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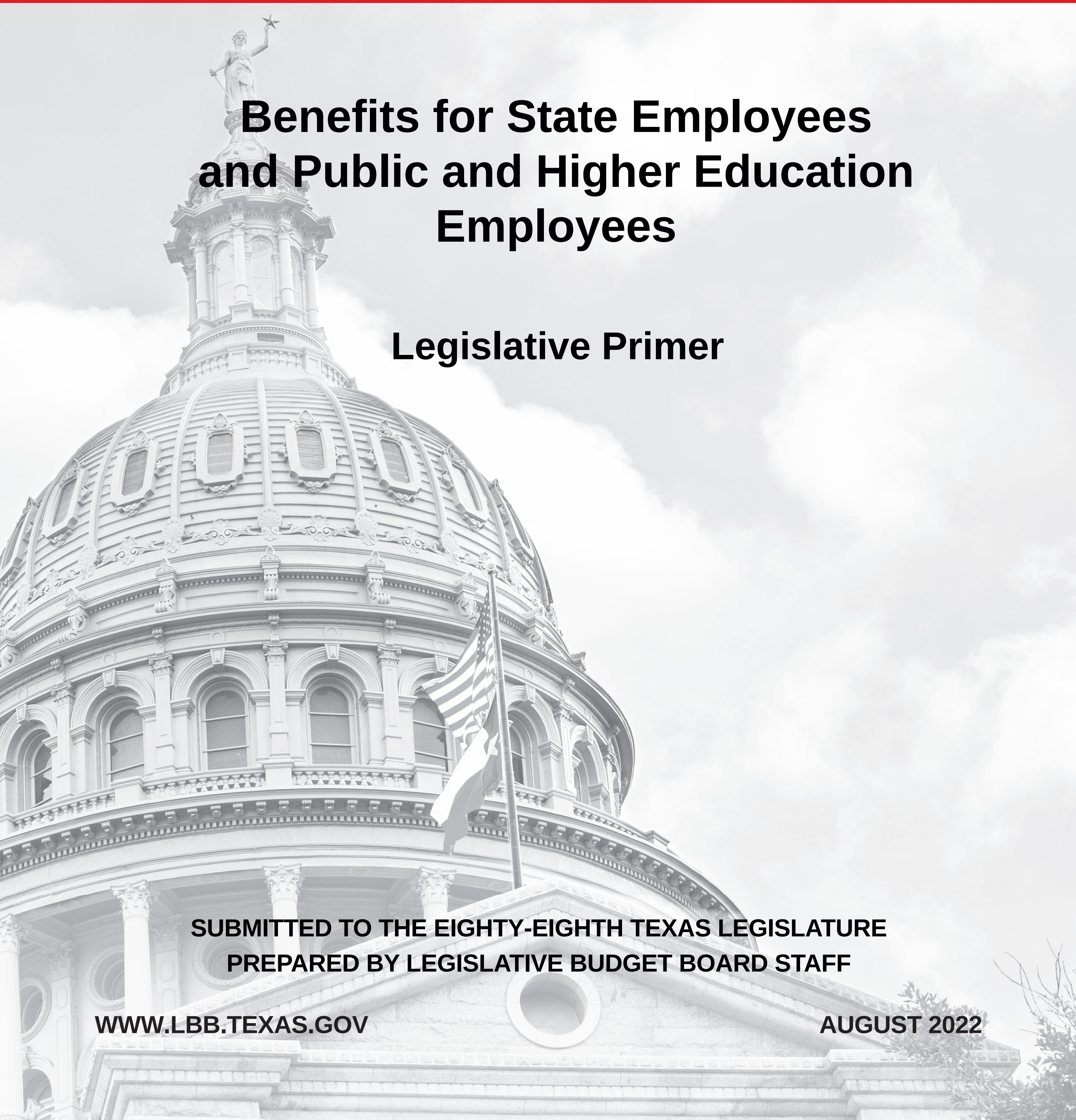

Benefits for State Employees and Public and Higher Education Employees

Legislative Primer

SUBMITTED TO THE EIGHTY-EIGHTH TEXAS LEGISLATURE
PREPARED BY LEGISLATIVE BUDGET BOARD STAFF

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AUGUST 2022

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CONTENTS

INTRODUCTION

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

The three pre-funded retirement systems at ERS combined reported 402,896 members and retirees at the end of fiscal year 2021. This amount represents only the sum of members and retirees for ERS and JRS II, as shown in **Figure 1**, because members of LECOS also are members of ERS. These three systems held $35.3 billion in assets and paid $2.8 billion in retirement benefits in fiscal year 2021. TRS is one of the largest pension systems in the U.S., reporting approximately 1.9 million members and retirees and $201.2 billion in assets in fiscal year 2021. TRS paid $11.7 billion to retirees and their beneficiaries for fiscal year 2021.

Actuarial soundness for each retirement system has been discussed during the last decade as investment performance has shown considerable volatility. Actuarial soundness is defined in statute as contributions sufficient to fund the normal cost and amortize the unfunded accrued liability across no more than 31 years. (See **Appendix C – Glossary** for definitions of related terms.) As of August 31, 2021, the five-year average investment return was 11.17 percent for ERS and 11.43 percent for TRS, and the 10-year average gross investment return was 9.32 percent for ERS and 9.69 percent for TRS. In past years, both retirement systems had assumed 8.0 percent investment returns. Anticipating lower returns, ERS changed its return assumption effective to 7.5 percent in August 2017 and to 7.0 percent in May 2020. TRS changed its return assumption effective fiscal year 2018 to 7.25 percent in July 2018. The actuarial valuations as of August 31, 2021, indicate that the funded ratios are 68.0 percent at ERS and 79.1 percent at TRS. **Figure 1** shows a comparison of the ERS and TRS retirement systems and additional retirement systems at ERS for law enforcement and judicial employees.

FIGURE 1
COMPARISON OF EMPLOYEES RETIREMENT SYSTEM OF TEXAS (ERS) TO TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) RETIREMENT SYSTEMS
AUGUST 31, 2021

CATEGORY	ERS	LECOS (1)	JRS II (2)	TRS (3)
Members and Retirees	402,070	77,467	826	1,877,919
Market Value of Assets (in millions)	$33,608.2	$1,116.0	$585.2	$201,163.0
Actuarial Funded Ratio	68.0%	60.5%	84.6%	79.1%
Unfunded Actuarial Accrued Liability (in millions)	$14,118.3	$652.7	$95.0	$47,600.0
Funding Period (in years)	33.0	Infinite	Infinite	23.0
Benefits Paid for Fiscal Year 2021 (in millions)	$2,711.2	$91.7	$35.1	$11,686.2

Notes:
(1) LECOS=Law Enforcement and Custodial Officer Supplement. Members of LECOS also are members of ERS.
(2) JRS II=Judicial Retirement System Plan II.
(3) TRS actuarial data do not represent the 7.25 percent rate of return assumption, which was effective fiscal year 2018.
Sources: Employees Retirement System of Texas; Teacher Retirement System of Texas.

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

ERS and TRS also administer health benefit programs for active employees and retirees. The healthcare program at ERS covered 538,002 participants, including dependents, and paid $3.2 billion in health benefit claims to physicians, hospitals, pharmacies, and other healthcare providers for fiscal year 2021. Two TRS programs for retirees and active members cover healthcare and paid a total of $3.4 billion for fiscal year 2021 for 690,210 participants, including dependents. These amounts do not include the fully insured Medicare Advantage plans. Some eligible public school employers in Texas do not participate in the TRS program for active employees and instead provide local options for healthcare benefits. Employees of higher education have access to health benefit programs provided by ERS, the University of Texas System, or the Texas A&M University System. (See related sections.) **Figure 2** shows a comparison of ERS and TRS healthcare benefits.

FIGURE 2
EMPLOYEES RETIREMENT SYSTEM OF TEXAS (ERS) COMPARED TO TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) HEALTH PLANS, FISCAL YEAR 2021

AS OF AUGUST 31, 2021	ERS GROUP BENEFITS PROGRAM	TRS-ACTIVECARE	TRS-CARE
Participants	538,002	470,439	219,831
Payments from health plans to healthcare providers (in billions)	$3.2	$2.1	$1.3

Sources: Employees Retirement System of Texas; Teacher Retirement System of Texas.

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

FIGURE 3
ADMINISTRATIVE RESPONSIBILITY FOR RETIREMENT AND HEALTHCARE BENEFITS AUGUST 31, 2021

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 (Active Employees and Retirees)	X			
Higher Education Employees	X			UT, TAMU
Community College Employees	X			
Public School Employees				
Active Employees		X		Local ISDs
Retirees		X		

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

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

RETIREMENT

HISTORY

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

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 structured as a pay-as-you-go plan, which required the state to appropriate funds to pay the benefits owed to annuitants each year following their retirements. JRS II is a prefunded plan that enables the state and members to contribute during employees' working years, like ERS and LECOS. 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.

GOVERNANCE AND POLICY

ERS is governed by a board of six trustees who serve staggered, six-year terms. Pursuant to the Texas Government Code, Chapter 815, Subchapter A, three trustees are active state employees who are elected by the members of the system. The remaining three trustees 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 meet or exceed the established actuarial rate of return.

FIGURE 4
EMPLOYEES RETIREMENT SYSTEM (ERS) OF TEXAS MEMBERSHIP BY PLAN, AUGUST 31, 2021

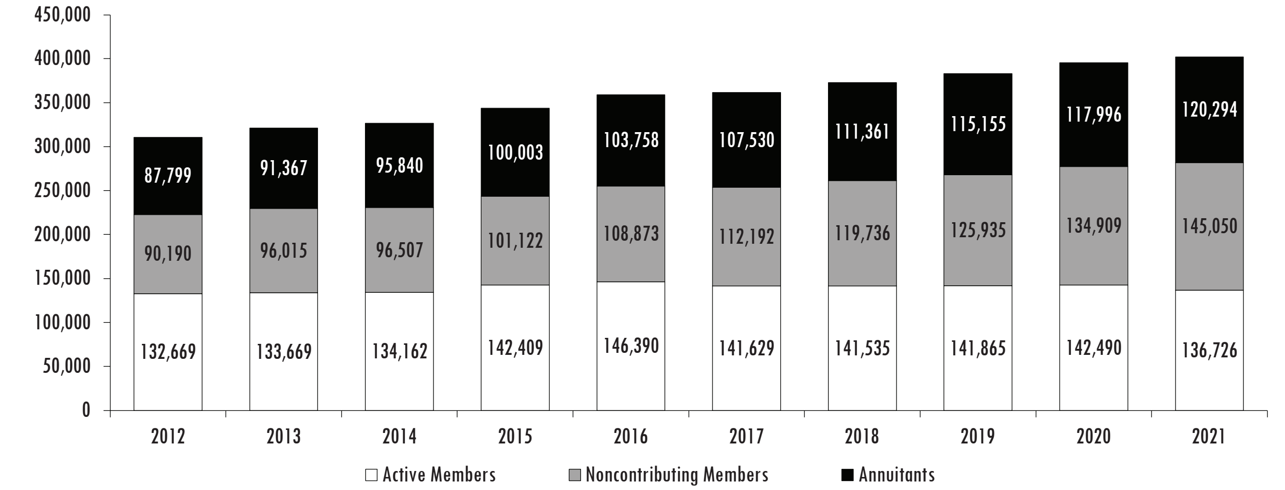
PLAN	ACTIVE MEMBERS	NONCONTRIBUTING MEMBERS (1)	RETIREES AND BENEFICIARIES (ANNUITANTS)
ERS	136,726	145,050	120,294
LECOS (2)	32,498	29,626	15,343
JRS I (3)	fewer than 10	fewer than 10	277
JRS II (3)	584	192	50

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

MEMBERSHIP

Figure 4 shows membership data for ERS, the LECOS Retirement Fund, JRS I, and JRS II as of the August 31, 2021, ERS Annual Comprehensive Financial Report. From fiscal years 2017 to 2021, the number of active ERS members decreased by 4,903, or 3.5 percent. The number of noncontributing members increased by 32,858, or 29.3 percent, and the number of annuitants increased by 12,764, or 11.9 percent. From fiscal year 2017 to 2021, the number of active LECOS members decreased by 5,708, or 14.9 percent. The number of noncontributing members increased by 12,526, or 73.3 percent, and the number of LECOS annuitants increased by 3,095, or 25.3 percent. From fiscal year 2017 to 2021, the number of active JRS II members increased by 27, or 4.8 percent; the number of noncontributing members increased by 34, or 21.5 percent; and the number of annuitants decreased by 328, or 86.8 percent.

FIGURE 5
EMPLOYEES RETIREMENT SYSTEM MEMBERSHIP, FISCAL YEARS 2012 TO 2021



SOURCE: Employees Retirement System of Texas.

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

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

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

Figure 5 shows ERS membership during the past decade, including contributing members, noncontributing members, and annuitants.

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 for general state agencies. These estimated appropriations appear at the end of each article of the General Appropriations Act (GAA). The total appropriation for all state agencies is shown as an informational listing in the ERS bill pattern in the GAA.

