

# TEACHER RETIREMENT SYSTEM OF TEXAS

Actuarial Valuation Report

As of August 31, 2023





November 21, 2023

Board of Trustees  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, TX 78701-2698

**Subject: Actuary's Certification of the Actuarial Valuation as of August 31, 2023**

We certify that the information included herein and contained in the 2023 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) Pension Fund (Fund) as of August 31, 2023. This report was prepared at the request of the Board of Trustees (Board) and is intended for use by the TRS staff and those designated or approved by the Board. This report may be provided to parties other than TRS staff only in its entirety and only with the permission of the Board.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented comply with the requirements of the Texas statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Mr. Newton is an Enrolled Actuary, a member of the American Academy of Actuaries and is qualified to give a Statement of Opinion. All are experienced in performing valuations for large public retirement systems.

**ACTUARIAL VALUATIONS**

The primary purpose of the valuation report is to determine the adequacy of the statutory contribution rates through measuring the resulting funding period, to describe the current financial condition of the Fund, and to analyze changes in the Fund's condition. In addition, the report provides various summaries of the data. This report may not be appropriate for other purposes. The information required by the Fund in connection with Governmental Accounting Standards Board Statement No. 67 (GASB No. 67) will be provided under separate cover. Valuations are prepared annually, as of August 31 of each year, the last day of the Fund's plan and fiscal year.

**FINANCING OBJECTIVE OF THE PLAN**

The employee, employer, and State contribution rates are established by State law that, over time, are intended to remain level as a percent of payroll and provide assets to cover benefits when due. The

assessment of the current contribution rates performed in this actuarial valuation are intended to ensure they provide for the normal cost plus fully amortizing the unfunded actuarial accrued liability (UAAL) over a reasonable time.

The 2019 Legislature increased contribution rates for the State, employers, and the members in a phased-in schedule that will end in Fiscal Year 2025. The State's base rate of 8.00% in Fiscal Year 2023 will become 8.25% by Fiscal Year 2024. In addition, covered public education employers contributed 1.80% of salary (capped at the minimum salary schedule) in Fiscal Year 2023 and this will increase to 1.90% in Fiscal Year 2024 and 2.00% in Fiscal Year 2025. These employer contributions are assumed to be approximately 1.21% of total payroll at the end of the phase-in. Combined, these contributions are ultimately assumed to approximate 9.46% of total payroll. Over the same period, the member contribution rate has increased from 7.70% to the current 8.00% and will increase to 8.25% in Fiscal Year 2024. In addition to these contributions, there are contributions made on behalf of members who are receiving a pension but who have also returned to work. These contributions are assumed to be approximately 0.08% of total payroll. As a result, for Fiscal Year 2025 and thereafter, the Fund is expected to receive a total contribution rate of 17.79% of pay. All funding calculations in this report assume the rate will remain at that level thereafter.

In 2019, the Board adopted a funding policy per Texas Government Code Sec. 802.2011. In it, the Board states that a *"declining UAAL over time will be evidence that contribution and benefit policies are being implemented consistent with Tex. Gov't Code § 802.2011."* In addition, *"after the phase-in of contributions in SB 12, if at any time the annual valuation of TRS does not project the UAAL to begin to decline in the next 5 years, the LAR request for TRS will include an increase in contribution rates so that the UAAL would be projected to begin to decline the year following the legislative session."* Thus, this valuation is also assessing whether the UAAL is decreasing, or if it is not decreasing, how soon before it is expected to begin to do so.

#### **PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVE**

Based on this actuarial valuation as of August 31, 2023, the Fund's UAAL has increased to \$57.9 billion compared to \$51.7 billion as of August 31, 2022. The primary reason for the increase was continued recognition of the investment performance for Fiscal Year 2022 which produced a loss on the actuarial value of assets of \$3.7 billion. In addition, there was an approximate \$2 billion loss on the liability side associated with higher-than-expected salary increases for continuing active employees, which appear to be primarily driven from federal grants and recent inflation.

The total contribution rate pattern discussed above is sufficient to pay this normal cost and amortize the current UAAL of the Fund over a period of 29 years based on the smoothed asset value as of the valuation date. Therefore, the financing objectives of the Statute are expected to be met (assuming all assumptions are realized).

However, based on the contribution schedule established in 2019, the UAAL was anticipated to grow in nominal dollars through 2028 before beginning to decline annually after that. As of 2023, the UAAL is \$3.7 billion greater than originally projected in the 2019 Legislative impact statement for SB12 and is currently expected to peak in 2031. This difference is mainly due to the change in the assumed investment return in 2021, but also due to the cumulative impact of other adverse experience, notably salary increases being higher than expected. Thus, at this time the UAAL is not expected to begin to decrease in the next five years. Per the Board's policy, a contribution rate increase of 0.93% of payroll is necessary beginning in Fiscal Year 2025 for the UAAL to be expected to begin decreasing. Alternatively, a legacy payment structure, similar to the one passed in HB 600 in the 88<sup>th</sup> Legislative Session, would also be expected to move the UAAL towards full amortization, although it would take longer than five years before the UAAL would begin to decline.

The actuarial valuation report as of August 31, 2023 reveals that the funded ratio (the ratio of actuarial assets to actuarial accrued liability) is 77.5%, decreasing from 79.0% last year. The funded status is one of many metrics used to show trends and develop future expectations about the health of the Fund. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

Please note these expectations are based on the current benefit provisions, assumptions, contribution rates and a level active population. Any additional benefit enhancements (ad hoc Cost of Living Adjustments or "COLAs") granted without additional funding would increase the ultimate UAAL and extend the funding period before the funding status begins to improve. Thus, we continue to advise against any future benefit enhancements without additional sources of funding that cover the cost of the enhancement.

#### **PLAN PROVISIONS**

The plan provisions used in the actuarial valuation are described in Appendix 1 of the valuation report. Except as noted below, there have been no changes to the ongoing benefit provisions of the Fund since the prior valuation.

The 88<sup>th</sup> Texas Legislature (2023) passed two benefit enhancements for retired public education employees. The first was a one-time stipend to be paid in the fall of 2023. The legislation also provided for a one-time contribution expected to equal to the total amount of the stipend. The second enhancement is an ad hoc COLA which would permanently increase the benefits of certain retirees. However, this benefit increase was contingent upon an amendment to the Texas Constitution. The election for this amendment took place in November of 2023. With the passage of the constitutional amendment, the COLA will now be paid to the retirees but an additional contribution equal to the present value of the COLA will be made from the State's general fund in Fiscal Year 2024. Since both benefit enhancements and the one-time contributions to pay for them will occur after the valuation date (and because the one-time contributions offset the additional

liabilities of the benefit increases), they are not reflected in the valuation results and are not expected to impact future results.

#### **DISCLOSURE OF PENSION INFORMATION**

Beginning with Fiscal Year 2014, the Fund began reporting financial information in accordance with GASB Statement No. 67. The disclosure information for GASB No. 67 is provided in a separate report and is not contained herein.

This report should not be relied on for any purpose other than the purpose described above. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

#### **ACTUARIAL METHODS AND ASSUMPTIONS**

The actuarial methods and assumptions have been selected by the Board based upon our analysis and recommendations. These assumptions and methods are detailed in Appendix 2 of this valuation report. The Board has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are primarily based on a study of actual experience for the period ending August 31, 2021 and adopted on July 15, 2022. The most notable change was a reduction in the assumed invested return from 7.25% to 7.00%. Please see our experience study report dated July 15, 2022 for more information on the rationale for the current assumptions. In our opinion, the actuarial assumptions and methods used in this funding valuation meet the parameters set by the Actuarial Standards of Practice (ASOP) issued by the Actuarial Standards Board (ASB) for such purposes.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. To illustrate this point, on page 9 of this report we have shown illustrative results based on future investment experience deviating from the assumptions. Based on the scope of this engagement, we have not performed analysis on the potential range of future measurements based on other factors. The actuarial calculations are intended to provide information for rational decision making.

In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are internally consistent and reasonably related to the experience of the Fund and to reasonable expectations.

This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

## Data

Member data for retired, active and inactive members was supplied as of August 31, 2023 by the TRS staff. The staff also supplied asset information as of August 31, 2023. While GRS did not audit this data, we did apply a number of tests to the data and concluded that it was reasonable and consistent with the prior year's data. It is also our understanding that TRS' auditor has attested to this information. GRS is not responsible for the accuracy or completeness of the information provided to us by TRS.

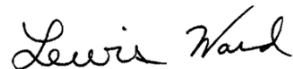
The following schedules in the Actuarial Section of the TRS Annual Comprehensive Financial Report were prepared by GRS:

- Actuarial Present Value of Future Benefits
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Schedule of Funding Progress
- Post-Retirement Mortality
- Rates of Retirement
- Probability of Decrement due to Withdrawal
- Active Mortality

All other schedules shown in the actuarial section were prepared by TRS staff based upon our work. For further information please see the full actuarial valuation report.

This document and the PowerPoint presentation of the actuarial valuation results presented to the TRS Board in December 2023 comprise the full actuarial report.

Respectfully submitted,  
**Gabriel, Roeder, Smith & Company**



Lewis Ward  
Consultant



Joseph P. Newton, FSA, EA, MAAA  
Pension Market Leader and Actuary

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**SECTION A**

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**DISCUSSION**



## Executive Summary

The actuarial valuation of the TRS as of August 31, 2023 indicates that the Fund’s UAAL has increased from \$51.7 billion in 2022 to \$57.9 billion in 2023. This compares to an expected increase to \$52.5 billion in last year’s report. The primary drivers were recognition of investment shortfalls from fiscal year 2022 and larger than expected salary increases across the active population, which may be from federal grants associated with COVID relief programs or from employers having to raise salaries to keep employees in light of the high inflation. As a result, the UAAL is now expected to be fully amortized in 2052, or 29 years from the valuation date. The key results of this valuation as of August 31, 2023 may be summarized as follows.

Item	2023	2022
Membership		
• Number of		
- Active members <sup>1</sup>	953,295	928,418
- Service retirees	457,779	444,557
- Disabled retirees	11,933	11,907
- Beneficiaries	20,209	19,488
- Inactive, vested	134,100	124,957
- Inactive, nonvested	<u>424,658</u>	<u>419,580</u>
- Total	2,001,974	1,948,907
• Projected Payroll for Contributions	\$ 57.8 billion	\$ 54.2 billion
Statutory contribution rates for following fiscal year		
• Combined State/Employers <sup>2</sup>	9.40%	9.12%
• Member	8.25%	8.00%
Actuarial Information		
• Normal cost %	12.10%	12.09%
• Unfunded actuarial accrued liability (UAAL)	\$ 57.9 billion	\$ 51.7 billion
• UAAL as % of pay	100.2%	95.3%
• Funded ratio	77.5%	79.0%
• Funding period (years)	29	26
• Statutory Actuarially Determined Employer Contribution (ADEC) <sup>3,4</sup>	9.40%	9.47%
• Reasonable Actuarially Determined Contribution (ADC) per ASOP 4 <sup>3,5</sup>	10.39%	NA

1 Includes members in Deferred Retirement Option Plan (DROP).

2 For Fiscal Year 2024, in addition to the 8.25% statutory payroll contribution rate for the State/Employers, public education employers will contribute 1.90% of the minimum salary schedule. Combined, it is expected that these contributions will be approximately 9.40% of total payroll. Not included in the 9.40%, the Fund also receives contributions on behalf of retired members who have returned to work which yields an approximate additional 0.08%.

3 Aggregate contribution rate for State and local employers.

4 Based on a the lesser of the current funding period or 30 years.

5 Based on the lesser of the current funding period or the minimum contribution rate expected to produce positive amortization beginning the fiscal year after the next legislative session.



## Executive Summary (Continued)

Item	2023	2022
<b>Assets</b>		
• Market value	\$ 187.2 billion	\$ 184.2 billion
• Actuarial value	199.7 billion	193.9 billion
• Estimated yield on market value	3.8%	(6.7)%
• Estimated yield on actuarial value	5.1%	5.7%
• Ratio of actuarial to market value	106.7%	105.3%
• Employee contributions, including service purchases	\$ 4,546 million	\$ 4,265 million
• State contributions	2,316 million	2,890 million
• Employer contributions	2,860 million	2,504 million
• Benefit, refund, and expense payments	14,818 million	14,206 million
• Net external cash flow	(5,095) million	(4,547) million
<b>Items impacting the change in the UAAL</b>		
• Asset experience	\$ (3,731) million	\$ (2,431) million
• Assumption changes/Legislative changes	0 million	600 million
• Liability experience	<u>(1,691) million</u>	<u>(1,352) million</u>
• Total	\$ (5,422) million	\$ (3,183) million
<b>Actuarial Information based on Market Value of Assets</b>		
• Unfunded actuarial accrued liability (UAAL)	\$ 70.4 billion	\$ 61.4 billion
• UAAL as % of pay	121.8%	113.2%
• Funded ratio	72.7%	75.0%

Item	UAAL (\$ Millions)	Funding Period
(1)	(2)	(3)
1. 2022 Valuation	\$51,652	26
2. Restated 2022 Valuation with legislative changes *	\$51,652	26
3. Expected 2023 UAAL**	\$52,465	25
4. 2023 UAAL using expected assets and actual liabilities	\$54,156	27
5. 2023 UAAL using actual assets and liabilities, expected payroll	\$57,880	30
6. 2023 UAAL using actual payroll	\$57,880	29

\* There were no legislative changes reflected since the previous valuation.

\*\* The funding period for this entry uses the expected UAAL and expected payroll.

Expected payroll is the prior year's valuation payroll, increased by the previous 2.9% payroll growth rate.



## Introduction

The valuation of TRS as of August 31, 2023, reflects the following contribution rates for Fiscal Year 2024: (a) a member contribution rate of 8.25%, and (b) a State/Employer combined contribution rate approximating 9.40%, and (c) an additional amount on behalf of rehired retirees that equates to approximately 0.08% of payroll. The amounts are projected to increase based on the following schedule (FY23 amounts shown are actual):

Fiscal Year	State/ Employer Rate	Public Education Surcharge	Effective Employer Rate*	Member Rate	Rehired Retirees	Total Blended Contribution Rate as a % of Total Payroll
2023	8.00%	1.80%	9.09%	8.00%	0.08%	17.42%
2024	8.25%	1.90%	9.40%	8.25%	0.08%	17.73%
2025	8.25%	2.00%	9.46%	8.25%	0.08%	17.79%

\* It is assumed that 60.4% of total payroll will be eligible for the Public Education Surcharge. This is based on the actual proportion from Fiscal Year 2023. Please see Table 3b from more detail on this estimate.

For purposes of determining the funding period, it was assumed that the Fiscal Year 2025 contribution rates (both member and State/employer) would remain in place indefinitely.

In preparing this valuation, GRS has relied on employee data and asset information provided by the TRS staff. While not verifying the data at their source, GRS has performed such tests for consistency and reasonableness as has been deemed necessary to be satisfied with the appropriateness of using the data supplied.

Section A contains an executive summary of the most significant valuation results. The basic results of the valuation are covered on pages 5 – 6. Page 9 discusses the sensitivity of the funded status to future investment performance. Page 12 provides analysis and discussion of changes in assets. Page 13 summarizes the findings of the valuation while Section B provides the tables supporting the report.

There have been no changes in the ongoing benefit provisions since the prior valuation. As previously noted, there was legislation passed by the 88<sup>th</sup> Texas Legislature that impacts the benefits of current retirees. However, due to the timing (after the valuation date) and conditionality of some of the benefit increases (as well as the fact that the increases will be offset by equally valuable additional contributions) they have not been reflected in this valuation. Please see Appendix 1 of this report for a summary of the major benefit provisions of the Fund.

As noted previously, the actuarial assumptions have not changed since the prior report. The current assumptions were adopted in conjunction with an experience study for the period ending August 31, 2021. The actuarial assumptions were adopted by the Board on July 15, 2022. For a detailed description of the actuarial assumptions and methods please see Appendix 2 of this report.



## Funded Status of the TRS Pension Fund

Table 2 provides an overall summary of key actuarial data for the 2023 valuation, with comparative data for 2022. This information is summarized from the other tables, which supply more detail. This provides in one convenient place key comparative valuation results.

Table 3a details the normal cost of the Fund by its various components. This normal cost is developed based on the valuation method known as the entry-age-normal actuarial cost method. The normal cost to pay for the benefits earned under the Fund is 12.10% of pay. This amount includes employee contributions and an adjustment to cover annual administrative expenses. It is estimated that administrative expense will be approximately 0.14% of payroll. This estimate is based on the last three years of actual history for TRS. Thus, for Fiscal Year 2024 the total normal cost is 12.24% of pay and the net employer normal cost is 3.99% of pay based on the Fiscal Year 2024 member contribution rate of 8.25%.

The funding period is defined as the expected number of years until the UAAL is anticipated to be completely eliminated. This value takes into account all currently known information, including current assumptions, current funding policies, and any anticipated changes to normal cost based on the benefits for future members. This funding period for the Fund is determined under the entry-age-normal actuarial cost method based on a level percentage of pay. The key points of this method are as follows:

1. The "normal cost" for the Fund is deemed to be equal to the average cost of benefits for active members at each valuation date.
2. The "actuarial accrued liability" for benefits payable in the future to present active members is calculated as the present value of benefits payable in the future to present active members less the present value of future normal costs.
3. Funding of the unfunded actuarial accrued liability (UAAL) is a function of the rate of future growth in total covered payroll, the contributions established in state statute, and the trend in the normal cost over time.

