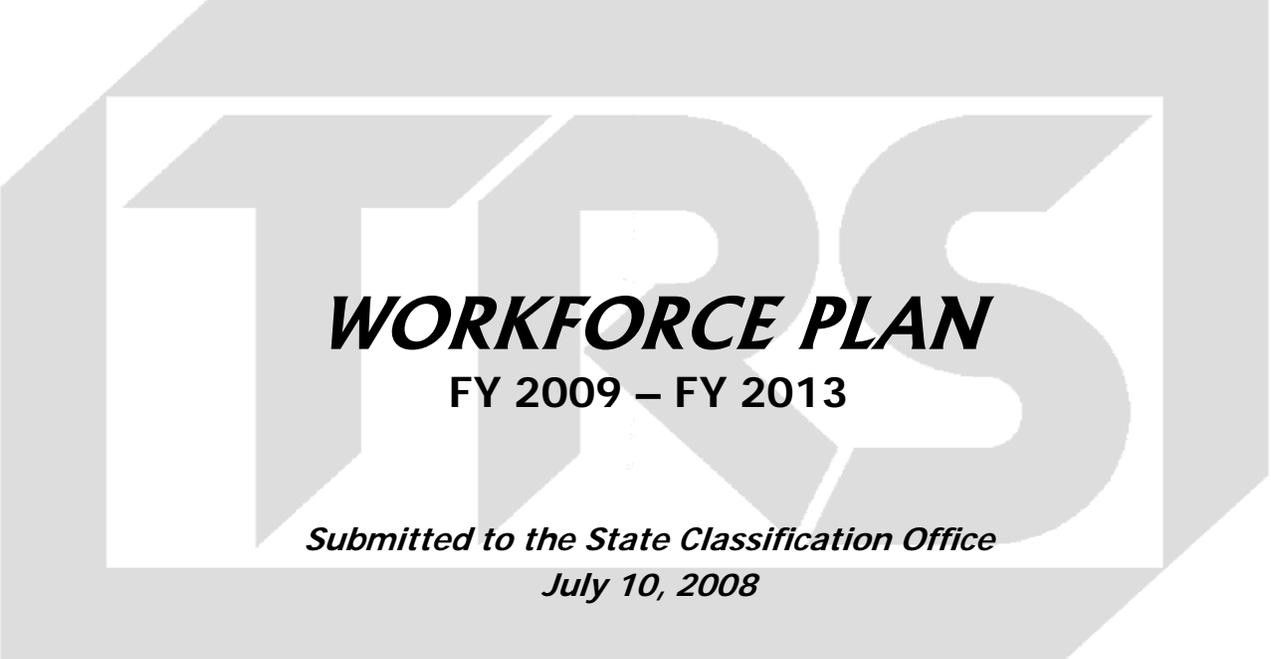

TEACHER RETIREMENT SYSTEM OF TEXAS



WORKFORCE PLAN

FY 2009 – FY 2013

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WORKFORCE PLAN

I. System Overview

The Teacher Retirement System of Texas (TRS) was formed by constitutional amendment and enabling legislation in 1937. The original responsibility of the system was to provide service and disability retirement benefits to teachers and administrators of the public school systems of Texas, including institutions of higher education. Over the years, legislation has:

- Expanded TRS pension plan membership eligibility to all public school employees (1949).
- Assigned TRS to administer a health benefit program for public school retirees (1985).
- Created the basis for TRS to provide long-term care insurance (1999).
- Assigned TRS to administer a health benefit program for active public school employees (2001).

The TRS pension plan had about 38,000 members in its first year of operation. Today, the plan serves more than 935,000 active members and more than 265,000 retired members and beneficiaries. The plan's net assets have grown to \$112.1 billion at the end of fiscal year 2007. The TRS pension plan operates under Section 67, Article XVI of the Texas Constitution to provide retirement and related benefits for those employed by the public schools, colleges, and universities supported by the State of Texas.

