

Amendment to the Self-Evaluation Report
Teacher Retirement System of Texas

Presented to the
Sunset Advisory Commission
August 2005

IX. Policy Issues

TRS requested and received permission from Sunset staff to delay any response to this portion of the Self-Evaluation Report until after the September 2005 meeting of the TRS Board of Trustees. The following information is provided as an amendment to the report following the September Board meeting.

While TRS does not engage in activities to advocate or influence legislative action or inaction, the Board has agreed to provide the following policy issues for possible consideration during the Sunset review process.

TEACHER RETIREMENT SYSTEM OF TEXAS Possible Issues for Consideration During Sunset Review September 2005

Funding

- **State contributions** – The current contribution rate of 6% of payroll, the constitutional minimum, was set as a temporary rate in 1995 when it was lowered from 7.31%.
- **Employee contributions** – The current employee contribution rate of 6.4% of payroll for the pension fund has not changed since before 1986. Since then benefits have increased substantially through a variety of legislative changes, including two multiplier increases and lowering of the retirement eligibility standard to a Rule of 80.
- **Employer contributions** – Employers have the ability to significantly increase pension liabilities, as previously noted for conversion and salary increases, but currently do not share in paying for the increased costs related to their actions. Many other pension systems are funded in part by contributions of local employers.
- **Statutory Funding of Administrative Costs by General Revenue** – In 1995, legislation required, for the first time, state funding of TRS administrative costs from general revenue dollars. However, this was actually only funded for two biennia. The General Appropriations Bill has specified since 2000-2001 that the method of finance is the pension trust fund.
- **Long-term funding needs for TRS-Care** – State funding for retiree health care is currently tied to payroll growth, which is not sufficient to pay actual costs, given increased medical costs, Rx costs, and growth in the number of retirees.
- **Statutory minimum** – The current guidelines are complex and difficult to determine for non-teacher positions.

Membership

- **Minimum number of hours worked** – Currently education employees working on at least a half-time basis, including those working as few as 16 hours a week in certain positions receive a full year's service for working at least 4½ months in that position.

- **Temporary employees, substitutes, adjunct faculty** – Temporary employees, substitutes, and adjunct faculty members are not considered eligible for TRS membership. However, substitutes may purchase a year of service credit after substituting at least 90 days during a school year. In some cases rules for loss of annuities due to employment after retirement are different than membership eligibility rules for individuals working in these categories.

Creditable Service

- **Full year versus partial year** – Service is currently credited only in full year increments. As a result a member working part-time for 4½ months receives the same credit as a teacher working full-time for 9 or 10 months. Some retirement systems grant creditable services on a monthly basis or other partial year basis.
- **Contract year versus fiscal year** – Most TRS members are on a contract year for establishing creditable service and others are on a fiscal year. Even the members on a contract year basis may have different contract time periods.

Creditable Compensation for Benefit Calculation

- **Conversion** – A number of individuals are able to significantly enhance their retirement benefits and increase the Pension Fund accrued actuarial liabilities by converting fringe benefits to salaries during their final years of service. Recent legislation requires TRS to establish a policy that disallows the conversion in the final years before retirement.
- **Caps on salary increases during final years of service** – Members are able to significantly enhance their retirement benefits and increase the Pension Fund accrued actuarial liabilities by earning significantly higher salaries during their final years of service. Higher earnings can be accomplished by the following: changing employers; changing job duties; bonuses/performance pay; working overtime; and/or working for multiple employers. Recent legislation requires TRS to establish salary increase limitations in the final years before retirement.
- **Bonuses/ Performance Pay** – The requirements for receiving salary credit for performance pay are complex and difficult to administer.

Return-to-Work

- **Opportunities to simplify requirements** – Opportunities may exist to simplify employment after retirement laws.

Investments

- **Closed sessions on private equity investments** – Under current statutes certain private equity information is deemed confidential but the TRS Board does not have the legal authority to discuss this information in closed session, as do other public funds such as UTIMCO.
- **Restrictions on the use of external money managers** – Most other public pension funds have broader discretion to use external money managers in their management of investments.
- **Incentive compensation for investment professionals** – Maintaining qualified

investment staff to manage \$90 billion internally continues to be a challenge.

- **Restrictions on the use of derivatives** – TRS does not have the authority to use derivatives thus restricting the ability to manage investment portfolio risks.

Administrative

- **Qualifications of the Executive Director** – Under current statutory requirements the executive director must have been a resident of Texas for the last three years.
- **Board membership** – The optimal representation of members versus other parties is difficult to determine and varies significantly among other pension funds.
- **FTE Caps** – State restrictions on the number of employees can hinder service levels and the ability of the Board to carry out its fiduciary duties and responsibilities.

Non-Core Programs

- **403(b) Program** – While this program serves a valuable purpose it is not directly related to the core mission of TRS.
- **Comparability Study** – This biennial project is not directly related to the mission of TRS, and its usefulness is not as evident given the implementation of the statewide health care program, TRS-ActiveCare.
- **Health Care Programs** – While these programs are very important to some of our members other options may exist for administration with an entity dedicated solely to health care.