Table 5 develops the funding period under the above approach not only for the current valuation, but also for the valuation as of August 31, 2022. From an actuarial perspective, the contribution rate in excess of the Fund's normal cost should be sufficient to amortize the UAAL over a reasonable period of time. Based on the future increases in the member and employer contribution rates, the contributions in excess of the Fund's normal cost is sufficient to amortize the Fund's UAAL over a period of 29 years (assuming all actuarial assumptions are exactly met).

Due to the current statutory funding policy which utilizes level percentage of payroll amortization, the amortization payments will not be sufficient to completely cover the interest charges on the UAAL until the funding period reaches approximately 21 years. Table 5b provides a projection of the UAAL financing which shows the UAAL is expected to increase slightly to \$61.1 billion in 2031 before beginning to decline. The projection shows the UAAL is expected to be fully amortized 21 years after that in 2052 (assuming all assumptions are exactly met including a 7.00% annual return on assets).



## Funded Status of the TRS Pension Fund (Continued)

While statutorily 29 years is considered a reasonable period, the Fund will be in a period of negative amortization (the UAAL will actually increase) for several years when the funding period is this long. The Board's funding policy and industry best practices would encourage contributions that begin to amortize the UAAL sooner and we agree with these practices. Per the Board's policy, a contribution rate increase of 0.93% of payroll is necessary beginning in Fiscal Year 2025 in order to begin decreasing the UAAL. The amortization structure per the Board's Policy would meet the requirements for a Reasonable Actuarially Determined Contribution (ADC) under the Actuarial Standards of Practice (ASOP) No. 4. Alternatively, a legacy payment structure, similar to the one passed in HB 600 in the 88<sup>th</sup> Legislative Session (2023), would also be expected to move the UAAL towards full amortization. This structure would also meet the requirements of an ADC in the ASOP's.

In determining the number of years that will be required to amortize the UAAL, an assumption is made concerning future growth of the payroll of the Fund. Our current assumption is 2.90% per year. There is no provision for membership growth in the payroll growth assumption.

As shown in Item B6 of Table 5 and using the assumed rate of increase in covered payroll of 2.9%, the period to fund the UAAL is 29 years. The funding periods using alternative payroll growth assumptions are also shown and range from 25 years if payroll grows at a similar rate to the last 20 years, and 33 years if payroll only grows with inflation.

Table 10 traces the changes in the UAAL and the funding period from the valuation as of August 31, 2022, to August 31, 2023. Item 3 of Table 10 shows the funding status if there had been no actuarial gains or losses in the areas of assets, liabilities, and reflecting the actual State contributions for the 2022/2023 plan year. The UAAL would have increased during the year to \$52.5 billion. Item 4 of Table 10 illustrates that the overall liability loss was meaningful and increased the UAAL to \$54.2 billion. Item 5 shows that the current year's investment experience increased the UAAL to \$57.9 billion. Item 6 shows the impact on the funding period of the covered compensation growing at a faster rate than assumed.



# Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

The determination of the accrued liability and an actuarially determined contribution (or funding period) requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and an actuarially determined contribution (or funding period) that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns;
2. Asset/Liability mismatch – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
3. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
5. Longevity risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
6. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

## **TRS Specific Risks**

While TRS has various levels of exposure to all of the risks listed above, in our opinion the ones that warrant the most observation for the TRS Board specifically are contribution risk and political risk.

Contribution Risk for TRS is based on the fact that contributions are set in statute and do not react to changing experience. This funding structure puts immense pressure on the assumptions to perfectly predict the future, which is a difficult task. Most of the industry has moved away from this type of funding structure as plans that have utilized it in the past have struggled more than their peers which have moved to a dynamic funding structure that automatically adjusts in appropriate amounts in an appropriate timeframe when necessary.

Political Risk is the risk that stakeholders and decision makers change their priorities concerning the financial goals of TRS and that the decision makers meet only once every two years. The current statutory funding policy does not explicitly state its goals or under what conditions it would be changed. If benefits are enhanced without additional funding or if the funding was reduced to finance other priorities, this would weaken the financial outlook for TRS.

### **PLAN MATURITY MEASURES**

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Several generally accepted plan maturity measures are described below. Please see Tables 11b and 12a which show the current year and a 20-year history of some of these measurements for TRS.

#### **RATIO OF MARKET VALUE OF ASSETS TO PAYROLL**

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 2.0 times the payroll, a return on assets 5% different than assumed would equal 10% of payroll. A higher/lower or increasing/decreasing level of this maturity measure generally indicates a higher/lower or increasing/decreasing volatility in plan sponsor contributions as a percentage of payroll.

#### **RATIO OF ACTUARIAL ACCRUED LIABILITY TO PAYROLL**

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time. The ratio of liability to payroll may also be used as a measure of sensitivity of the liability itself. For example, if the actuarial accrued liability is 2.5 times the payroll (5 to 2 ratio), a change in liability 2% other than assumed would equal 5% of payroll. A higher/lower or increasing/decreasing level of this maturity measure generally indicates a higher/lower or increasing/decreasing volatility in liability (and also plan sponsor contributions) as a percentage of payroll.

#### **RATIO OF ACTIVES TO RETIREES AND BENEFICIARIES**

A young plan with many active members and few retirees will have a high ratio of active to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.



## RATIO OF NET CASH FLOW TO MARKET VALUE OF ASSETS

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

## ADDITIONAL RISK ASSESSMENT

Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability. While a robust measurement of additional risk assessment is outside the scope of the annual actuarial valuation, we have provided some sensitivity analysis on the investment return assumption in the following section.

## SENSITIVITY TO INVESTMENT PERFORMANCE

Table 11b provides several additional risk metrics that can help relate the size of the investment risk to the Fund, the Sponsor, and the membership. As shown on Table 11b, the assets are currently 3.5 times as large as the covered payroll (source of funding). Based on this ratio, assuming a 10% decrease in the asset levels that is never recovered by future gains would increase the 30-year contribution requirement by 1.98% of payroll (from the current 9.40% employer ADEC to 11.38%) and decrease the funded ratio by 7.8% (from 77.5% to 69.7%). Table 11b also shows how these metrics have changed over time. As a Fund matures and/or achieves higher funded ratios, these risk metrics will actually show proportionately higher investment risk.

The following exhibit projects the actuarial status of the Fund as of August 31, 2023 based on varying actual investment returns over the next few years. All other assumptions are assumed to be met, including the continuation of the new statutory member and employer contribution rates.

	Based on an Annual 4.00% Actual Investment Return on Market		Based on an Annual 7.00% Actual Investment Return on Market		Based on an Annual 10.00% Actual Investment Return on Market	
	Funded Ratio Measured By:					
August 31, (1)	Actuarial Value of Assets (2)	Market Value of Assets (3)	Actuarial Value of Assets (4)	Market Value of Assets (5)	Actuarial Value of Assets (6)	Market Value of Assets (7)
2023	77.5%	72.7%	77.5%	72.7%	77.5%	72.7%
2024	76.2%	71.0%	76.6%	73.1%	77.3%	75.2%
2025	74.6%	69.5%	75.8%	73.6%	77.9%	77.9%
2026	72.5%	67.9%	75.0%	74.2%	79.0%	80.8%
2027	70.7%	66.3%	74.9%	74.7%	80.5%	83.8%

The future liability is calculated by rolling forward the liabilities as of August 31, 2023, taking into account interest and benefit payments for the year, including mortality incidence and anticipated cost of living increases (none in this case). The 7.00% scenario above coincides with the actuarial investment return assumption of 7.00%. The 4.00% and 10.00% scenarios were selected because there is



statistically a high probability of the return for a five-year period being within +/- 3% of the expected return. The scenarios above are for illustration purposes only and are in no way to be used as expected investment performance. They assume no other deviations from the expected assumptions taken into consideration besides the asset performance. Careful consideration of this projection should be taken into account before any benefit enhancement is adopted. Note that under the 7.00% return scenario, the funded ratio based on actuarial assets and market assets will have converged to relatively the same level by Fiscal Year 2028.

## Low-Default-Risk Obligation Measure

ASOP No. 4 was revised and reissued in December 2021 by the ASB. It includes a new calculation called a low-default-risk obligation measure (LDROM) to be prepared and issued annually for defined benefit pension plans. The transmittal memorandum for ASOP No. 4 includes the following explanation:

*“The ASB believes that the calculation and disclosure of this measure provides appropriate, useful information for the intended user regarding the funded status of a pension plan. The calculation and disclosure of this additional measure is not intended to suggest that this is the “right” liability measure for a pension plan. However, the ASB does believe that this additional disclosure provides a more complete assessment of a plan’s funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date.”*

The LDROM estimates the amount of money the plan would need to invest in low risk securities to provide the benefits with greater certainty. The traditional model based on expected portfolio returns expects lower costs but with higher risk, which creates less certainty and a possibility of higher costs. The LDROM model creates higher expected costs but more predictability when compared to the traditional model. Thus, the difference between the two measures (Valuation and LDROM) is one illustration of the possible costs the sponsor could incur if there was a reduction in the investment risk in comparison to the current diversified portfolio. However, the downside risk would be limited in the scenarios where the current portfolio would fail to achieve returns in excess of the low-default-risk discount, in this case 5.15%.

The following information has been prepared in compliance with this new requirement. Unless otherwise noted, the measurement date, actuarial cost methods, and assumptions used are the same as for the funding valuation covered in this actuarial valuation report.

A. LDROM measure of benefits earned as of the measurement date:	\$327,460 million
B. Valuation liability at 7% on measurement date:	<u>257,543 million</u>
C. Cost to mitigate investment risk in the System’s portfolio:	\$ 69,917 million

Disclosures: Discount rate used to calculate LDROM: 5.15% Intermediate FTSE Pension Discount Curve as of August 31, 2023. This measure may not be appropriate for assessing the need for or amount of future contributions as the current portfolio is expected to generate significantly more investment earnings than the low-default-risk portfolio. This measure is also not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligation as this measure includes projections of salary increases and the ability for current members to continue to accrue eligibility and vesting service.



## **GASB Disclosure**

The Fund prepares its financial accounting and disclosure information in accordance with GASB Statement No. 67.

We provide a separate accounting report with the required disclosures under this accounting standard.

## Change in Assets During the Year

This section provides an analysis of the change in the Plan Net Assets during the year and an estimate of the yield on mean assets of the total Fund. Table 8a shows a rearrangement of some of the tables included in the annual financial statements of the Fund. Table 8b shows the estimated yield on a market value basis and on the actuarial asset valuation method.

To determine estimated yield on "mean assets", the traditional insurance company formula for yield rates is used. The estimated yield is derived by dividing the appropriate income by the corresponding mean assets. This is a "dollar weighted" rate of return, and will differ slightly from the "time weighted" return shown in TRS' Annual Comprehensive Financial Report.

As indicated by Item A4 of Table 8b, the estimated yield on mean market value is 3.8%, following a -6.7% return in 2022. The actuarial asset yield (Item B4) is 5.1%, compared to 5.7% in 2022, and compared to the previous 7.00% assumption rate. This difference in the estimated yield on market value and actuarial value illustrates the smoothing effect of the asset valuation method.

The actuarial value of assets is developed in Table 4. It should be noted that the intent of the actuarial asset valuation method is to smooth out year-to-year fluctuations in market rates of return. The current asset method determines the expected actuarial value of assets and then recognizes at least 20% of the difference between that expected actuarial value of assets and the actual market value of assets. As shown in Item 8 of Table 4, if the current year's difference between expected and actual investment income is of the opposite sign from the remaining deferred excesses/(shortfalls), then this year's difference is directly offset against any prior year bases of the opposite sign (starting with the oldest base and working forward). Any remaining bases are then recognized over the remaining number of years. This is intended to ensure the smoothed value of assets will converge towards the market value in a reasonable and finite amount of time.

It should also be noted that the asset valuation method is still deferring \$12.5 billion in unrecognized net shortfalls into future years. Absent future positive investment experience, these deferred shortfalls will be recognized over future actuarial valuations.

## Summary and Closing Comments

The contribution rates adopted by the 2019 Texas Legislature have improved the financial security of TRS as of August 31, 2023. Based on assumptions being met, the Fund has a funding period of 29 years, meaning the UAAL is expected to be reduced to \$0 over the next 29 years. However, with percentage of payroll financing, the UAAL will not begin to decline in dollar amounts until the funding period reaches 20 years, which is projected to peak in 2031 at approximately \$61.1 billion. For illustration, an increase in the contribution rate by another 0.9% of payroll would lower the funding period to 21 years and would be expected to begin lowering the UAAL immediately. This change would be expected to save more than \$20 billion in interest over the amortization period.

When considering benefit enhancements, it is important to fund them with increased contributions or a lump sum contribution. All enhancements since 2019, including the Fiscal Year 2024 COLA and stipend, have been fully financed with lump sum contributions. This should be the model used in any future year that a COLA is considered. In past legislation, there were times that COLAs and retroactive benefit enhancements were granted without additional funding sources and that eventually deteriorated the financial health of the Fund.

**SECTION B**

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**ACTUARIAL TABLES**

## ACTUARIAL TABLES

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# Table 1

## ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS

	August 31,	
	2023	2022
	(1)	(2)
<b>A. Present Value of Benefits Presently Being Paid:</b>		
1. Service retirement benefits	\$ 121,228,651,468	\$ 116,831,601,519
2. Disability retirement benefits	1,253,162,105	1,268,694,353
3. Death benefits	1,134,410,754	1,101,317,268
4. Present survivor benefits	372,296,035	359,855,389
5. Total present value of benefits presently being paid	\$ 123,988,520,362	\$ 119,561,468,529
<b>B. Present Value of Benefits Payable In the Future To Present Active Members:</b>		
1. Service retirement benefits	\$ 153,452,492,658	\$ 145,250,741,563
2. Disability retirement benefits	5,411,262,155	4,844,260,984
3. Termination benefits	18,201,090,371	16,859,685,949
4. Death and survivor benefits	2,634,107,756	2,492,915,908
5. Total active member liabilities	\$ 179,698,952,940	\$ 169,447,604,404
<b>C. Present Value of Benefits Payable In the Future To Present Inactive Members:</b>		
1. Inactive vested participants	\$ 7,103,073,295	\$ 6,446,570,982
2. Refunds of contributions to inactive nonvested members	1,138,614,072	1,070,097,132
3. Future survivor benefits payable on behalf of present annuitants	1,995,830,968	1,927,287,686
4. Total inactive liabilities	\$ 10,237,518,335	\$ 9,443,955,800
<b>D. Total Actuarial Present Value of Future Benefits:</b>	\$ 313,924,991,637	\$ 298,453,028,733

## Table 2

### SUMMARY OF COST ITEMS

	Valuation as of August 31, 2023		Valuation as of August 31, 2022	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active contributing members				
1. Not in DROP	953,293		928,415	
2. In DROP	<u>2</u>		<u>3</u>	
b. Active subtotal	953,295		928,418	
c. Inactive members w/deferred benefits	134,100		124,957	
d. Retired members and beneficiaries	<u>489,921</u>		<u>475,952</u>	
e. Subtotal, members	1,577,316		1,529,327	
f. Inactive nonvested members due refunds	<u>424,658</u>		<u>419,580</u>	
g. Total membership	2,001,974		1,948,907	
2. Average for Active Members				
a. Average age	44.7		44.7	
b. Average years of service	10.3		10.5	
c. Average pay	\$ 57,102		\$ 55,639	
3. Present Value of Future Pay	\$ 489,135,978,184		\$ 458,412,970,752	
4. Normal Cost Rate for Upcoming Fiscal Year				
a. Gross normal cost	12.10%		12.09%	
b. Less employee contribution rate	(8.25%)		(8.00%)	
c. Administrative Expenses	<u>0.14%</u>		<u>0.14%</u>	
d. State normal cost	3.99%		4.23%	
5. Present Value of Future Benefits				
a. Retired members - in pay or deferred	\$ 123,988,520,362		\$ 119,561,468,529	
b. Retired members - future survivor benefits	1,995,830,968		1,927,287,686	
c. Vested inactive members	7,103,073,295		6,446,570,982	
d. Active members	179,698,952,940		169,447,604,404	
e. Inactive nonvested members	<u>1,138,614,072</u>		<u>1,070,097,132</u>	
f. Total	\$ 313,924,991,637	543.3%	\$ 298,453,028,733	550.7%
6. Present Value of Future Normal Costs (employee plus employer)	\$ 56,381,732,199	97.6%	\$ 52,892,062,383	97.6%
7. Actuarial Accrued Liability	\$ 257,543,259,438	445.7%	\$ 245,560,966,350	453.1%
8. Actuarial Value of Assets	\$ 199,663,655,982	345.5%	\$ 193,908,589,662	357.8%
9. Unfunded Actuarial Accrued Liability	\$ 57,879,603,456	100.2%	\$ 51,652,376,688	95.3%
10. Projected Payroll for Contributions	\$ 57,785,016,338		\$ 54,197,711,341	
11. Employer Contribution Rate *	9.40%		9.12%	
12. Funding Period	29 years		26 years	
13. Estimated Yield on Actuarial Assets	5.1%		5.7%	
14. Funded Ratio - Smoothed Basis	77.5%		79.0%	
15. Actuarially Determined Employer Contribution (ADEC)**	9.40%		9.47%	

\* For fiscal year 2024, the base contribution rate is set at 8.25% of pay. In addition, public education employers will contribute 1.90% of the minimum salary schedule. Combined, it is expected that these sources of contributions will be approximately 9.40% of total payroll. Additional contributions, approximately 0.08% of pay, are received for retired members who have returned to work.

