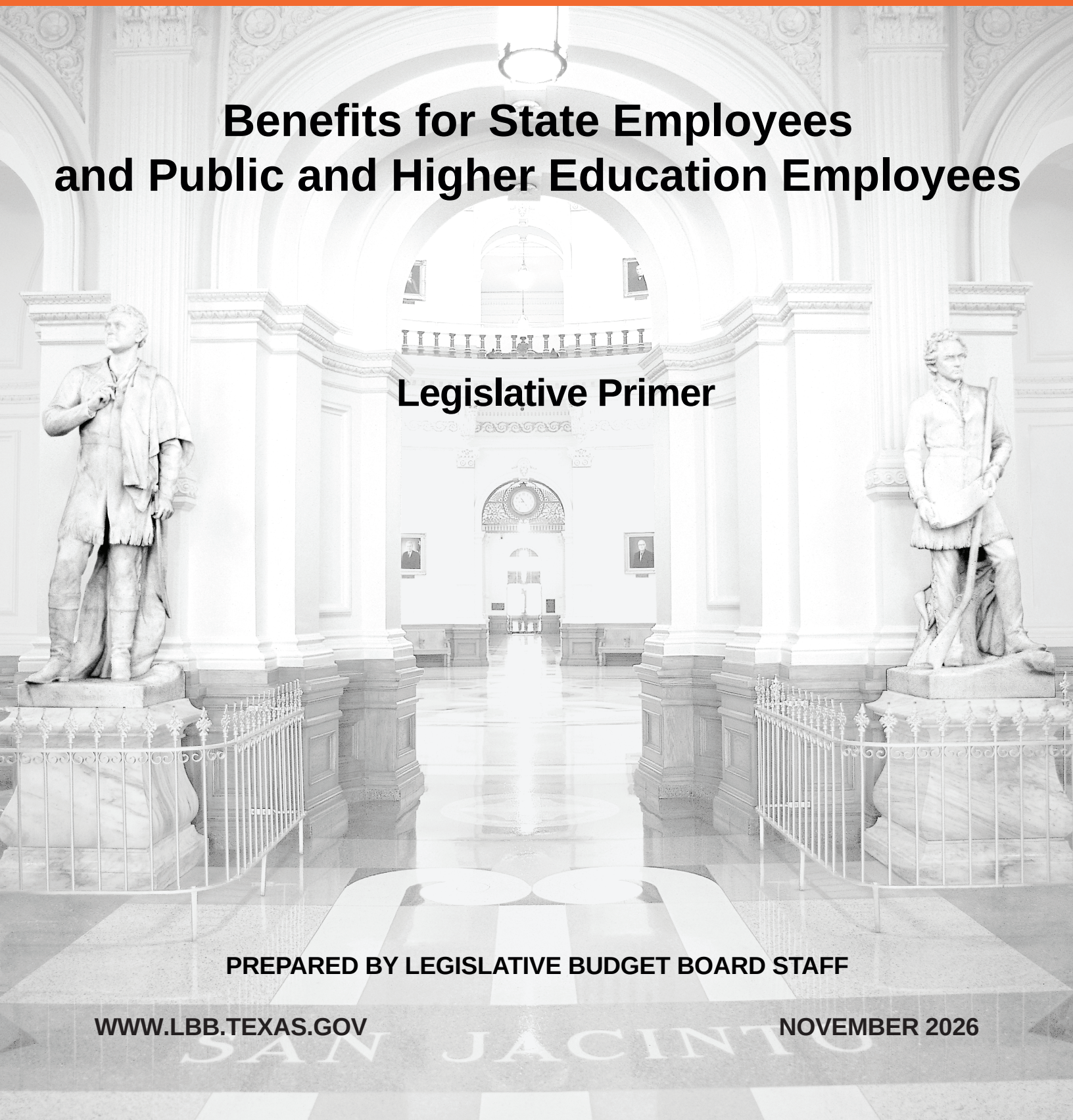
LEGISLATIVE BUDGET BOARD

Benefits for State Employees and Public and Higher Education Employees

Legislative Primer



PREPARED BY LEGISLATIVE BUDGET BOARD STAFF

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NOVEMBER 2026

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INTRODUCTION

Various state and local programs provide retirement and healthcare benefits to Texas public employees. The Texas Constitution establishes two retirement systems to support state employees, state officers, and employees of public education, including higher education: the Employees Retirement System of Texas (ERS), established in 1947, and the Teacher Retirement System of Texas (TRS), established in 1936. Each system is managed by a board of trustees that oversees the administration of benefits delivery and management of trust fund assets. ERS includes four retirement systems: ERS, which provides benefits for officers and employees of the state; the Law Enforcement and Custodial Officer Supplement (LECOS), which provides supplemental retirement benefits to certain certified peace officers and custodial officers specified in statute; Judicial Retirement System Plan II (JRS II), which provides retirement benefits for judges sworn into office after August 31, 1985; and Judicial Retirement System Plan I (JRS I), a pay-as-you-go pension plan that provides retirement benefits for judges sworn into office on or before August 31, 1985. ERS, LECOS, and JRS II are pre-funded pension plans.

Figure 1 shows a comparison of the ERS and TRS retirement systems and additional retirement systems at ERS for law enforcement and judicial employees. The three pre-funded retirement systems at ERS reported 448,875 members and annuitants combined at the end of fiscal year 2025. This amount represents only the sum of members and retirees for ERS and JRS II, as shown in **Figure 1**, because members of LECOS also are members of ERS. These three systems held $43.0 billion in assets and paid $3.2 billion in retirement benefits for fiscal year 2025. TRS is one of the largest pension systems in the United States, reporting approximately 2.1 million members and retirees and $225.3 billion in assets in fiscal year 2023. TRS paid $14.2 billion to retirees and their beneficiaries for fiscal year 2025.

Actuarial soundness for each retirement system has been discussed in the Legislature during the last decade as investment performance has shown considerable volatility. Actuarial soundness is achieved when contributions sufficiently fund the normal cost, which is the current value of benefits attributed to the present fiscal year, and amortize the unfunded accrued liability of a system within a certain period. According to the Texas Pension Review Board guidelines, "Actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as

FIGURE 1
COMPARISON OF EMPLOYEES RETIREMENT SYSTEM OF TEXAS TO TEACHER RETIREMENT SYSTEM OF TEXAS RETIREMENT SYSTEMS, AUGUST 31, 2025

CATEGORY	ERS	LECOS (1)	JRS II (2)	TRS
Members and Retirees	447,405	90,270	1,470	2,102,992
Market Value of Assets (in millions)	$40,066.0	$2,116.5	$805.1	$225,274.9
Actuarial Funded Ratio	74.4%	102.1%	101.9%	77.5%
Unfunded Actuarial Accrued Liability (in millions)	$13,204.6	($42.5)	($15.0)	$64,902.5
Funding Period (in years)	29.0	N/A	N/A	35.0
Assumed Rate of Return	7.0%	7.0%	7.0%	7.0%
Actual Rate of Return	8.93%	8.93%	8.93%	9.77%
Benefits Paid for Fiscal Year 2025 (in millions)	$3,050.1	$108.6	$44.3	$14,238.5

NOTES:
(1) Members of the Law Enforcement and Custodial Officer Supplement (LECOS) also are members of the Employees Retirement System of Texas (ERS). As of the actuarial valuation of August 31, 2025, the program is fully funded and, therefore, has no funding period.
(2) ERS administers the Judicial Retirement System Plan II (JRS II). As of the actuarial valuation of August 31, 2025, the program is fully funded and, therefore, has no funding period.
(3) TRS= Teacher Retirement System of Texas.
(4) Amounts for Judicial Retirement System Plan I are not shown because fewer than 10 members remain in this plan.
SOURCES: Employees Retirement System of Texas; Teacher Retirement System of Texas.

possible, but not to exceed 30 years, in accordance with state law." (See **Appendix E – Glossary** for definitions of related terms.) As of August 31, 2025, the five-year average investment return was 10.09 percent for ERS and 8.40 percent for TRS, and the 10-year average investment return was 8.71 percent for ERS and 8.20 percent for TRS. In past years, both retirement systems had assumed 8.0 percent investment returns. Anticipating lower returns, ERS changed its return assumption to 7.5 percent effective in August 2017 and to 7.0 percent in May 2020. TRS changed its return assumption to 7.25 percent in fiscal year 2018 and to 7.0 percent in fiscal year 2022. The actuarial valuations as of August 31, 2025, indicate that the funded ratios (the proportion of assets to liabilities) are 74.4 percent at ERS and 77.5 percent at TRS.

The Optional Retirement Program, an alternative to TRS participation for certain higher education employees, was established in 1967 to provide a portable option for retirement accumulations for individuals whose careers might include experience working in other states. In addition, the Proportionate Retirement Program (PRP) enables prospective retirees to combine service among systems to meet eligibility requirements and receive proportionate annuities from two or more systems for which those retirees are eligible. PRP applies to nine public retirement systems in Texas, including ERS and TRS.

ERS and TRS also administer health benefit programs for active employees and retirees. The healthcare program at ERS covered 559,234 participants, including dependents, and paid $4.1 billion in health benefit claims to physicians, hospitals, pharmacies, and other healthcare providers for fiscal year 2025. TRS administers two healthcare benefit programs—one for retirees and another for active members—which paid a total of $4.7 billion for fiscal year 2025 for 628,210 participants, including dependents. These amounts do not include the fully insured Medicare Advantage plans. Some eligible public school employers in Texas do not participate in the TRS program for active employees and instead provide local options for healthcare benefits. **Figure 2** shows a comparison of ERS and TRS healthcare benefits.

Employees and retirees of institutions of higher education have access to health benefit programs provided by ERS, the University of Texas System, or the Texas A&M University System and receive state appropriations through Higher Education Employees Group Insurance contributions. The three systems covered 133,979 members during fiscal year 2024.

FIGURE 2
EMPLOYEES RETIREMENT SYSTEM OF TEXAS (ERS) COMPARED TO TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) HEALTH PLANS, FISCAL YEAR 2025

AS OF AUGUST 31, 2025	ERS GROUP BENEFITS PROGRAM	TRS-ACTIVECARE	TRS-CARE
Participants	559,234	411,134	217,076
Payments from health plans to healthcare providers (in billions)	$4.1	$2.7	$2.1

NOTE: Totals may not sum due to rounding.
SOURCES: Employees Retirement System of Texas; Teacher Retirement System of Texas.

Figure 3 shows the public entities responsible for the administration of retirement and healthcare benefits for each category of eligible employees. The **Employees Retirement System of Texas** chapter outlines retirement eligibility, the funding structure, benefit plans, and the actuarial condition of the four retirement systems that ERS oversees. The ERS chapter also shows the basic components of the Group Benefits Program, including funding sources and benefit structure. The **Teacher Retirement System of Texas** chapter discusses the important elements of the TRS retirement system and the two healthcare programs that TRS oversees, TRS-Care and TRS-ActiveCare. The **Higher Education Employee Group Insurance** chapter provides an overview of the program and the methodology by which its funding is calculated. Other chapters discuss the **Optional Retirement Program** and **Social Security and Benefit Replacement Pay**. Appendices provide the most recent data available regarding state appropriations and contribution rates, significant legislation, historical information, and a glossary of terms for reference.

FIGURE 3
ADMINISTRATIVE RESPONSIBILITY FOR RETIREMENT AND HEALTHCARE BENEFITS
AUGUST 31, 2025

RETIREMENT	ERS	TRS	ORP	SELF-ADMINISTRATION
State employees	X			
Higher education employees	X	X	X	
Community college employees	X	X	X	
Public school employees		X		
HEALTHCARE	**ERS**	**TRS**	**ORP**	**SELF-ADMINISTRATION**
State employees (active employees and retirees)	X			
Higher education employees	X			UT, TAMU
Community college employees	X			
Public school employees				
Active employees		X		Local ISDs
Retirees		X		

NOTE: ERS=Employees Retirement System of Texas; TRS=Teacher Retirement System of Texas; ORP=Optional Retirement Program; UT=the University of Texas System; TAMU=the Texas A&M University System; ISD=independent school district.
SOURCE: Legislative Budget Board.

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

The Texas Legislature established the Employees Retirement System of Texas (ERS) in 1947 after voters approved a constitutional amendment to provide retirement programs, disability benefits, and death benefits for public employees and officers. The agency manages four separate retirement plans: (1) ERS serves state employees and elected officials; (2) the Law Enforcement and Custodial Officer Supplement (LECOS) Retirement Fund serves certified peace officers and custodial officers; and (3) and (4) the Judicial Retirement System Plan I (JRS I) and Plan II (JRS II) serve judges, justices, and judicial officers of the state. ERS, LECOS, and JRS II are prefunded plans that enable the state and members to contribute during employees' working years. At the end of fiscal year 2025, ERS and JRS II reported 147,458 active members (members of LECOS are also part of ERS), and the market value of investment assets for the three plans was $43.0 billion.

GOVERNANCE AND POLICY

ERS' Board of Trustees includes six members who act as fiduciaries overseeing the administration of benefits and the management of trust fund assets. Pursuant to the Texas Government Code, Chapter 815, board members serve staggered, six-year terms. Three members are appointed with the advice and consent of the Senate: one each by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. The other three members of the board are elected by members and retirees of ERS. Two of the three elected trustees must be active members of the system, and the third may be an active member or a retiree.

RETIREMENT

APPROPRIATIONS

Appropriations for the 2026–27 biennium totaled $1,970.3 million in All Funds for ERS; $103.3 million for LECOS; $95.9 million for JRS II; and $33.2 million for JRS I. House Bill 500, 89th Legislature, Regular Session, 2025, appropriated supplemental funding of $1,020.0 million in All Funds for legacy payments.

FIGURE 4
EMPLOYEES RETIREMENT SYSTEM OF TEXAS MEMBERSHIP BY PLAN, AUGUST 31, 2025

PLAN	ACTIVE MEMBERS	NONCONTRIBUTING MEMBERS (1)	RETIREES AND BENEFICIARIES (ANNUITANTS)
ERS	146,783	173,427	127,195
LECOS (2)	35,546	37,561	17,163
JRS II (3)	675	173	622

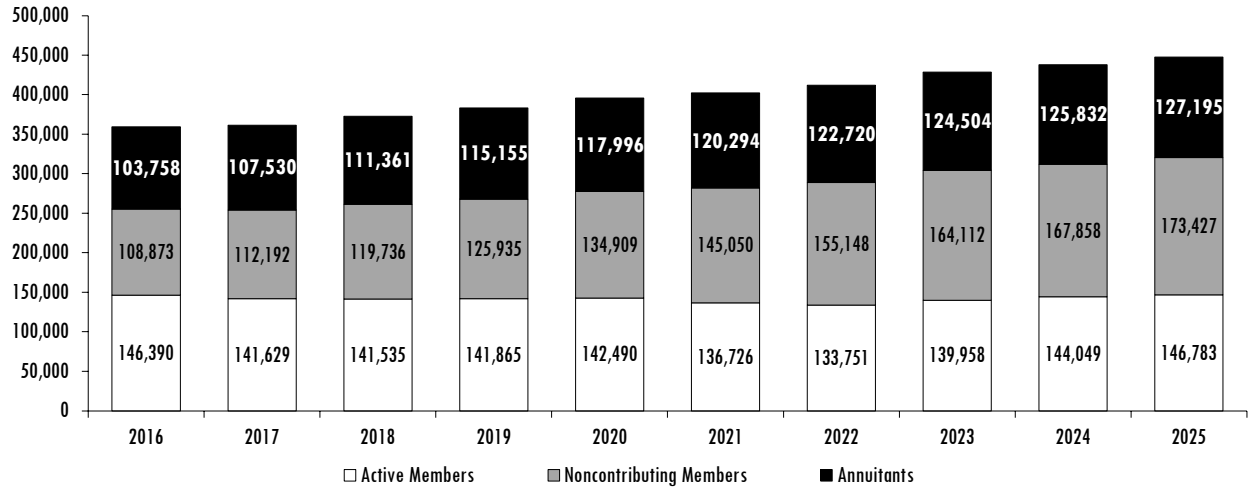
NOTES:
(1) Noncontributing members are former employees who have not withdrawn their retirement funds.
(2) Members of the Law Enforcement and Custodial Officer Supplement (LECOS) Retirement Fund also are members of the Employees Retirement System of Texas (ERS).
(3) JRS II=Judicial Retirement System Plan II.
SOURCE: Employees Retirement System of Texas.

MEMBERSHIP

Figure 4 shows membership data for ERS, the LECOS Retirement Fund, and JRS II according to the fiscal year 2025 ERS *Annual Comprehensive Financial Report*. From fiscal years 2024 to 2025, the number of active ERS members increased by 2,734, or 1.9 percent. The number of noncontributing members increased by 5,569, or 3.3 percent, and the number of annuitants increased by 1,363, or 1.1 percent. From fiscal years 2024 to 2025, the number of active LECOS members increased by 3,403, or 10.6 percent. The number of noncontributing members increased by 1,064, or 2.9 percent, and the number of LECOS annuitants increased by 362, or 2.2 percent. From fiscal years 2024 to 2025, the number of active JRS II members increased by 17, or 2.6 percent; the number of noncontributing members increased by 21, or 13.8 percent; and the number of annuitants increased by 37, or 6.3 percent.

ERS has two classes of membership, the employee class and the elected class. The employee class includes employees and appointed officers of every state department, commission, board, agency, or institution except those participating in the Teacher Retirement System of Texas (TRS), the Optional Retirement Program, JRS I, and JRS II. Membership in the employee class is mandatory for all eligible employees and begins on the first day of employment. The elected class includes statewide elected officials, members of the

FIGURE 5
EMPLOYEES RETIREMENT SYSTEM OF TEXAS MEMBERSHIP, FISCAL YEARS 2016 TO 2025



SOURCE: Employees Retirement System of Texas.

Legislature, and district attorneys and criminal district attorneys that are not enrolled in JRS I and JRS II. Membership in the elected class is optional, and eligible participants apply to enroll with ERS.

Members of LECOS also are members of ERS, and they receive supplemental retirement benefits in addition to those provided to members of ERS. This plan covers employees who are licensed law enforcement officers or custodial officers of various state agencies, including the Department of Public Safety, Texas Alcoholic Beverage Commission, Texas Parks and Wildlife Department, Texas Juvenile Justice Department (TJJD) and the Office of Inspector General for TJJD, Texas Department of Criminal Justice (including the Board of Pardons and Paroles), Comptroller of Public Accounts (CPA), and Office of the Attorney General (OAG). Law enforcement officers at CPA and OAG became eligible for membership in LECOS pursuant to Senate Bill 1737, 89th Legislature, Regular Session, 2025. That legislation added custodial members of TJJD to LECOS, whereas only certain law enforcement officers at TJJD previously were eligible for membership in LECOS.

The JRS I plan was offered for judges, justices, and commissioners of the Supreme Court of Texas, the Court of Criminal Appeals, the courts of appeals, district courts, and members of certain commissions whose service began before September 1, 1985. Those whose service began on or after September 1, 1985, are members of JRS II.

Figure 5 shows ERS membership during the past decade, including active members, noncontributing members, and annuitants. The number of active members decreased during fiscal years 2021 and 2022, possibly as a result of the COVID-19 pandemic, but increased more than 13,000, or 9.7 percent, from fiscal years 2022 to 2025. During the latter period, the number of noncontributing members increased 11.8 percent, and the number of annuitants increased 3.6 percent.

CONTRIBUTIONS

ERS retirement plans are funded by state contributions, member contributions, and investment earnings. The administrative costs to operate these programs are not appropriated from state funds but instead are funded by trust fund assets in each of the funds. The Legislature appropriates funds for the state contribution made by general state agencies. These estimated appropriations appear at the end of each article of the General Appropriations Act (GAA). The total appropriation for all state agencies is shown as an informational listing in the ERS bill pattern in the GAA.

Benefits are provided to ERS members through the following structure:

Contributions + Investment Earnings = Benefits + Administrative Expenses

The Texas Constitution, Article XVI, Section 67, specifies a state contribution rate ranging from 6.0 percent to 10.0 percent of total employee payroll. The percentage of payroll

FIGURE 6
EMPLOYEES RETIREMENT SYSTEM OF TEXAS RETIREMENT PLANS CONTRIBUTION STRUCTURE, 2026–27 BIENNIUM

PLAN	STATE (1)	MEMBER	OTHER	TOTAL
Employees Retirement System of Texas				
Hired before September 1, 2022	9.5%	9.5%	0.5% (1)	19.5%
Hired on or after September 1, 2022	9.5%	6.0%	0.5% (1)	16.0%
Law Enforcement and Custodial Officer Supplement				
Hired before September 1, 2022	1.75%	0.5%	$25.0 million	2.25% + $25.0 million
Hired on or after September 1, 2022	1.75%	2.0%	$25.0 million	3.75% + $25.0 million
Judicial Retirement System Plan II				
Hired before September 1, 2024	19.25%	9.36% (2)	N/A	28.61%
Hired on or after September 1, 2024	19.25%	6.0%	N/A	25.25%

NOTES:
(1) Agencies contribute 0.5 percent of payroll in addition to the state's 9.5 percent contribution.
(2) The Texas Government Code, Section 840.102, specifies a Judicial Retirement System Plan II member contribution rate of 9.5%. The effective member contribution rate shown is 9.36% because some active members elect to cease contributions. The effective member contribution rate is the rate used in actuarial valuations of the system.
SOURCE: Employees Retirement System of Texas.

that the state contributes is determined by the Legislature and identified in a rider in the ERS bill pattern in the GAA. For fiscal years 2026 and 2027, the state contribution rate through direct appropriations is 9.5 percent for ERS Retirement. In addition, a provision in the GAA, Article IX, requires state agencies to contribute 0.5 percent of payroll, for a total employer contribution of 10.0 percent for the 2026–27 biennium. Members hired before September 1, 2022, contribute 9.5 percent. ERS members hired on or after September 1, 2022, contribute 6.0 percent. ERS members hired on or after September 1, 2022, who also are LECOS members contribute 6.0 percent to the ERS plan and 2.0 percent to the LECOS supplemental plan.

