



ERS

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

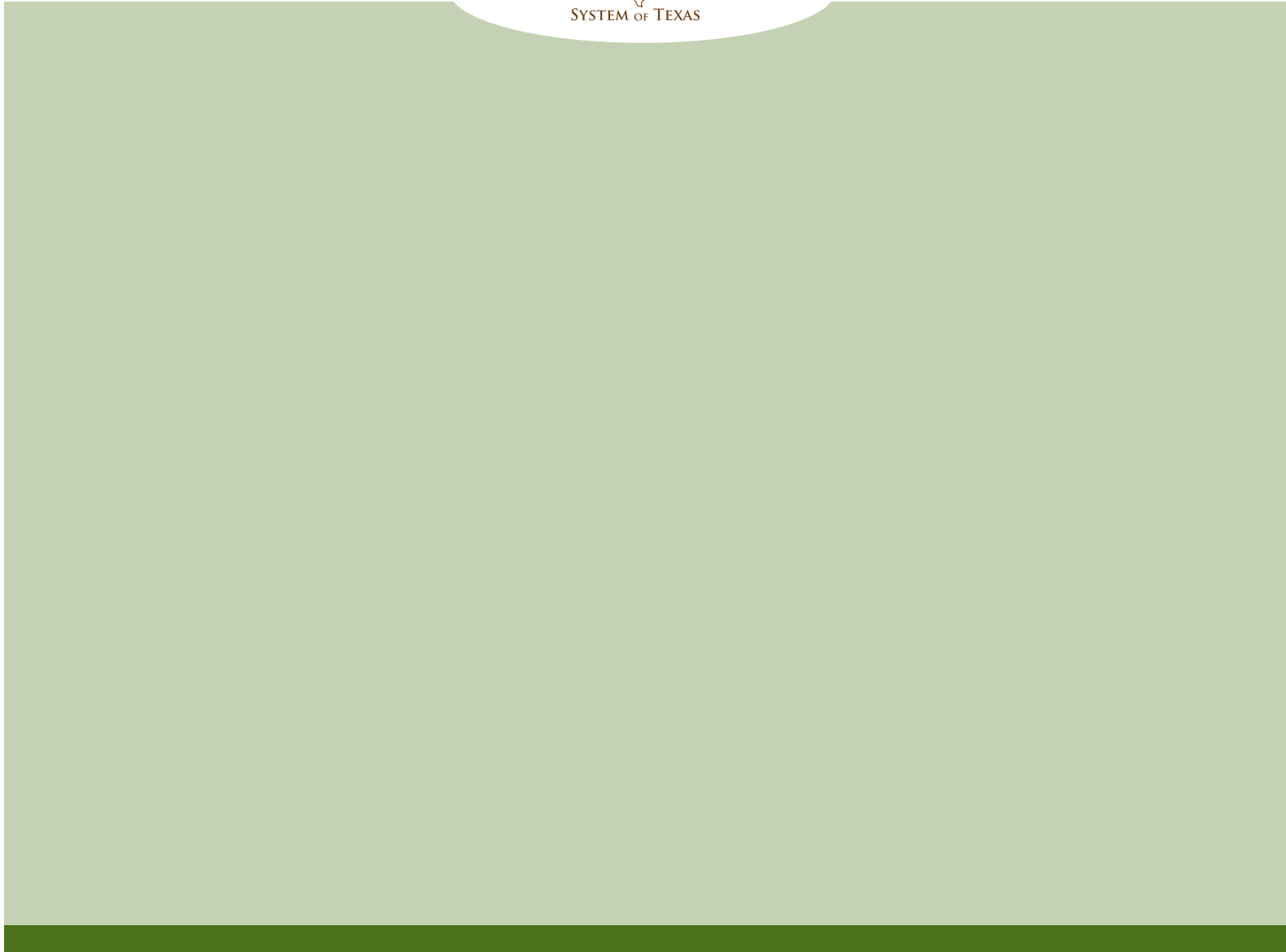


Table of Contents

III.	Review and Approval of the minutes to the May 20, 2014 Meeting of the Board of Trustees.....	2
IV.	Review, Discussion and Consideration of Required Rule Reviews and/or Adoption of Amendments to the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV: Chapter 71 (Creditable Service); Chapter 74 (Qualified Domestic Relations); And Chapter 82 (Health Services in state Office Complexes	3
V.	Review and Discussion of Governance Updates for the Texa\$aver Deferred Compensation Program.....	3
VI.	Review, Discussion and Consideration of the Texas Employees Group Benefits Program:	
	a. Financial Status Update as of June 30, 2014	5
	b. Approval of Rates for Medicare Advantage HMO Plans for Calendar Year 2015.....	6
	c. Approval of Rates for Medicare Advantage PPO Plans for Calendar Year 2015.....	7
VII.	Presentation, Discussion and Consideration of ERS' Operational Items:	
	a. Presentation of ERS Fiscal Years 2015-2017 Strategic Plan.....	8
	b. Review of the Modernizing Benefit Administration Plan.....	9
	c. Review of the ERS Building Plans.....	11
	d. Review and Consideration of ERS Fiscal Year 2015 Proposed Operating Budget.....	11
VIII.	Review, Discussion and Consideration of Reappointment of ERS Investment Advisor Committee Members with Terms Expiring August 31, 2014.....	13
IX.	Review, Discussion and Consideration of the 2015 ERS Trustee Election Calendar.....	13
X.	Elections of Chair and Vice-Chair of the ERS Board of Trustees for Fiscal Year 2015.....	14
XI.	Review, Discussion and Consideration of the Compensation Study and the ERS Incentive Compensation Plan.....	14
XII.	Review and Discussion of the state of ERS' Unfunded Pension Liability.....	15
XIII.	Review and Discussion of the Legislative Appropriations Request for Fiscal Years 2016-2017.....	16
XIV.	Executive Director's Report.....	17

XIX. Set Date for the Next Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the Next Meeting of the Board of Trustees, and the Next Meeting of the Audit Committee.....17

XXI. Executive Session – The Board of Trustees will meet in executive session in accordance with Section 551.074, Texas Government Code to review and consider the duties, performance And compensation of the ERS Executive Director; and to deliberate the appointment, Employment, evaluation, reassignment, duties, discipline, or dismissal of one or more public Officers or employees. Thereafter, the Board may consider appropriate action in Open session.....18

XXII. ADJOURNMENT OF THE BOARD OF TRUSTEES.....18

**BOARD OF TRUSTEES MEETING
EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

**August 19, 2014
ERS Board Room
ERS Building – 200 E. 18th Street
Austin, Texas 78701**

TRUSTEES PRESENT

Brian Ragland, Chair
Frederick E. Rowe, Jr., Vice-Chair
Cydney Donnell, Member
I. Craig Hester, Member
Cheryl MacBride, Member

TRUSTEES ABSENT

Yolanda Griego, Member

ERS STAFF PRESENT

Ann S. Bishop, Executive Director
Larry Zeplin, Chief Operating Officer
Tony Chavez, Internal Auditor
Jordan Hajovsky, Operations Support Director
Paula A. Jones, General Counsel and Chief Compliance Officer
Robert P. Kukla, Director of Benefit Contracts
Wendy McAdams, Operations Support Director
Mel Mireles, Chief Information Officer
Shack Nail, Deputy Director of Governmental Affairs
Ralph Salinas, Human Resources Director
Marc B. Sundbeck, Manager of Enterprise Risk Management
Catherine Terrell, Director of Governmental Affairs
Tom Tull, Chief Investment Officer
Debbie Warren, Director of Customer Benefits
Mike Wheeler, Chief Financial Officer
Nora Alvarado, Benefit Contracts
Lori Blewett, Benefits Communication
Carlos Chujoy, Investments
Kyla Cloutier, Benefit Contracts
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Brian Dowdy, Finance
Blaise Duran, Benefit Contracts
Leah Erard, Governmental Affairs
Beth Gilbert, Internal Audit
Bernie Hajovsky, Office Management Support
Robin Hardaway, Customer Benefits
Andrew Hodson, Investments
Jennifer Jones, Governmental Affairs
Sharmila Kassam, Investments
Debbie Leatham, Finance
Mark Lopez, Benefit Contracts
Betty Martin, Investments
Patricia Maugham, Executive Office
Gilbert Mokry, Internal Audit
Machelle Pharr, Finance

Lauren Russell, Benefit Contracts
Leighton Shantz, Investments
Clinique Sterns, Human Resources
John Streun, Investments
MaryJane Wardlow, Governmental Affairs
Erin Williams, Finance

ALSO PRESENT

Nick Arnold, Humana
Elizabeth Blount, Retired State Employees Association (RSEA)
Tim Bryan, Prudential
Tiffany Calderon, Humana
Mark Cebulski, American Federation of State, County and Municipal Employees (AFSCME)
Gary Chandler, Texas Department of Public Officers Association (DPSOA)
Michael Clayton, State Auditor's Office
Philip Dial, Rudd & Wisdom, Inc.
Kristen Doyle, Aon Hewitt
Katy Fallon, Legislative Budget Board
Bill Hamilton, Retired State Employees Association (RSEA)
Kris Hefner, Caremark
Ray Hymel, Texas Public Employees Association (TPEA)
Casey Jones, White Oak
John Keel, State Auditor's Office
Larry McGinnis, Texas Department of Public Safety Officers Association (DPSOA)
Kim McLeod, United HealthCare
Emily Morganti, Legislative Budget Board
Harry Nanos, Texas Alcoholic Beverage Commission (TABC)
Katie O'Brien, Senator Kirk Watson
Angelica Ramirez, State Auditor's Office
Suzanna Sanchez, Invesco
Malika Te, House Appropriations Committee
Brady Vaughn, Senate Finance Committee
Steve Voss, Aon Hewitt

Mr. Brian Ragland, Chairman of the Board of Trustees (BOT) of the Employees Retirement System of Texas (ERS), called the meeting to order and read the following statement:

"A public notice of the Board of Trustees meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 10:02 a.m. on Thursday, August 7, 2014 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

Upon Adjournment of the Audit Committee, the Board of trustees convened as a committee of the whole to consider Board agenda items.

III. REVIEW AND APPROVAL OF THE MINUTES TO THE MAY 20, 2014 MEETING OF THE BOARD OF TRUSTEES

Chair, Brian Ragland opened the floor for a motion on the approval of the minutes to the Board of Trustees meeting held on May 20, 2014.

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas to approve the minutes held on May 20, 2014.

IV. REVIEW, DISCUSSION AND CONSIDERATION OF REQUIRED RULE REVIEWS AND/OR ADOPTION OF AMENDMENTS TO THE RULES OF THE BOARD OF TRUSTEES, TEXAS ADMINISTRATIVE CODE, TITLE 34, PART IV: CHAPTER 71 (CREDITABLE SERVICE); CHAPTER 74 (QUALIFIED DOMESTIC RELATIONS ORDERS); AND CHAPTER 82 (HEALTH SERVICES IN STATE OFFICE COMPLEXES)

Chair, Brian Ragland introduced Ms. Paula A. Jones, General Counsel and Chief Compliance Officer and Ms. Robin Hardaway, Assistant Director of Customer Benefits to present the Required Rule Reviews and/or Adoption of Amendments to Chapters 71, 74, and 82. Ms. Hardaway stated there is a proposed amendment to Chapter 71 concerning creditable service. Section 71.2 concerning membership waiting period for employee class has been amended to clarify the waiting period required for certain persons who join the employee class, which includes individuals who leave state service and withdraw their contributions to the retirement system. Persons who leave state service and do not withdraw their retirement contributions will remain members and will not incur the retirement waiting period. Ms. Hardaway reported that notice of proposed amendments was published in the April 11, 2014, issue of the *Texas Register* and ERS did not receive any comments.

Ms. Jones informed the board that Texas law requires ERS to review its rules every four years, and staff has reviewed Chapters 71, 74 and 82 of ERS' rules within the Texas Administrative Code. The notice of the proposed rule review for Chapter 71 was published in the May 4, 2012, issue of the *Texas Register*, and notices of rule review of Chapters 74, and 82 were published in the February 14, 2014 issue of the *Texas Register* as required by statute. No comments were received. Ms. Jones reported that staff is not recommending any changes to Chapters 74 and 82 at this time. She also noted staff is recommending that the Board of Trustees readopt the rules with the proposed amendments to Section 71.2, as the reasons for initially adopting the chapters continue to exist.

There being no further questions or discussion, the Board then took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Ms. Cheryl MacBride and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas that the following actions should be taken with regard to the Rules of the Board of Trustees, Texas Administrative Code, Title 34, Part IV, as presented in this Agenda Item:

- Adopt the proposed amendments to Section 71.2, Membership Waiting Period for Employee Class
- Readopt the following chapters of the Rules of the Board of Trustees because the reasons to adopt the rules in these chapters continue to exist:
 - Chapter 71 (Creditable Service) as Chapter 71 was amended by the Board as provided by this agenda item,
 - Chapter 74 (Qualified Domestic Relations Orders), and
 - Chapter 82 (Health Services in State Office Complexes).