Benefits are provided to ERS members through the following structure:

Contributions + Investment Earnings =
Benefits + Administrative Expenses

The Texas Constitution, Article 16, Section 67, specifies a state contribution rate ranging from 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 fiscal years 2022 and 2023, the state contribution rate via direct appropriations is 9.5 percent for ERS Retirement. In addition, the GAA, Article IX, requires state agencies to contribute 0.5 percent of payroll, for a total employer

FIGURE 6
EMPLOYEES RETIREMENT SYSTEM OF TEXAS RETIREMENT PLANS CONTRIBUTION STRUCTURE
FISCAL YEARS 2022 AND 2023

PLAN	STATE (1)	MEMBER	OTHER	TOTAL
ERS	9.5%	9.5%	0.5% (2)	19.5%
LECOS	0.5%	0.5%	$15.0 million (3)	1.0% + $15.0 million
JRS II	15.663%	9.39% (4)	N/A	25.053%

NOTES:
(1) Employees Retirement System of Texas (ERS) members hired on or after September 1, 2022, contribute 6.0 percent. ERS members hired on or after September 1, 2022, who also are members of the Law Enforcement and Custodial Officer Supplement (LECOS) Retirement Fund contribute 6.0 percent to the ERS plan and 2.0 percent to the LECOS supplemental plan.
(2) Agencies contribute 0.5% of payroll in addition to the state's 9.5% contribution.
(3) For fiscal years 2022 and 2023, the court fee contribution is approximately 0.95% percent of payroll.
(4) The Texas Government Code, Section 840.102, specifies a Judicial Retirement System Plan II (JRS II) member contribution rate of 9.5%. The effective member contribution rate shown is 9.39% as some active members elect to cease contributions. The effective member contribution rate is the rate used in actuarial valuations of the system.
SOURCE: Employees Retirement System of Texas.

contribution of 10.0 percent for the 2022–23 biennium. Members hired before September 1, 2022, contribute 9.5 percent. ERS members hired on or after September 1, 2022, contribute 6.0 percent. ERS members hired on or after September 1, 2022, who also are LECOS members contribute 6.0 percent to the ERS plan and 2.0 percent to the LECOS supplemental plan.

For LECOS and JRS II, state contributions are 0.5 percent and 15.663 percent, respectively, for the 2022–23 biennium. **Figure 6** shows state, member, and other contribution rates for all three retirement systems. **See Appendix A – Appropriations** for actual appropriation amounts.

Figure 7 shows that ERS contribution rates increased from fiscal years 2012 to 2016 but have remained stable since then. Pursuant to Senate Bill 321, Eighty-seventh Legislature, Regular Session, 2021, the member contribution rate for members hired on or after September 1, 2022, will change to 6.0 percent.

FIGURE 7
EMPLOYEES RETIREMENT SYSTEM CONTRIBUTION RATES
FISCAL YEARS 2012 TO 2021

YEAR	STATE	MEMBER	AGENCY	TOTAL
2012	6.0%	6.5%	0.0%	12.5%
2013	6.5%	6.5%	0.0%	13.0%
2014	7.5%	6.6%	0.5%	14.6%
2015	7.5%	6.9%	0.5%	14.9%
2016	9.5%	9.5%	0.5%	19.5%
2017	9.5%	9.5%	0.5%	19.5%
2018	9.5%	9.5%	0.5%	19.5%
2019	9.5%	9.5%	0.5%	19.5%
2020	9.5%	9.5%	0.5%	19.5%
2021	9.5%	9.5%	0.5%	19.5%

SOURCE: Employees Retirement System of Texas.

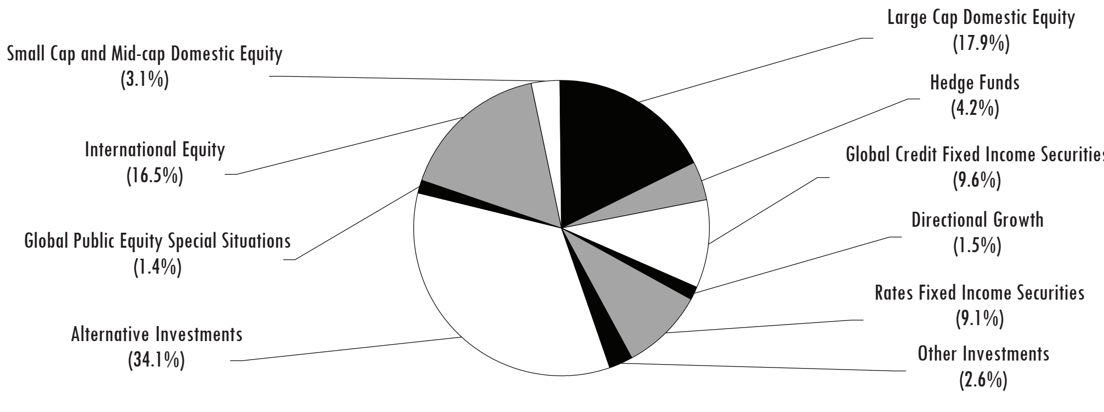
INVESTMENT OF ASSETS

The ERS Board of Trustees oversees the investment of the system's trust fund assets. Initially, ERS was required to invest only in government securities. In 1958, investments were authorized in corporate securities, common stocks, preferred stocks, debentures, bonds, mortgages, and other financial instruments. As shown in **Figure 8**, current investment strategies employ a diversified portfolio, with a mix of active and passive management and an array of management styles. As of August 31, 2021, approximately 49.0 percent of assets are managed internally, and 51.0 percent are advised externally.

Investment policies of ERS are governed by the Texas Constitution; the Texas Property Code, Title 9; and other applicable federal and state statutes. Trained staff manage fund assets daily. To assist the staff and the board with investment recommendations and decisions, the board employs investment managers and has appointed an Investment Advisory Committee made up of Texas financial and business contributors. In addition, ERS retains several independent investment consultants to evaluate and analyze investment strategies and results.

The total investment portfolio was valued at $34.9 billion at the end of fiscal year 2021, and assets earned 25.51 percent for fiscal year 2021, gross before expenses, compared to 6.85

FIGURE 8
EMPLOYEES RETIREMENT SYSTEM TRUST FUND ASSET ALLOCATION
AUGUST 31, 2021



SOURCE: Employees Retirement System of Texas.

percent for fiscal year 2020. The gross time-weighted rates of return for the three-year, five-year, and 10-year periods ending August 31, 2021, were 11.38 percent, 11.17 percent, and 9.32 percent, respectively.

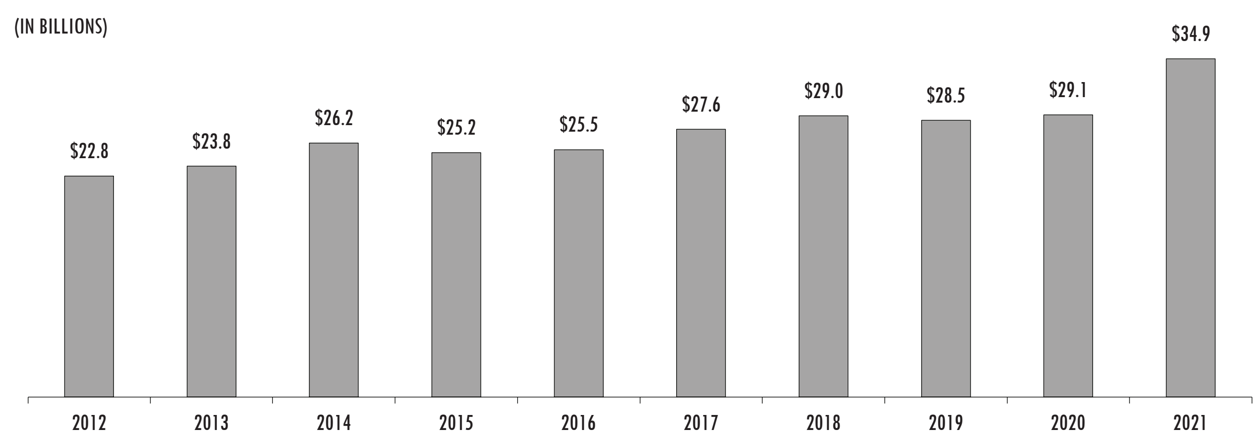
Figure 9 shows the historical value of the investment portfolio, which has increased 53.1 percent from $22.8 billion in 2012 to $34.9 billion at the end of fiscal year 2021.

The Board of Trustees may change the assumed rate of return. **Figure 10** shows the annual gross rate of return on investment for the retirement trust fund's assets since fiscal year 2012, and the assumed rate of return, which was 8.0 percent until the board changed it to 7.5 percent in 2017 and to 7.0 percent in May 2020. A commonly used actuarial technique called smoothing defers part of each year's performance, whether gains or losses. The ERS consulting actuary smooths investment performance when determining the actuarial value of assets to decrease the effect of marketplace volatility on the overall actuarial analysis from year to year.

ACTUARIAL VALUATION

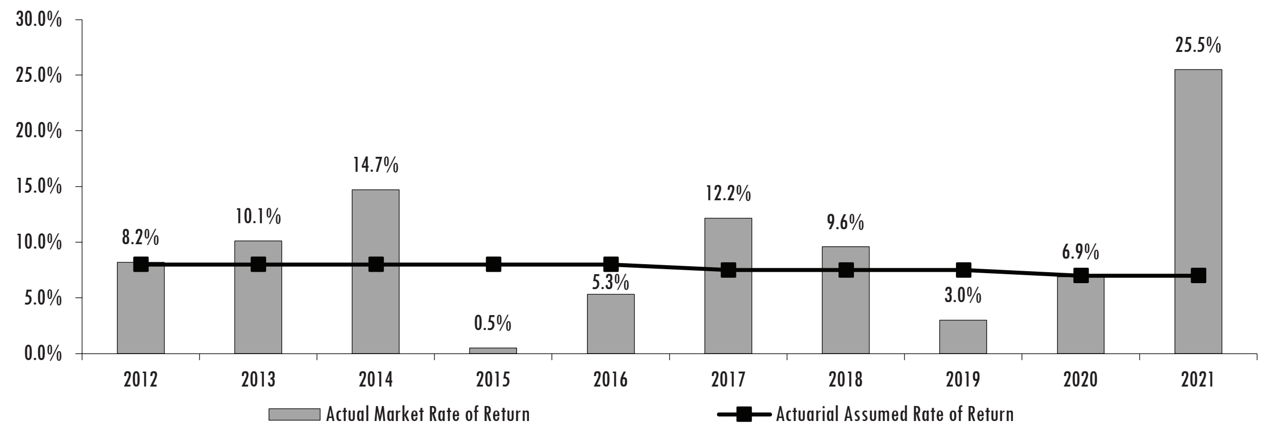
An actuarial valuation report is prepared at the close of each fiscal year by an outside consulting actuary. The valuation analyzes the plan's accrued liability compared to its assets. It considers all aspects of the pension plan including

FIGURE 9
EMPLOYEES RETIREMENT SYSTEM HISTORICAL VALUE OF INVESTMENT PORTFOLIO
FISCAL YEARS 2012 TO 2021



SOURCE: Employees Retirement System of Texas.

FIGURE 10
EMPLOYEES RETIREMENT SYSTEM OF TEXAS TRUST FUND ASSETS ANNUAL RATES OF RETURN ON INVESTMENT, ACTUAL COMPARED TO ASSUMED
FISCAL YEARS 2012 TO 2021



NOTE: The five-year average annual return is 11.17 percent, and the 10-year average annual return is 9.32 percent.
SOURCE: Employees Retirement System of Texas.

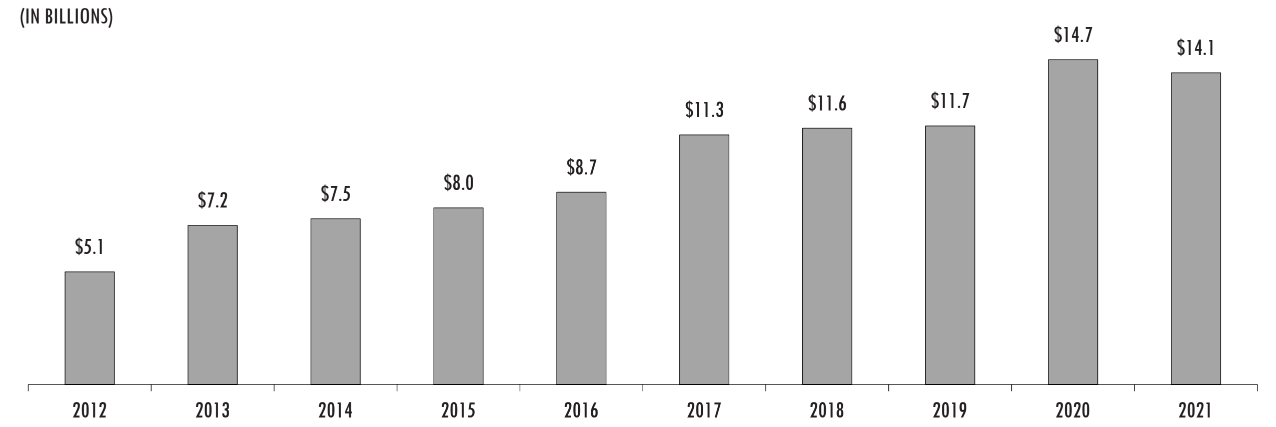
membership data, benefit structure, assets held in trust, actuarial assumptions, funding methodology, and contribution rates. Technical modeling yields data including the normal cost rate, unfunded actuarial accrued liability (UAAL), funded ratio, annual required contribution rate, and funding period. These data points serve in guiding daily management and higher-level policy decisions addressed by the ERS Board of Trustees and the Legislature. In addition to the annual actuarial valuation, an actuarial update on the market value of assets only is conducted as of February 28 of each odd-numbered year, which provides the Legislature with updated information during the legislative session.