\*\* See description of ADEC in Appendix 2.



## Table 3a

### ANALYSIS OF NORMAL COST BY COMPONENT

Benefit Component (1)	8/31/2023 Cost as % of Pay (2)	8/31/2022 Cost as % of Pay (3)
1. Normal Cost		
a. Retirement Benefits	8.50%	8.50%
b. Disability Benefits	0.48%	0.47%
c. Death Benefits (including survivor benefits)	0.24%	0.24%
d. Termination benefits	<u>2.88%</u>	<u>2.88%</u>
e. Total	12.10%	12.09%
2. Employee Contribution Rate for Next Fiscal Year	(8.25%)	(8.00%)
3. Administrative Expenses	<u>0.14%</u>	<u>0.14%</u>
4. State Normal Cost (Item 1e - Item 2+ Item 3)	3.99%	4.23%

## Table 3b

### ESTIMATION OF COVERED PAYROLL AND EFFECTIVE EMPLOYER CONTRIBUTION RATES

	8/31/2023
1. Calculation of Covered Payroll	
a. Normal Member Contributions	\$4,492,518,277
b. Member Contribution Rate for Fiscal Year	8.00%
c. Estimated Covered Payroll For Fiscal Year 1a \ 1b	56,156,478,463
d. Projected Covered Payroll for Next Fiscal Year 1c increased by one year's payroll growth	57,785,016,338
2. Supplemental Employer Contribution Rate	
a. Public Education Surcharge for Fiscal Year	610,418,144
b. Contribution Rate for Fiscal Year	1.80%
c. Estimated Eligible Payroll for Fiscal Year 2a \ 2b	33,912,119,111
d. Total Projected Eligible Payroll 2c increased by one year's payroll growth	34,895,570,565
e. Contribution Rate for FY24	1.90%
f. Effective Public Education Surcharge Rate (2d * 2e) / 1d	1.15%
3. a. Retiree Return to Work Contribution Surcharge	47,110,558
b. 3a \ 1c	0.08%
4. a. Projection of Payrolls and Contribution Rates	

Fiscal Year	Total Projected Payroll	Base Contribution Rate	Public Education Surcharge Eligible Payroll	Surcharge Contribution Rate	Total Projected Contributions 2*3+4*5	Effective Contribution Rate 6/2
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2024	\$57,785	8.25%	\$34,896	1.90%	\$5,430	9.40%
2025	59,461	8.25%	35,908	2.00%	5,624	9.46%
2026	61,185	8.25%	36,949	2.00%	5,787	9.46%
2027	62,960	8.25%	38,020	2.00%	5,955	9.46%
2028	64,785	8.25%	39,123	2.00%	6,127	9.46%

\$ in millions.

Assumes all payrolls grow at 2.9% after FY2023.

## Table 4

### DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

	Year Ending August 31, 2023					
1. Actuarial value of assets at beginning of year	\$ 193,908,589,662					
2. Net new investments						
a. Contributions	\$ 9,722,752,090					
b. Benefits and refunds paid	\$ (13,586,906,448)					
c. Administrative Expenses	\$ (85,187,739)					
d. Subtotal	\$ (3,949,342,097)					
3. Assumed investment return rate for fiscal year	7.00%					
4. Assumed investment return for fiscal year (Item 1 + Item 2.d / 2) x Item 3	\$ 13,435,374,303					
5. Expected Actuarial Value at end of year (1 + 2.d + 4)	\$ 203,394,621,868					
6. Market value of assets at end of year	\$ 187,170,535,558					
7. Excess/(Shortfall) (6 - 5)	\$ (16,224,086,310)					
8. Development of amounts to be recognized as of August 31, 2023:						
Fiscal Year End	Remaining Excess (Shortfall) of Investment Income	Deferrals of Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)
2019	\$ 0	\$ 0	\$ 0	1	\$ 0	\$ 0
2020	0	0	0	2	0	0
2021	0	0	0	3	0	0
2022	(9,722,972,466)	0	(9,722,972,466)	4	(2,430,743,117)	(7,292,229,349)
2023	(6,501,113,844)	0	(6,501,113,844)	5	(1,300,222,769)	(5,200,891,075)
Total	\$ (16,224,086,310)	\$ 0	\$ (16,224,086,310)		\$ (3,730,965,886)	\$ (12,493,120,424)
9. Actuarial value of plan net assets, end of year (Item 6 - Column 6 of the Total row of 6 Item 8)	\$ 199,663,655,982					
10. Asset gain (loss) for year (Item 9 - Item 5)	\$ (3,730,965,886)					
11. Asset gain (loss) as % of actual actuarial assets	(1.87%)					
12. Ratio of actuarial value to market value	106.7%					

Notes: Remaining deferrals in Column (1) for prior years are from last year's report column (6). The number in the current year is the difference the remaining deferrals for prior years and the total Excess/(Shortfall) return shown in Item 7. Column 2 is a direct offset of the current year's excess/(shortfall) return against prior years' excess/(shortfall) of the opposite type.



## Table 5a

### DEVELOPMENT OF YEARS TO FUND THE UNFUNDED ACTUARIAL ACCRUED LIABILITY

	As of August 31, 2023	As of August 31, 2022																		
	(1)	(2)																		
<b>A. Basic Data</b>																				
1. Projected Payroll for Contributions	\$ 57,785,016,338	\$ 54,197,711,341																		
2. Present value of future pay	\$ 489,135,978,184	\$ 458,412,970,752																		
3. Normal cost rate of benefits																				
a. Total normal cost rate	12.10%	12.09%																		
b. Less employee contribution rate	(8.25%)	(8.00%)																		
c. Administrative Expenses	0.14%	0.14%																		
d. State normal cost rate	3.99%	4.23%																		
4. State/employer contribution rate for funding unfunded actuarial accrued liability																				
a. Total State/employer contribution rate	9.40%	9.12%																		
b. Credit for Return to Work contributions	0.08%	0.07%																		
c. Less State normal cost rate	(3.99%)	(4.23%)																		
d. Contribution rate available	5.49%	4.96%																		
5. Actuarial accrued liability for present active members																				
a. Present value of benefits payable in the future to present members	\$ 179,698,952,940	\$ 169,447,604,404																		
b. Less present value of future normal costs	(56,381,732,199)	(52,892,062,383)																		
c. Actuarial accrued liability	\$ 123,317,220,741	\$ 116,555,542,021																		
<b>B. Development of Funding Period</b>																				
1. Total actuarial accrued liability																				
a. Present value of benefits presently being paid	\$ 123,988,520,362	\$ 119,561,468,529																		
b. Actuarial accrued liability for present active members (Item A5c)	123,317,220,741	116,555,542,021																		
c. Present value of benefits for inactive members	\$ 10,237,518,335	\$ 9,443,955,800																		
d. Total	\$ 257,543,259,438	\$ 245,560,966,350																		
2. Current actuarial assets	199,663,655,982	193,908,589,662																		
3. Unfunded actuarial accrued liability (UAAL) (Item B1d - Item B2)	\$ 57,879,603,456	\$ 51,652,376,688																		
4. Amount of State contribution available to fund unfunded actuarial accrued liability (Item A4d x Item A1)	\$ 3,172,397,397	\$ 2,688,206,483																		
5. Years to fund unfunded actuarial accrued liability*	29 years	26 years																		
<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Rate of Increase in Covered Payroll</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;">None: 0.00%</td> <td style="text-align: center;">Never</td> <td style="text-align: center;">Never</td> </tr> <tr> <td style="text-align: center;">Assumed Price Inflation: 2.30%</td> <td style="text-align: center;">33.0</td> <td style="text-align: center;">30.0</td> </tr> <tr> <td style="text-align: center;">Assumed Payroll Growth: 2.90%</td> <td style="text-align: center;">29.0</td> <td style="text-align: center;">26.0</td> </tr> <tr> <td style="text-align: center;">Last 20 Years Actual: 3.81%</td> <td style="text-align: center;">25.0</td> <td style="text-align: center;">24.0</td> </tr> <tr> <td style="text-align: center;">Assumed PGR with 1% Population: 3.90%</td> <td style="text-align: center;">25.0</td> <td style="text-align: center;">23.0</td> </tr> </table>			Rate of Increase in Covered Payroll			None: 0.00%	Never	Never	Assumed Price Inflation: 2.30%	33.0	30.0	Assumed Payroll Growth: 2.90%	29.0	26.0	Last 20 Years Actual: 3.81%	25.0	24.0	Assumed PGR with 1% Population: 3.90%	25.0	23.0
Rate of Increase in Covered Payroll																				
None: 0.00%	Never	Never																		
Assumed Price Inflation: 2.30%	33.0	30.0																		
Assumed Payroll Growth: 2.90%	29.0	26.0																		
Last 20 Years Actual: 3.81%	25.0	24.0																		
Assumed PGR with 1% Population: 3.90%	25.0	23.0																		
6. Actuarially Determined Employer Contribution Rate (ADEC) (Normal cost + amortization of UAAL)**	9.40%	9.47%																		

\* This calculation reflects the legislated increases in the member and employer rates in future years.

\*\* See description of ADEC in Appendix 2.



## Table 5b

### DETAILED DEVELOPMENT OF YEARS TO FUND THE UNFUNDED ACTUARIAL ACCRUED LIABILITY (\$ in millions)

As of Aug 31,	Payroll For Next FY	Contribution as % of Payroll	Normal Cost and Admin as % of Payroll	Net Amortization [c - d] * b	UAAL BOY	Interest	Net Principal Contribution e - g	Funding Period
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
2023	\$57,785	17.73%	12.24%	\$3,172	\$57,880	\$3,942	(\$770)	29
2024	59,461	17.79%	12.17%	3,343	58,650	3,990	(647)	28
2025	61,185	17.79%	12.13%	3,465	59,297	4,032	(566)	27
2026	62,960	17.79%	12.09%	3,590	59,863	4,067	(477)	26
2027	64,785	17.79%	12.05%	3,719	60,340	4,096	(377)	25
2028	66,664	17.79%	12.01%	3,850	60,717	4,118	(268)	24
2029	68,597	17.79%	11.97%	3,991	60,985	4,132	(140)	23
2030	70,587	17.79%	11.94%	4,129	61,125	4,137	(7)	22
2031	72,634	17.79%	11.91%	4,271	61,132	4,132	138	21
2032	74,740	17.79%	11.88%	4,416	60,994	4,118	298	20
2033	76,908	17.79%	11.85%	4,565	60,695	4,092	474	19
2034	79,138	17.79%	11.83%	4,719	60,222	4,053	666	18
2035	81,433	17.79%	11.80%	4,877	59,556	4,001	876	17
2036	83,794	17.79%	11.78%	5,039	58,680	3,934	1,104	16
2037	86,224	17.79%	11.75%	5,205	57,576	3,851	1,354	15
2038	88,725	17.79%	11.73%	5,375	56,222	3,751	1,625	14
2039	91,298	17.79%	11.71%	5,550	54,598	3,631	1,919	13
2040	93,946	17.79%	11.69%	5,729	52,678	3,490	2,239	12
2041	96,670	17.79%	11.67%	5,913	50,439	3,327	2,586	11
2042	99,473	17.79%	11.66%	6,101	47,853	3,140	2,962	10
2043	102,358	17.79%	11.64%	6,294	44,892	2,926	3,368	9
2044	105,327	17.79%	11.63%	6,490	41,524	2,683	3,807	8
2045	108,381	17.79%	11.62%	6,690	37,717	2,410	4,280	7
2046	111,524	17.79%	11.61%	6,895	33,437	2,103	4,791	6
2047	114,758	17.79%	11.60%	7,104	28,646	1,761	5,343	5
2048	118,086	17.79%	11.59%	7,317	23,303	1,379	5,938	4
2049	121,511	17.79%	11.59%	7,535	17,365	956	6,579	3
2050	125,035	17.79%	11.59%	7,757	10,786	488	7,269	2
2051	128,661	17.79%	11.58%	7,984	3,518	(28)	8,012	1
2052	132,392	17.79%	11.58%	8,216	(4,495)	(597)	8,813	0

## Table 6

### GROWTH OF COVERED PAYROLL AND ACTIVE MEMBERS

Year Ending August 31, (1)	Total Annualized Salaries		Active Members			Average Salary		
	Amount in \$ Millions (2)	Percent Increase (3)	Number (4)	Percent Increase (5)	Compound Increase	Average Salary (7)	Percent Increase (8)	Compound Increase
					Between Year Indicated and 08-31-2023 (6)			Between Year Indicated and 08-31-2023 (9)
2003	\$ 25,756	3.8%	754,715	1.2%	1.2%	\$ 34,127	2.6%	2.6%
2004	25,485	(1.1%)	729,411	(3.4%)	1.4%	34,939	2.4%	2.6%
2005	25,957	1.9%	715,495	(1.9%)	1.6%	36,278	3.8%	2.6%
2006	28,397	9.4%	761,658	6.5%	1.3%	37,284	2.8%	2.5%
2007	31,114	9.6%	777,789	2.1%	1.3%	40,003	7.3%	2.2%
2008	33,238	6.8%	801,455	3.0%	1.2%	41,472	3.7%	2.2%
2009	35,097	5.6%	817,537	2.0%	1.1%	42,930	3.5%	2.1%
2010	36,629	4.4%	834,060	2.0%	1.0%	43,916	2.3%	2.0%
2011	36,797	0.5%	828,919	(0.6%)	1.2%	44,392	1.1%	2.1%
2012	36,310	(1.3%)	815,155	(1.7%)	1.4%	44,543	0.3%	2.3%
2013	37,104	2.2%	831,302	2.0%	1.4%	44,634	0.2%	2.5%
2014	39,195	5.6%	857,342	3.1%	1.2%	45,717	2.4%	2.5%
2015	37,122	(5.3%)	828,851	(3.3%)	1.8%	44,787	(2.0%)	3.1%
2016	39,281	5.8%	847,631	2.3%	1.7%	46,343	3.5%	3.0%
2017	40,904	4.1%	864,233	2.0%	1.6%	47,330	2.1%	3.2%
2018	42,105	2.9%	872,978	1.0%	1.8%	48,232	1.9%	3.4%
2019	43,779	4.0%	884,522	1.3%	1.9%	49,495	2.6%	3.6%
2020	47,088	7.6%	914,741	3.4%	1.4%	51,477	4.0%	3.5%
2021	49,355	4.8%	918,539	0.4%	1.9%	53,732	4.4%	3.1%
2022	50,849	3.0%	928,415	1.1%	2.7%	55,639	1.9%	2.6%
2023	54,435	7.1%	953,293	2.7%	--	57,102	2.6%	--

Note: Beginning August 31, 2005, the method of determining new entrant errors was changed.  
Beginning August 31, 2015, the definition of active member was changed.