For LECOS and JRS II, state contributions are 1.75 percent and 19.25 percent, respectively, for the 2026–27 biennium. **Figure 6** shows state, member, and other contribution rates for all three retirement systems. See **Appendix A – Appropriations** for actual appropriation amounts.

Figure 7 shows that ERS contribution rates from the state have remained stable since fiscal year 2016. Pursuant to Senate Bill 321, 87th Legislature, Regular Session, 2021, the member contribution rate for members hired on or after September 1, 2022, changed from 9.5 percent to 6.0 percent.

FIGURE 7
EMPLOYEES RETIREMENT SYSTEM OF TEXAS CONTRIBUTION RATES, FISCAL YEARS 2016 TO 2027

YEAR	STATE	MEMBER (1)	AGENCY	TOTAL
2016	9.5%	9.5%	0.5%	19.5%
2017	9.5%	9.5%	0.5%	19.5%
2018	9.5%	9.5%	0.5%	19.5%
2019	9.5%	9.5%	0.5%	19.5%
2020	9.5%	9.5%	0.5%	19.5%
2021	9.5%	9.5%	0.5%	19.5%
2022 (1)	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2023	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2024	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2025	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2026	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%
2027	9.5%	9.5%/6.0%	0.5%	19.5%/16.0%

NOTE: (1) Employees Retirement System of Texas members hired on or after September 1, 2022, contribute 6.0 percent.
SOURCE: Employees Retirement System of Texas.

INVESTMENT OF ASSETS

The ERS Board of Trustees oversees the investment of the system's trust fund assets. Initially, ERS was required to invest only in government securities. In 1958, investments were authorized in corporate securities, common stocks, preferred stocks, debentures, bonds, mortgages, and other financial instruments. As shown in **Figure 8**, current investment strategies employ a diversified portfolio, with a combination of active and passive management and various management

methods. As of the end of fiscal year 2025, approximately 49.0 percent of assets were managed internally, and 51.0 percent were managed externally.

Investment policies of ERS are governed by the Texas Constitution; the Texas Property Code, Title 9; and other applicable federal and state statutes. Trained staff manage fund assets daily. To assist the staff and the board with investment recommendations and decisions, the board employs investment managers and has appointed an Investment Advisory Committee consisting of individuals who have experience managing business investments or who are educators in the fields of economics or finance. In addition, ERS retains several independent investment consultants to evaluate and analyze investment strategies and results.

Assets earned 8.93 percent for fiscal year 2025 compared to 12.53 percent for fiscal year 2024. The gross rates of return for the five-year and 10-year periods ending August 31, 2025, were 10.09 percent and 8.71 percent, respectively.

Figure 9 shows the historical market value of the ERS investment assets, which have increased 19.3 percent from $33.6 billion at the end of fiscal year 2021 to $40.1 billion at the end of fiscal year 2025.

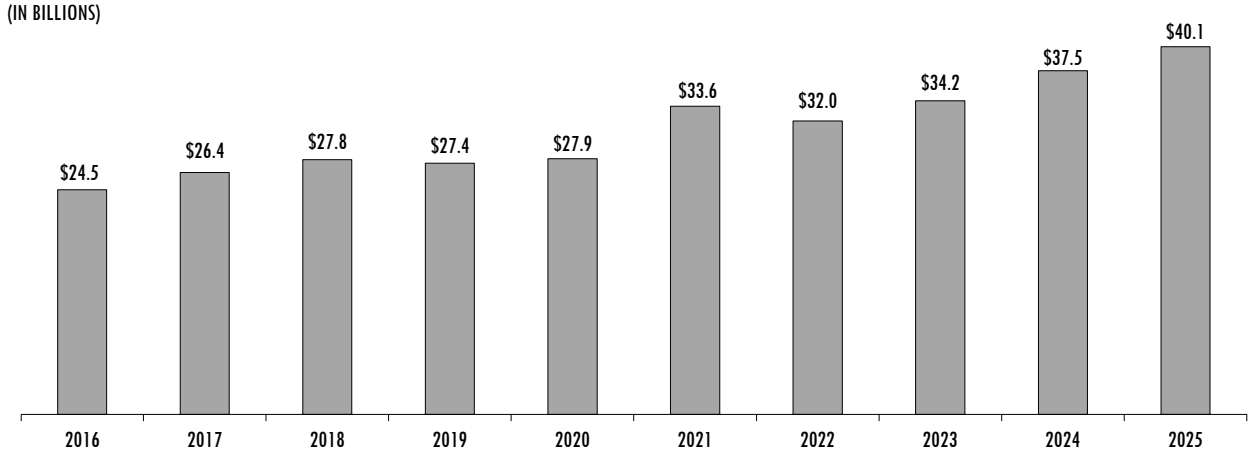
The Board of Trustees may change the assumed rate of return. **Figure 10** shows the annual gross rate of return on investment for the retirement trust fund's assets since fiscal year 2016, and the assumed rate of return, which was 8.0 percent until the board changed it to 7.5 percent during fiscal year 2017 and to 7.0 percent in May 2020. A commonly used actuarial technique called smoothing defers part of each year's performance, whether gains or losses. The ERS consulting actuary smooths investment performance when determining the actuarial value of assets to decrease the effect of marketplace volatility on the overall actuarial analysis from year to year.

FIGURE 8
EMPLOYEES RETIREMENT SYSTEM TRUST FUND ASSET ALLOCATION
AUGUST 31, 2025

ASSET CLASS	PERCENTAGE OF ALLOCATION
Public equity	36.36%
Private equity	16.87%
Public credit	8.22%
Private credit	3.40%
Public real estate	1.48%
Private real estate	9.78%
Infrastructure	6.31%
Rates	10.08%
Cash and equivalents	1.49%
Hedge funds	5.65%
Special situations	0.36%
Total	**100.00%**

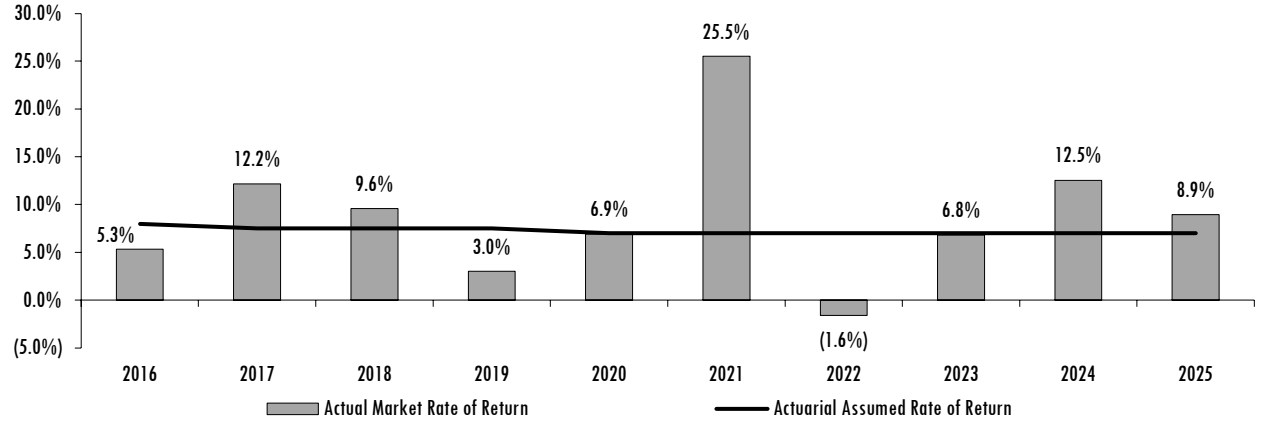
NOTES:
(1) Rates include investments in U.S. notes, bonds, and bills; U.S. government-backed agencies and treasury inflation-protected securities; agency mortgage-backed securities; agency commercial mortgage-backed securities; and highly rated and liquid foreign government bonds.
(2) Special situations include a range of investment strategies outside of traditional asset classes.
SOURCE: Employees Retirement System of Texas.

FIGURE 9
MARKET VALUE OF EMPLOYEES RETIREMENT SYSTEM OF TEXAS CONSOLIDATED PENSION INVESTMENT FUND ASSETS
FISCAL YEARS 2016 TO 2025



SOURCE: Employees Retirement System of Texas.

FIGURE 10
EMPLOYEES RETIREMENT SYSTEM OF TEXAS TRUST FUND ASSETS ANNUAL RATES OF RETURN ON INVESTMENT, ACTUAL COMPARED TO ASSUMED
FISCAL YEARS 2016 TO 2025



NOTES:
(1) The five-year average investment return is 10.09 percent, and the 10.0-year average investment return is 8.71 percent.
(2) The actuarial assumed rate of return was 8.0 percent for fiscal year 2016; 7.5 percent from fiscal years 2017 to 2019; and 7.0 percent from fiscal years 2020 to 2025.
SOURCE: Employees Retirement System of Texas.

ACTUARIAL VALUATION

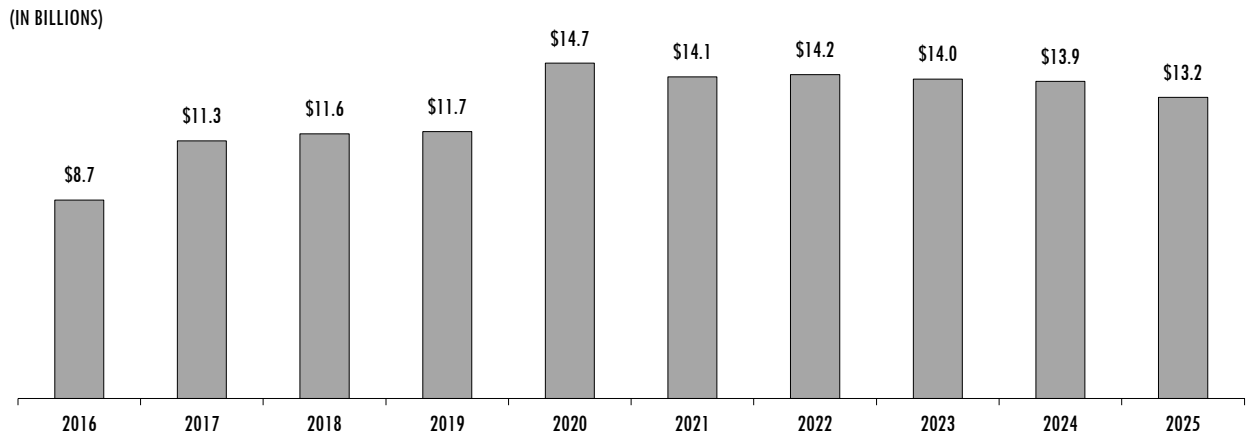
An actuarial valuation report is prepared at the close of each fiscal year by an outside consulting actuary. The valuation analyzes the plan's accrued liability compared to its assets. It considers all aspects of the pension plan, including membership data, benefit structure, assets held in trust, actuarial assumptions, funding methodology, and contribution rates. Technical modeling yields data, including the normal cost rate, unfunded actuarial accrued liability (UAAL), funded ratio, annual required contribution rate, and funding period. These data points serve in guiding daily management and higher-level policy decisions addressed by the ERS Board of Trustees and the Legislature. In addition to the annual actuarial valuation, an actuarial update on the market value of assets only is conducted as of February 28 of each odd-numbered year, which provides the Legislature with updated information during the legislative session.

Investment assumptions and performance are major factors in determining the actuarial condition of a retirement system. The assumed rate of return is what ERS expects its investments to earn each year, on average. This assumption is used to assess the long-term health of the retirement trust and determine whether the system will be able to meet obligations. Actuarial soundness of the pension plan refers to the goal that total contributions are sufficient to fund the normal cost and to amortize the UAAL during a certain period. Guidelines from the Texas Pension Review Board state that actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the UAAL during as brief a period as possible, but not to exceed 30 years. **Figures 11** and **12** show the UAAL for ERS, LECOS, and JRS II from fiscal years 2016 to 2025. From fiscal years 2022 to 2025, the UAAL for ERS decreased $1.0 billion, or 7.0 percent. A substantial part of this decrease is due to the enactment of Senate Bill 321 and House Bill 2, 87th Legislature, Regular Session, 2021, which provided additional appropriations in the form of legacy payments to pay off the system's UAAL. Funding from the 88th Legislature, Regular Session, 2023, resulted in the elimination of the UAAL for LECOS and JRS II, which **Figure 12** shows as a negative UAAL—a surplus of funding.

The August 31, 2025, actuarial valuation for the ERS retirement plans is available at www.ers.texas.gov. The annual valuations form the basis of the ERS requests for funding during each legislative session. JRS I is funded on a pay-as-you-go basis, meaning the funds required for monthly annuity payments and refunds of member contributions are appropriated for each fiscal year in General Revenue Funds.

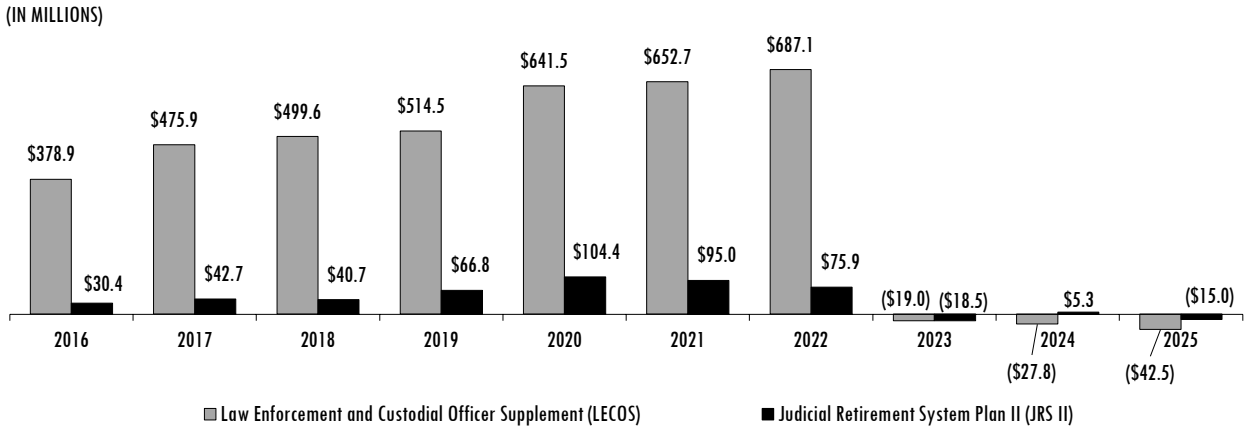
Pursuant to the Texas Constitution, the state's contribution for employees' retirement may not be less than 6.0 percent

FIGURE 11
EMPLOYEES RETIREMENT SYSTEM OF TEXAS UNFUNDED ACTUARIAL ACCRUED LIABILITY, FISCAL YEARS 2016 TO 2025



SOURCE: Employees Retirement System of Texas.

FIGURE 12
LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENT AND JUDICIAL RETIREMENT SYSTEM PLAN II UNFUNDED ACTUARIAL ACCRUED LIABILITY, FISCAL YEARS 2016 TO 2025



NOTE: A negative unfunded actuarial accrued liability means a plan's assets exceed its actuarial liability.
SOURCE: Employees Retirement System of Texas.

nor more than 10.0 percent of the aggregate compensation paid to individuals participating in the system. In an emergency determined by the Governor, the Legislature may appropriate additional funds as are actuarially determined to be required to fund benefits authorized by law. The state's retirement contribution rate established by the 88th Legislature, Regular Session, 2025, is 9.5 percent for each fiscal year of the 2026–27 biennium; when combined with the 0.5 percent agency contribution, the total state contribution is 10.0 percent. Members hired before September 1, 2022, contribute 9.5 percent of payroll, and members hired on or after September 1, 2022, contribute 6.0 percent of payroll. According to the 2025 actuarial valuation, the funding period at the end of fiscal year 2025 was 29.0 years. This period represents a decrease from the funding period of 30.0 years at the end of fiscal year 2024. According to that report, the market value of the ERS retirement fund is approximately $40.1 billion, an increase of approximately $2.6 billion, or 6.9 percent, from the previous fiscal year. That report shows a funded ratio—the plan's assets divided by its liabilities—of 74.4 percent as of August 31, 2025, which is 2.4 percentage points greater than the funded ratio of fiscal year 2024. **Figure 13** shows the ERS Plan funded ratio for fiscal years 2021 to 2025, which has increased 6.4 percentage points during that period.

The August 31, 2025, actuarial valuation for the LECOS fund shows a funded ratio of 102.1 percent, which represents a slight increase from 101.5 percent during fiscal year 2024. The funded ratio is greater than 100.0 percent due to funding from the 88th Legislature, Regular Session, 2023, to address the UAAL of LECOS. According to the 2025 actuarial valuation, the market value of the LECOS fund is approximately $2.1 billion, an increase of approximately $130.5 million, or 6.6 percent, from the previous fiscal year.

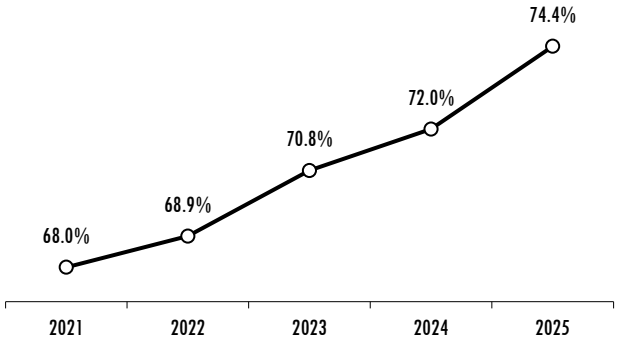
The August 31, 2025, actuarial valuation for the JRS II fund shows a funded ratio of the actuarial value of assets to the actuarial accrued liability of 101.9 percent, 2.6 percentage points greater than the funding ratio in the previous fiscal year. As with LECOS, the funded ratio is greater than 100.0 percent due to funding from the 88th Legislature, Regular Session, 2023, to address the UAAL of this program. The state contribution rate is 19.25 percent, and the effective member contribution rate is 9.36 percent for those hired before September 1, 2024, for a total contribution rate of 28.61 percent. For those hired on or after September 1, 2024, the member contribution rate is 6.0 percent, for a total contribution rate of 25.25 percent. According to the August 31, 2025, actuarial valuation, the market value of the JRS II fund is approximately $805.1 million, an increase of $49.4 million, or 6.5 percent, from the previous fiscal year.

RETIREMENT ELIGIBILITY

Members of ERS become eligible to receive their retirement benefits, or vested, when they have accrued 5.0 years or 10.0 years of creditable service, depending upon the dates they began their state employment. Service credit refers to the length of time worked in which all required contributions have been made, and it also may include purchased active-duty military time, months of unused sick and annual leave, and other eligible service. The purchase of additional service credit is available to enable certain qualified individuals to retire earlier and to increase the amounts of their annuity payments. **Figure 14** shows eligibility requirements for employee categories, based on when the employee was hired.

The LECOS retirement plan and the two judicial plans, JRS I and JRS II, have provisions that authorize early service retirement with decreased benefits for those hired before September 1, 2022, for LECOS, and for those hired before September 1, 2024, for JRS II. The amount of the decrease is calculated based on the member's age at the time of retirement. Additional information related to retirement eligibility requirements is available at www.ers.texas.gov.

FIGURE 13
FUNDED RATIO OF EMPLOYEES RETIREMENT SYSTEM OF TEXAS RETIREMENT PLAN
FISCAL YEARS 2021 TO 2025



SOURCE: Employees Retirement System of Texas.

Figure 15 shows the annuitant profile for ERS, LECOS, and JRS II for fiscal year 2025, at which time members of JRS II had the greatest average age at retirement, and members of LECOS had the most average years of service.

Figure 16 shows annual ERS retirement totals from fiscal years 2016 to 2025 and the percentage change each year.

RETIREMENT BENEFITS

The ERS retirement system is a qualified, defined benefit plan pursuant to the U.S. Internal Revenue Code, Section 401(a). A defined benefit plan uses employer and employee contributions during the employee's working years to prefund the employee's pension benefits primarily through long-term investment earnings. During fiscal year 2025, ERS paid pension benefit payments and refunds totaling $3.1 billion. This amount is an increase of $56.8 million from the $3.0 billion paid in fiscal year 2024. **Figure 17** shows the benefits and refunds paid since fiscal year 2016. Benefits and refunds increased 12.5 percent from fiscal years 2021 to 2025.

For the general employee plan, the standard annuity pays 2.3 percent, referred to as the multiplier, of the employee's final average salary for each year of service credit. The final average salary is based on the greatest salary for 36.0 months for employees hired before September 1, 2009, or who had an account balance with ERS on August 31, 2009. For employees hired on or after September 1, 2009, the final average salary is based on the greatest salary during a period of 48.0 months. For employees hired on or after September 1, 2013, but before September 1, 2022, the final average is based on the greatest salary during a period of 60.0 months.