TRS operates out of two adjoining buildings at 1000 Red River Street in downtown Austin, Texas. The business of the system involves two broad functions: administering benefits and managing investments. The financial, information technology, and administration areas provide essential services to the system's mission-critical divisions (see Appendix B: Organization Chart). To serve members throughout the state, benefit counseling employees travel on a regular basis to make group presentations and provide one-on-one counseling sessions. TRS also uses Web-based services, a sophisticated telephone counseling center, and an interactive voice response system to provide convenient service to those outside the Austin area.

Health benefit programs are funded separately from the pension plan administered by TRS. The budgeted Full-Time Equivalent (FTE) positions allocated to each function are shown in the following chart.

Fiscal Year	Pension Fund	TRS-Care	TRS-ActiveCare	TRS Total
2008	435	30	21	486
2006	427	22	17	466

Staffing pressures have been a result of continued growth in membership and assets of the pension fund, as well as additional responsibilities authorized by the legislature. While growth in membership and fund size is projected to continue, TRS will continue to assess its staffing requirements carefully and address them conservatively. Traditionally, TRS has contained its



staffing needs to the greatest extent possible through enhancements in technology and the judicious use of outsourcing.

The Pension Trust Fund administrative expenses, including staffing, are controlled by an annual budget approved by the board of trustees. The State of Texas approved a budget of \$51,900,000 for fiscal year 2008 and \$51,300,000 for fiscal year 2009 for administrative operations, with funding provided directly from the TRS Pension Trust Fund. For the 10 year period from 1998 through 2007, funding sources of the TRS Pension Trust Fund have averaged as follows:

- Employer contributions—1.8 percent.
- State contributions—12.5 percent.
- Member contributions—16.3 percent.
- Investment income—69.4 percent.

TRS administrative costs for the pension fund remain among the lowest in the nation, and are significantly less than costs among the system’s peer groups (based on membership size).

A. Organization Mission

The mission of the Teacher Retirement System of Texas is:

1. To deliver retirement and related benefits authorized by law for members and their beneficiaries.
2. To prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.

B. Strategic Goals and Objectives

TRS has two main goals:

GOAL 1: To administer the system as an employee benefit trust	
Objective	To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years and generates a five-year average investment return of at least eight percent.
Strategies	<ul style="list-style-type: none"> ◆ Maintain an actuarially sound retirement system (retirement fund) with a funding period less than 31 years. Estimated. ◆ Provide services to members, manage investments, and administer TRS retirement fund.
Objective	To administer a health care program for public education retirees.
Strategies	<ul style="list-style-type: none"> ◆ Administer group health care benefits to public education retirees through the TRS-Care program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes. Estimated.
Objective	To administer a health care program for public education employees.



Strategies	◆ Administer group health care benefits to public education employees through the TRS-ActiveCare program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes. Estimated.
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GOAL 2: *TRS will establish and carry out policies governing purchasing contracts that foster meaningful and substantive inclusion of historically underutilized businesses*

Objective	To include historically underutilized businesses (HUBs) in at least 20 percent or greater of the total value of contracts and subcontracts awarded annually by the agency in purchasing contracts.
Strategies	◆ Develop and implement a plan for increasing the use of historically underutilized businesses through purchasing contracts and subcontracts

C. Anticipated Changes in Mission, Strategies, and Goals

TRS does not anticipate fundamental changes in the nature of its business. It does however, recognize the need to adapt readily to any changes required by the legislature.

Environmental factors that are projected to affect TRS operations include:

- Participation in the TRS-ActiveCare health benefit program will continue to grow over the next several years.
- Membership in the pension plan will continue to grow, and members will increasingly expect faster service provided through multiple channels.
- An aging workforce creates a growing potential for loss of institutional knowledge.
- Effective management of a restructured, diversified investment portfolio will become more complex.
- Achieving the rate of return on investments required to satisfy actuarial assumptions will present a greater challenge.

