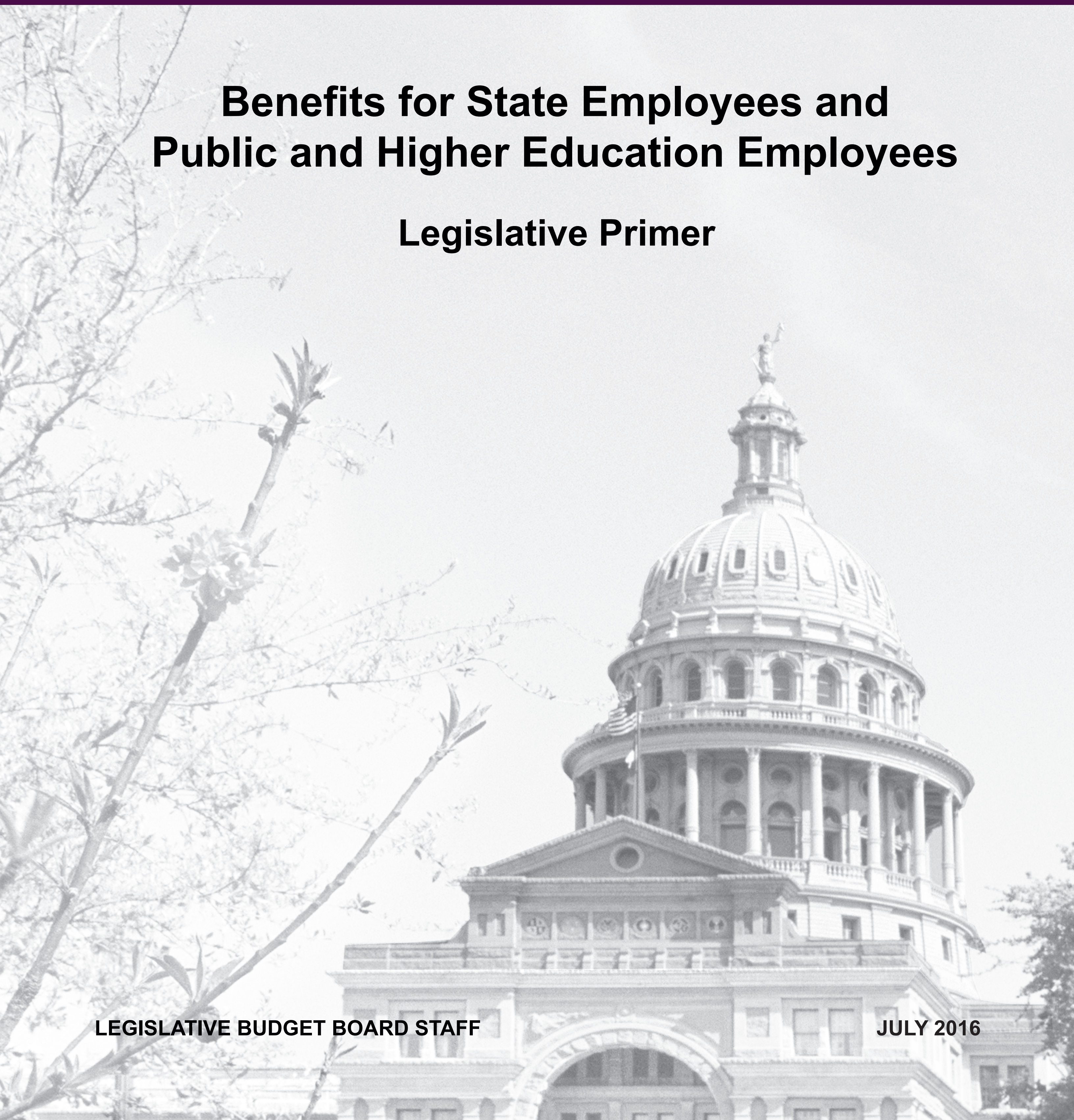
LEGISLATIVE BUDGET BOARD

Benefits for State Employees and Public and Higher Education Employees

Legislative Primer



LEGISLATIVE BUDGET BOARD STAFF

JULY 2016

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INTRODUCTION

Texas public employees are supported by a variety of state and local programs providing both retirement and healthcare benefits. The Texas Constitution establishes two retirement systems to provide benefits to state employees and officers and to employees of public education, including higher education. The Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS) were established by the Legislature more than six decades ago. Each is managed by boards of trustees that oversee administration of benefits delivery and management of trust fund assets. ERS has approximately 344,971 members and retirees, and manages $25.2 billion in assets. TRS is one of the largest pension systems in the nation, with approximately 1.5 million members and retirees and $128.5 billion in assets. Retirement benefits paid by ERS in fiscal year 2015 total approximately $2.2 billion, while TRS paid $8.9 billion in fiscal year 2015 to retirees and their beneficiaries.

Actuarial soundness for each retirement system has been a topic of discussion in the last decade as investment performance has shown considerable volatility. Actuarial soundness is defined in statute as contributions sufficient to fund the normal cost (the cost of benefits being earned during the year by active members) and amortize the unfunded accrued liability over no more than 31 years. Investment performance rebounded for several years after all-time lows in fiscal year 2009, but in fiscal year 2015, ERS realized investment returns equaling 0.5 and TRS experienced returns equaling -0.3 percent, which is less than the 8.0 percent investment return assumption for both retirement systems. The funding ratios (per respective actuarial valuations as of August 31, 2015) indicate that ERS is 76.3 percent funded and TRS is 80.2 percent funded.

The Optional Retirement Program (ORP), an alternative to TRS participation for certain higher education employees, was established in 1967 to provide a more portable option for retirement accumulations for individuals who might experience interstate mobility during their careers. 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 a retiree is eligible. The 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 covers 545,403 participants, including dependents, and pays $2.8 billion in health benefit claims each year. Two TRS programs for retirees and active members cover healthcare and paid a total of $3.2 billion in fiscal year 2015 for 731,272 total participants, including dependents. These amounts do not include the fully insured Medicare Advantage plans. Many local school districts do not participate in the TRS program for active employees and instead provide local options for healthcare benefits. Employees of higher education have access to health benefit programs provided by ERS, the University of Texas, and Texas A&M University. (See related sections.)

Figure 1 shows a comparison of ERS and TRS retirement and healthcare benefits.

FIGURE 1
COMPARISON OF TEXAS EMPLOYEES RETIREMENT SYSTEM AND TEACHER RETIREMENT SYSTEM
AUGUST 31, 2015

CATEGORY	ERS (ALL PLANS)	TRS
Members and Retirees	344,970	1,459,243
Assets	$25.2 billion	$128.5 billion
Retirement Benefits Paid in Fiscal Year 2015	$2.2 billion	$8.9 billion
Actuarial Funded Ratio	76.3%	80.2%
Unfunded Actuarial Accrued Liability (UAAL)	$8.4 billion	$33.0 billion
Funding Period	33 years	33.3 years
Healthcare Participants	545,403	731,272
Healthcare Benefits Paid In Fiscal Year 2015	$2.8 billion	$3.2 billion

NOTES:
(1) Figure reflects the actuarial funded ratio and funding period for the Employees Retirement System Retirement Fund only.
(2) Healthcare benefits paid in fiscal year 2015 include medical and pharmacy, and exclude Medicare Advantage Plans.
SOURCES: 2015 Comprehensive Annual Financial Reports of Employees Retirement System (ERS) and Teacher Retirement System (TRS).

This document outlines retirement eligibility, funding structure, benefit plans, and the actuarial condition of each retirement system. Discussion includes the basic components of the healthcare benefit programs administered by ERS and TRS, including funding sources and benefit structure. **Figure 2** shows which public entity is responsible for the administration of retirement and healthcare benefits for each category of eligible employees.

FIGURE 2
ADMINISTRATION RESPONSIBILITY FOR RETIREMENT AND HEALTHCARE BENEFITS, 2016–17 BIENNIUM

RETIREMENT	ERS	TRS	ORP	SELF-ADMINISTRATION
State Employees	X			
Higher Education Employees		X	X	
Community College Employees		X	X	
Public School Employees		X		
HEALTHCARE	**ERS**	**TRS**	**ORP**	**SELF-ADMINISTRATION**
State Employees (Actives and Retirees)	X			
Higher Education Employees	X			UT System, TAMU
Community College Employees	X			
Public School Employees				
Actives		X		Local ISDs
Retirees		X		

SOURCE: Legislative Budget Board.

RETIREMENT

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

HISTORY

The Employees Retirement System of Texas (ERS) was established by the Legislature in 1947 based on a voter-approved constitutional amendment to provide retirement programs, disability, and death benefits for public employees and officers. The 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.

ERS responsibilities have expanded gradually. Legislation passed 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 Supplement (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 set up 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 retirement. JRS II is set up as a prefunded plan that enables the state and members to make contributions 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.

In 1950, the U.S. Congress passed the Social Security Act, Section 218. Federal law authorized states to enter into voluntary agreements with the Social Security Administration (SSA) for coverage for their state and local governments. The Texas Legislature delegated responsibility to the Department of Public Welfare in 1951 for administration of the Texas Social Security Program. Administrative responsibilities were transferred to ERS in 1975. As the administrator, ERS has oversight for managing referendums, or elections, held by political subdivisions that provide for Social Security or Medicare Only coverage for employees of local governments. State employees participate in Social Security as a condition of employment; however, employees of many local governments in Texas still vary in participation, based on local elections.

Before fiscal year 1996, state employees received a state-paid Federal Insurance Contributions Act (FICA) supplemental payment of 5.85 percent on their first $16,500 of FICA-covered wages, up to a maximum of $965.25. In 1995, the Legislature repealed this state-paid contribution, and replaced it with a benefit supplement to ensure that take-home pay was not reduced.

GOVERNANCE AND POLICY

The Employees Retirement System is governed by a board of six trustees who serve staggered six-year terms. By statute, three are active state employees who are elected by the members of the system. The remaining three are appointed, one each by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. As fiduciaries of the trust fund, ERS trustees are responsible for the prudent management of assets held in trust, seeking long-term investment returns that exceed the established actuarial rate of return.

MEMBERSHIP

Figure 3 shows membership data for ERS, the LECOS Retirement Fund, JRS I, and JRS II as of the August 31, 2015, ERS Comprehensive Annual Financial Report (CAFR).

Noncontributing members are former employees who have not withdrawn their retirement funds. Compared to the August 31, 2014, ERS CAFR, the number of active ERS members increased by 8,247, or 6.1 percent. Membership for 2015 includes 7,188 new members that were included as a result of the elimination of the 90-day membership waiting period on September 1, 2015. The number of noncontributing members also increased by 4,615, or 4.8 percent, and the number of annuitants increased by 4,163,

FIGURE 3
TEXAS EMPLOYEES RETIREMENT SYSTEM MEMBERSHIP BY PLAN, AUGUST 31, 2015

PLAN	ACTIVE MEMBERS	NONCONTRIBUTING MEMBERS	RETIREES AND BENEFICIARIES (ANNUITANTS)
ERS	142,409	101,122	100,003
LECOS	38,526	12,962	10,845
JRS I	10	3	391
JRS II	563	148	322

NOTES:
(1) ERS = Employees Retirement System Retirement; LECOS = Law Enforcement and Custodial Officer Supplement; JRS = Judicial Retirement System.
(2) Members of LECOS are also members of ERS.
SOURCE: Employees Retirement System.

or 4.3 percent. For LECOS, the number of active members increased by 1,442; however, 1,476 members were added as a result of the elimination of the 90-day membership waiting period on September 1, 2015. Therefore, the plan experienced an overall decrease of 34 active members. The number of noncontributing members increased by 1,651, or 14.6 percent, and the number of LECOS annuitants increased by 821, or 8.2 percent. For JRS I, the number of active members decreased by two, or 16.7 percent; the number of noncontributing members remained the same; and the number of annuitants decreased by 15, or 3.7 percent. Finally, for JRS II, the number of active members increased by nine, or 1.6 percent; the number of noncontributing members increased by nine, or 6.5 percent; and the number of annuitants increased by 55, or 20.6 percent.

