from the prior biennium; and/or
 - Archived project materials from previous strategic planning projects.
6. Review pertinent external documentation. This may include the following:
 - Instructions for Preparing and Submitting Agency Strategic Plans;
 - Budget preparation instructions;
 - State strategic plan for information resources;
 - Other agency strategic plans; and/or
 - State economic and population projections.
7. Review other external information sources related to pensions and investment, education, labor markets, etc.
8. Solicit input from members of the TRS Board of Trustees and external stakeholders including educational associations.
9. Review findings of the *Survey of Employee Engagement (SEE)*. The *SEE* is a formal survey of TRS staff, which provides valuable insights into their perceptions of numerous aspects of TRS operations from an internal perspective.

10. Review findings of the biennial *Member Satisfaction Survey*. The *Member Satisfaction Survey* is a formal survey distributed to a representative sample of active members and retirees soliciting their responses to questions relating to multiple facets of TRS' organizational effectiveness and customer service.
11. Prepare ancillary documents in conjunction with preparation of the main body of the strategic plan. This information is included as an extract or in the appendices and is prepared by those areas directly responsible (e.g., Workforce Plan – Human Resources Department).
12. Prepare initial draft for executive review. An initial draft of the strategic plan is submitted to the executive council for review and comment.
13. Incorporate executive council modifications and prepare final draft. The final draft is distributed to the executive director and deputy director for final review.
14. Final approval. Any additional changes proposed by the executive director and/or deputy director are incorporated followed by sign-off by the board chair and executive director.
15. Print and distribute the strategic plan. Copies of the plan are printed and distributed in accordance with the instructions. The plan is also posted to the TRS website.

Strategic Planning Steering Committee/Executive Council

Brian Guthrie	Executive Director
Ken Welch	Deputy Director
Amy Barrett	Chief Audit Executive
Janet Bray	Director of Human Resources
Carolina de Onís	General Counsel
Howard Goldman	Director of Communications
Don Green	Chief Financial Officer
Britt Harris	Chief Investment Officer
Betsey Jones	Chief Health Care Officer
Rebecca Merrill	Director of Strategic Initiatives
Amy Morgan	Chief Information Officer
Ray Spivey	Director of Governmental Relations
Marianne Woods Wiley	Chief Benefit Officer

Strategic Planning Team

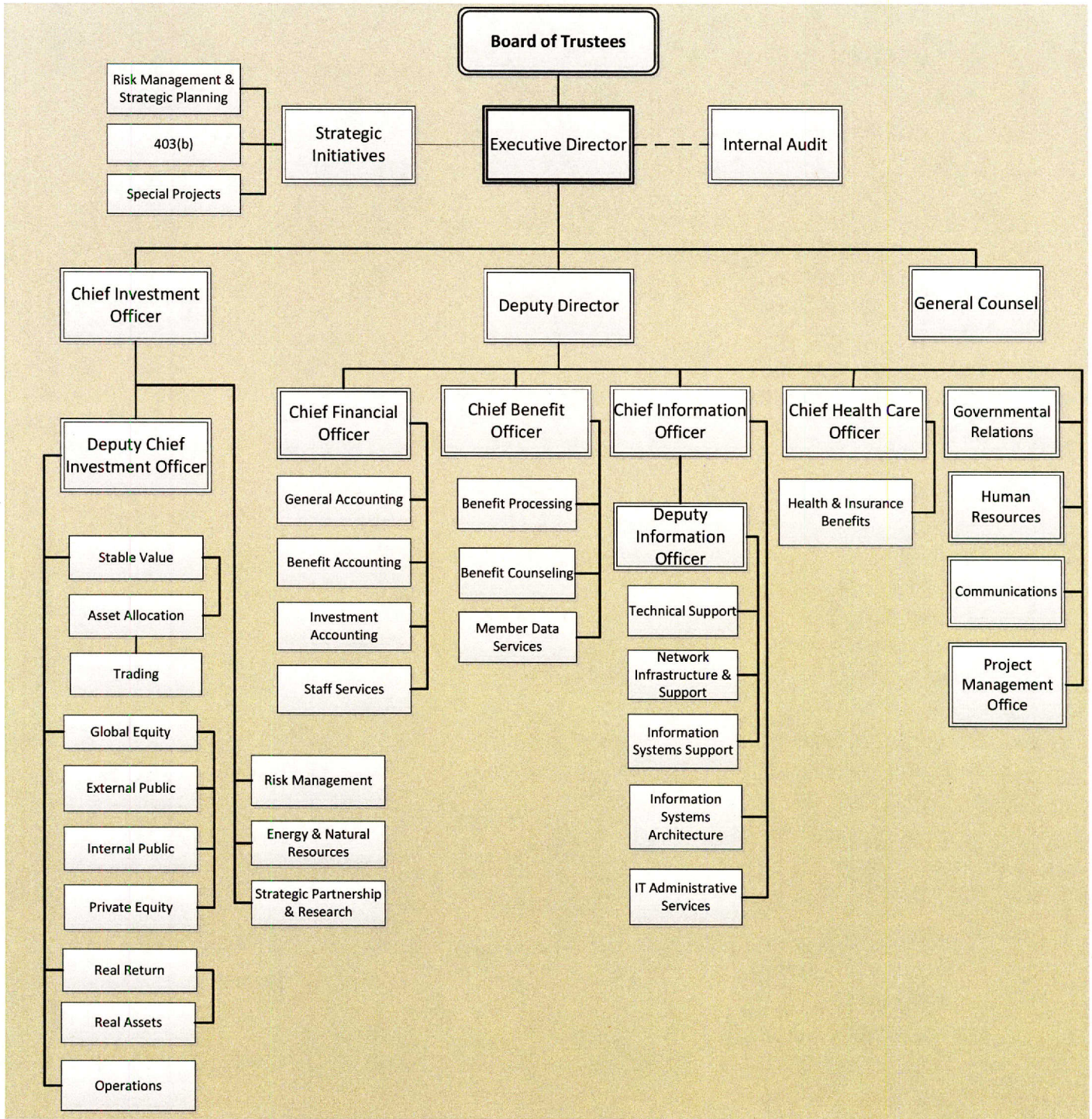
Tommy Albright	Chet Henry	Kathy Mynar
Christine Bailey	Dan Herron	Mike Pia
Will Burgess	Al Huebel	Shunne Powell
Patrick Cosgrove	Scot Leith	Beckie Smith
Janie Duarte	Lulu Llano	Mark Telschow
Edward Esquivel	Rebecca Merrill	Merita Zoga

Strategic Planning Support

The following individuals provided valuable support to the strategic planning effort through direct contribution or consultation during the development process.

