

**Teacher Retirement System
Summary of Budget Recommendations - Senate**

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Method of Financing	2024-25 Base	2026-27 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$12,477,197,169	\$7,941,482,953	(\$4,535,714,216)	(36.4%)
GR Dedicated Funds	\$78,228,910	\$82,441,621	\$4,212,711	5.4%
Total GR-Related Funds	\$12,555,426,079	\$8,023,924,574	(\$4,531,501,505)	(36.1%)
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$544,252,294	\$548,486,600	\$4,234,306	0.8%
All Funds	\$13,099,678,373	\$8,572,411,174	(\$4,527,267,199)	(34.6%)

	FY 2025 Budgeted	FY 2027 Recommended	Biennial Change	Percent Change
FTEs	1,139.3	1,139.3	0.0	0.0%

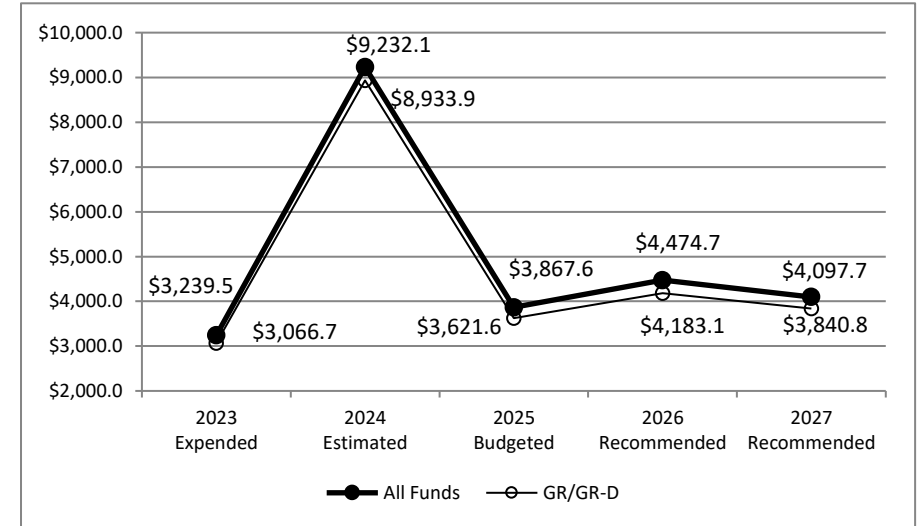
Agency Budget and Policy Issues and/or Highlights

-The biennial General Revenue-Related decrease is due primarily to the removal of \$5.0 billion in onetime funding for voter-approved retiree benefit enhancements. This decrease is partially offset by anticipated payroll growth in public and higher education.

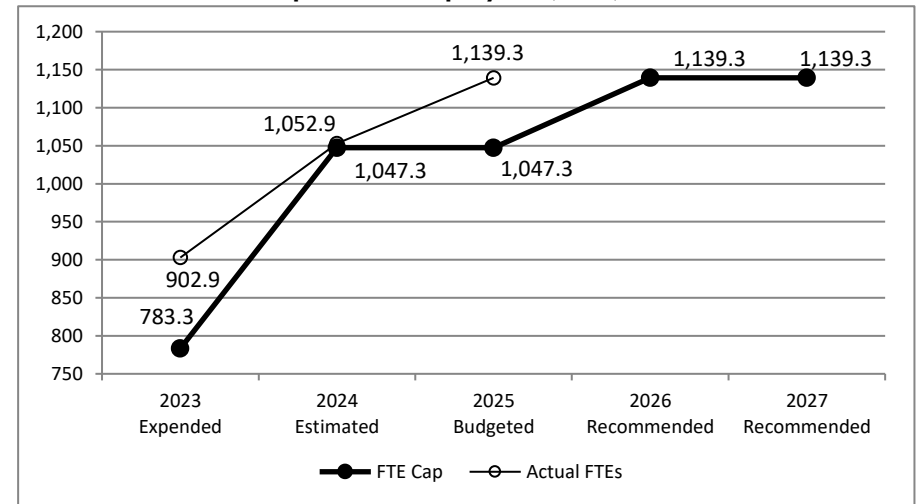
-Recommendations include \$548.5 million in Pension Trust Funds for pension administration. Administrative costs for TRS-Care and TRS-ActiveCare are funded entirely with non-appropriated trust funds.