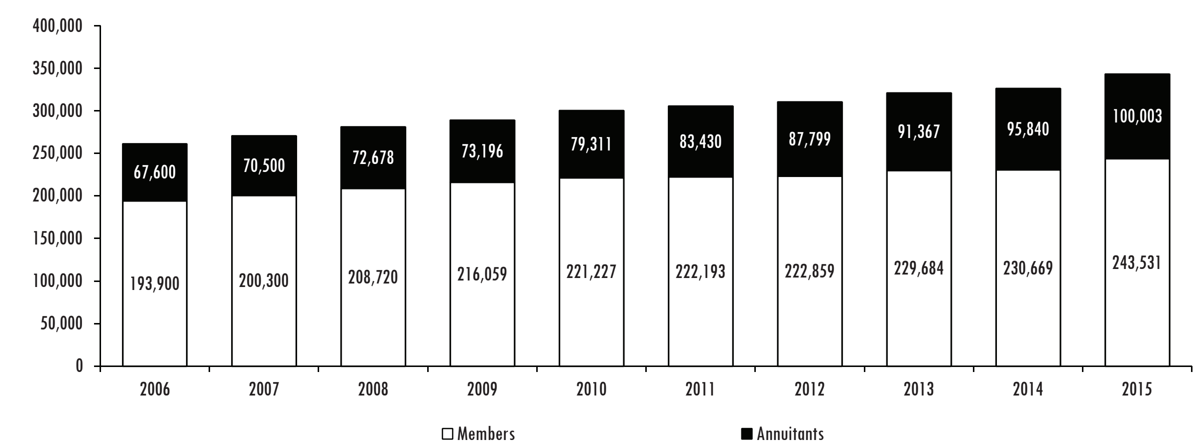
ERS has two classes of membership, the employee class and the elected class. The employee class includes employees and appointed officers of every state department, commission, board, agency, or institution except those participating in TRS, ORP, JRS I, and JRS II. Membership in the employee class is mandatory for all eligible employees and begins on the first day of employment. The elected class includes statewide elected officials not in JRS I and JRS II, members of the Legislature, and district attorneys and criminal district attorneys. Membership in the elected class is optional, and eligible participants apply to enroll with ERS.

Members of LECOS are also members of ERS. This plan covers employees who are licensed law enforcement officers or custodial officers of various state agencies including: Department of Public Safety, Alcoholic Beverage Commission, Parks and Wildlife Department, Juvenile Justice Department, and the Department of Criminal Justice, including the Board of Pardons and Paroles.

The JRS I plan is for judges, justices, and commissioners of the Supreme Court of Texas, the Court of Criminal Appeals, the Courts of Appeals, District Courts, and 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 4 shows ERS membership during the last decade.

FIGURE 4
EMPLOYEES RETIREMENT SYSTEM MEMBERSHIP, FISCAL YEARS 2006 TO 2015



SOURCE: Employees Retirement System.

CONTRIBUTIONS

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

The Texas Constitution specifies a state contribution rate of 6.0 percent to 10.0 percent of total employee payroll. The percentage of payroll that the state contributes is determined by the Legislature and identified by a rider in the ERS bill pattern in the GAA. For both fiscal years of the 2016–17 biennium, the state contribution rate via direct appropriations is 9.5 percent for ERS Retirement. In addition, state agencies contribute 0.5 percent of payroll, for a total employer contribution of 10.0 percent for fiscal years 2016 and 2017. For LECOS and JRS II, state contributions of 0.5 percent and 15.663 percent, respectively, are made in both fiscal years of the 2016–17 biennium. Using the applicable percentage, each state agency sends the appropriate state contribution along with the member contribution of 9.5 percent to ERS when payroll is processed during the year. **Figure 5** shows contribution rates for the last three biennia. (See **Appendix A** for actual appropriation amounts.)

FIGURE 5
EMPLOYEES RETIREMENT SYSTEM STATE AND MEMBER CONTRIBUTION RATES, 2012–13 TO 2016–17 BIENNIA

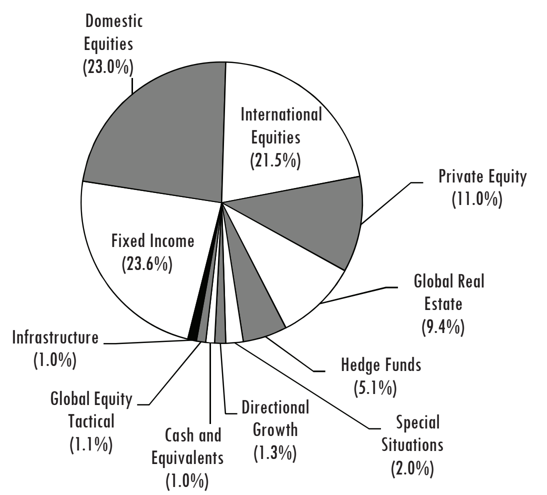
	TOTAL STATE		
YEAR	STATE	AGENCY	MEMBER
2012	6.0%	N/A	6.5%
2013	6.5%	N/A	6.5%
2014	7.5%	0.5%	6.6%
2015	7.5%	0.5%	6.9%
2016	9.5%	0.5%	9.5%
2017	9.5%	0.5%	9.5%

NOTE: In fiscal year 2014, the state contribution was made up of a 6.5 percent base contribution and an additional 1.0 percent contribution out of unexpended balances for Employees Retirement System retirement and insurance remaining as of August 31, 2013.
SOURCE: Legislative Budget Board.

INVESTMENT OF ASSETS

The ERS Board of Trustees oversees the investment of the system's trust fund assets. Initially, ERS was limited to investing only in government securities. In 1958, investments were authorized in corporate securities, common stocks, preferred stocks, debentures, bonds, mortgages, and other financial instruments. Current investment strategies employ a diversified portfolio with a mix of active and passive management, and an array of management styles. Assets are managed approximately 75.0 percent internally, with 25.0 percent externally advised (**Figure 6**).

FIGURE 6
EMPLOYEES RETIREMENT SYSTEM TRUST FUND ASSETS AUGUST 31, 2015



SOURCE: Employees Retirement System.

Investment policies of ERS are governed by the Texas Trust Code, the Texas Constitution, 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 trustees employ investment managers and have appointed an Investment Advisory Committee made up of Texas financial and business contributors. In addition, ERS retains several independent investment consultants to evaluate and analyze investment strategies and results.

ACTUARIAL VALUATION

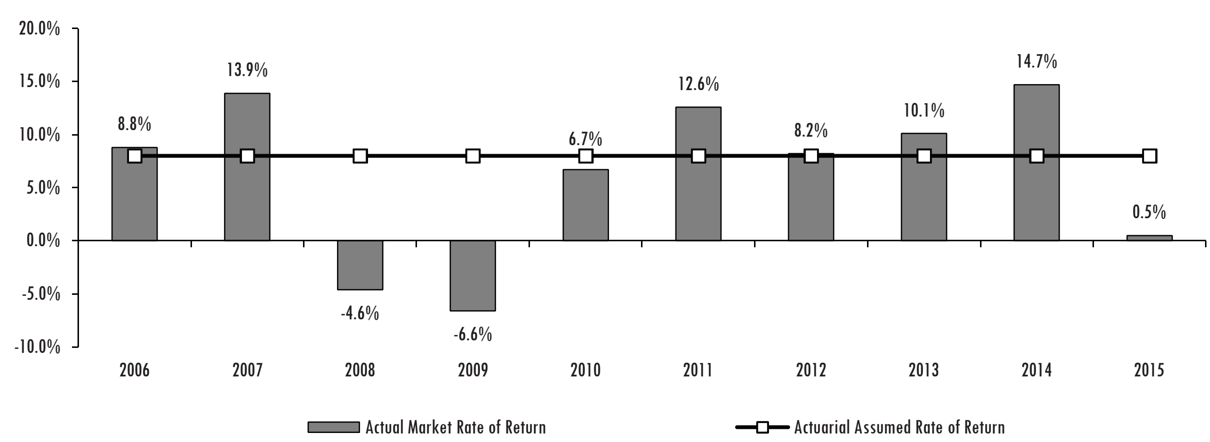
An actuarial valuation report is prepared at the close of each fiscal year by an outside consulting actuary. The annual valuation analyzes the plan's accrued liability compared to its assets. It considers all aspects of the pension plan including membership data, benefit design, assets held in trust, 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 (ARC), and funding period. These data points serve in guiding daily management and higher-level policy decisions addressed by the Board of Trustees and the Legislature. (See Glossary for a definition of related terms.)

Actuarial soundness of the pension plan refers to the goal that total contributions are sufficient to fund the normal cost and to amortize the unfunded accrued liability during no more than 31 years. This standard is set in state law and reflects a common actuarial objective. The annual valuations form the basis of the ERS requests for funding during each legislative session. However, 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. The August 31, 2015, actuarial valuations for the ERS retirement plans can be found at www.ers.state.tx.us.

According to the August 31, 2015, actuarial valuation, the market value of the ERS retirement fund is approximately $24.0 billion, a decrease of approximately $1.1 billion, or 4.2 percent, from the previous fiscal year. The August 31, 2015, actuarial valuation for the ERS retirement program shows a funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, of 76.3 percent, 0.9 percentage points lower than the funded ratio of the previous valuation as of August 31, 2014. The total contribution rate of 19.5 percent of payroll for fiscal year 2016 is sufficient to amortize the unfunded accrued liability in 33 years; however the fund remains actuarially unsound. The total required contribution rate to fund the normal cost and amortize the unfunded accrued liability during 31 years as a level percentage of total payroll is 19.62 percent for fiscal year 2016. With a member contribution rate of 9.5 percent of payroll in fiscal year 2016 and an employer contribution of 0.5 percent of payroll, the state contribution would have to be 10.12 percent to fund the liability within 31 years, which exceeds the maximum state contribution of 10 percent established by the Texas Constitution. The Texas Government Code, Section 811.006, precludes any supplemental payments, such as a thirteenth check to retirees, or increases in annuity benefits unless first the total contribution is at a rate to fund the normal cost and amortize the unfunded accrued liability within 31 years and any supplemental payments cannot increase the funding period beyond 31 years.

Investment performance is a major factor in determining the actuarial condition of the retirement system. The total portfolio assets earned 0.5 percent for fiscal year 2015, net of expenses, compared to 14.7 percent in fiscal year 2014. Annual rates of return for the three-, five-, and 10-year periods ending August 31, 2015, were 8.3 percent, 9.1 percent, and 6.2 percent, respectively. **Figure 7** shows the annual rate of return on investment for the retirement trust fund's assets since fiscal year 2006. While investment performance was overall positive in fiscal year 2015, the actuarial valuation still recognizes losses and outcomes lower than the assumed rate of return that were deferred during the economic downturn in fiscal years 2008 to 2010. A

FIGURE 7
EMPLOYEES RETIREMENT SYSTEM RETIREMENT FUND ASSETS ANNUAL RATE OF RETURN, FISCAL YEARS 2006 TO 2015



Source: Employees Retirement System.

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 in an effort to lessen the effect of marketplace volatility on the overall actuarial analysis from year to year, which serves to stabilize employer contribution rates.

The August 31, 2015, actuarial valuation for the LECOS fund shows a funded ratio of 72.0 percent, 1.2 percentage points lower than the funding ratio of the 2014 valuation. The total contribution rate of 2.2 percent of payroll is not sufficient to amortize the unfunded accrued liability, so the amortization period is infinite. The total required contribution rate to fund the normal cost and amortize the unfunded accrued liability during 31 years (actuarially sound rate) as a level percentage of total payroll is 3.01 percent. With a member contribution rate of 0.5 percent of payroll and a contribution to the fund approximately equal to 1.20 percent from a portion of court costs, the state contribution would have to be 1.31 percent to fund liabilities within 31 years. According to the August 31, 2015, actuarial valuation, the market value of the ERS LECOS fund is approximately $844.1 million, a decrease of approximately $25.7 million from the previous fiscal year.

The August 31, 2015, actuarial valuation for the JRS II fund shows a funded ratio of the actuarial value of assets to the actuarial accrued liability of 92.2 percent, 2.0 percentage points higher than the funding ratio as of the previous valuation. The total contribution rate of 22.823 percent of payroll is not sufficient to amortize the unfunded accrued liability, so the amortization period is infinite. The total required contribution rate to fund the normal cost and amortize the unfunded accrued liability during 31 years as a level percentage of payroll is 23.79 percent. The member contribution rate averages to 7.16 percent of payroll; therefore, the state contribution would have to be 16.63 percent to fund liabilities within 31 years. According to the August 31, 2015, actuarial valuation, the market value of the ERS JRS II fund is approximately $364.5 million, a decrease of $0.8 million from the previous fiscal year.