II. Current Workforce Profile (Supply Analysis)

A. Critical Workforce Skills

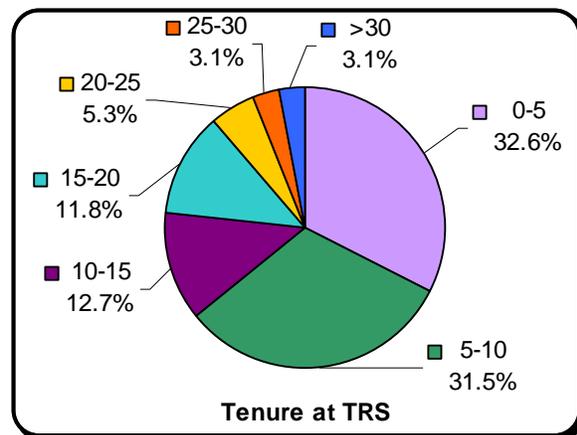
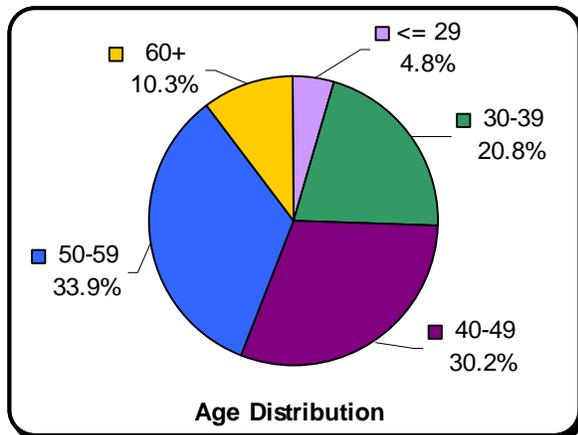
The skill sets that are currently most critical to TRS operations include:

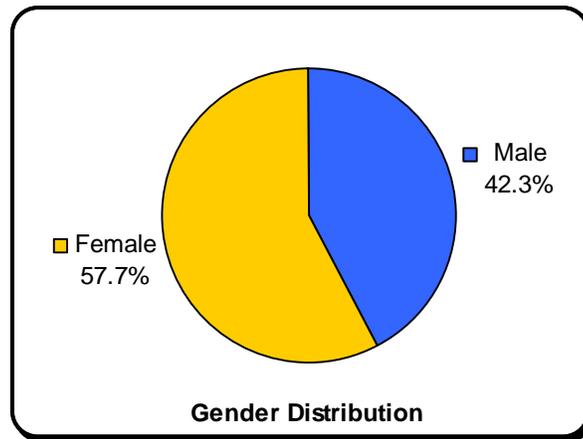
- Investment expertise, including diversified portfolio management skills.
- Customer service.
- Communication.
- Information technology, including telecommunications, imaging, Web application design and implementation, and systems design and implementation.
- Health benefit plan management.
- Other specialized skills (including accounting and purchasing, auditing, human resources, and legal).

TRS has been successful in attracting and developing staff with these skills to meet current and projected critical business needs. See *Future Workforce Profile* for further analysis.

B. Workforce Demographics

The following charts profile the system's workforce as of December 31, 2007 and include all regular full-time and part-time employees. The TRS workforce is comprised of 58 percent females and 42 percent males. Approximately 33 percent of employees have been with TRS less than five years. Approximately 44 percent are 50 years of age or older.





The following table compares the ethnic and gender composition of the TRS workforce (as of 8/31/2007) to the statewide civilian workforce as reported by the Texas Workforce Commission—Civil Rights Division (CRD). Categories in which TRS representation is appreciably lower (> 4.0%) than the CRD goal are shaded on the chart. TRS actively monitors this information, and customizes its recruitment strategies to address areas of under-representation.