The bill pattern for this agency (2026-27 Recommended) represents an estimated 2.9% of the agency's estimated total available funds for the 2026-27 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



Teacher Retirement System
Summary of Funding Changes and Recommendations - Senate

Funding Changes and Recommendations for the 2026-27 Biennium compared to the 2024-25 Base Spending Level (in millions)	General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
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SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):

A)	Retirement: Increase funding for state retirement contributions for public and higher education employees due to projected growth of covered payroll.	\$477.6	\$4.2	\$0.0	\$0.0	\$481.8	A.1.1 and A.1.2
B)	TRS Care: Increase funding for Retiree Health due to projected growth of covered payroll.	\$125.2	\$0.0	\$0.0	\$0.0	\$125.2	A.2.1
C)	Decrease in onetime funding in fiscal year 2024 for cost-of-living adjustments and stipends for certain retirees.	(\$5,000.0)	\$0.0	\$0.0	\$0.0	(\$5,000.0)	A.1.4
D)	Decrease in funding for active public education employee health care premium costs.	(\$138.5)	\$0.0	\$0.0	\$0.0	(\$138.5)	A.4.1
E)	Increase in Other Funds (Pension Trust Fund) for Investment Data Modernization project, IT initiatives, and headquarters operating costs.	\$0.0	\$0.0	\$0.0	\$18.4	\$18.4	A.1.3

OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):

F)	Decrease of Pension Trust Fund to make technical adjustment to TRS staff retirement accounting	\$0.0	\$0.0	\$0.0	(\$14.2)	(\$14.2)	A.1.2
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TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)	(\$4,535.7)	\$4.2	\$0.0	\$4.2	(\$4,527.3)	As Listed
<i>SIGNIFICANT & OTHER Funding Increases</i>	\$602.8	\$4.2	\$0.0	\$18.4	\$625.4	As Listed
<i>SIGNIFICANT & OTHER Funding Decreases</i>	(\$5,138.5)	\$0.0	\$0.0	(\$14.2)	(\$5,152.7)	As Listed

NOTE: Totals may not sum due to rounding.

**Teacher Retirement System
Selected Fiscal and Policy Issues - Senate**

1. **Payroll Growth Assumptions for State Retirement and TRS-Care Contributions.** Funding recommendations for estimated state retirement contributions total \$6.4 billion All Funds in 2026–27, a \$467.7 million All Funds increase from the 2024–25 base. This funding level provides a state contribution to Public and Higher Education retirement equal to 8.25 percent of payroll, the same rate as the previous biennium. Included in the 8.25 percent contribution are other funding sources from public and higher education employers, such as the Statutory Minimum Contribution, New Member Contribution, and Non-Educational and General Funds, which offset the amount of GR required to fund the state retirement contribution.

Funding recommendations for estimated, statutorily-required state contributions to TRS-Care total \$1.2 billion in General Revenue in 2026–27, a \$125.2 million increase from the 2024–25 base. This funding level provides a state contribution to TRS-Care equal to 1.25 percent of salaries, the same rate as the previous biennium. Included in the 1.25 percent contribution are public education employer payments from federal and private grants, which offset the amount of GR required to fund the state TRS-Care contribution.

Estimated amounts assume 5.0 percent public education payroll growth across Public Education Retirement and TRS-Care strategies and 7.9 percent payroll growth in the Higher Education Retirement strategy. Estimates also assume that federal funding sources to offset GR for required public education state retirement and TRS-Care contributions will return to pre-pandemic levels and trends.

2026–27 TRS State Contribution Rates		
	Public and Higher Education Retirement	TRS-Care
State	8.25%	1.25%
Active Employees	8.25%	0.65%
Public Education Employers	2.00%	0.75%

2. **TRS-ActiveCare Affordability.** Recommendations include \$450 million for TRS ActiveCare to offset member premium increases.

TRS-ActiveCare is a healthcare benefits program for certain public school district employees enacted by the Seventy-seventh Legislature in 2001. TRS-ActiveCare is funded by state, employer, and active employee contributions. As of September 1, 2023, the program served 427,207 employees and their dependents across 968 public education employers.

State law requires a minimum contribution by the state of \$75 per employee per month, which is distributed through the Foundation School Program. Participating districts are required to contribute a minimum of \$150 per employee per month toward the premiums of participating members. Minimum state and employer contributions have not changed since the program was established. About 773, or 86.2 percent of participating districts contribute more than the minimum.

For additional contributions, Senate Bill 8 of the Eighty-seventh Legislature, Third Called Session, 2021, appropriated \$203.0 million to TRS-ActiveCare. CARES Act funding awarded through the Governor’s office totaled \$435.0 million for ActiveCare. Both onetime funding sources helped contain and, in some cases, reduce participant premiums for the 2022–23 school year.