Investment assumptions and performance are major factors in determining the actuarial condition of a retirement system. The assumed rate of return is what ERS expects its investments to earn each year, on average. This assumption is used to assess the long-term health of the retirement trust and determine whether the system will be able to meet obligations. Actuarial soundness of the pension plan refers to the goal that total contributions are sufficient to fund the normal cost and to amortize the UAAL during no more than 31 years. This standard is set in state law and reflects a common actuarial objective. **Figures 11** and **12** show the UAAL for ERS, LECOS, and JRS II from fiscal years 2012 to 2021. The UAAL for ERS increased 188.0 percent from fiscal years 2012 to 2020, then decreased 4.0 percent in fiscal year 2021.

The August 31, 2021, actuarial valuations for the ERS retirement plans can be found at www.ers.texas.gov. The annual valuations form the basis of the ERS requests for funding during each legislative session. JRS I is funded on a pay-as-you-go basis, meaning the funds required for monthly annuity payments and refunds of member contributions are appropriated for each fiscal year in General Revenue Funds.

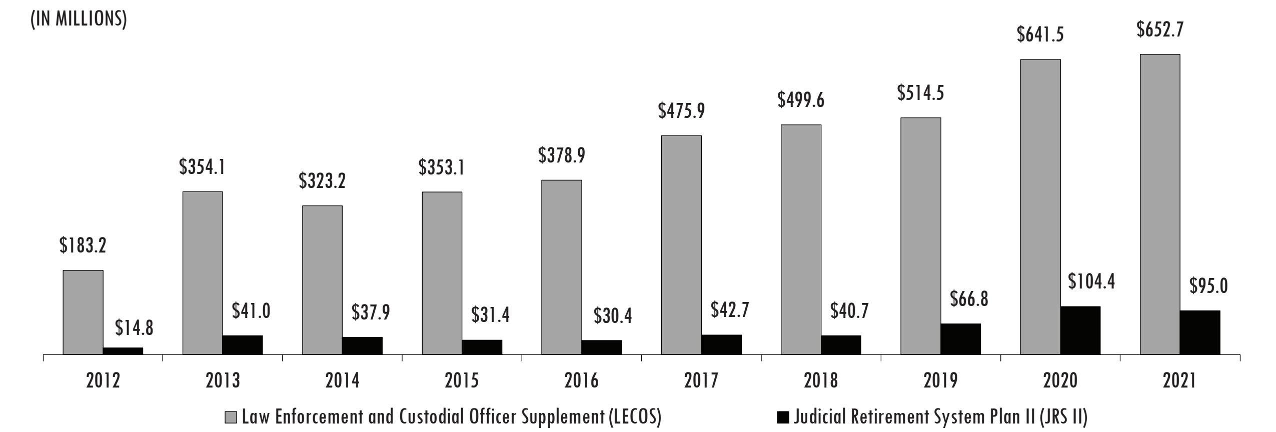
According to the August 31, 2021, actuarial valuation, the market value of the ERS retirement fund is approximately $33.6 billion, an increase of approximately $5.7 billion, or 20.3 percent, from the previous fiscal year. That report shows a funded ratio—the plan's assets divided by its liabilities—of 68.0 percent, 2.0 percentage points greater than the funded ratio of the previous valuation as of August 31, 2020. Pursuant to the Texas Constitution, the state's contribution for employees' retirement may not exceed 10.0 percent of total payroll except in an emergency determined by the Governor, nor may it be less than 6.0 percent of total payroll. The state's retirement contribution rate established by the Eighty-seventh Legislature, Regular Session, 2021, is 9.5 percent for each fiscal year of the 2022–23 biennium; when combined with the 0.5 percent agency contribution, the total state contribution is 10.0 percent. Members contribute an additional 9.5 percent of payroll. According to the 2021 actuarial valuation, the funding period at the end of fiscal year 2021 is 33 years. The previous valuation report reported that the funding period was infinite, meaning the unfunded accrued liability was expected to grow indefinitely. The

FIGURE 11
EMPLOYEES RETIREMENT SYSTEM OF TEXAS UNFUNDED ACTUARIAL ACCRUED LIABILITY, FISCAL YEARS 2012 TO 2021



SOURCE: Employees Retirement System of Texas.

FIGURE 12
LECOS AND JRS II UNFUNDED ACTUARIAL ACCRUED LIABILITY, FISCAL YEARS 2012 TO 2021



SOURCE: Employees Retirement System of Texas.

change in the period is pursuant to Senate Bill 321, Eighty-seventh Legislature, Regular Session, 2021, which changed the contribution structure of ERS and provided for additional appropriations in the form of legacy payments to pay off the system's UAAL.

The August 31, 2021, actuarial valuation for the LECOS fund shows a funded ratio of 60.5 percent, 0.4 percentage points greater than the funding ratio of the 2020 valuation. The combined contribution includes a 0.5 percent member contribution, a 0.5 percent state contribution of payroll, and an estimated $15.0 million in court fees for fiscal year 2022. According to that report, the actuarially sound contribution rate is 3.25 percent. Therefore, the combined contributions are insufficient to pay down the existing unfunded accrued liability. Thus, the expected funding period remains infinite. The assets are anticipated to be depleted in fiscal year 2050. According to the 2021 actuarial valuation, the market value of the ERS LECOS fund is approximately $1.1 billion, an increase of approximately $168.7 million from the previous fiscal year.

The August 31, 2021, actuarial valuation for the JRS II fund shows a funded ratio of the actuarial value of assets to the actuarial accrued liability of 84.6 percent, 2.3 percentage points greater than the funding ratio in the previous valuation. According to that report, the state contribution rate is 15.663 percent, and the effective member contribution

FIGURE 13
EMPLOYEES RETIREMENT SYSTEM OF TEXAS RETIREMENT ELIGIBILITY, AUGUST 31, 2022

EMPLOYEE CATEGORY		RETIREMENT ELIGIBILITY (1) (2)	ANNUITY REDUCTION
Group 1	Hired before September 1, 2009	5.0 years of service and age 60; or Rule of 80 with at least 5.0 years of service credit; or age 55 with at least 10.0 years of service credit as a certified peace officer or custodial officer.	None
Group 2	Hired on or after September 1, 2009, and before September 1, 2013	10.0 years of service and age 65; or Rule of 80 with at least 10.0 years of service credit at age 60; or age 55 with at least 10.0 years of service credit as a certified peace officer or custodial officer.	5.0% for each year retired before age 60 (25.0% maximum).
Group 3	Hired on or after September 1, 2013	10.0 years of service and age 65; or Rule of 80 with at least 10.0 years of service credit at age 62; or age 57 with at least 10.0 years of service credit as a certified peace officer or custodial officer.	5.0% for each year retired before age 62 (no maximum).
Group 4	Hired on or after September 1, 2022, and was not a member on the date of hire	Regular Retirement: 5.0 years of service and age 65; or Rule of 80 with at least 5.0 years of service credit. Law Enforcement and Custodial Officer Supplement Retirement: 20.0 years of service as a certified peace officer or custodial officer; or age 55 with at least 10.0 years of service credit as a certified peace officer or custodial officer.	Not applicable

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

rate is 9.39 percent, for a total contribution rate of 25.05 percent. This rate is less than the contribution rate required for the fund to be actuarially sound, which is 33.10 percent. The expected funding period remains infinite, and the fund is expected to be depleted in fiscal year 2076. According to the 2021 actuarial valuation, the market value of the JRS II fund is approximately $585.2 million, an increase of $107.9 million from the previous fiscal year.

RETIREMENT ELIGIBILITY

Members of ERS become eligible to receive their retirement benefits, or vested, when they have accrued 5.0 years or 10.0 years of creditable service, depending upon the dates they began their state employment. Service credit refers to the length of time worked in which all required contributions have been made, and it also may include purchased active-duty military time, months of unused sick and annual leave, and other eligible service. The purchase of additional service credit is available to enable certain qualified individuals to retire earlier and to increase the amounts of their annuity payments. **Figure 13** shows eligibility requirements for employee categories, based on when the employee was hired.

The LECOS retirement plan and the two judicial plans, JRS I and JRS II, have provisions that authorize early service retirement with decreased benefits. The amount of the decrease is calculated based on the member's age at the time of retirement. Additional information related to retirement eligibility requirements is available at www.ers.texas.gov. **Figure 14** shows the annuitant profile for fiscal years 2020 and 2021.

FIGURE 14
EMPLOYEES RETIREMENT SYSTEM ANNUITANT PROFILE FISCAL YEARS 2020 AND 2021

ANNUITANT PROFILE	2020	2021
Service and Disability Retirements (1)	5,264	5,418
Average Age at Retirement	58.4	59.1
Average Years of Service	22.1	21.1
Ratio of Current Members to Retirees	1.21 to 1	1.14 to 1

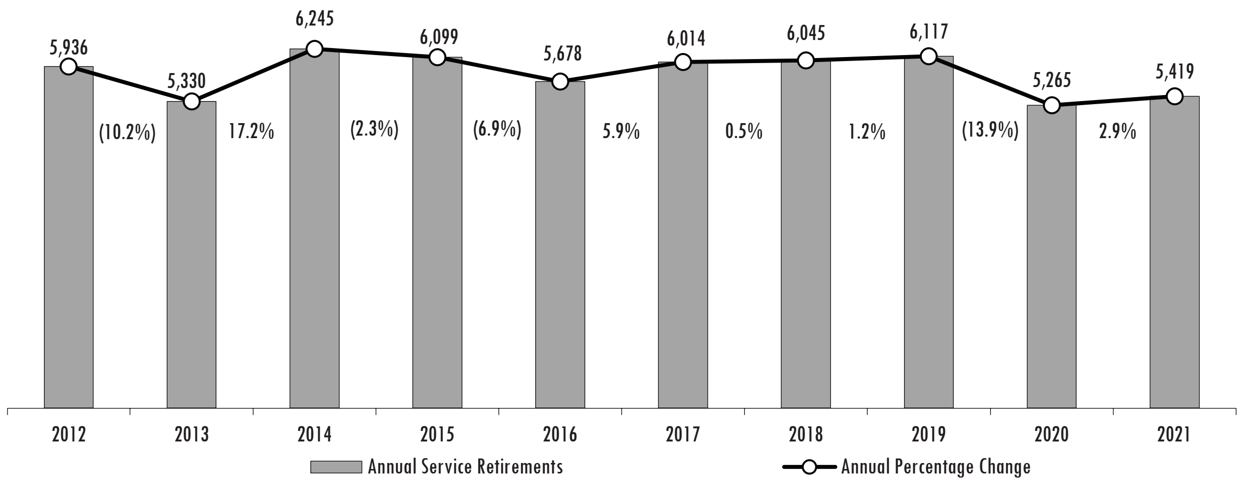
NOTE: (1) Data shown does not include retirements for Judicial Retirement System Plan II.
SOURCE: Employees Retirement System of Texas.

Figure 15 shows annual ERS retirement totals since 2012 and the percentage change each year.

RETIREMENT BENEFITS

The ERS retirement system is a qualified, defined benefit plan pursuant to the U.S. Internal Revenue Code, Section

FIGURE 15
EMPLOYEES RETIREMENT SYSTEM OF TEXAS AND JUDICIAL RETIREMENT SYSTEM PLAN II ANNUAL RETIREMENTS AND ANNUAL PERCENTAGE CHANGE, FISCAL YEARS 2012 TO 2021



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

401(a). A defined benefit plan uses employer and employee contributions during the employee's working years to prefund the employee's pension benefits primarily through long-term investment earnings. During fiscal year 2021, ERS paid pension benefit payments and refunds totaling $2.7 billion. This amount is an increase from the $2.6 billion paid in fiscal year 2020. **Figure 16** shows the benefits and refunds paid since fiscal year 2012.

For the general employee plan, the standard annuity pays 2.3 percent (referred to as the multiplier) of the employee's final average salary for each year of service credit. The final average salary is based on the greatest salary for 36 months for employees hired before September 1, 2009, or who had an account balance with ERS on August 31, 2009. For employees hired on or after September 1, 2009, the final average salary is based on the greatest salary for 48 months. For employees hired on or after September 1, 2013, the final average is based on the greatest salary for 60 months.

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

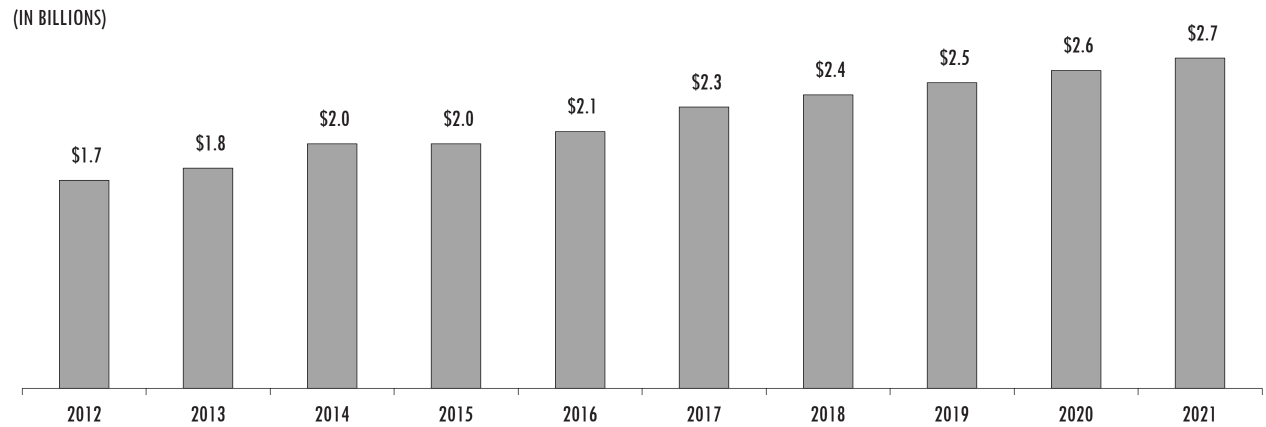
All of the retirement programs that ERS administers have optional benefits to provide a continuing annuity for a participant's designated surviving beneficiary. If the member chooses one of the available survivor benefit options, his or her monthly annuity is decreased depending on the option chosen. If the beneficiary dies before the retired member, the annuity paid to the member is increased to the standard annuity.