V. REVIEW AND DISCUSSION OF GOVERNANCE UPDATES FOR THE TEXA\$AVER DEFERRED COMPENSATION PROGRAM

Chairman Ragland introduced Mr. Rob Kukla, Director of Benefit Contracts and Ms. Nora Alvarado, Benefit Contracts Manager of Contract Monitoring to present the Governance updates for the Texa\$aver Deferred Compensation Program. Ms. Alvarado stated the Texa\$aver program is a voluntary tax-deferred supplemental retirement program which has two distinct plans, the 401(k) and 457. The

401(k) plan is available exclusively to employees of state agencies and the 457 plan is available to employees of state agencies and institutions of higher education.

Although there are similarities in some of the features between the plans, there are some fundamental differences between the plans. The table below highlights a comparison of some of the features of the 401(k) and 457 Plans.

	Texa\$aver 401(k) Plan	Texa\$aver 457 Plan
Plan Originated	1985	1974
Eligibility	Employees of state agencies	Employees of state agencies and higher education institutions
Contributions	Based on a percentage (%) of salary	Based on a dollar amount
Automatic Enrollment Feature	Beginning January 1, 2008, new state employees are automatically enrolled at 1% of salary	Not Available
Age 50 and Over Catch-up	Employees who are age 50 or older may contribute an additional \$5,500 in 2014 for a total of \$23,000 to each Plan. This includes traditional (pre-tax) and Roth (after-tax) contributions combined. The "Age 50 and Over" Catch-up cannot be used in conjunction with the Special 457 Catch-up Provision.	
Special 457 Catch-up Provision Cannot be used with the Age 50	Not available in the 401(k) Plan.	Special 457 Catch-up Limit is \$35,000 in 2014 and is subject to eligibility requirements
Authorized under Internal Revenue Code (IRC)	Yes Section 401(k) of the IRC	Yes Section 457 of IRC
Qualified Plan Status	Yes	No This is a non-qualified deferred compensation plan
Program Governance	Plan Document	Title 34, Chapter 87 of the Texas Administrative Code (TAC)

Ms. Alvarado reported that since the program is comprised of two distinct plans, each plan has its own governing document. The 401(k) is governed by a plan document that has been adopted by the ERS board and the 457 are governed by rules set forth within Title 34, Chapter 87 of the Texas Administrative Code (TAC). Both plans are part of the overall Texa\$aver program and any program-wide changes handle differently as the changes are managed at plan level. Ms. Alvarado stated advantages to change the governance of the 457 Plan from TAC Chapter 87 to a plan document are to align the governance mechanism for both Texa\$aver plans to a corresponding plan document and design the TAC Chapter 87 to exclusively apply to Investments made in the Prior 457 plan.

Ms. Alvarado stated this would support a more efficient and consistent process for making changes across both plans of Texa\$aver programs. This would allow plan documents to be updated more regularly to maintain compliance with the most recent IRS requirements.

In order to facilitate the move to a plan-document structure for the Texa\$aver 457 plan, Ms. Alvarado stated that ERS staff would employ the following process:

- Present the 457 plan document to the Board in December for consideration and approval,
- Propose changes to the rules under Chapter 87,
- A public notice of proposed changes would be coordinated through the Texas Register, and
- Rule changes would then be presented to the board in February 2015 for consideration and approval.

There were no questions or further discussion, and no action was required on this item.

VI. REVIEW, DISCUSSION AND CONSIDERATION OF THE TEXAS EMPLOYEES GROUP BENEFITS PROGRAM:

a. *Financial Status Update as of June 30, 2014* – The next agenda item is presented by Mr. Rob Kukla, Director of Benefit Contracts and Blaise Duran, Team Lead of Underwriting, Data Analysis, and Reporting. HealthSelect of Texassm (HealthSelect) is a self-funded point of service health benefit plan offered under the Texas Employees Group Benefits Program (GBP). About 84% of GBP health plan participants are enrolled in HealthSelect, which offers health benefits coverage throughout Texas and the United States. Mr. Kukla reported that the plan is estimated to have a net gain of \$36 million for the year and the contingency fund balance is expected to be around \$361 million on September 1, 2014.

Mr. Kukla stated that ERS continues to partner with large, clinically-integrated provider groups to create Patient Centered Medical Homes (PCMH). The PCMH projects have successfully reduced Health care cost relative to the markets in which they practice saving the GBP \$31.5 million in three years. Mr. Kukla reported that in addition to Austin Regional Clinic, Kelsey-Seybold, and Trinity Mother Frances, ERS incorporated two new practice groups into the PCMH program in FY2014, Austin Diagnostic Clinic and Covenant Health Partners. Prescription drug trend continues to increase. This is in large part due to utilization of compound drugs and drugs used to treat and cure Hepatitis C, specifically two new drugs Sovaldi and Olysio. Mr. Kukla noted these two drugs amount to about 5.2% of total HealthSelect drug spent in May 2014. Compound drug utilization and pricing have escalated rapidly during FY14. There was a 338% increase in June 2014 costing the plan nearly \$37 million during the first 10 months of FY14. Mr. Kukla also reported that effective July 1, 2014, the GBP will no longer cover any compound ingredients not approved by the FDA which include bulk chemicals and that all compound drugs over \$300 that will require authorization.

Mr. Kukla then turned it over to Mr. Duran who provided the financial update for FY15. The GBP is in sound financial condition and no benefit changes are expected. The Affordable Care Act (ACA) will increase costs by approximately \$40 million. ERS will continue to work on expanding the PCMH program and negotiating with two new provider organizations. Mr. Duran reported that the Rx drug trend is expected to remain high due to the beneficial changes that have been made on how to pay for compound drugs, specifically the Hepatitis C medications, Sovaldi and Olysio.

In January 2013, ERS implemented the Employer Group Waiver Plan (EGWP+Wrap) for Medicare Primary Care participants in the HealthSelect Prescription Drug Program administered by SilverScript. Mr. Duran noted that effective September 1, 2014, ERS will reinstitute Medicare-primary participants to automatically age into HealthSelect Medicare Rxsm when they turn 65.

There were no questions or further discussion, and no action was required on this item.

b. Approval of Rates for Medicare Advantage HMO Plans for Calendar Year 2015- Mr. Kukla announced to the board that since September 1, 2011, the Employees Retirement System of Texas (ERS) has provided a Medicare Advantage Plan with a statewide Health Maintenance Organization (MA HMO). The prescription drug benefits are provided through the Employees Group Waiver Plan (EGWP+Wrap) on a self-funded program. KelseyCare Advantage is the only MA HMO offered and they have coverage provided in eight Houston area counties. The following table provides the coverage areas and enrollment for the KelseyCare MA HMO as of May 31, 2014:

Texas Employees Group Benefits Program

Participating MA HMO
as of June 30, 2014

KelseyCare Advantage*	Enrollment January 2012	Enrollment January 2013	Enrollment January 2014	Enrollment June 2014
Enrolled Members	465	736	832	866
Enrolled Dependents	107	165	182	180
Total Enrolled Participants	572	901	1,014	1,046

Mr. Kukla announced that historically ERS would prepare and issue the annual request for application (RFA) for qualified MA HMO's to provide coverage under the GBP for the upcoming fiscal year. Based on the responses received, staff concluded that it would not expect to receive additional applications, and as a result, the MA HMO RFA was not distributed for CY2015. Staff will continue to monitor the need to develop and publish the MA HMO RFA to expand the HMO offerings within the Group Benefits Program. ERS established an Evergreen contract extension to KelseyCare for the plan year beginning January 1, 2014. KelseyCare has not requested any change in its service area for CY2015.

Mr. Duran stated that member contribution rates are based on three items:

- 1) premium negotiated with KelseyCare,
- 2) projected cost of prescription drug coverage under the EGWT+Wrap, and
- 3) health insurance provider fee required by the Affordable Care Act.

Mr. Duran also stated there was negotiation with KelseyCare and the proposed renewal rates for medical coverage for CY2015 that are approximately 10% lower than the rates for CY2014 (\$126.76 in CY2014 to \$114.28 in CY2015). The prescription drug coverage cost is projected to be \$168.02 per participant per month during CY2015 which is up from \$138.36 in CY2014. The health insurance provider's fee is going from \$18.08 in CY2014 to \$19.38 in CY2015.

There being no further questions or discussion the Board then took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Ms. Cheryl MacBride and carried unanimously by the present members of the Employees Retirement System of Texas approved contribution rates as presented in this agenda item for the following Medicare Advantage HMO for participation in the Texas Employees Group Benefits Program for Calendar Year 2015:

- **KS Plan Administrators, L.L.C., D/B/A KelseyCare Advantage MA HMO Plan** to provide Medicare Advantage HMO medical-only coverage in the Houston application area which includes the counties indicated in Exhibit A of this agenda item.

c. Approval of Rates for Medicare Advantage PPO Plans for Calendar Year 2015-

Since January 2012, the Employees Retirement System of Texas (ERS) has offered a Medicare Advantage Plan with a state-wide Preferred Provider Organization (MA PPO). Mr. Kukla stated that the MA PPO provides fully insured medical services under the Texas Employees Group Benefits Program (GBP). Prescription drug benefits that members are eligible for are provided through the EGWP+Wrap on a self-insured basis. Mr. Kukla reported there has been a continued growth in the Medicare Advantage enrollment from 47,000 to 55,000.

The MA PPO continues to provide the most cost-effective medical benefits for Medicare-primary GBP participants for both the state and eligible members. The MA PPO medical benefits are provided under a fully insured arrangement in return for a monthly premium.

**Texas Employees Group Benefits Program
HealthSelect Medicare Advantage (MA PPO)
Member Enrollment
as of June 30, 2014**

	Enrollment January 2012	Enrollment January 2013	Enrollment January 2014	Enrollment June 2014
Enrolled Members	37,953	38,186	42,469	43,677
Enrolled Dependents	9,372	9,964	11,366	11,634
Total Enrolled Participants	47,325	48,150	53,835	55,311

Mr. Duran stated that member contribution rates for the MA PPO are based on three items:

- 1) premium negotiated with Humana,
- 2) projected cost of prescription drug coverage, and
- 3) health insurance providers' fee required by the Affordable Care Act.

Mr. Duran stated there was a negotiated fee of \$124.83 for CY2015 which is a \$10.73 increase over the previous fee. The prescription drug estimate for this plan is the same as the MA HMO at \$160.02 per participant. The health insurance provider fee is increasing for Humana from \$19.22 in CY2014 to \$26.35 in CY2015.

The state contribution rates for HealthSelect and HealthSelect MA PPO will be the same. The proposed member contribution rates for dependent coverage for HealthSelect MA PPO for CY 2015 are presented in the table below:

**HealthSelect MA PPO
Proposed Monthly Member Contribution Rates for CY 2015
effective January 1, 2015**

Membership Category	Proposed MA PPO CY 2015	Increase
Medicare-Primary Spouse	\$159.60	\$23.76
Medicare-Primary Surviving Spouse	\$319.20	\$47.52

A comparison of member cost for Medicare-primary spouses and surviving spouses under HealthSelect and HealthSelect MA PPO is presented in the following chart:

**Comparison of Proposed MA PPO and HealthSelect
Monthly Member Contribution Rates**

effective January 1, 2015

Membership Category	Proposed MA PPO CY 2015	Approved HealthSelect FY 2015	MA PPO Member Savings
Medicare-Primary Spouse	\$159.60	\$307.88	\$148.28
Medicare-Primary Surviving Spouse	\$319.20	\$615.76	\$296.56

There being no further questions or discussion the Board then took the following action:

MOTION made by Mr. Craig Hester, seconded by Ms. Cheryl MacBride and carried unanimously by the present members of the Employees Retirement System of Texas approve the proposed HealthSelect Medicare Advantage Preferred Provider Organization rates for Calendar Year 2015 as presented in this agenda item effective January 1, 2015.