The Eighty-eighth Legislature appropriated \$588.5 million in General Revenue Funds to offset partially the decrease in pandemic-related Federal Funds and to maintain the average annual premium increase to less than 10.0 percent while compensating for the difference between current premiums and expected costs. TRS

estimates that this supplemental funding will amount to an average annual savings of \$1,100 per employee over the 2024–25 biennium. TRS indicates that the ActiveCare program remains competitively priced compared to other health plans, with total costs for ActiveCare lower than the average by 18.0 percent.

According to TRS, approximately \$450.0 million in additional General Revenue Funds remains to gradually increase member premiums back to the level required to fully fund projected claim costs. TRS staff indicate that without this funding, gross premiums will increase by nearly 20 percent in fiscal year 2026, with average monthly premium increases of \$118 in fiscal year 2026 and \$65 in fiscal year 2027. Recommendations include \$450 million in General Revenue Funds to mitigate ActiveCare member premium increases. The agency’s estimates assume an increase of over 50,000 enrolled employees due to the anticipated return of a large number of districts that will become eligible to re-enter ActiveCare upon expiration of their five-year waiting period, under Senate Bill 1444, Eighty-seventh Legislature.

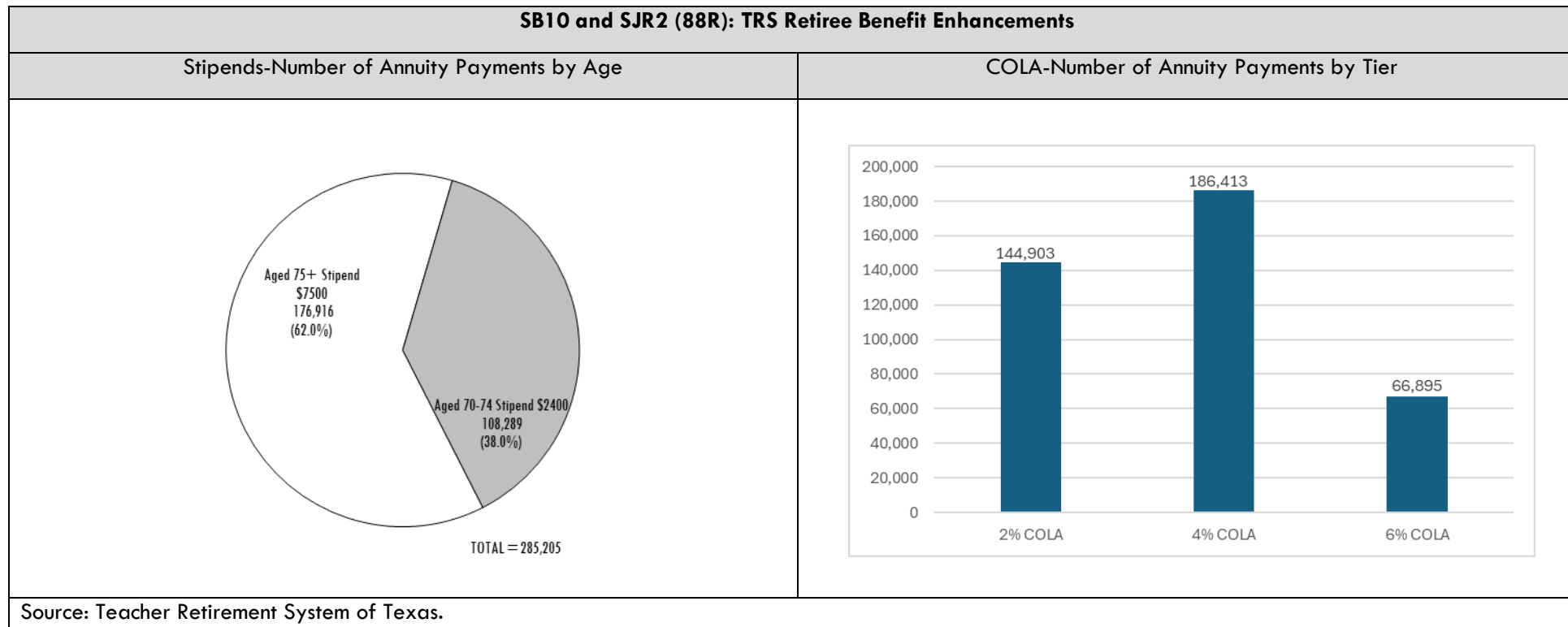
The figure below shows year-over-year rate increases for ActiveCare over the last five fiscal years. Prior to fiscal year 2023, rates were calculated on a statewide basis, and all regions received the same increase or decrease in rates. Beginning in fiscal year 2023, ActiveCare switched to a regional pricing model.