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

Service percentage for members of the LECOS retirement program is calculated 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 adjusted automatically each time judicial salaries change.

ERS and LECOS retirees also may choose a partial lump-sum option at retirement. This option provides a lump-sum payment equal to up to 36 months of the standard annuity, with a permanent actuarial decrease of

FIGURE 16
EMPLOYEES RETIREMENT SYSTEM OF TEXAS BENEFIT PAYMENTS AND REFUNDS, FISCAL YEARS 2012 TO 2021



SOURCE: Employees Retirement System of Texas.

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

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 current base annual salary of a district judge, which is currently $140,000. The monthly standard annuity for a retiring elected-class member may not exceed 100.0 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 nonoccupational. ERS defines an occupational disability as "a sudden and unexpected injury or disease that results solely from a specific act or occurrence determinable by a definite time and place and solely from an extremely dangerous risk of severe physical or mental trauma or disease that is not common to the public at large and that is peculiar to and inherent in a dangerous duty that arises from the nature and in the course of a person's state employment." An example would 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 nonoccupational disability does not have to be related to the work being performed; this type of benefit is available only to employees with 10.0 years of membership service credit. An example of a qualifying nonoccupational disability retirement is if 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 must be certified by the ERS Medical Board to receive the retirement annuity and insurance benefits.

PROPORTIONATE RETIREMENT

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

- ERS;
- TRS;
- JRS I and JRS II;
- Texas Municipal Retirement System;
- Texas County and District Retirement System;

- City of Austin Employees Retirement System;
- El Paso City Employees' Pension Fund;
- El Paso Firemen and Policemen's Pension Fund; and
- City of Austin Police Retirement System.

DEATH BENEFITS

In addition to the survivor benefits previously mentioned, ERS pays a $5,000 lump-sum death benefit to designated beneficiaries of retirees. 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. In addition, the state provides a $518,661 lump-sum payment to survivors and financial assistance for certain surviving children of a law enforcement officer, firefighter, or other eligible state or local public safety employee who is killed in the line of duty. The Texas Government Code, Section 615.022 requires this amount to be adjusted each year to the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) for the previous calendar year.

SIGNIFICANT LEGISLATION

The Eighty-seventh Legislature, Regular Session, 2021, passed the following legislation affecting ERS retirement and death benefits.

Senate Bill 321 – Changes to the contribution structure of ERS and legacy payments for unfunded liability. The legislation revises the contribution structure and retirement benefits for members of ERS and LECOS. It restructures the retirement benefit for members of both plans hired on or after September 1, 2022, from an average salary defined benefit to a cash balance defined benefit. Members hired after this date will contribute 6.0 percent of their compensation into an individual account, which is guaranteed an annual 4.0 percent interest and opportunity for an additional 3.0 percent in gain sharing, depending on trust fund annual investment returns. These employees will be vested after 5.0 years of service and will receive a lifetime annuity equal to the member's accumulated balance plus a state match of 150.0 percent of that account balance at retirement. LECOS members will contribute an additional 2.0 percent to the LECOS cash balance benefit, which receives a 300.0 percent state match benefit. The legislation also requires the state to make legacy payments in the amount necessary to amortize ERS' unfunded actuarial liability by the end of fiscal year 2054. House Bill 2, Eighty-seventh Legislature, Regular Session, 2021, made supplemental appropriations to ERS for the 2020–21 biennium of $1,020.0 million in All Funds for part of these legacy payments.

Senate Bill 1071 – Disability retirement payments for certain peace officers. The legislation changes the disability retirement benefits for certain peace officers covered by ERS from 100.0 percent of the officer's average monthly compensation to a monthly amount based on the maximum salary authorized pursuant to the position classification salary schedule in the GAA.

Senate Bill 483 – Report on investment returns. The legislation requires ERS and TRS to submit to the Office of the Governor and the Legislature biennial reports on investment returns that compare the assumed rate of return and the actual rate of return achieved by each retirement system for the most recent one-year, five-year, 10-year, and 20-year fiscal periods.

House Bill 917 – Composition of the ERS Board of Trustees. The legislation authorizes one of the three elected members on the ERS Board of Trustees to be a retiree.

GROUP BENEFITS PROGRAM

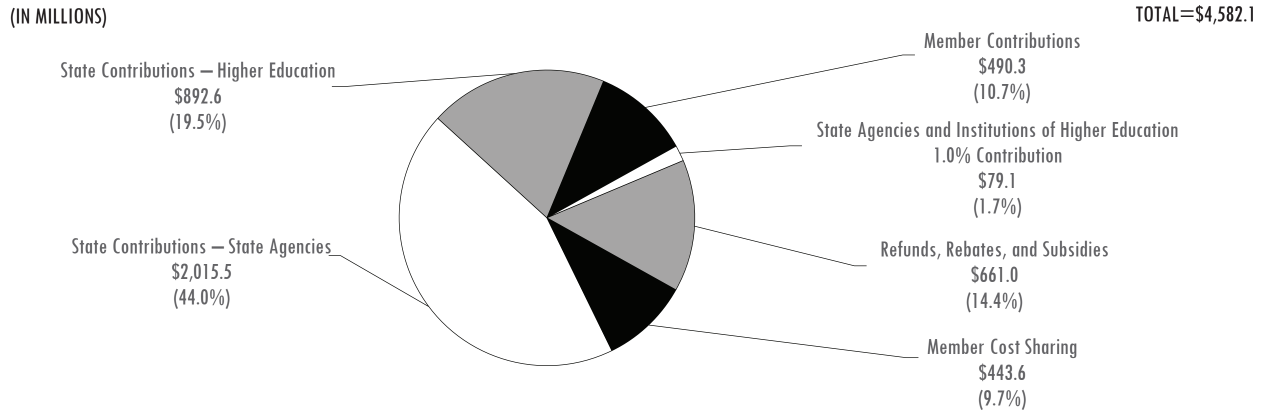
HISTORY

In 1975, the Legislature established the Texas Employees Uniform Group Insurance Program 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, the Texas Employees Group Benefits Act. Health maintenance organizations (HMO) at that time provided health services to participants who chose to use them. The Group Benefits Program (GBP) now 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. (The Texas Municipal Retirement System, the Texas County and District Retirement System, local community supervision and corrections departments, and other nonstate entities also participate in the GBP. This primer discusses the program only as it relates to state agency and higher education participants.)

STATE FUNDING AND APPROPRIATIONS

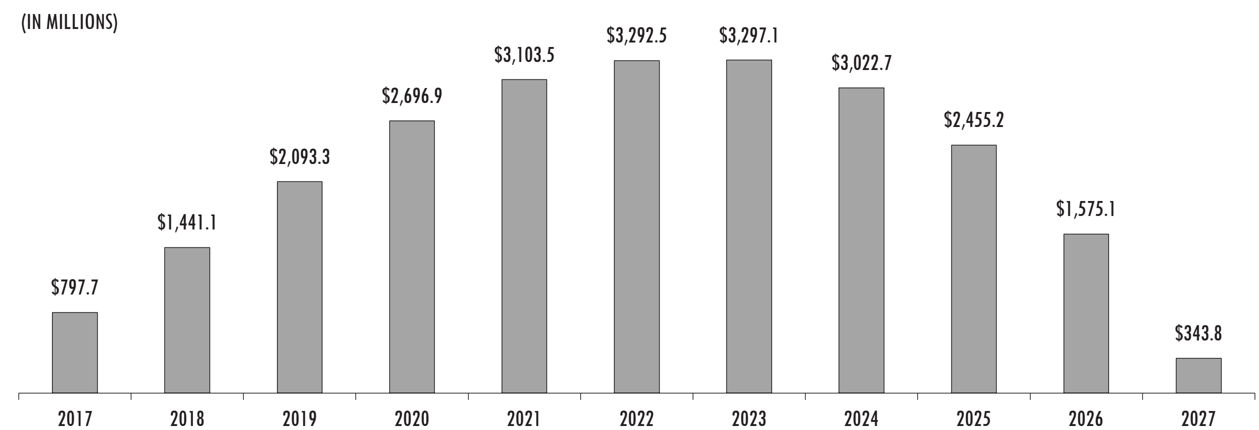
GBP premiums are funded by a combination of sources: state contributions, member contributions, employer contributions, local funds from participating entities, and

FIGURE 17
EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PROGRAM FUNDING SOURCES, FISCAL YEAR 2021



SOURCE: Employees Retirement System of Texas.

FIGURE 18
CONTINGENCY RESERVE FUND BALANCE FOR THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PLAN FISCAL YEARS 2017 TO 2027



NOTE: Amounts shown for fiscal years 2022 to 2027 are Employees Retirement System of Texas projections.
SOURCE: Employees Retirement System of Texas.

investment earnings. Unlike the prefunded retirement plans, GBP is funded on a pay-as-you-go basis. **Figure 17** shows the revenue allocation of the program's six major funding sources, which totaled $4,582.1 million for fiscal year 2021. Funding from all sources is deposited into the Employees Life, Accident, Health Insurance and Benefits Trust Account, also known as the GBP Trust Fund or Contingency Reserve Fund, from which all claims are paid. The fund had a balance of $3.1 billion at the end of fiscal year 2021; this balance is affected by revenues, expenditures, plan experience, rebates, subsidies, and related contract agreements. **Figure 18** shows the fund balance since fiscal year 2017, and ERS projections from fiscal years 2022 to 2027.

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

In addition to the state contribution, the GAA requires all general state agencies and institutions of higher education that participate in GBP to contribute 1.0 percent of base payroll for group health insurance. The Eighty-seventh Legislature, GAA, 2022–23 Biennium, also instructs ERS to continue assessing a monthly $30 premium differential to GBP participants who use tobacco. ERS began covering prescription drugs for tobacco cessation in 2012.

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

ELIGIBILITY AND MEMBERSHIP

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

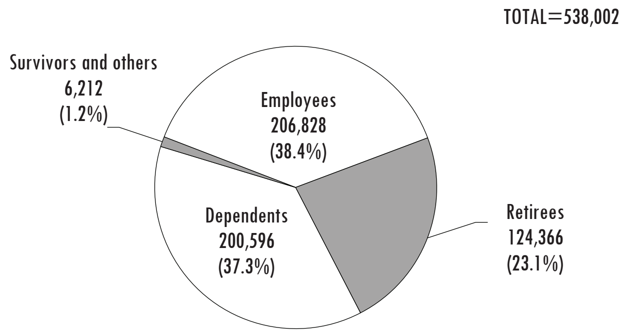
- the sum of the retiree's age and years of service credit in ERS must equal or exceed 80.0 at the time of retirement, regardless of whether the retiree had a decrease in the retirement annuity for early age (years of service credit can include all purchased service); or
- the retiree must be age 65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

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

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

At the end of fiscal year 2021, the total membership in the GBP was 538,002. **Figure 19** shows participation in the GBP by membership group. The average member age was 55 years, and the average years of service was 15.0 years.

FIGURE 19
EMPLOYEES RETIREMENT SYSTEM OF TEXAS GROUP BENEFITS PROGRAM PARTICIPATION
AUGUST 31, 2021



SOURCE: Employees Retirement System of Texas.

PROGRAM STRUCTURE

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

In fiscal year 2021, the GBP paid 6.4 million medical claims and expended $3.2 billion in payments to doctors, hospitals, pharmacies, and other healthcare providers.

House Bill 966, Eighty-fourth Legislature, 2015, directed ERS to establish a voluntary, consumer-directed health plan, which includes a high-deductible health plan and a health savings account, as an option for GBP participants. The legislation also requires the state to contribute the difference, if any, between the full state contribution to HealthSelect and coverage cost of the high-deductible plan, to a health savings account. At the end of fiscal year 2021, 4,418 participants were enrolled in Consumer Directed HealthSelect.

IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the federal government passed the Families First Coronavirus Response Act, which required group health plans to cover COVID-19 diagnostic testing without member cost sharing or prior authorization. The federal Coronavirus Aid, Relief, and Economic Security Act expanded the diagnostic testing coverage mandate for

FIGURE 20
NET COST IMPACT OF CASES RELATED TO THE COVID-19 PANDEMIC TO THE GROUP BENEFITS PLAN
FISCAL YEAR 2021

Cost of claims for COVID-19 cases	+	Diagnostic testing	+	Vaccine administration	-	Fewer medical services than expected on services unrelated to COVID-19	=	Net cost impact
$126.9 million		$31.7 million		$6.5 million		$57.8 million		$107.3 million

SOURCE: Employees Retirement System of Texas.

COVID-19. Accordingly, on March 18, 2020, GBP implemented coverage of COVID-19 diagnostic testing and associated services at a physician's office, urgent care provider, or emergency room, or through a telehealth visit at no cost to a participant and without prior authorization, regardless of the provider's network status.