FIGURE 14
EMPLOYEES RETIREMENT SYSTEM OF TEXAS RETIREMENT ELIGIBILITY, FISCAL YEAR 2025

EMPLOYEE CATEGORY		RETIREMENT ELIGIBILITY (1)(2)	ANNUITY REDUCTION
Group 1	Hired before September 1, 2009	5.0 years of service and age 60; or Rule of 80 with at least 5.0 years of service credit; or age 55 with at least 10.0 years of service credit as a certified peace officer or custodial officer	None
Group 2	Hired on or after September 1, 2009, and before September 1, 2013	10.0 years of service and age 65; or Rule of 80 with at least 10.0 years of service credit at age 60; or age 55 with at least 10.0 years of service credit as a certified peace officer or custodial officer	5.0% for each year retired before age 60 (25.0% maximum)
Group 3	Hired on or after September 1, 2013	10.0 years of service and age 65; or Rule of 80 with at least 10.0 years of service credit at age 62; or age 57 with at least 10.0 years of service credit as a certified peace officer or custodial officer	5.0% for each year retired before age 62 (no maximum)
Group 4	Hired on or after September 1, 2022, and was not a member on the date of hire	Regular Retirement: 5.0 years of service and age 65; or Rule of 80 with at least 5.0 years of service credit. Law Enforcement and Custodial Officer Supplement Retirement: 20.0 years of service as a certified peace officer or custodial officer	Not applicable
Judicial Retirement System II (JRS II)	Hired on or after September 1, 1985, and before September 1, 2024	10.0 years of service and age 65 and currently holding a judicial office; 12.0 years of service and age 65, whether or not currently holding a judicial office; 20.0 years of service at any age, whether or not currently holding a judicial office; 12.0 years of service on an appellate court at any age and Rule of 70, whether or not currently holding a judicial office	Reductions apply for those retiring before age 65
JRS II	Hired on or after September 1, 2024	8.0 years of service and age 60, whether or not currently holding a judicial office; 12.0 years of service and age 50, whether or not currently holding a judicial office	Not applicable

NOTES:
(1) The Rule of 80 is met when the sum of the retiree's age and years of service credit in the Employees Retirement System of Texas equals or exceeds 80.0 at the time of retirement.
(2) A Law Enforcement and Custodial Officer Supplement (LECOS) member can retire at any age with at least 20.0 years of LECOS service to receive the supplemental LECOS benefit.
SOURCE: Employees Retirement System of Texas.

Example calculations:

($3,000 average monthly salary)
X (20.0 years of service credit)
X (2.3 percent multiplier)
=$1,380 monthly standard annuity

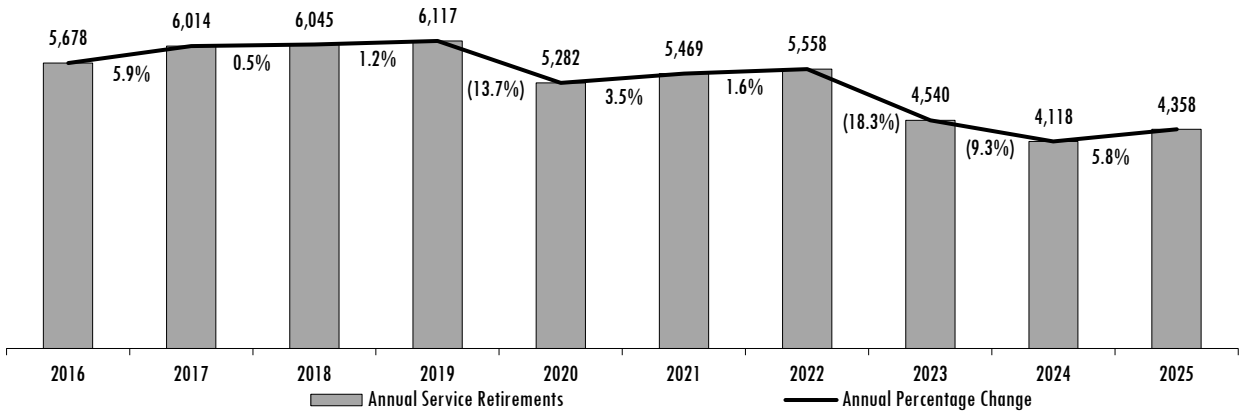
For employees hired on or after September 1, 2022, the calculation for the annuity is based on the total account balance at retirement, which will include the employee's contribution during their years of service, 4.0 percent annual interest earned, any gain sharing earned, and a 150.0 percent match by the state. Gain-sharing enables members hired on or after September 1, 2022, to receive up to an additional 3.0 percent increase in their accounts when the average investment return for the previous five fiscal years is more than 4.0 percent (i.e., up to a total of 7.0 percent annual return). Each retirement program that ERS administers has optional benefits to provide a continuing annuity for a participant's designated surviving beneficiary. If the member chooses one of the available survivor benefit options, the member's monthly annuity is decreased depending on the option chosen. If the beneficiary dies before the retired member, the annuity paid to the member is increased to the standard annuity.

FIGURE 15
EMPLOYEES RETIREMENT SYSTEM OF TEXAS ANNUITANT PROFILE, FISCAL YEAR 2025

ANNUITANT	ERS	LECOS	JRS II
Retirees and beneficiaries	127,195	17,163	622
Average age at retirement	58.4	53.8	63.8
Average years of service	22.0	23.6	15.4
Ratio of current members to retirees	1.15 to 1	2.07 to 1	1.09 to 1

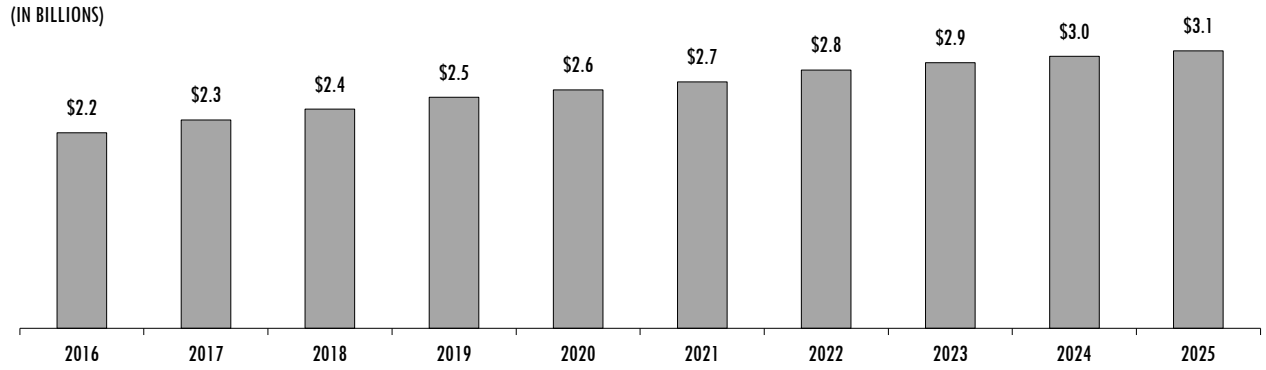
NOTE: ERS= Employees Retirement System of Texas; LECOS=Law Enforcement and Custodial Officer Supplement; JRS II=Judicial Retirement System Plan II.
SOURCE: Employees Retirement System of Texas.

FIGURE 16
EMPLOYEES RETIREMENT SYSTEM OF TEXAS AND JUDICIAL RETIREMENT SYSTEM PLAN II ANNUAL RETIREMENTS AND ANNUAL PERCENTAGE CHANGE, FISCAL YEARS 2016 TO 2025



NOTE: Data include retirements for Employees Retirement System of Texas (ERS) and Judicial Retirement System Plan II. Law Enforcement and Custodial Officer Supplement retirements are included in ERS retirements.
SOURCE: Employees Retirement System of Texas.

FIGURE 17
EMPLOYEES RETIREMENT SYSTEM OF TEXAS BENEFIT PAYMENTS AND REFUNDS, FISCAL YEARS 2016 TO 2025



SOURCE: Employees Retirement System of Texas.

Members have five alternatives for annuity payments in lieu of a standard annuity. The retiree may select one of three joint and survivor options, or one of two guaranteed-period annuities that provide a lifetime benefit to the retiree and a guaranteed benefit of either 60.0 months or 120.0 months payable to the beneficiary if the retiree dies before the period ends. The alternative payments may be decreased by actuarial factors, based on the ages of the member and beneficiary.

The service percentage for a member of the LECOS retirement program hired before September 1, 2022, is calculated based on 2.8 percent for each year of service. For LECOS members hired on or after September 1, 2022, the standard monthly annuity is equal to the member's LECOS account balance plus a 300.0-percent state match multiplied by an annuity conversion factor, in addition to the lifetime annuity from the member's regular retirement account.

The base service retirement annuity for members of a judicial retirement program elected or appointed prior to September 1, 2024, is 50.0 percent of the state salary for a judge of a court of the same classification as the court on which the judge last served. For members of JRS II elected or appointed on or after September 1, 2024, the standard monthly annuity is equal to the member's account balance plus a 150.0-percent state match multiplied by an annuity conversion factor.

ERS and LECOS retirees also may choose a partial lump-sum option at retirement. This option provides a lump-sum payment equal to up to 36.0 months of the standard annuity, with a permanent actuarial decrease of

the monthly annuity. This option is not available to members who accept a disability retirement or an early age retirement, or those who retire through the Proportionate Retirement Program. See the **Proportionate Retirement** section for more information.

In January 2025, ERS provided a cost-of-living adjustment (COLA) to members who had been retired for 20 years or more as of December 31, 2024. Senate Bill 1459, 83rd Legislature, Regular Session, 2013, established this COLA in the Texas Government Code, Section 814.604, which specifies that it could be granted only when the ERS plan was determined to be actuarially sound. That determination was made by the ERS governing board in December 2024.

The COLA is the lesser of 3.0 percent of a person's gross monthly pension or $100 per month. ERS estimated 25.0 percent of retirees at that time were eligible for the adjustment and anticipated the onetime cost to be approximately $100.0 million. According to ERS, the rate of return on investments was expected to cover this cost.

DISABILITY RETIREMENT BENEFITS

Two types of disability retirement benefits are available to members of ERS: occupational and nonoccupational. ERS defines an occupational disability as "a sudden and unexpected injury or disease that results solely from a specific act or occurrence determinable by a definite time and place and solely from an extremely dangerous risk of severe physical or mental trauma or disease that is not common to the public at large and that is peculiar to and inherent in a dangerous duty that arises from the nature and in the course of a person's state employment." An example would include a state trooper shot in the line of duty who suffered an injury resulting in a permanent and disabling condition. If all requirements are met, a benefit may be paid with at least one month of membership service credit.

A nonoccupational disability need not be related to the work being performed; this type of benefit is available only to employees with 10.0 years of membership service credit. An example of a qualifying nonoccupational disability retirement would include an employee diagnosed with a terminal illness who is unable to continue working.

Members must meet the conditions for one of these types of disability and must be certified by the ERS Medical Board to receive the retirement annuity and insurance benefits.

PROPORTIONATE RETIREMENT

State law also provides the Proportionate Retirement Program, which enables members to combine service credit from two or more retirement systems within the program to meet retirement eligibility. Annuity calculations are unaffected and continue to represent only the amount of service credit in each system. A member of any retirement system that participates in the program may purchase withdrawn ERS service without being reemployed by the state. Members also may purchase canceled service from any of the participating retirement systems. The following retirement systems participate in the program:

- ERS;
- TRS;
- JRS I and JRS II;
- Texas Municipal Retirement System;
- Texas County and District Retirement System;
- City of Austin Employees Retirement System;
- El Paso City Employees' Pension Fund;
- El Paso Firemen and Policemen's Pension Fund; and
- City of Austin Police Retirement System.

DEATH BENEFITS

In addition to the survivor benefits previously mentioned, ERS pays a $5,000 lump-sum death benefit to designated beneficiaries of retirees. This benefit is referred to as Retiree Death Benefits in ERS' bill pattern in the General Appropriations Act (GAA). ERS also provides basic life insurance coverage for active employees and retirees ($5,000 and $2,500, respectively), and members may purchase additional life insurance.

ERS also is responsible for administering the Public Safety Death Benefits program, through which the state provides a lump-sum payment to survivors and financial assistance for certain surviving children of a law enforcement officer, firefighter, or other eligible state or local public safety employee who is killed in the line of duty. The Texas Government Code, Section 615.022, requires the ERS board to adjust this amount each year to the percentage change in the Consumer Price Index for All Urban Consumers for the previous calendar year. The amount distributed to survivors for fiscal year 2025 was $611,135, and the amount distributed to survivors for fiscal year 2026 is $628,858.

Appropriations for the 2026–27 biennium totaled $27.5 million in All Funds for retiree death benefits and $99.3 million in All Funds for public safety death benefits.

SIGNIFICANT LEGISLATION

The 89th Legislature, Regular Session, 2025, passed the following legislation affecting ERS retirement and death benefits.

House Bill 1306 – Increasing eligibility for public safety death benefits. The legislation adds certain medical examiners, death investigators, and justices of the peace to the cohort of individuals eligible for benefits pursuant to the Texas Government Code, Chapter 615. This statute provides financial assistance to eligible survivors of certain individuals who died as a result of a personal injury sustained in the line of duty. The lump-sum amount provided to eligible survivors for a death occurring during fiscal year 2025 was $611,135, and the amount for a death occurring during fiscal year 2026 is $628,858. Appropriations for these payments are made from the General Revenue Fund. The lump-sum amount is adjusted each year by the percentage change in the Consumer Price Index for All Urban Consumers.

Senate Bill 1737 – Adding members of certain agencies to LECOS retirement fund. The legislation makes certain law enforcement and custodial officers of the Texas Juvenile Justice Department (TJJD), Comptroller of Public Accounts (CPA), and Office of the Attorney General (OAG) eligible to receive benefits in the LECOS Retirement Fund. This fund provides an increased retirement benefit for members. Before this legislation, membership was limited to certain employees of the Texas Department of Public Safety, Texas Alcoholic Beverage Commission, Texas Parks and Wildlife Department, Texas Department of Criminal Justice, and Board of Pardons and Paroles.

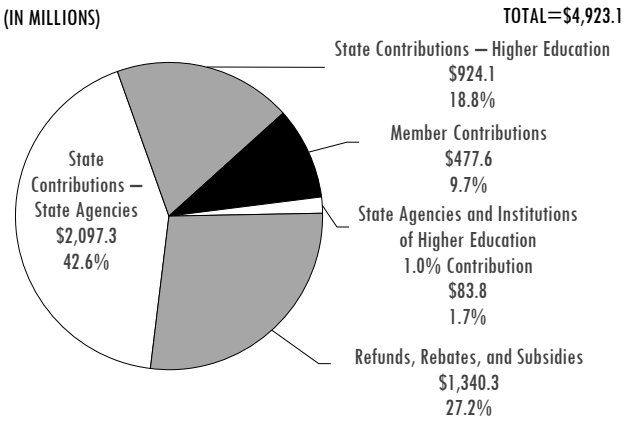
According to ERS, the legislation is estimated to add approximately 1,661 individuals from TJJD, CPA, and OAG to the membership of LECOS. Appropriations of $40.3 million are provided for the 2026–27 biennium to implement the legislation.

GROUP BENEFITS PROGRAM

STATE FUNDING AND APPROPRIATIONS

Appropriations for the 2026–27 biennium totaled $4.7 billion in All Funds for the Group Benefits Program (GBP), including $520.7 million for an 8.0 percent increase in premiums for each year of the 2026–27 biennium. The increase is provided to address increasing healthcare costs, especially pharmacy costs, and the projected long-term depletion of the contingency reserve fund balance.

FIGURE 18
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
GROUP BENEFITS PROGRAM REVENUE SOURCES
FISCAL YEAR 2025



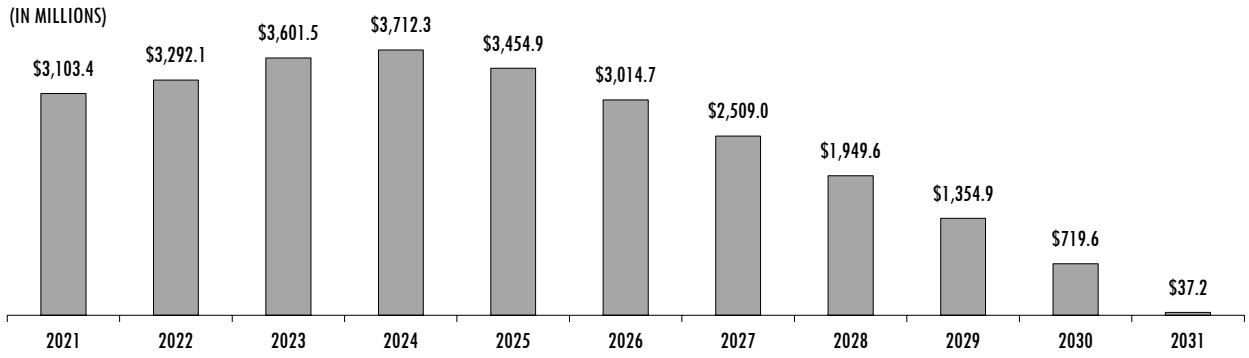
SOURCE: Employees Retirement System of Texas.

Premiums for this program are funded by a combination of state contributions, member contributions, employer contributions, local funds from participating entities, and investment earnings. Unlike the prefunded retirement plans, GBP is funded on a pay-as-you-go basis. **Figure 18** shows the revenue allocation of the program's five major funding sources, which totaled $4.9 billion for fiscal year 2025. Funding from all sources is deposited into the Employees Life, Accident, Health Insurance, and Benefits Trust Account, also known as the GBP Trust Fund or Contingency Reserve Fund, from which all claims are paid. The fund had a balance of $3.5 billion at the end of fiscal year 2025; this balance is affected by revenues, expenditures, plan experience, rebates, subsidies, and related contract agreements. **Figure 19** shows the fund balance from fiscal years 2021 to 2025 and ERS projections for fiscal years 2026 to 2031.

The state pays 100.0 percent of the premium for full-time employees and 50.0 percent of dependent coverage, and members pay the remaining 50.0 percent. For part-time employees and graduate teaching assistants, the state and participants each contribute 50.0 percent of the premium. For those participants' dependents, the state contributes 25.0 percent.

In addition to the state contribution, the GAA requires all general state agencies and institutions of higher

FIGURE 19
CONTINGENCY RESERVE FUND BALANCE FOR THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PROGRAM FISCAL YEARS 2021 TO 2031 (1)



NOTE: (1) Amounts shown for fiscal years 2026 to 2031 are projected.
SOURCE: Employees Retirement System of Texas.

education that participate in GBP to contribute 1.0 percent of base payroll for group health insurance. The 89th Legislature, GAA, 2026–27 Biennium, also requires ERS to continue assessing a monthly $30 premium differential to GBP participants who use tobacco. ERS began covering prescription drugs for tobacco cessation in calendar year 2012.

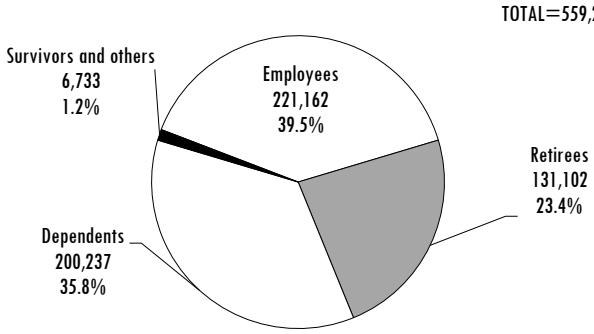
The Legislature appropriates funds for the state contribution for general state agencies. These estimated appropriations appear at the end of each article of the GAA. The total appropriation for all state agencies is shown as an informational listing in the ERS bill pattern in the GAA. Higher education institutions receive separate sum-certain appropriations for insurance and must supplement any shortages with local funds. See the chapter regarding **Higher Education Employees Group Insurance** and **Appendix A – Appropriations** for actual appropriation amounts.

ELIGIBILITY AND MEMBERSHIP

All state employees and their dependents are eligible for the GBP. Retirees must have at least 10.0 years of ERS service credit, which may include up to 5.0 years of military service credit but may not include any other special or equivalent service credit purchased. Additionally, the participant must meet one of the following requirements:

- the sum of the retiree's age and years of service credit in ERS must equal or exceed 80.0 at the time of retirement, regardless of whether the retiree had a decrease in the retirement annuity for early age (years of service credit can include all purchased service); or
- the retiree must be age 65 or older.

FIGURE 20
EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PROGRAM PARTICIPATION FISCAL YEAR 2025



SOURCE: Employees Retirement System of Texas.

Disability retirees are eligible for the GBP regardless of the number of years of service credit.

Pursuant to Senate Bill 1459, 83rd Legislature, Regular Session, 2013, ERS implemented tiered insurance for retirees, which applied to all employees who had less than 5.0 years of service as of September 1, 2014. Employees who retire with more than 15.0 years but less than 20.0 years of service receive 75.0 percent of the full state contribution for insurance. Employees who retire with more than 10.0 years but less than 15.0 years of service receive 50.0 percent of the full state contribution for insurance upon retirement.

For fiscal year 2025, the total membership in the GBP was 559,234, which is 2.0 percent greater than the membership of 548,169 for fiscal year 2024. **Figure 20** shows participation in the GBP by membership group. The

average member age was 55 years, and the average length of service was 14.0 years.