## Table 7

### RELATIVE SIZE OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

Year Ending August 31,	Unfunded Actuarial Accrued Liability in \$ Millions	Relative to Projected Payroll		Relative to Actuarial Value of Assets		Relative to Total Actuarial Liabilities (Present Value of Future Benefits)	
		Projected Payroll In \$ Millions	Percent of Projected Payroll	Assets in \$ Millions	Percent of Assets	Actuarial Liabilities in \$ Millions	Percent of Actuarial Liabilities
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974	\$ 1,739	\$ 2,246	77.4%	\$ 2,394	72.6%	\$ 6,207	28.0%
1975	1,998	2,583	77.4%	2,764	72.3%	7,143	28.0%
1976	2,445	2,875	85.0%	3,103	78.8%	8,067	30.3%
1977	2,879	3,246	88.7%	3,531	81.5%	9,626	29.9%
1978	2,422	3,636	66.6%	4,016	60.3%	9,858	24.6%
1979	3,322	3,928	84.6%	4,529	73.3%	12,336	26.9%
1980	2,785	4,378	63.6%	5,342	52.1%	12,181	22.9%
1981	3,300	4,970	66.4%	6,386	51.7%	13,890	23.8%
1982	3,864	5,616	68.8%	7,373	52.4%	16,135	23.9%
1983	4,549	6,378	71.3%	8,586	53.0%	20,277	22.4%
1984	4,849	6,652	72.9%	9,851	49.2%	22,456	21.6%
1985	6,474	7,547	85.8%	12,096	53.5%	29,618	21.9%
1986	5,365	8,237	65.1%	14,939	35.9%	32,273	16.6%
1987	4,096	8,646	47.4%	18,055	22.7%	34,801	11.8%
1988	3,890	9,166	42.4%	20,096	19.4%	37,332	10.4%
1989	3,489	9,764	35.7%	23,302	15.0%	41,084	8.5%
1990	3,343	10,446	32.0%	26,111	12.8%	45,685	7.3%
1991	3,429	11,181	30.7%	28,860	11.9%	49,515	6.9%
1992	3,441	11,959	28.8%	31,201	11.0%	53,123	6.5%
1993	3,440	13,391	25.7%	35,179	9.8%	59,210	5.8%
1994	825	14,167	5.8%	38,843	2.1%	58,351	1.4%
1995	1,956	14,888	13.1%	43,442	4.5%	65,259	3.0%
1996	1,813	15,983	11.3%	47,487	3.8%	68,948	2.6%
1997	146	17,044	0.9%	53,760	0.3%	74,677	0.2%

## Table 7 (Continued)

### RELATIVE SIZE OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

Year Ending August 31,	Unfunded Actuarial Accrued Liability in \$ Millions	Relative to Projected Payroll		Relative to Actuarial Value of Assets		Relative to Total Actuarial Liabilities (Present Value of Future Benefits)	
		Projected Payroll In \$ Millions	Percent of Projected Payroll	Assets in \$ Millions	Percent of Assets	Actuarial Liabilities in \$ Millions	Percent of Actuarial Liabilities
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1998	(2,463)	\$ 18,325	-13.4%	\$ 60,357	-4.1%	\$ 79,603	-3.1%
1999	(2,190)	19,529	-11.2%	69,435	-3.2%	91,563	-2.4%
2000	(5,446)	21,920	-24.8%	79,328	-6.9%	100,414	-5.4%
2001	(2,135)	23,365	-9.1%	86,352	-2.5%	113,663	-1.9%
2002	3,287	24,818	13.2%	86,035	3.8%	118,100	2.8%
2003	5,230	25,756	20.3%	89,033	5.9%	123,677	4.2%
2004	7,953	25,485	31.2%	88,784	9.0%	121,267	6.6%
2005	13,196	25,957	50.8%	89,299	14.8%	124,556	10.6%
2006	13,694	28,397	48.2%	94,218	14.5%	131,906	10.4%
2007	12,545	31,114	40.3%	103,419	12.1%	142,190	8.8%
2008	11,523	33,238	34.7%	110,233	10.5%	150,999	7.6%
2009	21,646	35,097	61.7%	106,384	20.3%	158,899	13.6%
2010	22,899	36,629	62.5%	111,293	20.6%	166,445	13.8%
2011	24,062	36,797	65.4%	115,253	20.9%	173,204	13.9%
2012	26,101	36,310	73.6%	118,326	22.1%	177,901	14.7%
2013	28,936	37,104	79.3%	121,730	23.8%	184,332	15.7%
2014	31,638	38,522	82.1%	128,398	24.6%	195,893	16.2%
2015	32,968	39,620	83.2%	133,485	24.7%	197,662	16.7%
2016	35,453	42,376	83.7%	138,786	25.5%	207,411	17.1%
2017	35,471	43,164	82.2%	146,282	24.2%	216,125	16.4%
2018	46,165	44,956	102.7%	154,051	30.0%	241,438	19.1%
2019	49,486	47,414	104.4%	160,233	30.9%	253,626	19.5%
2020	50,605	49,987	101.2%	167,432	30.2%	264,161	19.2%
2021	47,648	51,356	92.8%	180,599	26.4%	276,424	17.2%
2022	51,652	54,198	95.3%	193,909	26.6%	298,453	17.3%
2023	57,880	57,785	100.2%	199,664	29.0%	313,925	18.4%





## Table 8a

### CHANGE IN PLAN NET ASSETS

	Year Ending August 31, 2023	Year Ending August 31, 2022
	(1)	(2)
I. <u>Revenue for the Year</u>		
A. Contribution and fees		
1. Member contributions	\$ 4,492,518,277	\$ 4,213,621,873
2. State contributions - State of Texas	2,311,683,444	2,184,307,015
3. State contributions - 415 Excess Plan	4,749,902	4,968,426
4. State contributions - Employers	2,859,869,972	2,504,170,115
5.a. Supplemental Appropriation - Non-Employer Contributing Entity	-	-
5.b. Supplemental Funding - 13th Check Appropriations	-	701,100,535
6. Purchase of Service Credit-Refundable	28,578,706	18,586,693
7. Purchase of Service Credit-Non-Refundable	25,351,789	32,679,308
8. Total	\$ 9,722,752,090	\$ 9,659,433,965
B. Income		
1. Net appreciation in fair value of investments	\$ 7,706,585,429	\$ (13,154,506,946)
2. Income from Securities Lending	324,996,043	74,414,095
3. Investment expenses	(1,145,618,483)	(303,657,715)
4. Total	6,885,962,989	(13,383,750,566)
C. Other Adjustments (Including Prior Period Adjustments)	\$ 48,297,470	\$ 5,953,359
D. Total Revenue	\$ 16,657,012,549	\$ (3,718,363,242)
II. <u>Expenditures for the Year</u>		
A. Refund of Contributions	\$ 707,816,831	\$ 579,461,885
B. Benefit Payments	\$ 12,879,089,617	\$ 13,260,988,197
C. Expenses	\$ 85,187,739	\$ 62,052,780
D. Other	\$ -	\$ -
E. Total Expenditures	\$ 13,672,094,187	\$ 13,902,502,862
III. <u>Net Increase in Plan Net Assets (Item I.D. - Item II.E.)</u>	\$ 2,984,918,362	\$ (17,620,866,104)

## Table 8b

### ESTIMATION OF YIELDS

Item	Year Ending August 31, 2023	Year Ending August 31, 2022
(1)	(2)	(3)
A. Market value yield		
1. Beginning of year net market assets	\$ 184,185,617,196	\$ 201,807,045,133
2. Investment income (net of investment expenses)	6,934,260,459	(13,377,797,207)
3. End of year market assets	187,170,535,558	184,185,617,196
4. Estimated market value yield	3.8%	(6.7)%
B. Actuarial value yield		
1. Beginning of year actuarial assets*	\$ 193,908,589,662	\$ 187,598,980,455
2. Investment income	9,704,408,417	10,552,678,104
3. End of year actuarial assets	199,663,655,982	193,908,589,662
4. Estimated actuarial value yield	5.1%	5.7%

\* 2022 includes recognition of deferred investment gains in conjunction with experience study.

## Table 9

### GAIN OR LOSS FOR THE YEAR

Item (1)	Year Ending August 31, 2023 (2)	Year Ending August 31, 2022 (3)
<b>A. CALCULATION OF TOTAL GAIN OR LOSS</b>		
1. Unfunded actuarial accrued liability (UAAL),		
a. Previous year, before Assumption changes	\$ 51,652,376,688	\$ 47,647,699,308
b. Previous year, after Assumption changes	51,652,376,688	47,047,488,594
2. Normal cost plus service purchase for the year	7,007,055,550	7,271,794,836
3. Contributions for the year	(9,722,752,090)	(9,659,433,965)
4. Interest at 7.00%		
a. On UAAL	\$ 3,615,666,368	\$ 3,293,324,202
b. On normal cost	245,246,944	254,512,819
c. On contributions	<u>(340,296,323)</u>	<u>(338,080,189)</u>
d. Total	\$ 3,520,616,989	\$ 3,209,756,832
5. Expected UAAL (Sum of Items A1 through A4)	52,457,297,137	47,869,606,297
6. Actual UAAL	57,879,603,456	51,652,376,688
7. Gain/(loss) for the year (Item A5 - Item A6)	\$ (5,422,306,319)	\$ (3,782,770,391)
<b>B. SOURCE OF GAINS AND LOSSES</b>		
1. Asset gain/(loss) for the year (Table 4)	\$ (3,730,965,886)	\$ (2,430,743,116)
2. Asset gain/(loss) as a % of actuarial assets	(1.87%)	(1.25%)
3. Total actuarial accrued liability gain/(loss) for year (Item A7 - Item B1)	(1,691,340,433)	(1,352,027,275)
4. Experience liability gain/(loss) as % of total actuarial accrued liability (Item B3 as % of total actuarial accrued liability)	(0.66%)	(0.55%)

## Table 10

### ANALYSIS OF CHANGE IN FUNDING PERIOD

Basis	UAAL (\$ Millions)	Normal Cost Rate	Total Contribution Rate	Funding Period	Change in Funding Period
(1)	(2)	(3)	(4)	(5)	(6)
1. 2022 Valuation	51,652	12.23%	17.61%	26	0
2. Restated 2022 Valuation with legislative changes	51,652	12.23%	17.61%	26	0
3. Expected 2023 UAAL	52,465	12.16%	17.79%	25	(1)
4. 2023 UAAL using expected assets and actual liabilities	54,156	12.24%	17.79%	27	2
5. 2023 UAAL using actual assets and liabilities, expected payroll	57,880	12.24%	17.79%	30	3
6. 2023 UAAL using actual payroll	57,880	12.24%	17.79%	29	(1)

**Notes:**

Row 2 There were no legislative changes that impact the valuation.

Row 3 The funding period for this entry uses the expected UAAL and expected payroll. The expected payroll is the prior year's valuation payroll rolled forward at the prior year 2.9% payroll growth rate assumption.

Row 4 This entry uses expected assets and payroll growth, while incorporating the actual liabilities as of August 31, 2023.

Row 5 This entry includes the current year investment results.

Row 6 This entry incorporates known assets, liabilities, and payroll growth. The overall payroll growth does not affect the liabilities of the plan, but instead affects the calculation of the funding period because the payroll is the denominator in the calculation of the amortization payment. Higher than expected payroll growth leads to a decrease in the required amortization payment as a percentage of payroll.

## Table 11a

### NEAR TERM OUTLOOK

Valuation as of August 31,	Unfunded Actuarial Accrued Liability (UAAL, in Millions)	Funded Ratio	Funding Period	Actuarial Value of Assets (AVA, in Millions)	For Fiscal year Ending August 31,	Projected Payroll for Contributions (in Millions)	Blended ER Rate	Employer Contributions (in Millions)	Member Rate	Employee Contributions (in Millions)	Benefit Payments, Refunds, and Admin Expenses	Net External Cash Flow (in Millions)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
2023	\$ 57,880	77.5%	29	\$ 199,664	2024	\$ 57,785	9.48%	\$ 5,478	8.25%	\$ 4,767	\$ 14,592	\$ (4,347)
2024	58,650	78.1%	28	209,144	2025	59,461	9.54%	5,673	8.25%	4,906	14,261	(3,682)
2025	59,297	78.8%	27	219,975	2026	61,185	9.54%	5,837	8.25%	5,048	15,048	(4,164)
2026	59,863	79.4%	26	231,066	2027	62,960	9.54%	6,006	8.25%	5,194	15,855	(4,655)
2027	60,340	80.1%	25	242,426	2028	64,785	9.54%	6,181	8.25%	5,345	16,692	(5,167)
2028	60,717	80.7%	24	254,051	2029	66,664	9.54%	6,360	8.25%	5,500	17,546	(5,687)
2029	60,985	81.3%	23	265,952	2030	68,597	9.54%	6,544	8.25%	5,659	18,426	(6,223)
2030	61,125	82.0%	22	278,132	2031	70,587	9.54%	6,734	8.25%	5,823	19,312	(6,755)
2031	61,132	82.6%	21	290,614	2032	72,634	9.54%	6,929	8.25%	5,992	20,210	(7,289)
2032	60,994	83.3%	20	303,418	2033	74,740	9.54%	7,130	8.25%	6,166	21,116	(7,820)
2033	60,695	83.9%	19	316,568	2034	76,908	9.54%	7,337	8.25%	6,345	22,033	(8,351)

Assumes statutory member and State contribution rates.  
 Assumes 7.00% investment return on actuarial value of assets each year.  
 Assumes all other assumptions exactly met and a level active population.  
 Employer Rate includes 0.08% for Retiree Return to Work Surcharges.



## Table 11b

### HISTORY OF RISK METRICS

Valuation As of August 31,	Actuarial Value of Assets (in Millions)	Actuarial Accrued Liability (AAL) (in Millions)	Annual Projected Payroll (in Millions)	AVA as % of Projected Payroll (2) / (4)	AAL as % of Projected Payroll (3) / (4)	Increase in ADEC* if Assets Decrease 10%	Funded Ratio	Decrease in Funded Ratio if Assets Decrease 10%
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(8)
2023	\$ 199,664	\$ 257,543	\$ 57,785	346%	446%	1.98%	77.5%	7.8%
2022	193,909	245,561	54,198	358%	453%	2.05%	79.0%	7.9%
2021	180,599	228,247	51,356	352%	444%	2.05%	79.1%	7.9%
2020	167,432	218,038	49,987	335%	436%	2.24%	76.8%	7.7%
2019	160,233	209,720	47,414	338%	442%	2.26%	76.4%	7.6%
2018	154,051	200,216	44,956	343%	445%	2.29%	76.9%	7.7%
2017	146,282	181,753	43,164	339%	421%	2.27%	80.5%	8.0%
2016	138,786	174,239	42,376	328%	411%	2.19%	79.7%	8.0%
2015	133,485	166,453	39,620	337%	420%	2.25%	80.2%	8.0%
2014	128,398	160,036	38,522	333%	415%	2.23%	80.2%	8.0%
2013	121,730	150,666	37,104	328%	406%	2.19%	80.8%	8.1%
2012	118,326	144,427	36,310	326%	398%	2.18%	81.9%	8.2%
2011	115,253	139,315	36,797	313%	379%	2.09%	82.7%	8.3%
2010	111,293	134,191	36,629	304%	366%	2.03%	82.9%	8.3%
2009	106,384	128,029	35,097	303%	365%	2.03%	83.1%	8.3%
2008	110,233	121,757	33,238	332%	366%	2.22%	90.5%	9.1%
2007	103,419	115,964	31,114	332%	373%	2.22%	89.2%	8.9%
2006	94,218	107,911	28,397	332%	380%	2.22%	87.3%	8.7%
2005	89,299	102,495	25,957	344%	395%	2.30%	87.1%	8.7%
2004	88,784	96,737	25,485	348%	380%	2.33%	91.8%	9.2%
2003	89,033	94,263	25,756	346%	366%	2.31%	94.5%	9.4%
2002	86,035	89,322	24,818	347%	360%	2.32%	96.3%	9.6%
2001	86,352	84,217	23,365	370%	360%	2.47%	102.5%	10.3%
2000	79,328	73,882	21,920	362%	337%	2.42%	107.4%	10.7%

\*Assumes 30-year funding period.

Note: Amount in \$ millions.

Actuarial assumptions were modified effective 2004, 2008, 2011, 2015, 2018 and 2022.



## Table 12a

### HISTORY OF CASH FLOW

Year Ending August 31, (1)	Expenditures During the Year					External Cash Flow for the Year <sup>3</sup> (7)	Market Value of Assets (8)	External Cash Flow as Percent of Market Value (9)
	Contributions for the Year <sup>1</sup> (2)	Benefit Payments (3)	Refund of Contributions (4)	Expenses <sup>2</sup> (5)	Total (6)			
2003	\$ 3,094,280,741	\$ (4,753,849,401)	\$ (186,082,670)	\$ (38,030,992)	\$ (4,977,963,063)	\$ (1,883,682,322)	\$ 77,633,002,461	(2.4%)
2004	3,156,205,813	(5,486,849,698)	(220,396,709)	(41,092,036)	(5,748,338,443)	(2,592,132,630)	84,202,981,707	(3.1%)
2005	3,208,090,642	(5,387,605,428)	(243,382,014)	(42,488,318)	(5,673,475,760)	(2,465,385,118)	93,707,816,093	(2.6%)
2006	3,454,514,897	(5,582,306,639)	(265,487,479)	(45,543,800)	(5,893,337,918)	(2,438,823,021)	100,238,963,187	(2.4%)
2007	3,703,755,952	(5,807,036,778)	(277,932,219)	(48,444,678)	(6,133,413,675)	(2,429,657,723)	112,128,799,849	(2.2%)
2008	4,142,958,389	(6,454,687,449)	(275,482,331)	(55,452,812)	(6,785,622,592)	(2,642,664,203)	104,910,497,545	(2.5%)
2009	4,352,908,188	(6,343,563,704)	(266,695,076)	(97,300,965)	(6,707,559,745)	(2,354,651,557)	88,652,971,682	(2.7%)
2010	4,587,520,751	(6,669,304,862)	(265,186,589)	(141,911,262)	(7,076,402,713)	(2,488,881,962)	95,688,405,009	(2.6%)
2011	4,704,016,139	(7,175,255,376)	(399,040,901)	(275,521,878)	(7,849,818,155)	(3,145,802,016)	107,420,786,893	(2.9%)
2012	4,391,331,052	(7,726,105,535)	(452,217,315)	(249,825,059)	(8,428,147,909)	(4,036,816,857)	111,449,887,034	(3.6%)
2013	4,682,290,371	(8,077,729,314)	(466,805,558)	(282,545,932)	(8,827,080,804)	(4,144,790,433)	117,388,143,859	(3.5%)
2014	5,036,110,456	(8,550,916,357)	(490,764,166)	(292,157,107)	(9,333,837,630)	(4,297,727,174)	132,779,243,085	(3.2%)
2015	5,616,774,652	(8,937,328,045)	(475,400,534)	(333,858,664)	(9,746,587,243)	(4,129,812,591)	128,538,706,212	(3.2%)
2016	6,164,030,328	(9,382,696,877)	(462,273,069)	(355,033,407)	(10,200,003,353)	(4,035,973,025)	134,008,637,473	(3.0%)
2017	6,608,895,283	(9,778,784,310)	(513,742,959)	(405,454,172)	(10,697,981,441)	(4,089,086,158)	147,361,922,120	(2.8%)
2018	6,817,023,723	(10,278,160,798)	(422,335,740)	(582,901,501)	(11,283,398,039)	(4,466,374,316)	154,568,901,833	(2.9%)
2019	7,643,366,923	(11,364,264,674)	(486,460,902)	(736,829,975)	(12,587,555,551)	(4,944,188,628)	157,978,199,075	(3.1%)
2020	7,938,742,052	(11,091,376,913)	(421,366,179)	(491,404,262)	(12,004,147,354)	(4,065,405,302)	165,416,245,243	(2.5%)
2021	8,207,548,218	(11,811,565,514)	(449,135,634)	(329,287,996)	(12,589,989,144)	(4,382,440,926)	201,807,045,133	(2.2%)
2022	9,659,433,965	(13,260,988,197)	(579,461,885)	(365,710,495)	(14,206,160,577)	(4,546,726,612)	184,185,617,196	(2.5%)
2023	9,722,752,090	(12,879,089,617)	(707,816,831)	(1,230,806,222)	(14,817,712,670)	(5,094,960,580)	187,170,535,558	(2.7%)

<sup>1</sup> Column (2) includes employee and employer contributions, as well as any service purchase or account reinstatement receipts during the year.

