

FY21 Accomplishments

Supported executive and legislative offices and staff during the 87th legislative session in passing important legislation to address the critical funding needs of the ERS pension plan, ensuring sustainability for current and future retirees.

Achieved a net investment return of 25.46% for the ERS Retirement Trust Fund, beating the benchmark by almost 7%.

Implemented a new insurer for the HealthSelectSM Medicare Advantage Plan PPO, bringing significant cost savings to the plan and reducing premiums by 41%.

Doubled the number of mental health providers in the HealthSelect of Texas[®] network, increasing access for participants across the state.

Conducted all-virtual benefits education sessions, including 99 Fall and Summer Enrollment webinars, and introduced phone sessions for retirees unable to join online.

Implemented the CAPPs payroll and personnel modules—bringing ERS into the same system many other state agencies use, and streamlining leave accounting and payroll processes.

Implemented multifactor authentication for ERS employees working remotely, further securing ERS' systems from hacking.

1836 **Building project completion**

On April 21, 2021, ERS held a ribbon-cutting ceremony for its new building, 1836 San Jacinto. As part of the area's overall revitalization, the building will add long-term value to the ERS Retirement Fund and help accommodate ERS' workforce. 1836 San Jacinto includes: approximately 145,000 square feet of office space primarily for lease tenants, with some space for ERS staff; above- and below-ground parking; and street-level retail shops and restaurants. The additional ERS workspace takes into account the COVID-19 pandemic's emphasis on more personal space in work areas and will allow ERS to better serve our members and the state.

In FY21, ERS engaged with members through:

Communication

- 531,445 phone calls
- 33,824 emails
- 398 retirement sessions

Education

- 155 webinars and other educational events

Information

- 121,000 member requests
- 415,000+ pieces of incoming and outgoing mail

Critical action for the long-term health of state employee retirement benefits

Before and during the 87th Texas legislative session, ERS staff worked to educate lawmakers about the value of our insurance and retirement benefits—to employees and retirees, as well as the Texas economy. As part of their commitment to protect the ERS pension plan's long-term stability, the 87th Texas Legislature passed a new state law to address the plan's \$14.7 billion unfunded pension liability. The legislation guarantees additional state contributions to the ERS plan—above the state's regular contributions that currently equal 10% of the state payroll. The purpose of the additional contributions is to pay off the unfunded liability by Fiscal Year 2054.

The legislation also requires ERS to implement a new cash balance retirement benefit for state employees starting work on or after September 1, 2022, referred to as Group 4. The Group 4 benefit will help stabilize the overall ERS retirement plan, reducing the chance that the retirement program will run into future funding problems. It also better meets the needs of a modern workforce. Future state employees in Group 4 will have a lower employee contribution rate and shorter vesting period. Group 4 employees will be able to grow their benefit throughout their working lifetime and, depending on investment performance, have the opportunity for annuity increases in retirement. Members of the Law Enforcement and Custodial Officers Supplemental (LECOS) plan will continue to have access to an enhanced benefit.

Group 4, the new cash balance defined benefit, combines the advantages of both a traditional pension and a 401(k) to help provide state employees financial security for their lifetime.

Group 4 does not change the benefits for any current state employees or those starting work before September 1, 2022. While the new legislation directly impacts future state employees, it also indirectly affects current employees and retirees. The additional money from the state and new cash balance benefit structure will help stabilize the ERS plan and return it to actuarial soundness—benefiting everyone.



FISCAL YEAR 2021 AT A GLANCE

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12/6/2021



Retirement

ERS administers benefits that contribute to a secure retirement for state employees, elected officials, law enforcement and custodial officers, and judges. These benefits are paid through the ERS fund, the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) and the Judicial Retirement System (JRS) Plans 1 and 2. LECOS-eligible employees receive benefits from the ERS fund plus a supplemental benefit from the LECOSRF.

Looking ahead: Senate Bill 321 addressed the future sustainability of the ERS plan; however, both the LECOSRF and JRS 2 funds are on a path to depletion. At current contribution levels, LECOSRF is projected to run out of funds in 2050, and JRS 2 is projected to run out of funds in 2076. If LECOSRF and JRS 2 deplete, benefits will be paid from state general revenue, significantly increasing the cost to the state.

Retirement Plan Membership

Fund/plan	Contributing members	Non-contributing members*	Retirees and beneficiaries
ERS and LECOS Plans	136,726 including 32,498 contributing to LECOS	145,050 including 29,626 with benefits in LECOS	120,294 including 15,343 receiving benefits from LECOS
Judicial Retirement System Plans 1 and 2 (combined)	586	192	805

*Members no longer employed by the state with money still on account with ERS

Retirement Plans Contribution Rates

	Fiscal Year 2021	Fiscal Year 2022	
ERS	State	9.5%	9.5%
	Agency	0.5%	0.5%
	Employee	9.5%	9.5%
	Total	19.5%	19.5%
	Legacy Payment	–	\$510 million
LECO*	State	0.5%	0.5%
	Employee	0.5%	0.5%
	Total	1.0%	1.0%
	Dedicated Revenue (Court Cost)**	\$17.1 million	\$15 million
JRS 2	State	15.663%	15.663%
	Employee	9.5%	9.5%
	Total	25.163%	25.163%

*LECOS-eligible employees also contribute 0.5% of their pay to the LECOSRF. These employees receive about 80% of their retirement benefit from the ERS Fund.