When Medicare-eligible retirees provide their Medicare numbers and Medicare Part A and B effective dates to ERS, they are enrolled automatically in the HealthSelect Medicare Advantage Plan, administered by United Healthcare, unless they opt out. According to ERS, HealthSelect Medicare Advantage provides health insurance with lower member contribution rates for dependent coverage and no medical deductible. As of August 31, 2025, a total of 106,273 participants were enrolled in the plan. **Figure 21** shows participation in this plan has increased 15.1 percent during the past five years.

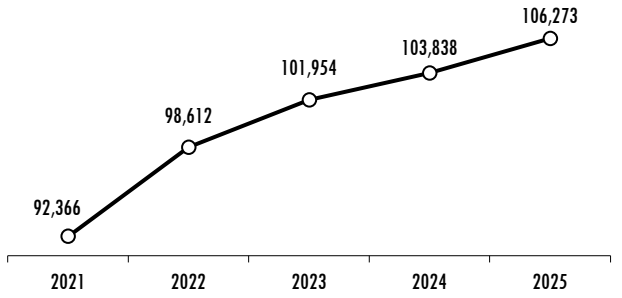
PROGRAM STRUCTURE

Health and other insurance benefits are subject to change based on available state funding. The ERS board plans the structure and contracts for the insurance options offered through the GBP based upon anticipated contributions, experience, and other factors such as cost-savings measures. The GBP offers a health insurance plan called HealthSelect of Texas, which is a self-funded plan introduced in 1992. Blue Cross and Blue Shield of Texas administers HealthSelect, and Express Scripts manages pharmacy benefits.

During fiscal year 2025, the GBP paid 7.3 million medical claims and expended $4.1 billion in payments to doctors, hospitals, pharmacies, and other healthcare providers. The number of medical claims for fiscal year 2025 was 5.8 percent higher than the 6.9 million medical claims during fiscal year 2024, and the amount of payments for fiscal year 2025 was 10.8 percent higher than the $3.7 billion paid during fiscal year 2024.

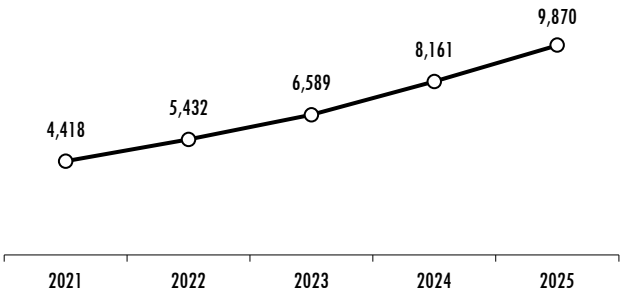
House Bill 966, 84th Legislature, 2015, directed ERS to establish a voluntary, consumer-directed health plan, which includes a high-deductible health plan and a health savings account, as an option for GBP participants. The legislation also requires the state to contribute to a health savings account the difference, if any, between the full state contribution to HealthSelect and the coverage cost of the high-deductible plan. Participants in this plan can see specialists without a referral from their primary care providers. Participants pay the full cost of healthcare and prescriptions, except those used for preventive care, until their annual deductibles are met. At the end of fiscal year 2025, 9,870 participants were enrolled in Consumer Directed HealthSelect. **Figure 22** shows enrollment in this program has more than doubled since fiscal year 2021.

FIGURE 21
PARTICIPANTS IN HEALTHSELECT MEDICARE ADVANTAGE PLAN, FISCAL YEARS 2021 TO 2025



SOURCE: Employees Retirement System of Texas.

FIGURE 22
PARTICIPANTS ENROLLED IN CONSUMER DIRECTED HEALTHSELECT
FISCAL YEARS 2021 TO 2025



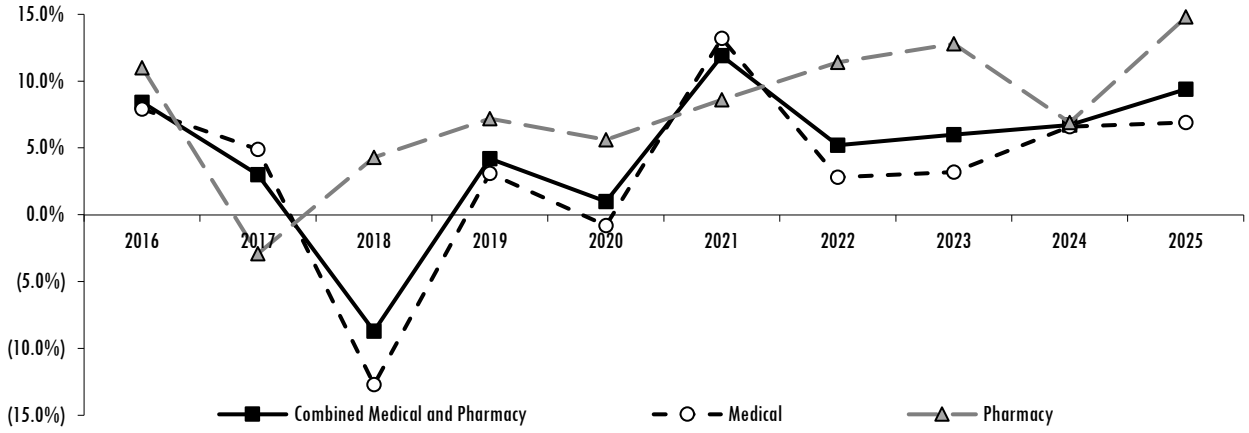
SOURCE: Employees Retirement System of Texas.

According to ERS, the projected cost trend for HealthSelect of Texas combined medical and pharmacy plan costs for plan year 2025 is 9.4 percent, which includes 6.9 percent for medical benefits and 14.8 percent for prescription drug benefits. **Figure 23** shows HealthSelect cost trends from fiscal years 2016 to 2025. According to ERS, a significant reason for the increase in pharmacy costs from fiscal years 2024 to 2025 is costs for glucagon-like peptide-1 (GLP-1) receptor agonists, which are prescribed for Type 2 diabetes.

PLAN COSTS PER PARTICIPANT

Figure 24 shows the average annual healthcare claims costs for all participants from fiscal years 2021 to 2025. Costs have increased during each of these years and have increased a total of 27.5 percent during the entire period. According to ERS, the substantial increase from fiscal years 2024 to 2025 is due to increased costs in prescription drugs and hospital costs, among other expenses.

FIGURE 23
HEALTHSELECT OF TEXAS COST TRENDS, FISCAL YEARS 2016 TO 2025



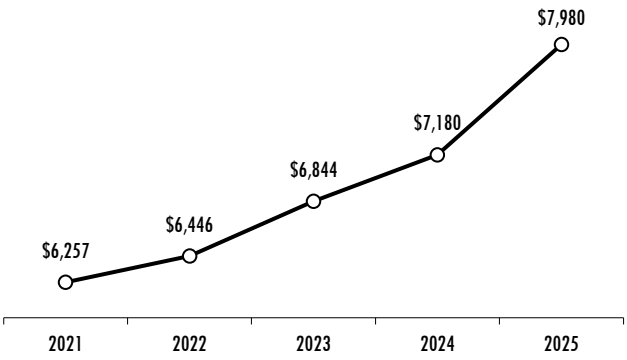
COST	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Medical	7.9%	4.9%	(12.7%)	3.1%	(0.8%)	13.2%	2.8%	3.2%	6.6%	6.9%
Pharmacy	11.0%	(2.9%)	4.3%	7.2%	5.6%	8.6%	11.4%	12.8%	6.9%	14.8%
Combined	8.4%	3.0%	(8.7%)	4.2%	1.0%	11.9%	5.2%	6.0%	6.7%	9.4%

SOURCE: Employees Retirement System of Texas.

Figure 25 shows the average annual plan cost per participant diagnosed with a chronic condition, including both medical and pharmacy (net of rebates) costs, from fiscal years 2021 to 2025, excluding the Medicare population. The plan costs for each of these conditions were substantially higher than the costs for all participants shown in **Figure 24**. Costs increased for all conditions during this period, and the largest percentage increases were reported among participants diagnosed with diabetes and heart disease. These two conditions also contributed the largest cost per participant each year. According to ERS, some of these cost increases are due to a change in methodology for determining the categories. Specifically, beginning in fiscal year 2025, prediabetes is no longer included in the diabetes category, and unspecified chest pain is no longer included in the heart disease category. Removing these conditions from those categories increased the average cost because those conditions cost less to treat than other conditions included in those categories.

Figure 26 shows the percentages of participants diagnosed with the most prevalent chronic conditions. Participants are included in each category for which they had a medical claim; therefore, some participants may appear in more than one category. **Figure 26** shows that the most common chronic conditions are back or joint pain and mental health or substance abuse. According to ERS, some of the percentage changes from fiscal years 2024 to 2025 are due to a new methodology for determining the categories. Specifically, beginning in fiscal year 2025, rheumatoid arthritis was included in the back pain or joint pain category, prediabetes was no longer included in the diabetes category, and unspecified chest pain was no longer included in the heart disease category.

FIGURE 24
AVERAGE ANNUAL HEALTHSELECT OF TEXAS COST PER PARTICIPANT, FISCAL YEARS 2021 TO 2025



NOTES: Costs include all medical and pharmacy claims. Pharmacy costs are net of rebates. Costs do not include participants' share of the cost. The Medicare population is excluded.
SOURCE: Employees Retirement System of Texas.

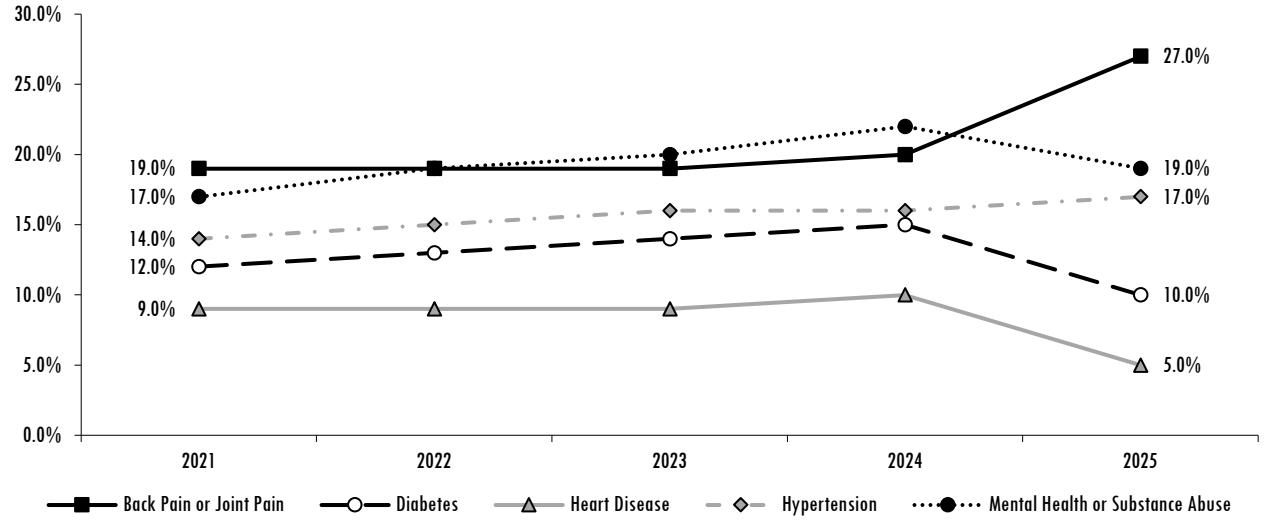
Figure 27 shows the highest-cost drug therapeutic classes from fiscal years 2021 to 2025. During that period, the cost for each of those drug classes except anti-inflammatory drugs

FIGURE 25
AVERAGE ANNUAL PLAN COST PER PARTICIPANT WITH A CHRONIC CONDITION, FISCAL YEARS 2021 TO 2025

CONDITION	2021	2022	2023	2024	2025	PERCENTAGE CHANGE 2021 TO 2025
Back pain or joint pain	$11,879	$12,819	$13,825	$14,514	$14,597	22.9%
Diabetes	$13,497	$13,513	$14,302	$15,086	$19,156	41.9%
Heart disease	$22,470	$22,663	$23,636	$25,396	$35,792	59.3%
Hypertension	$12,715	$12,922	$14,151	$15,068	$16,289	28.1%
Mental health or substance abuse	$9,750	$9,999	$10,593	$11,043	$12,156	24.7%

NOTE: Cost per participant excludes participants enrolled in Medicare.
SOURCE: Employees Retirement System of Texas.

FIGURE 26
PERCENTAGES OF PLAN PARTICIPANTS DIAGNOSED WITH THE MOST PREVALENT CHRONIC CONDITIONS FISCAL YEARS 2021 TO 2025



NOTE: Participants are counted in each category for which they had a medical claim; therefore, some participants may be counted in more than one category.
SOURCE: Employees Retirement System of Texas.

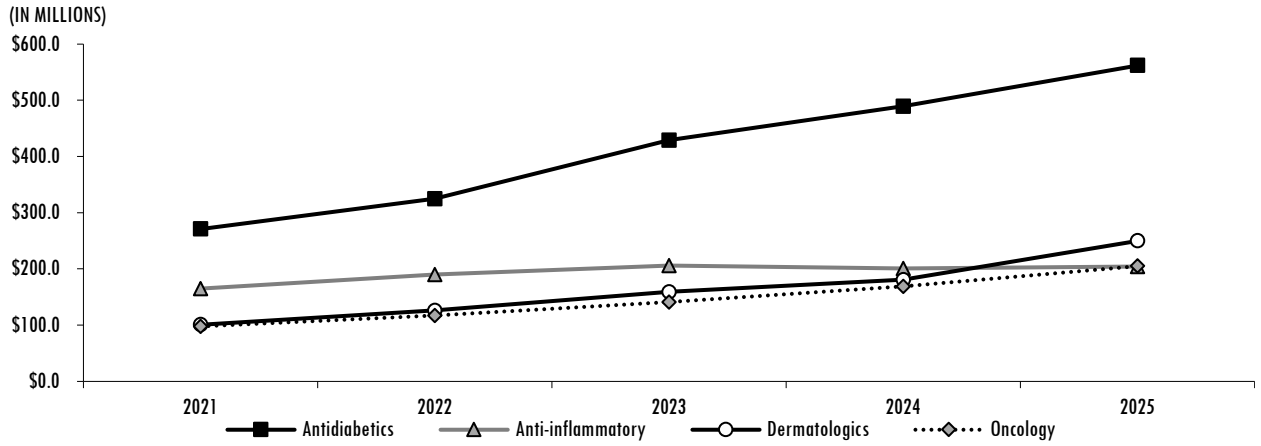
more than doubled. The highest cost was for antidiabetics. According to ERS, these drugs include GLP-1 agonists such as the brands Ozempic and Mounjaro, and, during plan year 2025, they accounted for 23.0 percent of the $325.5 million increase in spending on all drugs. ERS' annual report on the GBP indicates that, during plan year 2025, the highest-cost drug therapeutic classes accounted for 57.0 percent of spending on all drugs. According to ERS, during plan year 2025, 85.1 percent of prescriptions covered were for generics rather than brand drugs.

OPTIONAL COVERAGE

In addition to health insurance and the accompanying prescription drug program, the following optional coverage programs are offered to state employees: dental, vision, optional term life insurance, dependent term life insurance, voluntary accidental death and dismemberment coverage, and short-term and long-term disability insurance. During fiscal year 1988, the Legislature introduced a flexible spending account (FSA) for state employees, which is now a healthcare reimbursement account called TexFlex. Employees may fund TexFlex accounts for themselves and their dependents with payroll deductions that reduce federal income and Social Security taxes.

State employees may contribute up to $3,200 per year for fiscal year 2025 into a healthcare FSA or limited-purpose healthcare FSA and up to $5,000 per year into a dependent

FIGURE 27
HIGHEST-COST DRUG THERAPEUTIC CLASSES, FISCAL YEARS 2021 TO 2025



SOURCE: Employees Retirement System of Texas.

care FSA. TexFlex reimburses dental, vision, and other eligible expenses as determined by the U.S. Internal Revenue Service. The program operates on participant fees. According to ERS, 40,192 individuals were enrolled in TexFlex during fiscal year 2025.

During fiscal year 2025, ERS had two dental plans available to employees and retirees: the State of Texas Dental Choice Plan administered by Delta Dental, and the DeltaCare USA Dental HMO. The vision insurance plan, called State of Texas Vision, is available to employees, retirees, and eligible dependents. According to ERS' Group Benefits Program Annual Report for fiscal year 2025, this self-funded plan has benefits for eye exams, eyewear, and additional discounts for some services such as LASIK surgery. As of fiscal year 2025, the plan administrator is EyeMed Vision Care LLC.

Basic term life insurance coverage is included with GBP health coverage. An employee receives a $5,000 policy, and a retiree receives a $2,500 policy. Employees also may enroll in optional term life insurance coverage in an amount equal to or double their annual salary without evidence of insurability. With evidence of insurability, employees may enroll in optional term life insurance coverage worth three or four times their annual salaries.

Dependent term life insurance coverage provides coverage for each enrolled family member and requires a monthly premium. An employee's dependent is eligible for a $5,000 policy, and a retiree's dependent is eligible for a $2,500 policy provided the person was enrolled in coverage at the time of retirement.

Voluntary accidental death and dismemberment (AD&D) coverage provides benefits in the event of an accident or certain accidental injuries. This coverage is in addition to AD&D benefits provided with basic and optional term life for active employees, and it requires a monthly premium.

The Texas Income Protection Plan provides optional insurance coverage for short-term and long-term disability. The plan pays a percentage of an employee's paycheck if the employee becomes disabled and cannot work.

SIGNIFICANT LEGISLATION

The 89th Legislature, Regular Session, 2025, passed the following legislation affecting ERS group insurance and the GBP.

House Bill 138 – Health Impact, Cost, and Coverage Analysis Program. The legislation establishes the Health Impact, Cost, and Coverage Analysis Program at the University of Texas Health Science Center at Houston. The program is intended to prepare analyses of proposed legislation that would impose new mandates on health benefit plan issuers or administrators. The program's analysis will include the fiscal impact to state-administered plans, such as HealthSelect of Texas.

House Bill 4638 – Texas Pharmaceutical Initiative. The legislation extends the expiration date of the Texas Pharmaceutical Initiative (TPI) to September 1, 2027. House Bill 4990, 88th Legislature, Regular Session, 2023, established the TPI. The initiative is attached administratively to the Health and Human Services Commission (HHSC)

and is intended to provide cost-effective access to prescription drugs and other medical supplies for certain state employees, dependents, retirees, and clients of state programs. Representatives of HHSC, ERS, the Teacher Retirement System of Texas, the University of Texas System, and the Texas A&M University System serve as members of the TPI advisory council.

TEACHER RETIREMENT SYSTEM OF TEXAS

The Teacher Retirement System of Texas (TRS) was established by an amendment to the Texas Constitution in 1936 and by acts of the Legislature in 1937 to provide a statewide retirement system for public and higher education employees. TRS' two main objectives are: (1) to deliver retirement benefits, group insurance, and death, survivor, and disability benefits to employees of public schools, colleges, and universities; and (2) to manage the trust funds that finance member benefits. The agency manages retirement benefit programs for public education and higher education retirees and two healthcare benefit programs: retiree health benefits, known as TRS-Care, which offers health insurance coverage to eligible public education retirees and their dependents; and active employees' health benefits, known as TRS-ActiveCare, which offers a statewide group health insurance program for public education employees and their eligible dependents. The board consists of nine trustees who act as fiduciaries overseeing the administration of benefits delivery and the management of trust fund assets. At the end of fiscal year 2025, TRS reported 2,102,992 active members, and the market value of TRS investment assets was $225.3 billion.

RETIREMENT

GOVERNANCE AND POLICY

The TRS Board of Trustees administers retirement and related benefits for employees of public, state-supported, educational institutions in Texas. Statute grants the board significant independence in the operation and management of retirement fund investments. The board's nine trustees are appointed by the Governor with the approval of the Texas Senate, and they serve staggered, six-year terms. The Governor directly appoints three trustees who have demonstrated financial expertise, have broad investment experience, and are not active or retired members of the system. The State Board of Education compiles a list of candidates, who also must have demonstrated financial experience and broad investment experience, and the Governor appoints two of these candidates as trustees. The remaining four trustee appointments are selected from the candidates who receive the most votes in elections among active and retired public and higher education employees. As fiduciaries of the trust fund, the trustees are responsible for the prudent management of assets held in the trust, seeking long-term investment returns that meet or exceed the established actuarially assumed rate of return.