Michelle Bertram	Juliana Helton	James Pinkard
Tina Carnes	Bob Jordan	Rhonda Price
Denise Childress	Stan Korn	Gayle Rainwater
Amber Conrad	Caasi Lamb	Cristi Rendon
John Dobrich	Jay LeBlanc	Maria Rodriguez
Jennifer Downey	Sam Martin	Jim Smith
Michelle Gray	Patricia Moraw	Andrea Torrez
Tom Guerin	Michelle Pagán	

APPENDIX B – TRS ORGANIZATION CHART





APPENDIX C – PROJECTED OUTCOMES: FY 2015 – FY 2019 PLANNING PERIOD

Performance Measure	Projections				
	2015	2016	2017	2018	2019
<i>Objective: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years and generates a 20-year average investment return equal to or exceeding the board approved actuarial rate of return.</i>					
OUTCOME MEASURES					
▶ Number of years to amortize the TRS retirement fund unfunded actuarial accrued liability	<31 years	<31 years	<31 years	<31 years	<31 years
▶ TRS retirement fund 20-year average, time-weighted rate of return on investment performance	8%	8%	8%	8%	8%
▶ Investment performance relative to board approved benchmark	100%	100%	100%	100%	100%
▶ TRS retirement fund benefit administration annual operating expense per member and annuitant in dollars	\$28	\$28	\$29	\$29	\$30
▶ TRS retirement fund investment expense as basis points (bp) of net assets	23bp	25bp	26bp	26bp	26bp
▶ Service level percentage for calls answered in a specified time interval	80%	80%	80%	80%	80%
OUTPUT MEASURES					
▶ Number of TRS benefit applications processed	72,000	72,000	72,000	72,000	72,000
▶ Number of TRS retirement fund member accounts serviced	10,142,243	10,243,666	10,346,102	10,449,563	10,554,059
▶ Percent of TRS retirees whose first annuity is paid when it is first due	98%	98%	98%	98%	98%



<i>Performance Measure</i>	Projections				
	2015	2016	2017	2018	2019
<i>Objective: To administer a health care program for public education retirees.</i>					
<i>OUTCOME MEASURES</i>					
▶ Participation rate in Disease Management Program by non-Medicare enrollees	5%	5%	5%	5%	5%
▶ Generic substitution rate for TRS-Care prescription drug benefits	98%	98%	98%	98%	98%

APPENDIX D – PERFORMANCE MEASURE DEFINITIONS

The performance measure definitions presented below are those associated with the TRS legislative appropriations request and the General Appropriations Act. They are separate and distinct from the performance measures included in the 'Goals, Objectives, Strategies, and Tactics' section of this strategic plan document.

Agency:	Teacher Retirement System
Goal:	To administer the system as an Employee Benefit Trust.

Objective: To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years and generates a 20-year average investment return equal to or exceeding the board approved actuarial rate of return.

Outcome Measure: Number of years to amortize the TRS retirement fund unfunded actuarial accrued liability

Definition:	This measure reflects the number of future years required to pay off or eliminate the retirement fund unfunded actuarial accrued liability (UAAL) based on the actuarial assumptions and assuming no future actuarial gains or losses.
Purpose/Importance:	This measure is important because it determines when the UAAL can reasonably be expected to be funded or amortized over a determinable number of years. This funding or amortization can only be accomplished when there is excess of total contributions over the normal cost of expected benefits.
Source/Collection of Data:	The source is the actuarial valuation report issued by the consulting actuary after the end of the fiscal year. Data is collected from the retirement fund membership data records and the financial data at fiscal year-end.
Method of Calculation:	Required data is forwarded to the consulting actuary who conducts an actuarial valuation by performing an analysis of the data and subjecting it to board approved actuarial assumptions.
Data Limitations:	The actuarial valuation is completed at the end of every fiscal year. Membership data is collected at fiscal year-end only. Financial data is calculated and audited at fiscal year-end only.
Calculation Type:	Noncumulative
New Measure:	No
Target Attainment:	Lower than target



Outcome Measure: TRS retirement fund five-year average time-weighted rate of return on investment performance.

Definition:	This measure shows investment returns calculated on a time-weighted basis for all retirement fund investments and reflects income and realized/unrealized price changes.
Purpose/Importance:	The investment rate of return is an important factor in determining the ability of the retirement fund to meet its funding obligations.
Source/Collection of Data:	Investment financial data is from the retirement fund fiscal year-end accounting records.
Method of Calculation:	Reported investment returns are calculated by the investment custodian based on data provided from the fiscal year-end retirement fund accounting records.
Data Limitations:	The data is dependent on investment market fluctuations, specifically at fiscal year-end.
Calculation Type:	Noncumulative
New Measure:	No
Target Attainment:	Higher than target

Outcome Measure: Investment performance relative to board approved benchmark.

Definition:	This measure would report actual investment performance, net of fees, compared to the annual board-adopted performance benchmark.
Purpose/Importance:	This measure reflects the value added by the Investment Management Division's investment strategy.
Source/Collection of Data:	Investment financial data collected from the retirement fund custodian for the period ended June 30.
Method of Calculation:	The total investment return of the Pension Trust Fund (as expressed by a percentage) divided by the Total Fund Index benchmark (as expressed by a percentage) and adopted by the TRS Board of Trustees and reported in the <i>Comprehensive Annual Financial Report</i> (CAFR).
Data Limitations:	The data is dependent on the timing of valuations and index availability.
Calculation Type:	Noncumulative
New Measure:	No
Target Attainment:	Higher than target

Outcome Measure: TRS retirement fund benefit administration annual operating expense per member and annuitant in dollars

