

2018 Summary Annual Report

Teacher Retirement System of Texas



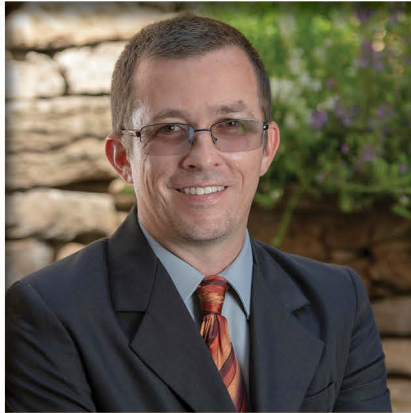
Our Mission

Improving the retirement security of our members by prudently investing and managing the Trust assets and delivering benefits that make a **positive difference** in their lives.

As a part of this year's Comprehensive Annual Financial Report — *The Faces of TRS* — we're proud to honor the 2019 Texas Teacher of the Year finalists and winners. This program annually recognizes teachers from across Texas who have demonstrated outstanding leadership and excellence in classroom education. They inspire their students, their colleagues, their communities, and all of us at TRS.

2019 Teachers of the Year

The Faces of TRS



Jeff Wheatcraft
2019 Texas
Secondary School and
Teacher of the Year Winner



Rhonda Peña
2019 Texas
Elementary Teacher of the
Year Winner



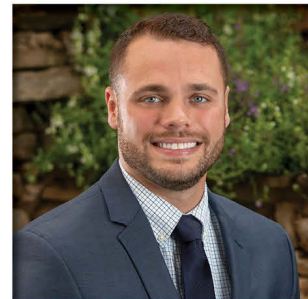
Karyn Ard
2019 Texas Secondary
School Teacher of the
Year Finalist



Megan Holden
2019 Texas Secondary
School Teacher of the
Year Finalist



Andrea Greimel
2019 Texas Elementary
School Teacher of the
Year Finalist



Joe Parthemore
2019 Texas Elementary
School Teacher of the
Year Finalist

Board of Trustees



Jarvis V. Hollingsworth, Chair
Partner
Bracewell LLP
Missouri City
Direct appointment of the governor
Term expires 2023



Dolores Ramirez, Vice Chair
Teacher
San Benito CISD
San Benito
Active public education position
Term expires 2019



Joe Colonna
Private Investor
Dallas
Direct appointment of the governor
Term expires 2019



David Corpus
Senior Vice President
CommunityBank of Texas, N.A.
Humble
Position nominated by the State Board
of Education
Term expires 2019



John Elliott
Partner
Elliott Stratmann, PLLC
Austin
Direct appointment of the governor
Term expires 2021



Dr. Greg Gibson
Superintendent
Schertz-Cibolo-Universal City ISD
Schertz
Active public education position
Term expires 2021



Christopher Moss
President
Allendale, Inc.
DBA The Advanced Financial Group
Lufkin
Position nominated by the State Board
of Education
Term expires 2021



James Dick Nance
Former Texas Public School Teacher
Member of Texas Athletic Directors
Association
Hallettsville
Retiree position
Term expires 2023



Nanette Sissney
Counselor and Former Teacher
Whitesboro Independent School District
Whitesboro
At-Large position
Term expires 2023

Message from the Executive Director



Brian K. Guthrie
Executive Director

TRS investment earnings, combined with contribution increases and benefit changes approved by the 85th Texas Legislature, are continuing to enable TRS to provide secure benefits for current and future retirees.

It is my pleasure to present you with the Teacher Retirement System of Texas' (TRS) 2018 Summary Annual Report for fiscal year 2018, our 81st year of operation. We have prepared this Summary of our full Comprehensive Annual Financial Report (CAFR) for fiscal year 2018 so that you can read the financial highlights of our past fiscal year. We hope that the Summary will be a convenient resource for those wishing to learn more about TRS developments last year. The 2018 CAFR is posted on the Publications page of the TRS website.