MEMBERSHIP

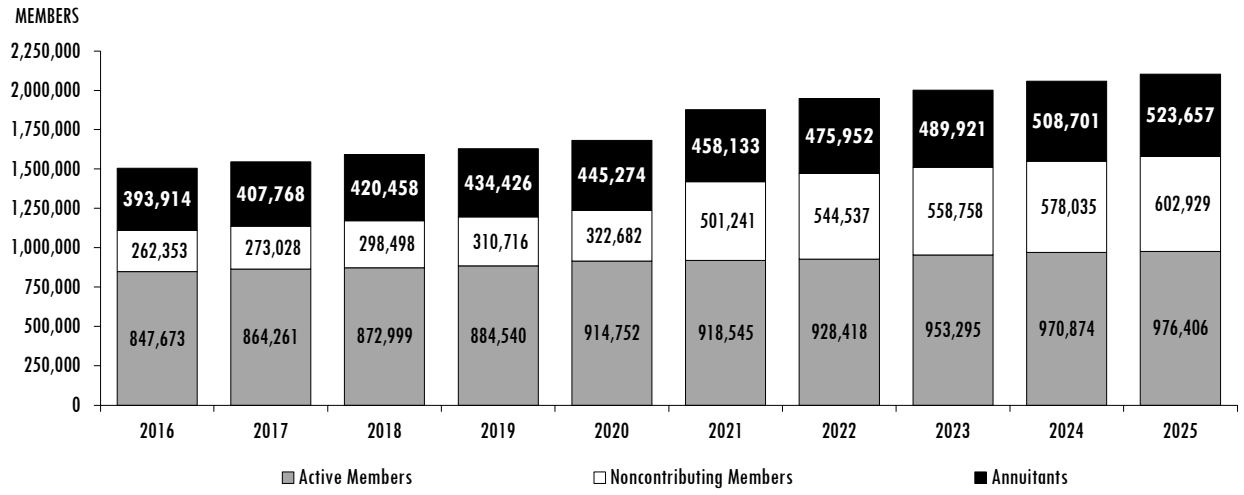
Membership in TRS is a condition of employment for all employees of public, state-supported educational institutions who work at least 20.0 hours per week and at least 4.5 months during one school year or academic year. Public education employees in membership-eligible positions are required to participate in TRS and are enrolled automatically on the first day of employment. Unless excluded from membership by law, participation in TRS cannot be waived by public education employees. Certain eligible employees of institutions of higher education are offered a onetime, irrevocable option to elect the Optional Retirement Program as an alternative to TRS. (See the chapter regarding the **Optional Retirement Program**.)

For fiscal year 2025, TRS reported approximately 2.1 million members, including 976,406 active members, 523,657 retirement recipients, and 602,929 inactive vested and nonvested members. **Figure 28** shows TRS membership, active and retired, from fiscal years 2016 to 2025.

CONTRIBUTIONS

The TRS pension plan is a cost-sharing plan funded by member, state, and employer contributions to the trust fund and by investment earnings of pension trust fund assets. Senate Bill 12, 86th Legislature, 2019, increased statutorily required state, member, and employer contributions for fiscal years 2020 to 2025 to make the pension fund actuarially sound. The required state contribution rate and the active employee rate increased to 8.25 percent each for each fiscal year beginning with the 2024–25 biennium. Statute also requires all public education employers to contribute an additional percentage of either actual employee pay or the statutorily required minimum salary for employees subject to the Minimum Salary Schedule, pursuant to the Texas Education Code, Section 21.402. This contribution rate was 1.7 percent for fiscal year 2022, which increased to 1.8 percent for fiscal year 2023 and to 2.0 percent for fiscal year 2025.

FIGURE 28
TEACHER RETIREMENT SYSTEM OF TEXAS MEMBERSHIP, FISCAL YEARS 2016 TO 2025



SOURCE: Teacher Retirement System of Texas.

The Texas Constitution, Article XVI, Section 67, establishes that the state contribution rate must range from 6.0 percent to 10.0 percent of total TRS-related payroll, except during an emergency declared by the Governor. The General Appropriations Act (GAA) sets the state contribution rate for each biennium within that range. **Figure 29** shows contribution rates for fiscal years 2016 to 2026, pursuant to Senate Bill 12.

Statute further limits state retirement contributions to TRS for public community and junior colleges to 50.0 percent of the creditable compensation of members whose duties are instructional or administrative. An additional limit to state retirement contributions applies for each community and junior college based on the growth of each college's staff size in proportion to changes in student enrollment. Additionally, statute connects the state contribution rate to the member and district contribution rates. Any decrease in the state contribution rate to less than the rates required pursuant to Senate Bill 12 will result in equal and corresponding decreases of the member and district contribution rates to less than the corresponding rates for those entities.

An additional rule known as proportionality limits the share of the state contribution that may be funded by General Revenue Funds for most TRS members (see **Appendix E – Glossary**). For TRS retirement, this rule applies to funds appropriated in the GAA and certain federal and local funds held by employers outside the state Treasury. Employers transfer these funds directly to TRS without appropriation.

FIGURE 29
TEACHER RETIREMENT SYSTEM OF TEXAS RETIREMENT CONTRIBUTION RATES, FISCAL YEARS 2016 TO 2026

YEAR	STATE CONTRIBUTION	LOCAL CONTRIBUTION (1)	EMPLOYEE CONTRIBUTION
2016	6.8%	1.5%	7.2%
2017	6.8%	1.5%	7.7%
2018	6.8%	1.5%	7.7%
2019	6.8%	1.5%	7.7%
2020	7.5%	1.5%	7.7%
2021	7.5%	1.6%	7.7%
2022	7.75%	1.7%	8.0%
2023	8.0%	1.8%	8.0%
2024	8.25%	1.9%	8.25%
2025	8.25%	2.0%	8.25%
2026	8.25%	2.0%	8.25%

NOTE: (1) As of fiscal year 2020, the local contribution includes all public education employers. Before fiscal year 2020, only public education employers that did not participate in Social Security were required to make the local contribution.
SOURCE: Teacher Retirement System of Texas.

This rule applies to all TRS members except for community college employees, whose benefits may be paid from any source of funds, regardless of whether the salaries are paid from appropriated funds.

INVESTMENT OF ASSETS

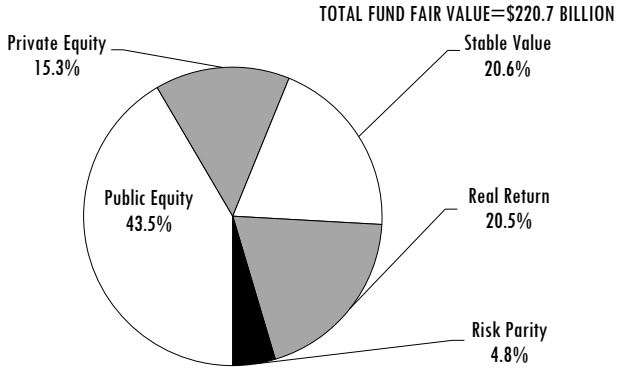
The TRS Board of Trustees oversees the investment of the system's trust fund assets. Professional investment staff manage these assets. To assist the staff and the board with investment recommendations and decisions, the board employs independent investment consultants to evaluate and analyze investment strategies and outcomes.

TRS investment risks are diversified throughout market sectors and securities. The investment strategy is intended to improve long-term investment results while decreasing market risk. At the end of fiscal year 2025, global equity investments (public and private equity) constituted approximately 58.8 percent of the system's investments. Other investments included 20.6 percent allocated to a stable value portfolio (fixed, short-term, and hedge funds); 20.5 percent allocated to real return investments (bonds, commodities, natural resources and infrastructure, real estate, and other real assets); 4.8 percent allocated to risk parity; and a net asset allocation leverage (cash borrowed to purchase other investments, per the Pension Review Board) of negative 4.7 percent. **Figure 30** shows TRS asset allocation as of August 31, 2025.

The 82nd Legislature, Regular Session, 2011, passed legislation to broaden authority on investment products such as futures contracts, options, swaps, and other investment tools. The legislation continued board authority to delegate up to 30.0 percent of the portfolio to external investment managers and raised the threshold limiting investments in hedge funds from 5.0 percent to 10.0 percent of the portfolio. The 85th Legislature, Regular Session, 2017, continued the first provision, and the 86th Legislature, 2019, removed the expiration date on the second provision. The 88th Legislature, Regular Session, 2023, removed the 10.0 percent limitation on the total value of TRS' portfolio that may be invested in hedge funds and authorized the board to set the limit. TRS has expanded the role of alternative investments in its overall strategy to improve effective diversification, risk management, and long-term performance.

The actual return on investment for fiscal year 2025 was 9.77 percent. The three-year, five-year, and 10-year average annual returns as of August 31, 2025, were 8.75 percent, 8.44 percent, and 8.27 percent, respectively. **Figure 31** shows the annual rate of return on investment for the retirement trust fund's assets from fiscal years 2016 to 2025. However, the system's actuary uses a five-year smoothing of investment performance when conducting the actuarial valuation. The actuary recognizes 20.0 percent of the annual gains or losses

FIGURE 30
TEACHER RETIREMENT SYSTEM OF TEXAS ASSET ALLOCATION, FISCAL YEAR 2025



SOURCE: Teacher Retirement System of Texas.

for the year of performance; the remainder is smoothed at 20.0 percent per year during the next four years. (See **Appendix E – Glossary**.) As of the August 31, 2025, actuarial valuation, the fund has $2.7 billion in deferred losses to recognize in future valuations, compared to $2.0 billion in deferred losses as of the August 31, 2024, valuation.

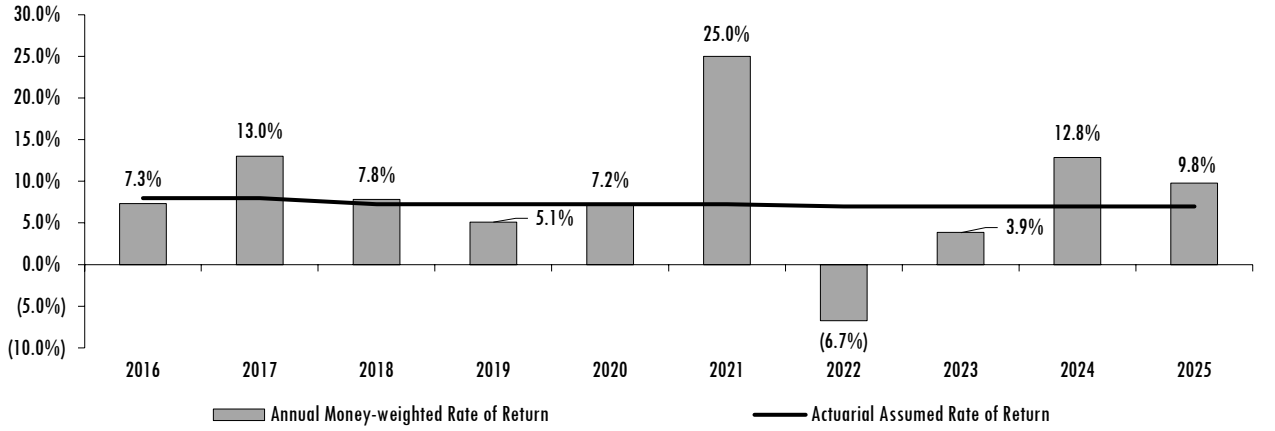
ACTUARIAL VALUATION

An outside consulting actuary conducts an actuarial valuation annually based on data as of August 31, the last day of the system's fiscal year. Valuations determine the adequacy of the total contribution rate for addressing system solvency by comparing the value of the pension trust fund's assets against its liabilities. Actuarial valuations account for current and projected assets and liabilities. Valuations also consider various other factors, including demographic trends and longevity, projected retirement system membership and salaries, and trends in members' retirement behavior. The TRS retirement trust fund is considered actuarially sound if its funding and investment income are sufficient to cover its normal cost and pay off any unfunded liabilities during as brief a period as possible, but not to exceed 31.0 years. The TRS actuarial valuation report is available at www.trs.texas.gov.

In addition to the annual actuarial valuation, an actuarial update on the market value of assets only is conducted by February 28 each odd-numbered year, which provides the Legislature with updated information during the legislative session.

As of August 31, 2025, the actuarial value of the TRS pension trust fund's assets was $223.6 billion, a 5.2 percent

FIGURE 31
TEACHER RETIREMENT SYSTEM TRUST FUND ASSETS ANNUAL RATES OF RETURN ON INVESTMENT
FISCAL YEARS 2016 TO 2025

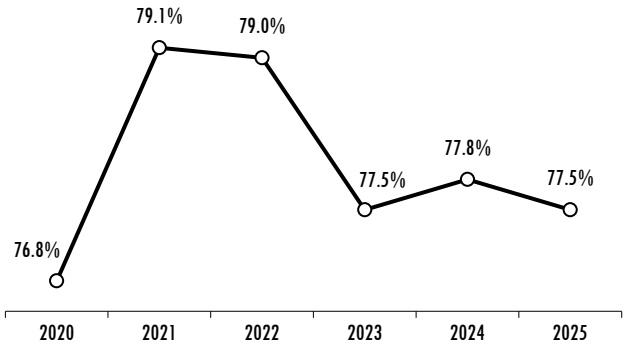


NOTES:
(1) The five-year average annual return is 7.0 percent, and the 10-year average annual return is 7.8 percent.
(2) The actuarial assumed rate of return was 8.0 percent from fiscal years 2016 to 2017; 7.25 percent from fiscal years 2018 to 2021; and 7.0 percent for fiscal years 2022 and 2025.
SOURCE: Teacher Retirement System of Texas.

increase from $212.5 billion at the end of fiscal year 2024. The system's unfunded actuarially accrued liability based on the actuarial value of assets is $64.9 billion, an increase of $4.3 billion from the previous fiscal year. The fund has a funded ratio of 77.5 percent. **Figure 32** shows the TRS trust fund's funded ratio for fiscal years 2020 to 2025. Based on membership, benefit obligations, and other actuarial assumptions, the funding period is 35.0 years, meaning the fund is not actuarially sound by the statutory definition of a funding period not to exceed 31.0 years. This increase in the funding period of seven years from fiscal year 2024, is due primarily to the effects of teacher compensation increases pursuant to House Bill 2, 89th Legislature, Regular Session, 2025.

Investment assumptions and performance are major factors in determining the actuarial condition of a retirement system. The assumed rate of return is what TRS expects its investments to earn each year, on average. This assumption is used to assess the long-term stability of the retirement trust and determine whether the system will be able to meet its obligations. Before fiscal year 2018, TRS actuarial valuations included an investment return assumption of 8.0 percent. In July 2018, the TRS Board of Trustees decreased the return assumption to 7.25 percent to provide a more reasonable forecast of current and future financial conditions. During fiscal year 2022, the TRS Board of Trustees decreased the return assumption to 7.0 percent. This lower return assumption increased the projected contributions and funding period needed to pay off the unfunded actuarial accrued liability. Senate Bill 12, 86th Legislature, 2019, provided for these additional contributions and reduced the projected funding period to 29.0 years as of August 31, 2019. Benefit enhancements provided by Senate Bill 10, 88th Legislature, Regular Session, 2023, did not increase the unfunded actuarial accrued liability or the funding period because the funding was appropriated to fully cover the cost of these benefit increases.

FIGURE 32
FUNDED RATIO OF TEACHER RETIREMENT SYSTEM OF TEXAS RETIREMENT FUND
FISCAL YEARS 2020 TO 2025



SOURCE: Teacher Retirement System of Texas.

FIGURE 33
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) RETIREMENT ELIGIBILITY, FISCAL YEAR 2025

EMPLOYEE CATEGORY EFFECTIVE SEPTEMBER 1, 2014		NORMAL-AGE RETIREMENT ELIGIBILITY	EARLY AGE RETIREMENT ANNUITY REDUCTION (3)
Tier 1	Current TRS membership began before September 1, 2007; had at least 5.0 years of service credit as of August 31, 2014; and met exemption criteria (1)	Age 65 with 5.0 years of service credit or Rule of 80 (2) with 5.0 years of service credit	Younger than age 65, 2.0% for each year that the combined age and years of service is less than the Rule of 80 (2)
Tier 2	Current TRS membership began before September 1, 2007; had at least 5.0 years of service credit as of August 31, 2014; and did not meet exemption criteria (1)	Age 65 with 5.0 years of service credit or Rule of 80 (2) with 5.0 years of service credit	Younger than age 65, 2.0% for each year that the combined age and years of service is less than the Rule of 80 (2)
Tier 3	Current membership began on or after September 1, 2007, and before September 1, 2014; had at least 5.0 years of service credit as of August 31, 2014; and did not meet exemption criteria (1)	Age 65 with 5.0 years of service credit or age 60 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 60
Tier 4	Current membership began on or after September 1, 2007, and before September 1, 2014; had at least 5.0 years of service credit as of August 31, 2014; and met exemption criteria (1)	Age 65 with 5.0 years of service credit or age 60 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 60, with certain exceptions
Tier 5	Did not meet exemption criteria (1) and: • current membership began on or after September 1, 2014; or • less than 5.0 years of service credit as of August 31, 2014	Age 65 with 5.0 years of service credit or age 62 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 62
Tier 6	Met exemption criteria (1) and: • current membership began on or after September 1, 2014; or • less than 5.0 years of service credit as of August 31, 2014	Age 65 with 5.0 years of service credit or age 62 with Rule of 80 (2) and 5.0 years of service credit	5.0% for each year that the member is younger than age 62, with certain exceptions

NOTES:
(1) Exemption criteria include that a member must meet at least one of these requirements on or before August 31, 2005: (a) at least age 50; (b) age and years of service equal at least 70.0; or (c) have at least 25.0 years of service credit.
(2) The Rule of 80 is met when the sum of the retiree's age and years of service credit in TRS equals or exceeds 80.0 years at the time of retirement.
(3) The early age retirement annuity reduction excludes decreases for the partial-lump-sum option. The member must meet additional eligibility criteria based on age, tier, and years of service to qualify for early age retirement. See www.trs.texas.gov for more information.
SOURCE: Teacher Retirement System of Texas.

RETIREMENT ELIGIBILITY

Changes to the retirement plan have resulted in six membership categories, or tiers, each with its own retirement eligibility requirements, as shown in **Figure 33**. Members' tiers are determined by the dates they entered TRS membership; exemption criteria; the amount of service credit established as of August 31, 2014; and whether TRS membership has been terminated by a refund payment. Since school year 2012–13, all TRS members receive service credit based on a standardized school year that begins September 1 and ends August 31. When membership is terminated, any subsequent membership is considered as first employment, even if previously withdrawn service is paid and reinstated.

RETIREMENT BENEFITS

Benefit calculations are determined by statute and are based on an employee's salary, age, and years of creditable service. Calculations of normal-age service retirement annuity are based on the standard annuity, which provides the retiree a maximum amount of benefit each month, compared to optional service retirements for survivor benefits, and ends

upon the retiree's death. The annual standard annuity equals 2.3 percent multiplied by the average of the five greatest annual creditable salaries multiplied by years of creditable service. For members who meet the exemption criteria, the three greatest annual salaries are used.

Members have five options for annuity payments in lieu of a standard annuity. Optional annuities decrease the monthly annuity payable during the retiree's life but provide for a beneficiary to receive a monthly benefit after the retiree's death, either for life or for a guaranteed period. The retiree may select one of three joint and survivor optional forms of payment that provide for lifetime payments to a beneficiary after the retiree's death. These options decrease the standard annuity based on age-related actuarial reduction factors. The two remaining optional forms of annuity are guaranteed-period annuities, which guarantee a benefit to the beneficiary during the first 60.0 months or 120.0 months after the retirement date if the retiree's death occurs during that period. If the beneficiary dies before the retired member, the retiree's annuity is increased to the standard annuity.

A retiree also may choose a partial-lump-sum option at retirement equal to no more than 36.0 months of the standard monthly annuity, resulting in a permanent actuarial decrease of the monthly annuity. This option is not available to members who accept a disability retirement or an early age retirement, or who retire through the Proportionate Retirement Program. A summary of the TRS retirement benefits is available at www.trs.texas.gov. According to TRS, 26,212 members retired during fiscal year 2025, and TRS paid pension benefits totaling $14.2 billion that year. The average age of members retiring during fiscal year 2025 was 63.1 years, an increase from the average of age 62.7 years during fiscal year 2024. **Figure 34** shows the annuitant profile for retirees during fiscal years 2024 and 2025.

Figure 35 shows annual TRS service and disability retirements from fiscal years 2016 to 2025.

FIGURE 34
TEACHER RETIREMENT SYSTEM ANNUITANT PROFILE
FISCAL YEARS 2024 AND 2025

ANNUITANT PROFILE	2024 RETIREES	2025 RETIREES
Service and Disability Retirements	26,618	26,212
Average Age at Retirement	62.7	63.1
Average Years of Service	22.6	22.3
Ratio of Current Members to Retirees	3 to 1	3 to 1

SOURCE: Teacher Retirement System of Texas.

DISABILITY RETIREMENT BENEFITS

A member, regardless of age or years of service credit, may receive a disability retirement if the member is disabled mentally or physically, and if the TRS Medical Board certifies that the member's disability likely is permanent.

A member who qualifies for disability retirement and has at least 10.0 years of service credit may receive a monthly annuity that is not decreased due to early age. Similarly to standard retirement options, the member may select a standard annuity or one of five optional annuities. If the member selects an optional annuity plan, the member's monthly annuity will be decreased using disability retirement actuarial factors to include the additional liability for payment to the member's beneficiary.

A member who qualifies for disability retirement but has less than 10.0 years of service credit may receive a monthly disability benefit of $150 that is paid for the shortest of the following periods: (1) the number of months the member has been covered by TRS; (2) the duration of the member's disability; or (3) the duration of the member's life. Disability retirees must file an annual compensation statement with TRS, and they may forfeit their disability annuity or be required to pay an increased amount for TRS-Care coverage if earned compensation exceeds the limits set by the TRS Board of Trustees. The requirement does not apply to members who applied for disability or whose effective date of disability retirement is before September 1, 2007.