In fiscal year 2021, approximately 42,000 HealthSelect members filed claims for COVID-19 cases, which resulted in total cost to the GBP of $126.9 million. **Figure 20** shows that the estimated net cost impact of cases related to COVID-19 to GBP in fiscal year 2021 was $107.3 million.

OPTIONAL COVERAGE

In addition to health insurance and the accompanying prescription drug program, the following optional coverage programs are offered to state employees: dental, vision, term life, 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 provides employees with the opportunity to fund accounts for themselves and their dependents with payroll deductions that reduce federal income and Social Security taxes. State employees may contribute up to $2,750 per year. TexFlex reimburses medical, dental, and vision expenses such as copayments, deductibles, coinsurance, and other costs that exceed the health plan benefit. The program operates on participant fees.

ERS has two dental plans available to employees and retirees: the State of Texas Dental Choice Preferred Provider Organization (PPO) Plan administered by Delta Dental, and the DeltaCare USA Dental HMO. 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 enables members to visit any dentist, and they and their eligible dependents can enroll regardless of where they live.

The vision insurance plan, called State of Texas Vision, administered by Superior Vision, is available to employees, retirees, and eligible dependents. Copayments are set for standard vision-related services such as eye examinations and lenses that are provided in the network. Maximum reimbursement amounts are set for services provided outside of the network.

Basic term life insurance coverage is included with GBP health coverage. An employee receives a $5,000 policy, and a retiree receives a $2,500 policy. Employees also may enroll in group term life insurance coverage worth one time or two times their annual salaries without proof of good health. With evidence of insurability, employees may enroll in life insurance coverage worth three times or four times their annual salaries. Retirees may continue the coverage they had as employees or enroll in 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 the employee 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 day activity and health services. The insurance has been closed to new enrollees since January 1, 2012.

Effective January 1, 2013, Medicare-eligible retirees are enrolled automatically in the HealthSelect Medicare Advantage plan, administered by Humana, but they may opt out. Medicare Advantage is a PPO plan, which provides the same level of coverage at a lower cost to the state and retirees. As of August 31, 2021, approximately 92,366 participants were enrolled in the plan.

SIGNIFICANT LEGISLATION

The Eighty-seventh Legislature, Regular Session, 2021, passed the following legislation affecting ERS group insurance and the Group Benefits Program.

2022–23 GAA, Article I, ERS, Rider 17 – Alternative Delivery Methods for Group Benefits Program. This provision requires ERS to engage a third-party vendor to examine alternative methods to deliver the current benefits provided through GBP. ERS must submit the vendor's report to the Legislature by August 31, 2022.

Senate Bill 827 – Health benefit plan cost-sharing requirements for prescription insulin. The legislation limits member cost share for insulin to $25 per prescription per month for a 30-day supply, regardless of the amount or type of insulin prescribed.

Senate Bill 1065 – Diagnostic imaging for breast cancer. The legislation requires ERS health plans to cover diagnostic imaging (e.g., mammograms, ultrasound, and MRI) to detect breast cancer and abnormalities in the breast for members with a personal history of breast cancer.

TEACHER RETIREMENT SYSTEM OF TEXAS

RETIREMENT

HISTORY

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

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

GOVERNANCE AND POLICY

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

MEMBERSHIP

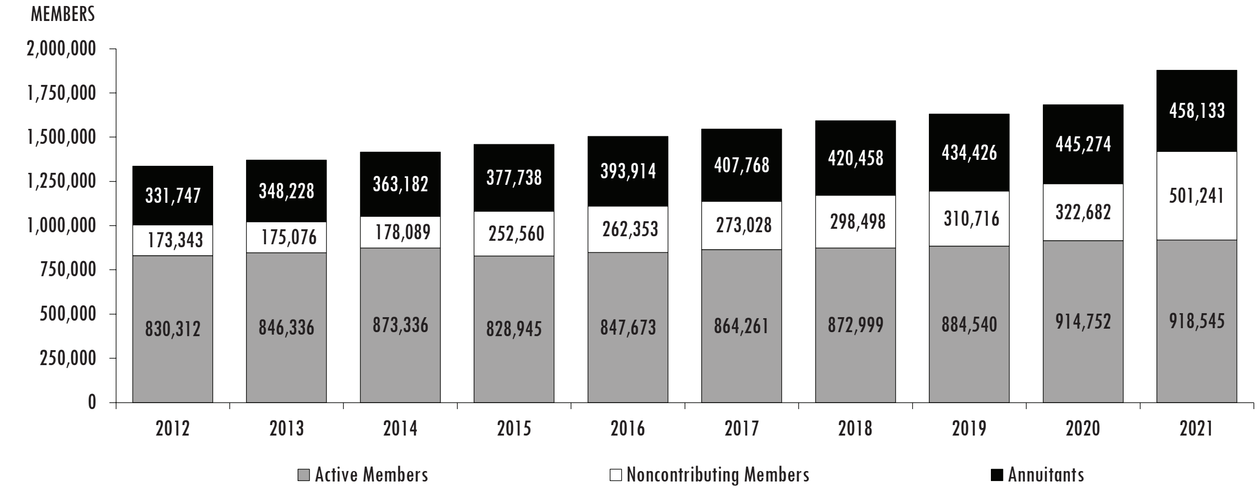
Membership in TRS is a condition of employment for all employees of public, state-supported educational institutions who work at least 20.0 hours or more per week and at least 4.5 months during one school year. Public education employees in membership-eligible positions are required to participate in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

As of August 31, 2021, TRS reported approximately 1.9 million members, including 918,545 active members, 458,133 retired annuitants, and 501,241 inactive vested and nonvested members. **Figure 21** shows TRS membership, active and retired, since fiscal year 2012.

CONTRIBUTIONS

The TRS pension plan is a cost-sharing plan funded by member, state, and employer contributions to the trust fund and by investment earnings of pension trust fund assets. Senate Bill 12, Eighty-sixth Legislature, 2019, increased statutorily required state, member, and employer contributions for fiscal years 2020 to 2025 to make the pension fund actuarially sound. The active member contribution rate is 7.75 percent for 2022 and 8.0 percent for 2023 of total employee compensation. Beginning in fiscal year 2022, the rate will increase during each of the next two fiscal years to reach a rate of 8.25 percent for the 2024–25 biennium. Statute also requires all public education employers to contribute an additional percentage of either actual employee pay or the statutorily required minimum salary for employees subject to the Minimum Salary Schedule, pursuant to the Texas Education Code, Section 21.402. This contribution rate is 1.7 percent for fiscal year 2022, increasing to 1.8 percent for fiscal year 2023 and to

FIGURE 21
TEACHER RETIREMENT SYSTEM MEMBERSHIP, FISCAL YEARS 2012 TO 2021



SOURCE: Teacher Retirement System of Texas.

2.0 percent by fiscal year 2025. Before the enactment of Senate Bill 12, only public education employers that were not participating in Social Security were required to make a 1.5 percent contribution.

The Texas Constitution, Article XVI, Section 67, establishes that the state contribution rate must range from 6.0 percent to 10.0 percent of total TRS-related payroll, except during an emergency declared by the Governor. The General Appropriations Act (GAA) sets the state contribution rate for each biennium within that range. **Figure 22** shows contribution rates for fiscal years 2016 to 2023, pursuant to Senate Bill 12.

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

An additional rule known as proportionality limits the share of the state contribution that may be funded by General Revenue Funds for most TRS members. (See **Appendix C – Glossary**.) For TRS retirement, this rule applies to funds

FIGURE 22
TEACHER RETIREMENT SYSTEM OF TEXAS RETIREMENT CONTRIBUTION RATES, FISCAL YEARS 2016 TO 2023

YEAR	STATE CONTRIBUTION	LOCAL CONTRIBUTION (1)	EMPLOYEE CONTRIBUTION
2016	6.8%	1.5%	7.2%
2017	6.8%	1.5%	7.7%
2018	6.8%	1.5%	7.7%
2019	6.8%	1.5%	7.7%
2020	7.4%	1.5%	7.7%
2021	7.5%	1.6%	7.7%
2022	7.75%	1.7%	8.0%
2023	8.0%	1.8%	8.0%

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

appropriated in the GAA and certain federal and local funds held by employers outside the state Treasury. Employers transfer these funds directly to TRS without appropriation. This rule applies to all TRS members except for community college employees, whose benefits may be paid from any source of funds, regardless of whether the salaries are paid from appropriated funds.

INVESTMENT OF ASSETS

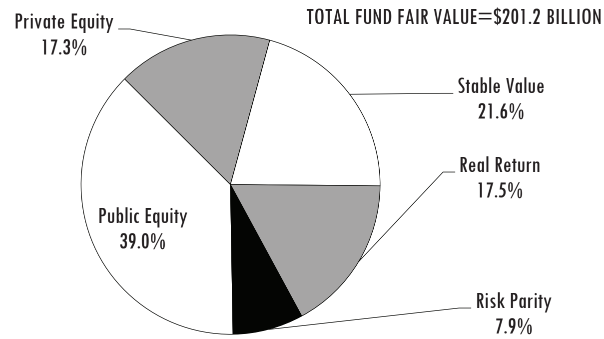
The TRS Board of Trustees oversees the investment of the system's trust fund assets. Professional investment staff manage these assets. To assist the staff and the board with investment recommendations and decisions, the board employs independent investment consultants to evaluate and analyze investment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

TRS investment risks are diversified throughout market sectors and securities. The investment strategy is intended to improve long-term investment results while decreasing market risk. At the end of fiscal year 2021, global equity investments (public and private equity) constituted approximately 56.3 percent of the system's investments. Other investments included 21.6 percent allocated to a stable value portfolio (fixed, short-term, and hedge funds); 17.5 percent allocated to real return investments (bonds, commodities, natural resources and infrastructure, real estate, and other real assets); 7.9 percent allocated to risk parity; and a net asset allocation leverage of minus 3.3 percent. **Figure 23** shows TRS asset allocation as of August 31, 2021.

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 up to 30.0 percent of the portfolio to external investment managers and raised the threshold limiting investments in hedge funds from 5.0 percent to 10.0 percent of the portfolio. The Eighty-fifth Legislature, Regular Session, 2017, continued the first provision, and the Eighty-sixth Legislature, 2019, removed the expiration date on the second provision. TRS has expanded the role of alternative investments in its overall strategy to improve effective diversification, risk management, and long-term performance.

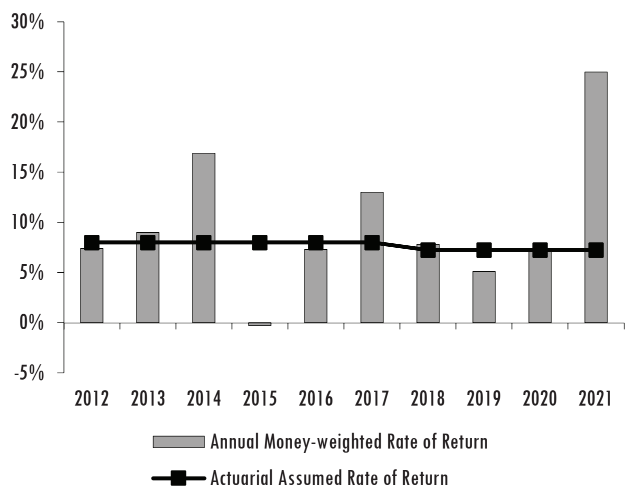
The actual return on investment for fiscal year 2021 was 24.98 percent. The three-year, five-year, and 10-year average annual returns as of August 31, 2021, were 12.11 percent, 11.43 percent, and 9.69 percent, respectively. **Figure 24** shows the annual rate of return on investment for the retirement trust fund's assets since fiscal year 2012. However, the system's actuary uses a five-year smoothing of investment performance when conducting the actuarial valuation. The actuary recognizes 20.0 percent of the annual gains or losses for the year of performance; the remainder is smoothed at 20.0 percent per year during the next four years. (See **Appendix C – Glossary**.) As of the August 31, 2020, actuarial valuation, the fund has $2.0 billion in deferred losses to recognize in future valuations, compared to $2.25 billion in deferred gains as of the August 31, 2019, valuation.

FIGURE 23
TEACHER RETIREMENT SYSTEM OF TEXAS ASSET ALLOCATION
AUGUST 31, 2021



SOURCE: Teacher Retirement System of Texas.

FIGURE 24
TEACHER RETIREMENT SYSTEM TRUST FUND ASSETS ANNUAL RATES OF RETURN ON INVESTMENT
FISCAL YEARS 2012 TO 2021



NOTE: The five-year average annual return is 11.4 percent, and the 10-year average annual return is 9.7 percent.
SOURCE: Teacher Retirement System of Texas.

ACTUARIAL VALUATION

An outside consulting actuary conducts an actuarial valuation annually based on data as of August 31, the last day of the system's fiscal year. Valuations determine the adequacy of the total contribution rate for addressing system solvency by comparing the value of the pension trust fund's assets against its liabilities. Actuarial valuations account for current and projected assets and liabilities. Valuations also consider various other factors, including demographic trends and longevity, projected retirement system membership and salaries, and trends in members' retirement behavior. The TRS retirement trust fund is considered actuarially sound if its funding and investment income are sufficient to cover its normal cost and pay off any unfunded liabilities within 31 years (see **Appendix C – Glossary**). The TRS actuarial valuation report is available at www.trs.texas.gov.