<sup>2</sup> Column (5) includes both administrative and investment expenses.

<sup>3</sup> Column (7) = Column (2) + Column (6).



## Table 12b

### Comparison of Actual versus Assumed Investment Performance As Required Under Section 802.1085

Year Ending August 31,	Market Value of Assets	1-Year Period			5-Year Period			10-Year Period			20-Year Period			30-Year Period		
		Actual Return	Hypothetical Balance	Excess/ Shortfall	Actual Return	Hypothetical Balance	Excess/ Shortfall	Actual Return	Hypothetical Balance	Excess/ Shortfall	Actual Return	Hypothetical Balance	Excess/ Shortfall	Actual Return	Hypothetical Balance	Excess/ Shortfall
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(12)	(13)	(14)
2021	\$201.8	25.0%	\$172.9	\$28.9	11.4%	\$165.2	\$36.6	9.7%	\$163.3	\$38.6	7.7%	\$223.6	(\$21.8)	8.7%	\$137.0	\$64.8
2022	\$184.2	-6.7%	\$211.7	(\$27.5)	7.3%	\$183.7	\$0.5	8.1%	\$171.0	\$13.2	7.8%	\$180.9	\$3.3	8.1%	\$148.7	\$35.5
2023	\$187.2	3.8%	\$197.4	(\$10.2)	6.4%	\$191.8	(\$4.6)	7.6%	\$180.9	\$6.3	7.4%	\$198.4	(\$11.3)	7.8%	\$177.4	\$9.8

Hypothetical Balance is the estimated balance, starting with the market value of assets at the beginning of the stated time period, and then bringing the asset balance forward each year assuming the cash flows were the same but actual returns exactly equaled the investment return assumption for that individual year.

Thus, the Excess/(Shortfall) represents the accumulated total actuarial gains or losses over the time period due to investment performance compared to the assumption.

Actual returns are time-weighted returns provided by TRS.

\$ amounts in billions.





## Table 12c

### History of Investment Returns

Year Ending August 31, (1)	Assumed Return (3)	Actual Return (2)
2003	8.00%	11.0%
2004	8.00%	11.9%
2005	8.00%	14.4%
2006	8.00%	9.6%
2007	8.00%	14.4%
2008	8.00%	-4.2%
2009	8.00%	-13.5%
2010	8.00%	10.7%
2011	8.00%	15.5%
2012	8.00%	7.4%
2013	8.00%	8.9%
2014	8.00%	16.8%
2015	8.00%	-0.3%
2016	8.00%	7.3%
2017	8.00%	12.9%
2018	7.25%	7.7%
2019	7.25%	5.0%
2020	7.25%	7.1%
2021	7.25%	24.8%
2022	7.25%	-6.7%
2023	7.00%	3.8%
5 Year Average		6.42%
10 Year Average		7.62%
20 Year Average		7.41%
30 Year Average		7.70%

## Table 13

### HISTORY OF CONTRIBUTION RATES

Fiscal Year	Actuarially Determined Employer Contribution Rate	Aggregate Employer Contribution Rate	Percentage Contributed	Member Contribution Rate	Total Contribution Rate (3) + (5)
(1)	(2)	(3)	(4)	(5)	(6)
1984/85		7.100%		6.000%	13.100%
1985/86		8.000%		6.400%	14.400%
1986/87		8.000%		6.400%	14.400%
1987/88		7.200%		6.400%	13.600%
1988/89		7.200%		6.400%	13.600%
1989/90		7.650%		6.400%	14.050%
1990/91		7.650%		6.400%	14.050%
1991/92		7.310%		6.400%	13.710%
1992/93		7.310%		6.400%	13.710%
1993/94		7.310%		6.400%	13.710%
1994/95		7.310%		6.400%	13.710%
1995/96		6.000%		6.400%	12.400%
1996/97	6.00%	6.000%	100%	6.400%	12.400%
1997/98	6.00%	6.000%	100%	6.400%	12.400%
1998/99	4.12%	6.000%	146%	6.400%	12.400%
1999/00	4.92%	6.000%	122%	6.400%	12.400%
2000/01	4.12%	6.000%	146%	6.400%	12.400%
2001/02	5.70%	6.000%	105%	6.400%	12.400%
2002/03	7.15%	6.000%	84%	6.400%	12.400%
2003/04	7.39%	6.000%	81%	6.400%	12.400%
2004/05	7.31%	6.000%	82%	6.400%	12.400%
2005/06	7.19%	6.000%	83%	6.400%	12.400%
2006/07	7.02%	6.000%	85%	6.400%	12.400%
2007/08	6.47%	6.580%	102%	6.400%	12.980%
2008/09	6.10%	6.580%	108%	6.400%	12.980%
2009/10	7.72%	6.644%	86%	6.400%	13.044%
2010/11	7.77%	6.644%	86%	6.400%	13.044%
2011/12	8.13%	6.000%	74%	6.400%	12.400%
2012/13	8.62%	6.400%	74%	6.400%	12.800%
2013/14	8.67%	6.800%	78%	6.400%	13.200%
2014/15	8.25%	7.700%	93%	6.700%	14.400%
2015/16	7.92%	7.700%	97%	7.200%	14.900%
2016/17	7.94%	7.700%	97%	7.700%	15.400%
2017/18	7.85%	7.710%	98%	7.700%	15.410%
2018/19	9.48%	7.710%	81%	7.700%	15.410%
2019/20	9.33%	8.440%	90%	7.700%	16.140%
2020/21	9.07%	8.510%	94%	7.700%	16.210%
2021/22	8.87%	8.890%	100%	8.000%	16.890%
2022/23	9.47%	9.120%	96%	8.000%	17.120%
2023/24	9.40%	9.400%	100%	8.250%	17.650%

Note: Aggregate employer contribution rate and total contribution rate for fiscal year 2023/2024 is estimated.



## Table 14a

### SCHEDULE OF FUNDING PROGRESS

Valuation As of August 31, (1)	Actuarial Value of Assets (in Millions) (2)	Actuarial Accrued Liability (AAL) (in Millions) (3)	Unfunded AAL (UAAL) (3) - (2) (in Millions) (4)	Funding Ratio Assets as % of AAL (2) / (3) (5)	Projected Payroll (in Millions) (6)	UAAL as a % of Projected Payroll (4) / (6) (7)
2023	\$ 199,664	\$ 257,543	\$ 57,880	77.5%	\$ 57,785	100.2%
2022	193,909	245,561	51,652	79.0%	54,198	95.3%
2021	180,599	228,247	47,648	79.1%	51,356	92.8%
2020	167,432	218,038	50,605	76.8%	49,987	101.2%
2019	160,233	209,720	49,486	76.4%	47,414	104.4%
2018	154,051	200,216	46,165	76.9%	44,956	102.7%
2017	146,282	181,753	35,471	80.5%	43,164	82.2%
2016	138,786	174,239	35,453	79.7%	42,376	83.7%
2015	133,485	166,453	32,968	80.2%	39,620	83.2%
2014	128,398	160,036	31,638	80.2%	38,522	82.1%
2013	121,730	150,666	28,936	80.8%	37,104	78.0%
2012	118,326	144,427	26,101	81.9%	36,310	71.9%
2011	115,253	139,315	24,062	82.7%	36,797	65.4%
2010	111,293	134,191	22,899	82.9%	36,629	62.5%
2009	106,384	128,029	21,646	83.1%	35,097	61.7%
2008	110,233	121,757	11,523	90.5%	33,238	34.7%
2007	103,419	115,964	12,545	89.2%	31,114	40.3%
2006	94,218	107,911	13,694	87.3%	28,397	48.2%
2005	89,299	102,495	13,196	87.1%	25,957	50.8%
2004	88,784	96,737	7,953	91.8%	25,485	31.2%
2003	89,033	94,263	5,230	94.5%	25,756	20.3%
2002	86,035	89,322	3,287	96.3%	24,818	13.2%
2001	86,352	84,217	(2,135)	102.5%	23,365	(9.1%)
2000	79,328	73,882	(5,446)	107.4%	21,920	(24.8%)
1999	69,435	67,245	(2,190)	103.3%	19,529	(11.2%)
1998	60,357	57,893	(2,463)	104.3%	18,325	(13.4%)
1997	53,760	53,906	146	99.7%	17,044	0.9%

Note: Actuarial assumptions were modified in 2004, 2008, 2011, 2015, 2018 and 2022.



## Table 14b

### SOLVENCY TEST (DOLLARS IN MILLIONS)

Valuation As of August 31, (1)	Aggregate Actuarial Accrued Liabilities For			Valuation Assets (5)	Portion of Aggregate Accrued Liabilities Covered by Valuation Assets		
	Active and Inactive Member Contributions (2)	Retirees and Beneficiaries (3)	Active Members State Financed Portion (4)		Active Member Contributions (6)	Retirees and Beneficiaries (7)	Active Members State Financed Portion (8)
2009	\$ 23,914	\$ 55,484	\$ 48,632	\$ 106,384	100%	100%	55.5%
2010	27,559	58,476	48,156	111,293	100%	100%	52.5%
2011	28,911	63,470	46,934	115,253	100%	100%	48.7%
2012	30,006	68,449	45,972	118,326	100%	100%	43.2%
2013	31,365	73,841	45,460	121,730	100%	100%	36.3%
2014	33,028	78,431	48,576	128,398	100%	100%	34.9%
2015	33,856	82,535	50,062	133,485	100%	100%	34.1%
2016	34,803	86,986	52,451	138,786	100%	100%	32.4%
2017	36,513	90,573	54,667	146,282	100%	100%	35.1%
2018	37,834	101,911	60,472	154,051	100%	100%	23.7%
2019	39,212	105,702	64,806	160,233	100%	100%	23.6%
2020	41,470	109,030	67,538	167,432	100%	100%	25.1%
2021	43,906	113,352	70,989	180,599	100%	100%	32.9%
2022	45,700	121,489	78,372	193,909	100%	100%	34.1%
2023	48,096	125,984	83,463	199,664	100%	100%	30.7%



## Table 15a

### STATISTICAL INFORMATION - ACTIVE AND INACTIVE MEMBERS

	August 31,		
	2023	2022	2021
	(1)	(2)	(3)
A. Number			
1. Active Members			
a. Total active members	953,293	928,415	918,539
b. Average age	44.7	44.7	44.8
c. Average service	10.3	10.5	10.5
2. Inactive Vested Members			
a. Male members	29,203	27,101	25,157
b. Female members	104,897	97,856	91,744
c. Total inactive vested members	134,100	124,957	116,901
3. Inactive Nonvested Members	424,658	419,580	384,340
B. Annualized Salaries			
1. Active members			
a. Total active members	\$ 54,435,365,991	\$ 50,849,465,096	\$ 49,354,768,292
b. Average annual salary	57,102	55,639	53,732
C. Accumulated Members Contributions			
1. Total Active Members	41,944,613,675	40,091,853,053	38,795,711,419
2. Inactive Vested Members			
a. Male members	\$ 1,091,567,780	\$ 984,118,915	\$ 896,160,745
b. Female members	3,920,904,888	3,553,446,018	3,268,170,744
c. Total inactive vested members	\$ 5,012,472,668	\$ 4,537,564,933	\$ 4,164,331,489
3. Inactive Nonvested Members	\$ 1,138,614,072	\$ 1,070,097,132	\$ 946,018,345
D. Active Members in DROP (not included in above totals)			
1. Number	2	3	6

## Table 15b

### STATISTICAL INFORMATION - RETIRED MEMBERS

	August 31,		
	2023	2022	2021
	(1)	(2)	(3)
<b>E. Persons Receiving Benefits</b>			
<b>1. Number</b>			
a. Life annuities	457,779	444,557	427,995
b. Annuities certain	2,368	2,326	2,078
c. Disability annuities - less than 10 years of service	103	107	120
d. Disability annuities - 10 or more years of service	11,830	11,800	11,772
e. Incomplete data records	0	0	0
<b>f. Survivor annuities</b>			
1) Currently in pay	16,936	16,225	15,262
2) Deferred	905	937	906
3) Total	<u>17,841</u>	<u>17,162</u>	<u>16,168</u>
g. Total persons receiving benefits	489,921	475,952	458,133
<b>2. Annual Annuities</b>			
a. Life annuities *	\$ 12,079,732,955	\$ 11,598,481,204	\$ 11,018,664,176
b. Annuities certain *	34,344,422	33,083,378	28,637,607
c. Disability annuities - less than 10 years of service	169,200	192,600	216,000
d. Disability annuities - 10 or more years of service	181,329,214	177,850,635	174,444,632
<b>e. Survivor annuities</b>			
1) Currently in pay	50,825,459	48,780,359	45,889,500
2) Deferred	2,708,100	2,802,100	2,709,160
3) Total	<u>53,533,559</u>	<u>51,582,459</u>	<u>48,598,660</u>
f. Total persons receiving benefits	\$ 12,349,109,350	\$ 11,861,190,276	\$ 11,270,561,075
<b>g. Average monthly annuities</b>			
1) Life annuities *	\$ 2,199	\$ 2,174	\$ 2,145
2) Annuities certain *	1,209	1,185	1,148
3) Disability annuities - 10 or more years of service	1,277	1,256	1,235

\* Annual and average life annuity amounts represent values after Partial Lump Sum Option Elections.

## Table 16

### STATEMENT OF PLAN NET ASSETS

	August 31, 2023	August 31, 2022
	(1)	(2)
<b>A. ASSETS</b>		
1. Current Assets		
a. Cash and short term investments		
1) Cash on hand and State Treasury	\$ 481,384,037	\$ 950,918,900
2) Short term investments	9,681,597,696	9,060,213,238
b. Accounts Receivable		
1) Member contributions	17,765,902	18,508,443
2) School districts	549,943,258	515,853,023
3) Employees Retirement System	2,729,453	2,622,347
4) State	14,091,571	21,461,474
5) Sale of investments	2,836,619,259	3,519,302,816
6) Interest and dividends	403,955,307	314,756,830
7) Other	3,449,461	2,810,471
c. Prepaid assets	344,488	1,746,692
d. Total current assets	13,991,880,432	14,408,194,234
2. Long Term Investments		
a. Fixed income	\$ 27,444,070,364	\$ 27,799,209,308
b. Alternative assets	103,609,133,706	98,204,472,880
c. Equities	45,778,659,456	44,037,446,699
d. Pooled investments	16,782,940,493	16,056,005,430
e. Invested securities lending collateral	5,675,098,936	6,957,897,984
f. Total long term investments	\$ 199,289,902,955	\$ 193,055,032,301
3. Other Assets		
a. Non-depreciable assets	\$ 162,001,141	\$ 131,579,013
b. Building and equipment after depreciation	28,741,177	27,091,990
c. Deferred assets	50,173,422	51,448,955
4. d. Total other assets	\$ 240,915,740	\$ 210,119,958
Total Assets	\$ 213,522,699,127	\$ 207,673,346,493
<b>B. LIABILITIES</b>		
1. Current Liabilities		
a. Accounts payable	\$ 135,283,693	\$ 118,304,755
b. Benefits payable	317,818,243	273,747,454
c. Due to Employees Retirement System	41,109,093	10,186,062
d. Due to State's General Revenue Fund	9,361,039	42,658,408
e. Investments purchased payable	751,039,668	3,146,183,242
f. Other Liabilities	2,745,948,771	948,663,343
g. Collateral Obligations and Repurchase Agreement	22,262,354,492	18,933,624,941
h. Total current liabilities	\$ 26,262,914,999	\$ 23,473,368,205
2. Deferred Credits	89,248,570	14,361,092
3. Total Liabilities and Deferred credits	26,352,163,569	23,487,729,297
<b>C. NET ASSETS HELD IN TRUST</b>	\$ 187,170,535,558	\$ 184,185,617,196
<b>D. ASSET ALLOCATION FOR CASH &amp; LONG TERM INVESTMENTS</b>		
1. Cash	4.9%	4.9%
2. Fixed Income	13.1%	13.7%
3. Alternative Assets	49.4%	48.4%
4. Equities	21.9%	21.7%
5. Pooled investments	8.0%	7.9%
6. Invested securities lending collateral	2.7%	3.4%
7. Total	100.0%	100.0%