During the past fiscal year, the System experienced modest growth as membership grew by 46,898, ending the year with 1,591,955 participants. The Pension Trust Fund saw positive returns in the past year, ending the 2018 fiscal year with a net position of \$154.6 billion compared to \$147.3 billion at the close of the 2017 fiscal year. TRS investment earnings, combined with contribution increases and benefit changes approved by the 85th Texas Legislature, are continuing to enable TRS to provide secure benefits for current and future retirees.

Funding from the 84th legislature infused \$768 million into the program to ensure solvency of the TRS-Care fund through the 2017-18 biennium.

Even with the additional funding, projections for the TRS-Care balance showed a shortfall ranging from \$230 to \$411 million for the 2020-21 biennium. The 85th Legislature, in regular and special sessions, contributed additional funding to address the current solvency and affordability of TRS-Care.

For the twelve-month period ending August 31, 2018, the total portfolio delivered investment returns of 8.2 percent, which is 0.8 percent above the Fund's benchmark. By asset class, returns were 10.8 percent for Global Equity, 0.3 percent for Stable Value, and 8.7 percent for Real Return. On a three-year annualized basis, the Pension Trust Fund (Fund) has returned 9.4 percent, which is 0.6 percent above its benchmark. As a result, the total investment value of the Fund as of August 31 was \$154.1 billion, or \$8.0 billion more than this time last year, after contributions and benefit payouts. Annual rates of return for the five and ten-year periods ending August 31, 2018, were 8.8 percent and 7.1 percent, respectively.

Thank you for your interest in the latest developments of the Teacher Retirement System of Texas.

Pension Trust Fund Membership Information

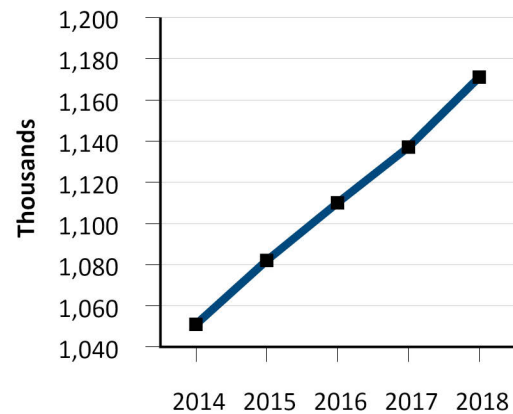
The Teacher Retirement System of Texas ranked as the sixth largest retirement system in the nation for 2018 and continues to be the largest public retirement system in Texas, serving more than 1.5 million participants.

Membership of the Teacher Retirement System of Texas includes employees and retirees of state-supported educational institutions in Texas. The following tables represent TRS Pension Trust Fund participating employer and membership data for fiscal year 2018.

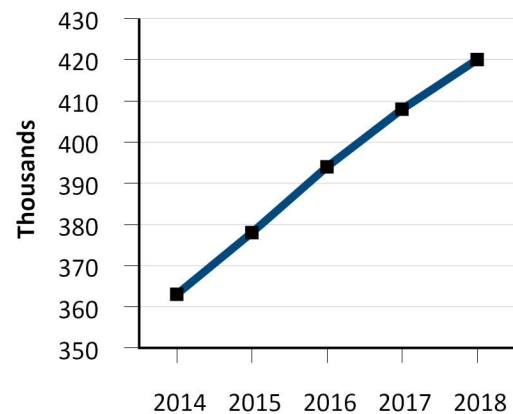
Participating Employers	2018
Public School Districts	1,024
Charter Schools	171
Community and Junior Colleges	50
Senior Colleges and Universities	47
Regional Service Centers	20
Medical Schools	9
Other Education Districts	4
State Agencies	1
Total	1,326