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 updated information during the legislative session.

RETIREMENT ELIGIBILITY

Members of ERS become vested when they have five years, or 60 months, of creditable service. Service credit refers to the length of time worked, and it may also 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 allow certain qualified individuals to retire earlier and increase the amount of their annuity payment. **Figure 8** 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 allow early service retirement with reduced benefits. The amount of the reduction is calculated based on the member's age at the time of retirement.

Additional information related to retirement plan eligibility requirements can be found at www.ers.state.tx.us.

Figure 9 shows the annuitant profile from fiscal years 2014 to 2015.

Figure 10 shows annual ERS service and disability retirement totals since 2006 and the percentage change each year.

FIGURE 8
EMPLOYEES RETIREMENT SYSTEM RETIREMENT ELIGIBILITY, AUGUST 31, 2015

EMPLOYEE CATEGORY		RETIREMENT ELIGIBILITY	ANNUITY REDUCTION
Plan 1	Hired before September 1, 2009	5 years of service and age 60 OR rule of 80	None
Plan 2	Hired on or after September 1, 2009 and before September 1, 2013	10 years of service and age 65 OR rule of 80	5.0% for each year retired before age 60 (25.0% maximum)
Plan 3	Hired on or after September 1, 2013	10 years of service and age 65 OR rule of 80	5.0% for each year retired before age 62 (no maximum)

NOTE: The rule of 80 means the sum of the retiree's age and years of service credit in the Employees Retirement System equals or exceeds 80 at the time of retirement.
SOURCE: Employees Retirement System.

FIGURE 9
EMPLOYEES RETIREMENT SYSTEM ANNUITANT PROFILE
FISCAL YEARS 2014 AND 2015

PROFILE	2014	2015
Service and Disability Retirements	6,231	6,042
Average Age at Retirement	58.4	58.3
Average Years of Service	22.3	22.2
Ratio of Active Members to Retirees	1.40 to 1	1.42 to 1

Source: Employees Retirement System.

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 largely through long-term investment earnings. In fiscal year 2015, ERS paid pension benefit payments totaling $2.2 billion. 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 highest 36 months for employees hired before September 1, 2009 (or who had an account balance with ERS on August 31, 2009); however, it is based on the highest 48 months for employees hired on or after September 1, 2009, and is based on the highest 60 months for employees hired on or after September 1, 2013.

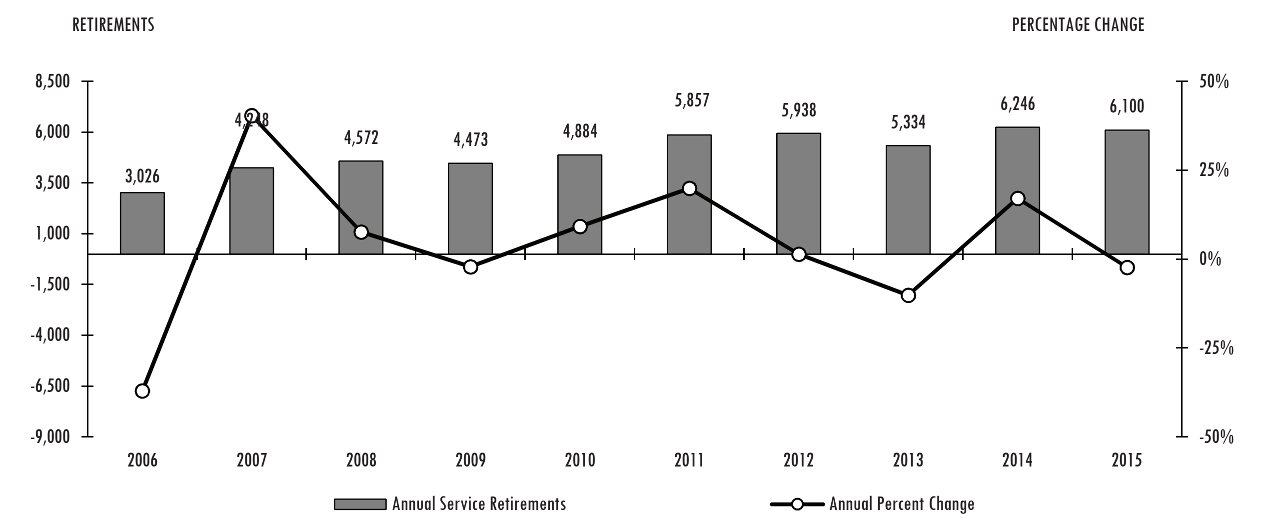
Example calculation: ($3,000 average monthly salary) X (20 years of service credit) X (2.3 percent multiplier) = $1,380 monthly standard annuity.

All of the retirement programs administered by ERS have 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, his or her monthly annuity is reduced 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.

Members have five options for annuity payments in lieu of a standard annuity. The retiree may select one of three joint and survivor options reduced by actuarial factors, based on the ages of the member and the beneficiary. The two remaining options are guaranteed-period annuities that provide a lifetime benefit to the retiree, with a guaranteed benefit of either 60 or 120 months payable to the beneficiary if the retiree dies before the period ends.

Members of the LECOS retirement program calculate service percentage based on 2.8 percent for each year of service. The base service retirement annuity for members of the judicial retirement programs 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. Monthly retirement annuities are automatically adjusted each time judicial salaries change.

FIGURE 10
EMPLOYEES RETIREMENT SYSTEM ANNUAL SERVICE AND DISABILITY RETIREMENTS AND ANNUAL PERCENTAGE CHANGE
FISCAL YEARS 2006 TO 2015



Note: Includes retirements for ERS retirement, LECOS, JRS-I, and JRS-II. LECOS retirements are included in ERS retirements.
Source: Employees Retirement System.

A retiree may also choose a partial lump sum option at retirement. This option provides a lump sum payment equal to up to 36 months of the standard annuity, with a permanent actuarial reduction of the monthly annuity. This option is not available to members who take a disability retirement, an early age retirement, or those who retire through the Proportionate Retirement Program.

The formula for calculating benefits is the same for all elected class groups, regardless of when they began serving; however, eligibility and benefits differ from those of state employees. The primary difference is the calculation of the final average salary. For the elected class, this calculation is based on the salary of a district judge, set at $140,000 annually. The monthly standard annuity for a retiring elected class member may not exceed 100 percent of the state salary of a district judge.

DISABILITY RETIREMENT BENEFITS

Two types of disability retirement benefits are available to members of ERS: occupational and non-occupational. An occupational disability is defined by ERS 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 be if a state trooper is shot in the line of duty and the injury results 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 non-occupational disability does not have to be related to the work being performed but is only available to employees with 10 years of membership service credit. An example of a qualifying non-occupational disability retirement is when an employee is diagnosed with a terminal illness and is unable to continue working. Members must meet the conditions for one of these types of disability, and 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 allows members to combine service credit from two or more retirement systems within the program to meet retirement eligibility. Annuity calculations, however, are unaffected and continue to reflect only the amount of service credit in each system. A member of any of the retirement systems that take part in the Proportionate Retirement Program may purchase withdrawn ERS service without being reemployed by the state, and may purchase canceled service from any of the retirement systems participating in the program. Participating retirement systems include:

- ERS;
- TRS;
- JRS I and II;
- Texas Municipal Retirement System (TMRS);
- Texas County and District Retirement System (TCDRS);
- 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 specified above, ERS pays a $5,000 lump sum death benefit to designated beneficiaries of retirees. ERS also provides basic life insurance coverage for active employees and retirees ($5,000 and $2,500, respectively), and members have the option to purchase additional life insurance. (See the Program Benefits section.) Additional benefits are provided to survivors of a law enforcement officer, firefighter, or other state or local public safety employee killed in the line of duty: a $500,000 payment, funeral expenses, and education benefits for surviving children.

SIGNIFICANT LEGISLATION

Several bills were passed by the Eighty-fourth Legislature, 2015, that affect ERS Retirement. Among the more significant are the following:

House Bill 9 – Member Contribution Rate and 90-day Waiting Period. The enactment of HB 9 repeals the 90-day membership waiting period, which enables retirement contributions by the state and members to ERS Retirement to begin on the first day of employment. The legislation also increases the member contribution rate to ERS Retirement from 7.2 percent in fiscal year 2016 and 7.5 percent in fiscal year 2017 to 9.5 percent in each fiscal year of the 2016–17 biennium and afterward.

House Bill 408 – Retirement Benefits for Certain Elected State Officials. The enactment of HB 408 prohibits certain members of the elected class from transferring service earned in the elected class to the employee class, or from retiring from the employee class while still in elected office.

House Bill 1278 – Public Safety Employees' Survivor Benefits. The enactment of HB 1278 increases the financial assistance paid to the survivors of certain law enforcement officers, firefighters, and other public employees killed in the line of duty from $250,000 to $500,000 and increases the monthly payments to the legal guardians of surviving minor children.

TEACHER RETIREMENT SYSTEM

HISTORY

In 1936, voters approved an amendment to the state constitution establishing a statewide teacher retirement system to serve the needs of public education employees. The Texas Legislature passed legislation in 1937 to establish the Teacher Retirement System of Texas (TRS). The TRS 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.

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

GOVERNANCE AND POLICY

The TRS Board of Trustees has the responsibility of administering retirement and related benefits to employees of public, state-supported, educational institutions of Texas. The board has significant independence in the operation and management of retirement fund investment decisions. The board is composed of nine trustees who are appointed by the Governor, with the approval of the Texas Senate, and who serve staggered six-year terms. Three trustees are direct appointments by the Governor and are persons who have demonstrated financial expertise, have broad investment experience, and are not active or retired members of the system. Two trustees are appointed by the Governor from a list of candidates offered by the State Board of Education, and these trustees must also have demonstrated financial experience and broad investment expertise. The remaining four trustee appointments are selected from lists of three or fewer top vote-getters in elections among active and retired employees of public schools and higher education. 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 exceed the established actuarial rate of return.

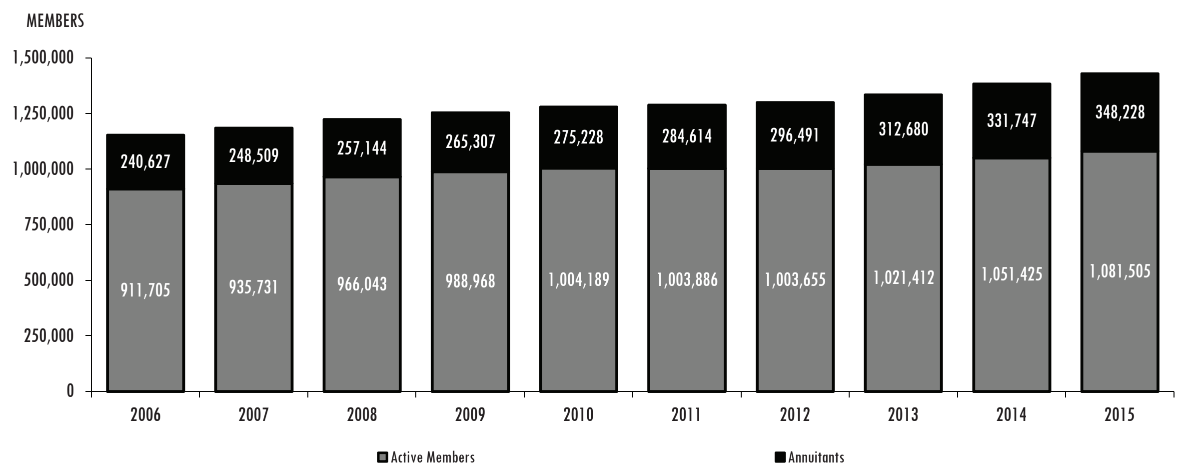
MEMBERSHIP

Membership in the TRS pension system is a condition of employment for all employees of public, state-supported educational institutions who work at least 20 hours or more per week and at least 4.5 months or more in one school year. Employees in membership-eligible positions are required to participate in TRS and are automatically enrolled in TRS on their first day of employment. Unless excluded from membership by law, participation in TRS cannot be waived. As of August 31, 2015, 1,081,505 active members participated in the system, an annual increase of 30,080 members or 2.9 percent. Public school employees constitute approximately 85.0 percent of the TRS-covered payroll; higher education and state agency employees make up the remaining 15.0 percent. As of August 31, 2015, the system covered 377,738 annuitants, accounting for 26.0 percent of total TRS membership. **Figure 11** shows the growth of TRS membership, active and retired, since fiscal year 2006.