Region	TRS ActiveCare Percent Increase from Prior Plan Year				
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
1	-2.7%	6.2%	-20.0%	6.4%	11.8%
2	-2.7%	6.2%	-5.0%	4.6%	11.7%
3	-2.7%	6.2%	-1.1%	4.7%	6.8%
4	-2.7%	6.2%	-5.7%	6.8%	8.8%
5	-2.7%	6.2%	-1.0%	4.8%	8.2%
6	-2.7%	6.2%	-4.2%	2.5%	7.3%
7	-2.7%	6.2%	-2.6%	5.7%	5.9%
8	-2.7%	6.2%	-3.5%	7.5%	6.0%
9	-2.7%	6.2%	-1.4%	8.0%	6.4%
10	-2.7%	6.2%	-2.3%	7.1%	10.8%
11	-2.7%	6.2%	-0.6%	7.9%	9.2%
12	-2.7%	6.2%	-12.9%	7.0%	11.8%
13	-2.7%	6.2%	-12.8%	6.1%	12.6%
14	-2.7%	6.2%	-11.4%	3.8%	14.0%
15	-2.7%	6.2%	-9.7%	8.4%	13.8%
16	-2.7%	6.2%	-9.4%	3.1%	8.1%
17	-2.7%	6.2%	-12.4%	8.5%	8.8%
18	-2.7%	6.2%	-17.3%	-1.6%	13.2%
19	-2.7%	6.2%	-14.4%	3.7%	3.1%
20	-2.7%	6.2%	-16.9%	6.3%	12.6%

3. **Senate Bill 10/House Joint Resolution 2 Benefit Enhancements for TRS Retirees.** Recommendations reflect the removal of \$5.0 billion in onetime General Revenue Funds for certain retiree benefit enhancements.

The Eighty-eighth Legislature, Regular Session, enacted SB10 and HJR2 to enhance TRS retiree benefits. These measures authorized a permanent, onetime tiered cost-of-living (COLA) adjustment totaling \$3.4 billion, contingent upon voter approval of a constitutional amendment, and onetime payments for certain qualifying retirees based on age, totaling \$1.6 billion. These measures were funded upfront with General Revenue Funds at no long-term cost to the Pension Trust Fund.

The constitutional amendment proposed by HJR 2 granting the TRS retiree COLA was approved by over 83.7 percent of Texas voters in November 2023 and became effective January 2024. TRS reported that approximately 400,000 annuitants received an adjustment, for a total increase in benefit payments of over \$30 million for January 2024 annuity payments. The onetime payments to TRS certain retirees were paid in September 2023, with over 285,000 retirees receiving payments. The figures below show the number of stipends by age and COLA annuity payments by amount.



4. **Performance Incentive Compensation.** TRS is permitted to offer performance incentive pay for its investment professionals, with the aim of attracting and retaining skilled investment professionals and ensuring competitiveness in global markets. Pursuant to TRS’ Rider 12, Performance Incentive Compensation Payments, TRS is appropriated Pension Trust Funds necessary to make Board-approved performance incentive payments.