Member Categories	As of August 31,	
	2018	2017
Current Members		
Active Contributing	872,999	864,261
Inactive Non-vested	193,498	174,918
Inactive Vested	105,000	98,110
Total Current Members	1,171,497	1,137,289
Retirement Recipients		
Service	391,927	379,765
Disability	11,914	11,802
Survivor	16,617	16,201
Total Retirement Recipients	420,458	407,768
Total Membership	1,591,955	1,545,057

Pension Trust Fund Current Members



Pension Trust Fund Retirement Recipients

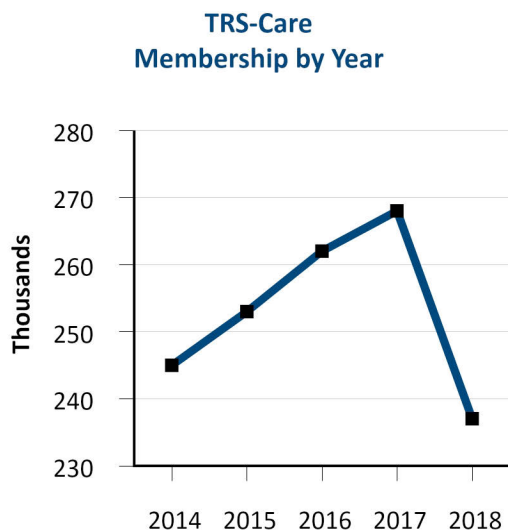


Health Benefit Plans Membership Information

Texas Public School Retired Employees Group Insurance Program (TRS-Care)

TRS administers TRS-Care, a health benefits program for eligible retired public education employees and their eligible dependents that was established in 1985. TRS-Care is the source of health benefits coverage upon which a substantial portion of retired public education employees rely. There were 1,219 participating employers during fiscal year 2018.

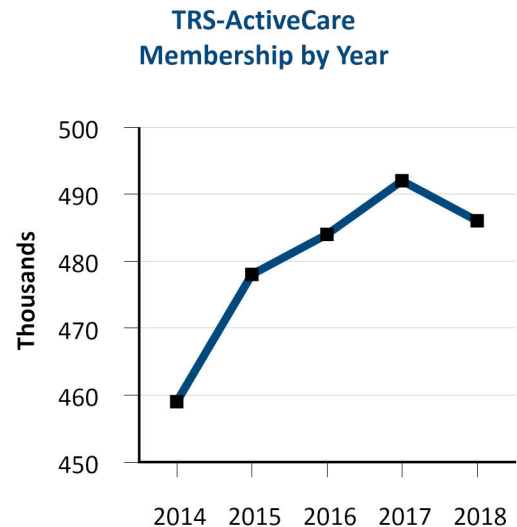
Member Categories	As of August 31,	
	2018	2017
Retirees	187,960	204,987
Surviving Spouses	6,283	6,672
Surviving Children	121	125
Dependent Spouses and Children	42,201	56,643
Total Membership	236,565	268,427



TRS-ActiveCare

TRS-ActiveCare, initiated in 2002, is a self-funded health benefits program that offers plan options that range from catastrophic coverage with reduced premiums to a comprehensive plan at higher premiums. TRS-ActiveCare covers active employees currently employed by public education employers that participate in the program, along with the employees' eligible dependents. There were 1,089 participating employers during fiscal year 2018.

Member Categories	As of August 31,	
	2018	2017
Employees	308,259	305,234
Dependents	177,638	187,083
Total Membership	485,897	492,317



Pension Trust Fund Overview and Funding Status

Pension Trust Fund Overview

TRS administers retirement and related benefits to employees and beneficiaries of employees of public, state-supported, educational institutions of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The Pension Trust Fund is a multiple-employer, cost-sharing, defined benefit pension plan with a special funding situation that is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

Benefit Payments

For fiscal year 2018, TRS made pension benefit payments to more than 420,000 retirees and their beneficiaries totaling \$10.3 billion. These benefits were funded from a combination of cumulative investment income, member contributions, and state and employer contributions.