CONTRIBUTIONS

The TRS pension plan is a cost-sharing plan funded by member, state, and employer contributions to the trust fund and through investment earnings resulting from sound financial management of trust fund assets. The percentage for retirement contribution rates is established in the GAA and is intended to remain level as a percentage of payroll. For employees whose positions are funded through General Revenue Funds, the state's portion of matching contributions for retirement is limited to those salaries paid from General Revenue Funds or in proportion to the source of other funds (such as local or federal funding) from which an employee's respective salary is paid. This process is known as proportionality and is applicable to all employees, 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.

FIGURE 11
TEACHER RETIREMENT SYSTEM MEMBERSHIP, FISCAL YEARS 2006 TO 2015



SOURCE: Teacher Retirement System.

Active member contributions are 7.2 percent of employee salary for fiscal year 2016, and 7.7 percent for fiscal year 2017. As of fiscal year 2015, school districts and charter schools that do not contribute to Social Security for TRS-eligible employees are required to contribute to TRS 1.5 percent of the statutory minimum salary for employees whose positions are subject to the state statutory minimum salary schedule (MSS). For employees whose positions are not subject to the MSS, the employer contributes 1.5 percent of the employees' total salary. The contributions for fiscal year 2015 are shown in **Figure 12**.

The Texas Constitution specifies a state contribution rate in the range between 6.0 percent and 10.0 percent of total TRS-related payroll, except in an emergency declared by the Governor. This range is reflected in statute that establishes the annual state contribution will be set each biennium by the Legislature in the GAA. **Figure 13** shows contribution rates for the last three biennia.

INVESTMENT OF ASSETS

The TRS Board of Trustees oversees the investment of the system's trust fund assets. Trained staff manage fund assets daily. To assist the staff and the board with investment recommendations and decisions, the trustees employ independent investment consultants to evaluate and analyze investment strategies and results.

TRS investment risks are diversified throughout market sectors and securities. The investment strategy is designed to improve long-term investment results, while reducing downside market risk. At the end of fiscal year 2015, global

FIGURE 12
TEACHER RETIREMENT SYSTEM ACTUAL CONTRIBUTIONS, FISCAL YEAR 2015

CONTRIBUTION	PUBLIC EDUCATION	PERCENTAGE OF TOTAL	HIGHER EDUCATION	PERCENTAGE OF TOTAL
State	$1,547,358,118	34.6%	$139,420,489 (2)	13.3%
Member	$2,051,340,167	45.8%	$521,257,739	49.6%
Local Employer	$837,816,117 (1)	18.7%	$373,080,858	35.5%
New Member, First 90 Days	$41,643,619	0.9%	$16,536,359	1.6%
Total Contributions	**$4,478,158,021**		**$1,050,295,445**	

NOTES:
(1) Local Employer Contributions include amounts associated with school district salary paid of more than the state's statutory minimum salary schedule for educators and contributions for public and higher education employees paid from Federal Funds and private grants for salary amounts paid from those sources.
(2) Higher education state contributions include funding from the pension trust fund for Teacher Retirement System employee retirement.
SOURCE: Teacher Retirement System.

FIGURE 13
TEACHER RETIREMENT SYSTEM STATE AND MEMBER CONTRIBUTION RATES, 2012–13 TO 2016–17 BIENNIA

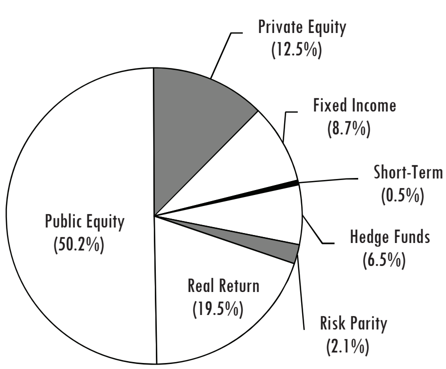
FISCAL YEAR	STATE	MEMBER
2012	6.0%	6.4%
2013	6.4%	6.4%
2014	6.8%	6.4%
2015	6.8%	6.7%
2016	6.8%	7.2%
2017	6.8%	7.7%

SOURCE: Teacher Retirement System.

equity investments (public and private equity) made up approximately 62.7 percent of the system's investments, with 15.7 percent allocated to a stable value portfolio (fixed, short-term, and hedge funds), and 19.5 percent allocated to real return investments (bonds, commodities, real estate, and other real assets), and 2.1 percent risk parity. (See Actuarial Valuation for explanation of investment performance.)

The Eighty-second 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 to external investment managers up to 30.0 percent of the portfolio, and raised the threshold limiting investments in hedge funds from 5.0 percent to 10.0 percent of the portfolio. Both provisions expire September 1, 2019, unless reauthorized by the Legislature. TRS has expanded the role of alternative investments in its overall strategy to improve effective diversification, risk management, and long-term performance. **Figure 14** shows TRS asset allocation in fiscal year 2015.

FIGURE 14
TEACHER RETIREMENT SYSTEM ASSET ALLOCATION AUGUST 31, 2015



SOURCE: Teacher Retirement System.

ACTUARIAL VALUATION

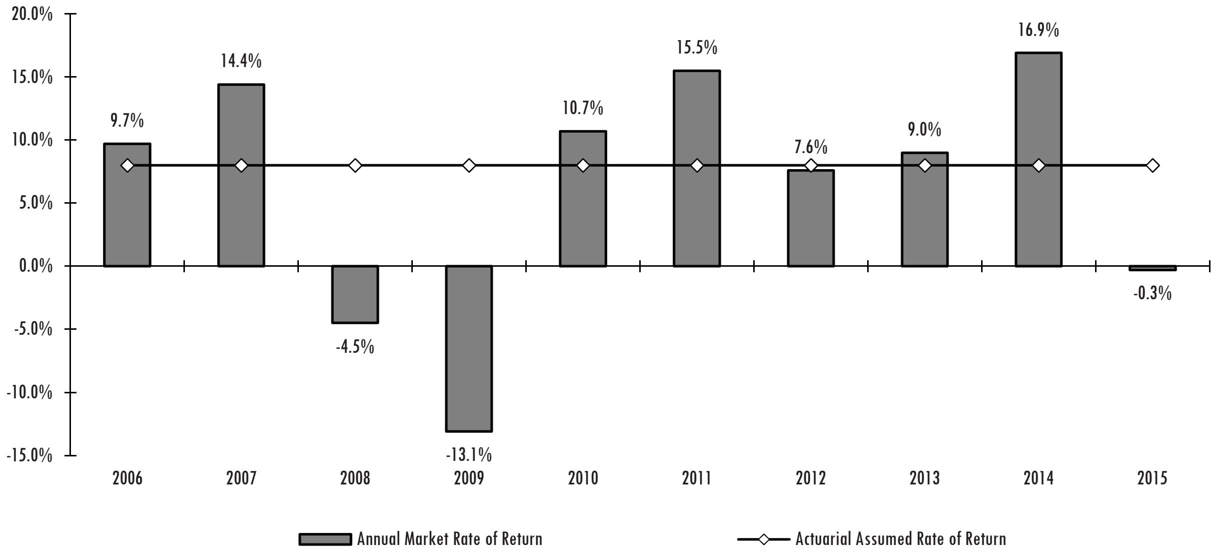
An actuarial valuation is conducted annually by an outside consulting actuary, based on data as of August 31 of each year, the last day of the system's plan and fiscal year. Valuations determine the adequacy of the total contribution rate in addressing system solvency by comparing the value of the pension fund's assets against its liabilities. The TRS retirement trust fund is considered actuarially sound if its funding is sufficient to cover its normal cost (the percent of payroll needed to fund plan benefits for active members) and to pay off any unfunded liabilities within 31 years. The unfunded liability equals the difference between the total actuarial accrued liability (the portion of the actuarial cost of future benefits) that exceeds the actuarial value of assets.

As of August 31, 2015, the most recent actuarial valuation as of this writing, the market value of the TRS pension trust fund is $128.5 billion, compared to $132.8 billion at the close of fiscal year 2014, a decrease of 3.2 percent. The system's unfunded actuarial accrued liability (UAAL) is $33.0 billion, compared to $31.6 billion in the previous fiscal year. The fund has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 80.2 percent, and based on the benefit provisions and assumptions, the fund can pay off its unfunded liability in 33.3 years.

Investment performance is a major factor in determining the actuarial condition of the retirement system. The total portfolio assets declined 0.3 percent for fiscal year 2015, net of expenses, compared to an increase of 16.9 percent in fiscal year 2014. Annual rates of return for the three-, five-, and 10-year periods ending August 31, 2015 were 8.3 percent, 9.6 percent, and 6.2 percent, respectively. **Figure 15** shows the annual rate of return on investment for the retirement trust fund's assets since fiscal year 2006. However, the system's actuary uses a five-year smoothing of investment performance when conducting the actuarial valuation. Only 20.0 percent of the annual gains or losses are actuarially recognized in the year of performance; the remainder is smoothed at 20.0 percent per year during the next four years. As of the August 31, 2015, actuarial valuation, the fund has $4.3 billion remaining in deferred losses to recognize in future valuations, compared to $6.9 billion as of the last valuation. The TRS retirement actuarial valuation report can be found at www.trs.state.tx.us.

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 gives the

FIGURE 15
TEACHER RETIREMENT SYSTEM ANNUAL RATES OF RETURN COMPARED TO ASSUMED RATE, FISCAL YEARS 2006 TO 2015



SOURCE: Teacher Retirement System.

Legislature updated information during the legislative session.

RETIREMENT ELIGIBILITY

Changes to the retirement plan have resulted in six membership categories or tiers, each with its own retirement eligibility requirements. The membership tier that applies to a member is determined by the date the member entered TRS membership, by legacy or grandfather criteria (see **Figure 16**), by the amount of service credit established as of August 31, 2014, and by whether TRS membership has ever been terminated by a refund payment. Terminated membership results in future membership being considered as first employment, even if previously withdrawn service is

FIGURE 16
TEACHER RETIREMENT SYSTEM RETIREMENT ELIGIBILITY, AUGUST 31, 2015

EMPLOYEE CATEGORY EFFECTIVE SEPTEMBER 1, 2014		RETIREMENT ELIGIBILITY	ANNUITY REDUCTION[3]
Tier 1	Hired before September 1, 2005, and met grandfather criteria[1] on or before August 31, 2005	5 years of service credit and age 65; rule of 80[2]	None
Tier 2	Hired before September 1, 2005, but not grandfathered; or hired on or after September 1, 2005, but before September 1, 2007	Age 65 with 5 years of service credit; rule of 80 with 5 years of service credit	None
Tier 3	Hired on or after September 1, 2007, but before September 1, 2014	Age 65 with 5 years of service credit; age 60 with rule of 80 and 5 years of service credit	5% for each year less than age 60
Tier 4	Grandfathered in 2005, but current membership began on or after September 1, 2007, and before September 1, 2014	Age 65 with 5 years of service credit; age 60 with rule of 80 and 5 years of service credit	5% for each year less than age 60
Tier 5	Hired on or after September 1, 2014	Age 65 with 5 years of service credit; age 62 with rule of 80 and 5 years of service credit	5% for each year less than age 62
Tier 6	Grandfathered in 2005, but current membership began on or after September 1, 2014	Age 65 with 5 years of service credit; age 62 with rule of 80 and 5 years of service credit	5% for each year less than age 62

NOTES:
(1) Grandfather criteria require that a member must have at least one of these requirements on or before August 31, 2005: (i) at least age 50; or (ii) age and years of service equal at least 70; or (iii) have at least 25 years of service credit.
(2) The rule of 80 requires that the sum of the retiree's age and years of service credit in the Teacher Retirement System equals or exceeds 80 at the time of retirement.
(3) Annuity reduction based only on eligibility criteria, exclusive of reduction for partial lump sum option.
SOURCE: Teacher Retirement System.

paid and reinstated. Starting with the 2012–13 school year, all TRS members receive service credit based on a standardized school year that begins September 1 and ends August 31.