VII. PRESENTATION, DISCUSSION AND CONSIDERATION OF ERS' OPERATIONAL ITEMS:

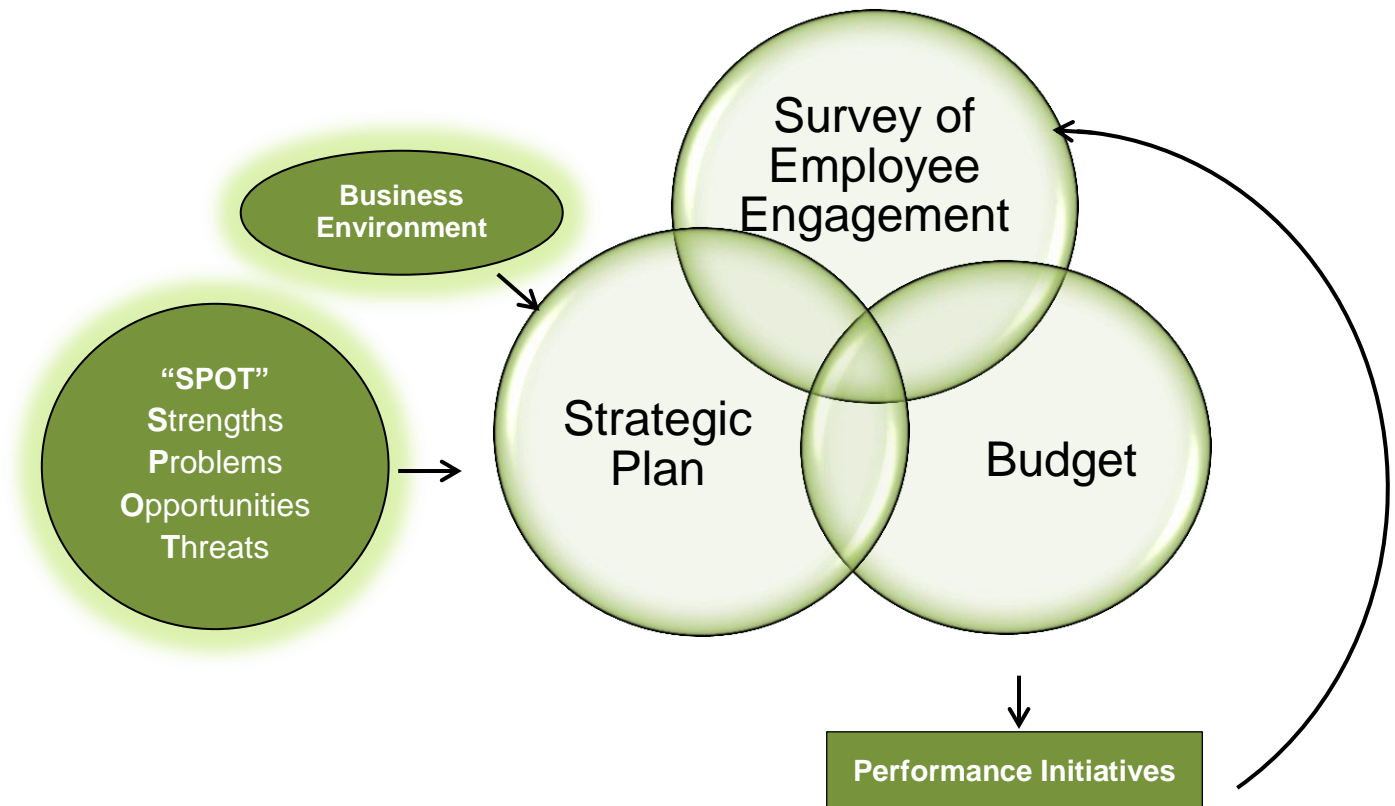
a. *Presentation of ERS Fiscal Years 2015 – 2017 Strategic Plan* - Mr. Larry Zeplin, Chief Operating Officer, introduced Bernie Hajovsky, Office of Management Support in the Executive Office to present the ERS Strategic Plan for Fiscal Years 2015 – 2017. Mr. Hajovsky announced the mission, directions, strategies and goals for the agency were produced through a series of meetings that included approximately 56 ERS staff members including executive administration, division directors and staff representing all areas of the agency. The process was internally facilitated by the Executive Office and Information Systems staff. Benefits Communications staff designed and published the plan document.

Mr. Hajovsky reported that in the sessions, the strategic planning team discussed the current business environment and conducted ERS' SPOT analysis before reviewing ERS' strategic directions, mission, vision, principles, and philosophy. The four strategic directions for FY 2015-2017 included:

- Supporting Retirement Security,
- Sustaining Competitive Group Benefits Programs,
- Engaging Stakeholders for Informed Decision Making, and
- Enhancing Agency Performance and Accountability.

The subject matter experts presented the proposed strategies and goals for meeting each of these four directions. The group debated and discussed these strategies and goals until a consensus was reached. Divisions were asked to propose projects and initiatives to carry out the objectives in the strategic plan. The agency perspective was further enhanced by presenting the resulting draft plan and goals to all staff for feedback. Staff comments were incorporated into the final plan.

**Continuous Improvement Process
Coordinates Employee Feedback with Strategic Planning, Budget and Implementation**



There were no questions or further discussion, and no action was required on this item.

b. Review of the Modernizing Benefits Administration (MBA) Plan - Mr. Zeplin introduced Debbie Warren, Director of Customer Benefits and Mel Mireles, Chief Information Officer to present the next agenda item on Modernizing Benefits Administration (MBA) Plan. Mr. Mireles reported to the board that the current system was implemented in 1999 and is approaching the end of its technology life cycle. In 2011, ERS conducted a study on the sustainability of the business applications and concluded which applications needed to be modernized. Mr. Mireles informed the board the pension and benefit administration enhancements were broken down into two phases. The first phase was to look at the pension system to see how to modernize the application. The approach taken was to separate the rules from the logic. Mr. Mireles stated the success of phase one allowed ERS to extend the life of the system, respond to changes timely, increase performance and user experience. The project for pension completed in a short timeframe (2013). Analysis for the second phase indicated the same approach was not feasible for the Benefits Administration system.

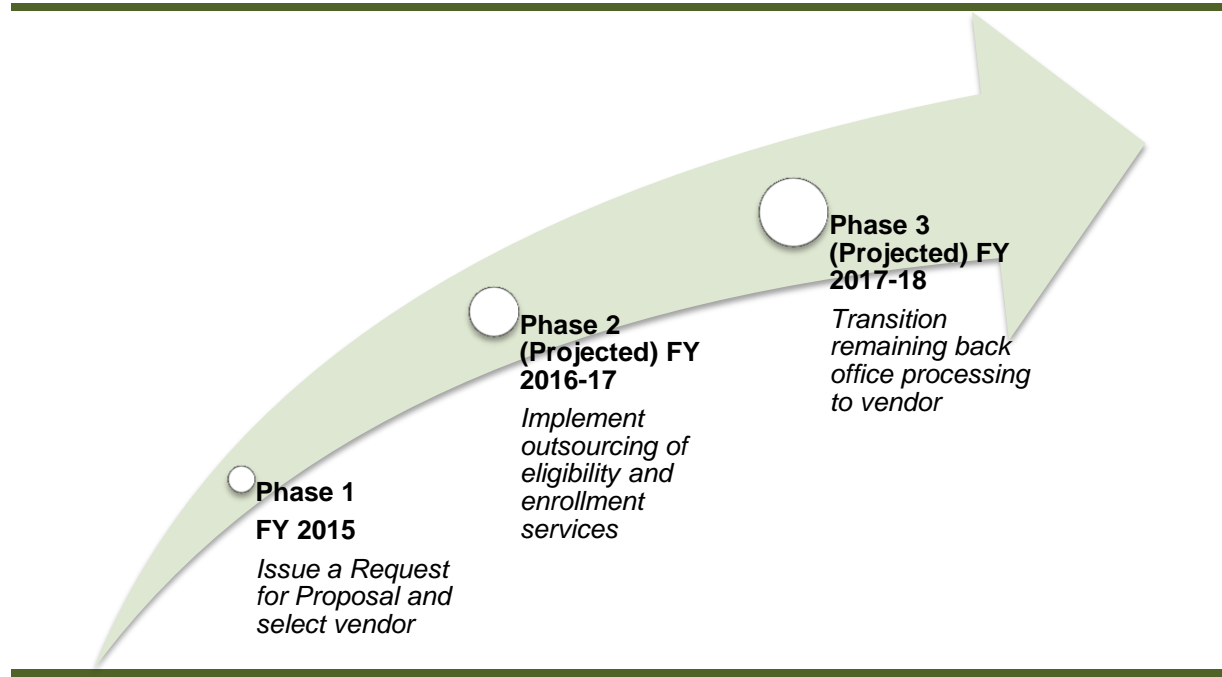
Mr. Mireles then discussed MBA's three options with the first being to upgrade the current system. The second option would be to replace, to look at some newer technologies. And the third option is co-sourcing which provides us the opportunity to shift some of the burden to a vendor and allow the vendor to maintain and keep the technology active and current.

Ms. Warren reported that Benefit Contracts issued a Request for Information (RFI) in December 2013 and received some responses back. ERS also took a team of technical and user experts and visited two other states that have co-sourced similar functions. Responding vendors were able to present available service and options in informational presentations about the services they're offering.

Ms. Warren begin to talk about the next steps for the MBA expected outcomes of co-sourcing and stated that multiple options were available for newer and more current technology, allowing more flexibility, offering better choices for members to have a better user experience, eliminating the legacy system, and allowing ERS to focus on our core competencies. ERS will continue to perform oversight, monitoring and policy functions and integration with other systems and reconciliation.

Mr. Mireles discussed the MBA project timeline as listed below:

- phase 1, begins in FY 2015, a Request for Proposal (RFP) issued and a vendor is selected,
- phase 2 in FY 2016-2017 would implement outsourcing of eligibility and enrollment services, and
- phase 3 in FY 2017-201 looks at transitioning the remaining back office processing to the vendor.



Ms. Warren continued to discuss the budget expectations and stated for the FY 2015 \$1.3 million is included in the budget to cover FY 2015 steps.

Mr. Zeplin informed the board that this is a road map project and ERS will be reporting on the project progress on a quarterly basis as ERS moves forward through the next fiscal year.

At this time Mr. Hester thanked both Ms. Warren and Mr. Mireles for their careers at ERS and everything they've done for the system.

There were no questions or further discussion, and no action was required on this item.

c. Review of the ERS Building Plans - Mr. Zeplin introduced Ms. Wendy McAdams and Jordan Hajovsky, Directors of Operations Support to present the next item on ERS Building Plans. Ms. McAdams reminded the board that in 2006 ERS conducted a space utilization study. Third party experts performed the study, identified industry standards for efficient office space usage and gave ERS ideas on using the existing space more efficiently and effectively. Ms. McAdams stated that based on the approved designs and implementation plan, renovation of the building was performed from 2007-2009 to allow for a more open office environment, address overcrowding, enhance areas to better support the work flows, and flexibility for future growth. During this time, ERS upgraded the air conditioning and other mechanical systems in the building. The Annex building had not been renovated since 1978.

Ms. Hajovsky reported that ERS budgeted positions have increased from 340 in FY 2010 to 375 in FY 2014, which is an average increase of seven positions per year over the last five year period. Assuming continuation of current program levels along with the five year average of position growth, the office space flexibility to cover future growth stands at 11% or 40 spaces overall. Ms. Hajovsky stated this should be sufficient to handle the assumed growth through the end of FY 2017. To gain more temporary office space, current floor plans will be redesigned to accommodate space for additional workers where possible. There will be doubling up of staff in cubicles, and large office spaces, and repurposing huddle rooms (which are small meeting rooms) to house staff. ERS will engage a consultant to complete a feasibility study which has been requested in the funding in the FY 2015 operating budget.

The timeline of the ERS building plans will be a multi-year project conducted in three phases.

- Phase 1 will be completed in FY 2015 which will include selecting and contracting with a consultant and completing the feasibility phase of the study.
- Phase 2 is projected to begin in early FY 2016 where the consultant will present scenarios to the Board.
- Phase 3 includes the implementation of chosen scenario.

Ms. Hajovsky notified the Board-approved building space could begin toward the end of FY 2016 or the beginning of FY 2017.

There were no questions or further discussion, and no action was required on this item.

a. Review and Consideration of ERS Fiscal Year 2015 Proposed Operating Budget- Mr. Mike Wheeler, Chief Financial Officer and Debbie Leatham, Finance Budget Manager presented the next agenda item of the ERS Fiscal Year 2015 Operating Budget. Mr. Wheeler started with discussing the Fiscal Year 2014 accomplishments. He noted there were some changes implemented to help improve the funding status and the sustainability of the ERS pension plan such as accelerated transition to new investment allocation targets as determined by the FY 2012 asset/liability study. ERS completed the first year of the EGWP program with realized saving of \$40 million. There was expertise interaction with legislative committees and the State Auditor's Office, the LBB and the House Research Organization.

The FY 2015 Proposed Operating Budget increase is \$5.5 million or \$8.99% over the FY 2014 Operating Budget. Mr. Wheeler reported this year there was a legislative increase for all state employees that represented about 1% increase. Mr. Wheeler reported that the FY 2014 forecast is about \$1 million or 1.7% below budget and any unspent budget funds remain in the trust funds. FY 2015 includes funds for merits and promotions, career ladder equity adjustments, and 13.33 new positions.

Mr. Tom Tull, Chief Investment Officer stated that the Investments division seeks to maximize operating dollars as well as negotiate fee savings with managers. The primary contributors to the increase in investments budget are the addition of seven new positions to meet the needs of implementing asset allocation changes, addition of internal investment software/subscriptions for requested new positions and cost to obtain Barclay's index data for proper benchmarking of fixed income portfolios.

Mr. Wheeler began discussing the major initiatives for FY 2015.

Strategic Direction 1 - Supporting Retirement Security, Mr. Wheeler highlighted transition to the new asset allocation approved by the board, implementing a derivatives program, expanding options in the TexaSaver program and that ERS will work with legislature to develop solutions to address the pension plans' unfunded liabilities.