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

As of August 31, 2021, the actuarial value of the TRS pension trust fund's assets is $180.6 billion, a 7.3 percent increase from $167.4 billion at the end of fiscal year 2010. The system's unfunded actuarially accrued liability based on the actuarial value of assets is $47.6 billion, a decrease of $3.0 billion from the previous fiscal year. The fund has a funded ratio of 79.1 percent. Based on membership, benefit obligations, and other actuarial assumptions, the funding period is 23 years. (See **Appendix C – Glossary** for definitions of related terms.)

Investment assumptions and performance are major factors in determining the actuarial condition of a retirement system. The assumed rate of return is what TRS expects its investments to earn each year, on average. This assumption is used to assess the long-term health of the retirement trust and determine whether the system will be able to meet obligations. Before fiscal year 2018, TRS actuarial valuations included an investment return assumption of 8.0 percent. In July 2018, the TRS Board of Trustees decreased the return assumption to 7.25 percent to provide a more reasonable forecast of current and future financial conditions. This lower return assumption increased the projected contributions and funding period needed to pay off the unfunded actuarial accrued liability. Senate Bill 12, Eighty-sixth Legislature, 2019, provided for these additional contributions and lowered the projected funding period to 29 years as of August 31, 2019.

Historically, the steady growth of the TRS active member population has improved the TRS Pension Trust Fund's actuarial position. Member population growth is driven by the increase of student enrollment in public schools and institutions of higher education, which is related to general population growth in Texas. As the number of educational staff increases, the payroll on which employee and state retirement contributions are calculated increases. Liabilities also increase, but at a slower rate than contributions.

RETIREMENT ELIGIBILITY

Changes to the retirement plan have resulted in six membership categories, or tiers, each with its own retirement eligibility requirements, as shown in **Figure 25**. Members' tiers are determined by the dates they entered TRS membership; exemption criteria; the amount of service credit established as of August 31, 2014; and whether TRS membership has been terminated by a refund payment. Since school year 2012–13, all TRS members receive service credit based on a standardized school year that begins September 1 and ends August 31. When membership is terminated, any subsequent membership is considered as first employment, even if previously withdrawn service is paid and reinstated.

RETIREMENT BENEFITS

Benefit calculations are determined by statute and are based on an employee's salary, age, and years of creditable service. Calculations of normal-age service retirement annuity are based on the standard annuity, which provides the retiree a maximum amount of benefit each month, compared to optional service retirements for survivor benefits, and ends upon the retiree's death. The annual standard annuity equals 2.3 percent multiplied by the average of the five greatest annual creditable salaries multiplied by years of creditable service. For members who meet the exemption criteria, the three greatest annual salaries are used.

Members have five options for annuity payments in lieu of a standard annuity. Optional annuities decrease the monthly annuity payable during the retiree's life but provide for a beneficiary to receive a monthly benefit after the retiree's death, either for life or for a guaranteed period. The retiree may select one of three joint and survivor optional forms of payment that provide for lifetime payments to a beneficiary after the retiree's death. These options decrease the standard annuity based on age-related actuarial reduction factors. The two remaining optional forms of annuity are guaranteed-period annuities, guaranteeing a benefit to the beneficiary during the first 60 or 120 months after the retirement date if the retiree's death occurs during that period. If the beneficiary dies before the retired member, the retiree's annuity is increased to the standard annuity.

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

FIGURE 25
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) RETIREMENT ELIGIBILITY
FISCAL YEAR 2020

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

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

A summary of the TRS retirement benefits is available at www.trs.texas.gov.

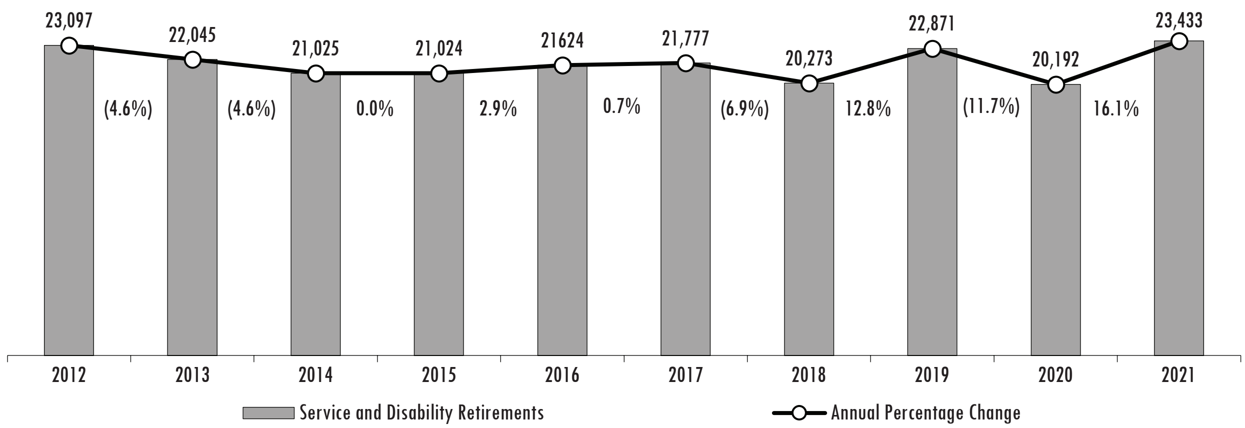
During fiscal year 2021, TRS paid pension benefits totaling $11.7 billion. According to TRS, 23,433 members retired during fiscal year 2021. The average age of members retiring during fiscal year 2021 is 62.4 years, an increase from the average of age 62.3 years during fiscal year 2020. **Figure 26** shows the annuitant profile for all retirees during fiscal years 2020 and 2021.

FIGURE 26
TEACHER RETIREMENT SYSTEM ANNUITANT PROFILE
FISCAL YEARS 2020 AND 2021

ANNUITANT PROFILE, RETIREES	2020	2021
Service and Disability Retirements	20,192	23,433
Average Age at Retirement	62.3	62.4
Average Years of Service	22.8	23.0
Ratio of Current Members to Retirees	2.8 to 1	3.1 to 1

SOURCE: Teacher Retirement System of Texas.

FIGURE 27
TEACHER RETIREMENT SYSTEM ANNUAL SERVICE AND DISABILITY RETIREMENTS AND ANNUAL PERCENTAGE CHANGE
FISCAL YEARS 2012 TO 2021



SOURCE: Teacher Retirement System of Texas.

Figure 27 shows annual TRS service and disability retirements since fiscal year 2012.

DISABILITY RETIREMENT BENEFITS

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

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

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

PROPORTIONATE RETIREMENT

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

DEATH BENEFITS FOR ACTIVE EMPLOYEES

An active member's primary beneficiary may choose one of five options in the event of the member's death. The benefits are available if the member dies during a school year in which the member has performed TRS-covered service, or if the member dies while performing qualified military service as defined by applicable federal law. The benefits also are available when a member's absence from service is due to sickness or accident, or other work absences described by law. Benefits with certain restrictions include the following payment options: (1) a lump-sum payment; (2) 60 monthly payments equal to the member's standard annuity without a decrease for early age; (3) lifetime payments; (4) an amount equal to a return on the member's contributions with accumulated interest; or (5) survivor benefits of a $2,500 lump-sum payment plus a monthly benefit.

DEATH BENEFITS FOR RETIREES

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

SIGNIFICANT LEGISLATION

The Eighty-seventh Legislature, 2021, all sessions, passed the following legislation that affects TRS retirement.

Senate Bill 7 and **House Bill 4, Second Called Session –** Senate Bill 7 provides for a onetime additional annuity for TRS retirees, referred to as the thirteenth check. House Bill 4 provides funding of $701.1 million for the initial annuity payment so that the legislation does not impact the actuarial soundness of the pension system.

Senate Bill 8, Third Called Session – The legislation provides $286.3 million in Federal Funds to offset costs incurred by TRS-Care and TRS-ActiveCare related to the COVID-19 pandemic.

The Eighty-sixth Legislature, 2019, passed the following legislation that affects TRS retirement.

Senate Bill 12 – TRS contributions and benefits. The legislation increases statutorily required contribution rates to TRS from the state, public education employers, and members for retirement benefits. It also expands the employer contribution to apply to all public education employers, including employers that participate in the federal Social Security program. Before the enactment of Senate Bill 12, only public education employers that were not participating in Social Security were required to make the contribution. Additionally, the legislation requires a onetime additional annuity payment to certain TRS annuitants equal to the lesser of the member's monthly gross annuity payment or $2,000, contingent on the Legislature appropriating to TRS additional funding to cover the cost of the payment. Senate Bill 500, Eighty-sixth Legislature, 2019, the supplemental appropriations bill, provided $589.0 million in Other Funds from the Economic Stabilization Fund in fiscal year 2019 for this purpose.

HEALTH BENEFIT PLANS

RETIREE HEALTH BENEFITS (TRS-CARE)

HISTORY

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

FUNDING

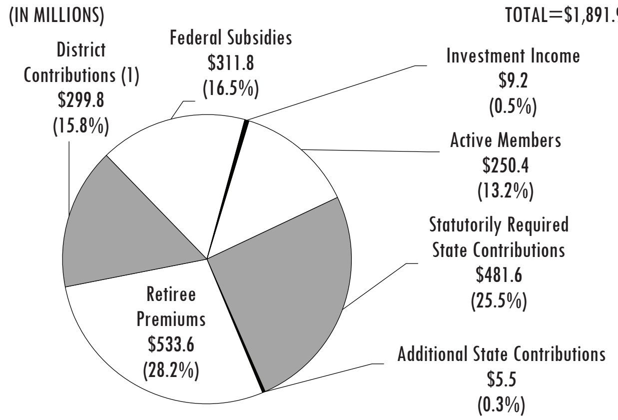
The TRS-Care program is funded by participant premiums, federal subsidies earned from Retiree Drug Subsidy payments and Medicare Part D subsidy payments, investment income, and regular payroll contributions from the state, active employees, and school districts. Unlike the prefunded retirement plan,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

Figure 28 shows the program's major funding sources for fiscal year 2021. TRS deposits funding from all sources into the TRS-Care Trust Fund, from which it pays claims for the Standard Plan, premiums for the Medicare Advantage Plan, and program administrative costs.

The TRS-Care program faces an ongoing funding gap between the revenues generated by statutorily required contributions and the cost of providing health benefits. Required contributions from the state, school districts, and active employees are based on public education payroll, which grows at a modest rate. However, program costs correspond to higher rates of healthcare and prescription drug inflation. For the 2022–23 biennium, appropriations to TRS-Care did not include any additional General Revenue Funds. By contrast, the Legislature provided an additional $236.3 million in General Revenue Funds for the 2020–21 biennium greater than statutorily required amounts to cover the difference between projected revenues and costs. This additional funding was provided to prevent an increase in member premiums or a reduction in benefits from the plan year 2019 levels. TRS-Care and TRS-ActiveCare received an additional $286.3 million in Federal Funds for the 2022–23 biennium to offset the financial impacts of the COVID-19 pandemic; this funding is provided in Senate Bill 8, Eighty-seventh Legislature, Third Called Session, 2021.

Before fiscal year 2018, TRS-Care reported a structural funding shortfall due to the recurring funding gap and additional legislative restrictions on member premiums. During several previous biennia, the GAA directed TRS not to increase retiree premiums, and statute directed TRS to provide a basic health plan at no cost to the retiree. These provisions, intended to keep retiree healthcare affordable while developing a long-term solution, reduced the program's capacity to generate the level of revenue required to fully fund benefits. House Bill 3976, Eighty-fifth Legislature, Regular Session, 2017, and the 2018–19 GAA eliminated the structural shortfall by removing the restriction on premiums and eliminating the requirement that TRS offer a basic plan at no cost to retirees. The legislation further reduced the gap between revenues and costs by modifying plan structure and benefits significantly and by providing onetime additional funding of $394.6 million in General Revenue Funds. Following these changes, the average premium per member increased by 47.0 percent in plan year 2018.

FIGURE 28
TRS-CARE FUNDING SOURCES, FISCAL YEAR 2021



NOTE: State contributions include the statutory state contribution equal to 1.25 percent of eligible active employee salaries. The 1.25 percent statutory state contribution also includes federal and other local funding sources during fiscal year 2021, which are transferred directly from public education employers to TRS without appropriation.
SOURCE: Teacher Retirement System of Texas.

FIGURE 29
TRS-CARE PARTICIPATION AS OF AUGUST 31, 2021

CATEGORY	PARTICIPANTS
Retirees	179,594
Surviving Spouses and Surviving Children	6,117
Dependents	34,120
Total Participants	**219,831**

SOURCE: Teacher Retirement System of Texas.

ELIGIBILITY

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

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

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

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

Figure 29 shows total participation in TRS-Care.

PREMIUMS AND COVERAGE

TRS-Care offers a Medicare Advantage plan and a Medicare prescription drug plan to participants eligible to enroll in Medicare, and the Standard Plan, including medical and pharmacy benefits, for participants not eligible to enroll in Medicare. TRS is permitted but not required to provide another health benefit plan to Medicare-eligible members.

Although each member's enrollment in the Standard Plan or Medicare Advantage is based on their Medicare eligibility, premium rates are determined by the Medicare eligibility of the retiree or surviving spouse and the family size. For plan year 2021, retiree-only coverage in the Standard Plan and Medicare Advantage Plan cost $200 and $135 per month, respectively. Retirees in both plans pay additional premiums for dependent coverage. Additionally, the Eighty-fifth Legislature, Regular Session, 2017, granted exemptions from premium contributions until plan year 2022 for non-Medicare disability retirees who meet certain criteria.