RETIREMENT BENEFITS

In fiscal year 2015, TRS paid pension benefits totaling $8.9 billion. Normal-age service retirement annuity calculations 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 times the average of the five highest annual creditable salaries multiplied by years of credited service. For members who meet the grandfather criteria, the three highest annual salaries are used.

Members have five options for annuity payments in lieu of a standard annuity. Optional annuities reduce 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 reduces the standard annuity based on age-related actuarial reduction factors. The two remaining optional forms of annuity are guaranteed-period annuities that provide a lifetime benefit to the member. The two optional annuities guarantee a benefit to the beneficiary for 60 months or 120 months if the retiree's death occurs before the period ends. If the beneficiary dies before the retired member, the retiree's annuity is increased to the standard annuity.

A retiree may also choose a partial lump sum option at retirement equal to up to 36 months of the standard monthly annuity, resulting in a permanent actuarial reduction of the monthly annuity. This option is not available to members who take a disability retirement, an early age retirement, or who retire through the Proportionate Retirement Program.

According to TRS, 21,024 members retired in fiscal year 2015. The average age of members retiring in fiscal year 2015 is 61.7, an increase from the average of age 61.5 in fiscal year 2014. A summary of the TRS retirement benefits can be found at www.trs.state.tx.us. **Figure 17** shows the annuitant profile from fiscal years 2014 to 2015.

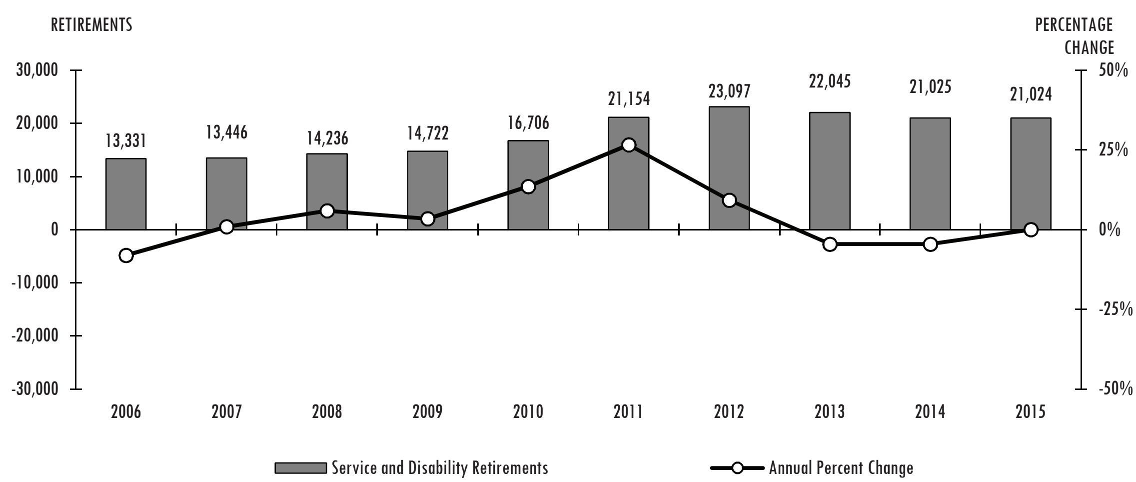
Figure 18 shows annual TRS service and disability retirements since 2006. Although the percentage increase in the number of retirements fluctuates from year to year, the data show a general increasing trend in retirement rates until

FIGURE 17
TEACHER RETIREMENT SYSTEM ANNUITANT PROFILE
FISCAL YEARS 2014 AND 2015

PROFILE	2014	2015
Service and Disability Retirements	21,025	21,024
Average Age at Retirement	61.5	61.7
Average Years of Service	24.4	24.4
Ratio of Active Members to Retirees	2.9 to 1	2.9 to 1

SOURCE: Teacher Retirement System.

FIGURE 18
TEACHER RETIREMENT SYSTEM ANNUAL SERVICE AND DISABILITY RETIREMENTS, FISCAL YEARS 2006 TO 2015



SOURCE: Teacher Retirement System.

fiscal year 2011 and then a flattening or decrease in the trend in subsequent years.

DISABILITY RETIREMENT BENEFITS

A member, regardless of age or years of service credit, may receive a disability retirement from further performance of duty if the member is mentally or physically disabled, and if the member's disability is probably permanent, as certified by the TRS Medical Board.

A member who qualifies for disability retirement and has at least 10 years of service credit may receive a monthly annuity that is not reduced due to early age. 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 reduced by using disability retirement actuarial factors to reflect the additional liability for payment to the member's beneficiary.

A member who qualifies for disability retirement but has less than 10 years of service credit may receive a monthly disability benefit of $150 that is paid for the lesser of (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 before September 1, 2007, 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 previously, may be eligible to combine all of their service credit to satisfy TRS eligibility requirements to retire.

DEATH BENEFITS FOR ACTIVE EMPLOYEES

The primary beneficiary of an active member may choose one of five options in the event of the member's death before retirement. The benefits are available if the member dies in a school year in which the member has performed TRS-covered service, or if the member dies while performing qualified military services as defined by applicable federal law. The benefits are also available when a member's absence from service is due to a sickness or accident, or other work absences described by law. Benefit options with certain restrictions include: (1) a lump sum payment; (2) 60 monthly payments equal to the member's standard annuity without reduction for early age; (3) lifetime payments; (4) an amount equal to a return on the member's contributions with accumulate interest; and (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 exhausted 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 Eighty-fourth Legislature, 2015, passed legislation that affects the Teacher Retirement System (TRS) as follows:

Senate Bill 1940 – Establishment of a joint interim committee to study and review the health benefit plans, TRS-Care and TRS-ActiveCare, and propose reforms. The enactment of SB 1940 establishes a joint interim committee, composed of three senators appointed by the Lieutenant Governor and three members of the House of Representatives appointed by the Speaker. The committee will specifically assess the financial soundness of the plans; the cost and affordability of plan coverage to persons eligible for coverage; and the sufficiency of access to physicians and healthcare providers. A report of the committee's findings and recommendations is due on January 15, 2017.

House Bill 1937 – Participation in the TRS deferred retirement option plan. The enactment of HB 1937 authorizes certain members of TRS who have not retired to revoke the member's decision to participate in the deferred retirement option plan on or before December 31, 2015.

House Bill 2168 – Payment date for TRS annuities. The enactment of HB 2168 changes the payment date for monthly annuities from the first working day of each month following the month for which the payment accrues to the last working day of the month for which the payment accrues.

House Bill 2974 – TRS Administration. The enactment of HB 2974 makes various changes to the governing statutes related to administration of TRS, including clarifying provisions relating to eligibility, creditable service, the Board of Trustees, and contributions.

OPTIONAL RETIREMENT PROGRAM

HISTORY

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 draw higher education faculty, librarians, and professionals and administrators who require interstate mobility during their careers. ORP is funded by tax-deferred contributions made by the state and the employee.

GOVERNANCE AND POLICY

ORP is not administered by TRS or ERS, but instead is a separate retirement mechanism. The Texas Higher Education Coordinating Board (THECB) oversees the program's rules; the Comptroller of Public Accounts and the institutions that participate are responsible for accounting; and each institution's governing board administers its ORP and selects qualified vendors of investment products for its employees.

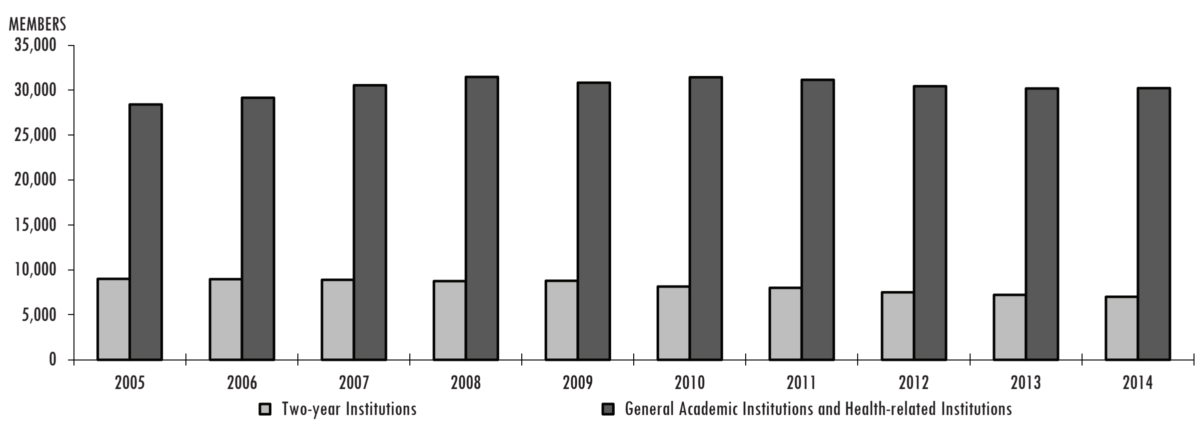
MEMBERSHIP

New public higher education employees who are employed in an ORP-eligible position have 90 days from the first date of eligibility to make a onetime irrevocable choice between participation in ORP and TRS membership. **Figure 19** shows a 10-year trend in ORP membership for two-year institutions compared to four-year general academic institutions (GAI) and health-related institutions (HRI). 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

Member and state contribution rates are established each biennium by the Texas Legislature and may fluctuate. The ORP state contribution rate for the 2016–17 biennium is 6.6 percent, as established by the GAA. 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 the employee's salary, set in statute at 6.65 percent. Accounts are invested by the member through the purchase of individual investment contracts. For participants whose positions are funded by General Revenue Funds, the state's portion of matching contributions for retirement is limited to salaries paid from General Revenue Funds or in proportion to the source of other funding (such as local or federal funding) from which an employee's respective salary is paid. This process is known as proportionality and is applicable to 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.

FIGURE 19
OPTIONAL RETIREMENT PROGRAM MEMBERSHIP, FISCAL YEARS 2005 TO 2014



SOURCE: Teacher Retirement System.

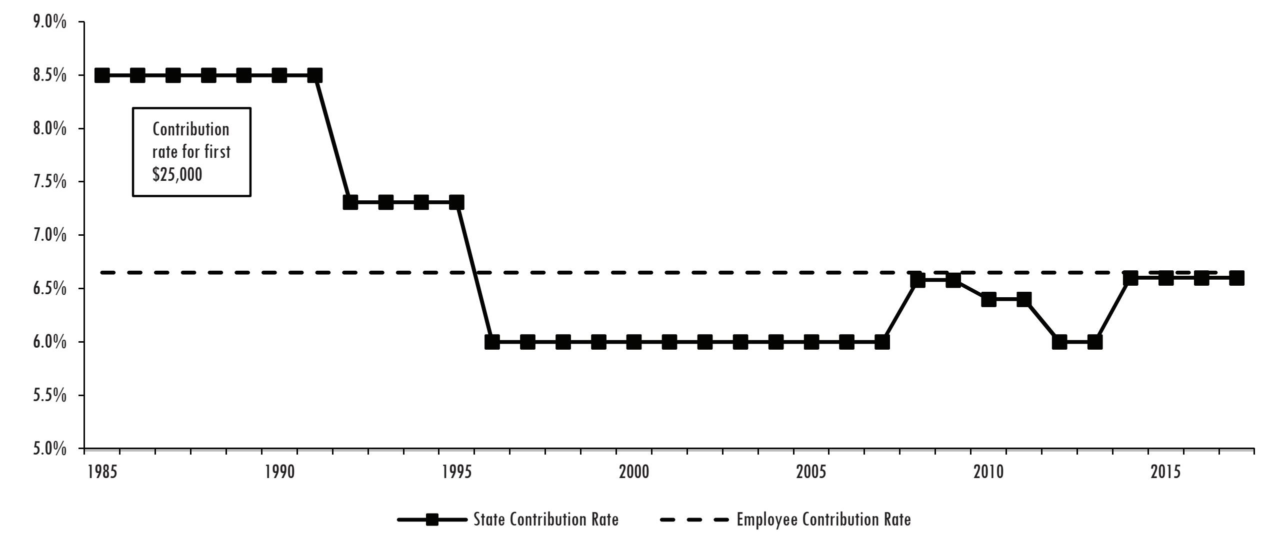
Figure 20 shows the state and member contribution rates since 1985.