Strategic Direction 2 - Sustaining Competitive Group Benefit Programs, ERS will be evaluating the effectiveness of cost containment initiatives. ERS will bid, evaluate, and implement a new contract for Flexible Spending Account manager, review the financial impact of Medicare Advantage for retirees, develop a comprehensive Group Benefits Plan wellness program and conduct summer and fall annual enrollment periods for members.

Strategic Direction 3 - Engaging Stakeholders for Informed Decision Making, ERS will work with the legislature developing options for plan design changes as necessary and as requested, will track legislation and provide cost estimates for bills that impact ERS, and provide member choices for preferred method of correspondence. ERS will be updating the studies for retirement sustainability, insurance sustainability, benchmarking, and state employee workforce.

Strategic Direction 4 - Enhancing Agency Performance & Accountability, ERS will evaluate and recommend solutions for Modernization of Benefits Administration (MBA), adding flexibility for changing environments and utilizing more up-to-date platform for system operations. ERS will enhance and improve pension system functionality and enhance SharePoint to improve coordination of activities related to inter and intra-divisional processes.

Ms. Leatham reminded the board that the budget document is organized the same as it's been in the past. She then thanked Mr. Brian Dowdy and Ms. Erin Williams of the Finance Division for doing a great job helping put together the budget document. Ms. Leatham stated the variances compare FY 2015 budget to FY 2014 forecast with items over \$200,000 at the summary level and \$100,000 for each division. Salaries and other salary costs make up approximately 60% of the budget. The Incentive Compensation Plan increased based on positive performance exceeding benchmarks in FY 2014 plus two years of past incentives. Ms. Leatham then highlighted information available in the budget book by divisions starting with the organization charts as well as the FY 2014 accomplishments, FY 2015 initiatives, budget requests and explanation of variances.

Ms. Donnell thanked the staff who put together the budget document and for sending it out early to the board to review. Mr. Hester recommended that the board amend the budget by adding another 1% for merit consideration and promotions to the non-investment portion of the classified salaries line item of the budget document.

There being no further questions or discussion the Board then took the following action:

MOTION made by Mr. Craig Hester, seconded by Ms. Cheryl MacBride and carried unanimously by the present members of the Employees Retirement System of Texas approve the Fiscal Year 2015 Proposed Operating Budget, for the Employees Retirement System of Texas as amended, and authorize the Executive Director to administer the operating budget as necessary for the efficient and effective administration of the System, and authorize the transfer of interest from the interest account as required to fund the operating budget.

VIII. REVIEW, DISCUSSION AND CONSIDERATION OF REAPPOINTMENT OF ERS INVESTMENT ADVISORY COMMITTEE MEMBERS WITH TERMS EXPIRING AUGUST 31, 2014

Mr. Tom Tull, Chief Investment Officer presented the next agenda item on the reappointment of the ERS Investment Advisory Committee members with terms expiring August 31, 2014. Mr. Tull informed the board that in accordance with the ERS *Investment Policy*, Section 4.3, ERS' Investment Advisory Committee (IAC) was established at the discretion of the Board of Trustees in Texas Administrative Code §63.17(b) and is made up of five and not more than nine members. The IAC is currently comprised of eight members. Members are selected on the basis of experience, ability, and managing various financial institutions and other businesses that investment decisions are made as well as educators in the fields of economics or finance. Mr. Tull announced that staff recommends the board reappoint Mr. James Hille and Mr. Vernon Torgerson.

There being no further questions or discussion the Board then took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester and carried unanimously by the present members of the Employees Retirement System of Texas reappoint Mr. James Hille and Mr. Vernon Torgerson to the Investment Advisory Committee for a three-year term ending August 31, 2017. I further move that the Executive Director be authorized to execute and administer contracts in connection with the reappointment of Mr. Hille and Mr. Torgerson.

IX. REVIEW, DISCUSSION AND CONSIDERATION OF THE 2015 ERS TRUSTEE ELECTION CALENDAR

Mr. Bernie Hajovsky, Office of Management Support in the Executive Office presented to the board the 2015 ERS Trustee Election calendar and stated the term for the elected board member Ms. Yolanda Griego expires at the end of August 2015. The rules require that the board adopt a calendar governing the conduct of each trustee election. The ERS Operating Budget includes costs to hold a general election as noted in the chart below:

2015 Trustee Election Budget	
Third Party Administration, General Election	\$ 87,000
Postage	\$ 133,200
Total	\$ 220,200

Next, Mr. Hajovsky presented the proposed schedule and key dates for the 2015 election as noted below:

Nomination Period

Distribution of Nominating Petitions	Friday, January 2, 2015
Close Nominations at 5:00 P.M.	Friday, January 30, 2015
Certify Candidates; Select Ballot Order	Wednesday, February 11, 2015
Candidate Forum	Thursday, March 5, 2015

General Election

Voting Begins	Friday, March 6, 2015
Close Voting	Friday, April 10, 2015
Executive Director Certifies Results	Wednesday, May 6, 2015

There being no further questions or discussion, the Board then took the following action:

MOTION made by Ms. Cheryl MacBride, seconded by Mr. Craig Hester, and carried unanimously by the present members of the Employees Retirement System of Texas adopt the 2015 Trustee Election Calendar as presented in the agenda item.

X. ELECTIONS OF CHAIR AND VICE-CHAIR OF THE ERS BOARD OF TRUSTEES FOR FISCAL YEAR 2015

Texas Government Code, Title 8, 815.201, provides that the ERS Board of Trustees shall elect new officers from its membership. As a result of such an election, the newly elected Chair and Vice-Chair of the ERS Board of Trustees will each serve a one-year term beginning September 1, 2014 and ending August 31, 2015.

Chair Brian Ragland opened the floor for a motion on the election of Chair and Vice-Chair of the ERS Board for fiscal year 2015:

MOTION made by Mr. Craig Hester, seconded by Ms. Cheryl MacBride and carried unanimously by the present members of the Board of Trustees of the Employees Retirement System of Texas elect Mr. Brian Ragland as Chair and Mr. Frederick E. Rowe as Vice-Chair of the ERS Board of Trustees for one-year terms beginning September 1, 2014 and ending August 31, 2015.

XI. REVIEW, DISCUSSION AND CONSIDERATION OF THE COMPENSATION STUDY AND THE ERS INCENTIVE COMPENSATION PLAN

On December 13, 2006, the Board of Trustees (Board) approved the ERS Incentive Compensation Plan that was most recently approved by the Board as of August 20, 2013 and further approved annually by the Board. Mr. Tom Tull, Chief Investment Officer stated that CBIZ Human Capital Services, a large professional service company will conduct the market study of public plan peers with the incentive compensation plans in terms of competitive plan design and best practices. The object of the incentive compensation study is to attract, retain, and motivate qualified employees for the program in establishing incentive award ranges that are competitive and flexible in order to meet the changing needs of the investment program at ERS.

Ms. Sharmila Kassam, Investments Chief of Staff reported that CBIZ was the same vendor that conducted the compensation study in 2012. CBIZ's standard approach to conduct the incentive compensation survey was to identify survey participants, develop a customized survey tool, conduct a customized survey of public pension plans, analyze the survey responses and provide a report of the findings from this analysis.

Ms. Kassam stated CBIZ helped look at some of the kind of methodologies in terms of how to evaluate performance and one would be looking at relative risks verses risk adjusted.

There being no further questions or discussion the Board then took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester and carried unanimously by the present members of the Employees Retirement System of Texas approve the ERS Incentive Compensation Plan for Key Investment Professionals and Leadership Employees for Fiscal Year 2015 as presented.

XII. REVIEW AND DISCUSSION OF THE STATE OF ERS' UNFUNDED PENSION LIABILITY

Ms. Catherine Terrell, Director of Governmental Affairs, introduced Ms. Jennifer Jones, Senior Program Specialist in the Governmental Affairs division to assist in the presentation. Ms. Terrell began by stating that today's discussion will focus on some of the workforce policy aspects of the issue; particularly how attempts to strengthen the fund's financial status have disproportionately affected recent state employees. The retirement trust fund used to advance fund and pay the majority of the cost of retirement benefits to State of Texas retirees is not sound.

There are many reasons why the fund is not sound, including insufficient contributions and short-term investment losses. Since the retirement system is funded at a percentage of payroll, a declining payroll has negatively affected the fund. The population of Texas is increasing and during the same period ERS membership is declining. Ms. Terrell stated that state employment is down 16% during the same period that the state population has increased pretty dramatically.

Ms. Terrell reported that employers tell ERS that benefits are crucial to recruitment. She gave an example of average state employee total compensation (\$40,000 salary and \$20,000 benefits) to show the impact of benefits on the compensation package for employees. Changes to benefits can have major implications on the workforce for both recruitment and retention purposes.

Lower benefits for new employees, in particular, may affect recruitment and retention. Employees hired on or after September 1, 2009 have benefits that differ from employees hired before that date. These groups of employees are eligible to retire at age 55 with 25 years of service and the final average salary used to calculate their retirement eligibility based on their highest 36 months of salary. In the example used by Ms. Terrell for illustration purposes, the employee in this first group would be eligible for a \$1,800 a month annuity at age 55. Employees hired between September 1, 2009 and August 31, 2013 are also eligible to retire at age 55 with 25 years of service but they do not get full benefits unless they work to age 60 or above. Their final average salary is calculated based on the highest 48 months of salary. If the employee retires at age 55, he or she would get a 5% reduction on their annuity for every year below age 60 (up to a 25% reduction). In this example, their annuity would be \$1,350 as compared to the employee in the first group who would have an annuity of \$1,800. Employees hired on September 1, 2013 or after are also eligible to retire at age 55 with 25 years of service but they must work to age 62 or above to get full benefits. Their final average salary is based on the highest 60 months of their salary. In this example, their annuity would be the lowest of the three groups because it would be reduced 5% for every year that the employee retires below age 62. There is no cap on that reduction, so their annuity would be \$1,170.

Although all employees are required to contribute to the trust fund, current projections show that the trust fund will exhaust by 2052. Ms. Terrell stated it is important to note that the plan sponsor obligations do not end when the trust fund runs out of money, but the major source of money to pay benefits does deplete. The trust fund pays about 66¢ out of every retirement dollar.

Ms. Terrell discussed options to balance the trust fund by either increasing the revenue or decreasing the costs. Options to increase the revenue are higher contributions and/or investment earnings, dedicated revenue sources, and/or a lump-sum cash deposit. The only way to decrease costs is to lower the cost of benefits by modifying benefits for current and/or new employees.

Ms. Jones informed the board on the interim report that was required by Senate Bill 1459, which is ERS' omnibus bill, where ERS was requested to look at the feasibility of adding select populations to the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF). The legislation specifically required that ERS look at adding custodial officers from the Texas Juvenile Justice Department (TJJJD). ERS also studied adding law enforcement investigators from the Office of the Attorney General. Ms. Jones stated the report includes both workforce analysis and funding impact analysis. The workforce analysis included retention data from the Texas State Auditor's Office. ERS also interviewed TJJJD and OAG to understand recruitment and retention issues for select populations as well as interviewed agencies with current LECOSRF eligible employees. Ms. Jones reported that the funding impact analysis included calculations for two scenarios. One scenario recognized both past and future

service and one recognized future service only. Both scenarios would increase plan liabilities and ongoing contributions needed for actuarial soundness.

Ms. Jones then gave the board an overview of who is in LECOSRF. Current LECOSRF members include:

	Custodial Officers
<ul style="list-style-type: none"> ➤ Department of Public Safety (DPS) ➤ Texas Alcoholic Beverage Commission (TABC) ➤ Office of the Inspector General at the Texas Juvenile Justice Department (TJJJ) ➤ Texas Parks and Wildlife Department (TPWD) ➤ Texas Board of Pharmacy <i>(if employed prior to 9/1/05)</i> 	<ul style="list-style-type: none"> ➤ Board of Pardons and Paroles ➤ Texas Department of Criminal Justice (TDCJ) ➤ University of Texas Medical Branch (UTMB) <i>(transfers from TDCJ for managed care; only if they were certified as custodial officers when at TDCJ)</i>

TDCJ custodial staff represents the vast majority of LECOSRF active members – 87% of the contributing members in LECOS are from TDCJ.

Ms. Jones reported to the board the characteristics of the LECOSRF workforce that came out of the interviews with the agencies. On the law enforcement side there is lower turnover than the state average, where on the custodial side there is a higher turnover. Law enforcement officers typically have lifelong careers with their agencies, which is not necessarily the same for Custodial officers.

Ms. Jones reported to the board that after a review of existing statutory and constitutional provisions, it is the opinion of ERS staff that adding eligible employees to LECOSRF is a benefit enhancement that is not permitted when ERS and LECOSRF are actuarially unsound. To make this kind of benefit enhancement, the legislature would need to make the funds sound through increased annual contributions that meet the actuarially sound rate, make a lump sum payments to the trusts that pays off the unfunded liability, or a combination of the two.