Definition:	This measure reflects the annual cost per member and annuitant to operate the retirement fund benefit administration.
Purpose/Importance:	This measure provides a method to compare operating efficiencies from year-to-year and comparison to other public retirement funds.
Source/Collection of Data:	The source is the fiscal year-end financial data, member data, and annuitant data. The retirement fund fiscal year-end accounting data for the operating expenses is based on generally accepted accounting principles (GAAP), GAAP investment expenses and total members and annuitants.
Method of Calculation:	This measure is calculated by dividing the retirement fund benefit administration generally accepted accounting principle basis operating expenses, excluding GAAP investment expenses, by the total number of members and annuitants.
Data Limitations:	The fiscal year-end financial and membership data required to calculate the final cost per member are not available in time to meet the deadline for submitting this measure. Preliminary data must be used and the final data provided by December following the close of the fiscal year.
Calculation Type:	Noncumulative
New Measure:	No
Target Attainment:	Lower than target

Outcome Measure: TRS retirement fund investment expense as basis points of net assets

Definition:	This measure shows the annual retirement fund investment expenses as a percent of net assets.
Purpose/Importance:	This calculation provides a method to compare investment operating efficiencies from year-to-year and comparison to other public retirement funds.
Source/Collection of Data:	This measure uses the retirement fund fiscal year-end financial data.
Method of Calculation:	This measure is calculated by dividing retirement fund generally accepted accounting principle basis investment expenses as reported in the <i>TRS CAFR</i> , Schedule of Investing Activity Expenses, by the net assets held in trust for pension plan benefits. A basis point is one one-hundredth of one percent, or 0.01 percent.
Data Limitations:	The financial data required to calculate the final basis points is not available in time to meet the deadline for submitting this measure. A preliminary basis point must be used and the final basis point provided by December following the close of the fiscal year.

Calculation Type: Noncumulative
New Measure: No
Target Attainment: Lower than target

Outcome Measure: Service level percentage for calls answered in a specified time interval

Definition: This measure provides the percentage of telephone calls answered within the service level interval as defined in the Unify OpenScape Contact Center application. The current service level interval is set at three minutes. Therefore, TRS Benefit Counselors attempt to answer 80 percent of telephone calls received on the toll-free telephone line within three minutes of being released from the automated telephone system.

Purpose/Importance: This measure provides an industry standard manner of measuring the performance of the TRS Telephone Counseling Center while taking into account the unpredictability of call volume fluctuations and day-to-day staffing levels.

Source/Collection of Data: The source of the data is the Unify OpenScape Contact Center Application Suite, a real-time Contact Center Management System utilizing skills-based routing. The data is collected by this application from the Unify Hipath 4000 Telephone System utilizing CTI (Computer Telephone Integration) and ACD (Automatic Call Distribution) capabilities. The measure is obtained through the reporting capabilities of the Unify OpenScape Contact Center Manager application.

Method of Calculation: The measure is displayed using the reporting capabilities of the Unify OpenScape Contact Center Manager application. The service level percentage is part of the Queue Summary report which is run each month and year-to-date throughout the fiscal year. On this report, the service level percentage is shown for all calls answered by the Telephone Counseling Center. The service level percentage is calculated by dividing the number of calls successfully answered within the service level interval by the total number of calls answered plus total abandoned calls.

Data Limitations: The data is limited by the number of telephone calls that can be received on the toll-free line during the telephone center business operating hours.

Calculation Type: Noncumulative
New Measure: No
Target Attainment: Higher than target

Strategy: Provide services to members, manage investments, and administer TRS retirement fund.

Output Measure: Number of TRS benefit applications processed

Definition:	This measure provides the number of benefit claim applications for service and disability retirement, refunds and death claims processed by TRS.
Purpose/Importance:	This measure provides a year-to-year comparison of growth in applications processed by TRS.
Source/Collection of Data:	Information is collected through TRS computer applications and taken from various reports referenced in TRS procedures specific to this measure.
Method of Calculation:	To calculate the number of TRS benefit applications processed, the number of refunds processed, the number of death claims closed during the month and the number of files added to payroll during a month, all taken from reports referenced in procedures related to this measure, are added together to determine the total number of benefit applications processed.
Data Limitations:	Benefit applications received must have all required documentation properly executed prior to processing the benefit payment requested. Reporting entities must have remitted a member's final retirement contribution to TRS prior to processing the benefit payment.
Calculation Type:	Cumulative
New Measure:	No
Target Attainment:	Not applicable

Output Measure: Number of TRS retirement fund member accounts serviced

Definition:	This measure shows the number of member retirement deposits applied to individual member accounts each fiscal year.
Purpose/Importance:	This measure provides a year-to-year comparison of the growth in transaction activity.
Source/Collection of Data:	The source is the member records accounting system report. The transaction numbers are accumulated from the application of salary and contribution as submitted by the reporting entity on a monthly basis.
Method of Calculation:	Each posting to a member's account is considered a transaction in the month the contribution is applied to a member's account regardless of the received date.
Data Limitations:	Over 1,300 reporting entities must report each member's monthly payroll salary and retirement contribution. A member can have more than one posting per month if employed by multiple reporting entities.
Calculation Type:	Cumulative
New Measure:	No



Target Attainment: Not applicable

Output Measure: Percent of TRS retirees whose first annuity is paid when it is first due

Definition: Annuitants paid timely means that an annuitant is considered to be paid when first due if the warrant was issued: on the first working day of the second month following the retirement date; on or before the first working day of the month following the final report date; within 31 days of when a special service purchase bill was paid; or within 31 days of when a retirement document was received.

Purpose/Importance: This measure determines if TRS is delivering benefits in a timely manner based on all properly completed and required documentation and data elements for retirement.

Source/Collection of Data: Information is taken from TRS systems referenced in procedures to generate reports that list, respectively, warrants that met or did not meet the criteria in the definition.

Method of Calculation: Review source data to determine whether warrants were issued in a timely manner based on the criteria in the definition. To determine the percentage of warrants issued in a timely manner, the denominator is the total number of warrants issued during the month of interest. The numerator is the total number of warrants issued minus the warrants that are considered not issued in a timely manner.

Data Limitations: Only files added to payroll during the month of interest that result in a warrant being issued are considered to determine if paid in a timely manner.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

Objective: To administer a health care program for public education retirees.

Strategy: Administer group health care benefits to public education retirees through the TRS-Care program by monitoring the performance of contracted benefit providers, communicating health care plan features, and resolving benefit disputes. Estimated.