Funding Status

As of August 31, 2018, the System had a funded ratio of 76.9 percent with an Unfunded Actuarial Accrued Liability (UAAL) of \$46.2 billion. The unfunded actuarial liability grew materially since the previous valuation due to changes in the

actuarial assumptions adopted during an experience study performed in 2018. Most other sources of change were immaterial.

The System earned a return of 7.7 percent on market value, compared to an assumed rate of 8.0 percent. This slight investment shortfall partially offset the prior year's deferred investment gains, but the net was a small gain on the actuarial value of assets. As a result, the System is now deferring net investment gains of \$0.5 billion.

The period of time necessary to amortize the unfunded liability has increased from 32 years to 87 years. Given that current contributions cannot amortize the unfunded liability in less than 31 years, the System does not meet the State's definition for actuarial soundness.

In 2013, the Legislature adopted Senate Bill 1458 that provided a stair-step increase in the member contribution rate from 6.4 percent in fiscal year 2015 to 7.7 percent in FY 2018. The State contribution rate for fiscal year 2018 was 6.8 percent, and districts that do not participate in Social Security pay a 1.5 percent contribution rate to the System. Based on this funding policy, it is estimated that the unfunded liability will increase for several decades before beginning to decline.

Pension Trust Fund Financial Highlights

The Pension Trust Fund receives state contributions from the Texas Legislature's general revenue appropriations for retirement benefits for active members employed by a participating employer. In fiscal years 2018 and 2017, contributions were made by the State of Texas to the System at the rate of 6.8 percent of the

pensionable compensation paid to active members for each year. Although appropriated by the legislature, expenses for the Pension Trust Fund administrative operations and capital expenditures are paid from the Pension Trust Fund and not from the State's General Fund.

Statement of Fiduciary Net Position

Pension Trust Fund

As of August 31

(Dollars in Thousands)

	2018	2017
Total Assets	\$ 176,942,454	\$ 165,379,342
Total Deferred Outflow of Resources	2,436	N/A
Total Liabilities	(22,357,696)	(18,017,420)
Total Deferred Inflow of Resources	(18,292)	N/A
Prior Period Adjustment	—	(95,543)
Restated Net Position	\$ 154,568,902	\$ 147,266,379

Statement of Changes in Fiduciary Net Position

Pension Trust Fund

For the Fiscal Years Ended August 31

(Dollars in Thousands)

	2018	2017
Total Additions	\$ 18,067,946	\$ 23,690,002
Total Deductions	(10,765,423)	(10,336,717)
Prior Period Adjustment	—	(95,543)
Restated Change in Net Position	\$ 7,302,523	\$ 13,257,742

Health Benefit Plans Financial Highlights

Texas Public School Retired Employees Group Insurance Program (TRS-Care)

TRS-Care received contributions from the State's General Fund equal to 1.25 percent of salaries paid to public education employees in fiscal year 2018. Administrative expenses for this program are paid from the Pension Trust Fund.

Statement of Fiduciary Net Position

TRS-Care

As of August 31

(Dollars in Thousands)

	2018	2017
Total Assets	\$ 1,001,650	\$ 526,398
Total Liabilities	(203,075)	(126,862)
Prior Period Adjustment	—	(30,798)
Restated Net Position	\$ 798,575	\$ 368,738

Statement of Changes in Fiduciary Net Position

TRS-Care

For the Fiscal Years Ended August 31

(Dollars in Thousands)

	2018	2017
Total Additions	\$ 1,706,237	\$ 1,146,592
Total Deductions	(1,276,400)	(1,388,542)
Prior Period Adjustment	—	(30,798)
Restated Change in Net Position	\$ 429,838	\$ (272,748)

TRS-ActiveCare

TRS-ActiveCare is supported by fees and receives no appropriations from the State for administrative expenses.