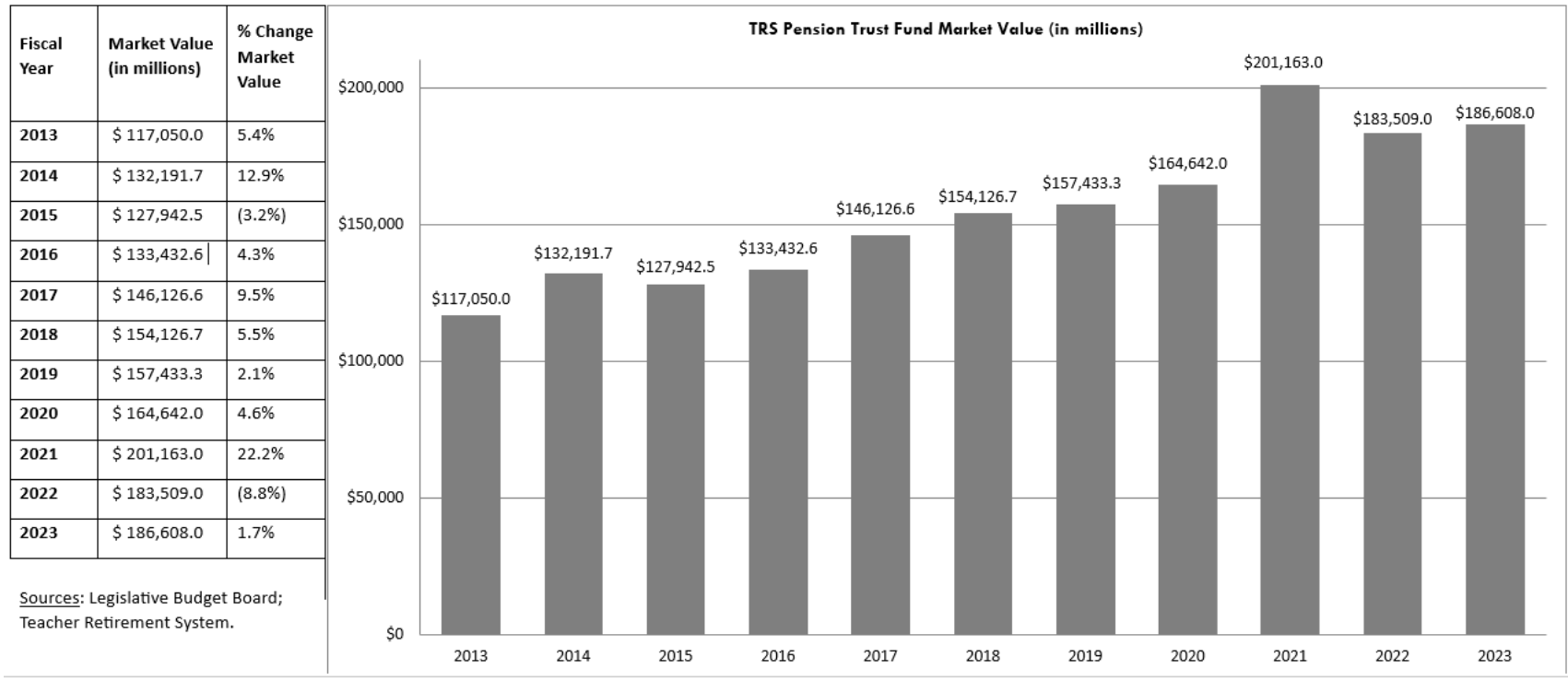
The TRS Board’s compensation philosophy for investment staff is to provide a base salary that is among the top quartile of public funds and the lower quartile of

private investment firms for performance pay. Potential awards will become actual awards following a performance period in which the Pension Trust Fund experiences a total return greater than zero. Eligibility for performance pay is restricted to Investment Management Division staff and the Executive Director. TRS staff indicate that Plan Year 2024 projected awards are estimated to range from \$27.3 to \$38.2 million and would be paid in fiscal year 2025 based on current base salaries, performance benchmarks, and ending net position. These estimates assume between 50 and 70 percent realization of maximum award opportunity, and TRS estimates that the 100 percent realization of the maximum award opportunity would cost \$54.5 million. The agency expects a similar award range for fiscal year 2026 and fiscal year 2027. Historical payout levels from Plan Year 2020 to Plan Year 2023 range from 23.3 to 69.8 percent realization of maximum award opportunity.

5. **TRS-CARE.** After many biennia of fund balance issues with TRS-Care, the public education retiree healthcare program, the fund balance is now healthy according to TRS. In July 2024, the TRS Board voted to lower 2025 premiums for Medicare retirees. For retiree-only plans, monthly premiums for members were reduced by 44.4 percent. Depending on plan type, participants will save between \$720 and \$4,884 annually. Additionally, TRS is offering an extended enrollment opportunity for eligible TRS-Care participants to join or return to the program.

As a result of Senate Bill 1854 passed by the Eighty-eighth Regular Legislature, TRS offers optional dental and vision care coverage for TRS retirees and their dependents, surviving spouses, and surviving children with coverage beginning January 1, 2025. These programs are funded through member contributions and do not result in the need for additional contributions to TRS-Care from the General Revenue Fund.

6. **Pension Trust Fund Corpus.** According to the 2023 TRS annual financial report, the total market value of the pension trust fund grew to \$186.6 billion, an increase of \$3.1 billion from the previous year. The trust delivered an annual investment return of 3.85 percent for fiscal year 2023, surpassing its benchmark by 1.6 percent. Over the 3 prior years, TRS generated nearly \$8 billion in excess returns beyond passive investment benchmarks. The figure below shows the total market value of the TRS Pension Trust Fund for fiscal years 2013 to 2023. Market value changes for the fund also reflect investment expenses and distributions to annuitants, resulting in higher annual investment returns than relative change in total fund market value.



The figure below shows TRS reported one-year, five-year, and ten-year returns as of August 31, 2023. TRS staff indicate an annual return for fiscal year 2024 of 12.8 percent. TRS’ actuarial assumed rate of return is 7.0 percent as of 2022.