## Table 17

### DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND BY YEARS OF SERVICE AS OF 08/31/2023

Attained Age	Years of Credited Service												Total
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	
	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.
Under 25		17,871 \$30,440	7,215 \$36,856	1,803 \$33,304	803 \$31,046	292 \$33,286							27,984 \$32,326
25-29		23,343 \$37,897	20,710 \$47,806	14,545 \$52,363	12,424 \$53,308	16,375 \$54,334	86 \$47,672						87,483 \$47,923
30-34		17,110 \$37,675	13,411 \$47,413	9,183 \$51,856	10,606 \$52,928	48,409 \$59,099	10,293 \$63,299	79 \$55,436					109,091 \$53,486
35-39		14,353 \$37,812	10,872 \$47,598	7,231 \$52,616	8,473 \$53,177	36,263 \$59,224	33,646 \$67,063	8,984 \$69,167	57 \$64,156				119,879 \$57,728
40-44		12,312 \$37,788	9,137 \$47,873	6,088 \$52,487	7,448 \$51,877	31,067 \$58,109	24,930 \$66,537	32,927 \$72,120	7,037 \$74,166	94 \$69,236			131,040 \$60,865
45-49	1 \$19,425	9,616 \$37,555	7,165 \$46,982	4,811 \$51,692	6,022 \$51,289	25,846 \$56,440	19,567 \$64,566	23,613 \$70,362	24,811 \$76,885	5,832 \$79,169	63 \$67,522		127,347 \$62,918
50-54		8,018 \$36,665	6,139 \$45,169	4,244 \$50,531	5,180 \$51,566	22,699 \$54,762	18,412 \$61,149	21,284 \$66,253	19,492 \$72,415	20,038 \$80,184	3,611 \$82,115	39 \$67,423	129,156 \$63,096
55-59		6,051 \$34,718	4,723 \$44,316	3,112 \$48,211	4,053 \$48,876	17,005 \$51,295	13,836 \$56,758	17,644 \$60,652	15,051 \$64,422	10,165 \$72,185	8,133 \$83,364	1,407 \$81,566	101,180 \$59,215
60-64		4,187 \$32,089	3,215 \$40,186	2,123 \$45,095	2,867 \$46,524	12,691 \$48,561	10,406 \$54,707	13,284 \$57,859	10,064 \$60,333	7,058 \$64,095	3,889 \$73,084	3,062 \$82,918	72,846 \$55,522
65 +		3,075 \$27,001	2,270 \$34,606	1,513 \$38,426	2,100 \$40,360	9,062 \$44,594	7,106 \$51,675	7,033 \$55,442	5,669 \$58,263	4,192 \$59,912	2,704 \$63,231	2,563 \$74,779	47,287 \$50,961
Total	1 \$19,425	115,936 \$31,222	84,857 \$42,563	54,653 \$49,492	59,976 \$50,901	219,709 \$55,974	138,282 \$62,784	124,848 \$66,487	82,181 \$69,989	47,379 \$74,131	18,400 \$77,933	7,071 \$79,613	953,293 \$57,102

Note: Table includes contributing members but excludes members in DROP.





## Table 18

### DISTRIBUTION OF LIFE ANNUITIES BY AGE

Age	Number	Annual Annuities	Monthly Average Annuity
(1)	(2)	(3)	(4)
Up to 35	534	\$ 7,577,688	\$ 1,183
35-40	434	6,137,495	1,178
40-44	659	9,758,275	1,234
45-49	870	13,174,713	1,262
50-54	5,310	206,677,384	3,244
55-59	23,204	891,055,538	3,200
60-64	55,632	1,841,315,221	2,758
65-69	94,407	2,638,011,338	2,329
70-74	105,099	2,671,804,710	2,118
75-79	82,443	1,912,417,290	1,933
80-84	49,094	1,039,794,859	1,765
85-89	26,071	543,183,956	1,736
90-94	11,034	236,893,683	1,789
95-99	2,633	54,906,363	1,738
100 & up	355	7,024,442	1,649
<b>TOTAL</b>	<b>457,779</b>	<b>\$ 12,079,732,955</b>	<b>\$ 2,199</b>

## Table 19

### DISTRIBUTION OF DISABLED ANNUITIES BY AGE

Age (1)	Number (2)	Annual Annuities (3)	Monthly Average Annuity (4)
Up to 35	3	\$ 44,386	\$ 1,233
35-40	29	396,240	1,139
40-44	147	2,438,364	1,382
45-49	344	6,676,593	1,617
50-54	975	20,447,553	1,748
55-59	1,687	30,024,650	1,483
60-64	2,293	35,729,095	1,298
65-69	2,336	32,737,031	1,168
70-74	1,827	23,576,103	1,075
75-79	1,120	13,869,720	1,032
80-84	559	7,391,898	1,102
85-89	306	4,653,504	1,267
90-94	165	2,689,305	1,358
95 -99	35	577,311	1,375
100 & up	4	77,461	1,614
 TOTAL	 11,830	 \$ 181,329,214	 \$ 1,277

## Table 20

### RETIREES, BENEFICIARIES, AND DISABLED PARTICIPANTS ADDED TO AND REMOVED FROM ROLLS

Valuation August 31, (1)	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances (8)	Average Annual Allowances (9)
	Number (2)	Annual Allowances (3)	Number (4)	Annual Allowances (5)	Number (6)	Annual Allowances (7)		
2005	15,153	\$ 292,452,315	7,271	\$ 127,291,874	248,509	\$ 5,078,438,869	3.4%	\$ 20,436
2006	15,810	324,292,542	7,175	120,623,840	257,144	5,282,107,571	4.0%	20,541
2007	15,861	336,348,640	7,698	131,295,705	265,307	5,487,160,506	3.9%	20,682
2008	17,727	391,920,863	7,806	135,160,090	275,228	5,743,921,279	4.7%	20,870
2009	17,326	392,452,923	7,940	136,537,511	284,614	5,999,836,691	4.5%	21,081
2010	20,076	473,512,423	8,199	142,187,645	296,491	6,331,161,469	5.5%	21,354
2011	24,688	620,038,676	8,499	147,985,004	312,680	6,803,215,141	7.5%	21,758
2012	27,915	697,134,389	8,848	155,597,838	331,747	7,344,751,692	8.0%	22,140
2013	25,825	743,998,946	9,344	165,231,795	348,228	7,923,518,843	7.9%	22,754
2014	24,429	573,876,713	9,475	174,915,127	363,182	8,322,480,429	5.0%	22,915
2015	25,134	604,436,264	10,578	191,966,951	377,738	8,734,949,742	5.0%	23,124
2016	27,018	673,313,552	10,842	195,097,916	393,914	9,213,165,378	5.5%	23,389
2017	24,739	613,145,920	10,885	203,792,399	407,768	9,622,518,899	4.4%	23,598
2018	24,317	611,173,964	11,627	219,236,845	420,458	10,014,456,018	4.1%	23,818
2019	25,420	642,167,173	11,452	217,977,284	434,426	10,438,645,907	4.2%	24,029
2020	24,197	630,241,319	13,349	256,566,773	445,274	10,812,320,453	3.6%	24,282
2021	28,174	748,954,294	15,315	290,713,672	458,133	11,270,561,075	4.2%	24,601
2022	32,756	877,905,521	14,937	287,276,320	475,952	11,861,190,276	5.2%	24,921
2023	28,283	773,088,024	14,314	285,168,950	489,921	12,349,109,350	4.1%	25,206

## **APPENDIX 1**

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### **SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT FUND**

# APPENDIX 1

## Summary of Benefit Provisions of the Retirement Fund As of August 31, 2019

The Teacher Retirement System of Texas provides retirement, disability, and death and survivor benefits to all employees of the public school system of Texas. The major provisions of the Fund may be summarized as follows:

### A. RETIREMENT BENEFITS

#### 1. Grandfather Criteria:

To be grandfathered, you must have met at least one of the following requirements as a member on or before August 31, 2005: (i) at least 50 years old, or (ii) age and years of service credit equal at least 70, or (iii) have at least 25 years of service credit.

#### 2. Normal Retirement:

(a) end of month following age 65 and 5 years of creditable service,

(b) (i) For members hired on or before August 31, 2007: end of month following attainment of "Rule of 80"

(ii) For members hired after August 31, 2007 and who are vested as of August 31, 2014: end of month following attainment of "Rule of 80" with minimum age of 60.

(iii) For members who are not vested as of August 31, 2014: end of month following attainment of "Rule of 80" with minimum age of 62.

#### Standard Annuity:

The product of 2.3% of the member's average compensation multiplied by years of creditable service. The average compensation is calculated as the average of the highest five annual salaries (based on creditable compensation). Members who as of August 31, 2005, were either age 50, had 25 years of service, or whose age plus service totaled 70 have their standard annuity calculated using the average of their highest three annual salaries.

#### Normal Retirement Benefits:

Greater of standard annuity, or \$150 per month.

#### 3. Early Retirement:

(a) after age 55 with 5 or more years of creditable service, or

(b) after 30 years of creditable service, regardless of age.

(c) For members hired after August 31, 2007, end of month following attainment of "Rule of 80".



## APPENDIX 1 (Continued)

### Early Retirement Benefits:

- (a) If a member was hired prior to September 1, 2007, has more than 30 years of service but does not meet the Rule of 80, and has maintained continuous membership until retirement, the early retirement benefit is equal to the normal retirement benefit earned to the date of retirement, reduced by 2% for each point the member is less than age 50.
- (b) If a member is grandfathered the early retirement benefit is equal to the normal retirement benefit earned to the date of retirement, reduced according to the following table:

Years of Service	AGE AT DATE OF RETIREMENT					
	55	56	57	58	59	60
20	90%	92%	94%	96%	98%	100%
21	92%	94%	96%	98%	100%	100%
22	94%	96%	98%	100%	100%	100%
23	96%	98%	100%	100%	100%	100%
24	98%	100%	100%	100%	100%	100%
25	100%	100%	100%	100%	100%	100%
26	100%	100%	100%	100%	100%	100%
27	100%	100%	100%	100%	100%	100%
28	100%	100%	100%	100%	100%	100%
29	100%	100%	100%	100%	100%	100%
30 or more	100%	100%	100%	100%	100%	100%

- (c) If the member was hired after August 31, 2007 and is vested as of August 31, 2014 and the member has met the “Rule of 80” or has 30 years of service the benefit is reduced 5% per year from age 60.
- (d) If the member is not vested as of August 31, 2014 and the member has met the “Rule of 80” or has 30 years of service the benefit is reduced 5% per year from age 62.
- (e) If the member does not meet any of the conditions (a) – (d) above, the early retirement benefit is equal to the normal retirement benefit earned to the date of retirement, reduced according to the following table:

AGE AT DATE OF RETIREMENT										
55	56	57	58	59	60	61	62	63	64	65
43%	46%	50%	55%	59%	64%	70%	76%	84%	91%	100%

For further details of the early retirement reductions by Tier please see TRS Rule 29.12



## APPENDIX 1 (Continued)

### 4. Normal Form of Benefit:

Straight life annuity payable monthly with benefits commencing at end of month following retirement with the last payment payable on behalf of the annuitant in the month of death.

### 5. Optional Forms:

**Option 1** - Joint and 100% survivor, benefit reverts to normal form following the death of the joint annuitant.

**Option 2** - Joint and 50% contingent survivor, benefit reverts to normal form following the death of the joint annuitant.

**Option 3** - 5 years certain and life.

**Option 4** - 10 years certain and life.

**Option 5** - Joint and 75% contingent survivor, benefit reverts to normal form following the death of the joint annuitant.

### 6. Deferred Retirement Option Plan (DROP):

#### (a). Eligibility:

- 1) Must be an active contributing member.
- 2) Must be eligible for a standard service retirement annuity that is not reduced for retirement at an early age.
- 3) Must have at least 25 years of creditable service.
- 4) Must have entered the DROP program before January 1, 2006.

#### (b). Program Summary:

- 1) Participation begins the 1st of the month following the member's application and TRS approval of the application. Participation may begin in any month.
- 2) Participation may range from a minimum of one year to a maximum of five years, in 12-month increments. The member elects the period of participation at the outset.
- 3) The amount of the member's standard annuity is established as of the date of participation in the DROP. This amount is also used in determining the monthly deposit to the DROP account. A member will not accumulate further retirement annuity benefits during DROP participation, i.e., no further credit will be achieved from years of service or compensation changes.



## APPENDIX 1 (Continued)

- 4) Any special service credit that a member wishes to purchase must be paid in full prior to DROP participation.
- 5) A separate DROP account will be established for each participating member. Each month, an amount equal to 60 percent of the calculated standard annuity will be deposited into the account. At retirement, the account plus interest at the rate of five percent per annum will be distributed.
- 6) Member and employer contributions continue during DROP participation. Contributions are not deposited into the member's DROP account and will not be refunded.
- 7) Three events terminate participation - death, retirement or expiration of the participation period.
- 8) Upon retirement, participating members will receive their retirement annuity plus the balance in their DROP account including interest. DROP balances may be paid by TRS in a lump sum or on a time payout selected by the member.

### 7. Partial Lump-Sum Option Program:

Members eligible for unreduced retirement and either (1) grandfathered or (2) meeting the Rule of 90, and not participating in the DROP program, may select a partial lump-sum distribution not to exceed an amount equal to 36 months of a standard service retirement annuity. When this option is selected, the member's annuity will be actuarially reduced to reflect that distribution and will be computed so that no actuarial loss results to TRS.

The percentage shown in the following table will be applied to reduce the standard annuity when the partial lump-sum option is elected.



## APPENDIX 1 (Continued)

Age	Percentage of Standard Annuity		
	12 Months	24 Months	36 Months
45	92.49	84.97	77.46
46	92.45	84.90	77.34
47	92.41	84.81	77.22
48	92.36	84.72	77.09
49	92.31	84.63	76.94
50	92.26	84.53	76.79
51	92.21	84.42	76.63
52	92.15	84.30	76.45
53	92.09	84.17	76.26
54	92.02	84.04	76.06
55	91.95	83.89	75.84
56	91.87	83.74	75.60
57	91.78	83.57	75.35
58	91.69	83.39	75.08
59	91.59	83.19	74.78
60	91.49	82.97	74.46
61	91.37	82.74	74.10
62	91.24	82.48	73.72
63	91.10	82.20	73.30
64	90.95	81.90	72.84
65	90.78	81.57	72.35
66	90.61	81.21	71.82
67	90.41	80.83	71.24
68	90.20	80.41	70.61
69	89.97	79.95	69.92
70	89.73	79.45	69.18
71	89.46	78.91	68.37
72	89.16	78.32	67.48
73	88.84	77.68	66.52
74	88.49	76.97	65.46
75	88.10	76.20	64.31
76	87.68	75.36	63.04
77	87.22	74.43	61.65
78	86.71	73.42	60.13
79	86.15	72.30	58.45
80	85.53	71.06	56.60
81	84.85	69.70	54.55
82	84.10	68.19	52.29
83	83.26	66.52	49.78
84	82.33	64.66	46.99
85	81.30	62.59	43.89
86	80.14	60.28	40.42
87	79.09	58.19	37.28
88	78.00	56.00	34.00
89	76.81	53.62	30.43
90	75.52	51.04	26.56
91	74.13	48.26	22.39



## APPENDIX 1 (Continued)

8. Minimum Annuity Payments:

Total annuity payments shall in no case be less than the member's accumulated contributions at retirement. Upon the death of a retiree, the excess, if any, of accumulated contributions over total annuity payments received prior to death will be paid to the beneficiary.

B. DISABILITY BENEFITS

1. Less than 10 years of creditable service: \$150.00 per month for the shorter of:

- (a) disability, or
- (b) number of months of creditable service as of date of disability retirement.

2. At least 10 years of creditable service: the greater of accrued retirement income or \$6.50 per month per year of creditable service, payable for duration of disability; disability presumed continuous if it continues past age 60. The minimum disability payment made on behalf of a member will be no less than \$150.00 per month.

C. DEATH BENEFITS

1. Eligibility: applicable if death occurs:

- (a) in service,
- (b) while absent from service for good cause,
- (c) while not in service but eligible to retire,
- (d) while not in service but would be eligible to retire without additional service before April 15 of the sixth school year after last creditable year of service, or
- (e) while receiving a disability benefit, but only eligible for 2f, below.

2. Benefit: any one of the following, at the option of the beneficiary:

- (a) a lump sum (not to exceed \$80,000) equal to two times the rate of pay for the last year of service,
- (b) a lump sum (not to exceed \$80,000) equal to two times annual pay for the year preceding last year of service,
- (c) 60 monthly payments of accrued standard annuity,
- (d) a life annuity payable under Option 1 as if the member had retired on the last day of the month preceding death,
- (e) a refund of accumulated contributions, or



## APPENDIX 1 (Continued)

(f) the survivor benefits, if eligible.

Note: Items (c) and (d) available only if member has at least 5 years of creditable service.