TRS-Care plans offer comprehensive healthcare through statewide and nationwide networks of hospitals, physicians, and other healthcare providers and pharmacies. Blue Cross Blue Shield administers TRS-Care Standard Plan medical benefits and the Medicare Advantage plan. CVS Caremark administers pharmacy benefits for Medicare and non-Medicare participants.

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

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

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

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 their eligible dependents. Members include employees of school districts, open-enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS.

FIGURE 30
TRS-ACTIVECARE PARTICIPATION AS OF AUGUST 31, 2021

CATEGORY	PARTICIPANTS
Participating Entities	1,092
Participants	
Employees	302,627
Dependents	167,752
Total Participants	**470,379**

SOURCE: Teacher Retirement System of Texas.

FUNDING

In conjunction with the legislation establishing TRS-ActiveCare, the Legislature 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. The state has no statutory obligation to appropriate additional funding to the program beyond this contribution. 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.

Minimum state and employer contributions have not changed since the program was established. According to TRS, a majority of districts contribute slightly more than the required minimum. Significant cost growth in the program without additional state subsidy has reduced the affordability of ActiveCare plans. According to TRS, increasing costs for prescription drugs, including specialty drugs, and other medical cost increases contribute significantly to plan costs. To balance costs and revenues, TRS has raised premiums and made several structural benefit changes since the program began.

ELIGIBILITY

To be eligible for TRS-ActiveCare, an individual must be employed by a participating district or entity, and either be an active contributing TRS member or be employed 10.0 or more regularly scheduled hours each week. As shown in **Figure 30**, 470,379 employees and dependents from 1,092 entities have elected to participate as of August 31, 2021. Many local school districts, particularly larger employers, provide local programs for employee healthcare benefits.

COVERAGE

As of September 1, 2021, Blue Cross Blue Shield administers TRS-ActiveCare medical benefits, and CVS Caremark manages the prescription drug benefits. TRS-ActiveCare offers a choice of three preferred provider organization (PPO) plans statewide, TRS-ActiveCare Primary, TRS-ActiveCare Plus, and TRS-ActiveCare HD.

SIGNIFICANT LEGISLATION

The Eighty-seventh Legislature, Regular Session, 2021, passed the following legislation that affects the TRS healthcare programs.

House Bill 2022 – The legislation establishes a onetime opportunity for retirees that voluntarily terminated TRS-Care coverage from January 1, 2017, to December 31, 2019, and that are eligible for Medicare, to return to TRS-Care if they apply on or before December 31, 2023. The legislation requires TRS to issue rules to implement this opportunity.

Senate Bill 1444 – The legislation amends the Texas Insurance Code to add Section 1579.1045, which prohibits TRS-ActiveCare participating entities from offering or making available alternative health plan coverage to their employees and their respective dependents, beginning on September 1, 2022. The legislation also amends Section 1579.155 to authorize all participating entities or eligible entities to leave or join TRS-ActiveCare, regardless of their size. Effective September 1, 2022, participating entities that choose to leave TRS-ActiveCare may do so by notifying TRS no later than December 31 of the year preceding the plan year in which the election to leave will be effective. Eligible entities may join TRS-ActiveCare by notifying TRS no later than December 31 of the year preceding the plan year in which their election to join will become effective. Those entities that choose to leave or join TRS-ActiveCare must commit to stay in or out of TRS-ActiveCare for a five-year period with no exceptions. The legislation requires TRS to issue rules to implement this statute.

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 the Teacher Retirement System of Texas (TRS). The plan serves as a recruitment tool to attract higher education faculty, librarians, professionals, and administrators who require interstate mobility during their careers. ORP is funded by tax-deferred contributions made by the state and the employee.

GOVERNANCE AND POLICY

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

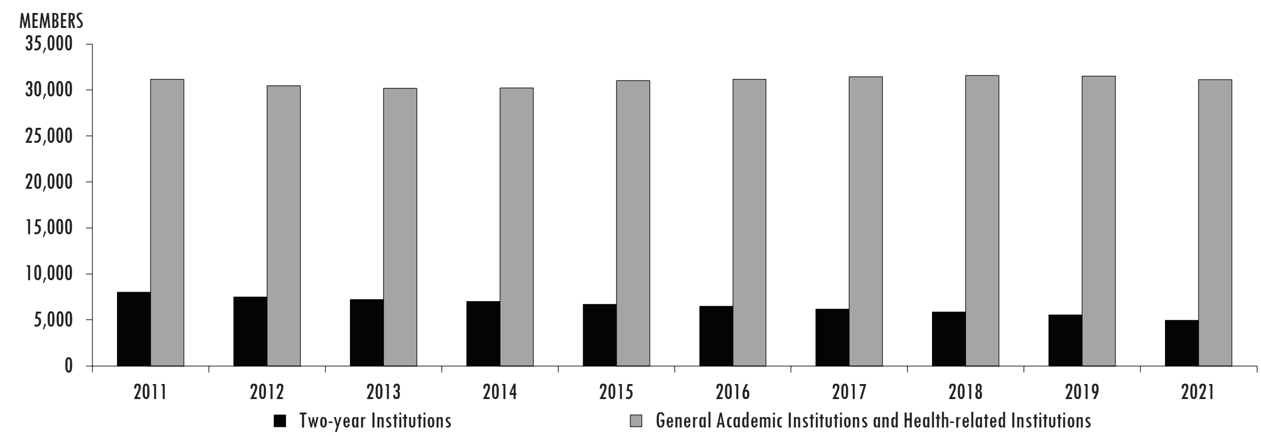
MEMBERSHIP

New 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 31** shows the past 10 years of ORP membership for two-year institutions compared to four-year general academic institutions and health-related institutions. Employees who elect ORP in lieu of TRS membership must continue to participate in ORP for the remainder of their careers in Texas public higher education. Participation in the program is limited to full-time faculty and certain administrators employed by Texas public institutions of higher education, including public community and technical colleges; the commissioners of education and higher education; and certain positions designated by law.

CONTRIBUTIONS

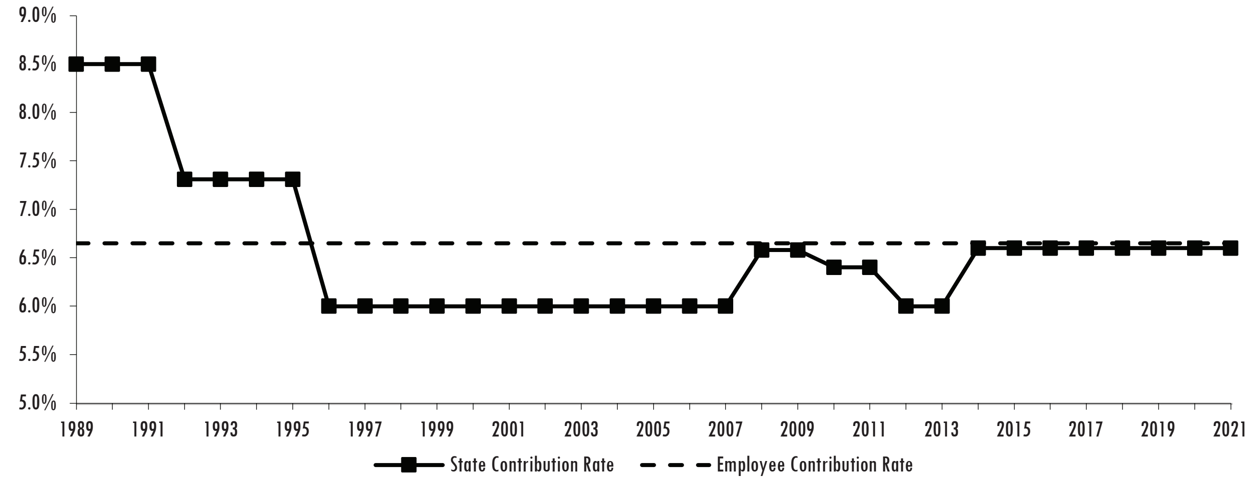
The Legislature establishes ORP member and state contribution rates each biennium. These rates may fluctuate. The ORP state contribution rate for the 2022–23 biennium is 6.6 percent, as established in the General Appropriations Act. Institutions of higher education may provide supplements to the state rate up to 8.5 percent of payroll. Member contribution amounts are based on a percentage of the employee's salary, set in statute at 6.65 percent. Members invest their accounts through the purchase of individual investment contracts. A rule known as proportionality limits the share of the state contribution that may be funded by

FIGURE 31
OPTIONAL RETIREMENT PROGRAM MEMBERSHIP FOR TWO-YEAR INSTITUTIONS COMPARED TO GENERAL ACADEMIC INSTITUTIONS AND HEALTH-RELATED INSTITUTIONS, FISCAL YEARS 2011 TO 2021



SOURCE: Texas Higher Education Coordinating Board.

FIGURE 32
OPTIONAL RETIREMENT PROGRAM STATE AND EMPLOYEE CONTRIBUTION RATES, FISCAL YEARS 1989 TO 2021



SOURCE: Texas Higher Education Coordinating Board.

General Revenue Funds. (See **Appendix C – Glossary**.) This rule 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.

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

Figure 32 shows the state and member contribution rates since fiscal year 1989.

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 enables 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 depends directly on the actual amounts contributed. Because the defined contribution plan enables participants to manage their own personal investment accounts, no state provisions are made for improvement of benefits after termination, such as a cost-of-living adjustment. Program participants purchase individual investment contracts pursuant to the U.S. Internal Revenue Code, Section 403(b), from insurance and investment companies. 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 and have at least two opportunities each year to change their selected companies. Contributions and interest earnings are not subject to federal income tax until the funds are withdrawn or paid as a retirement annuity. Funds in the ORP accounts are available at termination of participation, including the employee and employer contributions if the participant has at least one year of service. Termination of participation occurs upon retirement, death, or termination of employment in all Texas public institutions of higher education.

HIGHER EDUCATION EMPLOYEES GROUP INSURANCE

HISTORY, STRUCTURE, AND ENROLLMENT

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

State contributions for health insurance premiums for higher education employees and retirees in the three systems are appropriated through Higher Education Employees Group Insurance (HEGI). **Figure 33** shows the number of state-funded higher education enrollees, excluding dependents, in each system for fiscal years 2006 to 2020.

FUNDING AND PROPORTIONALITY

Legislative appropriations for HEGI for the 2022–23 biennium total $1,428.6 million in All Funds, an increase of $5.1 million from the 2020–21 biennium. General Revenue Funds constitute $1,423.1 million of appropriations for HEGI; the remaining $5.5 million is appropriated to the Texas A&M Forest Service out of the General Revenue–Dedicated Account No. 36, Texas Department of Insurance Operating Fund. **Figure 34** shows HEGI appropriations by type of institution for the 2022–23 biennium.

The 2022–23 biennial appropriations for HEGI are calculated by multiplying the number of eligible enrollees by premium contribution rates and applying an annual growth rate to the total. HEGI premium contribution rates vary by insuring system and type of institution. The 2022–23 biennial premium contributions for general state employees covered by ERS are funded at 100.0 percent of the ERS premium rates, 78.2 percent of the ERS rate for the UT and TAMU systems, 78.6 percent of the ERS rate for other higher education institutions, and 50.0 percent of the ERS rate for employees of public community colleges.

Appropriations to institutions other than community colleges provide state contributions to health insurance premiums in a manner prescribed by proportional cost-sharing requirements. As such, institutions are required to cover all health benefit costs for employees whose salaries are paid from sources other than the General Revenue Fund.

The number of employees at an institution enrolled in each health insurance program as of December 1, 2020, determines its 2022–23 biennial appropriation from the General Revenue Fund. State contributions are capped at the institution's sum-certain, line-item appropriation (see **Appendix C – Glossary**). The institution must pay for any additional costs using other appropriated or local funds. However, the General Appropriations Act (GAA) authorizes ERS, the UT System, and the TAMU System to transfer HEGI appropriations among institutions within their group insurance programs to address each institution's needs.

State contributions to group health insurance for community colleges cover costs associated with instructional or administrative employees whose salaries may be paid fully from funds appropriated in the GAA, regardless of whether such salaries are paid from appropriated funds. The number of employees eligible to receive HEGI contributions may not be adjusted in a proportion greater than the change in student enrollment. However, an institution whose student

FIGURE 33
STATE-FUNDED HIGHER EDUCATION ENROLLEES IN HIGHER EDUCATION EMPLOYEES GROUP INSURANCE
FISCAL YEARS 2006 TO 2020, BIENNIALLY

SYSTEM	2006	2008	2010	2012	2014	2016	2018	2020
Employees Retirement System of Texas	56,980	60,714	64,271	63,033	62,589	63,902	66,446	68,055
University of Texas System	32,255	34,296	35,325	31,503	32,129	33,663	32,776	32,207
Texas A&M University System	15,532	16,064	16,980	15,219	16,354	17,184	17,619	17,632
Total	**104,767**	**111,074**	**116,576**	**109,755**	**111,072**	**114,749**	**116,841**	**117,894**

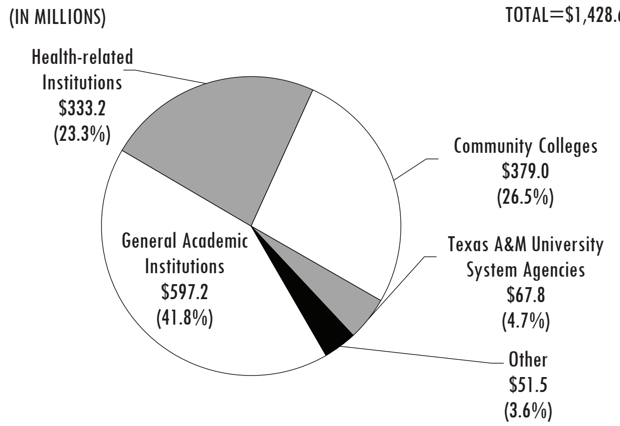
Source: Legislative Budget Board.

enrollment has decreased may petition the Legislative Budget Board to maintain the number of eligible employees up to 98.0 percent of those in the previous biennium. Employee hold-harmless levels are based on the decrease in enrollment, represented by contact hours, at each institution; levels of this hold harmless amount are shown in **Figure 35**.