Outcome Measure: Participation rate in Disease Management Program by non-Medicare enrollees

Definition: Percentage of TRS-Care Non-Medicare enrollees with identified chronic health conditions who are actively participating in the Disease Management Program.

Purpose/Importance: Non-Medicare enrollees with chronic health conditions increase plan costs significantly when those conditions are not medically managed.

Source/Collection of Data:	At the end of each fiscal year, the Disease Management Program vendor identifies non-Medicare enrollees with chronic health conditions to derive a denominator. The numerator for the calculation is the number of enrollees with chronic health conditions who are meeting the vendor's criteria for active participation in disease management programs.
Method of Calculation:	The number of Disease Management Program enrollees divided by the number of eligible Disease Management Program enrollees equals the participation rate.
Data Limitations:	None
Calculation Type:	Noncumulative
New Measure:	No
Target Attainment:	Higher than target

Outcome Measure: Generic substitution rate for TRS-Care prescription drug benefits

Definition:	Percentage of prescriptions filled with a generic equivalent to the brand name drug.
Purpose/Importance:	Generic prescription drugs are significantly less expensive than their brand name counterparts, so increased utilization of available equivalents lowers plan costs.
Source/Collection of Data:	At the end of each fiscal year, the Pharmacy Benefit Manager for TRS-Care will provide the claims data that indicates the number of prescriptions filled with a generic equivalent and the total number of prescriptions filled for which a generic equivalent is approved by the U.S. Food and Drug Administration (FDA).
Method of Calculation:	The number of prescriptions filled with a generic equivalent is divided by the total number of prescriptions filled for which a generic equivalent is approved by the FDA.
Data Limitations:	None
Calculation Type:	Noncumulative
New Measure:	No
Target Attainment:	Higher than target

APPENDIX E – WORKFORCE PLAN

I. System Overview

The Teacher Retirement System of Texas (TRS) was formed by constitutional amendment and enabling legislation in 1937. The original responsibility of the system was to provide service and disability retirement benefits to teachers and administrators of the public school systems of Texas, including institutions of higher education. Over the years, legislation has:

- Expanded TRS pension plan membership eligibility to all public school employees (1949).
- Assigned TRS to administer a health benefit program for public school retirees (1985).
- Created the basis for TRS to provide long-term care insurance (1999).
- Assigned TRS to administer a health benefit program for active public school employees (2001).

The TRS pension plan had about 38,000 members in its first year of operation. Today, TRS is the largest public retirement system in Texas, in both membership and assets. The agency serves 1,369,640 participants – 1,021,412 are public and higher education members, and 348,228 are retirement recipients. As of August 31, 2013, system net assets totaled approximately \$117.1 billion. The TRS pension plan operates under Article XVI, Section 67 of the Constitution of Texas to provide retirement and related benefits for those employed by public schools, colleges, and universities supported by the State of Texas. The system is responsible for investing funds under its stewardship and for delivering benefits to members as authorized by the Texas Legislature. TRS is a defined benefit plan, with retirement benefits determined by a pre-established formula. The trust fund is sustained principally by three sources—contributions by members during their working careers, contributions by the state, and investment revenues.

TRS operates out of two adjoining buildings at 1000 Red River Street as well as 47,034 square feet of leased space at 816 Congress Avenue that houses the TRS Investments Management Division. Both locations are in downtown Austin, Texas. The business of the system involves two broad functions: administering benefits and managing investments. The financial, information technology and administration areas provide essential services to the system's mission-critical divisions (see the organization chart in Appendix B). To serve members throughout the state, benefit counseling employees travel on a regular basis to make group presentations and provide one-on-one counseling sessions. TRS also uses Web-based services, a telephone counseling center and an interactive voice response system to provide service to those outside of the Austin area.

The majority of full-time equivalent (FTE) employees are funded from the pension plan trust funds administered by TRS. Health insurance programs (TRS-Care and TRS-ActiveCare) are funded separately and are exempt from the agency's FTE cap. TRS has seen an increase in budgeted FTEs primarily as a result of the TRS Enterprise Application Modernization (TEAM)

Program. These FTEs, budgeted for the duration of the program, do not count against the agency's FTE limitation. The budgeted FTEs allocated to each function are shown in the following chart.

TRS Budgeted FTEs

FTE Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
TRS Trust Funds	475.3	476.6	475.3	475.3	503.3
TEAM*	0.0	0.0	6.8	15.0	53.0
Insurance Funds	55.0	55.0	55.0	56.0	57.5
TRS Total	530.3	531.6	537.1	546.3	613.8

*TEAM FTEs are paid from the trust fund, but are listed separately for the purposes of this chart.

Staffing pressures have been a result of continued growth in membership and assets of the pension fund, as well as additional responsibilities authorized by the legislature. While growth in membership and fund size is projected to continue, TRS will continue to assess its staffing requirements carefully and address them as appropriate.

A. Organization Mission

The mission of TRS 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.

B. Strategic Goals and Objectives

TRS has the following goals:

GOAL 1: Sustain a financially sound pension trust fund.	
Objective	To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years.
Strategies	<ul style="list-style-type: none"> • Monitor trust funding status. • Foster and maintain an effective working relationship with legislative stakeholders on trust sustainability issues. • Develop/improve the communication strategy for employer and participant stakeholders with respect to the sustainability of the trust.
Objective	Create a process to develop and implement an investment policy capable of achieving the trust's actuarial assumed rate of return as measured on rolling 20-year periods.
Strategies	<ul style="list-style-type: none"> • Establish and implement an effective investment governance structure. • Establish a world-class investment policy statement.