Statement of Net Position

TRS-ActiveCare

As of August 31

(Dollars in Thousands)

	2018	2017
Total Assets	\$ 351,541	\$ 373,677
Total Liabilities	(295,249)	(275,872)
Net Position	\$ 56,292	\$ 97,805

Statement of Revenues, Expenses, and Changes in Net Position

TRS-ActiveCare

For the Fiscal Years Ended August 31

(Dollars in Thousands)

	2018	2017
Total Revenues	\$ 2,322,812	\$ 2,244,998
Total Expenses	(2,364,326)	(2,200,744)
Change in Net Position	\$ (41,513)	\$ 44,254

Investment Highlights

Performance Results

The Teacher Retirement System of Texas Pension Trust Fund (TRS, Trust, or Fund) delivered investment returns of 8.2 percent, which was 80 basis points above the Fund's benchmark. On a three-year annualized basis, the Fund returned 9.4 percent, 60 basis points above its benchmark. As a result, the total investment value of the fund as of August 31, 2018 was \$154.1 billion, or \$8.0 billion more than this time last year. Annual rates of return for the five and ten-year periods ending August 31, 2018, were 8.8 percent and 7.1 percent, respectively.

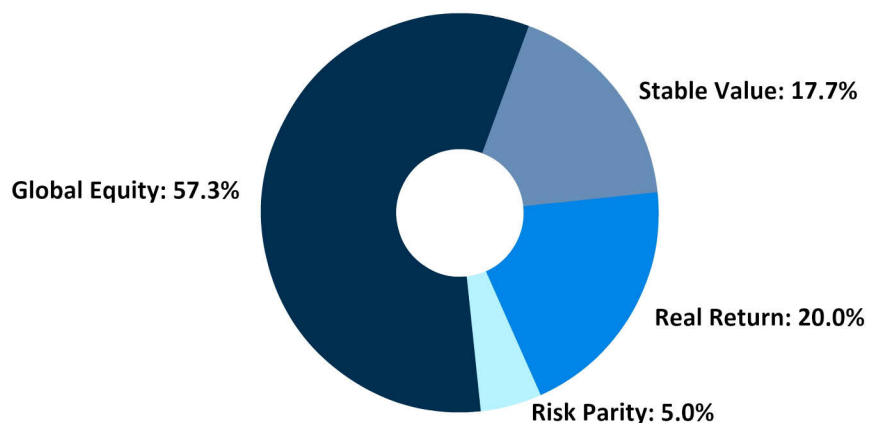
Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust Company, TRS' custodian bank, independently and using industry best practices. The total time-weighted rates of return have been adjusted for cash flows and are calculated net of bank fees, external manager fees, external legal fees, and external custodial fees. Administrative expenses for the Investment Management Division (IMD) are not netted against or included in performance calculations.

Portfolio Structure

TRS follows a diversified investment approach that focuses on the three most common economic scenarios. Scenario One is characterized by favorable Gross Domestic Product (GDP) growth and moderate inflation as measured by the Consumer Price Index (CPI), which has been the prevailing economic condition 68 percent of the time since 1948. Scenario Two is one of low GDP growth and high inflation, which has occurred 18 percent of the time. Finally, Scenario Three is characterized by stagnant GDP growth and low inflation, which has occurred 14 percent of the time. TRS is positioned to take advantage of any of these various market scenarios.

TRS' long-term asset allocation target is 57 percent to Global Equity markets, which should perform well under Scenario One, 22 percent to Real Return, which should perform well in Scenario Two, 16 percent to a Stable Value portfolio, which should perform well and minimize downside risk in Scenario Three, and 5 percent to the Risk Parity strategy, which has a balanced exposure to all three economic scenarios. Actual allocation percentages as of August 31, 2018 are presented in the graph below.

2018 Pension Trust Fund Asset Allocation





Teacher Retirement System of Texas

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1-800-223-8778

www.trs.texas.gov