PLAN BENEFITS

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

FIGURE 34
HIGHER EDUCATION EMPLOYEES GROUP INSURANCE APPROPRIATIONS BY TYPE OF INSTITUTION 2022–23 BIENNIUM



SOURCE: Legislative Budget Board.

FIGURE 35
COMMUNITY COLLEGE STEPPED EMPLOYEE HOLD HARMLESS LEVELS 2022–23 BIENNIUM

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

SOURCE: Legislative Budget Board.

SOCIAL SECURITY AND BENEFIT REPLACEMENT PAY

HISTORY AND POLICY

The Comptroller of Public Accounts (CPA) is responsible for the payment of state and employee Social Security taxes to the federal government. The Texas Legislature appropriates payroll tax contributions for Social Security to CPA. The employer payroll tax contribution for the Social Security program is 6.2 percent, and the employer payroll tax for Medicare is 1.45 percent. Employees pay the same percentages as employers for both Social Security and Medicare. The U.S. Internal Revenue Code, sections 1401, 3101, and 3111, sets these rates. The Social Security wage base, which is the amount of wages subject to the 6.2 percent tax, increased from $127,200 for calendar year 2017 to $147,000 for calendar year 2022. Since calendar year 1993, Medicare-taxable earnings have no limit.

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

STATE FUNDING

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

Increases in Social Security appropriations are related primarily to payroll growth and full-time-equivalent position changes at certain state agencies and institutions of higher education. Decreased appropriations for BRP contributions represent the attrition of state employees hired before September 1, 1995. See **Appendix A – Appropriations** for actual appropriations amounts.

APPENDIX A – APPROPRIATIONS

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

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

State contributions for health benefits to TRS-Care and the ERS Group Benefits Program for state employees and community supervision and corrections department employees also are estimated. ERS-funded amounts and expenditures vary based on membership in the Group Benefits Program. TRS reconciles amounts with the state at the end of the year for TRS-Care to balance contribution levels based on actual payroll amounts. State contributions to Higher Education Employees Group Insurance are sum-certain appropriations. TRS-ActiveCare receives no direct state appropriations; state contributions are appropriated through the Foundation School Program formula structure.

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

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

FIGURE A–1
EMPLOYEE BENEFITS APPROPRIATIONS, ALL FUNDS, FISCAL YEARS 2019 TO 2023

(IN MILLIONS)

BENEFIT	2019	2020	PERCENTAGE CHANGE	2021	PERCENTAGE CHANGE	2022	PERCENTAGE CHANGE	2023	PERCENTAGE CHANGE
ERS	$655.2	$675.4	3.1%	$677.7	0.4%	$694.1	2.4%	$696.7	0.4%
ERS Legacy Payments				$1,020.0					
LECOS	$8.4	$8.4	0.2%	$8.7	3.1%	$9.7	11.6%	$9.7	0.0%
JRS I	$21.5	$20.0	(6.8%)	$19.5	(2.7%)	$19.5	(0.0%)	$19.5	(0.0%)
JRS II	$13.1	$14.2	8.6%	$14.2	0.2%	$14.2	0.0%	$14.2	0.0%
TRS – Public Education	$1,742.1	$2,004.8	15.1%	$2,064.9	3.0%	$2,183.3	5.7%	$2,306.1	5.6%
TRS – Higher Education	$220.0	$243.5	10.7%	$250.5	2.9%	$261.3	4.3%	$272.2	4.2%
TRS – Additional Payment	$589.0					$701.1			
ORP	$173.1	$179.3	3.6%	$181.7	1.4%	$184.3	1.4%	$186.9	1.4%
Retirement Subtotal	**$3,422.4**	**$3,145.5**	**(8.1%)**	**$4,237.3**	**34.7%**	**$4,067.5**	**(4.0%)**	**$3,505.3**	**(13.8%)**

FIGURE A–1 (CONTINUED)
EMPLOYEE BENEFITS APPROPRIATIONS, ALL FUNDS, FISCAL YEARS 2019 TO 2023

(IN MILLIONS)

BENEFIT	2019	2020	PERCENTAGE CHANGE	2021	PERCENTAGE CHANGE	2022	PERCENTAGE CHANGE	2023	PERCENTAGE CHANGE
ERS Death Benefits									
Public Safety Death Benefits	$9.8	$14.9	51.4%	$13.8	(7.4%)	$13.8	0.0%	$13.8	0.0%
Retiree Death Benefits	$9.8	$15.0	53.0%	$13.8	(8.6%)	$13.8	0.0%	$13.8	0.0%
Death Benefits Subtotal	**$19.7**	**$29.9**	**52.2%**	**$27.5**	**(8.0%)**	**$27.5**	**0.0%**	**$27.5**	**0.0%**
Health Insurance									
ERS – Health – State Employees	$1,922.1	$1,943.0	1.1%	$1,972.3	1.5%	$2,025.4	2.7%	$2,057.9	1.6%
ERS – Health –CSCD	$69.8	$71.0	1.7%	$72.3	1.7%	$72.3	0.0%	$72.3	0.0%
HEGI – ERS	$368.6	$361.1	(2.0%)	$361.1	0.0%	$369.1	2.2%	$369.1	0.0%
HEGI – UT System	$231.9	$223.5	(3.6%)	$223.5	0.0%	$221.8	(0.8%)	$221.8	0.0%
HEGI – TAMU System	$121.4	$124.4	2.5%	$124.4	0.0%	$123.4	(0.8%)	$123.4	0.0%
TRS – Care	$404.9	$424.8	4.9%	$433.3	2.0%	$444.3	2.6%	$453.2	2.0%
TRS – Retiree Health Supplemental		$233.0	100.0%	$3.3	(98.6%)				
Insurance Subtotal	**$3,118.7**	**$3,380.8**	**8.4%**	**$3,190.2**	**(5.6%)**	**$3,256.3**	**2.1%**	**$3,297.7**	**1.3%**
Social Security/ Benefit Replacement Pay									
Social Security	$871.2	$904.3	3.8%	$916.4	1.3%	$939.9	2.6%	$950.1	1.1%
Benefit Replacement Pay	$10.0	$7.9	(20.7%)	$6.6	(17.2%)	$5.4	(17.2%)	$4.5	(17.2%)
Social Security/ Benefit Replacement Pay Subtotal	**$881.2**	**$912.2**	**3.5%**	**$923.0**	**1.2%**	**$945.3**	**2.4%**	**$954.6**	**1.0%**
Total	**$7,442.0**	**$7,468.5**	**0.4%**	**$8,378.0**	**12.2%**	**$8,296.6**	**(1.0%)**	**$7,785.0**	**(6.2%)**

NOTES:
(1) Totals may not sum due to rounding.
(2) ERS=Employees Retirement System of Texas; LECOS=Law Enforcement and Custodial Officer Supplemental Retirement Program; JRS I= Judicial Retirement System Plan I; JRS II= Judicial Retirement System Plan II; TRS=Teacher Retirement System of Texas; ORP=Optional Retirement Program; CSCD=community supervision and corrections departments; HEGI=Higher Education Employees Group Insurance; UT=University of Texas System; TAMU=Texas A&M University System.
SOURCE: Legislative Budget Board.

APPENDIX B – CONTRIBUTION RATES

FIGURE B–1
CONTRIBUTION RATES AND LEGAL AUTHORITY, 2022–23 BIENNIUM

	CONTRIBUTION RATE (BASED ON PERCENTAGE OF ACTIVE MEMBER PAYROLL, OR SET AMOUNT AS NOTED)			AUTHORITY		
SYSTEM	STATE/ EMPLOYER	ACTIVE EMPLOYEES	OTHER	CONSTITUTION (1)	STATUTE	GAA
Retirement						
ERS, hired before Sept. 1, 2022	9.5%	9.5%	Agency contribution, 0.5% of payroll	Article XVI, §67(b)(3)	The Texas Government Code: State – §815.403(a)(1); Employee – §815.402(a)(1) (2) and (3); Agency – §815.4035	Article I, ERS, Rider 4; Article IX, §17.06
ERS, hired on or after Sept. 1, 2022 (2)	9.5%	6.0%	Agency contribution, 0.5% of payroll	Article XVI, §67(b)(3)	The Texas Government Code: State – §815.403(a)(1); Employee – §820.101; Agency – §815.4035	Article IX, §17.06
LECOS (2)	0.5%	0.5%	Court fees totaling $15.0 million, approximately 0.95% of payroll	N/A	The Texas Government Code, §815.317, §815.402	Article I, ERS, Rider 5
JRS I	Pay-as-you-go	9.5%	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §835.102; Employee – §835.101	N/A
JRS II	15.663%	9.39% (3)	N/A	Article XVI, §67(d)(1)	The Texas Government Code: State – §840.103; Employee – §840.102	Article I, ERS, Rider 6
TRS	7.75% for 2022 and 8% for 2023 (4)	8%	Additional 1.7% for 2022 and 1.8% for 2023	Article XVI, §67(b)(3)	The Texas Government Code: State – §825.404(a); Employee – §825.402; District – §825.4035	Article III, TRS, Rider 4
ORP	6.6% (4)	6.65%	Employer, optional addition up to 1.9% (5)	N/A	The Texas Government Code, §830.201	Article III, ORP, Riders 2 and 3

FIGURE B–1 (CONTINUED)
CONTRIBUTION RATES AND LEGAL AUTHORITY, 2022–23 BIENNIUM

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

FIGURE B–1 (CONTINUED)
CONTRIBUTION RATES AND LEGAL AUTHORITY, 2022–23 BIENNIUM

NOTES:
(1) The Texas Constitution requires a state contribution ranging from 6.0 percent to 10.0 percent for participants in the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), and an employee contribution of at least 6.0 percent.

(2) ERS members hired on or after September 1, 2022, contribute 6.0 percent. Effective that hiring date, ERS members who also are members of LECOS contribute 6.0 percent toward the ERS system and 2.0 percent toward the LECOS system.

(3) The Texas Government Code, Section 840.102, specifies a Judicial Retirement System Plan II (JRS II) member contribution rate of 9.5 percent. The effective member contribution rate represented is 9.39 percent, as some active members elect to cease contributions. The effective member contribution rate is the rate used in actuarial valuations of the system.

(4) State contributions to TRS and Optional Retirement Program (ORP) retirement for public community and junior colleges are limited to 50.0 percent of the creditable compensation of members whose duties are instructional or administrative. Contributions are limited further based on the growth of each college's staff size in proportion to changes in student enrollment.

(5) State law requires a state contribution to ORP of 8.5 percent. The General Appropriations Act sets the state rate at 6.6 percent, with an option for institutions or agencies to use local funds or other sources to supplement up to 1.9 percent.

(6) For the 2022–23 biennium, institutions of higher education, excluding institutions in the University of Texas (UT) and Texas A&M University (TAMU) systems and community colleges, receive state funding at 78.6 percent of ERS premium rates. Community college districts receive state funding at 50.0 percent of ERS premium rates.

(7) For the 2022–23 biennium, UT System and TAMU System institutions receive state funding at 78.2 percent of ERS premium rates.

SOURCE: Legislative Budget Board.

APPENDIX C – GLOSSARY

ACTUARIAL ACCRUED LIABILITIES

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

ACTUARIAL SOUNDNESS

A public retirement system is considered actuarially sound if an actuary determines that the fund has adequate contributions to pay ongoing normal costs and amortize the unfunded actuarial accrued liability (UAAL) during a reasonable period, called the funding period. Texas Pension Review Board guidelines recommend that the funding period should not exceed 30 years and preferably should be within 10 years to 25 years. The Government Finance Officers Association recommends that the funding period should not exceed 25 years, and ideally should range from 15 years to 20 years. The Texas Government Code provides additional direction for the Employees Retirement System of Texas and Teacher Retirement System of Texas and prohibits certain changes in the benefit plans and funding of each retirement system if the change would cause the period necessary to amortize unfunded actuarial liabilities to exceed 30 years.

ANNUALLY REQUIRED CONTRIBUTION

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

DEFINED BENEFITS

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

DEFINED CONTRIBUTIONS

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

FUNDING PERIOD

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

FUNDED RATIO

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

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. The normal cost is separate from the contribution amount required to amortize the unfunded liability.

OCCUPATIONAL DISABILITY

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

PROPORTIONALITY

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

SMOOTHING

The smoothed value of assets phases in investment gains and losses during a period to reduce the effects of short-term marketplace volatility on the calculation of the 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 a maximum limit on the amount of deferred gains and losses included in the actuarial value of assets.

SUM-CERTAIN FUNDING

A funding mechanism setting the state's contribution for Higher Education Employees Group Insurance at a certain, nonestimated appropriation. Institutions must pay for any incurred costs greater than these amounts.

UNFUNDED ACTUARIAL ACCRUED LIABILITY

The difference between the actuarial accrued liability and valuation of assets. The unfunded actuarial accrued liability sometimes is referred to as unfunded accrued liability.