TRS Returns as of August 31, 2023		
One-year	Five-year	Ten-year
3.85%	6.42%	7.62%

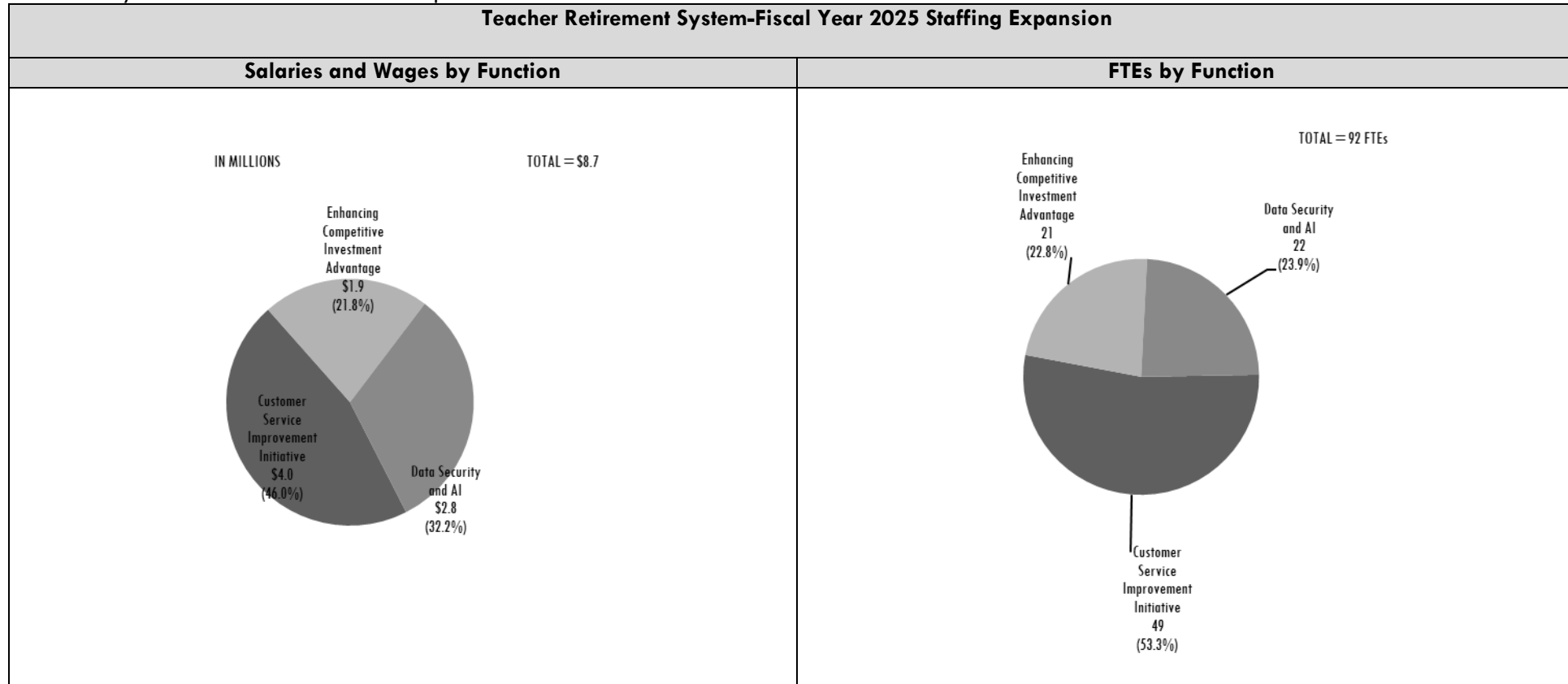
- 7. **TRS Board Actions: Organizational Expansion and Relocation.** Recommendations reflect a biennial increase of \$18.4 million in Pension Trust Funds for administrative expenses, primarily related to several initiatives adopted by the TRS Board through fiduciary findings pursuant to Government Code, Section 825.313 and Rider 19.

Salary Costs

Recommendations maintain \$17.4 million in Other Funds for salary costs related to 92.0 additional FTEs added by the TRS Board for fiscal year 2025.

The TRS Board of Trustees issued a fiduciary finding in July 2024, to increase the FTE cap, pursuant to TRS Rider 19, *Exception to FTE Limitation for Board Fiduciary Finding*. Rider 19 authorizes the TRS Board to increase the FTE cap upon a finding that such an increase is necessary to carry out the fiduciary duties of the Board. The FTE cap for fiscal year 2025 was increased by 92.0, from 1,047.3 to 1,139.3. These positions include additional FTEs for the ongoing customer service improvement

initiative, enhancing competitive investment advantages, and for data security and artificial intelligence. The figures below show the annual salaries and wages and FTE counts by function for the FY2025 FTE expansion.