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 features one-year vesting and is a portable benefit that allows participants to maintain their retirement savings after separation from employment in Texas public higher education. Employees may withdraw contributions, including state contributions, after the 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 is directly dependent on the actual amounts contributed. Because the defined contribution plan allows participants to manage their own personal investment accounts, no state provisions are made for improvement of benefits after termination (e.g., 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. Vendor selection must be made from the employer's authorized list at the same time that ORP is elected. ORP participants assume full responsibility for monitoring their selected companies and investments. 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 in all Texas public institutions of higher education.

FIGURE 20
OPTIONAL RETIREMENT PROGRAM STATE AND MEMBER CONTRIBUTION RATES, FISCAL YEARS 1985 TO 2017



SOURCE: Teacher Retirement System.

HEALTHCARE BENEFIT PROGRAMS

EMPLOYEES RETIREMENT SYSTEM

HISTORY

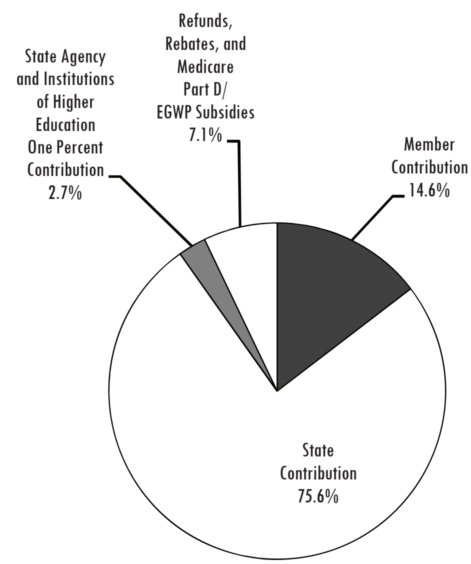
In 1975, the Legislature established the Texas Employees Uniform Group Insurance Program (UGIP) to provide health insurance and other optional coverage for employees, retirees, and their eligible dependents beginning September 1, 1976. The program started as an indemnity health plan defined and administered by the Texas Insurance Code, Chapter 1551, Texas Employees Group Benefits Act. Health maintenance organizations (HMO) at that time provided health services to participants who chose to use them. Now known as the Group Benefits Program (GBP), the program has grown and offers health insurance coverage to state employees and most institutions of higher education, except the University of Texas and Texas A&M University systems, which administer their own programs.

STATE FUNDING AND APPROPRIATIONS

GBP premiums are funded by a combination of sources: state contributions, member contributions, employer contributions, local funds from participating entities, and investment earnings. **Figure 21** shows the revenue allocation of the program's four major funding sources for fiscal year 2015. Funding from all sources is deposited into the GBP Trust Fund, from which all claims are paid. The GBP fund, with a balance of $440.5 million at the end of fiscal year 2015, also is used to cover health benefit cost increases. The state pays 100.0 percent of the premium for full-time employees and 50.0 percent of dependent coverage; members pay the other 50.0 percent of the dependent coverage. For part-time employees and graduate teaching assistants, the state and the participants contribute 50.0 percent. For those participants' dependents, the state contributes 25.0 percent.

In addition, the GAA requires all general state agencies and institutions of higher education participating in the GBP to contribute 1.0 percent of base payroll for group health insurance. The 2016–17 GAA also instructs ERS to continue assessing a monthly $30 tobacco user premium differential to GBP participating tobacco users. ERS began covering tobacco cessation prescription drugs in 2012.

FIGURE 21
EMPLOYEES RETIREMENT SYSTEM REVENUE ALLOCATION BY FUNDING SOURCE, FISCAL YEAR 2015



NOTE: EGWP = Employer Group Waiver Plan.
SOURCE: Employees Retirement System.

The Legislature appropriates funds for the state contribution at the end of each article of the GAA for general state agencies as an estimated appropriation. The total appropriation for all state agencies is shown as an informational listing in the ERS appropriation bill pattern. Higher education institutions receive a sum-certain appropriation for insurance, and must supplement any shortages with local funds. (See Appendix A for actual appropriation amounts.)

ELIGIBILITY AND MEMBERSHIP

All state employees and their dependents are eligible for the GBP. Retirees must have at least 10 years of ERS service credit, which may include up to five 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 at the time of retirement, regardless of whether the retiree had a reduction 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.

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

Pursuant to Senate Bill 1459, Eighty-third Legislature, 2013, ERS implemented tiered insurance for retirees, which applied to all employees who had less than five years of service as of September 1, 2014. Employees who retire with more than 15 years but less than 20 years of service will receive 75.0 percent of the full state contribution for insurance. Employees who retire with more than 10 years but less than 15 years of service will receive 50.0 percent of the full state contribution for insurance upon retirement.

PROGRAM BENEFITS

Health and other insurance benefits are subject to change based on available state funding. The GBP offers two types of health insurance plans: HealthSelect and HMOs. Both provide comprehensive health and prescription drug benefits, but the benefits work differently. HealthSelect is available in all Texas counties; HMOs provide services by county, and employees can enroll in an HMO if they live or work in a county served by one of the HMOs in the program.

HealthSelect is a self-funded plan that was introduced in 1992. Higher education employees who are not part of the University of Texas or Texas A&M University systems were added to the health plan at the same time. The Legislature added Community Supervision and Corrections Department employees in 2004.

HealthSelect is administered by UnitedHealthCare, Inc. The pharmacy benefit manager is Caremark. Participating HMOs for plan year 2016 are Community First Health Plans (San Antonio), Scott & White Health Plan (Central Texas area), and KelseyCare powered by Community Health Choice (Houston area).

The Eighty-fourth Legislature, 2015, passed House Bill 966, which directs ERS to establish a voluntary consumer-directed health plan, which would include a high deductible health plan and a health savings account, as an option for GBP participants. The legislation also requires the state to contribute the difference, if any, between the full state contribution to HealthSelect and coverage cost of the high deductible plan, to a health savings account.

In addition to health insurance and the accompanying prescription drug program, these optional coverage programs are offered: dental, term life insurance, voluntary accidental death and dismemberment, long-term and short-term disability, and long-term care. The Legislature introduced a flexible spending account, now known as a healthcare reimbursement account (TexFlex), for state employees in 1988. TexFlex gives employees the opportunity to fund accounts for themselves and their dependents with payroll deductions that reduce federal income and Social Security taxes. State workers may contribute $15 to $208 per month, a cap which was decreased from $5,000 per year to $2,500 by the federal Affordable Care Act, effective September 1, 2013. TexFlex will reimburse medical, dental, and vision expenses such as copays, deductibles, coinsurance, and other costs that exceed the health plan benefit. The program operates on participant fees.

ERS has three dental plans available to employees and retirees, the Dental HMO, the State of Texas Dental Choice PPO Plan, and the Dental Discount plan. The Dental HMO works like a typical HMO, and members and their eligible dependents must receive their dental care within the Dental HMO service area. The Dental Choice PPO Plan allows members to visit any dentist, and they and their eligible dependents can enroll regardless of where they live. The Dental Discount Services plan provides discounts instead of dental insurance for specific dental services from participating dentists.

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 can also sign up for group term life insurance coverage worth one or two times their annual salary without proof of good health. With evidence of insurability, employees can sign up for life insurance coverage worth three or four times their annual salary. Retirees may continue the coverage they had as an employee or sign up for a $10,000 policy.

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.

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

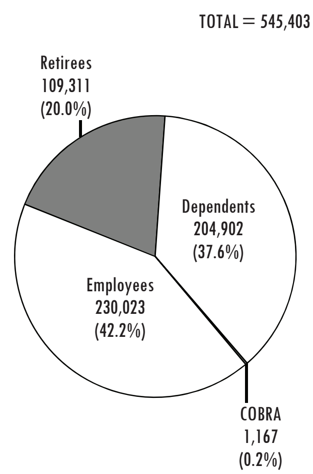
AD&D benefits provided with basic and optional term life for active employees, and it requires a monthly premium.

Short-term disability and long-term disability insurance are available in the GBP. The short-term disability benefit provides a portion of an employee's monthly salary if illness or injury keeps him or her from working. To be eligible for benefits, a physician must certify the employee as totally disabled. Benefits are paid for up to five months. The long-term disability benefit works the same way except that the length of time the employee receives benefit payments depends on the employee's age at the onset of the disability.

Long-term care insurance is offered only to currently enrolled state employees, retirees, and certain family members. It provides certain benefits not covered by the medical plan, such as nursing home care and adult day care. The insurance is closed to new enrollees.

Figure 22 shows participation in the ERS Group Benefits Program.

FIGURE 22
EMPLOYEES RETIREMENT SYSTEM GROUP BENEFITS PROGRAM HEALTH COVERAGE PARTICIPATION
AUGUST 31, 2015



NOTE: COBRA = Consolidated Omnibus Budget Reconciliation Act.
SOURCE: Employees Retirement System.

Effective January 1, 2013, Medicare-eligible retirees are automatically enrolled in the HealthSelect Medicare Advantage plan, administered by Humana, but they may opt out. Medicare Advantage is a preferred provider organization plan, which provides the same level of coverage at a lower cost to the state and retirees. As of August 31, 2015, approximately 50,052 participants were enrolled in the plan.

SIGNIFICANT LEGISLATION

Several bills were passed by the Eighty-fourth Legislature, 2015, that affect ERS Health. Among the more significant are the following:

House Bill 966 – Creation of a Consumer-Directed Health Plan. The enactment of HB 966 directs ERS to establish a voluntary consumer-directed health plan, which would include a high-deductible health plan and a health savings account, as an option for GBP participants, with coverage beginning September 1, 2016. The legislation also requires the state to contribute the difference, if any, between the full state contribution to HealthSelect and coverage cost of the high-deductible plan, to a health savings account.

House Bill 3307 – Availability of a TRICARE Military Health System Supplemental Plan. The enactment of HB 3307 requires ERS to make a TRICARE Military Health System (TRICARE) supplemental plan available to its members and annuitants who waive basic ERS coverage and are eligible for TRICARE benefits. ERS made the supplemental plan available through Beneplace, its Discount Purchase Program, which allows members to purchase certain products or services at discounted prices, beginning September 1, 2015.

HIGHER EDUCATION EMPLOYEES GROUP INSURANCE

HISTORY, STRUCTURE, AND ENROLLMENT

In the early 1990s, higher education institutions were given the option of joining the ERS Uniform Group Insurance Program (UGIP), now called the Group Benefits Program (GBP). All institutions of higher education opted to join ERS, except those in The University of Texas (UT) System and Texas A&M University (TAMU) System, which opted to continue separate health insurance programs.

Higher Education Employees Group Insurance (HEGI) provides state contributions for health insurance premiums for employees and retirees of institutions of higher education. These contributions are appropriated in Article III of the General Appropriations Act in the bill pattern Higher Education Employees Group Insurance Contributions.

HEGI state contributions are made separately to the three systems: ERS, UT System, and TAMU System. The ERS Group Benefits Program serves all institutions of higher education except components of the UT System and TAMU System. **Figure 23** shows the number of state-funded higher education enrollees (excluding dependents) in each of the three systems.

FUNDING AND PROPORTIONALITY

Legislative appropriations for HEGI for the 2016–17 biennium total $1,377.9 million in General Revenue Funds, an increase of $187.1 million from the 2014–15 biennium level. The General Revenue Funds total includes $5.2 million in General Revenue Fund – Insurance Companies Maintenance Tax for the Texas A&M Forest Service. **Figure 24** shows HEGI appropriations by type of institution for the 2016–17 biennium.

The 2016–17 biennial appropriation for group health insurance is based on the number of eligible enrollees multiplied by premium contribution rates, which are then multiplied by annual rate increases. HEGI premium contribution rates vary by insuring system and type of institution. While premium contributions for general state employees are funded at 100 percent of the ERS premium rates, state institutions of higher education are funded at 86.8 percent to 89.2 percent of full ERS premium rates, and local community college districts are funded at 50.0 percent of full ERS premium rates. HEGI premium rates are increased by 7.19 percent in fiscal year 2016, relative to fiscal year 2015 contribution rates. The fiscal year 2016 premium contribution rates are increased by 7.17 percent, relative to fiscal year 2016 contribution rates, to fund fiscal year 2017 appropriations.

For the 2016–17 biennium, an institution's allocation from General Revenue Funds is based on the number of employees at the institution enrolled in the health insurance program as of December 1, 2014. State contributions are capped at the respective institution's sum-certain, line-item appropriation, and additional costs, if any, must be borne by individual institutions out of other appropriated or local funds. However, the GAA authorizes ERS, UT System, and TAMU System to transfer HEGI appropriations among institutions within their respective group insurance programs to address needs related to General Revenue Fund group insurance premiums.