Job Category	African American		Hispanic American		Female	
	TRS %	CRD %	TRS %	CRD %	TRS %	CRD %
Administrative Support	50.0%	11.2%	50.0%	24.1%	25.0%	64.7%
Official/Administrator	0.0%	16.9%	6.9%	14.2%	34.5%	37.3%
Professional	4.4%	8.3%	16.2%	13.4%	49.1%	53.2%
Service/Maint/Para Professional	14.0%	13.8%	28.5%	40.7%	73.7%	39.0%
Technical	8.3%	12.4%	41.7%	20.2%	50.0%	53.8%

The organization's workforce diversity initiatives outline strategies for improving the diversity of its workforce, which include targeted advertising of vacancies, ongoing participation in diversity job fairs, and diversity/cultural awareness training. The employment policies and practices of TRS have been certified as in compliance with CRD standards, in accordance with Chapter 21 of the Texas Labor Code (most recently in March 2008).

Because TRS is based solely in Austin, it also compares its representation of minorities and females to that of the available workforce in the Austin/San Marcos Metropolitan Statistical Area (MSA). Information from this source is not available by EEO Job Category. However, the overall representation of minorities and females at TRS exceeds that of the civilian labor force reported for the Austin/San Marcos MSA, as shown in the following chart.



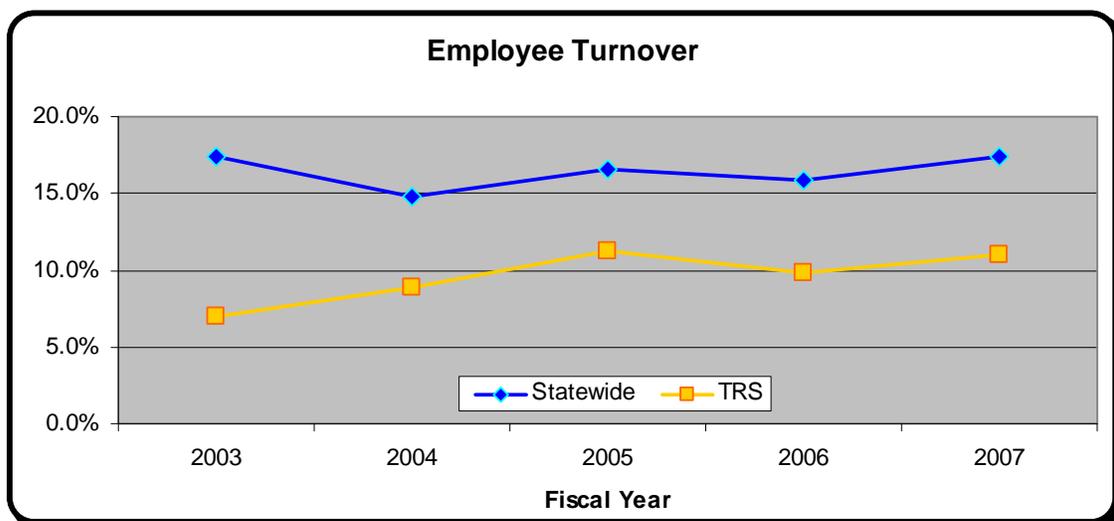
	African American	Hispanic American	Female
Total TRS Representation	8.4%	21.5%	57.7%
Austin/San Marcos MSA civilian labor force	7.9%	18.5%	46.2%

C. Employee Turnover

As reflected in the following chart, employee turnover at TRS has historically been below the statewide average among state agencies, as reported by the State Auditor’s Classification Office. In fiscal year 2007, TRS turnover was 11.0 percent, well below the state average of 17.4 percent for the same period. TRS anticipates that its turnover rate will continue to fluctuate with the Austin economy and the agency may experience a corresponding increased turnover and difficulty in replacing workers who leave. However, TRS projects its turnover rate will continue to be below the statewide average among state agencies for each of the next five years.

The response rate for TRS employees completing the State Auditor’s online exit survey in fiscal year 2007 was approximately 66 percent. This rate is almost four times the average response rate for all state agencies. The top three reasons for leaving were: retirement, better pay and benefits, and to enter or return to school (23 percent, 18 percent, and 18 percent, respectively). Eighty-seven percent of exiting employees indicate that they want to work for TRS again in the future.

TRS routinely assesses turnover by work area and other factors, such as employee tenure, so management can identify trends and take any necessary action.