Objective	Develop and maintain a sound, professional and systematic risk management and capital allocation system.
Strategies	<ul style="list-style-type: none"> • Establish the trust's asset allocation to meet the return and risk goals as determined by the Investment Policy. • Where appropriate, pursue added investment returns through individual security selection. • Employ a dedicated investment risk management function to help maintain appropriate risk exposures. • Ensure investment decisions are properly executed and tracked by maintaining an effective investment operations unit.
Objective	Create and maintain a highly capable and diversified external network of global investment, trading, and consulting relationships.
Strategies	<ul style="list-style-type: none"> • Establish a repeatable certification process for the selection of external investment managers. • Develop deep strategic relationships with key external partners. • Leverage the resources and intelligence of the external network to complement internal capabilities. • Use external network to optimize trading and execution.
GOAL 2: Build and maintain strong, customer-focused relationships.	
Objective	Implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by August 2017.
Strategies	<ul style="list-style-type: none"> • Prepare planning documents for pension line of business (LOB) implementation. • Validate commitments in LOB request for offer (RFO) and define high-level requirements for phase 1. • Define detailed requirements and use cases for the LOB Phase 1. • Design, build, and test LOB system components for phase 1. • Ensure that staff and users are properly trained on phase 1 functionality of the new LOB system. • Go live with phase 1 of the pension LOB system. • Validate commitments in LOB RFO and define high-level requirements for phase 2. • Define detailed requirements and use cases for the LOB phase 2. • Design, build, and test LOB system components for phase 2. • Ensure that staff and users are properly trained on phase 2 functionality of the new LOB system. • Go live with phase 2 of the pension LOB system. • Prepare TRS data for migration to the new pension LOB system. • Develop detailed requirements and envision functionality for the new financial system. • Design, build and test the new financial system.

Objective	Continuously improve quality of work and customer service levels for our participants.
Strategies	<ul style="list-style-type: none"> • Explore, review and consider relevant industry benchmarks that encourage service excellence. • Provide and maintain accurate, timely, and consistent information to participants, reporting entities, and other stakeholders in line with customer service benchmarks.
Objective	Develop and maintain ongoing stakeholder information and education to support the mission of TRS and provide excellence in our response.
Strategies	<ul style="list-style-type: none"> • Provide (TRS) Mission-centric and broader communication to stakeholders. • Continue to improve inquiry responsiveness to help participants make better financial, retirement and health care decisions. • Leverage technological advances to assist with communication of information.
GOAL 3: Facilitate access to competitive, reliable health care benefits for our members.	
Objective	Manage the revenues and expenses of TRS-Care and TRS-ActiveCare.
Strategies	<ul style="list-style-type: none"> • Improve revenue to TRS-Care and TRS-ActiveCare. • Manage the expenses of TRS-Care and TRS-ActiveCare.
Objective	Research and communicate the merits of varied solutions that contribute to the long-term sustainability of access to health care for our participants.
Strategies	<ul style="list-style-type: none"> • Communicate and promote the TRS-Care and TRS-ActiveCare sustainability study. • Implement any legislative changes related to the access to health care.
GOAL 4: Attract, retain, and develop a highly competent staff.	
Objective	Develop and maintain a desirable work environment.
Strategies	<ul style="list-style-type: none"> • Promote a strong workplace culture that exemplifies TRS' core values and emphasizes TRS' mission. • Provide a physical work environment that is safe and enhances productivity.
Objective	Develop an effective recruitment/retention strategy and a competitive total rewards package.

Strategies	<ul style="list-style-type: none"> • Develop and execute workforce plan. • Expand recruitment efforts. • Identify and implement successful strategies to retain and promote top-performing employees and managers. • Provide employee development opportunities. • Review, update and enhance TRS' compensation and total rewards package.
GOAL 5: Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized businesses. (<i>Section 825.514 and Chapter 2161, Texas Government Code</i>)	
Objective	Provide contracting opportunities for HUBs that result in TRS' overall total value of purchasing contracts expended with HUBs exceeding the aggregate State of Texas HUB expenditure performance.
Strategies	<ul style="list-style-type: none"> • Develop and implement a plan for increasing the use of HUBs through purchasing contracts and subcontracts.

C. Anticipated Changes in Mission, Strategies, and Goals

TRS does not anticipate fundamental changes in the nature of its business. It does, however, recognize the need to adapt readily to any changes as a result of legislation or board directives.

Environmental factors that are projected to affect TRS operations include:

- ▶ Increased growth in plan participants;
- ▶ Increased expectations by members and retirees for enhanced customer service;
- ▶ Potential loss of institutional knowledge due to turnover of critical employees;
- ▶ Effective management of complex, diversified investment portfolios; and
- ▶ Increased challenges implementing mandated changes to benefit plans.

II. Current Workforce Profile (Supply Analysis)

A. Critical Workforce Skills

TRS' core functions are delivering retirement benefits, facilitating health care coverage, managing investments and managing the TRS infrastructure including technology upgrades for the pension system and financial system. The skills that are most critical to support TRS' core functions include:

- ▶ Health benefit plan management;
- ▶ Pension administration;
- ▶ Investment expertise, including diversified portfolio management skills and managing alternative asset classes;
- ▶ Information technology, including telecommunications, Web design, programming and systems administration;

- ▶ Developing and monitoring complex contracts; and
- ▶ Specialized professional skills (including accounting, auditing, human resources and legal).

The following competencies are also essential to successfully achieve TRS' mission and goals:

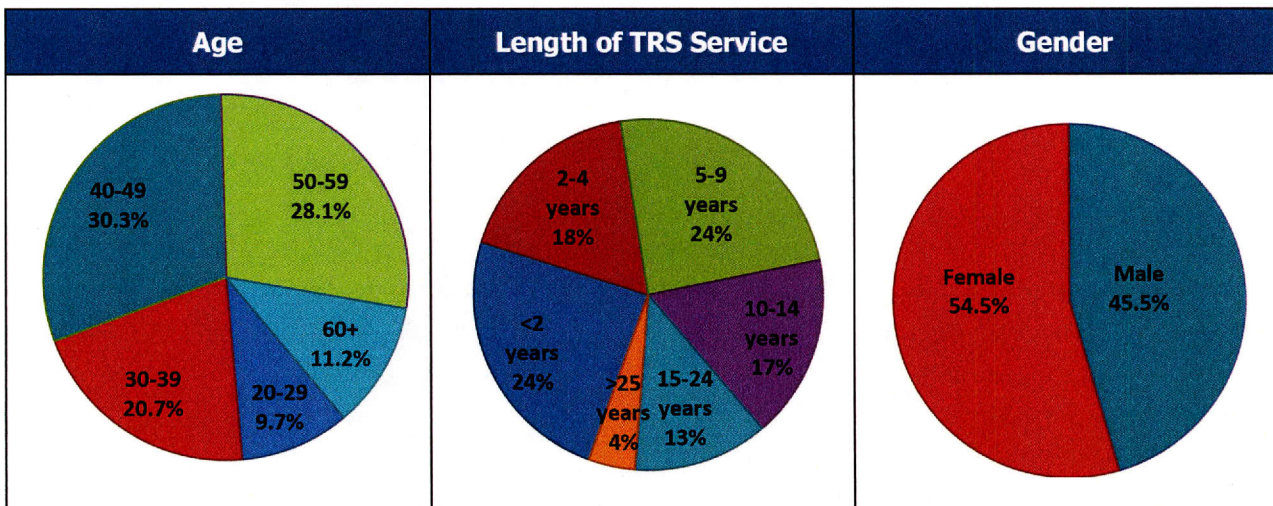
- ▶ Accountability;
- ▶ Business process analysis;
- ▶ Critical thinking and problem solving;
- ▶ Project management;
- ▶ Strategic planning;
- ▶ Leadership;
- ▶ Adaptability;
- ▶ Customer service; and
- ▶ Communication and collaboration.