3. Benefit if Absent from Service Without Good Cause: return of accumulated contributions.

### D. SURVIVOR BENEFITS

1. Benefits: (a) or (b) at the election of the beneficiary:

(a) lump sum payment of \$10,000, or

(b) lump sum payment of \$2,500 plus one of the following, if the designated beneficiary is eligible:

(i) if a spouse or dependent parent, \$250 per month commencing at age 65,

(ii) if a spouse with children under age 18, \$350 per month until youngest child reaches 18, then \$250 per month commencing at spouse's age 65, or

(iii) if dependent children, \$350 per month as long as at least two dependent children under 18, reducing to \$250 per month when there is only one child under 18.

If benefits are payable under (i) or (ii) above and eligible spouse or dependent dies, payments will revert in accordance with (iii) above.

2. Eligibility:

(a) all employees eligible for a death benefit other than refund of accumulated contributions,

(b) any retired member, in addition to any benefit provided by his or her option of payment, or

(c) any disabled participant, in lieu of other death benefits (Item C2).

### E. VESTING OF BENEFITS

1. Vesting: a member is fully vested after 5 years of creditable service.

2. Benefits upon Vesting: a fully vested member is entitled to the following:

(a) upon becoming inactive, not required to withdraw accumulated contributions within seven years,

(b) may apply at age 65 for normal retirement benefit equal to accrued standard annuity, or



## APPENDIX 1 (Continued)

- (c) may apply for any other retirement benefits for which he or she is eligible upon satisfying age requirement (if applicable) if he or she satisfied the corresponding service requirement at time of last termination; benefit is based on his or her full accrued standard annuity.

### F. MEMBER CONTRIBUTIONS

7.70% of compensation per year for Fiscal Years 2020 and 2021, 8.00% for Fiscal Years 2022 and 2023, and 8.25% for Fiscal Years on and after 2024.

### G. STATE CONTRIBUTIONS

State will contribute 7.50% of member compensation for Fiscal Year 2020 and Fiscal Year 2021, 7.75% for Fiscal Year 2022, 8.00% for Fiscal Year 2023, and 8.25% for Fiscal Year 2024 and each year thereafter. Public education employers will contribute 1.50% of pay (capped at the minimum salary schedule) in Fiscal Year 2020, increasing by 0.1% per year from Fiscal Year 2022 to Fiscal Year 2025 and remaining at 2.00% thereafter. Combined it is expected that these contributions will be approximately 9.50% of total payroll beginning in Fiscal Year 2025.

### H. LEGISLATIVE CHANGES MADE BY THE 1991 STATE LEGISLATURE

1. The minimum retirement benefit increased from \$75 to \$100 per month.
2. The disability death benefit changed to the same as a service retirement death benefit.
3. An ad hoc cost of living increase was approved for members who retired prior to May 1, 1989. The increase does not apply to a survivor benefit or to a disability benefit for a member who had less than 10 years of service at the time of retirement or death. The amount of the increase is five-tenths of one percent of each full six-month period between the latest effective date of retirement (or date of death) and August 1, 1991. The increase begins August 1991.

### I. LEGISLATIVE CHANGES MADE BY THE 1993 STATE LEGISLATURE

1. Increase in survivor benefit by \$50 per month.
2. Retroactive minimum benefit of \$6.50 per year of service for members retired as of November 1, 1991.
3. An ad hoc cost of living increase approximating a 25% CPI catch-up. The actual percentage increase varies by year of retirement and has a minimum increase of 5%. The increase begins with the January, 1994 annuity check and covers all benefit recipients who began receiving benefits before August 31, 1991, except that it does not apply to survivor benefits or to a disability benefit for a member who had less than 10 years of service at the time of retirement or death.
4. ERS/TRS transfer provisions.



## APPENDIX 1 (Continued)

- (a) Service credit transfers allowed if the participant is a member of both ERS and TRS and has at least three years of service credit in the Fund from which the member is retiring.
- (b) A member may reinstate or purchase service credit in the other Fund prior to making the transfer if that member has at least three years of service credit in the current Fund.
- (c) TRS and ERS will jointly set rules for the assumptions used in computing asset transfer amounts. The transfer of funds between ERS and TRS takes place at the time of actual retirement.

### J. LEGISLATIVE CHANGES MADE BY THE 1995 STATE LEGISLATURE

- 1. Unreduced benefits at retirement were expanded to include participants age 50 or older with 30 or more years of service.
- 2. Annuitants' benefits increased in an amount equal to the greater of:
  - (a) A recalculation of benefits based on
    - (i) January 1, 1995 law with all intervening ad hoc increases, plus
    - (ii) A CPI catch-up increase.
  - (b) A recalculation of benefits for retirees who retired before September 1, 1993, based on a 2% multiplier and a minimum annual salary of a classroom teacher or full-time librarian as described by the Education Code. This annual salary is currently \$17,000 based on current Education Code.
- 3. Treat all Option 1 and Option 2 benefits as including the pop-up feature.
- 4. The annuity payment in the month of death is payable on behalf of the annuitant.
- 5. The disability benefit payable when a member has less than ten years of service increased from \$50 per month to \$150 per month for both current and future disabled members. The minimum disability payment made on behalf of a member with ten or more years of service shall be no less than \$150 per month.
- 6. The benefit increase reserve account in TRS was eliminated, resulting in the liability for all annuity benefits being included within the retired reserve account.
- 7. The maximum two-times-pay death benefit payable on behalf of a member would increase from \$60,000 to \$80,000.

### K. LEGISLATIVE CHANGES MADE BY THE 1997 STATE LEGISLATURE

- 1. Driver's education pay is added to plan compensation for the determination of a member's best 3-year average compensation.



## APPENDIX 1 (Continued)

2. Disabled participants are allowed to select a Joint and Survivor annuity option after commencement of disability benefits, if they become married after date of disability.
3. Retirees are allowed to change the designated beneficiary for pension benefits payable after their death under certain conditions.
4. Adoption of "Rule of 80" criteria for unreduced standard retirement annuity (i.e., sum of member's age & credited service is greater than or equal to 80).
5. Elimination of \$6.50 per month per year of service minimum standard retirement annuity benefit.
6. Addition of \$50.00 to the minimum survivor benefit.
7. Creation of a Deferred Retirement Option Program (DROP), described in Item A6 above.
8. A CPI catch-up ad hoc cost-of-living increase for retired members.

### L. LEGISLATIVE CHANGES MADE BY THE 1999 STATE LEGISLATURE

1. Increased multiplier from 2.0% to 2.2% effective September 1, 1999, and an equivalent 10% increase for all retirees.
2. A CPI catch-up ad hoc cost-of-living increase for retired members.
3. Established a partial lump-sum option at time of retirement.
4. DROP participant enrolled on or before August 31, 1999, have a one-year window from September 1, 1999 to revoke DROP participation.
5. For members entering DROP on or after September 1, 1999, the monthly DROP deposit will be reduced from 79% to 60% of the standard annuity.
4. Provides a lump-sum death benefit of \$160,000 for an active member employed by a school district who dies due to a physical assault during the performance of their regular duties.
5. Allows a return to teaching after being retired at least 12 months without a reduction in the retirement benefit under certain circumstances.

### M. LEGISLATIVE CHANGES MADE BY THE 2001 STATE LEGISLATURE

1. Increased multiplier from 2.2% to 2.3% effective September 1, 2001, and an equivalent 4.5% increase for all retirees.
2. A 6% ad hoc increase for retired members.
3. Increase in survivor benefits of \$50 per month.



## APPENDIX 1 (Continued)

4. Allows a return to work as a bus driver with no reduction in the monthly benefit if retired with an unreduced benefit.
5. Permits purchase of up to 3 years of “air time” if the member has at least 7 years of actual membership service. Purchase price is the full actuarial cost of the purchased service.

### N. LEGISLATIVE CHANGES MADE BY THE 2003 STATE LEGISLATURE

1. For employees hired on or after September 1, 2003, a 90-day waiting period is required for participation in TRS. Members may have the option to purchase this service. This provision is set to expire on September 1, 2005.
2. Limits the collection of overpayments to the three years prior to the overpayment discovery, except in cases of fraud or knowledge by the participant that the payments were incorrect.
3. Repealed the requirement that in order to reinstate service withdrawn after August 31, 2003, for the purposes of ERS/TRS transfer, the member must belong to the Fund from which the service is purchased.
4. Retirees who are employed by a third-party entity are considered to be employees of the school for return to work purposes unless the retiree does not perform duties or provide services in behalf of the school
5. Retirees may work as a substitute and on a half-time basis during a single calendar month as long as the total days worked do not exceed the number of days for one-half time employment for that month.

### O. LEGISLATIVE CHANGES MADE BY THE 2005 STATE LEGISLATURE

1. Final average salary at retirement will be determined by the highest five years (instead of three years) of salary, subsidized early retirement will be eliminated, and partial lump sum option eligibility will require a combined age plus years of creditable service that equals at least 90 (“Rule of 90”).
2. Future members (those who establish TRS membership on or after September 1, 2007) will have the following eligibility requirements to qualify for an unreduced annuity at retirement: (i) age 65 with 5 years of service, or (ii) age 60 with at least 5 years of service and meets the Rule of 80 (combined age and years of service equal at least 80).
3. Employers will be required to pay a monthly surcharge to the pension fund for each retiree working in a TRS-covered position and reported to TRS.
4. The Deferred Retirement Option Plan (DROP) is being discontinued for new participation effective December 31, 2005.



## APPENDIX 1 (Continued)

### P. LEGISLATIVE CHANGES MADE BY THE 2007 STATE LEGISLATURE

1. The State contribution rate was increased to 6.58% for fiscal year 2008. In addition, the new law requires the State contribution rate to be at least equal to the member contribution rate.
2. The Legislature authorized TRS to make a one-time payment (13<sup>th</sup> check) in January 2008, if the August 31, 2007 actuarial valuation showed that the funding period would be less than 31 years with the payment. The payment is equal to the lesser of the member's December monthly payment or \$2,400. To be eligible a retiree must have retired on or before December 31, 2006.

### Q. LEGISLATIVE CHANGES MADE BY THE 2009 STATE LEGISLATURE

The Legislature included funding for a one-time supplemental payment of \$500 million for current retirees. This appropriation was contingent upon a ruling by the Attorney General's office that such a payment is permissible under State law. The Attorney General determined this payment was not permissible, and therefore the additional appropriation will be contributed to the Trust as additional contributions, increasing the State contribution rate to an effective 6.644% for the biennium.

### R. LEGISLATIVE CHANGES MADE BY THE 2013 STATE LEGISLATURE

1. The normal retirement eligibility for members who are not vested as of August 31, 2014 to the "Rule of 80" with minimum age 62 (was minimum age of 60).
2. For members who are not vested as of August 31, 2014, their early retirement benefit will be reduced from age 62 (was 60) if they meet the Rule of 80" but are not eligible for normal retirement.
3. The Legislature granted an ad hoc COLA for members in payment status since August 31, 2004. The payment is equal to the lesser of \$100 or 3% of their monthly payment.
4. The member contribution rate will increase to 6.70% in fiscal year 2015, 7.20% in fiscal year 2016, and 7.70% for fiscal years on and after 2017.
5. The State's contribution rate increased to 6.80% in fiscal year 2014.
6. Covered employers whose employees are not participating in Social Security whose positions are subject to the state statutory minimum salary schedule will begin contributing 1.50% of pay in fiscal year 2015.

### S. LEGISLATIVE CHANGES MADE BY THE 2019 STATE LEGISLATURE

1. The Legislature authorized TRS to make a one-time payment (13<sup>th</sup> check) and provided a lump sum appropriation to cover the additional liability. The payment was equal to the lesser of the member's monthly payment or \$2,000.





## APPENDIX 1 (Continued)

2. SB 12 increased the member contribution rate from 7.77% to 8.00% in fiscal year 2022 and 8.25% in fiscal year 2024.
3. SB 12 increased the base contribution rate from 6.80% to 7.50% in fiscal year 2020, 7.75% in fiscal year 2022, 8.00% in fiscal year 2023, and 8.25% in fiscal year 2024.
4. SB 12 increased the employers who contribute the supplemental contribution from covered employers whose employees are not participating in Social Security to all public education employers. It also put in a schedule of increasing the 1.50% of pay to 2.00% by fiscal year 2025.
5. HB 3 created a mechanism for the State to provide additional salary increases to certain member groups. It was communicated that \$825 million was budgeted for this mechanism in Fiscal Year 2020.

### T. LEGISLATIVE CHANGES MADE BY THE 2021 STATE LEGISLATURE

1. The Legislature authorized TRS to make a one-time payment (13<sup>th</sup> check) and provided a lump sum appropriation to cover the additional liability. The payment was equal to the lesser of the member's monthly payment or \$2,400.

### S. LEGISLATIVE CHANGES MADE BY THE 2023 STATE LEGISLATURE

1. The Legislature authorized TRS to make a one-time payment and provided a lump sum appropriation to fully fund the additional liability. The payment was equal to \$7,500 for retirees who had reached the age of 75 and \$2,400 for those between age 70 and 75.
2. The Legislature authorized TRS to make a one-time increase in the monthly annuity for retirees and provided a lump sum appropriation to fully fund the additional liability. The amount of increase was based on the date of retirement for the member as follows:
  1. Retirees who retired in 2001 or before received a 6% increase
  2. Retirees who retired between 2002 and 2013 received a 4% increase
  3. Retirees who retired between 2014 and 2020 received a 2% increase

## **APPENDIX 2**

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### **ACTUARIAL ASSUMPTIONS AND METHODS**

## APPENDIX 2

### Actuarial Assumptions and Methods (Adopted July 15, 2022)

The following assumptions were developed and recommended based on an experience study performed in 2022. All of the assumptions are based on a combination of anticipated future experience and market observations. We believe all of the assumptions are reasonable and appropriate for this measurement. Please see our report dated July 15, 2022 for more discussion about the selection of these assumptions.

#### **ACTUARIAL ASSUMPTIONS**

1. Investment Return Rate 7.00% per annum, compounded annually, composed of an assumed 2.30% inflation rate and a 4.70% real rate of return, net of investment expenses
  
2. Mortality, Withdrawal, Disability Retirement, and Service Retirement Rates:

Rates and scales developed in the actuarial investigation as of August 31, 2021, with values at specimen ages shown in the tables below:

- a. Active Mortality: Based on the PUB(2010), Amount-Weighted, Below-Median Income, Teacher, Male and Female tables, with a 2-year set forward for male. The rates are projected on a fully generational basis by the long-term rates of scale UMP 2021 to account for future mortality improvements. Below are the samples rates for 2023 and 2053.

<b>2023 Mortality Rates</b>			<b>2053 Mortality Rates</b>		
<b>Age</b>	<b>Male</b>	<b>Female</b>	<b>Age</b>	<b>Male</b>	<b>Female</b>
<b>20</b>	0.000243	0.000109	<b>20</b>	0.000162	0.000072
<b>30</b>	0.000285	0.000142	<b>30</b>	0.000190	0.000095
<b>40</b>	0.000561	0.000335	<b>40</b>	0.000373	0.000223
<b>50</b>	0.001508	0.000779	<b>50</b>	0.001003	0.000518
<b>60</b>	0.003629	0.001710	<b>60</b>	0.002414	0.001137
<b>70</b>	0.009714	0.005238	<b>70</b>	0.006742	0.003602
<b>80</b>	0.036378	0.020075	<b>80</b>	0.026827	0.014406
<b>90</b>	0.157653	0.095668	<b>90</b>	0.134016	0.079145

## APPENDIX 2 (Continued)

b. Rates of Termination (net of applying rehire assumption)

### Probability of Decrement Due to Termination

Years of Service	Male/Female
1	0.143011
2	0.121016
3	0.101138
4	0.080224
5	0.072583
6	0.064553
7	0.056077
8	0.049875
9	0.044869
10	0.041029

The following table is used for all years after the first ten years of employment.

### Probability of Decrement Due to Termination Based on Years from Normal Retirement

Years from NR	Male/Female	Years from NR	Male/Female
1	0.016910	17	0.026005
2	0.018788	18	0.026231
3	0.019981	19	0.026448
4	0.020874	20	0.026654
5	0.021593	21	0.026853
6	0.022200	22	0.027043
7	0.022726	23	0.027226
8	0.023191	24	0.027403
9	0.023610	25	0.027573
10	0.023991	26	0.027738
11	0.024341	27	0.027898
12	0.024664	28	0.028052
13	0.024966	29	0.028202
14	0.025249	30	0.028348
15	0.025515	31	0.028489
16	0.025766	32	0.028627

## APPENDIX 2 (Continued)

c. Rates of Disability Retirement

The disability retirement rates for members once they reach the Rule of 80 but not eligible for unreduced retirement are adjusted by an additional 1%.