D. Retirement Eligibility

Approximately 30 percent of regular, full-time TRS employees will reach retirement eligibility by 12/31/2012, with about 12 percent currently eligible to retire. Historically, many employees have elected to continue working at TRS well beyond the time when they become eligible to retire. Agency management monitors retirement eligibility by area to identify trends and take any necessary action. The following chart shows the cumulative number and percentage of TRS employees who are eligible to retire in each of the next five years, and in ten years.

Eligible	Now As of 12/31/07	In 1 year As of 12/31/08	In 2 years As of 12/31/09	In 3 years As of 12/31/10	In 4 years As of 12/31/11	In 5 years As of 12/31/12	In 10 years As of 12/31/17
Number of Employees	52	8	13	18	19	21	87
Percent of Workforce	12.0%	1.8%	3.0%	4.2%	4.4%	4.8%	20.1%
Cumulative Number	52	60	73	91	110	131	218
Cumulative Percent	12.0%	13.9%	16.9%	21.0%	25.4%	30.3%	50.3%



III. Future Workforce Profile (Demand Analysis)

A. *Expected Workforce Changes*

As the size of the population served by TRS continues to expand, so will demand for higher levels of efficiency that do not sacrifice customer service. Although workloads are likely to rise in proportion to the population served, TRS continues to apply technology to achieve gains in productivity that offset the increase in workloads. As a result, TRS has managed its increased workload without significant increases in its Full-Time Equivalent (FTE) employee allocation. However, the continued growth in size and complexity of the TRS trust fund may drive the need for additional investment staff, with a corresponding need for additional professional, technical, and administrative staff to support investment operations (such as information technology, accounting, and legal functions). In the event that new responsibilities are assigned to the system as a result of legislation, additional staff may also be needed to accomplish the assigned functions.

The critical functions of TRS are:

- Delivery of benefits.
- Management of investment assets.
- Management of the TRS infrastructure.

No fundamental changes are anticipated in the business functions or major processes of the organization. However, TRS continues to experience new challenges as a result of increasing levels of complexity and specialization in its critical functions. In the investments area, diversification of pension fund assets (designed to enhance the stability of investment returns over time) requires specialized skill sets that are in high demand. Similarly, continued growth in the health benefit plan for active members requires strategies for acquiring specialized expertise. TRS continues to develop skills within the current workforce, attract new staff with the required experience, and contract with outside parties, when feasible and cost effective, to supplement the staff's expertise in highly technical or specialized areas.

B. *Future Workforce Skills Needed*

- Communication and Interpersonal Skills
- Contract Negotiation and Administration (for monitoring outsourced functions, such as health benefit programs)
- Customer Service Skills
- Information Technology
 - Telecommunications
 - Imaging
 - Web Application Design, Implementation, and Maintenance
 - Systems Design, Implementation and Maintenance
- Investment Management
 - Alternative Asset Management



- Portfolio Risk Management
- Selection and Management of External Managers
- Leadership and Management Skills
 - Coaching skills
 - Skills for managing a diverse workforce
 - Creative problem-solving
 - Building and maintaining cohesive and effective work teams
- Research, Process Analysis, and Project Management
- Succession/Continuity Planning/Knowledge Management
 - Executive Leadership
 - Portfolio Management
 - Health Benefit Plan Management
- Other Specialized Skills
 - Accounting and Purchasing
 - Auditing
 - Human Resources/Organizational Development
 - Legal

IV. Gap Analysis

Our projected future needs indicate that increasing emphasis must be placed on further developing workforce skills related to:

- Contract negotiation and administration (for monitoring contracted functions, such as health benefit programs).
- Constituency communication strategy and infrastructure.
- Leadership and management skills (including coaching skills, planning and problem-solving skills, and skills related to managing a diverse workforce).
- Process analysis, research, and project management.

Ensuring that TRS is positioned to effectively address emerging and future workforce challenges requires systematic and ongoing review of economic and other environmental factors. TRS is proactive in addressing prospective gaps in staffing needs, and its actions include conducting:

- Annual environmental scans and reviews of the workforce plan.
- Regular human resource needs assessments.
- Frequent labor market analyses.
- Broad reviews of other workforce trends and issues.