TRS has been successful attracting and developing staff with these skills and competencies to meet critical business needs. See the *Future Workforce Profile* (Section III) for further analysis.

B. Workforce Demographics

The following charts profile the system's workforce as of FY 2014, Quarter 1. The TRS workforce is comprised of 54.5 percent females and 45.5 percent males. Approximately 42 percent of employees have been with TRS less than five years. Approximately 39 percent are 50 years of age or older.

Distribution of Employees by Age, TRS Length of Service and Gender



The following table compares the ethnic and gender composition of the TRS workforce (as of Aug. 31, 2013) to the statewide (Texas) civilian workforce as reported by the Texas Workforce Commission—Civil Rights Division (CRD) in the *2011-2012 Equal Employment Opportunity and*

Minority Hiring Practices Report. TRS actively monitors this information and adjusts its recruitment strategies to target areas of under-representation.

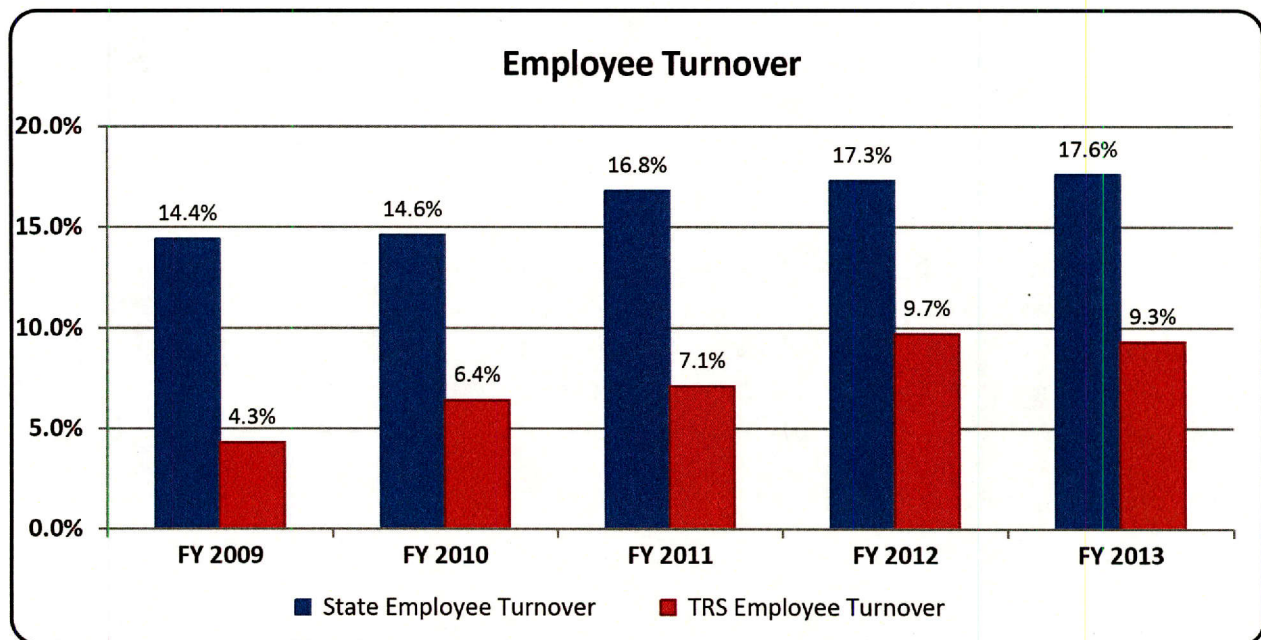
Job Category	African American		Hispanic American		Female	
	TRS %	Texas %	TRS %	Texas %	TRS %	Texas %
Official/Administrator	2.6%	9.0%	7.7%	19.5%	38.5%	39.3%
Professional	4.7%	11.3%	16.1%	17.4%	46.2%	59.1%
Technical	11.1%	14.2%	33.3%	21.4%	38.9%	41.5%
Administrative Support	19.0%	13.6%	42.9%	30.5%	42.9%	65.6%
Service/Maintenance/ Paraprofessional*	14.4%	14.7%	34.0%	48.2%	73.2%	40.8%
Total	8.6%	12.1%	23.1%	33.1%	54.5%	45.7%

*TWC combines data for paraprofessionals and service/maintenance for the purpose of this report.

The organization's strategies for improving the diversity of its workforce include targeted advertising of vacancies, ongoing participation in diversity job fairs, and diversity/cultural awareness training. The employment policies and practices of TRS have been certified as in compliance with CRD standards, in accordance with Chapter 21 of the Texas Labor Code (most recently in December 2013).

C. Employee Turnover

As reflected in the following chart, employee turnover at TRS has historically been below the statewide average among state agencies, as reported by the State Auditor's Office. In fiscal year 2013, TRS turnover was 9.3 percent, well below the state average of 17.6 percent for the same period. TRS anticipates that its turnover rate may fluctuate with the Austin economy but expects overall turnover rates to remain below the state average.



D. Retirement Eligibility Projections

The following chart provides estimates on the number of TRS employees who will be eligible to retire over the next five years. These estimates are based on the rule of 80 using total state service for employees as of Dec. 31, 2013.