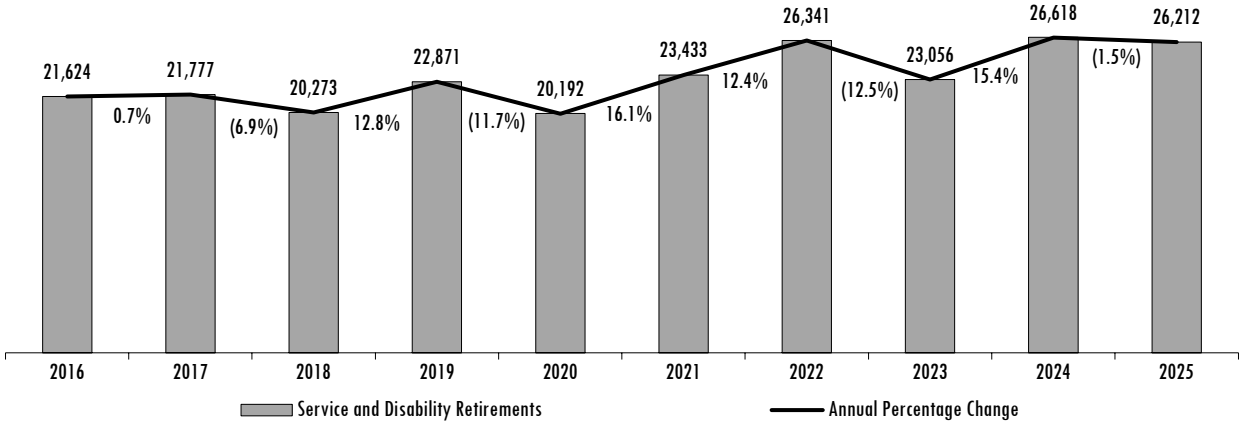
PROPORTIONATE RETIREMENT

Participants who have active membership credit in more than one Texas public retirement system, as described in the section on **Proportionate Retirement** in the **Employees Retirement System of Texas** chapter, may be eligible to combine all their service credit to satisfy TRS eligibility requirements for retirement.

DEATH BENEFITS FOR ACTIVE EMPLOYEES

An active member's primary beneficiary may choose one of five options for payment of the member's death benefits. The benefits are available if the member dies during a school year in which the member has performed TRS-covered service, or if the member dies while performing qualified military service as defined by applicable federal law. The benefits also are available when a member's absence from service is due to sickness or accident, or other work absences described by law.

FIGURE 35
TEACHER RETIREMENT SYSTEM ANNUAL SERVICE AND DISABILITY RETIREMENTS AND ANNUAL PERCENTAGE CHANGE FISCAL YEARS 2016 TO 2025



SOURCE: Teacher Retirement System of Texas.

Benefits with certain restrictions include the following payment options: (1) a lump-sum payment; (2) 60.0 monthly payments equal to the member's standard annuity without a decrease for early age; (3) lifetime payments; (4) an amount equal to a return on the member's contributions with accumulated interest; or (5) survivor benefits of a $2,500 lump-sum payment plus a monthly benefit.

DEATH BENEFITS FOR RETIREES

The designated beneficiary of a service or disability retiree may receive a lump-sum death and survivor benefit payment of $10,000. This payment is in addition to any joint-and-survivor or guaranteed-period annuity that may be payable through an optional plan chosen by the retiree at retirement, unless the retiree has received all monthly payments before death. In lieu of the $10,000 death and survivor benefit, survivors may select alternative payment options, which include a lump-sum payment of $2,500 and an applicable monthly survivor benefit payment.

SIGNIFICANT LEGISLATION

The 89th Legislature, Regular Session, 2025, passed the following legislation that affects TRS retirement.

House Bill 2 – Relating to public education and public school finance. The legislation increases compensation for public education employees through the Foundation School Program. House Bill 2 includes additional compensation based on various factors and establishes that compensation increases from the Teacher Retention Allotment and Support Staff Retention Allotment are considered creditable compensation. House Bill 2 also repeals the prohibition preventing public education employers from passing the costs of pension and healthcare surcharges to retirees returning to full-time work, and it establishes these surcharges as an allowable use of the allotment for basic costs.

HEALTH BENEFIT PLANS

RETIREE HEALTH BENEFITS (TRS-CARE)

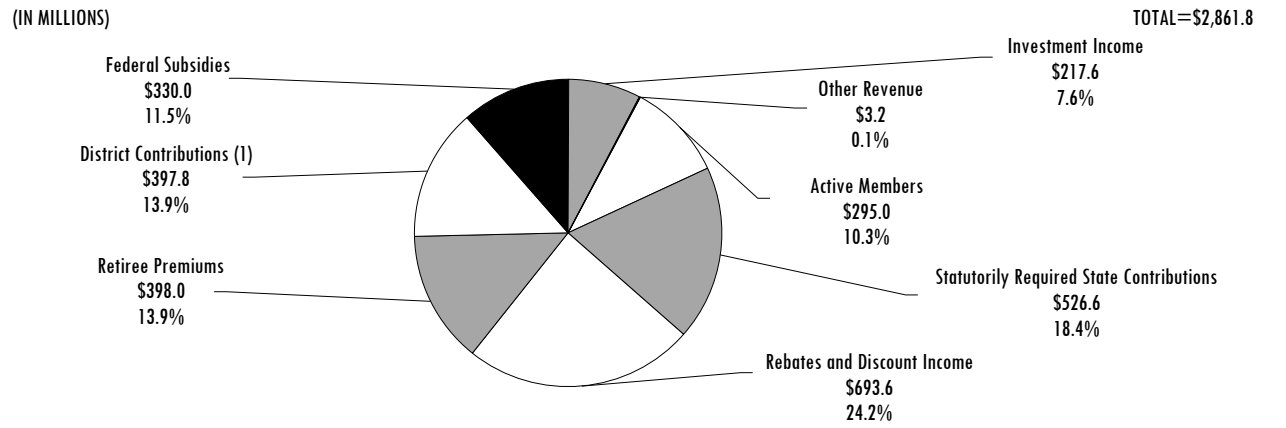
FUNDING

The TRS-Care program is funded by participant premiums; federal subsidies earned from Retiree Drug Subsidy payments and Medicare Part D subsidy payments; investment income; and regular payroll contributions from the state, active employees, and school districts. Unlike the prefunded retirement plan, TRS-Care is funded on a pay-as-you-go basis. Payroll contributions to TRS-Care are fixed percentages of school district employee salaries set by statute and the General Appropriations Act (GAA), including 1.25 percent from the state, 0.75 percent from school districts, and 0.65 percent from active employees. Periodically, the Legislature has appropriated additional funding to the program.

Figure 36 shows the program's major funding sources for fiscal year 2025. TRS deposits funding from all sources into the TRS-Care Trust Fund, from which it pays claims for the Standard Plan, premiums for the Medicare Advantage Plan, and program administrative costs.

Before fiscal year 2018, TRS-Care reported a structural funding shortfall due to two factors: a recurring funding

FIGURE 36
TRS-CARE CONTRIBUTIONS BY FUNDING SOURCE, FISCAL YEAR 2025



NOTES:
(1) District contributions include the 0.75 percent employer contribution, amounts paid by districts from federal funding and private grants to fund the 1.25 percent state contribution as required by statute, and district payments to the Teacher Retirement System of Texas (TRS) for a surcharge owed on return-to-work employees.
(2) Totals may not sum due to rounding.
SOURCE: Teacher Retirement System of Texas.

difference between revenues generated by statutorily required contributions and health benefits costs, and additional legislative restrictions on member premiums. The GAA previously directed TRS not to increase retiree premiums, and statute directed TRS to provide a basic health plan at no cost to the retiree. These provisions, intended to keep retiree healthcare affordable while developing a long-term solution, hindered the program's capacity to generate the level of revenue required to fully fund benefits. House Bill 3976, 85th Legislature, Regular Session, 2017, and the GAA, 2018–19 Biennium, eliminated the structural shortfall by repealing the restriction on premiums and the requirement that TRS must offer a basic plan at no cost to retirees. The legislation further decreased the difference between revenues and costs by modifying plan structure and benefits significantly and by providing onetime additional funding of $394.6 million in General Revenue Funds. Following these changes, the average premium per member increased by 47.0 percent during plan year 2018.

ELIGIBILITY

Health benefits are provided for public school retirees who are not eligible to participate in the state higher education or state employee plans. (See the **Premiums and Coverage** section.)

To be eligible for TRS-Care, retirees must have at least 10.0 years of TRS service credit, which may include up to 5.0 years of military service credit but may not include any other special or equivalent purchased service credit. Additionally, the member must meet one of these requirements:

- the sum of the retiree's age and years of service credit in TRS equals or exceeds 80.0 years at the time of retirement, regardless of whether the retiree had a decrease in the retirement annuity for early age (years of service credit can include all purchased service); or
- the retiree has 30.0 or more years of service credit in TRS at the time of retirement (years of service credit can include all purchased service).

Disability retirees are eligible initially for TRS-Care at any age. TRS-Care coverage for disability retirees who have less than 10.0 years of TRS service credit ends when the disability retirement benefit ends.

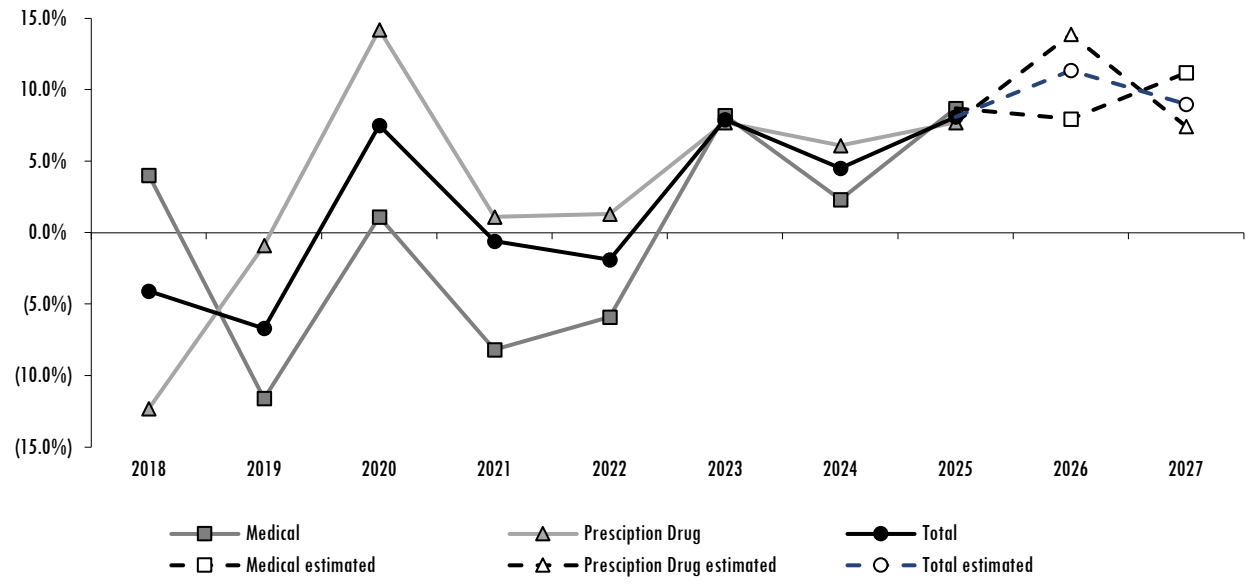
FIGURE 37
TRS-CARE PARTICIPATION AS OF AUGUST 31, 2025

CATEGORY	PARTICIPANTS
Retirees	179,078
Surviving Spouses and Surviving Children	5,785
Dependents	32,213
Total Participants	**217,076**

SOURCE: Teacher Retirement System of Texas.

Figure 37 shows total participation in TRS-Care.

FIGURE 38
TRS-CARE COST TRENDS, FISCAL YEARS 2018 TO 2027



YEAR	MEDICAL	PRESCRIPTION DRUG	TOTAL
2018	4.0 %	(12.3%)	(4.1%)
2019	(11.6%)	(0.9%)	(6.7%)
2020	1.1%	14.2%	7.5%
2021	(8.2%)	1.1%	(0.6%)
2022	(5.9%)	1.3%	(1.9%)
2023	8.2%	7.7%	7.9%
2024	2.3%	6.1%	4.5%
2025	8.7%	7.7%	8.1%
2026	8.0%	13.9%	11.3%
2027	11.2%	7.4%	9.0%

NOTE: Percentages shown for fiscal years 2026 and 2027 are estimated.
SOURCE: Teacher Retirement System of Texas.

Figure 38 shows TRS-Care cost trends since fiscal year 2018, projected through fiscal year 2027. TRS reports that cost trends began to increase during fiscal year 2023 after two years of negative trends that were due to vendor changes, regulatory conditions, and effects of the COVID-19 pandemic.

PREMIUMS AND COVERAGE

TRS-Care offers a Medicare Advantage plan and a Medicare prescription drug plan to participants eligible to enroll in Medicare, and the Standard plan, including medical and pharmacy benefits, for participants not eligible to enroll in Medicare. TRS is permitted but not required to provide another health benefit plan to Medicare-eligible members. Although each member's enrollment in the Standard plan or Medicare Advantage is based on their Medicare eligibility, premium rates are determined by the Medicare eligibility of the retiree or surviving spouse and the family size. For plan year 2026, retiree-only coverage in the Standard plan and Medicare Advantage cost $200 and $75 per month, respectively. Retirees in both plans pay additional premiums for dependent coverage.

TRS-Care plans offer comprehensive healthcare through statewide and nationwide networks of hospitals, physicians, and other healthcare providers and pharmacies. Blue Cross Blue Shield administers TRS-Care Standard plan medical benefits, and Express Scripts administers pharmacy benefits

for Medicare and non-Medicare participants. The Medicare Advantage plan is insured and administered by UnitedHealthcare.

The Standard plan covers participants who use in-network providers at 80.0 percent of eligible expenses after they pay an individual or family deductible each plan year. Certain preventive-care services, such as vaccinations and well checks, are covered at 100.0 percent of eligible expenses before meeting the deductible. After Standard plan members spend a maximum out-of-pocket amount for each covered individual or for all family members, the plan covers all additional costs at 100.0 percent for the remainder of the plan year. Services provided outside of the network are reimbursed at a lower rate and carry higher deductibles and maximum out-of-pocket costs.

Medicare Advantage covers participants at 95.0 percent of eligible expenses after they pay an individual deductible each plan year for combined in-network and out-of-network costs. The Medicare Advantage plan also covers certain preventive-care services at 100.0 percent of eligible expenses and fully covers costs after each member meets the annual out-of-pocket maximum. Beginning with plan year 2020, members pay a $5 copayment for sick visits to primary care physicians, and the deductible also does not apply for those services. Additionally, in the Medicare Part D Prescription Drug Plan, participants pay copayments of at least $5 for a one-month supply of generic medications, with reduced copayments for 90-day supplies of certain brand drugs.

OPTIONAL COVERAGE

Senate Bill 1854, 88th Legislature, Regular Session, 2023, required TRS to provide eligible retirees with an optional benefits program for vision and dental care within the existing TRS-Care program. Individuals eligible for TRS-Care automatically are eligible to enroll in either or both the vision and dental care benefit programs, and they can opt to include their dependents, surviving spouses, and surviving dependent children. TRS established the TRS-Care Dental and TRS-Care Vision programs, with the first enrollment period beginning in October 2024 and coverage starting January 2025. Both programs are self-insured plans, and only enrollees contribute to them. Both plans are administered by MetLife. The 2025 premium rates for a retiree only were $41.64 for TRS-Care Dental and $6.89 for TRS-Care Vision.

A summary of the retiree health insurance plans is available at www.trs.texas.gov.

ACTIVE EMPLOYEES HEALTH BENEFITS (TRS-ACTIVECARE)

FUNDING

In conjunction with the legislation establishing TRS-ActiveCare, the Legislature provided an increase in the Foundation School Program school finance formulas to deliver additional state aid equivalent to at least $75 per employee per month to help fund district costs. The state has no statutory obligation to appropriate additional funding to the program. In addition, districts are required to contribute a minimum of $150 per employee per month, for a monthly total of $225 toward the cost of coverage. Employees are responsible for any remaining monthly premium costs. Premiums are paid into a separate trust fund from which health claims are paid.

Minimum state and employer contributions have not changed since the program was established. According to TRS, most districts contribute slightly more than the required minimum. The agency also reports that increasing costs for prescription drugs, including specialty drugs, and other medical cost increases contribute significantly to plan costs. Absent increased appropriations, those costs are passed on to members. To balance costs and revenues, TRS has raised premiums and made several structural benefit changes since the program began.

During the COVID-19 pandemic, TRS received federal funding to prevent member premium increases or benefit design changes resulting from pandemic-related claims. For the 2022–23 biennium, appropriations to TRS-ActiveCare included $638.3 million in Federal Funds to cover the costs associated with the pandemic and to prevent an increase in member premiums. As a result, no increases in the total premiums were charged at any rate or tier, and many rates decreased for plan year 2023. With the removal of Federal Funds intended to mitigate the effects of the pandemic, TRS-ActiveCare received appropriations of $588.5 million for the 2024–25 biennium to partially offset the decrease in Federal Funds. The appropriation also was intended to maintain the average annual premium increase at less than 10.0 percent while balancing the difference between current premiums and expected costs. House Bill 500, 89th Legislature, Regular Session, 2025, provided $369.2 million in supplemental appropriations to TRS-ActiveCare to maintain the average annual premium increase target of less than 10.0 percent.

ELIGIBILITY

To be eligible for TRS-ActiveCare, an individual must be employed by a participating district or entity and either be an active contributing TRS member or be employed 10.0 or more regularly scheduled hours each week. As shown in **Figure 39**, 411,134 employees and dependents from 970 entities have elected to participate as of August 31, 2025. Many local school districts, particularly larger employers, provide local programs for employee healthcare benefits.

COVERAGE

For fiscal year 2026, Blue Cross Blue Shield administers TRS-ActiveCare medical benefits, and Express Scripts manages the prescription drug benefits. TRS-ActiveCare offers a choice of three preferred provider organization plans statewide, TRS-ActiveCare Primary, TRS-ActiveCare Primary Plus, and TRS-ActiveCare HD.

SIGNIFICANT LEGISLATION

The 89th Legislature, Regular Session, 2025, passed the following legislation that affects the TRS healthcare programs.

House Bill 3126 – Return to TRS-ActiveCare. The legislation enables entities that previously discontinued participation in TRS-ActiveCare as of September 1, 2022, to rejoin the program before the end of the five-year exclusion period. TRS may apply a risk stabilization fee to premiums starting in the plan year beginning September 1, 2026, to offset potential cost increases to the program.

FIGURE 39
TRS-ACTIVECARE PARTICIPATION
AS OF AUGUST 31, 2025

CATEGORY	PARTICIPANTS
Participating Entities	970
Participants	
Employees	264,942
Dependents	146,192
Total Participants	**411,134**

SOURCE: Teacher Retirement System of Texas.

OPTIONAL RETIREMENT PROGRAM

GOVERNANCE AND POLICY

The Optional Retirement Program (ORP) is a separate retirement mechanism that is not administered by the Teacher Retirement System of Texas (TRS) or the Employees Retirement System of Texas. The Texas Higher Education Coordinating Board oversees the program's rules, the Comptroller of Public Accounts and the participating institutions are responsible for accounting, and each institution's governing board administers its respective ORP and selects qualified vendors of investment products for its employees.

MEMBERSHIP

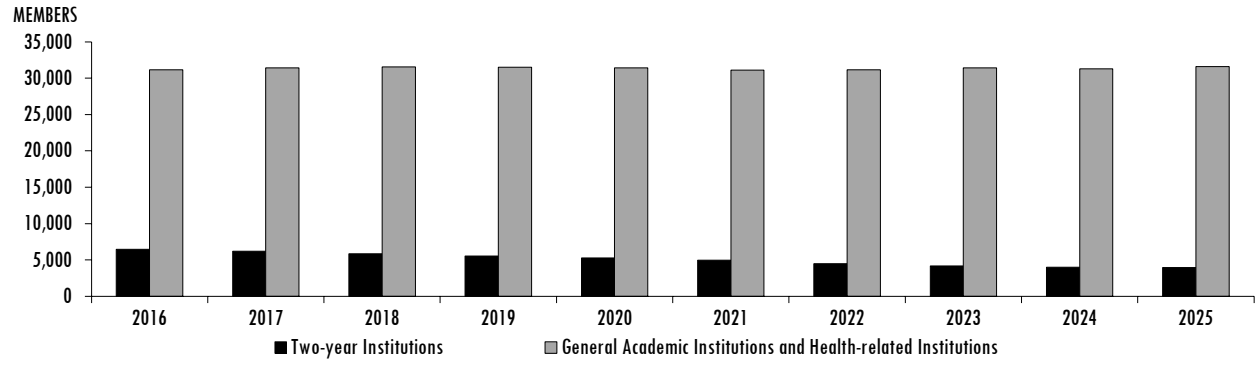
New ORP-eligible public higher education employees have 90 days from the first date of eligibility to make a onetime, irrevocable choice between participation in ORP or TRS membership. **Figure 40** shows the past 10 years of ORP membership for two-year institutions compared to four-year general academic institutions and health-related institutions. Employees who elect ORP in lieu of TRS membership must continue to participate in ORP for the remainder of their careers in Texas public higher education. Participation in the program is limited to full-time faculty and certain administrators employed by Texas public institutions of higher education, including public community and technical colleges, the commissioners of education and higher education, and certain positions designated by law.

CONTRIBUTIONS

The Legislature establishes ORP member and state contribution rates each biennium. These rates may fluctuate. The ORP state contribution rate for the 2026–27 biennium is 6.6 percent, as established in the General Appropriations Act. Institutions of higher education may provide supplements to the state rate up to 8.5 percent of payroll. Member contribution amounts are based on a percentage of each employee's salary, set in statute at 6.65 percent. Members invest their accounts through the purchase of individual investment contracts. A rule known as proportionality limits the share of the state contribution that may be funded by General Revenue Funds. (See **Appendix E – Glossary**.) This rule is applicable for all ORP members except for community college employees, whose benefits may be paid from any source of funds regardless of whether the salaries are paid from appropriated funds.