TRS then designs initiatives to address its human resource needs based on these analyses.

Anticipated Surplus or Shortage of Workers or Skills

1. TRS finds no appreciable gaps in worker or skill needs during the five-year planning period. Some reasons for its strong position in this area include:
 - Proactive initiatives to address reasonably competitive compensation of investment professionals.
 - The TRS internship program, which has provided a good source of qualified entry-level investment professionals.
 - The organization's systematic approach to training and development (including regular needs assessments and effective training delivery methods), which has minimized skill gaps among current staff. Employees remain current in their computer and job-specific skills.
 - Consistent efforts to enhance the organization's effectiveness (as reflected in positive ratings in the *Survey of Organizational Excellence*), which have resulted in employees viewing TRS as a good place to work.



2. Potential gaps in worker or skill needs could develop during this period as a result of:
 - Legislation assigning new or significantly expanded responsibilities to the agency.
 - Increased competition for experienced staff in certain fields, such as call center representatives, investment specialists, and technology professionals.
 - The departure of critical staff.



V. Strategy Development

TRS will continue to manage (and expand, as needed) its effective programs and practices for attracting, developing, and retaining a qualified and diverse staff. Such practices include:

- **Recruitment programs** that market TRS as an employer of choice. TRS systematically promotes employment opportunities to attract a qualified and diverse workforce. Monetary recruitment bonuses may be used in specialized instances.
- **Internship programs** in the Investments Division, which entail maintaining a relationship with leading Texas universities that offer a student Fund Management practicum. Investments' managers see this program as a method of deepening the pool of qualified professional staff and offering greater succession opportunities in the event of unexpected turnover.
- **Strategic workforce management**, including the use of contingent staffing to supplement the regular workforce, redeployment of current staff, variable scheduling to meet business needs, and effective knowledge management practices.
- **Leadership development** efforts to build the skills of current and prospective leaders.
- **Retention programs** that stress opportunity and skill-set development as attractive incentives. Monetary retention bonuses may be used in specialized instances.
- **Career ladders** approved for most positions within the agency to provide professional growth opportunities for employees within their current assignments.
- **Cross-training programs** in each division, which deepen skill levels, enhance productivity, and provide back-up for important functions. Particular emphasis is placed on cross-training in areas where employees are eligible for retirement, so that the organization retains institutional knowledge.
- **Continuity plans** for critical staff, particularly those soon eligible to retire. Managers are expected to develop a talent pool of employees prepared to assume key staff responsibilities for a transitional period, until a formal recruitment process has been successfully completed.
- **Incentive Compensation Plan** for Investments Division staff, which provides the opportunity to earn monetary bonuses if TRS exceeds certain investment performance benchmarks.

Where significant challenges arise in developing or attracting staff with the expertise required for specialized functions, TRS explores the feasibility of outsourcing all or a portion of those functions. Such decisions are made in accordance with the organization's *Contract Administration* and *Contract Workforce* policies.



Potential Gap:	Legislation assigning new or significantly expanded responsibilities to the agency
<i>Goal</i>	Acquire necessary expertise to fulfill assigned responsibilities.
<i>Rationale</i>	TRS must maintain a state of readiness to implement any assignment of responsibility by the legislature.
<i>Action Steps</i>	<ul style="list-style-type: none">▶ Conduct research to identify issues affecting other public pension funds that may potentially affect TRS.▶ Maintain awareness of prospective legislative changes to allow adequate planning for new skill-set requirements.▶ Request a reasonable implementation period for major initiatives.▶ As new requirements are identified, explore options for developing skills within the current workforce, attracting new staff with the required experience, or outsourcing certain functions.