Percent of TRS Employees Eligible to Retire as of:

Division	January 2014		January 2017		January 2019	
	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible	Eligible Employees	Percent Eligible
Executive Division	22	28.6%	29	37.7%	36	46.8%
Investment Management	5	3.9%	9	7.0%	11	8.5%
Benefit Services	21	12.0%	34	19.4%	45	25.7%
Finance Division	17	21.3%	30	37.5%	38	47.5%
Information Technology	24	26.9%	29	32.3%	38	41.9%
Health Care Policy and Administration	2	7.4%	7	25.9%	8	29.6%
Total	91	16.9%	138	24.9%	176	31.3%

III. Future Workforce Profile (Demand Analysis)

A. Expected Workforce Changes

The size of the population served by TRS and their customer service expectations continue to expand. Workloads are rising in response to changes in the membership, legislative changes, and budget cuts at the school district level. As a result, TRS is monitoring business processes and FTE employee levels and making adjustments as necessary to efficiently provide excellence in customer service.

The continued growth in the size and complexity of the TRS lines of business has required additional technology professionals, business analysts, and program managers to implement technology upgrades. The agency has major initiatives underway to review statutory provisions, streamline benefit administration processes, and deploy enhanced technology solutions related to critical needs.

B. Future Workforce Skills Needed

TRS continues to develop the skills of its current workforce, recruit new staff with required expertise, and contract with outside parties, when feasible and cost-effective, to supplement the workforce in highly specialized areas.

To maintain and further the caliber of future workforce, staff with strong communication and interpersonal skills, a service focused mindset, and strong analytical and creative thinking skills will be sought. To meet the continuity of mission and business focus we will continue to need staff with specialized investment management skills including alternative asset management and portfolio risk management.

Our analysis of future needs indicates that in addition to the skills required above to maintain core functionality, the following areas of expertise will be of value:

- ▶ Contract negotiation and administration (for monitoring outsourced functions, such as health benefit programs);
- ▶ Information technology including telecommunications, full spectrum Web application support and lifecycle systems support including design, management and implementation;
- ▶ Business process research, analysis, design and project management skills;
- ▶ Leadership and management skills including collaborative leadership and development, creative problem solving and the ability to maintain agile, cohesive and productive work teams; and
- ▶ Continuity planning and knowledge management for executive leadership, portfolio management and health benefit plan management.

IV. Gap Analysis

TRS addresses prospective gaps in skills and staffing by conducting regular reviews of the workforce plan, analyzing market trends, updating job descriptions, reviewing performance appraisal plans, identifying career development opportunities, and reviewing talent management strategies. Although TRS proactively reviews staffing needs, potential gaps in worker or skill needs may develop as a result of:

- Loss of institutional knowledge and expertise due to turnover of critical staff.
- Changing roles and responsibilities for staff as a result of legislation or agencywide initiatives.
- Increased competition for experienced staff in certain fields.

V. Strategy Development

It is a priority for TRS to address potential gaps identified in the workforce plan. Implementing the following strategies and action steps will help ensure TRS remains an employer of choice and continue to meet our mission and goals.

Potential Gap	Strategy
Loss of institutional knowledge and expertise due to turnover of critical staff	<p>Ensure a smooth transition of duties, responsibilities and institutional expertise when a critical staff member leaves the agency. Action steps include:</p> <ul style="list-style-type: none"> • Identify best practices for business process reviews and knowledge transfer programs and techniques. • Continue to utilize the Leadership Development Program to prepare staff to compete for leadership positions as they become vacant. • Identify opportunities for cross-training efforts and career development. • Develop and implement succession plans to ensure continuity of service during any period of extended absence or turnover among critical staff. • Maintain effective recruitment practices and strategies (such as use of contingent staff, internships, and employer branding) to attract or develop qualified replacement staff.
Changing roles and responsibilities for staff as a result of legislation or agencywide initiatives	<p>Acquire necessary expertise to fulfill assigned responsibilities. Action steps include:</p> <ul style="list-style-type: none"> • Conduct research to identify issues affecting other public pension funds or state agencies that may potentially affect TRS. • Maintain awareness of prospective legislative changes to allow adequate planning for new skill-set requirements. • Explore options for developing skills within the current workforce, attracting new staff with the required experience, or outsourcing certain functions.
Increased competition for experienced staff in certain fields	<p>Maintain a work environment that allows TRS to attract, retain and develop highly competent staff. Action steps include:</p> <ul style="list-style-type: none"> • Promote a strong workplace culture that exemplifies TRS' core values and emphasizes TRS' mission. • Provide employee development opportunities. • Review, update and enhance TRS' compensation and total rewards package. • Enhance recognition programs and other initiatives to support retention of staff. • Continue organizational development efforts aimed at enhancing ongoing communication and effective working relationships between management and staff. • Encourage staff involvement in organizational activities.

TRS will also continue to manage (and expand, as needed) its effective programs and practices for attracting, retaining and developing highly competent and diverse staff. Such practices include:

- Recruitment programs that market TRS as an employer of choice.
- Internship programs to build relationships with universities and develop talent pools.

- Strategic workforce management to include the use of contingent staffing, redeployment of current staff, variable scheduling to meet business needs, and other appropriate best practices.
- Leadership development programs to build the skills of current and prospective leaders.
- Career development programs to provide professional growth opportunities for employees.
- Cross-training programs to advance skill levels, enhance productivity and provide back-up for critical functions.
- Continuity plans for critical staff.

APPENDIX F – SURVEY OF EMPLOYEE ENGAGEMENT RESULTS SUMMARY

TRS has continued to participate in the biennial *Survey of Employee Engagement* administered by the University of Texas School of Social Work. The fiscal year 2014 survey is the 10th time that TRS has surveyed its employees using this process.

During the fiscal year 2014 survey, 81 percent of TRS employees responded to the survey. As a general rule, rates higher than 50 percent indicate soundness, showing that employees demonstrate an investment in the organization, a commitment to seeing the organization improve, and generally have a sense of responsibility to the organization.