Ms. Jones concluded the presentation by stating at the December 2014 meeting when presenting the actuarial evaluation, ERS will look at separately identifying the cost associated with the law enforcement and custodial officers, as required by statute.

There were no questions or further discussion, and no action was required on this item.

XIII. REVIEW AND DISCUSSION OF THE LEGISLATIVE APPROPRIATIONS REQUEST FOR FISCAL YEARS 2016-2017

Chairman Ragland introduced Mr. Mike Wheeler, Director of Finance and Ms. Machel Pharr, Assistant Director of Finance to present the Legislative Appropriations Request (LAR) for Fiscal Years 2016-2017 which is included as Exhibit A¹. Mr. Wheeler introduced Ms. Pharr stating she joined the ERS Finance team about two months ago and he is glad to have her on the team.

¹Exhibit A – Page 19

The Legislative Budget Board (LBB) issued instructions for the preparation and submission of the LAR for the 84th Legislature to all agencies in June 2014. Mr. Wheeler announced the LAR for Fiscal Year 2016-2017 is to be submitted by August 25, 2014. ERS works with the LBB and Governor's Office to determine the base level of funding for the retirement and insurance programs. There is a policy letter that lists the parameters for what your base can be for your LAR. Items above the base funding level are considered "exceptional items" and must be itemized, prioritized, and justified in the LAR document.

Ms. Pharr reported that ERS got to request in the base funding an additional \$127 million in general revenue. ERS is asking in retirement funds for \$1 billion in base funding. The base request for the ERS retirement plan (state employees and elected officials) is at the Fiscal Year 2015 state contribution level of 7.5% of payroll. The Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF) base request at FY 2015 state contribution levels of 0.5% and the Judicial Retirement System (JRS) Plan 2 is at state contribution level of 15.663%.

Ms. Pharr reported there are four exceptional items with the first one being that ERS is at the constitutional maximum 10.0% of payroll, or \$303.2 million and ERS at the actuarially sound level an additional \$235.3 million. Ms. Pharr also reported that ERS is asking for exceptional item funding to make the Law Enforcement Supplemental plan actuarially sound and that would be an additional 0.96% for a total of 1.46% of payroll or \$31 million and JRS 2 an additional 1.277% of payroll or \$2 million.

Ms. Pharr also stated that ERS is seeking additional funding for insurance with a base request of \$3.3 billion for Fiscal Year 2015. The two insurance exceptional items include funding of projected health care benefit cost trend of \$291 million and the GBP contingency fund in accordance with Texas Insurance Code, Section 1551.211 of \$330.4 million.

There were no questions or further discussion, and no action was required on this item.

XIV. EXECUTIVE DIRECTOR'S REPORT

Ms. Ann Bishop proceeded with her Executive Director's Report to the Board which is included with these minutes as Exhibit B².

XIX. SET DATE FOR THE NEXT JOINT MEETING OF THE ERS BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE, THE NEXT MEETING OF THE BOARD OF TRUSTEES, AND THE NEXT MEETING OF THE AUDIT COMMITTEE

Thursday, December 4, 2014 and Friday, December 5, 2014, was set for the next regular meetings of the Board of Trustees and Investment Advisory Committee, Board of Trustees and Audit Committee.

²Exhibit B – Page 21

XXI. EXECUTIVE SESSION – THE BOARD OF TRUSTEES WILL MEET IN EXECUTIVE SESSION IN ACCORDANCE WITH SECTION 551.074, TEXAS GOVERNMENT CODE TO REVIEW AND CONSIDER THE DUTIES, PERFORMANCE AND COMPENSATION OF THE ERS EXECUTIVE DIRECTOR; AND TO DELIBERATE THE APPOINTMENT, EMPLOYMNET, EVALUATION, REASSIGNMENT, DUTIES, DISCIPLINE, OR DISMISSAL OF ONE OR MORE PUBLIC OFFICERS OR EMPLOYEES. THEREAFTER, THE BOARD MAY CONSIDER APPROPRIATE ACTION IN OPEN SESSION.

At 3:34 p.m. on August 19, 2014, Chair Brian Ragland announced that the Board of Trustees (Board) will now meet in Executive Session in accordance with Section 551.074, Texas Government Code, to review and consider the duties, performance and compensation of the ERS Executive Director; and to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of one or more public officers or employees. Thereafter, the Board may consider appropriate action in open session.

Upon returning from Executive Session, Mr. Ragland announced that it is 4:34 p.m. on August 19, 2014 and that the Board is now in Open Session. No action, decision, or vote was taken by the Board while in Executive Session. At this time Mr. Ragland opened the floor for a motion from the Board.

Trustee Cheryl MacBride stated that the ERS Executive Director, Ann S. Bishop, had exceptional accomplishments performed during the year, which included implementing the Employee Group Waiver Program (EGWP) plus Wrap with realized savings of \$40 million, earning investment returns for the fund above the policy benchmarks, implementing new legislation passed last session, redesigning the ERS public member website based on a comprehensive audit that began in FY 2013, conducting the legislatively-required study on modeling alternative health insurance plan design options and strengthening the technical system security. Ms. MacBride noted that she would like the accomplishments from the budget to be attached to the minutes [³Exhibit C] reflecting Ms. Bishop's FY 14 accomplishments.

MOTION made by Ms. MacBride that the Board of Trustees of the Employees Retirement System of Texas award ERS Executive Director, Ann S. Bishop, an increase in her annual compensation of four percent of her Fiscal Year 2014 annual salary, effective September 1, 2014. I further move that the Executive Director be awarded the maximum incentive compensation for which she is eligible based on her participation in the Incentive Compensation Plan for fiscal year 2014, at the rate of 65% of her salary.

The motion was subsequently seconded by Trustee Craig Hester and carried unanimously by the present members of the Board of Trustees.

XX. ADJOURNMENT OF THE BOARD OF TRUSTEES

The August 19, 2014 Meeting of the Board of Trustees adjourned at 4:40 p.m.

³Exhibit C – Page 24

EXHIBIT A
Employee Retirement System of Texas

Fiscal Year 2016-17 Base Request (08/25/14) **DRAFT**

Goal/Objective/STRATEGY:	Estimated 2014	Budgeted 2015 ^a	Requested 2016 ^b	Requested 2017 ^b	Requested 2016-17 Biennium
1 To Administer Comprehensive and Actuarially Sound Retirement Programs					
1 Ensure Actuarially Sound Retirement Programs					
1 ERS - RETIREMENT @ 7.5%	441,363,230	455,140,887	455,140,887	455,140,887	910,281,774
2 LECOS RETIREMENT PROGRAM @ 0.5%	7,467,326	8,078,024	8,078,024	8,078,024	16,156,048
3 JRS - PLAN 2 @ 15.663%	12,161,723	12,161,723	12,161,723	12,161,723	24,323,446
4 JRS - PLAN 1	27,730,042	27,107,854	26,738,031	26,322,813	53,060,844
5 PUBLIC SAFETY BENEFITS	8,164,428	5,471,851	5,471,851	5,471,851	10,943,702
6 RETIREE DEATH BENEFITS	9,770,000	9,770,000	9,770,000	9,770,000	19,540,000
TOTAL, GOAL 1	\$506,656,749	\$517,730,339	\$517,360,516	\$516,945,298	\$1,034,305,814
2 Provide Employees & Retirees with Quality Health Program					
1 Manage GBP for State & Higher Education Employees					
1 GBP - GENERAL STATE EMPLOYEES	1,458,893,462	1,635,936,581	1,635,936,581	1,635,936,581	3,271,873,162
TOTAL, GOAL 2	\$1,458,893,462 #	\$1,635,936,581	\$1,635,936,581	\$1,635,936,581	\$3,271,873,162

Fiscal Year 2016-17 Exceptional Items (08/25/14)

#	Strateg	Exceptional Item ^{c,d}	Requested 2016		Requested 2017		2016-17 Biennium	
			GR and	All	GR and	All	GR and	All
			GR Dedicated	Funds	GR Dedicated	Funds	GR Dedicated	Funds
1	1-1-1	ERS Constitutional Maximum Level, Increase of 2.5%	98,579,160	151,579,960	98,579,160	151,579,960	197,158,320	303,159,920
2	1-1-1	ERS Actuarially Sound Level ^e	76,497,427	117,626,048	76,497,427	117,626,048	152,994,854	235,252,096
3	1-1-2	LECOS Actuarially Sound Level, Increase to 1.46% ^f	13,672,259	15,509,806	13,672,259	15,509,806	27,344,518	31,019,612
1-1-3		JRS2 Actuarially Sound Level, Increase of 1.277%	614,069	991,542	614,069	991,542	1,228,138	1,983,084
5	2-1-1	Group Benefit Cost (GBP) Increases ^g	55,300,693	84,166,788	135,913,420	206,858,096	191,214,113	291,024,884
6	2-1-1	GBP Needed to Fund 60 Day Reserve	104,917,528	159,682,834	112,156,837	170,700,949	217,074,365	330,383,783
			349,581,136	529,556,978	437,433,172	663,266,401	787,014,308	1,192,823,379

NOTES: (Continued on Page 2)

Employees Retirement System of Texas
Legislative Appropriation Request Summary

NOTES: (Continued from page 1)

- ^a The State contribution rates for ERS, LECOS, and JRS2 were 7.5%, 0.5%, and 15.663% respectively for FY 2015
- ^b The LBB budget instructions specified for the 2016-2017 base to maintain funding at the 2015 base level plus amounts necessary to cover the impact of payroll growth (not including payroll contributions made by state agencies and institutes of higher education).
- ^c The 2016-17 exceptional item request includes amounts to reach the constitutional maximum (10%) for ERS, actuarial soundness for ERS, LECOS and JRS 2; and for the GPB, 6.9% increase in FY 2016 and 2017 based on cost trends of 8.5% to maintain GBP at current levels with current plan design; assumes \$331 million GBP reserve at the end of the 2014-15 biennium and \$100 million GPS reserve at the end of the 2016-17 biennium.
- ^d Assumes continuation of 0.5% a agency contribution for ERS and 1.0% agency contribution for group insurance.
- ^e Fund either through an increase in the contribution of an additional 1.94% or an increase in the membership fee of \$880.
- ^f Assumes continuation of approximately \$20 million annually in court costs collected under Sec 133.102 of the Local Government Code.
- ^g Includes current plan amounts for employees and retirees, but does not include the additional contribution needed to fund the long term actuarial liability for retiree insurance (a.k.a Other Post Employment Benefits or OPEB).

PUBLIC AGENDA ITEM # 14

14. Executive Director's Report
August 19, 2014**Legislative Update**

ERS had our first interim hearings in July, appearing before both the House Pensions and Appropriations committees. On July 9, ERS appeared before House Committee on Pensions to testify on the status of the retirement plan. Earlier in the day, the committee also took testimony on the impact of new Governmental Accounting Standards Board (GASB) net pension liability reporting requirements. ERS arranged for Rade Kljajic and Matthew Johansen from Citigroup to provide background and informational testimony on the potential impact the new GASB regulations could have on the credit and bond ratings of states with large reported pension liabilities.

On July 10, ERS appeared before a joint hearing of the House Pensions and House Appropriations committees to testify on the financial status of the Group Benefits Program.

On September 4, ERS will testify before the House State Affairs committee on state agency contracting, with particular focus on the third party administration contract for HealthSelect of Texas.

In the Senate, Lieutenant Governor Dewhurst has appointed Senator Jane Nelson as the new chair of Senate Finance, to replace the departed Senator Tommy Williams. Replacing Senator Robert Duncan as chair of Senate State Affairs is Senator Craig Estes.

ERS continues to educate and communicate with stakeholders and has held numerous briefings with employee and retiree interest groups. ERS has also been meeting with members of the House and Senate, both in Austin and in district offices, to continue to provide education.

Governance

ERS received favorable determination letters from the Internal Revenue Service for the ERS plan and the Judicial Retirement System Plan 2 in response to ERS' Cycle C submission requests.

Annual Enrollment and dates for Fall Enrollment

Annual enrollment for employees and pre-Medicare retirees is now complete. This year, Medicare eligible retirees will again have a separate enrollment period in the fall. For the first time, their premium rates will align with the calendar year to synchronize with Medicare's calendar.

This enrollment period was the first opportunity for members to enroll in the Careington Dental Discount Plan as another option. The monthly charge for this vendor is taken after taxes, as it is not a dental plan; it is a discount plan. There are not claims involved. Members will receive a discount from their dentist.