For all institutions of higher education except public community colleges, appropriations for HEGI are intended to provide state contributions to individual institutions' costs of health insurance premiums in a manner prescribed by proportional cost-sharing requirements. As such, institutions are required to pay all the health benefit costs for those employees having their salaries paid from sources other than the General Revenue Fund.

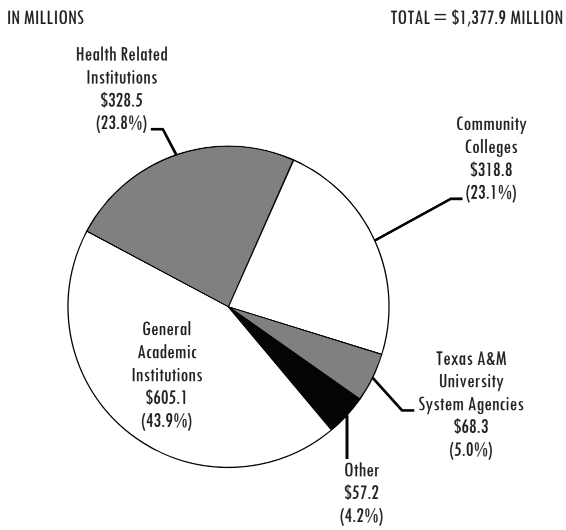
Unlike other institutions of higher education, state contributions for group health insurance for community colleges are based on the costs associated with eligible employees (instructional or administrative), whose salaries may be fully paid from funds appropriated in the GAA, regardless of whether such salaries are actually paid from appropriated funds. The number of employees eligible to receive HEGI contributions may not be adjusted in a proportion greater than the change in student enrollment, with the exception that a college experiencing a decrease in student enrollment may petition the Legislative Budget Board to maintain the number of eligible employees up to 98.0 percent of the previous biennium. For the 2016–17 biennium, a stepped hold harmless appropriation was adopted through the benefits petition process for those colleges that experienced a decrease in enrollment. The level of hold harmless for employee levels is based on the decrease in enrollment at each institution. **Figure 25** shows the employee hold harmless levels corresponding to each range of enrollment decrease in contact hours. For example, a community college that experienced an 8.0 percent decrease in contact hours received a 95.0 percent employee hold harmless. Similarly, a community college that experienced a 4.0 percent decrease in contact hours received a 98.0 percent employee hold harmless.

FIGURE 23
TEXAS GROUP BENEFITS SYSTEMS' STATE-FUNDED HIGHER EDUCATION ENROLLEES, 2002 TO 2014 BIENNIALLY

	2002	2004	2006	2008	2010	2012	2014
Employees Retirement System	59,307	56,442	56,980	60,714	64,271	63,033	62,589
The University of Texas System	34,048	33,034	32,255	34,296	35,325	31,503	32,129
Texas A&M University System	17,390	16,296	15,532	16,064	16,980	15,219	16,354
Total	**110,745**	**105,772**	**104,767**	**111,074**	**116,576**	**109,755**	**111,072**

Source: Legislative Budget Board.

FIGURE 24
HIGHER EDUCATION EMPLOYEES GROUP INSURANCE APPROPRIATIONS BY TYPE OF INSTITUTION 2016–17 BIENNIUM



SOURCE: Legislative Budget Board.

FIGURE 25
TEXAS COMMUNITY COLLEGE STEPPED EMPLOYEE HOLD HARMLESS LEVELS, 2016–17 BIENNIUM

PERCENTAGE DECREASE IN CONTACT HOURS	EMPLOYEE LEVEL HOLD HARMLESS
More than 2.0%, up to 5.0%	98.0% (2.0% reduction)
More than 5.0%, up to 10.0%	95.0% (5.0% reduction)
More than 10.0%, up to 15.0%	90.0% (10.0% reduction)
More than 15.0%	85.0% (15.0% reduction)

SOURCE: Legislative Budget Board.

PLAN OPTIONS/OVERVIEW

The insurance contribution policy for institutions in ERS is the same as for non-higher education state employees. For full-time employees, the state and the institution of higher education pay the employee-only premium in full, and half the difference between the employee-only premium and the premium for dependent coverage. For full-time employees of the UT System, the state and UT System also pay the employee premium in full, and half the difference between the employee-only premium and the premium for dependent coverage. For full-time employees of the TAMU System, the state and TAMU System pay approximately 98.2 percent of the employee-only premium, and half of the difference between the employee-only premium and the premium for dependent coverage. Employees of the UT System and TAMU System receive benefits similar to those offered to general state employees by ERS.

TEACHER RETIREMENT SYSTEM – HEALTH BENEFIT PLANS

RETIREE HEALTH BENEFITS (TRS-CARE)

HISTORY

In 1985, the Legislature passed the initial law now called the Texas Public School Retired Employees Group Benefits Act, and designated TRS as the administering agency. The program is referred to as TRS-Care. TRS offers a selection of medical and prescription drug plans.

FUNDING

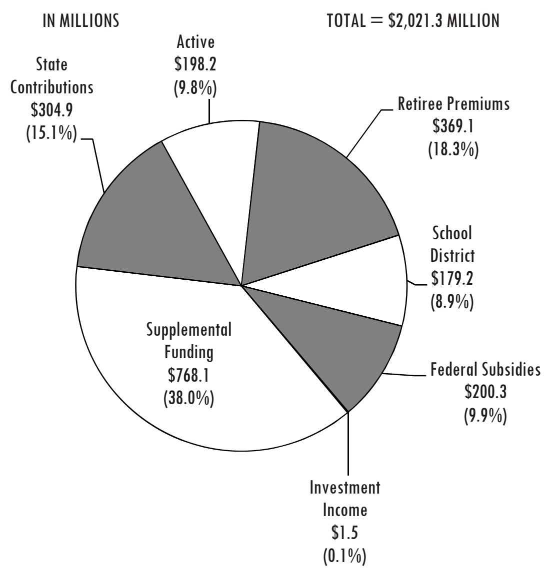
TRS-Care is funded on a pay-as-you go basis, and funding of benefits is determined by the Texas Legislature. TRS-Care benefits are financed through a combination of: state contributions, premium payments from retiree participants; percentage of payroll contributions from active employees (0.65 percent for active employees) and local school districts (0.55 percent for local employers); revenues from federal drug subsidy payments; and investment income. Appropriations for the TRS-Care program for the 2016–17 biennium meet the statutory requirement that the state contribute an amount equal to 1.0 percent of public education active member payroll.

Figure 26 shows the program's major funding sources for fiscal year 2015. Funding from all sources is deposited into the TRS-Care Trust Fund, from which all claims are paid. As shown in **Figure 26,** state supplemental funding provided the largest share of revenue for the program in fiscal year 2015 at 38.0 percent; followed by retiree premiums at 18.3 percent; the regular state contribution at 15.1 percent; federal subsidies earned from the Retiree Drug Subsidy (RDS) payments and Medicare Part D subsidy payments at 9.9 percent; active employee contributions at 9.8 percent; school district contributions at 8.9 percent; and investment income at 0.1 percent. Onetime supplemental funding of $768.1 million was appropriated by the Eighty-fourth Legislature for fiscal year 2015 to fund the program through the 2016–17 biennium. Member premiums have not increased for TRS-Care since fiscal year 2005.

ELIGIBILITY

Health benefits are provided for public school retirees who are not eligible to participate in the state higher education or state employee plans. Basic coverage is available to retirees at no cost, but retirees must contribute toward any additional cost in excess of base coverage. (See Coverage description.)

FIGURE 26
TRS-CARE FUNDING SOURCES, FISCAL YEAR 2015



SOURCE: Teacher Retirement System.

Members must also contribute toward the cost of coverage for dependents.

To be eligible for TRS-Care, retirees must have at least 10 years of TRS service credit, which may include up to five years of military service credit, but may not include any other special or equivalent service credit purchased. Additionally, the member must meet one of these requirements:

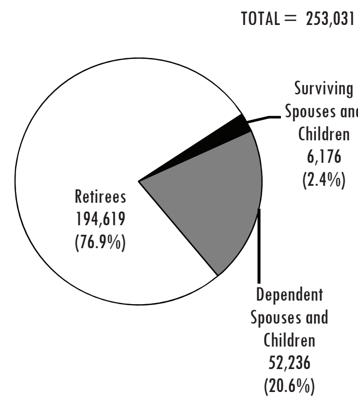
- the sum of the retiree's age and years of service credit in TRS equals or exceeds 80 at the time of retirement, regardless of whether the retiree had a reduction in the retirement annuity for early age (years of service credit can include all purchased service); or
- the retiree has 30 or more years of service credit in TRS at the time of retirement (years of service credit can include all purchased service).

For individuals who take a service retirement on or after September 1, 2014, the minimum age requirement is 62 to be eligible for TRS-Care 2 and 3. (See Coverage description.) However, service retirees are not subject to the new age requirement if, by August 31, 2014, they meet either of these standards: the sum of their age and years of service credit is 70 or greater; or they have at least 25 years of service credit.

Disability retirees are initially eligible for TRS-Care at any age with 10 years of service credit. TRS-Care coverage for disability retirees who have less than 10 years of TRS service credit ends when the disability retirement benefit ends.

Figure 27 shows total participation in TRS-Care.

FIGURE 27
TRS-CARE PARTICIPATION, AUGUST 31, 2015



SOURCE: Teacher Retirement System.

COVERAGE

TRS-Care consists of three tiers of coverage. Each tier has deductibles or premiums that are differentiated by the retiree's or surviving spouse's Medicare status. Dependents must be enrolled in the same coverage tier as the retiree or surviving spouse:

- TRS-Care 1 is a basic catastrophic coverage with different deductibles for retirees age 65 or younger, or age 65 with Medicare Part B Only or with Medicare Parts A and B.
- TRS-Care 2 is a self-funded comprehensive plan with a $1,000 deductible, $35 in-network physician office visit copay, and a prescription drug plan with various copays.
- TRS-Care 3 is a self-funded comprehensive plan with a $300 deductible, $25 in-network physician office visit copay, and a prescription drug plan with various copays.

A summary of the retiree health insurance plan can be found at www.trs.state.tx.us.

Aetna Life Insurance Company administers TRS-Care medical benefits, and Express Scripts administers pharmacy benefits. The TRS-Care health benefit plan offers comprehensive healthcare through statewide and nationwide networks of hospitals, physicians, and other healthcare providers and pharmacies. Participants who use network providers are reimbursed for 80.0 percent of eligible expenses after satisfying a deductible each plan year. Services provided out of network are reimbursed at a lower rate.

MEDICARE ADVANTAGE AND MEDICARE PART D PRESCRIPTION DRUG PLANS

Effective January 1, 2013, TRS-Care began offering two fully insured Aetna Medicare Advantage plan options for eligible participants who are enrolled in TRS-Care 2 or TRS-Care 3, reside in the United States, and have Medicare Parts A and B coverages. Like the Aetna Medicare Advantage health plans, the Medicare Part D Prescription Drug program has two benefit levels, which are administered by Express Scripts. As of January 1, 2016, approximately 102,500 (68.3 percent) of the eligible TRS retirees opted to participate in the Medicare Advantage program, and approximately 126,800 (79.7 percent) opted to participate in the Medicare Part D prescription drug program. Retirees not covered by both Medicare Part A and B, along with those opting out of the Medicare Advantage plans, continue to be covered by the self-funded medical plans administered by Aetna and the self-funded prescription drug plans administered by Express Scripts.

Medicare Advantage plans include different deductibles and copays:

- Medicare Advantage 2 is a single-payor plan with a $500 deductible, $5 in-network physician office visit copay, $10 specialist copay, and a prescription drug plan with various copays; and
- Medicare Advantage 3 is a single-payor plan with a $150 deductible, $5 in-network physician office visit copay, $10 specialist copay, and a prescription drug plan with various copays.

ACTIVE EMPLOYEES HEALTH BENEFITS (TRS-ACTIVECARE)

HISTORY

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

FUNDING

At the time the legislation establishing TRS-ActiveCare was passed, the state provided an increase in the Foundation School Program school finance formulas to ensure additional state aid equivalent to at least $75 per employee per month to help fund district costs. In addition, districts are required to contribute a minimum of $150 per employee per month, for a total of $225 toward the cost of coverage. Employees are responsible for any remaining premium costs. Premiums are paid into a separate trust fund from which health claims are paid.