<b>Probability of Decrement Due to Disability</b>				
Age	For Service $\geq$ 10		For Service $<$ 10	
	Male/Female		Male/Female	
<b>20</b>	0.000149		0.000006	
<b>30</b>	0.000249		0.000010	
<b>40</b>	0.000332		0.000013	
<b>50</b>	0.001692		0.000068	
<b>60</b>	0.005945		0.000238	

d. Rates of Retirement

Age	Normal Retirement		Age	Early Retirement	
	Male	Female		Male/Female	
<b>50</b>	0.1100	0.1060	<b>45</b>	0.0060	
<b>51</b>	0.1100	0.1060	<b>46</b>	0.0060	
<b>52</b>	0.1100	0.1140	<b>47</b>	0.0060	
<b>53</b>	0.1100	0.1220	<b>48</b>	0.0060	
<b>54</b>	0.1100	0.1300	<b>49</b>	0.0060	
<b>55</b>	0.1100	0.1380	<b>50</b>	0.0060	
<b>56</b>	0.1200	0.1460	<b>51</b>	0.0060	
<b>57</b>	0.1300	0.1540	<b>52</b>	0.0060	
<b>58</b>	0.1400	0.1620	<b>53</b>	0.0060	
<b>59</b>	0.1500	0.1700	<b>54</b>	0.0060	
<b>60</b>	0.1500	0.1780	<b>55</b>	0.0060	
<b>61</b>	0.1600	0.1860	<b>56</b>	0.0060	
<b>62</b>	0.1700	0.1940	<b>57</b>	0.0060	
<b>63</b>	0.1800	0.2020	<b>58</b>	0.0060	
<b>64</b>	0.1900	0.2100	<b>59</b>	0.0060	
<b>65-69</b>	0.2300	0.2500	<b>60</b>	0.0100	
<b>70-74</b>	0.2500	0.2500	<b>61</b>	0.0200	
<b>75+</b>	1.0000	1.0000	<b>62</b>	0.0300	
			<b>63</b>	0.0400	
			<b>64</b>	0.0500	

For members hired after August 31, 2007 and who are vested as of August 31, 2014, the retirement rates for members once they reach unreduced retirement eligibility at age 60 are



## APPENDIX 2 (Continued)

increased 10% for each year the member is beyond the Rule of 80 (i.e. if the member reached the Rule of 80 at age 58 then the probability of retirement at age 60 is 120% of the rate shown above).

For members hired after August 31, 2007 and who are not vested as of August 31, 2014, or, for members hired after August 31, 2014, the retirement rates for members once they reach unreduced retirement eligibility at age 62 are increased 10% for each year the member is beyond the Rule of 80 (i.e. if the member reached the Rule of 80 at age 58 then the probability of retirement at age 62 is 140% of the rate shown above).

Members who participated in DROP but are still active employees are assumed to retire immediately.

### 3. Rates of Salary Increase

Inflation rate of 2.30%, plus productivity component of 0.65%, plus step-rate/promotional component as shown:

Years of Service	Merit, Promotion, Longevity	General	Total
1	6.00	2.95	8.95
2	2.50	2.95	5.45
3	1.80	2.95	4.75
4	1.50	2.95	4.45
5	1.30	2.95	4.25
6	1.20	2.95	4.15
7	1.10	2.95	4.05
8	1.00	2.95	3.95
9	0.95	2.95	3.90
10	0.90	2.95	3.85
11	0.85	2.95	3.80
12	0.80	2.95	3.75
13	0.75	2.95	3.70
14	0.65	2.95	3.60
15	0.60	2.95	3.55
16	0.55	2.95	3.50
17	0.45	2.95	3.40
18	0.40	2.95	3.35
19	0.35	2.95	3.30
20	0.30	2.95	3.25
21	0.25	2.95	3.20
22	0.20	2.95	3.15
23	0.15	2.95	3.10
24	0.10	2.95	3.05
25 & up	0.00	2.95	2.95

## APPENDIX 2 (Continued)

4. Post-retirement Mortality: The 2021 TRS of Texas Healthy Pensioner Mortality Tables. The rates are projected on a fully generational basis by Scale UMP 2021, but with immediate convergence, to account for future mortality improvements. These tables are developed based on the experience in the actuarial investigation as of August 31, 2021. Below are the samples rates for 2023 and 2053.

Age	2023 Mortality Rates		Age	2053 Mortality Rates	
	Male	Female		Male	Female
40	0.000595	0.000408	40	0.000396	0.000271
50	0.001734	0.001067	50	0.001153	0.000709
60	0.005887	0.004147	60	0.003916	0.002758
70	0.012897	0.008246	70	0.008870	0.005671
80	0.043322	0.029884	80	0.031088	0.021445
90	0.155022	0.114234	90	0.128249	0.094505
100	0.377793	0.315134	100	0.345230	0.287972
110	0.559043	0.507609	110	0.524513	0.492600
120	1.000000	1.000000	120	1.000000	1.000000

For disabled retirees, a three-year set forward of the above tables are used, with minimum mortality rates of 0.0200 for female and 0.0400 for male, respectively.

Age	2023 Mortality Rates		Age	2053 Mortality Rates	
	Male	Female		Male	Female
40	0.040000	0.020000	40	0.040000	0.020000
50	0.040000	0.020000	50	0.040000	0.020000
60	0.040000	0.020000	60	0.040000	0.020000
70	0.040000	0.020000	70	0.040000	0.020000
80	0.063027	0.046142	80	0.048109	0.034548
90	0.210549	0.155280	90	0.181700	0.134004
100	0.470445	0.412330	100	0.437725	0.383652
110	0.559715	0.508219	110	0.553037	0.502156
120	1.000000	1.000000	120	1.000000	1.000000

## APPENDIX 2 (Continued)

### **CLASSIFICATION OF WHO ARE ACTIVE MEMBERS:**

Members who contributed during the just-completed plan year and earned a year of service but did not retire before August 31<sup>st</sup> are considered active.

### **ACTIVE MEMBER SALARIES:**

The valuation data provides the actual salary for the last fiscal year and the member's final average salary as of the valuation date. The member's salary is projected forward to the year following the valuation date using the salary scale assumption, and the final average salary is set as a minimum when determining future annuity values.

### **HANDLING OF SPECIFIC RETIREE DATA WITH MISSING INFORMATION:**

Due to the timing of creating the snapshot of the valuation census data files, there are some members who retire with a September retirement date and thus should be active as of August 31, but because they have already been processed in the data system as a retiree, much of their active data elements are not in the active file. To create a liability for these members, we pull the census data from their active data record the previous year and update the service, account balance, etc. with expected data and add them to the active census file. The approach to creating a record for them does not have a meaningful impact to the valuation results, but there are enough of them that giving them a \$0 liability would have a meaningful impact.

### **HANDLING OF ACTIVE DATA WITH MISSING INFORMATION:**

There are records provided by TRS that have missing gender and/or missing date of births. While there are very few with no impact to the overall valuation results, these records are handled as follows:

1. 80% of records with missing gender are assumed to be female. The overall male/female ratio of the active membership is used to set this assumption.
2. Records with missing dates of birth are assigned a date of birth that produces an entry age equal to the average entry age for the overall active population, based on the member's actual service.

### **PROJECTED PAYROLL FOR CONTRIBUTIONS:**

The aggregate projected payroll for the fiscal year following the valuation date is calculated by increasing the actual payroll paid during the previous fiscal year by the payroll growth rate. Detail on this calculation is in Table 3b.

### **PAYROLL GROWTH FOR FUNDING OF UNFUNDED ACTUARIAL ACCRUED LIABILITY:**

Total payroll is expected to grow at 2.90% per year. The total general wage increase assumption of 2.90% is made up of an inflation rate of 2.30% plus a 0.60% real wage growth. This value is also used to increase the wages for each annual cohort of new entrants in an open group projection based on the current demographics and the current assumptions.





## APPENDIX 2 (Continued)

### **BENEFIT ELECTION OF VESTED TERMINATING MEMBERS:**

In determining the liabilities developed for future terminating vested members, it is assumed that the member elects either a refund or a deferred vested benefit, whichever is more valuable. The deferred benefit is assumed to commence at the earliest age the member is eligible for unreduced retirement.

### **ELECTION RATES FOR ACTIVE MEMBER DEATH BENEFITS:**

If the member was eligible for retirement at the time of death, it is assumed that the beneficiary will elect the option 1 death benefit. Otherwise, it is assumed the value of the member's lump sum cash value will be the greater of two times their account balance or the minimum of \$80,000 or two times their salary at the time of death.

### **DECREMENT TIMING:**

Retirement is assumed to occur at the end of the year. Termination from service is assumed to occur at the beginning of the year. All other decrements are assumed to occur mid-year.

### **BENEFIT ELECTION OPTIONS:**

It is assumed that future healthy retirees will select the normal form of payment. For disabled members, 80% are assumed to select the normal form of payment and 20% to select the 100% joint and survivor option.

### **MARRIAGE ASSUMPTION:**

While not implicitly used in the valuation, 100% of active members are assumed to be married when setting other benefit election and eligibility assumptions.

### **SURVIVOR BENEFITS**

There are several different forms of payments that may be made to a Survivor (see page 50 of this report). We have assumed that the average survivor benefit will have a value of \$12,000.

### **SPOUSAL AGE DIFFERENCE:**

Husbands are assumed to be three years older than their wives.

### **ACTUARIAL VALUE OF ASSETS:**

- A. The actuarial value of assets is equal to the market value of assets less a five-year phase-in of the excess/(shortfall) between expected investment return and actual income. The actual calculation is based on the difference between actual market value and the expected actuarial value of assets each year, and recognizes the cumulative excess return (or shortfall) over a minimum rate of 20% per year. Each year a base is set up to reflect this difference. If the current year's base is of opposite sign to the deferred bases then it is offset dollar for dollar against the deferred bases. Any remaining bases are then recognized over the remaining period for the base (5 less the number of years between the bases year and the



## APPENDIX 2 (Continued)

valuation year). This is intended to ensure the smoothed value of assets will converge towards the market value in a reasonable amount of time.

- B. Expected earnings are determined using the assumed investment return rate and the beginning of year actuarial value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of investment expenses.

### **ACTUARIAL COST METHOD:**

The actuarial valuation is used to determine the adequacy of the State contribution rate (established by Legislative appropriation) and employer contribution rate (established by statute) and to describe the current financial condition of TRS.

The actuarial valuation uses the Entry Age Normal actuarial cost method. Under this method, the first step is to determine the contribution rate (level as a percentage of pay) required to provide the benefits to each member, or the normal cost rate. The normal cost rate consists of two pieces: (i) the member's contribution rate, and (ii) the remaining portion of the normal cost rate which is the employer's normal cost rate. The total normal cost rate is based on the benefits payable to each individual active member.

The Unfunded Actuarial Accrued Liability (UAAL) is the liability for future benefits which is in excess of (i) the actuarial value of assets, and (ii) the present value of future normal costs. The employer contribution provided in excess of the employer normal cost is applied to amortize the UAAL.

The funding period is calculated as the number of years required to fully amortize the UAAL, and is calculated with the use of an open group projection that takes into account: (a) future market earnings, net of investment-related expenses, will equal 7.00% per year, (b) there will be no changes in assumptions, (c) the number of active members will remain unchanged, (d) active members who leave employment will be replaced by new entrants each year, and (e) State and employer contributions will remain the same percentage of payroll.

The Entry Age actuarial cost method is an "immediate gain" method (i.e., experience gains and losses are separately identified as part of the UAAL). However, they are amortized over the same period applied to all other components of the UAAL.

### **USE OF CELLED DATA:**

For valuation purposes, every record in the census is valued individually.

For Legislative purposes, the active valuation data is celled by benefit tier, gender, years of service, month and year of birth. The individual cell is valued using the sum of the salary and account balances of the members in the cell. Every year we test this approach against using the individual records and the results are consistently less than 0.02% different in total present value of benefits.



## APPENDIX 2 (Continued)

### ACTUARIALLY DETERMINED EMPLOYER CONTRIBUTION (ADEC)

The ADEC is determined as the level percentage of payroll that will cover the Fund's normal cost and amortize the Fund's unfunded liabilities over the same funding period as disclosed in this report for the fixed rate contributions (29 years as of August 31, 2023). However, if the fixed rate contributions produce a funding period in excess of 30 years then a 30-year amortization period is used.

### REASONABLE ACTUARIALLY DETERMINED CONTRIBUTION (ADC) PER ASOP 4

The Reasonable ADC is the larger of the actual contribution rate being received or the minimum contribution rate needed to cover normal cost plus interest of the UAAL, thus eliminating negative amortization. The calculation is performed based on the next opportunity there is to change the contribution rate, which in this case would be September 1, 2025 following the 2025 legislative session.

### NEW ENTRANT PROFILE

For the purposes of determining the funding period, an open group projection is used which replaces on a one-to-one basis each active member who leaves employment with an average new hire. The average new hire is determined based on a new entrant profile, which is created from the valuation data by determining the entry age and entry pay for anyone with eight or less years of service as of the valuation date, with salaries normalized to the valuation date.

A summary of the new entrant profile is shown in the table below, with 25.9% of the population being male. The salaries below would be applicable for the year preceding the valuation date. Future cohorts of new hires have starting salaries that are assumed to grow at the General Wage Inflation of 2.90% over the salaries of the previous year.

New Entrant Profile as of August 31, 2023		
Entry Age	# of Employees	Average Salary
15-19	686	\$24,161
20-24	46,423	46,409
25-29	84,121	50,223
30-34	57,928	49,889
35-39	49,965	49,478
40-44	41,389	48,364
45-49	34,363	47,512
50-54	27,639	45,264
55-59	20,459	43,298
60-64	10,692	40,993
65-69	2,181	37,664
<b>Total</b>	<b>375,846</b>	<b>\$48,024</b>

### CHANGES SINCE THE PRIOR VALUATION:

There are no changes since the prior valuation.



## **GLOSSARY**

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### **DEFINITION OF ACTUARIAL TERMS**

# GLOSSARY

## Definition of Actuarial Terms

H.B. 2206 as passed by the 1979 Legislature requires that any actuarial study of a public retirement system include "a complete definition of each actuarial term used in the study". In our report we have attempted to avoid the use of a multitude of complex actuarial terminology, but we realize that different users of our reports may have differing opinions as to what constitutes an "actuarial term". Accordingly, in keeping with the intent and the spirit of the law, we offer the following definitions of several terms contained in this report which might be considered actuarial in nature. Any qualified user of our report who believes that additional terms should be included is invited to communicate such terms either directly to us or through the Teacher Retirement System of Texas.

1. *Actuarial Accrued Liability* - for benefits payable in the future to present members, it will equal the present value of benefits payable in the future to them less the present value of future normal costs.
2. *Actuarial Assumptions* - assumptions as to future experience under the Fund. Current actuarial assumptions are detailed in Appendix 2 of the current annual valuation report. Assumptions include future fund earning rates, rates of future salary increases, and rates of death (both before and after retirement), disability, retirement, and withdrawal as well as overall payroll growth. Effective August 31, 1985, select and ultimate assumptions were adopted for retirement and withdrawal rates and the salary scale.
3. *Actuarial Gain or Actuarial Loss* - a measure of the difference between actual experience and assumed experience of the Fund. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, actuarial liabilities emerge which may be the same as forecasted, or they may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.
4. *Actuarial Liabilities* - the actuarially determined present value of future benefits to be provided by the Fund. There are separate actuarially determined present values for retired members and non-retired members (either active or inactive). When applied to active members, it takes into account benefits which will be earned through future service and future salary increases.
5. *Actuarial Value of Assets* - the value of present Fund assets for valuation purposes. Prior to August 31, 1985, this value was the same as the book value of assets. Beginning August 31, 1985, through August 31, 1993, this value was calculated under the "market over book adjusted asset valuation method." Beginning August 31, 1993, this value is calculated under a five-year phase-in of the excess (shortfall) between expected and actual income return on the market value of assets.

## Glossary (Continued)

6. *Actuarially Determined* - values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.
7. *Decrements* - those types of activities by members of the Fund which cause them no longer to be members, i.e., death, retirement, disability, and withdrawal. It is a general term referring to any or all of these membership terminating events.
8. *Defined Benefits* - in a retirement plan, benefits which are defined by a specific formula applied to specific member compensation and/or specific years of service. The amount of the benefit is not a function of contributions or actual earnings on those contributions.
9. *Defined Contributions* - in a retirement plan, periodic contributions to the plan which are defined as a specific percent of compensation.
10. *Experience Study* - a periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.
11. *Funding Period* - the number of years in the future that will be required to fund (i.e., pay off or eliminate) the unfunded actuarial accrued liability, based on the actuarial assumptions and assuming no future actuarial gains or losses.
12. *Future Benefits* - benefits specified in the law which will become payable at some time in the future when the member satisfies the requirement to receive such benefits.
13. *Future Contributions* - contributions to be made by the member or the State in the future, as required by the law.
14. *Normal Cost* - the actuarial cost to fund the benefits provided by the Fund were the funding to begin at date of hire. It is expressed as a percent of pay and is equal to the present value at hire of all possible benefits of the Fund divided by the present value of anticipated future compensation to be received by the new member. In the aggregate, it must be less than the total future contribution to the Fund if the unfunded actuarial accrued liability is to be amortized. Otherwise there must be a funding surplus sufficient in size to offset any contribution rate shortfall.
15. *Present Value* - the actuarially determined lump sum value as of the valuation date of a series of payments to be made in the future, where the lump sum value is equal to the sum of the discounted value of each future payment. The discounted value of each payment is the product of (a) the amount of the payment, (b) the probability that the payment will be made (based on the current actuarial assumptions as to future experience), and (c) the time value of money (based on the current assumed interest rate).
16. *Unfunded Actuarial Accrued Liability* - that portion of the actuarial accrued liability (including the present value of benefits presently being paid to retired members) that exceeds the value of current actuarial assets. A funding surplus exists if the actuarial accrued liability is less than the actuarial assets.