- Over 51,000 members have made Annual Enrollment changes.
- 3,058 have elected Careington Dental Discount Plan.
- 41,207 Tobacco Users and 462,594 Non Tobacco Users
- 6,945 Persons attended 48 fairs held around the State
- 932 Participated in 4 online webinars
- 10,116 Phone calls
 - 956 at ERS
 - 9,160 at ACT
- 78 Office visits
- 125,098 Members logged in to ERS OnLine

Fall Enrollment Dates: November 3 – 21, 2014

For: Medicare–eligible retirees and survivors

- Notification Letter mailed in June
- Sending Personal Benefits Statement and Enrollment Information in October.
- Planning for sessions around the state

Performance Audit Report for the Early Retiree Reinsurance Program

ERS recently received the final Performance Audit Report of ERS' participation in the Early Retiree Reimbursement Program, (ERRP). The Audit report indicated that ERS staff, our consulting actuaries and our vendors, successfully complied with the provisions of the ERRP. The ERRP provided a reimbursement of part of the cost for health insurance coverage and claims for early retiree or the early retiree's spouse, surviving spouse, or dependent. Our participation resulted in a total reimbursement of \$70,899,435. The Audit focused on particular aspects of our participation including: the Application, Fraud, Waste and Abuse policies, Use of funds, Claims data and cost adjustments, Plan participant notices and specific policies for dealing with Chronic and High Cost Conditions. Staff worked closely with the auditors and provided supporting documentation and claims data to the auditors to facilitate the evaluation. Based on a universe of over 104,000 claims and a stratified random sample of 255 claims, only one claim of the sample was identified as overstated.

Overall the Final Report was very positive and staff accepted the report without any written response or comments.

Integrated Voice Response (IVR) Implementation Project

In May of 2013, ERS began a project to replace the hosted contact center platform with a robust and configurable multimedia system that would provide operational visibility into contact center performance while maintaining and exceeding customer service expectations. From May 2013 through November 2013, a team comprised of customer service, technical, legal and administrative representatives conducted a request for proposal and vendor selection process. The team selected inContact (an industry leader) to deliver a full suite of contact center technology to support the agency's service delivery to our members.

Key members of the team built requirements and managed implementation with the inContact project team, and implementation was executed on May 30, 2014. The new system has proven to be reliable, robust and user friendly.

Team Members:

Customer Service – Debbie Warren, Carol Chapnek, Meghann Robinson, Rachael Worthy

Information Systems – Mel Mireles, Tommy Williams, Scott Brookhart, Nile Stork, Ricky Arambula, Kyle Neely, Debbie Legg, Sylvia Oviedo, Jason Stewart

Legal – Paula Jones, Laura Greff, Ginger Grissom

Administration – Bernie Hajovsky

2014 Texas DGS Best of Texas Awards

Donna Dial and Priya Venkatesan of Information Systems were presented with 2014 Outstanding IT Service & Support Awards during the 2014 Texas Digital Government Summit's Best of Texas Awards Program on June 17.

Results from the “Make A Difference” Initiative

In February 2014, ERS’ Executive Office asked employees to submit suggestions for improving agency processes or services as part of the agency’s Strategic Planning process for FY2015-17. The “Make A Difference” initiative resulted in 58 suggestions from staff across the agency. Suggestions ranged from expanding self-service options for our customers to creating a central location for staff to reference shared agency policies. Each suggestion was reviewed and analyzed for feasibility, impact to operations, and possible return on investment. The Executive Office compiled analysis from the divisions and reviewed the suggestions on the basis of relevance, cost savings to the agency, improvement to the member or user experience, and efficiency gain. The Executive Office is coordinating implementation of the valuable suggestions with the affected divisions as part of its ERS’ strategic initiative commitment to improving our processes and services.

The Executive Office and division directors hosted an appreciation luncheon in April honoring all of the staff that offered suggestions. Staff enjoyed the Italian food and music and were individually recognized for their contribution to the initiative. Thirty (30) employees received one time merits for their recommendations to the “Make A Difference” initiative.

ERS Says Farewell to Two Key Executives

ERS will soon bid farewell to two agency leaders, Debbie Warren, Director of Customer Benefits, and Mel Mireles, Chief Information Officer.

Debbie is retiring on August 31, 2014 after twenty-nine plus years of state service, with more than twenty-one years at ERS. Debbie’s numerous accomplishments are attributed to her ability to assemble teams with effective and knowledgeable staff. One of those qualified staff is Robin Hardaway. Robin has been named the Interim Director of Customer Benefits effective September 1, 2014. Robin started her career at ERS in 2001 in Customer Benefits and is currently serving as Assistant Director of Benefits Processing and Specialty Retirements.

Mel is retiring on August 31, 2014 after 29 years of state service, which include 7 years at ERS. Under Mel’s leadership and direction, the ERS Information Service Division has had numerous accomplishments and in October 2011 Mel received the Chief Information Officer of the Year award. Chuck Turner has been named Interim Chief Information Officer effective September 1, 2014. Chuck joined Information Services Division with ERS in August 2009 and is currently serving as the Assistant Director for Business and Process Analysis.

ERS wishes Mel and Debbie and well in their retirement and congratulates Robin and Chuck in their new roles.

Fiscal Year 2014 Accomplishments

Executive

The Executive staff provided leadership, communication, and prioritization of goals and resources throughout the past fiscal year. Major accomplishments of FY 2014 include strategic planning for the future and implementing a number of retirement and insurance changes as directed by the 83rd Legislature. The Executive staff also advised and assisted with the successful implementation of a new enrollment period for Medicare retirees while supporting regular ERS business operations in customer service, investments, and financial reporting.

Legal Services

Many accomplishments of the Legal Services Division involve matters that are confidential and protected by the attorney-client privilege. The following represent accomplishments that are not confidential by law (as of mid-July 2014):

- Opened 102 administrative cases; closed 41 administrative cases; 40 subrogation files opened and reviewed - includes 20 subrogation intervention matters referred to the Office of the Attorney General (OAG).
- "Collection" amounts of approximately \$34,796 recovered, which includes Qualified Domestic Relations Order (QDRO) overpayments, annuity overpayments, fraud and return-to-work disability repayments; this does not reflect GBP subrogation recoveries or the amounts saved by the retirement and insurance funds due to the termination of disability retirement annuities and health insurance benefits for ineligible recipients.
- Responded to 11 subpoenas and collected \$200 in fees for those subpoenas where fees are billed.
- Participated in 52 depositions, represented ERS in 44 administrative appeals before the State Office of Administrative hearings; 3 prehearing conferences and 4 district court hearings (S.D. 1 and 2).
- Approved, rejected and/or reviewed 219 domestic relations orders and transfers and releases submitted to ERS under Chapter 804 of the Texas Government Code.
- Advised and assisted with the development and/or review of Requests for Proposals, and if applicable, drafted and negotiated related contracts in connection with the
 - Hedge fund portfolio performance and analytics reporting.
 - Texa\$aver international and large cap funds.
- Closed 11 private equity transactions for a total capital commitment of \$533,800,000 and £37,000,000.
- Closed 11 private market real estate transactions for total commitments of \$412,000,000 and €72,000,000 and oversaw redemptions from several open-ended funds in the aggregate amount of \$15,000,000.
- Closed 6 private hedge fund transactions for a total commitment of \$610,000,000 and oversaw a transfer of a commitment between existing funds.
- Closed 1 fixed income transaction for a total commitment of \$75,000,000, and provided advice regarding fixed income investments in private markets transactions.
- ERS submitted IRS determination letter requests to the Internal Revenue Service for the ERS plan, the Judicial Retirement System of Texas Plan 2, and for the Texa\$aver 401(k) plan. These IRS determination letter requests will cover the period February 1, 2014 through January 31, 2019, as a part of the IRS Cycle C filing period.
- Obtained registration for one new agency service mark.
- Insurance subrogation amounts of approximately \$1,618,092 recovered for the Texas Employees Group Benefits Program (GBP).

- Assisted in the implementation of the required provisions of the Patient Protection and Affordable Healthcare Act and subsequent federal reconciliation bill (PPACA), as well as the HIPAA Omnibus Rule (which impacted the HIPAA Privacy, Security, Breach Notification and Enforcement Rules), in conjunction with the GBP.
- Advised and assisted with the development and/or review of Requests for Proposals, and if applicable, drafted and negotiated related contracts in connection with the:
 - Dental products and services providers (PPO, DHMO, and dental discounts services).
 - Insurance actuary review services.
- Assisted in the implementation of a new dental discount program in the GBP.
- Reviewed and revised the HealthSelect in-area and out-of-area Master Benefit Plan Documents and related Summary of Benefits and Coverage documents.
- Assisted in the implementation of the transition to the new third party administrator (TPA) for the disability income insurance plan.
- Reviewed and revised the qualified life event procedures and forms and implemented the related inquiry process.
- Reviewed the Dependent Eligibility Audit documents for implementation of new contract and audit process.
- Reviewed, negotiated and/or drafted 285 contracts and business-related documents.
- Advised and assisted with the development and/or review of Requests for Proposals, and if applicable, drafted and negotiated related contracts in connection with the:
 - Risk management and optimization models.
 - Hosted integrated voice response services.
 - Temporary staffing services.
 - Building exterior repairs.
 - Elevator maintenance and inspection.
 - Executive recruitment services.
- Received and responded to 216 Public Information Act requests; \$228 in fees were collected as permitted under applicable rules for providing the information.
- Completed 132 requests for legal services/opinions.
- Developed electronic records procedures and processing for administrative appeals.
- Successful upgrade to a new server regarding the Legal Services Division's software program, ProLaw.
- Published 2014 Laws Books and updated ERS Rules Books.
- Completed revisions of Trustee Rules for Chapters 67,71,73,75,77,81, and 85, and completed statutory rule reviews for Chapters 69, 71, 73, 75, and 77.
- Advised ERS management and assisted in implementing changes related to applicable federal and state laws and regulations.
- Supported management in analyzing, reviewing and implementing legislation passed during the 83rd Legislative Session, and advised management regarding its application to ERS.
- Coordinated ethics-related training of ERS staff provided at Board/Investment Advisory Committee workshop.

INTERNAL AUDIT

- Completed 7 planned engagements as part of the FY2014 Internal Audit Plan.
- Completed significant revisions to Internal Audit Manual.
- Implemented Audit Management Software for all audit engagements.

- Developed and completed Audit Management Software Utilization Manual.
- Developed and incorporated standard audit templates within audit software to ensure compliance with audit standards and improve efficiency.
- Coordinated and completed required external quality assurance review.
- Updated record retentions schedule to reflect current business requirements.
- Developed annual performance measures to evaluate internal audit function.
- Assisted with development of Internal Audit Director performance plan.
- Revised quarterly investment compliance procedure report for improve compliance with audit standards and communication of actual level of assurance provided.
- Developed and implemented audit customer satisfaction survey to obtain performance feedback.
- Participated on one quality assurance review at another state agency.
- Audit liaison on four external audit engagements including the FY2013 Financial Opinion Audit.

Governmental Affairs

- Division Reorganization – Early in the fiscal year, the Communications and Research Division underwent reorganization, with about one-quarter of the division, including the director, splitting off to join the Government Affairs Division.
- Conducted the legislatively required studies on separate accounting of assets and liabilities of Law Enforcement and Custodial Office members. (Strategic Direction #1)
- Conducted the legislatively required study on modeling alternative health insurance plan design options, including a professional census of 135,000 active employees and 30,000 pre-65 retirees enrolled in the group insurance plan. (Strategic Direction #2)
- Updated legislators, staff and other stakeholders on the impact of retirement funding (Strategic Direction #1), insurance funding (Strategic Direction #2), and implementation of legislation (Strategic Direction #3). Created numerous custom presentations, handouts, testimony, briefing documents, and follow-up letters.
- Managed transition to and relationship with newly appointed retirement actuaries.
- Coordinated implementation of actuarial cost retirement reduction factor tables, including streamlined process for updating tables in the operating system. (Strategic Direction #1)
- Coordinated implementation plans for legislative changes to ERS programs resulting from the legislative session. (Strategic Direction #4)
- Provided expertise and information to interim legislative committees, oversight agencies, the State Auditor's Office, the Legislative Budget Board and the House Research Organization. (Strategic Direction #3)
- Coordinated all media relations for the agency and tracked developing news items for daily updates and monthly archive.
- Led the ERS Policy Committee and coordinated approval of new policies with the Executive Office. (Strategic Direction #4)
- Drafted amendments to the Texas Administrative Code for approval by the Board of Trustees. (Strategic Direction #4)
- Worked with the State Wellness Director and the State Worksite Wellness Advisory Board to promote worksite wellness initiatives. (Strategic Directions #2 and #3)
- Worked to develop ERS policy and reports on:
 - Wellness programs.
 - Employer data requests for insurance claims data.
 - Federal implications of HIPAA and ACA on ERS data reporting.
 - Economic impact of ERS membership data and program payments.

- Responded to constituent inquiries and helped to develop and manage complaint tracking system. (Strategic Direction #3)
- Designed an online centralized research library to provide updated data to ERS staff and designate responsibility for content updates.
- Developed winning award entry for the State and Local Government Benefit Administrators (SALGBA) Challenge Grand Prize for ERS' Patient Centered Medical Homes program.
- Continued outreach with private and public sector entities to benchmark ERS programs and share best practices.
- Streamlined and enhance functionality of electronic workspaces and automated workflow.
- Presented at stakeholder conferences and meetings.