Statute further limits state retirement contributions to ORP for public community and junior colleges to 50.0 percent of the creditable compensation of members whose duties are instructional or administrative. An additional limit to state retirement contributions applies for each community and junior college based on the growth of each college's staff size in proportion to changes in student enrollment.

FIGURE 40
OPTIONAL RETIREMENT PROGRAM MEMBERSHIP FOR TWO-YEAR INSTITUTIONS COMPARED TO GENERAL ACADEMIC INSTITUTIONS AND HEALTH-RELATED INSTITUTIONS, FISCAL YEARS 2016 TO 2025



SOURCE: Texas Higher Education Coordinating Board.

RETIREMENT PROGRAM

The retirement benefit provided in ORP is based on the accumulated contributions and rate of return earned during the employee's career. The ORP is a portable benefit that enables participants to maintain their retirement savings after separation from employment in Texas public higher education. Employees may withdraw contributions, including state contributions, after a one-year vesting period. ORP participants who terminate state employment before meeting the vesting requirement forfeit employer contributions made during that period of employment.

The ORP participant's benefit amount depends directly on the actual amounts contributed. The defined contribution plan enables participants to manage their own personal investment accounts; therefore, no state provisions improve benefits after termination, such as providing a cost-of-living adjustment. Program participants purchase individual investment contracts pursuant to the U.S. Internal Revenue Code, Section 403(b), from insurance and investment companies. Participants must select a vendor from the employer's authorized list when electing ORP. ORP participants assume full responsibility for monitoring their selected companies and investments and have at least two opportunities each year to change their selected companies. Contributions and interest earnings are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity. Funds in the ORP accounts are available at termination of participation, including the employee and employer contributions if the participant has at least one year of service. Termination of participation occurs upon retirement, death, or termination of employment at a Texas public institution of higher education.

HIGHER EDUCATION EMPLOYEES GROUP INSURANCE

STRUCTURE AND ENROLLMENT

State contributions for higher education employees and retirees' health insurance premiums in the Employees Retirement System of Texas (ERS) Group Benefits Program, the University of Texas (UT) System, and the Texas A&M University (TAMU) System are appropriated through Higher Education Employees Group Insurance (HEGI). **Figure 41** shows the number of state-funded higher education enrollees, excluding dependents, in each system from fiscal years 2010 to 2024.

FUNDING AND PROPORTIONALITY

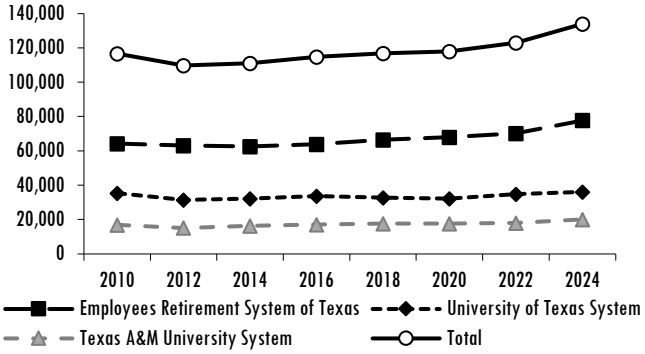
Legislative appropriations for HEGI for the 2026–27 biennium total $1,909.0 million in All Funds, an increase of $313.6 million from the 2024–25 biennium. The increase in funding is due to increases in headcounts and in the state's share of health insurance premium contributions as appropriated for general state employees at ERS. General Revenue Funds constitute $1,901.6 million of HEGI appropriations; the remaining $7.5 million is appropriated to the Texas A&M Forest Service from the General Revenue–Dedicated Account No. 36, Texas Department of Insurance Operating Fund. **Figure 42** shows HEGI appropriations by system for the 2026–27 biennium.

The 2026–27 biennial appropriations for HEGI are calculated by multiplying the number of eligible enrollees by premium contribution rates and applying an annual growth rate to the total. The 2026–27 biennial premium contributions are funded at 100.0 percent of the ERS premium rates for general state employees covered by ERS, 88.6 percent for employees of higher education institutions, and 50.0 percent for employees of community colleges. **Figure 43** shows proration rates for the various systems.

Appropriations to institutions other than community colleges provide state contributions to health insurance premiums as prescribed by proportional cost-sharing requirements. These institutions are required to cover all health benefit costs for employees whose salaries are paid from sources other than General Revenue Funds.

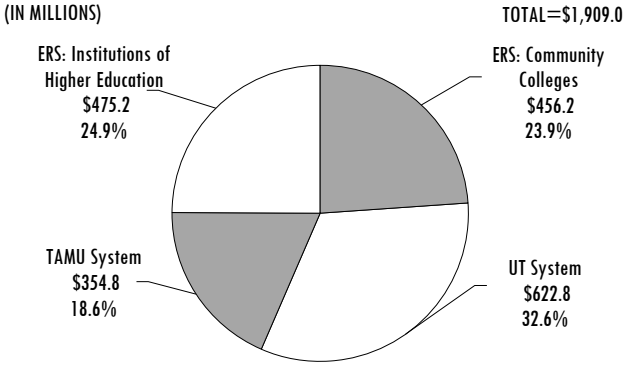
The number of employees at an institution enrolled in each health insurance program as of December 1, 2024, determines the institution's 2026–27 biennial appropriation from General Revenue Funds. State contributions are capped at the institution's sum-certain, line-item appropriation (see **Appendix E – Glossary**). The institution must pay for any additional costs using other appropriated or local funds. However, the General Appropriations Act (GAA) authorizes ERS, the UT System, and the TAMU System to transfer HEGI appropriations among institutions within their group insurance programs to address each institution's needs.

FIGURE 41
STATE-FUNDED HIGHER EDUCATION ENROLLEES IN HIGHER EDUCATION EMPLOYEES GROUP INSURANCE FISCAL YEARS 2010 TO 2024



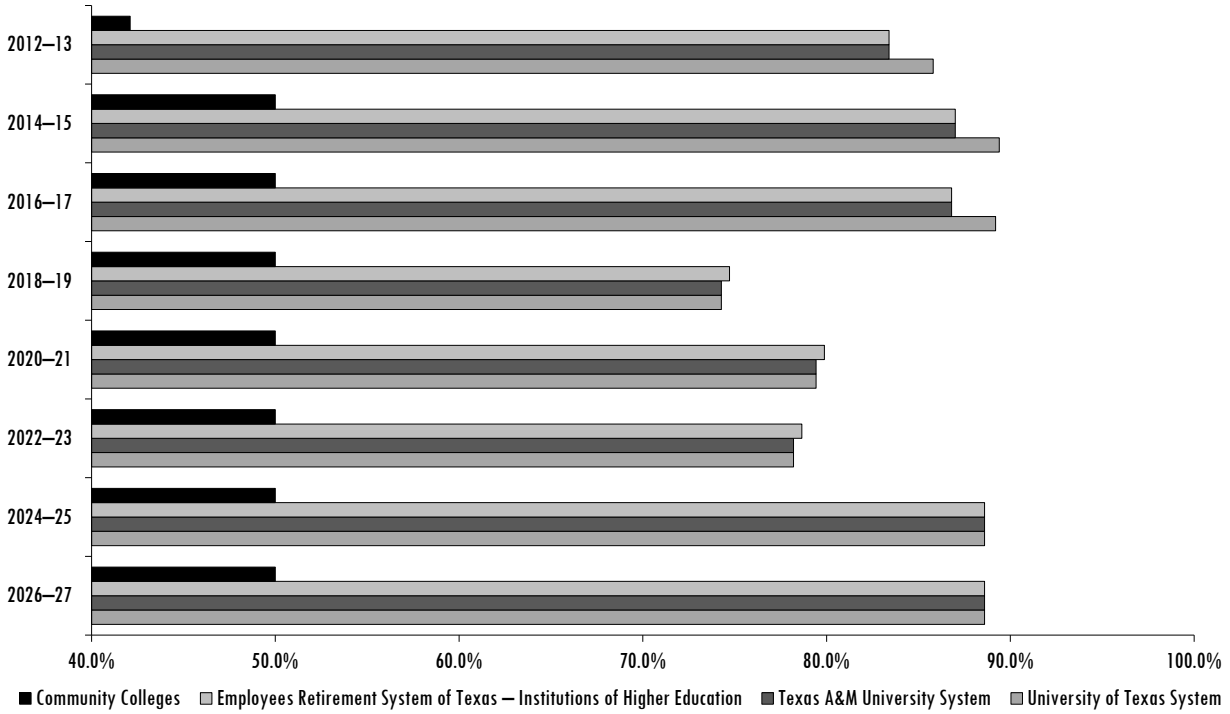
SOURCE: Legislative Budget Board.

FIGURE 42
HIGHER EDUCATION EMPLOYEES GROUP INSURANCE APPROPRIATIONS BY SYSTEM, 2026–27 BIENNIUM



NOTE: UT System=the University of Texas System; TAMU System=the Texas A&M University System; ERS=Employees Retirement System of Texas.
SOURCE: Legislative Budget Board.

FIGURE 43
PRORATION RATES FOR PREMIUM CONTRIBUTIONS FOR HIGHER EDUCATION EMPLOYEES 2012–13 TO 2026–27 BIENNIA



SOURCE: Legislative Budget Board.

State contributions to group health insurance for community colleges cover costs associated with instructional or administrative employees whose salaries may be paid fully from funds appropriated in the GAA, regardless of whether such salaries are paid from appropriated funds. The number of employees eligible to receive HEGI contributions may not be adjusted to a proportion greater than the change in student enrollment. However, an institution whose student enrollment has decreased may petition the Legislative Budget Board to maintain the number of eligible employees up to 98.0 percent of those during the previous biennium. Employee hold-harmless levels are based on the decrease in enrollment, represented by contact hours, at each institution; levels of this hold-harmless amount are shown in **Figure 44**.

FIGURE 44
PUBLIC COMMUNITY COLLEGES STEPPED EMPLOYEE HOLD-HARMLESS LEVELS 2026–27 BIENNIUM

PERCENTAGE DECREASE IN CONTACT HOURS	HOLD-HARMLESS LEVEL
2.0% to 5.0%	98.0% (2.0% decrease)
More than 5.0% to 10.0%	95.0% (5.0% decrease)
More than 10.0% to 15.0%	90.0% (10.0% decrease)
More than 15.0%	85.0% (15.0% decrease)

SOURCE: Legislative Budget Board.

PLAN BENEFITS

The types of benefits and overall premium amounts covered are the same for higher education institutions as those for general state employees. However, the state does not cover the full premium for employees at higher education institutions. For these employees, the state and the institution pay the full employee-only premium and half the difference between the employee-only premium and the premium for dependent coverage.

SOCIAL SECURITY AND BENEFIT REPLACEMENT PAY

POLICY

Federal income taxes required by the Federal Insurance Contributions Act include old-age, survivors, and disability insurance taxes, commonly known as Social Security, and hospital insurance taxes, commonly known as Medicare. The U.S. Internal Revenue Code, Sections 3101 and 3111, sets the rates for employer and employee contributions, which are 6.2 percent each for the Social Security program and 1.45 percent each for Medicare for a total of 15.3 percent of payroll. The Texas Comptroller of Public Accounts (CPA) is responsible for the payment of these taxes to the federal government on behalf of the state and employees. The Texas Legislature appropriates the employer portion of payroll tax contributions for Social Security and Medicare to the CPA in the General Appropriations Act (GAA), where they are combined as Social Security appropriations. The Social Security wage base, which is the amount of wages subject to the 6.2 percent tax, increased by 4.8 percent from $176,100 during calendar year 2025, to $184,500 for calendar year 2026. This wage base, or taxable maximum, has increased at an average annual rate of 3.2 percent since calendar year 2004, following approximately national average wage growth. Medicare taxable earnings have no limit, but the contribution decreases to 0.9 percent on wages greater than $200,000, and the employee pays all contributions with no employer match.

Appropriations to the CPA for Social Security benefits include Benefit Replacement Pay (BRP) contributions for certain state employees hired before September 1, 1995. Before fiscal year 1996, the state paid for a portion of employees' Social Security obligations. The 74th Legislature, 1995, replaced that portion with BRP, a benefit supplement to prevent reducing employees' net pay. Employees retain BRP if they do not record a break in service from the state for 30 days. Employees hired after August 31, 1995, are not eligible to receive the benefit supplement or the additional state-paid Social Security.

A retiree may begin to collect Social Security benefits at age 62. The monthly amount individuals receive if they retire during the month they reach their full retirement age (FRA) is based on the average indexed monthly earnings, or the monthly average of the highest 35.0 years of earnings adjusted for inflation. This amount is divided into three tiers based on bend points determined by the national average wage index for the year an individual turns age 62. The tiers are multiplied by specific percentages fixed by law (90.0 percent, 32.0 percent, and 15.0 percent) and then summed to equal the primary insurance amount (PIA), which is the starting amount for monthly benefit payments. The PIA is then adjusted up by 0.667 percent per month that an individual retires after their FRA. The PIA is reduced by 0.556 percent per month for the 36.0-month period if an individual retires before FRA and reduced further by 0.417 percent per month for each month that exceeds 36.0 months.

STATE FUNDING

As with Employees Retirement System of Texas state contributions, the Legislature appropriates an estimated amount for the state contribution to Social Security at the end of each article of the GAA. The total appropriation for all state employees is shown as an informational listing in CPA's bill pattern in the GAA.

Increases in Social Security appropriations primarily are related to payroll growth and full-time-equivalent position changes at certain state agencies and institutions of higher education. Decreased appropriations for BRP contributions represent the attrition of state employees hired before September 1, 1995. Appropriations for the 2026–27 biennium totaled $2,821.3 million in All Funds for Social Security and $3.7 million for BRP. See **Appendix A – Appropriations** for historical appropriation amounts.

APPENDIX A – APPROPRIATIONS

State contributions to retirement benefits for the Teacher Retirement System of Texas (TRS) and the Optional Retirement Program (ORP) are estimated appropriations. State contributions to retirement and death benefits for the Employees Retirement System of Texas (ERS) also are estimated appropriations, with the exception of legacy payments to amortize ERS' unfunded actuarial liability, which are sum-certain appropriations. Each agency has the authority to increase the appropriation as needed within the parameters of the General Appropriations Act.

Funded amounts are based on set contribution rates but vary based on the fluctuating number of employees and the actual amount of monthly payroll. TRS reconciles amounts with the state at the end of each fiscal year to balance retirement contribution levels based on actual payroll amounts. ERS and ORP receive varying amounts each month based on the contribution rates and active payroll.

State contributions for health benefits to TRS-Care and the ERS Group Benefits Program (GBP) for state employees and community supervision and corrections department employees also are estimated. ERS-funded amounts and expenditures vary based on membership in the GBP. TRS reconciles amounts with the state at the end of the year for TRS-Care to balance contribution levels based on actual payroll amounts. State contributions to Higher Education Employees Group Insurance are sum-certain appropriations. State contributions for TRS-ActiveCare are appropriated to the Texas Education Agency and distributed to participating employers through the Foundation School Program formula structure, then remitted by employers to TRS based on actual payroll amounts. The Legislature also may appropriate supplemental sum-certain amounts to TRS for both the TRS-Care and TRS-ActiveCare programs.

State contributions to Social Security and benefit replacement pay also are estimated appropriations. Expended amounts vary based on the actual amount of payroll and the number of employees eligible for benefit replacement pay.

Figure A–1 shows the appropriation history for each type of employee benefit.

FIGURE A–1
EMPLOYEE BENEFITS APPROPRIATIONS FROM ALL FUNDS, 2018–19 TO 2026–27 BIENNIA

(IN MILLIONS) BENEFIT	2018–19	2020–21	% CHANGE	2022–23	% CHANGE	2024–25	% CHANGE	2026–27	% CHANGE
Retirement									
ERS	$1,314.3	$1,346.1	2.4%	$1,390.8	3.3%	$1,709.1	22.9%	$1,970.3	15.3%
ERS Legacy Payments (1)	$0.0	$0.0	N/A	$1,902.2	N/A	$2,040.0	7.2%	$0.0	(100.0%)
LECOS (2)	$18.3	$17.4	(5.0%)	$19.4	11.6%	$846.7	4,264.6%	$103.3	(87.8%)
JRS I	$49.8	$42.6	(14.4%)	$38.9	(8.6%)	$33.3	(14.4%)	$33.2	(0.3%)
JRS II (2)	$24.8	$28.4	14.4%	$28.5	0.5%	$135.5	375.5%	$95.9	(29.2%)
TRS – Public Education	$3,544.2	$4,192.5	18.3%	$4,489.4	7.1%	$5,129.5	14.3%	$5,575.1	8.7%
TRS – Higher Education	$429.9	$447.1	4.0%	$533.5	19.3%	$661.4	24.0%	$851.7	28.8%
TRS – Additional Payment	$0.0	$0.0	N/A	$701.1	N/A	$5,000.0	613.2%	$0.0	(100.0%)
ORP	$344.6	$296.8	(13.9%)	$371.1	25.0%	$295.0	(20.5%)	$322.5	9.3%
Retirement Subtotal	**$5,725.8**	**$6,370.9**	**11.3%**	**$9,475.0**	**48.7%**	**$15,850.5**	**67.3%**	**$8,952.0**	**(43.5%)**

FIGURE A–1 (CONTINUED)
EMPLOYEE BENEFITS APPROPRIATIONS FROM ALL FUNDS, 2018–19 TO 2026–27 BIENNIA

(IN MILLIONS) BENEFIT	2018–19	2020–21	% CHANGE	2022–23	% CHANGE	2024–25	% CHANGE	2026–27	% CHANGE
ERS Death Benefits									
Public Safety Death Benefits	$22.6	$27.6	22.2%	$27.6	0.0%	$108.6	293.8%	$99.3	(8.6%)
Retiree Death Benefits	$20.2	$27.5	36.4%	$27.5	0.0%	$27.5	0.0%	$27.5	0.0%
Death Benefits Subtotal	**$42.7**	**$55.1**	**28.9%**	**$55.1**	**0.0%**	**$136.1**	**147.1%**	**$126.8**	**(6.8%)**
Health Insurance									
ERS – Health – State Employees	$3,987.0	$4,023.4	0.9%	$4,083.2	1.5%	$4,105.9	0.6%	$4,744.1	15.5%
ERS – Health –CSCD	$129.5	$143.5	10.8%	$144.5	0.7%	$144.5	0.0%	$150.0	3.8%
HEGI – ERS	$721.1	$722.1	0.1%	$738.2	2.2%	$785.3	6.4%	$931.4	18.6%
HEGI – UT System	$453.7	$447.0	(1.5%)	$443.5	(0.8%)	$526.5	18.7%	$622.8	18.3%
HEGI – TAMU System	$237.5	$248.7	4.7%	$246.9	(0.7%)	$283.6	14.9%	$354.8	25.1%
TRS – Care	$1,209.6	$879.4	(27.3%)	$897.6	2.1%	$960.2	7.0%	$1,224.9	27.6%
TRS – Retiree Health Additional Contribution	$0.0	$236.3	N/A	$286.3	21.2%	$0.0	N/A	$0.0	N/A
TRS – Active Employee Health Additional Contribution (3)	$0.0	$0.0	N/A	$0.0	N/A	$957.7	N/A	$0.0	(100.0%)
Health Insurance Subtotal	**$6,738.3**	**$6,700.4**	**(0.6%)**	**$6,840.2**	**2.1%**	**$7,763.8**	**13.5%**	**$8,028.0**	**3.4%**
Social Security/Benefit Replacement Pay (SS/BRP)									
Social Security	$1,771.5	$1,838.1	3.8%	$1,890.0	2.8%	$2,318.5	22.7%	$2,821.3	21.7%
Benefit Replacement Pay	$27.9	$16.8	(39.8%)	$10.0	(40.7%)	$5.6	(43.9%)	$3.7	(33.9%)
SS/BRP Subtotal	**$1,799.4**	**$1,854.9**	**3.1%**	**$1,899.9**	**2.4%**	**$2,324.0**	**22.3%**	**$2,824.9**	**21.6%**
Total	**$14,263.5**	**$14,926.2**	**4.7%**	**$18,270.3**	**22.4%**	**$26,074.4**	**42.7%**	**$19,931.8**	**(23.6%)**

NOTES:
(1) The General Appropriations Act (GAA) typically appropriates funding for legacy payments. However, the 89th Legislature, GAA, 2026–27 Biennium, does not provide this funding. House Bill 500, 89th Legislature, Regular Session, 2025, provided supplemental appropriations of $1,020.0 million to the Employees Retirement System of Texas (ERS) for fiscal year 2025 for this purpose. Appropriating the funds for legacy payments through the supplemental bill is anticipated to provide an additional $125.0 million in investment earnings.
(2) The decrease in funding for Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Program and Judicial Retirement System Plan II (JRS II) for fiscal years 2026 and 2027 compared to fiscal years 2024 and 2025 is attributed to the decrease of onetime funding of $772.0 million, provided in the 88th Legislature, GAA, 2024–25 Biennium, to pay off the unfunded liability for LECOS, and the decrease of onetime funding of $99.0 million to pay off the unfunded liability for JRS II.
(3) House Bill 500, 89th Legislature, Regular Session, 2025, provided supplemental appropriations of $369.2 million to the Teacher Retirement System of Texas (TRS) for fiscal year 2025 for active employee health insurance funding to maintain TRS-ActiveCare premium increases at 10.0 percent per year during the 2026–27 biennium.
(4) Appropriations to the Texas Education Agency for state contributions to TRS-ActiveCare are included in Foundation School Program funding formulas and are not shown.
(5) JRS I= Judicial Retirement System Plan I; ORP=Optional Retirement Program; CSCD=community supervision and corrections departments; HEGI=Higher Education Employees Group Insurance; UT=the University of Texas; TAMU=Texas A&M University.
(6) Totals may not sum due to rounding.
SOURCE: Legislative Budget Board.