Potential Gap:	Increased competition for experienced staff in certain fields.
<i>Goal</i>	Create a work environment that, combined with initiatives to maintain reasonably competitive compensation packages, support retention of high-demand staff.
<i>Rationale</i>	Retention of staff, when feasible, is both more cost-effective and efficient than recruiting and training replacement staff.
<i>Action Steps</i>	<ul style="list-style-type: none">▶ Conduct environmental scans and labor market analyses to maintain a current perspective and enable proactive retention efforts.▶ Implement effective compensation, recognition, and other initiatives as appropriate to support retention of staff, with special attention to areas in which skills are in high demand.▶ Continue organizational development efforts aimed at enhancing ongoing communication and effective working relationships between management and staff.▶ Encourage staff involvement in organizational activities.



<i>Potential Gap:</i>	The departure of critical staff
<i>Goal</i>	Provide a smooth transition of responsibilities when critical staff leave the agency.
<i>Rationale</i>	TRS must ensure that critical functions are maintained despite turnover.
<i>Action Steps</i>	<ul style="list-style-type: none">▶ Managers are expected to prepare a transition plan by use of appropriate cross-training efforts, knowledge management strategies, delegation, and oversight.▶ Transition plans will be implemented as needed to ensure continuity of service during any period of extended absence or turnover among critical staff.▶ Maintain effective recruitment practices and strategies (such as use of contingent staff, internships, and employer branding) to attract or develop qualified replacement staff.



SURVEY OF ORGANIZATIONAL EXCELLENCE RESULTS SUMMARY

TRS has continued to participate in the biennial *Survey of Organizational Excellence* administered by the UT School of Social Work. The fiscal year 2008 survey is the seventh time that TRS has surveyed its employees.

During the fiscal year 2008 survey, 67 percent of TRS employees responded to the survey. As a general rule, rates higher than 50 percent indicate soundness, with employees demonstrating an investment in the organization, wanting to see the organization improve, and generally having a sense of responsibility to the organization.

In addition to monitoring the general well-being of the agency, TRS gathered employees' insights on additional matters of interest. These matters included: the impact of diversity initiatives at TRS, the value placed on non-monetary rewards TRS offers to employees, and the level of employee awareness of ethics and information security practices. The responses to the customized questions indicate that:

- Employees have a positive perception of TRS as a respectful, diverse workplace.
- Non-monetary rewards provided by TRS are highly valued, and are therefore effective tools in TRS' recruitment and retention efforts.
- Employees are familiar with ethics and information security practices, and expressed confidence in how such matters are handled at TRS.

The key area of concern expressed by employees in the fiscal year 2008 survey was "Fair Pay," a continuing trend from preceding surveys. "Fair Pay" was the only category that fell below the 300 mid-point in both this survey and the three previous surveys. The score in this category has shown a 3 point improvement since the last survey and a cumulative 13 point improvement since fiscal year 2004. Two other categories reflected small increases in the scores from the previous survey: "Supervisor Effectiveness" and "Quality" (up one point each). One category, "Fairness," had no change in score from the previous survey.

Sixteen of the 20 categories received lower scores than in fiscal year 2006. While these results are not unexpected, given the large-scale organizational and cultural changes that have been ongoing at TRS, the decline in scores indicates matters that warrant additional management attention. Overall, TRS continues to see survey results above the midpoint, which reflect generally positive staff perceptions of the agency. Benchmark data from peer agencies is not yet available for comparison purposes.

TRS employees clearly viewed the following categories as the most positive elements of working at TRS. All three received scores of 400 or better, in a scale with 500 as the highest possible score:

- Quality (customer service, continuous improvement)
- Strategic (vision, services provided)
- Physical Environment (safe and positive work atmosphere)

Even though TRS continues to see mainly positive ratings from employees, the organization places a priority on improving its effectiveness. TRS routinely shares survey results with all employees, asks for their feedback on how to make TRS a better place to work, and encourages managers to make appropriate changes within their individual departments. The organization-



wide focus for this biennium is to act to improve on areas of concern within TRS control and to consider ways to build on areas of strong performance. Actions taken as a result of survey feedback are communicated to all employees, in order to reinforce that their input is valued and that participating in the survey is worthwhile.