HUMAN RESOURCES

- Conducted the Survey of Employee Engagement (SEE).
- Worked with division leadership to address training opportunities identified by the SEE. Leveraged skills and talent of ERS staff through employee and organizational development.
- Conducted extensive research and analysis of compensation data.
- Assisted the Investments Division with developing a career ladder for certain positions.
- Assisted the Office of Management Support (OMS) in developing and formalizing ERS' succession plan.
- Completed ERS' FY 2014-2016 Workforce Plan.
- Assisted in developing an agency-wide OMS program.
- Initiated the review process of the Incentive Compensation Plan including the Request for Proposals process.
- Conducted extensive research for the Human Resources Information Systems project for FY 2015.
- ERS' Personnel Policies and Procedural Systems were successfully certified by the Texas Workforce Commission – Civil Rights Division.
- Coordinated the ERS Picnic.
- Coordinated the State of the ERS and Brown Bag Breakfasts with Ann Bishop.
- Coordinated and hosted the 2014 Longevity Awards.
- Assisted the State Auditor's Office with the gathering of data for the Incentive Compensation Audit.
- Screened applications for the Executive Office Executive Assistant position and conducted the initial interviews.
- Drafted the scope for professional recruiting services to initiate a Request for Proposal.
- Participated in the Make a Difference (M.A.D.) initiative.
- Administered internal training for ERS staff and 48 training sessions were scheduled throughout the year:
 - Strategic Communication.
 - Emotional Intelligence in Leadership.
 - Emotionally Intelligent Teams.
 - Performance Management.
 - Crucial Communication Strategies.
 - Cultural Competence: Embracing Diversity.
 - Making the Transition from Employee to Manager.
 - In Pursuit of Excellence.
 - Effective Facilitation Skills.

- Keeping Your Cool, Even When Others Don't.
- Staying Motivated on the Job.
- Sandwich Generation.
- Advanced Nutrition.
- Parenting in the 21st Century.
- Write Right.
- Public Information Act.
- Records Retention Schedule.
- HIPAA.
- New Employee Orientation.
- Social Media.
- Basics of Medicare.
- Microsoft Project.
- Supported divisions to achieve greater staffing:
 - Posted 50 job vacancies.
 - Screened 508 State applications.
 - Processed 325 personnel actions with corresponding letters.
 - Processed 56 ICP payments with corresponding letters.
 - Processed 46 new hires.
 - On-boarded 44 contractors.
 - On-boarded 29 temporary workers.
 - Processed 34 separations.
 - Processed 22 internal transfers.
 - Managed 7 division reorganizations.
 - Worked on 5 PeopleSoft HRIS work orders.
 - Revised 75 job descriptions with follow up for signatures.
 - Entered 2,392 training transactions in the training database.
- Arranged 2014 Summer Internships.
- Accounted for all leave records for the GetFit Challenge.
- Revised 7 policies:
 - Standards of Conduct
 - Drug and Alcohol Abuse in the Workplace.
 - Solicitation on ERS Premises; Acceptance of Gifts.
 - Inappropriate Personal or Non-Official Use of ERS Property.
 - Multiple Employment with the State.
 - Social Media Policy.
 - General Working Conditions.
- Handled 14 Employee Relations matters.
- Responded to 3 unemployment benefits claims and appeals.
- Added three new telecommuters.
- Added 12 employees to the Compressed Workweek Schedule.
- Staff spent approximately 30+ hours cleaning up files from the S-drive.
- Participated in various salary surveys.

BENEFITS COMMUNICATIONS

- **Division Reorganization** – Early in the fiscal year, the Communications and Research Division underwent reorganization, with about one-quarter of the division, including the director, splitting off to join the Government Affairs Division. Under a new director, and with some new staff, the new Benefits Communications Division, with more focus on member communications, is making efforts to redistribute work among the team. In addition, a process manager has been named, and the division is embarking on formal efforts to further develop and document communications processes.
- **ERS Website Refresh** – The website continues to be ERS' primary mode of communicating with members, with approximately one million visitors viewing 10 million pages over a 12-month period. To ensure the site continues to serve ERS stakeholders well, Benefits Communications oversaw the execution of a redesign of the ERS public/member website, based on a comprehensive audit begun in fiscal year 2013. The project included new graphic design and navigation to make it easier for users to find the information most often sought by site visitors. The refreshed site also features an enhanced vendor sub-site that was redesigned with significant input from the Benefit Contracts, Investments, and Finance divisions. With the implementation of the refreshed design, the site's accessibility for users with disabilities has increased from 72% to 84%. Benefits Communications oversaw the entire refresh project, with significant support from Information Systems and an outside contractor. The Benefits Communications division determined the new design and features of the site based on research begun in FY13, which included focus groups of multiple users at various stages of their state careers and in retirement.
- **Website Content Management System and Process** – In tandem with the website refresh project, Benefits Communications led the development of a new website content management system and process that appropriately involves multiple ERS divisions to ensure current, accurate, and understandable content on the website, which houses approximately 1,500 pieces of information. The project included the development of processes and policies, as well as working with the website platform/software developer to train website content managers from across the agency.
- **Medicare Preparation Education** – In response to input from members and stakeholders, Benefits Communications recognized a need to provide members with guidance on how and when to apply for Medicare, and how the federal health program works with ERS-administered health benefits. Benefits Communications worked with information from the Texas Department of Insurance and the Centers for Medicare & Medicaid Services to develop a presentation that provides an overview of Medicare and topline information on how Medicare-eligible members can best utilize the program's benefits in conjunction with ERS benefits. Since the program's launch in fall 2013, the Benefits Communications Education Outreach team has hosted a number of Medicare Preparation sessions across the State. The sessions have been well received by members who are nearing Medicare eligibility, some of whom have commented that the information is very helpful.
- **Communications for Implementation of the State of Texas Dental Discount Plan** – Following its involvement in the process to select a discount dental plan administrator, Benefits Communications has been instrumental in developing communications to announce the new program to ERS members. Working closely with the vendor and the Benefit Contracts Division, Benefits Communications provided significant input on the plan website and Annual Enrollment materials, as well as creating a brand name and logo. The division also developed ongoing newsletter articles and social media posts to familiarize members with the new offering.
- **Communications for Dependent Eligibility Audit/Verification** – Benefits Communications supported the implementation of a "gap" audit and ongoing verification of dependent eligibility for health insurance, overseeing the development and distribution of communications vehicles that include letters, emails, a secure website, and newsletter articles. Working with the third-party administrator, Benefit Contracts, Customer Benefits, and other divisions, Benefits Communications provided input on direct outreach about the audit/verification to almost 36,000 members (employees and retirees) in FY14.
- **Award-winning Texa\$aver "What's Your Excu\$e?" Campaign** – Members of Benefits Communications provided significant input and guidance on the development of Texa\$aver's "What's Your Excu\$e" campaign to encourage participants to increase their contributions above the 1% default. The campaign kicked off in late FY13, but achieved full implementation in FY14 with multiple touch points,

including an interactive website, outreach to benefits coordinators, group meetings at worksites, direct mail pieces, ongoing newsletter articles, and giveaways among other tactical marketing pieces. Since the campaign's launch, more than 2,000 participants have raised their contributions above 1%, with an average contribution increase of 4.7%. To date, the campaign has won 13 marketing and communication awards, including a first place award in Special Projects from *Pensions and Investments* magazine.

- HealthSelect of Texas Wellness Webinars and Other Wellness Resources – As part of an effort to more consistently utilize United Healthcare's wellness resources, Benefits Communications led the effort to launch monthly wellness webinars available to all state employees, retirees, and dependents with access to the internet. More than 300 people have joined the first three online events (which started in April 2014), and survey responses indicate that participants find the information useful. In addition to the wellness webinars, Benefits Communications began including wellness articles in almost every edition of the coordinator and member newsletters. These are frequently the most clicked-on articles in the newsletters. We also instituted weekly "Wellness Wednesday" posts on our Facebook page, received input on wellness resources via survey to benefits and wellness coordinators, and worked on roll-out of United Healthcare's "Lose and Win" weight loss program for GBP members, which is expected to launch in early fiscal year 2015.
- Opt-out for Print Version of Your ERS Connection Retiree Newsletter – Benefits Communications worked with the Information Systems Division and the Customer Benefits Division to develop a feature in ERS OnLine that allows retirees to choose to receive Your ERS Connection only by email. Currently, many retirees receive both mailed hard copies and emailed copies of the newsletter. By allowing them to opt out of the printed and mailed version, ERS is offering greater flexibility to our members, as well as reducing printing and mailing expenses. Since the opt-out feature became available in late calendar year 2013, more than 425 retirees have opted out of the mailed version. ERS will continue to communicate with them about the option.
- Ongoing Education Outreach – The new Medicare Preparation sessions were part of the division's extensive education outreach efforts to ERS members. During the fiscal year, Benefits Communications has led or participated in 231 presentations and events across Texas, reaching nearly 20,000 active employees and retirees. Events included Annual Enrollment fairs; Ready, Set, Retire! sessions for state agencies and higher education institutions; Medicare Preparation seminars; new employee orientations; health and benefits fairs; and monthly Ask ERS webinars.
- Email Bulletins – Through our GovDelivery email subscription service, Benefits Communications sent more than 130 bulletins on a variety of timely topics to ERS stakeholders. These include our monthly e-newsletter to more than 225,000 agency and higher education employees, and our weekly e-newsletter to approximately 1,500 agency/institution benefits coordinators.
- ERS LinkedIn Page – The division helped expand ERS' social media presence with the launch of its official LinkedIn page, primarily as a recruitment tool.
- Support for Improved Presentations – Benefits Communications supported the Investments Division in providing presentation training for its members. The division also engaged in efforts to improve presentations for the agency overall, including increased use of video and the licensing of Prezi, a presentation software that can make presentations more engaging.
- Increased Use of Live Streaming and Videos – In the past year, Benefit Communications has seen increased viewing of both live-streamed and recorded videos on the website. Live-streaming sessions have increased steadily, most recently with the May, 2014 Board of Trustees meeting, which resulted in four times the level of streaming activity as 11 months earlier. In addition, views of videos on the ERS YouTube channel have increased, with almost 11,000 views of 39 ERS videos on topics including new employee orientation, vendor presentations, and member tutorials.
- Internal Communications Enhancements with Increased Use of Video – Benefits Communications supported a number of internal communications efforts with increased use of video, including for the annual State of ERS presentation, the annual service awards, and "Pursuit of Excellence" presentations for Investments and the Project Management Office. Benefits Communications began

efforts to improve its ability to support ERS' video needs, with requests for equipment and software and expansion of the video production team.

- Improvements to Communication Production Process – Following up on a formalized communication request and tracking process implemented in FY12, Benefits Communications worked with the Information Systems Division to develop a fully automated process that will allow for better management and more consistent tracking of communications job requests. As of June 2014, the automated process is still being tested, but we expect it to be implemented by the end of FY14.

INVESTMENTS

- Continued to accelerate transition to the new asset allocation targets as determined by the FY2012-FY 2013 Asset/Liability Study, including reaching full allocation of Absolute Return Portfolio (Hedge Funds).
- Continued to optimize the mix of internally managed and externally advised portfolios.
- Continued to enhance risk management processes.
- Enhanced middle and back office solutions.
- Supported legislation implementation and engaged more with Government Relations and Executive Office to pursue unfunded liability strategy development.
- Furthered branding of ERS and ERS' investment program through conference attendance and presentations at 33 conferences.
- Leighton Shantz, Director of Fixed Income, and the Fixed Income team were nominated by *Institutional Investor* magazine for the prestigious 2014 Investor Intelligence Award (*Fixed Income/Credit*).
- Tom Tull was nominated by *Institutional Investor* magazine as Chief Investment Officer of the Year.
- aiCIO magazine recognized Robert Lee III as a new generation of innovative hedge fund portfolio managers.
- The Real Estate team received the award for Best Indirect Strategy at the Real Estate Global Awards, 2014.
- Hosted local derivatives and math bond training and invited attendees from other Texas state pension funds saving over \$90,000 in training costs.
- Initiated implementation of derivatives program.
- Successfully rebranded emerging managers program as part of overall external management and continued outreach to industry organizations including NAA Texas and Wall Street Summits, AAAIM Texas Event, Opal Conferences, SEO and Toigo events.
- Expanded internship program to include outreach to diversity candidates.
- Continued to evaluate risk management technology across all asset classes.
- Continued to collaborate with Benefit Contracts on exploring changes to Texa\$aver fund offerings and assisting in RFP searches using investment tools for better analysis of investment manager performance and track records.
- Committed \$583 million to Private Equity through May 31, 2014, and closed on 8 funds and 3 co-investments.
- Committed \$326 million to Private Real Estate through May 31, 2014, and closed on 7 deals.
- Committed \$678 million to Hedge Funds through May 31, 2014, and closed on 6 investments. Four funds received additional commitment.
- Committed \$75 million to Private Fixed Income and closed on 1 deal as of May 31, 2014.
- Filled vacancies for a fixed income portfolio manager, infrastructure portfolio manager, private equity portfolio manager, operations financial analyst, a strategic research analyst, and an executive assistant.