The overall survey score is a broad indicator for comparison with other entities, an average of all survey items, and represents the overall score for the organization. The overall survey score for TRS in 2014 was 396, an increase from 391 in 2012. For comparison purposes, overall scores typically range from 325 to 375, and scores at or above 375 indicate areas of substantial strength. Out of 14 major categories analyzed in the survey, the majority (12 out of 14) had scores above 375. This indicates that employees are engaged and clearly view TRS in a positive manner.

The following three categories were viewed as the most positive elements of working at TRS and received scores over 400 (500 is the highest possible score):

- Physical Environment – 419 (safe and positive work atmosphere)
- External Communication – 417 (information flow into and out of the organization)
- Strategic – 416 (mission, vision, and services provided)

In addition to monitoring the general well-being of the agency, TRS gathered employees' insights on other matters of interest. These matters included: the impact of diversity initiatives at TRS, the value placed on nonmonetary rewards TRS offers to employees, and the level of employee awareness of ethics and information security practices. The responses to the customized questions indicate that:

- Employees have a positive perception of TRS as a respectful, diverse workplace.
- Nonmonetary rewards provided by TRS are highly valued, and are therefore effective tools in TRS' recruitment and retention efforts.
- Employees are familiar with ethics and information security practices, and expressed confidence in how such matters are handled at TRS.

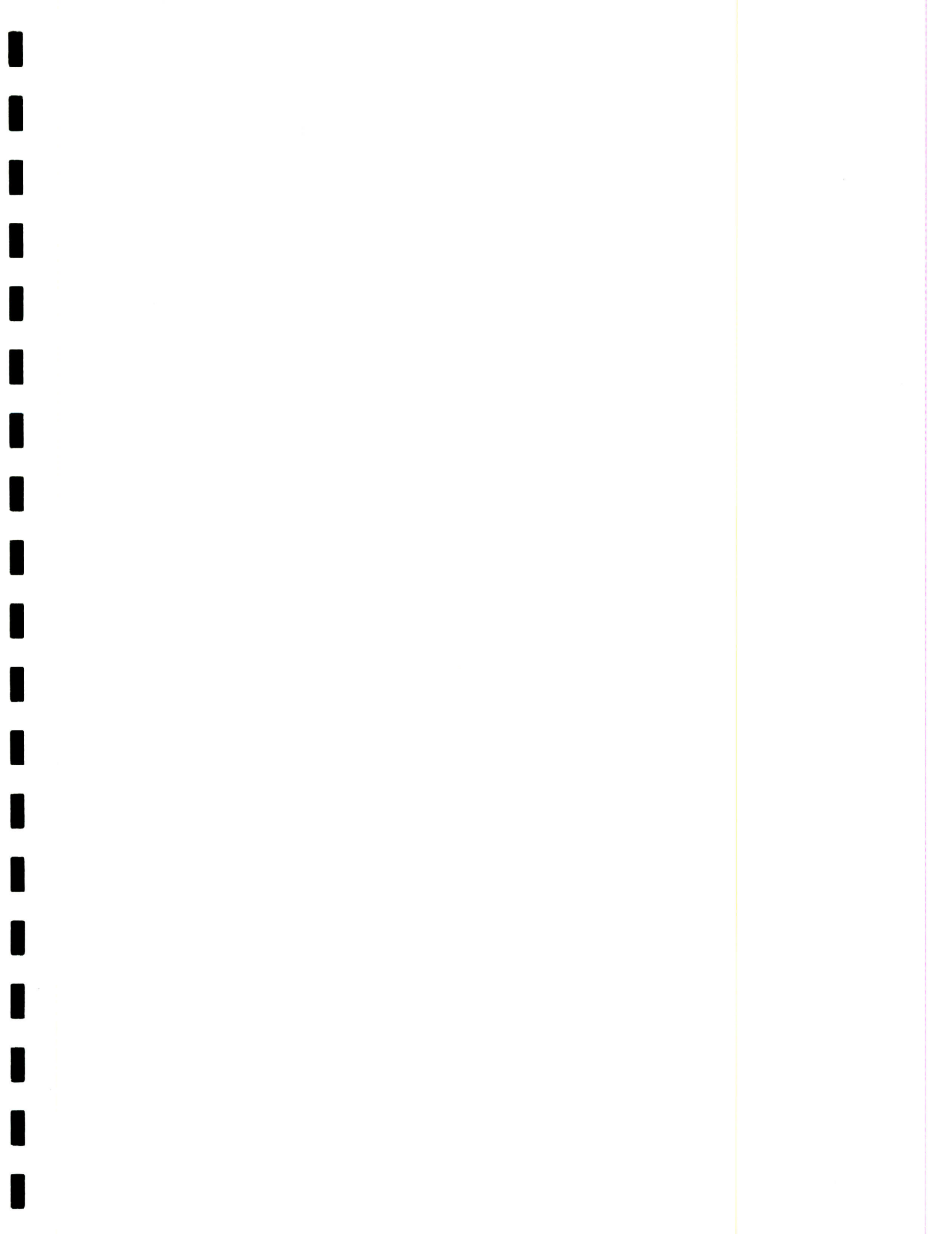
The highest scoring constructs are areas of strength while the lowest scoring constructs are areas of concern. Scores above 350 suggest that employees perceive the issue more positively than

negatively. Conversely, scores below 350 are viewed less positively by employees, and scores below 325 should be a significant source of concern for the organization and should receive immediate attention. All but two constructs scored above 375 at TRS. "Internal Communication" (374) barely falls below 375 and is well above 350 and therefore seen by employees more positively than negatively. "Pay" is the only construct falling below 325.

"Pay" is a continuing trend from preceding surveys. The score in this category showed a 28-point decline from the 2010 survey. In addition to "Pay," two other categories showed decreases ranging from 2 to 6 points. Ten categories reflected increases in the scores from the previous survey ranging from 1 to 16 points. One category showed no change.

While TRS continues to see overwhelmingly positive ratings from employees, the organization places a priority on improving its effectiveness. TRS routinely shares survey results with all employees, asks for their feedback on how to make TRS a better place to work, and encourages managers to make appropriate changes within their individual departments. The organization-wide focus is to continue to improve on areas of concern within TRS' control and to consider ways to build on areas of strong performance. Actions taken as a result of survey feedback are communicated to all employees in order to reinforce that their input is valued and that participating in the survey is worthwhile.

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