ELIGIBILITY

To be eligible for TRS-ActiveCare, a person must be employed by a participating district or entity and be either an active contributing TRS member or employed 10 or more regularly scheduled hours each week. As shown in **Figure 28**, of the 1,236 districts or entities eligible to participate in TRS-ActiveCare, as of August 31, 2015, 478,241 employees and dependents from 1,100 entities have elected to participate. Although this represents almost 90.0 percent of the qualified entities, the number of employees covered by TRS-ActiveCare is approximately 44.2 percent of public education employees. Many local school districts, particularly larger employers, provide their own local programs for employee healthcare benefits.

FIGURE 28
TRS-ACTIVECARE PARTICIPATION AS OF AUGUST 31, 2015

CATEGORY	PARTICIPANTS
Participating Entities	1,110
Employees	290,887
Dependents	187,887
Total Participants	**478,241**

SOURCE: Teacher Retirement System

COVERAGE

Effective September 1, 2014, Aetna administers the medical benefits, and CVS Health manages the prescription drug benefits. TRS-ActiveCare offers a choice of two preferred provider organization (PPO) plans statewide: ActiveCare-1HD and ActiveCare-2. Effective September 1, 2014, TRS-ActiveCare also offers ActiveCare Select, an exclusive provider organization (EPO) plan. Additionally, employees in certain areas also have the option of choosing HMO coverage.

TRS formerly offered ActiveCare-3, which was closed to new enrollees in 2013 and then discontinued after fiscal year 2014. TRS introduced ActiveCare Select in fiscal year 2015 which uses a provider-specific network to deliver medical care with benefits similar to ActiveCare-2 at lower premiums.

APPENDIX A

State contributions to the pension funds for the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS) are estimated appropriations, which means that 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 due to the fluctuating number of employees and the actual amount of monthly payroll. TRS settles up with the state at the end of the fiscal year to balance retirement contribution levels based on actual payroll amounts, while ERS receives a different amount each month based on the contribution rates and active payroll.

Figure A shows the appropriation history for each retirement program as well as state-funded health insurance programs.

FIGURE A
APPROPRIATION HISTORY, FISCAL YEARS 2013 TO 2017 (IN MILLIONS)

RETIREMENT	2013	2014	PERCENTAGE CHANGE	2015	PERCENTAGE CHANGE	2016	PERCENTAGE CHANGE	2017	PERCENTAGE CHANGE
ERS	$374.9	$380.7	1.6%	$437.8	15.0%	$610.3	39.4%	$615.5	0.8%
LECOS	$7.5	$7.8	3.7%	$7.8	0.0%	$8.7	11.2%	$8.8	1.2%
JRS I	$27.2	$29.7	8.9%	$29.7	0.0%	$26.7	(9.9%)	$26.3	(1.6%)
JRS II	$4.4	$11.1	153.2%	$11.1	0.0%	$12.2	9.4%	$12.2	0.0%
TRS-Public Education	$1,411.3	$1,323.2	(6.2%)	$1,405.3	6.2%	$1,551.3	10.4%	$1,582.3	2.0%
TRS-Higher Education	$265.3	$242.9	(8.5%)	$268.3	10.5%	$222.9	(16.9%)	$231.8	4.0%
ORP	$124.0	$130.8	5.5%	$132.6	1.4%	$163.8	23.5%	$162.5	(0.8%)
Retirement Subtotal	**$2,214.6**	**$2,126.2**	**(4.0%)**	**$2,292.6**	**7.8%**	**$2,595.8**	**13.2%**	**$2,639.3**	**1.7%**
HEALTHCARE	**2013**	**2014**	**PERCENTAGE CHANGE**	**2015**	**PERCENTAGE CHANGE**	**2016**	**PERCENTAGE CHANGE**	**2017**	**PERCENTAGE CHANGE**
ERS-Health	$1,409.5	$1,498.3	6.3%	$1,635.9	9.2%	$1,750.7	7.0%	$1,916.3	9.5%
HEGI-ERS	$235.4	$289.4	22.9%	$310.6	7.3%	$327.9	5.6%	$351.4	7.2%
HEGI-UT	$174.6	$191.7	9.8%	$205.7	7.3%	$221.8	7.8%	$237.7	7.2%
HEGI-A&M	$87.2	$94.3	8.1%	$101.2	7.3%	$115.4	14.1%	$123.7	7.2%
TRS-Care	$133.7	$247.5	85.2%	$247.5	0.0%	$278.3	12.4%	$283.9	2.0%
Insurance Subtotal	**$2,040.4**	**$2,321.1**	**13.8%**	**$2,501.0**	**7.7%**	**$2,694.1**	**7.7%**	**$2,913.0**	**8.1%**
TOTAL	**$4,255.0**	**$4,447.3**	**4.5%**	**$4,793.6**	**7.8%**	**$5,290.0**	**10.4%**	**$5,552.2**	**5.0%**

APPENDIX B

FIGURE B
CONTRIBUTION RATES — LEGAL AUTHORITY, 2016–17 BIENNIUM

	CONTRIBUTION RATE (BASED ON PERCENTAGE OF ACTIVE MEMBER PAYROLL, OR SET AMOUNT AS NOTED)			AUTHORITY		
	STATE/ EMPLOYER	ACTIVE EMPLOYEES	OTHER	CONSTITUTION (1)	STATUTE	GAA
Retirement						
ERS	9.50%	9.50%	Agency contribution of 0.5%	Article XVI, Section 67(b)(3)	Government Code: §815.402(a)(1), §815.402(a)(2), Employee §815.403(a)(1), State §815.4035, Agency	page I-35, Rider 4; page IX-79, Sec. 17.08
LECOS	0.5%	0.5%	Court fees totaling approximately 1.2%	N/A	Government Code: §815.402(h), Employee §815.403(a)(3), State §815.317(a-1), Court fees	page I-36 Rider 12
JRS I	Pay-as-you-go	7.2% in FY 2016 7.5% in FY 2017	N/A	N/A	Government Code: §835.101, Employee §835.102, State	N/A
JRS II	15.663%	7.2% in FY 2016 7.5% in FY 2017	N/A	N/A	Government Code: §840.102, Employee §840.103, State	page I-35 Rider 5
TRS	6.8%	7.2% in FY 2016 7.7% in FY 2017	School districts not in Social Security, mandatory 1.5%	Article XVI, Section 67(b)(3)	Government Code: §825.404(a), State §825.402, Employee §825.4035, District	page III-32 Rider 4
ORP	6.6%	6.65%	Local colleges, optional addition up to 1.9% (2)	N/A	Government Code: §830.201	page III-35 Riders 2-3
Health Insurance						
ERS	Full premium rate for employees/ retirees and 50 percent of dependent premium	50 percent of dependent premium	Agency contribution of 1.0%	N/A	Insurance Code: §1551.301, Agency	page I-35 Rider 6; page IX-77, Sec. 17.04
HEGI: Non-UT and A&M System Institutions (3)	Full premium rate for employees/ retirees and 50 percent of dependents	50 percent of dependents	N/A	N/A	Insurance Code §1551.301, Institutions, §1551.3111, Community Colleges	page III-38 Rider 1
HEGI: UT System Institutions (4)	Full premium rate for employees/ retirees and 50 percent of dependents	50 percent of dependents	N/A	N/A	Insurance Code §1601.207	page III-39 Rider 2

FIGURE B (CONTINUED)
CONTRIBUTION RATES — LEGAL AUTHORITY, 2016–17 BIENNIUM

	CONTRIBUTION RATE (BASED ON PERCENTAGE OF ACTIVE MEMBER PAYROLL, OR SET AMOUNT AS NOTED)			AUTHORITY		
	STATE/ EMPLOYER	ACTIVE EMPLOYEES	OTHER	CONSTITUTION (1)	STATUTE	GAA
HEGI: A&M System Institutions (4)	98.2 percent of full premium rate for employees/ retirees and 50 percent of dependents	1.8 percent of full premium rate for full-time employees; 50 percent of dependents	N/A	N/A	Insurance Code §1601.207	page III-39 Rider 3
TRS-Care	1.00%	0.65%	School districts 0.55%	N/A	Insurance Code §1575.202	page III-32 Rider 5

NOTES:
(1) Constitution requires a state contribution between 6.0 percent and 10.0 percent for participants in the Employees Retirement System and the Teacher Retirement System, and an employee contribution of at least 6.0 percent.
(2) State law requires a state contribution to ORP of 8.5 percent. GAA 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.
(3) For the 2016–17 biennium, institutions of higher education, excluding institutions in the UT and TAMU System and community colleges, receive state funding at 89.2 percent of "full" ERS premium rates. Community college districts receive state funding at 50 percent of "full" ERS premium rates.
(4) For the 2016–17 biennium, UT and TAMU System institutions receive state funding at 86.8 percent of "full" ERS premium rates.
SOURCE: Legislative Budget Board.

GLOSSARY

Actuarial Accrued Liabilities—That portion, as determined by a particular actuarial cost method, of the actuarial present value of the plan benefits and expenses that is not provided for by future normal costs.

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 during a reasonable period, called the funding period. The Texas Pension Review Board guidelines recommend that the funding period not exceed 40 years and preferably be within 15 to 25 years. The Government Finance Officers Association recommends that the funding period never exceed 25 years, but ideally ranges between 15 and 20 years. Additional guidance exists for the Employees Retirement System (ERS) and Teacher Retirement System (TRS) in the Texas Government Code, which prohibits certain changes in the benefit plans and funding of each retirement system if the change would cause the period necessary to amortize unfunded actuarial liabilities to exceed 30 years by one or more years.

Annually Required Contribution—Since 1994, the Governmental Accounting Standards Board (GASB) has specified certain actuarial methods and techniques used to calculate a contribution necessary to produce a 30-year funding period for pension plans, referred to as the Annually Required Contribution (ARC). The ARC was used in estimating contribution shortfalls to be accounted for in footnotes to financial statements. Effective in fiscal year 2015 for Texas, new guidance (GASB Statement 68) will no longer require calculation of the ARC for financial reporting; instead, liabilities based on the market value of assets will be placed directly on the plan sponsor's balance sheet.

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

Defined Contributions—A system providing pension benefits equal to the combined employer and employee contributions plus interest and minus administrative expenses.

Experience Study—A periodic review and analysis of the actual experience of the system, which may lead to a revision of one or more actuarial assumptions.

Funding Period—The length of time required for a contribution rate to pay all normal costs and amortize any unfunded liabilities. If a contribution will never amortize the unfunded liability, the funding period is said to be never or infinite.

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 (or smoothed) value of assets is often used for this calculation, though some plans may calculate a market funded ratio using the market value of assets.

Normal Cost—The annual cost assigned, using the actuarial funding method, to service performed in the current plan year (and subsequent plan years). It is expressed as a percentage of pay and is equal to the present value at hire of all possible benefits of the system, divided by the present value of anticipated future compensation to be received by the new member.

Unfunded Actuarial Accrued Liability—The difference between the actuarial accrued liability and valuation assets, frequently abbreviated as UAAL. The UAAL is sometimes referred to as unfunded accrued liability.

Copayment—The cost-sharing arrangement in which a member of a managed healthcare plan pays a fixed-dollar amount for a service.

Proportionality—A funding mechanism establishing the share of a benefit's total cost borne by the state and a given agency. Proportionality requires state General Revenue Funds benefits contributions be paid only on salaries also paid from state General Revenue Funds.

Smoothing—The smoothed value of assets (or actuarial value of assets) phases in investment gains and losses during a period to reduce the effects of short-term marketplace volatility on the calculation of the unfunded actuarial accrued liability (UAAL). 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 put an upper limit on the amount of deferred gains and losses included in the actuarial value of assets. TRS smooths gains and losses relative to their actuarial investment return assumption (8.0 percent) within five years. ERS recognizes 20.0 percent of the difference between expected assets (based on the previous smoothed asset value) and actual assets in a given year.

Sum-certain Funding—A funding mechanism setting the state's contribution for higher education group health insurance at certain levels. Any costs incurred of more than these levels must be borne by the institutions.

SOURCES: Legislative Budget Board; Employees Retirement System; Teacher Retirement System; Pension Review Board.