IT Costs

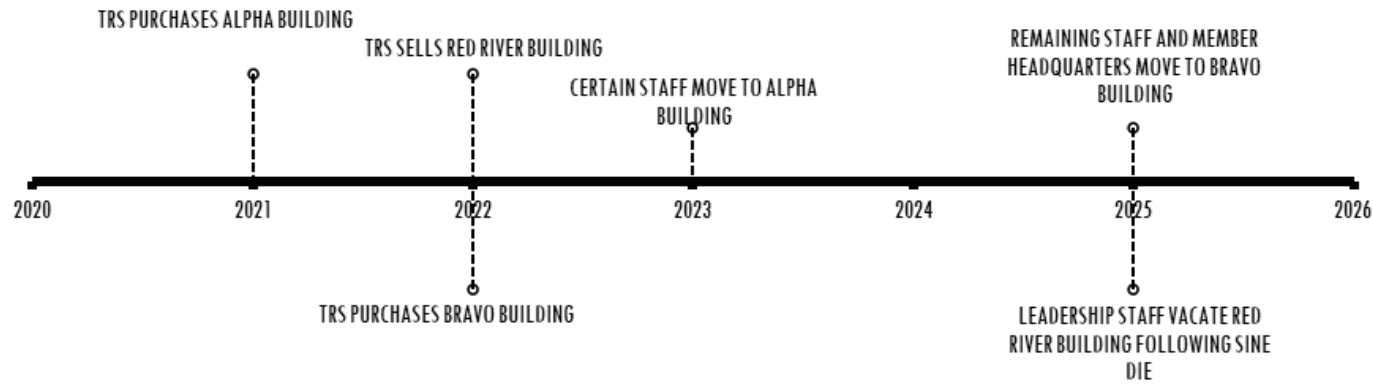
Recommendations include \$6.3 million in additional capital funds for the investment data modernization project. This is part of a TRS Board-approved 5-year effort to modernize the agency’s investment data platform and systems. In the 2026–27 biennium, project costs increase from the prior biennium due to implementation of all five key capabilities of the platform solution, with software implementation as a primary driver of the increase. Recommendations also include \$8.9 million in funding above base levels for the data security and artificial intelligence initiative and IT compliance.

Headquarters Relocation

Recommendations include an additional \$3.2 million above base levels in Pension Trust Funds for new headquarters utilities and operating costs.

TRS has also implemented a plan to relocate its staff and member headquarters. In the summer of 2023, TRS began relocating staff to its new headquarters in the Mueller neighborhood of East Austin. The first phase involved moving non-member-facing departments into the Alpha building. In spring 2025, TRS plans to move additional staff from its current Red River Street headquarters to the Bravo building. The new headquarters is designed to be a generational solution to accommodate membership growth, and is equipped with a member center, individual counseling rooms, group presentation rooms, and a members-only lobby area. TRS indicates

plans to open the new headquarters to members in mid-2025. The timeline below shows additional details about the TRS relocation.



Previous Fiduciary Findings

The TRS Board of Trustees previously issued a fiduciary finding in August 2022, to increase the FTE cap by 264.0, from 768.3 to 1,047.3, pursuant to TRS Rider 20, *Exception to FTE Limitation for Board Fiduciary Finding, GAA, 2022–23* biennium. These FTEs included 181.0 FTEs for improved customer service to TRS members and 83.0 FTEs to enable the agency’s Investment Management Division to increase the share of pension assets managed internally.

TRS indicates that it saved \$1.2 billion in decreased external investment fees between 2017 and 2022 by reducing the use of external managers and hiring in-house investment professionals. TRS’ leadership indicate that the fiscal year 2025 Board Fiduciary Finding represented the final phase of position expansion for these initiatives.

**Teacher Retirement System
Rider Highlights - Senate**

Modification of Existing Riders

1. **Performance Measures.** Recommendations include modification of existing performance measure targets to reflect updated agency estimates. The most significant change is to investment expenses as basis points of net assets, which increased target thresholds from approximately 12.32 to 48.56 basis points. TRS indicates that the primary driver of these increased projections is due to a previously immaterial investment expense for reverse repurchase agreements becoming material and therefore included in expense calculations.

Deleted Riders

20. **Analysis of High-Cost Hospital Claims.** Recommendations delete rider as the required analysis of certain fiscal year 2022 claims has been completed.
23. **Contingency for Senate Bill 10 and House Joint Resolution 2.** Recommendations delete contingency rider for onetime appropriations of \$5.0 billion in fiscal year 2024 for supplemental payments and cost-of-living adjustments for certain TRS retirees.