APPENDIX B – CONTRIBUTION RATES

FIGURE B–1
CONTRIBUTION RATES AND LEGAL AUTHORITY, 2026–27 BIENNIUM

	CONTRIBUTION RATE (BASED ON PERCENTAGE OF ACTIVE MEMBER PAYROLL, OR SET AMOUNT AS NOTED)			AUTHORITY		
SYSTEM	STATE/ EMPLOYER	ACTIVE EMPLOYEES	OTHER	CONSTITUTION (1)	STATUTE	GAA
Retirement						
ERS, hired before Sept. 1, 2022	9.5%	9.5%	Agency contribution, 0.5% of payroll	Article XVI, §67(b)(3)	The Texas Government Code: State – §815.403; Employee – §815.402; Agency – §815.4035	Article I, ERS, Rider 4; Article IX, §17.06
ERS, hired on or after Sept. 1, 2022	9.5%	6.0%	Agency contribution, 0.5% of payroll	Article XVI, §67(b)(3)	The Texas Government Code: State – §815.403; Employee – §820.101; Agency – §815.4035	Article IX, §17.06
Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Program, hired before Sept. 1, 2022	1.75%	0.5%	Court fees totaling $25.0 million	N/A	The Texas Government Code: State – §815.403; Employee – §815.402; Court fees – §815.317	Article I, ERS, Rider 5
LECOS, hired on or after Sept. 1, 2022	1.75%	2.0%	Court fees totaling $25.0 million	N/A	The Texas Government Code: State – §815.403; Employee – §820.101; Court fees – §815.317	Article I, ERS, Rider 5
Judicial Retirement System Plan I	Pay-as-you-go	9.5%	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §835.102; Employee – §835.101	N/A
JRS II hired before Sept. 1, 2024	19.25%	9.36% (2)	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §840.103; Employee – §840.102	Article I, ERS, Rider 6
JRS II hired on or after Sept. 1, 2024	19.25%	6.0%	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §840.103; Employee – §840A.101	Article I, ERS, Rider 6
TRS	8.25% (3)	8.25%	Public education employers, 2.0%	Article XVI, §67(b)(3)	The Texas Government Code: State – §825.404; Employee – §825.402; District – §825.4035	Article III, TRS, Rider 4
ORP (4)	6.6%	6.65%	Employer, optional addition up to 1.9%	N/A	The Texas Government Code, §830.201	Article III, ORP, Riders 2 and 3

FIGURE B–1 (CONTINUED)
CONTRIBUTION RATES AND LEGAL AUTHORITY, 2026–27 BIENNIUM

	CONTRIBUTION RATE (BASED ON PERCENTAGE OF ACTIVE MEMBER PAYROLL, OR SET AMOUNT AS NOTED)			AUTHORITY		
SYSTEM	STATE/ EMPLOYER	ACTIVE EMPLOYEES	OTHER	CONSTITUTION (1)	STATUTE	GAA
Health Insurance						
ERS – State Employees	Full premium for employees and retirees; 50.0% of dependent premium	50.0% of dependent premium	Agency contribution, 1.0% of payroll	N/A	The Texas Insurance Code, §1551.301	Article I, ERS, Rider 7; Article IX, §17.03
ERS – community supervision and corrections departments	Full premium for employees and retirees and 50.0% of dependent premium	50.0% of dependent premium	N/A	N/A	The Texas Insurance Code, §1551.114	N/A
Higher Education Employees Group Insurance (HEGI) – ERS (5)	Majority of the cost for employees and retirees and 50.0% of dependent premium	50.0% of dependent premium	Institution contribution, 1.0% of payroll	N/A	The Texas Insurance Code: Institutions – §1551.301; Community colleges – §1551.3111	Article III, HEGI Contributions, Rider 1; Article IX, §17.03
HEGI – UT and TAMU Systems Institutions (6)	Majority of the cost for employees and retirees and 50.0% of dependent premium	50.0% of dependent premium	N/A	N/A	The Texas Insurance Code, §1601.207	UT – Article III, HEGI Contributions, Rider 2; TAMU – Article III, HEGI Contributions, Rider 3
TRS-Care	1.25%	0.65%	Public education employers, 0.75%	N/A	The Texas Insurance Code: State – §1575.202; Employer – §1575.204; Employee – §1575.203	Article III, TRS, Riders 5 and 9
TRS-ActiveCare	$900 per employee per year, through Foundation School Program formula structure	Costs not covered by state or employer	Public education employers, at least $1,800 per employee per year	N/A	The Texas Insurance Code: State – §1579.251; Employer – §1581.052; Employee – §1579.253	N/A

NOTES:
(1) The Texas Constitution requires a state contribution ranging from 6.0 percent to 10.0 percent for participants in the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), and an employee contribution of at least 6.0 percent.
(2) The Texas Government Code, Section 840.102, specifies a Judicial Retirement System Plan II (JRS II) member contribution rate of 9.5 percent. The effective member contribution rate represented is 9.36 percent, as some active members elect to cease contributions. The effective member contribution rate is the rate used in actuarial valuations of the system.
(3) State contributions to TRS and Optional Retirement Program (ORP) retirement for public community and junior colleges are limited to 50.0 percent of the creditable compensation of members whose duties are instructional or administrative. Contributions are limited further based on the growth of each college's staff size in proportion to changes in student enrollment.
(4) State law requires a state contribution to ORP of 8.5 percent. The General Appropriations Act sets the state rate at 6.6 percent, with an option for institutions or agencies to use local funds or other sources to supplement up to 1.9 percent.
(5) For the 2026-27 biennium, institutions of higher education participating in ERS receive state funding at 88.6 percent of ERS premium rates. Community college districts receive state funding at 50.0 percent of ERS premium rates.
(6) For the 2026-27 biennium, UT System and TAMU System institutions receive state funding at 88.6 percent of ERS premium rates.
SOURCE: Legislative Budget Board.

APPENDIX C – SIGNIFICANT LEGISLATION

The 89th Legislature, Regular and Called sessions, 2025, passed the following legislation affecting state employee benefits.

HOUSE BILL 2

The legislation increased compensation for public education employees through the Foundation School Program. House Bill 2 includes additional compensation based on various factors and establishes that compensation increases from the Teacher Retention Allotment and Support Staff Retention Allotment are considered creditable compensation. House Bill 2 also repealed the prohibition preventing public education employers from passing the costs of pension and healthcare surcharges to retirees returning to full-time work and establishes these surcharges as an allowable use of the allotment for basic costs.

HOUSE BILL 500

The supplemental appropriations legislation provided $1.0 billion in All Funds to the Employees Retirement System of Texas (ERS), including $916.0 million in General Revenue Funds and $104.0 million in Other Funds for a legacy payment to amortize the system's unfunded actuarial liabilities and to reduce long-term costs.

The legislation also provided $369.2 million in General Revenue Funds to the Teacher Retirement System of Texas (TRS) for the benefit of TRS-ActiveCare.

HOUSE BILL 1306

The legislation added certain medical examiners, death investigators, and justices of the peace to the cohort of individuals eligible for benefits pursuant to the Texas Government Code, Chapter 615. House Bill 1306 provides financial assistance to eligible survivors of certain individuals who died from a personal injury sustained in the line of duty. The lump-sum amount provided to eligible survivors for a death occurring during fiscal year 2025 is $611,135, and the amount for a death occurring during fiscal year 2026 is $628,858. Appropriations for these payments are made from the General Revenue Fund. The lump-sum amount is adjusted each year by the percentage change in the Consumer Price Index for All Urban Consumers.

HOUSE BILL 3126

The legislation allows entities that previously discontinued participation in TRS-ActiveCare as of September 1, 2022, to rejoin the program before the end of the five-year exclusion period. TRS may apply a risk stabilization fee to premiums starting in the plan year beginning September 1, 2026, to offset potential cost increases to the program.

SENATE BILL 2

The legislation established an education savings account (ESA) program to provide funding for approved education-related expenses of children participating in the program.

Senate Bill 2 requires certified educational assistance organizations to transfer to each participating student's account 85.0 percent of the estimated statewide average amount of state and local funding, including TRS retirement contributions, per student in average daily attendance for each school year that the student participates in the ESA program.

SENATE BILL 293

The legislation increased the state base salary of a district judge from $140,000 to $175,000. By statute, the salaries of many positions in the judiciary, including some prosecutors, are calculated based on the salary of district court judges. Senate Bill 293 also revised the compensation structure for the chief justice or presiding judge of an appellate court and judges who serve as local administrative judges, and the legislation authorized additional compensation for business court judges.

The legislation requires the retirement annuity for members of the elected class to be calculated using a salary of $175,000 and requires the Texas Ethics Commission to assess potential increases every five years beginning in fiscal year 2030.

The 89th Legislature, Regular Session, 2025, appropriated $169.7 million in General Revenue Funds and $4.6 million in Other Funds to implement provisions of Senate Bill 293.

SENATE BILL 1737

The legislation made certain law enforcement and custodial officers of the Texas Juvenile Justice Department (TJJD), Comptroller of Public Accounts (CPA), and Office of the

Attorney General (OAG) eligible to receive benefits in the Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Fund administered by ERS.

According to ERS, Senate Bill 1737 will add an estimated 1,661 individuals from TJJD, CPA, and OAG to the membership of LECOS. The 89th Legislature, Regular Session, 2025, appropriated $40.2 million in General Revenue Funds, $76,720 in General Revenue–Dedicated Funds, and $23,016 in Federal Funds to implement provisions of the legislation.

APPENDIX D – HISTORICAL INFORMATION

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

The 50th Legislature, 1947, established the Employees Retirement System of Texas (ERS) after voters approved a constitutional amendment to provide retirement programs, disability, and death benefits for public employees and officers. The Texas Constitution requires ERS to provide benefits for officers and employees of the state, including state-compensated officers and employees of appellate courts and judicial districts. The ERS retirement plan is a traditional defined-benefit plan, and it is a qualified pension trust, pursuant to the U.S. Internal Revenue Code, Section 401(a). The pension plan operates pursuant to the Texas Constitution, Article XVI, Section 67, and applicable federal and state governing statutes.

RETIREMENT

Legislation enacted in 1954 transferred the administration of the Judicial Retirement System of Texas to ERS. In 1963, legislation expanded ERS membership to include elected state officials, including legislators. District attorneys were included in 1967. The Law Enforcement and Custodial Officer Supplemental (LECOS) Retirement Fund was established in 1979 to provide an increased retirement benefit for certified peace officers and custodial officers. In 1985, the Judicial Retirement System Plan II (JRS II) was authorized to phase out the Judicial Retirement System Plan I (JRS I). JRS I was established in 1940 and structured as a pay-as-you-go plan, which required the state to appropriate funds to pay the benefits owed to annuitants each year following their retirements. JRS II is a prefunded plan like ERS and LECOS, which enables the state and members to contribute during employees' working years. These contributions are invested to generate revenue for the long-term funding of retirement benefits, which enables the state to save money by utilizing investment returns to pay benefits.

DEATH BENEFITS

The 60th Legislature, Regular Session, 1967, established the Public Safety Death Benefit program. The program initially was referred to as the Law Enforcement Survivors Assistance Act and provided payment of $10,000 to the surviving spouses of certain law enforcement officers, firefighters, and custodial personnel of the Texas Department of Corrections who suffered violent death while performing their duties. The legislation also provided certain monthly payments for surviving minor children. The 64th Legislature, 1975, established the Retiree Death Benefit program.

GROUP BENEFITS PROGRAM

The 64th Legislature, 1975, also established the Texas Employees Uniform Group Insurance Program to provide health insurance and other optional coverage for employees, retirees, and their eligible dependents. The program started as an indemnity health plan defined and administered by the Texas Insurance Code, Chapter 1551, the Texas Employees Group Benefits Act. Health maintenance organizations (HMO) at that time provided health services to participants. ERS' Group Benefits Program (GBP) now offers health insurance coverage to state employees and employees of most state-funded institutions of higher education, except the University of Texas and Texas A&M University systems, which administer their own programs. The Texas Municipal Retirement System, the Texas County and District Retirement System, local community supervision and corrections departments, and other nonstate entities also participate in the GBP.

TEACHER RETIREMENT SYSTEM OF TEXAS

RETIREMENT

The Teacher Retirement System of Texas (TRS) was established by an amendment to the Texas Constitution in 1936 and by acts of the 45th Legislature in 1937 to provide a statewide teacher retirement system for public and higher education employees. TRS administers a traditional, defined-benefit retirement plan that provides service and disability retirement, death benefits, and survivor benefits to eligible Texas public and higher education employees and their beneficiaries. The pension plan operates pursuant to the Texas Constitution, Article XVI, Section 67, and applicable federal and state governing statutes, and it is a qualified pension trust pursuant to the U.S. Internal Revenue Code, Section 401(a).

The agency has two core responsibilities: (1) to deliver retirement benefits, group insurance, and death, survivor, and disability benefits to employees of public schools, colleges, and universities as authorized by the Texas Legislature; and (2) to manage the trust funds that finance member benefits.

RETIREE HEALTH BENEFITS (TRS-CARE)

The 69th Legislature, Regular Session, 1985, established the Texas Public School Retired Employees Group Benefits program, now called TRS-Care, and designated TRS as the administering agency. TRS-Care offers health insurance coverage to eligible public education retirees and their dependents through two plans: the Standard Plan, a self-insured plan for non-Medicare-eligible members, and TRS-Care Medicare Advantage, a fully insured plan for Medicare-eligible members.

ACTIVE EMPLOYEES HEALTH BENEFITS (TRS-ACTIVECARE)

TRS-ActiveCare, established by the 77th Legislature, 2001, is a self-funded, statewide, group health insurance program for public education employees and their eligible dependents. Members include employees of school districts, open-enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS.

OPTIONAL RETIREMENT PROGRAM

The Optional Retirement Program (ORP) is a defined-contribution plan established in 1967 as an alternative to the defined-benefit retirement plan provided by TRS. The plan serves as a recruitment tool to attract higher education faculty, librarians, professionals, and administrators who require interstate mobility during their careers. ORP is funded by tax-deferred contributions made by the state and the employee.

HIGHER EDUCATION EMPLOYEES GROUP INSURANCE

Since the early 1990s, higher education institutions have had the option of providing health insurance benefits to employees through the ERS Uniform Group Insurance Program, now called the Group Benefits Program. All institutions of higher education opted to join ERS, except those in the University of Texas and Texas A&M University systems, which opted to continue separate health insurance programs.

SOCIAL SECURITY AND BENEFIT REPLACEMENT PAY

The federal Social Security Act, 1935, provided a retirement program in which benefits were paid as a lump sum. In 1939, new legislation eliminated lump-sum payments in favor of monthly payments and added survivors' benefits to the program. In 1965, the U.S. Congress passed Medicare legislation that added both hospital insurance and medical insurance for individuals age 65 and older. The legislation also established the Medicaid program, which provided health coverage for certain low-income people.

Before fiscal year 1996, Texas paid a portion of state employees' Social Security taxes. The 74th Legislature, 1995, eliminated this payment and supplemented it with Benefit Replacement Pay (BRP) to maintain employees' total compensation. Only employees hired before September 1, 1995, are eligible for BRP.

APPENDIX E – GLOSSARY

ACTUARIAL ACCRUED LIABILITIES

The portion, as determined by a particular actuarial cost method, of the actuarial present value of the plan benefits and expenses that is not accounted for by future normal costs.

ACTUARIAL ASSUMPTIONS

Assumptions as to future experience under a fund, including the following assumptions about the occurrence of future events affecting costs or liabilities:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

ACTUARIAL SOUNDNESS

A public retirement system is considered actuarially sound if an actuary determines that the fund has adequate contributions to pay ongoing normal costs and amortize the unfunded actuarial accrued liability (UAAL) during a reasonable period, called the funding period. Texas Pension Review Board guidelines recommend that the funding period should be as brief as possible, not to exceed 30.0 years. The Texas Government Code provides additional direction for the Employees Retirement System of Texas and Teacher Retirement System of Texas and prohibits certain changes in the benefit plans and funding of each retirement system if the change would cause the period necessary to amortize the UAAL to exceed 30.0 years by one or more years.

ACTUARIAL VALUATION

The determination, as of a valuation date, of the normal cost, actuarial accrued liability, actuarial value of assets, and related actuarial present values for a plan.

ANNUALLY REQUIRED CONTRIBUTION

A calculated contribution for a defined-benefit pension plan for the reporting period, most often determined based on the plan's funding policy. Typically, the calculated contribution has a normal cost payment and an amortization payment. This rate often is referred to as the actuarially sound contribution rate.

AVERAGE INDEXED MONTHLY EARNINGS

An average of an individual's lifetime earnings used to calculate the primary insurance amount, which is used to determine the individual's monthly Social Security benefits. The calculation uses the highest 35.0 years of earnings, applies an index to factor in wage growth, and averages the total to produce a monthly figure.

BEND POINTS

Dollar amounts used in the formula to calculate monthly Social Security benefits. These amounts are set by the federal government annually and represent a division among three tiers of income at which a retiree will receive a lower percentage of the average indexed monthly earnings (AIME) as part of the primary insurance amount (PIA). Bend points obtain their name from the shape of the line chart generated when monthly benefits amounts are plotted against AIME. The bend points for calendar year 2024 are $1,174 and $7,078. These amounts mean that a retiree who turned age 62 during federal fiscal year 2024 would receive the sum of 90.0 percent of the first $1,174 of AIME, 32.0 percent of AIME from $1,174 to $7,078, and 15.0 percent of AIME greater than $7,078. The sum of these three totals would equal the retiree's PIA.

CASH BALANCE BENEFIT PLAN

A cash balance benefit plan is a defined-benefit plan that defines the benefit in terms of a stated account balance.

DEFINED BENEFIT PLAN

In a defined benefit plan, retirement benefits are defined by a formula applied to a specific member compensation or years of service. The amount of the benefit is not a function of contributions or actual earnings on those contributions.

DEFINED CONTRIBUTION PLAN

A defined contribution plan is a plan providing pension benefits equal to the combined employer and employee contributions, plus interest and minus administrative expenses.

FULL RETIREMENT AGE FOR SOCIAL SECURITY

The age at which a retiree becomes eligible to receive the full PIA as a monthly Social Security benefit. PIA is increased by 0.667 percent per month that an individual retires after reaching full retirement age. PIA is decreased by 0.556 percent per month during the 36.0-month period in which an individual retires before full retirement age, and decreased by another 0.417 percent per month for each month that exceeds 36.0 months before full retirement age.

FUNDED RATIO

The funded ratio of a pension plan refers to the proportion of assets to liabilities and is expressed as a percentage. It is calculated by dividing the actuarial value of assets by the actuarial accrued liabilities. The actuarial value of assets often is used for this calculation, although some plans may calculate a market-funded ratio using the market value of assets.

FUNDING PERIOD OR AMORTIZATION PERIOD

The length of time required for contributions and other revenues, including investment earnings, to pay all normal costs and amortize any unfunded liabilities. If a contribution rate will never amortize the unfunded liability, the funding period, also known as an amortization period, is referred to as never or infinite.

NORMAL COST

The current value of benefits attributed to the present year. The normal cost is separate from the contribution amount required to amortize the unfunded liability.

OCCUPATIONAL DISABILITY

A sudden and unexpected injury or disease that results from a specific act or occurrence determinable by a definite time, place, and dangerous risk of severe physical or mental trauma or disease that is not common to the public and that is peculiar to and inherent in a dangerous duty in an individual's state employment.

PLAN YEAR

A plan year is the 12.0-month period during which benefits are provided.

PRIMARY INSURANCE AMOUNT

The amount of monthly Social Security benefits a retiree receives if the retiree elects to begin receiving benefits at full retirement age. This amount is increased or decreased depending on whether an individual retires before or after full retirement age. PIA is calculated as the sum of three percentages of average indexed monthly earnings.

PROPORTIONALITY

A funding rule, specified in the General Appropriations Act (GAA), Article IX, Section 6.08, Benefits Paid Proportional by Method of Finance, that requires a member's benefit costs to be paid by the same methods of finance and in the same proportions as overall agency or institution appropriations in the GAA, excluding any funds that may not be expended on salaries and wages.

SMOOTHING

The smoothed value of assets phases in investment gains and losses during a period to decrease the effects of short-term marketplace volatility on the calculation of the unfunded actuarial accrued liability. Smoothing serves to stabilize employer contribution rates. Contributions and funding periods are calculated using the smoothed asset values, not the market values of assets. The smoothed value may be subject to a corridor around the market value, such as plus or minus 20.0 percent of the market value of assets, to limit the amount of deferred gains and losses included in the actuarial value of assets.

SOCIAL SECURITY WAGE BASE

The maximum amount of a person's wages that are subject to Social Security tax. For earnings in 2026, this amount is $184,500.

SUM-CERTAIN FUNDING

A funding mechanism setting the state's contribution at a certain, non-estimated appropriation. Institutions of higher education must pay for any incurred costs greater than the sum-certain amounts for Higher Education Employees Group Insurance.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

The difference between the actuarial accrued liability and valuation of assets. The UAAL sometimes is referred to as unfunded accrued liability. A negative UAAL means a plan's assets exceed its actuarial liability.