- Continued to work on development of career path program for Investments employees, including communications, succession planning, overall team development, and leadership presentation and communication training.
- Completed Incentive Compensation Study in conjunction with Human Resources.
- Collaborated with agency Operations Support division for efficient space utilization to provide the agency with additional meeting spaces.
- Increased intra-agency and internal division communication through division brown bags and intra-agency information sessions.
- Produced fiscal year to date through June 30, 2014, gross rate of return for the pension fund of 13.54% compared to the benchmark return of 13.69%.

BENEFIT CONTRACTS

- Expanded Group Benefits Plan offering to include a Dental Discount Program beginning September 1, 2014.
- Launched Dependent Eligibility Audit (DEA) which is a gap audit covering the time period since the previous comprehensive audit. This review and the associated plan savings will become ongoing effective July, 2014.
- Transitioned the administrator for the disability program.
- Awarded:
 - Three contracts for Dental Benefits.
 - Issued two Requests for Qualifications (RFQs) proposals for International Fund and Large Cap Funds for the Texa\$aver program.
 - Negotiated contract extension through August, 2017 for the Pharmacy Benefit Manager.
 - Negotiated contract extensions through August, 2015 for the Texa\$aver Administrator, Advisory, and Custodian contracts.
 - Negotiated an evergreen contract to Community First HMO.
- Milestone: Roth enrollments in the Texa\$aver program surpassed 3,100 participants with assets totaling over \$9 million.
- Developed customized grievance tracking dashboard reports to proactively identify and determine the causes of grievances to enable further negotiations to resolve issues for members.
- Retiree Drug Subsidy Program participation resulted in the receipt of RDS subsidies totaling \$4.7 million from RDS Subsidy program for program year 2014.
- Contracted with Part D Advisors to reopen RDS filings for Fiscal Years 2006 through 2011. Received a net of \$7 million in additional funds.
- Shared \$3.2 million with Patient centered Medical Homes of \$17 million saved in FY 2013.
- Completed the first year of Employer Group Waiver Plan (the federal subsidy) program with realized savings of \$40 million.
- “What’s your Excu\$e?” campaign for Texa\$aver’s received 12 national awards for outstanding communication strategy.
- Expanded convenience offerings: Mobile Application Capabilities for United Health Care and PayFlex were launched.

CUSTOMER BENEFITS

- Enhanced Customer Benefits member interactions, through:
 - Engaged 474,307 members through calls (165,790 at ERS and 308,517 at ACT).
 - Met with 5,368 visitors.
 - Responded to 23,000 emails.

- Continued to actively promote the “3 Steps-to-Retirement” process and educate members on use of the self-service retirement estimator, resulting in members being better prepared for retirement planning.
- Reconciled and distributed 107,365 1099s to members and beneficiaries who were issued payments in calendar year 2013.
- Issued more than \$2.13 billion in payments for retirees, beneficiaries, and retirement account withdrawals.
- Processed more than 374,000 pieces of incoming and outgoing mail and more than 130,000 work list requests.
- Conducted Fall Enrollment for Medicare Eligible Retirees and Survivors to include the 100% tobacco certification of those members.
- Oversaw the customer service aspects of Summer and Fall Enrollment, including:
 - Assisted in identifying system requirements.
 - Tested and updating eligibility.
 - Coordinated with Benefits Communications Division to identify communication needs and revisions.
 - Supported and served our members at enrollment fairs across the state.
- Completed coordination of over 78,000 notices to noncontributing members providing account information, retirement estimates for vested members and information regarding interest rate change from 5% to 2%.
- Completed RFP process and implementation of new cloud-based IVR/ACD technology, which provides for a more stable system and less downtime for our members, along with flexibility in system management.
- Completed RFP process and engagement of a new staffing vendor, specializing in contact center staffing.
- Successfully completed the Taxpayer Identification Numbering System (TINS) conversion which was mandated by the Texas Comptroller of Public Accounts. The project assigned an 11 digit number to payees instead of using the payee’s social security number for 146,243 payees.
- Coordinated with vendor and other ERS divisions to implement and monitor an audit of all newly added dependents since the 2011 dependent eligibility audit and implementation of the ongoing dependent audit.
- Processed salary increases and recalculation of annuity for JRS 1 and elected state official retirees and beneficiaries, which included verification of pay schedules for each annuitant and generation of notification letters.
- Worked with vendor to begin releasing retirees who turn age 65 for enrollment in the HealthSelect Medicare Rx plan.
- Implemented new legislation, including:
 - account balance interest change from 5% to 2%,
 - new retirement rules for members hired on or after September 1, 2013,
 - identified members that are grandfathered and are not subject to the new insurance contribution structure at retirement,
 - reduced insurance waiting period from 90 days to 60 days, and
 - supported other various legislative changes through identification of rules, system changes, member notification, and customer support.
- Implemented new actuarial factors:
 - assisted in identifying requirements and rules,
 - performed system testing,

- post migration testing, and
- coordinated with other divisions for successful implementation.
- Successfully coordinated and migrated 115 projects by identifying requirements, conducting pre- and post-migration testing, coordinated with other divisions, and implementation.
- Provided support in the evaluation, selection and implementation of the new dental discount program.
- Supported implementation of the PeopleSoft Security Redesign project and played an integral part in coordinating the extensive testing for all internal staff with different levels and roles in utilizing the pension and benefits administration system.
- Implemented system enhancements in 11 areas to reduce manual processing in payroll, specialty retirement and survivor benefits.
- Revised 10 system generated member correspondence templates to make them more concise, clear and easy to understand.
- Conducted market analysis of employee salaries in the Retirement System Benefits Specialist and the Program Specialist groups and increased starting salaries to remain competitive with the private sector.
- Initiated integration of functionality within customer service through cross-training to expand multi-skill competencies among staff.
- Added additional responsibilities for front desk receptionist by training thoroughly in customer service and insurance processes. This allowed for increased/immediate one-stop service for members visiting ERS, which accommodated an additional 200 members to be served at the front desk.
- Participated in the Enterprise Risk Assessment analysis and updated the business continuity plan.

FINANCE

- Coordinated the development and implementation of improved SharePoint technology to efficiently collaborate with the entire agency for training requests and administrative budget preparation.
- Managed and coordinated the audit and completion of the FY 2013 CAFR for ERS, and received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 25th consecutive year.
- Supported ERS strategic planning process, prepared the Fiscal Year 2015 Administrative Operating Budget, monitored division budgets and processed over 85 budget transfers.
- Completed Phase 1 of the major agency project (Road Map Item) for the pension system enhancement:
 - Prior Period Adjustments and Reinstatement of Account enhancements completed.
 - Mapped the 90 Day Waiting Period and Additional Service Credit (ASC) Service Purchases to the financial system.
 - Zeroed out Account Balances/Account Balance Adjustment processes were improved.
 - Assisted with testing and implementation of legislative changes with financial process impacts.
- Assisted with the preparation of the Comptroller's TINS conversion that was implemented in March 2014.
- Prepared Legislative Appropriation Request.
- Supported enhancement of Clarity timekeeping reporting for improved internal management resource information.
- Coordinated purchasing for 18 large solicitations and more than 1,100 purchase requisitions.
- Conducted the following estimated financial transactions for FY 2014:
 - Revenue Processing
 - Processed over 31,000 registered checks.

- Implemented new procedures for better internal controls to ensure proper posting of payments.
 - Processed over 18,000 warrants and received over 2,000 service purchase checks.
- Purchasing
 - Coordinated 18 large solicitations.
 - Coordinated approximately 1,100 purchases.
 - Coordinated 178 purchase order revisions.
- General Accounting
 - 2,128 invoices for administrative expenses were processed totaling \$20.4 million.
 - 655 invoices for insurance claims totaling \$2.7 billion have been processed.
 - 754 travel vouchers totaling \$560,000 were processed.
 - 373 W-2 forms for agency employees were processed for the calendar year of 2013.
 - 4,270 W-2 forms for employees with disabilities were processed for the calendar year of 2013.
- Client Reconciliation
 - \$63.5 million in TexFlex claims were processed.
 - 4,002 service purchases totaling \$42.5 million were processed.
 - 78 tests were performed on the PeopleSoft Pension system.
- Investment Accounting
 - Created new pools to reflect the new asset allocation and transferred all securities from the old composites into the new composites.
 - Developed a system-to-custodian reconciliation to reconcile net asset values for performance purposes.
 - Continued to add new portfolios in the hedge fund management pool, created a new hedge fund pool, transferred over securities and added a new hedge fund portfolio.
 - Reconciled over 100 alternative investments funds on a monthly and quarterly basis.
 - Implemented a management fee monthly reconciliation between eFront and the custodian.
 - Reconciled 16 investment pools and reconciliations of more than 100 portfolios, each international currency traded by ERS (approximately 55) is reconciled monthly.
 - Monthly reconciliations of all general ledger daily investment transactions, securities lending and tax reclaims, resulting in more than 400 reconciliations performed each month.
 - Processed daily third party administration wiring information between ERS and the custodian.
 - Reconciled daily cash settlements of the buying, selling, income and expense swept from the custodian bank to ERS.

INFORMATION SYSTEMS

- Delivered the upgrade to the Pro-Law application in June for the Legal Division. Additional functionality to include integration with Microsoft Outlook in July.
- Completed the PeopleSoft Security Access redesign to revise PeopleSoft security role assignments and the role/user assignment process to improve management of access privileges to data and processes.
- Worked with Benefits Communications to enable members the ability to sign up and receive electronic delivery of ERS newsletters.
- Implemented changes to the Texas Identification Number System (TINS) as required by the Texas Comptroller of Public Accounts. The changes were designed to improve personal information security by moving to a TINS identification number for financial transactions within the state of Texas.

- Continued SharePoint implementation with rollout of centralized research library and several Finance processes including the agency-wide training request system and the redesigned annual budget and CAFR sites. Redesigned Operations Support SharePoint site as a pilot for an agency template.
- Simplified the required Actuarial Factors refresh using OPA to convert from a database table refresh to calculations using a single Life Expectancy table. The changes reduced effort for this and future refreshes.
- Assisted Investment's enhancements of cloud based investments database supporting fund management reporting.
- Implemented website usability enhancements involving extensive web navigation, page layouts, content management process and an upgrade of supporting systems and software.
- Completed multiple changes supporting Tier III pension, insurance, and interest rate regulations enacted during the 83rd Legislative Session.
- Implemented the Dental Discount Plan for Annual Enrollment.
- Enhanced data and reporting capability of the Business Intelligence Data Warehouse. Added several data sets to enable requested business reporting. Improved system processing from multiple days to several hours enabling business partners timely access to the data.
- Designed encryption at rest solution to simplify management of encryption keys for partners exchanging files with ERS via secure file transfer protocol.
- Identified and contracted firm to conduct an analysis of the benefits administration processes. Analysis of business and system process will drive Request for Proposal supporting modernization of benefits administration.
- Increased agency bandwidth capacity to support agency growth in video, multi-media, data and communication needs.
- Installed next generation storage devices to support enterprise data encryption at rest initiatives.
- Improved security stance by extending hard drive encryption to include desktop computers.
- Upgraded the KnowledgeLake scanning solution supporting scanning and processing of documents to SharePoint.
- Changed mobile devices to improve security and international service.
- Conducted fall enrollment as a standard enrollment process for Medicare eligible participants.
- Developed Dependent Eligibility Audit as a continuous monthly process.
- Improved annual disaster recovery testing. Ran more tests and completed them in less time than in previous years. Tested use of network attached storage (NAS) device for VMware environment saving about 12 hours.
- Implemented backup of Cisco device configurations further improved disaster recovery ability.
- Improved the inclement weather notification process. Dedicated scripts, process changes and dedicated staff line for inclement weather notification and routing to voice mail from the inclement weather notification voice mail box.

OPERATIONS SUPPORT

- Building Maintenance and Repair:
 - Repaired/Replaced parapets.
 - Added UV lighting to air handler system to improve indoor air quality.
- Improved energy efficiency by reducing consumption:
 - Replaced exterior lighting with LED lighting.
 - Replaced water heaters.

- Replaced sprinkler system with drip line irrigation for water conservation.
- Expanded Records Management training and consulting program:
 - Provided customized training for division Records Coordinators and Assistant Records Coordinators.
 - Continued to work with classification and tagging of records in SharePoint.
- Obtained recertification of agency records retention schedule.
- Statistics for major accomplishments are listed below:
 - Records Management – services provided to internal agency customers:
 - Scanned approximately 180,000 images of incoming mail regarding members.
 - Scanned approximately 118,500 images of confidential information: PHI, Disability, Legal and Grievance case files.
 - Shredded approximately 24,000 pounds of confidential records.
 - Operations Services: Over 1,570,000 pieces of mail processed.
 - Maintenance Services: Over 3,150 work orders completed.