**Teacher Retirement System
Appendices - Senate**

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* Appendix is not included - no significant information to report

**Teacher Retirement System
Funding Changes and Recommendations by Strategy - Senate -- ALL FUNDS**

Strategy/Goal	2024-25 Base	2026-27 Recommended	Biennial Change	% Change	Comments
TRS - PUBLIC EDUCATION RETIREMENT A.1.1	\$5,173,053,710	\$5,542,425,873	\$369,372,163	7.1%	Recommendations provide a state contribution of 8.25 percent of payroll and assume 5.0 percent average annual public education payroll growth in the 2026–27 biennium. Estimates assume that Federal Funding used for retirement contributions will return to pre-pandemic levels and trends.
TRS - HIGHER EDUCATION RETIREMENT A.1.2	\$753,423,382	\$851,712,521	\$98,289,139	13.0%	Recommendations provide a state contribution of 8.25 percent of payroll and assume 7.8 percent average annual higher education payroll growth in the 2026–27 biennium. Estimates assume that the share of General Revenue-Dedicated will decrease by 4.84 percent annually.
ADMINISTRATIVE OPERATIONS A.1.3	\$530,075,288	\$548,486,600	\$18,411,312	3.5%	Recommendations reflect increased Pension Trust Funds for \$3.2 million for headquarters utilities and operating costs; \$6.3 million for implementation of the next phase of the Investment Data Modernization Project, and \$8.9 million for cybersecurity, artificial intelligence, and IT compliance initiatives.
TRS RETIREMENT-ADDITIONAL PAYMENT A.1.4	\$5,000,000,000	\$0	(\$5,000,000,000)	(100.0%)	Recommendations reflect the removal of \$5.0 billion in onetime funding provided in the previous biennium for certain retiree benefit enhancements.
RETIREE HEALTH - STATUTORY FUNDS A.2.1	\$1,054,607,993	\$1,179,786,180	\$125,178,187	11.9%	Recommendations provide a state contribution of 1.25 percent of payroll and assume 5.0 percent average annual public education payroll growth. Estimates assume that Federal Funding used for retirement contributions will return to pre-pandemic levels and trends.
RETIREE HEALTH - SUPPLEMENTAL FUNDS 1.5.1	\$0	\$0	\$0	0.0%	
ACTIVE EMPLOYEE HEALTHCARE A.3.1	\$588,518,000	\$450,000,000	(\$138,518,000)	(23.5%)	Recommendations include supplemental funding to offset employee premium increases for active employee healthcare. Estimates for necessary funds to mitigate increases in the 2026–27 biennium and in fiscal year 2028 are lower than appropriated amounts in the 2024–25 biennium.
Total, Goal A, TEACHER RETIREMENT SYSTEM	\$13,099,678,373	\$8,572,411,174	(\$4,527,267,199)	(34.6%)	
Grand Total, All Strategies	\$13,099,678,373	\$8,572,411,174	(\$4,527,267,199)	(34.6%)	

**Teacher Retirement System
FTE Highlights - Senate**

Full-Time-Equivalent Positions	Expended 2023	Estimated 2024	Budgeted 2025	Recommended 2026	Recommended 2027
Cap	783.3	1,047.3	1,047.3	1,139.3	1,139.3
Actual/Budgeted	902.9	1,052.9	1,139.3	NA	NA

Schedule of Exempt Positions					
Executive Director	\$500,000	\$550,000	\$558,500	\$558,500	\$558,500
Chief Investment Officer	\$650,000	\$725,000	\$800,000	\$800,000	\$800,000

Notes:

a) TRS issued fiduciary findings in fiscal years 2023 and 2025, authorized by Rider 19, Exception to FTE Limitation for Board Fiduciary Finding, which grants the agency authority to increase the number of FTEs if the Board of Trustees determines that additional staff are necessary to perform the fiduciary duties of the Board. The FTE cap was increased by 264.0 FTEs in fiscal year 2023 and by 92.0 FTEs in fiscal year 2025, including additional FTEs for the customer service improvement initiative, for cybersecurity, and to continue to hire in-house investment professionals.

b) The Executive Director and Chief Investment Officer salaries were increased in each fiscal year, pursuant to Rider 8, Exempt Positions, which grants the TRS Board the authority to determine the salaries of exempt positions without limitation. Both positions are also eligible for performance incentive compensation, with current plan year maximum awards of 100 and 175 percent of base pay, respectively. Recommendations delete the Deputy Chief Investment Officer exempt position, which has been vacant since 2020 and remains without a plan to fill.