**LECOSRF receives a dedicated portion of criminal court cost revenue. In the past, this amount has been expressed as a percent of the payroll contribution rate. Going forward it is expected to decline as a percent of payroll and is excluded from these numbers.

\$2.8 billion: Amount paid to retirees and beneficiaries (all funds)

**\$1,774 per month or \$21,292 per year:
Average ERS plan annuity for FY21**

ERS makes annuity payments to retirees or beneficiaries living in 253 of Texas' 254 counties, benefiting local economies.

Retirement Fund Investments

About 60% of the annuity payments from the ERS Retirement Trust Fund (all funds collectively) come from investment earnings, with the remainder coming from participant and state contributions. FY21 was an exceptional year for investment returns, with a one-year return of 25.46%. Such strong returns added \$5.8 billion to the Fund, bringing the fiscal year-end Fund total to \$34.9 billion.

ERS operates a well-diversified investment portfolio designed to weather market ups and downs. This past year, the strongest performers included the global equity portfolio, with 36% year-over-year gains, 20% return in real estate investments, 21% in global credit and 15% in hedge funds.

ERS Investment Performance – Period ending August 31, 2021						
Period	30-Year	20-Year	10-Year	5-Year	3-Year	1-Year
Net Return	N/A	7.29%	9.32%	11.13%	11.34%	25.46%
Gross Return	8.05%	7.38%	9.40%	11.17%	11.38%	25.51%

New Investments Chief

In August 2021, ERS hired David Veal to serve as chief investment officer. He succeeds Tom Tull, who retired after more than 12 years on ERS staff. Veal was at ERS earlier in his career, then worked at other public retirement systems before coming back to ERS as CIO.

TEXAS\$AVERSM Employees, former employees and retirees can boost their retirement savings through the 401(k) / 457 Program Texa\$aver 401(k) / 457 Program. Participation in the voluntary savings program grew by 7,176 participants, or 2.9%, in FY21. Almost 81.4% of participants automatically enrolled in Texa\$aver since January 2008 have stayed in the program, benefitting from expanded, flexible investment options and lower-than-average fees.

Texa\$aver 401(k) / 457 Program

\$4,880,739,723 in total assets (as of August 31, 2021)			
401(k)*	401(k) Roth	457*	457 Roth
\$3.56 billion	\$91.90 million	\$1.32 billion	\$78.22 million
220,946 accounts	7,695 accounts	33,660 accounts	6,153 accounts
102,249 accounts contributing	4,877 accounts contributing	17,806 accounts contributing	3,910 accounts contributing

*Includes 401(k) Roth and 457 Roth amounts shown.

Insurance

The Texas Employees Group Benefits Program (GBP) provides insurance coverage for health, life, dental, vision, accidental death & dismemberment (AD&D) and disability.

- 538,002: Participants in all GBP health plans. (206,828 employees, 124,366 retirees, 200,596 dependents, and 6,212 survivors and others)
- \$926 million: Participants' share of health care costs, including premium contributions, copays, coinsurance and deductibles.
- \$3.42 billion: Amount paid in claims by the self-funded ERS health plans (HealthSelect of Texas®, Consumer Directed HealthSelectSM, HealthSelectSM Prescription Drug Program and HealthSelectSM Medicare Rx). Less than 3% of overall expenditures for HealthSelect of Texas go toward administration – far less than the average for large, private health plans.
- 92,366: Participants (73,407 members and 18,959 dependents) in ERS' Medicare Advantage health plans. This represents approximately 78% of the eligible Medicare population.
- One in 54: Proportion of Texans covered by GBP health insurance plans

TEXFLEXSM Employees save money on federal taxes when they contribute to TexFlexSM flexible spending accounts (FSAs) to pay eligible health care, dependent care and/or limited-purpose expenses. The State of Texas also saves when members contribute to TexFlex. Because members have money for these expenses deducted from their paychecks pre-tax, the state pays lower Federal Insurance Contribution Act (FICA) contributions. (The state and employees lower their FICA contributions even more by paying health insurance premiums pre-tax, a process known as premium conversion.)

- **42,918:** Number of health (40,300), dependent care (2,336), limited-purpose (140) and commuter (142) FSA accounts
- **\$62.2 million:** Amount contributed to TexFlex accounts by state employees
FSAs are authorized and regulated by section 125 of the Internal Revenue Code.

In FY21, premium conversion and pre-tax payments to TexFlex FSAs resulted in estimated savings of:

- **\$128.5 million** in FICA taxes and federal income taxes for participants and
- **\$43.4 million** in FICA taxes for the state.

PAYFLEX® New (FSA) administrator

Following a competitive bidding process, ERS' Board of Trustees awarded the contract to administer the TexFlex health care, dependent care and limited-purpose FSAs to PayFlex® Systems, Inc. effective September 1, 2021. The change did not affect program participants' contribution limits, eligible expenses or other program rules. ERS also discontinued the commuter spending account (CSA) program, effective September 1, 2021. ERS based its decision on very low CSA participation.